New York City abuses its tax base

With New York City about $1 billion behind – combining the current deficit with next year's projected budget gap – it becomes increasingly painful to observe silently government and business leaders' continued abuse of the city's greatest resource – the value of its land.

Three recent developments sharply illustrate the high price paid for failure to apply any principles of land value taxation. One might be characterized as funny, another tragic, and yet another as just plain dumb.

The joke, appropriately enough, involves a proposed amusement park on Staten Island. Back in 1960 the city, which came to own a great deal of Staten Island through tax foreclosures during the depression, sold a 17.3 acre parcel to a group of investors for $120,800. Now the city wants to buy back the parcel through its recently-created Public Development Corporation. This body will then lease the parcel, along with other land, to developers of an amusement park (a land use which the nearby new residential community has angrily protested). The joker is that the price today is likely to be more than three times what the city got for it, as all Staten Island property zoomed since the opening of the Verrazano Bridge. Thanks to the ridiculously low assessments on vacant land, the investors have paid a total of $44,861 in the fifteen years they have held this valuable parcel. So the city – namely all of the taxpayers – will be subsidizing the profitable speculation as well as paying for the city's past folly in the interest of future amusement.

The tragic case arises from the record amount of tax arrears piling up as property

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owners miss their payments or skip them altogether and, in too many cases, abandon deteriorating properties. Many owners of apartment houses, claiming they can afford only to pay their higher fuel bills, let the taxes wait. Others find it economic to pay the 7½-12% interest charges on late tax payments to the city as a relatively inexpensive form of commercial borrowing.

In research conducted at the Henry George School it was found that in the heart of midtown Manhattan, some of the most valuable commercial land in the city, there is twice the amount of arrearage as there is regular tax payment. Older commercial properties with substantial assessments on their improvements are finding it hard to make ends meet in the slack rental market. One new building has been kept vacant since construction in order to enjoy the benefit of a low assessment. Another office tower went into bankruptcy before full occupancy, and down on Wall Street the Cities Service company has demolished a row of six older buildings saving over a quarter of a million dollars in taxes while paying a pittance on the now vacant land to be used as a parking lot.

The city needs no more such tragic evidence of the consequence of high assessments on improvements and low ones on land. When we provide incentives to speculate in vacant land in the outer boroughs it is bad enough, but at least there is some hope of future development even at the higher price. When we provide incentives for tearing down sound structures with no plans for new development on the site we are only destroying the tax base, the fundamental source of local revenue.

Finally, one has to question the vaunted wisdom of our financial leaders clustered in the Downtown center, south of City Hall. These worthies, beset by competition from midtown, a glut of subsidized space provided by the Port Authority in its twin tower Trade Center monsters, as well as the general economic recession, have decided to tax themselves a bit to make their area more attractive. The revenue for new pedestrian malls, parks and other improvements including housing for people to keep the area alive after dark, is to come from a special assessment on current property owners. While special assessments to pay for property improvements have long been an accepted and equitable tool of public finance, this little tax of $1.25 for each $1,000 of assessment valuation, would be applied primarily to improved commercial property in this area. Vacant land and under-utilized property, of which there is more than might be imagined in this dense cluster of towers and narrow streets, would pay little or nothing.

Now, it is obvious that the chief beneficiary of new neighborhood improvements would be the owners of parcels whose values would increase with the amenities. Tenants and owners of the existing improvements, on the other hand, might just find the special assessment, small as it is, an added incentive to find new business homes elsewhere. With all the civic-mindedness in the world, it is hard to encourage people to stay in a place by making them pay more. If this is the way the financial world copes with its real estate problem we might well be dubious of the workings of the securities markets and the institutions they support.

The city's wrongheadedness with regard to its tax base may well have as much to do with its fiscal plight as the more popular charges of overspending, extravagant labor contracts, inefficiency and the growing needs of an increasingly poor population. The fact remains that New York City is by far the wealthiest urban jurisdiction in the world in terms of the real value of its land.

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