



Senate Fiscal Agency  
P. O. Box 30036  
Lansing, Michigan 48909-7536



BILL ANALYSIS

Telephone: (517) 373-5383  
Fax: (517) 373-1986  
TDD: (517) 373-0543

House Bill 4737 (Substitute S-1 as passed by the Senate)  
Sponsor: Representative George Cushingberry, Jr.  
House Committee: Tax Policy  
Senate Committee: Finance

Date Completed: 10-19-05

### **RATIONALE**

The City Utility Users Tax Act allows Detroit to impose a tax of up to 5% on the amount city utilities users pay for their utilities. Under the Act, the first \$45 million in revenue generated from the tax must be used to hire and retain police officers. If revenue from the tax exceeds \$47.25 million, the city must either use all of the revenue in excess of \$45 million to hire and retain police officers above the number of police officers that the city had on November 1, 1984, or reduce the tax rate on October 1 of the following fiscal year by 0.25% for each \$2.25 million over \$45 million that was collected.

Reportedly, Detroit's city utility tax revenue for recent years has been more than \$50 million. The tax covers only a portion of the police department's budget and Detroit's general fund deficit has forced the city to reduce the number of its police officers below the November 1, 1984, level. Under the Act, the city will have to reduce its utility users tax rate on August 1, 2006. Since this could result in a significant decline in city tax revenue, some people believe that Detroit should be allowed to continue collecting the utility users tax at the 5% rate despite the drop in the number of police officers below the number employed on November 1, 1984.

### **CONTENT**

**The bill would amend the City Utility Users Tax Act to delete the requirement that the tax rate be lowered when more than \$45.0 million in revenue is collected; and require a city to place all of the revenue generated by the tax**

**directly into the budget of the police department to hire and retain police officers.**

Under the Act, the governing body of a city with a population of 750,000 or more (Detroit), by the adoption of the uniform city utility users tax ordinance set forth in the Act, may levy, assess, and collect from those users in that city a utility users tax as provided in the ordinance. The governing body must set the rate of the tax in increments of one-fourth of 1% that must not exceed 5%.

Under the Detroit city utility users tax ordinance, the tax is imposed on city utility users at a rate of 5% on the cost of intrastate telephone services, electrical energy and steam, and gas, when they are provided by a public utility or resale customer.

The Act requires the first \$45.0 million of revenue generated from the tax to be used exclusively to retain or hire police officers. If the amount of revenue collected in a fiscal year is in excess of \$45.0 million and if the amount of excess funds collected equals or exceeds 5% of \$45.0 million, the city must comply with the following:

- The rate of tax imposed for the following fiscal year must be lowered in decrements of one-fourth of 1% for each full 5% collected in excess of \$45.0 million.
- The amount collected in excess of \$45.0 million must be dedicated and used exclusively to hire and retain additional

police officers over the level of police officers employed November 1, 1984.

If a city fails to comply with these provisions by August 1 in any fiscal year in which the amount of revenue is in excess of \$45.0 million, the State Treasurer must implement the revenue-lowering provisions.

The bill would delete these requirements. Under the bill, the revenue generated from the city utility users tax would have to be placed directly in the budget of the police department of the city and used exclusively to retain or hire police officers (officers, investigators, or sergeants).

MCL 141.1152

### **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

#### **Supporting Argument**

In April 2005, the number of police officers employed by the City of Detroit dropped below 3,530, the number of officers (not including investigators) the city employed on November 1, 1984. The officer reduction means that, if the city generates more than \$47.25 million (\$45 million plus 5% of that amount) in revenue from the utility users tax during the 2005-06 fiscal year, it will have to reduce the tax rate on October 1, 2006. Since 2000, Detroit reportedly has earned an average of approximately \$52 million annually from the tax. With the number of police officers below the November 1, 1984, level and income from the city utility users tax expected to be greater than \$47.25 million during the 2005-06 fiscal year, it is likely that the city will be required to cut the tax rate in 2006. The rate reduction would cost the city millions in revenue at a time when it already is facing a large general fund deficit. (According to a *Detroit News* article, Detroit closed the books on its 2003-04 fiscal year with a \$95 million deficit, and faces a \$300 million deficit in the fiscal year that began on July 1, 2005, "State approves loan to whittle Detroit's deficit", 7-6-05.)

The bill would allow Detroit to continue to collect the utility tax at the 5% rate, regardless of staffing levels, provided that all of the revenue from the tax was placed

directly into the budget of the police department and was used to hire and retain police officers. While Detroit's declining population and budget difficulties have forced the city to reduce the size of its police force, the city still needs all of the proceeds of the 5% tax to fund its police department and cannot afford a rate cut. There are fewer officers on the force today than when the tax was enacted in 1990, but the cost of hiring or retaining an officer is significantly higher, with each officer costing the city an average of \$88,000 annually in wages and benefits. The bill would help the city keep an adequate number of officers on the street to provide protection for Detroit's residents as well as for those who visit the city for such high-profile events as the 2006 Super Bowl.

#### **Opposing Argument**

Although the bill would require that all of the proceeds from the utility users tax go to hiring and retaining officers, investigators, and sergeants, the bill would allow Detroit to continue reducing the size of its police force. The Act now gives Detroit an incentive to keep at least 3,530 officers by requiring a cut in the tax rate if the city employs fewer officers (when collections exceed \$47.5 million). The bill should continue to require Detroit to maintain a minimum number of officers in order to ensure resident and officer safety.

Legislative Analyst: J.P. Finet

### **FISCAL IMPACT**

The bill would have no effect on State revenue or expenditures. The bill would affect only the City of Detroit. The bill essentially would have no impact if the city were to employ more police officers than were employed on November 1, 1984. The bill would have an impact only if the number of police officers employed by the city were to fall below the November 1, 1984, level and the tax were to generate more than \$47.25 million (\$45.0 million plus 5% of that amount). Under those circumstances, the bill would prevent the mandatory tax rate reduction and thus prevent the associated reduction of revenue to the city. Under current law, if the revenue under the tax were to total \$49.5 million, 10% above the \$45.0 million limit, and the city were required to lower the tax rate, then the tax rate would be lowered from 5% to 4.5% and

the tax would generate approximately \$40.5 million in the next fiscal year, a \$9.0 million reduction. The bill would prevent such a reduction.

Fiscal Analyst: David Zin

H0506\s4737a

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.