Department of Legislative Services

Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
Enrolled - Revised

House Bill 59 (Chair, Ways and Means Committee)(By Request - Departmental - Housing and Community Development)

Ways and Means Budget and Taxation

Property Tax – Tax Sales – Revisions

This departmental bill makes various changes to State law governing tax sales, relating to, among other things (1) properties that local governments are authorized or required to withhold from sale; (2) redemption payments, and the redemption rate, for owner-occupied residential property; (3) procedures following a judgment foreclosing the right of redemption; and (4) eligibility for the Homeowner Protection Program (HPP). The bill applies only prospectively and does not have any effect on or application to any tax sale certificate issued before the bill's effective date. **The bill takes effect January 1, 2026.**

Fiscal Summary

State Effect: Annuity Bond Fund (ABF) revenues are delayed and/or reduced, beginning in FY 2026, as discussed below. Under one set of assumptions, ABF revenues decrease by up to $92,000 annually, beginning in FY 2026. Expenditures are not materially affected.

Local Effect: Local government finances may be significantly affected, beginning in FY 2026, as discussed below. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: The Department of Housing and Community Development (DHCD) has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services disagrees with this assessment, as discussed below. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary/Current Law:

Tax Sales and Withholding of Properties from Sale

Subject to certain exceptions, existing law requires a county tax collector to sell, through the tax sale process established in statute, at the time required by local law, all property in the county on which tax is in arrears. When a property in a municipality is delinquent in the payment of municipal taxes or charges levied against the property, the county collector must be notified of the unpaid taxes or charges. If the county collector does not begin the tax sale process with respect to the unpaid taxes or charges within 30 days of receiving the notice, the municipal collector may use the tax sale process to collect the unpaid taxes or charges, at any time after the 30-day period expires, to the same extent available to county collectors.

Existing law includes various circumstances in which a property may or is required to be withheld from sale, some of which are modified by the bill:

- Under existing law, the governing body of a county or municipality may withhold from tax sale owner-occupied residential property that meets objective criteria established by the governing body of the county or municipality. The bill makes this authorization also applicable to residential property occupied by an heir of a deceased owner that meets objective criteria established by the governing body of the county or municipality.
- Under existing law, the tax collector in Baltimore City is required to withhold from sale owner-occupied residential property when the total taxes on the property, including interest and penalties, amount to less than $750. The bill (1) makes this Baltimore City requirement applicable statewide; (2) increases the threshold amount from $750 to $1,000; and (3) makes the requirement also applicable to residential property occupied by an heir of a deceased homeowner. The bill correspondingly modifies an existing authorization for any tax collector to withhold from sale any residential property when the total taxes on the property, including interest and penalties, amount to less than $750. The bill modifies the authorization so that it applies only to nonowner-occupied residential property.
- Under existing law, the governing body of a county or municipality may withhold from sale a dwelling owned by a homeowner who is low-income, at least 65 years old, or disabled if the homeowner meets eligibility criteria established by the county or municipality. The bill (1) clarifies that this authorization applies to the Mayor and City Council of Baltimore City (in addition to governing bodies of other counties and of municipalities) and (2) makes the authorization also applicable to a

dwelling occupied by an heir of a deceased homeowner who is low-income, at least ag 65, or disabled, if the heir meets eligibility criteria established by the county or municipality.

- Under existing law, Baltimore City may withhold from sale property that has been designated for redevelopment purposes if the property meets objective criteria established by the Mayor and City Council of Baltimore City. The bill makes this authorization applicable statewide, to the governing body of any county (including the Mayor and City Council of Baltimore City) or municipality. Existing statute authorizes the governing body of a county or municipality to withhold from sale property that has been designated for redevelopment purposes if (1) the county or municipality certifies that the property is a vacant lot or has a building or structure that is vacant and unsafe or unfit for habitation; (2) the governing body of the county or municipality finds that withholding the property from sale is necessary to eliminate a blighting influence and to prevent the tax abandonment of the property; and (3) the property meets any additional objective criteria established by the governing body of the county or municipality for withholding property from sale for redevelopment purposes.

The bill requires that the Mayor and City Council of Baltimore City, or the governing body of a county, establish a registry for interested parties or the State Tax Sale Ombudsman to designate a property to be withheld from tax sale in accordance with the requirements and authorizations in statute to withhold properties from sale. On request of the Mayor and City Council of Baltimore City or the governing body of a county, the State Department of Assessments and Taxation (SDAT) must provide assistance in creating and maintaining the required registry.

Redemption

Under existing law, in general, for a period of time after a property is sold at a tax sale, up until the right of redemption has been finally foreclosed by a court judgment, the owner of the property (who remains the owner until the right of redemption is foreclosed), or other person that has an estate or interest in the property sold, has the right to redeem the property by paying (1) the total lien amount paid at the tax sale for the property, with interest; (2) taxes, interest, and penalties accruing after the tax sale; and (3) certain expenses of the purchaser.

Under existing law, for owner-occupied residential property in Baltimore City, taxes, interest, and penalties accruing after the date of the tax sale are not included in the redemption payment amount. The bill makes this provision applicable statewide and makes related changes to specified notice requirements.

Rate of Redemption

Under existing law, the rate of redemption (the annual interest rate on the total lien amount that must be paid to redeem the property) depends on the county, with most counties authorized to fix the rate at their discretion. The bill limits the rate of redemption for owner-occupied residential property to not more than 10% a year.

Reversion of Certificate of Sale for Abandoned Property

Under existing law, in general, a property may not be sold at a tax sale for a sum less than the total amount of taxes, interest, and penalties owed on the property, plus the expenses incurred in making the sale. However, under existing law, abandoned property consisting of either a vacant lot or improved property cited as vacant and unfit for habitation on a housing or building violation notice may be sold for a lesser minimum bid established by the collector, and the person responsible for the taxes prior to the sale remains liable to the collector for the difference between the amount received in the tax sale and the taxes, interest, penalties, and expenses remaining after the sale. The holder of a certificate of sale for such property may file a complaint to foreclose all rights of redemption in the property at any time after the date of sale.

Under existing law, a certificate of sale for abandoned property sold with a minimum bid less than the lien amount reverts to the county or municipality and is void as to the private purchaser at tax sale (1) unless a proceeding to foreclose the right of redemption is filed within three months of the date of the certificate of sale and (2) unless granted a specified extension, the holder of the certificate secures a decree from the circuit court within 18 months of the filing of the foreclosure proceeding. The bill modifies existing statutory provisions related to this provision that only reference Baltimore City, so that they apply to any county (including Baltimore City) or municipality, including (1) a provision that authorizes the Mayor and City Council of Baltimore City, if a certificate for abandoned property reverts to the city, to file a foreclosure proceeding in its own name or resell the certificate and apply all money received on account of the sale to any outstanding balance remaining on the tax debt owed and (2) other provisions relating to abandoned property foreclosure proceedings brought by the Mayor and City Council of Baltimore City. The bill also clarifies that a certificate of sale that reverts to a county or municipality reverts to the governing body of the county, unless the property is located in a municipality, in which case it reverts to the governing body of the municipality.

Notice of Foreclosure Proceeding for Owner-occupied Property

Under existing law, the plaintiff in an action to foreclose the right of redemption must send written notice of the proceeding to persons with specified interests in the property who have not been made a defendant in the proceeding. The bill requires that the State Tax Sale

Ombudsman also be sent notice of the proceeding if the subject property is owner-occupied.

Notice to Tenant After Foreclosure

Under existing law, after the issuance of a judgment foreclosing the right of redemption and at least 30 days before taking possession of the property, the plaintiff (holder of the certificate of sale) must give any tenant of the property written notice of the plaintiff's intention to obtain possession of the property and that the tenant must vacate the property within 30 days after the notice. During the 30-day period immediately following issuance of the judgment, the plaintiff may apply for, process, and obtain, but not execute upon, a writ for possession of the property. The bill (1) requires that a certificate of mailing be obtained for a notice, in addition to the existing requirement that a notice be sent by first-class mail, postage prepaid and (2) requires that the notice be posted on the property within 5 days of first being sent.

Annual Survey of County Tax Sale Information – Maintenance of Records

Under existing law, SDAT is required to conduct an annual survey of each county that conducts a tax sale, to obtain specified information, including data relating to the number of properties subject to tax sale and the total and average lien amounts for those properties. Each county must provide the information on the form that SDAT provides, and the department is required to issue a report each year that includes an analysis and summary of the information collected.

The bill requires each county to maintain a record of the information that must be provided in the annual survey for at least three years after the date of the tax sale.

Homeowner Protection Program

Chapter 382 of 2021 established HPP, administered by the State Tax Sale Ombudsman, and the Homeowner Protection Fund to support the program. The program diverts vulnerable homeowners from the private tax lien sale process into an alternative program – through the purchase of a homeowners' lien, whether before or after the lien is sold at a tax sale – in order to (1) minimize tax collection costs to homeowners; (2) assist homeowners to pay their taxes; and (3) allow homeowners to remain in their homes.

The bill alters the definition of "homeowner" under HPP to include, if a homeowner is deceased, (1) the estate of the homeowner; (2) the personal representative of the homeowner; or (3) an heir or legatee of the homeowner who is entitled to inherit the homeowner's dwelling.

Background: DHCD indicates that the bill's changes, among other things:

- apply existing protections in statute for homeowners in Baltimore City (with respect to when properties are subject to a tax sale and the redemption of properties after a tax sale) statewide, and add or enhance certain protections statewide, to help vulnerable homeowners across the State retain their properties;
- clarify and expand provisions relating to the use of the tax sale process as an avenue to move vacant and abandoned properties back into productive use; and
- allow relatives of deceased homeowners to utilize HPP.

The bill also:

- requires the State Tax Sale Ombudsman to be notified of the initiation of an action to foreclose the right of redemption on an owner-occupied property, giving the ombudsman's office the opportunity to contact at-risk homeowners to help them understand their situation and connect them with legal services, housing and financial counseling, credits, loans and grants, and other tools to avoid foreclosure; and
- ensures that counties maintain tax sale data for three years as a resource for research on tax sale activity in each county.

State Fiscal Effect: ABF revenues (State property tax revenues) are delayed and/or reduced, beginning in fiscal 2026, to a similar, though more limited, extent as local government revenues (discussed in more detail under the Local Fiscal Effect). A portion of revenues collected in a tax sale can consist of State property taxes. The portion of an unpaid property tax lien that consists of unpaid State property taxes, however, is much less than the portion that consists of local property taxes and other local fees and charges, including water and sewer charges. For example, the State property tax rate is $0.112 per $100 of assessable property, while county property tax rates range from $0.791 to $2.2480 per $100 of assessable property.

For illustrative purposes, under one set of assumptions, ABF revenues decrease by up to $92,000 annually, beginning in fiscal 2026. This illustrative estimate assumes that:

- on average, the portion of a tax lien sold at a tax sale that consists of State property tax is not more than 7.5% of the tax lien, given the difference between the State property tax rate and local property tax rates and the potential for tax liens to also include local fees and charges;
- any significant reduction (as opposed to a delay) in State property tax revenues resulting from the bill occurs as a result of the bill's limit on the redemption rate for

owner-occupied residential property (see discussion below under the Local Fiscal Effect);

- any reduction in tax liens sold at tax sales in the State due to the bill's limit on the redemption rate for owner-occupied residential property does not reduce the total amount collected from tax sales of owner-occupied residential properties in the State by more than 10%; and
- the total amount collected from tax sales of owner-occupied residential properties in the State in future years is similar to the amount collected in 2023 ($12.3 million).

Debt service payments on the State's general obligation bonds are paid from the ABF. Revenue sources for the fund include State property taxes; premium from bond sales; and repayments from certain State agencies, subdivisions, and private organizations.

This analysis assumes that any assistance requested of SDAT under the bill's requirement that Baltimore City or a county establish a registry of properties to be withheld from tax sale, and that SDAT provide assistance in creating and maintaining a registry on request, is limited to guidance and information that can be provided by SDAT with existing resources.

Local Fiscal Effect:

Delayed and/or Reduced Revenues

Local government revenues are delayed and/or reduced, beginning in fiscal 2026, as a result of several of the bill's provisions, including (1) establishing, statewide, a threshold amount of unpaid taxes owed that must be reached before an owner-occupied residential property may be sold at a tax sale ($1,000) and (2) limitation of the redemption rate for owner-occupied residential property to 10%.

Statewide Threshold Amount

Exhibit 1 shows a summary of certain data on 2023 tax sales from the State Tax Sale Ombudsman's 2024 annual tax sale report, including the amount of revenue collected by counties from the 2023 tax sales ("aggregate lien amount" for "total liens sold," $50.4 million) as well as the revenue generated from owner-occupied liens sold ($12.3 million), a subset of total liens sold. The establishment of a statewide threshold amount of unpaid taxes owed that must be reached before an owner-occupied residential property may be sold at a tax sale likely delays and/or reduces some relatively small fraction of these revenues, though the relatively small fraction may nonetheless be a significant dollar amount. In addition, statute requires a tax collector to advertise a tax sale for three to four weeks, prior to the sale, and the difference between the number of owner-occupied liens advertised, shown in Exhibit 1, and the number offered for sale indicates that an approaching sale may also result in a considerable amount of revenue being collected (whether through full or partial payments) before the sale occurs.

Counties' existing threshold amounts for residential property range from $0 to $750 (see page 9 of the ombudsman's annual report, linked above, for information on the thresholds in each county).

Exhibit 1
2023 Tax Sales

Category	Number of Liens	Aggregate Lien Amount	Average Lien Amount
Total Liens Sold	12,829	$50,358,249	$3,925
Owner-occupied Liens Advertised*	11,844	33,866,195	2,859
Owner-occupied Liens Offered for Sale*	3,428	14,238,050	4,153
Owner-occupied Liens Sold	3,395	12,269,842	3,614

* Excludes Washington County lien data, that was not provided or was incomplete.

Source: State Tax Sale Ombudsman, *Annual State Tax Sale Ombudsman Report* (2024); Department of Legislative Services

Redemption Rate Limit for Owner-occupied Residential Properties

The bill's 10% limit on redemption rates for owner-occupied residential properties may also delay or reduce revenues collected from tax sales to the extent (1) the 10% limit on the redemption rate for owner-occupied residential property (the annual interest rate that tax lien purchasers are paid if the property is redeemed) is lower than the redemption rate a county otherwise sets in the absence of the bill and (2) the resulting lower rate reduces the incentive for private purchasers to purchase tax liens, causing fewer tax liens to be sold. The State Tax Sale Ombudsman's annual report indicates that one of the main factors counties use to determine their redemption rate is whether they can attract bidders to their tax sales. As shown in the report (pages 7-8), the current redemption rates range from 6% to 20%; however, those rates may not reflect the rates applicable to owner-occupied residential properties in counties that have different rates for owner-occupied properties and nonowner-occupied properties.

For illustrative purposes, under similar assumptions as described above for the illustrative estimate under the State Fiscal Effect (including that, on average, the portion of a tax lien sold at a tax sale that consists of local property taxes and fees and charges is at least 92.5%

of the tax lien), local government revenues decrease by as much as $1.1 million annually, beginning in fiscal 2026, as a result of the bill's limit on redemption rates for owner-occupied residential property.

Expenditures

Local government expenditures may increase in at least some jurisdictions, due to programming and/or personnel costs to implement the bill's requirements, including (1) the statewide limitation on the sale of certain owner-occupied residential properties at a tax sale (with costs incurred in order to differentiate between owner-occupied and non-owner-occupied residential properties in the tax sale process, in jurisdictions that do not currently do so) and (2) the requirement that Baltimore City or a county establish a registry for interested parties or the State Tax Sale Ombudsman to designate a property to be withheld from tax sale. The extent of any potential costs, however, has not been quantified.

Small Business Effect: Small businesses that generate revenue from tax sales in the State may be meaningfully affected to the extent the bill's changes affect the number of liens offered for sale at tax sales in the State and/or the amount of revenue that those businesses can generate from liens they purchase at the sales.

Additional Comments: Descriptions of the tax sale process and related subjects are included on the Office of the State Tax Sale Ombudsman web page on SDAT's website, along with the office's most recent annual report (referenced above), which contains data on tax sales in the State.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See HB 243 of 2024.

Designated Cross File: SB 192 (Chair, Budget and Taxation Committee)(By Request - Departmental - Housing and Community Development) - Budget and Taxation.

Information Source(s): Howard and Prince George's counties; Baltimore City; cities of Frederick and Havre de Grace; Maryland Municipal League; Judiciary (Administrative Office of the Courts); Department of Housing and Community Development; State Department of Assessments and Taxation; Department of Legislative Services

Fiscal Note History: First Reader - January 23, 2025
rh/sdk Third Reader - March 25, 2025
Revised - Amendment(s) - March 25, 2025
Enrolled - May 5, 2025
Revised - Amendment(s) - May 5, 2025

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Property Tax - Tax Sales - Revisions

BILL NUMBER: HB 59

PREPARED BY: Chuck Cook

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

_X_ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

___ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS