



NYC Banking Commission For FY2023

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

Background

All property tax bills have payment due dates. Property owners can pre-pay their property tax bills and receive a discount. If payments are not received or postmarked by the 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.

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

Historical (FY2017-2021) Rates

Since 2015, the City Council has approved a *discount* of 50 basis points (.50%) for property owners who pre-pay the full year's tax shown on their bill by the July due date.

From 2017 to 2021, the City Council approved *delinquency* (penalty) rates for those paying their property tax bills after the due date/grace period averaged 6% for properties with assessed values less than or equal to \$250K and 18% for properties with assessed values greater than \$250K.

Local Law 24 of 2021

In 2021, the City Council voted to approve Local Law 24, which required the Banking Commission to provide penalty interest rate recommendations for properties with assessed values less than or equal to \$250K, assessed values greater than \$250K yet less than or equal to \$450K, and assessed values greater than \$450K.

Current Year's (FY2022) Rates

In the current FY2022 that began on July 1, 2021 and runs through June 30, 2022, the City Council approved a *discount* of 50 basis points (.50%) for property owners who pre-pay the full year's tax shown on their bill by the July due date.

In the shadow of the pandemic, City Council approved historically low *delinquency* (penalty) rates for those paying their property tax bills after the due date:

- 3% for properties with assessed values less than or equal to \$250K;
- 6% for properties with assessed values greater than \$250K but less than or equal to \$450K;
- 13% for properties with assessed values greater than \$450K.

Upcoming Year's (FY2023) Recommendations

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

For FY2023, the Banking Commission recommends retaining a *discount rate* of 0.50% (no change). After accounting for foregone tax revenue (the discount), interest earned on taxes collected early, and forgone interest income on forgone revenue, the overall impact on the City's net income is projected to be negative \$9.5 million.

In consideration of the *delinquency rates*, 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 Funds and Prime Rate in particular), 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.

For FY2023, the Banking Commission recommends an 18% rate for properties with assessed values greater than \$450K (return to pre-pandemic rates). For properties with assessed values less than \$250K, the Banking Commission recommends a rate of 6%. For properties with assessed values of greater than \$250K but no greater than \$450K, the Banking Commission recommends a rate of 12%. Assuming the FY2022 delinquency rates continue, the projected impact of the recommended rates to revenue is projected to be approximately \$35 million dollars.

FY2023 Discount Rate for Early Payment of Property Taxes

The NYC Banking Commission recommends for FY2023 a discount rate of 50 bps (0.50%) for the early payment of property taxes, unchanged from the FY2022 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, 2022, the end of FY2022 is \$7 billion. At the close of FY2021 on June 30th, 2021, actual cash on hand at the close of business day was \$8.7 billion, a difference of \$1.7 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 negative \$9.5 million to negative \$20.3 million.
- **Discount Rates Offered by Other Property Tax Collectors:** Only Philadelphia offers a discount of 1.0%. Other major municipalities such as Boston; Chicago; Detroit; Los Angeles; San Francisco; and Washington, D.C.; *do not offer discounts.*
- **Interest Rates Impact:** The Federal Reserve has increased the Federal Funds rate two times so far in 2022, by 25 basis points first on March 16th (from 0.25% to 0.50%) and then again by another 50 basis points on May 4th to its current 0.75% to 1.0%. The Federal Reserve is signaling more rate hikes in 2022 citing aggressive inflation, unemployment near a record low, and a strong economy. Officials stress that "taming inflation" is essential.

From April 2021 to May 2022, NYC's monthly average interest earned rates on City investments ranged from .07% to .44%. As the FOMC raises the Federal Funds rate these investment rates will increase as well.

The Banking Commission's impact analysis for FY2023 projects that the return on investments rate will result in \$1.4 Million of interest earned on taxes collected early. This will not offset estimates of forgone tax revenue of negative \$10.8 Million (discount given) plus forgone interest income on forgone taxes of (\$10K), resulting in a net loss in revenue to the City of negative \$9.5 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 FY2022, a total of 177,966 taxpayers made early payments saving NYC an estimated \$1.3 million in invoicing and administrative costs. If similar savings are realized in FY2023, the total impact of the 50 bps discount will be negative \$8.2 Million [(\$9.5M) net income + \$1.3M administrative cost savings].
- **Impact of no change in current discount rate on early payments:** The discount rate was reduced from 100 bps (1.0%) in FY2015 to 50 bps (0.50%) in FY2016 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 FY2023. The impact of having this discount rate in place translates to a total net loss to the City of negative \$8.2 Million. If the FY2022 City Council default rate of 53 bps (0.53%) were to be invoked, the City's net loss would increase to negative \$10.1 Million. If the Banking Commission were to increase the discount rate to 100 bps (1.0%), this would result in an even greater revenue loss of approximately negative \$20.3 Million.

Historically, taxpayer behavior has been relatively inelastic to changes in the discount rate which therefore has a 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 FY2023.**

FY2023 Penalty Rate for Late Payment of Property Taxes

For FY2023, the NYC Banking Commission recommends the penalty rates of 6% for properties with assessed values of no greater than \$250K, 12% for properties with assessed values greater than \$250K but no greater than \$450K, and 18% for property with values assessed 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, CA.

The Banking Commission's recommended FY2023 penalty rate of 18.0% for properties with assessed values greater than \$450K, as well as the penalty rate of 12.0% for properties with assessed values of greater than \$250K but no greater than \$450K, are in line with most comparable municipalities. The penalty rate of 6.0% for properties with assessed values less than \$250K is far less than other comparable municipalities. The purpose of the recommended rates is to incentivize taxpayers to pay on time.

- **NYC Labor Markets/Geo-Political Impacts:**

Substantial Federal aid and Wall Street's strong performance over the past two years, have helped New York State and New York City revenues. The overall economic situation in New York City and New York State have improved. However, national inflation in the United States has climbed to its highest rate in 40 yearsⁱ. The increase in inflation will translate into higher costs for the City to provide essential services to constituents.

New York City's unemployment rate dropped from 7.6% in January to 6.6% in February and then to 6.1% in March, according to recent reports from the New York City Comptroller but remains nearly double the nation's rate of 3.6% in Aprilⁱⁱ. According to the latest report, all boroughs are experiencing a steady decline in unemployment, and all are at their lowest unemployment rates since March 2020. New York State has gained back about 74% of the 2 million jobs that were lost at the depth of the pandemic. New York City has recovered approximately 70% of 631,000 jobs lost. While at the national level, over 90% of the 22 million jobs lost have been recovered, the City's job recovery is lagging the State and Nation.ⁱⁱⁱ Ongoing COVID-19 surges and virus restrictions in China and Europe, as well as the Russian invasion of Ukraine, threaten to perpetuate supply chain disruptions. These headwinds will also have a negative impact on the City's costs to provide vital services.

- **Interest Rates**

The Federal Funds (short-term borrowing cost for banks) and Prime Rate (rate which commercial banks charge their most creditworthy corporate customers) were set at historically low levels for approximately two years, from March 2020 to March 2022. Mortgage and other lending rates tied to these indices echoed these unprecedentedly low levels. On March 2, 2022 the chair of the Federal Reserve said central bankers "will proceed carefully" with plans to raise interest rates amid high gas and commodity prices, economic sanctions, supply chain issues, and other uncertainties exacerbated by the war in Ukraine. On March 16, 2022, to fight inflation and further price gains, the Fed raised the Federal Funds rate by a quarter percentage point from a range of 0.00%-0.25% to 0.25% -0.50%. On May 4th the Fed raised the Federal Funds rate an additional 50 basis points to 0.75%-1.00%. These changes triggered a corresponding rise in the prime rate to 4.00%. The cost of funds has increased and based upon FOMC speeches, will continue to increase throughout FY2023.

- **Properties charged interest:**

The number of semi-annual properties (assessed values greater than \$250,000) charged interest increased 19% from 9,623 in FY2021 to 11,474 in FY2022. Because the two new semi-annual interest rates of 6% and 13% were lowered in FY2022 from the historical rate of 18%, the increase in late payments was not

positively affected by lowering the set rate. The number of quarterly properties (assessed values less than \$250,000) charged interest also increased from 96,492 in FY2021 to 221,031 in FY2022 or 129%. Like the semi-annual rates, the quarterly rate in FY2022 had been lowered to a historically low 3%. The extremely low penalty interest rates did not incentivize timely payment of taxes. Therefore, the Banking Commission believes that the increases in the number of delinquent payments were due to the economic conditions surrounding the pandemic rather than the actual penalty rates.

- **Penalty Rate Recommendation Summary:**

In FY2022 there was a positive impact on New York City revenue when considering interest paid for delinquent accounts of \$23.2 million, offset by the negative \$1.3 million of forgone interest/investment revenue, resulting in a positive \$21.9 million in net revenue. As interest rates increase throughout the world, there is compelling reason for the Banking Commission to recommend penalty rates consistent with current economic conditions in FY2023. **The Banking Commission is recommending 18% for properties with assessed values greater than \$450K, 12% for properties with assessed values between \$250K and \$450K, and 6% for the properties with assessed values less than \$250K.**

ⁱ <https://www.nytimes.com/2022/04/13/briefing/inflation-forty-year-high-gas-prices.html>

ⁱⁱ New York by the Numbers Monthly Economic and Fiscal Outlook. No 64 - April 4th and No 65 – May 2nd, 2022.

ⁱⁱⁱ A Q&A with state Comptroller Thomas DiNapoli. City and State Magazine, March 21, 2022, page 7.