NYC Finance

Commissioner's Testimony on FY 2016 Executive Budget

New York City Council Hearing

June 9, 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 Executive Budget.

First, I am glad to report that the City's finances remain strong. Through May, revenue collections total $47.6 billion, which represents a 7.4-percent increase over the same period last year. Our average daily unrestricted cash balance for May was $11.1 billion, exceeding the average for the same period last year by $1.9 billion.

When I last testified before you on the Preliminary Budget, I presented my vision for reforming our outdated tax laws as well as creating an Agency that is technologically advanced and innovative in its business practices. I also shared a broad range of our accomplishments over the past year. My testimony today will provide updates on several developing initiatives as well as new achievements since my testimony last February.

It gives me great pleasure to report today that we have successfully achieved the most significant and sweeping changes in decades to the City's dated business-tax code. The new structure merges the City's corporate and banking tax laws to align with similar changes made last year at the State level; modernizes and streamlines the tax code, thereby eliminating burdensome administration, and addresses the most common areas of dispute between taxpayers and the City. Most importantly, the new structure no longer penalizes the creation of value in the City: The new market-sourcing rules will encourage businesses to locate or remain in New York City since taxpayers will now source their business receipts to the location of their customers and be taxed in those jurisdictions, rather than being taxed based on the location of their assets and employees.

The new corporate-tax structure provides tremendous benefits to small businesses and manufacturers in the form of lower tax rates. Manufacturers with less than $10 million in New York City business income will have their tax rate cut in half to 4.4 percent, while corporations with less than $1 million in New York City business income will have their tax rate cut to 6.5 percent from 8.85 percent. These reforms will not only make New York City an attractive destination for small business creation and retention, but they will also promote job growth in the

City. The next phase of business-tax reform will work toward modernizing the tax treatment of flow-through entities such as limited liability companies (LLCs), partnerships and sole proprietorships.

In addition to the rate cut, small business and property owners can now take advantage of our new Real Property Income & Expense (RPIE) short form, which greatly reduces the filing burden for these entities. As of the June 1st filing deadline, about 7,900 businesses have used the short form. We also revised our penalty structure for property owners who fail to file or are late in filing their income and expense information. The penalties are now lower and, as a result, we have saved property owners $1.2 million.

Property owners affected by Sandy also received some good news — the Governor signed into law our Hurricane Sandy legislation, which provides permanent tax relief for about 2,200 property owners. The legislation ensures that owners who rebuilt their homes after the storm are not penalized in the form of increased value due to rebuilding. Their assessed values are the same as they would have been had the storm not occurred. Their assessments will only increase where the homeowner rebuilds a larger house than what existed prior to Sandy. Property owners do not need to take any action to receive the benefit. The Department of Finance sent revised Notices of Property Value to impacted homeowners last month.

These accomplishments speak volumes about the negotiating skills, the depth and breadth of knowledge, and experience of the Department of Finance's staff. I want to take this opportunity to recognize their accomplishments and to thank them for their work on behalf of the City.

In the last twelve (12) months, I have met and heard from many of our stakeholders about how we can better serve the taxpayers of the City of New York. Their thoughtful insights and feedback have informed our thinking as we plan the future of the Agency. We know that property-tax reform is a major concern for property owners. So, we are making it one of our priorities. Although broad improvements will require legislation in Albany, we have identified and prioritized steps for making the system more equitable and more efficient. Chief among them is a major initiative to refine the process of property valuation by improving data collection, econometric models and assumptions that we use to value properties. We are also leveraging tools such as Global Information Systems (GIS), Pictometry, Multiple Listings, and

Google Street View to collect and verify property data and ensure geographical consistency in valuation. Finally, we are encouraging property owners to review their property data online and submit any corrections for review by the Department of Finance through our newly released website for class-one properties. This customer friendly and simple request can be made seamlessly through the same webpage.

Affordable housing is another area of concern for New Yorkers. So, we are aligning the Agency's processes and rules with the Mayor's goal of expanding affordable housing in New York City. We are also drafting legislation with Housing Preservation and Development (HPD) and the Housing Development Corporation (HDC) that will exempt a transfer of real estate from the real property transfer tax if the property will be used for affordable housing.

We have also removed some administrative obstacles for developers seeking to construct affordable housing in condominiums. Our past practice has been to only provide tax lots for individual units in new buildings when construction was completed. Developers have informed us that lenders want to see the lots allocated before they offer financing. To resolve this concern, we are now providing tentative tax lots for individual units upon the submission of floor plans for the proposed condominiums. This new process will expedite financing for developers who provide essential affordable housing in the City while at the same time ensuring that we are valuing the property before, during and after construction.

Another of our major initiatives is to make sure that we are doing everything within our power to protect homeowners from deed fraud and related crimes. Our initial focus was on strengthening the deed-recording process to identify potential fraudulent transfers. Thus far, our efforts have resulted in 115 criminal investigations and 11 arrests, with many more cases still under review. Because we need the State's support to make more of an impact, we introduced a bill in the State Legislature requiring sellers to provide their thumbprint on property-transfer documents when notarized, which would prevent impersonation and help with investigations when deed fraud does occur. The bill also strengthens the vetting of notaries before they receive their commissions, requiring them to provide fingerprints for background checks to reveal any criminal activity. The bill also requires notaries to keep a journal listing actions related to real property transfers, and, in certain cases, record notarized documents with the City Register or Richmond County Clerk. When there is a criminal court proceeding regarding deed fraud, documents would be automatically recorded along with other land documents to clear the title of the property for the legitimate owner.

We believe that our administrative actions and legislative proposal will help to detect and deter deed fraud without compromising the efficiency of the City Register's recording process that is required by law. We want to protect the integrity of the process, but also ensure that recordings are not overly burdensome.

Now that I have outlined our most recent accomplishments and our immediate plan for the future, I would like to report on the status of recent activities:

Last month, after extensive notification and outreach, we sold close to 2,400 outstanding tax liens for delinquent properties. Of the property owners first notified, ninety two percent (92%) avoided the lien sale by either satisfying their tax obligation, entering into a payment plan, or establishing their eligibility for a tax exemption. This year's sale generated $102 million, to be credited to the City's general fund and used for vital New York City programs. Since 1996, New York City has collected $1.4 billion in delinquent property taxes through the lien-sale process.

In May, we also released the FY16 Final Assessment Roll, finalizing values on more than one million properties. The total market value of the Final Roll was $969 billion, declining from the Tentative Roll by nearly two percentage points as a result of exemptions and Tax Commission's remissions. The market value of the Final Roll rose by seven (7) percent from last fiscal year.

We are also making progress on another one of my priorities, which is to expand participation in the exemption programs that help the City's elderly and disabled renters. For the first time, this Agency is systematically focused on increasing participation in the Senior Citizen Rent Increase Exemption and the Disability Rent Increase Exemption Programs, better known as SCRIE and DRIE. Our outreach staff is dedicated to informing seniors and people with disabilities in their communities and registering as many eligible households as we can. Our commitment to this program is demonstrated in the scope of our outreach efforts. This year, we held 105 SCRIE events compared with 32 during the same period last year, an increase of 228 percent. As a result, we have enrolled 6,900 new participants, a 13-percent increase through May.

As much as we are dedicated to increasing enrollment, we are required by law to make sure that the programs are properly administered, and that benefits are only granted to those who are eligible. There are a number of requirements that a tenant must meet in order to qualify for SCRIE and DRIE. For instance, the annual household income must be $50,000 or less, and the tenant must pay more than one-third of their household's total monthly income for rent.

For years, the Department of Finance had been renewing benefits without determining whether more than one-third (1/3) of a household's income was spent on rent. As a result, many tenants' rents were frozen at an amount that is lower than what they should have been. The law requires a check of the one-third test every year; therefore, we are bringing the programs into compliance with the law. We will implement it ***prospectively***.

Our efforts were prompted, in part, by a series of audits that the City Comptroller is conducting of all of the City's tax-exemption and abatement programs. Last April, the City Comptroller released his audit of the Disabled Homeowner Exemption program (DHE), which identifies some individuals improperly receiving benefits (including those collecting benefits from deceased family members).

We estimate that bringing SCRIE into full compliance could potentially result in a reduction of benefits to about 4,800 SCRIE recipients and the revocation of benefits for 600 SCRIE recipients because their legal rent will be less than one-third of their income. For DRIE, we anticipate 200 recipients may have their benefits reduced, and about 50 may lose eligibility altogether.

I want to stress that these are projections; no SCRIE or DRIE recipients have been deemed ineligible for the program at this time. Eligibility determinations will be made on a rolling basis as leases are renewed.

It is my hope that legislation to prevent the potential reduction or loss of benefits will be enacted, and those that face an uncertain future can find some relief. We introduced legislation in Albany that will grandfather in current recipients who fail to meet the one-third test as long as they meet the other requirements, and we will reinstate their benefits ***retroactively***.

SCRIE and DRIE are not the only exemption programs under review to ensure their effective administration. All of the homeowner exemption and abatement programs, including STAR, E-

STAR, the Cooperative Condominium Abatement, Senior Citizen Homeowner Exemption (SCHE) and the Veterans Exemption are also being evaluated. We are developing appropriate compliance procedures and will be seeking legislative fixes as needed.

Thank you for the opportunity to testify today. I hope that my testimony has provided an informative update of the goals and accomplishments of the Department of Finance. We continue to work hard on behalf of the citizens of New York City. By working together with all the stakeholders, we will achieve success on our many initiatives, making the City a great place to live and work. Now, I am happy to answer your questions.