



## AVI: THE SHIFT IN THE TAX BURDEN

May 13, 2013



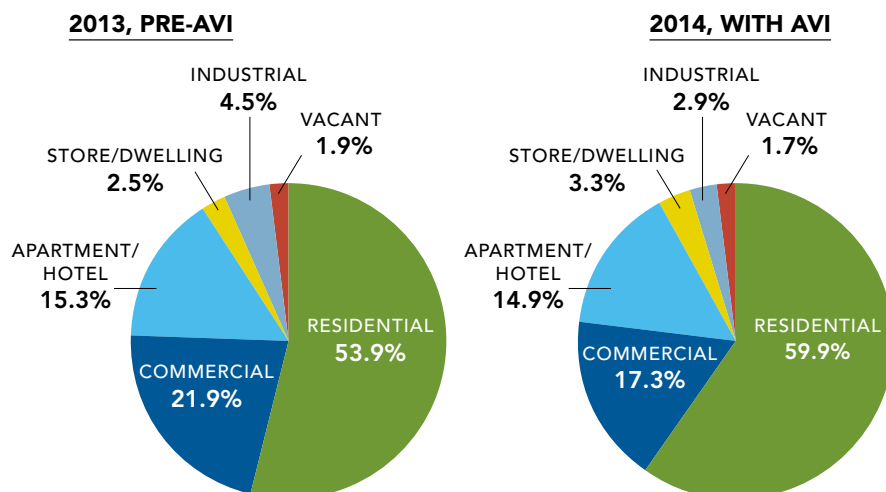
### EXECUTIVE SUMMARY

As proposed, the Actual Value Initiative (AVI), Philadelphia's sweeping property tax overhaul, is revenue neutral. The plan is to raise the same amount of revenue through real estate taxes, \$1.2 billion, in 2014 as in 2013. But under AVI, as a result of the citywide reassessment done to correct years of inaccuracy, residential property would account for a greater share of the city's overall property value—and thus the tax burden—and commercial property for less. Several proposals made by Mayor Michael Nutter and members of City Council, including a homestead exemption for all owner-occupied residences, would lessen the magnitude of this shift, perhaps significantly, but likely not eliminate it.

According to the data released by the city's Office of Property Assessment (OPA) in March, residential properties would represent 59.9 percent of the city's total assessed taxable value of nearly \$100 billion in 2014. For 2013, that share was 53.9 percent. See Figure 1. This difference of 6 percentage points would result in \$72 million in additional taxes for homeowners as a group, making AVI not revenue neutral for them.

FIGURE 1

#### SHARE OF TAXABLE VALUE IN PHILADELPHIA BY PROPERTY TYPE



SOURCE: Philadelphia Office of Property Assessment, April 2013 data release.

On the other hand, the commercial sector, which includes shopping centers and Center City office buildings, now represents 17.3 percent of the city's taxable value, down from 21.9 percent a year ago. That change would yield an overall tax reduction of about \$55 million for the sector. Industrial properties, a smaller segment of the tax base, would see a drop of \$20 million. A third business related sector, apartments and hotels, would experience a decline of \$4 million.

To a much smaller degree, AVI also would reduce the tax burden on residential properties that have 10-year abatements. Owners of abated residential properties stand to pay about \$3 million less.

For years, Philadelphia has generated a higher percentage of its property tax revenues from the residential sector than have a number of other cities. One reason is that the Pennsylvania constitution prevents the city from imposing higher tax rates on commercial and industrial parcels than on homes, a common practice elsewhere. Even with the coming of AVI, though, the taxes paid by homeowners in Philadelphia, on average, will remain lower than in many other cities, including Baltimore, Boston, Pittsburgh, and Washington; Philadelphia relies heavily on wage and business taxes to fund city services.

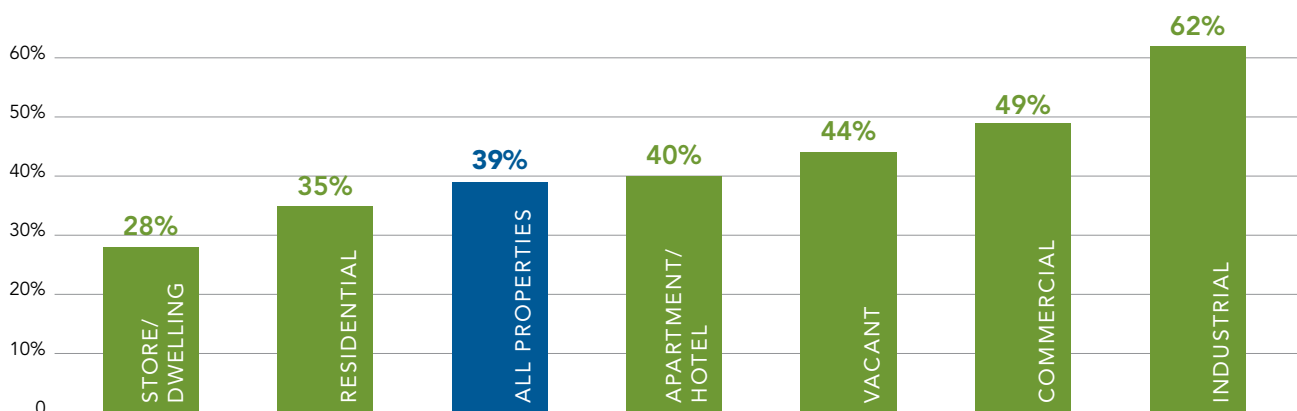
## THE SHIFT

How would these shifts in tax burden happen under AVI? For the 2013 tax year, before AVI, the city listed the taxable market value of Philadelphia's 579,000 properties at \$39 billion. For the 2014 tax year, with AVI, the city has set the new total at about \$100 billion, meant to be full value. This means that properties had been previously assessed on average at about 39 percent of value.

Under AVI, some of the tax burden would shift from those categories of property that had been assessed at higher than the 39 percent average to those that had been assessed at a lower percentage. As Figure 2 shows, categories that had been relatively overassessed include commercial (49 percent) and industrial (62 percent). Relatively underassessed categories include residential (35 percent) and stores with dwellings (28 percent).

FIGURE 2

PRE-AVI ASSESSED VALUE (2013) AS PERCENT OF AVI ASSESSED VALUE (2014)



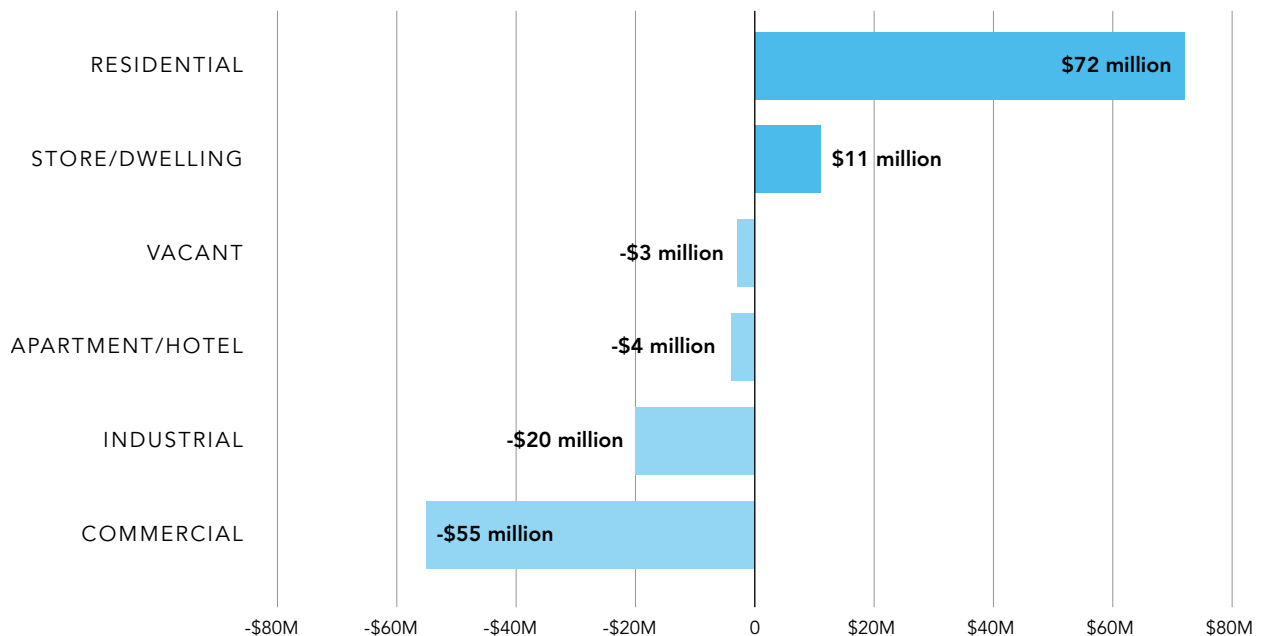
SOURCE: Pew analysis of April 2013 data release, Philadelphia Office of Property Assessment.

Officials had anticipated that AVI would trigger such shifts because they believed, correctly as it turns out, that the previous assessments of commercial and industrial properties in particular had been closer to market value than those for residential properties.

The shifts in tax burden are shown in Figure 3. In the absence of any mitigating measures, the largest increase, about \$72 million would be for the residential sector. (The impact would vary widely across the 457,405 parcels in this category, which includes condominiums and single-family homes occupied by renters.) The largest decrease, \$55 million, would be for the commercial sector.

FIGURE 3

APPROXIMATE CHANGE IN TAX BURDEN BY CATEGORY FROM 2013 TO 2014



SOURCE: Pew analysis of April 2013 data release, Philadelphia Office of Property Assessment.  
 NOTE: Based on total property tax revenue of \$1.2 billion in both years. Numbers are rounded.

## ALTERING THE BALANCE

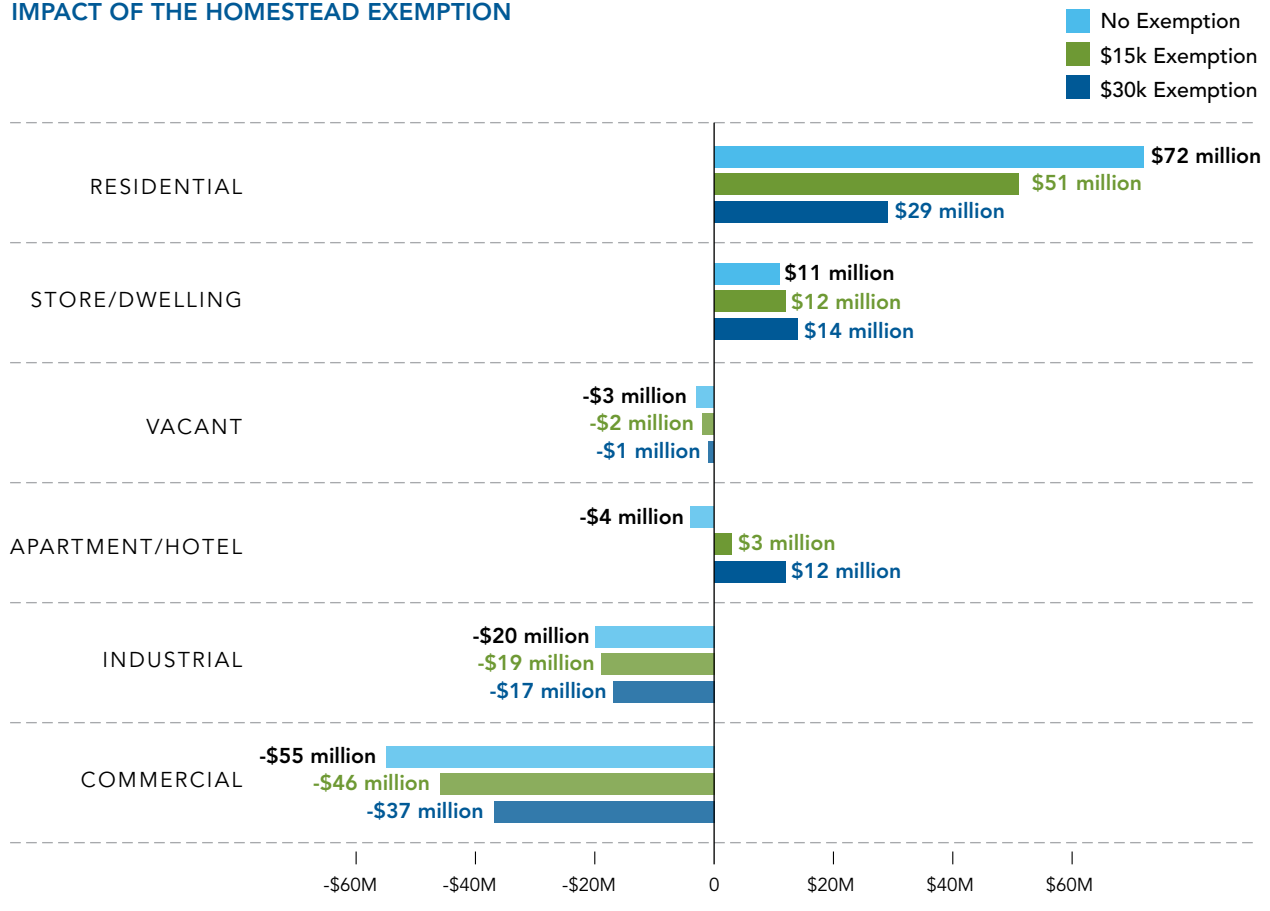
A number of local officials are supporting measures, such as the homestead exemption, that would partially offset these tax burden shifts. The exemption, which reduces the amount of assessed value that is subject to taxation, is available only to owner-occupied residences.

OPA has estimated that about 272,000 of the city's 340,000 owner-occupants will enroll in the homestead program for 2014. At that level of participation, a \$15,000 homestead exemption, which has been proposed by the mayor, would result in a smaller tax-burden increase for residential taxpayers, about \$51 million instead of \$72 million. See Figure 4. The homestead exemption also would result in a smaller tax-burden cut for commercial taxpayers, \$46 million instead of \$55 million.

A \$30,000 homestead exemption, which was discussed in 2012, would reduce the increase in the residential tax burden to about \$29 million and the commercial cut to \$37 million. All of these estimates take into account the higher tax rate that would be needed to keep the property tax system from losing revenue.

FIGURE 4

APPROXIMATE CHANGE IN TAX BURDEN BY CATEGORY FROM 2013 TO 2014:  
IMPACT OF THE HOMESTEAD EXEMPTION



SOURCE: Pew analysis of April 2013 data release, Philadelphia Office of Property Assessment.

NOTE: Based on total property tax revenue of \$1.2 billion in both years. Numbers are rounded.

As Figure 4 shows, homestead exemptions would have a dramatic impact on the apartment/hotel sector. Without the exemptions, the sector’s tax burden would fall by about \$4 million. With a \$15,000 homestead exemption, its burden would rise by about \$3 million—and by about \$12 million with a \$30,000 exemption. Also getting an increase in tax burden, with or without a homestead exemption, would be the 15,000 properties categorized as stores with dwellings, structures that often house small businesses on neighborhood commercial corridors. Mayor Nutter has proposed providing \$10 million in unspecified property tax relief to property owners in that group.

The mayor also has called for allocating \$20 million to help people who have owned and occupied their homes for at least a decade and live in neighborhoods that have appreciated steeply in value. The goal of this plan is to help longtime residents deal with large tax increases that might force them out of their homes. Other forms of “gentrification relief” are being discussed by Council as well. If the city is to target the relief based on income, as some officials would like, there will have to be authorizing legislation from the state.

### ABATED PROPERTIES

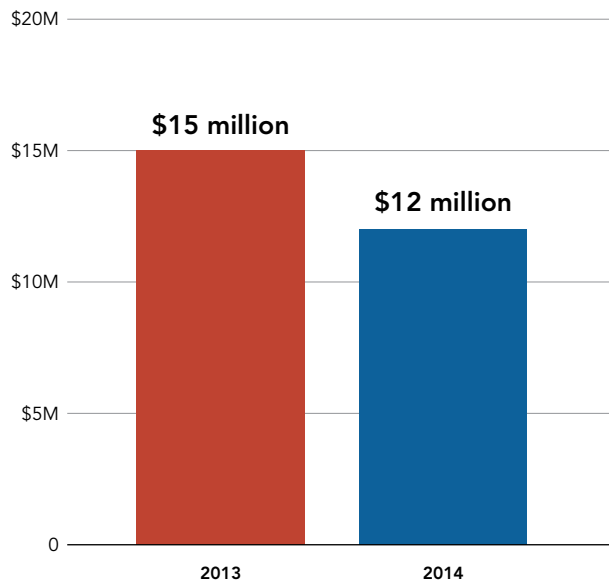
Taxes are likely to fall for the group of residential properties that have 10-year tax abatements, which are granted for new construction or rehabilitation. Such abatements reduce but do not eliminate a property owner’s tax liability, since abatements do not apply to the land itself or to any part of the structure that is not new.

The drop in tax burden for these properties would stem primarily from the same phenomenon affecting the commercial sector: before AVI, the assessed values of abated homes were closer to market values than they were for other categories of property. In 2013, abated residential properties were assessed at 55 percent of market value, on average, well above the citywide figure of 39 percent.

Due to the relatively small number of properties in this group—15,000 parcels, about 3 percent of the residential total—the tax shift is not large. The tax burden on abated properties as a group will be about \$3 million less in 2014 than in 2013. See Figure 5. Homestead exemptions would further reduce the burden.

FIGURE 5

APPROXIMATE CHANGE IN TAX BURDEN: ABATED RESIDENTIAL PROPERTIES



SOURCE: Pew analysis of April 2013 data release, Philadelphia Office of Property Assessment.

NOTE: There were 14,578 abated parcels in 2013 and 14,764 in 2014.

## METHODOLOGY

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This report is intended to estimate the potential impact of the 2014 property tax assessments on the allocation of the city's tax burden by categories of property. These assessments were done as part of the Actual Value Initiative. The full impact on categories of properties and individual tax bills will not be known until City Council enacts new policies and sets a tax rate, and the appeals process is complete.

Our analysis is based on a set of expanded property data released by Philadelphia's Office of Property Assessment in May 2013. That data set contained final records for 2013 and 2014.

In the data, each property includes a "category code," which did not change from 2013 to 2014. Our analysis used these six codes to determine the effect of new assessments on each category:

1. Residential
2. Hotels and Apartments
3. Store with Dwelling
4. Commercial
5. Industrial
6. Vacant Land

We calculated the percentage of the city's overall taxable value that each category represented in each year. We assumed that each property group was responsible for the corresponding percentage of total revenue (\$1.2 billion in each year). Therefore, to calculate the approximate allocation of tax burden, we did not have to take into account the actual tax rate in 2013 or any projected rate for 2014.

To determine the impact of the proposed homestead exemption on the allocation of tax burden, we did the following. We took the projected number of homeowners likely to participate in the program and multiplied it by the amount of the exemption. We then subtracted the resulting number from the total taxable value of the residential category for 2014, as well as from the total taxable value of the city. We then recalculated each category's share of the adjusted total burden.

Due to data limitations, we were unable to factor in the effect of owner-occupied residential properties with taxable market values under the most-likely exemption amounts, \$15,000 and \$30,000. These parcels would not incur the full cost of the homestead exemption, which would reduce the exemption's overall impact on the tax burden shift. OPA records do not indicate which properties are owner-occupied or have applied for homestead exemptions. We also did not account for partial homestead exemptions on properties in which the owner lives in part of the building and the rest is used as a business or rental property.

For our analysis of properties with 10-year abatements for new construction or renovation, we included those residential properties with the following exemption code designations:

- M. Ordinance 961 as amended
- N. Ordinance 1456-A / 983 as amended 10 years res
  - 1. Ordinance 961, Uncapped
  - 2. Development Improvement Residential Ordinance 205/175
  - 8. Ordinance 1130 as amended

We excluded any records that list a taxable land value of \$0 or a land-value exemption greater than \$0, because they may be associated with additional exemption programs or codes, beyond the abatement for new construction or renovation. We also removed records that list an exempt building value of \$0, which indicates that the owner does not actually receive an exemption.

#### ACKNOWLEDGEMENTS

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#### ABOUT THE AUTHOR

Emily Dowdall of The Pew Charitable Trusts' Philadelphia research initiative wrote this report. It was edited by Larry Eichel, the initiative's project director.

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