

# ***POLICY BRIEF***

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## **Five Steps to Reliable Assessments**

It was entirely predictable: a lawsuit has been filed against the County Executive's plan to cap 2006 assessments. The Sto-Rox School District and a private taxpayer have joined as plaintiffs in the suit. Now comes word that the 2006 values won't be mailed out until the suit is settled. That means the planned ten month window taxpayers should have had to appeal their 2006 values before they go into effect will be down to six months or less and could shrink further depending on whether the losers in Judge Wettick's ruling file appeals.

The 2006 assessment process did not need to come to this but it has. With the court preparing to weigh the merits of the arguments, it is a good time to spell out the steps necessary to get assessed values and the assessment process to where they ought to be.

Step one. Scrap the cap. As we have pointed out on numerous occasions, it will likely be found to violate the state's uniformity clause. Further, it is illogical to distrust the 2006 assessments but base an artificial cap formula on those values. It is doubly illogical to say that increasing values cannot be trusted and must be capped while the declining values are entirely believable and will be allowed to fall without limit. Instead of all the wasted time trying to set up a system that cannot stand, the County should have been spending its time working on the obviously problematic assessments to correct them. The longer the cap is in place, the longer it will be before the assessments can be dealt with properly.

Step two. Get the General Assembly to enact a revenue neutral assessment windfall. On this point, we agree with the Chief Executive. Act 146 of 1998 allows taxing bodies to take 105 percent of the previous year's taxes in a year when there is a reassessment. There are two problems associated with the windfall provision. First, taxing bodies should get no windfall from reassessments, especially in a system with annual reassessments. Even a five percent windfall could lead to exponentially rising tax bills in communities where home values are increasing.

The second problem is that the Chief Executive does not believe that taxing bodies, school districts in particular, will roll back their millages in compliance with the windfall limit. School districts say they have complied with the windfall limit in the past and will comply in the future. Disagreement over the facts continues. What is interesting is that we have a County cap law predicated on the assumption that schools won't obey the

windfall law, possibly making it the first ordinance to be enacted because of a belief that an existing state law won't be obeyed!

It would be better to put the windfall limit at a revenue neutral level so that any taxing body--including the County--has to take a public vote to raise tax revenues beyond the previous year's level. Bear in mind that new construction and increases in assessments related to remodeling are not included in the revenue neutral provision. Thus, districts with new construction would still get higher tax revenues compared to the year before.

Step three. Get school districts and municipalities to help pay for assessments. In a 2002 study we found that, on average, school districts and municipalities took nearly 85 percent of total real estate taxes in Allegheny County. However, the County is solely responsible for carrying out and funding all functions relating to property assessments. Since school districts raise so much money from property taxes, it is in their interest to help ensure that assessments are correct.

Because of the high cost of doing the work to get all assessments as accurate as possible, it is not unreasonable for the County to ask for financial help. For three or four years school districts could set aside 1 percent of their budget and municipalities half of a percent to provide the County with \$20 to \$25 million in additional funds. This will provide the money needed to get current assessments correct and create a reliable, credible system to do high quality annual assessments in the future. It is a small price to pay to put the perpetual crisis over assessments behind us.

Step four. Put together a specially qualified group to work on commercial assessments. In a previous *Policy Brief (Volume 5, Number 14)*, it was observed that the County's new assessment values for some Downtown properties appear to depart dramatically from recent sales prices. Many new assessments on Downtown buildings seem to be calculated by a formulaic increase from the previous value. Since commercial property is assessed by methods other than comparable sales (they are assessed by either the income they generate or the cost to replace the building), it will take a specialized group of appraisers to ensure that commercial property is being correctly assessed.

Step five. Move to annual assessments now. This is the only way to minimize as quickly as possible the differences between market values and assessments and get a set of values for all parcels that will withstand close scrutiny. It might entail having to endure a period of high volumes of appeals. But in a County that went decades between full reassessments and where data on huge numbers of properties were far out of date and in too many cases non-existent, it is naïve to believe that a complete set of accurate assessments can be achieved without aggravation and pretty hefty spending over a sustained period. The County is scheduled to go to annual assessments in 2009, but it would be well advised to adopt them immediately.

These five action steps offer a comprehensive plan to do it right now and in the future.

The Executive hopes the County and the school districts will work together to convince Harrisburg to find a new method of funding schools to circumvent the problems with the assessment system. However, it seems doubtful that the state is going to act on a new source of school revenue by 2009, and, even if it does, the County and municipal governments will still need timely and accurate property assessments.

As long as property is taxed as heavily as it is in Allegheny County, there can be no substitute for obtaining the most accurate assessments possible. This cannot be done on the cheap. It will require a period of substantial expenditures and intensive effort by qualified people to get the numbers right.

Obviously, it would be enormously helpful if elected officials, including school boards, would begin to find ways to make major cuts in spending to relieve pressure on taxpayers. But until that happens, it is a moral obligation of all elected officials to make sure that property is taxed fairly. That means accurate assessments. Rather than relying on schemes that lock in inequities, the County needs to move toward a real fix for the assessment problems. The five-step program outlined above provides a blueprint to get started.

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