Pennsylvania's Property Assessment System Needs Change

Eric Montarti, Policy Analyst
Elizabeth Weaver, Research Assistant

Allegheny Institute for Public Policy

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305 Mt. Lebanon Blvd.◆ Suite 208 ◆ Pittsburgh, PA 15234
Phone: 412-440-0079 Fax: 412-440-0085 www.alleghenyinstitute.org

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Key Findings

- There is little correlation between the year of reassessment and the burden of county taxes, measured either on a per capita basis or as measured by collections to dollar of personal income

- Contrary to the belief that most of Pennsylvania's counties are using an old base year for assessing property, 33 of the state's 67 counties have either undertaken a reassessment or a factor adjustment to its pre-determined ratio since 1990

- Based upon a 2000 survey of the International Association of Assessing Officers, Pennsylvania is truly in a class by itself when it comes to important indicators on assessment:

  - ❖ Pennsylvania is one of eight states in which the state plays no role in assessing property, instead delegating that role to local government

  - ❖ Among those eight states, Pennsylvania is one of only three where the state does not prescribe a cycle of reassessing property

  - ❖ Of those three, Pennsylvania is one of only two where the state does not regularly audit the local assessing agencies

  - ❖ Of those two, Pennsylvania is the only state where neither the state nor local level verifies sales data

- Unlike many states, Pennsylvania does not offer services to counties such as legal advice, technical advice, assistance with computer modeling and valuation, and inspections, among other services

- The message is clear: the state of Pennsylvania is an extreme exception to the norm when it comes to property assessment. If the Supreme Court upholds Judge Wettick's decision that base year assessing violates the Constitution, the Legislature will have to enact assessment law with major changes from the current hands off approach

Introduction

In June of this year Judge Stanton Wettick ruled that Allegheny County's base year assessment plan was unconstitutional and challenged the state of Pennsylvania on its lax oversight of property assessments in the state. The ruling now sits with the Supreme Court on appeal by Allegheny County.

Their decision could significantly alter the landscape of property tax assessment statewide. If the Judge's decision is upheld, it could mean that counties that have not conducted a reassessment in many years may have to. It may also mean that assessments are done on a more regular cycle, possibly annually, and that the state will possibly audit, oversee, or even conduct assessments and take over that role from counties.

Given the gravity of the situation and the possible implications of the decision, we are taking the opportunity to highlight some of the issues surrounding base year assessments and the practices of other states should the Supreme Court void the base year option and place responsibility on the General Assembly for crafting a new assessment model.

In order to highlight those issues, we answer three Key Questions:

1. Do reassessments translate into higher County taxes?
2. Is Pennsylvania's managing and monitoring of the assessment system severely out of step?
3. Should Pennsylvania oversee assessments?

Does a Reassessment Mean Higher County Taxes?

We selected a sample of 15 counties in Pennsylvania to examine: the seven in the Pittsburgh metro area (Allegheny, Armstrong, Beaver, Butler, Fayette, Washington, and Westmoreland), five additional southwestern PA counties (Cambria, Greene, Lawrence, Indiana, and Somerset), and three counties from other parts of the state (Dauphin, Tioga, and Delaware). Data was collected on population, income, market value, assessed value, actual county property tax collections (municipal and school taxes not included), common level ratio, and pre-determined ratio.

The two key measures of comparison were Per Capita county Tax Collections (collections / population) and Collections per dollar of personal income (collections/income). The table below separates the counties by reassessment date: seven counties reassessed earlier than 2002, while the remaining eight (including Allegheny County) took an assessment action in 2002 or later.

On average, per capita collections for the entire sample were $185. Allegheny County had collections of $212, 15 percent higher than the sample average and ranked 4th highest in the sample. Of the counties with a reassessment older than 2002, two had higher per capita county taxes: one southwestern county, Westmoreland County, and one southeast Pennsylvania county, Delaware, just outside of Philadelphia.

Sample of County Tax Collections (Ranked by Reassessment Date)[1]

County	Reassessment Date	County Tax Collections, Per Capita	Collections per $ of Personal Income
Butler	1969	$ 165	0.68 cents
Westmoreland	1972	$ 228	0.97 cents
Beaver	1982	$ 199	0.95 cents
Washington	1985	$ 127	0.54 cents
Armstrong	1997	$ 139	0.75 cents
Somerset	1998	$ 135	0.69 cents
Delaware	2000	$ 239	0.79 cents
Dauphin	2002	$ 347	1.38 cents
Tioga	2002	$ 201	1.29 cents
Allegheny	2002	$ 212	0.81 cents
Lawrence	2003	$ 193	0.97 cents
Greene	2003	$ 196	1.31 cents
Fayette	2003	$ 108	0.62 cents
Cambria	2005	$ 175	0.87 cents
Indiana	2006	$ 107	0.7 cents

On the other hand, of the seven counties other than Allegheny that reassessed in 2002 or later—only one (Dauphin) had higher per capita County tax collections. Five counties in southwestern Pennsylvania (but not border counties to Allegheny) had lower per capita collections. The point being is that there is little correlation between the date of reassessment and the per capita level of county taxes, directly challenging the arguments of some elected officials that reassessments necessarily leads to a worsening of Allegheny County's tax burden relative to that of its neighbors.

The second measurement was collections per dollar of personal income—actual tax collections for each county divided by total County income (population times per capita income for 2005). The average for the sample was 0.91 cents per dollar. Here again Allegheny County was lower than the sample with a ratio of 0.81, a 10 percent difference. Two counties with an assessment year older than 2002, Westmoreland and Beaver, had ratios exceeding Allegheny County's. Clearly, the highest ratios belong in the 2002-or-later assessment group. Only two counties had a lower ratio than Allegheny County.

[1] Reassessment Date obtained from State Tax Equalization Board (www.steb.pa.us). The reassessment date from STEB indicates either an entire reassessment or a change in the predetermined ratio. Populations obtained from Census Data estimates for 2006 (http://www.census.gov/popest/estimates.php) and county tax collections obtained from most recent audited financial statements (2005 or 2006) obtained online or in phone conversations with county finance offices

Granted, these ratios are not perfect owing to the fact that tax per capita and tax per dollar of personal income are countywide averages and therefore cannot represent the situation faced by individual taxpayers in every municipality and school district. Nor do they take into account individual property assessments that are either too high or too low as a result of faulty evaluations of market values. Notwithstanding these caveats, the suggested ratios provide a useful way of comparing county tax burdens. The table shows the county property tax collections ratios for 2006.

The point is there are counties with very recent assessments that have lower per capita taxes than Allegheny County. At the same time there are counties with very old base year assessments with higher tax to personal income ratios than Allegheny County. Thus, the argument by elected officials that by using a base year helps hold down comparative tax burdens is incorrect.

The problem of exorbitant property taxes in Allegheny County arises in large part because of the heavy burden of school levies. In Allegheny County, the average school district property tax is $4.70 for each dollar taxpayers owe the County. By comparison, the ratio of school millage to county millage is only 2.3 in Lawrence County, 4.0 in Butler County, and 3.4 in Westmoreland County. Using the ratios of collections per capita and school to county millage rates, we calculated the relative school tax burdens in several counties neighboring Allegheny County.

Not surprisingly, school tax burdens in Allegheny County are, on average, considerably greater than in neighboring counties: 63 percent higher than Washington, 51 percent above Butler, 120 percent above Lawrence and 30 percent higher than Westmoreland. And so forth. Even when compared to counties with county tax burdens similar to or greater than Allegheny County, Allegheny's school taxes are substantially higher.

In short, those who argue that adopting a base year is the key to lower taxes have no empirical support for their assertion. The amount of tax revenue collected and how fast it grows depends on the amount of spending by the tax levying bodies and whether or not voters have any means of control such as through referendum requirements.

All a base year accomplishes is to lock in inequities and forces some property owners to pay more than their fair share while others pay less than their fair share. Every year that goes by under such a regime simply compounds the unfairness. Unless total taxes are kept very low, those who are overpaying will eventually demand redress—or leave.

How Long Have Pennsylvania's Counties Waited to Reassess?

The common characterization of the assessment system in the state is that Allegheny County has been forced by judicial decree to reassess frequently while the rest of the state has not done anything in a long time.

According to State Equalization Board data, the reassessment date is either the year in which a complete reassessment was undertaken or there was a mathematical adjustment made to the reassessment methodology. The latter could be a change to pre-determined ratio or a computerized change that increased the base.

Pennsylvania's Counties By Decade and Action[2]

Decade of Reassessment	# of Counties	Complete Reassessment	Factor Adjustment
1950-59	1	1	
1960-69	2	2	
1970-79	5	3	2
1980-89	6	5	1
1990-99	20	17	3
2000-present	33	19	14

Three counties in our original 15 county sample (Washington, Indiana, and Cambria) performed a factor adjustment in their most recent assessment change rather than undertaking a reassessment.

The majority of counties in Pennsylvania—nearly 80 percent in fact—have done "something" with their assessments in the last seventeen years, whether undertaking a complete reassessment or altering their pre-determined ratio.

What are Other States Doing?

We know from the preceding data that there is little correlation between reassessment date and the burden of county taxes and that there have been actions taken by counties in Pennsylvania, whether by undertaking a complete reassessment or an adjustment to their predetermined ratio.

But there exists a wide variation in assessment systems from county to county. To wit, Allegheny County taxpayers are taxed on 100 percent of the 2002 value, taxpayers in Butler County are taxed on 75 percent of the 1969 value of their home, and taxpayers in Washington County are taxed on 25 percent of the 1981 value. If the courts push for an assessment system that is uniform in its method (perhaps on issues like the frequency and standards, but not millage rates or exemptions) the landscape of Pennsylvania's local tax structure will be radically different than it is today.

In order to provide a comparative look at what the landscape in other states is, we obtained a copy of a 2000 survey of the International Association of Assessing Officers (IAAO) on assessment practices in the U.S. and Canada[3].

[2] State Tax Equalization Board, Documents on County Reassessments and Reassessment Date (www.steb.pa.us)

[3] Property Tax Policies and Administrative Practices in Canada and the United States, International Association of Assessing Officers, 2000

Other states provide guidance on this issue. The four most important questions pertaining to assessments are:

1) Who conducts assessments?
2) How often are assessments conducted?
3) Does an oversight agency audit local offices?
4) Who verifies the sales data?

Who Conducts Assessments?

According to the IAAO data, there is a wide variation in the governmental unit—state, county, municipality/town, or other unit—that assesses property. The survey has a count of the total number of assessing units in each state. They range from 1 in Maryland, where the state controls all assessments, to 1,897 in Wisconsin where the state, municipalities, townships, and other units have assessment power. It is safe to say that in the U.S., the county is the dominant assessing agent, having a role in over half of the states. In some states where the county and the state each have a role, the former is usually assessing residential, commercial, and industrial property whereas the state is usually assessing railroads, mining, or utility property.

Pennsylvania had a total of 67 assessing units, corresponding to the 67 counties in the Commonwealth. There were seven other states where the state itself has no role in assessing any property—Connecticut, Delaware, Hawaii, Maine, New Jersey, Rhode Island, and Texas. Because of this similarity, this group of states will be used to examine the other indicators related to assessment.

States with no State Role in Assessing Property[4]

State Where Local Units Are Responsible for Assessing Property	County	Municipal/Town	Other	Total # of Assesing Units
Connecticut		169		169
Delaware	3	1		4
Hawaii	4			4
Maine		492		492
New Jersey		567		567
Pennsylvania	67			67
Rhode Island		39		39
Texas			253	253

For all intents and purposes, Hawaii, Delaware and Pennsylvania put counties primarily in charge of assessments without the state assessing any property. The other states in this group primarily use a municipal, town, or special district role in assessments.

[4] IAAO study, question 8 "Please list the number of assessing units at various governmental levels and the types of property that each assessing unit is responsible for establishing the initial values"

How Often are Assessments Conducted?

States carry out assessments on differing cycles. Twenty-two states conduct annual assessments the remaining twenty-six states must conduct assessments on a cycle mandated by the state law. Others don't do it annually but prescribe the number of years, usually ranging from two to five years. Some put states on one cycle and local units on another.

How does the reassessment cycle look across our eight state sample? According to the IAAO survey, there are only three states that have no set assessment cycle—Pennsylvania, Delaware, and New Jersey.

Again, New Jersey's assessment function is carried out by municipalities and towns, not counties, so in that sense Pennsylvania is most similar to Delaware at this point in the comparison.

Local Assessments and Assessment Cycle[5]

State Where Local Units Are Responsible for Assessing Property	Cycle
Connecticut	Every 4 years
Delaware	No Specified Cycle
Hawaii	Annual
Maine	More than 5 Years
New Jersey	No Specified Cycle
Pennsylvania	No Specified Cycle
Rhode Island	More than 5 Years
Texas	Every 3 Years

Does an Oversight Agency Audit Local Offices?

The IAAO posed the question "does [the] oversight agency audit local offices"? Fifteen states responded that an audit is done on "a regular basis". Included in this group is Hawaii and New Jersey, two of the states included in the group of eight states where the state itself takes no role is assessing property. Likewise, fifteen states had no response to this question: not surprisingly, this group included Pennsylvania and Delaware.

[5] IAAO study, question 74 "Does state/provincial law specify a requirement for periodic reappraisal of property?"

Local Assessments, Assessment Cycle, and Audit Requirements[6]

State Where Local Units Are Responsible for Assessing Property	Cycle	Audit Required on a Regular Basis
Connecticut	Every 4 years	No
Delaware	No Specified Cycle	No
Hawaii	Annual	Yes
Maine	More than 5 Years	No
New Jersey	No Specified Cycle	Yes
Pennsylvania	No Specified Cycle	No
Rhode Island	More than 5 Years	No
Texas	Every 3 Years	Yes

Who Verifies the Sales Data?

The IAAO survey gave three options for an answer: state, local assessor, or other. In 25 states the response was that the state had a role in verifying sales data. Some of these also share verification duties with a local assessor.

Local Assessments, Assessment Cycle,
Audit Requirements, and Sales Verification[7]

State Where Local Units Are Responsible for Assessing Property	Cycle	Audit Required on a Regular Basis	Verification of Sales By State, Local, or Other
Connecticut	Every 4 years	No	Local
Delaware	No Specified Cycle	No	Local
Hawaii	Annual	Yes	Local
Maine	More than 5 Years	No	None
New Jersey	No Specified Cycle	Yes	State and Local
Pennsylvania	No Specified Cycle	No	None
Rhode Island	More than 5 Years	No	State
Texas	Every 3 Years	Yes	Local

So here is the assessment system in Pennsylvania—the state does not assess any property, does not mandate a reassessment cycle, does not perform any audits, and neither the state nor local level officials verify sales data. All the other states in the sample had some

[6] IAAO study, question 12 "Does your state/provincial agency conduct a performance audit or review of assessment procedures or practices in local assessors' offices?"
[7] IAAO study, question 20 "Who verifies sales data? (a) state/provincial agency, (b) local assessing office, (c) other, describe"

aspect that puts them ahead of Pennsylvania's system—they either mandate a reassessment cycle, audit on a regular basis, or verify sales. No state in this eight state sample responded like Pennsylvania did in the IAAO survey.

Finally, it is noteworthy that Pennsylvania does not provide legal or technical advice, direct on-site help, CAMA modeling (computer assisted mass appraisal), review of contracts for private firms performing assessments, or other services as do many states.[8]

Property taxes in Pennsylvania generate constant criticism and complaints and the state has attempted numerous "fixes" to lessen the burden of the tax: the lottery, gaming, homestead exemptions, and statewide referenda questions to reform them.

Conclusion and Recommendations

Clearly, the message from the findings in this report to the state is to reform the property tax system. The reform package would include the following characteristics:

1. The Department of Revenue, State Tax Equalization Board, or a new agency should have broad oversight authority that includes testing and certifying assessors, ensuring that counties are reassessing in a timely manner and establishing the statistical criteria for accuracy. In all likelihood the General Assembly will have to provide funding to set up the state oversight and assist with the revaluation programs around the Commonwealth.
2. Reassessments would be performed at least every three years.
3. Increases from the initial reassessment would have to result in a rollback of millage rates by all taxing bodies to eliminate windfalls, no exceptions. In subsequent reassessments, no more than a three percent windfall would be allowed.
4. Voters get the power of referendum to approve all millage rate increases, no exceptions; whether initiated by the school, municipal or county.

This package would ensure that the state's property assessments are equitable, fair, and up-to-date and that taxpayers have to approve any tax increase.

[8] IAAO study, question 70 "Which of the following services does your agency provide for local assessment units of government?"