Twenty-Five Years After S7000A: How Property Tax Burdens Have Shifted in New York City

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Introduction

Much like other cities, New York's largest and most stable revenue source is the real property tax. Although New York City also levies a large number of other, more cyclical taxes, much as states do, the property tax remains the central component of local revenues. In the current fiscal year, the city will collect an estimated $13 billion in property tax—roughly 40 percent of all local tax revenues.

Because the real property tax is so central to the city's fiscal condition, IBO has made studies and reports on the property tax a major part of our work. This new report, which comes on the 25th anniversary of the enactment of S7000A, the law that created the current property tax system, updates and expands our previous work and examines how property tax burdens in the city have changed over the past two and a half decades.

A 1975 decision by the state's highest court forced Albany legislators to tackle an issue few probably wanted to confront: the inequitable assessment of properties in localities all across the state, including New York City. While homeowners generally paid property taxes equal to a relatively small share of the value of their homes, owners of commercial and apartment buildings paid taxes based on a far larger share of market value. This violated a nearly 200-year old state law that assessments for all properties be made on full market values.

In addition, owners of similar homes in different neighborhoods in the same town often had very different tax burdens. As several reports issued in the wake of the court ruling found, in New York City homeowners in low-income communities frequently had a higher effective tax rate—the tax paid on every $100 of full market value—than homeowners in wealthier neighborhoods.

After roughly six years of delay and sporadic debate, the legislature responded to the court decision by replacing the old law with one that allowed localities to largely keep doing what they were doing. In New York City this was accomplished by creating a system with four classes of property, allowing each class to be taxed on a different share of its market value, and by putting caps on annual assessment increases for homeowners and later for apartment buildings with less than 10 units. To lessen the tax burden for coop and condo owners, the new law required that they be valued as rental properties. With apartment owners still shouldering a higher burden than homeowners, a coop and condo tax abatement went into effect in 1997.

Twenty-five years after the enactment of S7000A dissatisfaction with the city's property tax system is a near-universal complaint among New Yorkers who must pay the tax. The complexity and lack of transparency in the system is part of why everyone feels overburdened. But using IBO's calculations of market values and final tax bills, one basic comparison makes it clear that the burden of paying the property tax is not shared equally: While one-, two-, and three-family homes comprise 41 percent of the market value of property in the city, these homes generate 14 percent of the total property tax levy; commercial property comprises 16 percent of market value and generates 43 percent of the tax levy.

This report takes a detailed look at the disparate property tax burdens in the city and how they have changed since the implementation of S7000A. It examines these changes in tax burdens for different types of properties—private homes, apartment houses, and commercial buildings—and between similar types of properties in different neighborhoods. Among the report's key findings:

- Homeowners in low-income communities no longer have higher tax burdens than owners of similar homes in wealthier neighborhoods. Although some of the fastest growth in market values has been in the city's poorer neighborhoods, the assessment caps limited how much of this growth could be reflected in property taxes,

thereby lowering the effective tax rate for owners in these communities.

- While the disparity in effective tax rates among owners of houses and apartments has narrowed, the gap between homeowners and owners of other types of properties has widened. For example, the effective tax rate for homeowners has fallen 65 percent since 1984, but it has dropped by only 18 percent for owners of commercial property, and it has risen slightly for owners of apartment buildings with elevators.
- The coop and condo tax abatement has lowered the effective tax rate for many apartment owners to below that of homeowners. Out of the $293 million spent on the abatement this year, $156 million went to apartment owners whose effective tax rates were already below that of homeowners or who did not need the full abatement to reach the homeowners' level—with much of this excess spending going to Upper East Side and Upper West Side apartment owners. Yet many owners of coops in Brooklyn and Queens still have higher tax burdens than homeowners.
- The disparity in tax burdens has widened between rental buildings and coops. In 1997 the effective tax rate for rental apartment buildings was 1.8 times higher than coops. Ten years later the effective tax rate for rental buildings was 5.5 times higher than coops.
- In general, commercial property tax burdens are higher in New York City than in other U.S. cities with populations over 1 million.

In addition, IBO finds that the process of allocating a portion of the total property tax levy to each of the four classes of property, known as the "class share system," has contributed to the widening disparities in tax burdens. In order to prevent a shift of tax burdens from commercial properties to homeowners, the drafters of S7000A designed the law so that each of the four property types would pay roughly the same share of the total property tax levy as they did in 1981.

But this approach largely ignores shifts in market values. If changes in market values were fully reflected in the annual share of the total tax levy for each property type, IBO estimates that homeowners would face an aggregate tax levy 67 percent higher than what they pay today. In contrast, commercial properties would have to pay 25 percent less of the total tax levy.

There are a variety of ways to address the continuing disparities in the city's property tax system. This report includes results of several revenue neutral scenarios that would reduce the disparities. One alternative would shift the property tax system to a single tax rate for all property types. The others are variations based on using two property classes instead of the four the city has today.

Given the extent of the current disparities, each of the scenarios would produce large changes with some winners and some losers. We present the effects these changes would have on the average tax bills for different types of properties. None of the examples are intended as recommendations by IBO. Rather, we present them to illustrate the difficult policy and political choices that would have to be made in order to bring greater equity and openness to the city's system for taxing homes and buildings.

Past as Prologue:
The Legislative Road to Adopting Today's Property Tax System

As day turned to night in Albany on December 3, 1981, state Assembly and Senate leaders scrambled to ensure they had enough votes to override Governor Hugh Carey's veto. Six years earlier, New York's highest court had ruled that the way cities and towns throughout the state assessed property was illegal. Over the ensuing years, the state Senate and Assembly grappled with how to respond, and after several one-house bills, finally came up with legislation that passed both chambers. Now, unless enough members went "into the tank"—legislators' vernacular for casting a vote at the behest of the leaders of each house—they could be back to the drawing board.

The court decision was prompted by a suit filed more than a decade earlier by law professor and attorney Jerome Hellerstein. His wife owned a bungalow on Fire Island that was assessed at a fraction of its value. The Hellersteins believed this was wrong and, despite the fact that winning in court would likely mean they would wind up paying higher taxes, pursued the case for seven years. In 1975 the state's Court of Appeals upheld the Hellerstein challenge, finding that Islip (where the suit was filed) and most other jurisdictions across the state, including New York City, were in violation of a nearly 200-year-old state law that required properties to be assessed at their full market value.

A POLITICAL MINEFIELD

The Hellerstein case did more than invalidate the long-time custom across the state of fractional assessments: it created a political minefield for elected officials. For years, homeowners paid property taxes based on a relatively small share of the value of their homes. Since many localities updated these assessments infrequently they often lagged well behind changes in the value of the property. With most localities dependent on property taxes to raise revenue to provide services, this meant owners of other kinds of property—namely commercial and apartment buildings—had to pay taxes based on a far larger share of market value in order to generate sufficient funding.

In New York City, homeowners at the time of the suit paid taxes based on approximately 25 percent to 30 percent of assessed value. Commercial owners paid taxes based on roughly 80 percent of the assessed value of their property. In other words, the effective tax rate—the tax paid on every $100 of full market value—was far higher for owners of commercial and apartment buildings than for many homeowners.

But even in the same locality owners of similar types of properties often shouldered very different property tax burdens. A 1980 study commissioned by the city's Department of Finance found that the city had a "standard–less system of real property taxation."[1] A study by the New York Public Interest Research Group concluded that homeowners in the city's poorer neighborhoods frequently had an effective tax rate that was much higher than that of owners of similar homes in wealthier neighborhoods because infrequent or inaccurate assessments did not reflect actual market values.[2]

While the court ruling meant that the Legislature needed to address the issue of full market assessments, meeting the mandate did not by itself have to affect the amount of property tax paid by homeowners. Simply passing legislation that replaced the old full value requirement with rules that allowed for current practices could have satisfied the court. But the Hellerstein decision and the subsequent studies undertaken in response to the decision had laid bare the inequities in the property tax system, providing owners who felt overburdened an opportunity to press lawmakers for broader changes. Addressing the inequities would almost certainly mean there would be winners and losers—some who saw their property tax bills go up and some who saw them fall. Among those who would likely see their bills go up was a significant share of homeowners. This was not a group most elected officials wanted to anger.

While owners of office buildings and storefronts can pass some of the cost of higher property taxes on to their commercial tenants, particularly those with escalation clauses in their leases, and renters do not generally see evidence of the portion of their rents that goes to taxes, many homeowners receive property tax bills in the mail and must pay them directly. That makes homeowners acutely aware of changes in property taxes. And it makes elected officials wary of angering homeowners, especially because they vote in comparatively large numbers.

A 2000 Census Bureau study of voter participation nationally found that in the 1998 elections homeowners voted at nearly twice the rate of renters, 51 percent to 28 percent.[3] Homeowners tend to have higher incomes and marital rates and be older than renters, demographic factors that correlate to higher voter turnout, according to a University of Virginia study.[4] Although renters greatly outnumber homeowners in the city, when coupled with these other factors the interests of homeowners can carry a disproportionate weight in the voting booth, even in New York.

As legislative efforts to respond to the court decision progressed, Albany increasingly heard from worried homeowners. If Albany policymakers had any doubts about the political strength of aggrieved homeowners, the 1978 passage of Proposition 13 in California, which cut property taxes by 30 percent and then limited future increases, made officials in state capitals nationwide acutely aware of the power of this voting bloc.

Nonetheless, homeowners were not the only ones making their interests known in Albany. Business leaders argued that the burden of property taxation fell too heavily on them. Many argued that high commercial property taxes were a drag on the state economy, impeding job creation and making it more difficult to attract and retain businesses. According to E. J. Dionne Jr. reporting in *The New York Times*, many lawmakers who publicly supported protecting homeowners from increases privately agreed with the view of business leaders.[5]

In a few instances, commercial landowners took advantage of the court decision to sue localities for restitution after years of having to shoulder higher effective tax rates than homeowners. In one example, Nassau County was ordered to pay back $5 million to commercial firms as a result of their properties being overassessed relative to the county's underassessed homes. "You're talking about complete chaos, a breakdown of the body politic," is how one official described the prospect of collecting back taxes from homeowners in order to pay taxes due to the commercial firms.[6]

A SLOW START TOWARDS CHANGE

The Court of Appeals gave the legislature a three-year deadline for bringing the system of property tax assessment into compliance with state law. Given the complexities of the issue—in political and policymaking terms—neither the legislature nor the Governor rushed to act.

Indeed, with their first act they largely postponed decision-making until a later date. In October 1977 Governor Carey signed legislation that postponed the implementation of full market value assessments until 1981 and created a Temporary Commission on Real Property Taxation to explore means of protecting homeowners from large tax hikes. These protections included "homestead" exemptions that limit taxation to only a portion of a home's value, "circuit breakers" that linked the amount of tax paid to household income levels, and a class system that would differentiate between residential property and commercial property so that commercial owners could be taxed at a higher rate.

Two Chambers, Two Approaches. Over the next few years, a variety of bills were introduced but gained little traction towards an ultimate resolution. While legislative leaders uniformly said they wanted to protect homeowners from property tax hikes, their proposed means for doing this basically took two different approaches.

Senator Frank Padavan and Assemblyman John Esposito (both from Queens, which some studies showed was the most underassessed borough in the city) led efforts to pass legislation that would simply turn things back to the

pre-Hellerstein days. Their bill, which passed in the Republican-controlled Senate, would repeal the law requiring full-value assessments and enable property assessments to be done much as they had prior to 1975. Opponents claimed that this approach would leave localities open to suits from commercial owners claiming that they were overtaxed and demanding large repayments, similar to the successful suit in Nassau County.

To prevent such suits and still protect homeowners, the Democratic-controlled Assembly took a different approach. Speaker Stanley Fink sponsored legislation that would provide for full market value assessments but create a property classification system and craft different tax rates for residential and commercial properties. The bill gave localities the ability to freeze assessments for current homeowners whose property taxes would rise and also included a homestead exemption.

But early experiences with full-market assessments in towns such as Islip and Mount Kisco, which had already begun to implement them following the Hellerstein ruling, hurt the Assembly's approach and hardened homeowner opinions. An Islip official described the process as "brutal" and said that elderly and fixed-income residents were forced to sell their homes. He urged other municipalities to wait until "we see some responsible action on the part of the Legislature."[7]

Even for those homeowners who were being overtaxed relative to their neighbors, issues of fairness and equity were swamped by an automatic aversion to changes that could potentially mean higher property taxes for some. As then-Lieutenant Governor Mario Cuomo observed, "The truth is today there is no plan for guaranteeing equity that is not going to cost somebody. Since nobody is sure whom a solution will hurt, everybody believes it's going to cost them."[8]

Homeowners had justifiable reasons to be worried. A 1979 report by an Assembly task force on property taxation estimated that a shift to full market value assessments would lead to large jumps in average property tax bills for many city homeowners—as much as a 139 percent rise in Queens, 108 percent in Staten Island, and 104 percent in Brooklyn. The report warned, "The result of allowing the Hellerstein mandate to stand would be residential tax increases so large in many areas that New York could suffer the same angry reaction from taxpayers that led to Proposition 13 in California."[9]

Assemblyman Esposito played a leading role in organizing anxious homeowners and bringing them to Albany. He also decided to run for the Republican mayoral nomination in New York City in 1981, and made property taxes one of his central issues. It became a direct challenge to Mayor Edward Koch who was running for reelection and seeking both the Democratic and Republican nominations. Under attack by many minority city residents for his decision to close Sydenham Hospital, Koch's electoral base was increasingly dependent upon white, ethnic outer borough voters—some of the very voters at the heart of Esposito's homeowner organizing efforts.[10]

A Deadline Approaches. The year 1981 was more than just an election year in the city. It was the deadline the Legislature had given itself for resolving the property tax issue. On May 13, 1981, just two days before this deadline, Assembly Speaker Fink and Senate Majority Leader Warren Anderson introduced what they termed a "study bill" that was subject to revisions. The bill gave localities the ability to choose among several assessment options, from leaving their tax systems much as they currently were to creating property classes with different assessment rates for residential, commercial, and other properties. The legislature also voted itself another one-month extension.

If the Legislature's study bill did not prompt an immediate resolution, it did lead to the Governor making his own proposal. In June, Governor Carey proposed moving to full-value assessments throughout the state, with a phase in over four years. In New York City, though, his plan called for a circuit breaker linking taxes to income. For example, a household with annual income of less than $12,000 would have property taxes limited to no more than 4 percent of income. His plan also created four property classes in the city, with tax rates that could be three times higher for industrial and vacant property than on one- to three-family homes, coops, and condos. For the rest of the state,

Governor Carey proposed homestead exemptions.

The Governor's bill failed to sway the Legislature, which continued to focus on its bipartisan study bill. With many homeowners and their legislative backers continuing to oppose any plan that could mean a tax increase for underassessed properties, the Assembly and Senate voted another extension to their deadline.

A COMPROMISE TAKES SHAPE

Over the next three months a compromise bill took shape in the legislature that more closely resembled the Senate's initial goal of changing assessment practices as little as possible. The new bill, presented on October 18, sought to accomplish this by establishing two different methods for assessments: one for New York City and Nassau County and another for the rest of the state.

While much of the state could continue to follow their current practices, in the city and Nassau County the bill would create four classes of property—one- to three-family homes, other residential buildings, utilities, and commercial. Each class of property would continue to provide the same share of total property taxes collected as they then contributed.

To provide greater protection to homeowners against rising property taxes, particularly underassessed homeowners, there would be caps on how much assessments could increase annually and over five years. In other words, the bill maintained a system that placed larger tax burdens on owners of commercial properties and apartment buildings and failed to ensure that the assessment and tax inequities between similar homes in different neighborhoods would be fully eliminated.

Ten days later, the Assembly and the Senate approved the bill, which was known as S7000A. While the Senate passed the bill by a wide margin, in the Assembly, the bill passed by a vote of 88-47, a margin that fell short of the 100 votes needed to guarantee an override of a potential veto by the Governor.

Pressuring the Governor. Pressure quickly mounted from both sides. Mayor Edward Koch strongly endorsed the bill, noting in a letter to the Governor "…enactment of this bill would give to the city and its residents a clearer and more comprehensible system of property assessment and taxation."

The Real Estate Board of New York, representing some of the largest commercial landlords in the city, just as strongly opposed the bill and took up the cause of apartment renters—by far the largest group of residents in the city but one largely unheard and unrepresented during the property tax debate. The real estate board's letter to the Governor noted that taxing apartment buildings at a higher rate than private homes gave homeowners a "…double benefit [lower taxes as well as mortgage and tax deductions] at the expense of New York City multiple dwelling tenants."

Opposition to the bill took a harsher tone from some legislators. Then-state Senator Major Owens, representing a largely African-American district in Brooklyn, expressed his view to the *Times* that the bill failed to address the inequities in a system that left many homeowners paying substantially more than homeowners in other neighborhoods. Senator Vander Beatty, who represented a neighboring Brooklyn District, put it far more bluntly, calling the bill's protection of underassessed homeowners who largely resided in wealthier communities, "blatant racism." [11]

On November 12, Governor Carey vetoed the bill. In his veto message the Governor argued, "The bill would not afford adequate protection to all homeowners. The preservation of existing practices would, in my judgment, result in the continuation of the inequitable, chaotic, and haphazard assessment practices which homeowners have been

subjected to for many years."

Roughly a week later, the Governor introduced a new plan, which was rebuffed by legislative leaders in both the Assembly and Senate. The focus there remained securing enough votes to override the Governor's veto of their bill.

Overriding the Veto. On December 3 the Legislature met to vote on the override. The measure passed easily in the Senate. In the Assembly, Minority Leader James Emery, an upstate Republican who was running for Governor, pressured some of his colleagues to abandon their initial opposition to the bill and support the override.

Although the Minority Leader himself did not vote for the override, he succeeded in convincing others. When Assemblyman George Winner of Elmira first walked into the chamber that night he declared his opposition to the override. Later, he said, "Into the tank," and switched his earlier vote, as did 13 Republican colleagues, and joined the Assembly's Democratic majority in overriding the Governor's veto by three votes. At 9:55 p.m. the road to adopting S7000A had been completed.[12]

SAME AS IT EVER WAS?

Twenty-five years after passing S7000A, much remains the same. Many homeowners complain that their taxes are too high—despite relatively low effective tax burdens compared to rental apartment buildings and commercial properties. Other inequities continue to persist as well. A patchwork of "fixes" such as the coop and condo tax abatement has added to the disparities and complexities of the property tax system in New York City.

Frustration over property taxes is so prevalent across the state that Governor-elect Elliot Spitzer made property taxes one of his preeminent campaign issues. Governor-elect Spitzer's campaign Web site prominently displayed his plan for "middle class property tax relief," promoting it before such other major issues as education, public safety, and health care.

But the Governor-elect's plan is aimed at reducing property tax burdens rather than systematic reform. While many New Yorkers may feel that the property tax system, especially as it has evolved in the city, is broken, there is little accord on how to fix it. An effort to craft fundamental reforms would have to tread the same political minefield of competing interests and policy concerns as Albany legislators faced more than two decades ago. Without another court ruling or some other external prod, it is not a minefield many legislators in Albany, or City Hall, appear ready to brave.

Written by Doug Turetsky and Peter Madden

END NOTES

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Cause and Effect:
An Analysis of Changes in Property Tax Burdens Since 1981

The drafters of S7000A intended to avoid major changes in the distribution of property tax burdens as it stood 25 years ago. While they succeeded in preventing the sort of changes that were predicted if the state court's Hellerstein decision had simply been allowed to take effect, tax burdens have in fact changed significantly over time. This chapter examines the changes in tax burdens among different types of property and the disparities in tax treatment within the same property type.

Under S7000A, the city's property tax has grown even more tilted in favor of owners of one-, two-, and three-family homes than it had been in 1981. While some of the most egregious disparities that existed before 1981 have been removed, IBO finds that new disparities—particularly between similar types of residential property—have grown, often as a direct result of features of S7000A.

After a discussion of the data sources and methodology used in this study, we review in detail the major features of S7000A. We then analyze how tax burdens have changed for different classes of properties. The chapter concludes with a look at disparities within the major property types.

DATA AND METHODS

Assessing how tax burdens have changed under S7000A requires a consistent way of measuring those burdens. The annual tax rates are readily available, but as will become apparent below, because of features of the system created under S7000A, these nominal tax rates do not provide a useful measure. The nominal tax rates are applied to assessed value, but levels of assessment vary greatly among types of property under S7000A. To avoid this problem, throughout this study we use the net effective tax rate (ETR) as our standard measure. It is simply the final tax levy, net of abatements and rebates, divided by the market value of the property. Since the ETR is measured against market value rather than assessed value, the ETR avoids the problem caused by differences in the level of assessment.

To measure the change in effective tax rates under S7000A, IBO had to develop its own estimated market values in order to compensate for missing and distorted data in the Department of Finance's official assessment history. The finance department, like all assessing agencies, estimates market values as a first step in valuing properties for tax purposes. The values, however, were not generally recorded and made available to the public until 1993.[1] Therefore, we needed to estimate market values for the years 1984 through 1992. For consistency, we also estimated IBO values for the period 1993 through 2007.

A second problem with the finance department's market values after 1993 is that they do not reflect real values for coop and condo buildings. As discussed below, a provision of S7000A forces the city to value these properties as if they are rental buildings. To estimate values closer to the true market value of these buildings IBO developed sales-based values from the record of apartment sales.

This study relied on three primary data sources: 1) a file with the history of assessments for each property in the city for each assessment roll beginning with the one used for 1984 through the current 2007 assessment roll; 2) files with records of individual sales transactions from 1975 through June 2006 for all properties except coops, for which the data begin in 1990; and 3) the finance department's open balance file, which provided the record of abatements for 1997 through 2007. We also used demographic data from the 1980 and 2000 decennial census and the 2005 Housing and Vacancy Survey (HVS).

For commercial and utility properties and large rental buildings we used the Department of Finance market values throughout the study.[2] For other properties—one-, two-, and three-family houses, coops, condos, and rental buildings with 10 or fewer units—we used IBO's sales-based values. The first step in estimating these IBO market values was to compute ratios of sales prices to market values for different property types for various units of geography.[3] For the years before 1993 we also computed the median sales price to assessed value ratios for the same combinations of property types and geography.

These sales statistics were then applied to the assessment history to generate estimated sales-based market values for various levels of geography. The different levels of geography—arrayed from smallest to largest—are coop or condo buildings, small residential markets in Manhattan that are usually only a few square blocks, a larger set of approximately 250 neighborhoods defined to conform to real estate markets across the city, community planning districts, and boroughs. IBO tested to see if there were sufficient sales in a particular assessment year in a given unit of geography to have confidence in the estimate and used the sales statistics from the smallest unit of geography which met our criteria for minimum sales.[4] To estimate coop prices prior to 1990 when the coop sales became subject to the Real Property Transfer Tax and therefore were systematically recorded in finance department files, IBO used condo prices adjusted for the historical relationship between coop and condo prices in each borough.[5]

In computing the levy for each property we used the final tax rates set by the City Council. In years with mid-year rate increases we used a single blended rate for the entire year. Our levy calculations exclude the separate veterans' tax rate. IBO has access to abatement information from 1997 onward which allowed us to compute a net levy amount. The abatements included in the study were the J-51, Industrial and Commercial Incentive Program, coop-condo, Section 626, lower Manhattan commercial lease, and residential conversion. The current $400 dollar rebate for homeowners is not recorded in the open balance file. Therefore it was estimated using the population of the state's School Tax Relief (STAR) exemption. Any taxpayer receiving STAR was assumed to also be receiving the rebate.

Although IBO started with the full finance department history files, there are some years for which the sum of the records on the computer file does not match the published numbers. In most years the totals represent more than 99 percent of the published amounts. Nevertheless, because of the discrepancies, the assembled study file should be considered a sample.

FEATURES OF S7000A

As we have seen from the review of the legislative history of S7000A, the primary goal of the drafters was to preserve the status quo and avoid the large shifts in tax burdens that would have occurred if the principals of the Hellertstein decision were followed. One of the main features of S7000A is classification. While the Hellerstein decision found that the city had illegally treated different groups of properties differently, S7000A legalized such classification. Rather than requiring uniformity across all properties, the new law required uniformity within classes while allowing for different tax treatment for each class.

Four Classes of Property. Properties were now grouped into four classes: Class 1 originally consisted of one-, two-, and three-family houses. Over time other property types have been moved into Class 1, including small condo buildings with three or fewer units that were built as condos, and bungalow communities organized as cooperatives such as Breezy Point in Queens, small mixed-use buildings with three or fewer units where the commercial usage (usually a ground floor store) is less than half of the square footage, vacant land outside of Manhattan that is adjacent to a Class 1 parcel, and parcels with a free-standing garage that are adjacent to Class 1 parcels.

Class 2 consists of all other residential properties including coops and condos not in Class 1. Class 3 includes property of regulated utilities and holders of franchises such as cable television providers who place their equipment

on or under the city streets. Some of the property in Class 3 is assessed by the state's Office of Real Property Services rather than by the city's Department of Finance.[6] Class 4 consists of all other property, ranging from gas stations and corner stores, to factories and warehouses, up to office skyscrapers. As a result of technological and regulatory changes over the last 25 years, much of the property originally placed in Class 3 is now included in Class 4.

Each class can have different assessment ratios (assessed value for tax purposes divided by market value), valuation methods, and tax rates. The city can set the assessment ratios and tailor the valuation methods within each class to suit its policies. Once the city determines how much revenue it wants to raise the from the property tax in a fiscal year, the individual class tax rates are largely determined by formula, with only a small amount of policy discretion available to the City Council.

Limiting Assessment Increase/Changes. A second main feature of S7000A is the limits on assessment changes, although the law specifies different limitation rules for each class. In Class 1, assessment increases that result from market conditions can not exceed 6 percent in a single year and 20 percent over five years, regardless of how fast the market value has grown. Assessment increases due to physical improvements to a property are not subject to the cap. Such caps on assessment growth are intended to protect taxpayers from tax increases driven by rapid appreciation which may not be accompanied by a corresponding increase in the owner's ability to pay the higher tax. This was a key concern for the drafters of S7000A who were well aware of the taxpayer fury caused by housing price inflation in California in the 1970s that culminated in the passage of Proposition 13 in 1979. As will be discussed in greater detail below, the Class 1 assessment cap included in S7000A has resulted in significant foregone assessed value that—barring an unprecedented collapse in housing prices—will probably never be recaptured.

One of the first significant changes to the original S7000A structure was to extend the benefits of assessment caps to small apartment buildings in Class 2. For these buildings annual assessment increases were capped at 8 percent and no more than 30 percent over five years. Although they remain in Class 2, they have been designated as subclasses and are often broken out for reporting purposes. Class 2A refers to buildings with four to six units that received the benefits of the caps in 1986. Class 2B refers to buildings with seven to ten units whose assessments were capped beginning in 1988. Finally, Class 2C was created to cap assessments for coops and condos with 10 or fewer units beginning in 1994.

Assessment limits are handled differently for Class 2 buildings with more than 10 units and in Class 4. For these properties the law requires that assessment changes due to market conditions be phased in over five years.[7] Taxes are computed two ways, with the taxpayer charged the lower amount. The first method uses the actual assessment without taking into account any changes currently being phased in. The second method, which is known as the transitional assessment, takes into account any change being phased in this year as well as those being phased in from the four previous years. The lesser of the actual or the transitional assessed value, net of exemptions, is called the billable taxable assessment. This is the value used to calculate tax liabilities.

Unlike the assessment caps used in Class 1 and in Classes 2A, 2B, and 2C, which have prevented the city from fully reflecting all of the market value appreciation that has occurred over the past 25 years, the Class 2 and Class 4 phase-ins smooth out the assessment changes while allowing the city to eventually capture the appreciation in value for those properties. Indeed, at times when the more cyclically sensitive income and sales taxes have contracted sharply during downturns in the local economy, this smoothing process has helped the city sustain its revenue base thanks to the pipeline of previous assessment increases still being phased-in. For example, during 2002 as the city economy was battered by a brief national recession, the collapse of the dot-com bubble on Wall Street, and the shock of the 9/11 attack, income and sales taxes fell by 17.1 percent from 2001. Real property tax revenue, on the other hand, grew by 7 percent thanks in large part to the pipeline of previous assessment increases still being phased-in.

Class Share System. A third feature of S7000A is often referred to as the "class share system." Fundamentally, it is designed to ensure that each of the four tax classes pay roughly the same share of the levy as they did in 1981. The shares are adjusted each year for physical changes (i.e. new construction and demolition), shifts of individual properties from one class to another, and to partially reflect changes in each classes' share of market value. The City Council was also given sole discretion to adjust the tax levy share of each class by up to 5 percent annually. As will be discussed in greater below, this discretion was regularly used to reduce the Class 1 and Class 3 shares. Once the class shares are determined, the tax rate for each class is set by dividing the classes' share of the levy needed for the budget by the billable taxable assessed value in the class.

When S7000A was originally enacted, it was expected that the state's Office of Real Property Services would undertake market value surveys every two years to be used when adjusting the market value shares. The first state survey was scheduled to be ready for 1987, but it was delayed and legislation was passed pushing the deadline back until 1989. The same bill also substituted 1984, rather than 1981 as the base year for the shares. With no market value adjustments made from 1983 through 1989, during which Class 1 values had been growing rapidly, the use of the first survey in 1989 would have resulted in a significant adjustment in the class shares, with taxes for Class 1 growing by an estimated 42 percent.[8] In order to avoid such a result, the class share system was further modified by legislation passed in 1989. The process for calculating the class shares was altered to include annual adjustments for market value shares without waiting for periodic surveys by the state, and reduce the discretion of the City Council to adjust the shares each year. The legislation also reset the base year for future share calculations to 1990.

Particularly after the 1989 legislation was enacted, the class share system discourages increases in the overall nominal tax rate because the formulas ensure that an increase will be borne by all classes, including Class 1. Indeed, the overall nominal tax rate remained frozen from 1992 through 2002. Following the 18.5 percent rate increase that was phased-in in 2003 and 2004 as the city faced a severe revenue shortfall, the overall nominal tax rate has once again been frozen at the new, higher level.

Valuing Coops and Condos. Another feature of S7000A that received less attention in 1981 than the assessment caps and class shares, but which has grown increasingly important in the years since, concerns how coops and condos are to be valued. The legislation inserted a new Section 581 in the Real Property Tax Law that required the city to value coops and condos as if they were rental buildings. This meant that assessors were not allowed to look at the sales prices of apartments in a building in determining market value. Since the city uses the capitalized net income method to value rentals, assessors must impute an income amount for coops and condos using information from comparable nearby buildings. Given the age and location of many coops and condos, the comparable buildings—particularly in the early years under S7000A—are rent-regulated buildings.

Using the income approach almost always results in a lower value than if sales prices were used. At the time, when a wave of coop conversions was sweeping the city, it was thought that Section 581 would avoid the problem of assessors valuing buildings based on their conversion potential. But it was also clear that ignoring sales prices resulted in discounted market values for existing coops and condos. As will be discussed in greater detail below, this discounting has grown deeper in the years since, widening the disparities in tax burdens among different types of residential property and even within the coop and condo group itself.

Trends in Market Values, Assessments, and Tax Levy. Even with the assessment caps, the Section 581 constraint on coop and condo valuations, and some administratively imposed changes that lowered assessments,[9] total assessed value has grown by an average of 4.2 percent annually since 1983 (see Table 1). Over the same period, the tax levy, net of rebates and abatements, has grown even faster, averaging 5.2 percent annually. While increases in the nominal tax rate account for some of the growth in the levy, about two-thirds of the increase is due to assessment growth. If the nominal tax rate had remained unchanged, the levy would still have increased by about 160 percent since 1983.

Table 1
Market Values, Assessments and Levy under S7000A, 1983-2007
Dollars in millions

Fisal Year	DOF Market Value	Assessed Value[1] Actual	Assessed Value[1] Billable	Levy	Net Levy[2]	Nominal Tax Rate[3]	DOF Effective Tax Rate[4]	IBO[5] Market Value	IBO Effective Tax Rate[6]
1983	--	$47,194.0	$ 43,824.8	$ 4,004.6	$ 4,004.6	9.120	--	--	--
1984	--	51,422.5	45,795.1	4,224.6	4,224.6	9.206	--	152,961.7	2.73
1985	--	53,589.8	48,266.4	4,475.5	4,475.5	9.255	--	185,523.7	2.40
1986	--	58,572.9	52,469.9	4,866.8	4,866.8	9.256	--	209,643.6	2.31
1987	--	61,972.6	55,089.4	5,141.7	5,141.7	9.315	--	243,404.8	2.11
1988	--	67,499.9	59,111.5	5,586.0	5,586.0	9.434	--	288,590.4	1.93
1989	--	76,577.2	64,141.6	6,233.0	6,233.0	9.703	--	346,727.7	1.79
1990	--	85,846.6	70,053.9	6,872.4	6,872.4	9.797	--	400,193.6	1.71
1991	--	91,534.1	76,333.6	7,743.0	7,743.0	10.135	--	427,401.4	1.81
1992	--	83,611.0	78,467.6	8,318.8	8,318.8	10.591	--	393,749.2	2.11
1993	322,925.7	81,714.6	79,179.1	8,392.5	8,392.5	10.591	2.60	370,555.2	2.26
1994	300,283.9	79,296.5	78,177.5	8,113.2	8,113.2	10.366	2.70	350,577.1	2.31
1995	293,008.7	76,807.1	76,019.3	7,889.8	7,889.8	10.366	2.69	346,369.0	2.28
1996	294,069.8	77,423.6	75,851.6	7,871.4	7,871.4	10.366	2.68	354,883.1	2.22
1997	294,379.3	77,509.3	75,495.0	7,835.1	7,742.1	10.366	2.63	351,250.4	2.20
1998	298,357.0	78,770.3	76,020.7	7,890.4	7,694.4	10.366	2.58	364,275.6	2.11
1999	311,368.7	82,154.7	77,698.7	8,099.3	7,852.2	10.366	2.52	396,697.7	1.97
2000	326,921.8	85,868.0	80,089.4	7,374.3	7,114.7	10.366	2.18	428,215.7	1.88
2001	354,348.4	90,569.7	83,258.0	8,730.3	8,442.1	10.366	2.38	481,465.3	1.73
2002	392,347.6	97,486.4	88,289.6	9,271.2	8,965.7	10.366	2.29	542,616.0	1.63
2003	429,810.4	102,704.7	93,287.4	10,688.8	10,376.6	11.323	2.41	611,356.1	1.67
2004	466,677.7	106,789.5	98,634.5	12,250.7	11,879.2	12.283	2.55	674,485.2	1.74
2005	540,384.4	110,316.4	102,367.3	12,720.0	12,076.3	12.283	2.23	794,530.6	1.50
2006	614,455.0	122,484.0	110,127.2	13,668.1	12,978.9	12.283	2.11	928,077.3	1.38
2007	674,076.3	127,637.1	115,119.4	14,291.2	13,603.1	12.283	2.02	1,009,109.5	1.33
Change 1984-2007		170.5%	162.7%	256.9%	239.7%	34.7%		559.7%	-51.3%
Annual Avg.		*4.2%*	*4.1%*	*5.4%*	*5.2%*	*1.2%*		*8.5%*	*-3.1%*
Change 1993-2007	108.7%	56.2%	45.4%	70.3%	62.1%	16.0%	-0.22	172.3%	-41.2%
Annual Avg.	*5.4%*	*3.2%*	*2.7%*	*3.9%*	*3.5%*	*1.1%*	*-0.02*	*7.4%*	*-3.7%*

SOURCES: IBO; DOF Annual Report on New York City Real Property Tax, 1993-2005; Deprtment of Finance "RPAD" file; City Council Tax Fixing Resolutions, 2006-2007.
NOTES: [1]Taxable assessments (actual and billable) are net of exemptions, including STAR. [2]Net Levy is levy net of rebates and abatements. Data are available only since 1997. [3]Nominal tax rate per $100 of assessed value, exclusive of the veterans school tax. [4]Effective tax rate per $100 of Department of Finance market value. [5]IBO market value from study sample. See "Data and Methods" in text for discussion of differences from full assessment roll. [6]IBO effective tax rate per $100 for parcels in study sample.

Despite the increase in the nominal tax rate the levy as a share of market value—the effective tax rate—has been falling since at least 1984. IBO's estimated market values for parcels in the study have grown nearly six-fold since 1984, averaging 8.5 percent per year between 1984 and 2007. With market value growth outstripping growth in net levy, the citywide ETR dropped a total of 51.3 percent, or 3.1 percent annually, over the same period. For comparison, Table 1 includes the Department of Finance market values beginning in 1993, when they were first published. Although finance department values are distorted by the Section 581 constraint on coop and condo assessments, they also show a decline in the effective tax rate between 1993 and 2007 of 22.4 percent. Not surprisingly, given IBO's much higher estimate for market values in recent years, the decline in the IBO-estimated ETR for the same period is larger at 41.2 percent. In an environment of generally falling effective rates, however, some have fallen much further than others. In the next section we examine changes in effective tax rates for various types of property.

CHANGES IN TAX BURDENS BY TYPE OF PROPERTY

Growing Disparities in Effective Tax Rates. A 1980 New York University (NYU) study commissioned by the Department of Finance documented the wide differences in tax burdens for various types of property in 1979 and

1980, with one-family and two-family houses enjoying an effective tax rate of 2.15 per $100 of market value, which was barely half (52 percent) of the rate for all property.[10] The effective tax rate for other housing was 5.19 per $100 and for non-residential property was 5.55 per $100. S7000A was designed to avoid substantial equalization of these tax burdens.

IBO's analysis of the effective tax rates for major property types over the last 25 years shows that not only has there not been any move toward equalization but the gaps between Class 1 houses and other property types have grown wider.[11] The trends are shown in Table 2 with the annual effective tax rates—measured using IBO's estimates of market values—for various types of property.

For owners of one-, two-, and three-family houses, which comprise the bulk of properties in Class 1, the average tax burden has fallen by 65 percent since 1984. Owners of small apartment buildings in Class 2A and 2B have seen a similar decline in their ETR over the same period. There were also declines in the ETRs for coop and condo buildings of 29 percent and 28 percent, respectively. Walkup apartment buildings have seen a very modest decline of 7 percent, while the effective tax rate for elevator apartment buildings in 2007 has grown slightly since 1984. The average ETR in Class 4 fell by 18 percent, while the utility property in Class 3 had an ETR per $100 in 2007 that was 12 percent higher than in 1984.

As a result of these changes, the effective tax rate for Class 4 properties, which was 3.3 times higher than the rate for one-, two-, and three-family houses in 1984, is now 7.8 times higher. For coops, the ratio to the one-, two-, and

Table 2
Net Effective Tax Rates for Selected Property Types, 1984-2007
per $100 of market value

Fiscal Year	1,2,3 Family	Coops	Condos	Walkups	Elevators	2A/2B	Class 3	Class 4
1984	1.32	0.96	0.94	4.54	3.64	2.22	4.58	4.33
1985	1.18	1.09	1.05	3.51	2.76	2.33	4.49	3.25
1986	1.03	1.18	0.93	3.41	2.69	2.21	4.49	3.25
1987	0.88	0.97	0.79	3.22	2.60	1.63	4.55	3.24
1988	0.71	0.93	0.80	2.98	2.55	1.25	4.94	3.22
1989	0.60	0.91	0.79	2.79	2.46	1.03	5.60	3.09
1990	0.55	0.90	0.83	2.71	2.39	0.90	6.41	2.98
1991	0.57	1.00	0.95	2.79	2.40	0.89	7.54	3.22
1992	0.66	1.42	1.25	3.56	3.00	1.14	6.49	3.91
1993	0.76	1.56	1.41	3.75	3.14	1.65	3.96	4.06
1994	0.80	1.70	1.56	4.08	3.40	1.69	3.30	4.15
1995	0.76	1.80	1.59	4.10	3.37	1.93	3.43	4.08
1996	0.76	1.83	1.60	4.19	3.47	2.06	3.52	3.78
1997	0.77	1.86	1.63	4.03	3.38	2.12	3.48	3.81
1998	0.78	1.67	1.43	3.93	3.35	2.09	3.77	3.53
1999	0.74	1.27	1.21	3.63	3.18	1.87	3.86	3.45
2000	0.70	1.13	1.10	3.64	3.15	1.71	4.12	3.44
2001	0.64	1.05	0.99	3.52	3.10	1.47	4.55	3.18
2002	0.60	0.95	0.89	3.45	3.04	1.26	4.54	3.26
2003	0.60	0.92	0.87	3.68	3.23	1.21	5.09	3.64
2004	0.61	0.96	0.92	4.23	3.61	1.27	5.31	3.93
2005	0.49	0.81	0.81	4.04	3.63	0.66	5.32	3.95
2006	0.47	0.70	0.69	4.04	3.52	0.70	5.26	3.50
2007	0.46	0.68	0.68	4.21	3.72	0.78	5.15	3.56

SOURCE: IBO.

three-family ETR has gone from 0.7 to 1.5, and for elevator apartment buildings the ratio grew from 2.8 to 8.1. The effects of central features of S7000A account for much of these differences in the outcomes for these various property types.

Class Share Adjustments Widen Disparities. The class share process is a big part of the story and a major reason effective tax rates for homeowners have remained lower than for other types of properties. As noted earlier, the class share system was intended to limit shifting of burdens from one class to another by establishing the pre-S7000A levy shares as the base for the new system. The base shares were then to be adjusted annually to account for physical change (i.e. new construction, alterations, and demolitions) and periodically for changes in the share of market value among the four classes.

The City Council was also granted discretion to make small adjustments to the shares each year as part of the tax rate fixing process. The Council used this discretion to lower the Class 1 share of the levy each year from 1983 to 1991 while increasing the Class 4 share in each of those years. Reducing the levy share for Class 1 contributed to the lower ETR for one-, two-, and three-family houses. Likewise, the increases in the Class 4 levy share meant that the ETR for the class fell less than it would have if the discretionary adjustment had not been made. The share for Class 3 was reduced in each year from 1985 through 1991, in part to compensate for regulatory and statutory changes that reduced the assessable tax base for the class. Even with the discretionary reductions in the Class 3 share of the levy, the ETR for the class increased over the seven years. The discretionary changes for Class 2 were sporadic with some years of increase and other years of decrease.

Under S7000A as enacted, the first market value adjustment to the shares was to be done in 1986 for use in 1987. The law was subsequently amended to postpone the adjustment till 1989 for use in 1990. These postponements meant that by 1989 a decade's worth of strong growth in residential market values—the median sales price for a Class 1 house had grown by 257 percent from 1981 to 1989—was set to be reflected when the shares were adjusted for market value changes. Combined with the effect of the annual discretionary adjustments by the Council that had been used to lower the Class 1 share each year, this meant that the scheduled market value adjustment to the class shares would have significantly increased Class 1 tax burdens.

To prevent such a result, the Mayor and the Council appealed to the Legislature for yet another postponement. The response was an overhaul of the class share system. The base shares were reset to the 1990 shares, the Council's discretion to adjust the shares unilaterally was largely ended, and the process for adjusting the class shares for changes in the market value shares was altered. Rather than periodic adjustments by the state using a comprehensive but lengthy valuation process, there would be an annual adjustment with aggregate market values computed using the state's annually established equalization rates. To avoid large year-to-year shifts in the class shares, the maximum change in a classes' market value share was to be capped at 5 percent. When a classes' market value change exceeded the cap, the Council was given the responsibility to allocate the excess to one or more of the other classes. Because the Council's role was limited to allocating the excess over the cap, much less of the class share allocation was subject to Council discretion than under the original S7000A legislation.

The 1989 legislation was quite favorable to Class 1 in that it locked in the discretionary adjustments that had already been made through 1990 and also avoided the market value adjustment that would have captured much of the 1980s growth. As a consolation to owners and advocates of the other classes, there was the promise of more regular market value adjustments in the future with less room for discretionary shifts of the tax burden from Class 1 on to the other classes.

In the years since 1992, when the new class share process took effect, the market value of Class 1 properties as measured by the state for class share purposes has continued to grow faster than those in the other classes.[12] In order

to hold back the growth in Class 1's share of the levy that would have resulted, the Mayor and the City Council have routinely intervened with the state Legislature to have the law altered to lower the cap on the maximum increase used when calculating the change in market value shares. In recent years the cap has generally been lowered from the statutory 5.0 percent to 2.0 or 2.5 percent. With a lower cap, less of the increase in Class 1's share of market value is used in adjusting the shares of the levy. In addition, the lower cap means that there is more of the unused amount over the cap to be spread to the other classes, which results in higher shares than they would otherwise have.[13]

Given the many adjustments that have occurred in the class share system over the years it is difficult to calculate the impact they have had on current tax burdens. In both the original version of the system and in the altered system that took effect in 1992, changes in share of market value were intended to drive the adjustments in the class shares. We can get a sense of the effect of the deferred market value adjustments, the discretionary adjustments, and the lowering of the cap on the maximum adjustment, by estimating what the shares would be today if the initial base share had been adjusted simply for market value changes over the intervening years.

Table 3
2007 Class Levy Shares with Adjustment Only for Change in Market Value Shares Since 1984
Dollars in millions

	Class 1	Class 2	Class 3	Class 4
1983 Levy Shares Before Discretionary Adjustment	0.1464	0.2707	0.1717	0.4104
2007 Market Value Shares Relative to 1984	142.23%	120.82%	19.02%	60.94%
2007 Levy Shares w/ Market Value Adjustment	0.2545	0.3999	0.0399	0.3057
Current 2007 Levy Shares	0.1522	0.3641	0.0748	0.4089
Difference in Levy Shares	0.1023	0.0358	-0.0349	-0.1032
2007 Levy with Market Value Adjusted Shares	$3,472.8	$5,456.4	$544.6	$4,171.7
Current 2007 Levy	2,076.9	4,967.9	1,020.8	5,579.9
Difference in Levy	1,395.9	488.5	-476.2	-1,408.2
2007 ETR per $100 with Market Value Adjusted Shares	0.84	1.32	2.62	2.55
Current 2007 ETR per $100	0.45	1.13	5.15	3.56
Difference in ETR per $100	0.39	0.19	-2.53	-1.01

SOURCE: IBO.
NOTES: Market value adjustment based on IBO estimates which used sales based values for coop, condos, and small rentals in Classes 2A and 2B. Changes in shares of Department of Finance market values, can not be computed for years prior to 1993.

Before the discretionary adjustments made that year, the shares in 1983—the first year under S7000A—would have been 14.64 percent for Class 1, 27.07 percent for Class 2, 17.17 for Class 3, and 41.06 percent for Class 4. If we adjust these levy shares by the changes in the shares of market values as estimated by IBO for the intervening years, the distribution of the 2007 levy would be significantly different. Class 1 property owners would face an aggregate tax levy 67 percent higher than what they pay today. Class 4 owners on the other hand would pay $1.4 billion (25 percent) less than they currently pay. The total levy for owners of apartments and apartment buildings in Class 2 would be $488 million (10 percent) higher than under the current shares. The Class 3 levy would also fall by 47 percent. The changes in the levies would alter the effective tax rates as well. For example, with this change alone, the Class 1 ETR would grow by nearly 86 percent to $0.84 per $100 of market value. The Class 2 ETR would also rise substantially, while the Class 4 ETR would fall by more than one-quarter and the Class 3 rate by nearly half.

Caps on Assessment Increases Widen Disparities. A second feature of S7000A that has contributed to the growing disparity in effective tax rates between the different types of property is the cap on assessment increases in Class 1 and the similar caps that were gradually added for Class 2A, 2B, and 2C. With the assessment caps in place, if

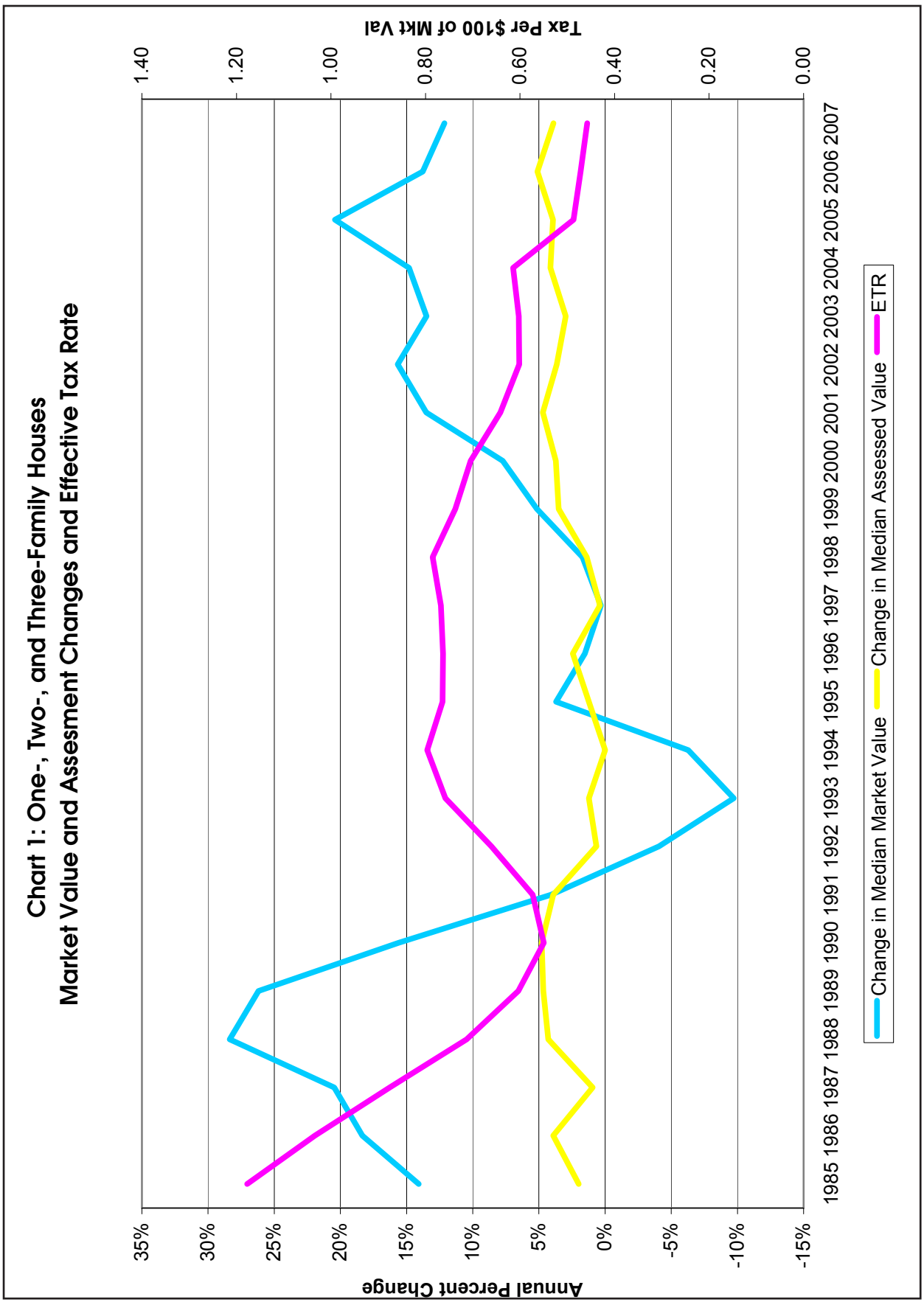
Chart 1: One-, Two-, and Three-Family Houses
Market Value and Assesment Changes and Effective Tax Rate
Tax Per $100 of Mkt Val
1.40
1.20
1.00
0.80
0.60
0.40
0.20
0.00
Annual Percent Change
35%
30%
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%
1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007
Change in Median Market Value
Change in Median Assessed Value
ETR

market values grow by more than the cap will allow assessed values to grow, the ETR generally falls, as long as the growth in the overall levy is less than the annual growth in market values.

The level of assessment or assessment ratio (assessed value divided by market value), which is controlled administratively by the Finance Commissioner, also plays a role in determining whether the ETR will fall when appreciation exceeds the cap.[14] One of the findings in Hellerstein had been that assessment ratios were widely uneven. This was confirmed for New York City by the NYU study, which found that assessment ratios in 1979 and 1980 varied greatly by property type, with one- and two-family houses generally having the lowest at around 25 percent of market value. Under S7000A, what had been illegal differentiation was now permitted, at least between tax classes, provided there was a uniform assessment ratio within each class.

The cap on assessment increases immediately undermined that uniformity for Class 1. The Class 1 assessment ratio was initially set at 20 percent of market value.[15] By 1984, any property where the market value grew by more than 6 percent from 1983 to 1984 had its assessment ratio fall below 20 percent because the cap precluded an assessment increase of more than 6 percent. For Class 1, the class assessment ratio became a target. If an individual property's assessment ratio was less than the target ratio, the assessment would move towards the target, subject to limitations of the assessment cap.

When the target ratio is lowered, assessments for those parcels that would have been over the new target are lowered and for other parcels that would have still had room for assessment increases under the cap, the assessment can no longer grow by as much.[16] For reasons that will be discussed below when we look at differences in ETR within property types, the Department of Finance gradually lowered the Class 1 target assessment ratio until it reached 8 percent in 1991. It then remained at that level until 2007, when it was reduced to 6 percent. When the Class 1 target ratio was lowered from 8 percent to 6 percent for 2007, all properties with assessment ratios between 6 percent and 8 percent had their assessment lowered to 6 percent. In addition, for properties with assessments ratios of 5.67 percent or greater but less than 6 percent, the maximum permissible increase is smaller than what would normally be allowed under the assessment increase cap.

Chart 1 shows the interaction between annual market value growth, assessment growth and the ETR for one-, two-, and three-family houses under S7000A. The second half of the 1980s was a period of very rapid appreciation, with growth in the median market value exceeding 15 percent annually. With the assessment increase cap in place and the target assessment ratio falling, the change in the median assessed value never exceeded 5 percent. As a result the ETR was falling throughout this period.

In 1988 the growth in the median market value slowed and eventually turned negative for three years. The median assessment all but stopped growing at the same time because many parcels were just hitting the five-year cap after years of appreciation. The target ratio was reduced to 8 percent in 1991, which also constrained assessment growth. The ETR increased somewhat from 1990 to 1994, in part due to an increase in the overall tax rate in 1990 and 1991, as well as the period of declining market values, before reaching a plateau in 1994.

Whether the assessment caps or the target ratio plays the greater role in determining the level of assessment in a given year depends on where in the property market cycle the city is. Chart 2 categorizes one-, two-, and three-family parcels by whether they were subject to either of the caps, or were at the target assessment ratio. The mid-1990s, years of little ETR change as shown in Chart 1, correspond with years when a majority of properties were at the target ratio as shown in Chart 2. Then in 2000, when the median market value grew by more than 6 percent,

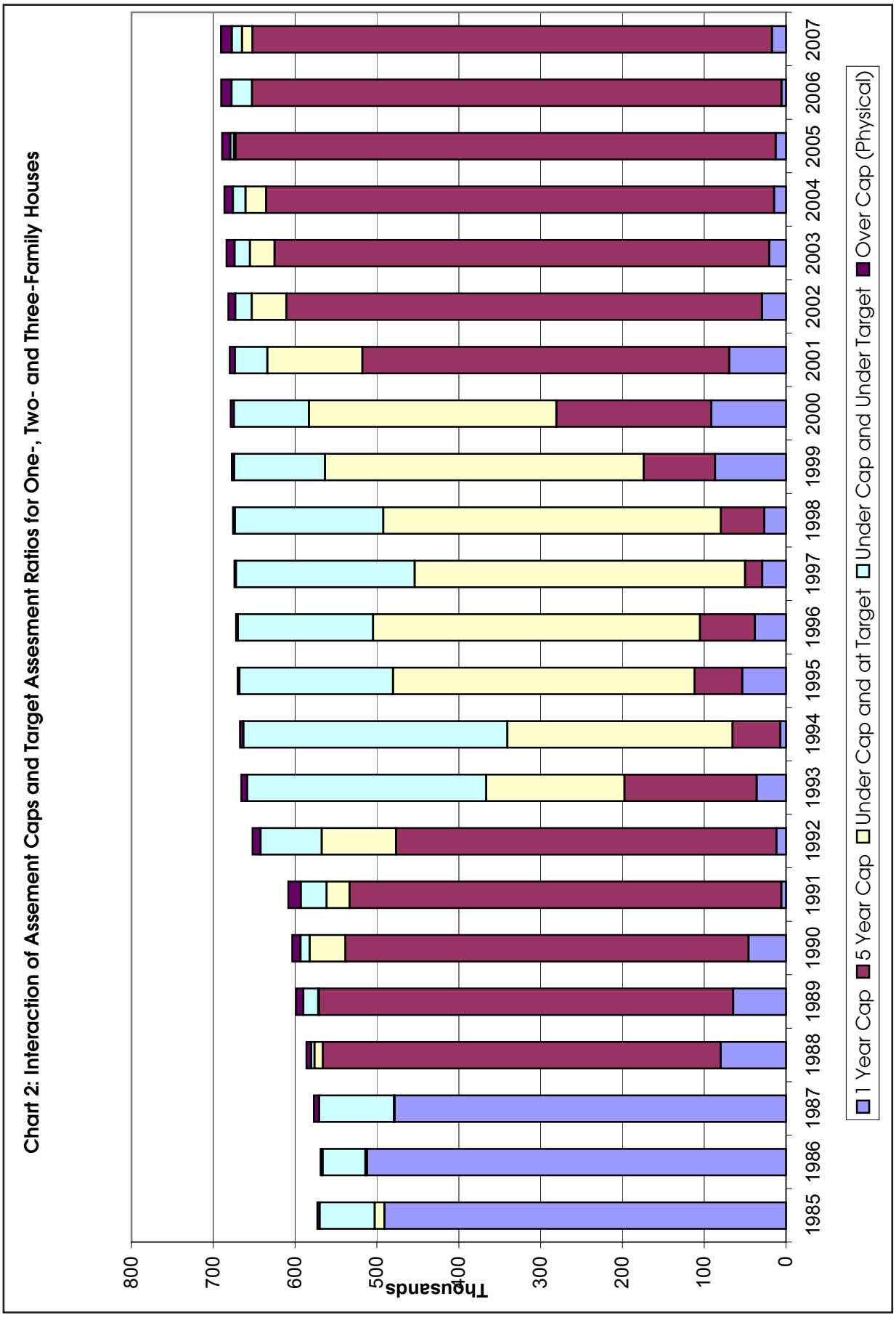
Chart 2: Interaction of Assement Caps and Target Assesment Ratios for One-, Two- and Three-Family Houses
Thousands
800
700
600
500
400
300
200
100
0
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
1 Year Cap
5 Year Cap
Under Cap and at Target
Under Cap and Under Target
Over Cap (Physical)

the number of parcels subject to the assessment cap began to grow. With fewer parcels at the target ratio, median assessment growth picked up, although because of the cap, it lagged the market value growth and the effective tax rate once again began to fall.

The assessment caps mean that it can be difficult for the city to recover all of the potential assessment growth that was lost during periods when annual appreciation exceeded 6 percent. In this way, the assessment caps differ from the phase-in of assessment changes in Class 2 and 4, which defer the increases but allow the city to ultimately benefit from the growth. To recapture all the foregone assessment growth would require a collapse in market values greater than what occurred in the early 1990s.

Impact of Coop/Condo Valuation on Disparities. One additional feature of S7000A has also contributed to the widening of the differences in ETR between propert types. By requiring the city to value coops and condos as if they were rental properties, Section 581 has left the city unable to capture the strong market demand for coop and condo apartments that has pushed up sales prices. Over the past few years, changes in assessment procedures initiated by the Department of Finance have resulted in growing assessments and tax bills for these parcels, but the increases still considerably lag the growth in sales prices.

Using IBO's sales-based measure of tax burden, the ETRs for coops and condos have fallen steadily since the late 1990s. At the same time, ETRs for rental properties in Class 2 have been growing. As a result, the ratio of tax burdens between rental properties and ownership properties in Class 2 have been growing wider. In 1997, the ETR for rental buildings was 1.8 times higher than for a coop. In 2007, the difference has grown 5.5 times higher.

TAX BURDEN DISPARITIES WITHIN PROPERTY TYPES

While disparities between different types of properties have grown wider under S7000A, how has the law affected differences within property types? When the new law took effect, it was widely acknowledged that the tax burdens varied greatly within each of the major property types. Although classification legalized the differences between classes, the new structure was expected to result in greater uniformity within classes, and at least initially it did. Other provisions of the new law, particularly the assessment caps and the Section 581 provision limiting coop and condo valuations, have proved to be obstacles to uniformity. In this section we first review the impact of the law in addressing what had been one of the most glaring pre-reform problems, the seemingly systematic discrimination against certain types of neighborhoods. We will then consider current within-class disparities in tax burdens and the role of S7000A in exacerbating them.

Our analysis indicates that the pattern of high effective tax rates for homes in areas with low income and low market values was largely eliminated during the first decade under S7000A. The shift to annual reassessment and other administrative changes by the finance department contributed to this improvement, but the geographic pattern of property appreciation was also pivotal. Many of the relatively low income and low market value areas that bore very high ETRs in the early 1980s have experienced strong appreciation since then. With faster market value growth, the caps on assessment increases result in lower ETRs. We found that these caps have introduced new disparities based on where appreciation occurs. We also found that the treatment of coops and condos under S7000A has created significant disparities in tax burden among apartment owners.

Neighborhood Characteristics and Differences in Class 1 ETR. A common finding of several studies conducted between the Hellerstein decision and the enactment of S7000A was that not only were there wide disparities in effective tax rates among one-family and two-family houses across the city but the differences were correlated with neighborhood characteristics such as the income of residents. We can use the file assembled for this study to test whether such patterns continued after S7000A took effect.

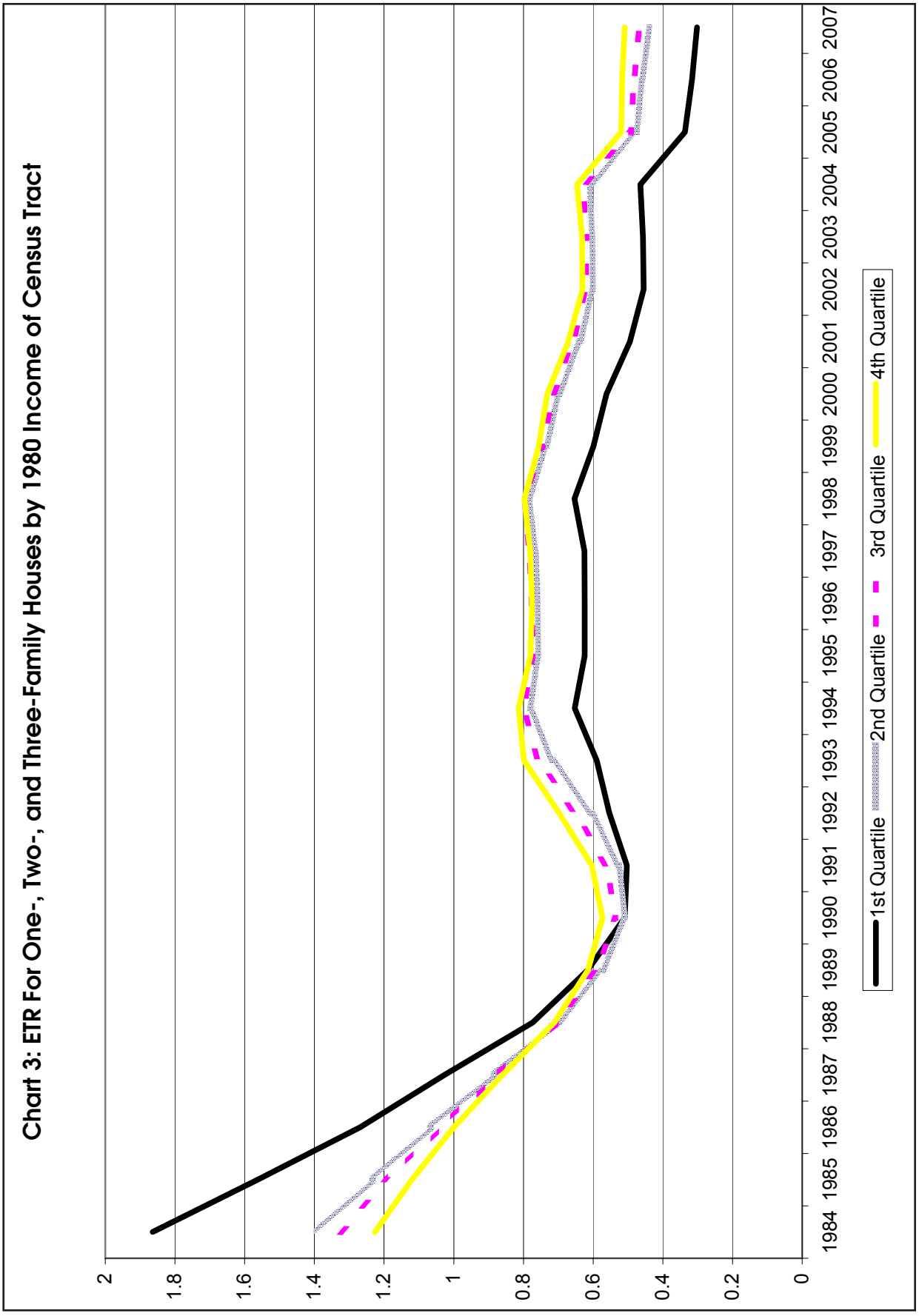
Chart 3: ETR For One-, Two-, and Three-Family Houses by 1980 Income of Census Tract
2
1.8
1.6
1.4
1.2
1
0.8
0.6
0.4
0.2
0
1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007
1st Quartile
2nd Quartile
3rd Quartile
4th Quartile

Before S7000A. The 1980 NYU study concluded that "with few exceptions, assessments in good neighborhoods are substantially lower than in neighborhoods of lesser quality."[17] In neighborhoods categorized as poor in Brooklyn and the Bronx, the tax burden for one-family houses was more than twice as high as those in neighborhoods considered good. In Queens they were roughly 25 percent higher in the poor neighborhoods than in neighborhoods rated good. There was essentially no difference in Staten Island. There were smaller, but still substantial differences when comparing assessments for two-family houses in neighborhoods ranked poor and good.[18] The neighborhood ranking used by the NYU study was multidimensional, incorporating per capita income, property tax delinquency, use of public assistance, and population change.[19]

A study by the New York Public Interest Research Group (NYPIRG) *City of Unequal Neighbors* that focused on one-family and two-family houses found similar differences regarding neighborhoods on the 1980 assessment roll.[20] Driven in part by the findings of the NYPIRG study, the Department of Finance began a systematic review of residential assessments in early 1982 that resulted in assessment reductions for 50,000 properties that took effect for the 1983 fiscal year, the first governed by S7000A.[21] Despite this effort, a follow up study by NYPIRG one year later found that assessments in poor neighborhoods remained substantially higher, on average, than those in wealthier neighborhoods. NYPIRG also found a pattern of discrimination against low-valued houses, with the greatest problems in the Bronx (90 percent of low value houses were overassessed) and Brooklyn (82 percent).[22]

Improvement after S7000A. To test whether these patterns persisted after S7000 was enacted, IBO measured the effective tax rates for one-, two-, or three-family houses in census tracts with a significant number of such properties.[23] Instead of the neighborhood quality measure used in the earlier studies, we simply ranked census tracts based on the median family income in the tract relative to the full citywide income distribution.[24] The citywide distribution was computed using all census tracts, not only those with significant concentrations of Class 1 houses, so our relative income measure ranks tracts against all tracts in the city including those dominated by coop and condo properties with high-income residents and those dominated by lower quality rental stock with generally lower- income residents. Thus, it gives a measure of how the median family income in a census tract ranks within the overall income distribution for the city, not just those with substantial numbers of Class 1 houses.

In the years since the new system created by S7000A was implemented, both of these effects found in the earlier studies—higher tax burdens for neighborhoods with poorer residents and lower valued house—were gradually eliminated, and then reversed. Although our results for 1984 were consistent with the NYU and NYPIRG findings, the differences were already somewhat less than the earlier findings for 1980 and 1981. Census tracts in the lowest quartile when ranked by relative family income had ETRs that were 1.5 times higher than census tracts in the highest quartile, $1.86 per $100 of market value versus $1.23 per $100. By 1989 the differences were largely gone and by 2007, the census tracts with the highest relative incomes in 1980 now had the highest ETRs, while those with the lowest incomes in 1980 had the lowest ETRs. The 2007 ETRs for the second, third, and forth quartiles were fairly closely bunched. The results are shown graphically in Chart 3.

The picture is not that much different if we group census tracts by their relative 2000 income. Once again, the 1984 effective tax rates are the highest in the tracts that rank lowest in income and lowest in the tracts that rank highest in income, although the gap is smaller than when grouped by 1980 income. The ETR in the lowest income tracts is 1.4 times higher than in the tracts with the highest incomes. And once again, the differences are all but eliminated by 1990. By 2007 the tracts with the highest relative income in 2000 have the highest ETRs and those with the lowest relative income in 2000 have the lowest ETRs.

Part of the explanation for the modest difference in these results regardless of whether we use the income rankings from 1980 or 2000 is that the income quartile rankings for individual census tracts are fairly consistent over the 20

years. Over 70 percent of the census tracts in the first (lowest) quartile of relative income in 1980 were still in the first quartile in 2000, with another 22 percent now in the second quartile. Similarly, of those in the fourth quartile in 1980, 96 percent were in either the third or fourth quartile in 2000. The substantial stability in the income rankings means that the changes observed in the effective tax rates for the different quartiles are for the most part not the result of changes in the socio-economic makeup of the census tracts.

IBO also found evidence that the pattern of discrimination against low-value properties was essentially removed. We grouped the census tracts with significant concentrations of Class 1 houses by 1984 market values and measured the annual ETR for the 1984 market value quartiles. Consistent with NYPIRG's findings for the 1982 assessments, houses in the first quartile of census tracts (those with the lowest values) faced the highest ETRs in 1984. That year the ratio between the effective tax rate in the first quartile and the effective tax rate for the quartile with the highest market values was 1.7. By 1990, though, there was little difference in the effective tax rates for the two quartiles. As with the income analysis, a new gap has once again opened up by 2007, although it is now properties in the highest market value quartile that bear a higher ETR.

Department of Finance Response to S7000A. Much of the credit for this striking improvement in reducing the pattern of discrimination against areas with low income and low property values can be attributed to S7000A and its implementation by the Department of Finance. An initial step was to apply the new target ratio of assessments to market values for the class. Properties over the target ratio had their assessments immediately reduced to reach the new target. Those under the new target were allowed to rise toward it, subject to the 6 percent cap on assessment increases. By simply compressing the range of possible assessment ratios, the city's early efforts to comply with S7000A reduced the extent of the disparities within Class 1.

The city also quickly concluded that complying with the new law's requirement for greater uniformity would require a process for routinely reassessing properties. Prior to S7000A, reassessment had been a more haphazard process. The long lag between assessments in some areas of the city, particularly those where property values were either declining or appreciating rapidly, was believed to account for much of the disparities in ETR between neighborhoods.[25] Beginning even before S7000A took effect, the finance department invested heavily in the staff, training, and data processing systems necessary to support annual reassessments, including the more than 500,000 parcels in what became Class 1.[26] By the mid-1980s these initiatives included data collection and systems development to allow the use of computer based mass appraisal driven by multivariate regression models for most properties in Class 1.[27] These investments paid off with the continued reduction in differences in Class 1 effective tax rates through the mid-1990s.[28]

Assessment Caps, Appreciation, and New Disparities in Class 1. Despite these improvements, intra-class differences remain among one-, two-, and three-family properties. Indeed, in the last few years these differences appear to be growing. The extent of new disparities can be seen if we look at the more recent years on Chart 3. The 2007 effective tax rate for the highest income quartile is now 1.7 times higher than the ETR for the lowest income quartile. (In 2004, this ratio was 1.4.) While we no longer find an inverse relationship between area income and area ETR, the relative difference in effective tax rates between the high- and low-income quartiles is actually somewhat larger than it was in 1984.[29]

The differences have reemerged largely because the assetment caps prevent assessments from keeping pace with market values when the latter grow by more than the cap amount in a given year.[30] When the market value increases more than the assessment can, the effective tax rate falls, barring a large increase in the nominal tax rate. On the other hand, when a property's market value grows by less than the cap percentage, the assessment can increase by up to the cap amount as long as the property's assessment ratio does not exceed the target assessment ratio for the

class. When the assessment grows by more than the market value (in percentage terms) the ETR for the property increases. Because appreciation does not occur evenly across the city, the influence of the caps in determining a property's assessment can produce disparities in ETR.

Table 4
Distribution of Census Tracts by 1980 Income and Appreciation for One-, Two-, and Three-Family Houses 1984-2007[1]

	Appreciation 1984-2007											
1980 Relative	1st Quartile			2nd Quartile			3rd Quartile			4th Quartile		
Income	Number	ETR 1984	ETR 2007	Number	ETR 1984	ETR 2007	Number	ETR 1984	ETR 2007	Number	ETR 1984	ETR 2007
1st Quartile	6	1.51	0.48	10	1.55	0.49	21	1.62	0.47	222	1.97	0.27
2nd Quartile	31	1.30	0.54	77	1.32	0.49	127	1.37	0.46	105	1.57	0.36
3rd Quartile	109	1.36	0.52	180	1.29	0.49	177	1.34	0.45	40	1.38	0.33
4th Quartile	226	1.21	0.53	106	1.23	0.49	47	1.34	0.47	5	1.17	0.27

SOURCE: IBO.
NOTE: [1]Census tracts with 100 or more One-, Two-, and Three-family houses in 2007 (n=1490).

It is differences in appreciation and the subsequent interaction with the caps that explain what may seem an anomaly in the earlier discussion of area income and market values: why do areas with low relative income and low market values at the beginning of the period that bore the highest effective tax rates in 1984 now bear the lowest ETRs, despite little change in the census tract income rankings. The answer is that the census tracts in the lowest 1980 income quartile tended to have the faster rates of appreciation, at least since 1984.

Table 4 shows the distribution of those census tracts with at least 100 one-, two-, or three-family houses by their 1980 relative income quartile and their quartile ranking for market value appreciation from 1984 through 2007. Of the 259 census tracts with median 1980 income that would rank them in lowest quartile of the city's overall income distribution, 86 percent (222 out of 259) are in the top quartile when these census tracts are ranked by appreciation. The ETR in these census tracts fell from $1.97 per $100 of value in 1984 to $0.27 per $100 in 2007. On the other hand, of the 384 census tracts that ranked in the top quartile of the city's 1980 income distribution, 59 percent (226/384) are in the lowest quartile when ranked by appreciation and another 28 percent (106/384) are in the second lowest. Because there has been less appreciation in these higher income tracts, the assessment caps came into play less often and therefore the decline in the effective tax rates was less than in the low income census tracts with faster appreciation.

Table 5
Borough ETR Under S7000A for Capped Property Types
Effective Tax Rates per $100 of Market Value

	1-, 2-, 3-Family Effective Tax Rate			TC 2A/2B Effective Tax Rate		
	1984	2007	Appreciation[2]	1984[1]	2007	Appreciation[2]
Manhattan	1.48	0.36	12.7%	2.15	0.76	14.4%
Bronx	1.72	0.52	9.2%	2.77	1.23	11.5%
Brooklyn	1.35	0.41	9.9%	2.40	0.67	13.4%
Queens	1.21	0.47	9.7%	1.97	1.02	10.7%
Staten Island[3]	1.37	0.53	8.2%	n.a.	n.a.	n.a.

SOURCE: IBO.
NOTES: [1]1984 ETR for TC 2A/2B is for properties that these sub-classes. [2]Appreciation is annual average change in median market value within each borough. [3]Staten Island accounts for less than 2 percent of TC 2A/2B parcels

Borough and Neighborhood Differences in Effective Tax Rates for Classes 1, 2A, and 2B. In this section we shift our unit of geography from census tract to larger areas that are more recognizable to most readers: boroughs and sub-boroughs (neighborhood districts). We have seen how the system created by S7000A has helped to eliminate the

discrimination against low income and low market value areas when we look at census tracts. But the caps in Class 1 and Class 2A and 2B have created new disparities, albeit ones due to requirements of the law rather than bias and inaction on the part of assessors.

As discussed previously, the key variable is the rate of appreciation in market values. Under the general principals of S7000A, all parcels within a tax class are to be assessed at a uniform percentage of market value; in the case of Class 1, the target assessment percentage is currently 6 percent, and in the case of Class 2A/2B, the Class 2 rate of 45 percent applies.[31] When a property's market value grows by more (in percentage terms) than the assessment can grow because of the caps, the assessment and the tax bill do not increase by as much (in percentage terms) as the market value, and as a result the ETR for the property falls, assuming there is no offsetting increase in the nominal rate. When a property's market value grows by less than the cap, or even falls, the assessment can continue to rise up to the target assessment percentage for the Class, which results in a higher ETR.

Considering first the differences in ETR between boroughs, we see that the rankings have changed since 1984. The NYU study and other analyses prior to enactment of S7000A had generally shown that Queens had the lowest tax burdens on one-family and two-family houses.[32] In the political maneuvering that produced S7000A, legislators from Queens were some of the strongest advocates for a solution that would produce the least change in tax burdens. Table 5 shows that in 1984, Queens still had the lowest ETRs for the capped property types. But because market value growth in Queens since 1984 has lagged the growth in Brooklyn and Manhattan, the ETR in Queens did not fall as much as it did in those boroughs. As a result, Brooklyn and Manhattan now have lower ETRs for both property types subject to the assessment caps. The ratios between the highest and lowest ETRs are actually now bigger than they were in 1984 (1.49 versus 1.42 and 1.85 versus 1.41), although the differences in actual ETR per $100 of market value are smaller ($.17 versus $.51 and $.56 versus $.81).

Given the borough variation, it is not surprising that we see further differences if we look at areas within each borough. Our analysis of sub-borough areas used the geographic areas defined by the U.S. Census Bureau for use with the New York City Housing and Vacancy Survey.[33] Table 6 summarizes the changes within sub-boroughs from 1984 through 2007, with the sub-boroughs ranked from lowest to highest effective tax rate in the current year. The ratio of the highest sub-borough ETR to the lowest declined from 1984 to 2007, falling from 3.1 to 2.8, and the difference in taxes per $100 of market value has also shrunk from $1.81 to $.39. There was considerable shuffling of neighborhoods, with nine of the ten with the lowest ETRs in 2007 having been ranked 29th or higher in 1984. Many of these sub-boroughs that shifted from the bottom of the list to the top of the list had large concentrations of low-income residents. This pattern is consistent with the census tract analysis showing that the assessment bias against low-income neighborhoods before S7000A was enacted was largely eliminated.

The exception to the reshuffling is Park Slope-Carroll Gardens, which had the lowest effective tax rate in both years. The neighborhood's appreciation rate, while strong—it averaged 12.4 percent annually—was not the highest among all sub-boroughs. But it had the fastest growth among the 10 sub-boroughs with the lowest effective tax rates in 1984.

In Table 6 we can see the relationship between ETR and the annual market value appreciation in the sub-borough area by comparing the last two columns. The neighborhoods with the lowest effective tax rates generally had double digit annual appreciation, when averaged over the entire period 1984 to 2007, while those with the highest ETRs generally had slower annual appreciation. (The correlation coefficient between the two is -.92, indicating a strong inverse relationship.) These neighborhoods also have virtually no properties at the target rates in 2007.

Of course, property appreciation in New York has not been consistent over the years. There have been periods of rapid growth and periods of sharp declines. The middle columns of Table 6 show the effective tax rates and rankings

Table 6
Effective Tax Rates for One-, Two-, Three-family Houses by Sub-borough Areas for Selected Years
ETR in $ per $100 market value

		1984		1999				2007			Annual
	HVS Sub-Borough[1]	ETR	Rank	ETR	Rank	Capped	@Target	ETR	Capped	@Target	MV Growth[2]
1	Park Slope-Carroll Gardens	0.878	1	0.461	2	93.2%	2.2%	0.215	98.0%	0.0%	12.4%
2	Ocean Hill-Brownsville	2.461	38	0.417	1	44.7%	11.8%	0.225	93.2%	1.0%	15.7%
3	Bushwick	2.666	40	0.530	4	47.4%	8.0%	0.239	96.6%	0.0%	15.8%
4	Bedford-Stuyvesant	2.687	41	0.560	5	71.0%	13.3%	0.257	97.1%	0.0%	16.1%
5	Brooklyn Heights-Ft. Greene	1.359	21	0.593	6	74.9%	13.0%	0.259	96.9%	0.0%	13.2%
6	Williamsburg-Greenpoint	1.895	35	0.613	7	58.6%	14.4%	0.262	96.1%	0.0%	14.5%
7	Crown Heights	2.067	37	0.617	8	63.3%	28.6%	0.289	96.5%	0.0%	13.5%
8	Morrissania	2.627	39	0.480	3	49.8%	1.1%	0.298	74.5%	16.7%	14.6%
9	Sunset Park	1.464	25	0.687	10	43.5%	29.9%	0.331	98.6%	0.0%	12.2%
10	East New York	1.758	32	0.650	9	38.9%	32.1%	0.369	97.6%	0.0%	11.7%
11	Coney Island	1.419	22	0.719	14	18.4%	62.1%	0.426	96.5%	0.4%	10.6%
12	Rockaways	1.861	34	0.765	28	31.3%	44.1%	0.432	96.1%	0.9%	11.2%
13	Jackson Heights	1.310	16	0.818	41	23.6%	62.8%	0.434	96.8%	1.1%	10.3%
14	Jamaica	1.683	29	0.739	17	28.4%	63.3%	0.437	97.0%	0.1%	10.8%
15	Middle Village-Ridgewood	1.096	5	0.740	19	20.2%	59.1%	0.443	98.7%	4.3%	9.6%
16	Astoria	1.224	12	0.785	36	10.0%	69.8%	0.444	97.8%	0.7%	10.2%
17	Bensonhurst	1.145	7	0.713	13	32.5%	47.5%	0.450	97.9%	0.7%	9.6%
18	Sunnyside-Woodside	1.197	10	0.799	39	15.8%	67.7%	0.450	97.1%	2.1%	10.2%
19	Corona-Elmhurst	1.232	13	0.808	40	30.9%	53.5%	0.450	96.0%	3.2%	10.4%
20	Kew Gardens-Woodhaven	1.287	14	0.760	26	30.1%	54.7%	0.455	97.9%	0.0%	10.6%
21	Borough Park	1.166	8	0.707	11	29.7%	38.4%	0.458	94.1%	0.3%	10.5%
22	South Crown Heights	1.805	33	0.763	27	28.9%	63.0%	0.462	98.3%	0.2%	10.4%
23	Flatbush	1.348	19	0.710	12	32.9%	50.2%	0.462	94.8%	1.0%	10.2%
24	Gravesend-Sheepshead Bay	1.222	11	0.730	16	30.9%	54.4%	0.470	96.2%	1.2%	9.7%
25	Flushing-Whitestone	1.067	4	0.758	25	19.0%	65.2%	0.478	95.5%	6.9%	9.2%
26	Howard Beach- S. Ozone Park	1.306	15	0.748	21	28.3%	54.9%	0.480	97.2%	0.1%	10.9%
27	Bay Ridge	1.123	6	0.726	15	33.5%	48.9%	0.483	97.6%	0.5%	9.4%
28	Bayside-Little Neck	1.035	3	0.755	24	20.3%	66.4%	0.494	95.5%	0.2%	8.6%
29	North Shore (S.I.)	1.448	23	0.781	35	11.1%	54.5%	0.498	93.9%	0.2%	8.9%
30	Forest Hills-Rego Park	0.951	2	0.768	30	21.5%	60.3%	0.501	98.4%	11.1%	8.6%
31	Fresh Meadows-Hillcrest	1.196	9	0.798	38	11.1%	83.8%	0.502	95.9%	0.1%	8.8%
32	Bellrose-Rosedal	1.316	17	0.773	32	21.4%	71.6%	0.505	96.7%	0.6%	9.6%
33	Mid Island (S.I.)	1.355	20	0.766	29	11.8%	64.1%	0.527	92.4%	0.3%	7.9%
34	Riverdale-Knightsbridge	1.496	26	0.772	31	24.5%	63.1%	0.530	96.4%	0.0%	9.0%
35	East Flatbush	1.573	28	0.773	33	33.4%	58.8%	0.537	99.1%	0.4%	9.3%
36	Throngs Neck-Coop City	1.556	27	0.754	23	13.1%	80.2%	0.540	95.7%	1.0%	8.9%
37	Pelham Parkway	1.692	30	0.747	20	34.3%	61.2%	0.541	98.1%	0.9%	9.2%
38	Soth Shore (S.I.)	1.316	18	0.739	18	10.3%	75.6%	0.546	91.1%	0.2%	8.3%
39	Soundview-Parkchester	1.926	36	0.785	37	26.7%	58.0%	0.558	92.3%	4.0%	9.8%
40	Flatlands-Canarsie	1.449	24	0.776	34	19.1%	70.5%	0.570	96.8%	2.3%	9.0%
41	Wakefield-Baychester	1.750	31	0.754	22	29.3%	63.8%	0.600	94.4%	4.6%	9.1%
	Average for Included Sub-boroughs	1.311		0.738		25.6%	58.0%	0.462	95.9%	1.4%	
	Ratio Highest to Lowest ETR	3.1		2.0				2.8			
	Absolute Difference in ETR	1.81		0.40				0.39			

SOURCE: IBO.
NOTES: [1]HVS Sub-boroughs with more the 3,000 one-, two-, three-family parcels in 2007. [2]Annual MV growth is annual average growth in the median market value in the sub-borough from 1984 to 2007.

in 1999. Between 1984 and 1999, the city's property market had seen ups and downs, with a boom that lasted until 1989, followed by a decline through 1993 and then a period of only modest growth through 1999. By 1999 much of the reshuffling of sub-boroughs from the bottom to the top of the ETR rankings had occurred; the 10 that would be in the top 10 in 2007 were also in the top 10 in 1999, although the specific rankings differed.

In 1999, after five or six years of slow growth, 58 percent of the parcels had reached the target assessment ratio, although the share at the target varied greatly from area to area. In general, those sub-boroughs with the lowest ETRs had smaller shares of their parcels at the target ratio and larger shares of their parcels with their assessments limited by either the one-year or five-year cap on assessment increases. A lower share at the target meant that market value growth in that particular sub-borough had been strong enough so that the assessment caps constrained the increase in the assessment ratio (and hence the ETR) at a level below the target.

In slower growth areas, particularly where the annual market value growth was below the 6 percent assessment cap,

the assessment ratio (and therefore the ETR) had continued to edge up, until many properties reached the target ratio. In these sub-boroughs the share of parcels with capped assessments was generally smaller than in faster growth areas.

By 2007, after a period of very rapid appreciation in property values, the assessment caps affected 95.9 percent of the parcels (92 percent were at their five-year cap). Only 1.4 percent of parcels were at the target ratio, even after the Department of Finance lowered the target by 2 percentage points to 6 percent this year.

The story is quite similar for Class 2A and 2B buildings. Again, there has been a reshuffling of the sub-boroughs when ranked by ETR, with relatively poor but heavily taxed areas in 1984 now ranked among those with the lowest ETRs. Once again, Park Slope-Carroll Gardens is the exception. It had by far the lowest ETR in 1984, using IBO's sales-based estimates of market value, at $1.13 per $100 of market value; it now ranks fifth with an effective tax rate of $0.44 per $100.

In a difference from the pattern for Class 1, the dispersion in ETRs for these small rental buildings has grown, with the ratio of the highest to lowest ranked sub-borough rising from 4.6 in 1984 to 7.0 in 2007. In the case of these properties, assessments have been held back not only by the limit of 8 percent annual increase, but also by the fact that the finance department uses income-based market values rather than sales-based values. The income approach results in market values that are about 28 percent lower than IBO's sales-based valuations; moreover, they do not grow as fast. As a result, the assessments that are set by the finance department are less likely to grow sufficiently to be limited by the cap.

Neighborhood and Borough Differences in Coop and Condo Effective Tax Rates. Coops and condos also face wide differences in tax burdens. In this case the cause is another feature of S7000A, the Section 581 requirement that they be valued as rental properties. In turning our attention to this portion of the property tax law, we examine the resulting differences in ETR across the city, and look at the city's crude attempt to mitigate one inequity in the system created by S7000A, at the cost of creating others.

Section 581. The section was intended to give apartment owners some of the protection from rapid increases in assessments that Class 1 homeowners get from the assessment caps. Under Section 581 the city is required to value coops and condos without regard to the sales price, or potential sales price of individual units. Instead, the city must value them as if they were rental buildings, imputing income based on income and expense information from nearby comparable rental buildings.

At the time S7000A was enacted, the wave of 1980s coop conversions was only just beginning and there were many fewer condo apartments.[34] Where to place coops and condos in the new tax class structure had been one of the open questions in 1981. As the legislative compromise moved towards a four-class system with apartment buildings, including coops and condos, in a separate class from one-, two-, and three-family homes, the Section 581 provision was added to offer apartment owners some protection from assessment increases driven by market value appreciation. Rent regulation, which then covered a greater share of apartments than today, was acknowledged to constrain the values of apartment buildings. Tying coop and condo values to rental assessments offered something akin to the assessment cap protection available in Class 1.[35] Moreover, by preventing assessments of existing rental buildings using their potential value as coops, the provision avoided making property taxes an additional spur to coop conversions.

Valuations using imputed income are almost always lower than if comparable sales prices are used. The extent of the difference is shown in the "Sect 581 Discount" columns in Table 7. In 1993, for the city as a whole, the use of imputed income meant that the resulting market values were just over half (52 percent) of what they would have

Table 7
Coop/Condo Effective Tax Rates by Borough
ETR , net of abatements and rebates, per $100 of market value

Borough	1993 ETR[1]	1993 Sect 581 Discount[2]	2000 ETR[1]	2000 Sect 581 Discount[2]	Appreciation 1993-2000[3]	2007 ETR[1]	2007 Sect 581 Discount[2]	Appreciation 1993-2000[3]
Manhattan	1.77	-55.8%	1.17	-67.8%	142.1%	0.74	-79.8%	273.6%
Bronx	1.98	-55.1%	2.08	-43.9%	66.3%	1.01	-70.9%	229.3%
Brooklyn	2.05	-46.2%	1.43	-62.2%	118.3%	0.66	-79.4%	292.5%
Queens	2.31	-47.0%	1.86	-47.1%	89.5%	1.01	-72.1%	280.1%
Staten Island	2.24	-41.1%	2.27	-39.9%	77.5%	0.75	-79.5%	408.2%
Overall	1.94	-51.7%	1.47	-59.1%	123.9%	0.83	-77.6%	301.2%

SOURCE: IBO.
NOTES: [1]ETR is the median after weighting by number of apartments. [2] Sect 581 Discount shows the extent of the gap from sales-base market values to Dept. of Finance market value. [3]Appreciation computed as the increase in the median market value from beginning of the period.

been if values had been based on sales.[36] The difference has grown in the intervening years, reaching 59 percent in 2000, and 78 percent for 2007. It is this discounting that causes the difference in IBO's estimated effective tax rates between coop and condo buildings and the rental buildings in Class 2, as explained in our discussion of data and methods.[37]

The extent of the discount varies geographically. The gap between sales-based values and income-based values differs from area to area, depending on factors such as the prevalence of rent-regulated buildings—which have lower net income than market rate rentals—among the comparables and the strength of the market for apartments in the area. Notably, the differences have narrowed somewhat by 2007 thanks to the broadly distributed gains in market value across all of the city's five boroughs, the increased development of new market-rate rental buildings, and the decline in the number of rent-regulated apartments through deregulation and conversions. Indeed, Manhattan no longer has the lowest effective tax rate. Thanks, in part, to the extremely low ETR on its 8,000 apartments in buildings with 10 or fewer units (.36 per $100 of market value) Brooklyn now bears the lightest burden.

Given the location-specific factors that determine the extent of the Section 581 discount, it is not surprising that we can find variation in effective tax rates within the boroughs, as well. Table 8 ranks the HVS sub-borough areas by ETR for 2007. In general, neighborhoods with large 581 discounts have the lowest ETR, while those with the smallest discount face higher tax burdens. Ignoring the extreme case of Bedford Stuyvesant for the moment, the ETR in the second ranked neighborhood, Jamaica, is 3.5 times higher than the ETR in Crown Heights. The average 581 discount for Jamaica is only two-thirds as deep as for Crown Heights.

Of course, the extent of the 581 discount for a neighborhood is not the only factor in determining the ETR. A low ETR can also result if many buildings in an area have tax exemptions that lower a property's assessment. For example, Bedford Stuyvesant, which has the lowest ETR in 2007, was not even ranked for 2000 because it had fewer than 1,000 coop and condominium apartments in that year. Its extremely low ETR of .19 per $100 of market value is due to a number of new projects that have come on line since 2000, many of which are benefiting from 421-a exemptions. The same is true to a lesser extent in Willamsburg-Greenpoint and Central Harlem, which ranked fifth and eighth, respectively.

The shifts in relative effective tax rates that resulted in Brooklyn displacing Manhattan as the borough with the lowest coop and condo ETR can be seen by comparing each neighborhood's ranking for 2000 with the 2007 rank. The five sub-borough areas with the lowest ETR are all from Brooklyn this year. By comparison, Manhattan dominated the low rankings in 2000 with seven of the ten lowest ETRs found in that borough. Queens and Bronx neighborhoods dominate at the other end of the rankings, although there are also Brooklyn neighborhoods found

among those with higher ETRs.

Coop-Condo Abatement: Short-Term Fix, Long-Term Problem. Thanks to Section 581, the effective tax rate faced by coop and condo owners has consistently been lower than for the rest of Class 2. Since at least 1984, however, the overall effective tax rate for these properties has also been higher than the rate for Class 1 properties. For advocates for apartment owners it is this latter difference that matters: they ask why homeowners should be taxed differently depending on whether they live in a house or an apartment building.

In Table 2, IBO compares the rates for coops, condos, and Class 1 houses. In the early to mid-1990s, coop and condo effective tax rates grew faster than did those for Class 1 houses, so that by 1995 the ETR for both types of apartment was more than twice that of Class 1 houses.[38] With the tax differences between homeowners growing, advocates for coop and condo owners brought their case before a 1993 Property Tax Reform Commission that had been appointed by Mayor David Dinkins and City Council Speaker Peter Vallone, Sr.[39] Although the agenda of the commission was initially ambitious and its final report provided important information documenting many of the shortcomings of the S7000A system, the most concrete recommendation from the commission was that something needed to be done to bring coop and condo taxes more into line with Class 1 taxes.[40]

Mayor Rudolph Giuliani, who had been elected after the appointment of the commission, and the City Council both endorsed this recommendation and began working to find a way to implement it. Due to the complexity created by S7000A, it proved difficult to provide relief to just one group without creating other problems. Moreover, because the most direct way to equalize the burdens would be to repeal Section 581 and value apartments based on sales prices, the finance department was concerned that it would need time to develop the models and data systems to begin using such an approach.

After two years, a compromise emerged that would provide an abatement giving apartment owners a tax cut that was expected to narrow the gap in tax burdens by roughly half. The abatement was to be temporary, beginning in 1997 and lasting three years, while the finance department resolved the technical challenges and the city worked out how to make more fundamental change. The legislation creating the abatement included a deadline of June 30, 1999 for the city to report to the state legislature with a plan for more comprehensive changes. The city missed the deadline and several that have been set since then, choosing instead to keep extending the "temporary" abatement.

In a 1999 report, IBO documented major shortcomings with the abatement. Since then the shortcomings have become more problematic because—in the absence of fundamental change—the abatement has become the de-facto solution to reduce the differences in tax burdens between coop and condo owners and Class 1 homeowners.[41] The problems with the abatement stem from the fact that it does nothing to standardize assessments for coops and condos so that the disparities caused by the differences in the extent of the Section 581 discount persist. Simply abating an equal percentage of unequal tax burdens does nothing to fix the disparities among apartment owners.[42] The areas of the city that benefit the most from Section 581 are concentrated in Manhattan and "brownstone" Brooklyn, although as we saw in Table 6, the rankings have shifted somewhat in the last year or two. With the abatement, these areas got the same percentage reduction in tax as did areas with smaller Section 581 discounts and hence higher tax burdens. Equalizing effective tax rates between coops and condos would require repeal of Section 581 and use of sales prices for valuation.

A second problem is that in many cases, the abatement provides a benefit that is larger than what is needed to remove the difference in tax treatment between Class 1 and Class 2. This problem has escalated since the abatement began in 1997 because coop and condo effective tax rates have been falling faster than have those for Class 1 (see Table 2). As a result, the gap to be closed between homeowners and apartment owners has narrowed, without any adjustment to the terms of the abatement.

Table 8
Tax Treatment of Coops and Condos in HVS Neighborhoods, Ranked by 2007 Effective Tax Rates
ETR, net of abatements and rebates, per $100 market valule

2007 Rank	HVS Neighborhood	2000 ETR[1]	2000 Rank	2007 ETR[1]	2007 % of Class 1 Actual ETR[2]	2007 % of Class 1 Target ETR[3]	Sect 581 Discount[4]
1	Bedford-Stuyvesant	0.86	n.a.	0.19	41.8%	19.6%	-67.1%
2	Crown Heights	0.84	4	0.39	85.2%	40.0%	-83.4%
3	Park Slope-Carroll Gardens	0.92	6	0.39	86.3%	40.5%	-87.5%
4	Sunset Park	1.51	16	0.42	93.2%	43.7%	-83.4%
5	Williamsburg-Greenpoint	1.26	11	0.43	95.1%	44.7%	-78.5%
6	Chinatown-Lower East Side	1.64	21	0.44	95.8%	45.0%	-85.3%
7	Morniningside/Hamilton Heights	0.63	1	0.44	96.5%	45.3%	-84.3%
8	Central Harlem	0.85	5	0.48	106.4%	49.9%	-74.8%
9	Washington Heights/Inwood	1.22	10	0.51	111.7%	52.4%	-86.6%
10	Brooklyn Heights-Ft. Greene	1.32	13	0.52	115.4%	54.2%	-82.6%
11	Coney Island	1.05	7	0.61	135.0%	63.4%	-83.1%
12	Upper West Side	0.84	3	0.63	138.3%	64.9%	-80.8%
13	East Harlem	0.72	2	0.63	138.8%	65.1%	-82.3%
14	Bay Ridge	1.77	26	0.65	142.5%	66.9%	-81.5%
15	Greenwich Vill-Financial District	1.07	8	0.65	143.4%	67.3%	-84.0%
16	Mid Island (S.I.)	1.75	24	0.72	159.0%	74.7%	-81.5%
17	North Shore (S.I.)	2.29	40	0.72	159.2%	74.8%	-78.1%
18	Chelsea-Clinton-Midtown	1.18	9	0.74	163.6%	76.8%	-78.6%
19	Astoria	1.72	23	0.75	164.3%	77.1%	-73.6%
20	Bensonhurst	1.53	17	0.78	172.7%	81.1%	-79.6%
21	Gravesend-Sheepshead Bay	2.14	37	0.80	175.1%	82.2%	-77.9%
22	Stuyvesant Town-Turtle Bay	1.55	18	0.87	192.1%	90.2%	-77.8%
23	Upper East Side	1.28	12	0.88	193.6%	90.9%	-76.7%
24	Bellrose-Rosedale	1.56	20	0.88	193.8%	91.0%	-75.8%
25	Flatbush	1.55	19	0.89	196.9%	92.4%	-77.6%
26	Borough Park	1.77	25	0.90	198.4%	93.2%	-77.0%
27	Bayside-Little Neck	1.86	30	0.92	203.5%	95.5%	-73.4%
28	Sunnyside-Woodside	1.49	15	0.92	203.5%	95.5%	-73.2%
29	Riverdale-Knightsbridge	1.98	33	0.95	209.2%	98.2%	-77.1%
30	Rockaways	2.03	34	0.97	212.5%	99.8%	-71.8%
31	Flushing Whitestone	1.82	28	0.98	215.6%	101.2%	-71.5%
32	South Crwon Heights	1.41	14	0.99	217.4%	102.1%	-74.2%
33	Flatlands-Canarsie	1.96	31	0.99	218.3%	102.5%	-73.9%
34	Howard Beach-So. Ozone Park	1.80	27	1.02	224.6%	105.5%	-60.6%
35	Jackson Heights	1.98	32	1.03	227.1%	106.6%	-66.1%
36	East Flatbush	2.06	35	1.04	229.5%	107.7%	-77.7%
37	Forest Hills-Rego Park	1.82	29	1.06	232.4%	109.1%	-73.0%
38	Fordham-University Heights	2.94	47	1.06	233.9%	109.8%	-69.4%
39	Fresh Meadows-Hillcrest	2.18	38	1.07	235.2%	110.4%	-68.5%
40	Pelham Parkway	2.53	43	1.08	236.8%	111.2%	-62.2%
41	Throngs Neck-Coop City	2.03	n.a.	1.09	240.5%	112.9%	-69.8%
42	Mott Haven-Hunts Point	2.90	45	1.14	250.0%	117.4%	-69.4%
43	Kingsbridge Heights-Mosholu	2.34	41	1.15	253.5%	119.0%	-67.1%
44	Kew Gardens-Woodhaven	2.11	36	1.15	253.7%	119.1%	-68.2%
45	Morrissania	3.41	48	1.18	259.0%	121.6%	-69.4%
46	East New York	1.65	22	1.25	275.1%	129.2%	-76.4%
47	Corona-Elmhurst	2.51	42	1.28	280.8%	131.8%	-68.6%
48	Highbridge- So. Concourse	2.93	46	1.32	289.6%	136.0%	-70.9%
49	Wakefield-Baychester	2.19	39	1.38	304.4%	142.9%	-61.0%
50	Jamaica	2.58	44	1.38	304.8%	143.1%	-55.2%

SOURCE: IBO.
NOTES: [1]Median ETR, net of abatements and rebates, weighted by number of apartments. [2] Coop/Condo ETR as percent of actual 2007 citywide Class 1 net ETR of .45. [3] Coop/Condo ETR as percent of target Class 1 ETR (6 percent assessment rate and Class 1 nominal tax rate of .152). [4]Sect 581 Discount shows the extent of the gap from sales-based market values to Department of Finance market value.

IBO estimates that $156 million out of $293 million spent on the abatement in 2007 went to apartment owners whose effective tax rate was either already below the target Class 1 level or else did not need their full benefit to reach the Class 1 ETR.[43] Although Manhattan is no longer the borough with the lowest ETR, because it has the most coop and condo buildings—including many with ETRs under the Class 1 target rate—the bulk of the excess abatement spending in is Manhattan, particularly on the Upper East Side ($30 million) and the Upper West Side ($29.5 million).

Table 9
Inefficiency in Coop/Condo Abatment
Dollars in millions

	Apartments	Levy Amount Over/(Under) Class 1 ETR Before Abatement	Abatement	Levy Amount Over/(Under) Class 1 ETR After Abatement	Excess Abatement
Manhattan					
Below Class 1 ETR Before Abatement	108,433	(194.7)	(103.6)	(298.3)	$103.6
Below Class 1 ETR After Abatement	52,151	32.8	(67.4)	(34.6)	34.6
Above Class 1 ETR Abatement	44,160	96.2	(64.0)	32.2	0.0
Rest of City					
Below Class 1 ETR Before Abatement	41,507	(24.6)	(12.4)	(36.9)	$12.4
Below Class 1 ETR After Abatement	48,905	7.5	(13.4)	(5.8)	5.8
Above Class 1 ETR Abatement	108,641	55.5	(32.3)	23.2	0.0

SOURCE: IBO.
NOTE: Class 1 ETR used in comparison assumes Class 1 target assesmnet ratio of 6 percent.

Throughout the city, there are coop and condo taxpayers whose effective tax rates remain above the Class 1 target even with the abatement. They are particularly prevalent in the Bronx and Queens where they make up a majority of the taxpayers receiving the abatement in those boroughs. IBO estimates that in 2007, taxpayers citywide needed another $55.4 million in abatements to reach parity with Class 1. Under a more comprehensive reform where coops and condos were valued and taxed like Class 1 houses, these "left behind" taxpayers would join their fellow coop and condo owners who already enjoy Class 1 treatment.

COMMERCIAL AND LARGER RENTAL PROPERTIES

The foregoing discussion of disparities within property types has focused primarily on owner-occupied housing, where features of S7000A result in varying assessment ratios and therefore differences in ETRs. For the larger rental buildings in Class 2 (those with 11 or more units) and all of Class 4, the changes under S7000A were different. Among these building types, the use of uniform class assessment ratios removed a major cause of disparities that existed prior to S7000A. Assuming that the Department of Finance is estimating market values uniformly across building types, there should be only modest differences in ETRs. We find evidence, however, based on the variation in the relationship of sales prices to the finance department's market values for different property types, suggesting that differences in ETRs remain and may even be growing.

The NYU study had found large differences in effective tax rates for commercial and larger rental properties in 1979. Walk-up apartment buildings in the Bronx and Queens faced tax burdens that were nearly double those for walk-ups in Manhattan and Brooklyn. Elevator buildings were taxed much more heavily than walk-ups, with older elevator buildings taxed more heavily than newer ones.[44] There were also wide differences among commercial property types, with office buildings and hotels facing the highest burdens and vacant land being the lightest taxed.[45]

In addition, the NYU study found extraordinarily high degrees of variation in assessment ratios within property types.[46]

Despite the use of a common assessment ratio within the classes under S7000A, differences in effective tax rates remain. One of the factors discouraging uniformity is the S7000A feature that provides for the phasing in of most assessment changes over five years in Classes 2 and 4.[47] Although the initial (actual) assessment in these classes is derived using a uniform class assessment ratio, there are differences in the final assessment for tax purposes (billable taxable) depending on the pipeline of previous assessment changes still being phased in for a particular parcel.

Other factors causing ETR differences within property types include exemptions and abatements for individual properties. The two largest exemption benefits are the Industrial Commercial Incentive Program and the 421-a program for housing development.[48] Partial exemptions such as these reduce the assessment that is actually taxed, which lowers the taxes as a portion of full market value. Abatements reduce the net taxes by functioning like a credit against the levy for qualified parcels. Common abatements for commercial and larger rental properties include J-51 for housing rehabilitation and some commercial incentive programs.

The influence of these factors can be observed in Table 10. Most new rental residential development is of elevator

Table 10
Net Effective Tax Rates for Selected Larger Rental and Commercial Property Types 1984-2007
per $100 of market value

Fiscal Year	Walk-up Apartments	Elevator Apartments	Manhattan Office	Manhattan Retail	Non-Manhatan Retail	Factory / Warehouse	Garage / Gas Station	Vacant Land
1984	4.54	3.64	4.40	4.78	5.10	4.79	4.84	4.41
1985	3.51	2.76	3.26	3.65	3.83	3.59	3.71	3.41
1986	3.41	2.69	3.35	3.56	3.73	3.52	3.33	3.41
1987	3.22	2.60	3.42	3.55	3.59	3.37	3.17	3.24
1988	2.98	2.55	3.48	3.27	3.34	3.14	3.17	2.91
1989	2.79	2.46	3.43	3.30	3.06	2.81	3.00	2.63
1990	2.71	2.39	3.38	3.16	2.87	2.65	2.92	2.20
1991	2.79	2.40	3.65	3.37	3.04	2.82	3.06	2.56
1992	3.56	3.00	4.38	4.08	3.95	3.67	3.81	3.31
1993	3.75	3.14	4.59	4.39	4.19	3.89	4.07	3.74
1994	4.08	3.40	4.67	4.53	4.31	4.01	4.26	4.02
1995	4.10	3.37	4.64	4.53	4.24	4.01	4.24	4.15
1996	4.19	3.47	4.49	4.37	4.06	3.92	4.12	4.08
1997	4.03	3.38	4.43	4.25	3.93	3.85	4.04	4.01
1998	3.93	3.35	4.32	4.08	3.79	3.73	3.97	3.76
1999	3.63	3.18	4.29	4.06	3.73	3.70	4.00	3.89
2000	3.64	3.15	4.07	3.90	3.60	3.59	3.93	3.70
2001	3.52	3.10	3.84	3.69	3.48	3.46	3.79	3.59
2002	3.45	3.04	3.68	3.60	3.41	3.30	3.71	3.49
2003	3.68	3.23	4.02	4.02	3.72	3.70	4.17	3.92
2004	4.23	3.61	4.38	4.28	4.08	4.04	4.38	4.14
2005	4.04	3.63	4.35	4.33	4.16	4.10	4.55	4.03
2006	4.04	3.52	4.11	3.89	3.76	3.81	4.38	3.31
2007	4.21	3.72	4.04	3.80	3.56	3.49	4.05	3.28

SOURCE: IBO.
NOTE: ETR computed using Department of Finance, income-based market values and levy net of abatements.

Table 11
Median Sales Price to Finance Department Market Value Ratios, By Property Type and Borough

	Rental Apartments							
	Manhattan		Bronx		Brooklyn		Queens	
	Num Sales	Ratio	Num Sales	Ratio	Num Sales	Ratio	Num Sales	Ratio
1996	322	1.40	88	1.19	175	1.33	113	1.48
1997	322	1.41	100	1.35	165	1.40	79	1.55
1998	320	1.43	135	1.50	132	1.42	91	1.59
1999	360	1.81	171	1.59	170	1.48	95	1.72
2000	437	2.48	162	1.69	272	1.79	131	1.84
2001	430	2.37	167	2.02	221	2.03	128	1.94
2002	333	2.74	116	1.98	187	2.03	109	2.02
2003	324	2.99	143	1.95	164	2.26	95	2.32
2004	417	3.25	164	2.49	216	2.76	107	2.50
2005	465	3.93	217	2.96	197	3.07	135	2.33
2006	444	3.74	234	3.16	266	3.27	110	2.76

	Retail							
	Manhattan		Bronx		Brooklyn		Queens	
	Num Sales	Ratio	Num Sales	Ratio	Num Sales	Ratio	Num Sales	Ratio
1996	77	1.35	51	1.20	169	1.26	143	1.20
1997	60	1.03	61	1.12	150	1.23	189	1.29
1998	83	1.31	90	1.17	167	1.42	185	1.37
1999	79	1.49	78	1.20	171	1.41	210	1.37
2000	103	1.90	98	1.42	216	1.65	221	1.54
2001	125	1.92	98	1.20	209	1.70	230	1.66
2002	103	2.57	80	1.32	179	1.71	256	1.66
2003	81	2.51	101	1.29	184	1.83	208	1.86
2004	81	2.83	111	1.56	197	2.16	230	1.94
2005	100	3.55	100	1.95	215	2.28	227	2.47
2006	110	3.34	126	2.00	210	2.86	226	2.47

	City-wide							
	Office Buildings		Fact/Ware		Gar/Gas		Vacant	
	Num Sales	Ratio	Num Sales	Ratio	Num Sales	Ratio	Num Sales	Ratio
1996	148	1.01	381	1.20	256	1.36	351	1.53
1997	135	1.16	390	1.22	298	1.42	398	2.00
1998	174	1.25	421	1.27	379	1.73	509	1.96
1999	212	1.47	547	1.37	423	1.65	450	2.85
2000	219	1.63	614	1.58	504	1.92	552	2.99
2001	267	1.68	629	1.69	606	1.89	598	2.85
2002	246	1.87	509	1.97	509	2.19	571	3.78
2003	193	2.03	422	2.10	540	2.29	437	3.80
2004	208	2.18	431	2.72	623	3.20	495	5.26
2005	253	2.45	551	3.34	669	3.34	460	5.64
2006	283	2.67	530	3.72	515	4.21	409	5.49

SOURCE: IBO.

apartment buildings and therefore this type is more likely to have 421-a exemptions than older walk-up buildings. This has resulted in lower ETRs for the former, at least since 1984. Within the commercial property types, much of Manhattan is excluded from the Industrial and Commercial Incentive Program. This partially explains the relatively high ETR for office buildings, which are predominantly in Manhattan, and Manhattan retail properties. The very low ETR for Class 4 vacant land results from many partial exemptions, particularly outside Manhattan.

As noted above, the ETRs for these property types will be more uniform as long as the finance department does a reasonable job estimating the market value of the buildings. For most rental and commercial properties, the finance department uses capitalized net income rather than sales prices to estimate market values. Such an approach is appropriate given that sales are relatively infrequent for these types of property, and because sales prices often reflect speculation.

Nevertheless, comparing the sales price to the market value that the finance department estimated when the sale occurred can give us an indication of the department's success in reflecting current market conditions in its valuations.[49] In Table 11 the median of the ratio of sales price to the finance department's market value each year is reported. When the ratio is greater than one, the sales price exceeded the finance department's market value, implying that the value used for tax purposes is low. The ratios have been growing virtually every year for the property types shown in the table, which is not surprising during a time of rapid price appreciation, particularly since 2003.

The pattern, however, is not consistent across boroughs and property types. For example, among rental apartment buildings, the borough medians of the sales price ratio were fairly close in 1996 and 1997, but are now more widely spread, with Manhattan sales prices typically 3.74 times greater than the market value whereas in Queens the sales prices were typically only 2.76 times higher for the 2007 assessment roll. If we were to use the sales price to compute ETRs for these sales, the Queens apartment buildings are taxed 35 percent more heavily than those in Manhattan.

For sales of retail properties, there are similar differences except that in this case the difference for the current year is widest between Manhattan and the Bronx. Effective tax rates based on sales are 67 percent higher in the latter than in the former. Finally, there are large differences in the ratios among property types, particularly those for rental apartment buildings, retail, office, and factory and warehouse properties, all of which are valued using the same net income approach.

These differences indicate that the finance department's income-based market values are not consistently reflecting values for different property types in different areas. As a result, disparities in tax burdens for these types of properties likely remain a problem.

CONCLUSION

In this chapter of the report we examined how S7000A had impacted disparities on two dimensions: differences between property types or classes, and differences within property types. Under S7000A, the disparities between property types have grown, thanks primarily to the system used to allocate shares of the levy. It was a goal of the drafters of the legislation to avoid the shift of tax burden from commercial to residential property that would have occurred if the Hellerstein decision were enforced without changing the law.

Not only have the class share provisions of S7000A worked to protect Class 1 from such a shift, but because the system does not fully adjust to changes in market value shares among the classes, the Class 1 effective tax rate is now much lower than it would be if the levy shares were based directly on market share. Class 4 has absorbed most of the burden that would have shifted onto Class 1. As a result the ETR paid by commercial property owners is now

25 percent higher than it would be if levy shares had tracked the changes in market value shares. A second source of inter-class differences is the disparate treatment of residential property types. With the assessment caps protecting Class 1 and Section 581 producing significant discounts in market values for coops and condos there are major differences in tax burdens between the ownership class of residential property on the one hand and rental properties on the other.

The stark differences linked to area income and market values, particularly for houses, that were documented prior to the enactment of S7000A have been eliminated. Other disparities within property types have emerged, though, largely the result of S7000A's assessment caps and Section 581. The benefits from these provisions help owners of houses, apartments, and small rentals generally, but the benefits vary widely from neighborhood to neighborhood across the city, resulting in new disparities in tax burdens. Unlike the pre-S7000A differences, these are the product of the law itself rather than action, or inaction, on the part of assessors.

Written by George Sweeting

END NOTES

[1] Unless otherwise noted, all references to a year in this report years refer to city fiscal year rather than calendar year. Fiscal years are denoted by the calendar year in which they end, so 1993 refers to the fiscal year that ran from July 1, 1992 to June 30, 1993.
[2] For the years before 1993, the reported assessed value was divided by the known assessment ratio for the property type to get the finance department's market value.
[3] The sales file required extensive editing prior to computing these ratios to remove non-arms length transactions, foreclosure sales and sales by the city, transactions with extreme values, and sales with evidence of rapid "flipping." Of approximately 2.7 million sales records from 1975 through mid-2006, including those in the separate coop sales files, only about 1.6 million were included in the analysis file.
[4] Sales were linked to the annual assessment which was "active" at the time of sale rather than the fiscal year the sale occurred. The assumption was that a sale occurring while a property was being assessed might influence its valuation, but that a sale occurring after the assessment becomes final would have no influence on the value. For example, the 2006 fiscal year assessments were actively worked on in the second half of calendar year 2005, with field work completed by the taxable status date of January 5, 2005. They were then subject to review through the spring and became final on May 25, 2006. Sales occurring from June 2004 through May 2005 were used to generate the sales-based market values needed to calculate the ETRs for the 2007 roll. The alternative would have been to associate those sales, or at least those from July 2005 through June 2006, with the 2006 assessment roll.
[5] A similar process was also needed for a period in the mid-1990s when the finance sales file is missing virtually all coop sales.
[6] When S7000A was enacted the office was known as the state Board of Equalization and Assessment. The office consisted of staff who assisted the State Board in carrying out its equalization duties. Today, the ctate board still exists, but the staff operates under the separate name, Office of Real Property Services.
[7] These are referred to as equalization changes. While all equalization increases are phased-in over five years, how decreases are handled depends on whether there are previous increases still be phased in. If there is a pipeline of previous increases still being phased in then equalization decreases are also phased in over five years. If there is no pipeline, then the decrease is fully reflected in the year it occurs.
[8] City of New York Tax Study Commission, *Final Report,* December 1989, p. 139
[9] Under S7000A, the Finance Commissioner may determine a uniform assessment ratio for each class. The Class 1 target ratio was initially 20 percent of market value. It has been adjusted periodically over the years and now stands at 6 percent. The ratio for Class 2 and Class 4 was initially 60 percent and then was reduced to the current 45 percent beginning in 1985. The ratio for Class 3 property assessed by the city was originally 50 percent, with a state equalization ratio used for property assessed by the state. Since 1994, all Class 3 property has been assessed with a ratio of 45 percent of market value.
[10] New York University, *Real Property Tax Policy for New York City*, 1980, p. 1-11.
[11] The relatively large difference in effective tax rates reported for one-, and two-family houses in the NYU study for 1980 and the IBO estimates for what became Class 1 in 1984 are due to several factors. First, the Class 1 target assessment ratio used in the first few years under S7000A was 20 percent which is significantly lower than the 24.6 percent ratio estimated for 1980. There were also some smaller differences for other types of properties. Secondly, in preparation for implementing S7000A, the city moved to adjust the assessments on many properties, particularly over-assessed homes. For example, according to the Message of the Mayor submitted with the 1983 Executive Budget, the city lowered the assessments on 50,000 houses during 1982. Third, property values—along with other indicators of the health of the city's economy—had begun to slowly recover from the shock of the 1970s fiscal crises and this growth continued into the early 1980s even as the rest of the country went through back-to-back recessions in 1981-83. The growing market values contributed to the decline in effective tax rates prior to 1984 when the IBO data series begin. Any remaining difference is presumably attributable to methodological differences in estimating market values for the two studies.
[12] This would not be true if market values of coops and condos in Class 2 were measured using sales prices rather than imputed income. Based on IBO's estimated market values, the Class 2 market value share has grown slightly faster than Class 1's share since 1992.
[13] See IBO, *Where Does the Buck Stop?*, 1999.
[14] The Commissioner actually has authority to set the assessment ratio in each class, but other than a reduction in the third year of S7000A for Class 2 and Class 4, and adjustments in Class 3 necessitated by regulatory changes, the policy-driven changes have been concentrated in Class 1.
[15] We were not able to locate a definitive account documenting the choice of initial assessment ratio. The 20 percent is computed from a table of effective rates for the classes included in the Mayor's Office of Management and Budget Tax Revenue Forecasting Documentation. The chart shows a nominal rate

for 1983 of $8.95 per $100 of assessed value and an effective rate of $1.79 per $100 of market value, which implies an assessment ratio of 20 percent.
[16] The interaction of the Class 2A, 2B, 2C caps with the assessment ratio for Class 2 is much less because the target ratio is 45 percent, whereas actual average assessment ratios for these properties are currently around .08 using IBO's sales-based values or .15 using Finance's income-based values. With so much room between the actual and target ratios, the target is not a significant constraint on assessment increases.
[17] NYU, *Real Property Tax Policy for New York City*, p. II.31.
[18] NYU, *Real Property Tax Policy for New York City*, p. II.5. Exhibit 15 shows the neighborhood quality differentials based on differences in assessment ratios. Because the city still had a uniform nominal tax rate, the comparison of assessment ratios is equivalent to comparing effective tax rates or tax burdens.
[19] *NYU, Real Property Tax Policy for New York City*, pp. II.152-163. The factors were per capita income in 1974 and growth from 1970 to 1974; percentage of parcels with tax arrears in 1972 and 1978; percentage of neighborhood population on public assistance in 1976; and change in neighborhood population from 1970 to 1975.
[20] New York Public Interest Research Group *City of Unequal Neighbors: A Study of Residential Property Tax Assessments in New York City*, February 1981. NYPIRG used the same neighborhood definitions as the NYU study.
[21] NYPIRG "City of Unequal Neighbors, One Year Later," 1982, p. 3.
[22] NYPIRG 1982, p. 11.
[23] Both the NYU study and the NYPIRG studies used a set of neighborhood definitions that were developed by the City Planning Department in conjunction with the 1980 decennial census. There were 267 neighborhoods which were built up from census tract boundaries. These neighborhood definitions were not available for this study. IBO's census tract analysis used the Neighborhood Changed Database (NCDB) which was developed by the Urban Institute and GeoLytics, Inc. The NCDB includes census tract data from the 1970, 1980, 1990, and 2000 decennial censuses. Because census tract definitions change from decade to decade, the NCDB provides the data in a form that normalizes the census tract geography to the 2000 definitions. The normalization process can introduce some distortions in areas where there are many changes. In the case of New York City, the census tract geography has been fairly stable and the impact of the normalization on any results is unlikely to be large. The database includes 2217 census tracts for the city using the 2000 decennial definitions, of which 1490 had at least 100 Class 1 properties in 2007.
[24] Median family income was estimated for 1980 by using the midpoint of reported family income ranges. The median was reported for 2000. It was not possible to use median household income, which is more typically used when analyzing income distribution because it was could not be estimated for 1980. Because the distribution is estimated from ranges rather than measured continuously, the quartiles can actually represent slightly more or less than 25 percent of the distribution.
[25] NYU, *Real Property Tax Policy for New York City*, p. II.36-43.
[26] Marilyn Rubin and Fran Joseph, "The New York City Property Tax: A Case Study in Structural Change and Administrative Response," *Property Tax Journal*, Volume 7, Number 1 (March 1988), pp. 85-100. One of the first results from these efforts was the Department of Finance's reduction in assessments for 50,000 one- and two-family houses in spring 1982 that was cited above.
[27] Jack Eichenbaum, "Location as a Factor in Determining Property Values," *Property Tax Journal*, Volume 8, Number 2 (September 1989), pp. 151-169.
[28] The best measure of the effectiveness of the CAMA initiative is the ratio of sales price to the Department of Finance's Fair Market Value (FMV) for sold properties. Unfortunately FMVs are not available for most properties during the 1980s. Anecdotal evidence suggests that the ratio was fare from 1.0, at least in the early part of the decade. In 1993, when our study file first contains reliable FMV data, the median ratio stood at .95 and by 1994 it was very close to 1.0 where it remained until 1998. Since then it has been growing reaching 1.09 for sales used to set the 2007 values. This means that for sales during the period June 2005 through May 2006, a period of very rapid appreciation in house prices, the sales prices tended to be about nine percent higher than the market value the finance department has estimated for the property for the 2007 assessment roll.
[29] With the overall decline in ETR, the larger percentage difference still results in a smaller absolute difference in terms of taxes per $100 of market value.
[30] A secondary factor is a gradual tailing off in relationship between sales price and the Department of Finance's FMV estimates. As noted earlier, in order to use a consistent data series throughout the report, the reported ETRs for Class 1 properties are based on IBO's estimated market values which were developed using sales ratios. When Finance calculates a property's assessed valued it starts with the department's estimate of market value and ETRs based on Finance's FMVs show slightly less variation than the ETRs measured with IBO's market value. (For 2007, the coefficient of variation for the FMV-based ETRs is 36.7, and 37.2 for the IBO market value ETRs.) But since the 1994-1998 period, when the ratio of sales price to FMV for sold properties was essentially 1.0, the ratio has been growing and now stands at 1.09 for sales used to set the 2007 values. This means that for sales during the period June 2005 through May 2006, the sales prices tended to be about nine percent higher than the market value Finance has estimated for the property for the 2007 assessment roll. The years since 1998, and particularly since 2002 have seen very rapid appreciation in market values. Accurately reflecting such appreciation is a challenge for assessors and the computer models they use. Nevertheless, this decline may also be evidence of a decline in the quality of Finance's Class 1 market value models.
[31] The assessment caps only affect changes resulting from general market conditions (equalization changes). Changes in value based on improvements and alterations (physical changes) are not limited by the caps and are assessed using the appropriate class assessment ratio. As a result of the caps, the average assessment percentage for Class 2A/2B properties is now about 7 percent using IBOs sales-based market values and 12 percent using finance department's income-based values. With such a large gap between these percentages and the 45 percent Class 2 assessment percentage, some owners faced unexpectedly large increases in their tax bills when they renovated their buildings and the increased market value resulting from the physical improvements was assessed at 45 percent. Beginning with the 2006 assessment roll, the city sought and received state legislation to assess building improvements and alterations at a lower percentage, currently 15 percent of the market value change resulting from the improvement.
[32] NYU, *Real Property Tax Policy for New York City*, Exhibit 14, II-34.
[33] HVS sub-boroughs are made up of census tracts and for the most part align with the city's Community Planning Districts. There are only 55 HVS sub-boroughs and most are much larger than what is conventionally thought of as a neighborhood. They have the advantage of allowing us to bring in analysis based on the HVS survey of residents in each sub-borough.
[34] According to finance departmnet assessment data, in 1984 there were 238,566 coop apartments and 14,440 condos, plus 7,746 apartments in the small coop and condo buildings that became Tax Class 2C. By 2007, this inventory had grown to 440,881 coop apartments, 144,818 condo apartments, and 17,507 apartments in Class 2C.
[35] New York City Tax Study Commission, December 1989, pp. 142-143.

[36] The reported discounts are based on the median of the ratio of IBO per apartment market value to finance department per apartment market value, weighted by the number of apartments.
[37] ETRs in this section are the medians, weighted by the number of apartments.
[38] The rise in ETR for apartments in this period tracks a decline in sales prices, with the largest declines coming in Manhattan, particularly for pre-war coops, where the median sales price fell by 11 percent from 1992 to 1995 and by 19 percent from 1992 to 1997. Although sales prices for Class 1 houses also fell at the same time, the decline was a smaller 8 percent from 1992 to 1995.
[39]The commission was chaired by Stanley Grayson. Report of the New York City Real Property Tax Reform Commission, p. 138.
[40] Report of the New York City Real Property Tax Reform Commission, pp. 3-4. The commission began its work in the summer of 1993 prior to the fall Mayoral election race between David Dinkins and Rudy Giuliani, but did not hold its first public meeting until the day after the election. The electoral outcome gave the Commission a somewhat lame duck status, with little expectation that the incoming administration would welcome broad recommendations from a panel that it had played no role
[41] IBO, *The Coop Condo Abatement and Residential Property Tax Reform*, 1999.
[42] The abatement actually has two rates, 17.5 percent for apartments in buildings were the average assessment per apartment exceeds $15,000 and 25 percent for apartments were the average assessment is less. For over 90 percent of owners who qualified for the abatement in 2007, the percentage is 17.5 percent.
[43] For this comparison, IBO calculated the Class 1 target ETR by multiplying the target assessment ratio of 6 percent times the Class 1 tax rate. Note that this target ETR is substantially above the actual average ETR in Class 1 today. Using the actual ETR would lower the estimate of unnecessary abatement substantially to only $14 million. We use the target ratio because the long-term goal of coop-condo reform is to move apartment owners into Class 1. When other property types have been shifted into Class 1 in the past (vacant lots adjacent to Class 1 lots, and small mixed used buildings) they have come in at the target rate.
[44] NYU, *Real Property Tax Policy for New York City*, I-14.
[45] Offices and hotels were assessed at 78 percent of market value while vacant land was assessed at 22 percent on average, with factories, warehouses, retail and loft buildings in the 60-66 percent range. NYU, *Real Property Tax in New York City, I-20*.
[46] The coefficient of variation (COV), a standard measure of uniformity, or lack thereof, in assessments exceeded 60 percent in half of the commercial types measured. NYU, Real Property Tax Policy for New York City, I-22.
[47] Increases in assessed value due to market conditions, known as equalization changes, are phased in over five years. Equalization decreases are reflected immediately unless there is a previous increase still being phased-in, in which case the new equalization decrease is also phased-in over five years. Changes attributable to physical changes (i.e. construction, alteration, renovation, demolition) are reflected immediately.
[48] The exemptions for government-owned properties, including public housing complexes, are larger than 421-a and Industrial and Commercial Incentive Program, but such fully exempt properties are excluded from our analysis.
[49] Recall that we link sales to the assessment roll being developed at the time of the sale which should increase the chance that the finance department can reflect the sales price in its valuation.

How Do New York City's Commercial Property Taxes Compare with Other U.S. Cities?

In this chapter we compare New York City's commercial property tax rate with rates in other cities and briefly consider implications for the economy of New York City. Traditionally, the property tax has served as a major revenue source for U.S. cities, with much of it falling on business and commercial property. Nationwide, property taxes on real, personal, and utility property owned by businesses account for the largest share, 37 percent, of state and local business taxes.[1] We have seen that the city has a high effective tax rate (ETR) for commercial (Class 4) property. If the city's commercial tax burden is higher than elsewhere, then any negative effect on the city's economy will be compounded.

Projected to total more than $13 billion this fiscal year, the amount of property taxes collected in New York City is by far the largest compared to other U.S. cities. Of course, this is primarily a function of the city's population and scale. More meaningful comparisons measure a city's property tax against the economic resources available in the city to pay it or alternatively against the value of the property being taxed, which is the effective tax rate.

When comparing property taxes among cities, one needs to begin by recognizing the significant differences in the way these taxes are levied in each jurisdiction. For example while Los Angeles has four property classes (residential, commercial, industrial, and personal property), Chicago identifies a dozen taxable property classes. In most municipalities, the tax base comprises land and improvements, although in some cities, personal property (such as trucks, boats, or machinery) is also included. Cities also differ in their exemption structures. And, most importantly, nominal tax rates, valuation methods, and assessment rates all vary widely across municipalities. These differences in property taxation present a serious challenge in making a valid comparison of New York City property taxes to those of other cities.

A forthcoming IBO report will present comparisons of tax burdens for the nine most populous cities in the country (Tables 1 and 2). The study estimates the totals of major taxes collected in a given city, including taxes levied by the overlapping local governments, such as counties, school districts and other jurisdictions. The study then contrasts the sum of city taxes with the city's tax capacity. IBO has developed a measure of tax capacity that we call "taxable resources," which is the sum of aggregate household incomes and surpluses of businesses operating in the city. The share of each city's tax collections per $100 of taxable resources represents tax effort and is used by IBO to make cross city comparisons.

Table 1
2003-2004 City and Overlapping Government Taxes
Dollars in millions

City	Property Taxes	Other Taxes	Total
New York, NY	$11,445.00	$33,857.40	$45,302.40
Los Angeles, CA	$3,052.60	$9,805.60	$12,858.20
Chicago, IL	$3,371.60	$5,620.50	$8,992.10
Houston, TX	$2,841.80	$5,245.30	$8,087.10
Philadelphia, PA	$891.20	$3,519.20	$4,410.40
Phoenix, AZ	$1,212.30	$2,790.20	$4,002.50
San Diego, CA	$1,192.70	$3,669.80	$4,862.50
San Antonio, TX	$1,296.70	$1,840.50	$3,137.20
Dallas, TX	$1,775.70	$2,885.60	$4,661.30

SOURCE: IBO.

According to this measure, New York City's overall property tax effort of $2.24 per $100 of taxable resources (shown in the second column of Table 2) is higher than that of all but one of the other cities in our study, slightly above Chicago's tax effort, and is significantly larger than the $1.85 average for the other major cities.[2] Table 3 distinguishes between the types of real property on which the tax is being levied for the six cities where the necessary data was available. This allows us to calculate shares of the total property tax for two categories: residential, which includes houses, condominiums, and apartment buildings; and non-residential, which includes all other types of taxable property, the lion's share of which is collected from

Table 2
2003-2004 Property Taxes and Tax Effort

City	Property Tax Share of All Taxes	Property Tax per $100 Taxable Resources
New York, NY	25.30%	2.24
Los Angeles, CA	23.70%	1.60
Chicago, IL	37.50%	2.16
Houston, TX	35.10%	1.92
Philadelphia, PA	20.20%	1.43
Phoenix, AZ	30.30%	1.86
San Diego, CA	24.50%	1.45
San Antonio, TX	41.30%	2.76
Dallas, TX	38.10%	1.94
Non-NYC average	30.60%	1.85

SOURCE: IBO.

commercial and industrial property. Among these cities, New York has the largest percentage of property taxes collected from non-residential property (48.4 percent), while the others have closer to a third or less coming from non-residential property. Measured as a share of taxable resources, New York's non-residential property tax burden exceeds that of the other cities.

A more common—and less labor intensive—method of comparing taxes across jurisdictions measures the effective property tax rate for each city. The effective tax rate shows the relationship between property taxes and the market value of the property. Assuming one has good estimates of market values, city-to-city comparisons of effective tax rates avoid the problem of local variation in assessment practices. The estimates presented in Table 4 come from the "50-State Property Tax Comparison Study" based on the 2005 tax year that was conducted by Minnesota Taxpayers Association and other member states of National Taxpayers Conference.[3] Data for property tax calculations was supplied by various state and local agencies and Web sites, and by state and local tax experts.

The results of the survey suggest that among major cities, New York City's ETR for commercial property is the highest in the country, while the residential ETR is among the lowest. The Minnesota study's most striking finding is New York's high ratio of commercial to residential effective tax rates. In fact, it is the highest among more than a hundred locations covered in the report. While the national average is 1.7, New York City's ratio as measured for the Minnesota study is 7.2.[4] The high ratio reflects the huge disparity in the way different classes of property are taxed in the city.

With New York City's effective tax rate on commercial properties higher than in other large cities, and many times higher than that of residential properties, the result is a disproportionately heavy tax burden on the city's commercial real estate. What is less certain is the extent to which this disproportionate burden produces adverse economic impacts by decreasing New York City's competitiveness.

How big could this impact be? Is it substantial enough to warrant serious concern? Certainly there is some level at which property tax rate differentials will have an effect on business location decisions. Commercial and industrial property often constitutes a firm's largest investment item, and, therefore, taxation of such properties may have serious implications on the decision of a firm to move, maintain, or expand its operations in a given locality. In an effort to create new jobs and grow their economies, local officials often use incentives that lower taxes, most commonly the property tax, as a policy tool to attract and retain individual firms. Many economists, however, are skeptical about both the effectiveness of firm-specific tax breaks and the degree to which local and state tax differentials translate into economic impacts.

Timothy Bartik in a series of papers from 1991 to 1994 provides a comprehensive review of econometric literature on the effects of state and local taxation on economic development.[5] In a review and reestimation of 75 different studies, Bartik reported that almost two thirds of them found a statistically significant negative impact of tax increases while holding other things constant. Bartik provides the following example to reflect the range of the estimates: if a locality, be it a metropolitan area or a state, decides to raise its taxes by 10 percent, "the estimated long-run effect would be a reduction of business activity between 1 percent and 6 percent."

Table 3
2003-2004 Residential and Non-Residential Property Taxes

City	Residential Property Tax Share	Non-Residential Property Tax Share	Non-Residential Property Tax per $100 Taxable Resources
New York, NY	51.60%	48.40%	1.09
Los Angeles, CA	73.10%	26.90%	0.43
Houston, TX	62.40%	37.60%	0.72
Philadelphia, PA	69.00%	31.00%	0.44
San Antonio, TX	70.70%	29.30%	0.81
Dallas, TX	67.30%	32.70%	0.63

SOURCE: IBO calculations based on financial reports of local governments.

Bartik, in his 1991 review, noted that tax cuts translate into revenue losses that can lead to a decrease in public spending. Reduction in the level and quality of public services can also have significant negative economic effects. Michael Wasylenko in his 1997 update to Bartik's study goes further and suggests that companies would gain more from "a stable business tax system that efficiently funds [public] services" instead of inconsistent policies of tax cuts.

The effect of commercial property taxes may be most significant when firms are making intra-regional location decisions. New York City competes not only with large cities elsewhere in the country, but also with jurisdictions on its borders—particularly across the Hudson River in New Jersey. Thanks to the region's transportation infrastructure, firms can draw upon essentially the same regional labor market regardless of which side of the river they choose to locate new facilities. Although New Jersey's residential property tax rates are relatively high, its commercial rates are not, making the very high New York commercial property tax burden a competitive disadvantage. Areas outside the city also enjoy other cost advantages, particularly compared with Manhattan with its density and high cost of land. When these differences are coupled with deep income tax discounts available in counties on the western shore of the Hudson, New Jersey and to some extent Westchester and Connecticut, have had success in attracting firms, jobs, and commercial investment from the city.

Table 4
2005 Effective Property Tax Rates

City	Residential Property	Commercial Property	Ratio
New York City	0.639	3.868	7.262
Boston	0.684	2.968	4.251
Phoenix	1.041	3.171	3.127
Chicago	1.498	3.259	2.611
Philadelphia	2.234	2.902	1.559
Houston	2.334	2.791	1.184
Los Angeles	1.139	1.156	1.015
U.S. Average			1.757

SOURCES: IBO; 50-State Property Tax Comparison Study, Minnesota Taxpayers Association, April 2006.

Written by Eldar Beiseitov

END NOTES

[1] Ernst and Young, "Total State and Local Business Taxes," 2005.
[2] Note that the numbers presented in Tables 1 and 2 include not only property taxes collected by the city governments, but, when applicable, also taxes collected by overlapping jurisdictions, such as school districts, counties, states and others.
[3] "50-State Property Tax Comparison Study," Minnesota Taxpayers Association, April 2006.
[4] Using the ETRs estimated by IBO, the ratio was 8.1 in 2005.
[5] Bartik, Timothy. 1991. *Who Benefits From State and Local Economic Development Policies?* Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research. "The effects of state and local taxes on economic development: A review of recent research." Economic Development Quarterly. Vol. 6, No.1 (February 1992). "Taxes and local economic development: What do we know and what can we know?" Proceedings of the 87th Annual Conference on Taxation of the National Tax Association, Charleston, S.C., November 13-15, 1994. "Jobs, productivity, and local economic development: What implications does economic research have for the role of government?" *National Tax Journal*. Vol. 47 (December, 1994). *Growing State Economies: How Taxes and Public Services Affect Private Sector Performance*. Washington D.C.: Economic Policy Institute, 1996.

A Review of Household Incomes By Location and Type of Residence

As we have previously seen, there are large differences in tax burdens among residential property types. Class 1 houses generally have the lowest effective tax rates, followed by coop and condo apartments and small rental buildings. Larger rental building (those with 11 or more units) face much higher effective tax rates, averaging eight times higher than in Class 1. The incomes of households living in the city's residential units also differ by type of property, as well as by borough and neighborhood.

This chapter takes a summary look at these income differences by location, utilizing a U.S. Census Bureau data survey that reports incomes for different types of housing. Households owning their own homes, whether it is a Class 1 house or Class 2 condo or coop, have higher incomes than renters in nearly all areas. In most areas, the median income of apartment owners is less than the comparable income of those owning houses, yet the median incomes of apartment owners and even renters in the city's most affluent areas are greater than the median income of Class 1 homeowners. The median incomes of seniors range from roughly a third to half of non-senior incomes for different boroughs and types of housing.

The Census Bureau undertakes its Housing and Vacancy Survey (HVS), a special survey of a large sample of New York City housing units, every few years. In addition to compiling information on the physical characteristics of apartments and houses in the city, HVS details economic and other demographic data of residents of occupied housing units.[1] The most recent survey found that the median household income of occupied apartments and houses was $42,000 in 2005, only slightly less that the median income citywide found in another census survey.[2]

Table 1
Household Income by Type of Residence, 2005

Type of Residence	Median income	Mean income
All units	$42,000	$65,375
Owner-occupied	$66,000	$96,861
House	$65,000	$80,993
Condo	$85,000	$165,971
Coop	$70,500	$124,417
Mitchell-Lama coop	$39,000	$51,956
Renter-occupied	$33,904	$49,363
Rent stablized or controlled	$33,328	$47,781
Market rate	$43,000	$62,058
Condo rental	*$45,000*	*$67,514*
Coop rental	*$59,200*	*$80,032*
Public housing	$14,784	$20,658
Mitchell-Lama rental	$22,500	$34,311
Other income limited rentals	$11,840	$22,751

Not surprisingly, the median income of homeowners exceeds that of renters; it is almost double, $66,000 versus $33,900. Table 1 presents estimates of median (and mean) incomes from the 2005 HVS. Among homeowners, the incomes of owners of one-, two, and three-family homes, taxed as Class 1 properties, are somewhat lower than apartment owners' incomes—$65,000 versus $70,500 for coop owners and $85,000 for owners of condos.[3] All but some small condos are taxed as Class 2 properties. In rent-stabilized and rent-controlled apartments, the 2005 median household income was $33,300, compared to $43,000 in apartments and other housing units renting at market rates.[4] The median income of those renting condos and coops is even higher—$52,000—while the household incomes of tenants in public housing, Mitchell-Lama rentals, and other apartments with income restrictions are far lower.[5]

Table 2
Median Incomes and Income Categories, 2005 by Borough and Sub-borough

Bronx	**$29,000**		**Brooklyn**	**$37,000**	
Mott Haven-Hunts Point	$16,000	LOW	Williamsburg-Greenpoint	$35,000	L-MID
Morrissania	$17,364	LOW	Brooklyn Heights-Fort Greene	$43,000	H-MID
Highbridge-South Concourse	$21,600	LOW	Bedford-Stuyvesant	$24,000	LOW
Fordam-University Heights	$23,000	LOW	Bushwick	$31,200	L-MID
Kingsbridge Heights-Mosholu	$25,800	LOW	East New York	$30,000	L-MID
Riverdale-Kingsbridge	$47,000	H-MID	Park Slope-Carroll Gardens	$50,000	H-MID
Soundview-Parkchester	$32,000	L-MID	Sunset Park	$42,000	L-MID
Throngs Neck-Coop City	$47,700	H-MID	Crown Heights	$34,000	L-MID
Pelham Parkway	$35,000	L-MID	South Crown Heights	$32,000	L-MID
Wakefield-Baychester	$35,000	L-MID	Bay Ridge	$51,000	H-MID
Queens	**$45,000**		Bensonhurst	$36,000	L-MID
Astoria	$39,000	L-MID	Borough Park	$30,567	L-MID
Sunnyside-Woodside	$40,000	L-MID	Coney Island	$26,700	LOW
Jackson Heights	$36,200	L-MID	Flatbush	$37,500	L-MID
Corona-Elmhurst	$36,400	L-MID	Gravesend-Sheepshead Bay	$42,500	L-MID
Middle Village-Ridgewood	$48,000	H-MID	Ocean Hill-Brownsville	$25,000	LOW
Forest Hills-Rego Park	$55,000	HIGH	East Flatbush	$40,000	L-MID
Flushing-Whitestone	$47,000	H-MID	Flatlands-Canarsie	$59,800	HIGH
Fresh Meadows-Hillcrest	$51,000	H-MID	**Manhattan**	**$51,000**	
Kew Gardens-Woodhaven	$45,000	H-MID	Greenwich Village-Financial District	$76,500	HIGH
Howard Beach-South Ozone Park	$52,000	H-MID	Chinatown-Lower East Side	$35,000	L-MID
Bayside-Little Neck	$65,000	HIGH	Chelsea-Clinton-Midtown	$60,000	HIGH
Jamaica	$46,000	H-MID	Stuyvesant Town-Turtle Bay	$79,000	HIGH
Bellrose-Rosedale	$53,000	H-MID	Upper West Side	$72,000	HIGH
Rockaways	$36,000	L-MID	Upper East Side	$75,000	HIGH
Staten Island	**$60,200**		Morningside Heights-Hamilton Heights	$35,000	L-MID
North Shore	$52,500	H-MID	Central Harlem	$30,000	L-MID
Mid Island	$65,000	HIGH	East Harlem	$25,000	LOW
South Shore	$67,000	HIGH	Washington Heights-Inwood	$31,000	L-MID

SOURCES: IBO; U.S. Census Bureau, Housing and Vacancy Survey ,2005.

MEDIAN INCOME BY NEIGHBORHOOD

A closer look at median income by city neighborhood shows that the largest concentration of low-income sub-boroughs is in the Bronx, while high-income neighborhoods are disproportionately concentrated in Manhattan and Staten Island. Table 2 reports median household incomes by borough, and by the 55 sub-borough areas defined by HVS whose boundaries largely coincide with the Community Districts of New York City. The sub-boroughs are ranked by median income and divided into four income groups: low, lower-middle, high-middle, and high (LOW, L-MID, H-MID, and HIGH in the table). Of the nine sub-boroughs with the lowest median incomes, under $30,000, over half are in the Bronx, one is in Manhattan and the remaining three are in Brooklyn. Ten sub-boroughs have median incomes of $55,000 or more, with half of these in Manhattan and the rest consisting of two areas of Queens, one in Brooklyn, and two of Staten Island's three sub-boroughs. The sub-boroughs with incomes in the middle are divided into two groups. Those with incomes below the citywide median (21 sub-boroughs), the L-MID group, are a mixture of neighborhoods from all boroughs except Staten Island. The remaining 15 middle-income sub-boroughs, the H-MID group, are from all boroughs except Manhattan.

The sub-boroughs are large enough so that in most, the dispersion of income is great. In Chinatown-Lower East Side, income at the 75th percentile is over five times as large as income at the 25th percentile. An example of a relatively homogenous area is Jackson Heights, where the ratio of 75th to 25th percentile incomes is less than three. Some sub-boroughs, such as Brooklyn Heights-Fort Greene, comprise large concentrations of both wealth and poverty.

INCOMES BY TYPE OF RESIDENCE

Incomes within boroughs and sub-boroughs vary greatly by the type of residence, such as owner-occupied versus rentals, or Class 1 houses versus Class 2 apartments. Table 3 reports the HVS-estimated median household income of New Yorkers in each of the boroughs and sub-boroughs, for selected residence types. The first four columns refer to the incomes of owners of Class 1 houses, owners of Class 2 condos and coops in large buildings with 11 or more units (which are taxed somewhat differently than small condo and coops buildings), residents of Class 2 rental buildings with 11 units or more, and residents of smaller rental buildings (Class 2A and 2B). In the columns on the right, incomes for condos and coops are reported separately, as are incomes for renters in elevator buildings and walk-ups.

Median incomes are not reported for sub-boroughs or boroughs where the sample does not contain at least 25 households of a particular mix of area and residence type, because the characteristics of smaller samples (such as household income) are less likely to be representative of the all households in that particular area.[6] As a result, the number of sub-borough comparisons that can be made with the data is restricted. In particular, comparing the income levels of Class 1 homeowners to Class 2 apartment owners for specific sub-boroughs is greatly limited because there are not enough Class 1 owners in Manhattan neighborhoods and not enough apartment owners in the neighborhoods of the other boroughs.

Within each borough and sub-borough, homeowners' incomes are greater than those of renters. But there is a strong relationship between incomes and neighborhoods. Median incomes of renters in the high-income sub-boroughs generally exceed homeowners' incomes in the low-income group. And renters in the most affluent Manhattan areas also have incomes above homeowners in many other sub-boroughs.

In the boroughs and the few sub-boroughs where a direct comparison of house and apartment owners' incomes can be made, with the exception of the Bronx, median incomes of Class 1 owners are greater that those of apartment owners. But median incomes of apartment owners in Manhattan sub-boroughs are greater than incomes of

Table 3.
Median Household Incomes per Unit, by Sub-borough and Selected Unit Types, 2005

		Class 1	Class 2*			Class 2* Detailed Building Types			
	All	House *(owners)*	Coop/Condo *Owners*	Rentals	Class 2A/2B rentals	Condo *Owners*	Coop *Owners*	Elevator Rentals	Walk-up Rentals
All-city	$42,000	$65,000	$73,400	$33,030	$38,000	$85,000	$71,000	$35,000	$30,810
Boroughs									
Bronx	$29,000	$50,584	$58,920	$23,000	$28,000	--	$58,920	$25,000	$21,300
Brooklyn	$37,000	$65,500	$60,000	$28,000	$35,000	--	$60,000	$25,700	$30,000
Manhattan	$51,000	--	$105,000	$46,000	$70,000	$126,000	$100,000	$49,000	$42,200
Queens	$45,000	$63,000	$50,000	$32,756	$39,000	$40,000	$50,000	$35,000	$30,000
Staten Island	$60,200	$77,000	--	$28,000	--	--	--	$24,600	--
Low-income sub-boroughs									
Mott Haven-Hunts Point	$16,000	--	--	$16,000	--	--	--	$12,000	$24,700
Morrissania	$17,364	--	--	$16,280	--	--	--	$12,000	$20,000
Highbridge-South Concourse	$21,600	--	--	$20,000	--	--	--	$20,000	$19,255
Fordam-University Heights	$23,000	--	--	$21,600	--	--	--	$26,000	$19,300
Bedford-Stuyvesant	$24,000	$51,000	--	$13,000	$29,800	--	--	--	--
Ocean Hill-Brownsville	$25,000	$45,000	--	$32,000	--	--	--	--	--
East Harlem	$25,000	--	--	$27,000	--	--	--	$29,000	$25,000
Kingsbridge Heights-Mosholu	$25,800	--	--	$24,000	--	--	--	$30,000	$19,200
Coney Island	$26,700	$55,000	--	$12,000	--	--	--	$12,000	--
Low-middle income sub-boroughs									
East New York	$30,000	$62,518	--	--	--	--	--	--	--
Central Harlem	$30,000	--	$45,000	$24,000	$33,700	--	--	$21,400	$26,000
Borough Park	$30,567	$76,200	--	$16,000	$37,000	--	--	$12,000	$22,100
Washington Heights-Inwood	$31,000	--	$74,400	$30,000	--	--	$74,400	$30,500	$29,600
Bushwick	$31,200	--	--	--	$30,000	--	--	--	--
Soundview-Parkchester	$32,000	$41,600	--	$30,000	--	--	--	$36,000	--
South Crown Heights	$32,000	--	--	$30,000	--	--	--	$30,000	$28,000
Crown Heights	$34,000	--	--	$25,000	$34,648	--	--	$25,000	$25,000
Pelham Parkway	$35,000	$59,000	--	$33,028	--	--	--	$35,000	$33,000
Wakefield-Baychester	$35,000	$45,000	--	$27,032	$23,000	--	--	--	--
Williamsburg-Greenpoint	$35,000	--	--	$30,000	$44,000	--	--	--	$33,000
Chinatown-Lower East Side	$35,000	--	$80,000	$38,000	--	--	$76,940	$31,000	$40,000
Morningside Heights-Hamilton Heights	$35,000	--	$70,500	$35,000	--	--	$70,500	$40,000	$28,000
Bensonhurst	$36,000	$65,000	--	$29,380	$30,460	--	--	--	$26,000
Rockaways	$36,000	$84,200	--	$15,000	--	--	--	$22,000	--

Jackson Heights	$36,200	$53,000	$35,000	$25,000	--	--	$35,000	$20,000	--
Corona-Elmhurst	$36,400	$52,000	--	$32,000	--	--	--	$32,000	--
Flatbush	$37,500	$91,328	--	$30,600	--	--	--	$30,600	$30,708
Astoria	$39,000	$36,800	--	$36,000	$40,600	--	--	$41,000	$30,000
East Flatbush	$40,000	$57,000	--	$29,756	$30,000	--	--	$20,000	$36,000
Sunnyside-Woodside	$40,000	$57,000	--	$25,000	$44,000	--	--	$21,500	$31,000
Sunset Park	$42,000	$44,575	--	$35,000	$40,000	--	--	--	--
Gravesend-Sheepshead Bay	$42,500	$66,000	$60,000	$27,000	--	--	$60,000	$22,000	--
High-middle income sub-boroughs									
Brooklyn Heights-Fort Greene	$43,000	--	$70,000	$30,000	$46,000	--	$62,500	--	--
Kew Gardens-Woodhaven	$45,000	$67,000	--	$35,000	--	--	--	--	$36,000
Jamaica	$46,000	$55,000	--	$31,352	--	--	--	$38,000	--
Riverdale-Kingsbrige	$47,000	$59,100	$66,500	$36,000	--	--	$66,500	$40,000	--
Flushing-Whitestone	$47,000	$62,000	$46,000	$24,900	--	--	$48,000	$25,000	--
Throngs Neck-Coop City	$47,700	$58,000	--	--	--	--	--	--	--
Middle Village-Ridgewood	$48,000	$63,400	--	--	$35,800	--	--	--	--
Park Slope-Carroll Gardens	$50,000	$102,000	--	--	$45,000	--	--	--	--
Bay Ridge	$51,000	$86,000	--	$39,000	$29,000	--	--	$39,000	--
Fresh Meadows-Hillcrest	$51,000	$70,000	$40,600	$49,500	$34,628	--	$42,000	$47,500	--
Howard Beach-South Ozone Park	$52,000	$71,800	--	--	--	--	--	--	--
North Shore	$52,500	$70,000	--	$38,000	--	--	--	--	--
Bellrose-Rosedale	$53,000	$64,000	--	--	--	--	--	--	--
High-income sub-boroughs									
Forest Hills-Rego Park	$55,000	$86,755	$70,000	$50,000	--	--	$70,000	$50,000	--
Flatlands-Canarsie	$59,800	$75,000	--	--	--	--	--	--	--
Chelsea-Clinton-Midtown	$60,000	--	$101,000	$51,500	--	$101,000	$100,000	$56,000	$45,000
Bayside-Little Neck	$65,000	$72,000	--	--	--	--	--	--	--
Mid Island	$65,000	$73,000	--	--	--	--	--	--	--
South Shore	$67,000	$83,200	--	--	--	--	--	--	--
Upper West Side	$72,000	--	$120,000	$63,000	$70,060	--	$117,000	$62,500	$70,000
Upper East Side	$75,000	--	$118,400	$62,500	--	$145,000	$116,000	$69,000	$60,000
Greenwich Village-Financial District	$76,500	--	$112,500	$60,000	$93,200	--	$90,000	$65,000	$58,000
Stuyvesant Town-Turtle Bay	$79,000	--	$115,000	$70,000	--	$110,000	$120,000	$62,000	$80,007

SOURCES: IBO; U.S. Census Bureau, Housing and Vacancy Survey, 2005.
NOTES: Class 2 buildings have at least eleven units, Class 2A/2B buildings have four to ten units.

homeowners in most sub-boroughs outside of that borough. A notable exception is the Park Slope-Carroll Gardens sub-borough, the only sub-borough where the median income of homeowners is greater than $100,000.

SENIOR CITIZENS AND HOMEOWNERSHIP

One motivation for constraining annual increases in the assessed values of Class 1 properties in New York City's current property tax system is to protect home-owning senior citizens on fixed incomes from facing unduly burdensome tax levies. Seniors are over-represented among homeowners, particularly among those with Class 1 properties, and for almost all types of housing in all boroughs, their median income is less than half of non-senior income.

The average age of residential property owners is somewhat higher than the average of renters—54 years old versus 46 years old based on the ages of the heads of household. Among homeowners, those owning Class 1 houses are the oldest, with an average age of 55 years. These age differences in part reflect the over-representation of senior citizens, age 65 or higher, among Class 1 homeowners. Seniors account for 28.4 percent of such homeowners, compared with 19.1 percent of heads of household in all city residences. The Bronx has the highest percentages of Class 1 homeowners who are seniors, and Manhattan has the lowest.

Table 4
Median Household Incomes of Seniors and Non-seniors
By Borough and Residence Type

	Seniors	Non-seniors	% of Seniors
Bronx			
Class 1 homeowners, houses	$28,000	$65,000	43.1%
Class 2 apartment owners*	-	-	-
Class 2 rentals*	$11,868	$25,000	47.5%
All residences**	$15,424	$32,000	48.2%
Brooklyn			
Class 1 homeowners, houses	$28,424	$80,800	35.2%
Class 2 apartment owners*	$26,760	$68,000	39.4%
Class 2 rentals*	$11,664	$33,600	34.7%
All residences**	$15,500	$43,000	36.0%
Manhattan			
Class 1 homeowners, houses	-	-	-
Class 2 apartment owners*	$57,800	$113,000	51.2%
Class 2 rentals*	$16,800	$54,752	30.7%
All residences**	$21,000	$61,000	34.4%
Queens			
Class 1 homeowners, houses	$31,000	$78,500	39.5%
Class 2 apartment owners*	$20,440	$59,000	34.6%
Class 2 rentals*	$13,800	$38,000	36.3%
All residences**	$22,260	$51,000	43.6%
Staten Island			
Class 1 homeowners, houses	$26,000	$89,600	29.0%
Class 2 apartment owners*	-	-	-
Class 2 rentals*	-	-	-
All residences**	$25,600	$70,000	36.6%
All boroughs			
Class 1 homeowners, houses	$29,200	$80,000	36.5%
Class 2 apartment owners*	$29,328	$81,000	36.2%
Class 2 rentals*	$13,452	$38,800	34.7%
All residences**	**$19,200**	**$48,800**	**39.3%**

SOURCES: IBO; U.S. Census Bureau, Housing and Vacancy Survey, 2005.
NOTES: *Class 2 data excludes buildings less than eleven units. **Medians Reported for all residences include additional types of residences not in table.

Table 4 looks at and compares the household incomes of seniors and non-seniors. Because sample sizes permit only a few reliable comparisons at the sub-borough level, median incomes levels are compared only at the borough level and for three broad groups of residences—owner-occupied houses, owner-occupied apartments, and rental apartments. Citywide and for all types of housing, the median income of seniors is about 39 percent of the median income of comparable non-seniors, with senior incomes relative to non-senior incomes being somewhat higher in the Bronx and Queens and lower elsewhere.

In the city as a whole, the ratio of senior median income to non-senior income hardly varies for different types of residences. It varies somewhat more at the borough level: median incomes of seniors range from roughly a third to half of the median incomes of other residents, depending on borough and type of residence. In Queens, the median incomes of seniors relative to that of non-seniors is higher among Class 1 homeowners than among apartment owners and renters, while in the Bronx it is lower. In Brooklyn, the median income ratio of seniors to non-seniors among Class 1 homeowners is somewhat less than the ratio for apartment owners and nearly the same as that from renters.

Because of sample size, senior incomes of Class 1 homeowners in Manhattan and senior incomes of apartment owners and renters in Staten Island are not reported, so in these boroughs no comparisons of Class 1 and Class 2 incomes can be made. But among the boroughs, the ratio of senior median income to non-senior median income is especially low in Staten Island (29 percent versus 35 percent to 43 percent in other boroughs). Among apartment owners, the ratio of senior to non-senior income is substantially greater in Manhattan (51 percent) than in the other boroughs (35-39 percent).

Written by Michael Jacobs

END NOTES

[1] In this section, all figures for household income are taken from the 2005 HVS, unless otherwise noted.
[2] The Census Bureau's American Community Survey, another household survey, estimates a median income of $43,400 among New York City households in 2005. Some analysts have expressed concern that estimates of income derived from previous HVS surveys appear to be implausibly low, particularly for upper-income households.
[3] The income median for coop owners excludes owners of limited-equity, Mitchell-Lama coops, which can be purchased only if household income falls within moderate- and middle-income ranges. The HVS-estimated median income of Mitchell-Lama coop owners in 2005 is $39,000.
[4] In addition to unregulated apartments in rental buildings, market-rate rentals include the rental units of multifamily homes and coop and condo apartments being rented from owners.
[5] For example, in 2005 the median income of households in public housing is $14,700, and in Mitchell-Lama rentals it is $22,500.
[6] For example, among all sub-boroughs, the HVS data indicate that the median income of renters in large, elevator buildings is highest in Bushwick and almost three times the comparable citywide income. But this implausible conclusion is derived from only six Bushwick households in the sample of elevator rental buildings. In general, the greater the sample size, the more likely the sample accurately represents the group from which it was taken. While there is no threshold of sample size that guarantees a totally reliable sample, estimates derived from a sample of 25 or above are more likely to reliably reflect the underlying population.

Alternatives to the Current Real Property Tax Structure

The preceding chapters of this report documented the wide disparities in tax burdens among the city's different property classes and even within some of the same classes. An effort to reform the structure to introduce greater equity would by definition also result in significant shifts in tax burdens. Indeed, with the passage of 25 years under S7000A, during which some disparities have grown, some shifts would now be more substantial than would have occurred if the Legislature had simply allowed the Hellerstein decision to take effect.

This chapter presents several generic reform options to give a sense of the magnitude of changes that would result. These scenarios are not intended to be recommendations for reform. Instead, they show how much burdens would change under these options and identify the winners and losers. We do not model all of the complexities of these reform scenarios (such as which exemptions and abatements would be preserved and which would be dropped). We close with a discussion of some of the major issues that would need attention in a transition to a new system, including protection against sharp increases in property taxes for low-income homeowners.

We examine four simple alternatives to the current real property tax structure: a single tax rate for all properties and three two-rate structures. In all cases, we require that the current level of property tax revenue be maintained. The first alternative with a single uniform rate would result in the biggest shifts in tax burdens, with very large increases in Class 1 levies offsetting equally large declines in Class 4. The other three alternatives are based on options that have been considered at various times in the past, including during the period leading up to enactment of S7000A.

Alternative 1: One Tax Rate

	New Tax	Change in Levy			Share of Levy		Share of
Tax Class	Rate	Dollars (millions)	Percent	Per Unit	New	Current	Mrkt Value
1 Residential		3,610.3	192.9%	5,193	40.8%	13.9%	40.8%
2 Residential		828.3	17.8%	418	40.9%	34.7%	40.9%
3 Utilities		-794.6	-74.2%	-1,887,514	2.1%	8.0%	2.1%
4 Commercial		-3,644.0	-62.6%	-44,759	16.2%	43.4%	16.2%
Total	**1.330**	**0.0**	**0.0%**		**100.0%**	**100.0%**	**100.0%**
By Building Type							
TC 1 1,2,3-Fam		3,342.9	190.4%	5,326	38.0%	13.1%	38.0%
TC 1 Condo		171.6	701.1%	8,800	1.5%	0.2%	1.5%
TC 1 Other		95.8	104.6%	1,993	1.4%	0.7%	1.4%
TC 2 Coop		1,094.4	95.7%	2,482	16.7%	8.5%	16.7%
TC 2 Elevator		-1,007.9	-64.2%	-1,513	4.2%	11.7%	4.2%
TC 2 Large Condo		651.9	94.5%	4,501	10.0%	5.1%	10.0%
TC 2 Walkup		-430.4	-68.4%	-1,042	1.5%	4.7%	1.5%
TC 2A/2B		394.0	71.4%	1,325	7.0%	4.1%	7.0%
TC 2C		126.3	172.8%	6,925	1.5%	0.5%	1.5%
TC 3 Utilities		-794.6	-74.2%	-1,887,516	2.1%	8.0%	2.1%
TC 4 Condo		-367.9	-62.1%	-25,988	1.7%	4.4%	1.7%
TC 4 Fac/Ware		-175.2	-61.9%	-15,816	0.8%	2.1%	0.8%
TC 4 Gar/Gas		-134.6	-67.1%	-10,025	0.5%	1.5%	0.5%
TC 4 Office		-1,980.4	-66.4%	-323,655	7.5%	22.2%	7.5%
TC 4 Other		-445.8	-49.2%	-46,478	3.4%	6.8%	3.4%
TC 4 Retail		-508.2	-63.4%	-26,718	2.2%	6.0%	2.2%
TC 4 Vacant		-31.7	-59.5%	-3,958	0.2%	0.4%	0.2%
Total	**1.330**	**0.0**	**0.0%**		**100.0%**	**100.0%**	**100.0%**

SOURCE: IBO.
NOTE: Per unit change in levy is per apartment in Class 2 and per parcel for other classes.

Market values are used as the tax base, thereby ending the Section 581 discount for coops and condos, and all assessed values are equal to 100 percent of estimated market values. For Class 1, condos and coops in Class 2, and the small rental buildings currently designated as Class 2A and 2B, IBO estimates market values based on sales data; Department of Finance market value estimates are used for Classes 3 and 4 and the rest of Class 2. Assuming that market values are estimated accurately, this last step eliminates the distinction between actual and effective tax rates.

ALTERNATIVE 1: SINGLE TAX RATE FOR ALL PROPERTY TYPES

Under a single rate approach, each class's share of the tax levy would equal that class's share of total market value. This is not true today. As shown in the table for this alternative, Class 1 currently pays 13.9 percent of the total levy, net of rebates and abatements, but has 40.8 percent of total market value; Class 4 pays 43.4 percent of the levy, but has just 16.2 percent of market value.

To maintain revenue neutrality, a single tax rate would be obtained by dividing the total levy under the current system—net of abatements—by the total market value:

Tax Rate = Current Net Levy/Market Value.

This tax rate would be applied to market values of all properties, regardless of use.

Levy changes for Class 1 and Class 4 would be huge and offset each other almost completely. Class 1 would pay $3.6 billion (192.9 percent) more, while Class 4 would pay $3.6 billion (62.6 percent) less. Although the total dollar amount of the tax cut for Class 3 would be relatively small at $795 million, it would be a relatively large percentage cut in its tax bill (74.2 percent). Class 2 would have a relatively modest increase of $828 million (17.8 percent), which translates into an average increase of about $418 per apartment per year.

Within each of the broad tax classes, different types of buildings would fare differently. Owners of one-, two-, and three-family houses—which together make up the vast majority of Class 1—would see their levy increase by 190.4 percent; per parcel, the average increase would be $5,326. Their share of the tax levy would be 38 percent, up from under 13.1 percent. In Class 4, the biggest break would go to office buildings—$2 billion overall (54 percent of the total Class 4 cut), which translates into an average of $323,655 per building. The office building share of the levy would fall from 22.2 percent to 7.5 percent, in line with their share of market value.

A relatively modest increase in the total Class 2 levy masks some large, offsetting changes within the class. Elevator and walk-up rental buildings would have sharp tax cuts of 64.2 percent (averaging $1,513 per apartment) and 68.4 percent ($1,042 per apartment), respectively. Condos and coops in large buildings would have tax increases of 94.5 percent ($4,502 per apartment) and 95.7 percent ($2,482 per apartment), respectively, and Class 2A and 2B condos and coops in small buildings would have an increase of 71.4 percent ($1,325 per apartment).

ALTERNATIVE 2: TWO-CLASS SYSTEM BASED ON RESIDENTIAL VERSUS COMMERCIAL USE

This two-class alternative would have one residential class containing all properties currently in Class 1 and Class 2 and one commercial class containing all properties now in class 3 and Class 4. We would impose revenue neutrality here by requiring that net revenue for each class equal the sum of current net revenues from its component classes. The class tax rate would be obtained by dividing the sum of current net tax revenues by the sum of market values for the class components.

Alternative 2: Two Classes, Residential and Commercial

Tax Class	New Tax Rate	Change in Levy Dollars (millions)	Change in Levy Percent	Change in Levy Per Unit	Share of Levy New	Share of Levy Current	Share of Mrkt Value
Residential							
TC 1 1,2,3-Fam		1,279.6	72.9%	2,039	22.6%	13.1%	38.0%
TC 1 Condo		92.2	376.9%	4,731	0.9%	0.2%	1.5%
TC 1 Other		20.0	21.8%	416	0.8%	0.7%	1.4%
TC 2 Coop		188.5	16.5%	428	9.9%	8.5%	16.7%
TC 2 Large Condo		108.8	15.8%	751	6.0%	5.1%	10.0%
TC 2A/2B		11.2	2.0%	38	4.2%	4.1%	7.0%
TC 2C		45.6	62.4%	2,501	0.9%	0.5%	1.5%
TC 2 Elevator		-1,235.2	-78.7%	-1,854	2.5%	11.7%	4.2%
TC 2 Walkup		-510.8	-81.2%	-1,237	0.9%	4.7%	1.5%
Class Total	**0.792**	**0.0**	**0.0%**		**48.7%**	**48.7%**	**81.7%**
Commercial							
TC 3 Utilities		-293.7	-27.4%	-697,703	5.8%	8.0%	2.1%
TC 4 Condo		38.7	6.5%	2,731	4.7%	4.4%	1.7%
TC 4 Fac/Ware		20.1	7.1%	1,818	2.3%	2.1%	0.8%
TC 4 Gar/Gas		-15.4	-7.7%	-1,146	1.4%	1.5%	0.5%
TC 4 Office		-167.7	-5.6%	-27,402	21.0%	22.2%	7.5%
TC 4 Other		387.4	42.8%	40,386	9.6%	6.8%	3.4%
TC 4 Retail		23.2	2.9%	1,220	6.1%	6.0%	2.2%
TC 4 Vacant		7.4	13.9%	925	0.5%	0.4%	0.2%
Class Total	**3.737**	**0.0**	**0.0%**		**51.3%**	**51.3%**	**18.3%**

SOURCE: IBO.
NOTE: Per unit change in levy is per apartment in Class 2 and per parcel for other classes.

Using one tax rate and full market values for all residential properties would result in some substantial shifts of tax burdens among types of residential buildings, with significant tax increases for one-, two-, and three-family homes and significant tax reductions for large rental buildings. Owners of one-, two-, and three-family homes would face a 72.9 percent increase (averaging $2,039 per parcel) and Class 2C one-to-four unit apartment buildings would face a 62.4 percent increase ($2,501 per apartment). Condos and coops in large buildings would face much smaller percentage increases of 15.8 percent and 16.5 percent, respectively ($751 and $428 per apartment, respectively). Together these increases would cover large cuts in the tax bills for larger rental buildings. Elevator buildings would have a 78.7 percent reduction ($1,854 per apartment) and walk-ups would have an 81.2 percent reduction ($1,237 per apartment).

In the new commercial class, most changes in tax bills would be fairly small; office buildings, the single largest component of the class, would see a tax reduction of 5.6 percent. Among the largest changes would be a 42.8 percent increase for "other" Class 4 properties. Vacant properties would also have a 13.9 percent increase. These and some smaller increases would finance a 27.4 percent cut in taxes for Class 3 properties and more moderate changes for other types of commercial properties. Overall, commercial properties would still pay 51.3 percent of the levy, while comprising just 18.3 percent of market value.

ALTERNATIVE 3: TWO-CLASS SYSTEM BASED ON PURPOSE OF OWNERSHIP

In this scenario, property is partitioned into two classes, based on whether a property type is generally owned for personal use versus investment. Toward that end, we assume that owners of large residential properties—notably walk-up and elevator rental apartments—do not live in their buildings. Of course, some condo and coop owners rent out their apartments, along with some absentee owners of Class 1 houses, and some large building owners live in their buildings, but the number of such exceptions is probably not large enough to significantly affect these estimates.[1] What represents a "large" building can also be debated. We consider two versions of the two-class alternative that differ only in their placement of the current Class 2A and Class 2B four-to-ten unit rental apartment buildings. In each version, we impose revenue neutrality by class, as in Alternative 2.

Alternative 3: Two Classes, Personal Use versus Investment

Version 1

Tax Class	New Tax Rate	Change in Levy Dollars (millions)	Change in Levy Percent	Change in Levy Per Unit	Share of Levy New	Share of Levy Current	Share of Mrkt Value
Personal Use							
TC 1 1,2,3-Fam		407.5	23.2%	649	16.1%	13.1%	38.0%
TC 1 Condo		58.7	239.9%	3,011	0.6%	0.2%	1.5%
TC 1 Other		-12.1	-13.2%	-251	0.6%	0.7%	1.4%
TC 2 Coop		-194.3	-17.0%	-441	7.1%	8.5%	16.7%
TC 2 Large Condo		-120.7	-17.5%	-834	4.2%	5.1%	10.0%
TC 2A/2B		-150.6	-27.3%	-507	3.0%	4.1%	7.0%
TC 2C		11.5	15.8%	631	0.6%	0.5%	1.5%
Class Total	**0.564**	**0.0**	**0.0%**		**32.3%**	**32.3%**	**76.1%**
Investment Use							
TC 2 Elevator		19.9	1.3%	30	11.8%	11.7%	4.2%
TC 2 Walkup		-67.3	-10.7%	-163	4.2%	4.7%	1.5%
TC 3 Utilities		-288.4	-26.9%	-685,005	5.8%	8.0%	2.1%
TC 4 Condo		43.0	7.3%	3,038	4.7%	4.4%	1.7%
TC 4 Fac/Ware		22.2	7.8%	2,006	2.3%	2.1%	0.8%
TC 4 Gar/Gas		-14.1	-7.0%	-1,052	1.4%	1.5%	0.5%
TC 4 Office		-148.3	-5.0%	-24,240	21.1%	22.2%	7.5%
TC 4 Other		396.3	43.7%	41,313	9.7%	6.8%	3.4%
TC 4 Retail		28.9	3.6%	1,518	6.2%	6.0%	2.2%
TC 4 Vacant		7.8	14.7%	977	0.5%	0.4%	0.2%
Class Total	**3.763**	**0.0**	**0.0%**		**67.7%**	**67.7%**	**23.9%**
Version 2							
Personal Use							
TC 1 1,2,3-Fam		324.6	18.5%	517	15.5%	13.1%	38.0%
TC 1 Condo		55.5	226.8%	2,847	0.6%	0.2%	1.5%
TC 1 Other		-15.1	-16.5%	-315	0.6%	0.7%	1.4%
TC 2 Coop		-230.7	-20.2%	-523	6.8%	8.5%	16.7%
TC 2 Large Condo		-142.5	-20.7%	-984	4.1%	5.1%	10.0%
TC 2C		8.3	11.3%	453	0.6%	0.5%	1.5%
Class Total	**0.543**	**0.0**	**0.0%**		**28.2%**	**28.2%**	**69.0%**
Investment							
TC 2A/2B		1,641.2	297.3%	5,520	16.3%	4.1%	7.0%
TC 2 Elevator		-267.1	-17.0%	-401	9.7%	11.7%	4.2%
TC 2 Walkup		-168.7	-26.8%	-408	3.4%	4.7%	1.5%
TC 3 Utilities		-429.8	-40.1%	-1,020,825	4.8%	8.0%	2.1%
TC 4 Condo		-71.8	-12.1%	-5,068	3.9%	4.4%	1.7%
TC 4 Fac/Ware		-32.9	-11.6%	-2,971	1.9%	2.1%	0.8%
TC 4 Gar/Gas		-47.8	-23.8%	-3,558	1.1%	1.5%	0.5%
TC 4 Office		-660.0	-22.1%	-107,856	17.3%	22.2%	7.5%
TC 4 Other		161.1	17.8%	16,796	8.0%	6.8%	3.4%
TC 4 Retail		-121.1	-15.1%	-6,367	5.1%	6.0%	2.2%
TC 4 Vacant		-3.2	-6.0%	-401	0.4%	0.4%	0.2%
Class Total	**3.083**	**0.0**	**0.0%**		**71.8%**	**71.8%**	**31.0%**

SOURCE: IBO.
NOTE: Per unit change in levy is per apartment in Class 2 and per parcel in other classes.

Version 1: Class 2A/B Included In Personal Use Category

Personal Use Category: Class 1, Class 2 Coops, Class 2 Condos in Large Buildings, Class 2C Condos in Small Buildings, Class 2A and 2B Small Rental Buildings.

Investment Use Category: Class 2 Elevator Rental Buildings, Class 2 Walk-up Rental Buildings, Class 3, Class 4.

The tax rate for the new personal use category would be less than half the size of the tax rate under the single rate structure (Alternative 1), because the current tax burdens of Class 4 and large Class 2 buildings would not be shifted to these properties. Owners of one-, two-, and three-family homes would still face significantly higher tax bills than under the current system (23.2 percent overall and $649 per parcel), but their share of the total tax levy would remain considerably below their share of total market value. Class 2C would also face a tax increase in this version, albeit a relatively small one. Coops and condos in larger buildings would actually get tax cuts of roughly 17 percent ($194 million and $121 million, respectively), paid for by increases for other properties within the personal use class. As under the current system, the personal use share of the tax levy would be 32.3 percent, while its share of market value would be 76.1 percent.

The investment use category would have a tax rate nearly three times that of the single rate with this version of the two-class system, leaving it more in line with current tax rates. In turn, most changes from current tax bills would be small. Class 4 office buildings would have a tax bill just 5 percent less than their current tax bill. Class 2 elevator buildings would have an increase of just 1.3 percent. The most significant changes would be a 26.9 percent ($288 million) cut for Class 3, offset by a 43.7 percent ($396 million) increase in taxes for "other" Class 4, which includes industrial properties. Overall, the investment class share of the tax bill would be 67.7 percent and its share of market value would be just 23.9 percent.

Version 2: Class 2A and 2B Included in Investment Use Category

Personal Use Category: Class 1, Class 2 Coops, Class 2 Large Condos, Class 2C Smaller Condos.

Investment Use Category: Class 2 Elevator Rental Buildings, Class 2 Walkup Rental Buildings, Class 2A and 2B Rental Buildings, Class 3, Class 4.

Shifting Class 2A and 2B buildings to the investment use category makes a big difference not just for that building type, but also for others in the investment use category because Class 2A and 2B buildings face a relatively low effective tax rate under the current system. The tax increase for these small rental buildings would be $1.6 billion—297.3 percent or an average of about $5,520 per apartment—more than four times the increase with a shift from the current system to a single rate system. This large increase for Class 2A and Class 2B would pay for bigger tax decreases for the property types in the investment category that had decreases in Version 1, and a much smaller 17.8 percent increase for Class 4 "other," less than half the increase expected with Version 1.

ISSUES TO BE CONSIDERED

Transition. Because some tax bill changes would be significant, any move to a new tax system would probably need to be spread over time, perhaps five or ten years. If a reform plan was premised on revenue neutrality, then the transition would require calculations under the old and new systems during the transition period.[2]

Capitalization. Over time, we would expect the change in effective tax rates to be capitalized into market values—moving market values down for properties with tax increases and up for properties with tax decreases.

Changes in property tax revenue due to these changes in property values would depend on the relative size and speed of market value changes across classes. The point in the transition to a new tax system would also matter. Under current property tax rules, upward adjustment of tax liabilities and, therefore, revenues would phase in slowly over several years, while downward adjustments would be immediate.

Phasing in Value Changes. A new tax system could also have a phase-in period for adjustment to changes in property values similar to the five-year phase in that now applies in Class 2 and Class 4. Assuming one of the

goals in designing the new system is to enhance equity within property types, these phase-in rules would replace the current assessment caps in Class 1 and Class 2A and 2B. Such a phase-in period would temporarily defer the taxation of some market value growth just as current phase in policies do now, but because market value growth would no longer be lost to the assessment caps, such a change would result in a larger tax base. With a larger tax base, city leaders would have the choice of maintaining the tax rate that would yield additional revenue for the city or cutting the rate to offset some of the gain in the base.

Class Shares. Any two-class system would probably include some sort of class share protection to keep changes in the shares of the levy in line with changes in the shares of market value.

Ability to Pay. One of the goals of adopting a new tax structure would be better alignment of property tax burdens with property market values. A single-rate system would line them up exactly.

For new property buyers, the new tax structure would be known and incorporated into the buying decision, thus ensuring their ability to pay. But tax liabilities could rise above a reasonable share of income for some property owners—in particular, long-term owners of Class 1 homes in areas that have experienced extraordinary increases in property values. With a single-rate system, the average tax increase for one-, two-, and three-family homeowners would be about $3,300, assuming no changes in market values; tax changes could be much higher (or lower) for individual property owners. Moreover, to the extent that tax increases are capitalized into sales prices, these homeowners would realize smaller capital gains upon the sale of their properties.

At present, assessment caps offer protection against sharp increases in property taxes for all owners of Class 1 and Class 2A and 2B property. Additional protection exists for low-income seniors through New York City's Senior Citizen Homeowner Exemption program. New York State also provides property tax relief to eligible seniors through the income tax system. With a new tax structure lined up more closely with property values, expansion of these shields against sharp surges in property tax bills (often called "circuit breakers") for seniors might be appropriate. The city and state might also consider expanding eligibility for these programs to include low-income, non-senior homeowners.

Written by Theresa Devine

END NOTES

[1] If a residential versus commercial class system was adopted, owner residency could be verified by administrators. This is currently done to establish eligibility for STAR program benefits and the $400 homeowner rebate.

[2] In a five-year transition, revenue neutrality could be maintained as follows:

1. Calculate taxes under the current system for all properties.
2. Construct property tax bills in two parts, I and II:
    a. In year T, charge [100-(Tx20)]% of the individual current tax bill for Part I.
    b. Calculate a second tax rate:
        Part II Tax rate in T = [(Tx20%)xCurrent Levy]/Market Value
    c. Apply Part II Tax rate in T to market values for all properties to obtain Part II of tax bills.

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