City Council Oversight Hearing Testimony

Testimony given by

Deputy Commissioner Jeffrey Shear

June 11, 2022

Good morning, Chair Dromm and members of the Committee on Finance. My name is Jeffrey Shear. I am Deputy Commissioner for Treasury and Payment Services for the NYC Department of Finance (DOF). I am joined by Mary Christine Jackman, the City's Treasurer, who also serves as Finance Commissioner Soliman's representative on, and secretary to, the NYC Banking Commission. I am here today to testify on two pre-considered Council bills that address what interest rate the City should charge to property owners who make late payments on their NYC property taxes in tax year 2022.

Property taxes are the City's biggest single source of revenue, accounting for $31 billion or nearly half of the City's total tax revenues. Without this revenue, the City would not be able to pay its teachers, first responders, and its vendors to provide crucial vital services to New Yorkers. This includes the provision of critical goods and services needed as a result of the COVID-19 pandemic and the distribution of hundreds of thousands of meals each day to make sure no one goes hungry.

The Administration strongly supports the recommendation of the New York City Banking Commission to provide relief to property owners that continue to struggle due to the impact of the pandemic. The Banking Commission balanced this acknowledgement of some struggling property owners with the fact that New York City is on a path to full recovery for all of us. The COVID rate has declined to 1.36 percent as of June 10. 8.6 million vaccinations have been given and 64.2% percent of adults have received at least one vaccination. More people are returning to offices and retail stores and Broadway begins to re-open later this month with the return of Springsteen on Broadway. As a result, the Banking Commission recommended a program whereby owners of small and mid-sized properties that have been impacted by COVID could have the interest rate on late property tax payments reduced for the first quarter of FY22. For properties with an assessed value under $250,000, the interest rate would be reduced from the recommended rate of 4.5% to 0%. For properties with an assessed value over $250,000, the interest rate would be reduced from the recommended rate of 18% to 7.5%.

This relief is being recommended even though the late payment interest rate that New York City charges property owners is significantly lower than that charged in other large cities and counties. Attached to this testimony is a graph showing the interest rates of several large cities. The 5% that New York City currently charges for properties with an assessed value under $250,000 is lower than the rate charged by eight other cities. For properties with an assessed value over $250,000, there are three cities that charge a higher rate than the current 18% interest rate; one city that charges the same rate, and four cities that charge a lower rate. However, this comparison omits the fact that seven of the eight other cities charge penalties in addition to the interest charges. These penalties are incurred as part of the delinquent accrual process and are not associated with enforcement actions. New York City does not impose penalties on top of interest.

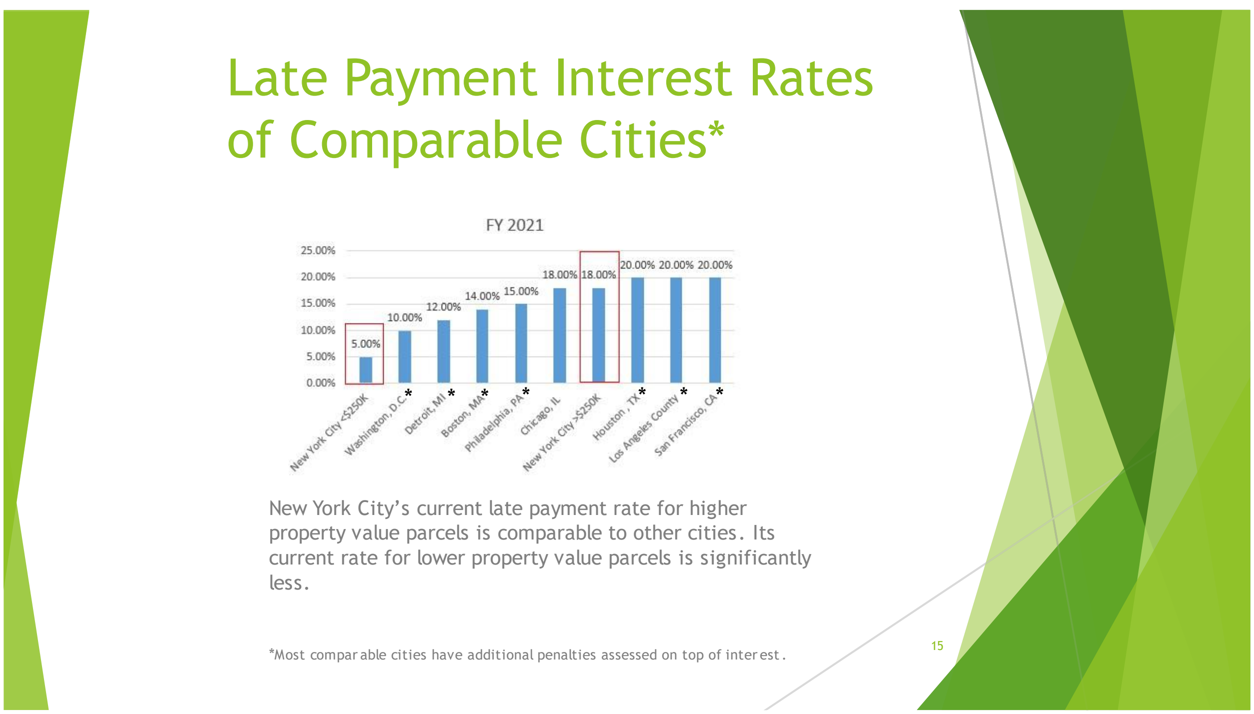
Furthermore, the Administration worked with the Council last year to provide another measure of relief pursuant to Local Law 24, which was passed early in 2021. One of the provisions of this bill was to create a third tier of properties to be charged a lower interest rate. For many years, the City has had two late payment interest rates: one for properties with an assessed value under $250,000 and another for properties with an assessed value over $250,000. Starting on July 1, there will be a third category for mid-value properties with an assessed value between $250,000 and $450,000. The Banking Commission has recommended to the Council that this rate for FY22 should be 12%, reducing by one-third the interest that would be charged on these properties for late payments.

With all this in mind, we have very strong reservations regarding the two Council bills. The bills expand the time period during which interest rate relief would be given from the first quarter of the calendar year to the entire year. They also would greatly expand the number of property owners eligible for relief. For example, the bill pertaining to properties with an assessed value over $250,000 would be available to all Class 2 and Class 4 owners, including large landlords and multinational companies that own properties worth tens or hundreds of millions of dollars. Such owners need to certify that they experienced a 50% drop in income during any six-month period going back to March 2020 and they would be charged the interest rate for smaller property owners; 3.25% for the first quarter of FY22 and 4.5% for the remainder of the year as recommended by the Banking Commission. The City would not have the time nor the resources to review the documentation submitted for accuracy. If many commercial owners and large landlords were to take advantage of what is effectively an offer to borrow money from the City at interest rates that are competitive with commercial loans, the City could suffer a precipitous decline in its cash reserves. These reserves are needed to meet all the fiscal obligations of the City, including paying all its vendors and making payroll.

The expansion of the program is compounded by the length of time that property owners would be given under these bills to apply for such relief. Owners would have until June 15, 2022 to apply for such relief. That means the City would not know the scope of the program and its impact on cash reserves. Such a long timeframe is not necessary because COVID impacted owners know today whether they need this relief. There also is the potential for much confusion regarding the actual liability of these properties for such an extended period. For example, our standard payment plans require owners to keep current with the accrual of new charges on a monthly or quarterly basis. A property with partial payments may not seem current early in the year but if it applied for interest relief in next June that could dramatically affect its status after the fact. In addition, it may be difficult for owners who pay no taxes in FY22 to pay two years' worth of taxes in FY23. Finally, the length of the program combined with the extended application time would make this program very difficult for DOF to administer. Making interest adjustments for potentially thousands of properties at different intervals is not a process to which the department could easily adapt.

As we noted, the Administration supports lower interest rates in the first quarter of FY22 to aid in the recovery but bills that would ostensibly enact such a large relief program that could imperil the City's cash reserves send a signal that we are taking a step backwards at exactly the time that the City's economy is ramping up. In fact, overall, the City's delinquency rate on property taxes is up slightly this year (2.4%) compared to the same time last year (2.1%). *We look forward to continuing conversations on what the Council intends to propose as recommendations for interest rates*. For the 2021-2022 tax year, the Banking Commission has recommended that property owners with an assessed value under $250,000 pay a 3.25% rate for the first quarter and 4.5% for the remainder of the year. The Commission also has recommended a late payment interest rate of 12% for property owners with an assessed value over $250,000 and under $450,000 and 18% for property owners with an assessed value over $450,000. The New York City administrative code requires that DOF charge default interest rates if the Council does not act timely. These rates are 7% for property owners with an assessed value under $250,000, 13% for property owners with an assessed value between $250,000 and $450,000, and 15% for property owners with an assessed value over $450,000.

Lastly regarding Intro 1859, the department supports the continuation of applying the alternative veteran's exemption for wartime and combat veterans to the portion of the property tax levied for school purposes. Beginning July 1, 2017, the exemption has been allowed for the school portion of the property tax. Intro 1859 prevents this provision from expiring.



REBNY Testimony | June 14, 2021

The Real Estate Board of New York to

The Committee on Housing and Buildings on Intro 2261-2021

The Real Estate Board of New York (REBNY) is the City's leading real estate trade association representing commercial, residential, and institutional property owners, builders, managers, investors, brokers, salespeople, and other organizations and individuals active in New York City real estate. REBNY thanks the Committee for the opportunity to testify on the proposed changes to the NYC Building, Fuel, Gas, Mechanical, and Plumbing Codes.

New Yorkers can live, work, and thrive throughout the five boroughs because of the careful regulation of the City's buildings. The standards set by the Building, Fuel, Gas, Mechanical, and Plumbing Codes (Codes) ensure that our built environment is safe, healthy, and able to grow. Like New York's buildings, the Codes are not static. It is essential to review and update them as needed to better protect the City's tenants and residents as well as to improve the regulatory processes required in developing and maintaining our buildings.

Intro 2261 seeks to improve building construction standards for new buildings and resolves issues relating to the application of some provisions of the new codes to the alteration of existing buildings. This bill is the result of a multi-year revision process led by the Department of Buildings (DOB) that extensively involved industry stakeholders including REBNY. We share in the DOB's goal of improving public safety and thank it for its partnership and willingness to find appropriate compromise in instances where proposals conflicted with the operational and physical limitations for the industry.

This sort of long-term engagement with different subject matter experts to work through far-reaching and technical regulations is the archetype of good governance. As the City continues its work to improve life for New Yorkers, it should follow DOB's approach by being inclusive, measured and addressing issues holistically rather than through disjointed acts and legislation.

REBNY looks forward to continuing our partnership with the DOB as the changes are finalized and working through the subsequent rulemakings and implementation.

Thank you for the consideration of these points.

Important Note

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REBNY Testimony | June 11, 2021

The Real Estate Board of New York to

The New York City Council Finance Committee on T2021-7682 and T2021-7683

The Real Estate Board of New York (REBNY) is the City's leading real estate trade association. Founded in 1896, REBNY represents commercial, residential, and institutional property owners, builders, managers, investors, brokers, salespeople and other organizations and individuals active in New York City real estate. REBNY strongly supports policies that expand the local economy, grow, and improve the City's housing stock and create greater opportunities for all New Yorkers. Thank you to the City Council for the opportunity to testify on this important legislation.

Property taxes in New York City impose a significant burden on businesses and residents alike, and this burden has increased substantially since Mayor de Blasio took office. Reducing the costs imposed by this system is one of the ways that we can better support New York City business and residents, particularly as our economy continues to recover from the COVID-19 pandemic.

Indeed, the economic damage caused by the COVID-19 pandemic requires policymakers to take more aggressive steps to help support our economic recovery. To this end, while the legislation under consideration at this hearing is important and deserves support, REBNY encourages the City Council and other policymakers to take much more aggressive steps to provide meaningful property tax relief that will help our City recover.

At minimum, those steps should include:

1. Freezing property tax rates and assessments so that tax bills do not increase across <u>all</u> building classes.
2. Reducing interest penalties for <u>all</u> properties to reflect the current market.

Long-term, as we look to bolster the City's economic recovery, perhaps no initiative would encourage sustainable economic growth more than comprehensive property tax reform. As the New York City Advisory Commission on Property Tax Reform is currently holding public hearings, the time is now to finally address this perennial issue, and unlike in the past, fixing our failed property tax system has only been made more urgent by the COVID-19 pandemic and resulting economic crisis. REBNY stands ready to work with this Council and the next on this effort.

BILL: T2021-7682

SUBJECT: Authorize adoption by resolution of an interest rate for nonpayment of taxes on real property with an assessed value over two hundred fifty thousand dollars in FY'22 for certain property owners adversely affected by COVID-19.

SPONSOR: Council Member Chin

BILL: T2021-7683

SUBJECT: Authorize adoption by resolution of an interest rate for nonpayment of taxes on real property with an assessed value of two-hundred and fifty thousand dollars or less in FY'22 for property owners adversely affected by COVID-19.

SPONSOR: Council Member Moya

Pre-Introduction T2021-7682, sponsored by Council Member Margaret Chin, would authorize the City Council to adopt by resolution interest rates that are no less than interest rates otherwise applicable to the nonpayment of property taxes in fiscal 2022 for real property with an assessed value of $250,000 or less. To be eligible, property owners would be required to demonstrate to the Department of Finance (DOF) by no later than June 15, 2022 that such property owner either:

(a) owns class 2 or 4 real property, the income from which declined, for any six-month period between March 7, 2020 and June 30, 2021, by at least 50 percent as compared to the corresponding period in the previous calendar year due to COVID-19; or

(b) owns real property where at least 50 percent of the property is used for residential rental dwellings and contains no more than 50 rental dwelling units, of which at least 50 percent are rent regulated accommodations, the income from which declined, for any six-month period between March 7, 2020 and June 30, 2021, by at least 25 percent as compared to the corresponding period in the previous calendar year due to COVID-19.

Additionally, DOF would be required to report to the Speaker of the Council no later than May 1, 2022 and July 15, 2022 the number of properties for which the lower interest rate was imposed pursuant of this local law and the aggregate value of the real property tax liability of those properties.

Pre-Introduction T2021-7283, sponsored by Council Member Francisco Moya, would authorize the City Council to pass a resolution adopting a zero percent interest rate for the late payment of property taxes due on July 1, 2021, October 1, 2021, January 1, 2022, or April 1, 2022 for fiscal year 2022. To be eligible, property owners would be required to demonstrate to the DOF by no later than June 15, 2022 that they were adversely affected by COVID-19 and are either:

(a) enrolled in a Property Tax and Interest Deferral Program installment agreement with DOF; or

(b) have a property with an assessed value of $250,000 or less and an income of less than $150,000.

Additionally, for any property with an assessed value of $250,000 or less that has an outstanding balance as of August 1, 2021 resulting from the nonpayment of taxes otherwise due July 1, 2021, DOF would be required to send a notice advising the property owner of the availability of the program with the mailing of the statement of account for the taxes due on October 1, 2021. Finally, DOF would be required to report to the Speaker of the Council no later than May 1, 2022 and July 15, 2022 the number of properties for which the zero percent interest rate was imposed pursuant to the provisions of this local law and the aggregate value of the real property tax liability of those properties.

REBNY appreciates the Council's commitment to addressing the needs of property owners and small businesses, including small business tenants. While this proposed legislation aims to best support those deemed to be the hardest hit property owners, **REBNY strongly encourages the Council to align the rate with typical market rates** as it deliberates on the appropriate interest rate for fiscal year 2022.

Last year, at the height of the pandemic, REBNY and our partners called for a decrease of interest rates to 3% during the COVID-19 period for all properties. Ultimately, the Council established a deferment process for properties assessed at less than $250,000 and set interest rates on late payments at 5%. For properties assessed at over $250,000, interest rates unfortunately remained at 18%.

The 18% rate is completely out of balance with the market and fails to recognize the impact that the pandemic has had on all types of building owners and businesses. Alleviating additional burdens through lower interest rates for all properties could have a meaningful impact on owners and tenants alike as we try to make the City's economic recovery more robust. For these reasons, we encourage the Council to amend this legislation to provide the opportunity for many more taxpayers to benefit from a reduced interest rate.

New York City is at a crossroads and by working together we will overcome these obstacles to become a more resilient and equitable city. REBNY looks forward to working with the Council to strengthen this legislative package.

Thank you for the consideration of these points.

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