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State Comptroller report finds corporation was awarded large property tax reductions that were denied to individual owners of identical condominium units

Comptroller calls for property tax assessments to be "based on numbers, not favoritism"

An Office of the State Comptroller (OSC) investigative report found the tax assessor for the Borough of Edgewater inappropriately reduced the assessed value of more than a hundred condominiums owned by the same wealthy developer, operating without documentation to grant reductions that more than tripled the tax reductions provided to owners of identical units in the same complex.

The assessed values of the developer-owned units later were raised back to market value after the developer sold the units, the report found.

In total, the Edgewater tax assessor granted assessment reductions that handed the developer an estimated $472,000 in disproportionate and inappropriate tax savings, the report found.

OSC's investigation raises broader concerns that municipal tax assessors are able to significantly and unfairly alter tax assessments without detection, State Comptroller Matthew Boxer said.

"If you've ever suspected that not all property tax payers are treated equally, here's your evidence," Boxer said. "The Edgewater tax assessor, operating contrary to standards set by state law, handed improper tax reductions to a wealthy developer that were denied to other residents. In the end, the taxpayers of Edgewater and Bergen County were left to pick up the tab."

Edgewater's tax assessor, Arthur Carlson, was responsible for determining the market value of property in the borough, which is used to calculate property tax payments. In interviews with OSC investigators, Carlson said he granted the assessment reductions that were denied to other owners because the real estate market had weakened and because he believed the developer faced bankruptcy. The developer that received the reduction is a wholly owned subsidiary of a multi-billion-dollar corporation headquartered in Bahrain.

"Even if the corporation was in danger of going bankrupt, which it was not, the financial well-being of a property owner is not a legal basis for a tax assessment reduction," OSC Investigations Division Director John Hoffman said. "If an ordinary property owner tried to get their assessment reduced because they lost their job, it wouldn't happen. This corporation should not have been shown special treatment."

The tax assessment reductions were granted on two separate occasions.

First, in 2008, the tax assessor reached an agreement with the developer's attorney to lower the assessed value of 50 developer-owned condominium units by 20 percent, without any documentation to justify or memorialize the agreement. A private condominium owner from the same complex appealed her property assessment to the county tax board that same year but received no reduction even though her unit originally had been assessed at the same amount as the developer-owned unit.

In 2009, the developer's attorney renegotiated with the assessor for an even more generous reduction, the OSC report found. The 49 unsold developer-owned units that had received a 20 percent reduction in 2008 received an additional 45 percent reduction, bringing the total reduction from their initial assessed value to 56 percent. An additional 79 developer-owned units received tax assessment reductions ranging from 45 to 48 percent.

According to the tax assessor, the 2009 reductions were negotiated in a single telephone call to him from the developer's attorney. The assessor said he performed calculations in his head during the phone call to come up with the reduction, which he said was based on a 25 percent drop in the real estate market and his continued fears that the developer might go bankrupt.

Like the first round of reductions, the second round was granted by the assessor without documentation. According to the OSC report, the assessor simply lowered the assessment of the 128 properties and noted the new assessed value in the annual list of all municipal property values sent to the county tax board.

That same year, 31 private condominium owners at the same complex appealed their property assessment. Not one received an assessment reduction of even half the 45 percent reduction granted to the developer. One of the 31 owners owned a unit that had received a 20 percent reduction the year before when it was still developer-owned, yet his appeal yielded a reduction of only 15 percent.

In 2010, the assessed value of the 43 condominium units that had been sold by the developer was restored to market value through the use of "added assessments," which typically are used only following structural changes that add to a home's value. The 43 condominiums were the only properties sold in Edgewater that year to receive added assessments.

To illustrate the specific tax inequities at the condominium complex, the OSC report looked at three virtually identical units that all were valued at $426,600 in 2008 – one owned by the developer, one by a private owner who filed a tax appeal and one by a private owner who filed no appeal. By 2010, the assessed value of the developer-owned property was drastically reduced to $187,700 while the private owner who filed an appeal saw his property's assessed value reduced only to $362,600. The owner who did not file an appeal saw his assessed property value remain at $426,600. A year later, after a borough-wide property reassessment conducted with an outside vendor, all three properties again were valued the same, at $297,700.

The OSC report makes several recommendations for systemic changes to promote equity in property assessments. For example, it recommends tax assessors file an annual report listing all municipal tax assessments that have been adjusted by 20 percent or more in the past year along with a written justification for each adjustment. Another recommendation suggests the state Division of Taxation develop a methodology to identify properties owned by a single entity that appear under-assessed relative to other, similarly situated properties.

"Our property tax system should be based on numbers, not favoritism," Boxer said.

Boxer thanked the Division of Taxation for their assistance with the investigation.