Revenue Options

Make All DOB Penalties Lienable Charges And Add Unpaid Penalties to Property Tax Bills

Revenue: $100 million annually

The city's Department of Buildings (DOB) issues violations for various issues that occur at a property: fire safety, façade violations, issues with elevators and boilers, and unsafe working conditions during ongoing construction. For some of these violations, DOB inspectors issue summonses to the city's Office of Administrative Trials and Hearings (OATH). If the violations are upheld, the respondent is required to pay penalties. However, only a fraction of the penalties owed to DOB are actually collected. For DOB violations issued in fiscal year 2021, for example, $234 million in penalties were owed to DOB, yet of that only $65 million—just 28 percent—has so far been paid in penalties as of November 2022. Currently, after a hearing is held at OATH and a decision rendered, the respondent has 60 days to pay the penalty imposed. After that, the debt is docketed and handed over to the city's Department of Finance (DOF), which uses collections agencies to attempt to collect penalties from respondents.

Unpaid DOB violations sit on the city's books for years. Currently, the city is owed $777 million in unpaid DOB penalties stretching back to the 2010 fiscal year, while a further $300 million in unpaid DOB penalties have been written off over that period. In contrast to DOB violations, the city collects a much higher percentage of the payments owed on water and sewer charges—with about 80 percent collected 180 days after the billing date in fiscal year 2022. Property owners have a strong incentive to pay their water and sewer bills because after a year, an unpaid bill results in a lien being placed against the property. Liens can make it more difficult for owners to secure financing and complicate the sale of a property, which provides an incentive for property owners to complete payments and clear the lien. (The city's authority to hold lien sales recently expired, with discussions about a replacement or revised program ongoing among policy makers. However, liens for water and sewer debt were already excluded from the most recent sale held during fiscal year 2022.)

While the city's administrative code currently allows DOB to place liens against properties for certain types of DOB violations, this option would expand that to all DOB violations, so that the consequences for delinquency on DOB penalties would be the same as for delinquency for other property-based charges. This change would likely require Albany approval. Were the city to add unpaid DOB penalties to property tax bills, IBO estimates the city would collect an additional $100 million on issued penalties annually, assuming a similar collection rate for penalties as for water and sewer bills in fiscal year 2022.

Proponents might argue that the current system, which allows many property owners to avoid paying DOB penalties for years, is arbitrary and unfair. Unless financial penalties are actually enforced, property owners will have little incentive to follow city rules and avoid DOB violations. Were this option to be adopted, property owners would have a greater incentive to comply with the city's building code and avoid DOB penalties, resulting in safer buildings for city residents.

Opponents might argue that the primary purpose of DOB violations is to ensure that buildings are safe and in compliance with the law, not so that the city can collect fine revenue. Although DOB's Homeowner Relief Program shields some small property owners from receiving DOB penalties, this option would still likely lead to more small property owners—who are less likely to be able to afford penalties—to have liens on their properties because of unpaid penalties.

Prepared by Alec Goodwin

Revenue Options

Repeal the Tax Exemption for Clergy-Owned Property

Revenue: $380,000 annually

New York State Property Tax Law allows members of the clergy who own real property to claim a $1,500 property tax exemption against the assessed value of their homes. This exemption can be claimed by clergy members who are actively involved in full-time ministerial work or who are retired and 70 years or older. Additionally, clergy members' surviving spouses can claim the exemption, so long as the spouse remains unmarried.

The number of clergy exemptions claimed in New York City has been small in recent years; there is a limited pool of individuals who are simultaneously property owners, current or former clergy members, *and* ineligible for other, deeper exemptions to the city's property tax available through state's real property tax law. Nevertheless, from fiscal year 2018 through 2022, on average, 1,232 homeowners claimed the clergy exemption annually, which costs the city about $380,000 in forgone tax revenue per year. Notably a large proportion of clergy exemptions claimed in recent years, have been concentrated in Brooklyn and Queens. Over the five-year period analyzed, 52 percent of all clergy exemptions were claimed in Brooklyn, followed by 35 percent in Queens, in contrast to only 1 percent in Manhattan. This option would repeal the exemption, which would require approval by the state legislature.

Proponents might argue that the city should not subsidize property owners based specifically on their occupation as clergy, as this represents a preference for religiously affiliated individuals in New York City. They might also argue that clergy are already indirectly subsidized in the property tax code through available exemptions for religious-institution-owned properties. Additionally, clergy members who are renters cannot benefit from this exemption. Finally, the proliferation of small exemptions in the law contributes to an unnecessarily complicated property tax system that can be difficult for everyday residents to navigate and make it difficult to evaluate the equity and efficiency impacts of the overall property tax system.

Opponents might argue that the clergy tax exemption represents an extremely small tax expenditure when compared to larger abatements and exemptions available to many property owners, for example those for condo and co-op owners. If policymakers want to reduce subsidies, they should consider amending or repealing larger tax expenditures, which have the potential to better ameliorate well-documented imbalances in the city's property tax system. They would further argue that pursuing a career in religious service is not known for being highly lucrative and repealing this exemption may hurt clergy homeowners who made financial decisions that accounted for this exemption in place.

Prepared by Alaina Turnquist

Revenue Options

Add a Surcharge to Purchase Price on HDFC Units Sold Above Local Median Prices

Revenue: $23 million over 10 years

During the economic and fiscal turmoil of the 1970s, New York City acquired thousands of derelict housing units in buildings that had been abandoned by their owners. The Department of Housing Preservation and Development (HPD) invested in rehabilitating these buildings, but since maintenance costs were burdensome for the city, HPD gradually allowed some tenants to buy their apartments and become shareholders in limited-equity cooperatives organized as Housing Development Fund Corporation (HDFC) cooperatives. The purchase of an HDFC co-op was and still is limited to buyers whose incomes do not exceed income caps, which are defined either by area median income or each HDFC co-op's governing documents. To keep HDFC units affordable, the city provides them with significant property tax exemptions under the Division of Alternative Management Programs (DAMP).

The original goal of this program was to enable low-income New Yorkers to live long-term in their own homes. More recently, many HDFC units have been sold to buyers whose incomes are lower than the caps, but own or have access to sizable liquid assets, such as young adults with affluent parents or foreign nationals with no stable income in the U.S. Many are able to buy the units upfront, without need for financing, while enjoying low property taxes for up to 40 years. Because the tax breaks are structured as a cap on the assessment subject to tax, they are greatest for the most expensive units. This makes HDFC units in areas where housing prices are appreciating rapidly particularly attractive, and wealthy buyers may offer higher purchasing prices in return for tax benefits over many years.

If buyers of HDFC co-ops at prices above the neighborhood median sales price of all coop units were to pay a surcharge on the real property transfer tax (RPTT) at 5.0 percent of the purchase price, IBO estimates the city would earn an additional revenue of $23 million over a decade. This estimate is based on the number of HDFC sales at prices above the local median—about 1,100— over the last 10 fiscal years—or just over a third of all sales of HDFC coop apartments during the period. The RPTT surcharge is levied even if the property is fully or partially exempt from RPTT, and would require legislative approval from the state.

Proponents might argue that the surcharge is progressive because those who enjoy the largest tax breaks—buyers of most expensive units—would also face the largest surcharges The surcharge allows wealthy buyers of HDFC units to compensate the city for the property tax benefits they enjoy, while not reducing the size of the city's affordable housing stock. By limiting the option to only units that are sold (as opposed to all existing HDFC units), low-income families who continue to live in HDFC units would still benefit from the current exemptions.

Opponents might argue that this option would make HDFC units generally less affordable to buyers with low incomes because it adds to their housing costs. It also makes homeownership less affordable for families with relatively sizable assets but limited or fixed incomes, such as retirees, who may find it more difficult to afford the ongoing maintenance costs associated with other co-op units. It also could worsen the spatial segregation of city neighborhoods by further discouraging low-income families from buying HDFC units in higher-price neighborhoods.

Prepared by Pooya Ghorbani

Revenue Options

Establish a Pied-A-Terre Tax

Revenue: $232 million annually

Although difficult to quantify, in some city neighborhoods the share of housing units that are owned by nonresidents and used as second homes is believed to have grown in the past decade, particularly for high-value properties. Borrowing from models in other cities, advocates have proposed an additional property tax on second homes as a means of raising revenue from high-income households and reducing pressure on the cost of land. A bill recently introduced in the State Legislature (S44-B) would establish an "additional property tax on certain non-primary residences."

The pied-a-terre tax would be assessed on one-, two-, and three-family residences (Class 1 properties) with market values of $5 million or more, and condominium and cooperative apartments with assessed value for property tax purposes of $300,000 or more. Assessed values of condos and coops are far lower than their market values. S44-B allows for apartment owners to apply for and receive an exemption from the tax if the state certifies that the property has been appraised at less than $5 million within the last three years. The proposal also exempts properties that are the primary residence of at least one owner or of a parent or child of at least one owner, and properties rented on a full-time basis to tenants for whom the property is their primary residence.

Under S44-B, the city's finance commissioner would be responsible for defining brackets for the tax. For coops and condos the tax rates would range from 10.0 percent to 13.5 percent of assessed value in excess of $300,000. For Class 1 homes with market value in excess of $5 million, the rates would range from 0.5 percent to 4.0 percent of market value. IBO's estimate of the additional revenue that would be raised by a pied-a-terre tax—$232 million annually—is based on the progressive schedule of tax rates specified in a prior version of the bill for Class 1 homes, and a similar rate schedule developed by IBO for apartments. Instituting such a tax in New York City would require state legislation. Department of Finance data that can be used to indicate whether a property is used as a primary residence and this year's assessment roll were used to determine which residences would likely be subject to the tax

Proponents might argue that an additional tax on expensive second homes, which are typically owned by high-income households and used infrequently, would raise revenue from individuals with the ability to pay. Moreover, a pied-a-terre tax would raise revenue from households that are not subject to the city's income tax, unlike households that have chosen New York City as their primary residence. They could also point out that some of the new revenue would be paid by owners of apartments benefiting from 421-a property tax exemptions.

Opponents might argue that pied-a-terre owners who do not live full-time in New York City would be unfairly taxed under this option. These owners still pay the property taxes associated with their properties, even though they typically rely less heavily on city services than full-time residents. In addition, a pied-a-terre tax would decrease demand for high-end residences, further weakening a real estate market that has already been hit hard by the coronavirus pandemic. Finally, a pied-a-terre tax would also reduce construction industry activity and employment in the city.

Revised January 2021

Prepared by Yaw Owusu-Ansah

Revenue Options

Establish a Retail Storefront Vacancy Tax Surcharge

Revenue: $170 million annually

Unique, independent businesses are often cited as a feature of attractive New York City neighborhoods, but rising commercial rents have made the city increasingly unaffordable to small businesses. As businesses close, the storefronts left behind can then remain empty for years. In 2019, the city's Comptroller's Office found that vacant retail space in the city had doubled from 2007 through 2017 According to data from 2019, gathered by the Department of Finance under Local Law 157, the city had 69,654 storefronts. Of these storefronts, 5,511, or about 8 percent, were listed as vacant, for an average length of 1.5 years.

Property owners have various incentives to hold retail spaces vacant rather than lowering the asking rent. The longer terms of commercial leases—usually five to ten years—means that property owners may be reluctant to lock in leases in periods of economic downturn. Owners can also write off operating expenses from vacant storefronts against profits from other properties they own for income tax purposes. Commercial mortgages held by the property owner are sometimes structured so that if the rent falls below a certain threshold, the bank can demand more collateral—something that can be avoided if the storefront sits empty. Building owners may also be choosy about which businesses they rent to, often preferring national chains, which can afford higher rents and provide greater certainty that future rents will be paid compared with small independent businesses.

Too much vacant retail space represents a potential market inefficiency. While property owners have the right to hold their storefronts vacant, those storefronts could instead be occupied by businesses that would provide additional jobs and services in the neighborhood. Furthermore, when storefronts sit empty, they can impose negative externalities on the neighborhood surrounding them. Vacant storefronts mean less vibrant neighborhoods and fewer local amenities. Vacant storefronts also mean fewer "eyes on the street," which can contribute to making an area appear more prone to crime.

A property tax surcharge on vacant retail storefronts would penalize property owners for leaving them vacant for long periods, with the intention of discouraging this behavior. Many proposals have been raised at the state and city levels to establish a retail vacancy tax based on square footage or based on property values. For this option, a property tax surcharge would be placed at 1 percent of the assessed value of the property in which the storefront is located, if the storefront remains vacant for longer than six months (a storefront would be considered no longer vacant once a new lease is signed or when construction for the new tenant has started). Assuming the incentive to avoid the tax surcharge lowered the number of vacant storefronts by half, IBO estimates that the city would raise about $170 million per year.

Proponents might argue that retail vacancy tax surcharge would mean more pressure on property owners to adjust rents downwards in bad times—which could mean lower commercial rents across the city—rather than holding out for a more favorable conditions to materialize. It might make it easier for local businesses to afford commercial rents, and deter property owners from pushing out tenants who cannot afford an increase without a new tenant lined up. A retail vacancy tax surcharge would likely mean fewer vacant storefronts across the city, leading to more vibrant neighborhoods.

Opponents might argue that storefronts are the owner's property, to do with as they like. While they can write off operating costs, owners lose money on vacant storefronts, and it would be unfair to penalize them. Most commercial leases in the city are triple net, where tenants share increases in property taxes. This could mean that owners pass on the surcharge to tenants. Exemptions for owner-occupied storefronts could encourage property owners to "occupy" them to avoid the surcharge. As the current storefront registry is self-reported, there would be an incentive for owners to lie , creating a need for enforcement inspections.

Prepared by Alec Goodwin

Eliminate Commercial Rent Tax Exemptions for Retail Tenants in Lower Manhattan

Revenue: $9 million annually

The commercial rent tax (CRT) is imposed on tenants who lease commercial space in buildings south of 96th Street in Manhattan. The tax only applies to leases worth more than $250,000 per year. Nonprofit organizations, government agencies, and many theatrical productions are exempt.

The State Legislature created two additional CRT exemptions in 2005 as part of a bill to stimulate commercial recovery in Lower Manhattan. The new exemptions apply to all retailers located south of City Hall between South Street and West Street, as well as all tenants in the new World Trade Center buildings and most of those in the new Fulton Transit Center. According to data from city planning's PLUTO database, this exemption area includes 3.5 million gross square feet of retail space. Now that several of the buildings at the World Trade Center and the Fulton Transit Center have largely been completed, there is additional retail space of almost 400,000 square feet in the area. This option, which would require state legislation, would repeal the CRT exemptions for retailers in Lower Manhattan.

The Mayor's Office of Management and Budget estimates that the Lower Manhattan retail CRT exemptions will cost the city approximately $4 million in fiscal year 2019 and grow by about $300,000 annually. This estimate does not include the new retail space coming on-line at the Fulton Center and at the World Trade Center, which will substantially increase the cost of the incentive. Assuming that the new space is rented for $400 per square foot and that 10 percent of the space will be vacant or exempt, the Fulton Center and World Trade Center retail exemptions could cost the city an additional $5 million per year, for a total cost of the Lower Manhattan exemption of about $9 million.

Proponents might argue that subsidizing retailers is an unwise use of taxpayer money given their history of creating low-wage jobs. They might also argue that the CRT exemptions disproportionately benefit large retailers and national chains because most small retailers in Lower Manhattan are already exempt from the tax. Finally, they might argue that incentives are not necessary to attract new retailers. The owners of Brookfield Place and Pier 17, for example, are redeveloping their retail spaces even though both sites fall outside of the CRT exemption zones. New retailers are also attracted to the neighborhood's affluent and growing residential population, as well as its improving office market and record levels of tourism.

Opponents might argue that the incentives are needed to help Lower Manhattan recover from the effects of both September 11th and Hurricane Sandy. They might also argue that the neighborhood is underserved by retail, and that additional incentives are needed to attract retailers that will support Lower Manhattan's transformation into a mixed-use community. They might also note that the savings from the CRT exemption help overcome the disadvantage of trying to lure shoppers in a neighborhood still burdened by large construction sites and street disruptions.

Updated October 2018

Prepared by Alan Treffeisen

Revenue Options

Eliminate Special Tax Treatment on the Sale of Properties To Real Estate Investment Trusts

Revenue: $11 million annually

This option would eliminate New York City's special real property transfer tax (RPTT) treatment of real estate investment trust (REIT) transfers. The city's residential and commercial RPTT tax rates range from 1.0 percent to 2.625 percent of the sales price, depending on the value and type of property, and New York State levies its own real estate transfer tax at 0.4 percent to 1.4 percent. Designed to lower the expense associated with transferring property to a REIT structure, state legislation enacted in 1994 provided (among other benefits) 50 percent reductions in both city and state RPTT rates during a two-year period for qualifying property transfers made in connection with the formation of REITs.

In 1996, legislation made the RPTT benefit for new REITs permanent and temporarily expanded the 50 percent rate reduction to cover some property transfers to already established REITs. State legislation has repeatedly extended the reduced RPTT rates for property transfers to already established REITs, most recently to August 2020. Ending RPTT rate reductions for all REITs would provide the city with an estimated $11 million annually in additional revenue.

Eliminating the city's RPTT rate reduction for new REITs would require state legislation.

Proponents might argue that REITs already receive a number of tax benefits from New York City, including deductibility of income that is distributed to shareholders and corporate income tax liability that is determined using only two of the four alternate tax bases that other firms are subject to: net income and a fixed minimum tax. The state also provides a 50 percent reduction in its own RPTT and an exemption from the capital gains tax for property transfers to REITs. Given these benefits, they might argue that the advantages from converting to a REIT would outweigh the cost even in the absence of the city's RPTT break. Proponents might also question why the city would want to promote the formation of REITs and create a preference for one form of property ownership over another.

Opponents might argue that the formation of a REIT, which is a change in structure rather than a change in ownership, should not be subject to the same level of transfer tax as the transfer of property from one owner to another. They might also argue that without the tax incentive, transferring ownership to a REIT structure is more costly and would reduce the number of REIT formations, thereby limiting real estate investment opportunities for smaller investors. Moreover, the revenue gain associated with making the RPTT rate whole would be partially negated—and may even result in a net loss in RPTT revenue—depending on the extent to which property transfers to REITs decrease in response to a doubling of the RPTT rate.

Updated October 2018

Prepared by Alan Treffeisen

Revenue Options

Extend the Mortgage Recording Tax to Coops

Revenue: Over $95 million annually

The mortgage recording tax (MRT) is levied on the amount of the mortgage used to finance the purchase of houses, condo apartments, and all commercial property. It is also levied when mortgages on such properties are refinanced. The city's residential MRT tax rate is1.0 percent of the value of the mortgage if the amount of the loan is under $500,000, and 1.125 percent for larger mortgages. In addition, mortgages recorded in New York City are subject to a state MRT, of which a portion, equal to 0.5 percent of the value of the mortgage, is deposited into the city's general fund. Currently, loans to finance the sales of coop apartments are not subject to either the city or state MRT, since such loans are not technically mortgages. Extending the MRT to coops was initially proposed in 1989 when the real property transfer tax was amended to cover coop apartment sales.

The change would require the State Legislature to broaden the definition of financing subject to the MRT to include not only traditional mortgages but also loans used to finance the purchase of shares in residential cooperatives. In January 2010, then-Governor Paterson proposed extending the state MRT to include coops, and Mayor Bloomberg subsequently included in his preliminary budget for 2011 the additional revenue that would have flowed into the city's general fund had the proposal been enacted; ultimately, it was not adopted. IBO estimates that extending the city MRT to coops would raise over $95 million per year. If the state MRT were also extended to coops, the additional revenue to the city would be around 50 percent greater.

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

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

Prepared by Alan Treffeisen

Revenue Options

Impose a City “Mansion Tax”

Revenue: $270 million annually

Sales of real property in New York City are subject to a Real Property Transfer Tax (RPTT). The combined city and state tax rates for residential properties are 1.4 percent when the sales price is $500,000 or less, and 1.825 percent when the price is above $500,000 but less than $1 million. Residential properties that sell for $1 million or more are subject to an additional state tax, often referred to as a “mansion tax”. This tax was formerly 1.0 percent, but beginning in fiscal year 2020 is on a sliding scale, beginning at 1.0 for residential properties sold for between $1 million and $2 million, and reaching 3.9 percent for residences sold for $25 million or more. The additional funds raised through the increase in the state mansion tax are intended to support the Metropolitan Transportation Authority (MTA) capital program. While technically the RPTT is paid by the seller, economic theory suggests than the burden of the tax will be shared (not necessarily equally) between buyers and sellers.

Under the option proposed here, a city version of the mansion tax would be levied on residential properties selling for $2 million or more. The tax would have three rates: 1.0 percent on sales of $2 million to just under $5 million, 1.5 percent on sales from $5 million to just under $10 million, and 2.0 percent on sales of $10 million and above. This tax would be in addition to the existing city and state rates. If levied on the entire value of the property, IBO estimates that the tax would generate around $270 million in annual city revenue. If the tax were applied only to the value over $2 million, IBO estimates that revenue collected would decrease to $165 million, unless the exemption for the first $2 million in sales price were coupled substantial increases in the tax rate on the value above $2 million.

This option, which would require state legislative approval, is adapted from a proposal that the de Blasio Administration presented as part of the 2016 executive budget, but which the State Legislature did not act on.

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

Opponents might argue that the new state tax, luxury residential real estate is already subject to a high RPTT rate, ranging from 2.825 percent on sales from $1 million to just below $2 million, all the way up to 5.975 percent on properties sold for $25 million or more. The top rates are well above the RPTT rate imposed on commercial sales, which after a recent increase in the state rate, reaches 3.275 percent on properties sold for $2 million or more. Opponents might also point out that taxes on economic activity reduce the level of that activity, meaning that the new tax would lead to fewer residential sales and lower prices net of taxes. This downward pressure on the housing market would come on top of changes to federal tax law that have already reduced the fiscal benefits of home ownership for many households. Opponents might also note a market distortion under this proposal because the higher tax rate would apply to the entire value of the property. As soon as the sales price reached $2 million there would be a jump of $20,000 in city RPTT liability, while at $5 million the lax levy would increase by $25,000, and at $10 million it would rise by $50,000. As a result of these “cliffs”, we would expect a “bunching” of sales just below $2 million, $5 million, and $10 million.

Updated May 2022

Prepared by Alan Treffeisen

Limit J-51 Benefits to Projects With An Affordable Housing Component

Revenue: $1 million annually

The J-51 program encourages the rehabilitation of residential buildings by providing the owner with both a property tax exemption and an abatement for approved improvements. Property owners receive the exemption on the increase in assessed value due to the improvement while the abatement partially refunds property owners for the cost of the improvement. Exemption periods can be either 34 years or 14 years—the former applies if the project also receives government support through an affordable housing program. In both instances, the exemption phases out in the final four years of the benefit period. Generally speaking, projects receiving government assistance can have up to 150 percent of the rehabilitation costs abated compared with 90 percent for all other projects. The total amount abated is spread over a 20-year period regardless of project type. In exchange for the benefit, apartments in rental properties become rent stabilized or remain rent stabilized while the building is receiving J-51 benefits.

In 2019, the program will cost the city $292.8 million in forgone revenue—$74.8 million from the abatement and $218.0 million from the exemption. Roughly 90 percent of the aggregate benefit is distributed evenly between Manhattan, the Bronx, and Brooklyn. Rental properties citywide will receive two-thirds of the total J-51 benefits in 2019. About $100 million is for projects with no affordable housing residential units.

This option, which would require Albany approval, proposes eliminating future J-51 benefits for new projects that do not have an affordable housing component. In effect, only projects receiving other government support under a program requiring low- or moderate-income housing would be eligible for new J-51 benefits. Were this proposal in effect in 2019, the city would raise an additional $1.3 million in property tax revenue in 2019. This estimate is considerably lower than previous estimates because legislation passed in 2013 eliminated J-51 eligibility for many higher value coops and condos, which typically do not have affordable housing units.

Proponents might argue that awarding J-51 benefits without requiring an affordable housing component is an inefficient use of public funds. In addition, the city no longer needs to incentivize residential rehabilitation for higher-income tenants because the current tight housing market provides a sufficient incentive by itself. Also, the program is not responsible for adding much to the city's stock of rent-stabilized housing. Many residential units that receive J-51 benefits are already rent stabilized because they were built before 1974 and have yet to be deregulated. The additional revenue could be reinvested into more worthwhile affordable housing programs.

Opponents might argue that J-51 is responsible for higher quality residences in areas of the city that would otherwise be dilapidated, having been ignored by the housing market. In addition, the J-51 program serves families that make too much money to qualify for affordable housing but not enough to live comfortably in market-rate housing. Thus, eliminating the 14-year program would also eliminate housing options for middle-income families.

Prepared by Yaw Owusu-Ansah

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

Revenue: $36 million annually

This option would modify the city tax treatment of real property transfers between nonprofit and for-profit entities, making them conform to state tax practice. Both New York City and the Metropolitan Transportation Authority (MTA) would receive new revenue from this change.

Property sales in New York City are subject to both a city and state real property transfer tax (RPTT). There are some exceptions, including transfers between two nonprofit entities, which are exempt from both city and state RPTT. Currently, transfers of real property between not- for-profit and for-profit entities are subject to the state RPTT, but not the city RPTT. The RPTT is normally paid by the seller, but in the case of a nonprofit entity selling to a for-profit concern, the buyer pays the (state) tax.

The city's RPTT rates range from 1.0 percent to 2.625 percent, depending on the property's value and type. Included in the highest rate is a 1.0 percent "urban tax" that is dedicated to the MTA. Based on sales data for fiscal year 2018, IBO estimates that eliminating the exemption in the city RPTT for nonprofit transfers to or from for-profit entities would raise about $36 million annually for the city, and an additional $24 million in urban tax revenue dedicated to the MTA. This change would require state legislation.

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

Opponents might argue that while the proposed tax would formally be paid by the for-profit entity, economic theory posits that buyer and seller would each bear part of the burden. As a result, the proposed extension of the city RPTT would increase the costs incurred by nonprofits, thereby diminishing their ability to provide the services that are their mission.

Prepared by Alan Treffeisen

Revenue Options

Parks Districts Fees

Revenue: $44 million annually

The Department of Parks and Recreation maintains over 1,700 parks, playgrounds, and recreation facilities across the city. These open spaces are enjoyed by city residents and are considered cornerstones of many neighborhoods. Not all parks are maintained equally, however. Faced with similar difficulties, other municipalities including Seattle and Chicago, have created independent entities funded by a small property tax surcharge to pay for parks improvements and maintenance citywide. New York City's parks department currently has an annual budget of $571 million of which $272 million is spent on routine maintenance citywide. These needs will likely continue to grow as new parks amenities are added, and the city's population and tourism increase.

While New York City parks are open to use by all residents, property owners who live nearby a park receive an additional benefit from the impact of the park, with the extent of the benefit reflecting the attractiveness of the particular park as an amenity. This boost in property values due to public parks spending could be partially reclaimed and directed towards parks upkeep through a small fee per $1,000 of fair market property value. This would create a dedicated funding stream for maintaining and improving the park near the property. It could displace some of what the city currently spends on maintenance and the city could use the savings elsewhere in the city budget or shift the savings to parks that suffer from underinvestment, thereby increasing parks funding equity across the city.

Currently, there is around $436 billion of residential property value within 1,500 feet of a flagship, community, or neighborhood park. Assessing a fee of $0.10 per $1,000 of property value, equal to $100 per year on a million dollar home, would create a dedicated revenue stream of $44 million for parks improvements assuming state approval of legislation permitting the creation of the districts and the fee rate. This flat fee could be adjusted along a possible sliding scale based on distance from the park or even on the estimated impact of a specific park on the value of nearby properties.

Proponents might argue that by favoring popular parks in wealthier areas of the city, the parks department is furthering inequality by providing both monetary and aesthetic benefits to residents who do not need the help. Reclaiming some of the monetary benefits of parks spending could free up city funds for other uses and increase fairness. Additionally, because the funding for a given park would come from the surrounding area, the parks districts could be structured to allow local input into how the park is improved and maintained.

Opponents might argue that this is simply a property tax increase and that because property taxes are based on market values, the value associated with being close to a park is already reflected in their property tax bill, making it unfair for the city to level additional fees on their properties. In addition, the properties with the greatest value that would contribute the most revenue are disproportionately located near parks that are already very well maintained, while lower value properties tend to be closer to parks that have been historically neglected. Without a robust mechanism to share funding or redirect city funds, implementing a property value based fee may exacerbate rather than reduce inequality between parks and neighborhoods. This is especially true if the burden for improving neglected parks is shifted onto local residents less able to pay for it.

Prepared by Daniel Huber

Property Tax Surcharge on Vacant Residential Property

Revenue: $46 million annually

Over the last 10 years, concerns over the scarcity of housing have led city and state policymakers to propose a variety of additional taxes on housing not serving as owner-occupied primary residences, including a recently proposed pied-à-terre surcharge on non-primary residences selling for $5.0 million or more as well as a surcharge on one-, two-, and three-family homes (Class 1 properties) where the owner does not use it as a primary residence.

Another option would be for the city to levy an annual property tax surcharge on vacant residences regardless of the property's value, its use as rental property, or the owner's residency status. The surcharge, which would require state approval, would be added to the property's tax rate and prorated monthly for residences unoccupied for less than the full year. Policymakers could adjust the surcharge to exempt residences that are vacant for specific reasons such as those pending demolition.

Based on data from the 2017 Housing and Vacancy Survey, IBO estimates that 8.1 percent of the city's 3.5 million residential units would be subject to such a tax. If the city imposed an annual 5.0 percentage point surcharge on each of these properties, IBO estimates the tax would raise about $46 million, or roughly $163 per vacant residence. (These estimates include the allowance for prorating the surcharge for properties that are vacant only part of the year.) About half of this would be paid by condominium and cooperative owners, a fourth by landlords of Class 2 rentals, and the balance by Class 1 property owners.

Proponents might argue that a tax on vacant residences could increase the availability of housing by providing an incentive to more quickly rent or sell and by discouraging property owners from keeping residences vacant. In addition, since much of surcharge revenue would be paid by owners of houses and coop or condo apartments which have already low taxable assessed values relative to their market values, at the proposed rate the tax would have little impact on residences' effective tax rates, thereby ensuring their tax burdens are kept low relative to nonresidential property.

Opponents might argue that the tax would add an undue burden on property owners. At current rates, with homes taking on average about five months to sell citywide, the additional tax would increase the average tax paid by a vacant Class 1 property by 3.5% and 1.5% for condominium and cooperative property owners. Moreover, for owners of rental properties, the tax would increase a building's operating cost, thereby reducing the incentive to build or maintain housing in neighborhoods where it takes longer to find buyers and renters. This option would be difficult and costly to administer since it would require the Department of Finance to keep track of vacant residential units each month.

Prepared by Yaw Owusu-Ansah

Revenue Options

Reacquire Battery Park City

Revenue: $70 million annually after two years

Battery Park City is a 92-acre neighborhood built on landfill on the southern tip of Manhattan. The state created the Battery Park City Authority (BPCA) in 1968 to finance, develop, and operate the area. The BPCA is a public benefit corporation. It owns the land and manages the now fully developed area, which includes residential and commercial buildings and parkland. The Governor appoints BPCA's board.

Although Battery Park City is exempt from city property taxes, the city assesses pro forma property taxes as if they were owed and tenants make payments in lieu of taxes (PILOTs) to BPCA instead of payments to the city. BPCA's operating revenues—which totaled $307 million in 2018—come primarily from the PILOTs and rents from ground leases. BPCA expenses are largely debt service and operating costs, such as infrastructure and parks maintenance. The city provides most municipal services, however, such as schools, sanitation, and police.

The BPCA is required to remit to the city PILOT revenue remaining after operating expenses, certain debt-service payments and other costs. In 2018, this transfer totaled $155 million. The BPCA retains its other surplus revenue, but can spend it only for purposes agreed upon by the Mayor, BPCA, and the City Comptroller. The most recent agreement was signed in 2010. It allocated $861 million of accumulated and projected future surpluses: $200 million each to the city and state for budget relief, $200 million to the city for affordable housing, and $261 million for city for pay-as-you-go-capital (PAYGO). As of 2018, $88 million remained to be paid to the city for PAYGO capital.

Under the terms of its agreements, the city can reacquire Battery Park City for a nominal fee at any time. To do so, the city must assume or pay off BPCA's outstanding debt (about $1 billion in 2018) and satisfy other contractual obligations. This option would have the city reacquire Battery Park City, giving the city full control over the development's revenues. City revenue would increase by guaranteeing all surplus income would flow to the city without requiring the authority's approval. Following the satisfaction of past agreements and based on recent budgets, this could total about $70 million annually, above what the city now receives as a transfer of PILOT revenue in as little as two years.

Proponents might argue that Battery Park City differs little from other city neighborhoods—it receives similar services, and its residents, in effect, pay the same taxes. Now that the neighborhood's construction is complete, the BPCA is unnecessary and the city should have exclusive control over the revenue it produces. While the city already receives most of BPCA's excess funds, the state-controlled BPCA board can and has at times allocated funds to fill state budget gaps to the detriment of the city. If the city realizes efficiencies by combining BPCA and city operations, revenue would increase. The city would also have the right to sell land now leased through ground leases to private developers.

Opponents might argue that Battery Park City is one of the city's best-maintained neighborhoods thanks to its dedicated funding. Residents and business moved to the area, often paying higher rents due to the ground lease structure, in exchange for its amenities. If funds were distributed citywide, local maintenance would suffer—particularly hurting the neighborhood's many parks. They also might argue an ownership change is unnecessary: BPCA is already required to transfer most of its surpluses to the city and the remaining funds cannot be spent without the city's approval.

Prepared by Elizabeth Brown

Tax Vacant Residential Land the Same as Commercial Property

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

Under New York State law, a residentially zoned vacant lot or a commercially zoned lot that is situated immediately adjacent to property with a residential structure, has the same owner as the adjacent residential property, and has an area of no more than 10,000 square feet is currently taxed as Class 1 residential property. All other vacant land is taxed as commercial property. In fiscal year 2023, there are 14,205 vacant properties not owned by government. As Class 1 property, these vacant lots are assessed at no more than 6 percent of full market value, with increases in assessed value due to appreciation capped at 6 percent per year and 20 percent over five years. In 2023, the median ratio of assessed value to full market value was 3.2 percent for these properties.

Under this option, which would require state approval, vacant lots not owned by a government entity with an area of 2,500 square feet (the median lot size for Class 1 properties with buildings on them in New York City) or more would be taxed as Class 4, or commercial property, which is assessed at 45 percent of full market value and has no caps on annual assessment growth; 7,080 lots would be reclassified. Phasing in the assessment increase evenly over five years would generate $20.0 million in additional property tax revenue in the first year, and the total increment would grow by $27.9 million in each of the next four years. Assuming that tax rates remain at their 2023 levels, the total property tax revenue generated by the reclassification upon completion of the phase-in would be $130.1 million.

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

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

Prepared by Yaw Owusu-Ansah

Revenue Options

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

Revenue: $10 million annually

Gramercy Park, which was established in the 19th century, is a private park. The park is fenced and only individuals who have a key to the park can enjoy its tranquil atmosphere. Keys are only available to residents of some—but not all—of the buildings immediately surrounding the park. According to Department of Finance property tax records, the park currently has a market value of zero. In theory, the value of park is instead reflected in the properties that have keys to the park. The finance department has not provided any documentation, however, to show how the value of the park is apportioned to these buildings. Based on information from the department on which buildings have keys to the park, IBO compared property values of residential coop buildings with keys to the values of similar nearby coop apartment buildings without keys. This comparison cannot be made for residential condo properties because in determining the value of these properties, the finance department does not distinguish buildings with access to the park from those without access. We found no significant differences in market values, assessed values, and property tax per square foot between the two groups of buildings. In some cases, the median per square foot market values of properties with no keys to the park are even higher than comparable properties with keys to the park.

If the finance department instead were to value the park as an independent lot based on the median land value of the Class 1 properties surrounding the park, IBO estimates that the park would have a market value of $197.3 million and property tax liability of $9.5 million for fiscal year 2021.[1]

Proponents might argue that an an assessment method that depends on capturing value "reflected" in other properties rather than directly taxing the value of the park can only generate the appropriate tax revenue if the assessments of the surrounding properties indeed include some of the value of the park. If the park's value is not fully reflected in other properties, then the owners with access to the park are shifting the tax burden on this private property to the rest of the city, a particularly unfair outcome given the relative affluence of the Gramercy Park neighborhood. They might also point out that directly taxing the value of the private park is a more transparent and efficient way of ensuring that those who are allowed to enjoy the park pay their appropriate share for the privilege.

Opponents might argue that although properties with access to the park may not pay higher property taxes than similar properties around the park, they pay higher real property transfer and mortgage recording taxes because they tend to be more expensive. Over time these taxes make up for some of the property taxes foregone from the park. Moreover, the park and surrounding streets are also well maintained by the Gramercy Park Block Association on behalf of the park trustees, which contributes to making the neighborhood beautiful and attracting more visitors to enjoy the local amenities.

[1]The value of land assigned to Class 2 properties is not based on market values.

Prepared by Yaw Owusu-Ansah