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### **Reassessment Heartburn on the Way**

Here we go again. Allegheny County will be officially reassessing all properties in 2006. Property owners will receive notice of their new assessment in early 2005 although the 2005 tax bill will be based on the 2002 assessments that have been frozen for three years. The idea is to give owners adequate opportunity to appeal the new assessments before they go into effect in 2006. Given the consternation over the reassessments in 2001 and 2002, it is important to begin the education process about the upcoming reassessment as soon as possible.

Since 97 percent of all residential properties were reassessed using the "comparable sales" approach (comparing a property to recent sales of similar properties), and it has been several years since the last assessment, it is crucial to examine recent home sale values and compare them with current assessed values to get an idea of how surprised owners are likely to be when they open their assessment letters in a couple of months.

We have examined a recent month's home sales data for all municipalities in Allegheny County to ascertain the differences in sales and assessed values that have developed and which will presumably drive the new round of comparable sales assessments. In short, the sales taking place in many communities in Allegheny County are, on average, substantially different from their current assessed value with some well above and some below. It is not surprising to learn that home values in many communities have risen sharply. Over a three-year period of very low mortgage rates housing demand has been quite strong, even in a slow growth county such as Allegheny. It is also not surprising to learn that home values in several communities that have been in steep long-term decline are continuing to experience weakening prices.

Throughout Allegheny County there were 2,361 home sales in June 2004. After eliminating sales and transfers of \$0 and \$1, there were 2,117 remaining arms-length sales of single-family detached homes. Countywide, total sales of \$250 million exceeded the assessed value of \$219 million, a difference of 14 percent.

In the suburban municipalities, 35 communities had sales values below assessed values while 72 municipalities had sales values that exceeded the values on the County's books. Eleven communities had sales that fell within 3 percentage points (positive or negative) of their assessed values. Eleven communities reported no residential sales in June. We found 34 communities with a gap of 20 percent or more between sales prices and assessed values. Some of the greatest gaps include Edgewood (40 percent), Fox Chapel (37 percent), Shaler (33 percent) and North Fayette (37 percent).

There could be negative tax implications for property owners in communities that have seen home prices rise above assessments by more than the countywide 14 percent. They will almost

certainly end up with higher county taxes while those near the county average or below could well see lower county taxes. Remember that the County can take no more than a 5 percent windfall from a reassessment of existing properties. If the countywide assessments rise by 14 percent as suggested by the June sales data, the County will have to lower its millage rate by 8 percent to limit revenues to the allowable 5 percent windfall. That will soften the blow somewhat, but for those owners with 40 percent increases, the County tax bill will jump significantly.

By the same token, owners whose assessments rose less than 8 percent will see some tax relief. Certainly, owners in communities like Homestead, Rankin and Lincoln should get relief on their county taxes. Unfortunately, the same will not be true for municipal taxes since the rise in values in other municipalities does nothing to offset the declining values in hard hit communities.

It is also important to note that within each municipality the gaps between sales and assessed values for individual homes vary widely around the community average. Thus, there could be extremely disparate tax impacts on properties within each community for both municipality and school taxes. One thing is certain: if assessments in the County's municipalities change to reflect recent sales as they are supposed to, there will be a flood of appeals next year.

Once again, these findings point to the absolute need for the County to move as quickly as possible to conduct annual assessments in order to prevent large gaps between market value and assessed values from developing. It also points to the need to adopt appraisal procedures that can get each parcel valuation as close to accurate as humanly possible. With the huge fraction of older housing stock in Allegheny County, using only computer models and databases will not achieve that goal. Local real estate experts will be needed to verify computer estimates for several years and on a sampling basis after that.

Finally, after the County starts reassessing every year, the County, all school districts and all municipalities should be limited to a two percent windfall from reassessed values. Allowing a five percent windfall every year would be an invitation to officials to spend excessively and deny property owners tax relief they deserve and should have.

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