



Testimony Before the City Council Committee of the Whole
October 25, 2005

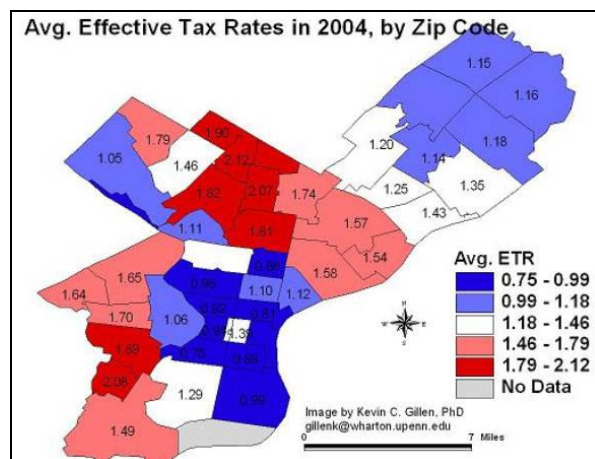
Madam President and members of City Council: Thank you for providing this forum to discuss Real Estate Taxation and tax reform legislation. I am Brett Mandel, Executive Director of *Philadelphia Forward* and former chair of the Real Estate Tax working group of the Philadelphia Tax Reform Commission.

As you well know, the Tax Reform Commission recommended that we dramatically reduce the much-hated Wage Tax (and the city has enacted legislation to do so), phase out the job-killing Business Privilege Tax (and we continue to debate the timetable for this crucial reform), and make Real Estate Taxation fair and understandable. I come before you today specifically to focus on Real Estate Taxation. Today, Real Estate Taxation in Philadelphia is...

Unfair — Inaccurate assessment creates a situation where similar properties do not have similar tax bills, and where not all properties pay taxes based on the same percentage of property sale price.

- The average city home is assessed at only approximately 70 percent of its potential sale value.
- Many (often higher-price properties) are assessed lower while many (often lower-price properties) are assessed higher than potential resale value — many property owners are not paying their fair share, while others pay too much.

Examining how assessment unfairness affects the tax bills Philadelphians pay, it is clear that some neighborhoods are OVER-taxed while other neighborhoods are UNDER-taxed. On average, homeowners in neighborhoods shaded dark have a lower effective tax rate while homeowners in neighborhoods shaded light have a higher effective tax rate.



Some Property Owners Pay Too Little, While Others Pay Too Much						
Address	Sales Date	Sales Price (SP)	City-Determined Market Value (MV)	Current Assessed Value (AV)	Ratio of MV to SP	Current Tax Burden
Underassessed Property	6/21/2004	\$265,000	\$88,500	\$28,320	33%	\$2,340
Avg. Assessed Property	2/17/2004	\$66,900	\$46,700	\$14,944	70%	\$1,235
Overassessed Property	4/17/2001	\$15,000	\$18,800	\$6,016	125%	\$497

Unpredictable — Assessment inaccuracies distort the real estate market and increase the volatility of Real Estate Tax revenue streams.

- Tax bills that are higher or lower than they should be (because the market value for tax purposes is different from the potential sale price) affect property values, since buyers are willing to pay more for a low-tax property and less for a high-tax property.
- Homeowners and investors live with uncertainty in terms of potential future dramatic changes in tax burden that would result from changes in the system.

Confusing — Fractional assessments and technical jargon create unnecessary confusion.

- The terms “market value” and “assessed value” sound alike, but they are very different.
- The relationship between “market value,” “assessed value,” and tax bills is often unclear to taxpayers.
- Taxes are applied to only a fraction — 32% — of market value.
- The fact that the Board of Revision of Taxes sets property values while City Council and the Mayor set tax rates further complicates the situation.

Philadelphia Forward chose example homes to illustrate how the revaluation will affect city properties and how proposed policies can move Philadelphia toward Real Estate Tax fairness in the most painless manner possible.

The city’s property assessment agency, the Board of Revision of Taxes (BRT), announced it would end fractional assessments and complete a citywide reassessment to establish accurate values for all properties in 2006 for implementation in tax year 2007. Because the Board of Revision of Taxes only determines property values — City Council and the Mayor set tax rates and establish tax policy — unless other changes are made, a BRT revaluation will dramatically increase tax bills for city property owners.

A Citywide Revaluation Alone Will Increase Tax Bills For City Property Owners									
Address	Sales Date	Sales Price (SP)	City-Determined Market Value (MV)	Current Assessed Value (AV)	Ratio of MV to SP	Current Tax Burden	Full Value Tax Burden	Change in Tax Burden From Current To Full AV Tax Burden	% Change
Underassessed Property	6/21/2004	\$265,000	\$88,500	\$28,320	33%	\$2,340	\$21,900	\$19,559.24	836%
Avg. Assessed Property	2/17/2004	\$66,900	\$46,700	\$14,944	70%	\$1,235	\$5,529	\$4,293.64	348%
Overassessed Property	4/17/2001	\$15,000	\$18,800	\$6,016	125%	\$497	\$1,240	\$742.44	149%

We must make Real Estate Taxation more fair — maintaining the status quo is nothing short of maintaining a flawed system that forces some to pay too much while allowing others to pay too little as part of an overall system that skews the city’s real estate market. Policy options exist to make the transition to more fair system less painful.

First, reduce the tax rate to create a “revenue neutral” change. The proposed changes to the Real Estate Taxation system are not intended to generate additional revenue for the city, but eliminating fractional assessment will increase the value of city properties for tax purposes. By reducing the tax RATE, City Council and the Mayor can generate the money the city currently counts on to fund service-delivery efforts, while reducing the “shock to the system” caused by the reassessment. This “revenue-neutral” change would REDUCE tax burdens for properties that are currently over-assessed, but it would INCREASE tax burdens (in some cases substantially) for properties that are dramatically under-assessed.

A Revenue-Neutral Change Will Reduce Tax Burdens For Over-Assessed Homes, Increase Tax Burdens For Under-Assessed Homes						
Address	Sales Price (SP)	Current Tax Burden	Full Value Tax Burden	Revenue Neutral Tax Burden	Change in Tax Burden From Current To Revenue Neutral Tax Burden	% Change
Underassessed Property	\$265,000	\$2,340	\$21,900	\$5,059	\$2,718.49	116%
Avg. Assessed Property	\$66,900	\$1,235	\$5,529	\$1,277	\$42.15	3%
Overassessed Property	\$15,000	\$497	\$1,240	\$286	-\$210.81	-42%

Second, use a Real Estate Tax relief “buffering” system to prevent dramatic increases in a property’s tax bill. Any dramatic shift in tax policy that is implemented in a single year may have dramatic effects. By using a Real Estate Tax relief program to “buffer” the increases, city officials can phase in a fair system of Real Estate without creating unreasonable spikes in tax burdens. Buffering the assessment changes (applying a new “revenue-neutral” tax rate to an average of the current year’s assessment plus the prior two years’ assessments) will implement a system of rolling averages so historically under-assessed properties will not have such dramatic single-year increases in tax bills. Owners of historically over-assessed properties would not have as dramatic single-year decreases in their tax burdens.

Buffering Assessment Changes And Applying A Revenue-Neutral Tax Rate Will “Soften The Blow” For Taxpayers Who Pay More						
Address	Sales Price (SP)	Current Tax Burden	Full Value Tax Burden	Buffered Year 1	Change in Tax Burden From Current To Buffered Tax Burden	% Change
Underassessed Property	\$265,000	\$2,340	\$21,900	\$3,768.23	\$1,427.86	61%
Avg. Assessed Property	\$66,900	\$1,235	\$5,529	\$1,125.31	-\$109.66	-9%
Overassessed Property	\$15,000	\$497	\$1,240	\$316.70	-\$180.46	-36%

Third, tax buildings less and land more to reduce burdens for homeowners, while encouraging development and discouraging speculation (by making it expensive to hold vacant land and underutilized property). Because most homeowners own structures that are worth considerably more than the land upon which they sit, a decrease in taxes on buildings and an increase in taxes on land will reduce most tax burdens. By implementing Land-Value Taxation in a way to be “revenue-neutral” for the city, officials can encourage development and discourage speculation while reducing taxes for homeowners. Implementing Land-Value Taxation consistent with the Tax Reform Commission’s recommendation would reduce tax burdens for 80% of Philadelphia homeowners. Owners of properties where land represents a significant portion of the overall property value (more than 22.5%) would see their tax burdens increase marginally.

Implementing Land-Value Taxation In A Revenue Neutral Manner Will Reduce Tax Burdens For Most City Homeowners						
Address	Sales Price (SP)	Current Tax Burden	Full Value Tax Burden	Land-Value Taxation	Change in Tax Burden From Current To Land-Value Tax Burden	% Change
Underassessed Property	\$265,000	\$2,340	\$21,900	\$4,878.60	\$2,538.23	108%
Avg. Assessed Property	\$66,900	\$1,235	\$5,529	\$1,052.19	-\$182.78	-15%
Overassessed Property	\$15,000	\$497	\$1,240	\$243.58	-\$253.58	-51%

By combining the policies, the city can create an equitable and transparent Real Estate Tax system that can be implemented in the most effective and painless manner possible.

- A tax-rate decrease to ensure that the reassessments are revenue-neutral for the city will create a reasonable basis for the changes.
- Using a Real Estate Tax relief program to “buffer” changes in assessed values will eliminate the most dramatic one-year changes in tax burden.
- Land-Value Taxation will reduce tax burdens for most homeowners as it encourages development and discourages speculation.

Implementing Positive Policies Can Establish A Fair And Understandable Real Estate Tax System In The Most Acceptable Manner						
Address	Sales Price (SP)	Current Tax Burden	Full Value Tax Burden	Combination of Policies Tax Burden	Change in Tax Burden From Current To Combination Tax Burden	% Change
Underassessed Property	\$265,000	\$2,340	\$21,900	\$3,293.87	\$953.51	41%
Avg. Assessed Property	\$66,900	\$1,235	\$5,529	\$731.88	-\$503.09	-41%
Overassessed Property	\$15,000	\$497	\$1,240	\$190.32	-\$306.84	-62%

To ensure that Philadelphians are never forced to sell their homes to pay their Real Estate Tax bills, the city can implement additional policies to help vulnerable homeowners:

- Create Real Estate Tax deferments so vulnerable homeowners can live in their homes today and pay their tax burden in the future when they sell their homes.
- Establish a Taxpayers’ Advocate to educate about Real Estate Taxation and help residents appeal unreasonable assessments.
- Allow taxpayers to pay Real Estate Tax bills in quarterly payments so homeowners can spread payments throughout the year. (As a bonus, this measure would save the city and the school district millions in avoided borrowing costs.)
- Apply tax payments to the current year’s tax liability so delinquent taxpayers making tax payments can qualify for state assistance.
- Advocate for increased property tax relief from the Commonwealth of Pennsylvania: a state circuit-breaker property tax relief program could hold down Real Estate Tax increases for those on fixed incomes; state-funded low-income property tax relief programs could be expanded for truly needy taxpayers.

Policy makers must beware: other policies presented to address these issues could do more harm than good.

- Do Nothing — Real Estate Taxation in Philadelphia is unfair, uncertain, and confusing. Doing nothing maintains a flawed system where some pay too much while others pay too little.

- Cap Assessment Increases or Freeze Assessments — Assessments must keep pace with changes in value or the system will become even more unfair. Rate reductions or tax deferrals are better tools to help homeowners.

For example, if assessment increases are capped at 5% and two homes worth \$100,000 today increase in value at different rates (one at 5% per year and one at 20% per year), after five years the owner of the first house will be paying taxes based on an assessment of 100% of potential sale value but the owner of the second will be paying taxes based on an assessment of only 51% of sale value.

Year	House Increasing in Value at 5% Per Year			House Increasing in Value at 20% Per Year		
	Potential Sale Value	City-Determined Assessed Value (Assessment Capped at 5% Increase Per Year)	Ratio of City-Determined Assessed Value To Potential Sale Value	Potential Sale Value	City-Determined Assessed Value (Assessment Capped at 5% Increase Per Year)	Ratio of City-Determined Assessed Value To Potential Sale Value
Today	\$100,000	\$100,000	100%	\$100,000	\$100,000	100%
Year 1	\$105,000	\$105,000	100%	\$120,000	\$105,000	88%
Year 2	\$110,250	\$110,250	100%	\$144,000	\$110,250	77%
Year 3	\$115,762	\$115,762	100%	\$172,800	\$115,762	67%
Year 4	\$121,550	\$121,550	100%	\$207,360	\$121,550	59%
Year 5	\$127,628	\$127,628	100%	\$248,832	\$127,628	51%

To improve the debate on issues surrounding Real Estate Taxation in Philadelphia, *Philadelphia Forward* is creating an interactive resource on www.philadelphiaforward.org using example city homes to give citizens and policy makers a resource to evaluate how proposed Real Estate Taxation changes will affect city properties. The tool will illustrate the current unfairness in Philadelphia Real Estate Taxation to underscore the very real need for change, and model the potential effects of a citywide reassessment — and other proposed policy options designed to improve the system. When complete, we hope citizens and policy makers will be able to use this resource to understand Real Estate Tax issues and why they matter. Most important, property owners will be able to use a special Real Estate Tax calculator to see how the reassessment and other policies will affect their properties.

I thank you for focusing attention on this critical issue and I am pleased to be a resource for this legislative body as you consider legislation to make Philadelphia Real Estate Taxation fair and understandable. Please do not hesitate to call upon me if I can be helpful to you as you consider these important issues in the future.