

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 5, 2006

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMAN, CITY MANAGER

SUBJECT: BUDGET MEMO # 55: REAL ESTATE TAX COLLECTION AND SALE OF TAX CERTIFICATES

This budget memo responds to Councilwoman Woodson's request for information regarding real estate tax collections and the sale of tax certificates. A total of four questions was presented:

Question 1. What is the total of uncollected real estate property taxes up to midyear 2006?

Using the delinquent real estate tax data as of March 13, 2006, the number of delinquent properties totaled 1,528 with outstanding tax, refuse, penalty and interest in the amount of \$3,534,299. Of this amount \$2,624,657 was owed for delinquent 2005 taxes, \$332,430 was owed for 2004 taxes, and only \$577,212 is owed for 2003 and earlier years.

Question 2. What is the collection trend?

The City collects more than 99 percent of each year's levy. The following table was taken from the Comprehensive Annual Financial Report for fiscal year ending June 30, 2005. This table shows the City's collection rate from 1999 to 2004.

Amount reported in thousands

Calendar Year ended December 31,	Taxes Levied for the Calendar Year*	Amount	Percentage of Levy	Collections in Subsequent Years	Amount	Percentage of Levy
1999	135,085	133,102	98.53%	1,932	135,034	99.96%
2000	147,059	144,741	98.42%	2,260	147,001	99.96%
2001	159,207	156,748	98.46%	2,375	159,123	99.95%
2002	174,863	172,296	98.53%	2,421	174,717	99.92%
2003	199,861	196,181	98.16%	3,302	199,483	99.81%
2004	225,242	223,047	99.03%	-----	223,047	99.03%**

* Levy adjusted for changes since original levy

**For tax year 2004, the Percentage of Levy collected will continue to rise as staff applies enforced collection techniques.

Question 3. Are there any delinquent taxes on the same property for more than 5 years?

As of March 13, 2006, there was a total of 13 properties delinquent for five or more years. These properties owed an average of \$18,909 in taxes. Over the past year the City has begun to use the threat of a tax sale to trigger tax payment and is finding that to be an effective tool. However, the City has used this process cautiously as we have not wanted to cause low income households to become homeless or displaced as a result of a judicial sale.

Question 4. Can the City sell tax certificates for these delinquencies?

The Code of Virginia does not delegate the authority to local jurisdictions to conduct tax certificate sales. In Virginia, when a taxpayer fails to pay their real estate taxes, there is an automatic lien by the taxing jurisdiction on the property until the taxes are paid in full (all outstanding tax, penalty and interest).¹ Some states allow their local governments to sell these liens as tax certificates. The party purchasing the tax certificate is considered an investor. The purchaser earns all future penalties and interest on the tax debt of the property owner collected by the local government entity and the opportunity to foreclose on the property if the debt is not paid in a specific period of time. Tax certificates are generally used in some other states by jurisdictions that have a much higher level of real property tax delinquency than the City of Alexandria.

However, the Code of Virginia has established two basic methods for the collection of delinquent real estate taxes where another party assumes the delinquent property. The first of these methods is the Judicial Tax Sale established under Virginia Code §58.1-3965. In short, a qualifying delinquent property may be seized by a local jurisdiction and sold at auction. There are many safeguards provided by the Code of Virginia to give the delinquent property owner the right to end the tax sale process and redeem the property anytime up to the point when the property is actually auctioned. The City has started the judicial tax sale procedures on several properties. In only one case was the property actually auctioned. In all others, the taxpayer paid the delinquent taxes prior to auction.

The second method for seizure of real property that results in the transfer of the property to a new owner is the escheat process. Each May, the City must provide a list to the City Escheator of all properties within the City where (i) any person has died without a will and left no heirs, (ii) the Treasurer believes that no one owns the property or (iii) the property appears to be abandoned. The escheator then holds an inquest as to the legal status of the property and to determine if there is any viable claimant to the property. The State then certifies escheated properties for sale. The sale is conducted and any outstanding local taxes are paid with the property being titled in the new owner's name. The City has used the escheat process on several abandoned, unbuildable lots.

¹§58.1-3340 of the Code of Virginia