

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1177
Ways and Means

(Prince George's County Delegation)

Budget and Taxation

Prince George's County - Tax Sales - Limited Auction and Foreclosure for
Abandoned Property
PG 425-15

This bill requires the tax collector in Prince George's County to conduct an additional, limited auction, prior to public auction, for any property to be sold for the collection of past due taxes. The limited auction must be open only to bids from an individual who is (1) an employee of the Prince George's County Public School System; (2) an employee of the Prince George's County Police Department; (3) an employee of the Prince George's County Fire Department; (4) an employee of the Prince George's County Office of the Sheriff; (5) an employee of the Prince George's County Department of Corrections; (6) an employee of the Prince George's County government; or (7) a resident of Prince George's County. The bill requires that a purchaser of property at the limited auction occupy the property as his or her principal residence.

The bill takes effect July 1, 2015.

Fiscal Summary

State Effect: None.

Local Effect: County expenditures increase, perhaps significantly, in order to develop and implement procedures and eligibility verification policies required by the bill, as well as to administer the limited auction. Potential significant decrease in Prince George's County revenues as a result of a decrease in bid premium collected, as discussed below. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Meaningful.

Analysis

Bill Summary: The bill requires that the tax collector in Prince George's County include specified information about the limited auction in any notice of sale for public auction otherwise required by law, and requires that the limited auction be subject to the same requirements for a public auction. Any purchase at a limited auction must be considered the same as a purchase at public auction.

The tax collector in Prince George's County is required to develop a system to verify the eligibility of individuals to participate in the limited auction, and any certificate of sale purchased at the limited auction must be voided if it is determined that the purchaser was not eligible to participate. Any property that is not sold at the limited auction must subsequently be offered for sale at public auction.

An individual who becomes the holder of a certificate of sale for vacant or abandoned property in Prince George's County as a result of purchasing a property through the limited auction may file a complaint to foreclose all rights of redemption in the property at any time after the sale date.

Current Law: In general, a tax collector must sell, at an auction, not later than two years from the date the tax is in arrears, all property in the county on which the tax is in arrears. The time for the tax sale is established by local law. Failure of the collector to sell the property within the two-year period does not affect the validity or collectability of any tax, or the validity of any sale subsequently made.

The tax collector sets specified terms for the auction, and publishes public notice of the tax sale, including requirements for potential bidders.

When a property is purchased at a tax sale, the purchaser must pay to the tax collector any delinquent taxes, penalties, sale expenses, and a high bid premium except as otherwise specified. Except for agricultural property, when a bidder at tax sale purchases a property in Baltimore City and Prince George's County under specified circumstances, the bidder must pay a high-bid premium that is the greater of 20% of the amount by which the highest bid exceeds the lien amount, or 40% of the property's full cash value. The terms for payment of the purchase price and high-bid premiums, if any are determined by the collector. In Prince George's County, 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 total lien amount on the property, 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.

In Baltimore City, the holder of a certificate of sale for abandoned property with a minimum bid that is less than the lien amount may file a complaint to foreclose all rights of redemption in the property at any time after the sale date.

Background: Over the past five years, Prince George’s County has averaged approximately 3,198 accounts, representing properties, per year in its tax sale. The amount of past due taxes on those accounts, the number of accounts purchased at auction, the revenue recovered through the payment of taxes, and the total bid premium collected are displayed in **Exhibit 1**.

Exhibit 1
Tax Sale Results in Prince George’s County
Fiscal 2010-2014

	<u>Accounts</u>	<u>Total Taxes Owed</u>	<u>Accounts Purchased at Auction</u>	<u>Taxes Paid</u>	<u>Bid Premium Collected</u>
FY 2010	3,088	\$13,423,123	2,893	\$12,218,292	\$14,406,025
FY 2011	3,412	13,320,465	2,991	12,370,249	12,631,580
FY 2012	3,068	9,773,123	2,777	9,071,389	13,286,032
FY 2013	3,282	11,769,511	2,993	9,823,336	15,496,765
FY 2014	3,138	12,052,001	2,942	10,055,468	19,665,521

Source: Prince George’s County Treasury Division

Although not all accounts offered for auction at the annual Prince George’s County tax sale have been purchased, the percentage of accounts purchase has remained above 90% since 2012. The increase in collected bid premiums appears to be the result of winning bids being higher relative to the taxes owed on an account, or the properties’ total value, than in past years. While the county does not permanently retain the bid premium, except in cases where the purchaser does not file an action to foreclose within a specified length of time, it does have access to the funds until the property is foreclosed, and the right of redemption extinguished.

Local Fiscal Effect: Prince George's County advises that revenues may decrease as a result of potentially lower bids on properties subject to an earlier, limited auction, compared to the higher bids that may have occurred had the properties been included in the general auction. As a result, bid prices, and thus bid premium, may be significantly lower. Prince George's County also advises that additional administrative expenditures are necessary to administer a separate, limited auction and to develop the procedures required by the bill. The county further advises that investors who frequently purchase accounts at tax sale may look unfavorably on a process which allows county employees to purchase the best accounts before the general public is allowed to bid, further reducing participation, bid premiums, and possibly the total percentage of accounts purchased.

Small Business Effect: Prince George's County advises that by conducting a limited auction prior to the public auction, investors who qualify as small business owners will experience a decrease in the total volume of property available for sale, as well as a disproportionate decrease in the most desirable properties offered at public auction.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Prince George's County, Prince George's County Treasury Division, State Department of Assessments and Taxation, Judiciary (Administrative Office of the Courts), Department of Legislative Services

Fiscal Note History: First Reader - March 30, 2015
min/kdm Revised - House Third Reader - April 14, 2015

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