## The truth about New York's revenue source

Assessment of property at 100% of market value was virtually mandated for New York State by a decision of its highest court last spring. In effect, the 4 to 3 ruling of the Court of Appeals that a house in the town of Islip on Long Island be assessed for tax purposes at full value invalidates a 200-year old practice and has state-wide application.

This landmark action by the court has stirred controversy. Claims have been made that it will mean immediate and prohibitive tax increases for home owners, that the job of raising all assessments from their present differing percentages of market value to full valuation will be arduous, time-consuming and inordinately expensive, and that it will be counter-productive.

Philip Finkelstein, director of the School's Center for Local Tax Research, writing for the New York Times, related the ruling to New York City's fiscal crisis, asserting that "it is time to tell the truth about the city's fundamental source of revenue."

"The assessment role now stands at $39.7 billion," he says. "The special city equalization ratio, set by the state, is 48%, making the full value of taxable property for debt-incurring purposes $83 billion. With only a slight increase in assessments, but an 11% rise in the tax rate, the city hopes to extract more revenue, while the state permits deeper long-term debt, and neither one confronts reality.

"The reality is that in the last decade the tax base has grown by a third while doubling its yield. In no municipality but New York, which trebled its expenditures in the same period, could an increase in the tax base of 'only a third' be deplorable. Even newer, smaller jurisdictions would envy such growth. Small wonder that the rest of the country has little sympathy for the city's agony. Why should so much concentrated wealth teeter on the brink of bankruptcy?"

For most of the city, he points out, assessments first made in the depressed nineteen thirties were an almost "sacred right of the owner." The city has never been properly assessed, he says. The market comes into play only when a new building is constructed, a new owner takes over or there is a major renovation.

"The scandalous administration of assessments has led to the milking of poor properties by owners and the milking of good ones by the public treasury. Vacant, underutilized, never improved parcels enjoy the benefits of assessments bearing no relation to market clues. Top-quality improvements carry the load. As long as there were enough of the latter, the former could be blithely dismissed.

"But now, though the tax base is still there, the load has shifted. Where values in the past rose only in Manhattan, and the rest of the city crept along, the opposite now seems to be the case."

Questioning whether we can continue to subsidize some situations. Finkelstein asks: "How dare we continue the myth that vacant land has little value when the price of a lot in a good location rises even during depression?"

He concludes that to reflect reality is to obey the law. Doing so, he adds, would not show an erosion of the tax base, but a shift in its incidence; it would show not unlimited resources, but more than enough to support better services than the city now gets.

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*(Copies of Mr. Finkelstein's article are available from the School on request.)*

### Center's role in research

The Center for Local Tax Research has been set up at the School. Among its projects is the compilation of an annual statistical series on the 1,845 taxing districts in the 31-county Metropolitan New York area. The series will include current data on the true value of the tax base, ratios of assessment to real value, and effective rates. Special studies in key localities will examine the impact of local taxes on the community.

Philip Finkelstein, who directs this program, is a former Deputy City Administrator of New York. He comments: "Conflicting and misleading reports on revenues as well as expenditures aggravates the plight of local governments and taxpayers alike. The Center will concentrate on hard facts and comparative analysis, which show what our communities really can afford." Since leaving city government, he has been a professor of political science at Brooklyn College and is now a member of the faculty of Adelphi University.

## Tax abatement might cure sick mortgage money market

Mortgage money is virtually impossible to come by for older industrial buildings even after complete refurbishing, Alan S. Oser complained in the real estate section of the New York Times a month or so ago. Thus it is that investors are almost precluded from renovating the kind of structures, multi-purpose loft buildings, that house so much of the city's small business where so much of its blue-collar labor is employed. So deterioration and vandalism take their toll.

Real estate people explain that typically for mortgage purposes, the rent roll of commerical properties were capitalized at 10%, i.e. multiplied by 10 to arrive at valuation for the property. Then a bank would be willing to lend up to 70% of that value. With, for example, $100,000 a year in rental income, a property would be valued at $1 million and a $700,000 mortgage would be written. A real estate operator would then be able to go on to rehabilitate another property, having been able to get some of his cash investment out of the first one. But now, the banks consider the risk so great that they will capitalize at 20% and lend only 50% of value. (Multiply the $100,000 rentals by five and lend only $250,000.) And even on this basis, they say, there's just no money available from either the banks or any other financial institutions that usually serve this market.

The reluctance of the banks to get involved in mortgages is explained by the growing number of defaults which leave the banks holding the property. And banks don't like to have to go into the real estate business, particularly when there are virtually no buyers for the property the lenders are stuck with.

It is difficult to fault the banks' reasoning. They are reluctant to lend money on a 40-year mortgage when the building is rented by tenants on five-year leases, and there's no market for the property.

At least there has been some constructive thought given to the problem. The state legislature, or half of it, has sought to ease the way for construction and renovation. In the last session it offered a tax abatement on the value of an improvement made to industrial or commercial property. The abatement would have begun at 95% the first year and scaled down by five percentage points each year until it disappeared in 20 years. Unfortunately, the measure died in the Senate.