CITIZENS RESEARCH COUNCIL OF MICHIGAN

"The right to criticize government is also an obligation to know what you're talking about."
Lent Upson, First Director of the Citizens Research Council

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Amusement Tax Revenue Could Offset Revenue Losses from a Property Tax Cut

In a Nutshell

- Detroit is one of four cities in which its MLB, NBA, NFL, and NHL teams play within the city's boundaries.
- The city should use an amusement tax to shift the tax burden from its depressed property tax base to its riches in arts, entertainment, and culture.
- Estimated amusement tax revenue could offset revenue and afford the city the ability to reduce the property tax rate by 1 or 2 mills.

Last month, before the Detroit Lions lost to the San Francisco 49ers in the National Football Conference championship, The New York Times published a story about how Lions fans, previously bereaved for 32 years without a playoff win, rejoiced in the team's playoff successes. In that joy, Detroit's businesses around Ford Field such as Buddy's Pizza and Harry's Detroit Bar and Grill profited.

Ford Field, where the Lions play, sold out every game for the first time this past season. Games attracted a mean of 64,850 attendees, 6.5 percent more than the mean attendance of 60,129 from the previous 16 seasons (2020 excluded). Each attendee presents an economic benefit to city businesses but also financial costs to the city: those attendees drive on the city's roads, receive protection from the city's police, etc. Each ticket sale, if subject to an amusement tax, is an opportunity to recoup those costs. The city's enriched sports culture (the Detroit Pistons aside) offers an opportunity to secure city coffers with amusement taxes mostly paid by wealthier residents of the Detroit metropolitan area, and to lower taxes on Detroit's depressed property tax base.

Property taxes and Detroit's depressed tax base

Detroit's property tax base is depressed. As the local economy deteriorated and the tax base diminished, the city had to raise tax rates to maintain services. People may have left, but there are fixed costs from debt, benefits promised to retirees, and infrastructure from richer heydays that remain. Consequently, Detroit must levy hefty taxes on a tax base that has shrunk and is projected to shrink further by the decade.

Our recent report on Detroit's economic environment emphasized how Detroit's property tax burden impedes development in the city. Detroit levies 19.9520 mills for basic operations and 8 mills to repay debt (a mill is $1 in tax for every $1000 in taxable property value). Combined with 6 mills levied by the state, 7.7728 mills levied by Wayne County, another 13 mills levied to repay school district debt, and various other taxes (taxes are levied by special authorities such as the Detroit Zoo), Detroit residents pay some of the highest property tax rates in the state.

Property taxes in Detroit are levied on a tax base that is depressed and relatively poor. In 2023, Detroit's $8.1 billion taxable value was more valuable than Ann Arbor's ($7.5 billion) and Grand Rapids' ($6.7 billion), for example. However, Detroit serves 636,787 people, while Ann Arbor has a population of 122,216, and Grand

Rapids has a population of 198,096. When compared on a per capita basis, the relative inadequacy of Detroit's tax base is revealed. Detroit's $12,713 taxable value per capita is much less than Ann Arbor ($61,420) and Grand Rapids ($33,897).

What's worse, the consequences of the city's multi-decade depopulation are illustrated when residential taxable value is isolated and analyzed. Detroit's $2.8 billion residential taxable value is less than Ann Arbor ($4.7 billion) and Grand Rapids ($4 billion). On an individualized basis, the $66,700 median value of owner-occupied homes in Detroit is $349,800 less than Ann Arbor ($416,500) and $171,200 less than Grand Rapids ($237,900). Detroit homeowners are subjected to a 68.5080 mill property tax rate, or 14.2490 mills more than Ann Arbor homeowners (51.2590 mills) and 28.7863 mills more than Grand Rapids homeowners (36.7217 mills).

However economically impoverished the city's property tax base may be, Detroit is rich in arts, culture, and entertainment. In this respect, it is much richer than Ann Arbor or Grand Rapids, and an amusement tax could be levied on those riches.

Athletes, entertainers, and an amusement tax

Commonly, Major League Baseball (MLB) National Basketball Association (NBA), National Football League (NFL), and National Hockey League (NHL) teams play outside the cities they are named after. The San Francisco 49ers, for example, play in Levi's Stadium in Santa Clara, California. Only four cities—Chicago, Denver, Detroit, and Philadelphia—host MLB, NBA, NFL, and NHL teams that play in stadiums/arenas within their boundaries.

Ever since 2017 when the Pistons departed The Palace of Auburn Hills for the Little Caesars Area (LCA) in downtown Detroit, there has been debate over how the reputational and economic benefit could financially benefit Detroit. An amusement tax could provide that financial benefit.

Detroit presently benefits from athletes and entertainers who perform in the city. The professional athletes pay city income tax, as do the coaches, trainers, referees, etc., as do those of rival teams. If musical artists, comedians, etc., perform at local venues such as the Fox Theater, they pay city income tax, as does the array of backup dancers, vocalists, and assistants. An amusement tax, in whatever application, would further allow the city to benefit financially and defray some of the costs from the influx of event attendees from outside the city.

A recent report by Detroit City Council's Legislative Policy Division (LPD), estimated the revenue that could be raised from an amusement tax, either as a flat fee per ticket sold or proportional to the ticket price. It estimated a tax levied at a flat rate of $3 per ticket sold would have raised $1.7 million from Lions games, $4.8 million from Tigers games, and another $3 million from concerts held at either Ford Field or LCA (based on 2022 attendance). If instead the tax was levied as 10 percent of the ticket price, $5.2 million would have been raised from Lions games and $5 million from Tigers games. Estimates from LPD's analysis neither considered Pistons or Red Wings games, concerts at Ford Field and LCA, nor many of the city's entertainment venues. While sufficient data is unavailable for revenue projections that are broader in scope, an amusement tax would raise much more revenue.

So preliminary estimates are that an amusement tax, irrespective of how it is administered, could raise at least $10 million per year. But who will pay these taxes? Everyone who attends sports and entertainment events in Detroit, and that importantly offers Detroit an opportunity to properly spread service costs to those who use those services, residents and non-residents alike.

Detroit services more than just the 636,787 people that make up its population. Commuters who live outside of the city but work at establishments within the city, drive on city roads, have lunch at restaurants inspected for safety by the city, and enjoy its many amenities, entertainment included, and tourists who visit Detroit expect to be protected by police just the same as residents.

If used to offset revenue losses from a cut to the property tax rate, the amusement tax revenue could be used to implement further tax relief for Detroit residents yet not risk city services.

An amusement tax could replace property tax revenue losses

Detroit is projected to collect about $156 million per year in property tax revenue over the next five years. An amusement tax, as derived from LPD's analysis, could raise about $10 million in revenue. This would be sufficient to reduce the property tax levy by approximately 1 to 2 mills. A small effect, but likely understated when one considers how limited LPD's analysis was. Fuller estimates of the potential yield of an amusement tax could substantiate a much deeper cut to the property tax rate.

Conclusion

No matter how small, property tax relief of any sort should be welcomed. Detroit residents are relatively poor, and mass tax foreclosures in the recent past removed people from their homes. The unfortunate irony that a city desperate for people spent so much in resources to remove people from their homes is also why amusement tax revenue should be used to offset revenue losses from a property tax cut. Understandably, one could counter that Detroit could use additional revenue to pay down debts, raise worker pay, or expand access to services but what Detroit needs more than money is people. The city's property tax rate has been a persistent impediment to development, and the attraction of new residents, and lower property taxes may make the city a more attractive place to live.

ABOUT THE AUTHOR

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James L. Tatum III is the Researcher for the Detroit Bureau of the Citizens Research Council. Previously, he served as an analyst in the City of Detroit's Office of the Chief Financial Officer (OCFO) where he prepared cost-benefit analyses of City projects, asset sales and labor contracts, forecasted city revenues and expenditures, and conducted scenario analyses for the City's pension plans. In addition to his practical experience, he is an accomplished academic. His research on debt, pensions, insolvency, Chapter 9 bankruptcy, and dissolution has been published in trade, law, and academic journals.

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