



October 23, 2011

Dear Ypsilanti Neighbors and Friends:

The city of Ypsilanti is at a fiscal crossroads and must replace lost tax revenues to survive. Falling property taxes and state revenue sharing cuts have created a severe structural general fund deficit that must be addressed immediately. Declining property values are projected to reduce general fund property tax revenues from \$6.7 million in 2010 to \$4.4 million in 2017. This 35 percent revenue decline decimates funding for police and fire services as well as administrative functions at City Hall. Cutting staff to balance the general fund budget would eliminate forty-one current employees, including some police officers and firefighters. The result would be a city with less than thirty-two employees by 2017. **Reducing public safety and other city services is an untenable option.**

Over the past decade Ypsilanti has significantly cut its budget. In 2003 the city Parks and Recreation Department and funding for human services was eliminated. In 2008 fourteen vacant staff positions were eliminated, including six in the Police Department. In 2010 the city laid off two police officers. Ypsilanti city government is now a lean organization with no redundancy. For example, the assistant city manager is also the human resources director, the planning department director, and the building official. Further cuts to staffing will result in the loss or delay of police and fire protection, planning, zoning, and infrastructure services. **It is clear that City Council must consider revenue increases for the long-term sustainability of the city of Ypsilanti.**

The laws governing Michigan cities limit the options for reducing expenses and raising taxes. What follows are the viable and not-so-viable options before City Council:

Give Water Street back to the bank?

Some have suggested eliminating the \$1.3 million annual Water Street bond payment by giving the property back to the bank. In fact, Michigan state law requires payment of the \$1.3 million annual bond; it is not like a mortgage that can be unloaded. Even if City Council were to decide to withhold funding, the bondholders could sue the city to require payment. **The Water Street bond must be paid.**

Turn the city over to a state-appointed emergency manager?

Some have suggested that a state-appointed emergency manager should take over Ypsilanti. An emergency manager would be saddled with the same lack of tax revenue that City Council is grappling with. An emergency manager can't erase the Water Street debt. An emergency manager can't raise taxes without voter approval. Finally, and most important, an emergency manager will not be representing the city's residents. **Turning the city over to an emergency manager is a terrible option.**

Fold the city into Ypsilanti Township?

Some have suggested that the city should become part of Ypsilanti Township. But even after dissolution, city residents must still meet their financial obligations such as the Water Street bond payment. The township board would have the power to levy property taxes on the former city residents to pay outstanding financial obligations. **Dissolution of the city will not solve its financial problems or transfer financial obligations to township residents.**

Increase property taxes?

The state constitution limits general fund property taxes to 20 mills. Ypsilanti is at that limit. Police and fire protection as well as planning, zoning, and other city services are paid out of the general fund. Property taxes outside of the general fund must be dedicated for specific purposes.

A dedicated police and fire property tax can't be proposed unless it funds a separate police or fire authority. An authority is an agreement between two or more municipalities to share services and costs. The city and the township have funded a police authority study and committee discussions are ongoing, but no action has been taken.

A dedicated property tax levy to pay the \$1.3 million annual Water Street bond debt is a possibility. It would ease the burden on the general fund, and it would provide more funding for police, fire, and other services. The levy can be proposed by City Council, but it must be approved by voters. Unfortunately, if a Water Street bond tax levy were approved in 2013, the general fund reserves are projected to last only one additional year. More tax revenue is needed to balance the budget. Even so, **City Council is evaluating a Water Street bond tax levy.**

Institute a city income tax?

Because the city is at the maximum 20 mills property tax rate for the general fund, City Council is evaluating a city income tax proposal. An income tax would replace the revenues that will disappear due to the decline of property values and loss of state funding. According to state law, a city income tax of up to 1

percent can be imposed on residents, and half the rate on residents can be imposed on nonresidents working in the city. A city income tax must be approved by voters. In Michigan twenty-two cities have a city income tax. Property taxes can be reduced to offset the income tax. **City Council has directed city staff to update the 2005 income tax study to provide a more accurate estimate of city income tax revenues.**

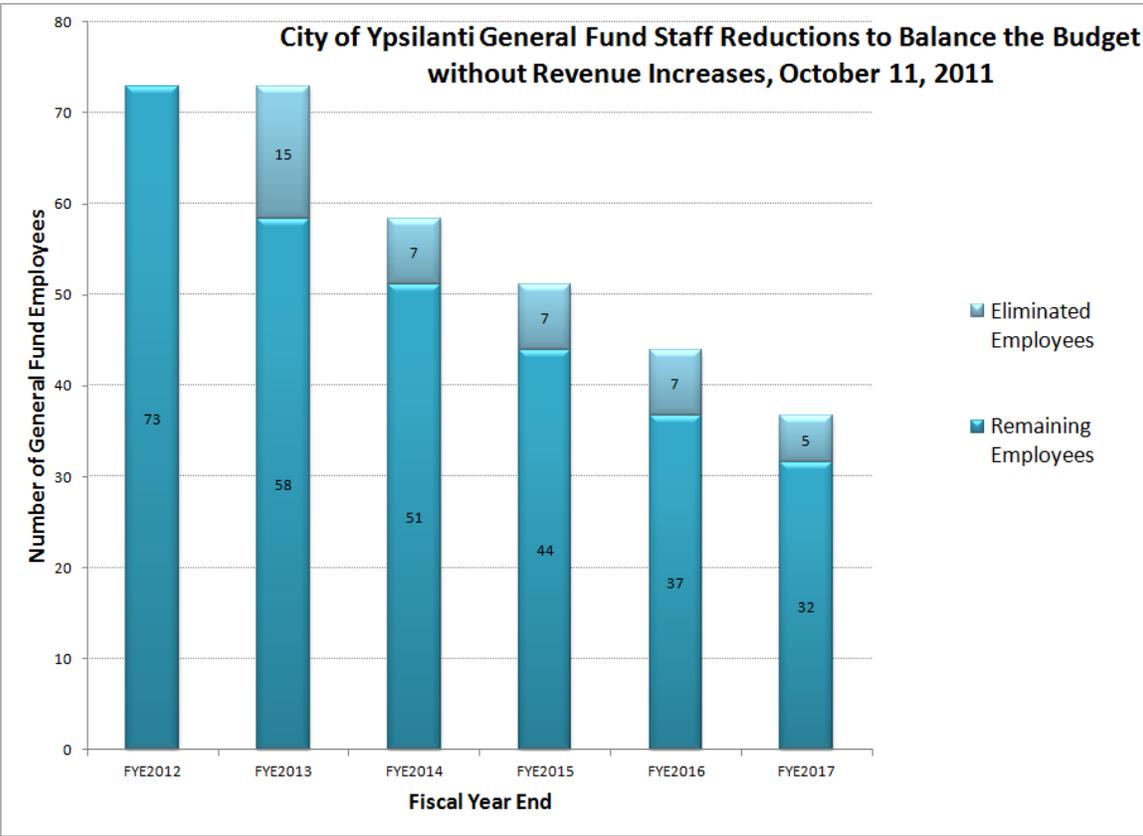
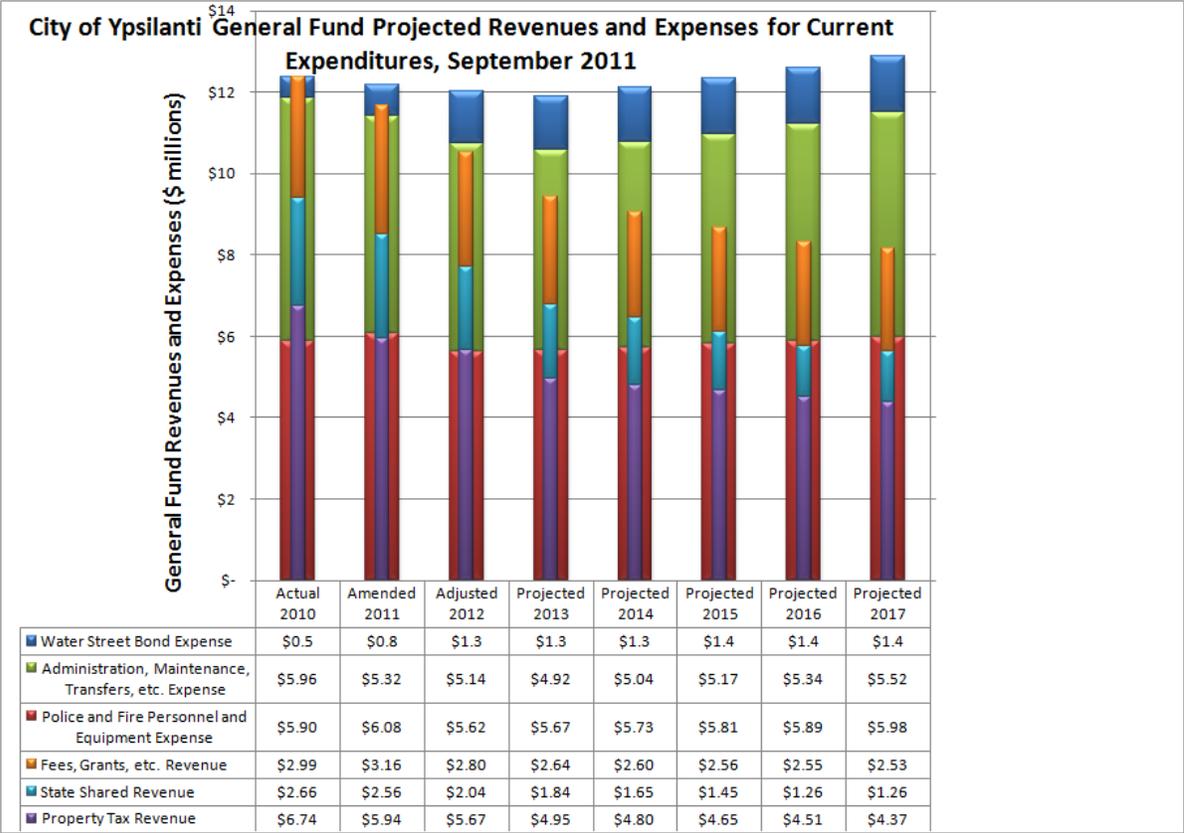
Add a storm water utility fee?

City Council has the option of imposing a storm water utility fee based on the impermeable surface area of a property. This fee would apply to all taxable and nontaxable property and only requires City Council's approval. Revenues would supplement funds to repair major streets. **City Council is considering a storm water utility fee.**

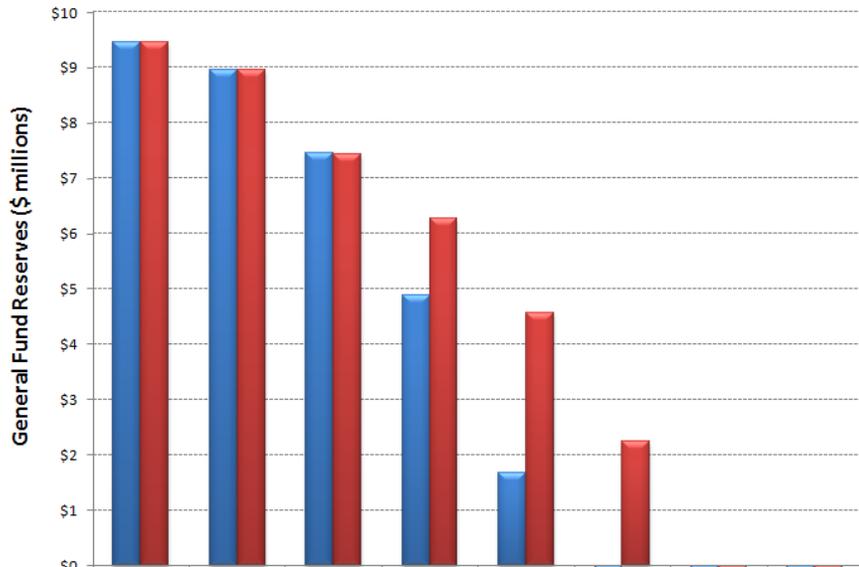
Ypsilanti City Council will hold three public goal setting meetings on Tuesday evenings at 6 p.m. at City Hall to finalize a plan to balance the budget. **The meeting dates are November 1 and 29 and December 13.**

Along with the six other members of Ypsilanti City Council, I welcome everyone to the meetings and ask you to bring your comments and suggestions.

Best regards,
Paul Schreiber
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**City of Ypsilanti General Fund Projected Reserves with and without
General Fund Water Street Bond Payment, September 2011**



	Actual 2010	Amended 2011	Adjusted 2012	Projected 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017
■ General Fund Reserves	\$9.46	\$8.96	\$7.46	\$4.88	\$1.68	-\$2.17	-\$6.65	-\$11.58
■ General Fund Reserves without Water Street Payment Starting in 2013	\$9.46	\$8.95	\$7.43	\$6.28	\$4.56	\$2.24	\$(0.67)	\$(4.02)

Fiscal Year End