FROM

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SUBJECT	City Council Bill 20-0593—Tax Sales-Properties Exempt From Sale

CITY of BALTIMORE

MEMO

DATE:

TO

The Honorable President and
Members of the City Council
City Hall, Room 400

August 26, 2020

Position: Oppose

The Department of Finance is herein reporting on City Council Bill 20-0593, Tax Sales-Properties Exempt From Sale, the purpose of which is to prohibit certain properties from tax sale.

Background

Each year, Baltimore City holds an annual tax sale to collect delinquent real property taxes and other unpaid charges owed to the City, which are liens against the property. An owner-occupied property is eligible for tax sale if the combined total of city liens is $750 or more and a non-owner-occupied property is eligible at the threshold of $250. These liens include, but are not limited to, unpaid real property taxes, clean and board, environmental control, and residential registration charges and fees. The Maryland General Assembly passed legislation in 2015 that increased the threshold for owner-occupied properties from $250 to $750 and in 2019 that prohibits the inclusion of properties that are only delinquent water bills in the $750 tax sale eligibility threshold for owner-occupied properties.

The proposed legislation exempts certain properties from tax sale and requires annual reporting on the number of properties and outstanding taxes owed under this provision. The legislation specifically applies to properties that have an assessed value of $250,000 or less, the homeowner has resided in the dwelling for at least three years, and the homeowner either has a combined income of less than $40,000 or is at least 65 years old or is receiving disability benefits in some form.

Fiscal Impact

Historically, the City collects between one and two percent, or $8 million to $15 million, of real property tax revenues at tax sale. However, the Department of Finance is able to collect higher rates of delinquent taxes through the various stages of the tax sale process. For example, approximately 35% of the City real property tax revenues is collected after the first delinquent notice is sent. Property taxes are a major source of General Fund revenue for the City, almost 53% in Fiscal 2021, and the Department of Finance's Bureau of Revenue Collection (BRC) has averaged a 98% collection rate for real property taxes with tax sale. In addition, when properties enter the tax sale process, the City receives payment of liens by many mortgage companies in order to prevent properties from moving further in the process.

It is important to note that in the Fiscal 2018 and Fiscal 2019 tax sales, approximately 53.6%, or 6,468 properties, of the outstanding lien certificates were purchased by third party investors and 46.4%, or 5,600 properties, were acquired by the Mayor and City Council. Of the total $550.8 million of outstanding lien values during these years, the purchases by third party investors totaled $43 million, or 7.9% of the total outstanding lien values, while the other $507.8 million, or 92.1% of total outstanding lien values, were acquired by the Mayor and City Council.

The Department of Finance's analysis presents two scenarios and is based on tax sale data from 2018 and 2019. The first scenario reflects the homeowners who entered the 2018 and 2019 tax sale processes and would qualify to be removed from the process under this legislation. The second scenario reflects all homeowners eligible under this legislation, based on the number of homeowners who receive the City's Supplemental Homeowners' Tax Credit, who receive initial final bills and legal notices about delinquent property taxes. Currently, the homeowners reflected in the second scenario may not enter tax sale due to receipt of tax credits, assistance programs from the City or nonprofits, or personal payments as a result of receipt of these bills and notices.

	Scenario 1	Scenario 2
Eligible Homeowners and Properties	35	5,014
Average Assessment Value of Eligible Properties	$110,072	$113,900
Average Value of Liens of Eligible Properties (Property Taxes)	$2,474	$2,561
Total Value of Liens of Eligible Properties	$86,590	$12,841,000
Annual Impact (Real Property Tax Revenue Loss)	**$100,035**	**$13,767,000**

Based on these two scenarios, the City could face real property tax revenue loss ranging from $100,035 from 35 eligible properties to $13.7 million from over 5,000 eligible properties. The Department of Finance acknowledges that not all homeowners eligible under this legislation will stop paying property taxes; however, this legislation increases the City's exposure for lost revenue due to the number of homeowners who will not face this enforcement measure for not paying property taxes and may decide to not pay delinquent taxes.

Other Considerations

The Department of Finance supports the intentions of this legislation to maintain residents in their homes, specifically homeowners who are seniors, low-income, and/or receiving disability benefits. In addition, the Department is supportive of further studying the issue with partners to assess the problem and identify strategies and solutions that the City can support and invest in. However, the Department of Finance believes there are other actions that can and should be taken before making large exemptions to the tax sale program. In addition, there are several concerns related to the implementation of the legislation that should be discussed further before moving forward with this legislation.

Prevention Programs

There are several programs currently available to homeowners to reduce the burden of property taxes and decrease the likelihood of entering tax sale. The City has several programs to aid homeowners as well. The Baltimore City Department of Housing and Community Development's has a Tax Sale Coordination and Prevention Services program, which assists homeowners in avoiding tax sale and in understanding the tax sale process. The Baltimore City Health Department's Office of Aging and CARE Services reviews the tax sale list to identify seniors and works with them to prevent tax sale of their properties.

In addition, there is the State of Maryland Homeowners' Property Tax Credit Program, which sets a limit on the amount of property taxes a homeowner must pay based on income and is specifically for households that earn less than $60,000 in income. The City provides a supplemental to the Homeowners' Tax Credit Program to homeowners that are at least 62 years old, have resided in the property for at least

10 years, and have a combined income of less than $40,000. In fact, many of the homeowners that would qualify under this legislation qualify for the State and City program already. The Department of Finance believes that efforts can be made to raise awareness about these programs. As outlined in the fiscal impact section, many homeowners who qualify for these programs drastically reduce their property tax bill, some to the point of $0.

Implementation

BRC does not have access to the demographic data needed to make the qualification outlined in the legislation. Currently, BRC receives reports from Maryland State Department of Assessments and Taxation (SDAT) stating which properties that receive the State's Homeowners' Tax Credit are eligible for the City's supplemental credit program. It is possible a similar report about these criteria can be provided by SDAT and used to identify properties, based on those receiving the Homeowners' Tax Credit, that meet these criteria and remove them from the tax sale process. However, due to the short timeframe of this bill being introduced and the hearing scheduled, the agency has not been able to confirm this option.

Beyond agency operations, the Department of Finance has additional implementation concerns. The legislation's broad exemptions for certain populations eliminate the City's enforcement authority. The intent of the legislation is to address the needs of certain homeowners who are struggling to pay their current property taxes. However, this legislation enables homeowners who qualify under this law and are able to pay their property taxes to walk away from that responsibility. Additionally, while the properties may not enter into tax sale, the liens will continue to increase and may sit unpaid for years. This can result in a major tax burden for families if a homeowner dies and has not paid these taxes, or make it cost prohibitive for the property to be sold or developed because the liens are greater than the assessed value.

Conclusion

The Department of Finance supports the intention of the legislation to reduce the burden on homeowners, but opposes the current structuring of this legislation and what it means for the City's revenue and operations. The tax sale process is very complicated and there are several factors to consider when making changes like these, such as ability to implement, unintended consequences of broad exemptions, and impact on the City's revenue. The Department of Finance requests that the City Council hold work sessions on this legislation and continue to work with the Department to develop strategies and solutions that meet the intention of the bill, while maintaining the City's ability to enforce and collect property taxes.

For the reasons stated above, the Department of Finance opposes City Council Bill 20-0593.

cc: Henry Raymond
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