Baltimore City's Broken Tax Sale System – The Road Forward

I) Executive Summary

Property taxes play a critical role in any community; they fund schools, infrastructure and countless other important City functions. However, the system by which Baltimore City currently collects its taxes, the tax sale system, is badly broken. Under the current system, a small group of private investors benefits, while the City and its residents lose out. Not only is the current system an inefficient and inequitable way to collect revenue, it places the greatest burden upon those who can least afford it – households making less than $30,000 per year, older adults and people with disabilities. It also disparately impacts Black residents and strips wealth from their communities and families. In fact, the current system costs the City money when families become homeless and homes become vacant properties.

As outlined fully below, the tax sale system is extremely complicated and benefits those who are "in the know" about how it works. The average homeowner is not able to navigate it; in fact, it is difficult for many lawyers to do so. The system is built upon attracting and incentivizing private investors. It does so at the expense of the City and its residents, disproportionately affecting Black residents. Investors predominantly buy liens on properties that are occupied because the owners of these property are most likely to prioritize paying the interest and attorney's fees on which the investors make their profits by sacrificing other basic needs. On these properties that are purchased, the City is made whole on the debts owed, but gleans none of the profits that the investors get from the system. However, only about 20% of liens sell at tax sale, and the City is saddled with the remaining 80% of the debt offered, which is the poorest quality debt. Purchasers choose the debt most likely to be paid back, leaving the City with the least likely debt to be collected. An inefficient debt collection system leaves Baltimore residents without vital tax revenue and harms the City and its residents.

In addition to burdening already struggling residents and benefitting investors but not the City, the current tax sale system contributes to vacancy. Thousands of properties are not purchased at tax sale and continue to cycle through the tax sale over and over again in subsequent years. As they cycle through, the tax, demolition, and other liens just continue to increase until the liens exceed the property value –in some cases by many thousands of dollars – and they are underwater. Since the City's lien release program is also very inefficient, these liens are unlikely to ever be reduced. At this point, it becomes very unlikely that these properties will ever be purchased at either tax sale or on the private market, and vacancy is almost inevitable.

In this paper, we propose a better tax sale system, which would bring in more revenue to the City over time. This system would provide supports to struggling property occupants, and is modeled after a similar successful program in Rhode Island. The goal is to identify the underlying financial challenges facing the household and connecting them to appropriate resources available in the community. It would provide a completely separate path for vacant and unoccupied properties, in which they would be foreclosed quickly and be disposed of by a land bank that could work with developers and nonprofits to increase community investment. The time to create an equitable tax sale system that works for the City and its residents, without burdening those with the greatest hardships and increasing vacancy, is long overdue.

II) Current Tax Sale System and Impact on Residents

The current tax sale procedure as it exists in Baltimore City is in need of dramatic reform. The process is confusing, which makes struggling homeowners more likely to lose their homes, and it is an inefficient and ineffective means for revenue collection and putting vacant properties back to productive use.

In Baltimore City a property typically goes to tax sale in May for delinquent property taxes on the tax bill issued in July of the prior year[1]. Liens that go to tax sale can include property taxes, water bills (in some instances) and City citations for things like broken windows. Properties can go into tax sale for as little as $750 in debt for owner occupied properties and $250 for other properties. It is important to note that at the tax sale, the debt against the property (the lien) is sold, not the property itself. If a lien is purchased at tax sale, the owner of the property then begins to navigate the complicated "redemption" process. If the owner pays the purchaser and the City what they owe, they can "redeem" the property and keep it. The redemption process quickly becomes very expensive. The redemption amount may increase by thousands of dollars by the end of the process. (See Table 1 Below). Homeowners who are able to pay a portion, but not all of this redemption amount, can lose their homes, as Baltimore City does not allow partial payments or offer payment plans.

Table 1: Example Tax Sale Costs

Costs	**Tax Sale Lien & Fees**
Original Lien Amount	$1,000
Accumulated Legal Fees[2]	$2,000
Interest @ 12%	$330
Total Due After 12 Months	$3,330

In addition to the expense, if they seek to redeem, homeowners may not know who to pay or how much they owe. Redemption is a two-step process in which the homeowner must first pay the purchaser and then pay the city, without being able to get the total amount of both payments in advance. The question of what redemption even means confuses homeowners, some of whom believe that after a tax sale, they have already lost their home. In order to lose a property through this process, a foreclosure action must be filed in court. Struggling homeowners are unlikely to be able to afford representation, and there are too few pro bono attorneys capable of providing such representation.

[1] Note that due to the Covid-19 pandemic, 2020 was an anomaly with the tax sale occurring in July, rather than May.

[2] Includes attorneys' fees, court costs, and other fees associated with the foreclosure court case such as mailing fees and publication.

Tax sale clinics and pro bono legal services help large numbers of impacted homeowners and tenants, but the demand far exceeds the availability of services. Residents suffer from a lack of basic information, transparency and clarity about the tax sale process from start to finish, which it is the obligation of Baltimore City to address. Many residents are not able to access or understand the information that is available online. Residents may rely on communications with customer services representatives from city departments and offices, who sometimes leave residents in distress feeling more confused, ignored, and powerless.

As difficult as the tax sale process is for homeowners to navigate, it can be even more confusing and murky for tenants. Because they are not on the title, tenants are not able to get information directly from the city on property taxes or other municipal liens, nor the tax sale status. Tenants may be current on rent yet find the property has gone to tax sale. A lack of understanding and communication between the tenant and landlord about the tax sale process and their respective rights and obligations destabilizes the relationship and the tenants' housing security. Tenants may assume they have to vacate, or that they no longer have to pay rent, or that they have to continue to pay rent to the former owner even after a right of redemption has been foreclosed.

Problems also abound for legacy homeowners, with tangled titles, where the deed remains in the name of the deceased relative. At Pro Bono Resource Center's 2020 tax sale prevention clinics, 13% of clients did not have the title to the property in which they lived: in almost all cases, the record owner was deceased and the heirs had been unable to obtain proper title, often because of liens still attached that prevented the heirs from recording a new deed. These homeowners are in a similar position to tenants. Without being the party on title, their legal options are limited.

Untold numbers of Baltimore City homeowners find themselves delinquent on

Ama Tubman's Story

Ama Tubman is a Baltimore native and resident in her family home. She lives in Park Heights with her husband and children. She is a local entrepreneur. In 2016, her family home was sold in tax sale for a $4000 water bill, which was the result of a hidden leak. Ms. Tubman got the leak repaired however she was unaware that using a repair person, who was not licensed by the state, would result in her being ineligible to receive a water bill adjustment from the Department of Public Works. That water bill was turned into a tax lien certificate that was sold in the 2016 Tax Sale. Ms. Tubman and the lawyer representing the certificate purchaser agreed on a payment plan to satisfy the lien. She honored that agreement.

The next year Ms. Tubman attempted to pay her annual property taxes, but was informed by the Finance Department that her 2016 tax lien still needed to be satisfied. She contacted the certificate purchaser who instructed their lawyer to provide the city with the appropriate lien release. Due to an apparent lack of clear communication between the attorney representing the certificate purchaser and Baltimore City, the lien release was never sent to the City. As a result, the bills piled up, and in 2019 the house went back into tax sale. She called the City department that handles tax sales and was told there were now <u>two liens on the house</u> and that she would have to satisfy them both.

In August 2020, Ms. Tubman called the lawyer representing the 2019 tax certificate purchaser. The lawyer informed her she would need to first pay his fee and after that she would have two weeks to pay the city $7100, representing the taxes owed and fees, in order to redeem the property and avoid tax sale foreclosure. On December 1, 2020, Ms. Tubman went to the Abel Wolman Building to try to resolve this issue, and they were closed due to COVID-19. She tried to go to the Circuit Court for Baltimore City on Calvert Street for help and they too were closed due to COVID-19. A security guard at the Abel Wolman building gave her a number to call for assistance with this problem. She called it and a staff member answered and she explained everything to her. The staff person again stated that there were <u>two liens on the property</u>. Ms. Tubman emphatically explained to her that the 2016 lien had been released. The employee put Ms. Tubman on hold to dig a little deeper. One minute later she returned to the phone and told her upon looking a little further she could see that the first lien was satisfied. Ms. Tubman asked what she should do now that the City was admitting she should not be in this position. She was put on hold yet again. Upon her return Ms. Tubman was told that a supervisor had agreed to give her until the end of December to pay everything due to the error. In the meantime she was told to pay the lawyer and tell him to put the end of the month on the release letter.

Exasperated, Ms. Tubman reached out to the Stop Oppressive Seizures (SOS) Fund for help. The SOS Fund contacted Tax Sale Ombudsman Michael O'Leary on December 4th, 2020. The Tax Sale Ombudsman asked the Bureau of Revenue Collections (BRC) to investigate. The BRC investigated the issue and stated that the tax certificate purchaser's lawyer did not provide the release to the city until November 2020 so the city was not in error. Despite the fact the tax certificate purchaser had directed his lawyer to provide the release more than a year before, the City claims it wasn't received until late last year. It is possible that the release was lost in the Ransomware attack of 2019 or that the attorney for the certificate purchaser failed to send the release to the city. SOS asked the city to provide Ms. Tubman and the SOS Fund a copy of the release but to date that has not been provided. In the end BRC said all they would do was give Ms. Tubman until January 31st 2021 to pay the city the outstanding debt after paying the 2019 tax sale purchasers attorney.

A run of the mill leaky pipe, exacerbated by the Department of Public Works' lack of an equitable dispute/adjustment process for water bills, plunged Ms Tubman into the onerous, complex and opaque tax sale redemption process. Now Ama Tubman and her family find themselves at the edge of homelessness, saddled with a large debt that would not have existed otherwise. Ms. Tubman doesn't have the nearly $10,000 necessary to clear the debt. Ama Tubman and her family are facing homelessness in the middle of a global health pandemic COVID-19. This story perfectly illustrates the impact of the problematic and predatory practices that are woven through the city's tax sale process.

property taxes because they failed to submit their annual application for the Homeowners Tax Credit, which reduces annual property taxes for lower income households in owner-occupied residential properties. Many homeowners simply don't know about this tax credit, or don't know that they need to resubmit for it annually. For homeowners 70 and older this tax credit may be applied for after the deadline and made retroactive up to three years. Those legacy homeowners in tangled title properties are, unfortunately, currently not eligible for the Homeowners Property Tax Credit, because their names aren't on the deed to the property. Sadly, these homeowners may be working with a legal services program, but because the process of opening an estate, transferring the deed and then securing the Homeowner's Property Tax Credit can take a few years, they can lose the home to tax sale in the interim.

Over the years that legal service providers have been working with tax sale clients, it has become clear that these homeowners want to pay their tax bill but are financially unable. In Baltimore City, with housing values ranging from very low to very high, we have many low-income, often on fixed income, homeowners. They are good citizens, they want to participate in their civic duty, but financially are stretched way too thin. At one tax sale clinic, a gentleman in his 80's came for help. He and his wife had been married for 50 years, and had been in their home for over 40 years. But in that year, their cost of medicine had increased and a family member was in a crisis and borrowed some money which they promised to pay back and then didn't. And so, after all those years of meeting his tax requirements, one year of hardship put him at risk of tax sale. He isn't the exception, many homeowners at risk of tax sale have been in their homes for decades.

While the majority of homeowners cycling through tax sale are primarily older adults, that doesn't tell the entire story. The majority of these homeowners are in multigenerational households where they are providing shelter and support for their children and grandchildren. When the home is lost, there is a ripple effect impacting the well-being

924 Bonaparte Ave.

The property at 924 Bonaparte Ave. in East Baltimore Midway has been vacant for a long time. A Vacant Building Notice was issued in June 2008, but neighbors report that no one has lived there since the 1980s. It has been boarded up off and on over the years, and the City and the neighbors cut the grass and clean up trash and illegal dumping. It is owned by Baltimore Return Fund, LLC, which acquired it through tax sale, filing for foreclosure of the right of redemption in 2005, and recording the deed in 2008. At the time of the tax sale, the property was assessed at $3,000 and it had accrued liens of $11,145. In 2012, the property went back to tax sale for $3,881.46 of liens. There were no bidders, so Baltimore Return Fund, LLC remained the owner.

Baltimore Return Fund, LLC is one of a number of limited liability companies (LLCs) associated with beneficial owner Scott Wizig, a property owner from Texas with a number of LLCs in Maryland. Wizig and his companies (including Compound Yield Play, LLC, Wiz Homes, LLC, MD Liberty Homes, LLC, and others) were at one time among the most significant owners of vacant properties in Baltimore. The companies owned 326 properties in Baltimore, as well as properties in Texas and New York. In Texas, Scott Wizig's companies had been involved in dubious rent-to-own schemes. In New York, prosecutors brought charges for property violations and habitability issues in his rental properties that could have resulted in jail time.

In Baltimore, Wizig companies acquired properties at tax sale for, on average, $5,000, and would then seek purchasers to resell them, often for around $20,000 – to other property investors, or to individuals and families. If there were no purchasers, the properties were left to sit and deteriorate, with little maintenance of what were often already dilapidated vacant properties. The nuisance conditions of these properties meant that they often continued to accumulate Housing Code violations.

The ownership by LLCs made it difficult to know who was controlling the properties, and who to contact to address issues with the properties and damage they caused to neighboring homes and the community. It also made it difficult to connect the various companies to each other and to find the beneficial owner. Through research and ultimately litigation, six community associations from across Baltimore learned that they had one thing in common: 57 vacant and abandoned, deteriorating properties within the boundaries of their neighborhoods were owned by a Wizig company. The six community associations - Alliance of Rosemont Community Organizations, Inc. in west Baltimore, Coldstream-Homestead-Montebello Community Corporation and Greater Greenmount Community Association, Inc. in east Baltimore, and Carrollton Ridge Community Association, Inc., Mount Clare Community Council, Inc., and Operation ReachOut SouthWest, Inc. in southwest Baltimore – reached out to the Wizig LLCs to ask them to comply with the Housing Code and clean up the properties. Receiving no response, they brought litigation under the Maryland Community Bill of Rights to force the property owners to comply with the Code. The community associations were ultimately successful in the lawsuit, and the property owners demolished or rehabilitated the properties and paid a settlement to the community associations for damages their properties had caused to the communities.

As a result of the lawsuit, 924 Bonaparte Ave. was partially rehabilitated in 2015, though the work done was limited to what was needed to bring the exterior of the property up to code, and the City issued a citation for work done without a permit. However, the property remains vacant today. Neighbors describe it as an eyesore, a vacant house on a block of homeowner occupied properties. It was at one point used as a drug stash, and has been a magnet for illegal dumping, contributing to the rodent problems in the area. The owner of the property next door had expressed interest in buying it and fixing it up, but the owner of 924 Bonaparte Ave. did not sell. (Continued on p. 5)

924 Bonaparte Cont.

In 2016, 924 Bonaparte Ave. went back to tax sale again for $16,932.06 of liens (on a $5,000 assessed value). Just as in the 2012 tax sale, there were no bidders, and Baltimore Return Fund, LLC remains the owner from the original tax sale foreclosure in 2008. The property remains vacant today. As for Baltimore Return Fund, LLC, its incorporated status was forfeited by the state in 2016. It reinstated its status in 2018 but is currently not in good standing with the State Department of Assessments and Taxation.

The story 924 Bonaparte Ave. tells about tax sale, and its impact on communities and on Baltimore as a whole, is daunting and disheartening. Despite going to tax sale in 2005, 2012, and 2016, it remains vacant today. Because tax sale proved to be an ineffective tool to return the property to productive use, the community association, neighborhood residents and leaders, pro bono attorneys, and advocates were forced to expend their efforts and resources to seek resolution of a blight on the community. It's true that the City received the lien payment from Baltimore Return Fund, LLC at the initial tax sale when it acquired the property in 2008. But in all other ways the costs to accrue – to neighboring property owners who must live next to the vacant at 924 Bonaparte Ave., to the community dealing with the eyesore and the illegal dumping, and to the City which must keep it clean and boarded and may, in the end, have to put it back in tax sale again.

of the entire family, destabilizing their housing, education, work, and general well-being. Additionally, since the majority of these homes have little to no mortgage, any other housing will be more expensive, furthering their financial hardships. The cost to the community is significant, as well. Many families falling into tax sale are generational homeowners that have lived on their block for decades. They know their neighbors; they invest in improving their neighborhood and keep an eye on what's happening on their street. Without their presence, not only does the neighborhood gain yet another vacant, they also lose an active community member.

In addition to its negative impacts on homeowners, the current tax sale system also harms communities by contributing to the problem of vacant and abandoned properties in Baltimore City. Because the current tax sale system relies on private purchasers acquiring tax sale certificates, a financial incentive is necessary for the purchasers to buy certificates – either the property owner paying to redeem (along with paying the attorney fees and interest), or foreclosure and acquisition of the property itself. However, for vacant and abandoned properties, the owner may have died or walked away from the property, and thus will not redeem. Longtime vacant properties, of which 6,000 are estimated to cycle through tax sale year after year, may have significant tax liens, from annually accruing unpaid tax debt and liens from demolition costs or code violations. In addition, they may be in such a state of disrepair that the investment required to rehabilitate them exceeds their value. One example of such an underwater property is 1839 Aisquith St., a vacant corner lot next to vacant property in the Oliver neighborhood. The property had an assessed value in 2018 of $1,000, and total liens of $1,475,431.76. For these underwater vacant properties, with high tax liens, significant rehabilitation needs, and low assessed property values, no tax sale purchaser will dive into the depths to buy and rehabilitate them.

The impact of these properties on nearby neighbors and the surrounding community is significant. These properties increase the risk of fire attract crime demand the disproportionate use of City services like the Fire and Police Departments are responsible for hazardous and unsightly trash, illegal dumping, and high grass and weeds; and result in declining property values for nearby homes. Additionally, these vacant properties impact the health and wellbeing of community members. Chronic exposure to the vacant and often deteriorating houses, trash, and rodents is a cause of chronic stress, sadness, and hopelessness. Neighborhood conditions, including perceptions of problematic rat levels in one's house, block, or neighborhood, have been shown to independently predict depressive symptoms.

Even for properties that do see their tax sale certificates purchased at tax sale, the impact on communities may ultimately be harmful. If the certificate purchaser determines during the tax sale foreclosure process that there is no value in the property, they may not fully complete the foreclosure and record the deed. This leaves a cloud on the title and complicates future efforts to acquire the property and return it to productive use. The previous property owner may walk away during the foreclosure process or after a foreclosure judgment, not realizing that a new deed has not been recorded. Property maintenance may break down, with each party disclaiming responsibility for the property, its upkeep, and future taxes. In the meantime, neighboring homes, especially those which share walls with these properties in limbo, may be damaged by conditions like burst pipes, weather damage from broken windows or holes in the roof, and fires and crime from casual entry into the property. The City will be forced to step in to clean and board the property and provide basic maintenance for public health and safety.

Because tax sale certificate purchasers need not be vetted as property owners or managers to participate in the tax sale, some may own other properties with housing violations. Others have demonstrated a willingness to engage in criminal behavior in participating in the tax sale, as evidenced by the bid rigging scandal which involved a number of tax sale certificate purchasers in Baltimore City from 2003 to 2007.

The impact of tax sale on Baltimore's residents are almost entirely negative:

1. Long time homeowners and residents risk losing their homes.
2. Those who can least afford it, families in the toughest financial circumstances, older adults and those with disabilities are statistically affected most. The statistical data of the clients served at tax sale prevention clinics held in Baltimore by the Pro Bono Resource Center and Maryland Volunteer Lawyers Service in 2020 is telling: 72% of clients were seniors, 48% were disabled, 85% identify as Black, and nearly three-quarters (72%) reported annual household incomes of less than $30,000. These residents are preyed upon by a predatory system and forced to pay exorbitant fees to keep their homes.
3. Tax sale does not affect all residents equally. Black residents are more likely to experience tax sale. The tax sale system has long had the inequitable outcome of stripping wealth from Black families and communities. All too often the same families that had to overcome redlining, blockbusting, and lack of access to credit based on their race to become homeowners now are at risk of losing their homes to tax sale.
4. Rather than reducing vacancy and blight, the current system increases vacancy. It incentivizes investors not to purchase vacant properties, instead pushing them towards owner occupied properties, where they are more likely to collect fees from desperate homeowners. As a result of tax sale, these properties are often ultimately abandoned and result in more vacant properties in Baltimore's neighborhoods. This increased vacancy rate results in higher costs for the City in terms of its fire and crime expenses and increased need to provide social services to the homeless.
5. Investors profit off fees and interest at tax sale, rather than the City itself.

III) Proposal for a new system

A tax sale system that meets the needs of residents and neighborhoods must identify different approaches for the different types of properties impacted by tax sale. The current system that treats a property that has been vacant for 20 years or more the same as an occupied property that has been in the family of a homeowner of color for generations is not able to equitably address the needs of the residents and community. Designing a new system that serves the needs of Baltimore City and its residents requires segmentation into three broad categories: owner occupied, non-owner occupied, and empty or vacant properties.

Owner-Occupied Properties: Support is Key to Success

Homeowners are critical residents who often provide foundational leadership in our neighborhoods. At the same time, low-income homeowners are among the most vulnerable in our city. The average length of homeownership amongst the 2020 Baltimore clients at pro bono legal clinics was 24 years, and nearly 75% of them did not have a mortgage. As low-income homeowners, 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 with white families having ten times the wealth of Black families. Since these long-time, mostly senior homeowners have paid off their mortgages and no longer have their property taxes sent to an escrow account on a monthly basis, they are faced with a large tax bill all at once. Because these residents are often pillars within our communities, it is incumbent upon our community to identify the best ways to equitably support them.

Identifying best practices for the redemption of properties from around the country can inform the best strategies to support delinquent homeowners. The most successful model we have seen is Rhode Island's Madeline Walker Program. The program was created in 2006 and named after 81-year-old Madeline Walker, who lost her home to tax sale foreclosure for an unpaid $496 sewer bill. Ms. Walker's home was then sold by a private investor for $85,000. The program is designed to provide significant support to delinquent homeowners. Rather than punitively selling off a homeowner's primary asset, the program works with them to provide support to address their needs and retain their home. This support is a critical component of the success of this program.

With this program, Rhode Island Housing purchases the delinquent liens. Each lien is held for at least 5 years if the homeowner does not pay. During that time the agency reaches out to homeowners with letters, calls, and in-person visits connecting residents to a range of supports available to help them keep their homes. These include providing payment plans, connecting them to available pro bono legal counseling, foreclosure prevention counseling, and other services. The goal is to identify the underlying financial challenge facing the household and connecting them to appropriate resources available in the community. After a 5-year period the agency may foreclose on the property if the liens remain unpaid.

Since the program's inception, Rhode Island Housing has purchased the liens on 4,100 properties. The median cost of the lien at the time of purchase is $2,950. To date over 80% of the liens have been redeemed, most within the first year following purchase of the liens. As of September 1, 2019, there were 621 active liens in the program. Rhode Island Housing has had to foreclose on only 109 liens since the program began, less than 3% of the total lien portfolio.

Since the launch of the program in 2007, the total program costs have been just over $4 million including employee salaries and benefits, mailing costs, and the total costs of the liens purchased. The program has 2.5 employees. Revenue from the program is about $3.1 million including about $2.5 million revenue from interest and principal payments on liens and about $621,000 in revenue from the sale of foreclosed properties. The net program cost since 2007 has been $846,585.

While the Rhode Island program is offered statewide, the program can be offered at a local level administered by Baltimore City. The scope of the program could also be expanded to include all owner-occupied properties included in the tax sale with liens below $10,000. This would include most owner-occupied properties included in the annual tax sale. Baltimore City would create the Tax Sale Services Office. This office would then provide targeted outreach to these homeowners providing payment plans and referral options. This approach supports homeowners well by providing support rather than bills that escalate very quickly. The staff can also provide support to the homeowners in completing the annual homeowner property tax credit application to ensure they do not encounter recurring challenges with their annual tax bills. The homeowners tax credit program is funded by the state and can reduce a low income homeowner's tax bill from thousands of dollars to hundreds each year, depending on their income level. For example, a homeowner with a total household income of $25,000 would have their property tax burden capped at $1230. The average amount of savings that could be achieved by the clients seen at Pro Bono Resource Center's 2020 tax sale prevention clinics was $1931. Any properties with liens exceeding 5 years that have been identified for sale can be sold using the tax sale foreclosure.

Vacant Properties: Sell the Property, Not the Debt

Vacant properties represent the largest amount of dollars included in the tax sale, but a small portion of the properties purchased. This is because the debt on most vacant properties is not purchased at the annual sale. The critical goal for these properties is to return them to productive use as quickly as possible with the end use supporting community priorities. According to the 2016 study by the Center for Community Progress (CCP), about 6,000 properties cycle through the Baltimore City tax sale every three years with the debt never being purchased. This is what creates the large artificial amount of debt that shows up each year and is never purchased. These properties will not return to productive use without action by Baltimore City because the amounts of the liens far exceed the value of the properties.

The vacant property tax sale system will be best applied in coordination with a full-service land bank serving Baltimore City. Land banks are entities designed to assemble vacant properties in targeted areas for redevelopment. They maintain the properties in their portfolio and coordinate future development plans with the local community. The land bank can use tax sale as a primary means of assembling property. The land bank will be able to strategically identify properties for acquisition. Other vacant properties will remain in the control of the city until the land bank or another responsible party moves forward with foreclosure. One of the critical benefits of the land bank is that an auction is not required at the end of the process. This allows the land bank to support community coordinated plans and priorities in the disposition of vacant properties.

Vacant properties will be foreclosed using an *In Rem* process. Described in detail in the 2016 report on the Baltimore City tax sale by the Center for Community Progress the primary difference from the current system is that with the *In Rem* process the city would sell the deed to the property rather than selling the debt associated with the property. This is a critical distinction that brings about a very different outcome. Because in the current system the debt is sold, a third party is introduced into the transaction. This creates a lot of confusion and challenges because property ownership is not transferred in most cases to the debt purchaser, but they maintain a lien on the property that must be satisfied. Lien purchasers often require payments resulting in significant profits at the expense of the community.

Within the *In Rem* system, the city or its designee (most likely the land bank) would complete foreclosure of the property taking full ownership with clean title. Because the property deed is sold rather than the debt, the outcome for the property can be controlled by the city rather than a third-party debt purchasing company.

Additionally, the *In Rem* process allows for properties to return to productive use more quickly than through the current system. With the current system, the debt on a property will have to wait until the next tax sale for inclusion once the debt is delinquent. Depending on the timing of the debt, this could extend the timeframe for foreclosure for more than a year. By creating a process that can move through the foreclosure process more quickly, properties can return to productive use more quickly.

In the Fall of 2020, Baltimore City approved use of the *In Rem* system for vacant properties where the liens on the property exceed the assessed value. While the system is new and implementation is just beginning, it provides a framework for the expansion of the entire system. Using the *In Rem* system for all vacant tax sale properties will save Baltimore citizens millions of dollars in fees each year, return vacant properties to productivity more quickly with community serving outcomes, and provide significant protections to the most vulnerable residents.

Other Properties (Those That Are Not Classified as Owner Occupied and Do Not Have a Vacant Building Notice)

Identifying solutions for non-owner-occupied properties is critical as we work to address the challenges created by tax sale. These properties represent about two-thirds of the revenue from properties sold at the July 2020 Baltimore City tax sale. There are several types of property that fall into this category. Legacy homeowners with tangled titles where the deed remains in the name of the deceased relative are a significant number of these properties. Included in this group would also be owner-occupied properties misclassified as non-owner occupied in the city and state systems. This is a significant problem in Baltimore City, due to a documented breakdown of processes in the Baltimore City land records office. Rental properties typically available to low-income residents are another large number of these properties. Most of these are owned by small landlords. Over 75% of landlords in Baltimore City own less than 10 units with the vast majority of those owning less than 4 units. These properties are not typically owned by large corporations. Another type of property that falls into this category is property owned by churches or other nonprofit groups. There are many small nonprofits that own properties in the City. Like the individual homeowners described, many of these groups have limited resources and have struggled with tax sale in the past. The final group of properties in this category are empty houses that do not have a vacant building notice. This group does not include properties in transition between occupants but rather properties that have become empty with no evidence of occupancy for at least 12 months and are often disinvested by the owner.

Maintaining a balanced approach for our citizens is critical in designing an equitable system for tax sale collections. During the first year of delinquency, the Tax Sale Services Office would segment these properties into the four separate categories. Legacy homeowners would be included with the same protections and support provided to owner-occupied homeowners. Additionally, they would be connected to pro bono legal services to address any deed issues. Any homeowners who have been misclassified by the city or state will receive support to identify the property as owner occupied in the state and city systems. These properties would then receive the same supports as outlined in the owner-occupied section. Following a five-year period, the Tax Sale Services Office could sell the home through tax sale foreclosure.

Rental properties where the owner has less than 10 units would be held for a minimum of three years. During this timeframe, payment plans will be made available to the landlords. Following the three-year period, the tax sale support office would determine if the property would move to a tax sale foreclosure. Properties owned by small nonprofits or small churches would also fall into this category and be granted the same payment plan option.

Properties determined to be empty and not in transition to new occupants should move forward to tax sale foreclosure following the procedures outlined below in the vacant property section if the owner does not begin and maintain a payment plan. It is important that these properties are put into tax sale more quickly to get them back to productive use.

IV) Financial considerations

City Tax Receipts

The July 2020 tax sale provides the best indication of future tax sale revenue that can be expected by Baltimore City. This is because prior to the 2020 sale the state legislature removed water bills for residential properties from tax sale. Historically, the tax sale in Baltimore generated $18-20 million annually. Data that is publicly available separates sales into two separate categories: owner occupied, and non-owner occupied.

Table 2

2020 Tax Sale Data					
	Owner Occupied	Non-Owner Occupied	Total Purchased	Retained by the City	Total Offered
Number of Liens Purchased	1015	3284	4299	1352	5651
Value of Liens Purchased	$5,794,635	$9,433,307	$15,227,942	$66,725,038	$81,952,980
Average Lien Amount	$5,709	$2,872	$3,542	$49,353	$14,502

Data from the July sale (see Table 2) shows that Baltimore City generated $15,227,942. Thirty eight percent of the revenue was generated from owner occupied properties representing 24% of the liens. Overall, Baltimore City sold 18.6% of the outstanding debt offered for sales. Over 80% of debt offered for sale was retained by Baltimore City.

The benefit of the current system to Baltimore is that tax sale provides an easy way to collect delinquent municipal liens quickly on properties where there is a very high probability of collections. The reason the liens purchased at the tax sale have a higher per property dollar value for owner occupied properties is because they are the most likely to pay off the bill. The average lien amount for non-owner-occupied properties is lower because the purchasers are looking for properties that are likely to pay off. Lower lien properties typically have more value and are therefore more likely to redeem. The properties with very high liens are typically retained by the city because there is not a market for those purchasing those properties. Baltimore City has reported that very few properties have been redeemed for ownership by lien purchasers.

Aside from the impact on residents and communities outlined above, there are several negative financial factors for Baltimore City regarding tax sale. The first is that the city is retaining 80% of the debt offered. This also represents the poorest quality debt. Purchasers choose the debt most likely to be paid back leaving the city with the least likely debt to be collected. During the July 2020 tax sale, the total amount of the winning bids was $459,675,790. This is because the amount above the lien amount is only paid if the purchaser finalizes a foreclosure on the property. The amount collected by Baltimore City represents 3.3% of the amount of the winning bids. This illustrates that the intent of the purchasers is to simply do debt collection on the property. The excess bid is only paid if foreclosure is finalized and is almost never collected by the city. From a debt collection perspective selling the best quality debt while retaining what is least valuable does not help the city collect more difficult debt. Under the proposed system all occupied property owners would receive direct outreach and support to pay not only delinquent liens but future liens as well. By conducting the collection process through a supportive rather than punitive approach, Baltimore City will collect additional revenue over time.

Cost and Revenue of the New System: Generating Additional Collections for the City

Transitioning from the current tax sale system to the proposed system would not cost Baltimore City any revenue. In fact, it would result in additional collections as interest accrues on the debt. The change would impact the timing of when the city receives the revenue. Collections provided through payment plans or other payment strategies will not result in the short term one day influx of around $15 million but will generate equal or higher amounts once the system is fully implemented. Baltimore City will also be providing collections to its residents in a supportive, equitable and much more affordable approach than the current system. The proposed system will ensure that the City's tax sale system doesn't unfairly target communities of color.

Under the proposed system we recommend maintaining the current 12% tax rate currently in place for owner occupied properties for all properties. This rate is lower than most consumer debt and provides residents the time and support needed to bring their debt current. We also propose not charging any fees for the services. Table 3 compares the cost for the homeowner to redeem their property for a $1,000 lien after 1 year in the current system compared to the proposed system.

Table 3

	Current System	Proposed System
Original Lien Amount	$1,000	$1,000
Accumulated Legal Fees	$2,000	$0
Interest @ 12%	$330	$120
Total Due After 12 Months	$3,330	$1,120

Maintaining the current system which leads homeowners with smaller amounts of debt to have an increase in cost of over 300% in one year illustrates the predatory nature of the current system. The proposed system would replace very high-cost debt with much more affordable levels of debt that do not escalate at a predatory rate while also providing supportive services to residents. This is because the city does not need to include high-cost legal fees.

The program cost assumptions are based on the support that has been provided by the State of Maryland Tax Sale Ombudsman. Over 12 months he assisted 835 Maryland residents through a wide variety of supports. The assistance provided included listening and explaining the current tax sale system, helping eligible homeowners apply for the homeowner property tax credit program, connecting residents to benefit services including SNAP, and providing referrals to local legal services, counseling, and social service agencies. These services are expected to be similar to those needed for the proposed system. For the purposes of modeling, shown in Table 3 below, we will assume that one employee can service 500 delinquent liens. The lower number is due to the need for proactive outreach to residents. Additionally, for the purposes of calculation we will include the cost of each full-time position at $60,000 including benefits with one director position included at $125,000 total cost and one deputy director position included at $90,000. It is also assumed for the purposed of comparison that Baltimore City expects to service a similar number of liens that were sold on the 2020 tax sale (4,299) and have a similar amount of interest-bearing loans in collections. Table 4 indicates the total staff cost to operate the program.

Table 4

Total Staff Costs Needed for New System					
Staff Position	Number of Full-Time Positions	Average Cost Including Benefits	Total Cost	Residents Served Per Person	Total Residents Served
Tax Sale Director	1	$125,000	$125,000	0	0
Deputy Tax Sale Director	1	$90,000	$90,000	250	250
Staff Member	9	$60,000	$540,000	500	4500
Totals	11		$730,000		4750

Revenue generated by the new system will come from interest charged on the outstanding debt. For the purposes of modeling, we are assuming that 75% of residents bring their lien current within the first year with 50% current within six months. The redemption time will be an average of redemptions that occur during the time period. Table 4 assumes an outstanding lien balance at a rate consistent with the number of liens sold in the 2020 tax sale for comparison purposes. Any liens not purchased currently revert to Baltimore City. The new system provides a plan for how to deal with these properties that currently remain in tax sale title limbo. Table 5 also only illustrates the revenue from one year of tax sale. Because Baltimore City conducts the tax sale each year, the revenue will continue to grow, ensuring adequate resources to support the program costs.

Table 5

Interest Revenue from New System						
Original Total Lien Balance	$15,000,000	Interest in Year 1	Interest in Year 2	Interest in Year 3	interest in Year 4	Interest in Year 5
50% redeem at 6 months	$7,500,000	$450,000	$0	$0	$0	$0
25% redeem at 12 months	$3,750,000	$450,000	$0	$0	$0	$0
10% redeem at 24 months	$1,500,000	$180,000	$180,000	$0	$0	$0
5% redeem at 36 months	$750,000	$90,000	$90,000	$90,000	$0	$0
3% redeem at 48 months	$450,000	$54,000	$54,000	$54,000	$54,000	$0
2% redeem at 60 months	$300,000	$36,000	$36,000	$36,000	$36,000	$36,000
5% eligible for foreclosure	$750,000					
Total	**$15,000,000**	**$1,260,000**	**$360,000**	**$180,000**	**$90,000**	**$36,000**

During the first year of operations the program is expected to generate $1,260,000 of new revenue for Baltimore City while the high level of service provided to residents costs $730,000. This results in excess revenue of $530,000. These funds can be used to provide additional support to legal, financial counseling, and social service providers enabling additional services to support more residents.

Cash flow is another important consideration for Baltimore City. Table 6 illustrates the revenue generated annually under the current assumptions and the flow of cash by year.

Table 6

	Cash Flow Generated by Year					
Tax Sale Year	Collections Year 1	Collections Year 2	Collections Year 3	Collections Year 4	Collections Year 5	Collections Year 6
Tax Year 1	$12,510,000	$1,860,000	$930,000	$540,000	$336,000	$750,000
Tax Year 2	$0	$12,510,000	$1,860,000	$930,000	$540,000	$336,000
Tax Year 3	$0	$0	$12,510,000	$1,860,000	$930,000	$540,000
Tax Year 4	$0	$0	$0	$12,510,000	$1,860,000	$930,000
Tax Year 5	$0	$0	$0	$0	$12,510,000	$1,860,000
Tax Year 6	$0	$0	$0	$0	$0	$12,510,000
Total	**$12,510,000**	**$14,370,000**	**$15,300,000**	**$15,840,000**	**$16,176,000**	**$16,926,000**
Change	**($2,490,000)**	**($630,000)**	**$300,000**	**$840,000**	**$1,176,000**	**$1,926,000**

As table 5 illustrates there is a reduction in revenue to Baltimore City during the first and second year with the new system followed by an increase each of the following years. Once the new system is fully implemented, Baltimore City will generate an additional $1,926,000 annually compared to the current system.

Benefits to Baltimore Residents: An Equitable System that is Less Costly

The reason to consider adoption of the new system is not the revenue generated. The proposed change is about meeting the needs of Baltimore City residents and communities. The table below illustrates the cost to Baltimore residents from the 2020 tax sale assuming the same redemption rates projected for the new system.

Table 7

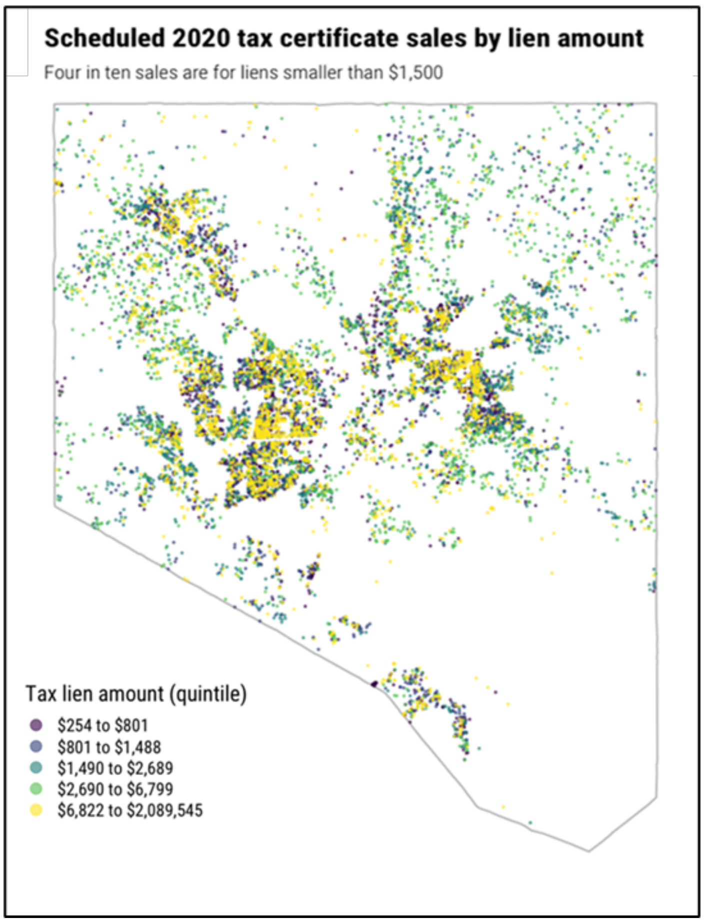
Redemption Rates	Dollars	Number	Fees	Collective Interest	Collective Fees	Total Cost
Total Owner Occupied	$5,794,635	1,015		12%		
50% redeem at 6 months	$2,897,317	508	$0	$173,839	$0	$173,839
25% redeem at 12 months	$1,448,658	254	$2,000	$347,678	$508,000	$855,678
10% redeem at 24 months	$579,463	102	$2,000	$139,071	$204,000	$343,071
At Risk of Foreclosure	$869,195	151				
Total Non-Owner Occupied	$9,433,307	3,284		18%		
50% redeem at 6 months	$4,716,653	1,642	$0	$424,499	$0	$424,499
25% redeem at 12 months	$2,358,326	821	$2,000	$424,499	$1,642,000	$2,066,499
10% redeem at 24 months	$943,330	328	$2,000	$339,599	$656,000	$995,599
At Risk of Foreclosure	$1,414,996	493				
Total	**$15,227,942**	**4,299**		**$1,849,185**	**$3,010,000**	**$4,859,185**

As illustrated in table 7, the cost of the current tax sale system on residents is $4,859,185 in fees and interest., which inequitably falls on the backs of Black residents, person with disabilities and those with the least income to afford it.

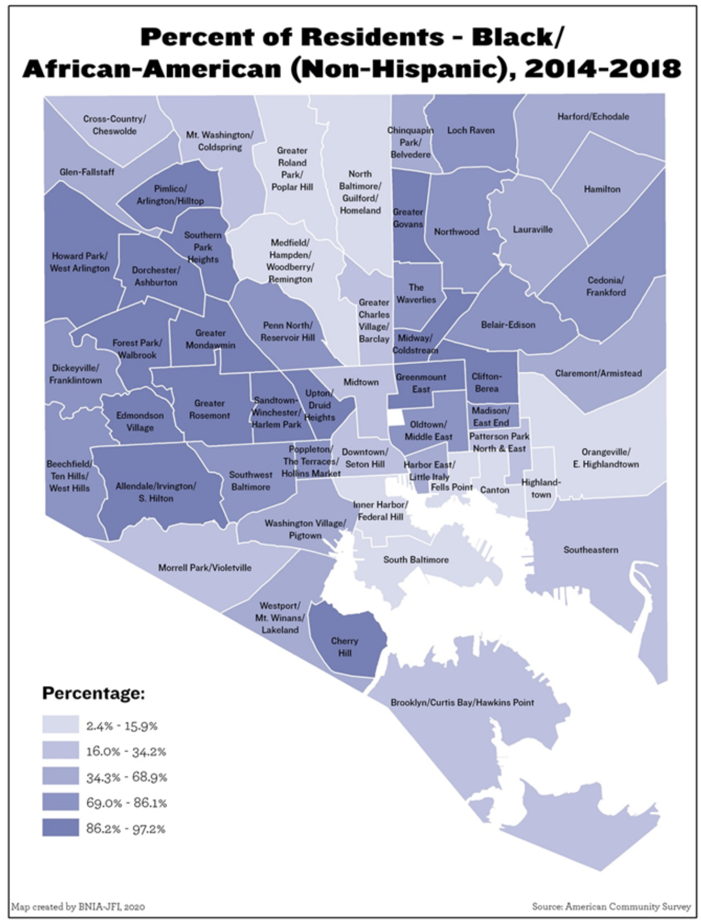
In addition to the direct cost associated with tax sale there are two additional costs created by tax sale. Displacement of residents, which can be an outcome of tax sale, creates dependence on the social service network in Baltimore. It is much more expensive for Baltimore City to provide the level of social services needed by displaced residents. It is far more cost effective to provide assistance to residents helping them remain in their homes. The second is the loss of equity experienced by property owners, disproportionately experienced by Black homeowners. When property is lost to tax sale through foreclosure all of the equity held in the property is lost. This wealth is lost to the property owner and often represents the greatest source of wealth for them.

Baltimore city leaders regularly express a desire to promote and lead a city focused on equity. A long history of segregation, redlining, and discriminatory housing policies are part of Baltimore's story. While none of our residents and leaders are proud of this past, it continues today in several forms. Tax sale is one of the most profound and inequitable examples of current discrimination. Map 1 below shows the location of properties scheduled for tax sale in 2020. Map 2 shows neighborhoods that are predominately residents of color. As shown in the maps, the significant majority of tax sale properties are in predominately minority census tracts indicating minority ownership. Tax sale strips wealth from minority families and communities. Even when homes are not lost, the cost of the tax sale system which according to table 7 exceeds $4.8 million, the cost on the most vulnerable Baltimore residents is staggering. The justification of continuing government-sponsored predatory practices no longer exists. The time to adopt the new system has arrived.

Map 1



Map 2



In summary, the proposed system treats residents in supportive ways and with dignity as opposed to the current system that is predatory, and strips wealth from low-income families and residents of color. The equity of the new system contrasted with the exploitation of the existing system illustrates the need for change. The tax sale system as it stands is inequitable and costs the City money, increases vacancy and creates untold hardship for the City's residents. Longtime homeowners are losing their family homes due to financial hardship and a system that is almost impossible to navigate. Those who are tenants or legacy property owners are in an even more tenable position. Tax sale also targets churches that have been in communities for generations and small landlords, who are also struggling to make ends meet. As investors profit, the City collects less than 20% of the debt owed to it. Many of these investors leave properties acquired at tax sale to sit vacant and abandoned and fail to pay additional taxes as they become due.

The City needs a better system. We propose a system in which a property that is vacant and owned by a corporation is handled differently than a property occupied by an 80-year-old great grandmother, raising her great grandchildren. Residents are given an opportunity to enter payment plans and get the credits that will enable them to keep their home for generations. At that same time, private investors are not siphoning off what is owed to the City and vacant properties are being quickly disposed of to a land bank that can make sure they are getting into productive use. The residents and the City of Baltimore deserve a tax sale system that works for the community and the taxpayers of Baltimore.

The following organizations express their support for the new tax sale system outlined in this paper:

Neighborhood Housing Services of Baltimore
Maryland Volunteer Lawyers Service
Fight Blight Bmore
St. Ambrose Housing Aid Center
Pro Bono Resource Center of Maryland
Community Law Center
Community Development Network of Maryland