

**FINAL REPORT TO THE CITY OF YPSILANTI
MAYOR FARMER AND MEMBERS OF CITY COUNCIL
FROM THE BLUE RIBBON COMMITTEE ON
CITY FINANCES
JULY, 2005**

INTRODUCTION

The City of Ypsilanti Blue Ribbon Committee on City Finances has been actively analyzing City finances and developing recommendations since City Council created our Committee on February 14, 2004. We thank Mayor Farmer and the Ypsilanti City Council for this opportunity. All of us care deeply about high quality of life in our City, now and in the future. We have seen, in our questioning and deliberations, serious structural fiscal problems facing our City that jeopardize our ability to maintain the high quality of life in our City that we cherish and that is essential to the future success of our City. These structural fiscal problems are not the result of the decisions made by the elected leadership of the City or poor management by staff. Rather, they are the result of escalating cost pressures, co-existing tax limitations that restrict revenue growth in mature built-out communities like ours, and state budget shortfalls that have forced cutbacks in state revenue sharing and limited reimbursement to the City for benefits that state institutions located in the City receive.

We reviewed City revenues and expenditures and earlier recommended a series of steps that could be taken, many of which have been implemented. We do not believe that the City's fiscal problems can be eliminated in the short run merely through expenditure efficiencies. We strongly believe there can be significant cost savings achieved in the future through "regional cooperation" with neighboring communities, Washtenaw County, and/or other entities including such efforts as joint purchasing. Despite these efforts and until there is a more comprehensive state realignment of how communities in this state are financed, we see the City facing three difficult options:

1. Severely reducing City services and, in turn, reducing our quality of life;
2. Fiscal receivership (bankruptcy) of the City or;
3. A new source of revenue to close the gap on a projected annual shortfall of approximately \$2.5 million.

BACKGROUND AND ATTACHMENTS

In our previous two reports to City Council, we described the tasks in which we engaged to complete our charge from you. We extensively looked at revenues and expenditures across the City budget and with the heads of the major departments. We also met with several of the union leaders representing City workers. We continue to be impressed by the concern for stewardship of our tax dollars and the hard work of our staff to provide quality services. Those reports to you are attached.

We also had two subcommittees looking at advanced life support service options and "regional cooperation." Those reports are also attached. As noted above, we believe there is considerable potential to reduce costs by sharing functions with our neighbors

and/or the county. The subcommittee conducted extensive research on benefits other communities across the country have derived through these types of cooperative ventures. We strongly urge active pursuit of “regional cooperation” possibilities.

We studied the revenue potential and implications of a city income tax with your support for a study by Plante Moran. That report is attached.

FINAL RECOMMENDATION

In recognition of the limited options before the City and the need to close an annual budget gap of approximately \$2.5 million, the Blue Ribbon Committee on City Finances strongly recommends City Council consider putting a city income tax before the voters.

RECOMMENDATION SPECIFICS

As City Council considers the option of a city income tax and, as appropriate, a ballot proposal, we suggest some specific features City Council may want to consider. Those specifics follow with brief comments on why they might be considered:

- Income tax rate of 1% resident and .5% non-resident
This is permitted by state law for cities our size. As indicated in the Plante Moran study, it could generate sufficient revenue to close projected budget shortfalls and allow for exemptions and property tax relief that would help make an income tax more equitable.
- Exemption of \$1000
This is a higher exemption than the \$600 employed by many of the cities that have an income tax. This helps lower-income individuals.
- 2 mil reduction in property tax
The City already has a high tax burden. A reduction in property tax will help ease the tax burden for City residents while still resulting in a net increase in revenue.
- Sunset the income tax after 5 years.
We view the income tax as a stopgap measure to meet projected shortfalls. A 5-year limit would allow time for the City to maintain services while two courses of action to move forward, realization of “regional cooperation” cost savings and state action to correct structural fiscal problems facing many communities across the state.

OTHER COMMENTS AND CONSIDERATIONS

The Blue Ribbon Committee had considerable discussion and debate leading to our recommendation. We want to share some of the points that City Council may wish to take into account.

- We believe it is inappropriate for the Blue Ribbon Committee to continue further public comment on our recommendation. We do believe

substantial engagement of Ypsilanti residents is essential if City Council decides to move forward.

- We believe the regressive impacts of a potential income tax on lower-income and renter residents should be minimized. That is why we recommend a higher exemption level than the minimum. Plante Moran has identified the impacts of the Committee's specific recommendations on several types of residents. The attached proposed addendum dated July 18, 2005 is one such option to consider should Council desire to pursue this further.
- City Council may consider other options and impacts as they relate to the size of the exemption and size of property tax rollback provided that the proposal nets the minimum needed of \$2.5 million.
- The administration costs, particularly the startup costs, identified in the study should be verified. They could be higher than estimated in the study.
- Landlords could receive considerable benefit from the proposed property tax relief. Options to balance that benefit should be considered.
- In addition to closing the \$2.5 million budgetary gap, we are concerned that the City has deferred repairs and maintenance, capital expenditures and new capital investment. This also needs to be addressed to maintain and enhance City services and our quality of life.

CONCLUDING COMMENTS

This recommendation completes our charge. We, again, thank City Council for the opportunity to work on behalf of our City. We particularly want to thank City Manager Ed Koryzno, City Clerk Cherry Lawson and City staff for their outstanding support to our efforts. We express our willingness to work individually, as appropriate, with City Council and staff as you move forward.

Respectfully submitted by:

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