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Allegheny County Assessments: Trouble Looming?

Last week the Allegheny County Executive announced via a newspaper story that there will not be another reassessment. Another reassessment being a reference to the 2012 court ordered reassessment and most likely the 2001 court ordered reassessment. The usual arguments were made: that reassessments are disruptive, costly and cause tax bills to go up. Quoting the newspaper article regarding the Executive's comments, "He said property owners value the stability of knowing they won't be facing another reassessment that could cause their tax bills to spike." And went still further: "The plan is to encourage people to invest in this county, to grow jobs. I think a reassessment would be counterproductive to what we're trying to do here in Allegheny County," he said.

This *Policy Brief* will demonstrate the flaws in all these arguments.

Prompting the Executive's comments was the revelation that the Common Level Ratio (CLR) as calculated and reported by the State Tax Equalization Board (STEB) has fallen to 87 percent as of July 2016 and what that portends for assessment appeals. The CLR is the ratio of the assessed value of properties sold during the previous twelve months to their market value as measured by sales prices. Thus, an 87 percent CLR means that for properties sold, the total assessed value was only 87 percent of the total sales value. Bear in mind that in July 2013, the CLR certified by STEB for sales in 2012 was 100 percent. Thus the CLR has dropped 13 percentage points in three years. Note that historical STEB data shows that the current CLR is about the same percentage it was in the middle part of the previous decade.

Whether or not the fall in the CLR will cause a surge in appeals remains to be seen. As our *Briefs* monitoring appeals since the 2013 assessment have pointed out, there have been over 110,000 appeals by owners and taxing bodies and the net effect has been a decrease of \$6.1 billion in pre-to post-appeal value since 2013 (see *Policy Brief Volume 16, Number 15*). To be sure, this massive number of appeals is due in large measure to the prolonged period between reassessments that produced vast numbers of enormous market value and assessment disparities that inevitably take a lot of work to resolve.

The problem for taxing bodies and the assessment board is that property owners can now use that ratio to argue for a reduction in their assessment on the grounds that the new owners of the recently sold properties are on average assessed at only 87 percent of market value. Whether they will get the full reduction by using the 87 percent ratio, or any at all, will depend on the appeals process and other factors. But there can be little doubt that many owners of very high value properties will look at this opportunity to get a tax reduction. According to the STEB website, when the CLR varies more than 15 percentage points from a county's pre-determined ratio (the

ratio of assessed to market value determined by the county government), the CLR can be used to appeal. In Allegheny County, with a pre-determined ratio of 100 percent, this would mean the CLR would come into play when it reached 84.9 percent. But an Allegheny County Common Pleas Judge has ruled that any value of CLR can be used. Absent a higher court overturning that ruling, Allegheny County apparently has no choice but to abide by his decision.

Consider a property assessed at \$50,000,000. In some school districts the total property tax bill (combined school, municipal and county millage at 30 or more) could be over \$1.5 million per year. A successful appeal that reduces the assessment to \$43,500,000 would result in the tax bill falling to just over \$1.3 million—a drop of \$200,000, well worth some legal costs to pursue. And of course, even higher value properties would save even more by appealing. At the same time a homeowner in a \$250,000 market value house in the same tax district could potentially save about \$1,000 in taxes per year by appealing.

Two things to note here. Over time, as assessments are successfully appealed based on the CLR, total assessed value will be driven down even further in the three affected taxing bodies relative to total actual market value. At some point this loss of taxable assessed value will force taxing bodies to raise millage rates to offset the assessment decline. And that will mean those owners who have not appealed and received assessment reductions will pay more taxes to make up most of the shortfall caused by the successful appeals. Appealed properties will pay the higher millage rates but on lower assessments as a result of the appeal. Tax inequity will worsen.

Second, as years roll by and the CLR continues to fall, more and more property owners will be motivated to file appeals and assuming a substantial fraction wins, the combined taxing bodies' taxable assessments will be lowered further creating an ever widening gap between assessments and market values—and a still lower CLR.

Thus the CLR based appeal is a profoundly inefficient and, in the long run, a self-defeating procedure for dealing with gaps between assessments and market values. And it is a poor substitute for doing the right thing and keeping all assessments up to date.

Owner appeals are time consuming and push the cost of maintaining tax fairness on to the property owners. It would be interesting to know the cost in dollars and man hours imposed by a system that does not keep assessments up to date on a frequent schedule.

And then the other side of the problem crops up—taxing body appeals. For example, a property sells for \$2,000,000 that has an assessed value of \$1.3 million. The school district appeals and gets the assessment moved closer to \$2,000,000. The owner then promptly appeals and uses the CLR to get a big reduction. How absurd is that? The only people happy about this situation will be the consultants and attorneys handling appeals.

Here is the bottom line. When property assessments are not kept up to date and accurate as possible using regularly scheduled and fairly frequent reassessments as all states but Pennsylvania and Delaware require, all sorts of bad things happen. Tremendous inequities arise when some properties are grossly under assessed and others are over assessed. The Constitution of Pennsylvania is clear on this point. That situation should not be allowed to stand.

As was noted at the beginning of this *Policy Brief* somehow politicians have become convinced or claim to be convinced that keeping assessments up to date will scare away development. Most

states mandate timely and frequent assessment updates and many of those are running well ahead of Pennsylvania and the Pittsburgh area in economic and employment growth.

The County Executive argues that businesses want stability and are afraid of reassessments that will cause their tax bills to go up. This argument is completely backwards. Businesses want low, stable taxes. They do not worry about assessments unless they are badly wrong. They worry about high and rising taxes. And they want to be treated fairly. They want their properties to not be over assessed but accurately assessed close to market value. Politicians and businesses who insist on having some properties under assessed in order to keep those taxes down are asking other businesses and home owners to make up for their not paying their fair share. The County should not be forcing this inequity by refusing to maintain up to date assessments. It is ethically and constitutionally wrong. If the County wants to give tax breaks on new development there are programs to do that. Besides there is nothing the County can do about a school district raising taxes significantly to cover a new building or to make the ever increasing required pension plan payment. And school taxes are far greater than County taxes.

Then too, the Executive makes the same old tired argument that taxes will go up after a reassessment as though everyone will get higher tax bills. Under the law, there can be a small windfall the taxing bodies can take after a reassessment, but that must be done by a separate vote after millage is set to be revenue neutral.

A reassessment will cause some property owners to pay more taxes to schools, municipalities and the County if the percent increase in their assessment is much higher compared to the average increase in each taxing jurisdiction. On the other hand, owners with lower than average increases or decreases in assessments will see lower tax bills. Other counties have explained this reality to residents and thereby substantially reduced their concerns about reassessment. Why does Allegheny County insist on trying to frighten property owners with the argument that frequently scheduled reassessments mean higher tax bills?

The Commonwealth refuses to follow the lead of other states that require frequent and periodic reassessments. But the County can do this on its own if it decides to treat taxpayers equitably. If it does not then it is inevitable that another lawsuit will be brought and the County will be ordered to perform a reassessment. And because of the unnecessarily long period between reassessments, there is guaranteed to be a lot of major shocks and angst for many property owners as we saw in the 2001 and the 2012 reassessments. Is that the stability the Executive seeks?

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