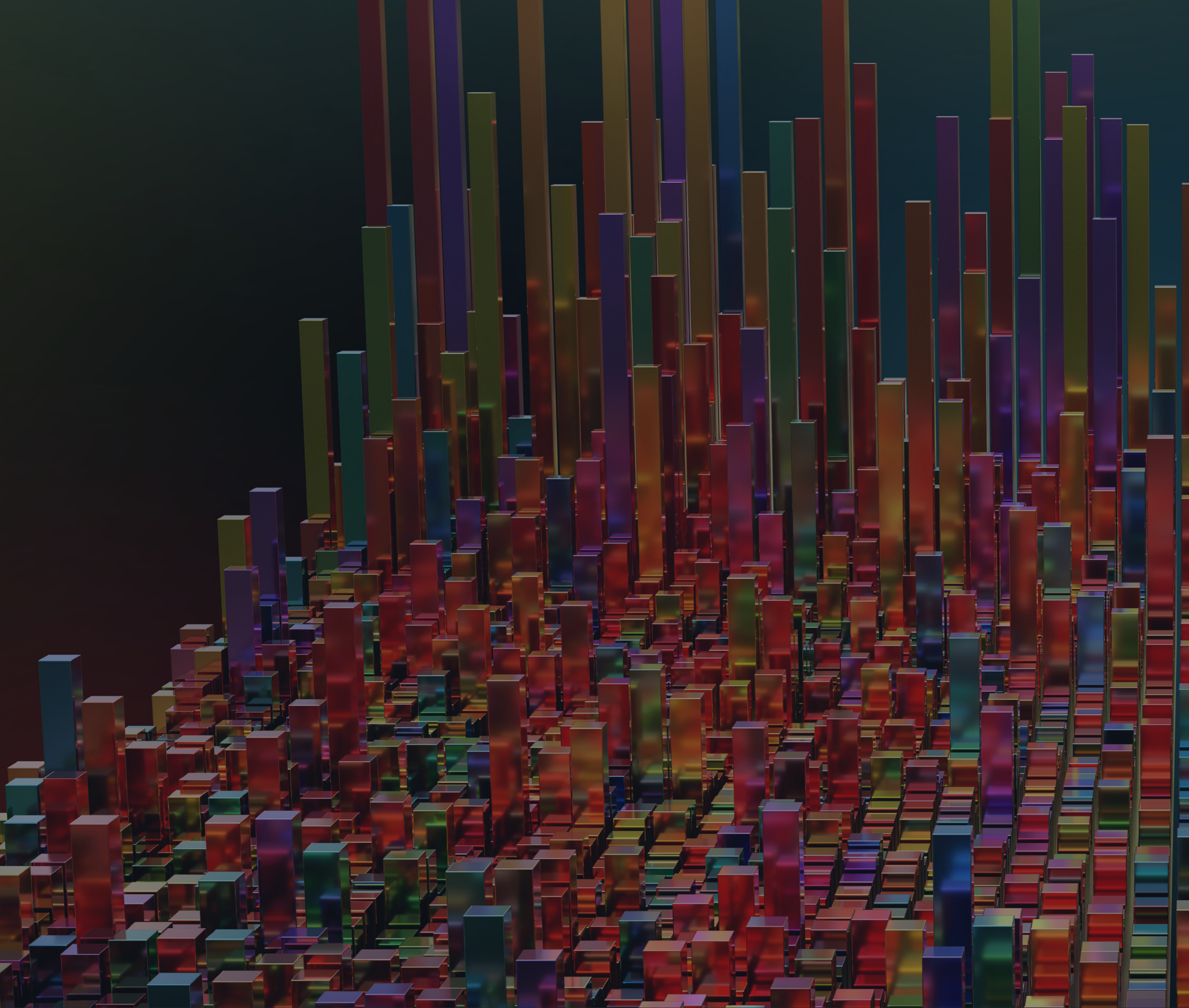


THE ROAD TO REFORM:
A Blueprint for Modernizing and Simplifying New York City's Property Tax System

NYC ADVISORY COMMISSION ON PROPERTY TAX REFORM

FINAL REPORT

“While New York City boasts innumerable characteristics of a vibrant metropolis, a fair, simple, and transparent property tax system is not among them.”

Dear Mayor de Blasio and Speaker Johnson:

On behalf of the members of the New York City Advisory Commission on Property Tax Reform, I am pleased to transmit this final report on reforming New York City's property tax system. Real property tax reform is a complex and not easy subject to undertake. Carrying out this reform effort and holding public hearings through the COVID-19 pandemic added additional unforeseen obstacles.

The Commission was proud to release a preliminary report on January 31, 2020 with 10 initial recommendations that, if enacted, would constitute the most significant reforms to the current property tax system since its inception 40 years ago. After the Commission released the preliminary report, we were poised to immediately continue our work. A hearing in Staten Island was scheduled for March 12, 2020, to solicit feedback on the 10 initial recommendations, hearings in other boroughs were being scheduled, and further modeling was underway for the Commission's consideration. The notion that our work would be interrupted by a once-in-a-century pandemic was not contemplated in our workplan, so when it became necessary to cancel the Staten Island hearing and pause our deliberations, our momentum was naturally interrupted.

We are glad that we were able to continue the work we started and deliver this final report that will hopefully be a resource to you and your successors, other policymakers, the general public, and to all stakeholders who want to see a fair, equitable and transparent property tax system.

The Commission resumed its work in the Spring of 2021, holding another five public hearings and meeting regularly to discuss and analyze data and modeling. The Commission's work in the past several months was to refine its initial recommendations to meet the mandate you set forth to evaluate the existing property tax system with the goal of issuing recommendations to make the system "simpler, clearer, and fairer, while ensuring there is no reduction in revenue used to fund essential City services." We believe this final report accomplishes the mandate with which we have been charged.

I want to express my deep gratitude to members of the Commission who voluntarily devoted countless hours to the effort and participated with vigor, creativity, and intellect. I also want to acknowledge the team of dedicated and talented expert staff who provided detailed information and analysis without which the Commission could not complete its work.

This project could not have been completed without the staff leadership provided by Sherif Soliman who began the effort as Senior Advisor to the First Deputy Mayor and completed it as he took on the additional role of Finance Commissioner for the City of New York. On behalf of the entire Commission and its staff, I thank him for his service.

Sincerely,

Marc V. Shaw
Chairperson

CONTENTS

Executive Summary

EXECUTIVE SUMMARY

Opaque. Arcane. Inequitable.

While New York City boasts innumerable characteristics of a vibrant metropolis, a fair, simple, and transparent property tax system is not among them.

Since the current property tax system was enacted in 1981, it has been overly complex and difficult to understand. Despite significant changes in the landscape over the past 40 years, from the sharp increase in coop and condo conversions in the 1980s to the reshaping of the west side of Manhattan with the development of Hudson Yards over the last decade, a cohesive strategy for changing the property tax system has been too elusive. A collection of exemptions and abatements enacted over the years, such as the coop-condo tax abatement which sought to mitigate tax burdens for coop and condo owners relative to 1-3 family homeowners, has attempted to remedy inequalities piecemeal, but problems persist.

New York City's storied history is laden with powerful examples of its preeminence and its ability to tackle tough problems. In keeping with this tradition, the New York City Advisory Commission on Property Tax Reform (the Commission) established by Mayor Bill de Blasio and City Council Speaker Corey Johnson in 2018 endeavored to make the property tax system simpler, clearer, and fairer. The Commission released a preliminary report on January 31, 2020 that included 10 initial recommendations for property tax reform which, taken together, would constitute the most significant reform to the City's property tax system since 1981. The Commission's work was disrupted by the COVID-19 pandemic, but after a delay for more than a year, the Commission reactivated the work it had begun in 2018—to modernize the current property tax system of 1.1 million parcels valued at $1.3 trillion.

Before the Commission's work was disrupted by the pandemic, the Commission was set to hold an additional five public hearings (the Commission had conducted eight public hearings in 2018-2019) to solicit the public's input on the 10 recommendations in its preliminary report and to further develop and refine its recommendations in a final report.

The Commission conducted remotely the additional five public hearings across the City from May 11, 2021 to June 16, 2021. The public feedback received at the hearings and via written testimony, including from elected officials, reinforced much of the criticisms of the system that had been made during the first set of hearings: 1-3 family homes, coops and condos should be subject to the same rules for valuation but are not; differences in Effective Tax Rates (ETR, defined as tax per $100 of sales-based market value[1]) among neighborhoods are too wide; and, the system is too difficult to understand. The second set of hearings also included testimony on the proposed structural changes to the system, which proved to be instructive for the Commission's deliberations and aided in the refinement of the recommendations in this final report. Hearing videos can be found at https://www1.nyc.gov/site/propertytaxreform/hearings-meetings/hearings-meetings.page; the Introductory Section of this report includes highlights of the public feedback received at the hearings.

From the outset, the Commission's work has been guided by a set of basic principles—any property tax system should be fair, simple, and transparent; similar properties should be taxed similarly; and owner relief programs should be expanded in the interests of affordability. The Commission's general approach was to strip the system of the features that lead to structural inequalities, reconstruct the system to align with these basic principles, and then layer on owner relief programs to help ensure low- and moderate-income owners have affordable tax bills and primary residents are not displaced from neighborhoods that they have called home.

[1] ETR is a standard tool used to compare tax burden across properties.

The 10 recommendations in the preliminary report would make the system more equitable and understandable by:

- Creating a new tax class for small residential property owners: 1-3 family homes, condos, coops, and 4-10 unit rental buildings, ensuring that rules are applied uniformly regardless of property type;
- Valuing property in this new residential class based on sales-based market value, thereby ending the statutory requirement to value coops and condos based on comparable rental buildings;
- Ending fractional assessments which differ by property class and confuse property owners;
- Removing assessed value (AV) growth caps, widely recognized as one of the primary drivers of inequity, and phasing in market value changes over five years instead;
- Creating targeted owner relief programs—a partial homestead exemption and a circuit breaker; and
- Replacing the complicated class shares system with a simple, more transparent system where individual tax class rates are fixed for five-year periods, unless deliberately changed by the City Council and the Mayor. If deliberately changed, all class rates would change proportionally.

At the same time, the Commission recommends that the coop-condo tax abatement be eliminated, since the inequities between 1-3 family homes and coops and condos are addressed through the recommended structural changes. Other personal exemption programs should be continued[2].

The thrust of the recommended changes in the preliminary report would make the system simpler, fairer, and transparent since 1-3 family homes, coops, condos, and small rentals would be in the same tax class, valued using the same methodology, and treated the same way with respect to market value changes. The removal of fractional assessments would make it much easier for taxpayers to understand their bills. These structural changes would redistribute approximately $1.8 billion of the tax burden within the new residential class without changing the total levy generated by the property types in the new class (for Fiscal Year 2021) or altering the tax burden of other property classes. The re-distributive impact within the new residential class is a significant change, making New York City's property tax fairer and easier to understand.

The Commission decided to include small rentals in the new residential class because there are enough of them to base assessments on comparable sales, like the rest of the class. In contrast, from an ownership perspective, large rentals (more than 10 units) are akin to other income-producing commercial properties, and as such are valued and taxed by the same approach as class 4 commercial parcels. Therefore, the Commission does not recommend their inclusion in the new residential class.

In addition, the targeted owner relief programs would make the system fairer by helping low- and moderate-income primary residents better afford their tax bills. The programs would also reward primary resident ownership as an important contributor to the stability of neighborhoods.

Upon the conclusion of the public hearings, Commission members met regularly to review the feedback from the public and analyze additional modeling with the goal of refining the recommendations. The Commission reviewed several models and determined that relying on structural changes alone would mean applying a blunt instrument to change a complex, interrelated system that needs tailor-made solutions. The Commission concluded that successful and far-reaching reform requires that horizontal equity—the principle that properties of similar value should be taxed similarly—should be tempered given the diversity and complexity of New York's residential market. Specifically, the Commission recognized that the ability-to-pay principle has been

[2] Current personal exemption programs include Senior Citizen Homeowner Exemption (SCHE), Senior Citizen Rent Increase Exemption (SCRIE), Disabled Person Rent Increase Exemption (DRIE), Veterans Exemption, Disabled Homeowner Exemption, Physically Disabled Crime Victim Exemption, Clergy Exemption & School Tax Relief (STAR).

the longstanding foundation for tax exemptions and abatements for particular populations, such as the Senior Citizen Homeowners Exemption and the Disabled Homeowners Exemption.

The Commission has chosen to present options—choices and alternatives (some complementary)—in order to generate a wide discussion and policy debate over property tax reform. While options may differ, they all share a common purpose: they would make ETRs more equitable, reverse the regressivity seen in condo and coop valuations, and create a more durable model where inequities caused by assessed value growth caps are eliminated.

The following options for targeted owner relief are presented for consideration by City and State officials, community and advocacy groups, industry stakeholders, and all members of the general public who have a stake in ensuring New York City has a fair and understandable property tax system.

Targeted Owner Relief Programs

The new residential class proposed by the Commission is comprised of approximately 1.36 million properties, including individual coop units, with an approximate sales-based market value of $1.45 trillion. The composition of the new residential class, in and of itself, represents a dramatic reshaping of the residential landscape for purposes of property taxation in New York City. Providing meaningful relief to primary resident owners is costly as inequalities have built up over a number of years. Relief programs, even targeted ones, are expensive; trying to address them has been a critical part of the Commission's work.

The Commission recommended a partial homestead exemption in its preliminary report that would reward owners who use their property as their primary residence. The Commission presents here two versions of this partial exemption—a flat rate partial homestead exemption and a graduated marginal rate partial exemption—to illustrate different possibilities. Either could be adopted.

1. Flat Rate Partial Homestead Exemption *or* Graduated Marginal Rate Partial Exemption

A. Flat Rate: A flat rate partial homestead exemption of 20 percent of sales-based market value would be available to primary residents with income less than $500,000; the exemption gradually phases out beginning at $375,000. For primary residents with income less than $375,000, the 20 percent exemption would remain unchanged. However, as incomes increase above $375,000, the exemption percentage decreases as shown in Table 1, below.

Table 1

20% Flat Rate Exemption	
Income	**Exemption Benefit Percentage**
≤ $375,000	20%
$400,000	16%
$425,000	12%
$450,000	8%
$475,000	4%
$500,000	0%

The flat rate exemption of 20 percent is available to eligible primary resident owners regardless of sales-based market value. Since it is a fixed percentage, higher-valued parcels will receive a higher dollar benefit. As shown in Example 1, a homeowner with a $400,000 income would receive a 16 percent partial exemption. Since the property's value is $2,500,000, the exempt value would be $400,000.

Example 1

20% Flat Rate Exemption			
Income	**Sales-Based Market Value**	**Exemption Benefit Percentage**	**Exempt Value**
$100,000	$400,000	20%	$80,000
$100,000	$800,000	20%	$160,000
$400,000	$1,000,000	16%	$160,000
$400,000	$2,500,000	16%	$400,000
$500,000	$2,500,000	0%	$0

Owner-occupied units of small rental buildings would qualify for a prorated exemption based on the number of units in such buildings.

B. Graduated Marginal Rate: A graduated marginal rate partial exemption applies a variable exemption percentage of up to 30 percent, depending on a parcel's sales-based market value. Like the flat rate partial exemption, the benefit is available to primary residents with income less than $500,000; the exemption gradually phases out beginning at $375,000 (using the same method to calculate the benefit reduction in the phase-out range as used in the flat rate exemption). Unlike the flat rate partial exemption, the exemption benefit percentage for lower-valued parcels is higher than that for higher-valued parcels.

As shown in Table 2, the marginal exemption benefit percentage declines as sales-based market value increases. For example, the maximum exempt value a primary resident owner of a $1 million home could receive is $250,000 based on a 30 percent exemption for the first $500,000 in value ($150,000), and a 20 percent exemption for the remaining $500,000 in value ($100,000). There is no exemption benefit for any sales-based market value over $5 million; therefore, the maximum benefit an eligible property owner can receive is $525,000.

Table 2: Example of The Graduated Marginal Rate Exemption Structure

For the Portion of Sales-Based Market Value Between	Primary Resident with Income <$500K	
	Marginal Percent Exempt	Maximum Exempt Value
$0-$500K	30%	$150,000
$500K-$1M	20%	$250,000
$1M-$2.5M	10%	$400,000
$2.5M-$5.0M	5%	$525,000
$5M or More	0%	$525,000

Notes: Marginal exemption percentage in each row applies to all value above the previous exemption percentage category, up to the value in the row. Sales-based market value in excess of $5M is 0% exempt.

Once the owner's income is evaluated, the correct exemption percentage would be computed based on the parcel's sales-based market value. As shown in Example 2, an owner with income of $100,000 would receive the unreduced exemption benefit of $120,000 in exempt value on a property with a sales-based market value of $400,000 or $210,000 in exempt value on a property with a sales-based market value of $800,000. However, the owner of a $1 million property with $400,000 in income would see a 6 percentage point benefit reduction for the first $500,000 in market value and a 4 percentage point benefit reduction for the remaining $500,000 in market value.

Example 2

While the features of this partial homestead exemption introduce another layer of complexity in a system that the Commission is trying to simplify, it is progressive since it supports deeper benefits for lower-valued parcels.

30% Graduated Marginal Rate Exemption			
Income	Sales-Based Market Value	Exemption Benefit Percentage	Exempt Value
$100,000	$400,000	30%	$120,000
$100,000	$800,000	30% of first $500K, 20% of additional $300K	$210,000
$400,000	$1,000,000	24% of first $500K, 16% of additional $500K	$200,000
$400,000	$2,500,000	24% of first $500K, 16% of next $500K and 8% of remaining $1.5M	$320,000
$500,000	$2,500,000	0%	$0

Like the flat rate partial exemption, owner-occupied units of small rental buildings would qualify for a prorated exemption based on the number of units in such buildings.

2. Circuit Breaker

Property tax circuit breakers address the problem of affordability. They are common across the country.

Several options exist on how to design them with levers such as tax-to-income ratio, benefit percentage, and the income threshold at which primary resident owners would qualify. Some circuit breakers are implemented through the property tax system while others may take the form of a credit against personal income taxes. Last year, as part of the enacted state budget, the New York State Legislature enacted a circuit breaker as a credit against personal income taxes.

The Commission is recommending a circuit breaker, implemented through the property tax system, because even after applying the partial homestead exemption (flat or graduated), property owners may still be facing unaffordable tax bills relative to their income. The circuit breaker presented here provides an additional tax reduction for primary residents with incomes below $90,550[3]. The benefit gradually phases out beginning at $58,000. If a primary resident owner's property tax bill, after including the partial homestead exemption and any other existing exemptions, exceeds 10 percent of their income, the owner is eligible for the circuit breaker. For incomes below $58,000, the benefit is 100 percent of the tax above the property-tax-to-income threshold of 10 percent, up to $10,000. For incomes above $58,000, the benefit percentage would be reduced according to the schedule in Table 3.

Table 3

Circuit Breaker	
Income	**Benefit Percentage***
≤ $58,000	100%
$65,000	78%
$70,000	63%
$75,000	48%
$80,000	32%
$85,000	17%
$90,550	0%

*Note: Percent of tax above property tax to income threshold eligible for the circuit breaker

The Commission believes that the elements of this circuit breaker would meaningfully alleviate the tax burden for eligible primary resident owners. Example 3 illustrates the benefits that would be provided to homeowners at certain income levels. For example, a primary resident owner with an income of $75,000 would be eligible for a circuit breaker equal to 48 percent of their property taxes exceeding the tax-to-income threshold of 10 percent, up to the maximum benefit of $10,000.

Example 3

Circuit Breaker				
Income	**Tax Bill After Reform**	**Tax Amount Over 10% of Income**	**Benefit Percentage**	**Circuit Breaker Value**
$30,000	$5,000	$2,000	100%	$2,000
$50,000	$8,000	$3,000	100%	$3,000
$75,000	$10,000	$2,500	48%	$1,194

These relief programs need to be funded and any enhancements to the programs' design carry an additional cost. Regardless of what the ultimate design might be, the Commission's mandate of revenue neutrality means that reform proposals must be funded so there is no reduction in revenue used to fund City services. Potential revenue sources are covered in the following section.

[3] The $90,550 threshold was chosen as it is the FY21 income limit for enhanced School Tax Relief (STAR). In FY22, the enhanced STAR limit is $92,000. Enhanced STAR is for primary resident owners where one owner is over 65, with income under the stated threshold.

Funding Targeted Owner Relief Programs

The Commission examined different funding sources for the primary resident owner relief programs in order to maintain the Commission's revenue neutrality mandate. Various options exist and the ultimate need will depend on the final approach that is adopted. The Commission highlights potential funding approaches for policymakers to evaluate and potentially consider. The funding options are not mutually exclusive – a hybrid funding approach could be applied to generate the necessary revenue to fully fund relief.

1. Fund relief by calibrating the tax rate for the new residential class

Property taxation under the proposed reforms would be significantly different from today's system. One of the most common concerns expressed during the public hearings was the misperception that elimination of fractional assessments would mean that today's tax rate would be applied to a property's full market value and lead to large property tax increases. However, with relief the tax rate needed to provide current revenue would be lower, since it would be levied on a much larger tax base (full market value).

For example, Fiscal Year 2021 tax rates for class 1 and class 2 properties of 21.045 percent and 12.267 percent, respectively, would not be the tax rates used in the new system because the structural reforms are expanding the market value of properties in the new residential class and, with the elimination of fractional assessments, the taxable base. With the larger taxable base, a lower tax rate achieves revenue neutrality.

The Commission's models estimate a revenue neutral tax rate of 0.814 percent, prior to implementation of the recommended homeowner relief programs.

The partial homestead exemption and circuit breaker could be funded directly through the tax rate. This would require adjusting the 0.814 percent tax rate to achieve the revenue neutrality mandate given the desired combination of relief programs, i.e., flat rate homestead exemption and circuit breaker or graduated marginal rate exemption and circuit breaker. The targeted primary resident relief would more than offset the tax impact of a higher tax rate, resulting in lower ETRs for most primary residents than without such relief. This rate adjustment could also be applied across the entire system.

2. Fund relief with new revenue sources

The generation of new revenue to fund relief could come from various sources – some ideas have been proposed in the past and are pending in the State Legislature, while other ideas were raised during the public hearings. Commission members recommend considering a diverse set of options to fund relief, options that would either fully fund relief or generate enough funding when paired with a recalibrated tax rate to achieve the same result. The Commission reviewed different funding sources that all require additional legal, economic and policy evaluation, in particular given the ongoing concerns regarding the COVID-19 pandemic and the recovery efforts underway.

Some Commission members support State legislation that would increase property taxes for properties with a market value exceeding $5 million which are not primary resident owner occupied[4]. Such legislation would apply new rates on the marginal value over bracket thresholds defined in the legislation for 1-3 family homes, coops, and condos.

Some Commission members want to explore a public safety fee to help support specifically the provision of police and fire protection. Their argument is based on the concern that fully exempt private parcels account for 20 percent of the total billable assessed value. Therefore, the remaining taxpayers are responsible for all police and fire protection in New York City. By imposing a fee on all or a select group of these properties in the City, such a new revenue source could be used to offset a rate increase. The Commission recommends a review of the legal, economic and policy considerations associated with the imposition of such a fee, including an impact analysis of the fiscal consequences and any hardship that the fee would impose. The findings of the analysis will help inform both the

[4] Senate Bill S44 and Assembly Bill A4540, introduced in the 2019-2020 regular session, use sales-based market values for 1-3 family, condos, and coops to determine the pied-a-terre surcharge for eligible properties. More recent versions of the bill specify using assessed value thresholds for condos and coops since they are not currently valued via a comparable sales model.

future determination of the universe of parcels[5] to which the fee would apply, and the extent to which exempt parcels could absorb the fee.

Renter Issues

Commission members felt it was important to understand the degree to which landlords pass on the property tax, a cost of operating a building, through their rents. This is an obvious concern in New York City where rental housing is a major source of shelter and studies have indicated high rental burdens.

The Commission convened expert panels in 2018 and 2019 to hear testimony about the existence of empirical data and analysis, or lack thereof, that would provide insight into how much of the property tax may be included in an average tenant's rent. Expert testimony received at the hearings covered issues such as the percentage of property tax included in rent, whether the amount of property tax included in rent depends on the size of rental properties and rental market conditions, and how income tax-based renter circuit breakers can be structured. Unfortunately, the testimony did not reveal conclusive evidence regarding the degree of the property tax borne by renters.

Importantly, renters do not pay the property tax directly, so there is no mechanism through the property tax to provide them relief. Those jurisdictions that provide renters tax relief generally do so through the personal income tax. Further, there is no guarantee that any relief provided directly to renters would prevent landlords from increasing rents.

The Commission knows that many low- and moderate-income renters in New York City need relief, a need that was intensified for some by the pandemic. The Commission does not believe that the property tax system can or should provide relief. Rather, the mechanism for providing rental relief should be through a personal income tax credit, as is done in most other jurisdictions, and through other types of rent affordability programs. Identifying a funding source for providing such relief is a matter for policymakers to evaluate.

Proposed Replacement of the Class Share System

Each year the total tax levy is apportioned to each of the four classes via the class share system, which is a convoluted and opaque process that leads to inefficiencies. The class share system is annually updated to reflect relative market value changes from the base year, 1990, to the current year.

To add to the opaqueness, the market values used are determined by New York State Office of Real Property Tax Services (ORPTS), rather than by the Department of Finance. There is also an additional constraint, as mandated in New York State's Real Property Tax law, that the class share in any given year cannot grow by more than the statutory cap of 5 percent from the prior year.

Currently, via the class share system, individual class tax rates change year-to-year despite the citywide average tax rate being held constant since 2009. However, the individual class tax rates are generally not available until the City adopts its budget, meaning that the rates are generally not available in time for the first set of tax bills of any fiscal year. This timing requires constant mid-year tax bill adjustments. These changes are both unpredictable and difficult to explain to taxpayers. Given the issues highlighted above, it is clear that the class share system is an esoteric way for apportioning the total property tax levy to each of the four tax classes. The system is understood by very few, and has created inefficient dynamics that were not likely the intent of the original legislation. It would be remiss of the Commission to recommend structural changes to how parcels are valued and taxed without reviewing how tax class levies are determined and providing a proposal to make the determination of tax rates simple, transparent, and understandable to legislators and taxpayers alike.

The Commission views that the current conceptual underpinning of tying the tax classes together should be maintained. However, rather than using the complex and opaque class shares system to do this, the relationship should rest on a simple fixed ratio.

5 Department of Finance Annual Real Property Tax Report https://www1.nyc.gov/site/finance/taxes/property-reports/property-reports-annual-property-tax.page.

In the first year of the transition to the new system, the tax rates should be set so that the share of total levy paid by properties in each of the newly reconfigured classes remains the same as the last year under the current system. Then, the rates would be fixed from year to year for five-year periods. The City would have direct control over the tax rates and would be able to make a deliberate policy decision to adjust them. However, any rate changes would have to be applied to all classes proportionately. For example, if the City decided to lower the tax rates by 10 percent, then all classes would see their rate lowered by 10 percent.

This replacement system would make the tax rate setting process clearer, straightforward, and much more predictable.

Additionally, the Commission recommends that every five years, the City should conduct a sales ratio study in order to review the ETRs among the four classes and adjust the ratios among the class rates as needed. Since changes in the relationship of ETRs among the classes may occur from intentional policy decisions to provide tax relief to certain properties, this adjustment should be focused on drift that stems from unintentional sources, such as varying valuation methods capturing changing shares of actual sales prices among tax classes.

Treatment of Large Rentals, Utility and Commercial Properties

Large rentals, utility, and commercial properties generate almost two-thirds of the property tax levy. In its preliminary report, the Commission recommended continuing to value large rental, utility and commercial properties based on current use, which involves valuing these properties by direct capitalization of current net operating income using DOF capitalization. The Commission, after continued review, retains its preliminary recommendation.

Additionally, the value of commercial space may be in flux due to changes in the market unleashed by the pandemic. The long-term impact of teleworking on the office, retail, and hotel sectors has yet to be determined. Analysis of the impact of the pandemic on these properties needs to be studied, so it would be premature to consider any changes to the taxation of these sectors at this time.

While these parcels are not valued based upon sales, the current valuation approach conforms to International Association of Assessing Officers (IAAO) standards and the City's income and expense models meet guidelines for horizontal equity. There is also consistency in capitalization rates among buildings of the same type with similar incomes. The Commission also recommends that special franchise utility parcels continue to be valued by NYS Office of Real Property Tax Services (ORPTS), and non-special franchise utility parcels continue to be valued by the New York City Department of Finance using cost indices. In the interests of simplicity and to match the treatment applied to the new residential class, the Commission recommends removing fractional assessments for large rental, utility, and commercial properties. As discussed above, tax rates would be reduced accordingly to recognize the expanded base value.

The annual Lincoln Land Institute of Land Policy and Minnesota Center for Fiscal Excellence report on property tax burden provides comparisons between homestead, apartment, and commercial properties in New York as well as across 52 other cities[6]. In the 2020 version of the report, the City's ETRs for apartment and commercial parcels ranked 34th and 35th (in descending order of ETRs), respectively. The Commission noted that while New York City ranks high in terms of the ratio of ETRs between homestead and commercial properties, the ratio is driven by the preferential treatment of residential properties.

Transition to the New System

The Commission's proposed structural changes are substantial and wide ranging. To avert abrupt impacts on some owners, the Commission is proposing a transition period to move all parcels in the new residential class from their tax bills under the current system to their tax bill under the proposed system. After considerable discussion, the Commission recommends a five-year transition period.

6 https://www.lincolninst.edu/publications/other/50-state-property-tax-comparison-study-2020.

At the heart of the Commission's deliberations was how the duration of the transition period must balance two opposing forces. A longer transition helps reduce abrupt impacts to the real estate market and helps to mitigate any tax increases as a result of reform; a shorter transition prioritizes relief sooner to those disadvantaged by the current system and moves the City more quickly toward a fairer, simpler, and more transparent system.

After deciding upon a recommendation for the duration of the transition period, the Commission had to identify a mechanism for the transition itself. The Commission's aim has been to make this as simple and transparent as possible. As a result, in each year of the transition, a parcel's tax bill will be calculated via three components: its prior year's bill, its annual phase-in due to reform, and its phase-in due to annual market value changes.

The annual phase-in due to reform is the difference between a parcel's current tax bill and its tax bill under reform divided by the number of transition years (five). The phase-in due to annual market value changes accounts for the tax liability change due to changes in market value in each of the transition years.

An example of how each parcel's final tax bill will be calculated in each year of the transition can be found in the "Transition to the New System" section. By the end of the transition period, all parcels will be fully phased into the new system, and the five-year transition rule for market value changes will continue as a feature of the new system.

Additionally, as described in the preliminary report, the Commission recommends that if a property is transferred during the transition period, its tax bill will be reset to equal its tax under the new system. New York City is one of only a handful of major jurisdictions that does not currently have an assessed value reset upon the sale of a property[7].

The Commission discussed the impact that a full transition to a new system upon transfer would have on the residential real estate market. Rational buyers and sellers in the market evaluate various factors—tax laws, building codes, zoning regulations, etc.—to calculate ongoing affordability, resale values, profit, etc. The Commission's proposed reforms will affect the calculations made by sellers and buyers. The real estate market will adjust to these changes over time.

Conclusion

It is in the spirit of renewal that we offer to our elected leaders this blueprint for reform. We provide these recommendations at a time of new leadership at both ends of City Hall and immediately prior to a new legislative session in Albany.

The current property tax system is getting more unfair with time. Reform is long overdue; but knowing that has not been enough in the past to generate action.

Still, this Commission has worked through the past three and a half years with the resolve to produce a product that merits acceptance as a roadmap toward improving the City's largest revenue source —the nation's largest property tax. The road ahead will not be easy; it belongs to the policymakers who will evaluate our proposals and hear more from the varied interests and stakeholders. This report provides the data and the analysis, but we do not write the laws. That task should now be taken on. New Yorkers deserve nothing less.

7 See Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence 50-State Property Tax Comparison Study, available at https://www.lincolninst.edu/sites/default/files/pubfiles/50-state-property-tax-comparison-for-2020-full_0.pdf.

The Commission has reached consensus on 10 final recommendations:

1. The Commission recommends creating a new expanded residential class, consisting of 1-3 family homes, coops, condominiums, and 4-10 unit rental buildings. The property tax system would continue to consist of four classes of property: residential; large rentals; utilities; and commercial.

2. The Commission recommends using a sales-based methodology to value all properties in the new residential class.

3. The Commission recommends ending fractional assessments for all property types. Each property would be assessed at its full market value. This will result in an increase in the taxable base and the tax rate required to generate the same level of revenue will decrease.

4. The Commission recommends eliminating current assessed value growth caps for the new residential class and instituting five-year transitional treatment for market value growth, whereby year-on-year changes in market values are phased-in over five years at 20 percent per year.

5. The Commission recommends creating a partial homestead exemption for primary resident owners in the new residential class. This exemption should be either a flat rate or a graduated marginal rate exemption for primary resident owners with incomes up to $500,000, with a phase-out of the benefit for owners with incomes exceeding $375,000. The Commission recommends retaining all existing personal exemption programs and eliminating the current coop-condo abatement, since recommendations 1-4 negate the need for an abatement to address inequities between 1-3 family homes and coops and condos.

6. The Commission recommends creating a circuit breaker, based on the ratio of property tax to income, in order to reduce the property tax burden on primary resident owners. The circuit breaker should be for primary resident owners with a ratio of tax paid to income exceeding 10 percent and incomes below $90,550, with the benefit phasing out for incomes exceeding $58,000. The benefit amount should be capped at $10,000.

7. The Commission recommends eliminating the current class share system and replacing it with a system that freezes relative tax rates for five-year periods. Under the new system, while the Mayor and the City Council can adjust tax rates, the tax rates for all classes may only be altered on a proportional basis within each five-year period. There would no longer be changes in tax rates driven by market value shares, as under the current system. Every five years the City would conduct a mandated study to analyze whether adjustments are needed in order to maintain consistency in the share of taxes relative to the fair market value borne by each tax class.

8. The Commission recommends that for properties not in the new residential class (rental buildings with more than 10 units, commercial parcels, and utilities), current valuation methods be maintained. There will be separate tax classes for rental buildings with more than 10 units, commercial parcels, and utilities. As noted in recommendation 3, the Commission recommends removing fractional assessments for all these tax classes.

9. The Commission recommends that for the new residential class, phase-in to the new system should occur over five years. When a property transfers during the five-year transition period, it will be fully phased into the new system the fiscal year after the transfer.

10. The Commission recommends the City institute a mandatory comprehensive review of the property tax system every 10 years by the City.

Further details on the Commission's recommendations can be found in the main body of this final report.

Introduction

I. The Commission

Members

The New York City Advisory Commission on Property Tax Reform was appointed by Mayor de Blasio and Speaker Johnson in May, 2018. They charged the Commission with evaluating all aspects of the City's current property tax system and recommending reforms to make that system fairer, simpler, and more transparent, while ensuring that there is no reduction in revenue used to fund City services[8].

The members of the Commission are:

MARC V. SHAW

Chair: Marc V. Shaw is Chair of the Advisory Board and Senior Advisor at the CUNY Institute for State and Local Governance. From 2010 to 2014, he was Senior Vice Chancellor for Budget, Finance and Financial Policy at CUNY. Mr. Shaw served as a Senior Advisor to the Governor on Metropolitan Transportation Authority ("MTA") finances during 2009. From 2006 to 2008, he was the Executive Vice President for Strategic Planning at Extell Development Company. From 2002 to 2006, he was the First Deputy Mayor and Deputy Mayor for Operations to Mayor Bloomberg. In 1996, was appointed as the Executive Director and Chief Operating Officer for the MTA. Mr. Shaw has served as NYC Budget Director, NYC Finance Commissioner, and Finance Director for the NYC Council. Mr. Shaw also worked for the NYS Senate Finance Committee.

ALLEN P. CAPPELLI

Allen P. Cappelli is a practicing attorney from Staten Island who also serves on the board of the City Planning Commission. He served as a Metropolitan Transportation Authority Board Member, as Civil Service Commission member, as vice chairman and land use chairman for Staten Island's Community Board One, and as a Commissioner on the New York State Charter Commission for Staten Island. He has served as a board member of Project Hospitality, St. Vincent's Medical Center of Richmond County, and President of Staten Island Community Television.

KENNETH J. KNUCKLES

Kenneth J. Knuckles is a prominent business and civic leader from the Bronx who serves as the Vice Chair of the City Planning Commission. Previously, he served as President and Chief Executive Officer of the Upper Manhattan Empowerment Zone Development Corporation (UMEZ), Vice President of Support Services at Columbia University, Commissioner of the New York City Department of General Services, Deputy Bronx Borough President, and Assistant Housing Commissioner.

CAROL O'CLEIREACAIN

Carol O'Cleireacain is an Adjunct Professor at Columbia University's School of International & Public Affairs, with a Ph.D. in economics from the London School of Economics. She was NYC Finance Commissioner and Budget Director under Mayor Dinkins and has held appointments as Detroit's Deputy Mayor for Economic Policy (Mayor Duggan), NJ Deputy State Treasurer (Gov. Corzine), consultant to NY Lieutenant Governor Richard Ravitch, Senior Fellow at the Brookings Institution, and chief economist of District Council 37 AFSCME during the 1970's fiscal crisis.

JAMES A. PARROTT

James A. Parrott is Director of Economic and Fiscal Policies at The Center for New York City Affairs at The New School. In previous positions, Parrott worked for the Fiscal Policy Institute, the Office of the State Deputy Comptroller for New York City, the City of New York (as chief economist for economic development),

8 See https://www1.nyc.gov/site/propertytaxreform/about/about-the-property-tax-reform-commission.page.

and for the International Ladies' Garment Workers' Union. Parrott was a member of Governor Cuomo's 2012-13 Commission on Tax Reform and Fairness and a member of the City Council's 2015 Task Force on Economic Development Tax Expenditures.

ELIZABETH VELEZ

Elizabeth Velez is President and Chief Contract Administrator of the Velez Organization, and serves as chairperson of the New York Building Congress. Elizabeth also serves on the boards of the National Hispanic Business Group, the Association of Minority Enterprises of New York (AMENY), the Mayor's Commission on Construction Opportunity, the Board of ACE Mentor of New York, and the NYC Department of Business Services Advisory Board.

Additionally, **Vicki Been** served as Co-Chair of the Commission until she returned to City government in April 2019 as Deputy Mayor for Housing and Economic Development, and **Gary Rodney** served as a commission member until his resignation in 2020.

The Commission also includes ex-officio members from City agencies and the City Council. They are:

Sherif Soliman, Commissioner of the Department of Finance

Jacques Jiha, Director of the Office of Management and Budget

Latonia McKinney, Director of the City Council Finance Division

Raymond Majewski, Deputy Director and Chief Economist, Council Finance Division

In addition, the Commission's work was supported by employees from City Hall, the City Council Finance Division, Department of Finance and Office of Management and Budget:

Francesco Brindisi, Office of Management and Budget

John Campagna, Department of Finance

Emre Edev, City Council Finance Division

Joshua Goldstein, Office of Management and Budget

Di Han, Department of Finance

Michael Hyman, Department of Finance

Alexander James, Department of Finance

Patrick McCandless, First Deputy Mayor's Office

Matthew Penfold, Department of Finance

Karen Schlain, Department of Finance

Richard Suweidan, Department of Finance

Andrew Wilber, City Council Finance Division

Lars Woodul, Department of Finance

II. Public Hearings and Meetings

The Commission held its first public meeting on July 20, 2018; at that meeting the Department of Finance provided a primer about the current property tax system. The second meeting, held on September 4, 2018, featured a presentation from the City Council Finance Division team on the levers that can be used to reform the system.

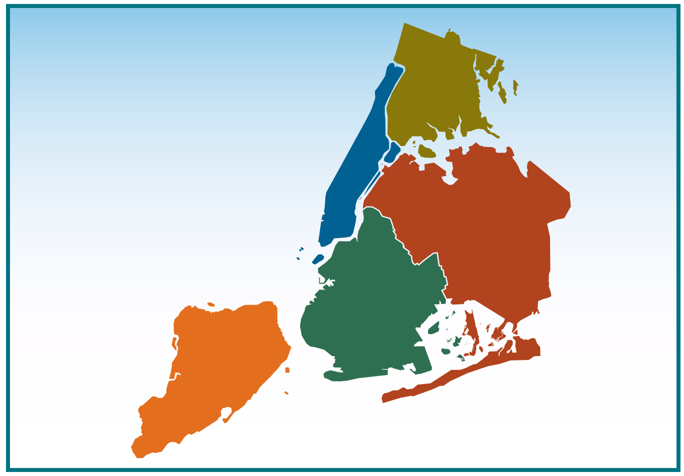
The Commission then held a series of public hearings in each borough to solicit specific feedback about the challenges taxpayers face in neighborhoods across the City. The first such hearing was held on Staten Island on September 27, 2018; followed by Queens on October 3, 2018; the Bronx on October 11, 2018; Brooklyn on October 15, 2018; and Manhattan on October 23, 2018.

The Commission then convened three hearings of experts on a variety of subjects such as:

1. ***Who pays the property tax, and how the property tax impacts land and housing prices and the rent charged to tenants living in rental properties?*** **(December 13, 2018), available at https://councilnyc.viebit.com/player.php?hash=4GJH2nSgvus6**
2. ***How does the property tax affect rents, and the decisions that owners and developers make about using their properties for rentals?*** **(January 22, 2019), available at https://councilnyc.viebit.com/player.php?hash=AwCqy0jCqYLh**
3. ***Circuit breakers and other mechanisms to provide relief to particular taxpayers, and transition systems for reforms*** **(February 28, 2019), available at https://youtu.be/CHSZdwmZill**

With the January 31, 2020 release of the preliminary report, a second round of public hearings was scheduled to resume on March 12, 2020 in Staten Island. The hearing was canceled due to the COVID-19 pandemic. The Commission resumed public hearings in the Spring of 2021, with a hearing on Staten Island on May 11, 2021; Brooklyn on May 27, 2021; Queens on June 9, 2021; The Bronx on June 14, 2021; and Manhattan on June 16, 2021.

Since the release of the Commission's preliminary report, 224 residents (including two elected officials) have submitted written testimony. At the 2021 remote hearings, 97 residents provided oral testimony, including 18 elected officials. A summary of testimony received during each of these hearings, as well as written testimony, is found below.



HEARING SUMMARIES

Staten Island (May 11, 2021)

Attendees of the Staten Island hearing discussed high taxes, tax equity, the circuit breaker and homestead exemption proposals, assessing homes at full market value, and property tax exemptions for large universities. Residents said Staten Island pays higher taxes compared to neighborhoods with rapidly appreciating property values and compared to New Jersey. A few said high property taxes would force them out of the City and that Staten Island subsidizes wealthier neighborhoods.

Some expressed support for a circuit breaker and homestead exemption, while others asked the Commission for more details on these proposals. A few called for a longer phase-in of the AV cap elimination. One resident mentioned the misunderstanding that eliminating the cap would increases taxes on all homeowners. Another said NYC needs more transparency and clarity in the property tax system. A representative of a hotel industry association said taxing hotels in Class 4 hurts the industry. A member of the Professional Staff Congress (PSC) at the City University of New York (CUNY) said the Commission should eliminate property tax exemptions for New

York University (NYU) and Columbia to fund CUNY; other members of the PSC made the same argument at the other four hearings.

Brooklyn (May 27, 2021)

Brooklyn residents discussed the impacts of rapidly appreciating Brooklyn property values, the racial impacts of property tax reform, assessing homes at full market value, and the circuit breaker proposal.

Testimony centered on the sharp increase in Brooklyn property values and called attention to owner incomes which have failed to keep pace and how it is impacting their ability to pay current and future property taxes. One attendee said the Commission should provide discounts for long-time, low-income residents. Another said DOF should assess coops based on comparable properties instead of comparing them to newer luxury developments. Testimony also highlighted high property taxes that may impact small landlords' ability to charge affordable rents to artists and other low-income residents. An elected official said the Commission should address inequities between neighborhoods and repeal the AV cap for high income owners with high value properties.

Several presentations argued that assessing homes at full market value carries racial justice implications, noting especially the concerns of residents living in inherited multigenerational homes. They expressed belief that the current system allows these residents to keep their homes.

On assessing homes at full market value, residents said this would impact those who have lived in their homes for decades, including seniors and multigenerational homeowners. Some expressed support for the homestead exemption and circuit breaker proposals but others asked for more specifics on who would qualify. Several asked how the Commission's proposals would impact their property taxes and said the Preliminary Report was too complicated to understand.

Queens (June 9, 2021)

At the Queens hearing, residents discussed coops, single family homes, the AV cap elimination, the homestead exemption and circuit breaker proposals, and the Queens foreclosure crisis. Many residents said that the current system penalizes middle- and low-value coops compared to multi-million-dollar condos, with one saying an equitable system is needed for middle-valued coops.

Some residents said that single-family homes should be in a separate tax class from two-family homes, because the latter are income generating. Several mentioned the need for a system that protects multigenerational wealth and seniors. Others mentioned that tax breaks for developers should be limited.

Regarding the AV cap, some said that getting rid of the cap would increase taxes for all homeowners, some favored its elimination, and one said the elimination should be phased-in over 10 years instead of five. A few questioned how resetting the AV for coop units would work since coops are assessed at the building level. Many expressed support for the homestead exemption and circuit breaker proposals and said it would be an important part of the new system, but asked for more details on eligibility. A few said the Queens foreclosure crisis illustrates the need for homeowner relief policies and one expressed concern regarding lien sales in the Rockaways.

Bronx (June 14, 2021)

Attendees at the Bronx hearing discussed assessing homes at full market value, tax exemptions for different groups, and the homestead exemption and circuit breaker proposals. Regarding the proposal to assess properties at full market value, some said residents will be displaced or face economic hardship, while another said a gradual transition would primarily benefit the wealthy. A non-profit advocate said that if done right, assessing properties at full market value would decrease the property tax burden for most.

One resident called for a lower property tax rate for seniors, another called for a veteran's exemption, and a third called for a cold-war veterans exemption.

Some expressed support for the circuit breaker proposal, and one resident suggested the homestead exemption be based on property value instead of income.

Manhattan (June 16, 2021)

At the Manhattan hearing, residents discussed the impact of property taxes on maintenance fees, the elimination of the AV cap and its phase-in, and the homestead exemption and circuit breaker proposal. A couple of residents mentioned that maintenance fees have increased significantly in recent years due to increasing property taxes, and that this constrains a building's ability to make capital improvements.

Regarding the elimination of the AV cap, some were in favor, saying that the current system creates inequities, but others said eliminating the cap would price them out of the City or would impact seniors. Many expressed support for the homestead exemption and circuit breaker proposal, but said more detail was needed. Some said a homestead exemption should be available for all homeowners regardless of income.

With respect to eligibility, one speaker said that earned income should be considered differently from retirement income, another said that first responders should receive a discount, and another recommended tax credits for carbon reduction expenditures.

WRITTEN TESTIMONY SUMMARY

Many said the current system is inequitable and benefits high-value property owners and boroughs at the expense of low-and-middle-value owners and boroughs.

Residents raised concerns regarding the proposal to assess homes at full market value, the homestead exemption and circuit breaker proposals, coops, how the Department of Finance values properties, and the phase-in of reform among other issues.

The recommendations that received the most comments related to the proposal to assess all residential properties at full market value. Many residents, especially those living in Brooklyn and Manhattan single-family homes (but also in other boroughs), said this would impact affordability, especially for those who purchased their home decades ago and whose incomes do not reflect their home's value. A few supported the proposal, arguing it was the solution to addressing the current system's inequities.

Regarding the circuit breaker and homestead exemption, some supported, but many said more details were needed to understand how they would benefit. A few said the homestead exemption should be offered to all NYC primary resident owners and others said the Circuit Breaker should provide relief to a wide range of residents, not just those with the lowest incomes.

A number of residents discussed issues specific to coops. Coop owners questioned how the phase-in of full market value assessments would occur given that coop taxes are assessed on entire cooperatives, not just individual units. Some asked that coops be assessed and billed individually. Others agreed that coops should be assessed based on their value as opposed to comparable rentals.

A few said the City should not assess properties at full market value until they are sold, while others called for a 10-year phase-in of the Commission's recommendations. A small number said 1-4 family rental homes would be burdened under the new system. Several called for exemptions for seniors, veterans, and other populations. Many said the current system is inequitable and benefits high-valued property owners at the expense of low/middle valued owners.

III. Data Updates. Fiscal Year 2019 vs. Fiscal Year 2021

The Commission's preliminary report outlined the current property tax system and described the eight steps the Department of Finance (DOF) takes to calculate the property tax liability for any given property. The method of calculation remains unchanged and is therefore not included in this introductory section. However, the latest available data are now Fiscal Year 2021, so Commission members have used the updated information to formulate recommendations for the final report. A side-by-side comparison of data from the preliminary report and final report is found below.

It should be noted that the updated data does not alter the evaluations made by the Commission in the "System Challenges and Issues Addressed in Reform" section of the preliminary report. For example, the Fiscal Year 2021 data does not change the fundamental conclusion that the current system for valuing coops and condos based on comparable rentals pursuant to state law is regressive. Higher-valued properties are assessed at a smaller fraction than lower valued properties. Nonetheless, the updated data with minor adjustments are included here for readers' reference.

TABLES AND FIGURES

Table 4 shows that DOF values capture a relatively small share of the sales-based market value of coop units. In Fiscal Year 2021, the median coop carries a DOF assessed value of 25 percent of the sales-based market value, which is the same as it was in Fiscal Year 2019. There is variation by borough, however, as DOF captures the smallest share of sales-based market value in Brooklyn (0.22) and the largest share in the Bronx (0.30). These ratios were 0.21 and 0.32, respectively, in Fiscal Year 2019.

As discussed extensively in the preliminary report, even though the IAAO recommends the use of comparable sales to value coops where sales data are sufficient, Section 581 of the New York State Real Property Tax Law requires that coops and class 2 condos be valued as if they were rental properties. Therefore, to comply with New York State law, assessors impute rental income based upon rents received in comparable rental buildings.

There is considerable evidence that this has resulted in the undervaluation of coop properties relative to sales-based market value, in part because (depending on the age and location of the coop building being valued) comparable buildings may fall under rent stabilization laws and regulations that constrain rental income.

Table 4: Coops: Ratio of DOF Value to Sales-Based Market Value by Borough, Fiscal Year 2019 vs. Fiscal Year 2021

Borough	Fiscal Year 2019				Fiscal Year 2021			
	Number of Parcels	Ratio of DOF Value to Sales-Based Market Value			Number of Parcels	Ratio of DOF Value to Sales-Based Market Value		
		25th Percentile	Median	75th Percentile		25th Percentile	Median	75th Percentile
Manhattan	169,128	0.18	0.23	0.28	169,189	0.20	0.25	0.30
Bronx	30,327	0.25	0.32	0.41	30,129	0.24	0.30	0.38
Brooklyn	69,577	0.16	0.21	0.28	69,487	0.17	0.22	0.28
Queens	105,632	0.23	0.27	0.34	105,530	0.21	0.25	0.32
Staten Island	1,971	0.18	0.26	0.32	1,978	0.19	0.24	0.33
Total	376,635	0.19	0.25	0.31	376,313	0.20	0.25	0.31

Source: New York City Department of Finance, Division of Tax Policy Analytical File
Notes: Restricted to taxable billable non-easement properties. Coop units are counted as parcels.

Table 5 shows that current DOF values capture a decreasing share of a coop unit's sales-based market value as sales-based market value increases. One of the key reasons for this is the scarcity of appropriate comparable rental properties for very high-end properties. The median ratio of DOF value to sales-based market value in Fiscal Year 2021 decreases from 0.57 for coop units with sales-based market values less than $100,000 to 0.11 for units valued greater than $10,000,000. The corresponding ratios for Fiscal Year 2019 were 0.49 and 0.10, respectively.

Table 5: Coops: Ratio of DOF Value to Sales-Based Market Value, Fiscal Year 2019 vs. Fiscal Year 2021

Sales-Based Market Value Category	Fiscal Year 2019		Fiscal Year 2021	
	Number of Parcels	Median DOF Value to Sales-Based Market Value Ratio	Number of Parcels	Median DOF Value to Sales-Based Market Value Ratio
Less Than $100K	7,544	0.49	5,387	0.57
$100K to $150K	18,908	0.37	11,861	0.38
$150K to $200K	30,667	0.31	21,629	0.33
$200K to $250K	36,799	0.28	31,598	0.29
$250K to $300K	38,939	0.26	33,786	0.27
$300K to $400K	48,355	0.24	62,774	0.24
$400K to $500K	30,708	0.22	38,471	0.23
$500K to $750K	50,825	0.23	57,875	0.24
$750K to $1M	34,867	0.23	34,610	0.25
$1M to $2.5M	55,064	0.21	55,859	0.23
$2.5M to $5M	17,689	0.18	16,408	0.19
$5M to $7.5M	3,857	0.14	3,646	0.16
$7.5M to $10M	1,320	0.13	1,241	0.13
$10M or More	1,093	0.10	1,168	0.11
Total	**376,635**	**0.25**	**376,313**	**0.25**

Source: New York City Department of Finance, Division of Tax Policy Analytical File
Notes: Restricted to taxable billable non-easement properties. Coop units are counted as parcels.

Condos also must be valued as if they were rental properties instead of using actual transaction prices. Table 6 below shows that, as with coop units, DOF value generally captures only a portion of the sales-based market value of condo parcels.

For the median condo in New York City in Fiscal Year 2021, DOF value captures 22 percent of sales-based market value. The median share ranges from 18 percent in Queens to 34 percent in the Bronx. In Fiscal Year 2019, the lowest shares were found in Brooklyn and Queens (18 percent) and the highest in the Bronx (34 percent)

Table 6: Condos: Ratio of DOF Value to Sales-Based Market Value by Borough, Fiscal Year 2019 vs. Fiscal Year 2021

Borough	Fiscal Year 2019				Fiscal Year 2021			
	Number of Parcels	Ratio of DOF Value to Sales-Based Market Value			Number of Parcels	Ratio of DOF Value to Sales-Based Market Value		
		25th Percentile	Median	75th Percentile		25th Percentile	Median	75th Percentile
Manhattan	99,802	0.16	0.20	0.24	104,933	0.18	0.22	0.27
Bronx	14,219	0.27	0.34	0.41	14,293	0.29	0.34	0.43
Brooklyn	40,783	0.14	0.18	0.25	44,367	0.15	0.20	0.26
Queens	27,122	0.15	0.18	0.24	29,820	0.15	0.18	0.24
Staten Island	2,855	0.17	0.23	0.29	2,858	0.18	0.23	0.26
Total	**184,781**	**0.15**	**0.20**	**0.26**	**196,271**	**0.17**	**0.22**	**0.28**

Source: New York City Department of Finance, Division of Tax Policy Analytical File
Notes: Restricted to taxable billable non-easement properties, excluding Class 2 condos smaller than 100 square feet (e.g., storage units, parking).

Again, like with coop units, DOF values capture a decreasing share of the sales-based market value of a condo unit as sales-based market value increases, as shown in Table 7.

The median ratio of DOF value to sales-based market value for Fiscal Year 2021 decreases from 0.53 for condo units with a sales-based market value less than $100,000, to 0.12 for condo units valued at greater than $10,000,000. The corresponding ratios for Fiscal Year 2019 were 0.34 and 0.10, respectively.

Table 7: Ratio of DOF Value to Sales-Based Market Value by Sales-Based Market Value, Class 2 Condos, Fiscal Year 2019 vs. Fiscal Year 2021

Sales-Based Market Value Category	Fiscal Year 2019		Fiscal Year 2021	
	Number of Parcels	Median DOF Value to Sales-Based Market Value Ratio	Number of Parcels	Median DOF Value to Sales-Based Market Value Ratio
Less Than $100K	1,370	0.34	301	0.53
$100K to $150K	9,828	0.37	7,674	0.31
$150K to $200K	1,873	0.33	4,634	0.37
$200K to $250K	3,753	0.31	1,961	0.28
$250K to $300K	3,417	0.24	2,505	0.24
$300K to $400K	7,052	0.22	7,065	0.23
$400K to $500K	9,913	0.21	10,859	0.21
$500K to $750K	31,449	0.21	37,070	0.22
$750K to $1M	27,172	0.21	31,635	0.23
$1M to $2.5M	62,132	0.19	64,796	0.21
$2.5M to $5M	18,398	0.17	18,929	0.19
$5M to $7.5M	4,634	0.15	4,742	0.17
$7.5M to $10M	1,620	0.13	1,831	0.15
$10M or More	2,170	0.10	2,269	0.12
Total	**184,781**	**0.20**	**196,271**	**0.22**

Source: New York City Department of Finance, Division of Tax Policy Analytical File
Notes: Restricted to taxable billable non-easement properties, excluding Class 2 condos smaller than 100 square feet (e.g., storage units, parking).

For small rental buildings, defined as having between four and 10 units, DOF uses an income-based approach known as the gross income multiplier (GIM) which establishes ratios of value to gross income for comparable properties. A GIM is determined by dividing typical sales prices within a neighborhood by typical annual income from properties that did file a Real Property Income and Expense (RPIE) statement, and is adjusted for growth rates for these properties. This factor is then applied to estimated annual income to derive a value.

Table 8 compares DOF values for small rentals with market values generated instead by using the comparable sales approach for Fiscal Year 2021. Among all small rentals citywide, for the median property, DOF captures half of the sales-based market value. DOF values cover the lowest share of sales-based value in Brooklyn (47 percent) and the largest in the Bronx (67 percent). In Fiscal Year 2019, the lowest ratio was found in Manhattan (45 percent) and the highest in the Bronx (78 percent).

Table 8: Ratio of DOF Value to Sales-Based Market Value by Borough, Small Rentals, Fiscal Year 2019 vs. Fiscal Year 2021

Borough	Fiscal Year 2019				Fiscal Year 2021			
	Number of Parcels	Ratio of DOF Value to Sales-Based Market Value			Number of Parcels	Ratio of DOF Value to Sales-Based Market Value		
		25th Percentile	Median	75th Percentile		25th Percentile	Median	75th Percentile
Manhattan	7,676	0.36	0.45	0.53	7,612	0.41	0.50	0.62
Bronx	4,404	0.66	0.78	0.86	4,431	0.58	0.67	0.74
Brooklyn	29,113	0.35	0.46	0.58	29,455	0.39	0.47	0.57
Queens	11,857	0.42	0.49	0.59	11,885	0.42	0.49	0.56
Staten Island	839	0.51	0.70	0.85	841	0.46	0.56	0.68
Total	**53,889**	**0.38**	**0.48**	**0.62**	**54,224**	**0.41**	**0.50**	**0.59**

Source: New York City Department of Finance, Division of Tax Policy Analytical File
Notes: Restricted to taxable billable non-easement properties.

Disparities among the tax liability of class 1 properties is one of the key issues in the current property tax system. Class 1 properties are subject to AV growth caps, which has meant that similarly valued properties may pay different property taxes, violating a principal component of fairness.

For example, class 1 properties are not typically taxed at the 6 percent assessment ratio because of statutory AV growth caps. As a result, two similarly valued class 1 properties could face different ETRs depending on their history of appreciation. As market appreciation persists over time, the accumulation of growth caps can lead to situations where high-value class 1 properties pay a lower tax (as well as a lower ETR) than more moderately priced properties.

Table 9 shows the resulting distortions among boroughs caused by the caps, for 1-3 family homes[9]. Citywide, the median ratio between Billable AV and DOF Value (AV ratio) for Fiscal Year 2021 is 4.20 percent, well below the target AV ratio of 6 percent. The median AV ratio in Manhattan and Brooklyn, the two boroughs that have seen dramatic property value appreciation, are 2.22 percent and 3.38 percent, respectively. Staten Island, where appreciation has been comparatively slower and therefore AVs are less frequently subject to growth caps, has the highest median AV ratio of 4.89 percent.

In Fiscal Year 2019, the median AV ratio was slightly lower in Manhattan (2.10 percent) compared to Fiscal Year 2021, but higher in the outer boroughs. Staten Island also had the highest AV ratio in Fiscal Year 2019 (5.20 percent).

Table 9: AV Ratio of 1-3 Family Homes by Borough, Fiscal Year 2019 vs. Fiscal Year 2021

Borough	Fiscal Year 2019				Fiscal Year 2021			
	Number of Parcels	AV Ratio			Number of Parcels	AV Ratio		
		25th Percentile	Median	75th Percentile		25th Percentile	Median	75th Percentile
Manhattan	5,404	1.40%	2.10%	2.95%	5,449	1.48%	2.22%	3.24%
Bronx	62,615	4.40%	4.97%	5.52%	62,414	4.06%	4.53%	4.95%
Brooklyn	191,058	2.25%	3.41%	4.29%	190,495	2.24%	3.38%	4.17%
Queens	269,614	3.81%	4.35%	4.90%	269,671	3.70%	4.22%	4.71%
Staten Island	107,423	4.68%	5.20%	5.68%	107,960	4.43%	4.89%	5.32%
Total	**636,114**	**3.54%**	**4.37%**	**5.07%**	**635,989**	**3.46%**	**4.20%**	**4.80%**

Source: New York City Department of Finance, Division of Tax Policy Analytical File
Notes: Restricted to taxable billable non-easement properties.

9 AV growth caps also apply to small Class 2 properties (4 to 10 unit rentals buildings and 2 to 10 unit coop and condo buildings), with yearly increases limited to 8 percent, or 30 percent cumulatively over five years. The implications of the caps for small Class 2 properties are similar to those observed for class 1 properties.

Table 10, below, shows how the share of DOF value, sales-based market value, and tax levy varies by property type. The DOF value is as of the Fiscal Year 2021 assessment roll, and the sales-based market values are current DOF values for class 1 and estimated values for all other tax classes. The tax levy is net of all exemptions and abatements.

The disconnect between existing DOF values and tax levy shares is illustrated by class 1 representing 48 percent of value but only 14 percent of taxes in Fiscal Year 2021. However, when using a common valuation method across all property types, that being sales-based market values, class 1 represents 24 percent of value. Coop and condo buildings' market value shares go from 9 percent in DOF value to 22 percent. These buildings currently account for 15 percent of taxes paid.

Any class with a market share greater than its share of the tax levy is receiving a tax preference. However, it is necessary to measure market values consistently. Once all properties are valued using the sales-based methodology, class 1 properties, coops, condos, and small rentals show a tax preference, accounting for 51 percent of sales-based value and paying 33 percent of the levy.

Large rentals and Class 4 properties, on the other hand, comprise 45 percent of value and pay 58 percent of the levy. With the common denominator of sales-based market value, the apparent tax preference for class 1 properties, coops, condos, and small rentals is less pronounced compared to current legally mandated DOF values.

These figures have remained largely stable since Fiscal Year 2019.

Table 10: Share of DOF Value, Tax Levy, and Sales-Based Market Value by Property Type, Fiscal Year 2019 vs. Fiscal Year 2021

Tax Class	Property Type	Fiscal Year 2019						Fiscal Year 2021					
		DOF Market Value		Sales-Based Market Value		Tax Levy		DOF Market Value		Sales-Based Market Value		Tax Levy	
		Total ($B)	%	Total ($B)	%	Total ($B)	%	Total ($B)	%	Total ($B)	%	Total ($B)	%
1	All Class 1	$594	48%	$594	23%	$4.20	15%	$657	48%	$657	24%	$4.60	14%
2	Condos	$52	4%	$292	11%	$1.83	6%	$61	4%	$311	11%	$2.22	7%
	Coops	$66	5%	$316	12%	$2.43	9%	$72	5%	$318	11%	$2.68	8%
	Small Rentals	$61	5%	$123	5%	$0.97	3%	$69	5%	$137	5%	$1.06	3%
	Large Rentals	$113	9%	$352	14%	$4.61	16%	$125	9%	$384	14%	$5.12	16%
	Other Class 2	$17	1%	$58	2%	$0.45	2%	$22	2%	$68	2%	$0.57	2%
3	All Class 3 Utilities	$34	3%	$34	1%	$1.84	7%	$38	3%	$38	1%	$2.19	7%
4	All Class 4	$312	25%	$810	31%	$11.99	42%	$326	24%	$861	31%	$13.45	42%
Total		**$1,251**	**100%**	**$2,580**	**100%**	**$28.33**	**100%**	**$1,369**	**100%**	**$2,774**	**100%**	**$31.89**	**100%**

Source: New York City Department of Finance, Division of Tax Policy Analytical File
Notes: Restricted to taxable billable non-easement properties.

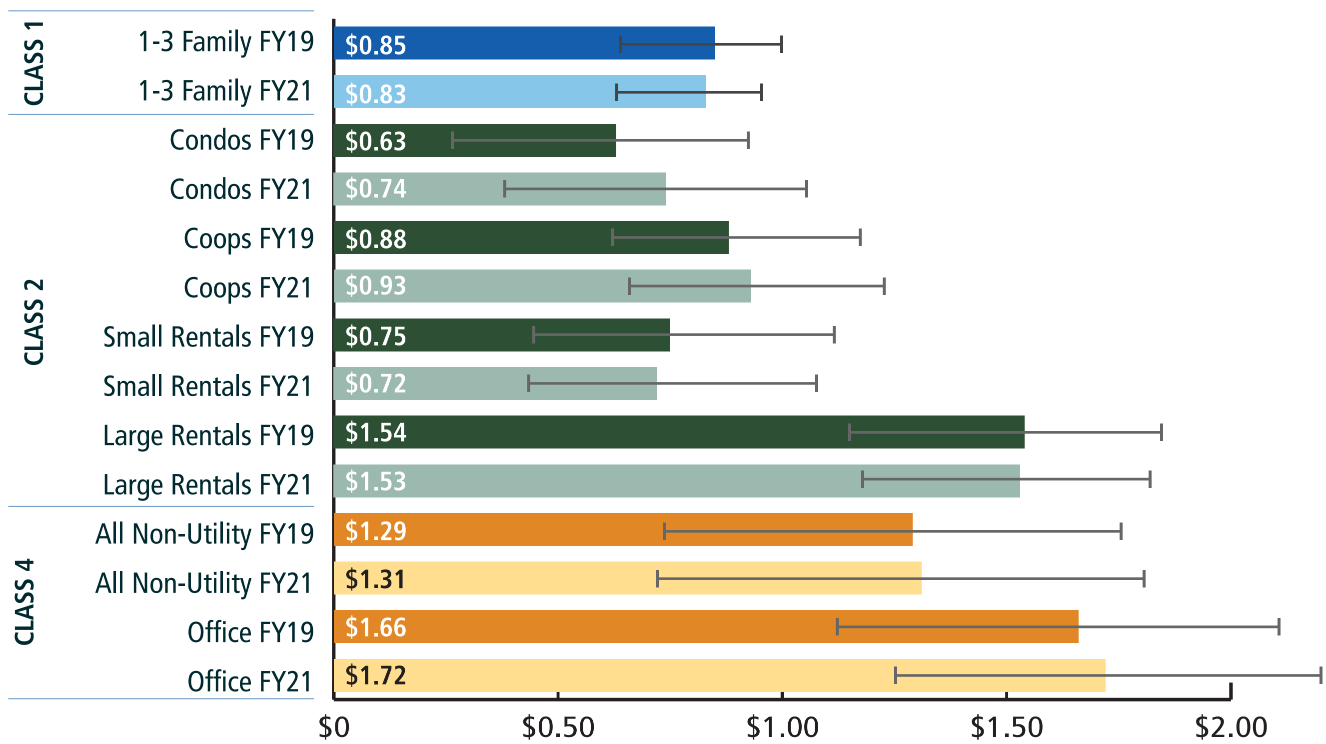
Figure 1 provides a comparison of ETRs by property type in Fiscal Years 2019 and 2021 using sales-based market values for consistent treatment across property types. The property types with the highest median ETR in Fiscal Year 2021 are offices ($1.72), a slight increase from $1.66 in Fiscal Year 2019. Offices make up a large portion of the square footage in Class 4. After Offices, the highest Fiscal Year 2021 median ETRs are for large rentals ($1.53) and class 4 non-utility properties ($1.31). Both large rentals and class 4 non-utility properties had similar ETRs in Fiscal Year 2019.

For the remaining residential property types, the Fiscal Year 2021 median ETRs vary within a relatively small band, ranging from $0.72 for small rentals to $0.93 for coops. In Fiscal Year 2019, for these property types median ETRs ranged from $0.63 for Class 2 condos to $0.88 for coops.

Other studies[10] of ETRs in New York have painted a somewhat different picture due to the lack of a common denominator, such as sales-based market values, to calculate ETRs. Previous studies have used DOF values for non-class 1 properties which are much lower than sales-based market values, as shown in the tables above, resulting in higher and non-representative ETRs.

Figure 1: Effective Tax Rates by Property Type, Fiscal Year 2019 vs. Fiscal Year 2021

Bars represent the Median, with Interval for 25th and 75th Percentiles.



Source: New York City Department of Finance, Division of Tax Policy Analytical File
Notes: Restricted to taxable billable non-easement properties. Class 4 All Non-Utilities includes office parcels.

ETRs vary among the different property types and also within the various property types. As Figure 1 shows, for all property types there is a considerable gap between 25th percentile and 75th percentile ETRs. Exemption and abatement programs contribute to differences in ETRs within specific property types. Details of current housing and economic development programs are shown in the Appendix.

Among 1-3 family homes, variation in ETRs is caused primarily by the differential effects of AV growth caps. Specifically, in neighborhoods where market values are appreciating rapidly, ETRs will tend to be lower as a result of these growth caps.

[10] NYU Furman Center Distribution of the Burden of New York City's Property Tax, available at https://furmancenter.org/files/sotc/Distribution_of_the_Burden_of_New_York_Citys_Property_Tax_11.pdf

As Table 11 shows, the median Fiscal Year 2021 ETR for 1-3 family homes is lowest in Manhattan ($0.45) and highest in Staten Island ($0.97). Manhattan and Staten Island had the lowest ($0.41) and highest ($1.02) median Fiscal Year 2019 median ETR respectively.

Within boroughs, there is also considerable variation. In Brooklyn, for example, the difference between a taxpayer at the 25th percentile and one at the 75th percentile is $0.45 (the difference was $0.46 in Fiscal Year 2019).

Table 11: Effective Tax Rates for 1-3 Family Homes by Borough, Fiscal Year 2019 vs. Fiscal Year 2021

Borough	Fiscal Year 2019			Fiscal Year 2021		
	ETR After Exemptions and Abatements			ETR After Exemptions and Abatements		
	25th Percentile	Median	75th Percentile	25th Percentile	Median	75th Percentile
Manhattan	$0.27	$0.41	$0.61	$0.29	$0.45	$0.67
Bronx	$0.82	$0.98	$1.10	$0.78	$0.91	$1.00
Brooklyn	$0.39	$0.65	$0.85	$0.38	$0.65	$0.83
Queens	$0.73	$0.86	$0.98	$0.71	$0.84	$0.95
Staten Island	$0.89	$1.02	$1.13	$0.85	$0.97	$1.07
All	**$0.65**	**$0.85**	**$1.01**	**$0.64**	**$0.83**	**$0.96**

Source: New York City Department of Finance, Division of Tax Policy Analytical File
Note: Restricted to taxable billable non-easement properties.

As shown in Table 12, ETRs also vary considerably by property value category. In general, lower-valued homes face a substantially higher ETR, largely the result of homes in higher-valued and more rapidly appreciating neighborhoods disproportionately benefiting from AV growth caps. This is true in both Fiscal Years 2019 and 2021.

Table 12: Effective Tax Rates for 1-3 Family Homes by Sales-Based Market Value Category, Fiscal Year 2019 vs. Fiscal Year 2021

Sales-Based Market Value Category	Fiscal Year 2019			Fiscal Year 2021		
	ETR After Exemptions and Abatements			ETR After Exemptions and Abatements		
	25th Percentile	Median	75th Percentile	25th Percentile	Median	75th Percentile
Less Than $100K	$1.24	$1.26	$1.26	$1.26	$1.26	$1.26
$100K to $150K	$0.90	$1.25	$1.26	$0.93	$1.26	$1.26
$150K to $200K	$0.88	$1.10	$1.26	$0.82	$1.12	$1.26
$200K to $250K	$0.82	$1.03	$1.19	$0.68	$0.98	$1.19
$250K to $300K	$0.86	$1.06	$1.15	$0.67	$0.93	$1.10
$300K to $400K	$0.87	$1.03	$1.15	$0.79	$0.94	$1.06
$400K to $500K	$0.85	$0.99	$1.10	$0.79	$0.93	$1.05
$500K to $750K	$0.77	$0.91	$1.03	$0.78	$0.90	$1.01
$750K to $1M	$0.66	$0.80	$0.93	$0.70	$0.82	$0.94
$1M to $2.5M	$0.41	$0.63	$0.80	$0.45	$0.66	$0.82
$2.5M to $5M	$0.19	$0.25	$0.38	$0.21	$0.28	$0.42
$5M to $7.5M	$0.29	$0.42	$0.58	$0.27	$0.41	$0.58
$7.5M to $10M	$0.35	$0.45	$0.64	$0.34	$0.47	$0.66
$10M or More	$0.33	$0.47	$0.62	$0.34	$0.51	$0.73
All	$0.65	$0.85	$1.01	$0.64	$0.83	$0.96

Source: New York City Department of Finance, Division of Tax Policy Analytical File
Note: Restricted to taxable billable non-easement properties.

There is also considerable variation in ETRs among condos, coops, and small rentals, as shown previously in Figure 1. Similar to 1-3 family homes, smaller condos, coops, and small rental buildings are subject to AV growth caps. In addition, there is another important factor affecting variation in ETRs for all condos, coops, and rentals regardless of size: the varying degrees to which DOF value captures sales-based market value.

Specifically, In Fiscal Year 2021 DOF value captures a lower share of sales-based market value for higher-priced coops (Table 5). DOF value captures 57 percent of sales-based market value at the lowest end of the coop price spectrum (less than $100K), and this percentage declines as price increases, with only 11 percent of sales-based value captured for those at the highest end (greater than $10M). Table 5 also shows the same pattern for Fiscal Year 2019 data.

As shown in Table 13, this translates to a regressive pattern of ETRs: the lowest-valued coops have a Fiscal Year 2021 median ETR of $1.78, while the highest-valued coops are subject to a median ETR of only $0.45 (in Fiscal Year 2019 these figures were $1.76 and $0.39, respectively).

Table 13: Effective Tax Rates for Coops by Sales-Based Market Value Category, Fiscal Year 2019 vs. Fiscal Year 2021

Sales-Based Market Value Category	Fiscal Year 2019			Fiscal Year 2021		
	ETR After Exemptions and Abatements			ETR After Exemptions and Abatements		
	25th Percentile	Median	75th Percentile	25th Percentile	Median	75th Percentile
Less Than $100K	$1.34	$1.76	$2.37	$1.35	$1.78	$2.48
$100K to $150K	$0.93	$1.25	$1.70	$0.99	$1.35	$1.83
$150K to $200K	$0.83	$1.12	$1.43	$0.86	$1.14	$1.50
$200K to $250K	$0.75	$0.99	$1.24	$0.78	$1.05	$1.31
$250K to $300K	$0.68	$0.90	$1.15	$0.74	$0.97	$1.22
$300K to $400K	$0.59	$0.81	$1.09	$0.65	$0.87	$1.14
$400K to $500K	$0.55	$0.81	$1.14	$0.59	$0.84	$1.18
$500K to $750K	$0.58	$0.88	$1.20	$0.61	$0.95	$1.27
$750K to $1M	$0.65	$0.88	$1.13	$0.72	$1.00	$1.24
$1M to $2.5M	$0.60	$0.81	$1.02	$0.67	$0.89	$1.13
$2.5M to $5M	$0.49	$0.65	$0.83	$0.56	$0.74	$0.92
$5M to $7.5M	$0.40	$0.52	$0.66	$0.46	$0.60	$0.75
$7.5M to $10M	$0.39	$0.48	$0.61	$0.43	$0.54	$0.64
$10M or More	$0.29	$0.39	$0.48	$0.34	$0.45	$0.56
All	$0.63	$0.88	$1.18	$0.67	$0.93	$1.23

Source: New York City Department of Finance, Division of Tax Policy Analytical File
Note: Restricted to taxable billable non-easement properties.

The pattern of DOF values capturing a declining portion of sales-based market values is similar for condos (Table 7). DOF value captures 53 percent of sales-based market value for condos valued at less than $100K in Fiscal Year 2021, and this percentage generally decreases as sales-based market value increases, reaching only 12 percent for condos with sales-based values greater than $10M. In Fiscal Year 2019 these shares were 34 percent and 10 percent respectively.

However, as shown in Table 14, condos do not show the same pattern in their median ETRs as coops. In Fiscal Year 2021, condos valued at less than $100K have a median ETR of $0.57, while condos at the highest end pay $0.50, and there is significant variation at intervening price levels. This is primarily due to the 421-a tax exemption. In Fiscal Year 2019, these median ETRs were $0.41 and $0.44, respectively.

Table 14: Effective Tax Rates for Class 2 Condos by Sales-Based Market Value Category, Fiscal Year 2019 vs. Fiscal Year 2021

Sales-Based Market Value Category	Fiscal Year 2019			Fiscal Year 2021		
	ETR After Exemptions and Abatements			ETR After Exemptions and Abatements		
	25th Percentile	Median	75th Percentile	25th Percentile	Median	75th Percentile
Less Than $100K	$0.33	$0.41	$0.42	$0.37	$0.57	$0.67
$100K to $150K	$0.27	$0.32	$0.36	$0.38	$0.47	$0.52
$150K to $200K	$0.26	$0.47	$1.14	$0.34	$0.40	$0.50
$200K to $250K	$0.24	$0.56	$1.01	$0.38	$0.71	$1.10
$250K to $300K	$0.45	$0.72	$1.06	$0.56	$0.80	$1.08
$300K to $400K	$0.38	$0.65	$0.91	$0.52	$0.75	$1.03
$400K to $500K	$0.16	$0.58	$0.89	$0.34	$0.69	$1.00
$500K to $750K	$0.09	$0.54	$0.93	$0.22	$0.66	$1.10
$750K to $1M	$0.09	$0.68	$1.02	$0.26	$0.84	$1.18
$1M to $2.5M	$0.34	$0.73	$0.97	$0.43	$0.85	$1.10
$2.5M to $5M	$0.54	$0.70	$0.87	$0.61	$0.80	$0.99
$5M to $7.5M	$0.47	$0.61	$0.78	$0.53	$0.69	$0.88
$7.5M to $10M	$0.41	$0.53	$0.70	$0.47	$0.62	$0.81
$10M or More	$0.31	$0.44	$0.59	$0.35	$0.50	$0.68
All	$0.27	$0.63	$0.93	$0.39	$0.74	$1.06

Source: New York City Department of Finance, Division of Tax Policy Analytical File
Note: Restricted to taxable billable non-easement properties.

Evaluating the Recommended Changes to the Property Tax System

EVALUATING THE RECOMMENDED CHANGES TO THE PROPERTY TAX SYSTEM

The Commission's mandate has been to evaluate all aspects of the property tax system with the goal of increasing fairness and transparency. It has spent more than two years analyzing data and examining various reform simulation models that comport with its mandate. Based on the extensive deliberations of Commission members, ex-officio members and staff, the Commission is advancing 10 final recommendations in this report. This section evaluates their impact.

Structural Changes to the Property Tax System

This Commission recommends four structural changes to address many of the current inequities that were identified:

1. **Creating a new expanded residential class, consisting of 1-3 family homes, as well as coops, condominiums, and 4-10 unit rental buildings. The property tax system would continue to consist of four classes of property: residential, large rentals, utilities, and commercial.**

The proposed new residential class would consist of current class 1 properties and current class 2 condos, coops, and 4-10 unit small rental buildings. This recommendation furthers the principles of fairness and transparency since coops and condos are very similar to current class 1 properties in terms of residential usage. Grouping them together helps ensure that they receive the same tax treatment.

Small rental properties can be argued to contain features found in both residential properties and large rentals, but the Commission has recommended that they be included in this new residential class because the volume of sales for small rentals is sufficient to value these parcels using the comparable sales valuation method, as the rest of the new residential class will be valued[11].

2. **Using a sales-based methodology to value all properties in the residential class.**

This recommendation would eliminate Section 581 of the New York State Real Property Tax Law (RPTL), which requires the valuation of coops and condos based on comparable rental properties. As the data indicates, Section 581 has resulted in considerable inequity, including higher-valued properties being assessed at a fraction of their true values. The undervaluation of such properties and the difficulty of finding comparable rents for high-end coops and condos demonstrate the need to end the current valuation method.

This recommendation achieves valuation equity, both between and within property types, since all properties in the new residential class will be subject to similar methods for determining values for taxation. Further, this recommendation would allow DOF to use the comparable sales approach recommended by IAAO to determine market values for all parcels in the new residential class, helping to ensure uniformity in administration.

3. **Ending fractional assessments for all property types and assessing each property at its full market value. This will result in an increase in the taxable base; therefore, the tax rate required to generate the same level of revenue will decrease.**

[11] In contrast, from an ownership perspective, large rentals are akin to commercial properties and are valued and taxed using the same net income capitalization approach; therefore, the Commission does not recommend their inclusion in the residential class.

The Commission's recommendation of eliminating fractional assessments would provide uniformity among properties, removing the disparities in taxable values created by the current system of varying fractional assessments of 6 percent (class 1) and 45 percent (classes 2, 3 and 4).

This recommendation would also enhance transparency by eliminating the calculation of assessed value as a separate step in determining a property's taxes.

Since the taxable base would increase, given the removal of fractional assessments and valuation of coops and condos based upon sales, the tax rate needed to achieve the same amount of revenue would be lower than the current statutory class 1 and class 2 rates.

4. Eliminating current assessed value growth caps for the new residential class and instituting five-year transitional treatment for market value growth, whereby year-over-year changes in market values are phased-in over five years at 20 percent per year.

Assessed value growth caps are among the primary drivers of the current inequitable system, as the Commission's data analysis has demonstrated. In order to lessen the impact of market value volatility on tax bills, the Commission recommends that year-over-year market value changes (both increases and decreases, excluding those due to physical alterations) be phased-in over five years. The market value reflecting these phase-ins would be referred to as transitional market value. During most multi-year time periods, this approach essentially creates a moving average of market value changes, serving as a smoothing mechanism. This methodology is the same as the one currently used for class 2 parcels with more than 10 units and for class 4 properties. During volatile time periods, the minimum of transitional market value or actual market value would be used for purposes of establishing taxable value, thereby providing tax relief for properties that experience significant market value reductions.

Under this transitional approach, changes in market value in any given year would be fully reflected in tax bills within five years, and in contrast to assessed value growth caps, disparities in ETRs (ETR, defined as tax per $100 of sales-based market value[12]) caused by different rates of property value appreciation would only be temporary. Replacing assessed value growth caps with transitional treatment would be a critical step towards eliminating structural inequities among property types subject to such caps, since the caps have limited the amount of market value appreciation that has flowed through to assessed value.

[12] ETR is a standard tool used to compare tax burden across properties.

Analyzing the Impact of Implementing the Structural Changes in the Commission's Recommendations

The Commission's analysis rests on a simulation model that assumes an immediate switch to these recommendations, without any transition period; thus, reported results are after all recommendations are fully phased-in. In keeping with the Commission's mandate of revenue neutrality, the aggregate tax for the new residential class equals the aggregate tax for these properties in Fiscal Year 2021.

The model is intended to highlight the general redistributive impacts of reform and does not attempt to project the ultimate tax incidence and economic results of a new property tax regime. The model does not make assumptions about possible real estate market adjustments resulting from reform and does not include assumptions about future economic conditions.

The simulation model assumes that all current exemption and abatement programs will continue, except for the coop-condo abatement, which would not be required post-reform.[13]

ANALYSIS OF THE STRUCTURAL REFORMS

Under the Commission's structural reform recommendations, the nominal property tax rate required to generate the same amount of revenue would be 0.814 percent, reflecting the new larger tax base. The ETRs for all parcels in the new residential class would be identical before exemptions and abatements because all parcels would be valued at their full sales-based market value.

Table 15: Impact of Structural Reform Recommendations 1-4 on ETRs Before Exemptions and Abatements by Major Property Type, Fiscal Year 2021

Property Type	Fiscal Year 2021			After Reform		
	25th Percentile	Median	75th Percentile	25th Percentile	Median	75th Percentile
1-3 Family	$0.73	$0.88	$1.01	$0.81	$0.81	$0.81
Class 2 Condos	$0.79	$1.05	$1.35	$0.81	$0.81	$0.81
Coops	$0.93	$1.21	$1.52	$0.81	$0.81	$0.81
Small Rentals	$0.50	$0.79	$1.16	$0.81	$0.81	$0.81

Source: New York City Department of Finance, Division of Tax Policy Analytical File
Note: Restricted to taxable billable non-easement properties.

Table 15 shows ETRs before exemptions and abatements for Fiscal Year 2021 under the current system and after the Commission's four structural reform recommendations. As a result of the recommended structural changes to the property tax system, horizontal equity would be increased as all parcels within the new residential class, irrespective of property type or value, would be taxed at the same ETR prior to the application of exemptions and abatements. The system would also be simpler, since a property's tax calculation starts with its full sales-based market value, and more transparent, making it easier for taxpayers to understand how their tax bills are calculated. Under the current system, the median ETR varies by major property type, as does the interquartile range[14]. After structural reform recommendations 1-4, all properties in the new residential class would have the same ETR ($0.81) before exemptions and abatements.

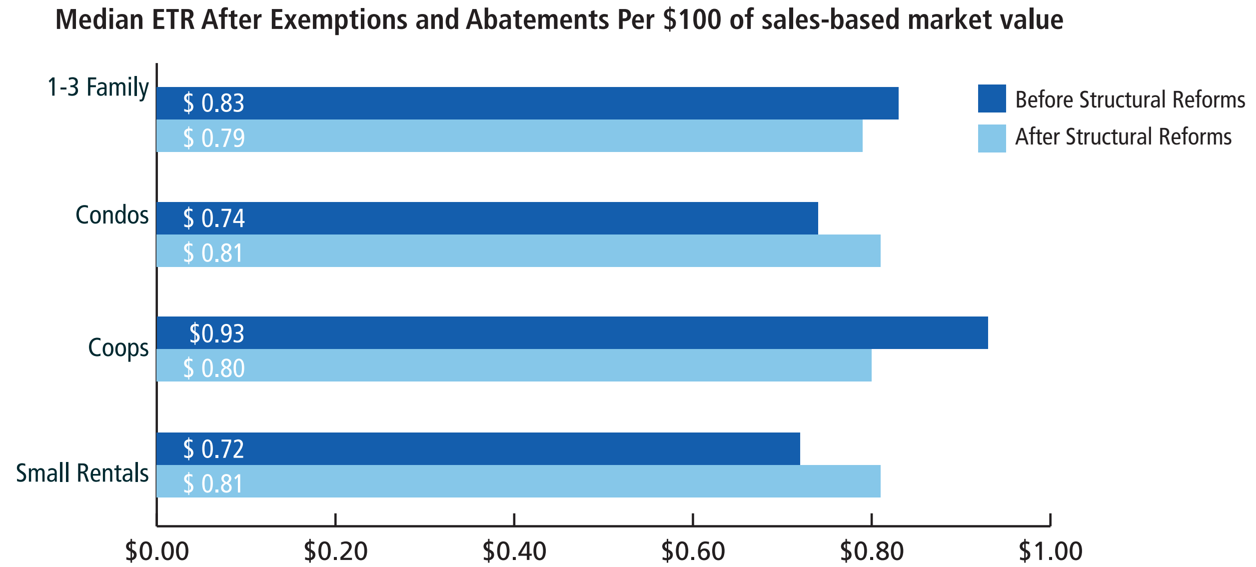
[13] The coop-condo abatement, created in 1996 to offset some of the inequities between class 1 and class 2 properties, is no longer needed since the Commission's recommendations address these inequities.

[14] The interquartile range is the difference between the 25th percentile value and the 75th percentile value.

To mitigate tax burden on vulnerable populations, policy decisions have been made to provide subsets of parcels with exemptions and abatements. The inclusion of exemptions and abatements creates variation in ETRs. Figure 2 below compares current Fiscal Year 2021 ETRs after all current exemptions and abatements to post-reform ETRs after all current exemptions and abatements[15]. In Fiscal Year 2021, the median ETRs among the major property types in the new residential class range from $0.72 for small rentals to $0.93 for coops.

The chart shows that after the implementation of the Commission's four structural reform recommendations, median ETRs would be much more uniform across property types, ranging from $0.79 to $0.81.

Figure 2: Median ETRs Before and After Including Structural Reform Recommendations 1-4, by Major Property Type, FY2021



Source: New York City Department of Finance, Division of Tax Policy Analytical File

Notes: Restricted to taxable billable non-easement properties.
A parcel is defined as a unit for coops and as a tax lot for all other property types (with tax lot defined as unique combination of borough, block and lot identifiers, or a "BBL").

[15] In the proposed system the coop-condo abatement would be eliminated and therefore is not included in the 'After Structural Reforms' ETR calculation.

Table 16 below shows the impact of the Commission's four structural reform recommendations on ETRs by sales-based market value category. In Fiscal Year 2021, for all parcels and for primary resident owners[16], as sales-based market value increases, median ETR decreases. For properties valued at less than $100,000, the median ETR in Fiscal Year 2021 is $1.22, whereas the median ETR for properties valued at over $10 million is only $0.52. The Commission made fixing this regressivity a major focus of its work.

Table 16: Impact of Structural Reform Recommendations 1-4 on ETRs by Sales-Based Market Value Category, Fiscal Year 2021

Sales-Based Market Value Category	All Parcels			Primary Resident Owner Parcels Only		
	Number of Parcels	Fiscal Year 2021 ETR	Post Reform ETR	Number of Parcels	Fiscal Year 2021 ETR	Post Reform ETR
		Median	Median		Median	Median
Less Than $100K	11,818	$1.22	$0.81	3,609	$1.47	$0.51
$100K to $150K	23,868	$0.85	$0.58	9,736	$1.14	$0.58
$150K to $200K	30,707	$1.00	$0.76	17,339	$1.00	$0.65
$200K to $250K	38,681	$1.01	$0.77	25,219	$0.94	$0.68
$250K to $300K	42,338	$0.95	$0.78	28,374	$0.88	$0.71
$300K to $400K	94,318	$0.87	$0.77	65,132	$0.81	$0.73
$400K to $500K	114,460	$0.89	$0.76	83,188	$0.87	$0.75
$500K to $750K	349,352	$0.89	$0.77	258,549	$0.88	$0.77
$750K to $1M	231,910	$0.84	$0.80	166,882	$0.83	$0.78
$1M to $2.5M	336,374	$0.72	$0.81	214,510	$0.72	$0.80
$2.5M to $5M	59,427	$0.63	$0.81	33,916	$0.62	$0.81
$5M to $7.5M	14,181	$0.64	$0.81	6,741	$0.59	$0.81
$7.5M to $10M	5,492	$0.59	$0.81	2,348	$0.54	$0.81
$10M or More	5,739	$0.52	$0.81	2,116	$0.46	$0.81
Total	1,358,665	$0.84	$0.80	917,659	$0.83	$0.78

Source: New York City Department of Finance, Division of Tax Policy Analytical File
Notes: Restricted to taxable billable non-easement properties.
A parcel is defined as a unit for coops and as a tax lot for all other property types (with tax lot defined as unique combination of borough, block and lot identifiers, or a "BBL").

As Table 16 illustrates, the regressivity that is in the current system would be removed after incorporating the four structural reform recommendations proposed by the Commission. Median ETRs would be more similar for all properties in the new residential class irrespective of sales-based market value.

[16] A parcel is classified within the Commission's analysis as occupied by a primary resident homeowner, either by a successful match of a Tax Year 2018 personal income tax return to FY2019 property ownership information, or receipt of an exemption (such as School Tax Relief, or Senior Citizen Homeowners Exemption) or an abatement (such as the Coop-Condo Tax Abatement) in FY2021 which requires primary residency.

Table 17 shows the impact of the Commission's four structural reform recommendations on ETRs by primary resident owner income [17]. Under the current system, in Fiscal Year 2021, median ETRs are lowest for those with the highest incomes (ETRs between $0.66 and $0.70), but highest for those with incomes between $75,000 and $400,000 (ETRs between $0.84 and $0.89). About 70 percent of primary resident owners have incomes below $150,000, and most of their parcels have higher ETRs than the parcels owned by primary residents earning over $1,000,000. Addressing this has been a top priority of this Commission.

Table 17: Impact of Structural Reform Recommendations 1-4 on ETRs, by Primary Resident Owner Income, Fiscal Year 2021

Income Category	Primary Resident Owner Parcels Only		
	Number of Parcels	Fiscal Year 2021 ETR	Post Reform ETR
		Median	Median
$0 to $25k	72,708	$0.70	$0.76
$25k to $50k	123,942	$0.75	$0.76
$50k to $75k	151,262	$0.82	$0.77
$75k to $100k	132,444	$0.84	$0.77
$100k to $150k	164,331	$0.86	$0.78
$150k to $200k	91,810	$0.89	$0.79
$200k to $300k	86,166	$0.88	$0.80
$300k to $400k	26,891	$0.85	$0.81
$400k to $500k	14,422	$0.83	$0.81
$500k to $1M	31,282	$0.81	$0.81
$1M to $2.5M	15,055	$0.76	$0.81
$2.5M to $5M	4,525	$0.70	$0.81
$5M to $10M	1,768	$0.70	$0.81
$10M or More	1,053	$0.66	$0.81
All	917,659	$0.83	$0.78

Source: New York City Department of Finance, Division of Tax Policy Analytical File
Notes: Restricted to taxable billable non-easement properties.
A parcel is defined as a unit for coops and as a tax lot for all other property types (with tax lot defined as unique combination of borough, block and lot identifiers, or a "BBL").

After incorporating the Commission's four structural reform recommendations, median ETRs would be much more equal across the various income ranges. Median ETRs would be slightly lower for primary resident owners earning less than $400,000 (median ETRs between $0.76 and $0.80).

Table 18 shows the impact of the Commission's four structural reform recommendations on ETRs across the City's five boroughs. For all parcels, under the current system in Fiscal Year 2021, the highest median ETR is found in Manhattan ($0.98), followed by Staten Island ($0.96). The lowest median ETR is found in Brooklyn ($0.63).

[17] Owner income data is TY18 "augmented income," defined as AGI plus untaxed sources of income (e.g., social security payments) plus losses added back.

After implementing the Commission's four structural reform recommendations, the citywide median ETR would decrease from $0.84 to $0.80. Among the boroughs, for all parcels, the largest decrease in median ETR would be in Staten Island, from $0.96 to $0.77. As a result of Brooklyn's current Fiscal Year 2021 ETR, which is significantly lower than the citywide ETR, Brooklyn would be the only borough to see an increase in median ETR, from $0.63 to $0.80.

For primary resident owners only, the highest median ETR is found in Staten Island ($0.95) and the lowest in Brooklyn ($0.64). The overall primary resident median ETR would decrease from $0.83 to $0.78.

Table 18: Impact of Structural Reform Recommendations 1-4 on ETRs by Borough, Fiscal Year 2021

Borough	All Parcels			Primary Resident Owner Parcels Only		
	Number of Parcels	Fiscal Year 2021 ETR	Post Reform ETR	Number of Parcels	Fiscal Year 2021 ETR	Post Reform ETR
		Median	Median		Median	Median
Manhattan	310,562	$0.98	$0.81	199,481	$0.93	$0.81
Bronx	119,536	$0.89	$0.77	74,080	$0.89	$0.76
Brooklyn	359,457	$0.63	$0.80	228,721	$0.64	$0.79
Queens	442,816	$0.84	$0.79	316,304	$0.83	$0.78
Staten Island	126,294	$0.96	$0.77	99,073	$0.95	$0.76
All	1,358,665	$0.84	$0.80	917,659	$0.83	$0.78

Source: New York City Department of Finance, Division of Tax Policy Analytical File
Notes: Restricted to taxable billable non-easement properties.
A parcel is defined as a unit for coops and as a tax lot for all other property types (with tax lot defined as unique combination of borough, block and lot identifiers, or a "BBL").

EVALUATION

As shown in the tables above, the current property tax system is regressive when ETRs are analyzed by sales-based market value and by owner income.

The four structural recommendations would enhance horizontal equity, as shown by the equalizing of median ETRs within and across property types in the new residential class, and across sales-based market values, primary resident owner incomes, and boroughs.

The recommendations would also make the system much simpler for all taxpayers in the new residential class, and make it easier for taxpayers to calculate taxes and their ETR. Differences in ETRs would be due only to the impact of current exemption or abatement programs, which represent intentional deviations from horizontal equity for specific policy purposes.

Providing Targeted Relief for Primary Resident Owners

Fairness in taxation involves more than horizontal equity, the goal of these four structural reform proposals. As a result, the Commission views its four structural reform recommendations as the first step to a better property tax system. The second step is the ability-to-pay imperative, which has been a longstanding foundation for providing property tax exemptions and abatements to vulnerable populations. Targeted property tax relief for vulnerable populations, e.g., the Senior Citizen Homeowners Exemption and Disabled Homeowner Exemption, have been widely embraced and are policies that the Commission has determined should stay in the new system.

The Commission concluded that there is a need for additional targeted tax relief for primary residents. Such targeted programs would make the system fairer by rewarding owners who use their property as their primary residence and help low- and moderate-income primary resident owners better afford their tax bills.

There are limitless combinations for designing homeowner tax relief programs, and a final decision on the exact specifications is for policymakers to decide. In this final report, the Commission has attempted to find a balance between providing meaningful relief to a significant number of primary resident owners and maintaining revenue neutrality within the restructured property tax system.

The Commission recommends two primary resident owner relief programs:

5. **A partial homestead exemption for primary resident owners in the new residential class. This exemption should be either a flat rate or a graduated marginal rate exemption for primary resident owners with incomes up to $500,000, with a phase-out of the benefit for incomes over $375,000. The Commission recommends retaining all existing personal exemption programs and eliminating the current coop-condo abatement, which would no longer be necessary.**

6. **A circuit breaker to lower the property tax liability for primary resident owners burdened by property taxes based on the ratio of property tax to income. The circuit breaker should be for primary resident owners with a ratio of tax paid to income exceeding 10 percent and incomes below $90,550, with a phase-out of the benefit beginning at $58,000. The maximum benefit amount would be capped at $10,000.**

A partial homestead exemption would provide significant relief to primary resident owners and the circuit breaker would target primary resident owners who, even after the homestead exemption and all other exemptions and abatements, are still heavily burdened by property taxes. The circuit breaker would be provided as an abatement against an owner's property tax.

Options for a Partial Homestead Exemption

Below are the two options for a homestead exemption that the Commission is recommending:

1. **Flat Rate Partial Homestead Exemption: A fixed exemption percentage rate for all eligible parcels.**
   - Exemption benefit would be 20 percent of market value for all eligible parcels.
   - Benefit would be for primary resident owners with incomes up to $500,000, with a benefit phase-out for incomes over $375,000, as shown below in Table 19. Example 4 illustrates how the phase-out impacts the benefit percentage for different incomes.

Table 19: Exemption Benefit Percentages for Incomes in the Phase-Out Range

20% Flat Rate Exemption	
Income	**Exemption Benefit Percentage**
≤ $375,000	20%
$400,000	16%
$425,000	12%
$450,000	8%
$475,000	4%
$500,000	0%

Example 4

20% Flat Rate Exemption			
Income	Sales-Based Market Value	Exemption Benefit Percentage	Exempt Value
$100,000	$400,000	20%	$80,000
$100,000	$800,000	20%	$160,000
$400,000	$1,000,000	16%	$160,000
$400,000	$2,500,000	16%	$400,000
$500,000	$2,500,000	0%	$0

2. **Graduated Marginal Rate Partial Homestead Exemption: The exemption percentage is higher for lower-valued parcels, so as a parcel's value increases, the marginal exemption percentage decreases. The exemption schedule is set out in Table 20.**
   - Like the flat rate exemption above, the benefit would be for primary resident owners, with incomes up to $500,000, with a benefit phase-out for incomes over $375,000.
   - The maximum exemption benefit would be 30 percent for parcels with a sales-based market value of $500,000 or less.
   - The maximum dollar exemption would be $525,000, which would be a diminishing percent of value for properties at higher market value levels above $5 million.

As sales-based market value increases, the marginal exemption percentage benefit decreases up to a maximum sales-based market value of $5 million. A property with a market value over $5 million would receive the benefit of the marginal exemption structure on the first $5 million of value (parcel would receive exemption of $525,000), but no additional benefit for value above that amount, as shown in Table 20.

Table 20: Graduated Marginal Rate Exemption Structure

For the Portion of Sales-Based Market Value Between	Primary Resident with Income <$500K	
	Marginal Percent Exempt	Maximum Exempt Value
$0-$500K	30%	$150,000
$500K-$1M	20%	$250,000
$1M-$2.5M	10%	$400,000
$2.5M-$5.0M	5%	$525,000
$5M or More	0%	$525,000

Notes: Marginal exemption percentage in each row applies to all value above the previous exemption percentage category, up to the value in the row. Sales-based market value in excess of $5M is 0% exempt.

The marginal exemption percentage in each row applies to all value above the previous exemption percentage category, up to the value in the row.

Example 5 illustrates that for both the flat rate partial homestead exemption and the graduated exemption models, eligible primary resident owners of small rental buildings may qualify, but the benefit would be prorated to the unit in which they reside.

Given the different structures of the two potential partial homestead exemption programs, the Commission considers the following to be the pros and cons of the two options.

Example 5

30% Graduated Marginal Rate Exemption			
Income	Sales-Based Market Value	Exemption Benefit Percentage	Exempt Value
$100,000	$400,000	30%	$120,000
$100,000	$800,000	30% of first $500k, 20% of additional $300k	$210,000
$400,000	$1,000,000	24% of first $500k, 16% of additional $500k	$200,000
$500,000	$2,500,000	0%	$0

1. Flat Rate Partial Homestead Exemption:

Pros:

- The exemption is simple, transparent and easy to calculate: sales-based market value * benefit percentage.

Cons:

- Parcels with the highest value receive the largest dollar benefit. For example, a 20 percent exemption on a $5 million parcel is worth $1 million in exempt value.

2. Graduated Marginal Rate Partial Homestead Exemption:

Pros:

- The exemption value is progressive, since the benefit percentage is larger for lower-valued parcels.
- A larger portion of the total benefit goes to parcels with lower values compared to the flat rate exemption.

Cons:

- Progressivity based on market value is not a standard feature of property taxation and has not been used in any other major jurisdiction[18].
- The exemption is complex and potentially confusing to property owners, since the exemption percentages are tied to a parcel's market value.

Both recommended partial homestead exemption options would provide substantial relief to primary resident owners who occupy their home, thereby mitigating their property tax burden and lowering their ETRs.

Circuit Breaker

A robust circuit breaker would provide meaningful relief to tax burdened individuals after all other benefits have been applied. The Commission heard testimony from numerous New Yorkers who are concerned that they are currently tax burdened, or could be after reform is introduced, and would welcome additional relief.

The Commission has identified the parameters for a circuit breaker, which would provide meaningful relief to a large number of tax burdened low- and moderate-income primary resident owners.

The circuit breaker presented here provides an additional tax reduction for primary residents with incomes below $90,550[19]. The benefit gradually phases out beginning at $58,000. If a primary resident owner's property tax bill, after including the partial homestead exemption and any other existing exemptions, exceeds 10 percent of their income, the owner is eligible for the circuit breaker. For incomes below $58,000, the benefit is 100 percent of the tax above the property-tax-to-income threshold of 10 percent, up to $10,000. For incomes above $58,000, the benefit percentage would be reduced according to the schedule in Table 21.

Table 21: Exemption Benefit Percentages for Incomes in the Phase-Out Range

Circuit Breaker	
Income	**Benefit Percentage***
≤$58,000	100%
$65,000	78%
$70,000	63%
$75,000	48%
$80,000	32%
$85,000	17%
$90,550	0%

Note: Percent of tax above property tax to income threshold eligible for the circuit breaker

Example 6

Circuit Breaker				
Income	**Tax Bill After Reform**	**Tax Amount Over 10% of Income**	**Benefit Percentage**	**Circuit Breaker Value**
$30,000	$5,000	$2,000	100%	$2,000
$50,000	$8,000	$3,000	100%	$3,000
$75,000	$10,000	$2,500	48%	$1,194

[18] Washington DC has a graduated tax rate structure for commercial/industrial properties based on sales-based market value (https://otr.cfo.dc.gov/page/real-property-tax-rates). However, this structure is not applied to residential properties nor is it marginal.

[19] The $90,550 threshold was chosen as it is the FY21 income limit for enhanced School Tax Relief (STAR). In FY22, the enhanced STAR limit is $92,000. Enhanced STAR is for primary resident owners aged 65 and over with income under stated threshold.

As noted, several options exist to modify the circuit breaker design including adjusting the tax-to-income threshold, the benefit percentage, and the income threshold at which owners would qualify. Ultimately, the circuit breaker with the parameters specified above would meaningfully alleviate the tax burden for eligible primary resident owners and is, therefore, a key feature of reform that the Commission is advancing.

Analyzing the Impact of a Partial Homestead Exemption and a Circuit Breaker

Most primary resident owners who receive either of the proposed homeowner relief benefits, or both, would see a reduction in their tax liability compared to their Fiscal Year 2021 tax before reform and compared to reform with structural changes only (no owner relief). The following series of tables illustrate the impact of these owner relief programs on ETRs by sales-based market value, by primary resident owner income and by borough. Non-resident parcels would have a slightly higher liability and ETR compared to reform with structural changes only.

Table 22 shows ETRs by sales-based market value after incorporating either of the partial homestead exemption options and the circuit breaker.

Table 22: Impact of Incorporating a Partial Homestead Exemption and Circuit Breaker on ETRs, by Sales-Based Market Value Category, Fiscal Year 2021

Sales-Based Market Value Category	All Parcels				Primary Resident Owner Parcels Only			
	Number of Parcels	Fiscal Year 2021 ETR	Post Reform		Number of Parcels	Fiscal Year 2021 ETR	Post Reform	
			20% Flat Rate Exemption	30% Graduated Marginal Rate Exemption			20% Flat Rate Exemption	30% Graduated Marginal Rate Exemption
		Median	Median	Median		Median	Median	Median
Less Than $100K	11,818	$1.22	$0.93	$0.94	3,609	$1.47	$0.43	$0.35
$100K to $150K	23,868	$0.85	$0.53	$0.45	9,736	$1.14	$0.52	$0.44
$150K to $200K	30,707	$1.00	$0.72	$0.65	17,339	$1.00	$0.58	$0.50
$200K to $250K	38,681	$1.01	$0.73	$0.65	25,219	$0.94	$0.62	$0.54
$250K to $300K	42,338	$0.95	$0.73	$0.65	28,374	$0.88	$0.64	$0.56
$300K to $400K	94,318	$0.87	$0.73	$0.65	65,132	$0.81	$0.67	$0.59
$400K to $500K	114,460	$0.89	$0.69	$0.61	83,188	$0.87	$0.69	$0.61
$500K to $750K	349,352	$0.89	$0.71	$0.66	258,549	$0.88	$0.70	$0.64
$750K to $1M	231,910	$0.84	$0.72	$0.68	166,882	$0.83	$0.72	$0.67
$1M to $2.5M	336,374	$0.72	$0.75	$0.77	214,510	$0.72	$0.73	$0.72
$2.5M to $5M	59,427	$0.63	$0.94	$0.96	33,916	$0.62	$0.90	$0.93
$5M to $7.5M	14,181	$0.64	$0.94	$0.96	6,741	$0.59	$0.94	$0.96
$7.5M to $10M	5,492	$0.59	$0.94	$0.96	2,348	$0.54	$0.94	$0.96
$10M or More	5,739	$0.52	$0.94	$0.96	2,116	$0.46	$0.94	$0.96
Total	**1,358,665**	**$0.84**	**$0.74**	**$0.68**	**917,659**	**$0.83**	**$0.71**	**$0.65**

Source: New York City Department of Finance, Division of Tax Policy Analytical File

Notes: Restricted to taxable billable non-easement properties

A parcel is defined as a unit for coops and as a tax lot for all other property types (with tax lot defined as unique combination of borough, block and lot identifiers, or a "BBL")..

Under the current system ETRs are highest for the lowest-valued properties and decline as sales-based market value increases. In Fiscal Year 2021, under the current system, the median ETR for primary resident owner parcels valued at less than $100,000 is $1.47, while parcels over $10 million have a median ETR of $0.46. Under a model with a 20 percent flat rate exemption, those ETRs are $0.43 and $0.94, respectively. Under a model with a 30 percent graduated marginal rate exemption, the ETRs are $0.35 and $0.96, respectively.

Under either partial homestead exemption option, as sales-based market values increases, so would the median ETR. Only for primary resident owner parcels with a sales-based market value above $2.5 million would the median ETR be higher under a reformed system than under the current system.

Under a system with the graduated marginal rate exemption, the median ETRs would be lower for primary resident owner parcels with a sales-based market value of up to $2.5 million compared to a system with the flat rate exemption. This is because the graduated marginal rate exemption has a higher benefit percentage for the first $500,000 of a parcel's sales-based market value. Conversely, median ETRs for parcels valued at over $2.5 million would be slightly higher (between $0.02-$0.03) under a system with a graduated marginal rate exemption compared to a flat rate exemption.

Table 23 shows ETRs by primary resident owner income after incorporating either of the partial homestead exemption options and the circuit breaker.

Table 23: Impact of Incorporating a Partial Homestead Exemption and Circuit Breaker on ETRs, by Primary Resident Owner Income Category, Fiscal Year 2021

Income Category	Primary Resident Owner Parcels Only			
	Number of Parcels	Fiscal Year 2021 ETR	Post Reform	
			20% Flat Rate Exemption	30% Graduated Marginal Rate Exemption
		Median	Median	Median
$0 to $25k	72,708	$0.70	$0.18	$0.17
$25k to $50k	123,942	$0.75	$0.46	$0.45
$50k to $75k	151,262	$0.82	$0.69	$0.62
$75k to $100k	132,444	$0.84	$0.71	$0.66
$100k to $150k	164,331	$0.86	$0.72	$0.67
$150k to $200k	91,810	$0.89	$0.73	$0.68
$200k to $300k	86,166	$0.88	$0.74	$0.71
$300k to $400k	26,891	$0.85	$0.75	$0.72
$400k to $500k	14,422	$0.83	$0.84	$0.86
$500k to $1M	31,282	$0.81	$0.94	$0.96
$1M to $2.5M	15,055	$0.76	$0.94	$0.96
$2.5M to $5M	4,525	$0.70	$0.94	$0.96
$5M to $10M	1,768	$0.70	$0.94	$0.96
$10M or More	1,053	$0.66	$0.94	$0.96
All	**917,659**	**$0.83**	**$0.71**	**$0.65**

Source: New York City Department of Finance, Division of Tax Policy Analytical File
Notes: Restricted to taxable billable non-easement properties.
A parcel is defined as a unit for coops and as a tax lot for all other property types (with tax lot defined as unique combination of borough, block and lot identifiers, or a "BBL")..

Under the current system, in Fiscal Year 2021, the highest median ETRs were seen for those with incomes between $75,000 and $400,000. With both the homestead exemption and the circuit breaker programs, those with the lowest incomes would have the lowest median ETRs, and as primary resident owner income increases, so would the median ETR.

For primary resident owners with income less than $400,000, the median ETR would decrease after implementing the Commission's recommendations. The median decreases by income categories range from $0.10 to $0.53 depending on primary resident owner income and partial homestead exemption option.

Under both homestead exemption models, more than half of all primary resident owners with incomes above $500,000 would pay the same ETR ($0.94 under the flat rate exemption and $0.96 under the graduated marginal rate exemption).

The Commission's recommendations would increase vertical equity, resulting in a fairer system that retains the principle of the ability to pay by helping ensure taxpayers can afford their property tax bills.

Table 24 shows the impact of incorporating either of the partial homestead exemption options and the circuit breaker into the models on ETRs by borough.

Overall, citywide, the Fiscal Year 2021 median ETR under the current system is $0.84 for all parcels and $0.83 for primary resident owners only. If only the four structural reform recommendations were included, these median ETRs would decrease to $0.80 and $0.78, respectively.

However, as shown in Table 24, the citywide median ETR decreases further when the owner relief programs are included. The 20 percent flat rate exemption would result in a citywide median ETR for primary resident owners of $0.71. The 30 percent graduated marginal rate exemption would decrease the citywide median ETR for primary resident owners to $0.65.

Table 24: Impact of Incorporating a Partial Homestead Exemption and Circuit Breaker on ETRs, by Borough, Fiscal Year 2021

Borough	All Parcels									
	Number of Parcels	Fiscal Year 2021 ETR			Post Reform					
					20% Flat Rate Exemption			30% Graduated Marginal Rate Exemption		
		25th Percentile	Median	75th Percentile	25th Percentile	Median	75th Percentile	25th Percentile	Median	75th Percentile
Manhattan	310,562	$0.71	$0.98	$1.24	$0.73	$0.75	$0.94	$0.68	$0.79	$0.96
Bronx	119,536	$0.60	$0.89	$1.05	$0.50	$0.71	$0.91	$0.44	$0.65	$0.92
Brooklyn	359,457	$0.36	$0.63	$0.86	$0.58	$0.74	$0.94	$0.54	$0.69	$0.96
Queens	442,816	$0.68	$0.84	$0.99	$0.60	$0.72	$0.91	$0.54	$0.67	$0.93
Staten Island	126,294	$0.82	$0.96	$1.07	$0.66	$0.71	$0.75	$0.59	$0.65	$0.71
All	1,358,665	$0.60	$0.84	$1.03	$0.64	$0.74	$0.94	$0.58	$0.68	$0.96

Borough	Primary Resident Owner Parcels Only									
	Number of Parcels	Fiscal Year 2021 ETR			Post Reform					
					20% Flat Rate Exemption			30% Graduated Marginal Rate Exemption		
		25th Percentile	Median	75th Percentile	25th Percentile	Median	75th Percentile	25th Percentile	Median	75th Percentile
Manhattan	199,481	$0.69	$0.93	$1.16	$0.71	$0.75	$0.75	$0.66	$0.71	$0.81
Bronx	74,080	$0.70	$0.89	$1.03	$0.51	$0.69	$0.74	$0.45	$0.62	$0.67
Brooklyn	228,721	$0.37	$0.64	$0.84	$0.43	$0.70	$0.75	$0.42	$0.65	$0.71
Queens	316,304	$0.66	$0.83	$0.96	$0.51	$0.69	$0.73	$0.47	$0.63	$0.67
Staten Island	99,073	$0.82	$0.95	$1.06	$0.61	$0.70	$0.73	$0.56	$0.63	$0.67
All	917,659	$0.60	$0.83	$1.00	$0.57	$0.71	$0.75	$0.52	$0.65	$0.70

Source: New York City Department of Finance, Division of Tax Policy Analytical File
Notes: Restricted to taxable billable non-easement properties.
A parcel is defined as a unit for coops and as a tax lot for all other property types (with tax lot defined as unique combination of borough, block and lot identifiers, or a "BBL")..

Four out of the five boroughs would see a decrease in the median ETR for primary resident owners of over $0.10 under either of the partial homestead exemption options. Staten Island would see the largest decrease in the median ETR, declining from $0.95 under the current system to $0.70 under a system with a 20 percent flat rate exemption and to $0.63 under a system with a 30 percent graduated rate exemption.

Brooklyn is the only borough that would see an increase in the median ETR for primary resident owners. Since Brooklyn's currrent Fiscal Year ETR is significantly below the median citywide ETR under the current system, it would be difficult to achieve an even lower ETR after reform. Under a system with a 20 percent flat rate exemption and circuit breaker, the median ETR would increase from $0.64 (current) to $0.70.

The median Brooklyn ETR after layering on owner relief programs is lower than the ETRs resulting from the structural reforms only. Under a 20 percent flat rate exemption, the Brooklyn ETR is 8 percent lower, and under a 30 percent graduated exemption, the Brooklyn ETR is 13 percent lower.

With a 30 percent marginal rate exemption and circuit breaker, the median ETR for primary residents only would be essentially unchanged but would still be 17 percent lower than the ETRs resulting from the structural reforms only.

Additionally, after including either of the homestead exemption options and the circuit breaker, the 75th percentile ETR in Brooklyn would decrease for primary resident owners. Currently, the 75th percentile ETR is $0.84, which would decrease to $0.75 under a system with a 20 percent flat rate exemption and to $0.71 under a system with a 30 percent graduated rate exemption.

By including primary resident owner relief in the proposed new system, the Commission's recommendations are not only rewarding primary resident ownership by reducing the tax burden for these owners, they are also adhering to the ability-to-pay principle that the Commission deems vital.

EVALUATION:

The four structural reform recommendations of the Commission greatly improve equity and create the framework for a simpler, more transparent system. The Commission's analysis and the testimony by tax-burdened residents led it to conclude that targeted owner relief programs, for those with low and fixed incomes, would further improve equity. Such targeted relief exists across the country and has formed the basis of long-standing exemptions and abatements embraced by New Yorkers.

The Commission has determined that the partial homestead exemption options and the circuit breaker will make the property tax system fairer since they help to ensure that low- to moderate-income primary resident owners have tax bills that they are better able to pay. These programs also will reward primary resident ownership.

The Commission recognizes that there are numerous policy options for designing the partial homestead exemption and circuit breaker. The options that have been presented in this final report and the accompanying ETR analysis by sales-based market value and primary resident owner income categories show that the reformed property tax system would remove the regressivity that has plagued the current system.

Additional Recommendations

PROPOSED REPLACEMENT OF THE CLASS SHARE SYSTEM

7. The Commission recommends eliminating the current class share system and replacing it with a system that freezes relative tax rates for five-year periods. Under the new system, while the Mayor and the City Council can adjust tax rates, the tax rates for all classes may only be altered on a proportional basis within each five-year period. There would no longer be changes in tax rates driven by market value shares, as under the current system. Every five years the City would conduct a mandated study to analyze whether adjustments are needed in order to maintain consistency in the share of taxes relative to the fair market value borne by each tax class.

Very few people understand the current class shares system used for determining and apportioning the tax levy. Therefore, the Commission is recommending structural changes as to how tax class levies are determined; such changes would make the determination of the tax rates simple, transparent, and understandable to legislators and taxpayers alike.

Currently, taxes are recalculated each year through a three-step process: determining the levy, apportioning the levy, and determining the tax rates. Here is the current procedure, with recommended changes.

Determining the Levy:

The City's annual budget process, as specified in the New York City Charter, sets the overall New York City property tax rate. The Mayor estimates the non-property tax revenue, and the City Council sets the overall average property tax rate to raise the amount of property tax revenue necessary to balance the budget; the overall average tax rate (12.283 percent) has not changed since 2009. In Fiscal Year 2021, a total levy of $33.4 billion was generated by multiplying the overall average tax rate times the citywide taxable billable assessed value of $271.7 billion.

Apportioning the Levy:

Currently, once the total tax levy has been determined, it is apportioned among the four tax classes using a number of calculations to adjust class shares to reflect annual changes in the relative market share of each tax class compared to its share in Fiscal Year 1990 (when the base year was last put in place by State law).

To protect against abrupt class share shifts, State law specifies that any class's share of the total cannot grow more than 5 percent from the prior year. In most years since Fiscal Year 1990, market value has grown for tax classes 1 and 2 at a faster rate than for tax classes 3 and 4, but the 5 percent growth cap has constrained the growth in the shares for classes 1 and 2.

FY2021	TOTAL LEVY	=	CITYWIDE TAXABLE BILLABLE ASSESSED VALUE	x	OVERALL AVERAGE TAX RATE
	$33.4B		$271.7B		12.283%

The State Legislature has lowered the 5 percent class share cap 24 times between Fiscal Year 1993 and Fiscal Year 2021, further limiting levy increases on residential properties. Table 25 shows the resulting cumulative reduction in class 1's levy of more than $4.4 billion.

Table 25: Class Share Caps Adopted and Tax Levy Shifted Between Classes by Lowering Cap Below Five Percent, Fiscal Year 1993. Fiscal Year 2021

Fiscal Year	Class Share Cap	Tax Levy Shift ($M): Actual Class Share Cap Compared to 5 Percent Cap			
		class 1	Class 2	Class 3	Class 4
1993	2.00%	$20	($70)	$48	$2
1994	5.00%	$9	($44)	$0	$36
1995	2.75%	($12)	($100)	($10)	$122
1996	2.75%	($33)	($122)	($21)	$177
1997	2.50%	($52)	($36)	($35)	$122
1998	2.50%	($20)	$1	($52)	$71
1999	2.50%	($39)	($0)	($70)	$108
2000	2.50%	($18)	$1	($92)	$109
2001	2.00%	($8)	$0	($30)	$38
2002	2.00%	($42)	($0)	$5	$37
2003	2.00%	($94)	($0)	$22	$73
2004	2.00%	($164)	($0)	$17	$147
2005	5.00%	($178)	($1)	$32	$146
2006	2.00%	($261)	($145)	$78	$327
2007	2.00%	($349)	($63)	$106	$306
2008	0.00%	($474)	$24	$115	$335
2009	0.00%	($666)	($178)	$316	$529
2010	0.00%	($617)	($225)	$348	$494
2011	2.50%	($430)	($6)	$265	$170
2012	2.50%	($277)	($2)	$123	$156
2013	1.50%	($175)	$87	$185	($97)
2014	1.00%	($103)	$67	$168	($132)
2015	5.00%	$0	$0	$0	$0
2016	5.00%	$0	$0	$0	$0
2017	5.00%	$0	$0	$0	$0
2018	0.00%	($183)	($8)	$112	$79
2019	0.50%	($263)	($70)	$172	$161
2020	0.00%	($461)	($239)	$340	$360
2021	0.50%	($570)	($189)	$394	$365
	Total	**($4,427)**	**($890)**	**$1,802**	**$3,515**

Note: Five percent cap assumes the excess burden was distributed using the same percentages as the distribution of the implemented cap for the same year. Dollar amounts are nominal values (not adjusted for inflation).

Under the Commission's recommendations, this method of apportioning the total levy to each tax class would be eliminated, as would the use of NYS Office of Real Property Tax Services (ORPTS) valuation in the levy apportionment process. The 5 percent cap on class share growth would also be eliminated, enabling the levy to be more closely tied to changes to market values in the newly reconfigured tax classes. Taken together, these changes would lead to a more straightforward, transparent, and fairer distribution of the tax burden among the classes.

Determining the Rate:

Currently, once each class's share of the levy has been determined, each tax class's rate can be calculated by dividing each class's total levy by the class's taxable billable assessed value[20].

Although the overall average tax rate has remained constant, the individual tax rate varies each year. Usually, class 1's tax rate increases because its levy increases faster than its taxable billable assessed value. This is primarily the result of class 1's sales-based market valuation and its assessed value growth caps.

Further confusion comes from the fact that under the current system individual class tax rates are not available until after the City adopts its budget and may be further delayed if State legislation is pending that would alter the class share 5 percent growth cap. As a result, the actual tax rates for property owners are usually not available in time for the first set of tax bills of any fiscal year, requiring constant mid-year tax bill adjustments. These changes are both unpredictable and difficult to explain to taxpayers. Therefore, the Commission recommends replacing the current rate calculation.

Proposed New Tax Rate Setting Process

The Commission views that the current conceptual underpinning of tying the tax classes together should be maintained. Under reform, the relationship would rely on a simple fixed ratio between the tax rates, rather than the complex and opaque class shares system.

Initially, the rates would be determined such that the share of the total levy in each of the tax classes (including the new residential tax class) would remain the same as the last year under the current system. Then, the rates used in the first year of the transition would be fixed for five-year periods, unless the City makes a deliberate policy decision to adjust them. Any rate changes would have to be applied to all classes proportionately. For example, if the City decided to lower the tax rates by 10 percent, then all classes would see their rates lowered by 10 percent. Any decision to change the rate would be made prior to the beginning of the fiscal year when the budget is adopted and therefore mid-year tax bill adjustments would not occur. These changes would make the tax rate setting process clearer, more straightforward, and much more predictable.

The stability of the fixed ratios between tax rates would bring clarity and simplicity to the system. The mandated study every five years will evaluate these fixed ratios and whether they are reflective of evolving economic conditions. Each of the classes have differing valuation methods which may react to evolving economic conditions differently and could cause unintended drifts away from the current relative ETRs between classes.

To avoid this type of drift in the future, the Commission recommends that the City conduct a sales-ratio study every five years in order to review the ETRs among the four classes and adjust the ratios among the class rates as needed. The study would examine the relationship of the estimated market values of each class using a common sales-based valuation approach, instead of the different methodologies used to value the individual parcels in different tax classes. The sales-based approach would be appropriate to provide aggregate market value estimates for large income-producing properties, even if not precise enough for parcel-level valuation of such properties.

[20] Note that each tax class's taxable billable assessed value may grow at a different rate than its market value (which determines levy share), as taxable billable assessed value depends on assessment increase caps or transitional phase-ins, as well as on exemptions.

TREATMENT OF LARGE RENTALS, UTILITY AND COMMERCIAL PROPERTIES

8. The Commission recommends that for properties not in the new residential class (rental buildings with more than 10 units, commercial parcels, and utilities), current valuation methods be maintained. There will be separate tax classes for rental buildings with more than 10 units, commercial parcels, and utilities. As noted in recommendation 3, the Commission recommends removing fractional assessments for all these tax classes.

In its preliminary report, the Commission recommended that current valuation methods should be maintained for properties not in the new residential class: rental buildings with more than 10 units, utilities, and commercial properties. The Commission concluded that the recommendation should remain in place for the following reasons:

- The current valuation methods for these property types conform to International Association of Assessing Officers (IAAO) standards for horizontal and vertical equity;
- The high ratio of commercial to residential ETR is due to the preferential treatment of residential properties, rather than excessively high commercial taxation.
- The City's commercial real estate market is presently in flux due to the COVID-19 pandemic and the long-term impact of remote work policies, shifts to online shopping in the retail sector, and the slowdown in tourism and business travel on hotels as compared to pre-pandemic levels.

Valuation Method

Currently, large rental properties (those with more than 10 units) and commercial properties are valued using a net income capitalization approach. This approach divides a property's net income by a 'capitalization rate,' generally designed to approximate an investor's expected annual rate of return on an income-producing property, in order to arrive at its value. Current City law requires almost all income-producing properties (assessed value greater than $40,000) to file an annual Real Property Income and Expense (RPIE) statement each year, from which DOF derives net operating income. Since these fillings are lagged[21], DOF adjusts the reported income data in order to project forward.

DOF also develops statistical models to adjust for lower reported income resulting from factors such as excessive vacancy, owner occupancy, and below-market leases, and to generally align reported expenses to what is considered normal and acceptable for similar buildings. The final net operating income used for valuation purposes reflects historical data and trends in order to stabilize values. For properties that do not file an RPIE statement[22], statistical models select income and expense data from comparable buildings based upon physical features and geography, with income adjustment based on any differences in these characteristics.

Special franchise utility parcels are currently valued by ORPTS, and non-special franchise utility parcels are valued by DOF using cost indices.

Valuing these types of properties at their "best use" could improve transparency by resulting in tax values closer to sales values. However, the best use method would not reflect current lease structures for many properties and would add speculative assumptions to the mass valuation process. Capturing expected income, rather than earned income, may involve speculation (e.g., owners intending to convert or renovate a building and anticipated profits from increases in resale value) and courts prefer capitalizing current income based on current use. DOF's capitalization rates, then, are a function of income and explicitly avoid using market capitalization rates (which incorporate speculative purchases and/or expectations of appreciation).

The Commission defers to court preferences on valuation methods for large rentals and commercial parcels that indicate that the use of anticipated future expected income to value income-producing properties is speculative. The mass appraisal DOF conducts for commercial properties is consistent with the court's preference and is premised on the property's actual condition on the taxable status date of each Fiscal Year.

[21] For example, 2018 RPIE statements provided the data used to estimate market values for January 2020, which determined taxes for Fiscal Year 2021.

[22] Information on penalties for non-filers can be found here: https://www1.nyc.gov/site/finance/taxes/property-rpie.page

Comparison with Other Jurisdictions

The annual Lincoln Land Institute of Land Policy and Minnesota Center for Fiscal Excellence report on property tax burden compares ETRs of homestead, apartment, and commercial properties in New York as well as across 52 other cities[23]. Table 26 below shows the results of their 2020 study (columns 1, 2, 4, 5) as well as from the Commission's own analysis of ETRs of every City parcel (columns 3, 6). Lower ranks indicate higher ETRs.

The figures presented below differ somewhat from previous studies of New York City's ETRs, which did not use sales-based market values for all parcels. Studies relying on DOF values[24], rather than using sales-based market values for all parcels, considerably overstate the disparity in ETRs between class 1 and the other tax classes. When ETRs are computed using sales-based market values for all parcels, as done by the Commission, those differences shrink dramatically.

Table 26: Estimated Tax Burden for Residential and Commercial Properties in NYC Compared to Other Cities, 2020

	Effective Tax Rate per $100			Ratio of Effective Tax Rates Between Property Types (Relative to Homestead)		
	Lincoln Study		New York City Median ETR per $100 of Sales-Based Market Value	Lincoln Study		New York City ETR Ratio (Median ETR Relative to Median Homestead ETR)
	Average ETR in 53 Cities Studied	ETR in New York City		Average ETR Ratio in 53 Cities Studied	ETR Ratio in New York City	
	(1)	(2)	(3)	(4)	(5)	(6)
Homestead	$1.30	$0.53 (49th)	$0.82	-	-	-
Commercial	$1.88	$1.43 (35th)	$1.38	1.77	3.23 (6th)	1.67
Apartment	$1.61	$1.29 (34th)	$1.53	1.33	2.55 (2nd)	1.86

Sources: Columns 1, 2, 4 and 5: Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence 50-State Property Tax Comparison Study for Taxes Paid in 2020, June 2021 (Appendix Tables 2b, 3a, 5a, 6a, 6b). Columns 3 and 6: New York City Department of Finance, Division of Tax Policy Analytical File. homestead, commercial, and apartment are defined, respectively, as: 1-3 family homes, Class 4 commercial properties, and large rentals.

Notes: Effective Tax Rates in Columns 1 and 2 are estimated for: a homestead property with the median value in each city and after accounting for assessment growth caps; a $1M commercial property with an additional $200K of fixtures; and a $600K apartment property with an additional $30K of fixtures. The Effective Tax Rate ratios in Columns 4 and 5 do not include the value of the additional fixtures for commercial and apartment because the value of a homeowner's household goods are not taxable.

The ETRs for New York City apartments and commercial ranked 34th and 35th, respectively, out of the 53 cities studied (column 2), indicating relatively low ETRs. The ETRs (also column 2) were $1.29 and $1.43, respectively. The ETRs from the Commission's analysis were $1.53 and $1.38, respectively. ETRs for commercial and apartment properties are below the average of the 53 cities (columns 1 and 2).

New York City ranks highly when considering the ratio of ETRs of apartment and commercial to homestead, 2nd and 6th, respectively. The ratios (shown in column 5) were 2.55 and 3.23 respectively, which compares to 1.86 and 1.67 based on the Commission's analysis.

[23] https://www.lincolninst.edu/publications/other/50-state-property-tax-comparison-study-2020

[24] NYU Furman Center Distribution of the Burden of New York City's Property Tax, available at https://furmancenter.org/files/sotc/Distribution_of_the_Burden_of_New_York_Citys_Property_Tax_11.pdf

This high ranking is driven by the preferential treatment of homestead properties (New York City ranks 49th for homesteads, among the very lowest ETRs), which the Commission has highlighted in its preliminary report and in its structural change recommendations.

ETRs for commercial properties and apartment properties are higher than for homestead properties in New York City, which is not an unusual practice: 46 of the 53 cities in the Lincoln report have commercial ETRs higher than homestead ETRs, and 39 have apartment ETRs higher than homestead ETRs.

Thus, the current method of valuation, which the Commission recommends retaining, is not producing wholesale excessive tax burden for these property types.

Ending Fractional Assessments

In the interest of simplicity and in order to match the treatment applied to the new residential class, the Commission recommends removing the fractional assessments for large rental, utility, and commercial properties. As discussed in the section on the new residential class, the tax rate required to achieve the same level of revenue would be adjusted downward to recognize the expansion of the taxable base in these tax classes. The removal of fraction assessment can be achieved without affecting the tax liability, since everything, including the back pipeline of transitional market value growth, can be scaled from the current 45 percent assessment ratio to full DOF market value.

TRANSITION TO THE NEW SYSTEM

9. The Commission recommends that for the new residential class, phase-in to the new system should occur over five years. When a property transfers during the five-year transition period, it will be fully phased into the new system the fiscal year after the transfer.

As set out in this report, the structural changes proposed by the Commission are substantial and wide-ranging, requiring some period of transition, or phase-in. Deciding the duration of such a transition period balances two opposing needs. A shorter transition provides relief sooner to property owners who have been disadvantaged under the current system and also achieves more quickly the Commission's goals of a fairer, simpler, and more transparent system. A longer phase-in helps to reduce abrupt impacts to the real estate market and mitigates tax increases as a result of reform.

The Commission has deliberated extensively on the length of the phase-in and recommends a five-year transition period.

Transition Mechanism

In each year of the transition, a parcel's final tax bill will be calculated via three components. its prior year bill, its annual phase-in due to reform, and its phase-in due to annual market value changes.

The annual phase-in due to reform is the difference between a parcel's current tax bill and its tax bill under reform divided by the number of transition years (five). The phase-in due to annual market value changes accounts for the tax liability change due to changes in market value in each of the transition years.

By the end of the five-year transition period, all parcels will be fully phased into the new system, and the five-year transition rule for market value changes will continue as a feature of the new system.

Based on above, the tax bill for a parcel in any given year of the transition will be calculated as follows:

Final tax bill = *prior year's tax bill*
+ annual phase-in due to reform
+ phase-in due to annual market value changes

In Example 7 shown below, the parcel's tax bill in the year before reform is enacted was $3,500. After reform, the parcel's tax liability would increase to $5,000. Therefore, in order to account for the impact of reform, the parcel's annual phase-in due to reform equals ($5,000-$3,500) / 5 = $300.

The example parcel is assumed to have consistently seen market value growth of 4 percent per year for the years prior to reform as well as during the transition period. Therefore, in Year 1 the parcel's tax bill based on its sales-based market value would be $5,200. The difference between this liability and the corresponding bill of the prior year ($5,000) is the parcel's phase-in due to annual market value changes, and equals $5,200-$5,000 = $200.

Therefore, in Year 1, the parcel's tax bill equals:

Final tax bill =	$4,000 =
prior year's tax bill	$3,500
+ annual phase-in due to reform	+$300
+ phase-in due to annual market value changes	+$200

Example 7: Example of How a Parcel's Tax Bill Would Be Calculated in Each Year During the Transition Period–Tax Increase

Impact of Reform		
Tax Before Reform	**Tax Bill With No Transition Period**	**Total Tax to Be Phased-In Due to Reform**
$3,500	$5,000	$1,500

Transition Over 5 Years				
	Prior Year Bill	**Annual Phase-In Due to Reform***	**Phase-In Due To Annual Market Value Changes****	**Final Tax Bill*****
Before Reform				$3,500
Transition Year 1	$3,500	$300	$200	$4,000
Transition Year 2	$4,000	$300	$208	$4,508
Transition Year 3	$4,508	$300	$216	$5,024
Transition Year 4	$5,024	$300	$225	$5,549
Transition Year 5	$5,549	$300	$234	$6,083

* Equals total tax to be phased-in due to reform divided by the number of transition years (five).

** Assumes market value growth of 4 percent per year for the years prior to reform as well as during the transition period.

*** Final tax bill = prior year final tax bill + annual phase-in due to reform + phase-in due to annual market value changes.

For each year until the end of the transition, the parcel's tax bill would incorporate the annual phase-in due to reform and the phase-in due to annual market value changes. By the last year of the transition period, the parcel's tax bill would equal its tax bill under the Commission's recommendations, with all market value changes that occurred during the transition period reflected. After five years, the example shows the parcel fully phased into the new system, with its final tax bill equals $6,083.

The transition period would work similarly for parcels whose tax liability would be reduced under reform. In the example below, which also assumes 4 percent annual market value growth, the parcel's tax bill in the year before reform was $5,000. Under the Commission's recommended changes, the tax liability would decrease to $3,500. The parcel's annual phase-in due to reform equals ($3,500-$5,000) / 5 = -$300. After five years and accounting for market value growth in the intervening period, the example shows the parcel fully phased into the new system, with its final tax bill equal to $4,258.

Example 8: Example of How a Parcel's Tax Bill Would Be Calculated in Each Year During the Transition Period–Tax Decrease

Impact of Reform. Tax Decrease		
Tax Before Reform	**Tax Bill With No Transition Period**	**Total Tax to Be Phased-In Due to Reform**
$5,000	$3,500	-$1,500

	Transition Over 5 Years			
	Prior Year Tax Bill	**Annual Phase-In Due to Reform***	**Phase-In Due to Annual Market Value Changes****	**Final Tax Bill*****
Before Reform				$5,000
Transition Year 1	$5,000	-$300	$140	$4,840
Transition Year 2	$4,840	-$300	$146	$4,686
Transition Year 3	$4,686	-$300	$151	$4,537
Transition Year 4	$4,537	-$300	$157	$4,395
Transition Year 5	$4,395	-$300	$164	$4,258

* Equals total tax to be phased-in due to reform divided by the number of transition years (five).

** Assumes market value growth of 4 percent per year for the years prior to reform as well as during the transition period.

*** Final tax bill = prior year final tax bill + annual phase-in due to reform + phase-in due to annual market value changes.

In each year of the transition, the example parcel would see a year-on-year decrease in its tax bill. Due to the Commission's revenue neutrality mandate, any tax increases or decreases seen by parcels as a result of the Commission's recommendations need to be transitioned in gradually. Additionally, as described in the preliminary report, the Commission recommends that if a property is transferred during the transition period, its tax will be set to equal its tax under the new system. Thus, upon sale, the property would be fully transitioned into the new system. Currently, New York City is one of only a handful of major jurisdictions that does not have an assessed value reset upon a sale of a property[25].

[25] See Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence 50-State Property Tax Comparison Study, available at https://www.lincolninst.edu/sites/default/files/pubfiles/50-state-property-tax-comparison-for-2020-full_0.pdf

The below example shows what would happen if the parcel illustrated in Example 7 had in fact transferred during the transition period. Here, the parcel transfers in year two of the transition period, meaning in year three, the parcel's tax will be based on its billable market value ($5,624) and the parcel will be fully transitioned into the new system.

The parcel's tax bill for year three will include all the remaining tax liability phase-in due to reform, in this case $300 for each year of the three remaining transition years ($900), along with the annual phase-in due to market value changes between year 2 and year 3 ($216).

A parcel that would see a tax decrease under reform would also transition directly to the lower bill in the year following a transfer.

Example 9: Example of How a Parcel's Tax Bill Would Be Calculated in Each Year During the Transition Period. Parcel Has an Accelerated Phase-In Due to Transferring in Year Two–Tax Increase

Impact of Reform. Tax Decrease		
Tax Before Reform	Tax Bill With No Transition Period	Total Tax to Be Phased-In Due to Reform
$3,500	$5,000	$1,500

Transition Over 3 Years with an Accelerated Transition Upon Sale				
	Prior Year Bill	Annual Phase-in Due to Reform*	Phase-In Due to Annual Market Value Changes**	Final Tax Bill***
Before Reform				$3,500
Transition Year 1	$3,500	$300	$200	$4,000
Transition Year 2	$4,000	$300	$208	$4,508
Transition Year 3	$4,508	$900	$216	$5,624

* In Years 1 and 2, equals total tax to be phased-in due to reform divided by the number of transition years (five). In Year 3 it equals all remaining phase-in due to reform.

** Assumes market value growth of 4 percent per year for the years prior to reform as well as during the transition period.

*** Final tax bill = prior year final tax bill + annual phase-in due to reform + phase-in due to annual market value changes.

10 YEAR REVIEW OF THE PROPERTY TAX SYSTEM

10. The Commission recommends the City institute a mandatory comprehensive review of the property tax system every 10 years.

The existence of this Commission has been long overdue; in the future, the City should not have to wait so long for a similar examination of the property tax system. First, the property tax is too important to be on auto-pilot. As the City's largest single tax revenue source, it is funding roughly 30 percent[26] of the City budget. Second, the owners of more than 1.1 million parcels deserve to know their bills are fair and to understand how they are calculated. Third, as the City evolves and its tax base changes, those changes need to be recognized and absorbed to keep the tax system fair.

For these reasons the Commission recommends that the City convene a group of experts to reevaluate the property tax system every 10 years to ensure that the system continues to serve the City and its people effectively, fairly, and transparently.

This Commission focused its attention on the areas where it heard the most from the public and where experts most often noted the greatest inequalities: the treatment of smaller residential properties. It is important to learn from the past. When the current system was designed in the late 1970s, cooperative and condominiums represented a small share of the City property stock. At the time it made sense to group those properties with rental properties that were physically similar. However, the cooperative conversion boom of the 1980s and subsequent condominium construction meant that these properties have become a much larger share of owner-occupied homes. This has made the unequal treatment of those properties and other homeownership properties in the current class 1 increasingly untenable.

In the future, a dynamic City property market will generate many changes. It is not the Commission's role to guess, rather it is to put in place recommendations that guarantee the system can meet the future effectively. A mandated periodic review of the property tax system will ensure this happens.

ADMINISTRATIVE ISSUES

The Commission emphasizes that administrative issues are an essential element of the reform discussion. Changing laws without the accompanying ability to administer them fairly and efficiently will not produce effective reform and will fail to meet the intended goal of ensuring public confidence.

The significant changes to the property tax system proposed in this final report will require a sophisticated administrative operation to implement them. DOF currently administers components of the Commission's recommendations in various capacities: the comparable sales approach is applied to class 1 properties; numerous exemption programs and payment plans rely on income eligibility verification, and market values changes are phased-in over five years for most class 2 and all class 4 properties. So, the agency's experience in implementing current programs, as well as its technical expertise with the modeling that supported the Commission's work, will undoubtedly support its administration of these reforms.

However, the sheer scale of these proposed system changes will require additional resources: to support the new valuation methods (i.e., use of a comparable sales approach) for coops and condos; to provide the necessary quality controls; and to determine eligibility for owner relief programs, to name only a few.

[26] https://www1.nyc.gov/assets/omb/downloads/pdf/fp11-21.pdf

The Commission anticipates, for example, particular needs in the area of tax appeals. Currently, very few class 1 owners appeal their values. In Fiscal Year 2020, there were only 1,814 class 1 appeals to the Tax Commission[27]. Class 1 owners may only appeal their parcels' value if "effective market value" is below the sales-based market value[28].

However, after reform, class 1 parcels would be taxed directly on their market value, and many more owners will be eligible to appeal their valuation. Further, with improved transparency under reform, such owners will see the direct link between their market value and their taxes. So, it should be expected that there will be a large increase in the number of appeals filed, and the City will need a customer-friendly system to handle these appeals in an efficient and equitable manner.

[27] https://www1.nyc.gov/assets/taxcommission/downloads/pdf/annual_report20.pdf (page 12)

[28] The effective market value is defined as assessed value divided by .06, the target assessment ratio. Most class 1 parcels are well below the target 6 percent assessment ratio, due to the current assessed value caps. Owners of such properties cannot benefit from an appeal until the assessed values of the properties reach the target assessment ratio. Under current treatment, even when a property experiences a market value decrease, a property's assessed value will continue to rise, subject to the annual or five-year caps, until it reaches the target assessment ratio.

Appendix

APPENDIX

Housing and Economic Development Tax Expenditure Programs, Fiscal Year 2021

Program	Number of Exemptions & Abatements	Exempt Assessed Value ($ millions)	Tax Expenditure ($ millions)
Housing Development	**134,311**	**19,018.9**	**2,412.6**
J-51 Program (Residential Alterations and Rehabilitation)	62,143	1,886.0	295.9
J-51 Exemption	20,971	1,886.0	231.6
J-51 Abatement	41,172	N/A	64.3
Section 421-a (New Multiple Dwellings/ Affordable NY Housing Program)	64,778	13,952.3	1,711.5
421-a, New Multiple Dwellings (Pre-2016)	64,523	12,706.0	1,560.4
421-a, Affordable NY Housing Program (2016 & Later)	255	1,246.3	151.1
HPD Division of Alternative Management	1,090	407.3	50.0
Lower Manhattan Conversion Exemption	1,207	26.4	3.2
Lower Manhattan Conversion Abatement	2,278	N/A	15.4
420-c, Low-income Housing	2,259	2,747.0	318.9
Class Two Cooperative and Condominium Partial Tax Abatement	315,967	N/A	654.7
Major Capital Improvement (MCI) Cost Abatement	556	N/A	17.7
Economic Development	**8,070**	**5,118.4**	**915.0**
Industrial & Commercial Incentive Program	5,093	4,707.6	507.7
Industrial and Commercial Abatement Program (ICAP)	2,457	N/A	347.4
Madison Square Garden	1	410.8	43.9
Commercial Expansion Program	519	N/A	16.0
Class Two Cooperative and Condominium Partial Tax Abatement	**315,967**		**654.7**
Other	**15,552**	**309.3**	**52.7**
Cooper Union/Chrysler Building	4	309.2	28.3
"Green Roof" Abatement	0	N/A	0.0
Solar Electric Generating System Abatement	15,546	N/A	24.3
Solar, Wind or Farm Waste Energy System Exemption	2	0.1	0.0

Source: New York City Department of Finance, Tax Policy & Data Analytics Division (2021). Annual Report on Tax Expenditures, FY2021, Table 1 https://www1.nyc.gov/assets/finance/downloads/pdf/reports/reports-tax-expenditure/ter_2021_final.pdf

GLOSSARY OF TERMS

Abatement. A reduction in real property tax liability through a credit rather than a reduction in taxable assessed value. The City has a number of abatement programs, including the J-51 housing rehabilitation abatement, the Senior Citizen Rent Increase Exemption, the Lower Manhattan Revitalization abatement, the Industrial and Commercial abatements and the Coop-Condo Tax Abatement.

Assessed Value (AV). A property's assessed value is a percentage of its market value. 6 percent for class 1 and 45 percent for all other classes.

Assessed Value Growth Caps. The limit on the amount that class 1 properties (six percent in a single year or 20 percent over five years) and small apartment buildings in class 2 (eight percent in a single year or 30 percent over five years) assessed values can increase. Value increases are due to new construction or renovations are not subject to growth caps.

Assessment Ratio. The ratio of assessed value to Department of Finance (DOF) market value.

Assessment Roll. The public record of all properties in a taxing jurisdiction and their assessed values.

Billable Assessed Value (BAV). The assessed value on which tax liability is based. For properties in classes 2 or 4, the billable assessed value is the lower of the actual or transitional assessed value.

Capitalization. The process by which anticipated future income and benefits are converted to a present value.

Capitalization Rate. A rate of return used to produce the capital value of an income stream.

Class Levy. Total Levy multiplied by the Class Share.

Class Share. The proportion of the tax levy allocated to a tax class.

Comparable Sales Approach. The process by which a property's market value is estimated based on the sales prices of similar (comparable) properties.

Condominium. A form of ownership that combines individual ownership of residential or commercial units with joint ownership of common areas such as hallways, etc.

Cooperative. A form of corporate ownership of real property whereby shareholders are entitled to use dwelling units or other units of space.

Direct Capitalization Approach. Used by DOF to value large rental properties and commercial properties. Current adjusted net operating income is utilized to calculate the value of a property. This approach is generally accepted by the courts.

Discounted Cash Flow Approach. A method of valuation that converts multiple years of projected income into a present value by applying a discount rate.

Effective Tax Rate (ETR). The tax paid per $100 of a property's sales-based market value.

Equalization. Changes in the value of a property as a result of market conditions.

Exemption. A provision of law that reduces taxable value or income.

Exempt Value. The amount or percentage of assessed value that is not subject to taxation. Property may be fully exempt or partially exempt.

Fiscal Year. A 12-month period used for financial reporting. The City's fiscal year runs from July 1 to June 30.

Fractional Assessment. Assessment of real property at a percentage of market value (i.e., at less than 100 percent of market value).

Fully Exempt. A property is fully exempt if the taxable value of the exemption(s) it receives is equal to the taxable value of the property.

Income Capitalization Approach. A method of valuing real estate by discounting net operating income to arrive at a present worth estimate.

Interquartile Range. The difference between the 25th percentile value of a distribution and the 75th percentile value.

Marginal Rate Exemption Percentage. The exemption benefit percentage that applies to each range of sales-based market value, as sales-based market value increases.

Median. Denoting the value lying at the midpoint of a frequency distribution of values, such that there is an equal number of values above or below it.

Net Income Capitalization Approach. Methodology used by DOF to value large rentals and commercial properties (class 4). Current adjusted net operating income is utilized to calculate the value of a property. Income and expense data are used in statistical regression models to ensure value reported are within norms of comparable properties (with adjustments made if necessary).

New York State Real Property Tax Law (RPTL). The real property tax law that governs how property taxes are administered in New York State.

Official Department of Finance Value (DOF Value). The value that the Department of Finance determines a property should be assessed on, using methodologies specifically defined under New York State Law.

Parcel. A piece of land under one ownership.

Phase-In. Assessed value changes due to equalization are phased-in over a five-year period for all class 4 properties and class 2 properties not subject to assessed value growth Caps. 20 percent of the change is phased-in every year.

Physical Changes. Additions to raw land that increase value, such as new construction, demolition, restoration of properties to the assessment roll, and properties moving from one tax class to another.

Primary Resident Owner. The owner of a parcel where at least one of the dwelling units is used as the owner's full-time residence, with the owner maintaining a permanent and continuous physical presence.

Property Tax and Interest Deferral Program (PT AID). Owners who qualify can defer property tax payments and remain in their homes. The payment can be deferred for a fixed length of time for temporary hardship, or for a longer period due to chronic hardship.

Real Property Income and Expense (RPIE). A New York City mandated form used to derive net operating income that large rental properties and most other income producing properties with an assessed value of more than $40,000 must file annually.

Sales-Based Market Value. The value of a property if it was sold in an open, competitive market.

Section 581. The section of the Real Property Tax Law that requires New York City to value cooperative and condominium buildings as if they were rental properties.

Special Franchise. Cables, conduits, pipes, and other utility property located in or along the public right-of-way.

Tax Classes. Properties in New York City are divided into four classes, each treated differently under law.

- **Class 1:** One-to three-unit, predominantly residential properties. Also includes certain vacant land and certain types of condominiums.
- **Class 2:** Residential property with 3+ units, including condos and co-ops
- **Class 3:** Utility company equipment and special franchise property
- **Class 4:** All other real property, including office buildings, factories, stores, hotels, and lofts

Tax Dollar Value of Exemption. The exempt value times tax rate. The exempt value is actual assessed value (or a portion of actual assessed value for partially exempt properties). Actual assessed value is the product of the assessment ratio applied to market value. The reported tax dollar value does not include Payments-In-Lieu-of-Taxes (PILOTS), which reduce the net tax dollar value of the exemption for some parcels. For information on PILOTS, please refer to the NYC Annual Report on Tax Expenditures for the current fiscal year, available at the following web address: http://www1.nyc.gov/site/finance/taxes/annual-report-on-tax-expenditures.page

Tax Liability. The amount of tax for which a property owner is liable.

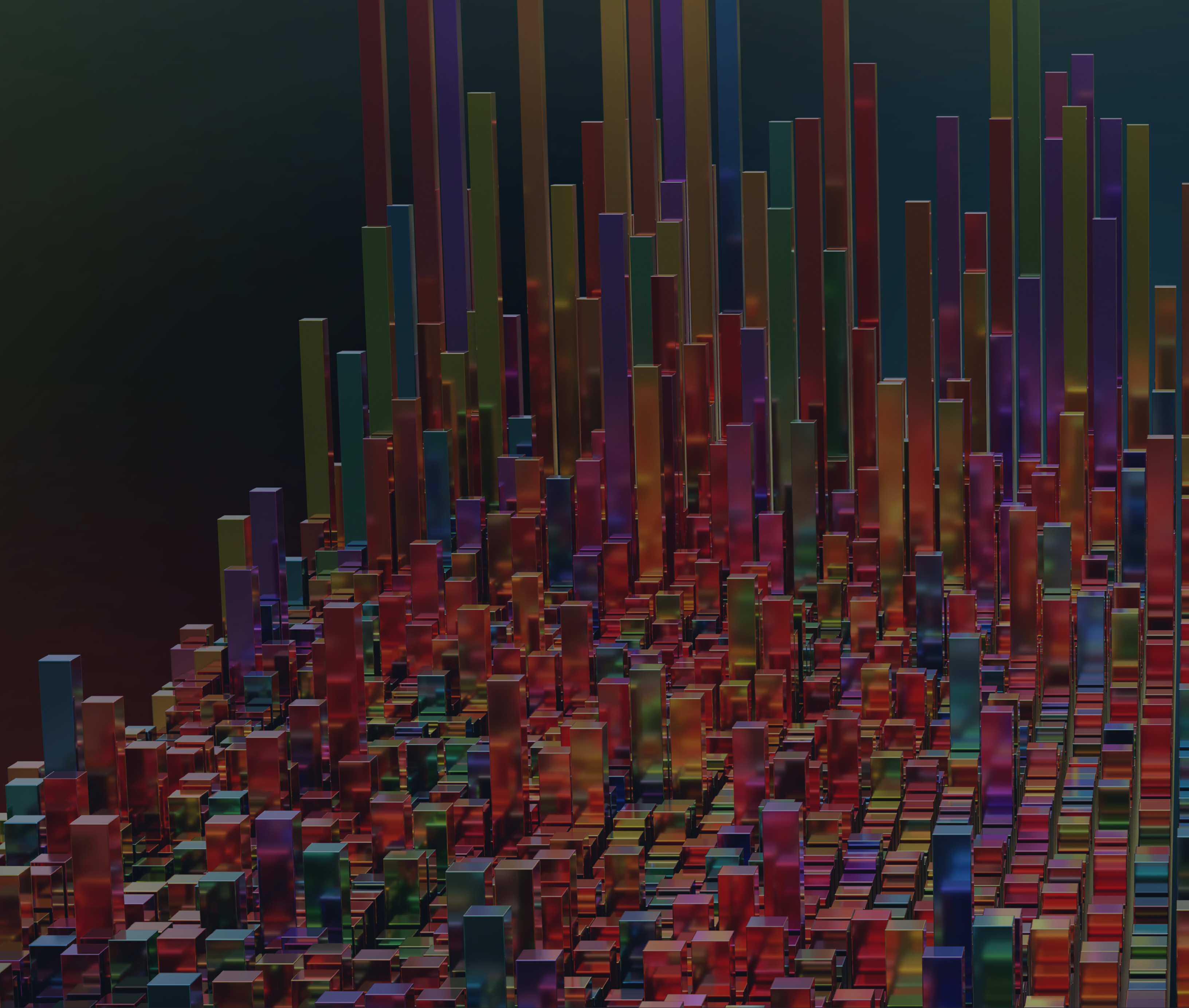
Tax Lien. If a property tax bill is left unpaid for an extended period of time it may become a tax lien that may be sold in a tax lien sale.

Tax Rate. The amount, usually expressed in dollars per hundred of assessed value, applied to the tax base to determine tax liability. In New York City, an overall tax rate is established, as well as, one for each of the tax classes.

Taxable Billable Assessed Value (TBAV).
The amount of assessed value remaining after application of any tax exemption.

Total Levy. The total taxable billable assessed value multiplied by the overall tax rate.

Transitional Assessed Value. The assessed value, during the five-year phase-in of equalization changes, of all class 4 properties and cooperatives, condominiums and rental buildings with more than 10 units in class 2.



NYC ADVISORY COMMISSION ON PROPERTY TAX REFORM