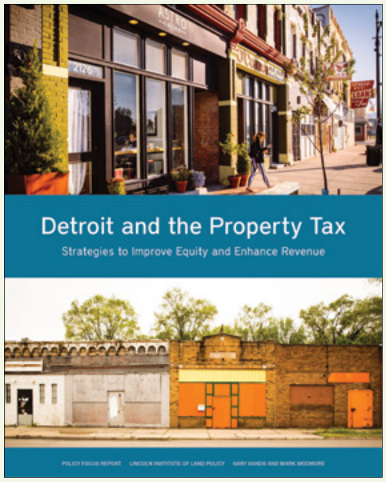
NEW LINCOLN INSTITUTE POLICY FOCUS REPORT

Detroit and the Property Tax

Strategies to Improve Equity and Enhance Revenue

By Gary Sands and Mark Skidmore



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

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

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

- **Continue to improve assessments:** Vastly overassessed properties have contributed to Detroit's historically high property tax delinquency rate, which has improved but is still about 30 percent—or 10 times the median rate for major cities in the United States.
- **Improve the targeting of tax abatements:** Detroit has granted property tax breaks to about 11,400 properties, or 3.5 percent of all taxable private properties. Research shows that the fiscal benefits of abatements are often outweighed by the costs, suggesting this tool should be used more judiciously.
- **Implement a land-based tax:** A land-based tax is determined purely according to the value or size of a piece of land, with no additional tax for new development or improvements. Many economists favor this approach over the traditional property tax because it discourages holding property vacant or underutilizing land (e.g., a community garden on a prime piece of downtown property), and encourages development.
- **Eliminate the state's taxable-value cap:** Imposed by voters as part of Proposal A in 1994, the taxable-value cap restricts the growth of the tax base as the real estate market recovers. It also gives preferential treatment to longtime homeowners, locking in low effective tax rates at the expense of new buyers.
- **Reduce statutory tax rates:** Detroit has the highest tax rate of any major U.S. city—more than double the average rate for neighboring cities. Lowering the rate could reduce delinquency, help increase property values, and offset increased tax burdens that may otherwise result from reducing abatements or eliminating the taxable-value cap.

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

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