



New York City Council

Christine C. Quinn, Speaker

Finance Division

Preston Niblack, Director

Jeffrey Rodus, First Deputy Director

Hearing on the Mayor's Fiscal Year 2012 Executive Budget

Department of Finance

June 6, 2011

The Committee on Finance

Hon. Domenic M. Recchia, Jr., Chair

Latonia McKinney, Deputy Director

Anthony Brito, Senior Legislative Financial Analyst

Overview

The Department of Finance (DOF) is charged with collecting tax and other revenues, valuing approximately one million properties each year, administering tax audit and enforcement action to promote compliance, conducting hearings on parking tickets each year and maintaining property records.

Department of Finance Financial Summary						
	2009	2010	2011		2012	*Difference
	Actual	Actual	Adopted	Exec. Plan	Exec. Plan	2010–2011
Budget by Program Area						
Administration	\$49,461	\$47,082	\$39,437	\$45,491	\$56,226	\$16,789
Audit	17,473	15,316	20,535	19,756	23,053	2,518
Civil Enforcement	15,552	17,186	15,914	17,036	15,154	(759)
Collections	16,811	22,091	20,591	19,791	18,741	(1,849)
Communications & Government Services	1,602	1,667	1,592	1,283	1,153	(439)
Customer Relations	4,407	1,806	1,991	1,195	1,954	(36)
Finance Information Technology	33,110	32,975	39,226	35,673	27,463	(11,762)
Legal & Adjudications	14,462	14,840	15,171	15,314	15,024	(146)
NYCSERV Contract Funding	18,050	14,387	4,422	4,372	1,312	(3,109)
Payment Ops & Application Processing	16,095	18,107	13,950	17,382	16,230	2,281
Property Records	10,145	7,818	8,648	7,321	8,121	(526)
Treasury	15,792	25,003	25,460	27,173	25,460	-
Valuing Property	12,135	12,619	13,147	12,594	12,618	(528)
TOTAL	\$225,096	\$230,898	\$220,084	\$224,387	\$222,515	\$2,431
Funding						
City Funds	N/A	N/A	\$217,440	\$218,929	\$219,191	\$1,750
Intra-City	N/A	N/A	\$2,205	\$4,834	\$2,886	\$680
State	N/A	N/A	\$437	\$623	\$437	\$0
TOTAL	\$225,096	\$230,898	\$220,084	\$222,387	\$222,515	\$2,431

* Difference refers to the variance between the Fiscal 2011 Adopted Budget and the Fiscal 2012 Executive Plan.

Fiscal 2012 Executive Budget Actions

The Department of Finance's (DOF) Fiscal 2012 Executive Budget is \$222.5 million, which is \$2.4 greater than the \$220 million Fiscal 2011 Adopted Budget. Since the Fiscal 2011 budget adoption, the agency has implemented a plan to reduce its personnel costs and generate revenue for the City through greater tax enforcement initiatives which will result in a savings of \$4.2 million in the current fiscal year and \$32 million in Fiscal 2012. The overall net number of full-time positions within the agency will decrease by 76 from 2,053 budgeted positions to 1,977 in Fiscal 2012. This headcount reduction takes into account the elimination of 129 employees, the hiring of 68 new employees and the realization of headcount reductions from previous fiscal years.

The Fiscal 2012 Executive Budget reflects the agency's shifting priorities of reducing expenses and increasing collections. In particular, over the past three fiscal years the agency has made it a priority to decrease funding in expensive contractual obligations by eliminating contracts for the maintenance of DOF's NYCServ and ACRIS' systems and further eliminating contracts for information technology consultants. The agency will instead use DOF employees that were hired in Fiscal 2010 for these functions. These actions reflect the agency's programmatic and budgetary shift from outsourcing technology maintenance to hiring in-house personnel to meet the objectives of the agency and yield net savings. In addition, the Fiscal 2012 budget eliminates low-level skill workers with administrative and clerical positions while simultaneously continuing the practice of hiring new employees with the high level technical expertise to advance the City's tax enforcement collections. The following highlights summarize the major changes in DOF's budget since the Fiscal 2011 Adoption.

Budget Actions in the Executive Plan

<i>Dollars in Thousands</i>	FY 2011			FY 2012		
	City	Non-City	Total	City	Non-City	Total
Agency Budget as of February 2011 Plan	\$219,270	\$3,588	\$222,858	\$217,099	\$3,324	\$220,423
Program to Eliminate the Gap (PEGs)						
Tax Shelters and Expansion of Limited Scope Audits				\$2,854		\$2,854
Total, PEGs				\$2,854		\$2,854
Other Adjustments						
Bus Lane Enforcement Camera Revenue	\$74		\$74			
CB Increases	8		8	9		
CB transfer	(379)	-	(379)	(377)		(377)
Heat, Light and Power	(43)	-	(43)	(1,116)		(1,116)
IC Mod Security		70	70			
Lease Adjustment				794		794
Dept. of Finance/Sheriff		1,801	1,801			
TLC Collection of CMVT				(71)		(71)
Total, Other Adjustments	(\$340)	\$1,870	\$1,530	(\$762)		(\$770)
Agency Budget as of Executive 2011 Plan	\$218,930	\$5,458	\$224,388	\$219,192	\$3,324	\$222,516

Program to Eliminate the Gap (PEGs)

- ☑ **Agency Wide Eliminations.** DOF began the process of laying-off a total of 127 employees in Fiscal 2011 which is expected to reduce agency spending by \$2.7 million in the current fiscal year. The Council restored \$800,000 to fund 80 office machine aides through May 6, 2011, however the agency's Fiscal 2012 budget calls for the elimination of the office machine aide title. The agency was able to transfer 14 employees who formerly had the office machine aide title to a clerical associate title. An additional two positions will be eliminated in Fiscal 2012 and the full value of the budget reductions will be a total of \$8.1 million in Fiscal 2012 and the out years. These personnel reductions will impact primarily agency wide clerical positions such as office machine aides, cartographers, and stock workers. DOF also targeted specific divisions within the agency for budget reductions such as the Sheriffs Division which will have its headcount reduced by 10 positions. The following table provides a detailed breakdown of the layoffs and savings that have occurred in Fiscal 2011 and will continue in Fiscal 2012.

Agency Wide Title Eliminations	FISCAL 2012	
	Personnel Costs	Head Count
Elimination of Office Machine Aides	(\$3,914,679)	(78)
Elimination of Supervisor of Office Machine Aides	(113,169)	(2)
Elimination of Associate Investigators	(594,686)	(8)
Elimination of Cartographer Titles	(928,811)	(11)
Elimination of Stock Workers	(285,862)	(5)
Executive Divisions	(990,250)	(11)
Sheriff's Division	(983,437)	(10)
Operations	(153,912)	(2)
Property	(66,276)	(1)
Legal	(114,563)	(1)
Adjustment: due to Rounding	(2,450)	
Total PS Expense Reductions	(\$8,148,095)	(129)

- ☑ **Enhanced Tax Enforcement.** DOF will generate additional revenue for the City by promoting strategic objectives such as tax compliance, efficient production of accurate property rolls, identification of audit targets through the use of data matching/modeling, and targeted audits and enforcement strategies for sales, business and personal income tax filers. In particular, DOF will hire 61 new auditors to implement this initiative at a cost of \$775,000 in Fiscal 2011 and \$3.1 million beginning in Fiscal 2012. The net projected revenue will be \$4.2 million in Fiscal 2011, \$20 million in Fiscal 2012, increasing to \$29 million by Fiscal 2014.
- ☑ **Business Tax Shelter Audits.** DOF will hire seven additional auditors who will audit an inventory of 25 business tax shelter cases and expand the number of limited scope audits. In particular, the agency has been developing sophisticated audit selection models based on federal, State and local tax data as well as non-tax data to identify potential non-filers and those who underreport their income. The agency is currently utilizing information technology consultants who have the skills to optimize databases and reporting repository for queries which help identify prospective audit cases. In addition, the agency will seek to close audit

cases by requiring answers to defined questions primarily through correspondence, rather than an extensive review of a company's filing for a tax year. These types of audits will be in addition to the full field audits that are needed to resolve more complex tax compliance cases.

These new actions are projected to generate \$12 million in Fiscal 2012 increasing to \$53.2 million by Fiscal 2015. Although the agency is currently insourcing consultants to help implement this revenue PEG, DOF will hire seven new employees in Fiscal 2012 who have the skills to continue these audits. The costs of paying for the consultants is \$1.9 million in Fiscal 2012 going down to \$318,680 in Fiscal 2013 when it is anticipated that the consultants will no longer be needed. The costs of the seven new employees will be \$899,346 in Fiscal 2012 and \$1.1 million in the outyears.

- ☑ **Vehicle Traffic Law.** The agency will coordinate with the State Department of Motor Vehicles to generate additional revenue from the enforcement of a provision in the Vehicle and Traffic Law that suspends an owner's vehicle registration if there are five tickets in judgment in a rolling twelve-month period. DOF anticipates that by suspending vehicle registrations, it will compel owners of mostly commercial vehicles to pay their parking tickets which are in arrears. The total universe of vehicles that have parking ticket arrears is 14,000 which has a total value of \$17 million. DOF projects based on historical data, that enough commercial vehicle owners will pay their parking tickets because businesses might be hindered if they cannot use a vehicle to transport goods and services. The projected revenue from enforcing this law is expected to be \$1 million in Fiscal 2011 and \$1 million in Fiscal 2012.

New Agency Needs

- ☑ **Payment Services Pilot.** The Fiscal 2012 Budget includes funding for the Department's Payments and Receivables repository project. This project would allow the City to bill, accept, process and reconcile payments across almost 40 City agencies. This is an estimate of the expense for a systems integrator and vendor to build a data warehouse to use for centralized billing and collection as well as presenting modernized payment methods through a demonstration project with a bank or similar vendor. The Pilot will cost \$950,000 in Fiscal 2011, \$600,000 in Fiscal 2012, and \$250,000 in Fiscal 2013 and the outyears.
- ☑ **Pension Unit.** The Fiscal 2012 Budget includes \$300,000 and the out years for the Mayor's Office of Pensions and Investments which was created in Fiscal 2011 in order to provide guidance on investment issues for all city-side trustees. This Office's mandate is to monitor the investments of over \$100 million in investments and investment managers for all asset classes held by the pension systems and Deferred Compensation Plan on behalf of 700,000 New York City retirees and employees. These pension funds include: the New York City Employees' Retirement System; the Teachers' Retirement System of the City of New York; the New York City Police Pension Fund; New York City Fire Department Pension Fund; and the New York City Board of Education Retirement System.

Appendix A: Budget Actions in the November and February Plans

<i>Dollars in Thousands</i>	FY 2011			FY 2012		
	City	Non-City	Total	City	Non-City	Total
Agency Budget as of June 2010 Plan	\$217,441	\$2,644	\$220,085	\$216,107	\$2,644	\$218,751
Program to Eliminate the Gap (PEGs)						
Enhanced Tax Enforcement-PS	\$755	\$0	\$755	\$3,100	\$0	\$3,100
Employee Layoffs	(2,084)	0	(2,084)	(5,121)	0	(5,121)
OMA restorations	800	0	800		0	0
Enhanced Tax Enforcement Revenue	(5,000)	0	(5,000)	(23,100)	0	(23,100)
Suspension of NYS Registration Revenue	(1,000)	0	(1,000)	(1,000)	0	(1,000)
Total, PEGs	(\$6,529)	\$0	(\$6,529)	(\$26,121)	\$0	(\$26,121)
New Needs						
Collection agency costs	\$1,000	\$0	\$1,000	\$0	\$0	\$0
Dun & Bradstreet Data Matching	400	0	400	0	0	0
Payment Services Pilot	950	0	950	600		600
Pension Unit	300	0	300	300	0	300
Total, New Needs	\$2,650	\$0	\$2,650	\$900	\$0	\$900
Other Adjustments						
LGRMIF Grant for FY11	\$0	\$74	\$74			\$0
Mental Hygiene funding shift-Deputy Sheriff's		681	681	0	681	681
Staffing Fringe Offset	(199)	0	(199)	2,113	0	2,113
Establish LGMIF Grant	112	0	112	0	0	0
Shift from Agency 068 to DOF	0	55	55	0	0	0
DOF Security Services	0	11	11	0	0	0
Staffing Fringe Offset	(112)		(112)	0	0	0
To pay for Security Services		11	11	0	0	0
Enhanced Tax Enforcement Revenue	5,000	0	5,000	23,100	0	23,100
Suspension of NYS Registration Revenue	1,000	0	1,000	1,000	0	1,000
Total, Other Adjustments	\$5,800	\$832	\$6,632	\$26,213	\$681	\$26,894
Agency Budget as of February 2011 Plan	\$219,270	\$3,588	\$222,858	\$217,099	\$3,324	\$220,422