



## **NYC Banking Commission For FY2022**

### **Early Payment Discount Rate and Late Payment Interest Rates Recommendations Executive Summary**

#### **Background**

All Property tax bills have payment due dates. If payments are not received or postmarked by the payment due date (or the grace period due date), payments are considered late. The City of New York is required to charge interest on the amount of tax that is late (through fiscal year 2021, one delinquency rate has applied for properties with assessed values >\$250K and another one has been for properties with assessed values <\$250K). Conversely, property owners can pre-pay their property tax bills and receive a discount.

Each May, the NYC Banking Commission ("Banking Commission") recommends for the forthcoming fiscal year beginning on July 1, the two penalty rates and the discount rate.

#### **Current Year's (FY2021) Recommendations**

In the current FY2021 that began on July 1, 2020 the Banking Commission recommended that property owners who pre-pay the full year's worth of tax shown on their bill by the July due date receive a discount of 50 basis points ("bps") (.50%). The proposed delinquency (penalty) rate for those paying their property tax bills late was maintained from the prior year at 18% for properties with assessed values >\$250K. For properties with assessed values <\$250K the adopted rates were 3.25% from July 1, 2020 through September 30, 2020 (the first quarter of FY2021) and 5% from October 1, 2020 through June 30, 2021 (the second, third, and fourth quarters of FY2021).

#### **Forthcoming Year's (FY2022) Recommendations**

In consideration of the discount rate, the Banking Commission examines New York City's current liquidity and cash flows, prevailing interest rates, the impact of the discount on the number of taxpayers who will pay their taxes early, the discount rates offered by other municipalities, and the estimated savings resulting from processing fewer property tax payments.

For FY2022, the Banking Commission recommends retaining a discount rate of 0.50% (no change). After taking into account foregone tax revenue (the discount), interest earned on taxes collected early, and forgone Interest income on forgone taxes, the overall impact on the City's net income is (\$8.3 Million).

In consideration of the delinquency rate, the Banking Commission reflects on the City's need to encourage timely payment of property taxes to ensure the provision of vital services, the prevailing interest rate environment (Federal Fund and Prime Rates), rates charged for real estate secured consumer loans (mortgage rates and home equity lines of credit (HELOCs)), the impact of rates on interest earned and total City revenues, and the penalty rates charged by other comparable tax collectors across the country.

#### **Local Law 24 of 2021**

Earlier this year, the City Council voted to approve Local Law 24, which will now require the Banking Commission to provide a penalty interest rate recommendation for properties with assessed values between \$250K-\$450K. The law states that the Commission provide property tax data for each council district, disaggregated by real property with an assessed value of over four hundred fifty thousand dollars, real property with an assessed value of over two hundred fifty thousand dollars but no greater than four hundred fifty thousand dollars, and real property with an assessed value of two hundred fifty thousand dollars or less.

For FY2022, the Banking Commission recommends maintaining an 18% rate for properties with assessed values >\$450K (no change). For properties with assessed values <\$250K, the Banking Commission recommends a rate of 3.25% for the first quarter (July 1, 2021 through September 30<sup>th</sup>, 2021) and 4.5% for quarters two through four

(October 1<sup>st</sup>, 2021 through June 30<sup>th</sup>, 2022). In accordance with Local Law 24, for properties with assessed values of >\$250K but no greater than \$450K, the Banking Commission recommends a rate of 12%.

**A Note About Charts and Graphs**

Prior versions of the executive summary included relevant charts and graphs. However, inclusion of these visuals created a document whose length belied its description as an “executive summary.” Last year for FY2021, for the first time, we aggregated the most important infographics into a PowerPoint presentation that was positively received by all with whom it was shared. In the spirit of keeping this document summary-length, this year we continue to collect graphs and charts together in their own presentation in order to best tell the visual story of the Banking Commission recommended rates.

# FY2022 Discount Rate for Early Payment of Property Taxes

The NYC Banking Commission recommends for FY2022 a discount rate of 50 bps (0.50%) for the early payment of property taxes, unchanged from the FY2021 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:** New York City's Cash Flow projection for June 30th, 2021, the end of FY21 is \$5.4 billion. At the close of FY20 on June 30th, 2020, actual cash on hand at the close of business day was \$6.8 billion, a difference of \$1.4 billion. 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 materially increase the cash flow but would further reduce the City's net income from (\$8.3 Million) to (\$18.5 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 two times in 2020, by 50 basis point first on March 3 (from 1.50-1.75% to 1.00-1.25%) and then again by another 100 basis points two weeks later on March 16 to its current 0-.25%. The U.S. Central Bank is signaling no rate hikes in 2021 citing low inflation, high unemployment, and a weakened economy. Officials stress that they are "patient and flexible" in deciding to further adjust borrowing costs.

From April 2020 to May 2021, NYC's quarterly average rates on its investments ranged from .13% to .11%.

The Banking Commission's impact analysis for FY2022 projects that this return on investments rate will result in **\$1.8 Million** of interest earned on taxes collected early at 50bps (0.50%). This will not offset estimates of forgone tax revenue of **(\$10.1 Million)** (discount given) plus forgone interest income on forgone taxes of **(\$14k)**, resulting in a net loss in revenue to the City of **(\$8.3 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 FY2021, a total of 169,010 taxpayers made early payments saving NYC an estimated \$1.3 million in invoicing and administrative costs. If similar savings are realized in FY2022, the total impact will be **(\$7.0 Million)** [(\$8.3M) net income + \$1.3M administrative cost savings].
- **Impact of no change in current discount rate on early payments:** The discount rate decreased 100 bps (1.0%) in FY2015 to 50 bps (0.50%) where it has remained. This change had negligible impact on the amount of taxes collected early.

## Discount Recommendation Summary:

There is no economic reason for the Banking Commission to change the discount rate of 50 bps (0.50%) in FY2022. The impact of having this discount rate in place translates to a total net loss to the City of **(\$7.0 Million)**. If the Council default rate of 19.5 bps (0.195%) were to be invoked, the City's net loss would decrease to **(\$2.0 Million)**. If the Banking Commission were to increase the discount rate to 100 bps (1.0%), this would result in an even greater net negative of **~(\$18.5 Million)**.

Historically, taxpayer behavior appears inelastic to changes in the discount rates which therefore has limited impact on New York City's cash flows. For the above-mentioned reasons, the Banking Commission recommends retaining the current 50 bps (0.50%) discount rate in FY2022.

# FY2022 Penalty Rate for Late Payment of Property Taxes

For FY2022, the NYC Banking Commission recommends the retention of the penalty rate of 18.0% for property values assessed >\$450K, 3.25% in the first quarter (July 1, 2021 to September 30, 2021) and 4.5% in the second, third, and fourth quarters (October 1, 2021 to June 30, 2022) for properties with assessed values of no greater than \$250K, and 12.0% for properties with assessed values of >\$250K but no greater than \$450K.

- **Penalty Rates Offered by Other Property Tax Collectors:**

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 FY2022 penalty rate of 18.0% for properties with assessed values >\$450K, as well as the penalty rate of 12.0% for properties with assessed values of >\$250K but no greater than \$450K, are in line with most comparable municipalities. The penalty rates of 3.25% and 4.5% for properties with assessed values <\$250K is below most comparable municipalities. The rates, in combination, appear to continue to incentivize property taxpayers to pay on time.

- **Interest Rate Impact:**

The Federal Fund and Prime Rates remain at the historically low (near zero) levels put in place in March 2020. Mortgage and other lending rates which are tied to these indices also remain at the unprecedentedly low levels. In September 2020 the Federal Reserve announced that these minimal rates were likely to remain in effect at least through 2023. Because the interest rates have not changed since the last issued recommendations and the overall economic situation remains challenged with over one million New Yorkers out of work and the City's unemployment rate nearly double the national average, the Banking Commission feels confident that as the City faces a slow economic recovery the current recommended penalty rates strike the appropriate balance.

- **Covid 19 Impact:**

The Federal Reserve's stated interest rate policy outlined above, is, of course, related to the coronavirus pandemic challenge which has harmed the economy, putting millions of people and businesses out of work. As noted above, New York City itself is not immune from this hardship. In January 2021, the City announced that property tax revenues are projected to decline by \$2.5 billion next year, the largest drop in at least three decades. This shortfall is largely due to the sharp reduction in the value of office buildings and hotel properties. Weighing the hardships of New York property taxpayers with the City's need to incentive payments and collect revenues, the Banking Commission's position is that the current penalty rate recommendations are the prudent course.

- **Properties charged interest:**

The number of semi-annual properties (assessed values >\$250,000) charged interest increased from 9,058 in FY2020 to 9,623 in FY2021 or 19.4%. The Banking Commission does not believe that this increase is attributable to the 18% penalty rate which has not changed in decades. The number of quarterly properties (assessed values < \$250,000) charged interest decreased from 126,921 in FY2020 to 96,492 in FY2021 or (24%). The Banking Commission believes that this may be attributable to the 3.25% interest rate implemented in Q1 and the 5% rate for Q2-Q4, as those rates were decreased from the prior year, and, as has been noted, are below all other comparable municipalities used in this analysis. The City's overall delinquency rate (both sets of property) decreased from 12.66% to 9.89% or 21.88%. The lowering of late payment interest rates for FY21 may have been the cause of the overall decline.

- **Summary:**

There continues to be a positive impact on New York City revenue when considering interest paid for both semi-annual and quarterly accounts of \$49.3 million, offset by the negative (\$1.2 million) of forgone interest/investment revenue, resulting in a positive \$48.1 million in net revenue. There is no compelling reason for the Banking Commission to either raise or lower the penalty rate in FY2022 for semi-annual taxpayers. While the number of FY2021 semi-annual accounts that paid interest increased from the prior fiscal year, because there was no change in the 18% penalty rate which has been in effect for many years, it is difficult to discern the cause. On the other hand, it may be that the decline in quarterly interest rate recommended for FY21 was responsible for the lower number of quarterly accounts that paid interest in FY21. Therefore, the Banking Commission is recommending retention of the 18% for properties with assessed values of >\$450K, 12% for properties with assessed values of >\$250K but no greater than \$450K, and a decrease from the current 5% to 3.25% in the first quarter of FY22 for the properties with assessed

values of <\$250K with the rate increasing to 4.5% for the subsequent second through fourth quarters of the fiscal year.