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April 25, 2024

Rep. Emilie Kornheiser, Chair
Ways and Means Committee
Vermont House, Montpelier, Vermont

Re: H.629 - Municipal Tax Sales

Dear Representative Kornheiser,

I understand that your committee is reviewing H.629. I am reaching out to share my concerns about this bill with your committee.

I am a municipal tax sale investor. I have been participating in that process here in Vermont for over a decade. I have researched, prepared for and attended at least 100 municipal tax sales. I have been the winning bidder on approximately 30 properties and have acquired 9 properties through the process. I think it is important for your committee's consideration of H.629 that you hear from all of the key participants in the process including that of a tax sale investor.

As a very brief background, I have been an attorney in Vermont for ~30 years, I served in the Legislature for 3 terms back in the 90's and purchase distressed properties to rehabilitate them. I also serve as Chair of Burlington's Board of Tax Appeals where I have heard and written decisions on over 350 property valuation appeals.

Interest Rate for Tax Sale Redemption

The current 1% per month is the most appropriate rate. The proposal to reduce the rate to one-half percent per month is too low and will not incentivize me or other tax lien investors to invest in municipal tax sales.

When setting a policy for delinquent tax sales, you would want to consider three competing concerns: Making tax collection efficient and effective, minimizing the cost to redeem if a taxpayer is going to redeem, and maximizing the return of equity for a taxpayer who is not going to redeem. Incentivizing overbids maximizes the amount of equity a taxpayer who does not redeem recovers from their property. Taking away the incentive to overbid results in tax sales where it costs less money for a taxpayer to redeem. For the taxpayer, the current 1% per month result looks like this:

		Larger Overbid?	
		No	Yes
Redeem?	Yes	Better	Worse
	No	Worse	Better

At .5 % or even 7.5% interest per month, the result for the taxpayer looks like this:

		Smaller Overbid?	
		No	Yes
Redeem?	Yes	Better	Worse
	No	Worse	Worse

In order to maximize the funds paid to a taxpayer who does not redeem, you will want to maximize the interest paid to the investor. If a taxpayer does not redeem by paying their back taxes and interest, the Town sends them the amount of any overbid from the tax sale. (ie. Taxes due: \$10,000, sale price \$90,000, \$80,000 is paid to the taxpayer) Incentivizing tax sale investors to overbid maximizes the amount paid to a taxpayer that does not redeem. At 1% per month I have an incentive to bid as high as I safely can to maximize my interest return. Any reduction in the rate of interest, reduces any incentive to bid close to fair market value for the property. At 6% per year, I would be far better off leaving my money in a money market account that currently earns 5+% , has instant liquidity, completely scalable for the amount I have available to invest and zero risk of loss. If investors don't have any incentive to invest, the burden will fall on the other taxpayers as there will be no one besides the Town to purchase the property. At 12%, an investor has an incentive to bid higher, resulting in a larger overbid sent to the taxpayer if they don't redeem. It is also the rate paid to the municipality before tax sale and the default rate of interest applied to all money due under 9 V.S.A. §41a(a).

The Senate determined that the Legislature should study the issue, as outlined in the workgroup established in the bill, collect actual data instead of very limited anecdotal stories and come up with a better thought out proposal to efficiently and effectively collect property taxes, minimize the cost to a taxpayer who wishes to redeem and maximize the return of equity to a taxpayer who does not redeem. Acting before you study the issue will have unintended consequences. I encourage you to concur with the Senate's proposal of amendment and let the workgroup give you better options to choose from.

Thank you for taking the time to consider these perspectives as you continue your work. If I can be of any further assistance to you, please do not hesitate to contact me.

Sincerely Yours,

/s/ Alan Bjerke

Alan Bjerke, Esq.