

2012



Harris County Appraisal District 2012 Annual Report



Harris County Appraisal District

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Office of Chief Appraiser

March 9, 2015

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Harris County Appraisal District
Citizens of Harris County

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Sands L. Stiefer

Deputy Chief Appraiser

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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 2012 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 fairly allocate the tax burden 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.

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.

Sincerely,

Sands L. Stiefer
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 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, one of the largest in the state, served 492 taxing units in 2012.

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 2012 and does not anticipate any collection contracts in the foreseeable 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 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. The appraisals serve to allocate the tax burden among all property owners on an equitable basis, based upon market value.

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 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 collectively 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.

Beginning 2010, 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 twelve months led up to the major event of certification of the appraisal roll. The appraisal roll was certified on August 10, 2012 with less than 4.73 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 sum of the taxable value for each of the 492 tax unit appraisal rolls was approximately \$2.3 trillion, resulting in a 2012 ad valorem tax levy of approximately \$7.5 billion, an increase of 2.11 percent from 2011.

The Houston housing market ended 2012 with 19 consecutive months of increased home sales. Housing inventory was reduced and prices rose, with both median and average prices achieving historic highs. The single-family home average price jumped 11.3 percent year-over-year to \$243,787 while the median home price rose 7.8 percent to \$172,500. All housing segments saw gains except for homes priced at \$80,000 and below. Sales of foreclosure properties diminished to 14.2 percent of all property sales, half the share reported at the beginning of 2012. The majority of residential appraisals were unchanged again for 2012.

Positive trends in the office building market indicated a shift from recovery to expansion in 2012. Overall, office vacancies decreased to 10.6 percent from 12.0 percent in 2011, with the greatest decrease occurring in the Class "A" submarket. Year-end 2012 average capitalization rate for office buildings was 7.39 percent, a decrease from an average of 8.43 percent at year-end 2011.

The Houston apartment market shifted from recovery into growth and development mode. Rental rates increased 5.7 percent in 2012 and occupancy rates and absorption also increased, resulting in a decrease in concession offerings. The twelve-month rolling capitalization rate was 6.1 percent as of third quarter 2012, down from 7.5 percent for the same period in 2011. The biggest changes in capitalization rates occurred in the Class A high-rise and garden-style apartments. Construction activity was on the rise with 29 new complexes totaling 5,606 units. Ten of the 29 complexes that came online for 2012 were senior housing. Appraisal values for apartments increased almost 20 percent for tax year 2012.

Comparison of Appraised Values to Previous Year

The change in appraised value of taxable property between years 2012 and 2011 is reflected in the following table.

HARRIS COUNTY APPRAISAL DISTRICT APPRAISAL VALUES		
Category	Appraised Value	
	2011	2012
Residential	\$162,197,530,004	\$162,456,975,860
Apartments	\$ 18,134,573,343	\$ 19,369,424,787
Commercial	\$ 62,341,462,620	\$ 67,702,808,362
Vacant Land	\$ 9,523,719,186	\$ 9,374,210,017
Industrial	\$ 17,125,576,629	\$ 17,996,807,073
Utilities	\$ 4,216,772,032	\$ 4,168,405,368
Commercial Personal	\$ 24,459,408,506	\$ 25,742,447,941
Industrial Personal	\$ 29,024,910,186	\$ 35,059,596,013
Other	\$ 36,146,064,268	\$ 39,193,386,464
Total	\$363,170,016,774	\$381,064,061,885

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 March 8, 2013. The change in the appraised and taxable values from 2011 to 2012 varied among taxing units, reflecting the mix of property types, exemptions and market conditions within each unit.

HARRIS COUNTY TAXABLE VALUE (in thousands \$)				Percentage
	2012	2011	Change	Change
Appraised Value	\$383,443,914	\$363,527,388	\$19,916,526	5.48%
Taxable Value	\$290,912,249	\$274,606,228	\$16,306,021	5.94%

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 2013.

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 2012 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 2011 is summarized in the following table:

STATE COMPTROLLER'S STUDY	
<u>Property Category</u>	<u>Median Level of Appraisal</u> <u>2011</u>
Single Family Residential	.99
Multi-Family Residential	.99
Vacant Lots	1.00
Acreage	N/A
Commercial Real Property	.98
Utilities	1.02
Commercial Personal Property	.99
Overall Median Level – All Properties	.99

The final results of the 2011 study reflect that appraisals within the district are generally uniform, with an average coefficient of dispersion of 11.49 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 appraisals 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 2012, property owners and professional tax consultants filed 299,568 protests, a decrease of 3.82 percent from the 2011 protest volume of 311,005. 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. The panel makes its final determination, which must then be ratified by the full ARB at its next regular meeting. The 2012 protest activity listed next has been updated through April 30, 2013. The table below 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>
2003	Yes	180,757	\$ 77,496	9.5%
2004	No	181,662	\$ 90,091	9.1%
2005	Yes	202,860	\$102,692	8.0%
2006	No	271,226	\$155,457	13.7%
2007	Yes	367,954	\$193,260	12.3%
2008	Yes	397,400	\$221,860	11.4%
2009	No	391,774	\$217,732	9.1%
2010	Yes	321,685	\$186,432	8.3%
2011	Yes	311,005	\$185,658	8.1%
2012	Yes	299,568	\$199,719	8.13%

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 soared from 821 lawsuits in 2003 to a high of 3,530 in 2007. With the nationwide recession, the number of lawsuits started to fall in 2008 to a recent low of 2,196 in 2010. However, as the economy began to turn around in 2011, litigation started to rise again to 2,861 lawsuits in 2012.

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>
2003	821	3,901	\$ 5,873,710,453	3,901	11.74%
2004	1,112	2,538	\$ 5,581,943,682	2,538	9.70%
2005	1,233	2,454	\$ 6,507,678,235	2,454	10.46%
2006	2,172	3,913	\$17,463,622,646	3,888	11.84%
2007	3,530	6,094	\$21,444,067,224	6,087	11.78%
2008	2,730	6,214	\$29,042,553,781	5,869	13.76%
2009	2,713	8,647	\$31,600,968,025	8,196	13.63%
2010	2,196	5,424	\$17,589,424,637	5,218	11.25%
2011	2,938	6,550	\$23,299,505,024	5,071	11.05%
2012	2,861	6,346	\$26,098,484,252	1,308	11.31%

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 past 8 years has continued to grow since it was first available in 2005 when 30 accounts used this option. There were 780 accounts that went to arbitration in 2012, which was an increase of 258 compared with 2011.

ARBITRATION VOLUME				
<u>Year</u>	<u>Number of Accounts</u>	<u>Determined</u>	<u>Dismissed/ Withdrawn</u>	<u>Pending</u>
2005	30	22	8	0
2006	100	73	27	0
2007	264	206	58	0
2008	348	273	75	0
2009	360	307	53	0
2010	398	369	27	2
2011	522	465	45	12
2012	780	379	27	374

Another option for property owners is to file an appeal with SOAH. Under a pilot program adopted by the 81st Regular Session of the Texas Legislature in 2009, and amended in the 82nd 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 2012 was involved in 13 SOAH cases. Of these 13 cases, the district was the prevailing party in five cases, settled seven cases, and had one case dismissed.

Major Initiatives

The Harris County Appraisal District continues its online iFile program that allow property owners and agents to protest their noticed values through the district's website. During 2012, there were 67,971 property owners and agents who 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 also 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, the protest is scheduled for a meeting with an appraiser. Rejection of the appraiser's offer or failure to respond, automatically schedules the property owner to appear for a hearing with the ARB.

iFile and iSettle programs have reduced the number of property owners needing to appear in person at the district's office by 10,545 in 2012. Also, much of the paper handling, data entry, scanning and filing tasks were eliminated. In 2010, the district introduced the iReschedule program allowing property owners already scheduled for appraiser conferences or hearings to reschedule their appointments online. This program also allows a property owner to resolve their protests from the comfort of their home or office.

The Harris County Appraisal District earned a perfect score from the Texas Comptroller of Public Accounts in its 2012 Methods and Assistance Program (MAP) review of how well the district performs. The comprehensive MAP review examines the district's compliance with state laws, regulations, appraisal practices and operating best practices. The Comptroller announced the findings for the district in late December after an extensive review of the district's operations. The Texas legislature enacted legislation that requires the comptroller's office to conduct a formal MAP review every other year on a rotating schedule for every central appraisal district in Texas. The comprehensive review includes documentation and analysis of a district's compliance with state laws, rules and regulations. In the latest review, the comptroller determined that HCAD had exceeded its standards in the four major categories of governance, taxpayer assistance, operating procedures and appraisal standards, and procedures and methodology. HCAD received a perfect score of 100.

Awards and Acknowledgements

In 2012, 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, 2011. This was the 25th 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.

Bobby Larry, commercial division director, served as a regular member to the International Association of Assessing Officers (IAAO) instructor relations subcommittee for 2012.

In December 2012, HCAD had six employees receive International Association of Assessing Officers (IAAO) designations. Five mapping specialists were recognized with the IAAO Cadastral Mapping Specialist (CMS) designation. Mapping specialists recognized were: Thang Nguyen, CMS; Holly McDonald, CMS; Linghui Zeng, CMS; Khadijah Bilal, CMS; and Michael Vy, CMS. Clayton Rogers, AAS, received the Assessment Administration Specialist designation, which recognizes professionalism and competency in administration of a variety of functions for property tax purposes.

International/National:

Assistant Chief Appraiser Guy Griscom received the “Prominent Business Leaders of the World” award from Strathmore’s Who’s Who Worldwide. Griscom had been recognized in the government sector of the directory in 2011 and this year was recognized as a prominent leader in all of the sectors. Also, he serves on the Appraisal Foundation Board.

State:

Elisa Hand, research associate in the review appraisal division, won the Marilyn Albert Achievement Award at the 73rd annual Texas Association of Assessing Officers (TAAO) conference in September. The award is TAAO’s highest honor and recognizes a TAAO member who consistently performs high quality work, is devoted to excellence and maintains a professional image. Also, we have a number of staff who serve on Texas Association of Appraisal Districts committees.

Local/Regional:

Jamie Huble-Hudson, who coordinates HCAD’s agent section, was recently named a 2012 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 June HCAD Board Meeting.