

Special Report

# Appraisal District Property Value Updates

April 2020



In Texas, property taxes are a source of funding that pays for local services including public schools, libraries, parks, streets, and emergency services. Appraisal districts work to appraise property and establish its value to allow local governments to set their tax rates. Six Texas districts reported getting the data they need to update appraised values from three main sources: real estate databases, buyers and sellers, and the appraisal appeals process. Data for commercial properties comes mostly from subscription services. All but one of the appraisal districts we spoke with reported updating appraised values annually.

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## Objective

- How do other appraisal districts, particularly in Texas, get data to update appraised values?
- How frequently are appraised values updated?

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## Background

In Texas, property taxes are a source of funding that pays for local services including public schools, libraries, parks, streets, and emergency services. An appraisal district is responsible for appraising, or setting the value for, the property located in their county. School districts, cities, counties, and other entities set tax rates and collect taxes based on those property values. The State Comptroller’s Office is responsible for oversight of appraisal districts.

For this report, we focused on appraisal districts in and around large Texas cities. Six districts agreed to provide us with information. We did not identify specific methods by district except for those that have been publicly reported about Travis Central Appraisal District (TCAD).

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# What We Learned

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## How do other appraisal districts, particularly in Texas, get data to update appraised values?

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The cost appraisal method looks at how much it costs to build a similar building, the income method estimates the value of a property based on the income the property generates, and the market data comparison method compares a property to other properties of similar size and condition in the same area.

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The MLS is a real estate market information database, created and used by real estate brokers to allow members to access listings of properties for sale in an area.

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Under Texas law, appraisal districts appraise property at its market value as of January first. State law requires that appraisal districts apply generally accepted appraisal methods and techniques. Acceptable methods of appraisal include cost, income, and market data comparison.

All the appraisal districts we spoke with apply one or more of these methods depending on the type and use of property being appraised. The market data comparison and cost methods are commonly used for residential properties. The income method is commonly used for commercial properties. The appraisal districts reported these methods of appraisal require sales information. All districts noted it is a challenge to get this information because Texas is a non-disclosure state, meaning a property's sales price is not required to be reported.

The appraisal districts reported similar sources for sales data and other information needed to update appraised values. Districts reported relying on some sources more than others, depending on their situation. Also, districts described most arrangements with their sources of information as informal. Primary sources of sales data include:

**Real Estate Databases:** Most districts reported having direct access to local multiple listing service (MLS) databases in the past, but that practice ended fifteen to twenty years ago. Currently, districts noted being unable to get access to MLS data under the district's name. As has been publicly reported, TCAD noted having a formal contract with a third-party to access MLS data. TCAD's access to MLS data has been cut off due to legal issues related to that contract. Only one of the districts we spoke with reported having direct access to MLS sales data through an informal arrangement. Also, multiple districts told us at least one other district has a similar arrangement. We attempted to verify this information but did not receive a response from that district.

Each district reported receiving some MLS data through indirect methods, mainly through the appeals process (noted below). Some districts noted having access to limited MLS data through other informal channels. All but two districts reported using this data to support their appraised value updates. TCAD reported being unable to use this data due to the legal issues noted above. One other district reported not using the data for appraisal purposes even though they receive it.

**Buyers and Sellers:** Districts reported the bulk of data they get from buyers and sellers is from sales solicitation letters. The estimated response rate ranged from 10% to 35%. However, some districts reported many of the responses they receive are not reliable. Districts agreed that the response rate and reliability of the

information provided is lower in areas where buyers and sellers are knowledgeable about the appraisal process.

Most districts reported some home builders provide sales information, but the amount of information varies by district and builder. Districts also noted getting information from sales brochures and marketing information for new developments.

**Appraisal Appeals Process:** Multiple districts reported receiving a bulk of their data through the appraisal appeals process. During this process, a homeowner may share their closing or settlement statement to support their appeal. Homeowners may also share sales information about comparable properties.

**Other Sources:** Districts noted other sources of information including site inspections and field information collected by their staff. Some districts noted third-party professionals such as real estate brokers, tax agents, and appraisers provide limited sales information through informal agreements.

Districts reported getting needed data for commercial properties is more difficult than for residential properties. Again, districts reported similar sources for that information. Almost all districts reported using one or more subscription services to obtain general or industry-related sales and other information to support appraised values.

Districts noted the sales information they collect needs to be validated for reliability and accuracy. Districts reported using the primary sources listed above for this purpose. Also, each district noted common sources of information used primarily for validation purposes, including:

- newspapers, local publications, and online information;
- sales and marketing brochures;
- permitting information;
- subscription-based estimator services;
- local economists or other third-party professionals; and
- data mining, including social media.

## How frequently are appraised values updated?

According to Texas law, each appraisal office is required to reappraise property in their district at least once every three years. Each appraisal district we spoke with reported updating appraised values on an annual basis. This included updates for the current year. The exception to this was TCAD, who reported the district did not have enough sales information to update values for most residential properties in 2020. TCAD noted some residential properties will be appraised in the current year, including new construction. TCAD also reported that commercial properties will have updated appraised values for 2020.

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## Why We Did This Report

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This report responds to a request from Council Members Alison Alter and Leslie Pool regarding questions about appraisal district property value updates.

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## Scope

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The project scope included the current property appraisal process in Texas. Some appraisal districts provided us with contextual information from previous years.

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## Methodology

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To complete this special request, we performed the following steps:

- researched current laws related to the property appraisal process;
- researched legal requirements related to property sales price disclosure;
- contacted staff in the Property Tax Assistance Division of the Texas Comptroller's Office for information on the property tax appraisal process including oversight activities;
- identified Texas appraisal districts located in and around population centers;
- interviewed Chief Appraisers or Deputy Chief Appraisers in identified appraisal districts to gather information about their process to update property appraisals;
- researched published and other available information about the appraisal process in identified appraisal districts and other districts in Texas; and
- analyzed and compared information collected to determine common sources of data used by appraisal districts to prepare property appraisal updates as well as how frequently those updates are conducted.

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## Project Type

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Special request projects conducted by the Office of the City Auditor are considered non-audit projects under Government Auditing Standards and are conducted in accordance with the ethics and general standards (Chapters 1-3).



The Office of the City Auditor was created by the Austin City Charter as an independent office reporting to City Council to help establish accountability and improve City services. Special requests are designed to answer specific questions to assist Council in decision-making. We do not draw conclusions or make recommendations in these reports.

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