

Testimony of Sam Miller
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Before the New York State Assembly
Committees on Real Property, Housing and Cities
on Assessments of Renovated Properties

April 7, 2005

Good afternoon Chairmen McLaughlin, Lopez and Stringer, and members of the respective committees. My name is Sam Miller, Assistant Commissioner at the New York City Department of Finance. Thank you for inviting me to testify today on behalf of Finance Commissioner Martha E. Stark, and thank you for moving so quickly to address the issue of assessment increases for owners of renovated homes.

The Assessor's Job

As you know, the Department of Finance values almost one million properties every year - a monumental task that is virtually unmatched in any other jurisdiction in the country. Under the dynamic leadership of Commissioner Stark, and in the wake of a decades-long bribery scandal, the Property Division has been asked to do five things: reduce the risk of corruption by ensuring that our values are consistent and our methods for arriving at those values are transparent; reorganize the property division to ensure maximum oversight; take advantage of new technology to make the assessor's job easier; accurately reflect the real estate market; and motivate the assessors to do the best job possible. Our assessors have been given a very clear mandate: To determine an appropriate market value for every property in the City of New York.

Every year, Finance is required to value property by looking at changes that might have occurred. If sales prices go up, our estimate of value must also rise. If an owner's expenses rise higher than income, we lower our

estimate of the value. Finally, if an owner renovates or builds a new property, Finance is required to reflect the newly created value.

Finance has done this every year since the State property tax law establishing New York City's assessments was adopted in 1981. What's different this year is that the Property Division has become more adept at reflecting changes in the real estate market, including renovations and new construction, by matching against Buildings Department filings. We are also valuing properties in every neighborhood, which we have not always done. We are proud of the work the assessors did this year. They took their mandate seriously and valued property correctly and according to the law. Our ability to capture more instances of renovations reflects our commitment and demonstrates that we are doing a better job than ever before. Assessors cannot be blamed for accurately reflecting changes in property values, even if those changes lead to tax increases. We did our job correctly as it related to renovation changes. That said, we realize there will always be errors on an assessment roll of almost one million properties, but we are improving every year.

We are very proud of the fact that we have also done a little more each year to demystify the property tax so that more New Yorkers understand exactly how Finance estimated their property value. That's why this year, for the first time, we sent detailed notices to homeowners describing how we arrived at their values. As you may recall, last year we sent similar notices to 65,000 owners of apartment buildings and commercial properties. Now almost 700,000 owners get a notice that describes in plain English how Finance arrived at their value. We

are hopeful that by providing this kind of information, the public will understand what we do and have faith that we do our work correctly.

The Renovations Issue

As you know, the property tax law is very complicated. New York City is required to categorize properties into four classes, including seven subclasses. Each class has different rules. Properties within each class must be assessed at a uniform assessment ratio. And in some classes, assessment increases are limited. Needless to say, this hodgepodge of rules makes it so difficult that even a rocket scientist might have trouble understanding and administering them.

At issue here are two things. First, the law differentiates between market value changes that are attributable to sales prices (market-driven changes) and those as a result of physical changes (renovation, new construction, and demolition). In the case of market-driven changes, the State law limits assessment increases, whereas in the case of physical changes the law does not. Second, several City housing programs encourage owners to convert their properties from three to four-family homes. However, these circumstances require Finance to change the property's tax class. Since class one (1- to 3-family homes) is assessed at a lower 6 percent assessment ratio, when a property switches to class two (homes with four or more units) the assessment ratio is 45 percent and the resulting increase is dramatic.

Assessment Rules for Market versus Physical Changes

Renovation but No Tax Class Change

Just by way of background, remember that Finance sets the market value, and market value changes are not capped. If sales prices increase by 20 percent, our values will increase by 20 percent. However, assessments – the value upon which taxes are based – are capped. Let me explain. Finance estimates the value for a house last year as \$500,000. This year, sales prices are up by, say, 20 percent. Finance's estimated market value for this home this year would be \$600,000. Let's assume that last year's assessment was 6 percent of the \$500,000 market value, or \$30,000. Since the change in market value was because of rising sales prices, Finance can only increase last year's assessment by 6 percent or \$1,800 to \$31,800 this year.

If that same \$100,000 increase were as a result of renovation, the full increase multiplied by the 6 percent assessment ratio would be added immediately. Therefore, this year's assessment would be \$36,000, a 20 percent increase.

Renovation and Tax Class Change

The impact is much more dramatic if an owner adds a unit to a three-family house. Let's use the same example described earlier, where an owner renovates a property for \$100,000 that Finance valued at \$500,000 last year. The \$100,000 market value increase as a result of the renovation and addition of a unit would result in a \$45,000 assessment increase. This \$45,000 would be added to last year's \$30,000 assessment, making the new assessment for this property \$75,000.

A little background: The target assessment ratio for properties with 4 or more units is 45 percent. Therefore, the assessment increase would be added immediately to last year's assessment at 45 percent of the value of the renovation.

If that same property changed tax class but not because of a renovation - a scenario that is not actually possible -- by law Finance could only increase the assessment by 8 percent or \$2,400, to \$32,400.

Policy Implications

We are concerned about three things from a policy perspective. First, we are not sure why the distinction between market-driven and physical changes was made when the law was adopted in 1981. Whatever the reasons at the time, we are not certain that distinction makes sense now as written. Second, we are concerned that differentiating between market-driven and physical changes may discourage owners from renovating their property. We are especially concerned about the impact that the law could have on rejuvenated neighborhoods like Harlem and Bedford Stuyvesant. Third, we believe that renovations should be done in a safe and professional way, and one way to ensure that is by ensuring that people file notices with the Buildings Department when they are making changes to their property. We are afraid that our appropriate reliance on Building Department information may lead owners to not file the required notices and may undermine the safety of the housing stock.

What's the Solution?

The Finance Department believes that we must take steps to address this issue. We have met with dozens of affected homeowners as well as City and State legislators over the last few weeks to express our concern and begin to formulate a strategy that makes the most sense. At this time, we have not yet determined the best course of action. As you know, the property tax is extremely complicated, so we must be very careful in thinking about how to address this issue.

I understand that the chairmen have put forth a proposal of their own - a bill that would cap increases due to renovations on owner-occupied homes. I cannot address the merits of this proposal on policy grounds, in part because I'm not sure we understand why you opted to make this distinction. But I should respectfully point out that the bill would pose a significant administrative hurdle. How would Finance identify owner-occupied homes in Class 2 - homes with 4 to 10 units? Owners of these homes are not entitled to the State's School Tax Relief, or STAR, exemption, which requires owners to live in their homes. This means that for thousands of properties, we would have no way of knowing if they live in their homes and no way of knowing if they would be eligible for the benefit of capping the assessment growth of their alterations. Furthermore, if we ask them to certify that the home is owner-occupied, the process of verifying that would not be easy.

Conclusion

Thank you again for giving us the opportunity to testify. We look forward

to working with you and your colleagues in the Assembly over the next few weeks to resolve this issue once we have finalized our proposal.