

Department of Legislative Services
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2016 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 1153
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 431-16

This bill requires the tax collector in Prince George's County to conduct an additional, limited auction, prior to the public auction, for any property to be sold for the collection of past due taxes. The limited auction must be open to bids only 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; (7) an employee of the federal government; (8) an employee of a municipal government in Prince George's County; or (9) 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 "dwelling."

The bill takes effect July 1, 2016.

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 abandoned property, consisting of either a vacant lot or a building cited as vacant and unfit for habitation on a housing or a building violation notice, 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: "Dwelling" means a residence that is used as the principal residence of the homeowner, and is actually occupied by the homeowner for more than six months of a year, and the lot or curtilage on which the house is erected. It also includes a condominium or an apartment in a cooperative housing corporation.

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 high-bid premium except as otherwise specified. Except for agricultural property, when a bidder at a 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 3,134 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 2011-2015

	<u>Accounts</u>	<u>Total Taxes Owed</u>	<u>Accounts Purchased at Auction</u>	<u>Taxes Paid</u>	<u>Bid Premium Collected</u>
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
FY 2015	2,772	8,911,523	2,485	7,634,556	24,263,173

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 purchased remained above 90% between HB 1153/ Page 3

2012 and 2014, before decreasing slightly to 89.6% in 2015. 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 of at least \$66,780 annually are necessary to develop the procedures required by the bill, to administer the limited auction, and to hire an additional investigator to evaluate the eligibility of participants.

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, but do not qualify to participate in the limited auction, will experience a decrease in the total volume of property available for sale.

Additional Information

Prior Introductions: HB 1177 of 2015 passed the House and was referred to the Senate Budget and Taxation Committee, where no further action was taken.

Cross File: None.

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

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