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**TESTIMONY OFFERED BY MONTGOMERY COUNTY TREASURER
JASON SALUS TO PHILADELPHIA CITY COUNCIL REGARDING
DELINQUENT TAX COLLECTION**

Good morning members of the Committee and thank you for inviting me to speak with you today.

In January of 2012 I had the privilege of being sworn-in as Montgomery County Treasurer. One of the units in my office is the Tax Claim Bureau, which is responsible for collecting delinquent county, municipal and school property taxes. The focus of my testimony this morning will be on some of the reforms that we have made in recent years to delinquent tax collection procedures in Montgomery County as well as to provide a brief snapshot of the results of our approach.

Beginning in 2012, the Montgomery County Tax Claim Bureau began utilizing a new vendor, Northeast Revenue Services, for delinquent tax collection mechanics. While my senior staff directs and manages this third-party vendor, their independent expertise has allowed us to significantly streamline our collection efforts.

By default, the Montgomery County Tax Claim Bureau collects delinquent real estate taxes utilizing the provisions of the Real Estate Tax Sale Law ("RETSL"), which provides for delinquent tax notifications and the use of "bulk real estate sales" to collect chronically delinquent accounts.

Delinquent taxes are returned to our office by the local tax collectors each January. The Tax Claim Bureau utilizes several notification procedures, as proscribed in RETSL, to inform a taxpayer that their real estate taxes have become delinquent. These notifications include a courtesy letter; a notice of Return and Claim which is delivered to the taxpayer by certified mail; and reminder letters. If the certified Return and Claim mailing is not deliverable it is posted on the property. If the property remains delinquent into the following year, the owner is advised of the beginning of Upset Sale proceedings in a public notice of sale letter from the Bureau as well as a subsequent Sheriff posting on the property and public advertisements.

Through the course of the mandatory annual "bulk real estate sales" as proscribed in RETSL, all delinquent parcels not entered into a payment plan or protected by bankruptcy or hardship move

to sale within two years of delinquency. The Bulk Sales are a powerful and cost-effective tool and result in uniform enforcement of delinquencies. These sales are conducted in coordination with my office and our third-party collector, not the County Sheriff. Parcels are offered for Upset Sale in the second September after their delinquency (i.e. 2012 taxes were offered for sale in September 2014). The minimum bid for a parcel at Upset Sale is taxes, costs and municipal liens. All other liens remain attached to parcels sold at Upset Sale. **Historically, over eighty (80) percent of parcels listed for Upset Sale make payment or enter into payment plans prior to the date of the sale.**

Parcels exposed but not sold at Upset Sale are then eligible for Private Sale. For these over-the-counter-sales potential buyers may submit a bid to the Tax Claim Bureau. Prior to any Private Sale being finalized all taxing authorities must approve the bid. Private Sale parcels include all liens and encumbrances at time of sale.

The next step is to advertise remaining unsold parcels for a Judicial “Free and Clear” Sale for a minimum bid of costs. The minimum bid at the Free and Clear Sale is much less than the tax balance, but has the effect of getting the property into the hands of a new taxpaying owner. Delinquent taxes, liens and mortgages are divested from the parcel at the time of sale. More valuable properties receiving higher bids will result in recovery of some or all of the delinquent taxes.

Parcels not sold at Free and Clear Sales are transferred to a Repository – similar to a land bank – where prospective buyers can make over-the-counter offers for as little as \$500. While bids over the minimum will be applied to collection costs and tax balances, the main affect is to get these properties into the hands of new owners and back on the tax rolls.

In September 2012, on my recommendation, and supported by findings in the Commonwealth Court case *Pennsylvania Land Title Association v. East Stroudsburg Area School District*, the Montgomery County Commissioners adopted a resolution which would enable the Tax Claim Bureau to use both RETSL, as described above, as well as the Municipal Claims and Tax Liens Act (“MCTLA”) concurrently for collection purposes. This followed similar legislation in Berks, Washington and York Counties. In Montgomery County we refer to this as the Hybrid Program.

The MCTLA further incentivizes payment of delinquent balances by passing along the five (5) percent collection charge to the delinquent taxpayer. Therefore, this fixed percentage is now born by the delinquent taxpayer rather than the county, our municipalities and school districts. Additionally, MCTLA also enables the Tax Claim Bureau to file delinquent tax liens with the County Prothonotary if payment is not made. When a lien is filed, a 1% legal fee is assessed on the delinquent balance.

As a result of this unique RETSL-MCTLA hybrid approach, taxing authorities that have opted into our program have realized dramatic improvements in their collection rates as well as reduced collection costs.

- Immediately following implementation of the program, collections increased four hundred (400) percent during the first fifty (50) days of the year in 2013 when compared to the same period in 2012.
- By December 2013, after our first full year operating the Hybrid Program, we saw one-year collection rates rise by more than 7 points to nearly 69%, compared to when the County used only the Real Estate Tax Sale Law prior to my administration.
- **Through November 2014, our overall two-year collection rate for delinquencies was 94.58%.** This speaks to the impact of the bulk real estate Upset Sale which took place this September, resolving many chronic 2012 tax year delinquencies.
- The hybrid approach has also helped some of our local taxing authorities resolve chronic delinquencies where they exist. For example, when the Norristown Area School District, one of the most financially challenged school districts in the County, returned their collections to the Tax Claim Bureau in January 2013, we found delinquencies going back as far as nine (9) years. In previous years the District had been utilizing only the MCTLA and had focused on short-term collections rather than resolving longstanding, chronic delinquencies. Our team worked closely with the District to identify these long-term delinquencies and to move chronically delinquent parcels through the collection process expeditiously. As a result, in the first year, through December 2013, the Tax Claim Bureau collected approximately \$7 million of a total \$10 million delinquent real estate tax balance that had been returned in January 2013, \$3 million of which was from properties with at least two years of delinquency. After being with the Tax Claim Bureau for over eighteen (18) months most of these chronic delinquencies have been resolved and the District has seen an overall increase in collections and a decrease in outstanding tax liens.

The Norristown School District's recently-completed June 2014 audit illustrates this point best. In June 2011, the Norristown Area School District had outstanding tax liens totaling \$5.1 million. By June 2013 that number had jumped to \$6.7 million in outstanding delinquencies. By June 2014, through the work of the Tax Claim Bureau and District staff, that number fell to \$5.7 million – a decrease of \$1 million, or 15%. As a result, the District's cash position has also improved.

Finally, one of the most important aspects of our approach in Montgomery County is to work closely with taxpayers to resolve their delinquencies early and efficiently. This helps taxpayers avoid having liens filed against them and incurring fees throughout the process. The Tax Claim Bureau works with delinquent taxpayers who have not defaulted on prior agreements to establish realistic payment plans made up of monthly installments to satisfy a delinquent balance. Additionally, the Bureau offers qualified taxpayers who are experiencing financial difficulty the opportunity to apply for Hardship agreements which allow even more flexibility than a standard payment plan. My office also works closely with various County departments and non-profit agencies that may be able to aid individuals experiencing financial hardship.

In closing, there is no “silver bullet” in our delinquent tax collection toolbox. Each mechanism is important in the operation of a cohesive, successful program. However, the RETSL-MCTLA Hybrid Program administered through Northeast Revenue Services and overseen by my office has proven effective in Montgomery County. Should the City of Philadelphia consider implementing any of the elements of this program, my team would be happy to provide any guidance that would be helpful.