CITIZENS BUDGET COMMISSION

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Comments on New York City Property Tax Reform

Delivered to the New York State Senate Standing Committee on Budget and Revenues Roundtable Discussion of Property Tax Reform in New York City

December 4, 2019

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Good morning Chair Benjamin, Senators, and fellow roundtable participants. Thank you for inviting the Citizens Budget Commission (CBC) to participate in this roundtable discussion about a vital policy issue facing New York City—reform of the property tax system. I am Ana Champeny, Director of City Studies at CBC. The CBC is a nonpartisan think tank and watchdog whose mission is to achieve constructive change in the finances and services of the New York State and New York City government.

The New York City property tax is of critical importance to the City's fiscal health and ability to weather the economic cycle. In fiscal year 2020 the tax will generate nearly $30 billion, or 32 percent of all revenues. In other words, the property tax funds almost $1 out of every $3 dollars the City spends. Furthermore, the property tax has generally been resistant to the economic cycle; this stability is due in part structural features of the tax that gradually phase-in changes in value and minimize abrupt year-to-year changes in assessed values. Adjusted for tax policy changes such as rate changes, property tax revenue has grown in every year since fiscal year 1999, an average of 6.2 percent, unlike more economically sensitive taxes that often see year-over-year declines in revenue during or following a recession.

The balancing act facing legislators as they consider proposals to reform the property tax is how to increase equity, fairness, and transparency, while maintaining fiscal stability and reliability. CBC has a long history of research and analysis to understand the inequities within this complex system and recommend appropriate reforms.

CBC submitted testimony to the NYC Advisory Commission on Property Tax Reform in November 2018 outlining seven recommendations for reform:

1. Move cooperatives and residential condominiums to Class 1 with one-, two-, and three-family homes. The three remaining classes would be residential rental buildings (Class 2); utility property (Class 3); and commercial property (Class 4).

2. Valuation for tax purposes should reflect actual real estate market value, using sales-based models for one-, two-, and three-family homes, cooperatives, and residential condominiums. For rental and commercial property, the Department of Finance should use more transparent methods that take advantage of the substantial data available.

3. Full market value should be the starting point for assessing the tax base. Differential effective tax rates (ETRs, defined as taxes as a share of market value) to favor residential properties could be achieved through either differential assessment or different tax rates.

    a. Class 1 should face the lowest tax burden, as measured by the ETR, with increasing ETRs for residential rental buildings, utilities, and commercial properties, in that order.

    b. The use of a homestead exemption to reduce tax burdens on owner-occupied primary residences should be considered.

4. The existing class share system should be eliminated.

5. Stability of the property tax should be achieved by phasing-in market value changes over three years for all parcels. Caps and phase-ins as currently structured should be eliminated.

6. To ease burdensome tax bills, rebates of owner-occupied residential property taxes should be provided based on household income when tax bills exceed a set share of income. This “circuit breaker” should replace certain existing tax reduction programs.

7. Transition to the new system should occur over a five-year period.

Thank you and I look forward to an engaging conversation on property tax reform in New York City.