

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

House Bill 366 (Delegate Conaway)
Environment and Transportation

Tax Sales - Delinquent Water Bills - Prohibition

This bill alters the definition of “tax” to exclude liens against real property arising from any unpaid water, sewer, or other sanitary system charges, fees, or assessments, and generally prohibits Baltimore City from selling a property at tax sale solely due to any amount of unpaid charges for water and sewer service.

The bill takes effect July 1, 2015.

Fiscal Summary

State Effect: None. The provisions of this bill do not materially affect State revenues or expenses.

Local Effect: Baltimore City revenues may decrease by a significant amount due to the prohibition against tax sale proceedings for property accounts with only unpaid water and sewage charges. Baltimore City expenditures for debt service may increase by a significant amount.

Small Business Effect: None.

Analysis

Current Law:

Tax Defined

A “tax” is defined as any tax, or charge of any kind due to the State or any of its political subdivisions, or any other taxing agency, that by law is a lien against real property on which it is imposed or assessed. A tax includes interest, penalties, and service charges.

Tax Sales in Baltimore City

Baltimore City is prohibited from selling a property at a tax sale 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 overdue. However, 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.

Background: When a property is purchased at a tax sale, the purchaser (the holder of a certificate of sale) 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 advises that between receipt of the city’s “dunning notice,” a notice sent to a debtor demanding payment on a delinquent account, in December and the tax sale date in May, approximately \$10 million in revenue is collected by the utility in any one year. Rating agencies evaluate the utility’s ability to effectively collect delinquent water and sewer bills, and the result of this evaluation directly impacts bond ratings and corresponding borrowing costs.

To comply with the bill, no dunning notices would be sent out to delinquent ratepayers beginning in fiscal 2016, as there would be no threat of the property being sold at tax sale.

Baltimore City advises that this would negatively affect the water and sewer utilities' ability to collect outstanding fees.

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 about \$7.3 million. In 2012, the city placed 362 properties into tax sale solely on the basis of unpaid water and sewer charges. The amount due totaled approximately \$0.6 million. In 2013, the number of properties rose to 523 with delinquencies valued at approximately \$1.0 million. By 2014, 671 properties were sent to tax sale, with delinquencies valued at approximately \$1.5 million. The 671 properties that entered tax sale in 2014 represented 15.1% of the 4,430 Final Bill and Legal Notices that were sent to properties owing over \$5.6 million in unpaid water and sewer charges.

As shown in **Exhibit 1**, over 7,400 properties in Baltimore City went to tax sale solely for delinquent water and sewer charges from 2006 through 2014. The lien amount on these properties is estimated at about \$9.8 million.

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

<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
2013	523	1,006,565	1,925
2014	671	1,460,199	2,176
Total	7,479	\$9,724,958	\$1,297

Source: Baltimore City Board of Revenue Collections

Baltimore City projects that the city will at first lose approximately \$1.5 million in revenue from the properties that would have entered into tax sale based on 2014 numbers, and that the total revenue lost will grow to encompass a much larger percentage of the total population of properties with delinquent water bills. As the total dollar amount of outstanding water and sewer charges increases, rating agencies could downgrade the city's

bond rating based on its inability to collect delinquent bills, and debt servicing and borrowing costs may increase.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Property Tax Assessment Appeals Board, Baltimore City, Judiciary (Administrative Office of the Courts), Department of Legislative Services

Fiscal Note History: First Reader - February 22, 2015
md/kdm

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