

MARYLAND TAX SALE PARTICIPANTS ASSOCIATION

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Subject: House Bill 867 (Baltimore City – Collection of Unpaid Property Taxes)

Sponsor: Baltimore City Delegation

MTSPA Position: OPPOSED

The Maryland Tax Sale Participants Association (MTSPA) **OPPOSES** HB 867. This bill authorizes the Mayor and City Council of Baltimore City to establish an installment payment program for taxes in arrears on residential property; authorizes the Mayor of Baltimore City to cancel the annual tax sale; authorizes 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.

The current 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 property owners (investor-owned, owner occupied, etc) remit payment for taxes and charges connected to public services. Creating an overarching alternative collection program will significantly reduce Baltimore City's ability to provide much needed public services. **If the Baltimore City Delegation is concerned with how the current tax sale system may affect vulnerable and low-income families, it should remember the many changes and programs that were recently enacted:**

- **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:** The creation of the Homeowner Protection Program (HPP). 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.

Unfortunately, the desire to help *improve* the current tax sale system has been hijacked by false narratives. Below are just a few:

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. Taking away tax sale will cause a tremendous increase in blight and board-ups since many property owners give up on properties that are damaged, are on a block or in a neighborhood that's riddled with crime, etc. If there's no method for a tax sale purchaser to come in and fix up a property, the property will continue to cause 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.

Baltimore City is already having a tremendous problem with water bill delinquencies ever since water bills were taken out of the tax sale. Creating an alternative collection plan or cancelling the tax sale will not incentivize anyone to pay taxes, thereby limiting much needed public services and creating an increase in tax rates. The current In Rem program is so poorly written that it doesn't even address any of the issues brought up by the advocates who are against tax sale; it simply creates an "alternative" collection program, one which ultimately will cause an undue burden to the Baltimore City Finance Department and, more importantly, Baltimore City citizens. Baltimore City has such a hard time already with recording deeds, issuing lien sheets, and processing tax payments, just to name a few. It's hard to believe creating an alternative collection program that's run by Baltimore City will be effective and economical.

Here are a few reasons why the current tax sale system 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 public 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.

The following are recommendations that the State Tax Sale Ombudsman has suggested in his 2022 Annual Maryland Tax Sale Report. MTSPA agrees with these recommendations.

- “One of the major factors contributing to tax sales is **the need for financial knowledge and skills training to help homeowners make informed and effective decisions with their financial resources.** Homeowners in tax sale continue to report that they regularly fall behind in paying their bills, and that once they accumulate debt, they feel overwhelmed and hopeless about how to pay it off. Most homeowners facing tax sale on their principal residence have some income, and almost always have no mortgage. However, they often report that they are in need of a plan or strategy to pay their taxes on time. In addition to financial counseling, which we regularly recommend, **financial training would help homeowners with financial decisions and money management, and help them avoid tax sale.**”
 - Notes from the MTSPA: Although the vast majority of tax sale properties are not owner-occupied, MTSPA supports Baltimore City providing financial training to citizens with owner-occupied properties.
- “There are many resources available to homeowners in need; from tax credits and grant programs, to counseling and other benefits programs. They’re provided by federal, state, and local governments, as well as nonprofit organizations, but the ongoing challenge is connecting these resources with the homeowners who need them. This year, the TSO began a systematic effort to connect with homeowners it helped previously. Through its Homeowner Follow Up initiative, it has reached out to find out where those it previously assisted are today. The discovery is that nearly all homeowners contacted were able to avoid tax sale in the following

year after they were helped. They applied for tax credits, received grants, met with housing and financial counselors, made budgets, resolved title issues, and accessed an assortment of other services and benefits programs that stabilized their financial situations and helped them to continue to keep their homes. As previously mentioned, nearly all of the homeowners who contacted the TSO this year were doing so for the first time; a different 2,500 homeowners this year from the roughly 2,500 who called or emailed last year. This not only shows that the existing resources are beneficial, but also that ongoing outreach is key.

- Notes from the MTSPA: The MTSPA agrees and is of the position that the Baltimore City Delegation must give the current programs and recent changes a chance before reinventing the wheel.

For the above reasons, MTSPA **OPPOSES** HB 867 and urges an **UNFAVORABLE** report.