



**Testimony before the City Council Finance Committee**

**Finance Commissioner David M. Frankel**

**May 2, 2011**

Good morning members of the Finance Committee. I am Department of Finance Commissioner David M. Frankel. I appreciate the opportunity to come here today to discuss New York City's real property assessment roll and real property tax.

We appreciate and share the concerns of property taxpayers faced with large market value increases. This morning I want to explain what steps we are taking at Finance to address large assessment increases in Class 2 on this year's assessment roll. Then I want to talk about why this happened and what we can do about it.

At the outset let me make three points. First, the Department of Finance did not consider revenue implications when we developed this year's assessment roll. Our sole goal is to value properties as accurately as possible consistent with the law. Second, since the publication of the tentative roll, we have been analyzing what changes to make in light of the large market value increases for specific areas. We met with members of the City Council, the Assembly and Senate, and I have spoken with co-op boards, community boards, and will appear at a forum Wednesday sponsored by the

Queens Borough President. Finally, in addition to changes we will make this year, we are evaluating whether to recommend reforms to the property tax system. We will be discussing these possible changes with the Council as they are developed.

When Finance issued the tentative assessment roll in January, we saw an unusual concentration of large market value increases for larger Queens co-ops in particular. Almost 30% of the larger Queens co-ops saw increases in market value of over 50%. To a lesser extent, other Class 2 properties in the City also saw large increases in market value. We had concerns about this, and valid concerns were also raised by members of this Council, other elected officials and co-op boards and residents. In response, we did two things. First, we reviewed all Class Two properties with a market value increase of greater than 50% and made revisions as appropriate. Second, we announced that all Class 2 market values would be increased no more than 50%. Because state law provides that market value increases are phased in at a standard 20% a year over 5 years, the 50% cap was intended to limit tax increases due to this year's market value changes to 10%.

However, given the history of significant Finance market value reductions for many of these properties over the past three years, the 50% cap did not have the intended impact on the property tax for half of the Queens co-ops as well as some other Class Two properties. Today we are announcing an additional remedial step for those Class 2 properties that do not have the 20% phase in because their assessments were too low

last year to trigger that protection. Market values increases will be limited to 10% for this group of Class 2 properties. This additional step will mean that tax increases due to this year's market value changes for these properties will also be limited to a 10% increase.

Taken together, these two actions will have the effect of limiting actual tax increases this year for Class 2 properties to about 10%, assuming stable tax rates. The exact tax increase will differ since other factors affect property tax calculations such as exemptions, physical increases and the phase in of assessed value increases and decreases from the past 4 years. Because the Queens co-ops in particular have been so affected by the market value increases, my staff has prepared and shared with Council staff the tax impact of these two actions on the larger Queens co-ops.

I believe that these changes in market value from those originally announced on the tentative roll address the concerns of Class 2 property owners who were potentially facing 30 – 40% tax increases in the June tax bill.

Let me turn to why there was a large spike in values for Queens co-ops and to a lesser extent in some other Class 2 properties. The answer is that we have been improving our assessment methods and in doing so corrected under-assessment that had occurred in previous years.

We made 3 key changes for this year's tentative roll.

- First, Finance returned to the property valuation method called Income Capitalization for Class 2 properties. This was the method historically used by Finance. It is universally accepted as the standard for valuing income producing properties, and is the method used by both the Tax Commission and the courts in reviewing assessment appeals.
- Second, since accurate data is important to generating accurate assessments, Finance increased outreach to building owners and enhanced enforcement of the requirement to file Real Property Income and Expense Statements. These efforts improved compliance from 67% to 90% of properties.
- Finally, Finance is now using its new more sophisticated computerized assessment application, which made valuations more systematic, including the selection of comparable properties for co-op and condo valuation.

With these three changes in place, this year's tentative roll corrected assessments where properties had been undervalued in previous years. In Queens, while market value increases were very large in many cases, the average Queens co-op taxable assessed value this year is just 1.1% higher than it was in FY 2008. Between 2008 and 2011, many Queens co-ops saw their assessments decline, while rental values climbed. Since State law requires co-ops to be valued as rental properties based on income, logic dictates that co-ops and rentals should be moving in the same direction.

As an agency, we are focusing on continuing to improve internal controls over the assessment roll and increasing the sophistication of our analysis of property values. We are re-organizing our Property Division to establish a Quality Assurance Unit, whose responsibilities will include measuring whether valuation guidelines are being applied properly across property types or geographic areas, identifying areas of potential under or over assessment, and establishing audit programs to identify and correct valuation problems before the tentative roll is issued. We are bringing in more expert advice in economics, statistics, and real estate finance.

Next year assessors will set values anew, based on the income and expense information and capitalization rates in effect at the time and keeping in mind the valid concerns raised in this year's assessment process. We will carefully review our methodology for valuation of co-ops and Class 2 properties generally. We want to make sure that our procedures lead to as accurate values as possible within the constraints of the state law requirement that co-ops be valued as if they were rental buildings. No matter the outcome, Finance will do a better job of reaching out to members of the Council before the roll is released to discuss any changes that might have occurred.

Looking to the future, we are reviewing whether to recommend broader changes in real property tax law. This is an area where quick fixes might cause real harm, but a well thought out reform proposal could do a lot of good. The real property tax affects nearly every New York City resident and business, and yet it is so complex that making the

connection between what the tax is based on and what people ultimately pay is too difficult to explain concisely and accurately. While a complex, confusing process is not necessarily unfair, if New York City property owners are not able to understand their property tax burden, we have created a perception of unfairness.

The questions and concerns that have been raised concerning the tentative roll values throw a spotlight on the complexity of our property tax system. The staff of the Department of Finance has worked to ensure that the values are correct and calculated as state law requires. We have reviewed and revised market values where appropriate and will continue to improve our methods and procedures.

Thank you for this opportunity and I would be happy to answer any questions you may have.