

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

BEFORE THE CITY COUNCIL  
COMMITTEE ON FINANCE

HEARING ON THE FY2008 EXECUTIVE BUDGET  
MAY 25, 2007

Good afternoon Chairman Weprin and members of the Committee on Finance. As you know, I am Finance Commissioner Martha E. Stark. Thank you for inviting me to testify today on the fiscal year 2008 Executive Budget.

Let me do five things this afternoon. First, I'll tell you how the Executive Budget affects Finance. Then I will discuss our effort to transform the culture of our agency so that everyone is focused on helping people pay the right amount on time. Next, I will briefly summarize changes reflected in the final assessment roll, which we have completed today as required by the City Charter. Fourth, I will update you on some of the important bills we are pursuing in Albany as the current legislative session draws to a close, as well as a significant bill that we are supporting in Washington that would help us resolve outstanding debt. Finally, I will give you a brief status report on our initiative to help low-income New Yorkers receive the Earned Income Tax Credit.

### **Department of Finance Budget**

The executive budget includes a \$100 million increase in our audit target, bringing it to \$959 million. Our new audit target is almost double the original target of \$509 million set last June. Our ability to collect more audit revenue is a direct result of our emphasis on clarifying rules and making it easier for people to pay their taxes and file their returns correctly.

## Working SMART

As we have reported to you before, we're trying to find ways for Finance to work smarter. In order to do that we believe we need to focus every employee's attention on our mission – to help people pay the right amount on time. This means focusing on results – not just the things we do. We want to be guided by data and we want to create a culture of learning and innovation that gives all employees the freedom to excel, instead of settling for the old paradigm of "good enough for government."

The key is a performance management system – a Finance Compstat. Every division has created a scorecard by which they will measure how they help people pay the right amount on time. My leadership team reviews the results regularly, learns from each other about what worked and did not work, and develops new strategies to improve performance.

For example, let me describe how this focus helped us get people their rebate checks. The first year that we sent rebate checks, our team measured their success by the number of rebate checks we mailed. However, it turned out that mailing the checks was not enough. It didn't get us the desired result of getting \$400 into the hands of homeowners. The first year without that focus, we received back almost 66,000 checks and had to re-issue 41,370 checks. The second year, we focused on the result – making sure that we sent the checks in the right name to the right address. With this new focus, we only had to re-issue 7,779 checks. By continuing to measure these results and developing new ways to

improve, this year we have only re-issued 5,600 checks. That's an incredible 86 percent reduction in the number of checks that had to be re-issued. This is just one small example of how data and focus can deliver a better result for the people we serve and save the City money by being more efficient.

### **Final Assessment Roll**

Let me turn to the final assessment roll for fiscal year 2008. The final assessment roll shows that the market value of all City property is \$796.9 billion, which is 18 percent higher than last year's final roll market value of \$674.1 billion. However, the assessment that taxes are based on increased only 8.4 percent since last year. For an average homeowner, the assessment that their taxes are based on rose just 4.55 percent since last year.

As you know, we published a tentative assessment roll in January. The market value on the final roll is \$5.5 billion less than it was in January, and billable assessed value is \$566 million lower.

There are four factors that contributed to these changes.

First, Finance made adjustments to market values when we received information from owners about their properties. Based on this information, we lowered market value by \$2.8 billion. Most of this decline resulted from owners of income-producing properties finally providing us with required income and expense data.

Second, we implemented 32,000 new exemptions, which collectively reduced the overall assessed value by \$900 million. More than half of these new exemptions - 17,000 - are new School

Tax Relief, or STAR, exemptions. About 5,600 are Senior Citizen Homeowner Exemptions, and about 2,600 are Veterans Exemptions.

Third, we increased overall market value by \$1.1 billion to reflect new construction projects and alterations to existing properties.

Fourth, the final roll reflects Tax Commission changes reducing assessed value by \$75 million for 5,500 properties.

## **Legislation**

Let me update you on our lobbying efforts in Albany, where several major pieces of legislation are moving forward as we enter the final month of the legislative session.

### Not-for-Profit Bill

I want to thank Chairperson Weprin and committee members for your continued support of our not-for-profit bill, which would allow Finance to grant nonprofits a tax exemption from the date of ownership. After narrowly failing to get this bill passed last year, I'm more confident that it will happen this year, based on feedback I heard last month.

### Mayor's Tax Agenda

While in Albany, I also lobbied for the major tax-related items on Mayor Bloomberg's legislative agenda, including the continuation of the City's \$400 property-tax rebate, which has a bill number of A8161; the small business tax relief package that I discussed with

you in March; the elimination of the City sales tax on clothing and shoes; and the 50-cent increase in the City's cigarette tax. I appreciate the Council's continued support of these bills.

### ICIP Reform

As you know, the Economic Development Corporation has taken the lead in proposing changes to the Industrial and Commercial Incentive Program, known as ICIP. This program, which provides almost \$400 million in tax relief annually and sunsets next month, is the City's largest commercial incentive program. The proposal creates programmatic changes to make it more effective and also easier for Finance to administer, primarily by making the benefit a credit based on the amount spent. We hope that you will support this bill.

### Federal Offset Bill

We're also pursuing an important bill in Washington that would allow Finance to recoup debt from the Internal Revenue Service before a refund is issued to a taxpayer. We believe that the bill, sponsored in the House by Congress Member Ed Towns, could help the City collect as much as \$100 million in outstanding business and excise tax debt.

### **EITC Project Update**

The offset bill is a reminder of how valuable it is to have a good working relationship with the IRS and the State Tax

Department. We're working with the IRS and the State to evaluate the effectiveness of our Earned Income Tax Credit project, which I discussed in March.

As you recall, Finance took the unprecedented step of mailing amended tax returns to 100,000 households whom we believed were eligible for the EITC but had not claimed it in 2003 and 2004. We asked the recipients to verify the information and mail the returns to the State and the IRS for processing, and worked with the City's 311 call center and the Department of Consumer Affairs to help provide customer service.

The results so far have been encouraging. The State Tax Department told us last month that of the 32,000 people who had mailed in our amended returns, 16,000 were issued refunds. We don't yet have reliable data from the IRS. As a former basketball player, I can tell you that if I were shooting 50 percent from the floor, I'd be playing for the Liberty.

A few other states have contacted us to learn more about what we've done, including California, North Carolina and Maryland. So the word is spreading.

By measuring the data in a SMART way, we have already learned how to make this even better the next time. For example, we were able to work with the IRS to improve how it captures data and to ensure that the people entering data do so accurately and timely. There were some instances where we mailed returns to people whom the IRS now says already claimed the credit, even though this was not indicated in the data they provided.

We also think that the IRS would do well to make it easier for people to claim the credit – to help people pay the right amount on time. We know from our own experience at Finance that when you make an application shorter and simpler, and when you clarify the rules, more people will pay the right amount on time by claiming a benefit to which they are entitled. Paying the right amount doesn't always mean paying more, even for a taxing agency.

Thank you. I'll stop there and am happy to answer your questions.