POLICY BRIEF

An electronic publication of
The Allegheny Institute for Public Policy

June 15, 2011 **Volume 11, Number 34**

Gearing Up for the New Assessments in Allegheny County

"Assessments" and "fatigue" are two words normally not linked together, but they are forever joined in Allegheny County thanks to the events of the past decade. Since the revaluations of 2001 and 2002 the County's property assessments have been on a tortuous journey only a fiction writer could have constructed before the fact. In 2005, County officials began conjuring up schemes to avoid a promised reassessment due in 2006 resulting in an initial effort being overturned by the Courts followed by the adoption of a base year system that was challenged in a case that went all the way to the Pennsylvania Supreme Court.

The Justices, in rendering their decision, were harsh in their denunciation of the County's scheme and ordered a reassessment that is to be supervised by the Common Pleas judge who ruled initially against the County. And now we have the spectacle of the major party candidates for County Executive pledging to stop the court ordered reassessment. Apparently, some folks still hold out hope the General Assembly will enact legislation forestalling the Supreme Court order or that the Court will reverse itself. Legislation overturning a Court decision would be a Constitutional nightmare. And, on what grounds does anyone think the Court would reverse itself?

Back in 2004 and 2005—when the County was on track to have a reassessment in place for 2006—the Allegheny Institute wrote two *Policy Briefs* and a full-length report focusing on recent sales of property in the County in order to measure the gap between sales prices and the existing assessed values and to compare the assessed value in place at the time to the recently completed assessments that were to take effect in 2006. We found that there was indeed an average gap of 14 percent—with an extremely wide range of differences between sales prices and assessments among individual properties—and that the 2006 assessments were much closer to the sales prices than the assessments on the books at the time.

Taking a cue from that earlier work and, in light of the County's reassessment process currently underway, we are preparing to revisit the topic for 2012 when the new assessments are to go into effect.

There are a few adjustments to our methodology. First, the focus this time is on arm-length sales of existing single-family homes that sold for at least $10,000. Previously the data included single-family homes as well as a variety of multi-family structures (duplexes, condos, etc.) and counted sales transacted for any amount over $1. Second, instead of one month of sales data we are using two, March and April of 2011.

Data for those months show that 1,657 sales occurred in Allegheny County. Combined, the sales had a total value of $216 million (an average sale price of just over $130,000, the median sales price was $100,000). The total assessed value for those parcels was $177 million (average assessment of just over $106,000, the median assessed value was $81,000). Thus, in the March–April 2011 period, the average sales prices in the County exceeded the average assessed value by 22 percent. Interestingly, the averages have not changed much since the June 2004 sales data used in our earlier study. At that time, the average sales price was $130,281 and the average assessed value was $109,204.

Of the 1,657 recent sales, 1,072 had a sales price greater than the assessed value of the home. On the other hand, 581 homes sold for less than their assessed value. A scant four cases sold for precisely their assessed value. 758 sales, about 45 percent, of the sold homes recorded a sale price 22 percent or higher than the current assessment.

Ten municipalities in the County had thirty or more sales in March and April. And their performance relative to the average for the County might provide some insight as to where assessed value changes are going to have a significant impact on changes in tax bills. The leader in this regard was the South Hills suburb of Upper St. Clair, where the combined sales value of the 40 homes sold was 46 percent above the combined assessed value of those homes. Others on the high side in terms of ratio of sales prices to assessments included McCandless (38%), Pittsburgh (34%), Mt. Lebanon (33%), and Ross (28%). The communities of Bethel Park (19%), Plum (16%), Shaler (19%), and Whitehall (21%) fell under the countywide average. The only community with sales prices less than assessed values and had at least thirty recorded sales was Penn Hills, where sales were 8 percent below the assessed values.

If the two months of sales data are a reasonable representation of the relationship between sales prices and current assessments, then the communities where the sales-to-assessed ratio is larger than the countywide average would be in for a County tax increase. Those at or below the countywide ratio would not. The impact of the windfall provision, any change to the Homestead exclusion, and where the County's millage rate eventually settles will determine how much the County property tax bill will change for individual parcels of real estate.

But as most property owners (outside the City of Pittsburgh) understand all too well it is the school property tax that accounts for roughly two-thirds of the total property tax bill each year. With that in mind consider the case of Upper St. Clair where recent sales prices have exceeded current assessments by 46 percent on average. Of those 40 sales, 11 had a sales price 60 percent or higher than their assessed value, some were above 80 percent higher. 25 of the homes had sales prices that were less than 46 percent above assessment.

Making two reasonable assumptions—first, that the sales in March and April are representative of the market value to current assessment ratios throughout the municipality, and second, that the new assessments will accurately reflect current market values—it is safe to say that about one fourth of home owners are looking at significant hikes in school and municipal taxes even with a no windfall provision in place; that is to say, the school and municipal millages will be adjusted downward to offset the rise in the municipality's total assessed values. On the other hand, about three-quarters of home owners will get a tax bill reduction because their assessment will rise less than the average.

It is important for property owners to understand that, since the large majority of taxes are paid to the school district and municipality, whether an increase in assessments on their parcel of real estate will result in higher or lower taxes depends on their assessment increase relative to the average increase for each taxing body that levies taxes upon them. Moreover, if all taxing bodies agree to adjust millages to avoid a windfall revenue gain, there will be as many or more tax bill reductions than tax bill increases. This will not be true only in the extremely unlikely case that a school district's lowest value homes are substantially under assessed and its higher value homes are over assessed.

Finally, all assessments can be appealed. If history is any guide, there will be thousands of appeals given the long standing under assessment of so many properties in the County.

It is important to remember that the assessment process is about establishing values within the acceptable standards set by the International Association of Assessing Officers (IAAO). And it is also important to bear in mind that the promises made by elected officials that the base year would hold down property taxes were not close to accurate. Dozens of school districts and municipalities have raised millage rates in order to boost revenues in the face of stagnant assessed values. Assessment freezes are no protection against higher tax bills.

But for now it is waiting game for property owners—waiting for their new assessments to arrive. The thing they must remember before panicking is to look at the average assessment rise in the school district and municipality where they reside to get a good idea of which way their tax bills will go. In that regard, the County should post the average assessment increase for each school district and municipality as well as the County on the web site and in the newspapers. Better still, the new assessment statements for every parcel should include the percent change in assessments for the school district and municipality where the parcel is located along with an explanation of how the owners can use the information to evaluate the likely impact of the new property assessment on their tax obligation.

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