City of New York

OFFICE OF THE COMPTROLLER

Scott M. Stringer
COMPTROLLER

AUDITS AND SPECIAL REPORTS

Marjorie Landa

Deputy Comptroller for Audit

Audit Report on the Tax Classification of Real Property in the Bronx by the New York City Department of Finance

SR16-110A

September 30, 2016

http://comptroller.nyc.gov

THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, NY 10007

SCOTT M. STRINGER
COMPTROLLER

September 30, 2016

To the Residents of the City of New York:

My office has audited the New York City Department of Finance (DOF) to determine whether DOF had adequate procedures in place to ensure that mixed-use properties in the borough of the Bronx classified as Tax Class 1 are correctly classified. We audit City agencies such as DOF as a means of increasing accountability and ensuring that City resources are used effectively, efficiently and in the best interest of the public.

This audit found that DOF's procedures did not consistently ensure that Bronx properties listed as mixed-use within Tax Class 1 on the assessment rolls have been correctly classified. Based on our exterior inspections of properties listed by DOF as Class 1 mixed-use in May 2016, we preliminarily identified 53 out of 1,143 properties listed as Tax Class 1 that appeared to be misclassified. Following notification of our preliminary findings, DOF requested the list of the 53 properties that appeared to be misclassified. DOF assessors then performed interior inspections, interviewed tenants and/or employees, and confirmed that 22 of the 53 properties should be reclassified. DOF still needs to conduct an interior inspection of one additional property before it makes a final decision about its classification. DOF determined that the remaining 30 properties do not require reclassification. Using DOF's guidelines, we calculated that changing the tax classification of the 22 properties would result in an additional $288,391 in taxes after the increases phase in over the required five-year period.

The audit made the following four recommendations: (1) DOF should make the necessary adjustments to the assessment rolls for the 22 properties that it confirmed are misclassified to ensure that the property owner is assessed the proper amount of tax; (2) DOF should ensure that property tax classification changes recommended by their assessors are implemented by the next tax year; (3) DOF should also determine why their inspectors did not recommend that the classifications of these properties be changed and enhance inspectors' training to address any issues identified; and (4) DOF should consider enhancing its oversight and quality assurance functions to ensure proper classification of properties.

The results of the audit have been discussed with DOF officials, and their comments have been considered in preparing this report. Their complete written response is attached to this report.

If you have any questions concerning this report, please e-mail my Audit Bureau at audit@comptroller.nyc.gov.

Sincerely,

Scott M. Stringer

TABLE OF CONTENTS

THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
AUDITS AND SPECIAL REPORTS

Audit Report on the Tax Classification of Real Property in the Bronx by the New York City Department of Finance

SR16-110A

EXECUTIVE SUMMARY

This audit of the New York City Department of Finance (DOF) was conducted to determine whether DOF's procedures ensure that mixed-use properties in the borough of the Bronx classified as Tax Class 1 are correctly classified. In accordance with the *New York City Real Property Tax Law* (RPTL), DOF classifies every parcel of property in New York City for real-estate purposes. These tax classes are as follows:

- *Class 1:* Consists of residential properties with three or fewer units and "Mixed Commercial/Residential Use" (mixed-use) properties with three or fewer residential and commercial units, where 50 percent or more of the space is used for residential purposes.

- *Class 2:* Includes all other primarily residential properties that are not designated Class 1. Class 2 also has three sub-classes:

    - Class 2a for a 4-to-6 unit rental building;
    - Class 2b for a 7-to-10 unit rental building; and
    - Class 2c for a 2-to-10 unit cooperative or condominium.

- *Class 3:* Includes real estate of utility corporations and special franchise properties, excluding land and certain buildings.

- *Class 4:* Includes all other properties, such as stores, warehouses, hotels, office buildings and any vacant land not classified as Class 1.

Properties are assessed at a percentage of their full market value based on their classifications. Class 1 properties are assessed at 6 percent of market value and Class 2, 3, and 4 properties are assessed at 45 percent.

Audit Findings and Conclusion

Based on our exterior inspections of properties listed by DOF as Class 1 mixed-use in May 2016 on the assessment rolls, we preliminarily identified 53 out of 1,143 listed as Tax Class 1 that appeared to be misclassified. Following notification of our preliminary findings, DOF requested our list of the 53 properties that appeared to be misclassified. DOF assessors then performed interior inspections, interviewed tenants and/or employees, and confirmed that 22 of the 53 properties should be reclassified. DOF still needs to conduct an interior inspection of one additional property before it makes a final decision about its classification. DOF determined that the remaining 30 properties do not require reclassification. While DOF had inspected eight of the 22 properties prior to our inspections, the assessors only recommended that one of the eight properties should change tax and building classifications.

Using DOF's guidelines, we calculated that changing the tax classification of the 22 properties would result in an additional $288,391 in taxes after the increases phase in over the required five-year period.

Audit Recommendations

Based on the audit findings, we make the following four recommendations:

- DOF should make the necessary adjustments to the assessment rolls for the 22 properties that it confirmed are misclassified to ensure that the property owner is assessed the proper amount of tax.
- DOF should ensure that property tax classification changes recommended by their assessors are implemented by the next tax year.
- DOF should determine why their inspectors did not recommend that the classifications of these properties be changed and enhance their training to address any issues identified.
- DOF should consider enhancing its oversight and quality assurance functions to ensure proper classification of properties.

Agency Response

We received a written response from DOF on September 22, 2016. In its response, DOF generally agreed with the audit's recommendations and stated that it would address the issues identified.

Further, the agency stated, "All of the lots provided by the City Comptroller's office have been inspected by assessing staff and those requiring a change in tax classification have been reclassified in the Computer Assisted Mass Appraisal application."

AUDIT REPORT

Background

DOF assesses the value of all New York City properties, collects property taxes and other property-related charges, maintains property records, administers exemptions and abatements and collects unpaid property taxes and other property-related charges through annual lien sales. In accordance with the RPTL, DOF classifies every parcel of property in New York City for real-estate purposes. These tax classes are as follows:

- *Class 1:* Consists of residential properties with three units or less and “Mixed Commercial/Residential Use” (mixed-use) properties (with three or fewer residential and commercial units) where 50 percent or more of the space is used for residential purposes. This class includes primarily residential property such as one, two, and three family homes; condominiums of three stories or less that were originally built as condominiums; and condominiums of three dwelling units or less that were previously one, two, and three family homes and certain vacant land zoned for residential use outside of Manhattan.

- *Class 2:* Includes all other primarily residential properties that are not designated Class 1. This includes co-ops but does not include hotels, motels, or other similar property. Class 2 also has three sub-classes: Class 2a for a 4-to-6 unit rental building; Class 2b for a 7-to-10 unit rental building; and Class 2c for a 2-to-10 unit cooperative or condominium.

- *Class 3:* Includes real estate of utility corporations and special franchise properties, excluding land and certain buildings.[1]

- *Class 4:* Includes all other properties, such as stores, warehouses, hotels, office buildings, and any vacant land not classified as Class 1.

Properties are assessed at a percentage of their full market value based on their classifications. Class 1 properties are assessed at 6six percent of market value and Class 2, 3, and 4 properties are assessed at 45 percent. Increases to assessed values for Tax Class 1 are limited to six percent per year, and no more than 20 percent over five years. Increases to Tax Classes 2a, 2b, and 2c are limited to 8 percent per year, and no more than 30 percent over five years. Increases to Class 2 properties with more than 10 units and Class 4 properties are generally phased in over a five-year period. If the property owner makes physical changes to the property, the phase-in cap does not apply and the full value of the improvements is applied.

DOF’s Property Division is responsible for producing a fair, accurate, and legal assessment roll each year. DOF’s assessors value properties by verifying that they are assigned to the correct building class and tax class; that the physical characteristics of the building, including the square footage, have been recorded accurately; and that the properties are valued in accordance with assessment roll guidelines and general appraisal rules.

Assessors must physically visit a property once every three years. DOF is in the third year of a three-year administrative inspection cycle for such visits. DOF has an *Administrative Inspection Project Instruction* manual that sets forth instructions for assessors on how they are to conduct

[1] Special franchise properties are those situated in, under, above, upon or through any public street, highway, water, or other public place.

inspections, known as "administrative inspections."[2] In advance of these administrative inspections, assessors receive a form with data about each property, including tax class and building class. The assessor must make notes and photograph the property if the property data on the form does not match their field observations. The inspection results are recorded in DOF's computer-assisted mass appraisal system, VISION. If an assessor enters any basic property information about the parcel that does not agree with City records, the assessor records an "X" in the "Re-Visit" column and a brief note to explain why a revisit is recommended. In some instances, the revisit would be an interior inspection.

During Fiscal Year 2015, DOF collected $21.5 billion in property taxes. According to DOF records, there were 1,048,575 taxable properties, consisting of 657,339 Class 1 properties, 278,509 Class 2 properties, 4,431 Class 3 properties, and 108,296 Class 4 properties in New York City.

Objective

The objective of this audit was to determine whether mixed-use properties in the borough of the Bronx classified as Tax Class 1 are correctly classified by DOF.

Scope and Methodology Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit covered properties in the borough of the Bronx that DOF classified as mixed-use properties in Tax Class 1 on its Final Assessment Roll as of May 2016. Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures and tests that were conducted.

Discussion of Audit Results

The findings in this report were discussed with DOF officials during and at the conclusion of this audit. A preliminary draft was sent to DOF officials and discussed at an exit conference held on August 25, 2016. On September 8, 2016 we submitted a draft report to DOF officials with a request for comments.

We received a written response from DOF on September 22, 2016. In that response, DOF generally agreed with the audit's recommendations and stated that it would address the issues identified.

Further, the agency stated, "All of the lots provided by the City Comptroller's office have been inspected by assessing staff and those requiring a change in tax classification have been reclassified in the Computer Assisted Mass Appraisal application."

[2] DOF's *Administrative Inspection Project Instruction* briefing defines an administrative inspection as "an exterior inspection used to check the reasonableness of basic property data (e.g., Building Class, Number of Residential and Commercial Units, Number of Stories) of contiguous parcels located on blocks."

FINDINGS AND RECOMMENDATIONS

Of the 1,143 mixed-use properties in the Bronx identified as Tax Class 1 as of May 2016, we preliminarily identified 53 that appeared to have been misclassified based on observations of the exteriors of the properties. On June 17, 2016, following notification of our preliminary findings, DOF requested our list of the 53 properties that appeared to be misclassified. DOF assessors then reviewed the 53 properties by performing interior inspections, interviewing tenants and/or employees, and confirmed that 22 of the 53 properties should be reclassified. DOF still needs to conduct an interior inspection of one property before making a final decision on that property's classification. DOF determined that the remaining 30 properties do not require reclassification. While DOF had inspected eight of the 22 properties prior to our inspections, the assessors only recommended that one of the eight properties should change tax and building classifications. Using DOF guidelines, we calculated that changing the tax classification of the 22 properties improperly classified would result in an additional $288,391 in taxes after increases phase in over the required five-year period.

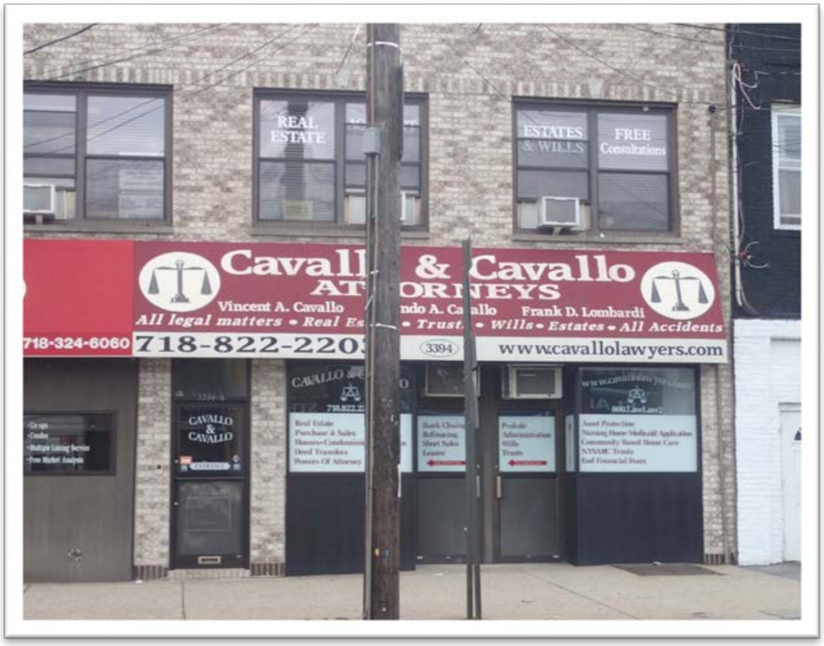
Improper Classification of Mixed-Use Properties

Through physical inspections conducted in May 2016 of mixed-use properties in the Bronx, auditors identified and DOF agreed that 19 properties had more than 50 percent of the property being used for a commercial purpose.[3] However, although DOF inspected eight of these same properties prior to our inspections, the DOF assessors only recommended that one of the eight needed a change in tax and building classifications.

One example of a property that both DOF and the auditors visited with different results was a two-story building with a borough, block and lot (BBL) identified as 2, 5306, 31. That building was listed on the assessment rolls as a "Single or Multiple Dwelling with Stores or Offices" (Tax Class 2A, Building Class S9).[4] Our inspection, as shown in the picture below, found that the property had an attorney's office on the first floor and signs on the windows indicating that a real estate company was located on the second floor of the property. Accordingly, under its guidelines, DOF should have classified this property as a "Multi-Story Retail Building" (Tax Class 4, Building Class K2). For Fiscal Year 2017, DOF assessed the owner of this property $11,447 rather than the $29,763 that a Tax Class 4 classification would have required. A DOF assessor visited this site on May 13, 2015 and did not indicate in VISION that a change to the tax class and building class was required, nor do the assessor's notes indicate that a revisit was required. Following its recent review of the 53 properties identified by the auditors as possibly misclassified, DOF informed us that this property would be reclassified "based on assessor's photos/visit history notes."

[3] We also identified an additional three properties that are classified as one, two or three family homes that appear in fact to have more than 50 percent of their space devoted to commercial use. Those findings are discussed in a separate section of this report below.

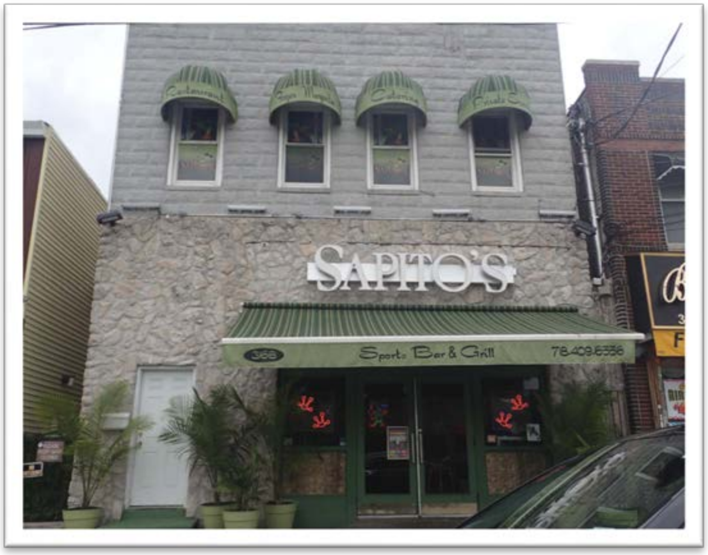
[4] DOF assigns properties that are mixed-use an "S" code in the building classification.

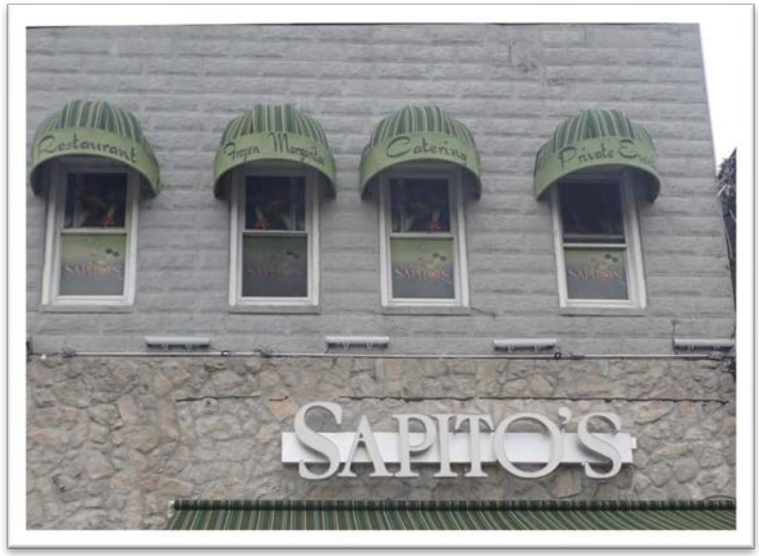


This picture above was taken during our visit on May 24, 2016. However, a picture of this same property found on Google Maps dated September 2007 clearly shows signs for the same two businesses on the property more than eight years prior to our visit.

Similarly, a two-story building with BBL 2, 5350, 62, was listed on the assessment rolls as a “Primarily 2 Family with 1 Store or Office” (Tax Class 1, Building Class S2). Our inspection revealed that the property had a restaurant occupying both the first and second floor. Accordingly, under its guidelines, DOF should have classified this property as a “Multi-Story Retail Building” (Tax Class 4, Building Class K2). However, for Fiscal Year 2017, DOF assessed the owner of this property $6,552 based on an incorrect tax classification, rather than the $17,196 that a Tax Class 4 classification would have required. A DOF assessor had visited this property approximately a year before we did, on June 12, 2015. The assessor also viewed this site with Pictometry image and Google Maps on January 27, 2016.[5] Notwithstanding these observations, the inspector did not indicate in VISION that a change to the tax and building class was required. Following its recent review of the 53 properties identified by the auditors as possibly misclassified, DOF indicated that this property would be reclassified because DOF verified with the restaurant that it uses the second floor for special events/private parties.

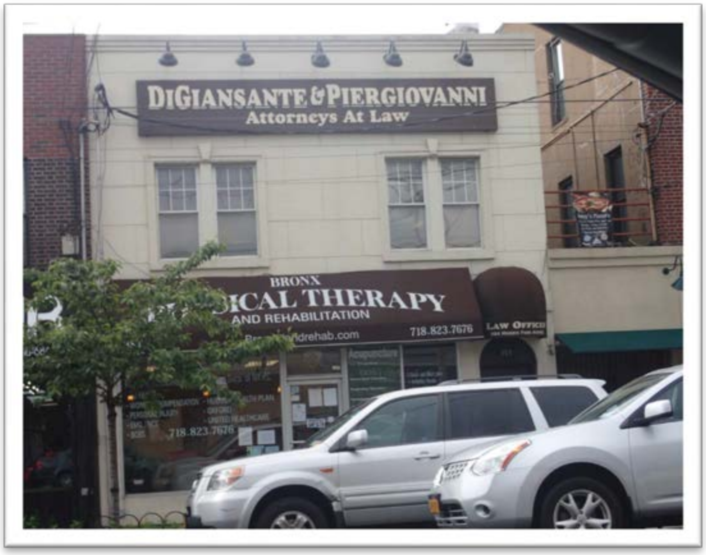
[5] DOF utilizes Pictometry images, which are digital photographs collected from flyovers over the City of New York, to complete virtual inspections of properties.





The pictures above were taken of the location during our visit on May 24, 2016. Google Maps also features a picture of this property dated August 2012 that shows the same business apparently operating at that time in this location. It would appear this property has been incorrectly assessed for at least three years prior to our May 2016 visit.

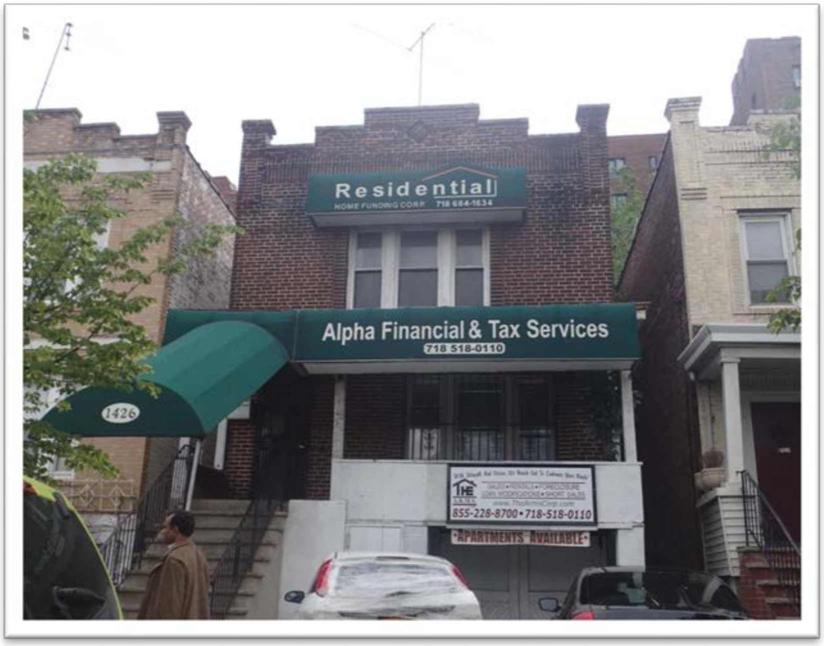
In another example, a two-story building with BBL 2, 4101, 5, was listed on the assessment rolls as a “Primarily 2 Family with 1 Store or Office” (Tax Class 1, Building Class S2). Our inspection conducted in May 2016 found that the property had a physical therapy clinic on the first floor and an attorney’s office on the second floor. A DOF assessor had previously visited this site on May 27, 2015, and again on February 10, 2016. As a result of the second visit, the assessor recommended a change to the building class to “Multi-Story Retail Building” (Tax Class 4, Building Class K2). DOF assessed the owner of this property $4,447 based on an incorrect tax classification, rather than the $19,842 that a Tax Class 4 classification would have required. Following its recent review of the 53 properties identified by the auditors as possibly misclassified, DOF indicated that this property would be reclassified because DOF found that this property is utilized for commercial office type uses on both levels of the structure.



The two pictures above were taken during our visit on May 24, 2016. A picture of this same property dated June 2011 can also be found on Google Maps that shows signs for both businesses, which indicates that the misclassification of the property may have existed for at least five years prior to our visit.

Improper Classification of Other Class 1 Properties

Our inspections identified and DOF agreed that three properties had been incorrectly classified as either one, two or three family homes, based on our respective inspections that revealed that more than 50 percent of each home is being used for commercial purposes. Under DOF guidelines, such properties should be classified as Tax Class 4 properties based on the predominance of commercial use. As of May 27, 2016, DOF assessors had not inspected any of these properties during this three-year cycle. For example, we identified a two-story building with BBL 2, 3937, 55, listed on the assessment rolls as a two-story home (Tax Class 1, Building Code A1). Our inspection found that the property had a realty office occupying both the first and second floor. Accordingly, DOF should have classified this property as an “Office Only 2–6 Stories” (Tax Class 4, Building Class O2). For Fiscal Year 2017, DOF assessed the owner of this property $5,352, rather than $12,964 that would have been applicable based on a Tax Class 4 classification. When DOF provided the results of its review that followed our identification of the 53 properties we found to be possibly misclassified, it indicated this property would be reclassified based on the assessor’s photos and visit history notes.



The picture above was taken during our visit on May 24, 2016. Google Maps has a picture of this property dated September 2007. Based on that earlier picture, it appears that the use of the property as a realty office has not changed in at least the past eight years. Thus, DOF has incorrectly classified this property for at least that long.

Recommendations

1. DOF should make the necessary adjustments to the assessment rolls for the 22 properties that it confirmed are misclassified to ensure that the property owner is assessed the proper amount of tax.

   DOF Response: "DOF agrees. DOF received the list of 53 parcels from the City Comptroller that were potentially misclassified. At that time the Senior Supervising Assessor in the Bronx office assigned them for immediate inspection. To ensure proper classification a team of trained assessors worked through the list by visiting each parcel in person. Care was taken to determine the use of each property and the result were documented by notes and photos. Assessors will ensure proper classification on the next assessment roll."

2. DOF should ensure that property tax classification changes recommended by their assessors are implemented by the next tax year.

   DOF Response: "DOF partially agrees. Assessors may indicate a potential reclassification is required when conducting survey field work. The documentation they return to supervisors must first be reviewed and additional inspections scheduled before rushing to reclassify parcels based solely on an exterior inspection. Otherwise many owners of the 53 parcels provided by auditors would have been unfairly burdened with tax class change. DOF agrees however that change recommendations which result in reclassification be conducted in a timely manner."

   Auditor Comment: We agree that DOF should not rush to reclassify properties. However, reclassification of properties should be implemented appropriately and timely. As can be seen in the third example above (building with BBL 2, 4101, 5), in a second visit to the property, DOF's assessor recommended the reclassification of the property. However, the reclassification of this property did not occur for the next tax year.

3. DOF should determine why their inspectors did not recommend that the classifications of these properties be changed and enhance their training to address any issues identified.

   DOF Response: "DOF partially agrees. Of the 53 properties identified by auditors fewer than half required a change in tax classification. This illustrates the complexity of identifying predominant use from a street-level inspection. Assessors are unlikely to recommend a change in classification without definitive evidence to justify that change. DOF has a responsibility to the public to ensure that a potential increase in tax liability is warranted.

   Assessors are required to be New York State certified and this certification process includes a field component. In 2015 the Chief Review Assessor designed a Data Collection course which was approved by the New York State Office of Real Property

Tax Services. The inspection and classification of real property is the primary focus of the course which was offered for the first time in 2015. The Property Division will continue to work with assessing staff to develop skills in this area. Additional classes have already been held in the spring and summer of 2016."

4. DOF should consider enhancing its oversight and quality assurance functions to ensure proper classification of properties.

DOF Response: "DOF agrees. Real estate in New York City is dynamic and constantly changing. This is particularly true for Bronx mixed- use properties. DOF strives to continually update property records and maintain a high level of quality.

In an effort to strengthen quality assurance functions, supervisors and assessor managers will be implementing additional field and in-office reviews to ensure the proper classification of real property. The Quality Assurance group will also coordinate sampling of field work to identify errors and potential training needs."

DETAILED SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope period of this audit covers properties in the Bronx that DOF classified as mixed-use in Tax Class 1 on its Final Assessment Roll as of May 2016.

To achieve our audit objective, we reviewed DOF's *NYC Residential Property Taxes Guidelines for Tax Class 1 and Tax Class 2 Properties* and *Fiscal Year 2017 Guidelines for Properties Valued*. We also reviewed the tax rates for each class of real property in Fiscal Year 2017 and DOF's procedures to calculate the real estate taxes. To gain an understanding of the regulations governing the classification of real property and DOF's procedures for ensuring that properties are correctly classified, we confirmed the Building Classification Process with DOF's Deputy Director of Property Quality Assurance Division. The conversations were documented in memoranda. We used *New York City Administrative Code §11-207 – Duties of Assessors in Assessing Property* and *New York Real Property Tax Law §1802 – Classification of Real Property in a Special Assessing Unit* as audit criteria for assessing and classifying real properties.

We reviewed DOF's *Tentative and Final Assessment Rolls* (AVRoll) for Fiscal Year 2017, published in January and May 2016, which we obtained from DOF's website. We extracted all one- to three-story mixed-use properties in Tax Class 1 in the Bronx. As of May 2016, there were 1,143 one- to three-story mixed-use properties listed as Tax Class 1. Based on our research using Google Visual Tour, we identified 60 potentially misclassified properties. We relied on our physical observations to test the accuracy and completeness of the AVRoll.

We reviewed DOF's AVRoll to confirm the building classification of the 60 potential misclassified properties. We then visited each property to physically observe whether they were properly classified. Of the 60 properties we visited, 38 appeared to be misclassified. During our visits, we identified another 15 properties that appeared to be misclassified (12 properties in Tax Class 1 and 3 properties in Tax Class 2A). We verified each building classification by reviewing the Final Assessment Roll. Upon review of our photographs and notes taken during our observations, we determined that 53 preliminarily appeared to be misclassified. DOF requested and were provided with a list of the 53 properties prior to completing our analysis.

For the 22 properties that were misclassified, we estimated the amount of additional tax due based on the appropriate tax classification for each property. We calculated the property tax, according to DOF's procedures, by using the median approximate market value on the *Fiscal Year 2017 Guidelines for Properties Valued*, as recommended by DOF.

DOF used the VISION system to process the full detailed evaluation on the assessed properties. To determine if DOF's Administration Inspection Project results had been properly documented, we reviewed the Visit History and Property Notes of the 53 misclassified properties for the date of inspection, inspection type, and the inspection result in DOF's VISION system. We compared DOF's inspection result to the result from our visits. We also reviewed DOF's Instructions for Field Valuation for the inspection procedures.

Department of Finance

City of New York
Department of Finance
nyc.gov/finance

Jacques Jiha, Ph.D.
Commissioner

1 Centre Street, 5th Floor
New York, NY 10007

September 22, 2016

Ms. Marjorie Landa
Deputy Comptroller for Audit
Office of the City Comptroller
1 Centre Street, 11th Floor
New York, NY 10007

Re: Audit Report on the Tax Classification of Real Property in the Borough of Bronx by the New York City Department of Finance (SR16-110A)

Dear Deputy Comptroller Landa,

Introduction

The Department of Finance (DOF) appreciates the Comptroller's findings that out of 1,143 Tax Class 1 mixed-use properties in the Bronx, 22 were improperly classified. All of the lots provided by the City Comptroller's office have been inspected by assessing staff and those requiring a change in tax classification have been reclassified in the Computer Assisted Mass Appraisal application.

Background

In general, the Department of Finance Property Division inspects thousands of parcels each year which have filed for a construction permit with the Department of Buildings. Other inspections include neighborhood surveys, special projects and taxpayer-initiated inspections from *Requests to Update* form submissions.

In the spring of 2015 DOF initiated an Administrative Inspection Project to visit all parcels citywide. In this first year more than 300,000 parcels were seen by assessing staff. This was made possible by the addition of new assessing staff hired over the past several years. It should be noted however that due to the Principal of Change, a margin of error will permanently exist in real estate. The International Association of Assessing Officers (IAAO) defines the Principal of Change in real estate as "the market value is never constant because physical, economic, governmental, and social forces are at work to change the property and its environment."

TC1 mixed-use properties represent a relatively small portion of all parcels citywide. Their use can vary over time and their classification can be difficult to establish with an exterior inspection. There are other considerations outside of business signs which assessors must take into account before reclassifying a property. This is illustrated in the auditors' own field work that of 53 parcels originally identified in the preliminary findings, only 22 were actual cases of misclassification.

The predominant active use, which determines the classification of a property, is determined by square footage. Although a review of Certificates of Occupancy provides for some information on permissible use, an interior inspection may be necessary to establish the actual commercial and residential square footage before reclassification. Gaining access to these properties is often difficult and several attempts are required.

An example to illustrate this complexity is a three-story building which has retail on the first floor and a business sign mounted on the second story. While the second story is fully residential, from the street level it may appear to be a business. This observation is not definitive and cannot be used alone to reclassify a parcel. Internal inspections, speaking with tenants or neighbors as well as researching various records (such as filed RPIEs) may be required.

Responses to Recommendations

1. **DOF should make the necessary adjustment to the assessment rolls for the 22 properties that it confirmed are misclassified to ensure that the property owner is assessed the proper amount of tax.**

DOF agrees.

DOF received the list of 53 parcels from the City Comptroller that were potentially misclassified. At that time the Senior Supervising Assessor in the Bronx office assigned them for immediate inspection. To ensure proper classification a team of trained assessors worked through the list by visiting each parcel in person. Care was taken to determine the use of each property and the results were documented by notes and photos. Assessors will ensure proper classification on the next assessment roll.

2. **DOF should ensure that property tax classification changes recommended by their assessors are implemented by the next tax year.**

DOF partially agrees.

Assessors may indicate a potential reclassification is required when conducting survey field work. The documentation they return to supervisors must first be reviewed and additional inspections scheduled before rushing to reclassify parcels based solely on an exterior inspection. Otherwise many owners of the 53 parcels provided by auditors would have been unfairly burdened with tax class change. DOF agrees however that change recommendations which result in reclassification be conducted in a timely manner.

3. **DOF should determine why their inspectors did not recommend that the classifications of these properties be changed and enhance their training to address any issues identified.**

DOF partially agrees.

Of the 53 properties identified by auditors fewer than half required a change in tax classification. This illustrates the complexity of identifying predominant use from a street-level inspection. Assessors are unlikely to recommend a change in classification without definitive evidence to justify that change. DOF has a responsibility to the public to ensure that a potential increase in tax liability is warranted.

Assessors are required to be New York State certified and this certification process includes a field component. In 2015 the Chief Review Assessor designed a Data Collection course which was approved by the New York State Office of Real Property Tax Services. The inspection and classification of real property is the primary focus of the course which was offered for the first time in 2015. The Property Division will continue to work with assessing staff to develop skills in this area. Additional classes have already been held in the spring and summer of 2016.

4. **DOF should consider enhancing its oversight and quality assurance functions to ensure proper classification of properties.**

DOF agrees.

Real estate in New York City is dynamic and constantly changing. This is particularly true for Bronx mixed-use properties. DOF strives to continually update property records and maintain a high level of quality.

In an effort to strengthen quality assurance functions, supervisors and assessor managers will be implementing additional field and in-office reviews to ensure the proper classification of real property. The Quality Assurance group will also coordinate sampling of field work to identify errors and potential training needs.

Sincerely,

Timothy Sheares, Deputy Commissioner

cc: Michael Hyman, First Deputy Commissioner
Carmela Quintos, Assistant Commissioner
Sam Mayer, Senior Director, Internal Audit