Revenue Options

Value Gramercy Park as Its Ow n Lot Instead of Reflecting The Value in Surrounding Buildings

Revenue: $10 million annually

Gramercy Park, which was established in the 19th century, is a private park. The park is fenced and only individuals who have a key to the park can enjoy its tranquil atmosphere. Keys are only available to residents of some—but not all—of the buildings immediately surrounding the park. According to Department of Finance property tax records, the park currently has a market value of zero. In theory, the value of park is instead reflected in the properties that have keys to the park. The finance department has not provided any documentation, however, to show how the value of the park is apportioned to these buildings. Based on information from the department on which buildings have keys to the park, IBO compared property values of residential coop buildings with keys to the values of similar nearby coop apartment buildings without keys. This comparison cannot be made for residential condo properties because in determining the value of these properties, the finance department does not distinguish buildings with access to the park from those without access. We found no significant differences in market values, assessed values, and property tax per square foot between the two groups of buildings. In some cases, the median per square foot market values of properties with no keys to the park are even higher than comparable properties with keys to the park.

If the finance department instead were to value the park as an independent lot based on the median land value of the Class 1 properties surrounding the park, IBO estimates that the park would have a market value of $197.3 million and property tax liability of $9.5 million for fiscal year 2021.[1]

Proponents might argue that an an assessment method that depends on capturing value "reflected" in other properties rather than directly taxing the value of the park can only generate the appropriate tax revenue if the assessments of the surrounding properties indeed include some of the value of the park. If the park's value is not fully reflected in other properties, then the owners with access to the park are shifting the tax burden on this private property to the rest of the city, a particularly unfair outcome given the relative affluence of the Gramercy Park neighborhood. They might also point out that directly taxing the value of the private park is a more transparent and efficient way of ensuring that those who are allowed to enjoy the park pay their appropriate share for the privilege.

Opponents might argue that although properties with access to the park may not pay higher property taxes than similar properties around the park, they pay higher real property transfer and mortgage recording taxes because they tend to be more expensive. Over time these taxes make up for some of the property taxes foregone from the park. Moreover, the park and surrounding streets are also well maintained by the Gramercy Park Block Association on behalf of the park trustees, which contributes to making the neighborhood beautiful and attracting more visitors to enjoy the local amenities.

[1]The value of land assigned to Class 2 properties is not based on market values.

NEW May 2021

Prepared by Yaw Owusu-Ansah

Revenue Options

Establish a Pied-A-Terre Tax

Revenue: $232 million annually

Although difficult to quantify, in some city neighborhoods the share of housing units that are owned by nonresidents and used as second homes is believed to have grown in the past decade, particularly for high-value properties. Borrowing from models in other cities, advocates have proposed an additional property tax on second homes as a means of raising revenue from high-income households and reducing pressure on the cost of land. A bill recently introduced in the State Legislature (S44-B) would establish an "additional property tax on certain non-primary residences."

The pied-a-terre tax would be assessed on one-, two-, and three-family residences (Class 1 properties) with market values of $5 million or more, and condominium and cooperative apartments with assessed value for property tax purposes of $300,000 or more. Assessed values of condos and coops are far lower than their market values. S44-B allows for apartment owners to apply for and receive an exemption from the tax if the state certifies that the property has been appraised at less than $5 million within the last three years. The proposal also exempts properties that are the primary residence of at least one owner or of a parent or child of at least one owner, and properties rented on a full-time basis to tenants for whom the property is their primary residence.

Under S44-B, the city's finance commissioner would be responsible for defining brackets for the tax. For coops and condos the tax rates would range from 10.0 percent to 13.5 percent of assessed value in excess of $300,000. For Class 1 homes with market value in excess of $5 million, the rates would range from 0.5 percent to 4.0 percent of market value. IBO's estimate of the additional revenue that would be raised by a pied-a-terre tax—$232 million annually—is based on the progressive schedule of tax rates specified in a prior version of the bill for Class 1 homes, and a similar rate schedule developed by IBO for apartments. Instituting such a tax in New York City would require state legislation. Department of Finance data that can be used to indicate whether a property is used as a primary residence and this year's assessment roll were used to determine which residences would likely be subject to the tax

Proponents might argue that an additional tax on expensive second homes, which are typically owned by high-income households and used infrequently, would raise revenue from individuals with the ability to pay. Moreover, a pied-a-terre tax would raise revenue from households that are not subject to the city's income tax, unlike households that have chosen New York City as their primary residence. They could also point out that some of the new revenue would be paid by owners of apartments benefiting from 421-a property tax exemptions.

Opponents might argue that pied-a-terre owners who do not live full-time in New York City would be unfairly taxed under this option. These owners still pay the property taxes associated with their properties, even though they typically rely less heavily on city services than full-time residents. In addition, a pied-a-terre tax would decrease demand for high-end residences, further weakening a real estate market that has already been hit hard by the coronavirus pandemic. Finally, a pied-a-terre tax would also reduce construction industry activity and employment in the city.

Prepared by Yaw Owusu-Ansah

Eliminate Commercial Rent Tax Exemptions for Retail Tenants in Lower Manhattan

Revenue: $9 million annually

The commercial rent tax (CRT) is imposed on tenants who lease commercial space in buildings south of 96th Street in Manhattan. The tax only applies to leases worth more than $250,000 per year. Nonprofit organizations, government agencies, and many theatrical productions are exempt.

The State Legislature created two additional CRT exemptions in 2005 as part of a bill to stimulate commercial recovery in Lower Manhattan. The new exemptions apply to all retailers located south of City Hall between South Street and West Street, as well as all tenants in the new World Trade Center buildings and most of those in the new Fulton Transit Center. According to data from city planning's PLUTO database, this exemption area includes 3.5 million gross square feet of retail space. Now that several of the buildings at the World Trade Center and the Fulton Transit Center have largely been completed, there is additional retail space of almost 400,000 square feet in the area. This option, which would require state legislation, would repeal the CRT exemptions for retailers in Lower Manhattan.

The Mayor's Office of Management and Budget estimates that the Lower Manhattan retail CRT exemptions will cost the city approximately $4 million in fiscal year 2019 and grow by about $300,000 annually. This estimate does not include the new retail space coming on-line at the Fulton Center and at the World Trade Center, which will substantially increase the cost of the incentive. Assuming that the new space is rented for $400 per square foot and that 10 percent of the space will be vacant or exempt, the Fulton Center and World Trade Center retail exemptions could cost the city an additional $5 million per year, for a total cost of the Lower Manhattan exemption of about $9 million.

Proponents might argue that subsidizing retailers is an unwise use of taxpayer money given their history of creating low-wage jobs. They might also argue that the CRT exemptions disproportionately benefit large retailers and national chains because most small retailers in Lower Manhattan are already exempt from the tax. Finally, they might argue that incentives are not necessary to attract new retailers. The owners of Brookfield Place and Pier 17, for example, are redeveloping their retail spaces even though both sites fall outside of the CRT exemption zones. New retailers are also attracted to the neighborhood's affluent and growing residential population, as well as its improving office market and record levels of tourism.

Opponents might argue that the incentives are needed to help Lower Manhattan recover from the effects of both September 11th and Hurricane Sandy. They might also argue that the neighborhood is underserved by retail, and that additional incentives are needed to attract retailers that will support Lower Manhattan's transformation into a mixed-use community. They might also note that the savings from the CRT exemption help overcome the disadvantage of trying to lure shoppers in a neighborhood still burdened by large construction sites and street disruptions.

Prepared by Alan Treffeisen

Revenue Options

Eliminate Special Tax Treatment on the Sale of Properties To Real Estate Investment Trusts

Revenue: $11 million annually

This option would eliminate New York City's special real property transfer tax (RPTT) treatment of real estate investment trust (REIT) transfers. The city's residential and commercial RPTT tax rates range from 1.0 percent to 2.625 percent of the sales price, depending on the value and type of property, and New York State levies its own real estate transfer tax at 0.4 percent to 1.4 percent. Designed to lower the expense associated with transferring property to a REIT structure, state legislation enacted in 1994 provided (among other benefits) 50 percent reductions in both city and state RPTT rates during a two-year period for qualifying property transfers made in connection with the formation of REITs.

In 1996, legislation made the RPTT benefit for new REITs permanent and temporarily expanded the 50 percent rate reduction to cover some property transfers to already established REITs. State legislation has repeatedly extended the reduced RPTT rates for property transfers to already established REITs, most recently to August 2020. Ending RPTT rate reductions for all REITs would provide the city with an estimated $11 million annually in additional revenue.

Eliminating the city's RPTT rate reduction for new REITs would require state legislation.

Proponents might argue that REITs already receive a number of tax benefits from New York City, including deductibility of income that is distributed to shareholders and corporate income tax liability that is determined using only two of the four alternate tax bases that other firms are subject to: net income and a fixed minimum tax. The state also provides a 50 percent reduction in its own RPTT and an exemption from the capital gains tax for property transfers to REITs. Given these benefits, they might argue that the advantages from converting to a REIT would outweigh the cost even in the absence of the city's RPTT break. Proponents might also question why the city would want to promote the formation of REITs and create a preference for one form of property ownership over another.

Opponents might argue that the formation of a REIT, which is a change in structure rather than a change in ownership, should not be subject to the same level of transfer tax as the transfer of property from one owner to another. They might also argue that without the tax incentive, transferring ownership to a REIT structure is more costly and would reduce the number of REIT formations, thereby limiting real estate investment opportunities for smaller investors. Moreover, the revenue gain associated with making the RPTT rate whole would be partially negated—and may even result in a net loss in RPTT revenue—depending on the extent to which property transfers to REITs decrease in response to a doubling of the RPTT rate.

Updated October 2018

Prepared by Alan Treffeisen

Revenue Options

Extend the Mortgage Recording Tax to Coops

Revenue: Over $95 million annually

The mortgage recording tax (MRT) is levied on the amount of the mortgage used to finance the purchase of houses, condo apartments, and all commercial property. It is also levied when mortgages on such properties are refinanced. The city's residential MRT tax rate is1.0 percent of the value of the mortgage if the amount of the loan is under $500,000, and 1.125 percent for larger mortgages. In addition, mortgages recorded in New York City are subject to a state MRT, of which a portion, equal to 0.5 percent of the value of the mortgage, is deposited into the city's general fund. Currently, loans to finance the sales of coop apartments are not subject to either the city or state MRT, since such loans are not technically mortgages. Extending the MRT to coops was initially proposed in 1989 when the real property transfer tax was amended to cover coop apartment sales.

The change would require the State Legislature to broaden the definition of financing subject to the MRT to include not only traditional mortgages but also loans used to finance the purchase of shares in residential cooperatives. In January 2010, then-Governor Paterson proposed extending the state MRT to include coops, and Mayor Bloomberg subsequently included in his preliminary budget for 2011 the additional revenue that would have flowed into the city's general fund had the proposal been enacted; ultimately, it was not adopted. IBO estimates that extending the city MRT to coops would raise over $95 million per year. If the state MRT were also extended to coops, the additional revenue to the city would be around 50 percent greater.

Proponents might argue that this option serves the dual purpose of increasing revenue and ending the inequity that allows cooperative apartment buyers to avoid a tax that is imposed on transactions involving other types of real estate.

Opponents might argue that the proposal will increase costs to coop purchasers, driving down sales prices and ultimately reducing market values.

Updated October 2018

Prepared by Alan Treffeisen

Impose a City "Mansion Tax"

Revenue: $300 million annually

Sales of real property in New York City are subject to a real property transfer tax (RPTT). The combined city and state tax rates for residential properties are 1.4 percent when the sales price is $500,000 or less, and 1.825 percent when the price is above $500,000 but less than $1 million. Residential properties that sell for $1 million or more are subject to an additional state tax, often referred to as a "mansion tax." Formerly a flat rate of 1.0 percent, beginning in fiscal year 2020 this tax is on a sliding scale from 1.0 percent for residential properties selling from $1 million to $2 million, increasing to a high of 3.9 percent for residences sold for $25 million or more. While technically the RPTT is paid by the seller, economic theory suggests that the burden of the tax will be shared (not necessarily equally) between buyers and sellers.

Under this option, a city version of the mansion tax would be levied on residential properties selling for $1 million or more. The tax would have three rates: 0.5 percent on sales of $1 million to $2 million, 1.0 percent on sales from $2 million to $5 million, and 1.5 percent on sales of $5 million and above. These thresholds align with those in the new state tax for sales up to $5 million. This tax would be on the entire value of the property, and would be in addition to the existing city and state rates. IBO estimates that the tax would generate around $300 million in annual city revenue. If the tax were applied only to the value over $1 million, the additional city revenue would be about $215 million. This option would require state legislative approval.

Proponents might argue that the tax would raise a considerable amount of revenue while affecting a relatively small number of buyers and sellers—about 24 percent of residential sales in fiscal year 2019 would have been subject to the new tax—with the burden of the tax shared by sellers and buyers. They could also point out that many buyers of luxury residences in New York City do not pay the mortgage recording tax (MRT) because they make all-cash purchases, obtain financing overseas, or purchase co-ops, which are not subject to the MRT. Even with the addition of a city mansion tax these buyers may face a lower combined transfer tax burden than purchasers of less-costly residences who are more likely to pay both RPTT and MRT.

Opponents might argue that with the new state tax, luxury residential real estate is already subject to a high combined city and state RPTT rate, ranging from 2.825 percent on sales at $1 million to as high as 5.975 percent on properties sold for $25 million or more—top rates well above the RPTT rate imposed on commercial sales. Opponents might also point out that taxes on economic activity reduce the level of that activity, meaning that the new tax would lead to fewer sales of luxury homes and lower prices net of taxes. This downward pressure on the housing market would come on top of changes to federal tax law that have already reduced the fiscal benefits of home ownership for many households. Finally, because the higher tax rate would apply to the entire value of the property, as soon as the sales price reached the $1 million, $2 million, or $5 million thresholds there would be big jumps in city RPTT liability. As a result, we would expect a "bunching" of sales just below the thresholds and therefore a smaller revenue yield.

Updated February 2020

Prepared by Alan Treffeisen

Revenue Options

Limit J-51 Benefits to Projects With An Affordable Housing Component

Revenue: $1 million annually

The J-51 program encourages the rehabilitation of residential buildings by providing the owner with both a property tax exemption and an abatement for approved improvements. Property owners receive the exemption on the increase in assessed value due to the improvement while the abatement partially refunds property owners for the cost of the improvement. Exemption periods can be either 34 years or 14 years—the former applies if the project also receives government support through an affordable housing program. In both instances, the exemption phases out in the final four years of the benefit period. Generally speaking, projects receiving government assistance can have up to 150 percent of the rehabilitation costs abated compared with 90 percent for all other projects. The total amount abated is spread over a 20-year period regardless of project type. In exchange for the benefit, apartments in rental properties become rent stabilized or remain rent stabilized while the building is receiving J-51 benefits.

In 2019, the program will cost the city $292.8 million in forgone revenue—$74.8 million from the abatement and $218.0 million from the exemption. Roughly 90 percent of the aggregate benefit is distributed evenly between Manhattan, the Bronx, and Brooklyn. Rental properties citywide will receive two-thirds of the total J-51 benefits in 2019. About $100 million is for projects with no affordable housing residential units.

This option, which would require Albany approval, proposes eliminating future J-51 benefits for new projects that do not have an affordable housing component. In effect, only projects receiving other government support under a program requiring low- or moderate-income housing would be eligible for new J-51 benefits. Were this proposal in effect in 2019, the city would raise an additional $1.3 million in property tax revenue in 2019. This estimate is considerably lower than previous estimates because legislation passed in 2013 eliminated J-51 eligibility for many higher value coops and condos, which typically do not have affordable housing units.

Proponents might argue that awarding J-51 benefits without requiring an affordable housing component is an inefficient use of public funds. In addition, the city no longer needs to incentivize residential rehabilitation for higher-income tenants because the current tight housing market provides a sufficient incentive by itself. Also, the program is not responsible for adding much to the city's stock of rent-stabilized housing. Many residential units that receive J-51 benefits are already rent stabilized because they were built before 1974 and have yet to be deregulated. The additional revenue could be reinvested into more worthwhile affordable housing programs.

Opponents might argue that J-51 is responsible for higher quality residences in areas of the city that would otherwise be dilapidated, having been ignored by the housing market. In addition, the J-51 program serves families that make too much money to qualify for affordable housing but not enough to live comfortably in market-rate housing. Thus, eliminating the 14-year program would also eliminate housing options for middle-income families.

Prepared by Yaw Owusu-Ansah

Make Real Estate Sales Between Nonprofits and For-Profits Subject to the City's Property Transfer Tax

Revenue: $36 million annually

This option would modify the city tax treatment of real property transfers between nonprofit and for-profit entities, making them conform to state tax practice. Both New York City and the Metropolitan Transportation Authority (MTA) would receive new revenue from this change.

Property sales in New York City are subject to both a city and state real property transfer tax (RPTT). There are some exceptions, including transfers between two nonprofit entities, which are exempt from both city and state RPTT. Currently, transfers of real property between not- for-profit and for-profit entities are subject to the state RPTT, but not the city RPTT. The RPTT is normally paid by the seller, but in the case of a nonprofit entity selling to a for-profit concern, the buyer pays the (state) tax.

The city's RPTT rates range from 1.0 percent to 2.625 percent, depending on the property's value and type. Included in the highest rate is a 1.0 percent "urban tax" that is dedicated to the MTA. Based on sales data for fiscal year 2018, IBO estimates that eliminating the exemption in the city RPTT for nonprofit transfers to or from for-profit entities would raise about $36 million annually for the city, and an additional $24 million in urban tax revenue dedicated to the MTA. This change would require state legislation.

Proponents might argue that for-profit entities that sell real property should not receive a tax break solely by virtue of the type of buyer. Conversely, if the not-for-profit entity is the seller, it will continue to be exempt from the tax, which would instead be paid by the for-profit buyer. In addition, proponents might argue that conforming city taxation to state practice increases the transparency of the tax system.

Opponents might argue that while the proposed tax would formally be paid by the for-profit entity, economic theory posits that buyer and seller would each bear part of the burden. As a result, the proposed extension of the city RPTT would increase the costs incurred by nonprofits, thereby diminishing their ability to provide the services that are their mission.

Updated October 2018

Prepared by Alan Treffeisen

Parks Districts Fees

Revenue: $44 million annually

The Department of Parks and Recreation maintains over 1,700 parks, playgrounds, and recreation facilities across the city. These open spaces are enjoyed by city residents and are considered cornerstones of many neighborhoods. Not all parks are maintained equally, however. Faced with similar difficulties, other municipalities including Seattle and Chicago, have created independent entities funded by a small property tax surcharge to pay for parks improvements and maintenance citywide. New York City's parks department currently has an annual budget of $571 million of which $272 million is spent on routine maintenance citywide. These needs will likely continue to grow as new parks amenities are added, and the city's population and tourism increase.

While New York City parks are open to use by all residents, property owners who live nearby a park receive an additional benefit from the impact of the park, with the extent of the benefit reflecting the attractiveness of the particular park as an amenity. This boost in property values due to public parks spending could be partially reclaimed and directed towards parks upkeep through a small fee per $1,000 of fair market property value. This would create a dedicated funding stream for maintaining and improving the park near the property. It could displace some of what the city currently spends on maintenance and the city could use the savings elsewhere in the city budget or shift the savings to parks that suffer from underinvestment, thereby increasing parks funding equity across the city.

Currently, there is around $436 billion of residential property value within 1,500 feet of a flagship, community, or neighborhood park. Assessing a fee of $0.10 per $1,000 of property value, equal to $100 per year on a million dollar home, would create a dedicated revenue stream of $44 million for parks improvements assuming state approval of legislation permitting the creation of the districts and the fee rate. This flat fee could be adjusted along a possible sliding scale based on distance from the park or even on the estimated impact of a specific park on the value of nearby properties.

Proponents might argue that by favoring popular parks in wealthier areas of the city, the parks department is furthering inequality by providing both monetary and aesthetic benefits to residents who do not need the help. Reclaiming some of the monetary benefits of parks spending could free up city funds for other uses and increase fairness. Additionally, because the funding for a given park would come from the surrounding area, the parks districts could be structured to allow local input into how the park is improved and maintained.

Opponents might argue that this is simply a property tax increase and that because property taxes are based on market values, the value associated with being close to a park is already reflected in their property tax bill, making it unfair for the city to level additional fees on their properties. In addition, the properties with the greatest value that would contribute the most revenue are disproportionately located near parks that are already very well maintained, while lower value properties tend to be closer to parks that have been historically neglected. Without a robust mechanism to share funding or redirect city funds, implementing a property value based fee may exacerbate rather than reduce inequality between parks and neighborhoods. This is especially true if the burden for improving neglected parks is shifted onto local residents less able to pay for it.

Prepared by Daniel Huber

Property Tax Surcharge on Vacant Residential Property

Revenue: $46 million annually

Over the last 10 years, concerns over the scarcity of housing have led city and state policymakers to propose a variety of additional taxes on housing not serving as owner-occupied primary residences, including a recently proposed pied-à-terre surcharge on non-primary residences selling for $5.0 million or more as well as a surcharge on one-, two-, and three-family homes (Class 1 properties) where the owner does not use it as a primary residence.

Another option would be for the city to levy an annual property tax surcharge on vacant residences regardless of the property's value, its use as rental property, or the owner's residency status. The surcharge, which would require state approval, would be added to the property's tax rate and prorated monthly for residences unoccupied for less than the full year. Policymakers could adjust the surcharge to exempt residences that are vacant for specific reasons such as those pending demolition.

Based on data from the 2017 Housing and Vacancy Survey, IBO estimates that 8.1 percent of the city's 3.5 million residential units would be subject to such a tax. If the city imposed an annual 5.0 percentage point surcharge on each of these properties, IBO estimates the tax would raise about $46 million, or roughly $163 per vacant residence. (These estimates include the allowance for prorating the surcharge for properties that are vacant only part of the year.) About half of this would be paid by condominium and cooperative owners, a fourth by landlords of Class 2 rentals, and the balance by Class 1 property owners.

Proponents might argue that a tax on vacant residences could increase the availability of housing by providing an incentive to more quickly rent or sell and by discouraging property owners from keeping residences vacant. In addition, since much of surcharge revenue would be paid by owners of houses and coop or condo apartments which have already low taxable assessed values relative to their market values, at the proposed rate the tax would have little impact on residences' effective tax rates, thereby ensuring their tax burdens are kept low relative to nonresidential property.

Opponents might argue that the tax would add an undue burden on property owners. At current rates, with homes taking on average about five months to sell citywide, the additional tax would increase the average tax paid by a vacant Class 1 property by 3.5% and 1.5% for condominium and cooperative property owners. Moreover, for owners of rental properties, the tax would increase a building's operating cost, thereby reducing the incentive to build or maintain housing in neighborhoods where it takes longer to find buyers and renters. This option would be difficult and costly to administer since it would require the Department of Finance to keep track of vacant residential units each month.

Prepared by Yaw Owusu-Ansah

Raise the Cap on Property Tax Assessment Increases

Revenue: $156 million in first year and at least $500 million in fifth year

Under current law, property tax assessments for Class 1 properties (one-, two-, and three-family homes) may not increase by more than 6 percent per year or 20 percent over five years. For apartment buildings with 4 units to 10 units, assessment increases are limited to 8 percent in one year and 30 percent over five years. This option would raise the annual assessment caps to 8 percent and 30 percent for five years for Class 1 properties and to 10 percent annually and 40 percent over five years for small apartment buildings. State legislation would be needed to implement the higher caps and to adjust the property tax class shares to allow the city to recognize the higher revenues.

This change would bring in $156 million in the first fiscal year and $500 million to $633 million annually by the fifth year. These revenue estimates are highly sensitive to assumptions about changes in market values. The average property tax increase in the first year for Class 1 properties would be about $177. With the assessment roll for fiscal year 2019 nearly complete, 2020 is the first year the option could be in effect.

The assessment caps for Class 1 were established in the 1981 legislation creating the city's current property tax system (S7000a) and first took effect for fiscal year 1983. The limits on small apartment buildings in Class 2 (which includes all multifamily buildings) were added several years later. The caps are one of a number of features in the city's property tax system that keeps the tax burden on Class 1 properties low in order to promote home ownership. Assessment caps are one way to provide protection from rapid increases in taxes driven by appreciation in the overall property market that may outstrip the ability of individual owners to pay, particularly those who are retired or on fixed incomes.

Although effective at protecting Class 1 property owners, assessment caps nevertheless cause other problems. They can exacerbate existing inequities within the capped classes if market values in some neighborhoods are growing faster than the cap while values in other neighborhoods are growing slower than the cap. Moreover, in a classified tax system, such as New York's, if only one type of property benefits from a cap, interclass differences in tax burdens will also grow. Beyond these equity concerns, caps can constrain revenue growth if market values are growing at a rate above the cap, particularly if the caps are set lower than needed to provide the desired protection for homeowners' ability to pay.

Proponents might argue that an increase in the caps would eventually yield significant new revenue for the city. Further, by allowing the assessments on more properties to grow proportionately with their market values, intra-class inequities would be lessened. Finally, by allowing the overall level of assessment in Class 1 and in part of Class 2 to grow faster, the interclass inequities in the city's property tax system would be reduced.

Opponents might argue that increasing the burden on homeowners would undermine the city's goals of encouraging home ownership and discouraging the flight of middle-class taxpayers to the suburbs. Other opponents could argue that given the equity and revenue shortcomings of assessment caps they should be eliminated entirely rather than merely raised.

Updated November 2017

Prepared by Yaw Owusu-Ansah

Revenue Options

Reacquire Battery Park City

Revenue: $70 million annually after two years

Battery Park City is a 92-acre neighborhood built on landfill on the southern tip of Manhattan. The state created the Battery Park City Authority (BPCA) in 1968 to finance, develop, and operate the area. The BPCA is a public benefit corporation. It owns the land and manages the now fully developed area, which includes residential and commercial buildings and parkland. The Governor appoints BPCA's board.

Although Battery Park City is exempt from city property taxes, the city assesses pro forma property taxes as if they were owed and tenants make payments in lieu of taxes (PILOTs) to BPCA instead of payments to the city. BPCA's operating revenues—which totaled $307 million in 2018—come primarily from the PILOTs and rents from ground leases. BPCA expenses are largely debt service and operating costs, such as infrastructure and parks maintenance. The city provides most municipal services, however, such as schools, sanitation, and police.

The BPCA is required to remit to the city PILOT revenue remaining after operating expenses, certain debt-service payments and other costs. In 2018, this transfer totaled $155 million. The BPCA retains its other surplus revenue, but can spend it only for purposes agreed upon by the Mayor, BPCA, and the City Comptroller. The most recent agreement was signed in 2010. It allocated $861 million of accumulated and projected future surpluses: $200 million each to the city and state for budget relief, $200 million to the city for affordable housing, and $261 million for city for pay-as-you-go-capital (PAYGO). As of 2018, $88 million remained to be paid to the city for PAYGO capital.

Under the terms of its agreements, the city can reacquire Battery Park City for a nominal fee at any time. To do so, the city must assume or pay off BPCA's outstanding debt (about $1 billion in 2018) and satisfy other contractual obligations. This option would have the city reacquire Battery Park City, giving the city full control over the development's revenues. City revenue would increase by guaranteeing all surplus income would flow to the city without requiring the authority's approval. Following the satisfaction of past agreements and based on recent budgets, this could total about $70 million annually, above what the city now receives as a transfer of PILOT revenue in as little as two years.

Proponents might argue that Battery Park City differs little from other city neighborhoods—it receives similar services, and its residents, in effect, pay the same taxes. Now that the neighborhood's construction is complete, the BPCA is unnecessary and the city should have exclusive control over the revenue it produces. While the city already receives most of BPCA's excess funds, the state-controlled BPCA board can and has at times allocated funds to fill state budget gaps to the detriment of the city. If the city realizes efficiencies by combining BPCA and city operations, revenue would increase. The city would also have the right to sell land now leased through ground leases to private developers.

Opponents might argue that Battery Park City is one of the city's best-maintained neighborhoods thanks to its dedicated funding. Residents and business moved to the area, often paying higher rents due to the ground lease structure, in exchange for its amenities. If funds were distributed citywide, local maintenance would suffer—particularly hurting the neighborhood's many parks. They also might argue an ownership change is unnecessary: BPCA is already required to transfer most of its surpluses to the city and the remaining funds cannot be spent without the city's approval.

Revenue Options

Tax Vacant Residential Land the Same as Commercial Property

Revenue: $17 million in the first year, rising to $115 million annually when fully phased in

Under New York State law, a residentially zoned vacant lot or a commercially zoned lot that is situated immediately adjacent to property with a residential structure, has the same owner as the adjacent residential property, and has an area of no more than 10,000 square feet is currently taxed as Class 1 residential property. All other vacant land is taxed as commercial property. In fiscal year 2019, there are 15,127 vacant properties not owned by government. As Class 1 property, these vacant lots are assessed at no more than 6 percent of full market value, with increases in assessed value due to appreciation capped at 6 percent per year and 20 percent over five years. In 2019, the median ratio of assessed value to full market value was 3.0 percent for these properties.

Under this option, which would require state approval, vacant lots not owned by a government entity with an area of 2,500 square feet or more would be taxed as Class 4, or commercial property, which is assessed at 45 percent of full market value and has no caps on annual assessment growth; 7,467 lots would be reclassified. Phasing in the assessment increase evenly over five years would generate $17.0 million in additional property tax revenue in the first year, and the total increment would grow by $25.0 million in each of the next four years. Assuming that tax rates remain at their 2019 levels, the total property tax revenue generated by the reclassification upon completion of the phase-in would be $115.4 million.

Proponents might argue that vacant property could be better utilized, and awarding it preferential treatment further encourages its underdevelopment. The intention of the lower assessment rate, they could argue, is to incentivize development of Class 1 property. Vacant land zoned for residential use that is not being developed for its intended purposes may thus be an unwise policy at a time in which the city is experiencing a shortage of affordable housing. Proponents might further note that the lot size restriction of 2,500 square feet (the median lot size for Class 1 properties with buildings on them in New York City) would not create incentives to develop very small lots, and the city's zoning laws and land use review process also provide a safeguard against inappropriate development in residential areas.

Opponents might argue that the current tax treatment of vacant land serves to preserve open space in residential areas in a city with far too little open space. Opponents might also argue that zoning policies are less effective at restricting development in residential areas than the preferential tax treatment because the latter is codified in real property tax law. Furthermore, opponents might also point out that the vacant lots have a median land area of 4,000 square feet while the median area of existing Class 1A, 1C, and Class 2 property with at least 2,500 square feet is 10,200 square feet. Thus, many of the vacant residential lots would be too small to develop for housing and would sit vacant even if reclassified.

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