Written Testimony HB 867 - SB 766 - Baltimore City

Uploaded by: Allison Harris
Position: FAV

Maryland PRO BONO RESOURCE CENTER
In partnership with MSBA

HB 867/SB 766
BALTIMORE CITY TAX SALE – COLLECTION OF UNPAID PROPERTY TAXES
HEARING BEFORE THE HOUSE WAYS AND MEANS COMMITTEE
MARCH 28, 2023
POSITION: SUPPORT WITHOUT AMENDMENTS

The Pro Bono Resource Center of Maryland ("PBRC"), an independent 501(c)(3) non-profit organization, is the statewide thought leader and clearinghouse for volunteer civil legal services in Maryland. As the designated pro bono arm of the Maryland State Bar Association, PBRC provides training, mentorship, and pro bono service opportunities to members of the private bar. **PBRC supports HB 867/SB 766 without any amendments because it would allow the City of Baltimore to make its own determinations about how and when to conduct tax sale auctions, thereby potentially preserving homeownership for hundreds of families while addressing other local concerns, including the issues of vacancy and blight that are particular to Baltimore.**

Baltimore City, where we primarily operate our tax sale work, has a particularly high number of residents facing tax sale: the City mailed Final Bills and Legal Notices in February 2023 to nearly 7,700 owner-occupied homes. The City government has recognized that there is a better way to address these delinquencies than through the current tax sale system: allowing payment plans will enable more residents to pay what they owe, interest and expenses can contribute to the City's revenue instead of going in the pockets of third-party investors, and residents will have the extra time they need to pay down their tax debt. The Mayor of Baltimore is committed to helping residents who are at risk of tax sale, committed to reducing the inequities, to ending predatory third-party involvement, and committed to addressing the problem of vacancy. But, as the State tax sale law currently stands, he is hampered in his ability to reform the tax sale auction process to better suit the needs of this City.

The proposed amendment to SB 766 would be detrimental to the intended effects of this legislation. The amendment was proposed by the small group of tax sale purchasers, who are far more concerned about their own revenues than they are about the housing needs of the residents in Baltimore City. The proponents of the amendment argue this bill would aggravate the vacancy problem, which is incorrect. Most vacant and abandoned properties are not purchased by tax sale purchasers. Each year less than 10% of the liens offered at tax sale are purchased – as the liens often exceed the value of the property. Further, two bills have passed to address vacant and abandoned properties in Baltimore that the City will implement immediately. Further, the revenue from non-owner occupied properties is needed to support the proposed reformed system to keep homeowners in their homes. The numbers show our new system will pay for itself with the interest accumulated from all of the redeemed properties. If the bill is limited to only owner-occupied properties, the interest generated will be reduced to an amount insufficient to offset the cost of outreach efforts and implementation of payment plans. Keeping the homeowners in their homes is a higher priority than ensuring the small number of tax sale purchasers keep their revenues earned from engaging in this predatory system.

Of particular concern for PBRC's clients is that the proposed amendment would also eliminate protections for heirs who live in their deceased parents' homes. This is a common issue among our clients primarily in Black and Brown communities. Because the properties are owned by heirs who are not listed on the deed, SDAT has in many cases changed the occupancy status to non-owner occupied. The proposed amendment would remove protections for this important group of legacy homeowners.

PBRC supports HB 867/SB 766 without amendments, which will permit Baltimore to best determine how and when to conduct tax sales according to its own needs, allowing for alternative options that may preserve homeownership for City residents, address the critical issue of vacancy, and allow the City to more effectively collect property tax revenues. Thank you for the opportunity to testify.

For the above reasons,

PBRC urges a FAVORABLE VOTE WITHOUT AMENDMENTS ON HB 867/SB 766.

Please contact Allison Harris, Director of PBRC's Home Preservation Project, with any questions.
aharris@probonomd.org • 443-703-3050

CDN SB766 FAVORABLE.pdf
Uploaded by: Claudia Wilson Randall
Position: FAV

COMMUNITY DEVELOPMENT
NETWORK OF MARYLAND

Testimony SB 766
Environment and Transportation Committee
March 28, 2023
Position: FAVORABLE

Dear Chairperson Atterbeary and Ways and Means Committee Members:

The Community Development Network of Maryland (CDN) is the voice for Maryland's community development sector and serves nearly 200 member organizations. CDN—focuses on small affordable housing developers, housing counseling agencies and community-based non-profits across the state of Maryland. The mission of CDN is to promote, strengthen and advocate for the community development sector throughout Maryland's urban, suburban and rural communities.

CDN has been part of the ongoing work to reform the process of tax sale in the state since 2016. In 2017, CDN was a lead partner in the Task Force to Study Tax Sales in Maryland. CDN currently serves on the Baltimore City Mayor's Tax Sale Workgroup in Baltimore City.

SB 766 – Authorizes he Mayor and City Council of Baltimore City to establish an installment payment program for taxes in arrears on residential property; authorizing the Mayor of Baltimore City to cancel the annual tax sale; authorizing the Mayor and City Council of Baltimore City to establish a program to divert residential property from the private tax lien sale process into an alternative program for the payment of taxes in arrears; etc.

Most of the people in the state impacted by tax sale are older, single, African American women living at or below the poverty line in Baltimore city. In 2021, the average amount owed was just under $3000. Though most of the homeowners were eligible for the Homeowner's Tax Credit Program, few had applied or were aware of the program. For these vulnerable homeowners, the tax sale has stripped away generational wealth and housing stability.

Over the years, Maryland has enacted more consumer-friendly policy to prevent the poorest homeowners from losing their homes. These improvements include higher thresholds for tax sale, removal of water bills, and the appointment of a public ombudsman to help owner occupants keep their homes. This problem also contributes to vacancy in Baltimore City.

Payment plans for households behind on taxes would allow more vulnerable older adultsto stay in their homes and in their communities.

We urge your favorable report for SB 766.

Submitted by Claudia Wilson Randall, Executive Director, Community Development Network

SB0766 Crossover.docx.pdf
Uploaded by: Director Michael Higgs
Position: FAV

WES MOORE
Governor

ARUNA MILLER
Lt. Governor

Maryland
DEPARTMENT OF ASSESSMENTS AND TAXATION

MICHAEL HIGGS
Director

MARCUS ALZONA
Deputy Director

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HEARING DATE: March 28, 2023

BILL: SB0766

TITLE: Baltimore City - Collection of Unpaid Property Taxes

SDAT POSITION: SUPPORT

The State Department of Assessments and Taxation (SDAT) supports Baltimore City's strategy to provide more tools to residential property owners that are in arrears on their taxes.

This bill would establish a program to divert residential property from the private tax lien sale process into an alternative program for the payment of taxes in arrears.

For these reasons, SDAT urges a favorable vote on SB0766.

SB766_HB867 21 - Testimony .pdf
Uploaded by: John Kern
Position: FAV

Testimony
March 24, 2023

SB766/HB867 Baltimore City – Collection of Unpaid Property Taxes

Support <u>without</u> amendments

The SOS Fund, an independent 501(c)(3) non-profit organization, addresses the systemic housing instability experienced by historically red-lined communities in Baltimore City. This instability has resulted in generations of residents losing their homes, thus denying them the wealth-building capacity of homeownership. **The SOS Fund supports HB867/SB766 <u>without</u> amendments.**

The proposed amendment would be highly damaging to the intent and integrity of these bills for two reasons:

First, it is impossible to accurately delineate “owner occupied” properties. As we know, the city struggles with an enormous amount of misclassified properties. In addition, there are thousands of “tangled title” and heirs properties that would be excluded from the protections offered by the bill if the amendment is included.

Second, the city should oversee and conduct its own tax collection system. Financially, this makes sense as currently, 80% of properties with certificates purchased in tax sale are not owner occupied. This is about $12 million annually. Assuming 80% of these properties enter 2-year payment plans this will result in about $2 million in interest annually. This revenue will offset costs associated with implementing the payment plans and conducting the outreach. If the bill is limited to only owner occupied properties, the interest generated will be reduced to about $400,000. This would not offset the cost of outreach efforts and implementation of payment plans. Outreach is a key component of housing stability and revenue generation in the future.

For the above reasons,

The SOS Fund urges a FAVORABLE report <u>without</u> amendments on HB SB766/HB867

Please contact John Kern, Director of Programs, with any questions. john@thesosfund.com

• 410.303.3738

SB0766-WM-FAV.pdf
Uploaded by: Nina Themelis
Position: FAV

BRANDON M. SCOTT
MAYOR

Office of Government Relations
88 State Circle
Annapolis, Maryland 21401

SB 766

March 28, 2023

TO: Members of the Ways and Means Committee

FROM: Nina Themelis, Interim Director of Mayor's Office of Government Relations

RE: Senate Bill 766 – Baltimore City - Collection of Unpaid Property Taxes

POSITION: Support

Chair Atterbeary, Vice Chair Wilkins, and Members of the Committee, please be advised that the Baltimore City Administration (BCA) **supports** Senate Bill (SB) 766.

SB 766 would allow Baltimore City to create our own tax and lien collection system, and not have to use the traditional tax sale system. This Bill is essential for keeping our most vulnerable homeowners residing in, and owning, their homes. Homeowners receiving Final Bill and Legal Notices (FBLNs) have very little time to react and settle to avoid tax sale; this bill would potentially take owner-occupied properties out of tax sale and give owners additional time to pay bills in arrears with payment plans. Currently, payment plans are offered for future bills only.

The Bill also creates a new section – 14-894 for In Rem foreclosure on "residential property", that would not likely interfere with the current In Rem foreclosure process on vacant lots and buildings, in sections 14-873 – 14-877. This bill creates extensive notice requirements for In Rem foreclosure on "residential property" - including documented offers of assistance to the owners at least 3 years prior to foreclosure, and at least 10 documented attempts to contact the property owner.

The passage of SB 766 would provide for a more effective remedy to assist homeowners in avoiding tax sale and understanding and navigating the tax sale process. SB766 was amended to remove the option for the Mayor of Baltimore City to cancel the tax sale altogether and also restricts the types of properties that can be diverted into the payment plan program to being only those that are owned occupied. The BCA supports SB 766 as originally written, however, would still be able to provide long-term solutions for property owners who are at risk of losing their homes through tax sale with the legislation as amended.

For these reasons, the BCA respectfully request a **favorable** report on SB 766.

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Baltimore – phone: 410.396.3497 • fax: 410.396.5136
https://mogr.baltimorecity.gov/

FBBB- Testimoney on SB766.pdf
Uploaded by: Nneka Nnamdi
Position: FAV

FIGHT BLIGHT BMORE℠

HB 867/SB 766 - Baltimore City - Collection of Unpaid Property Taxes
Position: Support without amendments

Fight Blight Bmore's (FBB's) mission is to remediate blight through community projects and programs that are envisioned, directed and owned by the community. An economic, environmental and social justice organization, FBB believes that blight's presence - vacant, abandoned, dilapidated, underutilized and misutilized properties - has arisen from impacts of systemic racism, including disinvestment and depopulation, thus significantly decreasing taxable properties in historically Black neighborhoods across the city. Tax sale has been a major driver of blight in Baltimore particularly in Black neighborhoods. **We support this bill without amendments because it will allow the city to begin to redress the harms caused to homeowners and communities by third party collection of municipal debt via the tax sale.**

What the Bill Does:

- Gives Baltimore City the Authority to create our own tax collection system which would include working with residents in arrears by canceling the tax sale, providing payment plans and connecting residents to additional services.
- Uses In Rem foreclosure ONLY when the resident does not pay after extensive outreach (3 years, vs 6 months in regular tax sale). No additional fees are placed on the residents and support is provided. This is not something we want to do and is again a very last resort.

A Major Problem with the Amendment:

The proposed amendment would eliminate protections for heir's properties. Many properties in tax sale have listed owners who are the deceased relatives of the occupants. This is an especially prevalent issue in Black communities. Because the heirs often think the properties automatically become theirs at the death of their loved one or due to lack of awareness of estate administration or as a result of sheer grief many properties do not go through probate. As such the state doesn't consider them to be owner occupied. The proposed amendment would remove protections for heirs living in their family homes. Many of whom already have been subject to a litany of other racist housing, community and economic development policies in their lifetimes like the exsisting tax sale.

SB766 HB867 Letter from Councilwoman Ramos Ways an

Uploaded by: Odette Ramos

Position: FAV

Odette Ramos
Baltimore City Councilwoman
District 14
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100 N. Holliday Street, Room 506
Baltimore MD 21202

March 28, 2023

Testimony

SB766/HB867 Baltimore City – Collection of Unpaid Property Taxes

Support <u>without</u> amendments

Dear Honorable Chair Atterbeary and Distinguished Members of the House Ways and Means Committee:

Thank you for all you do for our City. I am so grateful for your partnership.

I am writing regarding SB766/SB867 Baltimore City- Collection of Unpaid Property Taxes. **I am asking for your support of this bill without any amendments.**

As you know, I have been working on tax sale reform for more than 10 years in my previous role as the Executive Director of the Community Development Network of Maryland and now as the Baltimore City Councilwoman for the 14th District. In those roles, I've worked with you and advocates from around the City and state to reform tax sale - making sure no one loses their homes because they cannot pay taxes. Together, we have made incremental changes over the years.

SB766/HB867 allows Baltimore City to create our own tax sale system and not have to use third party collectors to collect taxes. This bill allows the Mayor to cancel the tax sale at any time, and allows for us to provide payment plans for residents whose tax bills are in arrears. This is for residential property. This bill comes from the Tax Sale Working group that Mayor Scott created shortly after taking office**. It is the first time we have had true leadership in the Mayor's Office, in the City Council, and in the General Assembly to create complete and total reform of this predatory tax sale system.**

The Tax Sale Working Group will continue once this bill is passed to create the new system – which could take months and needs City Council action. The work includes building the capacity of Finance Department or a proposed Tax Sale Services office to reach out to homeowners in arrears and work with them to create payment plans. This office will also work with residents to take advantage of the other tax sale prevention tools that Baltimore has – including the Homeowner's Property Tax Credit, the Homeowner's Assistance Fund, the Tax Sale Exemption program, and more. The Homeowner's Property Tax Credit is the best tool we have to help residents significantly reduce tax debt and continue to do so.

In addition, the very last resort is for the City to foreclose using In Rem. We DO NOT anticipate using this at all, because the work of the Tax Sale Services office or Finance will be such that each homeowner in arrears will have the opportunity for payment plans or take advantage of programs to help them. Foreclosure is only as a last resort, and can only happen after 10 attempts and three years of outreach. Right now the tax sale purchasers foreclose after 6 months in arrears.

<u>So, the amendment that was placed on the Senate version is not needed. I am asking you to strike this amendment and pass a clean bill</u>. The amendment was provided by the tax sale purchasers to save their industry – an industry that has taken advantage of our elders for far too long. Baltimore City

Administration even opposes the amendment. The amendment limits this bill to just homeowners. The impact of the amendment will defeat the purpose of even having this bill. Here's why:

- The proponents of the amendment argue this bill would cause vacant and abandoned properties to just sit, without anyone bidding on them if there is no sale. **This is incorrect**. Most vacant and abandoned properties are not purchased by tax sale purchasers. Each year less than 10% of liens offered at tax sale are purchased – as the liens often exceed the value of the property. Also, when there are bids on these properties, the purchaser often does not end up foreclosing, resulting in additional court action needed to address title issues and an INCREASE in vacant properties. Thanks to you, two bills have passed to address vacant and abandoned properties in Baltimore that we will implement immediately.
- There was a worry that the City can't afford the loss of $18 to $20 million in revenue from the tax sale. This revenue is offset by the services needed to support these homeowners, and more importantly, if the home remains vacant – the city incurs significant maintenance costs. **It is worth it to our city to ensure residence can stay in their homes.**
- While some say we can't afford a new system, **the numbers show our new system will pay for itself.** The costs of this system are offset by the revenue generated by the city for the 12% interest rate. Currently, 80% of properties with certificates purchased in tax sale are not owner occupied. This is about $12 million annually. Assuming 80% of these properties enter 2-year payment plans this will result in about $2 million in interest annually. This revenue will offset costs associated with implementing the payment plans and conducting the outreach. If the bill is limited to only owner-occupied properties, the interest generated will be reduced to about $400,000. This would not offset the cost of outreach efforts and implementation of payment plans.
- The proposed amendment would also **eliminate protections for heirs properties**. Many properties are owned by deceased relatives of the residents. This is an especially prevalent issue among our Black and Brown communities. Because the properties are owned by heirs who are not listed on the deed, they are not considered to be owner-occupied. Sometimes the notation on SDAT still says the deceased's name and that it is owner-occupied but most times, it does not. The proposed amendment would remove protections for this important group of stakeholders.

I am asking your support in passing this bill clean, as originally drafted.

I am available for any questions. I can be reached on 443-801-8137 and odette.ramos@baltimorecity.gov. I will be contacting your offices for appointments, or will catch you in the hallways. Thanks as always for all you do for our city. I am grateful for the partnership.

Respectfully Submitted:

Odette Ramos
Baltimore City Councilwoman, District 14

Testimony of Robin L. Jacobs-1.pdf
Uploaded by: Robin Jacobs
Position: FAV

Robin L. Jacobs

418 Fawcett Street Baltimore, MD 21211
(410) 837-8467 robinjacobs@gmail.com

Good afternoon,

I am writing in support of HB 867/SB 766 without any amendments because it would allow the City of Baltimore to make its own determinations about how and when to conduct tax sale auctions, thereby potentially preserving homeownership for hundreds of families while addressing other local concerns, including the issues of vacancy and blight that are particular to Baltimore.

I have worked on reforming the tax sale system for many years, on the vacant property side of the equation at Community Law Center and on the homeowner side of the equation at Maryland Legal Aid and now as a volunteer with Pro Bono Resource Center and advising the SOS Fund.

Baltimore City has a particularly high number of residents facing tax sale: the City mailed Final Bills and Legal Notices in February 2023 to nearly 7,700 owner-occupied homes. The City government has recognized that there is a better way to address these delinquencies than through the current tax sale system: allowing payment plans will enable more residents to pay what they owe, interest and expenses can contribute to the City's revenue instead of going in the pockets of third-party investors, and residents will have the extra time they need to pay down their tax debt. The Mayor of Baltimore is committed to helping residents who are at risk of tax sale, committed to reducing the inequities, to ending predatory third-party involvement, and committed to addressing the problem of vacancy. But, as the State tax sale law currently stands, he is hampered in his ability to reform the tax sale auction process to better suit the needs of this City.

The proposed amendment to SB 766 would be detrimental to the intended effects of this legislation. The amendment was proposed by the small group of tax sale purchasers, who are far more concerned about their own revenues than they are about the housing needs of the residents in Baltimore City. The proponents of the amendment argue this bill would aggravate the vacancy problem, which is incorrect. Most vacant and abandoned properties are not purchased by tax sale purchasers. Each year less than 10% of the liens offered at tax sale are purchased – as the liens often exceed the value of the property. Further, two bills have passed to address vacant and abandoned properties in Baltimore that the City will implement immediately. The revenue from non-owner occupied properties is needed to support the proposed reformed system to keep homeowners in their homes. The numbers show our new system will pay for itself with the interest accumulated from all of the redeemed properties. If the bill is limited to only owner-occupied properties, the interest generated will be reduced to an amount insufficient to offset the cost of outreach efforts and implementation of payment plans. Keeping the homeowners in their homes is a higher priority than ensuring the small number of tax sale purchasers keep their revenues earned from engaging in this predatory system.

Of particular concern for Baltimore City is that the proposed amendment would also eliminate protections for heirs who live in their deceased parents' homes. This is a common issue among Black and Brown communities. Because the properties are owned by heirs who are not listed on the deed, SDAT has in many cases changed the occupancy status to non-owner occupied. The proposed amendment would remove protections for this important group of legacy homeowners.

I support HB 867/SB 766 <u>without amendments</u>, which will permit Baltimore to best determine how and when to conduct tax sales according to its own needs, allowing for alternative options that may preserve homeownership for City residents, address the critical issue of vacancy, and allow the City to more effectively collect property tax revenues. Thank you for the opportunity to testify.

For the above reasons,

I urge a FAVORABLE VOTE <u>WITHOUT AMENDMENTS</u> ON HB 867/SB 766.

Thank you for your consideration.

Sincerely,

Robin L. Jacobs

sb766 hb867 no amendments.pdf
Uploaded by: Timothy Chance
Position: FAV

JUSTICE FOR ALL

MARYLAND HOUSE WAYS AND MEANS COMMITTEE
TESTIMONY OF MARYLAND VOLUNTEER LAWYERS SERVICE
HB 0867: BALTIMORE CITY - COLLECTION OF UNPAID PROPERTY TAXES
POSITION: SUPPORT WITHOUT AMENDMENTS
TUESDAY, MARCH 28, 2023

Chair Atterbeary and distinguished members of the Committee, thank you for the opportunity to testify in support of SB766/HB867 without amendments.

My name is Timothy Chance, and I am the Tangled Title Attorney at the Maryland Volunteer Lawyers Service (MVLS). MVLS is the oldest and largest provider of pro bono civil legal services to low-income Marylanders. MVLS was founded in 1981 by a group of concerned Maryland lawyers, legal services providers and leadership of the Maryland State Bar Association. Since then, our statewide panel of over 1,700 volunteers has provided free legal services to over 100,000 Marylanders in a wide range of civil legal matters. In FY22, MVLS volunteers and staff lawyers provided legal services to 3,458 people across the state. As part of our tax sale foreclosure work, we see hundreds of clients at risk of losing their housing due to unpaid property taxes. For the reasons explained below, we respectfully request your support of SB766/HB867 without any amendments.

MVLS represents clients who face losing their homes due to unpaid property taxes or citations. Unpaid property taxes often affect the poorest homeowners in the most distressed neighborhoods and the resulting tax sales contribute to vacant and abandoned properties all over the state. Tax sale has a disproportionate effect on Black homeowners and communities of color. In 2013, MVLS and other nonprofit organizations came together to form the Tax Sale Workgroup. Our goal was to protect communities and homeowners, especially people with lower incomes and the elderly, who face the most devastating effects of the tax sale process. Since 2014, MVLS has maintained a partnership with the Pro Bono Resource Center of Maryland to conduct annual tax sale clinics aimed at helping homeowners avoid tax sale. In the past four years, volunteers have assisted over 350 people at these workshops.

From the data we collected at our 2020 tax sale clinics, 72% of clients are seniors, 48% were disabled, 85% identified as Black, and 72% reported a household income of $30,000 or less per year. Many of these clients survive on fixed incomes and struggle to pay their bills even before a tax sale happens. We also found that most homeowners live in multigenerational households where they provide shelter and support for their children and grandchildren. The property tax system has long had the inequitable outcome of stripping wealth from Black families and communities. For these families, the predominant form of accumulated wealth that they have, and that they can pass on to their families, is the equity in their homes. The loss of these homes further exacerbates the existing wealth gap.

The proposed amendment would eliminate protections for properties with tangled titles. Many properties are owned by deceased relatives of the residents. This is an especially prevalent issue among our Black and Brown communities. Because the properties are owned by heirs who are not listed on the deed, they are not considered to be owner-occupied. Without access to many critical housing stabilization resources, many of these folks face an increased likelihood of losing their homes in tax sale foreclosure. Below is an example that MVLS has seen of how a tangled title almost led to the loss of the family home in tax sale.

Evelyn lives in Baltimore City and is currently in the process of probating her grandmother's estate so that she and her family can move back into the family home. Evelyn has been in the process of estate administration for several years now mainly due to several years of outstanding property taxes, water bills, and environmental citations. In 2022, the property went into tax sale and Evelyn had to pay $3,335 to redeem the property so that she could proceed with recording the deed, and this created an added burden on top of her usual living expenses. Her annual income is $36,000 so that additional cost was almost insurmountable. The deed is now being recorded but there was the very real chance that the home would be lost to the family.

Evelyn's story is just one of many. Homeowners who owe at least $750 in property taxes or citations, or a combination of both, are at risk of losing their home to tax sale. Unfortunately, by the time someone comes to MVLS at risk of tax sale, it is often very difficult to come up with the lump sum they would need to keep their property out of tax sale or redeem it. This is even more difficult for folks with tangled titles. Our clients are typically older adults on a fixed income and coming up with hundreds or thousands of dollars all at once is nearly impossible.

MVLS has been fighting to even the playing field for low-income Marylanders for decades, and we know that poor Marylanders are most often forced to face tax sale without an advocate. This imbalance of power makes it more likely that our clients will continue to struggle to get out of tax sale. We support SB766/HB867, as originally drafted, which would allow Baltimore City to divert residential properties from the tax sale into a program that would conduct outreach and connect homeowners, including those with tangled titles, with resources to allow them to both pay their tax bill over time and avoid loss of their home.

Madam Chair and members of the Committee, thank you again for the opportunity to testify.

SB766 Occupied Property Tax Sale System House Cros
Uploaded by: Dan Ellis
Position: FWA

March 24, 2023

Delegate Vanessa E. Atterbeary, Chair
Ways and Means Committee
House Office Building Room 131
Annapolis, Maryland 21401

RE: Senate Bill 766

Honorable Chair Atterbeary and Members of the Committee:

I am the Executive Director of Neighborhood Housing Services of Baltimore (NHS), and a resident of Baltimore City. Our organization believes that economic and social justice are a right for all residents and communities. We promote this belief by removing barriers of access to homeownership, helping resident access resources to maintain their homes, and supporting communities historically impacted by systemic disinvestment.

In October 2021, Mayor Scott appointed me co-chair with the Deputy City Administrator of a work group charged with creating an equitable tax collection system that would serve the needs of residents of Baltimore City. The work group, made up of advocates and tax sale stakeholders familiar with the current tax sale system, recognized the need to develop an entirely new system rather than adjust the current system. This is because the existing system has functioned to strip wealth from low-income city residents while contributing significantly to the vacant property challenges encountered in the city by creating confusion about property ownership and responsibility. The work group also recognized that for occupied properties we need a system that treats residents with dignity and provides affordable and accessible ways to make payments. For vacant properties we need an efficient way for the city to be able to obtain title to a property. The work group established two sub-groups that met to identify solutions and make recommendations. SB766 is the result of the work done by the group addressing occupied properties which met 5 times between March and June 2022. All meetings were open with participation from diverse stakeholders.

SB766 allows Baltimore City to create the tax collection system designed by the work group. This system is based on the belief that the most common barrier for people paying taxes and fees on their property is that they don't have the resources needed to pay the bills. Currently, many payments are required to be made in full, creating a significant barrier for many residents who want to pay their bills. SB766 provides approval for Baltimore City to offer payment plans to residents at any point in the process. This authorization will allow the city to develop a comprehensive structure to administer payment plans. The new system is also based on proactive outreach to citizens who are behind on their taxes. This outreach is required before any home is sold for delinquent taxes. The bill also requires the debt to be at least 3 years behind.

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Another provision of SB766 is authorizing the Mayor of Baltimore to cancel the tax sale. This is important because the goal of the new system is to no longer use the existing system. Currently, Baltimore City is required to conduct an annual tax sale. There is significant cost to conducting the sale. Authorizing the Mayor to cancel the sale would result in cost savings that could be redirected to support outreach efforts.

HB867 which is the cross file of this bill passed this committee and out of the house without any amendments. In the Senate an amendment was adopted that limits the bill to only owner occupied properties. This is an amendment proposed by the tax sale purchasers. It is critical that the committee **REMOVE THE AMENDMENT** and pass the bill in the same form that it was previously passed by the committee. Opponents to this bill are those who profit from the system which was designed many years ago to strip wealth from low-income residents and redirect it to wealthier people. They collect profits from the interest and fees that accrue on the loans. A homeowner with $1,000 in debt sees their liability increase to over $3,000 within 12 months of the tax sale. The increase in amount is the profit of the tax sale purchaser. The system continues to work in the way it was designed so many years ago—stripping wealth from our most vulnerable residents. Those who benefit from the system are often white, while those adversely impacted are disproportionately black. Incremental changes have been made over the years, but the results have not significantly changed. Without comprehensive reform Baltimore will continue to see a cycle of properties through tax sale and wealth being removed from the community. A recent report by the Baltimore Banner found here found that in some majority Black areas over 40% of buildings have been included in the tax sale since 2016. Several have been included multiple times.

Some have also suggested that changing the tax sale system would cost the city millions of dollars annually. To be clear, this is not true. Last year the tax sale generated about $12 million for Baltimore City. This revenue is generated on the date of the sale. All interest and fees accrued after the tax sale occurs are retained by the tax sale purchasers. The city stops collecting any money. Also, in a typical year over $150 million in liens are offered at tax sale. Less than 10% are purchased. What the city is effectively doing is allowing debt purchasers to choose what liens they want to buy and then granting those purchasers all the future revenue associated with those liens. The purchasers are generally purchasing liens that they expect will repay the debt. In the new system payment plans will be offered to property owners with liens on their property. This will enable payments to be made that are affordable. Collections will occur over time and any interest generated will be retained by the city. This will result in a higher collection rate for not only the properties that would typically be purchased at tax sale but additional properties with owners willing to make incremental payments to retain the homes. The proactive outreach will promote a positive relationship between city government and citizens which leads to higher collection rates. In summary, the new system will result in additional revenue for the city which exceeds the amount of revenue spent to administer the system. In order to implement the new system SB766 needs to be passed WITHOUT Amendments. The amendment would significantly limit the design of the new system and the interest revenue needed to support the new system would not be available.

SB766 is critical legislation that will lead to greater equity for residents and neighborhoods of Baltimore City. We request a ***Favorable WITHOUT Amendments*** report on SB766.

Sincerely,

Daniel T. Ellis
Executive Director

SB 766 - Favorable As Amended.pdf
Uploaded by: Michael Eskinazi
Position: FWA

SB 766 - Favorable As Amended

Michael Eskinazi
Real Estate Professional
Phone: 443-832-3679
Email: meskinaz@gmail.com

My name is Mike Eskinazi. I am a tax sale investor, licensed real estate agent, and 8 year resident of Baltimore City.

I am favorable to this bill as amended.

The original version of the bill was far too broad. Rather than focusing on legacy city residents, as the mayor requested and which the amended bill achieves, it attempted an entire overhaul of Baltimore's tax sale system to disastrous effect.

In my view the original bill went way beyond the priorities issued by the mayor to the tax sale task force "The creation of an equitable and transparent tax sale process to particularly aid legacy city residents." It did so without study, or input from the relevant financial departments and it was written in a way that would cost the city tens of millions of dollars in investor property tax revenue.

Wholesale replacement of the city's efficient and effective tax lien system in the name of protecting Owner-Occupants made no sense. Owner-Occupied property made up only 20% of Tax sale historically, 5% of the tax sale in 2021 and none of the tax sale in 2022. The amended bill permanently removes Owner-Occupied property from the tax sale without destroying essential city tax revenue from Investor-owned Properties.

This allows the city to retain the benefit of its 98% property tax collection rate on investor-owned property under its current efficient and effective tax sale system. Tax Sale is the catalyst that gets delinquent investors to pay. DPW testified to the Tax Sale Task Force that water revenue dropped significantly when water bills were removed from tax sale. Investor property tax revenue would suffer a similar drop if Tax Sale were cancelled for all investor-owned properties.

<u>Put simply in its original form the bill amounted to a huge investor bailout that jeopardized funding for essential city services and programs that Baltimore residents, especially vulnerable and low income, rely on.</u>

The original bill **nonsensically extended owner-occupant protections to Non-Owner occupant investors (**landlords, rehabbers, property speculators, business owners), at the expense of essential property tax revenue. Giving investors who <u>DON'T NEED THE RELIEF</u> a 3 year reprieve on their property tax payments, would create a multi-year rolling property tax revenue shortfall of over 100 million dollars!

That would have recklessly and needlessly jeopardized the essential property tax-funded programs and services (education, safety, extra-curricular, infrastructure) that Baltimore residents depend on.

<u>The amended bill creating a new IN REM tax sale system for Owner-Occupied property only a win-win for everybody!</u> It protects vulnerable owner occupants from tax sale while simultaneously ensuring the city's ability to continue collecting essential tax revenue on Investor-owned properties through its very efficient current tax sale system.

SB 766 favorable with amendments.pdf
Uploaded by: Scott morse
Position: FWA

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SB 766 - FAVORABLE WITH AMENDMENTS ADDED TO REMOVE INVESTOR BAILOUT, LIMIT THE BILL TO OWNER OCCUPANTS, AND PROTECT VULNERABLE HOMEOWNERS

Dear Committee Members,

I am an attorney whose law practice focuses almost entirely on tax sales and am a member of the Maryland Tax Sale Participants Association (MTSPA). I have been doing tax sale work for over 20 years. I am one of the largest tax sale foreclosure filers in the State of Maryland. On behalf of myself, my clients, and the MTSPA, who buy the bulk of the tax liens in Baltimore City and provide the City with millions of dollars in funding each year, I would like to state strongly and unequivocally that we support SB 766 as Amended.

The Maryland Tax Sale Participants Association would like to thank Senator McCray and the other City Senate Delegation members for passing the sensible Amendments to this bill to remove the landlord bailout, correct other bill language to make the bill Constitutional, and permanently remove homeowner occupants from the existing tax sale process so that no resident homeowners will lose their home to a private tax sale investor.

This bill was generated from The Mayor's tax sale task force that was formed to study "The creation of an equitable and transparent tax sale process **to particularly aid legacy City residents**." The original proposed legislation in SB 766 / HB 867 went well beyond the pale of aiding legacy city residents - it bailed out investors who are 95% of the tax sale! The original bill would have destroyed City revenue, and the whole current tax sale process, under the false pretense of aiding legacy residents, who were less than 3% of the advertised liens sold to private investors in 2021, and who were removed from the tax sale completely by the Mayor in 2022! Permanently removing owner occupants from the tax sale under Senator McCray's Amendments will forever prevent any resident from losing their home, while also protecting vital city tax revenue from investors. The original version of the bill was an effort by the task force's members to improperly wage a personal vendetta against the current tax sale system.

We strongly urge the House Members to adopt Senator McCray's Amendments on SB 766 to remove the landlord bailout and limit the bill to owner-occupied properties. As originally written, the bill would have exposed City residents to great risk of losing critical funding for education and public safety through the loss of investor property tax revenue. The original bill would have caused a 3 year delay in investor property tax payments, created a $160 million rolling tax delinquency, and severely damage a $1B annual revenue source for the City.

The Amendments protect owner-occupants by removing them from tax sale altogether while also striking the landlord bailout and preserving vital tax revenue needed from real estate investors who are the vast majority of properties sold at tax sale. The Amendments would achieve the Mayor's goal of permanently protecting homeowners while avoiding risk to the City budget. Senator McCray's Amendments are sensible and well-reasoned, and are the perfect "win-win" solution by protecting homeowners while also preserving vital tax revenue.

This original bill goes directly against the recommendations of the 2017 State Tax Sale Task Force, which was created by your State Legislature to study the existing Maryland Tax Sale process and recommend any needed changes - **and a change to an In Rem system was not recommended**. People with an agenda against private sector investment already tried to pass this broad In Rem legislation in the original version of SB 766 in 2019 under HB 1209, and it was denied. The City Administration, Director of Finance, City Chief of Bureau of Revenue, MACO, etc, were ALL against a full In Rem system. A compromise was reached and In Rem was enacted to only apply to vacant and blighted properties where the liens exceeded the property value, not the entire tax sale. This is because there is no loss of revenue doing In Rem foreclosures on upside down properties where no one is ever going to pay the taxes. The issue of In Rem for the entire tax sale has been studied, examined, discussed, determined by many different sources not to be beneficial, and was therefore not enacted in 2019. Yet a very small group of people with their personal agenda against tax lien investors could not accept that their proposal was not good and denied, so they have tried again to get their way in 2023. No one is for a wholesale change to an In Rem process for the current tax sale system that almost entirely involves only investor properties, except for a few people who have a political agenda. Thankfully, reasonable minds have prevailed, as in 2019, and sensible analysis was done to SB 766. The resulting Amendments to limit the In Rem change to only homeowner occupants, and to remove the landlord bail out and preserve vital revenue from investor-owned properties are prudent and essential.

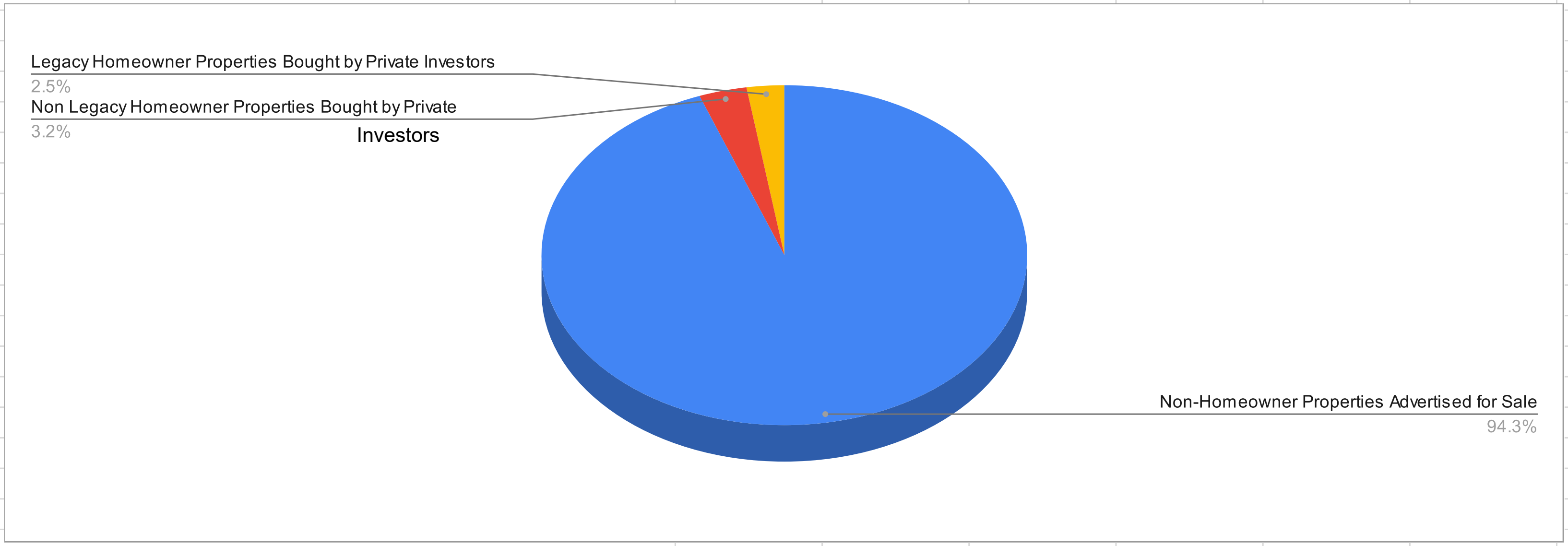
We urge your passing of SB 766 with Amendments.

Very truly yours,

J Scott Morse

J. Scott Morse, Esq

FY 2021 Total Properties Advertised for Tax Sale Auction	15622
FY 2021 Properties Sold to Private Investors - Non Legacy Owner Occupied	527
FY 2021 Properties Sold to Private Investors - Legacy Property Owner Occupied	414



Many, many new laws and reforms, meetings, work groups, task forces, etc, have been done that relate to only a very small portion of the properties in tax sale. Less than half of the 5% of the homeowner occupied properties that are sold to investors at tax sale are owned by legacy residents (living in the property for 25 +years), so a very, very small number of the properties sold at tax sale are possibly vulnerable owners who need additional considerations. **Almost all the tax sale is non-owner occupied properties**.

Tax sale is a valuable revenue tool that has generated $50 million+ in revenue for the city FY18-20 just from the tax sale, not to mention the est. additional $30 million per year collected before the auction. The tax sale system should not be abandoned or wholesale replaced with an In Rem system because of the very small number of homeowner occupied properties that go into tax sale.

The facts are the 95% of the properties sold to private investors at tax sale are non-owner occupied, landlord owned, rental, and commercial properties where taxes are overdue and need to be collected.

Robert Cenname

FROM

NAME & TITLE: Robert Cenname, Budget Director

AGENCY NAME & ADDRESS: Bureau of the Budget and Management Research
Room 432, City Hall (410) 396-4774

SUBJECT: City Council Bill 20-0593—Tax Sales-Properties Exempt From Sale

CITY of BALTIMORE

MEMO

CITY OF BALTIMORE 1797

TO

The Honorable President and
Members of the City Council
City Hall, Room 400

DATE: August 26, 2020

Position: Oppose

The Department of Finance is herein reporting on City Council Bill 20-0593, Tax Sales-Properties Exempt From Sale, the purpose of which is to prohibit certain properties from tax sale.

Background

Each year, Baltimore City holds an annual tax sale to collect delinquent real property taxes and other unpaid charges owed to the City, which are liens against the property. An owner-occupied property is eligible for tax sale if the combined total of city liens is $750 or more and a non-owner-occupied property is eligible at the threshold of $250. These liens include, but are not limited to, unpaid real property taxes, clean and board, environmental control, and residential registration charges and fees. The Maryland General Assembly passed legislation in 2015 that increased the threshold for owner-occupied properties from $250 to $750 and in 2019 that prohibits the inclusion of properties that are only delinquent water bills in the $750 tax sale eligibility threshold for owner-occupied properties.

The proposed legislation exempts certain properties from tax sale and requires annual reporting on the number of properties and outstanding taxes owed under this provision. The legislation specifically applies to properties that have an assessed value of $250,000 or less, the homeowner has resided in the dwelling for at least three years, and the homeowner either has a combined income of less than $40,000 or is at least 65 years old or is receiving disability benefits in some form.

Fiscal Impact

Historically, the City collects between one and two percent, or $8 million to $15 million, of real property tax revenues at tax sale. However, the Department of Finance is able to collect higher rates of delinquent taxes through the various stages of the tax sale process. For example, approximately 35% of the City real property tax revenues is collected after the first delinquent notice is sent. Property taxes are a major source of General Fund revenue for the City, almost 53% in Fiscal 2021, and the Department of Finance's Bureau of Revenue Collection (BRC) has averaged a 98% collection rate for real property taxes with tax sale. In addition, when properties enter the tax sale process, the City receives payment of liens by many mortgage companies in order to prevent properties from moving further in the process.

It is important to note that in the Fiscal 2018 and Fiscal 2019 tax sales, approximately 53.6%, or 6,468 properties, of the outstanding lien certificates were purchased by third party investors and 46.4%, or 5,600 properties, were acquired by the Mayor and City Council. Of the total $550.8 million of outstanding lien values during these years, the purchases by third party investors totaled $43 million, or 7.9% of the total outstanding lien values, while the other $507.8 million, or 92.1% of total outstanding lien values, were acquired by the Mayor and City Council.

The Department of Finance's analysis presents two scenarios and is based on tax sale data from 2018 and 2019. The first scenario reflects the homeowners who entered the 2018 and 2019 tax sale processes and would qualify to be removed from the process under this legislation. The second scenario reflects all homeowners eligible under this legislation, based on the number of homeowners who receive the City's Supplemental Homeowners' Tax Credit, who receive initial final bills and legal notices about delinquent property taxes. Currently, the homeowners reflected in the second scenario may not enter tax sale due to receipt of tax credits, assistance programs from the City or nonprofits, or personal payments as a result of receipt of these bills and notices.

	Scenario 1	Scenario 2
Eligible Homeowners and Properties	35	5,014
Average Assessment Value of Eligible Properties	$110,072	$113,900
Average Value of Liens of Eligible Properties (Property Taxes)	$2,474	$2,561
Total Value of Liens of Eligible Properties	$86,590	$12,841,000
Annual Impact (Real Property Tax Revenue Loss)	**$100,035**	**$13,767,000**

Based on these two scenarios, the City could face real property tax revenue loss ranging from $100,035 from 35 eligible properties to $13.7 million from over 5,000 eligible properties. The Department of Finance acknowledges that not all homeowners eligible under this legislation will stop paying property taxes; however, this legislation increases the City's exposure for lost revenue due to the number of homeowners who will not face this enforcement measure for not paying property taxes and may decide to not pay delinquent taxes.

Other Considerations

The Department of Finance supports the intentions of this legislation to maintain residents in their homes, specifically homeowners who are seniors, low-income, and/or receiving disability benefits. In addition, the Department is supportive of further studying the issue with partners to assess the problem and identify strategies and solutions that the City can support and invest in. However, the Department of Finance believes there are other actions that can and should be taken before making large exemptions to the tax sale program. In addition, there are several concerns related to the implementation of the legislation that should be discussed further before moving forward with this legislation.

Prevention Programs

There are several programs currently available to homeowners to reduce the burden of property taxes and decrease the likelihood of entering tax sale. The City has several programs to aid homeowners as well. The Baltimore City Department of Housing and Community Development's has a Tax Sale Coordination and Prevention Services program, which assists homeowners in avoiding tax sale and in understanding the tax sale process. The Baltimore City Health Department's Office of Aging and CARE Services reviews the tax sale list to identify seniors and works with them to prevent tax sale of their properties.

In addition, there is the State of Maryland Homeowners' Property Tax Credit Program, which sets a limit on the amount of property taxes a homeowner must pay based on income and is specifically for households that earn less than $60,000 in income. The City provides a supplemental to the Homeowners' Tax Credit Program to homeowners that are at least 62 years old, have resided in the property for at least

10 years, and have a combined income of less than $40,000. In fact, many of the homeowners that would qualify under this legislation qualify for the State and City program already. The Department of Finance believes that efforts can be made to raise awareness about these programs. As outlined in the fiscal impact section, many homeowners who qualify for these programs drastically reduce their property tax bill, some to the point of $0.

Implementation

BRC does not have access to the demographic data needed to make the qualification outlined in the legislation. Currently, BRC receives reports from Maryland State Department of Assessments and Taxation (SDAT) stating which properties that receive the State's Homeowners' Tax Credit are eligible for the City's supplemental credit program. It is possible a similar report about these criteria can be provided by SDAT and used to identify properties, based on those receiving the Homeowners' Tax Credit, that meet these criteria and remove them from the tax sale process. However, due to the short timeframe of this bill being introduced and the hearing scheduled, the agency has not been able to confirm this option.

Beyond agency operations, the Department of Finance has additional implementation concerns. The legislation's broad exemptions for certain populations eliminate the City's enforcement authority. The intent of the legislation is to address the needs of certain homeowners who are struggling to pay their current property taxes. However, this legislation enables homeowners who qualify under this law and are able to pay their property taxes to walk away from that responsibility. Additionally, while the properties may not enter into tax sale, the liens will continue to increase and may sit unpaid for years. This can result in a major tax burden for families if a homeowner dies and has not paid these taxes, or make it cost prohibitive for the property to be sold or developed because the liens are greater than the assessed value.

Conclusion

The Department of Finance supports the intention of the legislation to reduce the burden on homeowners, but opposes the current structuring of this legislation and what it means for the City's revenue and operations. The tax sale process is very complicated and there are several factors to consider when making changes like these, such as ability to implement, unintended consequences of broad exemptions, and impact on the City's revenue. The Department of Finance requests that the City Council hold work sessions on this legislation and continue to work with the Department to develop strategies and solutions that meet the intention of the bill, while maintaining the City's ability to enforce and collect property taxes.

For the reasons stated above, the Department of Finance opposes City Council Bill 20-0593.

cc: Henry Raymond
Matthew Stegman
Nina Themelis

House Bill 1209

Property Tax - Collection of Unpaid Taxes and Tax Sales

MACo Position: **OPPOSE**

To: Ways & Means Committee

Date: March 5, 2019

From: Kevin Kinnally

The Maryland Association of Counties (MACo) **OPPOSES** HB 1209. This bill deprives counties of the opportunity to use an effective tool for enforcement – tax sale – by requiring counties to enact a law implementing judicial in rem tax foreclosure procedures for specified properties.

Counties are concerned that this legislation would result in significant revenue losses due to the bill's limitations on the use of tax sales to enforce liens. Specifically, HB 1209 would require counties to enact specified judicial in rem tax foreclosure legislation, including a requirement that the dwelling of an eligible homeowner not be subject to foreclosure and sale unless the tax on the dwelling (1) has been delinquent for at least 2 years; and (2) exceeds $1,000.

The tax sale process, or more specifically the potential for a property to go to tax sale, presents a much-needed tool of last resort to ensure that property owners remit payment for their fair share of taxes and charges connected to public services. Most counties in Maryland send properties to tax sale solely to enforce utility liens. This bill removes this leverage for all counties, and undoubtedly would create many more deficient accounts for utility bills from lack of enforcement – leading to increased rates on residents who properly pay.

All property owners deserve full and adequate notice of any collection efforts to collect taxes or charges assessed on the property – and as such, every county has procedures to ensure ample notice is provided prior to tax sale. Additionally, property owners have the right to redeem property within six months from the date of any tax sale by paying the amount owed. The tax sale process includes multiple checks and balances to ensure that local governments can collect overdue fees without unjustly depriving taxpayers of due process.

HB 1209 undermines local governments' most effective collection tool, and would lead to greater delinquency and default on utility bills, which would result in higher rates on other ratepayers. For these reasons, MACo **OPPOSES** HB 1209 and urges an **UNFAVORABLE** report.

POSSIBLE DRAFT RESPONSE TO IN REM PROPOSAL FROM BALIMORE CITY IN 2017

In March of 2016, the Mayor and City Council of Baltimore was one of three governments selected for the Technical Assistance Scholarship Program ("TASP") by the Center for Community Progress. The TASP application was submitted by the City's Department of Finance in partnership with the Baltimore City Tax Sale Working Group, which consists of community leaders committed to improving the tax sale process. The partners recognized the value of City real property tax revenue to all citizens and agreed to three goals in the application:

1. Improving the tax sale process while supporting revenue collection,
2. Reducing vacant and abandoned properties in the city, and
3. Protecting vulnerable owners who reside in their properties

We want to acknowledge with gratitude the hard work of Kim Graziani and Frank Alexander of the Center for Community Progress. We view their final TASP Report as an opportunity to consider new ways to fulfill our three goals.

Our response reflects consolidated feedback from the City's Departments of Finance, Law, Housing and Community Development, and Public Works, but not the Tax Sale Working Group. The format for our response follows the Key Observations in the Report.

We have not responded to every statement, finding, observation, or recommendation in the Report because we had a limited period of time. Our failure to respond to any such item should not be construed as either a rejection of or agreement with any item.

Overall Goals of the Report

Beginning on page 15, the Report identifies three hallmarks of an optimum tax sale system: that it is equitable, efficient, and effective. We agree.

As stated in the Report, an equitable system is premised on a fair assessment system. In Maryland, personal and real property assessments are performed by the State and the City has no authority over them. The parties responsible for assessments and for tax rates deliberately are kept separate to protect the taxpayers and to foster confidence in the fairness of the tax system.

The Report points out that an efficient system provides clarity and predictability about the priority of liens, the amount of liens, and the time frames for payment in a manner consistent with local governments' budgets and revenue processes. While the Report states that the current tax sale system creates inefficiencies, it does not point to actual evidence that its recommendations would produce a better result. The Report acknowledges that the City does very well collecting liens in the time period between the Final Bills and Legal Notices in February and the May tax sale. In addition, a substantial number of tax sale certificates are redeemed after tax sale but many certificates end up held by the City because there are no private bidders.

An effective system yields the maximum tax revenue and, in the event of nonpayment, results in the transfer of the property to a new responsible owner through an insurable and marketable title. While not perfect, the current revenue process, including tax sale, collects the vast majority of taxes and municipal charges and removes the City from the business of suing citizens, evicting them from their homes, and garnishing and attaching their personal property. Current State law elevates municipal liens to a “super priority” status, ahead of private mortgages. Even though we have not encountered a general problem with "uninsurable titles" or "clouds on titles" resulting from a tax sale, these problems may have occurred and we just were not aware of them because they occurred after the City’s involvement in the tax sale process ended for the involved properties. Certainly, as a general rule, when the City forecloses on tax sale certificates to vacant and abandoned properties, the resulting titles have been insurable and marketable.

In light of the three goals of the Report, we agree that our processes can be improved and we look forward to implementing the best tax sale practices as used by other jurisdictions, if the practices are compatible with the City’s objectives and capacities.

The Report’s Major Recommendation

The final TASP Report’s Key Observation 3.2 on page 23 recommends changing the current tax sale system from a sale of liens in exchange for a certificate that, unless redeemed, can be used to transfer ownership of the property from the current owner to the certificate purchaser to a single-step, actual sale of the property after the City has completed judicial proceedings to obtain orders of sale for each property. The winning bidder would receive a clear, fee simple, title to the property and, if there were no bids, then the City would receive title. Key Observations 2.4, 2.5, 2.6, 4.7, and 4.8. There would be no redemptions. Key Observation 2.2.

Changing the tax sale system could require the City to sue *in rem* on all properties eligible for tax sale each year. Key Observations 2.7 and 3.13. The City would have to provide a level of Constitutionally required notice to the holders of any interest in the property under *Mennonite Board of Missions v. Adams,* 462 U.S. 791 (1983). Key Observation 2.8. Redemption could be allowed only until the City completes foreclosure and obtains title. Key Observation 2.9

Related to these recommendations is the suggestion that they could be accomplished by passing enabling legislation at the State level. Appendix C. The legislation would permit, but not require, local jurisdictions to conduct tax sales in this manner. They would be free to continue conducting tax sales of certificates unless they enacted local laws to make the change.

If adopted by the City through local ordinances, then these recommendations would result in a fundamental change to the way tax sales are conducted in the city. However, it is not possible to determine from the Report whether the change would be revenue-neutral. While some expenses, such as the Law department’s costs for filing civil actions to recover real property taxes and the Housing department’s costs for citing owners for code violations, would be reduced, it is clear that other expenses would increase.

Under the current tax sale process, when the City sells liens that are likely to be redeemed, it is paid immediately for the uncollected taxes. It appears from the Report that the new system would create a delay in collecting this revenue. This delay has a cost. In the City’s 2015 tax sale, it collected over $21,000,000 on such certificates and, upon redemption investors collected about

$1,000,000 in interest. Collecting $21,000,000 on a single day may be more valuable to the City than collecting $22,000,000 over an extended period of time.

Neither the cost reductions nor increases as the result of acquisition and maintaining the acquired properties are quantified in the Report. However, a cursory analysis of the projected expenses for acquisition can be performed using the data from the City's most recent tax sale and estimated costs.

In the May 2016 tax sale, the City offered 9,892 properties on the day of the online auction. The Report would have required the City to obtain a comprehensive title report, to provide *Mennonite*-level notice to all interested parties, to post an additional notice, and to file an *in rem* judicial action seeking an order to sell each property in the auction. The City would have incurred substantial, costs, not recoverable costs under current law.

Had the Report's major recommendation been in place, it is doubtful that the Law department's present staff would have been large enough to file 9,892 *in rem* actions in one year. Additional staff or outside counsel would have had to have been employed. Current law allows private parties to charge between $500 and $1,500 in attorneys' fees for tax sale foreclosures. MD. TAX-PROP. ART., §14-843. The attorneys' fees for 9,892 actions could have been between $4,946,000 and $14,838,000. Disregarding volume discounts, the average cost of a title report is about $150. Current tax law allows up to $250 for a title search fee. MD. TAX-PROP. ART., §14-833. If enough title researchers could be found, then the title reports for 9,892 properties alone could have cost the City between $1,483,800 and $2,473,000. Certified and restricted mailing costs for *Mennonite*- level notice and the staff time to provide it generally run about $77 per property, another cost of almost $761,700. Even a quick calculation of the expenses of acquisition demonstrates that the costs are likely to exceed the savings.

In the 2016 tax sale, there were no bidders on 4,176 properties and the City took possession of their certificates. After completing the *in rem* judicial actions for those properties, the City would then have had to maintain them until suitable buyers could be found. The 4,176 included occupied properties and the City would have had to evict the owners. The Report does not quantify the costs of maintaining the newly acquired properties. It notes that the City already spends time and monetary resources citing and securing properties without the rights of full ownership. However, full ownership of a large inventory of distressed properties would multiply the expenses and create new civil liability for the City, such as for lead paint contamination. Each year, the City exhausts its property maintenance budget in shoring up or razing City-owned properties causing damage to neighboring, privately-owned properties. For full ownership, another massive investment by the City would be required that is not measured in the Report.

Further related to the City's acquiring properties with unsold liens is Key Observation 3.1 in which the Report recommends that the City retain the certificates most likely to redeem, certificates that now are purchased by investors. It points out that between about $1,000,000 and $2,000,000 in interest paid to investors could be paid to the City. Any increased revenue from redemption interest does not appear large enough to offset the expenses of acquisition and maintenance. However, a more detailed evaluation is necessary.

After acquiring and maintaining the new properties, the City would need to identify uses for them. Many are isolated, significantly deteriorated, or too small in area to develop. The City would become the landlord for other properties, responsible for collecting rent and making repairs until a buyer could be found. The Report does not identify uses or estimate how long resale would take. Even if the City had the resources to acquire and to maintain another 4,176 properties, there currently is no comprehensive plan to handle such a large inventory.

In the decade prior to the current decade, the City's Project 5000 project resulted in the City owning over 5,000 vacant and abandoned properties in the city. The lessons learned from that effort – and the costs and challenges that came with owning that many properties without a solid plan for what to do with them – led the City leadership, including the Housing department and the Mayor's Office, to develop the Vacants to Value initiative, which emphasizes, among other measures, the streamlined sale of City-owned properties and the use of receiverships. It is possible for the City to gain title to vacant properties without switching to a one-step tax sale system. As Project 5000 demonstrated, a surge in court proceedings can result in City ownership of a significant portion of the vacant properties in the city regardless of whether a one-step or the standard certificate process is used. However, just the 2016 tax sale would have almost doubled the size of the City-owned portfolio.

Under the current State law, a tax sale certificate is void unless a judicial action to foreclose the right of redemption and to transfer the property is filed within two years after the sale. Many unsold and unforeclosed certificates from the 2015 tax sale will not be eligible for tax sale again until 2017. As a result, we can expect another large number of unsold certificates in the 2017 tax sale. Had the report's recommendation been in force, we would have expected another round of about 10,000 properties for filing and another 4,000 properties to maintain and to sell in 2017.

More generally, the Report consistently identifies the tax sale process as contributing to the problem of vacant buildings. For example, it states on page 10 that by selling tax liens, the City loses leverage in the collection process which may lead to investors choosing to hold the liens and to speculate on future interest rather than foreclosing and selling to a responsible party. The Report also observes that properties with liens in excess of their fair market value, "upside down", continually recycle through tax sales in successive years. In both circumstances, the Report assumes, without proving, that there is a cause and effect between tax sales and vacancy. In fact, the City's experience suggests that weak and failing markets are directly responsible for vacancy and that the tax sale itself is not a contributing cause of vacancy. As with other conclusions contained in the Report, the hypothesis that the recycling of certificates actually contributes to vacancy, rather than merely being correlated with vacancy, would be strengthened by data.

In addition to not quantifying costs, the Report does not mention ground rents. Maryland has a long, historic use of ground rents that has been reformed in recent years. Any major change in the tax sale system must consider the effect on the rights of ground rent owners.

Another issue that we encounter but is unaddressed in the Report is the failure to probate properties. It is not unusual for children whose parents die to keep the property in the deceased's names. Bills and notices continue to be mailed to the deceased, not the children who may or may not pay all the taxes and other municipal charges but who may continue to reap the benefit of the parents' tax credits that would not apply to them if the property were probated. We would like to learn how other jurisdictions deal with this issue with respect to tax sales.

The Report appears to assume that few, if any, certificates held by the City are ever redeemed and states in Key Observation 3.5 that the City should not account for upside down liens as receivables. The City already has accounted for them for many years. In fact, some City-held certificates are redeemed and the City received the interest. Not all today's upside down properties always remain upside down as contemplated in the Report.

While not common, the City may ultimately be paid for liens even on properties whose present lien amounts exceed their fair market value. A lien remains a lien on a property until paid and must be paid when the property transfers. BALTO. CITY CHARTER, ART. VII, §13; BALTO. CITY CODE, ART. 28, §2-6. There is no statute of limitations on paying liens. Over time, a property's value may sufficiently increase due to external factors to become attractive to a buyer in spite of the liens.

In conclusion, any change to the tax sale system as radical as the major recommendation in the Report should not be implemented without careful consideration and measured steps. Any implementation of the suggestions would have to be undertaken over time. City agencies and other stakeholders would have to evaluate each suggestion to determine the cost of implementation, the additional assets required, and the impact on revenue. The agencies may decide that they need a work group to coordinate their ideas and efforts so that the improvement of the tax sale process does not inadvertently impair the other missions of the agencies. Because the Report recommends State enabling legislation and then local adopting legislation, we conclude that the implementation of any recommendations, if approved by the City, be made over the course of several years, perhaps using a phased-in or pilot approach.

Other Recommendations in the Report

In Key Observation 2.3 and 3.7, the Report recommends reducing lien amounts to the fair market value of the property to encourage private sales and to prevent recycling of properties through multiple tax sales. We have long recognized this problem, as have realtors, developers, and the business and banking communities.

The City has a "vendor lien" program which allows the assignment of individual City-owned tax sale certificates to a private party for the greater of the unpaid flat taxes and water charges or the appraised value of the property. The Board of Estimates reviews the specific proposed reductions and approves the sale. In effect, the Report proposes a general "vendor lien" reduction of the liens on all tax-delinquent properties for which the liens exceed the value.

We agree that a solution to the recycling problem is needed but a radical change to the tax sale system is not necessary for a fix. A sudden, wholesale abatement of liens would benefit scofflaw owners by permitting them to re-purchase their own properties at tax sale free of their prior obligations. The City can explore ways of gradually reducing liens while ensuring owners do not obtain a windfall. In addition, the liens have been reported in the City's budgets as receivables and in the City's bond disclosures. Any solution needs to consider the City's accounting and bond obligations, issues not addressed in the Report.

Key Observation 3.10 recommends amending State law to permit the City, when it holds the tax sale certificates, immediately to initiate foreclosure on all properties other than those that are owner-occupied. State law already allows the City immediately to foreclose on all vacant properties or improved properties subject to vacant building notices. MD. TAX-PROP. ART. §14-833. The proposed change would allow the City to foreclose on certificates to many properties that are occupied by tenants. The City would be reluctant to exercise its right to foreclose on such properties because it would be faced with either relocating lawful occupants or becoming the landlord for rental properties.

The Report also recommends replacing the annual State Homeowners Tax Credit ("HTC") with a blanket $50,000 assessment exemption, regardless of the annual income or net worth of the owner. Key Observation 5.1. The dollar amount was an example and not supported by a financial analysis. A lesser or greater amount may ensure revenue-neutrality. However, any amount of such a credit would be regressive and provides high income owners with the same tax reduction as low income owners. It also may raise questions of equal treatment if some local jurisdictions prefer to keep the current credit.

Once again, study is needed. Perhaps a more targeted low-income credit would be more effective with fewer problems. For example, an assessment credit could be applied only to owners who already qualify for the HTC or only to owners over the age of 65 who otherwise already qualify for the HTC. Such targeted relief would have the administrative burdens and costs that the Report seeks to reduce but it may be preferable to carry administrative costs than to make the City's tax system more regressive. Similar ideas are found in the Report's Key Observation 5.2

The Report's Key Observation 5.3 suggests that the City submit electronic data to the State Department of Assessments and Taxation of all mortgage foreclosure deeds as a presumptive trigger for loss of the HTC and Homestead Tax Credit. The City does not have the data. Only the Circuit Court, a State agency, has it. We have some tax sale foreclosure data but no mortgage foreclosure data. However, the Finance department's Tax Integrity unit can explore this suggestion.

Key Observation 5.4 recommends excluding all owner-occupied properties from tax sale. Unfortunately, approximately half of the properties in the City's annual tax sale are owner-occupied. The City can ill-afford such a loss or delay of revenue. Moreover, as the Report correctly points out, the pre-tax sale notices from February through April generate many times the amount of revenue than the May tax sale generates. It is the threat of tax sale that is most effective.

Finally, Key Observation 5.5 recommends providing vulnerable owners or owners who reside in their own properties with greater notice, longer timelines for bill payment, or direct legal services. In 2015, the City championed changes to State tax sale laws in House Bill 1035. The enactment lengthened the deadlines for filing foreclosures on owner-occupied properties, raised the lien threshold from $350 to $750 for such properties, authorized redemption payment plans, and created a tax sales ombudsperson position. This year, the City enacted City Council Bill 16-0614 which reduced the redemption interest rate from 18% to 12% for owner-occupied properties. Because tax sale certificates remain viable for two years after issue, we need time to determine the effectiveness of all these changes on vulnerable owners.

Other Comments to the Report

The Report concedes that it does not fully analyze the role that water liens play in the tax sale process. In the past, water bills and liens have come under intense scrutiny and we have high hopes that the new billing system and customer access will alleviate the problems. The City's water billing system is property, rather than account or customer, based like other cities mentioned in meetings with the Report's authors. Earlier studies by the Center for Community Progress include cities that directly allow for tenant-owned water bills, meaning that those charges would not be liens on the property.

The Report also does not describe the experiences of other jurisdictions that have a single-step tax sale process. We need to know those details before we can determine if the recommendations in the Report are the best practices.

Conclusion

In closing, we want to reiterate our appreciation for this opportunity to consider the Report recommendations and to implement changes to enhance the tax sale system. We view it as the starting point for an on-going investigation of ways to improve our tax sale process.

We recognize that the City's tax sale is supported by an aging computer system that ultimately must be replaced. The Finance department, with the Mayor's Office of Information Technology, has begun the groundwork for replacing the Mainframe computer that controls the real property, liens, and tax sale systems. A new system will allow us to take advantage of deeper data mining and a more comprehensive analysis of the costs and benefits of the final TASP Report.

WORKING TOGETHER

- The Maryland Tax Sale Participants Association (MTSPA) consists of Maryland citizens, community investors, neighborhood rehabilitation specialists, experienced attorneys, and business owners.
- We are focused on growing strong relationships with municipality taxing authorities, and being valuable partners in ensuring an equitable, efficient, and effective tax sale system throughout the State of Maryland.
- Baltimore City's Tax Sale System has been analyzed, examined, and studied repeatedly, and has been significantly reformed over the past 13 years for the benefit of owner occupants and vulnerable owners. Today, Baltimore City provides significant and sufficient safeguards and programs to protect homeowners and vulnerable citizens.
- Unfortunately, advocates for a Baltimore City Tax Sale overhaul have set forth a false narrative and misconstrued the data that will ultimately hurt the City of Baltimore.
- Tax Sale overhaul is unwise, costly, ineffective, and inefficient. Primary concerns and proposals set forth by overhaul advocates can be addressed and incorporated within the current programs. Better efforts are needed to raise awareness about available programs that can provide significant homeowner assistance, address advocacy concerns, and allow the City to still utilize tax sale as an effective collection tool.
- MTSPA members and affiliates are proven partners who have helped City budget concerns, while working with legislators and community advocates to help improve the current tax sale system.

TAX SALE WORKS

→ The City's budget is hurting, and federal funds won't last long. Half of the City's budget comes from property taxes. The City received $18.8 million ***in one day*** through the 2021 Tax Sale.

→ The City relies on tax sale to recoup lost revenue from the non-payment of property taxes. Limiting tax sale as a tool creates two problems: (1) increases the tax burden on current taxpayers, and (2) will cut the funding to vital services needed to stabilize communities and avoid blight.

→ The Maryland Court of Special Appeals has stated: "Maryland's tax sale mechanism is an effective means of collecting property taxes for the state and is critical to the state's need to provide a source of revenue for a host of government services provided to its citizens." *Royal Plaza Cmty. Ass'n Bonds*, 389 Md. At 204-05 (2005) "Tax sale purchasers are regarded as performing a publics service." *Heartwood I*, 156 Md. App. at 364.

→ The Maryland Association of Counties (MACO) opposed HB 1209 in 2019, a bill that "deprives counties of the opportunity to use an ***effective for enforcement*** – tax sale…" When advocacy groups try to limit the use of tax sales to enforce liens, counties become concerned with "significant revenue losses." "The tax sale process, or more specifically the potential for a property to go to tax sale, presents a much-needed tool of last resort to ensure that property owners remit payments for their fair share of taxes and charges connected to public services." "The tax sale process includes multiple checks and balances to ensure that local governments can collect overdue fees ***without unjustly depriving taxpayers of due process***."

→ Tax Sale is an effective deterrent to tax delinquencies. In his 2020 written testimony, the City's Budget Director testified that 35% of the City real property tax revenues is collected after the first delinquent notice is sent. "Property taxes are a major source of General Fund revenue for the City, almost 53% in Fiscal 2021, and the Department of Finance's Bureau of Revenue Collection has ***averaged a 98% collection rate for real property taxes with tax sale***."

→ Many homeowners qualify for tax sale exemption, tax credits, and assistance programs. Limiting the tax sale even further "increases the City's exposure for lost revenue due to the number of homeowners who will not face this enforcement measure [tax sale] for not paying property taxes and may decide to not pay delinquent taxes." – 2020 written testimony from the City's Budget Director.

→ "Tax Sale is the process in which Baltimore City sells property liens to generate revenue. Baltimore City pre-tax notices prompt 20,000-25,000 property owners annually to pay overdue bills." – Alice Kennedy, Acting Housing Commissioner, 2021 written testimony for 21-0024R.

RECENT CHANGES + CURENT PROGRAMS

- → **2015 Change:** Increased threshold under which homeowners are withheld from tax sale (was $250 now $750).
- → **2015 Change:** Decreased interest percentage for homeowners (was 18% now 12% in City).
- → **2015 Change:** Increased City homeowner's "grace period" from 4 to 7 months – allows homeowners to satisfy tax lien without paying costs incurred by tax lien holder.
- → **2019 Change:** Allowed Baltimore to exclude water bills from tax sale for homeowners
- → **2020 Change:** Created legislation allowing for jurisdictions to remove certain homeowners from tax sale – elderly, low income, and disabled.
- → **2020 Change:** Created Tax Sale Ombudsman at SDAT – creates annual reports, assists residents with the tax sale process, collects data, and on the City level.
- → **2020 Change:** Exempt certain homeowners from tax sale – up to $2 million in 2020.
- → **2020 Change:** Allowed installment payments for City property taxes.
- → **2021 Change:** Created legislation for the State of Maryland to purchase up to $750,000 in homeowner liens and work directly with the homeowners to pay down the debt.
- → **2021 Change:** Eliminated the requirement to pay current taxes at the same time when satisfying back taxes.
- → **2021 Change:** Requires itemization of tax bill and list of resources in the pre-tax sale notices.
- → **2022 Change:** Allows counties to withhold from tax sale owner-occupied residential property and requiring the property to meet certain criteria; allows counties to withhold from tax sale a residential property or property owned by a nonprofit organization that is enrolled in a certain payment program; and allowing a counties to cancel or postpone a tax sale during a state of emergency.
- → **Current Program:** Creation of the Division of Homeownership and Housing Preservation, Tax Sale Coordination within the City's DHCH, which assists homeowners in avoiding tax sale and in understanding the tax sale process by: promoting tax sale clinics, conducting community-based information sessions and connecting homeowners with additional resources such as state and city tax credits.
- → **Current Program:** City's Health Department's Office of Aging and CARE Services reviews the tax sale list to identify seniors and works with them to prevent tax sale.
- → **Current Program:** State of Maryland's Property Tax Credit Program, which sets a limit on the amount of property taxes a homeowner must pay based on income and is ***specifically for households that earn less than $60,000 in income***.

→ **Current Program:** City provides a supplemental to the Homeowner's Tax Credit Program to homeowner's that are at least 62 years old, have resided in the property for at least 10 years, and have a combined income of less than $40,000. "The Department of Finance believes that efforts can be made to raise awareness about these [the above] programs." – 2020 written testimony from City's Budget Director.

FALSE NARRATIVE

FALSE NARRATIVE: "Tax Sale is the predatory method of collecting delinquent property taxes, liens, and water bills that we have in Maryland." "An investor may purchase the lien and turn to the homeowner to get reimbursed in addition to legal fees and up to 12% interest. This is why it is predatory."

FACT: The Oxford Dictionary defines "predatory" as "seeking to exploit or oppress others." The City's Tax Sale does not *seek* to exploit or oppress anyone, and it does not differentiate between race, age, or employment – it's a much-needed tool of last resort to collect on tax delinquencies and ensure property owners remit payments for their share of taxes and charges connected to public services. Homeowners can avoid tax sale by paying their taxes or applying to many available programs designed to help homeowners avoid tax sale. If a homeowner is in tax sale, there are many programs available to assist in paying off the debt.

FALSE NARRATIVE: "In tax sale, a property whose taxes and liens are delinquent is sent to tax sale each May in Baltimore...Generally, the families who end up this situation are older adults who have paid off their home or are in the family home." "Tax sale is the predatory process of collecting taxes, liens and other fines, and generally older adults are the targets."

FACT: Vast majority of City properties that went to tax sale between 2018 and 2020 were ***NOT*** owner-occupied, let alone older adults who paid off their home. Only 15% were owner-occupied during this time (Source: page 6 of Presentation from City's Director of Finance Office for Informational Hearing on City Tax Sale, July 20, 2021)

FALSE NARRATIVE: "Poor families, seniors on fixed incomes and the disabled have lost their homes without compensation because of the tax sale. Instead of returning homes to the tax rolls, today's predatory system has left thousands of homes abandoned, driving struggling neighborhoods into decay."

FACT: The extreme vast majority of tax sale cases are ***paid off way before a foreclosure occurs***. Tax sale foreclosures ***rarely occur***, and if they do it's usually on a ***vacant property***. In fact, many tax lien holders have ***assisted*** poor families, seniors on fixed incomes and the disabled to avoid foreclosure and provide payment plans and debt forgiveness. Advocacy groups have used one-off cases to present a ***false narrative*** about the City's tax sale. Additionally, property owners are always entitled to the bid balance once a foreclosure occurs, which many times equals the property's market value or higher. Lastly, once a tax sale foreclosure occurs, the property is either sold to a marketable third party or renovated by the tax lien holder, thereby putting properties back on the tax rolls and ***preventing*** blight. Not having a tax sale would increase the chances of blight.

FALSE NARRATIVE: "The overwhelming majority of these homeowners [in tax sale] are concentrated in Baltimore's Black Butterfly and are low income and elderly." "…mostly Black, elderly, and low-income homeowners, whose homes are targeted by investors because they are more likely to pay than the speculators who have abandoned properties." "The tax sale penalizes poverty. Many of those paying this penalty are suffering from poor economic conditions created and maintained by racist government policies. It rewards investors for being willing to exploit the poor so the city can get some quick cash."

> **FACT**: Most City properties that went to tax sale between 2018 and 2020 were NOT owner-occupied, let alone older adults who paid off their home. Only 15% were owner-occupied during this time (Source: page 6 of Presentation from City's Director of Finance Office for Informational Hearing on City Tax Sale, July 20, 2021). "BCIT (Baltimore City Office of Information and Technology) can provide data about properties that are owner-occupied vs. non-owner occupied, and BCIT can distinguish those over that have owned their property for more than 25 years. However, BCIT is unable to provide any age-related information." The City's Tax Sale does not seek to exploit or oppress anyone, and it does not differentiate between race, age, or employment – it's a much-needed tool of last resort to collect on tax delinquencies and ensure property owners remit payments for their share of taxes and charges connected to public services.