Budget Options For New York City

Housing & Buildings

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Budget Option

Allow the Commercial Revitalization and Commercial Expansion Programs to Expire

Savings: Minimal in 2029, growing to $20 million annually in 2039 when savings are fully phased in

The New York State Legislature enacted the Commercial Revitalization Program (CRP) in 1995 to increase occupancy of older office and retail spaces in Lower Manhattan by offering incentives to spur improvements in buildings constructed before 1975. The Legislature enacted the Commercial Expansion Program (CEP) in 2000 using the same approach to help promote the development of commercial, manufacturing, and industrial areas in the outer boroughs. Building owners who participate in either of these programs are required to spend a minimum amount on renovations and other improvements of their property. To offset property tax increases resulting from the improvements, owners receive tax abatements, for a period of 3 years to 10 years, depending on the type of space improved. Tenants renting these renovated spaces can also receive a reduction in their commercial rent tax (CRT) liability. In 2005, the area eligible for the CRT benefit was expanded to cover more of Lower Manhattan. The program was last amended in 2023, which extended the application eligibility period through 2028.

The Department of Finance estimates that these programs cost the City over $20 million of forgone tax revenue in 2023— $14 million from property tax abatements and $6 million from CRT reductions in Lower Manhattan. If the State Legislature allowed the CRP and CEP programs to expire by not extending Section 499a of the Real Property Tax Law, no new benefits would be granted starting in fiscal year 2029. Already existing program participants would continue to receive the abatement until their benefits period end. With fewer program participants receiving benefits each year, savings from ending the programs would phase in gradually over 10 years as previously granted benefits expire, growing to $20 million annually in 2039.

Proponents might argue that these programs were enacted when the City needed them but are not necessary now. The CRP eligibility zone encompasses the Financial District and other Lower Manhattan areas that since the 1990s have become desirable mixed-use neighborhoods, providing owners of older buildings plenty of reasons to upgrade their buildings without offering City tax breaks. In a 2018 analysis, IBO found that property owners who upgrade their buildings generally spend more than the minimum required under CRP and CEP, suggesting that the tax benefit offered only limited inducement for investment. IBO concluded that the programs have had little influence on vacancy and employment rates compared with rates in areas not eligible for the benefit.

Opponents might argue that the CRP and CEP help property owners defray the cost of renovating their properties to compete with the new commercial properties built in the eligible areas the last several years. They may also argue that given that New York City continues to work to attract and maintain manufacturing and industrial jobs, the CEP helps incentivize such firms to sign long-term leases and encourage these companies to undertake the necessary upgrades of their facilities.

Prepared by Richard DiSalvo

Budget Option

Allow the Relocation and Employment Assistance Program to Expire

Revenue: $2.5 million in 2026, increasing gradually to $30 million in 2038

The Relocation and Employment Assistance Program (REAP) provides City tax credits to businesses that relocate jobs from outside New York City or from Houston Street to 96th Street to the boroughs outside Manhattan or to eligible locations in Manhattan (below Houston Street or north of 96th Street). Currently, firms receiving REAP benefits get credits for 12 years against their business income and utility taxes; REAP tax credits are refundable for the year of relocation and the next four years. The credits are either $3,000 per qualified employee for businesses relocating to eligible areas also designated as revitalization zones or $1,000 per employee for firms moving to areas outside of revitalization zones.

Originally enacted in 1987, the program has been renewed several times. The amount and duration of credits and areas of the city that are eligible have also changed over the years. REAP is currently set to expire on June 30, 2025, and State legislation is required for the program to be reauthorized. The program, however, has never been evaluated to make sure that it is achieving its stated objective: expanding employment outside of the Manhattan business core, particularly by attracting new firms to the city. The Department of Finance estimates that REAP credits cost the City $30 million of foregone tax revenue in 2023, with around 200 firms receiving the credit. If REAP were allowed to expire in 2025, the cost of the program would phase out gradually over 12 years as firms currently receiving the credit would continue to do so until their eligibility ended. Savings in the first year would be about $2.5 million, growing to $30 million in 2038.

Proponents might argue that although REAP helps companies reduce the cost of relocating to eligible areas of New York City, it likely does not play a vital role in companies' decisions to relocate employees. Businesses considering a move to New York City are more concerned with access to markets, a highly skilled labor force, and other amenities the city has to offer. As of fiscal year 2023, only 200 firms out of the hundreds of thousands of firms operating in the city benefited from this program. Proponents might also point out that businesses that are eligible for REAP by simply relocating from one location within the city to another do not increase the city's employment base.

Opponents might argue that because the cost of doing business in New York City is already so high, any program that provides a financial incentive for companies to relocate their employees here would be beneficial to the city in the long run. REAP also helps efforts to promote the City as business friendly. Finally, opponents might argue that REAP benefits help businesses already in the city remain here by reducing the cost of relocating to less expensive areas in the city

Prepared by Richard DiSalvo

Budget Option

Collect Sales Tax on Capital Improvement Installation Services

Revenue: $364 million annually

Currently both the City and State sales taxes in New York exclude charges for improvements that constitute a permanent addition or alteration to real property, substantially increasing its value or prolonging its useful life. Examples include: installation or replacement of central air systems, heating systems, windows, and electrical wiring; and planting trees, lawns, and perennials. Property repair, maintenance, and more minor installation services (including the installation of items such as window air conditioners, that do not constitute permanent additions to real property) are subject to the sales tax. By broadening the sales tax base to include capital improvement installation services, this option would increase City revenue by an estimated $364 million. This option requires the State Legislature to authorize New York City to impose the tax, which could be accomplished through amendments to Articles 28 and 29 of the New York State Tax Law.

A sales tax exception would be retained for replacements necessitated by property casualties such as storms or fires. Note that the above revenue estimate does not incorporate an estimate for a casualty exception. Nor does it factor in the possibility that imposing the sales tax could reduce the scale of capital improvements services or lead to increased tax evasion by the providers and purchasers of these services.

Proponents might argue that there is no economic distinction between real property improvements and other services that are currently taxed; broadening the sales tax base would ensure a more neutral tax structure and decrease differential tax treatment. Others might argue that base-broadening could allow a reduction in the overall city sales tax rate, which in turn would strengthen the City's competitiveness and diminish the economic burden imposed by the sales tax.

Opponents might argue that capital improvement installation services, unlike other services, are intermediary inputs whose benefits are not exhausted when they are purchased, but only over a long period of time. Therefore, a tax on installation services would run afoul of the principle that sales taxes fall on final household consumption. In addition, improvement installation services increase property values. They are therefore already a source of revenue through the City's real property tax and real estate transaction taxes, and to the extent that taxing installation services curtails improvements, it will have a negative impact on revenue from these other taxes. Finally, the tax would hit employment in—and in some cases possibly the existence of—firms and subcontractors providing improvement services.

Prepared by Eric Mosher

Budget Option

Consolidate Building, Housing, and Fire Inspections

Savings: $21 million annually

Several agencies are charged with inspecting the safety of city buildings. The Department of Buildings (DOB) inspects building use, construction, boilers, and elevators under its mandate to enforce the City's building, electrical, and zoning codes. The Department of Housing Preservation and Development (HPD) inspects multifamily residences to ensure they meet safety, sanitary, and occupancy standards set forth in the housing code. Fire Department (FDNY) inspectors evaluate buildings' standpipe, sprinkler, ventilation, and air-conditioning systems as part of their duties to enforce fire safety requirements. (IBO limits its estimate to DOB, HPD, and FDNY inspectors, but recognizes other agencies like the Department of Environmental Protection also conduct building inspections.)

All together DOB, HPD, and FDNY currently employ over 1,300 inspectors at a cost of $93 million in salaries (excluding overtime, fringe benefit, and pension expenses) to ensure that building owners and construction crews are meeting safety requirements. In fiscal year 2023, inspectors from these agencies inspected at least 200,000 properties. While inspectors at each agency are trained to check for different violations under their respective codes, there are areas—inspections of illegally converted dwelling units or the conversion of office buildings to residential uses, for example—where responsibilities overlap.

Under this option, the City would consolidate inspection functions now housed in DOB, HPD, and FDNY into a new inspection agency while existing agencies' other functions would remain unchanged. This option would require changes to local law, regulations and rules, and require collective bargaining with the relevant unions.

Because inspectors from each agency currently visit some of the same buildings, there would be efficiency gains by training inspectors to look for violations under multiple codes during the same visit, although some more specialized inspections would still require dedicated inspectors. If the City were to eliminate duplicate inspection visits, the annual savings would be $21 million. Additional savings may be found by consolidating administrative and other support services.

Proponents might argue that consolidating inspections would streamline City resources and increase the consistency of inspections while allowing DOB, HPD, and FDNY to focus on the other aspects of their missions. They could point out that other major cities, including Chicago and Philadelphia, centralize building inspections in one agency. They might also argue that inspection quality and efficiency may be improved by eliminating the need for cross-agency coordination, increasing public safety.

Opponents might argue that inspections and code enforcement are too closely linked with each of the agencies' missions, making consolidation into a single agency difficult. There is also a limit to efficiency gains because some inspections, such as elevator inspections, are highly technical and would still require specialized staff.

Budget Option

Extend the Mortgage Recording Tax To Cooperative Apartments

Revenue: $100 million annually

The mortgage recording tax (MRT) is levied on the amount of the mortgage used to finance the purchase of houses, condominium apartments, and all commercial property. It is also levied when mortgages on such properties are refinanced. The City's residential MRT tax rate is 1.0 percent of the value of the mortgage if the amount of the loan is under $500,000, and 1.125 percent for larger mortgages. In addition, mortgages recorded in New York City are subject to a State MRT, of which a portion, equal to 0.5 percent of the value of the mortgage, is deposited into the City's general fund. Currently, loans to finance the sales of cooperative (coop) apartments are not subject to either the City or State MRT, since such loans are not technically mortgages. Extending the MRT to coops was initially proposed in 1989 when the real property transfer tax was amended to cover coop apartment sales. IBO estimates that extending the City MRT to coops would raise $100 million per year. If the State MRT were also extended to coops, the additional revenue to the City would be around 50 percent greater.

This option would require the State Legislature to broaden the definition of financing subject to the MRT to include not only traditional mortgages but also loans used to finance the purchase of shares in residential cooperatives. Under current law (Consolidated Laws, Chapter 60 Tax Law, Article 11 Tax on Mortgages), loans to finance cooperatives are not technically mortgages since they are not used to purchase real estate, but rather shares in a housing corporation.

Proponents might argue that this option serves the purpose ending the inequity that allows cooperative apartment buyers to avoid a tax that is imposed on transactions involving other types of real estate.

Opponents might argue that the proposal will increase costs to coop purchasers, driving down sales prices, lowering coop market values and, ultimately, property tax revenue.

Prepared by Richard DiSalvo and Sarah Sayavong

Budget Option

Impose a City “Mansion Tax”

Revenue: $270 million annually

Sales of real property in New York City are subject to a Real Property Transfer Tax (RPTT). The combined City and State tax rates for residential properties are 1.4 percent when the sales price is $500,000 or less, and 1.825 percent when the price is above $500,000 but less than $1 million. Residential properties that sell for $1 million or more are subject to an additional State tax, often referred to as a “mansion tax.” This tax starts at 1.0 percent for residential properties sold over $1 million, scaling up to 3.9 percent for residences sold for $25 million or more. While technically the RPTT is paid by the seller, economic theory suggests that the burden of the tax is shared (not necessarily equally) between buyers and sellers.

Under this option, IBO models one possible version for the City in which a mansion tax could be levied on residential properties selling for $2 million or more. The tax would have three rates: 1.0 percent on sales of $2 million to just under $5 million, 1.5 percent on sales from $5 million to just under $10 million, and 2.0 percent on sales of $10 million and above. If levied on the entire value of the property—as the State mansion tax is set up—IBO estimates that the tax would generate around $270 million in annual City revenue. If the tax were applied only to property value above $2 million, IBO estimates that revenue collected would be $165 million under this structure. This option would require State legislative approval.

Proponents might argue that the tax would raise a considerable amount of revenue while affecting a relatively small number of buyers and sellers; for example, only 24 percent of residential sales in fiscal year 2019 would have been subject to the new tax. The burden of the tax would be shared by sellers and buyers. Many buyers of luxury residences in New York City already do not pay the mortgage recording tax (MRT) because they make all-cash purchases or because they purchase coops, which are not subject to the tax. Even with an increase in the City RPTT for high-priced properties, in many cases, the buyers of these properties would face a lower tax burden than purchasers of lower-priced residences who pay both RPTT and MRT.

Opponents might argue that under the State mansion tax, luxury residential real estate is already subject to a progressive RPTT rate. The top rates are well above the RPTT rate imposed on commercial sales, which after a recent increase in the State rate, reaches 3.275 percent on properties sold for $2 million or more. Opponents might also point out that taxes on economic activity reduce the level of that activity, meaning that the new tax would lead to fewer residential sales and lower prices net of taxes. Opponents might also note a market distortion under this proposal because the higher tax rate would apply to the entire value of the property—as soon as the sales price reached $2 million, there would be a jump of $20,000 in City RPTT liability. As a result, one would expect a bunching of sales priced just below $2 million, $5 million, and $10 million to avoid the higher tax rate.

Budget Option

Impose Penalties for Failed Façade Inspections and Increase Penalties for Outstanding Façade Repairs

Revenue: $150 million annually

The Department of Buildings (DOB) Façade Inspection Safety Program, also referred to as Local Law 11, is designed to protect pedestrians from falling debris from unstable building façades. Under Local Law 11, buildings that are six stories or taller are required to undergo façade inspections every five years. If the building fails the inspection, the building owner must erect a sidewalk shed and make repairs within 90 days, although this timeframe may be extended by DOB. Beyond that period, if repairs are not addressed, the building owner incurs a civil penalty of $1,000 per month, with additional penalties that increase after the first year.

Over the past two decades, the number of sidewalk sheds on City streets erected after a failed façade inspection more than tripled, from 1,100 in 2000 to 3,400 in 2021. Many of the buildings that fail a façade inspection are not repaired in the year following the failed inspection. In 2021, 57 percent of sidewalk sheds erected after a failed façade inspection were up longer than a year; 7 percent of these sheds were older than four years. Sidewalk sheds that remain up for years after a failed façade inspection represent long-uncorrected unsafe conditions.

This option would impose a penalty for buildings that fail a façade inspection to encourage more preventive maintenance and improve the timeliness of repairs when problems are identified through Local Law 11. The penalty would be equal to 1 percent of the building's assessed value, with a cap at $150,000, upon failure of an inspection. An additional penalty of the same amount would be added for each additional year the façade repairs are not completed. The median annual penalty for failing a façade inspection under this option is estimated at $48,000. IBO estimates that the City would collect an additional $150 million per year were this option to be adopted, assuming the number of buildings with outstanding façade repairs fell by 20 percent in response to the new penalties. DOB may have the authority to levy these fines. Alternatively, City Council could impose this through local legislation.

Proponents might argue that current penalties do little to ensure that building owners proactively maintain their façades, let alone encourage timely repairs. That incentive is particularly low for owners of high-value properties, for which the $1,000 per month penalty pales in comparison to other expenses. Proponents might say with higher penalties that accrue over time, building owners may be more likely to undertake proactive repairs on their façades, rather than wait until they fail a façade inspection to identify and address issues. When building owners delay making façade repairs, the sidewalks continue to be a nuisance to pedestrians, residents, and business owners. Proponents might also argue that the current penalties are regressive because the law currently penalizes owners of low-value buildings the same as high-value buildings.

Opponents might argue that the cost to fix a building's façade in a short time frame may be more than some building owners are able to afford. Were this option to be adopted, some building owners might be pushed to sell their building due to the increased penalties. Furthermore, older buildings often feature ornate stone façades that are more expensive to maintain. This option could make it more likely for building owners to raze older buildings in favor of new construction, or to replace ornate façades with plainer façades that are easier to maintain.

Prepared by Sarah Parker

Budget Option

Issue Financial Penalties Against Property Owners Who Fail to Give Access for Buildings Inspections

Revenue: $13 million annually

Inspections made by the Department of Buildings (DOB) often stem from 311 complaints. However, a DOB inspector cannot inspect a building or construction site without being granted access; if the inspector is refused access, or no one is there to allow the inspector to enter after two attempts, DOB often closes the complaint without any violation being issued. Nearly 20 percent of complaints forwarded to DOB by 311—representing about 50,000 complaints—end in this way each year. While DOB can pursue an access warrant to gain entry, the process to obtain one is onerous, requiring DOB to coordinate with the Law Department and other City agencies before petitioning in court to justify an access warrant, and so is rarely pursued.

DOB violations can carry financial penalties, which are enforced and collected by the City's Office of Administrative Trials and Hearings (OATH). When inspectors are denied access to properties, this means fewer violations and so fewer penalties. Property owners who know they are likely in violation of DOB rules have reasons to refuse access to DOB inspectors. After all, violations not only carry financial penalties, but an open DOB violation on a property can prevent it from receiving construction permits, or even temporarily halt construction work altogether. Currently, other than an access warrant, there is no mechanism to compel or incentivize property owners to allow DOB inspections.

Under this option, DOB inspectors would be able to impose a $500 penalty when they are unable to gain access to a property. Property owners could get the penalty dropped by permitting access at a subsequent inspection. Were the threat of these penalties sufficient to reduce the number of properties where a DOB inspector were unable to gain access by one third, thereby boosting the number of OATH summons issued by DOB, IBO estimates that the combined revenue from these no-access penalties, plus the additional OATH penalties collected for violations found, would result in an additional $13 million in revenue per year, in addition to the benefit of safer buildings and construction sites. To implement this option, DOB may have the authority to levy these fines. Alternatively, City Council could impose this option through local legislation.

Proponents might argue that the current system presents a moral hazard—property owners who know they are likely in violation of DOB rules are more likely to refuse access to DOB inspectors. With limited ways to disincentivize property owners from refusing to access to DOB inspectors, some unsafe conditions and unlawful activities, such as illegal conversions of apartments, likely remain unaddressed, leading to buildings that are less safe for City residents.

Opponents might argue that the process to get an access warrant, through the court system, is a sufficient mechanism to ensure DOB access to a property. The argument that the bureaucratic process of obtaining access warrants through the court system is too cumbersome does not justify that the City should instead use financial penalties to coerce property owners who do not elect to provide that access freely.

Budget Option

Make City Marshals City Employees

Revenue: $8 million annually

City Marshals are mayoral-appointed law enforcement officers tasked with implementing Civil Court orders, including collecting on judgments, towing vehicles, seizing utility meters, and carrying out evictions. They are appointed for five-year terms and there are no limits on the number of terms that they can serve. City Marshals are under the oversight of the New York City Department of Investigation but are not City employees.

Although privately employed, City Marshals carry badges and are empowered to seize bank accounts, garnish wages, and sell personal property. Marshals collect fees according to a schedule set in New York State law and, additionally, collect 5 percent of the total amount collected for services known as "poundage." In turn, Marshals are required annually to give $1,500 plus 4.5 percent of their gross income to the City. From 2020 to 2022, the annual gross income of a City Marshal averaged $590,000, with the City collecting fees averaging $28,000 per marshal. On average, Marshals generate $200,000 in net income from their work each year.

In many other U.S. cities, such tasks instead are performed within the Sheriff's Office. In New York City, the Sheriff's Office similarly enforces court mandates and processes for state courts; it is staffed by City employees. Currently, there are 29 Marshals in New York City and some Marshals may employ additional support staff. If each marshal were replaced by 1.25 City employees earning the average annual salary of a deputy sheriff (about $74,000), the City would collect about $8 million in net additional revenue. This assumes that the current poundage and fee collections continue, but as revenue to the City and not to individual Marshals. IBO's estimate of City revenue assumes poundage and fee collections would decrease by a third because there would no longer be a financial incentive for collecting on judgments. This change would require state legislation to amend Article 16 of the New York City Civil Court Act.

Proponents might argue that the broad powers granted to City Marshals should be left to a neutral party that does not rely on a political reappointment or have a financial incentive to enforce judgments. Other cities employ salaried Sheriff's Office staff to perform similar tasks, and employees of the New York City Sheriff's Office currently earn significantly less than Marshals for performing similar work. Creating marshal positions akin to sheriff deputies would streamline overhead, increase the City's oversight capacity, and reduce the potential abuse of power. Additionally, the political appointments process for the Marshals has resulted in several families controlling multiple marshal badges while operating from the same addresses, creating a family business out of the City's civil court collections.

Opponents might argue that the private for-profit structure of City Marshals leads to better rates of collection, resulting in more timely resolutions of court orders. Private individuals have more flexibility than government employees in implementing civil court judgments, leading to better outcomes for those seeking restitution.

Prepared by Logan Clark

Budget Option

Revise the Coop/Condo Property Tax Abatement Program

Revenue: $304 million annually

Recognizing that most apartment owners had a higher property tax burden than owners of Class 1 properties (one-, two-, and three-unit homes), in 1997 the cooperative/condominium (coop/condo) property tax abatement program (Section 467-a) was enacted. This program was billed as a first step towards the goal of equal tax treatment for all owner-occupied housing. But some apartment owners—particularly those residing east and west of Central Park and in northern Brooklyn—already had low property tax burdens.

The abatement has been renewed seven times, most recently in June 2023 when it was extended through fiscal year 2027. A prior extension, covering 2013 through 2015, included a provision to phase out the abatement for nonprimary residences by 2015, and revised the abatement schedule to increase its generosity for relatively lower-valued apartments. In fiscal year 2024, IBO estimates the citywide total cost of the abatement is $788 million, with coop and condo apartments in Manhattan accounting for $555 million of the total cost.

The City could reduce the cost of the abatement program, while continuing to support the intended objective, by reducing benefits for highly valued apartments. This could be accomplished by restricting the program geographically or by property value. For example, buildings located in neighborhoods with a concentration of very high-valued apartments could be designated as ineligible for the program, or buildings with high average assessed value per apartment could be prohibited from participating.

The option modeled here is one in which the abatement program excludes residences where the average assessed value per apartment is greater than $150,000 (which corresponds to about a $1.2 million sale price per apartment in fiscal year 2024). IBO estimates that had this exclusion been adopted for fiscal year 2024, the City would have collected $304 million in additional revenue. The $150,000 threshold would eliminate the abatement for about 30 percent of coop and condo apartments with high assessed values, 93 percent of which are in Manhattan, mostly in the borough's high-income neighborhoods on either side of Central Park and in lower Manhattan. Implementing this option change would require State legislation to revise the abatement's benefits schedule, as detailed in NYS Real Property Tax Law Section 467-a, which was last revised in 2013

Proponents might argue that the intent of the program was to provide property tax relief to coop and condo owners, but these expenditures are concentrated in neighborhoods where the average household incomes are among the highest in the city. Since government resources are always limited, it is important that the City avoid giving greater-than-intended benefits to some of the city's wealthiest residents.

Opponents might argue that the result of the change would be to increase some apartment owners' property taxes at a time when the City faces pressure to limit its very high overall tax burden. In addition, the abatement program, especially as revised in 2013, provides a tax reduction only for owners' primary residences, and therefore supports homeownership, a common policy objective.

Budget Option

Tax Large Vacant Residential Lots the Same as Commercial Property

Revenue: $20 million in the first year, rising to $130 million annually when fully phased in

Under New York State law, a commercially zoned lot outside of Manhattan that is situated immediately adjacent to property with a residential structure, has the same owner as the adjacent residential property, and an area of no more than 10,000 square feet is currently taxed as Class 1 residential property, as are all residentially zoned vacant lots. All other vacant land is taxed as commercial property. In fiscal year 2023, there were 14,205 vacant properties taxed as Class 1 that were not owned by government. These Class 1 vacant lots are assessed are assessed and taxed at more favorable rates than if they were treated as Class 4 commercial properties.

Under this option, vacant lots not owned by a government entity with an area of 2,500 square feet (the median lot size for Class 1 properties with buildings on them in New York City) or larger would be taxed as Class 4 commercial property, which is assessed at higher values than Class 1 and has no caps on annual assessment growth; 7,080 lots would be reclassified. Phasing in the assessment increase evenly over five years would generate $20 million in additional property tax revenue in the first year, and the total increment would grow by $28 million in each of the next four years. If tax rates remain at their 2023 levels, the total property tax revenue generated by the reclassification upon completion of the phase-in would be $130 million. This option would require amending the State's Real Property Tax Law.

Proponents might argue that vacant property could be better utilized and awarding it preferential treatment further encourages its underdevelopment. The intention of the lower assessment rate, they could argue, is to incentivize development of Class 1 property. Vacant land zoned for residential use that is not being developed for its intended purposes may thus be an unwise policy at a time in which the city is experiencing a shortage of affordable housing. At the same time, the minimum lot size requirement would allow very small lots to remain vacant and the along with the City's zoning laws and land use review process provide a safeguard against inappropriate development in residential areas.

Opponents might argue that the current tax treatment of this vacant land serves to preserve open space in residential areas in a city with far too little open space. Opponents might also argue that zoning policies are less effective at restricting development in residential areas than the preferential tax treatment because the latter is codified in real property tax law. Furthermore, opponents might also point out that the 7,080 vacant lots have a median land area of 4,000 square feet while the median area of existing Class 1A, 1C, and Class 2 property with at least 2,500 square feet is 11,247 square feet. Thus, many of the vacant residential lots would be too small to develop for housing and would sit vacant even if reclassified.

Prepared by Michael Jacobs

Budget Option

Value Gramercy Park as Its Own Lot Instead of Reflecting the Value in Surrounding Buildings

Revenue: $9 million annually

Gramercy Park, which was established in the 19th century, is a private park. The park is fenced and only individuals who have a key to the park can enter. Keys are only available to residents of some—but not all—of the buildings immediately surrounding the park. According to the Department of Finance (DOF) property tax records, the park currently has a market value of $0. The value of the park, in theory, is instead supposed to be reflected in the properties that have keys to the park.

In 2020, IBO conducted an analysis using DOF's fiscal year 2021 property tax assessment rolls and public real estate listings on which buildings have keys to the park, and there appeared to be more properties listed with keys than recorded by DOF as keyholders. Moreover, comparing values of residential coop buildings that DOF determined have keys to the values of similar nearby coop apartment buildings without keys, IBO found no notable differences in market values, assessed values, and property tax per square foot. IBO inferred from this evidence that DOF did not in practice systematically reflect the value of park access in the assessed values of keyed properties.

If DOF instead were to value the park as an independent lot, based on the median land value of the Class 1 properties surrounding the park, IBO estimates that the park would have a market value of $197 million and property tax liability of over $9 million for fiscal year 2024. IBO does not expect any reduction in tax liability for buildings with park keys because of this policy change. Alternatively, DOF could more accurately assess the full market values of key-holding buildings on the tax rolls to reflect more precisely the implied value of park access.

The de facto tax exemption of Gramercy Park dates to a 1910 court ruling where the Trustees of Gramercy Park effectively argued that their properties paid the value of the tax indirectly through their higher property tax assessments, and therefore the park should not be taxed directly. The City never challenged the ruling. The City would need to clarify the tax status of the park in order to collect property taxes on the lot.

Proponents might argue that if any assessment method that depends on capturing value reflected in other properties is not kept current, then the owners with park keys are shifting the tax burden on this private property to the rest of the city, a particularly unfair outcome given the relative affluence of the Gramercy Park neighborhood. They might also point out that directly taxing the value of the private park is a more transparent and efficient way of ensuring that those who benefit from the private park pay their appropriate share for the privilege.

Opponents might argue that although properties with park keys may not pay higher property taxes than similar properties around the park, they pay higher real property transfer and mortgage recording taxes because they tend to have higher sale prices due to park access. Over time these taxes could make up for some of the property taxes foregone from the park. Moreover, the park and surrounding streets are privately maintained, which contributes to making the overall neighborhood more attractive.

Budget Option

Make Real Estate Sales Between Nonprofits and For-Profits Subject to the City's Property Transfer Tax

Revenue: $15 million annually for the City; $9 million for the Metropolitan Transportation Authority

Both the City and State charge real property transfer taxes (RPTT) on the sale of real property. Currently, transfers of real property between nonprofit and for-profit entities are subject to the State RPTT but are exempt from the City RPTT. This option would modify the City's tax treatment of real property transfers between nonprofit and for-profit entities, making them conform to State tax practice. Although RPTT is generally paid for by the seller, in the case of a nonprofit selling property to a for-profit entity, RPTT would be paid for by the buyer. Both New York City and the Metropolitan Transportation Authority (MTA) would receive new revenue from this change.

The City's RPTT rates range from 1.0 percent to 2.625 percent, depending on the property's value and type. Included in the highest rate is a 1.0 percent "urban tax" on commercial property sales that is dedicated to the MTA. Based on sales data for fiscal years 2021 through 2023, IBO estimates that eliminating the exemption in the City RPTT for nonprofit transfers to or from for-profit entities would raise about $15 million annually for the City, and an additional $9 million in urban tax revenue dedicated to the MTA. This change would require State legislation amending Section 11-2106 of the New York City Administrative Code.

Proponents might argue that for-profit entities that sell real property should not receive a tax break solely by virtue of the type of buyer. If the not-for-profit entity is the seller, it will continue to be exempt from the tax, which would instead be paid by the for-profit buyer. In addition, proponents might argue that conforming City taxation to State practice simplifies and increases the transparency of the tax system.

Opponents might argue that while the proposed tax would formally be paid by the for-profit buyer, economic theory posits that buyer and seller would each bear part of the burden. As a result, the proposed extension of the City RPTT may reduce the sale price received by nonprofit sellers, thereby diminishing their ability to provide the services that are their mission.

Prepared by Richard DiSalvo and Sarah Sayavong