



NEW YORK CITY BANKING COMMISSION

66 JOHN STREET, 12TH FL., NEW YORK, NY 10038

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Jeffrey Shear, *Secretary*

May 13, 2020

Honorable Corey Johnson
Speaker, New York City Council
ATTN: Jonathan Ettricks
City Hall
New York, NY 10007

Re: FY2021 Interest Rates Recommendations for:
Early Payment (Discount) of Real Estate Taxes; and
Non-Payment of Real Estate Taxes

Dear Speaker Johnson:

Pursuant to § 11-224.1 of the New York City Administrative Code and § 1519(a) of the New York City Charter, at its meeting on May 13, 2020, the NYC Banking Commission approved resolutions recommending to the City Council the following proposed FY2021 interest rates for the discount rate for early real estate tax payments and the rates for non-payment of real estate taxes:

- a. One-half of one percent (**0.50%**) discount per annum for early payment of real estate taxes;
- b. Three point twenty-five percent (**3.25%**) per annum for non-payment of taxes for real estate with an assessed value of not more than two hundred fifty thousand dollars (\$250,000.00), or not more than two hundred fifty thousand dollars (\$250,000.00) per residential unit for co-ops, for the first quarter of FY2021;
- c. Five percent (**5.0%**) per annum for non-payment of taxes for real estate with an assessed value of not more than two hundred fifty thousand dollars (\$250,000.00), or not more than two hundred fifty thousand dollars (\$250,000.00) per residential unit for co-ops, for the second, third, and fourth quarters of FY2021;
- d. Eighteen percent (**18.0%**) per annum for non-payment of taxes for real estate with an assessed value of more than two hundred fifty thousand dollars (\$250,000.00), or more than two hundred fifty thousand dollars (\$250,000.00) per residential unit for co-ops, or where irrespective of the assessed value, the parcel consists of vacant or unimproved land.

The Commission also requested that the Administration and City Council consider local legislation to reduce the late payment interest rate for properties to zero with assessed values no more than \$250,000 in the first quarter of FY21 for owners who demonstrate hardship caused by the COVID-19 pandemic.

The Commission also voted on a \$10 Million Banking Development District deposit for a Popular Bank branch, located at 1620 Pitkin Avenue in Brownsville, Brooklyn. Attached are copies of the Banking Commission resolutions.

Sincerely,



Jeffrey Shear
Deputy Commissioner, Treasury and Payment Services
NYC Department of Finance

Attachment

Cc: Honorable Bill de Blasio
Comptroller Scott M. Stringer
Commissioner Jacques Jiha, Ph.D., NYC Department of Finance
NYC Deputy Mayor for Operations Officer Laura Anglin
Assistant Comptroller for Economic Development Brian Cook

RESOLUTION NO. 1 – FY2021 EARLY PROPERTY TAX PAYMENT DISCOUNT RATE RECOMMENDATION

WHEREAS, the decrease in interest rates has caused the City to earn less income than it had previously on property taxes paid early. From July 2019 – March 2020, NYC’s quarterly average rates on its investments ranged from 1.09% - 2.16% in comparison to FY2019 from 2.16% - 2.53%, and

WHEREAS, the Banking Commission’s impact analysis for FY2021 demonstrates that this lower return on investments rate resulted in \$19.8 million of interest earned on taxes collected early (with a 50 basis point (0.50%) discount). This will offset estimates of forgone tax revenue of **(\$7.4 Million)** (discount given) plus (+) forgone interest income on forgone taxes of **(\$155k)**, resulting in a net surplus in revenue to the City of **\$12.2 Million**, compared to \$18 million in FY2019, and

WHEREAS, the impact translates to a total positive impact for the City of \$13.3 million in FY2020. This consists of the aforementioned \$12 million in net surplus revenue and an additional \$1.3 million in administrative cost savings. If the Banking Commission were to increase the discount rate to 100 basis points (1.0%), this would reduce net revenue to the City by \$10 million, and

WHEREAS, changes in the discount rate decrease from 100 basis points (1.0%) in FY2015 to 50 basis points (0.50%) in FY2016 through FY2019 has had little effect on the number of pre-paid accounts or the amount of taxes collected early. Therefore, taxpayer behavior appears somewhat inelastic in response to changes in the discount rates. Further, given the inelasticity, cash flow would not materially increase should the discount increase above 50 basis points (0.50%), now, therefore be it

RESOLVED, the Banking Commission recommends to the City Council that the discount rate for the early payment of real estate taxes shall remain at 50 basis points (0.50%) per annum for FY2021, and be it further

RESOLVED, that said discount rate is to be offered only for that portion of the real estate tax that is paid before the due date.

RESOLUTION NO. 2 – FY2021 LATE PROPERTY TAX PAYMENT INTEREST RATE RECOMMENDATION FOR PROPERTIES ASSESSED NO MORE THAN \$250,000

WHEREAS, pursuant to the New York City Administrative Code § 11-224.1, the Banking Commission is required to recommend to the City Council, no later than the thirteenth of May, the proposed interest rate to be charged for non-payment of taxes for properties with an assessed value of not more than two hundred fifty thousand dollars (\$250,000), or not more than two hundred fifty thousand dollars (\$250,000) per residential unit for co-ops, and

WHEREAS, the proposed interest rate shall be at least equal to the prevailing interest rate charged for commercial loans extended to prime borrowers by commercial banks operating in the City (the “prime rate”), and

WHEREAS, the Banking Commission notes that as of May 12, 2020 said prime rate stands at three point twenty-five percent (3.25%), as published by the Board of Governors of the Federal Reserve System, and

WHEREAS, it is in the City’s best interest to encourage the prompt payment of real estate taxes by all taxpayers, and

WHEREAS, the overall trend in the past year was a falling interest rate environment. There have been five incremental decreases in the Federal Funds rate ranging between 25 basis points (0.25%) and 100 basis points (1.0%) in the past twelve months totaling 225 basis points (2.25%) by the Open Market Committee of the Federal Reserve Bank, and

WHEREAS, many property tax owners whose properties are assessed at no more than \$250K have been adversely affected by economic consequences of the COVID-19 pandemic and the lowest interest rate that the Banking Commission can recommend for this category of property owners is the current prime rate of 3.25%, and

WHEREAS, decreasing the current penalty rate of 7.0% to 5.0% for assessed properties valued at no more than \$250k is consistent with the past year’s 225 basis point (2.25%) decrease and the current Federal Reserve position of holding rates at current levels, and

WHEREAS, the property tax balance (amount delinquent) increased from \$345.3 million in FY19 to \$419.8 million in FY20, an increase of 21.6% or ~\$74.5 million, and

WHEREAS, the delinquency rate for quarterly accounts (assessed properties < \$250,000) increased from 10.43% to 13.02% or an increase of 24.9%. The City’s overall delinquency rate went from 10.17% in FY19 to 12.66% in FY20, now, therefore, be it

RESOLVED, the Banking Commission recommends to the City Council that the interest rate to be charged for non-payment of taxes for all properties with an assessed value of not more than two hundred fifty thousand dollars (\$250,000), or not more than two hundred fifty thousand dollars (\$250,000) per residential unit for co-ops, be reduced from seven per cent (7.0%) per annum to three and a quarter percent (3.25%) per annum for the first quarter of tax year 2021 and five percent (5.0%) per annum for the second, third, and fourth quarters of tax year 2021, and be it further

RESOLVED, the Banking Commission also requests that the Administration and City Council consider local legislation to reduce the late payment interest rate for properties to zero with assessed values no more than \$250,000 in the first quarter of FY21 for owners who demonstrate hardship caused by the COVID-19 pandemic.

RESOLUTION NO. 3 – FY2021 LATE PROPERTY TAX PAYMENT INTEREST RATE RECOMMENDATION FOR PROPERTIES ASSESSED GREATER THAN \$250,000

WHEREAS, pursuant to the New York City Administrative Code § 11-224.1, the Banking Commission is required to recommend to the City Council, no later than the thirteenth of May, the proposed interest rate to be charged for non-payment of taxes for properties with an assessed value of more than two hundred fifty thousand dollars (\$250,000), or more than two hundred fifty thousand dollars (\$250,000) per residential unit for co-ops, or where, irrespective of the assessed value, the parcel consists of vacant or unimproved land, and

WHEREAS, said provisions of the Administrative Code require the Banking Commission to propose a rate at least six percentage points (6.0%) per annum greater than the prevailing interest rate charged for commercial loans extended to prime borrowers by commercial banks operating in the City (the “prime rate”), and

WHEREAS, the Banking Commission notes for the record that as of May 12, 2020 said prime rate stands at three point twenty-five percent (3.25%), as published by the Board of Governors of the Federal Reserve System, and

WHEREAS, it is in the City's best interest to encourage the prompt payment of real estate taxes by all large taxpayers, and

WHEREAS, the delinquency rates for semi-annual accounts (assessed properties > \$250,000) increased 19.3%, going from 7.38% in FY2019 to 8.80% in FY2020, which is still a healthy delinquency rate. The Banking Commission does not think that this is attributable to the 18% penalty rate, as that rate has not changed since 1991. In addition, there continues to be a positive impact on New York City revenue when considering interest paid for semi-annual accounts of \$30.4 million offset by the negative (\$6.4 million) of forgone interest the city would have made if the taxes had been paid on time, which resulted in a positive impact of \$24 million in net revenue, now, therefore, be it

RESOLVED, the Banking Commission recommends to the City Council that the interest rate to be charged for non-payment of real estate taxes where the assessed value of a property is more than two hundred fifty thousand dollars (\$250,000), or more than two hundred fifty thousand dollars (\$250,000) per residential unit for co-ops, or where, irrespective of the assessed value, the parcel consists of vacant or unimproved land, remain at eighteen per cent (18%) per annum for FY2021.

RESOLUTION NO. 4 – POPULAR BANK BDD DEPOSIT

WHEREAS, Popular Bank has requested that the City of New York make a \$10 Million deposit at its Brownsville BDD branch located at 1620 Pitkin Avenue in Brooklyn; therefore, be it

RESOLVED, the Banking Commission approves a \$10 Million City BDD deposit at the Popular Bank Brownsville BDD branch.

Dated May 13, 2020

The NYC Banking Commission unanimously approved Resolutions No. 1-4.