**HOUSE COMMITTEE ON WAYS AND MEANS**

**Hearing on Interim Charge #5 – Use of Third Party Tax Collection Firms**

February 5, 2020 – 10:00 a.m. - E2.012

Background and Opinion Offered by

**Texas Association of Tax Assessor-Collectors**

* The current method of local government collecting delinquent taxes works well.
* Currently most local governmental entities select and use a single company or law firm that specializes in the collection of delinquent tax collections for an average of three to five percent of the total tax levy, a rate consistent across the board. The county is not responsible for paying the tax collection company or firm.
  + This method maximizes the efficiency and effectiveness of delinquent tax collection.
  + Therefore, most taxpayers (~97%) are not currently responsible for the costs associated with collecting delinquent taxes.
  + Only those who fail to pay on time are responsible for the cost of collections.
* Eliminating the use of third-party tax collection firms will increase costs for local governmental units, and result in higher costs to taxpayers.
  + Local governmental units do not currently pay the fees associated with delinquent tax collection - the delinquent taxpayer is responsible for the collection fee.
  + If local government is required to perform its own collection duties, it will be required to hire employees (likely attorneys) with specific background and knowledge in property taxes, and incur the human resources costs associated with salaries, employee benefits, etc., of those new employees, thereby increasing the cost to its taxpayers for personnel - costs the political subdivision currently does not incur. Local governments would also be required to hire additional staff within the tax office to manage the delinquent tax accounts before they are handed off to the county attorney for litigation.
  + Additionally, special IT and software costs would be incurred by the local government to manage the additional responsibility.
* REQUIRED NOTICE - The legalities associated with statutory and additional notices to involved parties are complicated and extensive, especially in the case of judicial foreclosure, where on most occasions, multiple heirs, often times 10 to 20, must be notified.
  + Some foreclosure properties involve environmental issues. The law firms currently handling these accounts have attorneys on staff who are familiar with these issues and working with TCEQ.
  + There are several statutory notices that are required to be sent before additional penalties can be added to a delinquent tax. These notices are unique to the type of property (real versus personal). Currently, the law firms handle all costs associated with the printing and mailing of these notices. The local government entity does not pay for this service, but would if required to collect the tax on its own.
  + The law firms have multiple attorneys on staff who specialize in bankruptcy law. The tax office or county attorney does not currently have to file bankruptcy claims or appear in court for bankruptcy proceedings. This is handled by the firms hired by the local governmental entity. They also help to manage the bankruptcy accounts to ensure these accounts do not receive notices or calls, since this is a prohibited action.
* The law firms have appellate attorneys on staff to handle any and all appeals regarding delinquent tax accounts.
* The law firms have call centers. The use of their call centers often results in the collection of the delinquent taxes, thereby eliminating the need for a lawsuit.
* Further, existing relationships with law and tax specialty firms enable those firms to intervene when another firm files a claim for a different taxing entity. Failure to intervene results in the loss of that tax.
* Section 6.30 of the Texas Property Tax Code currently allows a county to collect its own delinquent taxes through its county or district attorney, and provides the option for the governing body to contract with a private attorney. Taxing units other than a county are allowed to determine who represents the taxing unit in the enforcement of its delinquent collections through this same section.
* CONSOLIDATED COLLECTIONS - Most tax collections are consolidated, meaning the County Tax Assessor-Collector, or designated collector is responsible for the collection of the county tax collections as well as, most if not all, other collections within the county. This saves the taxpayer money because it saves each taxing unit the expense associated with hiring its own collector, and the expenses associated with a tax office. The cost of consolidated collections is based on current collections. Therefore, if a county was required to collect its own delinquent taxes and those for other taxing units, the costs for the other taxing units collected by the county would increase, in addition to the county’s. Such increases would be passed on to the taxpayers.
  + Consolidated collections also help to keep the current tax collection percentage at the 97% or above for most taxing jurisdictions. This is beneficial when calculating the tax rate, as the current collection rate plays a role in the calculation of the debt rate
* The governing bodies for taxing units, as well as the tax office currently have unlimited resources with the law firms regarding property tax matters. These firms offer expertise even when it doesn’t involve a delinquent account, e.g., tax abatements, 381 agreements, Truth and Taxation, etc. These services are currently available, without cost, to the taxing units and its taxpayers.
* Firms with whom local government now contract also bear the expense of procuring title work prior to the filing of lawsuits. If this becomes the responsibility of the local government entity it will be a major expense to them and their taxpayers. Recovery of these expenses from the delinquent taxpayer is not guaranteed — e.g., value sales or tax resales. Publication fees are significant not just some expense we can write off. They eat a lot of abstract and publication fees.