City Council Office of Financial Analysis

Revenue Proposal: *Contract Platform for Vacant Property Registration*

Proposal Overview

The proposal suggests the City of Chicago issue a contract to a third-party vendor to maintain a vacant and foreclosed property registration platform to track and connect with relevant parties to resolve challenges related to unoccupied properties. Through an online platform, City officials would have streamlined access to property owners or managers to facilitate necessary enforcement or City action related to the property. This proposal recommends contracting with a private company to manage a vacant property registration platform as well as provide free property management services as part of the City contract deal.

The proposal focuses on the Hera Property Registry system[1]. Hera's program includes data gathering, information storage, reporting, and the collection and remittance of registration fees and fines. It also features a searchable online database of registrable properties. The company claims its services "effectively fights blight while lowering expenses and raising income." If the City were to contract such services, the company would use a revenue-sharing mechanism to run its operations. In the proposal, the company would charge registration fees to property owners, allowing the City to earn a percentage of paid fees.

Context

Chicago's Department of Buildings currently maintains a similar platform, the Vacant Building Registration platform for residential and non-residential buildings. The City does not provide property management services but it does oversee programs to address blighted property: The City's Department of Housing administers a multi-department effort, the Troubled Building Initiative, to acquire and improve vacant structures and turn them into housing. The City also acquires vacant land through foreclosure of demolition liens, the Cook County tax scavenger sale, property condemnation, and sometimes direct purchase as part of its City-Owned Land Inventory.

The City's platform allows members of the public to obtain and track information about registered vacant buildings or storefronts and the owner of the vacant building can register and pay fees. The City uses the platform to oversee and address its vacant building supply. The Department of Buildings has various criteria for a property to be deemed vacant. The City considers residential units with less than 10 units and single-family homes vacant if there is no occupancy for the next six months; buildings with 10 or more units are considered as vacant if 90% of units are unoccupied. Storefronts or construction sites are considered vacant if all lawful business operations or permitted construction sites have ceased.

The City requires payment of a registration fee – between $30 - $250 -- by the property owner that must be renewed every six months of continued vacancy. For a single building owner, the registration fee for voluntary and timely registration is $30 -- $100 if the owner has been previously cited for being in violation of vacant building requirements -- and the renewal fee is $30. For owners of vacant storefronts, registration is $100 – or $250 for previous violators – and $100 every six months for renewal. Foreclosures do not absolve the building owner from qualifying as a vacant building owner. In March 2023, the Vacant Building Registry had 1,516 properties flagged as vacant; however, the database of available platforms is not publicly accessible without an account.

[1] The Hera Property Registry has registration programs in 21 Illinois municipalities; the company operates primary in Illinois, Pennsylvania, New Jersey, and Florida, though has certain contracts in other mid-west, east coat and California municipalities.

Revenue Estimate

The preliminary revenue estimate is limited due to available data. This estimate is a simplified example meant to compare the City's current share of fees in relation to various revenue-share options if the platform is contracted to a private company.

First, the estimate is restricted to residential vacancies and assumes owner compliance with past vacant-property ownership fees. Further, the estimate uses March 2023 vacancies from the Vacant Building Registry; at the time of this analysis in 2025, vacancies are likely higher. An alternative source of reliable vacancy data is broken down by housing unit – which is likely far higher than vacant buildings (i.e., a single, compliant vacant building owner paying $60 annually in year two or more of vacancy may have 12 vacant housing units in the one building the fees are covering.) To provide a conservative estimate, and a simplified number for the purpose of this revenue-sharing example, COFA will ***assume 2,000 vacant residential properties***. Further, this estimate assumes a building vacancy of over one year, making ***annual payments to the City $60*** ($30 renewal fee every six months). This estimate does not include potential fees related to violations of City vacancy and foreclosure policies that are determined through use of the platform. Although the revenue-sharing specifics with Hera Property were not made public in this proposal, this analysis assumes the City would gain revenue from registration fees without incurring any expenses related to platform maintenance and operations.

Table 1. *Annual revenue, residential vacancy platform registration fees, by revenue-sharing scenarios*

Annual fee	*Vacancies*	*Total Revenue*	*Allocation for City*	*Net City Revenue*
$60	2,000	$120,000	25%	$30,000
$60	2,000	$120,000	50%	$60,000
$60	2,000	$120,000	60%	$72,000
$60	2,000	$120,000	100% (current)	$120,000*

*The current revenue for the City receiving 100% of property registration does not include departmental costs related to maintenance, operations, or enforcement.

Implementation & Stakeholders

While Hera is one example of the proposed platform services, the City will need to issue a request for proposals and hold a competitive bidding process to determine if and to whom a contract will be issues for property management platform and management.

If the City does decide to contract out a registration platform, there will be departmental costs to switch from a City-operated platform to a private platform. While the City may decrease departmental spending in one category, there will be costs associated with the contract agreement, revision of existing processes and administrative mechanisms, and related personnel.

Responsible departments

- ***Department of Buildings:*** primary oversight authority; issue contract requests, determine winning bid, maintain City input and monitoring of platform; enforcement

Discussion

While this analysis is quite limited in terms of an estimate of revenue generated from registration and renewal fees and does not account for existing costs for maintaining a City-owned platform, it depicts the impact of various revenue-sharing deals. The City must consider the benefits of forgoing City ownership and maintenance of its own platform and continued oversight and management of vacant buildings around Chicago.

Proponents

Arguments in favor of contracting out a vacancy platform would align with typical privatization proponents, contending the City may generate revenue at a lower operational cost with improved service delivery. Included in

Hera Property's services, the City would also forgo City oversight and maintenance of foreclosed properties, allaying the City from certain additional departmental expenses. Certain City officials may be in favor of this proposal for the potential operations savings it may generate. Private vacant property registration platforms will also be in favor of opportunities to contract with the City.

Opponents

Those against issuing a contract for registration, monitoring, and collection of fees and fines would argue the City already operates such a platform and should maintain in-house services. There may also be concerns that a private group would not make property data available to the public or maintain properties with the public in mind. Those with a primary interest in increasing revenue rather than identifying potential efficiencies in contracting out the City's existing platform may also argue alternative revenue-generating scenarios such as raising registration and renewal fees.