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Testimony on the Preliminary Report on New York City Property Tax Reform

Submitted to the New York City Advisory Commission on Property Tax Reform

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Good evening Chair Shaw and members of the Advisory Commission on Property Tax Reform. I am Ana Champeny, Director of City Studies at the Citizens Budget Commission (CBC), a nonprofit, nonpartisan think tank and watchdog dedicated to constructive change in the services and finances of New York City and New York State government.

CBC and many New Yorkers have called for reform of the City's byzantine and unfair property tax system for decades. Your Commission's thoughtful work will be a significant contribution on the long road to comprehensive reform.

The Preliminary Report's recommendations focused on reducing the inequities in tax burdens among residential properties and largely align with [prior CBC testimony](#) and recommendations. These recommendations address many of the current inequities in tax burdens among one-to-three family homes, cooperative apartments, and condominiums, as well as increase the simplicity and transparency of taxation of cooperative and condominium units.

We recommend that the Commission further address four areas in its Final Report.

First, develop a simple and transparent tax rate setting process that eliminates the function of class shares and distributes the levy based on clearly articulated policy rationales for the differential levels of taxation. The Preliminary Report's recommendations do not alter the relative burdens between the classes and, in fact, envision maintaining the effective tax rates over time, which misses the opportunity to address the high tax burdens for rental and

commercial property in New York City and perpetuates current disparities. CBC has recommended that homeowners have the lowest effective tax rate, followed by rental properties, and then commercial properties; however, the existing disparities should be narrowed.

Second, expand the scope to address disparities within the rental and commercial classes. CBC agrees with the Commission that net income capitalization is the appropriate way to value large rental and commercial property. However, improvements are needed; DOF should be conducting sales ratio studies, modifying models to ensure consistency within the classes, and providing greater transparency on how assessment guidelines and capitalization rates are set.

Third, provide details on how the homestead exemption and circuit breaker should be structured. Homestead exemptions provide a tax reduction to owners for their primary residence, effectively allowing higher taxes to be levied on non-primary residences. Circuit breakers provide property tax relief to owners who lack the income to pay and are a common way to address property tax affordability across the country. While CBC endorses these approaches, we cannot fully support these recommendations as presented since details regarding eligibility, structure, and benefit levels, as well as interaction with existing programs, such as the Senior Citizen Homeowner Exemption, are lacking.

Fourth, clarify how assessed values for the new residential class will be set. Phasing-in market value changes provides some smoothing and stability; however, it seems in conflict with the recommendation that all properties in the new residential class be assessed at 100 percent of market value. If changes are phased-in, then the value for tax purposes will be different than the most recent year's market value.

Incremental reform has not worked. The goal should be to advance as comprehensive a reform proposal as possible to create a more equitable and transparent property tax system. The Commission's work and upcoming Final Report will contribute greatly to this effort. The CBC looks forward to continued participation in this important policy dialogue and appreciates this opportunity to testify. If we can be of additional help, please let us know.