

Testimony of
Finance Commissioner Jacques Jiha, Ph.D.

To New York City Council
Preliminary 2017 Budget Hearing Testimony

March 1, 2016

Good afternoon Chairwoman Ferreras-Copeland and members of the City Council Committee on Finance. I am Jacques Jiha, Commissioner of the NYC Department of Finance. I am joined today by Michael Hyman, First Deputy Commissioner, and Jeffrey Shear, Deputy Commissioner for Treasury and Payment Services. Thank you for the opportunity to testify before you today on our Fiscal Year 2017 Preliminary Budget.

I am pleased to report that New York City's finances are currently in good shape. Through January, the City collected \$38.0 billion, which is 6 percent more than for the same period last year. The average daily unrestricted cash balance for February was \$11.9 billion, up from \$11.1 billion in February 2015.

There are, however, some economic risks ahead that could affect City tax collections: Stock, bond and commodities markets are flashing warning signs. We've seen stock market turmoil continue in the early months of 2016, with the S&P down 9.5 percent from its peak in May of 2015. The yield on the 30-year U.S. Treasury bond hit a near record low of around 2.6 percent – as investors show their preference for bonds as a safe haven. The oil industry is in a major downturn, with the price of a barrel of oil sinking to its lowest level since 2004. As a result, many debt-burdened oil companies face default on their debt. The combination

of very low interest rates and exposure to energy companies' debt is exerting stress on the banking system. The economic situation is not as severe as in 2008, but it is very worrisome.

Already, we are witnessing some softness in many of the City's taxes, including the personal income tax and the real property transfer tax. For example, wage withholding, which is a key component of the personal income tax, grew by only 2.9 percent in the first seven months of this fiscal year, down from an average growth rate of 6.3 percent in the previous three years, indicating softness in the labor market. The real property transfer tax, which is an indicator of the health of the high-end real estate market, has grown by only 3.7 percent so far this fiscal year, down from an average growth rate of 23.7 percent in the previous three fiscal years. At first glance, the reason seems to be that economic uncertainty, coupled with a strong dollar, have made foreign buyers of high-end condos cautious. Put simply, while the City's finances are fine in the short term, there are signs of an economic slowdown. So, we should approach the FY17 Executive Budget and financial plan with caution. We will continue to closely monitor tax collections, and we will brief the Council as warranted.

While we cannot control the economy, we can do our best to enhance revenue collections by administering our tax laws as transparently as

possible. In addition, we want to make sure that our customers receive all the abatements and exemptions for which they qualify. This again requires improving transparency as well as providing exceptional customer service so that taxpayers understand their rights and obligations – and are able to apply for and receive benefits fairly.

To that end, in the last 22 months, we have implemented new internal operating systems to improve customer access to services and information, reengineered many of our processes to enhance customer experiences and employee productivity, increased transparency to improve compliance, and strengthened our relationships with stakeholders. We have also empowered our staff to rethink the way they work, thereby increasing employee engagement and creating a customer-centric business culture throughout the Agency. Our staff now views what they do in terms of how it impacts customers – the citizens of New York City. These changes are directly impacting the public in very positive ways. Today, I am excited to share with you the results of our work.

In the past year, we have instituted four major initiatives to increase transparency. The first has been establishing and launching the Office of the Taxpayer Advocate (OTA) — an office dedicated to ensuring that taxpayers are treated fairly, that they understand their rights, and that

they have an advocate for cases in dispute. In the last five months, the OTA has handled 164 inquiries, the largest portion of which involve property-tax issues, particularly personal exemptions, abatements, property valuation, and tax payments. In addition to that, the OTA has opened 95 cases, with less than half still under review. They closed 54 cases that generated more than \$132,000 in refunds and more than \$1.7 million in tax abatements granted to New York City taxpayers.

In addition to assisting taxpayers with resolving complaints, the OTA is focused on improving communications between the Department of Finance and our customers, as well as making recommendations to improve and correct internal processes that may adversely impact taxpaying New Yorkers. In October, the Office issued the Taxpayer Bill of Rights – 10 fundamental rights that every New Yorker can (and should) expect as a taxpayer, and the OTA will soon issue a report on 10 systemic problems currently affecting taxpayers, with recommendations on how to resolve them.

The second major initiative in the area of transparency comes in response to strong demand from the business community, including tax practitioners, business owners, and attorneys. Last October, we re-launched the Tax Representatives and Practitioners Program, better known as TaxRAPP, which was held for the first time in six years. Close

to 300 people attended what is now an annual event to exchange ideas and best business practices as well as preview new initiatives.

Thirdly, we launched our new Business Tax System (BTS) e-Services website, which is a major overhaul of the 25-year-old computer system for business taxes. This is the first of three rollouts. The new system will improve efficiency by reducing cycle times, allow us to more quickly process customer transactions, and respond to customer inquiries, while providing access to more information.

Finally, we established a new Business Tax Services unit, a technical information group responding to legal, policy, and procedural questions about the City's business taxes. It was important to provide the business community with this type of support and guidance, particularly as we implement the corporate-tax-reform law that was enacted in the spring of 2015. This new group will also be responsible for explaining our business-tax laws and providing general interpretations of those laws. In its first three months, the office received about 200 requests per month, many inquiring about the implementation phase of corporate-tax reform. This group also develops new forms and designs new pages on our website to communicate the tax-law changes and address frequently asked questions.

Another objective of this year's business agenda is to improve customer service, both through access to our exemption programs and improvement to our business centers.

You are all familiar with our Rent Freeze Program for senior citizens and people with disabilities. Just this year alone we have made many changes to show our commitment to this program and the people it helps. Our specific work in this area includes the following:

- Supporting and implementing the law establishing the ombudspersons for the Senior Citizen Rent Increase Exemption (SCRIE) and Disability Rent Increase Exemption (DRIE) programs. Since their appointment last summer, they have handled roughly 300 cases and inquiries, helping seniors and people with disabilities better navigate the process of applying for and maintaining Rent Freeze benefits. The ombudspersons work closely with the OTA, and will eventually become part of that office, increasing the agency's efficiency in managing challenges and complaints from our customers regarding taxes and tax benefits.
- In the last year and a half, as a result of an increased outreach and a rise of the income limit to \$50,000 from \$29,000, we have enrolled 13,232 new households into the program – 11,289 in SCRIE and

1,943 in DRIE. Citywide, there are 10,822 people receiving the DRIE benefit and 53,804 receiving SCRIE, for a total of 64,626 recipients.

- We have made significant operational and structural changes designed to protect tenants in these programs. The new “Benefit Takeover Rule” makes it easier for qualifying household members to take over SCRIE/DRIE benefits when the head of household dies or permanently leaves the household. The rule also extends the time that remaining household members can apply for benefits from a prior policy of 60 days from the date of death to six months after the date of death or 90 days from a DOF notice of removal of the benefit, whichever is later.
- We adopted rules protecting tenants whose benefits were revoked after failing to timely submit the biennial renewal or other applications. The new rules specify that tenants who failed to timely submit renewal or other applications because of a disability may have their cases referred to the Department EEO Office for review by an ADA coordinator. Where the ADA coordinator determines that a tenant missed a statutory filing deadline as a result of a disability, the ADA coordinator can grant a reasonable amount of additional time as an accommodation to apply for benefits. Once program eligibility is confirmed, the rule also

allows these tenants to re-enter the program at their previously frozen rents.

- To inform our work, we meet regularly with advocates for seniors and people with disabilities and formed a new SCRIE/DRIE taskforce to align our efforts on behalf of the people we serve. Partnering with advocates has helped us to better understand issues affecting tenants in accessing our information and facilities, find productive solutions to their problems, and improve our general procedures.
- Barcodes have been added to our renewal applications and other documents for quicker processing, and we are redesigning key forms for initial, renewal and benefit-takeover applications to make sure they are more informative, easier to understand and easier to read for those with vision impairments by increasing font sizes. Our goal is to make the application forms less complicated and simpler to complete.
- We are partnering with other government agencies to directly obtain data to expedite application processing, without seeking additional documentation from applicants.
- We are currently working on a Rent Freeze Portal, which will offer property owners clear information about the tax credits they are receiving by tenant. It will also give them the ability to file documents electronically for easier submissions and updates to

their accounts. This effort ultimately benefits tenants because the information landlords provide will be used for faster application processing.

While we are dedicated to providing benefits to people who are eligible for them, we are required by law to make sure that the programs are properly administered.

In response to recent audits of our exemptions programs by the City Comptroller's Office, we have been making sure that benefits are granted only to those who are eligible. Last month, the Comptroller released his audit of the Co-op/Condo Abatement program, which identified 1,249 properties that are improperly receiving benefits, representing less than one-half of 1 percent of the universe of 265,000. The Comptroller recommended that the City recoup benefits worth \$10 million for the four-year period between FY12 and FY16.

The challenge of efficiently and fairly administering any exemption program is trying to bring in as many eligible people as possible while excluding those who are not eligible. We share the Comptroller's goal of properly administering these programs and complying with the law. But we also want you to know that enforcement is only feasible if we do renewals as intended in the law. In 2005, the Department of Finance

stopped doing renewals for all of the personal exemption programs, including STAR, the Senior Citizen Homeowner Exemption (SCHE) and the Veterans Exemption. Reinstating a renewal process is the only way to determine who should continue to receive benefits. To give you a sense of the magnitude of this renewal effort, close to 50,000 SCHE and 5,000 DHE recipients will be required to file for renewal every other year. About 110,000 ESTAR recipients will be required to file for renewal every year, as are the 250,000 apartment owners receiving the condo/co-op abatement.

We realize that reinstating renewals will negatively impact some people, and we are working to minimize that impact by applying the eligibility requirement prospectively. We will be working with our community partners, including elected officials, to help get the word out about the upcoming renewal period.

Meeting consumer demands has driven our efforts in other ways. We have made it our mission that a visit to one of our business centers is both a pleasant and efficient experience by making them more modern and functional. As a result, we have reduced the wait time at our business centers by 87 percent to an average of less than 4 minutes from a high of more than 25 minutes in March of 2014 – while providing free WiFi and options for mobile payments, such as Apple Pay and Google

Wallet. We are also reviewing all locations and signage to make sure they accommodate the varying needs of our different constituents. This includes language access and physical accessibility.

I have always maintained that the Department of Finance is uniquely situated to be able to protect citizens in a number of ways. Since I joined the Agency, deed fraud has been a major area of focus. In January, I testified in detail about our extensive efforts to help New York City residents guard against criminals using fraudulent documents to steal their homes. As I indicated in my testimony, we have taken affirmative steps to curtail this activity. We have trained our staff to better detect forged and fraudulent documents and put in place a number of safeguards — the most important of which is the insertion of our Sheriff’s Office in the review process. These initial efforts are making a difference. Since we implemented these changes 18 months ago, 1,133 cases have been referred to the Sheriff’s Office for investigation. Of these cases, 474 have been closed, 134 have become criminal investigations, and 525 are ongoing investigations. We have made 17 arrests for 28 properties that have a total market value of about \$19 million.

We have also responded to the rash of abuse of the drug K2. I am sure you have read about some of the horrible tragedies resulting from the

widespread sale of this dangerous product, which until last summer was regularly sold at grocery stores throughout the City. Our Sheriff's Office has made great progress in its enforcement of the K2 law. Thanks to their efforts and our partnership with the Department of Health and Mental Hygiene, we have seen a huge drop in K2 sales. Last fiscal year, search and seizures found 38,127 packages sold illegally. So far, this year, that number has dramatically dropped to 1,993 packages. The Department of Health and Mental Hygiene has also informed us that K2-related emergency room visits dropped by 73 percent in December of 2015, from a peak of 1,200 K2-related visits in July 2015.

All of these accomplishments have been the result of a shift to a customer-centric culture within the agency. And I would like to take this opportunity to publicly thank my staff for their dedication and hard work.

While we are doing all we can with the tools and resources we have at our disposal, we will also require legislation to accomplish some of our goals. We are supporting the following legislation:

- We are currently working with the New York State Legislature on a bill that would implement national best practices to capture deed fraud offenders and offer better protection to homeowners. We are

also working on an outreach campaign to educate homeowners of this serious crime and to help them protect themselves.

- We introduced legislation for the Rent Freeze Program that would allow tenants back into the program at their old frozen rent if they are disqualified from the program for one lease term and then re-qualify afterward.
- Through our Mayor's Office of Pensions and Investments, we are pushing for the development of a private-sector retirement program for businesses with at least 10 employees that do not already offer a retirement plan. According to the New School's Schwartz Center for Economic and Policy Analysis, 40 percent of near-retirement New York City households between the ages of 55 and 64 have less than \$10,000 saved for retirement. The low savings will probably consign them to poverty or near-poverty in retirement.
- We also need the City Council to pass legislation authorizing the Department of Finance to establish a 90-day amnesty program in Fiscal Year 2017 for judgment violations issued by the Department of Buildings, the Sanitation Department, and other City agencies, and adjudicated by the Environmental Control Board. This will allow us to meet our goal of improving collection of ECB debt.

I hope that my testimony today has demonstrated the many great initiatives and programs we have implemented, as well as some of our

key goals for this year. Thank you again for the opportunity to testify before you today. At this time, I am happy to take your questions.