Will a Greenbelt Help to Shrink Detroit's Wasteland?

Mark Skidmore

It is difficult to overstate how ongoing population loss has devastated Detroit. Between 1900 and 1950, when the rise of U.S. automobile manufacturing made the city one of America's premier industrial and cultural centers, the population spiked from 300,000 to 1.85 million. Beginning in 1950, however, it began to fall. And its decline has been continuous to the present day, plummeting to just 700,000 in 2010, at a rate of descent nearly as swift as the rate of ascent in the first half of the 20th century.

By 2010, the average price of a residential property had plummeted to about $7,000 from $57,000 in 2006. The current excess would likely suppress house price recovery in the coming years even if the population were to stabilize.

Despite Detroit's decades-long effort to keep pace with population loss by removing dilapidated housing stock, roughly a quarter of its 380,000 parcels are now abandoned, managed by the city or other public entities. As of July 2014, 114,000 properties have been razed, and 80,000 more are considered blighted (Austen 2014).

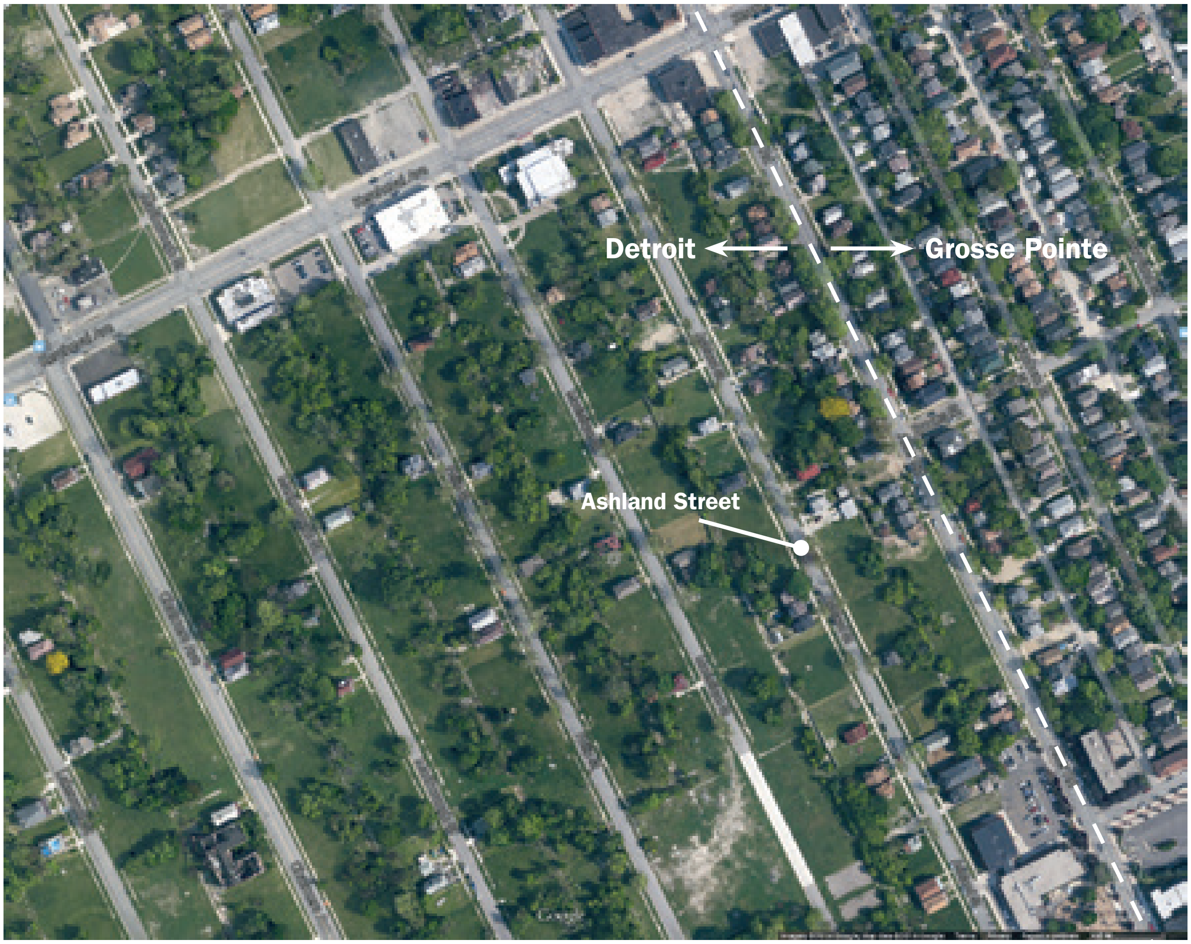
While the downtown is recovering and the suburbs remain vital, the "unfathomable dissolution of [the] built landscape" in vast areas of the city may shock the unsuspecting visitor (Austen 2014).

The first installment in a two-part series, this article considers the fiscal causes and repercussions of Detroit's surplus of housing and vacant property: from the extent and location of abandoned homes and lots throughout Detroit to the downward spiral of house price declines leading to overassessment, property tax delinquency, and foreclosures; the public acquisition of that property; the pattern of land values across the city; and, finally, some potential ways to reconcile the remaining number of people with the amount of vacant and publicly held property. These measures range from targeting densely populated neighborhoods for redevelopment to establishing a greenbelt and reclaiming vacant parcels for public use as parks, forests, industrial buffers, retention ponds, and other open space (Austen 2014).

Factors Behind the Fall

The reasons for Detroit's demise are numerous and perhaps too familiar. Federally subsidized transportation infrastructure, such as the Interstate highway system, facilitated rapid suburbanization, which was further enabled by permissive development codes. Racial tension, global economic forces, and corruption corroded what remained of the city proper. In the early stages of the malaise, higher-income residents, most of them Caucasian, left for the suburbs in search of a better quality of life, as shown in table1. By 1990, the African-American population had peaked as well and began to drop in the first decade of the 21st century. Beginning in the 1960s, Michigan auto manufacturing began its long, precipitous decline, disproportionately impacting Detroit and Flint. The loss of well-paying middle-class jobs further harmed the urban demographic and economic base, as households sought new employment opportunities elsewhere. Rising crime rates and continued erosion of public services induced another wave of exits.

Table 1 illustrates this downturn in the city's demographic and economic conditions from 1950 through 2010. By 2012, according to government sources, median household income was just $25,000, less than half of the national median income. Poverty and unemployment rates were 38 and 27.5 percent, respectively. The labor force participation rate was 54 percent (compared to 63 percent nationwide), and for every 6.35 employed



© Google Maps data: Detroit

One block from the stark divide between Detroit and its affluent neighbor Grosse Pointe, Ashland Street (below) is lined with vacant lots and moldering, abandoned homes.

© Google Street View data: Detroit

TABLE 1
Socioeconomic Trends in Detroit, 1950–2010

	1950	1960	1970	1980	1990	2000	2010
Population	1,849,568	1,670,144	1,541,063	1,203,368	1,037,974	951,270	713,777
Percent African-American	16.2%	29.8%	42.9%	63.1%	74.9%	82.2%	82.7%
Households	501,145	514,837	497,753	424,033	374,057	345,424	271,050
Employed Detroit Residents	758,784	612,295	361,184	394,707	335,462	331,441	203,893
Percent Manufacturing	46.0%	37.3%	55.8%	28.7%	20.5%	18.8%	11.4%
Employed Residents/ Household	1.51	1.19	0.73	0.93	0.90	0.96	0.75
Unemployment Rate	7.4%	9.9%	7.2%	18.5%	19.7%	13.8%	29.0%
Jobs in Detroit	N/A	N/A	735,164	562,120	442,490	345,424	347,545
Median Household Income*	$31,033	$52,948	$55,763	$36,506	$25,922	$37,005	$28,357

* Adjusted for inflation, 2010 dollars. Sources: US Bureau of the Census, American Community Survey.

workers, there was one person receiving Social Security Disability benefits (compared to 1 of 12 nationwide). More than 34 percent of the city's population received food stamps, and 81 percent of children in the Detroit Public Schools qualified for the Free and Reduced Lunch Program. Revenue streams became increasingly dependent on external sources, including nonresidents, as discussed in box 1. In 2013, when the city finally succumbed to the weight of accumulating fiscal challenges and declared bankruptcy, its debt and unfunded liabilities amounted to $18 billion—or $68,000 per household, which is about 2.7 times the median household income (Turbeville 2013).

Fifteen percent of parcels are now empty, and nearly 25 percent of Detroit's land area is now nontaxable, owned and managed by the city or some other public entity.

The Failed Housing Market

The enormous excess supply of housing that accumulated over decades as a result of winnowing demand in Detroit corroded the value of that property. The real estate crisis of 2007–2008 dealt the final blow, resulting in the near-complete breakdown of Detroit's housing market. By 2010, the average price of a residential property had plummeted to about $7,000 from $57,000 in 2006 (Hodge et al. 2014a). Detroit's current excess of land and housing would likely suppress real estate price recovery in the coming years even if the population were to stabilize.

Property Tax Delinquency, Abandonment, and Public Acquisition of Property

Tax officials have not recalibrated assessment values to reflect house price declines. The resulting overassessment is as high as 80 percent (Hodge et al. 2014a), contributing to a general unwillingness to pay taxes, according to Alm et al. (2014). Their research also shows that additional factors such as high statutory tax rates and limited services such as public safety worsen this delinquency as well.

In the midst of the real estate crisis, property tax delinquency reached an alarming 50 percent (Alm et al. 2014). Figure 2 (p. 13) shows delinquency rates by neighborhood across the city in 2010. Property tax collection depends on a jurisdiction's ability to impose sanctions for nonpayment of taxes, as noted by Langsdorf (1973). When real estate values collapse, taxing authorities have no workable enforcement mechanism; homeowners' savings from nonpayment of property tax are greater than the value of the house they own and would lose in the instance of foreclosure. Further, proceeds from the sale of low-valued tax-foreclosed property are insufficient to cover back taxes owed and the government costs of initiating foreclosure proceedings.

BOX 1

Targeting Nonresidents for Revenue

Detroit's revenue streams have become increasingly dependent on external sources, including nonresidents, as its population and economic base have declined. This shift occurred in part because over time Michigan state legislatures empowered the City of Detroit to use tax-exporting strategies to help shore up weakening fiscal conditions and deal with massive structural changes to the regional economy. While there were periods during which it appeared that Detroit was on the cusp of recovery, various forces prevented "escape velocity."

Today, the City of Detroit relies on the income tax, property tax, casino wagering tax, state revenue sharing, a utility user's tax, federal grants, and various fees and licenses to fund public services. Of these, the casino wagering tax and the city income tax were adopted to bolster fading revenues from more traditional sources.

The casino wagering tax, based on gamers' winning receipts, has become particularly important to the City of Detroit over the last decade, as shown in figure 2, which summarizes trends in the city's major revenue sources from 1960 through 2012. The state legislature authorized casino gaming activity and the wagering tax in Detroit in 1996, to help the city address its fiscal challenges. By 2001, casino construction had been completed. The $180 million in additional annual revenues helped to stave off financial pressures even as other sources, such as income taxes and state shared revenues, were in decline. Up to 85 percent of gamers at the three major Detroit casinos are nonresidents, according to recent reports and interviews with gaming experts (Miklojcik 2014).

Since 1963, the city income tax has represented Detroit's largest and, for a number of years, fastest-growing revenue source. At the time of adoption, the majority of the income tax was paid by city residents. As Detroit's population has declined, however, the income tax on nonresidents who work in the city has become an increasing share of the city income tax base, composed of wages and salaries earned at a city-based job. The tax rate is 2.4 percent for city residents, whereas nonresidents pay 1.2 percent. While corporations and partnerships also pay an income tax, it is a very small portion of total revenues collected. According to Scorsone and Skidmore (2014), about half of the city income tax revenue in Detroit is paid by nonresidents.

State revenue sharing continues to play a critical role in Detroit's finances, though population loss has diminished even this income source. In Michigan, state government collects a statewide sales tax and then shares a portion of the proceeds with municipal governments. Sales tax revenues are allocated to local governments based on constitutional

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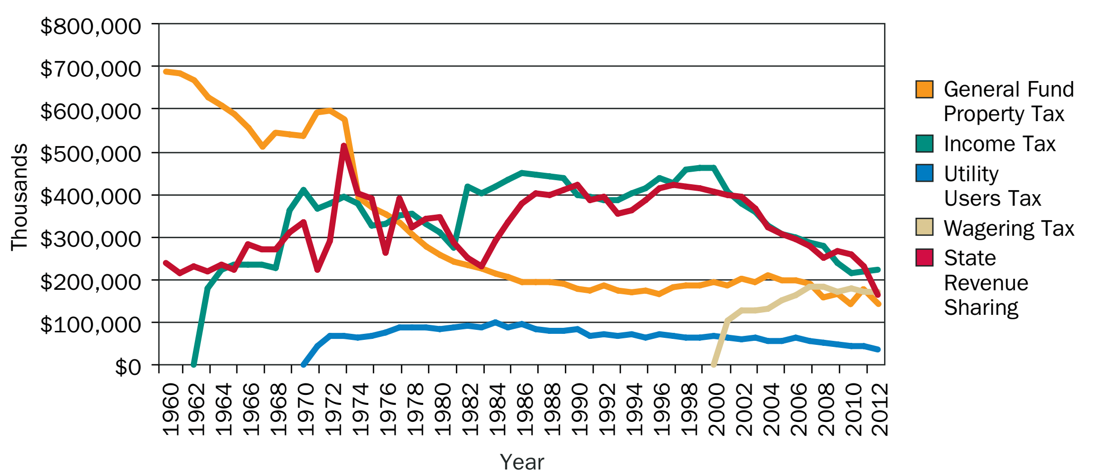
FIGURE 2

Detroit Revenue Trends, 1960–2012



Source: Detroit Audit Reports, 1960–2012.

BOX 1
Targeting Nonresidents for Revenue (continued)

provisions as well as state statute. The constitutional portion of revenue sharing is based on each jurisdiction's share of the total state population. Given the dwindling number of Detroit residents, this portion of state revenue sharing has been falling for decades. The city experienced significant growth in total revenue sharing funds through the 1970s and 1980s, due to increases in statutory revenue sharing, which is distributed by formulae that have been changed by legislators many times in recent decades. But new changes to the statute combined with stagnation in the sales tax led to declining growth and eventual decline in revenue sharing for cities across the entire state in the 1990s. As Michigan entered a decade-long recession, this decline continued for most local jurisdictions, including Detroit, through the 2000s.

About half the city income tax revenue in Detroit is paid by nonresidents.

Some have pointed to revenue sharing reductions as a major source of stress for the City of Detroit, and a major catalyst for the bankruptcy. However, these declines affected all cities that received revenue sharing in Michigan; while cuts to revenue sharing likely influenced the timing of Detroit's bankruptcy, they were not the ultimate cause. Further, it is important to note that revenue sharing for Detroit represents a net positive transfer of funds from the rest of the state to the city. According to the 2007 economic census, retail sales in the City of Detroit were $3.2 billion, or about 2.9 percent of the $109 billion in the State of Michigan.

In 2012, total state revenue sharing to all municipalities in Michigan was about $1 billion, and Detroit's share of the total was $172 million, or 17.2 percent. Given that Detroit represents just 3 percent of total state retail sales in Michigan, one can conclude that the majority of state revenue sharing that flowed to Detroit originated from retail transactions that occurred outside the city.

As of 2014, the City of Detroit had approximately a $1 billion General Fund, considerably lower than in 2002 when revenue peaked at $1.4 billion. A 30 percent drop in revenues over time without a commensurate cut in expenditures led to the Detroit fiscal crisis and the eventual declaration of bankruptcy in 2013. By 2012, Detroit had borrowed more than $1 billion in an attempt to stave off default and a liquidity crisis (Michigan Department of Treasury 2013).

Widespread failure to pay property taxes and the subsequent abandonment of homes has resulted in the public acquisition of thousands of properties throughout Detroit. Fifteen percent of the parcels within the 139-square-mile city are now empty, and nearly 25 percent of Detroit's land area is now nontaxable, owned and managed by the city or some other public entity (Sands and Skidmore 2014), as illustrated in figure 3.

The Downward Spiral of Foreclosures

Currently, the number of properties flowing into public hands via tax foreclosure far outpaces the number of publicly held properties being purchased back by private taxpaying owners.

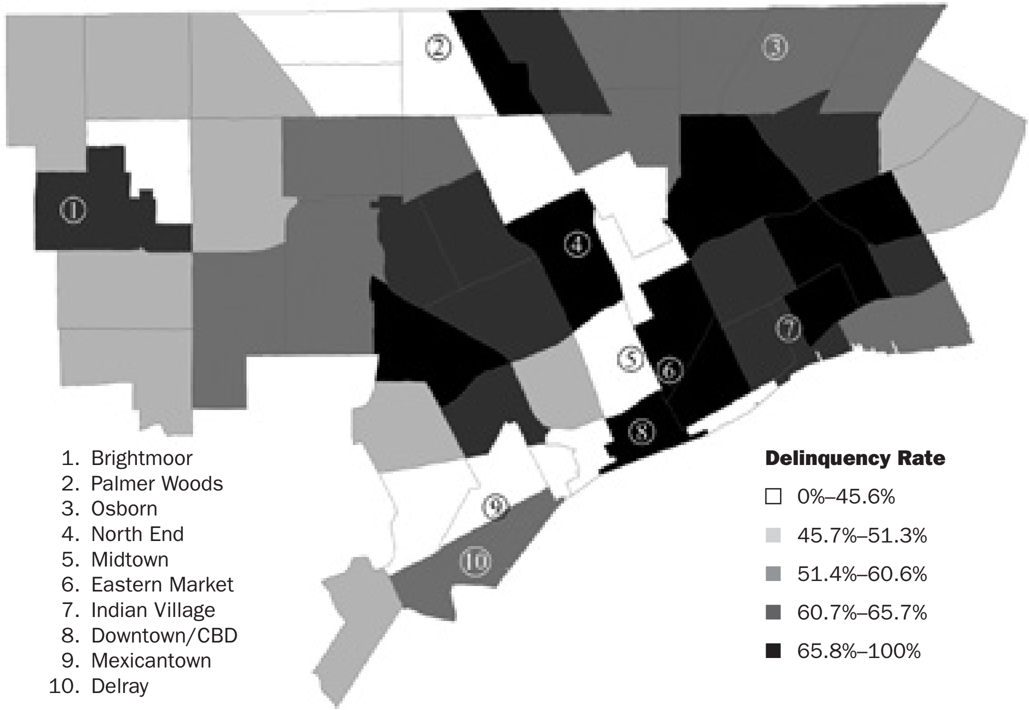
In Michigan, delinquent property taxes are subject to a 4 percent administration fee and 1 percent monthly interest on the delinquent amount computed at a non-compounded rate, beginning in the first month of nonpayment. After one year of delinquency, the city forfeits the property to county government, and the owner becomes subject to an additional 0.5 percent monthly interest charge. During this two-year period, owners may redeem their properties by paying all outstanding taxes and fees.

If property taxes go unpaid for more than two years, the Wayne County Treasurer initiates foreclosure proceedings. After a show cause hearing in the Circuit Court, the County Treasurer publicly auctions the foreclosed parcels. The starting bid equals the unpaid property taxes plus interest and penalties, and the proceeds are distributed proportionately to the taxing jurisdictions. If the property doesn't sell at the first auction, the county lowers the minimum bid to $500 and holds a second auction. This procedure has led to further tax evasion, as some homeowners elect to ignore their tax bills with the expectation that they will be able to repurchase the parcel for $500 at the second auction.

Property that doesn't sell at either auction may be transferred to a public body (city or state) or to a state or local land bank, or it may be held for a subsequent auction. County records indicate that 80 percent of the parcels sold to private buyers at auction over the past two years are once again delinquent on taxes (MacDonald 2013). Given that the tax delinquency rate is 67 percent for non-homestead property owners (Alm et al. 2014), it seems likely that a significant proportion of buyers

FIGURE 2

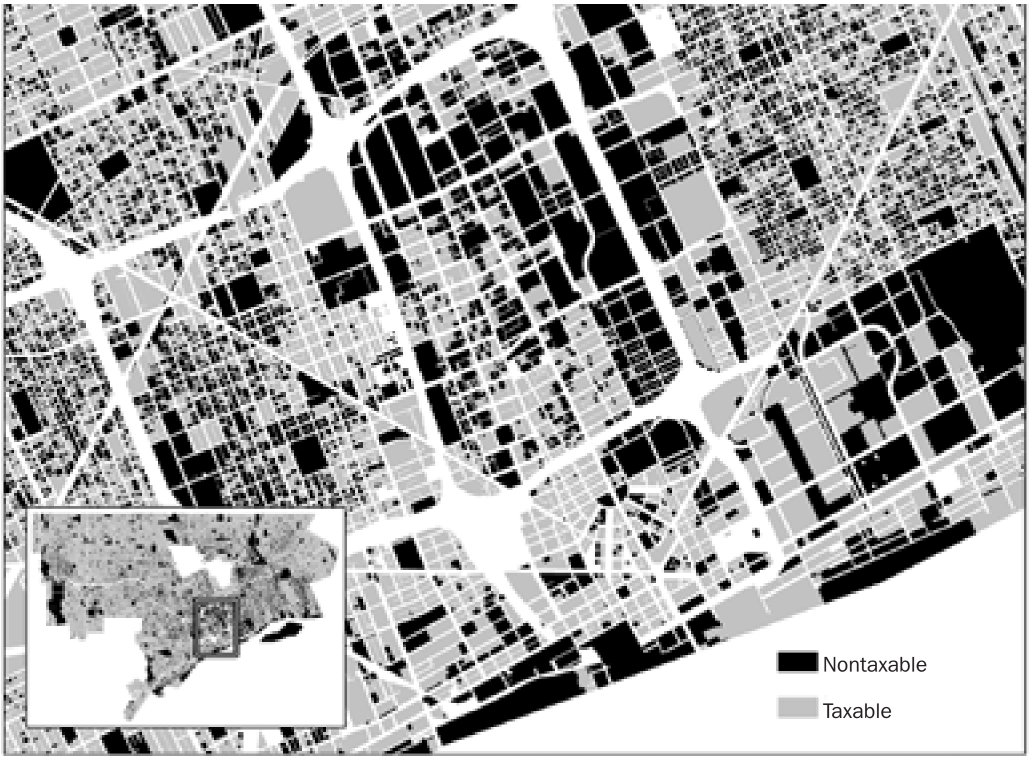
Detroit Delinquency Rate by Neighborhood, 2010



Source: City of Detroit Assessor Data, 2010.

FIGURE 3

Taxable (Privately Held) and Nontaxable (Publicly Held) Properties in Central Detroit, 2010



Source: City of Detroit Assessor Data, 2010.

at auction are absentee landlords who intend to reduce their operating expenses and increase their net rental income by never paying property taxes.

Property taxes are effectively optional on low-valued parcels as well. To minimize the backlog of tax-delinquent lots (MacDonald 2013), the county does not foreclose on homeowners who owe less than $1,600 in taxes and penalties in aggregate, effectively rendering these debts optional.

Expected revenue from the sale of low-valued parcels is insufficient to cover legal expenses associated with tax foreclosure and unpaid property tax balances. The end result is an increasing rate of delinquency and a growing inventory of unwanted property that ends up in the public sector, where it generates no revenue for the city.

Where to Go from Here?

Another wave of property tax-related foreclosures is expected in late 2014 and early 2015. What can be done to stabilize the situation?

Curbing Property Tax Delinquency

As mentioned, delinquency will abate when tax payers perceive that they receive commensurate returns for their money. Thus, improving the tax-service package by upgrading core services such as public safety will reduce evasion and lateness (Alm et al. 2014). Under the leadership of recently elected Mayor Mike Duggan, city government is taking steps to improve basic public service provision and put its fiscal house in order. For example, just 35,000 of 88,000 streetlights currently work, so Duggan plans to install 2,400 functioning streetlights per month (Austen 2014). He also increased the number of operating buses from 143 to 190, and improved snow plowing during the particularly harsh winter.

Lowering tax rates would modestly reduce delinquency as well (Alm et al. 2014). Roughly double the regional average, Detroit tax rates are at the state's maximum of 67 mills and 85 mills per assessed value for homestead and non-homestead properties, respectively. While a reduction would improve the competitive position of the city relative to other communities in the region, currently there is no discussion of reducing property tax rates.

Aligning assessed values more closely with actual market conditions will also reduce delinquency. Mayor Duggan recently promised to lower assessments by 5 to 20 percent across the city to reconcile them with state guidelines. However, Duggan's promised reductions are just a small fraction of the 80 percent cut needed to bring assesment to market levels, according to Hodge et al. (2014a).

Removing Land from the Market

In the absence of robust demand for land, which seems unlikely in the near future, the excess must be removed from the market for a period of time

Motor City relics: The parking garage that was once the majestic Michigan Theatre, and rubble that was once the Packard Automotive Plant.

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in order for real estate value to improve broadly across the city. Given that public entities now hold so much property, it is within the power of government authorities to credibly remove it from the market. Without this type of policy action, the possibility that these parcels could be quickly transferred to the private sector serves to hamper price recovery.

Currently, public lands are held by many public entities. Authorities from the City of Detroit, Wayne County, and state government are working to consolidate these parcels under a single entity that can manage them more effectively. Detroit Future City (2010) details the extent of the fragmented ownership of public lands:

> Public land in Detroit is held by many separate agencies, including city, county, and state agencies, as well as autonomous or quasi-governmental entities such as the Detroit Public Schools, the Detroit Housing Commission, and the Detroit Economic Growth Corporation. Few other cities have such fragmented holding of their public land inventory. There is no consistency of policy, procedure, or mission among these agencies, while many are hamstrung by burdensome legal requirements and complex procedures. The Department of Planning and Development controls the largest number of properties, yet its ability to do strategic disposition is constrained by procedural obstacles, including the need to obtain City Council approval for all transactions, however small and insignificant from a citywide perspective.

While this consolidation process is necessary, it is not sufficient. Financial resources are required to remove blight and implement land use plans. City leaders are focused mainly on strategies to return these parcels to private ownership. If they can stimulate greater interest in Detroit property, this approach might be viable.

As of July 2014, 114,000 properties in Detroit have been razed.
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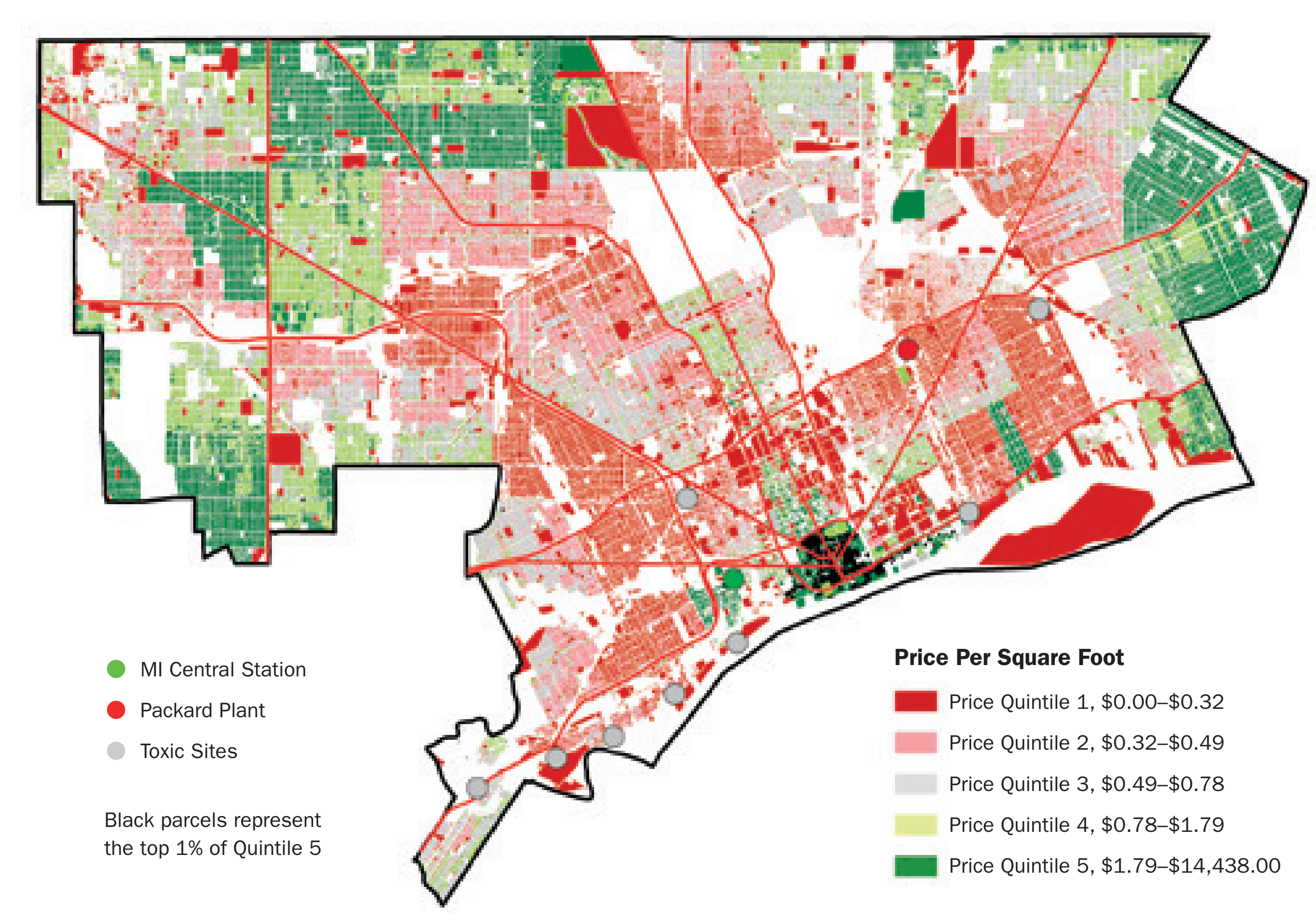
The six national forests in Minnesota, Wisconsin, and Michigan have origins in the mass land abandonment of the Depression Era, as state and federal authorities pieced together a patchwork of adjacent lands purchased from counties eager to sell off their tax-forfeited property.

FIGURE 4
Predicted Detroit Land Values by Quintile



Source: City of Detroit Assessor data, 2010.

Note: Hodge et al. (2014b), use data on 3,788 vacant land parcels that were sold over the 2006–2010 period to estimate the pattern of land values. These recently sold properties are about 4.6 percent of the 81,326 vacant residential and commercial parcels in the city. The coefficients generated from this regression analysis were then used to generate predicted land values for nearly all of the 380,000 parcels in the city.

Indeed, opportunities for private ownership are emerging in the central business district (CBD). Daniel Gilbert, founder of Quicken Loans, has moved his headquarters to downtown Detroit and invested $1.3 billion in city real estate (*Forbes* 2014). And downtown renewal has led to substantial rental price increases (Christie 2014).

A federal, state, and local government partnership to reclaim these properties could help stabilize the land market and generate a revenue stream for the city.

Land values are very high in the CBD, as depicted in figure 4 by the black parcels, which represent the very highest land values on the map. Detroit's land value gradient is very steep, however. While several areas within the donut around the CBD have retained some worth, land values plunge rapidly as distance from the CBD increases, though they rise again near the city's border, probably because amenities such as shopping are available in the nearby suburbs.

Given the weak demand outside the CBD, it may be more effective to determine which publicly held properties should return to private taxpaying parties, which properties should be taken off the market for a decade or two, with the option of returning land to the market should conditions change, and which should be permanently removed from the market.

The 2012 master plan, as outlined by Detroit Future City, calls for the reclamation of land for parks, forests, industrial buffers, greenways, retention ponds, community gardens, and even campgrounds (Austen 2014). Full implementation of this ambitious proposal requires significant financial resources. But consider how state and federal authorities intervened in the last major episode of mass tax foreclosure. During the Great Depression, many homesteaders on marginal agricultural lands in Michigan, Minnesota, and Wisconsin were unable to pay their property taxes, and this default resulted in a mass wave of tax delinquency, foreclosure, abandonment, and eventual forfeiture. In these states, county governments frequently became the owners of thousands of acres, much of which was eventually sold to the state and federal governments. The six national forests in Minnesota, Wisconsin, and Michigan, as well as the region's numerous state forests, all have origins in this mass land abandonment of the Depression Era, as state and federal authorities pieced together a patchwork of adjacent lands purchased from counties eager to sell off their tax-forfeited property.

Today, state and federal authorities have no taste for a Detroit "bailout." But history suggests that state and federal governments could help Detroit regain fiscal viability by purchasing patchworks of unwanted parcels, making payments in lieu of taxes, as is typical for other publicly owned lands, and then using the land for the benefit of the general public. Potential uses are mapped out in the aforementioned city master plan which the second installment of this series will explore. A federal, state, and local government partnership to reclaim these properties could help stabilize the land market and generate a revenue stream for the city and the other overlying taxing jurisdictions (including the state government via the state education tax). Property value recovery in combination with downtown reinvestment, continued efforts to improve Detroit's tax-service package and remove blight, and long-run investment in Detroit's human and social capital are essential elements of a sustainable Detroit recovery.

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