

MASS APPRAISAL REPORT

FOR

2019 APPRAISAL YEAR

WISE COUNTY APPRAISAL DISTRICT

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INTRODUCTION

The purpose of this mass appraisal report is to aid property owners, taxing entities, and the public we serve to better understand the methods and techniques utilized by the Wise County Appraisal District (WCAD) in the valuation and revaluation of property within Wise County. This report is written in compliance with Standard 6 of the Uniform Standards of Professional Appraisal Practice and the Texas Property Tax Code.

Taxing jurisdictions that participate in the district must use the appraisals as the basis for imposition of property taxes. The State of Texas allocates state funds to school districts based upon the district's appraisals, as tested and modified by the Property Tax Assistance Division, State Comptroller of Public Accounts.

The 2019 mass appraisal results is an estimate of the market value of all property within the district's boundaries. Where required by law to appraise property at a value other than market value, the district also estimates value on said requirement. These situations are described where applicable later in this report.

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

The Chief Appraiser's responsibilities are as follows:

1. Discover, list and appraise property
2. Determine exemption and special use valuation requests
3. Organize periodic reappraisals
4. Notify taxpayers, taxing units and the public about matters that affect property values

The WCAD staff is budgeted for 19 positions and currently consists of the Chief Appraiser, Deputy Chief Appraiser, Collections Supervisor, Mapping / Deeds Supervisor, five Staff Appraisers, and five support positions. All property in the district is appraised by the WCAD staff with the exception of minerals and pipelines, which are appraised by Capital Appraisal Group Inc. Significant mass appraisal assistance was provided by Capital Appraisal Group Inc. as well as Deidra Deaton, Deputy Chief Appraiser, Greg Reasoner, Commercial Appraiser, Greg Reasoner, Business Commercial / Industrial Appraiser, and LaReesea North, Patia Moncrief, Josh Campbell & Teresa Reed, Troy Gregg, Katie Drevecky Residential Appraisers.

It is the goal of WCAD staff to provide the best possible service to the tax paying public and the taxing entities. The WCAD staff promotes and adheres to the professional standards and ethics as set forth by the Texas Department of Licensing and Regulation and the Texas Association of Appraisal Districts.

SUMMARY OF PROPERTIES APPRAISED

WCAD is an Appraisal District formed by the Texas Legislature in 1979 and is charged with the appraisal of all taxable property within the 41 taxing entities within the district's boundaries. Currently these taxing entities are as follows:

Alvord ISD	City of Alvord
Boyd ISD	City of Boyd
Bridgeport ISD	City of Bridgeport
Chico ISD	City of Chico
Decatur ISD	City of Decatur
Paradise ISD	City of Paradise
Slidell ISD	City of Aurora
Wise County	City of Newark
Wise FM / LTR	City of Rhome
Wise Water Control District #1	Jacksboro ISD
Wise Water Supply	Krum ISD
Emergency Services District #1	Northwest ISD
Poolville ISD	Springtown ISD
City of Fort Worth	Clear Creek Water

Wise County Appraisal District overlaps with the following CAD's affecting the ISD properties in parenthesis:

Cooke CAD	(Slidell ISD)
Denton CAD	(Slidell ISD & Northwest ISD)
Jack CAD	(Jacksboro ISD)
Parker CTA	(Poolville ISD & Springtown ISD)
Montague CAD	(Alvord ISD & Slidell ISD)

Tarrant CAD

(Azle ISD)

2019 PRELIMINARY ROLL RECAP

The 2018 certified tax roll for the Wise County Appraisal District consisted of 214,542 parcels. The breakdown of these parcels was as follows:

Single Family Residential	18,560
Multi Family Residential	172
Mobile Homes	8,239
Vacant Lots	5,734
Vacant Acreage	13,244
Commercial	1,986
Minerals	175,878
Utilities	2,333
Personal Property	3,507
Exempt Property	1,945

The property rights appraised were fee simple interests, with the exception of leasehold interests in property exempt to the holder of the property's title. The latter are appraised under a statutory formula described in Sec. 25.07, Texas Property Tax Code. The description and identification of each property appraised is included in the appraisal records submitted to the Wise County Appraisal Review Board each year.

Supporting information relied on for this report, such as individual property records, sales ratio reports, market studies, modeling documentation, appraisal manuals and procedures, regulations and statutes is voluminous and is generally kept in an electronic format and is available to the general public at the appraisal district or its website, except where protected by statute by confidentiality regulations.

GENERAL ASSUMPTIONS AND LIMITING CONDITIONS

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

The appraisals were prepared exclusively for ad valorem tax purposes. The property characteristic data upon which the appraisals are based is assumed to be correct. Physical inspections and/or inspections via imagery of the property appraised were performed as staff resources and time allowed.

Validation of sales transactions occurred through questionnaires to buyer and seller, telephone survey and field review. In the absence of such confirmation, residential sales data obtained from vendors was considered reliable.

- > No responsibility is assumed for the legal description or for matters including legal or title considerations. Title to any property is assumed to be good and marketable, unless otherwise stated.
- > All property is appraised as if free and clear of any or all liens or encumbrances, unless otherwise stated. All taxes are assumed to be current.
- > All property is appraised as though under responsible, adequately capitalized ownership and competent property management.
- > All engineering is assumed to be correct. Any plot plans and/or illustrative material contained with the appraisal records are included only to assist in visualizing the property.
- > It is assumed that there is full compliance with all applicable federal, state and local environmental regulations and laws unless noncompliance is stated, defined and considered in this mass appraisal report.
- > It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless a nonconformity has been stated, defined and considered in this mass appraisal report.
- > It is assumed that all required licenses, certificates of occupancy, consents or other legislative or administrative authority from any local, state or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.
- > It is assumed that the utilization of the land and improvements of the properties described are within the boundaries or property lines, and that there are no encroachments or trespasses unless noted on the appraisal record.

Unless otherwise stated in this report or noted on the appraisal record, the appraiser is not aware of the existence of hazardous substances or other environmental conditions. The value estimates are predicated on the assumption that there is no such condition on or in the property or in such proximity thereto that it would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them.

Texas is a non-disclosure state in which buyers and sellers are not required to report sales transactions to the ad valorem property appraiser. WCAD uses great diligence in attempting to acquire sales data, but is limited in its ability to gather sales data by the current legislative scheme.

EFFECTIVE DATE OF APPRAISAL AND DATE OF THE REPORT

With the exception of certain inventories for which the property owner has elected a valuation date of September 1, 2019, all appraisals are as of January 1, 2019. To receive the September 1 appraisal date, the property owner must have filed an application by July 31, 2019. The date of this report is April 30, 2019.

DEFINITION OF MARKET VALUE

Except as otherwise provided by the Texas Property Tax Code (hereafter “Tax Code”), all taxable property is appraised at its “market value” as of January 1. Under the tax code, “market value” means the price at which a property would transfer for cash or its equivalent under prevailing market conditions if:

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

The Tax Code defines special appraisal provisions for the valuation of several different categories of property. Specially appraised property is taxed on a basis other than market value as defined above. These categories include residential homes WCAD property (Sec. 23.23, Tax Code), agricultural and timber property (Chapter 23, Subchapters C and D, Tax Code), real and personal property inventory (Sec. 23.12, Tax Code), certain types of dealer inventory (Sec. 23.121, 23.124, 23.1241 and 23.127), and nominal (Sec. 23.18) or restricted use properties (Sec. 23.83). The WCAD Appraisal Manual contains detailed information on the appraisal of specially appraised property and is incorporated herein by reference.

AREA ANALYSIS

WCAD appraises all properties within the physical boundaries of Wise County. Wise County is located in North Central Texas and is bordered to the north by Montague and Cooke Counties, to the east by Denton County, to the south by Tarrant and Parker Counties, to the west by Jack County. Wise County is in transition from a rural county with an agricultural based economy to a county with a growing population and a balanced agribusiness and commercial / industrial tax base. Wise County is currently one of the fastest growing counties in the state.

Decatur, the largest town and county seat, is on Highway 287 twenty-eight miles north of Fort Worth. Bridgeport is the second largest city in Wise County and is located on Highway 380 about 35 miles north of Fort Worth and 12 miles west of Decatur. Wise County has five limestone crushing plants, two natural gas processing plants, one combined cycle electricity generation plant and one graphite processing plant. City of Decatur is host to nine hotels, three auto dealerships, and Wise Regional Hospital. City of Bridgeport also has four hotels and Devon Energy North Texas Operations Headquarters. Both Decatur and Bridgeport have airports. The proximity to Fort Worth - Dallas Metro Area has a large impact on the values of properties within the county.

OVERVIEW OF TYPES OF PROPERTIES APPRAISED

There are four major categories of property appraised by WCAD. These categories are:

- Real Property: Residential, Multi-family, Commercial, Vacant residential lots, Vacant commercial lots, Vacant rural land and improvements on rural land.
- Personal Property: Business personal property and Industrial personal properties.
- Utilities: Telephone companies, Power companies, Gas companies and Cable companies.
- Minerals: Oil and Gas

The Property Tax Assistance Division of the State Comptroller's office requires properties to be identified by using a standard identification code. The codes currently used by WCAD are as follows:

Property Classifications

Property classifications include these categories:

A: Real Property: Single-family Residential

B: Real Property: Multifamily Residential

C1: Real Property: Vacant Lots and Land Tracts

C2: Real Property: Colonia Lots and Land Tracts

D1: Real Property: Qualified Open-space Land

D2: Real Property: Farm and Ranch Improvements on Qualified Open-Space Land

E: Real Property: Rural Land, not qualified for open-space land appraisal, and Improvements

F1: Real Property: Commercial

F2: Real Property: Industrial and Manufacturing

G1: Real Property: Oil and Gas

G2: Real Property: Minerals

G3: Real Property: Other Sub-surface Interests in Land

H1: Tangible Personal Property: Personal Vehicles, not used for business purposes

H2: Tangible Personal Property: Goods in Transit

J: Real and Tangible Personal Property: Utilities

L1: Personal Property: Commercial

L2: Personal Property: Industrial and Manufacturing

M1: Mobile Homes

M2: Other Tangible Personal Property

N: Intangible Personal Property Only

O: Real Property: Residential Inventory

S: Special Inventory

X: Totally Exempt Property and subcategories

HIGHEST AND BEST USE ANALYSIS

The district's market value appraisals are performed pursuant to Article VIII, Sec. 1., Texas Constitution, which provides that property must be taxed in proportion to its value as determined by law, Sec. 23.01, Texas Property Tax Code implements this provision as follows:

§ 23.01. Appraisals Generally

- (a) Except as otherwise provided by this chapter, all taxable property is Appraised at its market value as of January 1.
- (b) The market value of property shall be determined by the application of 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.

WCAD appraises all properties in accordance with their highest and best use, except when jurisdictional exceptions prohibit to do so by the Texas Property Tax Code. While there is no specific statute defining highest and best use as it applies in appraisals conducted under the Property Tax Code, Texas courts have acknowledged that highest and best use is a factor that must be considered in determining market value. *King v. Real* 466 S.W.2d 1 TEX.Civ.App.,1971, *Exxon Pipeline Co. v. Zwahr* 2002 WL 1027003 Tex.,2002.

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

In determining highest and best use, preliminary judgements are made by appraisers. The appraisers are normally aware of zoning regulations within physical boundaries of the city.

Most WCAD property records contain information regarding lot size, frontage, and other characteristics; therefore, appraisers normally make judgements on possible site uses. Economically feasible and most profitable uses are determined by observing surrounding property. However, changes in property use require a more detailed and technical highest and best use analysis. These studies are usually performed in the office.

MARKET ANALYSIS

Economic trends, national, regional and local trends affect the universe of property

appraised in Wise County. An awareness of social, economic, governmental and environmental conditions is essential in understanding, analyzing and identifying local trends that affect the real estate market.

Market analysis is performed throughout the year. Both general and specific data is collected and analyzed.

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

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

WCAD employees go to the Wise County Courthouse bi-weekly basis to obtain all deed transactions. Once ownership is identified, an informational letter and questionnaire are mailed to the buyer to obtain information on the sale. This information is not mandatory in the State of Texas and only a small percentage of letters are returned with useful information. This presents a problem in that there is sometimes inadequate sales data to perform as thorough an analysis of sales data as USPAP would require. However, every effort is made to use what data is available. The Property Tax Assistance Division also sends out sales letters and that data is made available to WCAD at least once per year. WCAD also subscribes to the MLS and LoopNet and conducts property owner interviews to obtain sales information.

WCAD currently conducts revaluation on a two-year rotation in accordance with the Reappraisal Plan. One-half of the district is reappraised every year. The revaluation includes the inspection of properties and the updating of all information on the properties. Sales and market analysis are performed each year on all properties, as information is available. Each year new properties are inspected, measured and added to the roll. In addition, building permits are obtained from the county and cities and changes to accounts are made as indicated. Individual properties are also reappraised when changes to the condition as the property warrants; for example: fire, remodeling or an addition or demolition of a portion of the improvement. Appraisers will perform detailed exterior field inspections of properties if requested by the owner.

Appraisers performing revaluation in the field have property records that contain specific information regarding the property being appraised. These records contain brief legal descriptions, ownership interest, property use codes, property addresses, land size and characteristics, sketches of improvements as well as any available detailed information of the improvements.

Field inspections require the appraisers to check all information on the property and to update as necessary. The appraiser takes a digital photo of each property inspected. The appraiser notes

their opinion of classification, condition and characteristics of the property. If changes in the size of any structures are observed, the appraiser measures and lists those dimensions.

DATA COLLECTION/VALIDATION

The WCAD replacement cost and value schedules include land and residential improvements. Commercial and residential schedules are based on Marshall and Swift Valuation Service and personal property schedules are based on the Property Tax Assistance Division appraisal manual or Marshall and Swift. Personal property renditions provided by property owners are also used in the valuation of business personal property. Marshall and Swift Valuation Service is a nationally based cost manual and is recognized throughout the nation by the real estate industry. The cost manual is based on cost per square foot and also the unit in place method. The unit in place method involves the estimated cost by using actual building components. This nationally based cost information service provides the base price of buildings as per classification with modifications for characteristics that either enhance or detract from value. The schedule is then modified for time and location.

Renditions are confidential sources and cannot be used for specific information. However, data from renditions may be compared with data from cost manuals and used to test their accuracy.

WCAD schedules are then developed from a combination of each of these sources. Schedules may also be modified by use of local market data (sales information) to further ensure the accuracy of the cost and value schedules.

Data on individual properties is also collected from the inspection, compiled and analyzed. Buildings and other improvements are inspected in the field, measured and classified. The appraiser estimates the age of improvements and determines the condition of the improvements. This data is used to compile depreciation (loss of value) tables and any notes pertaining to the improvements are made at this time. Residential dwellings are classified for quality and type of construction, whether frame or brick veneer. The classifications are from Class 4 to Class 16. Class 4 are a basic structure using the poorest quality materials and lowest workmanship while Class 16 structure is of the highest possible quality using only the best of materials and the highest and best quality workmanship available.

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

Physical depreciation is estimated by condition of the improvements. Condition ranges

from poor to excellent. Appraisers in the field usually inspect structures from exterior perspectives. The interior condition is assumed to be similar to the exterior. WCAD appraisers will not enter an occupied home, but will consider any evidence regarding the interior condition provided by the property owner, such as photos, estimates, etc.

Foundation failure may occur in varying degrees and may also result in loss of value. WCAD makes allowances for foundation problems on a case by case basis.

Additional depreciation may be estimated for a variety of reasons including functional obsolescence resulting from bad floor plans or out of date construction methods.

Economic obsolescence results from a loss of value to a property due to adverse influences from outside the physical boundaries of the property. Examples of economic obsolescence may be proximity to a landfill, residences located in an airport flight path, etc.

VALUATION ANALYSIS

WCAD valuation schedules are divided into four main classifications, residential, commercial, land, and business personal property. These schedules are based on the most appropriate data available. Depreciation tables and schedules (loss of value schedules) are also included within these schedules. These tables are calibrated from cost as well as sales data and updated as needed.

Miscellaneous special categories such as residential inventory, dealer's inventory, and agricultural productivity valuation are appraised using different techniques. Detailed information on the appraisal methods for the miscellaneous categories is contained in the WCAD Appraisal Manual.

THREE APPROACHES TO VALUE

Texas law requires all three approaches to value be considered – cost, sales comparison (market), and income. Using multiple approaches whenever possible also provides a check versus the values obtained from other approaches. If a value can be determined using multiple approaches, then the value arrived at via the various approaches must be reconciled. The appraiser must then choose the approach to value that best estimates market value.

COST APPROACH

The cost approach is best used for properties where sales and income data are scarce. These tend to be unique properties. This method works best for newer properties, because accrued depreciation must be estimated.

WCAD cost schedules are based on Marshall and Swift Valuation Service and personal property schedules are based on the Property Tax Assistance Division appraisal manual and Marshall and Swift. Marshall and Swift Valuation Service is a national based cost manual and is recognized throughout the nation by the real estate industry. The cost manual is based on cost per square foot and also the unit in place method. The unit in place method involves the estimated cost by using actual building components. This nationally based cost information service provides the base price of buildings as per classification with modifications for characteristics that either enhance or detract from value. The schedule is then modified for time and location to make it current and specific to Wise County.

Field appraisers measure and class properties in accordance with the commercial, residential, or personal property classification guidelines. The appraiser also estimates the condition and effective age of the improvements. Additional depreciation may be estimated for a variety of reasons including functional obsolescence resulting from bad floor plans, out of date construction methods, or super-adequacies. Economic obsolescence results from a loss of value to a property due to adverse influences from outside the physical boundaries of the property. Examples of economic obsolescence may be proximity to a landfill, residences located in an airport flight path, etc. Economic and functional depreciation are estimated based on the estimated impact to market value due to economic or functional obsolescence. All field work is reviewed by a zone appraiser.

The basic formula for the cost approach to value is as follows:

$$\text{Market Value} = \text{RNCLD} + \text{Land Value}$$

(RCNLD = Replacement Cost New Less Depreciation)

Land value must be derived from either the market or income approach. WCAD appraisers generally use the market approach due to the lack of reliable income data for valuing land.

The cost approach is best used for newer properties, where sales and income data are scarce. These tend to be unique properties. Because accrued depreciation must be estimated, this method works best for newer properties where accrued depreciation is generally less and therefore less subjective. Examples of properties that WCAD typically values via the cost approach are industrial buildings and large, unique houses, and business personal property.

RESIDENTIAL SCHEDULES

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

sales analysis and conversations with local appraisers and brokers.

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

Quality of construction- Residential construction may vary greatly in quality of construction. The type of construction affects the quality and cost of material used the quality of the workmanship as well as the attention paid to detail. The cost and value of residential property will vary greatly depending on the quality of the construction. As stated above, WCAD residential schedules currently class residential structures based on quality of construction from Class 4 to Class 16. This classification schedule is based on the Marshall and Swift definitions of residential classes of dwellings with modifications for local market.

Size of Structure- The size of a structure also has a direct impact on its cost as well as value. The larger the structure, the less the cost per square foot. WCAD schedules are graduated in size increments from 100 to 200 square feet, depending on market conditions. The Property Tax Assistance Division and Marshall and Swift also support this economy of scale.

Condition of Improvements- WCAD rates conditions from poor to excellent. Properties that in the opinion of the appraiser are unlivable may be given no value or salvage value.

Age of Structure- WCAD residential depreciation schedule is based on Marshall and Swift and as stated above effective age and chronological age may be the same or different depending on the condition of the structure.

Extra Items- As stated above, extra items or amenities are valued according to their contributory value to the whole. Examples of extra items include fireplaces, swimming pools and tennis courts.

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

COMMERCIAL SCHEDULES

Commercial properties valued via the cost approach are valued using *Marshall and Swift Valuation* schedules for commercial property. Replacement cost new is determined and then adjusted for location. Depreciation is then applied using physical observation of the property. The depreciated value of the improvements is then added to the land value to arrive at the total value of the property.

PERSONAL PROPERTY SCHEDULES

The Personal Property Schedules value business furniture, fixtures and equipment as well as inventory that is taxable by law. Business vehicles located within the appraisal district boundaries are also valued.

Business personal property values are derived from several sources. Business owners are required by Texas Law to render their business personal property each year. It is the experience of the district that about 70% of businesses render each year. Rendered values are used on business personal property if the rendered value is reasonable for the type of business and within acceptable ranges when compared to the Property Tax Assistance Division or Marshall and Swift personal property schedules for the type of business rendered. Should the rendered values not be acceptable, Property Tax Assistance Division or Marshall and Swift schedules are used to estimate a value.

Values on business personal property accounts not rendered are established using personal property schedules based on the Standard Industry Code (SIC), Property Tax Assistance Division, and Marshall and Swift schedules for the type of business being valued. For inventory valuation, this ensures the proper level of trade is considered. Physical depreciation is determined by the age of the property and its expected life. Economic and functional depreciation are estimated on a case by case basis. Schedules are available in the appraisal district office.

Business vehicles are valued based on N.A.D.A. Used Car Guide wholesale value for the particular make, model and age of the vehicle. The appraisal district used a report obtained from Texas Vehicle Information and Computer Services, which list vehicles registered in Wise County County on January 1 of each year. This report uses the vehicle identification number to determine make, model and vehicle characteristics to determine N.A.D.A. value. This report along with renditions, physical observations and city reports are used to discover and list vehicles that are taxable within the county. When adverse factors such as high mileage are known then the appropriate adjustments are made to value.

INCOME APPROACH TO VALUE

Many properties, especially commercial properties, are best valued via the income approach. Many properties sell for their income producing capacity. Examples of such properties are duplexes, shopping centers, apartments, and office buildings. When the income approach is the most appropriate approach for the valuation of a subject property, the appraiser chooses the income approach to override the value arrived at via the cost approach.

Income producing properties are placed on income schedules that are derived from data collected from landlords, tenants, and market surveys. Schedules are built based on type of property, class within each type, and economic area. Similar properties are placed on like schedules to ensure equity. WCAD income schedules are modeled on the concept of market rent, vacancy and collection loss, expenses, and cap rate for the respective type of income producing property and economic area.

The use of the income approach to value is particularly useful for properties in which sales data is scarce and the market indicates the property is likely to sell for its income producing capacity.

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

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

Next, a secondary income or service income is considered and, if applicable, calculated as a percentage of stabilized effective gross rent. Secondary income represents parking income, escalations, reimbursements, and other miscellaneous income generated by the operations of real property. The secondary income estimate is derived from actual data collected and available market information. The secondary income estimate is then added to effective gross rent to arrive at an effective gross income, when applicable. Allowable expenses and expense ratio estimates are based on a study of the local market, with the assumption of prudent management. Relevant expense ratios are developed for different types of commercial property based on use and market experience.

Another form of allowable expense is the replacement of short-lived items (such as roof, floor coverings, air conditioning units, or appliances) requiring expenditures of lump sum costs. These expenses when annualized are known as replacement reserves.

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

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

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

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

Economic areas are defined whenever the district has sufficient income information to group similar types and classes of income producing properties. Income schedules are developed for these economic areas and all properties within the grouping are valued via the appropriate income schedule to ensure equitable treatment of similar properties.

SALES COMPARISON (MARKET) APPROACH

Whenever possible, the sales comparison approach is used to appraise properties. This method is preferred because data is taken directly from the market. However, this method can only be used for properties in which there is sufficient sales information.

Sales information is received from various sources. Listing prices are gathered from newspaper and realtor listings, entered into the CAMA system, and reviewed monthly for outliers and expired listings.

Sales letters are mailed to the buyer to obtain information on the sale. WCAD also subscribes to MLS and conducts property owner interviews to obtain sales information. Whenever talking with a property owner and an account reflects a recent transaction, WCAD staff ask the property owner if they would be willing to share the sales information in order to increase the accuracy of WCAD data.

The appraisal district's CAMA system is based on a cost approach to value. All improvements are measured and classed. When the sales comparison method is used for improved properties, a modifier is applied to the improvements (on a neighborhood basis) to bring cost in line with market. This approach is also known as a modified cost approach.

Although WCAD currently does revaluation on a three-year rotation, with one-third of the district is re-inspected every year, all properties must be valued at market value each year. Sales ratio studies and profiling are done for all classes of property in all school districts and market areas at least annually. Appraisers are responsible for running all sales ratio studies and profiles within their assignment area. Residential appraisers are responsible for all properties in their zone and all land under 10 acres, except for commercial properties. The land/ag appraiser is responsible for all properties exceeding 10 acres, except commercial land. The commercial appraiser is responsible for all commercial real and business personal property.

STATISTICAL ANALYSIS

Properties are defined by market area or "neighborhood". Neighborhoods consist of properties that share common characteristics and should be valued similarly in the marketplace. Neighborhoods are grouped by like land size, neighborhood demographic, class range, size, and age. A homogeneous neighborhood is a neighborhood where all of the properties are similar in age, class, and size. This is often the case for many subdivisions. All properties in a homogeneous neighborhood should sell in a fairly tight price range, differing only for size and amenities.

WCAD categorizes every residential property into a neighborhood based on the factors listed above in order to compare all like properties, sold and unsold, and ensure that all

are valued at market value and treated equitably. When sales or income data demonstrate that current valuations need to be adjusted to achieve market value, all properties in the same neighborhood grouping are adjusted with the same adjustment factor.

The district's primary approach to the valuation of residential properties uses a hybrid cost-sales comparison approach. This type of approach accounts for neighborhood market influences that cannot be captured in a purely cost model.

The following equation denotes the hybrid model used:

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

The estimated market value (MV) of the property equals the land value (LV) plus the replacement cost new of property improvements less accrued depreciation (RCNLD) multiplied by a market adjustment (MA) derived from sales analysis. As the cost approach separately estimates both land and building contributory values and uses depreciated replacement costs, which reflect only the supply side of the market, it is expected that adjustments to the cost values may be needed to bring the level of appraisal to an acceptable standard as indicated by market sales.

Neighborhoods are reviewed at least annually to verify all properties within a neighborhood should remain in that neighborhood. Since neighborhoods are often combinations of subdivisions and other properties considered to be like properties, the market may demonstrate that those assumptions no longer reflect reality. Similarly, two or more neighborhoods that have similar characteristics, may be able to be merged if market conditions indicate they are selling the same. This can be determined by comparing the market adjustments applied to each neighborhood. If two or more neighborhoods that have similar characteristics also have a similar or equal market adjustment, they should be merged. This process ensures there are sufficient comparable sales for analysis and streamline the valuation process. However, properties are to be removed from a neighborhood only by groups, such as a subdivision, or class of like properties. Individual properties are not removed from a neighborhood merely because of sales ratio.

Sales Ratio Reports and Profiling in WCAD's CAMA system provide a great deal of appraisal information. The overall level of appraisal, coefficient of dispersion (COD), price related differential (PRD), class breakdown, difference between sold and unsold properties.

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

The analyst, based on the sales ratio statistics and designated parameters for valuation

update, makes a preliminary decision as to whether the value level needs to be updated in an upcoming reappraisal, or whether the level of market value is at an acceptable level.

Ratio studies are usually done on a countywide base of all sales in the county and then by residential classification and market area. The median ratio within each classification is then compared to the desired ratio to determine if adjustments should be made. The coefficient of dispersion is also studied to indicate how tight the ratios are in relation to measures of central tendency. The median and coefficient of dispersion are good indicators that identify statistically the results of the valuation process. All statistical measure are reviewed again after any adjustments are made to confirm the adjustment produced the desired results.

RATIO STUDY STANDARDS

WCAD adheres to the following standards recommended by the IAAO Standard on Ratio Studies.

A. Appraisal Level – The overall level of appraisal for the jurisdiction and each major stratum of properties should be within 5 percent of the legal standard – 100 percent of market value.

B. Appraisal Uniformity

1. Uniformity Amount Strata. The level of appraisal for each stratum should be within 5 percent of the overall level of appraisal for the jurisdiction.
2. Single Family Residential Strata. CODs generally should be 15.0 or less and for areas of newer and fairly similar residences, 10.0 or less.
3. Strata Composed of Income Producing Properties. CODs should be 15.0 or less for larger, urban jurisdiction and 20.0 or less in small rural jurisdictions.
4. Vacant Land. CODs should be 20.0 or less.
5. Other Strata. Target CODs should reflect the nature of the properties involved and the availability of reliable market indicators.
6. Vertical Equity. PRDs (Price related differential) should generally lie between 0.98 and 1.03. An appropriate statistical test should be conducted when bias is indicated.

ADJUSTING SALES FOR TIME

WCAD monitors changes in price levels and, if necessary, adjusts sales prices for time.

Sales are adjusted to the appraisal date of January 1. The adjustment factors are developed for each school district in the county. Adjustment factors are developed by comparing per unit value changes over time. Sales prices are divided by appropriate units of comparison and plotted against time.

Comparisons are made plotting sale/appraisal ratios against the date of sale. An upward trend in the ratios tends to indicate inflation and a downward trend indicates deflation in the market.

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

Data sources for time adjustments include the S&P/Case-Schiller Index, the Texas A&M Real Estate Center, the North Texas Realtors Association, and from actual sales in Wise County.

INDIVIDUAL VALUE REVIEW PROCEDURES

In order for comparable sales data to be considered reliable it must contain a sales date, sales price, financing information, tract size and details of the improvements. Sales data is gathered by sending sales letters to the buyer properties that the district knows changed ownership. WCAD also subscribes to the Multiple Listing Service. Commercial sales are confirmed from the direct parties involved whenever possible. Confirmation of sales from local real estate appraisers is also considered a reliable source.

Sales data is compiled and the improved properties are physically inspected and photographed. All data listed on the property record card is verified and updated as needed including building classification, building size, additions or added out buildings, condition of structures and any type change in data or characteristics that would affect the value of the property. Individual sales are analyzed to meet the test of market value as defined by Section 1.04(7) of the Texas Property Tax Code. Examples of reasons why sales may be deleted or not considered are:

1. Property acquired through foreclosures or auction.
2. Property sold between relatives.
3. The buyer or seller is under duress and may be compelled to sell or purchase.
4. Financing may be non-typical or below or above prevailing market rates.
5. Considerable improvements or remodeling have been done since the date of the sale and the appraiser is unable to make judgments on the property's condition at the time of the transaction.

6. Sales may be unusually high or low when compared with typical sales located in the market area. Some sales may be due to relocation or through divorce proceedings.
7. The property is purchased through an estate sale.
8. The sale involves intangibles, such as goodwill, that are to value.
9. There are value-related problems associated with the sale, i.e. incorrect land size or square footage of living area.
10. Property use changes occurring after the sale.

APPRAISAL PERFORMANCE AND TESTING

In accordance with Section 5.102 of the Texas Property Tax Code and Section 403.302 of the Texas Government Code, the Texas Comptroller of Public Accounts conducts an biannual property value study to determine the degree of uniformity of and the median level of appraisals by the appraisal district within each major category of property, as required by Section 5.10, Property Tax Code. The final findings, based on the district's 2019 appraisal roll, were calculated by the district on March 2019. The overall median appraisal ratio for Wise County CAD was reported at 98.90.

The Comptroller of Public Accounts certifies a school district's local tax roll value to the Commissioner of Education if it is within the calculated statistical error margin. A margin of error of 5% is used for each school district. The 2017 findings of the ratio study reported that all school districts received their local tax roll values with the exception of Boyd ISD. A follow up review for 2018 showed the Boyd ISD's value study was within margin. The complete report for Wise County and all school districts can be found at

<http://www.window.state.tx.us/taxinfo/proptax/pvs17f>

Beginning in 2010, in addition to the property value study, the Texas Comptroller of Public Accounts will conduct a biannual review of the governance of each appraisal district, taxpayer assistance provided, and the operating and appraisal standards, procedures, and methodology used by the district. The last such review was conducted by the Property Tax Assistance Division in 2018. The results of the review, reported to the chief appraiser on January 23, 2018 reported that the district's methods, standards, and procedures exceeded requirements in all categories texted. The complete Methods and Assistance Program Report can be found at :

<http://www.window.state.tx.us/taxinfo/proptax/map/2018/wise-MAP.pdf>.

CERTIFICATION

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

- the statements of fact contained in this report are true and correct;
- the reported analyses, opinions and conclusions are limited only by the
- reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions and conclusions.
- I have no present or prospective interest in the properties that are the subject of this report and I have no personal interest or bias with respect to the parties involved.
- I have no bias with respect to any property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the taxing jurisdiction, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
- My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Profession Appraisal Practice, the International Association of Assessing Officers, and the Texas Department of Licensing and Regulation;
- I have not made a personal inspection of the properties that are the subject of this report.
- This report was prepared with the assistance of the WCAD appraisal staff listed on the following page.

Michael L. (Mickey) Hand

Michael L. (Mickey) Hand, R.P.A., R.T.C.
Chief Appraiser
Wise County Appraisal District

STAFF THAT PROVIDED SIGMIFICANT APPRAISAL ASSISTANCE

<u>NAME</u>	<u>TITLE</u>	<u>TDLR#</u>	<u>ASSISTANCE</u>
Deidra Deaton, RPA	Assistant Chief	68273	Appraisal Operations
Greg Reasoner , RPA	Personal Property / Commercial	73583	Update Property Data
Lareesea North, RPA	Appraiser	67922	Update Property Data
Patia Moncrief, RPA	Real Estate	71851	Update Property Data
Josh Campbell	Real Estate	74520	Update Property Data
Teresa Reed ,RPA	Real Estate	73392	Update Property Data
Troy Gregg	Real Estate	75732	Update Property Data
Katie Drevecky	Real Estate	75915	Update Property Data
Greg Davis	Capital Appraisal Group Inc..	71552	Utility Evaluation
Kenneth Hitt	Capital Appraisal Group Inc.	71452	Mineral Evaluation
Noel Wilcoxon	Capital Appraisal Group Inc..	71581	Industrial Evaluation