

Notice to the Public

It has been the policy of the Colorado County Appraisal District, hereinafter referred to as Colorado CAD, to annually appraise the Market Value of all properties in our district.

The adoption of this reappraisal plan does not change this practice. The practical effect of this plan to you, the taxpayer, remains unchanged.

EXECUTIVE SUMMARY

SB 1652, which requires the adoption of this plan, uses “reappraisal” in a broad sense to mean the activities that the district undertakes every year-inspecting property, updating models, and appraising properties located within the boundaries of Colorado County. Under SB 1652, a property is reappraised when these activities are conducted, even if the values do not change. Accordingly, this plan describes Colorado CAD activities as an annual reappraisal.

PROPOSED REAPPRAISAL PLAN

TAX CODE REQUIREMENT

Passage of S. B. 1652 in 2005 by the Texas Legislature 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, Property 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 15th 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

Subsection (a) and (b), Section 25.18, Property 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 reviewing the appraisal results to determine value.
 - (7) Reviewing the appraisal results to determine value.

REVALUATION POLICY (REAPPRAISAL CYCLE)

In each year covered by this plan, Colorado CAD will conduct a complete appraisal analysis of all properties in the district and will update property values as necessary. The chief appraiser

will provide a notice of appraisal value for each property in compliance with Section 25.19 of the Texas Property Tax Code. The activities involved in the appraisal analysis are described below.

ANNUAL ACTIVITIES

1. Performance Analysis – the values from the previous Tax Year will be analyzed with ratio studies to determine the appraisal accuracy and uniformity overall. These ratio studies will be conducted by market areas within the Property Tax Assistance Division property reporting categories. Ratio studies will be conducted in compliance with the *Uniform Standards of Professional Appraisal Practice (USPAP)*, pertaining to mass appraisal techniques. Ratio studies will also be conducted using techniques in the Property Appraisal and Assessment Administration.
2. Available Resources – staffing and budget requirements for Tax Year 2011 are presented in the 2011 Preliminary Budget, as proposed to the board of directors. The district's appraisers are subject to the provisions of the Property Taxation Professional Certification Act and must be duly registered with the Texas Department of Licensing and Registration. The proposed 2011 appraisal staff will consist of ten (10) full time employees with the following classifications.
 - a. Chief Appraiser
 - b. Appraisal Supervisor
 - c. Field Appraisers
 - d. Administrative support, customer service, clerical and other
 - e. Data Processing Coordinator and Collections Supervisor
3. Mass Appraisal System – Colorado CAD's Computer Assisted Mass Appraisal system is from the contracted vendor True Automation that specializes in providing appraisal and collection services to appraisal districts.
4. Data Collection Requirements – field and office procedures will be reviewed and revised as required for data collection. Activities schedules for each Tax Year include new construction, demolition, remodeling, re-inspection of problematic market areas, re-inspection of the universe of properties is preformed through field review that is prioritized, and field or office verification of sales data and property characteristics. Re-inspection of properties will be completed using 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.
5. Pilot study by Tax Year – new and revised mass appraisal models will be test each Tax Year. Ratio studies, by market areas, will be conducted on proposed values each Tax Year. Proposed values on each category will be tested for accuracy and reliability in selected market areas. Pilot modeling and ratio studies will be conducted in accordance with the *Uniform Standards of Professional Appraisal Practice (USPAP)*.
6. Valuation by Property Type – using market analysis of comparable sales, locally tested cost data, and income analysis, valuation models will be specified and calibrated in compliance with supplemental standards from USPAP. The calculated values will be tested for accuracy and uniformity using ratio studies.

7. The Mass Appraisal Report – each Tax Year the Tax Code requires a mass appraisal report be 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 USPAP Standard Rule 6-8. The signed certification by the chief appraiser is compliant with USPAP Standard Rule 6-9.
8. Value Defense – evidence to be used by the appraisal district to meet its burden of proof for market value and equity in the formal appraisal review board hearings will be developed and made available.

2011 & 2012 REAPPRAISAL PLAN DETAIL

APPRAISAL ANALYSIS & DELIVERY OF NOTICES

In each year covered by the plan, Colorado County CAD will conduct a complete appraisal analysis of all properties in the district and will update property values as necessary. The chief appraiser will provide a notice of appraisal for each property in compliance with Section 25.19 of the Texas Property Tax Code. Market areas that have existing values consistent with the market and demonstrate uniformity may be noticed at current year value levels. The activities involved in the appraisal analysis are described below.

PERFORMANCE ANALYSIS

For each Tax Year, the previous year's equalized values will be analyzed with ratio studies to determine appraisal accuracy and appraisal uniformity overall and, by market area within state property reporting categories. Ratio studies will be conducted in compliance with USPAP. Descriptive statistics, such as, mean, median, and weighted mean ratios will be calculated for properties in each reporting category to measure the level of appraisal accuracy and the coefficient of dispersion (COD) will be calculated to measure appraisal uniformity by property reporting category. This analysis will be used to develop the starting point for establishing the accuracy and uniformity of appraisal performance.

ANALYSIS OF AVAILABLE RESOURCES

Staffing and budgetary requirements for Tax Year 2011 are presented in the district's 2011 budget, as proposed to the board of directors. This reappraisal plan reflects the available staffing in the Tax Year 2011 and the anticipated staffing for Tax Year 2010. Staffing will impact the cycle of real property re-inspection and personal property on-site review that can be accomplished in the 2011-2012 time period.

PLANNING AND ORGANIZATION

Production standards for field and office activities will be established and incorporated in the scheduling process. The scope of work, available time frame, staffing resources, and any budgetary constraints have been considered in the development of this reappraisal plan. To the extent that circumstances require revision to this plan, amendments to the plan will be submitted to the board of directors for approval.

GEOGRAPHICAL REGIONS

The Colorado County CAD is divided in four major geographic regions with smaller areas or 'neighborhoods' with in those four regions. They include:

Columbus ISD which includes the City of Columbus
Rice Consolidated ISD which includes the City of Eagle Lake
Weimar ISD which includes the City of Weimar
Hallettsville ISD (Provident City area)

MASS APPRAISAL SYSTEM

Computer Assisted Mass Appraisal (CAMA) system revisions and enhancements will be specified and prioritized by our outside firm under contract with Colorado County CAD. Legislative mandates will be addressed and implemented into the necessary system applications. All computer generated forms, letters, notices, and orders will be reviewed annually and revised as required. The following details the procedures as they relate to the 2011 and 2012 Tax Years.

2011-2012 TIME ACTION SCHEDULE

December '11 to January '12

Enter new residential cost schedules into CAMA system. The new data will be based on the Marshall Residential Valuation Service that arrives in late December or early January.

Gather current sales data from confirmation letters, deed records, listing service data if available and other resources for properties located in Colorado County CAD. Sales ratio reports are generated based on specific criteria for all the regions and neighborhoods comparing sales prices against CAD values. Establish ratios for increase or decrease of local adjustments warrant for all regions. Continue field inspections of new construction, demolition, additions, building permits and agricultural use compliance. Review mobile home parks for new and /or removed mobile homes from the various parks throughout the Colorado County CAD.

February '11 to April '11

Continue running sales reports and fine-tune mass appraisal calculations and sales analysis functions. Begin mass maintenance changes of all reappraisal areas. Field staff will continue to visit reappraisal properties as time is available. Utilize GIS to assist with field visit activities. Assist ARB members for receiving training at mandated Comptroller training sessions. Plan an organizational meeting for the Appraisal Review Board before the mailing of the 2011 Notices of Appraised Value.

May '11 to August '11

Respond to property owner's inquiries, protests and questions from Notices of Appraised Value mailings. Conduct informal reviews with property owners and prepare for ARB hearings. Certify 2011 Appraisal Roll on or before July 25th.

August '11 to December '11

Resolve any outstanding protests or Appraisal Review Board issues. Continue to reappraise properties in Columbus ISD, Weimar ISD, Rice Consolidated ISD and the Hallettsville ISD regions by updating field cards and associated maps as per field inspections. Continue to collect and verify sales data and input into the CAMA system.

Gather information such as building permits, mechanics liens and owner's request for re-inspection.

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Real Property Valuation

Revisions to valuation models will be reviewed, updated and tested each Tax Year. In each year, cost schedules will be tested with market data to insure that the appraisal district is in compliance with Section 23.011 of the Tax Code. Replacement cost new tables as well as depreciation will be tested for accuracy and uniformity through ratio studies and comparison with cost data from Marshall Valuation Service, which is a nationally recognized cost estimator service.

Land tables will be updated using current market data and then tested with ratio studies. Restrictions, covenants, and other factors influencing value will be identified and analyzed. Value modifiers will be developed for property categories by market area as required, and tested with ratio studies.

Personal Property Valuation

Derive appropriated values of all Personal Property annually by means of required Personal Property Renditions, physical inspection and by prevailing value for similar properties in the district. New accounts will be added by discovery from local publications, field inspections and owner notification to the district. Personal Property Renditions as prescribed by Section 22.01 of the Texas Property Tax Code will be mailed to all local businesses annually.

Appraisal Notices

Appraisal notices will be reviewed for legal sufficiency and correctness. Enclosures will be updated, including the latest version of the comptroller's *Taxpayers Rights, Remedies, and Responsibilities*. All property notices will be mailed by May 15th or as soon thereafter as practical.

Hearing Process

The appraisal staff will review all legislative changes in May of each Tax Year to ensure the Colorado County CAD is meeting the requirements of the Texas Property Tax Code and preparedness for informal and formal hearing. The hearings will generally begin in June of each Tax Year. Revisions and enhancements to existing hearing scheduling procedures for formal appraisal review board hearing will be reviewed and updated to ensure efficiency and timely certification of the appraisal roll.

IDENTIFYING & UPDATING RELEVANT PROPERTY CHARACTERISTICS

Field and office procedures will be reviewed and revised as required for data collection and verification of value-related and descriptive property characteristics for each property. Activities scheduled for each tax year include inspection of new construction, demolition, remodeling, re-inspection of problematic market areas, verification of agricultural and wildlife applications, and the physical re-inspection of the universe of properties through prioritized field reviews, and verification of sales information.

NEW CONSTRUCTION/REMODELING/DEMOLITION

New construction/demolition field and office procedures are discussed and revised as required. Field production standards are to be established and a procedure for monitoring production standards will be tested. Building permits, local publications, field inspections, and Mechanic's Lien's can help identify and locate new construction accounts.

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

RE-INSPECTION OF PROBLEMATIC MARKET AREAS

Real property market areas, by property classification, will be tested for: high protest volumes; high or low sales ratio; or high coefficient of dispersion. Market areas that fail any of all these tests are determined to be problematic. Field reviews will be done to verify and/or correct property characteristic data. Additional sales data will be reviewed and researched if made available. If there is no additional sales data, new neighborhood or sub-neighborhoods may be created.

MARKET AREA DELINEATION

Market areas are defined by the physical, economic, governmental and social forces that influence property values. The effects of these forces were used to identify, classify, and stratify or delineate similarly situated properties into smaller, more comparable and manageable subsets for valuation purposes. Delineation can involve the physical drawing of neighborhood boundary lines on a map or, it can involve statistical separation or stratification based on attribute analysis. These homogeneous properties have been delineated into valuation neighborhoods for residential property or economic class for commercial property, but because there are discernable patterns of growth that characterize a neighborhood or market segment, the Colorado County CAD staff will annually evaluate the neighborhood boundaries or market segments to ensure homogeneity of property characteristics,

REINSPECTION OF THE UNIVERSE OF PROPERTIES

The ***International Association of Assessing Officers***, *Standards on Mass Appraisal of Real Property* specifies that the universe of properties should be re-inspected on a cycle of 4-6 years. The Texas Property Tax Code, Section 25.18 (b) requires the re-inspection of the universe of properties at least once every three years. The re-inspection for real property is a process where the improvements are inspected for physical condition, accuracy of measurements, and for building that have been omitted, torn down, or added since the last inspection. The re-inspection will also verify land use and characteristics that may have changed from the previous inspection. Every year the cities of Weimar, Columbus, and Eagle Lake are visited for new improvements and re-inspections. The same is true for the towns of Alleyton, Glidden, Rock Island, Sheridan, Garwood and all the rural subdivisions. The highest number of changes in appraisal characteristics occurs in these areas because this is where the greatest concentration of ownership is located. The properties located in these areas account for approximately two-thirds of the real property located in the Colorado County CAD.

Re-inspection of properties will be completed using a combination of field inspections and office review. Office review of property for the 2011 and 2012 Tax Year will include the examination of aerial photography, property sketches and existing property characteristics.

FIELD OR OFFICE VERIFICATION OF SALES DATA AND PROPERTY CHARACTERISTICS

Sales information will be verified and property characteristics data (appraisal record) as of the date the sale transaction occurred will be captured. Since the State of Texas does not require disclosure of sale price, the district will obtain prices through deeds, voluntarily disclosed closing statements or fee appraisals usually submitted as evidence in a protest hearing, buyer and seller sale questionnaires, or third party sources, such as real estate agents, market data vendors (MLS) and fee appraisers.

LEGAL ATTRIBUTES AFFECTING VALUE

The Colorado County CAD will identify and note elements of recorded conveyance that will affect the use or value of a property to a degree as described by law. The district will monitor the enactment or changes of governmental restrictions affecting property value, such as zoning, health ordinances, special assessments, and other legal restrictions. Where leases and other interests are of a nature or duration that may affect the Market Value will be considered in the individual valuation of the property as to how these restrictions apply to the property.

PILOT STUDY

New and/or revised mass appraisal models (tables) are tested against the previous and current year sales data. These modeling test (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 (market area) and model calibration (increase/decrease), should be in compliance with **Uniform Standards of Professional Appraisal Practice**, Standard Rule 6. Standard Rule 6 states, "In developing a mass appraisal, the appraiser must be aware of, understand, and correctly employ those generally accepted methods and techniques necessary to produce and communicate credible appraisals".

VALUATION METHODS BY PROPERTY TYPE

For each Tax Year, valuation models will be specified and calibrated in compliance with the supplemental standards from USPAP. The calculated values will be tested for accuracy and uniformity using ratio studies. Performance standards will be in compliance with the guidelines as set forth by USPAP. Property values in all market areas will be analyzed and updated each appraisal year as required for level and uniformity of value.

Residential Real Property

The residential valuation appraisers perform statistical analysis annually to evaluate whether estimated values are equitable and consistent with the market. Ratio studies are conducted on each of the residential valuation neighborhoods in the district to review the two primary aspects of mass appraisal accuracy (1) level and (2) uniformity of value. Appraisal statistics of central

tendency generated from sales ratios are evaluated and analyzed for each neighborhood. The level of appraised values is determined by the weighted mean ratio for sales of individual properties within a neighborhood, and a comparison of neighborhood weighted means reflect the general level of appraised value between comparable neighborhoods.

The appraiser, through the sales ratio analysis process, reviews the neighborhoods annually. The first phase involves neighborhood ratio studies that compare the recent sales prices of neighborhood properties to the appraised values of these sold properties. This set of ratios provides the appraiser an excellent means of judging the present level of appraised value and uniformity of the sales. The appraiser, based on the sales ratio statistics and designated parameters for valuation update, makes a preliminary decision as to whether the value level in a neighborhood needs to be updated or whether the level of market value in a neighborhood is at an acceptable level. The valuation process for residential property begins in August. Land analysis, sales outlier review, neighborhood sales analysis, and finalization of proposed estimates of value will occur from September through April.

Valuation Method Used

Cost Approach

Neighborhood analysis of market sales to achieve an acceptable sale ratio or level of appraisal is also the reconciliation of the market and cost approaches to valuation. Market factors are developed from appraisal statistics provided from market analyses and ratio studies and are used to ensure that estimated values are consistent with the market and to reconcile cost indicators. The district's primary approach to the valuation of residential properties uses a hybrid cost-sales comparison approach. This type of approach accounts for neighborhood market influences not particularly specified in a purely cost model.

The following equation denotes the hybrid model used:

$$MV = LV + (RCN - AD) * LA$$

Whereas, in accordance with the hybrid approach, the estimated market value (MV) of the property equals the land value (LV) plus the replacement cost new of the improvements (RCN) less accrued depreciation (AD), multiplied by the local adjustment multiplier (LA). The cost approach separately estimates both the land and the building contributory values (depreciated replacement costs) based on the cost tables. While cost tables reflect only the supply or availability part of the market, it is expected that adjustments to the cost tables may be needed to bring the level of appraisal to an acceptable standard as indicated by the market sales data. The adjustment of the cost tables will allow for the observation and consideration of economic factors and influences. These market, or local adjustments, may be abstracted and applied uniformly within neighborhoods to account for specific variances between market areas across a jurisdiction. In accordance with the Market Approach, the estimated market value (MV) of the property equals the basic unit of property, under comparison, multiplied by the market price range per unit for sales of comparable property. For residential property, the unit of comparison is typically the price per square foot of living area or the price indicated for the improvement contribution. This analysis for the hybrid model is based on both the cost and market approaches as a correlation of indications of property valuation.

A significant unknown for these two indications of value has been determined to be the rate of change for the improvement's contribution to total property value. The primary unknown for the cost approach is to accurately measure accrued depreciation affecting the amount of loss attributed to the improvements as age increases and condition changes. Evaluation of property using the Cost Approach relies on the depreciated value of the improvement component based on age and condition. The measure of change for this component can best be reflected in the annualized accrued depreciation table. The level of improvement contribution to the property is measured by abstraction of comparable market sales, and subtracting the land value from the sale price. This cost adjustment factor is most appropriately measured by sales of similar property. In the Market Approach, when the improvements are abstracted from the sale price, the resulting number indicates the depreciated value of the improvement component and the economic forces. The reconciliation of both the market and cost information is the basis of and indication of the property value under this hybrid model.

When the appraiser reviews a neighborhood, the appraiser reviews and evaluates a ratio study that compares recent sales prices of properties, within a delineated neighborhood. The value of the properties' used in the study is based on the estimated depreciated replacement cost of improvements plus land value. The calculated ratio derived from the sum of the sold properties' estimated value divided by the sum sales prices indicates the neighborhood level of appraisal based on sold properties. These ratio studies are used to determine the level of appraisal for each neighborhood. If the level of appraisal for the neighborhood is outside the acceptable range of ratios, adjustments to the neighborhood are made. An overall appraisal ratio between the ranges of 96% to 100% is considered to be acceptable.

If reappraisal of the neighborhood is indicated, the appraiser analyzes available market sales. The abstraction of property components allows the appraiser to focus on the rate of change for the improvement contribution. Abstraction of the improvement value provides a basis for calculating accrued depreciation/appreciation attributed to the improvement component. In the years when new improvement cost schedules are loaded into the system, the analysis is focused mainly on development of the depreciation factor. In the years when the system has not been updated with new cost schedules, the analysis is focused on the appreciation component. This is usually the most significant factor affecting property value and the most important unknown factor to be determined by market analysis. Abstraction of the land component from the sale price indicates the effect of overall market influences and factors on the price of improvements that were a part of recently sold property. Comparing this indicated price or value allocation for the improvement with the estimated replacement cost new of the improvement indicates any loss/gain in value due to accrued forms of physical, functional, or economic forces. This is a market driven measure of accrued depreciation/appreciation and results in a true and relevant measure of improvement marketability, particularly when based on multiple sales. The multiple sales can indicate the trending of this rate of change over certain classes of improvements within certain neighborhoods. Based on this market analysis, the appraiser estimates the annual rate of depreciation/appreciation for the improvements based on the age and observed condition. Once estimated, the appraiser recalculates the improvement value of all property within the sale sample to consider and review the effects on the neighborhood sale ratio. After an acceptable level of appraisal is achieved within the sale sample, the entire neighborhood of property is recalculated utilizing the indicated depreciation/appreciation rates taken from market sales. This factor is the basis for trending all improvement values within a quality or class of residences. When combined with any other site improvements and land value, the estimated property value using the Cost Approach reflects appraisal estimates being closer to actual market prices in a neighborhood. Therefore, based on analysis of recent sales located within a given neighborhood, estimated property values will

reflect the market influences and conditions only for the specified neighborhood, thus producing more representative and supportable values. The estimated property values calculated for each neighborhood are based on market indicated factors applied uniformly to all properties within a neighborhood. Finally, with all the market-trend factors applied, a final ratio study is generated that compares recent sale prices with the proposed appraised values for these sold properties. From this set of ratio studies, the appraiser considers the appraisal level and uniformity in both updated and non-updated neighborhoods and verifies appraised values against overall trends as exhibited by the local market, and finally, for the school district as a whole.

An extensive review and revision of the residential cost schedules will be performed before each reappraisal year. Samples of newly constructed sold properties (if available) of varying construction quality in Colorado County CAD will be reviewed. The property characteristics of these sampled properties will be verified and photographs will be taken. Colorado County CAD dwelling costs will be compared against *Marshall & Swift*. This process includes correlation of quality of construction factors from Colorado County CAD and *Marshall & Swift*. The results of this comparison will be analyzed using several measures, including stratification by quality and review of estimated building costs, as well as land value to sale prices.

Sales Comparison Approach

In the absence of a sale of the subject, sale prices of comparable properties are usually considered the best evidence of market value. The sales comparison approach models the behavior of the market by comparing the properties being appraised with comparable properties that have recently sold. Their sale prices will then be adjusted for differences from the subject and a market value for the subject is estimated from the adjusted sales prices of comparable properties.

The Colorado County CAD currently develops estimates of value for single-family properties using the traditional sales comparison approach.

Income Approach

The income approach is based on the principle that the value of an investment property reflects the quality and quantity of the income it is expected to generate over its life. In other words, value is the estimated present value of future benefits, namely income and proceeds from the sale of the property. The appraiser must estimate income from a property and capitalize the income into an estimate of current value.

The model used to estimate the present value of income expected in the future is represented by the following formulas:

$$\text{Value}=\text{Income}/\text{Rate}, \text{ or } \text{Income}=\text{Rate} \times \text{Value}, \text{ or } \text{Rate}=\text{Income}/\text{Value}$$

The income approach is most suitable for types of properties frequently purchased and held for the purpose of producing income, such as apartments, motels, commercial buildings and office buildings. It is not conducive to the valuation of single-family residential properties that are seldom rented, or where market demand factors such as personal preferences or location unduly influence the market.

The income information in the Colorado County CAD is generally either non-existent or not available to validate the accuracy or the results. Therefore the income approach is not used but is considered when information is provided by the property owner.

INVENTORY RESIDENTIAL PROPERTY

Residential improved and vacant property is appraised in compliance with the Texas Property Tax Code, Section 23.12 (a).

In general, the district uses its own land value estimates and the actual itemized construction, labor, and material costs, plus other soft or indirect costs to estimate market value as of the assessment date. The market values of improved inventory will be reviewed annually and inventory consideration will be eliminated when ownership transfers to the property owner. As with improved inventory, full market value will be applied once the vacant land is absorbed and ownership transfers for the purpose of residential construction.

COMMERCIAL REAL PROPERTY

The valuation period will begin in August and last until the end of April. Once proposed values are calculated, a ratio study will be performed to test the level and uniformity of appraisal within property use and among various classes. Commercial properties will be valued by the cost approach, the income approach, or the market approach as deemed most appropriate pursuant to Section 23.0101.

Valuation Methods Used

Cost Approach

The cost approach to value is applied to improved real estate property utilizing the comparative unit method. This methodology involves the utilization of national cost data reporting services as well as actual cost information on local comparable properties whenever possible. Cost models are typically developed based on the Marshall Valuation Service which indicates estimated hard or direct costs of various improvement types. Cost models reflect the derivation of replacement cost new (RCN) of all improvements represented within the district. These include comparative base rates, per unit adjustments and lump sum adjustments for variations in property description, design, and types of improvement construction. This approach and analysis also employs the sales comparison approach in the evaluation of soft or indirect costs of construction. Because a national cost service is used as a basis for the cost models, local modifiers and estimates of soft cost factors are necessary to adjust these base costs specifically for various types of improvements located in Colorado County. These developed local modifiers and additional cost factors are applied to the replacement cost estimated by the national cost service.

Accrued depreciation is the sum of all forms of loss affecting the contributory value of the improvements. It is the measured loss against replacement cost new taken from all forms of physical deterioration, functional and economic obsolescence. Accrued depreciation is estimated and developed based on losses typical for each property type at that specific age. Effective age estimates are based on the utility of the improvements relative to where the

improvement lies on the scale of its total economic life and its competitive position in the marketplace. Effective age estimates are considered and reflected based on the given actual age and the improvements economic remaining life. The actual age of the improvements will be noted in the CAMA software when available. The district will begin the phasing in of the CAMA standard depreciation tables for certain commercial properties in appraisal year 2011. The completion of all tables should be done by May of 2012.

Adjustment factors such as external and functional obsolescence will be applied, if warranted. A depreciation factor will be applied if the condition or effective age of a property is found to be necessary. This depreciation is indicated by appropriately noting the physical condition and functional utility on the property characteristics. These adjustments will typically be applied to a specific property type or location and will be developed through ratio studies or other market analysis.

The result of estimating accrued depreciation and deducting that from the estimated replacement cost new of improvements indicates the estimated contributory value of the improvements. By adding the estimated land value, as if vacant, to the contributory value of the improvements indicates a property value by the cost approach. Given relevant cost estimates and market related measures of accrued depreciation, the indicated value of the property by the cost approach becomes a very reliable valuation technique.

Sales Comparison Approach

Although all three of the approaches to value are based on market data, the Sales Comparison Approach is most frequently referred to as the Market Approach. This approach is utilized not only for estimating land value but also in comparing sales of similarly improved properties to parcels on the appraisal roll. As previously discussed in the Data Collection / Validation section of this report, pertinent data from actual sales of properties, both vacant and improved, is pursued throughout the year in order to obtain relevant information which can be used in all aspects of valuation. Sales of similarly improved properties can provide a basis for the depreciation schedules in the Cost Approach, rates and multipliers used in the Income Approach, and as a direct comparison in the Sales Comparison Approach. Improved sales are also used in ratio studies, which afford the appraiser an excellent means of judging the present level and uniformity of the appraised values.

Based on the market data analysis and review discussed previously in the cost, income and sales approaches, the cost models are calibrated and finalized. The calibration results will be entered for the schedules and models in the CAMA system for utilization on all commercial properties in the district.

The district does not use the Sales Comparison Approach at this time. The lack of commercial property that has sold in the market makes this approach less desirable. There are so many different types of properties and so few comparable sales available for the appraisers. Without more sales many of the adjustments cannot be accurately calculated.

Income Approach

The income approach to value can be applied to those real properties which are typically viewed by market participants as "income producing", and for which the income methodology is considered a leading value indicator. The first step in the income approach pertains to the estimation of market rent on a per unit basis. Market data can be derived from actual rent data

furnished by property owners and from local market surveys conducted by the district. This per unit rental rate multiplied by the number of units results in the estimate of potential gross rent.

A vacancy and collection loss allowance is the next item to consider in the income approach. The projected vacancy and collection loss allowance is established from actual data furnished by property owners and local market survey trends. This allowance accounts for periodic fluctuations in occupancy, both above and below an estimated stabilized level. This feature may also provide for a reasonable lease-up period for multi-tenant properties, where applicable. The market derived stabilized vacancy and collection loss allowance is subtracted from the potential gross rent estimate to yield an indication of estimated annual effective gross rent to the property.

Next, a secondary income or service income is considered and, if applicable, calculated as a percentage of stabilized effective gross rent. Secondary income represents parking income, escalations, reimbursements, and other miscellaneous income generated by the operations of the real property. The secondary income estimate is derived from actual data that has been collected and available market information. The secondary income estimate is then added to effective gross rent to arrive at an effective gross income, when applicable.

Allowable expenses and expense ratio estimates are based on a study of the local market, with the assumption of prudent management. An allowance for non-recoverable expenses such as leasing costs and tenant improvements may be included in the expenses. A non-recoverable expense represents costs that the owner pays to lease rental space. Relevant expense ratios can be developed for different types of commercial property based on use and market conditions. For instance, many retail properties are leased on a triple-net basis, whereby the tenant is responsible for all operating expenses, such as ad valorem taxes, insurance, and common area and property maintenance. In comparison, a general office building is most often leased on a base year expense. This lease type stipulates that the owner is responsible for all expenses incurred during the first year of the lease. As a result, expense ratios can be implemented and estimated based on observed market experience in operating various types of commercial property.

Another form of allowable expense is the replacement of short-lived items (such as roof or floor coverings, air conditioning or major mechanical equipment or appliances) requiring expenditures of lump sum costs. When these capital expenditures are analyzed for consistency and adjusted, they may be applied on an annualized basis as stabilized expenses. When performed according to local market practices by commercial property type, these expenses when annualized are known as replacement reserves. For some types of property, typical management does not reflect expensing reserves and is dependent on local and industry practices.

Subtracting the allowable expenses (inclusive of non-recoverable expenses and replacement reserves when applicable) from the annual effective gross income yields an estimate of annual net operating income to the property.

Return rates and income multipliers are used to convert operating income expectations into an estimate of market value for the property under the income approach. These include income multipliers, overall capitalization rates, and discount rates. Each of these multipliers or return rates are considered and used in specific applications. Rates and multipliers may vary between property types, as well as by location, quality, condition, design, age, and other factors.

Therefore, application of the various rates and multipliers must be based on a thorough analysis of the market for individual income property types and uses.

Capitalization analysis is used in the income approach models to form an indication of value. This methodology involves the direct capitalization of net operating income as an indication of market value for a specific property. Capitalization rates applicable for direct capitalization method and yield rates for estimating terminal cap rates for discounted cash flow analysis are derived from the market. Sales of improved properties from which actual income and expense data are obtained provide a very good indication of property return expectations a specific market participant is requiring from an investment at a specific point in time. In addition, overall capitalization rates can be derived and estimated from the built-up method (band-of-investment). This method relates to satisfying estimated market return requirements of both the debt and equity positions in a real estate investment. This information can be obtained from available sales of property, local lending sources, and from real estate and financial publications.

Rent loss concessions are estimated for specific properties with vacancy problems. A rent loss concession accounts for the impact of lost rental income while the building is moving toward stabilized occupancy. The rent loss is calculated by multiplying the rental rate by the percent difference of the property's stabilized occupancy and its actual occupancy. Build out allowances (for first generation space or retrofit/second generation space as appropriate) and leasing expenses are added to the rent loss estimate. The total adjusted loss from these real property operations is discounted using an acceptable risk rate. The discounted value (inclusive of rent loss due to extraordinary vacancy, build out allowances and leasing commissions) becomes the rent loss concession and is deducted from the value indication of the property at stabilized occupancy. A variation of this technique allows a rent loss deduction to be estimated for every year that the property's actual occupancy is less than stabilized occupancy.

As stated earlier the income approach is usually not employed by the Colorado County CAD but is considered when the necessary information is provided by the property owner.

BUSINESS PERSONAL PROPERTY VALUATION PROCESS

There are four different personal property types appraised by the district's personal property section: Business Personal Property accounts; leased assets; vehicles and aircraft; and multi-location assets.

These property types will be valued each Tax Year by district appraisal staff and in some cases by contract appraisal firms. Generally, estimates of value developed by the appraisal firms will be provided to the Colorado County CAD in mid May or as soon as practical

Valuation Method Used

Business personal property is classified and utilizes a four digit numeric codes, called Standard Industrial Classification (SIC) codes that were developed by the federal government to describe property. These classifications are used by Colorado CAD to classify personal property by business type.

SIC code identification and delineation could be the cornerstone of the personal property valuation system at the district, should the district need to hire a business personal property

appraiser. All of the personal property analysis work done in association with the personal property valuation process will be SIC code specific. SIC codes are determined based on observable aspects of homogeneity and business use.

Personal property data collection procedures are highly dependent on the renditions that are received in the office. Field inspections can also be involved in the appraisal and valuation of personal property.

The district's property characteristic data was collected from property owner renditions. This project results in the discovery of new businesses, changes in ownership, relocation of businesses, and closures of businesses not revealed through other sources. Tax assessors, city and local newspapers, and the public often provide the district information regarding new personal property and other useful facts related to property valuation.

An outside vendor provides Colorado CAD with a listing of vehicles within the jurisdiction. The vendor develops this listing from the Texas Department of Transportation (TxDOT) Title and Registration Division records. Other sources of data include property owner renditions and field inspections.

The primary source of leased and multi-location assets is property owner renditions of property and field inspections.

Cost Approach

Cost schedules will be developed based on the SIC code by the Property Tax Division of the Comptroller's Office and by district personal property valuation appraisers. Analyzing cost data from property owner renditions, hearings, state schedules, and published cost guides can develop the cost schedules. The cost schedules will be reviewed as necessary to conform to changing market conditions. The schedules are typically in a price per square foot format, but some exceptions are in an alternate price per unit format, such as per room value for hotels.

Colorado CAD's primary approach to the valuation of business personal property will be the cost approach. The replacement cost new (RCN) is either developed from property owner reported historical cost or from CAD newly developed valuation models. The trending factors used by the CAD to develop RCN will be based on published valuation guides. The percent good depreciation factors used by Colorado CAD will also be based on published valuation guides. The index factors and percent good depreciation factors will be used to develop present value factors (PVF), by year of acquisition, as follows:

$$\text{PVF} = \text{INDEX FACTOR} \times \text{PERCENT GOOD FACTOR}$$

The PVF is applied to reported historical cost as follows:

$$\text{MARKET VALUE ESTIMATE} = \text{PVF} \times \text{HISTORICAL COST}$$

This mass appraisal PVF schedule will help to ensure that estimated values are uniform and consistent within the market and reflect current economic pressures of supply and demand.

The business personal property valuation process has two main objectives: 1) Analyze and adjust estimated asset cost with existing SIC models. 2) Develop new models for business

classifications not previously integrated into the business personal property module. The delineated sample should be reviewed for accuracy of SIC code, square footage, field data, and original cost information. Models will be created and refined using actual original cost data (if available) to derive a typical replacement cost new (RCN) per square foot for a specific category of assets. The RCN per square foot is depreciated by the estimated age using the depreciation table adopted for the tax year.

The data sampling process is conducted in the following order: 1) Prioritizing Standard Industrial Classification (SIC) codes for model analysis. 2) Compiling the data and developing the reports. 3) Field checking the selected samples. The models will be built and adjusted using internally developed software. The models will be tested against the previous year's data. The typical RCN per square foot (or applicable unit) is determined by a statistical analysis of the available data.

The computer assisted personal property appraisal model values can be used in the general business personal property valuation program to estimate the value of new accounts for which no property owner's rendition is filed. Model values can also be used to establish tolerance parameters for testing the valuation of property for which prior data years' data exist or for which current year rendered information is available. The calculated current year value or the prior year's value can be compared to the indicated model value by the valuation program. If the value being tested is within an established acceptable percentage tolerance range of the model value, the account passes that range check and moves to the next valuation step. If the account fails the tolerance range check, it will be flagged for individual review. Allowable tolerance ranges may be adjusted from year to year depending on the analysis of the results of the prior year.

Sales Comparison Approach

Business personal property is typically sold as part of the business as a whole and not by itself, which makes this approach unsuitable for valuing most personal property. This approach is only suitable for the valuation of certain types of vehicles and heavy equipment. Value estimates for vehicles will be provided by an outside vendor and are based on data furnished by the National Market Reports. An appraiser using published market guides such as NADA book values will appraise these types of properties.

Income Approach

The income approach has limited use in the appraisal of machinery, equipment, furniture, fixtures, and leasehold improvements because of the difficulty in estimating future net benefits; except in the case of certain kinds of leased equipment. When reliable data on equipment leases is available, the income approach may be used to estimate fair market value of the equipment.

MOBILE HOMES

Real and personal property mobile homes will be valued using the cost approach. Colorado County CAD cost and depreciation schedules will be compared against a nationally recognized pricing service and Marshall & Swift. Marshall & Swift will be used primarily to update cost schedules for mobile homes.

The district will obtain from the Texas Department of Housing and Community Affairs a list of transferred mobile homes in Colorado County. Appraisal staff will then field inspect these mobile homes for verification of size, year model and make, serial and HUD numbers, and ownership. Appraisal cards will be generated in late December for all mobile home parks and will be used by the appraisal staff to verify status.

According to Section 25.08(e), of the Texas Property Tax Code, a manufactured home placed on land owned by the same person will not be considered as real property unless the owner has filed a "Statement of Ownership" with the county clerk or county tax assessor. Unless this statement is filed, the manufactured home will be carried in our records as personal property.

INDUSTRIAL PERSONAL PROPERTY VALUATION

Industrial Personal Property is the tangible assets of various businesses that are used in the generation of an income stream. In general, modeling considerations applicable to commercial properties also apply to industrial properties. Except for warehouses, however, there are rarely enough sales of industrial properties for modeling. The valuation of these properties is considered to be complex due to the involvement of both tangible and intangible property elements that comprise these businesses. They also considered complex because of the size of some regional and national companies, and they are more diverse. The appraisal of these companies becomes complex when considering the valuation of the property as a unit in place, and evaluating the property by the approaches to value at the company level. Appraisers must differentiate between real and personal property; some features can be either real or personal, depending on specific use and the policy and laws of the jurisdictions. Capitol Appraisal Group, Inc, by contract, provides the Appraisal District with mineral values and valuations on complex industrial properties

The plan provides for annual reappraisal of all industrial business personal property appraised by the Colorado County Central Appraisal District. The appraisal district has a professional services contract with Capitol Appraisal Group, Inc. (CAGI) to appraise these properties for the Colorado County Central Appraisal District.

1. Identifying properties to be appraised: Through inspection the appraiser identifies personal property to be appraised. The appraiser may also refer to other documents, both public and also confidential, to assist in identification of these properties. Such documents might include but are not limited to the previous year's appraisal roll, vehicle listing services and private directories.
2. Identifying and updating relevant characteristics of each property in the appraisal records: Data identifying and updating relevant characteristics of the subject properties are collected as part of the inspection process through directories and listing services as well as through later submissions by the property owner, sometimes including confidential information or rendition. The data is verified through previously existing records and through public reports.
3. Defining market areas in the district: Market areas for business personal property are generally either regional or national in scope. Published price sources are used to help define market areas.

Approaches to Valuation, Reconciliation

1. Developing an appraisal approach that reflects the relationship among property characteristics affecting value and determines the contribution of individual property characteristics: Personal property is appraised using replacement/reproduction cost new less depreciation models. Income approach models are used when economic and/or subject property income is made available, and a market data model is used when appropriate market sales information is available.
2. Comparison and Review: The appraiser considers results that best address the individual characteristics of the subject property when multiple models are used. The appraiser reconciles multiple models by considering the model that best addresses the individual characteristics of the subject property. Year-to-year property value changes for the subject property are examined using computer-assisted statistical review. Periodic reassignment of properties among appraisers or the review of appraisals by a more experienced appraiser also contributes to the review process. These types of property are also subject to review by the Property Tax Division of the Texas Comptroller's Office through their annual Property Value Study.

MINERALS (OIL & GAS RESERVES) VALUATION

Minerals-in-place (oil and gas reserves) are real property. Appraisal of minerals, oil and gas reserves, is based on estimating the present value of the economically recoverable reserves of oil and gas. Mineral rights are property rights and may be separable property interests from the land surface property rights. Minerals being produced are a tangible asset and are appraised for ad valorem taxation. The valuation of minerals-in-place is based on estimating the discounted net present value of the oil and gas production over the economic life of the well(s). Basically, this method of valuation is an income approach using discounted cash flow analysis methodology. Oil and Gas Properties are also marketed based on proven reserves and the unit of comparison in this market is considered in barrels of oil or in cubic feet of natural gas. The market approach is based on sales of property based on barrels of proven reserves.

Mineral interests are commonly divided into property interests known as working interests and royalty interests. The valuation of this property begins with the valuation of the mineral lease and is divided into the property interests according to division orders for each lease. It is the goal and purpose of the Colorado County Central Appraisal District to identify every producing mineral property interest within the district and estimate the market value of each property interest listed on the roll.

1. Identification of new property and its situs. As subsurface mineral properties lie within the earth, they cannot be physically identified by inspection like other real property. However, the inability to directly inspect does not appreciably affect the ability to identify and appraise these properties. To identify new properties, Capitol Appraisal Group, Inc obtains monthly oil and gas lease information from the Railroad Commission of Texas [RRC] to compare against oil and gas properties already identified. The situs of new properties is determined using plats and W-2/G-1

records from the RRC, as well as Capitol Appraisal Group, Inc in-house map resources.

2. Identifying and updating relevant characteristics of all oil and gas properties to be appraised. Relevant characteristics necessary to estimate value of remaining oil or gas reserves are production volume and pattern, product prices, expenses borne by the operator of the property, and the rate at which the anticipated future income should be discounted to incorporate future risk. Capitol Appraisal Group, Inc obtains information to update these characteristics annually from regulatory agencies such as the RRC, the Comptroller of Public Accounts, submissions from property owners and operators, as well as from published investment reports, licensed data services, service for fee organizations and through comparable properties, when available.

Valuation Process

1. Defining market areas in the district and identifying property characteristics that affect property value in each market area. Oil and gas markets are regional, national and international. Therefore they respond to market forces beyond defined market boundaries as observed among more typical real properties.
2. Developing an appraisal approach that best reflects the relationship among property characteristics affecting value and best determines the contribution of individual property characteristics. Among the three approaches to value (cost, income and market), the income approach to value is most commonly used in the oil and gas industry. Through use of the discounted cash flow technique in particular, the appraiser is able to bring together relevant characteristics of production volume and pattern, product prices, operating expenses and discount rate to determine an estimate of appraised value of an oil or gas property.

Comparison and Review: Use of the income approach is the first step in determining an estimate of market value. After that the appraiser reviews the estimated market value compared to its previous certified value and also compares it to industry expected payouts and income indicators. The appraiser examines the model's value with its previous year's actual income, expecting value to typically vary within in a range of 2-5 times actual annual income, provided all appropriate income factors have been correctly identified. Finally, periodic reassignment of properties among appraisers and review of appraisals by a more experienced appraiser further expand the review process.

UTILITY PROPERTY VALUATION

Utility properties are the tangible assets of various businesses including electric production, transmission, and distribution companies, railroads, petroleum product gathering and delivery pipelines, telephone and communication providers and others. The valuation of these properties is considered to be complex due to the involvement of both tangible and intangible property elements that comprise these businesses and due to the size of some of the utilities that are regional and national companies. The appraisal of these companies becomes complex when considering the valuation of the property as a unit in place, evaluating the property by the approaches to value at the company level. Once the estimated value of the unit is estimated, the estimated market value is allocated based on the tangible property assets that are located within Colorado CAD. The plan provides for annual reappraisal of all utility, railroad and pipeline property appraised by the CAD.

- (1) Identifying properties to be appraised: Utility, railroad and pipeline properties that are susceptible to inspection are identified by inspection. The appraiser may also refer to other documents, both public and also confidential to assist in identification of these properties.
- (2) Identifying and updating relevant characteristics of each property in the appraisal records: The appraiser identifies and updates relevant characteristics through data collected as part of the inspection process and through later submissions by the property owner, sometimes including confidential rendition. Additional data are obtained through public sources, regulatory reports and through analysis of comparable properties.
- (3) Defining market areas in the district: Market areas for utility, railroad and pipeline property tend to be regional or national in scope. Financial analyst and investor services reports are used to help define market areas.
- (4) Developing an appraisal approach that reflects the relationship among Individual property characteristics: For all three types of property, the appraiser must first form an opinion of highest and best use. Among the three approaches to value (cost, income and market), pipeline value is calculated using a replacement/reproduction cost new less depreciation model [RCNLD]. In addition to the RCNLD indicator, a unit value model may also be used if appropriate data are available. Utility and railroad property are appraised in a manner similar to pipeline except that the RCNLD model is not used.
- (5) Comparison and Review: The appraiser considers results that best address the individual characteristics of the subject property when multiple models are used. Year-to year property value changes for the subject property are examined using computer-assisted statistical review. Periodic reassignment of properties among appraisers or the review of appraisals by a more experienced appraiser also contributes to the review process. These types of property are also subject to review by the Property Tax Division of the Texas Comptroller's Office through their annual Property Value Study.

SPECIAL USE PROPERTY VALUATION-AGRICULTURAL/WILDLIFE PROPERTY

The appraisal district values agricultural land in compliance with the Property Tax Code's *Manual for the Appraisal of Agricultural Land*, which states that the cash lease method and the share lease method of appraisal are appropriate for all land types except for timber. Timber is valued on a longer time based on potential value at the time of harvest. The district is refining timber valuation to be in compliance with Property Tax Code. The district has recently received the soil types for Colorado County which is one the requirements for calculating timber productivity value.

Since most properties are leased by the owners to lessee for various agricultural purposes, Colorado County CAD will use the cash lease method of appraisal. The cash lease method is a modified income approach using the lease amount (income per acre) minus expenses (landowner) to give the “net-to-land” value per acre. “Net-to-land” values will be averaged for a five-year period to give an average “net-to-land” factor that will be divided by the capitalization rate for the year to give a value per class of agricultural production. The agricultural appraisal staff will collect both lease and budget data. Budget data will be helpful in calculating the “net-to-land” factor for irrigated cropland.

Wildlife appraisal is revenue neutral, so whatever the previous agricultural use was prior to converting to wildlife management will be the value used. The appraisal district has budgeted revenue for contracting with a wildlife management consult. The consult will assist field appraisal staff in evaluating the acceptable activity or intensity of the wildlife practices to continue qualifying for the wildlife management valuation.

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 USPAP Standard Rule 6-8. The signed certification by the chief appraiser is compliant with USPAP Rule 6-9.

VALUE DEFENSE

Evidence to be used by the appraisal district to meet its burden of proof for market value and equity in both informal and formal Appraisal Review Board hearings will be developed and provided to the property owner or agent in compliance with HB 201. After a protest is received and verified, hearing evidence will be generated and be made available to the property owner or agent.

ADDENDUM