AUDIT REPORT

CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF FINANCIAL AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Calculation and Application of the J-51 Tax Benefits for Properties in Manhattan by the Department of Finance

FP06-141A

May 15, 2009

THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, §93, of the New York City Charter, my office has audited the calculation and application of the J-51 Tax Benefits for Properties in Manhattan by the Department of Finance.

The J-51 program provides tax exemption and abatement benefits to owners of residential real property who rehabilitate their buildings, and to owners of non-residential properties who convert their buildings to residential use. We audit agency procedures such as this to ensure that they are in accordance with applicable laws and result in the correct determination of revenues due the City.

The results of our audit, which are presented in this report, have been discussed with Department of Finance officials, and their comments have been considered in the preparation of this report. Their complete written response is attached to this report.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at audit@Comptroller.nyc.gov or telephone my office at 212-669-3747.

Very truly yours,

William C. Thompson, Jr.

WCT/fh

Report: FP06-141A
Date: May 15, 2009

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AUDIT REPORT IN BRIEF

The J-51 program provides tax exemption and abatement benefits to owners of residential real property who rehabilitate their buildings, and to owners of non-residential properties who convert their buildings to residential use. The Department of Finance (DOF) is responsible for implementing and monitoring tax benefits granted under the program.

This audit determined whether DOF is properly calculating and applying J-51 tax exemption and tax abatement benefits. The scope of this audit covered tax assessments for properties in the borough of Manhattan for Fiscal Year 2007.

Audit Findings and Conclusions

There were weaknesses in the administration of key aspects of the J-51 tax exemption incentive program. While the properties in our sample received tax abatements that were appropriate, we found incorrect tax exemptions for the sampled non-government-funded properties. As a result, based on our calculations, the City did not realize $2,619,577 in real estate tax revenue from the year those properties initially obtained tax benefits through Fiscal Year 2007. The exemptions were incorrect because the amounts were not prorated as required, or were not correctly calculated due to inaccurate TETA (tax exemption-tax abatement) data. In one additional case, a property's tax exemption was unduly excessive. We also found problems with the maintenance of file documentation.

In addition, we found that the lack of specificity in the J-51 statute permits discretionary interpretation and practices that limit City revenue potential because the exemptions amounts were not calculated on the basis of assessed value when the project was completed. For example, our sampled properties would have resulted in $3.4 million in additional revenue by applying a different methodology to calculating exemptions. The lack of specificity in the J-51 statute that permits discretionary interpretation and practices also appears to allow property owners at a time of rising market values the ability to manipulate the amount of their property tax exemption. This can be accomplished by failing to submit in a timely manner the required documentation to HPD or/and DOF that would result in a reassessment inspection.

Moreover, since the exemptions granted under this program extend up to 32 more years, utilization of this different methodology would bring in an estimated $31,216,572 in additional taxes on the properties in future years.

Audit Recommendations

We make 17 recommendations to the DOF concerning the calculation and application of J-51 tax exemption benefits in the borough of Manhattan. Compliance with these recommendations will ensure that DOF applies the exemption benefits in a consistent manner and collects all the real estate taxes due. Among the major recommendations are the following, that DOF should:

- Seek changes in the J-51 statute and/or City rules to specify the best method for calculating tax exemptions so as to ensure program equity and the greatest revenue potential for the City.

- Prorate tax exemptions as required by New York State Real Property Law. In this regard, DOF should ensure that exemption calculations of its computer system are accurate.

- Establish procedures to identify properties with large annual variations in market and assessed values.

- Review the assessments of any existing properties that show large annual variations in market and assessed values. DOF should adjust any values and associated exemptions that cannot be adequately substantiated.

- DOF should ensure that all exemption calculations are based on accurate information in the TETA database and recalculate improperly granted exemptions for the 23 properties cited in this report; ensure that any future taxes are based on the recalculated exemptions.

INTRODUCTION

Background

The J-51 program provides tax exemption and abatement benefits to owners of residential real property who rehabilitate their buildings, and to owners of non-residential properties who convert their buildings to residential use. The Department of Housing Preservation and Development (HPD) is responsible for administering the program, computing the "certified reasonable cost" of the improvement work, and issuing a certificate-of-eligibility to property owners who meet program requirements. DOF is responsible for implementing and monitoring tax benefits granted under the program.

The program was created in 1955 under legislation authorized by Section 489 of the New York State Real Property Tax Law, and is further governed by Section 11-243 of the New York City Administrative Code. In addition, Chapter 5, Title 28, of the Rules of the City of New York states that to obtain an exemption or abatement, an applicant must, within a specific time period (i.e., 36 months, or 60 months if work is government-financed), perform eligible construction work (such as a major capital improvement) for a specific project type. Exemptions are granted for a period of either 14 or 34 years, based on the type of project. Abatements are granted for a period of up to 20 years.[1] According to DOF's Fiscal Year 2007 "Annual Report on Tax Expenditures," 14,479 properties received $115.7 million in tax exemptions, and 143,483 properties received $104.8 million in tax abatements.

In Fiscal Year 2006, the Comptroller's Office conducted an audit of HPD's administration of the J-51 program (*Audit Report on the Department of Housing Preservation and Development's Administration of the J-51 Tax Incentive Program*, FR06-067A, issued March 22, 2007). That audit determined whether HPD ensured that properties met program requirements, whether it correctly computed the certified reasonable cost, and whether it processed applications in accordance with appropriate procedures. The current audit (#FP06-141A) determined whether DOF appropriately calculated and applied tax benefits granted under the program for properties in the borough of Manhattan.

A property owner must submit a certificate-of-eligibility to DOF to actually obtain tax benefits. DOF's exemption unit records the information in a J-51 TETA database. Active (i.e., not expired or revoked) abatement and exemption information must remain in the TETA database. After DOF receives a certificate-of-eligibility, property division assessors inspect the property to verify that improvements have been completed and to ascertain the property's new assessed value.

DOF reduces a property's existing tax by various percentages of the certified reasonable cost that was computed by HPD. This is known as the tax abatement.[2] DOF also temporarily

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[1] A certificate-of-eligibility specifies the length of time for which exemptions and abatements are granted.

[2] Specific project types receive abatement benefits of 50, 90, or 100 percent. Government-financed projects receive abatements of 150 percent of the certified reasonable cost.

exempts a property from incurring additional property taxes if eligible improvement work increases the property's assessed value. This is known as the tax exemption.[3] DOF assesses the increased value based on a physical inspection and the value of the income generated by the property. All assessed-value changes during the first three years after J-51 benefits commence are fully tax exempt. The value of subsequent year exemptions are calculated on the basis of the first three-year exemption amounts, except for government-financed work, which is fully exempt beyond three years.

Objective

The objective of this audit was to determine whether DOF is properly calculating and applying J-51 tax exemption and tax abatement benefits.

Scope and Methodology

The scope of this audit covered properties covered under the J-51 program in the borough of Manhattan that had tax exemptions or abatements in Fiscal Year 2007. We obtained from DOF a list of all J-51 abatements and/or exemptions granted for Manhattan properties in Fiscal Year 2007.[4] The list contained 1,220 properties that were granted exemptions, 1,102 of which were also granted tax abatements. We reviewed the list comparing the exemption amount granted by DOF to the certified reasonable cost computed by HPD. These two amounts, although not specifically related, gave us a basis to judgmentally select those that did not appear to have a reasonable correlation. We selected a judgmental sample of 105 of these properties. DOF could not provide certificates-of-eligibility for seven of these properties; for one additional property, it was unable to provide us with assessed value. Consequently, we could not review the exemption and abatement amounts for these eight properties using data provided by DOF. However, we obtained data from HPD and the Department of Buildings that enabled us to review exemption and abatement amounts for five of the eight properties for a total of 102 properties.

Of the 102 properties for which information about exemption and abatement amounts was available, 26 used government financing (as confirmed by the certificate-of-eligibility issued by HPD) and were thereby fully exempt from any property taxes. The remaining 76 properties received tax exemptions in Fiscal Year 2007.[5] (See Appendix I for a list of sampled properties.)

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[3] DOF stated that a property's assessed value is derived by calculating a percentage of its market value. The percentage is known as an assessment ratio and was established by New York State law for each of four distinct property classifications (i.e., residential, commercial, etc.). A property's tax levy is then derived by multiplying its assessed value by its classification's tax rate, which is established by the New York City Council each fiscal year.

[4] This list included abatements and exemptions that may have first been granted in Fiscal Year 2007 as well as those whose tax benefits were still valid through Fiscal Year 2007.

[5] Each unit in our sample was based on a Block and Lot number identified in the J-51 abatement-exemption history listing provided by DOF. The 76 properties therefore represent 76 separate entities, each of which has its own Block and Lot number. At the exit conference, DOF advised that 19 of the above properties represented condominiums housed in two separate buildings. Our sample and any findings

For each of the 76 properties, we examined the J-51 abatement-exemption history listing, the history of actual and transitional values, and the history of assessed-value changes from 1981-1982 through 2006-2007 recorded in DOF's computer system.[6] We also reviewed DOF memoranda explaining procedures for calculating abatements and exemptions, compared these to the above noted laws and regulations, and checked the accuracy of DOF calculations. In addition, we reviewed program procedures in HPD's "J-51 Guidebook." Finally, we examined DOF files for the required certificates-of-eligibility.

To verify the accuracy of the data recorded in the TETA database, we compared the information recorded on DOF J-51 abatement-exemption history listing generated from the DOF TETA database to the information on the 102 certificates-of-eligibility issued by HPD. To determine whether properties were receiving the appropriate abatement amounts for Fiscal Year 2006-2007, we compared the certified reasonable costs indicated on the certificates-of-eligibility with the certified reasonable costs recorded in the TETA database, recalculated the abatement amounts, and compared them to the abatement amounts calculated by DOF's computer system.

To verify the accuracy of the tax exemptions granted by DOF to each property, we recalculated each property's exemption amounts in accordance with the laws and regulations that govern the J-51 program. We compared our exemption calculations to DOF's calculations for the entire period, commencing with a property's benefit start date to June 30, 2007.

The results of the above tests, while not statistically projected to the population from which the sample was drawn, provide a reasonable basis for us to determine whether DOF is properly calculating and applying J-51 tax exemption and abatement benefits.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS), and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

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 and was discussed at an exit conference held on February 27, 2008. On October 24, 2008, we submitted a draft report to DOF officials with a request for comments. We received written comments from DOF on November 19, 2008.

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related to it should therefore be based on 58 "properties." This difference in definition has no effect on the dollar amount calculations for the findings in this report. Since our sample was selected based on Block and Lot number, we have decided to retain our definition of properties and our sample count of 76 "properties."

[6] New York State law limits assessment increases for other than physical changes. Any economic assessed-value changes are phased in over a five-year period. During this period, a property's assessed value is known as its "transitional value."

In the DOF response, the Commissioner stated:

> Let me underscore what I believe is the primary and recurring weakness of J-51, which is not explicitly addressed in this audit. When the audit's exit conference was held almost nine months ago, Finance staff made it clear that J-51, as spelled out in the New York State Real Property Tax Law, contains requirements that make transparent administration of the program challenging.
>
> First, J-51 requires that physical increases to a given property be treated similarly to those increases that are a result of market forces, otherwise known as equalization increases. Given that your audit period covered Fiscal Year 2007, a record year for growth in the Manhattan real estate market, it is unsurprising then that auditors would find so much unrealized revenue: in years with large market value increases, problems arising from similar treatment of the two types of increases is accentuated. Second, Finance's assessors base valuation on income and expense data, separate and apart of whether a given property has an exemption, a critical point that the audit seems to overlook.

Auditor Comment: The DOF response states that increases resulting from physical improvements to property must be treated similarly to increases in market value of the property. We argue to the contrary. There can be no such similar treatment because increases in market value are required to be phased in over a five-year period, while increases resulting from improvements are added *in full* to assessed value when they are completed. This point underpins one of our findings, namely, that DOF is not prorating changes in assessed value as required by the New York State Real Property Tax Law. The fact that 2007 was record year for growth in property values is irrelevant as a rationale for not prorating the assessed value changes as required.

Our findings did not challenge the valuation method used by the assessors. Rather, we recommended that when calculating the change in market value, DOF use the assessors' valuation *made at a different point in time*, which would affect the calculation of the amount of the J-51 exemption. The correct methodology would calculate the change in the value of a property that resulted directly from the renovation itself at the time the project was completed, as intended by New York State Real Property Tax Law. This methodology would decidedly not include calculating the change in property value up to four years *after* the project was completed. We repeat our recommendation that DOF should do whatever is necessary to enable it to use this methodology, thereby limiting a change in market value of a property to the period of the renovation, as intended by New York State Real Property Tax Law. Also, had DOF maintained a written manual of procedures containing comprehensive directives concerning the administration of the J-51 program, errors costing the City $2.6 million in real estate tax revenue would not have occurred.

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

FINDINGS AND RECOMMENDATIONS

There were weaknesses in the administration of key aspects of the J-51 tax exemption incentive program. While the properties in our sample received tax abatements that were appropriate, we found inaccurate tax exemptions for the sampled non-government-funded properties. As a result, based on our calculations, the City did not realize $2,619,577 in real estate tax revenue from the year those properties initially obtained tax benefits through Fiscal Year 2007. The exemptions were erroneous because the amounts were not prorated as required, or were not correctly calculated due to inaccurate TETA data. In one additional case, a property's tax exemption was unduly excessive. We also found problems with the maintenance of file documentation.

In addition, we found that the lack of specificity in the J-51 statute permits discretionary interpretation and practices that limit City revenue potential because the exemptions amounts were not calculated on the basis of assessed value when the project was completed. As a consequence, it appears that property owners at a time of rising market values have the ability to manipulate the amount of their property tax exemption. This can be accomplished by failing to submit in a timely manner the required documentation to HPD or/and DOF that would result in a reassessment inspection. If the statute were written more precisely, our sampled properties would have resulted in $3.4 million in additional revenue by applying a different methodology to calculating exemptions.

Moreover, since the exemptions granted under this program extend up to 32 more years, utilization of this different methodology would bring in an estimated $31,216,572 in additional taxes on the properties in future years.

DOF properly ceased granting tax abatements to those properties whose abatement benefit periods had expired. (With respect to tax exemptions, none of the exemption benefit periods of the sampled properties had yet reached their expiration dates.)

These matters are discussed in the following sections of this report. Appendix II lists the exceptions we identified.

$2,619,577 in Tax Revenue Unrealized Due to Errors

Tax exemptions for 32 sampled properties were not correct. As a result, the City did not realize $2,619,577 in real estate tax revenue from the year in which the properties initially obtained tax benefits through Fiscal Year 2007.

Of the 32 cases, there were:

- 8 cases totaling $1,093,012 in unrealized revenue because exemption amounts were not prorated as required after the first three exemption years. (See Appendix II, Incorrect Ratio Applied.)

- 1 case totaling $948,394 in unrealized revenue because the first year exemption amount was inflated. (See Appendix II, Unadjusted Exemptions.)

- 23 cases incorrectly billed due to exemption amounts calculated based on incorrect TETA data: 11 cases underbilled totaling $929,728 in unrealized revenue and 12 cases overbilled totaling $351,557. (See Appendix II, Errors in Calculations Overstated Exemptions.)

The specific deficiencies are discussed below.

$1.1 Million in Revenue Unrealized through Failure to Prorate Changes in Assessed Value

Tax exemption amounts for eight of the sampled properties were incorrect because when calculating the exemptions, the required New York State Real Property Tax Law formula was not applied. As a consequence, $8,895,754 in exemptions was improperly granted, and $1,093,012 in real estate taxes was not realized by the City.

All changes in assessed value in the first three years after benefits commence are fully tax exempt. However, exemptions in succeeding benefit years for projects that commenced after August 7, 1987, must, according to §489.9.(b)(1) of the Tax Law, be calculated by applying a designated factor to prorate each assessed value change.[7] For example, HPD issued a certificate-of-eligibility on October 27, 1995, to a property (Block 732, Lot 7) with a certified reasonable cost of $353,500. However, the assessed-value changes were not prorated when calculating the exemption amounts after the first three years. We determined that the annual exemption should have been prorated by a factor of 11.72 percent. Using our prorated factor yielded a seven-year exemption totaling $1,483,176—not the $5,060,060 exemption that was applied against the taxable value of the property. As a result of the exemption being higher by $3,576,884, $448,798 in City real estate taxes was unrealized.[8]

When we brought this matter to their attention, DOF officials conceded that exemption amounts were not prorated for three of the eight properties because they were incorrectly calculated and recorded in the TETA database as government-financed. For the example above, DOF subsequently reassessed the property for the current Fiscal Year 2007-2008, and reduced the exemption amount from $1,104,415 in Fiscal Year 2006-2007 to $392,700, a difference of $711,715. The revised exemption resulted in an $84,893 tax increase for the property in Fiscal Year 2007-2008.

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[7] The factor is the exemption amount divided by the total assessed value of the property.

[8] This calculation also included the effect of the reassessment of the property at a later date discussed later in the report. The property was not reassessed until four years after improvements were completed. Therefore, the exemption was based on the property's higher Fiscal Year 2000-2001 assessed value rather than that of Fiscal Year 1996-1997.

Recommendations

DOF should:

1. Prorate tax exemptions as required by New York State Real Property Law. In this regard, DOF should ensure that exemption calculations of its computer system are accurate.

DOF Response: "Finance disagrees. We believe that J-51 formulae are being applied accurately. However, we are reviewing the specific cases cited in the audit for possible inadvertent errors."

Auditor Comment: We are perplexed that DOF disagrees with this recommendation since after reviewing the preliminary report, DOF has taken action to prorate the tax exemptions on the properties cited in the report for future years. Given the errors that we found, DOF should determine why the computer did not accurately perform these calculations and correct the cause of the errors.

2. Ensure that data for properties entitled to J-51 benefits is properly and accurately recorded in the DOF database.

3. Review and recalculate tax exemptions for the remaining seven properties whose assessments were not properly prorated; any future taxes should be based on the recalculated exemptions.

4. Recoup any improperly granted reduction in real estate taxes from properties that were not properly prorated.

Auditor Comment: DOF did not respond to recommendations #2, #3, and #4.

Almost $1 Million in Revenue Unrealized

The real estate tax at one sampled property (Block 1893, Lot 1002) was reduced from $202,535 to zero, and the property owner has paid no real estate taxes since Fiscal Year 2003-2004. Below is a current photograph of this specific property, which is located on Broadway in the area known as Upper West Side of Manhattan.

After a major capital improvement was completed in Fiscal Year 2003-2004, DOF increased the property's market value from $5.05 million in Fiscal Year 2003-2004 to $23.50 million in Fiscal Year 2004-2005. Our review, however, indicated that this huge increase in market value and its associated $8,658,000 exemption may not have been warranted by the actual value of the improvements per se. As a result of the increased valuation and exemption, the property was not levied any real estate taxes in Fiscal Year 2004-2005. (See Table 1 below.)

Table 1

Block 1893, Lot 1002 Property Assessments and
Associated J-51 Benefits

Fiscal Year	Market Value	Assessed Value	Exemption Granted	Taxable Value	Abatement Granted	Tax Due
2003-2004	$5,050,000	$2,081,830	$ 0	$2,081,830	$ 60,192	$202,535
2004-2005	23,500,000	9,575,460	8,658,000	917,460	112,077	0
2005-2006	11,900,000	5,355,000	5,355,000	0	0	0
2006-2007	9,192,000	7,797,780	7,797,780	0	0	0

Moreover, real estate taxes were not levied for this property in subsequent fiscal years because of large reductions in the property's assessed value. DOF reduced the property's market value to $11.90 million in Fiscal Year 2005-2006 and to $9.19 million in Fiscal Year 2006-2007, thereby, rendering lower the associated assessed values. Furthermore, in accordance with §489.9.(b)(2) of the Real Property Tax Law—which declares that exemptions not be lower than the first year exemption amount or greater than a property's assessed value—DOF lowered the exemption amounts to be equivalent to the property's assessed values. Since the exemptions were the same as the property's assessed values, the resultant tax bills were zero.

It is our view that the large $11.6 million reduction (from $23.5 million to $11.9 million) in the property's Fiscal Year 2005-2006 market value calls into question the basis of the original assessment. DOF officials could not give a reason for any of the large fluctuations in market values. Our analysis indicates that total exemptions should actually have been $14,315,400 instead of $21,810,780 for the first three years, thus rendering the property owner liable for $948,394 in additional real estate tax through Fiscal Year 2006-2007. Moreover, since the exemptions continue for the 11-year benefit period, the potential unrealized revenue by the City in future fiscal years could be as high as $7,817,542.[9]

Investigating large fluctuations in market value and associated exemptions that lack substantiating documentation is important to ensure the propriety of tax benefits granted under the J-51 program.

Recommendations

DOF should:

5. Establish procedures to identify properties with large annual variations in market and assessed values.

DOF Response: "Finance disagrees. Such procedures are already established and in place as part of the normal valuation protocol."

***Auditor Comment*:** If such procedures do exist, then we question whether they are consistently followed since this property was not reviewed in light of the large variations in market and assessed values that resulted in no tax liability to the property owner.

6. Review the assessments of any existing properties that show large annual variations in market and assessed values. DOF should adjust any values and associated exemptions that cannot be adequately substantiated.

DOF Response: "Finance disagrees. Again, we believe our established safeguards allow us to track properties that show such large variations."

Auditor Comment: If DOF had established functioning safeguards in place as claimed, we again question how DOF could have permitted this property's zero tax liability to

[9] This amount of unrealized revenue is included in our overall estimate of $31.2 million.

have remained unchanged in view of its large variations in market value, assessed value, and exemption amount.

7. Review and recalculate exemption amounts for this property so that only the increase in value that results from the renovation itself is exempt—not the value of the entire property.

8. Recoup any improperly granted reduction in real estate taxes from this property.

***Auditor Comment*:** DOF did not respond to recommendations #7 and #8.

Calculations of Exemptions Incorrect Due To Inaccurate TETA Data

In 11 of the sampled cases exemption amounts were not correct. Exemptions were overstated, thereby leading to underbilling property owners $929,728 in real estate taxes. In 12 cases, exemptions were understated resulting in the overbilling of property owners $351,557 in real estate taxes.

We calculated the exemption amounts for the 23 properties that were incorrectly billed by using the formulas that DOF provided us. In all cases, the amounts we calculated did not match those calculated and recorded in the TETA database. DOF officials confirmed the accuracy of our exemption calculations and could not explain why exemption information in the TETA database was incorrect.

Recommendation

DOF should:

9. Ensure that all exemption calculations are based on accurate information in the TETA database and recalculate improperly granted exemptions for the 23 properties cited in this report; ensure that any future taxes are based on the recalculated exemptions.

DOF Response: "Finance agrees. As stated above, we will further investigate those properties that show calculation discrepancies, and if we do find them, will apply the proper charges going forward."

10. Recoup any improperly granted reduction in real estate taxes from properties that were not correctly billed.

***Auditor Comment*:** DOF did not respond to recommendation #10.

Lack of Specificity in J-51 Statute Permits Interpretation And Practices That May Limit City Revenue Potential

HPD's J-51 Guidebook states, "The tax exemption benefit temporarily exempts property from the increase in assessed value which would otherwise occur as a result of significant renovation work." However, the J-51 statute does not clearly define the point in time at which the reassessed evaluation of the property should be computed. Neither do the New York City Administrative Code or the Rules of the City of New York provide specific guidance for J-51 program implementation, thus permitting considerable local discretionary interpretation.

A reassessment should be based upon the change in value of a property that resulted directly and only from the renovation work itself from the tax period before the renovation to the tax period following the completion of the renovation. However, because of the ambiguity of the J-51 statute, the reassessment process is subject to legal interpretation.

DOF bases its calculation of a J-51 exemption on the change in value from the year prior to renovation to the time it actually conducts the reassessment. For 44 sampled properties, DOF calculated exemption benefits from one to four years after improvements were completed, and the resulting benefits were based on the properties' assessed values at that time. In addition, DOF bases a property's reassessment upon the overall change in property value, including prevailing real estate market conditions, irrespective of the value of the improvement itself. Because Manhattan real estate values increased dramatically during our audit period, it resulted in large market value increases to the 44 sampled properties that were not the result of the improvements completed by the property owners.

Application of a Different Methodology Indicates That $3.4 Million in Potential Additional Revenue Could Have Been Realized

Had the reassessed value been based upon the properties' assessed value at the time that the improvement work was completed and based directly on the improvement work itself, the City could have realized an additional $3,431,523 in real estate tax revenue for these 44 properties.

After improvements are completed, DOF procedures require DOF to inspect a property to reassess the property's value in order to calculate the amount of the first-year tax exemption. However, 15 of the 44 properties were not inspected for one to four years after improvements were completed. It should be noted that in many of these cases DOF did not receive the certificate-of-eligibility when the improvements were completed because HPD did not issue it for one to four years after improvements were completed. DOF officials also speculated that properties were not inspected right away because some property owners did not submit all required documentation to HPD, thereby delaying HPD's issuance of the certificate-of-eligibility, or because the property owners did not submit certificates-of-eligibility to DOF promptly. As a consequence, it appears that property owners at a time of rising market values have the ability to manipulate the amount of their property tax exemption. This can be accomplished by failing to submit in a timely manner the required documentation to HPD or/and DOF that would result in a reassessment inspection.

For example, an improvement that commenced in Fiscal Year 1993-1994 for Block 1872, Lot 43, was completed by Fiscal Year 1997-1998—within the required 36-month period. As stated earlier, Chapter 5, Title 28, of the Rules of the City of New York states that to obtain an exemption or abatement, an applicant must, within a specific time period (i.e., 36 months, or 60 months if work is government-financed), perform eligible construction work (such as a major capital improvement) for a specific project type. A certificate-of-eligibility for Block 1872, Lot 43, was issued by HPD on January 27, 1998. However, the property was not inspected for reassessment until Fiscal Year 2001-2002—four years after improvements were completed. Consequently, the property's Fiscal Year 2001-2002 assessed value of $3,735,500 was used as the basis for calculating the tax exemption instead of the lower Fiscal Year 1997-1998-assessed value of $1,944,000 (this amount does not include the $32,400 physical change assessed by DOF in Fiscal Year 2001-2002). Had the 1997-1998 assessed value been used to calculate the exemption, the total exemption amount for the first six years would have been $3,380,458, instead of $14,509,475. The $11,129,017 difference in exemption amounts led to billing the property owner $1,384,663 less in real estate taxes through Fiscal Year 2006-2007. As this property will continue to receive a tax exemption for another 28 years, the City will not realize a potential $9 million in future tax revenues from this property.

As stated earlier, the statutes should be changed to clear up any ambiguities regarding how exemptions should be calculated. When determining the exemption amount, the assessed value of the property at the time the capital improvement work is completed should be used. The current method used to determine benefits to property owners is a result of a lack of a specific regulation or written guidance. In that regard, the current method and practice used to calculate benefits, if statutorily changed, would more equitably match the benefit received to the exemption granted. The potential increases in City revenue using our methodology offer a compelling reason to consider changes in statute or City rules.

Recommendations

DOF should:

11. Consult Counsel regarding seeking changes in the J-51 statute and/or City rules to limit discretionary interpretation in calculating tax exemptions so as to ensure program equity and the greatest revenue potential for the City.

DOF Response: "Finance agrees, especially that the state statute needs updating to address the two major issues that we identify above. However, contrary to your conclusions about 'revenue potential,' the most important goal is that J-51 continue to encourage owners to maintain and upgrade residential properties."

12. Consider altering present DOF practices by calculating first-year tax exemptions on the basis of a property's assessed value for the year immediately following the completion of improvements.

13. Ensure that properties are inspected and assessed promptly after improvement work is completed.

14. Consider applying our methodology by reviewing and recalculating exemptions for the 44 properties whose assessments were not based on the value of improvements at the time they were completed; ensure that any future taxes are based on the recalculated exemptions.

15. Recoup any inappropriately granted reduction in real estate taxes based on the recalculated exemptions.

***Auditor Comment*:** DOF did not respond to recommendations #12, #13, #14, and #15.

<u>Other Issue</u>

<u>Lack of Required Documentation</u>

DOF granted tax benefits to 12 sampled properties for which file documentation lacked final certificates-of-eligibility (five lacked certificates altogether, and seven had only temporary certificates).[10] DOF policy requires that final certificates-of-eligibility be filed before granting tax benefits. DOF officials could not give a reason for the lack of final certificates in the file documentation. The absence of final certificates-of-eligibility prevented us from determining whether the properties were entitled to any tax benefits, or in the case of those with temporary certificates, whether the properties were entitled to benefits beyond the two-year period for which they were granted.

Recommendations

DOF should:

16. Obtain all final certificates-of-eligibility that were lacking. In this regard, DOF should review and ensure the accuracy of any tax benefits granted to the associated properties and should revoke any benefits that have been granted to properties without valid certificates-of-eligibility or with expired temporary certificates.

17. Ensure that final certificates-of-eligibility are maintained in all file documentation.

***Auditor Comment*:** DOF did not respond to recommendations #16 and #17.

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[10] Of the 12 properties, 5 were those whose exemption amounts were not prorated. Seven properties were those for which exemption amounts were incorrectly calculated (see Appendix I, page 2).

Schedule of Sampled properties Receiving J-51 Tax Benefits

No.	Block	Lot	Certified Reasonable Cost Amount indicated on Certificate of Eligibility	Abatement Percentage	Years of Exemption	Comments
Non- Government Financed Properties						
1	134	1303	$144,000	50%	14	
2	141	16	$96,000	50%	14	
3	300	18	$160,900	90%	14	
4	374	3	$142,500	90%	14	
5	392	45	$117,400	90%	14	
6	412	10	$120,800	90%	14	
7	412	36	$120,400	90%	14	
8	417	67	$192,900	90%	14	
9	435	6	$86,600	50%	14	
10	440	18	$148,500	90%	14	
11	476	45	$122,200 $10,100	100% 90%	34	
12	503	6	$283,100	100%	34	
13	510	1003	$363,000	50%	14	
14	526	11	$87,800	100%	34	
15	526	14	$106,500	100%	34	
16	526	16	$98,700	100%	34	
17	526	26	$129,400	100%	34	
18	526	28	$137,600	100%	34	
19	590	45	$40,000 $92,600	90% 100%	34	
20	732	7	$353,500 $138,000	100% 90%	34	
21	766	1302	$19,489	50%	14	
22	766	1303	$20,080	50%	14	
23	766	1304	$20,670	50%	14	
24	766	1305	$21,851	50%	14	
25	766	1306	$23,033	50%	14	
26	766	1307	$26,576	50%	14	
27	766	1308	$33,663	50%	14	
28	766	1309	$38,388	50%	14	
29	766	1310	$45,475	50%	14	
30	766	1311	$53,152	50%	14	
31	766	1312	$73,822	50%	14	
32	796	67	$222,100	100%	34	
33	802	1105	$26,191	50%	14	
34	802	1106	$26,881	50%	14	
35	802	1107	$27,432	50%	14	
36	802	1108	$30,188	50%	14	
37	802	1109	$32,945	50%	14	
38	802	1110	$35,703	50%	14	
39	802	1111	$38,459	50%	14	

No.	Block	Lot	Certified Reasonable Cost Amount indicated on Certificate of Eligibility	Abatement Percentage	Years of Exemption	Comments
40	802	1112	$55,001	50%	14	
41	893	66	$125,000 $191,500	90% 100%	34	
42	902	30	$310,300	100%	34	
43	1039	45	$141,300	100%	34	No COE on File
44	1039	46	$80,782	100%	34	No COE on File. Obtained form HPD
45	1039	49	$87,100	100%	34	No COE on File
46	1039	50	$123,500	100%	34	
47	1039	51	$98,600	100%	34	No COE on File. Obtained form HPD
48	1039	52	$83,400	100%	34	No COE on File. Obtained form HPD
49	1182	29	$62,700	90%	14	
50	1432	38	$92,800	100%	34	
51	1432	40	$96,100	100%	34	
52	1470	13	$157,600	90%	14	
53	1490	19	$289,100 $169,700 $80,700	 100% 90% 90%	34	
54	1490	23	$317,500 $17,600	100% 90%	34	
55	1490	28	$320,800 $556,800 $93,100	 100% 90% 90%	34	
56	1602	33	$148,500	90%	14	
57	1603	14	$8,700 $60,000	100%	34	
58	1666	28	$131,900 $27,400	90%	14	
59	1681	7	$51,600 $75,100	90%	14	
60	1772	13	$360,000	90%	14	Temporary COE
61	1820	41	$695,300	90%	14	
62	1826	44	$420,000	90%	14	Temporary COE
63	1826	46	$420,000	90%	14	Temporary COE
64	1828	61	$180,000	90%	14	Temporary COE
65	1862	1	$66,800	90%	14	
66	1870	37	$111,000	100%	34	
67	1870	42	$118,300	100%	34	
68	1872	43	$476,000	100%	34	
69	1893	1002	$175,200 $88,700 $1,833,600	90%	14	
70	1894	67	$51,100 $191,300	90%	14	
71	1950	61	$280,000	90%	14	Temporary COE
72	1993	105	$101,700 $12,300	100% 90%	14	

No.	Block	Lot	Certified Reasonable Cost Amount indicated on Certificate of Eligibility	Abatement Percentage	Years of Exemption	Comments
73	2025	34	$410,400	90%	14	Temporary COE
74	2026	9	$620,000	90%	14	Temporary COE
75	2080	5	$705,300	90%	14	
76	2155	19	$61,700	90%	14	
Government Financed Properties						
1	1772	17	$300,000	150%	34	
2	1821	9	$200,000	150%	32	
3	1825	45	$760,000	150%	32	
4	1827	29	$320,000	150%	34	
5	1847	60	$180,000	150%	34	
6	1918	3	$160,000	150%	34	
7	1970	73	$180,000	150%	34	
8	1988	98	$300,000	150%	34	
9	1924	52	$893,700	150%	34	
10	1941	20	$320,000	150%	34	
11	1941	36	$160,000	150%	34	
12	1941	62	$380,000	150%	34	
13	1947	19	$100,000	150%	34	
14	1947	46	$100,000	150%	34	
15	1958	37	$220,000	150%	32	
16	1958	38	$200,000	150%	32	
17	1966	66	$240,000	150%	34	
18	1982	59	$600,000	150%	34	
19	1987	34	$360,000	150%	34	
20	1988	81	$320,000	150%	34	
21	1988	106	$320,000	150%	32	
22	2034	61	$300,000	150%	34	
23	2034	1003	$1,667,800	150%	34	
24	2045	76	$180,000	150%	34	
25	2045	83	$792,900	150%	34	
26	2073	36	$160,000	150%	32	
Not Sufficient Information						
1	1661	10				No COE on File
2	1680	19				No COE on File
3	239	1001	$1,080,200	50%	12	No assessed value information from FY81/82 through 89/90. We were not able to perform exemption calculations.

TOTAL 105 properties

SUMMARY OF J-51 EXEMPTION DISCREPANCIES IDENTIFIED FOR SAMPLED PROPERTIES

No.	Fiscal Year (Benefit Start Date and Subsequent Years)	Years of Exemption	Years of Exemption Left	ACTUAL EXEMPTION (GRANTED BY DOF)	Auditor Calculated EXEMPTION	QUESTIONED EXEMPTION AMOUNT	Tax Rate	Additional Tax Due	Potential Additional Tax Revenue for the Remaining Years of Exemption	REASON FOR DISCREPANCY
TIMING ISSUE										
1	**MANHATTAN BLOCK 134 LOT 1303**									
	2006/2007	14	13	$51,765	$51,515	$250	12.74%	$32		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 02/03 not FY 06/07). Auditors recalculated exemption amounts based on FY 02/03 assessed values.
	Total Exemption			$51,765	$51,515	**$250**		$32	$414	
2	**MANHATTAN BLOCK 412 LOT 36**									
	2000/2001	14	7	$199,800	$189,000	$10,800	10.79%	$1,165		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 99/00 not FY 00/01). Auditors recalculated exemption amounts based on FY99/00 assessed values.
	2001/2002			$199,800	$199,800	$0	10.56%	$0		
	2002/2003			$218,232	$201,600	$16,632	12.52%	$2,082		
	2003/2004			$243,989	$200,873	$43,116	12.62%	$5,441		
	2004/2005			$291,945	$215,238	$76,707	12.22%	$9,374		
	2005/2006			$294,723	$242,360	$52,363	12.40%	$6,493		
	2006/2007			$390,156	$267,322	$122,834	12.74%	$15,649		
	Total Exemption			**$1,838,645**	**$1,516,193**	**$322,452**		$40,205	$109,543	
3	**MANHATTAN BLOCK 440 LOT 18**									
	2004/2005	14	11	$273,600	$252,000	$21,600	12.22%	$2,640		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$275,850	$275,400	$450	12.40%	$56		
	2006/2007			$405,000	$277,550	$127,450	12.74%	$16,237		
	Total Exemption			**$954,450**	**$804,950**	**$149,500**		$18,932	$178,608	
4	**MANHATTAN BLOCK 526 LOT 11**									
	2004/2005	34	31	$412,222	$159,030	$253,192	12.22%	$30,940		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$412,222	$279,977	$132,245	12.40%	$16,398		
	2006/2007			$474,997	$357,399	$117,598	12.74%	$14,982		
	Total Exemption			**$1,299,441**	**$796,406**	**$503,035**		$61,320	$464,442	
5	**MANHATTAN BLOCK 526 LOT 14**									
	2004/2005	34	31	$424,777	$119,942	$304,835	12.22%	$37,251		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$424,777	$424,778	($1)	12.40%	($0)		
	2006/2007			$698,895	$552,420	$146,475	12.74%	$18,661		
	Total Exemption			**$1,548,449**	**$1,097,140**	**$451,309**		$55,912	$578,488	
6	**MANHATTAN BLOCK 526 LOT 16**									
	2004/2005	34	31	$389,205	$143,043	$80,268	12.22%	$9,809		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$389,205	$260,391	$143,043	12.40%	$17,737		
	2006/2007			$389,205	$281,243	$260,391	12.74%	$33,174		
	Total Exemption			**$1,167,615**	**$684,677**	**$483,702**		$60,720	$1,028,388	

No.	Fiscal Year (Benefit Start Date and Subsequent Years)	Years of Exemption	Years of Exemption Left	ACTUAL EXEMPTION (GRANTED BY DOF)	Auditor Calculated EXEMPTION	QUESTIONED EXEMPTION AMOUNT	Tax Rate	Additional Tax Due	Potential Additional Tax Revenue for the Remaining Years of Exemption	REASON FOR DISCREPANCY
7	MANHATTAN BLOCK 526 LOT 26									
	2004/2005	34	31	$633,420	$161,377	$472,043	12.22%	$57,684		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$633,420	$633,420	$0	12.40%	$0		
	2006/2007			$633,420	$770,040	($136,620)	12.74%	($17,405)		
	Total Exemption			$1,900,260	$1,564,837	$335,423		$40,278	($539,567)	
8	MANHATTAN BLOCK 526 LOT 28									
	2004/2005	34	31	$529,920	$179,676	$350,244	12.22%	$42,800		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$529,920	$529,920	$0	12.40%	$0		
	2006/2007			$582,084	$666,540	($84,456)	12.74%	($10,760)		
	Total Exemption			$1,641,924	$1,376,136	$265,788		$32,040	($133,551)	
9	MANHATTAN BLOCK 590 LOT 45									Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 04/05 not FY 05/06). Auditors recalculated exemption amounts based on FY 04/05 assessed values.
	2005/2006	34	32	$243,000	$92,907	$150,093	12.40%	$18,612		
	2006/2007			$218,700	$177,957	$40,743	12.74%	$5,191		
	Total Exemption			$461,700	$270,864	$190,836		$23,802	$166,108	
10	MANHATTAN BLOCK 766 LOT 1302									
	2004/2005	14	11	$243,161	$91,329	$151,832	12.22%	$18,554		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$131,761	$190,993	($59,232)	12.40%	($7,345)		
	2006/2007			$154,597	$181,150	($26,553)	12.74%	($3,383)		
	Total Exemption			$529,519	$463,472	$66,047		$7,826	($37,211)	
11	MANHATTAN BLOCK 766 LOT 1303									
	2004/2005	14	11	$250,531	$94,097	$156,434	12.22%	$19,116		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$135,756	$196,782	($61,026)	12.40%	($7,567)		
	2006/2007			$159,283	$186,641	($27,358)	12.74%	($3,485)		
	Total Exemption			$545,570	$477,520	$68,050		$8,064	($38,340)	
12	MANHATTAN BLOCK 766 LOT 1304									
	2004/2005	14	11	$257,901	$96,865	$161,036	12.22%	$19,679		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$139,750	$202,571	($62,821)	12.40%	($7,790)		
	2006/2007			$163,969	$192,132	($28,163)	12.74%	($3,588)		
	Total Exemption			$561,620	$491,568	$70,052		$8,301	($39,468)	
13	MANHATTAN BLOCK 766 LOT 1305									
	2004/2005	14	11	$272,635	$102,399	$170,236	12.22%	$20,803		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$147,734	$214,144	($66,410)	12.40%	($8,235)		
	2006/2007			$173,337	$203,108	($29,771)	12.74%	($3,793)		
	Total Exemption			$593,706	$519,651	$74,055		$8,775	($41,720)	
14	MANHATTAN BLOCK 766 LOT 1306									
	2004/2005	14	11	$287,372	$107,934	$179,438	12.22%	$21,927		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$155,720	$225,719	($69,999)	12.40%	($8,680)		
	2006/2007			$182,707	$214,087	($31,380)	12.74%	($3,998)		
	Total Exemption			$625,799	$547,740	$78,059		$9,250	($43,976)	

No.	Fiscal Year (Benefit Start Date and Subsequent Years)	Years of Exemption	Years of Exemption Left	ACTUAL EXEMPTION (GRANTED BY DOF)	Auditor Calculated EXEMPTION	QUESTIONED EXEMPTION AMOUNT	Tax Rate	Additional Tax Due	Potential Additional Tax Revenue for the Remaining Years of Exemption	REASON FOR DISCREPANCY
15	MANHATTAN BLOCK 766 LOT 1307									
	2004/2005	14	11	$331,585	$124,540	$207,045	12.22%	$25,301		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$179,678	$260,446	($80,768)	12.40%	($10,015)		
	2006/2007			$210,816	$247,024	($36,208)	12.74%	($4,613)		
	Total Exemption			$722,079	$632,010	$90,069		$10,673	($50,742)	
16	MANHATTAN BLOCK 766 LOT 1308									
	2004/2005	14	11	$420,004	$157,749	$262,255	12.22%	$32,048		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$227,591	$329,896	($102,305)	12.40%	($12,686)		
	2006/2007			$267,033	$312,895	($45,862)	12.74%	($5,843)		
	Total Exemption			$914,628	$800,540	$114,088		$13,519	($64,271)	
17	MANHATTAN BLOCK 766 LOT 1309									
	2004/2005	14	11	$478,957	$179,892	$299,065	12.22%	$36,546		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$259,536	$376,201	($116,665)	12.40%	($14,466)		
	2006/2007			$304,514	$356,814	($52,300)	12.74%	($6,663)		
	Total Exemption			$1,043,007	$912,907	$130,100		$15,416	($73,293)	
18	MANHATTAN BLOCK 766 LOT 1310									
	2004/2005	14	11	$567,374	$213,140	$354,234	12.22%	$43,287		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$307,446	$445,649	($138,203)	12.40%	($17,137)		
	2006/2007			$360,728	$422,682	($61,954)	12.74%	($7,893)		
	Total Exemption			$1,235,548	$1,081,471	$154,077		$18,257	($86,822)	
19	MANHATTAN BLOCK 766 LOT 1311									
	2004/2005	14	11	$663,166	$249,079	$414,087	12.22%	$50,601		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$359,354	$520,890	($161,536)	12.40%	($20,030)		
	2006/2007			$421,633	$494,046	($72,413)	12.74%	($9,225)		
	Total Exemption			$1,444,153	$1,264,015	$180,138		$21,346	($101,480)	
20	MANHATTAN BLOCK 766 LOT 1312									
	2004/2005	14	11	$921,064	$345,943	$575,121	12.22%	$70,280		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$499,105	$723,458	($224,353)	12.40%	($27,820)		
	2006/2007			$585,600	$686,175	($100,575)	12.74%	($12,813)		
	Total Exemption			$2,005,769	$1,755,576	$250,193		$29,647	($140,936)	
21	MANHATTAN BLOCK 796 LOT 67									
	2004/2005	34	31	$755,100	$191,700	$563,400	12.22%	$68,847		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$755,100	$471,600	$283,500	12.40%	$35,154		
	2006/2007			$755,100	$551,880	$203,220	12.74%	$25,890		
	Total Exemption			$2,265,300	$1,215,180	$1,050,120		$129,892	$802,597	

No.	Fiscal Year (Benefit Start Date and Subsequent Years)	Years of Exemption	Years of Exemption Left	ACTUAL EXEMPTION (GRANTED BY DOF)	Auditor Calculated EXEMPTION	QUESTIONED EXEMPTION AMOUNT	Tax Rate	Additional Tax Due	Potential Additional Tax Revenue for the Remaining Years of Exemption	REASON FOR DISCREPANCY
22	MANHATTAN BLOCK 802 LOT 1105									
	2004/2005	14	11	$229,150	$69,858	$159,292	12.22%	$19,465		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$185,052	$112,073	$72,979	12.40%	$9,049		
	2006/2007			$188,674	$113,369	$75,305	12.74%	$9,594		
	Total Exemption			$602,876	$295,300	$307,576		$38,108	$105,532	
23	MANHATTAN BLOCK 802 LOT 1106									
	2004/2005	14	11	$232,350	$71,697	$160,653	12.22%	$19,632		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$189,926	$115,024	$74,902	12.40%	$9,288		
	2006/2007			$193,643	$116,354	$77,289	12.74%	$9,847		
	Total Exemption			$615,919	$303,075	$312,844		$38,766	$108,318	
24	MANHATTAN BLOCK 802 LOT 1107									
	2004/2005	14	11	$240,004	$73,166	$166,838	12.22%	$20,388		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$193,818	$117,381	$76,437	12.40%	$9,478		
	2006/2007			$197,612	$118,738	$78,874	12.74%	$10,049		
	Total Exemption			$631,434	$309,285	$322,149		$39,914	$110,534	
25	MANHATTAN BLOCK 802 LOT 1108									
	2004/2005	14	11	$264,123	$80,520	$183,603	12.22%	$22,436		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$213,297	$129,178	$84,119	12.40%	$10,431		
	2006/2007			$217,474	$130,672	$86,802	12.74%	$11,059		
	Total Exemption			$694,894	$340,370	$354,524		$43,926	$121,644	
26	MANHATTAN BLOCK 802 LOT 1109									
	2004/2005	14	11	$219,052	$140,975	$78,077	12.22%	$9,541		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$232,779	$142,605	$90,174	12.40%	$11,182		
	2006/2007			$237,334	$142,605	$94,729	12.74%	$12,068		
	Total Exemption			$689,165	$426,185	$262,980		$32,791	$132,753	
27	MANHATTAN BLOCK 802 LOT 1110									
	2004/2005	14	11	$312,369	$95,227	$217,142	12.22%	$26,535		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$178,888	$152,773	$26,115	12.40%	$3,238		
	2006/2007			$257,197	$154,540	$102,657	12.74%	$13,079		
	Total Exemption			$748,454	$402,540	$345,914		$42,852	$143,864	
28	MANHATTAN BLOCK 802 LOT 1111									
	2004/2005	14	11	$336,487	$102,580	$233,907	12.22%	$28,583		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$192,700	$164,559	$28,141	12.40%	$3,489		
	2006/2007			$277,054	$166,472	$110,582	12.74%	$14,088		
	Total Exemption			$806,241	$433,611	$372,630		$46,161	$154,970	

No.	Fiscal Year (Benefit Start Date and Subsequent Years)	Years of Exemption	Years of Exemption Left	ACTUAL EXEMPTION (GRANTED BY DOF)	Auditor Calculated EXEMPTION	QUESTIONED EXEMPTION AMOUNT	Tax Rate	Additional Tax Due	Potential Additional Tax Revenue for the Remaining Years of Exemption	REASON FOR DISCREPANCY
29	MANHATTAN BLOCK 802 LOT 1112									
	2004/2005	14	11	$481,215	$146,702	$334,513	12.22%	$40,877		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$275,582	$235,353	$40,229	12.40%	$4,988		
	2006/2007			$396,217	$238,075	$158,142	12.74%	$20,147		
	Total Exemption			$1,153,014	$620,130	$532,884		$66,012	$221,620	
30	MANHATTAN BLOCK 1432 LOT 38									
	2004/2005	34	31	$272,745	$145,057	$127,688	12.22%	$15,603		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$315,495	$250,564	$64,931	12.40%	$8,051		
	2006/2007			$358,245	$301,779	$56,466	12.74%	$7,194		
	Total Exemption			$946,485	$697,400	$249,085		$30,849	$224,004	
31	MANHATTAN BLOCK 1432 LOT 40									
	2004/2005	34	31	$194,512	$96,103	$98,409	12.22%	$12,026		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$254,362	$194,513	$59,849	12.40%	$7,421		
	2006/2007			$356,962	$218,453	$138,509	12.74%	$17,646		
	Total Exemption			$805,836	$509,069	$296,767		$37,093	$549,027	
32	MANHATTAN BLOCK 1470 LOT 13									
	2000/2001	14	7	$81,945	$67,095	$14,850	10.79%	$1,602		
	2001/2002			$91,845	$81,945	$9,900	10.56%	$1,045		
	2002/2003			$133,335	$67,095	$66,240	12.52%	$8,293		
	2003/2004			$190,463	$71,399	$119,064	12.62%	$15,026		
	2004/2005			$479,719	$84,290	$395,429	12.22%	$48,321		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 98/99 not FY 00/01). Auditors recalculated exemption amounts based on FY 98/99 assessed values.
	2005/2006			$251,930	$102,977	$148,953	12.40%	$18,470		
	2006/2007			$437,683	$128,105	$309,578	12.74%	$39,440		
	Total Exemption			$1,666,920	$602,906	$1,064,014		$132,199	$276,082	
33	MANHATTAN BLOCK 1602 LOT 33									
	2001/2002	14	8	$301,995	$69,848	$232,147	10.56%	$24,515		
	2002/2003			$301,995	$89,648	$212,347	12.52%	$26,586		
	2003/2004			$301,995	$139,148	$162,847	12.62%	$20,551		
	2004/2005			$502,433	$191,092	$311,341	12.22%	$38,046		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 99/00 not FY 01/02). Auditors recalculated exemption amounts based on FY 99/00 assessed values.
	2005/2006			$508,025	$254,906	$253,119	12.40%	$31,387		
	2006/2007			$494,043	$320,710	$173,333	12.74%	$22,083		
	Total Exemption			$2,410,486	$1,065,352	$1,345,134		$163,168	$176,061	
34	MANHATTAN BLOCK 1666 LOT 28									
	2004/2005	14	11	$384,750	$90,900	$293,850	12.22%	$35,908		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 00/01 not FY 04/05). Auditors recalculated exemption amounts based on FY 00/01 assessed values.
	2005/2006			$431,100	$90,900	$340,200	12.40%	$42,185		
	2006/2007			$431,100	$92,898	$338,202	12.74%	$43,087		
	Total Exemption			$1,246,950	$274,698	$972,252		$121,180	$473,956	

No.	Fiscal Year (Benefit Start Date and Subsequent Years)	Years of Exemption	Years of Exemption Left	ACTUAL EXEMPTION (GRANTED BY DOF)	Auditor Calculated EXEMPTION	QUESTIONED EXEMPTION AMOUNT	Tax Rate	Additional Tax Due	Potential Additional Tax Revenue for the Remaining Years of Exemption	REASON FOR DISCREPANCY
35	**MANHATTAN BLOCK 1681 LOT 7**									
	2003/2004	14	10	$232,122	$57,996	$174,126	12.62%	$21,975		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 00/01 not FY 03/04. Auditors recalculated exemption amounts based on FY 00/01 assessed values. .
	2004/2005			$232,122	$79,227	$152,895	12.22%	$18,684		
	2005/2006			$232,122	$121,053	$111,069	12.40%	$13,773		
	2006/2007			$286,923	$161,568	$125,355	12.74%	$15,970		
	Total Exemption			$983,289	$419,844	$563,445		$70,401	$159,702	
36	**MANHATTAN BLOCK 1820 LOT 41**									
	1998/1999				$13,500	($13,500)	10.74%	($1,450)		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 98/99 not FY 99/00). Auditors recalculated exemption amounts based on FY 98/99 assessed values.
	1999/2000	14	6	$389,250	$373,050	$16,200	10.85%	$1,758		
	2000/2001			$389,250	$376,650	$12,600	10.79%	$1,360		
	2001/2002			$389,250	$380,250	$9,000	10.56%	$950		
	2002/2003			$389,250	$383,850	$5,400	12.52%	$676		
	2003/2004			$389,250	$364,548	$24,702	12.62%	$3,117		
	2004/2005			$389,250	$356,882	$32,368	12.22%	$3,955		
	2005/2006			$389,250	$354,166	$35,084	12.40%	$4,350		
	2006/2007			$389,250	$350,651	$38,599	12.74%	$4,918		
	Total Exemption			$3,114,000	$2,953,547	$160,453		$19,635	$29,305	
37	**MANHATTAN BLOCK 1870 LOT 37**									
	2004/2005	34	31	$339,750	$166,860	$172,890	12.22%	$21,127		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$339,750	$333,450	$6,300	12.40%	$781		
	2006/2007			$378,450	$334,050	$44,400	12.74%	$5,657		
	Total Exemption			$1,057,950	$834,360	$223,590		$27,565	$175,353	
38	**MANHATTAN BLOCK 1870 LOT 42**									
	2004/2005	34	31	$306,000	$120,480	$185,520	12.22%	$22,671		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 03/04 not FY 04/05). Auditors recalculated exemption amounts based on FY 03/04 assessed values.
	2005/2006			$306,000	$284,550	$21,450	12.40%	$2,660		
	2006/2007			$349,200	$292,560	$56,640	12.74%	$7,216		
	Total Exemption			$961,200	$697,590	$263,610		$32,546	$223,694	
39	**MANHATTAN BLOCK 1872 LOT 43**									
	2001/2002	34	28	$779,850	$437,963	$341,887	10.56%	$36,103		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 97/98 not FY 01/02). Auditors recalculated exemption amounts based on FY 97/98 assessed values.
	2002/2003			$2,800,963	$682,763	$2,118,200	12.52%	$265,199		
	2003/2004			$2,054,713	$437,963	$1,616,750	12.62%	$204,034		
	2004/2005			$2,543,575	$437,963	$2,105,612	12.22%	$257,306		
	2005/2006			$3,005,662	$602,448	$2,403,214	12.40%	$297,999		
	2006/2007			$3,324,712	$781,358	$2,543,354	12.74%	$324,023		
	Total Exemption			$14,509,475	$3,380,458	$11,129,017		$1,384,663	$9,072,652	

No.	Fiscal Year (Benefit Start Date and Subsequent Years)	Years of Exemption	Years of Exemption Left	ACTUAL EXEMPTION (GRANTED BY DOF)	Auditor Calculated EXEMPTION	QUESTIONED EXEMPTION AMOUNT	Tax Rate	Additional Tax Due	Potential Additional Tax Revenue for the Remaining Years of Exemption	REASON FOR DISCREPANCY
40	MANHATTAN BLOCK 1894 LOT 67									
	2004/2005	14	11	$1,042,200	$853,200	$189,000	12.22%	$23,096		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 02/03 not FY 04/05). Auditors recalculated exemption amounts based on FY 02/03 assessed values.
	2005/2006			$1,139,580	$1,119,600	$19,980	12.40%	$2,478		
	2006/2007			$1,385,280	$1,251,540	$133,740	12.74%	$17,038		
	Total Exemption			$3,567,060	$3,224,340	$342,720		$42,612	$181,423	
41	MANHATTAN BLOCK 1993 LOT 105									
	2004/2005	14	11	$111,618	$31,050	$80,568	12.22%	$9,845		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 00/01 not FY 04/05). Auditors recalculated exemption amounts based on FY 00/01 assessed values.
	2005/2006			$277,830	$31,860	$245,970	12.40%	$30,500		
	2006/2007			$342,630	$37,530	$305,100	12.74%	$38,870		
	Total Exemption			$732,078	$100,440	$631,638		$79,215	$427,561	
42	MANHATTAN BLOCK 2025 LOT 34									
	1999/2000	14	8	$0	$5,058	($5,058)	10.85%	($549)		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY99/00 not FY 01/02). Auditors recalculated exemption amounts based on FY 99/00 assessed values.
	2000/2001			$0	$20,088	($20,088)	10.79%	($2,167)		
	2001/2002			$892,350	$892,350	$0	10.56%	$0		
	2002/2003			$979,050	$916,777	$62,273	12.52%	$7,797		
	2003/2004			$916,200	$932,434	($16,234)	12.62%	($2,049)		
	2004/2005			$911,700	$840,728	$70,972	12.22%	$8,673		
	2005/2006			$911,700	$915,005	($3,305)	12.40%	($410)		
	2006/2007			$868,500	$541,900	$326,600	12.74%	$41,609		
	Total Exemption			$5,479,500	$5,064,340	$415,160		$52,903	$332,871	
43	MANHATTAN BLOCK 2080 LOT 5									
	2003/2004	14	10	$441,476	$77,844	$363,632	12.62%	$45,890		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 02/03 not FY 03/04). Auditors recalculated exemption amounts based on FY 02/03 assessed values.
	2004/2005			$648,898	$252,866	$396,032	12.22%	$48,395		
	2005/2006			$864,178	$429,868	$434,310	12.40%	$53,854		
	2006/2007			$918,000	$612,093	$305,907	12.74%	$38,973		
	Total Exemption			$2,872,552	$1,372,671	$1,499,881		$187,112	$389,726	
44	MANHATTAN BLOCK 2155 LOT 19									
	2003/2004	14	10	$330,998	$319,500	$11,498	12.62%	$1,451		Timing issue. First year exemption should be based on the assessed value of the property for the year in which the improvement work was completed (FY 00/01 not FY 03/04). Auditors recalculated exemption amounts based on FY 00/01 assessed values.
	2004/2005			$593,251	$324,000	$269,251	12.22%	$32,902		
	2005/2006			$691,460	$418,500	$272,960	12.40%	$33,847		
	2006/2007			$566,029	$415,098	$150,931	12.74%	$18,444		
	Total Exemption			$2,181,738	$1,477,098	$704,640		$86,644	$184,438	
SUBTOTAL TIMING DISCREPANCIES						$27,700,250		$3,431,523	$15,716,090	

No.	Fiscal Year (Benefit Start Date and Subsequent Years)		Years of Exemption	Years of Exemption Left	ACTUAL EXEMPTION (GRANTED BY DOF)	Auditor Calculated EXEMPTION	QUESTIONED EXEMPTION AMOUNT	Tax Rate	Additional Tax Due	Potential Additional Tax Revenue for the Remaining Years of Exemption	REASON FOR DISCREPANCY
INCORRECT RATIO APPLIED											
1	**MANHATTAN BLOCK 503 LOT 6**										
		1992/1993	34	19	$130,750	$117,675	$13,075	9.91%	$1,296		
		1993/1994			$110,500	$117,675	($7,175)	10.37%	($744)		
		1994/1995			$97,790	$117,675	($19,885)	10.55%	($2,098)		
		1995/1996			$97,790	$117,675	($19,885)	10.81%	($2,150)		
		1996/1997			$97,790	$117,675	($19,885)	11.06%	($2,199)		
		1997/1998			$59,714	$120,817	($61,103)	11.05%	($6,752)		
		1998/1999			$317,750	$144,235	$173,515	10.74%	$18,636		
		1999/2000			$317,750	$144,235	$173,515	10.85%	$18,826		
		2000/2001			$175,238	$144,235	$31,003	10.79%	$3,345		
		2001/2002			$402,350	$166,357	$235,993	10.56%	$24,921		
		2002/2003			$475,250	$185,421	$289,829	12.52%	$36,287		
		2003/2004			$329,450	$147,294	$182,156	12.62%	$22,988		
		2004/2005			$483,350	$187,539	$295,811	12.22%	$36,148		
		2005/2006			$636,350	$227,548	$408,802	12.40%	$50,691		
		2006/2007			$984,650	$318,629	$666,021	12.74%	$84,851		Incorrect ratio was used in calculation of exemption amounts
	Total Exemption				$4,716,472	$2,374,685	$2,341,787		$284,046	$1,012,170	
2	**MANHATTAN BLOCK 732 LOT 7**										
		2000/2001	34	27	$53,604	$199,952	($146,348)	10.79%	($15,791)		
		2001/2002			$188,890	$199,952	($11,062)	10.56%	($1,168)		
		2002/2003			$461,166	$199,952	$261,214	12.52%	$32,704		
		2003/2004			$864,473	$199,952	$664,521	12.62%	$83,863		
		2004/2005			$1,283,097	$199,952	$1,083,145	12.22%	$132,360		1.Timing issue.First year exemption should be based on assessed values of FY 96/97 not FY00/01. 2.Exemption amounts were calculated using incorrect ratio. 3. DOF adjusted exemption amount for FY 2006/2007 .
		2005/2006			$1,104,415	$225,747	$878,668	12.40%	$108,955		
		2006/2007			$1,104,415	$257,669	$846,746	12.74%	$107,875		
	Total Exemption				$5,060,060	$1,483,176	$3,576,884		$448,798	$0	
3	**MANHATTAN BLOCK 1039 LOT 45**										
		1997/1998	34	24	$47,730	$41,400	$6,330	11.05%	$699		
		1998/1999			$78,300	$48,066	$30,234	10.74%	$3,247		
		1999/2000			$83,880	$57,228	$26,652	10.85%	$2,892		
		2000/2001			$107,640	$66,942	$40,698	10.79%	$4,391		
		2001/2002			$131,760	$81,710	$50,050	10.56%	$5,285		
		2002/2003			$155,700	$91,065	$64,635	12.52%	$8,092		
		2003/2004			$167,220	$100,240	$66,980	12.62%	$8,453		
		2004/2005			$233,100	$109,829	$123,271	12.22%	$15,064		
		2005/2006			$280,350	$137,629	$142,721	12.40%	$17,697		
		2006/2007			$339,300	$155,738	$183,562	12.74%	$23,386		Incorrect ratio was used in calculation of exemption amounts
	Total Exemption				$1,624,980	$889,847	$735,133		$89,206	$561,259	
4	**MANHATTAN BLOCK 1039 LOT 46**										

No.	Fiscal Year (Benefit Start Date and Subsequent Years)	Years of Exemption	Years of Exemption Left	ACTUAL EXEMPTION (GRANTED BY DOF)	Auditor Calculated EXEMPTION	QUESTIONED EXEMPTION AMOUNT	Tax Rate	Additional Tax Due	Potential Additional Tax Revenue for the Remaining Years of Exemption	REASON FOR DISCREPANCY
	1997/1998	34	24	$53,518	$11,488	$42,030	11.05%	$4,644		
	1998/1999			$59,400	$53,518	$5,882	10.74%	$632		
	1999/2000			$59,400	$61,159	($1,759)	10.85%	($191)		
	2000/2001			$67,105	$68,800	($1,695)	10.79%	($183)		
	2001/2002			$80,376	$80,989	($613)	10.56%	($65)		
	2002/2003			$93,647	$88,807	$4,840	12.52%	$606		
	2003/2004			$107,561	$96,625	$10,936	12.62%	$1,380		
	2004/2005			$146,625	$104,821	$41,804	12.22%	$5,108		
	2005/2006			$171,508	$110,784	$60,724	12.40%	$7,530		
	2006/2007			$207,094	$123,767	$83,327	12.74%	$10,616		Incorrect ratio was used in calculation of exemption amounts
	Total Exemption			$1,046,234	$800,758	$245,476		$30,078	$259,781	
5	MANHATTAN BLOCK 1039 LOT 49									
	1997/1998	34	24	$53,446	$40,050	$13,396	11.05%	$1,480		
	1998/1999			$68,458	$53,446	$15,012	10.74%	$1,612		
	1999/2000			$76,050	$68,458	$7,592	10.85%	$824		
	2000/2001			$94,576	$76,374	$18,202	10.79%	$1,964		
	2001/2002			$112,002	$89,477	$22,525	10.56%	$2,379		
	2002/2003			$129,428	$97,802	$31,626	12.52%	$3,960		
	2003/2004			$147,724	$106,127	$41,597	12.62%	$5,250		
	2004/2005			$198,615	$114,868	$83,747	12.22%	$10,234		
	2005/2006			$236,982	$138,403	$98,579	12.40%	$12,224		
	2006/2007			$294,895	$156,788	$138,107	12.74%	$17,595		Incorrect ratio was used in calculation of exemption amounts
	Total Exemption			$1,412,176	$941,793	$470,383		$57,521	$422,216	
6	MANHATTAN BLOCK 1039 LOT 50									
	1996/1997	34	23	$39,654	$39,654	$0	11.06%	$0		
	1997/1998			$99,600	$80,200	$19,400	11.05%	$2,144		
	1998/1999			$109,050	$96,050	$13,000	10.74%	$1,396		
	1999/2000			$101,600	$102,414	($814)	10.85%	($88)		
	2000/2001			$111,107	$110,640	$467	10.79%	$50		
	2001/2002			$125,127	$118,879	$6,248	10.56%	$660		
	2002/2003			$139,149	$127,118	$12,031	12.52%	$1,506		
	2003/2004			$154,079	$135,892	$18,187	12.62%	$2,295		
	2004/2005			$207,661	$166,565	$41,096	12.22%	$5,022		
	2005/2006			$247,829	$190,169	$57,660	12.40%	$7,150		
	2006/2007			$308,460	$177,533	$130,927	12.74%	$16,680		Incorrect ratio was used in calculation of exemption amounts
	Total Exemption			$1,643,316	$1,345,114	$298,202		$36,815	$383,642	

No.	Fiscal Year (Benefit Start Date and Subsequent Years)	Years of Exemption	Years of Exemption Left	ACTUAL EXEMPTION (GRANTED BY DOF)	Auditor Calculated EXEMPTION	QUESTIONED EXEMPTION AMOUNT	Tax Rate	Additional Tax Due	Potential Additional Tax Revenue for the Remaining Years of Exemption	REASON FOR DISCREPANCY
7	MANHATTAN BLOCK 1039 LOT 51									
	1997/1998	34	24	$61,034	$11,624	$49,410	11.05%	$5,460		
	1998/1999			$81,662	$61,034	$20,628	10.74%	$2,215		
	1999/2000			$103,050	$81,662	$21,388	10.85%	$2,321		
	2000/2001			$118,282	$95,090	$23,192	10.79%	$2,502		
	2001/2002			$133,245	$113,186	$20,059	10.56%	$2,118		
	2002/2003			$148,207	$121,914	$26,293	12.52%	$3,292		
	2003/2004			$164,115	$130,642	$33,473	12.62%	$4,224		
	2004/2005			$215,774	$139,921	$75,853	12.22%	$9,269		
	2005/2006			$257,511	$171,806	$85,705	12.40%	$10,627		
	2006/2007			$320,511	$196,153	$124,358	12.74%	$15,843		Incorrect ratio was used in calculation of exemption amounts
	Total Exemption			$1,603,391	$1,123,032	$480,359		$57,871	$380,217	
8	MANHATTAN BLOCK 1039 LOT 52									
	1997/1998	34	24	$61,556	$12,146	$49,410	11.05%	$5,460		
	1998/1999			$103,050	$61,556	$41,494	10.74%	$4,456		
	1999/2000			$211,095	$74,813	$136,282	10.85%	$14,787		
	2000/2001			$213,437	$156,374	$57,063	10.79%	$6,157		
	2001/2002			$168,813	$157,706	$11,107	10.56%	$1,173		
	2002/2003			$190,891	$133,827	$57,064	12.52%	$7,144		
	2003/2004			$212,968	$144,759	$68,209	12.62%	$8,608		
	2004/2005			$228,230	$155,690	$72,540	12.22%	$8,864		
	2005/2006			$269,606	$157,640	$111,966	12.40%	$13,884		
	2006/2007			$332,060	$189,665	$142,395	12.74%	$18,141		Incorrect ratio was used in calculation of exemption amounts
	Total Exemption			$1,991,706	$1,244,176	$747,530		$98,675	$435,387	
SUBTOTAL INCORRECT RATIO DISCREPANCIES						$8,895,754		$1,093,012	$4,049,752	
UNADJUSTED EXEMPTIONS										
1	MANHATTAN BLOCK 1893 LOT 1002									
	2004/2005	14	11	$8,658,000	$8,658,000	$0	12.22%	$0		In FY 2004/2005 market value and AV of this property had been adjusted. In 2005/2006 this adjustment was reversed. However, the exemption amounts had not been adjusted accordingly.
	2005/2006			$5,355,000	$3,438,000	$1,917,000	12.40%	$237,708		
	2006/2007			$7,797,780	$2,219,400	$5,578,380	12.74%	$710,686		
	Total Exemption			$21,810,780	$14,315,400	$7,495,380		$948,394	$7,817,542	
SUBTOTAL UNADJUSTED EXEMPTIONS DISCREPANCIES								$948,394	$7,817,542	

No.	Fiscal Year (Benefit Start Date and Subsequent Years)		Years of Exemption	Years of Exemption Left	ACTUAL EXEMPTION (GRANTED BY DOF)	Auditor Calculated EXEMPTION	QUESTIONED EXEMPTION AMOUNT	Tax Rate	Additional Tax Due	Potential Additional Tax Revenue for the Remaining Years of Exemption	REASON FOR DISCREPANCY
ERRORS IN CALCULATIONS											
1	**MANHATTAN BLOCK 141 LOT 16**										
		1998/1999	14	5	$108,640	$108,720	($80)	10.74%	($9)		
		1999/2000			$108,640	$108,720	($80)	10.85%	($9)		
		2000/2001			$108,640	$108,720	($80)	10.79%	($9)		
		2001/2002			$112,725	$108,720	$4,005	10.56%	$423		
		2002/2003			$150,819	$108,720	$42,099	12.52%	$5,271		
		2003/2004			$181,626	$118,779	$62,847	12.62%	$7,931		
		2004/2005			$218,347	$133,990	$84,357	12.22%	$10,308		
		2005/2006			$259,255	$149,171	$110,084	12.40%	$13,650		
		2006/2007			$296,004	$162,808	$133,196	12.74%	$16,969		
	Total Exemption				$1,544,696	$1,108,348	$436,348		$54,527	$84,846	Errors in calculations
2	**MANHATTAN BLOCK 300 LOT 18**										
		1998/1999	14	5	$222,750	$222,750	$0	10.74%	$0		
		1999/2000			$222,750	$222,750	$0	10.85%	$0		
		2000/2001			$222,750	$222,750	$0	10.79%	$0		
		2001/2002			$227,421	$222,750	$4,671	10.56%	$493		
		2002/2003			$234,687	$222,750	$11,937	12.52%	$1,495		
		2003/2004			$247,056	$222,750	$24,306	12.62%	$3,067		
		2004/2005			$298,872	$283,064	$15,808	12.22%	$1,932		
		2005/2006			$307,955	$290,260	$17,695	12.40%	$2,194		
		2006/2007			$307,955	$290,260	$17,695	12.74%	$2,254		
	Total Exemption				$2,292,196	$2,200,084	$92,112		$11,435	$11,272	Errors in Calulations
3	**MANHATTAN BLOCK 374 LOT 3**										
		1998/1999	14	5	$162,000	$162,000	$0	10.74%	$0		
		1999/2000			$137,077	$162,000	($24,923)	10.85%	($2,704)		
		2000/2001			$189,302	$189,302	$0	10.79%	$0		
		2001/2002			$202,815	$198,690	$4,125	10.56%	$436		
		2002/2003			$235,026	$175,456	$59,570	12.52%	$7,458		
		2003/2004			$235,026	$181,997	$53,029	12.62%	$6,692		
		2004/2005			$253,940	$196,783	$57,157	12.22%	$6,985		
		2005/2006			$283,435	$250,338	$33,097	12.40%	$4,104		
		2006/2007			$250,000	$213,494	$36,506	12.74%	$4,651		
	Total Exemption				$1,948,621	$1,730,060	$218,561		$27,621	$23,254	Errors in Calulations

No.	Fiscal Year (Benefit Start Date and Subsequent Years)	Years of Exemption	Years of Exemption Left	ACTUAL EXEMPTION (GRANTED BY DOF)	Auditor Calculated EXEMPTION	QUESTIONED EXEMPTION AMOUNT	Tax Rate	Additional Tax Due	Potential Additional Tax Revenue for the Remaining Years of Exemption	REASON FOR DISCREPANCY
4	MANHATTAN BLOCK 392 LOT 45									
	2002/2003	14	9	$384,750	$378,270	$6,480	12.52%	$811		
	2003/2004			$384,750	$378,270	$6,480	12.62%	$818		
	2004/2005			$384,750	$378,270	$6,480	12.22%	$792		
	2005/2006			$384,750	$378,270	$6,480	12.40%	$804		
	2006/2007			$384,750	$378,270	$6,480	12.74%	$826		
	Total Exemption			$1,923,750	$1,891,350	$32,400		$4,050	$7,430	Errors in Calulations
5	MANHATTAN BLOCK 412 LOT 10									
	1999/2000	14	6	$186,300	$186,300	$0	10.85%	$0		
	2000/2001			$198,774	$198,774	$0	10.79%	$0		
	2001/2002			$190,350	$190,350	$0	10.56%	$0		
	2002/2003			$214,683	$204,470	$10,213	12.52%	$1,279		
	2003/2004			$240,962	$219,719	$21,243	12.62%	$2,681		
	2004/2005			$261,827	$231,826	$30,001	12.22%	$3,666		
	2005/2006			$356,379	$286,692	$69,687	12.40%	$8,641		
	2006/2007			$356,379	$286,692	$69,687	12.74%	$8,878		
	Total Exemption			$2,005,654	$1,804,823	$200,831		$25,146	$51,269	Errors in Calulations
6	MANHATTAN BLOCK 417 LOT 67									
	1999/2000	14	6	$259,650	$261,338	($1,688)	10.85%	($183)		
	2000/2001			$260,100	$261,788	($1,688)	10.79%	($182)		
	2001/2002			$263,250	$264,938	($1,688)	10.56%	($178)		
	2002/2003			$268,854	$269,780	($926)	12.52%	($116)		
	2003/2004			$280,221	$278,568	$1,653	12.62%	$209		
	2004/2005			$465,607	$308,162	$157,445	12.22%	$19,240		
	2005/2006			$361,537	$336,406	$25,131	12.40%	$3,116		
	2006/2007			$529,418	$452,556	$76,862	12.74%	$9,792		
	Total Exemption			$2,688,637	$2,433,536	$255,101		$31,697	$58,753	Errors in Calulations
7	MANHATTAN BLOCK 435 LOT 6									
	2000/2001	14	7	$268,179	$265,322	$2,857	10.79%	$308		
	2001/2002			$272,349	$272,349	$0	10.56%	$0		
	2002/2003			$279,376	$279,377	($1)	12.52%	($0)		
	2003/2004			$300,971	$295,569	$5,402	12.62%	$682		
	2004/2005			$337,542	$320,830	$16,712	12.22%	$2,042		
	2005/2006			$298,599	$345,420	($46,821)	12.40%	($5,806)		
	2006/2007			$402,844	$364,167	$38,677	12.74%	$4,927		
	Total Exemption			$2,159,860	$2,143,034	$16,826		$2,154	[illegible]	Errors in Calulations

No.	Fiscal Year (Benefit Start Date and Subsequent Years)	Years of Exemption	Years of Exemption Left	ACTUAL EXEMPTION (GRANTED BY DOF)	Auditor Calculated EXEMPTION	QUESTIONED EXEMPTION AMOUNT	Tax Rate	Additional Tax Due	Potential Additional Tax Revenue for the Remaining Years of Exemption	REASON FOR DISCREPANCY
8	MANHATTAN BLOCK 476 LOT 45									
	1997/1998	34	24	$314,000	$314,000	$0	11.05%	$0		
	1998/1999			$300,240	$314,000	($13,760)	10.74%	($1,478)		
	1999/2000			$245,880	$314,000	($68,120)	10.85%	($7,391)		
	2000/2001			$317,880	$314,000	$3,880	10.79%	$419		
	2001/2002			$432,450	$341,477	$90,973	10.56%	$9,607		
	2002/2003			$509,850	$380,899	$128,951	12.52%	$16,145		
	2003/2004			$587,790	$444,157	$143,633	12.62%	$18,126		
	2004/2005			$682,470	$492,380	$190,090	12.22%	$23,229		
	2005/2006			$1,246,140	$577,687	$668,453	12.40%	$82,888		
	2006/2007			$1,318,140	$648,647	$669,493	12.74%	$85,293		
	Total Exemption			$5,954,840	$4,141,247	$1,813,593		$226,838	$2,047,042	Errors in calculations.
9	MANHATTAN BLOCK 1490 LOT 19									
	1999/2000	34	26	$594,000	$594,000	$0	10.85%	$0		
	2000/2001			$747,000	$747,000	$0	10.79%	$0		
	2001/2002			$846,000	$846,000	$0	10.56%	$0		
	2002/2003			$1,210,500	$671,889	$538,611	12.52%	$67,434		
	2003/2004			$1,750,500	$842,608	$907,892	12.62%	$114,576		
	2004/2005			$1,895,275	$956,144	$939,131	12.22%	$114,762		
	2005/2006			$1,437,582	$1,062,253	$375,329	12.40%	$46,541		
	2006/2007			$1,646,274	$1,132,273	$514,001	12.74%	$65,484		
	Total Exemption			$10,127,131	$6,852,167	$3,274,964		$408,796	$1,702,577	Errors in calculations
10	MANHATTAN BLOCK 1603 LOT 14									
	1993/1994	34	20	$277,049	$343,600	($66,551)	10.37%	($6,901)		
	1994/1995			$257,544	$343,600	($86,056)	10.55%	($9,079)		
	1995/1996			$239,036	$343,600	($104,564)	10.81%	($11,303)		
	1996/1997			$244,378	$343,600	($99,222)	11.06%	($10,974)		
	1997/1998			$254,220	$343,600	($89,380)	11.05%	($9,876)		
	1998/1999			$275,981	$343,600	($67,619)	10.74%	($7,262)		
	1999/2000			$297,742	$343,600	($45,858)	10.85%	($4,976)		
	2000/2001			$315,967	$344,181	($28,214)	10.79%	($3,044)		
	2001/2002			$380,848	$351,812	$29,036	10.56%	$3,066		
	2002/2003			$532,480	$378,978	$153,502	12.52%	$19,218		
	2003/2004			$642,559	$415,302	$227,257	12.62%	$28,680		
	2004/2005			$776,476	$461,393	$315,083	12.22%	$38,503		
	2005/2006			$911,851	$517,466	$394,385	12.40%	$48,904		
	2006/2007			$1,002,757	$574,150	$428,607	12.74%	$54,605		
	Total Exemption			$6,408,888	$5,448,482	$960,406		$129,560	$1,092,091	Errors in calculations.

No.	Fiscal Year (Benefit Start Date and Subsequent Years)	Years of Exemption	Years of Exemption Left	ACTUAL EXEMPTION (GRANTED BY DOF)	Auditor Calculated EXEMPTION	QUESTIONED EXEMPTION AMOUNT	Tax Rate	Additional Tax Due	Potential Additional Tax Revenue for the Remaining Years of Exemption	REASON FOR DISCREPANCY
11	**MANHATTAN BLOCK 1772 LOT 13**									
	1998/1999	14	5	$131,940	$127,908	$4,032	10.74%	$433		
	1999/2000			$135,828	$131,796	$4,032	10.85%	$437		
	2000/2001			$138,528	$134,496	$4,032	10.79%	$435		
	2001/2002			$145,368	$139,479	$5,889	10.56%	$622		
	2002/2003			$161,658	$145,903	$15,755	12.52%	$1,973		
	2003/2004			$154,530	$149,099	$5,431	12.62%	$685		
	2004/2005			$158,130	$152,295	$5,835	12.22%	$713		
	2005/2006			$163,440	$155,224	$8,216	12.40%	$1,019		
	2006/2007			$172,890	$160,436	$12,454	12.74%	$1,587		
	Total Exemption			$1,362,312	$1,296,636	$65,676		$7,904	$7,933	Errors in calculations
	SUBTOTAL ERRORS IN CALCULATIONS (OVERSTATED EXEMPTIONS)					$7,366,818		$929,728	$5,122,959	
12	**MANHATTAN BLOCK 510 LOT 1003**									
	2001/2002	14	8	$42,667	$102,109	($59,442)	10.56%	($6,277)		
	2002/2003			$42,667	$103,849	($61,182)	12.52%	($7,660)		
	2003/2004			$42,667	$105,435	($62,768)	12.62%	($7,921)		
	2004/2005			$42,667	$106,182	($63,515)	12.22%	($7,762)		
	2005/2006			$45,383	$113,321	($67,938)	12.40%	($8,424)		
	2006/2007			$48,685	$120,438	($71,753)	12.74%	($9,141)		
	Total Exemption			$264,736	$651,334	($386,598)		($47,186)	($73,131)	Errors in calculations
13	**MANHATTAN BLOCK 893 LOT 66**									
	2000/2001	34	27	$207,000	$280,290	($73,290)	10.79%	($7,908)		
	2001/2002			$207,000	$320,790	($113,790)	10.56%	($12,016)		
	2002/2003			$221,400	$361,290	($139,890)	12.52%	($17,514)		
	2003/2004			$232,390	$372,100	($139,710)	12.62%	($17,631)		
	2004/2005			$252,126	$391,241	($139,115)	12.22%	($17,000)		
	2005/2006			$243,000	$417,880	($174,880)	12.40%	($21,685)		
	2006/2007			$299,558	$436,674	($137,116)	12.74%	($17,469)		
	Total Exemption			$1,662,474	$2,580,265	($917,791)		($111,223)	($471,652)	Errors in calculations
14	**MANHATTAN BLOCK 902 LOT 30**									
	2003/2004	34	30	$1,424,430	$1,575,443	($151,013)	12.62%	($19,058)		
	2004/2005			$1,577,475	$1,728,488	($151,013)	12.22%	($18,454)		
	2005/2006			$1,802,340	$1,953,353	($151,013)	12.40%	($18,726)		
	2006/2007			$2,053,599	$2,203,372	($149,773)	12.74%	($19,081)		
	Total Exemption			$6,857,844	$7,460,656	($602,812)		($75,318)	($572,412)	Errors in calculations

No.	Fiscal Year (Benefit Start Date and Subsequent Years)	Years of Exemption	Years of Exemption Left	ACTUAL EXEMPTION (GRANTED BY DOF)	Auditor Calculated EXEMPTION	QUESTIONED EXEMPTION AMOUNT	Tax Rate	Additional Tax Due	Potential Additional Tax Revenue for the Remaining Years of Exemption	REASON FOR DISCREPANCY
15	**MANHATTAN BLOCK 1182 LOT 29**									
	1999/2000	14	6	$297,000	$362,500	($65,500)	10.85%	($7,107)		
	2000/2001			$297,000	$371,500	($74,500)	10.79%	($8,039)		
	2001/2002			$297,000	$173,950	$123,050	10.56%	$12,994		
	2002/2003			$297,000	$211,621	$85,379	12.52%	$10,689		
	2003/2004			$301,878	$238,423	$63,455	12.62%	$8,008		
	2004/2005			$325,080	$430,344	($105,264)	12.22%	($12,863)		
	2005/2006			$349,716	$438,567	($88,851)	12.40%	($11,018)		
	2006/2007			$433,800	$414,400	$19,400	12.74%	$2,472		
	Total Exemption			**$2,598,474**	**$2,641,305**	**($42,831)**		**($4,863)**	**$14,929**	Errors in Calulations
16	**MANHATTAN BLOCK 1490 LOT 23**									
	1999/2000	34	26	$339,414	$504,000	($164,586)	10.85%	($17,858)		
	2000/2001			$637,875	$657,000	($19,125)	10.79%	($2,064)		
	2001/2002			$637,875	$504,000	$133,875	10.56%	$14,137		
	2002/2003			$492,332	$586,150	($93,818)	12.52%	($11,746)		
	2003/2004			$720,449	$779,705	($59,256)	12.62%	($7,478)		
	2004/2005			$863,067	$887,759	($24,692)	12.22%	($3,017)		
	2005/2006			$994,017	$977,050	$16,967	12.40%	$2,104		
	2006/2007			$1,081,348	$1,031,650	$49,698	12.74%	$6,332		
	Total Exemption			**$5,766,377**	**$5,927,314**	**($160,937)**		**($19,590)**	**$164,620**	Errors in calculations
17	**MANHATTAN BLOCK 1490 LOT 28**									
	1999/2000	34	26	$625,500	$625,500	$0	10.85%	$0		
	2000/2001			$1,013,117	$814,500	$198,617	10.79%	$21,431		
	2001/2002			$1,166,117	$625,500	$540,617	10.56%	$57,089		
	2002/2003			$736,813	$885,411	($148,598)	12.52%	($18,604)		
	2003/2004			$1,007,879	$1,200,114	($192,235)	12.62%	($24,260)		
	2004/2005			$1,209,492	$1,408,877	($199,385)	12.22%	($24,365)		
	2005/2006			$1,411,752	$1,570,875	($159,123)	12.40%	($19,731)		
	2006/2007			$1,452,944	$1,626,492	($173,548)	12.74%	($22,110)		
	Total Exemption			**$8,623,614**	**$8,757,269**	**($133,655)**		**($30,551)**	**($74,860)**	Errors in calculations
18	**MANHATTAN BLOCK 1826 LOT 44**									
	2005/2006	14	12	$394,200	$398,070	($3,870)	12.40%	($480)		
	2006/2007			$883,170	$885,870	($2,700)	12.74%	($344)		
	Total Exemption			**$1,277,370**	**$1,283,940**	**($6,570)**		**($824)**	**($4,128)**	Errors in calculations
19	**MANHATTAN BLOCK 1826 LOT 46**									
	2005/2006	14	12	$394,200	$403,470	($9,270)	12.40%	($1,149)		
	2006/2007			$883,170	$892,440	($9,270)	12.74%	($1,181)		
	Total Exemption			**$1,277,370**	**$1,295,910**	**($18,540)**		**($2,330)**	**($14,172)**	Errors in calculations

No.	Fiscal Year (Benefit Start Date and Subsequent Years)	Years of Exemption	Years of Exemption Left	ACTUAL EXEMPTION (GRANTED BY DOF)	Auditor Calculated EXEMPTION	QUESTIONED EXEMPTION AMOUNT	Tax Rate	Additional Tax Due	Potential Additional Tax Revenue for the Remaining Years of Exemption	REASON FOR DISCREPANCY
20	**MANHATTAN BLOCK 1828 LOT 61**									
	2005/2006	14	12	$144,947	$151,947	($7,000)	12.40%	($868)		
	2006/2007			$451,197	$451,197	$0	12.74%	$0		
	Total Exemption			$596,144	$603,144	($7,000)		($868)	$0	Errors in calculations
21	**MANHATTAN BLOCK 1862 LOT 1**									
	1999/2000	14	6	$38,475	$37,665	$810	10.85%	$88		
	2000/2001			$38,475	$49,815	($11,340)	10.79%	($1,224)		
	2001/2002			$49,572	$70,632	($21,060)	10.56%	($2,224)		
	2002/2003			$71,111	$92,149	($21,038)	12.52%	($2,634)		
	2003/2004			$93,403	$114,398	($20,995)	12.62%	($2,650)		
	2004/2005			$122,147	$142,741	($20,594)	12.22%	($2,517)		
	2005/2006			$151,819	$171,800	($19,981)	12.40%	($2,478)		
	2006/2007			$173,270	$192,601	($19,331)	12.74%	($2,463)		
	Total Exemption			$738,272	$871,801	($133,529)		[illegible]	($19,770)	Errors in calculations
22	**MANHATTAN BLOCK 1950 LOT 61**									
	2005/2006	14	12	$461,682	$466,362	($4,680)	12.40%	($580)		
	2006/2007			$468,729	$473,409	($4,680)	12.74%	($596)		
	Total Exemption			$930,411	$939,771	($9,360)		($1,176)	($7,155)	Errors in calculations
23	**MANHATTAN BLOCK 2026 LOT 9**									
	2001/2002	14	8	$303,111	$893,668	($590,557)	10.56%	($62,363)	-	
	2002/2003			$896,342	$894,406	$1,936	12.52%	$242		
	2003/2004			$944,775	$944,775	$0	12.62%	$0		
	2004/2005			$805,500	$751,621	$53,879	12.22%	$6,584		
	2005/2006			$896,900	$847,514	$49,386	12.40%	$6,124		
	2006/2007			$896,900	$835,002	$61,898	12.74%	$7,886		
	Total Exemption			$4,743,528	$5,166,986	($423,458)		($41,527)	($63,086)	Errors in calculations.
	SUBTOTAL ERRORS IN CALCULATIONS (UNDERSTATED EXEMPTIONS)					($2,843,081)		($351,557)	($1,489,771)	

TOTAL underbilled	$6,402,657	$34,540,265
TOTAL overbilled	($351,557)	($3,323,693)
NET	$6,051,100	$31,216,572
Including		
Timing Issue Differences	$3,431,523	
Incorrect Tax Calculations	$2,619,577	

FINANCE
NEW • YORK
MARTHA E. STARK
COMMISSIONER

November 18, 2008

John Graham
Deputy Comptroller
Audits, Accountancy and Contracts
Office of the City Comptroller
1 Centre Street
New York, NY 10007

Re: Audit FP06-141A

Dear Mr. Graham:

This letter will serve as the Department of Finance's response to the above audit, dated October 24, 2008, which addresses the calculation and application of the J-51 exemption and abatement in the borough of Manhattan. Before I address the individual recommendations contained in the audit, let me first thank you for this opportunity to respond.

Let me underscore what I believe is the primary and recurring weakness of J-51, which is not explicitly addressed in this audit. When the audit's exit conference was held almost nine months ago, Finance staff made it clear that J-51, as spelled out in the New York State Real Property Tax Law, contains requirements that make transparent administration of the program challenging.

First, J-51 requires that physical increases to a given property be treated similarly to those increases that are a result of market forces, otherwise known as equalization increases. Given that your audit period covered Fiscal Year 2007, a record year for growth in the Manhattan real estate market, it is unsurprising then that auditors would find so much unrealized revenue: in years with large market value increases, problems arising from similar treatment of the two types of increases is accentuated. Second, Finance's assessors base valuation on income and expense data, separate and apart of whether a given property has an exemption, a critical point that the audit seems to overlook.

Therefore, as a result, the most valid recommendations from the audit are the ones that are grounded in an understanding of the limitations placed on Finance by state law. So to the audit's five major recommendations, one-by-one:

1) *Seek changes in the J-51 statute...to specify the best method for calculating tax exemptions to ensure program equity and the greatest revenue potential for the City.*

Finance agrees, especially that the state statute needs updating to address the two major issues that we identify above. However, contrary to your conclusions about "revenue potential," the most important goal is that J-51 continue to encourage owners to maintain and upgrade residential properties.

2) *Prorate tax exemptions as required by New York State Real Property Tax Law...and ensure that exemption calculations are accurate.*

Finance disagrees. We believe that J-51 formulae are being applied accurately. However, we are reviewing the specific cases cited in the audit for possible inadvertent errors.

3) *Establish procedures to identify properties with large annual variations in market and assessed value.*

Finance disagrees. Such procedures are already established and in place as part of the normal valuation protocol.

4) *Review the assessment of any existing properties that show large annual variations in market and assessed values. [Finance] should adjust any values and associated exemptions that cannot be adequately substantiated.*

Finance disagrees. Again, we believe our established safeguards allow us to track properties that show such large variations.

5) *[Finance] should ensure that all exemption calculations are based on accurate information...and recalculate improperly granted exemptions for 23 properties cited [in the audit]; ensure that any future taxes are based on the recalculated exemptions.*

Finance agrees. As stated above, we will further investigate those properties that show calculation discrepancies, and if we do find them, will apply the proper charges going forward.

Finally, because J-51 is the most prominent and widely used of incentive programs that address goals of creating and maintaining affordable housing, we believe larger goals of more accurate information are extremely commendable. In fact, because of these goals, Finance will undertake a new project around J-51 of the sort that we have undertaken more aggressively in recent years around our own agency's auditors. Finance's Audit division has spent considerable time and energy in creating Statements of Audit Procedure, which give assistance to our compliers on what they might expect *before* a given audit begins. Similarly, I am directing my exemption division and our agency's lawyers to work with our colleagues at the Department of Housing Preservation and Development (HPD) to draft a new **Statement of Exemption Procedure** to bring further clarity to the J-51 program.

If nothing else, your agency's two separate and exhaustive audits of J-51 in the last two years have illustrated how difficult the program is for the public to understand. To advance the admirable policy goals of the program, New York City definitely needs to more explicitly spell out how this critical benefit is administered and implemented.

Once again, thank you, and please get back to me if you have any further questions regarding this response.

Sincerely,

Martha E. Stark

Martha E. Stark

C: Rochelle Patricof, First Deputy Commissioner
Leslie Zimmerman, Assistant Commissioner, Payment Operations
Dara Jaffee, Assistant Commissioner, Legal Affairs
Maurice Kellman, Assistant Commissioner, Property
Chris Browne, External Audit Coordinator, Communications and Gov't Affairs
Shaun Donovan, Commissioner, Department of Housing Preservation and Development (HPD)
George Davis III, Mayor's Office