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TO: Detroit City Council

FROM: David Whitaker, Director
Legislative Policy Division Staff

DATE: February 24, 2021

RE: **Report Analyzing Detroit's Property Tax Millage Rate as it Compares to Other Large Michigan Municipalities and its ill-effects as it relates to population decline, property values, homeownership, tax foreclosures and blight**

Introduction

Council President Pro-Tem Mary Sheffield has observed that Detroit's millage rate is a hindrance to growth, home ownership, population retention and wealth generation for most Detroiters. Detroit's property tax millage rate is also more than twice the State average and puts Detroit at a competitive disadvantage for retaining and attracting residents and competing for new businesses.

As a result, Council President Pro-Tem Mary Sheffield has requested the Legislative Policy Division (LPD) to prepare an analysis of Detroit's millage rate that compares to other large municipalities and opines of the effects of having an exorbitant millage rate in the City. The analysis should include, but not be limited to, analyzying the effects on Detroit's population, property values, homeownership (especially for low-income residents), tax foreclosure and blight. This report's focus is primarily on Detroit's residential property tax millage rate.

This report addresses Pro-Tem Sheffield's request. In addition, given the City of Detroit's high property tax millage rate, this report also analyzes the abolishment or reduction of the City's property tax millage rate as a possible solution to retaining Detroit residents or attracting new residents to the City of Detroit.

Detroit's legal authority to levy a property taxing millage

The enabling authority to levy a property taxing millage by taxing jurisdictions is granted by the State of Michigan. The City of Detroit (City) is authorized to levy taxes pursuant to the Home Rule City Act, MCL 117.3 *Mandatory Charter Provisions,* and provides in pertinent part:

> (f) That the subjects of taxation for municipal purposes are the same as for state, county, and school purposes under the general law.
>
> (g) The annual laying and collecting taxes in a sum, except as otherwise provided by law, not to exceed 2% of the taxable value of the real and personal property in the city. Unless the charter provides for a different tax rate limitation, the governing body of a **city may** levy and collect taxes for municipal purposes in a sum not to exceed 1% of the taxable value of the real and personal property in the city. As used in this subdivision, "taxable value" is that value determined under section 27a of the general property tax act, 1893 PA 206, MCL 211.27a. (Emphasis added)

Under the Home Rule City Act, the City may levy and collect taxes for municipal purposes but is not required to do so. Pursuant to the language provided under Section 117.3(g), the City has the capability of choosing to reduce the amount levied or not levy any millage for property tax at all. However, the City's ability to levy a millage for property taxes along with its other taxing capabilities are a substantial part of its revenue source. These revenues pay for the numerous services the City provides to it citizens. The millage levied for property taxes are ad valorem taxes, that is to say, based on the assessed value of the real property at issue. The ad valorem taxes are a popular form of property tax assessment because they are simple to assess and collect. If the assessments are true and accurate they are easily understood and accepted by taxpayers.

The amount of taxes the citizens of the Detroit are required to bear not only includes property taxes and income tax, but also the millage levied to repay bonds that were approved by voters, millage levied by other taxing jurisdictions such as Wayne County, Detroit Public School District, Detroit Public Library, Wayne County RESA (Regional Education Services Agency), Wayne County Community College District, Detroit Institute of Arts, and the Detroit Zoo. The total amount of millage levied upon Detroit residents as cited in an article by MLive[1] is 69.6. The article also indicates the homes in Detroit have a median market value of $45,700 and a median property tax bill of $1,438, according to the Census Bureau's estimate for 2014-18.

Detroit's property tax millage rate breakdown for Detroit residents and businesses

Table 1 below shows a breakdown of the City of Detroit's 2020 property tax millage rates by taxing jurisdiction for homestead (residents) and non-homestead (businesses) and the FY 2020 property tax revenue for each taxing jurisdiction based on the specific taxing jurisdiction's millage rate as it applies to the City's taxable value of $6.3 billion less any adjustments (amounts shifted to tax increment districts, auction sales, delinquents, and chargebacks) :

[1] www.mlive.com/news/2020/01/what-michigan-communities-had-the-highest-property-tax-rates-in-2019-heres-the-list.html

Table 1

	2020 Mills		2020 Mills	FY 2020
	for Residents		for Businesses	Property Tax
Description of Mills	(Homestead)		(Nonhomestead)	Revenue (2)
City of Detroit General City (Operating)	19.9520		19.9520	$116,616,661
Debt Service	9.0000		9.0000	$55,280,372
Detroit Public Schools (Debt)	13.0000		13.0000	$63,745,168
Detroit Public Schools (Operating)			18.0000	$52,651,637
Detroit Public Library	4.6307		4.6307	$21,059,433
Wayne County	17.0375	(1)	17.0375	$75,709,715
State Education	6.0000		6.0000	$23,909,798
	69.6202		87.6202	
(1) Breakdown of Wayne County Taxes:				
Wayne County Operating Tax	6.6380			$29,908,347
Wayne County Jails	0.9381			$4,514,786
Wayne County Parks	0.2459			$1,182,886
Wayne County HCMA (Huron Clinton	0.2104			$895,159
Metropolitan Authority)				
Wayne County RESA Enhanced	2.0000			$9,489,216
Wayne County RESA	0.0965			$407,549
Wayne County RESA SP ED	3.3678			$14,156,212
Wayne County COMM College	3.2408			$13,685,657
Wayne County Zoo	0.1000			$492,166
Wayne County DIA	0.2000			$977,737
Total Wayne County Taxes	17.0375			$75,709,715

(2) Source of FY 2020 (as of June 30, 2020) is from OCFO Treasury Office.

Table 1 shows that of the 69.6 mills Detroit residents pay on residential (homestead) property located in the City, only 33.58 mills relate specifically to the City of Detroit municipal operations, debt service and library. So, about 48% of the total property tax mills residents pay relates specifically to the Detroit; the remaining 52% relates to operations outside the City of Detroit, namely Wayne County and its various sub-units (operating, jails parks, zoo, DIA, etc.), Detroit schools and state education. Most of these other taxing jurisdictions provide services to the residents of the City of Detroit.

The City of Detroit levies the maximum level of property tax mills (20 mills) under State law for municipal operations.[2] The combination of Detroit's high millage for operations, high debt millages (City and School), and the number of millages for other taxing jurisdictions included in

[2] Home Rule City Act, MCL 117.3, subsection (g). The combination of Detroit's high

Detroit's total property tax millage rate of 69.6 mills is a main reason why the City's property tax millage rate is so high as compared to the other major cities in the State of Michigan, which is discussed in more detail further on in this report.

Amount of property tax revenue generated based on Detroit's property tax operating millage

Table 1 shows that the City's property tax operating millage of 19.9520 mills generated $116.6 million in property taxes for the City's municipal operations in FY 2020. The property tax revenue for operations is based on the operating mills less any tax incentives that lowers the residential property tax rate (existing tax incentives for Detroit residents is covered further in this report) multiplied by the City's $6.3 billion in taxable value less adjustments (amounts shifted to tax increment districts, auction sales, delinquents, and chargebacks).

Of the $116.6 million in property taxes generated for the City's municipal operations in FY 2020, $37.3 million was received from properties that were homeowner occupied.[3]

Pre-COVID-19 pandemic impact, the City's property tax operating millage of 19.9520 mills was estimated to generate $118.9 million in property tax revenue for the City's municipal operations in FY 2021[4]. These property tax revenues represented about 12% of the City's total general fund budget of $1.1 billion for FY 2021, pre-COVID-19. The City's general fund provides the most basic city services for Detroit citizens, such as police and fire public protection, recreation, general services (grass cutting, fleet services, etc.), administrative services (such as Mayor's Office, Law and Human Resources departments), and legislative services (such as City Council, Auditor General, City Clerk's Office).

Post-COVID-19 pandemic, the City's property tax operating millage of 19.9520 mills is estimated to generate $113.3 million, about 12.5% of the City's total general fund budget of $907.6 million for FY 2021, post-COVID-19[5]. The City's total general fund budget reduces primarily because of the three Detroit casino closures in response to Governor Whitmer's emergency orders to mitigate the impact of the pandemic, more non-residents working remotely rather than in the City, lower property tax collections, economic recession and high unemployment due to the pandemic.

The City's general fund major revenue sources are income taxes, casino (wagering) taxes, property taxes, state revenue sharing and utility users taxes. These five major revenues make up about 80% of the general fund's revenue sources.

Michigan's average residential property tax millage rate

In 2019, the average residential property tax millage rate for the State of Michigan was 42 mills.[6]

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[3] Source: OCFO Treasury Office.

[4] February 2020 Revenue Estimating Conference materisls, which can be found of City of Detroit's website, Office of the Chief Financial Officer, Financial Reports, Revenue Estimating Conference Reports.

[5] Preliminary Official Statement for $175 million Neighborhood Improvement Plan bond sale, February 2021, page A-64.

[6]https://www.mlive.com/news/2020/01/what-michigan-communities-had-the-highest-property-tax-rates-in-2019-heres-the-list.html

Detroit's residential property tax rate for 2019 was 67.6 mills. This indicates that Detroit's residential property tax rate was 1.6 times the State's average property tax rate in 2019.

Detroit's property tax millage rate amongst 10 cities and townships with the highest millage rates in Michigan in 2019

In the article entitled "What Michigan communities had the highest property tax rates in 2019?", the following information was included:

> When asking the question "which communities have the highest millage rates in Michigan?", one must realize that's a difference question than who pays the highest property taxes. Millage rates are typically higher in communities with a smaller tax base and lower property assessments. In fact, in our list of the 25 cities and townships with the highest millage rates, the majority have median property-tax bills that are below the statewide median of $2,400. **Still, millage rates can make a big difference, especially when it comes to attracting new development** (emphasis added)**.**[7]
>
> Detroit's property taxes are so high because of the low property values. It takes relatively high tax rates to meet even the most basic public service needs. Detroit isn't the only city in this position. Milwaukee is forced to keep property taxes high due to low property values as well.[8]

Table 2 below shows Michigan's top 10 communities that had the highest property tax rates in 2019:[9]

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[7]https://www.mlive.com/news/2020/01/what-michigan-communities-had-the-highest-property-tax-rates-in-2019-heres-the-list.html
[8] "Detroit Has The Second Highest Residential Property Taxes In the Nation, Says Study", Daily Detroit, Ardelia Less, June 16, 2016.
[9] Ibid

Table 2

Michigan top 10 communities that had the highest property tax rates in 2019

	City/Township	2019 Mills Total	2019 Mills Description
1	**Ecorse**	111.5 to 111 mills	111.5 for homes in the Ecorse school district and 111 mills for homes in River Rouge school district. **Ecorse's median tax bill, according to the Census Bureau's estimate for 2014-18: $1,488**
2	**Harper Woods**	83.1 to 81.9 mills	83.1 for homes in the Harper Woods school district and 81.9 mills for homes in the Grosse Pointe school district. **Median tax bill: $2,610**
3	**River Rouge**	82 mills	82 mills for homes in the River Rouge school district. **Median tax bill: $1,628**
4	**Highland Park**	78.4 mills	78.4 mills for homes in the Highland Park school district. **Median tax bill: $1,241**
5	**Center Line**	77.2 to 65.3 mills	77.2 mills for homes in the Center Line school district. 65.3 mills for homes in the Van Dyke school district. **Median tax bill: $2,298**
6	**Inkster**	77.1 to 64.1 mills	77.1 mills for homes in the Romulus, Taylor, Wayne-Westland and Westwood school districts all with Inkster debt. 69.6 mills for homes in the Wayne - Westland school district (without Inkster debt). 65.1 for homes in the Taylor school district (without Inkster debt). 64.1 for homes in the Westwood school district (without Inkster debt). **Median tax bill: $1,671**
7	**Hazel Park**	74.6 mills	74.6 mills for homes in the Hazel Park school district. **Median tax bill: $1,655**
8	**Royal Oak Twp.**	74.4 to 73.6 mills	74.4 mills for homes in the Oak Park school district. 73.6 mills for homes in the Ferndale school district. **Median tax bill: $1,371**
9	**Eastpointe**	69.8 to 65.2 mills	69.8 mills for homes in the south Lake school district. 65.2 mills for homes in the Eastpointe school district. **Median tax bill: $1,823**
10	**Detroit**	69.6 mills	69.6 mills for homes in the Detroit school district. **Median tax bill: $1,438**

Table 2 shows Detroit's property tax millage is the 10th highest amongst the top 10 cities in Michigan in 2019. Attachment I shows Detroit's 10th place amongst the list of the 25 cities and townships with the highest millage rates.

Interestingly, Table 2 also shows that Detroit's average tax bill according to the Census Bureau's estimate for 2014-18 was one of the lowest amongst the top 10 cities in Michigan that had the highest property tax rates in 2019. This is due to Detroit's lower median market value as compared to the other cities.[10]

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[10]https://www.mlive.com/news/2020/01/what-michigan-communities-had-the-highest-property-tax-rates-in-2019-heres-the-list.html

Detroit's residential property tax millage rate as compared to other large municipalities in Michigan in 2019

Table 3 below shows the residential property tax millage rate for the top 15 most-populated municipalities in the State of Michigan in 2019:

Table 3

Property Tax Millage Rate for Top 15 Most-Populated Municipalities in Michigan in 2019

	Municipality	2019 Residential Property Tax Millage Rate	2010 Population	2021 Population	Change in Population	Percentage Change
1	**Detroit**	69.6 mills	711,131	664,139	-46,992	-6.61%
2	**Grand Rapids**	34.8 mills	188,007	202,767	14,760	7.85%
3	**Warren**	54.5 mills	134,081	133,077	-1,004	-0.75%
4	**Sterling Heights**	43.1mills	129,709	131,864	2,155	1.66%
5	**Lansing**	59.4 mills	114,321	118,768	4,447	3.89%
6	**Ann Arbor**	48.9 mills	114,173	117,082	2,909	2.55%
7	**Flint**	51.1 mills	102,035	94,762	-7,273	-7.13%
8	**Dearborn**	62.5 mills	97,849	93,038	-4,811	-4.92%
9	**Livonia**	40.6 mills	96,627	92,957	-3,670	-3.80%
10	**Troy**	36.8 mills	81,020	84,054	3,034	3.74%
11	**Westland**	48.3 mills	83,959	81,029	-2,930	-3.49%
12	**Farmington Hills**	46.1 mills	79,761	79,958	197	0.25%
13	**Kalamazoo**	49 mills	74,334	75,634	1,300	1.75%
14	**Wyoming**	40.5 mills	72,131	75,323	3,192	4.43%
15	**Rochester Hills**	34.1 mills	71,038	74,460	3,422	4.82%

Table 3 shows the City of Detroit has the highest residential property tax rate amongst the top 15 most-populated municipalities in the State of Michigan in 2019. Unfortunately, Detroit's population dropped by the highest percentage (6.6%) from 2010 to 2021. One can argue that the City's high taxes is one major factor for the exodus of residents during this nine-year time period.

And, it's hard to ignore that Table 3 shows amongst the top 15 most-populated cities over the last nine years that experienced population increases have residential property tax millage rates at 50-60% of Detroit's rate. One can make a case that Detroit's residential property tax millage rate should be lowered to retain residents in the City of Detroit and attract new residents to the City of Detroit.

Notably, Michigan's second largest city, Grand Rapids's residential property tax millage rate of 34.8 mills is exactly half of Detroit's millage rate, and it experienced the highest percentage of population increase (7.85%) over the last nine years. However, one reason why Grand Rapids can charge a lower residential property tax millage rate is its property taxable value, at $25.7 billion for FY 2020, was 2.73 times higher than Detroit's property taxable value of $9.4 billion for FY 2020.[11]

Table 4 below compares the level of taxing jurisdictions associated with Detroit's and Grand Rapids's 2019 residential property tax mills:

Table 4
Comparison of Taxing Jurisdictions for Detroit and Grand Rapids by Residential Property Tax Mills

Description of Mills	**Detroit**		**Grand Rapids**
General City (Operating)	19.9520		5.9762
Voted Operating			2.9249
Debt Service	9.0000		
Schools (Debt)	13.0000		4.8500
Schools (Operating)			0.0884
Voter Special Ed/Handicap			4.5467
Voter Vocational Ed			0.9762
Library	4.6307		
State Education	6.0000		6.0000
Inter Urban Transit Partnership			1.4556
Ready by Five Early Childhood			0.2484
County Taxes (A):			
County Operating Tax	6.6380		4.2571
County Jails	0.9381		0.7777
County Parks	0.2459		
County HCMA (Huron Clinton	0.2104		
Metropolitan Authority)			
County RESA Enhanced	2.0000		
County RESA	0.0965		
County RESA SP ED	3.3678		
County COMM College	3.2408		1.7606
County Zoo	0.1000		0.4335
County DIA	0.2000		
Veterans			0.0491
Senior Citizen			0.4926
Total Property Tax Mills Residential (Homestead)	69.6202		34.8370

(A) For Detroit, county is Wayne County. For Grand Rapids, county is Kent County.

(B) John Ball Park Zoo and Grand Rapids Museum is combined for Grand Rapids.

[11] Source of Detroit's and Grand Rapid's property taxable value is from LPD's report entitled "Benchmark Comparison of the City of Detroit's 2020 Comprehensive Annual Financial Report (CAFR) With Other Cities", dated February 10, 2021, which can be found on the City of Detroit's/Legislative Policy Division's website.

Table 4 above shows that Grand Rapids's total property tax mills comprise of a multitude of layers (i.e., debt millage and other taxing jurisdictions) as Detroit. However, the stark difference is that Detroit's rates are higher, mainly as follows: Detroit levies a total of 29 mills for operating and debt service; in Grand Rapids, this levy is 8.9 mills (including voted operating). In Detroit, school related millages total 13 mills; in Grand Rapids, these millages are 10 mills. Detroit levies a library millage, Grand Rapids does not. And, Detroit's levies 17 mills for Wayne County combined; in Grand Rapids, 7.8 mills are levied for Kent County. Attachment II shows the taxing jurisdictions by residential property tax mills for 9 of the most-populated cities in Michigan in 2019.

Detroit's effective property tax rate as compared to major cities in the United States

Another way of looking at Detroit's residential property taxes is comparing its effective property tax rate with other major cities in the U.S. The effective property tax rate is the city's average tax bill as a percent of a property's average market value.[12]

In 2019, Detroit had the fourth highest effective property tax rate on a median valued home amongst the largest city located in the 50 U.S. states, as shown below:[13]

Highest and Lowest Effective Property Tax Rates on a Median Valued Home (2019)

Highest Property Tax Rates				Lowest Property Tax Rates			
1	Aurora (IL)	3.30%	*Why:* High property tax reliance	49	Cheyenne (WY)	0.65%	*Why:* Low property tax reliance
2	Bridgeport (CT)	3.21%	*Why:* High property tax reliance	50	Denver (CO)	0.56%	*Why:* Low property tax reliance, classification, high home values
3	Newark (NJ)	3.02%	*Why:* High property tax reliance	51	Charleston (SC)	0.52%	*Why:* Classification shifts tax to business, High home values
4	Detroit (MI)	2.93%	*Why:* Low property values	52	Boston (MA)	0.49%	*Why:* High home values, Classification shifts tax to business
5	Portland (OR)	2.46%	*Why:* Assessment limit shifts tax to newly built homes	53	Honolulu (HI)	0.31%	*Why:* High home values, low local gov't spending, classification

The chart above indicates the primary reason for Detroit's high effective property tax rate for residential property is due to low property values. However, Detroit's 2019 average tax bill ranked 50th amongst 53 cities[14] (Attachment III). But "low" property tax bills in Detroit are still unaffordable for the City's most vulnerable citizens, and this will be explored later in this report.

For higher priced residential property in 2019, however, Detroit's property tax bill can be quite high. Detroit's average property tax bill was $4,400 for a property valued at $150,000 and $8,800 for a property valued at $300,000, ranking fourth amongst the largest 53 cities in the U.S. (Attachment IV). What this indicates is that the impact of high rates becomes more acute as property values rise.[15] It's no surprise why many Detroiters seek a Neighborhood Enterprise

[12] "June 2020 50-State Property Tax Comparison Study for Taxes Paid in 2019", Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence. Note: The largest cities in each state includes 53 cities, because it includes Washington (DC) plus two cities in Illinois and New York since property taxes in Chicago and New York City are so differenct than the rest of the state.
[13] Ibid
[14] Ibid
[15] "Growing Detroit's African-American Middle Class: The Opportunity for a Prosperous Detroit", Detroit Future City, February 2019.

Zone tax incentive when purchasing a higher priced home in Detroit to mitigate high property tax bills (NEZs will be discussed later in the report).

Also in 2019, Detroit had the highest effective property tax rate on a commercial property worth $1 million amongst the largest 50 cities in the U.S., as shown below:[16]

Highest and Lowest Effective Property Tax Rates on $1-Million Commercial Property

Highest Property Tax Rates				Lowest Property Tax Rates			
1	Detroit	3.77%	*Why:* Low property values	49	Honolulu (HI)	1.02%	*Why:* High property values, Low local gov't spending
2	Providence (RI)	3.61%	*Why:* High property tax reliance	50	Virginia Beach (VA)	0.99%	*Why:* Low local gov't spending, High property values
3	Chicago (IL)	3.51%	*Why:* High local gov't spending, Classification shifts tax to business	51	Charlotte (NC)	0.95%	*Why:* Low property tax reliance
4	Bridgeport (CT)	3.30%	*Why:* High property tax reliance	52	Seattle (WA)	0.77%	*Why:* High property values, Low property tax reliance
5	Des Moines (IA)	3.02%	*Why:* Low property values, High property tax reliance	53	Cheyenne (WY)	0.69%	*Why:* Low property tax reliance

The chart above indicates the primary reason for Detroit's high effective property tax rate for commercial property worth $1 million, with $200,000 in fixtures, is due to low property values. Attachment V represents the entire list of 53 cities Detroit's leads as the highest effective property tax rate on commercial property worth $1 million.

Correspondingly, in 2019 Detroit ranked number one having highest average property tax bill amongst the largest 50 cities in the U.S. on commercial property (land and building) valued at $100,000, $1 million and $25 million (Attachment VI). It's no surprise developers seek tax incentives to construct new commercial property or rehabilitate existing commercial property in Detroit.

Detroit's high property tax millage rate and its ill-effects as it relates to population decline and/or retention

Proponents of reducing the City's property millage attribute this high rate of millage as a substantial reason that potential new residents of the City choose not to move into Detroit and why existing Detroit residents choose to leave. While recognizing that high property taxes is a contributing factor for potential new residents and existing residents to choose other than Detroit to reside, there are many other factors that may be equal to or more significant in making that determination. Some former Detroiters have moved to surrounding suburbs such as Eastpointe which has a millage levy of 69.8 (Depending on the school district), Harper Woods which has a millage levy of 83.1 and Warren that has a millage of 67.5.

This debate was evidenced in the Forbes article "Why Has Detroit Continued to Decline" dated July 13, 2018. The article written by Scott Beyer a former Forbes columnist looked at various positions taken by pundits regarding Detroit's continued demise.

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[16] "June 2020 50-State Property Tax Comparison Study for Taxes Paid in 2019", Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence. Note: The largest cities in each state includes 53 cities, because it includes Washington (DC) plus two cities in Illinois and New York since property taxes in Chicago and New York City are so differenct than the rest of the state.

As sited in the article, Michael LaFaive, of the Mackinac Center for Public Policy contends the issue on why Detroit has continued to decline is its inability to attract capital. “My explanation involves the basic idea that capital, be it financial or human, goes where it’s welcome, and leaves if it’s not.” LaFaive indicates the three factors inhibiting capital:

> One is Detroit’s high taxes. A 2014 study by the Lincoln Institute of Land Policy found that it had the highest property tax rates of any major U.S. city. The second is poor services, which should theoretically be counterintuitive since Detroiters pay such high taxes. But the services are quantifiably bad, in a way that’s deeply-rooted and terminal – police who don’t arrive, schools that are growing mold, blighted properties that go decades without being demolished, waste that is dumped and never cleaned up, and the list goes on.
>
> These two problems – high taxes and poor services – conjoin around the fact that the city spends much of its revenue on non-services. At the time of bankruptcy, half of the city’s $18 billion debt was for worker-related liabilities, including retiree pensions and healthcare - aka for people who were no longer contributing to the city's daily operations.
>
> [t]hird factor was regulation. According to a study by Florida Gulf Coast University, Detroit’s “economic freedom” ranking (which includes factors like regulatory climate) is 345th out of 384 metros. The city – and the state of Michigan – has strict occupational licensing laws, and Detroit is known for heavily enforcing them through random stings.

The article also highlights the views of Pete Saunders, a Detroit native and Forbes columnist. Saunders indicates the decline is due to Detroit’s antiquated and idiosyncratic land-use which has prevented it from post-industrial growth. Included is the old housing stock and non-cohesive neighborhoods and car oriented road design. The article quotes Saunders stating “Once the auto industry became established in Detroit political and business leaders abdicated their responsibility on sound urban planning and design.” This Saunders indicated led to Detroit’s failure in post-industrial growth.

Just as we have highlighted Wayne State University Law Professor John Mogk later in this report, so does the Forbes article, Professor Mogk indicates the continued decline is a result of continued legacy burdens. Two of such burdens are infrastructure and the city’s demographics. Mogk acknowledges the current demographics are a result of government engineering. The government sponsored urban renewal, subsidized highways and discriminatory loan policies resulting in further segregated communities of white suburbs and a poor black inner city core. According to the article, Mogk indicates this segregationist pattern continues, and may not organically reverse itself. Mogk states:

> “most white families will not locate in majority black neighborhoods. Most middle and upper-income families will not locate in low-income neighborhoods. The presence of both of these factors in many of the city's neighborhoods, and public services that were not competitive with most suburbs, largely explain why the white middle class and some members of the African-American middle class did not choose to live in Detroit.”

As LPD indicates throughout this report, there are multiple reasons for Detroit's decline in population, the high property tax is one of many. Efforts can be undertaken to reverse the decline and address the retention and growth resulting from high property taxes. The Citizens Research Council (CRC) in an article "Diversify Detroit's Tax Structure to Lower the City's High Property Tax Rate" (March 29, 2018) indicated that:

> One issue to be addressed is the city's prohibitively high property tax rates. Expansion of local-option taxes in Detroit could allow the city to lower its property tax rate in order to spur investment and increase the city's appeal to potential residents and businesses, as well as further diversify the city's revenue base. The city could potentially benefit from taxes that would grow as the city becomes a destination to be visited again. Few other taxes alone are capable of yielding the amount of revenue produced by the property tax.

The CRC indicates that a number of different methods of local tax initiatives could allow the City to reduce the high property tax rates:

> One tax source that can yield a large sum of revenue with a fairly low rate is a local-option sales tax… Lowering the local property tax rate in Detroit may require the city to levy a number of new taxes that, together, can replace the lost property tax revenue. These can include selective sales or excise taxes on certain goods and services, including vehicles, alcohol, marijuana (especially if recreational marijuana is ever legalized in Michigan), meals, vehicle rentals, entertainment or amusement services, and sharing economy services (i.e., ride-sharing or home-sharing). Many of Detroit's peer cities (i.e., other big cities in Great Lakes or Midwestern region states) allow local units to levy either general retail sales taxes or selective sales taxes that are not allowed in Detroit.

Even though the CRC believes a local sales tax and other potential new taxes would be an avenue for transition from the high property taxes, they acknowledge the fact the under Michigan law the City does not have the authority to implement a local sales tax and acquiring the authority from the State may be problematic. However, local and State officials should give careful consideration to those avenues.

Fortunately, coming out of bankruptcy, the City of Detroit has improved its city finances, improved city services such as police response times and more street lighting, and has focused significantly on reducing blight and restoring vacant houses.

Detroit's high property tax millage rate and its ill-effects as it relates to property values and blight

While there is no absolute cause and effect of high property taxes to foreclosure, there is definitely a correlation between the ability to pay a high property tax and a subsequent foreclosure. This correlation creates an impact between foreclosures and property values which are significant.

The housing foreclosures in Detroit since the 2008 recession occurred in both mortgage foreclosures and tax foreclosures. While the research sited addresses mortgage foreclosure in particular, it is not a far stretch to see similar property value impacts from tax foreclosure as they both have similar net effects on subsequent property values. One of the main contributors to the mortgage foreclosure crisis in metro Detroit was Fannie Mae and Freddie Mac according to the

Detroit Free Press “Fannie Mae fire sales dilute regional home values” (August 27, 2011). The article indicates:

> Fannie Mae and Freddie Mac are selling hundreds — perhaps thousands — of foreclosed properties in metro Detroit for far less than they appear to be worth, a practice that leaders say is driving down local property values and weakening neighborhoods.

The article further provides the opinion of local treasurer on the practices of the two government entities:

> “It’s an unconscionable practice,” said Oakland County, Mich., Treasurer Andy Meisner. “It’s fiscally irresponsible from their perspective because they’re getting pennies on the dollar, and it’s fiscally reckless from our perspective” because Fannie and Freddie “are almost single-handedly … killing our property values.”

The impact of residential foreclosures has a significant impact on the creation of blight particularly in low-income communities and/or communities where low or moderate priced homes are being impacted. The impact on blight and property values were expressed in a study conducted by Dan Immergluck (Georgia Institute of Technology) and Geoff Smith (Woodstock Institute) titled “The External Costs of Foreclosure: The Impact of Single-Family Mortgage Foreclosures on Property Values “(January 2006). The results of the study found:

> Foreclosures, particularly in lower-income neighborhoods, can lead to vacant, boarded-up, or abandoned properties that in turn contribute to physical disorder in a community—disorder that can create a haven for criminal activity, discourage the formation of social capital, and lead to more disinvestment. Since foreclosures lead to such negative effects, we would expect them to also lead to lower property values in their immediate vicinity, especially for residential property…Our findings demonstrate that conventional foreclosures have a statistically and economically significant effect on property values.

While the Immergluck/Smith study focused on mortgage foreclosures, tax foreclosure appears to have the same impact in creating blight and forcing down property values as previously stated. As tax foreclosures are not absolutely related to the high property tax (there are many factors that lead to tax foreclosure) the reduction or elimination of property taxes could help facilitate a reduction in tax foreclosures.

Detroit’s high property tax millage rate and its ill-effects as it relates to homeownership (especially for low-income residents)

A public policy paper “The Eviction Machine: Neighborhood Instability and Blight in Detroit’s Neighborhoods” (July 2019) by Joshua Akers, (Assistant Professor of Geography and Urban and Regional Studies, University of Michigan-Dearborn) and Eric Seymour, (Assistant Professor of Urban and Regional Planning, Rutgers University), looked at the impact of mortgage foreclosure and tax foreclosure on home ownership in Detroit. They note that even as recent as the year 2000, Detroit had been a majority homeowner city finding:

> In 2000, Detroit remained a majority homeowner city, possessing a homeownership rate of 55% (US Bureau of the Census, 2000). Predatory lending and the origination of large numbers of high-cost home purchase and refinance

> loans in the mid-2000s, however, triggered vast number of mortgage foreclosures in subsequent years (Ashton, 2010; Immergluck, 2011).

According to Ashton and Seymour a dramatic decline of homeownership occurred in the mid-2000's:

> With the onset of the recession, still fewer households could maintain costly monthly mortgage payments, leading to widespread default and repossession. Since 2005, there were more than 70,000 completed mortgage foreclosures in Detroit, involving nearly 30% of the city's residential properties (Core Logic, 2014; Data Driven Detroit, 2010). In an environment of widespread foreclosures, tightened mortgage lending, damaged household credit, and reduced incomes, home ownership plummeted to 46% by 2016 (US Bureau of the Census, 2016).

This situation was further exacerbated by the tax foreclosures in the midst of plummeting home values, over assessments of property values as indicated in the Ashton/Seymour report:

> In a context of plummeting home values, inflated property tax assessments, vanishing public services, and financial difficulties faced by a large and growing number of homeowners, Detroit experienced a second foreclosure crisis stemming from delinquent property taxes (Atuahene and Hodge, 2017; Dewar et al., 2015).

This crisis of tax foreclosure's impact on home ownership was also identified in a Metro-Times article (July 10, 2018) "Report: Michigan sees greatest decline in black homeownership in nation", the report siting the Urban Institute, indicated:

> African American homeownership has plunged further in Michigan than in any other state, from 51 percent in 2000 to 40 percent in 2016, according to a new study…finds Detroit and its surrounding suburbs at the epicenter of the decline.

According to the article the Urban Institute found the major loss of home ownership by African Americans were due to tax foreclosure and land contracts, stating:

> High property taxes are a significant barrier to maintaining homeownership for many residents. Tax foreclosure due to residents' and landlords' failures to stay current with tax payments contributes to the blight pipeline.
>
> Tax foreclosures and land contracts are the primary culprits, according to the report. In Detroit, nearly one in four properties were tax-foreclosed between 2011 and 2015. Meanwhile, land contracts — a notoriously more risky tool through which to buy a home — are filed more frequently in the city than mortgages.

While tax foreclosures clearly have played a role in the decline of Detroit's homeownership, there are many factors that have contributed to the decline unrelated to high property taxes. The Urban Institute's research report dated March 2017[17] provide the following information:

> Many other factors have contributed to the decline in Detroit's homeownership rates, including conditions that encourage residents to move to the suburbs. These factors include high taxes, compared with regional and national rates, for low-

[17] The Urban Institute: "The Detroit Housing Market Challenges and Innovations for a Path Forward", March 2017.

quality government services; low performing schools; high automotive and homeowners' insurance premiums; and safety concerns.

> High property taxes are a significant barrier to maintaining homeownership for many residents. Tax foreclosure due to residents' and landlords' failures to stay current with tax payments contributes to the blight pipeline. Property taxes were also seen as a potential constraint on internal migration. Michigan law limits property tax increases through the Headlee Amendment and Proposal A. An analysis of Proposal A found that it reduced effective tax rates for existing homeowners but not new homebuyers (Skidmore, Ballard, and Hodge 2010). Interviewees noted that Detroit's higher property taxes "not only prevent people from buying in Detroit, but also prevent people who live there already from moving to a different neighborhood and buying. Taxes jump on the sale". One person noted the tax law creates opportunities for Detroit as "the vacant land starts at a zero-taxable value, so when it goes into land bank, there's new money for the city".

After acknowledging all these factors, the Urban Institute identified a number of steps that could be taken, stating:

> In regards to tax foreclosure, the authors say the government should, among other things, reduce penalty interest rates on late-paid taxes, increase intergovernmental revenue transfers to segregated, low-income areas, and "do everything possible to support residents' incomes and stabilize their living costs."

As indicated above, a number of factors play into the issue of home ownership in Detroit including the high property taxes levied. Each of these factors need to be addressed including consideration of reduction or elimination of the property tax.

Fortunately, there are a number of programs in place to help Detroit residents avoid foreclosure. In particular, the Wayne County Treasurer's Office offers various plans to assist distressed taxpayers with paying delinquent taxes:[18]

- Pay As You Stay (PAYS): PAYS may reduce the amount of delinquent taxes owed for lower income homeowners who qualify for their cities, township's, or village's Poverty Tax Exemption (PTE). A qualified homeowner can pay the Reduced Amount Due in a single Lump Sum payment (includes a 10% discount), or enter into and sign a PAYS payment agreement, agreeing to make monthly payments over a 3 year period (or less in some cases).

- Interest Reduction Stipulated Payment Agreement (IRSPA): IRSPA's payment plan reduces the interest rate from 18% to 6% for eligible taxpayers who own and live in his/her home, and a Principal Residence Exemption (PRE) that proves permanent residency. Under IRSPA, all delinquencies can be bundled into one payment plan.

- Stipulated Payment Agreement (REGSPA): This plan is available to everybody, and is designed for **non-owner occupied properties**. The REGSPA plan allows a taxpayer to pay taxes pursuant to a payment schedule. The plan will avoid foreclosure **provided that**

[18] https://www.waynecounty.com/elected/treasurer/taxpayer-assistance.aspx.

payments are submitted per the agreed upon schedule. To be effective the plan must be signed by both the taxpayer and the Treasurer's Office.

Detroit's high property tax millage rate and its ill-effects as it relates to tax foreclosures

A University of Michigan Research Brief, "Preventing Owner-Occupied Property Tax Foreclosures in Detroit: Improving Access to the Poverty Tax Exemption" (December 2018), identified the problem resulting from Detroit having the highest homestead property tax rate and the over assessment resulting from the mortgage crisis. The research brief indicates:

> In 2016, Detroit maintained both the highest effective homestead property tax rate and the highest poverty rate among the 50 largest U.S. cities. Home values fell steeply as a result of the city's subprime mortgage crisis and the recession, during which Detroit's Tax Assessor was unable to modify assessments to accurately reflect fallen values. As a result, Detroit property values have been chronically over-assessed, and continue to be most pronounced among lower valued homes, further inflating tax bills among the most economically marginalized homeowners."

The research brief further identifies the fact that although changes have been made to allow property owners the ability to enter payment plans on delinquent property taxes, this is not enough, stating:

> To avoid foreclosure, homeowners must make regular payments to the county toward their back taxes, while also ensuring that they do not fall behind on current-year city tax bills. This dual property tax burden may prove too high for many to bear, especially for residents whose property taxes were unaffordable to begin with.

LPD has found that in addressing the issue facing Detroit low-income property owners, the research brief has proposed a solution many others have indicated throughout this report:

> Property tax foreclosure among Detroit's low-income homeowners is not an inevitability. By reducing or eliminating property taxes for eligible homeowners, this policy may improve housing affordability and prevent foreclosure among homeowners with low- or fixed-incomes, as well as those experiencing periods of financial hardship.

LPD notes that the City can reduce property rates for low-income residents or those who meet the poverty tax exemption thresholds under State law. Any reduction or elimination of property taxes for those who are not eligible for the poverty exemption would require an across the board reduction or elimination. However, as indicated in the research brief:

> Between 2012 and 2016 on average, nearly 40,000 owner-occupied households (32% of Detroit homeowners) met eligibility guidelines for the exemption each year, but less than 5,000 applied in 2016.

Additional work to make sure the 32% of Detroit homeowners that are eligible for the exemption would go a long way in addressing the housing and foreclosure crisis impact on those low-income home owners. In an effort to bring this to fruition, the City of Detroit has announced an expansion of the property tax exemptions for low-income homeowners. As reported in the Detroit News, "Detroit expands property tax exemptions for homeowners" (January 8, 2020):

> The Homeowners Property Tax Assistance Program, or HPTAP, now includes 25% exemptions. That means a family of two earning $25,703 or a family of four earning $31,930 would be eligible for a 25% reduction in their property taxes.

The City has taken affirmative steps to address the foreclosure crisis that has hit its most vulnerable residents, but many are still at risk. The consideration of reducing or eliminating the property tax should be looked into as a potential method to assist in eleviating this problem as indicated above.

Would abolishment or reduction of Detroit's property taxes spur growth in the City?

This view has also been shared by Professor John Mogk of Wayne State University who indicated "The city's property tax on homeowners needs to be abolished to protect home ownership and strong neighborhoods…With no real property tax, middle class homeowners would be motivated to stay and middle class home seekers attracted to live in Detroit. This could contribute materially to reoccupying many of the vacant homes now blighting Detroit's neighborhoods."[19]

Professor Mogk also indicates that because the City's property tax is not the major source of revenue for the City abolishing the tax could be accomplished stating:

> The real property tax paid by homeowners is not a major source of city revenue. Unlike other cities, real property tax revenues combined on residential, commercial, industrial and residential property make up only about 13% of Detroit's general fund budget… Property taxes contribute $133 million to total general fund revenues of more than $1 billion. Of this amount, real property taxes on homeowners comprise a minor portion.

A Citizens Research Council report essentially restates Professor Mogk's recommendation for the need to Detroit's high property tax rates:[20]

> Detroit has the most diversified local tax structure in the state with exclusive access to higher tax rates and more tax options. Despite this diversified tax structure, Detroit levies property taxes at high rates compared to other cities in Michigan, which creates a disincentive for people and businesses to locate in Detroit.

If Detroit's property taxes are totally abolished or reduced significantly, a replacement revenue is needed

[19] John Mogk, "Eliminate Property Tax and Spur Detroit's Comeback", November 2, 2019.
[20] Citizens Research Council: Diversify Detroit's Tax Structure to Lower the City's High Property Tax Rate, March 29, 2018.

The issue of eliminating or reducing the City's high property taxes is something that needs careful consideration and deliberation. If one of the reasons prohibiting the growth of in Detroit residents is the quality of services provided, will diminishing the amount of resources collected by the City add to the quality of services being provided? Will it require finding other streams of revenue for the City before reducing current revenues? Professor Mogk acknowledges that to eliminate the City's property taxes something must replace those revenues. Professor Mogk states[21]:

> Lost revenues from abolishing the real property tax on homeowners would have to be replaced in the city budget. Moreover, other local governments share in the city's property tax bill, such as the Detroit Public Schools Community District, Wayne County and the Wayne County Community College District. Their lost revenue would have to be replaced, as well. However, replacement is possible. A number of alternative sources might be considered, such as a local sales tax, excise tax, a sharing of increased property taxes downtown being kept by the Downtown Development Authority (DDA), payments in lieu of tax from tax exempt organizations and a tax increase on commercial and industrial property, to name a few.

LPD notes the City has no authority to implement any taxes not authorized by State law. That replacing any City revenues with another type of tax would require State authorization, as MCL 117.3(f) indicates the subject of taxation for municipal purposes are governed by general law.

The Citizens Research Council's solution to lowering Detroit's high property tax rates with a local-option sales tax restates the need for a state constitution amendment to institute a local sales tax for the City:[22]

- Expansion of local-option taxes in Detroit could allow the city to lower its high property tax rate, further diversify its revenue base, and levy taxes that can better grow with an expanding economy. One tax source that can yield a large sum of revenue with a fairly low rate is a local-option sales tax. However, a local-option sales tax can be problematic for a number of reasons, the most important being the fact that the state Constitution is unclear as to whether the state would even be allowed to authorize local units to level a local sales tax. If the Constitution prohibits a local sales tax, then it would take a constitutional amendment, which requires a statewide vote of the people, to allow for one.

The Citizens Research Council further suggests other replacement revenue selective sales or excise tax options that would still require state authorization and a vote of the people:[23]

> Lowering the local property tax rate in Detroit may require the city to levy a number of new taxes that, together, can replace the lost property tax revenue.

[21] John Mogk, "Eliminate Property Tax and Spur Detroit's Comeback", November 2, 2019.

[22] Citizens Research Council: Diversify Detroit's Tax Structure to Lower the City's High Property Tax Rate, March 29, 2018.

[23] Citizens Research Council: Diversify Detroit's Tax Structure to Lower the City's High Property Tax Rate, March 29, 2018.

These can include selective sales or excise taxes on certain goods and services, including vehicles, alcohol, marijuana (especially if recreational marijuana is ever legalized in Michigan)[24], meals, vehicle rentals, entertainment or amusement services, and sharing economy services (i.e., ride-sharing or home-sharing). Many of Detroit's peer cities (i.e., other big cities in Great Lakes or Midwestern region states) allow local units to levy either general retail sales taxes or selective sales taxes that are not allowed in Detroit.

If the state authorizes Detroit to levy more local-option taxes, this does not require the city to levy them, but simply expands the menu of tax options available to local officials and voters when choosing tax and service levels. Once a tax is approved at the state level, the Detroit City Council would need to pass an ordinance or resolution to levy the tax at whatever rate is desired and allowed for in state law. Then, local voters would have the final say as to whether any new local tax could be levied. The Michigan Constitution prohibits units of local government from levying any new taxes, or raising the rates on any existing taxes, without voter approval.

Also, what must be kept in mind is that the City currently has a number other taxes that already may impact its residents. According to the Citizens Research Council[25], the City levies the following:

In Fiscal Year (FY) 2017, Detroit levied a property tax, income tax, utility users' excise tax, and casino gambling tax… levies the highest city income tax in the state at a rate of 2.4 percent on residents and 1.2 percent on nonresidents… levies a five percent tax on the privilege of consuming public telephone, electric, steam, or gas services[26]… the city levies a 10.9 percent casino gambling tax, plus some additional fees from the casinos to help pay for public safety and other needs.

In any consideration of the elimination of the property tax must be a discussion regarding the potential impact of COVID-19 on the Michigan economy, the loss of revenues by the State of Michigan and cities within the State. In looking at the role of property taxes, the Citizens Research Council identifies the rational for municipalities reliance on property taxes:

All local governments in Michigan rely on property tax revenues to some extent, and, for most local units, they make up a majority of local own-source funding.

[24] A 2018 initiative to legalize recreational use (the Michigan Regulation and Taxation of Marihuana Act) passed with 56% of the vote. State-licensed sales of recreational cannabis began in December 2019. On Tuesday, November 24, 2020, the Detroit City Council passed the Medical Marijuana Facilities and Adult-Use Marijuana Establishments ordinance. An OCFO fiscal impact statement dated November 17, 2020 indicated that starting in FY 2023, the City of Detroit should receive approximately $8 million annually in net revenue from state-shared excise tax, Civil Rights, Inclusion & Opportunity Department fees and Buildings, Safety Engineering and Environmental Department fess from medical marijuana facility or adult-use marijuana establishment licensing under the ordinance.

[25] Citizens Research Council: Diversify Detroit's Tax Structure to Lower the City's High Property Tax Rate, March 29, 2018.

[26] LPD notes as a point of clarification that the five percent tax on consuming public telephone, electric, steam, or gas services are what comprise the utility tax referenced.

> One benefit of a heavy reliance on property taxes is that they tend to be much more stable than other types of taxes, including sales and income.[27]

According to the Citizens Research Council's information gathered, "property tax revenues remained fairly stable through all recessions except for the Great Recession" and "If history repeats itself with this recession, Michigan local governments can expect property tax values to remain fairly stable, at least initially." That being the case, the $133 million in property tax revenue levied by the City identified by Professor Mogk is one of the most stable sources of revenue the City receives. The stability of the revenue that is identified as a replacement should be part of the discussion prior to any reduction or elimination of the millage of property tax. Considering the stability of property taxes as a source of revenue, the fact that replacing those revenues with a similarly stable alternative may be problematic. This leads to the discussion of the inability to simply reverse course if the property tax is elimninated or reduced and the loss of revenue negatively impacts City services. One major impediment to simply reversing course is the Headlee Amendment to the Michigan Constitution, particularly Article IX, Section 3, provides in pertinent part:

> Units of Local Government are hereby prohibited from levying any tax not authorized by law or charter when this section is ratified or from increasing the rate of an existing tax above that rate authorized by law or charter when this section is ratified, without the approval of a majority of the qualified electors of that unit of Local Government voting thereon.

This provision would prohibit the City from simply reversing course and reestablishing a property tax or increasing the property tax without going through the appropriate process including ratification by the voting citizens of Detroit. While citizens may recognize the reduction in services due in part to the reduced City personnel and lack of revenues the City generates, they may not be easily convinced the solution is to renew or increase property taxes that have been eliminated.

Another point of consideration is that of the city's 69.6 property tax mills in FY 2020 on residential (homestead) property, 9 mills represents the debt millage. The property tax revenue generated by the debt millage is used to pay the debt service (principal and interest) payments on the outstanding unlimited tax general obligation (UTGO) bonds.[28] Therefore, any reduction in the Detroit's property tax millage rate should not eliminate the debt millage because by doing so, the City's general fund would be obligated to pay the debt service on UTGO bonds. As indicated in Table 1 earlier in the report, the debt millage generated $55.3 million in property tax revenue to pay the debt service on the outstanding UTGO bonds in FY 2020. It would be devastating to the general fund if it was obligated to pay this debt service and correspondingly reduce service delivery to the Detroit citizens.

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[27] Citizens Research Council: Will Property Taxes be Immune to the Effects of COVID-19? April 22, 2020.

[28] Unlimited tax general obligation (UTGO) bonds are voter-authorized bonds paid off from property taxes based on the City of Detroit's property tax debt millage. In contrast, limited tax general obligation (LTGO) bonds are non-voter bonds and paid for out of the City's general fund and are <u>not</u> paid for out of property taxes based on the property tax debt millage.

Programs currently offered by the City of Detroit to enable Detroit residents to reduce residential property tax millage

As Council knows, there are currently several tax incentive programs in place to lower the City's property tax rate for certain Detroit's residents who qualify. These programs are summarized below:

- **Principal Residence Exemption of Property Taxes**

Eligible homeowners are exempt from paying 18 mills of school operating taxes. To be eligible, the homeowner must both own and occupy his/her principal residence on May 1 each year.

- **Neighborhood Enterprise Zone (NEZ) Act**

New residential property: NEZ tax is one-half of Principal Residence Exemption state average tax mills levied in the State of Michigan (land taxed at full ad valorem property tax rate) on new residential property based on market rate. One-half of Principal Residence Exemption state average tax mills is approximately 17 mills. Duration of NEZ tax is 6 to 15 years, or 11 to 17 years for a historic building.

Rehabilitation of existing property: NEZ tax is full ad valorem property tax rate multiplied by the taxable value, not including land, in place before property rehabilitation (i.e., taxable value is "frozen" for duration of NEZ). Duration of NEZ tax is 6 to 15 years, or 11 to 17 years for a historic building.

- **Homestead NEZ**

Homestead NEZ applies to existing residential property purchased after January 1st 1997. A minimum of $500 in property is required. Homestead NEZ tax based on one-half of property tax mills for the county and local governmental unit operating purposes (does not include debt millage). Any county or local governmental unit debt millage and all other millages levied by all other taxing authorities would remain at full ad valorem millage. This amounts to about a 20 percent savings. Land is not included in this exemption. Duration of Homestead NEZ tax is 6 to 15 years. There are 52 NEZ Homestead neighborhoods in the City of Detroit.

- **Homeowners Property Tax Assistance Program (HPTAP)**

Available to residents of the city of Detroit only, Homeowners may be granted a full (100%) or partial (50%) exemption from their property taxes for a year. Each applicant must own and occupy the property as his/her primary Homestead as of December 31, 2018 and meet specific income requirements.

- **Disabled Veterans Exemption**

This program makes property exempt from all property taxes for a year but is not retroactive. Owner occupied with a Principal Residence Exemption, must honorably discharged veteran or non-remarried surviving spouse, must have been determined as totally disabled or individually unemployable.

Attachment VII provides greater detail on these programs that can lower a Detroit's resident's property taxes.

Property Tax Inequaties in the City of Detroit

In the report "Detroit and the Property Tax: Strategies to Improve Equity and Enhance Revenue" (Lincoln Institute of Land Policy, Gary Sands and Mark Skidmore: 2015), the authors suggest that tax exemptions and tax abatements, among other factors, associated with Detroit's property tax causes inequities amongst the City's tax payers:

> One of the fundamental principles of public finance is fairness. Fairness says that similarly valued properties should be subject to the same tax burden. In Detroit, the property tax burden is often inequitable because of tax exemptions and tax abatements for certain property owners, taxable-value caps that apply in some situations, a high concentration of tax-exempt properties, property owners who cannot pay their property taxes or choose not to pay, and nonuniform assessment practices.
>
> Detroit has granted tax abatements to an estimated 11,400 properties. An obvious inequity results from granting benefits to less than 3.5 percent of the properties in the city; other property owners must pay higher tax rates in order to make up for the forgone revenue. <u>Conceptually, eliminating all abatements would make it possible to reduce property tax rates for the majority of property owners without reducing revenues.</u> Eliminating abatements as they expire would be the least controversial strategy, although this measure would allow the impact of the abatements to continue for more than a decade. At a minimum, an effort should be made to improve the targeting of abatements (emphasis added).

If the elimination of all abatements to reduce property tax rates caused a reduction in property tax revenue, the City would need to find a reliable alternative revenue source to fill in the gap, as discussed previously in this report.

Conclusion

There's a strong argument that the City of Detroit's residential property tax millage rate is too high for the following reasons:

- Detroit's residential property tax millage rate is 10^{th} amongst the top 25 municipalities located in Michigan with the highest property tax rates in 2019.
- Detroit's residential property tax rate is the highest amongst the top 15 most-populated municipalities in Michigan in 2019.
- Detroit's residential property tax rate at 69.6 mills was twice the size of Grand Rapids rate, the second highest most-populated city in Michigan, in 2019. Detroit levies much higher operating and debt millages than Grand Rapids.
- Detroit's effective property tax rate (average tax bill as a percent of property's average market value) on a median valued home was the fourth highest amongst the largest city in the 50 U.S. states in 2019.

- Detroit's had the highest effective property tax rate on a commercial property worth $1 million with $200,000 in fixtures amongst the largest 50 cities in the U.S. in 2019.

As a result, LPD's research shows that Detroit's high residential property tax rate causes the following:

- It is difficult for the City of Detroit to retain residents and attract new residents or new development. This is exacerbated by underperforming schools and high car insurance rates in the City.
- To make it more attractive to stay or locate in the Detroit, the City is forced to offer residents and developers tax exemptions and tax incentives to live in or purchase existing homes or develop new residential and commercial property in the City.
- Detroit's high property tax rate has helped drive down property values in the City; has helped create blight in the City; has helped reduce homeownership in the City, especially as it relates to low-income residents; and has helped increase tax-foreclosures in the City. The City, however, has worked with the State and Wayne County to pass state legislation to create programs such as the Pay As You Stay and the Interest Reduction Stipulated Payment Agreement to help prevent foreclosures. Also, the Homeowners Property Tax Assistance Program helps to prevent foreclosures.

Property tax revenue is one of five major revenues (others being income, casino (wagering) and utility users taxes, and state revenue sharing, which includes a portion of the State's sales tax) received by the City of Detroit's general fund, the main governmental fund that provides essential services (police and fire protection, recreation, administrative and legislative services, etc.) for Detroit's citizens.

As a result, if the City were to abolish or significantly reduce Detroit's residential property tax millage rate, it would have to find a replacement revenue to make up for the lost of property tax revenue mainly due to the following:

- The City of Detroit's general fund revenues have suffered severely from the economic impact of the COVID-19 pandemic.
- As a result, the City's general fund revenues are not likely to reach pre-pandemic levels until FY 2023.
- The City faces a looming huge pension obligation spike of approximately $200 million in FY 2024.
- The City continues to have high debt levels that will be paid back using general fund operational funds.

Unfortunately, Detroit is limited in finding a replacement revenue since it most likely would need State legislation and a vote of the citizens of Detroit to establish a replacement revenue.

But for Detroit residents that qualify, there are current programs in place such as Neighborhood Enterprise Zone Act (NEZ) for new residential property and rehabilitation for existing property, Homestead NEZ for existing property purchased after January 1st 1997, Homeowners Property Tax Assistance Program, to reduce Detroit's property tax rate. But these programs cause inequities in the property tax structure in Detroit.

Lastly, abolishing or significantly Detroit's residential property tax millage rate could be one tool to retain Detroit residents and attract new residents to the City. But most likely, a holistic approach to retain Detroit residents and attract new ones would need to be understaken, including, but not limited to the following:

- Detroit's 19.9520 property tax operating mills are expected to generate $113.3 million property tax revenue for FY 2021. The City could explore the creation of a local sales tax to replace this revenue source. However, the City would have to convince State legislators and Detroit citizens that this would be a viable and reliable source of revenue to replace property tax revenue.
- In FY 2020, the City received $37.3 million in property tax revenue for operational purposes from Detroit residents who occupied homes in the City. Perhaps a study could be conducted to target a reduction in the property tax rate to eliminate the property tax operating mills just for Detroit homeowners that may retain residents or attract new residents in the City. Of course, a corresponding revenue source would have to be identified.
- Work with the other taxing jurisdictions that receive property tax revenue through the City's property tax millage (Detroit Library, Wayne County, Detroit Public Schools Community District (DPSCD), etc.) to determine how much they can withstand in lost property tax revenue and still provide optimal services to its constituents. Or alternatively, identify a replacement revenue source for property tax revenue loss to the other taxing jurisdictions based on a reduced property tax rate.
- Conduct a study amongst Detroit residents and those that have recently left to determine the threshold or right amount of property tax reduction that is attractive enough to encourage them to stay in Detroit or relocate to the City.
- An estimate on the amount of additional income taxes that would be generated from the estimated influx of new residents and businesses locating to the City of Detroit based on a lower property tax millage rate that would mitigate the loss of property rax revenue or fully replace the loss revenue based on the lower millage rate.
- Periodically hear from the DPSCD on its efforts to improve schools located in the City of Detroit. Determine what the State and City government, businesses, local colleges and philanthophy can do to assist in this effort.
- Provide more effective public safety programs to reduce crime and blight.
- Develop a comprehensive economic strategy for growing, retaining and attacting Detroiters, including increasing the opportunity for prosperity of existing residents.[29]
- Look at other major cities in the State of Michigan and throughout the U.S. who reduced municipal taxes to attract new residents and businesses and analyze their successes to possibly duplicate in the City of Detroit, and analyze their failures to avoid duplicating in the City of Detroit.

[29] "Growing Detroit's African-Americal Middle Class: The Opportunity for a Prosperous Detroit", Detroit Future City, February 2019.

- Look at ways to identify landlords who own investment property in the City of Detroit and who are not paying income taxes on investment income in order to generate more income tax revenue and help reduce the City's reliance on property tax revenue.

Please let us know if we can be of any more assistance.

Attachments

cc's Jay Rising, Acting CFO
John Naglick, Chief Deputy CFO/Finance Director
Tanya Stoudemire, Chief Deputy CFO/Financial Services
Steven Watson, Deputy CFO/Budget Director
Alvin Horhn, Deputy CFO/Assessor
Christa McLellan, Deputy CFO/Treasurer
Auditor General's Office
Avery Peoples, Mayor's Office

Attachment I

Michigan top 25 communities that had the highest property tax rates in 2019

	City/Township	2019 Mills Total	2019 Mills Description
1	**Ecorse**	111.5 to 111 mills	111.5 for homes in the Ecorse school district and 111 mills for homes in River Rouge school district.
2	**Harper Woods**	83.1 to 81.9 mills	83.1 for homes in the Harper Woods school district and 81.9 mills for homes in the Grosse Pointe school district.
3	**River Rouge**	82 mills	82 mills for homes in the River Rouge school district.
4	**Highland Park**	78.4 mills	78.4 mills for homes in the Highland Park school district.
5	**Center Line**	77.2 to 65.3 mills	77.2 mills for homes in the Center Line school district. 65.3 mills for homes in the Van Dyke school district.
6	**Inkster**	77.1 to 64.1 mills	77.1 mills for homes in the Romulus, Taylor, Wayne-Westland and Westwood school districts all with Inkster debt. 69.6 mills for homes in the Wayne - Westland school district (without Inkster debt). 65.1 for homes in the Taylor school district (without Inkster debt). 64.1 for homes in the Westwood school district (without Inkster debt).
7	**Hazel Park**	74.6 mills	74.6 mills for homes in the Hazel Park school district.
8	**Royal Oak Twp.**	74.4 to 73.6 mills	74.4 mills for homes in the Oak Park school district. 73.6 mills for homes in the Ferndale school district.
9	**Eastpointe**	69.8 to 65.2 mills	69.8 mills for homes in the south Lake school district. 65.2 mills for homes in the Eastpointe school district.
10	**Detroit**	69.6 mills	69.6 mills for homes in the Detroit school district.
11	**Melvindale**	68 mills	68 mills for homes in the Melvindale-Northern Allen Park school district.
12	**Warren**	67.5 to 50.9 mills	for homes in the Center Line school district. 54.5 for homes in Warren school district. 50.9 for homes in Eastpointe school district.
13	**Lansing**	64.5 to 58.2 mills	64.5 mills for homes in the Waverly school district. 58.2 mills for homes in the Lansing school district.
14	**Ferndale**	63.2 53.4 mills	63.2 mills for homes in the Hazel Park school district. 53.4 mills for homes in the Ferndale school district.
15	**Dearborn**	62.5 to 50.7 mills	62.5 mills for homes in the Dearborn school district. 50.7 for homes in the Westwood school district.
16	**Southfield**	62.3 to 53.4 mills	62.3 mills for homes in the Southfield school district. 53.4 mills for homes in Birmingham and Oak Park school district.
17	**Redford Twp.**	61.9 to 53 mills	61.9 mills for homes in the south Redford school district. 60.5 mills in the Redford Union school district. 53 mills in the Claranceville school district.

18	**Allen Park**	60.7 to 48.7 mills	60.7 mills for homes in the Allen Park school district. 54.6 for homes in Southgate school district. 48.7 for homes in Melvindale-Northern Allen Park school district.
19	**Oak Park**	60.6 to 58.3 mills	60.6 mills for homes in the Oak park school district. 59.8 for homes in Ferndale school district. 58.3 for homes in Berkley school district.
20	**Dearborn Heights**	59.4 to 47.7 mills	59.4 mills for homes in the Dearborn school district. 54.9 in Dearborn Heights school district. 47.7 for homes in Westwood school district.
21	**Madison Heights**	59.3 to 47.9 mills	59.3 mills for homes in the Lamphere school district. 47.9 mills in the royal Oak school district.
22	**Trenton**	59.3 to 54.2 mills	59.3 mills for homes in the Trenton school district. 54.2 for homes in the Riverview school district.
23	**East Lansing**	57.5 to 53.5 mills	57.5 mills for homes in the for homes in the Lansing school district. 53.5 for homes in the Haslett school district. 53.5 mills in the Lansing school district.
24	**Grosse Pointe Woods**	57.3 mills	57.3 mills for homes in the Grosse Pointe school district.
25	**Muskegon Heights**	57.3 to 51.8 mills	57.3 mills for homes in the Muskegon Heights school district. 51.8 mills for homes in the Mona Shores school district.

Attachment II

Property Tax Mills for Residents (Homestead) Top 9
Most-Populated Cities in Michigan in 2019

Description of Mills	Detroit
General City (Operating)	19.9520
Debt Service	9.0000
Schools (Debt)	13.0000
Schools (Operating)	
Library	4.6307
County (1)	17.0375
State Education	6.0000
Total Property Tax Mills Residential (Homestead)	69.6202
(1) County Taxes (A):	
County Operating Tax	6.6380
County Jails	0.9381
County Parks	0.2459
County HCMA (Huron Clinton	0.2104
Metropolitan Authority)	
County RESA Enhanced	2.0000
County RESA	0.0965
County RESA SP ED	3.3678
County COMM College	3.2408
County Zoo	0.1000
County DIA	0.2000
Total County Taxes	17.0375

(A) For Detroit, county is Wayne County.

Description of Mills	Grand Rapids
_	
State Education Tax	6.0000
Debt Service	4.8500
Grand Rapids Community College	1.7606
Allocated Operating	0.0884
Voted Special Ed	4.5467
voted Vocational Ed	0.9762
Allocated or Charter	5.9762
Voted Operating	2.9249
Inter Urban Transit Partnership	1.4556
Wayne County Operating	4.2571
Jail	0.7777
Senior Citizen	0.4926
Veterans	0.0491
Zoo/Museum	0.4335
Ready By Five Early Childhood	0.2484
Total Property Tax Mills Residential (Homestead)	34.8370

Description of Mills	Warren
_	
Homestead School	16.5731
Community College	1.4531
Intermediate School	2.8744
City, Village or Township	27.5658
County Operating	4.4592
County Veteran	0.0674
SMART	0.9926
Art Auth	0.1950
Zoo Auth	0.0977
HCMA	0.2117
Total Property Tax Mills Residential (Homestead)	54.4900

	Sterling Heights
Description of Mills	
_	
Homestead School	16.5731
Community College	1.4531
Intermediate School	2.8744
City, Village or Township	16.2069
County Operating	4.4592
County Veteran	0.0674
SMART	0.9926
Art Auth	0.1950
Zoo Auth	0.0977
HCMA	0.2117
Total Property Tax Mills Residential (Homestead)	43.1311

Description of Mills	Ann Arbor
_	
County	7.1093
Cvt Rate	16.4067
State Education	6.0000
Supl Millage	3.9687
Local Enhancement	2.4482
School Debt	2.4500
C.C. Rate	3.3763
Isd Rate	5.3285
Library Rate	1.8519
Total Property Tax Mills Residential (Homestead)	48.9396

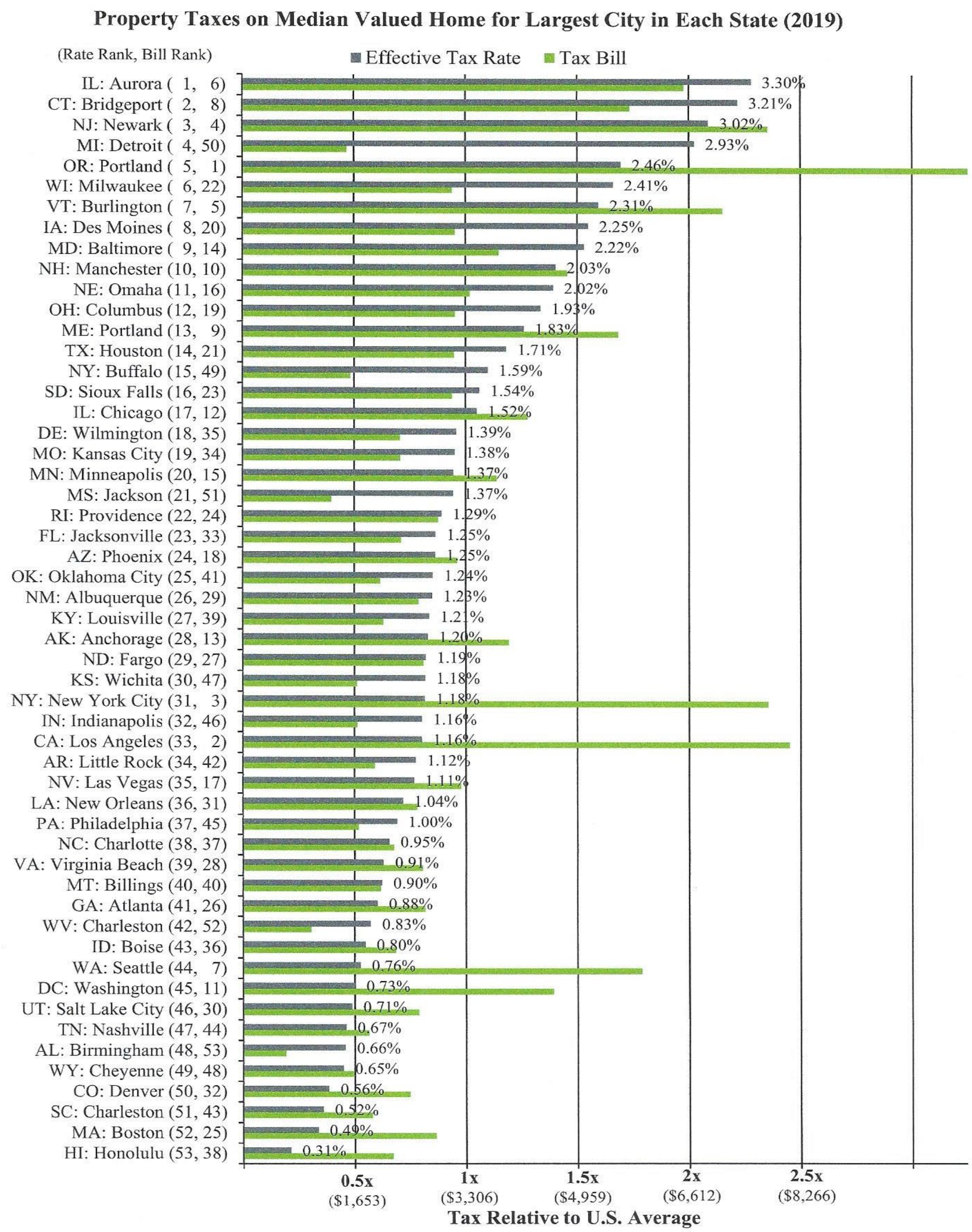
Description of Mills	Dearborn
_	
Charter Operating	15.0000
Voted Operating	3.5000
Garbage & Rubbish	1.9100
Library	1.6900
H.F.C.C.	4.0000
Debt Bonded-Voted (3/26/02)	3.6000
Debt Bonded- Voted (11/5/13)	1.2200
Supplemental (PRE)	6.1700
State Education	6.0000
RESA Operations	0.0965
RESA Voted Special Ed (8/6/74)	0.9300
RESA Voted Special Ed (8/6/02)	1.5000
RESA Voted Special Ed (Orig 11/8/88)	0.9378
RESA Enhanced	2.0000
Debt (Sewer) Bonded-Voted (08/03/04)	4.2500
Debt (Sewer) Bonded-Voted (08/07/18)	0.3500
Soldiers Relief Fund	0.0368
Voted Operating	0.9529
Public Safety	0.9381
Parks	0.2459
Huron Clinton Metropolitan Authority (HCMA)	0.2117
Wayne County Zoological Authority	0.1000
Wayne County Transit Authority (SMART)	0.9910
Detroit Institute of Arts (DIA)	0.2000
Wayne County Charter Operating	5.6483
Total Property Tax Mills Residential (Homestead)	62.4790

Description of Mills	Flint
_	
Operating	7.5000
Capital Improve.	2.5000
Voted Oper	9.1000
County	5.4911
Paramedics	0.4832
Parks	0.7478
Senior Citizens	0.6979
Health Services	0.9971
Veterans	0.0997
MSU Ext.	0.0398
Animal C	0.1994
Culture	0.9591
Airport Auth (County)	0.4832
Library (Flint Public Only)	4.0000
DDA M.T.A.	1.2221
Community College:	
Gen'l Opn	1.3434
Extra Voted Operating	0.6385
Voted Debt	0.8200
Intermediate School:	
Gen'l Opn	0.4117
Vocational Educ.	0.9586
Special Educ.	2.3973
State Education	6.0000
Bldg & Site -Sinking Fund	4.0000
Total Property Tax Mills Residential (Homestead)	51.0899

Description of Mills	Livonia
_	
Operating	13.3510
State Education	6.0000
Livonia Public Schools Operating	1.1010
Livonia Public Schools sinking fund	4.1000
Wayne RESA	5.4643
Schoolcraft Community College	2.2516
Wayne County Government	6.6380
Wayne County Jail	0.9381
Wayne County Parks	0.2459
Zoo Auth	0.1000
Art Institute	0.2000
Huron Clinton Metro Auth	0.2117
Total Property Tax Mills Residential (Homestead)	40.6016

Description of Mills	**Troy**
-	
Homestead School	16.5731
Community College	1.5303
Intermediate School	2.8744
City, Village or Township	10.2437
OCPTA	0.9927
County Operating	4.0400
Parks & recreation	0.2329
Art Auth	0.1929
Zoo Auth	0.0973
HCMA	0.2117
Total Property Tax Mills Residential (Homestead)	36.9890

Attachment III



Source: "June 2020 50-State Property Tax Comparison Study for Taxes Paid in 2019", Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence.

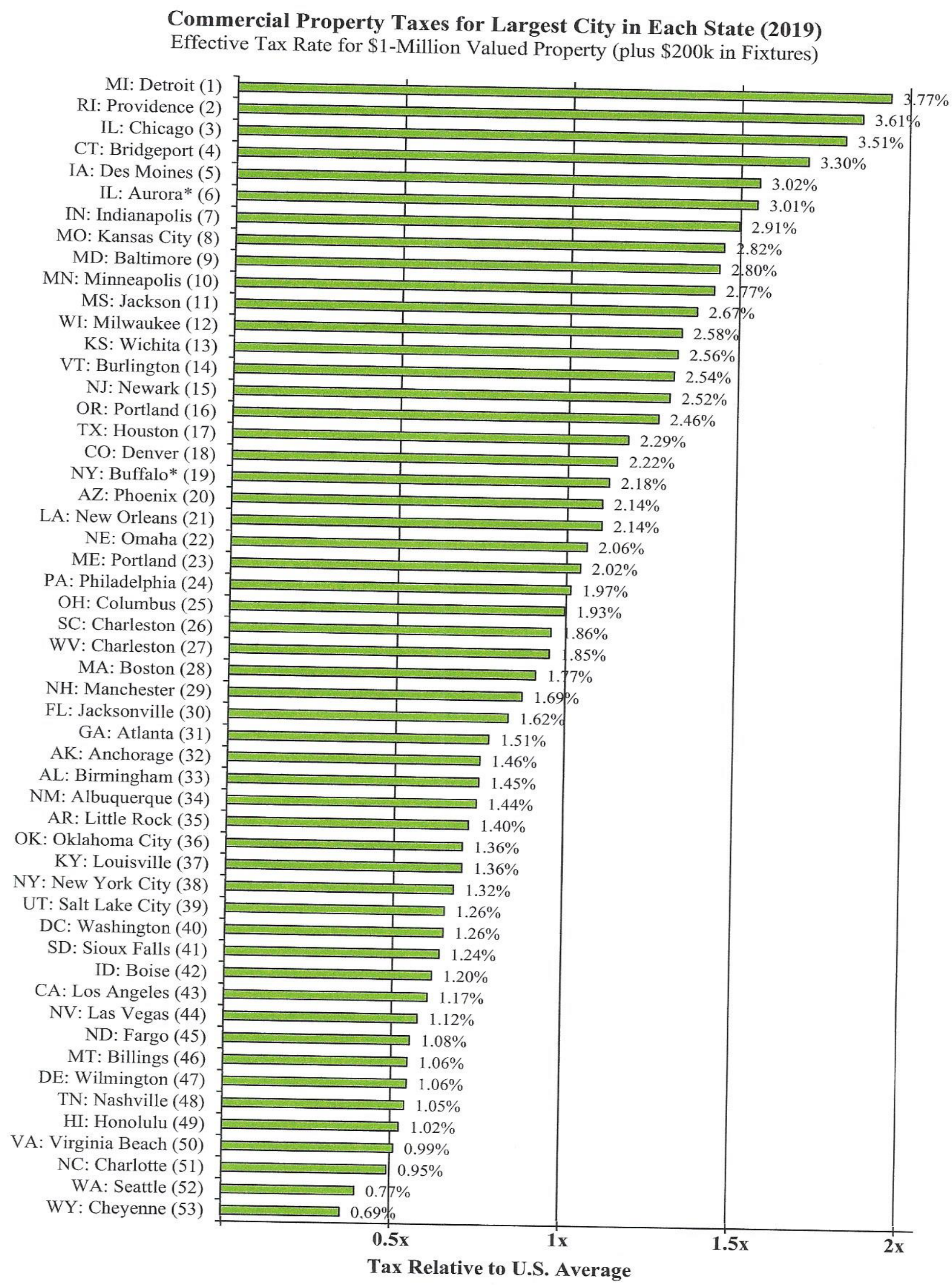
Attachment IV

Homestead Property Taxes for Largest City in Each State: Homes worth $150,000 and $300,000

		$150,000 Property Value				$300,000 Property Value				Tax Rate Varies with Property Value
State	City	Tax Rate	Tax Bill	Rank	Change from '18	Tax Rate	Tax Bill	Rank	Change from '18	
Alabama	Birmingham	0.686%	1,029	44	3 ↑	0.704%	2,112	46	1 ↑	X
Alaska	Anchorage	1.165%	1,747	31	9 ↓	1.183%	3,549	32	9 ↓	X
Arizona	Phoenix	1.249%	1,874	22	1 ↑	1.249%	3,747	25	1 ↑	
Arkansas	Little Rock	1.094%	1,641	34	2 ↓	1.211%	3,632	27	1 ↑	X
California	Los Angeles	1.119%	1,679	32	1 ↓	1.147%	3,441	34	3 ↓	X
Colorado	Denver	0.557%	836	48	1 ↑	0.557%	1,671	50	-	
Connecticut	Bridgeport	3.215%	4,822	1	1 ↑	3.215%	9,644	2	-	
DC	Washington	0.414%	621	50	-	0.622%	1,865	49	-	X
Delaware	Wilmington	1.388%	2,082	18	2 ↑	1.388%	4,164	20	1 ↑	
Florida	Jacksonville	1.165%	1,747	30	4 ↓	1.401%	4,204	19	3 ↑	X
Georgia	Atlanta	0.254%	381	51	5 ↓	0.871%	2,613	41	6 ↓	X
Hawaii	Honolulu	0.162%	242	52	-	0.255%	765	52	-	X
Idaho	Boise	0.643%	965	47	3 ↓	0.830%	2,490	43	3 ↓	X
Illinois	Aurora*	3.212%	4,818	2	1 ↓	3.412%	10,236	1	-	X
Illinois	Chicago	1.319%	1,979	20	1 ↑	1.546%	4,637	17	-	X
Indiana	Indianapolis	1.166%	1,750	29	6 ↑	1.204%	3,611	29	9 ↑	X
Iowa	Des Moines	2.260%	3,389	7	-	2.336%	7,008	7	-	X
Kansas	Wichita	1.186%	1,779	28	1 ↓	1.201%	3,604	30	-	X
Kentucky	Louisville	1.210%	1,815	26	3 ↑	1.210%	3,630	28	4 ↑	
Louisiana	New Orleans	0.771%	1,157	41	2 ↑	1.123%	3,368	36	-	X
Maine	Portland	1.697%	2,545	13	3 ↑	1.828%	5,483	13	-	X
Maryland	Baltimore	2.217%	3,326	8	-	2.217%	6,652	9	-	
Massachusetts	Boston	0.096%	144	53	-	0.096%	288	53	-	
Michigan	Detroit	2.933%	4,400	4	1 ↓	2.933%	8,800	4	1 ↓	
Minnesota	Minneapolis	1.226%	1,839	24	1 ↑	1.386%	4,158	21	3 ↑	X
Mississippi	Jackson	1.484%	2,227	17	1 ↑	1.584%	4,753	16	2 ↑	X
Missouri	Kansas City	1.377%	2,065	19	2 ↓	1.377%	4,130	22	3 ↓	
Montana	Billings	0.904%	1,356	39	1 ↓	0.904%	2,711	40	1 ↑	
Nebraska	Omaha	2.018%	3,028	10	1 ↑	2.018%	6,055	11	-	
Nevada	Las Vegas	1.111%	1,667	33	3 ↓	1.111%	3,334	37	4 ↓	
New Hampshire	Manchester	2.033%	3,050	9	-	2.033%	6,099	10	-	
New Jersey	Newark	3.025%	4,537	3	1 ↑	3.025%	9,074	3	1 ↑	
New Mexico	Albuquerque	1.215%	1,823	25	1 ↓	1.243%	3,730	26	1 ↓	X
New York	Buffalo*	1.687%	2,530	14	-	1.776%	5,329	15	1 ↓	X
New York	New York City	1.025%	1,537	35	1 ↑	1.126%	3,379	35	1 ↓	X
AVERAGE		**1.338%**	**2,007**			**1.411%**	**4,233**			**N = 26**

Source: : "June 2020 50-State Property Tax Comparison Study for Taxes Paid in 2019", Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence.

Attachment V



Source: "June 2020 50-State Property Tax Comparison Study for Taxes Paid in 2019", Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence.

Attachment VI

Commercial Property Taxes for the Largest Fifty U.S. Cities

		Land and Building Value: $100,000			Land and Building Value: $1 Million			Land and Building Value: $25 Million			Tax Rate Varies with Property Value	Lower Tax Rate on Personal Property
State	City	Tax Rate	Tax Bill	Rank	Tax Rate	Tax Bill	Rank	Tax Rate	Tax Bill	Rank		
Arizona	Mesa	1.540%	1,848	27 (1 ↓)	1.584%	19,005	29 (-)	1.891%	567,297	28 (1 ↓)	X	X
Arizona	Phoenix	2.080%	2,496	19 (3 ↓)	2.142%	25,701	18 (1 ↓)	2.574%	772,230	11 (1 ↓)	X	X
Arizona	Tucson	1.861%	2,233	23 (2 ↓)	1.916%	22,997	25 (4 ↓)	2.305%	691,545	16 (1 ↓)	X	X
California	Fresno	1.247%	1,497	38 (1 ↓)	1.247%	14,965	39 (1 ↓)	1.247%	374,126	39 (1 ↓)		
California	Long Beach	1.210%	1,452	40 (1 ↓)	1.210%	14,519	41 (1 ↓)	1.210%	362,978	41 (1 ↓)		
California	Los Angeles	1.175%	1,410	42 (2 ↓)	1.175%	14,097	43 (2 ↓)	1.175%	352,419	43 (2 ↓)		
California	Oakland	1.369%	1,643	31 (1 ↑)	1.369%	16,426	33 (-)	1.369%	410,640	34 (-)		
California	Sacramento	1.137%	1,365	44 (2 ↑)	1.137%	13,645	44 (2 ↑)	1.137%	341,130	44 (2 ↑)		
California	San Diego	1.232%	1,478	39 (2 ↑)	1.232%	14,784	40 (2 ↑)	1.232%	369,597	40 (2 ↑)		
California	San Francisco	1.180%	1,416	41 (1 ↑)	1.180%	14,161	42 (1 ↑)	1.180%	354,030	42 (1 ↑)		
California	San Jose	1.267%	1,521	36 (-)	1.267%	15,206	37 (-)	1.267%	380,160	38 (1 ↓)		
Colorado	Colorado Springs	2.039%	2,447	20 (2 ↑)	2.039%	24,471	22 (3 ↑)	2.039%	611,764	24 (2 ↑)		
Colorado	Denver	2.223%	2,668	16 (1 ↑)	2.223%	26,676	17 (1 ↑)	2.223%	666,906	19 (-)		
DC	Washington	1.261%	1,513	37 (2 ↓)	1.261%	15,131	38 (2 ↓)	1.925%	577,633	27 (2 ↓)	X	X
Florida	Jacksonville	1.365%	1,638	32 (1 ↓)	1.615%	19,380	28 (-)	1.649%	494,797	30 (-)	X	X
Florida	Miami	1.610%	1,932	26 (1 ↑)	1.909%	22,911	26 (-)	1.950%	585,062	25 (3 ↑)	X	X
Georgia	Atlanta	1.508%	1,809	28 (-)	1.508%	18,091	30 (-)	1.508%	452,272	31 (-)		
Illinois	Chicago	3.514%	4,217	2 (-)	3.514%	42,173	2 (-)	3.514%	1,054,336	2 (-)		X
Indiana	Indianapolis	2.907%	3,488	3 (8 ↑)	2.907%	34,882	3 (9 ↑)	2.907%	872,046	4 (9 ↑)		
Kansas	Wichita	2.691%	3,229	7 (1 ↑)	2.691%	32,292	8 (1 ↑)	2.691%	807,297	8 (3 ↑)		
Kentucky	Louisville	1.363%	1,635	34 (-)	1.363%	16,352	35 (-)	1.363%	408,805	36 (-)		
Louisiana	New Orleans	2.140%	2,568	17 (3 ↑)	2.140%	25,679	19 (3 ↑)	2.140%	641,984	20 (3 ↑)		
Maryland	Baltimore	2.795%	3,354	6 (1 ↑)	2.795%	33,544	6 (2 ↑)	2.795%	838,600	7 (2 ↑)		
Massachusetts	Boston	1.771%	2,125	24 (-)	1.771%	21,250	27 (-)	1.771%	531,250	29 (-)		X
Michigan	Detroit	3.772%	4,527	1 (-)	3.772%	45,267	1 (-)	3.772%	1,131,686	1 (-)		X
Minnesota	Minneapolis	1.734%	2,081	25 (-)	2.768%	33,219	7 (4 ↑)	2.919%	875,604	3 (4 ↑)	X	X
Missouri	Kansas City	2.822%	3,386	5 (1 ↓)	2.822%	33,858	5 (1 ↓)	2.822%	846,458	6 (2 ↓)		X
Nebraska	Omaha	1.888%	2,265	22 (1 ↑)	2.056%	24,677	21 (2 ↑)	2.074%	622,322	23 (1 ↑)	X	X
Nevada	Las Vegas	1.120%	1,344	45 (1 ↓)	1.120%	13,441	45 (1 ↓)	1.120%	336,016	45 (1 ↓)		
New Mexico	Albuquerque	1.440%	1,729	30 (-)	1.440%	17,285	32 (-)	1.440%	432,133	33 (-)		
New York	New York City	1.317%	1,581	35 (10 ↑)	1.317%	15,806	36 (9 ↑)	1.317%	395,138	37 (8 ↑)		X
North Carolina	Charlotte	0.954%	1,144	49 (2 ↓)	0.954%	11,442	49 (2 ↓)	0.954%	286,050	49 (2 ↓)		
North Carolina	Raleigh	1.009%	1,210	47 (1 ↑)	1.009%	12,104	47 (1 ↑)	1.009%	302,589	47 (1 ↑)		
Ohio	Columbus	1.933%	2,319	21 (3 ↓)	1.933%	23,193	24 (5 ↓)	1.933%	579,814	26 (6 ↓)		X
Oklahoma	Oklahoma City	1.364%	1,636	33 (-)	1.364%	16,363	34 (-)	1.364%	409,063	35 (-)		
AVERAGE		**1.838%**	**2,206**		**1.894%**	**22,724**		**1.938%**	**581,298**		**N = 10**	**N = 18**

Source: "June 2020 50-State Property Tax Comparison Study for Taxes Paid in 2019", Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence.

Attachment VII

Programs Used in the City of Detroit to Lower Residential Property Taxes

Principal Residence Exemption of Property Taxes

Pursuant to MCL 211.7cc, eligible homeowners are exempt from paying 18 mills of school operating taxes. To be eligible, the homeowner must both own and occupy his/her principal residence on May 1 each year. Your local assessor's office has forms and can assist taxpayers with questions about this exemption.

The PRE is a separate program from the Homestead Property Tax Credit, which is filed annually with your Michigan Individual Income Tax Return.

Development of the NEZ Act

The Neighborhood Enterprise Zone Act[30] (NEZ), Michigan public Act 147 of 1992, was originally introduced under Michigan Senate bill 662 in 1992, by Republican Senator Jon Cisky of the State's 33rd district. NEZ legislation was developed to provide tax incentives in order to stimulate new housing development and improvement in communities where such was not likely to otherwise occur. Prior to its inception, economically challenged municipalities throughout the state (urban areas in particular) faced a steep decline in new housing construction and little to no home improvements to their existing older and often debilitated housing stock, due primarily to the additional tax burden generated from the higher tax assessments given to both new housing and existing housing as a result of home improvements.

The NEZ program supports owner occupied housing and new investment in communities. The program was established to stabilize neighborhoods and to provide existing residents the ability to make repairs to their respective residences without an accompanying tax burden. Under the NEZ Act, qualified local units of government may designate one or more areas as Neighborhood Enterprise Zones (NEZs) for the purpose of extending property tax abatements for residential construction and rehabilitation. Only facilities located within established NEZs are eligible for NEZ certificates.

The NEZ Act authorizes a specific tax to be levied on real property (excluding land) with a valid NEZ certificate in lieu of the ad valorem tax[31]. The NEZ tax rate for "New Facility" certificates, is based on the issuance date of the certificate and the property owner's Principal Residence Exemption (PRE) status, is equal to one-half of the preceding year's Non-PRE state average tax rate or PRE state average tax rate.

NEZs are established by a local governmental unit (LGU) that represents a municipality that meets the qualifications of an "Eligible distressed area[32]" and is intent to provide for the development and rehabilitation of residential housing in a specific area. The LGU determines the areas to be established as an NEZ. By statute, every NEZ must contain not less than 10 platted parcels of land which are compact and contiguous. The statute allows for an exception if a NEZ is located in a *downtown revitalization district.* In a downtown revitalization district[33], a NEZ

[30] NEIGHBORHOOD ENTERPRISE ZONE ACT, Public Act 147 of 1992, MCL 207.771 et seq.
[31] A tax based on the assessed value.
[32] STATE HOUSING DEVELOPMENT AUTHORITY ACT, PA 344 of 1966, Section 11 (u) MCL 125.1411
[33] As defined in Section 2 (k) MCL 207.772

may contain less than 10 platted parcels if the platted parcels together contain 10 or more facilities.

An NEZ containing *new facilities, rehabilitated facilities, or a combination of both* shall not exceed 15% of the total acreage contained within the boundaries of the LGU. An NEZ containing only *homestead facilitie*s shall not exceed 10% of the total acreage contained within the boundaries of the LGU. If approved by the board of commissioners of the county or a county executive, if the county has an elected or appointed county executive, the homestead facility NEZ can contain up to 15% of the total acreage of the LGU; so, an additional 5% would be permitted if approved by the County Executive. To our knowledge (LPD) the Wayne County Executive has not his approval for the extra 5%.

Section 207.782 of the NEZ Act states a neighborhood enterprise zone certificate issued after December 31, 2005 shall remain in effect for 6 to15 years from the effective date of the certificate as determined by the governing body of the local governmental unit. If the facility is a qualified historic building, the NEZ certificate is in effect for 11 to 17 years, given that within 6 years after obtaining a certificate, the historic building was owner-occupied as a principal residence.

NEZ New & Rehab

A Neighborhood Enterprise Zone (NEZ) New & Rehab, applies to new facilities and/or rehabilitated facility projects.

A New Facility is defined by the following in the NEZ statute:

- A new structure or a portion of a new structure that has as its primary purpose residential housing consisting of 1 or 2 units, 1 of which is or will be occupied by an owner as his or her principal residence.
- A model home or a model condominium unit.
- A new individual condominium unit, in a structure with 1 or more condominium units, that has as its primary purpose residential housing and that is or will be occupied by an owner as his or her principal residence.
- A new structure or a portion of a new structure that meets *all of the following*:
    - Is rented or leased or is available for rent or lease.
    - Is a mixed-use[34] building or located in a mixed use building that contains retail business space at the street level.
    - ***Is located in a qualified downtown revitalization district***.

A Rehabilitated (Rehab) Facility by statute, includes the following:

- An existing structure or a portion of an existing structure with a current true cash value of $80,000.00 or less per unit that has or will have as its primary purpose residential housing, consisting of 1 to 8 units,
- Improvements that if done by a licensed contractor, would cost in excess of $5,000.00 per owner-occupied unit or 50% of the true cash value, whichever is less.
- $7,500.00 per non owner-occupied unit or 50% of the true cash value, whichever is less.

[34] mixed-use is multiple functions within the same building

- Improvements done by the owner and not a licensed contractor and the cost of the materials would be in excess of $3,000.00 per owner-occupied unit or $4,500.00 per non owner-occupied unit and will bring the structure into conformance with minimum local building code standards for occupancy or improve the livability of the units while meeting minimum local building code standards.
- Rehabilitated facility also includes:
    - Units available for rent or lease.
    - An individual condominium unit, in a structure with 1 or more condominium units that has as its primary purpose residential housing, the owner of which proposes the above described improvements.
    - Existing or proposed condominium units in a qualified historic building with 1 or more existing or proposed condominium units.
    - *Rehabilitated facilities* ***DO NOT*** *include a facility rehabilitated with the proceeds of an insurance policy for property or casualty loss*.

Background and Definition of NEZ "Homestead" Zone

A Neighborhood Enterprise "Homestead"[35] Zone covers only pre-existing residential property, located within a subdivision platted pursuant to state law before January 1, 1968[36], thereby expanding the number of residential facilities that are eligible to receive a NEZ. Prior to the amendment of the NEZ act in 2005, there was no provision in the Act that would allow for a NEZ certificates to *existing housing* that is not in need of substantial renovation. Under the Homestead NEZ program, a resident must own and occupy pre-existing residential property after January 1st 1997.

Neighborhood Enterprise Zones increased exponentially after the establishment of the NEZ "Homestead" Zone legislation, established through Michigan Public Acts 338, 339 and 340 of 2005. During the years 1993 to 2003, the State Tax Commission received between 70 and 480 NEZ applications each year. After 2004, the number of applications increased significantly with **1,990** NEZ applications received in 2005 (a 314.6% increase from 480), and **2,200 (**a 358.3% increase from 480) "homestead facilities" applications received in 2006 for the cities of *Detroit and River Rouge alone*.[37]

Homestead NEZs were established to address the property tax "pop up" problem in Detroit real estate that occurs when property changes ownership. The "pop-up tax." occurs when long-time residents sell their homes. The problem is that Michigan's property tax laws cap the amount by which a home's taxable value can grow from year to year at 5 percent or the rate of inflation, whichever is less[38]. The issue made it difficult to sell property in some of Detroit's more affluent neighborhoods. The Homestead amendment to the Act allowed Detroit and other eligible cities to rebuild their tax base by encouraging residents to return to or remain in the city, and purchase and improve existing housing. The one financial requirement of the owner of a homestead

[35] As defined in Section 2 (e) MCL 207.772
[36] PA 9 of 2010 amended the Neighborhood Enterprise Zone Act to include in the definition of "homestead facility" structures in neighborhoods platted in 1999 or later in the City of Flint. Section 2 (I) MCL 207.772
[37] SURVEY OF ECONOMIC DEVELOPMENT PROGRAMS IN MICHIGAN, Citizens Research Citizens Research Council of Michigan, June 2007
[38] The sale of property allowed an "uncapping" of the tax bill, leaving the new owner with a substantial increase.

facility, is a statement that the owner is committed to investing a minimum of $500 in the first 3 years of the certificate period.

In some instances NEZ districts can overlay each other. If a NEZ New or Rehab certificate retires a certain year, and the property is in a NEZ Homestead district the owner can apply for the NEZ homestead for the year following the expiration of the New or Rehab certificate. Example; if the New or Rehab certificate expires 12/31/2016, the owner can apply for the NEZ Homestead up until 10/30/2017 to be processed for the current year.

Statutory Allotment of NEZ Homestead Areas in the city of Detroit:

Regarding NEZ Homestead Zones, the NEZ statue indicates that the City of Detroit shall **not exceed 10% of the total acreage**… (of the city) **or**, *with the approval of an elected county executive* of the county in which the neighborhood enterprise zone is located if the county has an elected or appointed county executive, **15% of the total acreage**….[39]" There are 52 NEZ Homestead neighborhoods in the City of Detroit, including the following:

NEZ HOMESTEAD ZONES ESTABLISHED IN 2005 & 2006[40]

ARDEN PARK	**EIGHT MILE**
BERRY SUB	**BERG GRAND RIVER**
BOSTON EDISON	**KENTFIELD**
GOLF CLUB ADDTN	**CURTIS EVERGREEN**
DETROIT GOLF CLUB	**EIGHT MILE MEYERS**
GRANDMONT	**GREENFIELD PURITAN**
GREENACRES	**MCNICHOLS LYNDON**
GREENLAWN	**MEYERS OUTER DRIVE**
INDIAN VILLAGE	**PURITAN MEYERS**
LASALLE GARDENS	**MIDTOWN BRUSH**
LIVERNOIS PARKSIDE	**WOODWARD WEST GRAND BLVD**
LONGFELLOW	**WARREN ROUGE PK**
OAKMAN WEST	**FIELDING W CHICAGO**
OAKMAN EAST	**WOODBRIDGE**
OUTER DRIVE E	**WOODWARD GREENDALE**
PALMER WOODS	**WEST VILLAGE**
ROSEDALE NORTH	**MORNING SIDE**
ROSEDALE SOUTH	**CADIEUX MACK**
RUSSELL WOODS	**JEFFERSON ALTER**
SHERWOOD	**GRATIOT EIGHT MILE**
VASSAR OUTER DRIVE	**GRATIOT OUTER DRIVE**
AVIATION	**RIVERSIDE**
BAGLEY	**EAST ENGLISH VILLAGE**
EIGHT MILE	**J0Y SOUTHIELD**

[39] MCL 207.773 (2)
[40] Source City of Detroit Finance Assessors

Tax Advantage of an NEZ Exemption

The NEZ tax for a "**New Facility**" is determined by multiplying one-half the Principal Residence Exemption state average tax rate mills levied in this state in the immediately preceding calendar year by the taxable value of the "New facility," not including land, until the certificate expires, unless the effective date is adjusted by MCL 207.780(2). If the effective date is adjusted or the certificate is approved after 12/31/2005, the exemption is adjusted as described below. The Principal Residence Exemption state average tax rate is set by the Michigan Department of Treasury, Assessment and Certification Division, on an annual basis. One-half of the state average tax rate is approximately 17 mills.

The NEZ tax for a "**Rehabilitated Facility**" is determined by multiplying the total mills levied as ad valorem taxes by the taxable value, not including land, for the tax year immediately preceding the effective date of the certificate, unless the effective date is adjusted by MCL 207.780(3). If the effective date is adjusted or the certificate is approved after 12/31/2005, the taxable value remains "frozen" until the last three years of the certificate and is then adjusted as described below.

In the last three years of the exemption, the exemption applies to only the number of mills levied for the county and local governmental unit (LGU) operating purposes (does not include debt millage); multiplied by the current taxable value. Any county or LGU debt millage and all other millages levied by all other taxing authorities would be levied at the full millage. Land is not included in this exemption.

- **In the tax year two years before the certificate expires**, the percentage of county and LGU operating mills paid changes to five-eighths[41] (does not include debt millage); multiplied by the current taxable value.
- **In the tax year one year before the certificate expires**, the percentage of county and LGU operating mills paid changes from five-eighths to three-fourths[42] (does not include debt millage); multiplied by the current taxable value.
- **In the year that the certificate expires**, the percentage county and LGU operating mills paid changes from three-fourths to seven-eighths[43] (does not include debt millage); multiplied by the current taxable value. The LGU may grant an exemption for 6 to 15 years, or 11 to 17 years for a *historic building*.

Transfer of an existing certificate: Existing NEZ certificates may be transferred to a new owner by filing a completed application and a copy of the warranty deed for the subject property with the State Tax Commission.

To qualify for this certificate, the subject property must be located within an established NEZ. Applications for a certificate of exemption are filed, reviewed, and approved by the LGU, but also are subject to review and either approval or denial by the State Tax Commission.

Tax Advantage for a NEZ Homestead Facility Exemption

[41] 62.5% of operating mills paid.
[42] 75% of operating mills paid.
[43] 87.5% of operating mills paid.

One-half the number of mills levied for the county and local governmental unit operating purposes (does not include debt millage). Any county or local governmental unit debt millage and all other millages levied by all other taxing authorities would remain at full millage. This amounts to about a 20 percent savings. Land is not included in this exemption.

- **In the tax year two years before the certificate expires**, the percentage of county and LGU operating mills paid changes to five-eighths (does not include debt millage); multiplied by the current taxable value.
- **In the tax year one year before the certificate expires**, the percentage of county and LGU operating mills paid changes from five-eighths to three-fourths (does not include debt millage); multiplied by the current taxable value.
- **In the year that the certificate expires**, the percentage county and LGU operating mills paid changes from three-fourths to seven-eighths (does not include debt millage); multiplied by the current taxable value. The LGU may grant an exemption for 6 to 15 years, or 11 to 17 years for a *historic building*.

The local governmental unit may grant from six (6) to fifteen (15) years of exemption. Unlike the NEZ New and Rehab Certificates, the LGU, via the assessing office, has final authority in approving homestead NEZ certificates. The resolution approving the application must include the number of years the LGU is granting the abatement.

Homeowner Property Tax Assistance Program (HPTAP)

The Homeowner Property Tax Assistance Program (HPTAP) specifically helps low-income Detroit residents, Detroit residents at or near the poverty levels, and senior citizens.

HPTAP stands for Homeowners Property Tax Assistance Program. It is also referred to as the Poverty Tax Exemption, “PTE” or Hardship Program. HPTAP provides an opportunity for homeowners to be exempt from their current year property taxes based on household income or circumstances. If approved, you will still be responsible for any fees such as the solid waste fee. The solid waste fee is discounted at to $120 for HPTAP approved homeowners. The HPTAP application is an annual application, homeowners must apply every year.

Eligibility for the HPTAP is based on the applican owning and occupying the home as their primary residence and meeting specific household income or circumstances. Most homeowners whose income is below the income guidelines are generally approved. Only the Board of Review may approve an application.

2021 HOMEOWNERS PROPERTY TAX ASSISTANCE PROGRAM (HPTAP) INCOME GUIDELINES

Number in Household	Maximum Income for Full (100%) Exemption	Maximum Income for Partial (50%) Exemption	Maximum Income for Partial (25%) Exemption
1	$17,609.00	$20,288.00	$22,840.00
2	$21,205.00	$23,791.00	$26,205.00
3	$23,458.00	$26,064.00	$28,453.00
4	$27,248.00	$29,868.00	$32,488.00
5	$30,680.00	$33,441.00	$35,896.00
6	$35,160.00	$37,973.00	$40,434.00
7	$39,640.00	$42,415.00	$44,793.00
8	$44,120.00	$46,767.00	$49,414.00

Add $4,480.00 to the income limit for each household member above eight for a full exemption. For a 50% partial exemption add $4,749.00 to the income limit for each household member above eight. For a 25% partial exemption add $5,018,00 to the income for each household member above eight.

In addition, the total household assets (i.e. , other real property, boats, campers, stocks, bonds, IRA's, other assets in or out of the United States, etc.) SHALL NOT exceed $12,000.00. Verification of additional assets will be done for all parties and household members applying for property tax assistance.

Disabled Veterans Exemption

State Tax Commission Affidavit for Disabled Veterans Exemption Issued under authority of Public Act 161 of 2013, MCL 211.7b. Filing is mandatory. Instructions: This form is to be used to apply for an exemption of property taxes under MCL 211.7b, for real property used and owned as a homestead by a disabled veteran who was discharged from the armed forces of the United States under honorable conditions or his or her unremarried surviving spouse. The property owner, or his or her legal designee, must annually file the Affidavit with the supervisor or assessing officer any time after December 31 and before, or until the conclusion of, the December Board of Review.