

CLEVELAND CASE STUDY SUMMARY
MODEL PRACTICES IN TAX FORECLOSURE AND PROPERTY DISPOSITION

OVERVIEW:

The Cleveland Land Bank serves as the primary vehicle for the acquisition and disposition of tax-delinquent properties to community based organizations in the City of Cleveland. A 1976 state statute allows any Ohio municipality to establish a Land Reutilization Program (or, a land bank) for purposes of acquiring, managing and disposing of delinquent land to reinstate such properties to tax revenue status. In 1988, House Bill 503 strengthened the 1976 state statute.

MODEL ELEMENTS OF CLEVELAND'S SYSTEM:

1. Cleveland Land Bank:

- Property taxes in Cuyahoga County are collected twice a year. After a year of missed payments, property is certified as tax delinquent at which time foreclosure proceedings begin. The County generates a list of all tax delinquent properties against which foreclosure proceedings have been initiated or are pending. From this list, the city identifies the properties it wishes to acquire for the land bank and submits the list to the County.
- Upon receiving Judgement of Foreclosure and Order of Sale, the parcel may be made available for purchase at a Sheriff's sale, which are conducted three times a year (property owners have a redemption period of fifteen days for properties sold at a Sheriff's sale). Parcels not sold after two Sheriff's sales are deemed forfeited and the City/land bank declared the winning bidder (approximately 1,000 properties are transferred to the land bank following Sheriff sales annually).
- Properties that have not been identified by the City for transfer into the land bank are forfeited to the State of Ohio to be sold at an Auditor's sale to the highest bidder.
- Property entering the land bank is title free and clear of all other private liens and interests, and subject only to covenants and easements created before the tax delinquency arose.
- CDCs must submit a proposal for reuse to be evaluated by land bank staff, a neighborhood planner, and a neighborhood advisory council who must recommend councilmatic sign-off. Priority is given for new construction.
- Property remains in the land bank - tax exempt - until a development proposal is submitted and approved.
- The City maintains a public record of all parcels found in the land bank, typically 5,000-6,000 properties at a time.
- Each year, 200-300 properties are gifted to the land bank by property owners in lieu of foreclosure.
- The 1976 statute was strengthened in 1988 by House Bill 503 (see below).

2. Enabling Legislation: In 1988, House Bill 603 was approved as a means of enhancing existing land acquisition legislation.

- Streamline foreclosure process: The bill established a 5% set-aside of income collected from delinquent taxes to fund efforts to expedite the foreclosure process including a research department, a computerized service to conduct title searches and related-costs incurred by the offices of the County Prosecutor and Treasurer.
- Tax abatement: HB 603 "allows for the abatement of delinquent property taxes when a parcel is placed into the Land Bank. Previously, land banked property carried the delinquency until it was purchased by a private owner."¹
- Elimination of in rem proceedings: County must identify all persons with any right, title, or interest in the tax delinquent property foreclosed upon, by certified mail.

3. Subsidy Sources:

- Cleveland Housing Trust Fund: established to provide grants to support housing initiatives driven by CDCs.
- Neighborhood Development Activity Fund: provides 21 council members with \$275,000-300,000 each to be allocated at their discretion to fund community activities within their jurisdiction.
- Cleveland Neighborhood Partnership Program: (CNNP) comprised of LISC, The Enterprise Foundation and Neighborhood Progress, Inc.

IMPACT:

- Nearly 90% of all CDC properties are acquired from the land bank.
- On average, 500 land bank properties are sold to CDC on an annual basis.

CONTACTS:

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2. India Pierce Lee, Senior Program Director, Cleveland LISC, 216-830-2791

¹ *Abandonment of Cleveland's Housing Stock and Potential for Redevelopment of Vacant Land*, Mark C. Hoffman, Housing Policy research program, The Urban Center, Maxine Goodman Levin College of Urban Affairs, Cleveland State University, June 11, 1990.

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The Cleveland Land Bank serves as the primary vehicle for the acquisition and disposition of tax-delinquent properties to community based organizations in the City of Cleveland. A 1976 state statute allows any Ohio municipality to establish a Land Reutilization Program (or land bank) for purposes of acquiring, managing and disposing of delinquent land to reinstate such properties to tax revenue status. In 1988, House Bill 603 was introduced and approved to enhance the existing land acquisition legislation with provisions to expedite the foreclosure process (5% set-aside on income collected from delinquent taxes supports a research department), authorize tax abatement of land bank properties and eliminate *in rem* proceedings (limited notification of the sale of property made title companies reluctant to conduct quiet title action). A strong cooperative relationship among the city, county and CDCs serves as the bedrock of this highly successful disposition system.

Property housed in the land bank is acquired by way of a Sheriff's sale or as a gift in lieu of foreclosure. A Sheriff's sale is the auction of property whose owner has defaulted on the mortgage and has been foreclosed upon due to delinquent mortgages or real estate taxes. Cuyahoga County provides the city with a listing of all tax delinquent properties against which foreclosure proceedings have been instituted or are pending (exhibit A: foreclosure process). Subsequently, the city identifies properties it hopes to acquire for transfer to the land bank and submits the desired inventory to the county. Parcels not sold after two Sheriff's sales are deemed forfeited and the city is declared the winning bidder whereupon parcels may be transferred to the land bank (or forfeited to the State of Ohio to be sold at an Auditor's sale to the highest bidder). A property owner retains a right of redemption up to fifteen days following a Sheriff's sale, after which, the city takes title free and clear of all other private liens and interests, and subject only to covenants and easements created before the tax delinquency arose. In Cuyahoga County, Sheriff's sales take place three times a year.

The city may pass good title to a CDC or private party who wishes to redevelop a property or it may hold the land for future development (land bank property is tax exempt until sold). All prospective buyers of land bank parcels are required to submit a proposal for reuse in written form. Priority on the sale of a property is given to individuals or groups proposing new construction. Site plans are submitted to an appointed Neighborhood Planner for review and subsequently forwarded to the Neighborhood Advisory Council (NAC) for recommendation. All NAC recommendations must be approved by the City Planning Commission and City Council and Board of Control and must include: (1) holding a project for future research, (2) placing a parcel in the land bank for future development, or (3) legislation or councilmatic sign-off.

Legislative approval for buildable (4,800 sq. ft. or more) and non-buildable (less than 4,800 sq. ft.) parcels serves as authorization to move forward on a proposed project. "Upon approval, the buyer executes a purchase agreement with the city agreeing to pay the purchase price, to use the property in accordance with the proposal, and to observe all requirements imposed by the city as to the payment of real estate taxes, and maintenance and use of the property."² Under the Land Reutilization Program, the price of the land is its fair market value. "The city may add any covenants or restrictions to the use of the land as it sees fit to ensure its effective reutilization."³

Community development corporations seeking financial assistance to conduct development projects may solicit or lobby for grants from various pools of funding sources in Cleveland. These include: the Cleveland Housing Trust Fund (established for the purpose of providing grants to support housing initiatives driven by community development corporations); the Neighborhood Development Activity Fund (at their own discretion, council members allocate \$275,000-300,000 to fund community activities in their jurisdiction); and, The Cleveland Neighborhood Partnership Program (CNNP) comprised of LISC, The Enterprise Foundation and Neighborhood Progress, Inc.

Challenges and obstacles associated with the Cleveland Land Bank include capitalization of projects, CDCs' limited capacity to take and rehab land acquired from the land bank and time consuming administrative procedures - particularly the legislative process and aldermanic approval. Finally, CDCs are eager for the City take a more active role in acquiring parcels with structures on them or accepting land with possible environmental contamination. They suggest that the city take a more aggressive approach in their overall land banking process by targeting properties beyond those that are tax delinquent.

² Ohio Ethics Commission

³ *Acquisition/Disposition Techniques: Profiles of Techniques Utilized by Municipalities to Transfer Property to CDCs*, Prim Lawrence & Associates and Erica Pascal Esq., March 1999.