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Impact of the 2011/2012 Pennsylvania Budget on Tax Assessment Appeals

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We all know that the 2011/2012 Pennsylvania budget contains a significant cut of 9.2 percent in education spending, which will likely send school districts across the state in search of additional revenues wherever they might find them. In an effort to protect taxpayers from tax rate increases, the Pennsylvania Legislature also passed Senate Bill 330, which was signed by the governor June 30, 2011, and limits a school district's ability to impose tax increases without a voter referendum in certain circumstances. The additional constraints on school districts may leave them with little choice but to seek higher assessments on properties they feel are undervalued.

In 2006, the Pennsylvania Legislature enacted the Taxpayer Protection Act, which limits a school district's ability to raise taxes above a certain threshold index established by the Pennsylvania Department of Education. Under the Taxpayer Protection Act, if a school district desired to raise taxes above the index, then voter approval by referendum would be required. However, the Taxpayer Protection Act permitted a school district to increase taxes above the index when the budget cannot be balanced because of certain enumerated costs. Even if a referendum is defeated, school districts could raise taxes above index levels if they cite any of the enumerated costs in the statute and obtained Department of Education approval.

Senate Bill 330, now known as Act 25 of 2011, eliminates the following costs for which a school district could impose higher taxes without voter approval:

- Costs related to responding to or recovering from a disaster or other emergency;
- Costs to implement a court order;
- Costs attributable to principal and interest on indebtedness for up to 60 percent of construction;
- Costs incurred in the implementation of a school improvement plan;
- Costs incurred to respond to immediate threats or serious physical harm to students; and
- Costs incurred in providing health care benefits to a collective bargaining unit.

Now, if these costs require tax hikes above established index levels, voter approval is required, further constraining school districts as they balance their budgets.

Because state funding for education is slashed for 2011/2012, and because the ability of local school districts to raise taxes is further constrained, school districts will likely look for chances to increase assessments on properties that they feel are undervalued. Taxpayers, especially those owning commercial properties, may experience increased school-district-initiated tax appeals. In addition, school districts may fight taxpayer-initiated tax appeals more vigorously, as they strive to capture as much revenue as possible.

Even though the aim of Act 25 is to protect taxpayers, the unintended consequences of the bill could lead to increased assessment appeal activity, which burdens taxpayers with legal fees and administrative court costs. Whether the benefits of Act 25 outweigh the risk of tax assessment appeals will be determined on an individual taxpayer basis in the coming years.