

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 911

(Senator McFadden)

Budget and Taxation

Environmental Matters

Baltimore City Land Bank Authority

This bill authorizes Baltimore City to create a land bank authority. The land bank authority may acquire, rehabilitate, own, and sell or transfer properties and may establish a land acquisition fund and issue bonds for the purchase and rehabilitation of properties in Baltimore City. The land bank authority does not have power of eminent domain and may not levy any tax or special assessment.

Fiscal Summary

State Effect: General fund revenues could increase by a minimal amount from payment of State property taxes. Expenditures would not be affected.

Local Effect: Baltimore City expenditures for the land bank authority would be funded by revenues generated from the authority; however, start-up costs would likely be covered by the city. The impact on revenues cannot be reasonably ascertained at this time.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary:

Creation of the Land Bank Authority

The bill authorizes Baltimore City, by ordinance, to create a land bank authority. An ordinance creating the land bank authority must establish a board of directors and

establish powers of the board as well as procedures for the appointment and removal of board members. The authority is required to comply with the State Open Meetings Act and must annually report its activities to the Baltimore City Mayor, city council, and the General Assembly.

General Authority of the Land Bank Authority

The land bank authority must be a nonprofit or quasi-governmental entity and may acquire land or an interest in land, structures, equipment, and furnishings located on a property and may contract for any services necessary for the rehabilitation of a property. The land bank authority may take all actions necessary to preserve the value of the property it holds or owns. The land bank authority may create, own, control, or be a member of a corporation, limited liability company, partnership, or other person, whether operated for profit or not for profit, for the purposes of developing property in order to maximize marketability.

Real property or an interest in real property may be acquired by gift, transfer, exchange, foreclosure, or purchase. The land bank authority may also own property acquired by or conveyed to the authority by the State, a foreclosing governmental unit, a local government, an intergovernmental agency, or any other public or private person, including tax foreclosed property and property without clear title. The authority is authorized to sell, lease, transfer, and dispose of the authority's property or interest in a property. The authority may also pay taxes or special assessments due and may take action to clear or quiet title in order to establish ownership and may abate violations of local and State building, fire, health, and related codes. Property acquired, owned, or sold by the authority may not be located outside of Baltimore City.

Following an unsuccessful attempt on the part of Baltimore City to collect outstanding liens at tax sale and subject to the approval of the local tax collecting unit, the owner of a parcel of tax delinquent property or tax sale property may convey a deed or assignment of that person's interest in the land to a land bank authority. The bill specifies that a transfer of a person's interest does not affect or impair liens recorded by the State, easements or rights of way, security interests and mortgages, or tax liens of other taxing jurisdictions or a public water or sewer authority that does not consent to a release of their liens.

Bond Authorization of the Land Bank Authority

The land bank authority is authorized to issue bonds to pay the cost of acquiring or improving property. The authority is also authorized to fund or refund those bonds; purchase bonds with available funds; and hold, pledge, or cancel bonds. The authority is authorized to issue bond anticipation notes in the same manner as bonds.

For each issuance of bonds, the authority must pass a resolution that • specifies and describes the project for which the proceeds will be used; • describes the public purpose and the financing transaction to be accomplished; • specifies the maximum principal amount of the bonds; and • any other terms or conditions on the issuance the authority considers appropriate. Any bonds issued may not exceed a term to maturity of 50 years.

The bill specifies that bonds are securities and not to be considered a debt or liability of the State or a political subdivision of the State. The land bank authority may pledge its full faith and credit in connection for the issuance of a bond and may establish a trust agreement with bondholders containing provisions pledging methods of securing payment.

Current Law: Tax sales of real property are a common method used by local governments to collect delinquent property taxes. When a property is purchased at tax sale, the purchaser must pay to the tax collector any delinquent taxes, penalties, sale expenses, and, under certain conditions, a high bid premium. The remainder of the purchase price is not paid to the collector until the purchaser forecloses the property. The delinquent property owner has the right to redeem the property within six months from the date of tax sale by paying the delinquent taxes, penalties, interest, and certain expenses of the purchaser.

If a property is offered for tax sale and there is no private purchaser, each county or other taxing agency must buy and hold the property. The governing body of a county or other taxing agency has the same rights and remedies with regard to other purchasers, including the right to foreclose. In Baltimore City, a property determined to be a vacant lot or a property with a structure deemed unfit for dwelling may be sold at tax sale for less than the amount of all taxes and liens owed on the property. The tax collector may determine the minimum bid and the mayor and the Baltimore City Council may buy and hold any abandoned property for which there is no private purchaser for that minimum bid.

On the resale of property acquired by a county or Baltimore City, proceeds of the sale must be used to pay taxes on the property due to the State, county, and all other taxing agencies, after deducting the cost of the sale and all other expenses connected with the sale.

Background: Land bank authorities operate in several states and cities; the first land bank was created in 1971 in St. Louis, Missouri. This was followed by Cleveland, Ohio in 1976; Louisville, Kentucky in 1989; Atlanta, Georgia in 1991; and most recently Genesee County, Michigan in 2002. The impetus for the creation of land bank authorities lies with the timely process involved with acquiring property through tax sale and the fractured form in which some governments acquire property for the purpose of redevelopment.

Baltimore City advises that there are nearly 30,000 abandoned properties in the city and that the city currently owns nearly 10,000 of these properties. Of the vacant properties owned by the city, 4,000 of these properties have vacant structures on them, most of which are uninhabitable.

State Fiscal Effect: General fund revenues could increase by a minimal amount from payment of State property and transfer taxes. The amount of any increased tax revenues would depend on the number of properties that are acquired and developed by the authority. Properties sold or leased by the authority to private entities are subject to State and local property taxes from the time of sale or lease.

Local Revenues: The impact on revenues from the creation of the Baltimore City land bank authority cannot be reliably estimated at this time. Assuming that the majority of property taxes owed on properties acquired by the authority are uncollectible, the revenue impact would not be significant. To the extent that the land bank authority is able to redevelop land into taxable properties, city property tax revenues would increase. The ability of the land bank authority to redevelop land would depend on obtaining funding through bond issuance or partnership with nongovernmental entities.

Local Expenditures: Baltimore City would need to provide start-up funding for the creation of the land bank authority. It is assumed that the ongoing operating expenditures of the land bank authority would be self-funded by the activities of the authority.

An October 2007 report published by the Baltimore City Housing Authority provided a plan to create a land bank authority for Baltimore City. The plan indicated that first-year operating expenses would include \$1.0 million in salary and benefit expenses and \$400,000 in operating expenses. The plan indicated that these expenses would be funded through the activities of the land bank authority and would be cost neutral to the city.

Baltimore City could realize an operational benefit due to the ability of the land bank authority to acquire property in lieu of delinquent taxes owed. Allowing the authority to acquire property through conveyance instead of foreclosure would expedite the process in which properties could be acquired and redeveloped.

Small Business Effect: To the extent that the land bank authority increases the amount of redevelopment in an area, small businesses located in that area or that later locate within a redeveloped area would benefit.

Additional Information

Prior Introductions: None.

Cross File: HB 1555 (Delegate Anderson, *et al.*) – Environmental Matters.

Information Source(s): Baltimore City, Montgomery County, Prince George’s County, State Department of Assessments and Taxation, Judiciary (Administrative Office of the Courts), Treasurer’s Office, Department of Legislative Services

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