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A third tax relief program for Pittsburgh is in the works

Summary: A bill in the General Assembly would give Pittsburgh (and only Pittsburgh) explicit ability to enact a property tax relief program for longtime owner occupants whose property values have risen due to gentrification. The program faces many problems inherent in a county with no periodic reassessments.

In 2016, Pittsburgh's Affordable Housing Task Force recommended that the city provide property tax relief for longtime homeowners whose home value rose due to new development and redevelopment.

This was not a new idea. In 1984 voters approved an amendment to the Pennsylvania Constitution that allowed counties of the first class (Philadelphia) and second class (Allegheny) to enact property tax relief for longtime owner-occupants.

Act 146 of 1988 defines a longtime owner-occupant as a person who has "owned and occupied a dwelling as a principal residence" for at least 10 years (at least five years if the home was purchased with government or nonprofit assistance). It permits an exemption or deferral of the portion of property taxes that results from "any increase in the market value of their property resulting from widespread renovation of property in their neighborhood," according to the Pennsylvania Tax Manual.

The county governing body is permitted to pass an ordinance designating areas where the uniform relief is to be applied. Unlike Philadelphia, which is a consolidated city-county with one school district, the law allows the individual municipalities and school districts in Allegheny County to determine their participation in their jurisdiction.

In 1990 Allegheny County passed an ordinance to cap county tax increases for longtime owner occupants at 5 percent. However, since it did not specify that an increase in value had to result from the refurbishment of other properties, the ordinance was struck down by the courts. Municipal and school district ordinances in Allegheny County, where they did exist, were essentially nullified by the decision. That nullification also included Pittsburgh, which still has language in its code on the relief program.

At the behest of the city, the General Assembly is now considering legislation to amend Act 146 to do the following:

- Define “municipality” to include cities of the second class (i.e., Pittsburgh)
- Permit a municipality to require more than a 10 year minimum occupancy to qualify
- Change the language on redevelopment on “principal residences” to “real property”
- Permit cities of the second class to enact an ordinance without one from a county of the second class

If the proposal becomes law, it would then be up to the city to decide if it will utilize it, where and how. Would the program be citywide or in specific wards? How much would the value of covered residences be required to rise to be eligible for relief? What criteria would the city use to determine what actually caused the value increase? Would a taxpayer utilizing existing city tax relief measures also be able to partake of the new one? How much would the program cost?

On the last two questions existing city programs provide some context. Act 77 of 1993 outlines tax relief for longtime owner-occupants in the city who meet age and income requirements funded out of Regional Asset District sales tax revenue. Act 50 of 1998 allows local taxing bodies to enact homestead exclusions.

Pittsburgh’s Act 77 discount reduces the city tax bill by 40 percent for longtime owner-occupants age 60 or over with an income of $30,000 or less. The Act 50 exclusion lowers assessed value by $15,000. On a $50,000 assessment, what would mean a $403 city tax bill is reduced to $120. According to the 2019 city budget, the relief programs will cost $2.1 million and $6.4 million, respectively. Expected current-year property tax collections after relief programs are estimated at $147 million.

Philadelphia can also provide guidance on the other questions. It put its citywide relief program in place in 2014. Besides meeting the length-of-residence requirement, there is also an income requirement based on household size. The value of the residence has to increase 50 percent in order to qualify and a taxpayer has to choose between longtime owner-occupant relief and the city’s homestead exclusion.

Under the legislation Pittsburgh could establish a program that requires a longtime owner-occupant to have lived in the dwelling for 20 years and in a specific ward of the city. It could specify that the dwelling’s assessed value rise at least 60 percent and that the owner has to decide to utilize the existing homestead exclusion or take the longtime owner relief. Or it could go in a completely different direction. It could decide not to enact the program at all.

The key difference is that Philadelphia is reassessing annually. While Pittsburgh can go it alone under the proposal to establish the relief program, the duty of reassessing property falls to Allegheny County and there is not a reassessment in the works for the foreseeable future. And under the current county administration it will likely require a court order to do a reassessment.

Moreover, an eligible Pittsburgh homeowner under whatever criteria for relief the new program specifies would not be able to take advantage of the program unless there is a reassessment that shows his /her property in a designated area rose the necessary amount to get relief. Absent any countywide reassessment, the assessed value of properties will be unchanged unless there is a sale for a much higher price than the assessed value and the school district appeals on that basis and that would not impact the current owner.

Note that the city has forsworn appeals of real estate assessments. So even a recent homebuyer is unlikely to see a city tax increase due to higher assessments.

Clearly, taxing bodies can benefit from rising property values when these increases represent strong market activities. Tax revenue can rise without changing millage rates. Or they can give taxpayers a break by cutting millage rates. But in a situation where there are no regular, periodic reassessments, the relief program envisioned in Pittsburgh will provide additional tax relief benefits to very few, if any, current homeowners. As noted above, relief programs already in place are providing significant tax relief to older, lower income longtime owner-occupants. New buyers can benefit from the city's homestead exclusion (but not Act 77) and the additional benefit of frozen assessments absent a school district appeal.

The city faces a real problem in that increased city property tax revenue must rely primarily on new construction or improvements of taxable property and higher millage rates—and, to a lesser extent, the expiration of tax breaks or conversion of previously non–taxable to taxable real estate.

In short, property revaluations should be done on a regular cycle so that large gaps between market values and assessed values do not develop. Failure to periodically reassess creates enormous inequities between rapidly rising market values and depressed or falling values.

It creates angst among property owners the longer it is delayed and puts pressure on school boards and municipalities whether or not to appeal recent sales with prices far above assessments—a politically unpopular policy.

And it makes designing relief programs as envisioned in Act 146 extraordinarily problematic.

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