

P.E. PENNINGTON
& COMPANY, INC.

PROPERTY TAX
CONSULTANTS

September 27, 2006

Representative Burt Solomons
TEXAS HOUSE OF REPRESENTATIVES
Denton County Governmental Building
1029 W. Rosemeade Parkway #108
Carrollton, Texas 75007

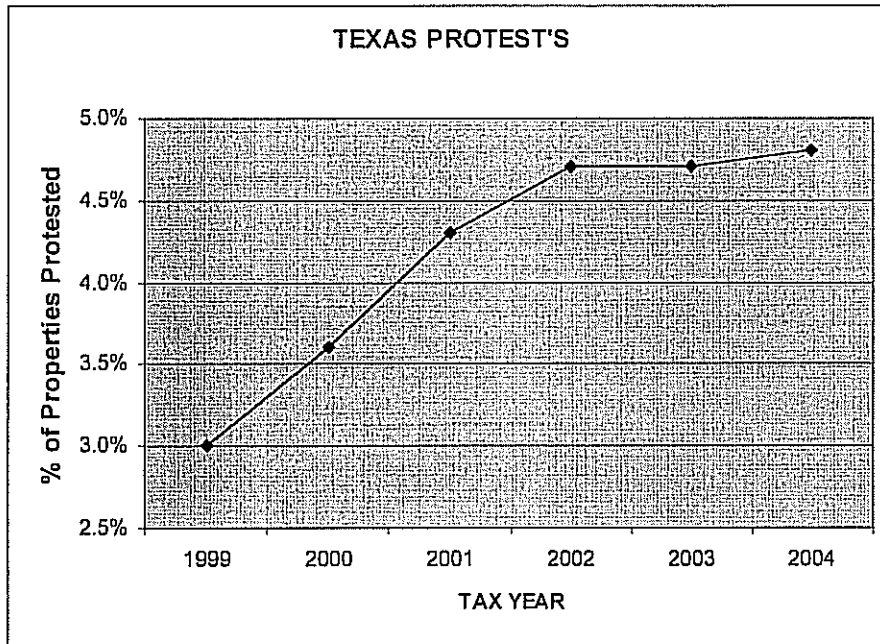
Dear Burt:

I have been in the property tax field for 27 years. I am the President and Principal of P. E. Pennington & Co., Inc., a property tax consulting firm. I have represented property taxpayers in valuation disputes with assessing jurisdictions since 1979. Additionally, I am a Registered Senior Property Tax Consultant, a Licensed Texas Real Estate Broker, and a Graduate of The University of Northern Colorado. I have written articles for the Journal of Property Tax Management, Apartment Association of Greater Dallas, Dallas Business Journal and Texas Lawyer. I have taught continuing education courses and served on various boards for the Texas Association of Property Tax Professionals and was recently appointed to the Texas Department of Licensing and Regulation Property Tax Consultants Advisory Board.

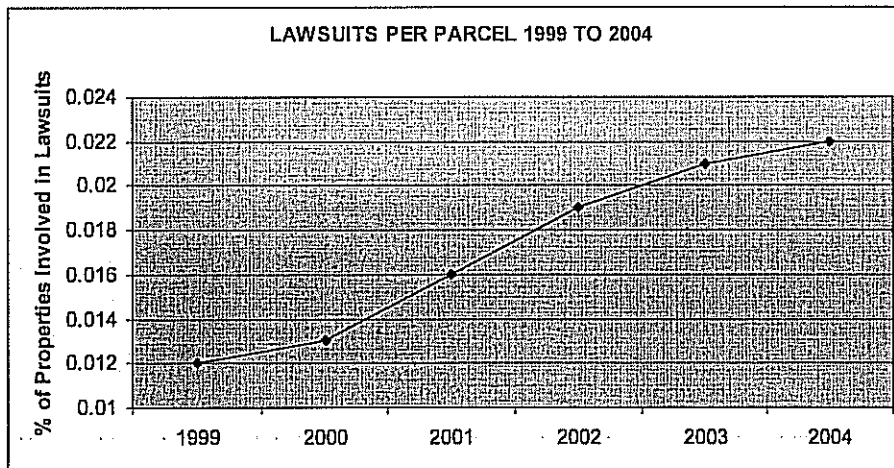
With my background I feel that I have a good perspective on dealing with appraisal districts on a day-to-day basis. For example, as we discussed, I believe Representative Hill brought out many good points in the report his committee published regarding "The Cap Issue" and the concerns taxpayers have about dealing with appraisal districts. The purpose of this letter is to provide you with a snapshot of some trends I am currently seeing, and my suggestions for positive action.

- 1) **Protests** According to the Texas Comptroller's Office, taxpayers are protesting more each year as illustrated below. The Comptroller states that 784,727 protests were filed in 2004. The Dallas Central Appraisal District (DCAD) saw an increase from 90,913 to 100,435 in tax year 2006. The Harris County Appraisal District experienced approximately 250,000 property tax appeals in 2006. Thus, I

believe we can safely assume the increase in appeals has continued to increase in 2005 and 2006 statewide.



We are also seeing an increase in litigation. The number of lawsuits has nearly doubled between 1999 and 2004. I believe it is safe to assume that the number of property tax litigation appeals will continue to increase in tax years 2005 and 2006 based on the increased number of property tax lawsuits experienced by DCAD. Approximately 850 lawsuits were filed in 2005 and that number has increased to over 1,000 in 2006.



We believe there are two reasons for the increase in property tax litigation and the first and most obvious would be attributable to increases in property tax values. The Texas Property Tax Codes (TPTC) in Section 42.21 gives the taxpayer the

right to appeal an adverse ruling from the appraisal review board to district court. Section 42.25 gives the taxpayer an avenue to seek relief from excessive appraisal. However, the second reason for more litigation is taxpayers seeking relief under Section 42.26 (Remedy for Unequal Appraisal). The Texas Constitution, The Texas Property Tax Code (TPTC) Section 42.26 and three cases out of the Houston Courts of Appeals reaffirmed the right to remedy for unequal appraisals. The TPTC Section 41.43 was amended to allow taxpayers the right to raise the question of unequal appraisals during pursuit of administrative remedies; however Appraisal Review Boards (ARB's) are generally refusing to consider this legal right during the Administrative Remedy. This, in my opinion, creates more property tax litigation year after year.

2) **ARB Hearings Do Not Have the Appearance of Fairness.** Representative Hill's report in 2004 touched on the issue of taxpayers feeling like they were not treated fairly. I don't know what we can do about the informal hearing process, but as noted above the ARB's must receive strongly worded language stating the taxpayers have rights to fair hearings. Additionally, the TPTC already put the burden of proof on the district at a hearing—a burden which Appraisal Review Boards typically do not adhere to. Homeowners, property owners, or even property tax professionals often feel that the Appraisal Review Board, who's members are appointed by the Appraisal District's, are unfairly partial to the District's arguments at the Appraisal Review Board hearings. This needs to come to an end. As we previously discussed, the legislature needs to send a message to Appraisal Review Boards to adhere to laws designed to protect taxpayers' rights which already exist on the books. I believe a solution would be to enact legislation which states that protest hearings for ARB panels in the five largest appraisal districts must be located outside the offices of the appraisal districts. Each side would bring evidence to a hearing and the winner would be determined based on the preponderance of the evidence. Further, Board members would not be appointed by the Board of Directors of the appraisal districts. Perhaps local boards of apartment associations, CPA chapters, etc. could appoint them for the five largest appraisal districts. The Comptroller's Office could handle the training.

3) **Population Growth and the Economy are Driving Increases in Valuation.** I agree that Truth in Taxation is very important in a City like Carrollton that had a 3.8% increase in property valuations. I am not sure if the 3.8% represents the Dallas County portion or both Dallas and Denton. Listed below are the 2006 increases by County:

INCREASES IN COUNTY TAX ROLLS

Collin County	+10.2%
Dallas County	+8.1%
Denton County	+8.2%
Ellis County	+7.5%

Kaufman County
Tarrant County

+11.8%
+9.2%

Source: County Appraisal Districts; Dallas Morning News

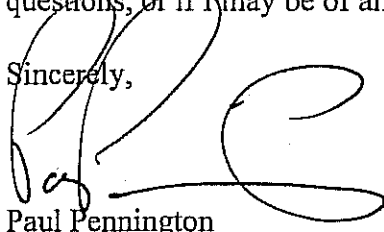
So, what is the engine driving the increase in valuations and taxes? We feel the answer is in the Texas population growth rate. As the second most populated state in the U.S., the population growth rate is creating extreme pressures on the State and local governments (counties, cities and schools). Depending on which model you choose from the Texas State Data Center, the population in Texas could grow from 21,874,158 in 2005 to 45,388,036 in 2040.

The cost of keeping up with increasing infrastructure needs and services provided by the local governments requires a constantly expanding property tax base. Just as the politicians in Washington expound about America's addiction to oil, Texas local governments are addicted to property taxes. In 2003 Texas ranked 46 in effective state and local tax burden as reported by the Tax Foundation. However, strictly looking at the per capita local property tax collection, Texas ranks 15 as reported by the U.S. Department of Commerce in 2003. A possible solution to the growing property tax monster would be to create alternative tax revenues. The Hill Report, numerous newspapers across the state, state and local agencies, economists, have all expounded on the ill effects a Cap would bring. The "Houston mind set" of gutting property taxes and enactment of property tax cap would, at the end of the day, result in a state income tax.

Looking into the future, there is a train coming toward us with 45,000,000 Texans on it. Hard choices and action are required now to avoid becoming a second California who faced a similar dilemma several years ago and made poor decisions (enacting a property tax cap) on how to resolve those challenges, resulting in the past and present budget crisis that they face today. Today in California a large amount of local operation funds are doled out by the state. I believe they have an election coming up for a thirty eight billion dollar bond election for local jurisdictional funding projects and that is something Texans would not philosophically accept.

Thank you for your attention to my concerns, and I encourage you to contact me with any questions, or if I may be of any further assistance on these issues.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Pennington", with a large, stylized flourish extending to the right.

Paul Pennington