

Mark, Rob & Keith,

Good afternoon.

We're planning to publish a series of articles in the Inquirer and on PlanPhilly in the near future that continues our examination of property tax delinquency.

We wanted to share our findings with you in advance of publication to give the city ample time to react and answer some specific questions. Our preference of course is to talk about these matters in person with the administration's subject matter experts. But given the complexity of these issues, it seemed best to get our questions to you in writing.

Please also consider this a formal request for one-one-one interview time with Mayor Nutter. These issues are important ones for property owners and taxpayers across the city, and they cut across many different agencies and departments. So I'd like the opportunity to discuss some of the broader questions directly with Mayor Nutter (understanding of course that smaller bore policy questions and such would be detailed elsewhere).

I'm the lead reporter on this series, but this project is a collaborative effort featuring contributions from the staffs of PlanPhilly, the Inquirer and AxisPhilly (formerly PPIIN). We've also received research assistance and data analysis from a number of independent experts, most critically Kevin Gillen at the University of Pennsylvania.

We understand that these are complex issues and that city employees have busy schedules. However, this is a timely subject, and we need to hear back from the city on these questions by Feb. 11 (two weeks from today) in order to meet our deadline.

A detailed account of our reporting to-date, and a list of the questions we're looking to get answered, can be found below. It is possible new questions will arise between now and our planned publication. If so, we will get those questions to you as soon as possible.

I apologize for the length of this document, but it seemed best to share as much of our reporting with you as possible.

It goes without saying, but we ask that this document not be shared with other media outlets.

I've CC'd the others on this email because our project will touch as well on blight enforcement and land disposition and vacancy issues.

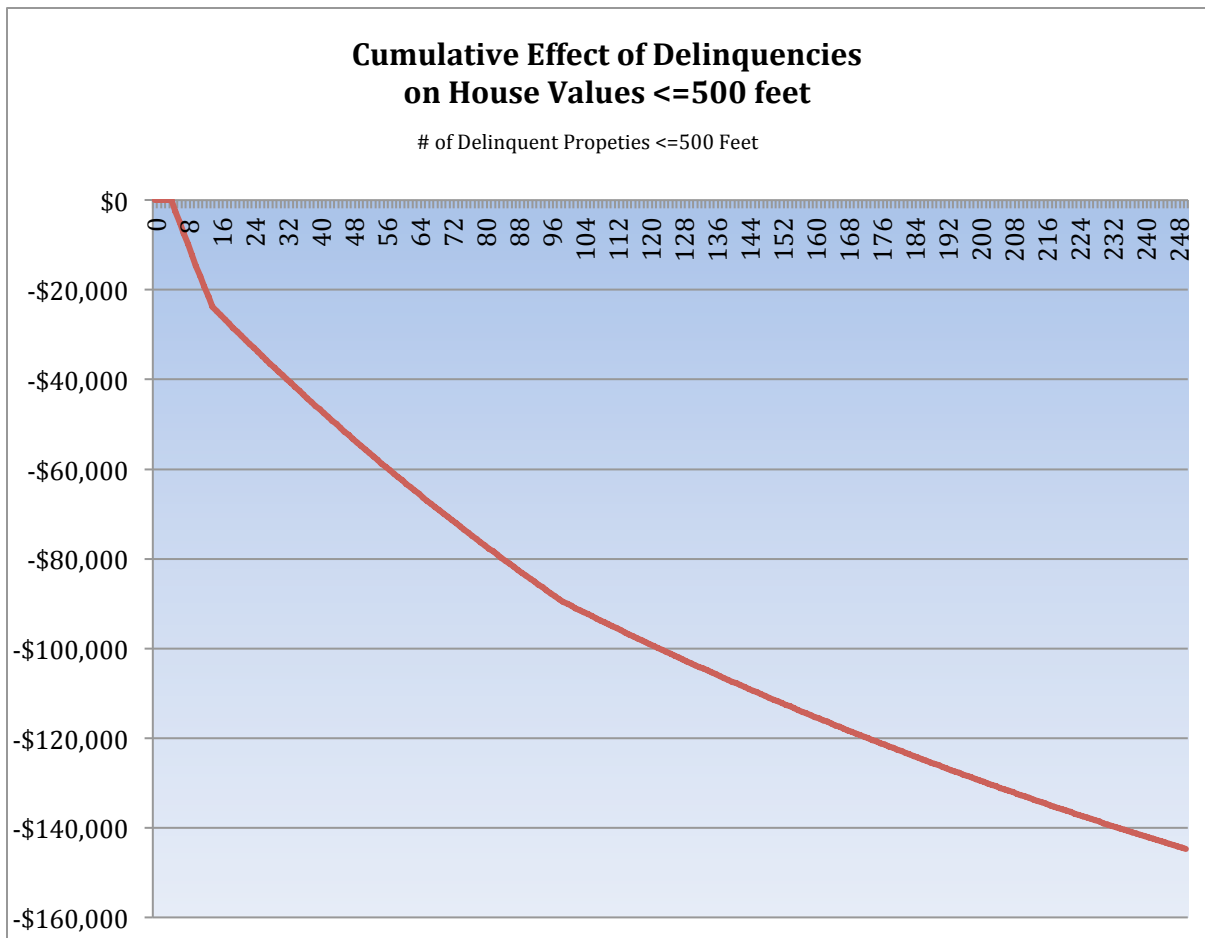
Sincerely,

Patrick Kerkstra  
PlanPhilly/Inquirer  
215-798-0180

## Delinquency's impact on property values, public finance and neighborhood quality of life

### Property Values

PlanPhilly hired Kevin Gillen PhD to perform a regression analysis to isolate and evaluate the impact of tax delinquency on the property values of single-family homes. The analysis looked at each single family parcel in the city of Philadelphia, calculated the number of delinquent properties within 500 feet (a distance equal to about one block) of each parcel, and determined that delinquency does indeed have a significant impact on property values, even after other variables that are correlated with delinquency are controlled for.



This analysis reveals the following.

- Of the approximately 435,000 single-family homes within Philadelphia, about 417,000 have one or more delinquent neighbors within 500 feet.
- On average, delinquency depressed the value of those 417,000 parcels by 22.8 percent (median impact is -17.3 percent). The effect increases with the number of nearby delinquencies, as shown in the chart above.

- Delinquency has a significant impact on property values not just in long-established low-income neighborhoods, but also in working-class and middle-income neighborhoods.
- Delinquency does most of its damage to home values before it becomes endemic (note the line in the above chart drops sharply once the threshold of 5 nearby delinquencies is crossed, and that the rate of home value decline slows as local delinquency becomes endemic).

To be clear, Gillen's analysis accounts for other factors that influence property value, such as building condition, proximity to Center City, parks, transit and so on. His methodology (a copy of which is included in the attachments) isolates the effects of delinquency.

In spite of the damage that delinquency does to home values, Gillen found that the market value of delinquent properties exceeds the amount due on those parcels in the vast majority of cases. Indeed, he found only a handful of lots with market values lower than the total amount owed on those parcels. Indeed, Gillen found that 73 percent of all properties had market values at least 10 times as high as their delinquencies. This suggests these tax delinquent parcels could find buyers on the open market (though, of course, sheriff sales are hardly typical market offerings).

### **Public Finances**

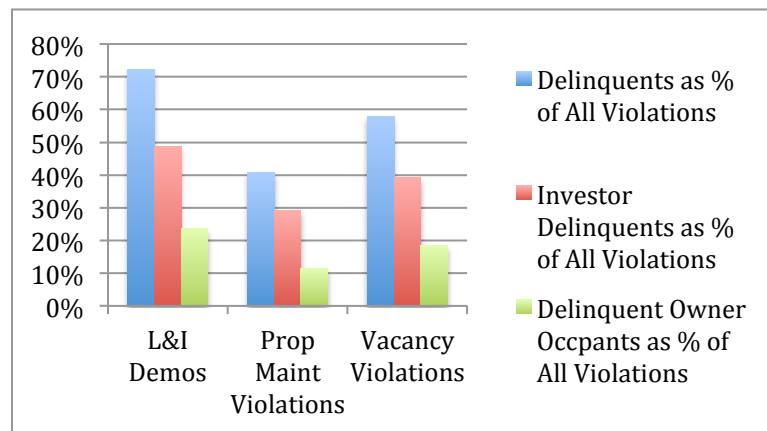
If, as our analysis demonstrates, delinquency negatively affects home values, then it stands to reason that delinquency also negatively affects the finances of the city and school district. In all, our analysis finds that delinquency depresses the total value of residential real estate in Philadelphia by \$9.5 billion. Applying the 2013 tax rate to that figure would amount to as much as \$297.6 million, presuming a 100 percent collection rate and assessments that are also 100 percent accurate and timely. This suggests that a sharp reduction in the city's inventory of delinquent properties would either significantly increase city and school district revenue or create an opportunity to lower the property tax rate. Lastly, the greatest gains from a reduced delinquency rate are in those neighborhoods where the number of delinquencies has just begun to exceed 5 delinquencies within a 500 foot radius, but remains below 15 delinquencies.

### **Blight & Delinquency**

Next we turned our attention to the notion that delinquency and blight are linked. Using the newly released Licenses and Inspection data at [phila.gov/map](http://phila.gov/map), we cross-referenced the city's tax delinquents against certain L&I violations issued over the past year (namely property maintenance violations, vacancy violations and L&I funded demolitions).

That comparison found that there is a very strong correlation between delinquency and L&I violations. The correlation is even more pronounced when you look at the subset of delinquents owned by investors and landlords (more on that distinction later).

- Of 1,008 L&I demolitions over the past year, 729 properties were tax delinquent, and 491 of those delinquent properties were investor owned. Put another way, investor owned tax delinquent properties are 1358 percent more likely to require L&I demolitions due to unsafe conditions than are tax compliant properties.
- An investor owned tax delinquent property is 673 percent more likely to be hit with a vacancy violation than a tax compliant property.
- Investor owned delinquent parcels are 308 percent more likely to be cited for property maintenance violations than are tax compliant properties.
- See the accompanying chart, keeping in mind that delinquent properties only account for about 18 percent of the city’s total parcel inventory (and only about 10 percent are investor owned delinquents).



- Looking more closely at these violators, we found that there were 20,854 quality of life violations (demolitions, property maintenance and vacancy license violations) issued over one calendar year to just 3,461 properties citywide. That means that about .006 percent of the properties in Philadelphia received 38 percent of all quality of life L&I violations issued that calendar year. Nearly half of these high-violation-count properties were delinquent.
- Unsurprisingly, we found after mapping these tax delinquent L&I violators that they were heavily concentrated in low income neighborhoods.

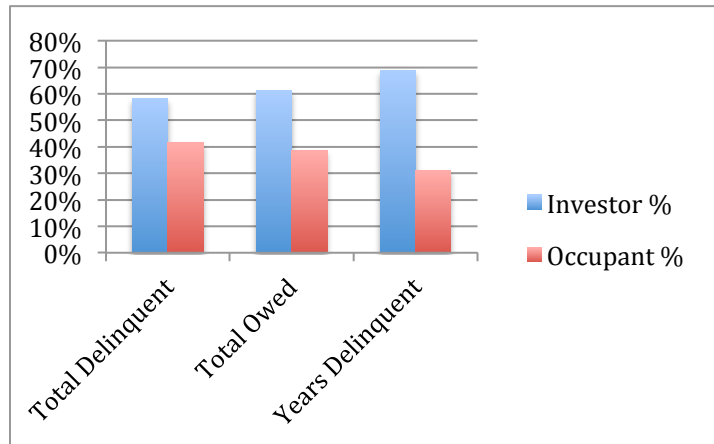
## Composition of Property Tax Delinquents

### Investors vs. Owner Occupants

We looked at each tax delinquent property in Philadelphia and attempted to determine if it was owned by an owner occupant or an investor (I’m the term “investor” here as shorthand here for non-owner occupant). To determine this status, we looked at a number of different factors, most notably OPA’s off-property

flag, the name of the owner (sorting for corporate owners with names including LLC, Inc, Corp., and so on), the number of properties owned by each individual owner and Revenue's billing address for each property. We developed this approach with the help of outside experts, and we consider our estimates to be conservative.

The key finding is that a significant majority of tax delinquent property in Philadelphia is owned by investors, not owner occupants. This class of landlords and speculators is responsible for the bulk of the delinquency problem, in terms of total delinquent parcels, amount owed and total years delinquent.



Other findings:

- At least 11,000 of these tax delinquent investor-owned properties have Revenue mailing addresses outside of Philadelphia, suggesting that their owners do not live in the city.
- About 22,000 of these delinquent properties belong to owners that appear to own at least five properties apiece (we make that determination going by the billing address and name of the owner).
- Many of the city's oldest delinquents are in the names of defunct companies or dead people. We performed a statistically valid sample of the 28,500 properties that are 10 or more years delinquent (380 properties examined, for a 95 percent confidence level and a five percent confidence interval) and found that 20 percent of our sample population was dead or defunct, according to public records.
- Contrary to popular perception, it looks as though the city seeks tax foreclosures on owner occupants at about the same rate as it does with investors. In a review of all properties advertised for sheriff sale last year, we found that about 60 percent were owned by investors, while 40 percent were owned by owner occupants. This is roughly equal to the breakdown in the overall ranks of delinquent property owners.
- Finally, our analysis showed that investor-owned tax delinquent properties are more heavily concentrated in low-income neighborhoods. Those findings are illustrated in a map you can reach through this link: <http://bit.ly/TxT0cp>

### Low Income Owner Occupants

Our analysis finds that there about 15,800 owner occupied properties in neighborhood that could be classified as low income (i.e. those where the local per capita median income is \$25,000 or less). We found this number a bit surprising. But it looks as though investors and/or homeowners in stable neighborhoods account for a large majority of the delinquency problem.

Nonetheless, there certainly are a significant number of low-income owner occupants who are tax delinquent in Philadelphia. According to interviews with a number of these delinquents, as well as their advocates and legal representatives, there seems to be a great deal of confusion about the city's payment plans, hardship agreements and any other initiatives designed to bring delinquent low income owner occupants into compliance.

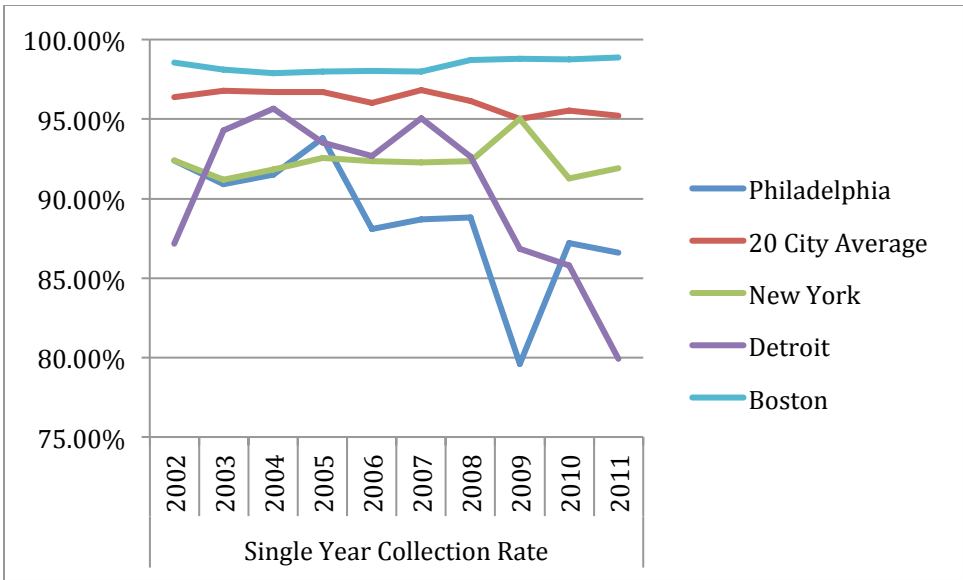
We could find very little information about such plans, either online or in city facilities. In past interviews, Keith, you've said there are printed materials about low income plans available at city libraries. We visited 10 city libraries and could find no printed information about low income payment plans at any of the libraries. When speaking with staff at the libraries, we were sometimes given web links to entirely different programs (such as the homestead exemption application). We were directed to the correct online application at only one location: the Central Library.

## **City Management of Tax Collection, Sheriff Sales, Land Disposition, Permits and Violations**

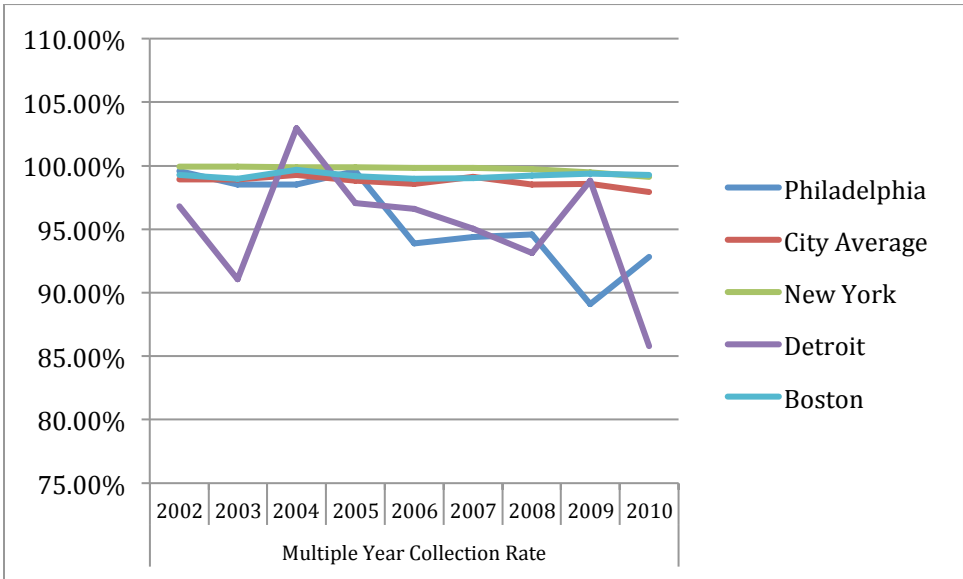
### **Tax Collection & Delinquency Enforcement**

We revisited the city's property tax collection performance for this series. Last time, we compared Philadelphia's total number of outstanding delinquent parcels to the per parcel delinquency rate in other cities. This time we're looking at an additional metric: the rate of property taxes collected both in the year they are owed and in subsequent years. This data is compiled in a similar fashion by many different cities in their annual comprehensive financial reports, making it a good metric for cross-city comparisons.

For this comparison we took a look at the 20 largest cities, plus Baltimore. And we found that Philadelphia has one of the lowest property tax collection rates of any big city in the nation. Philadelphia's below average collection performance holds up even when the comparison is limited to other cities with high poverty rates. The two charts on the following page give you a sense of what we found.



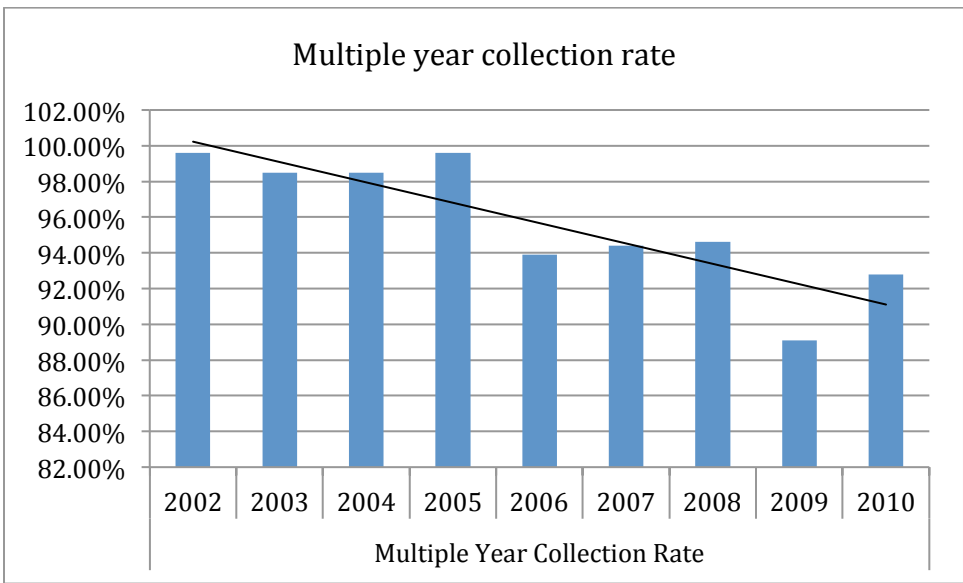
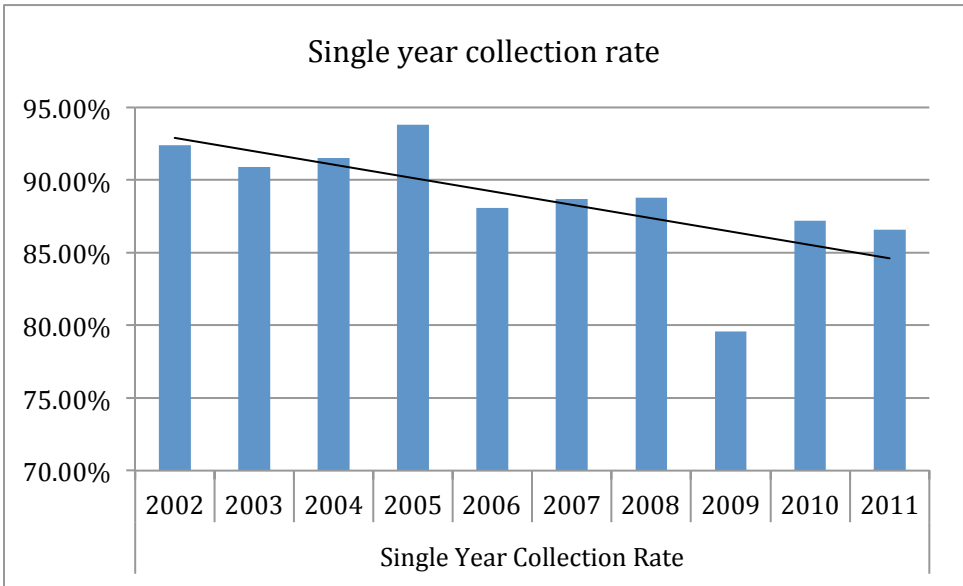
The chart above covers total collections the year the tax is due. The chart below cites collection rates for the tax year after at least two years have elapsed.



Between 2008 and 2011, Philadelphia has averaged a one-year collection rate of 85.55 percent, which is the lowest of all the cities we surveyed. Philadelphia's multiple-year collection rate (covering 2008 to 2010) of 92.17 percent is also the lowest of all cities surveyed.

If you'd like to see Philadelphia's collection rate compared to all the cities we examined, follow this link: <http://bit.ly/TxRTcF>

When we look at Philadelphia alone, we find that property tax collection rates have declined in recent year relative to past performance, as illustrated by the two charts below.



### Sheriff Sales

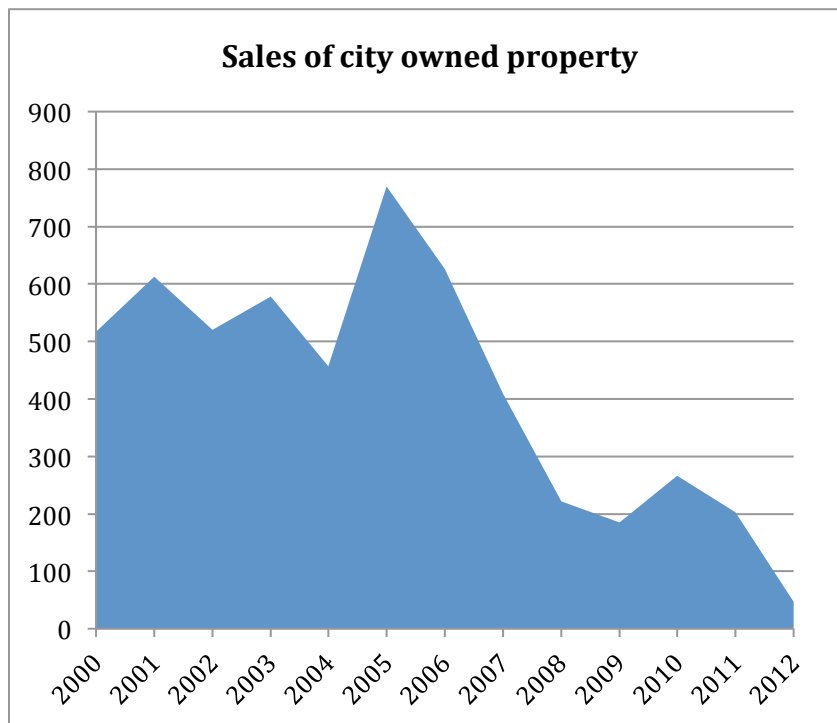
Although the city still has not reached its stated goal of offering 600 tax delinquent properties for sheriff sale each month, it is clear that the pace of sales has increased considerably over the last year and a half.



We have invested a lot of time in trying to independently track sheriff sales over the last 10 years (looking at property records, old advertisements and the sheriff's own records). Unfortunately, the records are so spotty, the advertising so inconsistent (in earlier years) that we are not at all confident enough in the findings to publish the results in a chart. It appears, though, that sheriff sales declined dramatically beginning in 2008, stopped altogether for a year for the amnesty, and then resumed at a rate that matches or exceeds the rate of the mid-2000s.

### Land Disposition

City officials have told me on multiple occasions that one obstacle to still more aggressive sheriff sales is the city's reluctance to acquire more property (in the event the delinquent parcel does not sell at sheriff's auction). This concern led us to examine trends in the pace of city land disposition. We found that sales and transfers of publicly owned land (PRA, Public Property, OHCD, PAID) have fallen off sharply in recent years.



The chart at left illustrates this decline (note: 2012 figures are incomplete, we will update those before publication). We produced this count on our own after being advised that the city's records on its property sales over the years were unreliable. This count reflect what we found searching the deeds transfer database, and includes all sales and transfers of city

owned property to other parties, be they non-profit or for-profit.

This decline in property sales seems relevant because it suggests that the city is not in fact making progress on its land disposition performance, despite what I know are significant efforts to reform and improve that process. Until this trend reverses, most tax delinquent properties added to the city's inventory would indeed likely just swell the public land holdings, and not be returned to productive use.

## Permits & Violations

Section § 9-102 of the city code says that “no license or permit shall be issued or renewed if the applicant is delinquent in the payment of any City or School District of Philadelphia taxes...” The code exempts a taxpayer that has “entered into an agreement to pay any such delinquency and is abiding by the terms of such agreement.”

We have found a large number of property tax delinquents who have received permits from the department of Licenses and Inspections while in delinquency. While it is clear that some of these property owners are in payment, many are not. We randomly sampled 20 delinquents who had received building permits in the last five years, and of those 13 were delinquent when they received the permit and remain delinquent today (the other seven were either in payment agreements or had paid up). The following analysis only extends to the delinquent properties: we have not yet checked to see if there are tax delinquents who have received permits for their tax complaint parcels.

- There are at least 5,567 tax delinquent properties that have active and valid rental licenses from the city of Philadelphia. Those property owners, at least some of whom presumably are earning rental income, owe \$15.3 million in back taxes on those city-sanctioned rental properties. There are 204 with active rental licenses and delinquencies that are at least a decade old. The average delinquency on these properties is 2.5 years old.
- There are at least 325 delinquents with vacancy licenses for the lots that they are delinquent on.
- L&I has also issued at least 5,500 building permits for construction work on delinquent properties over the last five years.

All this suggests to us that the city is routinely issuing permits without checking the delinquency status of applicants.

## Questions

We invite the city to respond generally to any and everything included in this document. That’s our purpose in sharing it with you: to give the city the chance to see and react to each of our major findings.

We also have a host of specific questions. As noted above, we would prefer to address these questions in interviews with the appropriate city personnel.

### Re: Property Values & Public Finances

- Does the city disagree with our property value findings, or see any flaws in our analysis?
- Might the finding that delinquency degrades the tax base lead the city to change its approach to property tax delinquency enforcement?

- Has the City of Philadelphia conducted a similar analysis in recent years? Or has the city explored in any way the impact of delinquency on property values? If not, why not?
- Does the city have any comment for those homeowners and parents who might be angered by the revelation that delinquency hurts home values and the property tax base?

#### Re: Quality of Life and Blight

- Our analysis of L&I violation shows that delinquent properties are major sources of blight. In light of this, will the city consider prioritizing those delinquents that are repeat L&I offenders, even if the total amount owed on the offending parcels is minimal? Why or why not?
- How often does the city take into account the blighting influence of certain delinquent properties when determining which parcels to bring to sheriff sale?
- I understand L&I has been forwarding a limited number of properties to Revenue as potential tax foreclosure targets? How many properties a month have been offered for sheriff sale on L&I's recommendation? How does L&I choose which properties to target for tax foreclosure? Is this a formal program? Are there positive results the city can share?
- I am familiar with L&I's doors and windows program, and it is clear looking at the violation data that there has been significantly increased efforts to cite property owners who are in violation of the city code. Are there are other L&I initiatives designed to get property owners to take better care of their property that I should be aware of? Do any of these initiatives specifically target tax delinquents?

#### Re: Composition of Property Tax Delinquents

- Does the city keep its own numbers tracking which properties are owned by owner-occupants, and which are owned by non-owner occupants? More specifically, does the city have its own count of how many tax delinquents are owner occupants and how many are investors? If not, why not? If so, do the city's numbers resemble our findings or not?
- Does the city take owner occupancy into account when determining whether or not to bring a tax delinquent property to sheriff sale?
- In the past, there has been political resistance – both on council and within mayoral administrations – to aggressively pursuing property tax delinquency, in part because many delinquents were presumed to be owner occupants. Is the news that nearly 60 percent of the city's delinquents are investors and not owner occupants likely to change the city's approach to delinquency enforcement in any way?
- Keith has said in the past that the city has begun specifically targeting delinquents who own multiple delinquent properties. Can the city cite specific examples of property owners that have been singled out for stepped-up enforcement?

- How does the city expect delinquent property owned by defunct companies or long-dead owner occupants to return to active use?
- Why is information about low income payment plans so hard to find, either online or at public city facilities?
- We understand the city has been meeting with stakeholders in order to draft a new policy regulating handling of low income property tax delinquents. Is that correct? If so, where does that process stand? Is a new, unified policy in the works? If so, what will it look like?

#### Re: City Management

- Why do property tax collections in the City of Philadelphia lag those of all other big U.S. cities?
- Why has the property tax collection problem grown worse during the Nutter administration?
- Does the city anticipate improved collection rates in the near future?
- What steps has the city taken to improve collection rates?
- Has the city's stepped-up schedule of sheriff sales been had any notable deterrent effect on other delinquents?
- Does the city still hope to offer 600 properties per month for sheriff sale, or is that goal no longer in place?
- Does the city have access to accurate historical sheriff sale records? (I believe the answer is no, due to the many problems at the sheriff's office, but if there are records available we would like to see them and chart out the resumption of stepped-up sheriff sales).
- Are there legislative changes, either at the city or state level, that the administration would like to see in order to change or improve the tax foreclosure process?
- Why has the sale and disposition of city owned land declined so precipitously in the Nutter administration?
- What is the early assessment of the Front Door? Does it seem to be working as hoped?
- How many expressions of interest has PRA received since the Front Door went live? How many sales of city owned land have taken place due to inquiries that arrived through the Front Door?
- The Inquirer has reported that the administration is considering creating a land bank within PHDC. Does the city have any better sense yet of how such a land bank would work? Why was PHDC chosen as the agency to house the prospective land bank? Will the land bank be used to acquire properties that otherwise might have gone to tax foreclosure sale (as is now possible under state law)? Or is the focus principally on disposition of existing city inventory?
- Why are L&I permits being issued to owners of tax delinquent properties who are not in payment agreements?