Tax Forfeiture in Hennepin County

Hennepin County had 440,516 parcels of real estate at the end of 2022. Property taxes attach to each parcel by state statute every year and constitute a perpetual lien. Property taxes are the most significant source of revenue for the County and are similarly important to other units of local government.[1] County auditors are tasked with collecting property taxes for all taxing districts within their boundaries, such as schools, cities, and watershed districts. Property taxes are only an *in rem* liability, and not a debt of the owner of the parcel. If taxes are not paid for several years, and after many notices and opportunities to redeem, title to the property transfers to the State of Minnesota.

How does the state enforce the collection of property taxes?

In Minnesota, and many other states, property taxes are *in rem*, meaning there is no personal liability. This is true even if the property is worth less than the taxes owed; in such a case the state has no recourse. In Minnesota, property tax liens attach to the property each year and become payable the next year. If not paid by the third year, the tax becomes delinquent and a judgment is obtained against the property. See Minn. Stat. § 279.01, *et seq*.

On the second Monday in May each year, a judgment sale occurs, where each parcel with unpaid property taxes is sold to the state by operation of law for the amount of delinquent taxes, penalties, costs, and interest. Minn. Stat. §§ 280.001–280.01. At this time, title to the property vests in the state, subject to a three-year redemption right. Minn. Stat. § 280.41.

During the three-year redemption period, the taxpayer or any person claiming an interest in the property may redeem it for the amount of delinquent tax, along with any applicable penalty, interest and costs. Minn. Stat. §§ 281.01–281.02.

How can a property owner avoid forfeiture?

Counties must notify the taxpayer and interested parties of their right to redeem, and when that right expires, by (1) posting notice, (2) publishing notice, (3) mailing notice by certified mail, and (4) personally serving notice on any occupant of the property. Minn. Stat. § 281.23.

If an owner wants to redeem, but cannot afford to do so, the owner can make a "confession of judgment" under Minn. Stat. § 279.37. This allows an owner to consolidate the tax delinquency into a single obligation to be paid in installments over five to ten years, in exchange for the owner's agreement to the entry of judgment for all delinquent taxes, costs, penalty, and interest owing. *Id*.

If the property owner does not exercise the right of redemption she forfeits "absolute title" to the property to the state. Minn. Stat. § 281.18. At the same time, all property taxes, penalty, interest, costs, and special assessments are canceled. Minn. Stat. § 282.07. Even after final forfeiture, a taxpayer and interested parties may apply to repurchase a forfeited property. Minn. Stat. § 282.241 subd. 1.

Hennepin's award-winning Navigator program

In 2016, Hennepin County decided to embed human services case managers within the property tax department to help residents pay their taxes and stay in their homes. Navigators work with taxpayers to connect them with services and evaluate options. To date, almost 800 taxpayers have been referred to Navigators for assistance. Hennepin County received a National Association of Counties Achievement Award for this innovative program in 2018.

What happens after forfeiture?

Following a property's final forfeiture, a county works to return properties to productive use. If sold to a private buyer, the property is sold for its appraised value. Minn. Stat. § 282.01 subds. 3–4. If sold to a public entity, the property may be sold at less than its appraised value. *Id.* subd. 1a. Either way, counties often make significant investments in a property before sale, including demolishing or rehabbing dilapidated structures. Minn. Stat. § 282.04 subd. 2.

How many parcels actually forfeit?

Of the 440,516 parcels in Hennepin County, 98.81 percent pay taxes on time.[2] Approximately 5,153 parcels are considered "delinquent" when taxes are not paid by the January following the year taxes were payable. Of those 5,153, most pay before the taxes become a judgment. Judgments are obtained on an average of 2,183 parcels each year, which commences the owner's redemption period — usually three years. Most properties are redeemed, either by paying the delinquent taxes in full or entering into a payment plan.

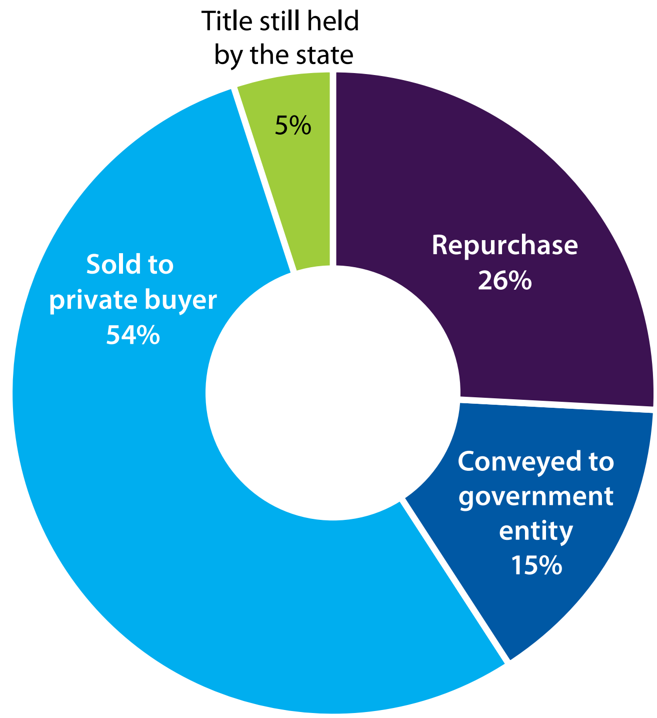
After all this, an average of just 77 parcels in Hennepin County forfeit to the state each year, which means the former owner has lost title to the property. Sixty-four percent of forfeited parcels have structures, while thirty-six percent are vacant land. The vast majority of parcels that forfeit are not classified as homestead at the time of forfeiture.[3]

What happens to the forfeited property?

Of those 77 parcels that forfeit each year in Hennepin County, some are repurchased by the former owner or another party with an interest in the property,[4] some are transferred to other government entities, and some are sold to private buyers for return to the tax rolls.

Disposition of parcels after forfeiture

2022 status of parcels forfeited 2013–2017 (n=586)



Rehabbing blighted properties

A number of properties forfeit in disrepair. The county rehabilitates some of these properties, often with the assistance of small business contractors, adding value to back to the neighborhood. Some properties are rehabbed by residents serving probation, in partnership with the county's corrections department.

Does the government make a profit through tax forfeiture?

No. The cost of uncollected taxes along with the cost of administering Minnesota's tax forfeiture laws exceeds the revenues associated with tax forfeited parcels, but those sales help mitigate the loss. Additionally, instead of selling all parcels to private buyers, the government sometimes chooses to use parcels for purposes that benefit the entire community.

Table 1: Average annual expenses and revenues in administering tax forfeiture

Tax (including special assessments levied by cities), interest, and penalty canceled at time of forfeiture[5]	($1,600,488)
Tax not collected while state holds title[6]	($165,522)
Program administration (property-specific expenses and general expenses)[7]	($1,979,427)
Proceeds of properties sold[8]	$3,011,529
Total	**($733,908)**

What does tax forfeiture cost former owners?

On average, the tax[9] owing at the time of forfeiture (including interest and penalties) is 73 percent of the parcel's sale price. This figure does not take into account any other liens (such as a private mortgage) that are extinguished at the time of forfeiture. This means that a property owner might owe more in taxes and a private mortgage than than the value of the property.

After a property forfeits, many costs are incurred by the county in caring for the property. For example, the county may pay for the cost of lawn mowing, snow removal, or winterization. The county might pay to repair or improve a property. Finally, the county does not collect any new taxes during the time the property is forfeited. Some of these costs can be attributed to a specific property, while other costs, such as staff time, are not assigned to a specific property.

Table 2: Average per parcel sales of forfeited property to private buyers

Parcels Sold Between 2013 and 2022 (n=350)

Sale price (does not include closing costs)	$40,668
Tax, interest and penalty owing at time of forfeiture[10]	($29,627)
Specific expenses and special assessments incurred after forfeiture that attributable to property (not including administration of property tax system)	($18,587)
Remaining value: sale price less taxes and expenses (Excludes the value of any non-tax liens such as a mortgage)	($7,546)

When a forfeited property is sold to a private buyer, what happens to the sale proceeds?

Minnesota law permits the county to distribute any receipts (after deducting the costs of improvements) to forests and parks; any balance is distributed to school districts, cities, and the county to help offset the loss of the uncollected taxes. Minn. Stat. § 282.08. Since a taxpayer has forfeited "absolute title" to the state, she does not receive any portion of the sale proceeds, even if the proceeds exceed the amount in taxes, fees, and costs she owed.

Notes

1 See Hennepin County 2023 Budget, available at 2023 Operating budget book (hennepin.us).

2 All data reflects the ten-year average in Hennepin County from 2013 to 2022 unless otherwise stated.

3 Properties qualify for homestead status when the owner or a family member resides in the property. See Minn. Stat. § 273.124.

4 See Minn. Stat. § 282.241.

5 Annual average for parcels forfeited between 2013 and 2022, excluding repurchases (n=571). The data used to create this table excludes those forfeited properties which were subsequently repurchased, because the repurchase price makes the government whole. Penalty and interest included in this average are estimated.

6 See Note 5.

7 Program administration includes the expenses attributable for caring for specific properties (such as maintenance and repair), as well as expenses for administering the tax forfeiture program overall. The average annual expense was calculated over the nine-year period of 2013-2021, which is the most recent year available, and estimated expenses for repurchased parcels were deducted.

8 Proceeds of properties sold includes rental receipts and contract interest. The average annual proceeds were calculated over the nine-year period of 2013-2021, and the receipts for repurchases were deducted.

9 Taxes include special assessments levied by the city prior to forfeiture for improvements to and care of properties, which are added to and collected as part of the property tax. See Minn. Stat. § 429.101.

10 Penalty and interest included in this average are estimated.

Hennepin County

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