

# Audit Report of the Syracuse Tax Trust Program



**Submitted to:**

**Mayor Stephanie A. Miner**

**and**

**Hon. Members of the Syracuse Common Council**

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**City of Syracuse Auditor**

## **Introduction:**

As authorized under Article V, Section 5-501, in the Charter of the City of Syracuse, an examination of the Syracuse Tax Trust Program, managed by Syracuse's Finance Department, has been performed for the years, 2011 through 2015.

## **Scope:**

The implementation of the Greater Syracuse Land Bank ("GSLB") Program in 2013 has forced City property owners who are delinquent in their property taxes to address their delinquencies or face the loss of their property through foreclosure. The City's existing tax trust program is a vehicle available for them to pay off their delinquencies over a period of time.

The City Audit Department has analyzed the tax trust data for the year 2015 to document:

- The impact of the GSLB program on the volume of tax trusts being opened
- The default rate of these newly opened tax trusts
- The procedures followed by the Finance Department in cases of default

## **Background:**

The process with the trust program begins when a qualifying property owner submits an application to the program. These are available upon request from the City's Finance Department located in room 122, at City Hall. Upon approval into an agreement, all City/School taxes must be paid to date, plus a 10% down payment of the delinquent total and the 1<sup>st</sup> month's payment. Furthermore, they must stay current with **both** their monthly tax trust payments to pay off their delinquent taxes, and their quarterly regular tax payment. The Tax Trust is also subject to a 12% annual interest rate and a 5 year maximum term agreement. If an owner fails to maintain the statutes of their agreement, the City of Syracuse reserves the rights to repossess the property (**land and all buildings contained**) immediately. If the City repossesses tax delinquent property it can choose to sell it off directly, it is not required to go to the GSLB.

The GSLB is designed to acquire properties, initiate restoration efforts if necessary, and reoffer them for sale or rent. When the GSLB sprang into action, during the fall of 2013, there was an influx in the activity of the tax trust program. Ultimately resulting in hundreds of tax delinquent properties, both commercial and residential, becoming eligible to be seized, and those properties that were able to qualify under the programs requirements got approved.

## **Objectives:**

- Assess the initial mailing phases to measure the level of compliance to the tax trust program.
- Disclose properties currently under the tax trust program with a default tax status to generate its success rate.
- Illustrate the affect that the GSLB launch had on the influx of tax trust agreements.

## **Results/Findings:**

The City Audit Department commenced conferences with Dave Delvecchio, Commissioner of Finance and Martha Maywalt, First Deputy Director of Finance. The majority of our efforts were focused on discovering whether or not the tax trust program was being directly affected by the GSLB's, coming into existence. Over the last few months, the City Auditors office has assembled information that allows for reflection on, the procedures intended for those properties listed under foreclosure, the progress of collected delinquent taxes dated from 2011 to 2015; and the GSLB's effective potential on the Tax Trust Program, whilst reestablishing and restoring Syracuse's property value.

During the assessment period the auditor's office discovered that the tax trust program mailed out four different letters to property owners and tenants, between January, 2013 and October, 2014. These letters went out as part of a 10 phase notification process; the phases were implemented to make sure all properties were notified of the current foreclosure status. The letters referenced an initial notice of foreclosure with available workshops where the property owners could pursue help with tax delinquency and avoid foreclosure. This prompted the second notice, advising property owners of a common council vote to sell their property. Non owner occupants were sent notification that their landlords property was subject to foreclosure and given the option to stay, if the property passed a code inspection, or move into a new location.

Throughout early 2011 to late 2015, 393 individuals were entered into a tax trust agreement. During the years 2013 and 2014, the program issued a 10 phase mailing operation with 100's of foreclosure notices being mailed out. This resulted in the following:

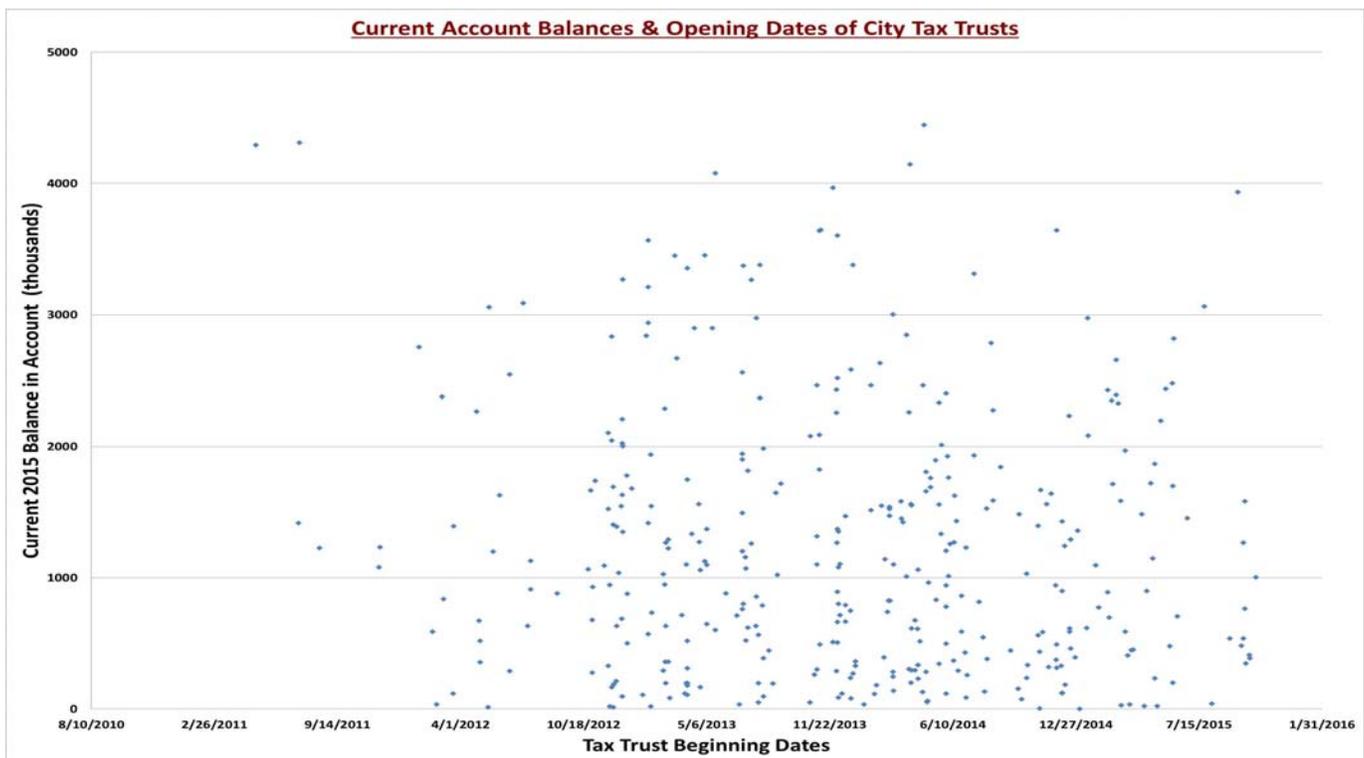
- ❖ **107 recipients complied once receiving a notice**
  - **29% of 107 "Non-Owner Occupied" (Landlords)**
  - **71% of 107 "Owner Occupied" (Home Owners)**
- ❖ **286 applicants entered a Tax Trust with no record of receiving a notice**
- ❖ **19%(75) of the 393 are not current on their tax trust agreement**
- ❖ **As of October 2015, there was a balance of \$40,998.51 in uncollected debts**

Going forward, over the last 5 years over \$598 thousand dollars in delinquent taxes have been collected with roughly 90% of the collection agreements occurring around early 2013 through late 2014. As mentioned earlier, this was next to the time the Finance Department began its preliminary mailing phases leading into the launch of the GSLB. Syracuse's tax trust program doesn't associate with the GSLB, meaning they don't take advantage of data sharing, although if certain actions are taken by either, the association is inevitable. These two operations will continuously affect each other throughout processes, considering the GSLB is managing the majority of the inner cities residential properties.

**Summary of Results:**

The City Auditor is pleased to report that the Tax Trust program benefits our city with an 81% success rate. This rate will lead the city into ultimate success, which will come from refurbished neighborhoods, the elimination of scarred inadequate housing, gradually increase the neighborhoods sustainability and property value. Our office hypothesized that the tax trust program was being directly affected by the GSLB and as shown below, that is exactly the case. In April 2011, the city was owed roughly "\$1,136,333.41" in delinquent taxes, as of October 2015, the city was owed "\$537,715.09."

The graph shown here represent the dates individuals joined the City's Tax Trust program and their account balances as of October, 2015. Most accounts began late 2012 and early 2013, right around the time the tax trust program began its mailing phases. What really marks the success of this program is the number of accounts under \$2,000 coming up on the 3<sup>rd</sup> and 4<sup>th</sup> year of their term agreement. The majority of contracts are under a 5 year term and with those account terms coming to an end; most accounts should be paid in full by their term agreement.



**Audit Recommendations:**

The Tax Trust program is currently a success with 81% compliance, In order to maintain/improve this success, it is essential that actions be taken with the other 19%. The most reasonable action would be to expedite the process of those in properties in a failed Tax Trust and immediately move them over to the GSLB. This expedited process will either increase the City's cash flow if the taxes are immediately paid current or a sale to a property owner who can keep the taxes current through the GSLB.

Finally, there should be a communication link between the Tax Trust Program and the GSLB; that link will establish a relationship allowing both parties to progress in a collaborative manner. This policy should be a set of specific guidelines that make clear to the owner the risk of losing the property if another delinquency occurs along with regular monitoring of their account. We believe this will help prevent an abundance of account delinquencies and shorten the term arrangements to establish the sense of immediacy.

**Management Response:**

Management reviewed and had no formal response.

**Current Account Balances & Opening Dates of City Tax Trusts**

