

VALUING PROPERTY

A Brief Overview

The Texas Property Tax System:

This is a brief overview of the Texas Property Tax System. It will explain the legal basis of the property taxation and the importance of property tax revenues to local governments, school districts, and other special districts.

Definition

A tax is a compulsory monetary contribution imposed by governments to pay for governmental activities. Common taxes include income, sales, and value-based taxes. A property tax is assessed according to the value of property a taxpayer owns. Because property taxes depend on value, they are called *ad valorem*, meaning “according to value.” Property value presumably reflects its owner’s wealth; therefore, market value demonstrates an owner’s ability to pay. Knowing property values should allow governments to make impartial, fair tax assessments to individual property owners.

Importance of Local Governments

Property taxes are locally based and administered. Local governments and school districts use property tax revenues to finance a wide range of services such as fire and police protection, schools, public libraries, street maintenance and parks. Special districts finance water systems, utility systems, junior colleges and other systems and projects.

In the past, both state and local governments levied property taxes. Until 1980, the state tax helped finance construction of many of the state’s colleges and universities. The legislature has now eliminated the state tax, but the local property tax remains as the primary revenue source for more than 1,000 school districts and 3,000 other local jurisdictions in Texas.

Statewide, more than half of all Texas property tax levies support public education. The state general fund provides more than 40 percent of the revenues, and federal funds and other local revenues contribute the remaining portion of school funds. A school district’s total taxable value affects the level of state funding it receives.

Major Administrators and Agencies

To understand how the Texas property tax system functions, the individual person should be able to identify the political subdivisions, public officials and governmental agencies that administer the system. The specific roles and responsibilities of these entities are explained in detail throughout this text. The following section introduces the major property tax administrators and agencies.

Appraisal Districts

Appraisal Districts are frequently referred to as county appraisal districts or CADs. CADs exist for each of the 254 counties in the state of Texas. Two counties were combined bringing the total to 253. These districts are responsible for appraising property in the district for ad valorem tax assessments. Generally, a board of directors is elected by taxing units that are authorized by law (cities, counties, schools and certain reclamation/conservation districts). It governs appraisal districts and establishes the appraisal office. Special provision exists for contracting with local governmental entities to provide appraisal services. Funding for an appraisal district is provided as set forth in the Texas Property Tax Code. A percentage of the levy collected by the participating taxing unit pays a share of the CAD budget. The CAD collects nothing from the taxpayer directly for its budget.

Chief Appraiser

The chief appraiser serves as the Chief Administrative Officer of the CAD. The chief appraiser is responsible for personnel hiring and management. The chief appraiser hires and directs the district personnel. The appraisal district board of directors appoints and hires the chief appraiser.

Appraisal Review Boards

Each appraisal district board of directors also appoints an appraisal review board (ARB). The ARB hears property owner protests, taxing unit challenges, and correction motions, the approves the records to create the district's appraisal roll. Thus, the ARB settles disagreements about value, exemptions or other issues between a property owner and the CAD.

Taxing Units

Local governmental entities with the legal authority to impose property taxes are called "taxing units" a.k.a. taxing entities. Counties, school districts, incorporated municipalities (cities) and special districts (municipal utility and junior college districts) are examples of taxing units. Taxing unit governing bodies (city councils, county commissioners courts, school boards, etc.) set each taxing unit's budget, adopt tax rates, collect taxes and spend those taxes to provide services and pay the unit's debts (M&O and I&S). **The amount of a**

taxing unit's budget determines the tax rate. The tax rate and taxable value set the total taxes the property owner must pay.

The Texas Constitution and the Property Tax Code specify how taxing units may adopt a property tax. Cities, counties, school districts and special districts each have legislative authority that defines their powers to tax by setting rate limits, debt limits and timetables for action.

Assessor and Collectors

Counties elect assessor-collectors for the county. Taxing units name a specific person-*an assessor*- to calculate taxes, prepare tax rolls and generate tax bills. A person responsible for collecting and accounting for taxes is called a collector. A person combining these duties is commonly called an assessor-collector. These are legal terms, but some assessor-collectors may use different titles, such as business manager. Other taxing units may opt to have the assessor-collector assess and collect for them or they may appoint separate assessor and collectors. In many cases, a number of taxing units have pooled their resources to establish a single tax office with a single assessor-collector.

State Agencies

The Texas Constitution bars the state from imposing property taxes. However, a few state agencies regulate the administration of property taxes.

The Comptroller of Public Accounts Property Tax Assistance Division was established in 1991 to administer certain areas of the state's property tax system at the state level. The Property Tax Assistance Division:

- gives technical assistance to local property tax administrators;
- provides information about property taxation to the public;
- makes a study of property values and the accuracy of appraisals in each school district and appraisal district every two years;
- and conducts performance audits to review each CAD's governance, tax payer assistance, operating standards, and appraisal standards, procedures and methodology at least once every two years.

Appraisers

Most people are often confused as to the difference between a tax appraisal and a real estate purchase appraisal. A tax appraisal is the value of a property according to the government entity in which the property is located, usually the county. Most appraisals are valued from the sales comparison approach to value, using the mass appraisal concept of valuation. These evaluations are often done on average prices in the area and may not always be up to date with regard to current market prices.

A real estate purchase appraisal is ordered by the bank or lending institution which is granting a mortgage. The individual property is measured and viewed by a real estate appraiser and the compared to the most recent sales. It's not unusual to have different amounts for the tax appraisal and the purchase appraisal.

VALUING PROPERTY

With few exceptions, Tax Code Section 23.01 requires taxable property to be appraised at market value as of Jan. 1. Market value is the price at which a property would transfer for cash or its equivalent under prevailing market conditions if:

- it is exposed for sale in the open market with a reasonable time for the seller to find a purchaser;
- both the seller and the purchaser know of all the uses and purposes to which the property is adapted and for which it is capable of being used and of the enforceable restrictions on its use; and
- both the seller and purchaser seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other.
- Property Inspection

Tax Code Section 22.07 authorizes the chief appraiser or a representative to enter the premises of a business, trade or profession to inspect the property to determine the existence and market value of tangible personal property used for the production of income and if it has taxable situs.

How Property is Valued

Each county appraisal district determines the value of all taxable property within the county boundaries. Tax Code Section 25.18 requires appraisal districts to reappraise all property in its jurisdiction at least once every three years. Tax Code Section 23.01 requires that appraisal districts comply with the Uniform Standards of Professional Appraisal Practice if mass appraisal is used and that the same appraisal methods and techniques be used in appraising the same or similar kinds of property. Individual characteristics that affect the property's market value must be evaluated in determining the property's market value.

Who sets market value?

Market Value Vs. Appraised Value

Both market value and appraised value are utilized in the dealings of residential homes, commercial property, retail buildings, farms and land. However, there are distinct differences between the market value and the appraised value of real estate. Market values are consumer-driven and appraised values are driven by experts.

The appraised value of a property describes the determination of an exact number regarding its value. Appraised values are based on gathered data and the professional judgment of the professional conducting the appraisal. The market value has more variance than the

appraised value. Unlike the appraised value, buyers have influence over the market value of a property because a property is only worth what a buyer is willing to pay.

Who Decides the Property Value?

A seller may list his property for \$300,000. The buyer offers the seller \$240,000. The seller accepts the buyer's offer. Who decides what the property is really worth? According to the buyer and the seller, the market value of that particular property is the \$240,000 price they both agreed upon.

However, bank financing is involved so an appraiser is brought in to establish the appraised value of the property. The appraiser factors in recent property sales in the neighborhood, the features and functionality of the home, the condition of the home and a number of other details. The appraiser decides that the property is worth \$260,000. The appraised value is the one that the bank will use for lending purposes. In most cases, the appraised value does override the market value.

Comparing Market Value to Appraised Value

Market value can be determined by either licensed or unlicensed individuals, but only a certified or licensed individual can perform a property appraisal. If the market value is calculated by a licensed real estate agent, the report might include other active property listings, pending property sales, sold properties in the last 12 months and expired listings.

In contrast, an appraiser does not represent any particular person. An appraiser simply performs the service of determining the property's appraised value. Appraisers do not represent an individual's interests regarding a property, but the appraisal report should be written in a clear format allowing the reader to follow the appraiser's determination.

Can a Property Be Worth More Than the Appraised Value?

Unlike the market value, the appraised value is not necessarily the price a property will be bought or sold for. Rather, it is a guideline in the selling or buying process. Generally, a property will not be sold for more than its appraised value, especially if a lender is financing the purchase. Yet the property may in reality be worth more than the appraised value to a buyer and a seller.

How Does the Market Value Differ?

Additionally, appraisal reports are written for various purposes such as insurance, home loans, tax losses, estates, liquidation and net worth. So the market value and appraised value can vary somewhat depending on the purpose of the appraisal and who performed it. Before

appraisals begin, the appraisal district compiles a list of taxable property. The list contains a description and the name and address of the owner for each property. In a mass appraisal, the appraisal district then classifies properties according to a variety of factors, such as size, use and construction type. Using data from recent property sales, the appraisal district appraises the value of typical properties in each class. Taking into account differences such as age or location, the appraisal district uses typical property values to appraise all the properties in each class.

→Three common approaches that the appraisal district may use in appraising property are the sales comparison (market) approach, the income approach and the cost approach.

→The market approach to value is based on sales prices of similar properties. It compares the property being appraised to similar properties that have recently sold and then adjusts the comparable properties for differences between them and the property being appraised. Sales information is obtained through a number of sources, mostly from the seller or purchaser. All the sales data obtained is confidential. The state of Texas is a non-disclosure state. The sales information that the CAD receives from the seller or purchaser helps to derive local value. If the CAD fails to maintain the market value in its' district state value will be assigned by the Comptroller of Public Accounts Property Tax Assistance Division.

→The income approach is based on income and expense data and is used to determine the present worth of future benefits. It seeks to determine what an investor would pay now for a future revenue stream anticipated to be received from the property.

→The cost approach is based on what it would cost to replace the building (improvement) with one of equal utility. Depreciation is applied and the estimate is added to the land value.

Notice of Appraised Value

A *Notice of Appraised Value* informs the property owner if the appraisal district intends to increase the value of a property. Chief appraisers send two kinds of notices of appraised value.

A detailed notice contains the description of the property; taxing units allowed to tax the property; preceding year's appraised value; preceding year's taxable value; current year's appraised value; last year and current year exemptions; estimate of taxes based on previous year's tax rates if the appraised value is greater in the current year; statutory language; explanation of how to protest; ARB hearing information; and an explanation that the appraisal district only determines a property's value and does not decide on tax increases. A detailed notice is sent if:

- the value of a property is higher than it was in the previous year (The appraisal district's board can decide that it will send detailed notices only if a property's value increases by more than \$1,000.);
- the value of a property is higher than the value the property owner gave on a rendition(see next section);

- the property was not on the appraisal district's records in the previous year; or
- an exemption or partial exemption approved for the property for the preceding year was canceled or reduced for the current year.

Tax Code Section 25.19 requires the chief appraiser to send the notice of appraised value by May 1 or April 1 for residence homesteads, or as soon thereafter as possible. If a property owner disagrees with this value, the property owner may file a protest with the appraisal review board (ARB).

The notice of appraised value includes a protest form and information about how and when to file a protest with the ARB if the property owner disagrees with the appraisal district's actions.

Limitation on Residence Homestead Value Increases

The appraised home value for a homeowner who qualifies his or her homestead for exemptions in the preceding and current year may not increase more than 10 percent per year.

► Residence Homestead Cap.

Tax Code Section 23.23(a) sets a limit on the amount of annual increase to the appraised value of a residence homestead to not exceed the lesser of:

- the market value of the property; or
- the sum of:
 - 10 percent of the appraised value of the property for last year;
 - the appraised value of the property for last year; and
 - the market value of all new improvements to the property.

Tax Code Section 23.23(e) defines a new improvement as an improvement to a residence homestead made after the most recent appraisal of the property that increases its market value and was not included in the appraised value of the property for the preceding tax year. It does not include repairs to or ordinary maintenance of an existing structure, the grounds or another feature of the property. Tax Code Section 23.23(f) states that a replacement structure for one that was rendered uninhabitable or unusable by a casualty or by wind or water damage is also not considered a new improvement.

The appraisal limitation only applies to a residence homestead. As stated in Tax Code Section 23.23(c), the limitation takes effect Jan. 1 of the tax year following the year in which the homeowner qualifies for the homestead exemption. It expires on Jan. 1 of the tax year following the year in which the property owners no longer qualify for the residence homestead exemption.

How are my taxes calculated?

Your taxes are calculated by dividing your taxable value by one hundred and multiplying by the tax rate.
For example:

Market value \$100,000

Less Exemptions 15,000

Taxable Value 85,000

Apply Tax Rate 0.25/100

Assessed Taxes \$212.50

◀ **This is the value you will pay property taxes on. With a homestead exemption.**



Runnels County Appraisal District

Chief Appraiser

Mr. Paul Scott Randolph

Taxpayer Liaison:

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Fax: 325-365-5563

Email: support@runnelscal.org

Website: www.runnelscal.org

Board of Director's

Mr. Alvin Dunn, Chairman

Mr. Gary Kemp, Vice-Chairman

Mr. Sylvester Schwertner, Member

Mr. Roy Brown, Member

Mr. Joe Gerhart, Member

Mrs. Robin Burgess, Secretary

Appraisal Review Board

Mr. Johnny Pritchard, Chairman

Mr. Justin Busenlehner, Vice-Chairman

Mr. Robert Gibson, Member

Taxing Units (17)

- 200-000-00 Runnels County
- 041-901-02 Bronte Independent School District
- 042-905-02 Panther Creek Consolidated Independent School District
- 042-906-02 Novice Independent School District
- 200-901-02 Ballinger Independent School District
- 200-902-02 Miles Independent School District
- 200-904-02 Winters Independent School District
- 200-906-02 Olfen Independent School District
- 221-911-02 Jim Ned Consolidated Independent School District
- 200-101-03 City of Miles
- 200-102-03 City of Winters
- 200-103-03 City of Ballinger
- 048-201-06 Lipan-Kickapoo WD
- 200-201-11 North Runnels HD
- 200-202-11 Ballinger Memorial HD
- 200-201-40 Runnels County ESD #1

Runnels County-Judge Barry Hilliard

Runnels County Courthouse
613 Hutchings Avenue
Ballinger, Texas 76821
(325) 365-2633
<http://www.co.runnels.tx.us/>

City of Ballinger

Mr. Tommy Turney Jr.
City Manager
700 Railroad Ave.
Ballinger, TX 76821
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City of Miles

Mr. Sylvester Schwertner
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City of Winters

Mrs. Lisa Yates
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Coleman I.S.D.

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Jim Ned C.I.S.D.

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Miles I.S.D.

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Mr. Gabriel Zamora, Supt.
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Panther Creek C.I.S.D.

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Winters I.S.D.

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Ballinger Memorial H.D.

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North Runnels H.D.

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