

Investing In Tax Lien Certificates



TREASURER
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TREASURER'S DUTIES

The Treasurer collects taxes, disburses funds to school, fire, and special districts and others, and invests the difference for the benefit of the County.

Approximately 200 active underlying tax districts, as well as the County, depend on full tax collection each year. The majority of taxpayers pay the taxes that are due on time every time. There are a significant number of accounts that, for many reasons, don't get paid.

In 2019, the Treasurer created a Tax Compliance division within the Treasury. Compliance goals are to first, get voluntary compliance, and if that is not achievable, to use statutory methods to collect the taxes due for the benefit of public organizations. Selling tax liens serves a dual purpose: first, it helps by raising the funds necessary to get the tax amounts due to the public organizations all of the tax money in the current year, and, allows the taxpayer time to redeem the tax lien.



KEY TERMS DEFINED

Ad Valorem

Means “according to value” and describes any tax based on the value of the item. Property taxes are an ad valorem. In Colorado, ad valorem (real property) taxes are a “super priority general tax” the lien for which arises on the first date of the tax year, and, and such lien has priority over nearly every other lien, even the I.R.S. prior-filed liens (I.R.C. §6323)

Abatement

A procedure where the County Assessor finds an error in a previous tax assessment or a property’s value, and adjusts it accordingly. Overpayments resulting from errors are refunded whomever paid the tax.

Actual Value

The appraised market value as determined by the County Assessor.



KEY TERMS DEFINED

Assessed Value

The actual property value multiplied by the assessed rate.

The residential rate is 7.15% (for 2018 payable 2019). (Colo. Rev. Stat. §39-1-104.2(q))

The nonresidential rate is 29% (for 2018 payable 2019).

Endorsement

The option extended to the previous year's tax lien certificate holder to buy the current year's lien on the same property, without paying a premium.

Mill Levy

One mill is one one-thousandth of assessed value.

KEY TERMS DEFINED

Premium

The amount bid at sale over and above the tax lien. This amount is not returned to the bidder nor does it earn interest.

Quiet Title Action: A Law Suit

A Quiet Title action is a law suit, which is filed in the District Court of the County where the real property is situated. The judgment rendered by a judge at the end of a Quiet Title law suit establishes the title to land and the improvements thereon (“real property”).

Redemption: Removing the lien

The owner pays the delinquent taxes plus fees, interest, and costs of the tax lien sale. The tax lien certificate holder is paid the amount of the lien plus accrued interest. Once the Taxpayer redeems, the lien is lifted from the real property.



KEY TERMS DEFINED

Safekeeping

The Treasurer maintains the buyers certificate. Upon redemption the buyer is automatically sent their redemption funds and a Certificate of Redemption.

County Held Liens

Tax liens that do not receive bids at the auction are “struck to the county”. They can be purchased after the close of the tax lien sale.

DON'T BUY THESE LIENS UNLESS YOU KNOW WHAT YOU ARE PURCHASING



KEY TERMS DEFINED

Special Improvement District

Special Improvement Districts (SIDs) are formed by communities with the power to levy special assessments on property for the construction of certain infrastructure and maintenance of the District which benefit those properties. Special Districts are government entities; the special assessments they levy are taxes and are collected by the Treasury through the tax collection process. Special Districts may also raise fees for service, and those fees, if unpaid, may be submitted to the Treasury for tax collection. An example of a special district might be a water and sewer district.

Tax Lien Certificate of Purchase

The document certifying that the buyer of a tax lien is the holder of the tax lien and that it was purchased from the County Treasurer. Once purchased, the tax lien certificate is evidence of the right to any payment against the delinquent property taxes.

THE PROCESS

- Understand tax liens
- Research properties (land and improvements)
- Research the title to those properties (watch for other liens...)
- Register as a buyer (currently, through RealAuction)

**If it sounds too good to be true,
it usually is!**

Tax liens can be good investments. This presentation acquaints you with the process in Colorado. Knowing the process may help you make an informed decisions before you invest.

TAX LIENS

What are they?

They are liens placed against properties for the amount of unpaid taxes.

Why are tax liens sold?

Tax liens are sold so the underlying authorities can be funded.

Is this a way to acquire real estate?

Rarely. We do issue roughly 4 to 6 deeds each year, mostly on unimproved property, but the vast majority of tax liens are redeemed by the real property owner.

Is this a way to “get rich quick”?

Not in our experience... It's an investment; as is true with all investments, you need to be careful of misleading information; get appropriate legal and tax advice; and, do your due diligence on each tax lien you're considering buying.

WHY WOULD SOMEONE LET PROPERTY GO TO TAX SALE?

- **Land developers use it as a line of credit.**
- **Undesirable property that people don't want to retain.**
- **Landowners financial or other inability to pay the taxes.**
- **Miscommunication between landowner and mortgage holder on who is to pay the taxes.**



PROPERTY TAX TIMELINE

Taxes are collected in arrears

January – Tax bills are mailed.

February – First half taxes are due the last day of the month (if paying in installments).

April 30 – Full payment is due (if paying in one payment).

June 15 – Second half taxes are due.

June 16 – All unpaid taxes are delinquent.

July – Delinquent notices are sent on all unpaid accounts.

September and October - All delinquent properties are advertised in a local paper in anticipation of the tax lien sale.

November – All delinquent taxes are sold at the annual tax lien sale. This is the final effort to collect taxes due and pay them over to each tax authority.

TAX SALE CERTIFICATES

<u>Tax Sale Year</u>	<u>Certificates Sold</u>	<u>Dollars Sold</u>	<u>Coupon Rate</u>
2012	1686	\$3,565,532	10%
2013	1298	\$2,907,698	10%
2014	1978	\$3,340,985	10%
2015	1651	\$2,962,416	10%
2016	1800	\$3,676,354	10%
2017	2044	\$3,281,297	11%



REDEEMING CERTIFICATES

How are certificates redeemed?

The property owners pay the delinquent taxes and interest due to the Treasurer's Office. The Treasurer's Office pays to the lienholder what is due to the lienholder.

The tax lien certificate may be redeemed at any time until a Treasurer's Deed is issued.

RATE OF REDEMPTION

FOR CERTIFICATES SOLD AT TAX SALE

1 Month	7%
3 Months	22%
6 Months	38%
12 Months	64%
24 Months	80%
36 Months	90%
48 Months	96%

Within 12 months over half of the certificates are redeemed.



- **1 in 5 certificates are redeemed after just 3 months.**
- **Depending on the premium you pay in your bid, you could LOSE money!**



PREMIUMS

What is a premium?

It is the amount bid at the sale over and above the tax lien.

Will I get my premium back?

No. Premiums are not returned, nor do they earn interest.

How much should I bid?

Calculate the premium you are willing to pay before the sale.
Know when to stop!

RETURN ON A \$1,000 TAX LIEN

Based on a 12% yearly coupon rate	Redemption (Maturity)		
Premium	1 Month	6 Months	1 Year
10%-\$100	(\$90)	(\$40)	\$20
5%-\$50	(\$40)	\$10	\$70
2%-\$20	(\$10)	\$40	\$100



RATE OF RETURN

How is the interest rate determined?

The 2019 interest rate is 12% per annum. The rate is set on September 1st of each year, and is set at 9 points above the federal discount rate.

Is it constant?

Yes, through the life of the tax lien certificate that is purchased.

There is no guaranteed rate of return; various factors must be considered. Do your analysis for all scenarios, including your premium paid, possible months of redemption, etc.



ENDORSEMENTS

What is an endorsement?

It is the ability extended to the previous year's tax lien certificate holder to buy the current year's *lien* on the same property, prior to the tax lien sale. Sometimes referred to as a sub-tax.

What is the advantage of endorsing?

- No need to pay a premium.
- Draws interest from endorsement date (August) rather than from tax sale date (November).
- If the federal discount rate drops, endorsing locks in a higher rate from the earlier tax sale.

DEEDING

When can I apply for a Treasurer's Deed?

A Treasurer's Deed cannot be issued until after a minimum of three (3) years from the original date of tax sale. Often, lienholders apply for deed in September (prior to the three year point in November) after they endorse the third year.

How long does the deed process take?

The deed process takes approximately 7 months, and requires many steps, including notice to the property owner that the deed will issue.

Is a Treasurer's Deed the same as a Warranty Deed?

No. A Treasurer's Deed is not a warranty deed and can be contested by others who claim an interest in the ownership ("title") of the real property.

DEEDING

What is the priority of my Treasurer's Deed?

A Treasurer's Deed is superior to other liens and encumbrances such as:

- Mortgage Lenders
- Judgment Creditors
- Mechanic Liens

COSTS ASSOCIATED WITH DEEDS

How much is the application fee?

The application fee is \$450. Any amount not used (usually small, if any) will be refunded to the payer of the \$450.

What all is included with that fee?

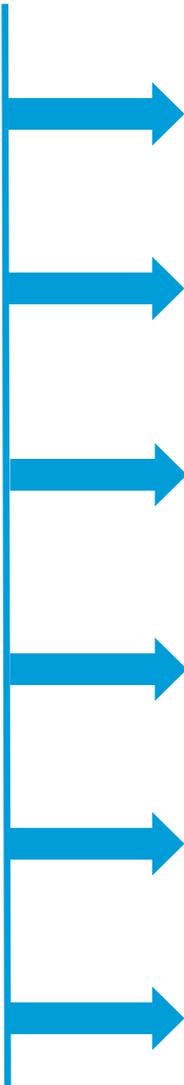
- Treasurer's Fee of \$75
- Owners & Encumbrances report (reports that identify the chain of title)
- Certified Notice to Parties
- Advertising

Are there any costs not included in the deed fee?

Possible additional costs associated with a Treasurer's Deed could include:

- Survey
- Quiet Title (secures a clear title) (legal fees, court costs, publication and/or service of process fees, witness fees, etc.).

DEED PROCESS TIMELINE



November 2019 -- Buy Tax Lien Certificate

August 2020 -- Endorse Certificate

August 2021 -- Endorse Certificate

August 2022 -- Endorse Certificate

September 2022 -- Apply for Treasurer's Deed

January 2023 (approximately) -- Receive Treasurer's Deed

INVESTIGATE PROPERTIES BEFORE INVESTING!



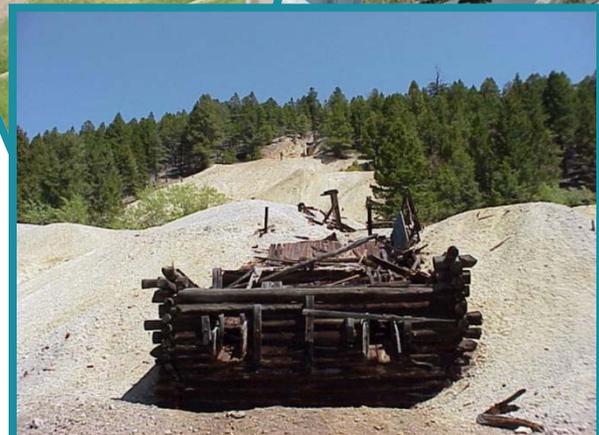
PROPERTY INFORMATION

- Tax Lien Sale List on internet site of
<https://adams.coloradotaxsale.com>
- Web Site
www.adcogov.org
www.adcotax.com
- Assessor's Office
www.adcogov.org



POSSIBLE PROBLEMS

- Contamination
- Minerals or water interests that are severed from the real property and owned or leased by others
- Special Improvement Districts
- Unbuildable lot



REGISTERING AS A TAX BUYER

Who can register?

Anyone except Adams County employees and their immediate families.

Where do I register?

Register online at <https://adams.coloradotaxsale.com>.

When is registration?

Registration for the 2019 tax sale will open November 1, 2019 and the sale will close on November 13, 2019.

THE AUCTION

Additional information

- The Treasurer has discretionary power in conducting the sale.
- If a sale occurs, all sales are FINAL! Know what you are buying; remember “Buyer Beware”.
- All deposits and final payment are submitted via ACH through the tax sale website.
- Purchases must be paid for at the end of the sale.
- If payment is not made, the certificate will be offered to the next highest bidder or may be “struck off” by the County.



IMPORTANT CONSIDERATIONS

- This is not a way to obtain real estate; the vast majority redeem.
- Tax liens are not a liquid asset; your money will be tied up for an unspecified amount of time.
- Early redemptions may result in a loss on your investment.
- There is no guarantee you will ever be paid out through redemption.

CONCLUSION

- **Tax Liens should be considered an investment.**
 - You are buying the tax lien, not the property.
- **Watch Out for the Pitfalls.**
 - Contaminated land, Severed Minerals and/or Water rights, SIDs, and Outlots.
- **Know what you are buying.**
 - Buy in a familiar location and investigate beforehand (“kick the dirt” and review all available facts regarding the real property.
- **Same Buyers Year After Year.**
 - Many of the same buyers come back year after year, so there will be more experienced tax lien purchasers.

2019 TAX LIEN SALE

Our tax lien sale is conducted online at
<https://adams.coloradotaxsale.com>.

Registration, deposit and bidding will open on
November 1, 2019 and close November 13, 2019.