



COMMISSIONERS COURT
COMMUNICATION

REFERENCE NUMBER CO#123287

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DATE: 08/23/2016

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT OF THE TARRANT APPRAISAL DISTRICT APPRAISAL SYSTEM**

COMMISSIONERS COURT ACTION REQUESTED:

It is requested that the Commissioners Court receive and file the Auditor's Report of the Tarrant Appraisal District (TAD) Appraisal System.

BACKGROUND:

In July of each year, TAD sends a new appraisal roll for the new tax year. This file contains complete information for every property account in Tarrant County. The Auditor's Office is responsible for the revenue estimates included in the Tarrant County budget adopted by Commissioners Court. The Auditor's Office has historically relied on the July 25th certified appraisal roll provided by TAD to determine revenues available. The purpose of the attached report is to inform the Commissioners Court about the ongoing challenges related to data received from TAD and the potential impact on Tarrant County revenues.

FISCAL IMPACT:

There is no direct fiscal impact associated with this item.

SUBMITTED BY: Auditor's Office

PREPARED BY: S. Renee Tidwell

APPROVED BY:



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August 17, 2016

The Honorable Commissioners Court
The Honorable District Judges
Tarrant County, Texas

RE: Auditor's Report – TAD Appraisal System

SUMMARY

The Auditor's Office is responsible for the revenue estimates included in the Tarrant County budget adopted by Commissioners Court. The Auditor's Office has historically relied on the July 25th certified appraisal roll provided by the Tarrant Appraisal District (TAD) to determine revenues available. The 2016 Certified Appraisal Roll includes a 9.6 percent increase of *Estimated Net Taxable Value*, which is comparable to other surrounding counties. This audit report is limited in scope and does not relate to the accuracy of appraisals, the validity of exemptions, or owner information. The forecasting of revenues is always less than an exact science. However, the forecasting of the 2017 estimated revenues was especially challenging due to the specific issues discussed in the following paragraphs.

BACKGROUND

Section 6.01 of the Property Tax Code establishes county appraisal districts as the sole source of ad valorem tax data. TAD is responsible for all matters relating to property value, exemption administration, ownership, and owner address within Tarrant County. TAD had used the same appraisal system, with modifications, since inception in 1980. In November 2010, TAD contracted with Manatron, Inc. to upgrade from a legacy mainframe platform to a Windows-based appraisal system. In July 2011, Thomson and Reuters acquired Manatron. Delays pushed the first delivery of data generated by the new system to Tarrant County out to October 2015. A major upgrade was implemented during March 2016 to improve system functionality.

In July of each year, TAD sends a new appraisal roll for the new tax year. This file contains complete information for every property account in Tarrant County. Throughout the tax year, TAD sends the Tax Office an electronic file with new, changed, and deleted (NCD) property accounts for the taxing units where Tarrant County has a collection agreement. The NCD file is loaded into *Tax Client*, the system used by the Tarrant County Tax Assessor's Office to record property taxes due, payments received, and all other transactions related to property accounts.

OBSERVATIONS

Throughout 2015 and 2016 to date, the Tax Office staff has encountered issues that have made verifying and processing property tax accounts difficult. As a result, these issues make it especially challenging for the Auditor's Office to forecast 2017 estimated revenues with any degree of certainty. Examples of specific issues encountered by the Tax Office are discussed below.

- During the implementation and conversion process, communication with TAD was insufficient and sporadic. In addition, end users were not part of the initial phases of the process nor were they given the opportunity to review and comment on the validity and integrity of the data files.
- The 2015 Certified Roll taxable property values within Tarrant County were lower than adjoining counties. To date Tarrant County has not received an adequate explanation of this difference.
- The volume of changes and incorrect data provided by TAD each month has significantly increased. Tax Office staff indicated that during January through July, monthly NCD files from the legacy system averaged 21,824 records as compared to the new appraisal system where monthly changes average 166,612. One NCD file contained over 800,000 records. During 2016, the Tax Office rejected numerous unusable NCD files and there were months when TAD did not even send a file. As a result, many accounts changed multiple times over successive periods.
- NCD files provided by TAD contained an unusual amount of exceptions. Errors ranged from duplicate homestead exemptions on the same account to missing address information. Other errors included changes prohibited by the Property Tax Code and duplicate cities or schools on the same account. Questionable or missing data files were returned to TAD for clarification.
- The values for properties under protest increased significantly between 2015 and 2016. Similarly, the number of cases pending with the Appraisal Review Board (ARB) increased. The value of cases pending before the ARB increased from \$2.1 billion last year to \$6.5 billion for the current year, an increase in excess of 200 percent. Property owners who are not satisfied with the ARB decision have 60 days from the date they receive a written order to appeal the ARB decision to the district court, which can delay the valuation process. Protests settled at district court usually result in lower property values.

As a result, the large volume of changes brought on an increased number of billings and refunds, increased effort by Tax Office staff, and confusion for the taxpayers. Because of the increased uncertainty in the validity and integrity of the data, the Tax Office created a quality assurance process where TAD data was previewed before it was loaded into *Tax Client*.

We also noted during our calculation of the Tax Increment Financing (TIF) payments for Tax Year 2014, the *Base Year Appraised Values* and *Taxable Values* had changed. Base Year Values should not change, but if a change occurs, TAD should notify the entities and provide support explaining the change. We were not notified of any change. TAD data related to TIF Districts provided in July 2016 indicated TIF's with large questionable value increases. For example, the Fort Worth TIF #13 increased about \$53 million or 180%.

CONCLUSION

Property tax is the single largest source of revenue and it is important that information provided by TAD is accurate. The 2016 Certified Appraisal Roll is the first full year generated by the new appraisal system. Since we have no reason to believe that the quality of data provided by TAD will improve in the near future, the Tax Office and Auditor's Office will continue to monitor the validity and integrity of the data. Based on the observations noted above, our ability to estimate revenues based on historical trends have decreased. We believe it may be several years before the underlying TAD data will be relatively stable and reliable.

CLOSING REMARKS

Please call me if you have any questions regarding the information in this report.

Sincerely,



S. Renee Tidwell, CPA
County Auditor

Distribution:

- Ron Wright, Tax Assessor-Collector
- G.K. Maenius, County Administrator
- Thomas Spencer, Tax Office Chief Deputy
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