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The Actual Value Initiative

Philadelphia's progress on its property tax overhaul

Overview

In 2013, after several years of public discussion and debate, the city of Philadelphia adopted a sweeping property tax overhaul known as the Actual Value Initiative (AVI). Under AVI, the city reassessed the market value of every property in Philadelphia, changed the way individual assessments are used to calculate tax bills, and introduced programs to mitigate tax increases for some property owners. Pew produced two reports on aspects of AVI in the period leading up to its implementation. The first, *The Actual Value Initiative: Overhauling Property Taxes in Philadelphia*, released in 2012, looked at the experiences of other jurisdictions and why reform had become necessary in Philadelphia. The second, *AVI: The Shift in the Tax Burden*, came out in 2013 and explained how the overhaul would result in the residential sector paying a greater share of the city's overall tax bill than it had been.

Building on that research, this brief assesses the progress of the reform effort through spring 2015, including the role of the review and appeals process and new relief programs, and highlights issues that remain to be resolved. It addresses both the hopes of supporters, who said the reform would help make the city's property tax system fairer, and the fears of critics, who said the new values, by producing dramatically higher tax bills in some residential neighborhoods, would drive out homeowners and reduce home prices.

In the past two years, much has happened. Tax assessments declined for many property owners and rose for others, many of whom challenged the new valuations. The number of challenges exceeded city officials' expectations: Owners of 10.3 percent of the city's real estate—59,627 properties in all—sought review and/or subsequent appeal, claiming their new assessments were unfair or inaccurate. This was at least 20 times the number in a normal year before AVI took effect. As of May 2015, assessments had been changed for 17,270 of those properties and reduced in nearly all of the cases. More than 2,000 appeals were still pending with the city's Board of Revision of Taxes in the spring of 2015. The net effect of the reviews and appeals has been a reduction in overall taxable value of $1.7 billion, or 1.73 percent, which means less revenue for the city.[1] The Philadelphia Office of Property Assessment (OPA) has acknowledged that some of the challenged valuations were flawed but said accuracy and fairness had improved overall under the new system.

AVI did not affect all types of properties equally. Of the city's six real estate categories (residential, apartment and hotel, store with dwelling, commercial, industrial, and vacant land), the residential sector experienced the most growth in assessed value. Two major policy initiatives enacted along with AVI mitigated some of those tax increases: The Longtime Owner Occupants Program (LOOP) provided $16.8 million in targeted relief for almost 18,000 homeowners, and a homestead exemption reduced the tax bills of 216,344 homeowners, regardless of their income or the length of their tenure in their residences. Officials estimated in August 2015 that 68,000 qualified Philadelphians had not signed up for the homestead exemption.

The long-term impact of AVI remains unclear. No large-scale departure of residents has occurred. Although some homeowners struggled to pay their taxes, Philadelphia's population increased modestly in 2014, the eighth consecutive year of growth. And despite fears to the contrary, residential sale prices appear to have risen in some of the areas with the biggest tax hikes.[2] It is difficult to know whether the rise in sale prices and the growth in population (the smallest since 2007) would have been larger in the absence of AVI, because many factors are at work in determining these trends.

In a poll commissioned by Pew's Philadelphia research initiative in early 2015, public opinion about AVI was mixed. Of residents who said they were aware of the overhaul, attitudes were almost evenly divided among those who said that it had made taxes more fair, those who said taxes were less fair, and those who were not sure or said the change had made no difference.

Significant work remains to finish the reforms that city officials set out to achieve with AVI. They are planning to build a computer-assisted mass appraisal system and conduct a citywide assessment of the land value of each property—a calculation separate from the valuation of any structure on a parcel of land. These steps will lay the groundwork for the next comprehensive reassessment, expected in 2017. Experts say the city must undertake such reassessments regularly in the years ahead to sustain the new system's accuracy and fairness; the lack of periodic, citywide revaluations created the need for AVI in the first place.

First level assessment reviews and appeals

Before AVI, property owners in Philadelphia typically filed 2,000 to 3,000 assessment appeals a year with the Board of Revision of Taxes (BRT). When AVI took effect in 2014, owners of 59,627 properties took advantage of a new process known as first level review, filed an appeal through the BRT, or did both.

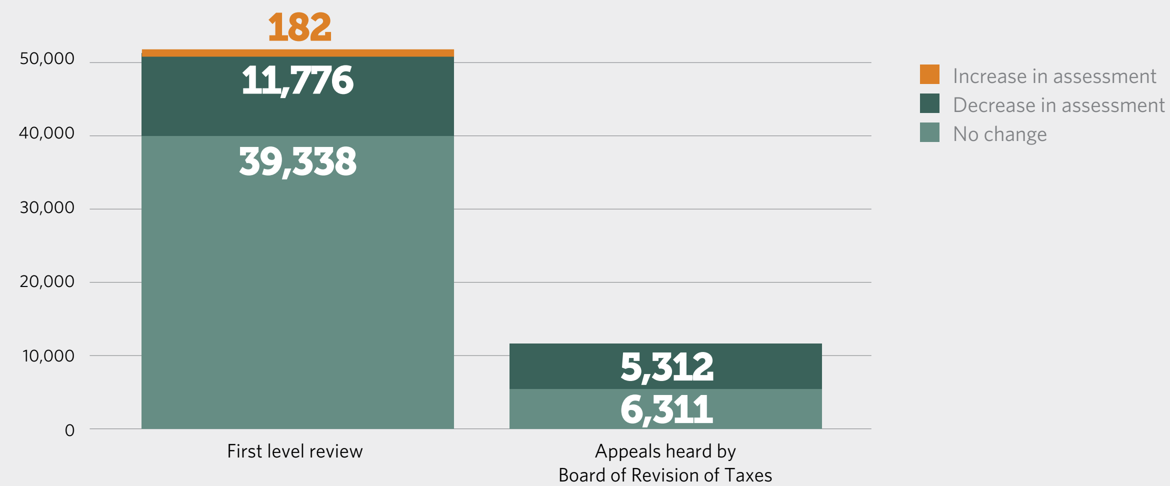
The Office of Property Assessment (OPA) created the new review process to give property owners an opportunity to have their assessments re-evaluated without having to file a formal appeal. The idea was to reduce the total number of appeals reaching the BRT, though owners could skip the first review step and go directly to the board if they chose. In 2014, there were 51,296 first level review submissions. About 77 percent resulted in no change, 23 percent in assessment decreases, and less than 1 percent in increases.

Because OPA did not complete many of the first level reviews before the deadline for owners to file BRT appeals, 15,928 owners ended up filing both. Ultimately, 42 percent of the 24,259 BRT appeals were withdrawn because they were resolved through the first review process. Of 11,623 cases heard by the board, 46 percent of assessments were revised, all of them downward. (See Figure 1.) As of April 2015, 2,339 cases were pending or awaiting final settlement.

Figure 1

Outcomes of Property Assessment First Level Reviews and Appeals

Fiscal year 2014



In fiscal year 2014, owners of 59,627 properties applied for first level reviews with the Office of Property Assessment, filed appeals through the Board of Revision of Taxes, or did both. By May 2015, 51,296 cases had completed first level reviews, with assessments unchanged in most instances. In addition, 11,623 appeals had been processed, with decreases granted in nearly half of the cases.

Sources: Philadelphia Office of Property Assessment and Board of Revision of Taxes

According to Mayor Michael Nutter's administration, the net effect of the changes made through the first review and appeals processes was an overall reduction in aggregate taxable value of 1.73 percent, or $1.7 billion of the original $99.9 billion valuation for all properties in fiscal year 2014. As a result, city budget documents show that officials expected to take in $4.6 million less in property tax revenue in fiscal 2015 than originally projected.[3]

For fiscal 2016, OPA staff reassessed 131,000 properties in areas where reviews had indicated there was widespread under- or overvaluation. The result of these reassessments was an overall 1.5 percent increase in the city's taxable value for 2016, though owners will still have the opportunity to appeal. Notices about the adjustments were mailed in April 2015.[4]

Easing the impact for homeowners

Of Philadelphia's six real estate categories, AVI's impact was greatest on the residential sector: Certified values at least tripled for 31 percent of all parcels in this group, or about 140,000 in total. With the changes in how tax bills were calculated, a threefold assessment increase on a property meant a 29 percent tax hike for the owner; in some cases, tax bills doubled or tripled. As AVI was rolling out, a number of analysts found that the biggest jumps were concentrated in neighborhoods where housing prices had soared in recent years.[5]

AVI also led to an increase in the residential sector's share of taxable property value and a decrease in the commercial and industrial sectors. This occurred because, although all types of property had been undervalued in assessments before AVI, the residential real estate sector had been more deeply undervalued than other types of properties, including commercial and industrial.

To alleviate the impact on homeowners, lawmakers rolled out several relief programs along with the new assessments.

Homestead exemption

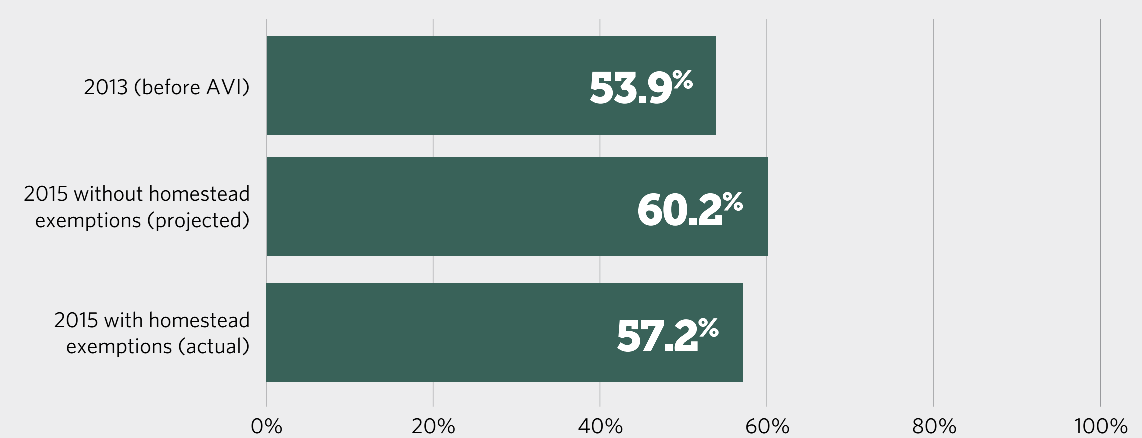
The homestead exemption is the biggest of the mitigation programs, in terms of the amount of money and the number of homeowners involved. Available for all owner-occupied primary residences in Philadelphia (excluding those with 10-year tax abatements), it exempts up to $30,000 of a property's value from taxation. At the 2015 tax rate of 1.34 percent, this works out to a maximum discount of just over $400—nearly a quarter of the $1,700 average residential tax bill.

As of August 2015, OPA had approved 216,344 homestead exemptions, representing 47 percent of all residential properties and totaling $90 million in savings for owner-occupied homes in Philadelphia. The exemptions also reduced the residential sector's share of the city's taxable property value—and of the overall property tax burden. Without the homestead exemption, the residential portion would have been 60 percent, a big increase over the pre-AVI share of just under 54 percent. With it, the share was 57 percent.[6] (See Figure 2.)

Ninety-seven percent of the 216,344 exemptions granted were for the maximum amount of $30,000 in taxable value.[7] The others were partial exemptions ranging from $1,500 to $29,900 for properties that were mixed use, had more than one unit, or otherwise did not qualify for the entire benefit.

Figure 2

Residential Share of All Taxable Property Value in Philadelphia



Note: There are six property categories in Philadelphia: residential, apartment and hotel, store with dwelling, commercial, industrial, and vacant land.

Source: Pew analysis of Philadelphia Office of Property Assessment data

Still, according to OPA estimates, as many as 68,000 qualified homeowners (about one-fourth of all those eligible) were not getting the homestead exemption.[8] Because the city has no reliable record of whether homes are owner-occupied and used as primary residences, individual homeowners do not receive the exemption unless they apply for it.

It is not clear why homeowners have failed to apply. City officials say they have tried to make the process as easy as possible: Residents can apply for the exemption by phone, through the mail, or online; Spanish and Chinese forms are available on the city's website; and the one-page application asks only for basic identifying information and for certification by the homeowner that the property is his or her primary residence. The city has mailed information about the program to residential properties; officials have attended civic meetings to talk about it; and announcements have appeared on the Phila.gov website. District council members have also contacted their constituents.

Representatives of some nonprofit organizations who have gone door to door spreading the word have reported that residents in some neighborhoods were wary of providing personal information to any government agency or worried that doing so would result in the city coming after them for back taxes they owed. City officials say they do not check whether homestead applicants are delinquent.

Officials are continuing to reach out to property owners and to new homebuyers who might not be familiar with the program. The city has secured philanthropic funding to test outreach methods aimed at signing up residents for a number of assistance programs, including the homestead exemption, emphasizing low-income neighborhoods with low enrollment rates.[9]

Longtime Owner Occupants Program

The Longtime Owner Occupants Program (LOOP), enacted with AVI in 2013, caps a property's taxable value for 10 years for homeowners who meet three criteria: They have owned and lived in their home as a primary residence for at least 10 years; their property's certified market value has increased at least 300 percent in one year; and their income falls within 150 percent of the area median, adjusted for household size, which comes to $83,200 for a single person or $118,000 for four people.

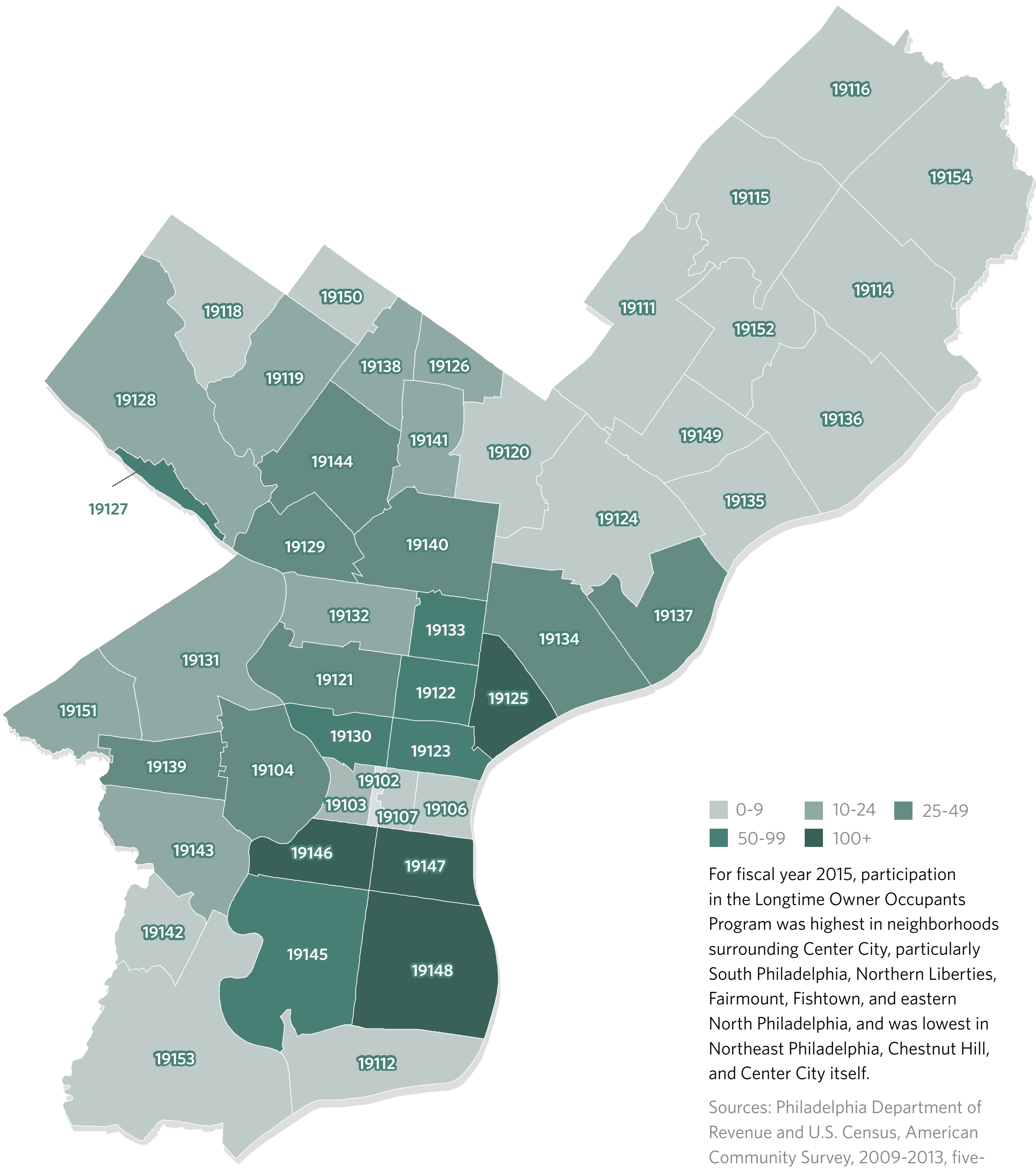
In 2015, 17,812 people were enrolled in LOOP, for a total tax savings of $16.8 million, an average of almost $1,000 per property, and less than the $20 million allocated by City Council. Based on census estimates and other sources, the Nutter administration originally projected that 12,000 to 20,000 residents might qualify. Because city records do not capture income information or whether a property is a primary residence, it is difficult to tell whether there are additional qualifying homeowners who have not applied.

The LOOP program is available citywide, and homeowners have filed from every residential ZIP code, but the highest concentrations of filings were in Fishtown and South Philadelphia, where four ZIP codes (19145, 19146, 19147, and 19148) together accounted for 45 percent of all properties enrolled in 2015. The legislation establishing the program cited the potential displacement of longtime residents in gentrifying neighborhoods. High LOOP filing rates are not necessarily an indicator of gentrification, but they do indicate areas where sale prices in recent years were far higher than assessed values and where there has been a significant presence of established low- to middle-income homeowners. (See Figure 3.) Several Center City ZIP codes (19102, 19103, and 19107) also experienced large assessment increases, but the higher income levels of households—and the larger percentage of relatively new residents—probably explain the lower LOOP filing rates there.

Figure 3

Philadelphians Enrolled in Longtime Owner Occupants Program

Enrollments per 1,000 households in fiscal year 2015



For fiscal year 2015, participation in the Longtime Owner Occupants Program was highest in neighborhoods surrounding Center City, particularly South Philadelphia, Northern Liberties, Fairmount, Fishtown, and eastern North Philadelphia, and was lowest in Northeast Philadelphia, Chestnut Hill, and Center City itself.

Sources: Philadelphia Department of Revenue and U.S. Census, American Community Survey, 2009-2013, five-year estimate

Deferrals

Before AVI, the city had a deferral program that allowed homeowners to put off a portion of their taxes until their houses were sold, but the program had no participants. Three factors apparently discouraged taxpayers from signing up: the income limits; the 6 percent interest rate applied to the deferred tax amount; and the lien the city placed on the property until the taxes were paid, which would have made it difficult for the owners to refinance or take out home equity loans.

In enacting AVI, City Council lowered the interest rate on deferrals, setting it at 2 percentage points above the U.S. Treasury bill rate (which was 0.12 percent in 2014, resulting in a rate of 2.12 percent). Even with this change, the program remained very small, with just 17 properties enrolled in fiscal year 2014.

Senior tax freeze

Another homeowner relief program that continued after AVI is a permanent tax freeze for low-income senior citizens. The freeze prevents a tax bill from rising even if the assessed value or tax rate goes up; the tax liability can go down if the assessment or tax rate falls. The income eligibility limit is $23,500 for an individual or $31,500 for a married couple, and the applicant or spouse must be at least 65 years old. In contrast to the deferral program, unpaid taxes do not accrue under the tax freeze, and therefore no money is owed when the home is sold.

The number of households paying a reduced amount through this program dropped from 16,320 to 10,923 from 2013 to 2014. For many seniors, reassessment and/or the homestead program brought their tax bills below the level where they had been frozen originally, or eliminated their liability altogether.[10]

Tracking AVI's broader impact

It is too early to know all the ways in which the real estate market might have changed as a result of AVI, and, even in the longer term, it would be difficult to calculate the full impact of the tax changes in a complex market.

In the debate leading up to the implementation of AVI, those opposed to the overhaul predicted that the dramatically higher tax bills expected in certain neighborhoods would cause some homeowners to leave the city and that the exodus would destabilize the real estate market by reducing home prices in those areas. In 2014, Philadelphia's population grew for the eighth year in a row, according to the initial estimate by the U.S. Census Bureau, although the annual increase of 4,245 was smaller than in previous years.[11] At this point, it is difficult to say whether an unusually large number of residents at any particular income level departed from neighborhoods where assessments rose sharply—or whether the overall population increase would have been larger without AVI.

In many of the neighborhoods where tax bills climbed the most, Pew analysis of city sales data shows that median sale prices went up from 2013 to 2014. Among those neighborhoods were Southwest Center City, East Passyunk, and Fairmount, and prices had been rising in all three before AVI. According to local housing analyst Kevin Gillen, there is no indication that AVI has had much of an effect on the city's real estate landscape. "The impact would've been biggest when the new taxes were first levied. It's been two years now, and we've still had a rising market," Gillen said. He cautioned, however, that price changes are relative; it's difficult to know whether they would have increased more in the absence of AVI.[12]

It is also not clear whether AVI has produced a rise in tax delinquency, as critics of the overhaul said it might. Philadelphia has struggled with high rates of property tax nonpayment for years and was beginning to improve collections just as AVI was rolled out. If owners were unable—or unwilling—to pay higher taxes, the delinquency rate might shoot back up. The 2014 delinquency data will be released in the fall of 2015.

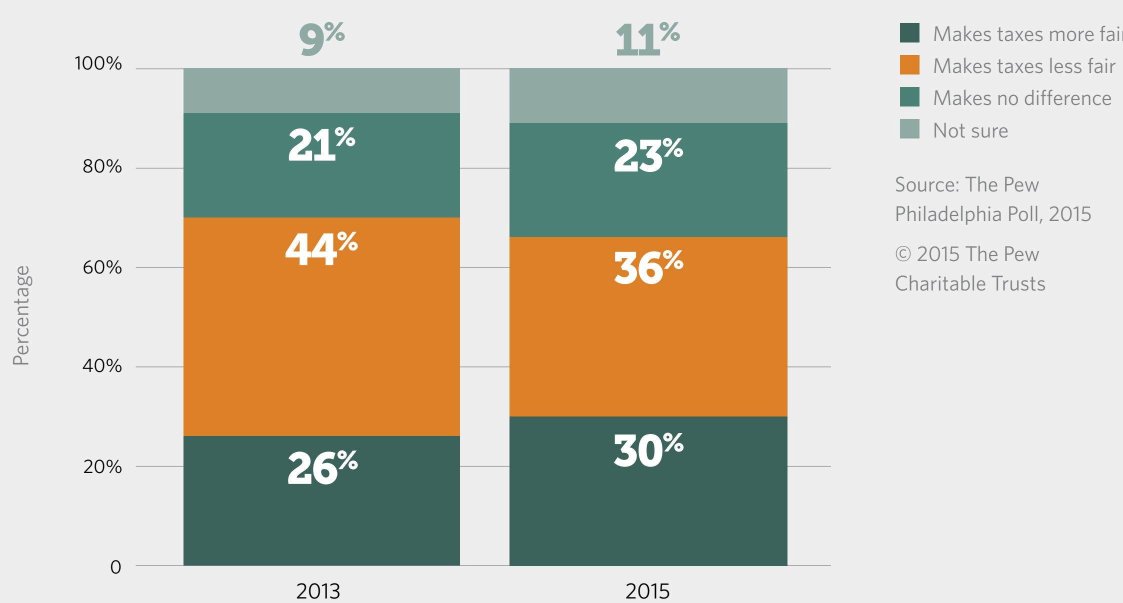
Some AVI supporters had expressed hope that the creation of a more fair and transparent property tax system would lay the groundwork for broader tax reform. One way to help create jobs in Philadelphia, they argued, was to reduce city wage and business taxes and offset the cuts with increased real estate tax revenue. Paul Levy, president and CEO of the Center City District and a longtime tax reform proponent, is leading an effort to persuade state lawmakers to allow a higher tax rate for commercial properties—something currently barred under the uniformity clause of Pennsylvania's constitution. Because such a change would require a constitutional amendment, that development is at least several years away.

Public opinion

In the summer of 2013, a few months after AVI was enacted but before tax bills arrived, a Pew-commissioned poll found that 48 percent of residents had not heard of the overhaul. In a poll conducted in early 2015, with the tax overhaul nearly two years old, 60 percent of residents, including nearly 40 percent of homeowners, said they were not aware of AVI, even though many of them had received two tax bills under the new system or had seen the new amounts reflected in their mortgage payments.

Among city residents familiar with AVI in 2013, opinions were mixed: 26 percent thought it would make taxes more fair, 44 percent thought less fair, and 21 percent said it would make no difference. Two years later, opinions were slightly less negative: 30 percent said taxes were more fair, 36 percent said less fair, and 23 percent said it had not made a difference. (See Figure 4.) The views of homeowners were similar to those of residents generally, and the percentage of respondents unaware of AVI remained high.

Figure 4
Philadelphians' Perceptions of the Actual Value Initiative



Source: The Pew Philadelphia Poll, 2015

Next steps for system reform

The city essentially has spent the past two years adjusting the first round of AVI valuations through first level reviews, appeals, and targeted reassessments. Because this process has tied up the resources of the entire assessment system, OPA does not expect to complete a new, comprehensive, citywide revaluation until 2017—a task that officials had originally planned to perform annually. As noted in Pew's initial 2012 report on the topic, assessed values can become inaccurate and unfair rapidly if they are not revisited on a regular basis.

OPA plans to roll out two major initiatives in fiscal year 2016 to set the stage for regular reassessments and to make assessments more accurate. One is the development of a computer-assisted mass appraisal system that would use sophisticated statistical modeling to track details about individual properties. Officials have said such a system would simplify information-sharing between the revenue and records departments, allow OPA to more efficiently assess and document changing property values, and enable the city to conduct citywide assessments of all types of real estate on an annual basis. The city announced plans in April 2015 to start seeking a vendor capable of building such a system.

The other big undertaking is preparation for a citywide reassessment of land values, which OPA plans to conduct next year. In the Philadelphia system, the value of each piece of real estate has two components: the land and the structure, if any, that sits on it. Land values vary based on factors such as location, zoning, and proximity to amenities or nuisances. The share of the overall property value attributed to land can range from 100 percent for an empty lot to a small fraction of the total for the parcel on which a skyscraper sits.

Some elected officials and analysts have said that land values under AVI are too low and/or that land should represent a bigger portion of the total property valuation. The current situation, critics say, benefits owners of vacant lots and owners of properties with 10-year tax abatements on new construction, because both pay taxes only on the land. If re-evaluating land raises values, the city will receive more revenue unless rates are cut.

Sustaining the system

Significant work remains to complete the reforms of Philadelphia's property assessment system. Officials plan to continue to contact homeowners who are eligible for tax relief but have not signed up; to ensure that all assessment revisions resulting from reviews and appeals are properly reflected in city records; and to examine the accuracy of land values across the city. Once adjustments to the 2013 AVI overhaul are completed, experts say, regular reassessments must take place. Some members of City Council are pushing for creation of a staggered process under which a quarter of properties would be evaluated each year on a rotating basis so that every property is reassessed every four years. But OPA says a computer-assisted mass appraisal system will make that approach unnecessary. The question of how to set the revamped system on a sustainable path is one that officials will continue to face in the coming years.

Endnotes

1 Everett Gillison, chief of staff to Mayor Michael Nutter, testified to City Council on March 31, 2015, that appeals caused a 1.73 percent decline in the property tax base. The total taxable value of real property fell 3 percent; the Office of Property Assessment attributed the balance of the decrease to abatements, exemptions, tear downs, consolidations, and other causes.

2 Pew analysis of sales data from the Office of Property Assessment.

3 The fiscal 2015 operating budget, as approved by City Council in 2014, projected property tax revenue to reach $547.4 million. In March 2015, the Nutter administration estimated that revenue would total $542.8 million.

4 Everett Gillison, City Council testimony, March 31, 2015.

5 In 2013, Philadelphia City Council commissioned Econsult (now Econsult Solutions) to analyze AVI's impact. The analysis found that tax increases were concentrated in the 1st and 2nd council districts, which include the neighborhoods of Southwest Center City and Northern Liberties, as reported by *The Philadelphia Inquirer*: http://articles.philly.com/2013-04-11/news/38466367_1_councilwoman-jannie-l-avi-council-members. City Controller Alan Butkovitz announced similar findings that same year: http://www.philadelphiacontroller.org/publications/ControllerButkovitz_AVI_Analysis_February2013-update.pdf.

6 Office of Property Assessment.

7 This includes exemptions granted to 11 cooperative properties, which together include more than 2,000 individual units.

8 In June 2015, the Philadelphia Office of the Director of Finance provided Pew with an estimate of 284,399 homestead-eligible properties. The calculation was based on several factors: the U.S. Census Bureau's estimate of owner-occupied units in Philadelphia, the number of owners who did not qualify based on enrollment in the tax abatement or LOOP program, and an audit of the initial homestead applications.

9 Philadelphia was awarded $90,000 through the City Accelerator program, run jointly by the Citi Foundation and Living Cities.

10 According to records from the Office of Property Assessment, more than 20,000 residential properties are valued at or below $30,000. Seniors remain in the freeze program even when their tax liabilities drop. The number of enrolled households actually grew in fiscal year 2014, to 18,548.

11 U.S. Census Bureau, 2014 population estimate, and 2013 American Community Survey one-year estimate.

12 Kevin Gillen, senior fellow, Lindy Institute for Urban Innovation, Drexel University, interview, June 17, 2015.

About this brief

This brief was researched and written by Emily Dowdall, an officer with The Pew Charitable Trusts' Philadelphia research initiative. Larry Eichel, director of the initiative, edited it, along with Elizabeth Lowe, Daniel LeDuc, and Bernard Ohanian. Kodi Seaton was the designer, and Katye Martens coordinated the photographs.

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About the Philadelphia research initiative

Pew's Philadelphia research initiative provides timely, impartial research and analysis on key issues facing Philadelphia for the benefit of the city's residents and leaders.

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