

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

**BEFORE THE CITY COUNCIL
COMMITTEE ON FINANCE**

**HEARING ON THE FY2006 PRELIMINARY BUDGET
MARCH 3, 2005**

Good morning Chairman Weprin and honorable members of the Committee on Finance. Thank you for inviting me to testify today on the fiscal year 2006 preliminary budget. As in years past, I will describe how the preliminary budget will affect the Finance Department, highlight some recent initiatives, and end by taking your questions.

Preliminary FY06 Budget Items

Let me start with the budget. As part of Mayor Bloomberg's continued push for efficiency, the Finance Department was asked to identify \$17.1 million in gap-closing resources. We will exceed this goal by \$4 million while continuing to provide improved service to New Yorkers.

Thanks to continued growth in the real estate market and the efficiency of our award-winning Automated City Register Information System, or ACRIS, we expect to collect \$15.3 million more in City Register fees in the current fiscal year than was projected in the budget adopted last June.

Finance also expects to increase audit revenue collections by \$5 million between now and the end of fiscal year 2006 by targeting businesses that handle a lot of cash transactions. We also expect to collect an additional \$750,000 in personal income tax revenues through the audits of those owners of S-corporations and unincorporated businesses who under-report business earnings that flow to their personal income.

In an initiative aimed at Bed & Breakfast establishments and other small hotels, Finance expects to generate \$150,000 in the current fiscal year and \$100,000 in fiscal year 2006 in additional hotel tax revenue. Finance has made a recent push to register Bed & Breakfast establishments and other small hotels by allowing operators to settle open tax periods in return for registering with Finance and collecting taxes owed on a prospective basis. City policy toward these taxpayers has not been consistent over the years. This is an effort to make the operators aware of their legal obligations without subjecting them to heavy burdens for prior periods. The additional fiscal year 2005 revenue of \$150,000 includes one-time payments related to the settlement of liabilities for prior periods. Finance expects dozens of small operators to come forward before the settlement period ends on March 20.

A final word about the budget: You had asked me to comment on the current \$9.6 million requirement and the \$6 million in new needs that we project for fiscal year 2006 and beyond. NYC Serv is Finance's computer system that supports three of our major activities – payments, parking collections, and adjudications. The technology has proven to be an extremely valuable collection tool and a real plus for customers. In 2004, through the use of NYC Serv, Finance was able to accept 2.4 million payments through the Internet, over the phone and in person, for a total of \$6.8 billion in collections. In addition, our staff used NYC Serv to create more than 35,000 electronic case folders to keep track of parking violation

payments, and we were able to track more than 2,700 towed cars each week.

Clearly, this is a system that has matured. Though there is always room for improvement, there is very little developmental work remaining. The ongoing maintenance costs therefore must be paid for from the operating budget. The \$9.6 million in FY'05 and \$6 million in the out years for NYC Serv represents OMB's acknowledgement that the costs going forward are properly categorized as operating rather than capital expenses.

\$400 Property Tax Rebate

Let me turn to the implementation of the \$400 property tax rebate. As of March 1, the Finance Department had mailed 680,000 rebate checks to eligible owners of homes, condominiums and cooperative apartments. And we've signed up more than 75,000 additional homeowners for the School Tax Relief, or STAR, exemption, since last June, saving them an average of \$225 to \$375 a year on top of the rebate.

I'm extremely proud of this effort, because the Finance Department has had to overcome significant operational challenges, many of which you may have come to see through the calls you have received from your constituents.

For example, it has been a challenge for us to send rebate checks to co-op owners - something we have never had to do. We have always mailed bills and notices to co-op boards, not individual apartment owners. In the process of doing this for the first time, we

have had to perform elaborate data matches to determine the unit owners' names. Also, we have discovered that many apartment buildings, particularly in Manhattan, have legal addresses that are in fact different from the mailing address. Our system was set up to mail to the legal address, which is technically correct but caused some checks to get returned to us.

Another challenge for Finance has been the verification of ownership information for properties on Staten Island. As you know, the Finance Department does not maintain property records for Staten Islanders on our Automated City Register Information System as it does for property owners in the other four boroughs. The Richmond County Clerk maintains those records. As a result, Finance sometimes does not have up-to-date, easily accessible information about deeds, mortgages and other property documents from Staten Island. We are working on a way to better integrate information about Staten Island properties into our databases, but including those properties in ACRIS would be the best solution. We are hopeful that Staten Island will adopt ACRIS, and we have in fact planned for its inclusion.

I am gratified that Finance has done such a good job providing homeowners with well-deserved relief after the sacrifices they made in 2002. At the same time, I am pleased that the rebate has given the Finance Department a boost in our effort to clean up our property databases, which are vast, old and complex. Improving the quality of our owner name and address files could be the most

important legacy of the rebate program and my tenure as Finance Commissioner.

Early in the rebate program, a number of homeowners came to us to update their deeds. For many owners, the prospect of receiving a check in their name was the incentive they needed to remove a deceased spouse from the deed or even record a deed in the first place. Before the rebate, some owners didn't mind if some of their records were out-of-date or had the wrong owner name. They paid their bills and it didn't much matter. However, getting a check in that incorrect name spurred them to action. Also, never before has Finance staff understood the importance of ensuring that the data in all of our systems was accurate. It's not enough to correct the file used to generate bills, if our deed records were incorrect. It's not enough to correct our deed records, if that didn't automatically update our system that generates bills.

Building a more rational, unified, slimmed-down database has been a priority since I took this job a little more than three years ago, and the rebate has helped. It will take more time to get our databases where they ultimately need to be, but I look forward to making it happen.

Before moving on, I should remind the committee that the legal deadline to apply for the next round of rebate checks is March 15. As you know, the vast majority of owners do not need to do anything at all to qualify for the next rebate. Owners who received a check already do not need to apply unless they have moved since October 15, 2004. 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.

Owners who did not already receive a rebate check also should call 311 to see if they need to apply.

If you receive calls from your constituents about the next rebate, please do not simply encourage them to apply for STAR, because we have received literally tens of thousands of duplicate STAR applications in the last few months. Instead, please encourage them to check our records first to see if they need to apply. As I said, the vast majority of owners will not have to apply. Most need only to stay current on their taxes and wait until Finance mails the second round of rebate checks around October 1. By law, we must determine eligibility by seeing which property owners are delinquent in their taxes as of June 30, 2005.

One final word on the rebate -- Owners who still did not receive a first rebate check but believe that they were eligible last October 15 should not despair. We will continue to process checks from Round One of the rebate until every eligible owner receives a check, no matter how long it takes us. We encourage owners still waiting for their checks to call 311; they may need to provide an updated address or other information. As we update our records, checks will continue to go out.

Statement of Account

Next I'd like to update you on another project that I am extremely proud of - the Statement of Account, which we launched in December.

The Statement of Account has completely changed - and simplified - the way we bill our customers.

Modeled after a credit card bill, it shows you what property taxes you paid recently, what you owe now, and what you can pay to satisfy future charges. It tells you what credits have been applied to your account, and any refunds you may be entitled to. And it details how we arrived at your bill.

Now, I can hear you all saying to yourselves, what's so revolutionary about that? Isn't that what bills are supposed to do? That IS what bills are supposed to do, but that's not exactly what OUR bills did in the past.

Before the Statement of Account, we would send you a bill listing the current charges but without the credits netted out. A month later, after you paid this bill, we would send you a delinquency notice - for a charge we didn't tell you about on the first bill! Then, a month after that, in an attempt to get you really confused, we would send you a third bill showing a sidewalk repair charge.

Those days are over. We've gotten rid of delinquency notices, so-called "balance bills" that we used to send on behalf of other agencies, and multiple coupons, and we've replaced them all with

quarterly statements that we send to all owners, even if they pay their mortgage through a bank, so they can keep up with their accounts.

Next week we will mail our second quarterly statement, which will include information about the last payments received; clearer instructions on the minimum amount due versus the optional amount to pay against future charges, at a discount; and details about exemptions, abatements and how we calculated the tax due.

The feedback we've received has been overwhelmingly positive, and I look forward to making further improvements for the June statement, which will of course include the annual real estate tax amount for fiscal year 2006.

Tentative Assessment Roll

Let me turn to the fiscal year 2006 tentative assessment roll, which reflects the City's strong, five-borough recovery since 9/11 as well as Finance's continuing efforts to make the property tax fairer and more transparent.

The overall market value of property increased by 14 percent, to \$616 billion. That's not as large an increase as we saw last year, but it shows continued, stabilizing growth in the real estate market. Obviously, that's great news for New York City, because it means more people want to live and work here.

At the same time, we recognize that the property tax system is far from perfect. In my three years as commissioner, we have pushed to create more equity in the system so people have more

confidence in it. To address a fundamental inequity for thousands of homeowners, this year we lowered the assessment ratio from eight percent to six percent. We did this because we found that many owners of newly constructed properties, as well as owners in neighborhoods where values had not increased as rapidly as the citywide average, were being assessed at a higher rate than owners in similarly valued homes. Since Finance is legally required to assess all property at a uniform assessment ratio, we lowered their ratio to compensate for those factors. This reduced the assessed value for about 30,000 homeowners by 25 percent, and prevented an assessment increase for about 60,000 additional homeowners.

We did not consider the revenue implications when making this change, because first and foremost Finance's job is to accurately value property and assess property consistent with the law. This change will have a minor impact on the overall tax levy and little to no impact on the class shares. We have no plans to alter the assessment ratio for any of the other three property tax classes.

In our continuing effort to make the property tax more transparent, we provided far more detail to all homeowners about the data we used to value their properties, so they could see exactly how we arrived at their values.

On the commercial side, Finance achieved fairer values for rental buildings by treating regulated and unregulated buildings differently. And we updated a form that makes it easier for owners

to correct Finance's classification, gross income, gross square footage and gross expense information.

Let me say a word or two about recent press stories concerning rising property taxes in Harlem and other communities where residents have renovated their homes. Our job at Finance is to reflect market values and assess properties in accordance with the State property tax law. When a property changes from Class 1 to Class 2a, the assessment ratio changes from 6 to 45 percent. In addition, the assessment cap changes from 6 to 8 percent a year and no more than 30 percent over five years instead of 20 percent. About 120 properties converted from 3-family homes to 4-family homes this year. The most important provision that affected these owners is that all increases attributable to renovation take effect right away and are not phased-in like market value increases. In fact, in every case we've heard about, the owner did not dispute Finance's market value estimate. One example is particularly noteworthy. Finance estimated a Harlem property's market value as \$550,000 and the new owners purchased the property just three months ago for \$585,000 – by all appraisal standards, our estimate was on the money.

Notwithstanding these facts, we recognize the unfairness this presents to the affected owners. Within our authority, we're trying to see if there's anything we can do to mitigate the impact. The Property team is working on a plan that would value the renovation at the Class 1 ratio (6 percent) and then transfer the property to Class 2a.

Let me give you an example of how this would work. If the owner of a 3-family home made \$300,000 worth of renovations and remained in Class 1, Finance would add \$18,000 to that property's assessed value, which would result in a \$2,716 increase in taxes, assuming rates stayed the same. However, if that same property changed to Class 2a, Finance would have to add \$135,000 to that property's assessed value, which would result in an additional \$16,492 in taxes.

Our proposed administrative fix would basically add the renovation money before the tax class change. For the following years, these properties would be subject to the same tax class assessed value increase rules as the rest of their tax class.

This proposed change would affect about 120 properties. But we know that there are other properties that stayed within Class 2 that have also seen huge increases in assessed value. We are working on a plan to mitigate the impact for some of those properties as well.

I will discuss these proposals at a meeting with homeowners in Harlem tonight, and expect to implement these modifications before we finalize the assessment roll in May. But I also know that these changes do not address the underlying issues in the State property tax law.

You had asked me to describe how Finance values small rental, coop and condo properties. For class 2A properties, which have 4 to 5 units, we valued using the comparative sales approach, which took into account sales of properties, arrayed them in terms

of location, age, and condition, developed an average sales price per square foot and applied it to the unsold properties based on their similarity to those that sold.

For tax class 2A and 2B properties - those with 6 to 10 units - we used the income approach. This incorporates gross income and a multiplier that expresses the relationship between sales price and income. Gross income was estimated based on Tax Commission income and expense filings of 6 - 10 unit properties, and applied uniformly to all properties that were comparable in location, size, and number of units. Gross income multipliers ranged between 3 and 11, depending on the location within New York City.

New construction and alteration of 4 - 10 unit properties are initially calculated using the cost approach to value (in this case, the cost of constructing the property using today's materials), but are then reconciled with a second approach to value as recommended by the International Association of Assessing offices, which in the case of 4 and 5 unit properties is the sales approach, and in 6 - 10 unit properties is the income approach. Through reconciliation with another approach to value, we can ensure that our values are accurate.

Parking Tickets

Let me say a word about everybody's favorite subject - parking tickets. Actually, I have good news for individual drivers and companies that depend on deliveries to support their businesses.

I often say that for many New Yorkers, getting and fighting a parking ticket is the only way they come into contact with their government. That's why it is so important to make this contact with our customers as painless as possible. We've taken two new steps in this direction.

For individuals, we've launched a pilot program in Queens and Manhattan that has cut wait times dramatically by allowing drivers with certain kinds of tickets to pay a reduced fine in lieu of a hearing. Customers are still given the option of fighting their ticket before a judge, but we've found that most prefer to pay a reduced fine and finish their business as quickly as possible. This makes sense, since the vast majority of people with tickets actually admit they committed the offense but offer some acceptable justifications for why they did. Although the pilot has only been up and running for a few weeks, we've gotten great feedback from customers and even the press. We've been able to cut down on overtime and shift resources to other places, and, most importantly, we've been able to reduce the average wait time in Queens from 2 hours to about 30 minutes. We're meeting our goal of getting people in and out on their lunch hour. On Valentine's Day we expanded this pilot to Manhattan, and we plan to go live in the Bronx next week and in Brooklyn and Staten Island by month's end.

For companies that deliver goods and services to New Yorkers, we created a pilot program that allows them to pay stipulated fines for parking tickets in exchange for waiving all rights to a hearing. By law, these companies are allowed to violate some parking rules

to make expeditious deliveries. What our program does is recognize which offenses are allowed, dismiss those tickets and then reduce tickets for other violations that are consistent with how judges decided these cases. Both large and small companies have joined this program, eliminating the need to adjudicate 37 percent or almost 500,000 commercial summonses.

This is an exciting project that has served a dual purpose – it makes it easier for companies to do business in the City, and it reduces hearing wait times for individual customers.

Cigarette Tax Enforcement

Let me end my testimony by discussing cigarette tax enforcement. As you know, the City loses millions of dollars each year because of cigarette tax evasion, and the bulk of this lost revenue - about \$75 million a year - is attributable to Internet sales. As a tax collector, I take very seriously my obligation to collect tax revenue owed to New Yorkers, as well as my obligation to level the playing field for small businesses, including bodegas and other retailers that play by the rules.

In January, we began sending tax bills to people who purchased untaxed cigarettes on the Internet and failed to pay the City's \$1.50 per pack tax. We were able to do this after obtaining customer lists from web companies that have been sued, both by the Federal and State governments and the Law Department, for failing to comply with the law. We are pleased with the response so far: Of the 3,700 people we billed, more than 2,000 have made

payments totaling more than \$600,000, out of about \$1.2 million owed. Just as important, we believe that we have created a deterrent, both with the bills and a small advertising campaign. Smokers and web retailers are on notice that there's no such thing as a tax-free cigarette.

Mailing bills is the start of a new and ongoing phase in our effort to enforce the cigarette tax, working closely with the Law Department and other City agencies. As we move forward, we also continue to seek help on the Federal side with enforcement of the Jenkins Act, which is the federal law that requires web cigarette sellers to provide customer lists to taxing authorities.

Thank you for your time and attention. Let me stop here and answer your questions.

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