POLICY BRIEF

An electronic publication of
The Allegheny Institute for Public Policy

April 7, 2005 **Volume 5, Number 14**

Impact of Assessment Cap Scheme on Downtown Tax Base

Even though the County has yet to reveal the formula it will utilize to establish the six-tier reassessment scheme, it is quite clear that some taxing bodies could end up with a much lower than expected tax base in 2006. That's because the cap plan will lop off any increase in assessed value greater than 4 percent while allowing the decreases in assessed value to go into full effect no matter how large. Thus, it is likely that the tax base in communities will grow far less than anticipated and in many could actually decline. And, remember, the six-tier plan values for 2006 will remain in place for three years.

To illustrate the effect of the cap scheme, we have examined Pittsburgh's Golden Triangle, the primary commercial district in the County. The Triangle is home to more than 20 million square feet of office space as well as large amounts of space devoted to retail and hotels. In *Policy Brief, Volume 5, Number 7,* we noted that Downtown is experiencing falling occupancy rates. The vacancy problem has been accompanied by Sheriff's sales and declining rents.

For a sample of over 150 buildings in the Triangle, including the 25 largest office buildings, all the major hotels, and numerous other structures, the current (2005) aggregate assessed value is $2.06 billion while the new, uncertified 2006 aggregate value stands at $2.38 billion, a rise of 15 percent. The County's plan for the 2006 assessed values, which limits increases to 4 percent and allows decreases to fall without limit, significantly alters the aggregate assessed value for these Downtown buildings. Instead of the aggregate assessment rising from $2.06 billion to $2.38 billion, the cap scheme will lead to a *net decrease* of $238 million to $1.8 billion.

How could this happen? Let's look first at the properties whose assessments would have increased or stayed the same if the new, uncertified numbers were used. The total current assessed value is $1.1 billion for these properties. The values would have increased to $1.7 billion in 2006. But, under the County's plan, the increases will be segmented into classes of no change, or increases of 1, 2, 3, or 4 percent. In aggregate, that plan would result in an assessed value of, at most, $1.2 billion for this sample of Downtown real estate--an increase of $44 million instead of the $604 million jump if the caps are not in place.

Specific examples of the cap's effect are abundant. The U.S. Steel building is currently assessed at $160 million. It was to rise to $212 million in 2006. The effect of the 4 percent cap would put its assessed value to $166 million. The pattern repeats for other Downtown structures spread across the Triangle. Notable properties such as the Union Trust, Center City, Oliver, Grant, and the Allegheny Building will have large increases controlled by the cap. In all, it translates into aggregate reduction of over $500 million for the properties in the sample from what would have been their assessed values in 2006. To be sure, if the new values were to go into effect for these properties, there would be appeals.

Downtown Property Values

Direction of Change in Assessed Value	*Current Assessed Value, in Millions*	*2006 Assessed Value, in Millions*	*Change, in Millions (2006-2005)*	*Capped 2006 Assessed Value, in Millions*	*Change, in Millions (Capped 2006-Current)*
Increase/No Change	$1,157	$1,761	$604	$1,201	$44
Decrease	$904	$622	-$282	$622	-$282
Total	*$2,061*	*$2,383*	*$322*	*$1,823*	*-$238*

Meanwhile, the current assessed value of properties whose values will decline is $904 million and will plummet to $622 million for 2006, led by a large $143 million fall in the value of One Mellon Center. The Liberty Center complex, the PNC and Mellon service centers, and the William Penn Hotel will see significantly reduced assessed values next year.

Extrapolating from this large sample of major properties, it is reasonable to surmise that the Golden Triangle--on the whole--would see a net decrease in total tax base from current levels of anywhere from $200 to $238 million as a result of the capping plan. If this sample of Downtown properties is indicative, it will take a lot of increases in the assessed values of other properties together with a relatively small amount of assessment reductions throughout the rest of the City to make up for the $238 million drop in Downtown values.

Moreover, the Downtown tax base diminution is likely to be even worse. Notwithstanding the fact that their assessment increases have been capped, many Downtown property owners will file appeals. Current assessments for many buildings are clearly very problematic. For example, four buildings in the Gateway Center complex--which recently sold in a block transaction--have a combined current assessed value of $93 million. However, the four buildings sold in December 2004 for just $55 million. Appeals are almost certain despite the fact that the 2006 capped assessment is only slightly higher than the current value.

Similarly, the Dominion Tower and the Warner Center could appeal based on current assessments and their recent sales prices at Sheriff sales. In the case of Dominion, the February sale price of $45.2 million was $8 million under its current assessed value of $53 million. A 4 percent cap will limit the 2006 assessed value to $55 million, a questionable amount in light of the recent sale price. Then too, the Warner Center's sale price of $2.7 million was well below the current assessed value of $4.9 million and the 2006 capped value of $5.1 million.

In short, with the likelihood of numerous successful appeals on properties whose values will be capped at near current levels, the net reduction in Downtown tax base will be even greater than our estimate of $200 to $240 million. At the same time, the unappealed capped values on properties that would have had legitimate and justifiable increases of well over 4 percent will not provide the offset to the reduction in assessed values they could have if they were uncapped.

Jake Haulk, Ph.D. President **Eric Montarti, Policy Analyst**

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079 * Fax (412) 440-0085
E-mail: aipp@alleghenyinstitute.org