



# Harris County Appraisal District 2016 Annual Report



# Harris County Appraisal District

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## Office of Chief Appraiser

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Harris County Appraisal District  
Citizens of Harris County

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*Chief Appraiser*  
Roland Altinger  
*Deputy Chief Appraiser*  
Jason Cunningham  
*Taxpayer Liaison Officer*  
Teresa S. Terry

The Harris County Appraisal District has prepared and published this annual report to provide our citizens and taxpayers with a better understanding of the district's responsibilities and activities. It is designed to provide the public with a general overview of the district's activities for 2016 and to serve as a supplement to the district's Annual Mass Appraisal Report and Comprehensive Annual Financial Report. This annual report highlights the results of our operations and the major initiatives we have undertaken.

The purpose of the appraisal district is to appraise all taxable property in our boundaries in a professional and fair manner. Our goal is to make it easier for property owners to understand the property tax process, which provides the primary source of local government revenue in Texas, funding county, city and school district services.

The district is the largest assessment jurisdiction in the United States that appraises all property at its full market value every year. As such, we recognize that we have a responsibility to set the standard for providing complete, accurate and timely information to the taxing jurisdictions and clear, concise and easily-understood information to the property owners. We strive to be innovative in using new technology to develop the best appraisal tools for property inspection and research, as well as in creating programs and procedures that streamline and simplify the process for property owners.

One of our newest and most successful programs has been a series of workshops we started in 2014 to bring information directly to the property owners. The number of programs presented to civic organizations, realtors and mortgage companies each year, and in 2016 we conducted 54 workshops throughout Harris County.

Sincerely,

Roland Altinger  
Chief Appraiser

## District Profile

The Harris County Appraisal District is a political subdivision of the State of Texas established in 1980, following the codification of property tax laws by the 66<sup>th</sup> Texas Legislature in 1979. The 1979 codification established one appraisal district in each of the state's 254 counties. The appraisal district's purpose was to discover and appraise property for *ad valorem* tax purposes for each taxing unit within the boundaries of that appraisal district.

The appraisal district in Harris County is the largest in the state. The district serves 517 taxing units and a population of 4.6 million in 2016. In 2016, HCAD conducted a full reappraisal of all properties in the appraisal district. Under Texas law, property is appraised at 100 percent of its market value, which is defined as the price for which it would sell on the open market, between knowledgeable buyers for a reasonable amount of time. HCAD is the largest assessment entity in the United States that actually appraises all property at 100 percent of market value annually.

Texas appraisal districts are permitted to contract with their taxing units to perform tax collection functions. The Harris County Appraisal District has not contracted with any of its taxing units to provide these services through 2016 and does not anticipate any collection contracts in the foreseeable future.

The local governments with territory in Harris County use HCAD's appraisals as the basis for *ad valorem* taxation. In Texas, the property tax is the primary source of funding for local governmental units such as school districts, cities, counties, junior college districts and other special districts. Property taxes pay much of the cost of public schools, police and fire protection, courts, health services, streets, water and sewage, parks and most other local government activities.

The Harris County Appraisal District does not determine how much each of these local governments will spend to provide services, nor does it set their tax rates. Each local government adopts its own budget, then sets a tax rate that will generate the amount of money required to pay for its services. The district provides each local government with a list of its taxable property, together with the January 1 value of each property and appropriate exemptions.

HCAD is governed by a six-member board of directors appointed by the taxing units that have property within the boundaries of the district. The board members are appointed as follows: Harris County Commissioners' Court appoints one member; the City of Houston City Council appoints one member; the other 33 cities appoint one member; the Houston Independent School District Board of Trustees appoints one member; the other 25 school districts appoint one member; and all conservation and reclamation districts appoint one member.

The board of directors has general policy-making authority and has primary responsibility for fiscal matters, including approval of major contracts and adoption of the annual budget. The board also appoints the chief appraiser, who is chief administrator of the district, and appoints the taxpayer liaison officer, who helps resolve disputes that may arise as a property owner goes through the appraisal process. The Office of the Chief Appraiser is primarily responsible for the overall planning, organizing, staffing and controlling of district operations as required by the Texas Property Tax Code.

The administrative judge of the Harris County Civil District Courts appoints members of the Appraisal Review Board. The board of directors appoints the chairman and secretary of the Appraisal Review Board from among the serving members.

## **Local Economy**

The district's activities for the previous 12 months led up to the major event of certification of the appraisal roll. The appraisal roll was certified on August 12, 2016, with less than 3.48 percent of the total appraised value in the district remaining under protest. State law requires that not more than 10 percent of the total value remain in unresolved property owner protests at the time the records are approved and certified as the appraisal roll. The sum of the taxable value for each of the 517 taxing unit appraisal rolls was approximately \$3.2 trillion, resulting in a 2016 ad valorem tax levy of approximately \$10.3 billion, an increase of 9.42 percent from 2015.

The Harris County Appraisal District encompasses a 1774-square-mile area, including some of the most complex properties in the world. These include the port facilities of the Houston Ship Channel and Port of Houston, the busiest port in the United States in terms of foreign tonnage and the second busiest in overall tonnage. The properties include two major international airports, more than 310 class A high-rise office properties, hundreds of millions of square feet of warehouse and retail properties, tens of thousands of apartment units and more than 1.2 million homes. Harris County is one of the world's major petrochemical centers and includes five refineries, thousands of miles of pipeline and tank storage and dozens of petrochemical processing facilities. The City of Houston is the fourth largest city in the United States, and Harris County estimates that the unincorporated area of the county would be the fifth largest city. The appraisal district also appraises business and industrial personal property for taxation, again at full market value.

Carrying over from 2015, the Houston housing market faced falling oil prices, which resulted in energy industry layoffs and caused jitters throughout the Houston market. However, the housing market held steady in 2016 with single-family home sales reaching an all-time new record in total sales, according to the Houston Association of Realtors. Home sales increased 3 percent from 2015 and rose 1.3 percent above the previous record of 75,470 sales set in 2014. There were 76,449 single-family home sales and 91,520 total property sales, with both numbers representing the highest sales totals in the history of Houston real estate.

Inventory levels for single-family homes grew in the first half of 2016, peaking at a 4-month supply in July. However, with increased home sales, the inventory retreated and the year ended with a 3.3-month supply, which is exactly where it started. Homes priced at \$500,000 and up experienced declining sales through October, but by the end of the year, there was a turnaround with double-digit sales increases. On a year-to-date basis, the average price climbed 1.1 percent to \$283,133 while the median price increased 4.5 percent to \$221,500. Total dollar volume for 2016 rose 4.2 percent to hit a record high of \$24.5 billion, compared with \$23.6 billion in 2015.

Despite lower oil prices, Houston's economy performed better than expected in 2016. Consistent growth in population and other sectors of the economy offset the effects of the oil and gas price decline. It also appears that oil companies were prepared for this change in the market so they planned and acted accordingly. The Panama Canal expansion will increase Houston's importance as a distribution center for the largest volume shipping port in the nation. In summary, while the decline in oil prices affected the local

economy by its impact on the oil and gas industry and associated businesses, growth in other areas such as healthcare, institutional and service segments offset this impact. With more disposable income for consumers due to lower gasoline and energy costs, the retail segment saw additional growth.

In general, 2016 saw an “economic trough” in the first half of the year with a moderate recovery by the fourth quarter. As a result, marginal to moderate economic growth is expected over the course of the upcoming year as the oil industry and the greater Houston area stabilizes and adjusts to the oil-related segment of its economy. The total average vacancy rate for all classes of office buildings increased gradually from 13.9 percent at the end of the first quarter of 2016 to 15.1 percent at year end. This compares to year-end total average vacancy of 13.6 percent for 2015. Capitalization rates were lower in 2016, averaging 6.24 percent less than the average capitalization rate of 7.12 percent for 2015.

Apartment Data Services (ADS) reported that 12,133 units were under construction by the end of 2016, and the occupancy rate for existing apartments was 88.5 percent. In 2016, a total of 19,940 units were delivered. While there are 20,426 proposed projects, it is anticipated that many of these projects will be on hold until absorption rates increase to meet the new supply of units. After having increases in rental rates of 5 percent in 2015, and just over 8 percent in 2014, apartment rental rates in the Greater Houston Area saw no change in 2016. ADS reported 80 new complexes totaling 20,702 units were added to the Houston market during the year. Of the new apartment complexes delivered to the market in 2016, none were tax credit properties, and two were subsidized housing complexes.

### Comparison of Appraised Values to Previous Year

The change in appraised value of taxable property between years 2014 and 2015 is reflected in the following table.

<b>HARRIS COUNTY APPRAISAL DISTRICT APPRAISAL VALUES</b>		
<b>Category</b>	<b>Appraised Value</b>	
	2015	2016
Residential	\$214,751,469,977	\$234,601,808,777
Apartment	\$ 30,175,796,665	\$ 35,882,921,690
Commercial	\$ 95,676,696,572	\$109,683,845,937
Vacant Land	\$ 11,552,894,126	\$ 12,080,908,821
Industrial	\$ 24,110,574,397	\$ 26,712,634,065
Utilities	\$ 4,686,111,775	\$ 5,034,537,872
Commercial Personal	\$ 30,333,294,243	\$ 31,280,193,248
Industrial Personal	\$ 42,403,955,744	\$ 37,721,995,107
Other	<u>\$ 44,630,205,157</u>	<u>\$ 47,127,743,317</u>
<b>Total</b>	<b>\$498,320,998,656</b>	<b>\$540,126,588,834</b>

## Taxable Values

The following table compares the taxable values (appraised values less exemptions and special valuations) for the government of Harris County. The information presented here has been updated through February 3, 2017. The change in the appraised and taxable values from 2015 to 2016 varied among taxing units, reflecting the mix of property types, exemptions and market conditions within each unit.

<b>HARRIS COUNTY TAXABLE VALUE (in thousands \$)</b>				Percentage
	<u>2015</u>	<u>2016</u>	<u>Change</u>	<u>Change</u>
Appraised Value	\$503,278,759	\$540,108,801	\$36,830,042	7.32%
Taxable Value	\$387,578,364	\$423,124,823	\$35,546,459	9.17%

## Texas Comptroller of Public Accounts Ratio Study and Governance Review

Government Code Section 403.302 requires the Comptroller to conduct a study to determine the degree of uniformity and the median level of appraisals by the appraisal district with each major category of property, as required by Section 5.10, Tax Code. This study is required every other year. If the locally appraised value in a school district is within the statistical margin of error of the state value, the Comptroller's Property Tax Assistance Division (PTAD) certifies a school district's local tax roll value to the Commissioner of Education. A 5 percent margin of error is used to establish the upper and lower value limit for each school district. If the local value is outside the acceptable range, the PTAD certifies the state value, unless the school district is eligible for a grace period, which is a period when local value is used even though it is determined to be invalid. A property value study will be conducted for 2017.

Section 5.102, Tax Code requires the Comptroller of Public Accounts to review county appraisal district governance, taxpayer assistance, operating standards and appraisal standards, procedures and methodology at least once every two years. School districts located in counties that do not receive the Methods and Assistance Program (MAP) reviews in a year will be subject to property value studies in that year. A MAP review was completed for 2016 and the district received a perfect score of 100, which exceeds the mandatory standard of evaluation established by the Texas Comptroller.

The district's median level of appraisal for 2015 is summarized in the following table:

## STATE COMPTROLLER'S STUDY

<u>Property Category</u>	<u>Median Level of Appraisal</u> <u>2015</u>
Single Family Residential	.99
Multi-Family Residential	.97
Vacant Lots	N/A
Acreage	N/A
Commercial Real Property	1.00
Utilities	.96
Commercial Personal Property	1.00
Overall Median Level – All Properties	.99

The final results of the 2015 study reflect that appraisals within the district are generally uniform, with an average coefficient of dispersion of 8.05 percent. A coefficient of less than 10 percent is considered excellent in the more homogeneous urban areas, while 11-15 percent is considered excellent in the more rural areas.

Since the statistical median reflects the mid-point of a sample, it is generally desirable to maintain median appraisal levels at or slightly below 1.00 to avoid over-appraisal of properties. The International Association of Assessing Officers (IAAO) guidelines state that the overall level of appraisal for all parcels in the jurisdiction should be within 10 percent of the legal level. Based on these criteria, the district's .99 percent appraisal level is considered to reflect very good appraisal performance.

### **Property Owner Protests, Appeals and Litigation**

During 2016, property owners and professional tax consultants filed 378,142 protests, resulting in an increase of 2.38 percent from the 2015 protest volume of 369,355. Generally, property owners may protest appraised values placed on their property or if their property was equally appraised before the time the appraisal rolls are approved and certified.

The protest period is typically conducted from May to August each year. Property owners usually resolve disagreements about their appraised value, exemptions or other issues in a meeting with a district appraiser. If no agreement is reached informally, the property owner is heard before a three-member panel of the Appraisal Review Board, an independent body. The panel makes its final determination, which must then be ratified by the full ARB at its next regular meeting. The 2016 protest activity data listed next has been updated through February 23, 2017. The following table shows the protest activity for the past 10 years.

### PROTEST ACTIVITY

(dollars in millions)

<u>Year</u>	<u>Reappraisal Year</u>	<u>Accounts Protested</u>	<u>Value of Accounts</u>	<u>Avg Percent Reduction</u>
2007	Yes	363,235	\$192,361	12.12%
2008	Yes	394,454	\$219,642	11.55%
2009	No	393,050	\$218,486	10.67%
2010	Yes	322,285	\$186,763	8.20%
2011	Yes	305,639	\$183,787	9.00%
2012	Yes	296,228	\$198,242	9.29%
2013	Yes	302,336	\$230,189	8.75%
2014	Yes	346,041	\$247,548	8.52%
2015	Yes	372,584	\$285,432	6.29%
2016	Yes	378,142	\$305,621	7.29%

Property owners who are dissatisfied with their protest hearing may appeal the Appraisal Review Board decision by filing suit in state district court, filing an application for binding arbitration or filing an application for a hearing with the State Office of Administrative Hearings (SOAH).

The volume of litigation for the past 10 years has increased from 3,527 lawsuits in 2007 to 4,208 in 2016. After a previous high of 3,527 lawsuits in 2007, the number of lawsuits declined in 2008, 2009 and 2010 with the nationwide recession, but then started to rise in 2011 as the Houston economy improved and property values started to increase.

### LITIGATION VOLUME

<u>Year</u>	<u>Total Lawsuits</u>	<u>Number of Accounts</u>	<u>Value of Accounts</u>	<u>Number Resolved</u>	<u>Value Loss %</u>
2007	3,527	6,094	\$21,444,067,224	6,094	11.76%
2008	2,724	6,208	\$29,042,542,084	6,206	13.71%
2009	2,711	8,673	\$31,611,253,082	8,644	13.66%
2010	2,195	5,433	\$17,707,461,961	5,410	11.17%
2011	2,939	6,601	\$23,505,997,980	6,547	10.97%
2012	2,864	6,985	\$29,390,152,342	6,971	10.44%
2013	3,568	11,020	\$55,267,343,142	10,875	9.69%
2014	4,023	9,730	\$62,422,496,327	9,567	9.81%
2015	4,133	10,116	\$63,626,576,956	9,422	11.30%
2016	4,208	11,789	\$87,858,466,429	8,307	11.42%

Rather than filing suit in state district court, property owners may appeal the Appraisal Review Board decision through binding arbitration. Arbitration is available for properties valued at \$3 million or less, or if



the property qualifies as the owner’s residence homestead. Arbitration volume has continued to grow since it was first available in 2005 through 2012 and then dropped off slightly in 2013 and 2014 before soaring to 7,778 in 2016. Arbitration volume for the past 10 years is summarized in the following table.

<b>ARBITRATION VOLUME</b>				
<u>Year</u>	<u>Number of Accounts</u>	<u>Determined</u>	<u>Dismissed/ Withdrawn</u>	<u>Pending</u>
2007	263	205	58	0
2008	344	269	75	0
2009	363	310	53	0
2010	397	369	28	0
2011	520	473	47	0
2012	783	712	71	0
2013	773	726	47	0
2014	712	639	73	0
2015	1,238	745	493	0
2016	7,778	6,530	1,040	208

Another option for property owners is to file an appeal with SOAH. The Texas Legislature adopted a pilot program for certain counties in 2009 that allowed property owners to appeal ARB orders for real or personal properties with values of more than \$1 million to SOAH. Effective January 1, 2014, the 83<sup>rd</sup> Legislature made the pilot program permanent for every county in the state, allowing SOAH to hear appeals of ARB decisions statewide. Property owners may appeal to SOAH if the appeal concerns the determination of the appraised or market value of the property. The property owner must exercise this option not later than 30 days after receiving the ARB’s Order of Determination, and they must deposit \$1,500 with SOAH. As a member of the initial SOAH pilot program, HCAD has been the leader in the state for this method of property tax appeal. In 2015, HCAD was involved in seven SOAH cases and settled all seven cases.

### **Major Initiatives**

The Harris County Appraisal District’s residential homestead exemption mobile and web application was developed in 2015 and was made available to property owners in December 2015. Property owners have the ability to submit a residential homestead exemption application quickly and easily on their smartphones, tablets or iPads, by providing images of the front and back of their driver’s license. It also allows property owners to view the status of their applications once submitted. The applications bring simple, convenient, easy and secure electronic filing. During 2016, there were 1,945 property owners who successfully used this process.

The district continues its online iFile program that allows property owners and agents to protest their noticed values through the district’s website. During 2016, slightly more than 119,547 property owners and agents participated in iFile.

The iSettle program was developed to provide a way for property owners to resolve protests online through the district's website rather than appear in person to meet with a district appraiser. Residential property owners not represented by agents who participate in iFile may use iSettle. Participation requires the property owner to give an opinion of value and a reason for the change requested. A district appraiser reviews the information and decides whether to offer the property owner relief. Acceptance of the appraiser's offer binds the property owner for the tax year. If the appraiser determines that an offer is not warranted, or the property owner rejects the offer or fails to respond, the property owner is automatically scheduled for a hearing with the Appraisal Review Board.

iFile and iSettle programs have reduced the number of property owners needing to appear in person at the district's office. There were 13,140 iSettle offers accepted in 2015 and 13,679 iSettle offers accepted in 2016, which indicates continued and growing use. Also, much of the paper handling, data entry, scanning and filing tasks were eliminated due to the use of iFile and iSettle. In 2010, the district introduced the iReschedule program allowing property owners already scheduled for appraiser conferences or hearings to reschedule their appointments online. The iFile program also allows business owners to submit personal property renditions online. In 2016, there were 30,452 electronically processed renditions, compared with 29,669 in 2015, and 21,075 rendition extension requests submitted in 2016 using iFile.

The district's "Owner's" website, allows property owners the option of electronic communications with the district by voluntarily electing to receive value and scheduling notices, as well as Appraisal Review Board hearing orders. This increases the speed of communications and further reduces the costs of mailing communications between the district, the ARB and the property owners. As of December 31, 2016, there were more than 180,000 accounts enrolled in the Owner's website and more than 16,000 accounts were serviced during 2016 using the new electronic document delivery options.

As a result of legislation requiring re-inspection of each taxable property once every three years, the district initiated a pilot project in 2006 that involved combining high-resolution digital images from the front of a parcel with oblique images taken from all four sides by low-flying aircraft. The resulting photographic array permits detailed viewing of properties and accurate measurement of the improvements located on each parcel. The 2006 pilot project was successful and led into contracts to capture oblique images of the entire county taken in 2007. Following Hurricane Ike in 2008, updated oblique images were taken of the entire county and again in 2009. Since 2010, the district has annually procured both oblique and orthographic imagery to assist in the valuation process. The resulting product has been used to assist in updating property characteristics, defining neighborhoods and in defending values in hearings. To support identifying building improvements that are not permitted or jurisdictions that do not provide building permits to the district, in 2013 and 2015 the district contracted to capture a GIS database of building footprints from a comparison of the previous two years of high-resolution digital orthographic images. The resulting product depicts the changes to the building footprint, allowing the district to trigger inspection of building improvements to appraise changes.

The district's outreach program, which educates property owners on assessment and taxation issues, continues to grow in popularity. In 2016, the district conducted 54 presentations to property owners and real estate professionals in communities and companies throughout Harris County. In 2014, the first year of the program, HCAD conducted 43 presentations and the requests for presentations have continued to grow. In some instances, the district did the presentations with the Harris County Tax Assessor-Collector's office to provide a complete picture of the tax process, and in 2016, the district did 19 presentations with the tax

office. The district researched and identified communities in the county that underutilized the exemption and protest resources available and then scheduled presentations in those areas. The workshops promoted district resources available and provided individualized and immediate answers to property owner account questions.

Some of the district's outstanding 2016 performance measures are summarized below while others can be found throughout this annual report:

### 2015 PERFORMANCE MEASURES

<u>Category</u>	<u>Number</u>
Residential Properties Inspected	108,196
Business & Industrial Inspections	42,333
Commercial Property Inspections	15,702
Residential Sales Verified	7,632
New Subdivisions	862
Exemption Applications Processed	155,556
Telephone Questions Answered	547,193
Walk-in Customers	47,280
Property Owner Email Responses	28,680
Community Meetings	54

To provide property owners with easier access to data and maps, the district also created interactive electronic maps for the web site. Property owners can search for their property by account, name or address and once there, the site will provide the name, address and account number and the neighborhood name. The interactive maps also will show additional properties and provide value comparisons in the neighborhood.

### Awards and Acknowledgements

International/National:

HCAD maintained its Certificate of Excellence in Appraisal Administration from the International Association of Assessing Officers for its excellence in appraisal and assessment practices as well as for best practices in the workplace.

In September 2016, HCAD's Wesley Carter received his Assessment Administration Specialist designation from the International Association of Assessing Officers.

Tyrone Jones, fraud examiner investigator in the audit support services division, received his Certified Fraud Examiner designation from the Association of Certified Fraud Examiners.

In 2016, the Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Harris County Appraisal District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2015. This was the 29<sup>th</sup> consecutive year that the district has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

State:

HCAD maintained its Texas State Comptroller's Leadership Circle Platinum Award that it received for going above and beyond the standards for financial transparency set by the state.

Local/Regional:

Clarette Walker, chief of operations, was elected president of the Texas Association of Assessing Officers' Gulf Coast chapter.

Karen Adesokan, senior internal auditor in the Audit Support Services Division, was named a 2016 Excellent Service Award recipient by the Houston CPA Society. The CPA Society annually recognizes outstanding public service by one employee from HCAD and the Harris County Tax Office and honors those individuals at an awards dinner and at the July HCAD Board of Directors meeting.