Lehigh County Executive Don Cunningham
News Conference on Reassessment Veto
February 2, 2012

In seven years as County Executive, I've only vetoed one action of the Board of Commissioners. It was during my first few months in office in 2006 and it was a sale of county land near the Wastewater Pre-Treatment Facility. The previous administration had agreed to sell it for less than its market value to a hotel developer without a bid process. My veto was promptly overridden by an overwhelming majority of the Board, which, was then, as it is now, a 7-2 Republican-controlled Board.Therefore, my track record is not very good. I'm 0-1 on vetoes.

Today, I have issued only my second veto in seven years. Earlier this afternoon, I sent a veto message to the Board of Commissioners regarding the recent authorization of a county-wide real estate reassessment.

I have full respect for the authority of the Board of Commissioners on this matter. I realize that they have passed this by a unanimous vote. I am vetoing this because it is the wrong thing to do at the wrong time and it will have grave and lasting consequences for our county and our property owners. I have been and will continue to take my case to individual commissioners. Today, I also take it to the public. I hold out hope that this bill can be stopped or postponed if we step aside from politics, and party and look at the reality of the current real estate market and how it's affecting the process of assigning new values at this time.

The central question, of course, is when is the right time to reevaluate properties. We know how our neighboring counties, and all but one or two of 67 counties in Pennsylvania, have answered it: "not now." Lancaster County had started the process of gathering data, just as we did, but decided to delay because of the current real estate market. In a unified voice, Lancaster's Commissioners said we can't ignore what's going on in the world today and move forward just because we started the process.

Reassessments give a value to every property in a county at a snapshot of time, which, if history is an indicator, is likely to stand for the next 20 years. Those numbers should not be set in a depressed price market. I think it's widely understood that the market value of real estate has dropped significantly during the national economic recession. I need not cite those statistics here, they are available from every media outlet. But, let me give you some local ones.

- Foreclosures in Lehigh County increased by 10 percent in 2011, following two previous years of increases. At 3.7 percent, Lehigh County is higher than the national foreclosure average of 3.5 percent.
- Sales of houses in middle and upper price brackets have declined because owners can't get the price they want. This is important because a key element in determining a new assessed value are market sales and/or comparable sales on your street or neighborhood, what realtors call "comps." For many housing types, right now, particularly higher-priced homes, good comps are few and far between.
- In fact, the sales data for Lehigh County is so weak that for 2011 the State Tax Equalization Board, determined that more than 60 percent of home sales in Lehigh

County were invalid for determining market price, therefore, they are not used in the assessment model.

- By contrast, there are sales in the current model where houses have sold for prices below their 1991 value in 2011. Director of Administration Tom Muller reviewed several of those specific examples in his presentation at the Commissioner's meeting when the bill was passed.
- Local economist Kamran Afshar's latest report on the Lehigh Valley Economy says a "housing recovery is not on the short or medium term horizons." He specifically refers to the fact that deed registrations, new building permits and prices are all down.

Unless we believe that this is the new normal and that market price will remain depressed for the next decade, this is not the right time to affix new assessed values. Historically, housing markets have always recovered, just as we've recovered from economic recessions and depressions. The best time to lock in new assessed values on property is when we see a clear sign that the market has recovered and values are beginning to rise and foreclosures are slowing, not increasing.

One may think it's to their advantage to have their house assessed at a lower value because they will pay less in taxes, but it doesn't necessarily work that way -- it also doesn't necessarily translate to a good thing when you do go to sell your property. A reassessment is merely a redistribution of who pays what share of the total real estate tax for a county, school district and local government. If someone's tax bill is going down, someone else's has to go up to help make up the difference. Even if every property was assessed lower there would be people that pay more in taxes. The process determines what share you pay in comparison to your fellow property owners.

And, here in lies another problem in affixing new values now. It is critical that these values are right and can stand the test of time. The school district, the county and the local government is guaranteed the same total amount of tax revenue. Assessments are a cold, calculated numbers game. Data is fed into a model for 125,538 properties in Lehigh County. That data can only be as good as the current real estate market allows. Under the current model, 55 percent of property owners in Lehigh County will see a decrease in taxes, while 45 percent will see an increase. That sounds good on the surface. And, if this were an election, those are good numbers, but, remember, the total revenues to the taxing bodies remains the same, so if 10 percent of owners pay less tax, a significant amount more needs to be generated from the others to make up the difference. Let me give you some specifics from the current model.

- There are property owners -- homeowners, business owners and farmers -- who are slated to see a 50 to 100 percent increase in total real estate taxes (school district, county and municipality) in 2013. Same property; same services; new year. For some, this will mean $3,000 or more in new taxes for the same property. This may only be 1,000 property owners but, in my mind, if it's one property owner, it is too many. It's hard to believe that it's legal for an increase of that level to be put in place without a mechanism that allows for it to be implemented over a multi-year period of time.
- The current model also says another 11 to 12,000 property owners will pay taxes ranging from 15 to 45 percent higher. Ironically, we just spent more than a year -- and an entire election -- where the central issue was a 16 percent tax increase, which

averaged $99 on just county taxes. This reassessment will increases all real estate taxes for those 12,000 owners from 16 percent to 100 percent. On average, county taxes are only about 18 to 20 percent of a property owners total real estate tax bill.

- Understandably, there has been a lot of focus and reporting on residential properties and the tax affect of this reassessment. About 57 percent of residential property owners will see a reduction in county taxes, about 43 percent an increase. Those numbers change when we look at the results of the model on farmland and commercial and industrial property.
- About 53 percent of those with vacant land, which is often farmland, will see an increase in taxes.
- 70 percent of those that own commercial and industrial property will see an increase in taxes. That includes most businesses, along with most apartment building owners.

These realities should give us pause as we put forward fairness as our justification for proceeding. In these economic times, a significantly higher property tax on business owners could hinder some hiring; an increase on apartment building owners is likely to be passed on to renters; and, higher costs for farmland could result in farmers deciding to sell off property instead of keeping it for open space or to farm. And, of course, a dramatic increase for a homeowner on a fixed income could lead to selling.

Two years ago, I recommended that we start the process of gathering data to look at reassessment. I never in my wildest dreams imagined that the model would determine changes that would result in someone getting a 100 percent increase in taxes or 12,000 property owners seeing their school district, county and local government property tax go up anywhere from 15 to 45 percent. I bought into the compelling argument that a reassessment is a matter of fairness. I knew that some properties would go up and others down. We were told that the rule of thumb is that 40 percent up, 40 percent down and 20 percent the same. I anticipated that reassessing may cause property tax shifts of, maybe, 5, 10 or 15 percent, one way or the other. That seems fair. It’s not fair, however, for someone to pay 40, 50 or 100 percent more for the same property. This decision will have wide-ranging policy and personal implications for many people and many segments of our county’s economy for decades to come. It is prudent to wait. A wise man gathers data, takes heed of his current situation and decides accordingly how and if to proceed. I am issuing this veto with the hopes of changing some minds that proceeding with a reassessment is not a wise course at this time.

In conclusion, let me return to the central question of when is the right time to reassess. The best answer is every three or four years, so the continual and slight ups and downs of the market are regularly captured and the calamity of radical adjustments that is caused by waiting 21 years is avoided, particularly in a county where 21,000 new properties have been built in two decades. But, that’s an answer for the future that doesn’t help us today. As to when to launch the reassessment, my answer is when the real estate values level off and prices begin to rebound. We hope that is sooner rather than later. I don’t believe this market represents a new normal. I suggest that the Board and the Administration work together and commit to revisit this again for next year. We know the data that’s been collected is good for five years. Let’s commit to an annual review until the market conditions are more favorable and we can reassess and lessen the dramatic tax impacts we see under the current new evaluations.