

Philadelphia Common Level Ratio Drama Continues

by *Randy L. Varner*

In April, the State Tax Equalization Board (“STEB”) revised the 2011 Philadelphia common level ratio (“CLR”) upward from 18.1% to 25.2%. This increase came after the City of Philadelphia and the School District of Philadelphia (collectively “Philadelphia”) objected to STEB’s prior lowering of the CLR from 32.0% to 18.1%. This change by STEB should have only a modest impact on most appeals originally filed due to the CLR rate drop.

In previous editions of this newsletter, we alerted you to the dramatic drop in Philadelphia’s 2011 common level ratio (“CLR”) from 32.0% to 18.1%. This drop in CLR resulted in the implied fair market values of properties in Philadelphia exploding, thus resulting in appeal opportunities. For instance, a property with a current assessment of \$100,000, under the “old” 32% CLR, had an implied fair market value of \$312,500. When the CLR dropped to 18.1%, that same property suddenly had an implied fair market value of \$552,486. Therefore, the reduction in CLR from 32% to 18.1% meant that this property’s value in the eyes of Philadelphia increased 57% overnight. Not surprisingly, Philadelphia received over 2000 appeals due to the CLR rate drop.

By letter dated September 30, 2011, Philadelphia filed an appeal with STEB, arguing that it should be given the opportunity to revise its CLR based on the ongoing efforts of Philadelphia’s newly formed Office of Property Assessment (OPA) to refine its data gathering, coding and analysis. OPA might then be able to submit to STEB revised 2010 information that would “present a more complete and accurate picture of real property values” in Philadelphia. After working with STEB staff, the OPA on December 28, 2011, submitted to STEB a second data set file containing 9,492 sales that OPA determined to be valid sales for the purpose of calculating CLR.

Philadelphia also tried to submit additional sets of sales information. STEB conducted a hearing on March 23, 2012, at which Philadelphia made a presentation in support of its third data set submission and asked STEB to revise its CLR based on this submission. In the alternative, Philadelphia asked STEB to accept its second data set and to revise the CLR based on this second data set.

In its Memorandum and Order, published in the April 14, 2012 *Pennsylvania Bulletin* (42 Pa.B. 2152), STEB rejected Philadelphia’s request to use the third set of values, and instead accepted the second set of values and recalculated Philadelphia’s CLR at 25.2%. It is possible that Philadelphia will appeal this decision to the Commonwealth Court.

While the CLR has risen, it still has dropped from a previous value of 32.0% to the current 25.2%, which means that the implied fair market values of properties in Philadelphia have still gone up due to the rate drop. So it is likely that most property owners who filed appeals will still be able to justify relief.

Philadelphia also is planning a reassessment of all properties next year, and has already begun work to that end. After the reassessments are issued, property owners should once again analyze the assessment to make sure that it comports with the actual fair market value of the property.

We will continue to monitor this situation and will keep you updated in future editions of this newsletter.

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