

***POLICY BRIEF***  
An electronic publication of  
The Allegheny Institute for Public Policy

---

March 22, 2006

Volume 6, Number 15

---

**Base Year Assessments: Bad Policy, Bad Court Decision**

The 2002 reassessment—the one the current Allegheny County Chief Executive described as “a mistake” and one that the County “should have never gone forward with”—will end up as the basis for property values and property taxes for the indefinite future, maybe forever. Talk about political irony.

This has come about as a result of Judge Wettick’s ruling that the County’s plan to use the 2002 numbers as a base year conforms to state law. Unfortunately, this is an instance of a Judge ignoring a higher responsibility to enforce the state Constitution’s Uniformity Clause in favor of supporting a poorly designed base year plan.

As the Chief Executive and County Council had hoped would happen, the Court decision has created a bit of temporary stability and taken assessments off the frenzied front burner of controversial topics. But this has come at the price of doing a grave and unconscionable disservice to those whose homes are overassessed. There will be unintended but foreseeable consequences. One thing must be understood from the beginning. This plan will not stop tax increases. Higher taxes are driven by higher spending. And there is no indication that school spending (and property taxes), the biggest chunk of total local expenditures, is being slowed.

Here’s the problem. The base year plan uses a comparable sales market approach to arrive at the 2002 assessment figures for residential parcels. For new construction or remodeling after the year 2002, assessments will be based on a replacement cost method that will attempt to determine taxable values based on the costs of materials, labor and land from 2002. Since this is being done retrospectively rather than prospectively, there will, of necessity, be a lot of guesswork in coming up with 2002 cost estimates.

If the County had opted to use 2006 as a base year, the detailed cost numbers for plumbers, laborers, sheetrock, bricks, fireplaces and all the other myriad details needed to reliably estimate construction costs could have been assembled. Even then, it is highly unlikely that quality of construction and amenities could be captured. Then there is the land cost problem. Determining the value of land in 2002, especially land that had not sold in decades or was being redeveloped, will be guesswork.

Without question, having two different methods of assessment for different properties is not a uniform treatment of the subjects of taxation and thus violates the Constitution. That should have been the Judge’s ruling.

Considering all the uncertainties and ambiguities involved, it is apparent that the County would have been better served by taking the time and money to correct the 2006 parcel assessments that

were obviously off the mark and adopt the 2006 numbers the County's Chief Assessor testified had met international assessment standards. Those numbers, even with some problem areas, were, overall, demonstrably much closer to market values than the 2002 figures. Indeed, that was, in effect, what the Judge's May 2005 ruling said to do.

Now we are saddled with an ungainly assessment system in which some properties are based on 2001-2002 sales prices and others on estimated 2002 construction costs. As time goes by and some homes are remodeled or get additions, individual homes will be assessed partially on 2002 comparable sales and partially on construction costs—a truly bizarre hybrid. In some less well off neighborhoods, the addition of a new room or two could be valued at more than the rest of the house. In more affluent communities that had substantial home price escalation prior to 2002, additions could be cheap compared to the remainder of the house. In any event, the records for assessments are going to become cumbersome, and very difficult to maintain accurately. The opportunities for errors and misunderstanding by assessors will expand greatly in the coming mishmash.

It is not unreasonable to assume that there will be demands for reform from taxpayers whose 2002 assessments were too high and are now locked in, along with requests for the County to revisit the whole base year scheme. The County might consider putting all homes on a construction cost basis using 2002 costs. But that is not likely to happen. Imagine the replacement cost of building a four or five bedroom Victorian in one of Pittsburgh's older communities. No one would ever do it, but the County might have to conjure up values to get everyone on the same assessment basis. In short, such a scheme would inevitably produce enormous outcries from property owners.

The reason for moving to the base year, we are told, is to end the singling out of Allegheny County among its neighboring counties. We have been told that our taxes are high because of reassessments. Those who were here in the 1990s know that our taxes were high before the reassessments. It is a canard intended to justify leaving inequities in the assessment system. Taxes in Allegheny County are high because the cost of government and schools are, on a per capita basis, higher than our neighbors.

The real tragedy of this base year ploy is that it takes the focus away from where it should be: containing government and school costs in Allegheny County. Not once has the Chief Executive or the County Council bothered to say that maybe we need to address the root cause of the problem. That would mean taking on the powerful teachers' unions and other public sector unions.

Thus, we are presented instead with a base year plan that violates the sacred duty of administrators of any property tax system to be as fair and accurate as possible. If anyone believes that this plan moves us any closer to being competitive, they are mistaken. Spending, which drives property tax rates, is still not being adequately addressed in Allegheny County. Moreover, the method of getting to the base year was not executed properly. In Butler County, for example, all houses are valued on a construction cost basis regardless of when they were built, unless there has been a successful appeal and there have been very few of those.

And while the Butler system leads to inequities over time, it is at least internally consistent and the County's taxpayers have not been burdened with the high level of taxation as Allegheny County property owners have had to endure. Nonetheless, taxes are rising in Butler because of increasing millage rates even though assessments are essentially frozen.

Finally, it is important to see the damage that will occur in the poorer communities with overassessed properties. Sales will become even harder and market prices will decline further and faster, leading inevitably toward slums or ghost towns. Building and remodeling will dry up completely. At the same time the base year system will be a boon to underassessed communities, at least temporarily, because buyers will think they are getting a real break in having their assessment lower than the purchase price. A gap that will almost certainly widen over the years. It is a real estate agent's dream. However, owners will not be so happy when they find that millage rates keep going up every year in order to raise more tax revenues for schools and local governments.

Clearly, this is an issue the General Assembly needs to revisit. Beyond permitting counties to use a base year method of property assessment, Pennsylvania's law must create criteria for the base year method that will make the law conform to the Uniformity Clause, which requires that all taxes shall be uniform upon the same class of subjects. For one thing, choosing the base year should be done in advance and all the properties as of that year assessed on a replacement cost basis. Likewise, a complete model using the necessary cost data for that year must be built in order to assess new construction in the future.

Moving to a base year the way Allegheny County did—by abruptly abandoning market values as the assessment method in favor of a prior base year—ought to be prohibited. Allegheny County's Court approved use of its base year method may be technically legal but it does not pass the constitutional test or the basic fairness requirement. It will inevitably be an embarrassment to the County.

---

**Jake Haulk, Ph.D. President**

**Eric Montarti, Policy Analyst**

---

*Policy Briefs may be reprinted as long as proper attribution is given.*

*For more information about this and other topics, please visit our website:*

[www.alleghenyinstitute.org](http://www.alleghenyinstitute.org)

If you have enjoyed this or previous Policy Briefs and wish to support our efforts please consider becoming a donor to the Allegheny Institute. The Allegheny Institute is a 501(c)(3) non-profit organization and all contributions are tax deductible. Please mail your contribution to:

The Allegheny Institute  
305 Mt. Lebanon Boulevard  
Suite 208  
Pittsburgh, PA 15234

Thank you for your support.