COUNCILMAN BILL GREEN

City Hall, Room 312
Philadelphia, PA 19107
215-686-3420
215-686-1930 (fax)

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COUNCILMAN BILL GREEN INTRODUCES LEGISLATION TO BUFFER IMPACT OF ACTUAL VALUE INITIATIVE ON HOMEOWNERS AND RELEASES TAX ESTIMATOR SPREADHSEET

PHILADELPHIA, PA – To lessen the pain felt by property owners due to aspects of Mayor Nutter's proposed Actual Value Initiative (AVI), Councilman Bill Green has introduced amendments to the Administration's proposal, which have the effect of shifting the tax burden away from homeowners and limiting the increase in actual tax rates.

Under AVI, homes and commercial properties will be taxed at their actual market values, as determined by the city. The Mayor's proposal leaves the new tax rate undetermined until after re-assessments are complete, which the Administration projects will not be until late summer – after Council is required to pass the budget.

"Would you sign a contract to buy a house at a price based on a formula with variables that won't be known until a month after you move in? That is what the Administration has asked City Council to do with your property taxes," Green observed. "I fully support a uniform and fair system for taxing property, but no one envisioned enacting AVI without knowing the values first. In implementing AVI, we must proceed with full information, make data-based decisions, and keep the public informed every step of the way."

Among other concerns, Green argues that AVI will result in a $200 million to $300 million shift of the city's real estate tax burden from commercial and industrial property owners to residential ones, whose aggregate tax bills may increase by 25% or more. This tax shift is the real "hidden tax" of AVI. "I assume this massive shift of tax burden to homeowners was not intended, but it should have been disclosed and known rather than discovered," Green stated. "That we only discovered this tax shifting in the final weeks before the budget is due begs the question of what else don't we know? It appears that the ‘unknown unknowns’ may exceed the many ‘known unknowns.’”

The tax shift to homeowners is not the only problem with the AVI proposal presented to City Council. Other issues include a 2.5% “default rate” that could potentially double real estate tax collections, a so-called “smoothing” plan that will cause some taxpayers to pay even higher taxes in the first two years of AVI than they would without “smoothing,” and a homestead exemption set at such a low level it would provide scant relief to homeowners. Councilman Green has introduced legislation to address each of these issues, as detailed below.

The lack of meaningful data about AVI prompted Councilman Green to create a spreadsheet to allow citizens and businesses to see the potential effect of AVI on their tax bills, with and without his amendments. The spreadsheet estimates the aggregate value of residential property, commercial and industrial property, and total real estate – as the relationship between those three factors will drive the eventual tax rate and the share each sector and, ultimately, each homeowner, will pay. The spreadsheet is based on data from the Administration, Econsult, and actual values estimated by the Bureau of Revision of Taxes in 2009, among other sources. The spreadsheet reflects the Councilman’s best estimate of how AVI will play out on the ground and demonstrates, based on conservative assumptions, that the tax shift from businesses to homeowners will be significant and immediate. The spreadsheet is available to the public at www.greenforphiladelphia.com under “Latest News.’

The Mayor’s AVI proposal is designed to generate $94M in additional tax revenue for the School District. For months, Green has called for considering the issues of AVI and increased funding for the schools independently and each on its own merits. He has also called for more analysis of AVI so that Council and the public can understand the full impact of the Mayor’s plan.

“Let me state in no uncertain terms my strong commitment to public education and Philadelphia’s schoolchildren,” Green remarked. “There is no question that the District, once again, has a funding crisis and we need to consider all available approaches for addressing that crisis responsibly. My concern is that by combining the separate issues of AVI and the need for increased school funding, the Administration’s approach risks breaking trust with citizens, burdening them with the unintended consequences of such haste, and undermining the prospects of both initiatives.”

Finally, with respect to school funding, Green observed: “We should not start the debate by sticking already overtaxed Philadelphia property owners – particularly homeowners – with sole responsibility for closing the School District’s latest budget gap. I join residents from across the city in asking why the Nutter Administration and School Reform Commission aren’t demanding that Governor Corbett and the Republican-controlled General Assembly restore $120M in eliminated reimbursement for charter schools, particularly given their strong support of charters. And at the local level, why isn’t the Administration moving aggressively to implement PILOTs with local non-profits, including the ‘eds and meds’ sector, which is touted as a cornerstone of our economy but pays little to nothing in real estate taxes. It is well within the

Administration's power – backed by a recent Pennsylvania Supreme Court decision – to bring in $10M-$20M in PILOT payments annually, which could be used to lower taxes."

Green's legislation is designed to address the following specific issues with the AVI proposal from the Administration:

1. Reducing the additional tax burden on homeowners, while providing additional funding to the School District.

On average, commercial and industrial properties are currently assessed closer to their actual value than are residential properties. Therefore, under AVI – when all properties are assessed at their actual value and the tax rate is reduced, accordingly – in the aggregate, residential properties will see a tax increase and commercial and industrial properties a tax decrease.[1] Furthermore, the administration has proposed increasing real estate tax revenues $94M in 2013 to provide more funds to the School District. This tax increase will be disproportionately borne by residential taxpayers, for the reasons above.

To help address this unintended consequence of AVI, Green has proposed keeping real estate tax revenues the same in 2013 as they are in 2012 and raising the Use and Occupancy Tax (which is dedicated to the School District and paid only by commercial and industrial property owners/tenants on property that is in use) to generate $94M more for the School District. This would reduce the increased burden AVI places on homeowners.

2. Fixing the "default rate" and guarding against over-collection.

Because the reassessment of properties is not yet complete, the Administration's proposed real estate tax legislation does not have a tax rate for 2013. Instead, the bill sets a "target revenue" number and states that the tax rate for 2013 will be determined by the Administration once the assessments are complete and set at a level designed to generate a certain amount of tax revenue. The Administration's legislation also has a "default rate" of 2.5% that would be effective should the "target revenue" approach be rejected by a court. The "target revenue" approach runs the risk of the City collecting far more real estate tax revenue than it says it plans to, as does the high default rate.

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[1] To take just one example, a major Center City office tower currently has a market value of $127M, an assessed value of $40.6M (due to the 32% predetermined ratio), and a tax bill of $3.83M. Under AVI, when assessed values will equal market values, and the tax rate will be reduced to between 1.5% and 1%, (depending on the total value of property in the city, which hasn't yet been determined), this office tower will see a massive tax break – on the order of **$1.9M to $2.5M** (or 50% to 67%) per year. Details on this property are attached.

To address these issues, Green has proposed creating a "taxpayer refund" process whereby, if the Administration collects more real estate tax revenue in 2013 than it says it plans to, those excess collections will be credited to taxpayers on their 2014 tax bills. Green also proposed reducing the "default rate" from 2.5% to 1.25%, based on estimates that the post-AVI rate will fall between 1.1% and 1.5%.

3. Eliminating the "smoothing" flaw and increasing homestead exemption.

The Administration's proposal has a "smoothing" feature, whereby tax bills will not be entirely based on actual values until 2015. "Smoothing" was intended to buffer the effect of tax increases due to significant increases in assessed value. However, analysis provided by the Administration indicates that smoothing would have just the opposite effect for some of these homeowners – their tax bills will rise due to AVI but due to smoothing their tax bills would be **even higher** in 2013 and 2014 than in 2015, due to the higher tax rates in the first two years of AVI if smoothing is implemented. Because assessments have not been completed, it is impossible to know how many homeowners would be subject to this "smoothing" sticker shock.

To address this, Green proposes increasing the homestead exemption from $15K to $40K or $60K, and supports measures proposed by Council President Clarke that would allow residents to defer some portion of their increased tax liabilities.

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Attachments: Copies of amendments, sample commercial property info, tax calculator spreadsheet, and summary fact sheet for spreadsheet.