



House Bill 453

Tax Sales – Water Liens - Moratorium

MACo Position: **OPPOSE**

Date: March 30, 2017

To: Budget & Taxation Committee

From: Barbara Zektick

The Maryland Association of Counties (MACo) **OPPOSES** HB 453. This bill deprives counties of the opportunity to use an effective tool for enforcement – tax sale – to enforce liens for unpaid water, sewer, or sanitary system charges for a period of one year.

This bill will likely force local governments to raise rates on timely paying customers to cover costs to operate water and sewer systems which HB 453 prevents them from collecting from delinquent account holders through the tax sale process. It may also force local governments to result to shutting off water service on delinquent account holders, because they will have no other means to enforce collections.

Tax Sale: An Essential Tool of Last Resort to Protect Rate-Payers

The tax sale process, or more specifically the potential for a property to go to tax sale, presents a much-needed tool of last resort to ensure that property owners remit payment for their fair share of taxes and charges connected to public services. Most counties in Maryland send properties to tax sale solely to enforce utility liens. This bill removes this leverage for all counties, and undoubtedly would create many more deficient accounts for water and sewer bills from lack of enforcement – leading to increased rates on citizens who properly pay.

This bill unjustly alleviates delinquent account holders from responsibility for funding key infrastructure, at the expense of timely paying customers. Counties often budget for water and wastewater systems using enterprise funds, meaning that they recover costs for services almost primarily through user fees. They must meet their obligations to maintain their systems – so when they cannot collect on delinquent accounts, they must either cut service or raise rates on all other users to recover the lost funds. While this bill nobly seeks to accommodate customers in need, the result unjustly reassigns infrastructure costs to those who opt to timely pay.

All property owners deserve full and adequate notice of any collection efforts to collect taxes or charges assessed on the property – and as such, every county has procedures to ensure ample notice is provided prior to tax sale. Additionally, property owners have the right to redeem property within six months from the date of any tax sale by paying the amount owed. The tax sale process includes

multiple checks and balances to ensure that local governments can collect overdue fees without unjustly depriving taxpayers of due process, water, or their homes.

Unintended Consequences More Severe Than Status Quo

HB 453 will likely result in more local governments shutting off water to enforce collections. Local governments essentially have two means of collection of unpaid water bills: tax sale and water shut-off. HB 453 deprives local governments of the opportunity to collect through tax sale. This means that they will have to turn to shutting off water supplies entirely to enforce collections. When water to a property is shut off, the resident must evacuate immediately because the residence is uninhabitable. Ironically, this method of enforcement most severely affects owner-occupied, residential properties – the population this bill is purportedly intended to serve. Local governments physically cannot shut off the larger feeds that serve many commercial and multi-family properties. In the case of the latter, local governments will generally not turn to water shut-off, because multiple families, including those who timely pay, share one meter. Tax sale is generally most effective for targeting abandoned and vacant properties, where water shut-off fails to incentivize the property owner to make payment. If HB 453 is passed, however, local governments will have no other option than to extend water shut-off policies to owner-occupied residential properties – likely causing significantly greater hardship than the tax sale process would.

Premature Moratorium Hinders Instead of Complements Task Force Efforts

HB 659, Task Force to Study Tax Sales in Maryland, which this Committee heard earlier this week, has been amended by the House to require the Task Force to “evaluate tax sales to collect delinquent water charges and alternative methods of collecting delinquent water charges” as part of its charge to study the tax sale process. (Crossfile SB 823 had its hearing in this Committee on March 8, and passed Third Reader last week.) Counties are more than willing to participate in this effort. However, placing a moratorium on the use of tax sale to collect on utility liens prior to the Task Force conducting its work is premature. More importantly, in addition to severely limiting local governments’ abilities to sustain fiscally viable utility services for the entire year, it also compromises the Task Force’s access to timely, reliable data on the use of tax sale to enforce utility liens. The Task Force cannot effectively study an activity that the General Assembly has already prohibited.

HB 453 undermines local government’s most effective collection tool, and would lead to greater delinquency and default on public water and sewer bills, which would result in higher rates on other ratepayers. For these reasons, MACo **OPPOSES** HB 435 and urges an **UNFAVORABLE** report.