TESTIMONY BEFORE CITY COUNCIL COMMITTEE OF FINANCE
Deputy Commissioner Jeffrey Shear, Department of Finance
June 10, 2020

Good morning, Chair Gibson 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 also served last month as Finance Commissioner Jiha's representative on, and secretary to, the NYC Banking Commission. I am here today to testify on two 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 2021.

Property taxes are the City's biggest single source of revenue, accounting for $30 billion or nearly half of the City's total tax revenues. Without this revenue, the City would not be able to pay its employees 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 such as personal protective equipment, medical testing equipment, ventilators, and the distribution of well over one million meals each day to make sure no one goes hungry.

Every year the NYC Banking Commission is required by law to make recommendations to the Council for the interest rates to be charged to property owners who do not pay property taxes when they are due. One recommendation relates to properties with an assessed value of $250,000 or less, which DOF bills quarterly. The other recommendation relates to more highly valued properties with an assessed value of over $250,000. These properties are billed semi-annually by DOF.

The NYC Banking Commission considers the following when making its recommendations to the Council: the City's need to encourage timely payment of property taxes, interest rates charged by other large municipalities across the country, interest rates charged for real estate secured consumer loans, and the general interest rate environment. This year, in evaluating the interest rate for properties with an assessed value of $250,000 or less, the Banking Commission placed particular emphasis on the fact that the Federal Funds interest rates had declined over two points over the past year, largely in response to the challenge presented by the COVID-19 pandemic. Based on that decline the Banking Commission recommended that the late payment interest rate be reduced from the FY20 rate of seven percent to five percent for most of FY21. The five percent rate is significantly lower than the rate charged in other major U.S. cities such as the 10 percent rate charged by Washington, DC. However, recognizing the severe short-term impact of the pandemic, the Banking Commission went beyond this recommendation in two important ways. First, it recommended that the interest rate for late payments for the first three months of FY21 be reduced to 3.25%. This is the lowest rate that the Banking Commission is permitted to recommend by law. Second, it encouraged both the Administration and the Council to work together on local law so that the City's most vulnerable property owners adversely affected by COVID-19 would not have to pay any interest for late payments in the first quarter of FY21.

The pre-considered bill introduced by Public Advocate Williams would expand the population of property owners eligible for the 0% interest rate. In particular, it raises the income threshold to $200,000 and it includes cooperatives if 20% or more of the shareholders are affected by COVID. The Administration has qualified support for this bill. We are open to raising the income threshold, but we are concerned about expanding the program too much. The Administration must not only look at the fiscal impact of losing interest income but also at the impact of any program on the City's cash flow. As of Monday, June 8 the City's cash balances were $5.5 billion but due to the normal fiscal ebbs and flows as well as the impact of the COVID recession on the City's economy, our cash balance for the end of the fiscal year (June 30) is projected to be $2.1B lower than last June. If many property owners were to take advantage of the program by not remitting their property taxes by the interest-free due date of July 15, the City's cash position later in FY21 could become extremely stressed.

We support instead basing criteria for hardship on DOF's existing property tax and interest deferral (PT AID) program that authorizes payment plans for property owners with incomes under $58,399 who are facing extenuating circumstances. These plans limit the percentage of income that an affected property owner must pay to between 2% and 8% of the property owner's income and allows property taxes not addressed by these payments to be deferred. The deferred taxes continue to accrue interest. Property owners who reside at their properties with income below $58,399 could get 0% interest (effectively a 90-day grace period) if a household member became seriously ill or passed away as a result of COVID-19 or if the household suffered a loss of income as a result of COVID-19. We are more concerned regarding the pre-considered bill for properties with an assessed value of over $250,000. The properties in this category account for about 70 percent of the $30 billion in property tax revenue. For more than two decades, properties in this category pay 18% interest on late property tax payments and due to the City's heavy reliance on this revenue, the NYC Banking Commission's recommendation is to continue this rate for FY21. The Council bill reduces the interest rate to 7.5% instead of eliminating interest and it does require affected property owners to pay one-quarter of the taxes due by October 1 and the remainder by May 1, 2021. However, the bill would allow any commercial owner or landlord to receive the benefit if it experienced any drop of income between March 1 and June 30 due to COVID-19. The vast majority of businesses would qualify regardless of the size of the property and the amount of taxes due. Even if a fraction of eligible businesses opted into this program, the City's cash position would likely be severely affected. DOF and the Administration are willing to work with the Council on defining a reduced population of small businesses to be potentially eligible for this benefit. Until that is done, we cannot support this bill.