

GLOSSARY¹

Act 319. *See Pennsylvania Farmland and Forest Land Assessment Act of 1974.*

Act 515. *See Covenants to Preserve Land Use – Property Tax Assessments.*

Ad Valorem Tax. A tax levied in proportion to the value of the thing(s) being taxed. Exclusive of exemptions, use-value assessment provisions, and the like, property tax is an ad valorem tax.

Appeal. A process in which a property owner contests an assessment either informally or formally.

Appraisal. (1) The act of estimating the monetary value of property. (2) The monetary value of property as estimated by an appraiser. (3) Of or pertaining to appraising and related functions, for example, appraisal practice, appraisal services.

Arm’s-Length Transaction. (1) A sale between a willing buyer and a willing seller that are unrelated and are not acting under duress, abnormal pressure or undue influences. (2) A sale between two unrelated parties, both seeking to maximize their positions from the transaction. *Sales Comparison Approach*

Assessed Value. The assessment placed on real property by a county assessment office upon which all real estate taxes shall be calculated.²

Assessment. Assessed value.³

Assessment Base. The total assessed value of all property within a designated area; the property tax base.

Assessment Laws. Any of the following:

The Consolidated County Assessment Law (CCAL) (53 Pa.C.S. 8801 et seq.).

The General County Assessment Law (1993, P.L. 853, No. 155).

The Second Class County Assessment Law (1939, P.L. 1199, No. 404), the Second Class County Code (1953, P.L. 723, No. 230); and applicable provisions of a home rule charter and administrative code established by a home rule county.

An act related to Taxation; Board of Revision of Taxes in a County of the first class (1939, P.L. 1199, No. 404), and applicable provisions of a home rule charter and administrative code established by a home rule county/city.

¹ *Glossary for Property Appraisal and Assessment*, 2nd ed., International Association of Assessing Officers, Kansas City, Missouri, 2013 (except where otherwise noted). Items in italics are not part of the IAAO definitions.

² 53 Pa.C.S., Section 8802.

³ *Id.*

The Third Class City Code (11 Pa. C.S., Ch. 125, Subch. A) (relating to assessment of property for taxation).

Assessment Level. The common or overall ratio of assessed values to market values.

Assessment Ratio. (1) The fractional relationship an assessed value bears to the market value of the property in question. (2) By extension, the fractional relationship the total of the assessment roll bears to the total market value of all taxable property in a jurisdiction

Assessor. *See Certified Pennsylvania Evaluator.*

Base Year. The year upon which real property market values are based for the most recent countywide revision of assessment of real property or other prior year upon which the market value of all real property of the county is based for assessment purposes. Real property market values shall be equalized within the county and any changes by the board shall be expressed in terms of base-year values.⁴

Board. Any of the following:

Board. As defined in Title 53 (Municipalities Generally) of the Pennsylvania Consolidated Statutes (Pa.C.S.), Section 8802 (relating to definitions).

The Board of Property Assessment, Appeals and Review in a county of the second class under the act of June 21, 1939 (P.L. 626, No. 294), referred to as the Second Class County Assessment Law, or a similar body established by a home rule county.

The Board of Revision of Taxes and Appeals under Title 11 (Cities) of the Pa.C.S. Chapter 125, Subchapter A.

The Board of Revision of Taxes in a county of the first class under the act of June 27, 1939, (P.L. 1199, No. 404), relating to taxation.

Certification Date. The statutory date by which formal real property valuations [post informal reviews, if applicable] are certified by the county assessment office. [In counties of the second class A through eighth class, this date is November 15. *See* 53 Pa.C.S. §8844(f).]

Certified Pennsylvania Evaluator (CPE). A person responsible for the valuation of real property for ad valorem taxation purposes who has satisfied the qualifications for certification as a Certified Pennsylvania Evaluator pursuant to the Assessors Certification Act and the Professional and Vocational Standards under Title 49 of the Pennsylvania Code, Chapter 36, Subchapter C (Certified Pennsylvania Evaluators).

Clean and Green. *See The Pennsylvania Farmland and Forest Land Assessment Act of 1974.*

⁴ Id.

Coefficient of Dispersion (COD). The average deviation of a group of numbers from the median expressed as a percentage of the median. In ratio studies, the average percentage deviation from the median ratio.

Coefficient of Price-Related Bias (PRB). An index of price-related bias obtained by regressing percentage deviations from the median ratio on percentage changes in a value proxy, which is obtained by giving equal weight to assessments and sales prices so as to minimize measurement biases.

Coefficient of Variation (COV). A standard statistical measure of the relative dispersion of the sample data about the mean of the data; the standard deviation expressed as a percentage of the mean.

Common Level Ratio (CLR). The ratio of assessed value to current market value used generally in the county and published by the State Tax Equalization Board on or before July 1 of the year prior to the tax year on appeal before the board under the act of June 27, 1947 (P.L. 1046, No. 447), referred to as the State Tax Equalization Board Law.⁵

Contract Rent. The actual amount of rent, per unit of time, that is specified in the contract (lease). *Income approach.*

Cost Approach to Value. One of the three approaches to value, the cost approach is based on the principal of substitution – that a rational, informed purchaser will pay no more for a property than the cost of building an acceptable substitute with like utility. The cost approach seeks to determine the replacement cost new of an improvement less depreciation plus land value; it is the method of estimating the value of property by: (a) estimating the cost of construction based on replacement or reproduction cost new or trended historic cost (often adjusted by a local multiplier), (b) subtracting depreciation, and (c) adding the estimated site value. The site value is most frequently determined by the sales comparison approach.

Countywide Revision of Assessment. A change in the established predetermined ratio or revaluation of all real property within a county.⁶

Covenants to Preserve Land Use – Property Tax Assessments. The act of January 13, (1966) 1965, P.L. 1292, No. 515 (16 P.S. §1191 et seq.).

Depreciation. Loss in value of an object, relative to its replacement cost new, reproduction cost new, or original cost, whatever the cause of the loss in value. *Cost approach.*

Depreciation, Accrued. The amount of depreciation, from any and all sources, that affects the value of the property in question on the effective date of the appraisal. *Cost approach.*

Dispersion. The degree to which data are distributed either tightly or loosely around a measure of central tendency. Measures of dispersion include the average deviation, coefficient of dispersion, coefficient of variation, range and standard deviation.

⁵ Id.

⁶ Id.

Economic Area. A geographic area, typically encompassing a group of neighborhoods, defined on the basis that the properties within its boundaries are more or less equally subject to a set of one or more economic forces that largely determine the value of the properties in question.

Effective Age. The typical age of a structure equivalent to the one in question with respect to its utility and condition as of the appraisal date. Knowing the effective age of an old, rehabilitated structure or a building with substantial deferred maintenance is generally more important in establishing value than knowing the chronological age.

Effective Gross Income. The potential gross rent, less vacancy and collection loss, plus miscellaneous income.

Established Predetermined Ratio (EPR). The ratio of assessed value to market value established by the board of county commissioners or comparable governing body in a home rule county and uniformly applied in determining assessed value in any year.⁷

Excess Rent. The difference between contract rent and market rent that occurs when contract rent exceeds economic rent.⁸

Farmstead Property Exclusion. See **Homestead Property Exclusion Program Act.**

Field Reviewer. A CPE with experience and knowledge of valuation techniques employed on a project for the property categories for which the CPE will be responsible. A field reviewer will review accuracy of data collected for property in a previously identified neighborhood and preliminary and/or final values.

Final Assessment Roll. A document containing property owner(s) name, mailing address, property location and uniform parcel identifier, or reference to the tax map, and taxable status, and real property assessment of all parcels in a County. See **Certification Date.**

Governing Body. The county board of commissioners or the body vested with the legislative authority of the county in counties which have adopted a home rule charter or an optional plan.

Gross Income Multiplier (GIM). Expresses a relationship between gross annual income and value of property. The GIM is calculated by dividing the property value or selling price by the property's gross income at the time of sale.⁹

Gross Lease. A lease under the terms of which the lessor (landlord) receives stipulated rent and pays the expenses of operating and maintaining the leased property. *Income approach.*

⁷ Id.

⁸ *Property Assessment Valuation*, 3rd ed., International Association of Assessing Officers (IAAO), Kansas City, MO., June 1, 2010, p. 322.

⁹ *Property Assessment Valuation*, 3rd ed., International Association of Assessing Officers (IAAO), Kansas City, MO., June 1, 2010, p. 322

Gross Rent Multiplier (GRM). (1) The factor by which gross rent is multiplied in order to obtain an estimate of value (2) The ratio between sale price and potential gross income or effective gross income. By convention, the gross rent multiplier is typically the term used when developing the relationship based on monthly rent.

Highest and Best Use. A principle of appraisal and assessment requiring that each property be appraised as though it were being put to its most profitable use (highest possible present net worth), given probable legal, physical, and financial constraints.

Homestead Property Exclusion Program Act. The act of May 5, 1998, P.L. 301, No. 50 (53 Pa.C.S. §8581 et seq.).

Horizontal Inequity. Differences based on criteria other than value range in the levels of assessment of groups of properties. For example, properties in one neighborhood may have a higher level of assessment than similar properties in another neighborhood.

Income Approach to Value. One of the three approaches to value, based on the concept that current value is the present worth of future benefits to be derived through income production by an asset over the remainder of its economic life. The income approach uses capitalization to convert the anticipated benefits of the ownership of property into an estimate of present value.

International Association of Assessing Officers (IAAO). A professional membership organization of government assessment officials and others interested in the administration of the property tax.

Level of Assessment; Assessment Ratio. The common or overall ratio of assessed values to market values.

Market Area. A geographic area, typically encompassing a group of neighborhoods, defined on the basis that the properties within its boundaries are subject to similar economic forces and supply and demand factors. A separate valuation model is often developed for each market area. Smaller or mid-sized jurisdictions may constitute a single market area.

Market (Economic) Rent. The rent currently prevailing in the market for properties comparable to the subject property. Market rent is capitalized into an estimate of value in the income approach.

Market Value. The price in a competitive market a purchaser, willing but not obligated to buy, would pay an owner, willing but not obligated to sell, taking into consideration all the legal uses to which the property can be adapted and might be reasonably applied. (*See Buhl Found. v. Board of Prop. Assessment*, 180 A.2d 900 (Pa. 1962).

Mass Appraisal. The process of valuing a group of properties as of a given date, using standards methods, employing common data and allowing for statistical testing.

Mass Appraisal Model. A mathematical expression of how supply and demand factors interact.

Mean. A measure of central tendency. The result of adding all the values of a variable and dividing by the number of values. For example, the mean of 3, 5, and 10 is 18 divided by 3, or 6. Also called

arithmetic mean.

Median. A measure of central tendency. The value of the middle item in an uneven number of items arranged or arrayed according to size; the arithmetic average of the two central items in an even number of items similarly arranged; a positional average that is not affected by the size of extreme values.

Mode. A measure of central tendency. (1) In an array of the values of a variable, the most frequently occurring value. (2) By extension for grouped data, the class with the greatest number of observations.

Neighborhood. (1) The environment of a subject property that has a direct and immediate effect on value. (2) A geographic area (in which there are typically fewer than several thousand properties) defined for some useful purpose, such as to ensure for later multiple regression modeling that the properties are homogeneous and share important locational characteristics.

Net Lease. A lease which provides for the tenant to pay all property expenses.⁹

Net Operating Income (NOI). Annual net income after operating expenses are subtracted from effective gross income. Does not include payments for interest or principal.

Nonrealty Components. These are items that were included in the sale price but should be excluded when the sale is used as a comparable property to the subject.¹⁰

Outliers. Observations that have unusual values, that is, they differ markedly from a measure of central tendency. Some outliers occur naturally; others are due to data errors.

Overage Rent. Rent over and above a guaranteed minimum under the terms of a percentage lease (not to be confused with excess rent).¹¹

Pa.Code. The Pennsylvania Code (rules and regulations of the Commonwealth).

Parcel. A separate, tax map-designated piece or portion of all real property, taxable or nontaxable, or eligible for preferential assessments.

Pennsylvania Consolidated Statutes (Pa.C.S.). The official statutory codification established by the General Assembly under the act of November 25, 1970 (P.L. 707, No. 230).¹²

Pennsylvania Farmland and Forest Land Assessment Act of 1974. The act of December 19, 1974, P.L. 973, No. 319 (72 P.S. §5490.1 et seq.).

Potential Gross Income (PGI). The sum of potential gross rent and miscellaneous income, that is, the income from rent and other sources that a property could generate with normal management, before allowing for vacancies, collection losses, and normal operating expenses.

⁹ *Property Assessment Valuation*, p. 322.

¹⁰ *Property Assessment Valuation*, p. 204.

¹¹ *Property Assessment Valuation*, p. 322.

¹² "Statutes of Pennsylvania and the Constitution of Pennsylvania," Pennsylvania General Assembly, <http://www.legis.state.pa.us/cfdocs/legis/li/public/> (accessed June 8, 2018).

PRB. See **Coefficient of Price-related Bias**.

Preferential Assessments. The total use value of land qualifying for assessment under the Pennsylvania Farmland and Forest Land Assessment Act of 1974 (commonly referred to as the Clean and Green Act, Act 319).

Price-Related Differential (PRD). The mean divided by the weighted mean. The statistic has a slight bias upward. Price-related differentials above 1.03 tend to indicate assessment regressivity; price-related differentials below 0.98 tend to indicate assessment progressivity.

Progressivity. An appraisal bias such that high-value properties are appraised higher than low-value properties in relation to market values.

Property Record Card including 'ecard'. A document, hard paper copy or electronic, detailing basic real property information and property improvement characteristics.

Ratio Study. An investigation intended to determine the assessment ratio and assessment equity.

Reassessment. The revaluation of all real property within a county. Also called a revaluation or reappraisal.

Regressivity. An appraisal bias such that high-value properties are appraised lower than low-value properties in relation to market values.

Replacement Cost. The current cost of producing a building or improvement with the same utility but with modern materials, design, and workmanship. This cost is less than the amount indicated by the reproduction cost method.¹³

Reproduction Cost. The cost of producing an exact replica of a building or improvement using the same or very similar materials, design, and workmanship. This cost involves rebuilding the subject structure with any inherent faulty design superadequacies and inefficiencies. It is an unrealistic method for older, obsolete structures.¹⁴

Sales Comparison Approach to Value. One of the three approaches to value, the sales comparison approach estimates a property's value (or some other characteristic, such as its depreciation) by reference to comparable sales. Also known as the Comparable Sales Approach or Market Approach.

Stratification. The division of a sample of observations into two or more subsets according to some criterion or set of criteria. Such a division may be made to analyze disparate property types, locations or characteristics, for example.

Tax Base, Property. The total of all the assessed values in a given community.

Uniformity. The equality of the burden of taxation in the method of assessment.

¹³ *Property Assessment Valuation*, p. 237.

¹⁴ *Property Assessment Valuation*, pp. 236-237.

Uniform Standards of Professional Appraisal Practice (USPAP). The purpose of USPAP is to promote and maintain a high level of public trust in appraisal practice by establishing requirements for appraisers. It is essential that appraisers develop and communicate their analysis, opinions and conclusions to intended users of their services in a manner that is meaningful and not misleading. The Appraisal Standards Board (ASB) promulgates USPAP for both appraisers and users of appraisal services. The ASB is a board established by The Appraisal Foundation, authorized by Congress as the source of appraisal standards and appraiser qualifications.

Unit of Comparison. A property as a whole or some smaller measure of the size of the property used in the sales comparison approach to estimate a price per unit.

Vacancy and Collection (Rent) Loss. The amount of money deducted from potential annual gross income to reflect the effect of probable vacancy and turnover, or nonpayment of rent by tenants. Vacancy and collection loss is commonly expressed as a percentage of potential annual gross income, and it should be based on market research, not actual rental history of a property.

Valuation. Developing and reviewing a new determination of market value for each parcel, based on current data for the County's identified base year of valuation by the appropriate use of one or more of the accepted three approaches to value (cost, market and income).

Valuation Date. All real property is valued as of this date. In Pennsylvania, also known as the base year date.

Vertical Inequity. Differences in the levels of assessment of properties related to the value ranges of the properties. That is, properties of higher value have assessment levels different from properties of lower value.

Weighted Mean Ratio. Sum of the appraised values divided by the sum of the sale prices (or independent estimates of market value), which weights each ratio in proportion to the sale price (or independent estimate of market value).

Zoning. The exercise of the police power to restrict landowners as to the use of their land and/or the type, size and location of structures to be erected thereon.