

NYC Banking Commission

FY2021 Late Payment Interest Rates and Early Payment Discount Rate Recommendations

Executive Summary

Each May, the NYC Banking Commission (“Banking Commission”) recommends for the forthcoming fiscal year the discount rate for the early payment of NYC property taxes and the penalty rate for the late payment of NYC property taxes (payments not received or postmarked by the grace period due date).

In the current FY2020, property owners who pre-pay their property tax bills receive a discount of 50 basis points (“bps”) (0.50%). The current delinquency (penalty) rate for those paying their property tax bills late is 18.0% for properties with assessed values >\$250K and 7.0% for properties with assessed values <\$250K.

For the upcoming FY2021 beginning on July 1, 2020, property owners who pre-pay their property tax bills will continue to receive a discount of 50 basis points (“bps”) (.50%). The proposed delinquency (penalty) rate for those paying their property tax bills late will remain 18.0% for properties with assessed values >\$250K, but be lowered to 5.0% for properties with assessed values <\$250K.

Historical Rates

Discount Rates:

From FY2009 to FY2020, the Banking Commission recommended, and the City Council accepted, the following:

- FY2009 to FY2011: 1.50%
- FY2012 to FY2015: 1.0%
- FY2016 to FY2020: 0.50%

Interest Penalty Rates:

From FY1991 to FY2020, the Banking Commission recommended, and the City Council accepted, the following:

Properties with assessed values >\$250K

- FY1991 to FY2020: 18%

Properties with assessed values <\$250K

- FY1991 to FY2016: 9%
- FY2017: Banking Commission recommended 7.5%; However, City Council Adopted 6%
- FY2018: 6%
- FY2019 to FY2020: 7%

FY2021 Recommendations for Discount Rate:

Taking into account NYC’s current liquidity and cash flows, prevailing interest rates, the impact on the number of taxpayers who paid their taxes early, the discount rates offered by other municipalities, and estimated savings from processing fewer property tax payments resulting from a discount, for FY2021, the Banking Commission recommends:

Retaining a discount rate of 50 bps (0.50%) for the early payment of property taxes, unchanged from FY2020.

❖ **Discount Rate Recommendations: 50 bps (0.50%) - (no change)**

The interest earned on early tax payments will increase net revenue for the City by \$19.8 Million, after considering the effects of lost tax revenue.

FY2021 Recommendations for Penalty Rate for Late Payments on Property Taxes:

The Banking Commission recommends:

- *18.0% (no change) penalty rate for properties with assessed values >\$250K*
- *3.25% penalty rate for properties with assessed values <\$250K for the first quarter of FY2021*
- *5.0% penalty rate for properties with assessed values <\$250K for the second, third, and fourth quarters of FY2021*

There were a number of factors considered in making these recommendations, including the City's need to encourage timely payment of property taxes to ensure the provision of vital services, the penalty rates charged by other comparable tax collectors across the country, interest rates charged for real estate secured consumer loans, and the falling interest rate environment in 2019, which includes a 225 basis point (2.25%) decrease in the Federal Funds rate over the last twelve months. The City also needs to be responsive to the economic downturn caused by the COVID-19 pandemic in the first part of FY21.

The Banking Commission also requests that the Administration and City Council consider local legislation to reduce the late payment interest rate for properties with assessed values no more than \$250,000 in the first quarter of FY21 to zero for owners who demonstrate hardship caused by the COVID-19 pandemic.

I. FY2021 Discount Rate for Early Payment of Property Taxes

The NYC Banking Commission recommends for FY2021 a discount rate of 50 bps (0.50%) for the early payment of property taxes, unchanged from the FY2020 discount rate after considering: NYC's operating cash balances, discount rates offered by other property tax collectors, interest rates, administrative cost savings, and the impact of different rates on early payments.

- **NYC Operating Cash Balances:** On April 25, 2020, the City's cash balance, at the close of business day, was \$9.1 billion, \$1.1 billion below \$10.2 billion as of April 27, 2019. The Banking Commission does not recommend increasing the discount rate from 50 bps (0.50%) to 100bps (1.0%), a 1.0% rate will not increase the cash flow materially but would reduce the net revenue from \$12.2 Million to \$4.5 Million.
- **Discount Rates Offered by Other Property Tax Collectors:** Only Philadelphia offers a discount at 1.0%. Other major municipalities like Boston; Detroit; Los Angeles; San Francisco; and Washington, D.C.; *do not offer discounts*.
- **Interest Rates Impact:** The Federal Reserve decreased the Federal Funds rate three times in 2019 in 25 basis point increments (August, September, and October). The October 31st change lowered the rate to the 1.50% to 1.75% range. Subsequent adjustments in March 2020 lowered the rate even further to the 0.0% to 0.25% range. In November 2019 and again in April 2020, the U.S. Central Bank dialed back projections for further rate hikes in 2020 citing low inflation, high unemployment, and a slowing economy. Officials stressed that they would be "patient and flexible" before deciding to further adjust borrowing costs.

From April 2019 – April 2020, NYC's quarterly average rates on its investments ranged from 1.09% to 2.16% in comparison to FY2019's rates of 1.70% to 2.49%.

The Banking Commission's impact analysis for FY2021 projects that this return on investments rate will result in **\$19.8 Million** of interest earned on taxes collected early at 50bps (0.50%). This will offset estimates of forgone tax revenue of **(\$7.4 Million)** (discount given) plus (+) forgone interest income on forgone taxes of **(\$155k)**, resulting in a net surplus in revenue to the City of **\$12.2 Million**.

- **Administrative Costs Savings:** Semi-annual payers are billed twice per year and Quarterly payers four times, at an estimated total cost of \$7.40 per invoice. When taxpayers pay their entire year's property tax early, eliminating the need for further billing, the City saves from processing fewer invoices. In FY2020, a total of 146,700 taxpayers made early payments saving NYC an estimated \$1.3 million in invoicing and administrative costs. If similar savings are realized in FY2021, the total positive impact will be **\$13.5 Million** [\$12.2M net income + \$1.3M administrative cost savings].
- **Impact of no change in current discount rate on early payments:** As stated earlier, changes in the discount rate decrease from 100 bps (1.0%) in FY2015 to 50 bps (0.50%) in FY2016-FY2019, which has had little effect on the number of people or the amount of taxes collected early. The major increase in pre-payment experienced in Mid-FY2018 was due entirely to the change of the federal tax law. This inelasticity can be shown by comparing the past fiscal years.

Discount Recommendation Summary:

There is no economic reason for the Banking Commission to change the discount rate of 50 bps (0.50%) in FY2021. The impact translates to a total positive impact for the City of \$13.5 Million. If the Council default rate of 22 bps (0.22%) were to be invoked, the income would be increase by **\$4.3 Million**. If the Banking Commission were to increase the discount rate to 100 bps (1.0%), this would have a less positive impact resulting in a net negative of **~(\$7.7Million)**.

Historically, taxpayer behavior appears inelastic to changes in the discount rates and therefore immaterial to effecting changes in cash flow. For the above-mentioned reasons, the Banking Commission recommends retaining the current 50 bps (0.50%) discount rate in FY2021.

FY2021 Discount Recommendations Models & Impact Analysis Summary

Impact Summary

			FY2021 Recommended Rate					
Discount Rates	City Council Default Rate: 0.22% (1)	0.25%	0.50%	0.75%	Six-Month LIBOR: 0.86% (2)	1.00%	1.50%	2.00%
Gross Discount								
Semi-annual accounts	(\$2,041,743)	(\$2,320,162)	(\$4,640,324)	(\$6,960,486)	(\$7,981,358)	(\$9,280,648)	(\$13,920,972)	(\$18,561,297)
Quarterly accounts	(1,238,666)	(1,407,575)	(2,815,150)	(4,222,725)	(4,842,058)	(5,630,300)	(8,445,451)	(11,260,601)
Total	(\$3,280,409)	(\$3,727,737)	(\$7,455,474)	(\$11,183,211)	(\$12,823,416)	(\$14,910,949)	(\$22,366,423)	(\$29,821,897)
Interest Earned on Taxes Collected Early (3)								
Semi-annual accounts	\$10,001,049	\$9,998,042	\$9,972,985	\$9,947,927	\$10,109,299	\$9,922,869	\$9,872,754	\$10,223,562
Quarterly accounts	9,906,971	9,904,577	9,884,628	9,864,679	9,993,152	9,844,729	9,804,831	10,084,121
Total	\$19,908,020	\$19,902,620	\$19,857,613	\$19,812,606	\$20,102,451	\$19,767,599	\$19,677,584	\$20,307,683
Forgone Interest Income on Forgone Taxes								
Semi-annual accounts	(\$44,102)	(\$50,116)	(\$100,231)	(\$150,347)	(\$172,397)	(\$200,462)	(\$300,693)	(\$400,924)
Quarterly accounts	(24,291)	(27,603)	(55,206)	(82,810)	(94,955)	(110,413)	(165,619)	(220,826)
Total	(\$68,392)	(\$77,719)	(\$155,437)	(\$233,156)	(\$267,352)	(\$310,875)	(\$466,312)	(\$621,750)
(3) Net Income								
Semi-annual accounts	\$7,915,205	\$7,627,765	\$5,232,429	\$2,837,094	\$1,955,544	\$441,759	(\$4,348,912)	(\$8,738,658)
Quarterly accounts	8,644,014	8,469,399	7,014,271	5,559,144	5,056,139	4,104,016	1,193,761	(1,397,306)
Total Net Discount	\$16,559,219	\$16,097,164	\$12,246,701	\$8,396,238	\$7,011,683	\$4,545,775	(\$3,155,151)	(\$10,135,964)
Average Annual Savings								
Semi-annual accounts	(\$241)	(\$274)	(\$552)	(\$821)	(\$941)	(\$1,094)	(\$1,641)	(\$2,188)
Quarterly accounts	(9)	(10)	(21)	(31)	(35)	(41)	(62)	(82)
Average for Semi and Quarterly Accounts	(\$22)	(\$25)	(\$51)	(\$76)	(\$87)	(\$102)	(\$152)	(\$203)

Notes:

(1) Default rate: 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, the default rate will be the annualized interest rate on six-month US Treasury bills 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.

(2) the six-month London Inter Bank Offered Rate (LIBOR) for United States dollars in effect on the thirtieth day of April as published by the Federal Reserve Bank of St. Louis in the Federal Reserve Economic Data

(3) Net discount = Gross discount + (interest from tax collected early) - (foregone interest from property tax not collected).

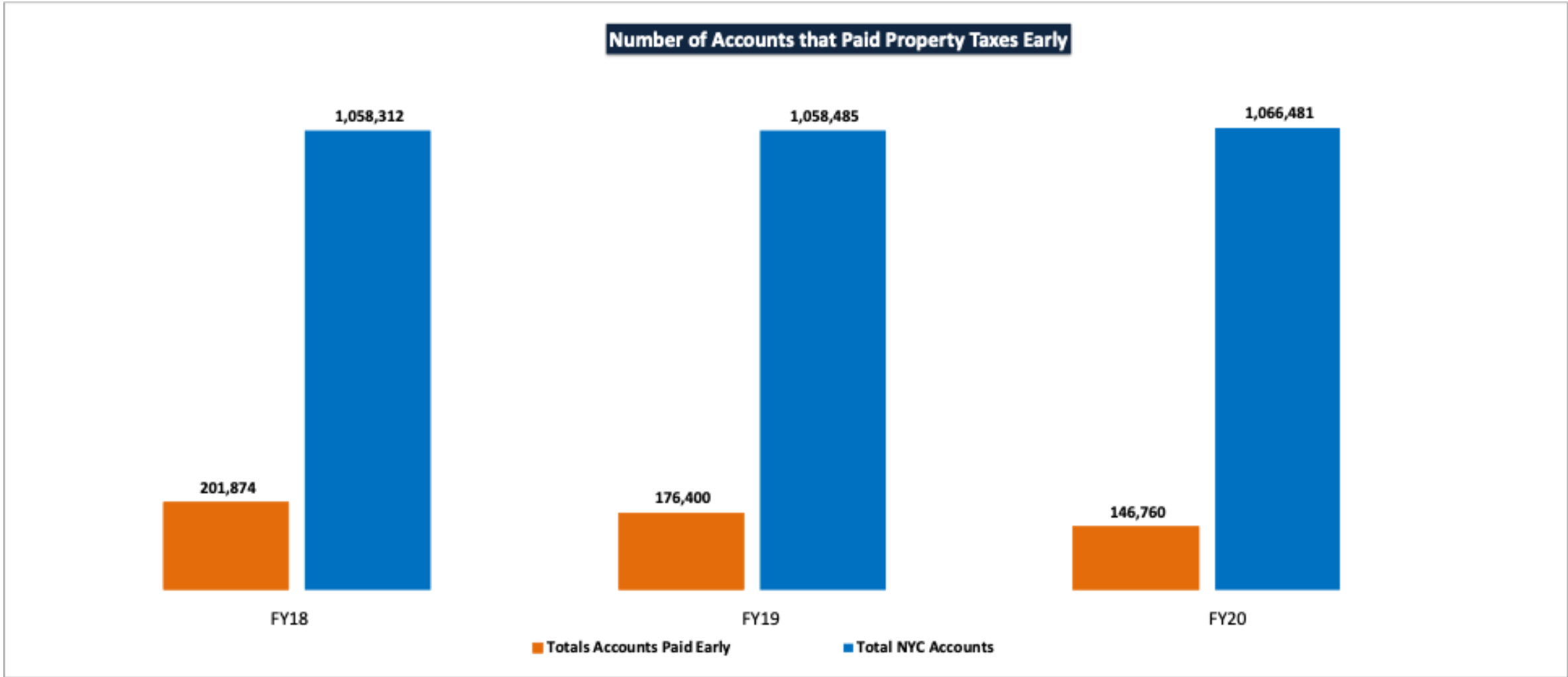
FY2020 Actual Discount Data Collected for Early Payment of Property Taxes*

Data as of April 28, 2020

FY2020 Discount Rate: 0.50%

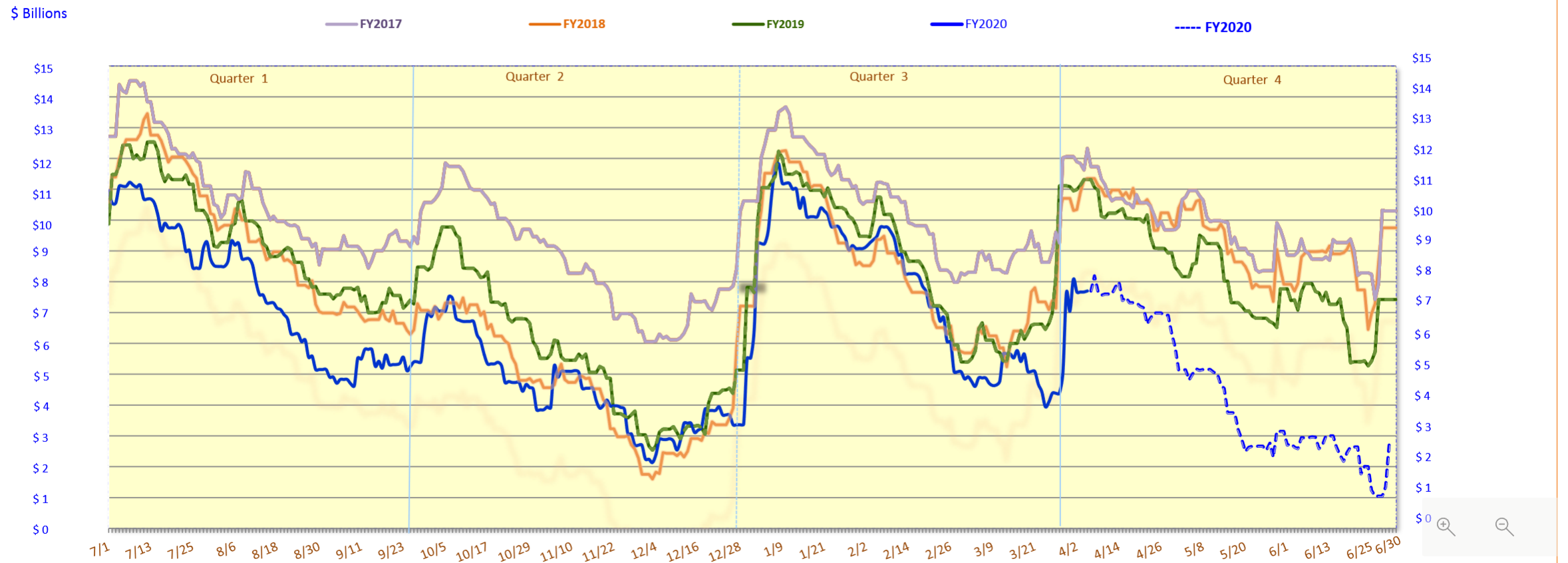
[A]	[B]	[C]	[D]	[E]	[F]
Q1: SEMI-ANNUAL ACCOUNTS PAID IN FULL IN JULY	0.50%	Q2: QUARTERLY ACCOUNTS PAID IN FULL IN OCTOBER			0.25%
Q1: QUARTERLY ACCOUNTS PAID IN FULL IN JULY	0.50%	Q3: QUARTERLY ACCOUNTS PAID IN FULL IN JANUARY			0.125%
Accounts		Q1	Q2	Q3	Total
Semi-annual accounts (1)		8,483			8,483
Quarterly accounts (2)		73,363	14,826	48,348	136,537
					146,760
Taxes Paid Early (Discount Payments)		Q1	Q2	Q3	Total
Semi-annual accounts		\$923,385,680			\$923,385,680
Quarterly accounts		430,495,609	81,903,011	357,022,254	869,420,874
					\$1,792,806,554
Discount (Amount)		Q1	Q2	Q3	Total
Semi-annual accounts		(\$4,679,148)			(\$4,679,148)
Quarterly accounts		(2,141,062)	(201,380)	(342,415)	(2,684,857)
					(\$7,364,072)
Taxes Due (without discount) - [Taxes Paid Early+Discount]		Q1	Q2	Q3	Total
Semi-annual accounts		\$928,064,828			\$928,064,828
Quarterly accounts		432,636,671	82,104,392	357,364,669	872,105,731
					\$1,800,170,559
Average Taxes [Taxes Paid Early + Accounts]		Q1	Q2	Q3	Total
Semi-annual accounts		\$108,851.31			\$108,851
Quarterly accounts		5,868	5,524	7,384	6,368
Average Discount		Q1	Q2	Q3	
Semi-annual accounts		(\$551.59)			
Quarterly accounts		(\$29)	(\$14)	(\$7)	
Average Discount [Discounts/Accounts]		Semi-annual	Quarterly		
		(\$551.59)	(\$20)		

(1) Data in yellow cells provided by NYC DOF Financial Information Technology (FIT). Actual property tax data from FairTax system.

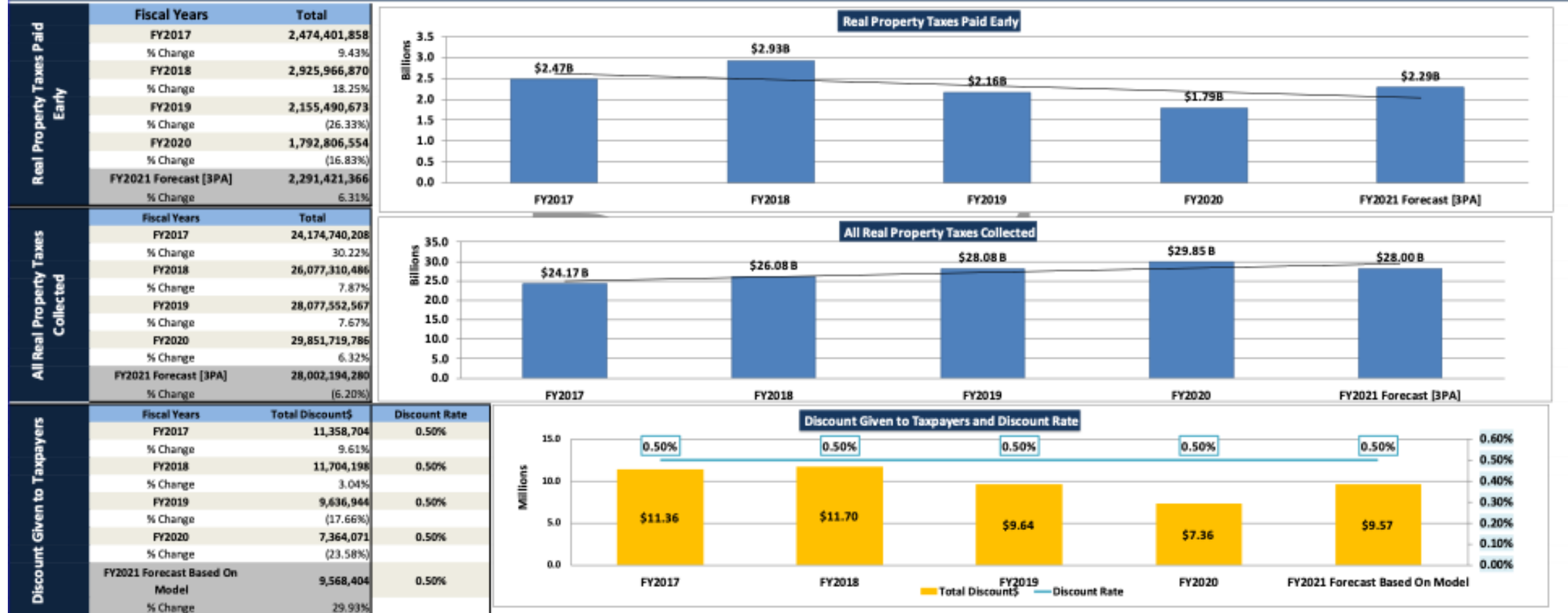




Cash Balances - Forecast
FY17 - FY18 - FY 19 - FY20



Fiscal Years 2017 - 2020: Historical Real Property Payments: Taxes Paid Early and Total Taxes Collected



Major Comparable Cities: Discount Percentage for Early Payments of Real Property Taxes*

2020				2019		
Cities	Full Payment	Partial Payment	Details	Full Payment	Partial Payment	Details
Boston, MA	0.00%	0.00%	Annual payments are due in July, October, January, and April	0.00%	0.00%	Annual payments are due in July, October, January, and April
Cook County, IL	0.00%	0.00%	Annual Payments due in March and August Chicago is located in Cook County	0.00%	0.00%	Annual Payments due in March and August Chicago is located in Cook County
Detroit, MI	0.00%	0.00%	Annual Payments are due in July and December	0.00%	0.00%	Annual Payments are due in July and December
Los Angeles County	0.00%	0.00%	Annual Payments due in November and February	0.00%	0.00%	Annual Payments due in November and February
San Francisco, CA	0.00%	0.00%	Annual payments due in November and February	0.00%	0.00%	Annual payments due in November and February
Washington, D.C.	0.00%	0.00%	Annual Payments are due twice a year, in March and September	0.00%	0.00%	Annual Payments are due twice a year, in March and September
New York City	0.50%	0.25-0.125%	Payments due January, April, July, and October 1st. •0.5% on the full amount of your yearly property tax if you pay the full year's worth of tax shown on your bill by the July due date (or grace period due date). •0.25% discount on the last three quarters if you wait until October to pay the entire amount due for the year. •0.125% discount on the last six months of your taxes when you pay the remaining balance by the January due date.	0.50%	0.25-0.125%	Payments due January, April, July, and October 1st. •0.5% on the full amount of your yearly property tax if you pay the full year's worth of tax shown on your bill by the July due date (or grace period due date). •0.25% discount on the last three quarters if you wait until October to pay the entire amount due for the year. •0.125% discount on the last six months of your taxes when you pay the remaining balance by the January due date.
Philadelphia, PA	1.00%	0.00%	Annual Payments are due March 31st. 1% discount if payments are made before the last day of February.	1.00%	0.00%	Annual Payments are due March 31st. 1% discount if payments are made before the last day of February.

*NOTE: Major Cities don't offer discounts for early payments of property taxes.

Other Interest Rates	Interests	Federal Fund Rate	Prime Rate
	FY20	0.25%	3.25%
	FY19	2.50%	5.50%
	FY18	1.50% - 1.75%	4.75%
	FY17	1.25% - 1.50%	4.50%
	FY16	0.50% - 0.75%	3.75%
	FY15	0.25% - 0.50%	3.50%
	2014	0.00% - 0.25%	-
	2013	0.00% - 0.25%	-

II. FY2021 Penalty Rates for Late Payments on:

a. Property Taxes

For FY2021, the NYC Banking Commission recommends the penalty rate of 18.0% for property value assessed >\$250k and be decreased to 5.0% for property value assessed <\$250k.

- ❖ 5.0% for the late payment of property taxes for properties with assessed values <\$250K (no change)
- ❖ 18.0% for the late payment of property taxes for properties with assessed values >\$250K (no change)

Penalty Rates for Property Taxes

- Penalty Rates Charged by Other Tax Collectors for Late Payments on Property Taxes:**
Because other cities, unlike New York, do not set different penalty rates based on assessed property values, New York City’s rates are not strictly comparable. The penalty rates for late property tax payments charged by several other large municipalities ranged from 10.0% for Washington, D.C., to 20.0% for San Francisco, California.

The Banking Commission's recommended FY2021 penalty rate of 18.0% for properties with assessed values >\$250K is in line with most comparable municipalities. The penalty rate of 5.0% for properties with assessed values <\$250K is below most comparable municipalities. The rates, in combination, continue to incentivize property taxpayers to pay on time.

FY2020 vs. FY2019 Taxpayer Behavior:

Semi-Annual Taxpayers	Changes
Delinquent Property Tax Owed (Total Liability)	Increased by 46.3% or \$197.2 million
Delinquent Property Tax Collected	Increased by 58.9% or \$83.1 million
Delinquent Property Tax Balance	Increased by 40.1% or \$114.1 million
Interest on Delinquent Property Tax	Increased by 34.0% or \$7.7 million

Quarterly Taxpayers	Changes
Delinquent Property Tax Owed (Total Liability)	Increased by 11.9% or \$56.5 million
Delinquent Property Tax Collected	Decreased by 13.7% or \$18.0 million
Delinquent Property Tax Balance	Increased 21.6% or \$74.5 million
Interest on Delinquent Property Tax	Increased by 12.7% or \$749.3 thousand

The delinquency rate for semi-annual accounts (assessed properties > \$250,000) increased from 7.38% to 8.80% or 19.3%. The Banking Commission does not believe that this slight increase is attributable to the 18% penalty rate which has not changed in decades. The delinquency rate for quarterly accounts (assessed properties < \$250,000) increased from 10.43% to 13.02% or 24.9%. The Banking Commission does not think that this is attributable to the 7% penalty rate, as that was unchanged from the prior year (FY2019), and, as has been noted, a 7% rate is below all other comparable municipalities used in this analysis. The City’s overall delinquency rate (both sets of property) increased from 10.17% to 12.66% or 24.4%. This increase is more likely due to worsening economic conditions in the third quarter of FY20 than the penalty rates.

Regardless of increased rates of delinquency, and the decrease in property taxes collected from quarterly payers indicated in the above table, there continues to be a positive impact on New York City revenue when considering interest paid for both semi-annual and quarterly accounts of \$37.1 million, offset by the negative (\$11.7 million) of forgone interest/investment revenue, resulting in a positive \$16 million in net revenue.

Penalty Rate Recommendation Summary:

There is no compelling reason for the Banking Commission to either raise or lower the penalty rate in FY2021 for semi-annual taxpayers. While the number of FY2020 delinquent accounts of 8,058 increased significantly from last year (6,559), there is no indication that this is the result of no change in the 18% penalty rate. The 18% penalty rate for properties >\$250k has been in effect for many years. Therefore, the Banking Commission is recommending to stay with the 18% penalty rate, which is similar to other municipalities.

As for the Quarterly taxpayers, the recommendation of the Banking Commission is to lower the rate at 7.0%, given the interest rate decreases of 225 bps (2.25%) in the past year.

FY2021 Interest Rate Recommendations
Late Payment Interest Rate Summary

Taxpayer Type	Semi-Annual	Quarterly	Semi-Annual	Quarterly
	BANKING COMMISSION RECOMMENDED		CITY COUNCIL ADOPTED	
FY2017	18.0%	7.5%	18.0%	6.0%
FY2018	18.0%	6.0%	18.0%	6.0%
FY2019	18.0%	7.0%	18.0%	7.0%
FY2020	18.0%	7.0%	18.0%	7.0%
FY2021	18.0%	5.0%	TBD	TBD

	April 26, 2020 FY2020 Late Payments Impact >\$250K= 18.0% <\$250K=5.0%				
Taxpayer Type	Number of Delinquent Accounts	Amount Delinquent/Balance	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	134,979	\$818,703,236	\$37,126,539	(11,740,084)	\$25,386,455

Taxpayer Type	Overall	Semi-Annual	Quarterly
	Delinquency Rate	Avg Property Tax Balance Per Account	
FY2018	9.18%	\$ 48,129	\$ 3,308
FY2019	10.17%	\$ 43,411	\$ 3,416
FY2020	16.30%	\$ 49,501	\$ 3,308

NOTE:
All Data herein is of all late taxpayers that may have made full and/or partial payments.