Property Tax Base Stabilization & Neighborhood Revitalization

"A Revenue Producing Quality of Life Compliment to the Detroit Future Cities Initiative"

Financial Institution Urban Policy Work-Group Brief
Sub-Committee on Incentivizing Neighborhood Density & Property Values

Presented November 6. 2013
Donald Graves
U.S. Department of Treasury
Deputy Assistant Secretary for Small Business, Housing, and Community Development Policy

The Work Group

In August 2012, the first of a series of Financial Institution Urban Policy Work-Group meetings was held at Comerica Bank in Detroit to develop policies, practices and relationships that support improved underwriting out-puts, neighborhood stabilization and tax base expansion. "Project 99" is an out-put of the Sub-Committee on Incentivizing Neighborhood Density & Property Values. Work-Group participants included:

Stephen Newicki, Vice President, Comerica Bank
Donnell Miles, Vice President, Flag Star Bank
Deborah Herdman, Vice President, Huntington Bank
Patricia Herndon, Director of Advocacy, MI Bankers Asso
Kevin Watkins, Vice President Comerica Bank
Malik Goodwin , Vice President, Detroit Economic Growth Corp.
Dyck Van Koevering, General Counsel, MI Insurance Institute
BCF Emeritus, Dr. Karl Gregory, Economist; Oakland Univ.
BCF Emeritus Member, Don Davis, CEO, First Independence Bank
BCF Board, State Senator Bert Johnson
BCF Board, State Rep. Thomas F. Stallworth, III
BCF Board, International Rep, UAW, Frank Woods
BCF Board, Mary Brazelton, Pres. Detroit Real Estate Brokers

Ken Ross, Vice President, Citizens Bank
Pat Holden, Vice President, Bank of America
Eric Sabre, Office of Wayne County Treasurer
Pat Green, Lobbyist; Wells Fargo
Ken Harris, CEO; MI Black Chamber of Commerce
Eric Foster; Principle; Foster, McCollum & White
State Senator Virgil Smith
BCF Founder, Rep. Dr. Alma G. Stallworth
BCF Board Louise Guyton, Vice President, Comerica Bank
BCF Board, MI House Speaker , Rep. Chuck Perricone
BCF Board, Derrick Brown, CEO, Quorum Commercial
BCF Board, Chris Aldridge, COO, National Faith Home Buyers
BCF Board, State Senator Coleman Young

BCF Board, USA-Energy Group, CEO; Rep. Dr. KB Stallworth

The Problem

Demolition of existing blighted structures is a urgent priority in the restoration of Detroit neighborhoods; **BUT** equally as important is the creation of a mechanism that prevents blight.

UNDERSTANDING A PRIMARY SOURCE OF DETROIT'S BLIGHT

*For each of the last 3 years, 44,000 properties have been forfeited for non payment of property taxes.

*Of these forfeitures, about ½ are redeemed, 9,000 to 12,000 are sold at auction

*The remaining properties got no bids and ended up in the State's, Wayne County's or the City's Land Banks.

- Of the properties sold at auction, 85% to 90% are purchased by non occupant owners ("Auction Investors").
- 82% of Auction Investors never pay post auction property taxes. The Auction Investors who purchased at the 2011 & 2012 auctions currently owe in excess of $100,000,000 of taxes post auction.
- It takes 3+ years from the date of non payment until a property is auctioned and put back onto the tax rolls.
- Auctions recover only 17% of unpaid taxes, interest, fees and costs.
- Auction Investors are able to rent purchased properties for between $700 and $850 per month. The majority of Auction Investors keep properties maintained just enough so that their tenants continue to pay rent.

The Problem (continued)

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- Auctions historically recover only 17% of unpaid taxes, interest, fees and costs.

- Auction Investors are able to rent purchased properties for & between $700 and $850 per month. The majority of Auction Investors keep properties maintained just enough so that their tenants continue to pay rent but make few property upgrades or interact with neighboring property owners on exterior maintenance standards, tenant behavorial expectations (ie. illegal property use, noise, abandoned cars, yard junk, etc.)

The Problem (continued)

- The 83% of taxes, interest, fees and costs that are not recovered by auctioning assessed properties exceeds $900,000,000 for years in which collection is not barred by the statute of limitations.

- The current statutory framework only permits the City to sue taxpayers to enforce personal liability for unpaid property taxes.

- The City has a right to enforce collection of taxes assessed against a property on July 1 of each year until February 28 of the following year. The City's right to enforce collection ripens again only after an assessed property is auctioned, which is 3+ years from the July 1 date of assessment. From March 1 of the year following a property's July 1 assessment until the property is auctioned (2+ years) only the Wayne County Treasurer has the authority to collect Delinquent Property Taxes.

Problem Impact

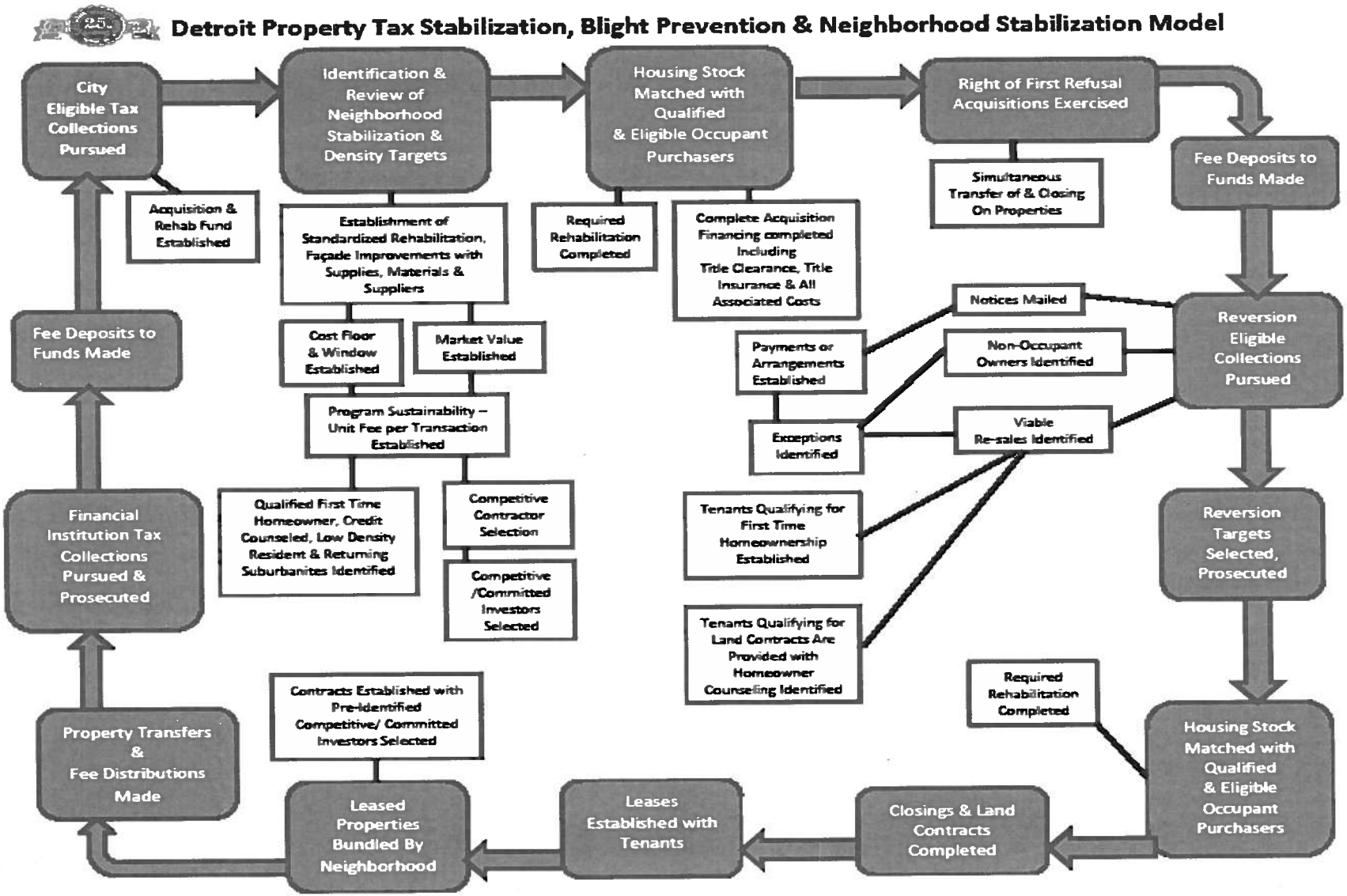
- Investor owned properties are more likely to become blighted properties than owner occupied homes.
- Neighborhood property values and quality of life are weakened as more of its owner – occupied residential properties become rental properties .
- Neighborhoods are more likely to experience an increase in blight as the percentage of non-occupant ownership increases.
- Weaker neighborhoods result in decreased population density which adversely impacts school enrollment, the efficiency of providing police and fire services, and the ability to stabilize and increase property values.
- The ever-expanding universe of "non-committed" investor owned residential properties in Detroit has significantly contributed to driving down neighborhood livability, housing stock value and marketable community viability. To desirable purchasers.
- The low collection rate of taxes from these investor owned properties has, and continues to severely damage City finances

Elements of Needed Prescription

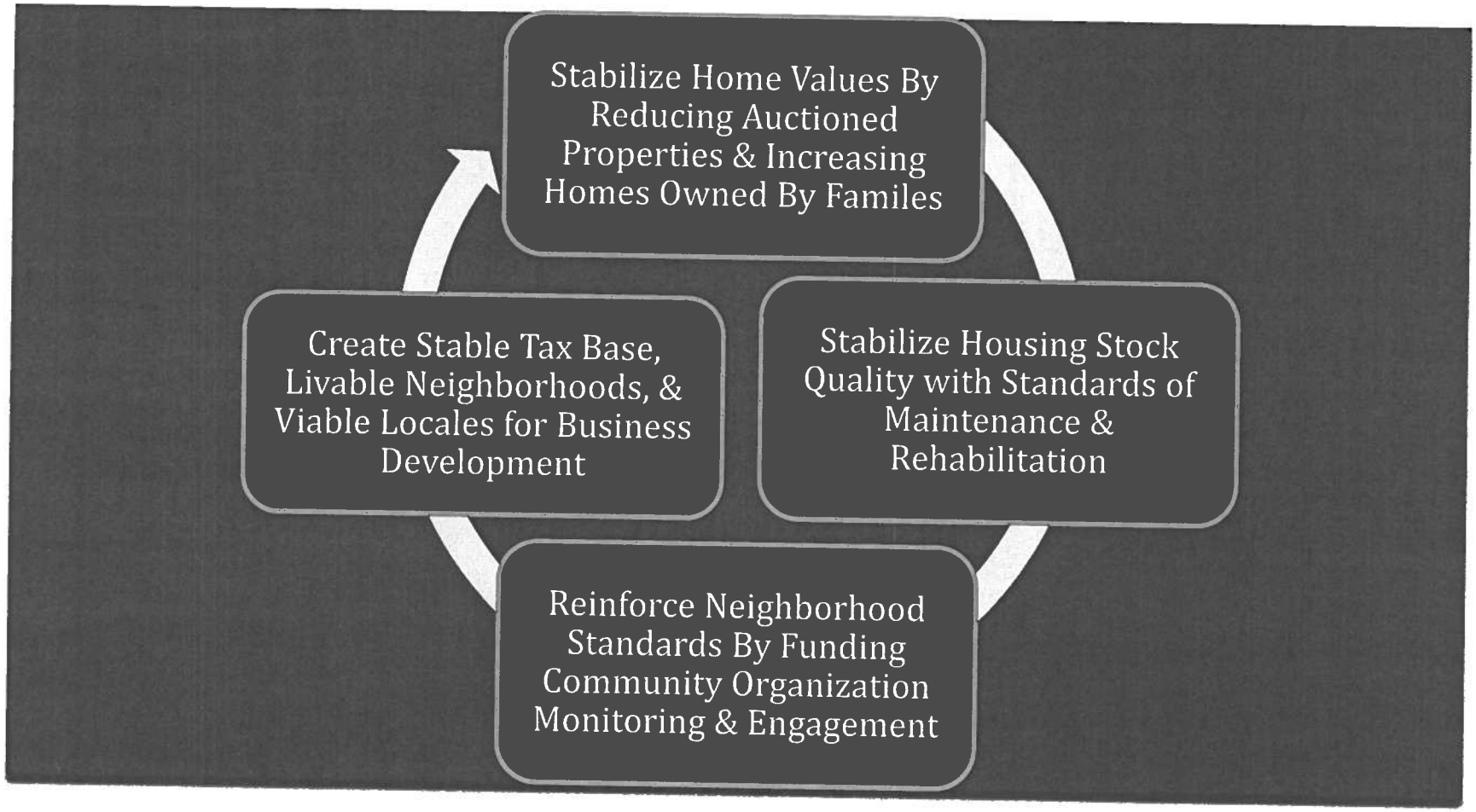
- Any viable prescription model must have a positive impact upon Neighborhood Stability, Increase Homeownership, and Prevent Blight.
- The prescription model must shorten the time that a property is effectively off the tax roles , preferably from the current 3+ years to 4-6 months.
- The prescription model must effectively modify investor behavior going forward by selectively reverting some investor properties and/or suing them personally for unpaid property taxes,
- Any viable prescription must significantly increase property tax collections via a self-funded model.

The Annual Prescription Cycle

(The Project 99 Operations Model)



The Results of the Prescription



The Solution Stakeholders

CIC is a coalition of neighborhood organizations, public resources & community development service providers vested in stabilization, revitalization and development of Detroit's residential housing stock.

*National Faith Home Buyers
*Project Live
*U-SNAP-BAC Community Development Corporation
*Schaefer, 7-Mile, Lodge Association
*Blackstone Community Council
*Gesu /University District Community Council
*Detroit Real Estate Brokers Asso.
*Michigan State Housing Development Authority
*Motor City Blight Busters
*First Independence Bank
*Bagley Community Council
*Schulze Community Council
*Winship Community Council
*E-Title
*DTE Energy
*Comerica Bank

*Black Caucus Foundation of Michigan

The CIC's "prescription is the Project 99 Pilot. It's execution team management and coordination is provided by Motor City Law and Realty Services Corporation. The Execution Team has been working in collaboration with the Wayne County Treasurer, State of Michigan Treasurer and Detroit Office of Emergency Management to implement "the prescription" via Project 99A

Project 99 Summary

The Project 99 Pilot executes three existing mechanisms to increase recovery of property tax revenues in excess of $200,000,00 over 20 months while creating density, expanding homeownership opportunities for residents, and stabilizing property values in targeted neighborhoods

Project 99	**- Phase 1:**	**Right of First Refusal**
	- Phase 2:	**Right of Reversion**
	- Phase 3: (Project99A)	**Person am Liability for Taxes**

Project 99 will generate revenue for the City of Detroit from 4 sources:

1) Current unpaid taxes : An estimated **$100,000,000** of the $500,000,000 owned (Phase 3)
(2013 taxes owed by investors and uncollectable taxes resulting from un-paid post auction balances)

2) Payment arrangements from owner occupants to avoid County Reversion : An estimated
$ 15,000,000 (Phase 2)

2) Resale of Non-Occupant Investor-Owned Properties: An estimated **$100,000,000**
Sold to "qualifying tenant occupants", non-dense location residents, attracted suburbanites , or as a last resort "City vetted investors" that agree to strict contract terms established by the City that require registration as a rental property, specified property improvements and neighborhood quality requirements for which compliance failure will result in reversion. (Phases 1 & 2)

The implementation of the Project 99 Pilot will also stimulate greater property tax compliance in general, and increase adherence to both billings and delinquency notices. Based on a pre-holiday season implementation target and the current date in the tax cycle; program commencement aligns with tasks of Phase 3 -99 A

Project 99 Pilot Neighborhoods

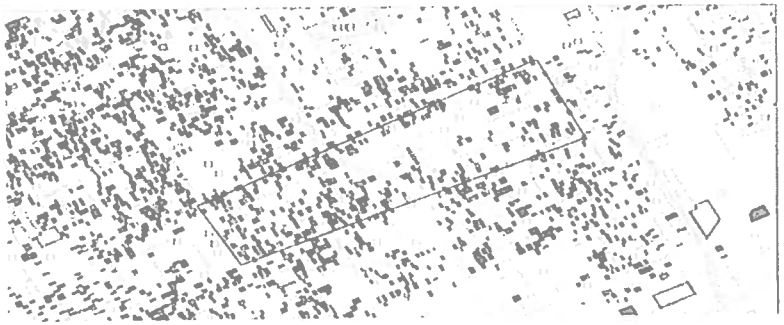
Green Acres
Sherwood Forest
Detroit Golf
Winship
Warrendale
Indian Village
Lafayette Park

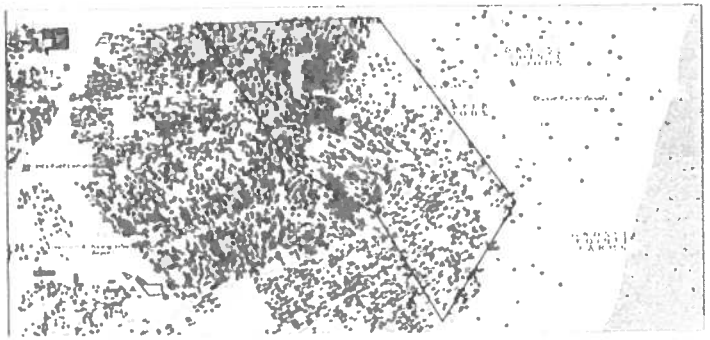
Palmer Woods
University District
Bagley
Comstock Park
Rosesdale Park
Jefferson Chalmers
Aviator

Grandmont
Old Redford
Boston Edison
Regents Park
Morningside
Rivertown
East English Village

Universe of Project 99A

(40,000 properties)





The Execution Team

Andrew Munro is an Attorney and Certified Public Accountant with over 30 years experience in complex litigation in securities and Real estate. Mr. Munro was formerly General Counsel for Orlans one of the nation's largest foreclosure management and title companies. He was responsible for the operational oversight and compliance of the foreclosure activities of 600 people in 12 states. Mr. Munro will provide operational and strategic management for the Community Investment Coalition's initiative to recapture delinquent tax revenue related to the foreclosure process and help occupants of these properties become owners. He is CEO of Realty Service Company.

Dina Harris is a housing professional revered by Detroiters with over 40 years experience managing public entity housing programs. She started with Ypsilanti Housing Authority and ultimately won an award for performance of a drug elimination program that she created. In 1996, she founded National Faith Home-Buyers and within 17 years has become one of the largest homeownership development organizations in the U.S. helping over 10,000 families realize the dream of homeownership. Along the way, her efforts have earned her several national awards including the U. S. Housing & Urban Development "Courage Award", and the "With Ownership Wealth Program of the Year Award". Ms. Harris will lead the initiative's program that will transition occupant renters to owner occupants by providing screening, education and counseling. Ms. Harris is Executive Director of National Faith Home Buyers.

John George has over 30 years experience in community organizing. Mr. George founded Angel's Night to combat the explosion of arson related fires in the city on the night before Halloween. He has successfully organized more than 100,000 volunteers to clean up homes, remove blight, and repair parks. Mr. George has received numerous civic and humanitarian awards for efforts and is well-known and respected throughout Detroit for his community development efforts. Mr. George will be responsible for the training and management of community organization resource coordination as well as the monitoring of housing stock and parcel maintenance, rehabilitation, and repurposing. He is the CEO of Motor City Blight Busters.

The Execution Team (Continued)

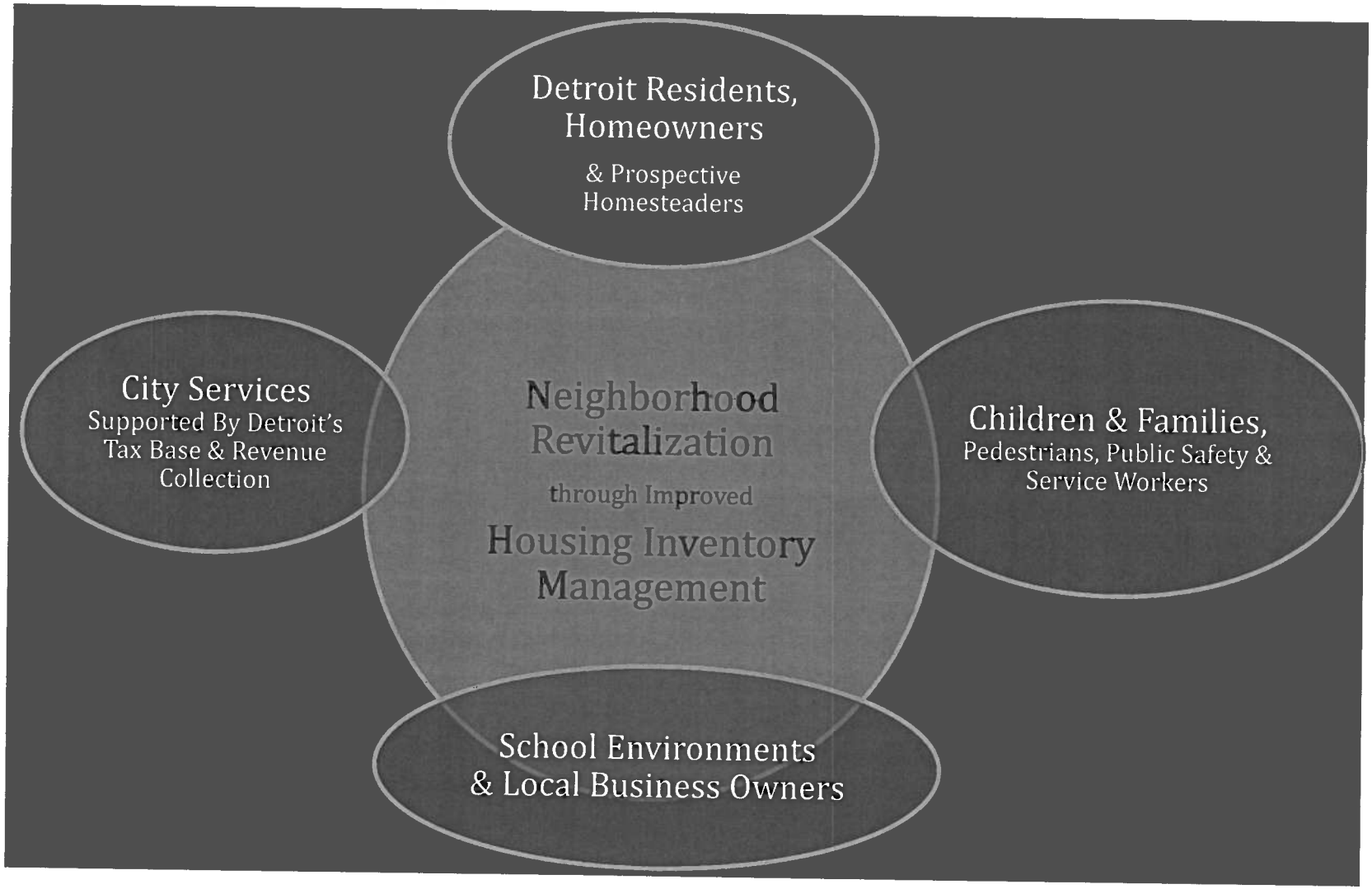
Christopher Aldridge is a real estate and finance professional with more than 25 years experience in structuring complex financial transactions. As President of the Charter One's Community Development Corporation, he over saw affordable housing and community development lending over a six state region and managed a $400 million portfolio of community development assets. Mr. Aldridge has managed a $2 billion custom funding contract business for American General Annuity; and has lead Community Affairs Operations for Fifth Third Bank charged with ensuring the Bank's compliance with the Community Reinvestment Act and managing relationships with community groups. Mr. Aldridge is the COO of National Faith Home Buyers , a Board Member of the Black Caucus Foundation of Michigan, and Chairs the Financial Institution Urban Policy Work Group Sub-Committee on Incentivizing Neighborhood Density & Property Values.

Christine Filipowicz is a process engineer with 30 years experience in developing and implementing fail safe processes to ensure compliance with strict quality control requirements. She developed her skills at GM and brought her experience working with strict manufacturing tolerances to the foreclosure process for Orlans Associates. Her efforts have made Orlans one of the most effective and efficient process multi-state management firms in the real estate financial industry; representing investors, lenders, banks and special servicers in loan transactions, bankruptcy proceedings and defaults. Ms. Filpowicz is Vice President .

Bryan Henry is an attorney with more than 25 years experience in real estate law. Mr. Henry directs the activities of one of the largest and most efficient title companies in the region – eTitle; which provides title and closing services for residential, commercial and REO transactions throughout Delaware, Maryland, Massachusetts, Michigan, New Hampshire, Rhode Island and Virginia. Mr. Henry is responsible for more than 6,000 title searches and 800 closings per month and has a network of 600 skilled professionals and 80 attorneys in eTitle and Level 10. Mr. Henry is COO of eTitle.

Darryl Chimko is an attorney with more than 30 years experience in collections and bankruptcy law. Mr. Chimko built a thriving practice helping consumers restructure their financial lives as well as structuring and collecting on payment arrangements to recover debts. Mr. Chimko will leverage this expertise to lead the effort to increase collections and enforce forfeitures for non-compliant investors as well as helping structure payment arrangements for delinquent homeowners; and is COO of Realty Services Company.

The Beneficiaries



Project 99 Contacts

BCF Financial Institution Urban Policy Work Group Recommendation
Sub-Committee on Incentivizing Neighborhood Density & Property Values

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