Following a comprehensive study of the Scavenger Sale, a national multi-jurisdiction analysis offers communities a roadmap for improvement.

Property taxes are the largest source of revenue for most local governments. They pay for city services, public pensions, classrooms, and much more. Yet every year, many tax bills go unpaid because property owners cannot afford them. An efficient and equitable system to collect overdue property taxes, therefore, is critical to the health of local governments.

But as a new analysis of 13 metro areas [see box] by the University of Chicago’s Center for Municipal Finance finds, tax-delinquency systems, while excellent at collecting back taxes, often fail at the second step: returning tax-delinquent properties to productive use. In Cook County, more than 30,000 tax-delinquent properties fail to sell to new owners via the County’s tax foreclosure system in any given year. The City of Chicago alone has a backlog of more than 9,000 such properties. Even in robust housing markets like Los Angeles, though, similar backlogs grow.

The root of the problem lies in the source of distress: community disinvestment in lower income communities and communities of color. The majority of delinquent Cook County properties are found in predominantly Black and Latinx communities on the South and West sides of Chicago and in the south suburbs. Attempting to sell foreclosed properties where decades of disinvestment have all but eliminated local demand and capacity is an extremely challenging endeavor. As a result, delinquent properties can become trapped in tax recovery systems for years or even decades.

While Black and Latinx homeowners and communities lose assets and wealth as a result of disinvestment and the current system, the entire region suffers from the higher costs to provide added public services and ameliorate homelessness, crime, and vacancy. At the most extreme, residents may need or opt to relocate, taking their tax dollars with them, and ultimately shifting the added tax burden onto remaining residents.

The balancing act, therefore, is for governments to efficiently and equitably collect tax revenue while also ensuring property maintenance and engaging in community stabilization and economic development.
A Better Way
The review of the 13 jurisdictions’ approaches to property tax delinquency reveals several shared practices that could lead to improvements in Cook County.

Currently, Cook County relies on a two-step process for handling delinquent properties through the sale of tax liens to private investors. In the first step, investors buy delinquent taxes and work with the owner to settle their debts with minimal oversight.

If the owner cannot repay, the private investor may take possession of the property or simply allow the property to sit. If delinquent properties fail to sell after three years, they are listed for sale at the bi-annual Scavenger Sale and often sold for pennies on the dollar (the average property in 2019 sold for $28,000). As the Center’s prior report found, the Scavenger Sale has returned only 7 percent of properties to the market between 2007 and 2019, with the bulk of properties sold at this secondary sale going to larger institutional buyers, many of them outside investors.

Five best practices to replicate:
• **Offer assistance to homeowners in distress**: Cook County was one of only two jurisdictions not to offer any general assistance for struggling homeowners, such as installment repayment or deferrals.
• **Create a separate process for languishing properties**: Cook County lacks an automatic “release valve” for moving persistently delinquent or unsold properties from the traditional pipeline and into other options, such as land banks.
• **Allow more decision-making discretion**: Cook County was one of only two jurisdictions not to afford local authorities any discretion in deciding how best to address delinquent properties. Local authorities should be able to direct properties from tax sales to alternative programs, delay sale or foreclosure, or pursue alternative forms of collection.
• **Support smaller governments and coordinate the process**: Cook County has 134 municipalities. Many are small and understaffed, and there is little if any coordination across the many layers of government. The lack of regional coordination creates bottlenecks in zoning, permitting, and other processes, which in the end often work at odds with one another. Many of these small governments also lack the resources to undertake reforms to the above land-use processes that could streamline the system.
• **Utilize an integrated data collection system**: Chicago and other large municipalities maintain numerous public data sets covering a range of property and land use information. However, the region lacks any single source for integrating this information. Properly structured, a consolidated data tracking system would allow policymakers, property owners, developers, and other stakeholders to identify at-risk properties before they become delinquent and track them through redevelopment.

While these improvements are important, prevention is the best medicine. Therefore, longer-term strategies are also needed to remedy the source of the problem. Pilot programs and other experiments across the country offer additional options as well.

Longer-Term Reforms
Technical reforms to the current system still only address the after-effects of disinvestment and broader economic disparities. Philadelphia, Indianapolis, Los Angeles, Phoenix, Detroit, and Columbus all use various examples of the
Governments should consider the following:

- **Avoid relying on tax liens:** Tax liens are problematic as they disincentivize maintenance and investment in physical properties while exacerbating the rise of institutional investors, who are more often motivated by profit than by neighborhood revitalization or community wealth building. As noted above, in lien sales, investors buy the tax debt and work with the owner to repay it, with little if any oversight. Local governments not only lose out on the profits of future sales but give up any leverage to encourage responsible stewardship and redevelopment. As a Congressional committee recently found, institutional investors now account for more than one-third of all private home sales. Officials in New York City and other communities are called for eliminating tax liens entirely and instead relying on internal collections and other alternative approaches.

- **Invest in existing residents:** Rather than allowing tax foreclosures to function as a transfer of wealth out of the community, governments should promote local development and population growth alongside strategies to build wealth among existing residents. A successful approach would not eliminate private investment but would prioritize community ownership and investment.

- **Promote land trusts and other alternative ownership models:** Land trusts purchase or preserve property and often with a goal of promoting affordable housing. Their popularity is growing, with several hundred now operating. Some properties may not be well suited for traditional redevelopment but could be leveraged toward alternative goals such as public spaces, water management or environmental remediation.

- **Shrink the footprint:** In some regions, planned shrinkage and strategic abandonment are common strategies. America’s legacy industrial cities, such as Youngstown, Ohio, allow communities to return abandoned properties to a natural state, creating public green space, ecosystem restoration, and improved water management.

The Chicago Community Trust believes any reform must invest the necessary resources to overcome decades of disinvestment in Black and Latinx communities. Very often, the communities most in need of substantial governmental reform are the same communities that lack the resources to fund those efforts.

As the Center’s analysis in “Selling Distress” uncovers, the process of collecting delinquent taxes and returning properties is poorly designed, and ultimately the taxpayer foots the bill. Remaining tied to the present system will only exacerbate many of Cook County’s most pressing challenges. Achieving the delicate balance of collecting revenue without further distressing struggling communities will require overcoming institutional inertia in a system that has remained largely unchanged for nearly 80 years.