









Rethinking tax foreclosure

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Center for Community Progress

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Center for Community Progress



- •Takes to scale the efforts of the nation's leading organizations and individuals on issues of revitalization and reuse of vacant, abandoned, and underutilized properties.
- •The mission: to create vibrant communities through the reuse of vacant property in America's cities and towns - to transform the systems that affect how the community development, government, and private development fields repurpose these properties and communities.
- Technical Assistance & Capacity Building, Policy & Research, **Coalition Building, and Communications.**



Tax collection and enforcement



- •Governments need taxes to operate governmental services
- •All taxable properties are required to pay their fair share of the tax burden
- •Failure to pay on time results in some form of enforcement against the property itself, rather than typical collection actions against owners

Tax collection and enforcement



Common elements of tax collection and foreclosure systems

- Property taxes are typically a priority lien
- Non-payment of taxes results in loss of ownership
- Highest priority is on collection of the taxes owing
- Disposition of the property itself is secondary



Tax collection and enforcement



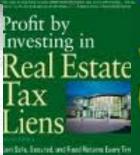
No uniformity of approaches across the country, but the systems fall in to some basic categories

- •Tax lien Sales
- •Tax auctions/tax deed or certificate sales
- Judicial foreclosure

Some of these processes are used in combination with one another in and in a variety of different forms. Recent movement toward "servicing agreements."

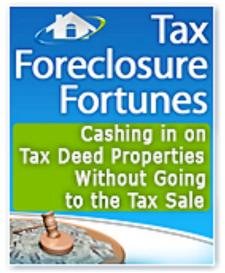


















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Tax Lien Sales



- Sale of a government tax receivable
- Individual lien sales (former MI system)
- Bulk lien sales (several states) often sold at a discount from the face value
- Liens bear relatively high rate of return for investor

Advantages: simple, efficient, transfers collection to 3rd party, privatization the government function

<u>Disadvantages:</u> discounted value of receivable, loss of control of collection process, loss of control over property



Tax Auctions/tax deed or certificate sales



- Also known as the "tax sale"
- Sale of tax title or certificate using "courthouse steps" method - transfers title or right to clarify title to purchaser
- Often includes redemption period
- May result from judicial foreclosure producing clear title
- May generate surplus sale proceeds, typically returned to purchaser or to prior title interests

Advantages: simple, efficient, provides some degree of finality as element of enforcement process

<u>Disadvantages:</u> not "market-based" (despite some interpretations), loss of control over property, title conveyed often clouded



Servicing agreements



- Relatively* new approach currently being marketed
- Sold to municipalities as alternative to lien sale
- Privatized collection service
- Fee-based service

Advantages: simple, efficient, transfers collection to 3rd party, privatization the government function

<u>Disadvantages:</u> fees earned are significant, loss of control of collection process, often based upon high fee structure with risk held by municipality and profit earned by private contractor



Tax collection and enforcement variables – and elements to include in reform process



- Time period of collection and enforcement
- Penalties and fees that apply to delinquencies
- Standard of notice applying to process
- Judicial/non-judicial procedure
- Bulk process or separate enforcement actions
- Provision for hardship/homeowner protections
- Sale of collection stream, receivable, or asset?
- Requirements for disposition of assets (financial and real estate assets)
- Mandatory and uniform enforcement vs. optional enforcement/foreclosure by parcel



What are we trying to achieve?



- Tax collection that is efficient and produces the necessary revenue to operate government
- A collection process that is fair and provides uniformity of enforcement and relief for owners experiencing financial hardship
- A system that produces productive reutilization of the foreclosed properties



Tax foreclosure reform



- Elimination of tax liens sales/tax certificate sales
- County-wide/regional collection process
- Replace privatized system with DTAN/ foreclosure

How it works:

- Municipality issues short-term bonds for back taxes
- Tax collector collects principal and penalty
- •Collections generate fund to retire notes, plus public profit
- •On \$50 million in delinquency, \$3-5 million in surplus, plus equity
- •Title to and equity in foreclosed property is a public asset



What are the long term effects?



- Loss of control of critical properties
- Negative consequences of re-use, effect on surrounding property values
- Monetization of essential component of a community
- Who cuts the weeds? Who boards up the house? Who puts out the fire?



Land Banks



A land bank is a public or nonprofit entity created to efficiently acquire, hold, manage and develop foreclosed property, as well as other vacant and abandoned properties.















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