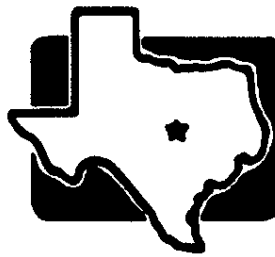


MILAM APPRAISAL DISTRICT

***2015-2016
Reappraisal Plan***

Adopted July 17, 2014



MILAM APPRAISAL DISTRICT

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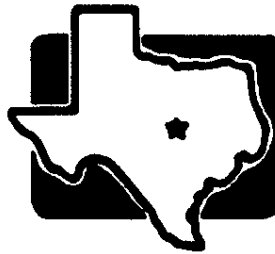
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MILAM APPRAISAL DISTRICT

Preface

This document is intended to provide all interested parties a clear and concise view of the District's responsibilities and the activities planned for 2015 and 2016 appraisal years.

In compliance with Section 6.05(i) of the Property Tax Code of the State of Texas, the board of directors of the Milam Appraisal District conducted a public hearing to consider the adoption of the following reappraisal plan.

Mission

The mission of Milam Appraisal District is to discover, list and appraise property accurately, ethically, and impartially in order to estimate the market value of all property within the boundaries of the county for ad valorem tax purposes. The district must ensure that each taxpayer is given the same consideration, information and assistance as the next. This will be done by administering the laws under the property tax system.

Personnel must be well educated and informed regarding laws, appraisal practices and the rights of taxpayers and the entities alike. This will be accomplished through attendance of key personnel to workshops sponsored by the Texas Association of Appraisal Districts, as well as workshops conducted online for in-house staff development. Additionally, the staff will promote and adhere to professional standards and ethics as set forth by the Texas Department of Licensing, and the Appraisal Standards Board of the Appraisal Foundation (USPAP), and the Texas Association of Appraisal Districts.

Legal Mandates

Milam Appraisal District was formed by the Texas Legislature in 1979 and is charged with the appraisal of all taxable property within the county.

The Texas Property Tax Code governs the legal, statutory, and administrative requirements of the appraisal district. The appraisal district is responsible for local property tax appraisal, including the qualifications for special use valuation determination (e.g. wildlife and "ag" valuation) as well as exemption administration for the nineteen taxing units located in part or whole in the county. Each taxing unit 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. The District also determines eligibility for various types of property tax exemptions such as those for homeowners, the elderly, disabled veterans, and charitable and religious organizations.

Section 23.01(b) requires the appraisal district to determine market value of property according to generally accepted appraisal methods and techniques. Mass appraisal standards must comply with the Uniform Standards of Professional Appraisal Practice (USPAP).

According to Section 6.05 (i) of the Property Tax Code, the district is required to hold public hearings and adopt a reappraisal plan by resolution before September 15 of even numbered years. The plan must list in detail the district's intentions for reappraisal of property over the following biennial period. Notice must be given at least 10 days before the hearing to the

Legal Mandates (continued)

presiding officers of each of the district's participating taxing units. After adoption, the adopted plan must be delivered to each of the presiding officers of each of the district's participating taxing units as well as to the Texas Comptroller of Public Accounts within 60 days of approval.

The reappraisal plan is made under the guidelines of current law. This plan may be revised if the Legislature materially changes current laws governing appraisal districts, in the unfortunate event of a natural disaster, or other unforeseeable event. Any proposed revision is subject to public notification and ratification by the Board of Directors of the Milam Appraisal District.

Organization

Appraisal districts were created by the Texas Legislature in 1979 to provide uniform and equal appraisals of taxable properties at market value for ad valorem tax purposes. The district is governed by a board of directors elected by the governing bodies of the participating taxing units. The county tax assessor/collector serves on the board as an ex officio member.

The Board of Directors is responsible for:

- Establishing the district's office
- Adopting the district's annual operating budget
- Contracting for necessary services
- Hiring the chief appraiser
- Appointing the Appraisal Review Board (ARB)
- Appointing the Agricultural Advisory Board
- Making general policy of the district's operation

The board's authority over appraisals is limited. The board does not appraise property or review values on individual properties. These tasks are legally assigned to the chief appraiser and the Appraisal Review Board (ARB). The board's authority over appraisals comes through its duties to contract and budget for the district's operation.

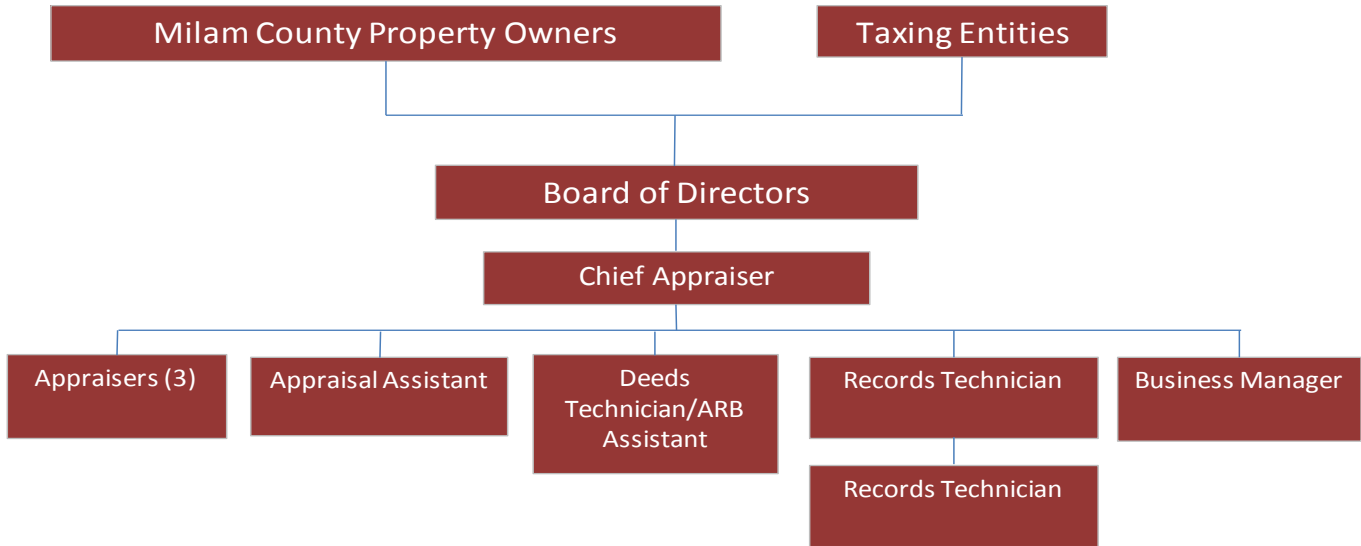
The ARB is appointed by the Board of Directors to hear and settle formal taxpayer protests. The board's decisions are binding to the district's records, unless ordered to be changed due to law suits or arbitrations initiated by the property owner. The district may also file suit in district court to have an ARB decision overturned if the Chief Appraiser and Board of Directors so choose.

The Agricultural Advisory Board is appointed by the Board of Directors, according to the recommendation of the Chief Appraiser in accordance with Section 6.12 of the Property Tax Code. Its purpose is to advise the Chief Appraiser on the valuation and use of land that may be designated for agricultural use or that may be open space agricultural land within the district.

The Chief Appraiser is the chief administrator of the district and is responsible for the district's appraisal operations. The appraisal district staff is employed and directed by the Chief Appraiser.

Organization (continued)

Milam Appraisal District - Organizational Chart



Properties Appraised

The District appraises all taxable property for the following taxing units:

Milam County	Buckholts ISD
	Cameron ISD
City of Buckholts	Gause ISD
City of Cameron	Milano ISD
City of Milano	Rockdale ISD
City of Rockdale	Thorndale ISD
City of Thorndale	
	Donahoe Watershed
	Elm Creek Watershed

Additionally, the district provides appraisals of taxable property for the following entities whose territory extends into Milam County.

Bartlett ISD
Holland ISD
Lexington ISD
Rogers ISD
Rosebud ISD

Properties Appraised (continued)

The 2014 appraisal roll consists of 28,585 parcels. The breakdown of these parcels was as follows:

Type	Parcels
Single Family Residential	10,559
Multi Family Residential	105
Mobile Homes	1,047
Vacant Lots	1,689
Agricultural	8,158
Commercial	1,169
Minerals	4,238
Utilities	221
Special Inventory	18
Business Personal Property	1,104
Personal Vehicles	31
Industrial	246
TOTAL	28,585

Appraisal Frequency and Method Summary

All properties are physically examined at least once every three years. The universe of property is divided by market areas. The market areas are defined by the school district that the property is in. Each school district is a separate market area. The market areas are statistically analyzed annually to verify appraisal performance. If sales indicate that current appraised values are not at market value, adjustments are made to the area using a process outlined in detail in the Market Analysis section of this report.

The appraisers performing re-inspection via Pictometry review four different directions of a property, looking for changes that might have occurred to the property since the last inspection, measuring the two most significant exterior walls of each improvement, and verifying that all improvements are on the appraisal roll and listed correctly.

Appraisers in the field have property records that contain specific information regarding the property being appraised in either a paper format or electronically on the pen pad device. These records contain brief legal descriptions, ownership interest, property use codes, property addresses, land size and characteristics, sketches of improvements as well as any available detailed information of the improvements.

Appraisal Frequency and Method Summary (continued)

Regardless of method, re-inspections require appraisers to check all information on the property and the property record, and to update the appraisal roll as necessary. The appraiser's primary duty is to ensure the accuracy of property records. Appraisers note their opinion of classification, condition and characteristics of the property. If changes in the size of any structures are observed, the appraiser measures and lists those dimensions. Appraisers take digital photos of each property field inspected. All work is reviewed by quality control measures.

In addition to reappraisal, all exemptions and special valuations for properties in the reappraisal area are reviewed to verify qualification. For instance, properties with a homestead exemption should not be vacant. Properties receiving "ag" value should show signs of agricultural use. The appraiser notifies the records technician of properties in question.

- **Residential Property** – Residential property is physically examined by one of two methods, Pictometry review or field inspection.
 - Pictometry review involves reviewing neighborhood oblique images from four different directions of a property, looking for changes that might have occurred to the property since the last inspection, measuring the two most significant exterior walls of each improvement, and verifying that all improvements are on the appraisal roll and listed correctly.
 - Field inspection involves walking in front of each home, and to the rear if accessible, looking for changes that might have occurred to the property since the last inspection, measuring the two most significant exterior walls of each improvement, and verifying that all improvements are on the appraisal roll and listed correctly. Exterior pictures are taken any time an appraiser conducts a field check.

The District collects building permit and utility installation reports to locate new improvements. Properties with a building permit or utility connection are reviewed for the current appraisal year.

- **Commercial and Business Personal Property** – Commercial real estate is observed by onsite review. Real estate accounts are analyzed against sales of similar properties in the county as well as similar communities in surrounding counties. The income approach to value is utilized to appraise properties where the highest and best use is as income producing property, such as shopping centers, apartment complexes, motels and hotels, and other types of property that typically sell based on net operating income. The cost approach is typically used to value industrial properties due to the lack of reliable income data and comparable sales. This is the recommended approach of the International Association of Assessing Officers (IAAO).

The appraiser concurrently updates Business Personal Property (BPP) records by adding new businesses to the appraisal roll and deleting businesses that no longer exist. A rendition is left for new businesses. The appraisers walk into businesses to make quality and density observations. Similar businesses are analyzed annually to determine appraisal consistency. Businesses are categorized using Standard Industry Classification (SIC) codes. Rendition laws provide additional information on which to base values of BPP accounts.

Appraisal Frequency and Method Summary (continued)

- **Minerals** – Milam Appraisal District contracts with Capitol Appraisal Group of Austin for the valuation of mineral accounts. Producing oil and gas wells are appraised annually. The most recent production data available from the Texas Railroad Commission is downloaded into appraisal software that estimates economically recoverable reserves. Those reserves are then valued based upon state mandated pricing using the previous year's average of oil and gas values. A discount is applied over the anticipated life of the well in order to consider the value of money over time to recover those reserves. Each producing lease is valued as a unit. The unit value is then divided among owners listed in the division order, equal to their percentage of interest in the lease.
- **Utilities and Pipelines** – Utility companies and pipelines are appraised annually by Capitol Appraisal Group. A utility company's total value in the state is estimated using cost, market, and income approaches. Then the entire value is allocated using the components that have situs in the tax units of Milam Appraisal District. Components include such things as miles of transmission lines, miles of distribution lines, substations and the like for an electric utility.
- **Industrial** – Industrial real estate and personal property is appraised annually by Capitol Appraisal Group. The methods used in local commercial appraisal are applied to industrial properties. The appraisers employed by Capitol have the education and experience necessary for accurate estimates of value.

Performance Analysis

In addition to sales ratio studies performed by the appraisal district, the State Comptroller's Property Tax Assistance Division (PTAD) conducts a biannual property value study (PVS) of each appraisal district. As part of this biannual study, the code requires the Comptroller to use sales and recognized auditing and sampling techniques to test the validity of school district taxable values in each appraisal district and presume the appraisal roll value are correct when values are valid, and determine the level and uniformity of appraisal.

The methodology used in the property value study includes stratified samples to improve sample representativeness and techniques or procedures of measuring uniformity. 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 the price-related differential (PRD) for properties overall and by state category.

Each of the eleven (11) independent school districts (ISD) in the District is tested biannually. The preliminary results of this study are released February 1 in the year following the year of appraisal. The final 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.

Performance Analysis (continued)

The results of this test are very important. The results are used to determine the value assignment to each ISD that is used in the state funding formula. A determination that the CAD has appraised properties in an ISD outside the confidence interval of 5% greater or lesser than the value determined by the Property Tax Assistance Division (PTAD), results in a value assignment by the PTAD and lower funding to school districts on its value determination.

The results of Milam Appraisal District sales ratio studies, the Property Value Study, and the prior year's Mass Appraisal Report are analyzed to determine if there are any areas where appraisal performance can be improved. Currently, results indicate that properties are being valued within IAAO standards for both market value and equity, and that there are no areas that require additional resources. This is continually monitored to ensure quality appraisal performance.

Additionally, beginning in 2010, the PTAD conducts a biannual review of the governance of each appraisal district, taxpayer assistance provided, and the operating and appraisal standards, procedures, and methodology used by the district. This study is commonly referred to as the M.A.P. Review. Milam Appraisal District will next be reviewed in 2016.

Personnel Resources

The appraisal district staff consists of nine (9) employees with the following classifications:

Position	FTE
Chief Appraiser	1
Appraisers	3
Appraisal Assistant	1
Deed Technician/ARB Assistant	1
Records Technician	2
Business Manager	1
TOTAL	9

The Chief Appraiser is the chief administrative officer of the appraisal district. The Chief Appraiser employs and directs the District's staff, oversees all aspects of the appraisal district operations and performs either directly or through the District staff, a variety of operations.

The Chief Appraiser is primarily responsible for overall planning, organizing, staffing, coordinating, and controlling of District operations. 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. Presently all property in the District, with the exception of oil and gas pipelines, minerals, utilities, and industrial property is appraised by the Milam Appraisal District staff. 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 (TDLR). Support functions including records maintenance, exemptions processing, ownership transfers, information and assistance to property owners, and hearings coordinated by personnel in support services.

Staff Education and Training

All personnel performing appraisal valuation work are registered with the Texas Department of Licensing and Regulation (TDLR). These personnel are required to take appraisal courses to achieve the designation of Registered Professional Appraiser within five years of employment as an appraiser. After they are awarded their license, they must receive additional training of a minimum of 30 hours of continuing education units every two years. 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 into pen pads used in field work and statistical analysis of all types of property to ensure equality and uniformity of appraisal of all types of property. On the job training for new appraisers is delivered by management and experienced appraisers. The Chief Appraiser meets regularly with staff to introduce new procedures, provide training, and monitor appraisal activity to ensure standardized appraisal procedures are being followed by all personnel.

Milam Appraisal District personnel interact with other assessment officials through professional trade organizations including the International Association of Assessing Officers (IAAO), Texas Association of Assessing Officers (TAAO), Texas Association of Appraisal Districts (TAAD) and the Texas Department of Licensing and Regulation (TDLR).

Information Systems

The District is responsible for establishing and maintaining approximately 28,500 real and personal property accounts covering 1,019 square miles within Milam 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. 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 utilizes a Computer Assisted Mass Appraisal (CAMA) system developed and maintained by Harris True Automation. This CAMA system is a state of the art mass appraisal system that has enabled district appraisers to work more accurately and efficiently and is fully integrated with the District's geographic information system (GIS).

The District has a geographic information system (GIS) that maintains cadastral maps and various layers of data and aerial photography. Additionally, the District uses aerials and oblique imagery from Pictometry International that have increased efficiency and accuracy in the reappraisal process.

The District's website makes a broad range of information available for public access, including information on the appraisal process, property characteristics data, protests and appeal procedures. Downloadable District forms, including exemption applications and business personal property renditions, are also available.

Information Systems (continued)

The District contracts with BIS Consulting for IT maintenance and support, GIS updates, and website hosting. District staff works with BIS Consulting to maintain the District's data processing systems, software applications, internet website, and the GIS system. The District's primary database is accessed with Harris True Automation software and a SQL database run on a Dell Server using Windows Server 2008. Mapping and GIS are also run on this server. Harris True Automation provides software services and support for appraisal applications.

After reviewing the 2015-2016 reappraisal plan and based on prior reappraisal efforts, the Milam Appraisal District Board of Directors and management believe the information systems have the necessary resources to successfully complete the 2015-2016 reappraisal effort while maintaining the high level of appraisal performance the citizens of Milam County have come to expect.

2015 Reappraisal

The reappraisal area for **2015** will be:

- Cameron ISD
- Rosebud-Lott ISD

Category	Cameron ISD	Rosebud-Lott ISD	TOTAL PARCELS
Single Family Residential	2,386	59	2,445
Multi Family Residential	39	--	39
Mobile Homes	267	10	277
Vacant Lots	525	34	559
Agricultural	3,303	307	3,610
Commercial	445	10	455
Personal Property	383	9	392
TOTAL	7,348	429	7,777

The 2015 reappraisal will involve the inspection of approximately 7,800 property accounts in the reappraisal ISDs, based on 2014 totals. Additionally, District appraisers will inspect any accounts in the remaining ISDs that have permit activity.

District appraisers will also be responsible for inspecting and maintaining business personal property records, inspecting land designated for special agricultural valuation, and administering special inventory valuations.

This effort will be conducted beginning in August of 2014 to February 1, 2015. Field work and re-inspections will be substantially complete by February 1, 2015, allowing sufficient time for market area analysis and schedule updates from February 1 to April 1. The time period of April 1 to July 25, 2015 will be reserved for property owner protests. Milam Appraisal District typically has 800-1,200 property owner protests annually. Most are resolved informally with approximately 200 resulting in formal hearings before the Appraisal Review Board.

One appraiser will be responsible for inspection of city property, commercial property, and business personal property. The other two appraisers will re-inspect rural property.

2016 Reappraisal

The reappraisal area for **2016** will be:

- Bartlett ISD
- Buckholts ISD
- Gause ISD
- Holland ISD
- Milano ISD
- Rogers ISD
- Thorndale ISD

Category	Bartlett ISD	Buckholts ISD	Gause ISD	Holland ISD	Milano ISD	Rogers ISD	Thorndale ISD	TOTAL PARCELS
Single Family Residential	124	208	247	5	313	21	673	1,591
Multi Family Residential	--	1	1	--	1	--	12	15
Mobile Homes	26	55	75	5	171	9	128	469
Vacant Lots	34	33	93	--	103	2	102	367
Agricultural	253	536	699	47	1,588	155	1,354	4,632
Commercial	11	42	34	--	78	4	103	272
Personal Property	6	19	17	--	48	4	97	191
TOTAL	454	894	1,166	57	2,302	195	2,469	7,537

The 2016 reappraisal will involve the inspection of approximately 7,500 property accounts in the reappraisal ISDs, based on 2014 totals. Additionally, District appraisers will inspect any real property accounts in the remaining ISDs that have permit activity.

District appraisers will also be responsible for inspecting and maintaining business personal property records, inspecting land designated for special agricultural valuation, and administering special inventory valuations.

This effort will be conducted beginning in August of 2015 to February 1, 2016. Field work and re-inspections will be substantially complete by February 1, 2016, allowing sufficient time for market area analysis and schedule updates from February 1 to April 1. The time period of April 1 to July 25, 2016 will be reserved for property owner protests. Milam Appraisal District has 800-1,200 property owner protests annually. Most are resolved informally with approximately 200 resulting in formal hearings before the Appraisal Review Board.

One appraiser will be responsible for inspection of city property, commercial property, and business personal property. The other two appraisers will re-inspect rural property.

Appraisal Responsibilities

Except as otherwise provided by the Property Tax Code, all taxable property is appraised at its “market value” as of January 1st. 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 is in a position to take advantage of the exigencies of the other.

The Property Tax Code defines special appraisal provisions for the valuation of residential homestead property (Section 23.23), productivity (Section 23.41), real property inventory (Section 23.12), dealer inventory (Section 23.121, 23.124, 23.1241, and 23.127), nominal (Section 23.18) or restricted use properties (Section 23.83) and allocation of interstate property (Section 23.03). The owner of inventory may elect to have the inventory appraised at its market value as of September 1st of the year preceding the tax year to which the appraisal applies by filing an application with the Chief Appraiser by July 31st.

The Texas Property Tax Code, under Section 25.18, which requires each appraisal office to implement a plan to update appraised values for real property at least once every three years. Minerals, utility, and industrial properties are appraised every year. The District’s current policy is to conduct a general market value review of all taxable property every year, with a re-inspection of specified ISDs each year on a three year rotating basis.

The appraised value of real estate is calculated using specific information about each property. Using computer-assisted mass appraisal (CAMA) 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. More specific information concerning the appraisal of property is found in the Milam Appraisal District Appraisal Manual and is incorporated by reference in this reappraisal plan.

Pilot Studies

Whenever new procedures are considered, it is prudent to conduct a pilot study of the new procedures, including a ratio study in one or two areas of a jurisdiction to ensure the new procedures produce accurate and reliable results prior to full implementation. A pilot study can be a useful tool in developing or modifying the new procedures or for determining the contemplated procedures do not work as anticipated.

Pilot Studies (continued)

Per IAAO standards, pilot studies are considered for major change in procedures. Milam Appraisal District anticipates changes that will require a pilot study in the 2015-2016 reappraisal cycle. The expected changes in procedure will be:

- to implement automatic depreciation
- to reclassify residential structures according to revised classification guide
- implement the use of mobile devices for field review.

These changes will be implemented in each market area in the year that market area is being re-inspected. For example, in 2015 Cameron ISD will be re-inspected and the residential structures will be reclassified.

Data Collection/Validation

Data collection and validation of taxable property involves maintaining accurate data characteristics of the property in the CAMA (Computer Assisted Mass Appraisal) system. The information contained in CAMA includes site characteristics, such as land size, topography, and soil type and improvement data, such as square foot of living area, year built, quality of construction, and condition.

The 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 an accurate and comprehensive physical description of the property appraised. Field appraisers are required to use uniform procedures and classifications to ensure the correct listing of property and uniformity of appraisals. The field appraisers' work is reviewed by records personnel to ensure accuracy and uniformity.

Data on individual properties is collected, compiled and analyzed. Buildings and other improvements are inspected, measured and classified. The appraiser estimates the effective age of improvements and determines the condition of the improvements. This data is used to compile depreciation (loss of value) tables and any notes pertaining to the improvements are made at this time.

Residential properties are classified for size and whether frame or brick veneer. The classifications are a numerical system, ranging from 2 (lowest) to 16 (highest). Two (2) being the most basic of structures using the poorest quality materials and lowest workmanship while sixteen (16) structure is of the highest possible quality using only the best of materials and the highest and best quality workmanship available.

Commercial properties are classified by type such as restaurant, office, shopping center, etc. and further defined by quality of construction, from poor to excellent. Business personal property is classified by standard industrial code.

Physical depreciation is calculated based on the effective age of improvements. Effective age is the age the property appears to be due to maintenance and upkeep. Effective age for a house that is properly maintained may be its actual or chronological age. However, if a structure suffers from deferred maintenance due to neglect, its effective age may be older than the actual age. Conversely, if a house is an older structure and has been remodeled or updated, its

Data Collection/Validation (continued)

effective age may be less than its actual age. Automated depreciation tables developed from Marshall & Swift will be implemented in 2015 on residential properties to ensure uniformity.

Appraisers also estimate the condition of the property. Condition ranges from poor to excellent. Appraisers in the field usually inspect structures from the exterior. Unless specific information is known to the appraiser, the interior condition is assumed to be similar to the exterior.

Foundation failure may occur in varying degrees and may also result in loss of value. Milam Appraisal District makes allowance for foundation problems on a case by case basis. Additional depreciation may be estimated for a variety of reasons including functional obsolescence resulting from bad floor plans, superadequacies, or out of date construction methods. Economic obsolescence results from a loss of value to a property due to adverse influences from outside the physical boundaries of the property. Examples of economic obsolescence may be proximity to a landfill, residences located near a railroad track, etc.

Sources of Data

The sources of data collection are through property inspection, building permits, sales validation, newspapers and publications, and property owner correspondence. A principal source of data comes from building permits received from taxing jurisdictions that require property owners to take out a building permit. Permits are received and matched manually with the property's tax account number for data entry. Sales data is acquired through sales questionnaires from buyers and sellers and from real estate agents and appraisers. Soil surveys and agricultural surveys of farming and ranching property owners and industry professionals are helpful for calculating productivity value. The Texas Railroad Commission is the source for mineral production data and leasing information. Improvement cost information is gathered from *Marshall & Swift Valuation Service*. Income information is gathered by interviewing lessees, lessors, property managers, tax representatives, income surveys, and by monitoring sales activity of income producing real property.

Cost Schedules

The Milam Appraisal District replacement cost and value schedules include land and residential improvements. Commercial and residential schedules are based on *Marshall & Swift Valuation Service* and personal property schedules are based on the Property Tax Assistance Division (PTAD) appraisal manual and *Marshall & Swift*. Personal property renditions provided by property owners are also used in the valuation of business personal property. *Marshall & Swift Valuation Service* is a national based cost manual and is recognized throughout the nation by the real estate industry. The Cost manual is based on cost per square foot and also the unit in place method. The unit in place method involves the estimated cost by using actual building components. This national based cost information service provides the base price of buildings as per classification with modifications for characteristics that either enhance or detract from value. The schedule is then modified for time and location. Schedules may also be modified by use of local data to further ensure the accuracy of the schedules.

Milam Appraisal District valuation schedules are divided into three main classifications: Residential, Commercial and Business Personal Property. These schedules are based on the most appropriate data available. Miscellaneous special categories such as special inventory,

Cost Schedules (continued)

restricted income apartments, and agricultural land are appraised using different techniques. Detailed information on the appraisal methods for the miscellaneous categories is included in the *Milam Appraisal District Appraisal Manual* and may be obtained upon request. Depreciation tables and schedules (loss of value schedules) are also included within these schedules. All schedules are reviewed at least once every three years.

Residential Schedules

Residential valuation schedules are cost based tables taken from *Marshall & Swift Valuation Service* adjusted to the local market. That is, the cost reflects actual replacement cost new of the subject property. Market research indicates that the common unit of comparison for new residential construction as well as sales of existing housing is the price paid per square foot. The value of extra items is based on their contributory value to the property. This value may be estimated by the price per square foot or a value of the item as a whole. This data is extracted from the market by paired sales analysis and conversations with local appraisers and brokers.

The residential schedules are based on the size, age and condition of structure, quality of construction, contributory value of amenities, and land value. Each of these variables has a direct impact on the cost of the property. The following is an example of each of the variables and how they may affect market value.

Quality of Construction – Residential construction may vary greatly in quality of construction. The type of construction affects the quality, the cost of material used, the quality of the workmanship, as well as the attention paid to detail. The cost and value of residential property will vary greatly depending on the quality of the construction. As stated above, Milam Appraisal District residential schedules currently class residential structures based on quality of construction from Low Cost to Excellent. This classification schedule is based on the *Marshall & Swift* definitions of residential classes of dwellings with modifications for local market.

Size of Structure – The size of a structure also has a direct impact on its cost as well as value. The larger the structure, the less the cost per square foot. Milam Appraisal District schedules are graduated in size increments. The Property Tax Assistance Division (PTAD) and *Marshall & Swift* also support this economy of scale analysis.

Condition of Improvements – Milam Appraisal District rates conditions from poor to excellent. Properties that in the opinion of the appraiser are unavailable may be given no value or salvage value.

Age of Structure – Milam Appraisal District residential depreciation schedules are based on *Marshall & Swift* and as stated above effective age and chronological age may be the same or different depending on the condition of the structure.

Amenities – As stated above, amenities are valued according to their contributory value to the whole. Examples of extra items include porches, decks, swimming pools, and tennis courts.

Residential Schedules (continued)

Land Value – Milam Appraisal District values land based on market transactions whenever possible. Specific land influences are used to adjust values for such factors as view, shape, size and topography. As there are not always market transactions available, other methods of land valuation may be used. The two most common methods are the land residual method and the land ratio method. We also use abstraction and allocation methods to ensure that the land values created best reflect the contributory market value of the land to the overall property value. Land schedules are available at the appraisal district office.

Commercial Schedules

Commercial properties are developed using *Marshall & Swift Valuation Service* schedules for commercial property. Replacement cost new is determined and then adjusted for location. Depreciation is then applied using physical observation of the property.

Commercial schedules are based on the property type, size, age and condition of structure, quality of construction, contributory value of amenities, and land value. Each of these variables has a direct impact on the cost of the property. The following is an example of each of the variables and how they may affect market value.

Personal Property Schedules

The Personal Property Schedules value business furniture, fixtures and equipment as well as inventory that is taxable by law.

Business personal property values are derived from several sources. Business owners are required by Texas Law to render their business personal property each year. It is the experience of the District that about 70% of business' render each year. Rendered values are used on business personal property if the value is reasonable for the type of business and is within acceptable ranges when compared to the Property Tax Assistance Division (PTAD) or *Marshall & Swift* personal property schedules for the type of business rendered. If the rendered value is not considered acceptable, Property Tax Assistance Division (PTAD) or *Marshall & Swift* schedules are used to estimate a value. Values on all business personal property not rendered are established using Property Tax Assistance Division (PTAD) or *Marshall & Swift* schedules for the type of business being valued. Depreciation is determined by the age of the property and its expected life. Schedules are available in the appraisal district office.

Business vehicles are valued based on *N.A.D.A. Used Car Guide and Commercial Truck Guide* wholesale value for the particular make, model and age of the vehicle. The appraisal district uses a report on CD obtained from JUST Texas, which lists commercial vehicles registered in Milam County on January 1 of each year. This report uses the vehicle information number to determine make, model and vehicle characteristics to determine *N.A.D.A.* value. The District also obtains a CD from the State of Texas that lists vehicles registered in Milam County, regardless of registration type (e.g. personal, farm, commercial). In addition, we use the motor vehicle inquiry service from the Texas Department of Motor Vehicles to verify ownership as of January 1, to view original cost data, and date of sale. These reports along with renditions and physical observations are used to discover and list vehicles that are taxable within the county.

Personal Property Schedules (continued)

When adverse factors such as high mileage are known, then the appropriate adjustments are made to value.

Income Values

Income values are developed for any property type where the highest and best use is typically as income producing property and sufficient income information is available to accurately value the property type via the income approach.

Milam Appraisal District appraisers obtain income and expense information on a variety of properties through field inspections, the equalization phase, and market surveys. The use of the income approach to value is particularly useful for properties in which sales data is scarce and the market indicates the property is likely to sell for its income producing capacity.

Highest and Best Use Analysis

The highest and best use of real estate is defined as the most reasonable and probable use of land that will generate the highest return to the property over a period of time. This use must be legal, physically possible, economically feasible and the most profitable of the potential uses. An appraiser's identification of the property's highest and best use is always a statement of opinion never a statement of fact.

In order to complete the highest and best use analysis of a property, an appraiser must estimate its highest and best use as if the land were vacant. This is the highest value the land could have if it were available for any legal, physically possible and economically feasible kind of development.

In determining highest and best use, preliminary judgments are made in the field by appraisers. Milam Appraisal District property records contain information regarding lot size and frontage, therefore, appraisers normally make judgments on possible use of sites in the field. Economically feasible and most profitable uses are determined by observing surrounding property. However, changes in property use require a more detailed and technical highest and best use analysis. These studies are usually performed in the office.

Beginning in 2010, a Constitutional amendment was ratified that overrides the concept of highest and best use in regards to properties receiving a residential homestead exemption. These properties now must be valued as residential property regardless of their highest and best use or true market value.

Sales

Sales data is gathered by sending sales letters to the buyers of properties that the District knows changed ownership. Sales are confirmed from the direct parties involved whenever possible. Confirmation of sales from local real estate appraisers is also considered a reliable source.

Sales data is compiled and the improved properties are physically inspected and photographed. All data listed on the property record is verified and updated as needed including building

Sales (continued)

classification, building size, additions or added out buildings, condition of structures and any type change in data or characteristics that would affect the value of the property.

Individual sales are analyzed to verify whether they meet the definition of market value per Texas Property Tax Code Section 1.04(7). Only arm's length transactions are used for mass appraisal purposes. Examples of reasons why sales may be deleted or not considered are:

1. Property acquired through foreclosures or auction, if the transaction does not meet the definition of market value in the Texas Property Tax Code.
2. Property sold between relatives.
3. The buyer or seller is under duress and may be compelled to sell or purchase.
4. Financing may be non-typical or below or above prevailing market rates.
5. Considerable improvements or remodeling have been done since the date of the sale and the appraiser is unable to make judgments on the property's condition at the time of the transaction.
6. Sales may be unusually high or low when compared with typical sales located in the market area due to a seller relocation or divorce proceedings.
7. The property is purchased through an estate sale.
8. The sale involves intangibles, such as goodwill.
9. There are value-related problems associated with the sale, e.g. incorrect land size or square footage of living area.
10. Property use changes occurring after the sale.

Under some of these conditions a sale may still be able to be adjusted and then used as an arm's length transaction. Milam Appraisal District will use an adjusted sales price only when it can be reliably adjusted. Examples are when a sale includes more than the fee simple estate and the appraiser can confidently remove the personal property that was included in the sale or can accurately measure the difference between the value of the fee simple estate and the interest conveyed in the sale (such as a leased fee estate). If a sales adjustment cannot be accurately and reliably measured, then no adjustment should be attempted, and the sale should not be considered.

The Milam Appraisal District monitors changes in price levels and, if necessary, adjusts sales prices for time. Sales are adjusted to the appraisal date of January 1. Time adjustment factors are developed in each school district in the county. Adjustment factors are developed by comparing per unit value changes over time.

Once a reliable time adjustment factor has been developed for a stratum it is used to adjust sales to the appraisal date. This factor is used when analyzing sales data for potential market adjustments that occur annually.

Market Analysis

Economic trends, national, regional and local trends affect the universe of property appraised in Milam County. An awareness of social, economic, governmental and environmental conditions is essential in understanding, analyzing and identifying local trends that affect the real estate market. Market analysis is performed throughout the year. Both general and specific data is collected and analyzed.

Examples of sources of general data include “*Trends*” issued by the Real Estate Center at Texas A&M University, “*The Appraiser*” published by the Texas Association of Appraisal Districts (TAAD), and “*Texas Assessor’s News*” published by the Texas Association of Assessing Officers (TAAO). When possible, local sources such as lending institutions and the Chamber of Commerce are used to obtain financing information, demographics and labor statistics.

Sales information is received from various sources. Asking prices are gathered from the realtor listings and conversations with local real estate appraisers, agents and brokers.

Milam Appraisal District tracks all deed transactions. From this information, sales letters are mailed to the buyer and seller to obtain information on the sale. Disclosure of this information is not mandatory in the State of Texas and only a small percentage of letters are returned with useful information. This presents a problem in that there is sometimes inadequate sales data to perform as thorough an analysis of sales data as *USPAP* would require. The Property Tax Assistance Division (PTAD) also sends out sales letters and that data is made available to Milam Appraisal District.

Statistical Analysis

Milam Appraisal District performs statistical analysis annually to confirm that values are equitable and consistent with the market. Ratio studies are conducted on all properties in the district to judge the two primary aspects of mass appraisal –accuracy and uniformity of value. Appraisal statistics of central tendency and dispersion generated from sales ratios are available for property within an ISD. These statistics include, but are not limited to, the weighted mean, standard deviation and coefficient of dispersion and provide the analysts an analytical tool by which to determine both the level and uniformity of appraised value in the district.

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

Ratio Study Standards

Sales ratio studies are used to evaluate the districts mass appraisal performance. These studies not only provide a measure of performance but also are an excellent means of improving mass appraisal performance. Milam Appraisal District used ratio studies not only to aid in the revaluation of properties, but also to verify the results of the Comptroller’s Property Tax Assistance Division (PTAD) annual property value study.

Ratio Study Standards (continued)

Sales ratio studies are usually performed monthly. At this time individual properties which have sold are reviewed for accuracy in their data. Property record cards indicating the results of the field inspections are used to further aid in the analysis and decision making.

Ratio studies are usually done on a countywide base of all sales in the county and then by market area. The median ratio within each is then compared to the desired ratio to determine if schedule adjustments should be made. The coefficient of dispersion (COD) is also studied to indicate how tight the ratios are in relation to measures of central tendency. The median and coefficient of dispersion are good indicators that identify statistically the results of the valuation process. Milam Appraisal District adheres to the following standards recommended by the IAAO *Standards on Ratio Studies*.

- A. Appraisal Level – The overall level of appraisal for the jurisdiction and each major stratum of properties should be within 10% of the legal standard – 100% of market value.
- B. Appraisal Uniformity –
 1. Uniformity amount Strata – The level of appraisal for each stratum should be within 5% of the overall level of appraisal for the jurisdiction.
 2. Single Family Residential Strata – CODs generally should be 15.0 or less and for areas of newer and fairly similar residences, 10.0 or less.
 3. Strata Composed of Income Producing Properties – CODs should be 15.0 or less for larger, urban jurisdiction and 20.0 or less in small rural jurisdictions.
 4. Vacant Land – CODs should be 20.0 or less.
 5. Other Strata – Target CODs should reflect the nature of the properties involved and the availability of reliable market indicators.

Residential Valuation Analysis

The residential appraisers are responsible for estimating equal and uniform market values for residential improved and vacant property.

Resources:

- **Personnel** – The residential appraisal staff consists of three (3) appraisers.
- **Data** – An individualized set of data characteristics for each residential dwelling and multiple family units in this district is collected in the field and data entered to the 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

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. Land tables are utilized to consistently value individual parcels 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, trees, easements, and topography. 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.

Area Analysis

Data on regional economic forces such as demographic patterns, regional factors, 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 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, TAAD, and TAAO classes and seminars approved by the Property Tax Assistance Division (PTAD) of the Comptroller's Office.

Neighborhood (Market Area) 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. 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 period relative to the date of appraisal. The Market Approach is the primary approach to estimate value based on actual sales. The Cost Approach is used for unique properties, where sales and rental information is scarce. The Income Approach is used whenever the highest and best use of the property is as income producing 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 grouping of properties where the property's physical, economic, governmental and social forces are generally similar and uniform. Once a neighborhood with similar characteristics has been identified, the next step is to define its boundaries. This process is known as "delineation". 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 usually it involves statistical separation or stratification based on attribute analysis.

Valuation Approach (continued)

Neighborhood (Market Area) Analysis (continued)

That is, a neighborhood is not necessarily a geographic grouping of properties. A neighborhood is often a statistical grouping of like properties.

Part of neighborhood analysis is the consideration of discernible patterns 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 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, rental, 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. 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 and statistical tests. Neighborhood delineation is further reviewed through profiling and sales ratio analysis to determine if further neighborhood delineation or combination is warranted.

All market areas in Milam County are reviewed at least annually. This review consists of reviewing the component properties that make up the market area and screening for outliers as well as reviewing sales ratio statistics to identify outliers or trends amount property types or groupings that may indicate a different level of appraisal for said type or group. An example is where a second phase of a subdivision may consist of larger homes than the first phase. These properties may sell at different levels. If the two groups of properties are combined, one group will be over-appraised, while the other group will be under-appraised. If such a trend is detected in a market area, then the two groups should be separated in order to appraise both at market value and equitably.

Market trends vary and can only be detected through careful analysis. Market trends include, but are not limited to, class of property, size of improvements, amenities, lot size, location within the market area, and other factors that may influence the market. Therefore, the Milam Appraisal District appraiser looks not only at the overall appraisal statistics for a market area, but also attempts to identify market trends by isolating property characteristics and outliers to verify the appraisal statistics and refine the market area.

Once the market area is properly refined, a final sales ratio for that neighborhood is conducted. When sales or income data demonstrate that current valuations need to be adjusted to achieve market value, all properties in the same neighborhood grouping are adjusted with the same adjustment factor.

Valuation Approach (continued)

Neighborhood (Market Area) Analysis (continued)

Neighborhood grouping is highly beneficial in sales comparison analysis. Neighborhood groups, or clustered subdivisions, increase the available market data by linking comparable properties outside a given subdivision. Sales ratio analysis is performed on a neighborhood basis. A complete list of market areas, including market adjustments, is maintained in the appraisal district's CAMA system and is reported upon completion in the Mass Appraisal Report.

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, the appraiser reviews the existing residential property use and makes a determination regarding highest and best use. 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.

Beginning in 2010, a Constitutional amendment was ratified that overrides the concept of highest and best use in regards to properties receiving a residential homestead exemption. These properties now must be valued as residential property regardless of their highest and best use or true market value.

Valuation and Statistical Analysis (Model Calibration)

Cost Schedules

All residential parcels in the district are valued with a replacement cost estimated from one set of cost schedules based on the improvement classification system on a cost per square foot basis. The district's residential cost schedules are estimated from *Marshall & Swift*, a nationally recognized cost estimator service. These cost estimates are compared with construction costs of new improvements and adjusted to reflect the local residential building market. The cost schedules are reviewed at least once every three years to ensure they reflect current costs.

Sales Information

Residential improved sales, vacant land sales, along with commercial improved and vacant land sales are maintained in sales database. Residential improved and vacant sales are collected from a variety of sources, including: district questionnaires sent to buyers, field discovery, protest hearings, the multiple listing service, builders, and realtors.

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

Valuation and Statistical Analysis (Model Calibration)

Sales Information (continued)

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, with regard to price, as indicated by sale prices for similar property within the current market.

Time adjustments are estimated based on comparative analysis using paired comparison of sold property. 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.

Statistical Analysis

Residential appraisers perform statistical analysis annually to evaluate whether estimated values are equitable and consistent with the market. Ratio studies are conducted on each residential neighborhood 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 by the median ratio, mean ratio, and weighted mean ratio for sales. The uniformity of appraised values is determined by the Coefficient of Dispersion (COD) and the Price Related Differential (PRD).

The appraiser, through the sales ratio analysis process, reviews every market area 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 makes the 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

Analysis of market sales to achieve an acceptable sale ration or level of appraisal also involves 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 local market influences that cannot be captured in a purely cost model.

The following equation denotes the hybrid model used:

$$MV = LV + (RCNLD * MA)$$

The estimated market value (MV) of the property equals the land value (LV) plus the replacement cost new of property improvements less accrued depreciation (RCNLD) multiplied by a market adjustment (MA) derived from sales analysis. 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

Valuation and Statistical Analysis [Model Calibration] (continued)

Market and Cost Reconciliation and Valuation (continued)

values may be needed to bring the level of appraisal to an acceptable standard as indicated by market sales.

The demand side is economic factors and influences, which may be observed from market activity. These market, or location adjustments, may be calculated and applied uniformly within neighborhoods based on market activity. 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 to total market value.

LV (land value) is estimated based on sales of similar lots. Equity is achieved by ensuring similar lots are valued similarly.

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. Essential to this hybrid cost-sales approach is accurate condition data, which can only be achieved through diligent field work.

When the appraiser reviews a market area, the appraiser reviews and evaluates a ratio study that compares recent sales prices of properties, appropriately adjusted for the effects of time, within a market area, 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 level of appraisal based on sold properties. If the level of appraisal for the neighborhood is less than or greater than 100%, adjustments to the entire area are made to reflect current market trends.

Therefore, based on analysis of recent sales located within a given area, estimated property values will reflect the market influences and conditions only for the specified area, thus producing more representative and supportable values. The estimated property values calculated are based on market indicated factors applied uniformly to all properties within an area. 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.

A complete list of market areas, including market adjustments, is maintained in the appraisal district's CAMA system and is reported upon completion in the Mass Appraisal Report.

Individual Value Review Procedures

Inspection

Appraisers are required to measure and classify every new improvement as well as perform field checks on all permit activity such as remodels and additions. Appraisers are also responsible for ensuring every parcel of real property is inspected at least once every three years. Appraisers ensure the accuracy of the data in the Computer Assisted Mass Appraisal (CAMA) system and review subjective items such as quality of construction, condition, and physical, functional and economic obsolescence, factors contributing to the market value of the

Individual Value Review Procedures (continued)

Inspection (continued)

property. During this review, the appraiser is able to visually inspect both sold properties and unsold properties for comparability and consistency of values.

Office Review

Once field review is completed and reviewed by quality control, the appraiser conducts a routine valuation review of all properties as outlined in the discussion of ratio studies and market analysis. Valuations reports comparing previous values against proposed and final values are generated for all residential improved and vacant properties. The percentage of value difference is noted for each property within an area, 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. Once the Chief Appraiser is satisfied with the level and uniformity of value for each area, the estimates of value are finalized.

Performance Tests

Sales Ratio Studies

The primary analytical tool used 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 to allow the Chief Appraiser to review general market trends, and provide an indication of market appreciation over a specified period of time.

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 (appraised value) of a qualified residence homestead will be the LESSER of:

- the market value; or
- the preceding year’s appraised value;
PLUS 10%;
PLUS the value of any improvements.

Assessed values of capped properties must be recomputed annually. If a capped property sells, the cap automatically expires as of January 1st of the year following sale of the property and the property is appraised at its full market value.

Commercial Valuation Analysis

Commercial property is appraised using the fee simple interest of properties according to statute and court decisions. However, the effect of easements, restrictions, encumbrances, leases, contracts or special assessments are considered on an individual basis.

Commercial Valuation Analysis (continued)

Resources:

- **Personnel** – The commercial appraisal staff consists of one (1) appraiser who is responsible for estimating the market value of commercial property. Capitol Appraisal Group performs the valuation of large, complex industrial properties.
- **Data** – Data used includes verified sales of vacant land and improved properties and the pertinent data obtained from each such as sales price levels, capitalization rates and income multipliers. Other data used by the appraisers include actual income and expense data, 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 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 real property. 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 cost approach, market approach, and income approach models.

Valuation Approach

Land Value

Commercial land is analyzed annually to compare appraised values with recent sales of land in the market area. If appraised values differ from sales prices being paid, adjustments are made to all land in that region. Generally, commercial property is appraised on a price per square foot basis with individual property characteristics such as size, corner influence, depth of site, shape of site, easements, traffic patterns, and other factors reflected in the valuation. The land is valued as though vacant at its highest and best use.

Highest and Best Use Analysis

The highest and best use is the most reasonable and probable use that generates the highest 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 improvement 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.

Valuation Approach (continued)

Highest and Best Use Analysis (continued)

Improved properties reflect a wide variety of highest and best uses which include, but are not limited to: office, retail, apartment, motel, warehouse, light industrial, or special 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 is derived.

Market Analysis

Current market analysis shows little or no reported sales. Current market activity is greatly diminished for commercial properties.

Data Collection/Validation

Data Collection Manuals

Data collection and documentation for Commercial property is continually updated, providing a uniform system of itemizing the multitude of components comprising improved properties. All properties are coded according to a specific classification system and the approaches to value are structured and calibrated based on this coding system.

Sales data is categorized by property use type and location, if available. If income data of a sold property is known, it is used in cap rate analysis.

Sources of Data

Milam Appraisal District receives a copy of the deeds recorded in Milam County. Deeds that convey commercially classed properties are entered into the sales information system and researched to obtain the pertinent sale information. Other sources of sale data include sales questionnaires, protest hearings, and regional and national real estate and financial publications.

Valuation Analysis

Cost Schedules

The cost approach to value is applied to improved real property utilizing *Marshall & Swift* software that is loaded in the CAMA system. Cost models within the *Marshall & Swift Valuation Service* indicate estimated hard or direct costs of various improvement types. Market areas are modified based on local information. Cost models are used to estimate the replacement cost new (RCN) of all commercial improvements.

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 (RCN) 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 are based on what is typical of each major class of commercial property by economic life categories. Estimates of accrued depreciation are calculated for improvements

Valuation Analysis (continued)

Cost Schedules (continued)

with a range of variable years expected life based on observed condition considering actual age. Depreciation estimates are based on what is typical of each major class of commercial property by economic life categories. Estimates of accrued depreciation are calculated for improvements with a range of variable years expected life based on observed condition considering actual age. Effective age estimates are based on the utility of the improvements relative to where the improvement lies on the scale of its total economic life and its competitive position in the marketplace.

Additional forms of depreciation such as external and/or functional obsolescence can be applied if observed. Functional depreciation is usually due to a specific condition deficiency, while economic depreciation is usually based on economic trends that affect the value of a property.

The result of estimating accrued depreciation and deducting that from the estimated replacement cost new (RCN) 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. With reliable 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.

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 the most reliable value indicator. The first step in the income approach pertains to the estimation of market rent. This is derived primarily from actual rent data furnished by property owners and lessees and from regional information obtained from various sources.

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

Next, a secondary income or service income is considered and, if applicable, calculated as a percentage of stabilized effective gross rent. Secondary income represents parking income, escalations, reimbursements, and other miscellaneous income generated by the operations of 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. Relevant expense ratios are developed for different types of commercial property based on use and market experience.

Valuation Analysis (continued)

Income Models (continued)

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 and overall capitalization rates. Each of these multipliers or capitalization rates are considered and used in specific applications. Rates and multipliers may vary between property types as well as by location, quality, condition, design, age, and other factors. Therefore, application of the various rates and multipliers must be based on a thorough analysis of the market for individual income property types and uses. 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.

Valuation Analysis (continued)

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. 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.

Statistical and Capitalization Analysis

Statistical analysis 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 median, mean, and 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 appraisers review 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 non-recoverables and 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, as well as with information from published sources and area property managers and owners.

Individual Value Review Procedures

Field Review

Field review of real property accounts is accomplished while business personal property is reviewed and inspected in the field. Additionally, the appraisers frequently field review subjective data items such as building class, quality of construction, condition, and physical,

Individual Value Review Procedures (continued)

Field Review (continued)

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.

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, and special factors affecting the property valuation such as new construction status, and a sales history, if any.

After preliminary ratio statistics have been calculated, if the ratio statistics are generally acceptable overall, the review process is focused primarily on locating skewed results 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.

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 are typically represented with the range of sale prices, e.g. a sales ratio study. Independent, expert appraisals may also be used to represent market values in a ratio study. This can be particularly useful for commercial property for which sales are limited.

Business Personal Property Valuation Analysis

Resources:

- **Personnel** – Business Personal Property is valued by the commercial appraiser.
- **Data** – Data used by business personal property appraiser includes business personal property renditions, published density schedules such as the Property Tax Assistance Division's field appraiser manual, valuation services, and market data publications.

SIC Code Analysis

Business personal property is classified and utilizes a four digit numeric code, called Standard Industrial Classification (SIC) codes that were developed by the Federal Government to describe property. These classifications will be used by Milam Appraisal District in 2015 to classify personal property by business types.

SIC code identification and delineation is the cornerstone of the personal property valuation system at the district. All of the personal property analysis work done in association with the

Business Personal Property Valuation Analysis (continued)

SIC Code Analysis (continued)

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

Personal property data collection procedures are published and distributed to all appraisers involved in the appraisal and valuation of personal property. These procedures consist of categorization standards and field review standards. Data is also obtained through annual renditions from business personal property owners.

Sources of Data

From year to year, reevaluation activities permit district appraisers to collect new data via field inspection. This results in the discovery of new businesses, changes in ownership, changes in assets, relocation of businesses, and closures of businesses not revealed through other sources. Assumed name certificates, sales tax permits, certificates of occupancy, tax assessors, city and local newspapers, and the public often provide the district information regarding new personal property and other useful facts related to property valuation.

An outside vendor provides Milam Appraisal District with a listing of vehicles within the jurisdiction. The vendor develops this listing from the Vehicle Registration records. Other sources of data include property owner renditions and field inspections.

Valuation and Statistical Analysis [model calibration]

Cost Schedules

Milam Appraisal District uses a cost analysis value system (CAVS) for cost schedules. The CAVS system uses cost information to develop a cost by property type. The appraiser can add or remove items and apply depreciation.

Depreciation Schedules

Milam Appraisal District'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 estimated from CAVS. The percent good depreciation factors used by Milam are based on Property Tax Assistance Division (PTAD) schedules.

Equalization Phase

Final equity studies are conducted prior to submission of the appraisal roll to the Appraisal Review Board, which begins the equalization phase. During equalization, informal and formal hearings are conducted. This is an opportunity to further refine the appraisal roll as appraisers learn more information about properties due to property owner appeals. Any information that will produce a more accurate appraisal roll, whether for individual properties or if applied to a group of similar properties, is to be applied prior to certification of the appraisal roll and used to improve the appraisal model in future years.

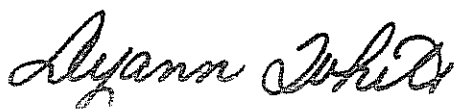
Final Performance Analysis

The Chief Appraiser reviews appraisal performance for the prior appraisal year by analyzing sales ratio reports, the Mass Appraisal Report, and the results of the latest Property Value Study. The objective is to continue improving performance.

Certification

I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this report are true and correct;
- the reported analyses, opinions and conclusions are limited by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions and conclusions;
- I have no present or prospective interest in the properties that are subject of this report and I have no personal interest or bias with respect to the parties involved;
- my compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the taxing jurisdiction, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event;
- the analyses, opinions and conclusions were developed and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP), the Texas Department of Licensing and Regulation (TDLR), and the International Association of Assessing Officers (IAAO);
- I have not made a personal inspection of the properties that are the subject of this report;
- this report was prepared with the assistance of the Milam Appraisal District appraisal staff.



Dyann White, RPA
Chief Appraiser

Compliance

In accordance with the Texas Property Tax Code Section 6.05(i):

The 2015-2016 PROPOSED Reappraisal Plan was included on the agenda for the regular board meeting held on June 19, 2014. The Board of Directors set the date, time and place for the public hearing. Not later than the 10th day before the date of the hearing, the secretary of the board will 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.

A public hearing was held on July 17, 2014 to consider the 2015-2016 Reappraisal Plan.

The 2015-2016 Reappraisal Plan was approved on July 17, 2014.

RESOLUTION NO. 10 OF 2014

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE MILAM APPRAISAL DISTRICT,
ADOPTING THE 2015-2016 REAPPRAISAL PLAN FOR MILAM APPRAISAL DISTRICT;
AND PROVIDING AN OPEN MEETINGS CLAUSE.

WHEREAS, Section 6.05 (j) of the Texas Property Tax Code requires the board to adopt its biennial reappraisal plan no later than September 15 of even-numbered years to ensure adherence with generally accepted appraisal practices; and

WHEREAS, change within the district creates the necessity to review and reappraise property more frequently than once every three years; and

WHEREAS, a reappraisal plan may only be adopted after the Board of Directors of the appraisal district holds a public hearing to consider a proposed plan; and

WHEREAS, the Board of Directors did conduct such a public hearing on July 17, 2014 to receive public comment regarding said plan; and

WHEREAS, an annual reappraisal and field review of taxable property located in the district is necessary to preserve uniformity and equality within the district; and

WHEREAS, the Board of Directors did conduct a public hearing on July 17, 2014 to consider a reappraisal plan for 2015 and 2016 and adopted the same at the close of that public hearing in an open meeting with a quorum present.

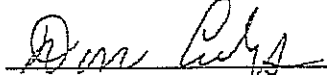
NOW, THEREFORE, BE IT RESOLVED that the Milam Appraisal District Board of Directors does hereby adopt the attached plan for the periodic reappraisal of property within its boundaries for the taxable years of 2015 and 2016.

PASSED AND APPROVED this the 17th day of July, A.D., 2014.

MILAM APPRAISAL DISTRICT BOARD OF DIRECTORS



Tim Arledge, Board Chair



Don Culp, Vice Chair



Jim Hodson, Member



Kolette Morgan, Ex-Officio Member

Not Present

Larry Patterson, Member



Travis Yoakum, Member