



## NEW YORK CITY BANKING COMMISSION

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Karen A. Cassidy, *Secretary*

### NYC Banking Commission Meeting Minutes May 10, 2018

#### Attendees:

- Laura Anglin, Deputy Mayor for Operations, Representative of the Mayor
- Karen A. Cassidy, Asst. Commissioner and Treasurer, Representative of the Commissioner of the Department of Finance (DOF)
- Brian Cook, Asst. Comptroller for Economic Development, Representative of the Comptroller
- Bashar Assana, DOF, Treasury Division, Banking Commission Support
- Antonio Whitaker, DOF, Treasury Division, Banking Commission Support
- Mary Michail-Shehata, DOF, Treasury Division, Banking Commission Support

- I. The roll was called.
- II. The minutes from the November 30, 2017 meeting were unanimously accepted. Brian Cook motioned to approve and Laura Anglin seconded the motion.
- III. Karen Cassidy read the following resolutions to the Commission for vote:

#### **RESOLUTION NO. 1 – FY2019 EARLY PROPERTY TAX PAYMENT DISCOUNT RATE RECOMMENDATION**

**WHEREAS**, pursuant to § 1519(a) of the New York City Charter, the Banking Commission is required to recommend to the City Council, no later than the thirteenth of May, the proposed discount rate for the early payment of real estate taxes, and

**WHEREAS**, the economy is currently in a rising interest rate environment. There have been four incremental increases of 25 basis points (0.25%) or a total of 100 basis points (1.0%) in the Federal Funds rate range in the past fifteen months by the Open Market Committee of the Federal Reserve Bank. Concurrently, on these four dates (December 2016 to March 2018) the prime rate increased from 3.75% to 4.75%, or a total of 100 basis points (1.0%), and

**WHEREAS**, the increase in interest rates has allowed the City to earn more income than it had previously on property taxes paid early. From April 2017 – March 2018, NYC's quarterly average rates on its investments ranged from 1.08% -1.70% in comparison to FY2018 from 0.80% - 0.90%, an increase greater than 0.80%, and

**WHEREAS**, the Banking Commission's impact analysis for FY2019 projects that this higher return on investments rate will result in \$17.85 million of interest earned on taxes collected early at a discount rate of 50 basis points, or one-half of one percent (0.50%). This will offset estimates of forgone taxes of (\$11.40) million (discount given) plus forgone interest income on forgone taxes of (\$140K), resulting in a net surplus in revenue to the City of \$6.3 million, and

**WHEREAS**, changes in the discount rate decrease from 1.0% in FY2015 to 50 basis points, or one-half of one percent (0.50%) in FY2016 through FY2018 has had little effect on the number of pre-paid accounts or the amount of taxes collected early. The number of pre-paid accounts has consistently remained at ~\$175K with a dollar value of ~\$2.4 billion. There was an increase in pre-payments experienced in Mid-FY2018 (December 2017 consisting of ~27K accounts totaling ~\$475 million), which was due entirely to the change in the Tax Jobs and Cuts Act of 2017 (federal tax law), and

**WHEREAS**, in a rising interest rate environment, the impact translates to a total positive impact for the City of \$7.6 million. This consists of the aforementioned \$6.3 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 1.0%, this would have a (\$5.3) million negative net impact on the City's revenue, and

**WHEREAS**, while there is a higher increase in the returns on investments and increased investment income on taxes paid early, 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, or one-half of one percent (0.5%), 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, or one-half of one percent (0.5%) per annum for FY2019, 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. 1 was unanimously approved by all three representatives.*

Dated May 10, 2018

**RESOLUTION NO. 2 – FY2019 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 day 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 10, 2018 said prime rate stands at four point seventy-five percent (4.75%), 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 is a rising interest rate environment. There have been four incremental increases of 25 basis points (0.25%) or a total of 100 basis points (1.0%) in the Federal Funds rate range in the past fifteen months by the Open Market Committee of the Federal Reserve Bank. Concurrently, on these four dates (December 2016 to March 2018) the prime rate increased from 3.75% to 4.75%, or a total of 100 basis points (1.0%), and

**WHEREAS**, increasing the penalty rate from 6.0% to 7.0% for assessed properties valued at no more than \$250k will be consistent with the 100 basis point (1.0%) increase in interest rates that have been experienced in the last two years, and

**WHEREAS**, while the remaining delinquent balance in quarterly pay for properties valued at no more than \$250K increased 4.9% in FY2017 and increased 1.8% in FY2018, it is not empirically conclusive that this increase is attributable only to the penalty rate being decreased in FY2017 from 9.0% to 6.0%. In fact, the delinquency rate on all NYC properties is very healthy at 9.52%, and for properties valued at no more than \$250K this rate was even lower at 5.32%. Therefore, the Banking Commission's recommendation to increase the penalty rate from 6.0% to 7.0% is based solely on the interest rate environment, not on delinquency behavior, 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 set at seven per cent (7.0%) per annum for FY2019, an increase from 6.0%, or 100 basis points (1.0%), which is consistent with benchmark interest rates such as the Federal Funds rate and the Prime Rate which has increased 100 bps (1.0%) since 2016.

*Resolution No. 2 was unanimously approved by all three representatives.*

Dated May 10, 2018

**RESOLUTION NO. 3 – FY2019 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 day 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,

**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 10, 2018 said prime rate stands at four point seventy-five percent (4.75%), 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**, there is no compelling reason for the Banking Commission to either raise or lower the penalty rate in FY2019 for semi-annual taxpayers for property assessed at more than \$250k. The existing penalty rate of 18.0% resulted in a positive impact as delinquency did not rise but decreased, 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 FY2019.

Dated May 10, 2018

*Resolution No. 3 was unanimously approved by all three representatives.*

- IV.** Karen Cassidy read a statement about how the Banking Commission is no longer responsible for setting a water and sewer penalty rate.

Laura Anglin moved to adjourn the meeting. Brian Cook seconded the motion.

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Karen A. Cassidy, Secretary

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Date