



November 12, 2020

Dear Representative White,

As a Jasper County resident and commercial property owner who was greatly impacted by a property tax appraisal increase this year, I am very happy to support your House Bill 528 which limits a commercial property tax increase.

The Texas Association of Campground Owners will be submitting testimony to the Ways and Means Committee on November 13, 2020 concerning commercial property appraisals which have been out of control across the State of Texas. I have attached a copy of our testimony and copied this email to Brian Shaeffer our Association Executive Director, Ron Hinkle our Legislation Consultant, and Diane Probst from the Rockport-Fulton Chamber of Commerce who will be submitting their own testimony.

If there is anything that we can do to help pass House Bill 528 please contact Brian or myself. Thank you for your concern on commercial business in the State of Texas.

On a side note I have always enjoyed my visits to your office on the Travel Industry Convergence on the Capital and our conversations. I know next year's Convergence is an unknown at this time, but I do hope to see you this legislative session!

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President of the Board  
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November 13, 2020

The Honorable Dustin Burrows, Chair  
Ways & Means Committee  
Austin, Texas

Dear Chairman Burrows:

The Texas Association of Campground Owners (TACO) respectfully submits recommendations regarding commercial property tax appraisal methods and the state of commercial property tax increases.

By way of background, the Texas Association of Campground Owners represents over 400 Recreational Vehicle Parks and campgrounds throughout Texas and is a segment of the Texas travel Industry.

S.B. 2, also called the Texas Property Tax Reform and Transparency Act of 2019, provide four main goals: (1) lower the rollback rate from 8 percent to 2.5 percent for the largest taxing units in the state; (2) require an automatic tax ratification election if the rollback rate is exceeded, eliminating the petition requirement in current statute; (3) make information about the tax rates proposed by local taxing units more accessible to property owners and more timely; and (4) make it easier for property owners to express their opinions about proposed tax rates to local elected officials before tax rates are adopted.<sup>1</sup>

S.B. 2 also points to the use of appraisal standards: *Appraisal standards and practices prescribed by any appraisal manuals required by law to be prepared and issued by the comptroller.*

The Texas Association of Campground Owners has been in discussions with several Texas business associations in noting significant problems within their respective memberships that have experienced rising commercial property taxes. In some cases some statewide commercial businesses are experiencing 100 percent to 400 percent in property tax increases over the last 5 years. Especially for small commercial businesses these types of increases are not sustainable and will lead eventually to business closings and bankruptcies.

In discussions with other business associations, the following recommendations are offered areas within the relevant statutes that seek to alleviate the continued rise in commercial property taxes. The Texas Association of Campground Owners offers the following discussion points for your consideration:

- A. Methodology** – Movement to the Income Method
- B. Appeal Process** – Varied and Confusing
- C. Capping Commercial Property Rates** – Annual Caps on Increases

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<sup>1</sup> Senate Research Center, S.B. 2 Bill Analysis, 7/26/2019

## **A. Methodology – Now it's the Income Method**

Appraisal districts have been moving to the income method for appraising commercial property at the direction of the Comptroller and in an effort to optimize business values. This information has come to the association through various local appraisal board members.

Using the Income Method leaves wide interpretations by each appraisal district. The appraiser must estimate income and expenses on specific information that they might not possess. In the request for information, forms sent by the appraisal districts vary and, more often than not, focus only on income. Many if not all expense items are discounted or ignored completely. Some taxpayers have also been informed that their expenses were "too high" and "out of line", while others heard suggestions that their income was "too low" – adjustments needed to be made to meet the appraisers projections.

To appraisers, the Income Method may seek to determine what an investor would pay now for a future revenue stream. The "future revenue stream" scheme is really wide-open for the appraiser to plug in any number to meet their "anticipated" net revenue so that an arbitrary Capitalization Rate (Cap Rate) reflects what the district wants the tax bill to be, which may not accurately reflect the value of a business.

Consequently, it is common for a business that is moved from another appraisal method to the Income Method to experience a 100% plus annual increase in their evaluation, with some totals as high as 400% - even though the business has not experienced any major change in business operations or property configuration from the previous year – only the appraisal method changed.

One solution is to not lump similar, but different businesses together. For example, mobile home parks and Recreational Vehicle parks are two separate types of businesses with very different income streams and related expenses. TACO raises this because it happens frequently. TACO believes there could be a standard definition for income having to do with what generates revenue that finds its way to a tax return and similar conditions for expenses. For example, if a Recreational Vehicle park sells propane, which generates 'income' then there is the wholesale cost of that propane as an expense. TACO members have had appraisers completely ignore the 'cost of goods'.

Another significant and ignored expense is the actual property tax paid. Imagine a huge property tax increase being passed along to Recreational Vehicle park guests – thus registering the following year as increased ‘income’ and therefore taxed more under the income method – all the while ignoring the reason for the increased income – the increased property tax. This can be a never ending cycle.

In an ideal world, if the purpose is to tax property at its full/market value under law, the Comptroller would ideally have industry specific and simplified profit and loss statements. The forms can be pre-approved by the Comptroller as negotiated with various industries that are willing to put in the time and effort to establish same. The P & L can be submitted under penalty of perjury and therefore accurately reflect the value of the business.

## **B. Appeal Process – Is confusing**

The appeal process is heavily weighted in favor of the appraisal districts because they compile and educate the board members including their own appraisers. This is further convoluted by the fact that most business owners do not have the time or ‘specific’ knowledge (because it is not published anywhere) as to how to appeal their appraisal.

In a property tax survey done by the 400+ campground members of Texas Association of Campground Owners, 92% of the respondents confirmed property tax increases in the last 5 years. Of which, 80% filed an appeal of the value. About half did the appeal themselves, the other half hired a tax mitigation firm. On the results 28% did not see a change in their tax bill, while 61% did see a reduction. Furthermore, 55% of those responding felt the appeal process was complicated for the average person.

In conversation with taxpayers the majority feel that hiring a tax mitigation firm (for a fee of 25-30% of the tax savings) results in a lower tax bill than they could accomplish on their own. This is supported by the survey in which 66% of those who appealed felt the appraisal review board was unsympathetic to their appeal and committed to the appraised value / increase. No one surveyed felt that the appraiser was able to properly justify the dramatically increased appraisal amounts.

The consensus among taxpayers, which is borne out in subsequent years, once a reduction is achieved the business will be targeted next year for a reappraisal and increase; an ongoing issue for years to come. There are tax appeal advocates who feel that if everyone appeals higher tax bills it would overwhelm the system and result in discounting of bills just to keep the process moving forward. TACO feels that having a solid set of guidelines in place would make the system more fair and efficient for the Comptroller, the appraisal districts, and the tax payers. No one’s right to increase values or to protest values would be foreclosed.

### C. Capping Commercial Property Appraisals – Budget for Annual Increases

While it may just be a coincidence, the number and percentage of commercial property tax bills increasing went up exponentially when residential caps were legislated. In the same property tax survey referenced above, the majority of TACO members said it is possible to budget for an annual tax increase, particularly if it were tied to the Consumer Price Index (CPI) or in line with the residential side, 10% annually. Of course this would be in light of no substantial change in business operations or property improvements – all declared under penalty of perjury as stated above in the *Methodology* scenario. Correlations / changes in tax bills would allow for property improvements and / or operational changes – think: hurricanes or COVID-19 on the downside or doubling the number of RV sites on the upside.

Because Texas has no income tax and therefore commercial property tax is very high. It is impossible to budget for 100% to 400% increases in tax bills already off the chart. Businesses will either, (1) pass along the substantially higher cost of doing business and disadvantage themselves, their community and their state due to higher taxes or (2) they will move out of state or (3) shutter the business. Annual caps, preferably tied to CPI or in the 10% range on commercial property tax bills could prevent business blight, which is becoming a real problem under COVID-19. Now is the time to act. Business owners simply want to pay their fair share under an equitable system.

The Texas Association of Campground Owners thanks each member of the Ways & Means Committee for their review of these proposals and look forward to working with you, other businesses and related associations in addressing this important issue.

Best regards,

*Brian Schaeffer*

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