



Commissioner's Testimony on FY 2016 Preliminary Budget

New York City Council Hearing

March 4, 2015

Good afternoon, Chairwoman Ferreras and members of the City Council Committee on Finance. I am Jacques Jiha, Commissioner of the Department of Finance. I am joined today by Michael Hyman, First Deputy Commissioner and Jeffrey Shear, Deputy Commissioner for Treasury and Payments Services. Thank you for the opportunity to testify before you today on our Fiscal Year 2016 Preliminary Budget.

First, I am glad to report that the City's finances are in good shape. Through February, the City collected \$38 billion, which represents a 7.9-percent increase over the same period last year. Our average daily unrestricted cash balance for the first eight months of the fiscal year was \$9.1 billion and exceeds the average for the same period last year by \$1.6 billion.

When I testified before you last June, I had been at the Department of Finance for less than one month. Since then, I have immersed myself in all aspects of the Agency's business operations, and have gotten to know the many great public servants of our Agency. I have also begun to operationalize the four basic pillars – fairness, transparency, efficiency and exceptional customer service – that have guided our decision-making process in the last nine months.

In my testimony today, I will discuss how these four principles have been applied to existing processes and programs, resulting in significant accomplishments in our first year and setting the foundation to create a more progressive and innovative Agency. I will also explain how they shape my vision for the future.

One of my first priorities upon becoming commissioner was to establish a culture of accountability, reviewing complaints brought to our attention through a lens of fairness. This has significantly impacted how issues are now resolved. We accept responsibility for mistakes we have made and correct them in a timely manner – even refunding money where it is appropriate.

While we have improved how we deal with individual complaints, we also recognize the need to bring a fresh perspective into the review process. Hence, we are creating the Office of the Taxpayer Advocate – what may be the first for a municipality in this country – as an independent office within the Department of Finance to hold us accountable, identify systemic issues, and view concerns

through a different angle than our in-house staff that are focused on managing the daily operations.

Another priority of the Agency is to ensure that policies, procedures and interactions are clear, simple and unambiguous. Transparency, predictability and open dialogue are critical to foster trust and are characteristic of what taxpayers and their representatives should expect from their government.

To that end, we have issued new statements of audit procedures to ensure consistency and clarity of our audit process. We are making it easier for small property owners to file their Real Property Income and Expense Statements by creating a RPIE short form – one that is as simple as the IRS E-Z form. We have reduced penalties for property owners who fail to file or are late in filing their income and expense information, realizing that many of those who fail to file own properties with low assessed values and, hence, have the least ability to pay the high penalties.

Additionally, we have changed our policies so that commercial property owners can set aside replacement reserves in computing a property's net income, similar to what other localities in the nation allow. Property owners are also allowed to deduct market-rate expenses for tenant improvements and lease commissions.

At our business centers, we have streamlined our processes and deployed a retrained staff to enhance customer service. I am pleased to report that the wait time at our centers is down to an average of seven minutes from a high of 25 minutes last April – a 72-percent reduction.

We are deeply committed to our work on behalf of seniors and those with disabilities. For the first time, the Agency is focused on identifying eligible households and neighborhoods with the highest percentage of under-enrollment for the Senior Citizen Rent Increase Exemption and the Disability Rent Increase Exemption programs, also known as SCRIE and DRIE. Last December, we issued a report detailing our findings and outlining our efforts: Rebranding SCRIE and DRIE as the “New York City Rent Freeze Program” and launching a major outreach campaign targeting the 10 neighborhoods with the highest percentage of eligible households. The outreach strategies, combined with the increase in the annual household income threshold from \$29,000 to \$50,000, resulted in 31

percent more SCRIE and DRIE applications this fiscal year over the same period last year.

Our commitment to this program is demonstrated in the scope of our outreach efforts. The number of forums held in 2014 for SCRIE and DRIE rose by 200 percent. We held 77 SCRIE-related events in 48 different Council districts – 30 of them were sponsored by Councilmembers in every borough of the City. In addition, we held two events to train Council staff on the Rent Freeze Programs to help them better assist constituents.

Another area where we have made significant progress is in preventing deed fraud. A home is still the most valuable asset for many people. Unfortunately, there has been a dramatic increase in the number of incidents in which people have lost their properties because of fraudulent deed recording. When this was brought to our attention, we realized that we had to do something. But the law does not give us much wiggle room. By law, the City Register is required to record a deed as long as it is in recordable form, meaning it is certified by a public notary, has a seller's signature, a buyer's signature, and other specific documentation.

We did not, however, let these legal constraints stop us from taking action. We implemented important changes, expanding our quality review, updating our Land Record Management system to flag patterns of fraudulent filings, and inserting the City Sheriff within the review process. We also expanded our Recording Documentation Notification Program to automatically send notices to registered property owners when a deed is recorded against their property. Such tactics have blocked 600 suspected fraudulent transfers and resulted in seven deed fraud-related arrests.

These measures, however, are merely road blocks. We are developing legislation, and will work with the Council and the State Legislature to come up with more robust solutions.

During the past year, the Department of Finance has actively worked to fulfill the mandates of the City Council's 2012 Responsible Banking Act (RBA). In the fall of 2014, we hired Econsult Solutions and two bank analysts to assist the newly established Community Investment Advisory Board (CIAB) with the preparation of the required RBA reports. The eight-member Board held its first meeting on

January 13 and conducted public hearings in each Borough between February 9 and 18. The CIAB plans to release its first biennial banking-needs assessment in April and its first annual report on the 25 NYC Designated Banks in November.

While we are proud of our accomplishments this past year, we have a lot more to do. We are positioning the Agency to adapt to a rapidly changing business environment. As the probing physicist William Pollard once said, “The arrogance of success is to think that what you did yesterday will be sufficient for tomorrow.” I am a student of that philosophy. The success of the Agency depends on our ability and willingness to change and adapt, not only in response to, but also in advance of changes in technology, regulation and consumer preferences.

The Department of Finance is too often constrained by 20th century systems, laws and protocols that have left the Agency trailing the technological changes and operational practices that are transforming the world around us. We must become more nimble in providing services through new modes of delivery and interfaces, and modernize our laws for conducting business in today’s environment. This transformation is a multi-year effort – beginning with leveraging technology to provide our customers with more options to pay their taxes and parking tickets.

This month, as part of a pilot program, our Brooklyn Business Center will accept mobile-wallet payments such as ApplePay, Google Wallet and Softcard. Last December, we released a Request for Information seeking ideas from the technology community and have already received a large number of promising responses. The goal is to allow customers to pay parking tickets, schedule a hearing if they want to challenge a summons, and upload evidence using their mobile devices. We are also making our existing payment websites “mobile-responsive,” and are exploring new technologies that would allow for payments using digital currencies.

We are replacing our over twenty-year-old legacy computer system for business and excise taxes with an integrated tax software solution. The new system is highly configurable, and will enable the Agency to more easily adapt to changes in tax rates or other changes to tax laws. At the same time, we are implementing a new property tax administration system, which is scheduled to go live in 2016.

Technology and process changes are only one part of the equation; we must also change outdated laws to reflect the way business is conducted in the 21st Century. We are on the verge of making dramatic changes to the corporate and banking tax laws. The City's business tax laws date back to the 1940s and reflect an outdated financial regulatory structure. The repeal of the Glass-Steagall Act in 1999 and other changes to the regulatory environment have since led to the cross-ownership of banks and financial services companies.

In 2014, NY State enacted a major business tax reform initiative that merged its tax treatment of banks and other corporations and changed how taxable income is computed for all corporations. Earlier this year, we introduced a proposal to conform City business tax laws to key elements of the new State system in a revenue neutral manner. City-State consistency on the computation of taxes is critical to facilitate joint audits and prevent major administrative burdens for both taxpayers and the City. These tax changes will also incentivize businesses not only to remain in the City, but also to relocate to New York City since allocated income will be determined by where their customers are rather than their employees.

Our corporate business-tax package will also provide relief to about 45,000 small businesses. The proposal will exclude the first \$10,000 of the capital tax base, which will eliminate the tax for more than 90 percent of the capital-base taxpayers. It will tax small non-manufacturers with less than \$1 million in allocated net income at a rate of 6.5 percent, down from 8.885 percent and tax small manufacturers with less than \$10 million of allocated net income at a rate of 4.425 percent, which is a rate reduction of 50 percent.

The current tax package addresses conformity only at the C-corporate tax level. The next phase of reform is to modernize the tax treatment of limited liability companies (LLCs), partnerships and sole proprietorships in a revenue-neutral way. To support our plan, we have created a Task Force on flow-through entity taxation, composed of industry experts and tax practitioners who will advise the Agency on how best to proceed.

As a result of deregulation and advances in technology, the telecommunications industry has changed dramatically. Yet, the City's utility tax is still premised on the taxation of telecommunications services that both originate and terminate in the

City, harking back to when AT&T was a monopoly and almost all phone calls were local. This stands in sharp contrast to the bundled telecommunication packages (such as Internet, cable and telephone services) that are purchased today. We will consider how best to restructure the utility tax regime that affects the telecommunications and energy industries.

Now that I have outlined some of our accomplishments and our plans for the future, I would like to report on some key aspects of current activities. In January, we released the Tentative Assessment Roll, valuing more than 1 million properties with a total market value of \$988 billion, a 9.1-percent increase from last fiscal year. Not reflected in the tentative assessment roll is our proposal to provide relief to properties that have been rebuilt or repaired since damaged by Hurricane Sandy. Last year, working with the State Legislature and the Council, we provided some temporary relief to homeowners. This year, we are proposing a more permanent solution, which will adjust the assessed value (AV) of class 1 and class 2 properties with 10 units or fewer after rebuilding so that the rebuilt properties are in the same position they would have been had the storm not occurred. A physical increase in assessed value above and beyond the pre-Sandy AV can only occur if the homeowner rebuilds a larger house than what existed prior to Sandy. The law will apply to rebuilding reflected in the assessed values for FY 2015-16 and in five subsequent years through 2020-21.

In May, we will proceed with our lien sale for delinquent properties. While 98 percent of this past fiscal year's property tax levy was collected, a small portion of owners did not pay their property taxes on time. We recently sent a statutory 90-day warning notice to 27,233 property owners whose parcels may become part of the lien sale. Based on our experience, only 20 percent are expected to have their liens sold. The rest will either pay their tax bill or enter into a payment plan.

Since 1996, the City has collected \$1.3 billion in delinquent property taxes through the lien sale process. This year's sale is projected to generate approximately \$80 million.

We would prefer property owners to pay their delinquent taxes before enforcement measures are taken. That is why each year we make every effort to reach delinquent property owners before the lien on their property is actually sold. In

addition to putting full-page announcements in many newspapers in different languages, we mail five separate notices to delinquent property owners before selling their lien. We also conduct meetings for property owners throughout the City on the lien sale process. The City only sells liens when owners fail to respond to this notification by making payment or entering into a payment agreement.

Again, our priority is to resolve delinquent tax situations with property owners before liens are sold. My advice to taxpayers: If you have financial difficulties and cannot pay your tax bill, please reach out to us. We will set up a payment plan that allows you to meet your tax obligation.

I hope that my testimony today has fully outlined our broad agenda for the Department of Finance. We have worked very hard to change the culture of the Agency to become customer-centric, requiring us to be more engaged, responsive, transparent and accessible to the public. These changes have made many folks very happy. I hope and expect that to continue. We will disappoint some taxpayers at times, too; that comes with the territory. But our objective is for no taxpayer to ever say that they were not treated fairly or decently.

Again, thank you for the opportunity to testify before you today. At this time, I am happy to take your questions.