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CITIZENS RESEARCH COUNCIL OF MICHIGAN

107 YEARS OF UNCOMPROMISING POLICY RESEARCH

Coordinating the Authority and Resources to Remediate Blight

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Coordinating the Authority and Resources to Remediate Blight

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Coordinating the Authority and Resources to Remediate Blight

In a nutshell:

- The term blight is used to describe properties that are marked by a demonstrated pattern of deterioration in physical, economic, or social conditions. Blight can exist in urban, suburban, and rural communities, but each community's response to the problem will be different.
- Blight prevention and remediation generally is a public good that benefits the entire community and, especially, neighboring residences and businesses. Local governments are tasked with managing blight within their boundaries; their efforts are supported by state laws and programs, as well as federal funds and programs.
- Possible solutions to more effective blight prevention and management include taking a more regional approach to anti-blight policies; greater collaboration among counties, local governments, and the private sector; increasing community buy-in and support; and, where appropriate, providing local governments with more diverse funding streams to provide the resources needed.

Executive Summary

The term blight came to use in a botanical concept to describe plants that were in a state of disease or injury. It was adopted by social scientists to describe the economic and social disease in communities with properties that are in disrepair and/or neglected and abandoned. Blight is a complex issue that impacts communities across the state and country, but it is also a local issue that can be hard to quantify on a state or national level. Blight can exist in urban, suburban, and rural communities, but each community's response to the problem will be different.

State law defines blight and provides policy options (e.g., land banks) for local government management of blight. Local ordinances further clarify what is considered blight in their communities and the tools (e.g., code enforcement) used to address it at the local level.

Michigan can learn from practices in other states, but local government are not lacking statutory tools for combatting blight. State and local policy and tools may need to be amended to allow for more regional blight management at the county level. However, the biggest issue facing Michigan communities addressing blight problems is a lack of consistent funding sources.

The answer may not be in dedicating specific funding sources to blight remediation, but in giving local governments more diverse funding streams so that they can better fund their priorities from their general funds.

The Characteristics of Blight

Michigan state law[1] defines a blighted area as a portion of a city or township that may be developed or undeveloped and may contain business or residential uses that are marked by a demonstrated pattern of deterioration in physical, economic, or social conditions. It further classifies a property as blighted if it meets the following criteria:

- It has been declared a public nuisance in accordance with a local housing, building, plumbing, fire, or other related code or ordinance.

- It is an attractive nuisance[A] because of physical condition or use.
- It is a fire hazard or is otherwise dangerous to the safety of persons or property.
- It has had the utilities, plumbing, heating, or sewerage disconnected, destroyed, removed, or rendered ineffective for a period of one year or more so that the property is unfit for its intended use.
- It has code violations posing a severe and immediate health or safety threat and has not been substantially rehabilitated within one year after the receipt of notice to rehabilitate from the appropriate code enforcement agency or final determination of any appeal, whichever is later.

Blight remediation is largely left to local government officials, but state government establishes the legal parameters from which local officials derive their authority to enact and implement policies designed to prevent, mitigate, and remove blight.[2]

Community decline is cyclical in nature. If a local government does not have the funds to address blight and work to prevent it at the community level, then businesses and residents with the means to do so leave the community, and this, in turn, leaves less tax revenue and more abandoned properties for an already struggling community. The "broken window theory" of blight states that vacant and abandoned properties with boarded doors, broken windows, and unkempt lawns can create a haven for criminal activity and attract more blight.[3] As each small problem remains unfixed, it affects people's attitudes towards the environment and encourages more problems.

Blight as a Government Issue

The motivation for government management of blight has shifted over the years. In recent years, the focus has shifted from economic development, which can occur at the expense of blighted neighborhoods in a community, to economic stability, which considers the needs of the broader community, including those neighborhoods most affected by blight. However, people still do not agree on the greatest threats posed by unmitigated blight. Some believe that the greatest threats are imminent health and safety concerns; others see social polarization and low employment opportunities; many see decreased housing market values and lower municipal tax revenues as the primary problems.[4]

Even though blight largely deals with private property, it occurs when the private market is failing; people do not walk away from their investment in their property when the market is succeeding. Additionally, economic stability is a public good and blight has many externalities that impact those other than the property owners who are neglecting or abandoning their property. The private market will not step in to stop blight unless it will provide a financial benefit, which is often not the case. Blight prevention and remediation generally is a public good that benefits the entire community and, especially, neighboring residences and businesses.

Government management of blight falls under its police powers and economic development interests. Ignoring blight or leaving it for the private sector to address has implications for a community's health and safety, as well as dealing with the economic and societal problems associated with unrestrained blight. Government is best equipped to manage and remediate blight and has a public interest in maintaining the attractiveness and safety of communities. However, the private sector often plays a role in partnering with the government to manage and remediate blight.

Blight is an issue at the community level. Some local governments consistently struggle with the challenges of blighted properties in their communities, while some do not. Even across those communities noticeably impacted, the scale and scope of blight can vary considerably. Regardless of scale and scope, all local governments are investing in blight prevention to some degree, whether by targeted blight-reduction programs or general efforts to maintain and/or increase economic development in a community.

A Attractive nuisance is defined as a dangerous condition on a landowner's property that may particularly attract children onto the land and pose a risk to their safety.

Laws and Programs Addressing Blight

Blight is an issue that is preventable and can be remediated at the local level. Local governments are creatures of the state with authority granted and assumed. However, because many blight mitigation activities involve working with private property owners or taking property from them, local governments have worked with state lawmakers to enact laws explicitly granting them blight remediation authority. Several state laws, as well as federal, state, and local programs, aim to tackle blight remediation. Success can depend heavily on the public-private partnerships and community support to revitalize distressed neighborhoods.

State Laws and Programs

State laws and programs provide the foundation for blight management in Michigan. The following laws are detailed in the full report, but just highlighted here:

- Blighted Area Rehabilitation, Public Act (PA) 344 of 1945: Authorizes municipalities to adopt plans to prevent blight and for the rehabilitation of blighted areas.
- Neighborhood Area Improvements, PA 208 of 1949: Provides municipalities with tools to improve areas in danger of becoming blighted.
- County or Regional Economic Development Commission, PA 46 of 1966: Allows for the creation of a commission to plan and carry out economic development and expansion programs.
- Economic Development Corporations Act, PA 338 of 1974: Allows for the creation of public economic development corporations to address needs relating to housing or neighborhood improvement.
- Land Bank Fast Track Act, PA 258 of 2003: Provides for the creation of land bank fast track authorities to help local governments manage foreclosed and abandoned properties.
- Brownfield Redevelopment Financing Act, PA 381 of 1996: Creates brownfield redevelopment authorities (BRAs) to facilitate the implementation of brownfield plans, create brownfield redevelopment zones, and promote revitalization, redevelopment, and reuse of certain property, including tax-reverted, blighted, or functionally obsolete property.
- Commercial Rehabilitation Act, PA 210 of 2005: Offers owners of certain rehabilitated commercial facilities a property tax abatement.
- Obsolete Property Rehabilitation Act, PA 146 of 2000: Provides property tax breaks on the improved value of rehabilitated structures in eligible distressed communities.
- Neighborhood Enterprise Zone Act, PA 147 of 1992: Provides tax incentives for housing development and improvement in eligible distressed communities.

In addition to state laws and programs, federal funding programs and tax credits are available to support local efforts to mitigate blight.

Local efforts to prevent and remediate blight include planning and zoning policies, code enforcement, as well as economic development programs. Taking on ownership of properties is often challenging for local units because, unlike land bank authorities, the community development agencies of local governments do not have the authority to extinguish back taxes, which represents a real cost for local units. Additionally, pursuing eminent domain to rehabilitate a blighted area is legally arduous and costly. Land banks have the authority to extinguish back taxes but lack the funding to fully address blight in the communities they serve.

Programs to Address Blight in Other States

Across the United States, cities are looking more at the social impacts of blight and not just the economic impacts. They are becoming laboratories for new poverty survival strategies. The focus has shifted from economic development to elevating housing as a human right and addressing poverty.

This section is not exhaustive but highlights some policies and programs aimed at addressing blight.

Housing Courts. Cleveland, Ohio and Buffalo, New York have dedicated housing courts that have exclusive jurisdiction over code enforcement violations, but also hear cases related to landlord-tenant issues, foreclosures, nuisance abatement, and receivership actions. The Cleveland court also employs housing specialists to provide counseling and assistance to landlords to help them achieve compliance.[5]

School Partnerships. A school district in Wisconsin is utilizing blight remediation as a hands-on learning experience for their students interested in construction work. The property is sold after completion of the project meaning this model provides financial self-sufficiency, relevant experience for students, and cost-effective blight remediation for the area.[6]

Blight Foreclosure. The City of New Orleans can go through a process referred to as blight foreclosure where it uses the fines associated with code enforcement to go through a lien foreclosure process to recoup the money lost to unpaid fines. New Orleans can do this because Louisiana and a handful of other states have codified a procedure for the super-priority of remediation liens in state law. This process has made New Orleans a national model for blight reduction and has led property owners and lienholders to remediate property rather than having it taken by the city.[7]

Social Impact Bonds. Social impact bonds for housing revitalization were undertaken in Richmond, California, and have had some success. They are defined as "a financial mechanism where the private sector provides investment funds to the public sector for social benefits."[8] In the case of Richmond, the city issued $3 million worth of bonds to purchase, rehabilitate, and sell blighted properties. The bonds are issued by the city, but the city does not take on the risk of repaying the bonds. The sole source of funds for debt service will be proceeds from the sale of rehabilitated properties. Well-performing social impact bonds are attractive to local banks looking to meet their obligations under the federal Community Reinvestment Act, which has requirements related to meeting the needs of all types of borrowers, including low-income borrowers.

This was undertaken in partnership with the Richmond Community Foundation and strong collaboration between the city and private sector is essential to success. The program provides a great example of private for-profit companies partnering with nonprofits and government entities to address social problems in their communities.

Funding Options to Manage Blight in Michigan

Michigan has provided its local governments with legal tools to manage and prevent blight, but these tools do not come with dedicated funding sources. A lack of dedicated funding means that local governments must fund blight management from either general fund dollars or find state and federal grants to support blight remediation. The problem with state and federal grants is that they do not provide consistent funding. That leaves many local governments relying on their general fund budgets for blight management funding.

Most local governments in Michigan are limited to property taxes as their only own-source tax revenue and they are highly dependent on these revenues. Furthermore, many local governments with concentrations of blight are already levying property taxes at high rates (and income taxes in most cases) and directing more of these resources for blight remediation would come at the cost of budgeting fewer dollars for other county and municipal needs (see **Table 1**).[9]

The Benefits of Local Tax Options to Fund Blight Remediation

The Citizens Research Council has been saying for

Table 1

Tax Rates of Michigan Cities with Higher Concentrations of Blight, 2021

	Property Taxes (mills)		City Income Tax
	City Rate	Cumulative Rate	Resident Rate
Michigan Average		35.12	
Benton Harbor	25.51	51.39	1.0%
Detroit	28.95	75.75	2.4%
Ecorse	38.14	83.46	
Flint	18.69	58.88	1.0%
Hamtramck	24.14	60.80	1.0%
Highland Park	47.49	78.31	2.0%
Inkster	37.88	75.15	
Lansing*	19.27	61.14	1.0%
Muskegon	12.19	48.55	1.0%
Pontiac	17.36	43.18	1.0%
Port Huron	20.61	43.18	1.0%
Saginaw	7.32	50.97	1.5%
Ypsilanti	32.34	70.76	

Notes: a mill is equal to $1 of tax for every $1,000 of taxable value. Lansing residents in Clinton and Eaton counties pay slightly different property tax rates.

Source: Michigan Department of Treasury, Citizens Research Council of Michigan, Outline of the Michigan Tax System

years that local governments are overly dependent on property taxes and need more diverse revenue streams.[10] Furthermore, local governments with the most blight also tend to be those with the least fiscal capacity to raise additional revenues from property taxes or any sources. High property tax rates can be a factor that contribute to blight so that limits the effectiveness of raising property tax rates to fund blight remediation. When owners are unable to care for homes because of aging, handicap, or other circumstances or unwilling to do it because the economic purpose of the property has been altered, increasing the cost of continued ownership by raising property tax rates is more of a hindrance than help.

Regional Taxes

Successful blight management will require a partnership between all levels of government. Cities and townships are better at identifying properties within their communities in need of remediation and can more accurately assess the needs of their community. Counties are more effective at working towards long-term goals, leveraging their funding to accomplish large scale projects, and maintaining consistency among areas within their jurisdiction.

Levying local-option taxes at the regional level generally leads to less competition and fewer negative externalities associated with the taxes. Socioeconomic and income inequalities are decreased at the regional level and levying local taxes at the regional level promotes a form of tax-base sharing that benefits the entire state.[11] Additionally, there are more than 1,700 potential taxing units at the local level, but only 83 counties. Funding at the county level could be more consistent, as counties are required to think more conceptually when planning, while local governments end their work wherever their jurisdiction ends.

Potential Blight Funding Taxes

Ideally state policymakers would address the deficiencies in Michigan's local government finance structure to better equip local governments to fund essential services, such as blight remediation. Absent those changes, they could consider tax mechanisms to provide consistent funding streams for blight remediation.

Income Tax. Many of Michigan's urban communities already levy a local income tax so this may not be a valid option to raise more funds for blight remediation in urban communities. However, a local income tax could be authorized at the county level with funds dedicated to blight remediation and prevention (including economic development activities) throughout the county. Expanding local income taxes to a regional tax might provide funding across urban, suburban, and rural regions to manage blight and promote economic growth. It would require passage of a state law to allow for counties to levy income taxes. It would also require determining if services would be provided at the county level or if counties would share the revenues with their constituent local governments.

Sales Tax. A local sales tax is not currently an option in Michigan. If state law was amended to allow for a county or regional level sales tax, it could provide broad support for blight prevention and remediation for communities across the state if they voted to adopt the tax. However, it is not clear that the state could even authorize a local sales tax without amending the 1963 Michigan Constitution. The Constitution limits the state sales tax rate to six percent and earmarking provisions related to the sales tax would restrict any revenue the tax brings in.[12]

Recording Fees. State law provides for a $30 recording fee that can be charged by county registers of deeds for entering and recording a document.[13] A portion of that fee ($9) is dedicated to the counties' automation fund and the state survey and re-monumentation fund.[14] The balance of the fee helps to fund the register of deeds offices in county governments. An option for raising more revenue to support blight remediation would be to raise this fee; the fee captures a broad amount of transactions and has the potential to raise a lot of revenue. If the fee was raised $10, Washtenaw County alone would collect an additional $500,000 in annual revenue. A fee increase like this may be politically palatable because it represents an incremental change rather than broad policy change.

The connection to blight remediation is an attractive part of enhancing the recording fees. As properties are enhanced and location in the county is made more attractive, more transactions will lead to more fees. The problem is that the Michigan Supreme Court ruled in *Bolt v. City of Lansing (1998)* that fees must be proportionately priced to fund the services they are aligned with. User fees must serve a regulatory purpose rather than a revenue-raising purpose; they must be proportional to the necessary costs of the service or commodity and imposed on those benefiting from the improvement supported by the fee.[15] For recording fees to serve as a general funding source for local governments to address blight issues, they must be converted into a tax.

County Real Estate Transfer Tax. This tax was established in state law in 1966 and is a tax on the exchange of real estate at the rate of $1.10[B] for every $1,000 of real property transferred.[16] In 1995, the state began to levy a real estate transfer tax (RETT) at a rate of $7.50 for every $1,000 of real property transferred.[17] The rates for these taxes have not changed since they were originally passed in 1966 and 1993, but they are indexed to the cost of real estate, which has increased greatly over that time period.

RETT funds are used to support county register of deeds offices and general funds. The counties in total collected $52.3 million with an average of $630,000 per county. Oakland County collected the most RETT revenue at $9.6 million and Keweenaw County in the Upper Peninsula collected the least amount of RETT revenue at $21,000.

This tax rate could be increased at the county level and earmarked for blight remediation and prevention. It would require authorization in state law and voter approval at the county level. As is the case for recording fees, there is a connection to blight

B If any county's population increases above 2,000,000, state law specifies that the county real estate transfer tax rate will increase to $1.50 for those counties.

remediation as it is a tax on real estate transfers and blight directly affects the value of real estate in a community. Because it is tied to real estate transactions, the amount of funds raised in each county will reflect real estate activity in that county.

Increasing the RETT rate would increase the tax burden on prospective homeowners, businesses, redevelopers, and real estate companies. However, the state and county taxes currently represent a small portion of a property buyer's closing costs, and even at a substantially increased rate that dynamic would not change considerably. If the tax is increased by a factor of eight ($8.80 per $1,000 of real estate transferred – a rate higher than the state rate of $7.50), it would result in a total tax of less than $2,000 for the average Michigan home. This is a small amount when considering other costs associated with buying property, such as agent commission and fees. However, it does represent a real tax increase that would impact homebuyers in Michigan.

Allowing for the tax increase in state law does not mean that all counties would adopt the tax at the higher rate. Any tax rate increases must be approved by local voters according to the 1978 Headlee Amendment. Allowing for the rate increase in state law would give counties another financial tool to fund blight remediation within their borders.

Conclusion

Michigan has the infrastructure to handle blight but generally lacks a consistent stream of funding necessary for that infrastructure to function and for successful blight remediation and prevention. Michigan's status as an older, industrial state that has seen the automotive industry, among others, leave the state has led to population decline and, in some instances, economic decline. Former industrial and commercial properties in many urban areas have been left as brownfields. Population declines and economic stress caused by the Great Recession have led to home foreclosures and abandonments. Some local communities have become blight traps and governments have been left with fewer funds to control and reverse this downward spiral. This is not limited to urban areas as rural areas have their own issues with blight and usually less funds and options to deal with it.

This paper highlights some of the current laws and programs to fund blight and discusses potential options to increase taxes or fees to provide more funding for blight remediation. Unfortunately, there are no ready-made sources of funding for blight remediation. Like all local government services, blight remediation finds itself competing for local funds every budget cycle. Rather than trying to adapt existing revenue sources to meet local governments' blight remediation needs, state policymakers could address the underlying problems confronting the revenue-raising capabilities of local governments in Michigan. However, addressing blight requires more than simply additional funds. It may require taking a more regional approach to anti-blight policies; greater collaboration among counties, local governments, and the private sector; and community buy-in and support.

Endnotes

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Coordinating the Authority and Resources to Remediate Blight

Introduction

The term blight came to use in a botanical concept to describe plants that were in a state of disease or injury. It was adopted by social scientists to describe the economic and social disease in communities with properties that are in disrepair and/or neglected and abandoned. It has been criticized over the years because the term lacks clarity and a clear definition. The research on blight illustrates that it is a complex issue that impacts communities across the state and country, but it is also a local issue that can be hard to quantify on a state or national level. Blight can exist in urban, suburban, and rural communities, but each community's response to the problem will be different.

While blight may be hard to define, measure, and quantify, it is still important to explore the current infrastructure and funding mechanisms to address it. And, whether the tools and resources available are sufficient to meet state and local needs. State law defines blight and provides local governments with interventions to deal with it (e.g., land banks). Further, local governments enact ordinances to clarify what is considered blight in their communities and the tools (e.g., code enforcement) used to address it. While state and local policy and tools may need to be amended to allow for more regional blight management at the county level, the biggest issue for Michigan communities with addressing problems associated with blight is a lack of consistent funding sources.

Currently, blight management is largely funded through local governments' general fund budgets with state and federal grants sporadically filling funding holes in many years. Locals do not rely on dedicated funding sources. Local general funds are largely supported by property tax revenues, which are insufficient to meet all local government funding needs and particularly ill-suited to fund blight remediation. High rates of property taxes can directly contribute to more blight in a local community. Many communities struggling with blight are levying taxes at high rates (some are levying local income taxes in addition to property taxes) and may need to explore other options to fund blight remediation, including new tax options and regional funding options that will allow for some form of tax-base sharing. The answer may not be in dedicating particular funding sources to blight remediation, but in giving local governments more diverse funding streams so that they can better fund their priorities from their general funds.

The Characteristics of Blight

Defining blight can be difficult and somewhat contentious. What some may consider blighted, others may consider worthy of repair. This is further complicated by different perceptions of blight in urban and rural areas.

The term blight has been used by researchers and policymakers for over one hundred years, but often without any consistent definition of the term (see **Figure 1**). It has been defined as a physical space or structure that is no longer in acceptable or beneficial condition to its community. It is a stage of depreciation, not an objective condition, which means that it is created over time through neglect or damaging actions and that each community has a role in defining blight within its borders.[1] A property is considered blighted once it is so damaged that it is incapable of beneficial use without outside intervention. This definition usually excludes discussion of the practices and policies that contribute to the production of blight and the disadvantaged communities that have been negatively affected by both blight and anti-blight policy responses.

Figure 1

Blight Timeline

1920s
Early reformers viewed blight as a public health threat and focused attention on substandard housing

1930s
Zoning/land use regulations, building, fire, and health codes used to demolish properties

1940s
Urban reformers began to link blighted properties with stalled economic growth and focus shifted to economic development

1950s-60s
Poor neighborhoods bull-dozed in the name of economic development and urban renewal

1970s-90s
Cities began to redevelop downtowns to spur economic development

1990s-2005
Cities used eminent domain for urban revitalization; backlash from court case restricts use of eminent domain for economic development; still can use blight as reason for eminent domain

2006-Now
Cities dealing with large numbers of vacant and abandoned properties due to deindustrialization, mortgage crisis, and Great Recession; cities look at land banks and strategic demolition to address blight with focus shifted to stabilizing distressed neighborhoods

Source: Schilling, Joseph and Pinzon, Jimena. (2016). VPRN Research and Policy Brief No. Two: The Basics of Blight, Research on Its Drivers, Impacts, and Interventions. Accessed November 8, 2022. https://vacantpropertyresearch.com/wp-content/uploads/2016/03/20160126_Blight_FINAL.pdf

Michigan state law[2] defines a blighted area as a portion of a city or township that may be developed or undeveloped and may contain business or residential uses that are marked by a demonstrated pattern of deterioration in physical, economic, or social conditions. It further classifies a property as blighted if it meets the following criteria:

- It has been declared a public nuisance in accordance with a local housing, building, plumbing, fire, or other related code or ordinance.
- It is an attractive nuisance[A] because of physical condition or use.
- It is a fire hazard or is otherwise dangerous to the safety of persons or property.
- It has had the utilities, plumbing, heating, or sewerage disconnected, destroyed, removed, or rendered ineffective for a period of one year or more so that the property is unfit for its intended use.
- It has code violations posing a severe and immediate health or safety threat and has not been substantially rehabilitated within one year after the receipt of notice to rehabilitate from the appropriate code enforcement agency or final determination of any appeal, whichever is later.

Local blight ordinances can vary, but many[B] identify the following causes of blight or blighting factors:

- The storage of junk automobiles on property except those in completely enclosed buildings.
- The storage of building materials on property without a valid building permit in force.
- The storage or accumulation of junk, trash, rubbish, or refuse of any kind, except domestic refuse stored in a manner that it does not create a nuisance
- The existence of uninhabitable structures, including those due to disaster or physical deterioration.
- The existence of any vacant dwelling, garage, or other out-building, which is not kept securely locked and protected from vandals.
- The existence of any partially completed struc-

A Attractive nuisance is defined as a dangerous condition on a landowner's property that may particularly attract children onto the land and pose a risk to their safety.

B Northville, Plymouth, Rochester Hills, Village of St. Charles are some examples of local governments with similar descriptions of blight in their local ordinance.

ture without a valid building permit.[3]

Not all local ordinances define blight the same or provide the same tools to manage blight, but these general causes of blight are found in many local ordinances. Blight remediation is largely left to local government officials, but state government establishes the legal parameters from which local officials derive their authority to enact and implement policies designed to prevent, mitigate, and remove blight.[4]

The reasons that property becomes blighted are numerous and they include factors outside as well as within a local government's control. Factors driving blight that government has some control over include taxes. Local decisions to increase a millage can tax people out of their homes, especially in urban areas with high tax rates, and lead people to poorly manage or abandon their properties.[5] Larger economic factors, such as the Great Recession (2007 to 2009), with its ties to the collapse in real estate markets, led to a precipitous drop in property values and financial problems for many property owners. Some property owners were forced to abandon their property or just leave it blighted. Environmental factors, including tornadoes, flooding, and earthquakes, can cause damages to properties and lead to neglect or abandonment. Sometimes property owners simply become incapable of performing the upkeep because of issues of aging, handicap, or other circumstances.

Finally, community decline is cyclical in nature. If a local government does not have the funds to address blight and work to prevent it at the community level, then businesses and residents with the means to do so leave the community, and this, in turn, leaves less tax revenue and more abandoned properties for an already struggling community. The "broken window theory" of blight states that vacant and abandoned properties with boarded doors, broken windows, and unkempt lawns can create a haven for criminal activity and attract more blight.[6] As each small problem remains unfixed, it affects people's attitudes towards the environment and encourages more problems.

The type and scale of blighted conditions vary from place to place; much depends on the local political, legal, and community dynamics.[7]

Urban Versus Rural Blight

It has been argued over the years that blight is a problematic term. Its definition depends on regional cultures and can be different in urban, suburban, and rural communities depending on differing community perceptions and standards (e.g., what might be acceptable in a rural setting may not conform to suburban community standards). The one constant in the history of blight across communities is that it is highly contested with a malleable definition. The shifting nature of blight does not mean that the term is not useful, but that policymakers and practitioners must be attentive to the context within which it is being invoked.[8] Finally, the vagueness of the term has allowed bad faith actors in the past to designate poor and minority communities as blighted on an improper or discriminatory basis to allow local governments and developers to justify the use of eminent domain to transfer properties away from these populations.[9]

Both urban and rural communities struggle with blight. Discussions of blight often focus on urban areas to the exclusion of rural areas, even though rural blight can be just as prevalent. Despite the frequency of rural blight, rural communities have fewer tools to address it. And often when decisions-makers are trying to address rural blight, urban-normative laws[C] do not always give rural communities the tools they need to define and address blight.[10] It is important to remember that the presence of blight is growing in some suburban communities as well and they may have their own unique needs related to blight prevention and remediation.

C Urban-normative laws fail to contemplate the needs of those living outside of urban centers.

Most state laws and local policies that were adopted to address blight were done with urban communities in mind. This, along with more community support, gives them tools to remediate blight, including building codes, zoning ordinances, active community organizations, housing counselors and assistance, the prospect of private investment, the capacity to pursue eminent domain, land banks, and media attention.[11] Also, land within urban communities is generally in higher demand than in rural areas, which provides more pressure to address issues related to vacant properties and blight.

One report defined rural blight as one or more defective property(ies) that is posing a measurable threat to a community and is in a place with a sparser population at a distance from a population center (at least 35 miles from a community of 20,000 or more).[12] Many rural communities are dealing with vacant, abandoned, and dilapidated buildings. It can become a cycle in rural communities as they lose population and more buildings become superfluous, those buildings become harder for an ever-shrinking population to address, and the community becomes less desirable to current and potential future residents. Rural blight's ripple effects on property values and tax revenues may necessitate cutbacks in the very services that could counter it. Rural blight is spread throughout the state, but also invisible as it is largely ignored. Rural blight is shaped by circumstances unique to it, including population scarcity, limited physical and economic access to resources, differing cultural norms, and limited legal frameworks. A review of court decisions in rural areas found:

- A high tolerance for rural nuisances on private property, including nuisances related to poor property maintenance
- A lower tolerance for public intrusion onto rural land, such as for infrastructure development, including higher compensation for such intrusions
- Stronger protections for rural landlords and weaker ones for rural tenants
- Liberal rural homestead protections
- A higher burden for establishing adverse possession claims on rural private property[13]

While blight in rural communities may be difficult to address, it is important and can impact large sections of the population. In the United States, 20 percent of all residents and 72 percent of all land are considered rural; in Michigan, 25 percent of all residents and 94 percent of land are rural.[14] [15]

Blight as a Government Issue

Over the years, the primary focus for governments managing blight has shifted from concerns over public health to efforts to promote economic development to, most recently, efforts to provide economic stability throughout an entire community. But why is managing blight for economic stability a government responsibility? Blight largely deals with private (not public) property so some might argue that blighted properties are the exclusive responsibility of the private property owner and private markets with little role for the public sector. However, blight occurs largely due to the failure of the private market. People do not walk away from their investment in their property when the market is succeeding. Additionally, economic stability is a public good and blight has many externalities that extend beyond the property owners who are neglecting or have abandoned their property.

Blight can be compared to pollution. The full negative effects of polluting behavior fall on society, not just on the polluter. In addition, the full positive effects of pollution control are consumed by everyone, not just those paying to eliminate the pollution. A public good is defined as something that is both non-rivalrous (i.e., one person's consumption of it does not diminish another's ability to consume it) and non-excludable (i.e., not possible to prevent people from consuming it).[16] Blight, like pollution, effects all residents in an area, not just those contributing to the blight. The private market will not step in to prevent blight unless it will provide a financial benefit, which is often not the case. Blight prevention and remediation is both non-rivalrous and non-excludable and generally benefits the entire community and, especially, neighboring residences and businesses.

Government management of blight falls under its police powers and economic development interests. Ignoring blight or leaving it for the private sector to address has implications for a community's health and safety, as well as dealing with the economic and societal problems associated with unrestrained blight. Government is best equipped to manage and remediate blight and has a public interest in maintaining the attractiveness and safety of communities. However, the private sector often plays a role in partnering with government to manage and remediate blight.

Economic Justifications

Property rights are one of the core values in the United States. "A man's house is his castle" represents the idea that everyone is free to use their properties as they see fit. Local governments use their planning and zoning powers to minimize the negative externalities associated with the real-world impacts arising from this principle. When properly employed, planning and zoning ordinances work to benefit residents and businesses alike. Zoning ordinances can prevent residential properties from being negatively affected by the noise and odors produced by industrial sites, as well as deter heavy traffic from impeding on the work accomplished at industrial sites. Effective planning can steer consumers to and from commercial properties. Local ordinances can keep people from being allowed to leave visual blight, such as broken-down cars, on their property.

These tools allow local governments to designate regions of their communities for residential, commercial, industrial, and other uses. However, while planning and zoning powers enable local governments to proactively minimize potential future negative externalities, they provide little capacity to react to current negative externalities, such as those created by blighted properties.

Blight is an economic drag not only on the deteriorated properties, but also on adjacent and nearby properties. Property parcels within 500 feet of a blighted property can have their values reduced by one to two percent. This effect can be compounded when multiple instances of blight are present, reaching devaluation up to 3.5 percent.[17] This devaluation is related to the fact that the presence of blight suggests that the neighborhood is in decline or that the management of the community is ineffective. Most people do not want to live next to blight and most business owners do not want their buildings near blight. Over the medium to long-term, blight tends to spread from one property to several. A blighted property becomes a blighted neighborhood. Research into how much vacant properties reduce sales prices of neighboring properties varies greatly, but vacancies and foreclosures can and do lower the prices of neighboring homes.[18] Therefore, addressing blight can have tertiary effects of increasing the value of surrounding properties.

Potential loss of property tax revenue is a major reason why blight remediation is in the economic interest of local governments. Michigan local governments – including counties, cities, villages, townships, school districts, intermediate school districts, community college districts, and special authorities -- are highly dependent on property tax revenues as their primary source of funding. Blight can result in delinquent taxes and ultimately removing properties from the tax roll. To the extent that blighted properties continue to be a source of tax revenue, they are undervalued and unproductive elements of the tax base. Additionally, these unproductive elements of the tax base still require the same government services and, at times, even more services than their neighbors.

Addressing blight and returning the properties to productive elements of the tax base will help local governments fund services provided to the whole community. However, it is important to remember that anti-blight policies should not have one-dimensional goals of restoring property values and markets. These goals related to economic development and tax base growth were used in the past to justify bulldozing entire neighborhoods due to some blight within them. Policymakers need to consider the impact of policy tools on the communities and residents most impacted by blighted properties.[19]

Health and Safety Justifications

State law requires Michigan's cities and townships to protect the peace, health, and safety of their residents.[20 21] This protection extends to the threats and danger posed by blighted properties. Furthermore, it is in the governments' interest to remediate blight and remove the potential danger caused by it as the government wants to attract and keep residents and maintain its tax base.

Research indicates an association between blight and the following three health and safety threats: 1) increased risk of fire, 2) increased presence of illness in a community, and 3) decreased personal safety.[22] Blighted properties pose health risks as they are often structurally unsound and can contain high amounts of lead and mold, rodent or bug infestations, and poor indoor air quality. This can lead to inhabitants developing neurological damage, asthma, carbon monoxide poisoning, and chronic illnesses. In the case of children, they can exhibit constricted cognitive and physical growth due to blight exposure.[23]

Blight poses safety risks as it can act as a shelter for illegal activity. Abandoned properties are prime locations for the storage of illegal firearms and substances as they are harder to trace to anyone. Also, violent crimes like theft and sex trafficking can take place behind the broken windows of these properties. Some research demonstrates that additional foreclosures lead to slight increase in crime and that youth violence persists at high rates in blighted neighborhoods.[24]

In a *Detroit Free Press* article, the Detroit Police Department's Assistant Police Chief David LeValley explained that "The cleaner an area is, the less blight there is, the less abandoned buildings, the less opportunity for crime."[25] Many have worried that cleaning up one area will only shift the problem to other parts of a community (i.e., that targeting blighted properties for demolition as a way to reduce crime will only move the crime from one area to another), but a 2019 University of Michigan study found that the drop in gun violence that occurred after demolitions in one neighborhood did not appear to increase gun violence in neighborhoods with fewer demolitions.[26]

Community and Societal Justifications

The repercussions of blight are not only fiscal but impact the community as well as the well-being of the individuals who live within its vicinity. Blighted neighborhoods lack strong social networks and can have a greater need for city service intervention. Residents often lack political power.[27]

Blight tends to impact lower-income populations the most. Blight encourages flight for individuals from all classes, but people with higher incomes have greater ability to relocate to new communities to escape deteriorating conditions. Since blight often signifies community decline, business-owners and homeowners that can, will sell their properties to mitigate losses. Additionally, studies have found that communities of color are more likely to be affected by blight. Exposure to sub-standard housing is not equally distributed across populations; people of color are 1.7 times more likely than Whites to live in blighted properties.[28]

The nature of unchecked community decline is cyclical — poverty begets poverty — and blight contributes to this process. If blight is present within a business' general vicinity, attracting customers becomes more difficult and leaving the community becomes more attractive. The exodus of residents and businesses acts as a natural deterrent for new business owners, developers, or homeowners. Communities become underfunded and lose the power to shape themselves; they can be forced into accepting any development that comes their way with little bargaining power. Blight is not what starts a community on a path to decline, but it contributes to it and, if addressed early, can help to reverse the process.

Blight is a Localized Issue

The motivation for government management of blight has shifted over the years. In recent years, the focus has shifted from economic development, which can occur at the expense of blighted neighborhoods in a community, to economic stability, which considers the needs of the broader community, including those neighborhoods most affected by blight. However, people still do not agree on the greatest threats posed by unmitigated blight. Some believe that the greatest threats are imminent health and safety concerns; others see social polarization and low employment opportunities; many see decreased housing market values and lower municipal tax revenues as the primary problems.[29]

One thing that is clear is that blight is an issue at the local, community level. Some local governments consistently struggle with the challenges of blighted properties in their communities, while some do not. Even across those communities noticeably impacted, the scale and scope of blight can vary considerably. Regardless of scale and scope, all local governments are investing in blight prevention to some degree, whether by targeted blight-reduction programs or general efforts to maintain and/or increase economic development in a community. Because of this variability, blight is seldom a statewide issue but one that can be characterized as hyper-local.

Blight in Legacy Cities

Michigan's legacy cities are characterized by residential and commercial abandonment, urban sprawl, and loss of tax base. These characteristics contribute to many problems for these cities, including blight. The experiences of two Michigan legacy cities (Detroit and Flint) highlight modern efforts to deal with blight through remediation.

Detroit. Detroit is a geographically large city with over 140 square miles of land. At its peak in 1950, Detroit had a population of more than 1.8 million residents. Today, the city's population is less than half of that at just over 630,000 people. Detroit has experienced severe population loss and that has been accompanied by a lot of property abandonment. The city has been actively fighting blight for years and it is a top priority of the city. Despite this, the city has no dedicated revenue source to combat blight. It relies on federal and state grants and borrowing.

According to the city's demolition program, over 20,000 structures have been demolished, over 21,000 have been boarded up, over 8,000 have been rehabbed, and almost 14,000 side lots have been sold as of 2019.[30] A 2021 survey of Detroiters done by the Detroit Metro Area Communities Study at the University of Michigan found that nearly 38,000 households in Detroit live in inadequate housing. This is defined as housing with major issues, such as exposed wires or electrical problems, broken furnaces or heating problems, lack of running or hot water, or pest infestations.[31] Another study surveyed Detroiters and found that nearly three-quarters reported that their neighborhoods contain blighted property and more than half reported blight removal activities in their neighborhoods in the last five years. While many Detroiters reported favorable opinions of the city's blight removal efforts, residents prefer taxpayer-funded activities that make productive use of vacant or abandoned property over demolitions that result in vacant lots.[32]

As of 2014, Michigan had received $175 million from the federal Hardest Hit Fund (HHF) program for blight elimination with $107.3 million going to Detroit for demolitions. A 2015 study of Detroit's demolition program found that the multi-faceted mix of reinvestment strategies, including demolitions, public asset sales, rehabilitation programs, and code enforcement in HHF zones increased property values by 13.8 percent. The study identified a need for continued funding, beyond federal funds. Even though blight is being addressed in the city, it is such a large problem that it continues to spread making the number of blighted properties a constantly moving target.[33]

The city's response to the need for more funds was citywide Proposal N of 2020. Voters approved a $250 million bond proposal with priority on removing vacant properties that are next to occupied properties.

While the fight against blight continues to be a priority in the city, some are skeptical that the city's blight problems can be eradicated without more meaningful efforts to address the systemic causes of blight. While demolitions are an important part of blight mitigation, blight continues to grow unless the challenges that perpetuate blight are addressed; these include tax foreclosure, underemployment, and educational barriers.[34] These issues need to be addressed while also funding demolitions and rehabbing blighted properties.

The number of tax foreclosures exploded during the Great Recession. This has contributed to residential blight in the city. The problem has been perpetuated by over-assessments and tax foreclosures in owner-occupied housing. *Detroit News* investigative reporting estimated that Detroit homeowners had been overtaxed by at least $600 million between 2010 and 2016 after the city failed to accurately bring down property values in the years following the Great Recession.[35] Data Driven Detroit estimates that on average, between 2012 and 2016, nearly 35,000 owner-occupied households (28.2 percent of city's homeowners) met income eligibility guidelines for full exemption from property taxes, while another 4,220 qualified for partial exemption. In 2016, just 4,645 homeowners applied for exemptions (11.6 percent of those eligible).[36] Statistics like these help to explain why tax foreclosure has been such a big problem in Detroit; this problem created a direct pipeline to the growth in residential blight in the city.

Many groups are working in the city to help those facing tax foreclosure. The city has reduced property assessments in response to claims of over-assessment. Area nonprofits work to help residents understand their rights and eligibility for tax exemption programs. The Detroit Land Bank Authority has sold many blighted properties to Detroiters in need of housing; the houses are sold cheap, but need a lot of repairs. This program has come with its own controversies as the homes are generally older and in poor condition and can present risk of lead exposure.[37]

Tax foreclosure and blight remediation remain multifaceted issues in the city. The city needs to address issues beyond blight management through demolitions, including tax foreclosure, employment and educational issues, public health, public safety, and the list goes on.

Flint. Flint is another urban center that has experienced population loss and abandonment and is struggling with blight. Flint's population peaked at almost 200,000 residents in 1960 and is now down to just over 80,000. A 2015 report on blight estimated the city had about 22,000 vacant properties at that time (this represented about one-third of all property in the city).[38] Flint's Blight Elimination Framework estimated a cost of $100 million over five years to clean up thousands of blighted properties by removing 71,000 tons of garbage, demolishing 5,500 vacant properties and structures, mowing 19,842 properties annually, reusing 5,000 vacant lots, and rehabilitating 850 houses.[39]

A 2022 report identified over 25,000 properties in need of blight elimination, including almost 8,500 vacant or blighted houses (one of every four houses in the city), over 900 vacant or blighted buildings (nearly one of every two), and over 16,000 vacant lots (nearly one of every three properties).[40] While the city has demolished almost 5,000 blighted structures in recent years, 4,600 more still need to be demolished. A survey of Flint residents highlighted demolition of blighted buildings as a high priority. Additionally, while over 50,000 tons of illegally dumped trash has been removed by the city and community partners, the city still needs to remove 12,000 tons of illegally dumped materials in 2022 and needs to reduce the volume of illegal dumping. The city needs to continue work to strengthen code enforcement and resident compliance with city ordinances. The city and community partners need to continue to mow and rehabilitate vacant lots and properties. Blight is being addressed, but it remains a moving target.

The 2022 report highlights a cost of $154 million over five years. This includes $106 million in one-time demolition costs and $9.6 million annually to secure and maintain vacant properties.[41] It requires a community-wide effort, and the city is working with Genesee County, the Genesee County Land Bank Authority, and the Flint Police Foundation, among other community partners, to address blight and fund remediation and prevention. As of October 2022, $39.5 million had been secured, including the use of one-time federal American Rescue Plan Act funds.

This highlights the one-time nature of blight funding and the fact that communities need to constantly secure new funding sources for blight remediation.

One other issue to point out, Flint has faced major issues in the last decade related to lead pipes and its drinking water. Lead seepage into the drinking water with Flint's 2014 switch to the Flint River for its drinking water has led to a major public health crisis in the city that is still being addressed today.[42] This is the prime example of an older, industrial city facing costs and issues that other communities do not have to deal with. This contributes to flight from the city and adds to the costs associated with blight. Blight is a byproduct of a lack of funding in some urban communities for basic infrastructure and services.

Laws and Programs Addressing Blight

Blight is an issue that is preventable and can be remediated at the local level. Local governments are creatures of the state with authority granted and assumed. State law is responsible for laying out the authority and tools local governments can rely upon to carry out their efforts to deal with blighted property. Several state laws, as well as federal, state, and local programs, aim to tackle blight remediation. Anti-blight policies vary greatly across states and recent scholarship offers little data about the success of different policies.[43] In fact, success can depend heavily on the public-private partnerships and community support to revitalize distressed neighborhoods.

State Laws and Programs

State laws and programs provide the foundation for blight management in Michigan.

Blighted Area Rehabilitation, Public Act (PA) 344 of 1945

(Michigan Compiled Law 125.71-125.84)

- Purpose: Authorizes adoption of plans to prevent blight and for the rehabilitation of blighted areas; gives municipalities the authority to prevent, reduce, eliminate, or rehabilitate blight by acquiring property through purchase, gift, condemnation, or eminent domain; allows local governments to lease, sell, renovate, improve, or exchange blighted property
- Eligibility: Counties, cities, villages, and townships; defines a blighted area as one that is marked by a demonstrated pattern of deterioration in physical, economic, or social conditions
- Requirements: Municipalities must develop a master plan that designates areas in need of rehabilitation and/or measures to prevent blight; requires public hearings and the creation of a citizens' district council to oversee and advise the process; local legislative body must adopt a development plan with the location, extent, character, and estimated costs of the improvements contemplated for the area
- Funding Source: Local units may issue bonds or notes to finance projects or use general tax revenues
- Pros: Broad enough to include multiple anti-blight policies and activities; requires information related to housing supply and any persons who will be displaced
- Cons: Broad definition allowing "other appropriate public improvements and activities which address rehabilitation or blight prevention" has potential to allow for over-use

Neighborhood Area Improvements, PA 208 of 1949

(MCL 125.941-125.952)

- Purpose: Provides tools to improve areas in danger of becoming blighted; allows for area improvements by acquiring and developing properties for the protection of health, safety, morals, and the general welfare of the municipality; goals include preserving existing values of neighboring properties and the taxable value of property within the area

- Eligibility: Cities, villages, and townships
- Requirements: Local governments must adopt a master plan with designated neighborhood areas in need of improvement; requires public hearing and neighborhood betterment plan approved by planning commission and adopted by legislative body
- Funding source: Local units may issue bonds or notes or use general tax revenues; legislative body may require cost to be assessed to a special district (with written consent to the plan by a majority of property owners in the proposed district)
- Pros: Broad goals to protect communities and property values; any plan must include a feasible method for relocating displaced residents
- Cons: Need to ensure that the general welfare of the municipality does not come at the expense of groups and neighborhoods most impacted by blight

County or Regional Economic Development Commission, PA 46 of 1966

(MCL 125.1231-125.1237)

- Purpose: Creation of a commission (or regional commission for two or more contiguous counties) to plan and carry out an economic development and expansion program for the county or region; includes investigating and studying the conditions affecting the economy of the area and conducting research and making recommendations to the county board to guide and accomplish a coordinated and efficient development of the county or region in accordance with county's needs and to best utilize resources
- Eligibility: Counties
- Funding source: County boards of commissioners must provide funding in their budgets; commission may apply for and accept state and federal grants
- Pros: Law could be used to create commissions to investigate areas in need of blight remediation and economic development and to carry out plans and programs to improve communities, property values, and tax bases; allows for a county-level or regional perspective; could be useful to rural regions
- Cons: Not directly related to blight so may be overlooked as a blight management tool

Economic Development Corporations Act, PA 338 of 1974

(MCL 125.1601-125.1636)

- Purpose: Creation of public economic development corporations to address needs relating to housing or neighborhood improvement
- Eligibility: Three or more persons may apply to the governing body of a municipality for permission to incorporate an economic development corporation
- Requirements: May be used to designate a project area with a plan that must list the extent of the project and improvements (can include demolition, reparation, alteration, and rehabilitation of an area); subject to public hearings, approval of the legislative body of the local government, and the establishment of a citizens' district council to act as an advisory body
- Funding source: Corporation has power to borrow money and issues bonds or notes with repayment coming from the sale of properties from those projects
- Pros: More directly related to blight management needs
- Cons: The reasons for mitigating blight go beyond economic development needs

Land Bank Fast Track Act, PA 258 of 2003

(MCL 124.751-124.774)

- Purpose: Creation of land bank fast track authorities to assist governmental entities in the assembly of land and clearance of title to properties in a coordinated manner, to facilitate the use and development of certain property, and to promote economic growth; may acquire property for any purpose necessary to carry out duties, including using or developing property, facilitating the assembly of property for sale or lease to another public or private entity, and protecting or preventing the extinguishing of any lien imposed on property; may grant or acquire license, easement, or option with respect to property; may fix, charge, and collect rents, fees, and charges for the use of property; may pay any tax or special assessment due on property; may take any action required to clear or quiet title to property (i.e., taking court action to establish or settle the title to a property) and to establish ownership by and vest title to property in the authority; may remediate environmental contamination

- Eligibility: Land bank authorities generally created at the county or regional level (Detroit has its own land bank)

- Requirements: May not levy taxes or exercise powers of eminent domain or condemnation of property;

- Funding source: Federal grants and the sale of land bank properties

- Pros: Authorities can quiet titles and take actions that local governments cannot take; gives government more control over who ends up with blighted or foreclosed properties

- Cons: Authorities cannot levy taxes and often lack consistent funding; board members lack accountability to the public

Land Banks in Michigan. The Land Bank Fast Track Act was enacted in 2003 and the first land bank in Michigan was created in 2004. Eighteen years later Michigan is a national leader in the use of land banks with 46 individual land banks and one state land bank that services the remaining 37 counties.[44]

Land banks were created for the purpose of accumulating and either rehabilitating or demolishing blighted properties. They take hold of properties that the private market is not interested in because of the costs of remediation or the associated delinquent taxes. They generally function by obtaining these properties at low or no cost, clearing the title or extinguishing back taxes, holding the land tax-free, and then renovating, demolishing, or selling the property. Quite often land banks just facilitate the changing of hands for troubled properties through the process of making net loss purchases viable by extinguishing liens and back taxes attached to a property.

When selling properties to potential redevelopers, many land banks undergo negotiations that can help solve some of the underlying issues that beget blight. Over time, this can reshape communities to be more sustainable. The negotiation work of land banks can be contrasted with foreclosures that occur when the owners stop paying bank notes or taxes. The government has no control over the buyer or use of the properties when they are sold through foreclosure and no opportunity to ensure that property will be redeveloped and made useful again.

This is not to imply that land banks are a silver bullet for local governments to address blight. They are part of the solution, but as the Center for Community Progress[D] admits, "a land bank must complement other community strategies and activities."[45]

One of the biggest drawbacks of the current land bank system is that they are chronically underfunded. Many of the land banks were set up in 2009 when Michigan was awarded a $220 million federal grant. By 2014, those funds had dried up and many communities started to utilize the revenue provided by the federal Hardest Hit Fund (HHF) program to fund their land banks. This funding was not ongoing either and HHF funds started to become depleted in 2020 for many communities. Land banks have no recourse to raise funds except through the sale of properties;

[D] The Center for Community Progress is a nonprofit devoted to property revitalization. See https://communityprogress.org/ for more details.

they have no ability to levy taxes or fees. Local governments lack incentive (and often means) to provide ongoing support and state and federal funding has proven inadequate and inconsistent.

According to a local news source in Genesee County, “the lack of consistent funding has forced us as a land bank to prioritize projects — as a result, we are working at less than 33% capacity.” Since most land banks lack a dedicated funding stream, this forces them to put a large emphasis on fundraising instead of on demolition and revitalization of property.[46]

The State Land Bank Authority and Michigan Department of Treasury recently created a blight elimination grant opportunity for Fiscal Year (FY) 2021. This grant will help to address some of the funding deficiencies for land bank authorities, but it is a small one-year grant and not a recurring funding source. It will provide up to $200,000 to a community to address blight ($800,000 total will be awarded). It is open to cities, villages, townships, counties, or land banks, but will only fund projects in communities certified as redevelopment ready communities (a Michigan Economic Development Corporation certification). Funds will be prioritized based on four major criteria:

1. Promoting public safety
2. Enhancing economic development
3. Private/public investment in a project
4. Alignment with local community goals[47]

Additionally, the governor’s FY2023 budget included $75 million in blight elimination funds with $21.55 million currently available to local governments and land banks through a grant process.[48] While these programs provide additional funding for blight remediation in specific years, it does not address the underlying issues of land banks (and local governments) lacking a stable ongoing source of funding to address blight remediation.

Beyond funding issues, land banks have been a subject of controversy over the past few years for issues including hoarding homes rather than selling them and alleged bid-rigging in the demolition program.[49] [50] Past controversies have highlighted some potential problems with land banks:

1. Land bank officials have the capability to be highly negligent due to lack of accountability to voters, local governments, or the state.
2. They can prioritize selling highly desired land to outside private developers rather than remediating blighted property.
3. They are often not transparent about their rules and procedures.

Due to some of these problems with the Detroit land bank program, Detroit has moved its demolition program back in-house with a new city department to manage its contracting process and demolition program. The land bank still does the work of identifying houses to be demolished.[51]

Despite these issues, land banks have generally been successful. A 2018 study of land banks in Benzie, Calhoun, and Kalamazoo counties found that land banks have positive impacts on home values and can lead to reductions in crime and foreclosure rates. Some of the challenges for land banks identified in this study include insufficient funding and the disruptions caused by political turnover.[52]

Brownfield Redevelopment Financing Act, PA 381 of 1996

(MCL 125.2651-125.2672)

- Purpose: Create brownfield redevelopment authorities (BRAs) to facilitate the implementation of brownfield plans, create brownfield redevelopment zones, and promote revitalization, redevelopment, and reuse of certain property, including tax reverted, blighted, or functionally obsolete property; determine the captured taxable value for each eligible property; make loans and mortgages; bid for and purchase property; make and enter into contracts; establish a local site remediation revolving fund
- Eligibility: Counties, cities, villages, and townships
- Requirements: Brownfield plan requires the approval of local government, Michigan Economic Development Corporation (MEDC), and/or Michigan Department of Environment, Great

Lakes, and Energy (EGLE); plans must include description of costs to be financed with tax increment revenues, summary of eligible activities, estimate of tax increment values for each year of plan, method by which costs will be financed, maximum amount of indebtedness to be incurred, duration of plan, legal description of eligible property and people living on property, and plan for establishing priority of relocation of persons displaced by plan

- Funding source: May borrow money and issue bonds or notes in anticipation of collection of tax increment revenues
- Pros: Act has increased the number of redeveloped brownfield sites, returning those parcels to productive use
- Cons: Act does not make new purchasers responsible for cleaning up site, just containing pollution

BRAs in Michigan. Brownfields, as defined by the United States Environmental Protection Agency, are "abandoned, idled, or under-used industrial or commercial facilities where expansion or redevelopment is complicated by real or perceived environmental contamination." Former industrial and commercial properties are often the hardest to renovate or redevelop because the land beneath these abandoned properties, which can include factories, garages, and office buildings, is often replete with contamination. Private development is unlikely because it requires large amounts of upfront capital to even attempt to try to redevelop a brownfield. Therefore, public development and investment are necessary for these types of properties.

BRAs work to identify potential developers, provide them the legitimacy and assistance to receive grants provided by the state and federal governments, and, in select cases, provide financial support for redevelopment through tax increment financing (TIF). TIF is when governments issue bonds or undertake debt to focus on a project that will increase the property values of parcels surrounding the potential improvement site. The governments use the potential increase of property values as justification and to provide for repayment of the debt. TIF allows the government to "capture" tax revenues due to all taxing jurisdictions emanating from the growth of the tax base purportedly attributable to the brownfield redevelopment activities, such as assessing the environmental status of a property, cleaning up contamination, and mitigating the spread of contamination in the process. Additionally, brownfield tax credits are available to private sector developers with incentives to assess and contain pollutants, reuse properties, and make site improvements.[53]

While the Brownfields Redevelopment Financing Act has increased the number of redeveloped brownfield sites, it has not encouraged actual brownfield cleanup because new purchasers of brownfield property are only responsible for containing pollution and are not obligated to fully clean-up sites.[54]

Additional Tax Abatements and Credits

Like brownfield tax credits, other credits and abatements are available to encourage private action to remediate blight. Commercial rehabilitation tax abatements offer owners of certain rehabilitated commercial facilities in designated districts a property tax abatement for a period of one to ten years.[55] These abatements freeze the property at its pre-habilitated value effectively allowing the rehabilitation to be property tax-free, except for school operating taxes. Property is not required to be blighted or functionally obsolete to qualify.

A similar program, the Obsolete Property Rehabilitation Act, is targeted specifically at the rehabilitation and reuse of obsolete properties.[56] Qualified structures can receive significant property tax breaks on the improved value of the rehabilitated structure. Qualified structures must be commercial properties or commercial housing properties that meet the definition of blighted or functional obsolescence and are located within local governments that meet certain income and size qualifications (i.e., eligible distressed communities). Qualifying units include cities, townships, and villages and can change year-to-year; the Michigan Department of Treasury identified 148 total qualifying local governments in 2020.[57]

These tools are geared toward addressing industrial and commercial blight. Few tools are geared toward the issue of residential blight.

A neighborhood enterprise zone (NEZ) is a locally initiated program that provides tax incentives for housing development and improvement.[58] Qualified local units of government are the same as defined under the Obsolete Property Rehabilitation Act, but also include all county seats. These local units may designate one or more areas as NEZs for the purpose of extending property tax abatements for residential construction and rehabilitation. Specifically, local governments can levy a reduced NEZ specific tax in place of the property taxes that would otherwise be levied. The NEZ tax assessment roll of a property cannot have its assessment altered during the life of the certificate. The land the property is on is still assessed at its full rate.

NEZs provide tax exemptions for the development and rehabilitation of residential housing located within these eligible distressed communities. A NEZ covers new facilities and/or rehabilitated facility projects. A Neighborhood Enterprise "Homestead" Zone covers only pre-existing residential property located in a subdivision platted pursuant to state law prior to January 1968. A developer or builder may file an application for a NEZ certificate for a new or rehabilitated project; a homeowner of principal residence may file an application for a NEZ homestead certificate. All types of facilities may receive a term of exemption between six and 15 years; "rehabilitated facilities in a qualified historic building" may receive an exemption of 11 to 17 years.

For a new or rehabilitated facility, the application is filed with the local government's clerk and is sent to the local legislative body for approval or denial and to set the number of years for the exemption. If approved by the local legislative body, it must be sent to the state and receive approval from the State Tax Commission to go into effect. For a homestead facility, the clerk reviews the application and submits it to the local legislative body for approval and determination of the number of years for exemption. If approved, it is then sent to the local assessor for approval.

New facilities with a NEZ certificate have no minimum or maximum investment requirements. Rehabilitated facilities have minimum investment requirements that are dependent on the true cash value of the property and that range from $3,000 to $7,500 depending on whether units are owner-occupied and whether the rehabilitation is completed by a contractor or by the owner. Homestead facilities require an owner to invest a minimum of $500 in the first three years of the term of the certificate.[59]

New market tax credits are part of a federally financed program to provide federal tax credits for the purpose of attracting private investment in low-income communities. While the federal government provides the initial benefit in the form of a tax credit, the program requires all participants (investors, community development entities, and low-income communities) to work together to invest in local businesses, provide business services, and to achieve returns on investments.[60]

Federal Hardest Hit Fund (HHF) Program

The federal government provides money to states and cities to address problems related to homeownership and foreclosure in the Hardest Hit Funds (HHF) program, which can be directed toward blight remediation. The U.S. Congress authorized the HHF in 2010 in response to the Great Recession and the corresponding housing market crash; it provided $7.6 billion in relief assistance to states for the purposes of supporting struggling homeowners to make mortgage payments. In 2010, Michigan received over $761 million to operate its HHF program with funds dedicated to preserving home ownership and improving neighborhoods throughout the state.

Michigan was the first state to receive approval to reallocate this funding for blight remediation; the HHF Blight Elimination Program was established by the state in 2013 with the goal of assisting local governments with high vacancy rates address blighted properties in their communities. The program worked directly with local leaders to identify and demolish homes that were blighted and abandoned to help stabilize property values by establishing more green space or making the way for new development. The large-scale blight removal program in Detroit was funded by redirecting resources from the HHF. Another example is Lansing and Ingham County, which received $6 million in federal funding to administer the HHF Blight Elimination Program.

While this program provided some much-needed funding to address and remediate blighted properties, it does not represent on-going funding that can be counted on every year. Certain programs supported by HHF funds are no longer in operation while new programs may be established to provide funds for blight remediation in the future.

Local Efforts

The state laws discussed above detail the tools available to local governments to address blight prevention and remediation. While it may seem that municipalities have many legal ways to address blight, they are limited largely by funding. Taking on ownership of properties is often challenging for local units because, unlike land bank authorities, the community development agencies of local governments do not have the authority to extinguish back taxes, which represents a real cost for local units. Additionally, pursuing eminent domain to rehabilitate a blighted area is legally arduous and costly.

Current funding options outside of the local property tax are limited tax abatements and credits in state law for private entities or public-private partnerships to fund their efforts to address and prevent blight. The non-governmental entities benefit from reductions in property taxes owed in amounts that reflect the investment made in the property for a specific period. Lack of general tax revenue funding for land bank authorities and local units of government is a huge obstacle to blight remediation.

It is important to note that local efforts to prevent blight include planning and zoning policies, as well as economic development programs. All communities invest in efforts that help to prevent blight even if they are not directly related to blight management.

Code Enforcement

Local communities use code enforcement officers to deter blight by granting them the authority to fine individuals infringing on community ordinances. If there is no remedy, the local government can bring the owner of the blighted property to court. From there, sometimes an agreement can be made about how and when a blighted property is to be improved. At other times, an agreement can be reached for the owner to sell the property on the condition that the next owner would be contractually obligated to demolish or renovate the blighted property. If an agreement is not met and the court agrees that the property is both violating the community's ordinance and the owner of the property is noncompliant, then punitive measures (e.g., fines) can be enforced.

Code enforcement as a blight elimination tool is only effective insofar as property owners are responsive to the threat of fees and/or the loss of their property. If property has been abandoned, the tool is not as effective as the property owner has relinquished their interest in the property.

Bonding

In 2020, Detroit received voter approval to sell $250 million worth of bonds to expedite the timeline of its blight removal project. The bonds will be paid back over the next 30 years using funds budgeted for debt retirement. Federal restrictions on the use of reallocated funds from the HHF program spurred the request. Borrowed funds would be directly controlled by the city and not subject to constant federal review, providing the city with much more leeway on when and where it can focus the funds. The money raised is to be used to improve existing sites that would otherwise be demolished and to tackle larger blight projects that would otherwise be pushed off until much later. The city has adopted a model that prioritizes local contractors, thereby stimulating the local economy.[61] The city has also created a new department to manage the contracting and demolition program after issues arose with the Detroit land bank.

While potentially replicable by smaller communities, local governments already rely on property tax revenue to fund their operations for the most part so selling bonds without a specific revenue source to repay them (e.g., an asset that can draw a fee or form of revenue) is not viable. Government borrowing, such as bonding, is generally engaged in to finance capital improvements where the full cost of improvement, such as a new government building, water treatment plant, roadway, or other public good is borne up front but the repayment can be spread over many years. Future users benefit from the investment over the life of the capital asset. In the case of blight remediation, borrowed funds will be used, in part, to create empty fields and there is no long-term capital asset associated with the funding and no fee to collect from use of the asset.

Programs to Address Blight in Other States

Across the United States, cities are looking more at the social impacts of blight and not just the economic impacts. They are becoming laboratories for new poverty survival strategies from the Chicago Anti-Eviction Campaign to Take Back the Land in Rochester, New York to community organizers in Baltimore pairing homeless residents to tenant-less houses.[62] The focus has shifted from economic development to elevating housing as a human right and addressing poverty.

Below are highlights of policies and programs aimed at addressing blight in the surrounding Great Lakes states, as well as a promising public-private program in California.

Funding Options

A big issue Michigan communities have with blight remediation is finding consistent funding sources. A review of programs in neighboring states reveals that no state within the Great Lakes region has found a solution to this problem. Like Michigan, many neighboring states have programs, like Ohio's Neighborhood Initiative Program or Illinois' Blight Reduction Program, that rely on inconsistent funding methods, such as reallocation of funds from the federal HHF or Community Development Block Grant funding programs, to support blight remediation. The abandoned properties program (APP) in Illinois provided grants to municipalities and counties for the purposes of blight remediation. It was funded through foreclosure fees, but the funding mechanism ended on January 1, 2021. This provides one example of a potential funding source for blight remediation.[63] A consistent funding source would lead toward a more stable statewide response to blight.

Illinois also allows nonprofit entities to act in similar ways to land banks in Michigan. Under Illinois law, with the required notice to the appropriate municipality, these specified public agencies may petition a court to have a property declared abandoned or unsafe, hold and maintain blighted properties tax-free, apply for the removal of liens on a blighted property, and purchase blighted properties prior to the opening sale to the public.

Housing Courts

Two cities (Cleveland, Ohio and Buffalo, New York) have dedicated housing courts that have exclusive jurisdiction over code enforcement violations, but also hear cases related to landlord-tenant issues, foreclosures, nuisance abatement, and receivership actions. The Cleveland court also employs housing specialists to provide counseling and assistance to landlords to help them achieve compliance. The court runs a housing clinic and code enforcement workshops and conducts a wide variety of community outreach projects. It has criminal enforcement powers, starting with misdemeanor fines of $150 a day up to $5,000 per day for violations on properties owned by corporations. The court can issue search warrants to allow the city to go into properties with violations.[64]

In Michigan, those types of cases can lack priority in a general judicial docket; housing courts can prioritize issues related to code enforcement with judges that are "active champions of healthy and safe neighborhoods."[65] For this type of court to be utilized on a large scale in Michigan, it would require funding to be available to prioritize housing issues and a housing court. However, Michigan's trial court system has its own funding problems and adding housing courts does not seem like a viable option unless funding sources are identified.[66] A 2004 state law[67] allows cities in Michigan to create administrative hearings bureaus, also called blight courts. A number of cities have operated blight courts to some extent, including Pontiac, Detroit, Flint, Jackson, Ypsilanti, Warren, Dearborn, and Grand Rapids.[68] The cities are responsible for funding these courts.

School Partnerships

A school district in Wisconsin is utilizing blight remediation as a hands-on learning experience for their students interested in construction work. The property is sold after completion of the project meaning this model provides financial self-sufficiency, relevant experience for students, and cost-effective blight remediation for the area.[69]

This approach is innovative, but it requires many moving parts that may or may not be possible in Michigan communities and school districts. A program like this needs a school equipped with a carpentry or construction program that has a requirement that its students achieve licensure or certification. While both admirable and efficient, the program might raise concerns of liability because the construction is done by students, in partnership with the local development authority, and properties are sold presumably without protective stipulations. Replication would require the correct liability safeguards and infrastructure at the school district and local level.

Blight Foreclosure

The City of New Orleans can go through a process referred to as blight foreclosure where it uses the fines associated with code enforcement to go through a lien foreclosure process to recoup the money lost to unpaid fines. New Orleans can do this because Louisiana and a handful of other states have codified a procedure for the super-priority of remediation liens in state law. Acquiring these blighted properties is feasible for the city because the property is not encumbered by a mortgage that exceeds the value of the property, which is common for properties that need blight remediation. This process has made New Orleans a national model for blight reduction and has led property owners and lienholders to remediate property rather than having it taken by the city.[70]

This currently is not an option for Michigan counties because the language surrounding foreclosures in state law is narrow. Michigan can only foreclose on a property if delinquent taxes are involved.[71] Code enforcement liens can be issued but they are often classified as inferior liens, which means that a purchaser at a foreclosure sale will have an ownership interest in a property that is heavily encumbered by the first mortgage giving the new owner little equity in the property. This makes blight foreclosure unattractive in Michigan. If, like in New Orleans, the lien that was foreclosed had superior status to all other liens, then the purchaser at the foreclosure sale takes the property free and clear of any other encumbrances, including the first mortgage.[72]

Providing super-priority status to remediation liens (making them co-equal with tax liens and above mortgage liens) creates an incentive for owners or lenders to remediate the problems with their properties before the local governing body must step in to remedy the violations. Local governments that have allowed for blight foreclosure can utilize the fines that result from code enforcement violations as legal leverage to gain possession over blighted properties even if there are no delinquent taxes involved. Less than half of the states have a state law that addresses the super-priority of remediation liens.

If Michigan should consider this type of legislation, the policies should address:

- Whether to mandate that remediation liens have super-priority status or simply allow it
- The procedure that a local government must undertake to begin remediation of the property
- What type of notice is necessary before proceeding with remediation
- Time given to property owners to comply with remediation order
- Level of priority given to remediation liens (e.g., co-equal with tax lien or priority over all liens except tax liens)
- Enforcement of remediation liens[73]

Social Impact Bonds

Social impact bonds for housing revitalization were undertaken in Richmond, California, and have had some success. They are defined as "a financial mechanism where the private sector provides investment funds to the public sector for social benefits."[74] In the case of Richmond, the city issued $3 million worth of bonds to purchase, rehabilitate, and sell blighted properties. The bonds are issued by the city, but the city does not take on the risk of repaying the bonds. The sole source of funds for debt service will be proceeds from the sale of rehabilitated properties. The city does put its reputation behind the bonds, which could cause issues for the city if they are not repaid. However, the bonds are intended for social impact investors who are less concerned with maximizing risk-adjusted returns than in using their capital for public benefit.[75] Well-performing social impact bonds are attractive to local banks looking to meet their obligations under the federal Community Reinvestment Act, which has requirements related to meeting the needs of all types of borrowers, including low-income borrowers.

This was undertaken in partnership with the Richmond Community Foundation and strong collaboration between the city and private sector is essential to success. The program provides a great example of private for-profit companies partnering with nonprofits and government entities to address social problems in their communities. When Richmond sold these bonds, it initially targeted 250 abandoned homes that had been taken over by the city. It hired local contractors to do the rehabilitation to keep money in the community. Properties are sold at market rates to avoid depressing neighboring property values.[76]

If a local government or region in Michigan wanted to replicate this program, it would need authority from the state to issue these types of bonds and create a public-private partnership of this nature. Additionally, it would need to follow these steps to set up a social impact bond-funded revitalization program:

1. Establish a city ordinance that outlines bond and program parameters
2. Clearly outline project partners' roles through explicit definitions, common sets of metrics to measure success, and an official memorandum of understanding
3. Seek out other sources of financial support that can supplement the social impact bonds, such as federal EPA brownfields funding
4. Have a strategy for choosing which properties to rehabilitate and partner with local neighborhood councils to develop that strategy
5. Incorporate environmental sustainability principles into property rehabilitation
6. Prioritize the sale of new homes to first-time home buyers
7. Advertise achievements[77]

Related to social impact bonds for blight management, many cities are looking to social impact bonds to help fund affordable housing options.[78]

Funding Options to Manage Blight in Michigan

Michigan has provided its local governments with legal tools to manage and prevent blight, but these tools do not come with dedicated funding sources. A lack of dedicated funding means that local governments must fund blight management from either general fund dollars or find state and federal grants to support blight remediation. The problem with state and federal grants is that they do not provide consistent funding. That leaves many local governments relying on their general fund budgets.

Most local governments in Michigan are limited to property taxes as their only own-source tax revenue and they are highly dependent on these revenues. This means that most local blight funding comes from property taxes (24 cities also levy local income taxes). Furthermore, many local governments with concentrations of blight are already levying property taxes at high rates (and income taxes in most cases) and directing more of these resources for blight remediation would come at the cost of budgeting fewer dollars for other county and municipal needs (see **Table 1**).[79]

Table 1

Tax Rates of Michigan Cities with Higher Concentrations of Blight, 2021

	Property Taxes (mills)		City Income Tax
	City Rate	Cumulative Rate	Resident Rate
Michigan Average		35.12	
Benton Harbor	25.51	51.39	1.0%
Detroit	28.95	75.75	2.4%
Ecorse	38.14	83.46	
Flint	18.69	58.88	1.0%
Hamtramck	24.14	60.80	1.0%
Highland Park	47.49	78.31	2.0%
Inkster	37.88	75.15	
Lansing*	19.27	61.14	1.0%
Muskegon	12.19	48.55	1.0%
Pontiac	17.36	43.18	1.0%
Port Huron	20.61	43.18	1.0%
Saginaw	7.32	50.97	1.5%
Ypsilanti	32.34	70.76	

Note: A mill is equal to $1 of tax for every $1,000 of taxable value.

* Lansing residents in Clinton and Eaton counties pay slightly different property tax rates.

Source: Michigan Department of Treasury, Citizens Research Council of Michigan, Outline of the Michigan Tax System

Local Tax Options to Fund Blight Remediation

The Citizens Research Council has been saying for years that local governments are overly dependent on property taxes and need more diverse revenue streams.[80] Furthermore, local governments with the most blight also tend to be those with the least fiscal capacity to raise additional revenues from property taxes or any sources. Dedicating increases in property tax rates to remediate blight could cause more blight in communities that are already struggling.

High property tax rates can be a factor that contribute to blight so that limits the effectiveness of raising property tax rates to fund blight remediation. When owners are unable to care for homes because of aging, handicap, or other circumstances or unwilling to do it because the economic purpose of the property has been altered, increasing the cost of continued ownership by raising property tax rates is more of a hindrance than help. Additionally, using ad valorem special assessments, which resemble property taxes in all but name, to fund blight management is counterproductive.[81] They enable local governments to levy taxes at rates above statutory property tax limits, further hindering the ability and/or economic benefits of maintaining properties.

Bonding is not a revenue source; it is a form of borrowing. The wisdom of employing bonding for blight remediation is fleeting. Whereas bonding is usually employed for construction purposes – typically for infrastructure such roadways, buildings, and water and sewer lines – blight remediation can often involve the destruction of property. The appreciation of property values can be pledged to repay debt in typical uses of bonding, but blight remediation does not come with a promise of increased property values. An exception to this is social impact bonds, which are not secured by city tax revenue and rely on private partnerships (with nonprofits and the banking sector) to be successful.

Tax abatement and tax credits are useful to incentivize participation by private developers, but their involvement is often contingent on cooperation with the local governments. Without funding, local governments are limited in their capacity to cooperate.

Regional Local Taxes

Part of the work involved in finding a funding source for blight remediation is deciding what level of government should be responsible for blight remediation and community development – is this a county/regional responsibility or a local city/township obligation? Successful blight management will require a partnership between all levels of government. Cities and townships are better at identifying properties within their communities in need of remediation and can more accurately assess the needs of their community. Counties are more effective at working towards long-term goals, leveraging their funding to accomplish large scale projects, and maintaining consistency among areas within their jurisdiction. As documented above, all levels of government have tools to address problems associated with blight. Cities and townships apply tools like planning and zoning to deter blight. Counties utilize land banks to demolish, restore, or resell blighted properties.

When determining the appropriate level of government to fund blight remediation, it is important to remember that levying local-option taxes at the regional level generally leads to less competition and fewer negative externalities associated with the taxes. Levying local-option taxes at the most local level (i.e., city or township) can introduce economic distortions by making it easier for residents and businesses to leave the area to avoid the tax. It can also intensify socioeconomic disparities across local governments as the local units most in need of additional revenue to address blight remediation are likely to be low-income, property-poor local governments that have the least ability to raise revenue through additional taxes. These types of concerns can be addressed by levying new local taxes at the county or regional level. Socioeconomic and income inequalities are decreased at the regional level and levying local taxes at the regional level promotes a form of tax-base sharing that benefits the entire state.[82]

Additionally, there are more than 1,700 potential taxing units at the local level, but only 83 counties. Funding at the county level could be more consistent, as counties are required to think more conceptually when planning, while local governments end their work wherever their jurisdiction ends. The biggest hindrance to authorizing increased taxes at the county level is the fact that so many services are provided by cities and townships. This can create a mismatch between those providing the service and those raising the revenue. This mismatch can be addressed by tasking the counties with providing most blight remediation-related services in collaboration with their local governments. Or it could be addressed by having counties levy new taxes and share the revenues with their constituent local governments so that cities and townships can address blight-related problems.

Potential Blight Funding Taxes

Ideally state policymakers would address the deficiencies in Michigan's local government finance structure to better equip local governments to fund essential services, such as blight remediation. Absent those changes, they could consider tax mechanisms to provide consistent funding streams for blight remediation.

Income Tax. Income taxes can supplement property taxes as a source of revenue to make locating in communities more attractive. They can compensate for economic activity occurring in governmental offices, correctional facilities, hospitals, or universities that do not directly contribute to the property tax. They benefit communities that are hosts to large businesses, drawing workers from surrounding communities; these workers do not pay property taxes to the cities, but do consume city services such as roads, police and fire, and water and sewer. Additionally, income taxes allow governments to capture economic activity that is not captured by property taxation. Property taxes capture the value of investment in real and personal property; income taxes capture the value of earned income, investments, and profits.

Many of Michigan's urban communities, including its legacy cities, already levy a local income tax so this may not be a valid option to raise more funds for blight remediation in urban communities. However, a local income tax could be authorized at the county level with funds dedicated to blight remediation and prevention (including economic development activities) throughout the county. Expanding local income taxes to a regional tax might provide funding across urban, suburban, and rural regions to manage blight and promote economic growth. It would require passage of a state law to allow for counties to levy income taxes. It would also require determining if services would be provided at the county level or if counties would share the revenues with their constituent local governments.

Sales Tax. A local sales tax is not currently an option in Michigan. If state law was amended to allow for a county or regional level sales tax, it could provide broad support for blight prevention and remediation for communities across the state if they voted to adopt the tax (no new local tax can be adopted without a vote from the local electorate, see box below). However, it is not clear that the state could even authorize a local sales tax without amending the 1963 Michigan Constitution. The Constitution limits the state sales tax rate to six percent and makes no mention of a local sales tax. The question of whether authority for a local-option sales tax could be statutorily granted is further complicated by earmarking provisions related to the sales tax, which would restrict any revenue the tax brings in. Michigan is unique in its lack of a local sales tax as 37 states allow at least some of their local governments to levy a local-option retail sales tax.[83]

Recording Fees. State law provides for a $30 recording fee that can be charged by county registers of deeds for entering and recording a document, regardless of the number of pages.[87] A portion of that fee ($5) must be deposited into a county's automation fund and expended to upgrade technology and search capabilities in the offices of registers of deeds. Another portion of that fee ($4) must be remitted to the state treasurer for deposit into the state survey and re-monumentation fund.[88]

Counties may levy other fees for services provided by the register of deeds. Charter counties may impose a fee schedule by ordinance or resolution, but the fees must not be greater than the cost of the service.

The revenue from the general $30 fee helps to fund the register of deeds offices in county governments. An option for raising more revenue to support blight remediation would be to raise this fee; the fee cap-

The Mechanics of Enacting Local-Option Taxes in Michigan

The steps that need to be taken to authorize and levy new local-option taxes in Michigan include:

1) The state needs to pass a law authorizing local units in Michigan to levy any new local tax. The Michigan Constitution gives local governments the power to levy taxes subject to the limitations and prohibitions provided by the Constitution and state law. Multiple state laws limit local units' ability to levy local taxes.[84] Local units that can levy local-option taxes, e.g. city income taxes, are authorized to do so explicitly in state law.[85]

2) In order for local units to levy a local-option sales tax, it may be necessary to pass a constitutional amendment, which would require a statewide vote of the people, to either explicitly allow for a local sales tax or at least a rate increase and some flexibility in the disposition of any additional sales tax revenue. The language in the current Constitution leads to confusion over whether the state can even authorize local units to levy a local-option sales tax and whether the revenue from a local sales tax could be used to benefit the local government or if it would be earmarked for other purposes as the state sales tax revenue are.[86]

3) Once the state Constitution and state law allow for a local tax, then the legislative body of the local unit (e.g., city council or county commission) needs to pass a resolution or ordinance to levy the tax at whatever rate is desired by the local unit and allowed for in state law.

4) Finally, the local voters need to pass any new local-option tax before it can be levied by the local government. Article IX, Section 31 of the 1963 Michigan Constitution states: "Units of Local Government are hereby prohibited from levying any tax not authorized by law or charter when this section is ratified or from increasing the rate of an existing tax above that rate authorized by law or charter when this section is ratified, without the approval of a majority of the qualified electors of that unit of Local Government voting thereon. …"

tures a broad amount of transactions and has the potential to raise a lot of revenue. If the fee was raised $10, Washtenaw County alone would collect an additional $500,000 in annual revenue. A fee increase like this may be politically palatable because it represents an incremental change rather than broad policy change.

The connection to blight remediation is an attractive part of enhancing the recording fees. As properties are enhanced and location in the county is made more attractive, more transactions will lead to more fees. The problem is that the Michigan Supreme Court ruled in *Bolt v. Lansing* (1998) that user fees must be voluntary in nature and proportionately priced to fund the services they are aligned with.[89] User fees must serve a regulatory purpose rather than a revenue-raising purpose; they must be proportional to the necessary costs of the service or commodity and imposed on those benefiting from the improvement supported by the fee.

Blight prevention and remediation generally is a public good that benefits the entire community and, especially, neighboring residences and businesses. In many cases, blight consists of abandoned properties and/or the cost of remediation is higher than a property owner would willingly pay via user fee. For recording fees to serve as a funding source for local governments to address blight issues, they must be converted into a tax.

County Real Estate Transfer Tax. This tax was established in state law in 1966 and is a tax on the exchange of real estate at the rate of $1.10[E] for every

[E] If any county's population increases above 2,000,000, state law specifies that the county real estate transfer tax rate will increase to $1.50 for those counties.

$1,000 of real property transferred.[90] In 1995, the state began to levy a real estate transfer tax (RETT) at a rate of $7.50 for every $1,000 of real property transferred.[91] The rates for these taxes have not changed since they were originally passed in 1966 and 1993, but they are indexed to the cost of real estate, which has increased greatly over that time period. In the 1960s, the average cost of a house was $10,158 ($88,817 when adjusted for 2020 inflation).[92] By 2020, the average cost of a house had increased to $218,051.[93]

Appendix A details how much revenue each county raised from the current RETT, as well as how much the state raised in each county. These funds are used to support county register of deeds offices and general funds. The counties in total collected $52.3 million with an average of $630,000 per county. Oakland County collected the most RETT revenue at $9.6 million and Keweenaw County in the Upper Peninsula collected the least amount of RETT revenue at $21,000.

This tax rate could be increased at the county level and earmarked for blight remediation and prevention. It would require authorization in state law and voter approval at the county level. As is the case for recording fees, there is a connection to blight remediation as it is a tax on real estate transfers and blight directly affects the value of real estate in a community. Because it is tied to real estate transactions, the amount of funds raised in each county will reflect real estate activity in that county.

The idea of raising this county-level tax to support blight remediation raises two questions: 1) by what amount should the tax be increased and 2) how should revenue be utilized? **Appendix B** highlights the current total tax raised and average by county and shows what the amounts would be if the tax was doubled or even increased by four or eight times (up to $8.80 per $1,000, higher than the current state tax rate). Increasing the RETT has the potential to lead to substantially more revenue collection for blight remediation. The highest proposed increased rate is quite substantial and would take Oakland County from collecting $9.6 million in RETT revenue to $76.5 million. In Keweenaw, the county would go from collecting a little under $21,000 to over $167,000.

Blight is evident in every county in Michigan, but the attractiveness of increasing this tax rate for blight remediation might not be the same among the counties. If use of the tax revenues was defined broadly to include blight remediation and economic development, permissible uses from state law definitions of blight and economic development could include the following activities:

- Building demolition
- Vacant building boarding
- Rehabilitation of blighted areas
- Remediating environmental contamination
- Partial or total vacation of plats or re-platting
- Opening, widening, straightening, extending, vacating, or closing streets, alleys, or walkways
- Paving of streets, alleys, or sidewalks
- Locating or relocating water mains, sewers, or other public utilities
- Acquiring parks, playgrounds, and recreational areas and facilities
- Street tree planting and creation of green belts or buffer strips
- Property renovation
- Parking facilities
- Incentives for job creation and attraction
- Recruiting new businesses or promoting commercial areas
- Economic restructuring of commercial areas
- Grants and loans for residential improvements
- Business façade improvement programs
- Small business start-up grant and loan funds
- Small business training and technical assistance

It is important to acknowledge that increasing the RETT rate would increase the tax burden on prospective homeowners, businesses, redevelopers, and real estate companies. However, the state and county taxes currently represent a small portion of a property buyer's closing costs, and even at a substantially increased rate that dynamic would not change considerably. If the tax is increased by a factor of eight ($8.80 per $1,000 of real estate transferred – a rate higher than the state rate of $7.50), it would result in a total tax of less than $2,000 for the average Michigan home. This is a small amount when considering other costs associated with buying property, such as agent commission and fees. However, it does represent a real tax increase that will impact homebuyers in Michigan.

It is also important to remember that allowing for the tax increase in state law does not mean that all counties would adopt the tax at the higher rate. Any tax rate increase must be approved by local voters according to the 1978 Headlee Amendment. Allowing for the rate increase in state law would give counties another financial tool to fund blight remediation within their borders.

Conclusion

Michigan has the infrastructure to handle blight but generally lacks a consistent stream of funding necessary for that infrastructure to function and for successful blight remediation and prevention. County land banks are running on empty, and municipalities are often forced to make the choice between blight remediation and funding services for residents. Detroit has sold bonds to help fund demolition and blight remediation. Federal funds have filled the gaps to help fund blight remediation, but that funding is not ongoing either.

Michigan's status as an older, industrial state that has seen the automotive industry, among others, leave the state has led to population decline and, in some instances, economic decline. Former industrial and commercial properties in many urban areas have been left as brownfields. Population declines and economic stress caused by the Great Recession have led to home foreclosures and abandonments. Some local communities have become blight traps and governments have been left with fewer funds to control and reverse this downward spiral. This is not limited to urban areas as rural areas have their own issues with blight and usually less funds and options to deal with it.

This paper highlights some of the current laws and programs to fund blight and discusses potential options to increase taxes or fees to provide more funding for blight remediation. Unfortunately, there are no ready-made sources of funding for blight remediation. Like all local government services, blight remediation finds itself competing for local funds every budget cycle. Rather than trying to adapt existing revenue sources to meet local governments' blight remediation needs, state policymakers could address the underlying problems confronting the revenue-raising capabilities of local governments in Michigan. However, addressing blight requires more than simply additional funds. It may require taking a more regional approach to anti-blight policies; greater collaboration among counties, local governments, and the private sector; and community buy-in and support.

Appendix A

County	2020 Tax Base	State RETT (0.75%)	County RETT (0.11%)
Alcona	$63,172,500	$473,794	$69,490
Alger	$84,838,500	$636,289	$93,322
Allegan	$767,042,633	$5,752,820	$843,747
Alpena	$88,317,000	$662,378	$97,149
Antrim	$278,900,000	$2,091,750	$306,790
Arenac	$47,932,104	$359,491	$52,725
Baraga	$111,684,945	$837,637	$122,853
Barry	$321,350,833	$2,410,131	$353,486
Bay	$284,501,747	$2,133,763	$312,952
Benzie	$164,252,000	$1,231,890	$180,677
Berrien	$1,082,154,500	$8,116,159	$1,190,370
Branch	$175,023,500	$1,312,676	$192,526
Calhoun	$411,679,500	$3,087,596	$452,847
Cass	$270,560,000	$2,029,200	$297,616
Charlevoix	$248,852,000	$1,843,890	$270,437
Cheboygan	$172,395,000	$1,292,966	$189,635
Chippewa	$112,702,000	$845,265	$123,972
Clare	$113,005,000	$847,538	$124,306
Clinton	$328,556,000	$2,464,170	$361,412
Crawford	$64,062,703	$480,470	$70,469
Delta	$153,007,000	$1,147,553	$168,308
Dickinson	$74,178,000	$556,335	$81,596
Eaton	$473,409,000	$3,550,568	$520,750
Emmet	$466,587,000	$3,499,403	$513,246
Genesee	$1,399,500,607	$10,496,255	$1,539,451
Gladwin	$96,730,500	$725,479	$106,404
Gogebic	$52,162,500	$391,219	$57,379
Grand Traverse	$844,539,000	$6,334,043	$928,993
Gratiot	$120,362,251	$902,717	$132,398
Hillsdale	$178,484,500	$1,338,634	$196,333
Houghton	$116,402,000	$873,015	$128,042
Huron	$135,345,232	$1,015,089	$148,880
Ingham	$1,245,221,383	$9,339,160	$1,369,744
Ionia	$217,061,000	$1,627,958	$238,767
Iosco	$123,958,500	$929,689	$136,354
Iron	$78,658,000	$589,935	$86,524
Isabella	$183,481,000	$1,376,108	$201,829
Jackson	$541,428,500	$4,060,714	$595,571
Kalamazoo	$1,145,439,000	$8,590,793	$1,259,983
Kalkaska	$92,951,500	$697,136	$102,247
Kent	$4,192,981,227	$31,447,359	$4,612,279
Keweenaw	$18,998,500	$142,489	$20,898
Lake	$145,103,000	$1,088,273	$159,613

County	2020 Tax Base	State RETT (0.75%)	County RETT (0.11%)
Lapeer	$389,117,500	$2,918,381	$428,029
Leelanau	$319,451,500	$2,395,886	$351,397
Lenawee	$404,824,500	$3,036,184	$445,307
Livingston	$1,325,315,500	$9,939,866	$1,457,847
Luce	$28,641,500	$214,811	$31,506
Mackinac	$84,138,100	$631,036	$92,552
Macomb	$3,697,236,401	$27,729,273	$4,066,960
Manistee	$137,851,000	$1,033,883	$151,636
Marquette	$442,958,327	$3,322,187	$487,254
Mason	$150,476,500	$1,128,574	$165,524
Mecosta	$186,540,000	$1,399,050	$205,194
Menominee	$101,040,500	$757,804	$111,145
Midland	$351,136,500	$2,633,524	$386,250
Missaukee	$54,601,000	$409,508	$60,061
Monroe	$583,309,500	$4,374,821	$641,640
Montcalm	$243,865,500	$1,828,991	$268,252
Montmorency	$51,489,000	$386,168	$56,638
Muskegon	$646,971,500	$4,852,286	$711,669
Newaygo	$216,065,500	$1,620,491	$237,672
Oakland	$8,689,497,628	$65,171,232	$9,558,447
Oceana	$141,184,500	$1,058,884	$155,303
Ogemaw	$86,823,000	$651,173	$95,505
Ontonagon	$58,736,500	$440,524	$64,610
Osceola	$99,489,000	$746,168	$109,438
Oscoda	$50,279,500	$377,096	$55,307
Otsego	$145,006,312	$1,087,547	$159,507
Ottawa	$1,875,142,000	$14,063,565	$2,062,656
Presque Isle	$65,776,000	$493,320	$72,354
Roscommon	$190,869,000	$1,431,518	$209,956
Saginaw	$521,643,000	$3,912,323	$573,807
St. Clair	$661,957,500	$4,964,681	$728,153
St, Joseph	$233,043,500	$1,747,826	$256,348
Sanilac	$185,860,000	$1,393,950	$204,446
Schoolcraft	$56,185,000	$421,388	$61,804
Shiawassee	$236,654,000	$1,774,905	$260,319
Tuscola	$139,923,300	$1,049,425	$153,916
Van Buren	$380,162,500	$2,851,219	$418,179
Washtenaw	$2,050,142,000	$15,376,065	$2,255,156
Wayne	$4,810,346,839	$36,077,601	$5,291,382
Wexford	$138,423,000	$1,038,173	$152,265
Total	***$47,516,146,071***	***$356,371,096***	***$52,267,761***
Average	***$572,483,688***	***$4,293,628***	***$629,732***

Source: Michigan Department of Treasury, 2020 Ad Valorem Tax Levy Report, CRC calculations

Appendix B

Hypothetical County RETT Rates and Revenues

County	***County Rate (0.11%)***	***Rate at 0.22%***	***Rate at 0.44%***	***Rate at 0.88%***
Total	$52,267,761	$104,535,521	$209,071,043	$418,142,085
Average	$629,732	$1,259,464	$2,518,928	$5,037,856

Source: Michigan Department of Treasury, 2020 Ad Valorem Tax Levy Report, CRC calculations

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