

Department of Legislative Services
Maryland General Assembly
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FISCAL AND POLICY NOTE

Senate Bill 145

(Senator Brochin, *et al.*)

Budget and Taxation

**Baltimore City and Baltimore County - Unpaid Water and Sanitary Charges -
Collection**

This bill requires Baltimore City and Baltimore County to withhold a residential property from a tax sale when the lien on the property arises solely from specified unpaid water, sewer, and sanitary system charges, fees, or assessments and the total amount of the lien is less than \$750. The bill also repeals the prohibition against Baltimore City from selling a property solely to enforce a lien for unpaid charges for water and sewer service under certain circumstances.

Fiscal Summary

State Effect: None.

Local Effect: Baltimore City and Baltimore County revenues may decrease by a significant amount due to the restrictions on tax sale proceedings for property accounts with unpaid water and sewer charges. Baltimore City expenditures for debt service may increase by a significant amount.

Small Business Effect: None.

Analysis

Current Law: Local governments are authorized to withhold from sale any property, when the total taxes on the property, including interest and penalties, amount to less than \$250 in any one year.

Chapters 510 and 511 (SB 645/HB 867) of 2011 prohibit 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.

To enforce the collection of unpaid benefit assessments or other charges that are at least 60 days overdue, a sanitary commission, at any time, may (1) sue any person who was an owner of record of the parcel at any time since the benefit assessment was last paid or (2) file a bill in equity to enforce a lien through a decree of sale of property against any person who was an owner of record of the parcel at any time since the benefit assessment was last paid.

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 and Baltimore County revenues may decrease by a significant amount due to the restrictions on tax sale proceedings for property accounts with unpaid water and sewer charges. 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 \$350 and unpaid charges are at least three quarters in arrears. Unpaid accounts can result in the property being referred to a tax sale proceeding.

Since the bill raises the delinquency threshold to \$750, the number of dunning notices sent out to delinquent ratepayers will decline beginning in fiscal 2014. 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 1,940 fewer property accounts will receive a dunning notice in fiscal 2014, thus precluding potential tax sale proceedings. The aggregate amount of unpaid water and sewer charges for these accounts total \$1.1 million. The trend analysis by

Baltimore City included a review of the total dollar amount of delinquent water and sewer charges across the marginal threshold between a trigger amount of \$350 and \$750.

As shown in **Exhibit 1**, over 6,200 properties in Baltimore City went to tax sale solely for delinquent water and sewer charges from 2006 through 2012. The lien amounts on these properties totaled \$7.3 million.

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.

Baltimore City also advises that increasing the threshold from \$350 to \$750 could also impact the city's debt rating as it relates to borrowing for capital utility projects, of which the city has a \$5.0 billion capital program. Baltimore City indicates that as more accounts become delinquent for a longer period of time, bond rating agencies may downgrade the city's bond rating which will in turn affect the cost of borrowing for capital projects. The rating agencies typically use the number of delinquent accounts that are in arrears for more than 260 days as one of the benchmarks when issuing bond ratings. Under the increased threshold proposed by the bill, Baltimore City estimates that it could result in approximately \$100 million in additional borrowing costs over the next six years.

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

| <u>Tax Sale Year</u> | <u>Number of Properties</u> | <u>Lien Amounts</u> | <u>Average Lien Amount</u> |
|----------------------|-----------------------------|---------------------|----------------------------|
| 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 |
| 2011 | 750 | 1,084,308 | 1,446 |
| 2012 | 362 | 624,335 | 1,725 |
| Total | 6,285 | \$7,258,194 | \$1,155 |

Baltimore County estimates that 340 fewer property accounts would have received a dunning notice in fiscal 2012, if the bill have been in effect that year, thus precluding

potential tax sale proceedings. The aggregate amount of unpaid water and sewer charges for these accounts total approximately \$169,000.

Additional Information

Prior Introductions: None.

Cross File: HB 549 (Delegate Anderson) – Environmental Matters.

Information Source(s): State Department of Assessments and Taxation, Baltimore City, Baltimore County, Department of Legislative Services

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