



# PREVENTING OWNER-OCCUPIED PROPERTY TAX FORECLOSURES IN DETROIT: IMPROVING ACCESS TO THE POVERTY TAX EXEMPTION

**RESEARCH BRIEF  
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## EXECUTIVE SUMMARY

Michigan state law (MCL 211.7u) requires local governments to make a Poverty Tax Exemption (PTE) available to owner-occupants with low-incomes. In Detroit, the PTE is implemented as the Homeowners Property Tax Assistance Program (HPTAP). Homeowners living near or below the Federal Poverty Level (FPL) may apply annually to this program to have their property tax bill reduced by half or eliminated. Despite the availability of the PTE in Detroit, a low proportion of eligible homeowners gain access to this critical relief. To better understand this gap in access, U-M researchers conducted semi-structured interviews with PTE-eligible Detroit homeowners who received tax foreclosure counseling assistance with the United Community Housing Coalition in 2017.

Findings reveal that low awareness, burdensome application procedures and limited institutional accountability act as barriers that restrict access to the exemption. Many residents who were eligible for but did not receive the PTE in past years face considerable tax debt and remain at high risk for foreclosure. The intent of this brief is to inform efforts that state and local governments can take to ensure that the PTE is readily available, easily obtainable and equitably provided to all eligible homeowners, in order to strengthen this policy's ability to prevent property tax foreclosure among homeowners with low-incomes in Detroit and statewide.

A FULL REPORT OF THE STUDY'S FINDINGS AND POLICY RECOMMENDATIONS CAN BE FOUND HERE [[POVERTY.UMICH.EDU/RESEARCH-PUBLICATIONS/POLICY-BRIEFS/PTE-FULL-REPORT](http://POVERTY.UMICH.EDU/RESEARCH-PUBLICATIONS/POLICY-BRIEFS/PTE-FULL-REPORT)].

## BACKGROUND

### PROPERTY TAXES PLACE AN UNEQUAL BURDEN ON DETROIT HOMEOWNERS

In 2016, Detroit maintained both the highest effective homestead property tax rate and the highest poverty rate among the 50 largest U.S. cities<sup>1</sup>. Home values fell steeply as a result of the city's subprime mortgage crisis and the recession, during which Detroit's Tax Assessor was unable to modify assessments to accurately reflect fallen values. As a result, Detroit property values have been chronically over-assessed, and continue to be most pronounced among lower valued homes, further inflating tax bills among the most economically marginalized homeowners<sup>2</sup>.

### PROPERTY TAX INEQUITIES CONTRIBUTE TO THE CITY'S ONGOING TAX FORECLOSURE CRISIS

The Wayne County Treasurer, which collects Detroit's unpaid property taxes, forecloses on the property after three years of non-payment. Since 2010, more than 47,000 occupied properties have entered the foreclosure auction<sup>3</sup>. Detroit's tax foreclosure crisis reached its peak in 2015, when nearly 25,000 properties were offered at auction, including more than 6,400 owner-occupied homes<sup>4</sup>. While the rate of owner-occupied tax foreclosures has declined significantly in recent years, risk among Detroit homeowners remains high. Thousands of homeowners have entered into repayment plans with the Wayne County Treasurer for unpaid property taxes (hereafter referred to as "back taxes")<sup>5</sup>. To avoid foreclosure, homeowners must make regular payments to the county toward their back taxes, while also ensuring that they do not fall behind on current-year city tax bills. This dual property tax burden may prove too high for many to bear, especially for residents whose property taxes were unaffordable to begin with.

BY REDUCING OR ELIMINATING PROPERTY TAXES FOR ELIGIBLE HOMEOWNERS, THIS POLICY MAY IMPROVE HOUSING AFFORDABILITY AND PREVENT FORECLOSURE AMONG HOMEOWNERS WITH LOW- OR FIXED-INCOMES, AS WELL AS THOSE EXPERIENCING PERIODS OF FINANCIAL HARDSHIP.

**CRITICAL TAX RELIEF REMAINS LARGELY INACCESSIBLE TO DETROIT HOMEOWNERS**

Property tax foreclosure among Detroit’s low-income homeowners is not an inevitability. *By reducing or eliminating property taxes for eligible homeowners, this policy may improve housing affordability and prevent foreclosure among homeowners with low- or fixed-incomes, as well as those experiencing periods of financial hardship.* However, the benefits of this existing policy have not been fully leveraged and remain out of reach to the majority of those in need. Between 2012 and 2016 on average, nearly 40,000 owner-occupied households (32% of Detroit homeowners) met eligibility guidelines for the exemption each year<sup>6</sup>, but less than 5,000 applied in 2016<sup>7</sup>.

**DATA AND METHODS**

Study participants include Detroit homeowners who sought walk-in counseling assistance with the United Community Housing Coalition (UCHC) in 2017. UCHC provides free counseling services to residents experiencing tax foreclosure and develops innovative programming to help Detroit residents remain in their homes. UCHC counselors promote the HPTAP to their clients and offer direct assistance with the application. In 2017, 105 of the Detroit homeowners who UCHC identified as eligible<sup>8</sup> consented to participate in the study. Participants received a phone call within three to six months of study enrollment<sup>9</sup>. Semi-structured interviews were guided by a series of questions about the participant’s HPTAP awareness, application process and outcomes in 2017, as well as experiences with the program in past years.

**THE HPTAP APPLICATION PROCESS**

THE HOMEOWNERS PROPERTY TAX ASSISTANCE PROGRAM (HPTAP) PROVIDES A FULL (100%) OR PARTIAL (50%) EXEMPTION TO HOMEOWNERS LIVING NEAR OR BELOW THE FEDERAL POVERTY LEVEL. TO ACCESS THE HPTAP IN 2017, HOMEOWNERS HAD TO GO THROUGH THE FOLLOWING STEPS:

- STEP 1 AWARENESS AND ELIGIBILITY**  
Be aware that the program exists and that they qualify.
- STEP 2 OBTAIN APPLICATION**  
Obtain an application (online, in-person or by mail) from the Office of the Assessor.
- STEP 3 COMPLETE APPLICATION**  
Complete the written application, including all of the required supporting documentation<sup>10</sup>.
- STEP 4 SUBMIT APPLICATION**  
Submit a notarized hard-copy of the application to the Office of the Assessor.
- STEP 5 REVIEW AND APPROVAL**  
Have the application reviewed and approved by the local governing body, the Detroit Citizen’s Board of Review (BOR), which grants a full or partial exemption for the current tax year<sup>11</sup>.

**RESIDENTS MUST RE-APPLY FOR THE EXEMPTION EACH YEAR.**

KEY FINDINGS

**THE HPTAP OFFERS CRITICAL RELIEF TO HOMEOWNERS WHO FACE SEVERE HOUSING AFFORDABILITY PROBLEMS.**

82% of participants indicated spending at least half of their household income on housing, and most frequently cited property taxes as their largest housing cost. 68% had faced a utility shut-off in their current home. 72% indicated having to decide between paying for housing and other necessities, like food or medical care, during the past year.

**HPTAP-ELIGIBLE OWNER-OCCUPANTS FACE TAX DEBT AND FORECLOSURE FOR TAXES THEY COULD HAVE BEEN EXEMPT FROM PAYING.**

87% of participants owed back taxes to the Wayne County Treasurer, and 62% were subject to foreclosure in 2017. The average "tax delinquent" participant owed a total average amount of \$4,709, which included an average of \$1,305 in interest and fees alone. 82% of participants who had never previously applied for the HPTAP indicated that they qualified for the exemption for at least the past three years. 84% of these participants owed back taxes for one or more of those years and 70% were subject to foreclosure in 2017. All participants who lost their homes in 2017 were eligible for the HPTAP in past years.

**LIMITED PROGRAM AWARENESS IS A SIGNIFICANT BARRIER TO PROGRAM ACCESS.**

70% of participants never previously applied for the exemption, but 91% indicated they would have qualified for the exemption at some point during the past three years. 76% of those who indicated being eligible for HPTAP in previous years did not apply for the exemption because they did not know it existed. Only 3% of participants indicated that they heard about the exemption directly from a governmental source.

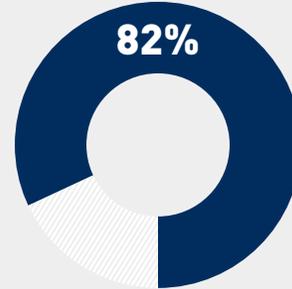
**AWARENESS DOES NOT GUARANTEE ACCESS.**

Nearly a quarter (23%) of participants did not obtain the HPTAP application within three to six months of enrollment. Many indicated that they had not applied for the exemption because they were focused on paying off back taxes and avoiding foreclosure. Misunderstanding often stemmed from a lack of clear information about the relationship between city and county tax obligations and the difference between available relief options.

**COMPLEX AND PROCEDURALLY DEMANDING APPLICATION PROCEDURES ARE BURDENSOME AND RESTRICTIVE.**

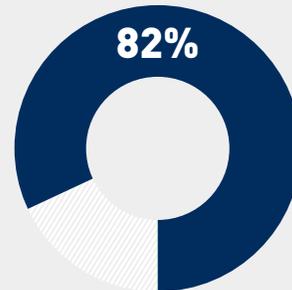
Homeowners faced considerable barriers at each stage of the application process that prevented them from receiving the exemption. Participants commonly faced challenges related to the application's overall complexity and specific

HOUSING AFFORDABILITY



SPENT  
**AT LEAST 1/2 OF  
THEIR INCOME**  
ON HOUSING

HPTAP ELIGIBILITY AND FORECLOSURE



NEVER PREVIOUSLY  
APPLIED, BUT QUALIFIED  
FOR THE EXEMPTION  
FOR AT LEAST THE  
**PAST 3 YEARS**

AMONG THEM:

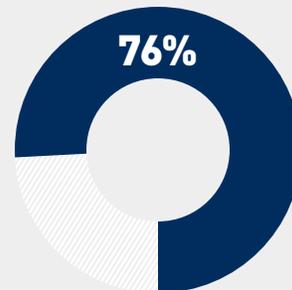


**OWED  
BACK TAXES**  
FOR ONE OR MORE  
OF THOSE YEARS



WERE SUBJECT TO  
**FORECLOSURE**  
IN 2017

HPTAP AWARENESS



ELIGIBLE, BUT  
**DID NOT APPLY**  
FOR THE EXEMPTION  
BECAUSE THEY DID NOT  
KNOW IT EXISTED

paperwork requirements. Some participants indicated difficulty understanding the application’s language or gathering supporting paperwork (which often required them to make multiple trips to and from various offices to finalize their applications). Many participants experienced mobility limitations stemming from poor access to transportation—an impediment that was often exacerbated among participants living with physical disabilities.

HOMEOWNERS FACED CONSIDERABLE BARRIERS AT EACH STAGE OF THE APPLICATION PROCESS THAT PREVENTED THEM FROM RECEIVING THE EXEMPTION.

**COUNSELING SERVICES IMPROVE AWARENESS AND APPROVAL, BUT PLACE A BURDEN ON RESIDENTS AND NONPROFIT ORGANIZATIONS.**

Counseling services remain important—and in many cases critical—to ensure that homeowners are informed about and successfully complete the HPTAP application. The majority of participants (56%) found out about the HPTAP from UCHC.

92% of participants who completed the application did so with assistance from UCHC. In receiving this assistance, 43% required two or more trips to the office. 92% of those who received UCHC assistance submitted their application and 89% were approved for the exemption. Of those who chose to complete the application on their own, 83% submitted it, but only 40% were approved for the exemption. Although participants frequently expressed that UCHC’s services enabled them to understand and complete the application, obtaining assistance served as an additional step in the application process that contributed to its overall burden.

**COMMUNICATION AND ACCOUNTABILITY PROCEDURES MAY EXCLUDE ELIGIBLE APPLICANTS.**

23% of participants who submitted the application received notice from the BOR stating that further information and/or documentation was required for their application to be reviewed. In some cases, these notices led to confusion among participants, particularly when communication was by mail. While the majority (86%) of the participants who successfully submitted the application were granted the exemption, a number of participants received no notice regarding their application and were excluded from the program.

**POLICY CONTEXT: LEGAL SETTLEMENT AND 2018 HPTAP ORDINANCE**

In 2016, several organizations<sup>12</sup> filed a class-action lawsuit against the City of Detroit and the Detroit Citizens Board of Review. The lawsuit alleged that Detroit’s administration of the HPTAP presented unfair procedural and logistical obstacles that prevented low-income homeowners from receiving the state-mandated exemption, violating their due process rights<sup>13</sup>. In July 2018, the Detroit City Council approved a legal settlement resolving this case, resulting in numerous changes to the HPTAP application process<sup>14</sup>. The settlement also stipulates that the city must exercise its Right of First Refusal (ROR) authority under state law (MCL 211.78m) until 2020 to purchase foreclosed homes that are occupied by homeowners who qualified for the HPTAP at any point between 2014 and 2017. The city then transfers ownership to a nonprofit organization, which sells them back to the original owners for \$1,000. In 2018, UCHC partnered with the City of Detroit to implement the ROR program, which assisted 170 homeowners.

In November 2018, Detroit City Council approved an ordinance designed to solidify and expand upon the changes to the HPTAP application process that were introduced by the 2018 settlement<sup>15</sup>. This ordinance:

- Guarantees the exemption at current levels (100% and 50%) and income guidelines;
- Allows applicants to demonstrate eligibility by showing enrollment in other means-tested government programs;
- Institutes a “short-form affidavit” that allows certain owners who have received the exemption in prior years to file an abridged version of the application to renew their exemption;
- Mandates that the city includes information about the HPTAP on the annual assessment notice and makes the application available at the Office of the Assessor, City of Detroit Recreation Centers, Department of Neighborhood Offices and the city’s website;
- Codifies changes to the application process introduced by the 2018 settlement order, which includes fewer documentation requirements, a more flexible notarization option and standard procedures for issuing decision letters;
- Requires that an accurate tax bill be issued after exemptions are granted.

## POLICY RECOMMENDATIONS

Although the Detroit City Council, the Office of the Assessor and the Board of Review (BOR) are implementing positive changes to ensure that the HPTAP is more widely accessible to residents, there is more that local and state governments can do to support and expand upon these ongoing efforts. This includes strategies to increase awareness, reduce programmatic barriers and strengthen institutional communication and accountability procedures—while also taking steps to alleviate tax debt and prevent foreclosure among residents who were eligible but did not receive the exemption in past years. The recommendations below represent some, but not all, of the next steps that the city, county and state governments can take to improve HPTAP implementation in Detroit and strengthen PTE effectiveness across Michigan.

### INCREASE AWARENESS OF TAX RELIEF PROGRAMS

- In-person, online and at tax payment kiosks, [the Wayne County Treasurer can provide information and actively promote local poverty tax exemptions, including the HPTAP, to homeowners who face tax debt and foreclosure](#). The Wayne County Treasurer should also conduct outreach to homeowners currently in payment plan agreements. Each year, the Wayne County Treasurer can provide cities with a list of homeowners who have an IRSPA and are on the foreclosure petition, so that outreach can be done to those homeowners most in jeopardy of losing their homes.
- The Office of the Assessor can promote the Principal Residence Exemption (PRE), a precondition for the HPTAP, to ensure all homeowners receive notice of tax relief options. At the same time, local and state governments can take actions to identify and deny fraudulent PREs, helping to offset revenue loss associated with greater HPTAP use and limit abuse by non-homeowners.

### REMOVE PROGRAMMATIC BARRIERS

- To further reduce documentation requirements and ease administrative demands, local and state governments can coordinate data sharing across governmental departments and agencies to verify program eligibility; for instance, the Wayne County Register of Deeds can provide BOR with free access to ownership documents, rather than requiring applicants to provide copies.
- The BOR can develop an online platform for application completion, submission, and tracking.
- The BOR and City Council should translate the application and other required documents (such as the PRE), at a minimum, into Spanish and Arabic.
- City Council can amend the HPTAP ordinance to remove the application's notarization requirement entirely.

### PROVIDE SUPPORT FOR COUNSELING ASSISTANCE

- To sustainably improve HPTAP access without placing a burden on community-based organizations, [the Mayor can promote the HPTAP through the Department of Neighborhoods and offer designated office hours for application assistance at recreation centers across the city](#).

### STRENGTHEN INSTITUTIONAL COMMUNICATION AND ACCOUNTABILITY PROCEDURES

- Upon application submission, the BOR should issue a time-stamped receipt to the applicant and include a timeline for when the applicant can expect to receive a decision.
- The BOR can simplify notices of approval to more clearly inform residents of their decision as well as their reduced tax obligation.

### EXTEND SUPPORT FOR THE RIGHT OF FIRST REFUSAL (ROR) PROGRAM

- The Michigan State Housing Development Authority (MSHDA) can allocate a portion of the remaining Step Forward funds to ensure adequate funding for the ROR program.
- Through the Department of Neighborhoods, the Mayor can coordinate ROR program outreach (e.g., mailers and door-to-door canvassing) to occupied foreclosed properties.

### EXPAND ACCESS TO STEP FORWARD

- MSHDA should work with the BOR to determine multi-year HPTAP eligibility criteria, allowing MSHDA to waive the income requirement for Step Forward funds.
- The Mayor can advocate for this change at the state and local levels to ensure that homeowners can access the funds before they expire at the end of 2019.

### MAKE THE PTE RETROACTIVE FOR QUALIFYING HOMEOWNERS

- [State legislators can amend MCL 211.7u to allow local communities the discretion to make the PTE retroactive](#), so that homeowners can be relieved of tax debt and the threat of foreclosure for years they legally qualified for relief.

### PERMIT MULTI-YEAR POVERTY EXEMPTIONS

- To reduce the burden of yearly application submission for groups who face chronic poverty, such as seniors and residents with long-term disabilities, state legislators can amend MCL 211.7u to allow local governing bodies the discretion to issue a multi-year exemption.

## ENDNOTES

- 1 Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence, "50-State Property Tax Comparison Study for Taxes Paid in 2016," 2017; U.S. Census Bureau, "American Community Survey (ACS) 5-Year Estimate," 2016.
- 2 Bernadette Atuahene and Timothy R. Hodge, "Stategraft," *Southern California Law Review* 91, no. 2 (2018): 263–302.
- 3 Wayne County Treasurer, "Wayne County Tax Foreclosure Auction by Occupancy Status, 2005-2017," 2017.
- 4 City of Detroit, "Tax Foreclosures of Owner-Occupied Detroit Homes Down 89% Since 2015 As Result Of Prevention Efforts," *News from the City Government*, 2018.
- 5 Phil Cavanagh, "Wayne County Hard at Work Eliminating Foreclosures," *Michigan Chronicle*, March 19, 2018.
- 6 U.S. Census Bureau, "American Community Survey (ACS) 5-Year Estimate"; Detroit Citizens Board of Review, "2017 Homeowners Property Tax Assistance Program Application and Policy and Guidelines," 2017.
- 7 Willie C. Donwell, personal communication with author, February 6, 2018.
- 8 Participants were considered eligible if their self-reported annual household income fell below the maximum thresholds specified in the 2017 guidelines. In rare cases where the household income fell above the maximum threshold, participants were considered eligible if they provided evidence of extenuating circumstances that affected their ability to pay their taxes.
- 9 Participants who had submitted the application but had not yet received a decision at the time of their initial interview were called again within the next three months.
- 10 In 2017, the minimum supporting documentation for a complete HPTAP application included: proof of property ownership; proof of residence for all owners and occupants; proof of all household income; proof of household expenses; and a copy of federal and/or state tax returns for all adult occupants (unless not required to file).
- 11 Application review and exemption approval decisions involve multiple steps that take place internally to the BOR. Only homeowners' experiences of these procedures (i.e. communication and outcome) are evaluated in the present study.
- 12 These legal organizations included the American Civil Liberties Union (ACLU) of Michigan, the National Association for the Advancement of Colored People Legal Defense and Educational Fund, Inc. (NAACP LDF), and the law firm Covington & Burling LLP.
- 13 American Civil Liberties Union of Michigan, "ACLU, NAACP Legal Defense Fund Settle Tax Foreclosure Case, Enabling Low-Income Detroiters in Foreclosure to Keep Their Homes for \$1,000," *Racial Justice*, July 3, 2018.
- 14 Morningside Community Organization v. Eric Sabree, 2016. State of Michigan Wayne County Circuit Court, Case No. 16-008807-CH. Stipulation and Order of Settlement and Dismissal.
- 15 Allie Gross, "It Just Got Easier for Poor Detroiters to Get Poverty Tax Exemptions," *Detroit Free Press*, November 20, 2018.