

May 2021

Discount Rate for Prepayments of Property Taxes
Rates for Late Payments of Property Taxes

Fiscal Year 2022 Interest Rate Recommendations
Models & Impact Analyses

Agenda

- ▶ Short explanation of the Banking Commission Interest Rate Exercise
- ▶ History of prior years' adopted rates
- ▶ NYC's Current Cash Flow
- ▶ Early Payment of Property Taxes and Discounts
- ▶ Various Interest and Late Payment Rates
- ▶ Delinquencies
- ▶ Late Payment Impact Summary
- ▶ Recommendations
- ▶ Local Law 30 of 2015 and Local Law 24 of 2021

Explanation of the Banking Commission Interest Rate Exercise

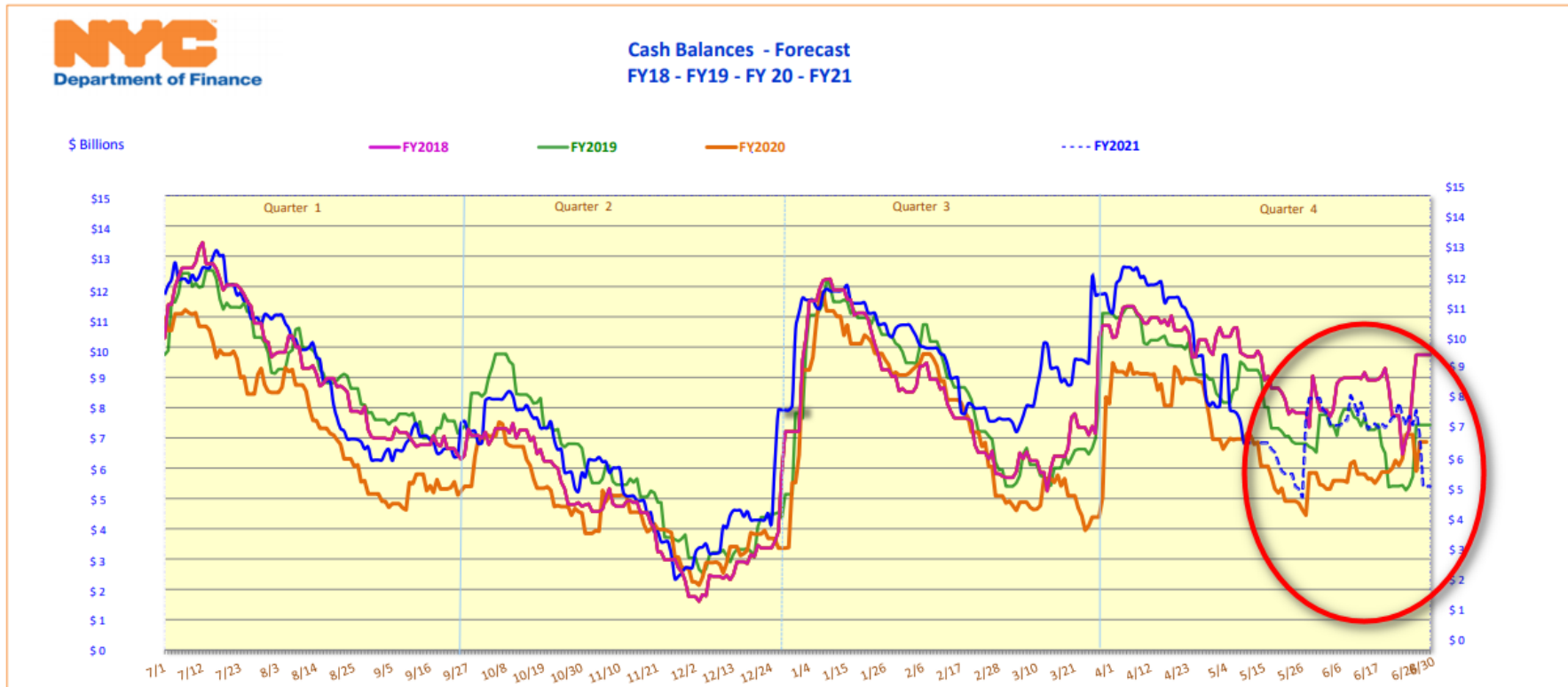
- ▶ Discount Rate:
 - ▶ Property owners can pre-pay their property tax bills and receive a discount.
- ▶ Late Payment Rates:
 - ▶ The City of New York is required to charge interest on any amount of tax that is past due.
- ▶ *Each May, the NYC Banking Commission (“Banking Commission”) recommends a discount rate and penalty rates for the forthcoming fiscal year beginning on July 1. NYC DOF Treasury advises the Banking Commission.*

History of Prior Years' Adopted Rates

Fiscal Year	Discount Rate	Interest Charged to Large Properties	Interest Charged to Small Properties
FY2018	0.50%	18.00%	6.00%
FY2019	0.50%	18.00%	6.00%
FY2020	0.50%	18.00%	7.00%
FY2021	0.50%	18.00%	3.25% and 5%
FY2022 Recommendations	TBD	TBD	TBD

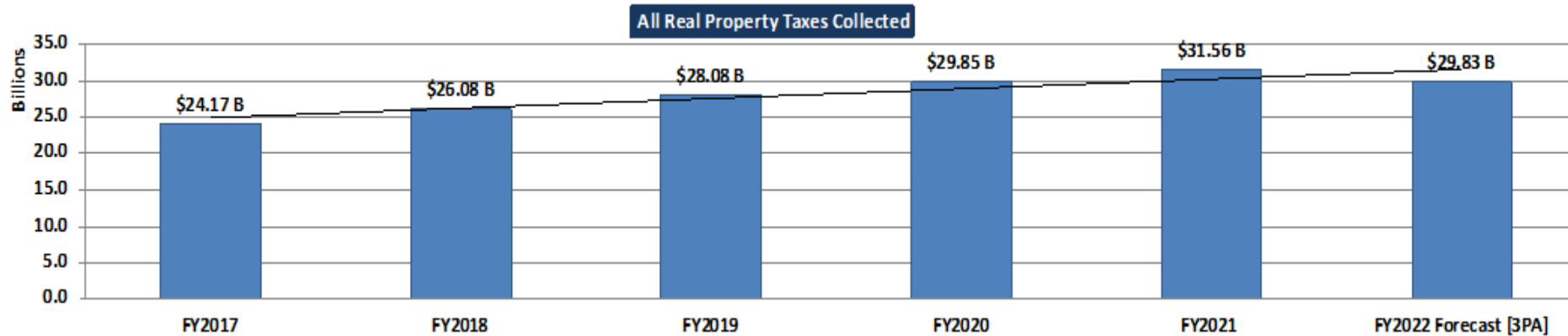
The purpose of this presentation is to provide actual Property Tax Data (from PTS) for FY21 and prior years. Additional data and research are included to support recommendations for FY22 rates.

NYC CASH BALANCES IN FISCAL YEAR 2021



The Discount Rate is a tool to encourage prepayments and accelerate the City's cash flow. FY21 Projections (blue dotted line) forecast the fiscal year end cash flow will be \$1.4 billion lower than FY20, based upon current budgeted outflows.

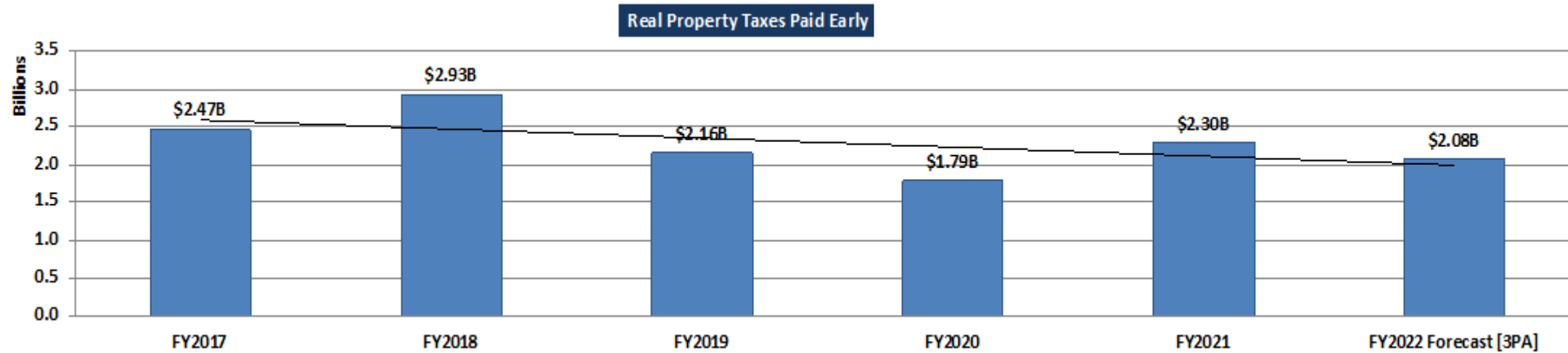
Real Property Taxes *Collected* in FY21



Real property taxes collected in FY21 totaled \$31.56 billion, an increase of \$1.71 billion from FY20. The projection for FY22* is approximately \$30 billion, less than collected last fiscal year, though the long-term trend has seen year over year increases since FY17.

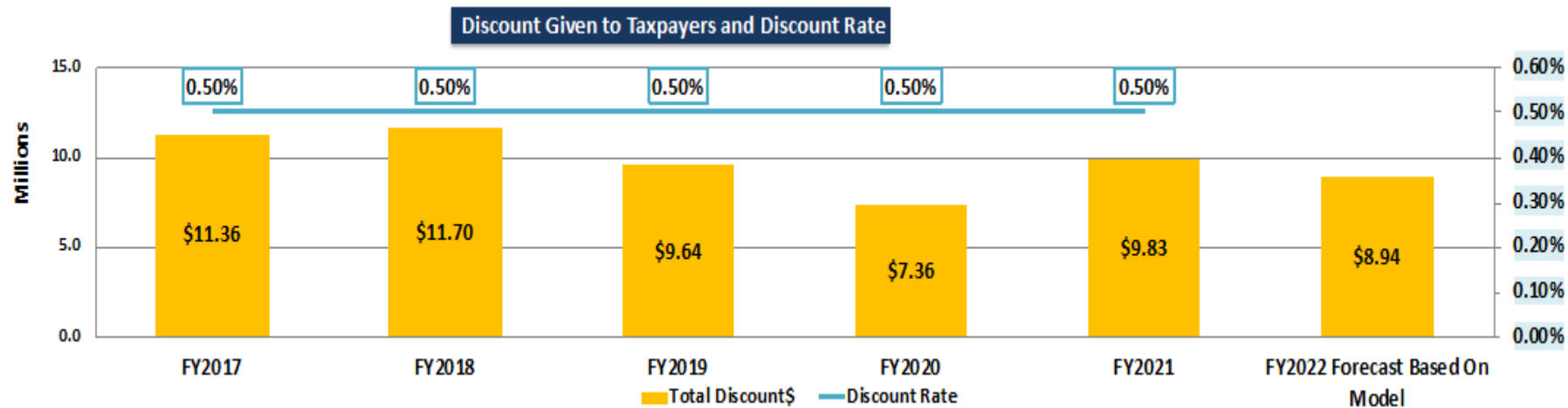
*This FY2022 forecast model and others in the presentation are based on the average of the last three fiscal years (FY2019-FY2021).

Real Property Taxes *Paid Early* in FY21



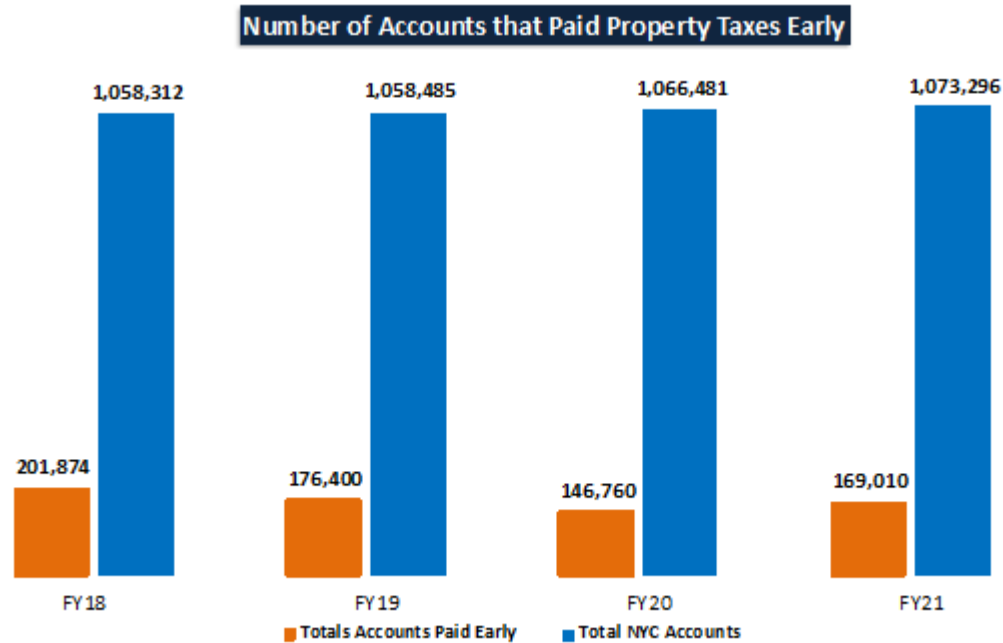
Property Taxes Paid Early in FY21 (\$2.30 billion) exceeded what was prepaid in FY20 (\$1.79 billion) and is more in line with prior fiscal years. FY17-FY19 all saw over \$2 billion in early payments of property taxes. The projection for FY22 (using the average of the last three fiscal years) is a little over \$2 billion.

Early Payment Discount Given To Taxpayers in FY21



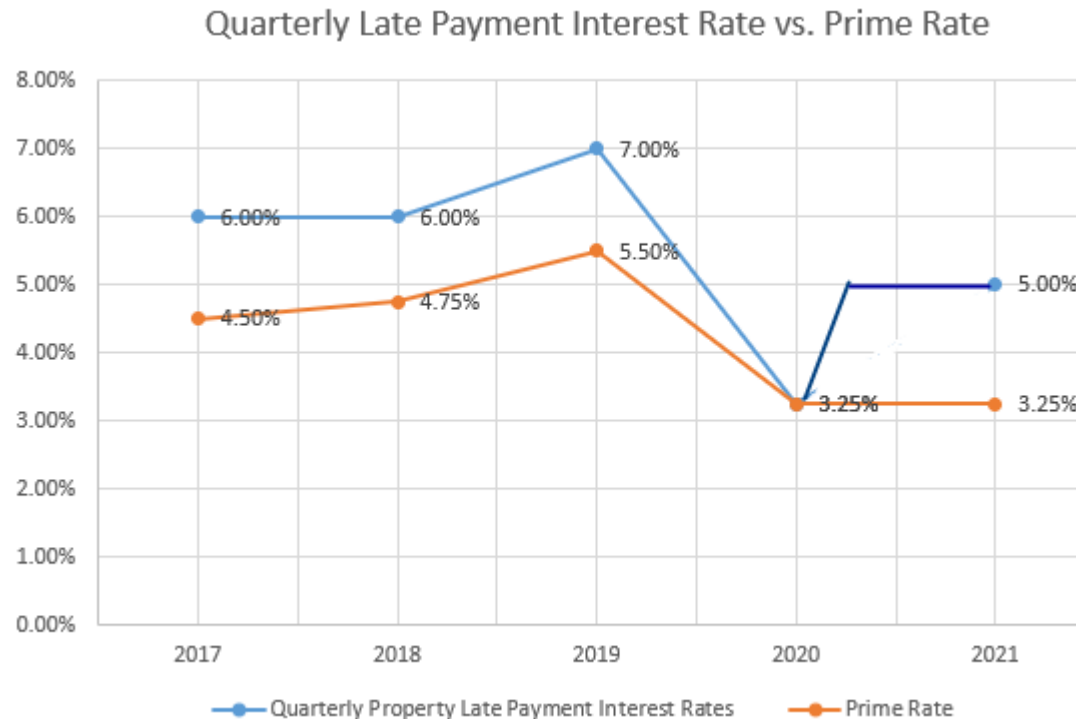
In FY21 Taxpayers availed themselves of \$9.83 million in discounts, an increase over the \$7.4 million used in FY20. While FY21 is comparable to FY19 (\$9.64 million), it is significantly less than FY18 and FY17. Our forecast for next year is about \$9 million, assuming the discount rate is held steady at 50 basis points.

Accounts in FY21 That Paid Property Taxes Early



The number of overall properties in NYC has steadily increased to its current 1,073,296. Prepaid property taxes have been as high as 19% in FY18 to a low of 14% in FY20. Sixteen percent of properties were prepaid in FY21. We expect 15% of properties to prepay for FY22.

Quarterly Late Payment Rate Tracks the Prime Rate



Just as NYC cash flows is one factor influencing and framing the selection of discount rates, an important factor in considering penalty rates, are prevailing interest rates. National interest rates rose from 2017 to 2019 but rapidly declined and have held steady at historically low levels into 2021.

NYC's recommended penalty rates for quarterly properties have paralleled the Prime Rate at a higher level. Last year, the late payment rate adopted for Q1 converged with the Prime Rate at 3.25% (the legal floor). For Q2-Q4 the penalty rate was raised to 5% while the Prime Rate remains at 3.25% in 2021.

Interest Calculations on FY21 Property Tax Balances

Semi-Annual	Quarterly		
	4.00%		5.00%
	18%	17%	16%
	Total Interest Earned: \$129,970,966 Estimated Collectible: \$102,384,526	Total Interest Earned: \$132,160,819 Estimated Collectible: \$103,231,006	Total Interest Earned: \$134,548,449 Estimated Collectible: \$104,081,710
	Total Interest Earned: \$123,157,816 Estimated Collectible: \$96,602,465	Total Interest Earned: \$125,347,669 Estimated Collectible: \$97,448,945	Total Interest Earned: \$127,548,449 Estimated Collectible: \$98,299,649
	Total Interest Earned: \$116,412,123 Estimated Collectible: \$90,877,651	Total Interest Earned: \$118,601,975 Estimated Collectible: \$91,724,131	Total Interest Earned: \$120,802,756 Estimated Collectible: \$92,574,835
	Total Interest Earned: \$109,733,220 Estimated Collectible: \$85,209,520	Total Interest Earned: \$111,923,073 Estimated Collectible: \$86,056,000	Total Interest Earned: \$114,123,853 Estimated Collectible: \$86,906,705
	Least Interest		Most Interest

One way to help determine how to set the late payment rates for semi-annual and quarterly properties is to use our model to project interest earned on the property tax balances owed. An example of this will be shown the next slide.

Impact of Interest Change on City Revenue of Lowering the Quarterly late payment Rate

Assumptions:

Interest Compounded Daily

Avg. Delinquency period is 235 days

At 5% interest would compound to \$19,954,007

At 4% interest would compound to \$15,883,347

The reduction of 1% in the Quarterly Late Payment Rate results in \$4.1 M decrease in potential interest revenue.

However, these projections assume that all interest will be paid and do not reflect the historical levels of interest that are actually paid each fiscal year. An example of this will be shown on the next slide.

Actual Interest Earned on FY21 Late Payments

► Quarterly Properties

Interest Penalty Assessed				
2018	2019	2020	2021	% Change
\$5,822,493	\$5,920,949	\$6,670,272	\$4,968,986	(25.51%)

► Semi-annual Properties

Interest Penalty Assessed				
2018	2019	2020	2021	% Change
\$15,907,677	\$22,726,013	\$30,456,267	\$44,318,156	45.51%

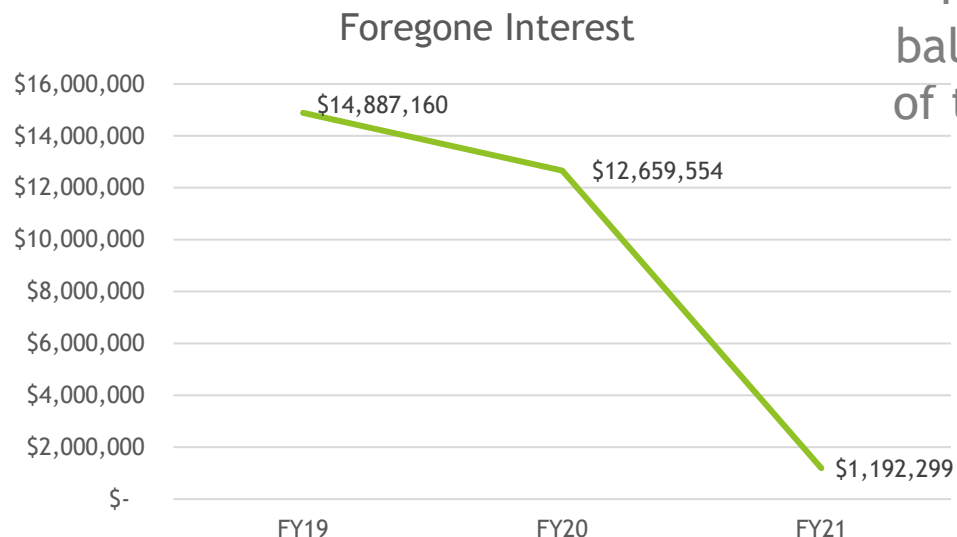
► All Properties

Interest Penalty Assessed				
2018	2019	2020	2021	% Change
\$21,730,170	\$28,646,961	\$37,126,539	\$49,287,142	32.75%

Historically, interest collected by NYC lags and is less than interest earned estimates based on Property Tax Balances. Penalties on Semi-annual properties constitute the bulk of the revenues. Maintenance of a consistent 18% Late Payment rate for semi-annual properties has guaranteed consistent and even growing income for NYC while the reduction of the Late Payment rate last year for quarterly properties resulted in only a slight reduction in interest from that category. The data trends suggests the bulk of the impact is from semi-annual properties and changes in the Late Payment rate for quarterly properties do not have significant impacts on NYC revenues

FY21 Foregone Interest

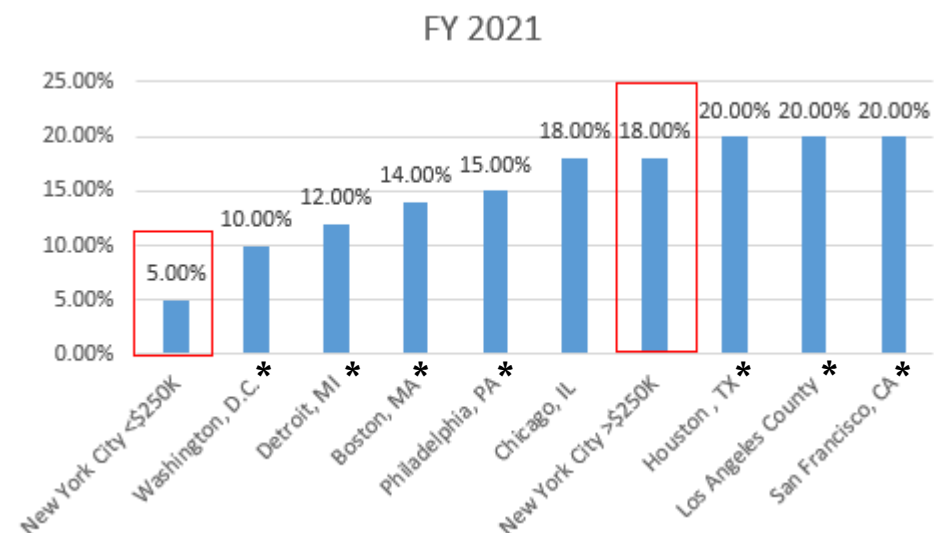
The City's foregone interest due to unpaid balances declined to \$1.2 million as a result of the lower market avg. investment rate of 0.13% in FY2021 vs. 1.36% in FY2020.



Property taxes owed to NYC but not yet collected are known as the Property Tax Balances and constitute potential revenue that NYC has not yet received and therefore cannot invest. The potential income from these balances is an opportunity cost referred to as the “foregone interest” on property taxes *NOT COLLECTED*.

Month	Average Rates	Quarter
JULY		
AUGUST	0.13%	Q1
SEPTEMBER		
OCTOBER		
NOVEMBER	0.13%	Q2
DECEMBER		
JANUARY		
FEBRUARY	0.12%	Q3
MARCH		
APRIL		
MAY	0.12%	Q4
JUNE		
11-Month Investment Avg.	0.13%	

Late Payment Interest Rates of Comparable Cities*



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

*Most comparable cities have additional penalties assessed on top of interest.

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

Average of 2021

Average of 2021 by Loan Type

Home Equity Line of Credit

4.23%

Loan Type

30 Year Fixed Mortgage

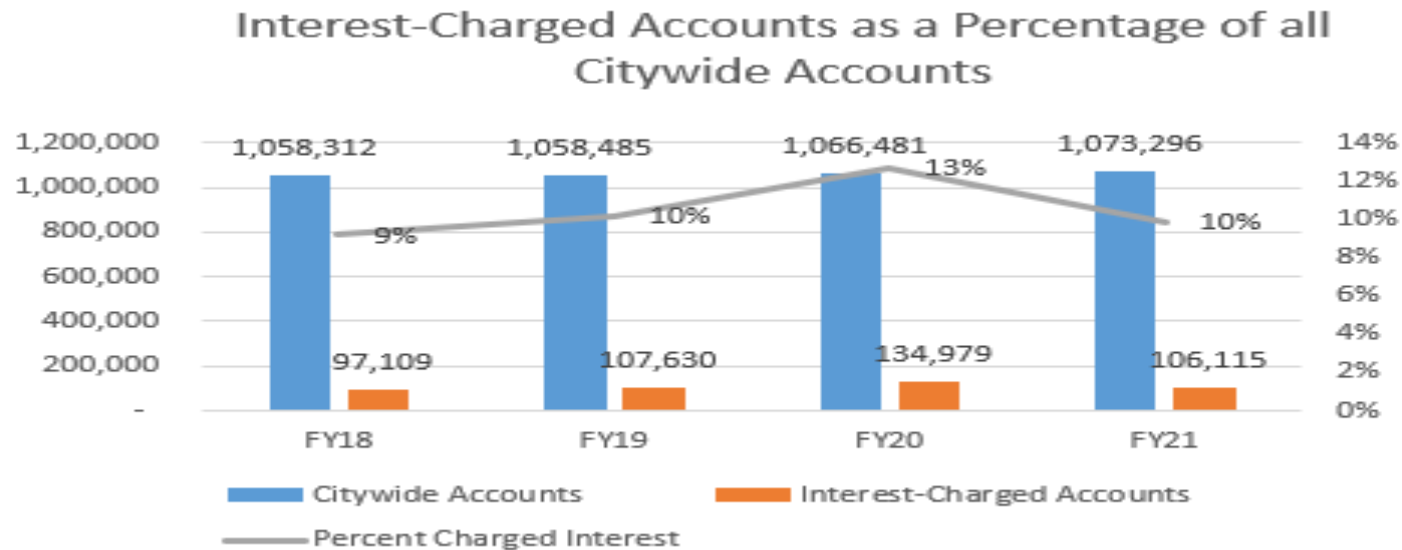
3.53%

Both the mortgage and HELOC rates are within the 3.25-5% range of late payment interest rates implemented for quarterly properties in FY21.

Interest-Charged Accounts Accounts

The number of interest-charged accounts has ranged from 9% to 13%

The number of interest-charged accounts dropped 3% from FY20 to FY21



FY2021 Late Payments Impact

05/04/2021 Fiscal Year 2021 Late Payments Impact

>\$250K= 18.0%

<\$250K=3.25% & 5.0%

Property Type	Number of Delinquent Accounts	Amount Delinquent/Balance	Interest on Delinquent Property Tax (Penalty)	Foregone Interest Income	Net Interest Income (Net Penalty)
Semi-Annual	9,623	\$572,395,499	\$44,318,156	(\$715,494)	\$43,602,662
Quarterly	96,492	\$389,228,723	\$4,968,986	(\$476,805)	\$4,492,181
Total	106,115	\$961,624,222	\$49,287,142	(\$1,192,299)	\$48,094,843

The city's overall net expected revenue due to interest on all outstanding property taxes is \$48.1 million. The City benefited from increased interest received in FY21 from semi-annual properties as well as lower levels of foregone interest due to low interest rates

Interest Rate Recommendations

The purpose of this graphical presentation is to present key data from the current Discount and Late Payment Interest Rate exercises and explain the FY2022 recommendations

- ▶ Recommended Early Payment Discount Rate
 - ▶ 0.50% (Same as FY21)
- ▶ Recommended Late Payment Rate for properties with assessed values below \$250,000
 - ▶ Q1: 3.25% (July 1 - September 30, 2021; Same as FY21 Q1)
 - ▶ Q2-Q4: 4.50% (October 1, 2021 - June 30th, 2022; Reduced from 5% in FY21 Q2-Q4)
- ▶ Recommended Late Payment Rate for properties with assessed values between \$250,000 and \$450,000
 - ▶ 12% (Local Law 24 of 2021 in appendix)
- ▶ Recommended Late Payment Rate for properties with assessed values above \$450,000
 - ▶ 18% (Same as FY21)

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 5th, then a formula-based default rate will be set.

Currently, the City Council default rate is 19 basis points (0.19%)

[Annualized interest rate on 6-Month Treasury Bills (as of April 30, 2021) + 75 bps]/4

$(0.03+0.75)/4=0.195$

APPENDIX

Local Law 24 of 2021: 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 *but no greater than four hundred fifty thousand dollars*, shall propose a rate of **at least four percent per annum greater than such prevailing prime rate;**

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

- Local Law 24 states that the Banking Commission must recommend a rate that is at least equal to the prime rate for properties <\$250K (3.25% in FY21).
- For properties assessed between \$250K to \$450K, the commission must recommend a rate at least 4% greater than the prime rate (7.25% in FY21).
- For properties assessed >\$450K, the commission must recommend a rate at least 6% greater than the prime rate (9.25% in FY21).

APPENDIX

Local Law 24 of 2021: Determination of Interest Rates for Properties with Assessed Values <\$250K, \$250K to \$450K, and >\$450K by City Council

(c) Interest rates on tax due and payable on or after July first, two thousand five. 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 *but no greater than four hundred fifty thousand dollars*, **thirteen percent per annum**; and (c) for real property with an assessed value of over four hundred fifty thousand dollars, **fifteen percent per annum**.

- Local Law 24 of 2021 states that if the City Council does not act, the rates shall be as follows:
- For properties <\$250K, an interest rate of 7% per annum will be adopted
 - For properties assessed between \$250K-\$450K, an interest rate of 13% per annum will be adopted
 - For properties >\$450K, an interest rate of 15% per annum will be adopted