

How Philly kept more than 14,000 properties from Sheriff Sale, but still recovered \$100 million

In December 2019, five years since it was expanded as an enforcement strategy, the Philadelphia Department of Revenue's Real Estate Tax sequestration program crossed the \$100 million mark. The department also collected more than \$3 million in past due water debt after further expanding the program in March 2019.

The City began using sequestration strategically to collect delinquent Real Estate Tax from landlords in 2013. The program works by requesting a court-appointed "sequestrator" to collect rent, manage a property, and pay its expenses—including current and delinquent taxes—until any debts to the City are paid off. The same program has been implemented to collect water debt from landlords since 2019.

A successful strategy

Sequestration works well for rental properties with delinquent Real Estate Tax or past due water/sewer charges. There are four main reasons it is a successful enforcement strategy.

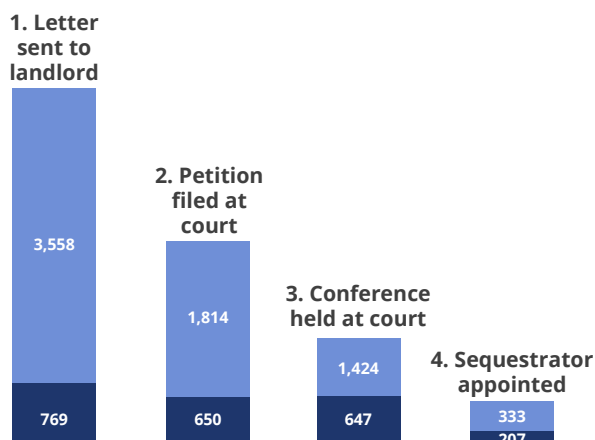
First and most importantly, tenants who are paying rent are protected from either a disruption in service and or a potential eviction.

For delinquent water accounts, it's difficult for the City of Philadelphia to collect water debt from landlords because the utility laws in the Commonwealth Pennsylvania prevent water shutoffs for tenants even when landlords do not pay water bills. Sequestration is ideal for rental accounts with water debt.

Second, the property can continue to produce revenue. The City can collect the money that it is owed and the deed remains in the property owner's name.

Third, Sequestration is a faster and a less expensive legal process for the City, compared to a Sheriff Sale.

And fourth, as with Sheriff Sales, Revenue has learned that most landlords who face the prospect of sequestration either pay in full or enter into a payment agreement before the "sequestrator" is ever assigned. In effect, Sequestration works not so much by intercepting rent, but by a landlord's efforts to avoid this outcome.



The number of properties in the sequestration process shrink at each step. This data only includes accounts in sequestration with the City (Real Estate Tax and water) in FY19.

■ Real Estate Accounts
■ Water Accounts

Fewer “high-yield” accounts

Although sequestration has worked well over the past five years, data shows it is unlikely to keep that same pace, especially when it comes to Real Estate Tax.

The City’s consistent use of the program, along with other delinquent tax collection strategies, means the pool of properties that meet the requirements for sequestration has reduced considerably. There are many reasons why a property cannot be in sequestration. Examples include, properties that are owner occupied, in a payment agreement, in bankruptcy and more.

Revenue has already pursued most high-yield delinquent Real Estate Tax accounts eligible for sequestration. Fewer delinquent rental accounts remain, and the ones that do either have smaller debts or are owned by landlords for whom litigation is a more successful enforcement tool.

Finally, properties that successfully complete the sequestration process are unlikely to become delinquent again. Once out of sequestration, three in four owners continue to pay in full, or enter into a payment agreement.

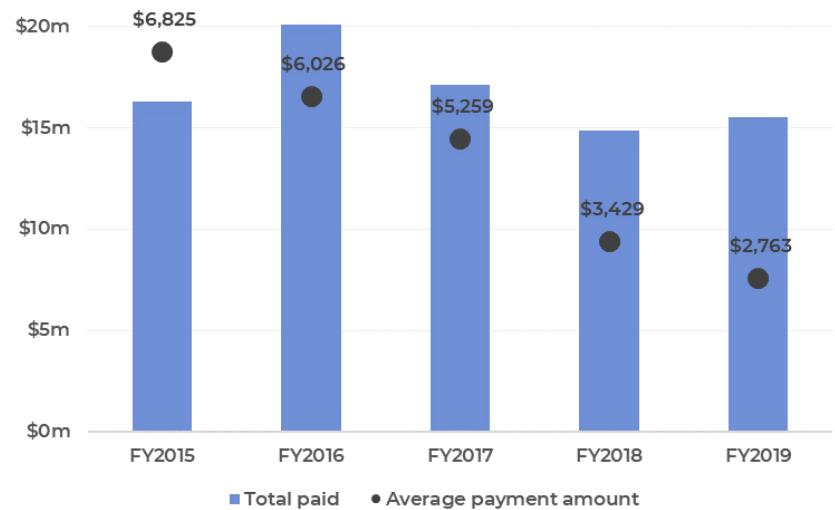
Since water sequestration is still new, collection trends mirror those of Real Estate Tax sequestration prior to its peak in 2016. In the last nine months, the department has collected over \$3.5 million in water debt from about 1,000 accounts and only expect this amount to grow. Like sequestration for delinquent Real Estate Tax, most of these landlords have paid in full or entered agreements after receiving the first letter indicating enforcement action, not through the “sequestrator”.

The Philadelphia Department of Revenue is constantly examining and changing older enforcement strategies to ensure we are collecting taxes, water charges, and other fees to support the City and School District of Philadelphia. This practice has become more important in recent years as more taxpayer and water customers pay on time and the pool of delinquent accounts shrinks.

Last year, we shared our [collections strategy](#) on our website, of which sequestration formed an important data-driven tactic for Real Estate Tax

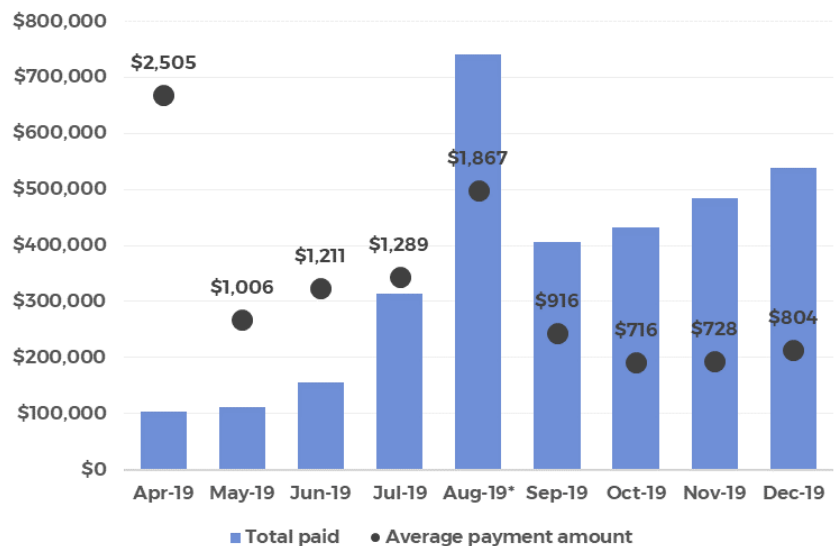
Real Estate Tax sequestration payments, 2015 - 2019

This data only includes accounts in Real Estate Tax sequestration with the City and co-counsel



Water sequestration payments, April 2019 to December 2019

This data only includes accounts in water sequestration with the City



*An issue with the court filing system was resolved in August, resulting in a spike in the total paid. There was also a large water debt settlement by a single account in August.

collection. In the next few years, the Department will continue to expand its use as an enforcement tool for past due water/sewer charges collection.

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