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Testimony of George Sweeting
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To the New York City Council Committee on Finance
Regarding Recommendations of the Advisory Commission on Property Tax Reform
November 15, 2022

Good morning, Chair Brannan and members of the Committee on Finance. I am George Sweeting, acting director of the New York City Independent Budget Office. Thank you for the opportunity to appear before you to discuss the recommendations of the Advisory Commission on Property Tax Reform.

That the city's property tax system requires reform is well known. IBO, along with other agencies, groups, and individuals, have produced a stream of reports and proposals for improvements that could help make the system more transparent, more equitable, less of an impediment to the development of housing and less of a drag on economic development. As you know, there is also a court case challenging the system which is currently before the state's Court of Appeals. That something needs to be done is beyond dispute.

The Advisory Commission has produced a thoughtful set of recommendations to be considered by lawmakers, supported by invaluable data analysis documenting some of the biggest problems with the system. Nevertheless, the charge from Mayor de Blasio and Speaker Johnson to the Commission that its recommendations be revenue neutral, and its own decision to limit the scope of its work to the treatment of residential properties left other significant disparities largely unexamined. The fact that the Commission's final report also obscures some of the distributional impacts of the proposals is a further limitation.

The Commission's biggest structural recommendation would consolidate several types of properties (co-ops and condos, 1-3 family houses, and small apartment buildings with 2 to 10 units) into a new single residential class. All properties in the class would be valued using sales, thereby ending the confusing and counterintuitive requirement that co-ops and condos be valued using imputed capitalized net income as if they were rental properties. Limits on annual assessed value growth for properties in the new class would be eliminated and replaced by five-year phase-ins.

These changes would eliminate two of the most glaring problems in the current system. The present treatment of co-ops and condos is confusing and opaque, presents assessment challenges for the Department of Finance, and obscures how low co-op and condo effective tax rates (ETRs) actually are, particularly when taking into account the co-op condo abatement–which the Commission recommends eliminating. (ETRs measure the amount of tax owed as a share of the value of the property.) Ending the limits on annual assessment growth would eliminate the primary cause of unequal ETRs among neighborhoods for 1-3 family properties, while still providing taxpayers with some protection from rapid appreciation.

Because of the requirement that the total package be revenue neutral, these changes would create large shifts in tax burdens among taxpayers. Unfortunately, there is no presentation in the Commission's report of the number of winners and losers under their proposals, nor of how they are distributed by neighborhood. By reporting on the median change, without additional detail on the distribution, the report obscures how large the typical tax increases would be in some neighborhoods. To give some sense of the magnitude of the shifts involved, I have attached a map to this testimony that shows the results of a simulation that IBO did in 2018, as the Commission was getting underway, of a proposal to equalize the tax burden among 1-3 family properties while generating the same amount of revenue. The impact of this scenario is not that different from the Commission's proposals for 1-3 family homes.

According to our simulation, about 72 percent of such properties citywide would get a tax cut, while 28 percent would get an increase. Looking at particular areas, we see that virtually all homeowners in Staten Island would get a tax cut, while 98 percent of Park Slope homeowners would see an increase. Because citywide the number of winners far exceeds the number of losers, it is inevitable that the typical tax increase faced by individual losers is much greater than the typical decreases received by winners, as long as the requirement of revenue neutrality remains. The extent of these differences means it is likely that the level of support for these changes will vary by neighborhood.

The Commission also proposed a homestead exemption for resident homeowners in the new residential tax class and a circuit breaker for homeowners who are still overburdened even after the other changes. The proposed homestead exemption, which would only be available for a property that is an owner's primary residence and whose income is $500,000 or less, is a common feature of property tax systems across the country providing an incentive for homeownership while targeting homeowners who could most benefit. The circuit breaker, which would be applied directly within the property tax, would provide additional relief to taxpayers with property tax bills exceeding 10 percent of their income, provided their income is $90,000 or less. Again, similar programs are commonly used elsewhere and would help some lower income homeowners continue to afford their homes.

Being consistent with the mandate for revenue neutrality, the Commission recommends funding the homeowner relief by raising the tax rate within the new homeowner class, although it provides neither the cost of the relief, nor an estimate of how much the tax rate would have to be raised.

Recognizing the magnitude of the changes proposed, the Commission recommended that the shift to a new system be phased in over five years. While reasonable, this will in some ways make the system even more confusing during the transition period. Tax bills would be based on two numbers: the pre-reform amount adjusted for the year of the transition period, and the liability under the new system, with final liability based on the lower of the two numbers. The Commission's proposal to end fractional assessment and transition to full valuation is likely to generate additional demands on the city's assessing corps and the city's Tax Commission staff, as full market value replaces assessed value as the critical metric for properties in the new residential class.

The Commission offered few ideas for other property types, including utilities, commercial buildings, and large rentals (those with 11 or more units). The failure to address the differences in tax burden borne by large rentals compared with properties in the new residential class is perhaps the major shortcoming in the Commission's work. The Commission's data shows that ETRs for large rentals are nearly twice as large as those on properties in the new class. Moreover, renters generally have lower incomes (the mean for renters was $67,400 in 2020, versus $115,000 for property owners according to data from the Census Bureau's American Community Survey). Although tenants don't pay property tax directly, a portion of their rent is used by their landlord to pay the tax.

The amount of property tax liability that the landlord can pass through to tenants depends on the state of rental market, whether the apartment is rent stabilized, and other factors, making it difficult to say how much property tax the tenant pays. Nevertheless, it seems likely that the city's renters pay more of their income for property tax than those who own their home. The wealth of data collected by the finance department for the Commission could be used to provide light on this opaque area. How to bring relief to tenants is also a question that is mentioned but not addressed in the report. Direct tenant relief would probably require using a circuit breaker operating through the income tax. The city briefly had such a credit against the city personal income tax for renters and owners that was available from 2014 to 2019. For renters, the credit assumed that 15.75 of rent paid was for property tax.

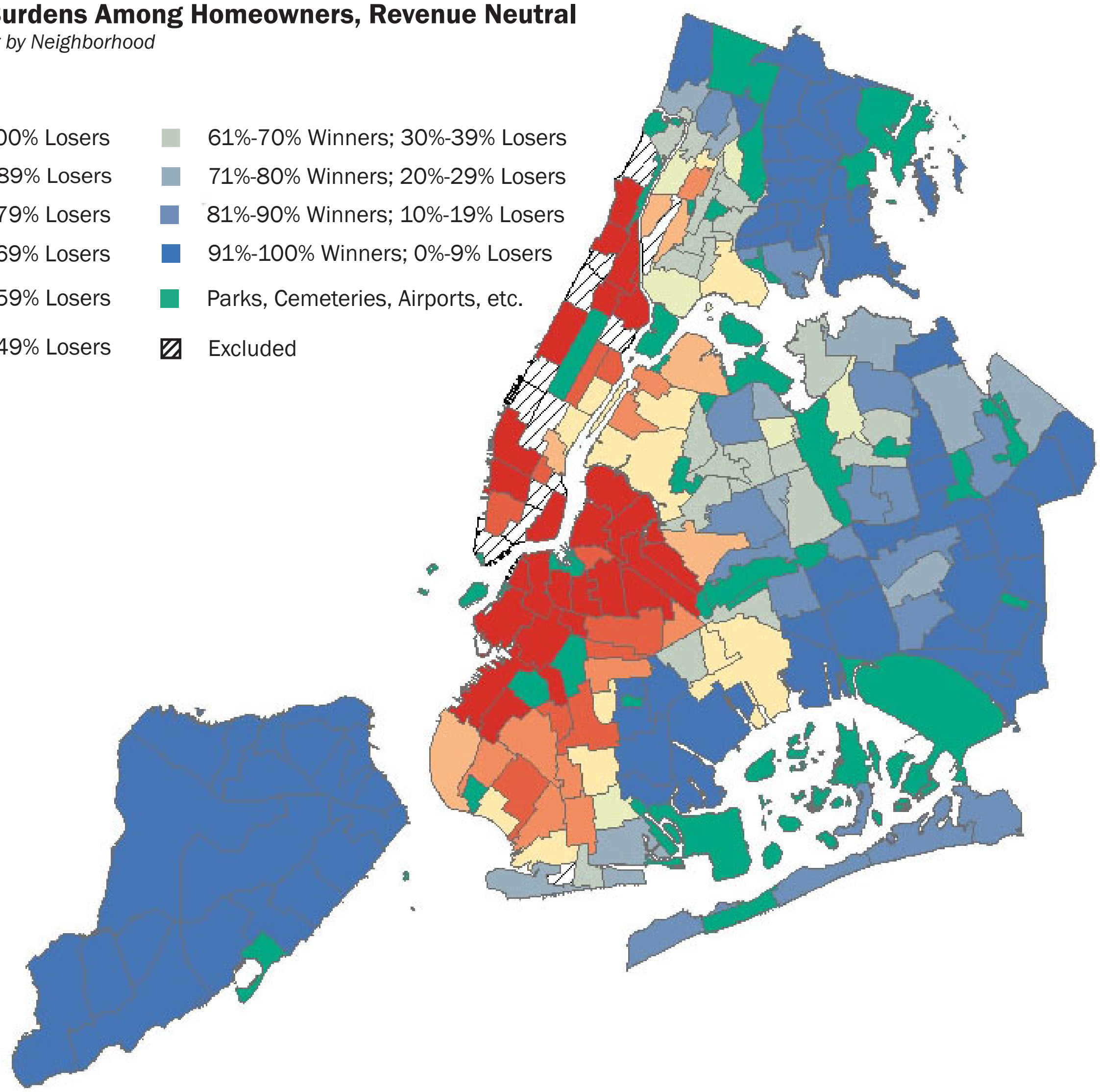
Again, thank you for the opportunity to testify and I am happy to answer your questions.

Equalize Property Tax Burdens Among Homeowners, Revenue Neutral

Percentage of Winners and Loser by Neighborhood

Percent Winners and Losers

- 0%-10% Winners; 90%-100% Losers
- 11%-20% Winners; 80%-89% Losers
- 21%-30% Winners; 70%-79% Losers
- 31%-40% Winners; 60%-69% Losers
- 41%-50% Winners; 50%-59% Losers
- 51%-60% Winners; 40%-49% Losers
- 61%-70% Winners; 30%-39% Losers
- 71%-80% Winners; 20%-29% Losers
- 81%-90% Winners; 10%-19% Losers
- 91%-100% Winners; 0%-9% Losers
- Parks, Cemeteries, Airports, etc.
- Excluded



SOURCE: Department of Finance

New York City Independent Budget Office

For more information see the 2018 IBO report "Addressing the Disparities: Winners & Losers in Two Property Tax Reform Scenarios"