



10 South Commerce Way, Bethlehem, PA 18017 • 610-882-4100 • Fax 610-882-4144
www.lehighvalleyarea.com

LEHIGH VALLEY ASSOCIATION OF REALTORS®

Testimony on Senate Bills 1247 and 1258
Assessment Appeals Initiated by Corporate Authorities
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Presented by: George E. Raad, ABR, SRES
Presented to: Pennsylvania Senate Finance Committee

INTRODUCTION

Good Morning Chairman Browne and members of the Senate Finance Committee. On behalf of the 34,500 members of the Pennsylvania Association of REALTORS® (PAR) and the 2,500 members of the Lehigh Valley Association of REALTORS® (LVAR), I want to thank you for giving us the opportunity to share our perspective on Senate Bills 1247 and 1258. My name is George Raad, and I have been a real estate licensee for 36 years. I am the broker/owner of Harvey Z. Raad Realtors in Allentown. I also serve on the PAR Legislative Committee and the LVAR Board of Directors.

Not only do I come to you today with my experience in the real estate industry, but I also can speak to you from the consumer perspective. That is because I was personally affected by this issue. I recently faced a dramatic increase in my property taxes as a result of an appeal initiated by the Allentown School District. There is no question that Senate bills 1247 and 1258 will directly affect the real estate industry, but more importantly, will protect real estate consumers from what we view as an unfair policy being carried out by many school districts across the Commonwealth.

LVAR POSITION

I want to make clear upfront that LVAR strongly supports Senate Bills 1247 and 1258. We commend Senator Rhoades for his leadership on this issue by introducing these bills. We also commend Chairman Browne and the Senate Finance Committee members for shedding light on this critical issue by holding a public hearing today.

As you know, Senate Bills 1247 and 1258 limit the ability of corporate authorities in counties of the Third through Eighth Class to appeal assessments in only three instances: after a countywide reassessment; if a property is subdivided and sold; or when a physical change has been made to the property. If enacted, the ability of corporate authorities to initiate appeals would become consistent with the manner in which county assessors can change a property's assessed value under the current Assessment Law.¹

Senate Bills 1247 and 1258 will close a significant loophole that many school districts have utilized as an inequitable means to unfairly increase tax revenue on a select number of property owners. As you may know, spot reassessments have been deemed unconstitutional by the United States Supreme Court.² However, the current Third through Eighth Class County assessment law creates a means by which corporate authorities can legally appeal assessments without technically conducting spot reassessment, since they are not the body empowered with the ability to change values.

We are not here to challenge the legality of a corporate authority's ability to initiate assessment appeals. We recognize that the practice is legal under current law. However, we do believe this practice is unfair and creates dramatic inequities in the property tax burden among property owners.

LVAR CONCERNS

There are four main concerns that we have identified related to tax appeals initiated by school districts and other corporate authorities.

First, we believe these assessment appeals unfairly target those who recently purchased a property, either residential or commercial, rather than the community at large through a county-wide reassessment. Many school districts have developed their own formulas to identify a small number of properties which appear to be undervalued and then establish a process to increase those assessments. The end result is often comparable properties paying drastically different amounts in real estate taxes. One could argue that this calls into question the constitutional requirement for tax uniformity in Pennsylvania.³

Second, we believe these assessment appeals can alter the real estate market for both buyers and sellers, subsequently hurting home values and home sales. There is anecdotal evidence based on discussions

¹ 72 P.S. § 5347.1 (Assessments in Counties of the Second Class A and Third Class); 72 P.S. § 5453.602a (Assessments in Counties of Fourth to Eighth and Selective Classes).

² *Allegheny Pittsburgh Coal Co. v. County Commissioners of Webster County, W. Va.*, 488 U.S. 336, 109 S. Ct. 633, 102 L. Ed. 2d 688 (1989).

³ PA Const. Art. VIII, Sec. 1.

among colleagues in our profession that prospective buyers strongly reconsider looking at properties in a taxing district that is actively appealing assessments after a sale. In fact, PAR includes a disclaimer on the Agreement of Sale to warn buyers that a corporate authority may appeal the assessed value of a property at the time of sale, or at any time thereafter. Some buyers have indicated that they fear the possibility of a dramatic tax increase shortly after their purchase. As a result, buyers look elsewhere to taxing districts that are not engaging in these assessment appeals. Or, they can simply offer a seller less money to compensate for the anticipated property tax increase.

Conversely, sellers located in a taxing district where this is occurring must consider lowering their selling price as a potential property tax increase looms over their sale. In an already struggling real estate market, sellers do not need another barrier between them and the possible sale of their home.

Third, these assessment appeals can be a disincentive for future economic development in a taxing district that actively engages in this practice. In our opinion, businesses, companies, and developers may choose not to purchase a property that has the potential to be subject to a dramatic tax increase shortly after their purchase. This could result in the loss of economic benefits associated with development and new growth such as employment, increased tax base, and increased tax revenues.

And fourth, it may be cost prohibitive for corporate authorities to engage in the practice of appealing tax assessments on recently purchased properties. Potential costs include legal fees, consulting fees, court fees, filing fees and the like. In reality, school districts may only see a modest increase in tax revenue after all expenses are considered.

CONCLUSION

In conclusion, there is no question that property tax inequities currently exist in every county across the Commonwealth. And, those inequities can and should be resolved fairly through periodic countywide reassessments. Assessment appeals initiated by corporate authorities triggered by a recent sale are not an equitable means to resolve the property tax disparities. In our opinion, they only exacerbate the problem.

My colleagues across the Commonwealth have tried in piecemeal fashion to convince school districts to stop appealing assessments on recently purchased properties. Unfortunately, our arguments are no longer resonating with them. School districts, empowered by the Commonwealth Court's decision in *Vees v.*

Carbon County Board of Assessment Appeals⁴, continue to pursue this unfair and inequitable means of raising revenue. While those school districts may find that increasing property taxes on only a few properties is a politically expedient alternative to raising millage rates for the entire community, we believe they are not doing what is in the best interest of all taxpayers and real estate consumers in their respective districts.

Senate Bills 1247 and 1258 provide a statewide legislative remedy to bring this inequitable practice to an end. Corporate authorities will still be able to initiate appeals; however they will be limited to appealing in a manner consistent with which county assessors can change assessments. Therefore, we respectfully request that the Senate Finance Committee take our views into consideration, and support these important bills.

Again, on behalf of 34,500 members of PAR and the 2,500 members of LVAR, thank you for inviting us to provide input on this issue. I would be happy to answer your questions at this time.

⁴ *Veas v. Carbon County Board of Assessment Appeals and Palmerton Area School District*, 867 A.2d 742 (Pa. Cmwlth. 2005).