

TESTIMONY OF COMMISSIONER MARTHA E. STARK
NEW YORK CITY DEPARTMENT OF FINANCE

BEFORE THE CITY COUNCIL
COMMITTEE ON FINANCE

HEARING ON THE FY2007 PRELIMINARY BUDGET
MARCH 6, 2006

Good morning Chairman Weprin and members of the Committee on Finance. Thank you for inviting me to testify today on the fiscal year 2007 preliminary budget. I will do three things: describe what the Finance Department will do to help balance the budget; highlight some recent things we have worked on in the last couple of months; and end by taking your questions.

Preliminary FY07 Budget Items

Let me start with the budget. In order to help balance the budget in fiscal year 2007, Finance has been asked to identify \$20 million in gap-closing resources. We will exceed this goal by \$10 million while continuing to work to make Finance a world-class customer service organization.

Our Automated City Register Information System, or ACRIS, continues to help us protect the property interests of owners and lenders. At the same time, the still-bustling real estate market has meant that Finance will collect more in City Register fees than expected, even as we anticipate a softening of the real estate market in fiscal year 2007. We estimate that collections of City Register fees will total \$39 million in FY'06, which is \$18.8 million more than assumed in the fiscal year 2006 adopted budget. Beginning in fiscal year 2007, we estimate that an additional \$10 million per year will be collected over a baseline of \$15.7 million assumed in the Adopted Budget.

\$400 Property Tax Rebate

There are two major items in the Mayor's preliminary budget that Finance will be responsible for administering. The first is an extension of the \$400 property tax rebate, which would put more than three quarters of a billion dollars back into the pockets of home, cooperative and condominium owners. The \$400 rebate that you helped pass two years ago has offset most of the impact of the property tax hike, which took effect in January 2003, as well as tax increases resulting from rising assessments that reflect higher property values. In fact, the average owner of a one-, two- and three-family home saw her taxes increase by \$743 in the last three years. At the same time, most of these owners have received two rebates totaling \$800. Although property taxes remain low in New York City compared to the surrounding suburbs, Mayor Bloomberg recognizes that for many homeowners, rising property values have made it more difficult to make ends meet, particularly for people on fixed incomes. For this reason, we urge you to support our effort to extend the \$400 rebate to 2007 through 2009.

Last year I described some of the challenges Finance faced in implementing the rebate, such as identifying individual coop owners as well as proper addresses for corner properties. I'm pleased to report that eligible owners received their checks much more quickly this year because we were dedicated to making sure that people got their checks in the right name at the right address the first time. Last year, almost 5.5 percent of checks were returned and another

4 percent were not cashed. This year, three percent were returned and another two percent have not yet been cashed.

We will continue to reduce the return mail rate until it is non-existent. We owe it to New Yorkers to have the right address and to have their correct names.

Finally, I want to remind the committee that the legal deadline to apply for the next rebate, which we will send in October 2006, is March 15. As you know, the vast majority of owners do not need to do anything to qualify for the next rebate. Owners who received a check already do not need to apply unless they have moved since last October. In that case, they should call 311 and check to see if they have told us that their new home is their primary residence - the legal requirement for rebate qualification. If they have moved and our records do not indicate that their new home is their primary residence, they should complete the STAR application. This is the easiest way to reapply for the rebate.

Cigarette Tax Increase

The other major item in the Mayor's preliminary budget is a proposal to increase the tax on a pack of cigarettes from \$1.50 to \$2.00. The reason for this is simple: Raising taxes on cigarettes is the only proven way to reduce smoking, particularly among young people. In fact, the Department of Health and Mental Hygiene credits the cigarette tax increase of 2002 as the biggest reason why smoking declined by more than 15 percent in the last three years,

with more than 188,000 New Yorkers quitting the habit and more than 60,000 lives saved.

We recognize, of course, that raising the cigarette tax will increase the temptation for tax evasion. We are committed to doing all we can to collect cigarette taxes and level the playing field for legitimate retailers. To that end, we have increased our street operations in partnership with the Police Department and other law enforcement agencies and worked more closely with the Law Department to shut down web sites that do not charge the cigarette tax. Both our tax enforcement agents and deputy sheriffs conduct street sweeps and other actions, targeting the City's main business corridors throughout the five boroughs.

But we need help from Albany and Washington to increase our effectiveness. As part of the Mayor's legislative agenda, we will support a host of bills that would improve enforcement by, among other things, allowing us to offer rewards to people who identify tax evaders; increasing civil penalties for cigarette tax evasion; and providing penalties for illegal cigarette shipments. I urge you to support these bills, which are numbered Assembly 8035, 8032, 8033, and 1128.

I should mention here that Governor Pataki has introduced a bill that would raise cigarette taxes in every county except the five counties of New York City. We're in favor of this increase, because we know that if cigarette prices rise in other counties, particularly those surrounding the City, it will reduce tax evasion here. A recent Health Department study showed that most people who evade the

City's cigarette tax do so by purchasing cigarettes elsewhere in New York State.

We also need help from our Federal partners in Washington. Specifically, we need the U.S. Department of Justice to increase enforcement of the Jenkins Act, which requires any person who sells and ships cigarettes across a state line to individual buyers to report the sale to the buyer's state tobacco tax administrator. According to a General Accounting Office report issued a few years ago, few states have received sales reports, and Internet vendors generally don't comply. The Justice Department should increase penalties on non-compliers and allow us to seek injunctions in Federal court to prevent businesses that violate the act from shipping cigarettes. The City should also receive customer lists along with the State.

Assessment Roll Issues with Small Class 2 Properties

At this budget hearing I usually describe trends and summary data from the tentative assessment roll for the upcoming fiscal year. Today, you have asked me to address the confusion surrounding the assessments of four to 10 unit apartment buildings, coops and condos.

As we were preparing the roll, we noticed a disparity in the assessment ratio of small residential properties with four to 10 units. Some owners were paying tax on a larger percentage of their properties' value than others. This disparity is caused by State-mandated limits on how much a small residential property's

assessment can grow - no more than eight percent in one year and 30 percent over five years. These caps protect owners from large assessment increases. But they have the unintended consequence of favoring older buildings over newly constructed properties. The older a building, the more it benefits from years of assessment caps.

Looking at this disparity in four to 10 unit buildings, we also recognized that State law requires that coops and condos be assessed as if they were rentals. So we proposed something that we thought would address the impact of assessment caps *and* the requirement that we treat coops, condos and rentals the same: we lowered the assessments for all owners in this category whose assessments were higher than 15 percent of our estimated market value.

However, soon after making this change on the tentative assessment roll, we realized that our actions would be subject to legal challenge. Our attempt to address this issue illustrates once again how the complexity and inconsistency of the State property tax laws make it difficult for us to administer the tax in a way that is transparent and fair. This is what we all want, but it is difficult to achieve because the 25-year-old law contains several inconsistent and sometimes conflicting provisions.

SMART

I want to end my remarks by telling you about an exciting long-term project that we've been engaged in for more than a year.

It's called SMART. Through this performance management work, we hope to do nothing less than change the culture of the Finance Department. We want every employee not only to do their job well, but also to achieve results for the people we serve. We want to make the Department of Finance into a world-class customer service organization. In the four years that I have had the pleasure of appearing before this committee, I have stressed transparency and fairness. Whether I was talking about our new property tax bills or the interest rate bill you helped us pass last year, I have emphasized our desire to make it easier for New Yorkers to understand what we do and believe that we are treating them fairly.

What I've learned during my tenure is that when people understand their revenue system, believe that they are being treated fairly, and are given lots of ways to pay, they pay. We want that fact to become a part of the culture at Finance—we want it to be the cornerstone of everything we do.

This is the essence of SMART. For the last year, we have focused on creating meaningful performance measures that we will review on a quarterly basis. We have four basic measures—efficiency, employee engagement, customer satisfaction, and complier treatment. We are measuring ourselves by information that we gather from you and your constituents. To see whether our employees are engaged, we're asking them, not basing it on management's ideas of whether they are engaged.

Heretofore, we've measured our performance by focusing on what we do. We've looked at how many bills we mailed, or how many properties we valued, or how many tax cases we brought to trial. The problem is that those things are not results for the people we serve. For example, taxpayers don't care how many bills we sent; they care if they received their bill, if it was sent to the right address, and if they understood how much they owed. Property owners could care less that we value one million properties a year; they care about understanding how we arrived at their value. Customers don't only care about how long it takes for a call to be answered; they also care about whether they understand the answer to their question.

We have already begun to survey our customers regularly to get their feedback, in person, when they walk into one of our offices, through the mail, and on the web. Basically, we ask them to tell us how strongly they agree or disagree with three statements:

- I understand the rules and the information I received;
- The rules and information were communicated clearly;
and
- I believe I have been treated fairly.

We've received some results already, and will continue to do so every three months.

Our mission is simple: To Help New Yorkers Pay the Correct Amount of Taxes and Fines On Time.

Expressed that way, what we're doing doesn't seem so radical. But it is. The bottom line is that in order to support City services, Finance has to operate efficiently, engage our employees, satisfy our customers, and treat our compliers fairly. If we do that, people will pay voluntarily. They will pay the right amount on time.

Thank you. I'll be happy to take your questions.

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