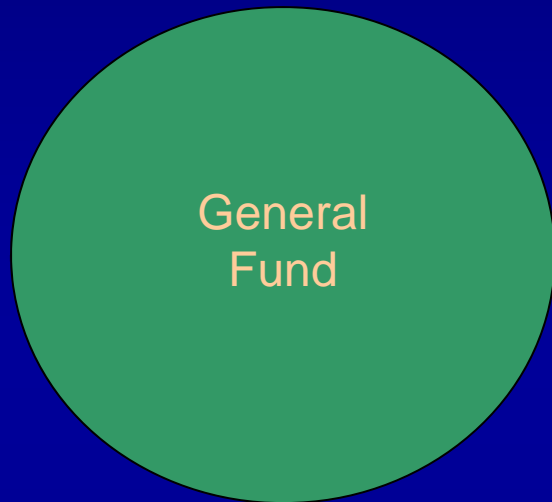




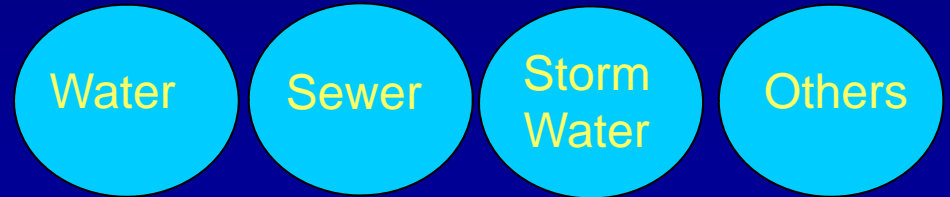
City of Ann Arbor Revenue Discussion

Sept. 2017

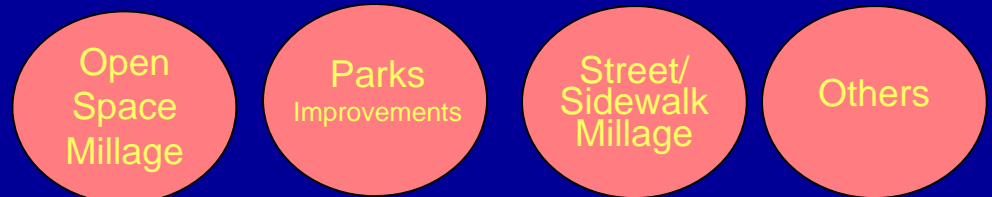
City manages its activities by establishing separate “funds” for transparency & accountability...



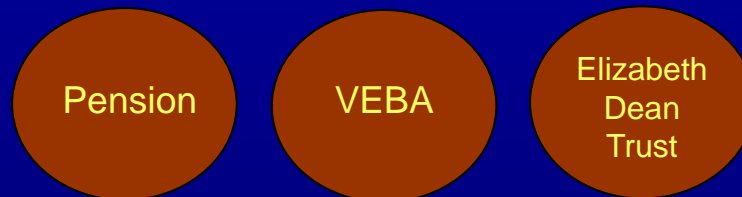
Enterprise Funds



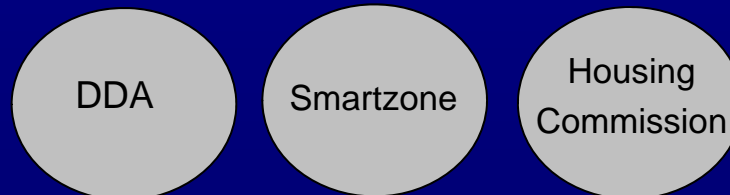
Special Revenue Funds



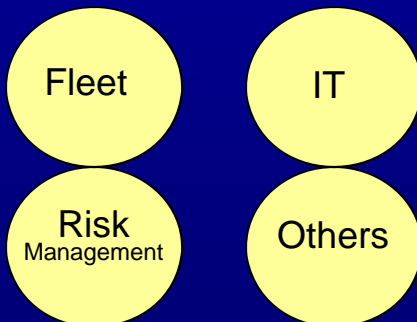
Trust Funds



Component Units



Internal Services



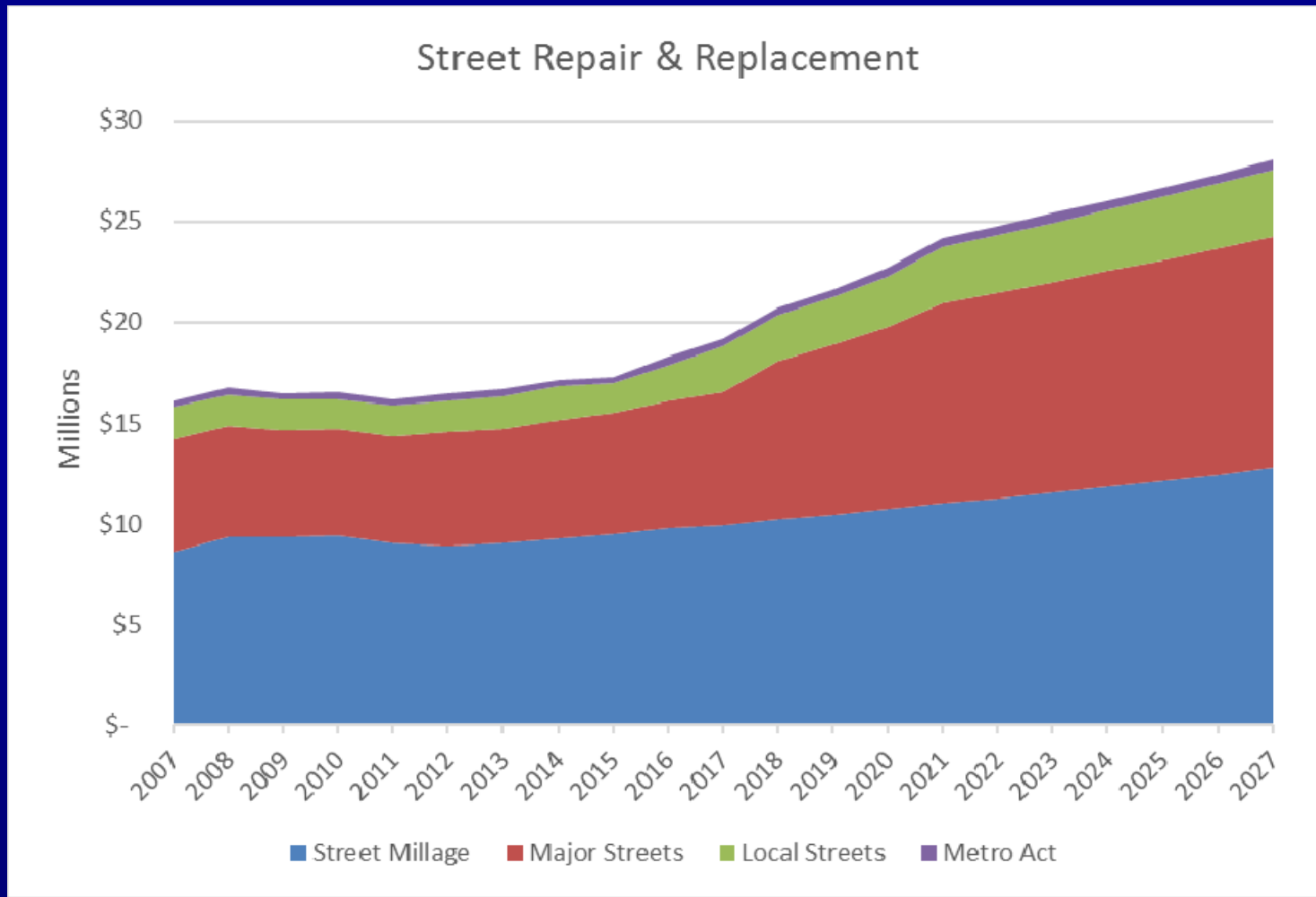
The City's revenues come from multiple sources with a variety of restrictions:

Sources of Revenue	General	Streets	Water Sewer		Trust Funds	Other Special Revenue	DDA	SmartZone
			Stormwater Airport	Solid Waste				
Property Taxes	X	X		X		X	X	
State - Sales Taxes	X							
State - Road & Gas		X				X		
State - Other	X							X
Charges for Services	X		X	X			X	
License, Permits, Registrations	X					X		
Fines & Forfeits	X					X		
Investment Income	X	X	X	X	X	X	X	X
Bond Sales	X	X	X				X	
Operating Transfers In	X		X		X		X	
Other	X		X		X	X		X

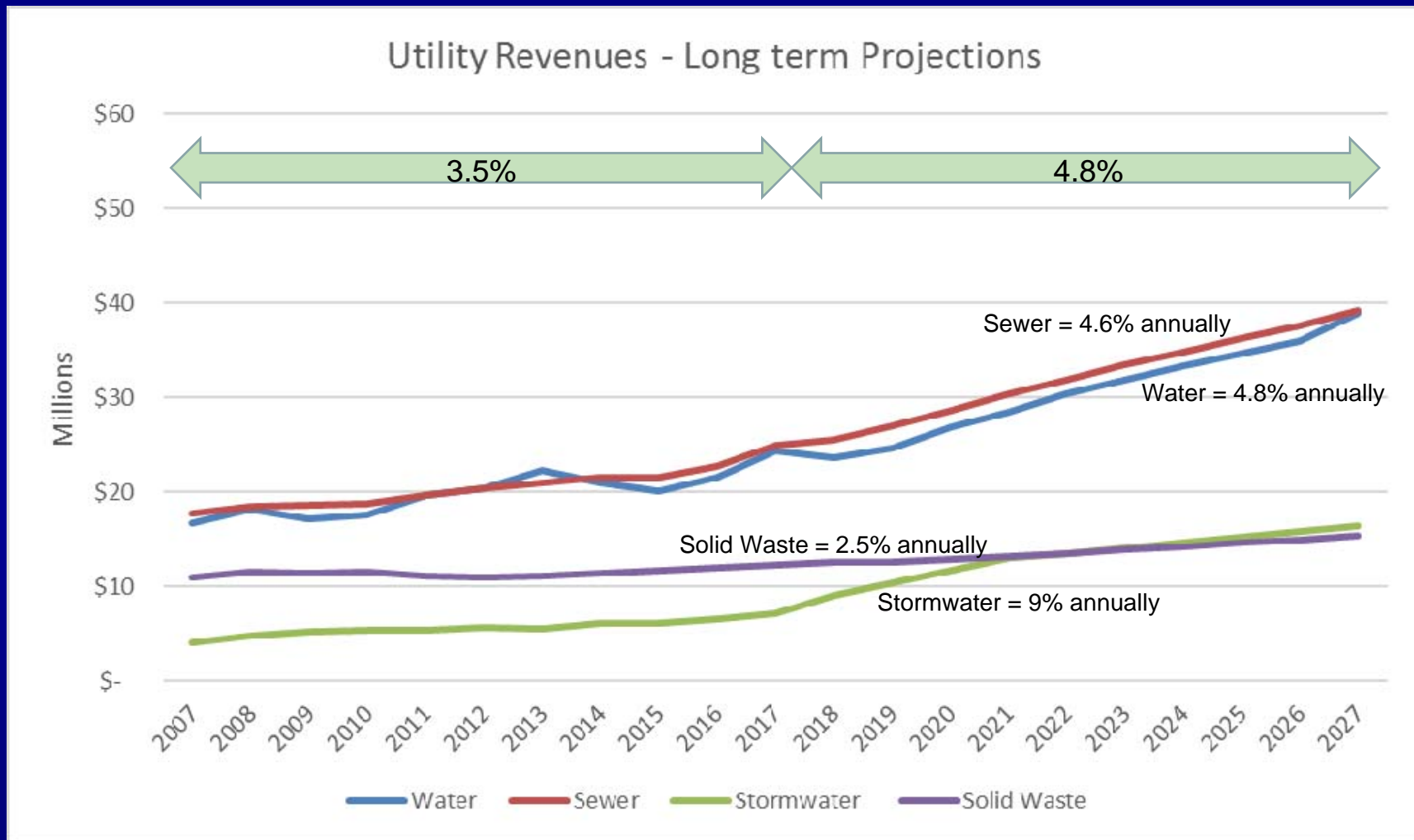
X - represents a primary/major source of revenue.

If the State honors its funding commitment, Ann Arbor's roads should meet its quality goal.

Goal: 80% of major/local roads are in "good" or better condition by 2026.



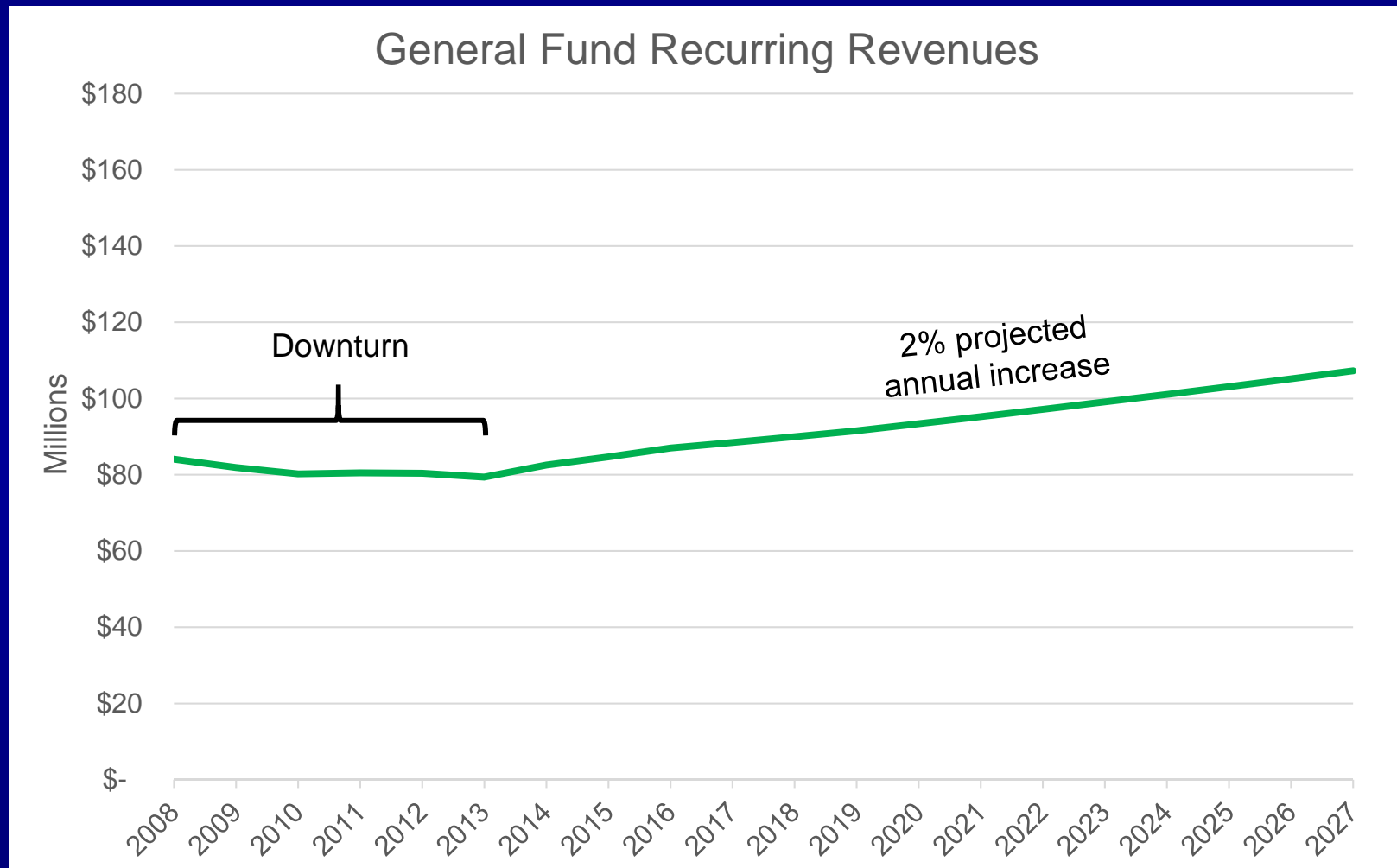
Utilities - combined, the average annual required revenues are projected to increase annually from 3.5% to 4.8%.



Revenue Needs increase for a variety of reasons unique to each utility:

- Water – phasing in revenue to support renovation of the Water plant (and supporting debt) and increase repair/replacement of water mains.
- Sewer – phasing in revenues to cover debt service and depreciation for new treatment plant.
- Stormwater – consistent with recent plan to fund street tree maintenance and other capital improvements.
- Solid Waste – primary revenue is the solid waste millage (reflecting growth in taxable values).
- GASB #75 (new accounting for retiree healthcare) coming into effect for all.

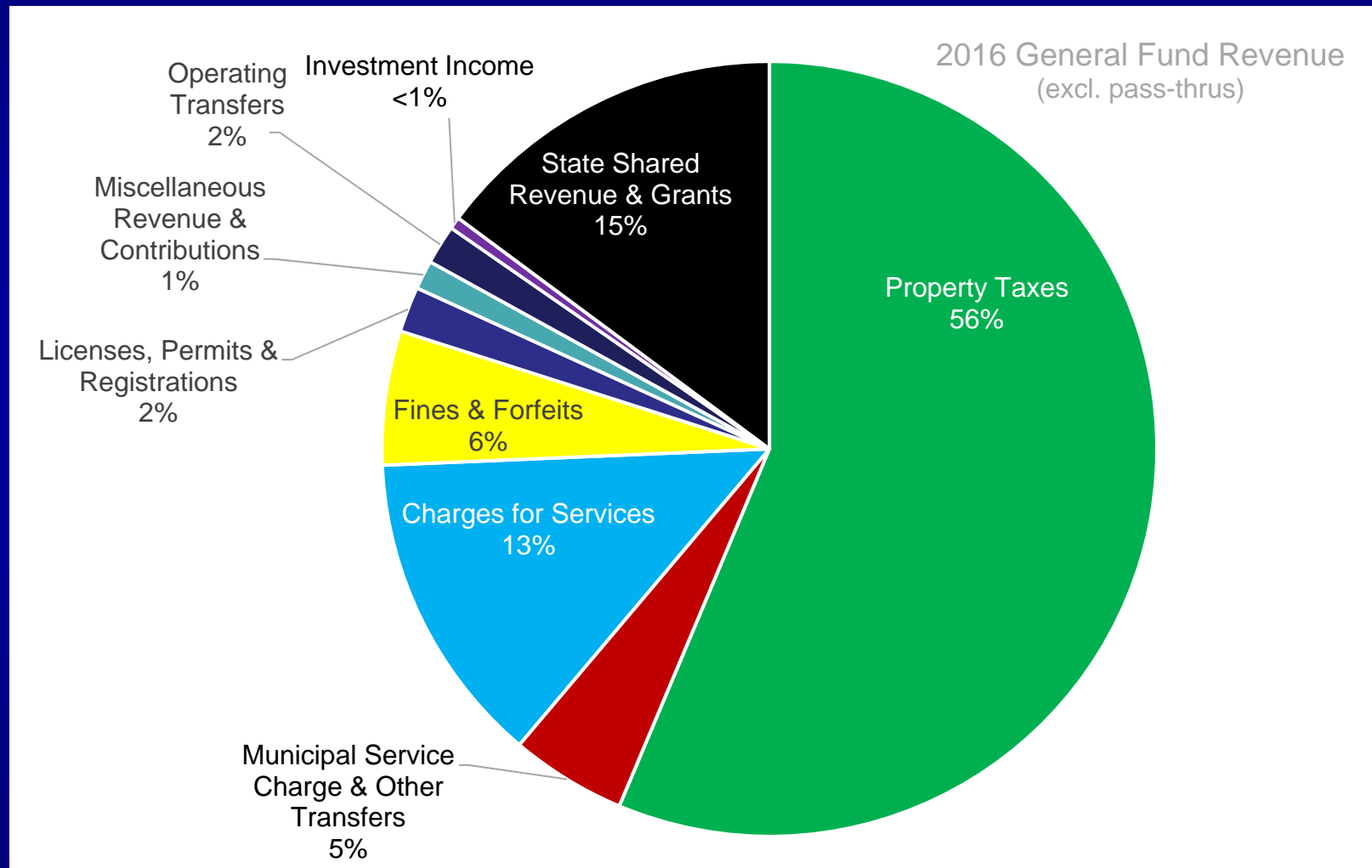
General Fund recurring revenues are projected to increase 2% per year...



General Fund supports many basic activities which also contribute to Ann Arbor's special quality of life ...

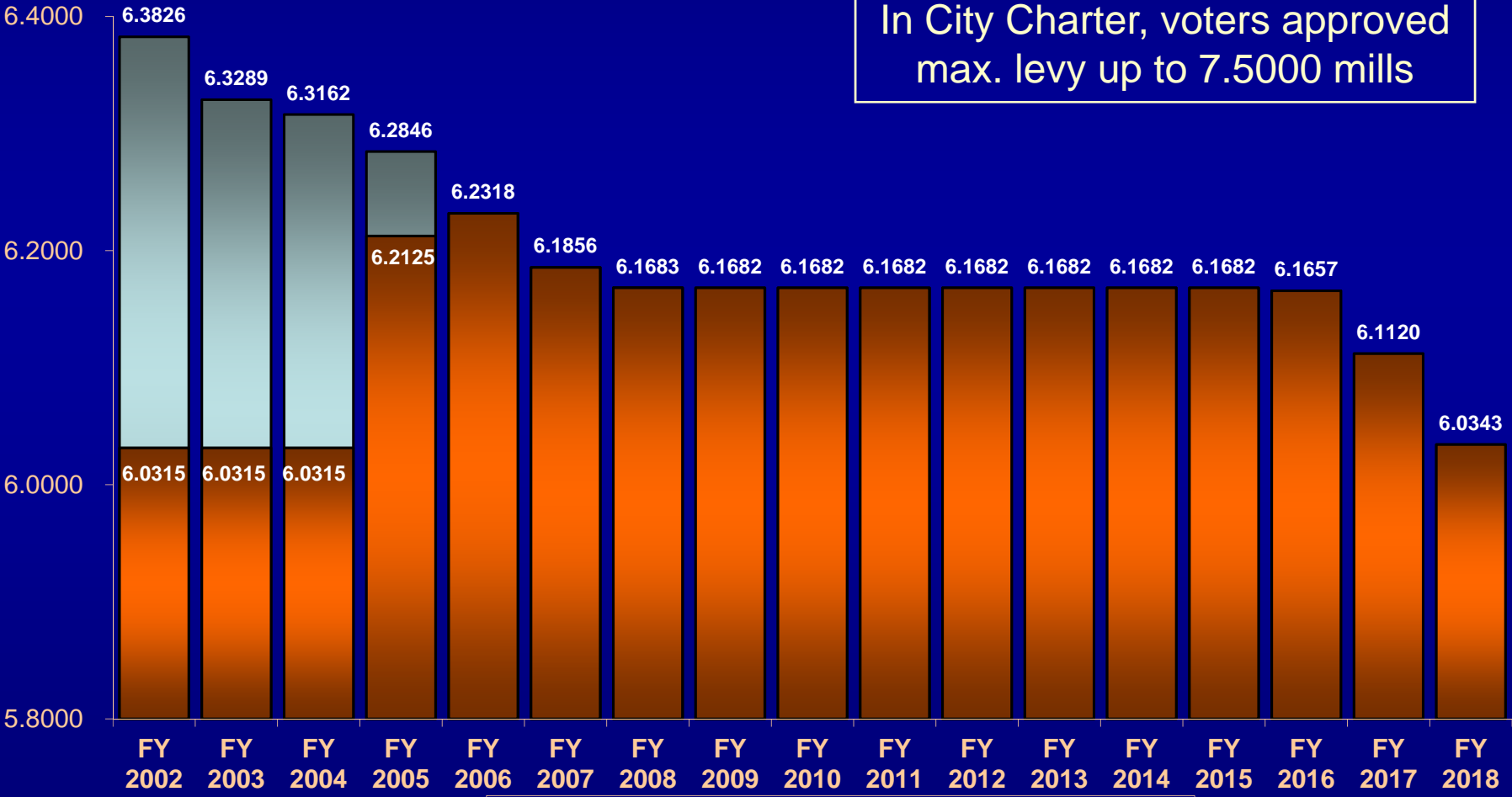
- Police
- Fire
- Emergency Management
- Code Enforcement
- City Parks
- Ice Arenas
- Swimming Pools
- Canoe Liveries
- Human Services
- City Clerk
- Planning and Development
- Human Resources
- Finance/Treasury
- District Court
- Park Activities & Maintenance
- Community Centers

The General Fund is heavily reliant on property taxes and State Shared revenue ...



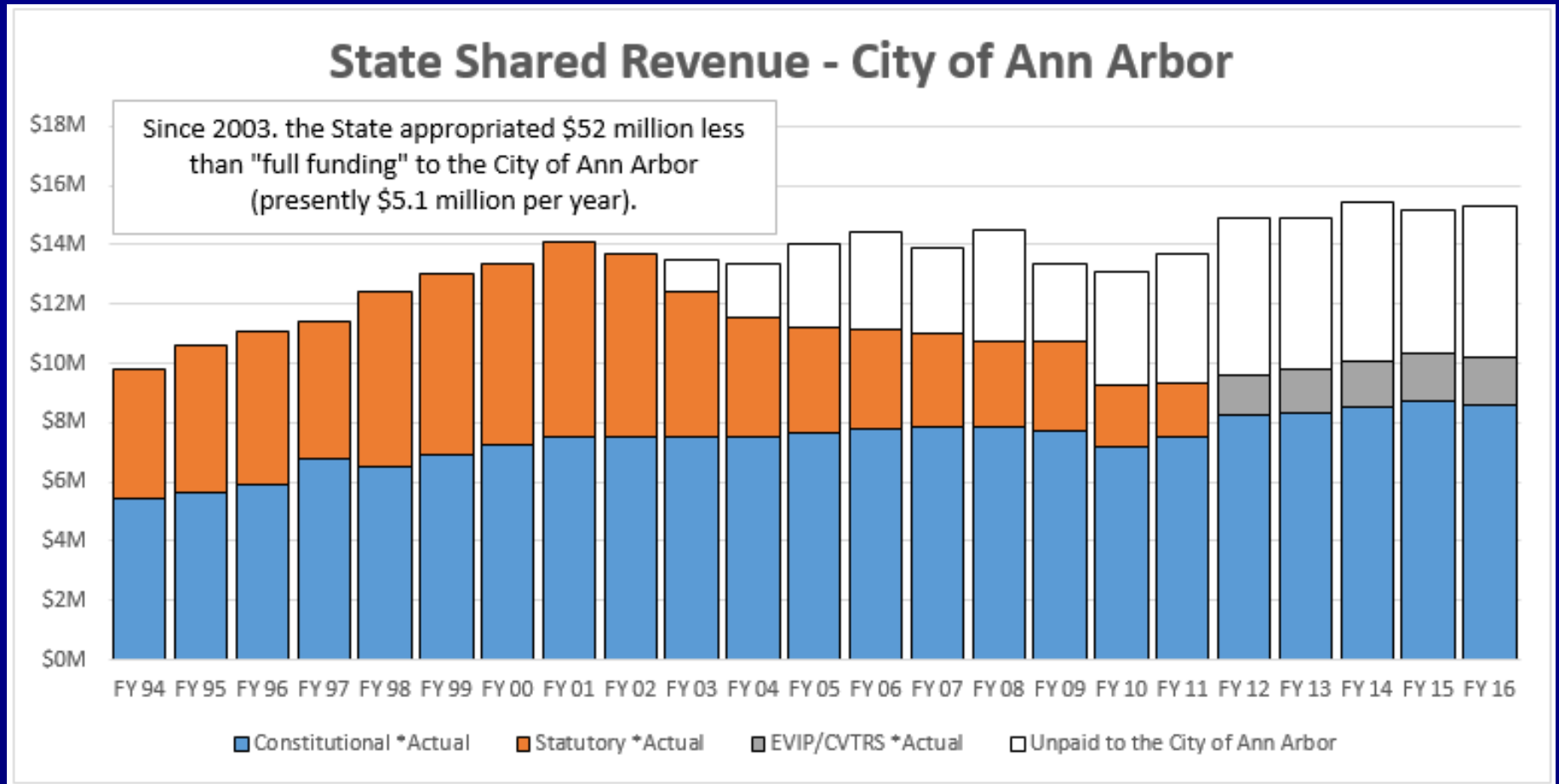
Over time - State law has eliminated the City's flexibility to levy taxes, which voters had previously approved ...

In City Charter, voters approved max. levy up to 7.5000 mills

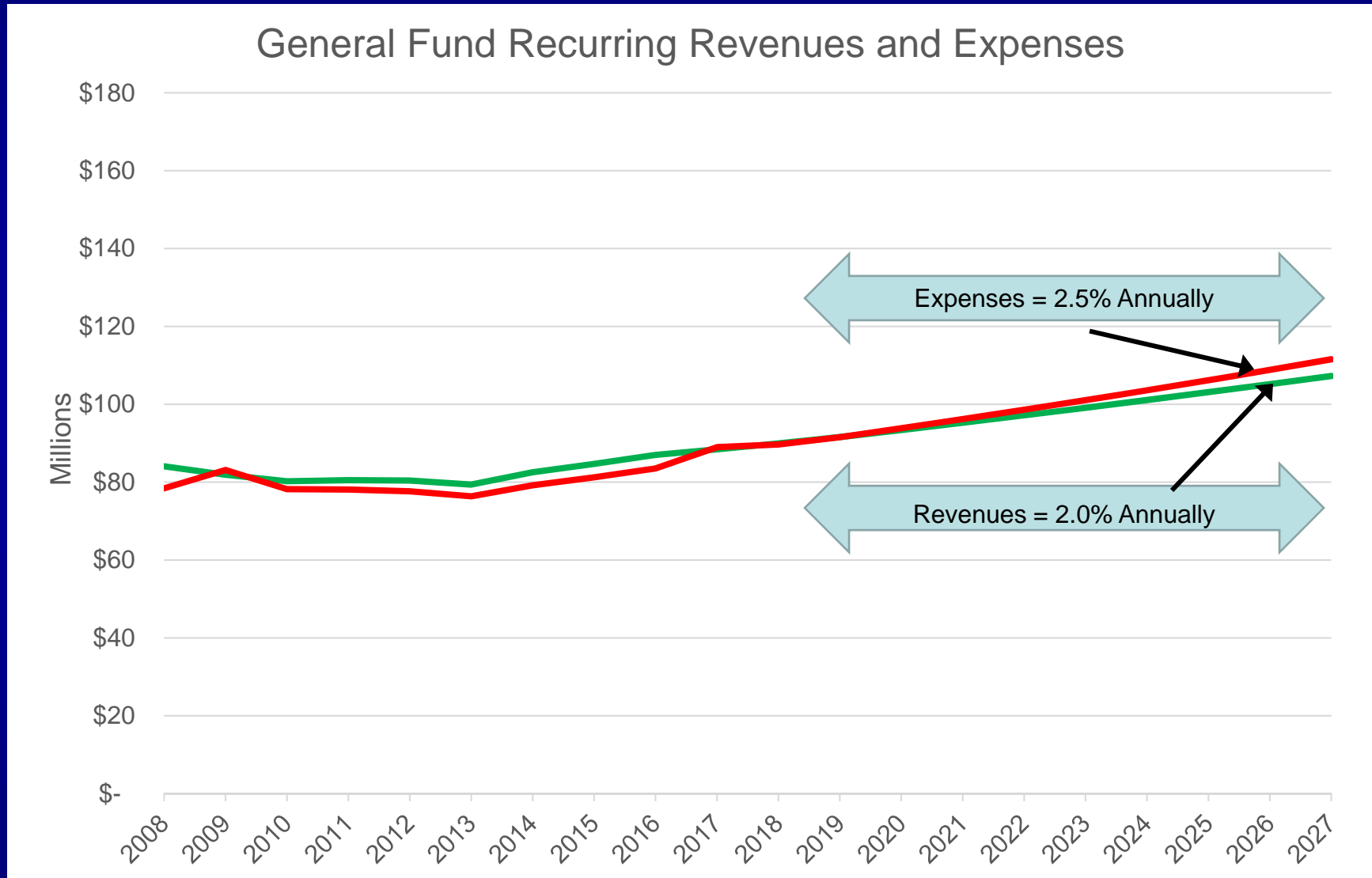


■ Maximum Millage Allowed ■ Actual Millage Rate

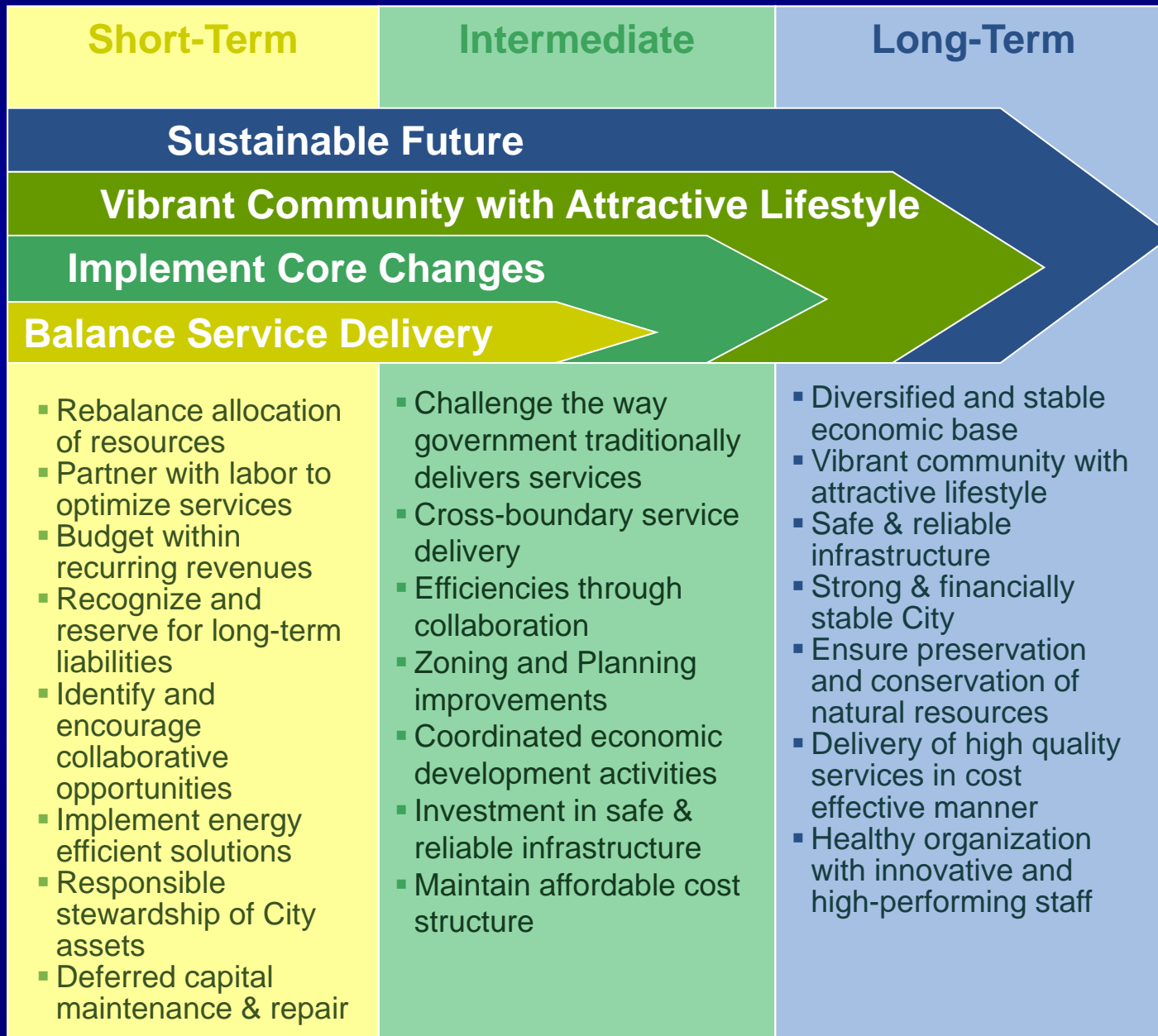
In addition, the State is keeping a portion of the Sales Tax receipts, which locals were supposed to receive ...



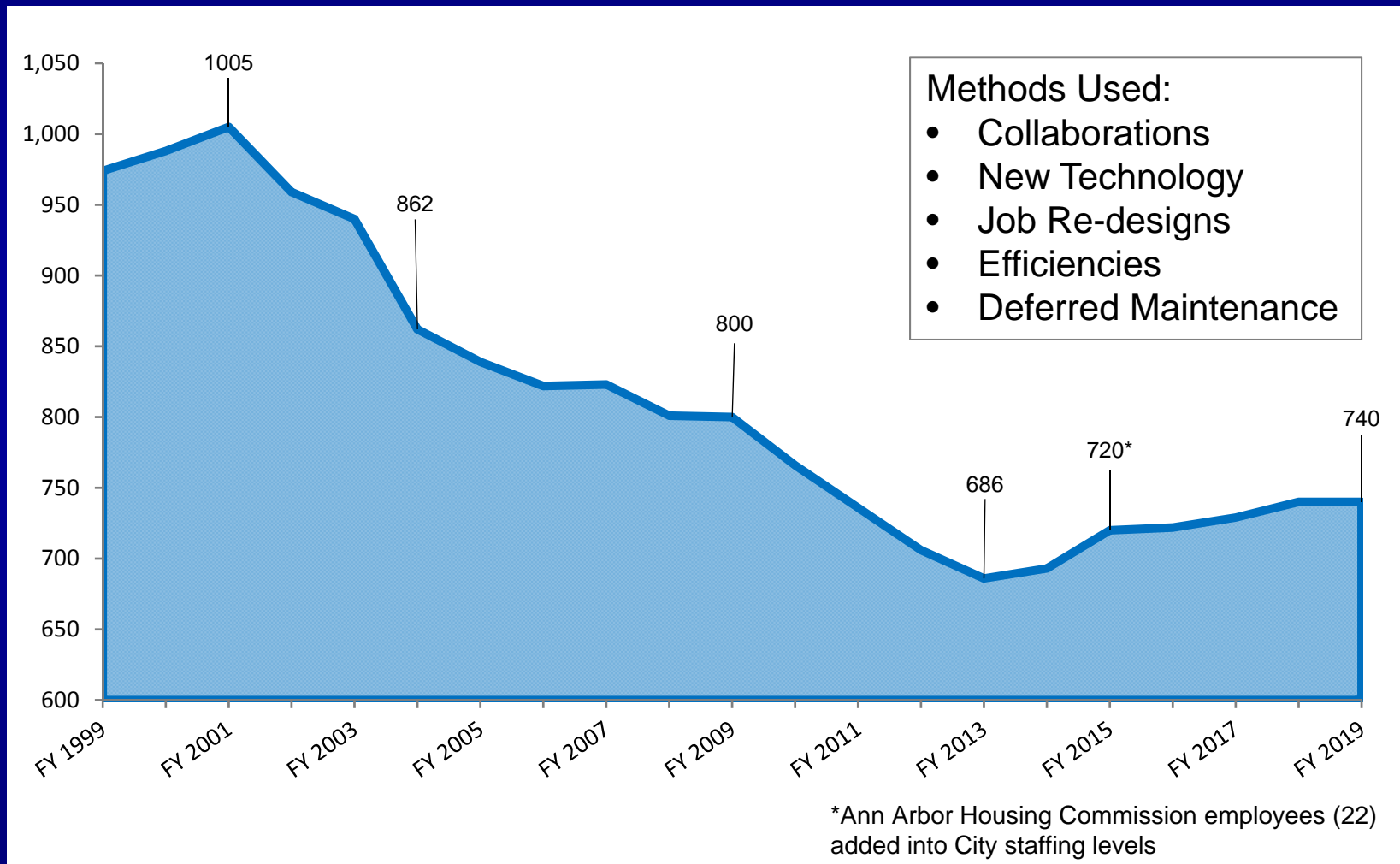
Funding for local governments is broken in Michigan...



City strategy was...



City reduced its workforce approximately 30% without major impacts to core services ...



City modified employee benefits to *reduce costs, increase cost sharing and share risk...*

- Wages – employees had 3-5 years of no salary increases. Recent salary increases have typically been 1%-3%.
- Active employee healthcare – modified plans to keep under the State’s “hard cap” for the municipal payments.
- Retiree healthcare (2011/2012) – eliminated retiree healthcare insurance benefit for new hires. Established flat \$2,500 per year of service.
- Pension (2017) – Most new employees starting with a “hybrid” retirement plan - ½ of previous benefit provided through a defined benefit structure and ½ provided through a defined contribution structure.

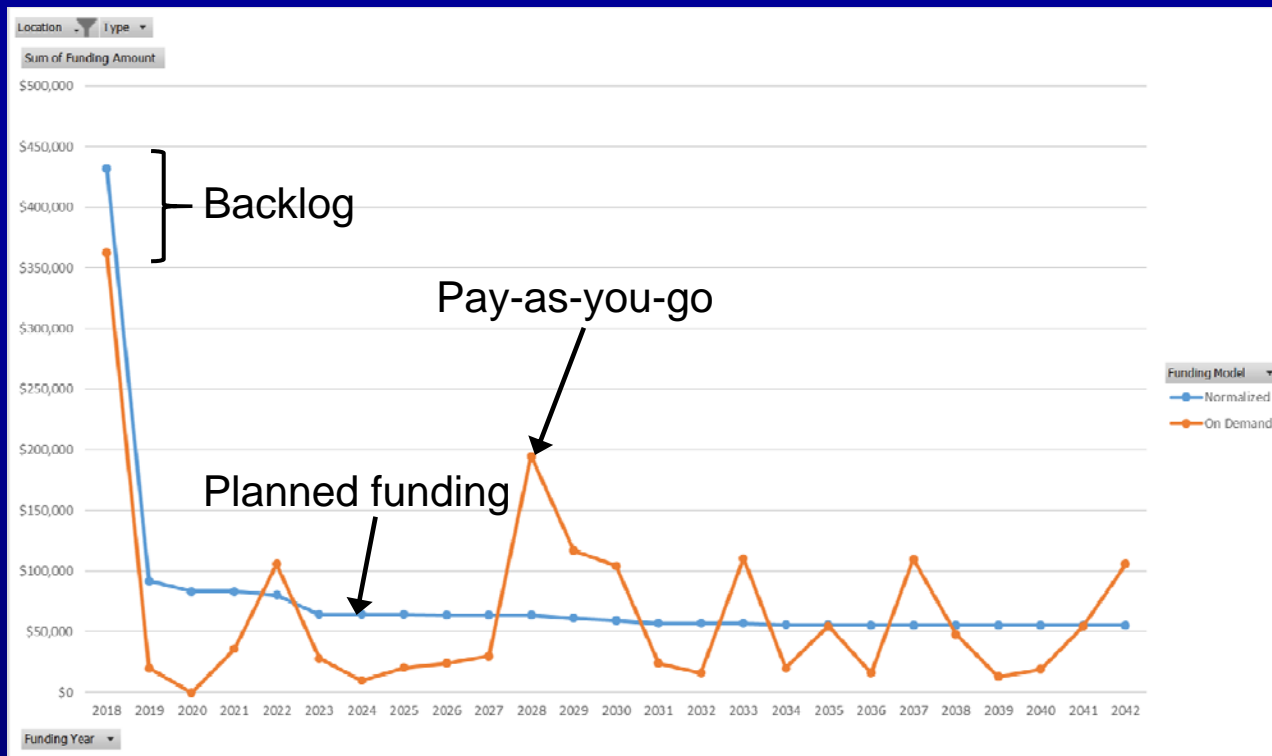
Challenge: City's pension contributions need to increase to accelerate full funding...

- Two existing key assumptions:
 - Presently, refinancing debt over new 25 years, every year (open) – prior to downturn 15 years was used.
 - Sensitivity to investment returns – board has assumed 7% for decades. 6/2016 unfunded was \$88 million. If wrong by 1%, unfunded liabilities would be \$148 million.
- Impact to recurring expenditures – some relief on recurring expenditures will occur the sooner the debt is paid-off.
- Opportunities – when unplanned increases in recurring revenues occur, the City should take advantage by increasing contributions by more than the 2% minimum required by policy.

Existing Assets: City has been unable to set aside funding to maintain existing assets.

Examples include:

- Street lights
- Parks facilities
- Municipal facilities (fire stations, roofs, etc.)



New Efforts: Consequently, there is insufficient funding to invest in new capital improvements:

Examples include:

- Train Station & parking deck (est. \$16 mil., 20% of \$80 mil. project)
- Corridor Improvements (State St., N. Main. St., Huron, etc.)
- New Fire Stations
- Affordable & Workforce Housing Initiatives
- Climate & Energy Initiatives
- Allen Creek Greenway / Tree line Trail

The City has few alternatives to cope with the new environment ...

- Further reductions in expenditures – Although the City is always looking to reduce costs, significant reductions have already been made. Major cost reductions in the future will reduce or eliminate services which this community has said it values.
- Local Sales or Entertainment tax – State law does not permit a local sales or entertainment tax.
- Headlee override – The City's general operating millage was originally approved up to 7.5 mills. Subsequent changes in State law have reduced this to 6.034. An override re-sets the maximum millage to 7.5 mills. If levied by Council, this could generate an additional \$0 - \$8 million.
- Local Income Tax – a potential new revenue source that has some pros & cons. Advantages include diversification of revenue sources, re-allocation of the tax burden, and an additional \$0 - \$11 million in net revenues for services.

Today, local government services receives 25¢ from each \$1 of property taxes ...

1% - Brownfield
 1% - Smart Zone
 2% - DDA
 4% - Public Library
 5% - AAATA

52% - Education

City of Ann Arbor
 25%

Wash. County
 11%

WISD
 10%

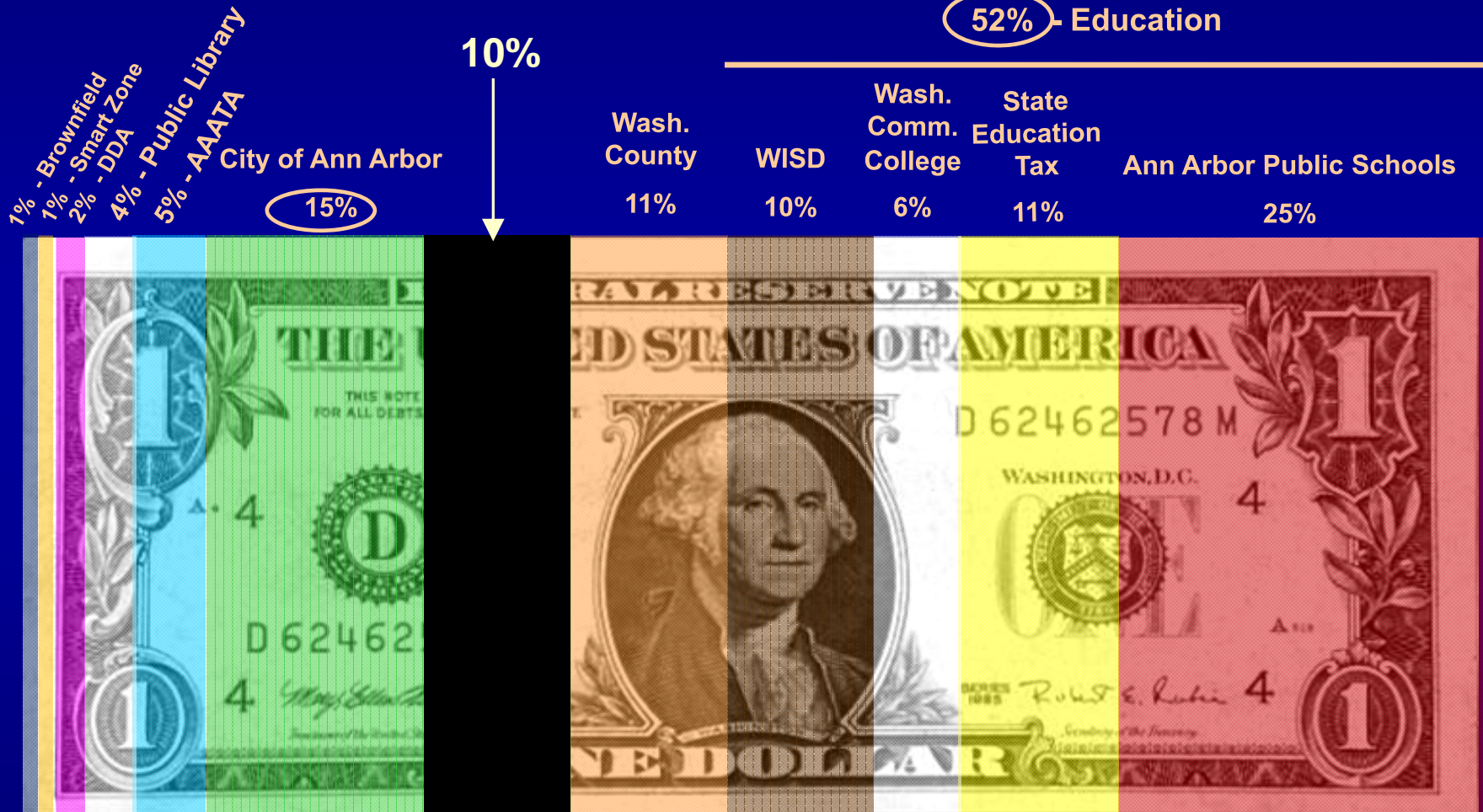
Wash. Comm. College
 6%

State Education Tax
 11%

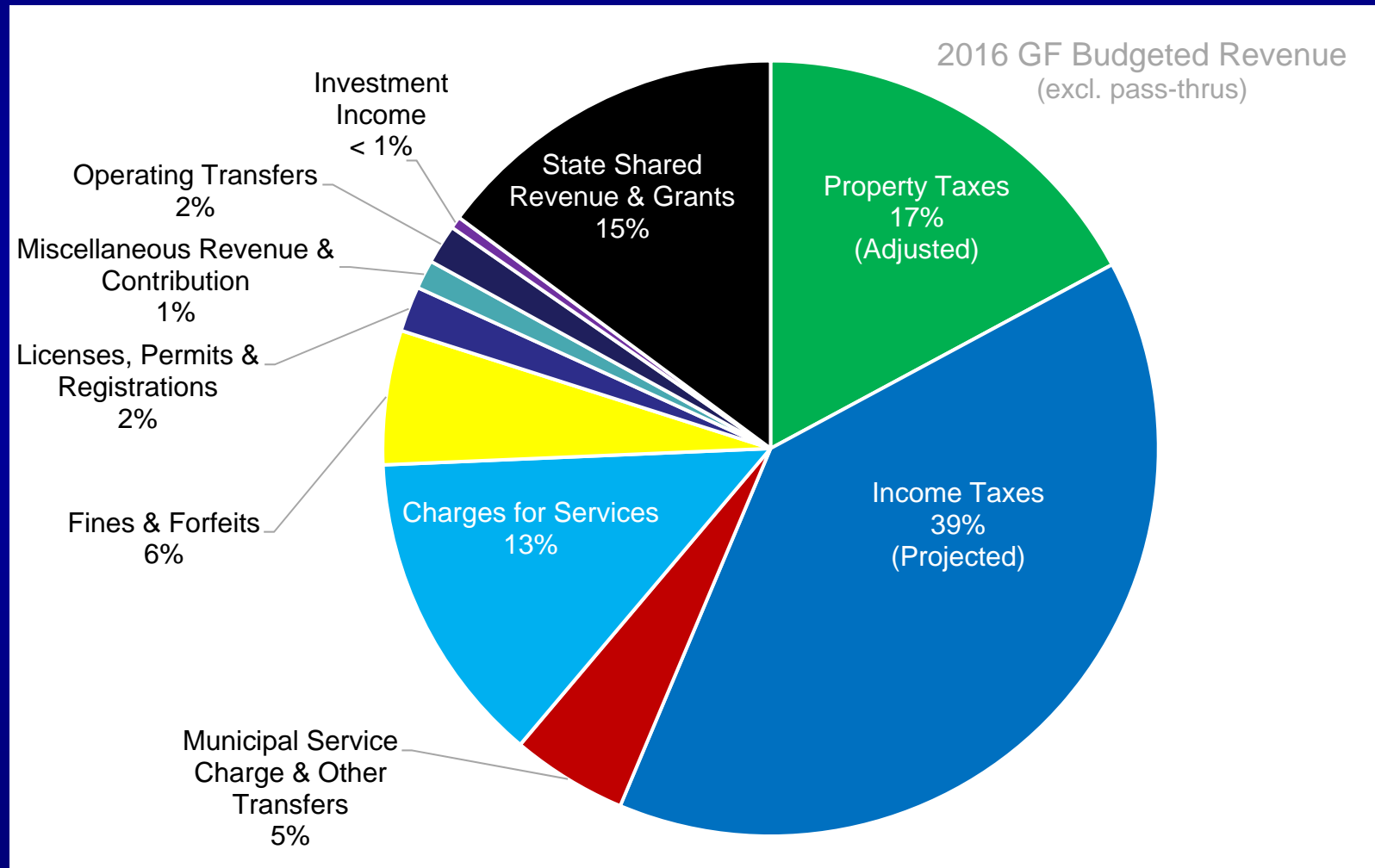
Ann Arbor Public Schools
 25%



Instituting a local income tax would result in a 10% overall reduction in local property taxes ...



Diversification – if an equivalent income tax replaced property taxes, income taxes becomes the primary source of revenue...



Since a local income tax is extensively defined in State law, a local government only has a few items it can control ...

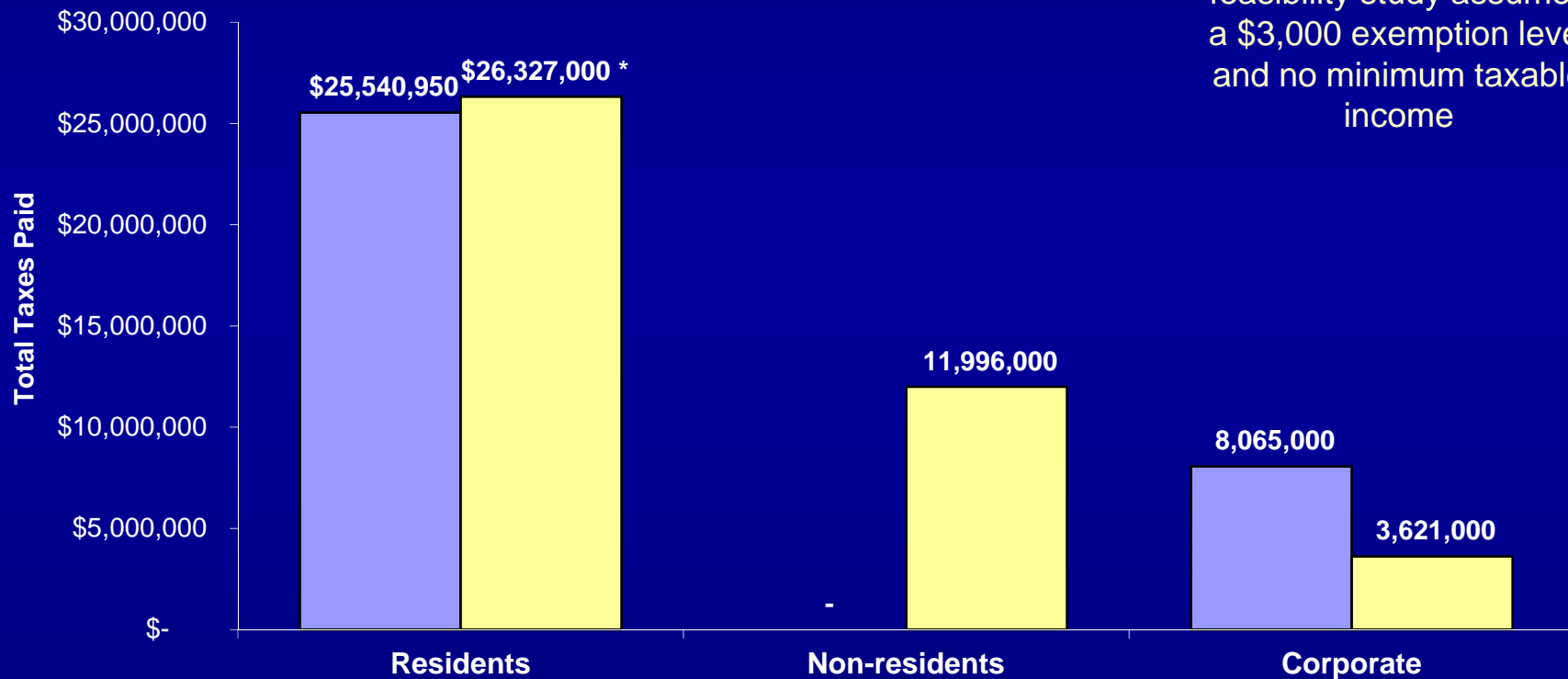
- Start date – earliest fully phased-in is FY 2021, but realistically 2022.
- Tax rate – Maximum by law is 1% for residents & 0.5% for non-residents.
- Exemption levels – Typically \$600 per exemption but the 22 other communities studied in Michigan range from \$600 to \$3,000.
- Minimum threshold for tax – could be any level.

If a local income tax was approved, how would it affect individuals ...

- Would vary a lot depending on unique circumstances:
- Categories of affected groups include:
 - Resident homeowner
 - Resident renter
 - Resident senior citizen
 - Non-resident commuter
 - Business who owns their own property or triple net rent lease
 - Business who rents property (gross lease)
 - Low income individuals

Allocation - the tax burden would be re-allocated to include non-resident workers...

This example from the feasibility study assumes a \$3,000 exemption level and no minimum taxable income



*Includes many additional taxpayers

■ Property Taxes - ...

■ Income Taxes - ...

Implementation of a local income tax is a significant effort and likely wouldn't fully phase-in until FY22

- Council Requests Consultant
- RFP for Consultant
- Council Approve Consultant
- Consultant Study Completed
- Public Discussion
- Council Approval of Ballot Language
- Establish Ballot Education Team
- Public Engagement
- Public Vote
- Hire Income Tax Administrator
- Hire Staff, lease space, develop forms, purchase/install software
- Start Collecting Income Taxes (3 year ramp-up of collections)

Summary of Advantages/Disadvantages

Categories of Consideration	Characteristics	Maintain Status Quo	Income Tax	Headlee Override
New Resources	Adds Net New Revenue	X	✓	✓
	Growth in Net New Revenue	✓	?	✓
Quality of Revenue	Diversification	X	✓	X
	Low Volatility	✓	X	✓
Policy Considerations	Re-Allocate Tax Burden	-	✓	X
	Impact to TIF Districts	-	X	✓
Administrative	Avoid Higher Administrative Costs	-	X	✓
	Ease of Implementation	-	X	✓
	Cash Flow Management	-	X	✓

Potential Next Steps

1. Plan for independent income tax study in FY2019?
2. Establish working group to further study a potential Headlee override for City's operating millage?
3. Expand existing economic development efforts?
4. Receive and file this presentation?