



COUNCILWOMAN MARIA QUIÑONES-SÁNCHEZ COUNCILMAN BILL GREEN

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Date: June 6, 2013

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City Council Unanimously Passes Unprecedented Tax Delinquency Reform Measure

“Carrot” of “clear, consistent system” of payment plans

“Stick” of certain foreclosure

Income-based plans available automatically for homeowners

Ends the “Culture of Non-Compliance”

City Council today unanimously passed Bill No. 120054, an unprecedented reform designed to aid efforts to reduce the backlog of delinquent taxes and bring an end to the City’s “culture of non-compliance” with the ‘carrot’ of clear, consistent payment plans and the ‘stick’ of certain foreclosure if taxpayers default on the plans. The legislation also provides for detailed quarterly reporting requirements that will improve public oversight of tax collections.

The legislation – sponsored by Councilmembers Bill Green (D – At Large), María Quiñones-Sánchez (D – 7th), W. Wilson Goode, Jr. (D – At Large), Bobby Henon (D – 6th), David Oh (R – At Large), Curtis Jones, Jr. (D – 4th), Marian Tasco (D – 9th), Mark Squilla (D – 1st), Dennis O’Brien (R – At Large), Brian O’Neill (R – 10th) and Jannie Blackwell (D – 3rd) – was developed through close collaboration among the Administration, Council and the Legal Services community. It was originally conceived five years ago as part of then-freshman Bill Green, María Quiñones-Sánchez and Curtis Jones, Jr.’s “Freshman 15” which contained 15 ideas to save or generate \$50 million for the City annually.

“For the first time, the City of Philadelphia has adopted a comprehensive regime to ensure clear options, procedures, and consequences for property owners who are dealing with tax delinquency, a reform that will increase the fairness and efficiency of our tax collections” said Councilwoman Sánchez.

“We don’t want anyone who wants to pay and is trying to pay to lose their home,” said Councilman Green. “But for those who continue to pretend that paying their property taxes is not a requirement in Philadelphia, including absentee landlords, foreclosure due to delinquency must be certain if we expect to change behavior.”

The Seventh Councilmatic District, represented by Councilwoman Sánchez, has among the City’s highest rates of low-income homeowners, who frequently want to become tax-compliant but struggle to access or afford payment plans. Homeowners with “tangled title” problems will also benefit from new rules allowing them to make tax payments while they work to obtain clear title to their residences.

Creating “a clear, consistent system”

Consistency and communication were emphasized as significant problems with the current system which a recent *Inquirer/Plan Philly* article described as “the least effective delinquent-property-tax-collection system of the nation’s biggest cities.”

The measure requires income-based repayment options be made available in a consistent manner to City homeowners, with specific notice requirements so that people know that they will face foreclosure after reasonable opportunities are provided for them to obtain assistance and get into an agreement.

“Right now, the same taxpayer who is income eligible for a ‘financial hardship agreement’ with [the City’s outside collection firms Linebarger, Goggin and GRB] can still be found ineligible based on his income for an extended term agreement with the Revenue Department,” Montgomery Wilson, supervising attorney for Community Legal Services testified. “This kind of variation based solely on who a taxpayer is lucky enough to be talking to is confusing and leads taxpayers to believe that the system is unfairly based on luck and ‘who you know.’”

Community Legal Services, which supports the measure, was part of a working group that included members of the Nutter Administration, staff from Councilmembers Green and Quiñones-Sánchez, and other members of the legal services community which serves underprivileged communities including Philly VIP, Philadelphia Legal Assistance, and the SeniorLAW Center, as well as the collection firms Linebarger and GRB. The working group developed the legislation, which is the culmination of work by Councilmembers Green and Quiñones-Sánchez since their arrival in Council in 2008.

Income-based payment plans

Homeowners with an income that is 70% or less than the Area Median Income (AMI) would automatically be eligible for the payment plans for their delinquent taxes which would be based on a sliding scale of 5-10% of the homeowner’s monthly income. Taxpayers with incomes at or below 70% AMI who fulfill agreements would also be eligible for specified reductions in interest and penalties when they have completely paid their outstanding principal.

Homeowners above the 70% AMI threshold would be given agreements at the discretion of the Department of Revenue, taking into consideration evidence of financial hardship.

Owners of non-homestead properties would receive clear notice of their debt and the consequences of nonpayment, and would also be given agreements at the discretion of the Department of Revenue. The Department of Revenue would be empowered to deny payment plans to non-homestead owners who are “bad actors,” with histories of code violations.

All property owners will need to be paid up on their current taxes to be able to enter and stay in a payment plan on delinquent taxes, and the bill includes updated options for 12-month installment plans for senior citizens and residents below 50% AMI.

“This is not an amnesty plan or infinite-payment plan,” Councilman Green said. “It’s a pragmatic approach to both ends of the problem: help people who want to pay their taxes and stay in their homes get into a payment plan, and assure scofflaws how and when the City will foreclose.”

Ending the “culture of non-compliance”

Much discussion at the hearing surrounded the “culture of non-compliance” in the City, where lax enforcement has led to chronic underpayment and non-payment of tax obligations. The *Inquirer/Plan Philly* article reported that the typical delinquent taxpayer is 6.5 years behind and owes over \$4,200 in taxes, penalties and interest; over 26,000 properties have been delinquent for a decade or more and 8,500 of them have not paid real estate taxes for 20 years or more.

“AVI is about tax fairness,” Councilman Green said. “Unless we enforce the laws, we’re not being fair.”

“The bill guarantees one set of transparent rules and procedures,” Councilwoman Quiñones-Sánchez said, “and a clearly defined timeline for enforcement.”

Failure to enter into a payment agreement or otherwise satisfy outstanding liabilities would result in “prompt” foreclosure action as provided under State Law. Taxpayers who default on payment plans face foreclosure within a year of the default as provided under State Law.

Payment plan details

The bill specifies details regarding the payment agreement and what taxpayers must be told including the payment amounts, terms and explanations of the taxpayers’ rights and responsibilities. It also specifies what must be communicated to taxpayers in the notices sent warning them about their delinquencies and potential foreclosure actions.

Other features of Bill # 120054 include:

- **Universal application:** One set of rules will apply to City agencies such as the Department of Revenue and the Law Department, as well as outside agencies and law firms who are hired to assist with collections.

- **Clear, consistent notice:** The bill will require notices to include key information about payment plan options and resources such as legal services and housing counseling which may be available to assist taxpayers. Notices will be sent once taxes are late (on March 31st of a subject tax year), but before they become delinquent, to help keep taxpayers from falling into a delinquency trap.
- **Incentives to stay compliant:** Homeowners in payment plans will benefit from paying up each month as their payments will be applied to the principal amount that is owed first, before interest and penalties. This will help the tax payer chip away at the actual debt. Interest and penalties will be tolled while a plan is in effect, and previously-accrued interest and penalties will be partially abated for taxpayers who successfully complete a payment plan.
- **Fair, transparent rules:** The bill creates a clear set of rules for breach and default, and requires appropriate warning notices that advise taxpayers of the consequences of nonpayment.
- **Guidelines for eligibility:** The bill fixes longstanding confusion over which taxpayers are eligible for payment plans, and creates guidelines for offering payment plans to “equitable owners,” such as heirs of “Tangled Title” properties.
- **Right to review:** The Tax Review Board (TRB) will be empowered to review decisions regarding homeowners’ eligibility for, and compliance with, payment plans.
- **Clear enforcement timeline:** The bill makes clear that the City will foreclose following one full year of delinquency, consistent with state law (the “Municipal Claim and Tax Lien Law”).
- **Affordable payment plan options:** All homeowners will have a right to a payment plan. Taxpayers at or below 70% **Area Median Income** (see below) will be allowed to pay a scaled percentage of their monthly household income. Taxpayers with unusually high expenses, such as medical bills, will have the option of requesting a plan based on available income after expenses.

Philadelphia County, Pennsylvania (Annual Income)									
<i>SOURCE: HUD Area Median Income Limits for FY 2012 (March 2, 2013)</i>									
FY 2012 Income Limit Area	Median Income	FY 2012 Income Limit Category	1 Person	2 People	3 People	4 People	5 People	6 People	7 People
Phila. County	\$81,500	30%	\$17,150	\$19,600	\$22,050	\$24,450	\$26,450	\$28,400	\$30,350
		50%	\$28,550	\$32,600	\$36,700	\$40,750	\$44,050	\$47,300	\$50,550
		70%	\$39,813	\$45,500	\$51,188	\$56,875	\$61,425	\$65,975	\$70,525
		80%	\$45,500	\$52,000	\$58,500	\$65,000	\$70,200	\$75,400	\$80,600

The measure will take effect on October 13, 2013.
