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Detroit Expected \$55 Million in Property Tax Revenue; It Brought in \$6.7 Million

Finance expert: Missed projections 'compares to that in many third world cities'

By TOM GANTERT and JARRETT SKORUP | Aug. 27, 2014

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In the fourth quarter of its fiscal year 2014, the city of Detroit projected it would bring in \$55 million in property taxes. Instead, it collected just \$6.7 million, about \$48.3 million short of what it expected.

The city revealed the shortfall in its most [recent filing](#) with the Michigan Department of Treasury by Emergency Manager Kevyn Orr.

"It's a combination of many factors," said Bill Nowling, spokesman for Orr. "Clearly, collections is an issue, but so it is the assessment process itself. In many cases, the city is carrying assessments for properties that are blighted or abandoned and those amounts go into making up that \$55 million number."

That shortfall in property taxes played a big role in why the city was \$50.2 million in the red in the fourth quarter, which ran from April to June.

In the third quarter, the city of Detroit fell \$19.3 million short of property tax revenue collections. However, in the first two quarters of FY 2014 (July through December of 2013), the city took in a combined \$52.1 million more in property taxes than projected.

Robert Inman, a professor of finance, economics and public policy at the University of Pennsylvania's Wharton School, called the recent shortfall "extraordinary."

"While there are surely many possible explanations for the extremely low yield of the property tax recently observed for Detroit, the fact remains that a 10 to 15 percent collection rate for the city's property tax compares to that in many third world cities," Inman said. "And perhaps for third world reasons: abandoned properties, declining values and thus an inability to pay, and finally, simply tax cheating. Detroit has its work cut out for it."

James McTevia, a financial consultant and turnaround specialist, said the revenue projections aren't



surprising since they came during a period of insolvency.

"It will be years before Detroit is stable enough for anyone to make realistic projections and so I am not at all surprised the projections are substantially off," McTevia said. "One of the worst things an insolvent company/city can do is base a restructuring plan on poor projections. They will soon be back to court unless someone has a tight hold on the checkbook!"

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