

# **EFFECTS OF POPULATION ON MAJOR REVENUE SOURCES IN DETROIT**

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# EFFECTS OF POPULATION ON MAJOR REVENUE SOURCES IN DETROIT

## Introduction

On April 1, 1990, the next federal decennial census will be enumerated. The results of that census will have profound financial and political implications for the city of Detroit. State revenue sharing and other payments to local units, as well as apportionment, are based on the last federal census, creating a major shock every ten years for Detroit and other communities which experience significant population changes. By some estimates, the 1990 census is expected to reveal about 1,015,000 people living in the city--187,877 fewer than in 1980. At current levels of state distributions of revenue sharing funds from state income, sales, single business, and intangibles taxes, this would result in an annual loss of at least \$37.7 million of general fund revenues to Detroit. Transportation fund distributions are also based in part on population; the loss from this source, at current rates of distribution, would be \$3.9 million. For each 10,000 residents enumerated in the federal census, Detroit currently receives \$2.2 million in state revenue sharing and transportation fund distributions. Should Detroit's enumerated population fall below 1 million, the effects on the city would be still more profound, because specific state statutes which provide special tax authorizations to Detroit tie those authorizations not specifically to the city of Detroit, but rather to all Michigan cities having a population of over 1 million.

It is recognized that "hard to enumerate" individuals may represent an increasing proportion of people living in Detroit, raising the risks that the population enumerated in the census may not represent all the individuals living in Detroit. This report does not address the undercount issue. Rather, it attempts to quantify the effects of population loss on specific major revenues, recognizing that state revenue sharing and transportation fund distributions are based in part on the results of the last federal census. It will also describe specific state constitutional and statutory limitations that allow imposition of special taxes or higher tax rates based on population, and the effect on Detroit of the implementation of those and other laws on the distribution of state revenue sharing and transportation fund payments. In addition, this report will describe the effects of changes in the enumerated population on legislative representation.

The enumerated population of the city of Detroit declined by 35% from its high of 1.8 million in 1950 to the 1.2 million reported by the most recent federal decennial census in 1980. The decline continued in the 1980s: the U.S. Bureau of the Census' estimate of the city's 1986 population was 1,086,220, 9.7% fewer than in 1980, and 41.3% fewer than in 1950. While some state source revenues are adjusted based on the decennial census and so exhibit a ratcheting pattern, and other state and federal source revenues are associated with specific objectives and are therefore relatively immune to population changes, local source revenues respond quickly to changes in population.

**Table I**  
**CITY OF DETROIT 1988-89 BUDGET**  
**MAJOR REVENUES BY SOURCE - ALL FUNDS**

		<b>Percent of Total Revenue</b>
<b>Local Sources:</b>		
Net Property Tax (Excludes Library)	\$ 149,708,748	11.89%
Municipal Income Tax	274,200,000	14.45
Utility Users' Excise Tax	56,800,000	2.99
Other Local Source Revenues	<u>801,396,431</u>	<u>42.22</u>
Sub-Total	\$1,282,105,179	67.55%
<b>Federal Sources:</b>		
Community Development Block Grants	\$ 39,938,000	2.10%
Job Training Partnership Act Grants	20,510,363	1.08
Federal Pollution Control Grants	32,445,161	1.71
Federal Housing Subsidy	31,144,777	1.64
Reimbursement through SEMTA	13,000,000	0.68
Other Federal Source Revenues	<u>45,458,768</u>	<u>2.41</u>
Sub-Total	\$182,497,069	9.62%
<b>State Sources:</b>		
State Revenue Sharing	\$233,298,200	12.29%
Single Business Tax-Inventory Reimbursement	22,509,124	1.19
Gas and Weight Taxes	43,188,000	2.28
Equity Package (Includes Library)	41,764,200	2.20
Reimbursement through SEMTA	44,200,000	2.33
Other State Source Revenues	<u>48,406,169</u>	<u>2.54</u>
Sub-Total	\$433,365,693	22.83%
Total Revenues-All Sources	\$1,897,967,941	100.00%

Source: 1988-89 City of Detroit Budget

The 67.55% of Detroit's current year revenues which are derived from local sources may be expected to respond fairly quickly to changes in population, but special purpose grants, such as federal block grants, and grants for pollution control, job training, health and other programs, are based on different criteria, and are tied to specific programs. SEMTA reimbursements and state equity funding are payments for services provided by Detroit. However, almost 23% of Detroit's 1988-89 \$1.0 billion general fund revenues are dependent on population-based state revenue sharing and 76% of the city's \$56.5 million street fund program is derived from state gas and weight taxes, distribution of which has a population component.

### STATE SOURCE REVENUES

**Per Capita Distributions** The state revenue sharing act of 1971 (PA 140 of 1971) provides for the distribution of certain state revenues to cities, villages, townships, and counties. State revenue sharing includes per capita distributions from the state sales tax and the state intangibles tax.

**Michigan Sales Tax** The state sales tax was adopted in 1933. Section 8 of Article IX of the state constitution limits the state sales tax rate to a maximum of 4%. Fifteen percent of the state's receipts from the sales tax are earmarked for distribution to cities, villages, and townships on a per capita basis, using the most recent federal decennial census.

**Table 2**  
**STATE OF MICHIGAN**  
**STATE SHARING - SALES TAX**  
**(in Millions)**

<b>July 1 to June 30</b>	<b>State Sales Tax Distributed to Municipalities</b>	<b>State Sales Tax Distributed to Detroit</b>	<b>Percent of Distributed State Sales Tax Received by Detroit</b>
1973-74	\$126.0	\$21.5	17.1%
1974-75	138.7	23.7	17.1
1975-76	148.8	25.4	17.1
1976-77	168.6	28.8	17.1
1977-78	192.5	32.9	17.1
1978-79	201.8	34.5	17.1
1979-80	245.4	41.9	17.1
1980-81	226.6	31.6	13.9
1981-82	238.5	31.0	13.0
1982-83	239.7	31.2	13.0
1983-84	268.6	35.0	13.0
1984-85	299.6	39.0	13.0
1985-86	332.3	43.2	13.0
1986-87	343.3	44.7	13.0
1987-88	359.9	46.8	13.0
1988-89*	381.7	49.7	13.0
1989-90*	397.3	51.9	13.0

\* Projected

The distribution factor used in the formula is based on the amount of sales tax receipts being received by the state.

$$\begin{array}{rclcl} \text{Population} & \times & \text{Distribution factor} & = & \text{Amount} \\ 1,202,877 & \times & \$41.28 & = & \$49,654,762 \end{array}$$

If the census count of the city were 1,015,000, the calculation would be:

$$1,015,000 \times \$41.28 = \$41,899,200$$

Using the same distribution factor, the loss of 10,000 enumerated residents would result in a loss of \$412,800 to Detroit.

Since Detroit's estimated proportion of the state's population fell from 12.99% in 1980 to 11.86% in 1986, and indeed has been steadily falling since 1930 (when Detroiters comprised 32.4% of Michigan's population), it is likely that the proportion of Michigan residents living in Detroit will decline. If, for example, the state's population grows to 9,420,000 in 1990, a census count for Detroit of 1,015,000 would represent 10.77%. If the proportion of

Michigianians found to be living in Detroit declined, the loss from per capita distributions would be greater.

If the amount to be distributed by the state continues to grow at 5.84%, the average annual rate of the last four years represented in Table 2 (ignoring the rapid 10.9 to 12.1% annual growth rates of the earlier recovery period), and if Detroit's enumerated population shrinks to 10.77% of the state's population, the loss for the decade of the 1990s may be as follows:

**Table 3**  
**STATE OF MICHIGAN**  
**PROJECTED STATE REVENUE SHARING -- SALES TAX**  
**(in Millions)**

<b>July 1 to June 30</b>	<b>State Sales Tax Distributed to Municipalities</b>	<b>Detroit's Share at 13%</b>	<b>Detroit's Share at 10.77%</b>	<b>Difference</b>
1990-91	\$415.6	\$54.0	\$45.7	\$ 8.3
1991-92	434.7	56.5	47.8	8.7
1992-93	454.7	59.1	50.0	9.1
1993-94	475.6	61.8	52.3	9.5
1994-95	497.5	64.7	54.7	9.9
1995-96	520.4	67.6	57.2	10.4
1996-97	544.3	70.8	59.9	10.9
1997-98	569.3	74.0	62.6	11.4
1998-99	595.5	77.4	65.5	11.9
1999-2000	622.9	81.0	68.5	12.5

The cumulative difference over the ten-year period is \$102.6 million.

**Michigan Intangibles Tax** The state revenue sharing act provides that \$9,500,000 of the collections from the state intangibles tax, which was adopted in 1939, are to be distributed to cities, villages, and townships that levied at least 1 mill of local property tax in the preceding year, on a per capita basis. As a result of the severe recession, the state intangibles tax distribution to municipalities was deleted in fiscal 1980, 1981, and 1983 and reduced from \$9.5 million to \$2.4 million in fiscal 1982. Detroit will receive \$1,238,963 of the 1988-89 intangibles tax distribution. If Detroit retained its 1980 proportion of the state's enumerated population in 1990, it would continue to receive the same proportion (\$1.2 million) of the \$9.5 million distribution.

$$\begin{array}{rclcl}
 \text{Population} & \times & \text{Distribution factor} & = & \text{Amount} \\
 1,202,877 & \times & \$1.03 & = & \$1,238,963
 \end{array}$$

If Detroit's enumerated population were 1,015,000 and the distribution factor remained at \$1.03, Detroit would receive \$193,513 less than if the 1.2 million population figure had been used.

$$1,015,000 \quad x \quad \$1.03 \quad = \quad \$1,045,450$$

However, if Detroit's enumerated population were 10.77% of the state's population, the city would receive about \$1,023,150 from a \$9.5 million distribution--an annual loss of \$215,813 from current levels, and a loss of almost \$2.2 million for the decade that the 1990 census figure would be used.

Using the 1988-89 distribution factor of \$1.03, each 10,000 counted residents generates \$10,300 for Detroit from this source.

**Relative Tax Effort** Prior to 1971, all forms of state revenue sharing were distributed on a per capita basis. The "Public Sector" section of the 1971 Economic Report of the Governor explained why the per capita method was being changed for some of those distributions: "The defect in the present program is that the per capita distribution of shared revenue responds only to changes in population without recognizing the great differences among local units in their need for public services and in their ability to raise sufficient local revenues." The per capita-based state revenue sharing program was modified by Public Act 140 of 1971 to recognize municipal need in the distribution formula. The program that has been in effect since 1971 recognizes local tax effort, which is dependent on state authorization to levy specific rates and kinds of taxes.

PA 140 of 1971 defines relative tax effort (RTE) as the local tax effort rate of a community divided by the statewide tax effort rate. Local tax effort includes local property taxes levied by a city, village, or township, as well as local income and excise taxes. Local income tax collections are reduced by the actual amount of taxes paid by nonresidents or by a factor whose numerator is 1/2 of 1% and whose denominator is the sum of the resident rate multiplied by 2 and the non-resident rate multiplied by 1. For Detroit, the amount excluded by the formula would be  $.5\% / (3\% \times 2) + (1.5\% \times 1)$  or 6.67% of total income tax collections. For the 16 Michigan cities that have a 1% resident rate and a .5% nonresident rate, the formula would exclude  $.5\% / (1\% \times 2) + (.5\% \times 1)$  or 20%. After June 30, 1987, special assessments levied on all real property in an entire city, village, or township were included in local tax effort.

Detroit uses special statutory authority, which will be described later in this report, to impose tax rates as high as or higher than rates imposed by other municipalities. These maximum rates guarantee that Detroit will have the highest relative tax effort in the state. Indeed, the RTE for Detroit has been over six times the state average RTE for the past six years.

Distribution factors for state income and single business taxes are calculated by dividing the amount available for distribution by RTE population, which is the statewide tax effort rate times eligible population. Because RTE is used to weight population, a Detroit resident counts six times as much as the resident of a city with an RTE of 1.

**Table 4  
CITY OF DETROIT**

<b>Year</b>	<b>Relative Tax Effort</b>
1972-73	2.83573
1973-74	2.96459
1974-75	3.22487
1975-76	3.25274
1976-77	3.34680
1977-78	3.87525
1978-79	4.16168
1979-80	4.40300
1980-81	4.61528
1981-82	4.74684
1982-83	5.11689
1983-84	6.02232
1984-85	6.09707
1985-86	6.25147
1986-87	6.46098
1987-88	6.34599
1988-89	6.15509

The effect on relative tax effort of changes in Detroit's local taxes cannot be measured except in relation to all other local tax levels in the state.

It is interesting to note the 1988-89 adjusted relative tax efforts of other Michigan cities with populations over 50,000:

**Table 5  
RELATIVE TAX EFFORT IN  
MICHIGAN CITIES WITH POPULATIONS OF AT LEAST 50,000 IN 1980**

<b>City</b>	<b>Adjusted FY 89 RTE</b>	<b>1980 Population</b>	<b>/</b>	<b>City</b>	<b>Adjusted FY 89 RTE</b>	<b>1980 Population</b>
Pontiac*	3.00000	76,022	/	East Lansing	1.23158	51,392
Lansing*	1.99719	125,974	/	Southfield	1.20351	75,568
Battle Creek*	1.85474	56,339	/	Westland	1.19860	84,466
Saginaw*	1.62737	77,432	/	Dearborn Heights	1.12281	67,706
Taylor	1.53895	77,568	/	St Clair Shores	0.99298	76,210
Flint*	1.39930	159,494	/	Sterling Heights	0.93895	108,999
Kalamazoo	1.39930	79,170	/	Warren	0.88491	161,134
Grand Rapids*	1.37053	181,598	/	Livonia	0.83930	104,814
Ann Arbor	1.31018	107,875	/	Troy	0.75158	67,102
Roseville	1.25123	54,311	/	Farmington Hills	0.64982	58,056
Royal Oak	1.24281	70,893	/	Wyoming	0.58316	59,616
Dearborn	1.24000	90,660	/			

\* Indicates cities which impose a municipal income tax

The state's use of relative rates of taxation as the basis of distributing state shared income tax and single business tax guarantees Detroit about 50% of those revenues, even though the city had only about 13% of the state population in 1980. In the current fiscal year, the Detroit budget includes state income and single business tax (excluding \$22.5 million of SBT inventory replacement) revenues of \$182.8 million, over 18% of budgeted general fund revenues. Total anticipated state revenue sharing payments, including sales, intangibles, income, and single business taxes, but again excluding SBT - inventory replacement, total \$233.3 million in the published 1988-89 city of Detroit budget, while the state of Michigan in March 1989 projected distributions of \$241.5 million to Detroit in the July 1, 1988 through June 30, 1989 period.

**Michigan Income Tax** Although most of the receipts from the 4.6% Michigan income tax (authorized by PA 281 of 1967) support state general fund activities, PA 88 of 1987 requires that 6.91% of the gross collections before refunds be distributed to local governments: 34.65% of the amount to be distributed is directed to counties, while 65.35% is directed to cities, villages and townships. The state revenue sharing act requires that distribution of state income tax be made on a relative tax effort basis.

**Table 6**  
**STATE OF MICHIGAN**  
**STATE SHARING - INCOME TAX DISTRIBUTIONS**  
**(in Millions)**

<b>July 1 to June 30</b>	<b>State Income Tax Distributed to Municipalities</b>	<b>State Income Tax Distributed to Detroit</b>	<b>Percent of Distributed State Income Tax Received by Detroit (rounded)</b>
1973-74	\$47.6	\$22.0	46.2%
1974-75	51.3	24.8	48.3
1975-76	51.8	24.3	46.9
1976-77	64.3	30.1	46.8
1977-78	80.5	40.3	50.1
1978-79	99.2	50.8	51.2
1979-80	116.9	60.6	51.8
1980-81	112.5	54.1	48.1
1981-82	104.5	48.5	46.4
1982-83	114.9	55.5	48.3
1983-84	128.2	69.9	54.5
1984-85	147.9	78.7	53.2
1985-86	167.5	90.5	54.0
1986-87	178.9	98.0	54.8
1987-88	191.3	103.0	53.8
1988-89*	206.7	108.7	52.6
1989-90*	212.2	108.9	51.3

\*Projected



The formula which generates the projected 1988-89 distribution to Detroit includes a frequently revised distribution factor which is based on the amount of state income tax receipts:

$$\begin{array}{rcccccc} \text{Population} & \times & \text{Relative Tax Effort} & \times & \text{Distribution factor} & = & \text{Amount} \\ 1,202,877 & \times & 6.15509 & \times & \$14.68 & = & \$108,688,022 \end{array}$$

If the city had an enumerated population of 1,015,000, the formula would produce:

$$1,015,000 \times 6.15509 \times \$14.68 = \$ 91,712,072$$

Given the current RTE and distribution factor, a reduction in enumerated population from 1,202,877 to 1,015,000 would reduce Detroit's revenue from this source by \$18 million.

Using the same relative tax effort and distribution factor, a difference of 10,000 population produces a difference of \$903,567 in state income tax distributions to Detroit. If Detroit's enumerated population declined to 10.77% of the state's enumerated residents, the distribution factor would be lower, causing a greater loss for Detroit.

Assuming continuation of recent average annual rates of increase in the state amount to be distributed, and change neither in Detroit's relative tax effort nor in the total RTE population in Michigan (a reasonable assumption given that RTE population is weighted by tax effort, and high tax cities are losing population), the following projection can be constructed.

**Table 7**  
**STATE OF MICHIGAN**  
**PROJECTED STATE REVENUE SHARING - INCOME TAX DISTRIBUTIONS**  
**(in Millions)**

<b>July I to June 30</b>	<b>State Income Tax Distributed to Municipalities</b>	<b>Detroit's Share if Population is 151,202,877</b>	<b>Detroit's Share if Population is 151,015,000</b>	<b>Difference</b>
1990-91	\$225.1	\$118.2	\$ 99.8	\$18.5
1991-92	238.8	125.5	105.9	19.6
1992-93	253.4	133.1	112.3	20.8
1993-94	268.9	141.2	119.2	22.1
1994-95	285.3	149.8	126.4	23.4
1995-96	302.7	159.0	134.1	24.8
1996-97	321.2	168.7	142.3	26.3
1997-98	340.8	179.0	151.0	28.0
1998-99	361.6	189.9	160.2	29.7
1999-2000	383.6	201.5	170.0	31.5

If these projections are accurate, a decline in enumerated population to 1,015,000 would cause Detroit to lose \$244.6 million in state shared income tax revenues over the course of the decade.

**Michigan Single Business Tax** The single business tax (SBT) established by PA 228 of 1975 replaced eight previous taxes on business, including property tax on inventory. Part of the re-

ceipts are used to reimburse municipalities and counties for the loss of inventory property tax; some receipts are used for revenue sharing for municipalities.

**Table 8**  
**STATE OF MICHIGAN**  
**STATE REVENUE SHARING - SINGLE BUSINESS TAX**  
**(in Millions)**

<b>July 1 to June 30</b>	<b>Single Business Tax Distributed to Municipalities</b>	<b>Single Business Tax Distributed to Detroit</b>	<b>Percent of Distributed Single Business Tax Received by Detroit (rounded)</b>
1975-76	\$35.0	\$16.1	46.0%
1976-77	35.0	16.3	46.6
1977-78	42.0	21.1	50.2
1978-79	45.7	23.4	51.2
1979-80	60.9	31.5	51.7
1980-81	58.7	27.7	47.2
1981-82	51.9	24.1	46.4
1982-83	54.4	26.3	48.3
1983-84	63.1	33.7	53.4
1984-85	92.9	49.5	53.3
1985-86	115.6	62.3	53.9
1986-87	134.7	73.7	54.7
1987-88	138.6	74.7	53.9
1988-89*	156.0	81.9	52.5
1989-90*	175.5	90.4	51.5

\* Projected

The revenue sharing distribution to cities, villages, and townships is made on the basis of relative tax effort. The formula which generates the projected 1988-89 distribution of single business tax to Detroit also includes a distribution factor. This factor is based on the level of single business tax revenues received by the state.

$$\begin{array}{rclclcl} \text{Population} & \times & \text{Relative tax effort} & \times & \text{Distribution factor} & = & \text{Amount} \\ 1,202,877 & \times & 6.15509 & \times & \$11.06 & = & \$81,886,207 \end{array}$$

Substituting the 1990 official population figure expected by some estimates generates \$12.8 million less.

$$1,015,000 \times 6.15509 \times \$11.06 = \$69,096,425$$

Using the same relative tax effort and distribution factor, a difference of 10,000 enumerated residents results in a difference of \$680,753 to Detroit. Again, the proportion of state residents found in Detroit will impact how the formula works.

Applying the same assumptions used to project state shared income taxes, i.e., a rate of increase in the state shared amount based on the average annual increase from 1986-87 to 1989-90, no increase in the state RTE population, and a constant relative tax effort for Detroit, generates the following table.

**Table 9**  
**STATE OF MICHIGAN**  
**PROJECTED STATE REVENUE SHARING -- SINGLE BUSINESS TAX**  
**(in Millions)**

<b>July 1 to June 30</b>	<b>Single Business Tax Distributed to Municipalities</b>	<b>Detroit's Share at Population of 1,202,877</b>	<b>Detroit's Share at Population of 1,015,000</b>	<b>Difference</b>
1990-91	\$195.0	\$102.4	\$ 86.3	\$16.1
1991-92	216.6	113.8	95.9	17.8
1992-93	240.7	126.4	106.6	19.8
1993-94	267.4	140.4	118.4	22.0
1994-95	297.1	156.0	131.5	24.5
1995-96	330.0	173.3	146.1	27.2
1996-97	366.7	192.6	162.4	30.2
1997-98	407.4	213.9	180.4	33.6
1998-99	452.6	237.7	200.4	37.3
1999-00	502.8	264.1	222.6	41.4

The total loss to Detroit for the decade from state shared single business taxes attributable to an enumerated population decline to 1,015,000 could be \$269.9 million.

**Gas and Weight Tax** Act 51 of 1951 as amended requires that 21.8% of Michigan transportation fund receipts, after deductions, are to be distributed to cities and villages. A population factor is used in the distribution, starting at 1.0 for cities and villages of 2,000 or less population and increasing up to 02.0 for cities and villages from 160,001 to 320,000 population; and for cities over 320,000 population, by a factor of 2.1 increased successively by 0.1 for each 160,000 population increment over 320,000." Of the amount available for distribution to cities and villages, 0.5% is reserved for cities that receive 80 inches or more of snowfall. Of the remainder, 75% is distributed for major streets: 60% prorated on the basis of population and 40% prorated on the basis of equivalent major mileage. The remaining 25% is distributed for local streets: again, 60% prorated on the basis of population and 40% prorated on the basis of equivalent local mileage. The Michigan Department of Transportation calculations use state distribution factors, derived from the amount in the fund to be distributed, and a 1980 Detroit population of 1,203,339 (in contrast to the 1980 population of 1,202,877 used by the Department of Management and Budget), which results in a population factor of 2.6 for Detroit. The calculations and factors used to determine the distribution to Detroit during the past 12 months are presented below.

**Table 10**  
**DISTRIBUTION OF STATE GAS AND WEIGHT TAX FUNDS TO DETROIT**  
**(after fund transfers and deduction of 0.5% for snow removal)**

**Major Streets - 75% of Distribution**

**60% Based on Population**

1980 Detroit Population	10,203,339	
State Distribution Factor	<u>x \$15.34</u>	
Payment to Detroit		\$18,459,220

**40% Based on Equivalent Major Mileage**

State Trunkline in Detroit - Miles	262.98	
Population Factor for Detroit	<u>x 2.6</u>	
	683.75	
Major Streets in Detroit - Miles	685.56	
Population Factor for Detroit	<u>x 2.6</u>	
	1,782.46	
Sum of 683.75 and 1,782.46	2,466.21	
State Distribution Factor	<u>x \$5,320.32</u>	
Payment to Detroit		13,121,026
Total Major Street Payments to Detroit		\$31,580,246

**Local Streets - 25% of Distribution**

**60% Based on Population**

1980 Detroit Population	1,203,339	
State Distribution Factor	<u>x \$5.11</u>	
Payment to Detroit		6,149,062

**40% Based on Local Mileage**

Local Mileage in Detroit	1,913.41	
State Distribution Factor	<u>x \$1,376.42</u>	
Payment to Detroit		<u>2,633,656</u>
Total Local Street Payments to Detroit		<u>8,782,718</u>
Total Major and Local Street Payment to Detroit		\$40,362,964

Population losses reported for Detroit in the 1990 census will directly affect the amount received from the 60% distributions for major and local streets based on population. Using this year's distribution factors for the 60% of major and local street distributions based on population, a

population of 1,015,000 would generate \$36,511,432, about \$3.9 million less. Population increments of 10,000 are worth \$204,500 to Detroit, at current distribution factors. As noted previously, the danger to Detroit in per capita distributions is in being found to house a smaller proportion of Michigan's residents.

Detroit's 1986 estimated population of 1,086,220 would reduce the population factor used for the 40% distribution for major roads to 2.5; using a population factor of 2.5 in the equivalent major mileage portion of the calculation above reduces the payment to Detroit by \$504,685. A population between 800,001 and 960,000 would reduce Detroit's population factor to 2.4.

**Summary of Major State Source Losses** Using 1988-89 budget estimates and current relative tax effort and state distribution factors, the annual loss to Detroit from the 1980 census level used for state revenue sharing and gas and weight tax distributions to an assumed 1990 population of 1,015,000 would have the following effect:

**Table 11**  
**MAJOR POPULATION-BASED STATE PAYMENTS TO DETROIT**

	At 1,202,877	At 1,015,000	Difference
<b>State Revenue Sharing:</b>			
Sales Tax Distribution	\$ 49,654,762	\$ 41,899,200	-\$ 7,755,562
Intangibles Tax Distribution	1,238,963	1,045,450	- 193,513
Income Tax Distribution	108,688,022	91,712,072	- 16,975,950
Single Business Tax Dist.	<u>81,886,207</u>	<u>69,096,425</u>	<u>- 12,789,782</u>
Total SRS	\$241,467,954	\$203,753,147	-\$37,714,807
<b>Gas and Weight Tax Distributions:</b>			
Major Roads			
Population Based	\$ 18,459,220	\$ 15,570,100	-\$2,889,120
Major Mileage	13,121,026	12,616,341	- 504,685
Local Roads			
Population Based	6,149,062	5,186,650	- 962,412
Local Mileage	<u>2,633,656</u>	<u>2,633,656</u>	<u>0</u>
Total Gas & Weight	\$ 40,362,964	\$ 36,511,432	-\$3,851,532
Grand Total	\$281,830,918	\$240,264,579	-\$41,566,339

If the assumptions include an average annual growth factor in the amount distributed to municipalities from the state income, single business, and sales taxes, the total projected annual state revenue sharing loss to Detroit increases from \$43 million in fiscal 1991 to over \$85 million in fiscal 2000. The loss to Detroit from what would have been received using 1980 census figures for the decade would total nearly \$620 million.

## LOCAL SOURCE REVENUES

Detroit lost an estimated 117,150 residents from 1980 to 1986. The most optimistic scenario projects a 1990 enumerated population of 1,015,000, a loss of 188,369 for the decade. The most dramatic impact of population change in Detroit will be on state source revenues which have been based on the 1980 census, thereby protecting the city from some of the effects of the population loss. Local source revenues are of course also affected, but not in such a dramatic, ratcheting fashion. Local source revenues have reflected the actual, incremental population decline, although municipal income tax receipts are buffered by the nonresident and corporation tax, and utility rates have a major effect on the receipts from the utility users' excise tax.

Another factor must be considered in conjunction with estimating the effect of population loss on local source revenues: Detroit has been granted special statutory taxing authority predicated on a minimum population of 1 million.

**Municipal Income Tax** In the current fiscal year, revenue from Detroit's municipal income tax is budgeted at \$274.2 million, 27% of the city's general fund revenue. That \$274.2 million is the product of a municipal income tax of 3% on residents, 2% on corporations, and 1.5% on non-residents who work in the city. Section 3 of the uniform city income tax ordinance, PA 284 of 1964 as amended, limits imposition of these rates to cities of over 1 million: "The governing body of a city, by a lawfully adopted ordinance which incorporates by reference the uniform city income tax ordinance ... may levy, assess, and collect an excise tax on income as provided therein except that in cities of more than 1,000,000 population, the governing body may levy and collect a tax at a rate to be determined from time to time, such rate to be not more than 2% on corporations, not more than 3% on resident individuals, and not more than 1-1/2 on non resident individuals but not to exceed 1/2 of the tax rate imposed on resident individuals." (MSA 5.3194(3))

In spite of population losses, that portion of the municipal income tax derived from residents has decreased in only four of the 25 years for which such data are available. There have been three rate changes in the period since implementation of Detroit's income tax in 1963; the most recent was in 1981.

**Table 12**  
**CITY OF DETROIT**  
**MUNICIPAL INCOME TAX REVENUES**  
**(in Millions)**

<b>Fiscal Year</b>	<b>Corporations</b>	<b>Residents</b>	<b>Non Residents</b>	<b>Total</b>
1977-78	\$15.9	\$ 97.0	\$19.9	\$132.8
1978-79	16.1	104.7	20.9	141.7
1979-80	10.8	106.0	21.0	137.8
1980-81	7.9	103.9	21.3	133.1
1981-82*	9.0	148.3	59.4	216.7
1982-83	8.4	148.1	59.4	215.9
1983-84	9.0	160.6	62.5	232.1

1984-85	8.8	171.9	67.2	247.9
1985-86	10.6	181.2	70.5	262.3
1986-87	8.7	187.0	72.8	268.5

\*Effective July 1, 1981, Detroit's municipal income tax rate was increased from 2% to 3% on residents and from .5% to 1.5% on nonresidents. The corporate rate remained at 2%.

If Detroit had a January 1, 1989 population of 1,041,708 (based on a smooth line from the July 1, 1986 Bureau of the Census estimated population of 1,086,220 to a possible July 1, 1990 population of 1,015,000) and if the city's 1988-89 budget projection of municipal income tax receipts is valid, and if the proportion of those receipts derived from residents is the same as in 1986-87 (the last year for which such data are available), then per capita resident income tax receipts are about \$183. A loss of 10,000 population, assuming it did not bring the city's population below 1 million, would translate into a loss of up to \$1,830,000, depending on how many of those who moved from the city continued to work in the city and pay the nonresident tax.

Cities of less than 1,000,000 population that met certain conditions, including hiring a financial management consultant to monitor and report on the financial condition of the city and obtaining voter approval prior to July 1, 1984, are allowed to impose rates of 2% on residents and corporations and 1% on nonresidents. In order to qualify for this intermediate income tax rate, in the year preceding the rate increase the city must have levied more than 22 mills for city purposes, more than 65 mills for all purposes, and levied an income tax. Highland Park is the only Michigan city which imposes a rate of 2% on residents and 1% on nonresidents.

Sixteen of the 18 cities in Michigan that impose an income tax levy a rate of 1% on residents and corporations and 1/2% on nonresidents. The process of implementing a municipal income tax requires the adoption of a local ordinance which incorporates the language of the state statute: "subject to the exclusions, adjustments, exemptions and deductions herein provided, an annual tax of 1% on corporations and resident individuals and of 1/2% on nonresident individuals for general revenue purposes is hereby imposed on income earned and received on and after the date of this ordinance." (MSA 5.3194(21))

**Utility Users' Excise Tax** Detroit's adopted 1988-89 budget includes \$56.8 million in revenue from a 5% utility users' excise tax. This tax generates just over 5.5% of the city's general fund revenues, and about 18% of the costs of the Detroit Police Department, to which utility users' excise tax revenues are dedicated.

The city utility users' tax act, PA 198 of 1970 as amended, limits imposition of the utility users' excise tax to cities of over 1 million population. Section 2 (1) states: "The governing body of a city having a population of 1,000,000 or more, by a lawfully adopted ordinance which incorporates by reference the uniform city utility users tax ordinance set forth in chapter 2, may levy, assess, and collect from those users in that city a utility users tax as provided in the ordinance. The governing body shall set the rate of tax in increments of 1/4 of 1% which shall not exceed 5%." Section 2 (2) states: "A village and a city under 1,000,000 population shall not impose and collect a utility users tax..." (MSA 5.3194(302))

**Table 13**  
**CITY OF DETROIT**  
**UTILITY USERS' EXCISE TAX RECEIPTS**  
**(in Millions)**

<b>Fiscal Year</b>	<b>Amount</b>
1978-79	\$33.3
1979-80	37.4
1980-81	43.4
1981-82	47.2
1982-83	47.2
1983-84	54.4
1984-85	51.5
1985-86	56.5
1986-87	49.9
1987-88	50.4*
1988-89	56.8**

\* Estimated

\*\* Budgeted

If there were about 1,041,708 residents in Detroit on January 1, 1989, and if the city's 1988-89 projection of \$56.8 million in revenues from the utility users' excise tax is accurate, then the per capita revenue from this source is about \$54.50. At current utility rates, a loss of 10,000 residents, assuming it did not reduce Detroit's population below 1 million (and thereby negate the city's ability to impose Any utility tax at all), and assuming it was accompanied by proportionate declines in industrial and commercial utility use, could reduce revenues from this tax by about \$545,000.

**Property Tax** The property tax is the traditional revenue source for local government. Section 21 of Article VII of the 1963 Michigan Constitution states: "The legislature shall provide by general laws for the incorporation of cities and villages. Such laws shall limit their rate of ad valorem property taxation for municipal purposes, and restrict the powers of cities and villages to borrow money and contract debts. Each city and village is granted power to levy other taxes for public purposes, subject to limitations and prohibitions provided by this constitution or by law."

The home rule cities act, PA 279 of 1909 as amended, sets limits on the amount of general operating property taxes which may be imposed by cities of any population. Section 3 of that act states: "Each city charter shall provide the following: .... For annually laying and collecting taxes in a sum, except as otherwise provided by law, not to exceed 2% of the assessed value of the real and personal property in the city." (MSA 5.2073) Detroit's current tax levy of \$168.9 million results from the maximum 20 mill rate for general operations, as well as 1.192 mills for building authority lease payments, 1 mill for library operations, 6.197 mills for debt service, and 3 mills for garbage disposal.



**Table 14**  
**CITY OF DETROIT**  
**PROPERTY TAX REVENUES - CITY AND LIBRARY**  
**(in Millions)**

<b>Fiscal Year</b>	<b>Tax Levy</b>	<b>Collections of Current Year Levy During Year</b>	<b>Ratio to Tax Levy</b>
1977-78	\$166.7	\$156.9	94.15%
1978-79	162.6	152.3	93.68
1979-80	174.6	165.0	94.52
1980-81	179.9	168.9	93.89
1981-82	179.1	166.6	93.05
1982-83	178.5	165.3	92.58
1983-84	173.4	161.3	93.04
1984-85	173.9	160.1	92.08
1985-86	172.4	157.8	91.53
1986-87	167.7	153.9	91.79

Property tax is levied against state equalized value, not against people. While an assumption could be made that a loss of population would not affect property tax revenues, i.e., would not affect the tax delinquency rate or property abandonment rate, the fact is that permits for the demolition of 36,014 dwelling units were issued in Detroit from 1980 through 1987. During the same period, permits for the construction of 4,537 dwelling units were issued by the city. This resulted in a net loss of 31,477 dwelling units in those eight years, and an average net loss of 3,935 dwelling units each year. Thus it seems reasonable to assume that continued population loss would result in continued property abandonment and dwelling unit demolition, with some effect on property tax receipts.

**Loss per 10,000 Residents** It is possible to estimate on a very broad basis the budgetary value to the city of increments of 10,000 residents.

**Table 15**  
**CITY OF DETROIT**  
**ESTIMATED BUDGETARY VALUE OF 10,000 RESIDENTS**

**Value at Current Rates**

**State Revenue Sharing**

State Sales Tax	\$ 412,800
State Intangibles Tax	10,300
State Income Tax	903,600
State Single Business Tax	<u>680,800</u>

Total from State Revenue Sharing \$2,007,500

**State Gas and Weight Tax** 204,500

**Local taxes**

Municipal Income Tax	\$1,840,000
Utility Users' Excise Tax	545,000
Property Tax	<u>100,000</u>

Total from Local Taxes 2,485,000

Total Estimated Budgetary Impact \$4,597,000

**LEGAL AND REPRESENTATIONAL ISSUES**

**Constitutional Limitations on Special Acts** The imposition and/or rate of each of Detroit's local taxes is dependent on legislation that is or was predicated on the population of the taxing authority. The income and utility tax laws have been designed specifically to allow Detroit to impose a type or rate of taxation that is illegal in any other local unit of government in Michigan. The rates of property, municipal income, and utility taxes imposed in Detroit produce a relative tax effort over six times the state average: this results in Detroit receiving over 50% of state distributions to municipalities of single business taxes and state income taxes, rather than the 13% that would be received using per capita distributions based on the 1980 census.

Article IV, Section 29 of the 1963 Michigan Constitution (which originated as Article V, Section 30 of the 1908 constitution) provides that: "The legislature shall pass no local or special act in any case where a general act can be made applicable, and whether a general act can be made applicable shall be a judicial question. No local or special act shall take effect until approved by two-thirds of the members elected to and serving in each house and by a majority of the electors voting thereon in the district affected. Any act repealing local or special acts shall require only a majority of the members elected to and serving in each house and shall not require submission to the electors of such district."

Before municipal home rule, the state legislature had passed substantial amounts of local legislation, including granting and amending individual municipal charters and creating and empowering specific school districts. Article V, Section 30 of the 1908 constitution, together with the

home rule provisions, relieved the legislature of that burden. It also provided protection for localities against arbitrary actions by the legislature.

A comment on Article IV, Section 29, from **A Comparative Analysis of the Michigan Constitution**, published by the Citizens Research Council in 1961, is pertinent. “There may be some skepticism about whether this provision completely shut the door on special legislation, affecting a single city, or a single county. There is an increasing body of statute law applicable to any city or county having a population in excess of a certain number, or within sometimes rather narrow limits. The courts have recognized the legality of such legislation if there is some reasonable relationship between the population limitations and the problem sought to be controlled or eradicated by the legislation.” In **Avis Rent A Car v Romulus** (65 Mich App 119; 1975), the court determined that the constitutionality of such statutes is dependent upon whether population has a reasonable relationship to the public policy objective of the act.

Many of the statutes referred to in the comment, and many since adopted, target cities of over 1 million population--a description that applies only to Detroit. Although Detroit has been losing population since it peaked at 1,849,568 in 1950, it remains nearly six times more populous than Grand Rapids, Michigan's second largest city, which had a 1986 population of 186,530 (an increase of 2.6% from the 1980 count). In Detroit, population decline has been accompanied by a property tax base that is relatively stable in nominal terms, but deteriorating seriously in real terms. The city's loss of population and real tax base has led repeatedly to local financial crises, which have presented special challenges to the political leadership of the city and the state.

**Political Representation** Redistricting is the result of legislative reapportionment which reflects population shifts. At the national level, Michigan is expected to lose two of its 18 seats in the 435-seat United States House of Representatives.

Changes in the size and location of Michigan's enumerated population will result in redrawing state legislative districts. A smaller proportion of Michigianians found to be living in Detroit will result in fewer Detroit seats in the state legislature, and a reduced voice for the city in state policy making. Even if Detroit remains a city of over 1 million population, it could lose nearly a quarter of its representation in the state legislature.

The Michigan Senate consists of 38 members elected to four-year terms from single-member districts. Apportionment based on the 1980 census, in which 12.99% of state residents lived in Detroit, gave Detroit five seats in the state senate. If the 1990 census reveals that 10.77% (1,015,000 of 9,420,000) of Michigianians live in Detroit, the city could expect to lose one of those seats ( $38 \times .1077 = 4.1$ ).

The Michigan House of Representatives is comprised of 110 members elected to two-year terms from single-member districts. Apportionment based on the 12.99% of state residents who lived in Detroit in 1980 gave Detroit 16 seats in the house. If the proportion of Michigianians living in Detroit declines to 10.77%, Detroit could lose four of its state house seats ( $110 \times .1077 = 11.8$ ).

The loss of representation in the state legislature could be expected to increase the difficulties experienced by Detroit in obtaining statutory provisions that would benefit the state's largest city.

## CONCLUSION

There is general agreement that the 1990 census will find fewer Detroiters than were enumerated in 1980. Population loss has had a direct and immediate impact on Detroit's local source revenues, but the state's use of 1980 census data for distributions has partially protected Detroit from the effects of population loss since 1980. If Detroit's 1990 enumerated population is approximately 1,015,000, the number of Detroit senators and representatives in the state legislature may decline by a fourth and annual distributions of state revenue sharing and gas and weight taxes to Detroit will fall by about \$42 million, based on current distribution factors. Detroit officials must therefore either develop alternative sources of revenue or determine how to reduce city government expenditures commensurate with the expected reduction in revenues.

Whether there are found to be more or fewer than 1,015,000 residents in Detroit, the 1990 census count will be a critically important number to the city. The annual effect on city revenues of each increment of 10,000 people could approach \$4.6 million measured at current rates; the annual loss will increase as the decade progresses.

The bases of certain of Detroit's tax rates, and therefore of Detroit's very high relative tax effort, are a population of 1 million or more. Whether this is local legislation masquerading as general legislation, and whether Detroit's population loss means that legislation once deemed applicable only for cities of over 1 million population should be made equally applicable to cities of 900,000, or 750,000, or 500,000 population, are subjects for debate. As a practical matter, both the city and the state must address the probability that at some point--perhaps in 1990--the enumerated population of Detroit will fall below the 1 million mark. If the political leadership of the state agree that special authorities for Detroit to raise local revenues should be extended, the state statutes and/or definitions that identify Detroit by population must be changed. Should they not be changed, Detroit's local and state source revenues, as well as other special authorizations and privileges, will be even more seriously eroded.