



# City of New York

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## OFFICE OF THE COMPTROLLER

Scott M. Stringer  
COMPTROLLER



## FINANCIAL AUDIT

**Marjorie Landa**

Deputy Comptroller for Audit

Audit Report on the Department of  
Finance's Tax Classification of  
Vacant Lots

FM13-120A

**March 13, 2014**

<http://comptroller.nyc.gov>



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

SCOTT M. STRINGER  
COMPTROLLER

March 13, 2014

**To the Residents of the City of New York:**

My office has audited the New York City Department of Finance (DOF) to determine whether it properly classifies and assesses residential vacant lots for tax purposes. We audit City agencies such as DOF as a means of ensuring they operate efficiently and are accountable for resources and revenues in their charge.

DOF is responsible for annually assessing the value of more than one million properties located throughout the City and reflecting the results of the valuation in DOF's assessment roll. DOF applies tax rates to the assessed value to calculate property taxes and then bills and collects taxes that are assessed on each property.

Our audit found that although DOF properly classified the tax class and building class in a majority of vacant lots reviewed, DOF needs to enhance its procedures to ensure that all vacant lots are properly classified on future assessment rolls and that appropriate taxes are being paid. We found that 308 properties listed as vacant and Tax Class 1 appear to have been misclassified and that as a result, DOF did not properly assess these properties for tax purposes. Specifically, we found that 281 of the 308 properties had both an incorrect tax classification and an incorrect building classification. Had these properties been properly classified, we calculated that DOF could have billed the owners as much as \$1,730,794 in additional real estate taxes. The remaining 27 properties had an incorrect building classification, which could have affected the market value of each property. However, the amount of additional taxes due cannot be determined until DOF determines any change in market value.

The results of the audit have been discussed with DOF officials, and their comments have been considered in preparing this report. Their complete written response is attached to this report. If you have any questions concerning this report, please e-mail my audit bureau at [audit@comptroller.nyc.gov](mailto:audit@comptroller.nyc.gov).

Sincerely,

A handwritten signature in blue ink, appearing to read "Scott M. Stringer".

Scott M. Stringer

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# THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER FINANCIAL AUDIT

## Audit Report on the Department of Finance's Tax Classification of Vacant Lots

FM13-120A

### AUDIT REPORT IN BRIEF

The Department of Finance (DOF) is responsible for annually assessing the value of more than one million properties located throughout the City and reflecting the results of the valuation in DOF's assessment roll. DOF applies tax rates to the assessed value of each property to calculate the amount of property taxes due and then bills and collects taxes that are assessed. DOF's Property Division is responsible for producing a fair, accurate, and legal assessment roll each year. DOF assessors are responsible for valuing properties in their assigned areas. Assessors assure that properties are assigned the correct tax class and building class, that physical characteristics of the property are recorded accurately, and that properties are recorded in accordance with assessment roll guidelines.

### Audit Findings and Conclusion

Although DOF properly classified the tax class and building class in a majority of vacant lots reviewed, DOF needs to enhance its procedures to ensure that all vacant lots are properly classified on future assessment rolls and that appropriate taxes are being paid. According to New York City Administrative Code §11-207, assessors are required to personally examine each taxable property once every three years. However, DOF informed us that the physical inspection process for all properties is "permit-driven," that is, assessors are likely to inspect properties, including vacant lots, more often when a Department of Buildings (DOB) permit is filed for a property to undergo a major alteration.

DOF inspection methods resulted in the accurate assessment of most properties identified as vacant lots. However, we nonetheless found that 308 properties listed as vacant and Tax Class 1 appear to have been misclassified and that as a result, DOF did not properly assess these properties for tax purposes. Specifically, we found that 281 of the 308 properties had both an incorrect tax classification and an incorrect building classification. Had these properties been properly classified, we estimate that DOF could have billed the owners as much as \$1,730,794 in additional real estate taxes. The remaining 27 properties that were correctly classified as Tax Class 1 but appear to have had an incorrect vacant lot building classification which could have affected the market value of each property. The amount of additional taxes due cannot be determined, however, until DOF determines any change in market value of these properties.

We found that most of the vacant properties that had an incorrect tax classification and an incorrect building classification were used as storage yards or as licensed and unlicensed parking lots. Thus, their change in use from vacant would not necessarily have required a permit.

## **Audit Recommendations**

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

- Inspect the properties identified in this report and confirm whether they are misclassified and make the necessary adjustments to the assessment rolls for those misclassified properties.
- Conduct periodic reviews (including virtual inspections) of the properties with the vacant lot classification to determine whether the classification change needs to be considered.
- Consider modifying the annual Notice of Property Value sent to property owners requesting that they notify DOF if any permanent improvements or changes were made to the property.
- Coordinate with DOB to ensure that those 27 lots that had a permitted activity and were listed as vacant land had the proper permits issued to modify their properties.

## **Agency Response**

The Commissioner of DOF agreed with all of the audit recommendations except for the recommendation that DOF modify its annual Notice of Property Value. DOF's Commissioner said, "All of the lots questioned by the Comptroller are being inspected, and needed corrections will be reflected on the tentative assessment roll to be released in January 2014." The Commissioner also said that of the 308 vacant lots, 253 will be reclassified, 18 have not yet been inspected, and the remaining 37 lots will stay as Class 1 vacant land.

DOF's Commissioner further stated that DOF "does not agree that if the lots had been classified as the Comptroller recommends that an additional \$1.7 million would be billed in real estate taxes. . . Since at least 37 lots and the lots currently classified as unlicensed parking lots may return to Class 1 if DOF eliminates the building class, the Comptroller's figure is overstated.... Nonetheless, we agree with the auditors that all property should be accurately described and classified."

# INTRODUCTION

## Background

DOF is responsible for annually assessing the value of more than one million properties located throughout the City and reflecting the results of the valuation in DOF's assessment roll. DOF applies previously established tax rates to the assessed value to calculate property taxes, and then bills and collects taxes that are assessed on each property.

In accordance with New York City Real Property Tax Law §1802, DOF classifies every parcel of property in New York City into one of four tax classes for real-estate tax purposes. The tax classifications are:

- Class 1: Most residential property of up to three units (homes and small stores or offices with one or two apartments attached) and most condominiums that are not more than three stories; most residentially zoned vacant land excluding vacant lots in Manhattan; non-residentially zoned vacant land classified as residential.<sup>1</sup>
- Class 2: All other primarily residential real properties that are not included in Class 1, such as cooperatives and condominiums with more than three units, but not including hotels, motels, or similar property.
- Class 3: Utility real property.
- Class 4: All other real property not designated as Class 1, Class 2, or Class 3, including commercial and industrial properties such as office buildings, retail, factory buildings, stores, hotels, motels, lofts, and any vacant land not classified as Class 1.

Vacant land is classified as either Tax Class 1 or Tax Class 4.<sup>2</sup> During the audit period, Tax Class 1 properties were assessed at 6 percent of market value and Tax Class 2, 3 and 4 properties were assessed at 45 percent of market value. In addition to having a tax classification, each property was also assigned a building classification based on certain of its characteristics, such as its size and the use of the structure or the lot.

Each property is assessed at a percentage of its taxable full market value based on both its tax class and its building class. When the higher 45 percent of market value is applied to a Tax Class 2, 3 or 4 property, the resulting higher assessed value of the property will result in a higher property tax after the tax rate is applied.

DOF's Property Division is responsible for producing a fair, accurate, and legal assessment roll each year. DOF assessors are responsible for valuing properties, assuring that properties are assigned the correct tax class and building class, and ensuring that the physical characteristics of the property are recorded accurately in DOF's property records.

According to DOF's compilation of the 2012/2013 final assessment roll for all properties in the City, there were 21,189 vacant lots with a taxable assessed value of \$137 million in Tax Class 1 (residential properties) and 6,305 vacant lots with a taxable assessed value of \$1.4 billion in Tax

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<sup>1</sup> For non-residentially zoned vacant land to be classified as residential, the property must be: 1) located outside of Manhattan; 2) less than 10,000 square feet; and 3) located immediately adjacent to a property with a residential structure that has the same owner.

<sup>2</sup> Vacant Tax Class 1 properties are given the suffix "B" and so often referred to in DOF records as Tax Class 1B.

Class 4 (commercial properties). According to the Department of City Planning (DCP), approximately 6 percent of the City's land is classified as vacant.

## Objective

The objective of this audit was to determine whether DOF properly classifies and assesses residential vacant lots for tax purposes.

## Scope and Methodology Statement

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

The scope of this audit covers properties that DOF classified on its website database files as vacant lots as of May 27, 2011. For lots that we identified as no longer vacant, we reviewed their current status in DOF records as of September 2013.

## Discussion of Audit Results with DOF

The matters covered in this report were discussed with DOF officials during and at the conclusion of this audit. The full list of vacant lots that we identified as incorrectly classified was provided to DOF officials on September 30, 2013. In return, we requested that if DOF officials disagreed with our conclusions, they provide us with information on the specific properties so that we could make any necessary changes when preparing our report. A preliminary draft report was sent to DOF officials and discussed at an exit conference held on November 21, 2013. On December 2, 2013, we submitted a draft report to DOF officials with a request for comments. We received a written response from DOF officials on December 16, 2013.

Among other things, DOF's Commissioner responded that "[a]ll of the lots questioned by the Comptroller are being inspected, and needed corrections will be reflected on the tentative assessment roll to be released in January 2014." The Commissioner also responded that of the 308 vacant lots, 253 will be reclassified, 18 have not yet been inspected, and the remaining 37 lots will stay as Class 1 vacant land.

DOF's Commissioner further stated that DOF "does not agree that if the lots had been classified as the Comptroller recommends that an additional \$1.7 million would be billed in real estate taxes. . . Since at least 37 lots and the lots currently classified as unlicensed parking lots may return to Class 1 if DOF eliminates the building class, the Comptroller's figure is overstated.... Nonetheless, we agree with the auditors that all property should be accurately described and classified." DOF's Commissioner agreed with three of the four audit recommendations.

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

## FINDINGS AND RECOMMENDATIONS

We found that although DOF inspection methods resulted in an accurate assessment of most of the 18,287 non-government vacant properties we examined that were designated as Tax Class 1 vacant lots, 308 were misclassified resulting in an estimated annual tax loss to the City of as much as \$1,730,794.<sup>3</sup> Therefore, we recommend that DOF enhance its procedures to ensure that all vacant lots are properly classified on future assessment rolls and that appropriate taxes are paid. According to the New York City Administrative Code §11-207, assessors are required to personally examine each taxable property once every three years. However, DOF informed us that the physical inspection process is “permit driven,” that is, assessors are more apt to inspect properties when a DOB major alteration permit is filed for a property.

### Incorrect Classification of Tax Class and Building Class

Of the 308 vacant properties determined to be misclassified, we found that 281 properties with a total market value of \$85,735,681 should have been classified as Tax Class 4 properties. In most cases we found that these misclassified properties were used as storage yards or as licensed and unlicensed parking lots. Had these 281 properties been correctly classified, we calculated that DOF could have billed the owners an additional \$1,730,794 in real estate taxes. See Appendix I for the estimate of additional taxes due by borough.

Examples of properties found to have incorrect tax and building classifications include:

- A Brooklyn property owner had four adjacent lots listed on DOF records as Tax Class 1 vacant land. Our review revealed that these lots were used for a stone and masonry business. Accordingly, DOF should have classified these lots as Tax Class 4 miscellaneous property. For Fiscal Year 2012, DOF billed the owner of these four properties approximately \$5,332 rather than approximately \$110,765 based on the appropriate Tax Class 4 classifications. (See page 1 of Appendix II for a photograph of these properties and estimated additional taxes due.)
- Another Brooklyn property owner also had two adjacent lots listed on DOF records as Tax Class 1 vacant land. Our review revealed that these lots were used as storage yards. Accordingly, DOF should have classified these lots as Tax Class 4 miscellaneous property. For Fiscal Year 2012, DOF billed the owner of these two properties approximately \$1,141 rather than approximately \$57,753 based on the appropriate Tax Class 4 classifications. (See page 2 of Appendix II for a photograph of these properties and estimated additional taxes due.)
- A Bronx property owner had 15 adjacent lots listed on DOF records as Tax Class 1 vacant land. Our review revealed that these lots were used as a parking lot for a large supermarket. Accordingly, DOF should have classified these lots as Tax Class 4 Unlicensed Parking Lot. For Fiscal Year 2012, DOF billed the owner of these 15 properties approximately \$13,204 rather than approximately \$50,904 based on the

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<sup>3</sup> The \$1.7 million that the audit found to have potentially been lost as a result of the misclassification of vacant properties was calculated based on the full tax rate being applied to the properties correctly classified as Tax Class 4. However, this \$1.7 million estimate does not factor in any tax exemptions that might have been granted on specific properties. Further, assuming that going forward DOF reclassifies all of the properties we identified as misclassified, pursuant to Real Property Tax Law § 1805, DOF will not necessarily be able to apply the correct tax rate to the properties all at once, but rather will have to phase in the additional taxes over a five-year period.



appropriate Tax Class 4 classifications. (See page 3 of Appendix II for a photograph of these properties and estimated additional taxes due.)

- A Queens property owner had a lot listed on DOF records as Tax Class 1 vacant land. Our review revealed that this lot was used as a car dealership. Accordingly, DOF should have classified this lot as Tax Class 4 miscellaneous property. For Fiscal Year 2012, DOF billed the owner of this property approximately \$3,912 rather than approximately \$16,255 based on the appropriate Tax Class 4 classifications. (See page 4 of Appendix II for a photograph of these properties and estimated additional taxes due.)

## Incorrect Building Classification for Tax Class 1 Properties

During our analysis of Tax Class 1 non-government properties designated as vacant land, we identified 27 additional properties with a market value of \$11,804,945 that were correctly classified as Tax Class 1 properties, but that had the incorrect vacant land building classification in DOF's records. These properties appeared to have not been vacant, but rather to have had permanent improvements on them, such as in-ground pools or home extensions from adjacent Tax Class 1 residential lots. We were unable to determine the tax impact in these cases; DOF assessors would have to determine the increase in market value of these properties, if any. Though these properties would remain in the same tax class, the market value could increase because of the permanent improvements on the property and, therefore, the amount of taxes due could increase, resulting in more tax revenue for the City.

For example, we found a Staten Island property owner who had two lots listed in DOF records as Tax Class 1 vacant land with market values of \$166,545 and \$245,281, respectively. Our review of digital maps confirmed by a visual observation revealed that there was an in-ground pool and a pool house located on property classified as vacant lots. There was also a house on an adjacent lot that extended on to one of the vacant lots. According to DOF, if a vacant lot located next to a Tax Class 1 home has a permanent improvement on it, such as in-ground pool, the lot should be reclassified as Tax Class 1 and Building Class Z0 (miscellaneous). The increase in market value of these properties resulting from the observed improvements and any resulting increase in taxes would have to be determined by a DOF assessor. (See page 1 of Appendix III for a photograph of the property.)

## Recommendations

DOF should:

1. Inspect the properties identified in this report and confirm whether they are misclassified and make the necessary adjustments to the assessment rolls for those misclassified properties.

**DOF Response:** "DOF agrees. By the Tentative Roll of the current FY 2014-2015 valuation season, DOF will inspect and make appropriate corrections to the classification and description of the 308 properties identified by the Comptroller's Office. DOF will continue to review the use of 'unlicensed parking lot' designation in calendar year 2014 and move lots back to Class 1 where appropriate after the review is completed."

2. Conduct periodic reviews (including virtual inspections) of the properties that have the vacant lot classification to determine whether the classification change needs to be considered.

**DOF Response:** “DOF agrees. DOF implements this already pursuant to State and local law. New York City law requires that assessors visit all properties in New York at least once every three years, while state regulations require a visit every six years. DOF uses a combination of mapping and street-view software, as well as physical site visits to meet these requirements. Sometimes a combination of both is necessary to determine a property’s actual use.”

3. Consider modifying the annual Notice of Property Value sent to property owners requesting that they notify DOF if any permanent improvements or changes were made to the property.

**DOF Response:** “DOF disagrees. DOF already provides a format for property owners to provide information about changes in vacant land, the Request to Update Vacant Land Description, available on our website. The form instructs Tax Class 1 vacant land owners to submit any changes by March 1, 2013, and Tax Class 4 vacant land owners to submit changes by April 1, 2013.”

“The Notice of Property Value, sent after the completion of the Tentative Tax Roll, indicates the address, building class, tax class, market value, and assessed value of properties. Its content is governed by State law. DOF also includes in the NOPV information concerning how to dispute a property’s value or provide clarifying information to DOF. DOF does not believe that further changes to the NOPV directed solely at soliciting information concerning the use of vacant lots are necessary or prudent, as there is already a significant amount of complex information on the notices.”

**Auditor Comment:** We disagree with DOF’s position that the existing notice to taxpayers for reporting changes to vacant property is adequate. DOF should be more proactive in soliciting information on the use of vacant lots and if it is felt that the annual Notice of Property Value is not the optimal place to remind taxpayers of their legal obligations, DOF should determine another way to proactively solicit the correct information.

4. Coordinate with DOB to ensure that those 27 lots that had a permitted activity and were listed as vacant land had the proper permits issued to modify their properties.

**DOF Response:** “DOF agrees that its staff should be working with the most up-to-date information, especially regarding demolition and new building permits filed with DOB. DOF is already working with DOB to make referrals for construction without proper permits. DOF is also reviewing related projects using DOB data that may indicate illegal use of vacant land.”

## DETAILED SCOPE AND METHODOLOGY

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

The scope of this audit covers properties that DOF classified on its website database files as vacant lots as of May 27, 2011. For lots that we identified as no longer vacant, we reviewed their current status on DOF records as of September 2013.

We met with DOF officials to obtain an understanding of the controls and processes involved in the classification and assessment of vacant lots. We also reviewed the vacant land policies and procedures provided to us by DOF officials, the building classification codes on DOF's website for properties located in the City, and New York City Administrative Code § 11-207 Duties of assessors in assessing property. We also reviewed New York City Real Property Tax Law §1802.

We obtained a listing of the more than one million properties, uniquely identified by borough, block and lot (BBL), in New York City from the DOF's Fiscal Year 12 website database files by tax class (as of May 27, 2011).

We separated the information from the database file by borough. From the 1,080,569 unique BBLs on the database file, 148,788 properties were located in Manhattan, 107,430 properties were located in the Bronx, 327,311 properties were located in Brooklyn, 360,601 properties were located in Queens, and 136,439 properties were located in Staten Island. We removed the government-owned properties from each of our borough files. Then we determined the number of non-government-owned properties that were classified by DOF as vacant lots (V0 through V9). From the 23,907 non-government-owned vacant lots we found, 956 were located in Manhattan, 3,530 were located in the Bronx, 6,295 were located in Brooklyn, 6,946 were located in Queens, and 6,180 were located in Staten Island.<sup>4</sup> Vacant lots are classified by DOF as either Tax Class 1B (a subset of Tax Class 1 properties) or Tax Class 4.

During our survey, we were informed by DOF that if a residentially zoned vacant lot (Tax Class 1B) is used for a business purpose, it would not only change the building class, but it would also change the tax class to a commercial Tax Class 4. The change in both tax class and building class would have a greater tax impact on property taxes than a change in building class alone.

All vacant lots are classified as Tax Class 4 in Manhattan. Therefore, our audit only focused on Tax Class 1B non-government-owned vacant properties in the Bronx, Brooklyn, Queens, and Staten Island. We tested a total of 18,287 Tax Class 1B non-government-owned vacant lots composed of 2,748 properties in the Bronx, 4,382 properties in Brooklyn, 5,829 properties in Queens, and 5,328 properties in Staten Island. To determine whether non-government-owned Tax Class 1B properties were properly classified as vacant by DOF, we reviewed DOF's Fiscal

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<sup>4</sup> The 23,907 non-government-owned vacant lots include those that have either a taxable or a non-taxable assessed value. The 27,494 vacant lots discussed in the background of this report include both government and non-government lots that have a taxable assessed value.

Year 2013/2014 final assessment roll to determine whether each property was still classified as vacant, the current tax classification, and the address of the property. If the property was still classified as vacant, we used DOF's Digital Tax Maps to see the tax lot outline, aerial picture, and actual picture of the property. We also used Google Maps to view pictures of the properties. Additionally, we looked at DCP's Zoning and Land Use Application (ZOLA) to view more pictures of the property and to obtain zoning information. According to DOF's Vacant Land Policy and Procedure, the classification of vacant land is driven primarily by zoning.

After our initial review of information, we determined that 329 properties had either both an improper tax and building classification or had a correct tax class but an improper building classification. To further investigate and determine whether the properties were actually vacant, we conducted field observations of the 329 properties (from May 13, 2013 to October 10, 2013) and took pictures from the street view. We eliminated 20 of the properties because they were actually vacant. We eliminated one additional property because DOF explained at the exit conference that the market value of the addition to a house that extended onto an adjacent vacant lot was already factored in the determination of the market value of the entire house. Therefore, once the two tax lots are merged, the market value of the property would not increase.

Based on our review of information obtained from various websites (DOF, DCP, and Google), pictures we took during field observations, and our exit conference with DOF officials, we determined that 308 properties had either both an improper tax and building classification or had the correct tax classification but had an improper building classification. Specifically, we found that 281 properties (105 properties in Queens, 95 properties in Brooklyn, 54 properties in the Bronx, and 27 properties in Staten Island) had an improper tax and building classification. We also found that 27 properties (13 properties in Queens, seven properties in Staten Island, six properties in Brooklyn, and one property in the Bronx) had a correct tax class but an improper building classification.

To determine the tax impact resulting from improperly classifying the 281 properties as Tax Class 1 and not Tax Class 4, we obtained the market value from DOF's records for each of the 281 properties and multiplied it by 45 percent, which is the level of assessment ratio for Tax Class 4 properties.<sup>5</sup> We then multiplied the result by the appropriate tax rate and deducted the original amount that DOF billed the property owners to obtain the tax impact.

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<sup>5</sup> For properties that we determined were being used as unlicensed parking lots, we were instructed by DOF officials to use only 40 percent of the market value in our calculations.

Estimate of Additional Taxes Due on  
281 Improperly Classified Properties

<b>Borough</b>	<b>Number of Lots</b>	<b>Pre-Audit Tax Amount</b>	<b>Post-Audit Tax Amount</b>	<b>Estimated Additional Taxes Due</b>
<b>Bronx</b>	54	82,308	240,435	158,127
<b>Brooklyn</b>	95	152,369	887,618	735,248
<b>Queens</b>	105	252,065	960,440	708,375
<b>Staten Island</b>	27	107,399	236,442	129,043
<b>Totals:</b>	<b>281</b>	<b>\$594,141</b>	<b>\$2,324,935</b>	<b>\$1,730,794</b>



DOF records inaccurately listed four Brooklyn lots as vacant lots.

(Tax Class 1B, Building Class V0)

Tax Impact Calculations

	Total Market Value (4 Lots)	Assessed Value (MV x 45%)	Taxes Billable (AV x 10.288%)
<b>Tax Calculation Based on New Tax Class</b>	\$ 2,392,559	\$ 1,076,652	\$ 110,765
		<b>Less: Taxes Billed by DOF</b>	\$ 5,332
		<b>Additional Taxes Due</b>	<b>\$ 105,433</b>



DOF records inaccurately listed two Brooklyn lots as vacant lots.

(Tax Class 1B, Building Class V0)

Tax Impact Calculations

	Total Market Value (2 Lots)	Assessed Value (MV x 45%)	Taxes Billable (AV x 10.288%)
Tax Calculation Based on New Tax Class	\$ 1,247,477	\$ 561,364	\$ 57,753
		Less: Taxes Billed by DOF	\$ 1,141
		Additional Taxes Due	\$ 56,612



DOF records inaccurately listed 15 Bronx lots as vacant lots.  
(Tax Class 1B, Building Class V0)

Tax Impact Calculations

	Total Market Value (15 Lots)	Market Value for Unlicensed Parking Lot (MV x 40%)	Assessed Value (MV x 45%)	Taxes Billable (AV x 10.288%)
Tax Calculation Based on New Tax Class	\$ 2,748,859	\$ 1,099,544	\$ 494,795	\$ 50,904
			Less: Taxes Billed by DOF	\$ 13,204
			Additional Taxes Due	\$ 37,700





DOF records inaccurately listed this Queens lot as a vacant lot.

(Tax Class 1B, Building Class V0)

Tax Impact Calculations

	Total Market Value (1 Lot)	Assessed Value (MV x 45%)	Taxes Billable (AV x 10.288%)
Tax Calculation Based on New Tax Class	\$ 351,122	\$ 158,005	\$ 16,255
		Less: Taxes Billed by DOF	\$ 3,912
		Additional Taxes Due	\$ 12,343



DOF records inaccurately listed two Staten Island lots as vacant lots.

(Tax Class 1B, Building Class V0)



## Finance

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Beth E. Goldman  
Commissioner

December 16, 2013

H. Tina Kim  
Deputy Comptroller for Audit  
One Centre Street, 11th Floor  
New York, NY 10007

Re: Draft Audit Report on the Department of Finance's Tax Classification of Vacant Lots –  
FM13-120A

Dear Deputy Comptroller Kim:

### Introduction

The Department of Finance (DOF) welcomes the Comptroller's acknowledgement that out of 18,287 vacant lots in Class 1, it identified only 308 as misclassified. All of the lots questioned by the Comptroller are being inspected, and needed corrections will be reflected on the tentative assessment roll to be released in January 2014.

DOF does not agree that all 308 lots are misclassified. Our findings are as follows:

177 lots that are unlicensed parking lots will be moved to Class 4 on the upcoming roll based on that building class designation. During 2014, DOF will review the use of the "unlicensed parking lot" designation. If the designation is eliminated, the 177 lots will return to Class 1.

76 lots will be changed to Class 2 or Class 4.

37 lots will remain Class 1 vacant land.

18 have not yet been inspected.

DOF also does not agree that if the lots had been classified as the Comptroller recommends that an additional \$1.7 million would be billed in real estate taxes. As the audit report clarifies in a footnote, the \$1.7 million figure assumes all of the lots belong in Class 4, have no exemptions and have their taxes fully phased in, which would not happen until 2019. Since at least 37 lots and the lots currently classified as unlicensed parking lots may return to Class 1 if DOF eliminates the building class, the Comptroller's figure is overstated. In addition, a few of the vacant lot corrections will lead to lower taxes for the property owner for other reasons. For example, the

auditors identified a vacant lot where the property owner of the adjacent lot had built an extension onto the second lot. Investigating the property in CAMA (DOF's computer assisted mass appraisal system), DOF found that the full valuation of the house, including the extension, occurred on the non-vacant lot. The two lots will have to be merged, which could potentially lead to a lower market value on the whole property.

Nonetheless, we agree with the auditors that all property should be accurately described and classified.

## **Background**

In general, DOF classifies vacant land as land with no permanent improvements built on it. Valuation of vacant land is primarily driven by its zoning and secondarily by whether it has a commercial overlay covering more than 50 percent of the property. Since 1989, DOF has separated residentially-zoned and commercially-zoned vacant land, classifying primarily residential vacant land as Tax Class 1B and primarily commercial vacant land as Tax Class 4. All vacant land in Manhattan is Tax Class 4, by legislative mandate passed in 1989.

According to New York City law, assessors from DOF are required to perform field visits on properties every three years. They are tasked with updating or making corrections to DOF records at that time. In addition, every year, multiple data clean-up projects are undertaken to ensure the integrity of DOF's parcel inventory, which can include reviews of vacant land. In 2007, DOF visited every vacant property in its inventory at the time. In 2013, prior to the beginning of the current audit, DOF assigned staff to examine certain data inconsistencies in CAMA, including indicating whether a property was no longer vacant. Another vacant land project is currently underway based on potential errors found by this audit.

## **DOF's Response to Recommendations**

The audit draft makes the following recommendations:

- 1. DOF should inspect the properties identified in this report and confirm whether they are misclassified and make the necessary adjustments to the assessment rolls for those misclassified properties.*

**DOF agrees.**

By the Tentative Roll of the current FY 2014-2015 valuation season, DOF will inspect and make appropriate corrections to the classification and description of the 308 properties identified by the Comptroller's Office. DOF will continue to review the use of the "unlicensed parking lot" designation in calendar year 2014 and move lots back to Class 1 where appropriate after the review is completed.

- 2. DOF should conduct periodic reviews (including virtual inspections) of the properties that have the vacant lot classification to determine whether the classification change needs to be considered.*

**DOF agrees.**

DOF implements this already pursuant to State and local law. New York City law requires that assessors visit all properties in New York at least once every three years, while state regulations require a visit every six years. DOF uses a combination of mapping and street-view software, as

well as physical site visits to meet these requirements. Sometimes a combination of both is necessary to determine a property's actual use.

3. *DOF should consider modifying the annual Notice of Property Value sent to property owners requesting that they notify DOF if any permanent improvements or changes were made to the property.*

**DOF disagrees.**

DOF already provides a format for property owners to provide information about changes in vacant land, the Request to Update Vacant Land Description, available on our website. The form instructs Tax Class 1 vacant land owners to submit any changes by March 1, 2013, and Tax Class 4 vacant land owners to submit changes by April 1, 2013.

The Notice of Property Value, sent after the completion of the Tentative Tax Roll, indicates the address, building class, tax class, market value, and assessed value of properties. Its content is governed by State law. DOF also includes in the NOPV information concerning how to dispute a property's value or provide clarifying information to DOF. DOF does not believe that further changes to the NOPV directed solely at soliciting information concerning the use of vacant lots are necessary or prudent, as there is already a significant amount of complex information on the notices.

4. *DOF should coordinate with DOB to ensure that those 27 lots that had a permitted activity and were listed as vacant land had the proper permits issued to modify their properties.*

**DOF agrees.**

DOF agrees that its staff should be working with the most up-to-date information, especially regarding demolition and new building permits filed with DOB. DOF is already working with DOB to make referrals for construction without proper permits. DOF is also reviewing related projects using DOB data that may indicate illegal use of vacant land.

Very truly yours,



Beth E. Goldman

cc: Michael Hyman, Deputy Commissioner, Tax Policy and Planning  
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