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Q. We recently read a news report that Michigan was sixth in the nation in real estate foreclosures. How will this impact our township?

The article you read likely referred to mortgage foreclosures, rather than the tax foreclosure process. A mortgage foreclosure involves the secured lender going through a specific series of steps to remedy delinquent payments from the homeowner. Unless the homeowner is able to work out a “short sale” or other solution negotiated with the lender, a “sheriff sale” is held, and the home is either sold to a bidder or returned to the lender.

After the sheriff sale, the homeowner is granted a redemption period of six months. During this period, the homeowner can redeem the property by satisfying the lenders or owner of the sheriff’s deed, sell the property, or be evicted.

From the township’s perspective, unpaid taxes or special assessments on the property are typically paid by the lender to protect their interest in the property.

The *tax* foreclosure process is quite different, and, in most cases, is initiated by the county treasurer to satisfy unpaid taxes, delinquent after March 1 following the billing date (July 1 and Dec. 1). The county treasurer follows a specific set of procedures and public notices to collect the delinquent taxes necessary to either pay off bonds issued to finance the payments made to the other collecting agencies (townships, schools, etc.) or to the county’s delinquent tax revolving fund.

In the short term, the “foreclosure epidemic” hitting Michigan won’t have much direct initial impact, since tax liens generally must be satisfied to resell or otherwise convey the property.

However, the indirect impact of declining property values and the economic downturn could be significant.

Many townships have been “cushioned” by the aggregate differences in assessed values and taxable values, and have actually experienced taxable value *increases*, while assessed values have declined. However, if property values continue to decline, these values will meet (in aggregate). At that point, declines in assessed values will result in reduced property tax revenues. Additionally, the Headlee rollback—current year millage fractions—cannot be higher than 1.0. Thus, tax rates previously “rolled back” because gains exceeded the rate of inflation cannot be restored when losses occur.

Townships with large special assessment billings should be particularly sensitive to the fact that, although delinquent assessments can be generally collected through the county’s pay off of the delinquent tax roll, if the county is unable to collect the full amount of taxes due to bankruptcy proceedings or other factors, the uncollected amounts are “charged back” to all the taxing agencies, including townships.

After consulting with legal counsel and issuing appropriate notifications, townships that operate water and sewer utilities should look to aggressive collection remedies, such as shut-off, rather than relying solely on municipal water liens, which are collected through the delinquent tax process. Some townships may find that the outstanding balance on special assessments, utility bills and taxes may exceed the value of property. Many townships have experienced commercial enterprises, including apartment buildings, building up large balances, and then entering into bankruptcy, where the past due amounts are reduced or dismissed by the courts. This could put a serious impact on cash flow for these utility systems.

The economic downturn has also led to challenges by larger commercial and industrial taxpayers over valuations. Townships with significant commercial/industrial property should consider developing a conservative revenue recognition model for these taxes, based on input from the township assessor and attorney as to the potential reduction in assessed/taxable value.

Information provided in Financial Forum should not be considered legal advice, and readers are encouraged to contact their township auditor and/or attorney for advice specific to their situations.