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Reassessment Controversy: Doing the Right Thing

Once again reassessment controversy has raised its ugly head in Allegheny County. We anticipated this latest brouhaha several months ago. In an October 2004 Policy Brief and again in a December 2004 report, the Allegheny Institute examined all property sales in Allegheny County occurring in June 2004. Our analysis found that sales prices on residential property, nearly 2,500 parcels in all, averaged 16 percent above assessed values.

Fast-forward to February of 2005. The County was on the eve of releasing assessments for 2006 when Chief Executive Onorato stopped the notices from going out. The reason, he claimed, was that some properties were going to be hit with double-digit increases and that schools and municipalities could not be trusted to roll back millages to avoid the windfall arising from the higher assessments. Data presented to the news media indicated that the latest round of reassessments would have produced an aggregate increase in the County's residential assessments of 19 percent, not much different from our June number and, we believe, quite reasonable.

According to news reports, Executive Onorato is very concerned that the values of 17,000 properties (3.5 percent of total residential properties) increased by 100 percent or more above the assessed value currently on the books. Interestingly, analysis of the 2,500 June sales reveals that 88 properties (3.5% of the total) sold for more than 100 percent above assessed value. Thus, it was not surprising to us that 17,000 properties showed an increase of 100 percent or more and we do not believe the 17,000 properties justify the decision to deep six the new assessments.

Rather than launching an intensive effort to determine the validity of the new property assessments and make warranted changes, the Executive has not only opted not to adopt the new numbers, he has also crafted a plan that creates an artificial six-tier system for adjusting assessments. These tiers will have properties whose value declined, stayed the same, or increased in increments of 1 percentage point. No property in Allegheny County would increase by more than 4 percent in assessed value under this plan.

In media interviews, the Executive has said that he is convinced that the assessment system is inherently flawed and cannot be fixed. Recently, he has indicated he would support a shift from property taxes for schools to a broadened sales tax. However, unless or until that shift occurs, the County is legally and morally obligated to get assessments as accurate as humanly possible in order to guarantee fairness among taxpaying property owners. This is especially true in Allegheny County where combined property tax bills average about 3 percent of the assessed value, one of the highest total property tax levies in the nation. As a result, unfairness stemming from inaccurate assessments in the County is multiplied and more keenly felt than in lower tax communities.

One thing is sure; by essentially eliminating increases in assessments, the Executive's plan will force property owners whose assessments stayed the same or went up more slowly than the average to pay more than their fair share of taxes while those with greater than average increases will pay less than their fair share. These inequities could be locked in for years. Moreover, it is almost a certainty that school districts and municipalities will be filing huge numbers of appeals to get egregiously under assessed properties brought up to values that better reflect reality.

It is important to bear in mind that, contrary to the perception of many people; a significant increase in one's assessment does not necessarily mean the tax bill will increase. If the municipality and school district obey the law that limits them to a five percent reassessment windfall, then one's school or municipal taxes will rise, fall or stay the same depending on where one's increase stands relative to the average rise in the municipality and the school district. For instance, look at Mt. Lebanon, where aggregate assessed values would have increased 20.8 percent according to the County's new numbers. If a homeowner's property's assessment rose by 15 percent, the owner would likely see a decrease in municipal and school taxes as millages were adjusted downward sufficiently to achieve the windfall limit. Only those with increases much greater than 20 percent would face significantly higher tax payments.

All this raises serious questions about the logic and consistency of the Executive's arguments in support of a plan that is based on his belief that the new assessment numbers are not accurate and cannot be fixed.

First, if the new numbers are not accurate, then how can the six-tier system be built upon those numbers? If they are reliable enough to create a valid six-tier classification system, why not just mail out the values as they are? Then too, if he has no confidence in the accuracy of the new assessments because of too few sales, why is he willing to allow assessment decreases to go ahead with no cap on the amount of decline? In other words, why does he believe the estimates of decreasing market values are accurate, but cannot accept that increased assessments are entirely reasonable given the demonstrable rise in sales prices in much of the County in recent years? After all, both up and down estimates are generated by the same procedures.

Finally, if it is true that any set of assessments will be fatally flawed, on what logical and defensible basis can we justify using the existing assessed values in preference to the new value estimates?

Executive Onorato says his primary concern is to protect people from higher taxes by essentially freezing increases and allowing decreases to occur. Unfortunately, unintended consequences happen.

Consider that Wilkinsburg's overall assessments fell 6 percent in the new set of estimates. Under Onorato' plan of allowing unlimited declines to go into effect and severely truncating any increases, it is very likely that Wilkinsburg's new aggregate assessment decline will be greater than 6 percent which means that Wilkinsburg and Wilkinsburg schools will have to raise millage rates more than they otherwise would have just to keep revenues unchanged. Clearly, even if the Executive had not stopped the new assessments from going forward, Wilkinsburg property owners would be facing some millage increase because of declining overall assessed value. His plan simply makes the situation worse for many Wilkinsburg property owners.

What should be done? Here's our recommendation. The Executive should ask Council to pass a resolution allowing a six or eight-week delay in sending out the new assessments. During that time, select a random sample of 1000 properties from the list of those he is most concerned about

and put all available personnel to work on checking the recent assessments. He should arrange to use real estate agents and real estate appraisers knowledgeable in each area of the County to help produce fair market value estimates that would have a very high level of confidence of being accurate. If their estimates are reasonably close to the figures in the recent County estimates, then the latest round of assessments should be sent out. The normal appeal process can deal with the remaining problems.

If the real estate agents and appraisers come back with significantly different values from those in the County's latest run, then ask for three more months to fix the problems. Once the problems are fixed and the 2006 assessments are put in the mail there would still be six months for appeals before the new assessments go into effect. There is no need to act hastily and throw out years of hard work.

We think the Executive should allow the new numbers to go out--after some adjustments if needed. Then, if he so disposed, he can use his position to cajole schools and municipalities into obeying the law regarding assessment windfalls, filing lawsuits wherever there is a flagrant disregard of the windfall limit.

The County is morally and legally obligated to produce accurate assessments in order to ensure the greatest possible fairness for the County's property taxpayers. The Executive's current plan does not meet that obligation.

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