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# Property Taxes and Education Finance in Pennsylvania

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# Comprehensive Evaluation of the Pennsylvania Property Tax

- Peer reviewed
- Compares the assessment and administration of the property tax in Pennsylvania with international standards
- To be published in the:

*Journal of Property Tax Assessment and Administration*

# Are Property Taxes High in Pennsylvania?

Property taxes are \$31,875.888

For the majority of Pennsylvanians, the property tax is the highest tax they pay

Effective Tax Rate on all property is \$3,442 or 1.58% of value, 9<sup>th</sup> in the nation

Property taxes on the median value home \$180,200 is \$2,684 or 1.43 % of value or 16<sup>th</sup> in the nation

# Evaluation of PA Property Taxes

Critics agree that property taxes in Pennsylvania are neither:

- Uniform
- Fair
- Equitable

Generally ranked in professional surveys between 41<sup>st</sup> and 46<sup>t</sup> among the 50 states in assessment quality

“Pennsylvania has a highly decentralized and complex property tax system” Lincoln Land Institute 2019

This system creates unequal burdens and general public misunderstanding.

# Market Value for Assessment

- International standards say property values should be based on "current market values" "Assessing property at current market value maintains a uniform relationship between property values and property taxes and imposes an objective constraint on what otherwise would be perceived as a highly subjective process" IAAO 2010.
- Accepted by the Pennsylvania Courts and State Tax Equalization Board
- But is not really implemented

# Base Year Assessment

- “From time to time” the [county] designates a specific year known as a base year” to [conduct] a reassessment of all real estate in the county.” called the Established Predetermined Ratio (EPR)
- The EPR is then applied to obtain assessed value
- But property values established in the base year for a property are static, they will not change until a new base year is established.
- Market values change from year to year but are not included in the properties assessed valuation meaning most properties are underassessed.

# Problems with Base Year Assessments

- Do not reflect the value of unsold property
- Difficulties in adjusting the values of recent sold properties to the base year
- Problems with valuing property improvements
- Issues with overlapping school districts and special use governments
- **Unequal burdens on property owners based on year of sale**

# Courts and Base Year Assessment

- Pennsylvania law does not require annual or periodic assessment (46 states do) International standards call for annual reassessment or at least 4-6 years.
- Courts have found that base year assessment is not unconstitutional unless it is not “stale” due to the passage of time.
- There has been almost constant litigation with the courts forcing counties to reassess.
- Currently some counties have base years that are 30-40 years old. Average is around 15.

# School Finance in Pennsylvania

Local school districts are the greatest source of property taxes.

Depending on the district and the amount of federal aid the range of property tax support is from 45-75 percent.

Average is 58.5% compared to national average of 47.1%

Ranks 44<sup>th</sup> of the 50 states with the percentage of local school support coming from the property tax

State support for local schools is 18.7 percent compared to a 50 state average of 33.7% which ranks Pennsylvania 45<sup>th</sup> in the nation.

# Adequacy of Local Education Funding

- Supreme Court has for over a century held:
  - Adequacy of funding under the Constitutions' “through and efficient” standard is for legislative determination
  - Local jurisdictions can not segregate one class or type of property for higher rate or level of taxation under the “uniformity clause” of the Constitution
- Local ability to support education under the property tax remains a primary reason for wide difference in local support for school funding.

# “Fair Funding Formula (FFF)”

- In 2016 the way state money was allocated to local districts was altered using the Basic Education Formula (BEF) aka FFF
- Applies only to the new or additional money allocated in the State’s budget above the 2016 level
- Small districts and districts with declining student populations are held harmless
- Only 11-15% of State School aid is allocated under the BEF

# BEF and Property Taxes

- Amount school districts receive is based on a complex formula considering
  - Student Weighted Daily Membership (SWDM) which considers number of students weighted by: students living in poverty, English language learners, charter school students, rural/small schools)
- SWDM is subject to two “multipliers:
  - Median Household Income Index (MHI) measuring district wealth
  - Local Effort/Capacity (LECI) which measures the district’s capacity to support the local schools and the tax effort it makes to support them

# Local Effort and Capacity Index (LECI)

- Property tax is a major component of the LECI
- In order to “equalize” the property tax capacity the State Board of Tax Equalization produces a common level ratio (CLR) for all counties
- The CLR is supposed to represent the percentage of market value used as a tax base in each county
- CLR is to avoid deliberate ‘under taxation’ to increase State allocation.
- Assumes the CLR is accurate established

# Recommendations

- Establish current market value to be used as the property tax base for each property
- Require frequent updating (revaluations) every 1-6 years
- Enact new legislation to allow for better transparency of local taxation as provided in recent studies and recommendations.
- Increase the funding and capacity of the STEB to oversee local assessments
- Increase state aid under the FFF