



**Testimony of Assistant Commissioner and Treasurer
Elaine A. Kloss
New York City Department of Finance
Before the New York City Council
Committee on Finance**

**Regarding an examination of the role of the Banking
Commission in selecting NYC depository banks**

November 23, 2010

Good morning Chairman Recchia and members of the City Council Finance Committee. I am Elaine A. Kloss, Assistant Commissioner for the New York City Department of Finance and the City's Treasurer. I am honored to be here and to serve as the Treasurer of the City of New York.

Today I am testifying on behalf of Finance Commissioner David M. Frankel. In my role as the City's Treasurer, I also support the New York City Banking Commission. I give testimony today to describe the responsibilities of the New York City Banking Commission and my duties as the City's Treasurer. Thank you for inviting me to speak today.

For the ten years prior to becoming the City's Treasurer last March, I was treasurer of three public corporations in the tri-state area. Prior to that, I held a number of senior treasury and finance positions in the private sector at large multinational companies, including AT&T, Joseph E. Seagram & Sons, and New York Life Insurance Company. I began my career in public service at the Research Division of the Federal Reserve Board in Washington, D.C. I have a Masters degree in Economics from Georgetown University.

This is a unique opportunity to share with the Council the functions and processes of the Banking Commission, which was created in 1901 under the City Charter. There are three members of the Commission, one representative of the Mayor, who serves as the Commission Chair; one representative of the Commissioner of the Department of Finance; and one representative of the Comptroller.

There are three primary responsibilities of the New York City Banking Commission. First, each year the Commission recommends to the City Council, interest rates for late payments of property taxes and water and sewer rents and discount rates for early payments of property taxes. Second, the Commission reviews and approves or denies applications it receives from banks or trust companies to be New York City Designated Banks. Finally, the Commission participates in the New York State Banking Development District (BDD) Program and approves deposits of City funds in the BDD branches. I will briefly describe these three duties so that you have clear understanding of the Banking Commission's roles and responsibilities. I will then describe my responsibilities as the City's Treasurer, after which I will be happy to take your questions.

The Banking Commission plays an important role in recommending interest rates to the Council for late payments of property taxes and water and sewer payments. The Commission also recommends discount rates for early property tax payments. Every May, the Council considers the interest rate recommendations of the Commission and, through resolution, the Council formally sets these rates for the upcoming fiscal year.

Earlier this year, the Commission recommended a 9% interest rate on late payments for property taxes and water and sewer rents for properties having an assessed value below \$250,000 and 18% for properties valued above \$250,000. The Commission further recommended reducing the discount rate for early property tax payments from 1.5% to 1%, a rate which is presently higher than most banks offer their short-term depositors.

In compiling these recommendations, the Commission support team reviewed the real estate penalty rates of at least 10 other large municipalities throughout the country. The Commission assessed the City's standing in comparison with the other municipalities and relied on these comparisons to recommend appropriate interest rates for the City of New York.

In addition, the Banking Commission strictly follows the New York City Charter and State law when performing its role of approving New York City Designated Banks, which are the only financial institutions authorized to hold City funds. The Banking Commission does not select the banks actually used by New York City Agencies.

A bank or trust company must apply to become a New York City Designated Bank by submitting a formal application to the Commission. The application includes audited financial statements, historical financial information, the current managerial structure, the bank's most recent federal Community Reinvestment Act (CRA) rating, and other detailed information. To be approved as a Designated Bank, the bank or trust company must have a physical presence in the City of New York. The Commission reviews the application and votes to approve or deny the financial institution as a New York City Designated Bank. The Commission has approved 35 New York City Designated Banks.

Finally, the Banking Commission oversees the City's Banking Development District (BDD) program, which is administered by the State of New York. The BDD program helps strengthen local communities by providing loans, financial education, low cost bank accounts and other

community based financial services to residents through participating branches.

Part of the criteria for becoming a City BDD Branch is similar to the requirements of becoming a New York City Designated Bank and the branch must already be a participant in the New York State BDD program. The branch must provide all the financial information required to become a Designated Bank, together with its current and prior loan activities and its specific BDD goals for community development.

The Commission monitors the progress of the BDD Branches that hold City deposits that earn market or, in certain cases, below-market rates of interest. Each BDD Branch must apply every two years to retain its status as a BDD Branch, subject to achieving its community development goals. The City currently maintains deposits totaling \$185 million in 23 approved BDD Branches of 13 banks.

Now, I would like to review my four primary responsibilities as the City's Treasurer. These include cash management, banking relations, court assets, and administrative support for the Banking Commission.

Our cash management organization is responsible for monitoring the City's daily cash position to ensure that adequate cash is available in the City's Central Treasury bank accounts to properly cover daily cash disbursements, such as payrolls, tax payments, vendor payments, and other financial obligations. The City receives daily revenues in form of taxes, fines, permits and other fees. These funds are deposited into many different

City bank accounts and then the funds are swept daily into the Central Treasury bank accounts. Each morning, as needed, funds are transferred to the Central Treasury bank accounts from its short-term investments to pay the City's financial obligations. These short-term investments are managed by the Office of the Comptroller so that the City's money can earn a higher return. After the City's cash position has been determined each day, any surplus funds in Central Treasury are transferred back to short-term investments. Treasury retains nominal cash balances overnight in the Central Treasury bank accounts.

Second, our bank relations responsibilities include maintaining relationships with the Designated Banks, recording and managing City bank accounts, insuring the collateralization of all City bank account balances and assisting Agencies with the procurement process to obtain bank services.

The new Department of Finance Bank Account Policy, which became effective October 1, 2010, provides clear guidelines for Agencies, Departments, Schools and City Programs to open, update and close New York City bank accounts. Agency bank accounts are reviewed and approved by the Treasury organization. City bank accounts may only be opened at New York City Designated Banks. These accounts must have the City's Tax Identification Number (TIN) and may only hold deposits of City funds. Agency bank accounts also must be registered with the Office of the Comptroller, which conducts an annual survey of all City bank accounts. These surveys include Agency bank account balances as of June 30th.

The third responsibility of Treasury is to record, manage and disburse the City's court assets, both civil and criminal. These assets currently total approximately \$350 million and are held in a common trust fund.

Finally, the Treasury team is responsible for the administrative support of the Banking Commission. This includes preparing timely analyses of developments at Designated Banks, reviewing and preparing recommendations for bank and BDD branch designations, recommending and monitoring BDD deposits, ongoing oversight of related banking matters and the review and analysis of interest rates and credit markets. The Treasury support team also prepares special projects and analyses for the Commission as needed or requested.

The roles of New York City Banking Commission and City Treasurer are very important. I hope that my testimony today helps the City Council, and the public, to understand that the bank related responsibilities of the Banking Commission and the Treasury Division are distinct, but interrelated. Both the Banking Commission and the Treasury Division work daily to safeguard the City's bank account balances and the Commission is an integral and invaluable part of New York City's Treasury functions.

Thank you. Now I will be happy to take your questions.