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CITIZENS RESEARCH COUNCIL OF MICHIGAN

An Assessment of Detroit's Economic Condition and a Critique of Its Economic Development Efforts

This report is the first of two that addresses Detroit's economic condition and assesses the city's use of tax incentives.

Ten years from bankruptcy presents a demarcation point by which to evaluate the City of Detroit's economic development policy and economy. This report was drafted at the request of the City Council's Legislative Policy Division. Citizens Research Council was asked to provide: (a) an economic analysis of the city, to provide context to assessments of (b) its economic development policies, (c) opportunities for reform, and (d) alternative approaches to the city's reliance on tax incentives. The report relies on decades of expertise in public matters accrued over the Research Council's 108-year existence, peer-reviewed research, conversations with community members and the Detroit Economic Growth Corporation (DEGC), and data collected from various sources.

This first report covers (a) an economic analysis of the city and (b) its economic development policies. The report provides Detroit-specific socioeconomic data to contextualize the city's reliance on tax abatement and tax increment financing (TIF) and whether that reliance is appropriate for the current economy.

In a Nutshell

- Detroit's economy has improved substantially since it filed for bankruptcy a decade ago, yet the city still has serious socioeconomic problems that, when combined with high property tax rates, make it hard to attract and retain businesses.
- The property tax rate is one of the handful of costs to do business that the city controls, and to reduce that cost and subsidize what may otherwise be unprofitable investments the city offers tax business attraction incentives—tax abatement and improvements funded through tax increment financing.
- After nearly 50 years of granting tax abatements and using tax increment financing to provide improvements in the downtown areas, it could be hoped that conditions in the city would have improved sufficiently so that their use would no longer be necessary.
  - A cursory analysis of the cost of locating in the city and the revenues businesses can expect to yield reveals that a gap continues to exist stacking the deck against the city for business attractions. Detroit can ill afford to cease the use of tax abatements until the gap between costs developers face and return on investment is closed.
  - The city has multiple reasons to end the Downtown Development Authority and resume distribution of the collected property tax revenue to the taxing jurisdiction. All of those reasons are negated by the fact that the DDA anticipates needing more than $571 million to finance bonds pledged against tax capture. This suggests that the DDA could not cease operations until at least 2053 at the earliest.

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Economic Base

Asking whether Detroit can compete for businesses without using tax abatements or the revenues sequestered by tax increment financing must begin by asking "Compete against whom?" Detroit's use of several economic policies attempts to influence location or expansion decisions made by individual businesses. On what basis are those decisions made?

Because this paper evaluates Detroit's economic competitiveness and ability to attract businesses, it attempts to mimic corporate site selection. It borrows from a process cited in academic literature. Corporate site selection was predicated on comparisons between and within Metropolitan Statistical Areas (MSAs). In Detroit's case, intercity comparisons are drawn from the 208 communities within the Detroit-Livonia-Warren Metropolitan Statistical Area (Detroit MSA).

What is clear from income, poverty, and educational data is that there are substantial socioeconomic problems for Detroit to overcome, even for localized competition between nearby jurisdictions. Bear in mind, that these comparisons exclude competition posed by cities in different states and different countries.

For businesses, Detroit and its 138.7 square miles presents a market where the clientele is poorer relative to comparative jurisdictions, and where the local labor pool is less well educated. To overcome these socioeconomic problems, city economic development policy relies on tax incentives to make private investment in Detroit more attractive.

Population

One could tell the whole of Detroit's story with one chart: a chart of the city's population from its incorporation in 1806 to today (see **Chart 1**).

Detroit's population peaked in 1950 at 1.8 million people. Its population has declined in each decade since. Detroit's population declined by 1.2 million people between 1950 and the most recent census conducted in 2020—a 65.4 percent decline.

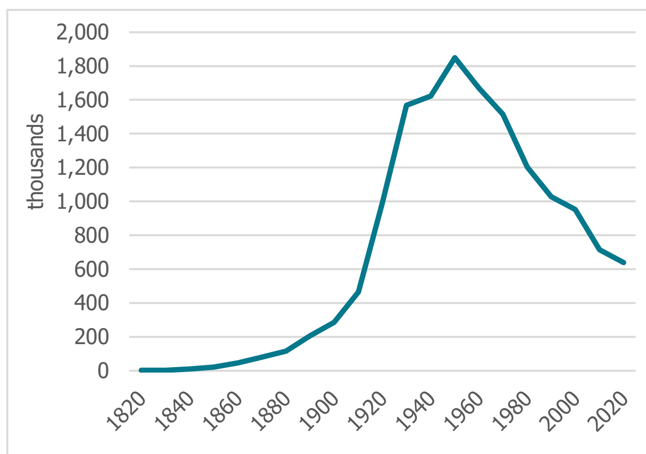
What happened?

Detroit was never a company town, but it was an industry town, specifically the American automobile industry. Ford, General Motors, Chrysler, and the economic ecosystem that grew around those companies offered job opportunities. Job opportunities were so plentiful that it attracted black families from down South, who also ventured northward to escape white terrorism. "The American Dream" also drew in dreamers from overseas, many of whom settled in Detroit.

American manufacturers dominated for much of the 19th Century, and that dominance was projected to continue into the 20th Century. World War II required America's industrial power to be turned toward conflict. Detroit was labeled the "Arsenal Democracy" by President Franklin D. Roosevelt. Factories that built

Chart 1

City of Detroit Population, 1820 to 2020



Source: U.S. Census Bureau

automobiles could build tanks and bombers just as well. But the war ended, and bombed-out friends and foes recovered and cultivated their own industrial talents. Japan, Korea, and European allies presented economic competition for American automobile manufacturers.

For American manufacturers to remain competitive, automobiles needed to be made more cheaply, and it was cheaper to build automobiles outside of America, where laborers could be paid less than the union man. Jobs disappeared. So did the people.

While the North was comparatively more tolerant than the South, it was not equal, and there was every effort to keep Blacks out. When that did not work, white families fled to suburban communities around the city. So, Detroit became less populous, and those that remained tended to be black and poor.

The U.S. Cenus Bureau's 2022 American Community Survey estimates Detroit's population to be 636,787. The population is 77.8 percent black, and Detroit is the most populous black-majority city in the country. It is also poor. It is one of the poorest major cities in America.

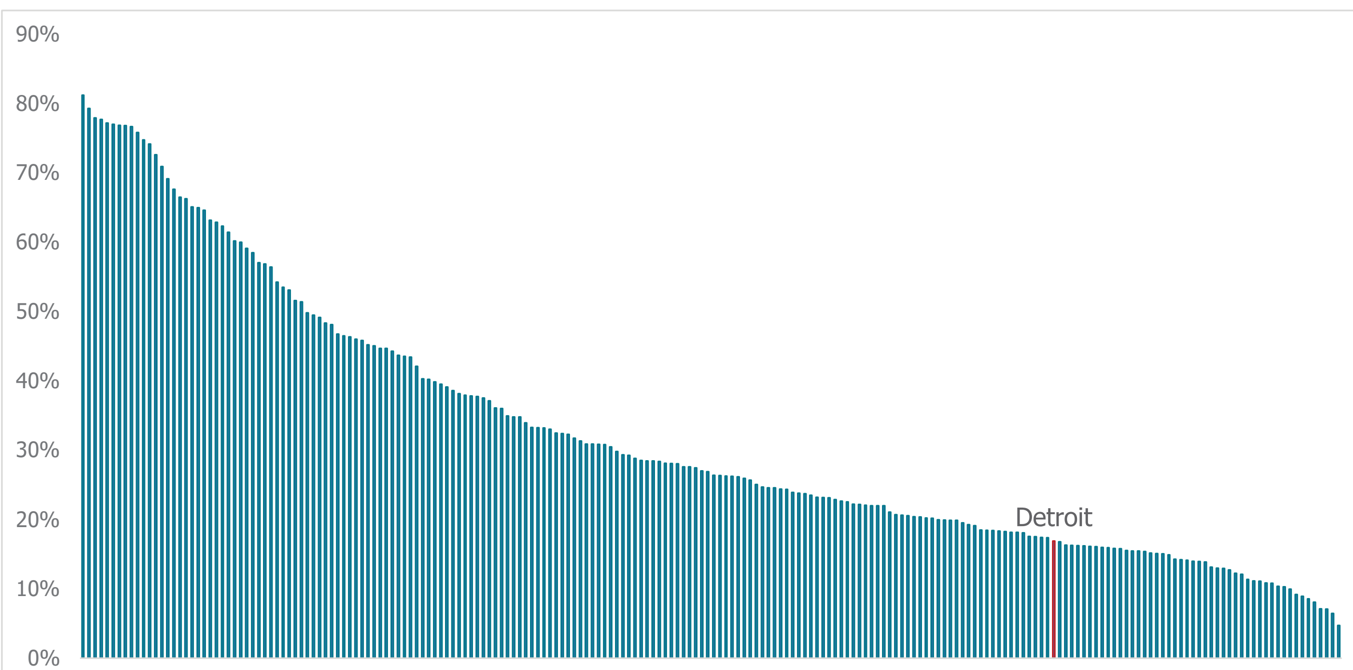
Education

Detroit's population grew with the availability of blue-collar and service jobs that did not require high levels of education. Stories are told of individuals able to walk out of high school, with or without a diploma, and onto the factory floors able to earn a good wage. The erosion of those job opportunities and the increased sophistication of many factories, requiring higher levels of education, have contributed to the city's economic decline.

Being rooted in this history, and for many of the reasons described in the business climate section below, Detroit has little to offer to businesses needing highly skilled workers to fill jobs. A large part of the city's population has a minimal education.

Chart 2

Percent of Detroit Residents with a Bachelors Degree or Higher Relative to Other Communities in the Detroit MSA, 2022



Source: U.S. Census Bureau

Education, generally, is a means out of poverty and a path to greater income but relatively few city residents have a bachelor's or higher degree from a college or university. In educational attainment, as measured by the share of residents with a bachelor's or higher degree, Detroit is ranked 161 out of the 208 communities in the Detroit MSA. An estimated 16.9 percent of residents have a bachelor's or higher degree. The mean across comparative jurisdictions is nearly double, 32.4 percent.

Less education means less opportunity. Generally, academic research has shown that college-educated workers have higher incomes and lower rates of joblessness relative to their non-college educated peers. Additionally, comparatively more Detroit residents have even fewer opportunities because they did not finish high school. An estimated 12.1 percent of Detroit residents attended high school but did not finish and do not have a diploma. The mean across comparative jurisdictions is 5.4 percent. The share of residents without a high school diploma in Detroit is the tenth highest among all comparative jurisdictions within the Detroit MSA (see **Chart 2**).

As illustrated in Chart 2, surrounding communities have better educated residents able to fill high skilled jobs in Detroit.

Income

In 2013, the year the city filed for bankruptcy, per capita income amounted to $18,681 (inflation-adjusted). By 2022, it had increased to $21,861—an increase of $4,180 or 22.4 percent.

Unfortunately, deep racial disparities are evident in Detroit. In 2022, per capita income for White residents was $32,873 and for Black residents, it was $21,590—a $11,283 difference. Between 2013 and 2022, per capita income for Black residents grew by 16 percent. By comparison, White residents' per capita income grew by 49.2 percent. Detroit's White residents experienced the most impressive income growth when compared to the Detroit MSA (17.1 percent) (see **Table 1**).

Table 1

Growth of Personal Income in Detroit vs Detroit-Warren-Livonia MSA, 2013 and 2022

	2013	2013-Inf. Adj.	2022
Detroit			
Overall	$14,870	$18,681	$22,861
Change (%)			*22.4%*
White	$17,542	$22,037	$32,873
Change (%)			*49.2%*
Black	$14,811	$18,606	$21,590
Change (%)			*16.0%*
White/black income differential		$(3,431)	$(11,283)
Detroit MSA			
Overall	$27,705	$34,805	$40,536
Change (%)			*16.5%*
White	$31,293	$39,312	$46,027
Change (%)			*17.1%*
Black	$17,786	$22,344	$25,900
Change (%)			*15.9%*
White/black income differential		$ (16,968)	$ (20,127)

Sources:

(1) American Community Survey, 2022 5YR, Table S1902

(2) American Community Survey, 2013 5YR, Table S1902

What's worse is that while Black residents earn more income in 2022 relative to 2013, because the income growth experienced by White residents so outpaced those experienced by Black residents, racial disparities worsened. In 2013, the White-to-Black per capita income differential amounted to $3,431 on an inflation-adjusted basis. By 2022, it had increased to $11,283. While racial disparities exist across the U.S., these disparities are especially notable in Detroit—a city whose population is 77.8 percent Black.

If these racial disparities worsen further, it will make development that evenly benefits residents across the income distribution hard to achieve, and the continuation of isolated and concentrated poverty and unemployment more likely.

Within the Detroit MSA, Detroit is the epicenter of industry and trade, arts and entertainment. Yet, out of 208 jurisdictions within Detroit MSA, it is ranked 202nd in per capita income. Per capita income in Detroit is $22,861, nearly half of the mean across comparative jurisdictions ($44,968) (see **Chart 3**).

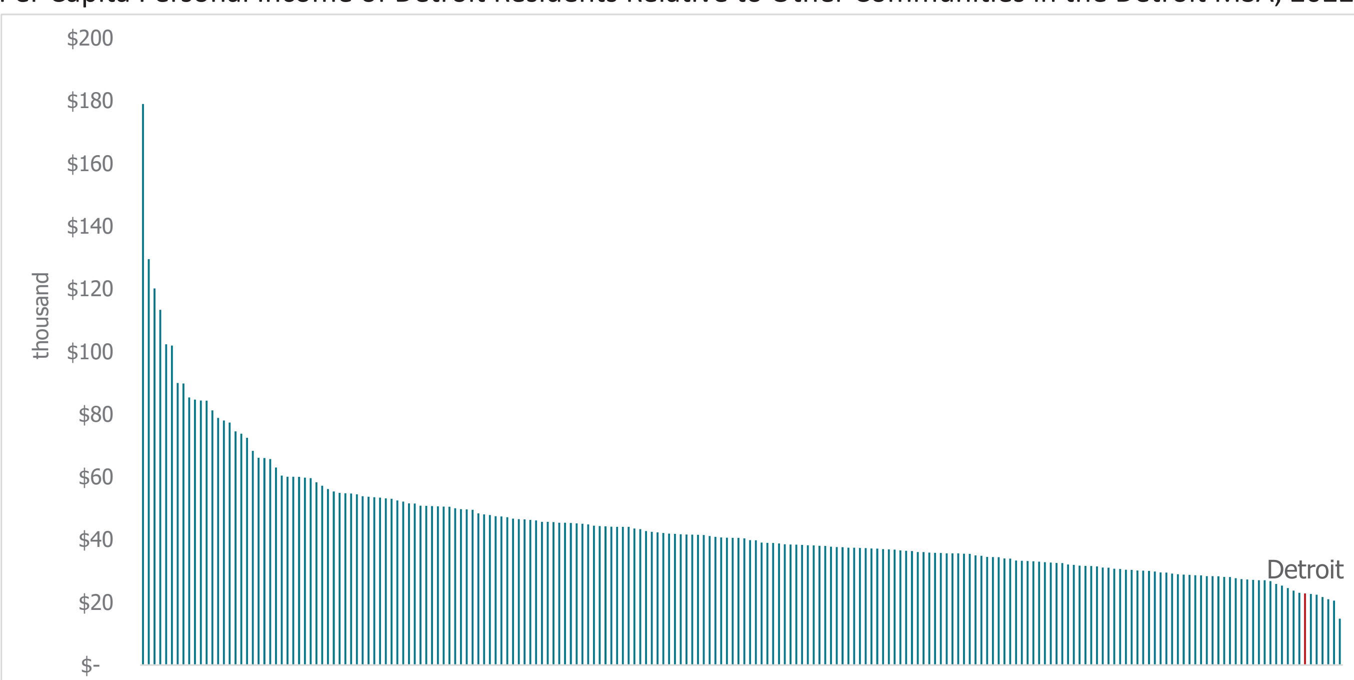
Poverty

Even with the income growth described above, poverty remains an issue among Detroit residents. The good news is that fewer Detroit residents are living in poverty than was the case before the city's bankruptcy. However, in 2022, 31.5 percent of Detroit residents were living in poverty.

Detroit is ranked sixth among the comparative jurisdictions in the Detroit MSA by share of residents who live below the poverty line. The mean poverty rate is 9.8 percent across comparative jurisdictions (see **Chart 4**).

Chart 3

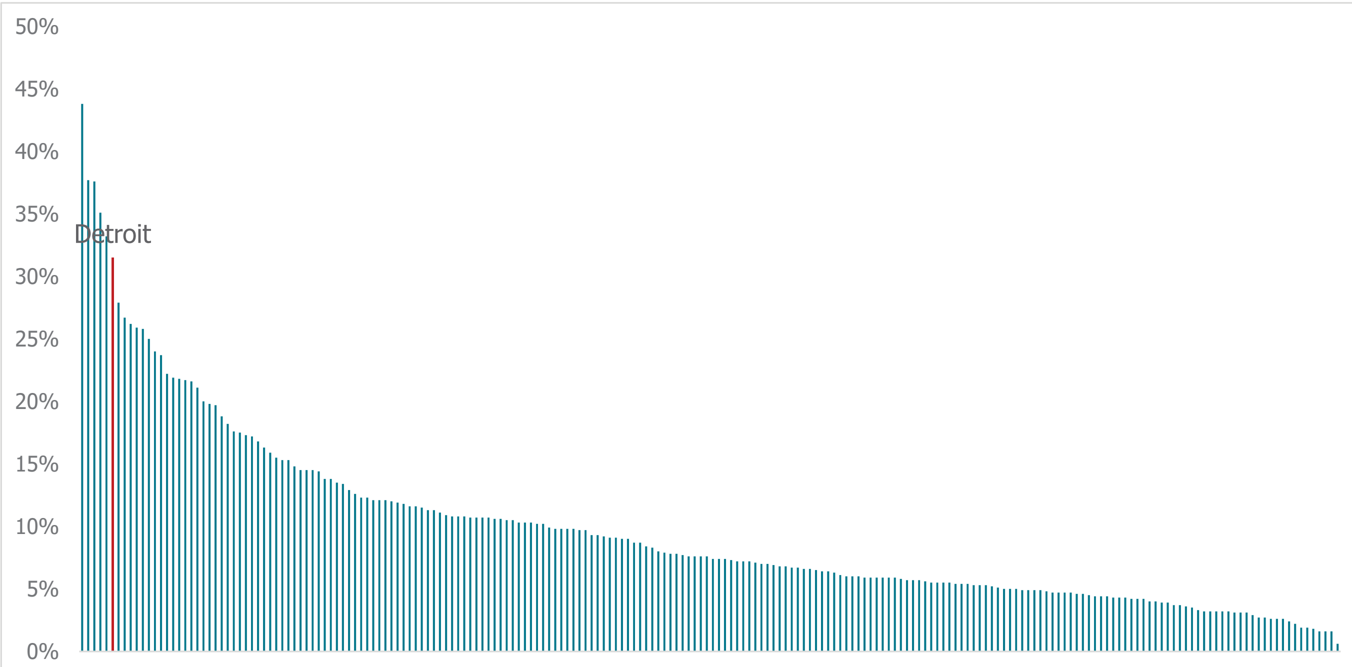
Per Capita Personal Income of Detroit Residents Relative to Other Communities in the Detroit MSA, 2022



Source: U.S. Census Bureau

Chart 4

Percent of Detroit Residents Living in Poverty Relative to Other Communities in the Detroit-Warren-Livonia MSA, 2022



Source: U.S. Census Bureau

Unemployment

While unemployment in Detroit has been historically low in recent months, last recorded at 8.2 percent in November of 2023, comparisons to the Detroit MSA reveal a city whose fortunes are still attenuated from the broader economy. Detroit's unemployment rate has consistently been worse than the overall MSA's. The mean difference in monthly unemployment rates between the city and the Detroit MSA is 6.4 points.

Detroit-specific unemployment data has been collected from 1990 onward. In the 1990s, the mean monthly unemployment rate was 11.9 percent, 13.6 percent in the 2000s, and 14.8 percent in the 2010s. In 2022, the mean monthly unemployment rate was 8.0 percent, and of the data available for 2023 it was 7.5 percent. In April of 2023, the city recorded its lowest rate yet of unemployment at 4.2 percent. However, between April of 2023 and November of 2023, unemployment has risen by four points.

There is an important caveat to a data point, that on its face, indicates worsened economic conditions. To calculate the unemployment rate, the numerator is the number of people without a job who want a job, and the denominator is the number of job seekers and the employed. It is important to note that the denominator is not everyone within a select jurisdiction—neither babies nor retirees need jobs. Sometimes, there are people who may have become disheartened by their initial search and cease to be active job applicants or leave the labor pool for another reason. Much of the improvement in the city's unemployment rate experienced over the past year or so is attributable to a decrease in participation in the labor pool.

Conversely, if the job market improves, those forlorn individuals may choose to renew their search, which until they land a job, increases the denominator and therefore raises the unemployment rate. This appears to explain the recent upward creep in the unemployment rate. From April—the month with the lowest unemployment rate on record—to November, the local labor pool increased from 238,580 to 256,320—an increase of 17,740 people.

Business Climate

Business location decisions are based in whole or part on an evaluation of costs—construction and ongoing—relative to anticipated revenue.

The cost to do business in Detroit is the sum of one-time construction costs—labor and raw materials—and ongoing operational costs from labor, utilities, insurance, taxes, etc. There are costs the city can control, tax and compliance costs, and costs the city cannot control, insurance costs, and brownfield redevelopment costs.

Costs within the City's Control

Developers must navigate costs to develop sites related to policies set by the city. These include requirements to negotiate community benefit agreements with affected communities within the city, to hire talent from within the city as part of the construction labor force, to take efforts to mitigate the effects of storm water, and to pay taxes to the city.

Community Benefits Agreements. Community benefits agreements (CBAs) are mandated by city ordinance and are made between developers and citizens who live in the immediate area of a proposed development. CBAs are required for projects that either have a value of $75 million and receive a property tax abatement of $1 million or more or receive land transfers from the city valued at $1 million or more. Residents have secured affordable housing commitments and rehabilitated recreational facilities from developers from the CBA process.

The logic of requiring developers to negotiate community benefit agreements is straightforward—that nearby residents should reap some benefits from the tax incentives the city is offering to bring businesses into the city—but it must be recognized that the cost of negotiating and fulfilling those benefits creates additional costs.

Local Hiring Requirements. A mayoral executive order that has been in force since the Kilpatrick administration requires at least 51 percent of the workers on publicly-supported construction projects to be Detroit residents. Detroit resident workers are also required to perform at least 51 percent of the work hours. Requiring businesses to hire Detroit residents again attempts to leverage tax incentives to improve job opportunities and income in the city, but the lack of residents trained to fulfill some of the available jobs adds training and compliance costs to development. Out-of-compliance firms must pay a fee to the city.

Storm Water Mitigation. Businesses coming into the city also are asked to recognize that buildings and parking lots create impervious surfaces restricting the ability of rainwater to sink into the earth. The consequences are water being directed into storm drains lacking the capacity to handle heavy downfalls and flooding in some areas. Stormwater mitigation helps to lessen the negative effects of development on surrounding areas, but it adds costs beyond that of building construction.

City Taxes. The tax burden of being in Detroit also adds cost both in the construction phase and when the businesses move workers into the newly developed buildings.

Property taxes are the primary source of revenue for almost all Michigan local governments, as they were once for Detroit. The lack of alternative revenue sources has placed a high premium on property tax revenue and caused many Michigan cities to increase their property tax rates to relatively high levels.

Detroit levies a property tax at a relatively high rate but gets relatively little in tax revenue. Between its own property tax, the taxes levied by overlapping governments, and the debt millages levied by the city and the school district, Detroit property taxpayers pay among the highest tax rates in the state and among the largest property tax burdens in the nation.

Taxpayers in only a few cities in Michigan pay higher property tax rates than the 86.6 mills businesses in Detroit pay. However, the city itself has control over less than a third of this total (19.9520 mills—a mill is equivalent to $1 of tax for every $1,000 of taxable value). It can apply some control over the 4.6 mill library millage and expedite repaying bonds to lessen the debt millage.

Table 2

Total Tax Millage Rates on Detroit Properties, 2023

Taxes Levied	Millage Rate
Detroit	
Operating Millage	19.9520
Library Millage	4.6307
Debt Millage	8.0000
Detroit Public Schools	
Operating Millage*	18.0000
Debt Millage	13.0000
Wayne County	
Operating Millage	5.6483
Extra-Voted Millage	2.1737
Wayne RESA	
Operating Millage	0.0965
Extra Voted Operating Millage**	5.3678
Wayne County Community College District	3.2408
Huron Clinton Metropolitan Authority	0.2104
Wayne County Art Institute Authority	0.2000
Wayne County Zoological Authority	0.1000
State Education	6.0000
TOTAL	86.6202

* Owner-occupied residential properties qualify for the Principle Resident Exemption exempts the owner from paying the school operating millage of 18 mills.

** Includes millages for special education, vocational education, and enhancement revenues for the constituent K-12 school districts.

Source: Wayne County Equalization Department

Other taxes are beyond the city's control. The 18-mill school operating tax is levied on all properties except owner-occupied properties. Another 13 mills is levied to repay the school district's debt. The balance of 23 mills fund the services provided by overlapping local governments (see **Table 2**). These local governments provide services to the residents of Detroit and several other local governments.

Hardly anywhere else within the Detroit MSA, the state, or the nation are property owners asked to pay more than in Detroit.

Out of the 483 combinations of local governments and schools levying taxes within the Detroit MSA, the combined Detroit levy is the ninth highest property tax rate levied on non-primary residence properties. Only Ecorse, Harper Woods, River Rouge, Hazel Park, Melvindale, and Highland Park present less attractive locations for private investment within the Detroit MSA.

Michigan local governments are highly dependent on property taxes to fund services.[1] While most other states afford their local governments authority to levy a variety of alternative taxes, most especially local-option sales taxes, the property tax is the only tax source available to Michigan townships, villages, school districts, intermediate school districts, and special authorities. Additionally, the state-levied Education Tax adds to the burden.

Income Tax. Other Michigan cities have used the income tax to supplant the property tax. For example, the City of Walker, the home to headquarters for the Meijer grocery chain, reduced its property tax rate when a city income tax was enacted. The Ann Arbor City Charter requires the city to lessen the property tax rate if the city ever moves to enact a city income tax.

Detroit has the richest menu of taxes among Michigan local governments, but in choosing to levy the

Table 3

City Income Tax Rates in Southeast Michigan, 2024

City	Resident	Corporation	Nonresident
Detroit	**2.4%**	**2.0%**	**1.2%**
Hamtramck	1.0	1.0	0.5
Highland Park	2.0	2.0	1.0
Pontiac	1.0	1.0	0.5
Most other Cities	1.0	1.0	0.5

Note: The base of the city income tax is measured differently for city residents, non-residents who earn income in the city, and corporations. For city residents, the tax base includes compensation, net profits, investments, and other income. City income taxpayers are allowed credits for nonresident income taxes paid to another city. For non-residents, the tax base is measured as income earned while working in the city. For corporations, the tax base is income earned in the city, allocated based on property, sales, payroll.

Source: Michigan Department of Treasury.

city income tax, utility users excise tax, and gaming taxes, it has not taken any action to lower the property tax burden.

The Uniform City Income Tax Act of 1964, which grants all Michigan cities the authority to levy an income tax, creates a single tax rate and uniform tax base for all cities. The tax rate remains uniform for most of the cities levying the tax, but over the years a few have had exceptions written into the law to authorize higher rates. Only 24 cities levy this tax.

Detroit levies the tax at a rate of 2.4 percent on residents, 2.0 percent on corporations, and 1.2 percent on the income of nonresidents earned in the city (See **Table 3**). The income tax rate levied on non-residents may not exceed one-half the rate levied on residents. Detroit asked for exceptions to be written into state law. Other cities—Grand Rapids, Highland Park, and Saginaw—also are authorized to levy the tax at rates above the statutory norm. Thus, residents, non-residents, and corporations pay a premium to be in Detroit.

Costs Outside the City's Control

Businesses in Detroit also have costs that are outside of the the city's control.

Taxes Levied by Other Jurisdictions. While Detroit controls its operating and debt millage rates, it does not control the millage rates of the school district, county, intermediate school district, or other overlapping jurisdictions (see **Table 2** on page 8). Roughly two-thirds of the property tax bill on businesses in Detroit is paid to these other jurisdictions.

Construction and Labor Costs. The city cannot control the cost of land and materials that go into construction.

Little will get done in Detroit without the use of union labor and compliance with prevailing wage laws. Additionally, the lack of population growth statewide and scarcity of constructing tall buildings for some periods in the recent past have left the Detroit area with shortages of skilled labor adept at working on high rise buildings. Developers may have to pay a premium for the talent that is available or to bring talent from other places.

Insurance Costs. It costs relatively more to buy insurance in Detroit. It cannot control independent insurance companies that set policy prices to meet their assessments of risk and replacement costs. Insurance companies operate within a framework created by state law, so the city can only indirectly work to control insurance costs by lobbying to change state laws.

In part, elevated insurance costs can be attributed to elevated crime within the city. For example, there were 26,155 car thefts reported statewide in 2022, 9,543, or 36.5 percent, occurred in Detroit. The more likely it is for a car to be stolen, the costlier car insurance will be—traffic and other concerns aside. Likewise, a disproportionate share of the arson reported statewide (1,305) occurred in Detroit (440 or 33.7 percent). Of course, it will be costlier to insure homes and storefronts in the city relative to the Detroit MSA, for example, if those places are more likely to burn down. A more direct, albeit long-term, fix is to continue to pay for city services like police, fire, public works, and garbage collection to make the city safer and cleaner.

Environmental Cleanup Costs. A testament to the city's industrial heyday is the many parts left contaminated by former factories, and more recently dumpers that have skirted the laws. Contaminated sites must be cleaned before new developments can occur. While state laws allow for subsidizing brownfield sites, the need to remedy the contamination adds time, legal costs, and extra work to developments. These costs are not an issue when developers choose previously undeveloped sites that are readily available on the outskirts of the metropolitan area.

Return on Investment

In calculating return on investment, on one side of the calculation are costs—higher in Detroit than comparative jurisdictions in the Detroit MSA—and on the other side potential revenues, which are lower in the city.

Rents in Detroit—commercial and residential—are often lower than what is paid in competing communities. In the 16 largest cities within the Detroit MSA (for which real estate company Redfin could provide data), mean monthly residential rents were $1,603. As of December of 2023, the mean monthly residential rent in Detroit was $1,309—$294, or 18.3 percent, lower. Out of the 16 largest cities within the Detroit MSA, Detroit ranked 14th in mean monthly residential rents. Only Westland and Pontiac presented a worse investment proposition.

The demand for space in the city—as a whole, there are pockets of development earning higher rents—has not driven rents to levels that developers, and the banks financing them, can receive the incomes that will be necessary to repay the construction costs as well as the ongoing operating costs. Often the developers and banks include a preferred rate of return above just meeting costs.

The post-pandemic trend toward remote work for at least part of the work week is lessening the need for office space. Even though Detroit is becoming more attractive in its post-bankruptcy recovery, the shrinkage of needed office space will do little to increase demand for space and increase rents.

The Math on Detroit Investments

The cost of being in Detroit is higher than in many other places, for reasons the city can control and those it cannot. The anticipated return on investment for some businesses and for certain types of buildings does not yield revenues to provide profitability.

Policy makers are therefore left with the decision to subsidize business costs, either with tax abatements or by funding improvements to meet the businesses needs, or letting the free market work with the realistic understanding that the city will not be able to compete for some development.

Selecting the business subsidization option comes with the understanding that taxes not flowing into the city's General Fund reduces the level of services provided to residents and businesses.

Selecting the free market option comes with the understanding that the expansion of the property tax base, creation of new jobs, and increased income for Detroit residents could be at risk.

The long-term goal needs to be on the path of levying taxes at low rates on a broad base to fund a rich menu of services attractive to residents and businesses. Success in this area would lessen the need for executive directives to mandate use of local talent in construction, lower insurance costs, and increase demand for space in the city—thereby eliminating the gap between costs and anticipated revenues and the need to subsidize business attraction.

Detroit's Economic Development Policy

When projected revenues are not sufficient to meet costs, developers have a choice to not proceed with the project or to seek a subsidy to reduce the cost such that expected revenues will be sufficient. This is where government intervention becomes justified.

An ideal tax system would levy taxes at low rates on broad bases to yield sufficient revenue to fund public services while minimizing economic disruptions. The tax system should not cause people or businesses to alter where they locate, where they make purchases, or how they earn income.

Detroit, and many other local governments in Michigan and elsewhere, has strayed from the ideal. As the city was losing population and businesses, city officials offset the decline in its tax base with increased tax rates in efforts to yield sufficient revenues to pay for city services.

Before state laws were enacted granting local governments the ability to affect tax rates or to redirect the tax yield, local elected officials had limited economic interventions. These were mostly limited to land use, business and construction permits, i.e., "red tape," targeted assistance with job training and other workforce needs, and property taxes. These levers primarily affect the real estate market. Local economic policies answer for businesses where structures can be built, what types of structures can be built, and what activities may be housed within those structures.

Recognizing the effect that diminished tax bases and higher tax rates should have on economic decision-making, state policymakers granted local governments the statutory authority to use economic development tools to counter economic decline.

Beyond the commonly used land use powers, local governments have been empowered with tools to address economic decline. They may offer preferential treatment to incentivize economic activity: land use restrictions are relaxed, fewer permits are needed, and those permits that are needed are expedited, and taxes may be reduced or deferred. States and local governments may provide to developers land they possess or endeavor to obtain freely or at reduced cost and make infrastructure improvements that private interest rely on. Significantly, and most visibly, they also may offer tax incentives for locating in certain areas and employing local talent.

To implement its economic development policies, the City of Detroit relies less on its own departments and their staffs and more on public authorities, including the

- Downtown Development Authority
- Local Development Finance Authority
- Economic Development Corporation
- Detroit Brownfield Redevelopment Authority
- Detroit Next Michigan Development Corporation, and
- Eight Mile Woodward Corridor Improvement Authority.

The bodies in question are separate yet connected implements of city economic development policy. Each body has a board, typically made up of mayoral appointees approved by the city council. The city council may exercise additional influence over these bodies via its power of the purse. Each is dependent to some extent on appropriations of city resources made by city council. Still, the bodies are separate and distinct, and political control over these bodies is attenuated by a contractual relationship that each has with the Detroit Economic Growth Corporation (DEGC), a privately-operated non-governmental organization tied to city government.

For over 40 years, DEGC has provided administrative, staff, and miscellaneous services to the city's economic development arms. DEGC is led by a board of directors comprised of local elected officials, city staff, business owners, labor leaders, and other members of the city's civic community. While political control is attenuated, a private-public partnership for development purposes is hardly unusual. The public-private partnership allows for the many powers of the city's public authorities, listed below, to be arrayed as a coherent set of policy interventions to achieve economic objectives.

Purpose and Theory

Several state laws enable municipalities to attempt to encourage economic development and stimulate commercial and industrial expansion. Each of these programs has the same basic purpose—to provide an incentive to locate or expand business facilities in Michigan. The financial incentives used to achieve this expansion, however, represent two separate and distinct approaches in the pursuit of economic growth.

They expend public funds and provide below market financing arrangements to induce private investment. Tax abatement provides tax incentives to business by reducing the amount of property taxes levied on a specific industrial or commercial site compared to the property taxes levied on other taxpayers (both corporate and individual) in the taxing jurisdiction for a set number of years.

TIF redirects taxes levied for other purposes to provide public improvements that benefit businesses within a defined area. While the two approaches are separate and distinct, both approaches may be used simultaneously to attract business development.

The reasons individual officials ultimately decide to grant tax abatement or to create a TIF authority might vary, but most commonly the causes relate to attempts to end economic deterioration, promote economic growth, provide jobs to residents of the community, and to grow the government's tax base to properly fund a menu of services sufficient to provide quality services.

Tax Abatements

State law allows the city to "abate" taxes for property owners. Tax abatement confers a tax preference to those awarded. Tax abatement is project-specific and dependent on activity undertaken by the property owner. Separate laws authorize tax abatement to incentivize business locations and investment in industrial, commercial, residential, and personal properties.

Property tax is one of the four primary revenue sources where the city has discretion (within the confines of state law) over the tax rate and how collected taxes are spent. In addition to property tax, the city levies a tax on income—personal income and corporate income, casino revenues, and utility users' costs.

Property tax revenue is the sum of the tax bills paid by homeowners and businessowners. The basic calculation behind the property tax is: the property's assessed value × tax rate = tax bill. Generally, tax abatement alters the calculation in one of two ways, either the property value, the base on which the tax is levied, is artificially lowered, or the tax rate is artificially lowered. While property taxes are paid to cities and townships—the City of Detroit in this instance—the total tax bill is the sum of taxes levied by several overlapping governments, including the city (general operating and debt), county, school district (general operating and debt), intermediate school district, library authority, the Detroit Zoo, the Detroit Institute of Arts, and the Huron Clinton Metropolitan Authority (see **Table 2**).

The abated property owners are issued exemption certificates that allow the local governments to exempt select properties from general ad valorem taxation (again for all jurisdictions). Instead, these properties are subject to a specific tax, generally equal to half of the tax rate that otherwise would be levied. This exemption is good only for a set number of years after the completion of the construction or renovation of a facility.

Whether it is a new structure or the rehabilitated structure, the incremental difference between what would be paid with and without a tax abatement represents the amount of a tax preference. Tax abatement are indirect support for commercial and industrial activity.

Michigan law offers many types of tax abatement for local governments to foster economic development. A strength of Michigan's tax abatement landscape is the variety—abatements are available to targeted blighted areas and contaminated sites as well as high-tech investment and job creation. Michigan's three primary tax abatement programs are Renaissance Zones, Neighborhood Enterprise Zones, and Industrial Facilities Tax Abatement.

Among the oldest and most commonly utilized tax abatement programs is the Industrial Facilities Tax (IFT) abatement program which applies to both construction of new industrial facilities and rehabilitation of existing industrial facilities. IFT abatement encourage Michigan manufacturers to build new plants, expand existing plants, renovate aging plants, or add new machinery and equipment.

The Renaissance Zone Act authorizes targeted-zone programs for qualifying local units of government in which business and resident site-specific state and local taxes get waived for up to 15 years. Local units of government have to meet certain criteria of economic distress to qualify. The City of Detroit has 18 renaissance zones.

Neighborhood Enterprise Zones (NEZ) are similar to Renaissance Zones, however, they are exclusive to residential development and improvements. The Neighborhood Enterprise Zones program offers two types of property tax reductions in economically distressed communities which include the NEZ New and Rehabilitated (NEZ-NR) and Homestead NEZ (NEZ-H) abatement.

NEZ-NR reductions are designed to induce major investments on new or existing residential property, while the NEZ-H program is designed to provide a measure of property tax relief to current property owners. While not a business tax incentive, it is one of the more commonly used tax abatement programs in Detroit. Detroit has 52 neighborhood enterprise zones.

Detroit uses many of the business tax abatement programs available under state law. In FY2022, Detroit

Table 4

Foregone Revenue Caused by Detroit's Business-Specific Tax Abatements, FY2022

Program Name	**Average Foregone Revenue per Year**
Brownfield Redevelopment Authority	$1,758,237
Industrial Facilities Tax	605,114
Commercial Rehabilitation Act	3,502,906
Commercial Redevelopment Act	262,830
Obsolete Property Rehabilitation Act	2,375,307
New Personal Property Exemption	9,591,955
Total	$18,096,349

Source: City of Detroit FY2022 Annual Financial Report used several residential and business programs.[2] **Table 4** lists the six business-specific programs employed and the foregone revenue from each program.

In FY2022, Detroit reported that it had abated $41.2 million in taxes. Of that amount, $18.1 million in abated taxes was attributable to commercial or industrial activities. In total, between FY2017 and FY2022, the city abated $214.5 million in taxes, $129.0 million of which were attributable to commercial and industrial activities.

Intercity Comparison. Information in Detroit's annual financial reports to comply with the Governmental Accounting Standards Board Statement No. 77 disclosures present an opportunity to compare Detroit to other jurisdictions within the Detroit-Livonia-Warren MSA. Basic financial statements from fiscal year 2022 are the most recently completed by most of the comparative jurisdictions. Seventy-three out of 200 available basic financial statements included Statement No. 77 disclosures.[A]

Out of those 73, Detroit is ranked third in the ratio of taxes abated-to-taxable value. In FY2022, the city reported it abated $41.2 million in taxes. For every $1,000 in taxable value, the city abated $6.16 in taxes. Only the City of Wyandotte in Wayne County offered more in tax incentives relative to the size of their tax bases. (This paper erroneously included Brown City in this statement. Brown City lies within two counties, only one of which lies within the Detroit MSA.) Statement No. 77 disclosures primarily record abated taxes and therefore understate the total amount of tax preference offered because those amounts captured by TIF districts are excluded.

A In 2015, "Tax Abatement Disclosures" or Governmental Accounting Standards Board (GASB) Statement No. 77 disclosures became a feature of state and local basic financial statements. "Financial statement users need information about certain limitations on a government's ability to raise resources," reads a summary of Statement No. 77, "This includes limitations on revenue-raising capacity resulting from government programs that use tax abatement to induce behavior by individuals and entities that is beneficial to the government or its citizens." Statement No. 77 directs states and local governments to include information on (a) the taxes that are abated, (b) the authority under which taxes are abated, and (c) the amount of taxes abated. Statement No. 77 disclosures initially appear in city's FY2017 basic financial statements.

Tax Increment Financing

Tax increment financing (TIF) allows special authorities to capture from the city, village, township, or county creating the authority and all overlapping taxing governmental units, such as counties, intermediate school districts, libraries, and park authorities the increase in property tax revenue above and beyond that produced from the tax base in the year in which the authority was established.

For example, a local unit that established a tax increment finance authority in 2010 may, in 2011 and every year following for as long as the authority chooses, retain property tax revenues above those collected (the increment) in 2010 (base year) that are otherwise due to its own General Fund and to the other units of government. TIF districts may not capture millages for debt obligations and typically the State Education Tax (6 mills) may not be captured. TIF may be implemented on a project-specific basis—for the property being developed, but it is more commonly implemented on a district basis—for a defined geographic area, for instance the downtown area for downtown development authorities.

TIF does not change the tax bill for businesses/ property owners. Instead, it diverts tax revenue for economic development purposes. Generally, captured revenue can be used to repay debt issued for infrastructure improvements, beautification, and to reimburse private companies for remediation to dilapidated or polluted properties.

Although TIF was introduced to Michigan with enactment of the Downtown Development Authority Act in 1975 with the stated purpose of halting the decline in property values, the laws authorizing DDAs and the other TIF programs are significantly forgiving in eligibility so that many counties, cities, villages, and townships today have one or more TIF districts. As of 2016, the Michigan Department of Treasury reported more than 400 cities, villages, and townships with one or more DDA, TIFA, or LDFA districts. At least 300 counties, cities, villages, and townships had one of the more specialized TIF districts.[3]

TIF is used broadly across the United States. Of the 50 states, only Arizona has yet to allow TIF. TIF is commonly relied on in the upper Midwest, in areas that hosted heavy industry that may have since disappeared but left behind environmental hazards that are costly to cleanup. Environmental cleanup cost adds to project costs and can make it cost prohibitive to remediate an area. Like Pittsburgh, Cleveland, and Gary, Detroit has artifacts of its industrial heyday, like the Packard Plant.

The "But for" Argument

The legitimacy of both tax abatement and TIF are predicated on "but for" arguments. Would new developments occur but for government intervention? What condition would the city be in but for these interventions?

The local governments forego revenues because of tax abatement but it is revenue that would not occur *but for* the granting of the abatement. The argument is made that if the city has an empty lot, it is better to get half of the tax revenue from a new development than no money from the empty lot.

Similarly, local governments levy taxes for specific purposes, such as support schools, libraries, public safety, etc. TIF diverts those taxes for economic development purposes. The courts permitted this action on the understanding that the other taxing jurisdictions were not harmed. The logic is that the TIF districts capture tax revenue growth that would not occur *but for* the economic development activities.

The mayor and city council have discretion in what projects to provide tax incentives and rely on recommendations made by DEGC. DEGC's modus operandi is that all projects must demonstrate that 'but for' this incentive the project will not occur and that the city will receive a net benefit from the investment. Every approved abatement has to document that it will generate a positive net fiscal benefit to the city's coffers.

The part that cannot be known except by the developer or business owner is whether the tax abated development or growth of property values in the TIF district truly would have occurred absent government intervention.

On the question of effectiveness, the academic literature is broad, undertaken across decades, and unfortunately far from as conclusive as would be desired. To preface an examination of the academic literature, it is important to briefly discuss what has frustrated academic research on the question. Generalized research issues will equally frustrate the city's ability to arrive at clear and concise answers specific to its own economic development policy.

Firstly, while states are laboratories of democracy, and cities the test tubes, these circumstances are hardly the controlled environments needed for precise experimentation, where variables may be identified and measured and adjusted and measured once more. For example, in response to the "Great Recession" Congress appropriated $840 billion via the American Recovery and Reinvestment Act of 2009 (ARRA). Generally, the consensus is that the ARRA arrested the economic crisis. But to what extent, precisely, is the ARRA responsible for the resumed expansion in national economic output (i.e., GDP) that occurred in the third quarter of 2009, let alone what provisions most improved economic conditions, who is to say? To be sure, empirically-sound research is available but this sort of flaw in experiment and measurement is true across the social sciences, the "dismal science" of economics included.

Secondly, and this is specific to public policy at the state- and local-level, relevant data is often unavailable. Unlike economic measures such as GDP and consumption, collected at the national- and sometimes state-level, that data is often absent at the local-level. If that data is collected at the local level, it is often collected less frequently relative to nationwide and statewide data. The delay between when data is collected and reported reduces its usefulness as an input to public policy. The Bureau of Labor Statistics (BLS), for example, reports "local area unemployment statistics" for the city, but at a month delay. Moreover, BLS data are one of the few city-specific measures available. Many metrics are collected and reported at the county-level or combined with nearby jurisdictions whose socioeconomic circumstances are much different than Detroit, and that can obscure public policy outcomes.

Issues inherent to the social sciences and data insufficiency make "proof" hard to obtain. There are still answers to be had, however. Five studies were particularly useful to this review of city economic development policy: They were chosen for (a) a

Economic Development as a Loss Leader

Detroit is positioned to benefit from the use of these economic development tools better than most local governments in Michigan. The premise of these economic development tools is that the local governments, both the one granting an abatement or creating a TIF authority, will give up something in the short term for the long-term gain of an expanded tax base and the spinoff, secondary investments made by suppliers and employees. These spinoff investments and the resultant taxable activity generated offset a portion of the foregone property tax revenue.

As described above, Detroit is one of only 24 Michigan cities that levies a city income tax. Imposition of this tax brings more immediate benefits to the city when it is using these laws than other cities that benefit when the tax abatement expires or the capture ends. Thus, when using these laws the city is foregoing property tax revenue, it benefits when the businesses pay the corporate income tax and hire workers —especially workers with city addresses—with the new income tax revenue it yields.

focus on the local effect of tax subsidies, compared to studies on national or state-level effects, and (b) a focus on property tax abatement, relative to relief from other taxes.[B] One of the studies, "Do Industrial Abatements Spur Property Value Growth?" focuses on the IFT, a tax subsidy specific to Michigan.

Overall, there were measured positive effects from tax subsidies on employment. However, these positive effects were limited to the industries in which individual companies received tax subsidies. Moreover, positive effects diminished in the years after tax subsidies were established and nearby jurisdictions started to use them as well. To the extent individual businesses are mobile and persuadable by tax considerations, the persuasive effect of tax subsidies is undermined when every jurisdiction wields the same economic armaments.

In "Do Industrial Tax Abatements Spur Property Value Growth?" researchers found that offering IFT was associated with positive effects on industrial property value, with a more robust effect in jurisdictions with higher property tax rates. Additionally, positive effects observed in industrial property value were shown to spillover into residential and commercial property value.

Effects on income distinct from increases in employment were not observed in reviewed research. Positive effects on employment and property values were observed, two components to economic activity used in this report. Despite these positive observations, each study noted the same difficulties in measurement in that it is nearly impossible to discern whether a business would have located or expanded within a jurisdiction with or without tax subsidies. How commonly and freely tax subsidies are awarded in Detroit and across the country undermine this type of analysis.

If academic research can be read to provide support for tax subsidies and their effect on employment and property values, the question that follows is whether tax subsidies are cost effective. Tax subsidies must be analyzed on their own merits, but the cost should be known so that those policies can be compared to alternatives. Cost effectiveness and the "but for" standard employed to justify foregone revenue are examined in this next section.

B "Evaluating State and Local Business Incentives," "Impact of Property Tax Abatement on Employment Growth," "Tax Increment Financing: Capturing or Creating Growth," "Do Industrial Abatements Spur Property Value Growth?" and "Property Tax Incentive Pitfalls."

Changes in Economic Conditions

Michigan law authorized local governments to abate property taxes and create special authorities empowered to capture the tax proceeds on the increases in the assessed value on real and personal property above the value in a base year in the name of economic development. The goals of these economic development tools were to attract businesses that would invest in the city, spur further economic development, provide jobs and increase income levels, and support the tax bases of the local governments.

It must be recognized that many factors contribute to the economic well-being of a city beyond the proactive economic development efforts of staff and property tax policies. Still, it is hard to attribute to these tools success in ebbing the decline in Detroit's wellbeing through the 1980s, 1990s, or 2000s. Detroit's bankruptcy was caused by many factors, but primary among them was the decline in the city's tax base and an inability to yield revenues sufficient to fund the services residents sought from their city government. That said, it cannot be affirmatively stated what the condition of the city would have been without granting tax abatements to attract businesses in otherwise bleak times and the actions of the DDA to direct investment in the downtown area.

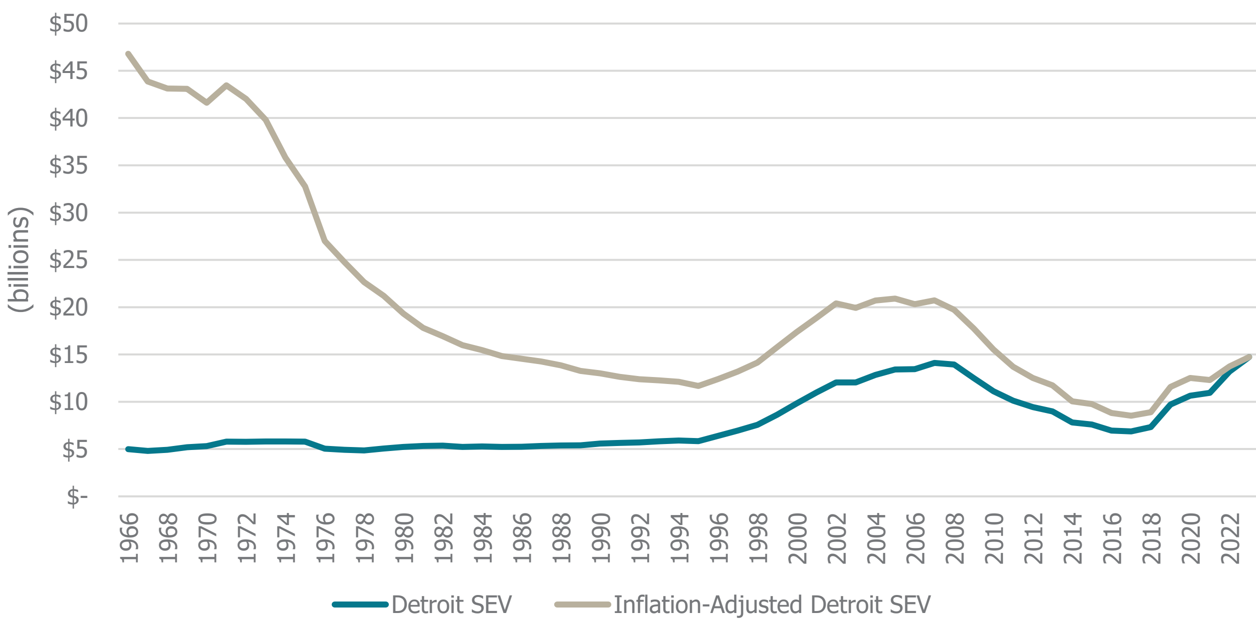
Property Tax

In nominal terms, Detroit's tax base experienced very little growth from the mid-1960s to the early 1990s. After experiencing modest growth from the mid-1990s until the Great Recession (2007 to 2009), the value of property in the city experienced a sharp decline. The value of property has risen in recent years.

However, when adjusting for inflation, the sharp decline in the value of property in Detroit is far too evident. Adjusted for inflation, the value of property in Detroit in the late 1960s and early 1970s was worth more than $40 billion in 2022 dollars. From that time until the value of property in the city reached its nadir in 2017, the inflation-adjusted value declined more than 80 percent. After recouping some value in recent years, the 2022 value of property in the city is

Chart 5

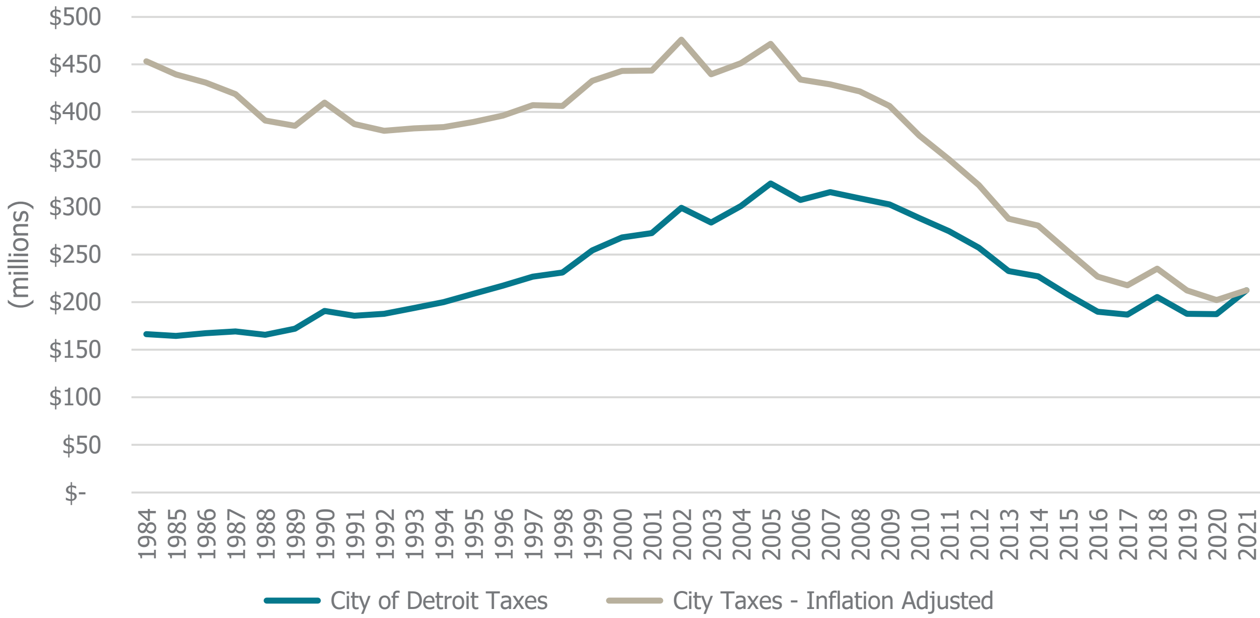
Assessed Value of Detroit Property, 1966 to 2023



Source: Michigan State Tax Commission

Chart 6

Detroit Property Tax Revenues, 1984 to 2022



Source: Michigan State Tax Commission

still more than two-thirds less than what it was at its inflation-adjusted peak in 1973 (see **Chart 5**).

The consequences for city property taxes can be inferred. With very little growth in the nominal value of Detroit property and years of lost value relative to the rate of inflation, city property tax revenues experienced very little growth and lost purchasing power when accounting for inflation (See **Chart 6**). The inflation-adjusted value of Detroit's property tax revenues in 2021 was 80 percent less than what it was in 1984.

The financial consequences of Detroit's anemic tax base growth extend beyond the city's borders because the property is part of the tax base for several other jurisdictions. The diminished value of Detroit property values had repercussions for taxes levied by Wayne County, Wayne County Community College, the Wayne Regional Educational Service Agency (RESA), the Huron Clinton Metropolitan Authority, and more recently the regional authorities supporting the Detroit Zoo and Detroit Institute of Arts.

It is impossible to know how Detroit's tax base or property tax revenues would have changed absent the availability of the tax abatement and TIF economic development tools. It is safe to say that whatever success they enjoyed only slowed the rate of decline.

Income Tax

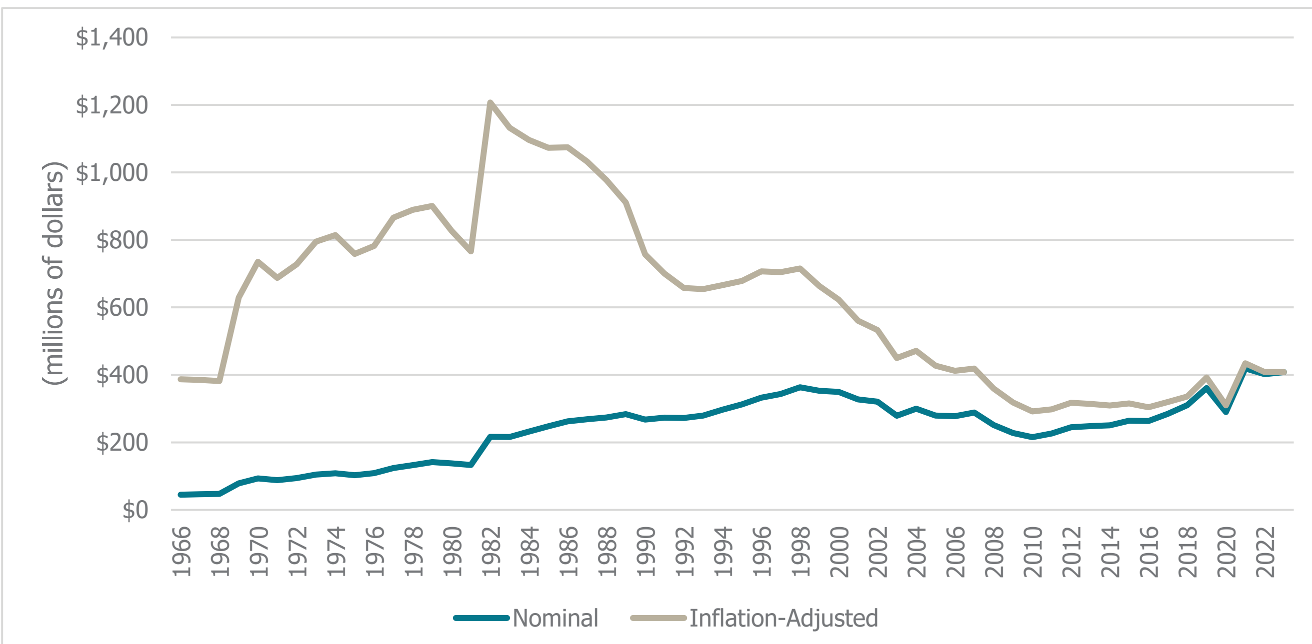
The city benefited from income tax revenue growth in the early years of tax abatements and investments in the downtown enabled by tax increment financing. That growth peaked in 1998 at $363.3 million. City income tax revenues then suffered more than a decade of decline even as efforts to attract investment continued.

Of the city's major sources of revenue, income tax revenue increased most substantially post-bankruptcy. In FY2013, the fiscal year that immediately preceded bankruptcy, income tax revenue amounted to $248 million—23.8 percent of General Fund revenue. Between FY2013 and FY2023, income tax revenue increased by $160.1 million, or 64.5 percent, to $408.1 million on an inflation-adjusted basis. Improved income tax collections reflect an improved local economy. (See **Chart 7**.)

City income tax is levied on corporate and personal income, and the levy on personal income is paid by residents who work inside and outside of the city and non-residents who work inside the city. Labor force participation by city residents has improved substantially based on research conducted by a consortium of universities led by University of Michigan's Research Seminar in Quantitative Economics.

Chart 7

Detroit City Income Tax Revenues, 1966 to 2023



Source: Michigan State Tax Commission

Jobs

Insufficient data make it nearly impossible to answer the question that everyone wants answered, "did this cause that?" In Detroit's case there has been a notable increase in the number of job opportunities available to Detroit residents, to what extent that is attributable to city economic development policy is uncertain. Still, increases in income tax collections, noted in the above section, reflect marked improvements in Detroit's job market.

In analysis conducted by University of Michigan economists, Detroit was projected to add 4,900 jobs in 2023 and 4,300 jobs in 2024. From 2025 to 2028, the city is projected to add a mean of 1,900 jobs per year. Growth includes both the number of opportunities available in the city, and jobs held by Detroit residents, specifically. Employment for Detroit residents was projected to increase by a mean of 3,600 per year between 2023 and 2024, and a mean of 1,700 per year between 2025 and 2028.

Commentary and Critiques

Detroit has dealt with and continues to deal with issues that cannot be resolved solely through the use of tax abatements and tax increment financing. Most notably its problems are elevated rates of unemployment and poverty, racial disparities in income that exceed that of the broader area, and low levels of educational attainment. Each conspires to make the city, for all its merits, a place with a poorer clientele and shallow local labor pool. In addition to socioeconomic problems, businesses face costs in Detroit, some within the city's control and some it cannot control, that make it unprofitable to do business in the city or insufficiently profitable to meet thresholds for return on investment.

After nearly 50 years of employing these economic development laws, it could be hoped that conditions in the city would have improved sufficiently so that their use would no longer be necessary. It is not clear that that improvement has occurred sufficiently that Detroit can cease the use of tax abatements or end the Downtown Development Authority.

Assessment of Tax Abatements

If the ideal is the levying of taxes at low rates on broad bases, it can safely be said that tax abatements and tax increment financing contribute to a less-than-ideal, inefficient tax system. It casts city administrators and city council in the position of picking winners and losers. Tax abatements allow some businesses to pay less while the unabated property owners work in a system that has led people to lose their homes and businesses. Further, it fundamentally compromises the social contract. "Taxes are what we pay for civilized society" but what if some do not pay? Everyone else is forced to pay more and the city is denied revenues that could support quality of life improvements that would make the city a nicer place to live, work, and play.

A cursory analysis of the cost of locating in the city and the revenues businesses can expect to yield reveals that a gap continues to exist stacking the deck against the city for business attractions. Detroit can ill afford to cease the use of tax abatements until the gap between costs developers face and return on investment is closed. This continues to leave policy makers in the city with the difficult decisions of abating property taxes or suffering the deterioration of the tax base and the lack of property tax revenue growth that accompanies it.

Assessment of TIF

Any city's economic development efforts can never be said to be done. Cities must continue to strive to improve. Businesses will close or move elsewhere, so cities must continuously work to attract businesses. That said, it is fair to ask how much time and resources should be directed to economic development through TIF.

Creation of TIF districts begins with the local governments drafting plans detailing the improvements to be financed with the captured funding. Often that involves the selling of bonds to raise the funding needed for capital improvements. Bonds are usually financed over 30 years. With that in mind, one would think that in something like 31 years the city could expect the TIF district to stop capturing tax revenue and the tax revenues to revert to the overlapping jurisdictions that levy the taxes.

Implementation of TIF programs have not played out as designed. Rather than TIF districts implementing their plans, financing the associated debt, and ceasing the capture when the debt is fully repaid, the TIF districts often amended their plans and issued new bonds, extending the life of the TIF districts and perpetuating the capture.

The DDA was officially approved by the Detroit City Council in May of 1978. Since that time, it was amended 33 times with modifications to the development plan. In essence, tax revenues from properties within the DDA district flowing into Detroit's General Fund and into the general funds of the overlapping jurisdictions has been frozen in time for more than 45 years.

Accountability to the public in the levy of taxes and expenditure of tax dollars involves the budget process, public hearings, and the election and reelection of public officials answerable to their constituents for their decisions. If the residents of Detroit feel that more should be spent on public safety, parks, or blight remediation they can express those desires and elect officials that share those preferences.

That accountability is absent from TIF. Funding for economic development is removed from the budgeting process. The needs of public safety, parks, or blight remediation are not weighed against the economic development needs.

Detroit's DDA

Detroit was an earlier adopter of TIF, creating a DDA district shortly after the state law was enacted. Other TIF districts have been created within the city since. The DDA has been involved in supporting the development or redevelopment of many of the buildings in downtown Detroit. It has helped to attract businesses into downtown. It is not possible to construct an alternate reality to say what downtown Detroit would look like without support of the DDA, but it is clear that the DDA can lay claim to many developments that are part of downtown Detroit's renaissance.

The Detroit DDA levies a one mill property tax on the Downtown Detroit District that helps to support the DDA's Board of Directors and related costs. This tax yielded $1.4 million in FY2023.

The DDA tax capture yielded $65 million in FY2023 that was used to finance the principal and interest on outstanding bonds and pay for other development costs.[4]

Bond Obligations

The DDA has issued bonds several times over its nearly 50 years of operation. Those bonds are/were pledged against tax proceeds on the increases in the assessed value on real and personal property within the tax increment district. As of June 30, 2023, the DDA anticipates needing more than $571 million to finance the outstanding principal and interest on those notes until the last one is retired in 2053.[5]

Understanding this financial truism is necessary when discussing the role and value of the Detroit DDA. Directive could be given to issue no more bonded indebtedness and to phase down operations, but the pledge of revenue from the captured property tax revenue suggests that the DDA could not cease operations until at least 2053 at the earliest.

The Benefitting Geography

TIF districts encompass much of the growth areas of the city. Detroit has fallen from its former self with fewer people and less property tax base. The property tax base loss over the past six decades has been uneven. The exodus of people from the city and the spike in foreclosures has brought about large reductions in residential property contributing to the tax base. Meanwhile, commercial and industrial property values have been a little steadier (see **Table 5**).

Chart 5 (see page 16) documents a recent uptick in property values in the city. However, because many of the commercial districts are included in TIF districts, the city as a whole has not benefited from the rebound. For all of the revitalization in the Central Business District in recent years, little of it benefits the city's General Fund.

The saving grace for Detroit is its levy of the city income tax. While the neighborhoods have not benefited from post-bankruptcy investment in downtown, that investment has brought businesses and workers into the city. Those businesses and workers pay city income taxes that benefit the whole city.

Table 5

Change in Detroit-Taxable Value by Classification, 2013 to 2022

	2013	2013 Inf. Adj.	2022
Total	$9,437.5	$11,975.9	$10,944.5
Growth/(decline)			(8.6%)
Commercial	$2,417.4	$3,067.6	$4,888.6
Industrial	$576.9	$732.1	$752.8
Subtotal	$2,994.3	$3,799.7	$5,641.4
Growth/(decline)			48.5%
Residential	$4,850.3	$3,799.7	$3,715.3
Growth/(decline)			(2.2%)

Source: Sourced from notes to city's basic financial statements

Inequality

Regardless of revenue generation, the financing of infrastructure projects and other improvements in the TIF districts while the balance of the city relies on General Fund appropriations for similar improvements perpetuates the perception of unfairness.

Contributions to the cost of government are uneven. Businesses—commercial and industrial property owners—contribute more to government services than they generally consume, but the workers, suppliers, and customers of those businesses benefit from the government services. Residential properties tend to consume more government services than they pay for but provide the workers and customers to keep the businesses in operation.

Similarly, not all residents directly benefit equally from the services provided. Families with children benefit from strong schools and recreation centers. Older adults benefit from senior centers. While few households benefit from all of the services provided by the city, everyone benefits from a robust menu of services creating a mix of families and households of all kinds.

The capture of tax revenue in the TIF districts may be contributing to an uneven improvement of the infrastructure and physical condition of the city.

Conclusion

This report is intended to inform the debate over city economic development policy, but it cannot decide it. City policy is as much a philosophical question answerable by local elected officials and the citizenry that empowers them as it is a practical question answerable by research and analysis. Irrespective of whether public subsidies for private development increase economic activity, there is a question as to whether private activities, from which individuals will profit from, should come at a cost to the public. This report cannot answer that question. If public subsidies for private development do increase economic activity, make jobs more plentiful and increase incomes, how should those subsidies be awarded? This report cannot answer that question.

The next report will seek to answer what tax incentives are awarded by the city, are tax incentives effective, are tax incentives cost effective, and why does the city use tax incentives. It is up to elected officials and citizens to decide what to do with this information.

Importantly, local elected officials and citizens should consider whether city economic development policy is improperly focused on the attraction of individual businesses. The shrinking of Detroit means fewer people, fewer workers, and fewer patrons to businesses. What business can thrive when the local labor pool and client base is projected to diminish ever further?

Endnotes

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2 Citizens Research Council of Michigan, Survey of Economic Development Programs, http://crcmich.org/PUBLICAT/2010s/2016/economic_development_programs-2016.pdf.

3 Citizens Research Council of Michigan, *Survey of Economic Development Programs in Michigan*, Report 392, February 2016, https://crcmich.org/publications/survey-of-economic-development-programs-in-michigan.

4 City of Detroit Downtown Development Authority, *Financial Statements, June 30, 2023 and 2022*, October 6, 2023, https://www.degc.org/wp-content/uploads/2023/10/dda-23-audited-fs.pdf.

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