



Harris County Appraisal District 2014 Annual Report



Harris County Appraisal District

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Office of Chief Appraiser

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Harris County Appraisal District
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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 2014 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.

As one of the largest assessment jurisdictions 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.

One of our newest and most successful innovations has been a program we started this year to bring information directly to the property owners. In its first year, our outreach program conducted 43 workshops to civic organizations, realtors and mortgage companies throughout Harris County.

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. The appraisal districts' 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, one of the largest in the state, served 501 taxing units and a population of 4.4 million in 2014. In 2014, 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 2014 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 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.

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 15, 2014, with less than 5.87 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 501 taxing unit appraisal rolls was approximately \$2.6 trillion, resulting in a 2014 ad valorem tax levy of approximately \$8.4 billion, an increase of 9.45 percent from 2013.

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 190 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.

The Houston housing market ended 2014 with home sales volume and prices at record highs while inventory levels were at record lows. Housing inventory continued to shrink with only a 2.5 months supply and prices rose, with both median and average prices achieving historic highs. The single-family home average price jumped 8.7 percent year-over-year to \$270,182 while the median home price rose 10.6 percent to \$199,000. All housing segments saw gains except for homes priced at \$80,000 and below. Homes priced from \$250,000 and above saw the highest sales volume and registered another hike in prices. The greatest one-month sales volume of 2014 was recorded in July, with 7,613 closings. By contrast, the lightest one-month sales volume was January, with 3,930 closings. Total dollar volume for 2014 hit record highs, up 12.7 percent to nearly \$24 billion, compared with approximately \$21 billion in 2013.

Houston has remained one of the steadiest and most productive growth cities in the country for many years. Houston has repeated its success as the national leader in office development primarily due to the strong oil and gas sector. However, concerns of the danger posed by the city's heavy reliance on oil have risen during the energy-driven economic and real estate boom. In the last quarter of 2014, the timing of future and ongoing projects may lead to slightly slower real estate growth than previously anticipated. The office market ended the fourth quarter of 2014 with a vacancy rate of

11.3 percent, below end-of-year 2013, which closed just shy of 12 percent. Year-end 2014 average capitalization rate for office buildings was 7.35 percent, which is down slightly from an average of 8.29 percent at year-end 2013.

Houston’s demand for apartments was at an all-time high in 2014. According to the CBRE Report, Houston had a positive net absorption of 21,394 multi-family units over the past year. Occupancy, absorption and rental rates all increased in 2014 - rental rates increased 8.1 percent – resulting in a decrease in concession offerings for tenants. The twelve-month rolling capitalization rate was 7.1 percent, totaling a volume of \$4.8 million. This represents an average price per unit of \$99,374 for all classes of property. Construction activity was on the rise with complexes that came online for 2014, and of those complexes, only one is a tax credit housing property.

The medical office building segment continued to expand to meet the demands of a growing population. Medical office buildings experienced lower vacancy rates and increasing rental rates. Many of the area health care systems were building new hospital campuses in the suburban market and the aging population is driving demand for senior housing. The medical real estate sector has experienced growth fueled by its strong demand and that trend is expected to continue.

Houston’s industrial growth is directly related to its transportation infrastructure and the warehouse market continues to experience signs of expansion and growth during this economic cycle. Much of the growth in the warehouse market has been focused in three primary areas: Far North, Northwest and the Southeast areas of Houston. These areas have been most desirable to tenants and investors of build-to-suit speculative buildings because of their proximity to major highways, airports and the Port of Houston. The Houston warehouse sector had a positive year in 2014 due to increased rental rates, lower vacancy, increased absorption and a resulting increase in sales price per square foot.

Comparison of Appraised Values to Previous Year

The change in appraised value of taxable property between years 2013 and 2014 is reflected in the following table.

HARRIS COUNTY APPRAISAL DISTRICT APPRAISAL VALUES		
Category	Appraised Value	
	2013	2014
Residential	\$169,405,418,597	\$189,407,505,138
Apartments	\$ 22,088,226,453	\$ 26,648,943,856
Commercial	\$ 78,420,523,568	\$ 89,706,256,553
Vacant Land	\$ 9,637,358,390	\$ 10,668,043,693
Industrial	\$ 19,503,760,822	\$ 21,288,170,739
Utilities	\$ 4,574,855,235	\$ 4,488,805,475
Commercial Personal	\$ 26,352,187,171	\$ 27,705,498,943
Industrial Personal	\$ 40,432,954,220	\$ 41,546,800,094
Other	<u>\$ 40,546,353,833</u>	<u>\$ 42,226,928,914</u>
Total	\$410,961,638,289	\$453,686,953,405

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 6, 2015. The change in the appraised and taxable values from 2013 to 2014 varied among taxing units, reflecting the mix of property types, exemptions and market conditions within each unit.

HARRIS COUNTY TAXABLE VALUE (in thousands \$)				Percentage
	<u>2013</u>	<u>2014</u>	<u>Change</u>	<u>Change</u>
Appraised Value	\$410,961,638	\$453,686,953	\$42,725,315	10.40%
Taxable Value	\$313,987,362	\$351,475,014	\$37,487,652	11.94%

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 2015.

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 2014, 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 2013 is summarized in the following table:

STATE COMPTROLLER'S STUDY

<u>Property Category</u>	<u>Median Level of Appraisal</u>
	<u>2013</u>
Single Family Residential	.97
Multi-Family Residential	.94
Vacant Lots	N/A
Acreage	N/A
Commercial Real Property	1.01
Utilities	.98
Commercial Personal Property	.99
Overall Median Level – All Properties	1.03

The final results of the 2013 study reflect that appraisals within the district are generally uniform, with an average coefficient of dispersion of 5.45 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.

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 1.03 percent appraisal level is considered to reflect very good appraisal performance.

Responding to a perception that commercial land was under-appraised, Harris County filed a challenge of the 2014 preliminary appraisals for land. HCAD commissioned an independent study by the internationally known firm of Almy, Gludemans, Jacobs, and Denne, which verified HCAD's preliminary numbers were valid. Harris County withdrew its challenge.

Property Owner Protests, Appeals and Litigation

During 2014, property owners and professional tax consultants filed 356,119 protests, resulting in an increase of 22.15 percent from the 2013 protest volume of 291,531. 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 2014 protest activity data listed next has been updated through April 13, 2015. 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>
2005	Yes	202,860	\$102,692	8.00%
2006	No	271,226	\$155,457	13.70%
2007	Yes	370,189	\$193,723	12.12%
2008	Yes	386,269	\$219,672	11.55%
2009	No	388,463	\$218,503	10.65%
2010	Yes	317,223	\$186,699	8.19%
2011	Yes	289,663	\$183,669	8.99%
2012	Yes	281,917	\$198,009	9.25%
2013	Yes	291,567	\$230,030	8.04%
2014	Yes	337,093	\$245,496	6.63%

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.

The volume of litigation for the past 10 years has soared from 1,233 lawsuits in 2005 to a high of 3,994 in 2014. After a previous high of 3,530 lawsuits in 2007, the number of lawsuits declined in 2008, 2009 and 2010 with the nationwide recession, but then started to rise in 2011.

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>
2005	1,233	2,454	\$ 6,507,706,655	2,454	10.46%
2006	2,172	3,912	\$17,446,885,543	3,907	11.82%
2007	3,530	6,094	\$21,444,067,224	6,094	11.76%
2008	2,730	6,208	\$29,042,542,084	5,874	13.72%
2009	2,713	8,645	\$31,605,691,200	8,567	13.58%
2010	2,196	5,439	\$17,689,573,361	5,347	11.15%
2011	2,940	6,612	\$23,500,337,398	6,376	10.94%
2012	2,866	6,963	\$29,009,655,655	6,680	10.50%
2013	3,563	14,813	\$56,009,709,559	6,288	9.28%
2014	3,994	9,369	\$55,820,088,313	507	9.69%

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 \$1 million or

less. Arbitration volume has continued to grow since it was first available in 2005 through 2012 and dropped off slightly in 2013. Arbitration volume for the past 10 years is summarized in the following table.

ARBITRATION VOLUME				
<u>Year</u>	<u>Number of Accounts</u>	<u>Determined</u>	<u>Dismissed/ Withdrawn</u>	<u>Pending</u>
2005	31	23	8	0
2006	100	73	27	0
2007	263	206	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	690	183	43	464

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 2014 was involved in seven SOAH cases. The district settled all seven cases.

Major Initiatives

The Harris County Appraisal District conducted a full reappraisal of all property in the county for 2014. Because of the county’s on-going explosive economic growth, residential property values increased by 26 percent. Commercial property value, which includes office, apartment, warehouse, retail and miscellaneous property, increased by 23 percent. HCAD increased values on Class A Office Buildings within the Central Business District by 18 percent, which, because this was the second consecutive year of increases, led to record litigation over property valuations.

Some of the district's outstanding 2014 performance measures are summarized below while others can be found throughout this annual report:

2013 PERFORMANCE MEASURES

<u>Category</u>	<u>Number</u>
Residential Properties Inspected	251,697
Business & Industrial Inspections	44,124
Commercial Property Inspections	12,258
Residential Sales Verified	15,264
New Subdivisions	708
Exemption Applications Processed	126,661
Telephone Questions Answered	279,618
Walk-in Customers	43,952
Property Owner Email Responses	15,567
Community Meetings	43

One of the district's new initiatives has been an outreach program to educate property owners on assessment and taxation issues. In 2014, the first year of the program, HCAD conducted 43 presentations to property owners and real estate professionals in communities and companies throughout Harris County. 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. The goal was to go to the property owners with helpful information rather than make them come to the appraisal district with questions. 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.

HCAD continues its online iFile program that allow property owners and agents to protest their noticed values through the district's website. During 2014, nearly 97,000 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, 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 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 13,920 iSettle offers accepted in 2014. Also, much of the paper handling, data entry, scanning and filing tasks were eliminated due to the use of iFile and iSettle. Of the 356,119 protests filed for tax year 2014, 96,345 – or 27 percent – were filed electronically. 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 2014, there were 31,258 electronically processed renditions and 21,202 rendition extension requests submitted using iFile.

In 2013, the district implemented an "Owners" web site that allowed property owners to voluntarily elect to receive value and scheduling notices, as well as Appraisal Review Board hearing orders electronically, further reducing the costs of mailing communications between the district, the ARB and the property owners. As of December 31, 2014, there were more than 90,000 accounts enrolled in the Owners web site and 8,061 accounts were serviced during 2014 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 which 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 to contracts to image the entire county in 2007. In addition to the street level imagery, the district procured updated imagery to assist in the valuation process in 2008. The resulting product has been used to assist in updating property characteristics, define neighborhoods and defend values in hearings.

Awards and Acknowledgements

In 2014, 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, 2013. This was the 27th 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.

International/National:

HCAD earned the 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 August 2014, HCAD's Sangeeta Dargan, James Aprea and Thu Ngo received their Residential Evaluation Specialist designations from the International Association of Assessing Officers.

State:

Glenn Peters, a member of HCAD's board of directors and chairman for 10 years, was presented with the Board Member of the Year award by the Texas Association of Appraisal Districts.

HCAD was awarded the Texas State Comptroller's Leadership Circle Platinum Award for going above and beyond the standards for financial transparency set by the state.

Local/Regional:

Marilyn Morrison, counter supervisor of the Information and Assistance Division, was named a 2014 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.