

**Testimony of Martha E. Stark
Commissioner, New York City Department of Finance
Before a Hearing of the Assembly Real Property Taxation
Committee
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Good morning Chairperson Galef and members of the Real Property Taxation Committee. I am Martha Stark, New York City's Finance Commissioner. Thank you for inviting me to testify today about several bills on property tax assessments and practices being considered by the State Legislature. It's wonderful to be back in Albany. The weather is almost as cold now as it was when I was here in late January. But the reception I received then was very warm, even though I was not elected State Comptroller, and I hope you'll receive me just as warmly this time around.

I want to thank you again for your consideration. I also want to thank this Committee, the Chair and your great staff - particularly Karen Smeaton and Tony Cantore -- for organizing this hearing on a very difficult subject.

You will discuss a number of statewide proposals today. Before talking about those, I thought I would tell you why it is so important that we fix the property tax, especially in New York City. As you probably know, the 25-year-old state law that governs the property tax is badly out of date, resulting in a system that is too complicated for most property owners to understand, and often treats owners unfairly. In the five years since I became New York City's Finance Commissioner, I have implemented changes that have made the tax fairer, simpler and easier to understand. I've been successful in part with help from this committee, and for that I thank you. But I'm here today because much more needs to be done, and to do this hard work, I'm going to need your help again.

After talking about the problems with the property tax, I'll comment on the individual bills before you today, some of which I support, and others that I must respectfully oppose. I'll spend a little time discussing the improvements we've been able to make in New York City, and then I'll discuss the need for broad reform of the property tax system, and end by taking your questions.

Background about the Property Tax in New York City

As some of you may know, the property tax has been a passion of mine for most of my career. I became hooked on the tax while practicing law at a firm in Brooklyn in the late 1980s. I fell in love with the property tax, because it affects literally everyone - even New York City's one million renters, whose rents are based in part on how much tax the owner pays.

In New York City, the property tax levy is more than \$14 billion. This revenue provides for better schools, safer streets, and cleaner parks. The property tax also helps us pay debt service for crucial capital projects that ensure the City's infrastructure is the best it can be.

But for all of its virtues, most people in New York City really dislike the property tax. And for good reason.

For starters, there is no relationship between a home's value and the income of its owner. Property taxes rise even when a person's income doesn't.

The law is far too complicated. New York City and Nassau County are the only places in the State with fractional assessments, which means people often have to do math just to understand the market value of

their property. As the court said in the Hellerstein case that led to the law's creation, fractional assessments mask property values, undermining people's ability to compare the value of their properties with those of their neighbors.

We are also required to value condos and coops as if they are rental properties. In other words, we are required to estimate the income and expenses that the building would generate if it were a rental building. We cannot use sales, as we do for houses, even though it is clear that prospective coop and condo buyers understand sales prices.

Owners of homes of equal value - whether those homes are horizontal or vertical - should pay the same amount of tax, except where we provide relief for individuals who have fixed incomes. But because of the way we have to treat condos and coops under the law, we cannot achieve this fundamental principle of fairness.

State law also caps assessment increases for certain property owners. The caps are incredibly confusing and most taxpayers don't understand that the caps limit the growth of assessments, not taxes or market values.

State law also creates inequities within tax classes. If you were to scan the New York *Times* Real Estate Section on any Sunday, you could probably find an owner of a \$1 million brownstone in Park Slope, one of the wealthiest neighborhoods in Brooklyn, paying less tax than the owner of a \$1 million home in Bedford-Stuyvesant, one of Brooklyn's less wealthy neighborhoods. Why? The limits on assessment increases tend to provide larger benefits in neighborhoods where sales prices are rising fast

and smaller benefits in those neighborhoods where values are rising modestly.

Inequities also exist within the apartment building class. The owner of a \$400,000 coop in a new development pays more tax than the owner of a \$400,000 coop in an older building - even though both apartments would sell for the same price, because if the building were a rental, the rent would be lower on the older building. This is fundamentally unfair.

Finally, there are properties with assessment caps within the apartment building class, which means it is impossible to keep the assessment ratio the same within that class.

That's the picture in New York City. There are lots of other issues, but let me comment on the bills being considered today.

Property Tax Bills before the Committee

Not-For Profit Exemption

I cannot speak more enthusiastically about A1573, which would provide not-for-profit organizations an exemption on properties it purchases from the date of sale. The current law is confusing and unfair. Right now, if a soup kitchen bought a fully taxable office building on January 10, 2007, it would have to pay taxes through June 30, 2008. That's almost a year and a half of taxes, even if the soup kitchen qualifies for a full exemption. If the soup kitchen purchased the building on January 5 - New York City's "taxable status date" - then it would have to pay taxes for a little less than six months, through June 30, 2007. A

difference of just a few days could cost the soup kitchen a year's worth of taxes, which is arbitrary and confusing. Few people know this.

As a result, smaller not-for-profits often fail to pay their taxes for the first year of ownership, fully expecting that the bills they receive were sent in error. Sometimes these groups don't address their delinquency until they find themselves at risk of having a lien sold on their property. At this point, the groups often appeal to you and your colleagues for special legislation to allow Finance to make an exception to the law.

We introduced a bill last year -- A8119 - that would provide the same relief as A1573 in New York City. We are grateful to this committee for supporting this bill last year and look forward to your support of our new bill this year, which doesn't yet have a number.

State Constitutional Amendment

Also being discussed today is Chairwoman Galef's State constitutional amendment, A1572, which intends to bring more uniformity to the patchwork quilt of assessment practices across New York State. I agree that assessments should be done as often as possible. A three-year cycle would certainly be better than current practices around the state. But I believe we should require assessments annually where possible. In New York City, we revalue property every year and visually inspect properties at least every three years. The International Association of Assessing Officers says that in the best assessing jurisdictions, regular revaluations are done because that allows assessors

to fairly capture fluctuations in the market and provide the fairest property tax system.

For this reason, I also believe A127, which would require properties to be reassessed every 10 years, is well intentioned but doesn't go far enough to ensure accurate valuation.

Annual valuations do not mean that taxes should go up every year. The bedrock of sound property tax policy must be accurate values, and the best way to achieve accuracy is by valuing properties every year.

Valuing Condominiums Using Sales

Let me turn to A1574, which would require assessors to value condominiums using the "comparable sales" approach, and not the "income" approach now required by State law. Even though this legislation would not apply to New York City, I strongly support the fundamental principle of this bill. However, in New York City we couldn't do this unless we were to make other changes in our laws.

Blue Ribbon Commission

Finally, let me briefly lend my support to A1015, and its concept of a statewide blue-ribbon commission to address property tax reform. Such a commission is long overdue, and if a commission were to be established, I would be honored to serve on it.

Recent Improvements to New York City's Property Tax System

As I mentioned earlier, we have taken several steps in New York City over the last five years to make the property tax fairer and more

transparent. I'm very proud of what we've been able to accomplish, although we know that broader reform is still badly needed. Let me mention two of our improvements.

Consolidated Bill

One of the changes I'm most proud of was the introduction of a consolidated and simplified quarterly property tax bill in December 2004. Before this change, it was possible for an owner to receive a bill in June for the current amount due, and then another bill two months later for taxes that were due before June, with interest. We used to send separate bills for all kinds of charges related to the property tax, such as elevator charges and emergency repairs, and all of these bills confused people. Here's what we send now - a bill that looks a lot like a utility bill or a bank statement. As you can see, it very clearly tells people what they owe from a prior period, what they owe now and what they owe in future periods, with the amount they can save by paying early. The quarterly statements have made the property tax much more transparent, helping to drive down our property tax delinquency rate.

Notice of Value

In the same vein, we also created new, more detailed notices that tell owners exactly what factors we used to calculate their values. This is incredibly important, because if people don't understand how we arrived at their values, they have no way of knowing whether we are doing a good job.

Broader Reform Still Needed

I'm pleased with the changes we've been able to achieve, but I know that these are mere Band-Aids. What the property tax needs is major surgery.

We're discussing several ideas internally back in New York City, and I hope to bring proposals to you soon. But I can tell you some of what we're thinking.

Firstly, any talk of broad reform has to start by protecting people with low and fixed incomes.

Secondly, we need to reward people who use their homes as their primary residence. We do that now through rebates, which I hope you and your colleagues will renew through legislation in this session. The rebates are extremely important ways to reward homeowners for the sacrifices they made after 9/11. But I think we can and should do more to reward homeownership.

Conclusion

I'll stop there because I've given you a lot of information. But the bottom line is that there are serious problems with property the tax, much of them stemming from the fact that most people don't understand it. Change will be difficult, but it can be done, especially if more people understand the problems.

I'll end with two quotes. The first comes from William Simon, who served as Treasury Secretary in the 1970's. He once said: "The nation should have a tax system that looks like someone designed it on purpose." The same is true for New York's property tax. It looks like it

was designed for a market that existed a quarter century ago, but not for today.

The second quote is from John F. Kennedy. He said: "The time to repair the roof is when the sun is shining." Well, the sun is shining on New York State, and we're enjoying a strong real estate market and a booming economy in New York City. Now is the perfect time to fix the roof.

Thank you, and I'll be happy to take your questions.