

**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 4, 2008

Good afternoon, Chairman Weprin and members of the Finance Committee. I am Finance Commissioner Martha E. Stark, and I am pleased to be before you again for this hearing on the Mayor's preliminary budget for fiscal year 2009. I have just started my seventh year as Finance Commissioner, and because you all know how much I love numbers, let me say that seven is indeed a very lucky number. I am now the longest-serving Finance Commissioner since 1964, and the fourth longest-serving Finance Commissioner since 1926 when the Department was created. It is not a solo effort; I have been fortunate to co-lead the agency with Rochelle Patricof, my First Deputy. She is very much the implementer and springboard for my ideas. But, nothing gets done without her leadership and dedication.

Today, before taking your questions, I thought I would do four things. First, since the property tax is a \$15 billion budget item, I will describe the assessment roll, including changes we have made this year. Second, I will tell you how we implemented recent laws that you helped us pass that reduce the tax burden for small business owners and that pay vendors who provide the City with goods and services more quickly and accurately—paying them the right amount on time. Third, I will update you on the lien sale. Last, I will provide an update on our Earned Income Tax Credit initiative to support the Mayor's effort to increase economic opportunity for low-income New Yorkers. Then, I'll be happy to take your questions.

FY'09 Tentative Assessment Roll

As you know, Finance is responsible for valuing a million properties every year. As required, we released our estimate of market value on January 15th. We estimate that all of the taxable property in New York City is valued at \$818.4 billion, a 2.83% increase over last year.

Some other quick numbers:

- Values for small homes fell a little less than one percent;
- Values for apartment buildings, cooperatives, and condominiums were up 8.06%;
- Values for utility property were up 7.37%; and
- Values for commercial property were up 6.24%.

Let me explain a few things that we did differently this year to improve how we value property.

Valuing Rental Properties, Cooperatives, and Condominiums

As you may recall, we cannot value apartment buildings based on sales prices. Instead, Finance must value rental buildings using income information, and cooperatives and condominiums by using incomes from comparable rental buildings.

Once you know or estimate the income for a property, there are two ways that you can arrive at a market value. First, you can estimate expenses for a property, subtract the expenses from the income and then divide by an estimated rate of return for the owner called a

capitalization rate. Second, you can simply multiply the owner's gross income by a gross income multiplier.

The accuracy and fairness of the income approach is measured by analyzing taxes as a percent of gross income. This ratio should be fairly tight. When we analyzed this for apartment buildings based on last year's assessment roll, where we used income, expense and cap rates, we found that taxes as a percent of gross income were as low as 7 to as high as 45 percent. That means before paying debt service, fuel, electricity, and employee expenses, there were some owners paying the City \$45 to us for every \$100 they earned—a true public/private partnership...NOT.

Using a multiplier was the best method for assuring that our market values are easy to understand, predictable for property owners and fair, and that's the method we used this year.

Valuing Small Homes and Vacant Land

In addition, we developed a computer model for valuing small homes in Manhattan. Because there are only 5,619 small homes in Manhattan and they are all pretty different, we had not developed a mechanism for valuing them to reflect the current market. This year we did.

Similarly, we developed a method for valuing vacant land based on sales prices. As you know, the real estate market is still thriving in New York and there have been lots of vacant land sales. Sales are certainly the best indicator of market value when there are enough of them and

the law allows us to use them. Vacant land has historically been undervalued and we are now closer to reflecting the market. In Fiscal Years 2006 and 2007, for example, the market value for vacant land that was sold was at least 70% less than the average sales price. For fiscal year 2008, market values rose 42.7% for over 30,000 vacant land properties. The average market value is still 37% less than the average sales price, but we are closing the gap.

Valuing Properties When Owners Did Not Provide Income Information

Finally, last year we developed a consistent way of valuing properties when owners did not provide Finance with income and expense information as required by law. As you will remember, we valued those properties by using the highest income filed by owners of similar properties. I am pleased to report that 8,017 more owners (77,615 compared to 69,598 - a 12% increase) provided income and expense information this year. We continued this policy this year.

Reducing Taxes and Filing Burden for Small Business Owners

As you know, last year we changed the law to lower the tax burden for small businesses, as well as simplify some elements of tax filing. These changes will save small business over \$250 million. Thank you for your leadership and support of those changes.

The legislation also authorized Finance to simplify the filing requirements for small businesses. To implement the change, last week I announced the availability of two new tax forms that will make it easier for 150,000 small business owners to file their tax returns this year. The

new forms - the NYC 202-S for Unincorporated Business Tax filers and the NYC-4S-EZ for General Corporation Tax filers -- eliminate the need to attach a Federal tax return and will allow users to file their returns electronically. Additionally, taxpayers will now only need to complete as few as 5 lines to determine their tax liability rather than 32 lines on the forms they were previously required to fill out - an 84% decrease.

Especially for the self-employed, these new forms will save thousands of hours of filling out long, complicated paper forms and make it so they no longer have to provide information that Finance already has.

Paying Vendors Quickly and Accurately

The other major legislative change instituted last year that could not have been done without the strong support of the Council was the authority you gave Finance to pay the city's vendors by Electronic Funds Transfer -- or Direct Deposit. As we noted last year, the requirement was overdue: Direct Deposit is easier, it saves time, and it saves money.

Now that we have the authority, let me tell you how it is going. As with anything new, it took a significant amount of effort to do the outreach to notify vendors of the change and get them to provide the information Finance needs to pay them quicker. As of today, 60 percent of all vendors have provided the information and are being paid electronically.

Deputy Commissioner Robert Lee, who heads our Treasury Division and who testified before you on this bill last year, has been working

closely with businesses during this transition period. With continued intensive outreach, Bobby and his team have set a goal of having the information needed to pay 90 percent of businesses electronically by the end of April, and all businesses by the anniversary of the law in October.

Lien Sale Update

I want to quickly mention another outreach effort that our agency has taken on. First of all, as you all know, with the Council's official reauthorization of the lien sale law back in December and after a one-year hiatus, we are now officially back in lien-sale season.

I know that many of you had staff attend the official briefing we held for Council members a month ago. As you likely know from that briefing, one of the changes to the law that Finance welcomed was the longer 90-day period to let property owners know that they are delinquent. On February 19th, the 90-day notice period kicked off with a major insert in the Daily News that listed every one of the 24,593 properties that owe the city property tax or water debt.

Finance is working closely with the Department of Environmental Protection to host more outreach events that will make it easier than ever for people to come in and arrange payment plans, so that matters can be resolved *before* we sell their debt to a private collector.

Again, we thank members of this committee who have worked so hard to help us get the word out within their communities: Council

Members Comrie and Vann deserve special mention and praise for their grass-roots efforts to protect homeowners in their districts.

As we have told you in the past, typically people pay during the 90-day period. In the two weeks since the notices were sent out, we have already collected \$2.4 million of the \$309 million we are hoping to collect in outstanding property debt from delinquent property owners.

Giving Money Back to Hard Working Low-Income New Yorkers

Finally, I want to end by discussing a project that Mayor Bloomberg introduced last year in his State of the City address: Finance's unprecedented effort to help low-income New Yorkers claim the Earned Income Tax Credit. This is our second year of proactively letting working New Yorkers know that their government may owe them money.

You may remember that last year we embarked on this effort but we made a few mistakes. As of the end of December, 16,000 families benefited from last year's efforts and received \$10 million back - an average per-family credit of \$625.

This year, we worked with our partners in government at the Internal Revenue Service and State Tax Department. Yesterday we completed our second mailing, this time to almost 15,000 taxpayers; we estimate that the total federal, state, and city benefit that these taxpayers will receive is more than \$15 million, with \$13 million going to families with dependents.

Needless to say, our team is very proud of this effort, and the invaluable assistance we received this time from state and federal partners makes us doubly proud. As I have mentioned many times before this Committee, Finance helps people pay the right amount on time. We of course believe that helping people pay the right amount on time means letting people know when they owe us, but it also means letting them know when we owe them.

Thank you. I am happy to answer your questions.