



NYC Banking Commission For FY2024

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 by law to charge interest on the amount of tax that is late.

By May 13th, the NYC Banking Commission (“Banking Commission”) must recommend a discount rate and late payment interest rates for the upcoming fiscal year beginning on July 1. Beginning in Fiscal Year 2024, the Banking Commission is also required to recommend a separate interest rate for certain property tax payment plans.

Historical (FY2017-2021) Rates

Since Fiscal Year 2015, the City Council has approved an early payment discount rate of 50 basis points (0.50%) for property owners who pre-pay the full year’s tax shown on their bill by the July 1 due date.

From FY2017 to FY2021, the City Council approved *late payment* interest rates for those paying their property tax bills after the due date/grace period that 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 enacted Local Law 24, which required the Banking Commission to provide a late payment interest rate recommendation for properties with assessed values greater than \$250K yet less than or equal to \$450K.

Local Law 36 of 2023

In 2023, the City Council enacted Local Law 36, which requires the Banking Commission to provide a late payment interest rate recommendation for certain property tax payment plans.

FY2023 Rates

For FY2023, 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.

City Council approved *late payment* rates for those paying their property tax bills after the due date:

- 4% for properties with assessed values less than or equal to \$250K;
- 7% for properties with assessed values greater than \$250K but less than or equal to \$450K;
- 14% for properties with assessed values greater than \$450K.

FY2024 Rates 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, and the estimated savings which may result from processing fewer property tax payments.

For FY2024, the Banking Commission recommends retaining an early payment discount *rate* of 0.50% (no change). After accounting for foregone tax revenue (the discount), interest earned on taxes collected early, and foregone interest income on foregone revenue, the overall impact on the City’s net income is projected to be negative (\$7.9 Million).

For FY2024 the Banking Commission is newly tasked with recommending a rate for certain Property Payment Plans. The Commission’s recommendation must be at least equal to the Applicable Federal Rate (AFR), which is

the minimum interest rate that the Internal Revenue Service allows for private loans, rounded to the nearest half percent. Based upon the May 2023 AFR the Commission recommends a *property payment plan rate* of 6% for certain plans. This is three percent lower than the late payment interest rate that the Banking Commission is recommending for properties with an assessed value less than \$250,000 (see below).

In consideration of the late payment interest 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)), consumer credit card rates, the impact of rates on interest earned and total City revenues, and the late payment rates charged by other comparable tax collectors across the country.

For FY2024, the Banking Commission recommends an 18% rate for properties with assessed values greater than \$450K, which is a return to the pre-pandemic rate and the rate that was in effect between FY1991 and FY2016. For properties with assessed values greater than \$250K but no greater than \$450K, the Banking Commission recommends a rate of 15%, which is 300 basis points less than the pre-pandemic rates. For properties with assessed values less than \$250K, the Banking Commission recommends a rate of 9%, which is a return to the rate that was in effect between FY1991 and FY2016. Assuming the number of FY2023 late payments remains unchanged, the projected impact of the recommended rates is to generate approximately \$35 million in revenue.

FY2024 Discount Rate for Early Payment of Property Taxes

The NYC Banking Commission recommends for FY2024 a discount rate of 50 bps (0.50%) for the early payment of property taxes, unchanged from the FY2023 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 the current fiscal year ending June 30th, 2023, is \$9 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 (\$10.1 million) to negative (\$21.5 million).
- **Discount Rates Offered by Other Property Tax Collectors:** No other major municipality currently offers a discount for early payment.
- **Interest Rates Impact:** The Federal Reserve Open Market Committee (FOMC) has increased the Federal Funds rate 425 basis points since May of 2022. The Federal Reserve expects to stay at current rates "for an extended period of time" citing aggressive inflation, unemployment near record lows, and a strong economy. Officials stress that "taming inflation" is essential.

NYC's monthly average interest earned rates on City investments from July until now have ranged from 1.72% to 4.86%. As the FOMC raises the Federal Funds rate these investment rates increase as well.

The Banking Commission's impact analysis for FY2024 projects that the return on investments rate will result in \$8.7 million of interest earned on taxes collected early. This will not offset estimates of foregone tax revenue of negative (\$10.5 million) (discount given) plus foregone interest income on foregone taxes of (\$44K), resulting in a net loss in revenue to the City of \$1.8 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 FY2023, a total of 174,148 taxpayers made early payments saving NYC an estimated \$2.5 Million in invoicing and administrative costs. If similar savings are realized in FY2024, the total impact of the 0.50% discount will be a positive \$725 thousand [(\$1.8M) net income + \$2.5M 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 FY2024. The impact of having this discount rate in place in the current rate environment translates to a total gain to the city of \$725 thousand. If the FY2024 City Council default rate of 145 bps (1.45%) were to be invoked, the City's net loss would increase to \$31 Million. If the Banking Commission were to increase the discount rate to 100 bps (1.0%), this would result in a revenue loss of approximately \$21.5 Million.

Historically, taxpayer behavior has been relatively inelastic to changes in the discount rate and 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 FY2024.**

FY2024 Rate for Certain Property Payment Plans

For FY2024, the NYC Banking Commission recommends the rate of 6% for certain Property Payment Plans. Local Law 36 of 2023 requires the new rate recommendation.

By law, the rate is to be at least the Applicable Federal Rate (AFR). The AFR is the minimum interest rate that the Internal Revenue Service (IRS) allows for private loans. Each month the IRS publishes this rate. The AFR for May 2023 was 4.30%. The law requires rounding to the nearest half a percent (4.50%). The AFR has increased almost two hundred basis points since last July. A rate lower than the current AFR has further tax implications for the very people we are trying to help. While anyone can enter a payment plan, the rate advantaged plans require additional qualifications. The proposed rate is 300 basis points less than the recommended first-tier late payment rate. **Therefore, the Banking Commission recommends a property payment plan rate of 6% in FY2024 for certain plans.**

FY2024 Rates for Late Payment of Property Taxes

For FY2024, the NYC Banking Commission recommends the late payment rates of 9% for properties with assessed values of no greater than \$250K, 15% for properties with assessed values greater than \$250K but no greater than \$450K (300 basis points less than pre-pandemic rates), and 18% for property with values assessed greater than \$450K (consistent with pre-pandemic rates).

- **NYC Labor Markets Impact**

The overall economic situation in New York City and New York State has improved. The increase in inflation has translated into higher costs for the city to provide essential services to constituents.

New York City's unemployment rate declined to 5.4% in March, according to recent reports from the New York City Comptroller, while the nation's rate was 4.9% in April¹. According to the Comptroller, NYC private sector employment now stands at 99.7% of pre-pandemic levels².

- **Interest Rates**

The Federal Funds rate (short-term borrowing cost for banks) and Prime Rate (rate which commercial banks charge their most creditworthy corporate customers) have risen 425 basis points in the last year. Currently the Federal Funds rate is 5.25% and the Prime Rate is 8.25%. Mortgage and other lending rates tied to these indices echoed these increases. Thirty-year mortgages are averaging 6.89%, and fifteen-year mortgages are averaging 6.38%. Home equity lines of credit (HELOCs) are averaging 7.99%. Currently credit card rates are averaging 24%.

- **Properties charged interest**

The number of properties charged interest increased 17% from 69,665 in FY2022 to 84,122³ in FY2023. The Banking Commission believes that the increase in the number of delinquent payments was due to the reduction in pandemic assistance payments.

- **Late Payment Rates Charged by Other Property Tax Collectors:**

Because other cities, unlike New York, do not set different late payment rates based on assessed property values, New York City's rates are not strictly comparable. The late payment rates for property tax payments charged by several other large municipalities ranged from 10.0% for Los Angeles, CA, to 20.0% for Houston, TX.

¹ <https://www.usinflationcalculator.com/inflation/historical-inflation-rates/>

² <https://comptroller.nyc.gov/newsroom/newsletter/new-york-by-the-numbers-monthly-economic-and-fiscal-outlook-no-77-may-9th-2023/>

³ As of March 31st, 2023, there were 84,122 properties outstanding that were charged interest due to late payments. As of March 31st, 2022 there were 69,655 properties outstanding that were charged interest due to late payments. Both numbers reflect three (3) quarters of the fiscal year.

The Banking Commission's recommended FY2024 late payment rate of 18.0% for properties with assessed values greater than \$450K, as well as the late payment rate of 15.0% for properties with assessed values of greater than \$250K but no greater than \$450K, are in line with most comparable municipalities. The late payment rate of 9% for properties with assessed values less than \$250K is less than other comparable municipalities. The purpose of the recommended rates is to incentivize taxpayers to pay on time.

Late Payment Rate Recommendation Summary:

As interest rates increase throughout the world, there is compelling reason for the Banking Commission to recommend late payment rates consistent with current economic conditions in FY2023. **The Banking Commission is recommending 18% for properties with assessed values greater than \$450K, 15% for properties with assessed values between \$250K and \$450K, and 9% for the properties with assessed values less than \$250K.**