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Inaccurate property assessments—causes, impacts and corrective actions

Problems in assessing property values

First of all, it is important to examine the factors that can affect property market values and the accurate determination of value. Clearly, the age and condition of a property as well as material changes (positive or negative) to dwellings and commercial structures since the last appraisal present significant issues for appraisers.

Absent a recent selling price (or professional appraisal) for a specific property—home or business—there is no way to know the current condition of the property—especially internally and out of the view of an appraiser. Thus, market values of properties are largely dependent on sales of comparable properties. In areas with few sales, that methodology becomes extremely problematic.

Second, there are problems inherent in a county with neighborhoods of widely varying ages and dates of construction of properties in the different neighborhoods. The older the construction in a neighborhood, the more likely there will be properties that have not undergone extensive upgrades and have outmoded wiring, plumbing, etc. And typically, many older neighborhoods do not have enough recent sales to use for comparison purposes.

Then, too, neighborhoods in areas hard hit by economic changes over the decades will present assessment problems as property values and sales decline and assessments are not lowered commensurately. The reverse is true for neighborhoods with relatively new homes or in business areas where there are sales rates high enough to estimate the values of other close-by similar properties.

And it is also true that the longer the period between reassessments, the more sales prices are likely to diverge from assessments with upscale, newer neighborhoods seeing rising home prices while prices in older, poorer neighborhoods will see smaller, if any, increases in home prices.

In a county that does not do regular reassessments, the lack of assessments for years means areas with small home value gains will see the ratio of assessment to home value stay largely unchanged. By the same token, more affluent areas with rising prices will see the ratio of assessments to value fall.

Thus, in general, properties with significant growth in value as measured by selling price will see assessments fall relative to market price and thus pay less than their fair share of taxes when periods between assessments become very long such as 10 or more years. By the same token, properties with little or no rise in sales value will not see a diminution in taxes—unless the millage rate is lowered. But that would also lower the tax rate paid by under-assessed properties.

This means the serious inequities arising from the huge variance in the yearly ratios of assessments to sales prices cannot be adequately addressed by using the so-called "common level ratio" (CLR) to file appeals. The CLR is calculated each year by the state for each county based on property sales reported to the state. For all sales (excluding love and affection transfers) the assessment to sales prices are arranged from high to low.

Using a methodology that eliminates extreme ratio values, the state then finds the median value of the assessment-to-sales price ratios for the remaining sales and that becomes the latest CLR.

The median value ratio is the ratio for which half the ratios of assessment-to-sales price are higher and half are lower. That ratio is to be used in each county for the purpose of filing appeals by those with the assessment-to-sales price ratio above the CLR. Of course, that does nothing to correct the inequitably low taxes of owners with properties below the CLR.

Additionally, as *Policy Brief, Vol. 22, No. 27,* noted, the CLR implicitly assumes that the distribution of sales is representative of the housing and commercial stocks in the county. Therefore, even with removal of extreme assessment-to-sales ratios the CLR will not necessarily reflect the actual assessment-to-sales price (current market value) ratio for all properties since the actual or estimated market value of all properties is unknown unless a recent reassessment has been carried out. Indeed, over time the CLR will tend to fall in counties where there has been no reassessment for a long time. And this is likely to result in an increase in the number of property owners appealing their assessment.

Furthermore, inaccurately high assessments or owner perception that their assessment is too high as gauged by the CLR can, and often does, prompt an assessment appeal. Procedures and processes for appeal can be complicated, legally challenging and very expensive for the appellant and the county. And they very often produce results that are not satisfying or are inequitable for the appellant.

Clearly, failure to maintain regular and frequent reassessments creates, perpetuates and exacerbates all the problems with assessments discussed above.

Note, too, that inequities of inaccurate appeals are exacerbated by the heavy dependence on property taxes by school districts and, to a lesser degree, municipal and county governments. This heavy dependence on property taxes drives the need for high tax rates and that means property owners who are overtaxed because of a faulty or out-of-date assessments that are too high are even more disproportionately overburdened.

Consequences of faulty and out-of-date assessments

Governments that perpetually refuse to keep assessments up to date and as accurate as possible diminish their worthiness as keepers of fairness and public trust. Clearly, property owners with perpetually under-assessed properties—especially those who are greatly under-assessed—will lobby strongly against reassessments and support candidates who commit to never do a countywide reassessment. Indeed, absent a court order, some counties will never reassess.

The consequence is that officials often stridently oppose reassessments using the argument that reassessments will result in tax increases. This, even though any windfall increases in tax revenue accompanying a reassessment is, by law, to be rolled back through a tax rate reduction to eliminate the windfall. Note that for the municipalities and county, the reassessment has to be revenue neutral. But after making the reassessment revenue-neutral by lowering the tax rate, they can legally have a separate vote to raise the tax rate. Allegheny County is allowed a revenue increase of 5 percent while other counties may increase revenue by 10 percent following the vote to establish revenue neutrality following a reassessment. On the other hand, school districts have to abide by Act 1. As long as they are within their Act 1 index, they can impose a small increase.

County officials who deliberately perpetuate a no-reassessment policy create distrust in government's primary duty and obligation to provide equitable treatment of its citizens. This is especially true since the property owner's total tax levy includes bills from the municipality, county and school district that add up to very heavy taxation.

Solutions

It is important to bear in mind that there is no perfect solution to the assessments problem but there are steps that can be taken to reduce inequities. Any effort to improve fairness must recognize the enormous age range of taxable properties and the variations in quality of properties in and among neighborhoods.

The impact of these factors can be compounded in some instances by the extremely long periods since the last reassessments and the fear or distrust of many owners that they will see very large increases in tax bills. It is a reality that some of those owners who are perennially under-assessed and have not paid their fair and rightful share will see significant increases in tax bills. And no doubt that is a major factor in resistance to reassessment.

Periodic reassessments

Assessments every three years by reputable and professional assessors—and resolution of complaints of incorrect assessments well before the next assessment—would be a great improvement over the situation in most Pennsylvania counties, including Allegheny County. Note that several Pennsylvania counties have done reassessments in recent years but few, if any, have determined to do them on a regular, periodic basis.

For counties that have not done a reassessment in many years it might require two or possibly three rounds of reassessments to produce a really good and reliable set of assessments. Counties should also maintain constant monitoring of residential and commercial property sales values during the inter-assessment period to keep track of neighborhoods that are experiencing significant increases or decreases in market values in prices compared to the last reassessment value. This would help avoid major reassessment shocks.

Commitment to maintaining a regular schedule of accurate assessments—say every three years—would go a long way in reducing the angst surrounding the assessment debacles we see now.

In order to reduce the county's cost of carrying out regular reassessments, the state could pass a bill requiring municipalities and school districts to share in assessment costs. Having the full cost of a reassessment fall on the county is a deterrent to the counties' willingness to undertake frequent reassessments. The legislation would necessarily have to specify the criteria for basing the cost-sharing.

Reduce dependence on property taxes

The county, municipalities and especially school districts should become less reliant on property taxes for funding. First of all, reducing expenditures and thereby reduce the need for revenue is a good place to start. Where possible, taxation should be shifted to other sources of revenue. Commonwealth legislation would be necessary in most cases but making taxation less onerous by reducing the burden of high property taxes that heavily impact people with less ability to sell or move should be a legislative goal.

It is also important for government spending to be kept at the lowest possible level. That would reduce the need for all tax revenues, including property taxes. This would be especially true for the City of Pittsburgh, Pittsburgh Public Schools and Allegheny County each of which has spending per resident well above peer groups.

Conclusion

Pennsylvania, as one of only two states (according to the International Association of Assessing Officers) with no legislative requirement for regular reassessments, does a great disservice to a major share of property owners by allowing counties to keep outdated assessments on the books—for decades in some cases. And where the combined property tax rates are very high, the lack of accurate assessments creates enormous unfairness for a large percentage of property owners.

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