

Report Highlights

Pennsylvania's System for Property Valuation and Reassessment

House Resolution 334 of 2009 directed the LB&FC to study the real property valuation and assessment system, including protections for taxpayers, in place in Pennsylvania and other states. We found:

- **Unlike many states, PA obtains no revenue from property taxes.** In 2007, property taxes generated \$14.85 billion in local government revenue— a 45 percent increase from 2000, and more than state personal income or sales taxes.
- **Twenty-two counties have not completed on-site inspection of all properties since at least the mid-1980s.** Many of the 22 counties are small or struggling financially and would generate less than \$20 per parcel (annually) from a reassessment. Reassessment costs average \$50 per parcel, but due to fixed costs can be much greater for counties with smaller inventory bases.
- **Counties differ in their property markets and assessment systems.** House prices appreciate differently across the state, and several counties have few market-based sales, which is a problem when using statistics to estimate property values.
- **Comprehensive countywide reassessment does not assure that statistical standards for assessments are met.** Only about 25 percent of the reassessments (14 of 54) from 1988 through 2008 achieved national standards for uniformity and equity one year later. And most of those that met the standard the first year did not by the third. Similar results occurred for the 11 counties completing two or more countywide reassessments during the period. Various factors, most notably housing price volatility, contribute to this problem.
- **The State Tax Equalization Board calculates certain statistical measures (CLR and COD).** STEB's measures are not designed to evaluate county systems or determine if a county should be required to reassess. There is no one-size-fits-all standard to determine when a county should reassess. The report, however, outlines the key criteria that should be considered.
- **State courts have a major role in Pennsylvania's property valuation and assessment system and have ordered counties to reassess.** Since 1909, PA courts have held that, under the state constitution's uniformity clause, all real estate is one class and all taxes must be uniform upon the same class, which sets PA apart from

many states, including California and Maryland. PA courts have ordered counties to reassess upon finding evidence of significant property market changes, inconsistent application of property valuation methods following reassessment, and "partial" or "selective" reassessment, but have permitted counties to value property in prior year (i.e., base year) rather than current market dollars as long as values and assessments meet the constitution's uniformity requirements.

- **States differ in their real property valuation and assessment systems.** Maryland, Ohio, and West Virginia, for example, require that property be valued based on current market values, prescribe timeframes for reassessment, and limit individual homeowner tax increases after reassessment. In PA, counties can choose whether to assess based on current market or base year values and when to reassess, but constitutionally cannot limit tax increases for individual homeowners.

Recommendations and Options for Major Change

Recommendations to enhance the current system include: consolidate state general assessment laws, create a state revolving loan program to assist counties to reassess, develop uniform standards for reassessment contracts, improve STEB's performance measures, and provide for disclosure of key information on how the county revalues property and a self-evaluation tool to help counties determine reassessment need.

Options for Major Change: While not endorsing them, the report outlines some of the advantages and disadvantages of options to change PA's current system based on systems in other states. These options include: authorizing a state agency to supervise county property valuation and assessment activities; providing for state and other local government financing of reassessments; and amending the state's constitution to provide caps on individual property tax increases following reassessment, permit residential and commercial property to be treated as separate classes, permit partial or selective reassessments of certain geographic areas or property types (i.e., residential, commercial), and permit property to be valued based on its sales price.