



LIFT Perspective

Role of Government Series

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Stop Passing the Buck: Local Elected Officials Should Serve on CADs

Recommendation to the Texas Task Force on Appraisal Reform

Recommendation:

The Texas Task Force on Appraisal Reform issue summary declares that:

“Chief appraisers and members of the appraisal district board of directors and appraisal review board are not elected and directly accountable to taxpayers. Therefore, taxpayers do not have a specific elected official to turn to who oversees appraisal district actions.”¹

In order to directly tackle the problem of accountability, the Task Force should recommend to the Legislature that it amend Tax Code Section 6.03 so that appraisal boards are comprised of locally-elected officials such as mayors, county judges, and school board presidents. The era of unaccountable appraisal boards must end.

¹ Appraisal Reform Task Force Website, Office of the Governor;
http://www.governor.state.tx.us/priorities/appraisal_reform/summary

Background

The local property tax has two sides: the rate and the appraisal. With House Bills 1 and 3 in the 79th Third Called Session, legislators lowered property tax rates, providing necessary property tax relief to home and business owners. For homeowners and businesses, however, rates and appraisals have a direct impact on the final tax bill they pay each year. Even when the tax rate is lower than the previous year, if the appraised value of a property rises, the rate cut is undermined or even negated; the final tax bill may still rise. The history of property tax relief is instructive: because of rapidly-rising property values, any tax relief that was provided by the Legislature in the form of reduced property tax rates during the 3rd Called Session of the 79th Legislature will be short-lived. A response to rising property appraisals is as important as ensuring lower property tax rates.

To this end, Governor Perry has appointed the Texas Task Force on Appraisal Reform “to address... the silent tax hike of rising appraisals.”² The work of the Task Force will be key to ensuring that the recently won property tax relief translates into a long-term property tax cut that relieves the excessive tax burden currently being shouldered by Texas property owners.

The Task Force is addressing many issues relating to the appraisal process, including appraisal caps, revenue caps, sales price disclosure, and the property tax freeze for senior citizens. One of the most important issues before the Task Force, however, is the question of whether chief appraisers and members of the appraisal districts’ board of directors should be elected. The Task Force’s issue summary declares that:

“Chief appraisers and members of the appraisal district board of directors and appraisal review board are not elected and directly accountable to taxpayers. Therefore, taxpayers do not have a specific elected official to turn to who oversees appraisal district actions.”³

Electing Appraisal District Directors

The composition of County Appraisal Districts (CADs) aggravates taxpayer frustration with property taxes. A CAD is comprised of five directors, appointed by taxing units within the county. If the local tax assessor-collector is not appointed to the CAD, he or she must serve as a non-voting director. The five unelected directors then appoint a chief appraiser who, despite being several steps removed from any elected official, has a direct impact on the tax bills property owners receive. Whether perceived or real, this lack of accountability for increases in property tax rates and appraisals must be addressed.

The idea of holding appraisal board directors directly accountable by election is not new. House Bill 177 by Representative Mowery (79 R), for example, would have created

² Governor Rick Perry, August 21, 2006 Speech.

³ Appraisal Reform Task Force Website, Office of the Governor;
http://www.governor.state.tx.us/priorities/appraisal_reform/summary

appraisal boards comprised of a combination of the taxing entity's appointees and directly elected officials.

However, the best way to deliver increased accountability is not to create new elected positions on CADs, or even to elect the chief appraiser. Creating a system in which another field is placed on the ballot and voters are required to elect new officials is unnecessary. Instead of adding appraisal directors to the ballot, the existing composition of appraisal district boards should be changed so that the chief elected official of each taxing entity is required to serve on their appraisal district's board of directors⁴. Since these officials are already elected, voters will not have to educate themselves about another set of candidates, but will benefit from having an elected and accountable appraisal district. The appraisal process would become a subject for debate during election campaigns, with the members of appraisal boards having to defend their records and likely run against candidates promising either appraisal reductions, or more conservative appraisal increases.

Thus, accountability for rates and appraisals is achieved by having the elected heads of the various taxing entities serve as directors of the CAD and directly approve the appraisals in lieu of directors appointed by taxing entities. This proposal cuts out the appointed middle man, to the benefit of the taxpayer.

The relationship between elected officials and the people (or, in the case of this proposal, "the taxpayers") is highlighted by James Madison in *Federalist Paper No. 57* as he explains that Representatives in the U.S. House are subjected to frequent election to foster "an habitual recollection of their dependence on the people."⁵ Madison's arguments make it clear that beyond simply being accountable to voters, elected officials essentially owe a loyalty to their electorate. This is the reason to require that the already-elected chief officials of taxing entities (that is, mayors, county judges, and school board presidents) serve on appraisal district boards of directors in lieu of appointing middlemen. If these officials are elected on the promise that property tax rates and appraisals will be kept in check, then that is one of their duties to voters. They must strive to deliver on their promise, or face rejection at the next election. The current system in which appointed middlemen select the chief appraiser is lacking in both accountability and the motivation for local officials to lower tax rates and appraisals.

Local Property Taxes in Perspective

While increases in local property taxes have been a boon to the budgets of cities, counties, and school districts, the increased cash flow to these taxing entities has come at a great expense to property owners. Taking school district property taxes as an example, it is evident that tax rate increases do not accurately reflect the total increases in property

⁴ The composition of CADs under this system will vary and will be dependent on the number of individual taxing entities in the county. For example, a county with more than one city (and hence more than one mayor) may have a larger CAD than a county with fewer taxing entities.

⁵ Madison, *The Federalist Papers*, No. 57, February 19, 1788; <http://www.constitution.org/fed/federa57.htm>

tax levies. In fact, property appraisal increases are the driving force behind property tax increases.

The table below demonstrates that between 2000 and 2004, while average M&O rates have increased by only seven cents per \$100 dollars of appraised value (or 5.1%), total school district appraised taxable value has increased by 33.3%:

Year	School District Appraised Taxable Value (in Billions) ⁶	Statewide Average M&O Rate	School District Property Tax Levy (in Billions) ⁷
2000	\$878.0	\$1.38	\$13.4
2001	\$902.8	\$1.39	\$15.2
2002	\$1,056.9	\$1.43	\$16.4
2003	\$1,101.1	\$1.45	\$17.2
2004	\$1,170.7	\$1.45	\$18.5
Percent Increase 2000-04	33.3%	5.1%	37.8%

These increases in the tax rate and appraised taxable value have resulted in the total school property tax levy increasing by 37.8%. However, looking at the tax rate alone, a property tax payer might be told that his school taxes increased only 5.1% since 2000 when his total bill increased by a factor closer to 40%. It is the constant rise in appraisals that has resulted in property tax bills increasing by such a great degree. If the total property tax levy had increased by 5.1%, matching the increase in M&O rates, it would have stood at just \$14.1 billion in 2004. However as a result of the 33.3% increase in appraisals, the actual levy was \$18.5 billion. In other words, from 2000 to 2004, the increase in property tax rates would have increased the school property tax levy by less \$700 million. Appraisal increases grew the levy by \$4.4 billion.

Some of the growth of total school district property appraisals will clearly be a result of additional homes being built and improvements to existing properties; however, the discrepancy between the percent increase in the statewide average M&O rate and the increase in the total school district property tax levy is indicative of the impact that rising appraisals have had on property tax bills.

To be clear, property taxes can increase both when the tax rate increases and when appraisals increase. The local taxing units such as school districts, counties, and cities that set property tax rates are comprised of elected officials and are therefore accountable to voters. The appraisal districts, however, have as much influence over property tax bills as the local taxing units, yet they are unelected and unaccountable. Local taxing units can point to an average property tax rate increase of just 5.1% since 2000, but this increase does not account for the 37.8% increase in the total levy, which results not only

⁶ Texas Comptroller Property Value Studies 2000-2004.

⁷ Texas Comptroller of Public Accounts' Annual Property Tax Reports 2000-2004.

from the rate increase, but also from the 33.3% increase in appraisals. Yet since appraisal districts are unelected, voters can hold no-one accountable for these appraisal increases.

Misuse of the Appraisal Process

It must be noted that appraisal increases *per se* are not an inherent problem since such increases often point to neighborhood and individual home improvements and additions which are beneficial to the people living in those neighborhoods and homes. The most recent Annual Property Tax Report by the Comptroller of Public Accounts states that “County appraisal districts (CADs) continue to appraise property with uniform results and close to market value.”⁸ However, it is clear from the figures in the table above that increases in appraisals have well outpaced increases in property tax rates.

This process disenfranchises the taxpayer because it allows appraisers to maximize valuations, increasing revenues to their taxing units, without ever having to answer to any of those taxpayers at the polls.

Unelected officials have no incentive to be responsive to the taxpayer. In Madison’s terms, the “mark of honor” currently borne by directors of Texas appraisal districts is bestowed upon them not by the people, but by the taxing entities that appoint each director. Therefore appraisal district directors’ “grateful and benevolent returns” are just as likely to go to the entities benefiting from the tax as they are to go to the property owners being taxed. Indeed, the Comptroller’s 2004-2005 Appraisal District Operations Report points out that the taxing unit officials (the county tax assessor-collectors, school board members, county judges, county commissioners, city council members or other elected officials) “represent the interests of the respective taxing units that appoint them.”⁹

That concern is not merely theoretical, but has materialized in practice: the continued rise in appraisals and property tax revenues demonstrates that directors of the appraisal boards are not responsive to the concerns, complaints and comments of property owners when they demand fair and equitable appraisals. Instead, appraisal district directors serve the taxing entities, leading to the unreasonable and unsustainable rise in appraisals. Therefore, the best way to ensure responsiveness is to have elected leaders of the taxing authorities serve as directors of the CAD.

Conclusion

Accountability must be brought to the appraisal process, which is the root cause of rising property taxes. As M&O rates fall, the pressure to maintain the growth of property tax revenues through the appraisal process will only increase. This pressure is most likely to be resisted by elected officials who are answerable and accountable to voters. Therefore, Section 6.03 of the Tax Code should be amended so that the elected executive of each local taxing entity serves on the appraisal district board of directors.

⁸ *Texas Comptroller of Public Accounts’ Annual Property Tax Reports Tax Year 2004*

⁹ Texas Comptroller’s 2004-2005 Appraisal District Operations Report.