



# Expanding the Affordable Housing Toolkit: Chapter 8 Tax Sales

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September 2017

**BANK OF THE WEST** 

 **BNP PARIBAS GROUP**

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## GLOSSARY

**Affordable Housing:** Housing that is priced to be affordable for specific segments of the population. The most common standard of housing affordability is 30 to 35 percent of income. Households spending 30 -35 percent or more of their pre-tax income on housing are seen as having an excessive housing cost burden.

**Area Median Income (AMI):** The household income for the median household in a region. Every year the Department of Housing and Urban Development (HUD) calculates the median income for every metropolitan region in the country. The median income is the same as 100 percent of the AMI.

**Chapter 8 Tax Sale:** Also known as an Agreement Sale, is the process by which any eligible taxing agency, revenue district, city, special district, or nonprofit organization may submit a proposal to purchase a tax-defaulted property before the public auction.

**Cloud on Title:** a Cloud on title or title defect refers to any irregularity in the chain of title of a property that would give a reasonable person pause before accepting a conveyance of title. Clouds on title are usually discovered during a title search.

**County Board of Supervisors (BOS):** The BOS is the governing body that oversees the operation of a county government. All 58 counties in California elect a BOS.

**County Tax Collector:** The Treasurer-Tax Collector serves as the banker, tax collector, collection agent and the investment officer for the county. All 58 counties in California elect a Treasurer-Tax Collector. This paper refers to the position as the County Tax Collectors because the Chapter 8 Tax Sale process interacts with the tax collecting, not treasurer, aspect of the position.

**Hello Housing:** Hello Housing is a Bay Area-based affordable housing nonprofit.

**Infill Housing:** Infill housing is the concept of constructing new homes on vacant or underused lots in urban neighborhoods. It may also be the reuse of existing buildings.

**Liens:** A lien is a legal document acting as a security for a debt; it is the right to keep possession of a property until the debt is discharged. If taxes are not paid, the government may file a tax lien on a home.

**Lot:** A lot is a recognized subdivision of property with a written legal description that address permissions or constraints. It is common for a lot and a parcel to share the same boundaries however a parcel may also contain multiple lots.

**Low-Income Households:** Low-income households are defined as households earning 80 percent of AMI or less. However, the California Health and Safety Code defines low-income as households of low- or moderate-income, which means households earning 120 percent of AMI or less. The California Health and Safety Code definition is used for Chapter 8 Tax Sales.

**Minimum Bid:** The minimum bid price is the summation of all unpaid defaulted taxes, delinquent penalties and interest, redemption penalties, the redemption fee and additional costs, if relevant. The minimum bid price may be negotiated if the property has been offered at a tax sale previously and did not sell.

**Moderate-Income Households:** Moderate-income households are defined as households earning 120 percent of AMI or less.

**Overcrowding:** Overcrowding is when there is more than one resident per room (every room in the home, bedroom, kitchen, living room, etc. is included in the calculation). California's overcrowding rate is 8.4 percent.

**Parcel:** A parcel is a quantity of land identified for taxation purposes. It is common for a lot and a parcel to share the same boundaries however a parcel may also contain multiple lots.

**Parties of Interest:** Parties of interest are defined as lienholders and any persons with title of record to all or any portion of the property. The tax collector is required to make reasonable effort to notify all parties of interest before the tax sale becomes effective.

**Power to Sell:** Property taxes can remain unpaid for a maximum of five years following tax default. After five years, the property becomes subject to the power to sell, which means the property will either be sold at a public auction or through a Chapter 8 Tax Sale if the taxes are not paid before the date on which the property is offered for sale.

**Public Auction:** The county seizes properties with unpaid property taxes and then sells these properties at an auction where the public can bid on the property. The frequency of auctions is dependent on the county and the number of properties to be sold. The primary purpose of the sale is to collect unpaid taxes and transfer the property to a tax-paying property owner.

**Tax Defaulted Property:** If there are unpaid property taxes then the property becomes tax defaulted.

**Tax liens:** A tax lien is a lien imposed on a property to secure the payment of taxes. For example, a tax lien may be imposed for delinquent taxes owed.

**Tax Sales:** See "public auction."

**Redevelopment Agencies (RDAs):** In California, RDAs were established by the Community Redevelopment Act of 1945. They ceased operating in 2012. RDAs oversaw the process of rehabilitating or rebuilding deteriorated sections of a city using municipal powers and finances.

**Right to Redeem Tax Defaulted Property:** Property owners can pay the total amount of all unpaid delinquent tax years as well as county-specific penalties and fees. This prevents the property from being sold at the public auction.

**State Controller's Office (SCO):** The State Controller is responsible for accountability and disbursement of the state's financial resources. The SCO must approve all Chapter 8 Tax Sale applications.

**Strategic Growth Council (SGC):** The Strategic Growth Council coordinate activities that support sustainable communities emphasizing strong economies, social equity and environmental stewardship. The SGC brings together agencies and departments with the Governor's Office of Planning and Research.

**Substandard Structure:** Any building or portion of a building that meets the definition as described in Section 17920.3 of the Health and Safety Code.

## A CHAPTER 8 TAX SALE AND THE ADVANCEMENT OF AFFORDABLE HOUSING

### HELLO HOUSING AND THE CHAPTER 8 TAX SALE PILOT IN OAKLAND

Hello Housing, a nonprofit affordable housing organization partnered with the City of Oakland and the Alameda County Tax Collector to purchase 26 tax defaulted properties for the purpose of creating affordable housing opportunities for low- and moderate-income households. The goal to remove abandoned and blighted properties from the City's continuous cleanup list and transform these properties into much needed affordable housing began in 2012 when the Oakland City Council and the Alameda County Tax Collector entered into a unique partnership to agree to release un-collectable public liens and county back taxes on a subset of tax defaulted properties scattered throughout the city, enabling these properties to become economically viable for development. With the growing housing crisis and lack of housing affordability across the region, the resulting pilot project represents a true win-win for the City, the County and the low-income households who will benefit from these homes for years to come. The experiences of Hello Housing and the knowledge gained through the pilot program is the impetus for creating and sharing this guidance handbook.

In 1987 a vacant lot on 70<sup>th</sup> Avenue in Oakland became tax defaulted. That year it was listed for sale at the Alameda County public auction but went unsold. For almost two decades the property received no bids for purchase year after year at the public auction. The property languished, saddled with accumulating tax bills and code enforcement liens. At the time the lot was purchased by Hello Housing as part of the pilot program, the back taxes and municipal liens that were owed were nearly a quarter of a million dollars despite the land being worth an estimated \$45,000.

In 2013, Hello Housing was selected to act as a Program Administrator for the City of Oakland's new Community Buying Program. Under this program, Hello Housing sought to identify the universe of properties throughout Oakland that were blighted and abandoned, similar to the property on 70<sup>th</sup> Avenue, for the purpose of crafting an affordable housing strategy.

Initially 76 tax defaulted properties were identified. All properties were vacant and blighted residential infill lots. Following an intensive due diligence process, during which each property was examined, Hello Housing determined that 26 properties were viable for housing development under the pilot. To purchase these properties, Hello Housing employed an infrequently used tool called a Chapter 8 Tax Sale.

A Chapter 8 Tax Sale is allowing Hello Housing, in partnership with the City of Oakland and the Alameda County Tax Collector, to convert the tax defaulted properties into affordable housing opportunities for low-and moderate-income earning households.

The Oakland pilot is paving the way for more rounds of Chapter 8 Tax Sale purchases in Oakland. Currently, additional applications to purchase tax defaulted properties for both the purpose of affordable housing and community gardens have been submitted. Oakland, a city with limited financial resources to direct towards small infill housing projects with ambitious goals to make the city affordable to low- and moderate-income households, now has Chapter 8 Tax Sales in their affordable housing toolkit.

#### CHAPTER 8 TAX SALES ADDRESS THE DUAL PROBLEMS OF AFFORDABLE HOUSING SHORTAGES AND ABANDONED PROPERTIES

In converting tax defaulted properties to affordable housing opportunities the Chapter 8 Tax Sale process simultaneously combats two problems facing communities throughout California: a shortage of affordable housing and abandoned or blighted properties.

Access to affordable housing has far-reaching impacts on the lives of Californians. From public health and employment opportunities to economic stability and educational attainment, the home is the foundation. California's strong housing demand, a demand that has outpaced supply, leads to a variety of challenges, particularly for low- and moderate-income households.

High housing prices have left many unable to find an affordable home to rent or purchase. When households spend a large portion of their income on housing, other household necessities like healthcare and education may suffer. High housing costs also contribute to overcrowding as families and friends work to share the housing cost burden. In search of affordable housing, households are increasingly moving farther from their places of work and their communities, which contributes to both an increase in commute times and a dislocation from community and family. Despite the shortage of housing, California is building fewer new housing units than the national average.

Californians are spending too much of their income on housing. The Center for Housing Policy's 2016<sup>1</sup> report displays these challenges. In California, 20 percent of households spend at least half of their income on housing expenses, 5 percentage points higher than the national average. Among low- and moderate- income working households, this number increases to 30 percent. The insufficient stock of affordable housing paired with the ongoing conversion of affordable units into market-rate units, is a critical statewide problem. The California Housing Partnership Corporation (CHPC), a State-created nonprofit dedicated to the preservation of affordable homes, estimates that the number of deed-restricted multifamily affordable units in California is 478,654 out of 4,270,215 total multifamily units (2017)<sup>2</sup>. The total stock of affordable units is far from

stable; portions are at risk of losing their affordability restrictions and converting to market rate. In California, over the next decade, project based rental assistance contracts covering thousands of affordable apartments will expire without assurance of renewal<sup>3</sup>. This means that between 2016 and 2021, an estimated 31,515 apartments are at risk of conversion to market rate.

The potential impact of Chapter 8 Tax Sales on the creation of affordable housing is challenging to estimate. The number of available properties differs drastically from county to county and from year to year. Furthermore, the number of properties does not reflect the amount viable for the purpose of affordable housing. While the exact number of new units of affordable housing that can be built through Chapter 8 Tax Sales is unknown, the following is known:

- The Chapter 8 Tax Sale process is already a part of the tax code so new legislation does not need to be introduced to create a pathway forward.
- Chapter 8 Tax Sales have led to the creation of affordable housing opportunities in the past.
- Chapter 8 Tax Sales are rarely considered when planning to create or maintain affordable housing.
- Tax defaulted properties are sold across the state every year, creating a potential pipeline of affordable housing opportunities for municipalities and the affordable housing community.

In counties where creating affordable housing is a priority, nonprofit organizations and eligible public entities alike can look to Chapter 8 Tax Sales as an existing strategy in place to create affordable housing and eliminate blight and abandonment across communities.

In addition to the opportunity to create affordable housing, tax defaulted properties pose widespread and well-documented costs to communities in the form of lost property tax revenue, increased costs of local government code enforcement activities, declining property values of neighboring properties and increased costs to public safety. A Chapter 8 Tax Sale can contribute to neighborhood revitalization and allow municipalities to address multiple community development goals if the process is more known by the affordable housing community and conducted properly.

## WHY CREATE A GUIDE FOR CHAPTER 8 TAX SALES?

After conducting interviews with previous Chapter 8 Tax Sale applicants and county tax collectors as well as performing an analysis on the Chapter 8 Tax Sale process, we believe increasing the utilization of Chapter 8 Tax Sales begins with education and ends with stronger relationships among stakeholders.

### METHODOLOGY FOR ASSESSING THE BARRIERS TO UTILIZATION

Through interviews with Chapter 8 Tax Sale applicants and county tax collectors as well as an analysis of the Chapter 8 Tax Sale process, a list of barriers to utilization began to emerge. Additionally, both the possibilities and limitations of Chapter 8 Tax Sales to create affordable



housing became clearer. Some of these barriers were brought to light through success stories in counties where stakeholders have strong relationships and the Chapter 8 Tax Sale process is relatively seamless; other barriers were voiced by frustrated applicants or county tax collectors who had yet to see a Chapter 8 Tax Sale application for the purpose of affordable housing.

While not all 58 counties were represented in the interviews, the counties included reflect the State's diversity. Of the 18 applicants that submitted an application for affordable housing, those in San Bernardino, Alameda, Tulare, Monterey, Kern, Sacramento, Fresno, Santa Cruz and San Joaquin Counties shared their stories. County tax collectors or assistant tax collectors were interviewed in ten counties: Los Angeles, Kern, Contra Costa, Merced, Del Norte, Lassen, San Benito, Sacramento, San Mateo and Kings Counties. The list of interviewed tax collectors includes leadership within the California Association of Tax Collectors in the form of President-Elect, Immediate Past President, Treasurer, and Northern Area Director.

After generating a long list of barriers to utilization, the value in addressing each barrier was evaluated by a set of criteria. First, if eliminated, would the utilization of Chapter 8 Tax Sales likely increase? Second, was eliminating the barrier feasible? For example, certain obstacles are structural and echo the strict and extensive procedures that must be followed. As noted, Chapter 8 Tax Sales are a process through which private property is taken involuntarily. Barriers regarding the set of requirements mandated by the State Controllers Office were therefore not chosen as they reflect the necessary checks and balances. Feasibility served to eliminate inherent obstacles as well such as the lack of viable properties available for purchase through Chapter 8 Tax Sales. Finally, does the barrier and the possibility of eliminating it have state-wide applicability? The following four barriers all met the three key criteria, albeit to varying degrees.

## THE FOUR PRIMARY BARRIERS TO UTILIZATION

### UNKNOWN PROCESS

One of the greatest barriers to utilization is simply that too few affordable housing developers and relevant public agencies are familiar with this section of the Revenue and Taxation Code and how it may assist in the creation of affordable housing. Nearly all Chapter 8 Tax Sale applicants for the purpose of affordable housing reported learning of the process through word of mouth. Furthermore, as mentioned in a previous section, tax collectors are required to send a list of tax defaulted properties to all requesting nonprofits yet, aside from the Sacramento County, every tax collector or assistant tax collector interviewed reported that no nonprofits requested the list. Thus, nonprofits are not even seeing the list of available tax defaulted properties. The most compelling evidence of the importance of addressing this barrier comes from the current usage of Chapter 8 Tax Sales. As noted, a diversity of counties hosted Chapter 8 Tax Sales for the purpose of affordable housing yet a much greater portion of the State's 58 counties have seen no occurrences. Increasing awareness of Chapter 8 Tax Sales would likely increase the tool's use and

provide a deeper understanding of the potential for Chapter 8 Tax Sales to create affordable housing. Increasing awareness is also feasible. While it will be challenging to educate relevant stakeholders in every county, it does not require any changes to the process. Finally, increasing awareness has a state-wide applicability. Even in counties with frequently-used Chapter 8 Tax Sales like Sacramento County, increasing awareness can touch new parts of the county.

#### COMPLICATED AND INTIMIDATING PROCESS

The task of purchasing a property through a Chapter 8 Tax Sale can be daunting and outside the scope of many nonprofits and public entities. The State Controller's Office publishes a manual yet the language is directed towards tax collectors. The experiences of applicants interviewed does not always reflect the process described in the SCO manual. Furthermore, many aspects such as how to evaluate if a property is viable for affordable housing, how to obtain title insurance and handle the one-year statutory period are outside the scope of the SCO's manual. The complicated nature of a Chapter 8 Tax Sale may intimidate certain affordable housing nonprofits and public entities from engaging. While no interviewee both knew about the process and did not apply as a result of the complicated nature, frustrations from applicants, particularly during their first time applying, demonstrate the challenging nature of the process. The discrepancy in experiences between first time applicants and repeat applicants speaks to the steep learning curve and potential benefit of assisting new applicants. Finally, some tax collectors reported a nonprofit beginning the process of purchasing a tax defaulted property but not completing it, which left the property in limbo. Demystifying the application process would likely increase the use of Chapter 8 Tax Sales, although less so than increasing awareness as there is no evidence that the complicated nature of the process has been prohibitive. Creating a clearer understanding of the Chapter 8 Tax Sale process is feasible. Again, it requires no administrative or legislative changes to the process. All that is needed is the sharing and compiling of experiences from applicants and tax collectors. Finally, eliminating the barrier of a complicated and intimidating process has state-wide feasibility as there are very few individuals with experience; nonprofits and public entities would thus serve to benefit in all counties.

#### A LACK OF EDUCATIONAL RESOURCES

The lack of educational resources increases the barrier to entry for potential applicants. Each applicant interviewed reporting undertaking a similar process and working through similar challenges. Potential applicants, employees at nonprofit organization and public entities, are already strained for time. Some affordable housing nonprofits like Habitat for Humanity chapters in less populated counties are even run by volunteers. Studying the SCO's manual, conducting research and making mistakes along the way may decrease the likelihood of Chapter 8 Tax Sale utilization. Similar to the barrier of a complicated and intimidating process, eliminating the barrier of a lack of educational resources would likely increase the use of Chapter 8 Tax Sales by

increasing accessibility. Creating educational resources is also feasible; it requires no changes to the Chapter 8 Tax Sale process. Finally, the barrier has state-wide applicability as few resources exist, aside from the experiences of past applicants.

#### TENSION BETWEEN STAKEHOLDERS

The Chapter 8 Tax Sale process may strain the relationship between stakeholders, particularly tax collectors and potential applicants. Tensions can arise from conflicting motivations, or a sense of conflicting motivations, as well as a belief that stakeholders are not maintaining their responsibilities in the Chapter 8 Tax Sale process. Tension between stakeholders is specific county to county and from one application to another yet interviews revealed the underlying challenge of the many stakeholders —applicants, tax collectors, the BOS, county departments, the SCO — not seeing the benefits of Chapter 8 Tax Sales and their role in creating the “public purpose.” In Sacramento County the relationship between the Office of the County Tax Collector and the affordable housing nonprofit applicants is overwhelmingly positive as a result of a clear set of expectations and strong relationships built upon trust. For example, the Sacramento County Board of Supervisors added additional requirements to ensure only capable nonprofits apply. Three nonprofits have proved their capability through many successful projects. Every year the nonprofits are sent the list of tax defaulted properties and Chapter 8 Tax Sales are beginning to happen with regularity in Sacramento County. Strengthening the relationships between stakeholders, particularly potential applicants and county tax collectors, would likely increase the utilization of Chapter 8 Tax Sales for the purpose of affordable housing by making the process as seamless as possible. Addressing this barrier is feasible as the tension is not inherent. While the roles of each stakeholder in the Chapter 8 Tax Sale process vary, none are contradictory. Tax collectors want to collect unpaid taxes and have as few tax defaulted properties in the county as possible. Chapter 8 Tax Sales help achieve these two goals. Finally, strengthening the relationships between stakeholders has state-wide applicability as very few counties already have well functioning relationships in place.

It is our hope that the sharing of knowledge gained from the experience of buying property through a Chapter 8 Tax Sale, will transform a largely unknown process into a known tool used to create affordable housing by both public and private organizations. We believe that those involved in the creation of affordable housing throughout California, from nonprofit leaders to city and county housing departments, will be more open to exploring the purchase of tax defaulted properties as a means to create affordable housing if they know more about the process of when and how to act on these properties. In general, our goal is for Chapter 8 Tax Sales to be a part of the affordable housing toolkit across all California communities.

The information contained in this guide is also intended to demystify what has been identified as a confusing and, at times, intimidating process. Using the experience and expertise of past

applicants, this guide seeks to be an informal but practical example to others as they navigate the process and help identify when and where Chapter 8 Tax Sales can be effectively used to create affordable housing. The information contained in this manual is simply a guide, and represents our best efforts to identify certain steps that may help to make the process of purchasing tax defaulted properties more functional for both the tax collector and the entities interested in utilizing the Chapter 8 Tax Sale as a tool. It is not meant to act or to be perceived as providing legal advice. Finally, we hope that information contained within this guide will serve to strengthen the relationships between stakeholders by ensuring that applicants are prepared and able to fulfill their duties. Chapter 8 Tax Sales are additional work for the county tax collector, generally costs associated with the Chapter 8 Tax Sale process are not recouped and the process takes time. Applicants must understand their obligations, learn about the process and be willing to assert their rights when the office of the tax collector is unaccommodating.

## WHAT IS A CHAPTER 8 TAX SALE?

### SELLING TAX DEFAULTED PROPERTIES IN CALIFORNIA

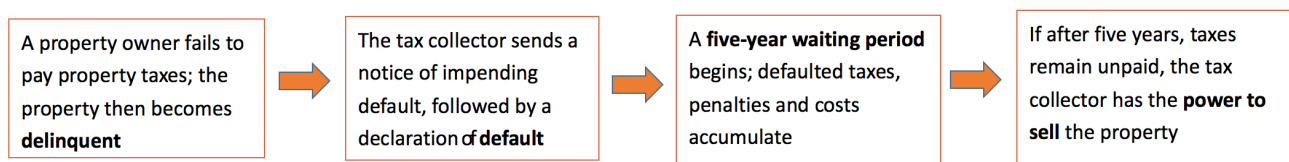
In all 58 California counties, the tax collector is charged with collecting property taxes from each parcel in the county. Ideally, each parcel owner pays property taxes on time and in full, resulting in no tax defaulted properties and no tax sales. While the vast majority of property owners in California do pay their property taxes, each county has at least some tax defaulted properties that may be sold.

Before understanding the process through which a property is sold by the county tax collector, it is vital to remember that a tax sale of any kind, including a Chapter 8 Tax Sale, is always the last resort. A tax sale deprives a person of property ownership. A strict set of procedural requirements are in place to ensure that all property owners are given the opportunity to retain their property. Whenever possible, the property owner is afforded the opportunity to pay back what is owed in taxes and is able to retain ownership through payment plans that can be established with the tax collector in advance of the declaration of default filing notice.

When a property owner does fail to pay property taxes, a process begins that can eventually lead to the county's sale of the property. This process has four major components, as detailed in Figure 1 below<sup>4</sup>. First, the property owner fails to pay the property tax and the property becomes delinquent. Next, the tax collector sends a notice of impending default to the owner, followed later by a declaration of default. The declaration of default opens a waiting period, during which taxes, penalties and other costs accumulate until either paid in full by the property owner or the property becomes eligible to be sold. The waiting period depends on the property type. Residential or farmland property has a waiting period of five-years, while nonresidential

commercial property has a waiting period of three-years. Additionally, any tax defaulted property that has a nuisance abatement lien that has been recorded against the property or, if a qualified public agency or nonprofit has identified a property for low-income housing and has sent a completed application to purchase the property to the county tax collector, the property may be eligible to be sold after three-years at the next scheduled public auction. ([Cal. Rev & Tax Code §3692.4](#)) However, some County's by resolution or ordinance may choose to opt out of this three year waiting period exception. Finally, if after the waiting period expires and the taxes remain unpaid, the tax collector has the power to sell the property. The tax collector's power to sell a tax defaulted property is an obligation. State law requires that the tax collector attempt to sell the property within four years after they are granted the power to sell.

FIGURE 1: WHEN PROPERTY OWNERS FAIL TO PAY PROPERTY TAXES, THE TAX COLLECTOR MUST TRY TO SELL THE PROPERTY.



The most common way for a tax collector to sell tax defaulted properties is through a public auction (also known as a Chapter 7 Tax Sale) where the property is sold to the highest bidder. In more populated counties, or counties with a large amount of unimproved land, tax sales occur annually, or even bi-annually. In other counties, three to six years may elapse between auctions.

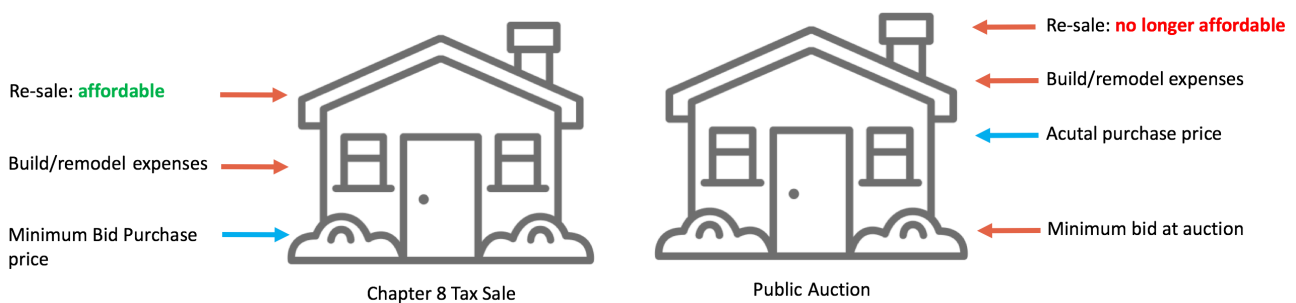
At least three weeks before a public auction, the tax collector publishes a list of all properties slated for the public auction, either on the county website, an auction website like [bid4auction.com](#), or at the county offices<sup>5</sup>. A minimum bid amount, set by law, is the amount required to purchase the property. The auction list will indicate what the minimum bid is for each property. Additionally, the county offices will post the date and time of the auction and how to participate in the auction at various locations. Many tax collector websites have a “frequently asked questions” section related to tax sales and the upcoming public auction which is a helpful tool to better understand the public auction process. It is important to note that the owner of the tax defaulted property still has the right to redeem the property up until 5:00 PM the last business day before the public auction ([Cal. Rev. & Tax. Code § 3706](#)). Properties are frequently redeemed, especially in desirable areas, so the list of available properties may change significantly before the auction takes place. Many properties auctioned off, will receive multiple bids from various sources resulting in a purchase price that is well above the minimum bid price. Other properties may go unsold and will be re-offered at a future date that is either pre-established by the tax collector (i.e. 90-days later) or at the next annual public auction.

## CHAPTER 8 TAX SALES

What is unique about a Chapter 8 Tax Sale is that it allows eligible nonprofit organizations and eligible public entities to purchase tax defaulted properties before these properties are available at the public auction. The Chapter 8 Tax Sale process provides these two groups of potential buyers with the opportunity to purchase properties at the established minimum bid price, avoiding both the possibility of being outbid at the public auction and the final sale price being above the minimum bid price.

Chapter 8 Tax Sales contribute to the creation of affordable housing by removing much of the uncertainty and expenses of a bidding process, (see Figure 2).

FIGURE 2: CHAPTER 8 TAX SALES ALLOW NONPROFITS AND PUBLIC ENTITIES TO AVOID THE BIDDING PROCESS.



## CHAPTER 8 TAX SALE ELIGIBILITY

Properties purchased through a Chapter 8 Tax Sale must be used for the “public purpose.” While “public purpose” for public entity applicants remains discretionary, “public purpose” for nonprofit applicants is defined. Nonprofits may purchase property only for the purposes of “constructing or rehabilitating property to sell or rent to low-income persons, dedicating vacant land for open space, or otherwise using the property to serve low-income persons.” ([Cal. Rev. & Tax Code §3791.4](#))

Nonprofits are also only eligible to purchase property through a Chapter 8 Tax Sale if they include in their bylaws an expressed purpose of “acquiring single-family or multi-family dwellings for rehabilitation and sale or rent to low-income persons, vacant land for the purpose of constructing residential dwelling for the subsequent sale or rent to low-income persons, or for dedication of that vacant land to a public use.” ([Cal. Rev. & Tax Code §3772.5](#)). Nonprofits must also be in “good standing” with the State of California and be able to provide a current Certificate of Good Standing at the time of submitting an application to purchase tax defaulted property.

For public agencies who seek to purchase a tax defaulted property under a “public purpose”, the County Board of Supervisors (BOS), the tax collector, the tax collector’s council, if need be, and the

State Controller’s Office all offer a check on the concept of ‘public purpose.’ Therefore, it is important to ensure that the proposed development project meets the local jurisdictions definition of a public purpose as part of the purchase application submittal.

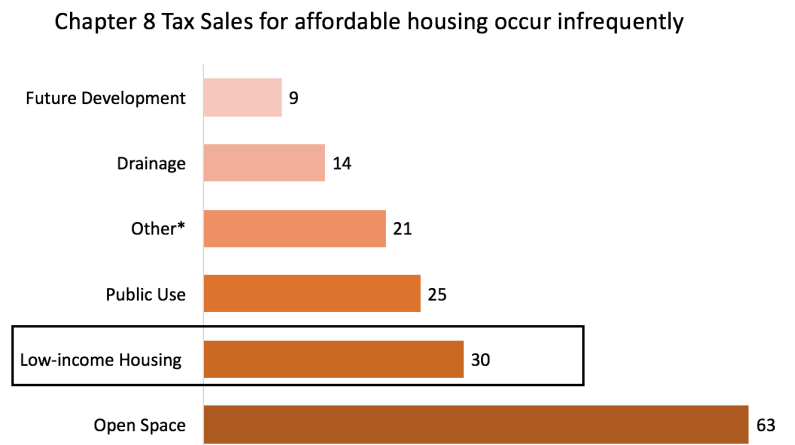
#### HOW ARE CHAPTER 8 TAX SALES USED TODAY IN CALIFORNIA?

Between 2006 and 2016, the State Controller’s Office approved 162 Chapter 8 Tax Sale applications from 32 different counties<sup>6</sup>. Of those 162 applications, just 30 were for the purpose of affordable housing, including a homelessness services center, while the rest were for a variety of other public purposes (see Figure 3).

The large percentage of applications for purposes other than affordable housing is likely reflective of two trends. First, the available stock of tax defaulted properties is often better suited to other purposes. For example, unimproved land with no utility access is likely viable for open space but not affordable housing. Second, affordable housing nonprofits and relevant public agencies are often less attuned to and able to take advantage of the Chapter 8 Tax Sale process. The properties in the Oakland pilot were available many years before their eventual sale. Without the Hello Housing partnership and the Community Buying Program, a Chapter 8 Tax Sale would likely not have been utilized. Thus in addition to the available stock of tax defaulted properties, the capacity, awareness and expertise of affordable housing developers is also a factor.

Over the same ten-year period, 12 different counties submitted 30 Chapter 8 Tax Sale applications for the purpose of building affordable housing (see Figure 4). These counties reflect a great deal of diversity within the State. Chapter 8 Tax Sales will have a varying role and potential impact county-by-county yet the potential for Chapter 8 Tax Sales to increase affordable housing in California likely extends beyond these 12 counties.

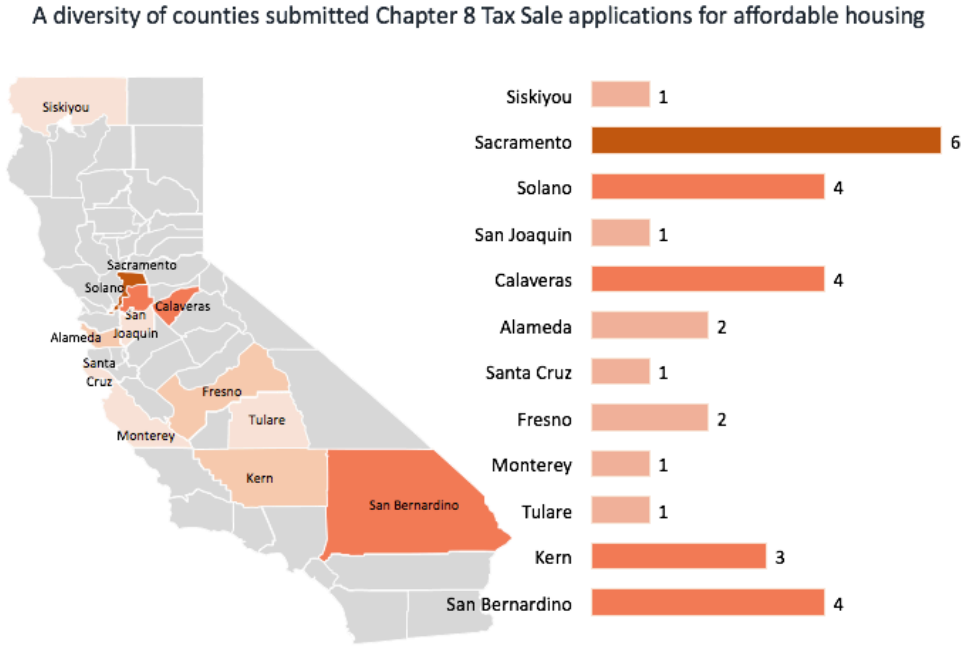
Figure 3: Between 2006 and 2016, 30 Chapter 8 Tax Sale applications were submitted for the purpose of affordable housing to the State Controller’s Office.



\*Examples of “other” include airport extension, charter school, public parking, public utility, wastewater purposes and water tank

Source: The California Strategic Growth Council

Figure 4: Between 2006 and 2016, twelve different counties submitted Chapter 8 Tax Sale applications for the purpose of affordable housing to the State Controller’s Office.



Source: The California Strategic Growth Council

A tax collector in a county with no Chapter 8 Tax Sales for the purpose of affordable housing reiterated the missed opportunity. Of the approximately 70 to 100 properties available at her county’s annual public auction, buildable properties are typically readily available but the opportunity has not been acted on. One of the stated challenges has been the lack of connection and communication to the affordable housing community in advance of the public auction. This evidence suggests that the lack of Chapter 8 Tax Sales reflects more than just the available stock of tax defaulted properties that are able to be developed. Understanding who is eligible to purchase through a Chapter 8 Tax Sale is step one in this process for increasing awareness of this tool. However, it is our belief that knowing the basic steps for how to engage the tax collector in the purchasing process is also critical to increasing the use of this tool as an affordable housing strategy.



## CHAPTER 8 TAX SALE HOW-TO GUIDE

The Chapter 8 Tax Sale is designed to be utilized by both public agencies and eligible nonprofit organizations. In order to act on a tax defaulted property, there are a series of actions that need to be taken by the purchasing agencies to notify the tax collector of its interest in pursuing a particular property for a Chapter 8 Tax Sale. While there are a few unique differences between the actions and options that are available to the public agency that are not available to the eligible nonprofit organization, many of the steps are similar between the two.

### UNDERSTANDING THE PURCHASE PRICE

The purchase price is determined by the tax collector as part of a Chapter 8 Tax Sale. The county BOS is responsible for approving the final sale price on all properties that are eligible to be sold regardless of whether the purchase is by a Chapter 8 Tax Sale or through a public auction (Chapter 7 Tax Sale). By understanding the status of the tax defaulted property as it relates to setting the minimum bid price, an entity can better prepare for the overall costs of the purchase opportunity through a Chapter 8 Tax Sale.

In nearly all of the Chapter 8 Tax Sales in California, the purchase price is equivalent to the minimum bid price set by the BOS. However, if a property goes to the public auction and is unsold, the price may then be negotiated ([Cal. Rev & Tax Code §3698.5\(c\)](#)). The Oakland pilot is an example of a Chapter 8 Tax Sale with a negotiated minimum bid price. The minimum bid for many of the properties was far above their estimated market worth and continued to remain unsold at public auctions. In order to sell the properties, the City and County agreed to decrease the price; the City removed uncollected liens by a City Council resolution, while the County reduced the minimum bid price. The properties were then re-offered at a subsequent public auction at the new reduced minimum bid price. However, even at the new minimum bid price, the properties remained unsold at the public auction. Before these properties were re-authorized by the BOS for a subsequent tax sale, Hello Housing negotiated a purchase price that was acceptable to the Alameda County Tax Collector and approved by the County BOS.

Below is how pricing is established. It is based on the status of the particular property under tax delinquency and its ability to be sold by the tax collector ([Cal. Rev. & Tax. Code 3698.5](#)).

- If the tax defaulted property is currently authorized by the BOS for a public auction (Chapter 7 Tax Sale) the minimum bid price has already been established by the board and may not be renegotiated as part of a Chapter 8 Tax Sale.

- If the property has never been authorized for a public auction, the purchase price may be negotiated between the purchaser and the BOS, but it may not be sold for less than the amount required to redeem the property plus costs of the sale. When the BOS has not previously established the selling price of a property and a public agency or a nonprofit organization has submitted an application to purchase the property through a Chapter 8 Tax Sale, the price may be negotiated between the purchasing agency, the board, and the tax collector. An example of this may include a situation where the negotiated price may be higher than the cost to redeem the property, but equal to the fair market value of the property as established by the county assessor's office.
- If the property has already been offered at least once for a public auction at a price that was authorized by the BOS and has not sold AND the property is not currently authorized for a new public auction, the price may be negotiable and approved by the BOS. In this case the property may be sold for less than the amount to redeem the property.
- Some taxing agencies (cities) may be willing to waive certain code enforcement or business tax liens that are secured on a number of significantly blighted and abandoned properties, therefore reducing the amount necessary to redeem the property. In this case an authorizing resolution must be provided to the tax collector by the public entity authorizing the release of certain public liens which will support the tax collector in setting a reduced "minimum bid" for a particular property. This type of process is generally dependent on the public agency's vested interest in supporting the active reuse of a property for a public benefit. There is some potential motivation for a public agency to act in this fashion if the property in question has continued to remain abandoned, contributing to ongoing blight and abatement action by the public agency and has remained unclaimed by the owner or the open market in prior auctions.

When interviewing entities that have successfully purchased tax defaulted properties, many reported a lack of clarity related to the total costs associated with purchasing a tax defaulted property through a Chapter 8 Tax Sale. As in most real estate transactions, there are costs associated with the transaction that are not reflected in the purchase price of a property. The tax collector sustains costs associated with publication costs, mailings, recorder fees, city transfer tax, county transfer tax and other general noticing fees that are passed through to the buyer. Additionally, in some cases, the tax defaulted owner may have participated in a Property Tax Postponement program offered through the State Controller's Office and there are back taxes due to the State Controller's office that were not memorialized in the Purchase Agreement as part of the sale. Additionally, certain conditions can be established within the Purchase Agreement that may require that Real Property Taxes, for the full fiscal year that the property is purchased, be paid in addition to the purchase price for the properties. It is important to request confirmation of fees and unknown transaction charges that are not otherwise memorialized in the purchase agreement to minimize as much of the uncertainty as possible.

## PROPERTIES THAT ARE NOT ABLE TO BE OFFERED BY A CHAPTER 8 TAX SALE

Certain property conditions exist that will prevent the tax collector from moving forward with a tax sale. These are known as disqualifying conditions at the time of sale<sup>7</sup>. Some of these conditions may not be known by the tax collector until the purchase date which can result in postponement or cancellation of a property that is being pursued for purchase by a Chapter 8 Tax Sale, which is one of the real barriers in pursuing properties that are sold as part of a tax foreclosure. Below is a list of some of the disqualifying conditions that may prevent a sale from proceeding.

- Bankruptcy – if a property owner declares bankruptcy, even at the last minute prior to the sale, the property may have to be withdrawn. This action creates an automatic stay in the enforcement of any lien against the estate or the debtor, and the stay continues until the case is closed or the real property no longer belongs to the estate. In this case the tax sale is postponed or cancelled.
- Unprobated Property – if prior to the tax sale, the tax collector receives delivery of a certified death certificate showing that the property owner is deceased, the tax sale shall be postponed until probate proceedings have been initiated and a new responsible party is identified.
- Property belonging to Public Agencies
- Contaminated Property – contamination does not prevent a tax collector from selling tax defaulted property. However, if a tax defaulted property is on the Superfund list, the tax collector may decide to pull it from a tax sale.
- Damaged Property – if a tax defaulted property has sustained damage due to a local, state or federally designated disaster, the defaulted status may be delayed until five years have elapsed from the date the damaged to the property was incurred.
- Redemption- the property owner’s right to redeem their property terminates on the date and time the agreement between the tax collector and the purchasing entity becomes final ([Cal. Rev. & Tax. Code §3802](#)). The agreement becomes final following all of the statutory notification periods that take place and no sooner than 5:01 p.m. on the 21<sup>st</sup> day after the date of the first published or posted notice of the sale. Should the existing owner redeem the property prior to the agreement becoming final, the tax sale cannot take place. This is one of the most common reasons a tax sale is not completed.

## CHAPTER 8 TAX SALE: PURCHASE STEPS FOR PUBLIC ENTITIES

The state, counties, cities taxing agencies, revenue districts, special districts and other state agencies are eligible to acquire tax defaulted property without taking part in a public auction<sup>8</sup>. Under this scenario, the public agency shall submit a written application to purchase a property (form SCO 8-16) that is currently in tax default but not yet approved for any other tax sale directly to the Tax Collector. This step would take place prior to the BOS approving the tax sale, but following the required 3-5 year waiting periods described in a previous section.

Additionally, and potentially more common, an eligible public agency may also request that the tax collector withdraw property that is currently scheduled for public auction if the agency is able to provide compelling evidence that the tax defaulted property is or may be needed for a public use, which includes affordable housing, or if there are liens associated with the property that the agency would like to preserve through a purchase. In these cases, the public agency is engaging in a Chapter 8 Tax Sale and must submit a written application to purchase the property (from SCO 8-16) along with an official objection letter objecting to the sale of the property by auction.

Both options can be utilized to support the public agencies desire to purchase the property for the benefit of affordable housing. However, if a property is already scheduled for a public auction, the only path forward is for the public agency to also officially object to the sale by auction prior to the date of the first published or posted notice of sale. Since public auction dates vary across counties, the first publication or posted notice of an upcoming tax sale also will also vary across counties. However, per California Revenue and Taxation code section [3695](#) and [3700](#), the tax collector must forward a copy of the upcoming sale information to each taxing agency having the right to levy taxes and assessments on the property. This notice is typically sent at least 30-days before the first publication or posting so that the public agency has sufficient time to review the list of tax defaulted properties in advance of the first publication.

There are three types of objections that a public agency may decide to utilize under a Chapter 8 Tax Sale. Each option depends on the type of public agency and the nature of the objection ([Cal. Rev. & Tax. Code §3695](#)).

- **Objection to Purchase a Property as an Option to Preserve a Lien** – This objection allows a taxing agency that is NOT also a revenue district to purchase the property and sell it on its own in order to recoup the lien rather than attempting to collect it from the new owner.
- **Objection to Purchase a Property as a Requirement to Preserve a Lien** – This objection allows a taxing agency that is also a revenue district to purchase the property if the recovery of the lien through excess proceeds is not desired.

- **Objection to Purchase a Property for Public Use** – This objection allows a taxing agency that is also a revenue district to purchase any property that is or may be needed for a public use.

Below are steps that a **public agency** should follow if it is determined that a Chapter 8 Tax Sale and objection to the upcoming tax sale is a desired strategy.

#### STEP 1: COMPLETE THE OBJECTION LETTER AND THE APPLICATION TO PURCHASE TAX DEFAULTED PROPERTIES (FORM SCO 8-16)

Upon receipt of a notification letter mailed by the county tax collectors office, which includes the list of properties eligible to be sold at the upcoming action as well as a one-page objection template, the public agency should proceed to identify properties of interest that may fit the three objection categories above.

Once a property or a set of properties are identified, the public agency must complete the “Objection Notice” as provided by the tax collector as well as provide a letter specifying the purpose of the objection(s) and an exhibit listing the parcel(s) of interest (see an example of the Objection Notice in the appendix). This notice should be sent directly to the tax collector, followed by a request that the tax collector verify the receipt of the notice. The notice sent by the tax collector will specify the date by which the public agency must respond to the notice to be in compliance with the statutory timelines.

In some cases, the public agency may simply want to protect their rights to preserve a lien from being canceled as part of the sale of tax defaulted property. If this is the case, the governing body must submit a resolution, adopted by the governing body, objecting to the sale for purposes of protecting a lien prior to the date of the tax sale. Since the objection to preserve a lien does not require that the property is withdrawn from the tax sale, the statutory deadline to make the objection is the last day before the tax sale.<sup>9</sup>

However, if the public agency wants to purchase the property as part of their objection, the public agency must also submit an Application to Purchase Tax Defaulted Property (form SCO-8-16). This application commences the purchase of tax defaulted property by agreement sale from the county under applicable provisions of the California Revenue and Taxation Code. The Application is a one-page application that requests basic information about the purchaser, information about the purchase, property information and signatory acknowledgement. Supporting documentation, where requested on the form, should be provided with the application.

#### STEP 2: COMPLETE THE PURCHASE PACKAGE

Once the Application to Purchase Tax Defaulted Properties has been delivered to the tax collector, if the tax collector deems that the application is associated with an eligible purchasing entity and the property identified in the application is eligible to be sold through the Chapter 8 process, the tax

collector shall prepare an Agreement to Purchase Tax Defaulted Property (Form SCO-13) for review and signature by the public agency. As mentioned previously, every county may have a different level of responsiveness to Chapter 8 Tax Sale application to purchase. Therefore, it is important that the submitting agency continue to reach out to the tax collector's staff to ensure that there is on-going communication as to when to expect the delivery of the purchase agreement.

Once the purchase agreement has been prepared, the following material will need to be provided to the tax collector to lawfully initiate, process, and complete the sale<sup>10</sup>.

- A fully executed Agreement to Purchase Tax Defaulted Property, signed by the authorizing officials of the public agency along with a Chapter 8 Purchase Resolution authorizing the public agency to enter into the purchase agreement and to purchase the tax delinquent property(s).
- Provide a description of each property to be purchased that contains the following information:
  - Address
  - APN number
  - Legal description
  - Year of default
  - Purpose of the acquisition per public agency objections listed on the Application to Purchase, which include "to preserve a lien, for public purpose, for low income housing or to preserve open space."
- Plat map(s) of each of the properties

Once the purchase package is completed and sent to the tax collector, the tax collector shall prepare a staff report and request, by resolution of the BOS, an approval of the purchase agreement. Following the BOS approval, the purchase package and the BOS signed resolution, shall be forwarded onto the State Controller's office for review and final approval. The State Controller's office will review the package for compliance with all applicable statutes. Upon completion of the review, if the package is in compliance, the State Controller's office will sign the agreement and as well as provide a notice to the tax collector that the State Controller's authorization certifies that the agreement has been approved, directing the tax collector to publish a notice of the agreement, pursuant to [Revenue and Taxation code §3796](#). These step sets into motion the fixed statutory noticing requirements that must be completed prior to the tax sale.

## CHAPTER 8 TAX SALE: PURCHASE STEPS FOR NONPROFIT ORGANIZATIONS

Nonprofit organizations that meet certain criteria may purchase property through a Chapter 8 Tax Sale. The purchase must be for the purposes of constructing or rehabilitation property to rent or sell to low-income persons, dedicating vacant land for open space, or otherwise using the property to serve low-income persons ([Cal Rev. & Tax Code §3791.4](#)). An important difference between a public agency and a nonprofits ability to purchase tax defaulted property through a Chapter 8 process is that a nonprofit may only purchase substandard properties or vacant lots.

A nonprofit organization must also be able to provide evidence that the entity is incorporated in the State of California and in good standing with the Secretary of State. Additionally, the entity must be incorporated for the purpose of acquiring single-family dwellings for rehabilitation and sale to low income persons, vacant land for construction of low-income housing, or vacant land to be dedicated to public use. In some cases, the BOS may set terms and impose conditions regarding the conveyance to and use of the property by the acquiring nonprofit organization ([Cal. Rev. & Tax Code §3795.5](#)). Any imposed conditions to the sale shall be noted on the purchase agreement and should be reviewed closely by the governing board of the organization prior to proceeding.

### STEP 1: COMPLETE AN OBJECTION LETTER & THE APPLICATION TO PURCHASE TAX DEFAULTED PROPERTIES (SCO-8-16)

Provide an “Objection” letter specifying the purpose of the objection along with an exhibit listing the parcels of interest. This letter should describe the purpose of the purchase, which may only include constructing or rehabilitation property to rent or sell to low-income persons, dedicating vacant land for open space, or otherwise using the property to serve low-income persons ([Cal. Rev. & Tax. Code 3791.4](#)).

The objection letter should be submitted along with a completed Application to Purchase Tax Defaulted Property (form SCO-8-16) and should include all supporting documentation as noted on the application. The application commences the purchase of tax defaulted property by agreement sale from the county under applicable provisions of the California Revenue and Taxation Code. (See an example objection letter and Application to Purchase Tax Defaulted properties example from a nonprofit in the appendix).

The completion of the application does not guarantee a purchase will be approved. The application and the objection letter start the process for the tax collector’s review of eligibility of both the nonprofit entity and the eligibility of the property to be sold through a Chapter 8 Tax Sale.

## STEP 2: COMPLETE THE PURCHASE PACKAGE

Once the Application to Purchase Tax Defaulted properties has been delivered to the tax collector, if the tax collector deems that the application is associated with an eligible nonprofit organization and the property identified in the application is eligible to be sold through the Chapter 8 process, the tax collector shall prepare an Agreement to Purchase Tax Defaulted Property (Form SCO-15) for review and signature by the organization's authorizing officials. It is important that the submitting organization continue to reach out to the tax collector's staff to ensure that there is on-going communication as to the eligibility status of the nonprofit to proceed as well as when to expect the delivery of the purchase agreement. Following the interviews of other nonprofits that have either utilized a Chapter 8 process or are engaged in a Chapter 8 process, it is clear that a great deal of time can elapse between the date by which an application and/or objection was submitted and when a purchase agreement was delivered to the applicant.

Once the purchase agreement has been prepared, the following material will need to be provided to the tax collector to lawfully initiate, process, and complete the sale<sup>11</sup>.

- A fully executed Agreement to Purchase Tax Defaulted Property, signed by the authorizing officials of the nonprofit agency along with a Chapter 8 Purchase Resolution authorizing the organization to enter into the purchase agreement and to purchase the tax delinquent property. It may be necessary to provide multiple original copies of the purchase agreement to the tax collector for approval.
- Provide a description of each property to be purchased that contains the following information:
  - Address
  - APN number
  - Legal description
  - Year of default
  - Purpose of the acquisition as noted within the objection letter
- Plat map(s)
- A board resolution authorizing the purchase of the tax defaulted property(s). This resolution should be accompanied by a board agenda or minutes related to the purchase.
- Articles of Incorporation. Articles should demonstrate that the organizational activities include the creation of affordable housing and/or the preservation of land. Also, include a current Certificate of Good Standing from the Secretary of State.



- Provide documentation of a recorded substandard building declaration if there is an existing structure on the property. A nonprofit may only purchase a property with an existing structure through a Chapter 8 Tax Sale if the structure has been deemed substandard.
- Documentation showing consistency and compliance with the jurisdiction’s consolidated plan or community development plan – the nonprofit organization should reach out to the City Housing and Community Development department and request a compliance letter.
- Project references – include list of successful projects (similar to the proposed property) along with a list of references.

As noted above, in some cases, the BOS may set additional terms and impose conditions regarding the conveyance to and use of the property by the acquiring nonprofit organization ([Cal. Rev & Tax Code §3795.5](#)). Any imposed conditions to the sale shall be noted on the purchase agreement and should be reviewed closely by the governing board of the organization prior to proceeding. If the purchase agreement involves specific terms or conditions regarding the rehabilitation of the property, the BOS may take measures to ensure compliance. (See Appendix for a sample Purchase Agreement (SCO Form 8-15) along with a list of potential conditions that may be included in the purchase agreement).

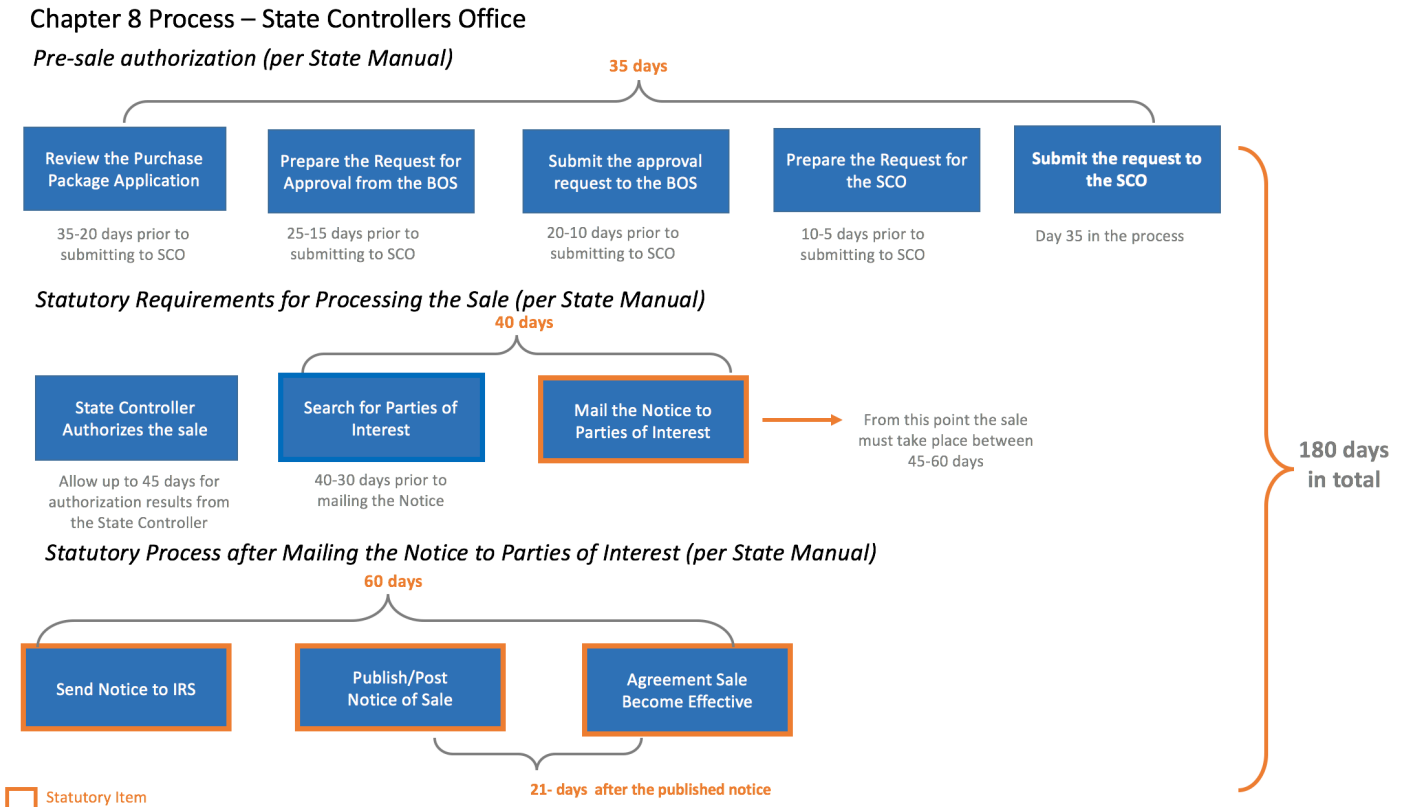
## CHAPTER 8 TAX SALE TIMELINE

The timeline for a Chapter 8 Tax Sale can vary greatly across jurisdictions. The process can be broken down into three different phase: 1) Pre –Sale Authorization from the Board of Supervisors and the State Controllers Office, 2) Statutory Requirements for Processing the Sale, and 3) Post-Sale Statutory Requirements<sup>12</sup>. Each phase requires a set of activities that the tax collector must complete before moving onto the next subsequent phase. As mentioned above, and per the interviews conducted across the counties that have conducted Chapter 8 Tax Sales, the timeline to move through phase 1 can vary significantly based on the skill level of both the purchaser and the tax collector staff, the frequency by which Chapter 8 Tax Sales are consummated by a particular tax collector, the number of properties associated with a specific purchase, and the overall capacity by both the tax collector and the purchaser. While the timeline may differ, once the “Notice to Parties” has been mailed, all remaining activities and timelines are governed by State statute and therefore provide more predictability in the purchasing timeline.

Figure 5 represents a visual aid of a suggested timeline published in the State Controller’s Office. The State Controller suggests upper and lower cutoff points from which certain tasks should begin. All activities outlined in orange represent statutory activities and therefore follow a very specific timeline. The timeline below is centered around two of the phases: 1) Pre-sale authorization of the

Board of Supervisors and the State Controllers office, and 2) the Statutory Requirements for Processing a Sale.

Figure 5: Chapter 8 Key Timeline Activities (prepared by Hello Housing)



The uncertainty in the overall timeline can present a number of challenges for both public entities and private nonprofit organizations. In some cases, the property condition can continue to deteriorate while the property stalls in phase 1. Under one example, a Housing Authority slated to purchase a tax defaulted property by objection through a Chapter 8 Tax Sale prepared to purchase a property to be rehabilitated to serve as a homeless shelter. Significant delays, lasting up to two years, allowed the building to sit vacant and deteriorate significantly from the initial cost evaluation. By the time the Chapter 8 Tax Sale was concluded, the Housing Authority had to demolish the property and rebuild rather than rehabilitate the property as initially planned, delaying a much needed homeless shelter as well as adding significant costs to the public and the project. Under the Oakland pilot, significant delays took place during the Pre-Sale Authorization phase. A total of 386 days lapsed while waiting for the purchase package, prepared by Hello Housing and delivered to the tax collector, to be presented by the tax collector to the BOS and then subsequently delivered to the State Controller’s office for approval. These delays not only created challenges for Hello Housing in trying to pull together financing commitments for the acquisition, these delays also caused the City of

Oakland to incur significant property cleanup costs across the 26-lot portfolio over this same timeframe. The timeline to purchase a tax defaulted property can also create issues related to leveraging other public financing opportunities. Site control is needed in most circumstances when applying for public financing such as through a Notice of Funding Availability (NOFA). Working in partnership with the tax collector and the BOS may help to position these properties for the highest level of success with the funding streams that are traditional for affordable housing development.

The process for purchasing a tax defaulted property has a number of steps that are driven directly by the California's Revenue and Taxation Code and specifically by Division 1, Part 6, Chapter 8, of the California Revenue and Taxation Code, and while technical in nature, the steps outlined above represent the basic actions that must be taken to initiate the process. The next section of this guide is dedicated to describing activities that may support the use of Chapter 8 Tax Sales in its highest and best form so that nonprofit and public agencies are set up for success if choosing to act on a tax defaulted property through a Chapter 8 Tax Sale.

## CHAPTER 8 TAX SALE BEST PRACTICES

A common theme, expressed by both the tax collectors and the users of a Chapter 8 tax sales over the course of our interviews, is the need for mutual collaboration between public and private entities. Connecting with housing and community development divisions both at the city level and at the county level is a key ingredient in finding success in the active reuse of tax delinquent and blighted properties. While the Oakland pilot is one example of how partnerships between two public agencies and a private nonprofit housing organization can create a meaningful outcome for these types of properties, challenges still presented themselves in moving through the process. The challenges faced in the Oakland pilot will require on-going collaboration and further cultivation of the relationships in order to replicate these types of purchases by actively discussing what, within the process, can be further refined to support the pressures and challenges experienced by all parties.

Understanding and complying with the tax code is critical knowledge that buyers must work to understand so that the tax collector is able to support the opportunity when a Chapter 8 Tax Sale is proposed. Equally important is for the the buyer to thoroughly research the property and its ability to meet the public benefit required as part of the Chapter 8 Tax Sale, prior to submitting an application or objection to the county tax collector. During one interview with a county tax collector in Southern California, it was mentioned that it is very disheartening to have a property slated for a tax sale be pulled per the objection of an eligible purchaser, and then come to find that the purchaser has not done their due diligence on the property and therefore does not act or falls out of communication with the tax collector. It creates added work for the tax collector and slows a property from being actively reused and removed from the the county's delinquency ledger. In order

to build the collaboration necessary to seize the opportunity to act on tax-defaulted and blighted properties as a means to create long-term affordable housing opportunities, it is critical to connect with the tax collector to understand certain statutory requirements that must be complied with under a Chapter 8 Tax Sale. Talking with cities and county housing and community development divisions to understand their affordable housing priorities, as well as meeting with district supervisors related to specific challenges within their districts are all actions that will help inform each party of the opportunity as well as create on-going support throughout the process when issues arise.

#### RECEIVING AND DISMINATING A LIST OF TAX DEFAULTED PROPERTIES

Understanding the timing of when a tax defaulted property can be acted on is a fundamental step in making sure that a Chapter 8 Tax Sale can be initiated. If an application or objection to purchase a tax defaulted property through a Chapter 8 Tax Sale is filed *after* the first published or posted notice of sale, it is invalid. State law requires that the county tax collector publish a public notice once a week for three successive weeks in a newspaper published in the county where the property to be sold is located ([Cal. Rev & Tax Code §3798](#) and [§6063 of the Government code](#)). This is considered the “first publication” period and sets the date by which the sale agreement becomes effective (21-days following the first publication) and the redemption period for the property owner ends ([Cal. Rev. & Tax. Code §3802](#)). It is important to connect with the county tax collector to know when this publication process is initiated. The tax collector has a responsibility to forward a copy of the upcoming tax sale information to each taxing agency having the right to levy taxes and assessments on the property ([Cal. Rev. & Tax Code 3700](#)). This notice is typically sent at least 30-days before the first publication or posting so that the public agency has sufficient time to review the list of tax defaulted properties in advance of the first publication. Under this same provision of the tax code, the tax collector is also required to share this information with any eligible nonprofit who has requested, in writing to the tax collector, of their interest in receiving the list.

While the tax collector is required to notify both groups, it is important to inform the tax collector who specifically at the government agency should receive the list. Many times this information is sent to city financial or revenue departments rather than housing departments who may see this list through a different lens. Under the Oakland pilot, the City has requested that the tax collector provide this notification directly to the Housing and Community Development Director in conjunction with the finance department, so that the Housing and Community Development Director can review the list for properties that may be important assets in moving the affordable housing agenda or other public uses forward. Additionally, the nonprofit should submit a request to the tax collector for this information on an annual basis so that the tax collector’s recipient list remains active and current.

## IDENTIFYING VIABLE PROPERTIES

Published lists, of tax defaulted properties that are received directly by the tax collector, provide a great opportunity for city and county housing departments and nonprofit organizations to determine if there are any properties on the list that may meet a stronger public benefit, such as affordable housing. However, many communities are also well aware of problem properties that appear to be abandoned by the property owner as evidenced by an ongoing lack of basic investment, such as general maintenance and long standing vacancy issues. In fact, tax delinquency is the most significant common denominator among vacant and abandoned properties. As mentioned previously, if a problem property is identified that is also tax defaulted with a nuisance abatement lien recorded against the property, a qualified public agency or nonprofit can request that the property be sold after three-years at the next scheduled public auction for the benefit of affordable housing. ([Cal. Rev & Tax Code §3692.4](#)). Identifying and meeting with community groups or neighborhood associations may be helpful in identify properties well in advance of the final publication of a tax sale.

Once a problem-property has been identified, it is important to conduct a significant amount of due diligence related to the property and its ability to be reused for the public benefit that is being sought after. Many tax defaulted properties have accumulated years of back taxes, code enforcement and nuisance abatement liens that far exceed the market value of the property. Understanding how to identify significant barriers related to the property will minimize the real risk associated with purchasing a tax defaulted property. It is important to realize that the tax collector does not guarantee the condition of the property nor do they assume any responsibility for conformance to codes, permits or zoning ordinances. This burden is on the shoulders of the purchaser.

## ORDER A PRELIMINARY TITLE REPORT

When a parcel or property is identified, understanding the ownership and current status of the property is step one in determining if the property is potentially viable for action. Ordering a Preliminary Title Report for the property from a title company is a critical step that will provide information related to ownership, total outstanding back taxes that are owed as well as anything recorded against the property such as liens, encroachments, or easements. When purchasing a tax defaulted property, the tax deed conveys title to the purchaser free of all encumbrances of any kind existing before the sale, except the following which are crucial to look for when reviewing the preliminary title report ([Cal. Rev. Tax. Code 3712](#)):

- Any lien for the installments of taxes and special assessments, which installments will become payable upon the secured roll after the time of the sale.
- The lien for taxes or assessments or other rights of any taxing agency, which does not consent to the sale. As mentioned above, a public agency may object to the sale of property in order to protect a lien. Under this type of objection, the public agencies lien is not cleared by the tax sale.

- Liens for special assessments levied upon the property conveyed which were, at the time of the sale, not included in the amount necessary to redeem the tax-defaulted property, and where a taxing agency which collects its own taxes has consented to the sale.
- Easements constituting servitude upon or burdens to the property; water rights; title that is held separately from title to the property; and any restrictions on record.
- Unaccepted, recorded, irrevocable offers of dedication of the property to the public or a public entity for a public purpose, and recorded options of any taxing agency to purchase the property or any interest therein for a public purpose. Look for property restrictions that run with the land. An example of this might be “use restrictions” where the property is specifically restricted for a particular use such as open space.
- Unpaid assessments under the Improvement Bond Act of 1915 (Division 10, commencing with Section 8500 of the Streets and Highways code) which are not satisfied as a result of the sale proceeds being applied pursuant to Chapter 1.3 (commencing with Section 4671) of part 8.
- Any federal Internal Revenue Service liens which, pursuant to provision of federal law, are not discharged by the sale, even though the Tax Collector has provided proper notice to the Internal Revenue Service before that date. The Federal government has the right to redeem from the purchaser, up to 120 days after the date of the sale, any property sold at a tax sale that has an IRS lien<sup>13</sup>.
- Unpaid special taxes under Mello-Roos Community Facilities Act of 1982 (Chapter 2.5, commencing with Section 53311, or Part 1 of Division 2 of Title 5 of the Government Code) that are not satisfied as a result of the sale proceeds being applied following the sale.

#### REVIEW THE ZONING ORDINANCES, PERMIT HISTORY AND SANBORN MAPS

Understanding the zoning ordinance for a particular property will define how property in specific geographic areas can be used. Specifically, these ordinances will determine if the property is zoned for residential or commercial purposes and may also regulate lot size, set-back requirements, density and height of structures that can be erected. If the tax defaulted property is a vacant parcel, it is critical to ensure that the potential use of the property is eligible under the existing zoning ordinance for the area. It may be helpful for the prospective buyer to meet with city building or planning department staff to better understand the various parameters that may exist on a property that is under consideration.

Another helpful exercise is to review the permit history on any property that is under consideration. This review will help to determine overall compliance, or lack of compliance, to building codes and zoning ordinances as well as provide a general history of development that has taken place on or to the property. Understanding if there are code violations that must be addressed by a new owner as well as the type of permits that may have been issued can help prospective purchasers better prepare for the challenges ahead in buying a tax defaulted property.

Finally, studying Sanborn maps may be significantly helpful in understanding the full history of the property and the various uses that may have impacted the property over time. Sanborn maps were originally created for assessing fire insurance liability in urbanized areas in the United State<sup>14</sup>. The maps include detailed information about changes in the built environment over many decades. These maps were used to determine the liability of a particular building, such as building material, proximity to other buildings, location of gas lines, underground storage tanks, laundry facilities etc. They are highly useful in understanding if any previous uses may have involved environmental contaminants that may ultimately require remediation as part of the future development. For example, many buildings throughout city neighborhoods were once used for dry cleaning purposes and chemicals utilized during these uses may require testing and remediation. See figure 6 for an example Sanborn Map. Sanborn maps are found primarily in the archives and special collections of town halls, in public libraries and in historical records maintained by many municipalities. Building and planning staff are helpful resources when trying to determine where to find the historical record via Sanborn maps.

FIGURE 6: SAMPLE VIEW OF A SANBORN MAP



## ENVIRONMENTAL TESTING

Understanding whether a particular property may have an environmental contamination issue is an important part of the due diligence process. There are a number of public resources maintained by environmental regulatory agencies that retain records of environmental contamination cases that have been opened on a particular property, which may impact a property of interest. County Environmental Health Departments, the California Regional Water Quality Control Board and the California Department of Toxic Substances Control are all a few agencies to reach out to.

In addition to conducting public database searches, hiring a professional company to perform a Phase I Environmental Site Assessment is highly recommended if pursuing a vacant lot. This report will search both private and public databases for historical information pertaining to the surrounding area and the parcel itself. The report will describe any results following the review of environmental regulatory agencies, historical land use information, a site assessment and visual observations and provide direction as to what type of risks exist and what additional testing and remediation may be required to either clear an existing condition, or to identify whether a condition exists that may require further testing and eventual abatement. Conducting a Phase I Environmental Site Assessment can be costly to the pre-development budget. Especially considering that due diligence expenses performed on any potential property is conducted before an objection is made and the purchase is finalized. Many tax defaulted properties under consideration may not make it to the tax sale for reasons that are not in the control of the purchaser or the tax collector, such as the redemption by the previous owner or a filing of bankruptcy which halts the purchase prior to the tax sale. However, the risk in purchasing a property that has a contamination issue poses significant costs and liability to the new owner and should be understood prior to engaging the tax collector in a Chapter 8 Tax Sale process.

#### UNDERSTANDING ADVERSE POSSESSION AND PRESCRIPTIVE EASEMENT RISKS.

Tax defaulted property, which is often abandoned and vacant, is highly susceptible to trespassers and in some cases, it is possible for a trespasser to come onto land, occupy it and gain legal ownership or use of it through adverse possession or prescriptive easement<sup>15</sup>.

In California, a user of land may establish a prescriptive easement claim by proving that his or her use of another's land was: (1) continuous and uninterrupted for five years; (2) open and notorious; and (3) hostile.

The first two requirements are relatively straightforward. "Continuous" use means that the use has occurred over a five-year period on occasions necessary for the convenience of the user<sup>16</sup>. The use of property is "open and notorious" when the use is sufficiently visible to the public or the land owner and not hidden or concealed. Examples that could potentially lead to a prescriptive easement include the parking of cars on a property that has taken place continuously for a 5-year period of time and that is clearly visible to the public and the owner of the property. Where this presents challenges with tax defaulted lots is that the current owner may no longer be monitoring the property and therefore is not actively addressing the trespassing use of the property as a parking lot.

The third requirement that the use is "hostile" means that the use is done without permission of the owner<sup>17</sup>. For example, the use is hostile if the property has "no trespassing" signs posted at entrances to the property that are continuously removed and the property is gated. Interruption of



the use by the property owner must stop the actual use of the property in order to disrupt the 5-year timeframe which is a condition to establishing a prescriptive easement.

Prescriptive easements establish legal use of a property. However legal ownership of a property can be established through adverse possession. Under adverse possession, the same variables must be established as above, however, the payment of property taxes over the same 5-year period is necessary in the establishment of potential ownership rights in California.

In most cases adverse possession and prescriptive easement claims arise from long-term use of a property related to lot lines and boundary lines being unclear to neighboring property owners rather than active trespassing actions. One way to mitigate this concern is to request a copy of the land survey or subdivision plot from your city clerk's office. However, they can be difficult to read and interpret and may require a review by a licensed land surveyor. Ordering a land survey in advance of initiating a purchase process may help to mitigate any potential boundary issues that are not otherwise memorialized by a deed on title between the current owner and any neighboring properties. The cost of a land survey is dictated by the size of the land to be surveyed, whether there is an accurate map already existing, geographic location, and the last time the land was surveyed.

In general, it is important to understand the potential risks that adverse possession and prescriptive easements may play in the process of evaluating tax defaulted properties for purchase. Working with a real estate attorney to fully understand the legal claims that could be made is an important part of the due diligence process if there appears to be an open use of a property that is under consideration.

#### SECURING INSURABLE TITLE

One of the primary challenges in purchasing vacant, abandoned and tax-delinquent properties is that there are numerous defects or "clouds" on the title to the properties. If title to property is not marketable due to defects or clouds, it usually is not insurable, and if not insurable, it can present significant problems for the future owner especially as it relates to obtaining a loan from a lending institution or conveying the property in the future. Additionally, most title companies will not insure title for at least one year after the recording of a tax deed. This is due to a one-year statute of limitations requiring the the tax collector to respond to challenges concerning the validity of the sale as well as respond to excess proceeds claims during this year. ([Cal Rev. & Tax Code §3725](#))

One way to address this one-year statutory period is to seek a Quiet Title Action in the County Superior Court where the property is located. This action can seek to establish the real owner of the property or who possesses what interest in the property. It can also serve to clear recorded instruments that may be clouding title to a particular property<sup>18</sup>. Title companies will proceed with providing insurable title to tax deeded properties following the completion of a Quiet Title Action. However, the cost and timeline to engage the courts to settle adverse claims can vary. In general, the cost can run between \$1,800 and \$4,500 in attorney fees and court costs depending on the

jurisdiction and the issues involved in the Quiet Title Action and can take up to 4-6 months for scheduling in some jurisdictions.

Another recommended strategy that was utilized in the Oakland pilot is the use of a certification service which qualifies tax deeded properties for title insurance. Tax Title Services<sup>19</sup> a certification service, reviews the completeness and accuracy of the tax lien foreclosure due process and then certifies to the title insurance provider that the tax-deeded property followed the due process and that the title is clear and insurable. Essentially, TTS indemnifies the title company of any future claims against the insurable title offering. TTS works with multiple title companies across the state and is able to connect the buyer to a title company that is willing to underwrite the property for title insurance through this certification process in lieu of a Quiet Title Action. The process tends to be more efficient and affordable than seeking a Quiet Title Action through the courts. In general, the cost to certify a property is roughly \$1,700 to \$1,900 and takes less than 30-days. It is important to note however, that the TTS certification is strictly designed and meant to address the title risks directly associated with the tax sale foreclosure, and is an alternative accepted by title company underwriters. It does not address all issues that may be found on title in the form of exceptions to title insurance. For example, municipality liens in the form of code enforcement, or weed abatement liens are not normally extinguished by the tax foreclosures and will need to be addressed directly with the municipality prior to being removed or released from title.

When reviewing a preliminary title report on a viable property, if there are numerous public liens, reaching out to the public entity to discuss payment options and release options will help to determine what the overall action will need to be from the buyer of a property as well as what the costs to release or clear the lien will require. This is an area where a nonprofit, seeking to provide a public benefit such as affordable housing, could build a partnership with a municipality who may be willing to minimizing fees or costs associated with the liens on record which will enable the affordable housing development to proceed in a more cost efficient manner. The benefit to the municipality may include the reduction of ongoing costs related to code enforcement actions on a blighted property as well as the recapture of future fees related to the active reuse and development of a property through building and planning permit fees and tax revenue collection.

#### ADDITIONAL PROTECTIONS TO ENSURE THE INTEGRITY OF CHAPTER 8 AS A TOOL FOR GOOD.

The Chapter 8 Tax Sale requires that a property is to be utilized to create a public benefit and to serve a public purpose. The ability to for public agencies and eligible nonprofits to act on potential properties in advance of a public auction is exclusive and comes with great responsibility and care on behalf of the purchaser to ensure that the public benefit is created and maintained. While the Chapter 8 Tax Sale process establishes the purpose by which a property can be utilized, there are limited protections in place that require that these properties remain affordable over time. Under the Oakland pilot, significant resources were dedicated to ensuring that the purchase process and the

affordable housing outcome would be protected. In the affordable housing community, protecting the long-term affordability of a developed property is achieved through tools such as Affordability Agreements and Deed Restrictions which are recorded on title and run with the land to provide long-term affordability protections.

An Affordability Agreement is a contract between the developer and the local agency that lists the developer's affordable housing obligations and is subsequently recorded against the project property. This agreement helps to ensure that affordable units are built as required. By entering into a recorded contract with a developer, the local agency has a tool for enforcement should there be an issue. Additionally, this recorded document provides what's called "constructive" notice to future buyers and lenders that the provisions of the agreement can be enforced against them. This agreement sets among other things, the controls on resale prices and provisions for recording restrictions against individual homebuyers as the affordable units are sold. It establishes the procedures for setting the initial affordable sales prices when the units are ready for occupancy and sets the eligibility criteria for future buyers of the completed property.

The Deed Restriction, serves to restrict the subsequent resale of a home at an affordable price as well as establishes an option to purchase the property by the jurisdiction listed within the restriction. The option to purchase, coupled with a resale restriction allows the public agency to purchase the affordable home when the owner is ready to sell it. Usually the public entity can assign its option to purchase to another income eligible homebuyer, so that the agency never actually takes title to the home. The agency can also exercise its option to purchase if there is a default by the homeowner, effectively protecting the home as an affordable asset for future low and moderate income earning households.

When designing a method to protect the long-term affordability of a property, understanding the financing tools utilized by affordable housing developers and future homebuyers is important for the project team and the county tax collector to consider. By placing restrictions on a property that effectively prevent construction financing or mortgage financing to flow to the project or to the low-income homebuyer, the property is more likely to fail to be redeveloped and meet its intended purpose. Ensuring that there is a mechanism for approving a subordination requests, so that subsequent financing tools are available will ensure that there is flexibility when and where needed.

Used properly, these tools help to strengthen the overall intent of the Chapter 8 Tax Sale and should be considered a best practice process to follow when tax defaulted property is conveyed through this mechanism.

## CONCLUSION

The goal in creating this guide is to broaden awareness of the Chapter 8 Tax Sale as a potential tool for turning problematic properties into much needed affordable housing at a time when the need

couldn't be greater. The Chapter 8 Tax sale creates opportunities for affordable housing development that have far reaching community impacts. Dedication of tax defaulted property for use as affordable housing allows public agencies and nonprofit organizations to restore blighted properties that could otherwise deteriorate the health, safety, and property values of surrounding properties. Affordable housing can also be used to meet the growing housing demand and rising housing prices. And finally, construction of affordable housing through a Chapter 8 process ensures that low-income communities, often minority populations, can move into new or remain in existing neighborhoods, which creates housing patterns that avoid stratification by income, race, or ethnicity.

## ACKNOWLEDGEMENTS

Many thanks to all of our interviewees who took time from their busy schedules to respond to Hello Housing's inquires. From tax collectors to nonprofit leaders, you all showed great kindness and graciousness in your willingness to connect. This outreach effort would not have been possible without the support of Zoe Harris, a recent graduate of Mills College. Her willingness to dive into California Revenue and Taxation Code as part of her internship and the professionalism she demonstrated throughout her time with Hello Housing was a breath of fresh air. Additional thanks must also be given to the technical support of the California Strategic Growth Council which acted as a liaison to the State Controllers Office and a connector to vital data related to the frequency and number of Chapter 8 Tax Sales that took place across the State. This pilot would not have come together without the City of Oakland's Housing and Community Development and Code Enforcement staff as well as the County Tax Collector staff who worked diligently to ensure that the Oakland pilot moved forward as envisioned. And finally, it is with gratitude to our financial sponsors, Enterprise Community Partners, Bank of the West and MidPen Housing for seeing this process as an innovation for affordable housing and for helping Hello Housing make the pilot project and this guide a reality.

## APPENDIX

APPLICATION TO PURCHASE (SCO-8-16)

SAMPLE OBJECTION NOTIFICATION LETTER

SAMPLE OBJECTION LETTER (PUBLIC AGENCY)

SAMPLE OBJECTION LETTER (NONPROFIT)

AGREEMENT TO PURCHASE TAX DEFAULTED PROPERTY -PUBLIC AGENCY (SCO 8-13)

AGREEMENT TO PURCHASE TAX DEFAULTED PROPERTY -NONPROFIT (SCO 8-15)

ENVIRONMENTAL REGULATORY AGENCIES – CONTACT INFORMATION

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<sup>3</sup> McKinsey Global Institute, “A Tool Kit to Close California’s Housing Gap: 3.5 Million Homes by 2025,” October 2016.

<sup>4</sup> State of California County Tax Sale Procedural Manual, Volume II: Chapter 8 Tax Sales Pg. 5

<sup>5</sup> Revenue and Taxation code – RTC-Division 1. Property Taxation [50 - 5911] (Division 1 enacted by Stats. 1939, ch. 154. ) Part 6. Tax Sales [3351 - 3972] (Part 6 enacted by stats. 1939, ch. 154.) Chapter 8. Deed to State, county or public agencies [3771 - 3841]

<sup>6</sup> The total number of applications does not necessarily reflect the total number of projects completed. For example, the Chapter 8 Tax Sale for a homeless services center in one of the interviewed counties was not completed because the tax defaulted property went into bankruptcy proceedings, which halts the Chapter 8 Tax Sale process.

<sup>7</sup> State of California County Tax Sale Procedural Manual, Volume II: Chapter 8 Tax Sales Pg. 45-46

<sup>8</sup> State of California County Tax Sale Procedural Manual, Volume II: Chapter 8 Tax Sales Pg. 10-11

<sup>9</sup> State of California County Tax Sale Procedural Manual, Volume I: Chapter 7 Tax Sales Pg. 20-21

<sup>10</sup> State of California County Tax Sale Procedural Manual, Volume II: Chapter 8 Tax Sales Pg. 14-15

<sup>11</sup> State of California County Tax Sale Procedural Manual, Volume II: Chapter 8 Tax Sales Pg. 20-22

<sup>12</sup> State of California County Tax Sale Procedural Manual, Volume II: Chapter 8 Tax Sales Pg. 7

<sup>13</sup> 26 U.S. Code §7425(d)

<sup>14</sup> Chris Nehls (2003). "Sanborn Fire Insurance Maps, A Brief History". Geostat Center and Department of History, University of Virginia. Retrieved 1 July 2011

<sup>15</sup> Civ. Proc. §§318, 325, 328

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<sup>17</sup> “How ‘Hostile’ the Use of Property Must Be for Adverse Possession Claim. Being mean and nasty to the true property owner is not necessary for an adverse possession claim.” NOLO.

<sup>18</sup> “Quiet Title Action.” NOLO.

<sup>19</sup> Tax Title Services, 4590 MacArthur Boulevard, Suite 210, Newport Beach, CA 92660, 1(949) 798-1180, [www.taxtitleservices.com](http://www.taxtitleservices.com)