



# Texas Apartment Association

September  
2006

Appraisal Reform  
Recommendations

# TAA Appraisal Reform Recommendations

The current system for appraising the value of commercial and residential properties in Texas is broken and in need of serious reform. The Texas Apartment Association (TAA) created an Appraisal Reform Task Force (ARTF) comprised of property tax consultants, as well as property tax and operations experts, from multifamily residential housing companies across the country. The ARTF was charged with examining and making recommendations regarding: the overall appraisal process in Texas and in other states; mandatory sales price disclosure legislation in Texas; the impact of appraisal caps on business; and options for solving problems associated with the continuous rise of property appraisal values. The ARTF recommendations were reviewed and adopted by the TAA Legislative and Executive Committees and are the basis for TAA's efforts on these issues.

## Appraisal Caps

**TAA opposes lowering the current 10 percent appraisal cap.**

- While the current 10 percent appraisal cap for homesteads provides some relief for single-family homeowners against sharp property valuation increases, other taxpayers, including those who provide housing for nearly 40 percent of the state's population, have no such protections. The taxable value on commercial properties, including multifamily, are not capped and these property owners must immediately absorb the full impact of any valuation increases.
- Appraisal caps create inequities among properties by imposing artificial values that don't reflect true market value. Further lowering the cap or expanding its scope will create a disincentive against real estate transactions, since newly sold properties are taxed on the full value assessed, while surrounding properties are taxed at an artificially lower value. This inequity is contrary to the principle of taxing all property equally and uniformly.

## Alternatives to Stem the Effects of Appraisal Value Increases

**TAA supports placing reasonable limits on tax rate increases by ensuring tax revenue increases result from deliberate and informed action rather than from fluctuations in real estate values.**

- Placing reasonable limits on tax rate increases can be achieved by requiring all taxing entities to adopt the *effective tax rate* and then deliberately and publicly vote to increase the rate above that effective tax rate. If taxing entities need additional revenue, they should explain how the money will be used and the benefit to taxpayers.

- While it may not be practical to seek voter approval every time there is a budget increase, it is too difficult for other tax entities other school districts to meet the current standard for initiating rollback elections.

## Central Appraisal District (CAD) Boards of Directors

**CAD Boards of Directors have virtually no accountability to taxpayers, and therefore, no consequences for failing to follow the law or to do their job correctly.**

- CAD board members should be more accountable to the taxpayers they serve and less beholden to the taxing entities for which they appraise property values. This may necessitate a change in the way those board members are selected.
- Greater consideration needs to be given to increasing minimum qualifications for serving as a CAD director.
- The Comptroller should have the authority to sanction CAD board members and employees who don't follow the law or who act inappropriately during either the appraisal or hearing process.

## Appraisal Review Boards (ARB)

**TAA is concerned that ARB members lack or have limited qualifications and may not be familiar with the complexities affecting the value of various types of property.**

- Increase qualifications for serving on an ARB. Members should be representative of or have familiarity with the classes of property being valued in the district.



- Establish specialized ARB panels familiar with different classifications of property.
- Increase training requirements for ARB members. Training should include topics such as: capitalization rates, appraisal processes for different types of properties, laws governing the appraisal process, the protest process, and the meaning of “equal and uniform” provisions in law.
- Create a “three-strikes” provision so that any ARB member who continuously fails to comply with laws governing protest hearings and valuations would become ineligible for board service. This would address property owners’ complaints that ARBs lack consistency throughout the state and that some fail to comply with state law.
- Make ARBs independent from CADs so property owners are confident their cases are reviewed with impartiality. ARB members should be employed by, accountable to, and trained by an unaffiliated entity.

## Appraisals and the Appeal Process

**The appraisal process should emphasize the accurate valuation of property, using the most appropriate method. Property owners need additional options for challenging their appraisal.**

- Only properties valued at \$1 million or lower may currently opt for binding arbitration when challenging the property’s valuation. The law should be changed to make this option available in all cases.
- Similar to the recommendation regarding arbitration for property valuation disputes, TAA recommends that binding arbitration should also be allowed in cases involving disputes over procedural violations.
- The margin of error allowed for the Property Valuation Study conducted by the Comptroller’s office should be increased from the current 5 percent limit. While it is essential that there be a strong incentive for chief appraisers to ensure they are valuing property accurately, the Comptroller should be given flexibility to allow a greater margin of error (up to 10 percent).

- Prohibit CADs from introducing the fact that a property sold recently or from referencing the sales price when the property is the subject of appeal.
- Clarify the law so a separate rendition need not be filed if the business personal property has been assessed and taxed as part of the real property (in which it’s housed). Prior to 2003, property tax law clearly stated that property owners, whose real property value includes the value of business personal property in or on the property, were not required to separately render their business personal property. After Texas passed the law in 2003 regarding penalties for failing to render business personal property, there appears to be some confusion, and CADs do not apply a uniform policy across the state.



## Oppose Mandatory Sales Price Disclosure Unless Other Reforms Are Passed

**TAA opposes mandatory sales price disclosure, unless it is part of larger, comprehensive appraisal reform and is modified to reflect variations in commercial transactions that affect the sales price.**

- If the Legislature considers enacting mandatory sales price disclosure, it must be done in the context of significantly broader appraisal reform to ensure taxpayer protections and an accurate system of property valuations.
- The provisions of SB 37 (Third Called Session of the 79<sup>th</sup> Legislature) authored by Sen. Jeff Wentworth (R-San Antonio) will likely be the starting point for any legislation filed during the 80<sup>th</sup> Legislative Session. A key element is that SB 37 prohibits CADs from increasing the appraised value of a property based *solely* on the sales price of that property. In addition, the bill contains several other important provisions, including use of a standard disclosure form throughout the state, realistic penalties to help ensure compliance, and a



process that ensures the closing will not be unduly delayed. The following provisions should be incorporated into any bill on this topic:

- Clear enforcement authority and penalties for violations by a CAD.
- A penalty for selective re-appraisal in which a CAD focuses on the newly sold properties while not re-appraising the entire segment of that property class in the area.
- A sales price disclosure form should allow the commercial property purchaser to allocate the sales price between real property, business personal property, and intangibles to reflect the value of land and structures, which is the true sales price for comparing other properties. Tax Code Sec. 11.02 provides that intangible personal property is not taxable, with exceptions for savings and loan associations and insurance companies.

- A sales price disclosure form should include a place to indicate if the sale was part of a 1031 tax exchange and allow for an explanation of how the exchange affected the sales price compared with the market value. The section of the disclosure form that allows the purchaser to list methods used to finance the sales price or other considerations that may affect the price should also include “assumption of existing debt.” The form should provide space for listing “transaction costs” included in the sales price that should not be considered in determining market value.
- A means to address property that is sold as part of a portfolio transaction and ensure that such transactions are properly considered on the form and for valuation purposes.
- Information gathered through sales price disclosure should be kept confidential, unless it is needed by a taxpayer protesting his or her property value. Taxpayers protesting property values should have access to *all* property information available to the CAD.



The Texas Apartment Association, Inc. (TAA), founded in 1963, is a non-profit statewide trade association dedicated to unifying rental housing professionals through education, legislative advocacy, and member services. TAA is affiliated with the National Apartment Association and local associations in 25 Texas cities. TAA members are rental housing owners, builders, developers, property management firms, and companies that supply products or services to rental properties. We have more than 10,000 members who own or manage more than 1.6 million units throughout the state and house nearly 4 million Texans.

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