



**Testimony of Deputy Commissioner Jeffrey Shear**  
**City Council Hearing on Legislation to Increase Reporting by the Banking Commission**  
**and Change the Default Discount Rate for Early Taxpayer Payments**  
**Introduction 497-A**  
**January 15, 2015**

Good morning/afternoon, Chairwoman Ferreras, and members of the Finance Committee. My name is Jeffrey Shear, and I am the Deputy Commissioner for Treasury, Payments, and Operations for the New York City Department of Finance (DOF). I am here today to testify on Introduction 497-A. This bill would amend the Administrative Code of the City of New York and the New York City Charter in relation to the New York City Banking Commission's annual interest rate recommendations to the City Council for the early and late payment of property taxes, and nonpayment of water and sewer rents. I am also joined by the City's Treasurer, Elaine Kloss. On behalf of Finance Commissioner Jacques Jiha, thank you for inviting me to speak on this bill today.

The Banking Commission is comprised of the Mayor, the Commissioner of Finance and the Comptroller. The Banking Commission has three primary responsibilities. First, by May 25<sup>th</sup> of each year the Commission recommends interest rates for early and late payment of property taxes and nonpayment of water and sewer charges. Second, the Banking Commission reviews and approves or denies banks' biennial applications to be New York City Designated Banks. Lastly, the Banking Commission participates in the New York State Banking Development District (BDD) Program and approves City deposits in the BDD branches.

The current interest rates charged for the late payment of property taxes is 9% for properties with assessed values of \$250,000 or less, and 18% for properties with assessed values of more than \$250,000. The City has charged these interest rates for late property tax payments since 1991. For water and sewer rents, the late payment interest rate is 9% for all properties. The City has charged this interest rate for water and sewer rents since 2005.

In making its interest rate recommendations, the Banking Commission considers the prevailing interest rates charged for commercial bank loans extended to prime borrowers, referred to as the "prevailing prime rate". The Banking Commission must propose an interest rate for nonpayment which is at least as high as the prevailing prime rate for properties with an assessed value of \$250,000 or less. It must propose an interest rate for nonpayment which is at least six percent per year more than the prevailing prime rate for properties with an assessed value of more than \$250,000. The Banking Commission also compares the City of New York's penalty rates with those rates of at least ten other large municipalities throughout the country. We have

included as an appendix a table summarizing the comparisons that the Banking Commission performed last year.

The Banking Commission also recommends the annual discount rate for the early payment of property taxes. The City's current discount rate for the early payment of property taxes of 1.0% has been in effect since May 2011, when it was lowered from 1.5%. Property owners receive a discount on their property taxes when more than one installment is paid before the due date.

The Banking Commission plays an important role in advising the City Council on interest rates for the early and late payments of property taxes and nonpayment of water and sewer charges. As part of that role, the Department of Finance supports the goal of providing more information regarding the recommendations on interest rates and the discount rate to the Council. We believe providing the data requested in this bill will make property tax data relating to both early and delinquent payments more transparent and easier to understand. We also welcome the opportunity to issue a report to the Council containing the Commission's rationale for its recommended interest rates, and also are interested in meeting with the Council staff in early May to review and explain the analysis used to support the Banking Commission's recommended rates. We therefore support the proposed legislation, albeit with some suggestions. Please allow me to take this opportunity to explain our suggested changes to the bill.

Our first suggestion relates to the proposed May 7th deadline for submission of interest and discount rate recommendations. The Banking Commission's current deadline to submit its recommendations to City Council is May 25th. We understand the Council's desire to have more time to evaluate the Banking Commission's recommendations and feel comfortable meeting a May 18<sup>th</sup> deadline, but May 7th is simply too early. The final property tax data for our interest rate analysis is not available until the end of April and our analysis is not completed until early May. The Banking Commission members must have sufficient time to review this analysis and then hold the official Banking Commission meeting in May to vote on the interest and discount rates. DOF is committed to reviewing its analysis with interested Council Members and staff during this period but we do not feel we could meet a deadline earlier than May 18<sup>th</sup>.

Our second recommendation to amend the bill's language relates to the default discount rate. As you know, the default discount rate only goes into effect if the Council does not adopt a discount rate. If the Council does not act, property owners who pay their property taxes for a fiscal year by the July due date receive a 1.5 percent reduction in their taxes. We understand the Council's concern that the default discount rate should more closely reflect market rates so as not to provide too large a benefit to early payers. We believe the best approach to achieve closer alignment with market rates is to allow the Banking Commission's recommended discount rate to become the default rate should the Council not act in establishing a discount rate. This approach will enable the Banking Commission to take numerous factors into account each fiscal year including the current interest rates available in the market that are part of the formula

included in the current bill draft. We feel that while the formula represents a good faith effort to achieve a similar result, it has not been thoroughly researched and there could be unanticipated consequences should there be large fluctuations in the rate in the future. We welcome continued conversation with the Council on the best method to determine the default discount rate.

In addition, the legislation requires that property tax data be reported by council district, property tax class and property tax subclass. We currently have data for discounted property payments by property tax class and property tax subclass. We are investigating how quickly we can provide reports on the early and late payment of property taxes by Council district.

We lastly have some technical language changes we would like to be made in the bill that we will communicate to the Committee's counsel after the hearing.

Thank you for giving me the opportunity to testify on this bill before you today. I am happy to answer any questions you may have.

## Attachment

### Comparable Cities - Penalty Interest Rates Tax Years (TY) 2012 & 2013

#### Real Estate\*

Cities	TY13	TY12	Delinquencies Details/Fees and Penalties
<b>New York City</b>	<b>9%</b>	<b>9%</b>	<b>9% for PV&lt;\$250K</b>
Charlotte, NC	10.25%	10.25%	2% First month and 0.75% per month until balance is paid
Virginia Beach, VA	10.43%	10.43%	Penalty of 10% of the total tax or \$10 (whichever is greater) but not to exceed the amount of the bill plus interest at 9.6% per year
Denver, CO	12%	12%	12% (1% monthly) - 1st half delinquent after 3 months. After 6 months, additional fees on imposition of lien
Syracuse, NY	12%	12%	1.5% monthly, up to 12% max - 1% each month until balance is paid
Boston, MA	14%	14%	1.16% per annum
Phoenix, AZ	16%	16%	1.33% monthly
Houston, TX	16%	16%	7% in February (annual) - 2% each month for 4 months, 1% per month thereafter. 20% additional penalty added for attorney fees after 6 months
Los Angeles County	18%	18%	1.5% per month on the unpaid balance
Chicago, IL	18%	18%	1.5% monthly
Detroit, MI	18%	18%	1.5% monthly - 4% late payment penalty on first day of delinquency
Miami-Dade County, FL	18%	18%	1.5% per month, subject to 3.0% minimum
Nashville, TN	18%	18%	1.5% each month until balance is paid
<b>New York City</b>	<b>18%</b>	<b>18%</b>	<b>1.5% per month for PV&gt;\$250K</b>
Philadelphia, PA	18%	18%	1.5% per month
Cleveland, OH	20%	20%	10% from January thru June if not paid by mid February. Plus additional 10% from July to December. Thereafter, based on T-note rate
San Francisco, CA	20%	20%	10% - Additional 10% penalty if not paid by 4/11 plus \$10 administration fee is added to unpaid balance
Dallas County, TX	31%	31%	7% in February (annual) - 2% each month, through June. July is 38%; add 1% each additional month

#### Water and Sewer Rentals\*

Cities	TY13	TY12	Delinquencies Details/Fees and Penalties
<b>New York City</b>	<b>9%</b>	<b>9%</b>	<b>9% for all properties</b>
City of Pontiac, MI	10%	NA	A penalty of 10% on the outstanding balance is added to accounts for bills paid after the due date. Delinquent reminder notices are mailed out quarterly. In May and October, all balances six months past due will be transferred to property taxes in the form of a lien
Dallas County, TX	10%	NA	Payments received after the due date will incur a 5% late fee
Willage of Wheeling, IL	10%	NA	A ten percent penalty is added to the water and sewer bill if the payment is not received by the due date.
Philadelphia, PA	11%	NA	A 5% penalty charge is added to bill if bill not pay on time. An additional 1/2% will be added to bill each month charges are not paid.
Spokane County, Washington	12%	NA	10% one-time late payment penalty. Additionally, eight percent (8%) interest per year will be applied until paid.
Lancaster County, PA	15.50%	NA	10% if not paid when due. If not paid within 30 days, the bill shall bear interest of 1/2% per month.
City of Phoenix, AZ	18%	NA	3% late fee per month assessed on the delinquent amount.
Miami-Dade County, FL	18%	NA	10% late charge may be added to the water and sewer bill . Unpaid balances shall be subject to an interest charge at the rate of 8% per annum.

\* This table shows the interest rates charged by major Cities for unpaid real estate taxes/water and sewer rentals (full year delinquency). For comparison purposes, rates have been altered and may not reflect the true/exact interest rate charged by other Cities(see delinquency details).