

POLICY BRIEF

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Assessment Cap: Good Politics, Poor Policy

By approving a plan to institute a six-tier value classification that limits property assessment increases to 4 percent for 2006, County Council has taken a giant leap of faith that the plan will prevent large tax hikes for some taxpayers and stem further flight from Allegheny County. Never mind that the cap ordinance ignores the Uniformity clause of the Pennsylvania Constitution.

In acquiescing to the Chief Executive's assessment cap scheme, Council has indicated that it agrees with the Executive's views about the Office of Property Assessment's recently produced numbers that were to be used for 2006 taxes. The Executive's comments to the media suggest that he does not believe the assessments are accurate and are not usable. This despite the Chief Assessor's testimony that the new assessments meet professional standards for accuracy. The Allegheny Institute has examined 100 recent sales and found the new numbers to be much closer to market value than the existing assessments.

Ironically, in direct contradiction to the Executive's stated belief that the new values are unusable, the values to be assigned in the six-tier scheme will be based on the new computer-generated values. Obviously, the County's elected officials believe the direction of change in the reassessed values if they moved higher but are not willing to accept the amount of the increase whether they are demonstrably provable or not. On the other hand, if a new assessment is lower than the existing value, by whatever amount, it is to be treated as entirely accurate, credible and acceptable. This is clearly a faulty rationalization devised to justify the actions of the County officials.

Under state law, the County, the municipalities, and the school districts can take only 105 percent of the previous year's revenues when the County completes a new assessment-- commonly referred to as the 5 percent windfall limit. We can debate the merits of the law and its lack of specified enforcement provisions, but it is perfectly legal for a taxing body to take a five percent windfall after a reassessment. The Executive knew this to be the case before he campaigned for the office. It cannot be used now as an excuse for not accurately reassessing. If there are violations of the windfall provision, he needs to have the County Solicitor take the offending school district or municipality to court to force them into compliance.

The Executive has also said that he wants to avoid the number of appeals that occurred in the last two assessments. However, since it has been three years since the last reassessment and the housing market has been remarkably robust thanks to very low mortgage rates, there has been a substantial increase in home prices in much of the County. The appropriate way to avoid large numbers of appeals after a reassessment is to do annual assessments. After a few years, the assessment system should have dealt with the serious problem areas and have much more accurate and credible numbers.

Clearly, if the Chief Executive's previous experience had led him to be extremely concerned about the validity of the reassessment process, he should have begun arguing for an alternative process immediately upon taking office--not after the reassessment.

Beyond the lack of a credible rationale and the unconstitutionality of the six-tier scheme, we need to be aware of the distorting and counterproductive effects the plan will have.

First of all, the six-tier, quasi-freeze plan does not address the fundamental tax problem in Allegheny County. That problem is very simply stated. Governments and school districts spend too much. As a result, taxing bodies in the County must levy taxes that are very high in comparison to surrounding counties and other urban areas around the country. Where are the complaints from the Executive or Council members about this problem? Indeed, have any of these officials publicly decried the excessively generous pay and benefits received by teachers or other public sector employees? Most school districts in Allegheny County spend much more per-pupil than the state average and far more than the national average.

Clearly, the quasi-freeze will do nothing to eliminate the need for school revenues to increase in order to cover rising compensation costs built into collective bargaining agreements. Those additional revenues will be captured through bumping up millage rates. Higher millage rates will simply exacerbate the unfairness created by the artificially low share of taxes paid by those who are greatly underassessed. Indeed, the quasi-freeze is a smoke screen to avoid dealing with the real problem of exorbitant tax burdens. At the very least, taxpayers need to have the right of referendum to approve spending and any increase in taxes.

Second, it will harm those whose assessments would have stayed about the same or risen less than the average for their municipality or school district. The general idea behind the six-tier system is that declining values will be allowed to fall without limit while rising values will be grouped into categorical increases of 1, 2, 3, or 4 percent. As a result, homes with no change or less than average gain will pay a greater share of total taxes than they should while those who are egregiously underassessed will pay far less than their fair share.

Third, the six-tier scheme could produce an actual decline in the tax base of some municipalities or school districts that would have seen small increases otherwise. This poses a difficult challenge for taxing bodies who will probably have to raise millage rates to keep revenue from falling. Of course, those increases can be blamed on local government officials, diverting any responsibility from County officials.

Fourth, it will penalize property owners who only recently purchased homes and had their assessments challenged by a taxing body and had their assessed values brought close to the sale prices. Longer-term owners of comparable homes in the same neighborhood whose assessments have been essentially frozen at 2003 levels will pay less in taxes for equivalent properties. This could discourage future sales if the practice of taxing bodies appealing recent sales continues and is successful.

In sum, this is a classic case of the squeaking wheel getting the grease. Many property owners, having looked up their "new" assessments, were alarmed that they might be facing substantial tax increases. Large numbers of these folks deluged County officials with pleas not to go forward with the new values. At the same time, homeowners with moderate or less than average assessment increases who would have received a tax cut when the taxing body rolled back millage rates to abide by the windfall limit will not get the tax cut they are entitled to. Because the way the windfall limit benefits these homeowners is not well or widely understood, few of

these property owners registered their unhappiness with the six-tier quasi-freeze. Nor was there any effort by officials to educate the public about the way the system is supposed to work.

Politically the decision to cap assessments was easy. But the negative consequences will be felt for quite some time and repairing the problems created by the adoption of inaccurate and unfair assessments will get progressively harder.

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