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Testimony of Delegate Samuel I. Rosenberg
Before the House Ways and Means Committee
In support of House Bill 509

Baltimore City – Tax Sales – Nonprofit Entity-Owned Real Property

Madam Chair and Members of the Committee:

Like all Maryland counties, Baltimore City is mandated by the State to sell liens on past due tax debt to investors at an annual¹ auction. Past due water and sewer bills can also be converted to liens and sold at the auction. If these liens are purchased, they compensate the City's – and, in turn, the State's – coffers for the taxes or bills that were not paid by the property owner. The investors that purchase the liens charge fees and interest (12% APR in Baltimore City) on the lien amount until the property owner pays the investor back.

This system leaves property owners who were already unable to pay their taxes with an even larger burden. The City and State are paid back what the property owner owed in taxes, but the high interest rates and fees that third party investors charge do not benefit the City or the State.

In addition to charging interest and fees, the investors who purchase these liens can foreclose on and eventually take ownership of these properties. Since the interest and fees are often more lucrative and require less work than foreclosing on and reselling the property, investors usually purchase the debt that is most likely to be paid back.

Put another way, tax lien investors tend to purchase liens on owner-occupied properties, because people are willing to pay almost anything when they fear losing their home. The City is forced to hold the tax debt on the other – often vacant and abandoned – properties and provide services to these properties without tax revenue.

The current system is flawed in many ways. Baltimore's poorest and most vulnerable populations face off against highly sophisticated attorneys and investors in battles over their homes and life savings. Many pay fees and interest that far exceed what they owed in taxes to

¹ Wicomico County holds an auction every other year.

third party investors. Some lose homes to foreclosure over small tax debts, even though they have paid off their mortgage. Neither Baltimore City nor the State recoup any of this extra money, but the City is left to hold onto the “bad debt” that is unlikely to be repaid. The only beneficiaries of the Tax Sale system are those that invest in tax debt.

In the past, the General Assembly has put guardrails on this predatory process, some specifically geared towards Baltimore City. One such guardrail precludes the City from selling liens on tax debt on owner-occupied property if the debt is less than \$750.

Another guardrail under current law mandates that Baltimore City withhold property owned by certain nonprofit organizations from the tax sale when they owe water and sewer charges.

Currently, property owned by religious nonprofits that are used as a place of worship, convent, or parsonage as defined under §7-204(1) or (2) are withheld from the tax sale if they owe back water and sewer charges. HB 509 seeks to expand which nonprofits are exempted from auction over unpaid sewer and water charges. The bill would exempt property owned by nonprofits collecting less than \$750,000 in annual donations that have a charitable or educational purpose as defined in §7-202 from auction over water and sewer charges.

This tweak to the language is just that, a tweak. This is not a major overhaul of the tax sale process, but this change will protect charitable and educational nonprofits from paying exorbitant fees to investors to keep the property that they need to fulfill their missions. Miscommunications within organizations or between nonprofits and the City can lead to water and sewer bills not being paid, or balances being left open. This should not throw the important work of these organizations into disarray.

HB 509 is prompted by the near sale of the Forest Park Senior Center because of an unpaid debt on its water bill. Other non-profits should be spared the trauma that the Senior Center’s leaders and members faced.

These nonprofits need to leverage what resources and donations they have towards the important work that they do for the community. HB 509 does not forgive the debt that these organizations owe to the City, but would prevent their property from being foreclosed on, and remove the threat of this potential foreclosure.

I strongly urge your favorable report on HB 509.

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