Greed, Corruption, and the Modern State

Essays in Political Economy

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7. Saving Gotham: fighting corruption in New York City's property tax system*

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The Department of Finance collects vital revenue for the City of New York. One of its major responsibilities is determining the value of more than one million properties spread across the city's five boroughs (NYC Finance 2014). To accomplish this task Finance's Real Property Assessment Unit relies on property tax assessors.

Property tax assessors are front-line bureaucrats responsible for determining the rate at which property owners should be taxed. They perform three important tasks: First, property tax assessors ensure that properties are assigned to the appropriate tax categories; second, they verify that the characteristics of both building and land are correct; and third, they value properties in accordance with the existing guidelines (NYC Finance 2014).

The role that property tax assessors play in New York City's public administration supports the thesis that bureaucrats often have considerable bearing on citizen's lives (Weber 1958; Wilson 1978; Lipsky 1980; Woll 2009). In carrying out their responsibilities, they have access to privileged information and wield broad discretionary powers, which place them at an advantage vis-à-vis the voting public (Dodd and Schott 1979; Ferejohn 1999; Rose-Ackerman 1999; Stiglitz 2002).

The information asymmetry that gives bureaucrats, in general, and property tax assessors, in particular, relative power over the citizenry can lead to abuse. It is an institutional flaw that a free and active press (Gentzkow, Glaeser and Goldin 2006: 188; Schiffrin 2014), independent

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accounting offices (Manin, Przeworski and Stokes 1999: 24), freedom of information procedures (Ackerman and Sandoval-Ballesteros 2006: 93; Banisar 2006), and anti-corruption agencies endeavor to correct (Winslow and Burke 1993; Manion 2004). Still, the information asymmetry is sufficiently entrenched that bureaucrats continue to find opportunities to abuse their power. To illustrate, we provide a case study that examines a scandal involving New York City property tax assessors.[1]

In February of 2002, shortly after Mayor Michael Bloomberg first took office, federal prosecutors arrested 18 current and former tax assessors. They were charged with participating in an over-three-decades-old corruption scheme that involved more than 500 properties and cost the city an estimated $40 million in revenue a year (Bagli and Rashbaum 2002b). The total loss amounted to approximately one billion dollars (Committee on Real Property Taxation 2002: 57–8).

Mayor Bloomberg captured the case's significance by referring to it as the 'largest and most damaging corruption scheme ever conducted within the city' (Seifman 2004). A spokesman for the New York City Department of Investigation (DOI) went so far as to state that it knew of no larger municipal fraud case in US history (Mcgurk 2002). If these assertions are correct, then this property tax assessment scheme had a greater negative impact on the city than the 1970s affair involving corruption in the police and buildings departments (for further details refer to: Knapp Commission 1973; Maas 1973; Gardiner and Lyman 1978); the 1986 Democratic party machine fiasco (Newfield and Barrett 1988); and the 1994 'Dirty Thirty' case of drug dealing cops (Treaster 1994; Anechiarico and Jacobs 1996: 164–70).

In any case, this study is the first scholarly effort to examine corruption in New York City's property tax system. We interviewed Charles V. Bagli, a veteran *New York Times* reporter who has covered the intersection of politics and real estate since 1987.[2] We also spoke with

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[1]   There are those who view case studies as beset by a degree-of-freedom problem and as vulnerable to selection bias (King, Keohane and Verba 1994: 119–20, 128; McKeown 1999; Geddes 2006: 89). Although we acknowledge the method's limitations, we also view case studies as a useful tool for identifying testable hypotheses and exploring the intricacies of extreme cases (Van Evera 1997: 55; Sambanis 2004: 260; George and Bennett 2005: 19). In this chapter, we use the case study approach to achieve the latter objective, but also to motivate future empirical work.

[2]   Charles V. Bagli is the author of, *Other People's Money*, a book that details the dynamics that led to the recent US real estate meltdown. Bagli first caught wind of the problem in the City's Property Assessment Office thanks to an anonymous call. He wrote over 12 news articles on the topic.

Sharon L. McCarthy, one of the three prosecutors in the criminal case resulting from the tax assessor scandal.[3] In addition to the in-person interviews, we corresponded with Rose Gill Hearn.[4] Between 2002 and 2013, Gill Hearn served as DOI Commissioner. Prior to her appointment at DOI, Gill Hearn was a federal prosecutor for ten years in the US Attorney's Office for the Southern District of New York. Finally, to complement the perspectives gathered through direct communications, we studied government reports, news articles, legal documents in the public domain, and transcripts from the hearings held by the New York State Assembly Standing Committee on Real Property Taxation.

Part I reviews key conceptual issues in the study of corruption. In this section we address questions such as: What are the institutional structures that sustain bureaucratic corruption? How are corruption and inefficiency related, and why do anti-corruption agencies tend to target both phenomena? What distinguishes New York City's Department of Investigation from other such agencies, and what do we know about this particular agency's history, statutory powers, legal obligations, institutional capacity and track record? Part II introduces the reader to the structure of urban property taxation. Part III is the heart of the chapter. There we provide a close examination of the 2002 corruption scandal. Finally, we conclude with a summary and a brief description of a collaborative research project with DOI. This partnership is ongoing and should serve to evaluate distinct anti-corruption mechanisms through a randomized control trial.

I. A CONCEPTUAL APPROACH TO URBAN CORRUPTION

There is much that the voting public, and even elected and appointed officials, do not know about the workings of government and the bureaucracy. To some extent, their ignorance is justified. Elected and appointed officials often hold vast responsibilities and are, thus, personally incapable of overseeing the work of every agent under their charge. Similarly, the electorate dedicates a majority of its time to private, non-governmental

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[3] Sharon L. McCarthy is a partner at the law firm Kostelanetz & Fink, LLP. She represents individuals and corporations in civil and white-collar criminal litigation and tax controversies and trials. Before rejoining the private sector in 2006, she served for 12 years in the US Attorney's Office for the Southern District of New York.

[4] Rose Gill Hearn is a Principal at Bloomberg Associates, which is a pro-bono consulting group that advises city governments in the United States and around the world on governance, economic and other issues.

affairs. When citizens do engage their government as individuals petitioning for assistance, they are often confused and repelled by legal and procedural complexities. This is not to say that every citizen petition is just; however, democracy is founded on the idea that government serves society. The members of the voting public are government officials' *de jure* principals, and government officials are reminded of the voting public's supremacy on Election Day. In other words, an electoral connection exists between the citizenry and the officials who populate government, but the connecting thread becomes thinner the deeper it pierces into the layers of public administration. An example from local government illustrates this point.

Citizens elect a mayor. The mayor is the city government's highest-ranking executive and by extension most bureaucrats' *de facto* principal. If the mayor is interested in running for re-election or higher office, she faces institutional incentives to serve the public. These same career incentives might reasonably motivate the mayor to appoint cabinet members who seem willing and capable of serving the citizenry, and yet these appointed high-level officials are two steps removed from the ballot box. Being invited to serve as the secretary of a local ministry or department hinges on the electorate's choice of mayor, and on the elected mayor's choice of close collaborators.

Following the mayor's example, the top leadership of city government fills select positions with agents of their choosing. These appointed officials, however, generally rely on the existing corps of lower-level officials to carry out the lion's share of operations. This dynamic presents an advantage: a level of continuity is ensured from one mayoral administration to the next. Everything does not stop when the outgoing mayor and her close collaborators pack their bags, and the incoming mayor and her staff find their way around city hall. From the standpoint of democratic accountability, however, this setup poses two significant challenges. First, the officials who join government in the wake of an election often depend on the experience and technical knowledge of bureaucrats. Second, these bureaucrats are at minimum three degrees removed from the power of the ballot box, and are, therefore, significantly less sensitive to the interests of the voting public.

Being removed from the electorate grants bureaucrats considerable discretion, and this discretionary power is subject to abuse. However, influence over a state activity, such as deciding whether a property owner receives an illegitimate tax cut, is a necessary but not sufficient condition for corruption. Other factors, including personal values, prevailing social norms, job satisfaction, probability of detection, and severity of the penalty, help determine whether an official becomes corrupt.

A bureaucrat who values personal integrity may avoid acting corruptly for fear of incurring a psychological penalty in the form of guilt. The likelihood that a bureaucrat will be corrupt also depends on the bureaucrat's expectations regarding the behavior of others. If corruption is prevalent, she can hide her malfeasance within the mix of other corrupt acts. Job satisfaction, driven in large part by remuneration, is another variable of potential interest. A competitive public sector wage may reduce the probability that a bureaucrat will participate in corruption by eliminating her incentive to supplement an inadequate salary with illegal rents. Additionally, given the employment alternatives in the labor market, a competitive public sector wage raises a bureaucrat's opportunity costs of losing her current job in government because of malfeasance. However, the idea of losing a public sector job or being penalized in some other way for corruption depends on the probability of detection, and corruption detection is anything but a simple endeavor.

Corruption is difficult to identify, in part, because it is often confused with inefficiency, a seemingly lesser ill. Crucially, corruption and inefficiency are related pathologies—an institution affected by corruption is often also inefficient, and vice versa. Corruption and inefficiency may enjoy a mutually reinforcing relationship. For instance, red tape in the form of excessive bureaucratic delays creates an incentive for corrupt payments. Similarly, we assume that corruption breeds an environment where bureaucrats are unmotivated to work energetically to advance the government's official, public-oriented goals. After all, corruption is by definition an act that places individual interests above those of the collective.

The key difference between the two is that corruption commonly promises material gain or the avoidance of material loss by at least one of the parties involved in a transaction. In contrast, inefficiency implies waste. Inefficiency occurs when resources—such as time, energy, or capital—are not expended in a manner that most directly furthers an agency's official goals.

Inefficiency may be caused by an agent's lack of competence, drive, or focus, or by an agency's poor organizational structure. Similar to corruption, inefficiency produces suboptimal outcomes from a public interest perspective. This is precisely why anti-corruption agencies, such as New York City's Department of Investigation, tend to target *both* phenomena (City of New York 2004). Indeed, DOI is meant to promote better management in NYC, whether or not linked to corrupt acts (Seidman 1941).

DOI was originally known as the Office of the Commissioners of Accounts, and is one of the oldest law enforcement agencies in the United States dedicated to fighting corruption (Department of Investigation
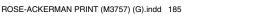
2014b). It was founded in 1873 to oppose Tammany Hall's influence (Winslow and Burke 1993: 1–4). In this sense, 'The creation of DOI was through a reactive process, as opposed to a proactive process' (Green 2013: 12). Be that as it may, by the mid-1950s, the agency had evolved into a strong, nonpartisan watchdog for the municipal government in New York City (Anechiarico and Jacobs 1996: 76–81; Department of Investigation 2014a).

DOI stands today as an independent department supported by an annual budget of approximately $22 million and a staff of about 470 members (Green 2013: 14; Peters 2014a: 4). The agency employs attorneys, investigators, forensic auditors, computer forensic specialists and administrative personnel (Graycar and Villa 2011: 423; Peters 2014b: 2). DOI holds significant powers (including the power to subpoena and conduct arrests), and is responsible for investigating and referring for criminal prosecution cases of unethical behavior by local officials, contractors and others who receive benefits from or conduct business with the city (Department of Investigation 2014b).[5] Based on recent data, a vast majority of DOI's investigations appear to focus on New York City's Housing Authority (Dobkin 2014). However, DOI also conducts numerous investigations within the Department of Correction, the Department of Buildings, the Fire Department and the School Construction Authority, among other agencies (ibid.).[6] Importantly, a majority of these cases involve a threat to the city's capacity to meet requirements set by legislation (Graycar and Villa 2011).

On the question of efficacy, Anechiarico and Jacobs (1996) find important instances in DOI's history where it failed to prevent corruption. However, Anechiarico and Smith (2008) also note that, 'serious cases [of corruption] have been cut by almost two-thirds in recent years'.[7] Other metrics reveal that, since 2002, DOI investigations have led to more than 6,400 arrests and the recovery of more than $500 million (Gill Hearn 2008;

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[5]   As described by local statutes, DOI is responsible for 'the investigation and elimination of corrupt or other criminal activity, conflict of interest, unethical conduct, misconduct and incompetence (i) by City agencies, (ii) by City officers and employees, and (iii) by persons regulated by, doing business with or receiving funds directly or indirectly from the City . . .' (see Mayoral Executive Order No. 16 for more information).

[6]   The Department of Finance in particular is the 12th most investigated agency in New York City (Dobkin 2014).

[7]   Based on a different sample (in other words, one that is not solely looking at 'significant cases'), a reporter applauds DOI's efforts during Mayor Bloomberg's administration because it made a record 6,773 municipal corruption arrests (Smith 2013).

Adams Otis 2013; Department of Investigation 2013).[8] These numbers are of course noteworthy in absolute terms, but their relative significance depends on the unknown quantity of actual corruption events and financial losses due to corruption. Therefore, given what information we have available, the most we are able to say is that DOI's success in recouping hundreds of millions of dollars signals a positive and dutiful effort to fend against the theft of public resources. This is an issue that is particularly relevant given the topic at hand.

As we discuss at length in Part III, the 2002 corruption scandal involving New York City property tax assessors hit soon after the September 11 terrorist attacks. This is a period during which the city faced a $4 billion budget gap (Bagli 2002a). In court, Sharon McCarthy argued that the tax assessors involved in the corruption scheme abused their power and, 'in doing so deflated assessments, denying the city of certain tax revenue' (*USA v. Marino* 2000: 8).[9] The prevailing estimate is that the city lost a total of approximately one billion dollars over the course of more than three decades. This is precisely why Rose Gill Hearn (2014), the commissioner of the Department of Investigation during Bloomberg's administration, considers the property tax assessment scheme to be one of the two most costly corruption events in the city's recent history.[10] The other significant case involved fraud in a payroll modernization project that cost taxpayers more than $600 million (Gross 2011; Weiser 2014).

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[8]   In addition to searching for statistics, we also reviewed multiple news articles to see how the media evaluated the level of government integrity during Bloomberg's administration. No single article or quote in *The New York Times*, *The Economist* or *The Wall Street Journal* offered a clear and direct assessment. Most articles focused on specific events related to the issue (scandals, increased oversight, etc.), but none evaluated the overall state of government integrity in New York City. However, taken together, the articles paint a picture that the Bloomberg administration struggled with several integrity issues, but that it also attempted to implement procedures to overcome them.

[9]   Agreeing with McCarthy's assessment, the judge observed that, '[the scheme] went on for quite a number of years. My problem is', he continued, 'we are talking about $4.1 million in bribes. We are not talking about a small amount. I don't accept the suggestion that there was no substantial loss. I mean, I cannot believe that someone would pay $4.1 million unless he was getting something substantial in return' (*USA v. Marino* 2000a: 17).

[10]   In the interviewee's own words: 'The only other case that comes to mind as comparable in relation to its direct monetary impact is the CityTime case, which we also investigated and brought to a successful conclusion with the U.S. Attorney's Office for the Southern District of New York' (Gill Hearn 2014).

II. MUNICIPAL PROPERTY TAX ASSESSMENT

Property taxation has been the major source of tax revenue for US munici-
palities since the seventeenth century (Netzer 1966: 3). It is also an impor-
tant source of local government revenue in Britain, Ireland, South Africa,
Australia, and New Zealand (11). But our focus is on the United States,
where state and local governments collected an estimated \$488 billion
in property taxes in 2013 (US Census Bureau 2013). This considerable
amount represents more than a third of all state and local government
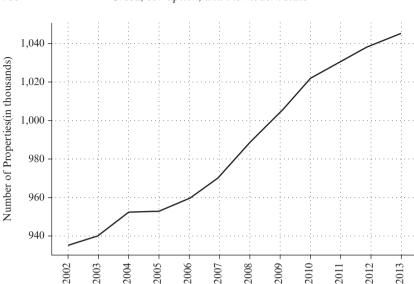revenue for that year (Entrikin 2014: 289).

In New York City, property taxes account for approximately
\$18.4 billion of its budget, or about 40 percent of all the city tax revenue
collected in fiscal year 2013 (Office of Management and Budget 2014). It
is the city's single largest and most stable source of funding. The property
tax is, moreover, a source of revenue that has been growing since fiscal
year 2002, a fact that we highlight in Figure 7.1, where the x-axis stands
for fiscal year and the y-axis represents the adopted tax revenue budget in
million US dollars. The light grey ribbon shows the property tax revenue
from 2002 to 2014; the dark grey ribbon shows all other tax revenue.
Together, they constitute the total tax revenue for New York City.

Figure 7.1   The importance of property tax revenue for New York City

Note: The graph includes partially taxable and fully taxable properties. It excludes fully exempt properties.

Figure 7.2 Number of taxable properties in NYC

The Department of Finance (DOF) is responsible for collecting property taxes in New York City. As noted in the introduction, the task is one of monumental proportions. In fact, as Figure 7.2 reveals, the number of properties in New York City has been growing rapidly since fiscal year 2002, and now exceeds one million (NYC Finance 2013).

DOF has an office known as Real Property Assessments. This is the specific unit that assesses[11] the value of properties in the city, issues Notices of Assessment to taxpayers, and collects property taxes from taxpayers (NYC Finance 2014). The Real Property Assessments Unit employs approximately 119 assessors and has offices in each of New York City's five boroughs. Of the five boroughs, as Figure 7.3 shows, Manhattan accounts for the largest taxable value.

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[11] The term 'assessment' refers to the, 'whole statutory mode of imposing the [property tax]. It embraces all the proceedings for raising money by the exercise of the power of taxation from the inception to the conclusion of the proceedings' (*Jackson Lumber Co. v. McCrimmon* in Entrikin 2014: 5).
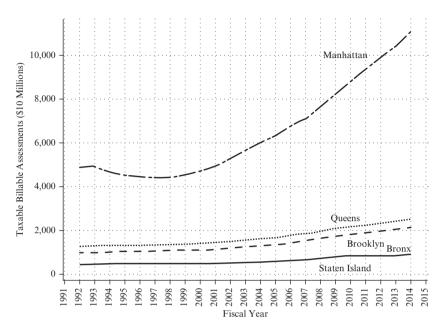
Figure 7.3   Property taxable billable assessments by Borough

Moreover, the borough's taxable value has been growing rapidly since fiscal year 2002.

Another aspect of the New York City property tax system that merits attention is its subdivision by property types. Before 1981, New York City's properties were divided into ten non-housing tax classes (Netzer et al. 1980: I–20). It was a complex system with even greater room for bureaucratic discretion. In particular, the rates of tax for each class were determined by assessors in combination with the Tax Commission and the courts (I–2). Then, in 1981, the New York State legislature enacted S7000A. This statute created a system with four classes of property, each class being taxed on a different share of its market value. Following is a description of each tax class:

- Class 1 encompasses one- to three-unit residential properties.
- Class 2 refers to residential properties with more than 3 units, including cooperatives and condominiums.
- Class 3 is meant for utility company equipment and special franchise properties.
- Class 4 captures all other properties, including office buildings and hotels.
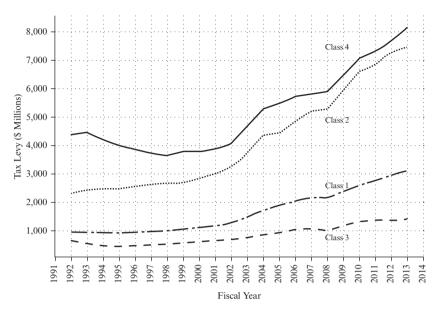
Figure 7.4   Tax levy by tax class

Figure 7.4 compares the tax levy for the four tax classes. The data reveal that, across all of New York City, tax class 4 has the largest share of tax collections among the tax classes.

All properties—regardless of the tax class or borough they belong to—are assessed on a yearly basis. The assessment process follows a set timeline. On 5 January, DOF determines the taxable status of each parcel of real property in New York City. Ten days later, on 15 January, DOF makes public the tentative assessed values for every parcel of real property. It does so by mailing a Notice of Assessment to every property owner, but also by publishing the Tentative Tax Roll. The Tentative Tax Roll is open for public inspection from 16 January to 16 March of each year. Property owners who disagree with DOF's assessment may file an appeal with the Tax Commission. After the Tentative Tax Roll is closed to public inspection and after DOF and the Tax Commission have made their corrections, the annual roll is made final on 25 May. Then, on 1 July, a new fiscal year begins.

Thus far we have described property taxation as it is supposed to work. However, Diane B. Paul, a scholar who has written about property taxation in the U.S. describes the activity as one of 'the most corrupt of urban functions' (Paul 1975: 7). The author of *The Politics of the Property Tax* further explains that:

> [T]he actual work of valuing property is done by 'street level bureaucrats' over whom there is generally little effective supervision. The decisions made by urban assessors are sometimes of great importance to taxpayers, particularly owners of apartment buildings and commercial and industrial property, and it is precisely for these kinds of property that well-defined standards of assessment are lacking. Assessing, like police work, is both discretionary and subjective, combining constant temptation with minimal likelihood of exposure . . . (8).

This last problem—specifically, imperfect monitoring in taxation—is analyzed by Das-Gupta and Mookherjee (1998) and by Flatters and Macleod (1995). Moreover, it is a problem that local news coverage has recently exposed in Los Angeles (Dolan 2013), Cayahoga County (Caniglia 2013), and Cook County (Meisner 2013).

In summary, property tax assessment is a vital but imperfectly monitored government activity that relies on bureaucratic discretion. This is true even for agencies that have come to rely on new technology, such as computer modeling. Data analytics allows government auditors to identify individuals or firms who are paying less in taxes compared to others showing similar characteristics. During David Frankel's tenure as commissioner, DOF created the Data Intelligence Group in order to improve the efficiency of its auditing activities (Goldsmith 2014). In spite of these efforts, however, the property tax system continues to rely on assessors to conduct field inspections and interpret property tax laws. Herein lies the risk.

III.   THE 2002 PROPERTY TAX SCANDAL

Large and small property owners may seek relief from property taxes by hiring consultants. Tax consultants are middlemen whose compensation often comes in the form of a fraction (typically, 30 to 50 percent) of the tax savings obtained for a property owner (Entrikin 2014: 300). Many property tax consultants follow ethical and professional standards, but there are also those who rely on questionable methods to influence tax officials. This explains why tax consultants are sometimes painted in a negative light as bureaucratic lobbyists. As stated by a New York City real estate executive, 'We pay lobbyists. That's the system we live in. Sometimes you get one that's crooked' (Rashbaum and Bagli 2002).

Enter Albert Schussler. After 30 years of working as a tax assessor for the City of New York, Schussler left government in 1967 to begin a career as a private sector consultant (Bagli and Rashbaum 2002b; Entrikin 2014: 318). Schussler aimed to capitalize on his knowledge about and contacts within the real estate industry. For the next 35 years, he charged

property owners substantial fees[12] in exchange for contriving to reduce their property taxes.[13]

In 2002, authorities accused Schussler of masterminding a massive corruption scheme (US District Court 2002). According to the indictment, Schussler had paid a total of $10 million in bribes so that tax assessors would undervalue some 562 properties (ibid.).[14] The bribes ranged from expensive dinners to thousands of dollars in cash payments. In exchange, assessors—whose official salaries ranged from $46,000 to $68,000 a year[15]—agreed to show Schussler their valuations before assessments were made public (Newman 2002: 73). Schussler would then provide a counter-assessment. In some cases, assessments dropped. In other cases, they stayed the same as the previous year or did not increase as much as they should have under normal circumstances (ibid.).[16]

When the scandal hit, the President of the Real Estate Board of New York responded by focusing the blame on the indicted tax assessors, and by defending the reputation of the city's real estate industry (Committee on Real Property Taxation 2002: 106).[17] This is an industry with significant political influence in the city (Bagli 2014; Craig, Raushbaum and Kaplan 2014), and yet the interests of its members are not always aligned. As a case in point, the corruption scheme described here hurt many more landlords than it helped. This explains why nearly 1,000

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[12]   According to one report, Albert Schussler charged his customers a flat retainer of $200,000 to $400,000 (Bagli and Rashbaum 2002b).

[13]   Schussler's influence grew to the point that he became an active figure in the Real Estate Board of New York. He also purchased and managed properties, including the iconic Ansonia Hotel (US District Court 2002 4; Bagli 2003a).

[14]   The exact number of undervalued properties is unclear. One report, for example, has the number at 545 (Bagli 2002b).

[15]   During the State Assembly hearings the union representative for tax assessors suggested that, 'Assessors should be better compensated and receive financial incentives for obtaining professional designations and higher education' (Committee on Real Property Taxation 2002: 73).

[16]   In alphabetical order and according to news reports, a few of the real estate firms whose property taxes were lowered as a result of Schussler's intervention were: Cohen Brothers Realty, Glenwood Management, Helmsley Spear, Jack Resnick and Sons, Lefferts-Fore and SL Green Realty (Danis 2002; Bagli 2002a; Bagli and Rashbaum 2002a; Bagli 2002c).

[17]   'As an industry', the President of the Real Estate Board asserted, 'we have a proud history of [. . .] contributing our time, energy, and money to causes, cultural, social, educational, enhancing the quality of life and the image of our City around the world, despite the baseless accusations of reckless editorials who have commented on this episode' (Committee on Real Property Taxation 2002: 106).

property owners sued the city on the basis that they had been forced to pay higher taxes to make up for the losses caused by tax assessor corruption (Bagli 2002e; Bagli 2003b).

In spite of the mounting pressure due to the lawsuits and media coverage, not a single property owner was criminally charged. Reflecting on this outcome, one of the prosecutors expressed the following statement:

> [Y]ou'd love to follow the rainbow to its very end, and get every single person along the way who has been committing crimes, but, unfortunately, it's not possible. You need evidence, and in a case like this the best way to get evidence is from people who dealt directly with the property owners. The person who dealt directly with the property owners is Albert Schussler, and he passed away, and, so [we lost the] ability to go after anyone else. And, you know, [. . .] there was no clear evidence that any of the property owners knew that Albert Schussler was paying bribes. So, none of the Tax Assessors, at least none of the witnesses that we worked with, had ever met directly with the property owners (McCarthy 2014).

In other words, by relying on a tax consultant property owners managed to advance their financial interests, while maintaining a safe distance from the actual assessment process.

Now, in order to better comprehend the tax scheme itself it is worth reviewing what we know about a tax assessor who served as Schussler's closest collaborator, Joseph Marino. A reporter describes Marino as a 'real tough guy . . . [often] smoking Camel cigarettes, and when he did come in the office he'd snap his fingers, and there was this other guy who didn't go out into the field anymore because he'd gotten beat up once, he'd bring him over his cup of espresso' (Bagli 2014). Standing before a judge, Marino admitted that he received as much as $4.1 million in bribes from Schussler between 1991 and 1997 (*USA v. Marino* 2000: 13). These bribe payments flowed as checks from Schussler's firm to that of one of Marino's relatives. The latter then declared the payments as taxable income (ibid.).
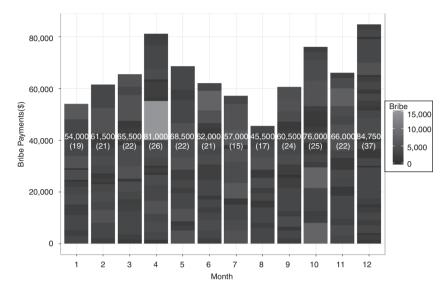
In terms of the number of officials implicated, around 40 percent of the city's 38 Manhattan assessors were directly involved in the corruption scheme (Bagli and Rashbaum 2002b). Two more officials, Roberta C. Hand and Aldo Macina, were arrested a year later (Friedman 2003; Saulny 2003).

There is much we can also learn from studying the information contained in the original indictment (see: U.S. District Court 2002). Our review of the bribes paid to tax assessors in Manhattan between 1997 and 2002 shows that corruption was a particular risk in the months of
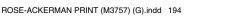
Note: The first number represents the total amount of bribes paid; the second number in parenthesis represents the number of bribe payments.
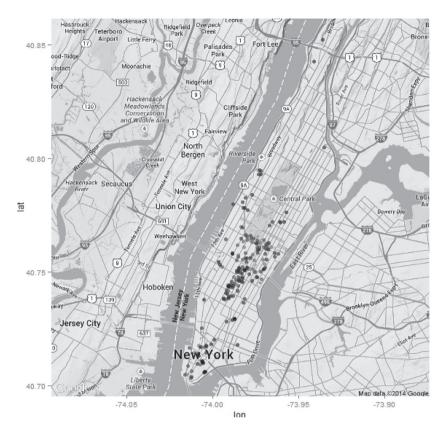
Figure 7.5 Bribe payments by month

December and April—that is, before the tentative and final tax rolls were published. Figure 7.5 illustrates our finding. The x-axis represents months in a year (1=January, 2=February, and so on) and the y-axis captures bribe data in US dollars. The height of a bar signals the total amount of bribes paid on a given month over the course of five years. Each colored block in a bar is a bribe payment. The block's tone and size signals the bribe's magnitude.

The corruption scheme's proportions are evident when examining the geographical area affected, the number of tax assessors involved, and the amount of bribes paid and tax revenue lost. Reports show that the scheme extended from Lower Manhattan through the Upper East Side to Harlem. It also covered the area between West 41st Street and West 96th Street, west of Eighth Avenue/Central Park West (Bagli 2002a; Bagli and Rashbaum 2002a). The following map pinpoints a partial sample (N=198) of these properties.

Finally, we turn to the question of bribes and revenue. Figure 7.7 summarizes key information about the known illicit payments made to 16 of the assessors implicated in the corruption scheme. The x-axis represents bribe amount in US dollars, and the y-axis lists the name of assessors. The

Note: * The map includes 198 properties with their values assessed Fiscal Year 2009.

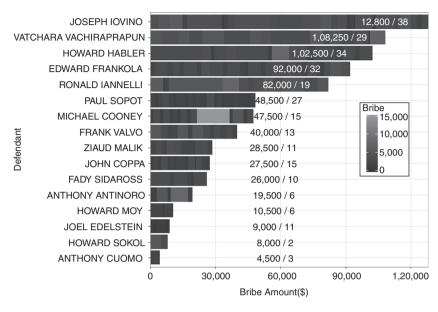*Figure 7.6   Map: properties involved in the 2002 scandal*

most corrupt assessor is shown at the top, and the least corrupt is shown at the bottom. The size of a bar signals the total amount of bribes received between 1997 and 2002. Each shaded block in a bar is one bribe payment. The block's tone and size signals the bribe's magnitude. The numbers shown with each bar are: (1) the average amount of bribes, and (2) the number of bribes recorded for each assessor. The top three assessors in terms of total amount of bribes received are Joseph Iovino, Vatchara Vachiraprapun, and Howard Habler. Figure 7.8 suggests a correlation between hierarchy and corrupt returns: the higher the position, the greater the bribes.

On the question of revenue, it is difficult to calculate exactly how much was lost because of corruption. That said, prosecutors estimated that the

Note: The first number represents the total amount of bribes paid; the second number represents the number of bribe payments.
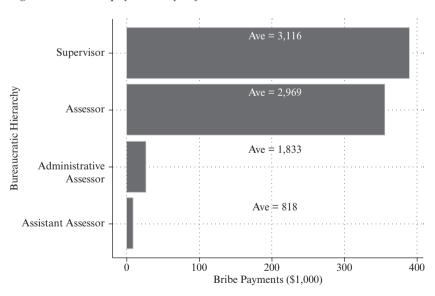
Figure 7.7   Bribe payments by defendant

Figure 7.8   Bribe by position in the bureaucracy's hierarchy

scheme cost the city $40 million a year in tax income, or $160 million between 1997 and 2002 (Bagli 2002d). Considering that the scheme went on for approximately 35 years, the city may have lost up to one billion dollars (Committee on Real Property Taxation 2002: 57–8).

As the engineer of the corruption scheme, Schussler risked spending 25 years in prison (Miller 2003). However, shortly before his trial, in early 2003, the tax-assessor-turned-consultant suffered a lethal stroke at the age of 85 (Bagli 2003a). 'So we had given [Schussler] a deadline', the interviewed prosecutor explained, 'in which to tell us whether he was going to proceed to trial, or enter a guilty plea. And he died that day, the day that we were expecting his answer. [. . .] I was shocked when he died, of course. I was shocked. He seemed to be in fine health. I didn't have any concerns about his health; his lawyers didn't raise any health concerns. But I imagine he was under quite a bit of stress' (McCarthy 2014).[18] Needless to say, Schussler's passing was an important setback for the prosecution— one that perhaps could have been avoided had the corruption scheme been detected sooner. On the subject of timing, Mayor Bloomberg complained that fraud in property taxation had 'gone on through six mayors, innumerable commissioners of finance' (Danis 2002).

There had been earlier signs. A former president of the city's Tax Commission, David Goldstein, claimed to have written an urgent letter in 1993 to DOI alerting it to possible corruption in the tax assessor's office. The letter apparently made explicit references to Albert Schussler and one of his associates, Thomas McArdle (Bagli 2002f). Aware of these suspicions, DOI launched a focused investigation into the question of corruption in property tax assessment around 1997. As part of its investigation, DOI twice inserted undercover agents into the Manhattan

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[18] Bagli (2014) tells the following story to suggest that Schussler's death was surprising:

> At one point, while I'm writing this story, I'm waiting outside [the courthouse] and [Schussler] comes out and his lawyer, whom I'd gotten to know, comes over to me and says, 'Would you like to meet Mr. Schussler?' And I was kind of surprised . . . So he came over, and we shook hands, and he congratulated me on my reporting. Kind of weird. So, ultimately, at a certain point I knew that he was going [to court] in January, I forget whether it was . . . it must have been January of 2003, he was supposed to go in to talk to the US prosecutor, and he was going to Florida for the holidays. Upon his return he was scheduled for a meeting. The night before the meeting he died. This shook the hell out of his lawyer, as well as everybody else. You began to hear and think of those stories of Russian spies and getting stabbed underneath a bridge in London with an umbrella. . . . Well, I know that when I talked to his lawyer the next day, he was really shaken [sic]. And it sort of took the wind out of the sails because the hope or the expectation was that he was going to name names.

property valuations unit (Rashbaum and Bagli 2002). However, DOI's search faced three significant obstacles:

- The city's tax assessors worked as a tightly knit group, which some described as 'clannish' and akin to 'an organized crime family' (ibid.).
- The assessment process was fraught with complexities that helped hide the corruption.[19]
- One of DOI's undercover agents, Nancy Sidaross, leaked confidential information about the investigation to the assessors (Seifman 2002).

In spite of these significant hurdles, a news article claims that DOI had a lucky break while conducting an interview about corruption allegations involving Brooklyn assessors. The interviewee misunderstood his questioners and began disclosing information about corruption in the Real Property Assessment's Manhattan office (Rashbaum and Bagli 2002). This helped authorities close in on Joseph Marino.

When Marino pleaded guilty in September of 2000, Albert Schussler dropped out of the corruption scheme. In July of 2001, however, Alan Edelstein, age 52, took Schussler's place in a revived version of the operation (2002f). Evidently, Edelstein did not realize that the investigation was ongoing. In fact, by this point, investigators had the cooperation of Marino and two other individuals—specifically, Thomas and Stephen McArdle—who also participated in the corruption scheme (Bagli 2002f). Stephen McCardle, in particular, was crucial, because, in cooperating with the investigation, later recorded tax assessors' descriptions of their involvement in the tax scheme (McCarthy 2014).

In the end, the accumulated evidence enabled authorities to prosecute a total of 20 individuals. It also made it possible for authorities to seize $17,597,842 of Schussler's ill-gotten assets (Gearty 2004; Gill Hearn 2004). This offered a degree of closure to a major case of urban fraud. Some might even see these actions by the authorities as inhibiting a similar corruption scheme from arising in the future. However, the fact that not everyone who benefited from Schussler's shady operations was disciplined might have generated a moral hazard problem. Property tax assessment

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19   In the words of a law enforcement official, 'It's one thing to have the allegations. But the target can always come back and say, "This is why we ranked this building at a lower assessment than the guy next door"' (Rashbaum and Bagli 2002).

remains a complicated process with significant financial implications in the hands of modestly paid bureaucrats. Gotham, thus, needs DOI's unceasing vigilance.

IV.   CONCLUSION AND RESEARCH AGENDA

In this chapter we examined a corruption scandal in New York City's recent history. The case involved a fraudulent scheme in property tax assessment that lasted over three decades and may have cost the city as much as one billion dollars in revenue. Approximately 40 percent of the city's Manhattan assessors were directly implicated. Even global news agencies—from *The New York Times* to *The Guardian*—reported on the story, and yet only a short period after the criminal case ended few people seem to remember the event.

Even fewer realize that a similar scheme had been uncovered in California a few decades before (Phelan 1966). Albert Schussler's counterpart in that earlier scheme was James C. Tooke. Like Schussler, Tooke was a former tax assessor turned consultant who knew how to grease the wheels of bureaucracy. Another parallel between the cases is that not a single individual or firm that hired Tooke was charged with wrongdoing or complicity. Thus, there appears to exist a pattern, and scholars writing on administrative corruption summarize that pattern with the following: 'Delinquent taxpayers are practically never prosecuted' (Flatters and Macleod 1995: 398).

However, beyond the question of prosecution, as researchers, what we are most interested in is corruption prevention. It is, thus, worth reviewing some of the reforms that DOF implemented after the 2002 scandal. These reforms included:

- Reducing the amount of contact between assessors and property owners.
- Engaging in random assessment reviews, and restructuring the Internal Audit and Department Advocate's Units.
- Requiring that assessors file financial disclosure forms.
- Implementing new technology to enhance the assessment process (NYC Finance 2004).

In spite of these innovations, however, there have been new, if sporadic, reports of property tax evasion (Bagli 2012; Gonzalez 2014). Corruption hazards continue to exist in the city's tax system; however, DOI has reaffirmed its commitment to effective monitoring. As a sign of this

commitment, the agency opened itself up to a collaborative research project that tests ways to curb corruption in property taxation.

As was noted earlier, according to an independent assessment, DOI has reduced serious cases of corruption by almost two-thirds in recent years (Anechiarico and Smith 2008: 76). This finding, nonetheless, is based on observational data and is, therefore, vulnerable to certain forms of measurement bias. Indeed, given the nature of the data, we are unable to distinguish whether the reduction in cases of corruption is explained by DOI's enhanced efforts or some other factor, such as inhibited corruption reporting or heightened sophistication among those who partake in corruption. But even if we grant that DOI has raised the level of government integrity in New York City, the existing data does not help us evaluate the effectiveness across DOI's different anti-corruption strategies. Therefore, we conducted a randomized control trial (or RCT) in order to answer two questions. First, does monitoring by DOI help ensure that property assessments are conducted with greater integrity and efficiency? Second, which is more effective in ensuring that property assessments are performed in an honest and efficient manner: proactive or reactive audits?

RCTs are a powerful tool for advancing scientific knowledge, especially when applied to real-world situations. As case in point, Lawrence Sherman and coauthors (1995) conducted an RCT on deterrence in criminal justice. Similarly, in 2009, criminologists from Temple University collaborated with the city of Philadelphia in order to conduct an RCT that tested the effectiveness of foot patrols in fighting crime. Their finding that patrolling city blocks by foot reduces violent crime by 23 percent overturned conventional views about policing (Ratcliffe et al. 2011).

In the realm of corruption studies, RCTs are also increasingly popular (Peisakhin 2011). For instance, in Indonesia, Ben Olken (2007) tested whether grassroots versus centralized monitoring is more effective in reducing corruption. In another study, Ferraz and Finan (2011) analyzed data from local corruption audits in Brazil. Their results show that corruption is less common among mayors seeking re-election. Following a similar approach, Lagunes conducted an RCT in Querétaro, one of Mexico's most populous cities. In this study a random sample of construction permit applications were entered into a treatment group. Plan Examiners (that is, the low-level officials responsible for reviewing building permit applications) and the Permits Office Director were made aware that an independent anti-corruption auditor was reviewing all the physical documentation (for example, title deeds, blue prints, and tax receipts) for applications within this group. Simultaneously, these same officials were unaware that the auditor was reviewing another set of randomly selected applications via the government's computer network. With implications

for law enforcement, the study's results reveal that monitoring spurs greater diligence and stringency among bureaucrats, but *only* when they sense the risk of a top-down sanction.

In this new and independently funded RCT the main hypothesis is that the threat of an audit will stimulate local tax assessors to perform their duty in a more efficient and honest manner. An additional hypothesis is that, compared to the threat of post-hoc or reactive audits, proactive monitoring by DOI will have a stronger and positive effect on government officials' behavior. This chapter, however, is not about that RCT, which—as of this writing—is in the analysis stage. Instead, this chapter is about an extraordinary case of municipal fraud that begs practitioners and academics alike to persevere in their effort to prevent corruption.

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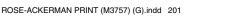
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