Columbia County Habitat for Humanity®

A Case for the Fair Taxation of Subsidized and Affordable Owner-Occupied Housing in New York State

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INTRODUCTION

Purpose

In the summer of 2022, Pattern for Progress was commissioned by Habitat for Humanity (Habitat) of Columbia County (NY) to assess the impacts of property valuation and taxation in New York State on the long-term affordability and sustainability of Habitat's subsidized homeownership model.

Habitat is one of the only at-scale developers of subsidized affordable homeownership nationwide, working to respond to the ever-deepening need for affordable homeownership, the growing wealth gap between renters and homeowners, and the rising barrier to entry for prospective homebuyers. Unfortunately, lack of affordability poses significant challenges to individual homeowners and for Habitat's organizational capacity to meet the high demand for subsidized homeownership opportunities at-scale.

Property taxes affect the affordability of homeownership in several ways beyond the amount of property tax a homeowner may owe. Estimated taxes owed on a property are factored into the mortgage for which a prospective homebuyer will qualify. Accordingly, where projected property taxes are higher, limited-income households will qualify for lower mortgages than in jurisdictions with lower projected property taxes. For households that qualify for a homebuyer's subsidy, lower mortgage amounts require higher subsidy amounts to compensate. For Habitat, the increase in subsidy amounts needed for each house leads to a decrease in the total number of homes the organization is able build, as their total funds must be allocated to cover the higher costs of each subsidy. Habitat's funding sources are primarily private donations from individuals and grant-giving organizations, as well as some grants through New York State such as those provided by the Affordable Housing Commission (AHC).

This domino effect captures the systemic impacts of property tax that this paper aims to address. While there are many factors that exacerbate affordability challenges for prospective homebuyers and existing homeowners in New York State, the property tax is a critical piece of the affordability puzzle.

Methodology & Synthesis of Findings

To analyze the impacts of property tax on homeownership affordability, the Pattern for Progress team began by reviewing assessment, taxation, and tax relief policies in New York State. We also interviewed assessors and reviewed literature to expand our understanding of these policies.

To understand the impacts of property tax specifically on Habitat homebuyers, and on the organization in general, we interviewed several Habitat affiliates across the state and elsewhere. To examine alternative tax policies and best practices from other states, we reviewed state policies nationwide and selected relevant precedents to include as models that could inspire policy change in New York State.

Our findings point to a need to evolve New York State policy for valuation and taxation of property. Rather than basing assessments solely on a property's market value, property tax should account for a homeowner's ability to pay and whether a homebuyer has received a subsidy. Assessments should also account for resale restrictions associated with the property. While there are some local efforts that Habitat affiliates can pursue to offer tax relief to their homebuyers, such efforts tend to meet significant political barriers on the local level. Policy changes on the state level are imperative to encourage development and preservation of affordable homeownership at the volume needed to meet demand.

CHAPTER 1: THE CASE FOR SUBSIDIZED AFFORDABLE HOMEOWNERSHIP

What is subsidized affordable homeownership?

Under the traditional pathway to homeownership, the homebuyer secures and makes a down payment, qualifies for a mortgage, and makes monthly payments toward that mortgage until they fully own the home. Without access to capital, purchasing a home is generally not an option. Mortgage eligibility is determined by person's income relative to projected monthly expenses for principal, interest, taxes, and insurance (PITI), as banks typically will not agree to terms that require a person to spend more than 28% of their income on housing. Accordingly, most people with low or moderate incomes do not have access to homeownership opportunities and must rent their homes.

Through the collection of rents, landlords cover their own PITI expenses and increase their assets, while renters never gain a share in the equity of a property. This system prevents renters from enjoying the economic benefits of building equity and accumulating wealth as homeowners do. It also creates a wealth gap between homeowners and renters that tends to increase over time.

Subsidized affordable homeownership models aim to address this inequity by offering alternatives to the common model of homeownership. In New York State the primary models of affordable homeownership are that of Habitat for Humanity, Community Land Trusts, and other models that utilize subsidies and establish varying degrees affordability through a spectrum of restrictive covenants, such as those in New York City. Because some Habitat affiliates have adopted the land trust model, these two models are explained briefly in the following sections.

Traditional Habitat for Humanity Model

The Habitat for Humanity ("Habitat") model affords homebuyers the opportunity to purchase a home even if they lack access to capital, and even if their income prevents them from qualifying for a traditional mortgage. The Habitat model subsidizes the up-front cost of buying a house by way of a development subsidy. The subsidy covers the difference between the first mortgage for which a homebuyer qualifies and the value of the house as determined through an independent third-party appraisal. It essentially functions as an additional mortgage that is amortized over a certain period and eventually forgiven, typically after 30 years. Habitat aims to serve households with incomes between 30% and 80% of the Area Median Income (AMI), and only income-qualifying households participate in the program. While each Habitat affiliate sets its own contractual terms, a resale restriction is typically written into the contract between the organization and the homebuyer, giving Habitat the first right of refusal for 10 years after the purchase date if the homebuyer chooses to sell the property during this time. Some Habitat affiliates also have a shared appreciation clause where the homeowner shares a portion of the appreciation with the affiliate at the time of sale. Through this clause the organization is able to recoup some of the original subsidy for the valid term of the clause, which discourages "flipping" and which can then be directed to other homes.

A key challenge to long-term affordability is that properties purchased from Habitat are often valued and taxed at market rate, even though the buyer purchased the home for less than market rate and would not be able to afford a non-subsidized home. Real property taxes can add significantly to the cost of owning a home and account for a large portion of monthly housing costs. In some scenarios, a homeowner's monthly property tax payments are higher than their principal and interest payments combined. For Habitat's target population of households earning 30% to 80% AMI, real property taxes can make homeownership untenable. This paper focuses predominantly on the impacts of property taxation on the long-term affordability of homes developed and sold by Habitat and offers potential solutions to address these impacts.

Community Land Trust Model

Community Land Trusts (CLT) are non-profit organizations that offer affordable homeownership opportunities by retaining ownership of the land and leasing the land to the homeowner. Because of restrictions on resale value written into the ground lease, the purchase price of CLT homes is significantly reduced. Under the conditions of the lease, homes are resale-restricted, which means that if the homeowner chooses to sell, the resale value must not exceed a certain percentage of market value so that the home is made permanently affordable for future income-qualifying owners. CLT homeowners benefit from equity gains from owning a home, just not as much as they would with an unrestricted home.

The original subsidy that a CLT invests in the purchase or construction of a home is permanently tied to the home itself, such that affordability is guaranteed long-term. Some New York Habitat affiliates have either adopted the land trust model or partner with a local CLT to provide housing through this type of model. The Tompkins County Habitat for Humanity adopted its own land trust model in 2017, shifting away from the organization's traditional model. There are also several CLTs operating in the State independent of a

relationship with Habitat including but not limited to the Ithaca Neighborhood Housing Services (INHS), the Albany Community Land Trust, and the East New York Community Land Trust.

The main challenge for CLTs in New York State is that under current New York Real Property Tax Law CLT homes are assessed and taxed at market rate. Similar to Habitat homes, tax exemptions for CLT homeowners support the long-term affordability of homes, and thus facilitate the general effectiveness of the model. While some jurisdictions have adopted policies that account for resale restrictions in valuation and taxation processes, CLTs in most areas need to engage in significant advocacy both locally and at the state level to advance policy change. This challenge and potential solutions are explained in more detail in Chapters 3 and 4 of this report.

Two Models, Different Outcomes

Aside from the traditional Habitat model, the CLT model is the only other at-scale model for affordable homeownership in New York State outside New York City. Both models provide support to overcome the barrier to entry for homeownership, offer housing stability, and advance a pathway to gain equity. Both models also implement resale restrictions in their agreements; however, resale restrictions for a Habitat home expire after a set number of years and are tied to the subsidy provided to the homebuyer, whereas restrictions for a CLT home are forever tied to the property itself and do not expire. Because the Habitat resale restrictions expire, a homeowner can eventually sell their house at market value, at which point the home becomes part of the general housing market. In sum, the primary differences between the traditional Habitat model and the CLT model are the degree to which an individual homebuyer can accrue equity in the long-run, and whether a home remains affordable long-term.

Figure 1

	Traditional Habitat Model	CLT Model
Benefits	●Reduced up-front costs ●Reduced mortgage payments ●Increased housing stability ●Building equity for individual homebuyers ●Access to affordable mortgage programs	●Reduced up-front costs ●Reduced overall monthly costs ●Increased housing stability ●Building limited equity for consecutive homebuyers on the same property ●Permanent affordability
Resale Restrictions	●Habitat has first right of refusal, typically for 10 years from date of purchase[1] ●Some affiliates also have a shared appreciation clause where the homeowner shares a portion of the appreciation at time of sale with the affiliate for a set period	Tied to 99-year ground lease that renews each time property is sold
Income Restrictions	For homebuyer who purchases directly from Habitat	For all future buyers of the property
Development Subsidy	Benefits the new homebuyer at time of sale, once per property unless property is returned to Habitat within 10-year restriction period, and if the affiliate has a share appreciation clause	Benefits new homebuyer each time the property is sold due to restrictions on resale value.
Equity Gains	Homebuyer can sell at market rate after resale restrictions expire. The owner can sell at any time, but full equity is limited for a period defined in the sale contract.	Future sale price is limited to a percentage of market rate. Homeowner owns the structure but not the land.
Affordability Barriers Addressed	Reduction in initial sale price and monthly mortgage payments	Reduction in initial sale price, monthly mortgage payments, property taxes (as long as exemption is in place), and all other monthly payments
Existing Relationship to Tax Policy	Habitat has not historically relied on tax policy to support its model, because the model focuses primarily on reducing up-front housing costs. Habitat now recognizes a need for tax policy change to facilitate long-term affordability of monthly housing costs. Costs of living, including owning a home, are escalating across the board.	Many CLTs already rely on valuation and taxation practices that account for limited equity and resale restrictions and facilitate long-term affordability of monthly housing costs

[1] Resale restrictions vary by Habitat affiliate, but most incorporate a 10-year restriction that grants the organization first right-of-refusal.

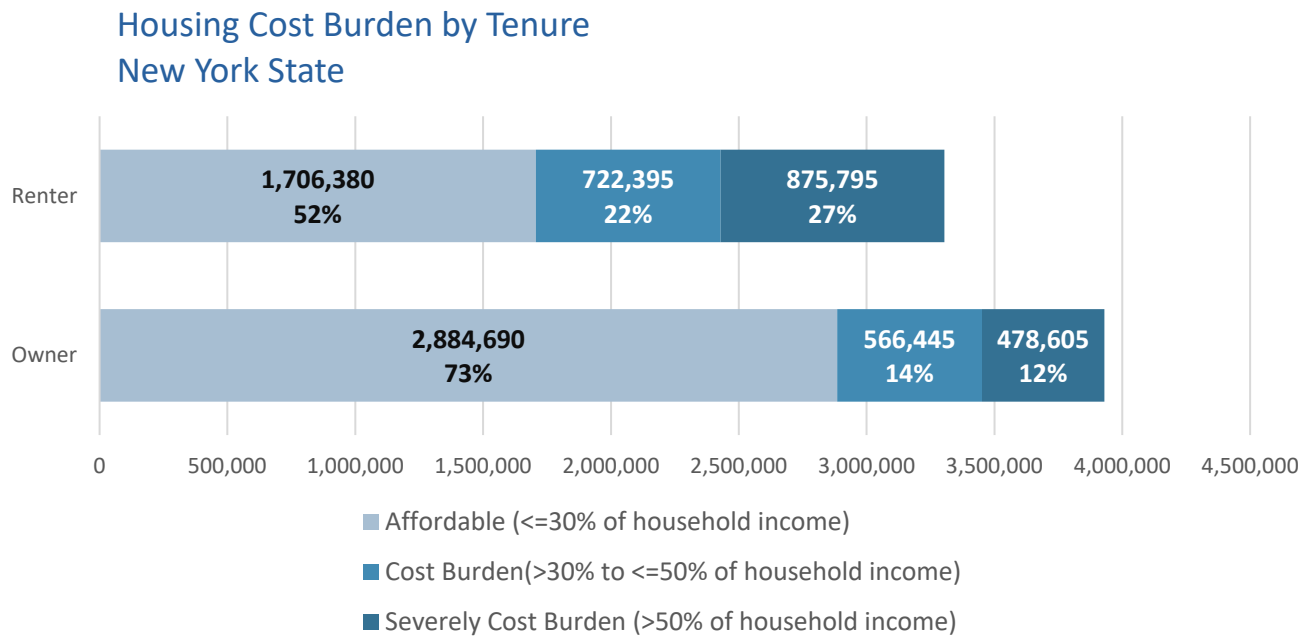
Why homeownership?

The benefits of homeownership tend to fall into two categories: access to equity gains and wealth-building, and housing stability. Homeownership supports wealth-building by forcing the owner to make regular payments on the home, which, like a savings account, holds that equity. Additionally, homes are assets that typically appreciate over time, so if a homeowner chooses to sell at some point, they often benefit from the increased value of the home. Homeowners who keep up with mortgage payments also have the benefit of improved credit ratings, which in turn allows them to access more capital that can be used to advance their own personal assets and wealth. Under our current financial and lending systems, homeownership can be leveraged to create significant economic benefits for the homeowner. In addition, owning a home has been shown to correlate with improved health and education outcomes.

Renters, on the other hand, make regular payments but do not build equity or credit by doing so. They also do not benefit if the value of their home increases. In fact, the rising value of homes that are rented often causes rental costs to increase, putting additional fiscal stress on the renter.

The other imbalance between rental housing and homeownership is that, while mortgage payments are predictable, rental prices are subject to increases that may be unexpected and unmanageable. In such cases, tenants have little recourse but to pay more than they can afford or leave their home. Tenants may also be denied the choice to renew their lease or asked to move when property ownership changes hands. For these reasons, homeownership offers significantly higher stability than rental housing. Studies have shown that the stability of homeownership leads to increase in health and education outcomes, as well as increased graduation rates and decreased rates of chronic illness such as asthma.

Figure 2



Source: U.S. Department of Housing and Urban Development (HUD), Comprehensive Housing Affordability Strategy (CHAS) 2015-2019

New York State housing cost burden data by tenure shows that renters are disproportionately cost-burdened compared to homeowners. Figure 2 shows that only 52% of renting households in New York State live in housing that is affordable to them, compared to 73% of owner-occupied households. Of those renters who are cost-burdened, 27% spend more than half of their income on rent. For owner-occupied households, this same category accounts for 12% of the total.

The financial strain renters feel just to stay in their home is increasing. From 2021 to 2022, rents nationwide increased by 5 to 25 percent in most major rental markets.[2] In some markets, rents increased by more than 40 percent. Because homeownership offers housing stability and is the main channel for people to accumulate wealth, increasing homeownership opportunities for low- and moderate-income households is imperative to decreasing the wealth gap.

Homeownership is Out of Reach

While the benefits of homeownership are clear, access to homeownership for renters and first-time homebuyers is severely limited. In March 2022, home prices appreciated nationwide by an average of 20.6 percent.[3] For existing homeowners, this translates into significant growth of their asset wealth. For aspiring homeowners, it translates into greater impediments to access. Many households lack sufficient capital or no longer qualify for mortgages that would allow them to purchase their first home, especially considering how interest rates have risen in the past year. In 2021, lower interest rates were beneficial to first-time homebuyers; this year, however, the Federal Reserve has responded to inflation by raising interest rates, which increase monthly payments associated with a new mortgage as shown in Figure 3.

Figure 3

	30-Year Fixed Rate Mortgage	15-Year Fixed Rate Mortgage	5/1-Year Adjustable-Rate Mortgage
Average Rate October 14, 2021	3.05%	2.30%	2.55%
Average Rate October 13, 2022	6.92%	6.09%	5.81%
CHANGE	**+3.87**	**+3.79**	**+3.26**

Source: FreddieMac Mortgage Market Survey Archive

[2] Joint Center for Housing Studies of Harvard University. *The State of the Nation's Housing 2022*. Harvard Graduate School of Design, Harvard Kennedy School.

[3] Joint Center for Housing Studies of Harvard University. *The State of the Nation's Housing 2022*. Harvard Graduate School of Design, Harvard Kennedy School.

Another factor affecting the accessibility of homeownership is the rising cost of construction. Over the past 18 months, framing lumber costs have increased between $1,400 -$1,600 per 1,000 feet, which can raise the total cost of a new single-family home by more than $14,000.[4] While Habitat subsidies can assist with these costs, the need for greater subsidy per project significantly limits the organization's broader impact. Considering Habitat is one of the only at-scale affordable homeownership developers in the state, the organization's dwindling capacity to build homes points to a severe deficit in the supply of affordable homeownership opportunities overall.

Rising home prices and rising rents grant homeowners a distinct advantage over renters, such that the wealth gap between renters and owners has widened. Without assistance, most renters cannot overcome these impediments. Subsidies can empower renters to become homeowners, gain a share in equity, and change their circumstances.

The gain in asset wealth that homeowners have experienced over recent years has provided no gains for renters, and as such has only increased preexisting disparities among different demographic groups represented by homeownership rates associated with those groups. Specifically, the White population is 13% more likely than average to own a home, while the Black and Latino populations respectively are 22% and 27% less likely than average to own a home.

For foreign-born households, of which many are Hispanic/Latino, this discrepancy can stem from economic challenges that are unique to immigrants.[5] The primary source of this disparity, however, is the history of property rights. The right to acquire property was granted to the White male population at the country's founding but denied to other demographic groups until hundreds of years later. It only became illegal to discriminate against minorities through housing less than 60 years ago with the passing of the Fair Housing Act (FHA) in 1969. Even since then, government policies, appraisal practices, and lending institutions continue to perpetuate inequitable outcomes through housing. Although redlining was outlawed in 1975 with the Home Mortgage Disclosure Act, research has shown that historic disinvestment in certain neighborhoods due to their racial makeup has led to long-term adverse impacts for communities in those very neighborhoods.[6] Recent studies have also shown that property appraisals at time of sale are likely to be lower for minority homeowners than for White homeowners.[7] This trend has been acknowledged by the federal government through its establishment of the PAVE task force in mid-2021.[8] Because of these historic trends, generational wealth-building has mostly benefitted the White population, thereby creating great economic disparity among racial groups.

[4] National Association of Home Builders. *Framing Lumber Prices* August 2022.

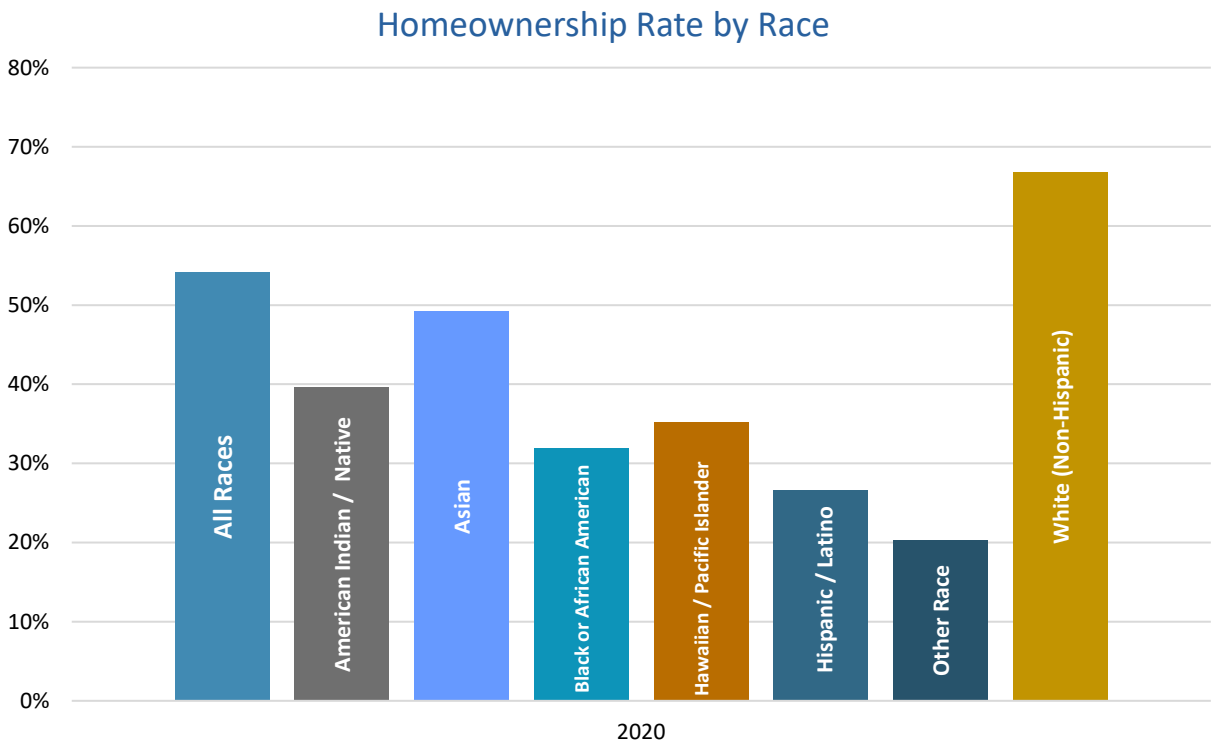
[5] Freddie Mac. *Will the Hispanic Homeownership Gap Persist?* June 2022.

[6] National Community Reinvestment Coalition. Redlining and Neighborhood Health. 2022.

[7] Freddie Mac. *Racial and Ethnic Valuation Gaps in Home Purchase Appraisals.* September 2021.

[8] PAVE Interagency Task Force on Property Appraisal and Valuation Equity.

Figure 4



Source: U.S. Census, American Community Survey 5-Year Estimate, 2020

Some of the wealth disparities between White and non-White communities are addressed by the Community Reinvestment Act (CRA) of 1977, which was established to counter the impacts of redlining and other discriminatory lending practices.[9] The CRA encourages banks and other lending institutions to provide credit opportunities, including mortgages, to households in low- and moderate-income neighborhoods.[10] While the CRA is critical in reducing the wealth gap, historic and systemic inequities continue to prevent marginalized communities from improving their circumstances. Subsidies toward homeownership are another tool to mitigate inequitable outcomes between people with different assets and income levels, as well as among racial groups that have suffered from historic injustices.

[9] Silver, Josh. National Community Reinvestment Coalition. *The Purpose And Design Of The Community Reinvestment Act (CRA): An Examination Of The 1977 Hearings And Passage Of The CRA.* June, 2019.

[10] Federal Reserve. Community Reinvestment Act. November 2022.

Local Context: Affordable Housing in New York State

Overview of Existing Affordable Housing Investments in New York State

New York State programs, policies, and budgetary allocations demonstrate a clear recognition of the need for more affordable housing. Earlier this year, the state announced $5.5 billion in capital investments toward a new 5-year housing plan.[11] This plan includes an increase in funding toward programs overseen by the Division of Housing and Community Renewal (HCR), from approximately $850 million in fiscal year 2021-22 to more than $2 billion in 2022-23.[12] HCR is the branch of government that is responsible for managing most of the state's investments in housing policy, regulation, financing, development, and preservation.

A notable initiative outlined in the 5-year plan is a new allocation of $400 million toward homeownership opportunities for low- and moderate-income households. This investment indicates the state's acknowledgement that, while increased supply of affordable rental housing is critical to ensure all people have adequate and affordable housing, homeownership opportunities are critical to improving equity and stability across the board.

Long before this year's allocations, New York State has demonstrated its commitment to affordable housing through a variety of programs and agencies, including but not limited to:

The Low Income Housing Tax Credit (LIHTC) Program provides incentive for development and preservation of low-income housing by way of federal income tax credits for investors. LIHTC is a federal program through which state agencies can allocate tax credits. The program has facilitated more housing development than any other federal program.

The State Low Income Housing Tax Credit (SLIHC) Program, modeled after LIHTC, offers income tax credits toward state tax returns for investors in low- to moderate-income housing development.

Section 8 Housing Vouchers grant monthly support to low- to extremely low-income renters who cannot otherwise afford rent.

The Community Development Block Grant (CDBG) provides funding to local and county governments of a certain size to support their low- and moderate-income residents through various economic and community development initiatives, including affordable housing.

The HOME Program supports private, public, and nonprofit entities to increase the supply of residential housing to low-income households.

The Small Rental Development Initiative (SRDI) Program, part of the HOME Program, funds nonprofit developers with smaller rental projects specifically in areas where the cost of development is higher than a property's market value.

The Affordable Housing Corporation (AHC), through its Affordable Home Ownership Development Program (AHOD), provides subsidies to nonprofit and government organizations to support development or

[11]Kavanagh, Brian. The New York State Senate. *New York State Budget Provides for Huge Investments in Housing.* April 2022.
[12] New York State, Open Budget, Budget & Actuals.

renovation of owner-occupied homes for low- to moderate-income households. AHC Grants are common sources of funding for Habitat projects.

The State of New York Mortgage Agency (SONYMA) provides a variety of low-interest mortgages and other housing-related loans to prospective homebuyers, largely prioritizing low- and moderate-income households, underserved communities, and first-time homebuyers.

Programs for Residents in Mobile & Manufactured Homes offer support to tenants and homeowners alike who are navigating the unique circumstances of living in a mobile home park.

The New York State Homeowner Assistance Fund (NYS HAF) helps homeowners keep their homes in the face of foreclosure or loan default, specifically due to circumstances relating to the COVID-19 pandemic.

The Supportive Housing Opportunity Program (SHOP) provides financing for multi-family affordable rental housing with on-site supportive services for residents with specific needs who would otherwise be homeless.

The Homeless Housing Assistance Program (HHAP) provides grants and loans to support the development of housing for individuals and families experiencing homelessness.

Why New York State Needs to Do More

The primary goal of the investments outlined in the previous section is to increase the supply, quality, and affordability of housing across New York State. The allocation of $5.5 billion through the state's new 5-year housing plan is a clear acknowledgement of a severe housing deficit and the need for significant action. However, even with existing and upcoming funding, state efforts are not able to mitigate the inequitable outcomes of our housing market. Even if a household qualifies for a subsidy that makes the initial cost of the home affordable, ongoing monthly costs may exceed a household's capacity to maintain their home long-term. If initial public and private subsidies do not ensure long-term affordability, the homes they subsidize may be sold at market value, absorbed into the market, and their impact is not sustained over time. To establish long-term homeownership affordability, it is necessary to address systemic issues that contribute to monthly costs, including statewide mechanisms for property valuation and taxation and supporting resale restrictions.

Investment in long-term affordable homeownership is also critical to address the wealth gaps between renters and homeowners. Across New York State, homeowners are significantly wealthier than renters, in both assets and income. The degree to which renters are cost-burdened is directly related to low wages, which prevent them from entering the housing market.[13] Average income for renters working full-time in the Hudson Valley region does not surpass 60% of the Area Median Income (AMI). In Columbia County, the average income for renters is approximately 44% of AMI. In other words, the average income level for a tenant with a full-time job in Columbia County is less than half the countywide average income for all renters and homeowners combined. Trends over recent years indicate that average rents are increasing at a greater rate than average wages, producing a gap for which subsidies often compensate.

Expanded affordable homeownership has the potential to increase the long-term impact of public subsidy, as it grants a new homeowner the

[13] Hudson Valley Pattern for Progress. *Out of Reach, Hudson Valley 2022*.

opportunity to build wealth, whereas rental subsidies increase housing stability but do not contribute to a significant change in a person's financial circumstances. In the long term, a homeownership subsidy can reduce long-term reliance on public assistance compared to a rental subsidy because it is used as an investment rather than as an expense. While the state's new investment in affordable homeownership is significant, it only accounts for 9% of funds designated by the 5-year housing plan. In contrast, investments in rental and supportive housing account for 49% and 33%, respectively. While affordable, high-quality rentals are critical to address statewide housing needs, expanded homeownership is imperative to decrease the wealth gap between renters and homeowners and to rectify historic inequities among different socioeconomic and racial groups.

Although housing challenges are nationwide, the need for attention is acute in New York State. According to the U.S. Census, New York State had a net population loss of nearly 320,000 people through domestic migration from July of 2020 to July of 2021.[14] The Annual Social and Economic (ASEC) Supplement of the Current Population Survey from 2021 estimates that more than one-third of households that left New York State in the previous year indicated that they moved elsewhere for housing-related reasons, such as a desire to own a home rather than rent, or to seek new or higher quality housing.[15] Of those who left for housing-related reasons, more than 35% moved to neighboring states in the region: Pennsylvania, New Jersey, and Connecticut. These data indicate that housing challenges in New York State are distinct within the northeast region.

Migration trends within New York State itself show an influx of population into the Hudson Valley. During the COVID-19 pandemic, Columbia County experienced a net gain of 679 residents, mostly from New York City.[16] County-to-county migration patterns support the need to significantly expand the housing supply in Columbia County and throughout the Hudson Valley as the region has grown for the first time since the fallout of 9/11. The region has become more attractive to big-city dwellers who have sought less dense and more affordable housing due to the pandemic, and who are able to take advantage of working from home. This trend exacerbates the housing crisis in the Hudson Valley region, where the housing market was already strained.

In the next chapter, we will address the primary focus of this report: real property valuation and taxation in New York State. Property tax constitutes a critical component of housing costs, and poses significant barriers to long-term affordability, stability, and equity. Although there are numerous factors affecting housing affordability, many of them—such as market rates, construction costs, and other economic factors—are influenced by forces beyond the control of state government. Updating statewide policy for property valuation and taxation is a clear avenue to improve equitable housing outcomes at a scale that can address the vast need.

[14] U.S. Census Bureau. State Population Totals and Components of Change: 2020-2021.

[15] U.S. Census Bureau. Annual Social and Economic Supplements. 2021

[16] Hudson Valley Pattern for Progress. *Moving In, Moving Out: A special report analyzing Hudson Valley demographic changes in the Covid-19 pandemic*. July 2022.

CHAPTER 2: IMPACTS OF REAL PROPERTY TAX ON EQUITY AND AFFORDABILITY

Property Valuation and Taxation in New York State: How Does It Work?

Local governments in the United States rely on property taxes as their primary source of revenue to fund critical public services such as education, fire, police, and public works. According to the Lincoln Land Institute, property tax accounts for nearly half the revenue collected by localities nationwide.[17] Relative to other sources, such as sales tax or income tax, property tax is the most reliable and predictable source of revenue for municipalities.

Each state has its own mechanisms in place for valuation and taxation of property. These mechanisms are determined in part by the degree of power each state grants to local governments within its jurisdiction. In New York State, local governments are granted broad autonomy to determine their own laws and regulations as long as their initiatives are not explicitly forbidden by state or federal law.[18] In comparison, many other state governments limit the decision-making power granted to local governments and maintain more control on the State level. These two systems are called Home Rule and Dillon's Rule, respectively.

Across New York State, taxes owed on any given property are a product of its assessed value multiplied by the property tax rate. While the New York State Real Property Tax Law (RPTL) establishes practical and administrative guidelines, Home Rule grants local and county governments the freedom to set their own tax rates and to independently assess properties within their jurisdiction. Assessed values and tax rates are determined as follows:

[17] Langley, Adam H., and Youngman, Joan. Lincoln Land Institute. *Property Tax Relief for Homeowners*. November 2021

[18] The New York State Senate. Section 10: General powers of local governments to adopt and amend local laws. Municipal Home Rule Chapter 36-A, Article 2.

Assessed value is the estimated price at which an owner could sell the property. This value is calculated by a professional assessor who is hired by a local government. The assessor bases their estimates on a variety of considerations, such as actual sale prices of surrounding properties, improvements made on a structure, square footage of the structure, plot size of the land, year built, and others. Ideally, a taxing jurisdiction will perform reassessments once annually.

The property tax rate is the percentage of a property's assessed value that an owner must pay in tax. The tax rate is set based on a jurisdiction's budgetary needs and can fluctuate from year to year in response to changes in assessed values. For example, if assessed values in a jurisdiction increase, the jurisdiction will often lower the property tax rate. The fundamental purpose of the tax rate is to ensure the taxing jurisdiction produces enough revenue from property taxes to fund the services it provides.

Although assessments should be performed annually, lack of local capacity usually prevents regular revaluations. The Office of Real Property Taxation (ORPTS) calculates an equalization rate for each taxing jurisdiction. The equalization rate is used as a multiplier symbolizing the ratio of total assessed values to total market values, and essentially symbolizes the degree of accuracy of assessments within a taxing jurisdiction. The use of an equalization rate is intended to ensure fair taxation and to compensate for the lag in regular assessments.

While the final calculation of property tax is straightforward, the methodology of assessment is not a strict science. For this reason, assessment outcomes can vary depending on an assessor's interpretation and application of state guidelines. Furthermore, variations in tax rates from jurisdiction to jurisdiction can produce different tax results even if assessed values are comparable. The next section will explain how these variables can lead to unpredictable and inequitable outcomes for tax-paying households, specifically those who are low- and moderate-income.

Contributors to Inequity: Home Rule, Tax Rates, and Assessments

The primary advantage of Home Rule is that local governments are granted the authority to govern in ways that reflect the unique needs of their communities. Local governments under Home Rule can pursue legislative action as long as said action does not oppose state or federal law. Conversely, Dillon's Rule has a more regional perspective and limits local independence to advance legislation. In a Home Rule state, local taxing jurisdictions—cities, towns, villages, counties, school districts, fire districts, library districts, and so on—can adjust tax rates to accommodate their revenue needs. They can also decide whether certain property tax exemptions and other relief strategies make sense for their communities, as long as those exemptions are authorized by the state. Municipalities under Dillon's Rule, on the other hand, cannot adopt their own tax relief programs, credits, or exemptions and must rely on state government to consider local interests.

Although Home Rule can empower local governments to be more responsive to their constituents, it also creates inconsistencies from jurisdiction to jurisdiction. To pursue a tax relief effort, there must be support from all taxing agencies that govern over a jurisdiction. This system limits the state's capacity to pursue regional and statewide initiatives. It also contributes to inequitable tax outcomes as property tax rates and assessment practices can vary significantly from jurisdiction to jurisdiction. Furthermore, with a heavy reliance on property taxes for critical public services, local taxing jurisdictions have little incentive to provide tax relief options to cost-burdened residents. School districts are especially hesitant to opt into tax relief programs as their budgets are already strained.[19]

When assessments increase along with rising property values, local taxing agencies will often reduce tax rates to limit unexpected increases to individual tax bills while still balancing their revenue needs. However, because property values do not increase uniformly across geographies, some neighborhoods may see an increase on their property tax bills while others may see a decrease. While increased property values can be beneficial to those who wish to sell their homes, fluctuations in property tax bills can be devastating for homeowners, especially those who are low- to moderate-income and who depend on the predictability of a strict monthly budget.

New York State's system for property valuation and taxation has inequitable outcomes across the board, but disproportionately impacts low- and moderate-income homeowners who qualify for subsidized homeownership. This is because, as opposed to income tax, property tax is a non-progressive tax. Uniform tax rates are applied equally to all homeowners within a given jurisdiction, regardless of their income, while income tax rates progressively increase with higher income brackets. Accordingly, even if a subsidy removes the barrier to entry for a homebuyer, statewide assessment and taxation practices can have adverse impacts on long-term affordability of monthly housing costs. Furthermore, assessments based on market value without accounting for resale restrictions do no reflect the true value of the home, and therefore produce unfair results for taxes owed.

[19] On average, education accounts for over 35% of local spending. The challenge here is not due to Home Rule per se, but the fact that schools are dependent on property taxes rather than state or federal funding. The impacts of this reliance exacerbate issues of social and racial inequity, as areas with a higher tax base can invest more significantly in educational institutions, which in turn reinforces historic disparities and continues to prevent generational access to wealth and education.

In sum, property tax policy has three primary impacts on equity and affordability:

- **Tax rates that vary from jurisdiction to jurisdiction** means two houses within the same market value can owe different tax amounts. Shares in the cost of public services become inequitable on a regional scale.
- **Taxation based on market value rather than ability to pay** means tax rates are applied equally but not equitably within a jurisdiction. This non-progressive taxing mechanism can lead to displacement if income is lost or if property tax increases.
- **Assessment practices that vary from assessor to assessor** mean that a cost-burdened household may have relief in some jurisdictions but not in others.

These three impacts are described in detail in the coming sections.

Scenario #1: Same Assessment, Different Tax Rates

The two figures below illustrate how varying tax rates across jurisdictions can lead to differences in monthly costs for homes of equal value. Figure 5 shows the calculation of monthly costs for homes worth $250,000 in four jurisdictions within Columbia County: the towns of Ancram, Chatham, Greenport, and the City of Hudson. This simulation is based on hypothetical yet realistic mortgage terms and insurance payments applied across all four scenarios: an annual insurance cost of $1,200, a down payment of 3%, closing costs of 6%, a 30-year mortgage with a 5.1% interest rate, and an approved loan equivalent to the sum of the sale price and closing costs minus the down payment. Monthly tax payments are calculated based on actual equalization and tax rates in each taxing jurisdiction.

Figure 5

BASELINE & MORTGAGE PARTICULARS

Assessed Value	$250,000
Down Payment	$7,500
Closing Costs	$12,000
Approved Loan	$254,500
Years of Mortgage Term	30
Interest Rate per Annum	5.10%
Payments Per Year	12
Monthly Rate	0.00425
Monthly Principal & Interest	$1,382
Monthly Insurance Payment	$100

MONTHLY HOUSING COSTS: COMPARISONS ACROSS JURISDICTIONS

	ANCRAM	CHATHAM	GREENPORT	HUDSON
Equalization Rate	74%	100%	90%	85%
Equalized Value	$337,838	$250,000	$277,778	$294,118
County Tax Rate	5.659944	7.027443	4.934361	4.951700
City/Town Tax Rate	0.581545	1.385482	1.941304	7.480793
School District Tax Rate	14.315326	21.015712	12.959172	12.959137
Fire Tax Rate	0.733292	1.296913	1.342960	N/A
Village/County Tax Owed	$1,912	$1,757	$1,371	$1,456
City/Town Tax Owed	$196	$346	$539	$2,200
School District Owed	$4,836	$5,254	$3,600	$3,812
Fire Tax Owed	$248	$324	$373	N/A
Total Annual Taxes	$7,193	$7,681	$5,883	$7,468
Total Monthly Taxes	$599.38	$640.12	$490.23	$622.34
Total Monthly Costs (PITI)	**$2,081.19**	**$2,121.93**	**$1,972.04**	**$2,104.15**

Figure 6 below demonstrates housing affordability by comparing monthly housing costs with the amounts that households at different income levels can afford to pay every month. Income levels are calculated as a percentage of the Area Median Income (AMI), where AMI symbolizes the income for an average household regionwide. In Columbia County, AMI is $88,700; 80% AMI is $70,960; 60% AMI is $53,220; and so on. Income thresholds are useful in indicating how much a household can afford to spend on housing, and in illustrating the gap between what households can afford and market value of a given home.

Lending agencies, such as banks, will generally not issue mortgages if total PITI costs will exceed 28% of a household's income. Accordingly, the monthly housing allowance is calculated as 28% of monthly household income. Based on this industry standard, households in Ancram, Chatham, and Hudson must make more than the AMI to afford monthly housing costs and qualify for a 30-year mortgage for a $250,000 home with the terms outlined above. The monthly variance of $150 among the four jurisdictions, although slight, is enough to deem Greenport the only town with taxes that are affordable to households making the AMI. In all four jurisdictions, households at 80% AMI and below cannot afford to own a $250,000 home. Considering the median sale price in Columbia County was $379,000 in 2021, most homes in the county are unaffordable to the average household.

Figure 6

% AMI	MONTHLY ALLOWANCE	GAPS BETWEEN MONTHLY ALLOWANCE AND COSTS			
		ANCRAM	CHATHAM	GREENPORT	HUDSON
30% AMI	$621	-$1,460.29	-$1,501.03	-$1,351.14	-$1,483.25
60% AMI	$1,242	-$839.39	-$880.13	-$730.24	-$862.35
80% AMI	$1,656	-$425.46	-$466.19	-$316.30	-$448.42
100% AMI	$2,070	-$11.53	-$52.26	**$97.63**	-$34.49

Scenario #2: Taxing on Market Value Doesn't Account for Ability to Pay

Habitat aims to subsidize homes for households that range in income between 30-80% AMI, although the organization is increasingly unable to cater to lower-income households due in part to unaffordable property taxes. A development subsidy from Habitat covers the difference between the assessed value of a home and the mortgage for which a household qualifies. A household that qualifies for a development subsidy will have lower monthly mortgage and interest payments, but monthly tax payments are not impacted by the subsidy. Because of the 28% lending threshold, the projected property tax to be paid has a direct adverse impact on the mortgage for which a household will qualify. According to some Habitat affiliates, where market values are higher, households can pay more in property tax than they pay on principal and interest payments combined. Where market values and therefore property taxes have increased over time, long-term Habitat homeowners are sometimes priced out and displaced from their homes.

The inequities built into our system of taxation can be mitigated by assessment practices that account for ability to pay. One indicator of a household's ability to pay is the actual sale price of a home (assessed value minus the development subsidy), because that value reflects the income-qualified subsidy granted to the household. Taxing the sale price of a subsidized home for the term of a mortgage is one way to incorporate progressive measures into taxation practices. For example, Figure 7 shows the difference in monthly housing costs for a

$250,000 home in the City of Hudson when tax is applied to the market value versus the sale price of a home purchased by an income-qualifying Habitat household. Figure 8 shows the income thresholds captured by each of these scenarios. While a Habitat subsidy alone would allow a household at 80% AMI to afford a home assessed at $250,000, taxing the sale price rather than the market value would afford a household below 60% AMI the opportunity to own a home.

Figure 7

BASELINE & MORTGAGE PARTICULARS

Assessed Value	$250,000
Subsidies	$150,000
Sale Price (1st Mortgage)	$100,000
Years of Mortgage Term	30
Interest Rate per Annum	5.10%
Payments Per Year	12
Monthly Rate	0.00425
Total Number of Payments	360
Monthly Principle + Interest Payment	$542.95
Monthly Insurance Payment	$100
Equalization Rate	85%

TAX ON MARKET VALUE VS SALE PRICE

	MARKET VALUE	SALE PRICE
Equalized Value	$294,118	$117,647
County Tax Rate	4.9517	4.9517
City/Town Tax Rate	7.480793	7.480793
School District Tax Rate	12.95914	12.95914
Village/County Tax Owed	$1,456	$583
City/Town Tax Owed	$2,200	$880
School District Owed	$3,812	$1,525
Total Annual Taxes	$7,468	$2,987
Total Monthly Taxes	$622.34	$248.94
Total Estimated Monthly Costs	**$1,265.29**	**$891.89**

Figure 8

% Area Median Income	**Monthly Housing Allowance by AMI**	**GAPS BETWEEN MONTHLY ALLOWANCE AND COSTS**	
		MARKET VALUE	**SALE PRICE**
30% AMI	$621	-$644.39	-$270.99
60% AMI	$1,242	-$23.49	$349.91
80% AMI	$1,656	$390.44	$763.85
100% AMI	$2,070	$804.37	$1,177.78

Scenario #3: Assessor's Discretion Generates Inequity

Because of the power granted to assessors to administer local property assessments, tax outcomes often depend on an assessor's independent judgment and willingness to accommodate. Some assessors are sympathetic to the request for tax relief for lower income households, while others will not engage in such conversations without explicit legislative direction. Some Habitat affiliates are therefore able to establish unwritten agreements with assessors to consider resale restrictions and a homeowner's ability to pay when assessing a property, while other affiliates have not been able to secure this support.

For example, one Habitat affiliate reported that two identical homes built across the street from one another were assessed differently based on their subsidized sale price. The subsidized sale price indicates the mortgage for which a household has qualified, which in turn indicates that household's income and ability to pay. The first house was sold in April of 2020 at $111,500, and the second house was sold in December of 2020 at $172,500. In 2022, these two homes were assessed at $134,500 and $203,500 with estimated annual property taxes of $4,438 and $6,715, respectively. The assessment and taxes for the second home are all approximately 50% greater than those for the first home, which is comparable to the difference in sale prices between the two homes that reflect the homebuyer's ability to pay based on the income qualifications of the program.

On the other hand, another Habitat affiliate reported that the assessor in their jurisdiction refused to consider sale price and resale restrictions in the property assessment. The assessor expressed their opinion that the nature of this practice was not legal. In that case, the local land trust eventually succeeded in lobbying efforts, and legislation was passed introducing a property tax exemption that would account for resale restrictions under certain conditions.

These two scenarios demonstrate how different interpretations of the law lead to discrepancies in its application. In the first case, the assessor understood that resale restrictions impact market value, and should therefore be considered in assessment. In the second case, the assessor understood that they had no explicit authorization to account for resale restrictions when determining market value and would therefore be violating their responsibilities by considering resale restrictions. Establishment of local property tax affordability is either at the discretion of the assessor, or requires that each jurisdiction has its own laws passed. Often, comptrollers and other local officials will also have input regarding the interpretation and application of assessment guidelines, as those applications directly influence local budgets. This system has unfair and unpredictable impacts on property tax and affordable homeownership and fails to ensure affordable homeownership equitably across the board.

Six Challenges for Subsidized Homeownership

New York State policies for property valuation and taxation impact homeowners across the board. However, these policies pose unique challenges for homebuyers and developers of subsidized owner-occupied units. Existing state laws effectively limit the opportunities that Habitat and other organizations can provide through subsidized down payments and resale restrictions, in the following ways:

Monthly Housing Costs Exceed Affordable Thresholds. Even when a homebuyer successfully purchases a home thanks to a Habitat subsidy, monthly property taxes and escrow payments can be unaffordable because the property is assessed based on Market Value. This means that, even if the purchase price is affordable, the homeowner may not be able to maintain their home in the long run.

Homebuyers Have Decreased Access to Mortgages. When banks assess the mortgage eligibility of a prospective homebuyer, they assess the projected monthly costs associated with the property alongside the homebuyer's ability to pay those costs. The total monthly costs a homebuyer can afford are limited; accordingly, the higher the anticipated property taxes, the lower the mortgage for which a homebuyer will qualify.

Lower Mortgages Require Higher Subsidies and Fewer Homes. Regardless of the homebuyer's mortgage eligibility, Habitat needs to spend a certain amount of money on rehabilitating an existing home or building a new one. Habitat's development subsidy fills the gap in funding that the homebuyer's mortgage does not cover. The domino effect continues, then, as a homebuyer's decreased access to mortgage leads to their increased need for a development subsidy. This need means Habitat must invest more in each project rather than develop more houses. One Habitat affiliate calculated a potential mortgage increase, and thereby subsidy savings, of $76,000 for one of their sales if equitable tax policies were in place.

No Promise of Long-Term Affordability. Homebuyers who cannot afford monthly payments are unable to keep their homes. In such cases, the initial investment in affordability – the development subsidy -- is often lost. While affordability of purchase may be secured, long-term affordability is not.

Geographical Variations Price Out Affordability. Due to inconsistent tax assessment practices and variations in tax rates, two identical houses with the same market value in two different taxing jurisdictions will have different monthly costs and therefore different levels of affordability. This variance impacts where and how many homes Habitat can develop; affordable homeownership will eventually be nonexistent in jurisdictions with higher taxes without some sort of intervention, such as assessments that account for resale value or ability to pay.

Assessments Do Not Reflect True Home Value. Resale restrictions essentially limit the market value of the home and the amount of equity a subsidized homebuyer can accrue. When assessed value does not account for resale restrictions, it does not reflect true market value. The absence of guidelines to accommodate for resale restrictions in assessments produces unfair outcomes and is not in alignment with the intention of the law, which is to tax on the true value of the home.

Navigating the Inequitable Outcomes of Property Valuation and Taxation

The challenges outlined in this chapter have systemic societal impacts far beyond housing per se. Specifically, varying tax rates and assessments based on market value reinforce existing divides between income groups in our communities. Even if a low- or moderate-income household overcomes the barrier to entry to become homeowners, the average household cannot afford to own a home in areas where taxes are higher. This reality creates enclaves of different incomes, thereby creating disparities in access to services based on income.

Accounting for ability to pay in property taxation is especially critical in areas with higher market values. For example, in the City of Hudson, although it is possible to find a home for $250,000, the median price of a single-family home there is currently $425,000. These purchase prices are out of reach for most households without significant down payment assistance, and taxation on increasing property values makes monthly costs unaffordable. Most taxing jurisdictions are hesitant to offer tax relief to certain households and not others, because they believe this will cause inequitable distribution of tax burden, although the purpose of progressive taxation is to increase equity. Often, taxing jurisdictions also believe relief will have negative impact on their tax revenue. However, in most cases, Habitat homes are either new-build or rehabilitated properties that were not formerly contributing to the tax levy.

Potential avenues to address this inconsistency could include statewide guidelines requiring assessors to consider resale restrictions in their assessments, or a statewide circuit breaker that considers a homeowner's ability to pay rather than market value of the property. These strategies and other types of tax relief are described and analyzed in the coming sections.

CHAPTER 3: MECHANISMS TO INCREASE EQUITY AND AFFORDABILITY

Across the United States, tax relief is generally administered through **credits** or **exemptions**. Credits are refunds issued to the taxpayer after they have paid taxes in full, while exemptions are applied pre-tax and limit the amount of taxes owed in the first place. Tax relief programs reflect community values and economic needs, and many of them aim to support vulnerable communities.

Tax Credits and Circuit Breakers: Potential for Progressivity

A significant **credit** for homeowners is administered through the Federal Income Tax return. When a taxpayer files their annual federal return, they can claim tax credits as a first-time homebuyer, as a long-term homeowner, and for various expenses related to maintenance or even energy upgrades for their home. The taxpayer pays their local property tax in full and is reimbursed from the federal government after filing. Income tax credits are favorable to local taxing jurisdictions, as their revenue is maintained by property tax payments while relief is provided by higher levels of government.

Some states have adopted policies for income tax credits that aim to provide relief to households that spend a disproportionate share of their income on property taxes. These polices, known as **circuit breakers**, achieve this by limiting the amount of property tax a taxpayer owes depending on their income. While most circuit breakers nationwide are administered as state income tax credits, some states administer refunds as property tax credits that are deducted from future property tax bills. Some states have also adopted circuit breakers as exemptions that are applied pre-tax, though these are rare and apply only to certain demographics. In many cases, circuit breakers apply to renters as well as homeowners, in recognition that rents indirectly cover tax costs for landlords. Circuit breakers

essentially aim to adjust the property tax from a regressive tax to a progressive tax.

Approximately 30 states across the country have adopted circuit breakers.[20] New York State adopted a new circuit breaker, called the Homeowner Tax Rebate Credit, in 2020[21]. Some circuit breakers apply only to specific demographics, such as seniors or disabled residents, while others apply across demographics based on income. Income thresholds and refund amounts vary from state to state. For example, in Vermont, qualifying households can be reimbursed up to $8,000 annually, while in New York State the maximum reimbursement is $500. In Maryland, households with income up to $60,000 and a maximum net worth of $200,000 qualify, while the New York State circuit breaker applies to households with a gross income of up to $250,000.[22]

Another property tax credit in New York State that is considered a circuit breaker is intended predominantly to assist low-income seniors.[23] This credit is offered to households with a gross income of $18,000 or less and a maximum property value of $85,000 who have already paid their property taxes. The refund for qualifying households is up to $375 for seniors over 65 years of age, and $75 for others.[24]

The New York State circuit breaker is limited in the assistance provided to low- and moderate-income households. However, there is an additional statewide credit that is granted to most homeowners across the state. The School Tax Relief (STAR) credit applies to owner-occupied primary residences with a maximum household income of $500,000. STAR is administered as a refund on property tax paid and applies to the first $30,000 of property value. For homeowners 65 years of age and up with a maximum income of $92,000, an additional refund is available through the Enhanced STAR credit program. Until 2015, the STAR exemption was available in addition to the credit, and had a household income limit of $250,000. Aside from these broad income caps, there are no other income requirements to qualify for the STAR credit. The STAR credit is not considered a circuit breaker, as the amount of relief it provides is not in relation to income.

Exemptions: Piecemeal Efforts In Lieu of Statewide Policy

Aside from the STAR credit, the dominant form of property tax relief in New York State is through **exemptions**, which are applied directly to a taxpayer's bill rather than refunded through a credit program. Exemptions can apply to the partial or full value of a property, and they generally depend on the use of the property or on certain socioeconomic criteria that the property owner must meet. Examples of exemptions based on use include nonprofits such as religious institutions, educational facilities, or hospitals,[25] or certain agricultural uses.[26] For homeowners, qualifying criteria can include their age,[27] disability,[28] or veteran status.[29] Exemptions can also act to prevent drastic increases to tax bills when a homeowner invests in improving their property, so as to encourage rehabilitation of delinquent property and so as not to penalize the homeowner for making improvements.[30] When

[20] Institute of Taxation and Economic Policy. *Property Tax Circuit Breakers in 2018.*
[21] New York State Department of Taxation and Finance. Homeowner tax rebate credit (HTRC). 2022.
[22] New York State Department of Taxation and Finance. Homeowner tax rebate credit (HTRC). 2022
[23] New York State Department of Taxation and Finance. Real property tax credit. 2022.
[24] For an extensive review of the different types of circuit breakers, best practices, and recommendations, see Property Tax Circuit Breakers: Fair and Cost-Effective Relief for Taxpayers. Bowman, John H., et al. Lincoln Institute of Land Policy. 2009.

[25] RPTL 420-a Assessor Manuals, Exemption Administration (ny.gov)
[26] For example, see RPTL 483-a Assessor Manuals, Exemption Administration (ny.gov)
[27] RPTL 467 Assessor Manuals, Exemption Administration: RPTL Section 467 (ny.gov)
[28] RPTL 459 Assessor Manuals, Volume 4, Exemption Administration (ny.gov)
[29] RPTL 458-a Assessor Manuals, Exemption Administration: RPTL Section 458-a (ny.gov)
[30] RPTL 421-f Assessor Manuals, Exemption Administration: RPTL Section 421-f (ny.gov)

compared to tax credits, exemptions are favorable for taxpayers, especially for those who are low- and moderate-income, who may struggle to pay more than they owe up-front.

In a Home Rule state, most exemptions do not apply automatically. Local taxing jurisdictions must agree to adopt an exemption for a taxpayer to qualify, and then each taxpayer needs to apply for the exemption that has been adopted locally. In New York State, the distinction between an automatic statewide exemption and an exemption that needs to be adopted locally is classified as whether the exemption is adopted by **local option**. This means that taxing jurisdictions have the choice, but not the obligation, to adopt exemptions that would provide tax relief.

There are more than 250 local option exemptions in the New York State Assessor's Manual, and more than 100 of those apply to various residential uses.[31] Most residential exemptions apply to multi-unit developments, such as rental properties or public housing, while only a few exemptions apply to owner-occupied units. Most exemptions have specific application criteria; for example, they may apply only within jurisdictions of a certain size, only to residents with a certain socioeconomic status, or only for certain types of owners, such as nonprofit organizations.

The options for tax relief for low- and moderate-income homeowners in New York State are limited. One exemption is for income-qualifying first-time homebuyers of new homes.[32] This exemption is phased out over the course of five years, such that after those first five years the homeowner will no longer qualify for an income-based exemption. While many Habitat homebuyers would qualify for this exemption when purchasing a newly constructed single-family home in jurisdictions who have adopted this local option, the exemption would not ensure long-term affordability. However, it does offer precedent for an exemption that targets income-qualifying first-time homeowners, and could be expanded or modified to better serve owners of subsidized affordable homes. Exemptions that are limited to localities of a certain size indicate that they were initiated by local taxing jurisdictions themselves. For example, in Tompkins County, the Ithaca Neighborhood Housing Services land trust lobbied vis-à-vis their local authorities for an exemption that would require assessments to account for resale restrictions, thereby limiting the taxable amounts of properties under their management. When organizations' efforts were successful, and the local authorities agreed to support such an exemption, the state adopted a local option exemption that would apply to resale-restricted properties owned by nonprofit organizations within counties that have a population of 100,000-105,000 residents.[33] The specificity of the population requirements is deliberate, such that only those taxing jurisdictions within Tompkins County would qualify. For this exemption to apply statewide, every single local taxing jurisdiction across the state would need to endorse its adoption, and the removal of its population criteria.

This exemption for resale-restricted property in Tompkins County requires that the land be owned by a nonprofit organization. Because Habitat does not retain ownership of land under its traditional model, properties sold by Habitat would not qualify for this exemption. Accordingly, Habitat of Tompkins County converted its model from the traditional homeownership model to a land trust model. The local adoption of the exemption encouraged a shift in the organization's model. In other counties, where CLT models are not yet supported through tax policy, Habitat affiliates do not have reason to convert to the CLT model without the possibility of similar local option exemptions.

[31] For a full list of exemptions, see Assessor Manuals, Volume 4, Exemption Administration, Part 1: Subject Index (ny.gov)

[32] RPTL 457 Assessor Manual, Volume 4, Exemption Administration: RPTL Section 457 (ny.gov)

[33] RPTL 467-j Assessor Manuals, Exemption Administration: RPTL Section 467-j (ny.gov)

Statewide Efforts: More Consistent, Equitable Impact

As outlined in Chapter 1, existing programs and funding allocations in New York State reflect a priority of equitable housing outcomes for low- to moderate-income communities. This priority is reflected in statewide tax policy, as well. For example, New York assessors must assess affordable rental property based on the income levels of tenants as well as the net operating income of the owner.[34] Although no assessment equivalent exists in New York State for owner-occupied units, policy in other states offers precedent for progressive property taxation that supports affordable homeownership.

With the rise of CLTs as an affordable housing solution across the country, several states and local jurisdictions have adopted tax policy that accounts for resale restrictions when assessing a property, with no need for local option. For example, Oregon State law grants full property tax exemption for land owned by a CLT with long-term affordability requirements, such that the homeowner only owes property taxes on the value of the home itself.[35] Several CLTs and Habitat affiliates in Oregon utilize this exemption. To benefit from this exemption, the CLT or other non-profit is required to apply for the exemption each year.

Another example of statewide exemption for resale-restricted, owner-occupied properties is in Vermont, where one of the largest CLTs in the country is located. Under Vermont State law,[36] eligible properties are appraised at between 60% and 70% of the fair market value, and property tax is then based on this appraised value. Every five years, the percentage of appraised value is evaluated as to whether it should be altered to accommodate affordability needs. Vermont is a Dillon's Rule state, such that passing statewide law is the only way to incorporate affordability considerations in property taxation. Oregon, however, is a Home Rule state, which offers significant precedent to New York for passing a statewide exemption rather than relying on individual jurisdictions to pursue local tax relief strategies.

There are advantages and disadvantages to the various existing models for property tax relief within New York State and across the country. A thoughtful combination of strategies is necessary to address the challenges of long-term affordability for homeowners. These potential strategies, their impacts, and implementation feasibility are assessed in detail in Chapter 4.

[34] RPTL 581-A Legislation | NY State Senate (nysenate.gov)

[35] State of Oregon Department of Revenue. How property taxes work in Oregon. 2022.

[36] State of Vermont Legislature. The Vermont Statutes Online. Title 32: Taxation And Finance, Chapter 121: General Provisions. Subchapter 4: Miscellaneous Section 3481. Definitions.

CHAPTER 4: EXPANDING EFFORTS TO INCREASE EQUITY, AFFORDABILITY, AND ACCESS

To remedy inconsistencies in assessments and exemptions, and to broadly encourage subsidized affordable homeownership, New York State would benefit from more uniform property valuation and taxation practices for subsidized affordable owner-occupied housing. This final chapter will outline and assess the various policy and strategy options available, their potential impacts on subsidized affordable homeownership, and their feasibility.

Impacts of each strategy will be assessed in relation to six key goals, which respond to the six key challenges outlined in Chapter 2, as follows:

CHALLENGE: MONTHLY HOUSING COSTS EXCEED AFFORDABLE THRESHOLDS.

GOAL: ESTABLISH AFFORDABLE MONTHLY COSTS.

An obvious goal is to increase affordability of monthly housing payments for existing homeowners and prospective income-qualifying homebuyers of subsidized, affordable, owner-occupied housing by limiting property taxes owed relative to a taxpayer's income. Property tax payments can be a major burden for households with low- to moderate-income.

CHALLENGE: HOMEBUYERS HAVE DECREASED ACCESS TO MORTGAGES.

GOAL: INCREASE ACCESS TO MORTGAGE.

Monthly housing costs are comprised of principal, interest, taxes, and insurance (PITI). Together, PITI costs cannot exceed 28% of a homebuyer's income. Accordingly, if taxes are higher, other monthly expenses, including mortgage payments, must be lower to ensure overall costs are under the 28% threshold. By decreasing property taxes, a homebuyer may qualify for a higher mortgage. When a homebuyer qualifies for a higher mortgage, the subsidy amount required for purchase decreases. Lowered monthly costs would also lower the income threshold for mortgage qualification, thus reducing the barrier of entry for lower-income prospective homebuyers and allowing Habitat to serve a greater portion of the population at lower % AMI levels.

CHALLENGE: LOWER MORTGAGES REQUIRE HIGHER SUBSIDIES, LEADING TO FEWER HOMES.

GOAL: INCREASE CAPACITY FOR HABITAT TO PROVIDE SERVICES.

The development subsidy provided by Habitat covers the difference between the cost of development and the mortgage for which a homebuyer qualifies. Based on the previous goal, if a homebuyer qualifies for a higher mortgage and needs less subsidy, Habitat is able to allocate more subsidy toward additional projects.

CHALLENGE: NO PROMISE OF LONG-TERM AFFORDABILITY OR IMPACT OF SUBSIDY.

GOAL: EXPAND OVERALL LONG-TERM AFFORDABILITY AND RETAIN IMPACT OF SUBSIDY.

When subsidized homebuyers cannot afford monthly costs, a Habitat home may be sold and absorbed into the market at large. Conversely, monthly affordability for the homebuyer extends the impact of the up-front development subsidy. To this end, there is also reason to explore increased resale restrictions that prolong the impact of the initial subsidy on the long-term affordability of a property. Locking in long-term affordability of a property also increases the affordable housing stock, in addition to providing wealth-building opportunities for individual households. The balance between restricting resale value and building equity for subsidized homebuyers should be considered by state government as it explores allocation of $400 million toward the development of affordable homeownership.

CHALLENGE: GEOGRAPHICAL VARIATIONS PRICE OUT AFFORDABILITY.

GOAL: INCREASE EQUITABLE OUTCOMES.

Uniform valuation and taxation practices across the state are critical to ensure all households pay no more than their fair share of property taxes. Such practices that apply specifically to subsidized, affordable, owner-occupied housing can ensure Habitat and other developers can provide affordable homeownership in all jurisdictions. This can be achieved through statewide policy that accounts for income levels and resale restrictions in assessments of owner-occupied properties.

CHALLENGE: DO NOT REFLECT TRUE HOME VALUE.

GOAL: ESTABLISH ASSESSMENT PRACTICE THAT ACCOUNTS FOR RESALE RESTRICTIONS.

Assessed value that accounts for subsidized sale price and resale restrictions reflects both the homeowner's ability to pay and the true market value of the home. Just as rental developments qualify for tax relief on account of restricted income, so too should the same principle apply to subsidized owner-occupied housing.

Impact and Feasibility Assessment of Policy and Program Solutions

No single policy solution alone can address the challenges outlined in this paper. However, a comprehensive approach can support the six goals outlined in the previous section. For Habitat to work toward all six goals, it is necessary to pursue statewide tax relief vis-à-vis New York State alongside internal policies within the organization. This section will outline best practices for each strategy.

Credits and Exemptions: Strategies Toward Affordable Property Tax Policy

When pursuing a tax relief strategy, there are a number of different implementation options and impact factors to consider. This section explores advantages and weaknesses of potential policy solutions to ensure affordable and fair property taxation that would support the long-term impact of Habitat's investments in homeownership. The examples of potential relief brought forth in this section are based on precedent, but do not account for all possibilities. Considerations for each potential strategy are as follows:

Exemption or Credit?

As described in Chapter 3, tax relief can be administered either as exemptions or credits. Exemptions are administered by local assessors and applied pre-tax, such that a taxpayer's bill reflects the amount owed, whereas credits are administered by the state and reimbursed as refunds after taxes are paid. Credits are preferred by local jurisdictions, because they are derived from state funds and do not impact the revenue generated locally through property taxation. Exemptions, on the other hand, are preferred by taxpayers because taxpayers are not required to pay up-front for more than they owe. For this reason, an exemption would be beneficial to Habitat homebuyers as their income levels are lower.

In addition to reduced up-front costs, certain exemptions could have a positive impact on the mortgage for which a homebuyer could qualify. This is because lending institutions consider the total estimated monthly costs a homebuyer will have when calculating a potential loan. Lenders are more willing to account for an exemption if the household is guaranteed to qualify for a period of time that corresponds with the term of the mortgage. Lenders are not willing to consider credits because the taxpayer is still required to contribute the full property tax payment to their escrow account before the refund is applied.

Because credits tend to apply statewide and do not rely on individual local assessors, they are also more likely than exemptions to ensure geographical equity. Another key advantage of a credit is that it is much simpler to administer than an exemption because credits tend to be administered by state government through income tax returns. The state already has the infrastructure to collect income and mortgage information from taxpayers, and to distribute refunds based on property taxes. In comparison, local taxing jurisdictions are not accustomed to accounting for income or mortgage information when assessing and taxing property.

The STAR credit, for example, offers statewide property tax relief through an income tax credit. Under the umbrella of the STAR program, there is also an additional category of relief offered to low-income seniors. The Homeowner Tax Rebate Check (HTRC) also utilizes STAR infrastructure to incorporate additional affordability factors into property tax credits through a circuit-breaker type of relief program. STAR-qualifying households are automatically considered for the HTRC. Considering the pre-existing administration process of STAR, and these precedents of expanding the STAR program, one option to support long-term affordability for

owners of subsidized, resale-restricted homes is to advocate for a new STAR category that would build on the existing program. Alternatively, if the state were to adopt a more significant circuit breaker credit, Habitat households would qualify for property tax credits based on income and ability to pay.

Until 2015, the STAR program had an exemption option, in addition to the credit, for households under a certain income level. Before the program was made credit-only, lending institutions would account for the STAR exemption in calculating PITI costs. Ideally, because of the benefits for taxpayers, the STAR program would reintroduce the exemption for households in lower income brackets. In this event, the STAR program would be an even more impactful option for ensuring long-term affordability of subsidized homeownership.

Local versus Statewide.
Statewide initiatives, be they exemptions or credits, are significantly more impactful than local option exemptions because local option exemptions require each taxing jurisdiction to adopt a local law. Because of the impacts of exemptions on local budgets, local jurisdictions are more likely to object than adopt a local-option exemption.

Statewide legislation to create a credit or a non-local option exemption binds all assessors across the state to the same guidelines. As outlined in the previous section, there is precedent for specific credit categories that can be expanded to support owners of subsidized, resale-restricted property. There is also precedent for statewide exemptions for distinct land uses, such as nonprofit or agricultural uses. In making the case for a statewide assessment practice that considers resale restrictions, a subsidized owner-occupied residential use could be considered its own distinct exemption-qualifying use.

Scope of Relief and Household Qualifications.
Regardless of whether relief is administered as an exemption or a credit, a household must qualify based on certain characteristics. To benefit Habitat households, qualifications should reflect the fact that the home was purchased at a subsidized rate by income-qualifying households. For example, an exemption could be offered to the first purchaser of an owner-occupied home developed by an affordable housing provider, and expire at the next property transfer. Because Habitat has its own income qualification process, this type of exemption would absolve local jurisdictions from the need to vet applicants based on income.

To determine the amount of relief, the assessment of such a property could be guided either by the subsidized sale price or by the potential resale value based on resale restrictions. Regardless, relief should be significant enough to account for the household's income and ability to pay. Although the current Habitat model imposes resale restrictions on its homebuyers, those restrictions do not affect the resale value of the home. Accordingly, without any changes to Habitat's restrictive covenants, the exemption should be on subsidized sale price. Because the subsidized sale price indicates the mortgage for which a household has qualified, an exemption based on that value would account for that household's income and ability to pay. If Habitat were to adopt restrictions based on resale value, as described later in this section, an exemption based on restricted resale would apply to the property in perpetuity. If Habitat were to adopt a land trust model, and homeowners would be on a ground lease, the exemption could apply to the land itself, and the homeowner could be taxed only on the value of the structure. Because assessments are based on market value, and resale restrictions can limit the sale price of a home, an assessment practice that reflects resale restrictions would increase fairness in taxation, as this would reflect the true market value of the home.

Where market values are low, some affiliates have reported that tax relief based on sale price may not impact the affordability of monthly costs. In these cases, the significant affordability piece is the Habitat development subsidy that covers not only the gap between a household's mortgage and the

property's market value, but the gap between market value and the cost of development. In these cases, tax relief programs could support the sustainability of the Habitat model by protecting households from increased taxes generated by future changes in market values.

Term Length. The length of time for which a credit applies is usually tied to certain economic factors of the homeowner, such as income, net worth, or property value. As long as the taxpayer qualifies, the credit is granted. If the STAR program were to introduce a new category to ensure affordability for subsidized affordable homeowners, qualifications could relate to income, mortgage, and/or resale restrictions. A credit that would be most equitable and best reflect affordability would limit the percentage of household income spent on taxes and offer a refund for any amount beyond that threshold.

Exemptions are more likely than credits to expire or phase out over a set period. When considering the term of an exemption that might apply to Habitat households, it is important to consider the term of a mortgage to ensure monthly costs remain stable. As shown in Figures 9 & 10, exemptions that phase out before the end of a mortgage term limit the income levels of households that can afford monthly costs long-term.

Figure 9

BASELINE & MORTGAGE PARTICULARS

Assessed Value	$250,000
Subsidies	$150,000
Subsidized Sale Price (1st Mortgage)	$100,000
Years of Mortgage Term	30
Interest Rate per Annum	5.10%
Payments Per Year	12
Monthly Rate	0.00425
Total Number of Payments	360
Monthly Principle + Interest Payment	$543
Monthly Insurance Payment	$100
Equalization Rate	85%
Equalized Value	$294,118

PHASED TAXES

	Year 1	Year 3	Year 6
County Tax Rate	4.9517		
City/Town Tax Rate	7.480793		
School District Tax Rate	12.959137		
Exemption Rate	50%	30%	0%
Village/County Tax Owed	$728	$1,019	$1,456
City/Town Tax Owed	$1,100	$1,540	$2,200
School District Owed	$1,906	$2,668	$3,812
Total Annual Taxes	$3,734	$5,228	$7,468
Total Monthly Taxes	$311.17	$435.64	$622.34
Total Estimated Monthly Costs	**$954.12**	**$1,078.59**	**$1,265.29**

Figure 10

% of Area Median Income	Monthly Housing Allowance by AMI	Differences between Allowance and Monthly Housing Costs		
		Year 1	Year 3	Year 6
30% AMI	$621	-$333.22	-$457.69	-$644.39
60% AMI	$1,242	$287.68	$163.21	-$23.49
80% AMI	$1,656	$701.61	$577.14	$390.44
100% AMI	$2,070	$1,115.54	$991.08	$804.37

If an exemption expires before the end of the mortgage term, lenders are unlikely to consider the exemption in calculating the mortgage for which a homebuyer qualifies as their considerations relate to the entire term of the mortgage. Conversely, according to a USDA representative, if an exemption relates to the term of the mortgage, it is possible that mortgage thresholds will lower, thus reducing the need per project for subsidy and increasing Habitat's organizational capacity. This would also expand the pool of qualifying households served by Habitat by making mortgages accessible to homebuyers with lower income levels. In the case such an exemption is adopted, taxation could increase at the rate of inflation if further analysis shows this increase would maintain affordability over time.

In the case of a property with deed restrictions on resale value and income levels of future homebuyers, the exemption could apply to the property itself in perpetuity at a rate of increase relative to the maximum sale value. If Habitat were to consider increasing their resale restrictions, this option would have higher impact on long-term affordability and would increase the stock of affordable homeownership.

For a local option exemption, taxing jurisdictions are more likely to adopt if term limits can be set. Some exemptions phase out over time, thereby introducing a slow increase in taxation from year to year. While this would make taxes affordable in the early years of an exemption's application, at a certain point monthly costs may exceed monthly income, especially if the household's income does not increase alongside the property tax rate. Accordingly, applying an exemption to the term of a mortgage would be a better option. Alternatively, the exemption could simply expire at the time of the next property transfer, as is common practice for most other exemptions.

While local taxing jurisdictions and assessors tend to object to new exemptions, it is important to remember that Habitat homes tend to introduce new properties to the tax rolls either through rehabilitation or new construction. Furthermore, the number of homes built by Habitat and other developers of subsidized affordable owner-occupied units is minimal relative to the general housing stock. Accordingly, although taxing jurisdictions prefer exemptions to expire, ensuring long-term affordability for subsidized homeownership would have little impact on local budgets while contributing to the public benefit.

Universal Application. When exploring a new tax relief strategy, it is advised to consider impact not only on Habitat participants but on all owners of subsidized affordable owner-occupied housing. The relief should be offered to all income-qualifying households that own subsidized affordable homes. The strategy therefore will need to be broad enough to capture various types of resale restrictions and subsidy models.

To this end, there is also room for Habitat to explore the scope of its contracts and resale restrictions. In recent years, Habitat affiliates statewide and countrywide have adopted models

that prioritize long-term affordability alongside the priority of wealth-building for historically marginalized communities. Many affiliates are working toward striking a balance between these two goals and toward evolving the organization's model to maintain its capacity in an ever-changing housing market. The next section will explore these considerations in more detail, as they have direct impact on the efficacy of tax relief strategies.

Evolving Organizational Practices to Align with Long-Term Goals

This study highlights that revised tax policy would provide fairer outcomes for owners of subsidized and resale-restricted homes. The research process has also revealed that Habitat's own policies play a role in the overall efficacy of policy change. Interviews with a number of Habitat affiliates indicate that the strength of the organization's contractual resale restrictions directly informs the possibilities for property tax relief. These contractual elements also impact the organization's capacity to offer subsidized affordable homeownership opportunities at scale.

The two contractual elements that stood out as potential recommendations are expanded resale restrictions and an appreciation clause. By reviewing these elements, Habitat affiliates may better position themselves to advocate for a new exemption or credit, thereby increasing the probability of success in securing tax relief for their households. Affiliates can also increase their capacity to meet their own mission and goals and expand the collective impact of subsidized homeownership development.

Expanded Resale Restrictions: Long-Term Affordability and Increased Stock.

Each Habitat affiliate has its own contracts with their own terms and conditions for resale of the property. For Habitat households in New York State, there are no restrictions on the future resale value of the property or on the income levels for future buyers. Restrictions that are included generally fall under two categories: first right of refusal, and the amortization and eventual forgiveness of the silent second mortgage. All Habitat affiliates secure a first right of refusal to purchase a property at market rate if a homeowner wishes to sell. Sometimes, this clause is in effect for as little as 10 years, while in other cases it is tied to the term of the silent second mortgage. After this clause expires, the homeowner can sell the home on the open market, although in some cases they may still need to pay back part of the development subsidy.

Amortization of the second mortgage is a core tenet of the Habitat model. All affiliates usually define a period of time that must pass before the mortgage begins to amortize, and during which the homeowner would be required to pay back the entire subsidy in case of sale. Across the board, once the second mortgage is fully amortized and forgiven, the homebuyer fully owns the home, and resale restrictions are no longer binding. At that time, the homeowner can sell their property at full market rate.

Some Habitat affiliates have reported difficulty in keeping track of property sales after the initial transfer, because the resale restrictions are written into the contract but not into the deed. Accordingly, a homeowner may sell their home without honoring the first right of refusal clause. In these cases, it is critical for Habitat affiliates to evaluate the efficacy of the contract in establishing the first right of refusal.

In areas where land trust models are supported by government policy, Habitat affiliates have adopted a land trust model that employs restrictions on future resale value as well as income qualifications for future buyers. In such cases, affiliates remain owners of the land, and provide their households with 99-year ground leases. Although the land trust

model has high impact on long-term affordability and has potential to increase access to homeownership for lower income thresholds, some affiliates have expressed hesitation regarding the adoption of a land trust model due to lack of organizational capacity to continuously manage ground leases.

Despite the hesitation some affiliates may have, introducing restrictions on the future resale value of Habitat homes may support the organization's efforts in securing state support for tax relief. With greater long-term impact of a subsidy, the state legislature may be more likely to see an investment in tax relief as worthwhile. This is made evident by a new bill that is currently moving through the Senate Finance Committee in support of CLTs across the state, which would make CLTs automatically tax exempt.[37] This bill was proposed by some Habitat affiliates who support the land trust model alongside existing CLTs across the state.

Appreciation Clause: Maintaining a Share in the Property.

All Habitat affiliates interviewed for this research reported increasing pressure on organizational capacity with increasing costs of development. Habitat's model is charitable by nature, such that subsidies do not return in any way to the organization. To increase the sustainability of the organization's model, some contracts have incorporated an appreciation clause, which binds homeowners to a 50/50 share of a home's appreciation value with Habitat. In some cases, this clause expires with the end of the amortization period for the silent second mortgage. Other affiliates are exploring the potential to establish this clause in perpetuity. The appreciation clause is one way for Habitat to increase its capacity, although it cannot alone compensate for the critical need for homeownership subsidies.

While the appreciation clause reallocates part of the appreciation to Habitat, the property is still sold at market value and absorbed into the market at large. In other words, the traditional Habitat model provides critical wealth-building opportunities to marginalized households but does not prioritize the increased stock of long-term affordable housing. Although some Habitat affiliates are highly supportive of expanded resale restrictions for the sake of long-term affordability and increased organizational capacity, others have expressed disapproval of any limitations to wealth-building for qualifying households. It is important to note that Habitat affiliates who have intensified their resale restrictions have reported that qualifying households are still able to build equity and to eventually purchase market-rate homes with that equity.

Other subsidized affordable homeownership developers have also reported that limited equity owner-occupied housing with long-term resale restrictions still facilitate ample wealth-building opportunities for participating homebuyers. These other developers have demonstrated that it is possible to establish resale-restricting deed covenants without transitioning to a land trust or ground-lease model.

[37] New York State Senate. Senate Bill S8265.

Impacts of Policy and Organizational Strategies

Considering the various possibilities for property tax relief through state policy and options for contractual changes for Habitat affiliates, this section will outline the advantages and weaknesses of each strategy. The matrix below demonstrates the level of impact each strategy would have in meeting each of the six goals identified in the previous chapter.

Green denotes that a strategy has positive impact on a goal. For example, a statewide exemption based on subsidized sale price would have a **positive impact** on affordable monthly costs, because property taxes for qualifying households would be reduced.

Yellow denotes that a strategy has a **positive impact on a goal on the condition that another criterion is in place**. For example, a statewide exemption based on restricted resale value would have positive impact on mortgage access **on the condition** that the exemption's term is tied to the term of a mortgage, such that lenders can be confident in a household's long-term qualification for the exemption. It follows that, if those conditions are in place, the statewide exemption would have a positive impact on Habitat's capacity, because a higher mortgage means a decreased need for subsidy per project.

Grey denotes that a strategy has **no impact** on a goal, or that there is no relationship between the strategy and the goal. For example, any exemption or credit based on subsidized sale price is not reflective of true home value. This is because the home can still be sold at market rate, even though the household is bound to certain terms vis-à-vis Habitat. These relief strategies are targeted to support the subsidized homebuyer rather than to reflect the resale value of the home.

Red denotes that a strategy has a **negative impact** on a goal. For example, any local option exemption will have a negative impact on geographical equity, because this type of relief does not automatically apply across all taxing jurisdictions. When only some taxing jurisdictions opt into an exemption that supports subsidized homeownership, those homeownership opportunities will end up being concentrated in supporting jurisdictions. In the long-term, this can increase income disparities across geographies.

Each part of the matrix answers the question: will **Strategy X** have a positive impact on **Goal Y**?

Figure 11

	STRATEGY	GOAL					
		Affordable Monthly Costs	Access to Mortgage	Habitat Capacity	Long-Term Affordability / Impact of Subsidy	Geographical Equity	Fair taxation to reflect true home value
TAX POLICY STRATEGIES	Local option exemption based on subsidized sale price	YES, for those who qualify, and only in adopting jurisdictions.	YES, but only if the exemption is tied directly to the term of the mortgage such that lenders have commitment that property taxes will remain low, and homeowners will continue to be able to afford monthly escrow amounts.		NO, because the exemption is not tied to the property but instead expires either after certain term or with property transfer.	NO, because local option exemptions only apply to adopting jurisdictions and can increase geographic inequity in the long term.	YES, if restrictions on resale value are in place, and sale price is subsidized in perpetuity. Otherwise, the house can still be sold at market rate, and an exemption on subsidized sale price relates to income, not market value.
	Local option exemption based on restricted resale value	YES, for those who qualify, and only in adopting jurisdictions, on condition that Habitat adopts more restrictive covenants.			YES, but only if resale restrictions are tied to property in perpetuity through a ground lease (CLT model) or in the deed.		YES, because resale restrictions and true potential sale price are considered.
	Statewide (non-local option) exemption or credit based on subsidized sale price	YES, for those who qualify in all jurisdictions across the state. Exemptions are favorable, as they are applied pre-tax and may increase mortgage access.	YES, but only with an exemption, not with a credit. An exemption will only have positive impact if it is tied directly to the term of the mortgage such that lenders have commitment that property taxes will remain low, and homeowners will continue to be able to afford monthly escrow amounts.		NO, because the exemption is not tied to the property but instead expires either after certain term or with property transfer.	YES, because these initiatives apply equally across all geographies in the state.	YES, if restrictions on resale value are in place, and sale price is subsidized in perpetuity. Otherwise, the house can still be sold at market rate, and an exemption on subsidized sale price relates to income, not market value.
	Statewide (non-local option) exemption or credit based on restricted resale value	YES, for those who qualify in all jurisdictions across the state, on condition that Habitat adopts more restrictive covenants. Exemptions are favorable, as they are applied pre-tax and may increase mortgage access.			YES, but only if resale restrictions are tied to property in perpetuity through a ground lease (CLT model) or in the deed.		YES, because resale restrictions and true potential sale price are considered.
	Expanded statewide circuit breaker tax credit	YES, for all households of all income levels regardless of whether they own a subsidized home.	NO, because credits are not considered by lending institutions as factors in calculating a mortgage.		N/A, because credit does not relate to the property, but to the homeowner. That said, because the credit is tied to income, it establishes long-term affordability for all households regardless of where they live and what type of home they own.		Not relevant, because the purpose of a circuit breaker is to establish progressive taxation and income-based affordability rather than to account for market value.

HABITAT ORGANIZATIONAL STRATEGIES	Resale restrictions on Habitat deeds that limit resale value and income levels of future homebuyers	YES, on condition that relief is established to account for resale restrictions.	YES, on condition that long-term, dependable exemption is in place to account for resale restrictions.	YES, on condition that a long-term dependable exemption is in place to account for resale restrictions. This strategy also may increase probability of support from state legislature.	YES, because this ensures long-term affordability of the property regardless of ownership transfer.	NO, because each Habitat affiliate has its own model and contracting structures.	YES, on condition that relief is established to account for resale restrictions.
	Appreciation clause on Habitat contracts	N/A.	N/A.	YES, because it establishes some return on investment for the organization.	N/A.	N/A.	YES, on condition that relief is established to account for this clause. An appreciation clause without tax relief means a household is paying tax on more of the property's value than they own, such that this goal may be negatively impacted by an appreciation clause without appropriate policy efforts.

Complex Challenges Require Complex Solutions

Considering no single strategy is a silver bullet, this section will identify a combination of strategies that can meet all six goals. Acknowledging political complexities and potential barriers to implementation, two alternatives are offered as legitimate solutions in lieu of the political and organizational will or capacity necessary to pursue the highest-impact comprehensive approach.

Approach #1: Comprehensive and Universal

To meet all six goals with highest impact, a comprehensive approach would combine three strategies as follows:

1. **An expanded statewide circuit breaker rebate, which would ensure progressive taxation reflective of income and ability-to-pay for all homeowners statewide**. This would establish affordable monthly costs, long-term affordability, and geographical equity.
2. **A statewide (non-local option) exemption to account for restrictions on resale value for subsidized, affordable, owner-occupied housing.** This would establish affordable monthly costs, increased access to mortgage, increased organizational capacity for Habitat, geographical equity, and fair taxation.
3. **Expanded, long-term resale restrictions written into the deeds of Habitat homes.** This would establish long-term affordability, increase Habitat's capacity, and have indirect positive impact on all other goals.

Approach #2: Expanding Collective Impacts of Homeownership Subsidies

In absence of the political will to establish a more progressive circuit breaker, the next best option would be a combination of a statewide exemption to account for resale restrictions and/or subsidized sale price together with long-term resale restrictions written into the deeds of Habitat homes. The key difference between this approach and the first approach is that it would only benefit owners of subsidized properties rather than all homeowners based on income.

Strategy #3: Supporting Affordability for the Existing Habitat Model

At the very least, Habitat affiliates should consider adopting an appreciation clause. In cases where Habitat affiliates do not adopt long-term resale restrictions, a statewide exemption based on subsidized sale price should be established for a period of time that corresponds to the term of the homebuyer's mortgage (#3a in the matrix below). As long as a Habitat homeowner is paying off their mortgage, their monthly taxes should be reduced. For the sake of ease, a STAR credit could be established instead of a statewide exemption; however, the credit would not be considered in mortgage underwriting, and would therefore have no impact on Habitat capacity (#3b in the matrix). If a statewide initiative is not possible, a local option exemption could be pursued, although its impact would be severely limited due to the need for support from each and every taxing jurisdiction (#3c in the matrix).

Impact Matrix: Assessing Each Approach

The follow matrix assesses the impacts of each comprehensive strategy. Similar to the previous matrix, this matrix answers the question: what impacts does Approach X have on Goal Y?

The impact levels indicated in this matrix are as follows: **positive impact**, **positive impact with some limitation**, **positive impact with significant limitations**, and **no impact**.

Figure 12

APPROACH	GOAL					
	Affordable Monthly Costs	Access to Mortgage	Habitat Capacity	Long-Term Affordability	Geographical Equity	Fair taxation to reflect true home value
#1: Statewide circuit breaker, statewide exemption, and expanded resale restrictions						
#2: Statewide exemption and expanded resale restrictions		If exemption is guaranteed for all resale restricted properties as proposed in State Bill S8265.		Only for habitat properties, not for all taxpayers based on income in perpetuity regardless of where they live.		
#3a: Statewide exemption on subsidized sale price without changes to Habitat model		If exemption is linked to mortgage term.			Only for habitat properties, not for all taxpayers based on income in perpetuity regardless of where they live.	
#3b: Statewide credit based on subsidized sale price without changes to Habitat model						
#3c: Local Option Exemption based on subsidized sale price without changes to Habitat model	Only in jurisdictions that have opted in.	Only in jurisdictions that have opted in, and only if exemption is linked to mortgage term.				

CONCLUSION

There are demonstrated and broad-based benefits for supporting homeownership at local, regional, and state levels. New investments in homeownership through New York State indicate that these benefits are recognized and valued by government and therefore by the public. However, existing New York State Real Property Tax policy undermines the efforts of public and nonprofit initiatives that invest in affordable homeownership. Tax mechanisms increase the barrier to entry into homeownership, and pose numerous challenges to the long-term affordability, with specific negative ramifications on subsidized homeownership and low- to mid-income households.

Existing tax policy has detrimental impacts on many Habitat affiliates' capacity to provide affordable homes to qualifying homebuyers, as increasingly fewer households are able to afford monthly payments of principle, interest, taxes, and insurance due to rising costs of housing and land alongside increasing costs of living in general. Higher taxes also lead to decreased mortgage access for households on limited incomes, which requires additional subsidy per sale, leading to fewer homes provided by Habitat overall. If property tax better reflected a household's ability to pay, organizations like Habitat would have significantly increased capacity to provide additional homes to qualifying homebuyers.

As the leading developer of subsidized affordable homeownership in New York State, the extent of Habitat's capacity to provide affordable homeownership is an indicator of the system's capacity to support affordable homeownership overall. It follows that Habitat's growing struggle to provide homeownership opportunities indicates a severe need to address the shortcomings of tax policy to secure the long-term benefits of public investment and subsidy. Legislators and other officials on the state and local level must understand and reckon with how current tax policies limit homeownership for a growing subset of our communities. To sustain impact of its new investment in homeownership, New York State government must consider how existing tax policy hinders long-term affordability. There are immediate steps toward equitable tax relief that state and local governments can take to remedy the existing shortcomings of property tax policy.

Greater access to and affordability of homeownership can only be established through a combination of solutions locally and statewide. While affordable homeownership cannot be guaranteed by tax policy reform alone, it will never be guaranteed without a significant element of tax policy reform.