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BILL ANALYSIS

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

Date Completed: 10-5-05

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 spend all of the revenue generated by the tax 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 Revenue Commissioner must implement the revenue-lowering provisions.

The bill would delete these requirements. Under the bill, the revenue generated from the city utility tax would have to be used exclusively to retain or hire police officers.

MCL 141.1152

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, which is the only city subject to the Act. 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.

This estimate is preliminary and will be revised as new information becomes available.

Fiscal Analyst: David Zin

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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.