

Memorandum

To: General Distribution

From: James Rokakis, Cuyahoga County Treasurer

Re: Land Bank Executive Summary

Date: December 1, 2008

I. Overview

The crisis of land reclamation of vacant and abandoned properties remains a long standing problem to which urban cities react responsively, rather than a strategically. In other words, abandoned properties get addressed often on the basis of citizen or councilmanic complaints. The foreclosure crisis has seriously exacerbated the problem to the point of decimating entire once-thriving blocks and the surrounding tax base. In Cleveland, for example, the city this year will spend about \$9,000,000 on demolishing condemned properties and another \$4,000,000 on cleaning overgrown vacant lots--a highly regressive, burdensome and, sadly, recurring annual expense. And, the demolished properties will be added to the next year's inventory of vacant lots needing to be cut. The Cuyahoga County Treasurer proposes the legislative enabling of county-sponsored "land reutilization corporations" ("LRC") which can not only add needed resources to the foregoing problem, but can do so in a more nimble, strategic and productive way.

II. The County Land Reutilization Corporation

The proposal is based on the successful Genesee County, Michigan Land Bank. Chapter 1724 of the Ohio Revised Code will be amended to expand community improvement corporations (LRCs) by infusing LRCs with powers to receive selectively foreclosed properties from banks, government sponsored enterprises (GSE's), tax foreclosure, or purchase. The LRC will responsibly moth-ball properties pending rehabilitation, assemble land for development, and demolish on a larger scale properties beyond rehabilitation and which have no residual equity. The proposed LRC will have authority to buy, sell and hold properties throughout the County. The concept is to make a noticeable dent in the number of structures needing demolition and to retard their immediate negative community impact. This retention of such properties by the LRC is also designed to eliminate the proliferation of multiple layers of land speculation and flipping foreclosed properties. Although LRCs will be capable of taking all substandard properties once foreclosed upon by banks, only tax foreclosed properties are eligible for direct transfers to the LRC. Private foreclosures by banks will remain unaffected by the proposed legislation.

III. Funding

There are several potential sources of funding. However, the LRC must stand on its own since other government funding cannot be assured. Hence, the three essential funding sources are:

A. Penalties and Interest From Tax Anticipation.

Under the proposal, county treasurers will be authorized to borrow internally from their daily balances to pay off the various taxing districts for late and delinquent real estate taxes. By doing so, all penalties and interest from such delinquencies, once collected, would inure to the LRC. By way of example in Cuyahoga County, the Treasurer collects real estate taxes twice per year, January and July. After each collection, roughly \$60,000,000 to \$70,000,000 is late or delinquent. Typically, as these delinquencies are collected, the principal tax, plus penalty and interest are collected and turned over to the various taxing districts proportionate to their respective entitlement. The County Treasurer proposes to internally borrow much of this \$60,000,000-\$70,000,000 delinquency from its daily balance, and shortly after the close of collection distribute this amount to the taxing districts according to their share. This in turn will authorize the Treasurer to recapture the statutory 10% penalty and 12% per annum interest on the delinquency and apply it to the LRC. Internal models prepared by Treasurer staff show that this spread will add a sum of approximately \$8,000,000-\$9,000,000 annually using the example above. This annual revenue stream, in turn, will, at some point be recapitalized by tax anticipation notes (secured by the ongoing annual revenue stream) to raise much larger sums to address the problem.

B. Direct Transfers

By changes to the Ohio Revised Code, the Treasurer will be able to cause unredeemed tax foreclosed properties to be transferred directly to the LRC without lengthy sheriff and auditor sales which simply feed the cycle of unwholesome land speculation. Indeed, if tax foreclosed properties are not redeemed by their owners within 45 days of a tax foreclosure decree, speculators will no longer be able to “cherry pick” higher equity properties, speculate in the remaining auctioned properties and leaving behind the negative equity properties to escheat to the state or to passive city land banks. Instead, after the aforesaid 45-day period tax foreclosed properties will transfer directly to the LRC. This transfer will include both negative and positive equity properties. The positive equity properties will be used to help fund the operations of the LRC through responsible resales to qualified homeowners and eligible rehabbers.

IV. Strategic Reutilization and Partnerships

By allowing LRCs to serve as repositories of numerous properties needing reclamation, property disposition will be strategic and compliment the various city land use plans as opposed to losing control to land speculation. In areas where larger scale assemblage occurs, these assemblages will be marketed as incentivized transfers to private redevelopers so long as they adhere to the city plan and commitments to rehabilitate the property. It should be emphasized, the LRC will not preempt existing city land banks. Cities will have the “right of first refusal” to acquire a tax foreclosed property. Moreover, the LRC does not result in another layer of government; rather, the LRC was specially chosen as the preferred vehicle for land reclamation because, other than the adoption of its public purpose by the County Commissioners, it operates like a private corporation in

every material respect. Being nimble and being able to act similarly to private enterprise is a key feature to a successful land reclamation initiative.

V. **Conclusion and Legislative Status**

This bill will not solve all the problems of the deteriorating tax base associated with foreclosure and property abandonment. However, it will finally create a tool that will provide for long term reclamation of the tax base, not only in urban areas but surrounding suburbs once thought to be immune from the ill-effects of the foreclosure crisis.