



## Issue Snapshot: Real Property Taxes

**Background:** Con Edison pays approximately \$1.4 billion annually in real property taxes. These costs are paid by Con Edison customers through their utility bills.

Several bills are pending in the State Legislature that would address Con Edison's real property tax liability.

### *Merger of Assessing Units in New York City*

New York City currently divides property into four separate classes for assessment purposes:

- Class 1: one- to three-family structures, vacant land zone for residential use, and small co-ops and condominium apartment buildings
- Class 2: residential rentals, co-ops, and condos
- Class 3: utility property such as substations
- Class 4: all commercial and manufacturing properties in the city, including major office buildings in Manhattan and Brooklyn

Con Edison constitutes more than 80% of the assessed valuation of Class 3 property in the city. Because of the limited number of taxpayers in the class, there is no opportunity under existing law for public utilities to challenge the assessed valuations of Class 3 properties and permanently reduce property taxes.

Legislation is pending that would merge Classes 3 and 4 into a single class so that utility property would be assessed in the same manner as commercial property. The resulting real property tax reduction could save Con Edison customers approximately \$41 million in the first year.

### *Assessment Phase-in*

For most properties in New York City (Class 2 & Class 4), changes in market value, and ultimately assessments and the resulting tax bills, are phased-in over a five-year period. For small residential properties (Class 1), there are caps on assessment growth to minimize annual assessment changes upwards or downwards. Approximately 94% of New York City's taxable assessed value derives from properties that benefit from one of these two stabilizing mechanisms.

Unlike the other classes, Class 3 is not provided with a stabilizing mechanism. It is the only Class that recognizes the full change in market value the year that it occurs. Energy customers subsequently absorb such sudden increases in their utility bills.

Legislation is pending that would provide Class 3 properties with the stabilization protections provided to properties in the other classes by enabling a five-year phase-in of assessment changes. Doing so would protect energy customers from sudden spikes in energy costs resulting from rapid changes in a public utility's property tax liability.

#### *Centralized Assessments*

The Office of Real Property Tax Services ("ORPTS") is currently responsible for assessing special franchise property (utility property located on the public rights of way) within New York State. Assessments for similar properties located on private lands are performed by local assessors.

Localities oftentimes lack the necessary expertise to assess complex utility property. As a result, assessments of transmission and distribution property by local assessors varies greatly, with little apparent pattern. In many instances the exact same piece of property in one community is given one value by the ORPTS and a different value by the local assessor.

Legislation is pending that would consolidate the assessment function of all utility real property under the ORPTS. The ORPTS is well qualified to assess utility properties since it currently values similar properties located in the public rights of way, and conducts advisory appraisals of utility property on private land for assessing units throughout the State.

Centralized assessments would provide assessment certainty to utilities which must deal with multiple independent, individual assessing units and reduce the need to challenge assessments in court. The administrative and litigation-related savings would be passed on to utility customers.

This legislation would also provide financial relief to local governments who must expend scarce resources to secure the expertise the ORPTS already possesses. Local governments would also avoid expensive litigation required to defend assessments and ensuing costly refunds.

ORPTS was given the authority to assess all telecom special franchise property in 2013.

**Company Position:** Con Edison is continuously seeking ways to lower its tax liability and provide relief to customers. Con Edison believes all three bills will help achieve those goals.