

DETROIT'S PROPERTY TAX POLICIES AND PRACTICES:

An Opportunity for Reform

This brief calls attention to the importance of Detroit's property tax policies and practices in the city's overall revitalization efforts, and offers some recommended actions, and longer term considerations for improving this system.

Why Detroit's Property Tax Model and Collection Processes Matter to Detroit's Neighborhoods and Revitalization

In order for Detroit to rebound from decades of economic distress and blight, stakeholders in Detroit must take a close and critical look at the systems that contribute to vacancy and serve as barriers to attracting new residents. Detroit's property tax model and processes are a core component of the infrastructure needed to support revitalization.

Property taxes serve as a vital source of revenue for core city services and as Detroit emerges from bankruptcy and works to improve the quality of services provided to residents and businesses, it is imperative that Detroit can effectively collect property taxes. Equally important as the effective collection of taxes, the assessment of taxes must be equitable and fair to ensure that property taxes are not unduly contributing to increased vacancy rates from foreclosure¹ or preventing the attraction of new residents and reoccupancy of properties.

Detroit's current property tax policies and practices must be improved in order to ensure that they are effective and equitable. While the City government plays a central role in Detroit's property tax reform, it cannot implement these changes alone. The City, Detroit's rich network of nonprofits, Wayne County, and State policymakers will

all be necessary to make this important change possible. These stakeholders should collectively strive for a property tax system in Detroit that:

1. Is fair, in that property owners pay a reasonable amount that bears a reasonable relationship to the market value of their properties;
2. Provides safeguards to prevent or minimize displacement as a result of financial hardship;
3. Maximizes benefits, such as exemptions or adjustments, to qualifying households, while carefully monitoring to prevent improper use of such benefits;
4. Provides a stable, sustainable revenue stream to the city of Detroit and other taxing jurisdictions; and
5. Does not handicap Detroit's ability to compete for residents and businesses with surrounding communities in its metropolitan area.

IT IS CRITICAL THAT THE CITY OF DETROIT AND OTHER STAKEHOLDERS TAKE IMMEDIATE ACTION TO IMPROVE PROPERTY TAX POLICIES AND PRACTICES IF WE ARE TO (1) RETAIN CURRENT RESIDENTS AND (2) ATTRACT NEW RESIDENTS TO THE CITY.



The City currently faces two key challenges

- 1. LOW COLLECTION RATES.** Only approximately 72 percent of taxpayers are paying their property taxes in a timely manner,² limiting an important revenue source to cover the costs of critical city services for residents. While this is up from 67 percent in 2014, the still-low collection rate is a result of both property owners unwilling to pay and property owners unable to pay. This low collection rate also means a higher number of tax delinquent and foreclosed properties, which put additional strain on City services as many go unmaintained, fall into disrepair and lead to future vacancies.
- 2. HIGH TAX BILLS.** These high taxpayer costs lead to three undesirable outcomes. They: (1) prevent those with financial hardship from paying, (2) cause current homeowners with the ability to pay to weigh homeownership options in other cities with lower taxes and better quality of services, and (3) discourage prospective homebuyers from purchasing a home in Detroit when weighing more competitive options³ elsewhere. Detroit’s millage rate (the amount per \$1,000 of assessed value used to calculate taxes on a property) in 2014 was 86.8.⁴ A reasonable rate, that would be comparable to the rates of similar cities in the U.S., is likely to fall between 45 and 55 mills. This means Detroiters pay a tax rate approximately twice what is considered reasonable.⁵ Looking across the state, Detroiters pay more than double the statewide average of 40.8.⁶ Inaccurate assessments across the city have also compounded the problem by taxing homeowners based on their homes’ values prior to the housing market collapse and economic downturn. In most cases, these assessed values are higher than the true, present-day values of their homes. This in turn has also significantly diminished property owners’ willingness to pay, further contributing to the problem of low collection rates.

What the City Can Do to Increase Compliance, Encourage New Residents to Move In, and Stabilize Neighborhoods

Mayor Duggan’s administration has prioritized a citywide reassessment process to bring assessed values in line with the actual values of homes today, a critical step in bringing tax relief to homeowners who have found themselves overtaxed after home values fell drastically citywide. However, even with these adjustments, tax bills will remain too high for two reasons. First, they will remain too high due to the high millage rate. Table 1 below shows how the property taxes compare for a home assessed at \$100,000 in seven different Michigan cities. Second, tax bills will remain too high due to the limited use of tax relief options Detroiters may currently have available to them, such as:

- Principal Resident Exemption (“PRE” or “Homestead Exemption”)
- Renaissance Zone
- Neighborhood Enterprise Zone – Homestead (“NEZ-H”)
- Neighborhood Enterprise Zone – New and Rehabilitated Facilities (“NEZ-NR”)
- Poverty Exemption
- Homestead Property Tax Credit (income tax credit for income qualifying homeowners and renters)
- Homestead Property Tax Credit (income tax credit for targeted groups of homeowners, such as veterans and military, seniors, disabled, and blind)
- Property Assessment Appeals Process

Table 1: Comparing Property Taxes for \$100,000 Home in Seven Michigan Cities⁷

City	2014 Total Mills (excluding PRE)	Taxes	Difference Compared to Detroit
Detroit	86.8	\$4,340	
Grand Rapids	50.3	\$2,515	-42%
Dearborn	72.8	\$3,640	-16%
Grosse Pointe	59.2	\$2,960	-32%
Hamtramck	74.1	\$3,705	-15%
Royal Oak	57.8	\$2,890	-33%
Ferndale	72.9	\$3,645	-16%

It is critical that the City of Detroit and other stakeholders take immediate action to improve property tax policies and practices if we are to (1) retain current residents and (2) attract new residents to the city.

In this brief we offer some initial suggestions for short- and medium-term strategies to achieve these two critical goals based on Center for Community Progress' ongoing research and experience working in other communities across the country. The recommendations are broken into two primary categories: (1) improvements that can be made now, and (2) actions that go beyond the City's immediate powers, and warrant further examination and consideration by local and state policymakers.

IMPROVEMENTS THAT THE CITY CAN MAKE NOW

The recommendations below represent some, but not all, possible actions that **the City, along with local nonprofit and philanthropic organizations, can take now** to help provide immediate property tax relief to current residents, attract new residents, and aim to recover lost tax revenue. This should not be viewed as an exhaustive set of recommendations.

CHALLENGE 1: Not enough Detroiters know about the property tax relief options available to them.⁸

Raise overall awareness of existing tax relief options.

- 1. Host a "one-stop-shop" webpage.** Prominently post and clearly organize on a single City webpage: all exemption programs, the property assessment appeal process, and the eligibility criteria, application forms, and deadlines for each. Much of this information is available by downloading and reading through multiple individual forms and digging in different areas of the site, but is not currently organized in a single, user-friendly webpage for residents. Information should also be translated, at a minimum, into Spanish and Arabic to help reach more Detroit residents.
- 2. Reach out to residents.** Many residents, particularly the elderly and low-income, do not have access to a computer to learn about tax relief options online, or may need additional assistance navigating the various programs. Summaries and eligibility criteria for all exemption options⁹ should be developed

in an easy-to-understand document to be shared across all Detroit neighborhoods and mailed out with important City notices, or annual assessments. These documents should be inclusive of information about how to handle common PRE designation issues and questions, such as properties with land contracts, since PRE designation is commonly a precondition for other relief programs. Ongoing and well-coordinated outreach should be performed in partnership with the Department of Neighborhoods, City Councilmembers, Block Clubs, local libraries, places of worship, and key local nonprofits to increase awareness.

- 3. Inform homebuyers.** Every prospective homeowner looking to buy in the Detroit area should be fully informed of the tax incentives available. Realtors and the Detroit Land Bank Authority serve as important sources of this information, as both are important first points of contact for many prospective homeowners looking to buy in Detroit. Summaries and eligibility criteria for all exemption options could be developed in an easy-to-understand document and shared with local realtors, the Michigan Association of Realtors, the Wayne County Treasurer at tax auction, and the Detroit Land Bank Authority to extend to homebuyers.
 - 4. Host "Tax Relief Fairs."** The City, alongside a coalition of nonprofit and philanthropic organizations, could hold highly publicized events for homeowners to not only learn about their options, but also submit applications for the Principal Resident Exemption (PRE), poverty exemption, and other tax relief options on site. Several organizations, like the United Community Housing Coalition, are already training volunteers and leading extremely valuable foreclosure prevention outreach efforts across the city. These types of efforts should be expanded through additional financial support, coordinated across organizations, fully backed by the City, and promoted through an aggressive marketing campaign. The focus should also extend beyond emergency foreclosure prevention, to tax delinquency prevention and general tax information to help homeowners better understand the tax relief options that are available and avoid entering the foreclosure process entirely.
- These fairs could be modeled after the Detroit Land Bank Authority's successful district-by-district Side Lot Fairs to provide residents with as much information as possible on lowering their tax burden to prevent future tax delinquency and abandonment. Other entities and City departments with programs that offer utility or

other housing related financial assistance, such as the Detroit 0% Interest Home Repair Loan Program and the Water Residential Assistance Program could also be invited to share information with homeowners and help to reduce their overall financial burden.

CHALLENGE 2: It is too confusing for current or potential homeowners to determine if they are eligible for a particular tax relief program.

Make it easy for a resident to determine if they are eligible for tax relief.

1. Develop a tax relief eligibility questionnaire. For a resident or prospective resident to determine which property tax relief programs they may be eligible for, they must be aware of all of the available programs and find and decipher the eligibility criteria and forms online. This is a major barrier for many current and prospective residents. To reduce this barrier, the City could create a simple, interactive online questionnaire with basic questions about location, age, employment, and income that will point a resident, or prospective resident, to a list of tax relief programs for which they may be eligible. Each tax relief option could be paired with links to the relevant application forms as well as local nonprofit organizations that may be able to assist them with the application. For residents without access to a computer, local libraries and nonprofits could serve as a resource for online questionnaires and applications, in addition to the distribution of a printed guide offering comprehensive information on the tax relief options.

2. Allow residents and homebuyers to search by address. The City could offer a search-by-address function on its website that allows a user to determine what exemptions and credits are currently being applied for the property owner, and which location-based exemptions (i.e. NEZ) are available. While the City works to improve internal data systems and better track important property data, this information should be made available.

A number of communities in Michigan and across the country offer a free property lookup function on their websites to locate basic property data, tax exemption status and history, and assessment appeals status, and history on a property. Users can search by

address, neighborhood, PIN, and property class. The City should provide a similar lookup feature that also identifies eligible location-based exemptions.

3. Publish (interactive) maps for geographically based tax relief. In addition to a search-by-address feature, there should also be interactive or, at a minimum, static maps created and posted prominently on the City's website that allow current and prospective property owners to easily search and view which exemptions are eligible in which areas of the city. This is a particularly important feature for prospective owners that may not have a single address to search on.

Other cities in Michigan and, previously, the City of Detroit, have posted a map of eligible Neighborhood Enterprise Zones across the city. (See recommendations later in this brief for increasing the effectiveness of geographically based tax relief, like the NEZ.)

CHALLENGE 3: After applying for a tax relief program, residents often don't know where their application is in the process or when they will find out if the application was accepted. In addition, it can take a long time to get through multiple tax relief application processes, delaying when a resident receives tax relief.¹⁰

Reduce the amount of time it takes for a resident to apply for and receive notice of tax relief.

1. Conduct a process efficiency analysis. In order to clarify the steps in the application and review process as well as identify areas for efficiency improvement, process mapping should be conducted for all tax relief application and review processes. Beyond internal improvements, the processes should also be evaluated for improvements from a taxpayer's perspective to make the application processes as efficient as possible. The goal should be to reduce the amount of time it takes for an application to be submitted, reviewed, and a judgment determined. Further, the analysis should identify opportunities to shorten the process for renewing exemptions, such as the poverty exemption, which must be renewed annually.

2. Automate notices or offer status lookup. Even with efficiency improvements, delays in the exemption application process are still possible. To keep the resident informed of the process, the City could

provide an automated notice to the applicant as the application moves through the process, and/or provide this status information as a part of the property address search function recommended previously. While mailing notices may be too cost prohibitive, minimally, an automated email notice could go out when an application has moved from one step to the next.

CHALLENGE 4: Ineligible property owners may be receiving PREs, not only raising concerns of fraud and misrepresentation, but also representing revenue loss to the school district.

Dedicate staff capacity and use data to identify potential cases of property tax exemption abuse.

1. Dedicate staff to identifying exemption fraud.

Specific staff capacity within the Tax Assessor's office could be dedicated to focus solely on the identification of fraud cases. While dedicating staff capacity to this work might appear to put additional strain in other areas of the department given limited resources, there is an opportunity for this staff capacity to be cost neutral, as the City begins to more aggressively crack down on those trying to "game the system." If effective, the costs recovered from expunging ineligible exemptions could cover the costs of a staff person, and help return revenue to cover City services and school operating costs. Further, dedicating sufficient capacity to detect fraud can help to reestablish public trust and fairness in the property tax assessment process. For this to be successful, it will be important that strong communication exists between the Tax Assessor's office and Buildings, Safety Engineering and Environmental Department (BSEED). Because BSEED handles registration and certification of rental properties – properties that may be receiving a PRE, even though they are not owner-occupied as the PRE requires – it can be helpful in red-flagging cases of exemption abuse.

2. Filter property data to uncover ineligibility. The Tax Assessor's database should be cross-referenced with other existing property related databases (e.g. Rental Registry, Register of Deeds) to help identify potential properties with current exemptions that are ineligible. The City could then target outreach to these identified properties to confirm eligibility. The City may

also consider purchasing or modeling existing fraud detection software options.

3. Ensure Tax Assessor data is accurate and integrated with other departmental data.

The City's Department of Innovation and Technology has already made a number of important improvements to internal databases, and has worked hard to bring data to the public. A continued emphasis on data improvements is critical, and the City should continue efforts to integrate databases from multiple City departments – prioritizing the Tax Assessor's office and BSEED – in real time, or through regular daily updates, so that the records and action status of all property are visible citywide. The Tax Assessor's office plays a critical role in creating and maintaining valuable property data through the assessment process. Linking this foundational dataset with other departmental property data (e.g. BSEED) could have a number of positive effects in addition to detecting fraud. For example, it will help the Tax Assessor to increase internal efficiencies, adjust property assessment data more quickly and on an ongoing basis, implement the property tax search features recommended previously, and contribute to the overall accuracy of data citywide. The Detroit Land Bank Authority has prioritized the integration of property related data for its work, and serves as a model for the data integration recommended here.



IMPROVEMENTS THAT REQUIRE STATE ACTION

As opposed to the actions outlined in the previous section, these possible improvements would require state law change or actions that go beyond the City's immediate powers. The policy actions listed below all warrant additional research to determine whether they are feasible, what would be required for implementation, and what their impact would be. They are presented below as areas for further consideration and exploration.

CHALLENGE 5: Even with immediate action championed by the City and supported by nonprofits, existing state policies will still limit the accessibility of tax relief and reduction in tax foreclosures.

Explore and pursue state level changes to increase the availability and applicability of tax relief programs.

- 1. Consider allowing retroactive corrections.** With state law change, the City could consider allowing corrections on PRE statuses or poverty exemptions that are retroactive for up to three previous years for homeowners that mistakenly overpaid due to incorrect PRE status or poverty exemptions.¹¹ This correction could be in the form of a refund or a discount on future tax bills.
- 2. Consider expanding the appeals period for tax relief.** Extend the current property assessment appeal period to the Board of Assessors from two weeks to a minimum of two months.¹² This would allow homeowners more adequate time to compile necessary data and successfully appeal an inaccurate assessment. Many homeowners are still being overtaxed based on higher assessed values that no longer reflect the current market reality.
- 3. Consider widening income eligibility for tax relief.** The state of Michigan provides an income tax credit to households with total household resources under \$50,000 for whom property taxes exceed 3.5% of total resources.¹³ While that benefits some Detroit residents, there may be opportunity to have this program provide additional tax relief to more Detroiters. Such a change could apply solely to the city of Detroit as a temporary

measure in order to help facilitate the city's revival. Further research into the most effective policy actions is necessary.¹⁴

- 4. Consider aligning NEZ boundaries strategically with other city revitalization efforts.** The NEZ program (including Homestead¹⁵ for properties purchased after 1998 as well as New and Rehabilitated Facilities¹⁶) can be an effective incentive to more strategically attract new residents into certain areas of the city by reducing their property tax obligations. The NEZ designation could be placed in neighborhoods that have a number of other revitalization programs and marketable features to maximize the incentive's potential. The City could examine opportunities to align with the Detroit Land Bank Authority (DLBA)'s nuisance abatement and auction sale target areas, as well as planning strategy areas identified for medium- and high-density residential development. High property taxes in these areas can serve as a major disincentive for prospective homebuyers, even with other financing options available through DLBA programs, currently limiting the positive impacts of City-led revitalization efforts. Depending on the manner in which boundaries are amended, State-level approval may be required.¹⁷
- 5. Consider exploring geographic expansion and pursue timeline extension for NEZ.** In addition to aligning NEZ boundaries strategically, the City could explore the possibility from both a legal and policy standpoint of expanding the boundaries of the city's NEZ areas, as well as the renewal of existing NEZ designations.

Currently, local units cannot exceed 10% of citywide acreage designated as a NEZ-H, unless seeking additional County approval that would then allow for up to 15% of citywide acreage.¹⁸ State law allows for 15% of total acreage to be designated as NEZ for new and rehabilitated facilities. Further research into the most effective policy actions is necessary. Any strategy though should be pursued in a way that aims to support ongoing revitalization efforts.

Creating a More Effective, Efficient and Fair Property Tax Model in Detroit Will Require a Long-Term and Comprehensive Effort

While the recommendations above address a number of short- and medium-term changes that the City and its immediate partners can champion, they do not address a number of external factors contributing to significantly higher taxes in the city of Detroit, such as Detroit Public Schools and Wayne County debts raising millage rates, declining tax revenue sharing, as well as a generally challenging economic environment and other deterrents like high crime rates that contribute to depopulation and hence a shrinking tax base.

The recommendations included are also limited in that they do not address broader state policies that contribute to considerable inequity in tax bills, and over time, impact the amount of tax revenue collected by the City. For example, current constraints imposed by Proposal A and the Headlee Amendment, and subsequent amendments, may prevent the City of Detroit from capturing the benefit of property value increases over time. Additionally, these recommendations may have an impact on the level of property tax revenue collected by taxing authorities, perhaps lowering revenue in the immediate term and increasing revenue in the long term. Further analysis is needed to quantify the potential impacts. These and other policy areas, such as the impact of industrial tax abatements on residential property tax burdens, should also be further explored to ensure a more sustainable property tax model is established in Detroit.



Endnotes

- 1 According to our own analysis of sample data, nearly 12,000 occupied properties that were sold at auction between 2011 and 2014, are now vacant. A survey analysis conducted by Loveland Technologies also found that one of every six properties sold in the 2014 tax foreclosure auctions, are now vacant. <https://makeloveland.com/reports/foreclosure>
- 2 <http://www.crainsdetroit.com/article/20160201/NEWS/160209990/detroit-cuts-property-assessments-for-most-homeowners>
- 3 The competitive difference becomes even stronger when factoring in other costs such as high home and automobile insurance, along with the highest income tax rate in the state.
- 4 86.8 mills translates into 4.34% of (theoretical) market value, or 3.44% for homestead properties. Only 20 mills are under the control of City government.
- 5 2014 50 State Property Tax Comparison Study, Minnesota Center for Fiscal Excellence and Lincoln Institute for Land Policy
- 6 http://www.michigan.gov/documents/treasury/625_2014_Ad_Valorem_Property_Tax_Report_485906_7.pdf
- 7 This table is used for illustrative purposes. Property taxes generally are capitalized into the value of the home. Nonetheless, the rough comparison is still helpful to understand how differences in millage rates impact the amount of tax due.
- 8 For example, a University of Michigan graduate research team studying Detroit's MorningSide neighborhood found that in this particular neighborhood only 1 in 8 eligible homeowners were receiving NEZ. Nearly 90% of residents surveyed in this neighborhood were unaware that NEZ was available.
- 9 Educational information should include basic property classification information, such as when and how to apply for a Principal Resident Exemption, a pre-qualification for most tax relief options.
- 10 This claim is based on the research that other Detroit-based organizations have conducted regarding tax relief application processes.
- 11 Legislation that may impact this issue is currently pending. See HB4620 and HB4621.
- 12 While local ordinance seems to allow for the appeal period to extend beyond two weeks, important taxing dates set by state law limit the City's ability to lengthen the appeal period.
- 13 Law passed at the end of 2015 will revise these numbers to \$61,000 and 3.2%, respectively, beginning in 2018 to increase tax relief under the Homestead Property Tax Credit. See 2015 Public Act 179.
- 14 http://www.michigan.gov/taxes/0,1607,7-238-43535_43538---,00.html
- 15 A 50% reduction in City and County operating mills is available to property owners living within a designated NEZ and living in a pre-existing property as his/her principal residence. Owners must make at least \$500 in improvements to the property to qualify, and can utilize the exemption for a 15 year period (which stays with the property, not the owner).
- 16 A developer or owner may apply for a NEZ exemption certificate for a new or rehabilitated residential property before a building permit is issued. Applications are approved at the local and state level, and exemptions can be utilized for up to 15 years, or 17 years in the case of a qualified historic building rehabilitation.
- 17 State law generally allows the City to designate NEZ areas, but State law does place certain restrictions on how frequently those areas can be amended. Changing NEZ areas in the City may require State-level approval depending on when those areas were designated as NEZ.
- 18 MCL 207.771, et seq. (1992 Public Act 147)



About the Center for Community Progress

The Center for Community Progress is the only national nonprofit organization solely dedicated to building a future in which entrenched, systemic blight no longer exists in America's communities. As a national leader on solutions for vacant, abandoned, and problem properties, Community Progress serves as the leading resource for local, state, and federal policies and best practices that address the full cycle of property revitalization, from blight prevention, through the acquisition and maintenance of problem properties, to their productive reuse.

Community Progress, headquartered in Flint with a satellite Michigan office located in Detroit, has a deep commitment to the city's revitalization and sees the underlying tax model as a major contributor to tax delinquency, which research shows to be a key indicator of future vacancy and abandonment. Community Progress is committed to exploring strategies for property tax policy reform in order to help stabilize neighborhoods through the reoccupancy of Detroit's vacant homes and to help prevent future vacancy and abandonment.



Vacant Spaces into Vibrant Places

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