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Gale A. Brewer, Borough President

**Testimony of Manhattan Borough President Gale A. Brewer
NYC Advisory Commission on Property Tax Reform
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Good evening. I am Manhattan Borough President Gale A. Brewer and I appreciate the opportunity to speak to you tonight about such an important issue.

In some important respects, New York City's property tax system was designed to pick winners and losers. I think it is opaque by design as well. But it was also designed to keep property taxes for homeowners low and stable – a goal that it has achieved to a large extent and which I would argue is still important. But there appears to be a growing body of evidence leading to an inescapable conclusion that reform is necessary.

Let's begin at perhaps the most global inequity. To start with, most economists consider the property tax to be a regressive tax. At least for homeowners, how much you owe has nothing to do with how much you make. And for long-term City homeowners, the increase in market value of your home doesn't make a bit of difference to your day to day life if you rely on that home to shelter your family and your salary is not increasing.

To move to another large inequity, some of the largest private landowners in New York City - and in Manhattan — pay no property taxes whatsoever. I no doubt have constituents who live in brownstones or co-ops in the Columbia University or NYU area who may be paying less taxes per dollar of market value than someone in another borough, but who also may be one of the few properties on their block or in their neighborhood paying property tax.

Add to this the fact that a lifetime of federal tax policy has changed this year so that many -- if not most -- New York City homeowners will receive a 20 to 30 percent property tax increase due to the loss of their federal deductions in order to keep taxes in Alabama low. You all have your work cut out for you.

We do need a property tax system that is fairer. Let's not kid ourselves. The current property tax system was not designed to treat all properties or owners equally. It contains provisions to essentially freeze the tax burden on the different classes of property at proportions that existed in the 1980s by capping increases to the share of taxes each class pays as a whole. In addition, for an individual class one property, there are caps on how much the assessment can increase regardless of how high the market goes. Provisions were added to ensure that co-ops and condos would not be too disadvantaged when compared to the favorable treatment given one, two and three-family homes.

In addition, this system provides maximum stability for homeowners by making sure that homeowners are protected from rapidly increasing property values. But, areas that have seen the most rapid increases in values for the longest times may now have received more than their fair share of protection, when compared with other areas. Nevertheless, this protection from rapidly increasing home values is still a valid goal.

It may prove extremely difficult to reform a property tax system in a manner that accomplishes both of these worthy and critical goals -- equity and stability for homeowners -- without a complete overhaul which also takes into account our entire City's tax structure. This may be unlikely. I will first talk about more global changes in our reliance on the property tax and increasing the property tax base. Then I will focus on changes within the current system.

According to data from the Independent Budget Office, in recent decades the property tax has fluctuated between accounting for about 35 percent of the City's total tax revenues and about 45 percent. It is actually at an even higher percentage -- approximately 47 percent of City tax revenues -- for the current fiscal year. When combined with the City's highly regressive sales tax, these two taxes account for about 60 percent of the City's tax revenues. While this provides the City with a very stable tax base, it is not a fair or equitable one. When coupled with the fact that so much property in the City is tax exempt, this seems like a bad way to distribute this burden. I'm not an economist and I don't have economists in my office but it seems like we should at least consider if we should try to target a somewhat smaller portion of the City's tax revenues to come from the property tax.

Philadelphia's property tax makes up approximately 20 percent of its local tax revenues and Chicago's property tax accounts for about 30 percent. While too low a number may be drastic and destabilizing to a City whose income tax revenues are Wall Street dependent, maybe looking at targeting the property tax to no more than a third of tax revenues should be studied, given the fact that we have all heard good arguments in favor of keeping property taxes lower on homeowners, renters and small businesses. This would obviously involve increases in more progressive taxes like the income and business taxes to make up the difference. This "rightsizing" of the City's current over-reliance on the property tax could also result in a needed "downsizing" of the influence of the real estate lobby.

This smaller pie should also be spread over a broader base. I do not advocate property taxes on universities, not-for-profits and religious institutions -- some of which would violate the State Constitution -- and I recognize the tremendous value they add to our City. However, I do think it is unconscionable that some of the city's largest private landowners pay nothing. Currently huge swaths of Manhattan are completely tax exempt. According to reports there are two Ivy League schools in the country that make virtually no payments in lieu of taxes (or PILOTs) to their host city¹ and guess where one of them is located? I think PILOTs on major city tax exempt landowners should be studied.

Finally, regardless of our ability to make the above structural changes to the overall size and base of the property tax, I believe a change is necessary to recognize a growing reality in a changing use of property in New York City and especially in Manhattan. Homeowners use property to provide shelter for themselves. Landlords use their property as a business to provide shelter to renters and locations for businesses. But there is a whole growing class of property owners who use their property to stash their

¹ "5 things Penn students should know about PILOTs," Jennifer Wright, *The Daily Pennsylvanian*, February 8, 2015.

money. Some have referred to the super luxury fifth or fifteenth homes of the global one tenth of one percenters as "safe deposit boxes with views."² Whether owners have come by their money legitimately or not (and I'm sure there are plenty of both), and whether they are foreign or domestic persons or entities, their New York City mansions do nothing to alleviate our housing problems and their presence or lack thereof in the City too often does little to enhance other aspects of our economy.

A series of *New York Times* articles in 2014 and 2015 revealed that from 56th Street to 63rd Street from Park to Fifth Avenues the majority of apartments were vacant the majority of the year.³ A pied a terre tax such as that proposed by State Senator Brad Hoylman should be studied. His proposal would levy a tax on homes of \$5 million or more owned by those who are not New York City residents. Moreover, the assessments on these apartments should reset long before we consider resetting assessments on City residents.

You could even consider making owner occupied one, two and three family homes together with owner occupied co-ops and condos a separate class or subclass separate from these luxury pied a terres. This could allow all owner occupied residences to be assessed the same, eliminating the Russian roulette practice of some co-ops and condos being assessed using rent regulated comparables and others not. Obviously such a favorable assessment practice should never be used on these luxury pied a terres.

To focus on less global issues, a critical component will be studying how to remedy inequities within the existing system. I firmly believe that a somewhat smaller overall property tax spread a bit further through the use of PILOTs would make remedying inequities easier. However, either way we must ensure three things:

First, that homeowners -- and especially long-term homeowners -- who may have benefited from rapidly rising property values on paper but who have been somewhat protected from increases in property taxes -- are not harmed. Any significant increases to their assessments above the norm should not occur until the property is sold.

Second, that those who may have been paying property taxes that are significantly above those of similarly situated properties in other locations have their tax bills reduced.

Third, rental residences should see property taxes decrease, but only if there is a mechanism to pass those rent decreases on to tenants. I have read many reports that the Trump tax cut is resulting in significant tax savings for landlords of rental properties. Unfortunately, I have yet to see landlords offering rent rebates or reductions to their tenants. Developers have gotten enough tax breaks. There needs to be a legal requirement that property tax savings for landlords be passed on to tenants.

Homeowners who have been paying more than what is determined to be an equitable amount could begin to see relief immediately from funds generated by the luxury pied a terre tax. And, as assessments are reset upon sale, they and renters would see further relief. Finally, circuit breakers could be considered for lower income homeowners who have paid an amount determined to be proportionally larger, or whose

² "For Wealthy Foreigners, NYC Apartments Are 'Safe Deposit Boxes With Views,'" Meredith Galante, *Business Insider*, Dec. 4, 2012 quoting, CNBC reporter Robert Frank.

³ "Pied-à-Neighborhood" Julie Satow, *New York Times*, Oct. 24, 2014. See also, "Why the Doorman Is Lonely," Julie Satow, *New York Times*, Jan. 9, 2015.

taxes under the reforms would be larger than they could afford. State Senator Liz Kruger has legislation in Albany that would create such a circuit breaker for those making \$100,000 or less whose property taxes exceed a certain percent of their income.

As I said, you have your work cut out for you. But I thank you for your efforts and for giving everyone the opportunity to weigh in on these critical issues.