

May 2023

**Discount Rate for Prepayments of Property Taxes
Rate for Payment Program for Property Taxes
Rates for Late Payments of Property Taxes**

**Fiscal Year 2024 Interest Rate Recommendations
Models & Impact Analyses**

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Explanation of the Banking Commission Interest Rate Exercise

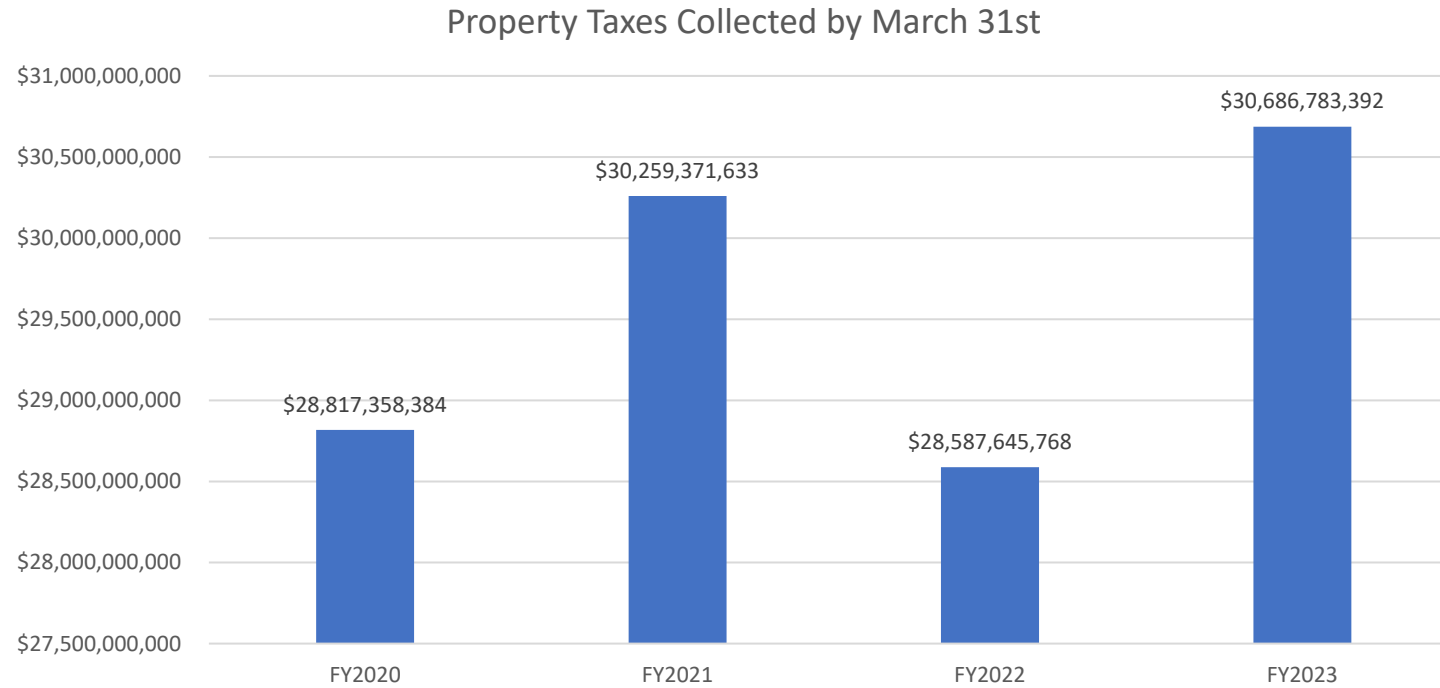
- ▶ **Discount Rate:** Property owners can pre-pay their property tax bills and receive a discount.
- ▶ **Property Tax Payment Program Rate:** Certain qualified taxpayers may enter into payment programs with a prescribed rate.
- ▶ **Late Payment Rates:** The City of New York is required to charge interest on any amount of tax that is past due.
- ▶ **By May 13th**, the NYC Banking Commission (“Banking Commission”) must recommend a discount rate and late payment rates for the upcoming fiscal year beginning July 1st. Beginning this fiscal year, the Banking Commission is also tasked with recommending a rate for certain Property Tax Payment Plans.
- ▶ **The purpose of this presentation** is to present key data from the current Discount, AFR, and Late Payment Interest Rate analysis and explain the Banking Commission FY2024 recommendations.

History of Prior Years' Adopted Rates

FISCAL YEAR	DISCOUNT RATE	LATE PAYMENT INTEREST RATE FOR PROPERTIES <= \$250,000	LATE PAYMENT INTEREST RATE FOR PROPERTIES > \$250,000 BUT <= \$450,000	LATE PAYMENT INTEREST RATE FOR PROPERTIES > \$450,000
FY2017	0.50%	6.00%	18.00%	18.00%
FY2018	0.50%	6.00%	18.00%	18.00%
FY2019	0.50%	6.00%	18.00%	18.00%
FY2020	0.50%	7.00%	18.00%	18.00%
FY2021	0.50%	3.25% / 5.00%	18.00%	18.00%
FY2022*	0.50%	3.00%	6.00%	13.00%
FY2023	0.50%	4.00%	7.00%	14.00%

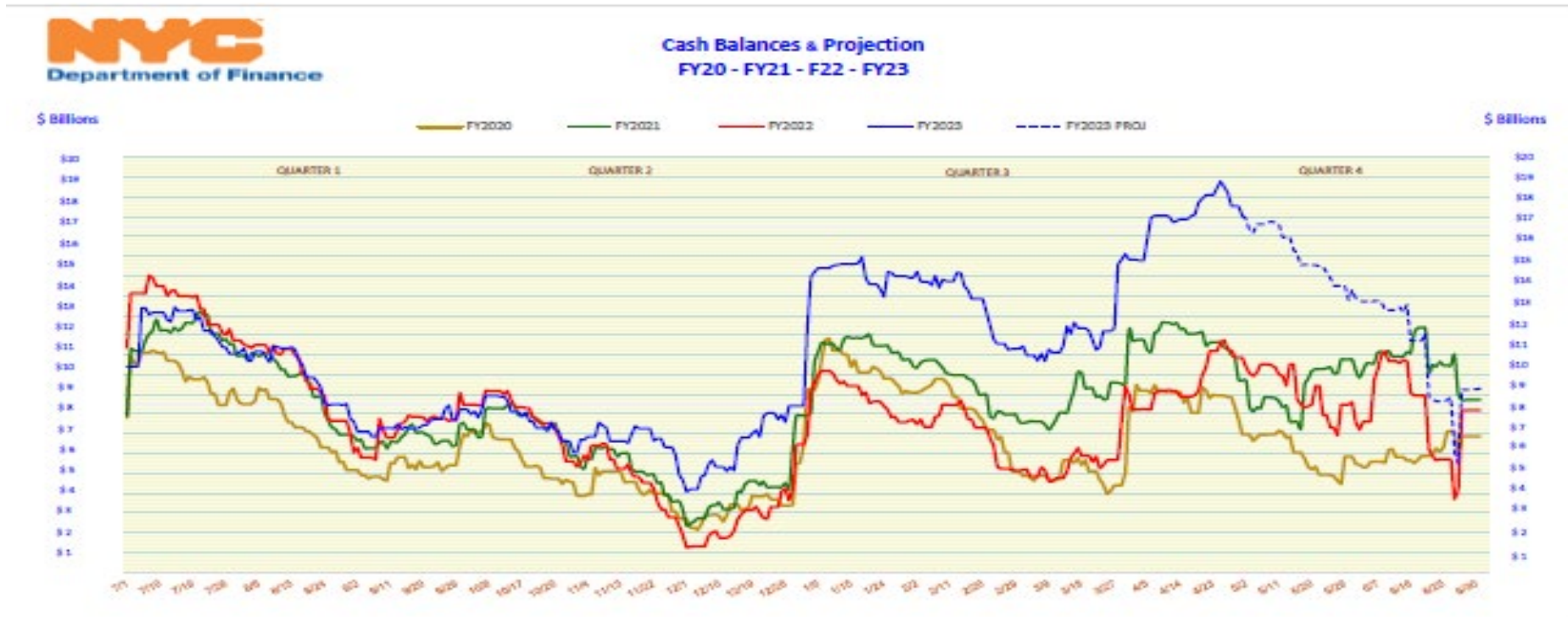
*FY22 was the first year for three tranches.

Real Property Taxes Collected



*As of May 5, 2023.

NYC CASH BALANCE FY2020 - FY2023



- Cashflow with projection to June 30,2023.
- Ending balance is projected to be approximately \$9 billion.
- FY24 forecasted beginning balance is comparable to FY23 when the Discount Rate was set at 0.50%

DISCOUNT RATE ANALYSIS

- ▶ FY2023 Discounts
- ▶ Discounts Applied
- ▶ Discount Recommendation

FY2023 DISCOUNTS

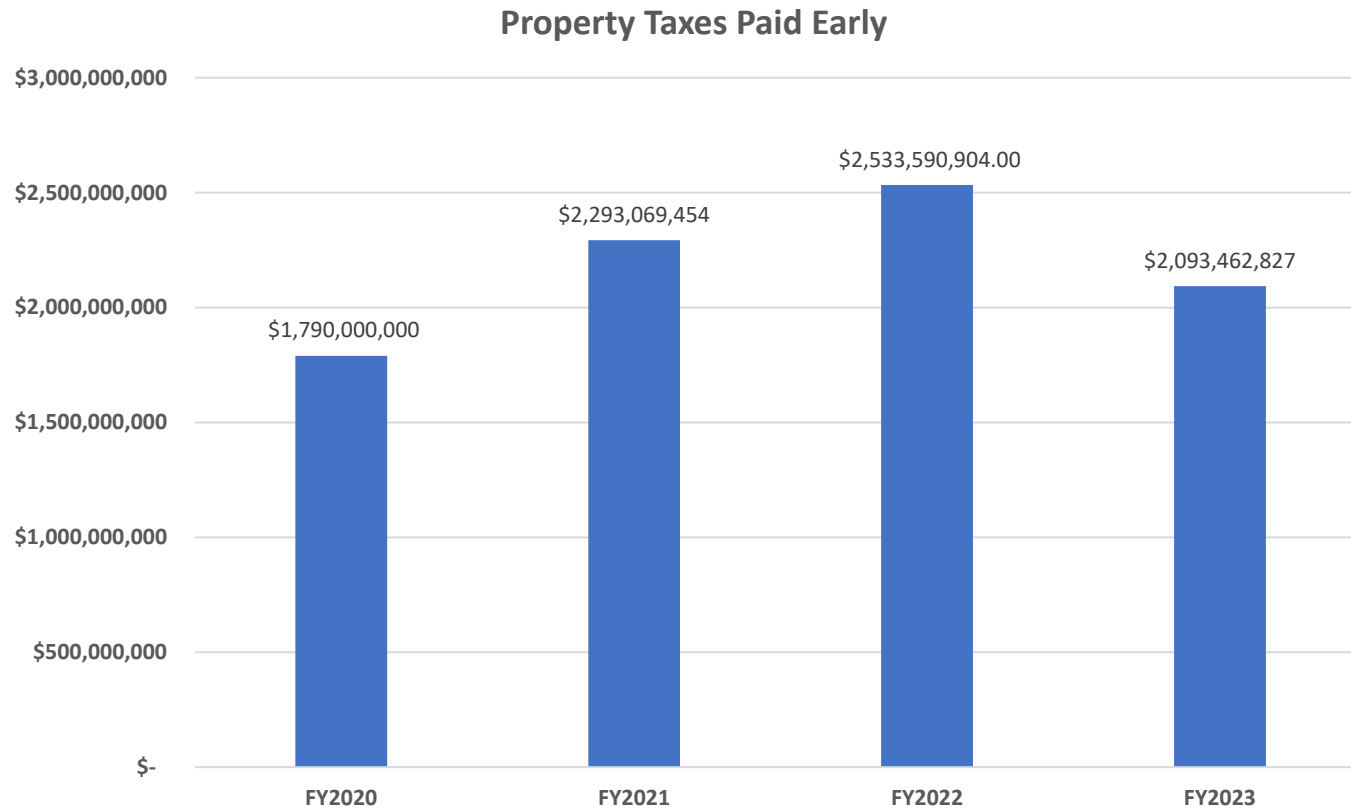
Quarterly Discounts:

- 0.50% on the full amount of property tax if the entire amount of taxes owed is paid by the July due date (or grace period due date).
- 0.33% discount on the last three quarters if the outstanding balance is paid by the October due date.
- 0.17% discount on the last six months if the outstanding balance is paid by the January due date.

Semi-Annual Discounts:

- 0.50% discount if the entire amount of taxes owed is paid by July 1.

Real Property Taxes Paid Early



Early Payment Discount



In FY23 taxpayers availed themselves of \$8.85 Million in discounts.

Discount Rate Recommendation

- ▶ The Discount Rate has been held steady at 0.50% since 2015
- ▶ NYC's cash flow projects an approximately \$9 billion balance year-end
- ▶ FOMC Interest rates have continually increased for the previous year
- ▶ FOMC expects to stay at current rates “for an extended period of time”
- ▶ The LL 30 of 2015 Council Default Discount Rate is 145 basis points (1.45%)
- ▶ NYC is the only large metropolis to provide a discount to property taxpayers.

Given the above considerations, there is no compelling reason to increase the discount rate, nor to reduce or eliminate it.

We recommend that the Discount Rate remain at the current level of 0.50%.

PROPERTY TAX PAYMENT PROGRAM RATE ANALYSIS

- ▶ Definition of Applicable Federal Rate (AFR)
- ▶ AFRs 2023
- ▶ Property Tax Payment Program Rate Recommendation

APPLICABLE FEDERAL RATE DEFINITION

- ▶ The Applicable Federal Rate (AFR) is the minimum interest rate that the [Internal Revenue Service](#) (IRS) allows for private loans. Each month the IRS publishes a set of interest rates that the agency considers the minimum market rate for loans.¹
- ▶ Any interest rate that is less than the AFR would have tax implications. The IRS publishes these rates in accordance with Section 1274(d) of the [Internal Revenue Code](#).²

1. Internal Revenue Services. "[Applicable Federal Rates \(AFRs\) Rulings.](#)"

2. Internal Revenue Services. "[Adjusted Applicable Federal Rates and Adjusted Federal Longterm Rates,](#)" Pages 1-2.

APPLICABLE FEDERAL RATES (AFR) FY2023

MONTH	YEAR	RATE
May	2023	4.30%
April	2023	4.86%
March	2023	4.50%
February	2023	4.47%
January	2023	4.50%
December	2022	4.55%
November	2022	4.10%
October	2022	3.40%
September	2022	3.05%
August	2022	2.88%
July	2022	2.37%

<https://www.irs.gov/applicable-federal-rates>

Payment Plan Rate Recommendation

- ▶ The AFR for May 2023 is 4.30%
- ▶ LL 36 requires rounding to the nearest half a percentage (4.50%)
- ▶ The rate has increased almost 200 basis points since the beginning of the fiscal year
- ▶ FOMC expects to stay at current rates “for an extended period of time”
- ▶ The lowest comparable city rate is 10%

Given the above considerations, the Banking Commission recommends a rate of 6% for certain Property Tax Payment Plans.

We recommend the prescribed Property Tax Payment Plan Rate be set at 6%.

LATE PAYMENT RATES ANALYSIS

- ▶ FY2023 Late Payment Rates
- ▶ Late Payments Interest Collected
- ▶ Late Payment Rates of Comparable Cities
- ▶ Fed Funds & Prime Rate Increases
- ▶ HELOC Rates and Mortgage Rates
- ▶ Credit Card Rates
- ▶ Late / Open Balance Accounts
- ▶ Foregone Interest
- ▶ Late Payment Rates Recommendations

FY2023 LATE PAYMENT RATES

FISCAL YEAR	LATE PAYMENT INTEREST RATE FOR PROPERTIES <= \$250,000	LATE PAYMENT INTEREST RATE FOR PROPERTIES > \$250,000 BUT <= \$450,000	LATE PAYMENT INTEREST RATE FOR PROPERTIES > \$450,000
FY2023	4.00%	7.00%	14.00%

Actual Interest Collected on Late Payments

- ▶ Quarterly Properties
(≤\$250K)

Interest Collected			
FY20	FY21	FY22	FY23
\$ 7,925,523	\$ 3,573,890	\$ 2,436,963	\$ 3,408,842

- ▶ Semi-annual Properties
(>\$250K but ≤\$450K)**

Interest Collected			
FY20	FY21	FY22	FY23
\$ 6,406,219	\$ 5,062,397	\$ 1,689,087	\$ 2,169,740

- ▶ Semi-annual Properties
(>\$450K)*

Interest Collected			
FY20	FY21	FY22	FY23
\$ 19,100,085	\$ 22,321,881	\$ 12,782,554	\$ 14,535,485

*Interest paid for BBLs with balance as of 3/31/23 >\$5 or total interest paid year-to-date >\$5.

**The >\$250K but ≤\$450K Tranche did not officially exist until FY22.

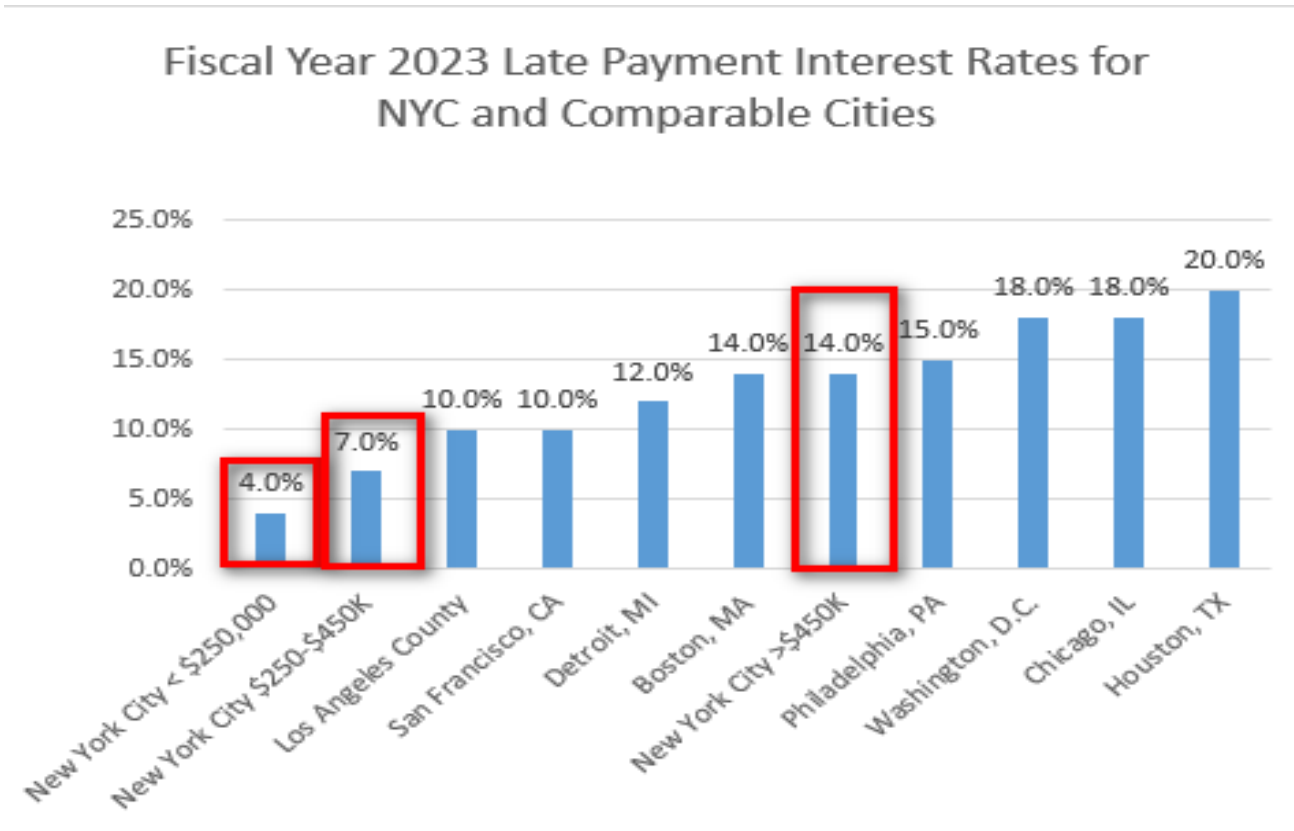
Actual Interest Collected on Late Payments (Totals)

▶ All Properties

Interest Collected			
FY20	FY21	FY22	FY23
\$ 33,431,827	\$ 30,958,168	\$ 16,908,604	\$ 20,114,067

*Interest paid for BBLs with balance as of 3/31/23 >\$5 or total interest paid year-to date >\$5.

Comparable City Late Payment Interest Rates



New York City's FY23 late payment rates are significantly less than those assessed in comparable cities.

Note: Many comparable cities have additional penalties assessed in addition to interest.

Federal Funds and Prime Rate Increases Since May 2022

MONTH	YEAR	FED FUNDS	PRIME
May	2023	5.00-5.25	8.25
March	2023	4.75-5.00	8.00
February	2023	4.50-4.75	7.75
December	2022	4.25-4.50	7.50
November	2022	3.75-4.00	7.00
September	2022	3.00-3.25	6.25
July	2022	2.25-2.50	5.50
June	2022	1.50-1.75	4.75
May	2022	0.75-1.00	4.00

Source: <https://www.federalreserve.gov/monetarypolicy/openmarket.htm>

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

National Residential Real Estate Interest Rates

Home Equity line of Credit	7.99%
15 Year Fixed Mortgage	6.38%
30 Year Fixed Mortgage	6.89%

HELOC is based on a 20-year interest rate, as of May 1, 2023 (Source: Bankrate.com)

Fixed Rate Mortgage rates are from the Federal Reserve Bank of St. Louis, as of May 1, 2023 (Source: St. Louis Federal Reserve Bank)

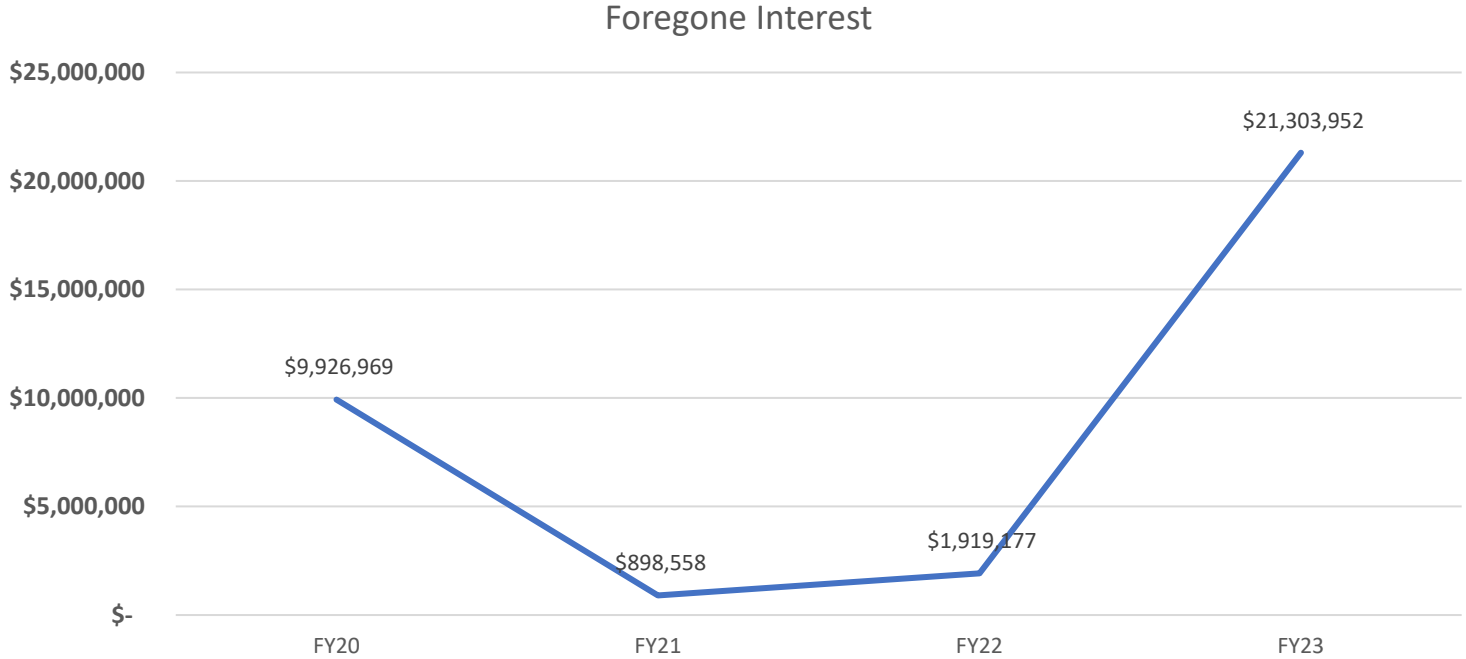
Average Interest Rates on New Credit Card Offers in the U.S. in April 2023

Category	Minimum APR	Maximum APR	Average	Previous Month
Average APR for all	20.35%	27.31%	23.84%	23.65%
0% balance transfer cards	18.13%	27.16%	22.64%	22.44%
No-annual-fee cards	19.81%	27.08%	23.44%	23.25%
Rewards cards	20.15%	27.42%	23.79%	23.60%
Cash back cards	20.19%	27.13%	23.68%	23.51%
Travel rewards cards	20.33%	28.09%	24.21%	23.96%
Airline credit cards	20.69%	28.88%	24.79%	24.54%
Hotel credit cards	21.06%	28.82%	24.94%	24.69%
Low-interest credit cards	13.45%	22.84%	18.14%	18.03%
Grocery rewards cards	19.96%	27.62%	23.79%	23.63%
Gas rewards cards	20.36%	27.43%	23.90%	23.75%
Dining rewards cards	20.09%	27.78%	23.94%	23.76%
Student credit cards	20.49%	26.62%	23.94%	23.21%
Secured credit cards	26.42%	26.42%	26.42%	26.21%

BBLs Late March 31st

Late Payment or Balances Exceeding \$5 (as of March 31)				
	FY2020	FY2021	FY2022	FY2023
Total Parcels (BBLs)	1,067,842	1,077,488	1,085,341	1,091,171
Delinquent Parcels	95,196	76,132	69,665	84,122
% Delinquent	8.91%	7.07%	6.42%	7.71%

Foregone Earned Interest



The foregone interest is interest that would have been earned had the property taxes been paid on time and the money was available for investment by the Comptroller.

FY2024 Late Payment Rate Recommendations

- ▶ FOMC and Prime interest rates have increased 425 basis points since May 2022
- ▶ Section 11-224.1 of the New York City Administrative Code requires interest on late payments.
- ▶ NYC late payment rates for FY23 were lower than all other comparable cities.
- ▶ Local Law 30 of 2015 requires the recommendations must be based on the Prime Rate (8.25%)

	LL 30	MINIMUM
<= \$250,000	8.25%	8.25%
> \$250,000 BUT <= \$450,000	8.25% + 4%	12.25%
> \$450,000	8.25% + 6%	14.25%

Given the above considerations:

- *We recommend that the late payment rate for properties with accessed values <=250K be set to **9%**.*
- *We recommend that the late payment rate for properties with accessed values >250K but <=450K be set to **15%**.*
- *We recommend that the late payment rate for properties with accessed values >450K be set to **18%**.*

FY2024 Late Payment Rate Recommendations

FISCAL YEAR	DISCOUNT RATE	LATE PAYMENT RATE ≤ \$250,000	LATE PAYMENT RATE > \$250,000 BUT ≤ \$450,000	LATE PAYMENT RATE > \$450,000
FY2022 Recommendation	0.50%	3.25% / 4.50%	12.00%	18.00%
FY2022 Adopted	0.50%	3.00%	6.00%	13.00%
FY2023 Recommendation	0.50%	6.00%	12.00%	18.00%
FY2023 Adopted	0.50%	4.00%	7.00%	14.00%
FY2024 Recommendation	0.50%	9.00%	15.00%	18.00%

APPENDIX I

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 discount rate is 145 basis points (1.45%)

6 Month Treasury Bill Rate As of April 28, 2023 - 5.05%

[(Annualized interest rate on 6-Month Treasury Bills (as of April 28, 2023) + 75 bps)/4]

[(5.05%+0.75%)/4]=1.45%

APPENDIX II

Local Law 36 of 2023: Interest Rate for Certain Property Tax Payment Plans

(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, *except as provided in paragraph (ii) of this subdivision;*

(ii) *for real property with an assessed value of two hundred fifty thousand dollars or less for which an owner, as defined in subdivision (h) of this section, of such real property: (A) has entered into an agreement pursuant to section 11-322 or 11-322.1 of chapter 3 of this title for the payment in installments of real property taxes, assessments or other charges that are made a lien subject to the provisions of such chapter other than water rents, sewer rents or sewer surcharges, and such installment agreement is not in default; and (B) has complied with the requirements described in subdivision (h) of this section, the commission shall consider the most recent federal short-term rate, as determined by the United States secretary of the treasury in accordance with subsection (d) of section 1247 of the internal revenue code, for use in connection with section 6621 of the internal revenue code, and shall propose a rate at least equal to such federal short-term rate rounded to the nearest half percent;*

- Local Law 36 of 2023 states that for properties with an assessed value of \leq \$250K that have entered into a payment plan, the interest rate that will be set will be at least equal to the federal short-term rate (AFR) rounded to the nearest half percent.
- (4.30% rounded to 4.50%)

APPENDIX III

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 \leq \$250K **(8.25% for FY23)**.
- For properties assessed $>$ \$250K but \leq \$450K, the Commission must recommend a rate at least 4% greater than the prime rate **(12.25% for FY23)**.
- For properties assessed $>$ \$450K, the Commission must recommend a rate at least 6% greater than the prime rate **(14.25% for FY23)**.

APPENDIX III (continued)

Local Law 24 of 2021: Determination of Interest Rates for Properties with Assessed Values <=\$250K, >\$250K but <=\$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** shall be adopted
 - For properties assessed >\$250K but <=\$450K, an interest rate of **13% per annum** shall be adopted
 - For properties >\$450K, an interest rate of **15% per annum** shall be adopted