Legislative Analysis

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REDUCE REDEMPTION AMOUNTS FOR DELINQUENT PROPERTY TAXES

House Bill 5124 (H-3) as reported from committee
Sponsor: Rep. Wendell Byrd
1st Committee: Local Government and Municipal Finance
2nd Committee: Ways and Means
Complete to 12-10-19

BRIEF SUMMARY: House Bill 5124 would amend the General Property Tax Act to reduce the redemption amount for delinquent taxes on a parcel of property under certain circumstances. Specifically, until July 1, 2023, the bill would apply eight new provisions to property forfeited for delinquent taxes located in local units of government whose treasurer had not opted out of them by providing a written notice of nonparticipation.

FISCAL IMPACT: Counties choosing to reduce the amount required to redeem tax-foreclosed property under provisions of the bill would realize reduced revenue unless reducing the amount owed would result in payments that, but for the provisions of this bill, would not have been received. The provisions of the bill are permissive and would not require action by a county treasurer. The net change in revenue for any local unit of government would depend on the scope of use by each county treasurer and cannot be estimated. The provisions of the bill pertaining to the Department of Treasury could increase administrative and oversight costs for the department. An estimate of the costs is not available, but they are likely to be negligible and absorbed under current appropriation levels.

THE APPARENT PROBLEM:

After the housing bubble burst in 2007, followed by the Great Recession, Michigan saw a surge in home foreclosures, as many homeowners could no longer pay off their delinquent property taxes. Many people in lower income brackets lost their homes outright; at the same time, many municipalities were not made whole for the delinquent property taxes, since the property's value had dropped substantially and there was nobody left to pay off the delinquent taxes. As a result, both homeowners and local governments lost out, especially counties of the Detroit Metropolitan Area such as Wayne County. While the number of foreclosures has dropped dramatically since the Great Recession, many of these counties still have over 1,000 foreclosure cases every year. Legislation has been proposed to reduce the redemption amount for delinquent taxes under certain circumstances.

THE CONTENT OF THE BILL:

The bill would apply eight new provisions to property forfeited for delinquent taxes located in local units of government whose treasurer had not opted out of them by providing a written notice of nonparticipation.

<u>First</u>, if a parcel of property were subject to an exemption for disabled veterans or persons in poverty (MCL 211.7b and 211.7u) and the property's owner had not previously received a payment reduction under the bill, the county could use one or more of the following provisions:

- If the total amount of unpaid delinquent taxes for which the property was forfeited was greater than 10% of the property's most recent taxable valuation prior to the date that the property obtained exemption status, the county could reduce the redemption amount to 10% of this most recent taxable valuation. A reduction made in this manner would have to be allocated to each taxing unit based on the proportion that its unpaid delinquent taxes certified to the county treasurer bears to the total amount of unpaid delinquent taxes certified in connection with the property.

- The county could cancel some or all of any unpaid delinquent taxes that represented charges for services that had become delinquent and had been certified to the county treasurer for collection and enforcement of the taxes' lien under the Revenue Bond Act (MCL 141.121).
- The county could cancel some or all of the interest, penalties, and fees required to be paid to redeem the property.

Second, if the redemption amount were reduced using the methods outlined in the first provision, the bill would allow the county to further reduce the redemption amount by up to 10% of the unpaid delinquent taxes required to be paid to redeem the property if it were redeemed by a single lump-sum payment made within a period determined by the county.

Third, a county could apply any of these eight provisions to property subject to and in compliance with a delinquent property tax installment payment plan or a tax foreclosure avoidance agreement.

Fourth, if a parcel of forfeited property were redeemed by payment of a reduced amount under the bill in accordance with the terms, conditions, and time period established by the county treasurer, any remaining unpaid taxes, interest, penalties, and fees for which the property was forfeited and otherwise payable would have to be canceled by the county treasurer, such as any interest, fee, or penalty payment requirement set forth in a delinquent property tax installment payment plan or tax foreclosure avoidance agreement with respect to the property. The county treasurer could not impose any additional charges of any kind in connection with a payment reduction program under this provision.

Fifth, if the owner of property subject to a payment reduction under the bill failed to pay the full reduced amount of delinquent taxes, penalties, and fees in accordance with the terms, conditions, and time period established by the county, all of the following would apply:

- The amount required to be paid to redeem the property would be the sum of the full amount of any unpaid delinquent taxes on the property, plus additional interest charged under current section 78g (3)(a) of the act and any additional interest, fees, charges, and penalties otherwise applicable to any unpaid taxes on the property, such as interest, fees, charges, and penalties that had previously been canceled under the fourth provision.
- The property would have to be included in the immediately succeeding petition for foreclosure.

Sixth, a county could not approve a reduction on the redemption amount of a parcel of delinquent property if the reduction would cause noncompliance with a delinquent tax revolving fund (MCL 211.87c) or otherwise impermissibly impair an outstanding debt of the county or any taxing unit.

Seventh, all payments collected in connection with property under these provisions would have to be distributed to each taxing unit that had certified to the county treasurer unpaid delinquent taxes for the property in an amount based on the proportion that the taxing unit's unpaid delinquent taxes certified to the county treasurer bears to the total amount of unpaid delinquent taxes certified to the county treasurer in connection with the property.

Eighth, the bill would require county treasurers to set forth the terms and benefits of a payment reduction program available under these provisions in a plan published on the county's website. The plan would have to set forth which of the reductions described in the first two provisions were made available under the program and would have to include any other information determined necessary or appropriate by the county treasurer.

The bill stipulates that if a payment reduction under these provisions were in effect for property for which a county had issued notes under the act that were secured by the delinquent taxes and interest on that property, then at any time within two years after the date those taxes were returned as delinquent, the county treasurer could charge back to any taxing unit the face amount of the delinquent taxes that were owed to that taxing unit on the date those taxes were returned, less the amount of any payments received by the county treasurer on that property. All subsequent payments of delinquent taxes and interest on that property would have to be retained by the county treasurer in a separate account and either paid to or credited to the account of that taxing unit.

In addition, the bill would allow a county to combine a delinquent property tax installment payment plan and make it subject to a delinquent property tax payment reduction as outlined under the eight new provisions. Such a combination would also be possible for tax foreclosure avoidance agreements made under the act.

Finally, a foreclosing governmental unit's authority to apply any of the provisions of the bill to property forfeited under it would be subject to both of the following conditions:

- On or before January 1 in which the foreclosing government unit sought to implement the provisions of the bill, it would have to provide written notice to the treasurer of each affected local unit of government within the county in which the property was located of the unit's intent to implement the program and state that the local unit has the option of participating in the program. The notice would have to contain all of the terms and conditions to be offered under the program, in addition to any other information that the foreclosing governmental unit considered necessary or appropriate.
- Within 21 days after the written notice described above, the treasurers of any affected local units of government could provide the foreclosing governmental unit with written notice of nonparticipation in the program, in which case all property within that local unit of government would be excluded from the program. Any affected local governments whose treasurer did not provide a written notice of nonparticipation would be presumed to have consented to participation in the program, and all property within that local government unit would be included in the program.

MCL 211.78g and 211.78q

ARGUMENTS:

For:

Supporters of the bill argue that it is a win-win scenario both for people facing foreclosure for delinquent property taxes and for foreclosing government units. The bill is targeted toward individuals of lower-income brackets who would otherwise face homelessness and destitution and whose delinquent property taxes likely would go unpaid if their local government simply foreclosed on them. The average age of a foreclosed home is 85 years, and many homeowners with delinquent taxes are senior citizens who can no longer reenter the workforce to pay off their delinquent taxes. The bills offer a way to restructure the homeowner’s outstanding tax liability and allow them to pay it off over time. In addition, supporters of the bill point out that these provisions are entirely voluntary for foreclosing government units if they wish to maintain the status quo.

Against:

No arguments against the bill were offered in committee testimony.

POSITIONS:

Representatives of the following organizations testified in <u>support</u> of the bill (10-30-19):

Wayne County, Office of the Treasurer
City of Detroit, Office of the Treasurer
United Community Housing Coalition
Michigan Municipal League
Detroit Board of Review

The following organizations indicated <u>support</u> for the bill:

Quicken Loans (10-30-19)
Wayne County, Office of the Executive (10-30-19)
Wayne Metropolitan Community Action Agency (10-30-19)
City of Detroit, Office of the Assessor (10-30-19)
City of Detroit, Office of the Mayor (10-30-19)
Michigan Realtors (10-30-19)
AFSCME Council (12-10-19)
Michigan Association of Counties (12-10-19)

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