



Harris County Appraisal District 2015 Annual Report



Harris County Appraisal District

13013 Northwest Freeway
Houston TX 77040
Telephone: (713) 812-5800

P.O. Box 920975
Houston TX 77292-0975
Information Center: (713) 957-7800



Office of Chief Appraiser

Presiding Officers of Harris County Taxing Units
Members of the Board of Directors
Harris County Appraisal District
Citizens of Harris County

Board of Directors
Ed Heathcott, *Chairman*
Mike Sullivan, *Secretary*
Glenn E. Peters, *Assistant Secretary*
Wanda Adams
Pete Pape
Al Odom
Jim Robinson

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 2015 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 past 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 and in 2015 we conducted 50 workshops.

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 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 513 taxing units and a population of 4.5 million in 2015. In 2015, 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 2015 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 32 cities appoint one member; the Houston Independent School District Board of Trustees appoints one member; the other 24 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 14, 2015, with less than 6.21 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 513 taxing unit appraisal rolls was approximately \$2.9 trillion, resulting in a 2015 ad valorem tax levy of approximately \$9.4 billion, an increase of 10.96 percent from 2014.

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.

The Houston housing market faced a stiff challenge in 2015 because it followed the best year on record for home sales. Other influences such as falling oil prices, accompanied by large layoffs in the energy sector, also made sales struggle for 2015. Nonetheless, the total number of 2015 single-family home sales, as well as sales of all property types, achieved the second-highest levels of all time behind 2014. The sales slowdown did allow inventory to grow from a 2.5 month supply, the lowest level of all time, to a 3.2 month supply. Homes priced between \$150,000 and \$500,000 saw flat year-over-year sales, while homes below \$150,000 and above \$500,000 experienced declines. Single-family home sales fell 2.4 percent for the year and sales of all property types dropped 2.9 percent. On a year-to-date basis, the average price climbed 3.7 percent to \$280,290, while the median price increased 6.5 percent to \$212,000. The greatest one-month sales volume of 2015 was recorded in July with 7,985 single-family homes sold. By contrast, the lightest one-month sales volume took place in January with 4,109 sales. Total dollar volume for full-year 2015 hit a record high, but up just 1 percent to \$23,559 billion, compared with \$23,553 billion in 2014. While 2015 began at levels comparable to the record-setting 2014, home sales began to falter as plummeting oil prices and energy industry layoffs sparked jitters throughout the Houston market. Even so, there were 73,724 single-family home sales and 88,764 total property sales, with both numbers representing the second most transactions in the history of Houston real estate behind 2014.

Until 2015, Houston 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, the downturn in oil prices over the last year has affected the revenue stream of large oil and gas companies headquartered in the greater Houston area. Some restructured their development and operations plans and/or put capital improvement projects on hold. Houston was able to adjust to the abrupt changes in the supply and demand for oil refining and exploration and survived through this period because of its economic diversity in sectors such as distribution, technology and health care. However, the oil and gas sector remained the most significant economic driver. The office market ended 2015 with a vacancy rate of 13.6 percent, up from 2014's 11.3 percent vacancy rate. However, the year-end 2015 average capitalization rate for office buildings was 6.9 percent, slightly lower than the 7.3 percent at the end of 2014.

Houston's demand for apartments continues to be high due to constant significant population growth. According to the CBRE Report, Houston multi-family demand in 2015 was higher than expected with 13,013 units absorbed, the majority being in newly built class A complexes. Rental rates increased 5 percent in 2015, and total net absorption for the year was 13,262 units. With a near record number of units planned to come onto the market in 2016, newer multi-family units will likely offer concessions. The twelve-month rolling capitalization rate was 7 percent, totaling a volume of \$5.1 million. This represents an average price per unit of \$89.26 per square foot for all classes of property. With the downturn in the oil and gas industry, offset by strong growth in other economic sectors and the population, new construction activity for apartments is expected to tighten somewhat for the next two years. There were 74 new complexes totaling 21,192 units that came online in 2015, and three of those complexes were tax credit housing property.

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.

HARRIS COUNTY APPRAISAL DISTRICT APPRAISAL VALUES		
Category	Appraised Value	
	2015	2014
Residential	\$214,856,558,278	\$189,357,228,655
Apartments	\$ 31,352,457,322	\$ 25,719,873,385
Commercial	\$ 98,815,403,067	\$ 86,627,971,957
Vacant Land	\$ 11,668,103,775	\$ 10,566,775,654
Industrial	\$ 24,409,872,435	\$ 21,226,399,830
Utilities	\$ 4,664,594,651	\$ 4,488,785,490
Commercial Personal	\$ 29,882,390,104	\$ 27,863,845,122
Industrial Personal	\$ 42,776,956,755	\$ 41,149,934,716
Other	\$ 44,852,422,632	\$ 42,205,206,083
Total	\$503,278,759,019	\$449,206,020,892

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 5, 2016. The change in the appraised and taxable values from 2014 to 2015 varied among taxing units, reflecting the mix of property types, exemptions and market conditions within each unit.

HARRIS COUNTY TAXABLE VALUE (in thousands \$)				
	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>Percentage Change</u>
Appraised Value	\$503,278,759	\$449,206,021	\$54,072,738	12.04%
Taxable Value	\$393,999,488	\$346,020,197	\$47,989,291	13.87%

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 was completed for 2015, and the district obtained all tested school districts within the margin of error.

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 will be conducted for 2016.

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>
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 preliminary 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 2015, property owners and professional tax consultants filed 369,355 protests, resulting in an increase of 7.04 percent from the 2014 protest volume of 345,056. 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 2015 protest activity data listed next has been updated through March 22, 2016. 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>
2006	No	271,226	\$155,457	13.70%
2007	Yes	363,238	\$192,361	12.12%
2008	Yes	394,467	\$219,643	11.55%
2009	No	393,050	\$218,485	10.67%
2010	Yes	322,238	\$186,744	8.20%
2011	Yes	303,395	\$183,707	9.00%
2012	Yes	295,905	\$198,142	9.29%
2013	Yes	301,803	\$230,060	8.75%
2014	Yes	345,056	\$246,503	8.52%
2015	Yes	369,355	\$281,500	6.29%

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 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>
2006	2,172	3,912	\$17,446,885,543	3,911	11.81%
2007	3,530	6,094	\$21,044,067,224	6,094	11.76%
2008	2,730	6,208	\$29,042,542,084	6,206	13.71%
2009	2,713	8,645	\$31,605,691,200	8,615	13.65%
2010	2,196	5,433	\$17,707,461,961	5,406	11.16%
2011	2,940	6,601	\$23,505,997,980	6,543	10.91%
2012	2,866	6,985	\$29,390,152,342	6,965	10.44%
2013	3,571	11,014	\$55,261,276,657	10,807	9.69%
2014	4,030	9,722	\$61,845,626,380	9,295	8.65%
2015	4,133	10,047	\$62,410,725,237	7,360	10.85%

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 dropped off slightly in 2013 and 2014. 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>
2006	100	73	27	0
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	739	493	6

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 83rd 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 conducted a full reappraisal of all property in the county for 2015. Because of the county’s economic growth, residential property values increased by 27 percent. Commercial property value, which includes office, apartment, warehouse, retail and miscellaneous property, increased by 24 percent. HCAD increased values on Class A Office Buildings within the Central Business District by 7 percent, which, because this was the third consecutive year of increases, led to record litigation over property valuations.

Some of the district's outstanding 2015 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	176,839
Business & Industrial Inspections	55,349
Commercial Property Inspections	12,484
Residential Sales Verified	4,453
New Subdivisions	855
Exemption Applications Processed	156,616
Telephone Questions Answered	300,199
Walk-in Customers	52,781
Property Owner Email Responses	22,156
Community Meetings	50

The Harris County Appraisal District developed an iPhone or iPad application to file a residence homestead exemption in 2015 and made it available to property owners in December. The app allows property owners to submit the homestead application through their Apple device by providing images of their driver's license and to then view the status of their application.

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, 2015, there were more than 152,390 accounts enrolled in the Owner's website and 12,307 accounts were serviced during 2015 using the new electronic document delivery options.

The district's outreach program, which educates property owners on assessment and taxation issues, continues to grow in popularity. In 2015, the district conducted 50 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. 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 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 allows property owners and agents to protest their noticed values through the district's website. During 2015, nearly 109,300 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. 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 2015, there were 29,669 electronically processed renditions and 20,928 rendition extension requests submitted using iFile.

To provide property owners with easier access to data and maps, the district 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 your neighborhood.

Awards and Acknowledgements

International/National:

HCAD earned the Public Information Program Award for 2015 from the International Association of Assessing Officers for its community outreach program "Plain Speaking About Property Taxes – Putting a Face on the County Appraisal District." The award is given to assessment jurisdictions that have developed and implemented an effective program to provide information to taxpayers about the assessment process.

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 2015, HCAD's Chacko Mathai received his Assessment Administration Specialist designation from the International Association of Assessing Officers.

In 2015, 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, 2014. This was the 28th 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, director of audit support in the Audit Support Services Division, was elected vice president of the Texas Association of Assessing Officers' Gulf Coast chapter.

Shirley Washington, senior administrative technician in the Audit Support Services Division, was named a 2015 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.