City of Milwaukee
Budget and Management
Intra-Office Memo

To: **Finance and Personnel Committee Members**
Mark Nicolini, Budget and Management Director

From: Eric C. Pearson

Date: October 25, 2010

Subject: Questions from the DNS Budget Hearing

At the Finance and Personnel Committee Budget Hearing on the Department of Neighborhood Services held on October 1, 2010, there several questions that required follow-up. These questions and responses are listed below.

1. Provide an analysis of the city's cost to hold properties acquired through foreclosure compared to taxes lost on the properties. Also, for the average house, what is the cost to maintain or demolish compared to lost taxes for period city owns the property?

The average cost to maintain an occupied *in rem* property is about $1,700/year. The average cost to maintain a vacant improved *in rem* property is approximately $200/year. Vacant lot costs are limited to those such as boarding, grass cutting, and snow shoveling.

The average cost to demolish a single family *in rem* property is $10,000. The demolition cost for a duplex is between $10,000 and $12,000, provided that minimal asbestos abatement is required.

Demolition on property identified as having redevelopment potential is more expensive because this requires full removal of the foundation. The foundation is removed so that a future buyer does not have to incur the expense of removing underground debris from the property.

There is no good basis upon which to estimate the average amount of lost taxes for city owned property. The amount of lost taxes is a function of several variables, including the actual assessed value and how long the property is owned by the city. For illustration purposes, using the proposed tax rate of $9.12, an assessed value of $60,000, the annual property tax payment would be $547. If the city held the property for two years, it would lose $1,094 in tax revenue.

2. Provide summary of other cities legal actions against lenders. Could we change State law to improve our ability to bring similar legal actions against lenders?

In 2008, the City of Cleveland brought suit against a number of banks and lenders, alleging their lending practices created a public nuisance that hurt property values and city tax collections. In July 2010, this suit was dismissed on appeal, with the argument that the city could not prove a direct relationship between the lending and the neighborhood impact.

- Promote purchase of foreclosed homes for homeownership through advertising, outreach strategies, broker education, etc.
- Create a small fund for community improvement projects (similar to those in the Healthy Neighborhoods program) that could mitigate the impact of foreclosed properties in specific neighborhoods.
- Utilize a proactive inspection approach to attack the problems caused by vacant buildings in neighborhoods hardest hit by foreclosures. Aggressively attack influences of vacant buildings in crime reduction zones.
- Increase funding for maintenance of non-compliant vacant buildings in order to minimize the adverse impact of these buildings on the community.
- Continue the joint DNS/MPD initiative on vacant buildings.

Commissioner Marcoux has convened an *in rem* workgroup within DCD that will likely generate additional sales and marketing suggestions.

6. How many fires and repeat fires have occurred at city-owned properties? To the best of our knowledge, there have been very few fires at city-owned properties, perhaps one or two a year.

Should the city raze or control burn any of the properties it owns? DCD and DNS do work together to determine when city-owned properties should be razed. Currently, DCD has requested DNS to raze 109 *in rem* properties and has identified at least 15 more that should be razed. DCD expects to request additional *in rem* demolitions when inspections of the 424 *in rem* properties that came into city ownership at the end of July 2010 are completed.

The Fire Department does fire training perhaps four to five times per year at city *in rem* properties. They do not do full burns as the purpose of the training is to put the fire out. Any decision to conduct full burns would require coordination with DNS to remove the debris after the fire burns out and to complete demolition of the property by removing the foundation at least 18 inches below grade.

7. Of the city inventory of properties, how many should we raze? Provide the Committee with a list of properties with raze orders and who owns the properties.

As previously stated, DCD has identified 124 *in rem* properties that should be razed, and additional razings will be identified when evaluations of the 424 *in rem* properties that came into City ownership at the end of July 2010 is completed.

DCD recommends demolition based on evaluation of both the interior and exterior of the properties. DCD has a current inventory of approximately 557 single family and duplex properties in its inventory. It is likely that at least 20% of these properties will be razed. The current inventory of DCD *in rem* properties is listed at the end of this memo.

When DCD recommends that an *in rem* property should be razed, the local alderperson is informed. DCD also provides a recommendation about how to use the vacant property after the razing. Options include: reserving the land for future development, making the property available for an urban garden, marketing the vacant lot for single family construction, selling the lot to the adjoining owners for green space, or retaining the property in public ownership.

Attached is a list of addresses, sorted by aldermanic district, with pending raze orders.

Administrative Rule Comm. 14 Fire Prevention. Prior to the adoption of the IFC, fire prevention inspections were limited to eleven pages in Comm. 14 and a handful of city ordinances in MCO 214. While the current Comm. 14 is down to seven pages, the 2006 International Fire Code consists of 390 pages with 285 referenced standards. With the adoption of the IFC in 2002 many new areas of responsibility were added such as:

- Emergency Planning and Preparedness
- Building Services and Systems
- Aviation Facilities
- Combustible Dust Producing Operations
- Industrial Ovens
- High-Piled Combustible Storage
- Tire Rebuilding and Tire Storage
- Welding and Other Hot Work
- Hazardous Materials

In addition to the new inspection categories, the new code addresses process issues. Prior to 2002 the state and local codes did not include process equipment other than spray booths. Codes now cover process equipment such as industrial ovens, flammable liquid process vessels, woodworking shops, etc.

The city charges a fire prevention inspection fee as outlined in MCO 200-33-17. The current fee is 1.5% of the city portion of the combined gross property tax levy with a minimum fee of $65 and a maximum of $390. When the IFC was adopted in 2002 the minimum fire prevention inspection fee was $59 and the maximum was $351. Although the parameters of the inspection program expanded exponentially, the actual fee increased minimally.

The 2009 budget included a review of the fire prevention inspection fee. The fee for lower hazard occupancies such as four family apartment buildings or small retail stores seemed reasonable at the $65 minimum, but there are costs associated with the extra time involved with higher risk occupancies. The Fire Prevention Permit Program was developed, in part, to structure the fee to better recover costs from those properties that require a higher level of fire inspection effort. The Permit Program also gathers information about the increased hazards in these buildings, which is added to the Neighborhood Service System and can be accessed by other departments such as DCD when applications are made for occupancy permits or by the Milwaukee Police and Fire Departments when the Unified Call Center is implemented. Another value added by the Permit is that is difficult to revoke an occupancy permit if the building is not being safely operated, but an activity can be stopped individually by revoking the permit for that activity. In this way a business can continue to operate until they come into compliance with the codes.