When Solutions Cause Problems: Rethinking Property Tax Delinquency Policies in Detroit

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How Does Detroit Compare?

Detroit’s property tax delinquency rate was 26.5% in 2015 – $54.6 million uncollected

57.3% – 12,544 – of Michigan tax foreclosures were in Detroit in 2016

The percentage of properties 1+ years delinquent varies considerably by block group, indicating that environmental and social factors relate to delinquency.

Effective Process or Broken Cycle?

1. Penalties are supposed to encourage payment, but for people in financial difficulties they can turn minor debts into major burdens
2. Delinquent properties are foreclosed after 3 years
3. A poor real estate market often means low demand and low winning bids at auction – 1 in 6 occupied properties auctioned in fall 2014 were vacant the next summer
4. Ideal outcome is ownership by tax compliant occupants, but many properties are unsold. The effects of displacement and vacancy are costly.

Navigating the System

For taxpayers, getting exemptions that can reduce tax bills or enrolling in a payment plan usually means obtaining many documents from city, county, and state offices.

Policy Weaknesses

- Large payments difficult for low-income owners
- Ineffective delivery of notices
- Overassessment means inaccurately high base debt
- Tenants often unaware of impending foreclosure
- New buyers don’t know taxes are owed on homes
- Interest rates are high compared to norms

Costs and Challenges

- Inaccurate planning, service cuts, and unfair burdens on compliant taxpayers
- Harm to neighborhood networks, businesses, and schools
- Lower property values
- Decreased tax base
- Redundancy and pressure on administrative and nonprofit resources
- Undermines millions of dollars worth of public and private investment

Recommendations

- Consider installment plans for current taxes and encourage automatic savings accounts.
- Use text messaging and email to alert people about bills and due dates.
- Adjust installment payments based on income and overassessment.
- Require legal notification of tax liens to real estate buyers and renters.
- Permanently adjust interest rates to better match low U.S. norms.
- Improve data collection to create more targeted and cost-effective policies.

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