

Legislative Analysis



CITY UTILITY USERS TAX

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House Bill 4737

Sponsor: Rep. George Cushingberry, Jr.

Committee: Tax Policy

Complete to 9-13-05

A SUMMARY OF HOUSE BILL 4737 AS INTRODUCED 5-5-05

The City Utility Users Tax Act permits the City of Detroit to levy, assess, and collect from city utility users, a tax of up to five percent (in increments of $\frac{1}{4}$ of one percent) on the amount paid for intrastate telephone communication services, electrical energy, steam, and natural and artificial gas provided by a public utility or a resale customer.

The act provides that the first \$45 million in revenue generated from the tax is to be used to retain or hire police officers, and further provides that if the amount generated in a fiscal year exceeds \$47,250,000 (105 percent of \$45 million), one of the following is to occur:

- The rate shall be reduced in decrements of $\frac{1}{4}$ of one percent for each \$2.25 million (five percent of \$45 million) collected in excess of \$45 million, beginning on October 1 of the following fiscal year.
- The amount collected in excess of \$45 million shall be used to hire and retain additional police officers above the number of officers employed on November 1, 1984 (3,537 officers).

House Bill 4737 would delete the above language, and simply provide that all of the revenue generated from the tax shall be used to hire and retain police officers.

MCL 141.1152

FISCAL IMPACT:

The bill would have no impact on state revenue, and would have no mandatory impact on revenue in the city of Detroit if the current statutory provisions are followed.

BACKGROUND INFORMATION:

In an April 2005 analysis of Mayor Kilpatrick's FY 2006 Executive Budget, the City of Detroit Auditor General noted that the projected utility user tax revenue for FY 2004-2005 was \$53 million (\$8 million above the revenue threshold). This would require the city to use the additional revenue to hire police officers above the 1984 level of 3,537 officers or reduce the rate to 4.25 percent. Apparently, after layoffs in recent months, the

number of officers will not reach 1984 levels, and a rate reduction will be required by law. The city's adopted budget for FY 2006 projects \$49.7 million in utility user tax revenue, which accounts for approximately 1.8 percent of all revenue. (Although in April, the mayor's proposed executive budget was predicated on \$56 million in revenue.) The chart below, adapted from a report on the mayor's budget by the city's Auditor General, shows budgeted and actual utility user tax revenue since FY 1995.

Fiscal Year	Budgeted Revenue (millions)	Actual Revenue (millions)	Δ% in Actual Revenue from Prior Year
1995	52.5	49.6	(7.5)
1996	56.3	53.9	8.7
1997	54.7	54.6	1.3
1998	57.4	50.1	(8.2)
1999	54.7	50.9	1.6
2000	54.6	54.5	7.1
2001	54.6	54.3	(0.4)
2002	54.6	52.1	(4.1)
2003	54.6	55.3	6.1
2004	55.2	50.5	(8.7)
2005	55.0	53.0	5.0
2006	49.7	N/A	N/A

Note: For FY 2005, actual revenue collections are estimated amounts. Also, the city operates on a July 1 – June 30 fiscal year

The tax dates back to the enactment of Public Act 198 of 1970. At the time, the act provided that all of the revenue generated from the tax had to be used exclusively for "public safety" purposes, which apparently included police and fire protection. Public Act 34 of 1979 added the rate reduction provision, with a revenue threshold of \$37 million (the estimated revenue for FY 1979), which was later increased to \$45 million with the enactment of Public Act 108 of 1981. Public Act 349 of 1984 required that tax revenue be used for the hiring and retention of police officers (apparently conforming state law to then-city policy). Public Act 349 also added the provision regarding the hiring of additional officers above the November 1984 level, after the city was forced, by court order, to recall nearly 850 laid off police officers in the first half of 1985, at a projected cost of \$34 million. (The city couldn't afford the added cost, and wanted to use any additional revenue above \$45 million to pay the added cost, rather than reduce the rate.) The original 1970 act was re-enacted with the enactment of Public Act 100 of 1990.

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