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CITIZENS RESEARCH COUNCIL OF MICHIGAN

108 YEARS OF UNCOMPROMISING POLICY RESEARCH

Detroit's Use of Tax Abatements and Alternative Strategies to Improve Competitiveness

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Detroit's Use of Tax Abatements and Alternative Strategies to Improve Competitiveness

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In A Nutshell

- Detroit is a frequent user of tax abatements. Between 2017 and 2023, the city facilitated 171 development projects by abating a total of $842.7 million of property taxation over several years. If the project assumptions hold true, the abatements will result in $7.5 billion of investments in the city and more than 24,000 new jobs.
- Over those seven years, 93 percent of the abatements were in downtown, midtown, and along the riverfront. A changing focus led to more than half of the abatements granted in 2023 being located outside the greater downtown area, but still the largest value of abatements and development is within the greater downtown area.
- City leaders can take actions to improve Detroit's competitiveness for all by doing such things as putting the property tax rate more on par with surrounding cities and accentuating its advantages with a focus on international trade and nurturing startup companies.

Summary

Rooted in the city's use of tax abatements is an underlying understanding that the city is economically not competitive with larger cities in surrounding states or many of its surrounding suburbs. A history of taxes levied at relatively high rates, high insurance costs, crime, aging infrastructure, and other factors have made this difficult in Detroit. Ongoing efforts are attempting to address these issues. In the interim, the city has been able to meet the needs of individual businesses and developers through a number of economic development tools including tax abatements.

Property Tax Background

Property tax abatements generally work by exempting the properties from the general ad valorem property taxation and levying a specific tax in its place. They authorize cities, villages, or townships to reduce the cumulative tax burden created by all jurisdictions serving the property(s). That specific tax is generally a) levied at half of the total tax rate that the property owner would pay or b) freezes the value of rehabilitated buildings at their pre-rehabilitation values. While cities, villages, and townships decide whether to grant tax abatements, the abatements reduce the tax yield for all levels of government (with the State Education Tax often treated differently).

The abatements are good for a specific number of years, after which they either phase back or pop back to the tax rate levied on all other properties.

Property tax abatement programs are designed to encourage economic development by providing an incentive to locate a business facility in a particular jurisdiction. The tax reduction incentive aims to induce economic development that would not occur in that location absent the incentive.

Tax Abatement Authorizing Laws

The following are the tax abatements authorized by state law.

The industrial facilities tax abatement (IFE) provides property tax reductions for qualified (1) new developments, (2) expansions, or (3) rehabilitation efforts for industrial and high-technology purposes.

The Obsolete Property Rehabilitation Act (OPRA) offers a tax abatement program targeted specifically at the rehabilitation and reuse of obsolete structures.

Table 5

Number and Value of Tax Abatements Granted by Detroit, 2017 to 2023

	Number of Abatements Granted	Total Value of Abatements Granted	Average Value of Abatements	Total Development Costs
2017	13	$19,433,323	$1,494,871	$173,608,637
2018	17	$330,679,577	$16,533,979	$1,041,193,828
2019	31	$126,996,638	$3,848,383	$1,530,201,457
2020	28	$41,971,165	$1,353,909	$488,844,011
2021	25	$77,491,567	$2,980,445	$835,202,401
2022	22	$109,048,857	$4,543,702	$1,909,620,374
2023	35	$137,074,954	$3,514,742	$1,584,974,279
Total 2017-23	171	$842,696,081	$4,928,047	$7,563,644,987

Source: Detroit Economic Growth Corporation.

The Commercial Rehabilitation Tax (CRA) Abatement offers owners of commercial properties benefits akin to the OPRA abatements, but the law extends these benefits to all cities, villages and townships and does not require the property to be blighted or functionally obsolete.

Commercial Redevelopment Act (CFE) tax abatements offer tax benefits for replacing or restoring commercial property.

Renaissance zones (RZ) provide a targeted-zone program that waives all business or resident site-specific state and local taxes.

A provision in the General Property Tax Act allows distressed communities, county seats, and certain border county communities to provide New Personal Property exemptions on taxes for eligible businesses.

Neighborhood Enterprise Zones (NEZs) provide tax incentives for housing development and improvement.

Detroit's Targeted Approach to Competitiveness

For Detroit, the granting of tax abatements has become about much more than creating jobs for Detroit residents or residents of Southeast Michigan. The use of tax abatements has evolved into a tool to help make Detroit more competitive for business attraction, and therefore a means of growing the base of the city's income tax. Similarly, abatements are now being used to entice the restoration and rehabilitation of older, underused commercial buildings.

The data that follows suggests that rehabilitating old buildings and environmental cleanup may be the primary issues for which developers need the most help. Detroit was developed but then lost people and businesses. Those that left did not take the departed structure with them. As a result, the city was left with abandoned houses, apartment buildings, store fronts, warehouses, parts distribution centers, industrial facilities, and other structures that stayed unused for years. Some of these properties were contaminated with chemicals, asbestos, and other materials. Some became unusable as time and the weather caused damage. Many require retrofitting of their electrical or HVAC systems to meet current needs.

Between 2017 and 2023, Detroit facilitated 171 development projects by abating property from taxation for several years to follow (see **Table A**). The total estimated value of the abated property taxes was $843 million.

During this period, the city granted an average of 24 abatements per year, with an average sum of the estimated multi-year incentives granted equaling $86.2 million per year. Tax incentives provided from 2017 through 2023 averaged $4.4 million per project.

The city used $753 million of tax abatements to attract more than $7.5 billion in development investments. While the city offered about 11 percent of the development costs on average, individual projects varied from one percent of several mixed-use projects to 110 percent of the Nardin Park project in 2023.

Most tax abatements granted over the past seven years have related to rehabilitating obsolete property and enhancing housing opportunities with a steady flow of obsolete property rehabilitation, commercial rehabilitation, and commercial redevelopment abatements.

By far, the largest amount of tax incentives was granted through renaissance zones (driven primarily by rehabilitation of Train Station and Book Depository). At smaller scales, the next largest average value of tax abatements was granted as commercial redevelopment tax abatements and commercial rehabilitation tax abatements.

Renaissance zones were created with the greatest expectations of job creation. Also significant, the new personal property exemptions were expected to create new jobs.

Commercial redevelopment abatements had the highest cost per job to be created, more than $145,000 in tax incentives per expected job, a high price per job to be created. The cost of expected jobs per abatement is less significant for obsolete property and commercial rehabilitation abatements, but again the city has benefited developers returning buildings to productive use. The cost of creating 1,873 expected jobs through industrial facilities tax abatements was relatively low.

Geographic Distribution of Tax Abatements

For sake of simplicity, city council districts are used to illustrate the geographic distribution of tax abatements. Detroit has not granted tax abatements evenly across the city's council districts – but it is not necessary to think that it should. The city has granted 48 percent of the tax abatements from 2017 to 2023 in District 5 that includes half of downtown, half of midtown, and the near east side. Another 43 percent of abatements were granted in District 6 that includes the other half of downtown, the other half of midtown, and the downriver region.

In recent years, the city has placed greater emphasis on development efforts outside of downtown and midtown. In 2022, 44 percent of all abatements were for properties outside of the greater downtown area. In 2023, 57 percent of the projects were outside of the greater downtown area. In both years, the value of the abatements and the total development costs heavily tilt toward the greater downtown area because the investments that developers and businesses propose to make are much larger in value in the greater downtown area.

Judging the Impact of Abatements

Judging the effectiveness of Detroit's use of tax abatements over the 50 years Michigan laws have authorized abatements is challenging on two fronts.

First, conceptually it is hard to know how bad things might have gotten for the city without employing tax abatements to attract development. Second, post-bankruptcy Detroit truly reflected the demographic and economic changes it underwent in the previous 50 years. The city's efforts to attract development and jobs must deal with that history. The issue is not just competing against green fields in the suburbs or elsewhere but addressing the vestiges of what was there before so that it can be made usable again.

Detroit's Strategy

Detroit's strategy as it relates to the granting of tax abatements appears based on two pillars.

First, the strategy is to capitalize on the revenue generating potential of the city income tax. Economic development strategy also hopes to leverage investment in key businesses or locations to spur future development. This has proven a healthy strategy in the decade since the city exited bankruptcy, but it does come with some perils. On the whole, property is a more stable tax base than income.

The city is and should work to solidify the tax bases for both the property and income taxes. Turning around the decline in aggregate value of property will provide stability to withstand the economic cycles that happen naturally and reflect a city where property is in demand and can catch a fair price for rents and investments.

Second, the DEGC evaluates proposed projects against a series of city metrics for how the development will benefit Detroit residents and the city itself. It recommends for approval projects if they will provide employment opportunities for Detroit residents, provide affordable housing in the city, and generate net new revenues for the city through property taxes, income taxes, and other revenue sources. At some point in the future, assessing the projects against the city's economic development plans and strategic initiatives will have to be reexamined.

However, this strategy does not directly benefit residents of the other governments property tax revenues are abated as part of Detroit's economic development strategy. In Michigan, local-option income taxes are available only to cities. The Detroit general purpose operating millage constitutes less than a quarter of the total property tax burden levied on Detroit properties, but the strategy is designed for the city to reap the majority of the benefits.

Finally, the strategy appears to promote the redevelopment of existing structures to the extent possible. For all of the high-profile packages that have been in the news recently, the majority of abatements granted have been for the redevelopment of commercial buildings.

Reforms and Improvements

Regardless of the city's approach to maintaining or phasing down the use of tax abatements, the process can be improved by altering the process as requested abatements are being vetted and more diligently engaging in post-abatement analysis.

The role that tax abatements are playing in aiding Detroit's recovery and the process that DEGC uses to analyze the need for tax incentives to make proposed projects work set Detroit at the forefront among many cities. Cities such as Philadelphia, Cleveland, and Columbus use tax incentives primarily for residential development.

Other cities are using sunsetting provisions in their local laws to force reexamination of practices. Using this practice, policymakers would decide what the city hopes to accomplish and take time to examine if that goal is being met. Similarly, it would cause the city to periodically reexamine what goals are incorporated into the "but for" analyses.

Refine Detroit's Tax Abatement Policy

The city should aim to improve transparency for businesses and developers considering a location in Detroit and for residents to better understand the goals pursued when the city offers tax incentives with a more overt declaration of the city's economic development policies. Other economic development objectives not directly related to tax incentives could include bolstering entrepreneurship, enhancing the city's talent pool, and playing to the city's strengths.

Pre-Abatement Analyses

Only after a great deal of work goes into the process is city council and the public engaged in the process. Representatives of the city council and residents generally could be involved more directly and earlier in economic development.

Post-Abatement Analyses

The city should be more diligent in performing post-abatement analyses to evaluate past tax abatements and guide future requests. While both make sense on paper, the city cannot know that reality is matching theory without tracking results.

Responsibility. Responsibility for post-abatement analysis could be placed in a number of potential departments. Each option has pros and cons. As the goals of the different types of tax abatements differ – NEZs promoting housing opportunities, IFEs promoting job creation, and rehabilitation of dilapidated commercial buildings promoted by OPRAs, CRAs, and CREs – responsibility for collecting and analyzing data could be shared among several departments.

Reporting Requirements. Expectations for businesses and developers to report the required data, when it is not otherwise collected by the city, should be included in the abatement agreements.

Data System. It is recommended that the city should create an integrated data system that tracks the number of abatements and incentives approved by City Council on a yearly basis. The integrated data system should include pertinent information for tracking and monitoring tax abatements and tax incentives.

The data collected during the periods during which tax abatements are received would enhance the city's ability to build claw back provisions into the abatement agreements.

Alternative Economic Development Strategies

City leaders could consider several alternative strategies for making the city more competitive and lessening its reliance on tax incentives to attract and retain businesses. Some options would address the mechanics of economic development, altering the length and/or duration of tax abatements (subject to statutory change) or funding economic development in different ways. Other options would aim to lessen the cost of locating in the city for all businesses and residents, thus lessening the need to engage in targeted economic development. Detroit can continue to leverage its competitive advantages and support of young innovative businesses to nurture the major businesses of tomorrow.

On-Budget Economic Development

For all that is wrong with tax abatements – specifically, casting government in the role of intervening in the market – providing tax-favored benefits to select firms does not directly cost governments any money. Pursuant to the "but for" analysis – that the development would not occur but for the incentive – the tax abatement granting governments are exchanging unused land and/or buildings with little taxable value for a productive use of the land and buildings.

The State of Michigan has changed its approach to economic development policy by shifting from tax incentives to direct appropriations to an economic development fund with resources that can be drawn down to support business attraction and retention activities. However, doing this in Detroit would add an item to the budget when the city arguably has insufficient resources to provide the services expected of it already. Whereas tax abatements diminish future tax revenues, this approach to economic development employs collected tax revenues to attract new development.

Make the Mechanics of Abatements Flexible

The general approach to tax abatements has been to reduce the tax burden by roughly half of the normal tax rate for a maximum of 12 years. Cities currently have the latitude to provide abatements for less than 12 years to fit the amount of incentive needed to make the investment worthwhile to the developers, but they do not have latitude with how the tax bases are frozen or the tax rates applied in lieu of the normal property tax rates.

Whether developers are receiving tax incentives in the earliest stages of property development or spread over longer periods, it can be expected that they will look for the same amount of government partnership to defray costs.

Changes of this nature would require statutory changes to the authorizing acts.

Paperwork Tax Cut

Federal law, the Internal Revenue Code, state law and regulations, and city licensure and regulations can make business difficult for small- and medium-sized companies. The city should reduce its contributions to that difficulty as much as possible.

Property Tax Reform Options

To lessen its use of tax abatement, the city could make tax abatements less necessary. It could do so by lowering the property tax rate and making itself less reliant on property tax revenue. There are multiple paths to property tax rate reduction.

The city could shed 10 mills from the current 19.9520 mills rate to cut the tax rate to 9.9520 mills. A two-mill rate decrease in year one would result in a ten percent decrease in property tax revenue. Assuming that all other tax levies would remain unchanged, a 10-mill reduction of the tax rate would reduce the city's property tax rate to 77.6 mills. This would still be among the higher total tax rates applied to property owners in Michigan, but it would make the city more competitive.

The Detroit Public Library tax is far higher than the tax rates for libraries levied in the other cities. The library could be folded into the city as a money saving effort. For finance and governance of the Detroit Public Library to change, the Michigan Legislature, in charge of the education system, must take the necessary steps to eliminate property taxes from the DPL budget.

The city and school district debt levies set tax rates in Detroit higher than many of the surrounding communities. In the interest of competitiveness, Detroit's policy should be to continue retiring existing debt and reducing the debt levy as much as is possible and reasonable.

Residents and businesses depend on the city to provide a wide range of services. Resources are needed to provide these services. To ensure the sustainability of these city services, recurring expenditures must be supported by recurring revenues. With proper planning, what the city loses in property tax may potentially be made up for with income tax revenues. The more people have jobs, the more people earn incomes that are taxed. Continued efforts to make Detroit more competitive, to attract families to reside in the city and to attract employers to locate businesses in the city will continue to enhance city income tax revenues.

An amusement tax would recognize the burden that hub cities such as Detroit, Grand Rapids, Lansing, Flint, and Saginaw play above most others. These cities are employment hubs for their surrounding areas, but they also are hosts to entertainment venues visited by residents through the respected areas.

The revenue from an amusement tax could allow the city to appropriately spread costs among the users of its services, it could also be a means to provide tax relief to Detroit residents.

Tertiary Competitiveness Improvements

Not only would property tax rate reduction reduce tax liabilities for current and prospective businesses, but it would also affect other costs related to site selection in the city. Among those costs are those created because the city requires community benefits agreements (CBAs) to be negotiated between developers and residents who live in the immediate area of a proposed development. Likewise, local hiring agreements mandate at least 51 percent of the workers on subsidized construction projects to be Detroit residents. Lastly, Detroit continues to deal with abandoned properties. Some of the eyesores bemoaned by residents have resulted from property owners being unable to afford property taxes.

Accentuate Detroit's Competitive Advantages

Detroit's economy and economic development policy can be bettered by continuing to address its disadvantages, notably on a broader basis than is currently done, and by more intensively investing in its advantages. Four main advantages offer paths to build upon: strategic location, local market demand, integration with regional clusters, and human resources.

At relatively low cost, Detroit should be laying the groundwork now to nurture and retain startup companies bringing innovative new products to market. Startup Genome recently wrote that Detroit is well situated to capitalize on a nascent home to innovation and entrepreneurial activities that will be the driver of future employment and investment.

The focus for at least one arm of Detroit's economic development efforts needs to be retaining these young companies as they evolve from problem-solving, product development, market testing, and related activities to customer identification, business management, hiring and employee management, mentorship, and customer relations.

Neither the city nor DEGC need engage in these activities, but it is incumbent on them to partner with MEGC, Invest Detroit, the Detroit Regional Chamber of Commerce, Business Leaders for Michigan, the universities, and these facilities to ensure that those supports are in place and available.

Detroit's Use of Tax Abatements and Alternative Strategies to Improve Competitiveness

Preface

This report is a part of the second phase of a research effort to assess the city of Detroit's economic condition and use of tax incentives.

This series of reports was drafted at the request of the City of Detroit's Legislative Policy Division (LPD). The Citizens Research Council was contracted to provide (a) an economic analysis of the city, to provide context to assessments of (b) past and current economic development policies, (c) opportunities for reform, and (d) alternative approaches to improving the city's competitiveness to lessen its reliance on tax incentives. The research project relies on decades of expertise in public matters accrued over a 108-year existence. The Research Council examined peer-reviewed research, held conversations with city staff and community members, and collected data from various sources.

This report and the accompanying paper focused on the city's use of tax abatements covers (c) opportunities for reform and (d) alternative approaches to improving the city's competitiveness to lessen its reliance on tax incentives.

Introduction

The City of Detroit is seeking ways to compete for business and residential attraction and retention opportunities. For years, the city's economic development efforts leaned heavily on the use of tax incentives. In the 50 years since state law first authorized the use of tax abatements, Detroit has been a steady user of this economic development tool. This is eye opening, but so is the assessment that the city has lost more people and businesses than almost any other place in the U.S.

Rooted in the city's use of tax abatements is an underlying understanding that the city is economically not competitive with larger cities in surrounding states or many of its surrounding suburbs. Businesses, developers, and residents seek opportunities to earn a positive return on their investments. Part of that calculus may include seeking locations where the costs will not be burdensome. A history of taxes levied at relatively high rates, high insurance costs, crime, aging infrastructure, and other factors have made this difficult in Detroit.

While city government has not had the capacity to address each of these factors, it has made improvements. Operations of the city bureaucracy have improved. Many of the blighted properties have been remediated. Still, the city has work to do to become more competitive. In the interim, it has been able to meet the needs of individual businesses and developers through a number of economic development tools including tax abatements. Inherent in the use of tax abatements is a selective policy that authorizes government officials to intervene in the market based on economic conditions, thus giving economic advantages to abated properties to the exclusion of all other taxpayers.

At the present time, the cost of locating in the city does not match the expected rates of return for many businesses, so the tax abatements serve a vital role. Further, many of the tax incentives granted in recent years were used to help defray the cost of rehabilitating commercial and obsolete properties. Therefore, it is proper to judge them not only on the amount of tax incentives granted and the number jobs expected to be created, but also on how the incentives serve to revitalize the use of existing buildings. Redevelopment, rehabilitation, and recovery of obsolete buildings is a common thread in the city's economic development track record.

The city's use of tax incentives understandably creates objections among some city residents. At the same time the Detroit city government struggles to provide services comparable to several neighboring suburban communities – such as timely public safety responses, clean parks, reliable public transportation, and streets free of blighted properties – tax incentives commit scarce resources to developers. It is important to keep in mind that without the tax incentive induced developments, the properties likely would not add to the tax base to fund services.

Even after benefiting from city and state incentives, developers must be capable of expending millions of dollars on the projects. Even with tax incentives, the rate on return on Detroit projects is reportedly thinner than what developers can expect to earn in other parts of the country.

Tax abatements may need to be continued in the short-term, but at the same time city leaders should explore changes that will make the city more competitive without relying on tax abatements. Policymakers must work to improve the city's competitiveness so that tax incentives become less necessary. Continued improvement of city services, reductions of city regulations, and reductions in the overall property tax burden will help.

Another approach is to focus economic development efforts on activities that accentuate positive aspects of the city. This is a current practice that the city should lean into further to attract businesses and investors. Detroit offers a large market size that businesses can gain access to by locating in the city. Detroit is a key location for international trade. It also has become a hub for innovation and entrepreneurship activities.

How much longer the city will need to rely on tax abatements to attract development is in the eye of the beholder. The city's economic health is on the upswing, but there is generally insufficient demand for space in the city to warrant the rents needed to recoup the cost of developers' investments.

Policymakers will need quality information to make those decisions, and that information is not readily available. To inform the evaluation of the effectiveness of incentives and efforts to wind down their use, the city should require recipients of tax abatements to report relevant business information during receipt of the abatements and for some time after.

The Early Period of Economic Decline

After more than a decade of population growth, by the mid-1970s it was becoming apparent to city and state leaders that Detroit was trending in the wrong direction. By the 1970 Census the city had lost 19 percent of its peak population in 1950 (see **Chart 1**).

As has been documented elsewhere[1], the loss of population was driven by many causes. The city's tax policies contributed to people leaving. Racism and White flight led many people to leave. At the same time, Detroit was not unlike other major metropolitan areas dealing with urban sprawl and suburbanization. Deindustrialization must be included in the list. The American economy was changing away from manufacturing.

Detroit has suffered the fate of deindustrialization and the changing economy as severely as any of the communities affected by the changing times. Within the state, Flint, Saginaw, Pontiac, and Benton Harbor have undergone similar changes. The upper Midwest became known as the "Rust Belt" as nearby cities such as Cleveland and Toledo, Ohio, Gary, Indiana, and Milwaukee, Wisconsin, suffered from the loss of manufacturers and people.

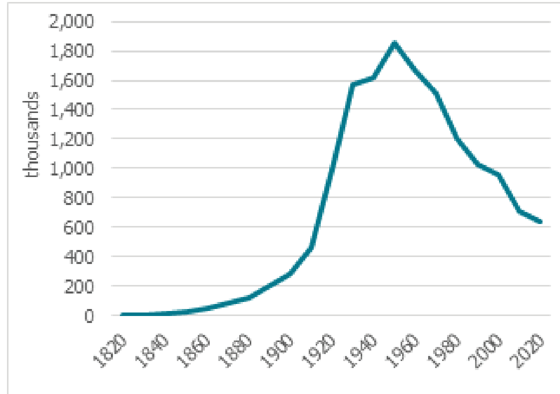
Cities that were historically manufacturing center were losing out to Southern communities and foreign nations – that could offer lower labor and land costs, and generally lower cost of doing business.

By the early 1970s, the loss of employers, especially manufacturing firms, was as drastic than the loss of population.

Detroit is still known as the "Motor City" and remains the home of the American auto industry. In the 20th Century, manufacturing firms, most related to the automobile industry, provided relatively high paying jobs for large numbers of Detroit workers, creating a blue-collar middle class. Although it is possible for a city to lose population and remain a hub for businesses and jobs, in Detroit the loss of manufacturing firms and high-pay, low-skill jobs have been more extreme than the loss of population.

Chart 1

City of Detroit Population, 1820 to 2020



Source: U.S. Census Bureau

Just after World War II, in 1947, there were 3,272 manufacturing firms with 338,400 employees in Detroit. As can be seen in **Table 1**, the number of firms, employment in those firms, and payrolls of those workers has declined dramatically in the decades that followed.

Table 1

Manufacturing Establishments in the City of Detroit, 1972 to 2017

	Number of Establishments	Total Employees in 1,000s	Annual Payroll in $1,000s
1972	2,398	180.4	$2,224.2
1982	1,518	105.7	2,781.0
1992	1,061	62.2	2,708.3
2002	647	38.0	2,054.0
2012	338	17.7	1,024.0
2017	395	23.1	1,412.6

Source: Census Bureau, Census of Manufacturing

1 For instance, see Thomas Sagrue, *The Origins of the Urban Crisis: Race and Inequality in Postwar Detroit* (Princeton University Press, 1996/2014).

Tax Abatements are a Policy Response to Job Loss

Understanding the context in which state and city policymakers were attempting to deal with the loss of people, jobs, and employers helps to give context to the policy responses. Until the early 1970s, neither Michigan state government nor its local governments were engaged in tax incentives. Laws did not authorize tax abatements in Michigan until the mid-1970s. Government officials might help to identify available land, but land acquisition was left to business. The loss of businesses, jobs, and people and the accompanying property value deterioration initiated new approaches and unprecedented government involvement.

In Michigan, state policymakers decided that government intervention was appropriate. Having done so, policymakers then had to decide what level(s) of government should decide whether to provide incentives and what level(s) of government should bear that financial responsibility of the incentives.

Property Tax Background

All forms of local government in Michigan—cities, villages, townships, counties, school districts, community college districts, and an assortment of special authorities that provide a wide variety of government services—rely on property taxes as their primary source of revenues. Additionally, the state levies the State Education Tax as a property tax to aid in the funding of schools.

The value of each property is determined by city and township assessors, subject to constitutional property tax limitations and county and state equalization processes to ensure that all assessors are using common methodologies. The city and township treasurers apply the sum of all tax rates applied by the various taxing jurisdictions to the assessed values they have determined.

Thus, if only one level of government, say cities and townships, were empowered to engage in economic development activities, that would impose the cost on that one government while every level of government stands to benefit from successful expansion of their tax bases.

Property tax abatements generally work by exempting the properties from the general ad valorem property taxation and levying a specific tax in its place. They authorize cities, villages, or townships to reduce the cumulative tax burden created by all jurisdictions serving the property(s). That specific tax is generally a) levied at half of the total tax rate that the property owner would pay or b) freezes the value of rehabilitated buildings at their pre-rehabilitation values. While cities, villages, and townships decide whether to grant tax abatements, the abatements reduce the tax yield for all levels of government (with the State Education Tax often treated differently).

The abatements are good for a specific number of years, after which they either phase back or pop back to the tax rate levied on all other properties.

Property tax abatement programs are designed to encourage economic development by providing an incentive to locate a business facility in a particular jurisdiction. The tax reduction incentive aims to induce economic development that would not occur in that location absent the incentive.

Tax Abatement Authorizing Laws

Initially offered only to industrial development in the 1970s, subsequent state laws enacted over the following three decades authorized several types of abatements as incentives for commercial and residential development.

The following are the tax abatements authorized by state law (see **Appendix A** for more detail). Detroit is using them to facilitate development of properties and attract employers to the city.

Industrial Facilities Property Tax Abatements

The industrial facilities tax abatement (IFE) provides property tax reductions for qualified (1) new developments, (2) expansions, or (3) rehabilitation efforts for industrial and high-technology purposes.[2] Qualified *new* projects may apply for property

2 1974 PA 198, M.C.L. 207.551 et seq.

tax liability limited to one half of the rate of all (improved real and personal) property taxes, except the State Education Tax (6 mills), for a term of up to 12 years, as determined by the local unit. For *restoration* of, *renovation* of, or *addition* to an existing facility within a district, taxable value (or real and personal property) of the assessed value of the facility may be frozen at the pre-restoration, pre-renovation or pre-addition level for a term of up to 12 years, as determined by the local unit.

Obsolete Property Rehabilitation Tax Abatements

The Obsolete Property Rehabilitation Act (OPRA) offers a tax abatement program targeted specifically at the rehabilitation and reuse of obsolete structures.[3] Qualified structures can receive significant property tax breaks on the improved value of the rehabilitated property.

Properties eligible for obsolete property exemption certificates must be commercial properties or commercial housing properties. Qualified projects are eligible for a tax exemption certificate that freezes the property at its pre-rehabilitated value, effectively allowing the rehabilitation to be property tax-free, with the exception of school operating taxes. Exemption certificates remain in effect for a period of at least one year, but no more than 12 years

Commercial Rehabilitation Tax Abatements

The Commercial Rehabilitation Tax[4] (CRA) Abatement offers owners of commercial properties benefits akin to the Obsolete Property Rehabilitation Tax Abatement, but the law extends these benefits to all cities, villages and townships and does not require the property to be blighted or functionally obsolete. Qualified projects are eligible for a commercial rehabilitation tax exemption certificate that freezes the property at its pre-rehabilitated value, effectively allowing enhanced value of the property related to the rehabilitation to be property tax-free, with the exception of school operating taxes. The commercial rehabilitation tax exemption certificate is in effect for one to ten years.

3 2000 PA 146, M.C.L. 125.2781 et seq.

4 2005 PA 210, M.C.L. 207.841 et seq.

Commercial Redevelopment Tax Abatements

Commercial Redevelopment Act (CFE) tax abatements offer tax benefits for replacing or restoring commercial property. Owners can qualify for tax relief for a *replacement facility* if they acquire, construct, alter, or install a commercial building for the purpose of substituting for obsolete commercial property. Owners also can qualify for tax relief for a *restored facility* if they make changes to obsolete commercial property to restore the property to an economically efficient condition. Restoration must result in improvements aggregating to more than 10 percent of the true cash value of the property at commencement of the restoration.

The commercial facilities tax exemption certificate is in effect for one to 12 years. For a restored facility, the tax freezes the taxable value of the building at its value prior to restoration, thereby exempting the new investment from state and local property taxation, including school operating tax and the State Education Tax. For a *new or replacement* facility, the tax provides a 50 percent reduction in the number of mills levied as ad valorem taxes, excluding the State Education Tax. The state treasurer may exempt 50 percent of the State Education Tax on new or replacement facilities for a period not to exceed six years. Land and personal property cannot be abated under this act.

Renaissance Zones

Renaissance zones (RZ) provide a targeted-zone program that waives all business or resident site-specific state and local taxes for a term of up to 15 years.[5]

Qualified taxpayers in Renaissance Zones enjoy the waiver of most state and local taxes for a term of up to 15 years from the time of Renaissance Zone approval.

New Personal Property Exemption

For purposes of property taxation, property is generally classified as real property – land and the buildings placed on it – and personal property – such as equipment, furniture, other movable fixtures. A provision

5 1996 P.A. 376, MCL 125.2681 et seq.

in the General Property Tax Act[6] allows distressed communities, county seats, and certain border county communities to abate personal property taxes on new investments made by eligible businesses. Eligible businesses include manufacturing, mining, research and development, wholesale trade, and office operations. The businesses seeking abatement must be located in an industrial development district, a Renaissance Zone, an enterprise zone, a brownfield redevelopment zone, an empowerment zone, a tax increment financing district, a local development financing district, a Next Michigan Development Corporation District, or a downtown development district.[7]

The personal property being abated must be new. It cannot have been previously subject to property taxes in any other jurisdiction in Michigan.

If an abatement is granted, property taxes are reduced by the full millage rate, including state and local taxes. The law does not specify a maximum or minimum number of years that the personal property may be abated.

Neighborhood Enterprise Zones

Neighborhood Enterprise Zones (NEZs) are a locally initiated zone program that provides tax incentives for housing development and improvement. Qualified local governments may designate one or more areas as NEZs for the purpose of extending property tax abatements for residential construction and rehabilitation.[8]

Providing the NEZ designation allows the local government to levy a reduced neighborhood enterprise zone specific tax in place of the ad valorem real property taxes that would otherwise be levied on qualified new construction projects or the rehabilitated portion of the existing property (not including the land).

Specifically, the NEZ tax rate for new principal residences is one half of the statewide average property tax in proceeding calendar year. The NEZ tax for new properties that are not principal residences is one half of the statewide average tax on commercial, industrial, and utility property in the proceeding calendar year.

During the last three years of the NEZ certificate, these NEZs tax rates are gradually phased up to the current property tax rates.

NEZs must be compact and contiguous, and contain either ten or more platted parcels of land or, if the NEZ is within a qualified downtown revitalization district, ten or more facilities.

Neighborhood Enterprise Zone certificates generally are in effect for six to 12 years, as determined by the governing body of the local unit.

6 1998 P.A. 328, M.C.L. 211.9f

7 For more information about these economic development programs, see Citizens Research Council of Michigan, *Survey of Economic Development Programs in Michigan, Third Edition*, Report 392, February 2016, https://crcmich.org/publications/survey-of-economic-development-programs-in-michigan.

8 1992 P.A. 147, M.C.L. 207.771 et seq.

Addressing the Cost of Being in Detroit

Detroit is a high-cost place to locate a business.[9] Some of the costs, such as the property tax rate levied by the city and the ability to amass land, are within the city's control. Other costs, such as property taxes levied by overlapping jurisdictions, insurance rates, or the education level of the city residents, are outside of the city's control.

Among the factors leading to a high cost of being in Detroit, the relatively large property tax burden is prominent as a disincentive. The relatively high tax rate is comprised of the city levying taxes at a high rate, the semi-autonomous Detroit Public Library levying taxes at a rate higher than other Michigan libraries, high rates of taxes levied by the city and Detroit Public Schools Community District to retire debt, and operating millages levied by other governments that serve Detroit. These other operating millages are common to all other property taxpayers in Wayne County, and in some cases property taxpayers in Oakland and Macomb Counties.

The City of Detroit levies property tax for basic operations at a rate near the maximum allowable by state law—19.9520 mills relative to 20-allowable mills. (A mill is $1 of tax for every $1,000 of taxable value.) Detroit levies another seven mills (as of FY2025) to pay the principal and interest on debt. City residents and businesses also pay taxes levied by the state, the county, the school district, and various other taxing entities authorized to levy property taxes (see **Table 2**).

9 See Citizens Research Council of Michigan, *An Assessment of Detroit's Economic Condition and a Critique of its Economic Development Efforts*, Memorandum 1177, February 2024, https://crcmich.org/publications/detroit_economic_climate_use_economic_development_tools.

Table 2
Property Tax Levied on Detroit Properties, 2024

Taxes Levied	Millage Rate
Detroit	
Operating Millage	19.9520
Library Millage	4.6307
Debt Millage	7.0000
Detroit Public Schools Community District	
Operating Millage*	18.0000
Debt / Sinking Fund Millage	15.0000
Wayne County	
Operating Millage	5.6483
Extra-Voted Millage	2.1737
Wayne Regional Educational Service Agency	
Operating Millage	0.0965
Extra Voted Operating Millage**	5.3678
Wayne County Community College District	3.2408
Huron Clinton Metropolitan Authority	0.2104
Wayne County Art Institute Authority	0.2000
Wayne County Zoological Authority	0.1000
State Education	6.0000
TOTAL	87.6202

* Owner-occupied residential properties qualify for the Principal Residence Exemption that exempts owners from paying the school operating millage.

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

Source: Wayne County Equalization Department, https://www.waynecounty.com/departments/mb/equalization/county-apportionment.aspx.

A total of 483 iterations of cities and townships and school district combinations serve the residents and businesses in the Detroit Metropolitan Statistical Area that encompasses the greater metropolitan area. Of those 483 iterations, those businesses within Detroit and its school district had the seventh highest total tax burden in 2022 (see **Table 3**).

The tax rates levied reflect the services sought by community residents, the relative wealth of the tax bases upon which taxes are levied, the existence of taxes levied to repay debt, and, for some communities, special assessments to fund services or finance efforts to address past government failings.

Table 3
Comparison of Non-Principal Resident Exemption Tax Rates in Various Michigan Municipalities, 2022

Rank	County	Municipality	School District(s)	Non-Homestead Millage Rate
1	Wayne	Ecorse	Ecorse/ River Rouge	119.5 to 122.9
2	Wayne	Harper Woods	Harper Woods/ Grosse Pointe	100.4 to 107.2
3	Wayne	River Rouge	River Rouge	99.4
4	Wayne	Melvindale	Melvindale-North Allen Park	89.1
5	Wayne	Highland Park	Highland Park	87.8
6	Wayne	Inkster	Romulus/ Taylor/ Wayne-Westland/ Westwood	77.7 to 86.9
7	**Wayne**	**Detroit**	**Detroit Public Schools Community District**	**86.6**
7	Oakland	Hazel Park	Hazel Park	86.6
9	Washtenaw	Ypsilanti	Ypsilanti	84.3
10	Macomb	Eastpointe	South Lake/ Eastpointe	82.0 to 82.8
11	Ingham	Lansing	East Lansing/ Lansing/ Holt/ Mason/ Okemos/ Waverly	75.4 to 80.4
12	Macomb	Center Line	Center Line/ Van Dyke	76.7 to 80.1
13	Wayne	Redford Twp	Clarenceville/ Redford Union/ South Redford	70.9 to 80.0
14	Macomb	Warren	Warren Woods/ Warren Consolidated/ Center Line/Eastpointe/ Fitzgerald/ Van Dyke	67.8 to 75.4
	Oakland	Southfield	Southfield/ Birmingham/ Oak Park	64.8 to 70.6
	Wayne	Dearborn	Dearborn/ Westwood Community	67.6 to 68.9
	Washtenaw	Ann Arbor	Ann Arbor	65.7
	Wayne	Livonia	Livonia/Clarenceville	55.1 to 58.8
	Macomb	Sterling Heights	Utica/ Warren Consolidated	54.5 to 56.6
	Oakland	Troy	Troy/ Avondale/ Birmingham/ Lamphere/ Royal Oak/ Bloomfield Hills/ Warren Consolidate	47.2 to 52.4

Source: county apportionment reports.

Just among the jurisdictions shown in Table 3, it is evident that the cost of locating a business in various southeast Michigan communities can vary significantly. **Table 4** illustrates the tax burden of a hypothetical $2 million facility in each of the jurisdictions listed in Table 3. Owners of the facility in Ecorse or Harper Woods would pay $36,300 and $20,600 more in taxes than an owner in Detroit. But the facility owner in Detroit would pay $20,000 to $30,000 more taxes than owners of facilities in Ann Arbor, Livonia, Sterling Heights, or Troy.

The cost of locating in Detroit is driven by more than just the property tax rate. Access to talent, the city corporate and individual income taxes, the cost of complying with community benefits agreements and local hiring requirements, construction costs, insurance costs, and the cost of environmental cleanup all contribute to the higher cost of being in Detroit. The city cannot control many of these costs. It can control the tax rate. Thus far the city has controlled the tax rate for some taxpayers through the use of tax abatements and exemptions, but the rate remains very high for all other taxpayers. In 2022, an owner of an industrial facility receiving an industrial facility exemption would have been subject to a 46.6 mills tax rate, or a bill of $46,600 on a $2 million facility (this assumes the state has not permitted abatement of the six-mill State Education Tax), versus a rate of 86.6 mills, or a bill of $86,600, for the non-abated neighboring facility.

Table 4
Tax Bill for Hypothetical $2 Million# Facility in Various Michigan Communities, 2022 Rates

Community	Lowest Taxing Jurisdiction	Highest Taxing Jurisdiction
Ecorse	$119,500	$122,900
Harper Woods	100,400	107,200
River Rouge		99,400
Melvindale		89,100
Highland Park*		87,800
Inkster	77,100	86,900
Detroit*		**$86,600**
Hazel Park		86,600
Ypsilanti		84,300
Eastpointe	82,000	82,800
Lansing*	75,400	80,400
Center Line	76,700	80,100
Redford Twp	70,900	80,000
Warren	67,800	75,400
Southfield	64,800	70,600
Dearborn	67,600	68,900
Ann Arbor		65,700
Livonia	55,100	58,800
Sterling Heights	54,500	56,600
Troy	47,200	52,400

Properties are assessed at 50 percent of their true cash value in the initial year of ownership and then growth of the value is restricted to the lesser of 5 percent of the rate of inflation

* Also levy a city income tax

Source: county equalization departments, Citizens Research Council calculations.

Detroit's Incentive Granting Process

It is difficult to know if development would occur without the tax incentives provided, but the Detroit Economic Growth Corporation (DEGC) attempts to discern the viability of a project without government assistance when developers and businesses approach the city for tax abatements. The city has established metrics to judge proposed projects aimed at assessing whether development would occur but for the incentives and to assess how the city will benefit from the proposed project.

The DEGC examination of each project's financial model attempts to ensure that the data and underlying assumptions used by developers are reasonable and justifiable. For this exercise, the city benefits from the volume of projects seeking tax incentives. DEGC's examination of the financial models includes:

- Sources and uses of capital statement
- Hard construction & soft costs
- Land acquisition costs
- Proposed rents
- Affordable housing units in housing projects
- Additional sources of income (i.e., parking income)
- Property annual operating costs
- Property tax & insurance costs
- Lease up assumptions
- Vacancy & occupancy assumptions
- Revenue & expense inflation factors
- Owner's equity contribution
- Debt sources terms & conditions
- Other sources of financing

DEGC uses that data to evaluate the ability to cover debt payments with and without the incentives, the expected rate of return in the investment, the expected net amount of net operating income relative to the project's cost, and the rate of return investors could expect to receive by participating in the project.

For residential projects, DEGC estimates the rents developers could expect to charge with and without the incentives and compare that to market rates.

The approach is slightly different for business development projects. These projects include businesses (manufacturers, office tenants, research facilities, etc.) that intend to use the space for their own purposes, as opposed to leasing the space. For these projects, DEGC evaluates whether the projects would happen outside of the city without an incentive. To make that assessment, the following competitive factors are evaluated:

- The tax and regulatory environment
- Supply chain factors such as proximity to suppliers or customers
- The strength of the industry sector ecosystem
- The availability and condition of real estate
- The end user's ability to meet their project timelines
- Other location considerations that impact the short and long-term cost of the project

Aside from the "but for" evaluation, projects are assessed against the city's economic development plans and strategic initiatives. Those plans dictate that the city should cooperate with developers only if projects are consistent with the city's economic development plans and strategic initiatives. Those plans and initiative include:

- Increased employment and local hiring and training programs for Detroit residents
- Business attraction goals and objectives, including alignment with the city's industry sector strategy
- Opportunities for Detroit-based businesses
- Neighborhood development goals and objectives
- Preservation and development of affordable housing
- Development of underutilized land
- Remediation of blighted properties

Finally, the projects must be able to demonstrate that they will result in a net fiscal gain to the city. This calculation is made by assessing the expected increase in property and income tax revenues relative to the cost of the incentives and additional city services.

Detroit's Targeted Approach to Competitiveness

For Detroit, the granting of tax abatements has become about much more than creating jobs for Detroit residents or residents of Southeast Michigan. The use of tax abatements has evolved into a tool to help make Detroit more competitive for business attraction, and therefore a means of growing the base of the city's income tax. Similarly, abatements are now being used to entice the restoration and rehabilitation of older, underused commercial buildings.

The data that follows suggests that rehabilitating old buildings and environmental cleanup may be the primary issues for which developers need the most help. Detroit was developed but then lost people and businesses. Those that left did not take the departed structure with them. As a result, the city was left with abandoned houses, apartment buildings, store fronts, warehouses, parts distribution centers, industrial facilities, and other structures that stayed unused for years. Some of these properties were contaminated with chemicals, asbestos, and other materials. Some became unusable as time and the weather caused damage. Many require retrofitting of their electrical or HVAC systems to meet current needs.

Detroit's economic development strategy as it relates to tax abatements has really been about addressing the costs associated with Detroit's legacy. Tax abatements have focused heavily on reducing the cost of rehabilitating existing structures to return them to productive use. They have been concentrated in the areas that have historically been the centers of commerce – specifically downtown and midtown.

The city's current use of tax abatements includes a strategy to reestablish employment in the city. City income taxes are paid whether the employers on the abated property hire city workers or non-resident workers. The city benefits more if city residents are hired because non-residents are taxed at one-half the rate that residents are taxed and only for days actually worked in the city. The effects of this were evident during and after the pandemic when many workers for business in downtown offices transitioned to remote work for at least part of their work weeks and city income tax revenue growth was constrained.

Number and Amount of Abatements

Between 2017 and 2023, Detroit facilitated 171 development projects by abating property from taxation for several years to follow (see **Table 5**). The total estimated value of the abated property taxes was $843 million, but nine projects encompassing 28 abatements accounted for more than 60 percent of the value of the abated taxes. The city provided each of these projects with more than $20 million in tax incentives (see **Table 6**).

Table 5

Number and Value of Tax Abatements Granted by Detroit, 2017 to 2023

	Number of Abatements Granted	Total Value of Abatements Granted	Average Value of Abatements	Total Development Costs
2017	13	$19,433,323	$1,494,871	$173,608,637
2018	17	$330,679,577	$16,533,979	$1,041,193,828
2019	31	$126,996,638	$3,848,383	$1,530,201,457
2020	28	$41,971,165	$1,353,909	$488,844,011
2021	25	$77,491,567	$2,980,445	$835,202,401
2022	22	$109,048,857	$4,543,702	$1,909,620,374
2023	35	$137,074,954	$3,514,742	$1,584,974,279
Total 2017-23	171	$842,696,081	$4,928,047	$7,563,644,987

Source: Detroit Economic Growth Corporation.

Table 6
Select Projects with Relatively Large Tax Incentives, 2017 to 2023
(millions)

Approval Year	Development Project Name	Total Estimated Incentive	Total Development Costs
2018	Ford Michigan Central Station & Book Depository	$239.0	$469.7
2018	Albert Kahn Building	22.9	68.3
2019	The Mid	27.1	377.0
2019	Midtown West	20.2	86.8
2021	Book Cadillac	26.5	108.6
2022	1208 Woodward	60.3	1,450.4
2023	District Detroit	111.6	1,303.4
	Total	$507.6	$3,864.2

During this period, the city granted an average of 24 abatements per year, with an average sum of the estimated multi-year incentives granted equaling $86.2 million per year. If the nine projects offering large incentives are excluded, the average yearly sum of multi-year incentives equals $52.6 million. Tax incentives provided from 2017 through 2023 averaged $4.4 million per project ($2.2 million if the large incentive projects are excluded).

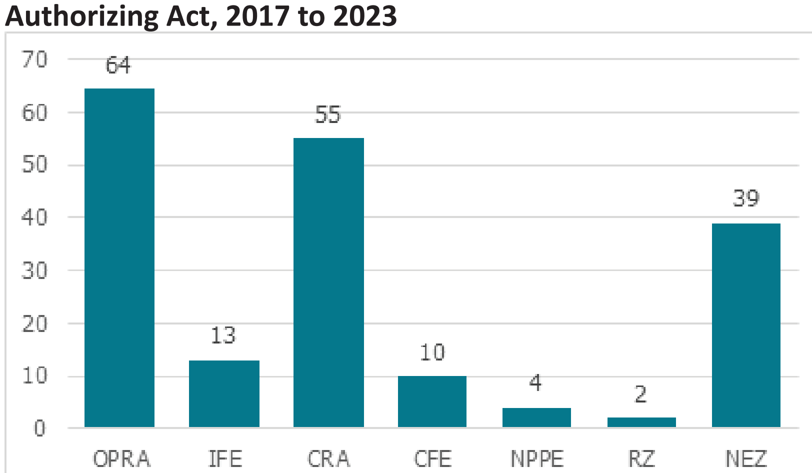
The median value of tax abatements provided by the city was less than $1 million ($992,734 - $985,639 without the Train Station and Book Depository). In one case, a $12,000 tax abatement was sufficient to get a project off the ground.

The city used $753 million of tax abatements to attract more than $7.5 billion in development investments. Put another way, with an average of $4.4 million per year in tax abatements, the city has been able to attract $44.2 million per year in projected investments. While the city offered about 11 percent of the development costs on average, individual projects varied from one percent of several mixed-use projects to 110 percent of the Nardin Park project in 2023.

Types of Abatements Granted

While high profile projects to build new facilities such as District Detroit and the Stellantis Plant have gotten a lion's share of attention for the tax abatements that Detroit has granted, most tax abatements granted over the past seven years have related to rehabilitating obsolete property and enhancing housing opportunities. The OPRA, CFA, and CFE abatements used are primarily for property owners attempting to return existing buildings to productive use (see **Chart 2**).

Chart 2
Number of Tax Abatements Granted by Detroit by Authorizing Act, 2017 to 2023



OPRA – Obsolete Property Rehabilitation Tax Abatements
IFE – Industrial Facilities Property Tax Abatements
CRA – Commercial Rehabilitation Tax Abatements
CFE – Commercial Redevelopment Tax Abatements
NPPE – New Personal Property Exemption
RZ – Renaissance Zones
NEZ – Neighborhood Enterprise Zones

Source: DEGC

Abatements per Year

Chart 3 breaks down Chart 2 to examine the average number of tax abatements granted annually. The fact that the city has participated in efforts to restore and rehabilitate commercial buildings is the most significant takeaway from examining the types of abatements provided. The data reflect a steady flow of obsolete property rehabilitation, commercial rehabilitation, and commercial redevelopment abatements.

Obsolete property rehabilitation abatements were granted in every year of the data reported. The variance around nine abatements per year has been fairly consistent.

The granting of abatements for the rehabilitation and restoration of commercial buildings also has been consistent. While the city has granted about seven to 11 most years, 2023 was abnormal with 22 abatements granted. Most of them related to the District Detroit and St. Agnes Lofts projects.

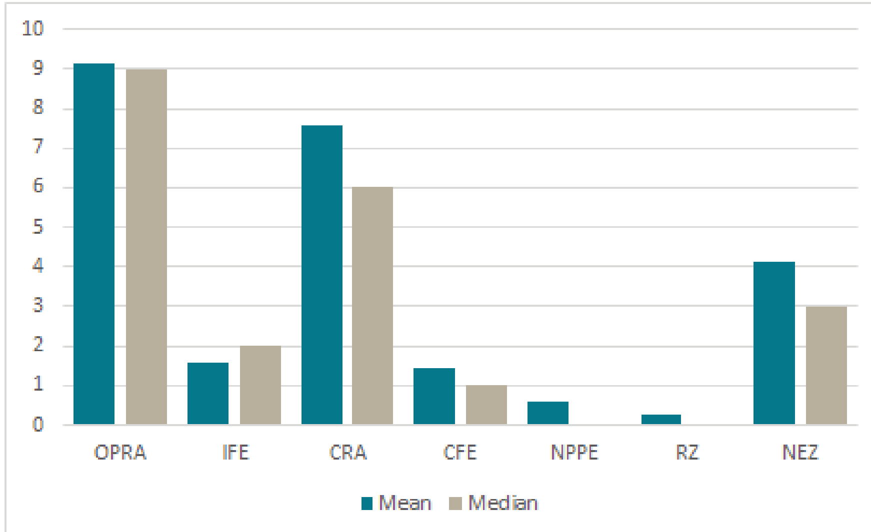
The trend for industrial facilities tax abatement has been more consistent, with two per year except for 2021 when none were granted and 2023 when only one was granted.

The granting of neighborhood enterprise zone abatements has varied over the years. The ability to grant these abatements is constrained by state law that limits the footprint NEZs can have in the city.

The city has used new personal property exemptions and renaissance zones more judiciously.

Chart 3

Average Number of Tax Abatements Granted per Year by Detroit by Authorizing Act, 2017 to 2023



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Source: DEGC

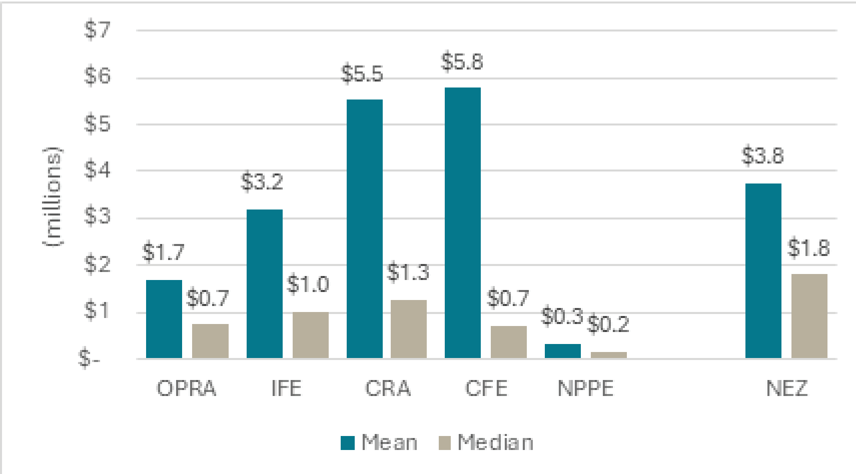
Value of Abatements

The value of tax incentives granted using the different types of tax abatements varies. **Chart 4** illustrates both the mean and the median because for several of the types of tax abatements a few projects greatly influence the mean. The median more accurately reflects the annual experience related to the value of incentives granted by the city.

By far, the largest amount of tax incentives was granted through renaissance zones. Only two zones were created in this time period: one for Michigan Central as part of a $239 million package of tax incentives and the other with $8 million. These values are excluded from **Chart 4** because they skew the scale of the chart.

Chart 4

Value of Expected Property Tax Incentives by Abatement Type Granted by Detroit, 2017 through 2023



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Source: DEGC

After renaissance zones, the largest average value of tax abatements was granted as commercial redevelopment tax abatements ($5.7 million) and commercial rehabilitation tax abatements ($5.3 million).

The average neighborhood enterprise zone abatement was $3.8 million, the average value of industrial facility tax abatements was $2.3 million, and the average value of obsolete property rehabilitation tax abatements was $1.7 million.

The trends are a little different when looking at median values. Median values are significantly less than the averages because some of the projects identified above skew the numbers. Other than renaissance zones, the highest mean value of abatements was $1.8 million for neighborhood enterprise zones, about half of the $3.7 million average. The median for new personal property exemptions obsolete property rehabilitation tax abatements also were about half of their averages.

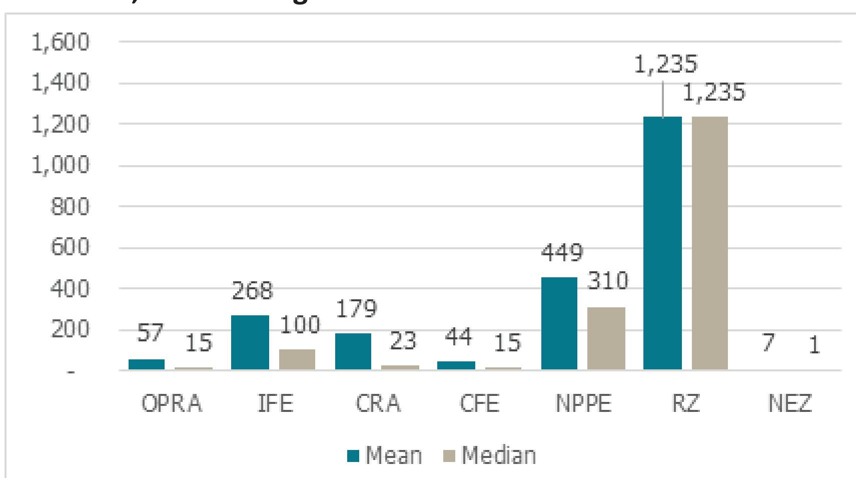
The $1.3 million median value of commercial rehabilitation tax abatements was less than one quarter of the $5.5 million average. The $1 million median industrial facilities abatement was a third of the $3.2 million average. The $723,670 median value of commercial redevelopment tax abatements was a fraction of the $5.7 million average.

Jobs Created

Industrial facilities tax abatements were the first type of tax abatement enacted. That law was enacted in part to encourage manufacturing employers to create jobs. The tax abatement authorizing laws that have been enacted since have served various purposes, but it is still fair to judge the tax abatements granted relative to the numbers of jobs expected to be created (see **Chart 5**).

Chart 5

New Jobs Expected to be Created in Tax Abated Properties in Detroit, 2017 through 2023



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Source: DEGC

Renaissance zones were created with the greatest expectations of job creation. The two renaissance zones created were expected to create 2,050 and 419 jobs respectively, for an average of 1,235 new jobs.

Also significant, the four new personal property exemptions were expected to create 1,797 new jobs, for an average of 449 new jobs per exemption. The average was skewed by one project that proposed to create 1,103 new jobs. The median number of new jobs expected to be created by the granting of a NPPE was 310.

The projections of jobs to be created as a result of industrial facilities abatements, commercial rehabilitation abatements, and commercial redevelopment abatements were modest relative to the RZ and NPPE incentives. The nine industrial facilities abatements expected to create an average of 268 new jobs. The 55 commercial rehabilitation abatements expected to create an average of 179 new jobs, and the 10 commercial redevelopment abatements expected to create an average of 44 new jobs.

The incentives for obsolete property rehabilitation and neighborhood enterprise zones were negligible job creators, but they weren't necessarily created for that purpose.

In addition to jobs expected to be brought to the city to work in the buildings benefiting from tax abatements, the tax incentives cause the property owners to invest in the construction, alteration, rehabilitation, and improvement of the buildings. To achieve this, developers hire steel workers, carpenters, electricians, masons, and other construction workers. Each tax abatement granted has a number of construction jobs that were expected to be employed for the construction or rehabilitation of the buildings.

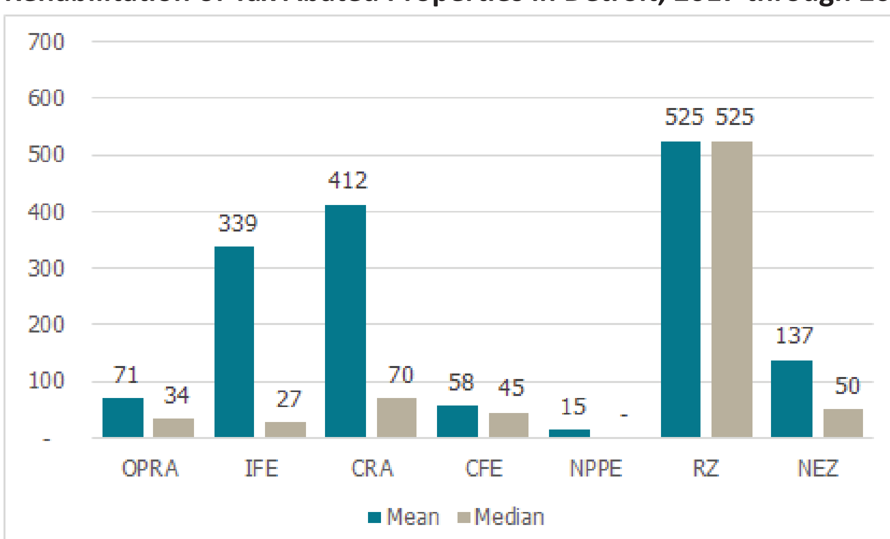
The difference between the jobs created in the city by tax abatements and the construction jobs is the permanence of the jobs. Once projects are completed, the construction workers will move on to other projects. The new jobs are expected to remain in the buildings for some time.

Again, the renaissance zone incentives led to the use of the most construction workers. Commercial rehabilitation abatements expected to employ an average of 412 construction workers per building and neighborhood enterprise zones expected to employ an average of 137 construction workers per project. The other abatements only expected to employ an average of 50 to 70 workers per project. New personal property exemptions only led to the employment of an average of 15 workers per project, but the placement of personal property generally does not require a great deal of construction (see **Chart 6**).

The number of jobs expected to be created, and the number of construction jobs were those provided by

Chart 6

Construction Jobs Expected to be Employed for the Construction or Rehabilitation of Tax Abated Properties in Detroit, 2017 through 2023



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Source: DEGC

those asking for abatements. The actual number of jobs created will not be known until the abatements expire five to ten years from now.

City practices in monitoring post abatement experiences will need to change for that to truly be established. With an average of 24 tax abatements per year and an average of $86 million in incentives provided, monitoring job creation should be a high priority for the city. Past performance will not always be an indicator of future performance, but the stakes are too high to just assume projections are fulfilled. The fulfillment of projections can be evaluated on an interim basis, but end results generally cannot be judged until after the incentive periods are ended.

Cost per Job Created and Building Saved

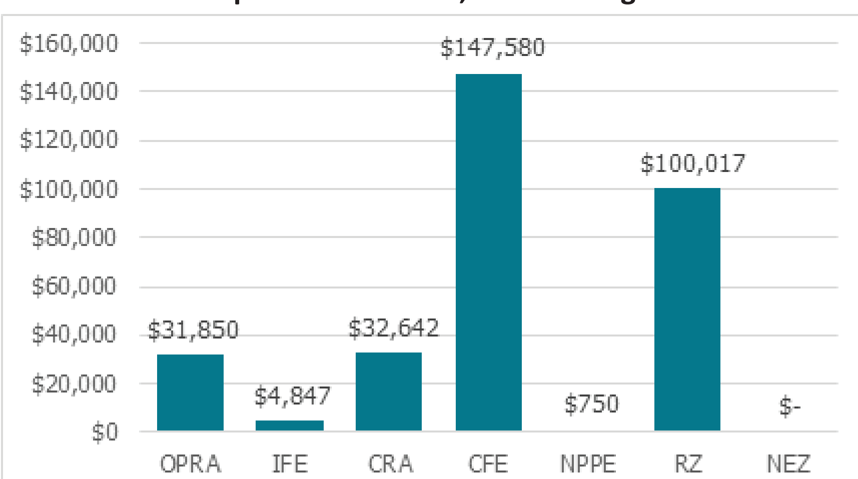
The question then is whether the investment per job created justifies the cost. The abatements cannot all be judged in the same way on this question. Ultimately, Detroit's use of the package of tax abatements available to it serve the dual purposes of bringing jobs to the city and putting buildings that were abandoned, underused, dilapidated, or otherwise not beneficial to the city to productive use again (see **Chart 7**).

Commercial redevelopment abatements had the highest cost per job to be created, more than $145,000 in tax incentives per expected job. Neither the incentives nor the jobs are single year affairs, so that cost must be spread over several years. Still, this is a high price per job to be created.

But the abatements served to do more than just create jobs. As discussed elsewhere, the city had and continues to have a number of buildings that were used in earlier days but fell into disrepair. The cost of razing those buildings and creating greenspace may be less than the $5.8 million per CFE abatement, but in the end the city would end up with an empty lot and face the future of perhaps needing to offer incentives for a developer to build a new building on the lot. CFE abatements serve the dual purpose of putting buildings into productive use and creating jobs.

Chart 7

Value of Expected Tax Incentive per Expected New Job in Tax Abated Properties in Detroit, 2017 through 2023



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NPPE – New Personal Property Exemption
RZ – Renaissance Zones
NEZ – Neighborhood Enterprise Zones

Source: DEGC, Citizens Research Council calculations

The cost of expected jobs per abatement is less significant for obsolete property abatement, $31,850 per abatement, but again the city has benefited from the creation of an average of 57 new jobs per incentive granted and returning buildings to productive use.

The cost per job to be created by commercial rehabilitation abatements was a similar $32,642.

The cost of creating 1,873 expected jobs through industrial facilities tax abatements was only $4,847 per new job.

Incentives equaling $750 per new job to be created were enough to attract 1,797 new jobs through the new personal property exemptions.

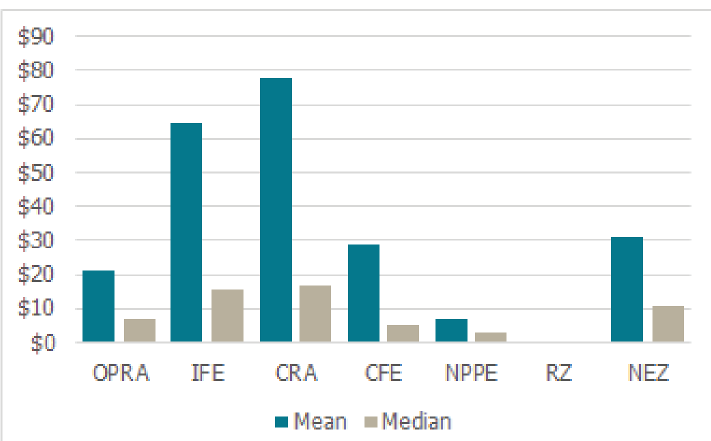
The neighborhood enterprise zone act was not enacted as a job creator. It is designed to help revitalize parts of the city that have suffered from disinvestment be encouraging the construction and rehabilitation of housing units. With the price of residency reduced by the tax abatements, people will return to the areas, shop in nearby retail outlets, use community parks, and revitalize the area.

Detroit benefits in the use of these abatement programs because it levies a city income tax on both residents and non-residents. Part of the equation in the evaluation of applications for tax abatements is the amount of revenue expected to be generated from the new jobs created. The cost of recouping the cost of tax incentives offered through renaissance zones and commercial redevelopment abatements is stark, but again, these tax incentives serve the dual purpose of bringing new jobs to the city and putting buildings back into productive use. It is much easier to calculate income tax revenue meeting or exceeding the cost of abatements for the other tax abatement programs, especially the new personal property exemptions.

Value of Expected Development

The tax incentives offered to developers and businesses are designed to attract employers to provide jobs and to enhance the tax base. Renaissance Zone abatements are expected to result in $268.3 million of investments, driven by rehabilitation of the Train Station and Book Depository (withheld from Chart 8 to control scaling). The investments resulting from the other types of abatements are smaller in scale. Most investments are expected to result from CRA and IFE abatements. The expected investments from NEZ and CFE abatements are similar in value, followed by OPRA. Relatively little investment is expected to result from NPPE (see **Chart 8**).

Chart 8
Anticipated Value of Development by Tax Abatement Type, 2017 to 2023



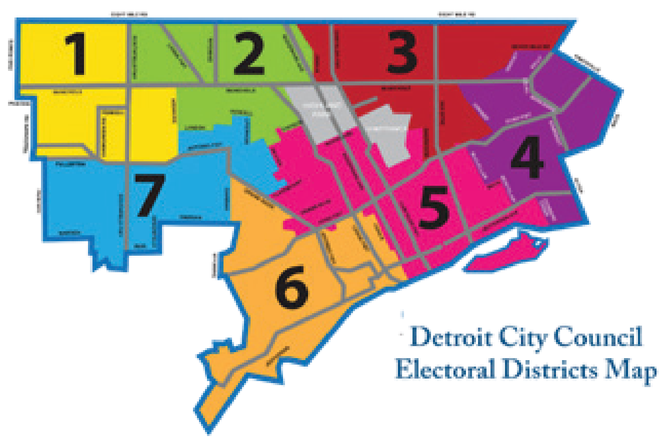
Note: Renaissance Zone investments withheld because it affects scaling. Renaissance Zone abatements are expected to result in $268.3 million of investments, driven by rehabilitation of the Train Station and Book Depository.

Source: DEGC, Citizens Research Council calculations

Geographic Distribution of Tax Abatements

For sake of simplicity, city council districts are used to illustrate the geographic distribution of tax abatements. The Detroit City Council is a hybrid, with two members elected at large and seven elected from districts. District lines are redrawn after each biennial census to maintain a roughly equal number of residents in each district (see **Map 1**).

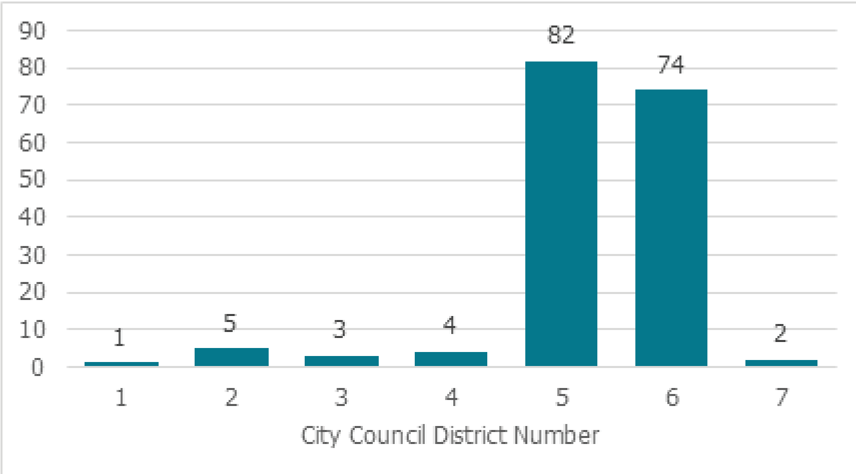
Map 1
Detroit City Council Districts



Detroit has not granted tax abatements evenly across the city's council districts (see **Chart 9**) – but it is not necessary to think that it should. The city has granted 48 percent of the tax abatements from 2017 to 2023 in District 5 that includes half of downtown, half of midtown, and the near east side. Another 43 percent of abatements were granted in District 6 that includes the other half of downtown, the other half of midtown, and the downriver region.

Chart 9

Number of Tax Abatements by Council District, 2017-2023



Source: DEGC

Consistent with the law authorizing new personal property exemptions, these abatements have occurred in Detroit's Downtown Development Authority, which is in Districts 5 and 6.

While the immediate reaction to Charts 9 and 10 might be that the incentives are not evenly distributed throughout the city, perspective on the makeup of the city is useful here. The city used obsolete property rehabilitation abatements and commercial abatements for 82 percent of the incentives in District 5 and 71 percent of the incentives in District 6. Another 21 percent of the incentives in District 6 were for neighborhood enterprise zones.

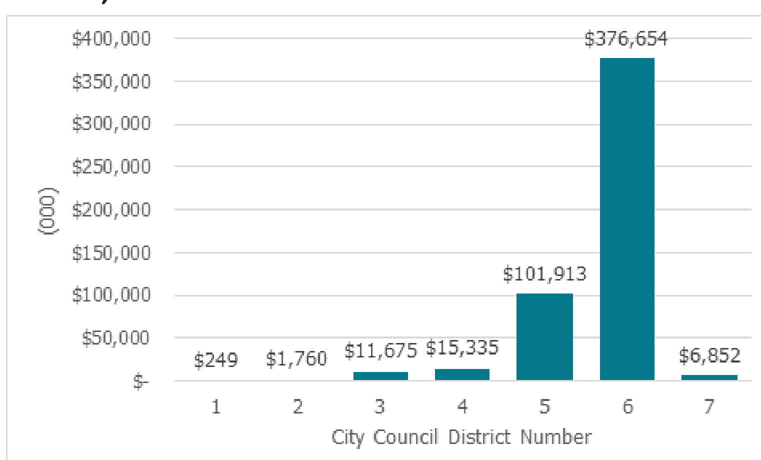
Neighborhood Enterprise Zones also are concentrated in Council Districts 5 (31 percent) and 6 (56 percent). Only five new NEZs have been sprinkled in District 2 (3 zones), 4 (1 zone), and 7 (1 zone). State law limits neighborhood enterprise zones to no more than 15 percent of the geographic footprint of the city. This makes location decisions more high stakes. Each NEZ application has to be vetted, and the Council can only react to what is brought to them, but the high concentration of NEZs in and around downtown and midtown seems unproportional to the housing opportunities and needs throughout the city.

These two council districts comprise the major commercial centers of Detroit – downtown and midtown. The commercial developments along the corridors – along Michigan Avenue, Grand River, Gratiot, McNichols, Livernois, etc. – in the other council districts are important, but the store fronts and businesses tend to be very much smaller in scale than those located in Districts 5 and 6.

Consistent with Chart 9, the value of incentives granted is greatest in Council districts 5 and 6 (see **Chart 10**). (For the sake of illustration, **Appendix B** reproduces Chart 10 to show the value of incentives without the Train Station and Book Depository in District 6. The value of that project dwarfs all others.) In total, 82 percent of the value of incentives granted were for investments in District 6, with another 14 percent in District 5.

Chart 10

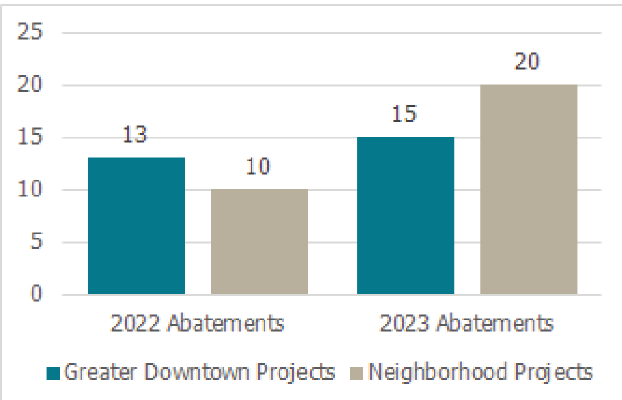
Value of Multi-Year Incentives Granted by City Council District, 2017-2023



Source: DEGC

In recent years, the city has placed greater emphasis on development efforts outside of downtown and midtown. In 2022, 44 percent of all abatements were for properties outside of the greater downtown area. In 2023, 57 percent of the projects were outside of the greater downtown area (see **Chart 11**).

Chart 11
Number of Tax Abatements Within and Outside of the Greater Downtown Area, 2022 and 2023

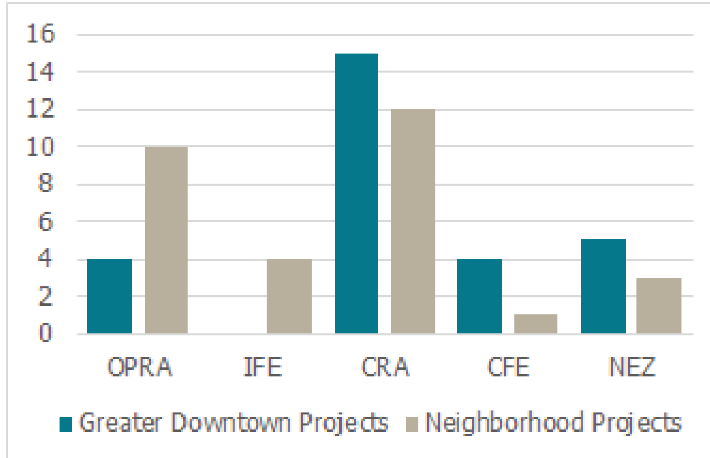


Note: In 2023, multiple abatements were provided for three different projects: including one in the central business district (District Detroit involved nine abated properties) and two outside of the greater downtown area (North End Landings involved seven abated properties and St. Agnes Lofts involved six abated properties).

Source: DEGC

Abatements for commercial rehabilitation projects constituted the plurality of the projects both inside the greater downtown area and in the neighborhoods. The balance of the abatements in the greater downtown area were for NEZs, OPRAs, and CFEs. The make up was different in the neighborhoods where OPRAs and IFEs were more common than NEZs and CFEs (see **Chart 12**).

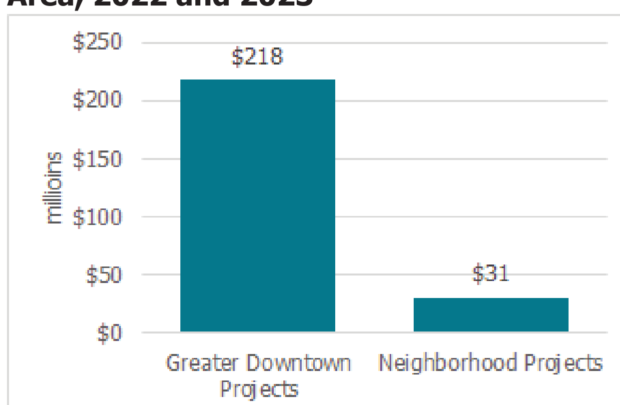
Chart 12
Types of Tax Abatements Granted Within and Outside of the Greater Downtown Area, 2022 and 2023



Source: DEGC

The value of the abatements and the total development costs heavily tilt toward the greater downtown area. The value of the tax abatements granted to projects within the greater downtown area totaled $218 million compared $31 million for projects in the neighborhoods (see **Chart 13**).

Chart 13
Value of Tax Abatements Granted Within and Outside of the Greater Downtown Area, 2022 and 2023



Source: DEGC

Perspective on Property in Detroit Council Districts

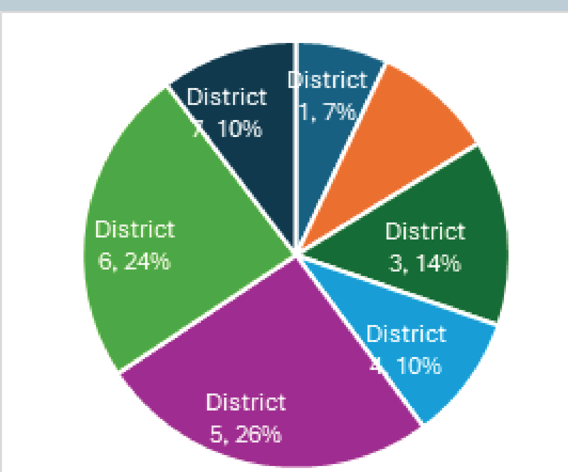
Detroit is a geographically large city with a variety of property types and uses throughout the city. However, land in Council Districts 5 and 6 has historically been used for commercial and industrial purposes more frequently than land in the other council districts. The buildings generally are bigger and it is a goal to create sufficient demand to be in these spaces. If successful, it will cost more to acquire land in these spaces and landlords will fetch higher rents for space in these buildings. With a few exceptions, most of the high-rise buildings are located in these two districts. Whether a developer was looking for existing structures that could be rehabilitated or vacant land that could be built upon, the city offers far more opportunities for commercial and industrial land uses in Council Districts 5 and 6 than the other districts.

Chart 14 shows that 50 percent of Detroit's currently vacant commercial properties are in Council Districts 5 and 6. While the other council districts offer more than 1,100 vacant commercial properties at a minimum, Districts 5 and 6 each have more than 4,000 vacant commercial properties available to build on.

Likewise, **Chart 15** shows the breakdown for industrial properties. Almost 75 percent of the city's currently vacant industrial properties are in Council Districts 5 and 6. The other districts have handfuls of vacant industrial properties sprinkled throughout them.

Chart 14

Vacant Commercial Parcels by Detroit Council District, 2023



Source: City of Detroit, Office of Chief Financial Officer

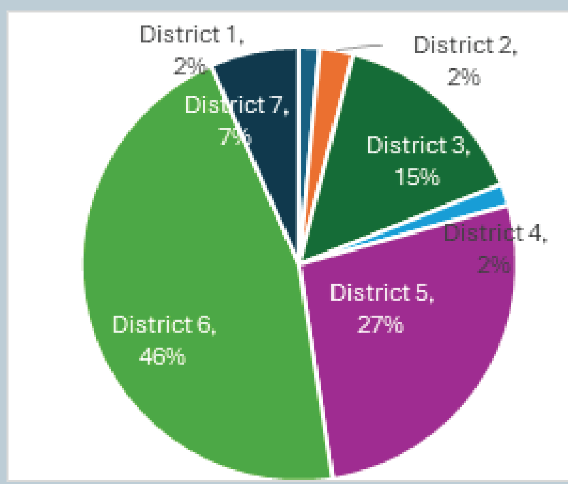
Housing is an issue in Detroit and the city has more than 115,000 vacant residential lots available to meet that demand. Efforts to meet the goal of attracting and retaining people to the city will be accelerated with increased employment opportunities. Thus, the city's focus on attracting employers will focus on commercial and industrial land use, and those opportunities will be concentrated in Council Districts 5 and 6.

Furthermore, the externalities of commercial and industrial land use affecting residential landowners suggests a continued effort to keep them separate from each other. As has been experienced with the newly developed Stellantis plant on the city's east side, disruption in the Delray neighborhood with construction of the new Gordie Howe International Bridge, and other developments, commercial and industrial businesses can affect their residential neighborhoods. Noxious odors, the rumble of heavy trucks, loud noises, increased traffic, towering buildings casting shadows on neighboring houses, and other unintended forms of pollution can affect the quality of life for those living nearby.

While it is possible to steer new developments to all council districts, doing so may bring undesired effects for those nearby. Continuing to build off of the land use patterns of decades ago would minimize the negative externalities.

Chart 15

Vacant Industrial Parcels by Detroit Council District, 2023

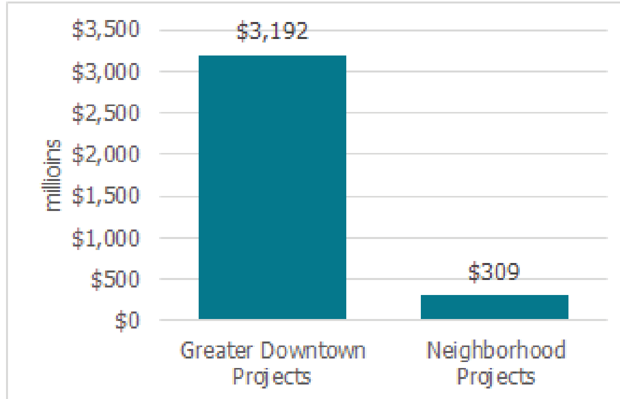


Source: City of Detroit, Office of Chief Financial Officer

The incentives provided within the greater downtown area are larger in value than those in the neighborhoods because the investments that developers and businesses propose to make are much larger in value in the greater downtown area (see **Chart 16**). Incentives offered for property development in the greater downtown area are expected to total $3.2 billion compared with anticipated development totaling $309 million in the neighborhoods. Projects receiving tax incentives in the greater downtown area averaged $114 million of expected investments compared to $10 million in the neighborhoods.

Chart 16

Anticipated Value of Development Created by Tax Abatements Granted Within and Outside of the Greater Downtown Area, 2022 and 2023



Source: DEGC

Grow Income Tax Revenues

Detroit is able to benefit from tax abatements in a way that only 23 other Michigan cities can because it levies a city income tax. The tax is levied on city residents and on non-residents for income earned working in the city.

The city has leaned into this opportunity since exiting bankruptcy a decade ago. **Chart 17** shows the inflation-adjusted growth of the city income tax revenue since 2010 relative to growth of the city's property tax revenue. While the city's income tax revenues are 40 percent greater than they were heading into bankruptcy, inflation-adjusted property tax revenues yield about half of what they did at that time.

Chart 17

Inflation-adjusted Growth of Detroit City Income Tax and Property Tax Revenue Since 2010

Source: Detroit Annual Financial Reports, Citizens Research Council calculations.

The growth of income tax revenue can be attributed to many things, including jobs created with property tax incentives. City income tax revenues are derived from residents' income – the city appears to have ended the loss of people and income and unemployment statistics suggest that many residents have experienced income gains. Additionally, tax revenues are generated from non-residents' income – the construction and rehabilitation of buildings downtown and elsewhere has maintained the number of non-resident workers in the city. Further, income tax receipts benefited from the tax incentives that have attracted and retained employers – if the employers live up to the expectations expressed in the tax abatement requests, more than 24,000 new jobs will result from tax incentives and more than 35,000 temporary construction jobs will boost income earned in the city.

Southeast Michigan Comparisons

Detroit uses tax abatements as a means of business retention and attraction more than other cities in the state and comparable cities in other states (see **Chart 18**).[10]

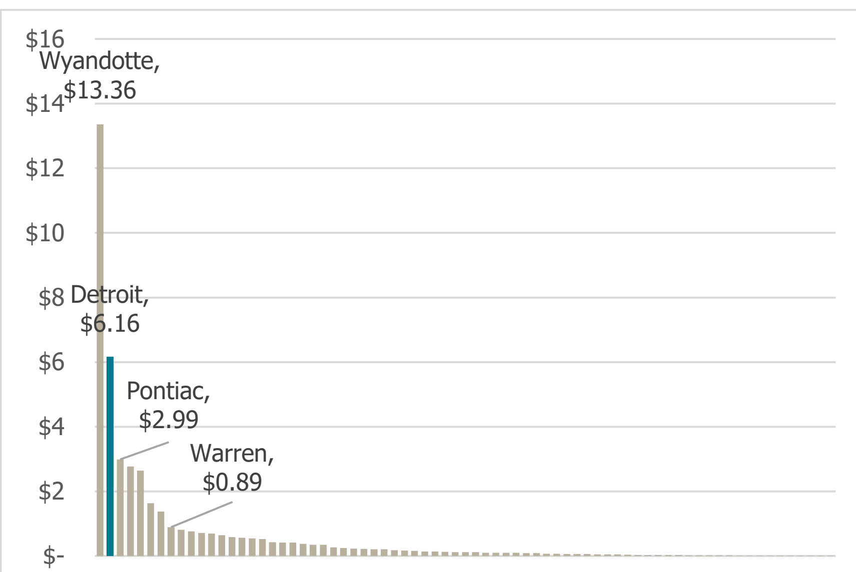
In its Fiscal Year (FY)2023 financial statements, Detroit disclosed it abated $50 million in taxes, up from $42 million in FY2022. (FY2022 financial statements were used for comparative purposes as some jurisdictions had not yet published FY2023 financial statements at the time this research was drafted.) Cumulatively, between FY2017 and FY2023, the city abated $264.5 million in taxes.

Compared to the other 73 jurisdictions within the Detroit-Warren-Dearborn Metropolitan Statistical Area (Detroit MSA) that had financial statements with tax abatement disclosures, Detroit was the second heaviest user of tax abatement – second only to Wyandotte. Measured in subsidies relative to taxable value, Detroit abated $6.16 in taxes for every $1,000 in taxable value. (Wyandotte abated $7.9 million in taxes or $13.36 in taxes for every $1,000 in taxable value.) The mean across jurisdictions in the dataset was $0.60 in abated taxes for every $1,000 in taxable value.

10 Citizens Research Council of Michigan, *Detroit Foregoes Large Sums of Property Tax Revenues with its Use of Business Tax Abatements*, web document, November 16, 2022, https://crcmich.org/detroit-foregoes-large-sums-of-property-tax-revenues-with-its-use-of-business-tax-abatements.

Chart 18

Value of Tax Abatements Relative to $1,000 of Taxable Value of Property Among Southeast Michigan Communities, 2023



Source: Review of annual financial statements.

Midwest Major City Comparisons

Michigan's relatively long list of state law authorizing tax incentives for economic development target property tax relief as a means of attracting employers to create jobs.

Two factors led to the need for these laws. First, as an industrial, Midwest rust belt state, Michigan clung to its prosperous economic past when things started to go bad. State population growth plateaued after the 1970 census. Manufacturers closed shop or relocated to either the South or overseas in search of less costly environments. Commercial businesses eventually followed. The policy response, rather than adapting to a new economy, was to offer tax breaks to industrial and commercial businesses to encourage them to remain or relocate to Michigan.

Second, Michigan's local governments rely on property tax revenues as their primary source of resources. Cities, villages, townships, school districts, intermediate school districts, community college districts, and an assortment of special authorities levy property taxes to fund operations. One outcome of this reliance is that tax rates are levied at relatively high rates.[11]

In its FY2023 financial statements, Detroit disclosed it had abated $43.0 million in taxes. Of that amount, $26.3 million represented the tax abatement types discussed in this paper.

11 Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence, *50-State Property Tax Comparison Study*, August 2023, www.lincolninst.edu/publications/other/50-state-property-tax-comparison-study-2022/

Comparing the use of tax abatement programs across cities in different states is difficult because of the various ways different states' laws are structured and the particular dimensions of each program. These differences relate to the type of properties that are eligible for tax-favored treatments, the design of individual programs, and local decisions about when/where/how to employ abatement programs. Programs also differ based on how tax abatements affect the revenues produced and elements of a program employed to ensure projects deliver promised benefits.

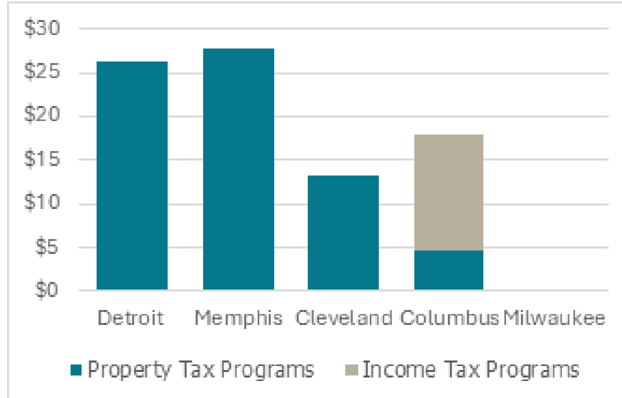
Four peer cities similar in size and economic conditions were selected for a comparative analysis: Cleveland and Columbus in Ohio, Memphis, Tennessee, and Milwaukee, Wisconsin. They were selected based on population, land area, population density, median household income, and percentage of the population below the poverty level. Columbus, Memphis, and Milwaukee, like Detroit, are considered high-tax cities when assessing effective tax rates on homestead and commercial properties.[12]

Economic measures such as median household income and percentage of the population below poverty level are especially important in this analysis as they are indicators of distressed jurisdictions that may be incentivized to use economic development programs.

Using data assembled on the Good Jobs First website, it is revealed that Detroit ($26.32 per capita) and Memphis ($27.85) are abating more per capita property tax revenues on average than the other cities. Cleveland ($13.31) and Columbus ($4.59 in property tax abatements and $13.39 in income tax exemptions) are roughly equal in the per capita amounts of tax forgiveness. Milwaukee does not use tax abatements, but instead relies on tax increment financing to provide funding to provide economic development spending (see **Chart 19**).

Chart 19

Average Amount of Tax Revenue Abated Per Capita in Major Midwest Cities, FY2017 to FY2021



Sources: Good Jobs First; City of Detroit; City of Cleveland; City of Columbus; City of Memphis; City of Milwaukee; U.S. Census Bureau

The information provided does not shine a light on the cities' other economic development efforts. It does not describe if the tax abatements were partnered with state and/or federal incentives. It does not describe the investments that private businesses were making to merit the tax abatements.

In 2023, the incentives provided by Detroit were geared 37 percent to Neighborhood Enterprise Zones, 37 percent to commercial development, 23 percent to Renaissance Zones, and only 3 percent to industrial development. Memphis provided 45 percent of the total abatements to industrial development, 32 percent to commercial development, and 24 percent to residential development and affordable housing. The property tax incentives provided by Cleveland and Columbus were almost wholly for residential development and affordable housing. Columbus also provides a number of income tax incentives as job attraction/creation tools.

Rather than providing tax abatements, Milwaukee uses tax increment financing to generate resources for economic development. In doing so, it is not lessening the cost of locating in the city but is generating resources for overt trackable spending.

12 Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence, 50-State Property Tax Comparison Study, August 2023, www.lincolninst.edu/publications/other/50-state-property-tax-comparison-study-2022/

Judging the Impact of Abatements

Judging the effectiveness of Detroit's use of tax abatements over the 50 years Michigan laws have authorized abatements is challenging on two fronts.

First, conceptually it is hard to know how bad things might have gotten for the city without employing tax abatements to attract development. Ostensibly, tax abatements were created to counter the job losses that were occurring. The goal was to retain and attract employers, first industrial and later commercial, to Michigan.

The laws authorizing tax abatements were first enacted in the mid-1970s, a period that in retrospect marked the early stages of Michigan's stagnant economic and population growth. Nationally, it marked the early stages of a movement away from manufacturing. In retrospect, it is now clear that the economy that Detroit was founded on was disappearing and the city or state's economic model was not adapting to the knowledge and service-based future. The decline associated with deindustrialization and the economic winds affected the city strongly. Additionally, livability in the city was affected by the loss of restaurants, grocery and retail stores, bank branches, entertainment, etc.

The city continued to lose population, manufacturing and commercial businesses, and jobs in the period tax abatements were incorporated into the city's economic development toolbox. Could it have been worse without tax abatements to offset some of the loss? It is impossible to know what the city would have looked like with a counterfactual of no tax abatements.

Second, post-bankruptcy Detroit truly reflected the demographic and economic changes it underwent in the previous 50 years. In many parts of the city, neighborhood and city leaders struggled to address the results of abandoned and neglected properties. Ruin porn became an unfortunate description of the abandoned and dilapidated structures that were once home to a vibrant city.

The city's efforts to attract development and jobs must deal with that history. The issue is not just competing against green fields in the suburbs or elsewhere but addressing the vestiges of what was there before so that it can be made usable again.

With some exceptions, the granting of tax abatements over the past few years reflects the effort to put obsolete commercial properties to productive use.

Detroit's Strategy

Detroit's strategy as it relates to the granting of tax abatements appears based on two pillars.

First, the strategy is to capitalize on the revenue generating potential of the city income tax. The latitude to reduce the property tax burden affords the city the ability to attract and retain businesses that will provide income producing jobs. Whether those jobs are provided to Detroit residents or non-residents – the preference obviously being to increase the employment of Detroit residents – they will broaden the tax base for the income tax and afford the city the ability to grow the budget.

Economic development strategy also hopes to leverage investment in key businesses or locations to spur future development. Those employed in businesses operating in the abated properties will presumably locate their families nearby, thus spurring housing demand. They will buy groceries, engage in entertainment activities, and spend their income in other ways, thus spurring other businesses to locate nearby. To the extent that they locate in the city, it will further enhance income tax receipts for stable growth.

This has proven a healthy strategy in the decade since the city exited bankruptcy, but it does come with some perils. On the whole, property is a more stable tax base than income. There are occasions when property values dip, as occurred in the years following the "Great Recession" of 2007-09, but, for the most part, property values appreciate and government budget makers can rely on property tax revenue.

Ordinary income generated as workers being compensated for their labors is susceptible to variations with economic cycles. While Detroit, Michigan, and the national economies have experienced prolonged economic growth since the Great Recession, a downturn will eventually come. Employment will decline as businesses cut jobs to reflect scaled down production schedules and lesser earnings. This typically affects Detroit's income tax revenues more severely than the state or federal income tax revenues.

The city is and should work to solidify the tax bases for both the property and income taxes. Turning around the decline in aggregate value of property will provide stability to withstand the economic cycles that happen naturally and reflect a city where property is in demand and can catch a fair price for rents and investments.

Second, the DEGC evaluates proposed projects against a series of city metrics for how the development will benefit Detroit residents and the city itself. It recommends for approval projects if they will provide employment opportunities for Detroit residents, provide affordable housing in the city, and generate net new revenues for the city through property taxes, income taxes, and other revenue sources.

Given where Detroit has been financially and where it is in the current path to recovery from the nation's largest bankruptcy, it is to the benefit of all interested parties that Detroit's recovery continues. The return of a vibrant, economically sustainable Detroit will benefit all of Southeast Michigan and the state as a whole.

At some point in the future, assessing the projects against the city's economic development plans and strategic initiatives will have to be reexamined. The strategy of sacrificing property tax revenue to benefit income tax revenues is sound for the city of Detroit. The strategy plays on the city's strengths. Detroit has a weak property tax base making the very high tax rate unproductive. The income tax base is very productive because of the high income of workers in the office buildings. This strategy exports some of the tax burden to nonresidents coming into the city to pay for government services they consume as commuters.

Similarly, the lack of affordable housing extends beyond Detroit's borders. Increasing the supply of housing in the city will benefit the entire region.

However, this strategy does not directly benefit residents of the other governments property tax revenues are abated as part of Detroit's economic development strategy. In Michigan, local-option income taxes are available only to cities. Neither the library, county, art museum, nor zoo may levy income taxes.

Detroit is abating its property taxes to yield these benefits, but it also is abating property taxes of these other governments. The Detroit general purpose operating millage constitutes only 22.5 percent of the total property tax burden levied on Detroit properties, but the strategy is designed for the city to reap the majority of the benefits.

Finally, the strategy appears to promote the redevelopment of existing structures to the extent possible. For all of the high-profile packages that have been in the news recently, the majority of abatements granted have been for the redevelopment of commercial buildings.

Detroit cannot compete on an even footing with surrounding communities as it relates to the cost of development commercial space for businesses. The cost to developers of bringing infrastructure and utilities to a greenfield and developing in a vacant space is less than what they face in Detroit. In some cases, contamination needs to be remediated. Work may be necessary to ensure that buildings that have been vacant are structurally sound. Older buildings may need to be retrofitted to meet the electronic needs of business machines, computers, printers, and Wi-Fi, as well as adapting the heating and cooling infrastructure to that of a modern HVAC systems.

Reforms and Improvements

Regardless of the city's approach to maintaining or phasing down the use of tax abatements, the process can be improved by altering the process as requested abatements are being vetted and more diligently engaging in post-abatement analysis.

Lessons from Other Cities

Few cities utilize tax abatements as frequently as Detroit has recently, so examples that Detroit can benefit from are few.

The City of Philadelphia, Pennsylvania, offered a ten-year tax abatement on new construction of residential homes and partial abatements for rehabbed homes. The land and the improvements on the land – the structures – are valued separately, so the abatement required homeowners to pay taxes only on the value of the land for ten years. They were not taxed on the building. Homeowners that rehabbed their properties were taxed on the value of the home before any upgrades for ten years. They were not taxed on the values after improvements.

The city ordinance was amended so that the full abatement was not enjoyed for the full ten years. Homeowners who applied after 2021, would only receive the full 100 percent tax abatement during the first year; thereafter, the abatement would decrease by 10 percent each year until the program was phased out entirely at the end of the tenth year.[13] The change to the abatement law was paired with a new construction tax, the revenues from the two were expected to raise revenues to back the issuance of a bond to support affordable housing, small businesses, and commercial corridor revitalization.[14]

The City of Cleveland, Ohio, provides tax abatements to eliminate or reduce the increase in taxable value resulting from new construction, renovation, or rehabilitation of existing housing units, or other housing improvements, such as additions.

In 2020, the city commissioned a study of its tax abatement policy and its impacts throughout the city to coincide with a sunset on the city ordinance. Based on that study, in 2022, it adopted six recommendations, to 1) geographically differentiate and target tax abatements by neighborhood type; 2) to make affordable housing eligible for tax abatements anywhere in the city; 3) to place a cap on a tax abatement for single family developments, limiting the abatement to the first portion of new taxable value; 4) to require community benefit agreements for multi-family developments to include contracting opportunities for minority, women, and Cleveland-based contractors, to include affordable housing set-asides, and to include voluntary payment-in-lieu of affordable housing set-asides; 5) to continue the city's Green Building Standard requirements; and 6) to include a grace period for the first 18 month to minimize the affect on existing projects.

The City of St. Louis, Missouri, provides ten-year tax abatements to facilitate improvements in Redevelopment Areas. A reform effort initiated in 2016 based on findings from a Washington University[15] attempted to bring more structure to their use and extend the benefits beyond the Central Corridor and to more diligently employ more nuanced data analysis of the "but for" test to decide when and where to provide tax abatements.

13 Greenberg Traurig, LLP., *Philadelphia City Council Approves Changes to Tax Abatement Programs and Imposes Residential Construction Tax*, December 24, 2020, https://www.gtlaw.com/en/insights/2020/12/philadelphia-city-council-approves-changes-tax-abatement-programs-residential-construction-tax

14 The Philadelphia Tribune, *Legislators pass changes to 10-year tax abatement, impose new construction tax; send bills to Kenney*, December 10, 2020, https://www.phillytrib.com/news/local_news/legislators-pass-changes-to-10-year-tax-abatement-impose-new-construction-tax-send-bills-to/article_530ba613-c56c-5e85-a899-82fc5f77b68e.html

15 Center for Social Development, George Warren Bown School of Social Work in Washington University, *Tax Abatement in Saint Louis: Reform Could Foster Equitable Development*, CSD Policy Brief 16-21, June 2016, https://openscholarship.wustl.edu/cgi/viewcontent.cgi?article=1804&context=csd_research

Lessons. The role that tax abatements are playing in aiding Detroit's recovery and the process that DEGC uses to analyze the need for tax incentives to make proposed projects work set Detroit at the forefront among many cities. The notable reform in St. Louis, strengthened to use of data to examine the "but for" testing used to decide where and when to provide tax abatements, merely brought that process in line with what currently happens in Detroit.

In two of the cities in which reforms have been adopted, the abatement programs focused on residential housing. Philadelphia decided that tax abatements were not helping the city achieve the level of affordable housing needed to meet demand, so it backed off of tax incentives for new and rehab work to support affordable housing, small businesses, and commercial corridor revitalization. Cleveland used a sunset provision in the tax abatement ordinance to examine current practices and uses. Based on that study it has attempted to use tax policy to target development to specific areas of the city and on affordable housing. It aimed to ensure that construction of multi-family housing benefits certain populations and the city generally.

The lesson for Detroit is to decide what the city hopes to accomplish and take time to examine if that goal is being met. Instituting sunsets into economic development policies can create artificial deadlines to force reexamination of current policies.

The city has fallen far and has many needs, but that will change over time. Will it want to continue focused efforts on downtown to revitalize the use of existing commercial buildings or pivot to other geographic parts of the city and other economic uses? The housing needs are many, but should multi-family housing be incentivized over single family homes?

It is useful for the city to periodically reexamine what goals are incorporated into the "but for" analyses.

Refine Detroit's Tax Abatement Policy

The city should aim to improve transparency for businesses and developers considering a location in Detroit and for residents to better understand the goals pursued when the city offers tax incentives with a more overt declaration of the city's economic development policies. The city's economic development plans and strategic initiatives are hinted at on the DEGC website, but not clearly enumerated on the city's own website.

DEGC weighs all requests for tax incentives against the city's economic development and strategic initiatives objectives. Recipients of tax incentives should demonstrate that the investment will create employment opportunities for Detroit residents, include the development of affordable housing, include development of underutilized land, create at least 50 new full-time jobs, and generate new property and income taxes for the City of Detroit. The developers must commit to working with Detroit at Work to attract and hire Detroit residents. In the end, the new development must enhance the city's net fiscal position by increasing tax revenues without creating more spending pressures.

Other economic development objectives not directly related to tax incentives could include bolstering entrepreneurship, enhancing the city's talent pool, and playing to the city's strengths. This could include improving clusters, such as businesses capitalizing on Detroit's concentration of health care centers, the international trade facilitated by Detroit's role in international trade with Canada, and the nascent entrepreneurship ecosystem developing around TechTown, New Lab, and the redeveloped train station.

Pre-Abatement Analyses

Part of Detroit's problem with the granting of tax abatements is transparency. Companies approach, or are recruited by, the DEGC about locating in the city. In the interest of protecting company secrets, work happens behind the scenes to understand the amount of the proposed investment and the case for public participation. Only after a great deal of work goes into the process is city council and the public engaged in the process.

Their involvement comes too late. Representatives of the city council and residents generally could be involved more directly and earlier in economic development.

Residents could be provided seats on the various quasi-public authorities administered by the DEGC. DEGC services the Detroit Brownfield Redevelopment Authority (DBRA), Detroit Next Michigan Development Corporation (DNMDC), Downtown Development Authority (DDA), Eight-Mile Woodward Corridor Improvement Authority (EMWCIA), Local Development Finance Authority (LDFA) and Neighborhood Development Corporation (NDC). Each entity, while serviced by DEGC, has its own board. Between these six entities, there are 66 board seats.

Generally, per state law, these board seats are appointed by the mayor subject to consent by the city council. For a number of these entities, there are requirements for who may be selected. The LDFA Act prescribes that a majority of board members be property owners in the downtown and that at least one member resides downtown.[16] Less formally, there are seats apportioned for city council to nominate and for community members. These formal and informal rules aside, state law, for the most part, does not prescribe the process by which the mayor or city council may select someone to be nominated for appointment. Here, the mayor and city council could be intentional to ensure that one-third of nominees to the boards of its various economic development entities represent the general concerned public.

Post-Abatement Analyses

The city should be more diligent in performing post-abatement analyses to evaluate past tax abatements and guide future requests. Tax abatements in Detroit are justified because a) taxes are reduced for a relatively short period of time and the taxing jurisdictions benefit from the expanded tax base when the abatement expires, and, b) the city stands to benefit from income tax revenue growth and tertiary investments tied to the abated business. While both make sense on paper, the city cannot know that reality is matching theory without tracking results.

16 Public Act 57 of 2018

Responsibility. Responsibility for post-abatement analysis could be placed in the DEGC, the Housing and Revitalization Department (HRD), the Department of Civil Rights, Inclusion, and Opportunity (CRIO), the Office of the Chief Financial Officer (OCFO), or city council Legislative Policy Division (LPD). Each option has pros and cons.

HRD works to ensure that housing and neighborhoods are high quality, affordable, and accessible to and for all Detroiters. As such, it has the greatest interest in the performance of NEZs.

CRIO is charged with monitoring the city's activities and investments to insure they result in opportunities for inclusion. The department monitors compliance with community benefit ordinance obligations and the Detroit residency of workers on construction projects.

OCFO does not normally engage in activities of this sort, but it is the keeper of much of the data that will be used to evaluate the results tax abatements. The property tax assessor works in the OCFO. OCFO is responsible for collecting taxes – including property taxes and income taxes. The office will have information to determine whether properties close to the abated property appreciated in value and if there were tertiary gains in employment that can be related to the abated property.

DEGC is responsible for most economic development actions on the city's behalf. It is the party responsible for negotiating abatements and reviewing documents submitted by businesses to justify the need for public participation in the developments.

On the other hand, without inferring anything nefarious of current or future DEGC staff, placing responsibility with DEGC with a bit of charging the fox with guarding the henhouse. DEGC's recommendations lead to millions of dollars of benefits. The responsibility would be best served by having departments and personnel not directly responsible for making the recommendations monitoring the outcomes of the investments.

Both the DEGC and the OCFO report to the mayor and might have an interest in data supporting executive decisions. Because LPD is answerable to city council, vesting responsibilities for post-abatement analysis there would provide a heightened level of checks and balances. While LPD does not currently engage in this type of analysis, staff with general analytical skills to assessments of abatement are generally hired to LPD.

As the goals of the different types of tax abatements differ – NEZs promoting housing opportunities, IFEs promoting job creation, and rehabilitation of dilapidated commercial buildings promoted by OPRAs, CRAs, and CREs – responsibility for collecting and analyzing data could be shared among several departments.

Reporting Requirements. In addition to determining responsibilities, it is important to establish how monitoring will be executed. Expectations for businesses and developers to report the required data, when it is not otherwise collected by the city, should be included in the abatement agreements. The language should include means for the city to enforce the reporting requirements.

Data System. It is recommended that the city should create an integrated data system that tracks the number of abatements and incentives approved by City Council on a yearly basis. The integrated data system should include pertinent information for tracking and monitoring tax abatements and tax incentives, such as

- tax recipient name and address
- type of abatement/incentive
- duration of abatement/incentive
- project investment amount
- actual investment amount
- total value of abatement/incentive
- projected number of new full-time equivalent jobs
- actual number of full-time equivalent jobs
- actual number of full-time equivalent jobs filled by Detroiters
- projected number of construction jobs
- actual number of construction jobs
- actual number of construction jobs filled by Detroiters

Access to the integrated data system should be provided to staff in DEGC, OFCO, HRD, CRIO, and City Council and its Legislative Policy Division.

The departments may need additional staffing and resources to execute this responsibility.

Responsibility in the City Council for hearing from those charged with monitoring should be clearly laid out – either with the Planning and Economic Development Standing Committee or a subcommittee therein.

The data collected during the periods during which tax abatements are received would enhance the city's ability to build claw back provisions into the abatement agreements. Claw back provisions enable the city to recoup the value of abated property tax revenue if the developers and businesses fail to fulfill their projections of how many jobs will be located in the building, how many of those will be new to the city, how much those workers will earn, the expected value of the building, and so on. Under current circumstances, the city does not have an institutional method of monitoring the activities in the properties while the abatements are being utilized or afterward. Claw back provisions built into the agreements enable the city to alter the tax abatements mid-stream to reflect the changing use of the building.

It would enable the city to monitor the effectiveness of tax abatements and evertually set a path to scaling back their use.

Alternative Economic Development Strategies

City leaders could consider several alternative strategies for making the city more competitive and lessening its reliance on tax incentives to attract and retain businesses. Some options would address the mechanics of economic development, altering the length and/or duration of tax abatements (subject to statutory change) or funding economic development in different ways. Other options would aim to lessen the cost of locating in the city for all businesses and residents, thus lessening the need to engage in targeted economic development.

Alternative approaches could be implemented. The city could alter its approach to economic development spending by bringing business attraction subsidy outlays into the city's annual budget. It can engage in changes to make Detroit more competitive with neighboring Southeast Michigan communities and other major Midwest cities. Additionally, it can continue to leverage its competitive advantages and support of young innovative businesses to nurture the major businesses of tomorrow.

On-Budget Economic Development

For all that is wrong with tax abatements – specifically, casting government in the role of intervening in the market – providing tax-favored benefits to select firms does not directly cost governments any money. Pursuant to the "but for" analysis – that the development would not occur but for the incentive – the tax abatement granting governments are exchanging unused land and/or buildings with little taxable value for a productive use of the land and buildings. Future tax revenue is diminished by foregoing for a limited time taxes generated by the increased property value attributed to development, but the nominal amount of public resources in the city, village, township, or county coffers are not diminished.

The removal of "spending" decisions from the budgetary process and the checks and balances of municipal government is one of the major philosophical criticisms of the economic development tools that provide tax preferences to a select project or purpose. City council must act on the recommendations of the DEGC for abatements to be granted, but the hearings and review of recommendations occur in processes removed from the budget process. The allocation of tax resources through these programs does not weigh the benefits of tax expenditures against other city goals of promoting the public safety, health, and welfare of the residents.

The State of Michigan has changed its approach to economic development policy by shifting from tax incentives to direct appropriations to an economic development fund with resources that can be drawn down to support business attraction and retention activities.

In 1995, the state created the Michigan Economic Growth Authority[17] and empowered it to provide tax credits to offset liability from the state's Single Business Tax (SBT) and income tax. It was targeted at large-scale business investment, as well as the attraction of technology-intensive businesses. The objective was to attract major investments. Tax credits were available to in-state businesses proposing to create and retain at least 75 full-time, in-state jobs over and above their in-state pre-application employment-level. Out-of-state businesses had to create and retain 150 full-time, in-state jobs over the term of the MEGA-tax credit.

Use of MEGA-tax credits waned with the state's repeal of the Single Business Tax and transition to the Michigan Business Tax and eventually a corporate income tax. The corporate income tax, calculated on a smaller tax base than the Single Business Tax, provided tax relief to all business taxpayers even without the need for tax credits.

Recently, as state officials witnessed major projects sited out-of-state, like Ford Motor Company's decision to locate a new plant in Kentucky, the Strategic Outreach and Attraction Reserve (SOAR) Fund was created to provide financial incentives to attract or retain businesses.[18] SOAR is comprised of two subfunds: the Critical Industries Program (CIP)[19], and

17 Public Act 24 of 1995
18 Public Act 137 of 2021
19 Public Act 136 of 2021

the Strategic Site Readiness Program (SSRP)[20].

This approach to economic development policy uses direct expenditure, to be decided via annual appropriations processes rather than tax incentives, which are not allocated as part of the budget process nor weighed against other potential uses of city resources.

The city council currently is involved in approval of all tax incentives. The process of vetting potential projects and bringing the proposals to council at the end for final approval has left some feeling that the projects were so far down the road that push back, or changes are difficult. The benefits of following a process with economic development project costs built into the city budget would be to place the city council more directly involved in economic development decisions. Decisions on the use of scarce resources would be more overt, weighing the benefits of economic development incentives against the cost of additional police officers and fire fighters, park improvements, and other city costs.

On the other hand, it would add an item to the budget when the city arguably has insufficient resources to provide the services expected of it already. Whereas tax abatements diminish future tax revenues, this approach to economic development employs collected tax revenues to attract new development.

Make the Mechanics of Abatements Flexible

Since the time industrial tax abatements were first authorized in state law, the general approach has been to reduce the tax burden by roughly half of the normal tax rate for a maximum of 12 years. Cities currently have the latitude to provide abatements for less than 12 years to fit the amount of incentive needed to make the investment worthwhile to the developers, but they do not have latitude with how the tax bases are frozen or the tax rates applied in lieu of the normal property tax rates.

State policymakers could consider amendments to the laws to make both the duration and tax rates variable. Shorter durations with deeper tax rate reductions would allow the governments to benefit from the developments sooner. Lengthening the period of time over which the tax incentive is received with less tax rate reduction would lessen the impact on the taxing jurisdictions. The taxing jurisdictions would receive more tax revenue during the abatement period, helping them to provide government services.

Generally, the total amount of the tax incentive is determined to provide financial relief equal to a certain percentage of the projected cost of the development. The tax incentives Detroit granted from 2017 to 2023 ranged from four percent to more than 60 percent of the proposed investments, but generally averaged about 11 percent of the investments. Whether developers are receiving tax incentives in the earliest stages of property development or spread over longer periods, it can be expected that they will look for the same amount of government partnership to defray costs.

Changes of this nature would require statutory changes to the authorizing acts.

Paperwork Tax Cut

Federal law, the Internal Revenue Code, state law and regulations, and city licensure and regulations can make business difficult for small- and medium-sized companies. The city should reduce its contributions to that difficulty as much as possible.

There was already a laudable effort by the city to reduce license and other requirements in 2018 and 2019. Why is this pertinent to economic development policy? License and other requirements cost money and time. First, the license itself costs money. Second, there is the time expended to file applications, wait, perhaps remediate errors in applications or answer questions and wait some more. There may be additional cost for a business to discern what rules they must comply with exactly; it may require the expense of a lawyer and/or accountant. The cost of licensure both in terms of money and time can be summarized as a paperwork tax, and this paperwork tax, like the property tax is likely to fall heaviest on the city's poorer Black residents.

20 Public Act 134 of 2021

The city should continue to ensure the health and welfare of its citizenry but find opportunities to streamline the bureaucracy, reduce the amount of paperwork businesses need to process when locating in the city, and send the message that Detroit is open for business. Small businesses are often started by people with little money and far less sophistication than major enterprises, so even small impediments such a business license application can have an outsized effect on entrepreneurship.

Policies that support small business may also address inequalities between White and Black residents and Detroit residents and non-residents. Because the city is 78 percent Black, the beneficiaries of its policies to support small businesses are likely to be Black residents. The city can correct for its shortfall in Black-owned businesses relative to the U.S. overall yet refrain from race-based policies that have recently come into disfavor by the Supreme Court.[21]

Finally, just as a paperwork burden is imposed on small- and medium-sized businesses, major enterprises are affected as well. Most notably, those supported by public subsidy, are subject to the community benefit agreement (CBA) process. City leaders must recognize that CBAs impose additional costs on businesses and developers at the same time they are coming to the city seeking financial assistance because the cost of locating in the city is higher than debt service and rates of return would suggest is prudent. Reconsideration of this requirement is in order.

Property Tax Reform Options

Detroit's current tax abatement approach to economic development is inefficient and its long-term effectiveness uncertain. The application process requires businesses to work to be eligible for abatements and then hope to meet the expectations of elected officials and the city's bureaucracy. In relying on tax abatements to lower the cost for some, the city is artificially imposing higher costs on residents and other businesses that do not have the benefit of abatements.

21 See S*tudents for Fair Admissions, Inc. v. University of North Carolina and Students for Fair Admissions, Inc. v. President & Fellows of Harvard College*

Inefficiency and unfairness with respect to its businesses hardly speaks to inefficiency and unfairness in its taxation of residents. There are those residents who reside within either Renaissance Zones or Neighborhood Enterprise Zones, each confers tax relief to property owners within those zones, otherwise everyone else must bear tax rates far above those of comparative jurisdictions while their personal incomes are comparatively lower.

City tax policy is more than just inefficient and unfair, however. The city's tax policy is also counterproductive to the mission to increase population. Between 1950 and 2000, Detroit suffered population loss of nearly 900,000 people, or almost half the residents. People left for many reasons, but the high tax burden was a contributing factor. In the two decades that followed, Detroit carried out mass tax foreclosures. Between 2010 and 2020, the city more than 130,000 homes were foreclosed for unpaid property taxes.[22] The city, which so needed people, forced many of them from their homes. The city, desperate to enjoy the revenues, levies what are relatively levels of taxation on a much poorer tax base.

To lessen its use of tax abatement, the city could make tax abatements less necessary. It could do so by lowering the property tax rate and making itself less reliant on property tax revenue. There are multiple paths to property tax rate reduction. Tax rate reduction is a fairer approach to tax relief, and its benefits will be more broadly experienced by businesses and residents alike compared to individual award of tax abatement.

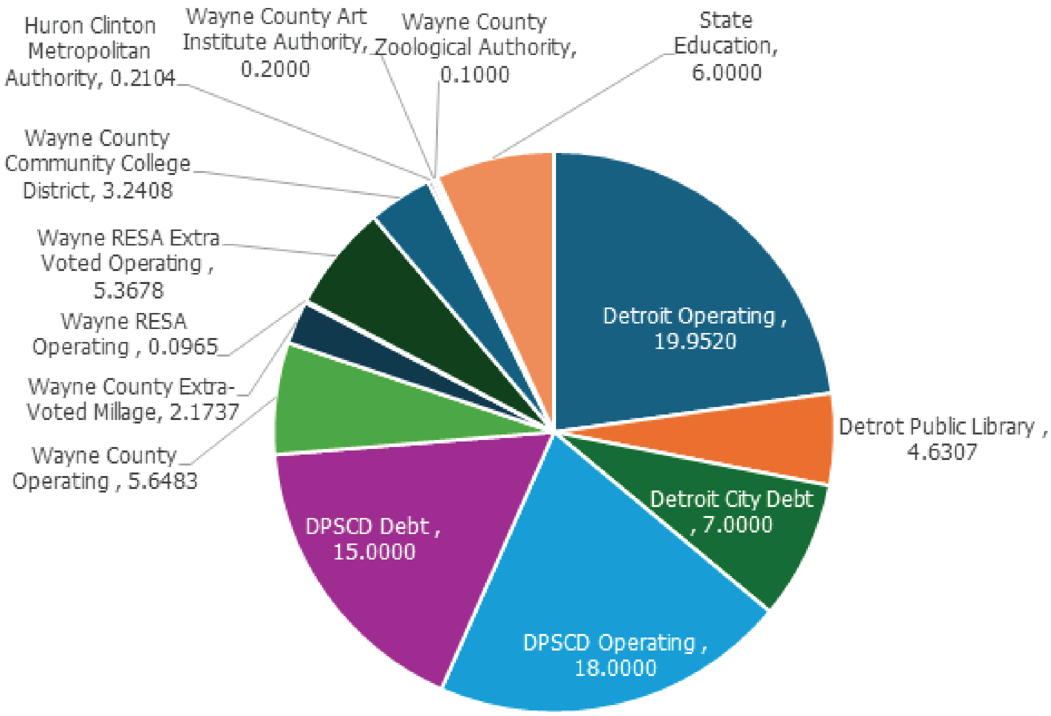
Of course, as noted above, Detroit businesses and residents are subject to more than just city taxes (see **Chart 20**). Even if Detroit eliminated its property tax (19.9520 of 86.6 mills in 2022), it would reduce the total levy by just under a quarter, 23.1 percent. Residents that reside in the home that they own are able to claim a principal residents exemption that lessens their tax bills by the 18 mills levied for school operations (68.6 mills in 2022).

22 Wayne County Treasurer, Forfeited Property List with Interested Parties, https://www.waynecounty.com/elected/treasurer/forfeited-property-list.aspx

Chart 20

Property Tax Rates Applied to Detroit Properties, 2024

Tax rate shown in mills (a mill is $1 of tax for every $1,000 of taxable value)



Source: Wayne County Department of Equalization

City Operating Millage Rate Reduction

One option is to provide across-the-board cuts to the city's operating tax. The city could shed 10 mills from the current 19.9520 mills rate to cut the tax rate to 9.9520 mills. Under a phased-in approach, the tax rate could be lowered by two mills each year for five years.

One might assume that a significant reduction in the property tax rate would increase the market value of the existing housing stock and create increased interest in families and developers building new houses. Attempts to estimate how such a change would grow the property tax base were beyond the scope of this study. **Table 7** estimates revenue losses incurred from this phased-in approach to tax relief, as if taxes rates were phased down from FY2025 to FY2029. Revenue projections at the current tax rate are the city's estimates, informed by the University Economic Analysis Partnership's (UEAP) projections of economic trends.[23] They are based on tax collections net the exemption of personal income, tax abatement, and revenues captured via tax increment financing (TIF).

The current 19.9520 mill rate is projected to yield $130.1 million in FY2025, thus each mill yields about $6.5 million. Therefore, a two-mill rate decrease in year one would result in a ten percent decrease in property tax revenue (see **Table 7**).

23 City of Detroit, Office of Chief Financial Officer, Revenue and Economic Reports, https://detroitmi.gov/departments/office-chief-financial-officer/ocfo-divisions/office-budget/revenue-and-economic-reports

Table 7
Effect of Tax Rate Cut Phase Down Proposal on Detroit Property Tax Revenues
(Dollars in millions)

	Current Projections		Tax Cut Projections		
	Tax Rate	Tax Revenue	Tax Rate	Tax Revenue	Revenue loss
FY2025	19.952	$130.1	17.952	$117.1	$ (13.0)
FY2026	19.952	133.7	15.952	106.9	(26.8)
FY2027	19.952	137.4	13.952	96.1	(41.3)
FY2028	19.952	140.9	11.952	84.4	(56.5)
FY2029	19.952	144.1	9.952	72.0	(72.1)
					$ (209.7)

Detroit would collect $209.7 million less in revenue across FY2025 to FY2029.

Assuming that all other tax levies would remain unchanged, a 10-mill reduction of the tax rate would reduce the city's property tax rate to 77.6 mills. This would still be among the higher total tax rates applied to property owners in Michigan (see Table 3 on page _), but it would make the city more competitive. Even completely eliminating the 19.95 mill tax would leave the city on the high end of total tax rates applied to property owners.

Library Millage

If completely eliminating the city's property tax would still leave Detroit on the high end of total property tax rates in Michigan, what else can be done? One option is to make changes to the governance and revenue raising for the Detroit Public Library (DPL).

DPL is unique in its taxing authority among libraries in Michigan. Many city libraries are established by city councils under Public Act 164 of 1877 as amended, which provides mayors, with the approval of city councils, the authority to appoint the boards of city libraries. DPL, however, operates as an independent municipal corporation separate from the city.[24]

Being a separate entity comes with costs and inefficiencies. Back office administrative tasks are performed independent of the city bureaucracy. Maintenance and upkeep of the building is performed independent of workers performing similar tasks on city properties. It may be possible to reduce costs and capitalize on the city's relatively strong income tax revenues by making the City of Detroit responsible for funding and operations of DPL.

The Detroit Public Library has a unique legal authority among libraries in Michigan. The City of Detroit bears primary financial responsibility for the library, with property and other taxes accounting for nearly 89 percent of the library's FY2023 revenue. The 4.63 mills levied to support the library is applied to all Detroit properties.

Communities throughout Southeast Michigan operate libraries, either independently or in collaboration with a neighboring community. Most of the larger cities levy a standalone tax for their libraries, but some, like the City of Sterling Heights, fund library operations from the city general funds. Among the larger cities in Southeast Michigan, the Detroit Public Library millage rate stands out as the highest. Other than Southfield and Warren, the DPL tax is far higher than the tax rates for libraries levied in the other cities (see **Table 8**).

For finance and governance of the Detroit Public Library to change, the Michigan Legislature, in charge of the education system, must take the necessary steps to eliminate property taxes from the DPL budget. Because of nuance in state law, this would include revoking the Detroit Board of Education's authorization to defer governance of the public library to a board of commissioners. enacting a requirement for Detroit to provide funding to the public library, amending Special Act 70 of 1842 to properly establish the Detroit Public Library as a "city library," rather than a "district library" established by the Detroit Board of Education.

Debt Millage

The city and school district debt levies set tax rates

24 Citizens Research Council of Michigan, *The Taxing Authority of the Detroit Public Library*, unnumbered Memo, October 1990, https://crcmich.org/publications/the-taxing-authority-of-the-detroit-public-library

Table 8

General Operating and Library Millages of Select Southeast Michigan Cities, 2023

	City General Operating Millage Rate(s)	Library Millage Rate(s)	Total
Detroit	19.9520	4.6307	24.5827
Allen Park	17.5562	0.8300	18.3862
Dearborn	22.3600	0.5400	22.9000
Farmington Hills	16.5195	1.4742	17.9937
Livonia	16.1472	0.7939	16.9411
Novi	9.4602	1.0774	10.5376
Southfield	21.7498	2.7655	24.5153
Sterling Heights	16.3800	N/A	16.3800
Troy	8.8170	1.7096	10.5266
Warren	23.5098	3.5815	27.0913
Westland	17.5792	1.7474	19.3266

Source: Tax Rate Request forms: https://www.michigan.gov/taxes/property/estimator/rates/form-614-l-4029-tax-rate-requests

in Detroit higher than many of the surrounding communities. The seven mills Detroit currently levies to pay the principal and interest on bonded indebtedness contributes eight percent of the total tax bill. The Detroit Public Schools Community District debt levy adds another 17 percent of the total. The city can only control its own debt policy. In the interest of competitiveness, that policy should be to continue retiring existing debt and reducing the debt levy as much as is possible and reasonable.

Revenue Replacement

Property and paperwork tax reductions should be considered as opportunities to diminish the cost to do business in the city. They would provide tax relief to residents, and to make the city a more attractive place to live, work, and play. There are the attendant revenue losses from lower taxes to consider, however.

Residents and businesses depend on the city to provide a wide range of services including public safety, public transportation, refuse collection, parks and recreation, maintaining sidewalks and streetscapes, and many other services. Resources are needed to provide these services, and some minimal level of funding is needed to make these services assets that enhance the quality of life in the city. The city cannot spend more than it has or will receive from taxes and other revenues. To ensure the sustainability of these city services, recurring expenditures must be supported by recurring revenues.

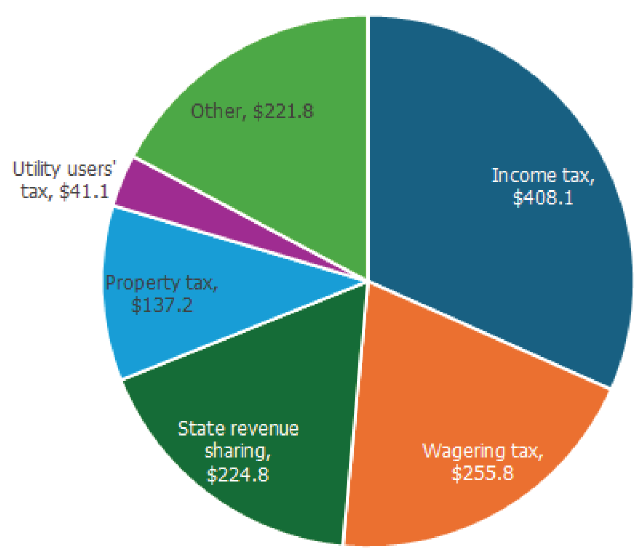
Income Tax Revenue. What was once considered a detriment to the city may now be a benefit. Unlike those suburbs and exurbs that are nearly wholly reliant on property tax revenue, Detroit collects a city income tax.

With proper planning, what the city loses in property tax may potentially be made up for with income tax revenues. This was the city's plan coming out of bankruptcy, to leverage opportunities such as property tax abatements to enhance income tax revenues. Indeed, it is part of DEGC's cost-benefit analyses when assessing the net fiscal impact of proposed abatements.

Chart 21

Detroit General Fund Revenue by Source, FY2022

(Dollars in millions)



Source: City of Detroit Annual Financial Report

Detroit's Income Tax once was Considered a Detriment

Detroit is one of only 24 cities in Michigan that levy a city income tax, and it does so at rates higher than any other city is authorized to levy. The high rates on resident and non-resident taxpayers were seen as a detriment to live or work in the city and efforts were made to lower the rates. As part of 1998 efforts to reform state revenue sharing to all municipalities, a companion bill[1] provided for a phased reduction of the income tax rates from three percent to two percent on residents and 1.5 percent to one percent on non-residents. The tax rate on residents was to reduce one-tenth of a percentage point per year for ten years; and the tax rate on non-resident taxpayers was to be reduced one-twentieth of a percentage point per year. The provisions included a safety valve to protect the city from statutory tax rate cuts if economic activity slowed and the city's revenues suffered. After several of the conditions were met in 2003, 2004, 2005, and 2006, rate reduction was halted, and the city's tax rates have remained unchanged since. On a full-year basis, each one-tenth of the percentage point of reduced rate resulted in a reduction in revenue of about $12 million.

1 1998 P.A. 500

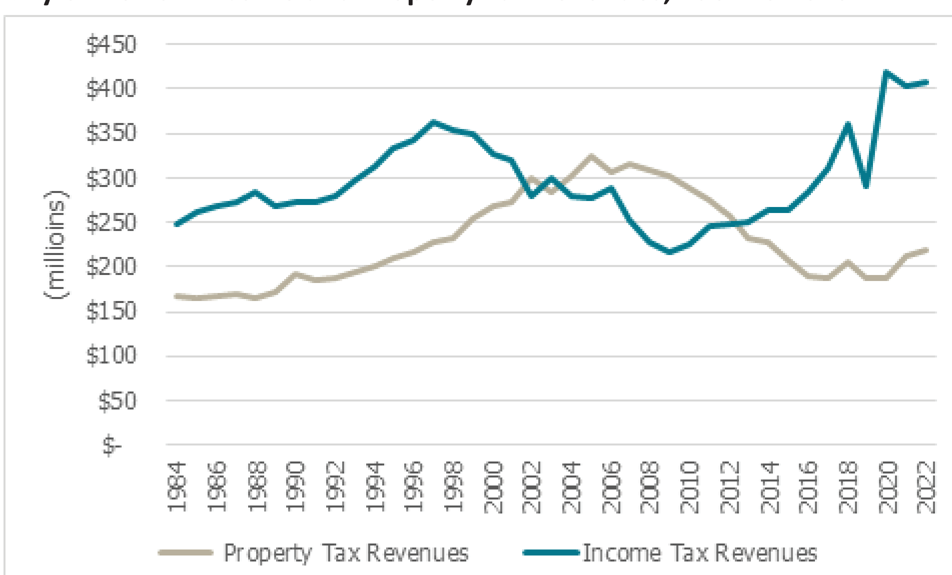
In FY2023, Detroit's General Fund revenues totaled $1.3 billion. Of that, $1.1 billion (82.8 percent) comes from the city's five major revenues sources (see **Chart 21**). More than half of the city's revenues come from income (32 percent) and wagering (20 percent) taxes. Property tax revenue comprised only $137.2 million (10.6 percent) of General Fund revenue. It has been a diminishing source of revenue for many years.

The more people have jobs, the more people earn incomes that are taxed. Continued efforts to make Detroit more competitive, to attract families to reside in the city and to attract employers to locate businesses in the city will continue to enhance city income tax revenues. Those revenues will support city services, to further enhance the quality of life in the city and enable reductions of the rates for taxes that deter people and businesses from locating in the city.

Property tax revenue has become comparably less important over time as the residential property tax base diminishes. In FY2013, the General Fund received $132.8 million in property tax revenue and received $137.2 million in FY2023 – a $4.4 million (or 3.3 percent) increase (see **Chart 22**). An already anemic 3.3 percent nominal increase in property tax revenue turns into a 20.9 percent across those 11 fiscal years on an inflation-adjusted basis.

On the other hand, income tax revenue increased by 25.9 percent on an inflation-adjusted basis. Over the same timeframe, where on an inflation-adjusted basis property tax revenue fell by $36.3 million, income tax revenue rose by $84 million. Gains in income tax may be used as a predicate to lower the property tax rate.

Chart 22
City of Detroit Income and Property Tax Revenues, 1984 to 2023



Source: various City of Detroit annual financial statements.

Amusement Tax Revenue. Local governments in Michigan may levy only those taxes authorized by state law. Relative to many other states, Michigan local governments have very few options.[25] An amusement tax is one option that would recognize the burden that hub cities such as Detroit, Grand Rapids, Lansing, Flint, and Saginaw play above most others. These cities are employment hubs for their surrounding areas, but they also are hosts to entertainment venues visited by residents through the respected areas.

The revenue from an amusement tax could allow the city to appropriately spread costs among the users of its services, it could also be a means to provide tax relief to Detroit residents. The revenue from an amusement tax, as derived from LPD's analysis, would be sufficient to offset revenue losses from a one to two-mill cut to the property tax rate. Ultimately, irrespective of what the city does with the revenue, the fact that its arts and culture, sports and entertainment, will be a revenue source will provide the city greater motivation to invest in those things that make it a safe and enjoyable place to live, work, and play.[26]

Tertiary Competitiveness Improvements

Not only would property tax rate reduction reduce tax liabilities for current and prospective businesses, but it would also affect other costs related to site selection in the city. Among those costs are those created because the city requires community benefits agreements (CBAs) to be negotiated between developers and residents who live in the immediate area of a proposed development. CBAs are required for projects that either have a value of $75 million or more or receive a property tax abatement of $1 million or more or receive land transfers from the city valued at $1 million or more. Residents have secured affordable housing commitments and rehabilitated recreational facilities from developers from the CBA process. Efforts to make the city more competitive with lower taxes and otherwise may result in less need for tax abatement or land transfers, and thus eliminate excess compliance cost from CBAs.

Likewise, local hiring agreements mandate at least 51 percent of the workers on subsidized construction projects to be Detroit residents. This is a laudable policy, intended to ensure opportunities are available to Detroit residents—who via their tax dollars have supported a project, but the lack of residents trained to fulfill some of the available jobs adds compliance costs. Developers that do not meet all of the CBA requirements must pay a fee to the city. Efforts to make the city more competitive with lower taxes may result in less need for tax abatement and other public support, and the attendant compliance scheme that comes with public support.

Lastly, Detroit continues to deal with abandoned properties. Some of the eyesores bemoaned by residents have resulted from property owners being unable to afford property taxes. While Detroit properties have become more attractive, the Detroit Land Bank Authority (DLBA) remains the majority holder of this vacant land, unable to dispense with property as quickly as it acquires it. For some who have purchased DLBA properties, they fall behind on taxes after the cost renovations required of derelict properties are completed. Then those same properties are subject to tax foreclosure.

Efforts to make the city more competitive with lower taxes should lessen the need for benefits and the role of community benefit agreements, lessen the latitude for the city to mandate hiring city residents, and lessen the number of residents taxed out of their homes. It should encourage home ownership and in doing so strengthen ties between communities.

25 See Citizens Research Council of Michigan, *Diversifying Local-Source Revenue Options in Michigan*, Report 399, February 2018, https://crcmich.org/publications/diversifying-local-source-revenue-options-in-michigan

26 See Citizens Research Council of Michigan, *Amusement Tax Revenue Could Offset Revenue Losses from a Property Tax Cut*, February 15, 2024, https://crcmich.org/amusement-tax-revenue-could-offset-revenue-losses-from-a-property-tax-cut

Accentuate Detroit's Competitive Advantages

Detroit has advantages over many other communities in Michigan and in surrounding states. These advantages speak to why, despite all those disadvantages, people still choose to live, work, and play in the city. The city's economy and economic development policy can be bettered by continuing to address its disadvantages, notably on a broader basis than is currently done, and by more intensively investing in its advantages.

Cities, despite their disadvantages – scattered parcels of untitled land, costs to build, and crime, for example – have advantages. Four main advantages of the inner city offer paths to build upon: strategic location, local market demand, integration with regional clusters, and human resources. These competitive advantages are a predicate for which different economic development policies may be implemented.[27]

Market size

Detroit's per capita personal income is ranked 202nd out of the 208 jurisdictions within Detroit MSA. Per capita income in Detroit is just $22,861, or nearly half of the average of jurisdictions in Southeast Michigan ($44,968). However, in terms of total area income (population × per capita income), Detroit presents a strong market. Total area income in Detroit is $14.6 billion (as of 2022). In second place is Canton Township, with a total area income of $4.8 billion—one-third of the Detroit total market. Total area income in Detroit exceeds that of the bottom 99 jurisdictions within the Detroit MSA combined.[28] Detroit residents are far from the richest, but there are economic opportunities for entrepreneurs who can draw in city residents as customers.

Location and trade

Like many of America's major cities, Detroit was founded as a trade outpost and remains as such. In 2022, the Detroit MSA contributed $40.4 billion to the $2.1 trillion in goods exported by the United States. Of the 387 MSAs in the U.S., the Detroit MSA has consistently ranked within the top 20 in terms of contributions to the country's export of goods across 2005 to 2022.[29]

Far removed from the city's industrial heyday, goods are still manufactured in the city, and many of those manufactured goods are shipped overseas or driven across bridges and tunnels. Based on data from the U.S. Transportation Department for 2023, Detroit was ranked second behind Buffalo, New York in crossings into Canada. In 2023, there were 13.4 million crossings from Detroit, and 15.3 million from Buffalo. Out of the 28 years' worth of data provided by the Transportation Department, Detroit ranked first seven times, second 19 times, and third three times. Most recently, Detroit ranked number one in 2020 and 2021, and year-to-date is ranked number one in 2024.[30]

U.S.-Canada traffic from Detroit flows across the Detroit-Windsor Tunnel and Ambassador Bridge, with the majority traversing the bridge. The Detroit-based link between the two countries is especially import to commercial activity. If the same dataset from the Transportation Department referenced above is narrowed to trucks—a proxy for commercial activity—Detroit's primacy is made clear. Detroit has ranked first for the past 28 years. In 2023, there were 1.6 million truck crossings.

So important is Detroit as a strategic location for international trade that a second bridge crossing, the Gordie Howe International Bridge, is being constructed—with the Canadian government covering some of the cost. Construction started in 2018, and the bridge is expected to open in 2025. The second bridge, a third pathway from Detroit to Canada may further the city's primacy as a commercial pathway and may push Detroit to first place in terms of overall traffic.

27 Harvard Business Review, "The Competitive Advantage of the Inner City", Michael E. Porter, May–June 1995, https://hbr.org/1995/05/the-competitive-advantage-of-the-inner-city

28 American Community Survey, https://www.census.gov/programs-surveys/acs

29 International Trade Administration, Goods Exports from Metropolitan Statistical Areas, https://www.trade.gov/data-visualization/metropolitan-export-map

30 U.S. Transportation Department, Border Crossing Data, https://data.bts.gov/stories/s/Tables-Query-Tool/6rt4-smhh

To be so involved internationally would understandably be assumed to be the purview of the Secretary of State or U.S. Ambassador, but if the city wants to support its domestic businesses it must help them access international markets. Exports can have a positive effect on the profits of exporting businesses and on the wages of the employees of those exporting businesses. Shrinking the income and wealth inequality between Black and White residents, Detroit residents and non-residents necessitates competing globally. Detroit has a willing partner in increasing exporting activities among its local businesses should it decide to renew the partnership.

Partnership with International Trade Administration

The U.S. International Trade Administration's (ITA) mission is to "Create prosperity by strengthening the international competitiveness of U.S. industry, promoting trade and investment, and ensuring fair trade and compliance with trade laws and agreements." ITA's focus is to promote U.S. exports, attract inbound investment, provide actionable data and information, and defend against unfair trade. It has an office in Detroit. Given Detroit's importance to U.S. trade, specifically with Canada, DEGC and other elements of Detroit economic development apparatus should partner with the ITA to attract international businesses, and more importantly to support local businesses and their ability to export.

The ITA cooperates with states, counties, and cities on trade missions and other efforts to increase international trade. Previously DEGC has partnered with ITA, and ITA currently partners with Wayne State University (WSU) as a part of its TechTown, Goldman Sachs's 10,000 Small Businesses initiative, the Michigan Economic Development Corporation's (MEDC) international trade team. Collaboration has lapsed since the pandemic, however.

Collaboration between the city and ITA should be reconstituted and intensified. Most ITA programs offer technical assistance to domestic businesses on how to access international markets, and this how-to is sometimes all that is needed. For example, the ExportTech Program involves individual instruction for each participating business, assisting companies with designing and implementing export plans. The Single Location Promotion (SLP) Program involves ITA engagements with domestic businesses, who are assisted by ITA in planning promotional events for specific overseas markets. The benefit is the attracted investment for the participating businesses that is directed inward. Other programs, such as the State Trade Expansion Program (STEP) via the Small Business Administration provides grants to state and territorial governments so that those governments may then assist small businesses with developing exports. Each and every means by which the city may partner with the ITA and increase exporting activity should be undertaken.

Innovation and Entrepreneurship

At relatively low cost, Detroit should be laying the groundwork now to nurture and retain startup companies bringing innovative new products to market. Startup Genome recently wrote that Detroit is well situated to capitalize on a nascent home to innovation and entrepreneurial activities that will be the driver of future employment and investment. This starts with relatively inexpensive building space serving as incubators to develop their products. Detroit also offers relatively affordable housing and a relatively low cost of living.

Detroit has become a hub for Michigan universities. It offers not only the talent and expertise at Wayne State University and the University of Detroit, but also the outreach and extension efforts of Michigan State University and the University of Michigan. This is not unlike other major cities. What is fairly unique to Detroit is the concentration of engineers related to the auto industry.

Reflecting this, Startup Genome found that, "The result is an educated and experienced community of startup founders. Startup Genome's 2022 survey of 50 Detroit founders confirms this. The survey found that 88% of Detroit's founders had a business degree — higher than most U.S. peer ecosystems — and nearly half (46%) had previously founded a startup."[31]

31 Startup Genome, A Data-Driven Review of Detroit's Startup Ecosystem, https://startupgenome.com/article/a-data-driven-review-of-detroits-startup-ecosystem.

Many of the pieces are in place to welcome and nurture innovators. Invest Detroit is positioned to partner with the MEDC to provide capital for Michigan-based early-stage technology companies. Facilities operate or soon will operate for developers to work in, including TechTown Detroit, Newlab at Michigan Central Building, activities in and around Ford Motor Company's Michigan Central Innovation District Development, and soon to be opened University of Michigan Center for Innovation in Detroit.

Significantly, these facilities are not just serving outsiders looking for inexpensive places to develop and refine their ideas. They are helping upwardly mobile Detroiters build on their ideas. Efforts like Black Tech Saturdays at Newlab offer opportunities for Black tech founders, entrepreneurs, tech-savvy individuals, job seekers, resource providers, and eager residents to convene and build community.[32]

32 Newlab, Black Tech Saturdays is Building Community at Michigan Central, January 22, 2024, https://michigancentral.com/black-tech-saturdays-is-building-community-at-michigan-central/.

With these pieces in place, the focus for at least one arm of Detroit's economic development efforts needs to be retaining these young companies as they evolve from problem-solving, product development, market testing, and related activities to customer identification, business management, hiring and employee management, mentorship, and customer relations.

Neither the city nor DEGC need engage in these activities, but it is incumbent on them to partner with MEGC, Invest Detroit, the Detroit Regional Chamber of Commerce, Business Leaders for Michigan, the universities, and these facilities to ensure that those supports are in place and available.

These young companies are a major generator of new jobs. Rather than developing their ideas in Detroit and moving to other cities or states to take them to market, Detroit needs to partner with the various players to build the ecosystem is in place and the businesses and jobs stay in Detroit.

Conclusion

Detroit's economic future depends on its ability to compete for business attraction. Doing to will benefit the city's financial resources because of the income tax revenue that will be generated for workers and residents in the city and because of the recent trend of putting vacant, dilapidated structures back to productive use. A history of taxes levied at relatively high rates, high insurance costs, crime, aging infrastructure, and other factors have made this difficult in Detroit.

While past and present efforts attempt to make the city an attractive place to live and work for everyone, tax abatements make the city a viable option for individual developers and businesses on a piecemeal basis until enough reforms and growth happens to make the city competitive without government intervention.

Detroit is a frequent user of tax abatements. Between 2017 and 2023, Detroit facilitated 171 development projects by abating property from taxation for several years, an average of 24 abatements per year. While a pessimist might focus on $86.2 million a year of abatements granted (an average of $4.4 million per project), an optimist would focus on $7.5 billion of investments in the city over the past several years and the anticipation of more than 24,000 new jobs if expectations are met.

A tension exists because of the geographic location of the properties receiving abatements. Over the seven years examined, 93 percent of the abatements were in City Council districts 5 and 6 that cover downtown, midtown, and most of the riverfront. DEGC reports that this macro examination hides the changing tide with more than half of the abatements granted in 2023 located outside the greater downtown area. While true, by far the largest value of abatements and development they are attracting is within the greater downtown area.

This report suggests several reforms. The introduction of sunsets into the ordinances authorizing the use of sunsets would force intermittent examination of the use and results of abatements. The city can be more transparent to help everyone understand the goals, objectives, and policies related to abatements. An institutionalized post-abatement process for tracking abatements will facilitate the use of abatements and provide the data needed for future city leaders to scale back the use of abatements when the time is right.

Alongside those reforms, city leaders should focus on making the city more competitive by lessening the bureaucratic burden involved with interaction with city offices. More importantly, reduction of the city property tax burden should be a priority. Much of the total burden is outside of the purview of the city, but the city can control its part to put the total tax rate more on par with surrounding cities. The city's strategy of leaning into the income tax as a primary revenue source can enable this tactic.

Finally, in cost effective ways the city can accentuate its advantages. The city's market size is unparalleled in Michigan and has few rivals in the Midwest. The city's strategic location relative to Canada positions it to benefit from a focus on international trade. And, the city should be laying the groundwork now to nurture and retain startup companies bringing innovative new products to market. It will be more cost effective to help these companies grow from small to midsized to large businesses than to attract them from other places.

Appendix A

These are descriptions of the state laws that authorize tax abatements:

Industrial Facilities Property Tax Abatements

The industrial facilities tax abatement (IFE) provides property tax reductions for qualified (1) new developments, (2) expansions, or (3) rehabilitation efforts for industrial and high-technology purposes.2

Local units of government may establish plant rehabilitation districts and industrial development districts that consist of one or more parcels or tracts of land, or a portion of a parcel or tract.

Eligible businesses include industrial or high-technology business concerns that propose to expand existing operations or initiate new facilities. Businesses apply to the local unit for abatement approval, but the local unit must receive approval from the State Tax Commission before the abatement is approved.

Qualified new projects may apply for property tax liability limited to one half of the rate of all (improved real and personal) property taxes, except the State Education Tax (6 mills), for a term of up to 12 years, as determined by the local unit. Liability for one half of the six-mill State Education Tax may be waived if the State Treasurer determines that a waiver is necessary to promote economic growth, reduce unemployment, and increase capital investment. Applicants must apply for the waiver within six months of receiving Industrial Facilities Exemption Certificates.

For restoration of, renovation of, or addition to an existing facility within a district, taxable value (or real and personal property) of the facility may be frozen at the pre-restoration, pre-renovation or pre-addition level for a term of up to 12 years, as determined by the local unit.

There is no minimum investment amount, but the proposed project must conform to the following industrial uses:

- Manufacturing and warehousing
- High-technology activities as defined by the MEGA Act
- Research and development
- Processing of goods and materials by physical or chemical change, including the creation or synthesis of biodiesel fuels
- Hydroelectric dams operated by private companies other than public utilities
- Electric generating plant not owned by local units of government, including those fueled by biomass (for certificates approved before December 31, 2007.)
- Exposition Centers (at least 250,000 square feet)

Obsolete Property Rehabilitation Tax Abatements

The Obsolete Property Rehabilitation Act (OPRA) offers a tax abatement program targeted specifically at the rehabilitation and reuse of obsolete structures.[33] Qualified structures in approved Obsolete Property Rehabilitation Districts can receive significant property tax breaks on the improved value of the rehabilitated property.

Properties eligible for obsolete property exemption certificates must be commercial properties or commercial housing properties located within a qualified local governmental unit that meet the definition of "blighted" or "functional obsolescence" as provided for within the Brownfield Redevelopment Financing Act of 1996; or be a "facility" as defined by the Natural Resources and Environmental Protection Act of 1994, Part 201. Those definitions include:

- Cities with populations more than 20,000 or less than 5,000, located in a county with a population more than 2,000,000 and, as of January 1, 2000, with overall increases in state equalized valuation of real and personal property of less than 65 percent of the

33 2000 PA 146, M.C.L. 125.2781 et seq.

statewide average increase since 1972; or

- Cities with median household incomes of 150 percent or less of the statewide median family income as reported in the 1990 census, and that meet at least one of the following criteria:
    - Contains or has within its borders an eligible distressed area as defined by the State Housing Development Authority
    - Is contiguous to a city with a population of 500,000 or more
    - Has a population of 10,000 or more and is located outside of an urbanized area as delineated by the federal census bureau
    - Is the central city of a metropolitan area as designated by the U.S. Office of Management and Budget
    - Has a population of 100,000 or more and is located in a county with a population of 2,000,000 or more according to the 1990 federal census
- Townships with a median family income of 150 percent or less of the statewide median family income as reported in the 1990 federal census, and is either
    - Contiguous to a city with a population of 500,000 or more, or
    - Contains an eligible distressed area as defined by the State Housing Development Authority Act and has a population of 10,000 or more
- Villages with populations of 500 or more as reported by the 1990 federal census located in an area designated as a Rural Enterprise Community before 1998

Qualified obsolete property rehabilitation projects in qualified local units of government are eligible for a tax exemption certificate that would freeze the property at its pre-rehabilitated value, effectively allowing the rehabilitation to be property tax-free, with the exception of school operating taxes.

Local units may establish one or more Obsolete Property Rehabilitation Districts if a portion of a parcel or tract of land within the district is either:

- Obsolete property in an area characterized as obsolete commercial or commercial housing property, or
- Obsolete commercial property that was owned by a qualified local governmental unit before June 6, 2000, but that has since been conveyed to a private owner.

Owners of obsolete property within a district may apply for an Obsolete Property Exemption Certificate. Applicants must demonstrate that completion of the rehabilitation will lead to increased commercial activity, the creation or retention of jobs, or an increase in residency. Applicants must also show that "but for" the exemption, the rehabilitation would not occur. Applicants must not be delinquent in payment of any taxes related to the property. The legislative body of the qualified local governmental unit will approve or disapprove the application for an exemption certificate; if approved, the local unit will forward the application to the State Tax Commission for final approval or disapproval.

Exemption certificates remain in effect for a period of at least one year, but no more than 12 years, as determined by the legislative body of the qualified local governmental unit. Certificates may be extended, but shall not exceed 12 years after the rehabilitation is complete. Certificates may be revoked if the proposed rehabilitation does not occur within the time authorized. The State Treasurer may waive one half of the school operating taxes for a period of six years for up to 25 projects per year.

Qualified local governmental units that grant Obsolete Property Exemption Certificates must submit annual reports to the State Tax Commission on the status of each exemption.

The law is currently written to sunset on December 31, 2026; exemptions granted before that date but not yet expired will remain in effect until they expiration.

Commercial Rehabilitation Tax Abatements

The Commercial Rehabilitation Tax[34] Abatement offers owners of commercial properties benefits akin to the Obsolete Property Rehabilitation Tax Abatement, but the law extends these benefits to all cities, villages and townships and does not require the property to be blighted or functionally obsolete.

Qualified commercial property rehabilitation projects in commercial rehabilitation districts are eligible for a commercial rehabilitation tax exemption certificate that freezes the property at its pre-rehabilitated value, effectively allowing enhanced value of the property related to the rehabilitation to be property tax-free, with the exception of school operating taxes. Land and most personal property are not eligible for a tax reduction.

Qualified commercial property includes a building or group of contiguous buildings of commercial property that is 15 years or older, or that has been allocated New Market Tax Credits. They include commercial business enterprises and related property under the same ownership, multi-family housing consisting of five or more units, or a building or group of contiguous buildings previously used for industrial purposes that will be converted for a commercial business enterprise.

The cost of rehabilitation must be equal to ten percent or more of the true cash value of the property at commencement. Rehabilitation includes changes to the property that are required to modify or restore the property to an economically efficient condition.

The local government or owners of property comprising 50 percent of all taxable value of the property in the proposed district must move to create a commercial rehabilitation district, an area not less than three acres in size unless the area is located in a downtown or business area or contains a qualified retail food establishment. Cities, villages and townships may establish one or more commercial rehabilitation districts by resolution.

34 2005 PA 210, M.C.L. 207.841 et seq.

The commercial rehabilitation tax exemption certificate is in effect for one to ten years, and certificates that may have initially provided for shorter periods may be extended up to ten years so long as the original certificate states the conditions upon which an extension is valid and those conditions are met. The certificate exempts the property owner from normal property tax and replaces with a commercial rehabilitation tax that freezes the taxable value of the building and exempts the new investment from local taxes. The school operating tax and State Education Tax are still levied on the new investment. The certificate may be revoked if rehabilitation does not occur within the time authorized.

The law is currently written to sunset on December 31, 2025; exemptions granted before that date but not yet expired will remain in effect until they expiration.

Commercial Redevelopment Tax Abatements

Commercial Redevelopment Act tax abatements offer tax benefits for replacing or restoring commercial property.

Owners can qualify for tax relief for a *replacement facility* if they acquire, construct, alter, or install a commercial building for the purpose of substituting for obsolete commercial property. Properties are declared obsolete if they have been impaired, if they have experienced changes in design, construction, technology, or improved production processes, or damage due to fire, natural disaster, or because of general neglect.

To qualify, the property must be zoned for mixed-use, including high-density residential property; located in a qualified downtown revitalization district as defined by the Neighborhood Enterprise Zone Act[35] (this requires being located in a downtown development authority[36], a principal shopping district or a business improvement district[37], or an area that is zoned and primarily used for business); or if the city

35 PA 147 of 1992, MCL 207.771 et seq.
36 PA 197 of 1975, MCL 125.4201 et seq.
37 PA 120 of 1961, MCL 125.981 et seq.

or village establishes and implements and expedited local permitting and inspection process in the Commercial Redevelopment District.

Owners also can qualify for tax relief for a *restored facility* if they make changes to obsolete commercial property to restore the property to an economically efficient condition. Restoration must result in improvements aggregating to more than 10 percent of the true cash value of the property at commencement of the restoration.

The local government or owners of property comprising 75 percent of state equalized value of the property in the proposed district must move to create a commercial redevelopment district.

The commercial facilities tax exemption certificate is in effect for one to 12 years, and certificates that were initially provided for shorter periods may be extended up to 12 years. The certificate exempts the property owner from normal property tax and replaces it with a commercial facilities tax. For a *restored facility*, the tax freezes the taxable value of the building at its value prior to restoration, thereby exempting the new investment from state and local property taxation, including school operating tax and the State Education Tax. For a *new or replacement facility*, the tax provides a 50 percent reduction in the number of mills levied as ad valorem taxes, excluding the State Education Tax. The state treasurer may exempt 50 percent of the State Education Tax on new or replacement facilities for a period not to exceed six years. Land and personal property cannot be abated under this act.

The law is currently written to sunset on December 31, 2025; exemptions granted before that date but not yet expired will remain in effect until they expiration.

Renaissance Zones

Renaissance zones (RZ) provide a targeted-zone program that waives all business or resident site-specific state and local taxes for a term of up to 15 years.[38] Zone applications are developed locally and awarded competitively by the Michigan State Administrative Board or the Michigan Strategic Fund.

When renaissance zones were first created, a local unit of government, or a combination of local units, meeting certain criteria of economic distress could apply. In the later years, the program became company and industry specific. Specific provisions provide the authority for renaissance zones related to: agricultural processing, alternative energy, pharmaceutical, tool and die ("Recovery Zones"), redevelopment, renewable energy, forest product processing, border crossing facilities, Next Michigan.

Qualified taxpayers in Renaissance Zones enjoy the waiver of all state and local taxes (except for taxes mandated by the federal government, local bond obligations, school sinking fund or special assessments) for a term of up to 15 years from the time of Renaissance Zone approval.

Renaissance Zone residents and business owners not substantially delinquent in any of the following state and local taxes are exempt from these taxes:

- City Income Tax
- Industrial Facilities Tax
- City Utility Users' Excise Tax
- Neighborhood Enterprise Zone Tax
- Commercial Forests Tax
- Personal Income Tax
- Commercial Property Facilities Tax
- Enterprise Zone Facilities Tax
- Technology Park Facilities Tax
- General Property Taxes, including tax on lessees or users of tax-exempt real property

Businesses and residents must not be "substantially" delinquent in state and local taxes, as determined by the taxing local unit, in order to claim renaissance zone credits. During the last three years of Renaissance Zone status, the exemptions of the above taxes are phased up to 100 percent of the current tax rates.

New Personal Property Exemption

For purposes of property taxation, property is generally classified as real property – land and the buildings placed on it – and personal property – such as equipment, furniture, other movable fixtures. Businesses

38 PA 376 of 1996, MCL 125.2681 et seq.

have longed lobbied for tax relief, specifically from personal property taxation, because of the cost it adds to locating and operating in Michigan.

A provision in the General Property Tax Act[39] allows distressed communities, county seats, and certain border county communities to abate personal property taxes on new investments made by eligible businesses. Inclusion as a distressed community is defined under the Michigan State Housing Authority Act.[40]

Eligible businesses include manufacturing, mining, research and development, wholesale trade, and office operations. The businesses seeking abatement must be located in an industrial development district, a Renaissance Zone, an enterprise zone, a brownfield redevelopment zone, an empowerment zone, a tax increment financing district, a local development financing district, a Next Michigan Development Corporation District, or a downtown development district.[41]

The city approves the application of businesses seeking this abatement but it must be further approved by the State Tax Commission based on expectations that doing so will reduce unemployment, promote economic growth, and increase capital investment.

The personal property being abated must be new. It cannot have been previously subject to property taxes in any other jurisdiction in Michigan.

If an abatement is granted, property taxes are reduced by the full millage rate, including state and local taxes. The law does not specify a maximum or minimum number of years that the personal property may be abated.

39 1998 P.A. 328, M.C.L. 211.9f

40 1966 P.A. 346, M.C.L. 125.1401 et seq.

41 For more information about these economic development programs, see Citizens Research Council of Michigan, *Survey of Economic Development Programs in Michigan, Third Edition*, Report 392, February 2016, https://crcmich.org/publications/survey-of-economic-development-programs-in-michigan.

Neighborhood Enterprise Zones

Neighborhood Enterprise Zones (NEZs) are a locally initiated zone program that provides tax incentives for housing development and improvement. Qualified local governments may designate one or more areas as NEZs for the purpose of extending property tax abatements for residential construction and rehabilitation.[42]

Providing the NEZ designation allows the local government to levy a reduced neighborhood enterprise zone specific tax in place of the ad valorem real property taxes that would otherwise be levied on qualified new construction projects or the rehabilitated portion of the existing property (not including the land), subject to the approval of the State Tax Commission. Specifically, the NEZ tax rate for new principal residences is one half of the statewide average property tax in proceeding calendar year.

The NEZ tax for new properties that are not principal residences is one half of the statewide average tax on commercial, industrial and utility property in the proceeding calendar year.

During the last three years of the NEZ certificate, these NEZs tax rates are gradually phased up to the current property tax rates.

NEZs must be compact and contiguous, and contain either ten or more platted parcels of land or, if the NEZ is within a qualified downtown revitalization district, ten or more facilities. For new facilities or rehabilitated facilities, or a combination of both, the total zone acreage may not exceed 15 percent of the total acreage of the local unit. For designated homestead zones, the total zone acreage may not exceed ten percent of the total acreage of the local unit, or with the approval of the county board of commissioners (and the county executive, if elected or appointed) the total zone acreage may be 15 percent of the total acreage of the local unit.

A "rehabilitated facility" is an existing housing structure or a portion of an existing structure which would create one to eight units with a true cash value of $80,000 or less per unit. The owner must

42 1992 P.A. 147, M.C.L. 207.771 et seq.

propose improvements that will bring the structure into conformance with minimum local building code standards and that, if done by a licensed contractor, would cost in excess of $5,000 per owner-occupied unit or 50 percent of the true cash value, whichever is less; or $7,500 per non-owner-occupied unit or 50 percent of the true cash value, whichever is less.

A "homestead facility" is an existing structure purchased by an owner after December 31, 1997, that consists of one or two units, one of which is occupied by an owner as a principal residence, and that is located in a subdivision platted pursuant to state law prior to 1968.

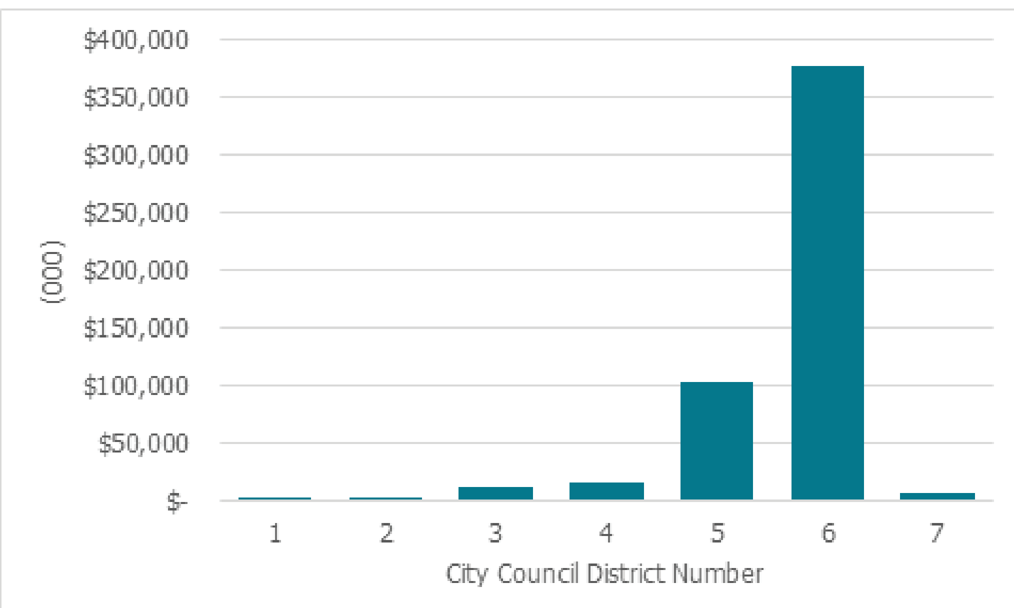
With the exception of homestead facilities, qualified historical buildings, and other specific exceptions listed in section 4 of the Act, applications for NEZ certificates should be filed before a building permit for new construction or rehabilitation is granted.

Neighborhood Enterprise Zone certificates are in effect for six to 12 years, as determined by the governing body of the local unit. Certificates may remain in effect six to 15 years; certificates issued before 2006 may be renewed for an additional three years. If the facility is a qualified historic building, the NEZ certificate is in effect for 11 to 17 years as long as the historic building was owner-occupied as a principal residence within 12 years after obtaining a certificate.

Appendix B

Alternative Chart 10

Value of Multi-Year Incentives Granted by City Council District, 2017-2023 without the Train Station and Book Depository Incentives



Source: DEGC

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