THE ACCIDENTAL LANDLORD:
MANAGING OCCUPIED TAX-FORECLOSED PROPERTIES & CREATING HOMEOWNERSHIP OPPORTUNITIES

Amy Turim, Deborah McCollum-Gathing, Larry Kilmer & Atty. Gregg Hagopian

milwaukee.gov/RVP
## Milwaukee Overview

<table>
<thead>
<tr>
<th></th>
<th>Milwaukee</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Vacancy Rate</td>
<td>10.8 %</td>
<td>12.5 %</td>
</tr>
<tr>
<td>Owner Occupied Housing Units</td>
<td>43 %</td>
<td>64.4 %</td>
</tr>
<tr>
<td>Median Rent</td>
<td>$784</td>
<td>$920</td>
</tr>
<tr>
<td>Median SMOC (Mortgage)</td>
<td>$1,350</td>
<td>$1,520</td>
</tr>
<tr>
<td>Median Property Value</td>
<td>$122,000</td>
<td>$176,000</td>
</tr>
<tr>
<td>Individuals below poverty level</td>
<td>29.4 %</td>
<td>15.6 %</td>
</tr>
</tbody>
</table>

Source: United States Census Bureau American Community Survey Data (2010-2014 Survey 5-Year Estimates)

[https://www.census.gov/programs-surveys/acs/](https://www.census.gov/programs-surveys/acs/)
<table>
<thead>
<tr>
<th>Measure</th>
<th>1&lt;sup&gt;st&lt;/sup&gt; Wave 2009</th>
<th>2&lt;sup&gt;nd&lt;/sup&gt; Wave 2011</th>
<th>2015</th>
<th>YTD As of 7/31/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Foreclosure Filings</td>
<td>5,503</td>
<td>4,325</td>
<td>1,857</td>
<td>722</td>
</tr>
<tr>
<td>Tax Accounts Delinquent</td>
<td>7.9%</td>
<td>6.4%</td>
<td>5.6%</td>
<td>7.3%</td>
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<tr>
<td>Tax Foreclosure Filings</td>
<td>892</td>
<td>991</td>
<td>1,167</td>
<td>1,087</td>
</tr>
<tr>
<td>Filings Completed (Acquired Rate)</td>
<td>45%</td>
<td>60%</td>
<td>66%</td>
<td>56.6%</td>
</tr>
<tr>
<td>City In Rem Inventory (Improved Properties)</td>
<td>398</td>
<td>627</td>
<td>1,258</td>
<td>1,242</td>
</tr>
</tbody>
</table>
THE ACCIDENTAL LANDLORD

• Unplanned and undesired acquisition
• Tenant is not screened for any standard rental criteria
• City “Landlord” is responsible for water bill, grass cutting and snow removal
• “Landlord” maintenance duties and tenant responsibilities
THE TAX FORECLOSURE PROCESS

Presented by:
Gregg Hagopian
Assistant City Attorney
City of Milwaukee
Overview

Smith house goes tax delinquent → Remedies

Personal collection lawsuit against Smith personally
Tax foreclosure lawsuit against Smith house

→ Tax foreclosure judgment passes clean title to City

→ City owns house & inspects

Policy shift #1:
Personal collection alternative

Policy shift #2:
Fast-track tax foreclosure possibility

Policy shift #3:
License before lease
Wisconsin Property Tax Foreclosure Timeline
WIS. Stat. 75.521

2016
January 1
- Status date for “taxable vs. exempt” and for assessed value.
- Mary Smith house is taxable, and is assessed at value of $100,000.

December 1
- Treasurer sends 2016 tax bill to Mary Smith.

2017
January 31
- Smith must pay 2016 tax bill in full or pay 1st installment (1st of 10).
- Smith does nothing.

February 1
- Tax certificate issued regarding Smith house.
- Smith is “permanently delinquent” on 2016 taxes.

City can foreclose beginning Feb. 1, 2018 (1 year wait), but can now start suing owner personally.

- Interest and penalties begin running.

November
- Smith’s account gets referred to City collection lawyer for in personam personal collection (along with all other delinquent 2016 accounts).
- If Smith has assets to justify personal suit, City sues Smith personally for 2016 tax debt.

2018
February 1
- One year wait ends and “Smith house” account is eligible for tax foreclosure.
- But, Treasurer gives City collection lawyer extra year to consider personal suits.
Wisconsin Property Tax Foreclosure Timeline

WIS. Stat. 75.521

2018
Anytime after February 1
Department Head or Alderperson can provide to City Attorney a form to “fast-track” tax foreclosure, providing rational reason (e.g. stop nuisance activity, acquire parcel to assemble for project, etc.).

In 2015, Council authorized simpler “fast-track” without the “form” (simple email) for tax delinquent residential parcels registered as vacant or in mortgage foreclosure.

Smith House is not “fast-tracked.”

October
City collection lawyer refers 2016 “Smith house” account back to Treasurer for tax foreclosure because Smith lacks sufficient assets to justify personal collection suit.

City DCD screens for environmental risk prior to tax foreclosure.

2019
February 1
City Treasurer brings tax foreclosure against Smith house for the 2016 and 2017 delinquencies (after statutory wait period of 1 year) and after 1 extra year wait while account was with City collection lawyer to consider personal suit. Treasurer batches 2016/2017 delinquencies referred back for foreclosure so that in 2019, 5 tax foreclosure cases are brought; one in February, and the others in March, May, June, and August, with each one containing about 250 parcels.

May 1
About 3 months later, City gets tax foreclosure judgment and becomes owner of Smith house.

City inspects Smith house.

License/ Lease to Smith.

City manages, markets, sells the Smith house to another.
PROPERTY MANAGEMENT

Presented by:
Deborah McCollum-Gathing
Property Manager
City of Milwaukee
Department of City Development
THE THREE QUESTIONS

1) What was acquired?
2) Who are the occupants?
3) What is the condition of the property?
Subject: City Tax Foreclosure; Temporary License to Occupants

On July 11, 2016, The Milwaukee County Circuit Court granted the City of Milwaukee judgement of tax foreclosure under Wis. Stat. 75.521 against the property at (address) that you occupy.

The judgment terminated all prior ownership and lease interests in the property and transferred ownership to the City. **Do not pay any future rent to your former landlord.** Any security deposit you may have paid this landlord did not transfer to the City and the City is not responsible for the deposit.
QUESTIONNAIRE FOR OCCUPANTS
INSPECTION ONE: Initial Exterior “Drive By”

- Compile existing property information from assessor’s office
- Take exterior photos
- Fill out information sheet: Condition of property and area, look for billboards, check if secure, indicate condition of property and adjacent properties
- Occupied or vacant (CONTEXT CLUES!)
- Team: 5-6 staff members
- Time: ASAP! 2 weeks
PREP FOR INTERIOR INSPECTION

- Letters to **occupied** properties a week prior to the scheduled inspections with date and time
- Mailed Letters represent a 12-hour notice (entry law in WI)
- Scheduled from 9:30am-1:00pm
- Inform Real Estate Staff, Neighborhood Improvement Personnel and Locksmith of inspection dates
- Locksmith will provide access to the unit – whether occupant is there or not
VACANT PROPERTY PROCEDURES

City Notifies:
- Utility companies to lock/disconnect services
- Board-Up Contractor to make property accessible

Inspection:
- No tenant letters sent
- Real Estate and NIP code inspector visit house, create scope
- Scope cost vs. home value drives disposition strategy: market or demolish
OCCUPIED PROPERTY:

Purposes of Interior Inspection

1. Safety & Condition
2. Scope of Work
3. Occupant Interview
4. Smoke & Carbon Detector
5. Offer Lease if Appropriate
PROPERTY CONDITION = LEASING DECISION

– Severe Defects = Immediate Department of Neighborhood Service Placard
– Major Defects = Issue 28-day Notice to Vacate
– Minor Defects = Offer a Month-to-Month Lease and Repair
SEVERE DEFECTS: PLACARD

• Immediate Danger - health, safety and welfare
  – No electrical / Gas service
  – Poor condition of parcel
    • Excessive roof leaking
    • Structural Defects
    • Unsanitary conditions
    • Hazardous Electrical Conditions
    • Excessive Code Violations
MAJOR DEFECTS: CAN BE REMEDIED - SOMETIMES

- No immediate Danger – 28 Day Notice (Termination of Occupancy)
  - Previous Complaints
  - Non-cooperation of Licensee
  - Inability to pay monthly rent
  - Fair to poor building conditions
  - Unsanitary conditions
  - Redevelopment Plan
MINOR DEFECTS
CITY MAKES MINOR REPAIRS

- Parcel in Good Condition
- Minor Repairs are needed for tenancy
  - Plumbing issues (#1)
    - Toilet or faucets leaking
  - Carpentry issues
    - Minor roof leaks
  - HVAC Issues
    - No heat
  - Extermination

* Termination of Licensee, Lease Signed, Month-To- Month Tenancy Begins, Landlord- Tenant Relationship*
SEPTEMBER 2016 SNAPSHOT
378 Occupied In Rem Properties

- Occupants issued 28 Day Notice to Vacate: 76, 20%
- Tenants on Leases: 132, 35%
- Occupants not offered lease: 7, 2%
- Needs inspection: 131, 35%
- Other (vacating judgment, bankruptcy/legal): 32, 8%
- Other (vacating judgment, bankruptcy/legal): 32, 8%
LEASE EXECUTED AT INSPECTION

- Tenant receives a copy of the executed lease at the time of inspection
- Tenants rent is based upon the previous rent or City’s minimum
- Monthly rent due by the 5th of each month
- Tenants responsible for electric and gas (in most cases)
- City pays water and sewer & cuts grass and shovels snow
# Sample of Holding Costs

<table>
<thead>
<tr>
<th>TYPE</th>
<th>YTD 2016 (7/31/16)</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAS &amp; ELECTRIC</td>
<td>$11,800</td>
<td>$45,700</td>
<td>$40,400</td>
</tr>
<tr>
<td>WATER &amp; SEWER</td>
<td>$185,300</td>
<td>$438,000</td>
<td>$622,000</td>
</tr>
<tr>
<td>BUILDING MAINTENANCE*</td>
<td>$148,000</td>
<td>$314,700</td>
<td>$314,700</td>
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<tr>
<td>BOARD UP &amp; CLEAN OUT</td>
<td>$221,600</td>
<td>$395,900</td>
<td>$429,900</td>
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<tr>
<td>EVICTIONS</td>
<td>$36,000</td>
<td>$109,000</td>
<td>$94,300</td>
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<tr>
<td><strong>TOTALS</strong></td>
<td><strong>$632,900</strong></td>
<td><strong>$1,686,400</strong></td>
<td><strong>$1,751,000</strong></td>
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*Grass Cutting and Snow Removal performed by Public Works, $500/property annually, not included here.

**Total includes other expenses not itemized herein.
CREATIVE DISPOSITIONS:

Tenant Transition to Ownership Project (T3OP)

Presented by:
Larry Kilmer
Housing Programs Manager

Amy Turim
Real Estate Development Services Manager

City of Milwaukee Department of City Development
TENANT TRANSITION TO OWNERSHIP PROJECT (T3OP)

PROJECT SNAPSHOT

- Developed under Mayor Tom Barrett’s 2014 STRONG Neighborhoods Plan to address City tax foreclosures
- Existing/qualified occupants interested in owning the property they current lease
- 24 month maximum lease-to-own term
- $20,000 of rehabilitation repairs
- $1 purchase
- Owner occupancy requirement for 5 years after purchase
TENANT TRANSITION TO OWNERSHIP PROJECT (T3OP)

SHORT-TERM PROJECT BENEFITS

Tenants/Buyers
- Continue occupying home
- Maintain familiarity with the neighborhood
- Receive homeownership counseling
- Purchase a code compliant home for $1

City
- Increase owner occupancy (sustainable homeownership)
- Reduce expenses: Board-up/clean-out, marketing, broker fees, on-going maintenance, vandalism repairs, nuisance property calls-for-service
- Increased property tax value for code compliant home
TENANT TRANSITION TO OWNERSHIP PROJECT (T3OP)

ANNUAL PROJECT FUNDING AND COST

Funding
- Funded through the annual city budget
- Currently looking for creative ways to sustain funding

Estimated Annual Costs
- Housing Rehabilitation Funds $300,000
- Homeownership Counselor (part-time) $35,000
- Rehabilitation Technical Specialist (part-time) $15,000
- Property manager/real estate staff (part-time) $10,000

$360,000/15 homes = $24,000 per home ($20,000 in housing rehabilitation)
TENANT TRANSITION TO OWNERSHIP PROJECT (T3OP)

PROCESS: PROJECT STEPS

1. Identify eligible occupied property/interested tenant
2. Perform homeownership counseling
3. Develop rehabilitation scope of work
4. Obtain contractor quotes
5. Sign lease amendment with tenant
6. Tenant responsible for grass, snow, water bill
7. Start and finish rehabilitation work
8. Complete homeownership plan
9. Real estate transaction
TENANT TRANSITION TO OWNERSHIP PROJECT (T3OP)

PROCESS:
GRAPHIC BROCHURE

**Step-by-Step: Lease to Own Program**

After tenant completes their Homebuyer Counseling:

- Tenants pays $1 for the home
- Tenant receives up to $20,000 in repairs + technical assistance
- Tenant pays about $600 in closing costs

**City of Milwaukee**

Transfer Property to Tenants

**Step-by-Step: Lease to Own Program**

The tenant and the property are positioned for a successful transition to homeownership if the following conditions are met:

- The City scope of work is less than $20,000
- Tenant is willing to complete "sweat equity" repair work identified by a technical specialist, such as interior painting
- Tenant successfully completes Homebuyer Counseling within a 24-month period
- Tenant repairs credit to qualify for homeownership
- Tenant stays current with utility bills associated with occupancy of the property (gas, electric, water)
- Tenant must be in full compliance with their lease and current with their rent payments
- Prior to entering the program, lease-option candidates also must pass the customary background checks required for all buyers of City-owned property
- If the property to be acquired is a duplex, and the participant plans to rent out the second unit upon ownership, complete the City of Milwaukee landlord training class (milwaukee.gov/landlordtraining)
- Enter into a "good neighbor commitment" that encompasses standards of behavior conducive to neighborhood health

**Contact:**
Rosa Saiz
City of Milwaukee DCD - Department of City Development
rsai@dcd.milwaukee.gov
(414) 291-6422

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TENANT TRANSITION TO OWNERSHIP PROJECT (T3OP)

PROCESS:
STEP 2 (AFTER SELECTION)

Perform homeownership counseling
- Review project with tenant
- Review credit report and provide credit counseling:
  - Judgements, collections, debt to income review
  - Confirm tenant qualifies as “homeownership ready” in less than 24 months
- Develop homeownership plan
- Create household budget
- Execute initial components of homeownership plan
- Tenant continues to pay on time and is compliant with lease terms, and responsive to counselor’s instructions (or exited from program)
TENANT TRANSITION TO OWNERSHIP PROJECT (T3OP)

PROCESS:
STEP 3 AND STEP 4

Develop rehabilitation scope of work (new scope)
- Identify necessary work to achieve code compliance
- Identify work tenant can complete as sweat equity
- Confirm cost estimate for work at or under $20,000
- Goal: 5 years of “worry free” living

Obtain contractor quotes
- Request quotes from contractors from preselected contractor pool
- Review quotes to confirm costs are within budget and lowest responsible and responsive contractor is selected
- Confirm SBE/RPP numbers have been met on contractor’s previous project
Sign lease amendment with tenant
- Review tenants additional responsibilities
- Review any additional rent (if less than $500)
- Confirm City’s commitment to rehab items and tenants commitment to sweat equity items
- Finalize term of amendment

Start and finish rehabilitation work
- Ensure contractor has completed contracted work
- Confirm tenant has completed sweat equity work
- Obtain Certificate of Code Compliance once work is complete
TENANT TRANSITION TO OWNERSHIP PROJECT (T3OP)

PROCESS:
STEPS 7, 8 & 9

Complete homeownership plan
- Finalize credit repairs
- Confirm homeowners insurance
- Review all responsibilities of a homeowner including upkeep/maintenance as well as monthly and annual expenses

Real estate transaction
- Tenant purchases the home from the City for $1
- Owner takes full responsibility of property, maintenance, and expenses

Post Purchase Counseling
- Follow up for tax budgeting and due dates
SUCCESS: PROJECT CONTRACTORS

- Initial contractor outreach and question/answer sessions
- Contractor pool/qualifications bases on “Public Works” type projects
- **Seven of eight qualified contractors SBE** (Small Business Enterprise - City of Milwaukee’s Business Capacity Building Program)
- Over **70% of all contract dollars** ($700,000) since program launch have gone to SBE contractors - 25% requirement
- Over **80% of hours worked under contract** have gone to RPP workers - 40% of project hours to RPP is required (Resident Preference Program)
SUCCESS:
NUMBERS

Sales 2014 – 2016 YTD
32 / $600,000 of Rehabilitation

Renovation Currently In-process
8 / $160,000 of Rehabilitation

Program Participants
24 / Currently undergoing counseling

No defaults on property taxes to date
No open code violations on any sold properties
CREATING OPPORTUNITY:
THE IMPORTANCE OF A LEASE TO OWN PROGRAM AND ADDITIONAL SALE STRATEGIES
TENANT TRANSITION TO OWNERSHIP PROJECT (T3OP)

WHY LEASE TO OWN?

- Expands the buyer pool for City owned properties
- Offers housing stability to those who need it
- Transforms renter into stakeholder

- Builds wealth & provides instant equity
- Takes a negative (tax foreclosure) and turns it into a positive (new homeowner)
REASONS FOR ENROLLEE TERMINATION

- Rent payment issues*: 37
- Tenant non-responsive**: 22
- Moved voluntarily: 12
- Lease violations***: 7
- Judgement vacated: 6
- Buyer Policies: 4
- Other financial: 4
- Not interested: 4
- Scope of work: 4

Total tenants terminated = 100 (2014-2016 YTD)

* Includes non-payment and multiple late payments
** Includes not following counseling instructions and not communicating with all staff
*** All lease violations other than non-payment or late payment
TENANT TRANSITION TO OWNERSHIP PROJECT (T3OP)

PROCESS:
PARTICIPANT SELECTION

Identify eligible home & tenant:

- Single family home
- Not a former owner
- Paid license fees and/or rent on time for 3+ months
- Review tenant questionnaire
- Scope of Work received
- Good Samaritan Program Evaluation

ASK TENANT
• Delinquent property taxes in the City of Milwaukee
• Outstanding judgments from the City or if the City acquired property-tax-foreclosure judgment
• Outstanding health or building code violations or orders from the City’s Health Department or Department of Neighborhood Services that are not actively being abated
• Convicted of a felony that causes concern for neighborhood stability, health, safety or welfare
• Has outstanding offers to purchase or uncompleted performance on another City sale, except upon approval of Commissioner based on history of performance
• Send notification to CBOs to reserve home
• List for sale as a “Bid” to owner occupants for 30 days
• Notice neighbors within 500 feet
• List for sale with Realtors® for any buyer type after O/O period is completed and no viable offers received
• Bulk buyer program
• Use as part of a special initiative or project:
  ✓ Scattered site LIHTC bulk purchases ✓ Challenge Fund/Ready to Go Homes
  ✓ Rehab to Rent Program ✓ Artist Housing ✓ ACTS Housing
2015 Year in Review

City of Milwaukee Strong Neighborhoods Plan

511 Homes Sold
18% increase over 2014

- Record sales return nearly $26.8 million to City of Milwaukee tax rolls
- 58% of homes sold to owner-occupants

- 152 Demolitions of blighted property
- 16 properties deconstructed for salvage
- 50 part-time jobs created

New Initiatives Launched
- 91 Strong Homes Loans
  - $20,000 forgivable loans for rehab
  - $1.5 million invested in 15 Ald. Districts
- 34 Code Compliance Loans
  - $560,000 invested
- Salvage & Deconstruction Pilot
  - 176 properties referred for salvage

Vacant Lots
- 245 sold
- 137 improved

Tax delinquencies down 9%

907 properties kept out of tax foreclosure pipeline compared to last year
WANT TO CHECK OUT OUR DOCUMENTS? THE ACCIDENTAL LANDLORD IS ONLINE!

milwaukee.gov/RVP

Department of City Development: milwaukee.gov/DCD