



TESTIMONY ON PENNSYLVANIA'S ASSESSMENT SYSTEM

AND PROPOSED IMPROVEMENTS

PRESENTED TO THE HOUSE FINANCE COMMITTEE

BY

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SEPTEMBER 28, 2017

Good morning. I am Lisa Schaefer, Director of Government Relations for the County Commissioners Association of Pennsylvania. The CCAP is a non-profit, non-partisan association providing legislative, education, research, insurance, technology, and other services on behalf of all of the Commonwealth's 67 counties. Thank you for the opportunity to be here today to discuss Pennsylvania's assessment system, and the work we are doing in conjunction with the Local Government Commission's Assessment Reform Task Force to improve that system.

Counties are responsible for administering and maintaining the real property assessment system, which includes establishing assessment rolls, valuing properties, hearing appeals, administering homestead, Clean and Green and other preferential assessment programs, and dealing with tax claims. Deb Crawford, chief assessor for Tioga County and president-elect of CCAP's affiliate, the Assessors Association of Pennsylvania (AAP), who is actively involved in the Assessment Reform Task Force, has spoken in greater detail about the assessment system

### **History of Reform Efforts**

Administration of the assessment system is complex and difficult, and can be expensive. Although property assessment is often viewed as a means for county, municipal and school revenue generation, the primary purpose and primary task of assessment administration is maintenance of fairness and equity. Fairness and equity are not easily achieved in the current administrative system and the current statutory construct, and along with many others, counties recognize the property tax assessment system is in need of reform.

In fact, CCAP has worked with AAP, the General Assembly, the Local Government Commission and other stakeholders on several projects to improve the assessment system in recent years, most notably the Consolidated County Assessment Law (CCAL), Act 93 of 2010. A 2010 Legislative and Budget Finance Committee (LBFC) study of the assessment system made a number of recommendations for reform, and CCAP and AAP were also active participants in late 2011 and early 2012 on the HR 343 and HR 344 task forces, which reviewed assessment standards, assessment contracting and reform of the State Tax Equalization Board (STEB). These task forces released their reports and recommendations in April 2012. The HR 343 report recommends further work on development of a set of uniform standards for county reassessment contracting, standards for disclosing the county's system of property valuation

and assessment, a self-evaluation tool for counties to determine when a reassessment is warranted and a standard to be used for a statewide mandatory reassessment time frame. While the task force discussed in detail the recommendations contained in the LBFC report, along with recommendations by CCAP, AAP and others, it concluded that its six-month time frame did not allow sufficient time to make final recommendations, and proposed these be continuing tasks for the House Local Government and Finance committees.

The State Tax Equalization Board, which has responsibility for statistical measures of property sales that underpin local assessment appeals, state realty transfer taxes and school funding formulas, was also transferred to the jurisdiction of the Department of Community and Economic Development (DCED) under Act 2 of 2013. Renamed the Tax Equalization Division (TED), it has undertaken review of the formulas for determination of assessment equity, and has begun improvements in its property sales database system.

#### **Local Government Commission Assessment Reform Task Force**

However, many of the reports' other recommendations have not been actively pursued, and CCAP and AAP have renewed our commitment to seek implementation of the LBFC recommendations and legislative consideration of the options suggested in the LBFC report. It has also become clear that the General Assembly has a growing interest in improving the assessment system, which led to the creation of an Assessment Reform Task Force by the Local Government Commission, a bipartisan, bicameral legislative agency.

This comprehensive effort includes members of the Commission, representatives of the state Department of Revenue and DCED, CCAP, AAP, the LBFC and the Tax Equalization Division. For the past year, we have been working on a number of projects to address systemic, process-oriented and administrative deficiencies in Pennsylvania's property assessment system by *implementing* the recommendations primarily made in the aforementioned reports.

Representatives of the Commission are here today and will be providing greater detail on the work and timeline of the Task Force, but we are pleased to that the Task Force is making significant process in working through a number of multifaceted and highly technical issues, and we will continue to be actively involved in pursuing improvements to the assessment system.

## **Other issues affecting the property tax system**

Outside the scope of the Task Force and the assessment system directly, there are other factors that affect the property tax base, and ultimately property tax bills, such as tax exemptions. The tax base of almost all local governments has been economically affected to some extent by tax-exempt properties, for when one part of the tax base does not pay property taxes, this means the property tax burden necessarily shifts onto those properties not directly affected by the exemptions. All publically owned property, including that owned by the commonwealth of Pennsylvania and the federal government, are excluded from taxation (although a payment in lieu of taxes, or PILT, is provided by the federal government to offset losses in property taxes, and by the state government with regard to state forest, game and park lands). Additional tax exemptions are provided to those that qualify as purely public charities, as directed by the state Constitution and further defined by statute and case law, and to disabled veterans.

Further, a significant portion of private property – more than nine million acres across the commonwealth – is enrolled in the Clean and Green program put in place under state law. Clean and Green is a preferential tax assessment program that bases property taxes on use values rather than fair market values for eligible properties, typically resulting in a tax reduction for landowners. Legislation has been offered, and enacted, since the original law took effect, to expand the qualifications and allow additional properties to benefit from preferential assessment, often beyond the original intent of the law to encourage protection of farmland, forest land and open space.

This combination has had a significant impact on the tax base in many counties – for example, in Tioga County, just 34 percent of the county's total assessed value is fully taxable, while 38 percent is exempt and 28 percent is enrolled in Clean and Green. Based on 2015 data, in Huntingdon County, about 30 percent of the acreage is taxed at its full value (45 percent is enrolled in Clean and Green and almost 20 percent is state park, forest and game lands), and in Centre County, 14 percent of the acreage is taxed at full assessed value (46 percent is enrolled in Clean and Green and 37 percent is state park, forest and game lands).

The local government tax base continues to erode by degrees, either by legislative action (Public Utility Realty Tax Act restructuring, Keystone zones, wind farms, billboards) or by judicial fiat (oil and gas). While there are public policy reasons for providing property tax exemptions and other reductions, the trade-off in value for the taxes foregone needs to be appropriate and defensible. We ask that the General Assembly remain mindful of the impact on all property taxpayers when considering tax-exemption legislation in the future.

### **Homestead exclusion Constitutional amendment**

Similarly, we want to briefly discuss the Constitutional amendment Pennsylvania voters will be considering on the November ballot related to the homestead exclusion.

Currently, the state's Constitution, as implemented by statute, allows taxing districts, including counties, municipalities and school districts, to exclude from taxation up to one-half of the median assessed value of all homestead properties within its jurisdiction. If the proposed amendment were approved by the voters, taxing districts would be permitted to provide an exclusion of up to 100 percent of the assessed value of *each* homestead property within its jurisdiction.

The change could allow a taxing district to eliminate property taxes for qualified residential properties, but this would not automatically happen on approval of the amendment. First, state law would also have to be changed by the General Assembly, since the law follows the current Constitutional criteria allowing the exclusion of up to 50 percent of the median value. Second, a local government would have to take affirmative action to implement the homestead exclusion if it chose to do so, provided that an alternate revenue source is available to fund the exclusion - the Constitution also prohibits increasing millage rates in order to pay for the exclusions. For many local governments, this will make a 100 percent exclusion impossible to implement, absent the authority under state law to levy another tax or revenue source to make up the difference.

### **House Bill 1408**

Finally, we have been asked to comment on House Bill 1408, which raises one of the other unique aspects affecting Pennsylvania's assessment and taxation system – Article VIII, Section I, of the Pennsylvania Constitution, commonly referred to as the Uniformity Clause,

which provides that all taxes must be uniform, upon the same class of subjects, within each taxing district. In that context, we do not believe that House Bill 1408, in imposing a cap on the property tax increase of an individual taxpayer of no more than ten percent of the amount levied on that taxpayer in the preceding year, would meet this fundamental constitutional requirement.

Following a reassessment, each taxing district must adjust its millage rate so that it is collecting the same amount of revenue as before the reassessment (and can then increase the millage rate by a separate vote if it wishes). If school districts are limited to a ten percent cap on individual properties, it then defeats the equity purpose of the reassessment. Those who were paying too little compared to their neighbors may continue to pay too little, and those who were equitably paying too much prior to the reassessment may not get their share of relief. It also means their relative tax burden when it comes to school property taxes will be different from their relative tax burden when it comes to county and municipal property taxes, which are not subject to the proposed cap.

As a practical matter, it could be virtually impossible for a county to determine which properties have improvements that do not comply with the municipality's zoning ordinance. Even if that could be achieved, it would further detract from the equity of the reassessment, as some improvements may be subject to the cap, while other improvements are not. Nor is it clear whether this applies to any improvement on the property generally, or if it is intended to apply only to new construction on the property since the last countywide reassessment, or to new construction that had not previously been added to the assessed value of the property.

Thank you for your attention to these comments, and I will be pleased to answer your questions.