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USA

# A hurricane without water: Detroit's foreclosure disaster

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**Public policy in Detroit, the nation's largest majority Black city, seems structured to create blight and force the current population out of their homes. Sixty-two thousand properties are set for foreclosure, this year, more than half of them occupied. "This could result in the displacement of as many as 100,000 Detroiters, or about one seventh of the city's population."**

"The truth is that mortgage and tax foreclosures have caused most of the city's blight over the last 15 years."

Detroit – where 85% of the working class once owned homes – has been suffering a waterless hurricane. Predatory mortgage practices that disproportionately targeted African-American homeowners and inflated mortgages resulted in foreclosure on 25% of all residential buildings in the city between 2005 and 2011. Vacancy escalated and blight blossomed.

While Detroit endures the highest poverty rate of any major U.S. city, where schools have been closed and services cut to the bone, developers have been given land and generous tax breaks for their projects. These include turning 8.3 acres of land over to Dan Gilbert, head of Quicken Loans, to develop the Brush Park area just above central downtown. It is also a short walk from where Mike Ilitch, with \$485 million in state funds, is constructing a Hockeytown entertainment district.

One might also note that Detroit paid \$178 million for lawyers and consultants to take the city through bankruptcy, a price that Bankruptcy Judge Steven Rhodes okayed.

For city residents, on the other hand, a second foreclosure hurricane has been brewing – tax foreclosures. Homeowners are slapped with high property taxes, and 18% interest if they do not pay up. Yet property valuations, mandated by the state to be recalculated yearly, remain grossly over-assessed.

Five years ago the city's official unemployment rate stood at 25%, and even today many believe unemployment is close to 50%. The reality is that more residents are forced to work in the suburbs, often at malls or fast food restaurants at or just above minimum wage, rather than finding jobs in the city.

## Low Income, High Bills

Detroit's families have a median income of \$26,325. Monthly water bills run an average \$70 per home, and yearly taxes on a modest home might be pegged at 3-15 times its realistic market value.

The beginning of the financial crisis came earlier to Michigan than other states. As a consequence, between 2002-08 there were 18,855 tax foreclosures.

Wayne County forecloses on properties that are three years in arrears. Then the homes are sold in two rounds of auctions. In the first round, the house is offered for the amount owed; in the second, it is auctioned off with a beginning bid of \$500. Yet by 2008 only 5,585 had been sold; the majority of these mostly vacant properties became city owed.

Over the next six years, tax foreclosures rose. Another 92,312 properties went into foreclosure, with fewer than

11,000 sold. The city now owned 53,608 properties. In the intervening years, many were stripped and/or burned.

Last year newly elected mayor Mike Duggan announced that some neighborhoods would receive a 5% reduction on their current property taxes, others 10%. Yet this gesture doesn't comply with the plain letter of the law, let alone begin to deal with the fundamentals of Detroit's residential property taxes: years of over-assessment of homes, exorbitant interest rates, and tacked-on alleged unpaid water fees can quickly add thousands of dollars.

In early 2015 the Wayne County Treasurer's office announced that this year 62,000 Detroit properties will be slated for foreclosure, with probably 38,000 occupied. This could result in the displacement of as many as 100,000 Detroiters, or about one seventh of the city's population.

## Creating Blight

The treasurer's office pushed back the February 2015 deadline for paying back taxes or entering into a payment plan and having one's property removed from foreclosure to May 12. On that date, to avert the emergency facing city residents, community organizations led by the American Civil Liberties Union held a press conference to demand a moratorium on the foreclosure of occupied homes. They reminded the county treasurer that during another emergency – the 1930s Great Depression – leaders had worked to protect homeowners from foreclosures.

Their letter also outlined how such foreclosure auctions were “counterproductive” – delinquent taxes are not recovered. In the past three years the county claimed it was owed \$691 million in unpaid taxes, penalties and interest but the auctions only raised \$107 million. For a 15% recovery rate, the county displaced residents and destabilized neighborhoods.

Yet according to the city assessor's office, a random sample of residential properties auctioned off in 2012 found that fully 40% exceeded the property's worth. Loveland Technologies, which has mapped Detroit's foreclosure property, concluded that there is an 86% overlap between tax evictions and blighted homes. Tax foreclosure, carried out by the city and county, is the greatest source of the city's blight.

In 2010 Washington provided \$498 million to the state of Michigan to help homeowners at high risk of foreclosure. Yet over five years Lansing has only provided \$188 million to help homeowners; \$26 million was spent on administrative expenses and \$23 million allotted for blight removal. Denying 57% of all applicants, sometimes deeming them “too poor” to be eligible, the Step Forward program now plans to divert millions for “blight removal” instead of saving homes and neighborhoods from blight.

Of course there is a tax exemption in place for those who are too poor to pay, but unlike many other Michigan cities and towns, Detroit does not send out information about it or make the application available online. Individuals are required to apply in person, placing a burden on elderly and disabled people. This represents yet another hurdle in a city with an inadequate transit system and where 25-33% do not have access to a car.

“There is an 86% overlap between tax evictions and blighted homes.”

Just as with Detroit's water crisis, no governmental body addresses underlying structural problems that Detroiters – 83% African American and 9% Latino – face. It's unlike other U.S. cities in that poor people often own homes inherited from their families when Detroit was a thriving industrial city, or purchased before the homeowner became disabled or retired on a fixed income.

It's also important to remember that the city's bankruptcy was carried out on the backs of retired city workers. Retirees lost their cost-of-living increases, most of their health care, and took a 4.5% pay cut. (Uniformed retirees, who are ineligible for Social Security, took less of a cut.)

When the Wayne County Treasurer's office sent residents notices that they could work out a payment plan to take their homes off the foreclosure list, several thousand turned out. Last winter the state legislature passed a series of bills around foreclosure, including a more flexible plan that capped monthly payments at 3% of the back taxes with 10% due up front. Additionally the treasurer had the discretion to lower the 18% interest rate for the current year to 6%.

Raymond Wojtowicz, Wayne county treasurer, announced on May 5 that 9,000 occupied homes have been removed from foreclosure proceedings. But a payment plan doesn't address the structural problems of over-assessment nor mean that those plans are affordable.

The County Treasurer's office has since pushed the foreclosure date back to June 8. As of May the revised Loveland Technologies website indicates there are probably 20,900 foreclosures on occupied homes with an additional 18,563 "reversions." (Reversions are properties that were auctioned during the 2012-14 period but have not paid their taxes and therefore have reverted to the county.)

## Deluge of Water Shutoffs

Investigative reporter Curt Guyette examined the plans for the 24,743 households that signed up last year to avoid water shutoffs. The program required paying the current bill of approximately \$70 plus 10% of the overdue amount each month.

Guyette termed the program a "massive failure," with only 300 current with their bills. As water shutoffs restart at the end of May, a Detroit Free Press article reported that 28,000 customers face immediate cutoffs. Add to that the approximately 14,000 households that never had their service restored in last year's shut offs.

This year the Water Residential Assistance Program will have \$4.5 million available for Detroit and the tri-county area. A report from the Detroit City Council's legislative policy division noted that this is "significantly less" than needed to help Detroiters, where residential customers currently at least 60 days past due owe \$47.3 million. An additional complication is the Detroit Water and Sewer Department's request that City Council approve a huge 12.8% rate hike.

The U.S. Environmental Protection Agency recommends that water rates not exceed 2.5% of a household's income. For their part, the Detroit People's Water Board, a coalition of organizations, has called for a water affordability plan instead of "helping" people after they're already behind on their bills. Several U.S. cities — including Cleveland and Portland — use such a system, which sets differential rates based on a ratepayer's disposable income.

Mayor Duggan took charge of the water department last year when the shutoffs created such a scandal that the emergency manager threw up his hands. The mayor outlined a 10-point plan, but resists the concept of affordability, claiming that "free" water is not an option.

In insisting that water is a human right, no one claimed it was possible right now to have a free system. In fact in 2006 the Detroit City Council adopted a water affordability plan that set rates at 2-3% of household income but the

city's law department ruled it illegal and it was never implemented by the water department. Will the water department, now in the process of regionalization, be able to move to such a proposal? Can the county treasurer learn from the failure of both past auctions and the water crisis?

If logic were the basis of Detroit's planning, this approach to water usage makes sense. And there is also a solution to tax evictions. After June 8 the county formally owns the property that is to be auctioned off in the fall, and could simply arrange to sell the homes back to residents for a small fee, wipe out the back debt and reassess the property. That would stabilize several neighborhoods and there would be a lot less blight to clean up.

If gentrification is the goal, however, the plans in place will continue to displace a Black working class and level neighborhoods. The truth is that mortgage and tax foreclosures have caused most of the city's blight over the last 15 years " and given that only 35% of homeowners are current with their property taxes, next year will see another round of city-initiated foreclosures.

Foreclosures have been a major factor in pushing Detroiters beyond the city limits. While the 2000 census counted just under a million city residents, there were only 714,000 a decade later. And the decline continues, although it has slowed with gentrification and is currently the population is estimated at 680,000.

## Whose Future City Is This?

Clearly the gentrification process of the downtown area won't expand to reach most of the city's 140 square miles. Detroit Future City, a plan developed by various foundations, outlines the fate of neighborhoods. Some will be devoted to water catchments or tree farms, others to industry or strengthen industrial corridor that links the Midwest to Ontario, and some to working-class neighborhoods.

When we label this process racist, officials and developers reply that those of all colors who have the money are welcome, and so they are. They are designing a future Detroit in a place where the affluent will live, work, eat and play. Resistance, hampered by big money and structural barriers, continues, facing powerful forces. So far it seems that we are able to win an individual case or two, but in a world where life for the working class is precarious, barriers are firmly in place.

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