



Office of the
Chief Financial Officer

Coleman A. Young Municipal Center
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MEMORANDUM

TO: Honorable City Council Members

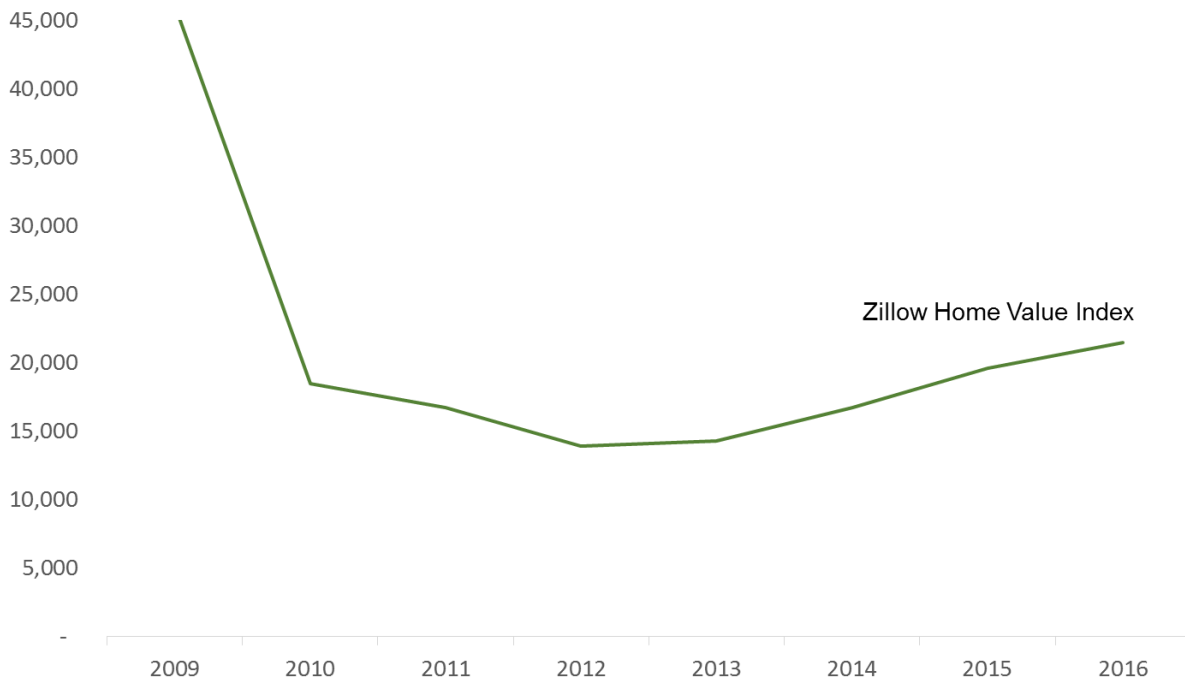
FROM: David Massaron, Chief Financial Officer, City of Detroit
Alvin Horhn, Deputy CFO/Assessor, Office of the Assessor

DATE: February 5, 2020

RE: Assessment Background

Over the course of the past few weeks, we have received several questions from your offices on the possible over-assessment of residential property in Detroit. The Zillow Home Value Index shows the change in median sales prices of Detroit homes from 2009 to 2019.¹ As you can see from the chart below, home sales prices dropped nearly 60% in one year from 2009 to 2010. Detroit home prices slowly began to rise in 2012.

ZILLOW HOME VALUE INDEX



Whether it was due to a shortage of assessment staff or some other reason, the City of Detroit's residential home assessments were reduced at a much lower rate:

¹ <https://www.zillow.com/detroit-mi/home-values/>



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RESIDENTIAL ASSESSMENT CHANGES BY YEAR

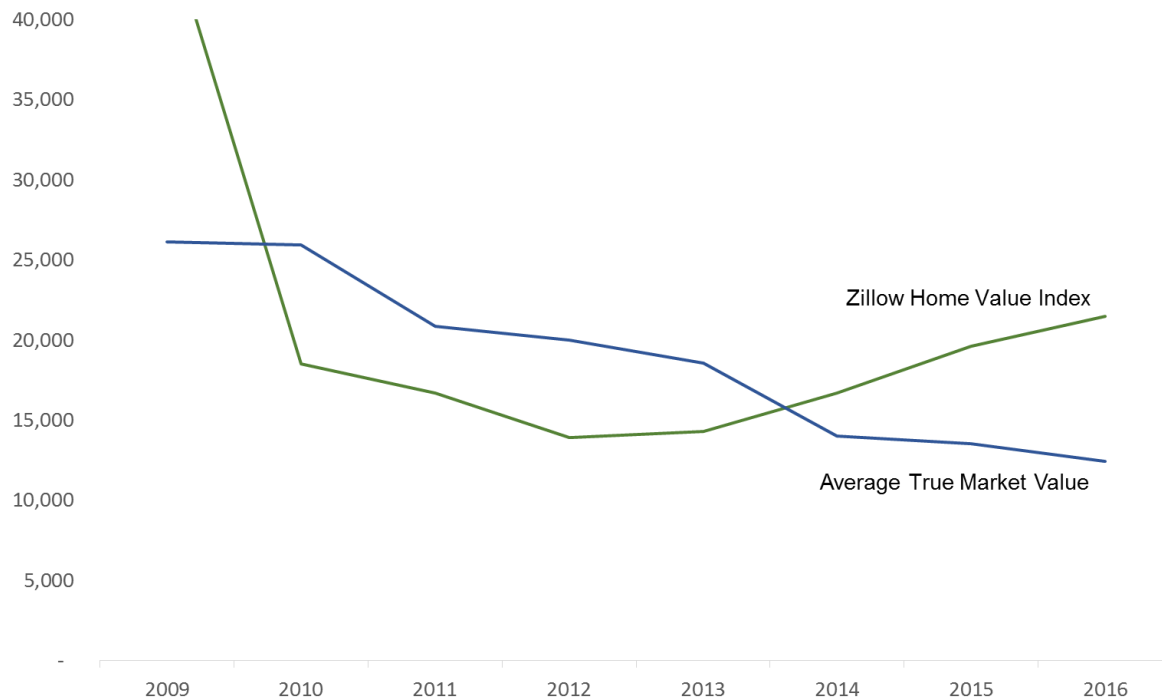
2010	-15%
2011	-14%
2012	-11%
2013	-11%
2014	-22%
2015	-9%

The gap between home prices and assessments was largely closed in 2014 when, following Mayor Duggan’s election, assessments were dropped a record 22%, despite the fact property values were actually increasing at that point. In announcing a nearly \$1 Billion reduction in residential assessments in his first month in office, Mayor Duggan strongly criticized the City’s past assessment practices: “The assessments in this town have been a source of great anger for the Detroiters. In the worst case they have forced people from their homes.”²

As the chart below shows, nearly all of the gap between sales prices and assessments (here shown as True Market Value for valid comparison) in the City of Detroit occurred between 2010 and 2013.³

RESIDENTIAL MARKET VALUATIONS

*Based on Zillow Home Value Index and
Office of Assessor Records*



² https://detroit.cbslocal.com/2014/01/27/duggan-takes-on-detroit-property-taxes-assessments-have-been-a-source-of-great-anger/?fbclid=IwAR3fXMe9OkWg365myN-iSaAtPfm9Q-q2vmpP9CSkyxpDN3_pXJABymOtybU

³ Average True Market Value is based on records from the Office of the Assessor, excluding vacant parcels and neighborhoods and condos determined to be outliers.



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"True market value" is a calculation determined by the Assessor under state law. The Zillow Home Value chart reflected the actual sales price of homes at that time. In a healthy and growing city, the assessor's "true market value" will be below actual sales prices because assessors must look back at sales data, as required by valuation principles and State Tax Commission methodology. This is what is happening in Detroit today.

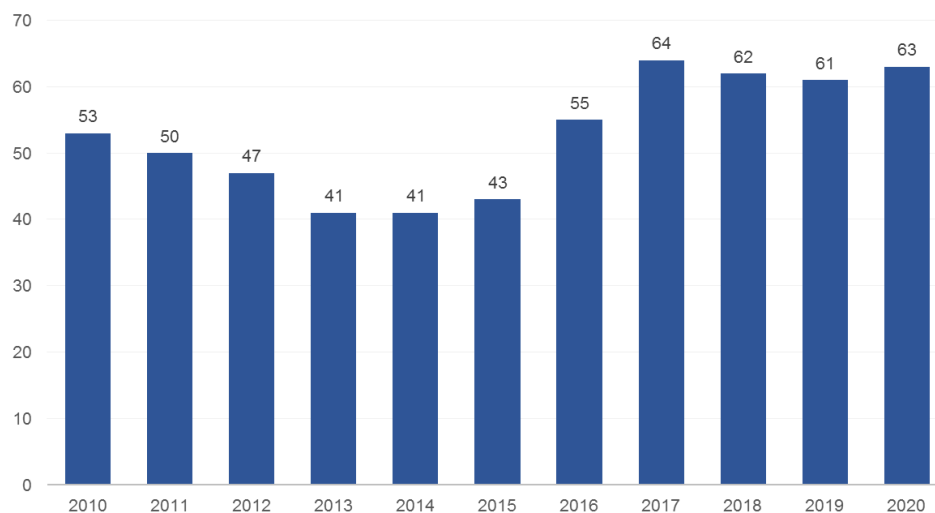
From 2010-2013, the data on this chart shows that when home sale prices collapsed in 2010, the city's assessment department did not reduce the "true market value" levels sufficiently. It was not until 2014 when the city made a record 22% reduction in true market value, that the overall assessed values dropped to the point of catching up with the market. There is a valid argument that the city as a whole was over-assessed from 2010-2013.

Thousands of people exercised their legal right to appeal their assessments from 2010-2013. Many more did not.

The failure to keep up with rapid changes in sales prices corresponded to a major underinvestment by the City of Detroit in the Office of the Assessor. On September 10, 2012, City Council was alerted to the ineffectiveness of the Assessments Division through an Office of the Auditor General Performance Audit⁴ which stated:

"As a result of our audit, we have concluded that the overall operation of the Assessments Division falls short of their goals and objectives. Moreover, guided by the State Tax Commission's 14-Point Local Unit Review (of assessing units), we found that the Division's assessing operations are inefficient, ineffective, and lacking in some areas of its assessing activities."

ASSESSING STAFF



⁴ https://detroitmi.gov/sites/detroitmi.localhost/files/2018-05/finance_assessment_performance_07-2008_06-2011.pdf



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The current administration has moved dramatically to correct those deficiencies, investing more than \$10 million in a City-wide revaluation and providing the department with a nearly 50% increase in staff.

The Office of the Assessor now has aerial and street level imagery, a more accurate and cost-effective model for viewing the condition of parcels. The City converted property record cards to electronic sketches and upgraded the data platform to Computer Assisted Mass Appraisal (CAMA) system to operate out of override. Today, all 32 appraisers in the Office of the Assessor are properly trained and credentialed by the Michigan State Tax Commission.

The tax years through 2015 are long closed, and there's no legal means to reopen them. If there were a legal means to reopen them, the cost would be so enormous, the only practical means to raise the funds would be a citywide judgment levy on property taxes. In other words, a huge property tax increase would be needed to fund the repayment of past property taxes. The consequence of this burden would certainly trigger an entirely new round of foreclosures as homeowners would be unable to afford the judgment levy assessment.

Where Did The Money Go?

The largest share of Detroit’s property tax revenue go to the public schools – 43%. 38% go to the City of Detroit, and the balance to Wayne County and to other entities like the Wayne County Community College.⁵

BREAKDOWN OF PROPERTY TAX REVENUE COLLECTED
 By Taxing Authority

Schools	43%
City Operating	25%
City Debt	13%
Wayne County	10%
Other Taxing Authorities	10%

This Administration’s Steps To Cut Foreclosures

While it was not legally possible to reopen assessment years before he got elected, Mayor Duggan has led a 5 step strategy to reduce foreclosures:

⁵ In the chart, “Schools” includes School Operating, School Debt, School Judgment, State Education, Wayne County RESA, Wayne County RESA Special Education, and Wayne County RESA Enhanced. Prior to 2017, School Operating, Debt and Judgment millage property tax revenue was collected by DPS; following the reform, School Operating and School Debt millage property tax revenue is collected by the State to repay DPS debt. “Wayne County” includes Wayne County Charter Operating, Wayne County Judgment, Wayne County Voted Operating, Wayne County Jails, Wayne County Parks, Wayne County HCMA. “Other Taxing Authorities” includes Library, Wayne County Community College, DDA, Zoo, and DIA.



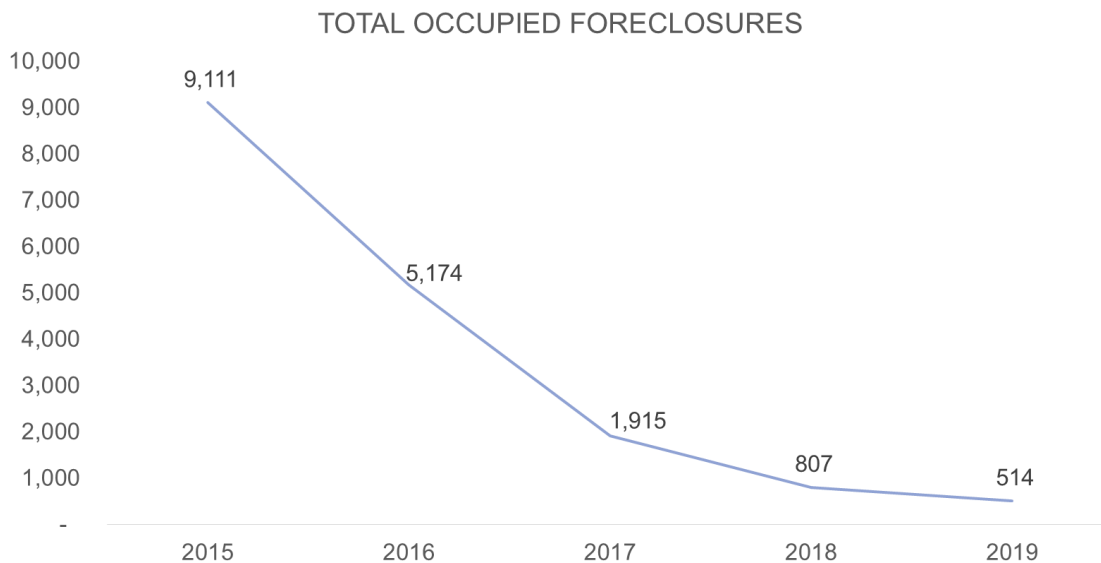
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- 1) Major assessment reduction starting with the 22% reduction in 2014.
- 2) Acted in 2014 to end the City's historic practice of placing water bills in the property tax foreclosure system.
- 3) Also in 2014, the Mayor successfully lobbied the Michigan Legislature, over the objection of many county treasurers, to pass repayment legislation that dramatically cut foreclosures. House Bill 5882 allowed delinquent taxpayers to enter into payment plans to avoid foreclosures, and 15,000 signed up first year alone.
- 4) Partnered with stakeholders across the city to organize volunteers from neighborhoods to knock doors and inform residents in danger of foreclosure of available assistance.
- 5) Launched the Make it Home Program to allow low income homeowners who qualify from HPTAP and are subject to foreclosure to get back their property for \$1,000.

That 5 step strategy has successfully reduced occupied foreclosures by 94% since Mayor Duggan took office:



While the Office of the Assessor believes *The Detroit News* estimate of the over-assessment is inflated, a true evaluation would require a review of each parcel in question and a review of its Assessed Value to determine if it was appropriate considering market conditions at the time. This would have to be done for each year in question and would pull Assessors' staff from their critical work on the current year assessing.

For illustrative purposes, *The Detroit News*' estimate of \$600 million would translate to a 100 mill judgment levy, given that DPSCD and the City cannot afford to cut over \$400 million from their budgets collectively and would be in violation of the Plan of Adjustment. This judgment levy would double the property taxes of all homeowners as shown in the following examples.



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Homeowner Payment Example 1

Taxable Value: \$123,904
Total 2019 Taxes: \$8,713
Total with Judgment Levy: \$21,227
Increase from Judgment Levy: \$12,514

Homeowner Payment Example 2

Taxable Value: \$46,419
Total 2019 Taxes: \$3,264
Total with Judgment Levy: \$7,952
Increase from Judgment Levy: \$4,688

Homeowner Payment Example 3

Taxable Value: \$8,800
Total 2019 Taxes: \$619
Total with Judgment Levy: \$1,507
Increase from Judgment Levy: \$889

Business Owner Payment Example 4

Taxable Value: \$71,522
Total 2019 Taxes: \$6,330
Total with Judgment Levy: \$13,419
Increase from Judgment Levy: \$7,224

This type of judgment levy would cause a new foreclosure crisis on all the same people that we are trying to help.

Today, the City has focused its resources on helping the most vulnerable homeowners keep their homes. The City increased outreach efforts to encourage eligible Detroiters apply for the Homeowner's Property Tax Assistance Program (HPTAP). In 2019, the City of Detroit granted close to \$5 million property tax exemptions to 7,601 qualifying Detroit homeowners seeking relief on their property taxes. Approved applications nearly doubled from 2014 to 2019, helping more than 7,000 Detroiters avoid foreclosure.

The City partnered with other public entities, the Quicken Loans Community Fund and community partners on these outreach efforts in 2019:

- The Office of the Assessor sent over 188,000 mailers to all homes possibly eligible for exemptions in November, as well as over 40,000 targeted mailers sent out earlier in the year;
- The Quicken Loans Community Fund partnered with 16 community groups to launch the Neighbor to Neighbor campaign, which visited over 60,000 families living in tax-delinquent homes;
- As part of the Neighbor to Neighbor campaign, the Quicken Loans Community Fund partnered with the 16 community groups listed below to host monthly workshops that ultimately helped over 3,000 Detroit residents apply for PTE;
- Hundreds of Quicken Loans volunteers called every tax-delinquent homeowner to remind them to apply or reapply for HPTAP;
- The City translated informational documents into three languages. Documents were used in Neighbor to Neighbor door knocking campaigns and promotional documents in all workshops;
- The City publicized HPTAP and poverty tax exemption workshops through government communications platforms such as promotional videos on social media and media notifications;
- The Office of the Assessor and Board of Review made phone calls to residents who were potentially eligible for HPTAP but had not submitted a 2019 application;
- District Managers distributed information about HPTAP at community meetings;



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- The Department of Neighborhoods hosted tax foreclosure prevention workshops with United Community Housing Coalition in each district where HPTAP assistance was available; and
- The Wayne County Treasurer's Office released billboards to increase reach and frequency with residents.

This year, the City expanded HPTAP exemption options to offer 25% exemptions on residential property taxes to reach more residents seeking financial support. The 25% property tax exemption is an additional option to the 50% and 100% property tax exemptions already offered to income qualifying Detroit homeowner occupants.

Finally, in collaboration with other local officials, Mayor Duggan proposed Pay as You Stay legislation to the State Legislature (passed by the State House of Representatives in early December 2019). For back taxes, the plan would eliminate all interest, penalties, and fees; cap the balance due; and allow for payment of that balance over three years at 0% interest. "Pay as You Stay" is a simple, three-part plan:

- Once you enroll, all interest, penalties and fees would be eliminated.
- To reduce an undue burden on homeowners, the balance due would be limited to back taxes only or 10% of a home's taxable value – whichever is less.
- The remaining balance would be paid back over three years at zero percent interest.

As an example, the program could reduce a homeowner's monthly payment from \$192 a month for 5 years, to \$29 a month for 3 years.

This memo articulates how under-resourcing the Office of the Assessor contributed to over-assessments, the investments that the Duggan Administration made to bring assessments back in line with the market, and steps that have been taken to this point to help Detroit homeowners keep their homes. We will provide a forthcoming second memo about opportunities to help homeowners who may have been impacted by over-assessments.