Fiscal Note & Local Impact Statement

127 th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **S.B. 353** DATE: **December 3, 2008**

STATUS: **As Introduced** SPONSOR: **Sens. Harris and Spada**

LOCAL IMPACT STATEMENT REQUIRED: **No — Permissive**

CONTENTS: **To authorize the creation of land reutilization corporations to facilitate reclamation, rehabilitation, and reuse of vacant, abandoned, tax-foreclosed, or other real property**

State Fiscal Highlights

- No direct fiscal effect on the state.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2009 – FUTURE YEARS
Counties and other political subdivisions	
Revenues	Potential loss in property tax or inside millage revenues
Expenditures	Potential decrease in nuisance abatement costs and abandoned property maintenance costs

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- The bill authorizes the creation of a nonprofit entity referred to as County Land Reutilization Corporations (CLRC) and allows them to promote, develop, manage, and facilitate the reclamation, holding, rehabilitation, and reutilization of vacant, abandoned, tax-foreclosed, or other real property.

- The bill authorizes certain funding mechanisms that a CLRC may employ to operate and finance its activities, including voted property taxes, unvoted inside millage, grants, and interest proceeds from delinquent taxes. Any diversion of unvoted inside millage or voted property taxes to a CLRC would be a loss of revenue for the taxing authority.

- Because the bill allows nonprofit CLRCs to acquire certain specified abandoned properties, the bill may result in decreased county expenditures for nuisance abatement and property maintenance.

Detailed Fiscal Analysis

County land reutilization corporations – operation

The bill authorizes the creation of a county land reutilization corporation (CLRC), a nonprofit entity geared toward promoting development, managing, and facilitating the reclamation, holding, rehabilitation, and reutilization of vacant, abandoned, tax-foreclosed, or other real property. The bill requires that these entities be governed by a board of directors, whose membership is to be composed of at least the county treasurer and two members of the board of county commissioners. These persons would select the other two members. A CLRC would also be able to hire an executive director to oversee its operations.

Powers of the CLRC

The bill permits CLRCs to undertake their designated functions by doing the following:

(1) borrow money through lines of credit; issue bonds; make loans; buy, sell, lease, hold, or manage real or personal property or securities;
(2) acquire delinquent property tax certificates and receive assignments of mortgages;
(3) enter into contracts with third parties; and
(4) engage in code enforcement and nuisance abatement.

These powers would expand those currently granted to existing economic development corporations. The bill essentially allows CLRCs to receive selectively foreclosed property from banks, government-sponsored enterprises, tax foreclosure, or purchase. CLRCs will be capable of acquiring all substandard properties once foreclosed upon by banks. However, only tax-foreclosed properties are eligible for direct transfers to the CLRC. Private foreclosures by banks are not affected by the bill.

CLRC funding

The bill authorizes CLRCs to operate using several specified funding mechanisms. CLRCs may request that a county or municipal corporation issue bonds and use tax increment financing for public infrastructure improvements, as well as apply for grants or loans from the Clean Ohio Revitalization Fund to pay for remediation of brownfield sites. The Clean Ohio Fund, part of Issue 2 on the November 4, 2008 election ballot, granted an additional $400 million in bonds for the Clean Ohio Revitalization program, part of which is designated to brownfield clean up.

CLRCs may also be funded through a countywide voter-approved property tax or funds that are raised from a county's share of unvoted inside millage. Additionally, if requested by the county treasurer, the board of county commissioners may designate an additional 5% of all delinquent property and manufactured and mobile home taxes deposited in the county's Delinquent Tax and Assessment Collection (DTAC) fund for use by a CLRC. Currently, those revenues are shared by the county treasurer and the prosecutor.

There is also an additional funding mechanism available in the bill. County treasurers will be authorized to borrow internally from their daily balances to pay off various taxing districts for late and delinquent real estate taxes. By doing so, all penalties and interest from the delinquencies could then be transferred to the CLRC. An example of this is the following:

> The Cuyahoga County Treasurer collects real estate taxes twice per year. After each collection, there is an estimated $60 million to $70 million that is late or delinquent. Typically, as these delinquent taxes are collected, the principal tax, plus penalty and interest are collected and turned over to the various taxing districts that receive a portion of this revenue. The county treasurer could internally borrow much or all of this delinquency from its daily balance, and distribute this amount to the taxing districts proportionally. Alternatively, the county could establish an additional line of credit to borrow this amount of money. In turn, the treasurer will then be able to recapture the statutory penalty and interest (10% and 12% respectively in Cuyahoga County), and apply it to the CLRC.

The Cuyahoga County Treasurer has estimated that this procedure could result in approximately $8 million to $9 million annually given the estimates above. The amount of revenue generated by this procedure would vary from county to county based largely upon population. If a county does not have enough revenue to borrow the money internally and consequently establishes a line of credit, the amount of revenue received could decrease as this debt plus any interest would need to be paid before transferring proceeds to the CLRC.

CLRC powers for land acquisition and land reutilization

The bill permits CLRCs, under agreement with the county treasurer, to serve as the treasurer's agent for the purpose of receivership of delinquent property. The bill also grants CLRCs the authority to initiate nonjudicial foreclosures for certain abandoned lands and receive direct transfers of property. The bill further authorizes the treasurer to cause unredeemed tax foreclosed properties to be transferred directly to the CLRC without a sheriff sale. This could reduce county costs for conducting sheriff's sales.

The bill also extends certain land reutilization powers to a CLRC by permitting CLRCs, on the county's behalf, to acquire real property that has been offered for sale at a tax sale without having to pay the sale price until the political subdivision sells the property. This is a practice commonly known as land banking. The bill permits the CLRC to keep the sale proceeds from such transactions. Traditionally, when such transactions occur, the political subdivision is responsible for the maintenance of that property until it is resold. This would include demolishing condemned properties and cleaning vegetation from lots. In 2008, the City of Cleveland has spent $9,000,000 on demolishing condemned lots and $4,000,000 on cleaning vegetation. By having a CLRC handle these properties, various political subdivisions within a county could see reduced costs for property maintenance and nuisance abatement.

The bill creates an alternative redemption period that could potentially shorten the time within which an owner or interested party may redeem tax foreclosed property. This is a 45-day period after adjudication of foreclosure is journalized by a court or county board of revision. The bill also decreases the time that must elapse, from two years to one year, before an action may be taken on combined foreclosures and forfeiture actions. These provisions would have the effect of allowing a CLRC to acquire such properties more quickly than would otherwise by the case under current law.

The bill permits CLRCs to acquire tax-delinquent parcels for redevelopment purposes and obtain the title clear of the tax lien. Current law, now applied to CLRCs under the bill, permits each taxing authority that taxes the property to release its claim for delinquent taxes. If the taxing authorities involved agree, this would allow CLRCs to acquire such properties without having to pay the delinquent taxes.

Tax certificates

Current law permits a county treasurer to sell certificates for tax-delinquent parcels. The certificate represents a claim on the delinquent taxes if they are eventually paid, a claim on the title to the parcel, or a claim on the proceeds of a tax sale of the parcel. The certificate is equal to the amount of the delinquent taxes and entitles the purchaser to collect interest. The bill allows county treasurers to use any surplus money in the tax certificate administration fund and tax certificate redemption fund and unclaimed overpayments to pay for CLRC operating expenses.

Current law requires that a holder of a tax certificate wait at least one year before initiating a foreclosure action against the property, and that a foreclosure action must be initiated within six years of the purchase of the certificate. The bill waives the one-to-six year holding period if the holder is a CLRC, and allows the CLRC to contact property owners at any time to demand payment.

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