



# City Council Finance Committee Hearing

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Good afternoon, Chairwoman Ferreras-Copeland and members of the City Council Finance Committee. I am Jacques Jiha, Commissioner of the NYC Department of Finance. Joining me today are Jeffrey Shear, Deputy Commissioner for Treasury and Payment Services and Samara Karasyk, Assistant Commissioner for External Affairs. Thank you for the opportunity to testify about Intro 1385-- a legislation that will extend the City's authority to conduct an annual tax-lien sale and make significant improvements to the program. The roots of Intro 1385 can be traced to Local Law 14 of 2015, which mandated the Mayor and City Council to form a Joint Lien Sale Task Force to evaluate the program to ensure that it is fair, efficient and effective. I would like to thank the Council for its constructive engagement with us that has resulted in this legislation. We support its enactment.

The Department of Finance collects \$24 billion in property-tax revenue annually, including \$50 million of charges levied by other agencies such as HPD. These figures exclude the additional \$3.8 billion in water and sewer charges billed by DEP. Prompt collection of these revenues is critical to fund vital City services and social programs. The tax-lien sale is an imperfect, but effective tool used only as a last resort to enforce and collect delinquent municipal charges. Anyone facing financial hardship can be removed from the lien sale by requesting a payment plan with as little as no money down and as long as ten years in length.

The goals of the tax-lien-sale program are to increase voluntary compliance and to get property owners who are delinquent in paying their taxes to resolve their open liabilities. We would prefer that every taxpayer would resolve their debts so the City could realize the revenue without having to sell any liens. That's why we send many notices to property owners to educate and engage them, including mailings at 90, 60, 30, and 10 days prior to the lien sale to remind them to pay, enter into payment agreements or apply for exemptions.

As indicated above, Local Law 14 of 2015 mandated the Mayor and City Council to form a Joint Lien Sale Task Force. In September 2016, the Task Force issued its first report. I would like to thank the Co-Chair of the Task Force, Council Member Ferreras-Copeland, and Council Members Donovan Richards, Debi Rose, and Robert Cornegy, who all served on the Task Force.

These Council Members represent some of the districts that have the highest number of tax liens sold, and their perspective and advocacy on behalf of their constituents have been extremely helpful. I would also like to thank the affordable housing advocates, including the Center for New York City Neighborhoods and the Association for Affordable Housing, which presented information to the Task Force. The Task Force's report found the following:

- Voluntary compliance has greatly increased since the inception of the tax-lien sale. Property-tax delinquency has declined from an average of 4.4 percent in the three years before the first tax-lien sale in 1996 to just 1.6 percent in FY15. Today, each percentage-point increase in voluntary compliance is worth about \$250 million.
- The report found that DOF's improved and expanded outreach, including robocalls and volunteer Q&A sessions, has contributed to a decline in the number of properties receiving the 90-day warning notice from 27,233 in 2015 to 24,202 in 2016. The number of liens sold also fell from 4,228 to 3,461 in those respective years. Despite the reduction in the number of properties in the initial lien-sale pool, enforcement dollars from lien-sale notices and other outreach increased from \$102 million in FY15 to \$133 million in FY16.
- The report also found that, during the period between 2008 and 2016, about 41,400 liens were sold to the Trust, but only 354 of those properties were the subject of a foreclosure judgment and judicial auction. Of those 354 properties, 196 were non-residential, including vacant land, garages, and warehouses, and 158 were residential.
- In response to Council inquiries, DOF developed an extenuating-circumstances program, which enables DOF to remove 55 properties from the tax-lien sale in FY16 as a result of 58 submitted requests. By comparison, only one such property was removed from the tax-lien sale in FY15.

The Task Force report also made the following recommendations:

**1. Minimize the number of properties with liens sold in the tax lien sale**

According to the report, the number of properties with liens sold compared to the number of properties receiving notices of the lien sale 90 days prior to the sale has generally been declining since 2011. As a result, the Task Force recommends that DOF continues to make efforts to

minimize the number of properties with liens sold by reducing fees and improving payment options.

The Council took the first step in the FY17 Budget by reducing the interest rate on unpaid property taxes for 95% of properties with assessed values below \$250,000 from 9%, which had been in effect for many years, to 6%. Intro 1385 takes this one step further by applying the 6% rate to sold tax liens in order to align interest rates for delinquent property taxes with sold tax liens. Intro 1385 also gives property owners who have defaulted on their payment agreements a one-time opportunity to reinstate their payment plans by paying 20% of the total amount owed. The discussions with the Council also have prompted DOF to expand the definition of extenuating circumstances to allow property owners with defaulted plans to get another payment agreement without being subject to the typical five-year waiting period that accompanies a default. While it is not specifically addressed in Intro 1385, DOF will be promulgating a rule to add active enrollees of DEP's water-debt-assistance program to those who are considered as having extenuating circumstances.

## **2. Create clear and user-friendly bills**

Intro 1385 reinforces DOF's current efforts to make its communications clearer, more customer-oriented, and available in more formats. With regard to our lien-sale correspondence, DOF is now sending a new at-risk letter to property owners who have missed an installment payment, but are not yet considered in default on their payment plans because six months have not yet elapsed since the missed payment. This letter lets them know that they are at risk of default. As a result of its discussions with the Council regarding the high default rate for payment plans, DOF implemented the at-risk letter rather than relying solely upon statements of account to communicate payment-plan status. DOF sent out 120 letters in July 2016 and in 100 instances, property owners caught up on their payments and avoided default. The at-risk letters will now be required by Intro 1385.

The Task Force also recognized that some people who have difficulty meeting their property-tax obligations may be facing other financial issues like credit-card debt and could use assistance relating to their overall financial situation. As such, it requires DOF to include information about

financial counseling in the October 31<sup>st</sup> mailing that goes out to all taxpayers who are significantly delinquent, including taxpayers whose debts are not yet old enough or large enough to be included in the tax-lien sale. The financial counseling will give them assistance in understanding their options to make better-informed decisions about entering into payment plans.

Intro 1385 further addresses this recommendation by legislating email alerts when property-tax bills are available online and requiring DOF to promptly mail a confirmation letter after a property has been removed from the lien sale. The bill also requires DOF to enhance the information it makes available at outreach sessions, many of which are co-sponsored by Council Members on behalf of their constituents. We will now distribute customer surveys to property owners who have received notice of the intention to sell a lien and make a good faith effort to provide or facilitate financial counseling for those who request it. Finally, when the public comes to a DOF payment center, they will be given a customer-service form that indicates what transaction took place, whether or not the action taken removes the property from the lien sale, and if the property is not removed who must take the next step to do so.

DEP has also made strides in this area, including installing Automated Meter Reading devices on 97 percent of all properties so that customers are able to view water-usage data in almost real-time, and manage their consumption more effectively to potentially reduce their charges. DEP has also set up Automated Leak Notifications and has expanded its Leak Forgiveness Program to include leaks of maintainable fixtures. More than 6,300 customers have benefitted from this change so far, receiving \$6.4 million in leak forgiveness. DEP also began offering monthly billing as an opt-in option to customers on July 2015.

### **3. Better understanding the lien sale impact**

It is important to understand why properties end up in the lien sale. That is why the Task Force recommended that the City further research why property owners fall behind on their taxes; how property owners resolve their tax debt, and the state of properties post-tax lien sale. As a result of its ongoing conversations with the Council, DOF has already implemented a survey that was provided last year at its Business Centers throughout the lien-sale notice period. We surveyed the reasons why taxpayers were behind on their taxes, the length of time a homeowner has been in their property, and other data points. According to the survey, more than 60% of customers

said that personal financial issues were the reason for their failure to pay property taxes on a timely basis, and nearly one-quarter indicated that they were still unable to pay the amount owed. Additionally, 60% said they come to a Business Center to set up a payment plan to prevent the sale of their tax lien. These responses will drive our efforts to continue to improve our customer service. Intro 1385 requires DOF to continue this survey.

We also agree that, to better understand the impact of the lien sale, we need data on what happens to properties after they have been in the lien sale. To that end, DOF has agreed to share the servicer report, to provide ACRIS reports on all properties with liens sold since the last reauthorization, and to provide lien-sale notice lists that indicate any non-for-profits that had an exemption in the prior five years, as well as vacant lots.

#### **4. Assess Whether the Resolution of Outstanding Debt Could be an Opportunity to Advance Other City Priorities**

The City has begun efforts along these lines, including HPD's discretionary removals and DEP's water debt assistance program. HPD is working with its partners to identify buildings eligible for the lien sale, which could benefit from additional technical assistance and HPD preservation programs. HPD can recommend to DOF that certain properties be removed from the sale, and the Agency will work with owners to become current on all municipal charges and bring the properties under HPD regulatory agreements. Depending on the needs of the property and the affordability mix codified in the regulatory agreement, owners may qualify for low-interest loans and/or property tax benefits. If an owner fails to cooperate, the property may be subject to the lien sale the following year.

HPD is also assessing its third party transfer (TPT) program. The third party transfer program is designed to address the needs of physically distressed buildings with very high lien-to-value ratios, and which are statutorily excluded from the lien sale. Through TPT, HPD brings an average of 255 units per year back into good condition and responsible ownership. The program has been very successful since its inception in 1996, but the Agency is evaluating options for making it even more efficient and effective.

DEP established the water debt assistance program to assist multi-family homeowners who are on the 2016 90-day lien-sale list and are currently under threat of foreclosure or mortgage

delinquency. If they are qualified, DEP removes their property from the lien sale and defer the debt until the property is sold, refinanced, or the owner has the ability to pay the debt. If accepted into the program, the owner must enter into a binding agreement with DEP stating that the debt is valid and will be paid on or before the sale, transfer or refinancing of the property. In addition, the owner must agree to pay all current and future charges on time or the agreement may be voided and the property will be included in a subsequent lien sale. As of May 2016, 136 applications for the water debt assistance program were approved, with total accounts receivable of \$1.2 million.

While Intro 1385 improves many aspect of the lien sale, we have more work to do. Many liens disproportionately affect vulnerable populations. For example, homeowners living on a fixed income may have difficulty keeping up to date with their current property taxes even when delinquent amounts are stretched over a ten-year period. Our “one size fits all” payment plan does not address such circumstances. DOF has convened an internal working group to develop new payment-plan options that take into account people’s ability to pay. We understand this is an issue of particular importance to the Council, and we will address it. In particular, we are exploring a tax-deferral plan for seniors on a fixed income. We are looking at best practices around the country and are examining the best approach for New York City based on current law and operational capabilities. As part of this process, we will be seeking feedback from housing advocates and elected officials. We will report back to the Council when our work is completed. As with any major policy intervention it will take a comprehensive approach to make real progress. DOF is committed to doing its part to improve the tax lien-sale process for NYC homeowners.

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