

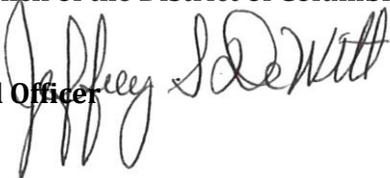
Government of the District of Columbia
Office of the Chief Financial Officer



Jeff DeWitt
Chief Financial Officer

MEMORANDUM

TO: The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: Jeff DeWitt
Chief Financial Officer 

DATE: May 6, 2014

SUBJECT: Fiscal Impact Statement – Residential Real Property Equity and
Transparency Emergency Act of 2014

REFERENCE: Draft as Shared with the Office of Revenue Analysis on April 30, 2014

Conclusion

Funds are sufficient in the proposed FY 2014 supplemental budget and the proposed FY 2015 through FY 2018 budget and financial plan to implement the bill on an emergency basis.

Background

The bill, on an emergency basis, modifies the District's tax sale process to institute additional safe guards for residential homeowners who are delinquent on their real property taxes and may become subject to tax sale. To this end, the bill does the following:

- Maintains the exclusion of residential property tax liens of \$2,000 or less from the tax sale.¹
- Reduces the interest rate applied to seniors in the low-income tax deferral program from 8 percent to 6 percent² and allows senior citizens, who are delinquent on real property taxes and not enrolled in the program, to enroll and have all past taxes deferred;
- Expands pre-sale and post-sale noticing requirements for real property subject to tax sale;
- Limits the attorney's fees and other expenses charged by lien purchasers to \$1,500 plus allowances for additional expenses incurred as outlined in the bill;³

¹ Emergency and temporary legislation passed on September 17, 2013 limited the sale of residential property in the tax sale to those liens great than \$2,000 (D.C. Law 20-55).

² D.C. Official Code §47-845.03.

³ Under current law, in order for a property owner to redeem a property sold at tax sale, the owner must pay the taxes due, as well as attorney fees incurred by the purchaser. Current law does not cap the total amount of legal fees a purchaser can charge a property owner. (D.C. Official Code §47-1377.)

The Honorable Phil Mendelson

FIS: "Residential Real Property Equity and Transparency Emergency Act of 2014," Draft bill shared with the Office of Revenue Analysis on April 30, 2014

- Limits the purchasers' equity in the foreclosure of an owner-occupied property to 10 percent, or \$20,000, whichever is less;⁴
- Deems a tax sale property's taxes current for the purposes of redemption if paid within a \$100; and
- Allows a tax sale purchaser to appeal the assessment of vacant and blighted properties purchased at tax sale.

Financial Plan Impact

Funds are sufficient in the proposed FY 2014 supplemental budget and the proposed FY 2015 through FY 2018 budget and financial plan to implement the bill.

The provisions outlined in this emergency legislation will not have a negative impact on the District's budget and financial plan. The requirement to exclude the sale of residential tax liens less than \$2,000 is consistent with the temporary legislation that was passed in September and is still in effect.⁵ Reducing the interest rate for the low-income senior tax deferral program from eight to 6 percent and allowing eligible seniors to defer past taxes under this program reduce revenue collections. However, the Office of Revenue Analysis expects the impact to be *de minimus* given that the current low participation rate in the program is very low, and the proposed 6 percent rate is still punitive.⁶

The Office of Tax and Revenue does require two personnel to implement the new noticing requirements. In FY 2014, OTR can use existing resources to meet the requirements; in subsequent years, the agency will require staff and the Mayor's proposed budget and financial plan includes funding for these positions.⁷

As noted in the fiscal impact statement issued on March 19, 2014 for Bill 20-23, Residential Real Property Equity and Transparency Act of 2014,⁸ the combination of these modifications to the tax sale process could impact purchasers' participation. For example, the cap on legal fees and the provision that limits tax sale purchasers equity in a foreclosure has been raised as concerns by some stakeholders who argue these provisions will reduce purchaser participation. However, it is difficult to estimate what, if any, dampening effect will occur as a result of these changes.

⁴ This provision applies to residential real property that is occupied by the owner (or a person with an interest in the property as an heir or beneficiary) at the time the complaint to foreclose was filed. Once the foreclosure is final, the property will then be sold by a trustee appointed by the Superior Court of the District of Columbia. The bill requires that the purchaser is entitled to retain 10 percent, or \$20,000, whichever is less, of the equity, and the remaining balance is transferred to the owner of record or their heirs (as determined by the court). Under current law, the purchaser is entitled to the equity in the property.

⁵ The District Tax Sale Temporary Act of 2013, effective December 13, 2013 (D.C. Law 20-55).

⁶ Currently, there is only one taxpayer taking advantage of this program.

⁷ See the fiscal impact statement for subtitle (VII)(L) "Residential Real Property Equity and Transparency Act of 2014" of the FY 2015 Budget Support Act of 2014. Available here:

http://app.cfo.dc.gov/services/fiscal_impact/pdf/spring09/FIS%20-%20Fiscal%20Year%202015%20Budget%20Support%20Act%20of%202014.pdf

⁸ Available at: http://app.cfo.dc.gov/services/fiscal_impact/pdf/spring09/FIS%20B20-23%20Residential%20Real%20Property%20Equity%20Transparency%20Act%20of%202014.pdf