CALLAHAN CENTRAL APPRAISAL DISTRICT

REAPPRAISAL PLAN

2025-2026

Adopted by the Board of Directors: August 20, 2024

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Callahan Central Appraisal District
2025/2026 Reappraisal Plan

EXECUTIVE SUMMARY

The Callahan Central Appraisal District (CCAD) has prepared and published this reappraisal plan, as required by the Property Tax Code, to better inform our citizens and taxpayers about the district's responsibilities and activities. This plan is divided into several sections: a general introduction and several other sections describing the appraisal effort by the appraisal district.

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

The Appraisal District is accountable for the local property tax appraisal and exemption administration for 11 jurisdictions and taxing units in the county. Each taxing unit, such as the county, city, or school district, sets its tax rate to produce revenue to pay for such things as police and fire protection, public schools, road and street maintenance, courts, water and sewer systems, and other public services. Property appraisals and estimated values by the appraisal district designate the year's tax burden based on the taxable property's market value. Also, we determine the eligibility for various types of property tax exemptions such as those for homeowners, the elderly, disabled veterans, charitable or religious organizations, and agricultural productivity valuation.

All taxable property is appraised at its "market value" as of January 1st, except as otherwise provided by the Property Tax Code. 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 restriction on its use and
- Both the seller and buyer are looking 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 (Sec. 23.23), productivity (Sec. 23.41), Real property inventory (Sec. 23.12), dealer inventory (Sec. 23.121, 23.124, 23.1241 and 23.127), nominal (Sec. 23.16) or restricted use properties (Sec. 23.82) and allocation of interstate property (Sec. 23.03). The owner of real property inventory may elect to have the inventory appraised at its market value as of September

1st of the year proceeding the tax year to which the appraisal applies by filing an application with the chief appraiser requesting that the inventory be appraised as of September 1st.

The appraised value of real estate is calculated using specific information about each property. Using computer-assisted appraisal programs, recognized appraisal methods, and techniques, we compare that information with the data for similar properties and with recent market data analysis. The district follows the standards of the Property Tax Code regarding its appraisal practices and procedures and subscribes to the standards announced by the Appraisal Foundation, known as the Uniform Standards of Professional Appraisal Practice (USPAP), to the extent they are applicable. In cases where the appraisal district contracts for professional valuation services, the contract that each appraisal firm enters into requires adherence to similar professional standards.

The Written Plan

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

(i) To ensure adherence with generally accepted appraisal practices, the Board of Directors of an appraisal district shall develop biennially a written plan for the periodic reappraisal of all property within the boundaries of the district according to the requirements of Section 25.18. It shall hold a public hearing to consider the proposed plan. Not later than the 10th day before the date of the hearing, the secretary of the board shall deliver to the presiding officer of the governing body of each taxing unit participating in the district a written notice of the date, time, and place of the hearing. No later than September 15 of each even-numbered year, the board shall hold its hearings, make any amendments, and finally, by resolution, approve the plan. Copies of the approved plan shall be distributed to the presiding officer of the governing body of each taxing unit participating in the district and to the comptroller within 60 days of the approval date.

Plan for Periodic Appraisal

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

(a) Each appraisal office shall implement the plan for periodic reappraisal of Property approved by the Board of Directors under Section 6.05 (i).

(b) The plan shall provide for the following reappraisal activities for all real and personal property in the district at least once every three years:

(1) Identifying properties to be appraised through physical inspection or by other reliable means of identification, including deeds or other legal documentation, aerial photographs, land-based photographs, surveys, maps, and property sketches.

(2) Identifying and updating relevant characteristics of each property in the appraisal records.

(3) Defining market areas in the district.

(4) Identifying property characteristics that affect property value in each market area, including:

(A) The location and market area of the property.
(B) Physical attributes of property, such as size, age, and condition.
(C) Legal and economic attributes; and
(D) Easements, covenants, leases, reservations, contracts, declarations, special assessments, ordinances, or legal restrictions;

(5) Develop an appraisal model that reflects the relationship among property characteristics that affect the value in each market area and determine the contribution of individual property characteristics.

(6) Applying the conclusions reflected in the model to the characteristics of the properties being appraised; and

(7) Reviewing the appraisal results to determine value.

REVALUATION DECISION

The Callahan Central Appraisal District, by policy, adopted by the Chief Appraiser and the Board of Directors, reappraises all property in the district every year. This is done on a rotation basis, with a different region inspected in the field each year. The other two regions receive a statistical analysis. The CCAD, by policy, has established three regions: Region 1, Region 2, and Region 3. The tax year 2025 will be a reappraisal year for region 3. (See Attachment 2 – it defines each region, projects the year each region will be appraised, and a map showing the regions.)

Tax Year 2025

The tax year 2025 is a reappraisal year. Region 3 will receive a Field Inspection. All new construction will be picked up, and all adjustments in property characteristics that affect value will be applied for all property types and classes within the district.

Tax Year 2026

The tax year 2026 is a reappraisal year. Region 1 will receive a Field Inspection.
All new construction will be picked up, and all adjustments in property characteristics that affect value will be applied to all property types and classes within the district.

Performance Analysis

In tax years 2025 and 2026, the previous tax year's equalized values are analyzed with ratio studies to determine appraisal accuracy and uniformity overall and by market area within state property reporting categories. Ratio studies are conducted and comply with the current *Standard on Ratio Studies* from the International Association of Assessing Officers. Mean, median, and weighted mean ratios are calculated for properties in each reporting category to measure the level of appraisal (appraisal accuracy). The mean ratio is calculated in each market area to indicate the level of appraisal (appraisal accuracy) by property reporting category.

Staffing and budget requirements for the tax year 2025 analysis of available resources are detailed in the 2025 appraisal district budget, as adopted by the Board of Directors on August 20th, 2024. This reappraisal plan is adjusted to reflect the available staffing in the tax year 2025 and the anticipated staffing for the tax year 2026. Staffing will impact the cycle of real property re-inspection and personal property on-site review that can be accomplished in the 2025 – 2026 time period.

Existing appraisal practices, which are continued yearly, are identified, and methods utilized to keep these practices current are specified. Each year, real property appraisal depreciation tables and cost new tables are tested against verified sales data to ensure they represent the current

market data available. Personal property depreciation schedules are derived from Marshall and Swift.

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

Personnel Resources

The Office of the Chief Appraiser is primarily responsible for planning, organizing, staffing, coordinating, and controlling district operations. The functions of the administration are to plan, organize, and direct the business support functions related to human resources, budget, finance, record management, purchasing, fixed assets, facilities, and postal services. The department is also responsible for valuing all real and personal property accounts. The property types appraised include commercial, residential, business personal, minerals, utilities, and industrial. The district's appraisers are subject to the provisions of the Property Taxation Professional Certification Act and must be registered with the Texas Department of Licensing and Regulation. Support functions, including records maintenance, information and assistance to property owners, and hearings, are coordinated by personnel in the support services. The Appraisal District is located at 302 Chestnut St., Baird, TX.

The appraisal district staff consists of Eleven Employees:

- 1 Official Administrator (Executive level administration)
- 1 Supervisory Administrators
- 4 Administrative Support (professional, customer service, and clerical)

Staff Education and Training

All personnel performing appraisal work are registered with the Texas Department of Licensing and Regulation and are required to take appraisal courses to achieve the status of Registered Professional Appraiser within five years of employment as an appraiser. After they are awarded their certification, they must receive additional training of a minimum of 30 hours of continuing education units every two years. Failure to meet these minimum standards will result in termination of the employee.

The Chief Appraiser ensures on-the-job training is provided. He regularly meets with staff to introduce new procedures and monitors appraisal activity to ensure that personnel follow standardized appraisal procedures.

DATA

Field and office procedures are reviewed and revised as required for data collection. The district maintains approximately 21,650 real, personal property, and mineral accounts covering 899 square miles within Callahan 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 that is rotated by region. Sales are routinely validated in the new construction and data review field activities. General trends in employment, interest rates, new construction trends, and cost and market data are acquired through various sources, including internally generated questionnaires to the buyer and seller, university research centers, and market data centers and vendors.

The district has a nearly complete geographic information system (GIS) that maintains cadastral maps with various data layers and aerial photography (Pictometry).

REAPPRAISAL YEAR PROCESS

1. **Performance Analysis**—The equalized values from the previous tax year are analyzed with ratio studies to determine the appraisal accuracy and uniformity overall and by market area within property reporting categories. Ratio studies conducted comply with the current *Standard on Ratio Studies* of the International Association of Assessing Officers.

2. **Analysis of Available Resources** – staffing and budget requirements for the tax year 2025 are detailed in the 2025 budget, as adopted by the Board of Directors and attached to the written biennial plan by reference. Existing appraisal practices, which are continued from year to year, are identified, and methods utilized to keep these practices current are specified. Information Systems (IS) support is detailed with year-specific functions identified and systems upgrades scheduled. Existing map and data requirements and updates are identified and scheduled.

3. **Planning and Organization** – A calendar of key events with critical completion dates is prepared for each major work area. This identifies all the key appraisal, clerical, customer service, and information systems events. A calendar is prepared for tax years 2025 and 2026. Production standards for field activities are calculated and incorporated into the planning and scheduling process.

4. **Mass Appraisal System**—Required Computer-Assist Mass Appraisal (CAMA) system revisions are identified and scheduled with Information Systems. All computer forms and procedures are reviewed and revised when necessary.

5. **Data Collection Requirements** – field and office procedures are reviewed and revised as required for data collection. Activities scheduled for each tax year include new construction, demolition, remodeling, re-inspection of problematic market areas,

re-inspection of the universe of properties on an annual cycle, and field or office verification of sales data and property characteristics.

6. **Pilot study by tax year** – new or revised mass appraisal models are tested every tax year. Ratio studies by market area are conducted on proposed values each tax year. Proposed values on each category are tested for accuracy and reliability in randomly selected market areas using test and control groups.

7. **Valuation by tax year** – Using market analysis of comparable sales and locally tested cost data, valuation models are specified and calibrated in compliance with supplemental standards from the International Association of Assessing Officers and the Uniform Standards of Professional Appraisal Practice. The calculated values are tested for accuracy and uniformity using ratio studies.

8. **The Mass Appraisal Report** – each tax year, the property tax code requires a Mass Appraisal Report to be prepared and certified by the chief appraiser after the conclusion of the appraisal phase of the ad valorem tax calendar (on or about May 15th). The Mass Appraisal Report is completed in compliance with STANDARD RULE 6 – 8 of the *Uniform Standards of Professional Appraisal Practice.* The signed certification by the chief appraiser is compliant with STANDARD RULE 6 – 9 of *USPAP*. This written reappraisal plan is attached to the report by reference. The Report Date is the certification Date (on or about July 25th).

9. **Value defense**: The appraisal district specifies and tests the evidence to meet its burden of proof for market value and equity in informal settings and formal appraisal review board hearings.

This 9-step Reappraisal Process is taken directly from "Property Appraisal and Assessment Administration" The International Association of Assessing Officers.

INDIVIDUAL VALUE REVIEW PROCEDURES

Field Review

The date of the last inspection and the CAD appraiser responsible are listed on the CAMA record or property card. Suppose this data is protested by a property owner or jurisdiction by a telephone call or other correspondence received. In that case, the record may be corrected based on the evidence provided, or an on-site inspection may be conducted. Usually, a field inspection is requested to verify this information for the current year or the next year's valuation. Every year, a field review of real property in certain areas or neighborhoods in the jurisdiction is done during the data review/re-list field effort. Every year, a field review is performed on all personal property accounts with available status.

Office Review

Office reviews are completed on properties where updated information has been received from the property owner and is considered accurate and correct. Data mailers, sent in mass or at the request of the property owner, verify some property characteristics or current condition of the property. When the property data is verified in this way, and is considered correct and accurate, a field inspection may not be required. The personal property department mails property rendition forms in December of each year to assist in the annual review of the property.

PERFORMANCE TEST

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

PLANNING AND ORGANIZATION

A calendar of key events with critical completion dates is prepared for each major work area. This calendar identifies all key appraisal, clerical, customer service, and information systems events. A separate calendar is prepared for tax years 2025 and 2026. Production standards for field activities are calculated and incorporated into the planning and scheduling process.

2025 TAX YEAR CALENDAR KEY EVENTS

- August 1, 2024 -- February 26, 2025: Personal property appraiser conducts field inspection of properties.

- August 1, 2024 --- March 12, 2025: Appraisers will begin and complete field inspections of all real property.

- August 1 – January 31: Mobile home appraiser works through State reports on new and sold Mobile homes

- October 1, 2024 --- March 26, 2025: Commercial and residential appraisers modify cost schedules and depreciation tables to reflect current market conditions.

- October 1, 2024 --- March 26, 2025: Conduct and complete residential, rural, and commercial land valuation studies.

- January 1: Formal date of property values for the tax year 2025 (Sec 23.01). New property records added; reappraise due to added improvements, or other property value changes; correction of clerical errors in the appraisal records.

- January 1 through May 17, 2025: Receive and process property owner-submitted property renditions (Sec 22.23).

- January 1 – May 3, 2025: Receive and process applications for exemptions and special appraisal through March 31, 2023.

- January 2025: Personal Property Appraiser modifies personal property schedules for 2025.

- January—March 2025: Complete specifications of all valuation models.

- January—March 2025: Work commercial vehicle registration list.

- January—May 2025: Work personal property renditions.

- March 2025: Review and consider conclusions and recommendations of the district's Agricultural Advisory Board.

- August 3, 2024– March 15, 2025: Complete work of city permits and for the inspection of demolished or burned property for the tax year 2025.

- April 2025: Calculate Agricultural values based on local data. (5-year average)

- April 2025: Review exemption and special-use appraisal applications.

- March 2025: Test Valuation Models and complete final statistical analysis.

- April 1, 2025 or as soon thereafter; Mail written appraisal notices in compliancy with Section 25.19(g) of Property Tax Code.

- April 1, 2025 – May 31, 2025: Informal meetings with taxpayers or agents.

- June 1, 2025 – July 9, 2025: Formal protest hearings with ARB.

- July 15, 2025: Target date for the Chief Appraiser to present the appraisal records to the ARB for approval.

- July 20, 2025: Target date for, the Chief Appraiser to certify the appraisal roll to each of the taxing jurisdictions in Callahan County.

- July 2025: Integrate contractor's valuation for minerals and industrial personal property into the district CAMA computer system.

2026 TAX YEAR CALENDAR KEY EVENTS

- August 2, 2025 – February 28, 2026: Personal property appraiser conducts field inspection of properties.

- August 2, 2025 – March 15, 2026: Appraisers will begin and complete field inspections of all real property.

- August 1 – January 31: Mobile home appraiser works through State reports on new and sold Mobile homes

- October 1, 2025 – March 15, 2026: Commercial and residential appraisers modify adjustment factors applied to property cost schedules to reflect current market conditions.

- October 1, 2025 – March 15, 2026: Conduct and complete review of residential, rural and commercial land valuations.

- January 1: Formal date of property values for the year 2025 (Sec 23.01). New property records added; reappraisal due to added improvements, or other property value changes; correction of clerical errors in the appraisal records.

- January 1 – May 16, 2025: Receive and process property owners submitted property renditions (Sec 22.23).

- January 1 – May 2, 2025: Receive and process applications for exemptions and special appraisal through March 31, 2024.
- January 2025: BPP Appraiser calibrates personal property schedules for 2025.
- January – March 15, 2026: Complete calibration of all valuation models.
- January - May 2026: Work commercial vehicle registration list.
- January - May 2026: Work personal property renditions
- March 2026: Review and consider conclusions and recommendations of the district's Agricultural Advisory Board.
- August 2, 2025– March 15, 2026: Complete work of city permits and for the inspection of demolished or burned property for the tax year 2024.
- April 2026: Calculate Agricultural values based on local data. (5-year average)
- April 2026: Review exemption and special-use appraisal applications.
- April 2026: Test recalibrated valuation models and complete final statistical analysis.
- April 1, 2026 or as soon thereafter as possible; Mail written appraisal notices in compliancy with Section 25.19(a) of Property Tax Code.
- April 1, 2026 – May 31, 2026: Informal meetings with taxpayers and or agents.
- June 1, 2026 – July 8, 2026: Formal protest hearings with ARB.
- July 15, 2026: Tentative date for the Chief Appraiser to present the appraisal records to the ARB for approval.
- July 20, 2026: Tentative date for Chief Appraiser to certify the appraisal roll to each of the taxing jurisdictions in Callahan County.
- July 2026: Integrate contractor's valuation for minerals and industrial personal property into the district CAMA computer system.

MARKET AREAS OF CALLAHAN COUNTY

Residential Market Areas:

Callahan County has several different market areas.

The largest area is Clyde CISD. Within this area are several neighborhoods, which include Country Club Estates, Country Oaks, Legacy Township, Shalimar Castles and Arrowhead, Shallow Water, the small community of Oplin, and the City of Clyde.

The second market area includes Baird, Cisco, and Moran ISDs, the towns of Baird and Putnam, and the Saddle Ridge and Jones-Mosley subdivisions.

Cross Plains ISD is the third market area. The City of Cross Plans is the most significant part of this market, and it also contains the small community of Cottonwood.

Eula ISD is the fourth market area. This area has several subdivisions, including Abilene Executive Airpark, Eagle Cove, and Rainey Creek Estates. It is very active due to its proximity to Taylor County and the City of Abilene.

Rural Land Markets Areas:

The rural market area for Callahan County is countywide. There are three main market areas: 1) Clyde CISD and Eula ISD; 2) Baird, Cisco, and Moran ISDs; and 3) Cross Plains ISD. The CAD will conduct ratio studies to calculate measures of central tendencies for each market area when possible.

Commercial Market Areas:

The main commercial market area for Callahan County is the City of Clyde and the Western side of the county along Interstate 20. Smaller commercial areas are in Baird and Cross Plains. When possible, the CAD will conduct ratio studies to calculate measures of central tendencies for each market area.

Personal Property Areas:

Personal property market areas are generally local or regional in scope. These market areas include Clyde CISD, Baird ISD, Eula ISD, and Cross Plains ISD. When possible, the CAD will conduct ratio studies to calculate measures of central tendencies for each market area.

MASS APPRAISAL SYSTEMS

Computer-Assisted Mass Appraisal (CAMA) System revisions are specified and scheduled with Information Systems. All computer forms and IS procedures are reviewed and revised as required. The following details these procedures as they relate to the 2025 and 2026 tax years:

REAL PROPERTY VALUATION

Cost, income, and market model revisions are specified, updated, and tested each tax year.

Cost schedules are tested with market data (sales) to ensure the appraisal district complies with the Texas Property Tax Code, Section 23.011 (The Cost Method of Appraisal). Replacement costs and depreciation tables are tested for accuracy and uniformity using ratio study tools and compared with cost data from recognized industry leaders, such as Marshall & Swift Valuation Services, and local construction costs.

Land tables are updated using current market data, including sales and abstraction tools. Value modifiers are developed for property categories by market area and tested on a pilot basis with ratio study tools. Depth and size adjustments are reviewed, and factors are compared to market data within each market area.

The income models for various property classes include updated income, expense, and occupancy data. Cap rate studies are completed using current sales and market data, and the resulting models are tested using ratio study tools.

PERSONAL PROPERTY VALUATION

Renditions and hearing documentation data from the previous tax year are used to update Density/Quality schedules. Valuation procedures are reviewed, tested, and modified as needed.

Other types of commercial and industrial businesses are valued based on depreciated fixed assets and inventory valuation following Section 23.12 of the Property Tax Code.

MINERAL PROPERTY VALUATION

Producing oil and gas properties are valued yearly following Section 23.175 of the property tax code. The Callahan Central Appraisal District Board of Directors contracts with Morgan Ad Valorem. (See Attachment 2 - Oil & Gas Reserves 2025 – 2026 Appraisal Procedures and Reappraisal Plan)

NOTICING PROCESS

Section 25.19 Appraisal notice forms are reviewed and edited for updates and changes approved by appraisal district management. Updates include the latest copy of the Comptroller's *Taxpayer Remedies.*

HEARING PROCESS

Protest hearing scheduling for informal and formal Appraisal Review Board hearings is reviewed and updated as required. Standards of documentation are reviewed and amended as needed. The appraisal district hearing documentation is reviewed and updated to reflect the current valuation process. Production of documentation is tested and compliance with HB 201 is ensured. (HB 201 deals with protesting taxpayers' right to a postponement of an ARB hearing if the appraisal district fails to deliver to the taxpayer certain materials and information at least 14 days before the ARB protest hearing).

DATA COLLECTION REQUIREMENTS

Field and office procedures are reviewed and revised as required for data collection. Activities scheduled for each tax year include new construction, demolition, remodeling, re-inspection of problematic market areas, and re-inspection of the universe of properties on an annual cycle.

NEW CONSTRUCTION / DEMOLITION

New construction field and office review procedures are identified and revised as required. Field production standards are established, and monitoring procedures are tested. The source of building permits is confirmed, and system input procedures are identified. The process of verifying the demolition of improvements is specified.

REMODELING

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

RE-INSPECTION OF PROBLEMATIC MARKET AREAS

Real property market areas, by property classification, are examined for low or high protest volumes, low or high sales ratios, or high coefficient of dispersion. Market areas that fail any or all of these tests are determined to be problematic. Field reviews are scheduled to verify and correct property characteristic data. Additional sales data is researched and verified. When there

is inadequate market data, neighborhood delineation is verified, and neighborhood clusters are identified.

RE-INSPECTION OF THE UNIVERSE OF PROPERTIES

The International Association of Assessing Officers, *Standard on Mass Appraisal of Real Property*, specifies that the universe of properties should be re-inspected on a cycle of 4-6 years. The re-inspection may include the re-measurement of at least two sides of each improved property. Physical inspection is the most fundamental step in achieving reliable property valuations. **(USPAP) Uniform Standards of Professional Appraisal Practice does not require inspection for reappraisal. "Only that the characteristics of a property, relevant to an assignment be identified." Frequent physical inspections are nevertheless necessary to ensure that each property is appraised according to its conditions as of January 1.** Callahan Central Appraisal District will be on an annual physical inspection cycle for properties within the district on a rotating basis. The annual re-inspection requirements for tax years 2025 and 2026 are scheduled on the key events calendar.

FIELD OR OFFICE VERIFICATION OF SALES DATA AND PROPERTY CHARACTERISTICS

All three approaches to estimating market value depend on market information. Appraisal records must contain complete and accurate information about sales prices and conditions of properties within the district.

Sales information must be verified, and property characteristic data must be contemporaneous with the date of sale must be captured. The sale ratio tool requires that the property sold must equal the property appraised for statistical analysis results to be valid. The reliability of any valuation model or sales ratio study depends on the quantities and quality of its data. Three basic sales data sources are real estate transfer documents, buyers and sellers, and third parties. Callahan Central Appraisal District obtains sales information from deed filings, closing statements, buyer/seller questionnaires, and telephone and face-to-face interviews. Sales data is also provided by Western Valuation and from fee appraisers and real estate brokers. Necessary sales screening and verification of sales data is conducted by district staff, with the primary goal of obtaining an adequate sales database of valid sales, not just finding reasons to exclude sales.

PILOT STUDY

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

A pilot study helps to evaluate what to correct and how. Data is collected on representative sets of properties. Estimated values are assigned and then analyzed to determine which factors contribute to value. Certain factors or characteristics may not be vital to valuation but are maintained because they may be helpful in explaining values to taxpayers.

The pilot study, which includes a ratio study, will indicate whether a new system produces accurate and reliable values. A particularly effective technique for conducting a pilot study is to separate sales into test and control groups. Models are developed from the test group and then applied to the control group. Inherently unstable models will not perform well in the control group.

VALUATION BY TAX YEAR

Valuation by tax year, using market analysis of comparable sales and locally tested cost data, market area-specific income and expense data, and valuation models are specified and calibrated in compliance with the supplemental standards from the International Association of Assessing Officers and the *Uniform Standards of Professional Appraisal Practice*. The calculated values are tested for accuracy and uniformity using ratio studies. Performance standards used are those established by the *IAAO Standard on Ratio Studies*. Property values in all market areas are updated each reappraisal year. The tax year 2025 is a reappraisal year. The tax year 2026 is a reappraisal year.

MODEL DEVELOPMENT, CALIBRATION, AND TESTING

Property valuation models seek to explain the market value of properties from market data and sales. Models (schedules) are constructed to represent the operation of forces of supply and demand. These models have evolved from three broad theories of value: Cost, Market (sales comparison), and Income.

Model development requires good theory, data analysis, and research. Any developed model that accurately reflects the market will make the appraisal district's value defense burden much more credible. The best valuation models will be accurate, rational, and explainable.

Model building (development) requires two distinct steps: model specification (design based on appraisal theory and market analysis, supply and demand variables and their interrelationships) and model calibration (solving for unknown quantities in a model), such as construction cost, depreciation, sales price adjustments, or capitalization rates.

Qualitative and quantitative data are used in the mass appraisal models. Qualitative data (location, roof type, or heating and cooling systems) are analyzed to evaluate the relationship

between two variables. Quantitative data (the presence or the absence of a defining or specific feature) are based on measuring or counting (for example, the square feet of a structure). Model calibration is estimating the variables in a mass appraisal model.

Callahan Central Appraisal District uses simple calibration each year to adjust existing developed models. Simple calibration promotes consistency in results, and parcels can be recalibrated in mass. This is particularly effective when combined with ratio studies to monitor the level of appraisal by key property type.

Successful model development, calibration, and testing are contingent on various administrative and practice issues. One is the available budget and resources at hand. Another is the quality of existing data and recent appraisal performance. For Callahan Central Appraisal District, past and recent performance has been lacking but improving, as determined by the Property Value Study from the Comptrollers Property Tax Division. This makes an annual reappraisal cycle a much more practical course of action.

APPROACHES TO VALUE

As mentioned, there are three basic Approaches to value: Cost, Market (Sales Comparison), and Income. Not every approach is pertinent and useful for valuing all property types. For instance, the cost approach does not apply to vacant land, and the sales comparison approach is not useful in valuing a zoo or public library because of the lack of sales data.

Standard Rule, 6-1 of USPAP, requires "the mass appraiser to be aware of and correctly employ those recognized methods and techniques (approaches to value) necessary to produce a credible mass appraisal."

Standard Rule 6-8 (j): required under scope of work requirements, used in developing an appraisal, that the exclusion of the sales comparison approach, (market approach) cost approach, or income approach must be explained.

Section 23.01(b) of the Texas Property Tax Code states:
"The market value of a property shall be determined by using generally accepted appraisal methods and techniques. If the appraisal district determines the appraised value of a property using mass appraisal standards, the mass appraisal standards must comply with the Uniform Standards of Professional Appraisal Practice. The same or similar appraisal methods and techniques shall be used in appraising the same or similar kinds of property. However, each property shall be appraised based upon the individual characteristics that affect the property's market value."

Section 23.0101 states:
"In determining the market value of a property, the chief appraiser shall consider the cost, income, and market data comparison methods of appraisal and use the most appropriate method." Which one of the three methods is the most appropriate? Generally, it will depend on three factors: (1) Whether or not the necessary data is reasonably available for use of a particular approach, (2) Typical practice for appraising a particular property type, and (3) If the result by use of the approach would be meaningful.

Callahan Central Appraisal District typically uses one approach to value (method or technique) depending upon the property use or type. For consumptive use properties, such as single-family residences, the district uses a cost/hybrid model. This model is a sales market-adjusted model that is typical for appraisal districts that use mass appraisal. For appraising Investment-use properties such as apartments, hotels, or oil & gas properties, we typically use the Income Approach to value as it is a more reliable indicator of estimated current market value. When appraising productive use properties, such as manufacturing plants, we typically use a cost approach to value because it is the most reliable indicator of estimated current market value. In compliance with Section 23.01 of the Property Tax Code, Callahan Central Appraisal District is consistent in the "use of the same appraisal method for the same or similar kinds of property." In compliance with USPAP standards Rule 6-8 (j) the "Jurisdictional Exception Rule" is invoked due to the contrary requirement of this USPAP rule and the Texas Property Tax Code Section 23.0101 and the requirement that the chief appraiser use the most appropriate of these methods.

Using a specific approach to value during the appraisal phase of the tax calendar does not prevent the use of alternative or support alternative approaches during the equalization phase of the tax calendar (value defense).

Special use appraisals comply with the comptroller appraisal manuals for the appraisal of agricultural land, recreation, park, and scenic land, and dealer's special inventory manuals, and they are in compliance with the Texas Property Tax Code.

RESIDENTIAL REAL PROPERTY

Residential properties are physically inspected on a rotating basis. The field appraiser notes changes that have occurred and observes conditions, which are entered into account records. Permits for new activity and sales files on specific accounts can be referenced as needed.

Each appraiser is responsible for verifying and collecting accurate and reliable property data. Callahan CAD uses cost schedules to value residential parcels in the district. These cost schedules (models) are hybrid models called "Market-Adjusted Cost Hybrid" computer-assisted mass appraisal models. These hybrid models are the most predominately used by appraisal

districts in the state. Few districts use a pure RCN cost model (schedule) to value residential properties.

All residential property analysis work performed in association with the valuation process is neighborhood-specific. Each residential neighborhood is assigned to a group or cluster based on observed homogeneity with the market area.

Callahan CAD residential models consist of 36 MAIN CLASSES with class-defining features for each class listed in the district's Appraisal Operations Manual. Property-specific features are additives to the main class, such as attached/detached garages, covers, storage buildings, etc. Residential structures are classified according to the quality of construction, style and design, appeal, and presence of certain features. The age and condition of structures are adjusted based on real estate depreciation tables. These depreciation tables adjust for not only physical deterioration but also for market reactions to obsolescence. The real estate depreciation tables are called CDU percent good tables. CDU (condition, desirability, and usefulness) is the overall value change from a benchmark new property to reflect all loss of utility.

Annually, all residential cost schedules (models) are reviewed. Property data characteristics are compared against replacement costs from Marshall & Swift Valuation Services and sales ratios. Based on these statistics, a preliminary decision is made as to whether the value level within a class of residential properties or a value level within a specific neighborhood needs to be changed for the current appraisal year or if the values are at an acceptable existing level.

The district's Appraisal Operations Manual contains information on classification, adjustments, and other factors related to the residential schedules.

SPECIAL INVENTORY RESIDENTIAL PROPERTY

Section 23.12 of the Property Tax Code states: "The market value of an inventory is the price for which it would sell as a unit to a purchaser who would continue the business. An inventory shall include residential real property that has never been occupied as a residence and is held for sale in the ordinary course of a trade or business, provided that the residential real property remains unoccupied, is not leased or rented, and produces no income". The property tax code also requires the chief appraiser to "apply generally accepted appraisal techniques in computing the market value as defined" in Section 23.12.

Generally accepted appraisal techniques that have been approved by the courts support the Unit Method of valuation for residential inventory appraisal. The Unit Method compares parcels based on their size on a square foot basis with the values of similar parcels.

Callahan CAD values residential real estate inventory using the "Discounted Cash Flow" technique. The market value will be based on a discounted sale price per lot (January 1st of each tax year). The concept of the appraisal is to see how long it will take to absorb the inventory into the market based on actual sales and volume for the past year. Future sale prices must be

discounted back to the value of a dollar on January 1 of each year. The value discounted to January 1 value is developed by selecting a discount rate based on current interest rates or rates of return in our market area.

COMMERCIAL VALUATION PROCESS

INTRODUCTION

Appraisal Responsibility

This mass appraisal assignment includes all of the commercially classed real property that falls within the responsibility of the commercial valuation appraisers of the appraisal district and is located within the boundaries of the taxing jurisdiction. Commercial appraisers appraise the fee simple interest of properties according to statute. However, the effect of easements, restrictions, encumbrances, leases, contracts, or special assessments is considered individually, as is the appraisement of any non-exempt taxable fractional interests in real property. Fractional interest or partial holdings of real property are appraised in fee simple for the whole property and divided programmatically based on their prorated interests.

Appraisal Resources

> The improved real property appraisal responsibilities are categorized according to major property types: multi-family or apartment, office retail, warehouse, and special use (e.g., motels, hospitals, and nursing homes). Appraisers are assigned to improved commercial property types, and they are then assigned to the land valuation responsibilities.

Data- The data used by the appraiser includes verified sales of vacant land and improved properties and the pertinent data obtained from each (sales price levels, capitalization rates, income multipliers, equity dividends rates, marketing period, etc.). Other data includes income and expense data (typically obtained throughout the hearing process), contract rental data, leasing information (commissions, tenant finish, term lengths, etc.), and construction data. In addition to the actual data obtained from specific properties, market data publications are also reviewed to support market trends.

PRELIMINARY ANALYSIS

MARKET STUDY

Market studies are used to test new or existing procedures or valuation modifications in a certain area (sample properties) of the district and are considered whenever substantial changes are created. These studies target certain types of improved property to evaluate current market prices for rents and commercial and industrial real property sales. These comparable sales reveal whether the valuation system produces an accurate and reliable value estimate or whether economic or procedural modifications will be needed.

VALUATION APPROACH (MODEL SPECIFICATION)

Land Value

Commercial land is analyzed annually to compare appraised values with recent sales in the market area. If appraised values differ from sales prices, adjustments are made to all land in that region. Some factors placed on individual properties are corner influence, depth and shape of the site, easements across the site, and others. These may influence the value. The land is valued as though vacant at the highest and best use.

Area Analysis

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

Neighborhood Analysis

The neighborhood consists of the land area and commercially classed properties located within the boundaries of certain taxing jurisdictions. This area includes various property types, such as residential, commercial, and industrial. Analysis of a neighborhood involves examining how the physical, economic, governmental, and social forces and other influences affect property values. The effects of these forces are also utilized to identify, classify, and organize similar properties into smaller, manageable subsets of the universe of properties known as neighborhoods. In the mass appraisal of commercial properties, these subsets of a universe of properties are usually referred to as economic or market areas.

Economic areas are distinguished by the improved property use types (apartment, retail, office, warehouse, and special use) based on an analysis of similar economic or market forces. Included but not limited are similarities of rental rates, classification of projects (known as building class by area commercial market experts), date of construction, overall market activity, or other pertinent influences. Economic area identification and delineation by each major property use type in the benchmark of the commercial valuation system. All of the income model valuation is specific to the economic area.

Highest and Best Use Analysis

The highest and best use is the most logical probable use that produces the highest present value of the real estate as of the valuation date. Any given property's highest and best use must be physically possible, legally permissible, financially feasible, and maximally productive. For improved properties, the highest and best use is evaluated as improved and as if the site were still vacant. This aids in deciding if the existing improvements have a transitional use, interim use,

nonconforming use, multiple uses, speculative use, excess land, or different optimum use if the site were vacant. For vacant tracts of land within this jurisdiction, the best and highest use is speculative based on the surrounding land uses. Improved properties show a wide variety of highest and best uses, including office, retail, apartment, warehouse, light industrial, special purpose, or interim uses. In many instances, the property's current use is equivalent to its highest and best use. This analysis ensures that an accurate estimate of market value is derived.

Market Analysis

A market analysis concerns market forces affecting supply and demand. This study includes the relationship between social, economic, environmental, governmental, and site conditions. Current market value, including sales of commercial properties, new construction, new leases, lease rates, absorption rates, vacancies, allowable expenses, expense ratio trends, and capitalization rate studies, is observed.

Cost Schedules

The cost approach to value is applied to improved real property utilizing the comparative unit method. This methodology involves utilizing national cost data reporting services and actual cost information on comparable local properties whenever possible. Cost models are typically developed based on the Marshall Valuation Service, which indicates estimated hard or direct costs of various improvement types. Cost models include the derivation of replacement cost new (RCN) of all improvements represented within the district. These include property description, design, and types of improvement construction. This approach and analysis also employ the sales comparison approach in the evaluation of soft or indirect costs of construction. Evaluating market sales of newly developed improved property is essential to understanding the total replacement cost of improvements. What total costs may be involved in the development of the property as any portion of the cost attributed to entrepreneurial profit can only be revealed by market analysis of pricing acceptance levels. In addition, market-related land valuation for the underlying land value is essential in understanding and analyzing improved sales for all development costs and the abstraction of improvement costs for construction and development. Time and location modifiers are necessary to adjust cost data to reflect conditions in a specific market and cost changes over a period. Because a national cost service is used as a basis for the cost models, location modifiers and estimates of soft cost factors are necessary to adjust these base costs for various types of improvements in Callahan County. Local modifiers are additional factors applied to replacement costs estimated by the national cost service. As of the appraisal date, the estimated replacement cost will reflect all construction and development costs for various improvements located in Callahan CAD.

Accrued depreciation is the sum of all losses affecting the improvements' contributory value. It is the measured loss against replacement cost taken from all forms of physical deterioration and 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 implemented for what is typical of each major class of commercial property by economic life categories. Estimates of accrued depreciation have been calculated for improvements with a

range of variable years, with expected life based on observed conditions considering actual age. These estimates are continually tested to ensure they reflect current market conditions. The actual and effective age of improvements are noted in CAMA. Effective age estimates are based on the utility of the improvements relative to where the improvement lies on the scale of its total economic life and its competitive position in the marketplace. Effective age estimates are considered and reflected based on eight levels or rankings of observed conditions, given actual age.

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

Estimating accrued depreciation and deducting it from the estimated replacement cost 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 equals a property value by the cost approach. Given relevant cost estimates and market-related measures of accrued depreciation, the indicated value of the property by the cost approach becomes a very reliable valuation technique.

Income Models

The income approach to value is applied to those real properties, typically viewed by market participants as "income-producing," for which the income methodology is considered a leading value indicator. The first step in the income approach pertains to estimating market rent per unit. This is derived primarily from actual rent rates furnished by property owners, local market surveys conducted by the district, and information in area rent study reviews. This per-unit rental rate, multiplied by the number of units, estimates potential gross rent.

A vacancy and collection loss allowance are the next items to consider in the income approach. The projected vacancy and collection loss allowance is established from actual rates 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. The market-derived stabilized vacancy and collection loss allowance is subtracted from the potential gross rent estimate to indicate the estimated annual effective gross rent to the property.

Next, a secondary 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 real property operations. The secondary income estimate is derived from collected data and available market information. The secondary income estimate is then added to the effective gross rent to arrive at an effective gross income when applicable.

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

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

Return rates and income multipliers convert operating income expectations into an estimate of market value for the property under the income approach. These include income multipliers, overall capitalization rates, and discount rates. Each multiplier or return rate is considered and used in specific applications. Rates and multipliers may vary between property types and by location, quality, condition, design, age, and other factors. Therefore, applying the various rates and multipliers must be based on a thorough market analysis for individual income property types and uses. These procedures are supported and documented based on analyzing market sales for these property types.

Capitalization analysis is used in the income approach models to indicate 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 the 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 an excellent indication of property return expectations a specific market participant requires from an investment at a particular point in time. In addition, overall capitalization rates can be derived and estimated from the built-up method (band-of-investment). This method satisfies estimated market return requirements of a real estate investment's debt and equity positions. This information is obtained from available property sales, local lending sources, and 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 moves toward stabilized occupancy. The rent loss is calculated by multiplying the rental rate by the percentage difference between the property's stabilized and actual occupancy. Build-out allowances (for first-generation or retrofit/second-generation space as appropriate) and leasing expenses are added to the rent loss estimate. The total adjusted loss from this Real property operation is discounted using an acceptable risk rate. The discounted value (including rent loss due to extraordinary vacancy, build-out allowances, and leasing commissions) becomes the rent loss concession. It 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 every year the property's actual occupancy is less than stabilized.

Sales Comparison (Market) Approach

Although all three approaches to value are based on market data, the Sales Comparison Approach is most frequently referred to as the Market Approach. This approach estimates land value and compares sales of similarly improved properties to parcels on the appraisal roll. As previously discussed in the Data Collection / Validation section of the report, pertinent data from actual sales of properties, both vacant and improved, is pursued throughout the year to obtain relevant information that can be used in all valuation aspects. 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 a direct comparison in the sales comparison approach. Improved sales are also used in ratio studies, which afford the appraiser an excellent means of judging the present level and uniformity of the appraised values.

Final Valuation Schedules

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

Statistical and Capitalization Analysis

Statistical analysis of final values is an essential component of quality control. This methodology compares the final value against the standard and concisely measures the appraisal performance. Many standards are used for statistical comparisons, including sales of similar properties, the previous year's appraised value, audit trails, value change analysis, and sales ratio analysis.

Appraisal statistics of central tendency and dispersion generated from sales ratios are calculated for each property type with available sales data. These summary statistics (including, but not

limited to the weighted mean) provide the appraisers with an analytical tool to determine both the level and uniformity of the appraised value of a particular property type. The level of appraised values can be determined by the weighted mean for individual properties within a specific type, and a comparison of weighted means can reflect the general level of appraised value.

The appraisers annually review every commercial property type 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 the current reappraisal or whether the level of market value is at an acceptable level.

Potential gross rent estimates, occupancy levels, secondary income, allowable expenses (including non-recoverable and replacement reserves), net operating income, capitalization rate, and multiplies are continuously reviewed. Income model estimates, and conclusions are compared to actual information obtained on individual commercial and industrial income properties during the protest hearing process and information from published sources and area property managers and owners.

Model Calibration

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

INDUSTRIAL REAL PROPERTY

The CCAD Board of Directors contracts with Morgan Ad Valorem for all industrial, utility, and mineral accounts. (See Attachment Two)

VACANT REAL PROPERTY

Land Value Model

Vacant land, like any other economic good, has a market value based on the present worth of its future benefits. Vacant land has value because of its potential to produce rental income in the future. For commercial land, future benefits relate to expected rents less development, maintenance, and holding costs for residential land. Net income can be viewed as the annual value of residential use (an imputed rent) minus annual maintenance expenses.

The concept of location being a primary determinant of land value is generally known and easily understood. Location continues to play the primary role in land value determination, but modeling location's effects has become more complicated. Land values for physically similar sites can vary significantly between a few city blocks. Most urban areas contain many value influence centers, and their effect on land values is usually not linear.

Callahan CAD appraisal staff analyzes these patterns and builds them into land appraisal models (tables). Vacant land is then further analyzed and valued according to common units of comparison. For urban, platted areas, Callahan CAD develops square-foot urban land valuation tables. Rural land tables based on per-acre value are utilized for rural non-platted areas within the district.

Land sale prices are also expressed on the same unit comparison basis and stratified (sorted) according to location, variation in zoning, and probable use. Sorting criteria ensure that land values reflect market data for parcels with similar or competitive uses in the same market area.

Land Valuation Methods

The primary methods of land valuation are applications of the sales comparison approach to value. There are two principal applications of sales comparison in land valuation: the comparative unit method and the base lot method.

Callahan CAD uses both methods but typically utilizes the base lot method. The average or typical per-unit sale price is computed from similar-valued parcels and statistically centered per-unit values in the comparative unit method.

In the base lot method, the value of the standard or "base" parcel in each stratum is determined through sales comparison analysis, with the "base" lot serving as the subject parcel. The "base lot can be an actual or a hypothetical standard parcel. Once the base lot is established, it is used as a "benchmark" to establish values for individual parcels.

Site Adjustments

After establishing base lot values, the individual parcel values can be determined after applying any necessary site adjustments. Site adjustments recognize the characteristics of individual parcels, such as shape, size, and topography. They are further categorized by:
(1) Depth adjustments (2) size adjustments (3) irregular shape (4) corner influence (5) location or other adjustments. Depth factors are based on market analysis. Callahan CAD utilizes depth tables that generally follow the "4-3-2-1 rule". The first 25% of depth represents 40% of the parcel value, the second 25%, 30% of the parcel value, the third 25%, 20% of the parcel value, and the final 25%, 10%. Actual depth adjustments, however, must be supported by available market data. Adjustments are also made for "excess" land or oversized and undersized lots.

Triangular or irregularly shaped lots are also subject to adjustment due to lost utility for construction and general use, even if the irregular lot is the same size as a rectangular lot. Callahan CAD generally follows the "65-35" rule for valuing these irregular, triangular lots. The rule states that the value of a triangular lot with its base on the facing street is approximately 65% of the value of a rectangular lot of the same depth and size. Likewise, the value of an irregular lot, with its apex (point) on the facing street, will be 35% of the value of a rectangular lot of the same depth and size. The rule applies much more to commercial lots than to residential lots. Good appraisal judgment is always essential when using the "Rule of Thumb" method of adjusting for shape and depth.

Corner influence can be positive or negative depending mainly on the location and use to be made of the land. For commercial lots, visibility and accessibility can be a positive for corner lots. Corner influence on the valuation of residential lots is much less significant than for commercial lots. Callahan CAD recognizes the difficulties in adequately adjusting for corner influence for commercial parcels. Our approach to computing positive corner influence for commercial lots is to assign a 50% factor to rectangular corner lots with equal main and side street front footage. For other lots, a ratio of the main street front footage to the side street front footage is calculated, and the resulting factor is applied to the lot unit value.

Location and other adjustments based on parcel sales comparison analysis are determined from market data. Rural acreage land value tables are subject to size, shape, and location adjustments, similar to platted lots. Sufficient market data and sales analysis are essential for district staff to value and adjust rural acreage parcels reasonably.

IMPROVED LAND VALUATION

Estimating land value for improved properties in fully developed areas creates special appraisal problems for the district. Where no recent land sales data exists, comparable or competing land sales data must be used to value the improved land parcel, or alternate methods must be utilized. Section 25.02 of the Property Tax Code lists form and content requirements for district appraisal records. One such requirement is that the market value of the land and the market value of improvements on the land must be listed in the district's appraisal records. Valuation of the land is also a mandatory step under the cost approach to value.

Abstraction Method

Alternate methods must be employed when there is a lack of recent land sales, such as in a fully developed residential neighborhood. The most common method is the abstraction method, also known as the Land Residual Technique. This technique is not used to establish land values directly because inconsistencies in land values from parcel to parcel will generally result. Instead, land residuals are analyzed in the same way as vacant land sales in order to establish comparative unit or base lot values. Callahan CAD utilizes the Land Residual Technique in valuing site values as required by Section 25.02 of the Property Tax Code when fully developed neighborhoods or recent sales data is unavailable.

This method requires the appraisal district staff to isolate the value of improvements from the district's cost models and subtract that improvement component value from improved sales prices to yield a residual land value estimate. These calculated land residual values are used as a supplement or alternative to vacant land sales when applying these sales comparison approaches to value.

This method is generally more accurate for parcels with relatively new structures, for which replacement costs and depreciation are more easily estimated.

Allocation Method

Another recognized method for estimating land values for improved properties is the Allocation Method (the Land Ratio Technique). The theory behind this method is that for a given property type in a given area, there tends to be a consistent overall relationship between land and improvement values. When there are insufficient land sales in a given area, appraisal district staff can seek out comparable areas of improved sales and land sales, and by determining the ratio of land value to total property value, this ratio can be applied to sales of improved parcels or benchmark parcels in a subject area. As with the abstraction method, the allocation method is not used to establish land values directly. This method is beneficial in older neighborhoods. This method can be reasonably accurate if used cautiously and if improvement value estimates and sales are validated. Callahan CAD uses this method in residential property valuation in older, fully developed neighborhoods.

All districts, including Callahan CAD, predominantly use sales comparison and the various methods under comparison analysis to value improved sites and vacant lots. The Cost Approach to Value is inapplicable for land valuation. This is because land is irreplaceable and not subject to depreciation.

The Income approach to value has limited application in the valuation of land. If land is rented or leased separately from improvements, then a so-called “ground rent” can be capitalized into a value estimate. This income method most applies to commercial land on a net basis (lessee responsible for property taxes and all other expenses) and farmland. Capitalization rates used are based on market analysis. Callahan CAD utilizes this Income Method to value land in specific cases where land is leased out.

The discounted cash flow method is used to evaluate land placed into residential inventory and is more fully described in a previous section. Urban / rural footage and acreage land value tables are located in the district's Appraisal Operations Manual.

SPECIAL VALUATION PROPERTIES

Agricultural Use Properties

The Texas Constitution permits special agricultural appraisal on land used for farms and ranches if its owner meets specific requirements. Casual uses such as home vegetable gardens do not constitute qualified agricultural use.

Section 23.51 of the Property Tax Code sets the standards for determining whether land qualifies for agricultural appraisal. Section 23 Subchapter D deals with agricultural land appraisal's allowed uses and application process.

The Texas Property Tax Code mandates agricultural land classes. The district's chief appraiser may establish additional categories. In Callahan County, four agricultural land use valuation classes are maintained: Dry Crop, Improved Pasture, Regular Native Pasture, Pecan, and Fruit Orchard.

All agricultural lands in the county are carried at their current market value. However, agricultural productivity appraisal allows qualified agricultural use land to be valued at its productivity value for property tax assessment purposes. Agricultural appraisal lowers the taxable value of the land. The productive capacity of agricultural property is based on a "Net to Land" calculation, which is the average annual net income that a class of land would likely generate over a five-year base period. The law requires the district appraisers to use the "cash" or "share" lease method to determine the "net to land". In a cash lease, rent is a fixed amount. In a share lease, rent is a share of gross receipts for a year, less a share of certain expenses. Each year, the Comptroller of Public Accounts publishes an agriculture cap rate for appraisal districts to use in their net-to-land capitalization of value. For 2024, Callahan CAD used a 10.6% capitalization rate to appraise all classes of qualified agricultural productivity use lands.

Wildlife Management Use

Section 23.521 of the Texas Property Tax Code allows qualified land used for wildlife management purposes to be subject to productive use valuation, as is qualified open space land (nature pasture). Qualified active use for wildlife management purposes includes propagating a sustained breeding, migrating, or wintering population of indigenous wild animals for human use, including food, medicine, or recreation.

Wildlife management land must previously have qualified as open-space land for other purposes. At the time of application for appraisal for wildlife management use, the property must have been appraised as qualified open-space land.

Appraisal of Restricted Land
(Recreational, Park & Scenic Use)

Section 23.83 of The Property Tax Code provides for special appraisal of certain types of use-restricted land. To qualify for special appraisal, restricted use land must be primarily devoted to recreation, park, or scenic use for the preceding year and deed restricted for a minimum of 10 years. It must be at least 5 acres in size and cannot accrue a profit. In determining the value of qualified land so restricted, the chief appraiser may not consider any factor other than the one relating to the value of the land as restricted.

The Property Tax Division publishes "Guidelines" for Recreational, Park, and Scenic Land Appraisal. Two primary valuation methods for restricted land are applicable to land appraised under section 23.83.

The first method is the sales comparison method. The sale of similarly restricted-use parcels can help establish value for the subject parcel. Only restricted-use lands can be compared.

The second method is called "The Reversionary Interest Technique." The current market value of the land would be the current use value as restricted or the value of the reversion to a non-restricted use. The current value of a reversion is estimated by projecting the future value for which the property may be sold after the restriction is removed and discounting that value back to its present worth based on an appropriated discount rate. This procedure attempts to measure the present value of a future sum.

SPECIAL INVENTORY

In Texas, income-producing business personal property (BPP) is subject to ad valorem appraisal and assessment. This includes the firm's fixed assets (use items) and inventories (suitable for sale).

Section 23.12 Inventory of the Property Tax Code generally states, "the market value of an inventory is the price for which it would sell as a unit to a purchaser who would continue the business."

The exceptions to this rule are special inventories, motor vehicles, boats & motors, heavy equipment, and manufactured housing. Texas Law requires that these four types of dealers' inventory value each year be based on the total sales of motor vehicles in the prior year. Monthly sales are reported, and ad valorem taxes are deposited with the district office throughout the year. Appraisal values based on a monthly sales average from the prior year are set for January 1 of the current year and paid by escrow from monthly deposits.

The Jurisdictional Exception Rule in USPAP applies to special inventory valuation due to the conflict with Standard Rule 7-1 of the Uniform Standards of Professional Appraisal Practice.

BUSINESS TANGIBLE PERSONAL PROPERTY

The district appraisers are responsible for developing fair and uniform market values for business personal property located within the district. Four personal property types are appraised by personal property appraisers: Business Personal Property accounts, Leased Assets, Special Inventory, and Multi-Location Assets (allocated). There are approximately 800 business personal property accounts located in Callahan County. The district reappraises all income producing business personal property annually.

Procedure for Collecting Validating Data

A common set of data characteristics for each personal property account in Callahan County is collected in the field, and the data is entered into the computer.

VALUATION AND STATISTICAL ANALYSIS (model calibration)

Cost Schedules

The cost schedules are developed by analyzing data from property owner renditions, hearings, state schedules, and published cost guides. They are reviewed as necessary to conform to changing market conditions. The schedules are typically in a price-per-square-foot format, but some exceptions are in an alternate price-per-unit format, such as per room for hotels.

Statistical Analysis

Summary statistics, including, but not limited to, the median weighted mean and standard deviation, provide appraisers with an analytical tool for determining the level and uniformity of appraised value.

Highest and Best Use Analysis

The highest and best use of the property is the reasonable and probable use that supports the highest income and the highest present value as of the appraisal date. 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 usually its current use.

DATA COLLECTION

Data Collection Procedures

The appraisal data collection procedures are reviewed and revised to meet the changing requirements of field data collection.

Sources of Data

Business Personal Property

The district's property characteristic data was collected through a massive field data collection effort coordinated by the district over the recent past and from property owner's renditions. Year-to-year reevaluation activities permit district appraisers to collect new data via an annual field inspection. This project results in the discovery of new businesses, relocation of industries, and closures of companies irrelevant through other sources. Tax assessors, city and local newspapers, telephone books, and the public often provide the district information regarding new personal property and other valuable facts related to property valuation.

Vehicles

An outside vendor provides vehicle value estimates based on published book values from the Red Book. Considerations are also available for high mileage. Vehicles not valued by the vendor are valued by an appraiser using PVF schedules or published guides.

Leased and Multi-Location Assets

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

VALUATION AND STATISTICAL ANALYSIS

Cost Schedules

Depreciation Schedule and Trending Factors:

Business Personal Property

Callahan CAD's primary approach to valuing business personal property is the cost approach. The RCN is developed from property owner-reported historical cost or CAD-developed valuation models. The trending factors the CAD uses to develop RCN are based on published valuation guides. The percent good depreciation factors Callahan CAD uses are also based on

published valuation guides. The index factors and percent good depreciation factors are used to develop present value factors (PVF) by year of acquisition, as follows:

PVF= INDEX FACTOR x PERCENT GOOD FACTOR

The cost approach uses the PVF as an "express" calculation. The PVF is applied to report historical costs as follows:

MARKET VALUE = PVF x HISTORICAL COST

This mass appraisal PVF schedule ensures that estimated values are uniform and consistent within the market and reflect current supply and demand economic pressures.

Office Review

Business Personal Property

A district valuation computer program in a mainframe environment identifies accounts needing review based on various conditions. Property owner renditions, accounts with filed or other data changes, prior hearings, new accounts, and SIC cost table changes are all considered. The valuation program processes the accounts and passes or fails present tolerance parameters by comparing appraised values to the prior year and model values. The appraisers review accounts that fail the tolerance parameters.

PERFORMANCE TESTS

Ratio Studies

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

INDUSTRIAL TANGIBLE PERSONAL PROPERTY

The CCAD Board of Directors contracts with Morgan Ad Valorem for all industrial, utility, and mineral accounts. (See Attachment One)

THE MASS APRRAISAL REPORT

Each tax year, the required Mass Appraisal Report is prepared by the chief appraiser after the appraisal phase of the ad valorem tax calendar (on or about May 15th). The Mass Appraisal Report is completed in compliance with STANDARD RULE 6-8 of the *Uniform Standards of Professional Appraisal Practice*. The signed certification by the chief appraiser is compliant with STANDARD RULE 6-9 of *USPAP*. This written reappraisal plan is attached to the Mass Appraisal Report by reference.

VALUE DEFENSE

The Texas Constitution sets out 5 Rules for Property Tax in the State. The first rule requires that taxation must be equal and uniform. The second rule requires that property be taxed at current market value. These two rules are the most critical requirements for county appraisal districts of the entire Texas Property Tax Code.

Callahan CAD is burdened to establish the value of properties within the district.
That burden applies to market values (appraisal level) and to equal and uniform values (appraisal equity).

The Property Tax Code permits a property owner to protest any determination made by the appraisal district, the chief appraiser, or the ARB that applies to and adversely affects the property owner. Of the numerous grounds for protest listed in the Property Tax Code, the two most commonly filed protests deal with value over market and unequal appraisal.

Callahan CAD encourages property owners to meet with district appraisal staff to resolve disputes in an informal setting before a formal ARB hearing. Sometimes, a mutually agreeable solution to an owner's protest at these informal meetings results in a settlement, and the property owner waives any further right to a formal protest before the Appraisal Review Board.

Chapter 41 of the Property Tax Code deals with a property owner's right to a formal Appraisal Review Board (ARB) hearing. The appraisal district also has information delivery requirements concerning ARB protests.

Value Defense is part of the equalization phase of the Tax Calendar. In Formal Hearings, both mass appraisal and single property appraisal methods can be introduced. Mass Appraisal and single property appraisal are systematic methods for estimating value. They differ only in scope. Mass appraisal models have more terms because they attempt to replicate the market for one or more land uses across a wide geographic area. On the other hand, single property models represent the market for one kind of land use in a limited area.

Quality is measured differently in mass appraisal than in single property appraisal. The quality of a single property appraisal is measured against a small number of comparable sold properties.

The quality of mass appraisals is measured with statistics developed from a sample of sales in the entire area appraised by the model.

Callahan CAD will use mass appraisal statistics and district sales comparisons of a select few comparable to single property appraisals during formal appraisal review board hearings. Of the 3 Approaches to Value, Cost, Market, and Income, the district will use not only the particular approach that the mass appraisal model is built on for a particular type of property but the district will also present alternative approaches, methods, or techniques.

STAFF PROVIDING SIGNIFICANT
MASS APPRAISAL ASSISTANCE

Mathew Walker	CAD Chief Appraiser
Carla Brow	CAD Deputy Appraiser
Phillip Rodriguez	CAD Class III Appraiser
Sterling Johnson	CAD Class II Appraiser
Renee Mendez	CAD Clerical
Carrie Whitecotton	CAD Clerical
Justin Cost	WVC Contract Appraiser
Brad Beam	WVC Contract Appraiser
Richard Petree	WVC Contract Appraiser

Certification Statement:

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

_____

Mathew Walker-RPA, CCA
Chief Appraiser

CALLAHAN CENTRAL APPRAISAL DISTRICT

REAPPRAISAL PLAN

(Attachment One – Morgan Ad Valorem)

Callahan County Appraisal District
Oil and Gas Reserves
2025-26 Appraisal Procedures and Reappraisal Plan

August 20, 2024

MORGAN AD VALOREM SERVICES, INC.
PO Box 8938
Amarillo, TX 79114-8938
806/358-8186

Appraisers:	*TDLR #*
James R. Morgan, Chief Executive Officer, Appraiser	*69494*
Mike G. Brenner, Appraiser	*69493*

MAVSI appraises all Mineral, Utility, Industrial, and Complex Properties.

Contents:

Properties covered by this procedures document:

1. Category L properties. Described Personal Properties.
a. L1— Commercial Personal Property
b. L2 — Industrial Personal Property

2. Category J Properties. Described as
a. J1 — Water distribution systems
b. J2 — Gas Distribution Systems
c. J3 — Electric Companies (Including Co-op's)
d. J4 — Telephone Companies (Including Co-ops)
e. J5 — Railroad personal property (non-rolling Stock)
f. J6 — Pipeline Companies
g. J7 — Cable Television companies
h. J8 — Other Types of Personal Property (Includes Compressors & communication towers

not otherwise defined as J4)

The appraisal district assigns the properties appraised by MAVSI and may include all, some, or none of the categories mentioned above.

Overview of Appraisal conditions:

The conditions under which these appraisals are performed are according to the scope of work of the company's contracted appraisal services. The appraisals consistently comply with the Uniform Standards of Professional Appraisal Practice guidelines. The purpose of the appraisals is to establish market value as of January 1st of the given appraisal year for property tax purposes except for inventory if the September 1st inventory allowed by section 23.12(f) of the Property Tax Code has been requested and granted. The market value is defined as the price for which a property would transfer in cash or its equivalent under prevailing market conditions if:

1. Exposed for sale on the open market for a reasonable amount of time;
2. Both the seller and purchaser know all of the uses and purposes for which the property may be used and its enforceable restrictions thereof;
3. The seller and purchaser seek to maximize their gains, and neither can take advantage of the other.

The results of the appraisals are to be used to set the taxing jurisdictions' taxable base for the tax year of the given appraisal. Appraisals are performed in accordance to section 25.06 of the Property tax code in exception to Standards rule 6 of USPAP. A list of properties appraised by MAVSI may be obtained from the Appraisal District Office.

Assumptions & Limiting Conditions:

1. Title to the property is assumed correct.
2. Legal description is assumed correct as on the title.
3. All properties appraised as though free and clear of any legal encumbrances.
4. Property is assumed to be operated in a prudent manner.
5. Not every property is inspected each year.
6. The appraisals are prepared for Ad Valorem Tax purposes only.
7. All information obtained from the property owner is assumed true and correct unless noted otherwise.

Discovery of New Property:

MAVSI attempts to locate and identify new property covered by the categories described above utilizing the following methods:

1. Sales tax information
2. Physical drive outs of areas prone to have new properties

3. Aerial photo comparisons where available
4. Newspaper and other media which may lead to discovery of new businesses or properties
5. Review any Deed records or transactions that may be relevant to the property types
6. Renditions from property owners
7. Information from other government agencies that we are able to obtain to show properties with new licenses, permits, etc...

Schedule Development and Valuation Approaches:

MAVSI's Valuation approach relies heavily on the cost approach to value as this is the most readily available and reliable information available to our appraisers. If information is available and sufficient for use for the Market or Income approach, this data is also considered; however, the Cost approach is always considered and used unless otherwise indicated. Schedules are developed each year by MAVSI using industry standard publications and data. MAVSI subscribes to various publications providing various variable data allowing for the development of indexes, depreciation, and original cost schedules to be used in the appraisal of personal property. This data along with the expertise and experience of our appraisers are then used to develop the various schedules. Copies of schedules used are given to the various appraisal districts for which MAVSI appraises the defined property types for, and can be obtained by taxpayers upon request. MAVSI uses various publications to assist in developing our schedules, among these being Marshall and Swift Valuation Guide and Handy Whitman index guidelines.

For the typical Cost approach method, Value =

Replacement cost new
Less depreciation (Physical and all other)
Less functional obsolescence (if indicated)
Less Economic Obsolescence (if indicated)

For the typical Income Approach, we determine Net Operating income =

Potential gross rent (income)
Less Income loss (loss of income due to vacancy or collections)
Less Expenses (fixed and variable)
Divided by Discount rate for the property type

For a typical Market Approach, we determine market value =

Sales price per unit (adjusted accordingly to subject property)
Divided by the Unit of Comparison
Multiplied by subject property number of units of comparison

The appraiser may consider all three approaches, but should choose the one that the best results in an appraisal that suits the characteristics of the property being appraised.
Land valuation is not done by MAVSI, and is removed from any valuation done by us.

Reappraisal Plan:

Unless otherwise defined or required by the Appraisal District, reappraisal of the property types defined herein and contracted to be appraised by MAVSI is done every year. Each year stands on its own as a new reappraisal cycle.

Identifying upgrades, changes, or improvements to existing properties:

Each year MAVSI attempts to identify any upgrades, changes, or improvements to the herein defined property types. There are various ways of attempting to identify these changes, and MAVSI attempts to use as many of the methods on each property as possible depending on the property type, location, accessibility, etc... The various methods we attempt to use are:

1. Performing a physical site visit to the property on a yearly basis when possible and feasible. This can include an actual tour of the property or just a physical stop at the facility to visually inspect the property.

    a. Take pictures each year of the subject property when possible and compare each year.
    b. Note any CWIP (Construction Work in Progress) visually identified during visits.
    c. Speak with Appraisal District personnel to determine if any of their staff has noted any construction or improvements from one year to the next. Also verify if any building permits or other construction type permits have been filed.
    d. Make sketches of property when feasible.

Contacting the owner verbally and discussing the property each year.
Compare rendition information from one year to the next.
When available, use aerial photographs of properties for comparison.

First Year Procedures:

When a property is placed on the roll for the first time, MAVSI attempts to perform all the following steps to properly place the property on the Appraisal roll.

1. Identify the property as new.
2. Identify the situs of the property.
3. Identify the ownership of the property.
4. Identify the type of the property.
5. Appraise the property.
6. Place the property on the Appraisal Roll.

Uniformity:

MAVSI being a smaller company is able to more closely work together as a staff to verify that we are looking at the various properties in a uniform manner. MAVSI staff annually review each and every property that we appraise, and will often pull the files on several like properties and sit down and compare the appraisals for uniformity in content, and appraisal methods. Onsite inspections are performed on random properties to verify the condition and accuracy of the appraisal. Market sales occur infrequently, and the sales information is difficult to obtain making the analysis using market sales difficult. The Texas State Comptroller's office

(Property Tax Division) also performs a yearly sample and review of these types of properties to ensure the validity of the models and techniques employed.

APPRAISAL OF OIL AND GAS RESERVES
MORGAN AD VALOREM SERVICES INC.

SUMMARY

Various County Appraisal Districts employ Morgan Ad Valorem to appraise all remaining economic serves associated with producing mineral interests within the county borders. Using production and pricing data obtained through state records as well as input from the operating companies, Morgan Ad Valorem produces a market value (Defined in Sec. 1.04 of the Texas Property Tax Code) for the reserves as of January 1st of each year. These market values are turned over to the appraisal districts, who will then use them as part of the tax base in order to levy property taxes. All mineral interest is listed separately on the appraisal roll by mineral owner in accordance to Sec. 25.12 of the Texas Property Tax Code.

CONDITIONS THAT AFFECT THE APPRAISAL

There are certain conditions that guide the overall conduct of the appraisal. They are as listed: (1) it is assumed that the lease is operated in a competent and prudent manner by the operator. (2) Legal matters affecting the owner of a mineral interest do not come into play in the development of the appraisal. (3) Unless an error can be detected, all data used in the appraisal is assumed to be truthful and correct, and (4) the appraisals are used for ad valorem tax purposes only.

BASIC ELEMENTS REQUIRED FOR THE APPRAISAL OF OIL AND GAS RESERVES

The five elements of data needed for oil and gas appraisal are as follows:

1. The average daily start rate for the production.
2. Decline rate of the production.
3. Average price of the product for the previous year.
4. Lease operating expenses (LOE).
5. The discount rate.

Production data is acquired from the Texas Railroad while the pricing data is acquired from the Texas Comptroller of Public accounts. From the production history a decline curve is created to determine the yearly decline rate and the average daily production used in the appraisal. The price of the oil and gas is the average price paid over the previous year as determined in section 23.175 of the Texas Property Tax Code. This average price is obtained by summing the averages for each month and dividing by 12. To obtain a price for the first year of the appraisal, the average price is multiplied by a market condition factor. The market condition factor is obtained by dividing the current year statewide average price by the previous year average price. This is

done for both gas and oil. This allows for a better projection of the prices for which oil and gas will be sold in the first year of the appraisal. Subsequent year's appraisal prices are then governed by the state comptroller's price escalation forecast. Lease operating expenses are the direct cost to produce reserves. Information on the lease operating expenses can be obtained from the lease operator. The discount rate is based on various risk factors involving the mineral property. We typically survey the range of discount rates that the mineral industry is using and consider the various risk involved with the mineral industry before picking discount rates we think will help arrive at a market value.

APPRAISAL OF OIL AND GAS RESERVES

Before the appraisal can be conducted, the mineral lease must be discovered. Monthly reports are received by Morgan Ad Valorem Services that indicate the newly completed wells as reported to the Texas Railroad Commission. Those reports indicate the county and the exact location of the well. This allows for placement of the property in the right taxing jurisdictions. The appraisal operation is accomplished through the use of the income method (otherwise known as a discounted cash flow, using the comptroller’s revenue forecast model for escalating and deescalating the future price of the oil and gas in the appraisal) as cited in Section 23.012 of the Texas Property Tax Code. Most oil and gas companies use this method to determine future revenue and the value of their reserves. As previously indicated the production and pricing data are obtained from the Texas Railroad Commission and the Texas Comptroller's office (See attachment 1A, 1B and 2). The daily production can be averaged from the previous year using that data. Attachment 3 is a decline curve developed by plotting production over time. From that graph a decline rate is determined and express as a decimal percent. The annual decline rate is used with the previous year production data to determine the daily production rate used in the appraisal. As previously mentioned, the pricing is averaged and subjected to the marketing adjustment factor to determine the price to be used in the appraisal. Lease operating statements submitted by the operating companies are screened to make sure that expenses submitted are appropriate for the appraisal. All appropriate data is entered into the computer. An annual gross income is obtained by multiplying the projected production for each year of the appraisal by the price of the product. A net income is obtained by subtracting the lease operating expenses from the gross income. The net income is then multiplied by the discount rate to give a net discounted income for each year of the appraisal. The net discounted income and the equipment value for each year of the appraisal are then summed up to give a net present value of the reserves (See attachment 4 for example of an oil and gas reserve appraisal). Prior to submittal of the values to the county appraisal district, the operating companies are allowed to view the values as well as the parameters used to arrive at those values. These companies are allowed input concerning such items as the production rate, decline rates, prices and lease operating expenses. Input from the operators and the royalty owner's is also considered during the period after notices of appraisal value are sent out and leading up to and including Appraisal Review Board Day. These discussions between the mineral owners and the appraiser are intended to result in a value that is considered a fair market value by both parties. The property value study conducted by the Property Tax Assistance Division is also intended to ensure that the appraisal company is conducting the appraisal in a proper manner that leads to a proper market value.

CALLAHAN CENTRAL APPRAISAL DISTRICT
REAPPRAISAL PLAN

(Attachment Two – CCAD Appraisal Regions)

APPRAISAL REGIONS

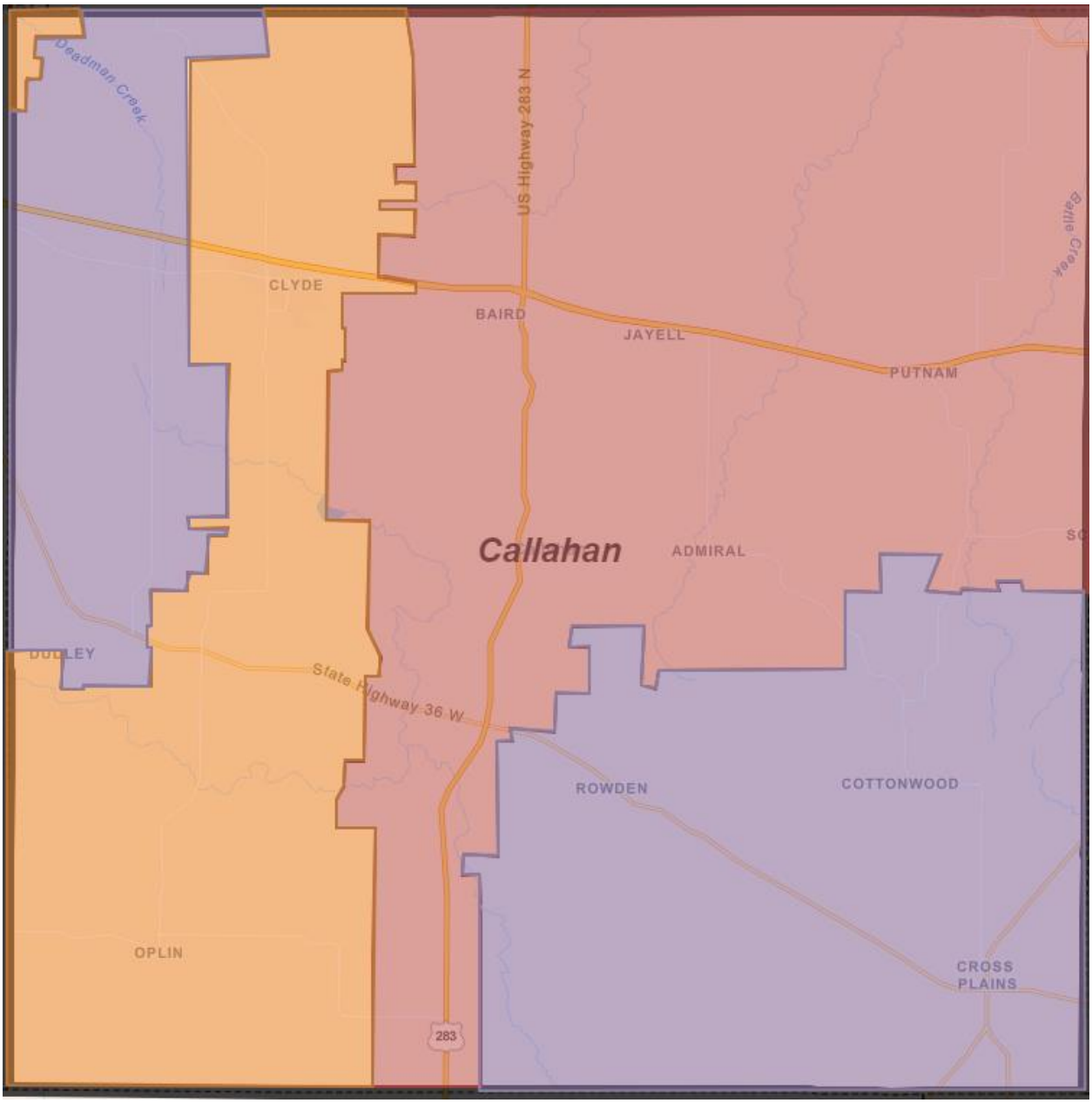
REGION 1: Clyde CISD

REGION 2: Cross Plains ISD
Eula ISD

REGION 3: Baird ISD
Moran ISD
Cisco ISD

REAPPRAISAL CALENDER:

Year	Region
2025	3
2026	1
2027	2



Callahan Central Appraisal District
Reappraisal Region Map

Region 1- Orange
Region 2- Purple
Region 3- Red

CALLAHAN COUNTY APPRAISAL DISTRICT

REAPPRAISAL PLAN

(Attachment Three – Budget)

2024 Appraisal Budget

Income	**2024 Budget**
Appraisal Income	$731,630
Interest Income	$2,000
Total	$733,630
Expenses	
Administration	$264,279
Office Supplies/equipment	$7,000
Postage	$18,000
Contract Services	$230,368
Appraisal Review Board	$6,250
Board of Directors	$1,500
Social Security/Medicare	$20,217
Retirement	$18,288
Bonds/ liabilities/Unemployment Insurance	$13,450
Employee Insurance	$56,700
Auto expenses	$15,000
Education/ Memberships	$36,000
Utilities/Phone/Internet	$12,000
Publications/ Bank Fees	$6,500
Building Maintenance	$4,000
Operation Reserve	$5,000
Misc. Employee Recognition	$2,800
Building Payment	$14,908
Total	$733,630