



Image: Jason Keen



# **DETROIT PROPERTY TAXES: Alternatives for investment and stability**

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# AGENDA

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- Current Property Tax Structure
- Proposed Alternative
- Sample Effects
- Next Steps

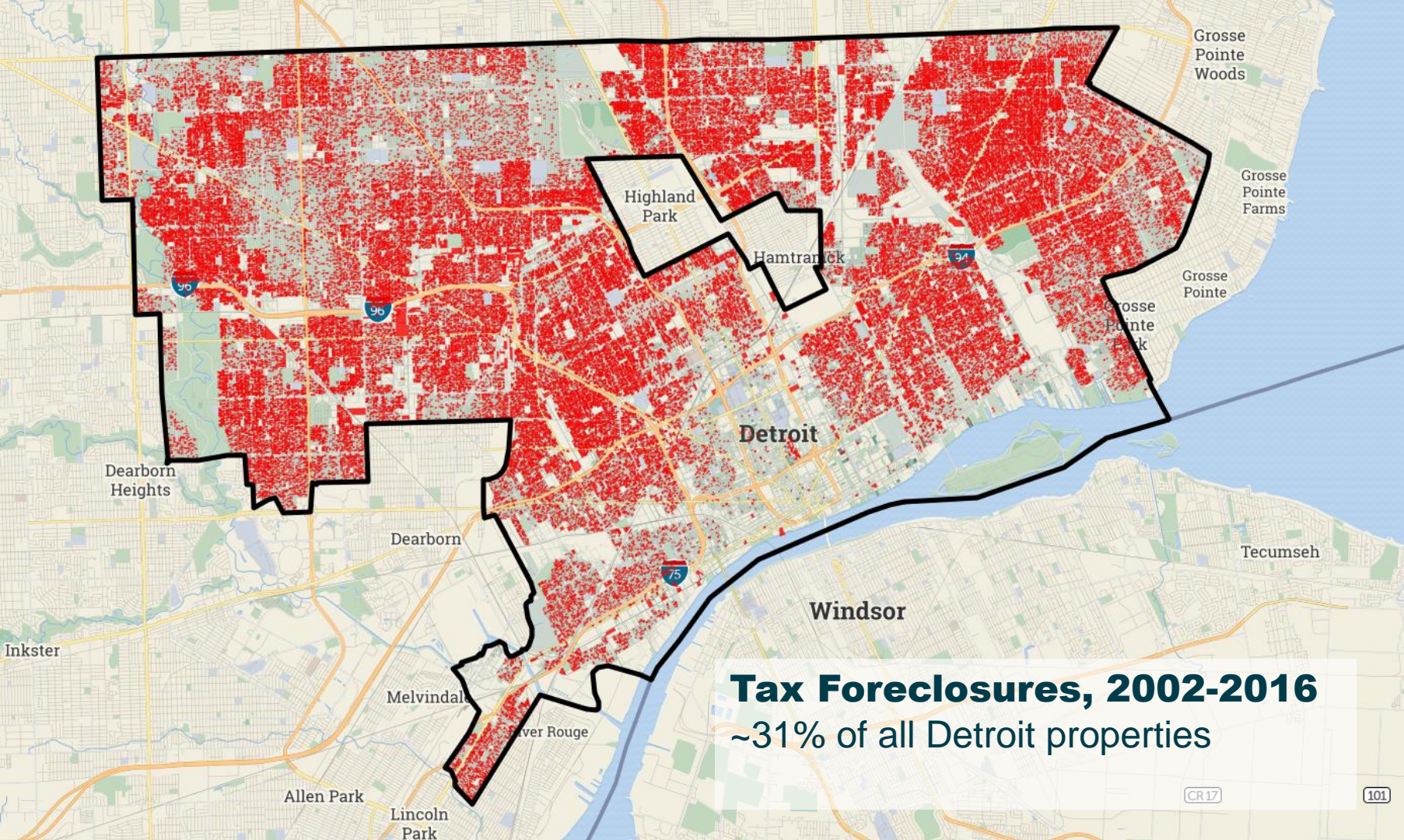


# LINKED TAX PROBLEMS IN DETROIT

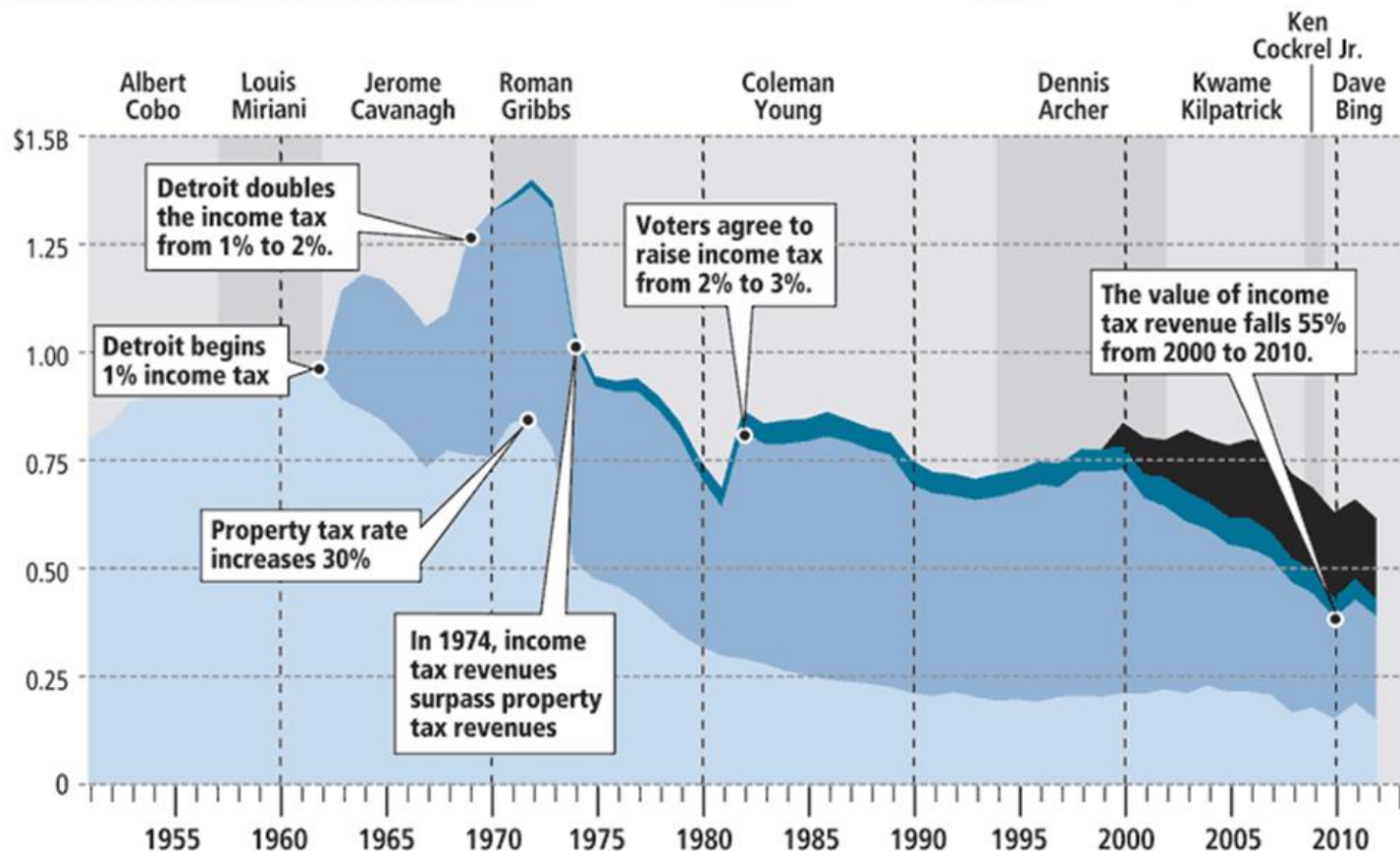
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1. Highest level of tax foreclosure and abandonment in U.S.
2. High taxes erode Detroit tax base and contribute to population loss
3. Development not feasible without tax abatements
4. Speculation encouraged by low holding costs for vacant and underutilized properties





**TAX REVENUES, IN 2013 DOLLARS:** PROPERTY TAX INCOME TAX UTILITY TAX WAGERING TAX



NOTE: All dollar amounts have been adjusted for inflation and are in 2013 dollars.

SOURCE: Detroit's annual financial reports

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# CURRENT PARADIGM

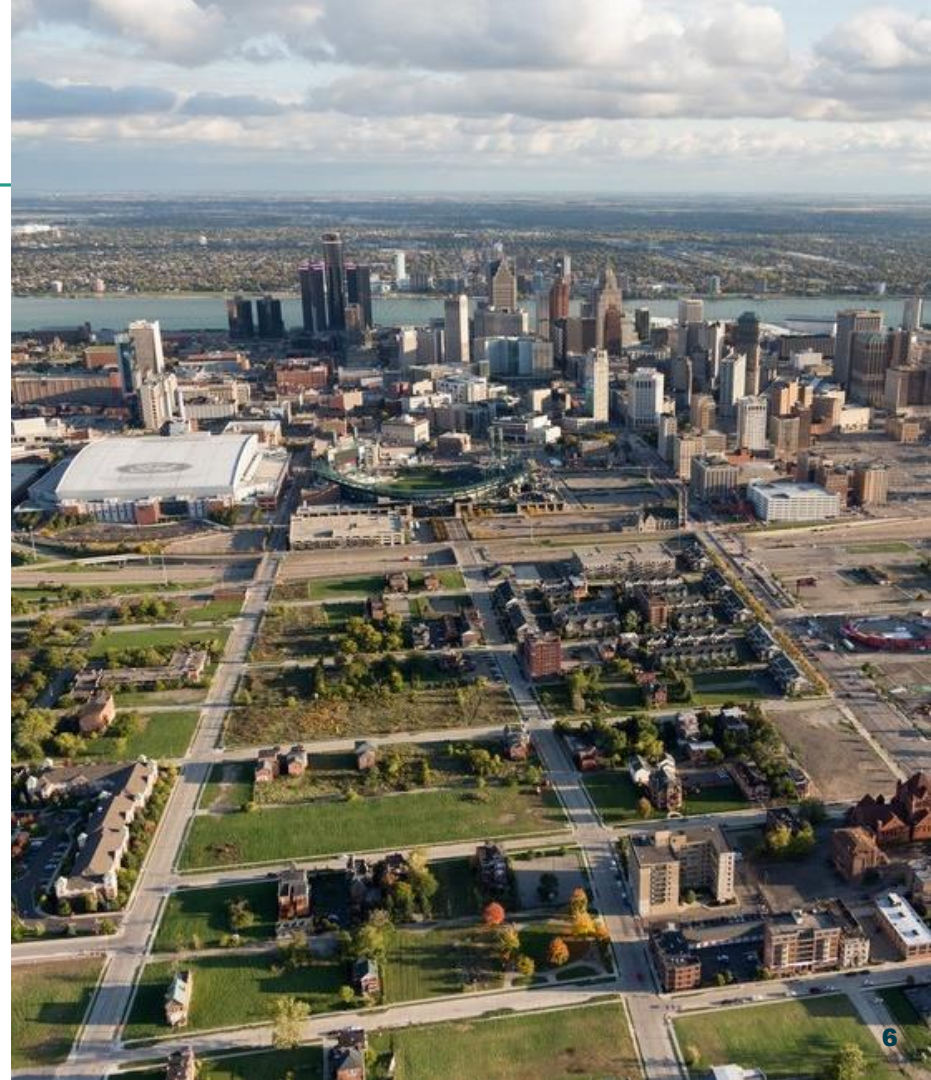
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## Problem

- 2nd-highest tax rate among major U.S. cities. No ability to change total tax rate.

## Current Solutions

- Since 1978, tax abatements for projects and neighborhoods
- Since 1994, cap on tax increases for incumbent owners



# Potential Alternative



# PRINCIPLES FOR REFORM

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1. Create meaningful property tax relief for Detroit residents
2. Preserve or increase revenue for all local jurisdictions
3. Substantially reduce need for tax abatements
4. Remove incentives to hold property without investment



# ALTERNATE PARADIGM

## Problem

- Our tax structure creates excessive penalties to making and maintaining investments

## Alternative Solution

- Maintain current level of tax collection
- Increase weight of taxes assigned to all city land; decrease taxes on improvements by the same level
- Assign **split rate tax** to each property



# EXPECTED OUTCOMES OF SPLIT RATE TAX

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## Community

- 40-80% tax reduction for almost all residents
- Significantly fewer residential foreclosures
- Higher home values
- Higher costs for holding underutilized & vacant properties

## Development

- Post-construction taxes are similar to pre-construction taxes
- Ability to invest without abatements
- Tax relief increases property income and sale value
- Incentives to build highest supported use

## City

- No revenue loss for City, County, or DPS
- Improved prospects for revenue growth
- Fewer entitlement approvals



# PITTSBURGH MODEL

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- Land taxed at 5.7x rate of improvements from 1980-2001
- 3x increase in nonresidential construction from land tax increase
- Estimated 27% growth in residential construction for 10% reduction in improvement taxes

## OTHER SPLIT-RATE TAX CITIES

- 12 Pennsylvania cities
- Vancouver, Taiwan, Hong Kong





# **Sample Static Effects**



# RESIDENTIAL REFERENCE PROPERTIES



Median homestead



Home & 3 side lots



2-acre estate



Downtown condo

	Median homestead	Home & 3 side lots	2-acre estate	Downtown condo
Land Value	\$ 1,000	\$ 4,000	\$ 134,952	\$ 35,000 (pro rata)
Improved Value	\$ 34,000	\$ 34,000	\$ 1,225,414	\$ 360,000
Taxable Value	\$ 17,500	\$ 19,000	\$ 682,000	\$ 197,064
Taxes Assessed	\$ 1,173*	\$ 1,300*	\$ 46,969*	\$ 13,799*
Pittsburgh Tax	\$756 (-36%)	\$1,173 (-10%)	\$40,762 (-13%)	\$11,132 (-19%)
Full Land-Value Tax	\$209 (-82%)	\$1,006 (-23%)	\$32,630 (-31%)	\$7,639 (-44%)

Estimates use Detroit's unabated millage rates for homesteads (68.87 mills) and 2018 tax roll. \*Does not consider state equalization or existing NEZ.

# COMMERCIAL REFERENCE PROPERTIES



New Mixed-Use Project



Single-story retail



Retail with parking apron



1-ac CBD Surface Lot

Land Value  
Improved Value  
Taxable Value  
Taxes Assessed

\$827,000  
\$21,115,000  
\$10,971,000  
\$766,504

Pittsburgh Tax  
Full Land-Value Tax

\$ 206,955 (-73%)  
\$ 72,847 (-90%)

\$19,500  
\$ 206,000  
\$ 112,750  
\$ 9,794

\$ 7,845 (-20%)  
\$ 5,292 (-46%)

\$ 48,466  
\$ 564,035  
\$ 306,251  
\$ 33,965

\$ 26,531 (-22%)  
\$ 16,792 (-52%)

\$ 2,600,000  
\$ 0  
\$ 1,300,000  
\$ 112,926

\$ 369,501 (227%)  
\$ 705,586 (525%)

Estimates use Detroit's unabated millage rates (86.87 mills) and 2018 tax roll. Does not consider state equalization or existing abatements.



# STATIC CHANGES BY PROPERTY TYPE

