

Testimony of Commissioner Martha E. Stark
New York City Finance Department
Before the New York City Council Finance Committee
Oversight Hearing on Assessment Practices
March 2, 2007

Good morning, Chairman Weprin and members of the Finance Committee. I am Commissioner Martha E. Stark of the New York City Department of Finance. Thank you for inviting me to speak today on the subject of real property assessment practices and procedures.

Before I get started, let me introduce Fadil Brija, who is our Acting Assistant Commissioner for Property. He and his team did a terrific job putting out the tentative assessment roll in January. Fadil has risen steadily from the ranks, earning the respect of his colleagues as a thorough assessor and a dynamic manager.

Today I thought I would do four things: Provide a brief overview of how Finance values property; describe how State laws require us to assess those properties; discuss our efforts to make the property tax fairer and more transparent; and update you on the \$400 property tax rebate. As always, at the end, I'll be happy to take your questions.

How Finance Values Property

As you all know, New York City's property tax system, which is governed by a 25-year-old State law, is very complicated. I'll explain why in a moment, but I want to start by stating very clearly that our Finance's most important goal regarding the property tax is very simple: To accurately value almost one million properties each year. Once we estimate market values, assessments - which are a percent of market value - are calculated by applying State enacted laws. Then, the assessments are multiplied by the tax rates set by the City Council to determine the tax amounts due.

Finance's primary task is to produce accurate market values. Finance does not determine the tax that a property owner pays—you do. We—our assessors—are not revenue generators and we don't value property to satisfy budget requirements. This is an important thing to understand in light of the bribery scandal that was uncovered the day I assumed my role as Finance Commissioner five years ago.

As you may know, like appraisers, we use three different methods to estimate market value, depending on the kind of property. For one-, two- and three-family homes, we estimate market values based on comparable sales. In other words, we do what every person buying a house does—we see what properties have sold nearby and we compare the sales price to the price of the house we want to buy. This method is accurate and the easiest to understand.

The International Association of Assessing Officers says a jurisdiction is doing a good job if estimated market values deviate from actual sales prices by 15 percent or less. For the current fiscal year, Finance's estimated values for small homes was 13.74 percent compared to sales prices.

For residential cooperative and condominiums, properties with more than four units, apartment buildings and commercial properties, Finance is required to use the income approach. We estimate the property's value based on the income that can be generated by renting the property, while also factoring in expenses needed to maintain the property. We divide the net income by an estimated rate of return or capitalization rate.

Finally, Finance uses the cost approach for specialty properties, including utility properties. Under this approach, we estimate the land value and then determine the cost of replacing the building.

How Finance Determines Assessments

The valuation methods are fairly straightforward and consistent with what we would do if we were buying property. Assessments, the amount that owners are actually taxed on is more complicated and based on state law.

First, properties are assessed at different percentages of value. One-, two- and three-family homes are assessed at six percent of value, meaning a home with a value of \$1 million would have an assessed value of \$60,000. All other properties are assessed at 45 percent of value. So, for example, if an office building is valued at \$100 million, its assessed value would be \$45 million.

Second, there are limits on assessment changes from year to year. For small homes, assessments - not market values, but assessed values - may not increase more than six percent in one year and 20 percent over five years. For 4 to 10 unit properties, assessments may not increase by more than eight percent in one year and 30 percent over five years. And for all other residential and commercial properties, assessment changes are phased in over five years.

The purpose of these limits and phase-ins is to protect owners from steep tax increases that would result from changes in market value. Assessment caps also create inequities because market values in and within neighborhoods change by different percentages, but the assessment caps are the same for all owners. Also, if an owner improves his/her property there is no assessment cap. In these cases, the value attributable to the renovation is added immediately.

Another difficult to explain part of the law is that even though coops and condos are homes, the law requires Finance to value them as if they are rentals based on the income approach. This means that Finance's values are not based on sales prices, but rather on an estimate of the rent that would be charged for the units in the coop and/or condominium building if the units were rental apartments.

Making the Property Tax Fairer and More Transparent

I have mentioned just a few issues around the property tax, but to discuss them all would take all day.

I'm pleased that we have been able to make some important changes over the last few years, much of it with the support of the City Council, for which I again thank you. We have:

- Consolidated and simplified property tax bills;

- Simplified our notices and described for owners exactly how we have determined their property values;
- Reduced the assessment ratio of small homes from eight percent to six percent of value.
- Won passage of a law that caps assessment growth of renovated 4-10 unit buildings at 15 percent, down from 45 percent;
- Achieved fairer values for rental buildings by differentiating between market rate and regulated rentals; and
- Made it easier for owners to correct erroneous data such as building size and type, without appealing to the Tax Commission.

Rebate Process

Before I take your questions, let me update you about the \$400 property tax rebate. I am proud of the work that my agency has done to make the rebate one of the Mayor's and your signature success stories.

The law authorizes us to issue \$400 rebate checks to all owners who occupy their own homes, coops and condominiums. In the three years since the law was passed, we have annually issued some \$250 million in checks to more than 600,000 homeowners.

How did we determine that a property owner was eligible? State law had another established exemption program, School Tax Relief (or STAR), which required an eligible residence to be owner-occupied. So when we began to administer the rebate program, a STAR application became the *de facto* means of proving eligibility for the rebate. We were able to use this without forcing the vast majority of eligible owners to apply separately for the rebate.

Last year, Finance created a new streamlined universal exemption application that combines all personal exemptions, such as those for veterans and seniors -- into a single, two-page form. Also, the State Legislature helped us further by passing a law that extends the application deadline for ALL of these personal exemptions - including STAR -- to March 15th, which is less than two weeks from today.

This week, we also increased our outreach to homeowners by sending a universal exemption application to all home and condo owners who do not have STAR or who have not yet applied. We included this application with our quarterly statement, which owners receive even if they pay their property tax through a mortgage. We encourage all eligible owners to apply, because our mission is to help people pay the right amount on time. That means telling people when they owe us money, and also helping them claim money to which they are entitled.

I'm looking forward to the day when people don't have to apply. When we are as good at AARP at identifying people who are eligible and automatically granting benefits.

We are also better at getting rebates to owners in the right name at the right address. As you know, the City's rebate law has already sunsetted in Albany. Without the action of the State Legislature over the next few months, there will be no \$400 check in the mail this fall. In 2004, legislators inserted a requirement that the City

make an across-the board cut in its property tax rate before the law could be renewed. Given that the Mayor's budget proposal now before the Council does just that -- an across-the-board five percent cut - I hope that you will support extending the rebate law for another three years.

Thank you. I'll be happy to answer your questions.