

2011



Harris County Appraisal District 2011

Annual Report



Harris County Appraisal District

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March 19, 2013

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Members of the Board of Directors,
Harris County Appraisal District
Citizens of Harris County

The Harris County Appraisal District has prepared and published this first 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 2011 and to serve as a supplement to the district's Annual Mass Appraisal Report and Comprehensive Annual Financial Report. The report highlights the results of our operations and the major initiatives we have undertaken.

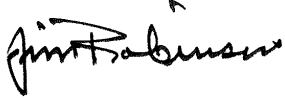
This report has seven parts: (1) a profile of the district, (2) an overview of the local economy, (3) a discussion of current appraised values and taxable values, (4) an explanation of the role of the Texas Comptroller of Public Accounts in evaluating the appraisal district, (5) a report on property owner protests, appeals and litigation, (6) a review of major initiatives by the district, and (7) a summary of awards and honors received by the Harris County Appraisal District and its employees in 2011.

As one of the largest appraisal districts in the United States, 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.

The purpose of the appraisal is to allocate the tax burden fairly among all taxpayers. Our goal is to make it easier for property owners to understand the property tax process, which is the primary source of local government revenue in Texas and provides funding for county, city and school district services.

We are committed to providing excellent customer service because we work for you. We are proud to report that in 2011 the district passed or exceeded every mandatory standard of evaluation in the new Methods and Assistance Program review that was established by the State Comptroller's Office, Property Tax Assistance Division as discussed earlier in this report. The district earned its highest score in the category of taxpayer assistance, which we believe illustrates our commitment to the property owners of Harris County.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Jim Robinson". The signature is written in a cursive, flowing style with a prominent initial "J".

Jim Robinson
Chief Appraiser

This annual report is intended to provide an overview of the Harris County Appraisal District's activities during 2011. This report consolidates and summarizes information that has been published or printed in different formats by the appraisal district during the year. It is designed to feature the district's major initiatives and programs and provide some insight into the operations of the district, the appraisal process and the Texas property tax system.

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 66th Texas Legislature in 1979. The 1979 codification established one appraisal district in each of the state's 254 counties for the purpose of discovering and appraising property for *ad valorem* tax purposes for each taxing unit within the boundaries of that appraisal district. The appraisal district in Harris County, the largest in the state, served 488 taxing units in 2011.

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 2011 and does not anticipate any collection contracts in the future.

The primary purpose and responsibility of the district is to provide to the taxing units and property owners within its boundaries fair and equitable appraisals of property subject to *ad valorem* taxation. In Texas, the property tax is the primary source of funding for local governmental units (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. The appraisals serve to allocate the tax burden among all property owners on an equitable basis, based upon market value.

A six-member board of directors, appointed by the taxing units that have property within the boundaries of the district, constitutes the governing body. 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 32 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 administrative judge of the Harris County Civil District Courts appoints members of the Harris

County Appraisal District Appraisal Review Board. The board of directors appoints the chairman and secretary of the appraisal review board from among the serving members.

The board of directors 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 Support Services Department coordinates support functions, including records maintenance, records management, exemptions, information and assistance to property owners, and support for the appraisal review board. The Appraisal Department is responsible for the valuation of all real and personal property accounts. The appraisal divisions include commercial, residential, and business and industrial property. The Appraisal Department support functions include review appraisal and appraisal operations. The Information Systems Department maintains the district's main computer system, local area networks, software applications, and imaging. The Administration Department is responsible for the business support functions relating to human resources, budget, finance, employee benefits, purchasing, fixed assets, facilities, security, and postal services.

Local Economy

The district's activities for the previous twelve months led up to the major event of the certification of the appraisal roll. The appraisal roll was certified on August 12, 2011, with less than 5 percent of the total 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 taxable value for the taxing unit appraisal rolls was approximately \$250 billion, which is an increase of almost 1 percent over 2010.

Over the past five years, there has been a dramatic downturn in the residential housing market due to a global recession. Real estate bubbles burst in many areas of the United States in 2008. However, Harris County did not suffer the volatility in the real estate market to the degree seen around the nation. Local residential markets have started a slow recovery, and the Houston housing market ended 2011 with seven consecutive months of increased home sales. The average single-family sales price for all of 2011 increased by 0.9 percent, and the majority of residential appraisals were unchanged for 2011.

Although the national economy has not fully recovered from the recession, Houston's economy has shown positive signs of stabilization and growth during 2011. This is largely because the city's economic drivers - led by the energy sector - are different from the nation overall. Growth in oil related jobs and population increases continue to spur the local economy. As a result, demand for commercial real estate has increased. Positive trends in the office building market contributed to a general stabilization in property values, and office vacancies decreased to 12.8 percent. Continued growth is expected as Houston's economy transitions from the recovery phase to the expansion phase.

Comparison of Appraised Values to Previous Year

The change in appraised value of taxable property between 2010 and 2011 is reflected in the table below.

HARRIS COUNTY APPRAISAL DISTRICT APPRAISAL VALUES		
Category	Appraised Value	
	2010	2011
Residential	\$161,435,529,309	\$162,263,230,371
Apartments	\$ 17,828,969,056	\$ 18,557,576,430
Commercial	\$ 60,002,240,928	\$ 63,579,747,956
Vacant Land	\$ 9,851,657,921	\$ 9,586,015,934
Industrial	\$ 16,342,113,128	\$ 17,292,995,580
Utilities	\$ 4,294,936,721	\$ 4,217,353,049
Commercial Personal	\$ 24,839,109,780	\$ 24,535,320,698
Industrial Personal	\$ 27,742,250,222	\$ 29,115,151,547
Other	<u>\$ 35,195,758,670</u>	<u>\$ 36,303,269,594</u>
Total	\$357,532,565,735	\$365,450,661,159

Note: These figures are as of January 13, 2012.

Taxable Values

The following table compares the taxable values (appraised value less exemptions and special valuations) for Harris County. The change in the appraised and taxable values from 2010 to 2011 varied among taxing units, reflecting the mix of property types, exemptions, and marketing conditions within each unit.

HARRIS COUNTY TAXABLE VALUES (in thousands \$)				
	<u>2010</u>	<u>2011</u>	Change	% Change
Appraised Value	\$359,326,951	\$365,450,661	\$6,123,710	+1.70%
Taxable Value	\$276,887,747	\$276,887,747	\$3,562,395	+1.30%

Note: These figures are as of January 13, 2012.

Texas Comptroller of Public Accounts Ratio Study and Governance Review

Prior to 2010, the Texas Comptroller of Public Accounts was required by statute to study appraisal districts in Texas each year to determine the degree of uniformity of property tax appraisals to market value (Property Value Study, or PVS). Study results were used by the State of Texas in a complex formula for allocating state funds for education. For 2010, legislation was enacted requiring the annual study to be conducted every two years and establishing the requirement for a review of appraisal districts in the opposite year. The Comptroller is required to review the governance of each appraisal district, the taxpayer assistance provided, and the operating and appraisal standards, procedures, and methodology used by each appraisal district to determine compliance with generally accepted standards, procedures, and methodology (Methods and Assistance Program, or "MAP").

The Comptroller released the results of the Harris County Appraisal District's most recent MAP review (2010) and they are summarized below.

Mandatory Requirements	PASS/FAIL
Does the appraisal district have up-to-date appraisal maps from which property may be located pursuant to Comptroller rule 9.3002?	PASS
Do property inspections match appraisal district records?	PASS
Does the appraisal district have written procedures for appraisal?	PASS
Are values reproducible using the written procedures and appraisal records?	PASS
Were all appraisal district documents requested by PTAD made available to the reviewer by the required date?	PASS
Appraisal District Activities	RATING
Governance	EXCEEDS
Taxpayer Assistance	EXCEEDS
Operating Procedures	EXCEEDS
Appraisal Standards, Procedures, and Methodology	EXCEEDS

The comprehensive review included documentation and analysis of the district's compliance with state law. In the four critical areas of governance, taxpayer assistance, operating procedures, and appraisal standards, procedures, and methodology the district exceeded the standards, earning its highest score in the category of taxpayer assistance.

The Property Value Study is to help ensure equitable distribution of state funding for public education. Texas funds public education through state and local funds. Local funding comes from property taxes. The chief appraiser of each appraisal district determines local property values, and school districts set tax rates that determine the amount of local tax revenue. Texas bases its funding on the total taxable property value within each school district, as determined by the Property Value Study.

The Comptroller's office has released its 2011 Property Value Study. The district's median levels of appraisal for 2011 and for 2010 are summarized in the table on the following page.

STATE COMPTROLLER'S STUDY

<u>Property Category</u>	<u>Median Level of Appraisal 2011</u>
Single Family Residential	.99
Multi-Family Residential	.99
Vacant Lots	1.00
Acreage	.96
Commercial Real Property	.99
Utilities	1.02
Commercial Personal Property	.99
Overall Median Level – All Properties	.99

Property Owner Protests, Appeals, and Litigation

During 2011 property owners and professional tax consultants filed 308,085 protests, a decrease of 4.23 percent from the 2010 protest volume of 321,685. Property owners may protest the appraised value placed on their property or if their property was equally appraised before the time the appraisal rolls are approved and certified.

Property owners can protest the value themselves or hire an agent to represent them. In 2007, the number of property owner protests (48 percent) was almost equally split with the number of those represented by agents (52 percent). However, since then, the number of property owner protests has steadily declined each year while the number of agent protests has increased. In 2011, property owner protests had fallen to 28 percent, while protests by agents had climbed to 72 percent.

The protest period is conducted from May to August each year. Property owners usually resolve disagreements about their appraised value, exemptions, or other issues in an informal 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. The panel makes its final determination, which must then be ratified by the full ARB at its next regular meeting. The 2011 protest activity listed below has been updated through April 5, 2012. The table below shows the protest activity for the last 10 years.

PROTEST ACTIVITY			
(dollars in millions)			
Year	Reappraisal Year	Accounts Protested	Value of Accounts
2002	No	146,924	\$74,061
2003	Yes	180,757	\$77,496
2004	No	181,662	\$90,091
2005	Yes	202,860	\$102,692
2006	No	271,226	\$155,457
2007	Yes	367,954	\$193,260
2008	Yes	397,400	\$221,860
2009	No	391,774	\$217,732
2010	Yes	321,685	\$186,432
2011	Yes	308,085	\$184,712

Property owners who are dissatisfied with their protest hearing result may appeal the appraisal review board decision by filing suit in state district court, by appealing to the State Office of Administrative Hearings (SOAH), or by filing an application for binding arbitration.

The volume of litigation for the last 10 years has soared from 587 lawsuits in 2001 to a high of 3,530 in 2007. With the nationwide recession, lawsuits fell in 2008 and 2009 to 2,196 in 2010. However, as the economy begins a slow turnaround, litigation in 2011 started to rise again to a total of 2,934 lawsuits.

Rather than filing suit in state district court, property owners may appeal the appraisal review board decision through binding arbitration. Arbitration is available for a property owner's homestead of any value, or for other properties valued at \$1 million or less. Arbitration volume for the last 7 years has continued to grow since it was first available in 2005 when 30 accounts used this option. There were 514 accounts that went to arbitration in 2011, which was an increase of 117, compared with 2010.

Another option for property owners is to file an appeal with the State Office of Administrative Hearings (SOAH). Under a pilot program adopted by the 81 Regular Session of the Legislature in 2009, and amended in the 82 Regular Session of the Legislature in 2011, property owners in Bexar, Cameron, Denton, El Paso, Fort Bend, Harris, Montgomery, Nueces, Tarrant, and Travis Counties may appeal ARB orders for real or personal properties with values of more than \$1 million to SOAH. The original 2009 legislation required the pilot program to be implemented over a three-year period beginning in January 2010. The new 2011 legislation requires the pilot program be extended until 2014. Property owners must exercise this option not later than 30 days after receiving the ARB's Order of Determination.

As a member of the initial SOAH pilot program, HCAD has been the leader in the state for this method of property tax appeal, and in 2011 was involved in 11 SOAH cases. Of these 11 cases, the district was the prevailing party in two cases, lost one case, settled six cases, and had two cases dismissed. In the "lost" case the Administrative Law Judge agreed with the value given by the HCAD Review Appraiser. Since that number was lower than the value determined by the ARB, this was treated as a loss.

Major Initiatives

The Harris County Appraisal District continued its online iFile program that allows property owners and agents to protest their noticed values through the district's website. During 2011, of the 76,303 individual property owners who filed protests, 48,564, or 63 percent, filed using iFile, while 164,189 of 198,249, or 82 percent, of agent protests were filed electronically.

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 use an iFile personal identification number, state an opinion of value, and give the 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 agreement for the tax year. If the appraiser determines an offer is not warranted, the protest is scheduled for an informal meeting with an appraiser. Rejection of the

appraiser's offer, or failure to respond, automatically schedules the property owner to appear for a formal hearing before the Appraisal Review Board.

In 2011, 57 percent (28,050) of property owners who used iFile also participated in the iSettle program. This reduced the number of potential hearings by 9,600. Also, much of the paper handling, data entry, scanning, and filing tasks were eliminated. The district has also recently introduced the iReschedule program allowing property owners scheduled for appraiser conferences or hearings to reschedule appointments online.

Street level, oblique, and aerial imaging have provided tools to (1) reduce field visits and allocate staff time resources more efficiently; (2) view properties restricted from view or when denied access to property; (3) capture previously undetected taxable property changes in a region; (4) increase accuracy by ensuring all changes are recorded; and (5) verify or correct existing information.

Awards, Honors and Distinguished Service

International

In 2011 the Government Finance Officers Association (GFOA) awarded a certificate of Achievement for Excellence in Financial Report to the Harris County Appraisal District for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2010. This was the 24 consecutive year that the district has achieved this award.

Joe Hablinski, senior review appraiser, was elected in 2011 as a member of the board of the International Association of Assessing Officers (IAAO). Bobby Larry, commercial division director, also was appointed as a regular member to the IAAO instructor relations subcommittee for 2012.

HCAD's Information & Assistance Division's GIS (Geographical Information Systems) Section had a map entitled, "Impact of Sales on HCAD Assessed Values" published in the Esri Map Book, Volume 26. Esri, founded in 1969 as "Environmental Systems Research Institute, Inc.", is an international ArcGIS software developer. The Esri Map Book acknowledges the important and innovative accomplishments of GIS users around the world. Each volume showcases some of the work presented at the Map Gallery Exhibit of the Esri International User Conference. The July 2011 conference was held in San Diego, California.

HCAD had six mapping specialists recognized in December 2011 with the International Association of Assessing Officers (IAAO) Cadastral Mapping Specialist (CMS) designation. Mapping specialists recognized were: Thang Nguyen, Jarrod Young, Khadijah Bilal, Phil Nguyen, Michael Vy, and Nina Zeng.

In August 2011 the Association for Commuter Transportation (ACT) presented the 2011 Employee Transportation Coordinator Champion Award to Charlene Fields for her efforts in the district's vanpool program. The award recognizes significant contributions in worksite commute alternatives. ACT is an international trade association that supports individual mobility management professionals and organizations in their efforts to reduce traffic congestion, conserve energy, and improve air quality.

National

Assistant Chief Appraiser Guy Griscom served in 2011 on the nation's Appraisal Foundation's seven-member Appraisal Practices Board. This prestigious board, authorized by the U.S. Congress, is developing additional guidance on appraisal methods and techniques for appraisers throughout the United States.

State-wide

Chief Deputy Sands Stiefer served as President of the Texas Association of Appraisal Districts in 2011.

Local/Regional

On May 26, 2011, Danielle Johnson was awarded the Houston CPA Society and Houston TSCPA Foundation service award entitled, Relations with Taxing Authorities Excellent Service Award.

On August 30, 2011, the same date as winning the international award, Charlene Fields and HCAD won the Houston Galveston Area Council (HGAC) award, 2011 Commute Solutions - HGAC's Best Vanpool Program.

The GIS Mapping Section of HCAD's Information and Assistance Division won a first place award for analytics, a second place award for cartography, and a third place award (also for cartography) at the GIS Day Event hosted by Lone Star College-CyFair in November, 2011. GIS stands for Geographical Information Systems. This event featured similar teams from throughout the Houston-Galveston area and was formerly hosted by the University of Houston.