

**TESTIMONY OF COMMISSIONER MARTHA E. STARK
NEW YORK CITY DEPARTMENT OF FINANCE
BEFORE THE CITY COUNCIL FINANCE COMMITTEE
ON THE MAYOR'S PRELIMINARY BUDGET
MARCH 6, 2007**

Good afternoon, Chairman Weprin and members of the Finance Committee. I am Finance Commissioner Martha E. Stark, and I am pleased to be back before you for the second time in a week for this hearing on the Mayor's preliminary budget for fiscal year 2008.

Before getting started, I want to recognize all of the members of my Leadership Team who have joined me today. I am going to ask them to stand and be recognized. Now in my sixth year as Finance Commissioner, I have been truly blessed by the talented group of people around me, to whom I owe much thanks for this agency's incredible successes.

Today, I thought I would do three things. I'll start by discussing Mayor Bloomberg's income tax initiatives that target small business. I will then run through a couple of smaller but still-important agency legislative initiatives that we hope to bring to the Council in the months ahead. And finally, I will discuss in some detail our most recent major initiative as part of the Mayor's effort to increase economic opportunity: our agency's unprecedented efforts to help qualified New Yorkers receive the Earned Income Tax Credit.

Mayor's Plan for Tax Cuts

As you know, the mayor has outlined several tax policy initiatives to reduce the burden faced by small businesses, each of which will require legislative approval.

Finance's top priority bill in Albany this coming session is a proposal to reduce the Unincorporated Business Tax through a combination of

deductions and credits. In addition, the bill includes targeted reductions in the General Corporation Tax, as well as a proposal that has been explicitly supported by Speaker Quinn over the last year: a General Corporation Tax credit to owners of small businesses known as S - Corporations. Most businesses in the boroughs outside Manhattan will benefit from these cuts, since the majority of these firms are S-corps and unincorporated businesses.

All of these changes, if and when passed by the state Legislature in Albany, could save businesses in New York City at least \$140 million a year.

The Mayor has also proposed eliminating New York City's sales tax on clothing and footwear. Previously, this tax had been removed for all items under \$110 in value, and this change would extend that tax relief to all clothing and footwear - making small retail businesses far more competitive with those in neighboring jurisdictions that do not now tax clothing purchases. In addition to increasing foot traffic at many businesses in New York City, this change would save shoppers another \$110 million.

I have been encouraged by the early kind words that Chairman Weprin and other Council members have had for these initiatives, and I hope we can work together to advocate for them this session up in Albany.

Two Bills at the Council

We have two agency bills that we would like to have your help turning into local law. We expect to bring them before you in the months ahead, and I wanted to quickly preview both today.

The first bill I mentioned in last year's testimony: it is a bill that would "clean-up" the Administrative Code to remove references that are outdated and do not properly reflect the Department of Finance's role and mission. It is a source of frustration to many of us when we find Admin Code references to "owner's registration cards" that we must keep on file, for example, when we abandoned such cards long ago. In another throwback, the office of "The City Collector" was long ago folded into the operations of the agency, but look in the Ad Code and there it is - its name persists in law.

But since there are literally hundreds of such references, finding them all has taken longer than expected. We know that the Council has itself shown interest in removing outdated elements of the law, and we will appreciate your help in moving what will be a physically hefty but important bill.

The second bill is a new common-sense initiative that has been advanced by Finance's Treasury Division, which is responsible for issuing checks to all of the City's vendors. For the most part, when dealing with City vendors, "cutting checks" is what Treasury literally does. We'd like to change that by paying City vendors electronically.

Issuing payments electronically offers most of the same advantages that we see with direct deposit for your own paychecks. It's easier, it saves time, and it eliminates the inevitable headaches due to

administrative errors like a mistyped address or a delivery problem at the post office. The Clinton Administration introduced mandatory EFT for all federal government vendors in 1996, with very little complaint.

We would expect the City's transition to be even easier. It simply makes very little sense for a vendor like Federal Express to receive 1,100 separate checks for the work that they do for New York City each year. More than 90 times per month, a different agency's account is debited and a separate physical check is mailed to FedEx.

The cost savings from the bill are modest: \$250,000 annually, almost entirely from non-personnel savings -- including bank costs and postage that we would no longer have to incur. We expect that after the bill is passed, we would model our transition after the Federal government's switchover. The bill would of course exempt all vendors who are either rarely paid by the City or who do not have the capacity for EFT. But as you probably know, if you have a bank account, you have the capacity for EFT.

We look forward to bringing both of these bills before you in the coming months.

EITC Initiative

Finally, I want to end by discussing a project that Mayor Bloomberg announced in his State of the City address: Finance's unprecedented effort to help low-income New Yorkers claim the Earned Income Tax Credit.

As I mentioned last week and in previous hearings, we have adopted a mission at Finance that guides everything that we do. Our mission is to

help people pay the right amount on time. It's a very simple mission, but it reflects a very profound cultural shift in an agency that has the responsibility of collecting \$20 billion in revenue - almost 40 percent of the City's entire budget. To do this, we know that we have to be fair, transparent, efficient, and driven to achieve results based on data. We know that if we do these things, more people will pay the right amount on time.

We also know that helping people pay the right amount on time doesn't just mean that the assessment roll has to be accurate, and our bills need to be clear, and we have to offer several ways to pay. It also means that we have to help people receive benefits to which they are entitled.

This is what lead us to mail amended tax returns to New Yorkers whom we believed were eligible for the Earned Income Tax Credit in 2003 and 2004 but did not receive their money. Instead of using State and Federal tax information only to perform audits -- to see what people owed us -- we decided to use the same information to see what the government owed our taxpayers.

What our analysis showed was that more than 80,000 New Yorkers were entitled to a credit but had never received it, despite the excellent outreach that the Department of Consumer Affairs has done over the last five years with their partners in the labor movement and the non-profit world. So we completed amended returns for these people, highlighted the portions they needed to fill out themselves, asked them to verify the information and claim their money. We even sent them stamped, addressed envelopes.

No one had ever done this before - it's the first program of its kind in the nation. And I'm proud to say that the results so far are very encouraging. The State Tax Department and the IRS have told us that most of the returns they've seen look good, with the exception of returns filed by people who do not have Social Security Numbers. Unfortunately, we mailed 30,000 returns to people who have Individual Tax Identification Numbers, or ITINs, and not Social Security Numbers. These New Yorkers are not eligible for the Earned Income Tax Credit, even though they pay taxes, which raises an interesting policy question that we're going to explore with the Commission on Economic Opportunity.

Aside from that, we believe that the New Yorkers who receive our mailing are eligible for the credit and will receive it if they mail in their amended returns. For 2003, they have until April 17 to mail in the return. For 2004, they have until next April. But our feeling is, why wait?

The IRS is very excited about the project. In fact, they have told us that they want to model it for other jurisdictions to use, and we have encouraged them to do their own proactive mailings of amended returns. In the short term, they have offered to help us mail amended returns to New Yorkers who forgot to file for the Earned Income Tax Credit in 2005. We hope to do this mailing in the next few months.

This project took a tremendous effort from several divisions in Finance, from Tax Policy to Technology Solutions to Communications, and I'm really proud that we are putting money in the pockets of low-income New Yorkers.

Thank you. I'm happy to answer your questions.