



# BASTROP CENTRAL APPRAISAL DISTRICT

2023– 2024

REAPPRAISAL PLAN



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**RESOLUTION (2022.01)**  
**BOARD OF DIRECTORS OF THE**  
**BASTROP CENTRAL APPRAISAL DISTRICT**

Know by all present that on this day, the 15<sup>th</sup> day of September 2022, the Board of Directors of the Bastrop Central Appraisal District, [hereinafter "BCAD"] met in a duly called session at the Appraisal District offices located at 212 Jackson St., Bastrop, Texas 78602: And at said meeting, among other business, the Board of Directors considered the following:

**Whereas**, in accordance with Section 6.05 (i) of the Texas Property Tax Code, 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.

**Whereas**, 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 for 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.

**Therefore, Be It Resolved** that the Board of Directors of the Bastrop Central Appraisal District does hereby approve the 2022-2023 Bastrop Central Appraisal District Reappraisal Plan.

This resolution is adopted on this the 15<sup>th</sup> day of September 2022, by majority vote of the Board of Directors of the Bastrop Central Appraisal District.



\_\_\_\_\_  
David Redd, Chairman



\_\_\_\_\_  
David Glass, Secretary

ATTEST:

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# Forward / Introduction

## FORWARD

### ***Outlook for 2023 – 2024***

The Bastrop Central Appraisal District Reappraisal Plan for 2023-2024 will focus on the reinspection of property throughout the County as defined in this report. Appraisers are assigned specific regions for which they are responsible and will inspect properties within their designated area. Sales data is gathered, sales are reviewed near the time of sale, and schedules are developed using the data from these sales. The appraisers will adjust values based on neighborhood data and defend the values in informal and formal hearings. 2023 and 2024 inspection areas are further defined on page 40.

## INTRODUCTION

### ***Scope of Responsibility***

The Bastrop Central Appraisal District has prepared and published this reappraisal plan and appraisal report to provide our Board of Directors, citizens, and taxpayers with a better understanding of the District's responsibilities and activities.

The Bastrop Central Appraisal District (CAD) is a political subdivision of the State of Texas created effective January 1, 1980. The provisions of the Texas Property Tax Code govern the legal, statutory, and administrative requirements of the Appraisal District. A member Board of Directors, appointed by the taxing units within the boundaries of Bastrop County, constitutes the District's governing body. The chief appraiser, appointed by the Board of Directors, is the chief administrator and chief executive officer of the Appraisal District.

The Appraisal District is responsible for local property tax appraisal and exemption administration for 26 jurisdictions or taxing units in Bastrop County. Each taxing unit, such as the County, city, school district, municipal utility district, etc., sets its own tax rate to generate revenue to pay for such things as police and fire protection, public schools, road and street maintenance, courts, water and sewer systems, and other public services. Property appraisals are estimated values by the Appraisal District which allocate the tax burden based on each taxable property's market value. In addition, the Appraisal District is responsible for the administration of various types of property tax exemptions such as homestead, over 65, disabled veterans, and charitable or religious organizations. We also determine eligibility for various types of property tax exemptions such as those for homeowners, over 65, disabled veterans, charitable or religious organizations. Agricultural productivity values are also developed by the appraisal district.

Except as otherwise provided by the Property Tax Code, all taxable property is appraised at its "market value" as of January 1<sup>st</sup>. Under the tax code, "market value" means the price at which a property would transfer for cash or its equivalent under prevailing market conditions if:

- exposed for sale in the open market with a reasonable time for the seller to find a purchaser.
- both the seller and the buyer know of all the uses and purposes to which the property is adapted and for which it is capable of being used and of the enforceable restrictions on its use, and;
- both the seller and buyer seek to maximize their gains, and neither can take advantage of the exigencies of the other.

## Forward / Introduction

The Property Tax Code defines special appraisal provisions for the valuation of residential homestead property (Sec. 23.23), productivity (Sec. 23.41), real property inventory (Sec. 23.12), dealer inventory (Sec. 23.121, 23.124, 23.1241 and 23.127), nominal (Sec. 23.18) or restricted use properties (Sec. 23.83) and allocation of interstate property (Sec. 23.03). The owner of personal property inventory may elect to have the inventory appraised at its market value as of September 1<sup>st</sup> of the year proceeding the tax year to which the appraisal applies by filing an application with the chief appraiser requesting that the inventory be appraised as of September 1<sup>st</sup>.

The Texas Property Tax Code, under Sec. 25.18, requires each appraisal office to implement a plan to update appraised values for real property at least once every three years. The District's current policy is to conduct a general reappraisal of taxable property every year because of the rapidly changing markets in Bastrop County. Appraised values are reviewed annually and are subject to change. Business personal properties, minerals and utility properties are appraised every year.

The Texas Property Tax Code, under Sec. 25.18(b)(1) requires the identification of the 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. The county is sectioned into seven market areas with quadrants to further identify areas subject to review. At least each Region's properties with a last inspection date greater than three years shall 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. Proposed assignments are further defined on page 40.

The appraised value of real estate is calculated using specific information about each property. Using computer-assisted mass appraisal programs, and recognized appraisal methods and techniques, we compare that information with the data for similar properties, and with recent cost and market data. The District follows the standards of the International Association of Assessing Officers (IAAO) regarding its appraisal practices and procedures and subscribes to the standards promulgated by the Appraisal Foundation known as the Uniform Standards of Professional Appraisal Practice (USPAP) to the extent they are applicable.

### ***Personnel Resources***

The office of the Chief Appraiser is primarily responsible for overall planning, organizing, staffing, coordinating, and controlling of District operations. The administration department's function is to plan, organize, direct, and control the business support functions related to human resources, budget, finance, records management, purchasing, fixed assets, facilities, and postal services. The appraisal department is responsible for the valuation of all real and personal property accounts. The property types appraised include commercial, residential, business personal, mineral, utilities, and industrial. 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 Regulation. Support functions including records maintenance, exemption processing, special value application processing, information and assistance to property owners, and hearings are coordinated by personnel in support services. The Appraisal District staff consists of 26 employees with the following classifications:

- 1 - Official/Administrator (executive level administration)
- 4 - Professional (supervisory and management)
- 12 - Technicians (appraisers and data collectors)
- 9 - Administrative Support (professional, customer service, clerical and other)

## Forward / Introduction

### ***Staff Education and Training***

All personnel that are performing appraisal work are registered with the Texas Department of Licensing and Regulation and are required to take appraisal courses to receive certification as a Registered Professional Appraiser (RPA) within five years of employment as an appraiser. To maintain certification, RPA's must receive additional training of a minimum of 30 hours of continuing education units every two years including 2 hours in professional ethics, the approved State laws and rules update course and 3.5 hours of USPAP.

Continuing education requirements for Chief Appraisers include 1) at least 30 hours of approved continuing education in appraisal procedures and methods, tax assessment and collection, professional ethics, laws and rules, USPAP or customer service; 2) at least half of the 30 hours must be in programs devoted to one or more of the topics listed in the Texas Occupation Code §1151.164(b); 3) at least two of the required hours in a program of professional ethics specific to the chief appraiser of an appraisal district, including a program on the importance of maintaining the independence of an appraisal office from political pressure. Failure to meet these minimum standards results in the termination of the employee.

Additionally, all appraisal personnel receive extensive training in data gathering processes including data entry used in field work and statistical analyses of all types of property to ensure equality and uniformity of appraisal of all types of property. On-the-job training is delivered by department managers for new employees. Managers meet regularly with staff to introduce new procedures and regularly monitor appraisal activity to ensure that standardized appraisal procedures are being followed by all personnel.

### ***Data***

The District is responsible for establishing and maintaining approximately 71,240 real and personal property accounts covering 895 square miles within Bastrop County. This data includes property characteristics, ownership, and exemption information. Property characteristic data on new construction is updated through an annual field effort; existing property data is maintained through a field review. Sales are routinely validated during a separate field effort; however, numerous sales are validated as part of the new construction and field inspections. General trends in employment, interest rates, new construction trends, cost and market data are acquired through various sources, including internally generated questionnaires to buyers, university research centers, and market data centers and vendors.

The District has a geographic information system that maintains cadastral maps and various layers of data and aerial photography. The District's website makes a broad range of information available for public access, property characteristics data, certified values, and historic values.

### ***Independent Performance Test***

According to Chapter 5 of the TPTC and Section 403.302 of the Texas Government Code, every other year the State Comptroller's Property Tax Assistance Division (PTAD) conducts a property value study (PVS) of each Texas school district and each appraisal district. As part of this biennial study, the code requires the Comptroller to: use sales and recognized auditing and sampling techniques; review each appraisal district's appraisal methods, standards and procedures to determine whether the district used recognized standards and practices to test the validity of school district taxable values in each appraisal district and presume the appraisal roll values are correct when values are valid; and, determine the level and uniformity of property tax appraisal in each appraisal district. The methodology used in the property value study includes stratified samples to improve sample representativeness and techniques or procedures of measuring uniformity.

## Forward / Introduction

This study utilizes statistical analyses of sold properties (sale ratio studies) and appraisals of unsold properties (appraisal ratio studies) as a basis for assessment ratio reporting. For appraisal districts, the reported measures include median level of appraisal, coefficient of dispersion (COD), the percentage of properties within 10% of the median, the percentage of properties within 25% of the median, and price-related differential (PRD) for properties overall and by state category.

There are four independent school districts in Bastrop County for which the District develops appraisal rolls annually. We also develop the appraisal roll for the portion of Lexington Independent School District that lies in Bastrop County. The preliminary results of this study are released February 1 in the year following the year of appraisal. The results of this study are certified to the Education Commissioner of the Texas Education Agency (TEA) the following July of each year. This outside (third party) ratio study provides additional assistance to the CAD in determining areas of market activity or changing market conditions.

### ***Revaluation Decision (Reappraisal Cycle)***

The Central Appraisal District of Bastrop County by policy reappraises all property in the District every year. The reappraisal is a complete appraisal of all properties in the District. Tax year 2023 is a reappraisal year and tax year 2024 will be a reappraisal year. Individual property inspections are completed on a cycle to ensure each property has a last inspection date of three years or less.

# Appraisal Activities

## INTRODUCTION

### ***Appraisal Responsibilities***

The field appraisal staff is responsible for collecting and maintaining property characteristic data for classification, valuation, and other purposes. Accurate valuation of real and personal property by any method requires a comprehensive physical description of personal property, and land and building characteristics. This appraisal activity is responsible for directing, planning, and coordinating all activities involving data collection and maintenance of all commercial, residential, and personal property types located within the boundaries of Bastrop County and the jurisdictions of this appraisal district. The data collection effort involves the field inspection of real and office evaluation of personal property accounts, as well as data entry of all data collected into the existing information system. The appraisal opinion of value for all property located in the District is reviewed and evaluated each year.

### ***Appraisal Resources***

- Personnel - The appraisal activities are conducted by 11 appraisers and 1 appraisal manager.
- Data - The data used by field appraisers includes the existing property characteristic information contained in CAMA (Computer Assisted Mass Appraisal System) from the District's computer system. Other data used includes maps, sales data, fire, and damage reports, building permits, photos and actual cost and market information. Sources of information are gathered using excellent reciprocal relationships with other participants in the real estate marketplace. The District cultivates sources and gathers information from both buyers and sellers participating in the real estate market.

### ***Appraisal Frequency and Method Summary***

- Residential Property – Residential property is physically examined with appraisers noting condition of the improvement and looking for changes that might have occurred to the property since the last on-site check. In some subdivisions where change of condition is frequent, homes are examined annually. Exterior pictures are taken of homes every time there is a physical exterior change. During re-inspection, every neighborhood is statistically analyzed annually to ensure that sales that have occurred in the neighborhood during the past 6 months are within a +/-5% range of appraised value. If the sales do not indicate that range, adjustments are made to the subdivision using a process outlined in detail in the Residential Appraisal section of this report. All properties are physically inspected on a three-year rotating basis.
- Commercial Property – Commercial and industrial real estate is observed annually to verify economic trends. Real estate accounts are analyzed against sales of similar properties in Bastrop CAD as well as similar communities in Central Texas that have similar economies. The income approach to value is also utilized to appraise commercial properties such as shopping centers, apartment complexes, office buildings, restaurants, motels and hotels, and other types of property that typically sell based on net operating income. All properties are physically inspected on a three-year rotating basis.
- Business Personal Property – Business personal property is observed with renditions mailed to businesses to develop quality and density observations. Similar businesses to a subject are analyzed annually to determine consistency of appraisal per square foot. Businesses are categorized using SIC codes.
- Minerals – Working and royalty interests of producing oil and gas wells are appraised annually. Economically recoverable reserves are valued based upon State mandated pricing using the previous year's average of oil or gas values. A discount is applied over the anticipated life of the well to consider the value of money over time to recover those reserves. Each producing lease is valued as a unit and then that value is divided according to the various owners of the lease listed in division orders. The appraisal work is done by Capitol Appraisal Group

## Appraisal Activities

- Utilities and Pipelines – Utility companies and pipelines are appraised annually using a unit value developed using all three approaches to value. For example, a utility company's total value in the State is estimated using cost, market, and income approaches to value and then the entire value is allocated using the components of that utility company that have situs in the various tax units of Bastrop CAD. Components include such things as miles of transmission lines, miles of distribution lines, substations, meters, and the like for an electric utility. Capitol Appraisal Group is hired to do this appraisal work.

### PRELIMINARY ANALYSIS

#### ***Data Collection/Validation***

Data collection of real property involves maintaining data characteristics of the property on CAMA (Computer Assisted Mass Appraisal). The information contained in CAMA includes site characteristics, such as land size and soil type, and improvement data, such as square foot of living area, year built, quality of construction, and condition. Field appraisers are required to use a property classification system that establishes uniform procedures for the correct listing of real property. All properties are coded according to a classification system. The approaches to value are structured and calibrated based on this coding system and property description and characteristics. The field appraisers use property classification references during their initial training and as a guide in the field inspection of properties. Data collection for personal property involves maintaining information on software designed to record and appraise business personal property. The type of information contained in the BPP file includes personal property such as business inventory, furniture and fixtures, machinery, and equipment, with details such as location, cost, year acquired, and condition.

#### ***Sources of Data***

The sources of data collection are through property inspection, new construction field effort, data review/relist field effort, data mailer questionnaires, hearings, sales validation field effort, commercial sales verification and field effort, newspapers and publications, and property owner correspondence by mail or via the Internet. A principal source of data comes from building permits received from taxing jurisdictions that require property owners to obtain a building permit. Building permits are received and matched manually with the property's account number. Area and regional real estate brokers and managers are also sources of market and property information. Data surveys of property owners requesting market information and property description information is also valuable data. Soil surveys and agricultural surveys of farming and ranching property owners and industry professionals are helpful for productivity value calibration. The Texas Railroad Commission is the source for mineral production data and leasing information. Capital market information is available from the Wall Street Journal, Value Line Investment Survey, and the Oil and Gas Journal. Crude and gas pricing are taken from a regional commodity markets and purchasers. Improvement cost information is gathered from local building contractors and Marshall and Swift Valuation Service. Data is also gathered from third party vendors offering data on sales and offerings and leasing information of commercial real estate.

Data review of entire neighborhoods is generally a good source for data collection. Appraisers drive entire neighborhoods to review the accuracy of our data and identify properties that must be reappraised. The sales validation effort in real property pertains to the collection of market data for properties that have sold. In residential, the sales validation effort involves a review by field appraisers to verify the accuracy of the property characteristics and confirmation of the sales price. In commercial, the commercial division is responsible for contacting sales participants to confirm sales prices, verify pertinent data, and confirm leasing data. Some of this information is received during the protest process when owners or agents submit evidence, such as settlement statements, market analysis and profit and loss statements.

## Appraisal Activities

Property owners are one of the best sources for identifying incorrect data that generates a field check. Frequently, the property owner provides reliable data to allow correction of records without having to send an appraiser on-site. As the District has increased the amount of information available on the Internet, property owners can review information on their property and forward corrections. For the property owner without access to the Internet, letters are sometimes submitted notifying the District of inaccurate data. Properties identified in this manner are added to a work file and inspected at the earliest opportunity. Accuracy and validity in property descriptions and characteristics data is the highest goal and is stressed throughout the appraisal process from year to year. Appraisal opinion quality and validity relies on data accuracy as its foundation.

### ***Data Collection Procedures***

Appraisers of real estate and business personal property conduct field inspections and record information from the inspection and take photos on a mobile device. Mobile data collected is synced to the District's server multiple times a day.

The quality of the data used is extremely important in estimating market values of taxable property. While work performance standards are established and upheld for the various field activities, quality of data is emphasized as the goal and responsibility of each appraiser. New appraisers are trained in the specifics of data collection and the classification system set forth and recognized as "rules" to follow. Experienced appraisers are routinely re-trained in listing procedures prior to major field projects such as new construction, sales validation, or data review. A quality assurance process exists through supervisory review of the work being performed by the field appraisers. Quality assurance supervision is charged with the responsibility of ensuring that appraisers follow listing procedures, identify training issues, and provide uniform training throughout the field appraisal staff. Ratio studies by assigned region will also identify problem issues such as misclassification or inaccurate neighborhood adjustments.

Properties that are sold are reviewed by the appraiser assigned to that area to update information on the property. Often, remodels are done after the sale and it is important to capture a valid description of the property at the time of sale to ensure accurate analyses.

### **INDIVIDUAL VALUE REVIEW PROCEDURES**

#### ***Field Review***

The date of last inspection and the CAD appraiser responsible are listed on the CAMA record. This data is automatically recorded when the appraiser captures the data on the mobile device in the field. If a property owner or jurisdiction disputes the District's records concerning this data during a hearing, via a telephone call or other correspondence received, the record may be corrected based on the evidence provided or an on-site inspection may be conducted. Typically, a field inspection is requested to verify this information for the current year's valuation or for the next year's valuation. Every year a field review of real property located in certain areas or neighborhoods in the jurisdiction is done during the data review/re-list field effort. Each property will be inspected at least once every three years with a maximum of six years per IAAO (International Association of Assessing Officers) Standards on Mass Appraisal, 3.3.4 Maintaining Property Characteristic Data, regarding onsite field inspections.

#### ***Office Review***

Office reviews are completed on properties where update information has been received from the owner of the property and is considered accurate and correct. When the property data is verified in this manner, and considered accurate and correct, field inspections may not be required. The personal property department mails property rendition forms in January of each year to assist in the annual review of the property.

## Appraisal Activities

### **PERFORMANCE TEST**

The property appraisers are responsible for conducting ratio studies and comparative analyses. Ratio studies are conducted on property located within certain neighborhoods or districts by appraisal staff. The sale ratio and comparative analysis of sale property to appraised property forms the basis for determining the level of appraisal and market influences and factors for the neighborhood. This information is the basis for updating property valuation for the entire area of property to be evaluated. Field appraisers may conduct field inspections to ensure the accuracy of the property descriptions at the time of sale for this study. This review is to ensure that the ratios produced are accurate for the property sold and that appraised values utilized in the study are based on accurate property data characteristics observed at the time of sale. Sale ratios should be based on the value of the property as of the date of sale-not after a subsequent or substantial change was made to the property after the negotiation and agreement in price was concluded. Properly performed ratio studies are a good reflection of the level of appraisal for the District.

# Residential Valuation Process

## INTRODUCTION

### ***Scope of Responsibility***

The residential appraisers are responsible for estimating equal and uniform market values for residential improved and vacant property. There are approximately 29,340 residential improved single and multiple family parcels and 11,758 vacant residential lots in the Bastrop Central Appraisal District jurisdiction.

### Appraisal Resources

- Personnel - The residential appraisal staff consists of 9 appraisers and 1 appraisal assistant. The following appraisers are responsible for estimating the market value of residential property:
  - Appraisal Manager
  - 9 Appraisers
  - 1 Appraisal Assistant
- Data - An individualized set of data characteristics for each residential dwelling and multiple family units in the District is collected in the field and entered on a mobile device or a desktop computer. The property characteristic data drives the application of computer-assisted mass appraisal (CAMA) under the Cost, Market, and Income Approaches to property valuation.

## VALUATION APPROACH

### ***Land Analysis***

Residential land valuation analysis is conducted prior to neighborhood sales analysis. The value of the land component to the property is estimated based on available market sales for comparable and competing land under similar usage. A comparison and analysis of comparable land sales is conducted based on a comparison of land characteristics found to influence the market price of land located in the neighborhood. A computerized land table file stores the land information required to consistently value individual parcels within neighborhoods given known land characteristics. Specific land influences are considered, where necessary, and depending on neighborhood and individual lot or tract characteristics, to adjust parcels outside the neighborhood norm for such factors as access, view, shape, size, and topography. The appraisers use abstraction and allocation methods to ensure that estimated land values best reflect the contributory market value of the land to the overall property value.

### ***Market Area Analysis***

Data on regional economic forces such as demographic patterns, regional locational factors, employment and income patterns, general trends in real property prices and rents, interest rate trends, availability of vacant land, and construction trends and costs are collected from private vendors and public sources and provide the field appraiser a current economic outlook on the real estate market. Information is gleaned from real estate publications and sources such as continuing education in the form of IAAO and TDLR classes.

## Residential Valuation Process

The county has been divided into seven market areas. The market areas are as follows:

- Region 1 is in the northwest sector of the county and includes most of Elgin ISD and all the City of Elgin. Quadrants A4, B3, B4, C2, C3, C4.
- Region 2 is within the northeast rural part of the county and includes some of Bastrop ISD as well as part of Elgin ISD. The main influence of this Region is Highway 21 East and Highway 290 East. Quadrants A5, B5, B6, B7, C6, C7, C8, D6, D7, D8.
- Region 3 is in the southeast sector of the county which includes all of Smithville ISD as well as all the City of Smithville. The area is influenced by Highway 95 South as well as SH 304. Quadrants E7, E8, F4, F5, F6, F7, G4, G5, G6, H4, H5.
- Region 4 is in the southwest sector of the county and encompasses Bastrop ISD as well as Cedar Creek. Highway 21 West as well as FM 812 are the main market factors here. Quadrants D1, E1, E2, E3, E4, F2, F3, G3.
- Region 5 is located within Bastrop ISD. Highway 71 West of Bastrop is the main traffic artery here as well as the Highway 21 West interchange. Quadrants D2, D3, D4.
- Region 6 is located within Bastrop ISD. Highway 95 North is the main traffic artery. Quadrants C5, D5.
- Region 7 is located in the Quadrants E5 and E6 and includes Bastrop ISD and Smithville ISD.

These regions are a valuable appraisal tool and serve as our base areas in reappraisal as well as valuation as a whole prior to looking at the neighborhoods and sub-areas within the larger regions represented here.

### ***Neighborhood and Market Analysis***

Neighborhood analysis involves the examination of how physical, economic, governmental, and social forces and other influences affect property values. The effects of these forces are also used to identify, classify, and stratify comparable properties into smaller, manageable subsets of the universe of properties known as neighborhoods. Residential valuation and neighborhood analysis are conducted on various market areas within each of the political entities known as Independent School Districts (ISD).

Analysis of comparable market sales forms the basis of estimating market activity and the level of supply and demand affecting market prices for any given market area, neighborhood, or District. Market sales indicate the effects of these market forces and are interpreted by the appraiser into an indication of market price ranges and indications of property component change considering a given time relative to the date of appraisal. Cost and Market Approaches to estimate value are the basic techniques utilized to interpret these sales. For multiple family properties the Income Approach to value is also utilized to estimate an opinion of value for investment level residential property.

The first step in neighborhood analysis is the identification of a group of properties that share certain common traits. A "neighborhood" for analysis purposes is defined as the largest geographic grouping of properties where the property's physical, economic, governmental, and social forces are generally similar and uniform. Geographic stratification accommodates the local supply and demand factors that vary across a jurisdiction. Once a neighborhood with similar characteristics has been identified, the next step is to define its boundaries. This process is known as "delineation".

## Residential Valuation Process

Some factors used in neighborhood delineation include location, sales price range, lot size, age of dwelling, quality of construction and condition of dwellings, square footage of living area, and story height. Delineation can involve the physical drawing of neighborhood boundary lines on a map, but it can also involve statistical separation or stratification based on attribute analysis.

Part of neighborhood analysis is the consideration of discernible patterns of growth that influence a neighborhood's individual market. Few neighborhoods are fixed in character. Each neighborhood may be characterized as being in a stage of growth, stability, or decline. The growth period is a time of development and construction. As new neighborhoods in a community are developed, they compete with existing neighborhoods. An added supply of new homes tends to induce population shift from older homes to newer homes. In the period of stability, or equilibrium, the forces of supply and demand are about equal. Generally, in the stage of equilibrium, older neighborhoods can be more desirable due to their stability of residential character and proximity to the workplace and other community facilities. The period of decline reflects diminishing demand or desirability. During decline, general property use may change from residential to a mix of residential and commercial uses. Declining neighborhoods may also experience renewal, reorganization, rebuilding, or restoration, which promotes increased demand and economic desirability.

Neighborhood identification and delineation is the cornerstone of the residential valuation system at the District. All the residential analysis work done in association with the residential valuation process is neighborhood specific. Neighborhoods are field inspected and delineated based on observable aspects of homogeneity. Neighborhood delineation is periodically reviewed to determine if further neighborhood delineation is warranted. Whereas neighborhoods involve similar properties in the same location, a neighborhood group is simply defined as similar neighborhoods in similar locations. Each residential neighborhood is assigned to a neighborhood group based on observable aspects of homogeneity between neighborhoods. Neighborhood grouping is highly beneficial in cost-derived areas of limited or no sales or use in direct sales comparison analysis. Neighborhood groups, or clustered neighborhoods, increase the available market data by linking comparable properties outside a given neighborhood. Sales ratio analysis, discussed in following pages is performed on a neighborhood basis, and in soft sale areas on a neighborhood group basis.

### ***Highest and Best Use Analysis***

The highest and best use of property is the reasonable and probable use that supports the highest present value as of the date of the appraisal. The highest and best use must be physically possible, legal, financially feasible, and productive to its maximum. The highest and best use of residential property is normally its current use. This is due in part to the fact that residential development, in many areas, through use of deed restrictions and zoning, precludes other land uses. Residential valuation undertakes reassessment of highest and best use in transition areas and areas of mixed residential and commercial use. In transition areas with ongoing gentrification, the appraiser reviews the existing residential property use and makes a determination regarding highest and best use. Once the conclusion is made that the highest and best use remains residential, further highest, and best use analysis is done to decide the type of residential use on a neighborhood basis. As an example, it may be determined in a transition area that older, non-remodeled homes are economically underimproved; the highest and best use of such property is the construction of new dwellings. In areas of mixed residential and commercial use, the appraiser reviews properties in these areas on a periodic basis to determine if changes in the real estate market require reassessment of the highest and best use of a select population of properties.

Note: Residential homesteads are required by law to be considered only as residential usage.

## Residential Valuation Process

### **VALUATION AND STATISTICAL ANALYSIS (Model Calibration)**

#### ***Cost Schedules***

All residential parcels in the District are valued with a replacement cost estimated from identical cost schedules based on the improvement classification system using a comparative unit method. The District's residential cost schedules are estimated from Marshall and Swift, a nationally recognized cost estimator service. These cost estimates are compared with sales of new improvements and evaluated from year to year and indexed to reflect the local residential building and labor market. Costs may also be indexed for neighborhood factors and influences that affect the total replacement cost of the improvements in a smaller market area based on evidence taken from a sample of market sales.

A review of the residential cost schedule is performed annually. As part of this review and evaluation process of the estimated replacement cost, newly constructed sold properties representing various levels of quality of construction in District are considered. CAD replacement costs are compared against Marshall & Swift, a nationally recognized cost estimator, and the indicated replacement cost abstracted from these market sales of comparably improved structures. The results of this comparison are analyzed using statistical measures, including stratification by quality, and reviewing of estimated building costs plus land to sales prices. As a result of this analysis, a new regional multiplier or economic index factor and indications of neighborhood economic factors are developed for use in the District's cost process. This new economic index estimated and used to adjust the District's cost schedule to follow local building costs as reflected by the local market.

#### ***Sales Information***

A sales file for the storage of "snapshot" sales data at the time of sale is maintained for real property. Residential improved and vacant land sales, along with commercial improved and vacant land sales are maintained in a sales information system. Residential improved and vacant sales are collected from a variety of sources, including: field discovery, protest hearings, various sale vendors, builders, and realtors. A system of type, source, validity, and verification codes has been established to define salient facts related to a property's purchase or transfer and to help determine relevant market sale prices.

The effect of time as an influence on price is considered by paired sales comparison and published sales statistics analysis. Neighborhood sales reports are generated as an analysis tool for the appraiser in the development and estimation of market price ranges and property component value estimates. Abstraction and allocation of property components based on sales of similar property is an important analysis tool to interpret market sales under the cost and market approaches to value. These analysis tools help determine and estimate the effects of change, regarding price, as indicated by sale prices for similar property within the current market.

Monthly time adjustments are estimated based on comparative analysis using paired sales comparison of sold property and published sales statistics analysis. Sales of the same property are considered and analyzed for any indication of price change attributed to a time change or influence. Property characteristics, financing, and conditions of sale are compared for each property sold in the pairing of property to isolate only the time factor as an influence on price.

## Residential Valuation Process

### ***Statistical Analysis***

The residential valuation appraisers perform statistical analyses 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 judge the two primary aspects of mass appraisal accuracy--level and 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 every neighborhood 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 ratio studies affords 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.

### ***Market and Cost Reconciliation and Valuation***

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:

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

Whereas, in accordance with the cost approach, the estimated market value (MV) of the property equals the land value (LV) plus the replacement cost new of property improvements (RCN) less accrued depreciation (AD). As the cost approach separately estimates both land and building contributory values and uses depreciated replacement costs, which reflect only the supply side of the market, it is expected that adjustments to the cost values may be needed to bring the level of appraisal to an acceptable standard as indicated by market sales. Thus, demand side economic factors and influences may be observed and considered. These markets, or location adjustments, may be abstracted and applied uniformly within neighborhoods to account for locational variances between market areas or across a jurisdiction. Whereas, in accordance with the Market Approach, the estimated market value (MV) of the property equals the basic unit of property, under comparison, times 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 is determined to be the rate of change for the improvement contribution to total property value. The measure of change for this property component can best be reflected and based in the annualized accrued depreciation rate.

## Residential Valuation Process

This cost related factor is most appropriately measured by sales of similar property. The market approach, when improvements are abstracted from the sale price, indicates the depreciated value of the improvement component, in effect, measuring changes in accrued depreciation, a cost factor. The level of improvement contribution to the property is measured by abstraction of comparable market sales, which is the property sale price less land 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. This evaluation of cost results in the depreciated value of the improvement component based on age and condition. The evaluation of this market and cost information is the basis of reconciliation and indication of property valuation 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, appropriately adjusted for the effects of time, within a delineated neighborhood, with the value of the properties 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 of the time adjusted sales prices indicates the neighborhood level of appraisal based on sold properties. This ratio is compared to the acceptable appraisal ratio, 95% to 105%, 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.

If reappraisal of the neighborhood is indicated, the appraiser analyzes available market sales, appropriately adjusted for the apparent effects of time, by market abstraction of property components. This abstraction of property components allows the appraiser to focus on the rate of change for the improvement contribution to the property by providing a basis for calculating accrued depreciation attributed to the improvement component. This impact on value is usually the most significant factor affecting property value and the most important unknown to determine by market analysis. Abstraction of the improvement component from the adjusted sale price for a property indicates the effect of overall market suggested influences and factors on the price of improvements that were a part of this property, recently sold. Comparing this indicated price or value allocation for the improvement with the estimated replacement cost new of the improvement indicates any loss in value due to accrued forms of physical, functional, or economic obsolescence. This is a market driven measure of accrued depreciation and results in a true and relevant measure of improvement marketability, particularly when based on multiple sales that 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 for given improvement descriptions considering 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 rates taken from market sales. This depreciation factor is the basis for trending all improvement values and when combined with any other site improvements and land value, brings the estimated property value through the cost approach closer to actual market prices as evidenced by recent sale prices available within a given 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 updated neighborhood are based on market indicated factors applied uniformly to all properties within a neighborhood.

## Residential Valuation Process

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 judges the appraisal level and uniformity in both update and non-update neighborhoods and verifies appraised values against overall trends as exhibited by the local market, and finally, for the school District as a whole.

### **TREATMENT OF RESIDENCE HOMESTEADS**

Beginning in 1998, the State of Texas implemented a constitutional classification scheme concerning the appraisal of residential property that receives a residence homestead exemption. Under that law, beginning in the second year a property receives a homestead exemption, increases in the assessed value of that property are "capped." The value for tax purposes (assessed value) of a qualified residence homestead will be the LESSER of:

the market value; or

the preceding year's appraised value.

PLUS, 10 percent for each year since the property was re-appraised.

PLUS, the value of any improvements added since the last re-appraisal.

Assessed values of capped properties must be recomputed annually. If a capped property sells, the cap automatically expires as of January 1<sup>st</sup> of the year following sale of the property and the property is appraised at its market value. An analogous provision applies to new homes. While a developer owns them, unoccupied residences may be partially complete and appraised as part of an inventory. This valuation is estimated using the District's land value and the percentage of completion for the improvement contribution that usually is similar to the developer's construction costs as a basis of completion on the valuation date. However, in the year following changes in completion, occupancy, or sale, they are appraised at market value.

### **INDIVIDUAL VALUE REVIEW PROCEDURES**

#### ***Field Review***

The appraiser identifies individual properties in critical need of field review through sales ratio analysis. Sold properties are reviewed to check for accuracy of data characteristics.

As the District's parcel count has increased through new home construction, and the homes constructed in the years of the late 70's and early 80's experience remodeling, the appraisers review the activity associated with transitioning and high demand neighborhoods. Additionally, the appraiser frequently reviews subjective data items such as quality of construction, condition, and physical, functional, and economic obsolescence, factors contributing significantly to the market value of the property. After preliminary estimates of value have been determined in targeted areas, the appraiser reviews valuation documents to test the computer-assisted values against his own appraisal judgment.

#### ***Office Review***

Once a review is completed, the appraiser conducts a routine valuation review of all properties as outlined in the discussion of ratio studies and market analysis. Valuation reports comparing previous values against proposed and final values are generated for all residential improved and vacant properties. The percentage of value difference are noted for each property within a delineated neighborhood allowing the appraiser to identify, research and resolve value anomalies before final appraised values are released. Previous values resulting from a hearing protest are individually reviewed to determine if the value remains appropriate for the current year. Unless there is substantial evidence of change in a property whose value was set by the ARB, the property must remain at the same value for one additional year after the ARB decision.

## Residential Valuation Process

### PERFORMANCE TESTS

#### ***Sales Ratio Studies***

The primary analytical tool used by the appraisers to measure and improve performance is the ratio study. The District ensures that the appraised values that it produces meet the standards of accuracy in several ways. Overall sales ratios are generated for each neighborhood to allow the appraiser to review general market trends within their area of responsibility and provide an indication of market appreciation over a specified period.

#### ***Management Review Process***

Once the proposed value estimates are finalized, the appraiser reviews the sales ratios by neighborhood and if not comfortable with the results, presents pertinent valuation data, such as weighted sales ratio and pricing trends, to the Appraisal Manager and the Chief Appraiser for final review and approval. This review includes comparison of level of value between related neighborhoods within and across jurisdiction lines. The primary objective of this review is to ensure that the proposed values have met preset appraisal guidelines appropriate for the tax year in question.

# Commercial and Industrial Property Valuation Process

## INTRODUCTION

### ***Appraisal Responsibility***

This mass appraisal assignment includes all the commercially described real property which falls within the responsibility of the commercial valuation appraisers of the Bastrop Central Appraisal District and located within the boundaries of this taxing jurisdiction. Commercial appraisers appraise the fee simple interest of properties according to statute and court decisions. However, the affect of easements, restrictions, encumbrances, leases, contracts, or special assessments are considered on an individual basis, as is the appraisal of any non-exempt taxable fractional interests in real property (i.e. certain multi-family housing projects). Fractional interests or partial holdings of real property are appraised in fee simple for the whole property and divided based on their percent of interest.

### ***Appraisal Resources***

- Personnel - The improved real property appraisal responsibilities are categorized according to major property types of multi-family or apartment, office, retail, warehouse, and special use (i.e. hotels, hospitals and, nursing homes).

The following appraisers are responsible for estimating the market value of commercial and industrial property:

Appraisal Manager

- Data - The data used by the commercial appraisers includes verified sales of vacant land and improved properties and the pertinent data obtained from each (sales price levels, capitalization rates, income multipliers, equity dividend rates, marketing period, etc.). Their data used by the appraisers includes actual income and expense data (typically obtained through the hearings process), actual contract rental data, leasing information (commissions, tenant finish, length of terms, etc.), and actual construction cost data. In addition to the actual data obtained from specific properties, market data publications are also reviewed to provide additional support for market trends.

## PRELIMINARY ANALYSIS

### ***Market Study***

Market studies are utilized to test new or existing procedures or valuation modifications in a limited sample of properties located in the District and are also considered and become the basis of updating whenever substantial changes in valuation are made. These studies target certain types of improved property to evaluate current market prices for rents and for sales of commercial and industrial real property. These comparable sale studies and ratio studies reveal whether the valuation system is producing accurate and reliable value estimates or whether procedural and economic modifications are required. The appraiser implements this methodology when developing the cost approach, market approach, and income approach models.

Bastrop CAD administration and personnel interact with other assessment officials through professional trade organizations including the International Association of Assessing Officers, Texas Association of Appraisal Districts and its subchapter Texas Metropolitan Association of Appraisal Districts and the Texas Association of Assessing Officers. District staff strives to maintain appraisal skills and professionalism by continuing education in the form of courses that are offered by several professional associations such as International Association of Assessing Officers (IAAO), Texas Association of Assessing Officers (TAAO), and Texas Association of Appraisal Districts (TAAD) courses.

# Commercial and Industrial Property Valuation Process

## **VALUATION APPROACH (Model Specification)**

### ***Area Analysis***

Area data on regional economic forces such as demographic patterns, regional locational factors, employment and income patterns, general trends in real property prices and rents, interest rate trends, availability of vacant land, and construction trends and costs are collected from private vendors and public sources.

### ***Neighborhood Analysis***

The neighborhood and market areas are comprised of the land area and commercially classed properties located within the boundaries of this appraisal jurisdiction. These areas consist of a wide variety of property types including multiple-family residential, commercial, and industrial. Neighborhood and area analysis involve the examination of how physical, economic, governmental, and social forces and other influences may affect property values within subgroups of property locations. The effects of these forces are also used to identify, classify, and organize comparable properties into smaller, manageable subsets of the universe of properties known as neighborhoods. In the mass appraisal of commercial and industrial properties these subsets of a universe of properties are generally referred to as market areas, neighborhoods, or economic areas.

Economic areas are defined by each of the improved property use types (apartment, office, retail, warehouse, and special use) based upon an analysis of similar economic or market forces. These include but are not limited to similarities of rental rates, classification of projects (known as building class by area commercial market experts), date of construction, overall market activity or other pertinent influences. Economic area identification and delineation by each major property use type is the benchmark of the commercial valuation system. All income model valuation (income approach to value estimates) is economic area specific. Economic areas are periodically reviewed to determine if delineation is required. The geographic boundaries as well as income, occupancy and expense levels and capitalization rates by age within each economic area for all commercial use types and its corresponding income model have been estimated for these properties.

### ***Highest and Best Use Analysis***

The highest and best use is the most reasonable and probable use that generates the highest net to land and present value of the real estate as of the date of valuation. The highest and best use of any given property must be physically possible, legally permissible, financially feasible, and maximally productive. For improved properties, highest and best use is evaluated as improved and as if the site were still vacant. This perspective assists in determining if the existing improvements have a transitional use, interim use, nonconforming use, multiple uses, speculative use, is excess land, or a different optimum use if the site were vacant. For vacant tracts of land within this jurisdiction, the highest and best use is considered speculative based on the surrounding land uses. Improved properties reflect a wide variety of highest and best uses which include, but are not limited to office, retail, apartment, warehouse, light industrial, special purpose, or interim uses. In many instances, the property's current use is the same as its highest and best use. This analysis ensures that an accurate estimate of market value (sometimes referred to as value in exchange) is derived.

On the other hand, value in use represents the value of a property to a specific user for a specific purpose. This perspective for value may be significantly different than market value, which approximates market price under the following assumptions: (i) no coercion of undue influence over the buyer or seller in an attempt to force the purchase or sale, (ii) well-informed buyers and sellers acting in their own best interests, (iii) a reasonable time for the transaction to take place, and (iv) payment in cash or its equivalent.

# Commercial and Industrial Property Valuation Process

## ***Market Analysis***

A market analysis relates directly to examining market forces affecting supply and demand. This study involves the relationships between social, economic, environmental, governmental, and site conditions. Current market activity including sales of commercial properties, new construction, new leases, lease rates, absorption rates, vacancies, allowable expenses (inclusive of replacement reserves), expense ratio trends, capitalization rate studies are analyzed to determine market ranges in price, operating costs and investment return expectations.

## **DATA COLLECTION/VALIDATION**

### ***Data Collection Manuals***

Data collection and documentation for Commercial/Industrial property is continually updated, providing a uniform system of itemizing the multitude of components comprising improved properties. All commercial properties located in Bastrop CAD's jurisdiction are coded according to a specific classification system and the approaches to value are structured and calibrated based on this coding system.

### ***Sources of Data***

In terms of commercial sales data, Bastrop CAD receives a copy of the deeds recorded in Bastrop County. These deeds involving a change in commercial ownership are entered into the sales information system and researched to obtain the pertinent sale information. Other sources of sale data include the protest hearings process and local, regional, and national real estate and financial publications as well as third party data such as sales, listings, and lease data.

For those properties involved in a transfer of commercial ownership, a sale file is produced which begins the research and verification process. The initial step in sales verification involves a computer-generated questionnaire, which is mailed to the Grantee. If a questionnaire is answered and returned, the documented responses are recorded into the computerized sales database system. If no information is provided, verification of many transactions is then attempted via phone calls to parties thought to be knowledgeable of the specifics of the sale. Other sources contacted are the brokers involved in the sale, property managers or commercial vendors. In other instances, sales verification is obtained from local appraisers or others that may have the desired information. Finally, closing statements are often provided during the hearings process. The actual closing statement is the most reliable and preferred method of sales verification.

## **VALUATION ANALYSIS (Model Calibration)**

Model calibration involves the process of periodically adjusting the mass appraisal formulae, tables, and schedules to reflect current local market conditions. Once the models have undergone the specification process, adjustments can be made to reflect new construction procedures, materials and/or costs, which can vary from year to year. The basic structure of a mass appraisal model can be valid over an extended period, with trending factors utilized for updating the data to the current market conditions. However, at some point, if the adjustment process becomes too involved, the model calibration technique can mandate new model specifications or a revised model structure.

## Commercial and Industrial Property Valuation Process

### **Cost Schedules**

The cost approach to value is applied to improved real 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 indicate estimated hard or direct costs of various improvement types. Cost models include 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 employ the sales comparison approach in the evaluation of soft or indirect costs of construction. Evaluating market sales of newly developed improved property is an important part of understanding total replacement cost of improvements. What total costs may be involved in the development of the property, as well as any portion of cost attributed to entrepreneurial profit can only be revealed by market analysis of pricing acceptance levels. In addition, market related land valuation for the underlying land value is important in understanding and analyzing improved sales for all development costs and for the abstraction of improvement costs for construction and development. Time and location modifiers are necessary to adjust cost data to reflect conditions in a specific market and changes in costs over a period. Because a national cost service is used as a basis for the cost models, location modifiers and estimates of soft cost factors are necessary to adjust these base costs specifically for various types of improvements located in Bastrop County. Thusly, local modifiers are additional cost factors applied to replacement cost estimated by the national cost service. Estimated replacement cost new will reflect all costs of construction and development for various improvements located in Bastrop CAD as of the date of appraisal.

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. Depreciation estimates have been implemented for what is typical of each major class of commercial property by economic life categories. Estimates of accrued depreciation have been calculated for improvements with a range of variable years expected life based on observed condition considering actual age. These estimates are continually tested to ensure they are reflective of current market conditions. The actual and effective ages of improvements are noted in CAMA. 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.

Additional forms of depreciation such as external and/or functional obsolescence can be applied if observed. A depreciation calculation override can be used if the condition or effective age of a property varies from the norm by appropriately noting the physical condition and functional utility ratings on the property data characteristics. These adjustments are typically applied to a specific condition adequacy or deficiency, property type or location and can be developed via ratio studies or other market analyses.

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. 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.

## Commercial and Industrial Property Valuation Process

### ***Income Models***

The income approach to value is 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. This is derived primarily from actual rent data furnished by property owners and from local market surveys conducted by the District and by information from area rent study reviews. 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 are 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 real property. The secondary income estimate is derived from actual data 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 are developed for different types of commercial property based on use and market experience. For instance, retail properties are most frequently 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 stop. 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 are implemented and estimated based on observed market experience in operating various types of commercial property. Owner occupied businesses can show gross sales as another indication of fair market value.

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.

## Commercial and Industrial Property Valuation Process

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. These procedures are supported and documented based on analysis of market sales for these property types.

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 is 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.

### ***Sales Comparison (Market) 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.

### ***Final Valuation Schedules***

Based on the market data analysis and review discussed previously in the cost, income and sales approaches, the cost and income models are calibrated and finalized. The calibration results are keyed to the schedules and models in the CAMA system for utilization on all commercial properties in the District. Market factors reflected within the cost and income approaches are evaluated and confirmed based on market sales of commercial and industrial properties. The appraisers review the cost, income, and sales comparison approaches to value for each of the types of properties with available sales information. The final valuation of a property is estimated based on reconciling these indications of value considering the weight of the market information available for evaluation and analysis in these approaches to value.

## Commercial and Industrial Property Valuation Process

### ***Statistical and Capitalization Analysis***

Statistical analyses of final values is an essential component of quality control. This methodology represents a comparison of the final value against the standard and provides a concise measurement of the appraisal performance. Statistical comparisons of many different standards are used including sales of similar properties, the previous year's appraised value, audit trails, value change analysis and sales ratio analysis.

Appraisal statistics of central tendency and dispersion generated from sales ratios are calculated for each property type with available sales data. These summary statistics including, but not limited to, the weighted mean, provide the appraisers an analytical tool by which to determine both the level and uniformity of appraised value of a particular property type. The level of appraised values can be determined by the weighted mean for individual properties within a specific type, and a comparison of weighted means can reflect the general level of appraised value.

The appraiser reviews every commercial property type annually through the sales ratio analysis process. The first phase involves ratio studies that compare the recent sales prices of properties to the appraised values of the sold properties. This set of ratio studies affords the appraiser an excellent means of judging the present level of appraised value and uniformity of the appraised values. The appraiser, based on the sales ratio statistics and designated parameters for valuation update, makes a preliminary decision as to whether the value level of a particular property type needs to be updated in an upcoming reappraisal, or whether the level of market value is at an acceptable level.

Potential gross rent estimates, occupancy levels, secondary income, allowable expenses (inclusive of replacement reserves), net operating income and capitalization rate and multipliers are continuously reviewed. Income model estimates and conclusions are compared to actual information obtained on individual commercial and industrial income properties during the protest hearings process, as well as with information from published sources and area property managers and owners.

### **INDIVIDUAL VALUE REVIEW PROCEDURES**

#### ***Field Review***

The date of last inspection, extent of that inspection, and the Bastrop CAD appraiser responsible are listed in the CAMA system. If a property owner disputes the District's records concerning this data in a protest hearing, CAMA may be altered based on the credibility of the evidence provided. Normally, a new field check is then requested to verify this information for the current year's valuation or for the next year's valuation. In addition, if a building permit is filed for a particular property indicating a change in characteristics, that property is added to a work file for review.

Commercial appraisers are somewhat limited in the time available to field review all commercial properties of a specific use type. However, a major effort is made by appraisers to field review as many properties as possible or economic areas experiencing large numbers of remodels, renovations, or retrofits, changes in occupancy levels or rental rates, new leasing activity, new construction, or wide variations in sale prices. The appraisers frequently field review subjective data items such as building class, quality of construction (known as cost modifiers), condition, and physical, functional, and economic obsolescence factors contributing significantly to the market value of the property. In some cases, field reviews are warranted when sharp changes in occupancy or rental rate levels occur between building classes or between economic areas. With preliminary estimates of value in these targeted areas, the appraisers test computer assisted values against their own appraisal judgment. The appraisers review sold and unsold properties for comparability and consistency of values. Commercial properties are reviewed along the same rotation schedule as all other real property, once every three years.

## Commercial and Industrial Property Valuation Process

### ***Office Review***

Office reviews are completed on properties subject to field inspections and are performed in compliance with the guidelines required by the existing classification system. Office reviews are typically limited by the available market data presented for final value analysis. These reviews summarize the pertinent data of each property as well as comparing the previous value to the proposed value conclusions of the various approaches to value. These evaluations and reviews show proposed value changes, income model attributes or overrides, economic factor (cost overrides) and special factors affecting the property valuation such as new construction status, and a three years sales history (USPAP property history requirement for non-residential property). The appraiser may review methodology for appropriateness to ascertain that it was completed in accordance with USPAP or more stringent statutory and District policies. This review is performed after preliminary ratio statistics have been applied. If the ratio statistics are generally acceptable overall the review process is focused primarily on locating outliers on an individual basis. Previous values resulting from protest hearings are individually reviewed to determine if the value remains appropriate for the current year based on market conditions. Each appraiser's review is limited to properties in their area of responsibility by property type (improved) or geographic area (commercial vacant land). Once the appraiser is satisfied with the level and uniformity of value for each commercial property within their area of responsibility, the estimates of value go to noticing. Each parcel is subjected to the value parameters appropriate for its use type.

### **PERFORMANCE TESTS**

The primary tool used to measure mass appraisal performance is the ratio study. A ratio study compares appraised values to market prices. In a ratio study, market values (value in exchange) are typically represented with the range of sale prices, i.e. a sales ratio study. Independent, expert appraisals may also be used to represent market values in a ratio study, i.e. an appraisal ratio study. If there are not enough examples of market price to provide necessary representation, independent appraisals can be used as indicators for market value. This can be particularly useful for commercial or industrial real property for which sales are limited. In addition, appraisal ratio studies can be used for properties statutorily not appraised at market value but reflect the use-value requirement. An example of this are multi-family housing projects subject to subsidized rent provisions or other governmental guarantees as provided by legislative statutes (affordable housing) or agricultural lands to be appraised based on productivity or use value. Bastrop CAD has adopted the policies of the IAAO STANDARD ON RATIO STUDIES regarding its ratio study standards and practices. Ratio studies generally have six basic steps: (1) determination of the purpose and objectives, (2) data collection and preparation, (3) comparing appraisal and market data, (4) stratification, (5) statistical analysis, and (6) evaluation and application of the results.

### ***Sales Ratio Studies***

Sales ratio studies are an integral part of estimating equitable and accurate market values, and ultimately property assessments for these taxing jurisdictions. The primary uses of sale ratio studies include the determination of a need for general reappraisal; prioritizing selected groups of property types for reappraisal; identification of potential problems with appraisal procedures; assist in market analyses; and, to calibrate models used to estimate appraised values during valuation or reappraisal cycles. However, these studies cannot be used to judge the accuracy of an individual property appraised value. The Bastrop County Appraisal Review Board may make individual value adjustments based on unequal appraisal (ratio) protest evidence submitted on a case-by-case basis during the hearing process.

## Commercial and Industrial Property Valuation Process

Overall sales ratios are generated by use type semi-annually (or more often in specific areas) to allow appraisers to review general market trends in their area of responsibility and for the Property Study from the Property Tax Division of the Comptroller's Office. In many cases, field checks may be conducted to ensure the ratios produced are accurate and the appraised values utilized are based on accurate property data characteristics. These ratio studies aid the appraisers by providing an indication of market activity by economic area or changing market conditions (appreciation or depreciation).

### ***Comparative Appraisal Analysis***

The commercial appraiser performs an average unit value comparison in addition to a traditional ratio study. These studies are performed on commercially classed properties by property use type (such as apartment, office, retail and warehouse usage or special use). The objective to this evaluation is to determine appraisal performance of sold and unsold properties. Appraisers average unit prices of sales and average unit appraised values of the same parcels and the comparison of average value changes of sold and unsold properties. These studies are conducted on substrata such as building class and on properties located within various economic areas. In this way, overall appraisal performance is evaluated geographically, by specific property type to discern whether sold parcels have been selectively appraised. When sold parcels and unsold parcels are appraised equally, the average unit values are similar. These sales and equity studies are performed prior to final appraisal and to annual noticing.

# Business Personal Property Valuation Process

## INTRODUCTION

### ***Appraisal Responsibility***

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.

- Personnel - The personal property staff consists of:

2 Appraisers

- Data - A common set of data characteristics for each personal property account in Bastrop CAD is collected in the field and data entered. The property characteristic data drives the computer-assisted personal property appraisal (CAPPA) system. The personal property appraisers collect the field data and maintain electronic property files making updates and changes gathered from field inspections, newspapers, property renditions, sales tax permit listing and interviews with property owners.

## VALUATION APPROACH (Model Specification)

### ***SIC Code Analysis***

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 Bastrop CAD to classify personal property by business type SIC code identification and delineation is the cornerstone of the personal property valuation system at the District. All the personal property analysis work done in association with the personal property valuation process is SIC code specific. SIC codes are delineated based on observable aspects of homogeneity and business use.

### ***Highest and Best Use Analysis***

The highest and best use of property is the reasonable and probable use that supports the greatest income and the highest present value as of the date of the appraisal. The highest and best use must be physically possible, legal, financially feasible, and productive to its maximum. The highest and best use of personal property is normally its current use.

## DATA COLLECTION/VALIDATION

### ***Data Collection Procedures***

Personal property data collection procedures are published and distributed to all appraisers involved in the appraisal and valuation of personal property. The appraisal procedures are reviewed and revised to meet the changing requirements of field data collection.

### ***Sources of Data***

#### **Business Personal Property**

The District's property characteristic data was collected through a field data collection effort coordinated by the District over the recent past and from property owner renditions. From year to year, reevaluation activities permit District appraisers to collect new data via an annual field inspection. 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.

## Business Personal Property Valuation Process

### **Vehicles**

An outside vendor provides Bastrop 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.

### **Leased and Multi-Location Assets**

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

### **VALUATION AND STATISTICAL ANALYSIS (model calibration)**

#### ***Cost Schedules***

Cost schedules are developed based on the SIC code by the Property Tax Division of the Comptroller's Office and by District personal property valuation appraisers. The cost schedules are developed by analyzing cost data from property owner renditions, hearings, state schedules, and published cost guides. The cost schedules are reviewed as necessary to conform to changing market conditions. The schedules are typically in a price per square foot format, but some exception SIC's are in an alternate price per unit format, such as per chair for barber shops and beauty shops.

#### ***Statistical Analysis***

Summary statistics including, but not limited to, the median, weighted mean, and standard deviation provide the appraisers an analytical tool by which to determine both the level and uniformity of appraised value by SIC code. Review of the standard deviation can discern appraisal uniformity within SIC codes.

#### ***Depreciation Schedule and Trending Factors:***

##### **Business Personal Property**

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

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

The PVF is used as an "express" calculation in the cost approach. The PVF is applied to reported historical cost as follows:

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

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

#### ***Computer Assisted Personal Property Appraisal (CAPP)***

The CAPP 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 CAPP. The delineated sample is reviewed for accuracy of SIC code, square footage, field data, and original cost information. Models are created and refined using actual original cost data to derive a typical replacement cost new (RCN) per square foot for a

## Business Personal Property Valuation Process

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 are then 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.

CAPPA model values are 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 are also 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 is 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 is 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.

### **Vehicles**

Value estimates for vehicles are provided by an outside vendor and are based on published book values, and there are also considerations available for high mileage. Vehicles that are not valued by the vendor are valued by an appraiser using PVF schedules or published guides.

### **Leased and Multi-Location Assets**

Leased and multi-location assets are valued using the PVF schedules mentioned above. If the asset to be valued in this category is a vehicle, then published book values are used. Assets that are not valued by the vendor are valued by an appraiser using PVF schedules or published guides.

## **INDIVIDUAL VALUE REVIEW PROCEDURES**

### ***Office Review***

#### **Business Personal Property**

A District valuation computer program exists in a mainframe environment that identifies accounts in need of review based on a variety of conditions. Property owner renditions, accounts with field or other data changes, accounts with prior hearings, new accounts, and SIC cost table changes are all considered. The accounts will be processed by the valuation program and pass or fail preset tolerance parameters by comparing appraised values to prior year and model values. The appraisers review accounts that fail the tolerance parameters.

## **PERFORMANCE TESTS**

### ***Ratio Studies***

Each year the Property Tax Division of the state comptroller's office conducts a property value study (PVS). The PVS is a ratio study used to gauge appraisal District performance. Results from the PVS play a part in school funding. Rather than a sales ratio study, the personal property PVS is a ratio study using state cost and depreciation schedules to develop comparative personal property values. These values are then compared to Bastrop CAD's personal property values and ratios are indicated.

# Minerals (oil and Gas Reserves) Valuation Process

## INTRODUCTION

### ***Appraisal Responsibility***

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 CAD to identify every producing mineral property interest within the District and estimate the market value of each property interest listed on the roll.

### ***Appraisal Resources***

- Personnel – outsourced to Capitol Appraisal Group
- Data - A common set of data characteristics for each mineral property account in Bastrop CAD is collected from the Texas Railroad Commission Records and data entered to the District's computer. The property characteristic data drives the computer-assisted mineral property appraisal system. Railroad Commission records are searched to discover new leases as of January 1 of the year and legal descriptions are gathered to determine the location of the lease within Bastrop CAD jurisdictional boundaries. Records are also reviewed for changes in production for existing wells and for abandoned wells with salvage value for equipment, tanks, and tubular goods. Production history for each mineral lease is gathered from energy production records and from the Texas Railroad Commission. Division Orders on each lease are requested annually from lease operators and checked against the appraisal roll for accuracy of owner name, address, and ownership percentage interest. To assist with the economic parameters influencing these properties, general economic data is gathered for the valuation process. The method of appraisal for minerals-in-place is the discounted cash flow method which looks at the net present value of operating the lease. Current interest rates, market rates of return and levels of discounting the investment are factors to consider when evaluating the returns necessary to attract investment capital for this type property. Capitalization rates are estimated based on data from the general market for oil and gas property. Prices of oil and gas used in the appraisal are mandated by State statutes to be the average of the past year. Other capital market information and return rates for investors participating in the oil and gas market is taken from the Oil and Gas Journal, Wall Street Journal, Mergent Bond Record, Moody's Corporate Bond Yield Averages, and Value Line Investment Survey "Ratings and Reports".

## VALUATION AND STATISTICAL ANALYSIS (model calibration)

### ***Pricing, Operating Expenses and Reserve Analysis***

Crude oil and natural gas prices are important information in the valuation of mineral property because these prices help determine income to the lease and are a significant factor in determining the economic life of the production from the lease. Price analysis and estimates for crude oil and natural gas produced is based on the previous year's average price as per Texas Property Tax Code (Sec. 23.175). Prices paid for production for each lease is analyzed and averaged to evaluate the estimated average for the area.

## Minerals (oil and Gas Reserves) Valuation Process

Lease operating expenses are estimated based on rendered information and actual operating cost and expense from surveys of lease operators in Bastrop CAD. Decline curve analysis estimates the rate of production decline and is formulated using past production operating expenses and recent operating parameters such as water production, lease repairs, and secondary recovery efforts. Current operating income and expenses for the lease are considered and estimated in a discounted cash flow model to allow the appraiser to evaluate and estimate the net present value of producing oil and gas from the lease. Capitalization rates and discounting return rates are estimated for each lease based upon the risks inherent with production of oil and gas from that property. These risks may vary considerably from one lease to another depending several factors influencing the production from that lease. The discounted cash flow model method will allow the appraiser to evaluate current market value of the lease based on the estimated recoverable reserves. This methodology is approved and recommended by the Property Tax Division of the Comptroller's Office and is a recognized method of appraisal by industry standards.

### ***Value Review Procedures***

The method of value review for this type of property is based on the review of the factors estimated within the discounted cash flow analysis methodology such as the discount rate, product prices, and operating expenses. Evaluation and verification of these economic factors as to their validity within current economic times and based on current capital requirements for investment in this type property is re-confirmed and reviewed for reasonableness. Sales of mineral properties are considered but adequate sale data is usually not available due to difficulty in confirming sales. The market for this type of property is neither an active nor an efficient market, there are very few participants and pricing information is mostly confidential. There is no central source for tracking these transactions and property owners are reluctant to reveal market information concerning prices paid or terms of the transaction. Because of a lack of market sales on mineral property, appraised values are regularly compared to similar properties within the same production field, field of exploration, strata of formation, or production history and expense level.

Ratio studies are a source of comparison to evaluation level and uniformity of appraisal. When market sales are available the ratio study is based on a comparison of the appraised value to the sale price. For mineral property, which lacks available market sales, a ratio study is a comparison of another appraisal opinion with the opinion of the District to determine level and uniformity of appraisal. The Property Tax Division of the Comptroller's Office conducts an annual ratio study of selected mineral properties to gauge the Districts appraisal performance. The PTD utilizes the same valuation methodology to appraise individual mineral properties. This opinion of value is then utilized as market evidence with the same significance as if the property sold for that value. The estimated value of the property by Bastrop CAD is compared to the appraisal by the PTD to calculate the ratio and the indicated level of appraisal. This study indicates the median and mean levels of appraisal for mineral property and is considered reliable as a review and evaluation tool.

# Utility Property Valuation Process

## INTRODUCTION

### ***Appraisal Responsibility***

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 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 Bastrop CAD.

### ***Appraisal Resources***

- Personnel – outsourced to Capitol Appraisal Group
- Data - A common set of data characteristics for each utility property account in Bastrop CAD is collected from the various government regulatory agency records, field inspections, and property owner renditions. This data is entered to the District's computer. Individual company financial information is gathered through industry specific governmental filings such as Federal Energy Regulatory Commission Reports, Securities and Exchange Commission 10-k filings, and Public Utility Commission publications. Other company information is gathered from annual reports, internal appraisals, and other in-house and industry publications. Property owner renditions are requested to document, and list property owned and located in our jurisdictions (ie: track mileage, number of meters, pipeline size and mileage, substation and transmission capacity, etc.). The property characteristic data drives the computer-assisted appraisal of the property.

The appraisal of utility property utilizes three-approach analysis for form an opinion of value for the property. Financial and capital market information is pertinent to understanding factors affecting valuation of complex property. Gathering financial data to attempt to understand investor and corporate attitudes for capital return expectations giving considering return components such as current interest rates, capital debt structure, bond market rates, and capital supply and demand trends. These financial factors result in overall return rates and capital structure for these companies and affects capitalization rates. The weighted average cost of capital is the most used method of estimating capitalization rates for utility properties. Capitalization rates are estimated using capital return expectations from various publications: Wall Street Journal, Moody's Corporate Bond Yield Averages, Value Line Investment Survey "Ratings and Reports". Industry specific information is also gathered from web sites, publications, periodicals, and reference manuals. Bastrop CAD utilizes the weighted average cost of capital to estimate the capitalization rate for utility appraisal under the income approach.

## VALUATION AND STATISTICAL ANALYSIS (model calibration)

### ***Approaches to Valuation, Reconciliation***

Valuation of tangible assets for utility companies relies primarily on indications of value based on the cost and income approaches to value under the unit value approach. This methodology involves developing and estimating market value considering the entirety of the company's tangible assets and resolving an allocated value for that portion of specific tangible assets located in particular tax jurisdictions. The valuation opinion is based on three approach analysis utilized for the indicated unit appraisal of all company tangible assets, then an estimated allocation of unit value for only assets located in the District and jurisdictions. This methodology is approved and recommended by the Property Tax Division of the Comptroller's Office and is an accepted standard within the industry and appraisal

## Utility Property Valuation Process

### ***Value Review Procedures***

Review of the valuation of utility property is based on verifying economic and financial factors utilized in the methodology as relevant to current capital markets and that these factors reflect current return expectations. Market sales of utility properties do occur and are a good source for comparison and review when the price of the tangible assets can be abstracted or allocated from the selling price. Typically, the sale of utility companies involves significant intangible property assets such as customer base, goodwill, favorable contracts, name recognition, etc. and the contributory value and allocation of these assets is subjective and unknown. In Texas, intangible property assets are exempt from taxation and must not be included on the appraisal roll as taxable property. Therefore, because of the lack of specific market information on sales of utility properties, appraised value is regularly compared to the valuation of similar property within the same set of property characteristics, business type and size. More of comparison for equity concerns on valuation rather than the full recognition of a market level certainty about appraisal level. Of course, the estimated value is based on recognized methodology for considering the valuation of these tangible assets, but true market confirmation of these factors may not be possible due to minimal market knowledge and experience.

Ratio studies are also a method of review for relevance of appraisal valuation to market value. Again, in the absence of full disclosure of prices paid and without the abstraction of prices paid for the tangible asset components from recent utility property acquisitions or sales, market-based analysis and review is not possible. Ratio studies for utility property must rely on a comparison of one appraisal opinion as the basis for the reasonable property valuation with the District's appraised value to determine the ratio for level and uniformity of appraisal. The PTD conducts the annual ratio study of selected utility properties to gauge the appraisal District's performance. The PTD utilizes the same valuation methodology to estimate appraisal valuations of utility properties and the results, when compared to the appraisal valuation estimated by Bastrop CAD for these properties yield ratios. This ratio study of certain utility properties indicates the level and uniformity of appraisal for this category of property.

# Calendar

## Calendar of Key Events

### Throughout the year

- ◆ Research returned mail.
- ◆ Mail applications for special appraisals and exemptions requiring annual applications, such as new homestead exemptions, surviving spouse, historic exemptions, ag-use applications due to change of ownership.
- ◆ Gather sales data from sales confirmation letters, deed records and other sales sources for sales files.
- ◆ Get deed information from County Clerk's office.
- ◆ Research property ownership.
- ◆ Key name/address changes, splits/combines, new property and personal property into CAMA. Track value loss due to property acquiring 1<sup>st</sup> time exemptions and 1<sup>st</sup> time 1-d or 1-d-1 appraisal, value gain due to new improvements for taxing units.
- ◆ Send copies of associated mineral deeds to Capitol Appraisal Group.
- ◆ Send copies of splits/combine parcels to map department.
- ◆ Update address change file as new addresses received.
- ◆ Process and sell digital copies of appraisal rolls to taxpayers.
- ◆ Prepare and post Board of Directors agenda for meetings.
- ◆ Prepare and mail Board of Directors packets for meetings.
- ◆ Answer phone calls and assist walk-in customers.

### January

- ◆ Conduct field inspections on residential, land, mobile homes, commercial, industrial, pipelines and personal property.
- ◆ Real property is inspected and checked for accuracy in class and depreciation in designated areas.
- ◆ Check for new construction and demolition of improvements.
- ◆ Begin planning sales ratio studies for all areas within the CAD.
- ◆ Review schedules in comparison to available sales data to determine areas needing significant adjustment or close review.
- ◆ Review renditions as received.
- ◆ Prepare for financial audit by independent CPA firm.
- ◆ Check for 65 and over homestead exemptions that need to be granted automatically and run program.
- ◆ Check that mapping updates have been processed as scheduled.
- ◆ Post updated public service announcement at post office and in CAD office.
- ◆ Place ¼ page ad in local newspaper on availability of exemptions, rendition requirements, special appraisals, and tax deferrals.
- ◆ Chief Appraiser begins work on the next year's budget.
- ◆ **2023**—BOD appoints CAD Depository for 2 years.

### February

- ◆ Real property appraisers continue to work renditions as received.
- ◆ Renditions received, scanned, and processed.
- ◆ Real Property appraisers continue to work property and do analysis.
- ◆ Update residential schedules, Ag schedules, and mobile home depreciation schedules.
- ◆ Begin ratio studies on real property.
- ◆ Begin quality control audits on value and correct or adjust accounts as needed.
- ◆ Submit sales information and deed transactions to State Comptroller Office by Feb 1. EARS
- ◆ Receive and key rendition extension requests.
- ◆ Mineral and special property renditions and /or extension requests are faxed, mailed, or emailed to mineral appraisers and the original filed in house.
- ◆ Register ARB members for annual training.
- ◆ Chief Appraiser continues work on the next year's budget.

# Calendar

## March

- ◆ Real Property appraisers continue to work property and do analysis.
- ◆ Finalize residential schedules, Ag schedules, and mobile home depreciation schedules.
- ◆ Complete ratio studies on real property.
- ◆ Finalize quality control audits on value and correct or adjust accounts as needed.
- ◆ Continue transferring information from received renditions to CAMA.
- ◆ Receive and key rendition extension requests.
- ◆ Mineral and special property renditions and/or extension requests are emailed to mineral appraisers and the original filed in house.
- ◆ Key rendered accounts, deleted exemptions, new exemptions, and new frozen accounts.
- ◆ Review edits and audits before notices run; correct or adjust accounts as needed.
- ◆ Proof all changes; print out change report and compare to appraisals.
- ◆ Chief Appraiser continues work on the next year's budget.

## April

- ◆ BPP appraisers continue to process received renditions.
- ◆ Appraisers work with property owners regarding proposed values and protests filed.
- ◆ Chief Appraiser continues work on next year's budget and sends preliminary budget to entities after Board approval.
- ◆ Continue transferring information from received renditions to CAMA.
- ◆ Place Protest and Appeals Procedure ad in local newspaper by **April 1**.
- ◆ Renditions due by April 15 unless extension requested; continue to receive and key rendition extension requests.
- ◆ Check that mapping updates have been processed as scheduled.
- ◆ Review edits and audits before notice run; correct or adjust accounts as needed.
- ◆ Ensure all ARB members are scheduled for mandatory training.
- ◆ Mail out Notices of Appraised Value.
- ◆ Coordinate with CAD staff on hearing schedule and protests filed.
- ◆ Schedule protest hearings and mail Notice of Protest letters.

## May

- ◆ Coordinate mineral and special property input to CAD.
- ◆ Renditions receiving 30-day extension are due **May 15** unless chief appraiser extends deadline to **May 30**.
- ◆ Continue transferring information from received renditions to CAMA.
- ◆ Receive and key rendition extension requests and accounts granted additional 15-day extension.
- ◆ Mineral and special property renditions and/or extension requests are faxed, mailed, or e-mailed to mineral appraisers and the original filed in-house.
- ◆ Ensure all ARB members have attended mandatory training and certificates of completion are on file.
- ◆ Code returned value notices and research ownership and addresses.
- ◆ Coordinate with CAD staff on hearing schedule and protests filed.
- ◆ Appraisers work with property owners regarding proposed values and protests filed.
- ◆ Schedule protest hearings and mail Notice of Protest letters.
- ◆ Appraisers defend values at protest hearings.
- ◆ Post ARB hearing Agenda as necessary.
- ◆ Begin ARB hearings
- ◆ Provide ARB support; make record of minutes during hearings, make copies as needed, supply forms and orders as needed, etc.
- ◆ Enter into CAMA all changes ordered by ARB.

# Calendar

## June

- ◆ Appraisers work with property owners regarding proposed values and protests filed.
- ◆ Coordinate with CAD staff on hearing schedule and protests filed.
- ◆ Appraisers defend values at protest hearings.
- ◆ Enter changes ordered by ARB.
- ◆ Submit appraisal records to ARB for review.
- ◆ Submit completed Operations Survey to State Comptroller.
- ◆ Chief Appraiser begins update of USPAP Report (Mass Appraisal Report).
- ◆ Chief Appraiser submits recommended next year's budget to CAD board and taxing units by June 15.
- ◆ Chief Appraiser submits estimated pro-rated budget shares to CAD board and taxing units by June 15.
- ◆ Schedule protest hearings and mail Notice of Protest letters.
- ◆ Prepare cause folders for hearings.
- ◆ Compile information for evidence packets for property owners filing protests and requesting evidence.
- ◆ Post ARB hearing Agenda as necessary.
- ◆ Continue ARB hearings
- ◆ Provide ARB support; make record of minutes during hearings, make copies as needed, supply forms and orders as needed, etc.
- ◆ Mail ARB Notices and Orders certified, return receipt requested.
- ◆ Enter into CAMA all changes ordered by ARB.
- ◆ Coordinate with mineral and special property appraisers on hearing schedule and protests filed.
- ◆ Code returned value notices and research ownership and addresses.
- ◆ Print and mail personal property rendition penalty letters.
- ◆ Verify that rendition penalties are applied correctly.

## July

- ◆ Appraisers work with property owners regarding proposed values and protests filed.
- ◆ Appraisers defend values at protest hearings.
- ◆ Enter into CAMA all changes ordered by ARB.
- ◆ Prepare hearing list and information on informal meetings and formal hearings to check on evidence and reason for changes in value by contract appraisers.
- ◆ Post ARB hearing agenda as necessary
- ◆ Continue ARB hearings
- ◆ Provide ARB support; make record of minutes during hearings, make copies as needed, supply forms and orders as needed, etc.
- ◆ Mail ARB Notices and Orders certified, return receipt requested.
- ◆ Enter into CAMA all changes ordered by ARB.
- ◆ Quality Control reports to verify values by mineral and special property appraisers prior to Approval and Certification.
- ◆ Quality Control reports to review exceptional values prior to Approval and Certification.
- ◆ ARB approves Appraisal Records by July 20.
- ◆ Chief Appraiser certifies Appraisal Roll to taxing units by July 25.
- ◆ Compile truth in taxation information for county, cities, and special districts and supply needed information to all schools. Submit to taxing units value loss due to property acquiring 1<sup>st</sup> time exemption and 1<sup>st</sup> time 1-d or 1-d-1, value gain due to new improvements and recap of homesteads.
- ◆ **2024**—Mail out financial audit bid letters.
- ◆ **2024**—Prepare 2025-2026 Reappraisal Plan.

# Calendar

## August

- ◆ Conduct field inspections on residential, land, mobile homes, commercial, industrial, pipelines and personal property.
- ◆ Real property is inspected and checked for accuracy in class and depreciation in designated areas.
- ◆ Appraisers continue to work on any pending protest hearings.
- ◆ Submit sales information to State Comptroller's Office by Aug 1. EARS.
- ◆ Submit Certified Appraisal Roll to State Comptroller by Aug 1. EARS.
- ◆ Supplement data and values to other appraisal districts or tax offices as needed.
- ◆ Hold Public Hearing on Budget.
- ◆ Continue ARB Hearing process for any rescheduled or newly scheduled protests.
- ◆ Compose and mail letter to property owners filing late ag application informing them of the 10% penalty for late filing.
- ◆ Place ¼ page Notice of Budget Hearing Ad in newspaper at least 10 days before the hearing date.
- ◆ Submit Notice of Budget Hearing to taxing units at least 10 days before hearing date.
- ◆ **2024**—Submit 2025-2026 Reappraisal Plan to Taxing Authorities 10 days before August BOD meeting.

## Board of Directors

- ◆ **2023**—Adopts Next Year's Budget
- ◆ **2024**—Considers Financial Audit Bids
- ◆ **2024**—Adopts 2025-2026 Reappraisal Plan
- ◆ **2024**—Adopts Next Year's Budget

## September

- ◆ Conduct field inspections on residential, land, mobile homes, commercial, industrial, pipelines and personal property.
- ◆ Real property is inspected and checked for accuracy in class and depreciation in designated areas.
- ◆ Supplement data and values to other appraisal districts or tax offices as needed.
- ◆ Board of Directors must adopt next year's budget by September 15.
- ◆ Begin work on reports of Property Value for State Comptroller's Office.
- ◆ After tax rates are set, files, lists and website are updated for new tax rates.
- ◆ Verify mapping updates have been processed as scheduled.
- ◆ **2023**—Begin 2024-2025 Board of Directors election process.

## October

- ◆ Review and update Ag Survey Letter as needed.
- ◆ Conduct field inspections on residential, land, mobile homes, commercial, industrial, pipelines and personal property.
- ◆ Real property is inspected and checked for accuracy in class and depreciation in designated areas.
- ◆ Meet with agricultural advisory board to discuss and address agricultural issues for the next appraisal year.
- ◆ Supplement data and values to other appraisal districts or tax offices as needed.
- ◆ Mail Ag Survey Letters to owners
- ◆ Submit completed Reports of Property Value to State Comptroller's Office.
- ◆ Chief appraiser schedules annual meeting of Agricultural Advisory Board to discuss and address agricultural issues for the next appraisal year.
- ◆ **2023**—Continue Board of Directors election process
- ◆ **2024**—Mail requests for bid on CAD Depository for 2025.

## Calendar

### November

- ◆ Conduct field inspections on residential, land, mobile homes, commercial, industrial, pipelines and personal property.
- ◆ Real property is inspected and checked for accuracy in class and depreciation in designated areas.
- ◆ Supplement data and values to other appraisal districts or tax offices as needed.
- ◆ Continue to update deeds and maps.
- ◆ TLO receives applications for ARB openings and receives names for Chair and Secretary of ARB.

### December

- ◆ Conduct field inspections on residential, land, mobile homes, commercial, industrial, pipelines and personal property.
- ◆ Real property is inspected and checked for accuracy in class and depreciation in designated areas.
- ◆ Supplement data and values to other appraisal districts or tax offices as needed.
- ◆ TLO submits applications for ARB openings and names for Chair and Secretary of ARB to Local Administrative Judge.
- ◆ Board of Directors appoints Ag Advisory Board members to 2-year term.
- ◆ Local Administrative Judge appoints ARB members to 2-year term.
- ◆ **2023**—Notification of Board of Directors Election results.

## Inspections

All accounts have been coded with a Region Number and a Quadrant Number to assist in the assignment of inspection of properties. It is the goal of Bastrop CAD to physically inspect at least once every 3 years but no greater than the IAAO Standards on Mass Appraisal of Real Property that states properties should be physically inspected at least every 6 years.

### 2023 ASSIGNMENTS:

The following assignments have been scheduled for physical inspection:

Region 1 – 7 All quadrants with last inspection year 2020 or greater. The chart below is an estimate of the number of accounts per improvement type.

All regions will list new construction in addition to the current assignments.

| REGION /<br>IMP TYPE | Commercial | Misc.      | Mobile Home | Residential | Utility     | Vacant Land | Grand Total  |
|----------------------|------------|------------|-------------|-------------|-------------|-------------|--------------|
| R1                   | 99         | 148        | 308         | 1864        | 246         | 622         | 3287         |
| R2                   | 29         | 151        | 282         | 1167        | 284         | 459         | 2372         |
| R3                   | 41         | 157        | 202         | 1061        | 175         | 419         | 2055         |
| R4                   | 43         | 125        | 319         | 945         | 349         | 275         | 2056         |
| R5                   | 71         | 52         | 307         | 1726        | 350         | 1082        | 3588         |
| R6                   | 93         | 59         | 356         | 1124        | 314         | 342         | 2288         |
| R7                   | 16         | 50         | 46          | 825         | 66          | 313         | 1316         |
| <b>Grand Total</b>   | <b>392</b> | <b>742</b> | <b>1820</b> | <b>8712</b> | <b>1784</b> | <b>3512</b> | <b>16962</b> |

### 2024 ASSIGNMENTS:

The following assignments have been scheduled for physical inspection:

Region 1 – 7 All quadrants with last inspection year 2021 or greater. The chart below is an estimate of the number of accounts per improvement type.

All regions will list new construction in addition to the current assignments.

| REGION /<br>IMP TYPE | Commercial | Misc.      | Mobile Home | Residential  | Utility     | Vacant Land  | Grand Total  |
|----------------------|------------|------------|-------------|--------------|-------------|--------------|--------------|
| R1                   | 68         | 67         | 179         | 1525         | 307         | 1292         | 3438         |
| R2                   | 51         | 101        | 169         | 920          | 335         | 1733         | 3309         |
| R3                   | 74         | 128        | 186         | 1341         | 138         | 1769         | 3636         |
| R4                   | 21         | 109        | 565         | 905          | 564         | 1812         | 3976         |
| R5                   | 145        | 51         | 366         | 3089         | 309         | 1238         | 5198         |
| R6                   | 274        | 83         | 278         | 1842         | 249         | 1882         | 4608         |
| R7                   | 25         | 40         | 47          | 1133         | 64          | 1864         | 3173         |
| <b>Grand Total</b>   | <b>658</b> | <b>579</b> | <b>1790</b> | <b>10755</b> | <b>1966</b> | <b>11590</b> | <b>27338</b> |

# Region/Quad Map

