

Detroit and the Property Tax Strategies to Improve Equity and Enhance Revenue

By Gary Sands and Mark Skidmore

HAVING EMERGED LAST YEAR FROM THE LARGEST MUNICIPAL BANKRUPTCY IN U.S. HISTORY, Detroit is still hindered in its recovery by structural flaws in its property tax system, according to this new report published by the Lincoln Institute of Land Policy in November 2015. Detroit's high property tax rates, delinquency problem, inaccurate assessments, and overuse of tax breaks, coupled with limitations imposed by the Michigan constitution and state statutes, continue to expose the city to fiscal stress.

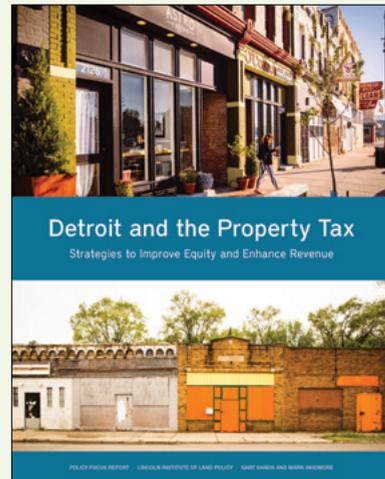
"Property tax reform is just one of several challenges facing Detroit and its residents, but tackling it could have a real impact on the city's economy and quality of life, and could serve as an example for other cities struggling with population and job losses and a shrinking tax base," says Gary Sands, a professor emeritus of urban planning at Wayne State University and coauthor of this report with Mark Skidmore, a visiting fellow at the Lincoln Institute and a professor of economics at Michigan State University.

Detroit and the Property Tax: Strategies to Improve Equity and Enhance Revenue suggests several reforms to help strengthen Detroit's property tax, including the following:

- **Continue to improve assessments:** Vastly overassessed properties have contributed to Detroit's historically high property tax delinquency rate, which has improved but is still about 30 percent—or 10

times the median rate for major cities in the United States.

- **Improve the targeting of tax abatements:** Detroit has granted property tax breaks to about 11,400 properties, or 3.5 percent of all taxable private properties. Research shows that the fiscal benefits of abatements are often outweighed by the costs, suggesting this tool should be used more judiciously.
- **Implement a land-based tax:** A land-based tax is determined purely according to the value or size of a piece of land, with no additional tax for new development or improvements. Many economists favor this approach over the traditional property tax because it discourages holding property vacant or underutilizing land (e.g., a community garden on a prime piece of downtown property), and encourages development.
- **Eliminate the state's taxable-value cap:** Imposed by voters as part of Proposal A in 1994, the taxable-value cap restricts the growth of the tax base as the real estate market recovers. It also gives preferential treatment to longtime homeowners, locking in low effective tax rates at the expense of new buyers.
- **Reduce statutory tax rates:** Detroit has the highest tax rate of any major U.S. city—more than double the average rate for neighboring cities. Lowering the rate could reduce delinquency, help increase property values, and offset increased tax



November 2015 / 48 pages / Paper / \$15
ISBN: 978-1-55844-341-9

To order, visit www.lincolninst.edu/pubs

burdens that may otherwise result from reducing abatements or eliminating the taxable-value cap.

The property tax and other land-based financing mechanisms are a key component of the Lincoln Institute's Municipal Fiscal Health campaign, a multiyear effort to help restore the capacity for local governments to provide basic services and plan for the future. Over the past few years, the Lincoln Institute has been engaged in research on several aspects of municipal fiscal health in Detroit, including papers on land value, tax delinquency, and Michigan's assessment growth limit.

Gary Sands, AICP, is professor emeritus of urban planning at Wayne State University in Detroit, Michigan.

Mark Skidmore is professor of economics at Michigan State University, where he holds the Morris Chair in State and Local Government Finance and Policy. He currently serves as coeditor of the *Journal of Urban Affairs* and is a visiting fellow at the Lincoln Institute of Land Policy.

|a Detroit and the Property Tax : |b Strategies to Improve Equity and Enhance Revenue. 264. 1.Â Tax-Exempt Property -- Assessment Practices -- Tax Delinquency -- Chapter 4: Tax Abatements and Regional Competition -- Relatively High Tax Rates -- Use of Abatements to Reduce Tax Burden -- Ineffectiveness of Tax Abatements -- Regional Competition in Southeast Michigan -- Chapter 5: Alternative Tax Scenarios -- Land Area and Land Value Tax. Options -- Special Assessment Option -- Conclusions -- Chapter 6: Options for Reform -- Challenges to Property Tax Reform -- Key Considerations in Improving Property Tax... Equity and Justice. Tax Equity Initiative. Publications & Resources. Back to the Blog.Â Property taxes are also poorly collected, thus squandering the possibility of capturing and redistributing rapid increases in property values in many capital cities. Direct tax burdens on low-income groups appear to be much larger than is suggested by official data. In most low-income countries the majority of citizens escape personal income taxation at the national level due to a combination of low incomes, weak administrative capacity, and informality.Â A more appropriate focus may lie in targeting proactive strategies to make tax systems both more progressive and more productive. Some immediate possibilities: Strengthen personal income taxes â€“ and not only on wages. burden on improving existing multifamily properties and developing new affordable housing. Current Detroit market conditions and a high property tax rate mean that almost all multifamily development and existing regulated affordable developments rely on some form of tax incentive for financial feasibility.Â This document outlines the strategies that the City will pursue to provide affordable housing in Detroit and prepare for future market changes, ensuring that the city is well positioned both to grow and to build inclusive, mixed-income neighborhoods.Â Regulated affordable housing, particularly public housing, faces obsolescence given the age of properties and the decline in federal funding to maintain them. Strategies to Improve Equity and Enhance Revenue. In December 2014, the City of Detroit emerged from bankruptcy with a plan that cut \$7 billion from the city's \$18 billion debt load. Although the causes of the bankruptcy were complex, a contributing factor was the ongoing decline in the revenue-generating capacity of the property tax. To the extent that most. Detroit and the Property Tax.Â government entities rely heavily on property tax revenues, the story of Detroit's bankruptcy is relevant to other cities as well. Detroit's projected property tax revenue for 2016 is just \$90 million, compared to \$240 million in 1995. Even so, property tax rates in Detroit are the highest rates in Michigan and among the highest in the country suggesting that the system is broken. Uncollected property taxes, a poor assessment system and high tax rates are hindering Detroit's comeback, according to a new report from the Lincoln Institute of Land Policy. Co-author Gary Sanders, professor emeritus in Wayne State University's Department of Urban Studies and Planning, estimates the total amount of uncollected property taxes is more than \$100 million. That's nearly a tenth of the city's budget.Â The report is titled "Detroit and the Property Tax: Strategies to Improve Equity and Enhance Revenue." Sanders says uncollected property taxes are just one of several issues holding the city back. The report offers several suggestions for fixing the problem including improving tax abatements and implementing a land-based tax.