

Doing the math for the county's reassessment

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This is the third and final column by Washington County attorney James McCune explaining the ongoing countywide real estate tax reassessment. This column has been revised from a previous print edition to correct a calculation.

By now, the owners of Washington County's 121,000 parcels of real property should have received preliminary notices concerning the new property assessments. These notices invited property owners to make appointments to discuss the new assessments; some 16,000 appointments were conducted. The official Change of Assessment Notices are scheduled to be mailed on or about July 1.

The reassessment introduces a new ratio – 100 percent of fair market value. The countywide reassessment is required to be “revenue neutral”; that is, by law in the first year following a countywide reassessment, real estate tax revenue for a taxing body cannot, in the aggregate, exceed the previous year's total tax receipts, with exceptions discussed below.

The taxing bodies – county, municipal and school district – will be required to adjust their millage once the results of the reassessment are submitted to them, so that they do not experience a tax “windfall.”

Let's take a look at how the reassessment could affect a hypothetical property. Assume the current assessed value of all real estate in ABC school district as of January 1, 1981, (the current base year) is \$350 million. Also, presume ABC school district presently charges 110 mils of school tax. (A mil is 1/1000 of a dollar, or 1/10 of a penny). Under the current system, the \$350 million total assessed value of all real estate in ABC school district, multiplied by .110 (the millage rate) equals \$38.5 million in gross real estate tax revenue each year for the school district.



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Under the pre-reassessment system, the owner of a property assessed at \$75,000 would have paid \$8,250 in school tax ($\$75,000 \times .110 = \$8,250$).

However, if the current fair market value of that same property is actually \$600,000 under the new reassessment, the new assessed valuation for that property will be \$600,000. (Do not confuse the terms “assessed value” with “appraised value.”) To remain revenue neutral and keep real estate tax revenue the same after the reassessment, the taxing bodies’ millage rates have to be dramatically lowered.

Now assume that the current fair market value of all real estate in ABC school district is actually \$2 billion. In order for ABC school district to obtain the same \$38.5 million in school tax revenue under the new assessed valuation of \$2 billion, that tax revenue of \$38.5 million would be divided by the new \$2 billion assessed value (equal to the fair market value) of all real estate in ABC school district. (This can be expressed as $\$38,500,000 \div \$2,000,000,000 = .01925$). Thus, the new millage rate would have to be lowered to 19.25 mils (.001925).

There are exceptions to the revenue neutrality requirement. Pennsylvania law permits the county and municipal governments, by a specific vote, to increase tax revenue by up to 10 percent in the year following a countywide reassessment. In Washington County, this would apply to county and municipal taxes for calendar year 2017. School districts may only increase taxes by an “index” assigned to each school district by the state; usually about 1 percent to 3 percent of tax revenue. For example, Trinity Area School District and Canon-McMillan School District are both assigned an index of 2.3 percent, so they could increase their tax revenue in the year following the countywide reassessment by up to 2.3 percent.

Continuing with the previous example, if we presume the ABC school district also has an assigned index of 2.3 percent, ABC school district could increase its tax revenue in 2017 by 2.3 percent of \$38.5 million, or \$885,500, for total tax revenue of no more than \$39,385,000 ($\$38.5 \text{ million} + \$885,500 = \$39,385,500$).

While increases in total tax revenue for the taxing bodies (county, municipal and school) immediately following the reassessment are controlled by statute, the new assessment for any particular property has no such limitation. The new assessment for each individual property is intended to be its current fair market value. In some cases, the new assessment could result in a significant increase in taxes; it could also mean a decrease.

It is clear that the major reassessment issue, facing the taxing bodies and property owners alike, is correctly determining the current fair market value of individual properties. The dedicated and professional staff of the county tax revenue department and its contractor obviously cannot perform full appraisals of all 121,000 separate parcels of real property in Washington County. In many cases, assumptions are made about such things as income, expenses or depreciation that bear no relationship to the actual facts. This is why it is critical landowners examine their new assessments carefully, understand them, and file appeals where appropriate. Landowners should not assume the new assessment correctly reflects the property's current fair market value.

If the new assessment is not appealed to the Board of Assessment Appeals within 40 days of its receipt, the right to contest the assessment is lost for 2017. An appeal can always be filed as a precaution, and later withdrawn if circumstances warrant. It is critical that landowners protect their rights.

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