



City Council Executive Budget Hearing

New York City Department of Finance

Testimony of Jacques Jiha, Ph.D., Commissioner

May 24, 2016

Good afternoon, Chairwoman Ferreras-Copeland 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 Payment Services. Thank you for the opportunity to testify before you today on our Fiscal Year 2017 Executive Budget.

Before I provide details on our achievements and the road ahead, I would like to give you a view of the City's finances. Through April, the City collected \$48 billion in tax revenue, representing a 5.1-percent increase from the same period last year. The City's average daily unrestricted cash balance for the first 10 months of the 2016 fiscal year is \$10.9 billion, which exceeds the average for the same period last year by \$1.3 billion. Though at first glance, the City's finances are in good shape, there are some headwinds ahead, including softness in personal-income, property-transfer and hotel taxes. We will continue to monitor these indicators and update the Council with any new developments.

I have been Commissioner of the Department of Finance for two years now. This is a great institution, but there are areas that need improvement. At this juncture, I am happy to report that work on those improvements is well underway and we have made significant progress toward my initial goal of creating a more customer-centric Agency.

In my testimony today, I will share how our reforms and initiatives are helping to make New York City more competitive, both as a place to do business and in which to live.

During the past two years, we have enforced the City's tax and revenue laws with our guiding principles of fairness, efficiency, transparency and excellent customer

service at the heart of everything we do. We believe that implementing our work with integrity has enhanced the Agency's role as an integral contributor to New York City's business climate and to the City's overall economic environment.

Two years ago, we developed an ambitious strategic plan that addressed not only the City's macroeconomic environment, but also focused on the Agency's policies and procedures. This includes business-tax reform, property-tax initiatives, the establishment of the independent Office of the Taxpayer Advocate, process re-engineering, technology upgrades, and policy changes to the programs that we administer.

We modernized the City's outdated business-tax code to help attract and retain businesses. With our new corporate-tax structure, companies that have employees and assets located in New York City are no longer penalized because taxable income is now based on the location of their customers, rather than the location of their employees and assets. The new corporate-tax structure also provides the tremendous benefit of reducing the tax rates of small businesses and manufacturers by as much as 50 percent. These reforms are making New York City an attractive environment for small businesses, and are promoting job growth in the City. In fact, last year the City saw its first significant increase in manufacturing jobs in 25 years.

In support of the corporate tax-reform law, we established a new Business Tax Services unit to respond to legal, policy and procedural questions about the City's business taxes and provide support and guidance to the business community. Building on these accomplishments, we began phase II of the rollout of our new Business Tax System (BTS) e-Services website, which continues the overhaul of our 25-year-old computer system for business taxes. The new system will improve

efficiency by allowing us to more quickly process customer transactions and respond to customer inquiries.

Improving our property-tax system is no less important than addressing business-tax issues. We have been working simultaneously to increase fairness and transparency for property owners, and to reduce inefficiencies in our property-tax system. While the changes we have made thus far are not as publicly visible as the business-tax reform, they will produce positive results for New York City property owners.

Among these initiatives, we have accomplished the following:

- We are refining the process of property valuation by improving data collection and the econometric models used to value properties, and by leveraging technology and tools such as global information systems and aerial photography to collect and verify property data and to ensure geographical consistency in valuing properties.
- We combined one of the most complicated methods of property assessment into easy-to-use online property maps for Class 1 and Class 2 properties. These maps, which are available on our website, provide property data and comparable sales data to the public for all of New York City's residential one-, two- and three-family homes, residential condos, rental apartment buildings with 11 or more units, and all cooperative apartment buildings.
- We created a new Real Property Income and Expense (RPIE) short form that greatly reduces filing and compliance burdens.

Additionally, we are working on a property-tax calculator, which will be available on our website, to help homeowners understand if they have a case for challenging

their property values with the NYC Tax Commission and the Department of Finance. We know that the property-tax system is not intuitive. The NYC Tax Commission will only reduce property values for Class 1 homes if the owner can prove that the market value on which their tax assessment is based is lower than a value derived from the tax law, which is confusing because the tax-law value frequently is not the fair market value of a home. This calculator will show homeowners what change to fair market value could trigger a reduction in their taxable value. This will in turn increase transparency and help property owners better understand our property-assessment process.

We're listening to taxpayers and are becoming more responsive. For example, this year we lowered the market value on more properties than the year before in response to requests for review by property owners. Of 3,642 requests for review, we lowered the market value of 1,033 properties, up about 45 percent from the previous year.

To improve our assessment process, we are exploring the use of streetscape photography that would allow us to collect current, high-quality photos of every property in New York City. With this software, we would be able to determine the progress of construction or renovations at properties with building permits as well as the quality of that construction.

In addition, we are conducting focus groups with New York City property owners to revamp the Notice of Property Value that we mail to more than 1 million property owners every year. We want to make sure we are communicating clearly with homeowners and incorporating their feedback into our efforts to keep them informed about their property value and how it is calculated.

We have recently proposed a rule to clarify how we will administratively correct property assessments for clerical errors or errors in description, and to expand the categories of errors that the Agency may correct. Corrections would apply going forward, but could also go back up to six years from the date an application for correction is submitted. This rule also outlines the specific types of errors that are correctible. Any corrections made under the proposed rule would be separate and apart from appeals to the New York City Tax Commission.

Establishing the Office of the Taxpayer Advocate has also been a key part of our efforts to improve how we serve New York City residents. From October 19, 2015, the date the office opened for operation, through May 18, 2016, the Taxpayer Advocate successfully advocated for \$188,000 in refunds and \$2.2 million in abatements.

The major initiatives outlined so far will continue to significantly improve the City's economic environment well into the future.

Now, I'll turn to our efforts to improve the operations of the Department of Finance. Throughout the Agency, we have begun many initiatives to improve our performance, redefine the customer experience and re-engineer our processes. Many of the Agency's core functional processes are not documented and are embedded with inefficiencies that result in errors, inconsistencies, long processing times and dissatisfied customers. In addition, like many government and private entities, we are facing an impending wave of retirements over the next five years that could potentially result in the loss of institutional knowledge. To address these issues, we are mapping the critical processes of our core business functions with the goals of documenting and understanding what we do, improving how we do it and standardizing the way we do it.

Let me give you some examples of the work we have been doing in areas that directly impact the public, starting with the City Register's Office.

- We are exploring the best use of optical character recognition technology to upgrade our widely recognized Automated City Register Information System (ACRIS). This would improve the accuracy of data while reducing the need for the public and title companies to manually enter data. This would also enhance searches by the public and by our staff to identify potential deed fraud.
- We are continuing to reach out to title companies, banks and attorneys about the "Go Green" initiative to increase the percentage of electronically submitted property-related documents. This will save the Agency time and money by eliminating the possibility of document loss, reducing the cost of returning documents and decreasing the time our employees spend scanning documents.

We are also working to make our exemptions programs more accessible and transparent. Following a review of the SCRIE and DRIE programs, we found that 42 percent of SCRIE applications and 76 percent of DRIE applications we receive are incomplete. This is an inefficient use of staff resources. We identified the main reasons as: unclear, hard-to-understand applications; tenants' lack of income documentation; and their inability to get a copy of their lease from their landlord. To address these issues, we started with redesigning the applications. We have eliminated superfluous information, increased the font size to make the applications easier to read, provided more space for responses, and reduced the documentation burden on applicants. To reduce the paperwork required for enrollment, we engaged the Social Security Administration, the Internal Revenue Service and other governmental agencies to obtain automated information feeds for

income data. This will allow us to quickly validate income and reduce the burden on applicants to provide documents that often are not easily found or obtained. We are also launching an online tool called the Landlord Express Access Portal, which will enable landlords to upload leases and file documents electronically, making paperwork submission and updating accounts much easier. These efforts will result in faster application processing, fewer incomplete applications and help us to enroll as many eligible people in the programs as possible.

To support our SCRIE and DRIE efforts, we have begun an aggressive outreach program in the 10 neighborhoods with the highest under-enrollment. We have taken a proactive role by creating a mobile unit to travel the five boroughs to help residents with the application process. We have established partnerships with senior and community centers; at their sites, our staff will process applications right then and there. We are closely tracking the number of applications received at these events, as well as the outcome of those applications to monitor the success of these efforts. We piloted this approach in Chinatown last year, with great success. With that event as the model, we launched “Flushing Senior Housing Month” earlier this month with events in five locations in Flushing and will replicate this effort in other areas of the City.

As you know, the Agency has been working with the Council on a Tax Lien Sale Task Force. Our priority as an Agency is to help homeowners resolve their debt before their lien is sold, and we are making every effort to do so. The lien sale is a last-resort collection tool. Months before the lien is sold, we send the first of five separate notices urging delinquent property owners to take action. We also conduct dozens of outreach sessions in local Council Districts. Our efforts are beginning to bear fruit. In 2015, we sold liens on less than 16 percent of the properties that received our 90-day warning notice, down from 21 percent in 2014. This year we

implemented changes to improve our outreach and responsiveness. For example, we took a customer survey to better understand the reasons property owners were not paying their taxes on time. We also postponed enforcement action until the next lien sale for not-for-profit properties that failed to obtain exemptions when it appeared that the title and the use of the property had not recently changed. We look forward to working with the Council to making further improvements in this area.

We also have made significant progress in our collection of debt adjudicated by the Environmental Control Board and referred to the Department of Finance. As a result of our proactive outreach efforts, debt-segmentation analysis and debt-rotation program, we increased collections by 31 percent in the last two years to a projected \$55 million in Fiscal Year 2016.

Technology is a major part of our efforts to re-engineer the Agency's business processes and to improve customer service. We are currently driving a number of initiatives to enhance mobile web-based services, in line with the recently released NYC Digital Playbook. Currently, one-quarter of the traffic on our website comes from mobile devices, including smartphones and tablets. As a result, we are developing a mobile app that will allow the public to pay and contest parking tickets. At the same time, we are making our existing parking-ticket and property-tax websites easier to use on mobile devices. In addition, we are continuing to work on our new property-tax system and on the creation of a data warehouse — technology that will speed up our strategy to become a data-driven organization and provide timely analyses of current and future trends.

As you can see, we are doing as much work as we can with the tools that we have at our disposal to improve the lives of New Yorkers. However, in certain situations

we do need to seek legislative action. Therefore, we are pursuing the following legislation:

- We are working on legislation that would allow Rent Freeze Program participants back into the program at their old frozen rent if they are disqualified from the program for one lease term because their income increases temporarily but then they later re-qualify.
- We are introducing legislation to align our Offers in Compromise for business owners with the New York State statute to allow the Agency more flexibility in settling claims when the taxpayer is experiencing financial hardship.
- We are introducing legislation to help not-for-profit organizations that qualify for a current property-tax exemption but failed to renew or apply. This legislation would allow us to go back three years from the date we grant a not-for-profit exemption if the organization would have qualified during that earlier time.
- We have drafted legislation for the Industrial Commercial Abatement Program (ICAP) that would allow applicants who miss the filing deadline for the final application to pay a penalty rather than lose the abatement altogether. Currently, applicants must submit a final application for benefits within one year after the first building permit is issued. If they miss the deadline under current law, they lose the abatement entirely.

I hope that my testimony today has given you some insight into how far we have come and how far we have yet to go. Our goal is to make the New York City Department of Finance one of the most efficient revenue-collection agencies in the country. We believe that we have gained tremendous ground in promoting our underlying principles while laying the groundwork for future improvements, all of

which go toward establishing the Department of Finance as an integral part of making New York City a great place to live and do business.

Now, I'm happy to take any questions you may have.