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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director 
 Legislative Policy Division Staff

DATE: May 25, 2021

RE: **Request for Financial Analysis of Proposed Modifications of NEZs**

Councilmember Ayers has requested that both the Office of the Chief Financial Officer and the Legislative Policy Division provide an analysis of the likely impact proposed changes to Neighborhood Enterprise Zones would have on the City’s budget.

The Office of the Chief Financial Officer submitted its review of the proposal and provided the following as its conclusion as indicated in the chart below:

City of Detroit
 Neighborhood Enterprise Zone Homestead Redrawing Proposal

<i>\$ in thousands</i>	Fiscal Year			
	2022	2023	2024	2025
Revenue				
Budgeted Property Tax Revenue	\$113,416	\$115,512	\$117,248	\$119,456
Loss from Proposed NEZ Homestead Parcels ¹	(556)	(566)	(577)	(588)
Loss from NEZ Rehabilitated Facilities ²	(54)	(55)	(56)	(57)
Gain from NEZ New Facilities ³	189	192	196	200
Revised Property Tax Revenue	\$112,995	\$115,083	\$116,811	\$119,011
Net Revenue Impact, General Fund	\$ (421)	\$ (429)	\$ (437)	\$ (445)

¹ Source: Chart from OCFO Memorandum 2021-101-001

The OCFO projected the impact to be approximately \$421,000 in FY22; \$429,000 in FY 23; \$437,000 in FY 24 and \$445,000 in FY 2025. Considering the City's Budgeted Property Tax revenue is estimated at approximately \$113,416,000 in FY 22, a \$421,000 reduction would only result in a 0.37% decrease to the City's Budgeted Property Tax revenue and an even smaller decrease to the City's \$1.2 billion General fund.

It is important to note that OCFO assumes that **all** eligible properties will elect to be considered NEZ homestead parcels. To the extent that some of the newly eligible parcels do not participate, the negative fiscal impact will be reduced. We concur with the OCFO on this assumption.

LPD also agrees with the following OCFO observations:

Unquantified Considerations: This analysis has been strictly focused upon the direct financial impact of the proposal. While outside the scope of the analysis, it is appropriate to note that the economic consequences of lowered taxes on the properties receiving the NEZ homestead designation could include an increase in value of those parcels as well as a retention of City Income Tax revenues from residents who might otherwise migrate in greater numbers out of the City.

As NEZ homestead properties are taxed at a reduced rate on taxable value of the property, the potential taxable value increase could mitigate the assumed cost. That mitigation would be limited by the Proposal A cap on annual increases in taxable values. If higher valuations influence sales, however, the taxable value cap will be reset for those transferred properties. No evaluation of the impact of the proposal on sales or future valuations of property either inside or outside of the NEZ homestead boundaries has been attempted.

As a result, we concur with the OCFO's findings and agree that the current proposed changes to Neighborhood Enterprise Zones would have a minor impact on the City's budget.

Please contact us if we can be of any further assistance.