

From Virtual Realty to Full Value Realty: Preparing for Reassessment

PICA Issues Report
October 20, 2005

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Background

- The Board of Revision of Taxes (BRT) plans to reassess every property in the city within the next year
- After the reassessment, the BRT's process will be easier to understand because the new assessments will be based on full value, instead of the confusing fractional values now used.
- The new assessments will raise critical policy issues about taxes, borrowing and state legislation.
- The policy decisions made by City Council and the Mayor will have broad implications for taxpayers for years to come.

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How will the process change?

Current process:

(Full BRT Value) X (70% BRT Adjustment) X (32% predetermined ratio) X (millage rate) = taxes owed

results in a confused tax payer



New process:

(Full BRT Value) X (millage rate) = taxes owed

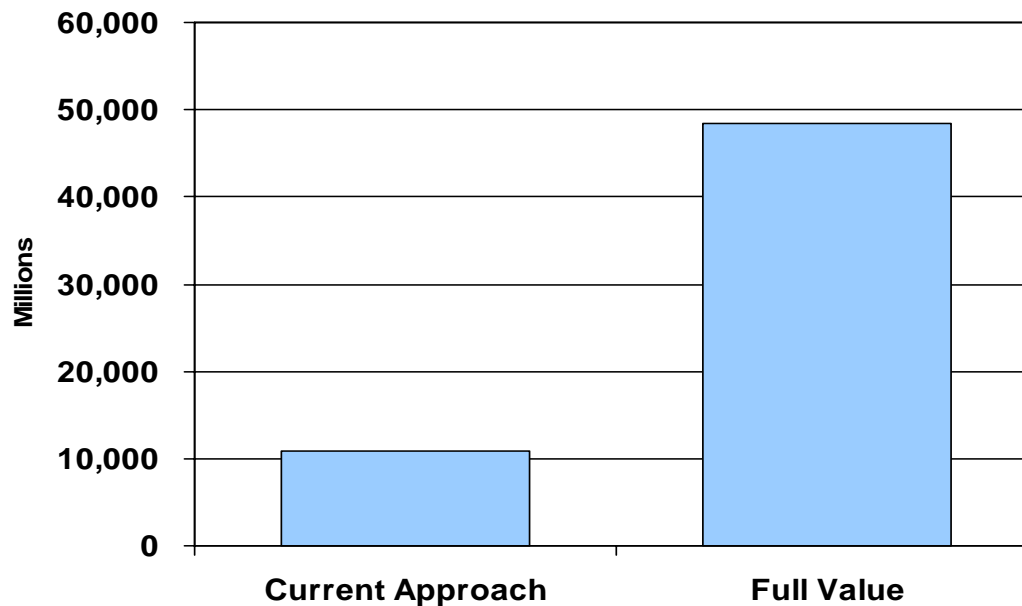
results in a knowledgeable taxpayer



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Result: Increased Assessment Value

The BRT's shift away from fractional values to full value will dramatically increase the total assessed value of property in the City.

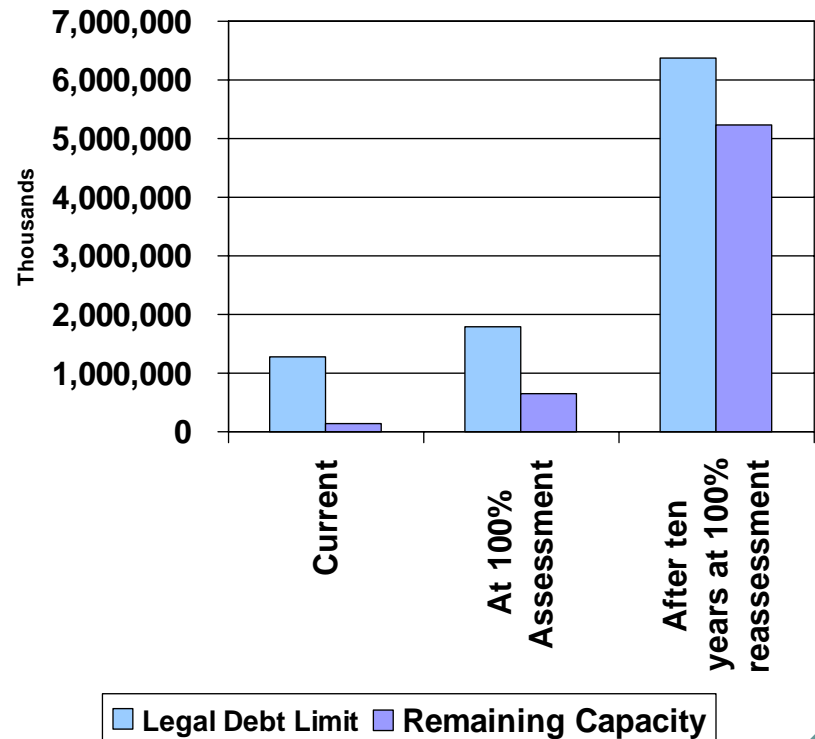


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Impacts of Increased Assessment Value

1. Without a change in millage rates, the estimated amount of revenue generated by the property tax would increase from approximately \$770 million to about \$3.4 billion, with the general fund's estimated portion jumping by over \$1.1 billion.
2. The City's borrowing capacity under the Pennsylvania Constitution will jump approximately \$500 million in one year and would eventually increase by about 400 percent to over \$6 billion.

Moving to Full Value Will Substantially Increase the City's Constitutional Debt Limit



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Managing the Change: Taxes

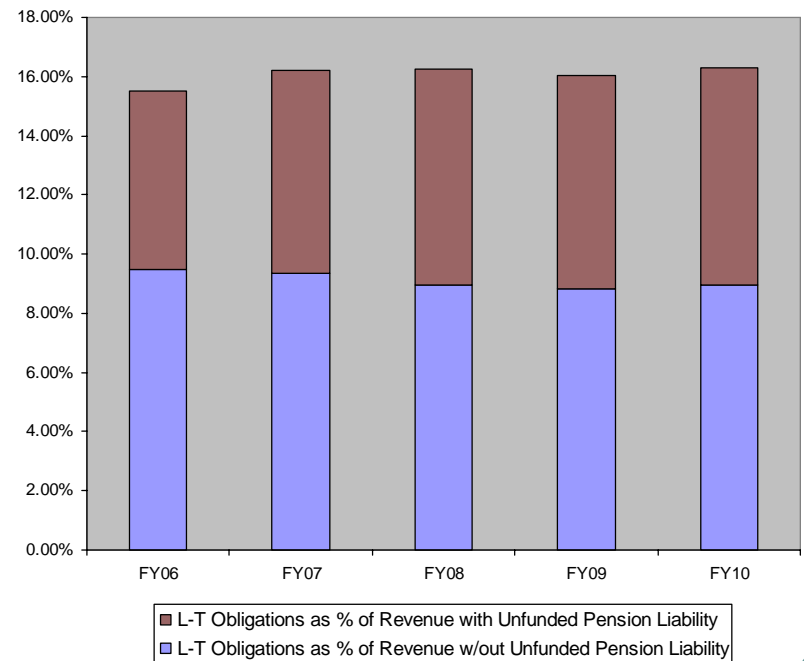
- The City should not use the reassessment to increase revenues for the general fund, which would only serve to increase the City taxpayer's already high tax burden. Any attempt to use the reassessment to increase the overall amount of taxes collected by the City would likely increase opposition to an essential change to how property taxes are levied in Philadelphia. Instead, the Mayor and City Council should set the millage rate so that:
 1. The real estate tax generates the same amount of revenues, including natural growth, that it would have generated had there been no reassessment; or
 2. The real estate tax generates more revenues than it would have if there had not been a reassessment, but the added money is used to reduce other taxes. Under this option, for example, real estate tax revenues would increase, but business privilege tax rates and/or the wage tax rate could decrease.

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Managing the Change: Debt Capacity

The City should not use the reassessment to increase debt issuance. Instead, the City should update its debt policy and determine how much debt is prudent based on an analysis of its outstanding debt as a percent of revenues. Limiting the amount of debt the City issues is particularly important since the City already has a high level of long-term obligations.

Long-Term Obligations Consume A Significant Percent of the City's Budget



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Managing the Change: Working with the Commonwealth

- **The City Must Ensure that the Pennsylvania General Assembly amends The Distressed Schools Act of 1998, as amended (commonly referred to as Act 46).**
 1. **Act 46, the legislation that codified the Commonwealth's takeover of the School District prohibits the City from reducing the District's portion of the millage rate.**
 2. **After the BRT has completed its reassessment, the taxes generated by the School District portion of the property tax millage would increase by over \$1.5 billion if millage rates are not changed.**
 3. **The law should be changed to prevent taxes from increasing by such a large amount, while still assuring that the District maintains its proportion of the property tax and does not realize a reduction in its property tax revenues received.**