The Law Offices of Ira Weiss

Property Assessment Study for Indiana County

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Property Assessments
Ensuring Fairness Among Taxpayers

…While every tax is a burden, it is more cheerfully borne when the citizen feels that he is only required to bear his proportionate share of that burden measured by the value of his property to that of his neighbor. This is not an idle thought in the mind of the taxpayer, nor is it a mere speculative theory advocated by learned writers on the subject, but it is a fundamental principle written into the constitutions and statutes of almost every state in this country.

-The Pennsylvania Supreme Court

I. OVERVIEW

Many are not aware that the primary driving force in property assessments is to ensure that fair and equitable assessments of property are set so that the tax burden is equally spread among all property owners. These assessed property values are then applied to current tax rates (set by county, municipal governments and school districts) to determine the amount of property tax owners pay.

Governments and school districts use these funds to help provide such necessary services as police and public safety, education, human services, and capital projects. When property assessments are kept current, the tax burden is distributed evenly among property owners.

If assessment systems are not periodically adjusted, they become regressive so that properties appreciating at a higher rate are taxed at less than their fair share, and properties appreciating at a slower rate or depreciating in value, pay more than their fair share in taxes.

This study reviews the current assessment structure in Indiana County to help determine if the current assessed values sufficiently provide for an equitable distribution of the tax burden.

Let's Begin with the Basics…The Difference Between Appraisers and Assessors

Almost everyone understands the function of a real estate agent. However, if asked the difference between an appraiser and an assessor, some may be unsure.

Appraisers generally value a single property at current market value for financing or sales purposes; assessors value many properties simultaneously for the purpose of creating an equitable distribution of taxation.

If a property reassessment has not been conducted for several years, properties (including new construction) are valued at a pre-established base year value rather than at their current value. And, any market fluctuations that have occurred since the last reassessment are not factored into the base year value.

How do Property Assessments Affect Tax Payments?

Any discussion involving property tax should begin with an overview of what a property assessment means and how it relates to the eventual tax payment.

To calculate taxes owed on a property, an assessor applies the county's predetermined ratio to the base year value and creates what is known as an Assessed Value. Millage rates, as determined by the local taxing jurisdictions (county, municipality, and school district) are then applied to the Assessed Value to calculate taxes owed.

Property tax is considered an "ad valorem" tax meaning it is based on Value and must meet the dual requirements of Equity and Fairness. The process of valuing properties for tax purposes is generally referred to as Mass Appraisal, or the method of valuing a group of properties as of a given date using common data, standardized methods and statistical testing.

While the various valuation techniques used to conduct a mass appraisal can be a complicated mix of statistics and math, a basic equation showing how assessments relate to budgets, millage rates and the eventual tax payments follows:

Assessed Value x Predetermined Ratio x Millage Rate = Tax Due

As mentioned earlier, the purpose of a property assessment is to fairly distribute the tax burden among all property owners based on the value of their property. Because all counties have several different housing markets and diverse housing options, not all properties appreciate or depreciate at the same rate over time. That diversity of housing requires counties to periodically review and if necessary, adjust the tax burden distribution to ensure that all property owners are paying their fair share for governmental services.

One method of adjustment is to change the pre-determined ratio; another is to undertake a countywide reassessment. As we will explain later in this report, changing the pre-determined ratio does not address uniformity issues.

A countywide reassessment is the only adjustment that addresses uniformity. It is also important to note that a reassessment is never conducted to increase tax revenue; strict anti-windfall statutes are in place restricting taxing jurisdictions from reaping a windfall due to a reassessment. In fact, following a reassessment, counties and municipalities are prohibited from collecting more than an additional 5 percent of the aggregate real property taxes collected in the year prior to the reassessment unless the taxing jurisdiction has voted to enact a tax increase. School districts face an additional restriction under Act 1 of 2006 which restricts their increase to the index determined for the prior year. In Indiana County, that index ranges from 3.5 to 4.4 percent for the seven school districts.*

* The 2011-12 Index limits set by PDE for the school districts were:

Blairsville-Saltsburg	Indiana	0.6668	2.0%
Home-Center	Indiana	0.6668	2.0%
Indiana County	Indiana	0.4339	1.7%
Marion Center Area	Indiana	0.6806	2.0%
Penns Manor Area	Indiana	0.7367	2.1%
Purchase Line	Indiana	0.7626	2.1%
United	Indiana	0.7109	2.0%

After a reassessment, all taxing jurisdictions must calculate new millage rates to ensure compliance with these anti-windfall statutes. Once taxing jurisdictions are provided with their new certified assessed values, they then determine new millage rates that will satisfy these anti-windfall restrictions.

Example of a Millage Rate Adjustment to Comply with the County and Municipal Anti-Windfall Provision:

If in the year prior to a reassessment, the taxing authority's Certified Assessed Value is **$1 million** and their Millage Rate is **10 mills,** their total tax revenue collected would be $10,000:

Total Certified Assessed Value* x Millage Rate = Total Tax Revenue
or:
$1,000,000 x .010 = $10,000

If after a reassessment, the total Certified Assessed Value increases from $1 million to **$1.4 million,** the taxing jurisdiction may only receive $10,500 (five percent increase) in total real property tax revenue. Therefore, the Millage Rate must be **reduced** from 10 mills to **7.5 mills.**

New Certified Assessed Value x Reduced Millage Rate = $10,500
or:
$1,400,000 x .0075 = $10,500

Because of the mandated millage rate adjustment, an increase in assessed value on an individual property resulting from a reassessment does NOT automatically result in an increased tax bill for individual property owners.

Example of New Tax Payment by Individual Property Owner:

Using the previous example, even in situations where the reassessment results in a 20 percent increased assessment on an individual property, say from **$100,000** to **$120,000,** the property owner's annual tax bill would actually **decrease** due to the millage rate adjustment:

$100,000 x .010 = $1,000
to
$120,000 x .0075 = $900

*For this example, "Total Certified Assessed Value" means the total of all of the assessed values of taxable properties, not including properties classified as exempt from taxation.

Do the County's Current Assessed Values Provide for Equitable Distribution of the Tax Burden?

To study this, we reviewed the County's ratios of assessment-to-market value obtained from property sales information sent to the State Tax Equalization Board (STEB) by Indiana County from 2007 to May 2010.

The assessment and sales data used for this report was provided by the Indiana County Assessor and STEB. We only included sales accepted as valid by STEB. STEB does not consider sales that do not fit the definition of "arms-length" valid sales. Therefore, sales between related parties, sales as a result of foreclosures, and "love and affection" sales were not considered.

The sample included 2,292 valid sales.

II. PROPERTY BREAKDOWN OF INDIANA COUNTY

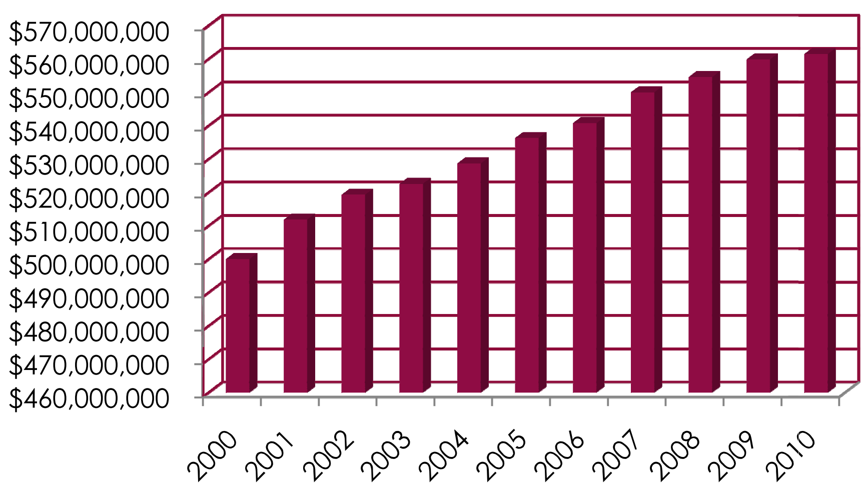
In this section, we have created a "portrait" of Indiana County properties.

- According to data received from the County as of September 2010, there are 46,710 total properties (excluding mineral rights).
- Of these properties, 44,940 are taxable; 11,380 of them have a "land value only" and 33,560 have a "building value" associated with the property.
- The total assessed value of the taxable "land value only" properties is $16,569,360; the assessed value of the taxable properties with a "building value" assigned is $537,764,810.
- There are 1,683 exempt properties totaling $115,569,800 in assessed value.
- Eighty-seven properties are listed as Provisionally Exempt (utility properties) with a total assessed value of $1,292,830.

The 2000 census determined that 25.9 percent of the units were renter-occupied (statewide figure was 26.1 percent) while 65.7 percent were owner-occupied (statewide, 64.9 percent). The median year for a structure to be built was 1965, and the median value was $68,300 (statewide, $94,800).

The following reflects the Total Taxable Assessed Value of Indiana County over the past ten years.

10 YEARS CERTIFIED TAXABLE ASSESSED VALUES



The Certified Taxable Assessed Values have increased by approximately $61.5 million or around 12.3 percent since the year 2000. This increase is attributable to new construction, and additions or other improvements to existing properties.

III. STEB STUDIES & RATIOS

There are several gauges that are used to study assessed value to market value comparisons and uniformity in property assessments including:

A. Common Level Ratio & Predetermined Ratio

The State Equalization Board of Pennsylvania (STEB) is responsible for the establishment of a Common Level Ratio (CLR), the aggregated ratio of assessed value to market value, for each county for the prior calendar year.

Indiana County's latest CLR is 17.6 percent. Per the General County Assessment Law, the County applies its PDR (Predetermined Ratio) to the assessed value before applying the millage rate. The CLR is only applied to assessed values when the property is under appeal and the CLR varies from the County's Predetermined Ratio (PDR) by more than 15 percent. In Indiana County, the current PDR is 100 percent. Therefore, property owners who have filed assessment appeals may be entitled to the benefit of a lower multiple of their assessed value by using the CLR. It follows then, that an appeal can result in a reduction in assessed value even when market value has not changed because of this application.

Please note that neither the Common Level Ratio nor the Predetermined Ratio address issues of uniformity. Two different counties could have the same CLR, but one of the counties could have a greater range of variation in assessed value to market value.

In the Allegheny County assessment challenge known as the Clifton case, Judge Wettick, acknowledged as the Common Pleas judge with the most extensive experience and expertise in assessment matters, said:

"It is possible that in a county with a common level ratio of 60 percent, the assessed values of most properties are between 55 – 65 percent of fair market value. This assessment would fulfill the requirements of the Uniformity Clause that all property be assessed, to the extent it is practical, at the same percentage of value. However, it is also possible that in a county with a common level ratio of 60 percent, large numbers of properties are assessed at more than 90 percent of fair market value and large numbers of properties are assessed at less than 30 percent of fair market value."

Similarly, setting the Predetermined Ratio at 100 percent does not address or create uniformity of assessments for individual properties since the distribution of tax burden is not changed.

B. Addressing Uniformity – COD & PRD

STEB also conducts two other countywide sales ratio studies - the Coefficient of Dispersion (COD) and the Price Related Differential (PRD). Both of these studies are universally accepted as true measurements of equity and uniformity of assessed values.

The most generally useful measure of uniformity is the COD. The COD measures the average percentage deviation of the assessed value to sales ratios from the median ratio. In other words, it measures how vast the differences in the ratios are from the middle ratio. The industry standard of acceptability is a COD of 15. Indiana County's COD is 42.70, almost three times the accepted range. The County's COD indicates a wide range of variance in assessment ratios.

The PRD measures another form of inequity. It measures the differences in the assessments of low-value and high-value properties. The acceptable range is .98 to 1.03. Measurements above the acceptable range indicate "regressivity," meaning low-valued properties are assessed at a greater percentage of their value than high-value properties. Measurements below the acceptable range indicate the opposite tendency, or progressivity. Indiana County's PRD is 1.21 (far above the acceptable range) which indicates that low-value properties are paying more than their fair share in property tax while high-value properties are paying less than their fair share.

IV. ASSESSMENT TO SALES RATIOS

Ratio of Assessed Value to Actual Value

Property "actual value" (also called "market value") is defined as the most probable selling price of a property in an open market, assuming an arm's-length transaction between both a willing and educated buyer and seller.

According to the International Association of Assessing Officers (IAAO) Standard on Ratio Studies, "Sales prices provide the only objective measure of market values and under normal circumstances should provide good indicators of market value."

In the Clifton decision, Judge Wettick said, "It is clear from established case law that this requirement of equity of taxation, as applied to property taxes, is met only when, to the extent reasonably practicable, the ratio of assessed value to actual value is the same for every property."

The ratio of assessed value to actual value is determined by dividing the assessed value of a property by its most recent sale price. If a property has an assessed value of $10,000 and it sold for $100,000 the ratio would be:

$10,000 ÷ $100,000 or 10%

The goal of a uniform and equitable assessment system is to assess all properties so that their ratio of assessed value to actual value is comparable.

An assessment system that is proven to have a wide range of ratios of assessed value to actual values indicates non-uniformity of taxation.

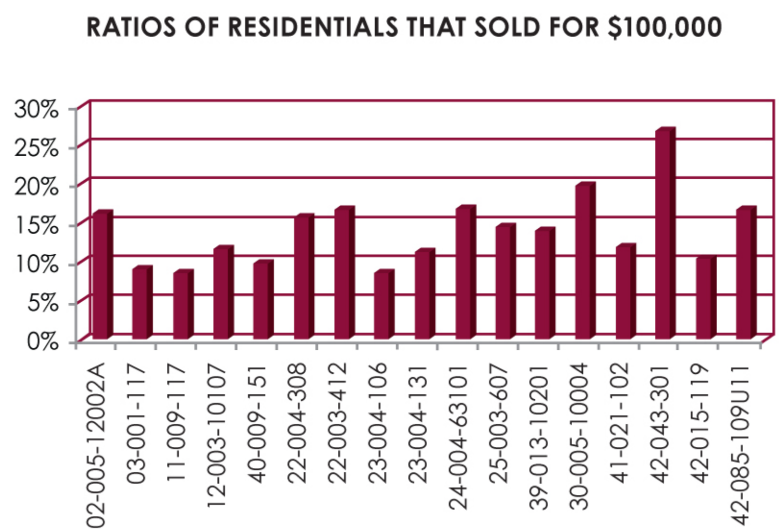
Impact of Ratios of Assessed Value to Actual Value

After review of over 2,000 recent sales in Indiana County, we found definite inequality and non-uniformity of taxation.

Specifically, we reviewed 2,292 recent property sales and found that the average ratio of assessed value to actual value is 14 percent. We also discovered that the range of ratios goes as high as 27 percent and as low as 8 percent. This wide range of ratios indicates inequity and non-uniformity of taxation in Indiana County.

For example, the following graph depicts the assessments of 17 properties that sold for $100,000. The individual ratios range from 8 to 27 percent.

The same sales price suggests that the market values of these properties are similar, and therefore their tax burden should be similar. But because they have such a wide range of assessed value to actual value, the tax burden for each varies widely.



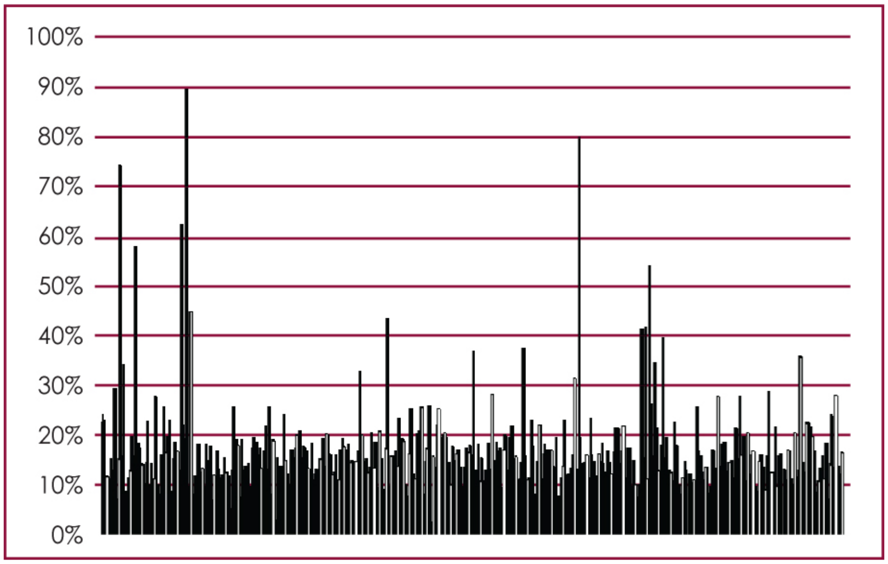
To illustrate how the difference in ratio translates to actual tax payment, the chart below identifies the amount of County tax paid by each of the 17 properties.

The tax payment for the property owner with an assessed value to actual value of 27 percent is **$850.** A similar property having an assessed value to actual value ratio of 8 percent is paying only **$255.** The first individual is paying more than three times the amount of taxes than the second, even with similar properties, simply because of the ratio of differences in assessed value to actual value.

Impact of Ratios on Borough, School and Total Property Tax

The graph below displays the assessed value to actual value ratios of 377 properties in the Borough of Indiana.

RATIOS IN INDIANA BOROUGH



The median (middle ratio) is 15 percent, but the range of ratios is extremely wide going from 3 to 91 percent.

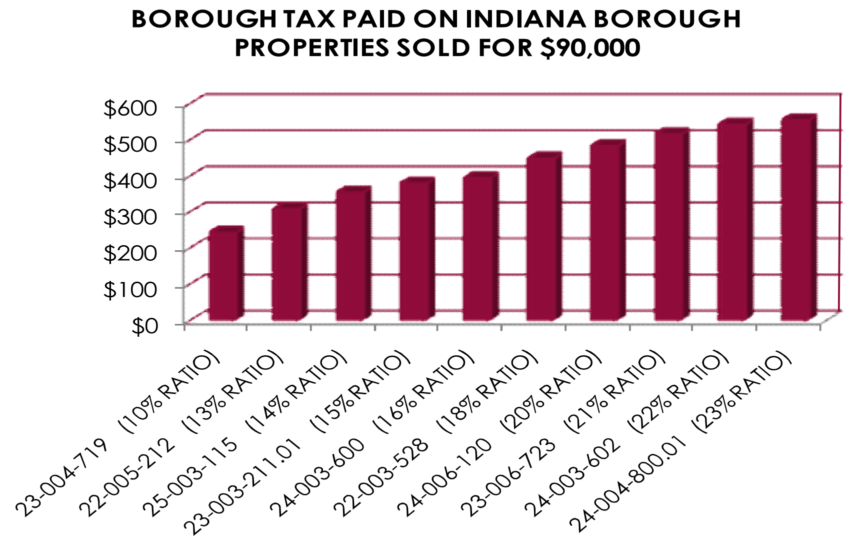
Eighty-two of the properties have ratios of 20 percent or more indicating that 82 property owners are paying their municipal property tax on a ratio that is at least 33 percent higher than the median ratio.

Forty-six of the properties are assessed at a ratio of 10 percent or less of their sales price and are paying their municipal tax at a ratio that is at least 33 percent lower than the median ratio.

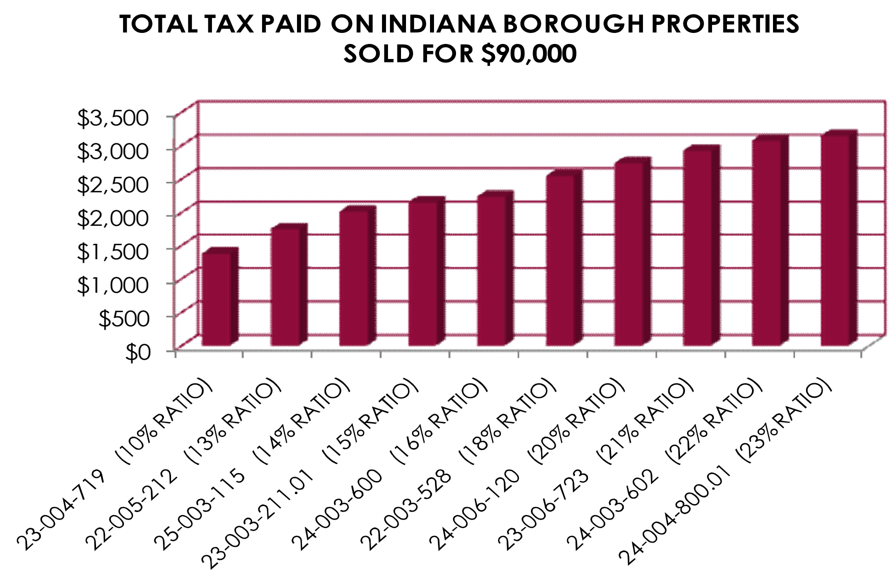
The total of these two groups of properties (82 and 46 = 128 sales) represents 34 percent of the total sales reviewed in the Borough.

To determine the impact on taxes caused by even a slight ratio difference, we examined the taxes billed for properties having sales prices of $90,000 but were assessed at various assessed value to actual value ratios in Indiana Borough.

Because these properties have the same sales price, they should have similar tax burdens.

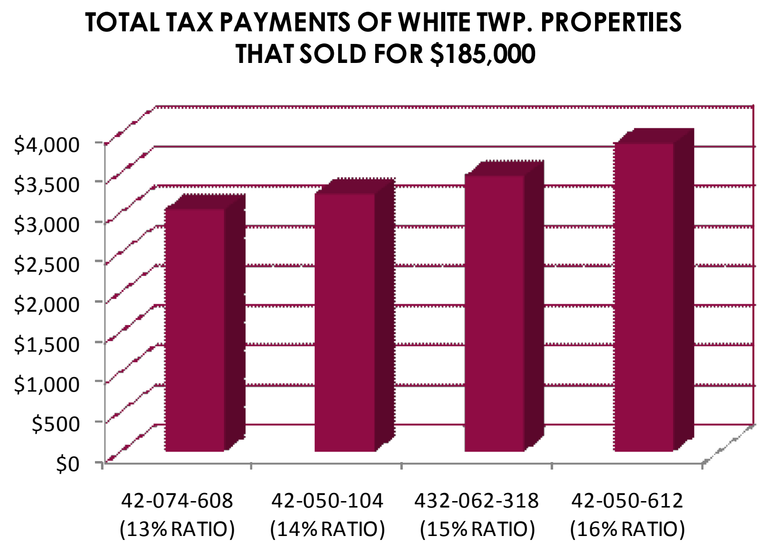


However, as the chart clearly shows, Borough taxes paid on properties that sold for $90,000 range from $244 up to $556 because of the wide range of assessed value to actual value ratios.



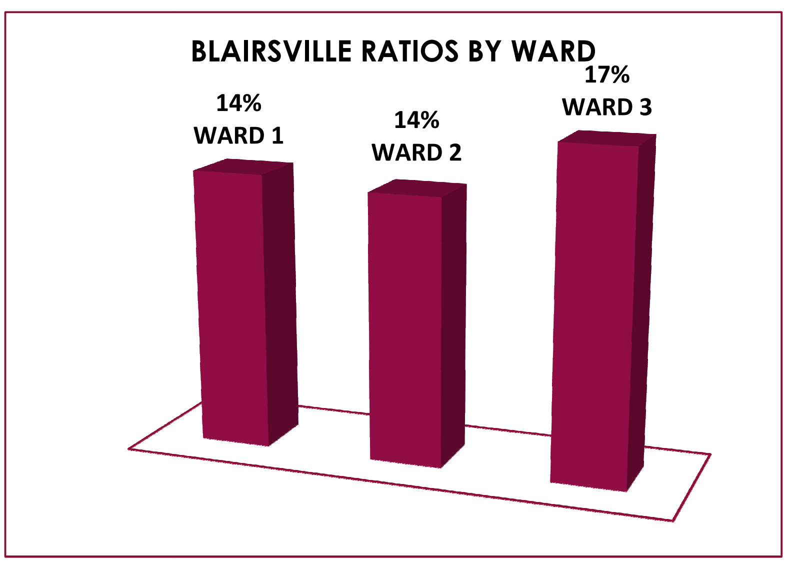
The <u>total</u> property taxes paid range from $1,383 to $3,150. Just a 1 percent difference can make the difference of $265.

A similar review of properties that sold for $185,000 in White Township reveals the impact of a 1 percent difference in the assessed value to actual value ratio on the total county and school tax bill.



Where assessed value to actual value ratios range from 13 to 16 percent, tax liability for properties with the same value can differ by as much as $800. (gap inbetween two)

In Blairsville, the median ratio in Wards 1 and 2 is 14 percent; the median ratio in Ward 3 is 17 percent.



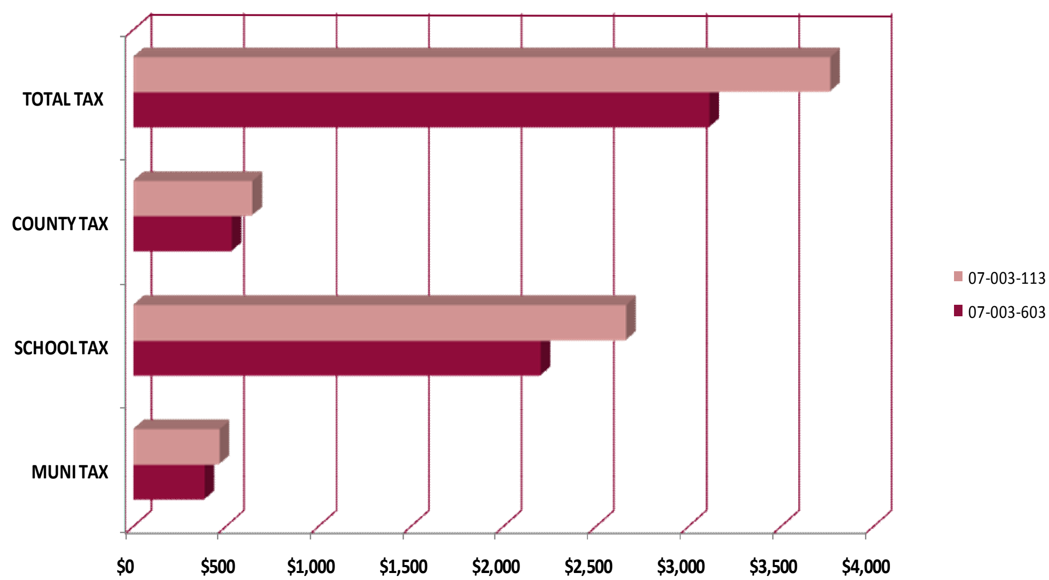
As a result of this ratio difference, the tax liability for a property in Ward 3 is more than 20 percent higher than for a similarly valued property in Ward 1 or 2.

To better understand the impact on actual tax payments that can result from just a 3 percent difference in assessed value to actual value ratios, we examined the tax payments of two Blairsville residential properties that sold for $125,000.

Parcel 07-003-603 is assessed with an assessed value to actual value ratio of 14 percent, and parcel 07-003-113 has a ratio of 17 percent.

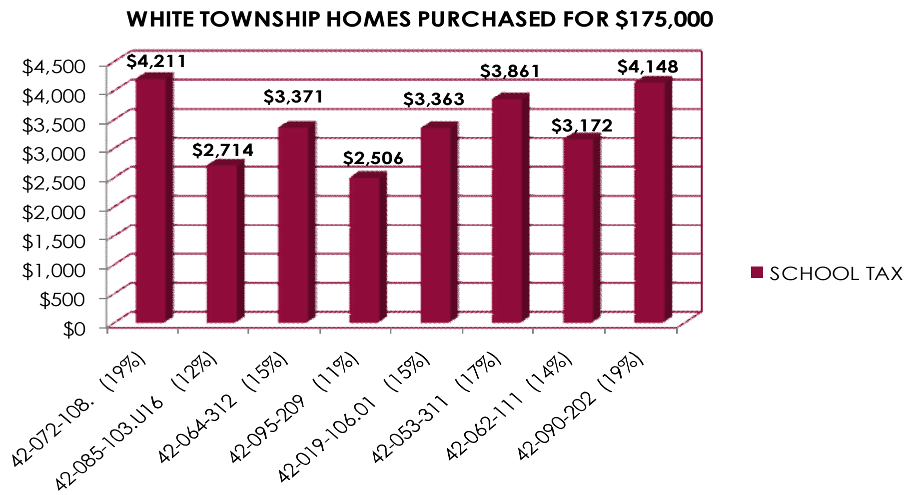
The graph below compares the tax burdens for these two properties:

	MUN. TAX	SCHOOL TAX	COUNTY TAX	TOTAL TAX
07-003-603	$383	$2,198	$529	$3,110
07-003-113	$463	$2,659	$640	$3,763

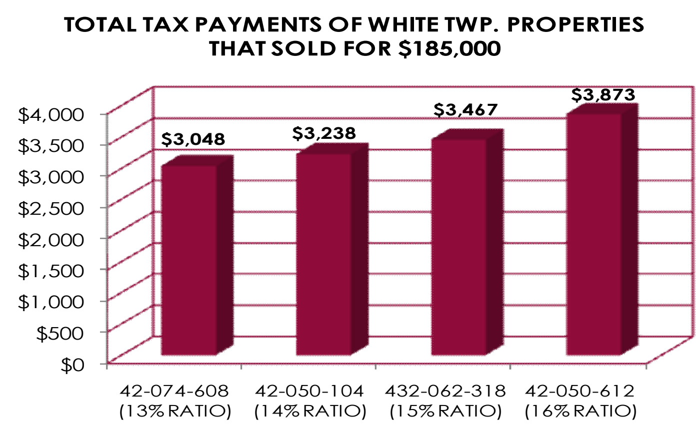


As you can see, the impact of an assessed value to actual value ratio difference as small as 3 percent creates a difference in tax payment of $652 for the two properties in Blairsville that had the same sales price.

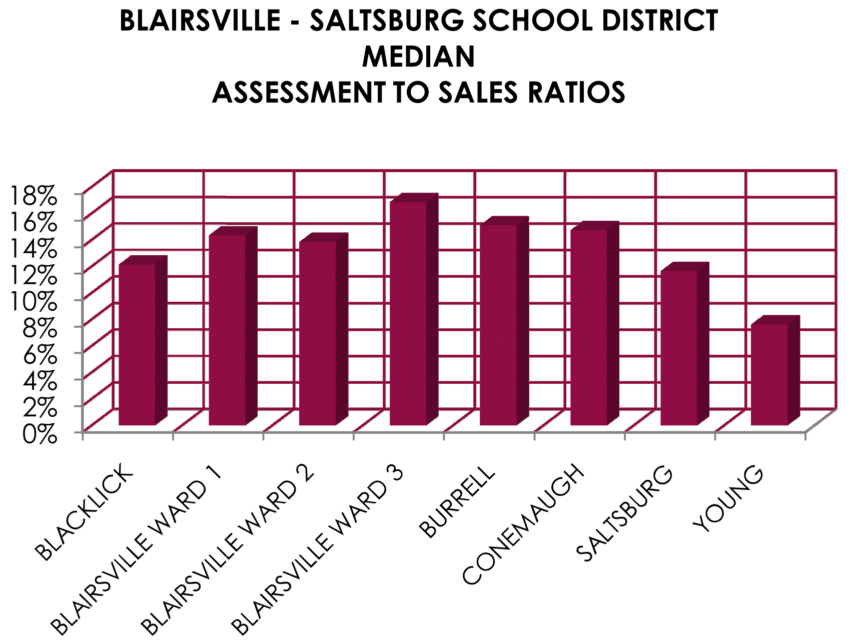
In the following graph, we examined eight properties in White Township. Each sold for $175,000. We assume that these properties are similar in value but their tax burdens are not.



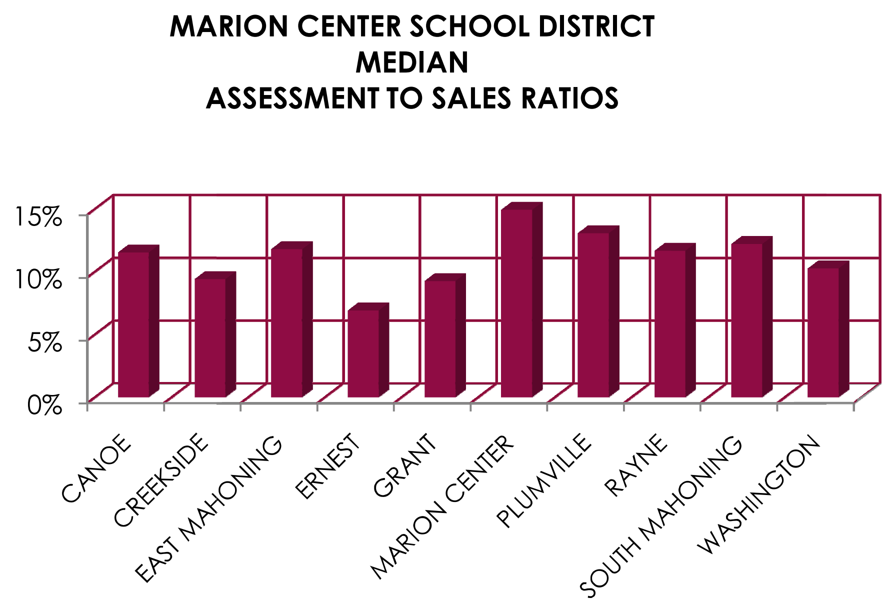
Four of these properties have assessed value to actual value ratios that are only 1 percent different; yet even in these cases, there is a difference of over $825 in their tax burdens.



The next three graphs compare the median assessed value to actual value ratios of various municipalities within Blairsville-Saltsburg, Marion Center and Punxsutawney School Districts.

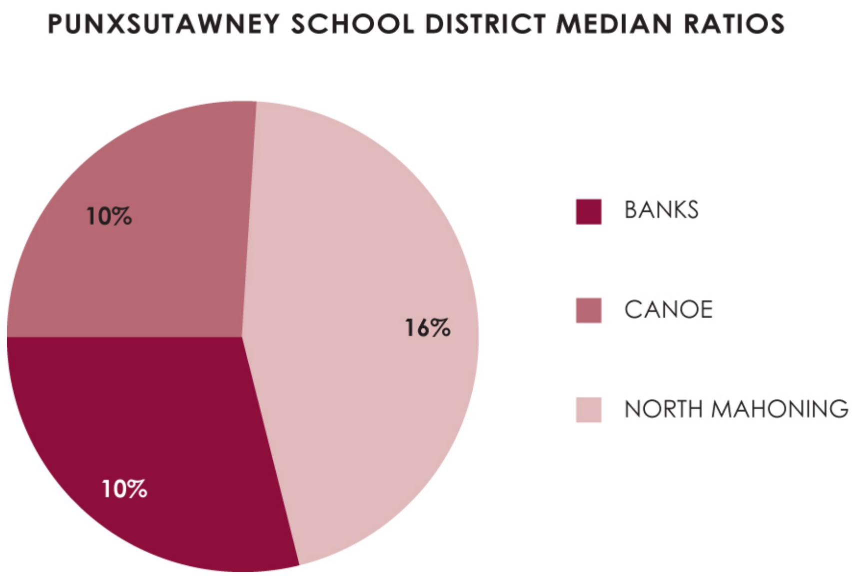


Ratios range from 8 to 17 percent in the Blairsville-Saltsburg School District.



In the Marion Center School District, ratios range from 6 to 15 percent.

The following graph shows the medians of the assessed value to actual value ratios in the three municipalities located within the Punxsutawney School District.

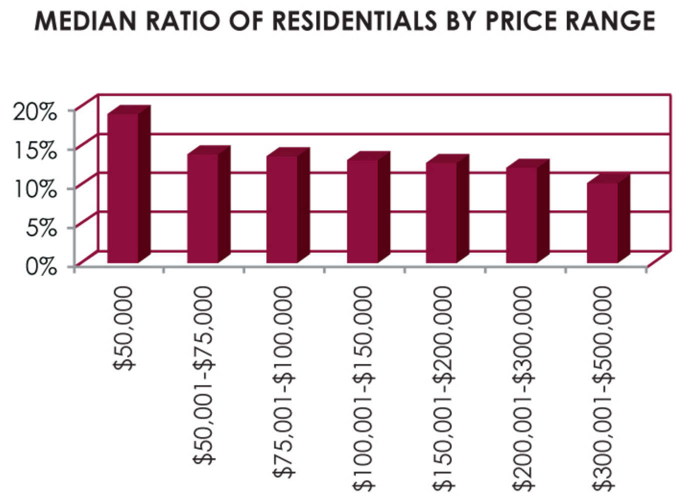


A property that sold for $100,000 in Banks or Canoe where the median ratio is 10 percent would theoretically be assessed at $10,000; this would result in a school tax bill of $818. A similar property in North Mahoning where the ratio is 16 percent would be assessed at $16,000 and have a tax bill of $1,310.

This chart and example show that even within a school district, there are disparities in tax burden created by differences in assessed value to actual value ratios. This happens because property values in a municipality appreciate and depreciate unevenly. This inequity is perpetuated by assessment systems that do not periodically adjust for such changes.

Over time, such an assessment system becomes regressive so that properties that have appreciated at a higher rate are taxed at less than their fair share, and properties that have appreciated at a lesser rate or those who have depreciated in value, pay more than their fair share in taxes.

The following chart shows how assessed value to actual value ratios decline as the value of the property increases.



Properties selling for under $50,000 have a median assessed value to actual value ratio of 19 percent while those selling for $300,000 to $500,000 have a median ratio of just 10 percent.

An examination of properties that have sold twice helps to illustrate this "regressive" condition:

PARCEL ID	SALE DATE	ASSESSMENT	SALE AMOUNT	RATIO
16-005-112	3/23/2007	$11,280	$48,000	24%
16-005-112	11/23/2009	$11,280	$65,000	17%
35-035-312	12/17/2007	$25,400	$116,500	22%
35-035-312	4/9/2010	$25,400	$160,000	16%
12-003-10107	1/23/2007	$12,000	$30,000	40%
12-003-10107	6/5/2007	$12,000	$100,000	12%
16-014-114	1/2/2007	$17,350	$185,000	9%
16-014-114	5/28/2009	$17,350	$75,000	23%
42-076-118	3/12/2008	$34,900	$270,000	13%
42-076-118	10/12/2009	$34,900	$230,000	15%
41-023-212	8/15/2007	$3,800	$59,000	6%
41-023-212	7/25/2008	$3,800	$51,500	7%

The first three properties increased in value, yet their ratio and resulting tax burden decreased; this happened because without a reassessment, the assessed value remains unchanged. The other three properties decreased in value and their ratio and tax burden increased.

V. LEGAL REASONS TO REASSESS

The Clifton Decision

In a unanimous decision released on April 29, 2009, the Supreme Court held that a base year system violates the Uniformity Clause of the Pennsylvania Constitution when there are no periodic updates to the assessment. The Court acknowledged that its decision left the door open for county-by-county lawsuits demanding that counties undertake countywide reassessments to bring their assessments into compliance with the requirement of uniformity. The Court warned that counties with base year systems that have been left in place for enough time to cause their ratios to become non-uniform will have little hope of defending against these suits. The Court's decision was an affirmation of the trial court decision by Judge Wettick that determined that a base year system that has no provision for regular adjustments or reassessments violates the Uniformity Clause.

Indiana County

Indiana County has used a base year system of tax assessment since its last countywide reassessment in 1968. As this report clearly shows, and as the STEB has publicly announced through release of COD and PRD statistics, Indiana County is ripe for such a lawsuit.

In 2006, the County changed the ratio for taxation (pre-determined ratio) to 100 percent. A change in ratio is one permissible method by which counties adjust their assessments. Such a change, however, only results in a reduction in millage rates; it does not address valuation inequities in the assessment system itself.

VI. WHY REASSESS?

Estimated Influence of Reassessment on Budget and Millage Rates

Under present conditions (and since the County has not reassessed in many years), a reassessment will almost certainly result in an increase in the total assessed value of all properties in Indiana County.

How much of an increase cannot be predicted with any certainty until a reassessment program is commenced. But, by utilizing information supplied by STEB and the County, we can make some estimates.

The 2010 total assessed value of all property in Indiana County was $561,468,220. The latest STEB Common Level Ratio (CLR) is 17.6 meaning the assessments are, on average, at 17.6 percent of the sales prices.

The chart below tracks the CLR calculations in the reassessment years for those counties that have reassessed since 2000. As expected, these reassessments resulted in assessed values that are closer to the sales prices (actual values) of the properties.

For instance, the CLR in Delaware County was 3.2 in 1999. As a result of a reassessment in 2000, the CLR rose to 96.8 in 2000. Wayne County went from 7.6 to 81.3 and Cumberland County from 6.3 to 98.6.

The average of CLR's listed in the chart is 92.5.

COUNTY:	CLR	REASSESSMENT YEAR
ALLEGHENY	97.5	2002
CARBON	97.4	2001
CUMBERLAND	98.6	2001
DAUPHIN	93.5	2002
DELAWARE	96.8	2000
ERIE	91.8	2003
FAYETTE	97.5	2003
GREENE	88.7	2003
LANCASTER	82.1	2005
LAWRENCE	93	2003
LYCOMING	91.5	2005
PERRY	95.7	2001
SULLIVAN	84.2	2004
TIOGA	94.8	2002
VENANGO	95.7	2005
WAYNE	81.3	2005

A countywide reassessment in Indiana County would likely result in a CLR of about 92.5. Based on that assumption, we can project what the new total assessment value would be, the resulting tax revenue from that new total assessment value, and project what the revised millages would have to be to maintain compliance with statutory anti-windfall restrictions.

Using Indiana County's current CLR of 17.6, we could estimate the total value of Indiana County to be $3,190,160,340 ($561,468,220 ÷ 17.6 percent). When adjusted by a new CLR of 92.5, the total assessed value could be estimated at $2,950,898,315 ($3,190,160,340 x 92.5 percent).

With the increased total assessed value of $2,950,898,315, the millage rate would need to be adjusted.

The millage rate is calculated by dividing the total assessed value of all taxable property into the amount of tax that must be raised.

The anti-windfall provisions limit the increase in property tax revenue to five percent above the tax collected the preceding year.

Indiana County budgeted $16,055,071 in property tax revenue for 2010. If the 2010 property tax collected at year end equals the budgeted amount of $16,055,071, the total property tax revenue to be budgeted in 2011 would be limited to a five percent increase or $16,857,824 ($16,055,071 x 105 percent).

The millage rate could be reduced from 30.42 mills to 5.712 mills ($16,857,824 ÷ $2,950,898,314).

VII. CONCLUSION

We created this report to educate and inform the Commissioners on the current assessment structure in Indiana County with special emphasis on whether the current system confers uniformity of taxation as required by law to the extent that would withstand a legal challenge. As you are well aware, Indiana County's current assessment system is a base year one that has not been completely updated since 1968. We believe that the current system would not withstand a legal challenge, does not impose taxation in a constitutionally uniform manner, and does not fulfill the requirements of state and constitutional law as it defines the County's responsibility with regard to assessments and taxation.

This report clearly shows that Indiana County is ripe for a lawsuit challenging its base year system based upon the Supreme Court's decision in Clifton. In Clifton, the Court held that a base year system violates the Uniformity Clause of the Pennsylvania Constitution when there are no periodic updates to the assessment.

The goal of a uniform and equitable assessment system is to assess all properties so that their ratio of assessed value to actual value is comparable and there is an equitable distribution of the tax burden. This ensures that all property owners pay their fair share for governmental services.

After statistical review and study of over 2,000 recent sales and the current assessment roll, we found definite inequality and non-uniformity of taxation in the current assessment scheme. In Indiana County, low-value properties are paying more than their fair share in property tax while high-value properties are paying less than their fair share. We believe this is clearly shown in this report.

A countywide reassessment is the only action that can be taken to correct uniformity issues.

A recently released report from Pennsylvania's Legislative and Finance Committee on "Pennsylvania's System for Property Valuation and Reassessment," states that 96 percent of Pennsylvania counties have completed one or more reassessment since 1986. The majority of such reassessments have involved comprehensive countywide reassessments - not just changes in predetermined ratios.

The report also points out that counties are primarily responsible under relevant provisions of the state's constitution and general laws for:

- maintaining an inventory of all county property;
- valuing all properties and assuring that such values are arrived at uniformly;
- assessing all properties and assuring all assessments are arrived at uniformly;
- selecting the percent of value on which property in the county is assessed;
- deciding to assess property based on current market or base year values;
- deciding when to revalue the county's property inventory; and
- serving as the first formal level for taxpayers and others to appeal the county's property values and/or assessments.