



CITY OF KILLEEN

ABANDONED PROPERTIES

Audit Report #24-02

A Report to the City of Killeen Audit Committee

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EXECUTIVE SUMMARY



AUDIT REPORT HIGHLIGHTS

Why Was This Audit Conducted?

The City Auditor proposed this audit to the Audit Committee as a follow up audit of the City Auditor's prior audit of Outstanding Code Enforcement Liens.

The City Auditor appreciates the cooperation of Development Services management and staff on the completion of this audit.

Abandoned Properties Audit

Mayor and Council,

I am pleased to present this audit of Abandoned Properties.

Audit Objectives

The objectives of the audit were to (1) determine the inventory of abandoned tax-delinquent properties with outstanding Code Enforcement liens; (2) determine the financial impact of these properties in uncollected taxes and unpaid liens; and (3) assess the feasibility and benefits of implementing a land bank-type program to acquire and sell or repurpose abandoned properties. The scope of the audit focused on the City's current inventory of tax-delinquent properties with outstanding liens.

Audit Results

The City currently maintains at least 37 tax-delinquent abandoned properties, with outstanding Code Enforcement liens, some dating back more than two decades. The abandoned properties, most of which fall within the boundaries of the North Killeen Revitalization Area impact the City on several levels. The tax-delinquent properties represent lost property tax revenue of about \$58,000, collectively, and unreimbursed maintenance costs for Code Enforcement abatement of over \$200,000. Further, the abandoned properties and accompanying blight contribute to lower property values for adjacent properties, which averaged \$109,000, as compared to the citywide average home value of \$246,000. Finally, the abandoned properties contribute to a diminished quality of life for residents living in the blight-stricken areas. Over the past half century, local governments across the country have successfully used land bank-type programs to acquire and sell or repurpose their respective inventories of abandoned properties to address neighborhood blight. While the City's inventory of abandoned properties is comparatively small, it nonetheless could benefit from such a program by increasing its tax revenue, reducing its maintenance costs, and boosting its revitalization efforts.

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INTRODUCTION

The City Auditor conducted this performance audit of Abandoned Properties pursuant to Article III, Chapter 40 of the City Charter, as Amended May 11, 2013, and in accordance with the City Auditor's Bi-Annual Audit Plan, approved by the Audit Committee on July 18, 2023. The purpose of the audit was to follow up on select areas of the City Auditor's prior audit of Outstanding Code Enforcement Liens, issued August 2021.

The objectives of the audit were to (1) determine the inventory of abandoned tax-delinquent properties with outstanding Code Enforcement liens; (2) determine the financial impact of these properties in uncollected taxes and unpaid liens; and (3) assess the feasibility and benefits of implementing a land bank-type program to acquire and sell or repurpose abandoned properties.

The scope of the audit focused on the City's current inventory of tax-delinquent properties with outstanding Code Enforcement liens.

Background

In FY 2021, the City Auditor conducted an audit of the City's Outstanding Code Enforcement Liens. The report touched briefly on the issue of abandoned, tax-delinquent properties with long outstanding Code Enforcement liens. The properties, many of which were located in the City's designated North Killeen Revitalization Area, ranged in size from 3,000 to 50,000 square feet and comprised about 14 acres, collectively. The report recommended management explore feasible options for acquiring the abandoned properties and returning them to the private sector as income-producing properties or retaining and repurposing them for public use.

Land Bank

The issue of abandoned properties, particularly in urban areas is neither new, nor unique to Killeen. To address the issue, some local governments have turned to what are colloquially referred to as "land banks," as a possible solution.

The concept of the land bank dates back over a half-century to the early 1970s, arising from local governments' need to address their growing inventories of abandoned, tax-burdened properties.

The first land bank program was established in St. Louis, Missouri in 1971, followed by Cleveland, Ohio in 1976. The basic purpose of a land bank program is to provide local governments a mechanism to acquire abandoned properties stuck in legal limbo and turn those properties into productive assets, either as income-producing residential or commercial properties or as community assets for use as parks, green space, etc.

As of 2023, there were over 300 land bank programs in existence across the country at the local, regional, and state level. Depending on the region of the country and economic conditions, the size and complexity of land bank programs can differ significantly. Ohio's Cuyahoga Land Bank, for example, was established in 2009 at the onset of the Great Recession. The program has acquired thousands of properties since its inception and recovered millions in penalties and interest on delinquent taxes collected through tax sales that require buyers to rehabilitate properties in accordance with standards set by the land bank program. At the other end of the spectrum were the land bank programs of Little Rock, Arkansas and Blue Springs, Missouri, both of which had about 50 properties in inventory.



The State of Texas, in 2007 authorized municipal governments to establish land bank programs under the Urban Land Bank Program Act. It should be noted that not all land bank type programs are governed by the State statute, which defines land banks as entities established to "acquire, hold, and sell unimproved property." The City of Waco, for example, has an in-house, City-run program for managing its abandoned properties, both improved and unimproved, through a memorandum of understanding (MOU) with the County's taxing authorities. While the program is similar in function to a land bank, it is not considered a land bank under the Urban Land Bank Program Act and is therefore not governed by the statute. The Waco model will be discussed further in the body of the report.

Statement of Compliance with Audit Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Those standards also require that we, as internal auditors, meet the criteria for independence. We believe that we met those independence standards, and that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATIONS

The City currently maintains at least 37 tax-delinquent abandoned properties with outstanding Code Enforcement Liens, many of them in the North Killeen Revitalization Area.

The City currently maintains at least 37 tax-delinquent abandoned properties, according to Code Enforcement staff. All have outstanding Code Enforcement liens, some dating back more than two decades. In addition, the City Auditor had identified more than a dozen at-risk properties that were one or more years delinquent in property taxes. The abandoned properties, most of which are in the City's North Killeen Revitalization Area, impact the City on several levels. The tax-delinquent properties represent lost property tax revenue of about \$58,000, collectively, and unreimbursed costs for Code Enforcement abatement of over \$200,000. Further, the abandoned properties and accompanying blight contribute to lower property values for adjacent properties, which averaged \$109,000, as compared to the citywide average home value of \$246,000. Finally, the abandoned properties contribute to a diminished quality of life for residents living in the blight-stricken areas. Over the past half century, local governments across the country have successfully used land bank-type programs to acquire and sell or repurpose their respective inventories of abandoned properties to address neighborhood blight. While the City's inventory of abandoned properties is comparatively small, it nonetheless could benefit from such a program by increasing its tax revenue, reducing its maintenance costs and boosting its revitalization efforts.

Abandoned Properties - By the Numbers

As of October 2023, Code Enforcement staff had identified at least 37 tax-delinquent abandoned properties with outstanding Code Enforcement liens. The properties range in size from about 3,000 square feet, or less than one-tenth of an acre to more than 50,000, or slightly more than an acre. In addition, the City Auditor identified at least a dozen at-risk properties that were one or more years delinquent in property taxes.

The reasons for abandonment vary, according to Code Enforcement staff. In some cases, the owner(s) have passed on without heirs, or without heirs interested in the property. Other owners have simply walked away from their tax-delinquent, lien-encumbered properties. The abandoned properties can generally be divided into three categories: (1) vacant lots; (2) lots with boarded-up structures; and (3) orphaned properties.



Source: Audit Intern

The overwhelming majority of these abandoned properties are located in North Killeen, many of them falling within the boundaries of the North Killeen Revitalization Area.



Source: Information Technology, GIS

The City's 2015 North Killeen Revitalization Program defined the boundaries of the North Killeen Revitalization Area as the area bordered by Fort Cavazos on the north and West Hallmark and Terrace Drive on the south, as shown in the map below.



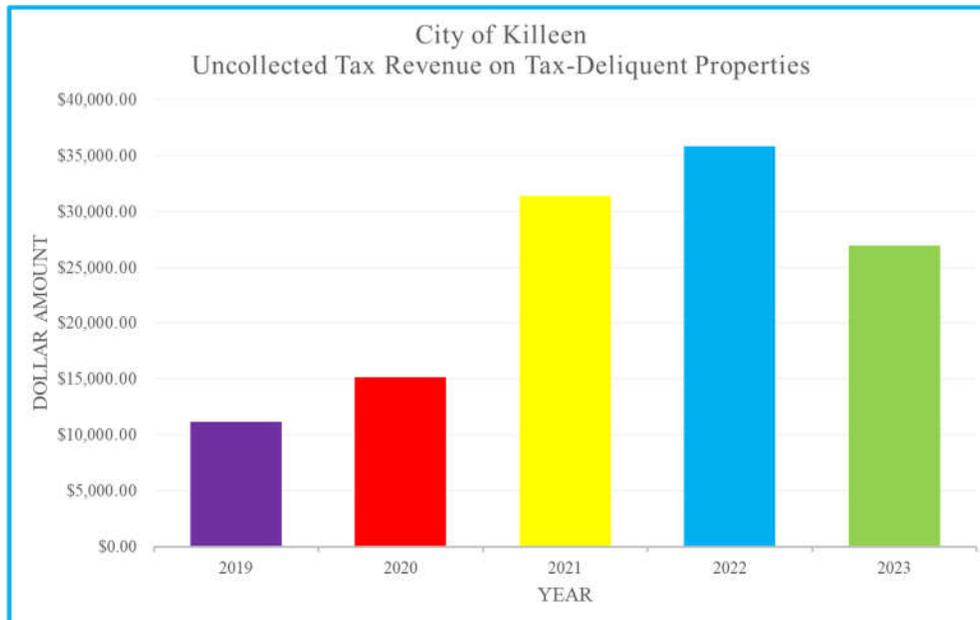
Source: Development Services

Abandoned properties impact the City on several levels. They are a financial burden, costing the City thousands annually in uncollected property taxes. Further, the City incurs thousands more in unreimbursed costs for abating Code Enforcement violations on these properties. Finally, there is a socio-economic impact on residents living in blight-stricken areas.

Uncollected Property Tax Revenue

According to the Bell County Tax Appraisal District, delinquent property taxes owed on the 37 abandoned properties identified by Code Enforcement totaled \$193,325. Years in delinquency for several properties went back more than a decade.

Tax delinquencies over the past five years rose steadily, spiking at nearly \$36,000 in 2022 before falling in 2023 to about \$27,000. It should be noted that the City receives only a portion of the property tax revenue collected by the County, about 30 percent on average over the past five years, which would amount to about \$58,000 for the 37 properties.



Source: Bell County Tax Appraisal District

Outstanding Code Enforcement Liens

Once a property is abandoned, the burden to maintain that property generally falls on City staff. Code Enforcement Officers will continue to cite code violations for high grass or other violations and file liens for unreimbursed abatement costs. When and if the properties are foreclosed upon by the County and auctioned off at a tax sale, the City may recoup some or all of its costs if sufficient proceeds remain after delinquent property taxes have been paid.

As of October 2023, the City had over 700 Code Enforcement liens outstanding related to the 37 abandoned properties, some going back decades. In total the outstanding liens represent \$237,000 in out-of-pocket costs for abatement activities undertaken by the City. The overwhelming majority of abatement actions were related to code violations for high weeds and grass, followed by care of premises, unsafe structures, and dangerous buildings (See Glossary of Terms).

The number of outstanding liens filed against individual properties ranged from 2 to 67. Total out-of-pocket abatement costs per individual properties ranged from a low of \$777 to a high of \$30,694. The oldest lien on record dated back more than three decades to 1992. The aging of outstanding liens by property and by decade are shown below.



Source: Code Enforcement

Quality of Life in Blighted Neighborhoods

Beyond the financial impact of abandoned properties to the City is the socio-economic impact on the quality of life for residents surrounded by abandoned buildings or vacant lots filled with high weeds, trash, and debris.

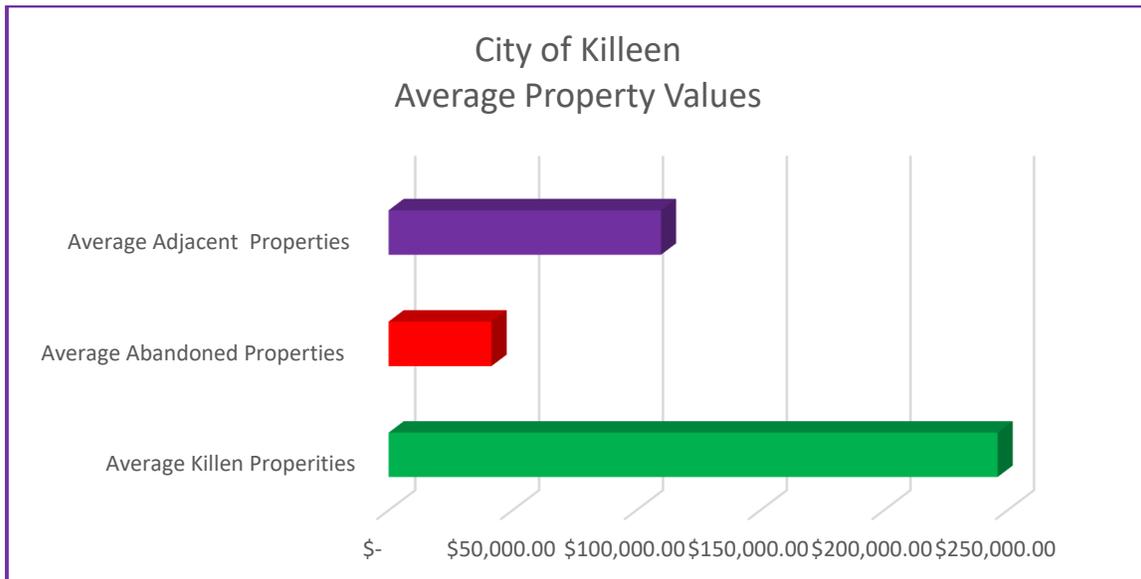


Source: City Auditor

While Code Enforcement does cite, and if necessary, abate code violations for the abandoned properties, they lack the resources to provide a constant presence. As such, the lots will inevitably return to their unkept state. Indeed, many of the previously abated properties we toured while conducting fieldwork on the audit had high-weeds and/or trash and debris on the premises.

Public safety was also an issue, as there were a number of crimes associated with the abandoned properties, according to data obtained from the Killeen Police Department. These included assault with bodily injury, vehicle theft, criminal trespass, and prohibited weapons.

We further noted that the average home value of properties adjacent to abandoned properties was less than half that of the citywide average for home values.



Source: Bell County Tax Appraisal District and Ownwell.com

As of December 2023, the overall average home value in Killeen was \$246,000, while the average home value for homes adjacent to abandoned properties was \$109,000. Declining home values leave homeowners with diminished equity, thereby limiting their ability to leverage their equity for home improvements or life events.

Further, there is a growing body of evidence in the sociological, psychological, and public health fields on the psychological impact of living in blighted neighborhoods. Specifically, a resident’s perceptions and internalization of neighborhood blight and decay can have a negative impact on their psychological well-being, on their self-

esteem, which, in turn can ultimately affect a resident's physical well-being.

Abandoned Properties - Select Profiles

Currently, the City relies on the County to initiate foreclosure on the City's tax delinquent properties, abandoned or otherwise. The Bell County Tax Appraisal District holds 4 or 5 tax sales during the year, which includes properties from all of Bell County, including Killeen.

The City's reliance on the County to address its tax-delinquent, abandoned properties works for the most part. Over the past three years, Bell County has foreclosed on and sold at auction 31 tax delinquent Killeen properties, about half of which were abandoned properties.

Problems arise, however, when the County's priorities do not align with the City's needs. The County prioritizes its resources, understandably on properties that are likely to generate the proceeds necessary to pay off property taxes accrued. While some of the City's current inventory of abandoned properties may eventually be foreclosed upon by the County, others most likely will not and as result will remain, in effect, permanent wards of the City.

Ivory Lane

For example, the largest parcel of land in the City's inventory of abandoned properties is a drainage tract for a South Killeen subdivision in the 4th District.



Source: City Auditor

The 50,000 square foot drainage tract is not buildable, and it is not clear how it ended up in private hands, as these types of properties

were typically retained and maintained by the City in the past. The City's current practice, under Chapter 26 of the Code of Ordinances is to require that developers retain subdivision drainage tracts such as these and fund their maintenance through a homeowners association fee (HOA).

The Bell County Tax Appraisal District has assessed the parcel's value at \$3,000. It has \$164 in delinquent property taxes, as well as \$2,623 in outstanding mowing liens. Since the land cannot be developed and the delinquent taxes are minimal, it is not a likely candidate for foreclosure.

Given the dearth of park space in the 4th District and given that the City is already paying to maintain the property, one possible option would be to acquire the property through a land bank-type program and convert it to a multipurpose field for neighborhood residents.

Dunn Circle

At the other end of the spectrum is what appears to be a very marketable corner lot on Dunn Circle in the North Killeen Revitalization Zone. The 13,000 square foot residential lot was previously developed but is now vacant. With over \$4,000 in delinquent taxes dating back to 2012 and nearly \$31,000 in outstanding Code Enforcement liens dating back more than two decades, the property appears to have slipped through the cracks of the traditional foreclosure process.

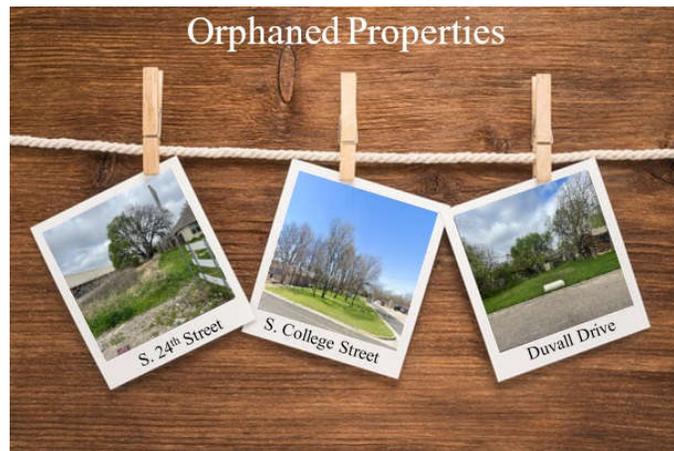


Source: City Auditor

Code Enforcement staff have brought this property, as well as other tax delinquent properties to County officials' attention on a regular

basis. While the County has initiated foreclosure on some of the properties, the Dunn Circle lot continues to linger in limbo in its abandoned status. Possible options include acquiring the property through a land bank-type program and putting it out for bid or negotiating a direct sale to a qualified builder for affordable housing.

Other properties that are not likely candidates for a County tax sale include those we have deemed “orphaned” properties for the purposes of this report. Each has their own story, but all have in common the fact that they are not conventionally marketable properties.



Source: Audit Intern

South 24th Street

The South 24th Street property, for example sits at the dead end of South 24th Street, which butts up against the backside of the Midtown Mall on Veterans Memorial Blvd.



Source: City Auditor

The 4,000 square foot lot was originally part of the Midtown Mall project, which accounts for its commercial zoning. However, it was not included in the final plat and now sits with its legacy commercial zoning at the end of a residential street. The property has approximately \$3,000 in unpaid property taxes with another \$3,000 in outstanding Code Enforcement liens dating back to 2010. At 27 feet across, the property appears too narrow for a housing unit. Possible options for returning it to the tax rolls include acquiring the property and negotiating a direct sale to a neighboring property owner.

Duvall Street

The Duvall Street property sits in the middle of a residential block. It has unpaid property taxes going back more than a decade and just over \$1,000 in outstanding Code Enforcement liens. The small, non-conforming, triangle-shaped lot with an assessed value of \$650 appears to have limited development marketability and is therefore not a likely candidate for a County-initiated foreclosure.



Source: City Auditor

Possible options include acquiring the property and negotiating a direct sale to one or more neighboring property owners.

Zephyr Road

In the middle of a block on Zephyr Road sits what is essentially a 10-foot-wide alley between two subdivisions built about 14 years apart.



Source: City Auditor

While it appears the alley was intended to be part of the first subdivision, developed in 1958, it is now part of neither. Development Services staff believe it could have been the result of a surveying error.

Although the property was purchased in 2023, it is still tax delinquent going back more than a decade, with outstanding Code Enforcement liens totaling \$2,600. Possible options include acquiring the property and creating a pedestrian walkway and bike path, connecting Zephyr Road and John Road.

South College Street

Lastly, on South College Street, just a block from City Hall sits a long-abandoned vacant corner lot.



Source: Google Maps

With nearly \$18,000 in outstanding Code Enforcement liens dating back to the mid-1990s, it is one of the oldest abandoned properties that the City has become caretaker to.

Relatively small at just over 4,000 square feet, the commercially zoned lot is surrounded by businesses, including two auto repair shops. Possible options include acquiring the property to negotiate a direct sale to one of the neighboring businesses or repurposing it for public use as a pocket park or other community space.

Going Forward - The Waco Model

As previously mentioned, local governments over the past half century have turned to land bank programs as a tool for addressing abandoned properties. While Killeen's inventory of properties is small relative to most cities with land bank programs, it is nonetheless an intractable problem that will likely not be resolved without proactive measures taken.

Of the various land bank type programs in place across the country, Waco's "Parcels-in-Trust" program appears to provide the best model for Killeen going forward. In fact, City staff had visited Waco several years ago while conducting research on the potential development of a land bank program.

Memorandum of Understanding

The centerpiece of Waco's program is its memorandum of understanding (MOU) with McLennan County's other taxing entities, specifically, McLennan County and the Waco Independent School District. The purpose of the MOU is to set forth the agreement of the taxing entities to grant the City of Waco title to foreclosed upon properties if a sufficient bid is not received at the County-initiated tax sale.

The MOU further stipulates the following agreed upon outcomes, as follows: (1) Sale of property to one of the taxing entities for governmental use; (2) Sale of property through a Targeted Housing Development Program; (3) Sale of property through an Affordable Housing Development Program; (4) Sale of property under Direct Sale, Bid Sale or County Tax-resale programs.

It should be noted that while the Waco program functions in a manner similar to that of a land bank, it does not technically fit the description of a land bank, as outlined in Title 12, Chapter 379E of the Texas Local Government Code. As such, it is not governed by State statute.

Unlike most urban land banks, which require that the local government establish a board or non-profit to manage the program, Waco's "Parcels-in-Trust" program is an in-house program run by city staff. Waco employs a full-time property manager, who is also a real estate broker to manage its program, which has acquired and sold over 800 properties since its inception.

While Killeen's comparatively modest inventory might not justify the need for a fully staffed program, the City could nonetheless benefit from adopting Waco's in-house approach. This would allow management to develop the policy and legal framework necessary to acquire properties, most notably an intergovernmental MOU with Bell County's other taxing entities. Once the framework is in place, the City could then address its inventory of abandoned properties on an as needed basis, as resources permit.

Recommendations:

The City Auditor Recommends that the Executive Director of Development Services:

1. Develop and implement the policy and legal framework necessary to create a land bank-type program, to include establishing an MOU with Bell County's other taxing entities.
2. Continue to work with Bell County officials to identify and initiate foreclosure on tax-delinquent properties with outstanding Code Enforcement liens.

VIEWS OF RESPONSIBLE OFFICIALS

We provided copies of the draft report to the Executive Director of Development Services, the Assistant Director of Development Services, and the Director of Code Enforcement for review and comment. They agreed with the findings and recommendations, and their input during the audit is reflected throughout this report.

GLOSSARY OF TERMS

Term	Definition
Abandoned	To cease the care or maintenance thereof, or to intentionally leave behind.
Care of Premises Violation	The open storage of abandoned vehicles; abandoned appliances; building materials, building rubbish, tires or other products or supplies; or dead trees, limbs, brush or weeds.
High Weeds and Grass Violation	The accumulation of high weeds, grass, or brush in excess of the standards provided in Chapter 18, Section 21 of the Code of Ordinances.
Dangerous Building Violation	A building could be considered dangerous if (a) unoccupied and unsecured from unauthorized entry regardless of structural condition; or (b) a danger to the public even though secured from entry; or if the building is inadequately secured; or (c) the building is dilapidated, substandard or unfit for human habitation and a hazard to public health.
Land Bank	A body of land held by a public or private organization for future development or disposal.
Memorandum of Understanding (MOU)	A Memorandum of Understanding is a written agreement between organizations, in this case local governments, signed by authorized representatives and signifying an intent to be legally bound.
Tax Sale	The sale of real estate property that results when a taxpayer reaches a certain point of delinquency in property taxes owed.
Trash and Debris Violation	Any garbage or rubbish as defined in section Chapter 18, Section 24-26 of the Code of Ordinances, which creates a nuisance or potential danger to public health, safety, and welfare if not deposited in an approved receptacle.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

The objectives of the audit were to (1) determine the inventory of abandoned tax-delinquent properties with outstanding Code Enforcement liens; (2) determine the financial impact of these properties in uncollected taxes and unpaid liens; and (3) assess the feasibility and benefits of implementing a land bank-type program to acquire and sell or repurpose abandoned properties.

Scope and Methodology

The scope of the audit focused on the City's current inventory of tax delinquent properties with outstanding Code Enforcement liens.

To address the audit objectives, the City Auditor:

- ▶ Held discussions with key personnel, including the Executive Director of Development Services, the Assistant Director of Development Services, the Code Enforcement Lien Specialist, the City Attorney, the City of Waco Property Manager.
- ▶ Obtained and analyzed inventory of tax delinquent abandoned properties with outstanding Code Enforcement liens as of October 2023.
- ▶ Verified accuracy of delinquent taxes with Bell County Tax Appraisal District and obtained list of all tax delinquent properties for tax year 2023.
- ▶ Physically verified and photographed select abandoned properties.
- ▶ Discussed City of Waco's "Parcels-in-Trust" program with Waco Property Manager.
- ▶ Obtained from the Waco Property Manager documents pertinent to program, including the Memorandum of Understanding with McLennan County and Waco Independent School District.

Statement of Compliance with Audit Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Those standards also require that we, as internal auditors, meet the criteria for independence. We believe that we met those independence standards, and that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.