

# T T A R A

Texas Taxpayers and Research Association

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## Equal and Uniform...sort-of Comptroller's Study Shows Appraisal Improvements Needed

Among basic protections the Texas Constitution offers taxpayers is that their property will be appraised at its market value (before exemptions), and that any taxes assessed will be equal and uniform.

After all, it is scant comfort if your property is fairly appraised only to find out that your next-door neighbors' are not. If their property is under-appraised, a heftier tax bill on your property subsidizes their benefit.

Appraising tens of millions of parcels is a daunting task for the state's 253<sup>1</sup> appraisal districts. For many years these offices have operated with inadequate oversight. That has come to an end thanks to 2009 legislation empowering the Comptroller to review their operations. A new evaluation she has undertaken has pointed out a number of shortcomings in the system and identified areas for improvement.

The good news is that most districts are well on the way to correcting their deficiencies. Even so, there is plenty of room for improvement to ensure that all taxpayers across the state, no matter where located, have their property values

derived in a competent, professional manner—the essential element of equal and uniform property taxation.

Many problems remain. One in 6 central appraisal districts (CAD) got failing grades in their basic mission—the procedures and standards used in appraising property. So far, 8 have had deficiencies so glaring they have been reported to the Texas Department of Licensing and Regulation (TDLR) for remediation—this after having worked with the Comptroller's Office for over a year to make needed changes. Many others still have clearly identified areas that need improvement.

### **Evaluating Reform: A Change for the Better**

In 1979 Texas lawmakers and voters threw out an antiquated property tax system, replacing it with one which was to be professionally managed. Each CAD would be locally-run, but under uniform standards and procedures established in state law.

This system would become a critical part of our equalized school finance system; with local property values playing a key role in determining how much state aid a school district received, accurate appraisals were a must. To ensure the system was fair, the state (under a program now housed at the Comptroller's Office as the Property

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<sup>1</sup> Each of Texas' 254 counties has its own locally appointed appraisal district with the exception of Potter and Randall counties, which operate a single consolidated district.

Tax Assistance Division—PTAD) would review a sample of locally-determined values. If the sample showed a substantial under- or over-estimate of market value, the state would substitute its own numbers in the school finance calculations, which would result in a change in the amount of state aid the district received. This consequence was assumed to be sufficient to encourage CADs to improve. This system worked well overall for school aid distribution purposes, but did little to protect taxpayers. A district could make numerous errors and still receive a perfect score if those errors happened to cancel each other out.

TTARA long argued that instead of producing a “second guess” of taxable values, the state’s value study could better protect taxpayers and still perform the function of producing equalized values for school aid purposes, if it focused on the methods and procedures used by the appraisal districts. The two-fold purpose of the change would be to identify which appraisal districts were operating below standard, and then assist those districts in making needed improvements.

These provisions became law with the 2009 passage of House Bill 8, by Rep. John Otto (R - Dayton). Once every two years each appraisal district now comes under the Methods and Assistance Program (MAP), in which the Comptroller’s PTAD is to “review the governance of each appraisal district, taxpayer assistance provided, and the operating and appraisal standards, procedures, and methodology used to determine compliance with generally accepted standards, procedures, and methodology.” In the alternating year in which a CAD is not under MAP review, the Comptroller conducts the traditional numerical value study. In 2010, 128 CADs were examined under the MAP program and the remaining 125 in 2011.

### **Do All CADs Have What It Takes?**

Under the new system, the Comptroller’s PTAD each January starts the process for a CAD under review. The division reports their preliminary findings and recommendations for improvement to each CAD around early summer. Over the remainder of the year, the division works with each appraisal district to resolve as many deficiencies as possible before issuing its final report at year’s end. With the issuance of the final report, CADs then have until the end of the ensuing year to come into compliance or be reported to the TDLR which is charged, during the following year, “to take action necessary to ensure that the recommendations in the report are implemented as soon as practicable.” TDLR was granted enforcement powers because it is the agency that licenses property tax professionals. At the conclusion of the one-year remediation period, TDLR is to notify the CAD board of directors and chief appraiser whether all recommendations are judged to be substantially implemented. If not, TDLR is empowered to impose sanctions, although the agency has yet to identify what those might be.

The Comptroller’s assessment for 2010 and 2011 had two parts. First, a list of five mandatory requirements for which a pass or fail grade is assessed. At a minimum, an appraisal district must have:

1. Up-to-date appraisal maps from which property may be located,
2. Property inspections that match appraisal district records,
3. Written procedures for appraisals,
4. Values that are reproducible using the CAD’s procedures and records, and
5. Timely submission of all requested documents to the PTAD reviewer.

Second, appraisal districts were given an assessment by which the Comptroller established

a rating based on the answers to 196 (183 regular and 13 bonus) yes/no questions posed in an evaluation prepared and compiled by the Comptroller’s Office. This was the most basic of exams, determining simply whether required essentials were in place and not if they were being used appropriately. The questions were designed to determine if each CAD had the necessary resources and procedures in place to conduct its activities as required by the Property Tax Code and generally accepted appraisal standards as set forth by recognized industry sources, such as the Uniform Standards for Professional Appraisal Practice (USPAP) and the International Association of Assessing Officers (IAAO).

<u>Mandatory Requirement</u>	<u>Number of CADs</u>		<u>Percent of CADS w/ Final Fail</u>
	<u>Preliminary Fail</u>	<u>Final Fail</u>	
Current Maps	69	24	9.5%
Property Inspections Match Records	27	12	4.7%
Appraisal Procedures	79	23	9.1%
Reproducible Values	91	41	16.2%
Timely Data Submission	5	6	2.4%

1. Governance,
2. Taxpayer Assistance,
3. Operating Procedures, and
4. Appraisal Standards, Procedures and Methodology.

The 196 questions dealt with very basic aspects of operations, including, for example:

- Is there a written job description for the chief appraiser?
- Do you have current appraisal manuals for all categories of property?
- Do you have updated depreciation tables?
- Do you conduct and use ratio studies in accordance with IAAO standards?
- Are there written procedures for developing mass appraisals according to USPAP standards?

For every “no” response, the Comptroller made a curative recommendation. In the event an appraisal district failed to substantially comply with all recommendations within one year from the issuance of its final report by the Comptroller, it would be reported to the TDLR for noncompliance.

The questions were compiled into four categories of operation:

Based on the percentage of questions answered affirmatively, a grade was assigned to each of the four categories based on the following scale:

<u>Score</u>	<u>Rating</u>
100+	Exceeds Standard
90 up to 100	Meets Standards
75 to 89	Needs Improvement
Less than 75	Unsatisfactory

**The Results: Not What Was Hoped For**

Tables 1, 2 and 3 summarize the Comptroller’s evaluation of all 253 CADs – 128 in 2010 and 125 in 2011. Most districts received acceptable marks, but still had some areas for improvement that were noted. In other cases the results pose some troubling concerns—particularly for those that received failing scores. The Comptroller’s preliminary review found that roughly 1 in 3 appraisal districts did not have current property maps, documentable appraisal procedures, or values assigned to certain properties that the Comptroller’s Office was able to reproduce (Table 1). While many districts were able to correct the identified deficiencies, in the final

analysis the Comptroller ultimately failed 1 in 6 districts in which values could not be reproduced. This is a particularly troubling result since valuing property correctly is the core mission of any appraisal district. “I don’t know” is an unacceptable answer to any property owner who wants to know how the appraisal district valued their property. These districts were given notice—correct these deficiencies over the next 12 months or be reported to TDLR.

In total, PTAD made more than 11,000 preliminary recommendations to bring CADs up to par (Table 2). In the six-month period between the preliminary and final reports, CADs took action to significantly reduce the number of unmet recommendations. It is clear that simply conducting the review has led to dramatic improvements in the operations of local appraisal districts. Still, not all districts have complied, potentially leaving many property owners subject to arbitrary taxes.

Finally, Table 3 summarizes the ratings given in the four categories of operations that were tested. Performance in taxpayer assistance and governance were clearly the best with the overall improvement in governance leading the way. All but a limited number either met or exceeded standards for helping and informing taxpayers and for governing their operations. CADs were only slightly less successful in demonstrating proper operating procedures.

### **Appraising Property: Lagging in the Most Important Task**

The picture for appraisal standards, procedures and methodology tells a much different story.

**Table 2**  
**Graded Recommendations**

<u>Year</u>	<u>Districts Reviewed</u>	<u>Recommendations</u>		
		<u>Preliminary Unresolved</u>	<u>Resolved</u>	<u>Final Unresolved</u>
2010	128	5,336	3,073	2,263
2011	125	5,779	4,381	1,398
Total	253	11,115	7,454	3,661

**Table 3**  
**Final Graded Recommendations by Category**  
**Number of CADs**

<u>Category</u>	<u>Exceeds</u>	<u>Meets</u>	<u>Needs Improvement</u>	<u>Unsatisfactory</u>
Taxpayer Assistance	225	15	5	8
Governance	195	31	12	15
Operating Procedures	103	105	24	21
Appraisal Standards & Procedures	85	107	20	41

Performance here was the poorest of all. Nearly half of all CADs preliminarily received an unsatisfactory rating and that would be the final mark for roughly a third of those. When those judged as “needs improvement” are included, the number of CADs found to be below standard was one of every four (Figure 1).

Arguably, the ratings for appraisal practices are the most important and the most telling. Determining accurate market values is the very heart of an equitable system of property taxation. Tax rates determine the total amount that will be levied, but property values distribute that total among taxable properties. Unless values are uniformly and professionally derived following generally accepted standards and protocols, taxpayers cannot be confident that tax burdens are being distributed fairly and that they are therefore paying no more or less than what they should.

Unfortunately, the performance of this critical task overall was found the most questionable and, in some cases, far below standard. Table 4 lists the forty-one CADs that received an unsatisfactory appraisal methods rating on their *final* reports. In addition to the total number of unmet recommendations in all categories, also listed are the numerical scores that resulted in an unsatisfactory rating—below 75. These scores represent the percentage of the 83 relevant questions posed in this category that were answered affirmatively. Many are not just below the needed score of 75, but the majority graded out below 50. One county received a “0”; another a “1”—this after having a year from the time of the preliminary assessment to make the needed corrections.

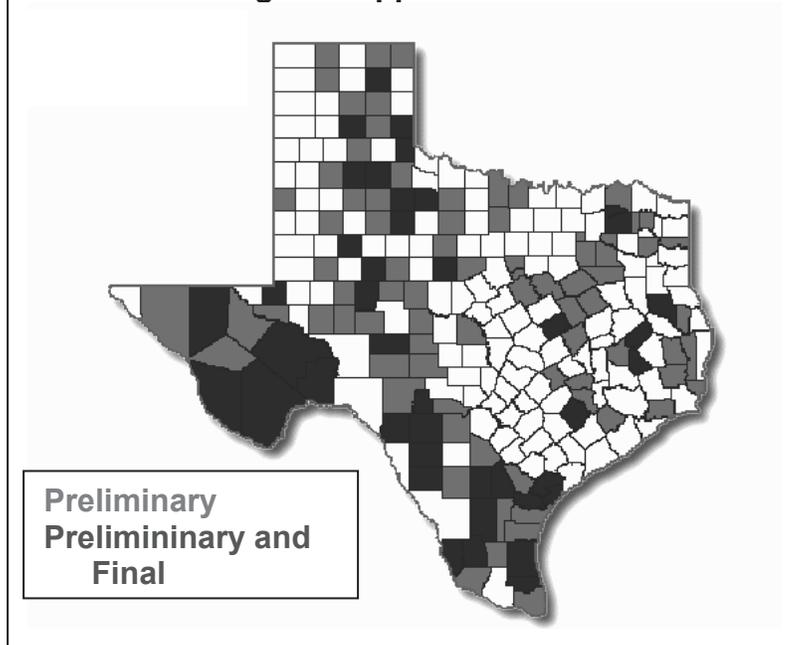
These results clearly indicate that the appraisal of property is not what it should be in numerous counties and consequently, it is an open question as to whether the taxpayers within these counties do indeed have an equal and uniform system of taxation, as the Texas Constitution guarantees.

#### **CADs Reported For Remediation in 2010: Few in Number and Small in Size**

Table 5 lists the eight CADs reviewed in 2010 that failed to comply with the Comptroller’s recommendations within one year after receipt of their final report, and were thus reported to the Department of Licensing and Regulation. Listed are the number of mandatory fails and the number of recommendations at the end of the review process: preliminary in June, 2010; final in January 2011; and those that remained unresolved a year later when reported to TDLR in February 2012.

Although scattered around the state the eight share a number of characteristics:

**Figure 1  
CADs with Preliminary and Final Unsatisfactory  
Ratings for Appraisal Methods**



- Small population – two counties have less than 1,000 and six have less than 10,000 residents
- Mostly Rural – farm and ranch values are by far the largest share of total market value in all but two
- Limited Taxable Values – four have less than \$500 million
- Small Budgets – six are less than \$200,000
- Few Employees – six have less than four, including the chief appraiser
- Limited Appraisal Expertise – no more than three Registered Professional Appraisers; two have none
- Low Pay – three reported chief appraiser salaries of \$15,000 or less in 2009

The TDLR, with the assistance of the Comptroller, is developing the methods it will employ during the remainder of this year to bring about compliance with all the recommendations. This is a critical task that may require further legislative direction.

With only a couple of exceptions, the reported CADs do not appear to have made much improvement in the eighteen months since receiving their preliminary report. Consequently, most still have a long way to go.

### 2012 and 2013 MAPs: Kickin' It Up A Notch

The second round of reviews has begun and it will be noticeably different than the first. Instead of primarily looking to see if necessary resources are in place as in the first round, there will be an emphasis on examining how those resources are being used.

First, CADs will be reviewed on the same annual schedule as in 2010 and 2011 but will be evaluated in three tiers according to amount of taxable value – more than \$5 billion, \$1 to \$5 billion, and less than \$1 billion. A different review instrument will be used for each tier in recognition of their tax roll makeup, but each will include an assessment of essential components.

Second, and more importantly, the reviews will take a much more hands-on approach and require far fewer document submissions. They instead will concentrate more on on-site observation and evaluation of appraisal activities, including inspections of information, documentation and processes and the verification of processes and practices.

### Conclusion: No to the Status Quo

Overall, Texas property tax administration generally is recognized as among the best, if not the best, in the nation. Market value is the standard for all property; a single authority assigns a value for use by all taxing jurisdictions; the valuation process is transparent; property owners have a readily accessible process for resolving valuation disputes; and taxpayers are given notice of

**Table 4**  
**CADs Rated Unsatisfactory in Final Report for Appraisal Standards, Procedures and Methodology**

<u>CAD</u>	<u>Total Number of Unresolved Recommendations</u>	<u>Appraisal Methods Score</u>
Armstrong	83	36
Borden	78	24
Brewster	60	47
Callahan*	39	61
Childress*	36	71
Collingsworth	80	33
Colorado	36	73
Culberson	51	63
Delta	37	70
Dimmit	57	50
Duval	137	9
Falls*	87	1
Floyd	45	58
Hopkins*	58	58
Jim Hogg	78	46
Kenedy	65	41
King	31	62
Kinney	51	48
Knox	31	62
Live Oak	116	14
McMullen	121	18
Mitchell	70	31
Motley*	50	74
Nacogdoches*	77	49
Pecos	42	59
Presidio	72	41
Real*	115	22
Refugio	56	64
Roberts*	46	56
San Jacinto	118	18
San Patricio	80	41
Schleicher	57	56
Sterling	51	48
Stonewall*	62	58
Terrell*	84	43
Trinity	56	53
Uvalde*	100	26
Willacy	28	72
Winkler *	141	0
Zapata	67	42
Zavala*	89	29

\* 2011 Review

proposed tax rates, an opportunity to comment on them and a methodology for rolling back excessive increases.

These characteristics were the foundation of the sweeping reforms adopted three decades ago and remain so today. That said, the results of this first round of CAD reviews indicate that the appraisal of property is well below standard in many, especially small, counties across the state. This condition is antithetical to the levy of equal and uniform taxes as mandated in the state constitution and should be addressed.

Before 2009, there would have been little the state could effectively do to remedy shortcomings in the appraisal system. Direct oversight was limited by Art. VIII, Sec. 23(b), Texas Constitution, which required the enforcement of appraisal standards “to originate in the county where the tax is imposed.” Voter approval of Proposition 3 in 2009 replaced the prior language with a statement that enforcement of uniform appraisal standards and procedures “shall be prescribed by law”—the purview of the legislature. Now lawmakers have not only the necessary authority in hand, but a mandate from voters to ensure that taxpayers are treated fairly across the state.

The MAP reviews demonstrate the serious need to begin consideration of options to ensure that every CAD has the resources at its disposal to professionally appraise property in accordance with the law and recognized professional

**Table 5  
Failing the Grade:  
CADs Reported for Remediation**

CAD/County	# Fails			# Recommendations		
	Comptroller Review		TDLR	Comptroller Review		TDLR
	Preliminary	Final	Report	Preliminary	Final	Report
Armstrong	4	4	2	83	83	4
Borden	4	4	0	105	78	22
Collingsworth	4	3	2	94	80	80
Dallam	2	2	2	43	22	6
Live Oak	3	3	3	116	116	116
McMullen	3	3	0	122	121	83
Sterling	2	2	2	95	51	34
Trinity	4	4	4	96	56	42

standards. A thorough review must identify the source of the deficiencies, be it insufficient resources or simple negligence. Further, TDLR, in concert with the Comptroller’s Office, must adopt an appropriate set of remedial tools to bring to bear on the problem. Until then, taxpayers statewide cannot be confident that they are paying into a property tax system in which the burden is, in fact, being distributed fairly. Given that Texans paid over \$40 billion in property taxes in 2009—twice as much as any other tax—the stakes are way too high to let the status quo continue.

***How Did My Appraisal District Score?***

*The reviews are in for all 253 appraisal districts across the state. If you want to see the report card for your county’s appraisal district, the Comptroller has made them available online at:*

*<http://www.window.state.tx.us/taxinfo/proptax/map/>*

*Click on either “2010 MAP Review Results” or “2011 MAP Review Results,” depending on which year the appraisal district was under review and a link to the report will be available.*

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