

**Open Work Session
County Tax Sale
September 20, 2016**

County Executive Bob Culver, Mr. Wayne Strausburg, Director of Administration, Mrs. Leslie Lewis, Director of Finance, and Mrs. Susan Daughtery, Accounting, came before Council. Mr. Cannon said several months ago Mrs. Lewis had a discussion with Council on the cancellation of the tax sale. Council is somewhat interested in knowing what the motivation is in cancelling the tax sale. He said to a certain degree it impacted the municipalities. Council is trying to get clarification as to what the driving force is behind that initiative. Ms. Lewis said she was a little bit surprised by the request because on May 18th, she had sent out an email to everyone that she thought was very specific as to why the County did not have a tax sale, but she is always glad to come before Council to answer any questions. Mr. Cannon clarified that the email is Mrs. Lewis's email response to Mayor Wells in Delmar that council members were copied on, to which Mrs. Lewis responded that is correct, but the email is very specific to what the thought was in why the County did not have a tax sale. Mrs. Lewis said by law the tax sale is required every two years. They studied the process and thought the County could do better by skipping a year, and putting in-house collection efforts in process. She said to-date that process is working. They just ran numbers this morning, and, as of last week before the mortgage companies were put in, the County is \$3.4 million ahead. Mrs. Lewis said, as of today, with the mortgage companies, the County is at \$4 million ahead of last year at this same time. Mr. Cannon asked if the County is ahead because the tax sale was cancelled or if because the policy by which the County is addressing the delinquencies changed. Mrs. Lewis said they are not changing any policy. When you compare year to year it is factual. Mr. Cannon said perhaps not changing the policy, but taking a stronger initiative to address the delinquencies, to which Mrs. Lewis responded that is correct. They are trying other methods but, if it does not work, she will be the first to say it does not work and the County needs to have the tax sale every year, but to-date it is working. Mrs. Lewis said they listed the properties on the County's website that did not sell at tax sale, which was over 60%, which people can buy over the counter. Mrs. Lewis said she wants to make it clear that when people come in to buy over the counter, they have to go through the same process. They have to wait six months and go before a judge. She said it is not a Quit Claim Deed but the property is available for anyone and everyone to buy. She said one thing the Finance Department will start doing in-house, which she does not think has ever been done, is, as they have time, they will write to the adjoining landowners to let them know that this property is for sale. She said she brought with her a file of the "withdrawn" properties that Council can look at it. Most of the properties have been withdrawn year after year, so they are not doing the County any good. The goal is to get the real estate back on the tax roll and have people pay the real estate taxes. Mr. Dodd clarified that the properties listed online are for sale that anybody can purchase, to which Mrs. Lewis responded, yes, but be aware that these properties are the ones withdrawn at the 2015 tax sale. The purchaser would have to go through the whole process. Mr. Dodd then clarified that the properties are being sold for what is owed in taxes and attorney fees, to which Mrs. Lewis said that is correct. Mr. Dodd then asked why is the County selling the properties that way instead of having an auction on the courthouse steps. Mrs. Lewis said the County does not have the auction on the courthouse steps. Mr. Culver said the County cannot auction something the County does not have title to. Mr. Cannon said the auction is held in Council Chambers. Mrs. Lewis said tax sales take a lot of manpower as they have to get files from every town and city in the County, and they are constantly getting updates because if someone comes in and pays on May 25th, you have to take the name off the list. You want to be very thorough because you do not want to put someone's name in the newspaper that has paid. In her office, they are trying to use that manpower in other areas, such as hotel tax collection. She said one hotel in specific had been past due for years. Since May to date, between hotel tax and past due real estate tax, on this

one taxpayer, \$88,000 has been collected and that is by simply making telephone calls and sending them a copy of the law. Mrs. Lewis said she will provide a hand-out to Council on everything she is talking about today. Mr. Dodd asked if people are buying the properties for the price listed or if the County is letting them go for a cheaper price just so the property can get back on the tax rolls. Mrs. Lewis said by law she has to charge the taxes that are owed on the property. Mr. Dodd then clarified that the County cannot sell the property, unless the purchaser pays the outstanding taxes and fees, to which Mrs. Lewis said that is correct. Mrs. Lewis said she wants to make clear to the viewers watching that what is posted on the website is what is owed through the 2015 tax sale. If you are interested in purchasing property, you should contact the Finance Department so they can provide you with updated numbers. Mr. Dodd asked if there are many properties for sale that the taxes owed are more than what the property is worth, to which Mrs. Lewis responded, yes. Mr. Dodd then asked what does the County do with those properties. Mrs. Lewis said she does not know what the law allows the County to do but that is a problem. They also have property that has sold at tax sale and then the person who bought the property decides that they do not want it, so they do not pay the taxes. Mr. Dodd said he thought the standard was to auction property off every year. Mrs. Lewis said the law is every two years. It used to be every three years in the 90s. Mrs. Lewis said a lot of the properties are redeemed. When a person redeems their property, they owe interest, penalties, and lawyers fees. She said a \$500 tax bill can now be \$2,100. She said many of the buyers are not even local, so the money does not stay in Wicomico County. They are hoping that if they call people, encourage people to come in weekly or monthly to pay, at least they do not have to use their money to redeem the property. They use the money to buy goods in Wicomico County. Mrs. Lewis said they are trying to look at the big picture as they just did not wake up and decide not to hold the annual tax sale. Mr. Joe Holloway said a lot of the time the County looks at what other jurisdictions do or what the state does when it adopts a new policy or goes in another direction. He then asked what are the other counties in the state doing. Do any other counties skip a tax sale every other year? Mrs. Lewis said she is sure not every county in the state holds a tax sale every other year, but she has not done the survey. Mrs. Lewis said she could call the other jurisdictions to find out. Mrs. Daugherty said Wicomico County used to hold the tax sale every three years, then two years, and then someone decided every year, but she does not know why. Mr. Joe Holloway clarified that the County used to go three years without having a tax sale, to which Mrs. Daugherty responded, yes. Mr. Dodd said that he thinks that is too long. Mr. Cannon said that was the policy 20 years ago. Mrs. Daugherty said she does not know the time period. Mrs. Lewis said there are some ways the County can help taxpayers. Mrs. Daugherty explained there is the homeowner's credit, which is not for the elderly and there is the veteran's credit. If you are disabled veteran or a spouse of a disabled veteran, you are fully exempt. She said the County can let these people know that they need to go to the State Department of Assessments and Taxation's website to get the information they need to get the tax credits. Mrs. Daugherty said a lot people think they have to pay the tax bill in full as soon as they receive it, but they can make part payments. She said they have been trying to educate the taxpayers. Mr. Kilmer said it was mentioned that cancelling the tax sale was discussed for a while, but it seems to have caught a lot of people off guard, especially the towns. He said he went to Mardela Springs last month, and he is still being questioned as to why they have not gotten any answers on the tax sale issue. He said Council did not know that the tax sale was cancelled before reading about it in the newspaper. He said there seems to be a lot of surprise as to what happened at least with the towns he has talked to. The municipalities were counting on this money or they had an expectation that something would be done, and they felt blindsided by the decision to cancel the tax sale. Mr. Kilmer asked Mrs. Lewis if she is doing an outreach to the towns now to help them. He said Mardela Springs has a very small budget, so any money that comes in from the tax sale, is a win for them. Are you working with towns like that with their delinquent properties? Mr. Kilmer said when he talked to them, they are still fairly upset about this matter. Mrs. Lewis said Mardela Springs did not call and they did not receive a file from

them. They should have sent the file by April 1st or it might have been March, but the County did not receive anything. She has not heard anything from them. She said they made \$6,000 from the tax sale last year. Mr. Joe Holloway said that is a lot of money for them. Mrs. Lewis said when they sell the property over the counter, they can still make money as the money will go back to them, but the purchaser would have to call them as well to find out what the updated amount is. Mr. Culver said the towns are supposed to turn the information over to the County 60 days prior to the County having a tax sale, and they did not get anything from the towns and no one called. Mr. Joe Holloway clarified that the Town of Delmar did not contact them. Mrs. Lewis said she thinks the email states who called back in May, but no one sent anything to the County. Mr. Cannon said he would not say that they cancelled the countywide tax sale because the municipalities did not make a telephone call, as normally there would be an open line of communication. If you are planning a tax sale and you do not have a response from the municipalities, the first thing you would have to do is contact the municipalities and inform them that the tax sale is coming and the County does not have their numbers. He would not say you should just throw your arms up and say we have not heard from any of the municipalities so cancel the tax sale. Mrs. Lewis said that is not why the County cancelled the tax sale. Mrs. Lewis said they made a big business decision in looking at what is best for every taxpayer. She said when Council sees the year end numbers; she thinks everyone will be pleased. Mr. Cannon said Council is concerned that when it was first announced there would not be a tax sale, as the letter provided today shows, Mayor Wells from Delmar was taken back, surprised, and upset of the fact they were not informed directly. Mrs. Lewis said someone from the City of Fruitland said they thought this was a good gesture to the taxpayers. The taxpayers are struggling so why all of sudden when they come in to pay a \$500 tax bill, the County should make them pay \$2,100. She said you are never going to please everyone, so you have to look at the big picture. Mr. Joe Holloway said, at some point in time in his life, he may be on the delinquent taxpayer list, but you get almost a year to pay your taxes to begin with from the time the Finance Department sends out the notices. He said he does not understand why keep stretching it out, as you get almost a year to pay your property taxes. Mrs. Daugherty said a lot of the homeowners think the taxes need to be paid in full. If people can allocate the payments, it is affordable to them, such as the people that are on social security. Mr. Joe Holloway suggested that a notice be put on the tax bill that a partial payment can be made. Mrs. Lewis said they are really trying to get out and talk to people and put information on the website. She said when people come in, they encourage them to pay what they can and pay as often as they can. Mrs. Lewis said when Council sees the numbers; she thinks it will be pleased. Mr. Joe Holloway said he talked to Pat Petersen, former Finance Director, and she was totally against having a tax sale every other year and she had all of her reasons as Mrs. Lewis has her reasons otherwise. His point is that the taxpayers have almost a year from the time they get their first notice to pay the taxes. Mr. Joe Holloway said what the Finance Department is doing is just stretching it out for another period of time. Mrs. Lewis said they are trying not to let that happen. They are calling people and encouraging them to pay. She said the people who do communicate with them said it is a good idea not to announce that the County is not going to have a tax sale, so that people will come in and pay thinking that their names will be put in the newspaper. Mrs. Lewis said the Finance Department did have a flood of people come in to pay like normal. Mr. Joe Holloway said he thinks that when the County has a tax sale next year and then the County goes to a two year rotation, there will be people who get used to that idea and say this is the year they are not going to have tax sale, so I do not have to hurry to pay my taxes. He asked is that going to be an issue. Mrs. Lewis said a late taxpayer who pays right before the tax sale is her favorite because the County keeps the interest and penalties, but when it goes to tax sale then that person is in trouble as they are going to start paying a lawyer and interest at 8% to whoever purchased the property. She said a lot of people know who is going to redeem their property. It is almost like a business to them. They will buy a group of properties because they know the owner will redeem before they lose their property. Mrs. Lewis said you cannot fault them for what they

are doing. She is just trying to do what is best for the taxpayers and that is how she tries to operate the Finance Department. Mr. Joe Holloway said what is best for all the taxpayers in the County is for the taxes to get paid in a timely manner because they help to get our roads fixed and pay our employees. Mr. Joe Holloway said that is really what is best for all the taxpayers. Mrs. Lewis said the County does not have a cash flow problem. When Council sees the yearend numbers, it will be pleased. Mr. Kilmer said he is confused as to why the County cannot have a tax sale and do some of the enhanced collection efforts. Why can't they go hand in hand? The County can have the tax sale, collect the money, and then do all the in-house collection efforts. He asked why exclude the tax sale. Mrs. Lewis said the point of not having a tax sale is to try to help the taxpayers not get to the point that when they redeem they owe unnecessary money that does not stay in Wicomico County. Mrs. Lewis said if it does not work, then they will go back to the annual tax sale, but at least she can say she tried to help the taxpayers without harming the taxpayers that paid on time because the County has a hefty fund balance that makes little to no interest. Mr. Kilmer said he understands what Mrs. Lewis is saying, but she is helping the delinquent taxpayers. He said some of those people are habitual paying late, so why is the County going through all of this to help a very small number of people who pay late and not look at the wider picture. He said he thinks that is what Council is struggling with. Mrs. Lewis said they only have so many staff members and there are only so many hours in a day, she is trying to use their time better, to have better time management. Mrs. Lewis said if they had the tax sale, she would not have had time to call and collect the \$88,000 from that one hotel, which a lot of people were furious over. She said this is the first time in years they are current on taxes. Mr. Joe Holloway said that is not for property taxes. Mrs. Lewis said it was \$50,000 real estate and personal property and \$38,000 for room tax. Mr. Joe Holloway clarified that the real estate comes due every year, to which Mrs. Lewis said it was past due. Mr. Joe Holloway asked if it was past due for one year, to which Mrs. Lewis said the property would have went to tax sale, but she collected the money. It would have been no different than if the money had been collected at tax sale, but she made the telephone call and collected the money. Mrs. Lewis said there are other areas that have been ignored that she is trying to look at, such as hotel tax and trailer tax. She said you cannot change everything in one day, you have to try to prioritize the biggest dollar amount first and then scale down. There had never been a rebill on personal property taxes. The business would get their first bill and then five years later, they would get a letter from a lawyer. Mrs. Lewis said she does not think that is good for the citizens because some organizations really did not know they owed money because it is an estimated tax. If the business does not submit a tax return, then the state estimates the taxes. It could be on the books and not be real revenue because when the business gets the collection letter, they realize they had to file the tax return, so they file the document. They are not just sitting there; they are trying a lot of different things for the County. Mr. Joe Holloway said he appreciates her efforts. He said the question he got from one lady is that she paid her taxes on time, but why should she pay them on time if other people do not have to. Mr. Joe Holloway said she does have a point. Mrs. Lewis said her point is that she is like her, as she does not want to pay interest and penalties. She can pay her taxes late, but she is going to pay interest and penalties. Mr. Joe Holloway said she does not want to pay her taxes late. Her point is why should she have to pay her taxes on time when other people do not have to. Mrs. Lewis said if they do not pay on time, they have to pay more than what she had to pay. They are punished for paying late. Mr. Dodd said he wants to make it clear that no one sitting at the table wants to run someone out of their home and put their house up for auction. He applauds the Finance Department for calling and working with the taxpayers whether it is a homeowner or a business, but there are vacant properties out there that have been vacated and abandoned. They are just sitting there idle and the County is not getting anything back from that. He asked what is the longest property sitting on the books, not paid, to which Mrs. Daugherty responded, 1993 is the oldest. Mrs. Lewis said that is a problem. Mrs. Daugherty said the County bought those properties so, if the property ever sells, it is payable, which is the process. Mr. Dodd said the property is

not going to sell if it has been sitting there since 1993 unpaid. Mr. Dodd then asked what is the County going to do with the properties that it can sell. Mrs. Lewis said that is another issue. She said a lot of the properties are very old that have been withdrawn from a tax sale that will continue to get withdrawn because no one wants the property because they are not worth what the taxes are owed and no one will try to redeem the property. Mr. Joe Holloway asked Mr. Baker what can the County do with property like that. At what point in time can the County get rid of the property? Mr. Baker said it depends, the County used to work closely with the City. They had a deal not too long ago on property located on North Division Street, in which somebody wanted to buy the property, but they did not want to pay both City and County taxes. Both jurisdictions lowered the amount of taxes due. He said other jurisdictions will buy in the property. The County did that with the Jay Struve property. The County buys the property, cleans it up, and puts it on the market and takes the hit for whatever the loss is. Mr. Joe Holloway clarified that there is a process, to which Mr. Baker responded there are a lot of different options. Some former people in the Finance Department before Mrs. Lewis came to the County did not want to do that and that is why it has not been done in a number of years. Mr. Dodd asked if that is a project the County can work on in the future to put these properties back on the tax rolls. Mrs. Lewis said that is the goal. Mr. Dodd then asked so can the County work on that as a project, to which Mrs. Lewis responded, absolutely, it is a problem. Mr. Roser said he has done quite a bit of work regarding the tax sale. He issued his last memorandum on July 5th. They set up templates for tracking the collections as they go along. He said in dealing with the Finance Department, he has seen a total change in culture as far as some of the things that Mrs. Lewis has talked about, such as trying to work with people and customer service. He agrees with her that the County will see good results. Mr. Strausburg said he would like to go back to Mr. Kilmer's question. He said the thought process was that a tax sale is an expensive proposition. The advertising alone pushes \$80,000 to \$90,000 a year. The thinking was the County does not really give up anything by not having a tax sale annually because the meter continues to run, so when the County has the tax sale the second year as mandated by state law, the County collects the interest and penalties. The thinking was can the County, in fact, collect these delinquent taxes through internal efforts and, in doing so, avoid some expenses. They thought trying it this first year to determine whether or not it is more efficient to go every other year going through the process ourselves to see how high of a rate of collection the County can attain that, in fact, the County may be reducing the costs associated with collecting the delinquent taxes. He said that was the thought process. He thinks the earlier results indicate that the County accomplished that this year, but they will have to do a post review. Mr. Strausburg said, in terms of delinquent taxes, there are people that cannot pay their taxes because they have lost their jobs. There are a lot of reasons of why people allow their property go to tax sale. He said some people just game the system. They game the system because of the interest rate that is charged for delinquent taxes is a lower rate they can achieve through other investment strategies. He said there is not a whole lot the County can do about that unless the County can change the interest rate to dissuade people from gaming the system and using the County's money as working capital on alternative investments. There are people, who no fault of their own, simply do not have the cash to pay their taxes. He said it was a well-intended exercise. They will see what the results are and determine if it makes sense to replicate it again in two years. Mr. Kilmer asked if the \$80,000 to \$90,000 advertising costs is charged back to the property owners, to which Mrs. Lewis responded, yes. Mr. Kilmer said the County does not necessarily lose that money as it is paid up front but it is recouped as the process goes along, to which Mr. Strausburg responded if the property sells. Mrs. Lewis said if the property does not sell, the County is stuck with the advertising fee. Mr. Kilmer asked who is in charge of the interest rate, to which Mr. Strausburg said he thinks it is the state. Mr. Baker said the interest rate on the tax sale is controlled by County Council. He thinks Baltimore County's interest rate is 13%. Mr. Kilmer said that might be something Council should look it. Mr. Strausburg said perhaps we could raise the interest rate to the point that it is not in the best interest of

those gaming the system, to use County money for alternative investment strategies, which they know happens. Mr. Kilmer said part of the issue is Council had a meeting on May 12th when this subject matter was discussed, he thinks it was at one of the budget meetings. At that meeting, Council requested additional information, and he knows there has been repeated contacts with Finance, and Council has not gotten the information. Council wanted the list of people who were delinquent as of April 30th and things like that. Council appreciates being copied on the letter to Mayor Wells, but it seems that the explanation was confusing to council members during the budget session, and they were looking for information and it was not forthcoming. Mr. Kilmer said council members do have people ask them about the tax sale, and they are not able to give them a coherent answer. They have to say that they have not gotten an explanation from the Executive Branch. He said, in terms of rationale, it is being explained much better today, and he understands what they are saying in that maybe the County should try it for a year and see what happens. He said he kind of likes that approach, but let us see what happens and, if it does not work out, then we can go back and tweak it some more. He said for a while he was frustrated, and he knows others were frustrated that they were not getting the answers they were looking for. He said he understands the explanation a little bit better today than what he did in the budget meeting, so he appreciates that. He said there is some real frustration out in the public about the real reason for cancelling the tax sale. He said better communication definitely would be helpful. He knows the municipalities felt blindsided. He said maybe the municipalities could have reached out to the County, but these municipalities are struggling to get by with what they need to do. Mr. Kilmer suggested that better communication going forward would help. Mr. Strausburg said, if a councilmember receives a question regarding actions or in-actions in the executive administration, feel free to give them his telephone number, as he would be happy to answer their questions. Mrs. Lewis passed out a summary of the previous tax sale and a list of the properties that were withdrawn that are now posted on the County's website. In looking at the information, Mr. Dodd asked how much does the County recover. Is it the \$449,000? Mrs. Lewis said that is what was misleading as that is all what was brought in the day of the tax sale. She said the County recovered \$195,000 and the Struve property, which the County has to buy back, was included in that amount. Mrs. Lewis said she thinks it was \$41,000 of which \$38,000 was demolition, so that is not real revenue as the County had to buy it back. She said maybe the County can sell the property and get it back on the tax rolls. Mr. Joe Holloway said in a letter from Ms. Wells from the Town of Delmar, it was approximately \$65,000, which he thinks would be quite a bit of money to their revenue stream. Mrs. Lewis said Ms. Wells was not correct, as it was only \$19,000, which is quite a difference. Mrs. Lewis said this information is factual as the information came out of MUNIS. Mr. Joe Holloway said he wonders why Ms. Wells mentioned \$65,000, to which Mrs. Lewis said Ms. Wells may have sent in \$65,000 worth of debt but all that sold is \$19,000. Mrs. Lewis said numbers speak. People can throw numbers out there, but are they really correct and that is why she tries to make sure when she is asked questions to respond with a MUNIS report because that is what is audited and there is no opinion or chart put in it to make the report look different. Mr. Strausburg asked Mr. Baker is it feasible for the interest rate for past due taxes to be on a sliding scale. Mr. Matt Holloway asked Mr. Strausburg if he means to have a higher interest rate for the habitual property owners. Mr. Strausburg said he goes back to the default position that someone has lost their job, they do not have the money to pay their taxes, and the County wants to do what it can to protect those people and be fair to those people to keep them in their homes. He asked, with regard to the people who is gaming the system, can there be a sliding scale on the interest rate. Mr. Strausburg said he is uncomfortable with the 13% out of the gate because the person, who lost his job, is being hammered. He is far more comfortable with the 13% for someone who wants to game the system. If the County adjusted the interest on a sliding scale, it will dissuade what Mr. Joe Holloway was insinuating, which is people who say I will just not pay my taxes for as long as they let me get away with it. Mr. Baker said he does not know the answer to that question off the top of his head, but he

understands what Mr. Strausburg is trying to accomplish and he will take a look at it. Mr. Creamer said it may also be possible that if a taxpayer can demonstrate a certain level of hardship, such as Mr. Strausburg has referred to someone having lost employment or something to that effect, there could be some forgiveness process of at least a portion of the interest rate. Mr. Creamer asked Mr. Baker to look into that question as well. Mrs. Lewis said she passed out information on the one taxpayer that was delinquent. She pointed out that in the previous deal where it was agreed to freeze the interest and penalties, she does not make those deals, as she does not feel like she has that authority. Mr. Dodd asked who made that deal, to which Mrs. Lewis said she would let him read the agreement.

Open Work Session

County Tax Sale

September 20, 2016

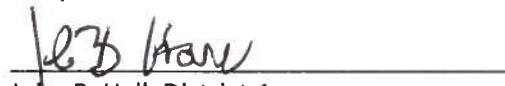

John T. Cannon, President

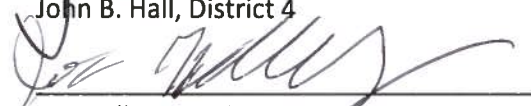

Matt Holloway, Vice President

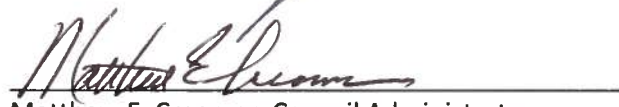

Ernest F. Davis, District 1


Marc Kilmer, District 2


Larry W. Dodd, District 3


John B. Hall, District 4


Joe Holloway, District 5


Matthew E. Creamer, Council Administrator