

Department of Legislative Services
Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

Senate Bill 645
Budget and Taxation

(Senator Ferguson)

Environmental Matters

Baltimore City - Sale of Property to Enforce Lien for Water and Sewer Service

This bill prohibits Baltimore City from selling a property solely to enforce a lien for unpaid charges for water and sewer service unless the lien is for at least \$350 and the unpaid charges for water and sewer service are at least three quarters in arrears. Notwithstanding the provision, Baltimore City may enforce a lien on a property for unpaid water and sewer service that is less than \$350 if the property is being sold to enforce another lien.

The bill takes effect July 1, 2011.

Fiscal Summary

State Effect: None.

Local Effect: Baltimore City revenues may decrease by a significant amount due to the restrictions on tax sale proceedings for property accounts with unpaid water and sewer charges. City expenditures will not be affected.

Small Business Effect: None.

Analysis

Current Law: Notwithstanding any law to the contrary, Baltimore City may not sell a taxpayer's property for failure by the taxpayer to pay an alley assessment charge. Except as otherwise provided, this provision does not affect any other right or remedy of the city for the collection of an alley assessment charge.

Baltimore City may not acquire owner-occupied residential property by means of execution of a judgment for failure by the owner, upon whom the alley assessment charge was originally made, to pay the alley assessment charge.

Background: When a property is purchased at a tax sale, the purchaser must pay to the tax collector any delinquent taxes, penalties, sale expenses, and under certain conditions, a high bid premium. The remainder of the purchase price is not paid to the collector until the purchaser forecloses on the property. The property owner has the right to redeem the property within six months from the date of the tax sale by paying the delinquent taxes, penalties, interest, and certain expenses of the purchaser. If the owner redeems the certificate, the purchaser is refunded the amounts paid to the collector plus the interest and expenses. If the owner does not redeem the certificate, the purchaser has the right to foreclose on the property after the six-month right of redemption period has passed. Generally within two years, if the right to foreclose is not exercised by the purchaser, the certificate is void and the purchaser is not entitled to a refund of any monies paid to the collector.

Local Fiscal Effect: Baltimore City indicates that dunning notices (a notice to a debtor demanding payment on a delinquent account) are sent out to ratepayers when delinquencies reach \$250. Unpaid accounts can result in the property being referred to a tax sale proceeding. Since the bill raises the delinquency threshold to \$350, the number of dunning notices sent out to delinquent ratepayers will decline beginning in fiscal 2012. Consequently, fewer properties with delinquent accounts will be referred to tax sale proceedings. Based on a review of delinquent property accounts for water and sewer charges, Baltimore City estimates that 2,100 fewer property accounts will receive a dunning notice in fiscal 2012, thus precluding potential tax sale proceedings. The aggregate amount of unpaid water and sewer charges for these accounts total \$3.2 million. The analysis by Baltimore City included a review of the total dollar amount of delinquent water and sewer charges across two variables: (1) the marginal threshold between a trigger amount of \$250 and \$350, and (2) the marginal threshold of a delinquency trigger of two quarters and three quarters.

As shown in **Exhibit 1**, over 5,000 properties in Baltimore City went to tax sale solely for delinquent water and sewer charges. The lien amounts on these properties totaled \$5.5 million. During this period, only 17 properties were actually foreclosed upon solely for unpaid and unredeemed water and sewer liens. The remaining property owners had either paid the delinquent balance or entered into a payment plan agreement with the city government.

Through the threat of foreclosure and the potential for the property being sold at a tax sale, Baltimore City is enabled to recover a significant amount of delinquent water and

sewer charges. Restricting this process may result in decreased collections of unpaid water and sewer charges.

Exhibit 1
Tax Sale Properties Due to Unpaid Water and Sewer Charges

Tax Sale Year	Number of Properties	Lien Amounts	Average Lien Amount
2006	1,461	\$1,248,733	\$855
2007	1,124	1,103,693	982
2008	1,129	1,258,892	1,115
2009	666	851,362	1,278
2010	793	1,086,871	1,371
Total	5,173	\$5,549,551	\$1,073

Additional Information

Prior Introductions: None.

Cross File: HB 867 (Delegate Oaks, *et al.*) - Environmental Matters.

Information Source(s): Baltimore City, Department of Legislative Services

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ncs/hlb

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