



**House  
Legislative  
Analysis  
Section**

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**BATTLE CREEK INCOME TAX**

**Senate Bill 451 with committee amendment**  
**First Analysis (12-7-87)**

**Sponsor: Sen. John J. H. Schwarz**  
**Senate Committee: Finance**  
**House Committee: Taxation**

**THE APPARENT PROBLEM:**

Representatives of the city of Battle Creek seek legislative permission to place before the voters an increase in the city income tax. Battle Creek is one of 17 Michigan cities levying an income tax. The City Income Tax Act allows cities of under one million population to adopt an ordinance taxing residents and corporations at one percent and nonresidents at one-half of one percent. (A city of over one million population — Detroit — may levy three percent on residents, two percent on corporations, and one and a half percent on nonresidents.) A recent study by a citizens' advisory committee in Battle Creek recommended that the city increase its income tax to 1.4 percent on residents and 0.7 percent on nonresidents to pay for long-term infrastructure needs, including road, street, and sidewalk repairs and drainage projects. The advisory committee concluded the income tax increase is the fairest way to make users of city services pay for the upgrading (along with some special assessments). City officials plan a \$71 million improvement program over 13 years to address its special needs, some of which are attributable to the amalgamation in 1983 of Battle Creek and Battle Creek Township at the behest of the area's largest employer, Kellogg's. The annexation of the township increased the city's population from 40,000 to 60,000 and greatly increased the city's area. While in population Battle Creek ranks 20th in the state, in area it ranks third. Compared with other mid-sized cities, Battle Creek has a lot of roads and streets but ranks low in total taxes levied per mile.

**THE CONTENT OF THE BILL:**

The bill would amend the City Income Tax Act to allow a city with a population of over 50,000 that had within the past six years annexed an area containing more than 20 square miles to increase its tax rate to no more than 1.4 percent on corporations and resident individuals and no more than 0.7 percent on nonresident individuals. The increase would require approval before July 1, 1988, by a majority vote of the registered and qualified electors in the city voting on the proposal. The increase could be levied for no longer than 13 years as provided in the ballot proposal submitted to electors.

The bill would also delete a date from a section of the City Income Tax Act that allows certain cities under one million in population to raise the city income tax in certain strictly specified circumstances to 2 percent on corporations and residents and up to half of that on nonresidents. (The provision would apply, at least, to Hamtramck.) As it now stands such an increase must be approved by the voters before July 1, 1984. The bill would delete the date, allowing future approval in those cases.

MCL 141.503 et al

**HOUSE COMMITTEE ACTION:**

The House Taxation Committee adopted one amendment to the version of Senate Bill 451 that passed the Senate. The amendment would delete the date of July 1, 1984, from a section of the City Income Tax Act that authorized

Hamtramck to put an income tax increase proposal before the voters.

**FISCAL IMPLICATIONS:**

The bill would have no fiscal impact on the state, according to the Senate Fiscal Agency.

**ARGUMENTS:**

**For:**

A study by a special broad-based citizen's advisory group has recommended that Battle Creek ask its voters to meet the city's infrastructural needs by raising the city income tax. To do so, it requires the legislative action. The study estimates the city needs to embark on a \$71 million capital improvement program to upgrade its roads, sidewalks, and drains. The fairest way to do this, city officials believe, is by taxing the users of the services that need upgrading through a combination of the income tax and special assessments. This will allow for a 13-year, "pay-as-you-go" improvement program that will enhance the city's quality of life, promote economic development, and attract new residents. The bill recognizes that since its annexation of Battle Creek Township, the city has a geographic area and a system of roads far exceeding what its population would suggest.

**Against:**

The bill would perpetuate, and make worse, an intolerably unjust system of taxation without representation. It is unfair to allow city residents to increase the income taxes of nonresidents without allowing the nonresident taxpayers to vote on the issue. The bill should allow nonresidents to vote on the proposed increase at the very least.

**Response:** Citizens are often subject to taxes on which they cannot vote (or exercise influence). Nonresident property owners do not determine property tax rates, for example, and people who earn income in other states must pay taxes to those states without a vote. As a practical matter, allowing nonresidents to vote on an issue that is vital to a city's residents but of little concern to them could make it impossible for a city to determine how to meet its own needs.

**Against:**

Battle Creek can raise revenue in other ways. For example, the city has over three mills in property taxes that it is authorized to levy. It should be noted that the city has abated through one program or another over 34 percent of the property in the city, which has contributed its need for revenue from other sources. The city has obtained the necessary waivers from the state indicating that such abatements will not harm the city financially.

**Response:** The city has made a determination of how best to meet its own needs through the work of a citizen advisory commission. The city believes the income tax increase to be the fairest way of raising the revenue it needs. The voters will be asked for their approval or disapproval.

S.B. 451 (12-7-87)

**For:**

The bill would extend the amount of time available to Hamtramck to decide if it wants to seek an income tax increase it was authorized to seek in 1984. The city must follow stringent procedures to raise the rate, including the hiring of a financial management consultant.

**POSITIONS:**

The Michigan Municipal League supports the bill. (12-2-87)

The Michigan Townships Association opposes the bill. (12-2-87)