Department of Finance

New York City Council Finance Committee

Testimony from NYC Department of Finance

Commissioner Jacques Jiha, Ph.D.

November 20, 2018

Good morning, Chair Dromm and members of the Finance Committee. I am joined today by Jeffrey Shear, who is the Deputy Commissioner for Treasury and Payment Services at the New York City Department of Finance.

We come before you in support of legislation that will help low-income New Yorkers and seniors who are struggling to pay their property taxes and at risk of losing their homes.

Intro. 1143 fulfills a promise made to the Council in 2017, when we requested that the Council extends the City's tax-lien-sale authority.

At the time, we told the Council that we would design a payment plan that would take into account New Yorkers' ability to pay, and thereby help them stay out of the lien sale.

The legislation before you will do exactly that, with tremendous positive impacts for our most vulnerable property owners.

First, some background on why these new payment agreements are so necessary.

In the last ten years, property values have skyrocketed in New York City as a result of a number of factors, including record employment growth and low interest rates.

While this is good news for people who are selling their properties, it is not such good news for senior citizens and other homeowners living on a fixed income.

These are not people looking to flip their houses and make money. They want to stay in their neighborhoods and continue to contribute to their community. But as neighborhoods gentrify and development accelerates, their property values, and therefore their taxes, are rising—while their incomes remain the same.

As a result, many vulnerable homeowners wind up in the lien sale.

We know that the lien sale is an effective enforcement tool for the city. Voluntary compliance has greatly increased since its inception; property-tax delinquency has declined from an average of 4.4% to just 1.2% today.

That is important because each percentage-point increase in voluntary compliance is worth about $260 million more in property-tax collection. So, the 3.2 percentage-point difference results annually in $830 million of additional revenue to fund critical City services.

But while the lien sale is effective, we want to do what we can to help seniors, single mothers, persons with disabilities, and others avoid becoming delinquent on their real property tax bills.

That's why we have significantly increased our outreach efforts to keep property owners out of the lien sale, whether by enrolling them in payment plans or helping them apply for exemptions that can reduce their taxes and remove their properties from the lien sale.

Over the past three years, we have averaged a total of about 3,900 liens sold, compared to an average of about 5,000 in the preceding three years—a decrease of 22%.

As you know, under existing law, the Department of Finance offers a payment agreement that allows property owners who are behind on their property taxes to put as little as zero down and make payments of their delinquent taxes for a term of up to ten years. However, the agreements require that owners pay all of their newly incurred charges as they come due each quarter, which is difficult for many property owners.

For example, the median FY17 tax bill for a homeowner was $4,447. While a homeowner may only have to pay a couple of hundred dollars each quarter for the delinquent taxes, he or she also must pay an additional $1,100 per quarter to keep current. For some property owners these requirements are hard to meet, which leads some to default on the agreements.

Once an owner defaults on a payment-plan agreement, he or she is ineligible for a new agreement for five years, unless there are extenuating circumstances, such as a job loss or a death in the family—or, unless the owner somehow manages to pay 20% of the total amount owed.

Given the high default rate, a growing number of property owners are claiming extenuating circumstances for their defaulted agreement so that they may receive another agreement and keep their property out of the tax-lien sale.

Basically, it all adds up to this: New York City's homeowners need relief, and this legislation will provide assistance to taxpayers who are experiencing hardship in paying their property taxes.

The legislation creates three new payment plans that take into account homeowners' income and ability to pay. The plans will be available to condominium and class-one homeowners and seniors who earn $50,000 or less.

The new payment plans will allow homeowners not only to extend the repayment of their delinquent taxes, but to defer a portion of their current taxes until the home is sold or transferred to a new owner, at which point the City will collect, with interest.

In essence, the unpaid property taxes will be deferred, but not forgiven. The deferral amount is limited to 25% of the owner's equity for class-one properties, and 50% of equity for condominiums. Interest on the unpaid property taxes will continue to accrue at 7%, as established by current local law.

Here is a summary of the three payment plans in the new legislation:

A. The Low-Income Senior Plan will allow seniors to age in their homes. In order to qualify, class-one and condo owners must be 65 or older, earn less than $50,000, and reside in the property for at least one year. The taxpayer can choose to make monthly or quarterly payments of 0% (full deferral), 25%, 50%, or 75% of back and prospective taxes.

B. The Fixed-Length Income-Based Plan is for homeowners who face short-term financial difficulties. They must earn less than $50,000 and have resided at the property for at least one year. The homeowner can make monthly or quarterly payments of 2%, 4%, 6%, or 8% of their income to pay back taxes plus one year's worth of current charges.

C. The Extenuating Circumstances Income-Based Plan is for homeowners who meet the Department of Finance's legal definition of "extenuating circumstances." This includes the death or serious illness of the owner or an immediate family member, loss of income due to unemployment, or enrollment in the Department of Environmental Protection's water debt assistance program. Applicants must earn less than $50,000 and have resided at the property for at least one year. They can choose to pay 2%, 4%, 6%, or 8% of their income to pay back taxes and current charges for as long as the extenuating circumstances persist. The tax deferral is capped at 25% of their equity in the property.

We expect that the new plans will be a more realistic option for people who are house-rich, but cash poor, and have trouble paying their property taxes. We will market them aggressively by including information in our notices and bills. We will seek traditional and social media publicity and will host a series of outreach events throughout all five boroughs, including joint sessions with Council Members and other elected officials.

It is important to note that these payment agreements will not affect City revenues. Since the City accounts on an accrual basis, only cash flow will be impacted. Based on the experiences of other localities with similar programs, we estimate that the total amount of property taxes that will be deferred over a ten-year period will be approximately $14 million. We will collect the deferred property taxes via property closings or, as a last resort, via the tax-lien sale process, if the homeowner defaults on the agreement. Furthermore, the City's interest is protected by limiting the deferral amounts to 25% of the owner's equity.

In summary, this legislation is a win for everyone. The City will continue to collect the property taxes that fund its core services, while New Yorkers with limited means will be able to stay in the homes and the neighborhoods that they love.

We thank the Council for all you have done to help us reduce the number of homeowners in the lien sale and reach the people and communities who need our help. Today, we ask you to join us in support of Intro 1143-2018.

Thank you. I will be happy to take any questions.