

GRAY COUNTY APPRAISAL DISTRICT
REAPPRAISAL PLAN FOR
YEARS 2017 & 2018
AS ADOPTED
BY THE BOARD OF DIRECTORS
August 18, 2016

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EXECUTIVE SUMMARY

TAX CODE REQUIREMENT

Passage of S. B. 1652 amended the Tax Code to require a written biennial reappraisal plan. The following details the changes to the Tax Code:

The Written Plan

Section 6.05, Tax Code, is amended by adding Subsection (i) to read as follows:

- (i) To ensure adherence with generally accepted appraisal practices, the Board of directors of an appraisal district shall develop biennially a written plan for the periodic reappraisal of all property within the boundaries of the district according to the requirements of Section 25.18 and shall hold a public hearing to consider the proposed plan. Not later than the 10th day before the date of the hearing, the secretary of the board shall deliver to the presiding officer of the governing body of each taxing unit participating in the district a written notice of the date, time, and place of the hearing. Not later than September 15 of each even numbered year, the board shall complete its hearings, make any amendments, and by resolution finally approve the plan. Copies of the approved plan shall be distributed to the presiding officer of the governing body of each taxing unit participating in the district and to the comptroller within 60 days of the approval date.

Plan for Periodic Reappraisal

Subsections (a) and (b), Section 25.18, Tax Code, are amended to read as follows:

- (a) Each appraisal office shall implement the plan for periodic reappraisal of property approved by the board of directors under Section 6.05 (i).
- (b) The plan shall provide for the following reappraisal activities for all real and personal property in the district at least once every three years.
 - (1) Identifying properties to be appraised through physical inspection or by other reliable means of identification, including deeds or other legal documentation, aerial photographs, land-based photographs, surveys, maps, and property sketches.
 - (2) Identifying and updating relevant characteristics of each property in the appraisal records.

- (3) Defining market areas in the district.
- (4) Identifying property characteristics that affect property value in each market area, including:
 - (A) The location and market area of the property;
 - (B) Physical attributes of property, such as size, age, and condition;
 - (C) Legal and economic attributes; and
 - (D) Easements, covenants, leases, reservations, contracts, declarations, special assessments, ordinances, or legal restrictions.
- (5) Developing an appraisal model that reflects the relationship among the property characteristics affecting value in each market area and determines the contribution of individual property characteristics.
- (6) Applying the conclusions reflected in the model to the characteristics of the properties being appraised; and
- (7) Reviewing the appraisal results to determine value.

REVALUATION DECISION (REAPPRAISAL CYCLE)

The Gray County Appraisal District by policy adopted by the Board of Directors reappraises all property in the District every 1 to 3 years. Each year approximately one third of the real property in the District is reviewed and reappraised. Due to the constant changes in sales prices of real estate, the District will attempt to reappraise all real estate as near to every other year as possible. All business personal property, mobile homes, industrial personal property, mineral properties, field compressors and large industrial plant properties are reappraised each year.

REAPPRAISAL AND NON-REAPPRAISAL YEAR ACTIVITIES

PERFORMANCE ANALYSIS

In each tax year the previous tax year's equalized values are analyzed with ratio studies to determine appraisal accuracy and appraisal uniformity overall and by market area within state property reporting categories. Ratio studies are conducted in compliance with the current *Standard on Ratio Studies* from the International Association of Assessing Officers. Mean, median, and weighted mean ratios are calculated for properties in each reporting category to measure the level of appraisal (appraisal accuracy). The mean ratio is calculated in each market area to indicate the level of appraisal (appraisal accuracy) by property reporting

category. In each reappraisal year this analysis is used to develop the starting point for establishing the level and accuracy of appraisal performance. In the non-reappraisal year this analysis is used to indicate the uniformity or equity of existing appraisals.

ANALYSIS OF AVAILABLE RESOURCES

Staffing and budget requirements for tax year 2016 are detailed in the 2016 appraisal district budget, as adopted by the board of directors and provided to each entity. This reappraisal plan is adjusted to reflect the available staffing in tax year 2016 and the anticipated staffing for tax year 2017. Staffing will impact the cycle of real property re-inspection and personal property on-site review that can be accomplished in the 2016 – 2017 time period.

Existing appraisal practices, which are continued from year to year, are identified and methods utilized to keep these practices current are specified. In the reappraisal year, real property appraisal depreciation tables and cost new tables are tested against verified sales data to ensure they represent current market data. The cap rate study by commercial real property type is updated from current market data and market rents are reviewed and updated from available local data. Personal property schedules are tested and analyzed based on rendition and prior year hearing and review information.

Information Systems (IS) support is detailed with year specific functions identified and system upgrades scheduled. Computer generated forms are reviewed for revisions based on year and reappraisal status. Legislative changes are scheduled for completion and testing. Existing maps and data requirements are specified and updates scheduled.

PLANNING AND ORGANIZATION

A calendar of key events with critical completion dates is prepared for each major work area. This calendar identifies all key events for appraisal, clerical, customer service, and information systems. A separate calendar is prepared for tax years 2017 and 2018. Production standards for field activities are calculated and incorporated in the planning and scheduling process.

2017-2018 CALENDAR OF KEY EVENTS

July 25, 2016	Certification of 2016 values.
July 26, 2016 to October 4, 2016	Field work to include but not limited to Building permits, demo permits, and new construction
October 7, 2016 to November 8, 2016	Ratio studies for 2017 reappraisal
November 12, 2016 to November 25, 2016	update single family residential cost schedules based on ratio data for 2017 reappraisal
December 2, 2016 to December 13, 2016	Mobile home drive out
December 16, 2016 to December 31, 2016	Business personal property drive out
January 2, 2017 to January 24, 2017	Work 2017 rechecks and percent complete property
January 27, 2017 to January 31, 2017	Print and mail BPP renditions
February 1, 2017 to February 14, 2017	Test real estate schedules and special inventory declarations
February 17, 2017 to February 28, 2017	Work BPP and assessments
March 3, 2017 to March 31, 2017	Work BPP and start prepare for notices
April 1, 2017 to April 30, 2017	Work BPP and send single family notices
May 1, 2017 to May 16, 2017	Finish BPP extensions
May 19, 2017 to May 30, 2017	Work single family protests
June 1, 2017 to June 30, 2017	Work protest and informal protest sessions

July 1, 2017 to July 25, 2017	Formal protest hearings and certification
July 26, 2017 to October 4, 2017	Building permits, demo permits, and new construction
October 7, 2017 to November 8, 2017	Ratio studies for 2018 reappraisal
November 12, 2017 to November 25, 2017	update single family residential cost schedules based on ratio data for 2018 reappraisal
December 2, 2017 to December 13, 2017	Mobile home drive out
December 16, 2017 to December 31, 2017	Business personal property drive out
January 2, 2018 to January 24, 2018	Work 2018 rechecks and percent complete property
January 27, 2018 to January 31, 2018	Print and mail BPP renditions
February 1, 2018 to February 14, 2018	Test real estate schedules and special inventory declarations
February 17, 2018 to February 28, 2018	Work BPP and assessments
March 3, 2018 to March 31, 2018	Work BPP and start prepare for notices
April 1, 2018 to April 30, 2018	Work BPP and send single family notices
May 1, 2018 to May 16, 2018	Finish BPP extensions
May 19, 2018 to May 30, 2018	Work single family protests
June 1, 2018 to June 30, 2018	Work protest and informal protest sessions
July 1, 2018 to July 25, 2018	Formal protest hearings and certification

MASS APPRAISAL SYSTEM

Computer Assisted Mass Appraisal (CAMA) system revisions are specified and scheduled with Information Systems (IS). All computer forms and IS procedures are reviewed and revised as required. The following details these procedures as it relates to the 2017 and 2018 tax years:

REAL PROPERTY VALUATION

Revisions to cost models, income models, and market models are specified, updated and tested each tax year.

Cost schedules are tested with market data (sales) to insure that the appraisal district is in compliance with Texas Property Tax Code, Section 23.011. Replacement cost new tables as well as depreciation tables are tested for accuracy and uniformity using ratio study tools and compared with available local data and cost data from recognized industry leaders, such as Marshall & Swift.

Land values are updated using current market data (sales) and then tested with ratio study tools. Value modifiers are developed for property categories by market area and tested on a pilot basis with ratio study tools.

Income, expense, and occupancy data is updated in the income models for each market area and cap rate studies are completed using current sales data. The resulting models are tested using ratio study tools.

PERSONAL PROPERTY VALUATION

Schedules are updated using data received during the previous tax year from renditions and hearing documentation. Valuation procedures are reviewed and modified as needed and tested. Depreciation schedules are updated each year.

NOTICING PROCESS

Section 25.19-appraisal notice forms are reviewed and edited for updates and changes signed off on by appraisal district management. Updates include the latest copy of Comptrollers *Taxpayers rights, remedies, and responsibilities*.

HEARING PROCESS

Protest hearing scheduling for informal and formal Appraisal Review Board hearings is reviewed and updated as required. Standards of documentation are reviewed and amended as required. The appraisal district hearing documentation is reviewed and updated to reflect the current valuation process. Production of documentation is tested in compliance with current statutes.

DATA COLLECTION REQUIREMENTS

Field and office procedures are reviewed and revised as required for data collection. Activities scheduled for each tax year include new construction, demolition, remodeling, re-inspection of problematic market areas, and re-inspection of the universe of properties on a specific cycle ranging from 1 to 3 years.

NEW CONSTRUCTION /DEMOLITION

New construction field and office review procedures are identified and revised as required. Source of building permits is confirmed and system input procedures are identified. Process of verifying demolition of improvements is specified. This critical annual activity is projected and entered on the key events calendar for each tax year. This process is ongoing throughout each year.

REMODELING

Market areas with extensive improvement remodeling are identified, verified and field activities scheduled to update property characteristic data. Updates to valuation procedures are tested with ratio studies before finalized in the valuation modeling.

RE-INSPECTION OF PROBLEMATIC MARKET AREAS

Real property market areas, by property classification, are tested for: low or high protest volumes; low or high sales ratios; or high coefficient of dispersion. Market areas that fail any or all of these tests are determined to be problematic. Field reviews are scheduled to verify and/or correct property characteristic data. Additional sales data is researched and verified. In the absence of adequate market data, neighborhood delineation is verified and neighborhood clusters are identified.

RE-INSPECTION OF THE UNIVERSE OF PROPERTIES

The International Association of Assessing Officers, *Standard on Mass Appraisal of Real Property* specifies that the universe of properties should be re-inspected on a 4-6 year cycle. The annual re-inspection requirements for tax year's 2017 and 2018 are identified by property type and property classification and scheduled on the key events calendar.

FIELD OR OFFICE VERIFICATION OF SALES DATA AND PROPERTY CHARACTERISTICS

Sales information must be verified and property characteristic data analyzed and noted. The sales ratio tools require that the property that sold must equal the property appraised in order that statistical analysis results will be valid. This is an on-going process throughout the year.

PILOT STUDY

New and/or revised mass appraisal models are tested on randomly selected market areas. These modeling tests (sales ratio studies) are conducted each tax year. Actual test results are compared with anticipated results and those models not performing satisfactorily are refined and retested. The procedures used for model specification and model calibration are in compliance with *Uniform Standards of Professional Appraisal Practice*, STANDARD RULE 6.

Market Value of Residential Property

Market Value of Residential Property-

Replacement Cost New x Total Percent Good + Depreciated Additive Values + Land Value (Adjusted by Market Indicators as determined by Sales Data, as available)

Market Value of Commercial Property

Market Value of Commercial Property-

Replacement Cost New x Total Percent Good + Depreciated Additive Values + Land Value (Adjusted by Market Indicators as determined by Sales Data, as available)

Market Value of Manufactured Housing

Market Value of Manufactured Housing-

Replacement Cost New x Total Percent Good + Depreciated Additive Values

Market Value of Commercial Personal Property

Market Value of Commercial Personal Property-

Units x (Price/Unit of Inventory) + Units x (Price/Unit of FFE x Percent Good) + Additive Values (Verified and adjusted by yearly Personal Property Renditions)

Market Value of Vacant Lots or Acreage

Market Value Vacant Lots of Acreage-

Units x Price/Unit (As determined by Market Transactions)

1-d-1 Special Use Valuation (Ag Value)

1-d-1 Special Use Valuation (Ag Value) -

Units x Value per Acre of Agricultural Use (As determined by Net Income per Acre/State Mandate Cap Rate)

Unique Property Valuation

Unique properties will be valued from Marshall & Swift Pricing Guide using the most current cost, state, local, and area modifiers.

Example: Number of Units x Cost Multiplier x Price per Unit x State Modifier x Local Modifier x Area Modifier

VALUATION BY TAX YEAR

Valuation by tax year – using market analysis of comparable sales and locally tested cost data, market area specific income and expense data, valuation models are specified and calibrated in compliance with the supplemental standards from the International Association of Assessing Officers and the *Uniform Standards of Professional Appraisal Practice*. The calculated values are tested for accuracy and uniformity using ratio studies. Performance standards are those as established by the *IAAO Standard on Ratio Studies*. Properties in selected market areas are updated in non-reappraisal years.

All properties in the District are appraised utilizing the sales comparison approach to value, the cost approach to value and the income approach to value. The available data may determine which one or more of the approaches are most applicable in valuing a given property or a property classification. The types of property appraised by the District are:

RESIDENTIAL REAL PROPERTY

SPECIAL INVENTORY RESIDENTIAL PROPERTY

MULTIFAMILY RESIDENTIAL PROPERTY

COMMERCIAL REAL PROPERTY

VACANT REAL PROPERTY

INDUSTRIAL REAL PROPERTY

UTILITIES

MINERAL PROPERTIES

SPECIAL VALUATION PROPERTIES
(AGRICULTURAL USE)

BUSINESS TANGIBLE PERSONAL PROPERTY

INDUSTRIAL TANGIBLE PERSONAL PROPERTY

THE MASS APPRAISAL REPORT

Each tax year the Mass Appraisal Report is prepared and certified by the Chief Appraiser at the conclusion of the appraisal phase of the ad valorem tax calendar (on or about May 15th). The Mass Appraisal Report is completed in compliance with STANDARD RULE 6-8 of the *Uniform Standards of Professional Appraisal Practice*. The signed certification by the Chief Appraiser is compliant with STANDARD RULE 6-9 of *USPAP*. This written reappraisal plan will be attached to the Mass Appraisal Report for reference.

VALUE DEFENSE

Evidence to be used by the appraisal district to meet its burden of proof for market value and equity in both informal appeals and formal appraisal review board hearings is specified and tested. Statistical reports and listings of comparable sales information are produced for use in defense of property values.* Additional data is obtained from discussions with property owners for equity adjustments when indicated.

*sales may not be disclosed to a taxpayer until after a protest is filed.

WRITTEN REAPPRAISAL PLAN FOR GRAY COUNTY APPRAISAL DISTRICT

PLANNING A REAPPRAISAL

Variation in reappraisal requirements requires GRAY County Appraisal District to carefully plan its work before beginning any reappraisal. Although the planning process may vary in specifics, it should involve five (5) basic steps:

1. Assess current performance.
2. Set reappraisal goals.
3. Assess available resources and determine needs.
4. Re-evaluate goals and adjust as necessary.
5. Develop a work plan.

STEPS IN A REAPPRAISAL

The International Association of Assessing Officers (IAAO) textbook, Property Appraisal and Assessment Administration, lists ten steps in a reappraisal. These steps outline those activities performed by GRAY County Appraisal District for the completion of periodic reappraisals. Activities are listed below in the order in which they occur:

Performance Analysis:

1. ratio study:
 - a. equity of existing values
 - b. consistency of values with market activity
2. Revaluation Decision:
 - a. statutory – at least once every three years
 - b. administrative policy
3. Analysis of Available Resources:
 - a. staffing
 - b. budget
 - c. existing practices
 - d. information system support
 - e. existing data and maps
4. Planning and Organization:
 - a. target completion dates
 - b. identify performance objectives
 - c. specific action plans and schedules
 - d. identify critical activities with completion dates
 - e. set production standards for field activities

5. Mass Appraisal System:
 - a. forms and procedures revised as necessary
 - b. CAMA (computer assisted mass appraisal) system revisions as required
6. Conduct Pilot Study:
 - a. test new/revised appraisal methods as applicable
 - b. conduct ratio studies
 - c. determine if values are accurate and reliable
7. Data Collection:
 - a. building permits and other sources of new construction
 - b. check properties that have undergone remodeling
 - c. re-inspection of problematic properties
 - d. re-inspection of universe of properties on a cyclic basis
8. Valuation:
 - a. market analysis (based on ratio studies)
 - b. schedules development
 - c. application of revised schedules
 - d. calculation of preliminary values
 - e. tests of values for accuracy and uniformity
9. The Mass Appraisal Report
 - a. establish scope of work
 - b. compliance with Standards Rule 6 - 7 of USPAP
 - c. signed certification by the chief appraiser as required by Standards Rule 6 - 8
 - d. of USPAP
10. Value Defense:
 - a. prepare and deliver notices of value to property owners
 - b. hold informal hearings
 - c. schedule and hold formal appeal hearings

****Note—the burden of proof (evidence) of market values and equity falls on the appraisal district.****

GRAY County Appraisal District Residential, Commercial, Rural, and Personal Property 2017/2018 Reappraisal Plan

Pursuant to Section 25.18 of the Texas Property Tax Code, the GRAY County Appraisal District has established the following reappraisal plan to provide for the reappraisal of all property within the district at least once every three (3) years.

1. **Three-Year Cycle:** The CAD is divided into three areas. Each year, all real Residential , large tract and commercial property within one of the areas will be reappraised, regardless of any ratio study/report findings. These areas are identified as follows:
 - a. A portion of the city pf Pampa within the boundaries of Harvester Street being the southerly boundary, the northern city limits being the northerly boundary and within the city limits from east to west. Also to include within the boundaries of Gray County the rural properties located in Pampa ISD, Miami ISD and Ft. Elliott ISD within the boundaries of Gray County. (To begin October 2016 and to be completed by March 2017)
 - b. A portion of the city pf Pampa within the boundaries of Harvester Street being the northerly boundary, Hwy 70 (Hobart St.) being the easterly boundary and the Southern city limits being the southerly boundary. Also to include the rural properties located in White Deer ISD, Grandview Hopkins ISD and Groom ISD within the boundaries of Gray County. (To begin October 2017 and to be completed by March 2018)
 - c. A portion of the city pf Pampa within the boundaries of Harvester Street being the northerly boundary, Hwy 70 (Hobart St.) being the westerly boundary and the Southern city limits being the southerly boundary. Also to include the rural properties located in Lefors ISD and city of Lefors, Wheeler ISD and Mclean ISD and cities of Mclean and Alanreed. (To begin October 2018 and to be completed by March 2019)

The re-inspection of the three appraisal areas are estimated to take four to six weeks and are to begin in October of each calendar year.

Defining Market Areas

The market areas of the city of Pampa are defined as follows. Area1: consists of the southerly boundary being Harvester Street, the northerly boundary being city limits, the easterly and westerly boundaries being the city limits. Area 2: consists of the northerly boundary being Harvester Street, the easterly boundary being Hobart Street, the westerly boundary being the

city limits and the southerly boundary being the city limits. Area 3: consists of the northerly boundary being Harvester Street, the westerly boundary being Hobart Street, the easterly being the city limits and the southerly being the city limits. The categories of property being appraised in these areas intel: A,B,C,D,E,F,O & X. The market areas of Pampa ISD consist of all three areas of the city of Pampa as well as all of the rural properties located within the boundaries of Pampa ISD within the boundaries of Gray County. The categories of property being appraised in these areas intel: A,B,C,D,E,F,O & X

The market areas of Lefors ISD consist of the city of Lefors as well as all of the rural properties located within the boundaries of Lefors ISD within the boundaries of Gray County. The categories of property being appraised in these areas intel: A,B,C,D,E,F,O & X.

The market areas of Mclean ISD consist of the city of Mclean, the city of Alanreed as well as all of the rural properties located within the boundaries of Mclean ISD within the boundaries of Gray County. The categories of property being appraised in these areas intel: A,B,C,D,E,F,O & X.

The market area of Wheeler ISD consists of all rural properties located within the boundaries of Wheeler ISD within the boundaries of Gray County. The categories of property being appraised in this area intel: A,B,C,D,E,F,O & X.

The market area of Miami ISD consists of all rural properties located within the boundaries of Miami ISD within the boundaries of Gray County. The categories of property being appraised in this are intel: A,B,C,D,E,F,O & X.

The market area of Groom ISD consists of all rural properties located within the boundaries of Groom ISD within the boundaries of Gray County. The categories of property being appraised in this area intel: A,B,C,D,E,F,O & X.

The market area of Grandview-Hopkins ISD consists of all rural properties located within the boundaries of Grandview-Hopkins ISD within the boundaries of Gray County. The categories of property being appraised in this area intel: A,B,C,D,E,F,O & X.

The market area of White Deer ISD consists of all rural properties located within the boundaries of White Deer ISD within the boundaries of Gray County. The categories of property being appraised in this area intel: A,B,C,D,E,F,O & X.

The market area of Ft. Elliott ISD consists of all rural properties located within the boundaries of Ft. Elliott ISD within the boundaries of Gray County. The categories of property being appraised in this area intel: A,B,C,D,E,F,O & X.

****Note:** all income producing personal property, mobile homes, Large tract (ag), minerals, utilities and special inventory within the CAD are appraised on an annual basis, regardless of its location.**

2. **Annual Ratio Reports:** In addition to the three year cycle stated above, ratio studies shall be performed annually to determine areas or categories of properties within the CAD which need to be reappraised within the current year based on sales ratios. Any areas or categories whose ratios are above or below statutory requirements shall be reappraised in the current year regardless of the area in which they are located.

This approach will insure not only that all residential and commercial property within the CAD is reappraised at least once every three years, but also that all other categories within the CAD are reviewed annually so that the appraisal district stays current with respect to market value in those areas where residential and/or commercial property values appear to be changing rapidly.

Organization

Field inspections are carried out by the field appraiser as directed by the chief appraiser and the asst. chief appraiser. The field appraiser physically inspects areas required by the reappraisal cycle, checks all existing data, works building permits, takes photographs of improvements, draws plans of new improvements for entry into computer, rechecks any property on which a question or problem has arisen. Other duties may be required and will be executed upon direction of the chief appraiser and asst. chief appraiser.

Data entry of field work notes and sketches is performed by appraisal district staff.

The chief appraiser and asst. chief appraiser as well as staff appraisers perform market analysis. Sales data is gathered throughout the year from deed records, sales confirmation letters from property owners, and other sources. The market data is analyzed, sales data is confirmed, outliers are identified, existing classification system is reviewed, market schedules are reviewed and updated as necessary, and final market schedules are applied to the universe of properties.

2017 Reappraisal Schedule

October 2016 to January 2017:

Begin planning sales ratio studies for all areas within the CAD. Gather current sales data from sales confirmation letters, deed records, and other sources. Mobile home drive and business personal property drive out.

January 2017 to March:

Mail homestead applications, special-use valuation applications, personal property renditions, exemption applications and any other required forms, Complete field inspections as provided by the

reappraisal plan area Begin running sales ratio reports. Compare with CAD values and sales information. Identify necessary schedule adjustments.

March through April:

Continue running sales ratio reports. Refine sales analysis and mass appraisal schedules. Statistically test schedules. Complete data entry of all reappraisal and maintenance changes. Assist field appraiser with reappraisal functions as needed. Finalize all field work and data collection activities. Execute mass appraisal/maintenance activities are required. Prepare for mailing 2015 Notices of Value.

May through June:

Hold informal hearings. Respond to property owners' inquiries, protests, and questions from notice mailings. Provide certified estimated values to taxing units.

July:

Hold ARB hearings. Process and mail ARB orders. Enter into computer all changes as ordered by ARB and notify other CADs if the ordered change falls into an over-lapping area. ARB approval of appraisal records before July 25th. Certification of appraisal records and values to taxing units by July 25th.

As needed throughout the year:

Handle any outstanding protests by scheduling ARB hearings. Appraisal staff gathers information for all new property via building permits, drive bys and word of mouth.

August through October:

Appraisers divide the cards and begin actual field inspections in late August and early September. Photographs are updated as necessary. Staff carefully monitors field work and makes notes of outstanding values and changes in property for further inspection and rechecks. Staff schedules field tasks for property that needs rechecked before its due time in the three-year cycle. Staff also monitors field work for consistency and fairness of each appraisal. Parcel edits and audits are run after data entry completed to identify clerical and other incorrect information that has been attached to parcel.

2016/2017 Reappraisal Schedule

The same timetable and duties apply in each year. The field appraiser shall physically inspect all property in as described in Area Three (3).

The chief appraiser and CAD staff shall continue to complete the same duties and reappraisal steps as outlined for 2015.

Mineral Valuation Process

Appraisal Responsibility

This mass appraisal assignment includes all of the property classed a minerals which falls within the responsibility of the Mineral valuation of the County Appraisal District and located within the boundaries of this taxing jurisdiction. These properties are under contract to be appraised by Pritchard and Abbott, Inc. Mineral appraisers appraise the property according to the statute. However, the affect of easements, restrictions encumbrances, leases, contracts or special assessments are considered on an individual basis, as the appraisement of any non exempt taxable fractional interests in real property. Fractional interest or partial holdings of real property are appraised in fee simple for the whole property and divided programmatically based on their prorated interests.

Appraisal Resources

- **Personnel** – The mineral properties are appraised by Pritchard and Abbott, Inc. an appraisal firm.
- **Data** – The Mineral properties are appraised by the contract appraisal staff using data collected from a variety of sources. Among these data sources are: Gas prices from the Comptroller, production from the Rail Road Commission, Average gas prices from industry, and data from the operators of the properties.

Area Analysis

The scope of market forces affecting mineral products tends to extend beyond regional considerations. The Global market effects the valuation of the property. Appraisers must study and analyze the current and future market in order to appraise the properties appropriately.

Neighborhood Analysis

Not applicable to Mineral properties.

Highest and Best Use

The highest and best use of a mineral property is for it to be produced. The properties are appraised based on their highest and best use.

Market Analysis

Market analysis is the basis for determining the future worth of the recoverable reserves of a mineral property. However, each property may have unique properties which are taken into consideration when estimating the final value of the property.

Data Collection

Data is collected yearly from the Comptroller of public accounts, the Rail Road Commission of Texas, and individual operators within the county. All of this information is pooled together to get an accurate picture of each mineral property.

Appraisal Method

All mineral properties are appraised as described by the property tax code and laws. Mineral properties are appraised using a discounted cash flow method as prescribed by the Texas Comptroller of Public Accounts.

Appraisal of an oil and gas property for ad valorem tax purposes in the state of Texas is based on the total value of the economically recoverable oil and gas reserves as of January 1st of each year. **The value is not based on past or future income, nor is it based on production;** but, it is a value based on an estimate of the present value of the oil and gas in the reservoir, waiting to be produced.

There are no rule-of-thumb methods for determining the present value of the future net income from a mineral property. The value can only be determined by preparing an analytical appraisal of the property.

Reserve evaluation is not an exact science. At best, it is an estimate of the volumes recoverable by a particular method. Although oil and gas are depleting assets, the estimate of reserves can be understated initially. Also, different recovery methods, product prices and operating expenses, to name a few, can increase or decrease the estimated remaining recoverable reserves after the original estimate.

The basic elements necessary for the valuation of oil and gas reserves are:

1. Rate they will be produced
2. Rate of decline
3. Price of the products
4. Cost to produce the reserves
5. Discount rate

Remaining oil and gas reserves are generally estimated by extrapolation of production trends. This is normally called decline curve analysis. The basic assumption is that the condition which shaped the production curve in the past will continue to shape it in the future. Of course, this requires proper weight being given to the immediate past. The decline curve is projected to the point where the production rate will generate just enough income to meet operating expenses. This is called the economic limit. The decline curve provides both the rate of production and the rate of decline.

The price of the oil is based on the weighted average price paid for oil in the geographic area from which it is produced during the previous twelve months. The price of gas is generally available on a lease by lease basis from the State Comptroller's office for the same period of time. The cost to produce includes state taxes, local taxes and operating costs. Information on operating costs may be obtained from the operator and are always reviewed by the appraiser.

We use a base discount factor of 17% for oil and 18% for gas. These factors can be increased based on various risks.

All of this data, plus other information is then entered into the computer. The estimated annual lease

production is multiplied by the price of the product in order to obtain the annual gross income. The cost to produce is subtracted from the gross income, yielding the net income. This income stream is then discounted at a rate which reflects the time value of money. The resulting income stream is now a realistic basis for estimating the market value of the property.

The estimated present property value is the sum of the present worth net incomes for all the future years, plus the value of the equipment.

PROCEDURE FOR REVIEWING APPRAISALS PERFORMED BY CONTRACTOR AND

DOCUMENTATION MAINTENCE

1. RANDOMLY SELECT SEVERAL PIPELINE, UTILITY AND MINERAL ACCOUNTS TO BE REVIEWED PRIOR TO MAILING NOTICES OF APPRAISED VALUE.
2. REQUEST A COPY OF THE APPRAISALS FOR THE SELECTED ACCOUNTS.
3. DISCUSS THE PROCEDURE USED TO APPRAISE THE PROPERTY WITH THE CONTRACTOR REPRESENTATIVE RESPONSIBILITY FOR THE TYPE OF PROPERTY SELECTED PURSUANT TO PROCEDURES FOR EVALUATING THE APPRAISAL SERVICES FIRM.

PROCEDURE FOR EVALUATING CONTRACTOR'S PROPERTY DISCOVERY PROCESS

1. CONTACT RESPONSIBLE PARTIES OF CONTRACTOR (APPRAISER, DIVISION ORDER ANALYST, ETC.) AND INQUIRE ON PROGRESS BEING MADE TO DISCOVER NEW PROPERTY FOR THE CURRENT TAX YEAR. FOR MINERAL APPRAISALS, THE MAIN DATA SOURCE IS THE TEXAS RAILROAD COMMISSION'S PRODUCTION RECORDS AS REPORTED MONTHLY BY OPERATORS. FOR INDUSTRIAL, UTILITY AND RELATED PERSONAL PROPERTY, DATA SOURCES ARE MORE DIVERSE AND MAY INCLUDE, BUT ARE NOT LIMITED TO: STATE OR FEDERAL AGENCIES (TEXAS RAILROAD COMMISSION, TEXAS COMPTROLLER, PUBLIC UTILITY COMMISSION, FEDERAL ENERGY REGULATORY COMMISSION, ETC.), RENDITIONS, KNOWLEDGEABLE LOCAL THIRD-PARTIES, INDUSTRY AND TRADE PUBLICATIONS, NEWSPAPER ARTICLES, PERMITS AND PERSONAL INSPECTION AND OTHER FIELDWORK.
2. REQUEST LIST FROM CONTRACTOR OF ALL NEW PROPERTIES DISCOVERED FOR COMPARISON/VERIFICATION WITH ANY INDEPENDENT LIST DEVELOPED IN-HOUSE BY USING THE NEWSPAPER, JOURNAL ARTICLES AND RELATED NEW STORIES.
3. RELAY ANY DISCREPANCIES FOUND IN STEP 2 TO CONTRACTOR, IF DESIRED OR NECESSARY, FOR REMEDIAL ACTION. CONSULT WITH CONTRACTOR'S STAFF OR MANAGEMENT FOR CORRECTIONS AND/OR IMPROVEMENTS OR ENHANCEMENTS TO CONTRACTOR'S DISCOVERY PROCESS.
4. REPEAT STEPS 2 AND 3 AS NEEDED.

LIMITING CONDITIONS

The appraised value estimates provided by the district are subject to the following conditions:

1. The appraisals were prepared exclusively for ad valorem tax purposes.
2. The property characteristic data upon which the appraisals are based is assumed to be correct. Exterior inspections of the property appraised were performed as staff resources and time allowed.
3. Validation of sales transactions was attempted through questionnaires to buyer and seller, telephone survey and field review. In the absence of such confirmation, residential sales data obtained from vendors was considered reliable.
4. Gray County Appraisal District Staff provided significant mass appraisal assistance to the person signing this certification.
5. Ratio study results are available at the Gray County Appraisal District.

Certification Statement:

"I, Tyson Paronto, Chief Appraiser for Gray County Appraisal District, solemnly swear that I have made or caused to be made a diligent inquiry to ascertain all property in the district subject to appraisal by me, and that I have included in the records all property that I am aware of at an appraised value which, to the best of my knowledge and belief, was determined as required by law."

Tyson Paronto, Chief Appraiser