

May 2020

Discount Rate for Prepayments of Property Tax  
Penalty for Late Payments of Property Taxes

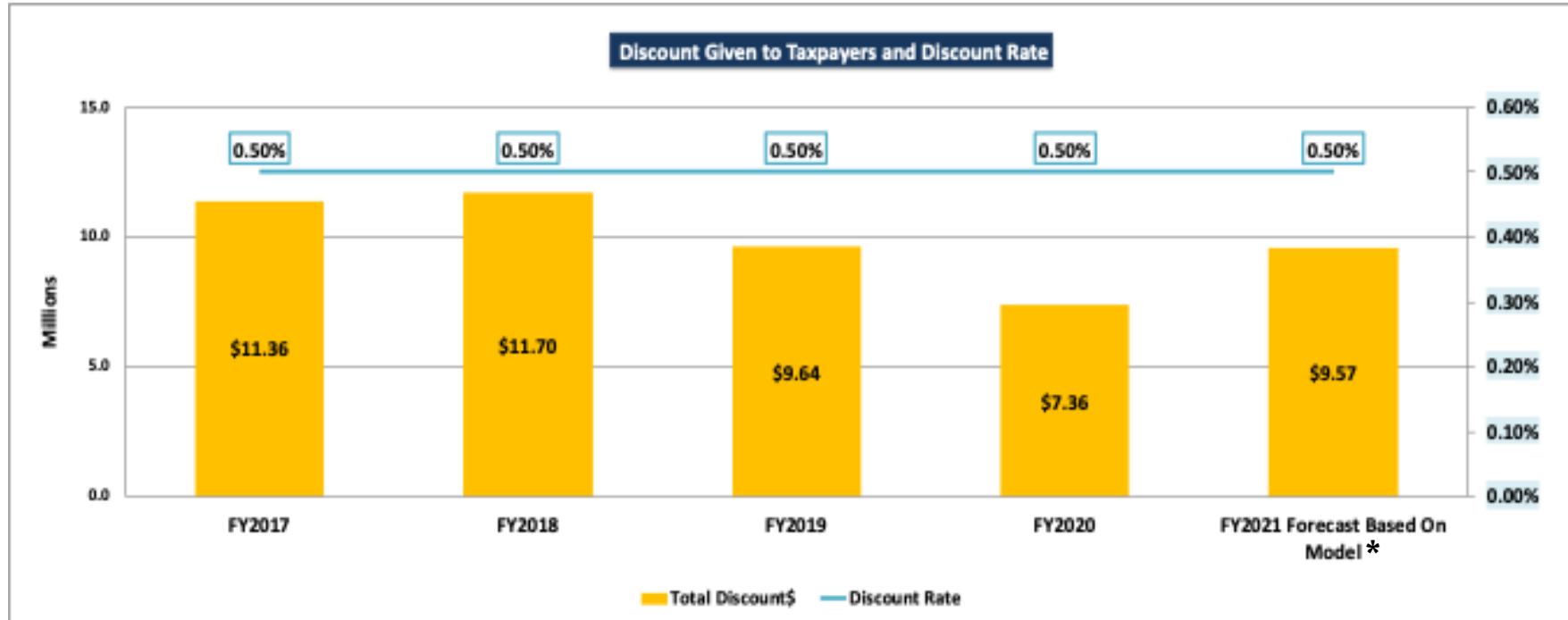
Fiscal Year 2021 Models & Impact Analyses  
Interest Rate Recommendations

# Interest Rate Summaries

The purpose of this graphical presentation is to present key data from the current Discount and Late Payment Interest Rate exercises and explain the recommendations

- ▶ Recommended Early Payment Discount Rate
  - ▶ 0.5% (Same as last year)
- ▶ Recommended Late Payment Rate for properties with assessed values below \$250,000
  - ▶ 5% (Reduced from 7% last year)
- ▶ Recommended Late Payment Rate for properties with assessed values above \$250,000
  - ▶ 18% (Same as last year)

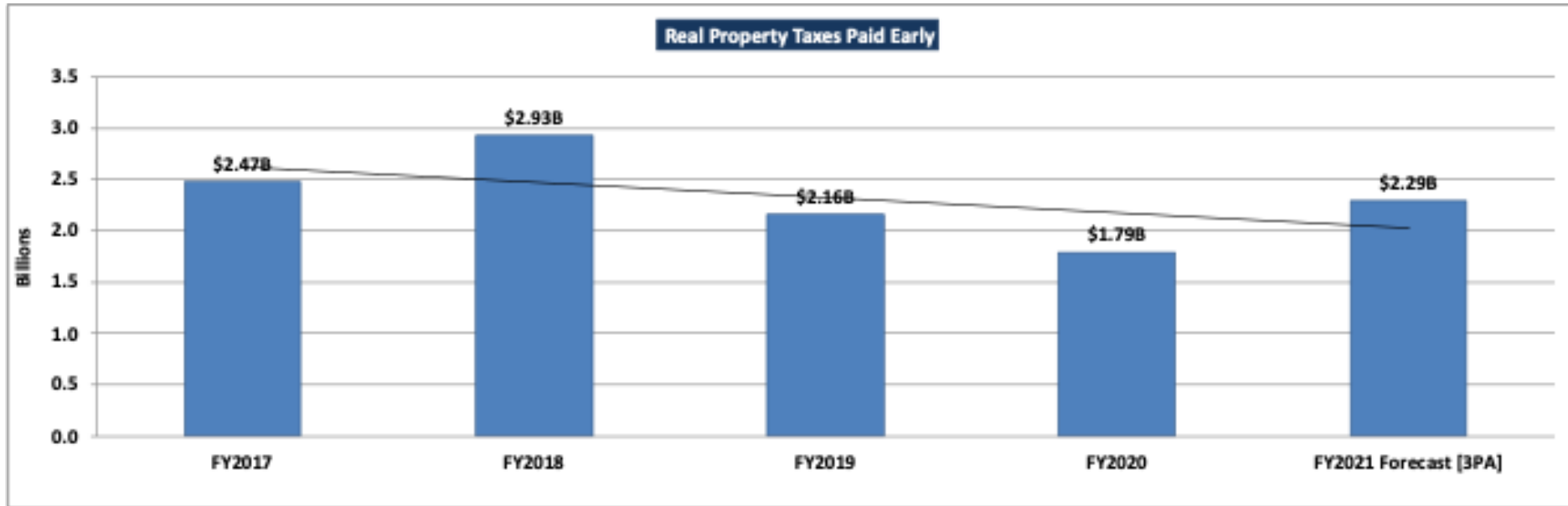
# Early Payment Discount Given To Taxpayers



Total discounts given to taxpayers in FY2020 totaled \$7.4 million at a discount rate of 0.50%, a decrease of roughly 24% when compared to FY2019.

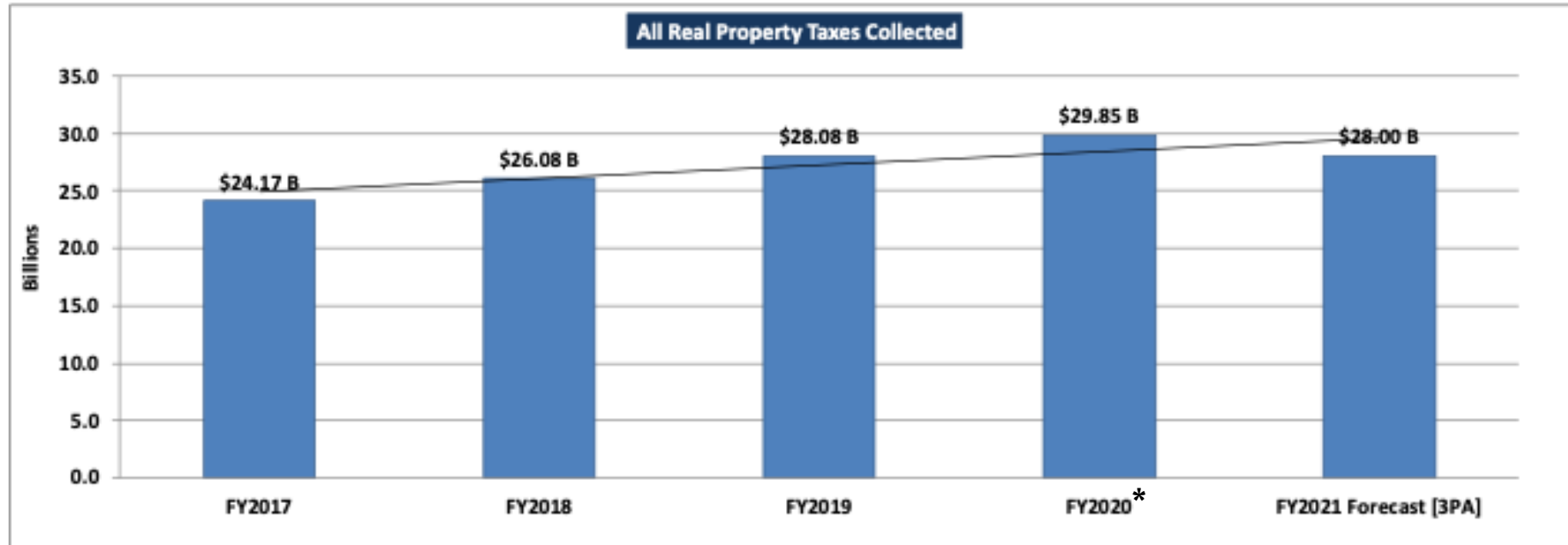
\*The FY2021 forecast model is based on the average of the previous three fiscal years (FY2018-FY2020). Due to the current worsening economic climate and its lasting long-term effects, we expect this number to change on this and subsequent two slides.

# Real Property Taxes Paid Early



Property Taxes Paid Early totaled \$1.8 billion for FY2020, a 17% decrease from FY2019 (\$2.16 billion).

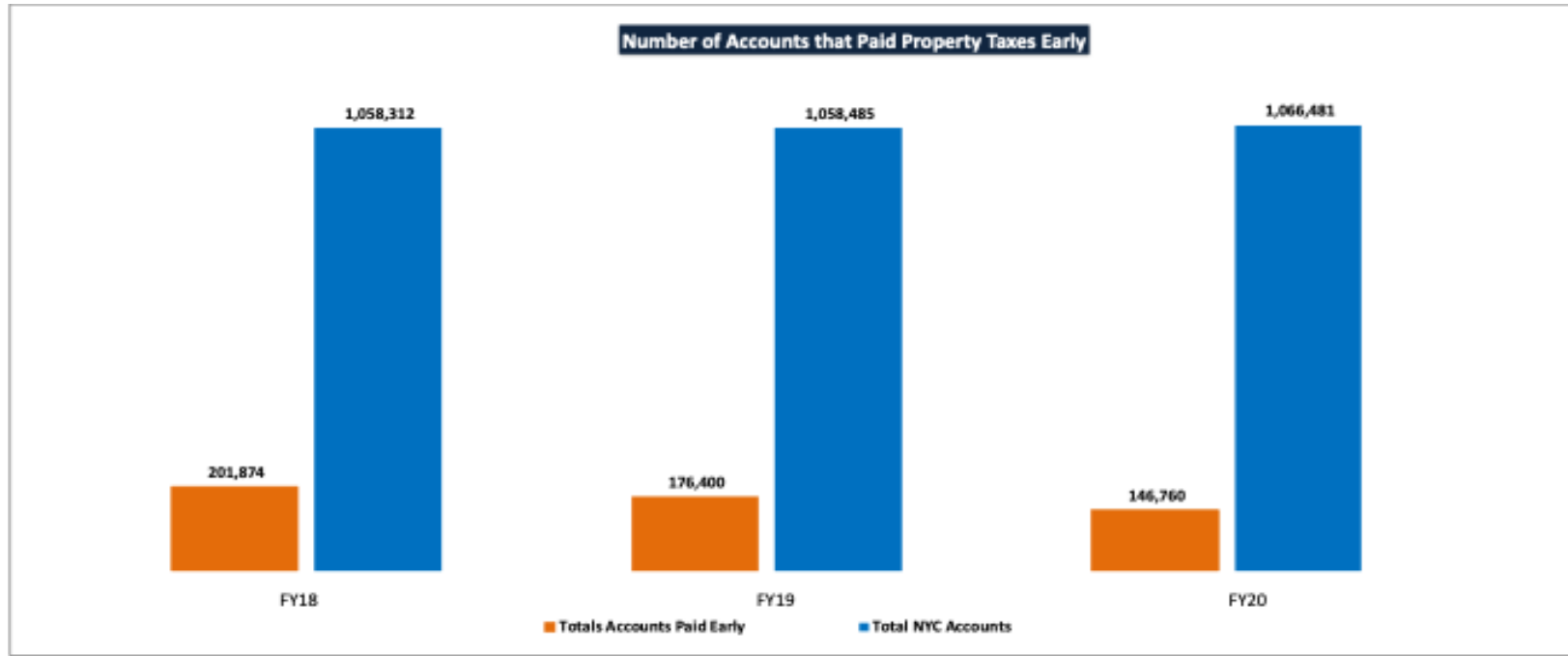
# All Real Property Taxes Collected



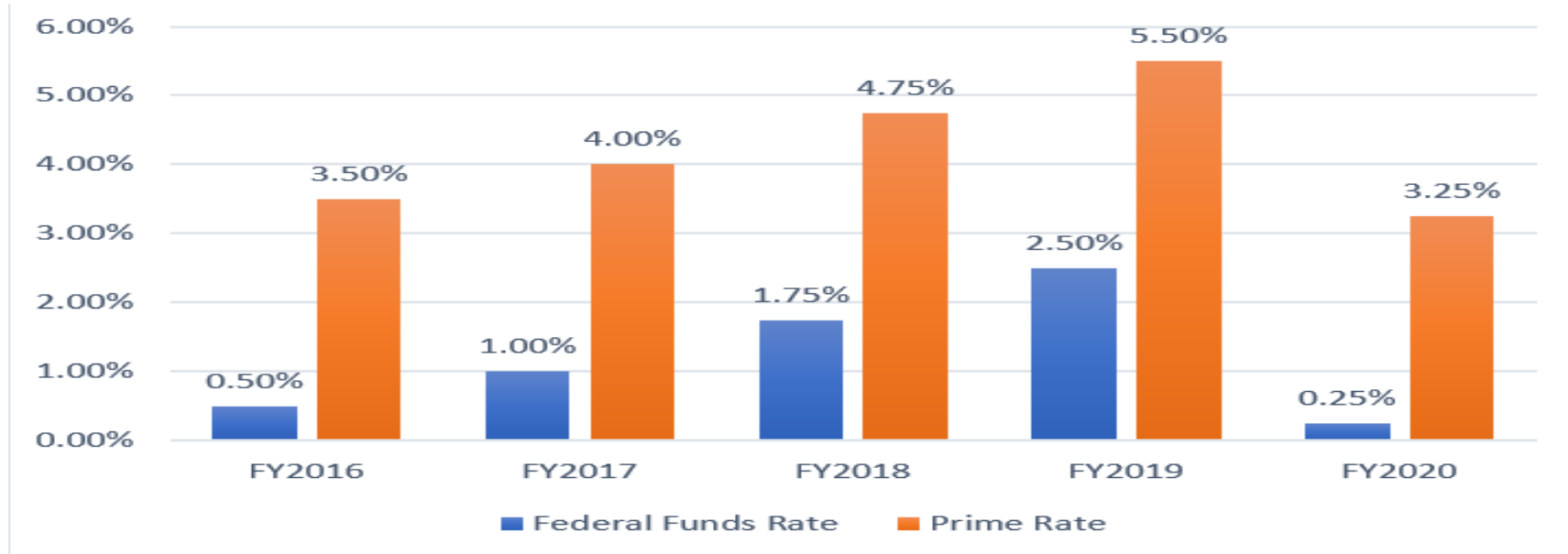
All real property taxes collected for FY2020 totaled \$29.85 billion. An increase of \$1.8 billion from FY2019.

\*Data as of April 27, 2020

# Accounts That Paid Property Taxes Early



There has been a continuing decline to the number of accounts that have paid Property Taxes early while the number of properties in NYC have increased annually.

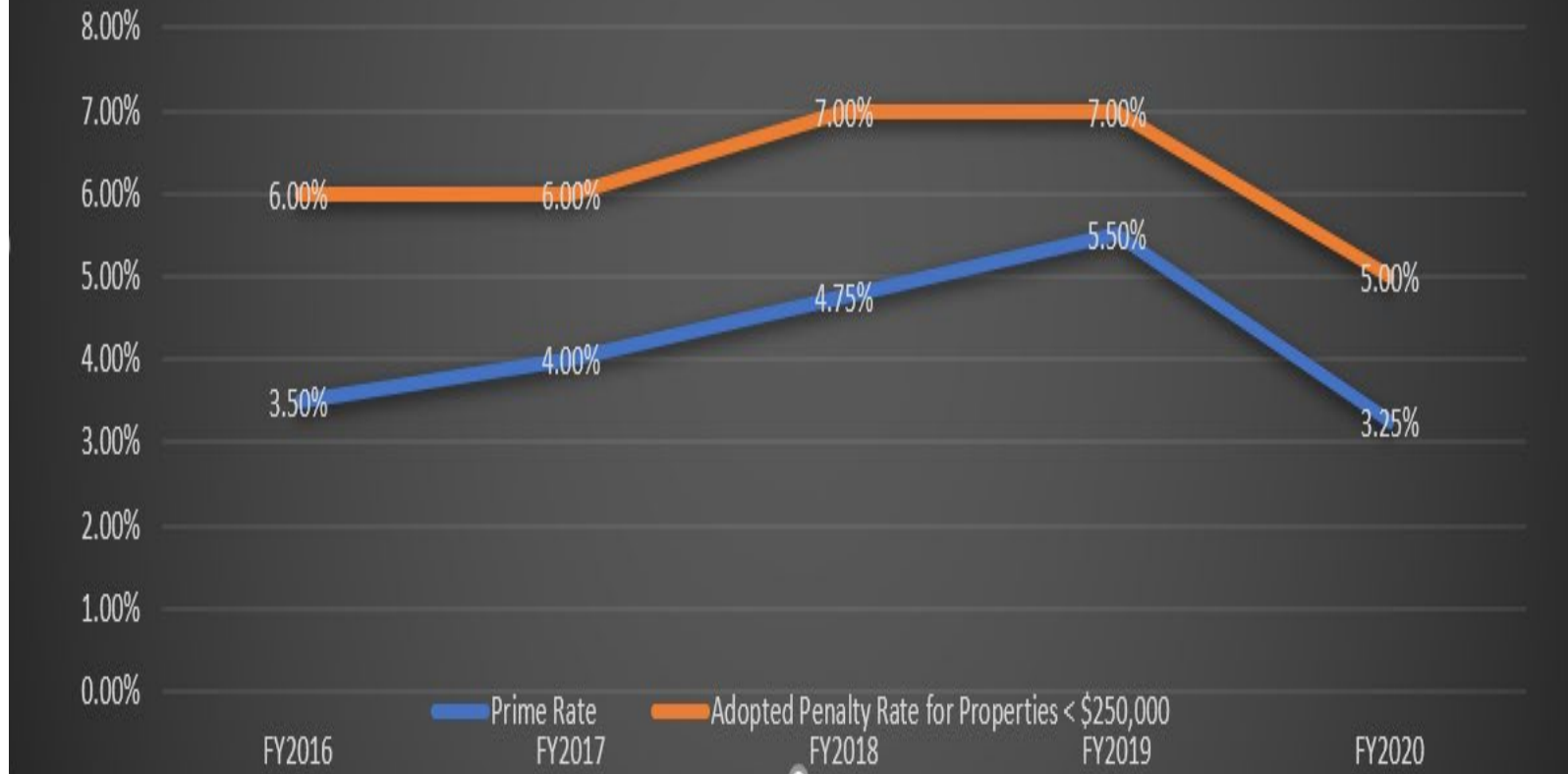


# Federal Interest Rates

THERE WAS A STEADY INCREASE IN THE FEDERAL INTEREST RATES FROM 2016 TO 2019

*THIS WAS FOLLOWED BY A PRECIPITOUS DECLINE IN 2020*

## Prime Rate vs. Interest Rate Recommendation Small Property Values



Since FY2016, NYC's Recommended Late Payment rates for properties <\$250,000 have paralleled the Prime Rate.



# Impact of Interest Change on City Revenue

Assumptions:

Interest Compounded Daily

Avg. Delinquency is 235 days

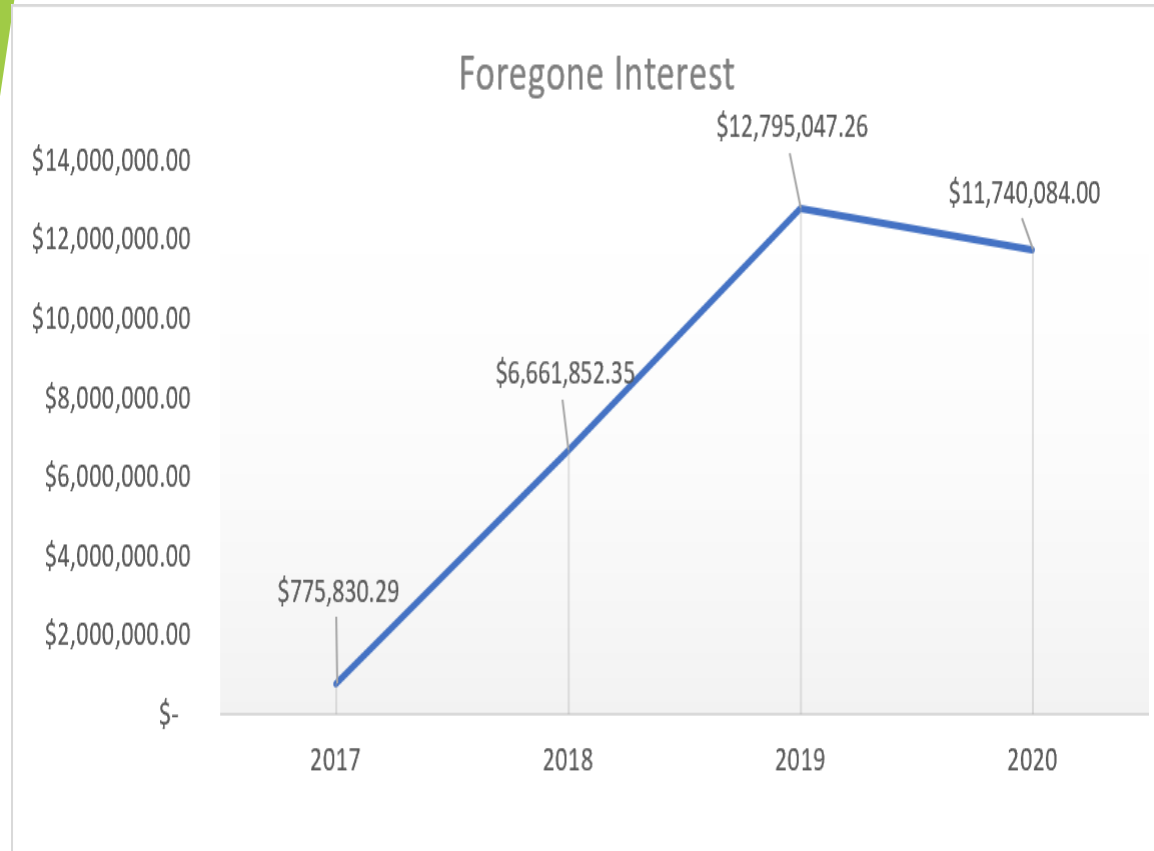
At 7% NYC would collect \$109,069,005 in interest.

At 5% NYC would collect \$100,155,515 in interest.

The reduction of 2% in the Penalty Rate results in \$8.9 M decrease

# Foregone Interest

The City's foregone interest due to delinquencies declined by \$1 MM due to NYC's lower 9- month avg. investment rate of 1.67% vs. 2.36% last year.



Month	3-Month Average Rates	Quarter
JULY AUGUST SEPTEMBER	2.16%	Q1
OCTOBER NOVEMBER DECEMBER	1.76%	Q2
JAN FEB MARCH	1.09%	Q3

9-Month investment Avg: 1.67%

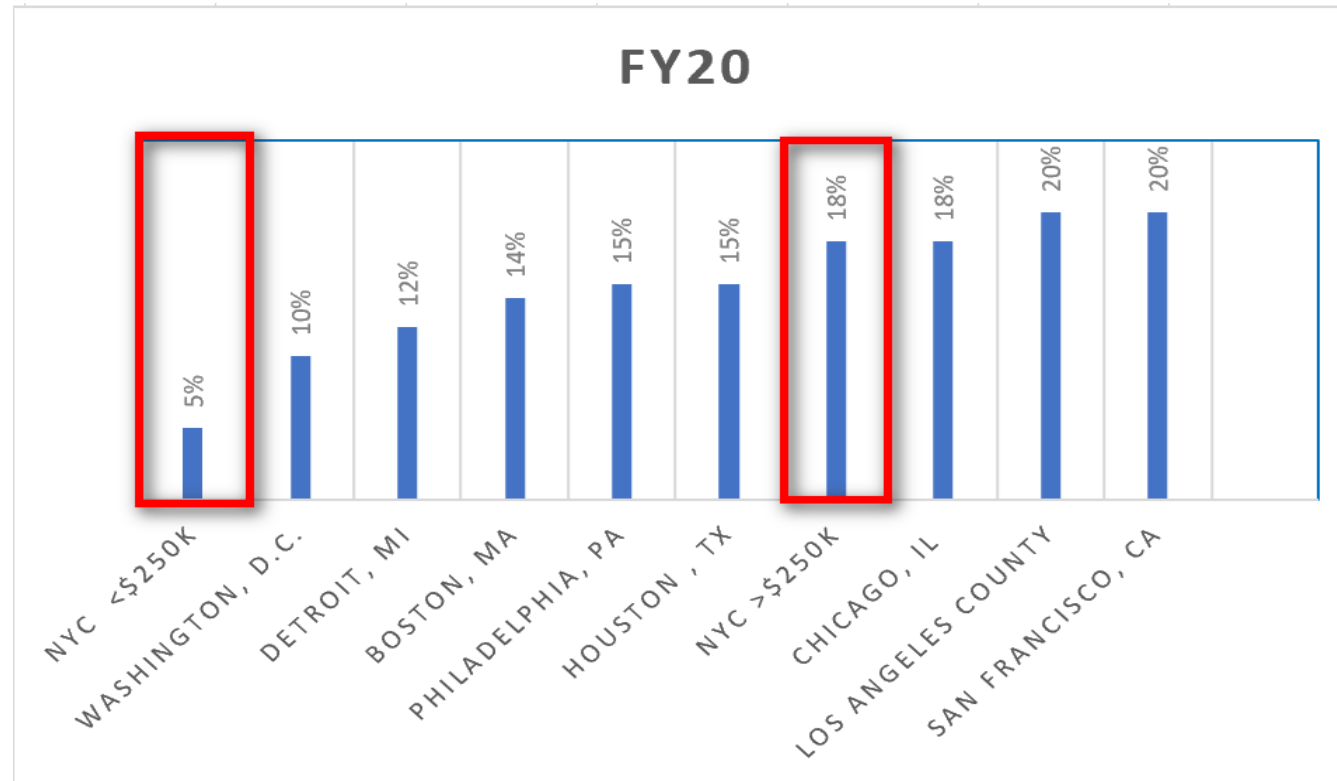
# FY2020 Late Payments Impact

	FY2020 Late Payments Impact >\$250K= 18.0% <\$250K=5.0%				
Taxpayer Type	Number of Delinquent Accounts	Amount Delinquent	Interest on Delinquent Property Tax (Penalty)	Foregone Interest Income (from City Not Investing)	Net Interest Income (Net Penalty)
	FY2020 Late Payments Impact				
Semi-annual	8,058	\$398,879,352	\$30,456,267	\$ (6,481,789)	\$23,974,478
Quarterly	126,921	\$419,823,883	6,670,272	(5,258,294)	1,411,978
Total	<b>134,979</b>	<b>\$818,703,236</b>	<b>\$37,126,539</b>	<b>(11,740,084)</b>	<b>\$25,386,455</b>

The city's overall net expected revenue due to interest on all outstanding delinquent taxes is \$25.4 million.

# Comparable Cities

New York City's penalty rate for higher property value parcels is comparable to other cities. Its rate for lower property value parcels is significantly less.



# Long Term Fixed Mortgage Rates & Home Equity Lines of Credit (HELOCS)

Average of 2020

## Average of 2020 by Loan Type

Loan Type ▾

Home Equity Line of Credit

3.7%

30 Year Fixed Mortgage

3.5%

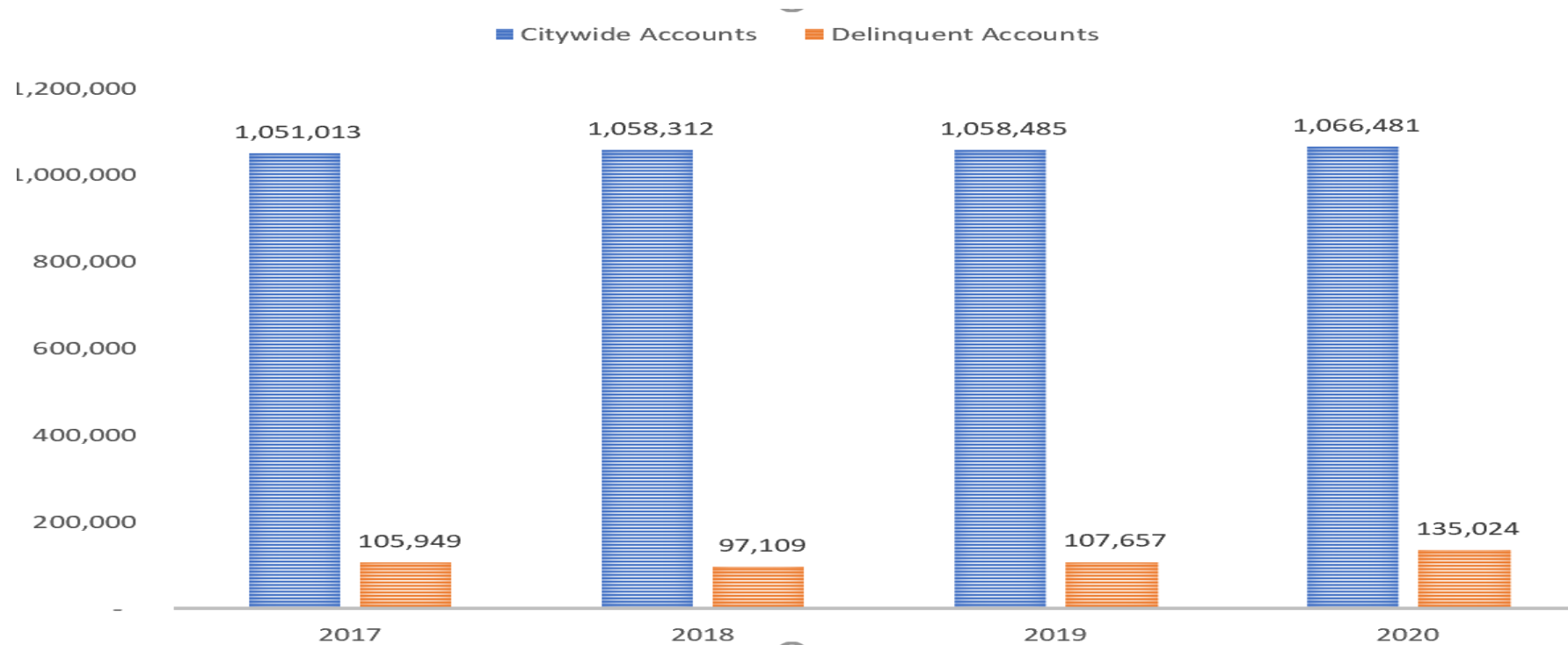
3.4% 3.5% 3.5% 3.6% 3.6% 3.7% 3.7% 3.8%

HELOC avg. of 10 banks; Mortgage avg. of 9 banks

Bank home loan interest rates are currently slightly below the recommended Late Payment Rate for properties with assessed values below \$250,000.

# Delinquent Accounts

The number of delinquent accounts is small compared to the total number of accounts *but has been increasing since 2018.*



## APPENDIX

### Local Law 30 of 2015: Determination of Discount Percentage

(d) If the council does not adopt a discount percentage prior to the date that the statement of account or other similar bill or statement is prepared, [a] *the discount percentage* [of one and one-half percent shall be used to determine the discount provided] *shall be the annualized interest rate on six-month United States treasury bills, as reported by the Board of Governors of the Federal Reserve System in its H.15 report or similar statistical report detailing selected interest rates, plus seventy-five basis points, the sum of which shall be divided by four for the last business day of April preceding the ensuing fiscal year* where a discount is allowed for payments made on or before the last day that the installment due July first could be paid without interest, and this percentage shall continue to apply until the council adopts a discount percentage pursuant to paragraph (c) of this subdivision.

- Local Law 30 of 2015 states that, if the Council does not adopt a discount rate prior to June 5<sup>th</sup>, then a formula-based default rate will be set.

Currently, the City Council default rate is 22 basis points (0.22%)

[Annualized interest rate on 6-Month Treasury Bills (as of April 30, 2020) + 75 bps]/4

$(0.11 + 0.75) / 4 = 0.22$

## APPENDIX

### NYC Administrative Code § 11-224.1: Interest on unpaid real property tax

(e) Council adopted rates. By May thirteenth of each year, the banking commission shall send a written recommendation to the council of a proposed interest rate to be charged for nonpayment of taxes on real property. The commission shall consider the prevailing interest rates charged for commercial loans extended to prime borrowers by commercial banks operating in the city and:

(i) for real property with an assessed value of two hundred fifty thousand dollars or less, shall propose a rate at least equal to such prevailing prime rate;

(ii) for real property with an assessed value of over two hundred fifty thousand dollars, shall propose a rate of at least six percent per annum greater than such prevailing prime rate.

If the council does not adopt interest rates, the rates shall be (a) for real property with an assessed value of two hundred fifty thousand dollars or less, **seven percent per annum**; and (b) for real property with an assessed value of over two hundred fifty thousand dollars, **fifteen percent per annum**.

- § 11-224.1(e) states that the Banking Commission must recommend a rate that is at least equal to the prime rate for properties <\$250K.
- For properties >\$250K, the commission must recommend a rate at least 6% greater than the prime rate.
- § 11-224.1 also states that if the City Council does not adopt interest rates, then the default rate will be 7% for properties <\$250, and 15% for properties >\$250K.