

Reassessment Overview

Why reassess?

Over time, property values change. Historically, they have increased, though recently some types of property in certain areas have remained unchanged or even decreased in value. No matter what the market conditions are, it is always true that different properties change in value differently from other properties in other places.

As a result, the fairness of a property tax system that has a single rate for all properties is reduced over time as values change. The inevitable result is some properties become over taxed while others are under taxed.

Reassessment is the only process by which counties in Pennsylvania can reestablish valuation fairness and consistency among all real estate tax parcels. To conduct a reassessment, a county must value all of its constituent properties as of the same date in time. For Lehigh County's reassessment, that date is January 1, 2012.

The process – perfect the data

The process of data collection and perfection largely occurs in the year prior (in this case 2011) to the reassessment year when County Assessors reviewed the physical descriptions of all 125,000+ County properties using site visits, high resolution photography, legal documents, and mapping software. That data is maintained in a computer program called CAMA for *Computer Assisted Mass Appraisal*. Only state certified County Assessors are allowed to touch or modify data in CAMA.

At the same time, County Assessors divided the County up into *neighborhoods* which consist of similar properties that tend to behave in a similar way in the market. The notion of a development, where the same builder constructed all of the houses which are similar in amenities, is the ideal of the neighborhood concept. For this reassessment, 164 distinct neighborhoods were identified. And yes – there are groups of properties that appear to have nothing in common. This does not preclude fair valuation, but it does make it more time consuming.

CAMA and neighborhood data, along with records of all the validated real estate sales within the County, were fed into mathematical property valuation models that are proprietary to Lehigh County.

The goal is to create mathematical value models that allow each property to be assigned a fair market value even though it may not have been sold for some time. This was done by taking the properties that did sell for the past three years and determining the impact factors such as age, living space, lot size, stories, basement, and such had on sales price. The goal is to provide a model that will accurately predict the sales price/market value of any house in the neighborhood. The Assessors then use a variety of statistical, Geographical Information System, imaging, and other comparative tools to review, confirm, question, reevaluate, and validate the values.

Most of this discussion is applicable to residential, undeveloped land, and agricultural property. Commercial properties are usually assessed using an income approach rather than the intrinsic or sales approach used for other property types.

Mail Notices

The initial mail notices going out to all property owners on or about February 23, 2012 are “Preliminary” assessment notices which provide you with:

- Your property’s prior valuation (1991) at the currently used 50% ratio
- What that value was at a 100% ratio, which is the ratio the Board of Commissioners has declared applicable beginning in 2013
- The 2012 value placed on your property.

Even if your home was built after 1991, the value currently being used for tax purposes was established based on an estimated 1991 value.

The most important information on the “Preliminary” notice is the current assessment value and not how it compares to the prior (1991) value. The current value is what is factored into the County, Municipality and School District models to determine your fair share of the taxes for each real estate taxing body.

As explained below, you will get a “Final” assessment notice on or before July 1, 2012, and will have up to 40 days to file a formal appeal if you believe one is necessary. All formal appeals will be completed by November 1, 2012, and all property values will then be certified by the Assessment Office. Those values will be in effect for the 2013 tax year (2013-14 tax year for School Districts).

Reviews and Appeals

You will have the option of requesting an **informal review** with an assessor if you have questions about the value applied to your property. The purpose of such a review is to discuss the pertinent property information and the key factors that drove the valuation of your property. You will also have the opportunity to inform the Assessor of any conditions that exist on the property that would have a negative effect on the property’s value. ***It is not a discussion of your taxes or the projected changes.***

Following your informal review, if you choose to schedule one, or even if you choose not to schedule an informal review, you can file a formal appeal with the Board of Appeals within 40 days of receipt of your “Final” assessment notice.

You must request an informal review prior to March 16, 2012, and those reviews will be scheduled at convenient sites through mid-June. Formal appeal hearings are expected to begin as early as June 1, 2012, and will run through October. Formal appeal hearings go beyond discussions and the property owner should have some objective support for the appeal, such as a current appraisal.

Restrictions on Tax Increases

Both the County and the Municipalities are limited by State law to no more than a 10% tax increase in the year the new assessment values are applied, but it is important to note that any such increase is unrelated to the reassessment process and is purely a budget decision by the taxing body; ***reassessment itself must result in a revenue neutral status for the taxing bodies.***

School Districts must follow the limitations of Act 1, which would limit any tax increase to the index in place for the 2012-13 school budget year subject to any allowable exceptions.

Why do we reassess?

The essential reason to reassess property is to **reestablish fairness** in the property tax system.

Different properties and property types change in market value at different rates over time as buyers' preferences and needs change.

For example, during strong economic growth, demand for upscale residential housing (e.g. "Mc Mansions") may drive up market values as buyers with personal expectations of increasing income compete for a limited housing stock. Over time, builders construct more houses in this market segment, but the prices of this type of construction have already been raised disproportionately to – for example – typical "three bedroom ranchers."

Some numbers may be helpful here. Suppose the County is made up of only two properties – a Mc Mansion assessed for \$450,000 and a three bedroom Cape Cod home assessed at \$150,000. The property value or tax base of the County is now \$600,000.

Both properties now pay a proportionate or equitable share of property taxes – which is the intent of the Pennsylvania constitution and various Commonwealth laws. The fundamental problem with this system is that market values change over time and change differently for different properties and property types. Let's apply it to our example. Prior to the current reassessment, the Mc Mansion's assessed value was 75% of the tax base and the Cape Cod was 25%.

With strong economic growth (and perhaps a sub prime loan), let's assume the Mc Mansion market increases market (sales) prices so that our Mc Mansion sells for \$600,000 and the Cape Cod sells for \$175,000. These sales and evidence of increased market value do not change the property taxes of these properties.

Property tax is based on assessed value only.

Looking at the new market values, the tax base should be \$775,000 with the Mc Mansion accounting for 77.5% and the Cape Cod 22.5%. The Cape Cod, since it did not appreciate as fast as the Mc Mansion, should pay 22.5% of the taxes collected. It is, however, still paying 25% of the taxes – so it is now being **over taxed** by 2.5%.

Assessed values can only be changed by appeal, a physical change in the property, or countywide reassessment. "Spot" reassessments are not permitted.

Appeals by owners that their assessed values are too high are heard by the County Board of Assessment Appeals. Building permits begin a process wherein the total value of the property as completed is considered. **Reassessment encompasses every county property at once.**

When can property assessments be changed?

In Pennsylvania, other than county-wide reassessment, there are only three circumstances under which a property's assessed value can be changed:

- Subdivision
- A physical change in the real estate
- Action of the County Board of Assessment Appeals

The first two are self explanatory. Action by the Board of Assessment Appeals is the result of a formal hearing requested by the property owner or an interested taxing body. The goal of the Board is to establish the current fair market value of a property. Once that is done, the Chief Assessor must convert or "regress" the current market value down (or back in time) to what would have been its assessed value as of the most recent year of assessment. The result may lower – or raise – a property's tax burden.

Glossary of assessment terms

Assessable Real Estate:

Except for exempt real estate not subject to taxation, all real estate is assessable and subject to taxation, e.g. land and all attached improvement. Industrial machinery and equipment (regardless of size or the nature of attachment to the premises) are excluded and not taken into consideration in determining what assessable real estate is.

Assessed Value:

This is the value which the Tax Assessment Office (or, in the event of an appeal, the Board of Assessment Appeals or Court of Common Pleas) assigns to a property upon which local taxing entities issue tax bills. In the event of an assessment appeal, the Board of Assessment Appeals or the Court will determine the current fair market value. If it is not a reassessment year, it will have the Chief Assessor then multiply the market value by the Common Level Ratio (if less than 85%) in order to arrive at the assessed value.

Base Year:

This is the year which the assessment office references for the valuation of all properties in the County. Normally, it is the year of the most recent county-wide reassessment – 1991 for Lehigh County currently and 2012 under the current reassessment. Any changes of individual assessments are to be expressed in terms of base year values.

Assessment Ratio:

This is the officially determined ratio between the market and assessed values for your property. The Lehigh County Board of Commissioners has increased the ratio from 50% to 100% effective with the 2013 tax year. This change does not mean that your taxes would double; the County is required to cut its mills (tax rate) in half due to this change alone to end up at a revenue neutral status.

Mills:

Real property tax rates are expressed in “mills”. One mill is 1/1,000 of the assessed value.

Common Level Ratio:

This is the real ratio between market and assessed values as established by the State Tax Equalization Board based on “valid” market sales for the prior year. Criteria such as family sales, special financing, forced sales and change in use will result in a sale not being consider “valid”.