September 30, 2024

TO: Pennsylvania Senate Democratic Policy Committee

FROM: David A. Greene, Executive Director, Pennsylvania Local Government Commission

SUBJECT: Testimony- 10/4/2024 Hearing "Systematic Unfairness-Property Reassessments in Pennsylvania"

Good morning, Chair Muth, Senator Fontana, Members of the Committee and guests. I am David Greene, Director of the Local Government Commission, a bipartisan, bicameral legislative service agency of the General Assembly. I am pleased to join you this morning to share some observations about the impact of delayed reassessments in Pennsylvania. I note that my comments should not be interpreted as any policy position of the ten Members of the Commission.

As the other experts present today have, or will, ably articulate, the reassessment process in Pennsylvania has been in need of significant revision for quite some time. We know that the touchstone of an efficient real property assessment is fairness. This is codified in our constitution through the Uniformity Clause, the very first section in Article VIII, the article containing the organic law governing the taxation power of the Commonwealth and its political subdivisions. Another inextricable and co-dependent goal of the assessment process is accuracy. I expect that the testimony received today will touch on that goal as well.

What is more difficult to quantify are the "collateral costs" to taxpayers and the overall societal and economic well-being of the Commonwealth. It remains a continuing goal of our General Assembly, regardless of party, to bolster the competitiveness of Pennsylvania as a magnet for business and residents. Assessment law and practice are instrumental in how our schools are funded, how our business function and locate, and how our vital municipal services are provided.

My co-panelist, Dr. Weber, and his co-authors of the 2010 Center for Rural Pennsylvania study drew direct correlations between failure to reassess and factors like unemployment rates, personal income, and median housing values. Commission staff has undertaken recent discussions with assessment professionals, attorneys, and school business professionals on the nature and scope of the collateral costs of failure to reassess. Although these costs are difficult to quantify, their existence is often self-evident, and certainly echo the findings of Dr. Weber and his team. Although further study would be advisable to confirm or attempt to quantify these findings, I can briefly touch our more prominent observations which may also be confirmed through other testimony presented here today.

First, let me start with a rather alarming statistic presented during a session of the Commission's 2023 Municipal Law Symposium: the value of a single mill of tax ranged from roughly $7.8 million dollars in southeastern Pennsylvania municipality to $13,950 in a south-central Pennsylvania municipality in a county that has not reassessed in 60 years. Obviously, other factors come into play in this disparity, but even among similarly situated counties in the table, the failure to reassess has a direct impact on the taxation power and options of

the school districts and municipalities involved. The aforementioned Center for Rural Pennsylvania Report discusses this phenomenon, as well.[1]

We were told, almost universally, that the more frequently a county reassesses, the more cost-effective the revaluation becomes. Research discussions with members of the Assessors' Association of Pennsylvania's Reassessment Subcommittee indicate that the average countywide reassessment costs a county approximately $60-$70 per parcel, but these costs can vary depending on the time since the last countywide reassessment – more frequent reassessments can lower this average to approximately $10-$20 per parcel.

Beyond the reduced cost per parcel in reassessing more frequently, we were told that more frequent reassessments reduce, for lack of a better term, "conflict costs." Counties must always consider the expenses related to assessment appeals and litigation. Allegheny County is currently a party to such litigation[2] in an attempt to compel the county to conduct a countywide reassessment. Though more frequent reassessments wouldn't eliminate appeals altogether, counties would be less likely to be burdened with the expense of litigation aimed at forcing a reassessment. These legal expenses add to the already expensive reassessment costs that must be shouldered by county residents. Initial anecdotal data suggest that the frequency and complexity of assessment appeals filed by both taxpayers and taxing districts increases as the time between reassessments increases.

Additionally, by delaying a reassessment, the county (and by extension, individual municipalities within the county) is taxing an artificially lower tax base since new growth isn't necessarily captured. Property owners, particularly commercial and industrial owners, are more likely to appeal their tax assessment when they feel it's higher than it should be. If the economy is facing a downturn, commercial property may see lower property values (due to retail centers sitting vacant or closing, office space in lower demand, etc.) and appeal their assessment to reflect that downturn. However, when the markets recover and values are on the rise again, those properties are generally not as quickly appealed by a taxing authority and therefore their potential tax revenue is lower, potentially until a countywide reassessment. Though the county may 'catch up' to current values during a reassessment, those years of lost revenue are not able to be recouped.[3]

Resident taxpayers are directly affected by this gap in capturing new growth. As commercial and industrial properties appeal their assessments, residential property owners often see their taxes increase in order to make up for the loss of commercial and industrial tax revenue. This shift in the tax burden creates a regressive tax system wherein the lower valued properties are paying a higher proportion of the taxes.[4]

A recent off-the-record conversation had by Commission staff with a long time, knowledgeable school business professional sums this up succinctly, to paraphrase, "The effects of the problem with a failure to reassess are

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[1] "Specifically for rural counties, for each year since the last countywide reassessment, the amount of revenue generated per mill decreased by .9 percent. After five years without a reassessment, the revenue generating capability may decrease by 4.46 percent. Translated into dollars, the average county property tax revenue (constant dollars) for all rural counties from 1986 to 2006 was $9,463,946. Each year that the average rural county did not conduct a reassessment, it potentially lost $85,773 in property tax revenues. After five years without a reassessment, the amount of potential property tax revenue lost would grow to $444,987."

[2] *School District of Pittsburgh v. Allegheny County et al.*, currently awaiting proceedings in Allegheny Court of Common Pleas.

[3] Research discussion with members of the Assessors' Association of Pennsylvania – Reassessment Subcommittee.

[4] *Id.*

predominantly felt by the residential owners, particularly lower-income owners and the elderly. The commercial folks take care of themselves."

Further, differences in time since reassessment have financial implications beyond property tax revenue and the reassessment itself. Economic development is challenged by the dynamic nature of the current property tax system. An "off the record" (due to attorney-client privilege) conversation with a real estate attorney highlighted a growing issue, often unaddressed during policy conversations surrounding enhanced economic development within the Commonwealth. The attorney stated that they had been involved in several development projects that have ultimately failed because the investors, owners, or developers chose to locate their projects in other states once they were informed of Pennsylvania's property tax system. The unpredictability of property tax increases, both in timing and amount, were enough of a deterrent to stop development within the Commonwealth altogether for these clients.

On the local level, inequities between counties can cause unnecessary delays, expenses, or loss of business when determining where within the Commonwealth to expand. As an example, a county Chief Assessor provided the following:

> [A business] wanted to build a gas station on an interchange of a state route and an interstate highway. The county line between [the counties] was in question due to differences in the respective county's GIS systems. [Business] wanted to build the gas station in [County 1], but [County 2's] records showed the property within [County 2]. Because of the anticipated differences in property taxes between the two counties, [the business] strongly considered cancelling the project altogether if it was determined the property would be taxed in [County 2]. Initial estimates calculated a potential annual tax difference of roughly $14,000 between the counties.
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> Ultimately, the market value of [business's] gas station was determined to be $3.9 million, which equates to an assessed value of $269,500 in [County 1], resulting in a total tax bill of $36,699. Using that same market value in [County 2], the assessment would have been $2.1 million which would give a total tax bill in [County 2] of $55,244. The same gas station, located at the same interchange, with the same market value, would have a difference of over $18,000 in annual taxes depending on the final determination of the county line.
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> The primary reason for the tax difference between the two counties is that the base year in [County 1] is 1969 and in [County 2] it is 2003. [County 2] missed the opportunity for over $55,000 in tax revenue because [the business] preferred [County 1's] assessment. Had the county line been determined to put the property in [County 2], both counties would likely have missed out as [the business] considered cancelling the project altogether if they ended up located in [County 2]. If reassessments were done more uniformly, there wouldn't be such a drastic difference in assessments (and therefore tax bills) for similarly situated properties, thus reducing the need for additional resources and expenses for legal matters such as county line debates.

As discussed in Director Reynolds' testimony, length of time between property reassessments also complicates tax burden allocation in school districts that cross county lines. According to the Department of Education, 88

school districts of our 500 use one of the statutory methods of "balancing" school tax burden contained in Section 672.1 of the Public School Code. These complications can lead to increased expenses in computing taxes and potential legal fees in ensuring compliance. (For example, the Local Government Commission has fielded inquiries from municipal and school district solicitors regarding this process. The solicitors' time during these inquiries may or may not be billed back to the taxing authority.)

It is axiomatic that, in theory, more frequent reassessments draw assessed values closer to actual market value. In cases where a school district spans two or more counties, state law requires that the district rebalance property tax levies to reflect the ratio of each county's share of an adjusted market value of total taxable property in the district. That is, if one county holds 75% of the property value of the district, the taxpayers in that county provide 75% of the tax revenue. As evidenced in the gas station example, assessed values can vary greatly, even in the same location, depending on the county's last reassessment. The further assessed values move from market values, the greater the need to adjust and rebalance tax sharing across the counties.

When a school district crosses county lines and the reassessment dates vary, sometimes significantly, the adjusted market values and required rebalancing can lead to taxpayers in one county experiencing a higher tax increase than the other. The aforementioned school business professional noted that in school districts that cross county lines, it is essentially impossible for the district to adopt a "zero tax increase" budget due to the need to rebalance the counties' respective share of the tax burden. Even when total tax revenue is budgeted to remain the same, one county may see a tax increase while the other sees a tax decrease.

The Local Government Commission and its staff have been involved in incremental changes to state law and assessment practice recommended by several studies over the decades as contained within Dr. Weber's report, the 2010 HR 334 Report, and the 2012 HR 343 and HR 344 Task Force Reports. These efforts, along with the Commission's 2016-2018 Assessment Reform Task Force have yielded five legislative enactments, including the Consolidated County Assessment Law, and four "best practice" documents covering reassessment contracting standards, public relations, data collection, and a self-evaluation tool for counties to determine the need and capacity to reassess. As is quite evident from our discussion today, more remains to be done.

As noted, these core observations are not quantified. The preceding is a preliminary "snapshot" of some of some issues, among others, for which measurement could be sought, although it is difficult to add up lost opportunity costs and comparative conflict costs for different counties and municipalities. Consequently, it is premature to conclude whether delaying reassessment is ultimately more or less costly as a matter of dollars and cents over time, but it is clear that delaying reassessment does create financial impacts on the budgets of municipalities and school districts, and by extension, on the Commonwealth's taxpayers. These less discernable costs are far less apparent than the first casualties of outdated assessments: fairness and accuracy.

Thank you for the invitation to speak today, and I look forward to helping with any questions you may have.