

LEGISLATIVE COMMITTEE ISSUES STUDY OF PENNSYLVANIA PROPERTY TAX ASSESSMENT SYSTEM

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After the Pennsylvania Supreme Court struck down Allegheny County's application of a "base year" property tax assessment system as unconstitutional in *Clifton v. Allegheny County*, 969 A.2d 1197 (Pa. 2009), the General Assembly responded by enacting House Resolution 334 of 2009, which required the Legislative Budget and Finance Committee ("Committee") to conduct a study of Pennsylvania's property tax assessment system and issue a report. The Committee now has completed its study and has released a 222-page report on Pennsylvania's property tax assessment system (the full report can be found at <http://lbfc.legis.state.pa.us>). While much of the report sets forth the obvious (e.g. that real property taxes are an important source of revenue for counties, municipalities and school districts), several interesting tidbits were presented. Among these are:

- 22 counties in the Commonwealth have not conducted an on-site inspection of all properties since at least the mid-1980s, and in fact, some counties have not conducted a countywide reassessment within the last 20 years (examples are Washington, Beaver, Crawford, Forest, Warren, Blair and Huntingdon);
- There are 5.89 million parcels in Pennsylvania;
- Countywide reassessments cost the counties about \$50 a parcel;
- Currently, based on the most recent tax revenues, only 12 of the 67 counties could actually generate additional revenues in the year following a reassessment in an amount that would cover the cost of the reassessment;
- Evidence suggests that conducting a countywide reassessment does not ensure that measures and standards related to level of assessment, uniformity and equity will be met;
- Issues arise when housing prices increase more rapidly than other economic indicators (i.e. household income), resulting in property tax burdens becoming a higher percentage of household expenses;

The report also presents several recommendations to improve the current system. These include the following recommendations:

- every county assessor should be certified, and be aware of the Pennsylvania Constitution's Uniformity Clause and its relevance to property tax valuation;
- the assessment laws should be consolidated;
- counties should be provided with the tools to assure quality of reassessments through (1) the development of uniform standards for reassessment contracting; (2) the creation of a state revolving loan program for counties with uniformity problems but without the financial resources to conduct a reassessment;
- counties should be required to publicly disclose key elements of the valuation and assessment methods in use;
- current county performance measures should be improved; and
- a self-evaluation tool should be developed to help counties determine when a reassessment is warranted.

Finally, the report offered the following options for major changes to the current system.

- Allow the state to become involved by establishing a state agency to value and assess all property, like the system in Maryland.
- Require school districts and other local governments to help counties fund reassessments, as is currently done in Ohio and West Virginia;
- Designate a portion of the state's realty transfer tax share as grants to counties to conduct reassessments;
- Amend the state constitution to allow for the following reforms:
 - provide caps on individual property tax increases following reassessment;
 - permit property (i.e. residential and commercial) to be treated as separate classes;
 - provide for partial reassessment or selective reassessment of areas of a county or classes of property;
 - provide for an "acquisition value" system of property valuation where a property's sales price would become the new base-year value.

We will continue to monitor any action by the General Assembly in the property tax arena. We do not foresee any drastic changes to the current system, although the recommendations set forth above with respect to helping counties finance reassessments and implement quality control measures, are likely to generate some support in the General Assembly. In any event, property owners should continue to remain vigilant about examining and evaluating their assessments yearly to make sure they are not carrying a higher tax burden than is appropriate. If you have any questions with respect to your property assessment, please feel free to contact Randy Varner, rvarner@mwn.com, or any member of the McNees SALT team.

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