

# Spendthrifts or Prudent Stewards?

## Evaluating the Five Largest Texas Appraisal Districts

by Paul Pennington

The great 17th century economist Adam Smith once said, "It is the highest impertinence and presumption, therefore, in kings and ministers to pretend to watch over the economy of private people, and to restrain their expense.... They are themselves always, and without any exception, the greatest spendthrifts in the society." Is old Adam Smith right? Well, we are all seeing a lot in the media these days about attempts to cut government spending at all levels, (federal, state and local). For the purpose of this analysis, let's limit its scope to those government entities who are responsible for the property tax assessments on your real and personal property, specifically, the five largest Texas appraisal districts. Are they spendthrifts or prudent stewards of your tax dollars? Let's see.

When examining the operations of government entities, you are automatically confronted with the adage that governments are not run like businesses. Therefore, the argument goes, they cannot be evaluated in the same manner as private sector companies. What to do? You either throw your hands up in the air and ask "why ask why?" or you develop parameters that impartially measure the effectiveness and productivity of the government entities you wish to study.

For the last three years I have examined the operations of the five largest appraisal districts in the State of Texas (Bexar, Dallas, Harris, Tarrant, and Travis Counties). The following represents the results of my research relating to the performance of these

districts during tax year 1992 and should not be considered a reflection of their operations for tax year 1993. The statistics used within this survey were obtained from the 1992 Texas Property Tax Appraisal District Survey, the Open Records Act, and questionnaires sent to the chief appraisers of each of the five appraisal districts. All sources were used in compilation of this analysis.

Along these lines, I've chosen six generic categories and I have attempted to qualify the performance of the five largest appraisal districts in Texas in these areas. The categories examined and commented on within this survey are as follows:

1. Tax roll analysis
2. Budget analysis / Cost effectiveness
3. Budget analysis / Staff productivity
4. Lawsuits / Effectiveness of the administrative remedy
5. State Ratio Study / Accuracy of appraisals
6. ARB budget comparison / Cost benefit

### 1. THE TAX ROLL RANKING

In analyzing the five tax rolls involved in this analysis, I've compared three areas in Table A:

- The total taxable value.
- The total number of tax parcels administered.
- The percentage of change between tax year 1991 and 1992.

### OBSERVATIONS

In analyzing the top five appraisal districts (Table A) strictly on the guidelines noted

above, the following rankings were achieved. Harris County tops the list both in terms of the size of tax roll and total number of tax parcels, followed in descending order by Dallas, Tarrant, Bexar, and Travis Counties. It is interesting to observe that, whereas each district added additional tax parcels between 1991 and 1992, their respective tax rolls decreased. Obviously, these counties were still experiencing loss in taxable values due to the savings and loan debacle, overbuilding and other economic factors, which adversely affected Texas during the late eighties and early nineties.

### 2. BUDGET ANALYSIS (COST EFFECTIVENESS)

In an attempt to rank the cost effectiveness and productivity of each of the districts in question, I have examined three major areas of operation:

- The 1992 operating budgets.
- Number of employees during 1992.
- 1992 cost per parcel.

### ADMINISTRATION COST PER PARCEL

As denoted above in Table B, I have taken each district's 1992 budget and divided it by the total number of parcels administered by each district. This calculation indicates the average cost for each district to administer its tax parcels. The related chart clearly shows Dallas County administering its roll at a significantly lower rate per parcel than the other districts, with Bexar County registering the highest per parcel cost.

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TABLE A: THE TAX ROLL RANKING

District	1992 Tax Roll	1991 Tax Roll	% Change	1992 Number of Tax Parcels	1991 Number of Tax Parcels	% Change
HARRIS	\$125,219,669,000	\$133,652,252,289	(6309%)	1,305,599	1,227,359	6.375%
DALLAS	\$104,379,260,000	\$105,779,402,720	(1324%)	752,829	751,509	.175%
TARRANT	\$53,675,595,165	\$54,677,220,235	(1.832%)	502,697	501,306	.277%
BEXAR	\$33,471,779,229	\$33,919,760,351	(.013%)	464,647	460,886	.009%
TRAVIS	\$24,370,281,800	\$24,467,392,949	(0.397%)	280,612	278,667	.698%

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**TABLE B: ADMINISTRATION COST PER PARCEL RANKING**

District	1992 Budgets	1992 Number of Tax Parcels	Cost Per Parcel
DALLAS	\$11,638,770	752,829	\$15.46
TRAVIS	\$5,167,000	280,612	\$18.41
HARRIS	\$24,599,369	1,305,599	\$18.84
TARRANT	\$9,672,057	502,697	\$19.24
BEXAR	\$9,502,893	464,647	\$20.45

If one considers the cost to administer a tax parcel in Dallas County (\$15.46) and compares it to Bexar County (\$20.45), you'll find a difference of 32%. Why does such a budget disparity exist? Can the 32% difference be accounted for in an economy of scale, based on the fact that Dallas is a larger district, with more employees and greater resources? Apparently, economies of scale have nothing to do with it. When you look at Harris County, the largest of all of the Texas appraisal districts, you find that their cost to administer a tax parcel is 22% higher than Dallas County. Evidently, Dallas's lower administrative costs must be attributable to more effective use of resources. Thus, Dallas County taxpayers are realizing lower administrative cost than their counterparts in Bexar, Harris, Tarrant and Travis Counties.

## TAX PARCEL EMPLOYEE RATIO (PRODUCTIVITY)

If we take this process one step further, it is possible to ascertain a ratio between the number of tax parcels and the number of employees per district. Or in other words, to rank the productivity of the district's employees. As shown in *Table C*, this can be achieved by dividing the total number of tax parcels per district by the total number of each district's employees. Using this comparison, we find Dallas County with the highest ranking and Tarrant County with the lowest. There is also an unexpected finding. As can be seen above, the cost to administer tax parcels and the tax parcel/employee ratio do not necessarily correspond. For example, Bexar County had the highest average tax parcel administrative cost, but is ranked second in the tax parcel/employee ratio. Thus, a

district's cost to administer its tax parcels does not appear to be connected to its respective budgets and staffing.

Another interesting observation is the range of disparity of productivity in comparing the districts. The management team at the Dallas Central Appraisal District is getting higher productivity out of its staff, based on the average tax parcel/employee ratio of 3,124 parcels per employee; whereas Tarrant County has a tax parcel/employee ratio of 2,452 tax parcels per employee, or 27% less productivity than Dallas.

## 3. LAWSUIT TO PARCELS RATIO (EFFECTIVE APPEAL PROCESS)

Several years ago I heard a chief appraiser say that when a property tax appeal reaches the courthouse, the system has failed. There is a lot of truth in that statement. Certainly, most chief appraisers would agree that only appeals involving points of law and real valuation disagreements need to reach the courthouse. Clearly, the whole concept of mass appraisal is not a science. Rather, it is an attempt to reach fair and equitable assessments on a mass scale. Thus, appraisal districts should agree that

the number of lawsuits filed against them acts as a barometer, indicating the effectiveness of their administrative remedy, which is the appeal process prior to judicial review. In reality, when there is a large upswing in the number of suits filed against a district, it does indicate a problem within the system.

Thus, I have developed a lawsuit-to-parcel ratio ranking, for the purpose of identifying those districts with the most effective administrative remedy system. The ranking is achieved by dividing the total number of tax parcels by the total number of lawsuits filed. We discovered a telling statistic regarding the effectiveness (or ineffectiveness) of the "administrative remedy" for a particular district. As can be seen in *Table D*, the lower the number of parcels per lawsuit, the greater the potential for taxpayers being forced to seek legal remedy. In 1992, Travis County gained the highest score for an effective administrative remedy, with Harris County scoring the lowest. Harris County set an all-time lawsuit record (state wide) with 654 lawsuits filed against it in 1992. As also noted in *Table D*, Harris County also scored the highest percentage increase in lawsuits (105.66%).

## 4. STATE RATIO STUDY

Pursuant to Sec. 5.10 of the Texas Property Tax Code, "The comptroller shall conduct an annual study in each appraisal district to determine the degree of uniformity of and the median level of appraisals by the appraisal district within each major category of property. The comptroller shall publish a report of the findings of the

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**TABLE C: TAX PARCEL EMPLOYEE RATIO RANKING (Productivity)**

District	1992 Tax Parcels	Number of Employees	Parcels Per Employee
DALLAS	752,829	241	3,124
BEXAR	464,647	165	2,816
HARRIS	1,305,599	487	2,681
TRAVIS	280,612	108	2,598
TARRANT	502,697	205	2,452

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**TABLE D: LAWSUITS TO PARCEL RATIO RANKING (Effective Appeal Process)**

District	1992 Lawsuits	1991 Lawsuits	% Change	Lawsuit to Parcel Ratio
TRAVIS	100	106	(5.66%)	2,806
DALLAS	277	235	17.872%	2,718
BEXAR	186	165	12.727%	2,498
TARRANT	204	230	(11.304%)	2,464
HARRIS	654	318	105.66%	1,996

study, including in the report the median levels of appraisal for each major category of property, the coefficient of dispersion around the median level of appraisal for each major category of property..."

Obviously, one could argue that the cost associated with administering a tax roll in a district which engages in an aggressive reappraisal program might be costlier than the costs of a district which is historically not as aggressive. Or, one might argue that it costs more to produce a more accurate tax roll on a per parcel basis. These are fair arguments, thus I have noted below the findings of the Comptroller of Public Accounts, Property Tax Division 1991 and 1992 property valuation study. However, when the administration cost per parcel rankings are noted, cost does not necessarily equate to a higher rating by the Comptroller's office, as noted in Table E. As a matter of fact, administrative cost do not appear to have a correlation on the tax rolls rated.

## 5. DO YOU GET WHAT YOU PAY FOR?

There is a growing tendency to create professional Appraisal Review Board (ARB)

members who can serve up to three consecutive terms, or as long as six years (see Table F). The rationale behind this tendency is twofold. First, the assumption is made that if members are fairly compen-

**TABLE E: STATE RATIO STUDY RANKING (Accuracy of Tax Rolls)**

District	*1992 Median Ratio	*1991 Median Ratio	*1992 Coefficient of Dispersion	*1991 Coefficient of Dispersion	Administration Cost Per Parcel
DALLAS	100%	99%	12.00	10.70	Dallas / \$15.46
BEXAR	100%	100%	13.33	14.91	Bexar / \$20.45
TRAVIS	100%	100%	13.43	9.68	Travis / \$18.41
TARRANT	99%	98%	14.83	13.87	Tarrant / \$19.24
HARRIS	94%	97%	17.01	18.09	Harris / \$18.84

\*Note: The median level is the median appraisal ratio of a reasonable and representative sample of properties in an appraisal district. Districts would ideally like to get as close to 100% on the Median Ratio as possible and as low a number as possible on the Coefficient of Dispersion.

sated for their part-time participation in the administrative remedy, then appraisal districts will be able to attract qualified members. Secondly, when districts are unable or unwilling to attract qualified members, they encourage their board members to

**TABLE F: ARB BUDGET COMPARISON (COST BENEFIT)**

District	Members	1992 Budget	Average Budget Per Member
HARRIS	45	\$600,000	\$13,333
TARRANT	30	\$368,011	\$12,267
TRAVIS	20	\$185,230	\$9,262
DALLAS	45	\$272,965	\$6,066
BEXAR	30	\$150,000	\$5,000

take appraisal courses in order to enhance their knowledge of appraisal methodology. Thus, in theory, if an ARB member is fairly compensated for his existing and/or on-the-job acquired expertise in dealing with valuation disputes, fair and equitable rulings should be the result. Unfortunately, theory does not resemble reality when ARBs are closely examined. Those districts who spend more money on their ARBs do not necessarily obtain fair and equitable rulings and/or raise the ranking of their tax rolls as a whole.

For example, the comparison noted in Table G illustrates the effect funds budgeted per ARB member has on the lawsuit

to parcels ratio and the state ratio study ranking. Obviously, the related chart clearly shows that the amount of funds budgeted for ARB members does not necessarily have a correlation to the effectiveness of the appeal process and/or the accuracy of the tax rolls they are charged by law to review.

## WHAT DOES THE CODE SAY ABOUT ARBS?

The Texas Property Code requires each county to have an appraisal district and to establish an appraisal review board. ARBs may vary in size; however, the Code does give some guidelines. ARBs must have at least three members and, depending on the

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county's population, they may have as many as 45 members. ARB members are appointed by the appraisal district Board of Directors to serve two year terms, which begin at the first of the year. The Code does have some restrictions on the eligibility of potential members, which deal mainly with conflicts of interest, nepotism, and residency requirements. The Code is remiss, however, in that it does not have any requirements relating to possession of even a general knowledge of the appraisal of real or personal property.

## SO WHAT'S WRONG WITH ARBS?

In the last ten years, four disturbing scenarios have developed among ARBs:

### 1. BIAS

I am told that carved into the stone above one of the entrances to the Justice Department building in Washington, D.C., is the inscription: "The Government wins when justice is served." It doesn't say: "Justice is served when the Government wins." Some ARBs seem to have trouble with that concept, because of the built-in structural problems in their appointments and association with appraisal districts. As stated above, ARB members are appointed by appraisal district Board of Directors, some of whom are elected public officials and others, members of the private sector. Once appointed, the ARB member is trained by the district's staff and compensated from the district's coffers. This process in itself tends to create a bias in favor of the district. As an example, the Tarrant Appraisal District in fiscal year 1990 spent \$973,451 in legal fees, approximately 10% of their operating budget, defending themselves against taxpayer lawsuits. The onslaught of suits was generated in large part by their ARB's bias during the formal hearing process. The Texas Legislature recognized the problem, singled out Tarrant County, and passed legislation which forced the ARB to relocate to separate facilities from the Tarrant Appraisal District offices. In response to the legislative mandate, they moved one door down in the same office complex. The good news is that the hand-slapping by the legislature apparently had an effect, evident

**TABLE G: ARB COST VERSES EFFECTIVE APPEAL PROCESS AND ACCURACY OF TAX ROLLS**

District	Average Budget Per Member	Lawsuit to Parcels Ratio Ranking (Effective Appeal Process)	State Ratio Study Ranking (Accuracy of Tax Rolls)
HARRIS	\$13,333	TRAVIS	DALLAS
TARRANT	\$12,267	DALLAS	BEXAR
TRAVIS	\$9,262	BEXAR	TRAVIS
DALLAS	\$6,066	TARRANT	TARRANT
BEXAR	\$5,000	HARRIS	HARRIS

by the fact that Tarrant County reported spending \$59,485 in legal fees fiscal 1991 verses \$973,451 in fiscal 1990.

### 2. WHY ASK WHY?

In Sec. 6.43, the Code provides for the ARB to "...employ legal counsel as provided by the district budget or use the services of the county attorney and may use the staff of the appraisal office for clerical assistance." The problem with partiality towards the district and possible upticks in litigation is added to, when the ARB, acting as an "Independent Body," retains the same legal counsel as the district. For example, both Dallas, Harris and Tarrant see no conflict of interest in utilizing the same counsel as their respective ARBs. There are occasions when administrative and/or legal disputes arise, between taxpayers and/or their agents and the appraisal district. When an issue is brought before the ARB, and their legal counsel and the district's are one and the same, how can one reasonably expect an impartial resolution? The answer to this dilemma is apparently, why ask why?

### 3. CRONYISM

The next scenario which inevitably develops is the Pork Barrel Syndrome. This syndrome raises its ugly head whenever public funds can be doled out to friends and associates, regardless of qualifications. A classic example of this has evolved in Harris County. In October of 1992, the Houston Business Journal ran a series of articles about the amount of cronyism used to select Harris County Appraisal Review Board members. Apparently, their ranks

were saturated with former city and school district employees. Being true to their new governmental employer, the Harris County Appraisal Review Board satisfied it by recommending questionable valuations, which resulted in taxpayers filing a statewide record of 654 lawsuits.

### 4. RENEGADE

A property owner in Texas has the right to file an appeal if the owner feels the appraised value is in excess of the property's market value. Typically, after an appeal has been filed, a property owner is given an opportunity to discuss and, hopefully resolve, the dispute informally with a member of the appraisal district staff. If an appeal cannot be resolved at this level, the taxpayer is given an opportunity to appeal the disputed assessment to the ARB. For some unknown reason(s), be it a lack of confidence in the appraisal district's staff, turf battles, or an attempt to establish their own identity, some professional ARBs have felt it necessary to micromanage the informal appeal process. A case in point would be the actions of the Travis County ARB. The ARB's involvement grew to the point that any valuation agreement reached between a staff appraiser and property owner at the informal level was subject to constant scrutinization. If the ARB didn't agree with a valuation agreement, they would kick it back, forcing the property owner to bring the appeal before them formally for resolution. Once again, the legislature recognized the problem and, during the 1993 session, passed legislation (S.B. 893) to remedy the situation.

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Effective September 1, 1993, any agreements reached during the informal appeal process between the taxpayer and the district's staff are final and not subject to review by the ARB.

## WHAT DO THESE STATISTICS MEAN?

Everyone knows that you can make statistics say whatever you want them to say. However, even when all of my commentaries are ignored, certain trends come to the surface. Noted in *Table H*, are the rankings of each district, by each of the categories originally set forth in this analysis. Clearly, in 1992 the Dallas Central Appraisal District had the highest ratings in terms of budget cost effectiveness, staff productivity, and accuracy of their tax roll. The Travis County Appraisal District, by virtue of its excellent rating of lawsuits per parcel ratio, showed its effective administrative remedy program in 1992.

So, as old Adam Smith would put it, are there spendthrifts within the five largest appraisal districts? The answer is both yes and no. For example, by examining the tables, one is automatically struck by the fact that Harris County, the largest appraisal district, does not appear to benefit from any economies of scale. The vast amount of moneys it spends does not seem to equate to a more efficient appraisal district and/or accurate tax roll. On the other hand, Bexar County, who has the highest administration cost per parcel, also has the second highest rating by the state on the

TABLE H: EVALUATION RANKING
<p><b>1. TAX ROLL SIZE RANKING</b> (<i>Certified assessments and number of parcels</i>): (1) HARRIS (2) DALLAS (3) TARRANT (4) BEXAR (5) TRAVIS</p>
<p><b>2. ADMINISTRATION COST PER PARCEL RANKING</b> (<i>Most Cost Effective</i>): (1) DALLAS (2) TRAVIS (3) HARRIS (4) TARRANT (5) BEXAR</p>
<p><b>3. HIGHEST TAX PARCEL PER EMPLOYEE RATIO</b> (<i>Highest Staff Productivity</i>): (1) DALLAS (2) BEXAR (3) HARRIS (4) TRAVIS (5) TARRANT</p>
<p><b>4. LOWEST LAWSUITS PER PARCEL RATIO</b> (<i>Most Effective of Appeal Process</i>): (1) TRAVIS (2) DALLAS (3) BEXAR (4) TARRANT (5) HARRIS</p>
<p><b>5. BEST STATE RATIO RATING</b> (<i>Most Accurate Tax Roll</i>): (1) DALLAS (2) BEXAR (3) TRAVIS (4) TARRANT (5) HARRIS</p>
<p><b>6. HIGHEST ARB BUDGET COST PER MEMBER</b> (<i>Least Cost beneficial</i>): (1) HARRIS (2) TARRANT (3) TRAVIS (4) DALLAS (5) BEXAR</p>

accuracy of its tax roll and ranks second in staff productivity. Therefore, it appears that money in itself is not the question, rather the manner in which appraisal districts strive to effectively manage their resources.

Obviously all of the appraisal districts noted in this analysis perform mammoth

appraisal tasks, and I'm sure for the most part, theirs is a thankless job. Criticizing the administration of these districts is an easy thing to do; however, that is not my objective. Rather, the purpose of this analysis has been to applaud the efforts of the most efficient districts and hope that the others will find the constructive analysis and commentary useful.

## 1994 IREM Forecast Breakfast

The Austin Chapter (61) of the Institute of Real Estate Management (IREM) presents its **1994 FORECAST BREAKFAST**, a preview of Austin's Real Estate Scene on Wednesday, November 17, 1993 at the Stouffer Austin Hotel, from 7:30 a.m. to 9:30 a.m. Registration and coffee at 7:00 a.m. Panelists include Jerry Quick of Prudential Commercial Realtors, Barry Gillingwater of Gillingwater Properties, Inc., Ray Head of Real Estate Tax Services, Inc., Frank Miendorff of Commercial Industrial Properties Com-

pany, Howard Owen of Builders' Update, and Angelique Goodnough, CPM of Capstone Real Estate Services, AMO. They will discuss topics including: new development, office building market, single family supply and demand, property values, sales and comps, retail market, multi-family market and industrial properties. Neal Spelce of The Neal Spelce Company will serve as Moderator. Cost \$40 in advance, \$45 at the door. Group discounts. For reservations, call the IREM office at 335-6370.

## NCPTC News

### TENNESSEE

Ted Morford met with Bill Hubbard, NCPTC attorney, on September 24, and is preparing a memo to be sent to all members. The next meeting between Mr. Hubbard, Mr. Fiebleman and Master Robert Brandt was on October 15. The NCPTC Executive Board was scheduled to meet with Mr. Hubbard on October 21 at 1:30 to plan their approach for further hearings before the Master. The membership will be kept apprised.