

City of New York

OFFICE OF THE COMPTROLLER

Scott M. Stringer
COMPTROLLER



AUDIT AND SPECIAL REPORTS

Marjorie Landa

Deputy Comptroller for Audit

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

SR15-115A

February 18, 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

February 18, 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 properties in the borough of Brooklyn that are listed as mixed-use properties on the assessment rolls, specifically in Tax Classes 1, 2a, or 2b, 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 does not have adequate procedures in place to ensure that properties in Brooklyn listed as mixed-use within Tax Class 1, 2a, or 2b on the assessment rolls have been correctly classified. Based on our inspections of mixed-use properties in July 2015, we identified 197 out of 15,952 properties listed as Tax Classes 1, 2a, or 2b that appeared to be misclassified. While DOF inspected 47 of the 197 properties during May and June 2015 just prior to our reviews, assessors only requested that 13 of these 47 properties be re-inspected for a possible change in tax and building classifications. As of December 16, 2015, DOF had not re-inspected or changed the tax class for any of the 13 properties. Using DOF guidelines, we calculated that changing the tax classification of the 197 properties would result in an additional \$2.09 million in taxes after the increases phase in over the required five-year period.

The audit made four recommendations, including that DOF should inspect the 197 properties (including the 47 previously inspected) and determine whether these properties are misclassified; make the necessary adjustments to the assessment rolls for any of the 197 properties that are determined to be misclassified to ensure that the property owner is assessed the proper amount of tax; and 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

EXECUTIVE SUMMARY	1
Audit Findings and Conclusion	2
Audit Recommendations.....	2
Agency Response.....	2
AUDIT REPORT	3
Background	3
Objective.....	4
Scope and Methodology Statement.....	4
Discussion of Audit Results	4
FINDINGS AND RECOMMENDATIONS.....	6
Improper Classification of Mixed-Use Properties.....	6
Improper Classification of Other Class 1 Properties	9
Recommendations.....	11
DETAILED SCOPE AND METHODOLOGY.....	12
ADDENDUM	

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

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

SR15-115A

EXECUTIVE SUMMARY

This audit of the New York City Department of Finance (DOF) was conducted to determine whether DOF has adequate procedures in place to ensure that properties in the borough of Brooklyn listed as mixed-use properties on the assessment rolls, specifically in Tax Classes 1, 2a, or 2b, are correctly classified. In accordance with the *New York 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

DOF does not have adequate procedures in place to ensure that properties in Brooklyn listed as mixed-use within Tax Class 1, 2a, or 2b on the assessment rolls have been correctly classified. Based on our inspections of mixed-use properties in July 2015, we identified 197 out of 15,952 properties listed as Tax Classes 1, 2a, or 2b that appeared to be misclassified. While DOF inspected 47 of the 197 properties during May and June 2015 just prior to our reviews, assessors only requested that 13 of these 47 properties be re-inspected for a possible change in tax and building classifications. As of December 16, 2015, DOF had not re-inspected or changed the tax class for any of the 13 properties.

Using DOF guidelines, we calculated that changing the tax classification of the 197 properties would result in an additional \$2.09 million in taxes after the increases phase in over the required five-year period.

Audit Recommendations

The audit made the following four recommendations:

- DOF should inspect the 197 properties (including the 47 previously inspected) and determine whether these properties are misclassified.
- DOF should make the necessary adjustments to the assessment rolls for any of the 197 properties that are determined to be misclassified to ensure that the property owner is assessed the proper amount of tax.
- DOF should retrain assessors on what to look for during an inspection of these types of properties.
- 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 officials on February 9, 2016. In its response, DOF agreed with the audit's recommendations and stated that it would address the issues identified.

Further, the agency stated that it "appreciates the Comptroller's findings that out of the 15,952 mixed-use Tax Class 1, 2A and 2B properties in Brooklyn, 197 were potentially improperly classified. All of the lots provided by the City Comptroller's office have been re-inspected by assessing staff and those clearly requiring a change have been reclassified in the Computer Assisted Mass Appraisal application."

AUDIT REPORT

Background

The New York City Department of Finance (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 *New York 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:* Applies to 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 properties. 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 6 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 6 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 a 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 are required to physically visit a property once every three years. DOF is in the first year of a three year administrative inspection cycle for such visits. In advance of these visits,

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

assessors receive a form with data about each property that includes the building's tax class and building class.² The assessor must make note of any changes they observe in building conditions during their field observations. The results of the inspections are recorded within DOF's computer assisted mass appraisal system called *VISION*.

During Fiscal Year 2015, DOF collected \$21.5 billion in property taxes. According to DOF records, there were 1,096,247 taxable properties, consisting of 708,676 Class 1 properties, 272,640 Class 2 properties, 4,603 Class 3 properties, and 110,328 Class 4 properties.

Objective

The objective of this audit was to determine whether DOF has adequate procedures in place to ensure that properties in the borough of Brooklyn that are listed as mixed-use properties on the assessment rolls, specifically in Tax Classes 1, 2a, or 2b, are correctly classified.

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 Brooklyn that DOF classified as mixed-use properties in Tax Class 1, Tax Class 2a, and Tax Class 2b on DOF's Final Assessment Roll as of May 2015. 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 matters covered in this report were discussed with DOF officials during and at the conclusion of this audit. A preliminary draft report was sent to DOF officials and discussed at an exit conference held on January 19, 2016. On January 26, 2016 we submitted a draft report to DOF officials with a request for comments. We received a written response from DOF officials on February 9, 2016. In their response, DOF officials agreed with the audit's recommendations and stated that it would address the issues identified.

Further, the agency stated that it "appreciates the Comptroller's findings that out of the 15,952 mixed-use Tax Class 1, 2A and 2B properties in Brooklyn, 197 were potentially improperly classified. All of the lots provided by the City Comptroller's office have been re-inspected by assessing staff and those clearly requiring a change have been reclassified in the Computer Assisted Mass Appraisal application.

Considering the small number of parcels identified in this audit, the Comptroller's conclusion that *'DOF does not have adequate procedures in place to ensure properties in Brooklyn...*

² DOF's Administrative Inspection Project 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."

have been correctly classified' is an overgeneralization. DOF does agree, however, that enhanced procedures can help to reduce the mixed-use classification error rate even lower.

Additionally, not all 197 parcels provided by the City Comptroller are misclassified. The results of recent inspections are as follows:

- 140 required a Tax Class change
- 41 did not require a Tax Class change
- 16 parcels will require an internal inspection or information from the owner. Letters were mailed requesting an inspection.”

[Emphasis original.]

We are pleased that DOF has taken prompt action in response to our audit. However, we disagree with DOF's contention that we have overgeneralized the inadequacy of its ability to ensure that properties in Brooklyn have been correctly classified. As DOF acknowledges in its response to the audit, at least 140 out of the 197 properties identified in the report were, in fact, misclassified. The reclassification of these properties will result in additional revenue of at least \$1.7 million annually, once the five-year phase-in is complete. Therefore, the City will potentially be receiving additional revenue for many years. The impact of having adequate procedures will ensure that properties are being properly classified and that the City will as a result receive the revenue that it is due.

The full text of DOF's response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

DOF does not have adequate procedures in place to ensure that properties in Brooklyn listed as mixed-use within Tax Class 1, 2a, or 2b on the assessment rolls have been correctly classified. Based on our inspections of mixed-use properties in July 2015, we identified 197 out of 15,952 properties listed as Tax Classes 1, 2a, or 2b that appeared to be misclassified. While DOF inspected 47 of the 197 properties during May and June 2015 just prior to our reviews, assessors only requested that 13 of these 47 properties be re-inspected for a possible change in their tax and building classifications. As of December 16, 2015, DOF had not re-inspected or changed the tax class for any of the 13 properties.

Using DOF guidelines, we calculated that changing the tax classification of the 197 properties to reflect the observed usages of the buildings would result in an additional \$2.09 million in taxes after the increases phase in over the required five-year period.

Improper Classification of Mixed-Use Properties

Our physical inspections of mixed-use properties in Brooklyn identified 189 properties where it appears that more than 50 percent of the property is being used for a commercial purpose.³ During May and June 2015, DOF inspected 45 of these properties but only requested that 13 of the 45 be re-inspected for possible changes in their tax and building classifications.

For example, a two-story building with a borough, block and lot (BBL) identified as Borough 3 Brooklyn, Block 5745, and Lot 8 was listed on the assessment rolls as “Primarily Two-Family with One Store or Office” (Tax Class 1, Building Class S2).⁴ Our inspection, as shown in the picture below, disclosed that the building appears to have one business on the first floor and another business specifically identified on a sign as occupying the second floor. 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 2016, DOF assessed the owner of this property \$6,535 rather than the \$16,208 that should have been assessed based on the appropriate Tax Class 4 classification. A DOF assessor visited this site on June 3, 2015, and did not indicate in *Vision* that a change to the tax class and building class was required, nor do the notes indicate a revisit is required.

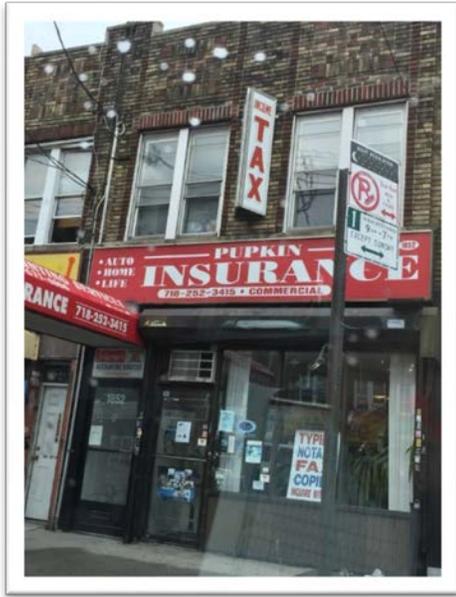
³ We also identified an additional eight properties that are classified as one, two or three family homes that appear to in fact have more than 50 percent of their space devoted to commercial use. Those finding are discussed in a separate section of this report below.

⁴ DOF assigns properties that are mixed-use an “S” code in the building classification.



The picture above was taken during our visit on July 10, 2015. Google Maps has a picture of this property as of August 2014 that includes signs for both businesses, which indicates these businesses were operating for a period of time prior to our July 2015 visit.

Similarly, a two story building with BBL 3, 7637, 41, was listed on the assessment rolls as a “Primarily One-Family with One Store or Office” (Tax Class 1, Building Class S1). Our inspection as shown in the pictures below disclosed that the building had an insurance business on the first floor and sign over the door indicating an accounting business on the second floor. A closer look at the bells for the door leading to the second floor indicate that two businesses are located on the second floor. 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 2016, DOF assessed the owner of this property \$3,625 rather than the \$12,717 that a Tax Class 4 classification would have required. A DOF assessor visited this site on May 19, 2015, and did not indicate in VISION that a change to the tax class and building class is required nor did the assessor indicate a revisit is required.



The pictures above were taken during our visit on July 10, 2015. Google maps has a picture of this property as of October 2014 with signs for both businesses.

In another example, a three story building with BBL 3, 6592, 52, was listed on the assessment rolls as a primarily residential property with stores or offices (Tax Class 2B, Building Class S9). Our inspection as shown in the picture below disclosed that the building had a store on the first floor and signs all over the building (including signs on a separate entrance) indicating a mortgage broker and airline and travel service corporation were located on other floors of the building. Thus, it does not appear that this building is being used primarily for residential use. 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 2016, DOF assessed the owner of this property \$24,020 rather than the \$32,690 that a Tax Class 4 classification would have required. A DOF assessor visited this site on June 26, 2015, and did not indicate in VISION that a change to the tax class and building class is required nor do the assessor's notes indicate that a revisit is required.



This picture was taken during our visit on July 10, 2015. Google maps has a picture of this property as of October 2013 with signs for all three businesses.

Improper Classification of Other Class 1 Properties

Our inspections found eight properties that were classified as either one, two or three family homes but it appears that more than 50 percent of the home is being used for commercial purposes. During June 2015, DOF assessors inspected two of these properties and did not request that the two properties be re-inspected for a possible change in tax and building classifications.

For example, we identified a two story building with BBL 3, 858, 74, listed on the assessment rolls as “One Story – Permanent Living Quarter” (Tax Class 1, Building Code A2). Our inspection as shown in the picture below disclosed that the building had a business on the first floor and an attorney/tax office on the second floor. Accordingly, pursuant to its guidelines, DOF should have classified this property as a “Miscellaneous Office Building.” For Fiscal Year 2016, DOF assessed the owner of this property \$3,865 rather than \$9,974 based on a Tax Class 4 classification. A DOF assessor visited this site on June 12, 2015, and did not indicate in VISION that a change to the tax class and building class is required nor did the assessor’s notes indicate a revisit is required.



This picture was taken during our visit on July 10, 2015. Google Maps has a picture of this property as of August 2014 with signs for both businesses.

Recommendations

1. DOF should inspect the 197 properties (including the 47 previously inspected) and determine whether these properties are misclassified.

DOF Response: “DOF Agrees. Upon receiving the list of 197 from the City Comptroller in December 2015, the Senior Supervising Assessor in the Brooklyn office distributed the parcels for immediate inspection. To ensure proper classification a team of trained assessors and assistant assessors worked through the list by visiting each parcel in person. When needed, assessors attempted to gain access for an internal inspection. Care was taken to determine the use of each property and the results were documented by notes and photos.”

2. DOF should make the necessary adjustments to the assessment rolls for any of the 197 properties that are determined to be misclassified to ensure that the property owner is assessed the proper amount of tax.

DOF Response: “DOF agrees. The Fiscal Year 16/17 Assessment Roll will account for the changes made by DOF as a result of the recent inspections. While 140 of the 197 required a change in Tax Classification, 41 did not require a tax class change and 16 were mailed an interior inspection request. This request was sent in order to arrange a time to access the interior of the property. These inspections will lead to a more accurate assessment of the predominant use of the property.”

3. DOF should retrain assessors on what to look for during an inspection of these type of properties.

DOF Response: “DOF agrees. Training is critical to ensure the quality of the work done by assessors. 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 as additional classes are scheduled for 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 in Brooklyn at this time and true citywide for mixed use properties. An inspection is a snapshot in time. At DOF we strive to continually update our data and maintain a high level of quality.”

In an effort to strengthen our quality assurance functions supervisors and assessor managers will be implementing additional field checks to ensure the proper classification of real property. The Quality Assurance group will also coordinate random 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 borough of Brooklyn that DOF classified as mixed-use in Tax Class 1, Tax Class 2a, and Tax Class 2b on DOF's Final Assessment Roll as of May 2015.

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 2016 Guidelines for Properties Valued*. We also reviewed the tax rates for each class of real property in Fiscal Year 2016 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 conducted walk-through meetings with DOF's officials, and met with DOF's Deputy Director of Property Quality Assurance Division and Administrative Assessor from DOF Property Division. The results 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 *Final Assessment Roll (AVRoll)* for Fiscal Year 2016 that we obtained from DOF's website published in May 2015. We extracted all one to three-stories mixed-use properties in Tax Class 1, 2a, and 2b in the borough of Brooklyn. As of May 2015, there were 15,952 one to three-stories mixed use properties: 11,420 properties that were listed as Tax Class 1, 4,026 properties that were listed as Tax Class 2a, and 506 properties that were listed as Tax Class 2b. Based on our research using Google Visual Tour, we identified 229 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 229 potential misclassified properties. We then visited each property to physically observe whether they were properly classified. Of the 229 properties we visited, 134 appeared to be misclassified. Our determination was based on the percentage of commercial space at each of the properties—properties with more than 50 percent of the space used for commercial purposes should not be classified as Tax Class 1, 2a or 2b. During our visits, we identified another 63 properties that appear to be misclassified. We verified each building classification by reviewing the Final Assessment Roll. We noted that in total 197 properties listed as Tax Classes 1, 2a, or 2b appeared to be misclassified.

For the 197 properties that appear to be 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 2016 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 result was properly documented, we reviewed the Visit History of the 197 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.



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

Jacques Jiha, Ph.D.
Commissioner

1 Centre Street, 11th Floor
New York, NY 10007

February 9, 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 Brooklyn by the New York City Department of Finance (SR15-115A)**

Dear Deputy Comptroller Landa,

Introduction

The Department of Finance (DOF) appreciates the Comptroller's findings that out of the 15,952 mixed-use Tax Class 1, 2A and 2B properties in Brooklyn, 197 were potentially improperly classified. All of the lots provided by the City Comptroller's office have been re-inspected by assessing staff and those clearly requiring a change have been reclassified in the Computer Assisted Mass Appraisal application.

Considering the small number of parcels identified in this audit, the Comptroller's conclusion that "*DOF does not have adequate procedures in place to ensure properties in Brooklyn... have been correctly classified*" is an overgeneralization. DOF does agree, however, that enhanced procedures can help to reduce the mixed-use classification error rate even lower.

Additionally, not all 197 parcels provided by the City Comptroller are misclassified. The results of recent inspections are as follows:

- 140 required a Tax Class change
- 41 did not require a Tax Class change
- 16 parcels will require an internal inspection or information from the owner. Letters were mailed requesting an inspection.

Background

In general, the Department of Finance Property Division inspects thousands of parcels each year which have filed with the Department of Buildings. Other inspections include neighborhood surveys, special projects and Requests to Update (taxpayer initiated).

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, 2A and 2B 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.

The predominant active use, which determines the classification of a property, is determined by square footage. If the second of a three story building is mixed-use an interior inspection may be necessary to establish the commercial percentage of that story before reclassification. Gaining access to these properties is often difficult and several attempts are required.

In other cases a two-story building with retail on the first floor may have a sign identifying a second story accounting office. If, for example, the second story is a primary residence and there is a difference in square footage from the first to second floor, the mere presence of a business sign does not confirm a predominant commercial use.

Additional research is required to ensure proper classification. This can include an internal inspection, speaking to someone at the location or a neighbor, and researching various records (such as filed RPIEs) from DOF or other city agencies. An assessor’s knowledge of the neighborhood and common use types is important also. For example, a psychic reader sign does not usually indicate that the entire floor is used for that purpose; it may be one room on a residential floor.

DOF recommends that any mixed-use parcel with commercial space be required to file the new RPIE short form. This RPIE form was recently developed to accommodate the smaller, largely mixed-use properties to simplify the filing process. Currently this is not required for parcels with an Assessed Value below 40,000. With additional information from the property owner DOF will have more accurate data to make informed decisions with regards to classification and valuation.

Responses to Recommendations

- 1. DOF should inspect the 197 properties (including the 47 previously inspected) and determine whether these properties are misclassified.**

DOF Agrees.

Upon receiving the list of 197 from the City Comptroller in December 2015, the Senior Supervising Assessor in the Brooklyn office distributed the parcels for immediate inspection. To ensure proper classification a team of trained assessors and assistant assessors worked through the list by visiting each parcel in person. When needed, assessors attempted to gain access for an internal inspection. Care was taken to determine the use of each property and the results were documented by notes and photos.

2. **DOF should make the necessary adjustments to the assessment rolls for the any of 197 properties that are determined to be misclassified to ensure that the property owner is assessed the proper amount of tax.**

DOF agrees.

The Fiscal Year 16/17 Assessment Roll will account for the changes made by DOF as a result of the recent inspections. While 140 of the 197 required a change in Tax Classification, 41 did not require a tax class change and 16 were mailed an interior inspection request. This request was sent in order to arrange a time to access the interior of the property. These inspections will lead to a more accurate assessment of the predominant use of the property.

3. **DOF should retrain assessors on what to look for during an inspection of these type of properties.**

DOF agrees.

Training is critical to ensure the quality of the work done by assessors. 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 as additional classes are scheduled for 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 in Brooklyn at this time and true citywide for mixed use properties. An inspection is a snapshot in time. At DOF we strive to continually update our data and maintain a high level of quality.

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

Sincerely,



Carmela Quintos, Assistant Commissioner

C: Michael Hyman, First Deputy Commissioner
Timothy Sheares, Deputy Commissioner
Sam Mayer, Senior Director, Internal Audit