

Department of Legislative Services  
 Maryland General Assembly  
 2020 Session

FISCAL AND POLICY NOTE  
 Third Reader - Revised

House Bill 1181  
 Ways and Means

(Delegate Kaiser)

Budget and Taxation

Property Tax - Tax Sales - Data Collection

This bill alters and expands specified data collection and reporting responsibilities of the State Department of Assessments and Taxation (SDAT) regarding tax sales. **The bill takes effect June 1, 2020.**

Fiscal Summary

**State Effect:** General fund expenditures increase by \$70,600 in FY 2021 and by \$69,500 in FY 2025. Future year expenditures reflect annualization and inflation. Revenues are not affected.

| (in dollars)   | FY 2021    | FY 2022    | FY 2023    | FY 2024    | FY 2025    |
|----------------|------------|------------|------------|------------|------------|
| Revenues       | \$0        | \$0        | \$0        | \$0        | \$0        |
| GF Expenditure | 70,600     | 63,500     | 64,900     | 67,200     | 69,500     |
| Net Effect     | (\$70,600) | (\$63,500) | (\$64,900) | (\$67,200) | (\$69,500) |

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease*

**Local Effect:** Local government expenditures may increase by a minimal amount to comply with the bill’s reporting requirements. Local revenues are not affected.

**Small Business Effect:** None.

Analysis

**Bill Summary:** The bill requires SDAT to issue a report each year that includes an analysis and summary of the information collected through an annual tax sale survey. Each county must provide SDAT all specified information on the form that SDAT provides. The report

must include the following information concerning the activities of the State Tax Sale Ombudsman in the preceding taxable year:

- the number of homeowners who contacted the ombudsman;
- the number of homeowners assisted by the ombudsman to apply for the homeowners' property tax credit and the homestead property tax credit;
- the number of homeowners assisted by the ombudsman to apply for other discount programs or public benefits and a brief summary of those programs and benefits;
- the number of homeowners referred by the ombudsman to legal services, housing counseling, and other social services, and a brief summary of those services; and
- any other relevant information.

SDAT must publish the report on the department's website by November 15 of each year and submit the report to the Senate Budget and Taxation Committee and the House Ways and Means Committee.

For each category of property specified by the bill, SDAT must obtain the following data for the preceding taxable year: (1) the total number of properties; (2) the total lien amount for all properties; (3) the average lien amount for all properties; and (4) for each of the previous data categories, disaggregated data for properties that are owned by a homeowner.

SDAT must obtain the following information concerning each county's tax sale process for the preceding taxable year:

- each type of charge that the county collects through its tax sale process, including property taxes, water and sewer charges, environmental charges, and any other local government charges;
- the length of time the tax on a property is required to be overdue before the county begins the process to sell the property;
- how frequently the county conducts a tax sale and the time of year when the tax sale occurs;
- whether the county conducts tax sales on behalf of municipalities in the county and, if applicable, which municipalities;

- the rate of interest the county charges on overdue property taxes;
- the rate of redemption interest a property owner is required to pay to redeem a property after a tax sale;
- the minimum threshold amount of unpaid taxes on a residential property that will cause the county to put the property in tax sale;
- regarding bid balance money in excess of the amount required for the payment of taxes, interest, penalties, and costs of the sale of a property (1) the total aggregate amount of all bid balance money held by the county in a special fund pending distribution to property owners; (2) the total aggregate amount of bid balance money distributed to property owners; and (3) the total aggregate amount of bid balance money transferred to the county;
- whether the county has established a county tax sale ombudsman; and
- a copy of the separate insert required to be mailed to property owners.

The bill requires SDAT to collaborate with counties to obtain disaggregated data on properties that are owner-occupied and are subject to the tax sale process. SDAT must use the list of properties that have an approved application for the homestead property tax credit to help counties identify owner-occupied properties that are subject to the tax sale process.

If any county cannot report disaggregated data on properties that are owner-occupied and are subject to the tax sale process in the report due on or before November 15, 2020, SDAT must include in that report a description of its efforts and why the efforts were insufficient to obtain disaggregated data on properties that are owner-occupied that are subject to the tax sale process.

SDAT must collaborate with counties and the Administrative Office of the Courts to obtain data on properties for which the right of redemption has been foreclosed by a private holder of a tax sale certificate.

SDAT must inquire into whether the procedures required should allow counties to report data on properties for which the right of redemption has been foreclosed by a private holder of a tax sale certificate.

If any county cannot report data on properties for which the right of redemption has been foreclosed by a private holder of a tax sale certificate in the report due on or before November 15, 2020, the department must include in that report a description of its efforts

and why the efforts were insufficient to obtain data on properties for which the right of redemption has been foreclosed by a private holder of a tax sale certificate.

**Current Law:** Chapter 730 of 2019 established the State Tax Sale Ombudsman within SDAT and authorized counties and municipalities to withhold from tax sale dwellings of homeowners who are low-income, over 65 years old, or are disabled, in accordance with criteria established by the local jurisdiction. In addition, the legislation expanded the required contents of specified notices to include information about the tax sale process and the State Tax Sale Ombudsman; and established various tax sale data collection and reporting requirements.

Chapter 730 also required SDAT to conduct an annual survey of each county and any municipality that conducts a tax sale by a collector to obtain specified data. SDAT must analyze and summarize the information collected through the survey annually in a report and (1) publish the report on its website and (2) on or before December 31 each year, submit the report to specified committees of the General Assembly.

**Background:** The tax sale system in Maryland, like many states throughout the country, is designed for local counties to collect delinquent real property taxes and other unpaid charges owed to the counties (such as water or environmental liens), all of which are liens against the real property.

Each county in Maryland conducts an annual tax sale, whereby the tax liens are offered to the public at auction. Generally, the highest bidder in the auction pays the total amount of the tax liens to the county and receives a tax sale certificate from the county, which gives the bidder the right to obtain ownership of the property by filing a tax sale foreclosure lawsuit.

Every owner of record of real property must pay real estate property taxes on that property and any other fees that become liens on the property if unpaid. Real estate property taxes and fees on rental properties are the responsibility of the property owner. If there is a mortgage on the property, it is the responsibility of the property owner to send or deliver the real estate property tax bill to the bank, building association, or other lending institution. Many times, however, mortgage companies pay the real estate property tax bills. Real estate property taxes are due and payable every year even if there is no mortgage due on the property.

Generally, once properties are deemed delinquent, and the owner does not pay within a certain timeframe, the property enters tax sale. Investors purchase the liens, allowing the jurisdiction to collect on those liens and receive the outstanding amounts all at one time. The tax sale purchaser has two years to redeem the lien or foreclose on the property. Homeowners in this situation can redeem the lien by paying the purchaser the amount of

the lien, plus up to 18% interest in some jurisdictions, plus various fees outlined in the current statute. In the case of vacant property liens, many are not sold at tax sale and, therefore, the liens continue to accumulate and the properties continue to be a nuisance on the community.

For general information about the tax sale process, see the **Appendix – Tax Sale Process**.

**State Fiscal Effect:** General fund expenditures increase by \$70,600 in fiscal 2021 and by \$69,500 in fiscal 2025. This estimate reflects the cost of SDAT hiring one administrative specialist to assist the counties in responding to the survey, following up with the counties to obtain additional or missing survey information, and assisting the State Tax Sale Ombudsman in compiling the survey responses from 24 different tax sale offices. The estimate includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

|   |                 |
|---|-----------------|
| Position(s)                             | 1               |
| Salaries and Fringe Benefits            | \$65,053        |
| Operating Expenses                      | <u>5,525</u>    |
| <b>Total FY 2021 State Expenditures</b> | <b>\$70,578</b> |

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

**Local Fiscal Effect:** Local government expenditures may increase by a minimal amount to comply with reporting requirements. For example, Anne Arundel County advises that it will incur computer system reprogramming costs of approximately \$10,000 in fiscal 2021 to collect the required data.

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### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Anne Arundel, Garrett, and Montgomery counties; Maryland Association of Counties; Judiciary (Administrative Office of the Courts); State Department of Assessments and Taxation; Department of Legislative Services

**Fiscal Note History:**  
rh/hlb

First Reader - February 25, 2020

Third Reader - March 13, 2020

Revised - Amendment(s) - March 13, 2020

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## **Appendix – Tax Sale Process**

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In general, a tax collector must sell, at an auction, not later than two years from the date the tax is in arrears, all property in the county on which the tax is in arrears. However, this requirement does not apply in Baltimore City, and statute is silent as to any timeline for the sale. The time for the tax sale is established by local law. Failure of the collector to sell the property within the two-year period does not affect the validity or collectability of any tax or the validity of any sale subsequently made.

The tax collector sets specified terms for the auction and publishes public notice of the tax sale, including requirements for potential bidders.

When a property is purchased at a tax sale, the purchaser must pay to the tax collector any delinquent taxes, penalties, sale expenses, and a high-bid premium except as otherwise specified. Except for agricultural property, when a bidder at a tax sale purchases a property in Baltimore City and Prince George's County under specified circumstances, the bidder must pay a high-bid premium that is the greater of 20% of the amount by which the highest bid exceeds the lien amount or 40% of the property's full cash value. The terms for payment of the purchase price and high-bid premiums, if any, are determined by the collector.

Generally, the property owner has the right to redeem the property within six months from the date of the tax sale by paying the total lien amount on the property, delinquent taxes, penalties, interest, and certain expenses of the purchaser. If the owner redeems the certificate, the purchaser is refunded the amounts paid to the collector plus the interest and expenses. If the owner does not redeem the certificate, the purchaser has the right to foreclose on the property after the six-month right of redemption period has passed. Under most circumstances, if the right to foreclose is not exercised by the purchaser within two years, the certificate is void, and the purchaser is not entitled to a refund of any monies paid to the collector.