



**Testimony of Elaine A. Kloss, Treasurer
FY2016 Interest Rate Recommendations**

New York City Council Finance Committee

June 10, 2015

Good morning Chairwoman Ferreras and members of the City Council Finance Committee. I am Elaine Kloss, Treasurer of the City of New York. I am here today to testify about the NYC Banking Commission's recommended interest rates for the early payment of property taxes and the late payment of property taxes and water and sewer charges for fiscal year 2016, as required by the City Charter and the Administrative Code.

On May 12, 2015 the Banking Commission recommended that the discount rate for the early payment of property taxes be reduced from 1.0% to 0.5% for fiscal year 2016.

The Banking Commission considered a number of factors in arriving at its recommended discount rate of 0.5%. These factors include (1) the City's current cash balances, which are at historically high levels, (2) prevailing interest rates that remain at historically low levels and the prime rate has remained at 3.25% since January 2009, its lowest level since 1955, (3) the City's estimated administrative savings of approximately \$1.3 million stemming from issuing fewer property tax invoices and processing fewer tax payments, and (4) the discount rates offered by other comparable property tax administrators across the country, which range from 1% to 4%.

After careful consideration of these factors, especially the City's sufficient cash balances at this time, the Banking Commission concluded that the discount rate for the early payment of property taxes should be lowered from 1.0% to 0.5% for fiscal year 2016. Offering a discount to taxpayers for the early payment of property taxes is a useful cash management tool during periods of low cash balances. It is important to keep this cash management tool in case the City should need to collect cash early in the future.

For fiscal year 2015 the discount rate was 1.0%. According to our records, as of April 15, 2015, property taxes paid early totaled \$2.4 billion, and the City granted a discount of \$22.4 million. The net cost of this discount to the City, after recognizing the interest earned on the taxes paid early, was \$20.5 million. The number of early payers in FY 2015 was consistent with prior years.

The Banking Commission also recommended that the rates for the late payment of property taxes and water and sewer rents on properties with assessed values below and above \$250,000 should remain at 9% and 18%, respectively. These penalty rates charged for the late payment of property taxes and water and sewer rents have remained unchanged since fiscal year 1991.

The Banking Commission considered several factors to determine the appropriate interest rate for the late payment of property taxes and water and sewer rents for fiscal year 2016. The factors considered include (1) the late payment rates charged by comparable municipalities, which ranges from 9.6% to 20%, (2) the late payment rate charged by ten major credit card companies, which range from 10% to 30% and (3) the interest rate of 9% that has been charged in New York State for civil penalties since 1981.

In fiscal year 2015 nearly 96% of the 103,000 properties that were charged a late payment penalty were properties with an assessed value of less than \$250,000. This consideration places the 9% late charge for these properties on the lower range of rates charged by both municipalities and major credit card companies.

Thank you.