

**May 2022**

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

**Fiscal Year 2023 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.
- ▶ **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”) recommends a discount rate and penalty rates for the forthcoming fiscal year beginning on July 1.
- ▶ **The purpose of this presentation** is to present key data from the current Discount and Late Payment Interest Rate analysis and explain the FY2023 recommendations.

# History of Prior Years' Adopted Rates

Fiscal Year	Discount Rate	Interest Charged to Properties <=\$250K	Interest Charged to Properties >\$250K
FY2017	0.50%	6.00%	18.00%
FY2018	0.50%	6.00%	18.00%
FY2019	0.50%	6.00%	18.00%
FY2020	0.50%	7.00%	18.00%
FY2021	0.50%	3.25% / 5%	18.00%

Fiscal Year	Discount Rate	Interest Charged to Properties <=\$250K	Interest Charged to Properties >\$250K but <=\$450K	Interest Charged to Properties >\$450K
FY2022 Recommendation	0.50%	3.25% / 4.50%	12.00%	18.00%
FY2022 Adopted	0.50%	3.0%	6.00%	13.00%
FY2023 Recommendation	0.50%	6.0%	12.00%	18.00%

The Banking Commission is recommending:

0.50% discount rate

6% penalty rate for the properties with assessed values of \$250K or less;

12% penalty rate for properties with assessed values between \$250K and \$450K; and

18% penalty rate for properties with assessed values greater than \$450K.

# DISCOUNT RATE ANALYSIS

# FY2022 DISCOUNTS

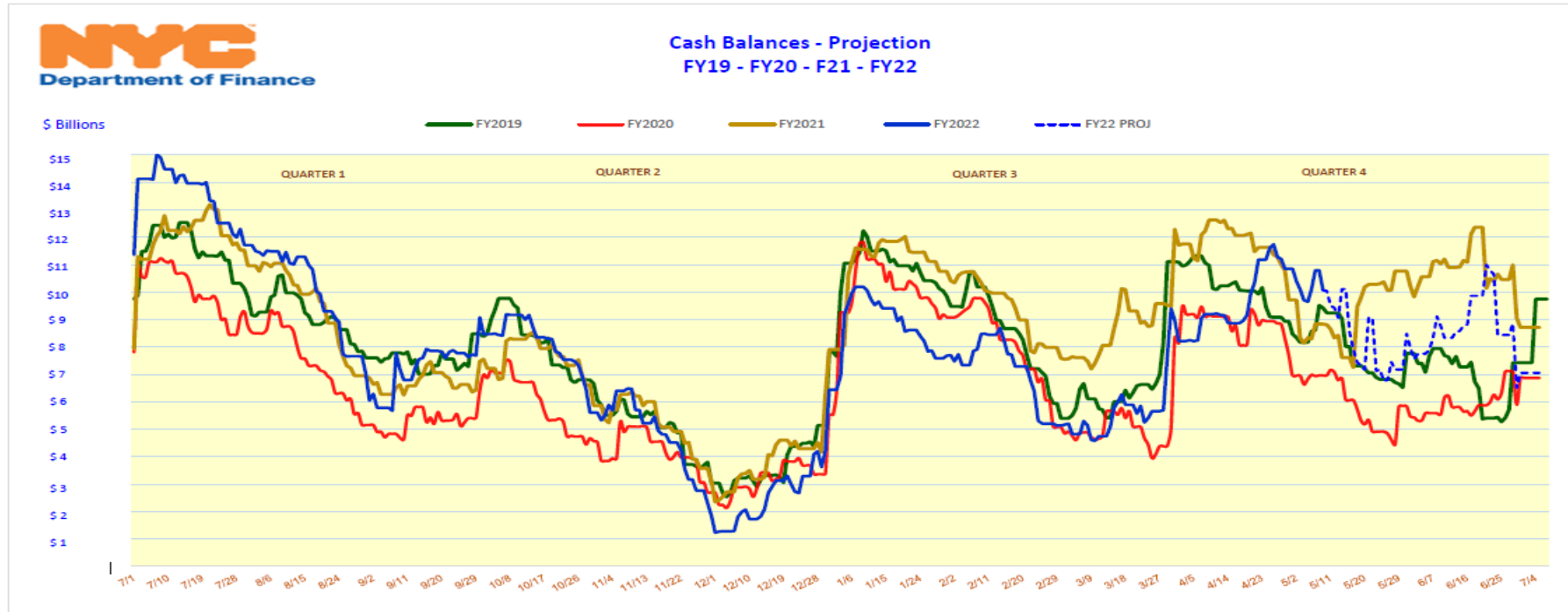
## **Quarterly Discounts:**

- 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.

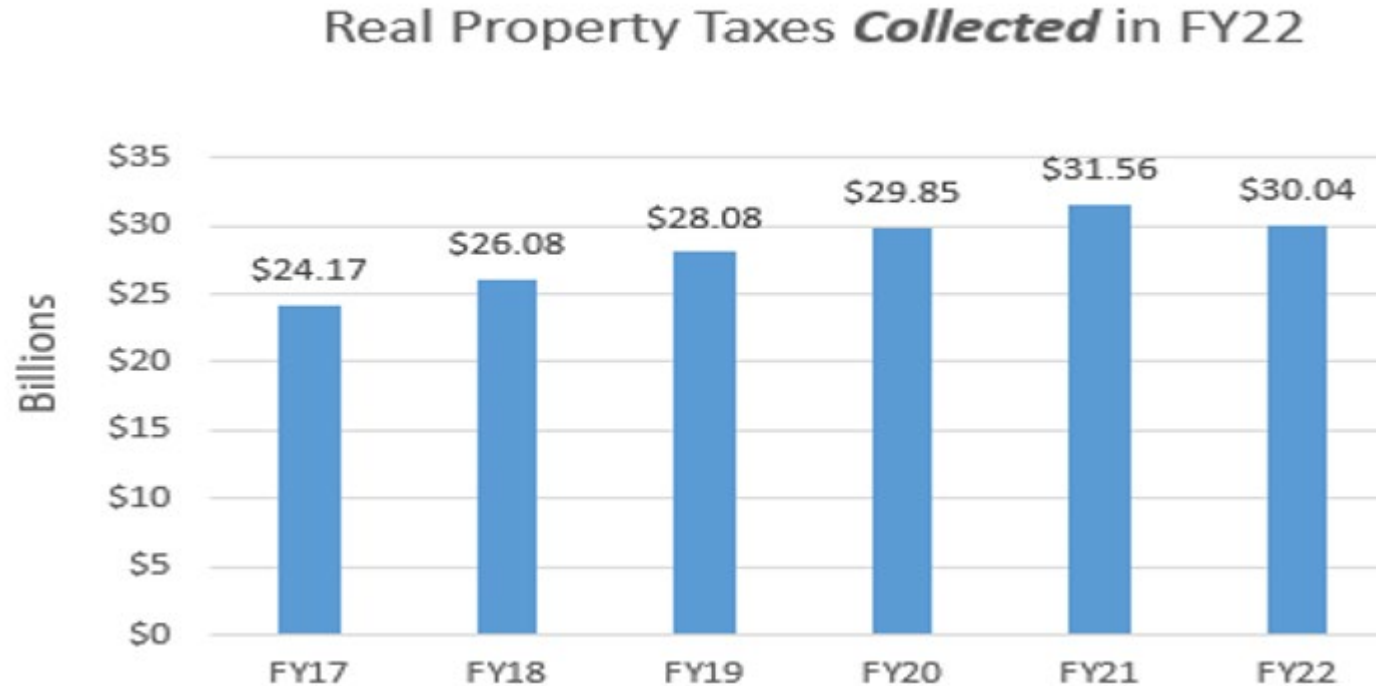
# NYC CASH BALANCE IN FISCAL YEAR 2022



- The Discount Rate is a tool to encourage prepayments and accelerate the City's cash flow
- FY22 projected year-end cash flow is \$1.7 billion lower than FY21
- FY22 forecast is comparable to FY20 when Discount Rate was set at 0.50%

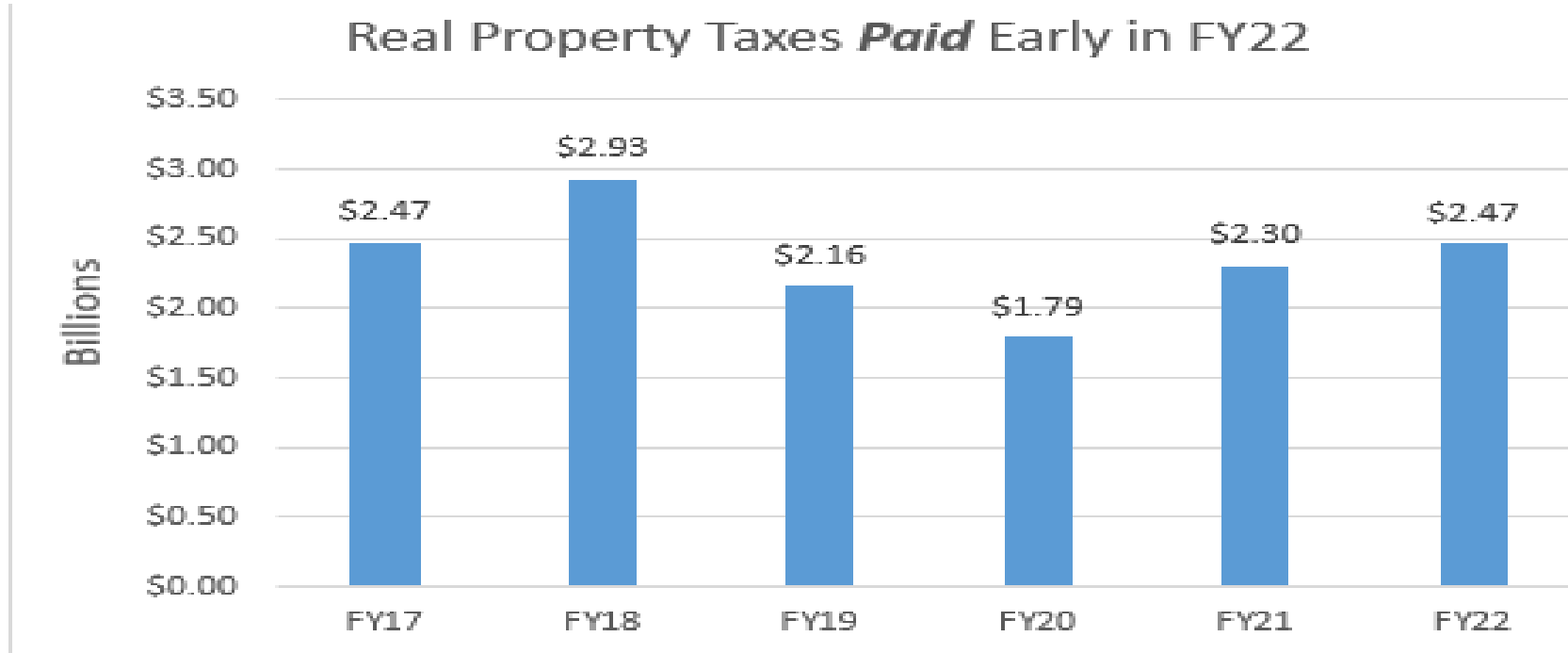


# Real Property Taxes *Collected* in FY22



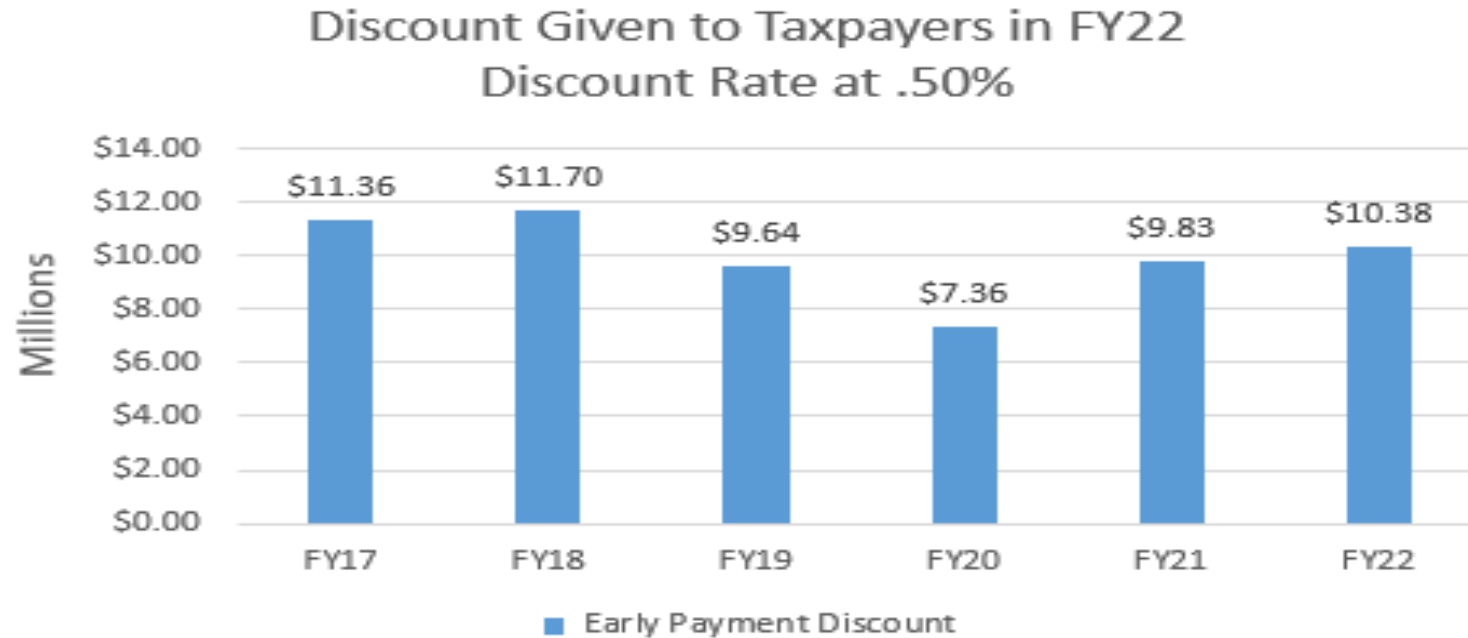
Real property taxes collected to date in FY22 totaled \$30.04 billion, a decrease of \$1.52 billion from FY21.

# Real Property Taxes *Paid Early* in FY22



Property Taxes Paid Early in FY22 (\$2.47 billion) exceeded what was prepaid in FY21 (\$2.30 billion). This is a 7.4% increase in taxes paid early from FY21 to FY22.

# Early Payment Discount in FY22



In FY22 taxpayers availed themselves of \$10.38 million in discounts, an increase over the \$9.83 million they saved in FY21. This is a 5.6% increase in discounts given to taxpayers from FY21 to FY22.

# Discount Rate Recommendation

- ▶ The Discount Rate has been held steady at 0.50% since 2015
- ▶ NYC's cash flow projects an approximately \$7 billion balance year-end
- ▶ FOMC Interest rates have increased this year and further increases are expected
- ▶ The recommended discount rate is very close to the City Council Default Rate (0.53%)

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%.***

# PENALTY RATES ANALYSIS

# FY2022 PENALTY RATES

## Pandemic Impacted

<b>Annual Interest Rate</b>	<b>Assessed Value of Property</b>	<b>Effective Dates</b>
<b>3%</b>	Less than or equal to \$250,000	July 1, 2021 through June 30, 2022
<b>6%</b>	Greater than \$250,000 but less than or equal to \$450,000	July 1, 2021 through June 30, 2022
<b>13%</b>	Greater than \$450,000	July 1, 2021 through June 30, 2022

# Actual Interest Collected on FY22 Late Payments

- ▶ Quarterly Properties  
( $\leq$ \$250K)

Interest Penalty Assessed				
2019	2020	2021	2022	% Change
\$7,680,966	\$8,624,290	\$4,968,986	\$2,812,302	(43.40%)

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

Interest Penalty Assessed	
2022	% Change
\$1,816,474	N/A

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

Interest Penalty Assessed				
2019	2020	2021	2022	% Change
Semi-Annual ( $>$ \$250K)	Semi-Annual ( $>$ \$250K)	Semi-Annual ( $>$ \$250K)	Semi-Annual ( $>$ \$450K)	
\$14,627,227	\$30,227,284	\$44,318,156	\$18,609,678	N/A

\*The two semi-annual categories were newly created in FY22. Therefore, they cannot strictly be compared to prior years.

\*Interest Rates were lowered for the new mid-tier Semi-annual tranche ( $>$ 250K but  $\leq$ \$450K) from the 18% of previous years and the 12% (Recommended last year) to 6% (Adopted) for FY22.

\*Interest rates were lowered for Semi-annual properties ( $>$ \$450K) from 18% (Recommended) to 13% (Adopted) for FY22.

## Actual Interest Collected on FY22 Late Payments (Cont.)

▶ All Properties

Interest Penalty Assessed				
2019	2020	2021	2022	% Change
\$22,308,193	\$38,851,574	\$49,287,142	\$23,238,454	(43.40%)

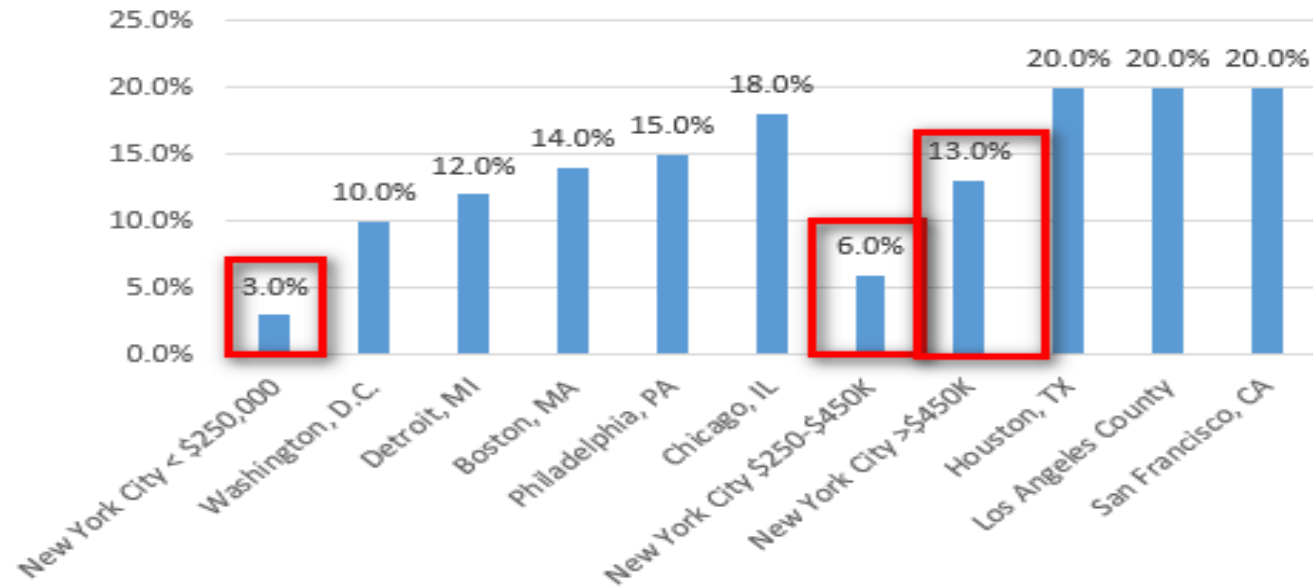
Interest collected on penalties decreased for both quarterly properties and semi-annual properties as the rates were significantly lowered for both categories for FY22 compared to FY21. Penalty interest assessed decreased by \$26 million (43.4%) in FY22 compared to FY21.



# Comparable Rates

## Late Payment Interest Rates

Fiscal Year 2022 Late Payment Interest Rates for NYC and Comparable Cities



New York City's FY22 late payment rates are significantly less than those assessed in comparable Cities.

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

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

## National Residential Real Estate Interest Rates

Loan Type	Rate
Home Equity Line of Credit	5.88%
30 Year Fixed Mortgage	5.27%

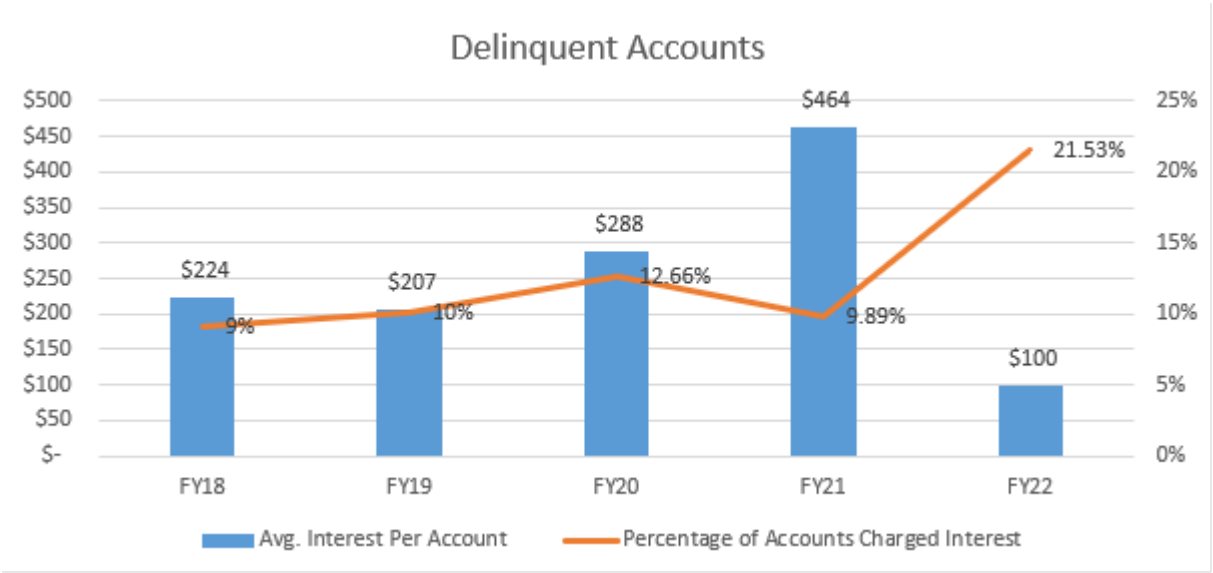
HELOC is based on a 20-year interest rate, as of May 4, 2022 (Source: Bankrate.com)

30-Year Fixed Rate Mortgage rate is from the Federal Reserve Bank of St. Louis, as of May 5, 2022 (Source: St. Louis Federal Reserve Bank)

# Interest-Charged Accounts

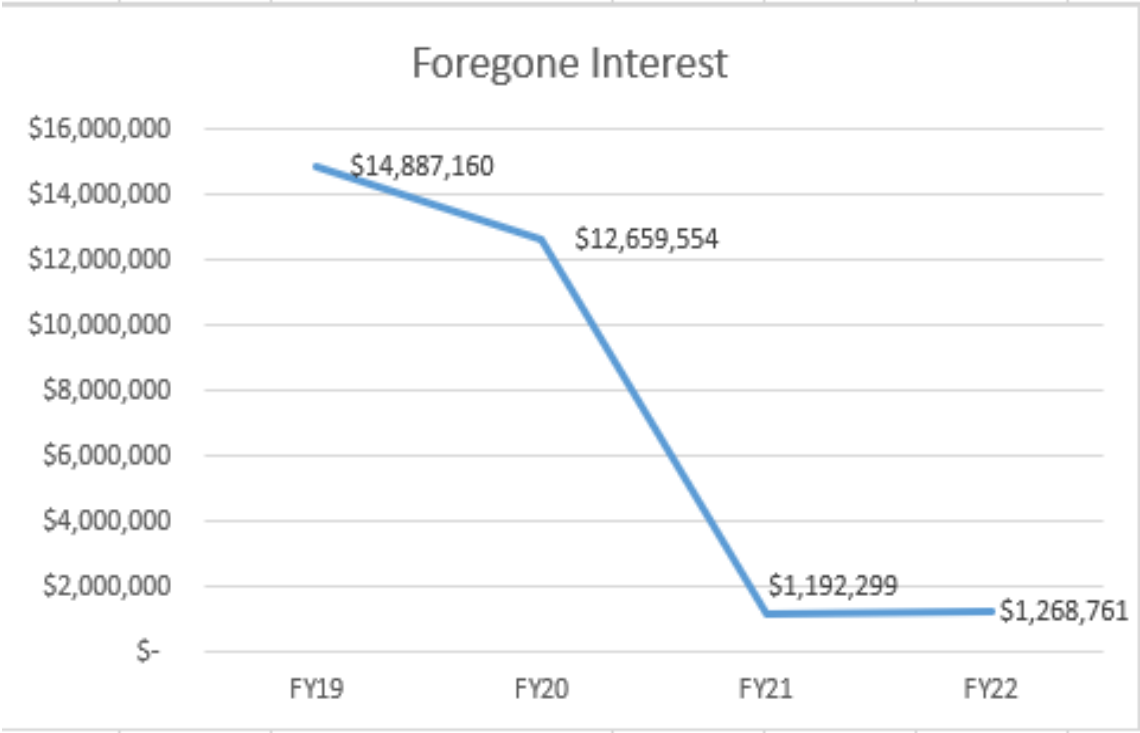
The number of interest-charged accounts has ranged from 9% to 22% of all accounts

The number of accounts that paid interest increased significantly from FY21 to FY22



However, the average amount owed per account decreased by \$364 from FY21 to FY22.

# FY22 Foregone Interest



NYC lost approximately the same amount of potential income in FY22 as in FY21 on interest that was *NOT EARNED* because the property taxes were *NOT COLLECTED* due to exceptionally low interest rates.

# FY2022 Late Payments Impact

## 05/02/2022 Fiscal Year 2022 Late Payments Impact

Quarterly (<=\$250K)	Semi-Annual (\$250K-\$450K)	Semi-Annual (>\$450K)
3%	6%	13%

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 (>\$450K)	6,331	\$329,797,896	\$18,609,678	(\$445,227)	\$18,164,451
Semi-Annual (\$250K-\$450K)	5,143	\$67,374,810	\$1,816,474	(\$90,956)	\$1,725,518
Quarterly (<=\$250K)	221,031	\$369,367,183	\$2,812,302	(\$732,578)	\$2,079,724
<b>Total</b>	<b>232,505</b>	<b>\$766,539,889</b>	<b>\$23,238,454</b>	<b>(\$1,268,761)</b>	<b>\$21,969,693</b>

The City's overall net revenue due to interest on all outstanding FY22 property taxes was \$21.9 million to date. The decrease of the penalty interest rates for FY22 resulted in a substantial decline in penalty income compared to FY21 (\$49.3M in FY21 - \$23.2M in FY22), culminating in a \$26M reduction in penalty income.

# FY2023 Penalty Rate Recommendations

Quarterly (<\$250K)	Semi-Annual (\$250K-\$450K)	Semi-Annual (>\$450K)
6%	12%	18%

- ▶ FOMC interest rates have climbed .75% this calendar year with further increases projected
- ▶ Local Law 30 of 2015 dictates that the Quarterly and mid-tier Semi-Annual recommendations must be increased
  - Commission-recommended Quarterly recommendations must be at least 4% (Prime Rate)
  - Commission-recommended mid-tier Semi-annual recommendations must be at least 8% (Prime Rate + 4%)
- ▶ NYC's economy is recovering
- ▶ Most public sector and many private sector employees have resumed normal work schedules
- ▶ NYC rates for FY22 were lower than all other comparable Cities.

Given the above considerations:

- ***We recommend that the Penalty Rate for properties with accessed values <=250K be set to 6%.***
- ***We recommend that the Penalty Rate for properties with accessed values >250K but <=450K be set to 12%.***
- ***We recommend that the Penalty Rate for properties with accessed values >450K be set to 18%.***

## 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 5<sup>th</sup>, then a formula-based default rate will be set.

Currently, the City Council default discount rate is 53 basis points (0.53%)

**6 Month Treasury Bill Rate** As of April 29, 2022 - 1.37%

[(Annualized interest rate on 6-Month Treasury Bills (as of April 29, 2022) + 75 bps)/4]

[(1.37%+0.75%)/4]=0.53%

## APPENDIX II

### 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 **(4.00% for FY23)**.
- For properties assessed  $>$  \$250K but  $\leq$  \$450K, the Commission must recommend a rate at least 4% greater than the prime rate **(8.00% for FY23)**.
- For properties assessed  $>$  \$450K, the Commission must recommend a rate at least 6% greater than the prime rate **(10.00% for FY23)**.



## APPENDIX II continued

### Local Law 24 of 2021: Determination of Interest Rates for Properties with Assessed Values $\leq$ \$250K, $>$ \$250K but $\leq$ \$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  $\leq$ \$250K, an interest rate of **7% per annum** shall be adopted
  - For properties assessed  $>$ \$250K but  $\leq$ \$450K, an interest rate of **13% per annum** shall be adopted
  - For properties  $>$ \$450K, an interest rate of **15% per annum** shall be adopted