

Pennsylvania Senate Committee on Education

Informational Hearing on SB1303

Testimony of Michael A. Nutter, Mayor, City of Philadelphia

November 6, 2011

Good morning Chairman Piccola, Chairman Dinniman, Senator Williams and other members of the Education Committee. I am Michael Nutter, Mayor of the City of Philadelphia. With me today is Rob Dubow, Finance Director for the City. I want to thank Senator Williams and the other members of the Philadelphia Senate delegation for sponsoring this legislation. And thank you, Mr. Chairman, for the opportunity to appear before you at this informational hearing regarding Senate Bill 1303.

This bill is extremely important for Philadelphia. The purpose of this bill is to provide needed temporary relief from certain state law requirements. This relief will allow my Administration to complete work currently underway to fix what has widely known to be an inaccurate and inequitable property assessment system in Philadelphia. We have been working extremely hard to get our assessment system right, so that we will be in a position to issue new accurate assessments, across the City, next year. But we need your assistance, fairly quickly, to allow us to complete that process.

Historically, Philadelphia's Board of Revision of Taxes, known as the BRT, was the agency responsible for both the assessment of real estate property taxes in Philadelphia and appeals of those assessments. From long before I took office as Mayor, the City's real estate tax assessments have been viewed as inaccurate and in need of reform. Assessments in too many instances have been based on old and inaccurate data concerning the features of the properties. In addition, the BRT did not conduct a full reassessment of all real property for many years, so data that once may have been accurate become outdated.

Since the start of my Administration, I have made it a priority to improve the City's real estate tax assessment system so that assessments are fair, accurate and understandable.

In January 2010, legislation was adopted to put a referendum on the May 2010 ballot to make significant changes in how assessments are handled and to remove the assessment and appeals functions from the BRT. The voters overwhelmingly approved the legislation, which created a new Office of Property Assessment, directed by a Chief Assessment Officer. Last year, I appointed a professional assessor, Richie McKeithen, to be the first Chief Assessment Officer of the new Office of Property Assessment.

OPA formally took responsibility for real estate tax assessments in October 2010. I charged Mr. McKeithen with doing everything necessary to conduct a full real estate tax reassessment as soon as possible.

Under the leadership of Mr. McKeithen, OPA immediately began evaluating all that would be needed to conduct a full reassessment of the City's approximately 577,000 parcels. He developed a plan to carry out, over two years, the most complete evaluation and reassessment of every property that has ever been performed in Philadelphia, at least in our lifetimes. OPA's work began with an internal review of office operations and policies and staff training. In January 2011, OPA began sales analysis and validation work. Currently, OPA is conducting field inspections of all real property in Philadelphia. Once data is reviewed and tested, preliminary values will be generated and further analyzed in preparation of final assessments. The City is committed to issuing new assessment notices based on the City-wide process in early fall 2012, which will form the basis for tax bills due at the end of March 2013.

Between January and June of 2012, I will work with City Council to set a real estate tax rate for 2013. The rate will be based on assessments to be finalized in the fall of 2012 that will generate target amounts of tax revenue for the City and School District. Buffering mechanisms -- to protect taxpayers against sudden large increases -- are likely to be considered as well.

Let me turn now to the reasons we need the specific legislation at hand, SB1303.

Properties in the City of Philadelphia are generally assessed significantly below their actual value, both because of inaccurate assessments that have developed historically and because we have used a predetermined ratio of 32% many years in the City. In other words, our real estate tax bills are based on the product of generally outdated assessments, reduced by 32 percent, multiplied by tax rates set in law.

Under the new assessment system, for reasons of both fairness and transparency, actual market values will be assigned to all properties, and a 100% predetermined ratio will be used.

To correct the inaccuracies in the City's property tax system and move to a system where properties are taxed based on their true value while avoiding massive tax increases, the City must significantly reduce its tax rates. The impact on individual property owners will vary. Tax bills for many Philadelphia property owners whose properties have not increased in value over time as much as others' properties have will see their tax bills go down. These reductions will be balanced by bills for property owners that will go up, because their assessments have not kept pace with increases in the value of their properties.

Philadelphia property owners pay two property taxes as part of their property tax bill: one for the City and one for the School District of Philadelphia. Each of these components of the individual's tax bill has its own tax rate. Tax rates for both the City and School District tax must be reduced very significantly in order to offset the anticipated increase in assessed values and the move to using a 100% ratio.

The City can lower the rate that applies to the City's tax without any changes in state law. We have two problems, however, associated with our need to significantly lower our

tax rates applicable to bills collected for the School District, both of which we seek to fix through SB 1303.

First, a portion of the tax millage rate used in Philadelphia to establish individual tax bills is set locally. Another portion of the School District tax rate applied in Philadelphia, however, is directly authorized in state law, in five separate statutes. The combined rate of those provisions is too high, even standing alone, to correlate properly with the increased assessments. We need a limitation on the District's ability to use the full authority of the state-established millage rate now, so the City can significantly reduce the School District tax rate next spring to match the much higher assessments that are coming next year.

Second, under Act 46 of 1998, which establishes maintenance of effort requirements regarding local sources of funding for the School District, we are likely prohibited from lowering the City-established portion of the School District tax rate. Although we seek relief from Act 46 to lower the School District tax rate, under the requirements of the changes we propose, the District will still receive at least as much revenue going forward as it has in the past. So with this change in the law, the purpose of Act 46 – to maintain the dollar amount of revenue the School District receives from local sources – will be maintained. Based on the current reassessment process, notices reflecting the new, generally much higher, assessments will be sent to all property owners in early fall 2012. We need relief from Act 46 now to be able to set our new rates early next year, in order to prevent skyrocketing School District tax bills based on those assessments.

Lastly, together with the School District of Philadelphia, we have provided the sponsor with amendments to the bill to resolve some unintended consequences of the bill as introduced. We concluded that the bill as introduced inadvertently did more than necessary in suspending the maintenance of efforts requirements, and these amendments would limit the changes to Act 46 and the District's use of state-authorized millage rates only to the degree necessary to accomplish the goals I have just outlined. The Chairman of the Philadelphia School Reform Commission and I jointly have provided a letter to Senator Williams reflecting that, with these amendments, the School District fully supports the proposed fixes set forth in SB1303 to ensure that the City's transition to a system of full value assessments does not result in a massive and unintended tax increase for Philadelphia property owners. At the same time, those amendments help to ensure that the District will receive at least as much revenue in FY13 as it received in FY12.

Thank you, again, for the opportunity to testify today regarding this matter of importance to the City of Philadelphia and Mr. Dubow and I would be happy to answer any questions you may have.