



Income Tax Feasibility Summary

City of Ypsilanti

June 2005





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We have compiled the accompanying Income Tax Feasibility Study of the City of Ypsilanti for the years ended December 31, 2005 through December 31, 2009, in accordance with attestation standards established by the American Institute of Certified Public Accountants.

This forecast does not present all significant financial measures that would be present in a complete set of financial statements (statement of net assets, statement of revenue, expenses and changes in net assets, and statement of cash flows). Accordingly, this forecast is not designed for those who are not informed about the City's financial position, results of operations and cash flows.

A compilation is limited to presenting in the form of a forecast, information that is the representation of management and does not include evaluation of the support for the assumptions underlying the forecast. We have not examined the forecast and, accordingly, do not express an opinion or any other form of assurance on the accompanying statements or assumptions. Furthermore, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying forecast and this report are intended solely for the information and use of the City of Ypsilanti and is not intended to be and should not be used by anyone other than these specified parties.

Plante and Moran, PLLC

May 12, 2005



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CITY OF YPSILANTI, MICHIGAN

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Project Objective

The City of Ypsilanti, Michigan ("City") is conducting a study of the potential effects of instituting a city income tax. The purpose of this study is to estimate whether an income tax is a feasible option for the City and to assess the potential burden shift between the different classes of taxpayers: residents, non-residents, and businesses.

Project Methodology

To meet this objective, statistical information about the City's population, worker demographics, residential household income and business income was gathered from various sources. Sources included the City, United States Census Bureau, Michigan Department of Treasury, U.S. Bureau of Labor Statistics, employer surveys, surveys of other cities which assess income tax, and market research companies. Once the source data was obtained, certain assumptions were made in order to estimate the revenue that would be generated under an income tax system and to project revenues over the next five years.

Historical data about the current property tax system was compiled by the City. Using growth rate assumptions made by City personnel, revenue that would be generated from the current property tax system was projected over the next five years.

After preparing the income tax and the property tax models as described above, the results of each were compared. Not only the total revenue which would be generated from each system, but the percentage of each revenue type that would be paid by the different classes of taxpayers (residents, non-residents, and businesses) were compared.

The analysis has been developed using the best available information concerning financial and demographic trends and conditions. As mentioned above, each model was developed using certain key assumptions and should not be evaluated without a thorough understanding of those assumptions. The assumptions and the accompanying rationale are documented in later sections of this report.

All assumptions are the responsibility of the City of Ypsilanti's management based on their best judgment at the time of the study. It is possible that the forecasted results may not be achieved because events and circumstances frequently do not occur as expected.

Findings

Based on the assumptions outlined in this report, an income tax using maximum tax rates and minimum exemption allowances allowed by Michigan law could generate approximately \$4.0 million, net of estimated administrative costs. The City's operating property tax millage is estimated to generate approximately \$6.8 million of revenue in fiscal year 2005. Therefore, an income tax and operating property tax millage could generate approximately \$10.8 million of revenue for the City.

For comparison purposes, income tax revenue using alternative exemption level of \$1,000 has been calculated. See Appendix A for the results of these calculations. Additionally, estimates have been developed for the City assuming that the Visteon plant (1,100 jobs) closes. Please see Appendix B for these estimates.

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Income Tax Feasibility Study Revenue Summary – Property Tax System May 2005

Property Tax System – Current State

Property Taxes and Millage Rates

The City currently has a property tax system which generates revenue from property owners in the City limits. The revenue is calculated by multiplying the taxable value of property by the millage rates. The following millage rates have been approved by the City for the 2004 tax year:

Operating	19.0937
Refuse	2.7870
Debt service	0.7887
Streets	3.8533
Police Pension	1.7593
Total	<u>28.2820</u>

Significant Factors Affecting the Property Tax Model

The following factors have an affect on how the property tax is calculated and projected:

- Headlee Amendment
- Proposal A
- Tax Increment Financing District
- Administration Fee

Under State law, the Headlee Amendment and Proposal A have a significant impact on the rate of revenue growth that can be achieved through property taxes.

The Headlee Amendment

The Headlee Amendment limits the growth of property tax revenue by controlling how the City's maximum authorized millage rate is calculated. The maximum authorized millage rate is rolled back when growth on existing City property is greater than inflation, hence limiting the increase in revenue from these properties to the rate of inflation.

Proposal A

Proposal A limits the increase in taxable value of individual properties to the lesser of inflation or five percent annually. While the state equalized value (SEV) continues to grow with the market, the taxable value is limited by Proposal A. When property is sold or transferred, the taxable

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Income Tax Feasibility Study Revenue Summary – Property Tax System May 2005

value is reset to SEV in a process referred to as “uncapping.” This process results in an increase in the taxable value base for the City, however, the uncapped values are factored into the Headlee calculation and can cause a rollback.

Tax Increment Financing District

Another matter which affects property tax revenue is the existence of a tax increment financing (TIF) plan for the City’s Downtown Development Authority (DDA). Under the TIF plan, the DDA district is able to “capture” a portion of property taxes levied by the City. In other words, of the total property tax revenue collected by the City, the DDA will receive a portion of the revenue for its own use. The taxes captured by the DDA have been factored into the model.

Administration Fee

An additional source of revenue generated under the property tax system is an administration fee of 1% of the total taxes levied on every tax bill. Property taxes are charged not only by the City, but by other units of government, including Washtenaw County, Ypsilanti Public Schools, Washtenaw Community College, and the Intermediate School District. The City acts as an agent for the other units of government by billing and collecting the property taxes on their behalf. This administrative fee is charged by the City to cover its costs of administering property taxes on behalf of the other units of government. In the event that the City’s operating millage is eliminated, the related administrative fee on the operating millage would be eliminated as well.

Assumptions – Property Tax System

With assistance from personnel in the City’s Assessing Department, certain assumptions about the growth of existing property, growth of new property, the rate of transfers of existing property, and the factors affecting the DDA capture were made. These assumptions were necessary in order to estimate future revenues that would be generated if the current property tax system remains in effect.

The assumptions used in the property tax model relating to the ad valorem roll are summarized as follows:

Factor	Growth Rate Assumption
Existing real property	CBO Consumer Price Index Rate, 2.00% in 2005 and then 2.20%
Existing personal property	0% per year
New property, net of losses	0.5% per year
Rate of transfers of existing property	1.0% per year
Growth of DDA capture	1.0% per year

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Income Tax Feasibility Study Revenue Summary – Property Tax System May 2005

The assumptions include no additions to, and no significant growth of, the industrial facilities tax roll (IFT).

The model begins with actual taxable values and state equalized values for the 2004 tax year and uses the assumptions to project revenue over the next five years. Effects of the Headlee Amendment and Proposal A are factored into the model.

Classes of Taxpayers

In order to calculate the portion of property taxes which are paid by residents vs. businesses (non-residents do not pay property taxes), the makeup of the 2003 taxable values between homestead and non-homestead properties was compiled. Since a taxpayer must use property as a principal residence in order to qualify for a homestead exemption, it was assumed that the homestead totals represent the residents of the City. Homestead properties represented 32.9% of the total taxable value, while non-homestead properties made up the remaining 67.1%. This same ratio is assumed for each year of the model.

Revenue Projections

Based on the above assumptions, the calculations indicate that property taxes will generate the following revenues over the next five years, including the 1% administration fee on the operating millage:

2005	\$6,782,200
2006	\$7,047,800
2007	\$7,193,200
2008	\$7,389,200
2009	\$7,595,200

According to the current model, the DDA is projected to receive between \$156,000 and \$176,000 per year over the next five years from the City's operating property tax levy. In the event that the levy is eliminated in favor of an income tax system, the DDA could lose part of this revenue.

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Income Tax Feasibility Study Revenue Summary – Income Tax System May 2005

Income Tax System – Proposed/Future State

An income tax would be assessed on the taxable income of residents and corporations in the City, as well as the salaries and wages earned in the City of Ypsilanti by individuals who do not live in the City.

Under the State's Uniform City Income Tax Act (UCITA) (Public Act 284 of 1964, as amended) the voters must approve the imposition of an income tax. The maximum tax rates that can be assessed are 1% on residents and corporations and 1/2% on nonresident individuals. The rates can be lower; however, the nonresident rate cannot exceed 1/2 of the resident rate. This model was prepared using the maximum allowable rates, which are the most common rates among other cities which impose an income tax.

UCITA provides that a taxpayer is allowed a minimum deduction from income of \$600 for each personal and dependency exemption (as determined under the federal internal revenue code). Additional exemptions are allowed for taxpayers who meet certain qualifications, such as being 65 years of age or older, blind, deaf, or totally and permanently disabled. For comparison purposes, two models have been developed using different exemption rates: \$600 and \$1,000.

Another provision of UCITA specifies that residents who pay income tax to another city be allowed a credit for the amount paid to that city. Given the City's location compared to other cities that impose an income tax, the model gives consideration to residents who work and pay income taxes in the City of Detroit.

In preparing the income tax model, taxpayers were segregated into the following categories:

- Individuals who live and work in the City of Ypsilanti
- Individuals who live in Ypsilanti, but work elsewhere (non-taxing City)
- Individuals who live in Ypsilanti, but work in Detroit (taxing City)
- Individuals who work in Ypsilanti, but live elsewhere ("commuters")
- Corporations

Data was gathered from the U.S. Census Bureau (2000 Census) in order to determine how many people were in each of the "individual" categories above. Once the number of individuals in each category was known, the amount of taxable income for each category was estimated.

Estimate of Taxable Income:

Individuals who live in Ypsilanti: Residents of the City are taxed on their taxable income, regardless of where it was earned. The amount of income subject to tax was obtained from the State of Michigan Department of Treasury. By multiplying the ratio of residents in each of the

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Income Tax Feasibility Study Revenue Summary – Income Tax System May 2005

categories above by the income subject to tax for the entire City, the taxable income for each category of residents was estimated.

In addition, for the residents who work in the City of Detroit, an estimate of the credit for taxes paid to another city was made. The average salary for jobs in the Detroit area, based on data from the U.S. Bureau of Labor Statistics, was multiplied by the Detroit non-resident tax rate to calculate the average credit per worker. The average credit per worker was then multiplied by the number of residents who work in Detroit to determine the total credit for all residents who work in Detroit.

Commuters: Commuters are taxed on their salaries earned in the City. To estimate income subject to tax for commuters, the number of commuters was multiplied by the average salary for jobs in the Ypsilanti area, based on data from the U.S. Bureau of Labor Statistics.

Businesses: To assist in the estimation of income from corporations, seven cities that impose an income tax were surveyed. Statistical data about tax collections, the number of returns filed annually, the cost of administration, and the timing of collections was requested. Four of the seven cities responded to our request. Using the data obtained from the surveys, combined with corporate sales data obtained from the marketing research company Claritas, Inc., the average tax collections as a percentage of sales was calculated. A ratio was applied to corporate sales of the City of Ypsilanti to estimate income tax from corporations.

Estimate of Exemption Deductions:

For each of the categories of individuals, an estimate was made about personal and dependency exemptions to be claimed. The number of individuals in each category was multiplied by the average family size, based on the 2000 census; the result was multiplied by exemption rate used in each model (\$600 and \$1,000).

An estimate of additional exemptions for individuals over 65 was also made. The percentage of senior residents who work was calculated using data from the 2000 Census and the Current Population Survey; this percentage was multiplied by the exemption rate used in each model (\$600 and \$1,000).

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Income Tax Feasibility Study Revenue Summary – Income Tax System May 2005

Growth/Projection Assumptions

In building the income tax model, the following assumptions were used in projecting income tax revenue over the next 5 years:

Data	Growth Rate Assumption	Source of Assumption
Population	0.002% over next 5 years	Claritas, Inc.
# jobs in Ypsilanti	1.50% per year	U.S. Bureau of Labor Statistics
Average annual salary	1.50% per year	Claritas, Inc.
Taxable income for residents	1.50% per year	Claritas, Inc.
Worker ratio (resident workers, commuters, etc.)	Assumed stable ratio throughout the model	N/A

Administration Costs

As with any revenue-generating program, a variety of costs are associated with having an income tax. There are costs related to the start-up of the program, such as putting the issue out to vote, establishing an ordinance, and creating forms and instructions for each class of taxpayers. Ongoing administration costs include processing the annual returns and related payments/refunds, processing quarterly estimated tax payments, registering employers for withholding, and processing the related quarterly withholding returns. Additional costs should be considered for enforcing the income tax as well. The average administration cost for the cities that replied to our survey was 3.40% of collections.

Revenue Projections

Based on the above assumptions, it is estimated that an income tax would generate the following revenues, net of administration costs, over the next five years (assuming a 1% resident/corporate tax rate, 0.5% non-resident and \$600 exemption level):

2005	\$4,071,000
2006	\$4,193,000
2007	\$4,322,000
2008	\$4,452,000
2009	\$4,589,000

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Income Tax Feasibility Study Revenue Summary – Cash Flow May 2005

Under the current property tax system, the City receives its operating millage once per year. However, under an income tax system, the City would receive its revenue stream throughout the year via payroll withholdings, estimated tax payments, and with income tax returns.

Based on information obtained from other cities, the average cash flow for collection of income taxes would follow this approximate schedule. Dollar amounts are based on \$600 exemption level.

	Percent of <u>Collections</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
January	11.41%	\$ 480,817	\$ 495,308	\$ 510,483	\$ 525,887	\$ 541,975
February	7.86%	331,136	341,116	351,567	362,175	373,255
March	4.91%	206,823	213,056	219,584	226,210	233,130
April	15.32%	645,501	664,954	685,327	706,007	727,605
May	7.83%	330,125	340,074	350,493	361,069	372,115
June	5.12%	215,673	222,172	228,979	235,889	243,105
July	9.68%	407,999	420,296	433,173	446,243	459,895
August	7.86%	331,220	341,203	351,656	362,267	373,350
September	7.23%	304,588	313,767	323,381	333,139	343,330
October	10.29%	433,789	446,863	460,554	474,450	488,965
November	6.66%	280,568	289,024	297,879	306,867	316,255
December	5.83%	<u>245,760</u>	<u>253,167</u>	<u>260,924</u>	<u>268,797</u>	<u>277,020</u>
Total	100.00%	<u>\$ 4,213,999</u>	<u>\$ 4,341,000</u>	<u>\$ 4,474,000</u>	<u>\$ 4,609,000</u>	<u>\$ 4,750,000</u>

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Income Tax Feasibility Study Burden Shift & Effect on Individuals May 2005

Burden Shift

By segregating the population of taxpayers into categories, an estimate of the share of tax burden between a property tax system and an income tax system was developed. Under the current property tax system, non-residents do not have a share of the burden, while individuals and corporations share the burden at 33% and 67%, respectively.

Under an income tax system, the burden would be shifted to approximately 52%, 43%, and 5% for residents, non-residents, and corporations, respectively.

Appendix A includes graphs to illustrate this comparison at the various exemption levels included in this analysis.

Effect on Individuals

Three tables that compare various property tax levels to income tax levels at the \$600 and \$1000 exemption levels have been prepared.

To use the chart, an individual would first identify the taxable value that best represents their property. The number below the taxable value is the amount of property tax that is paid for the operating millage currently at 19.0372 mills. To determine the estimated income tax that would be paid, an individual would review the taxable income column and select the row that best estimates their taxable income level. Moving to the right the amount of income tax is provided.

At the \$600 exemption level, the resident share of the income tax would be approximately \$2,195,000 in year one. This level of revenue equates to approximately 6.5 mills in year one of the model. The table below indicates the millage rate equivalent of the projected resident share of an income tax.

Model Year	Millage Equivalent at \$600 Exemption	Millage Equivalent at \$1,000 Exemption
2005	6.497	6.136
2006	6.480	6.129
2007	6.402	6.065
2008	6.404	6.075
2009	6.402	6.083

These charts can be found in Appendix C.

Next Steps

In moving forward with the evaluation of a City income tax the City should undertake the following.

1. Directly contact cities with an income tax to obtain more information about the following:
 - Administration costs and staffing
 - Tax processing
 - Enforcement
 - Business registration
 - Available technology to assist in the processing effort
2. Additionally, the City may wish to identify research available on the business impact when communities establish an income tax. This research will want to address the following:
 - Possible business exodus upon establishment of an income tax
 - Impact on business location choices
3. Continue to examine cost cutting methods, the City should continue to examine ways to reduce costs. It is our understanding that the City is currently engaged in a strategic plan, the City will want to thoroughly examine and consider the outcomes of this study.
4. If the City still desires to take the income tax to a vote they will need to consider the following:
 - Identification of a possible election date.
 - Working from the election date, establish a strategy to educate the electorate about the issue. Look to continue to include the business community, schools, large employers and others in the discussion.
 - Identify services and/or projects that will need to be discontinued if the income tax is not passed.
 - Use the research about operations and impact (Items 1 and 2) as a means to ease fears about an income tax.
 - Examine the ability to reduce the current millage rate in order to reduce the impact to residents.

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Income Tax Feasibility Study Listing of Michigan Income Tax Cities and Rates May 2005

City	Year Adopted	2003 Tax Rates			2003 Exemption Amount
		Resident	Corporate	Non-Resident	
Albion	1972	1.00	1.00	0.500	\$ 600
Battle Creek	1967	1.00	1.00	0.500	\$ 1,500
Big Rapids	1970	1.00	1.00	0.500	\$ 600
Detroit	1962	2.55	1.20	1.275	\$ 750
Flint	1965	1.00	1.00	0.500	\$ 600
Grand Rapids	1967	1.30	1.30	0.650	\$ 1,000
Grayling	1972	1.00	1.00	0.500	\$ 3,000
Hamtramck	1962	1.00	1.00	0.500	\$ 600
Highland Park	1966	2.00	2.00	1.000	\$ 600
Hudson	1971	1.00	1.00	0.500	\$ 1,000
Ionia	1994	1.00	1.00	0.500	\$ 700
Jackson	1970	1.00	1.00	0.500	\$ 600
Lansing	1968	1.00	1.00	0.500	\$ 600
Lapeer	1967	1.00	1.00	0.500	\$ 600
Muskegon	1993	1.00	1.00	0.500	\$ 600
Muskegon Heights	1990	1.00	1.00	0.500	\$ 600
Pontiac	1968	1.00	1.00	0.500	\$ 600
Port Huron	1969	1.00	1.00	0.500	\$ 1,200
Portland	1969	1.00	1.00	0.500	\$ 1,000
Saginaw	1965	1.50	1.50	0.750	\$ 1,000
Springfield	1989	1.00	1.00	0.500	\$ 1,500
Walker	1988	1.00	1.00	0.500	\$ 750

**CITY OF YPSILANTI
INCOME TAX FEASIBILITY STUDY
ESTIMATED INCOME TAX EXPECTANCY - EXECUTIVE SUMMARY (\$600 Exemption Level)
ASSUMING CLOSURE OF THE VISTEON PLANT**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>EXECUTIVE SUMMARY</u>					
Resident income tax yield	\$ 2,115,000	\$ 2,172,000	\$ 2,232,000	\$ 2,293,000	\$ 2,356,000
Non-Resident income tax yield	1,627,000	1,685,000	1,745,000	1,807,000	1,871,000
Corporate income tax yield	<u>200,000</u>	<u>204,000</u>	<u>209,000</u>	<u>213,000</u>	<u>218,000</u>
TOTAL INCOME TAX EXPECTANCY	3,942,000	4,061,000	4,186,000	4,313,000	4,445,000
Cost of administration - percent of total collections ** = 3.40%	<u>(134,000)</u>	<u>(138,000)</u>	<u>(142,000)</u>	<u>(147,000)</u>	<u>(151,000)</u>
INCOME TAX EXPECTANCY - NET OF ADMINISTRATION COST	<u>\$ 3,808,000</u>	<u>\$ 3,923,000</u>	<u>\$ 4,044,000</u>	<u>\$ 4,166,000</u>	<u>\$ 4,294,000</u>

** Cost of administration as a percentage of collections is based on the average percentage experienced by other Michigan cities surveyed as part of this project. Note this value does not include start up costs

NOTE: This income tax projection is a forecast. Actual results may differ from projections due to events and circumstances which may not occur as expected. Certain factors which may affect actual results include, but are not limited to, the following:

- Significant changes in the economy
- Apportionment of income by non-residents and businesses
- Changes in the City's population
- Change in the number of jobs in the City's limits due to new business and/or relocation of businesses into or out of the City

**CITY OF YPSILANTI
INCOME TAX FEASIBILITY STUDY
ESTIMATED INCOME TAX EXPECTANCY - DETAILED CALCULATION**

		2005	2006	2007	2008	2009
Total resident income subject to tax	(1)	\$ 276,742,343	\$ 280,893,479	\$ 285,106,881	\$ 289,383,484	\$ 293,724,236
<u>RESIDENT - WORKS IN CITY</u>						
Total Number of City residents working in City	(2)	3,241	3,242	3,242	3,242	3,242
Divide: Total number of City residents who work	(2)	<u>11,690</u>	<u>11,690</u>	<u>11,690</u>	<u>11,690</u>	<u>11,691</u>
Percent of "City residents working in City" to "total City resident workers"		27.73%	27.73%	27.73%	27.73%	27.73%
Times: Total resident income subject to tax		276,742,343	290,579,461	305,108,434	320,363,855	336,382,048
Income subject to tax - residents working in City		76,738,955	80,575,903	84,604,698	88,834,933	93,276,680
Less: Personal exemptions (Exemption Amt * # of Residents working in Ypsilanti * Average Family Size)		5,756,841	5,756,956	5,757,071	5,757,186	5,757,302
Less: Additional exemptions for Seniors (Exemption Amt * # Seniors residing in Ypsilanti)		<u>942,600</u>	<u>942,600</u>	<u>942,600</u>	<u>942,600</u>	<u>942,600</u>
Taxable income before discount factor		70,039,514	73,876,347	77,905,027	82,135,146	86,576,778
Discount factor	(5)	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>
Estimated taxable income		<u>59,533,587</u>	<u>62,794,895</u>	<u>66,219,273</u>	<u>69,814,874</u>	<u>73,590,261</u>
Estimated tax yield (1.0%)		<u>\$ 595,336</u>	<u>\$ 627,949</u>	<u>\$ 662,193</u>	<u>\$ 698,149</u>	<u>\$ 735,903</u>
<u>RESIDENT - WORKS IN DETROIT</u>						
Total number of City residents commuting to Detroit	(2)	284	284	284	284	284
Divide: Total number of City residents who work	(2)	<u>11,690</u>	<u>11,690</u>	<u>11,690</u>	<u>11,690</u>	<u>11,691</u>
Percent of "City residents commuting to Detroit" to "total City workers"		2.43%	2.43%	2.43%	2.43%	2.43%
Times: Total resident income subject to tax		276,742,343	280,893,479	285,106,881	289,383,484	293,724,236
Income subject to tax - residents working in Detroit		6,716,706	6,817,457	6,919,719	7,023,515	7,128,867
Less: Personal exemptions (Exemption Amt * # of residents commuting to Detroit * Average Family Size)		<u>503,877</u>	<u>503,887</u>	<u>503,897</u>	<u>503,907</u>	<u>503,918</u>
Taxable income before discount factor		6,212,829	6,313,570	6,415,821	6,519,607	6,624,950
Discount factor	(5)	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>
Estimated taxable income		5,280,905	5,366,534	5,453,448	5,541,666	5,631,207
Estimated tax yield (1.0%) before credit for income tax paid to another city		52,809	53,665	54,534	55,417	56,312
Less: Credit for income tax paid to the City of Detroit (Average Salary in Detroit Area - Exemptions * Detroit non-resident tax rate of 1.275% * Number of residents commuting to Detroit)	(3)	<u>158,881</u>	<u>161,388</u>	<u>163,932</u>	<u>166,515</u>	<u>169,137</u>
Estimated tax yield (0%)		<u>\$ -</u>				

**CITY OF YPSILANTI
INCOME TAX FEASIBILITY STUDY
ESTIMATED INCOME TAX EXPECTANCY - DETAILED CALCULATION**

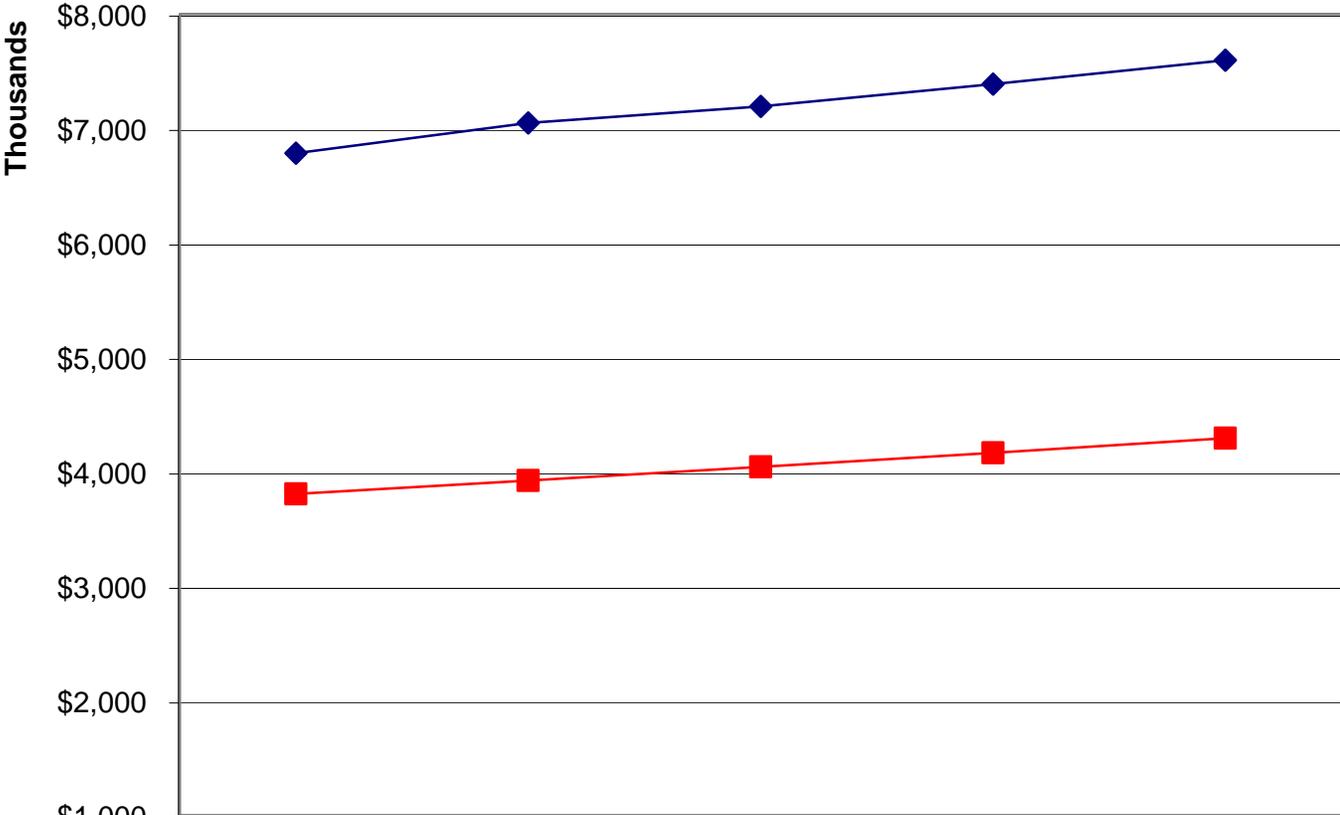
		2005	2006	2007	2008	2009
<u>RESIDENT - WORKS IN NON-TAXING CITY</u>						
Total number of City residents who work	(2)	11,690	11,690	11,690	11,690	11,691
Less: number of City residents working in City	(2)	3,241	3,242	3,242	3,242	3,242
Less: number of City residents commuting to Detroit	(2)	284	284	284	284	284
Equals total number of City residents commuting to a non-taxing city		8,164	8,165	8,165	8,165	8,165
Divide: Total number of City residents who work		11,690	11,690	11,690	11,690	11,691
Percent of "City resident commuters to non-taxing cities" to "total City workers"		69.84%	69.84%	69.84%	69.84%	69.84%
Times: Total resident income subject to tax		276,742,343	280,893,479	285,106,881	289,383,484	293,724,236
Income subject to tax - residents working in non-taxing city		193,286,682	196,185,982	199,128,772	202,115,704	205,147,439
Less: Personal exemptions (Exemption Amt * Number of residents commuting to non-taxing city * Average Family Size)		14,500,076	14,500,366	14,500,656	14,500,946	14,501,236
Taxable income before discount factor		178,786,606	181,685,616	184,628,116	187,614,757	190,646,203
Discount factor	(5)	85.00%	85.00%	85.00%	85.00%	85.00%
Estimated taxable income		151,968,615	154,432,773	156,933,898	159,472,544	162,049,272
Estimated tax yield (1.0%)		<u>\$ 1,519,686</u>	<u>\$ 1,544,328</u>	<u>\$ 1,569,339</u>	<u>\$ 1,594,725</u>	<u>\$ 1,620,493</u>
<u>NON-RESIDENT - WORKS IN CITY (COMMUTERS)</u>						
Total number of commuters into City	(2)	9,998	10,197	10,398	10,603	10,811
Times: Average salary in Washtenaw County	(3)	45,157	45,834	46,522	47,220	47,928
Income subject to tax - non-resident workers in City		451,493,977	467,365,959	483,751,100	500,665,414	518,125,402
Less: Personal exemptions (Exemption Amt * Number of commuters * Avg family size)		17,757,080	18,109,674	18,467,558	18,830,812	19,199,517
Taxable income before discount factor		433,736,897	449,256,285	465,283,542	481,834,601	498,925,885
Discount factor	(5)	75.00%	75.00%	75.00%	75.00%	75.00%
Estimated taxable income		325,302,673	336,942,214	348,962,657	361,375,951	374,194,414
Estimated tax yield (.5%)		<u>\$ 1,626,513</u>	<u>\$ 1,684,711</u>	<u>\$ 1,744,813</u>	<u>\$ 1,806,880</u>	<u>\$ 1,870,972</u>
<u>CORPORATE</u>						
Estimated tax yield	(4)	<u>\$ 199,690</u>	<u>\$ 204,083</u>	<u>\$ 208,573</u>	<u>\$ 213,161</u>	<u>\$ 217,851</u>

**CITY OF YPSILANTI
INCOME TAX FEASIBILITY STUDY
ESTIMATED INCOME TAX EXPECTANCY - DETAILED CALCULATION**

FOOTNOTE EXPLANATIONS

- (1) Total resident income subject to tax was provided by the State of Michigan Department of Treasury based on 2003 income tax returns for individuals with a zip code of 48197 and 48198. The 2004 amount was increased by a rate of 1.5% per year to update the amount to current year values.
- (2) Source: 2000 Census (Residence MCD/County to Workplace MCD/County Flows for Michigan)
- (3) Average salary is based on Bureau of Labor Statistics Quarterly Census of Employment and Wages for the area specified. Source data is from 2003, updated to current levels assuming 1.5% increase per year.
- (4) Estimated tax yield from corporate sources was calculated based on experiences of other Michigan cities that levy income tax. The amount is calculated based on corporate taxes collected as a percentage of reported corporate sales for the City. Corporate sales was obtained from Claritas, Inc., a national organization which researches and accumulates consumer and business marketing data.
- (5) A discount factor was used to estimate income that may not be included in taxable income due to apportionment or non-compliance with filing requirements. The factor was calculated based on results of the 2003 tax year as reported by other Michigan cities surveyed as part of this project compared to our projection of tax revenue for those cities using this model.

CITY OF YPSILANTI
Projected Revenue at \$600 Exemption Level
Property Tax (Operating Millage) Compared to Income Taxes



	2005	2006	2007	2008	2009
◆ Property Tax Revenue (incl. 1% admin fee)	\$6,783,160	\$7,047,780	\$7,193,220	\$7,389,160	\$7,595,200
■ Income Tax Revenue (net of admin costs)	\$3,808,000	\$3,923,000	\$4,044,000	\$4,166,000	\$4,294,000

**CITY OF YPSILANTI
INCOME TAX FEASIBILITY STUDY
ESTIMATED INCOME TAX EXPECTANCY - EXECUTIVE SUMMARY (\$1,000 Exemption Level)
ASSUMING CLOSURE OF THE VISTEON PLANT**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>EXECUTIVE SUMMARY</u>					
Resident income tax yield	\$ 1,995,000	\$ 2,052,000	\$ 2,111,000	\$ 2,173,000	\$ 2,236,000
Non-Resident income tax yield	1,582,000	1,639,000	1,699,000	1,760,000	1,823,000
Corporate income tax yield	<u>200,000</u>	<u>204,000</u>	<u>209,000</u>	<u>213,000</u>	<u>218,000</u>
TOTAL INCOME TAX EXPECTANCY	3,777,000	3,895,000	4,019,000	4,146,000	4,277,000
Cost of administration - percent of total collections ** = 3.40%	<u>(128,000)</u>	<u>(132,000)</u>	<u>(137,000)</u>	<u>(141,000)</u>	<u>(145,000)</u>
INCOME TAX EXPECTANCY - NET OF ADMINISTRATION COST	<u>\$ 3,649,000</u>	<u>\$ 3,763,000</u>	<u>\$ 3,882,000</u>	<u>\$ 4,005,000</u>	<u>\$ 4,132,000</u>

** Cost of administration as a percentage of collections is based on the average percentage experienced by other Michigan cities surveyed as part of this project. Note this value does not include start up costs

NOTE: This income tax projection is a forecast. Actual results may differ from projections due to events and circumstances which may not occur as expected. Certain factors which may affect actual results include, but are not limited to, the following:

- Significant changes in the economy
- Apportionment of income by non-residents and businesses
- Changes in the City's population
- Change in the number of jobs in the City's limits due to new business and/or relocation of businesses into or out of the City

**CITY OF YPSILANTI
INCOME TAX FEASIBILITY STUDY
ESTIMATED INCOME TAX EXPECTANCY - DETAILED CALCULATION**

		2005	2006	2007	2008	2009
Total resident income subject to tax	(1)	\$ 276,742,343	\$ 280,893,479	\$ 285,106,881	\$ 289,383,484	\$ 293,724,236
<u>RESIDENT - WORKS IN CITY</u>						
Total Number of City residents working in City	(2)	3,241	3,242	3,242	3,242	3,242
Divide: Total number of City residents who work	(2)	<u>11,690</u>	<u>11,690</u>	<u>11,690</u>	<u>11,690</u>	<u>11,691</u>
Percent of "City residents working in City" to "total City resident workers"		27.73%	27.73%	27.73%	27.73%	27.73%
Times: Total resident income subject to tax		276,742,343	290,579,461	305,108,434	320,363,855	336,382,048
Income subject to tax - residents working in City		76,738,955	80,575,903	84,604,698	88,834,933	93,276,680
Less: Personal exemptions (Exemption Amt * # of Residents working in Ypsilanti * Average Family Size)		9,594,735	9,594,927	9,595,119	9,595,311	9,595,503
Less: Additional exemptions for Seniors (Exemption Amt * # Seniors residing in Ypsilanti)		<u>1,571,000</u>	<u>1,571,000</u>	<u>1,571,000</u>	<u>1,571,000</u>	<u>1,571,000</u>
Taxable income before discount factor		65,573,220	69,409,976	73,438,579	77,668,622	82,110,177
Discount factor	(5)	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>
Estimated taxable income		<u>55,737,237</u>	<u>58,998,479</u>	<u>62,422,792</u>	<u>66,018,329</u>	<u>69,793,650</u>
Estimated tax yield (1.0%)		<u>\$ 557,372</u>	<u>\$ 589,985</u>	<u>\$ 624,228</u>	<u>\$ 660,183</u>	<u>\$ 697,937</u>
<u>RESIDENT - WORKS IN DETROIT</u>						
Total number of City residents commuting to Detroit	(2)	284	284	284	284	284
Divide: Total number of City residents who work	(2)	<u>11,690</u>	<u>11,690</u>	<u>11,690</u>	<u>11,690</u>	<u>11,691</u>
Percent of "City residents commuting to Detroit" to "total City workers"		2.43%	2.43%	2.43%	2.43%	2.43%
Times: Total resident income subject to tax		276,742,343	280,893,479	285,106,881	289,383,484	293,724,236
Income subject to tax - residents working in Detroit		6,716,706	6,817,457	6,919,719	7,023,515	7,128,867
Less: Personal exemptions (Exemption Amt * # of residents commuting to Detroit * Average Family Size)		<u>839,795</u>	<u>839,812</u>	<u>839,829</u>	<u>839,846</u>	<u>839,863</u>
Taxable income before discount factor		5,876,911	5,977,645	6,079,890	6,183,669	6,289,005
Discount factor	(5)	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>
Estimated taxable income		<u>4,995,374</u>	<u>5,080,998</u>	<u>5,167,906</u>	<u>5,256,119</u>	<u>5,345,654</u>
Estimated tax yield (1.0%) before credit for income tax paid to another city		49,954	50,810	51,679	52,561	53,457
Less: Credit for income tax paid to the City of Detroit (Average Salary in Detroit Area - Exemptions * Detroit non-resident tax rate of 1.275% * Number of residents commuting to Detroit)	(3)	<u>158,881</u>	<u>161,388</u>	<u>163,932</u>	<u>166,515</u>	<u>169,137</u>
Estimated tax yield (0%)		<u>\$ -</u>				

**CITY OF YPSILANTI
INCOME TAX FEASIBILITY STUDY
ESTIMATED INCOME TAX EXPECTANCY - DETAILED CALCULATION**

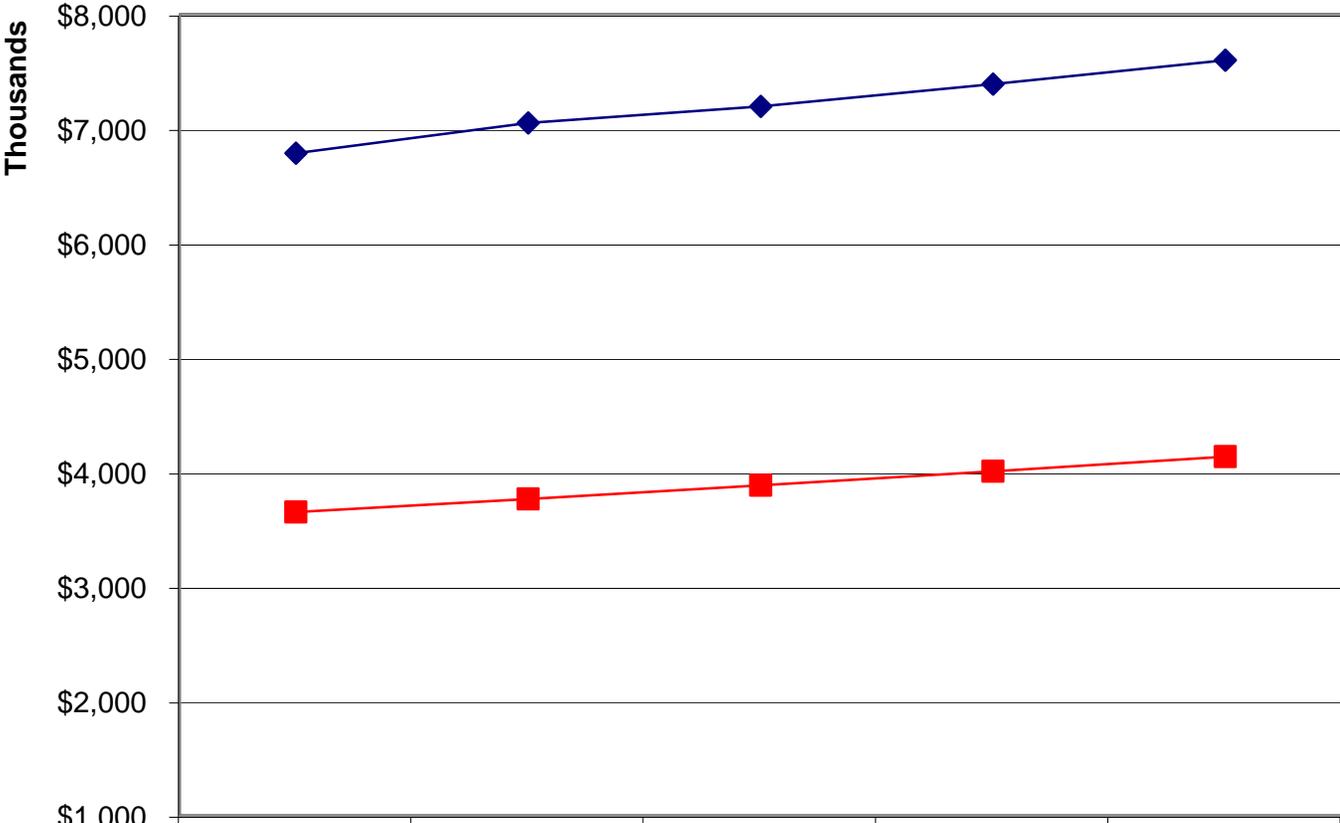
		2005	2006	2007	2008	2009
<u>RESIDENT - WORKS IN NON-TAXING CITY</u>						
Total number of City residents who work	(2)	11,690	11,690	11,690	11,690	11,691
Less: number of City residents working in City	(2)	3,241	3,242	3,242	3,242	3,242
Less: number of City residents commuting to Detroit	(2)	284	284	284	284	284
Equals total number of City residents commuting to a non-taxing city		8,164	8,165	8,165	8,165	8,165
Divide: Total number of City residents who work		11,690	11,690	11,690	11,690	11,691
Percent of "City resident commuters to non-taxing cities" to "total City workers"		69.84%	69.84%	69.84%	69.84%	69.84%
Times: Total resident income subject to tax		276,742,343	280,893,479	285,106,881	289,383,484	293,724,236
Income subject to tax - residents working in non-taxing city		193,286,682	196,185,982	199,128,772	202,115,704	205,147,439
Less: Personal exemptions (Exemption Amt * Number of residents commuting to non-taxing city * Average Family Size)		24,166,794	24,167,277	24,167,761	24,168,244	24,168,727
Taxable income before discount factor		169,119,888	172,018,705	174,961,011	177,947,460	180,978,712
Discount factor	(5)	85.00%	85.00%	85.00%	85.00%	85.00%
Estimated taxable income		143,751,905	146,215,899	148,716,860	151,255,341	153,831,905
Estimated tax yield (1.0%)		\$ 1,437,519	\$ 1,462,159	\$ 1,487,169	\$ 1,512,553	\$ 1,538,319
<u>NON-RESIDENT - WORKS IN CITY (COMMUTERS)</u>						
Total number of commuters into City	(2)	9,998	10,197	10,398	10,603	10,811
Times: Average salary in Washtenaw County	(3)	45,157	45,834	46,522	47,220	47,928
Income subject to tax - non-resident workers in City		451,493,977	467,365,959	483,751,100	500,665,414	518,125,402
Less: Personal exemptions (Exemption Amt * Number of commuters * Avg family size)		29,595,133	30,182,789	30,779,263	31,384,687	31,999,195
Taxable income before discount factor		421,898,844	437,183,170	452,971,837	469,280,727	486,126,207
Discount factor	(5)	75.00%	75.00%	75.00%	75.00%	75.00%
Estimated taxable income		316,424,133	327,887,377	339,728,878	351,960,545	364,594,655
Estimated tax yield (.5%)		\$ 1,582,121	\$ 1,639,437	\$ 1,698,644	\$ 1,759,803	\$ 1,822,973
<u>CORPORATE</u>						
Estimated tax yield	(4)	\$ 199,690	\$ 204,083	\$ 208,573	\$ 213,161	\$ 217,851

**CITY OF YPSILANTI
INCOME TAX FEASIBILITY STUDY
ESTIMATED INCOME TAX EXPECTANCY - DETAILED CALCULATION**

FOOTNOTE EXPLANATIONS

- (1) Total resident income subject to tax was provided by the State of Michigan Department of Treasury based on 2003 income tax returns for individuals with a zip code of 48197 and 48198. The 2004 amount was increased by a rate of 1.5% per year to update the amount to current year values.
- (2) Source: 2000 Census (Residence MCD/County to Workplace MCD/County Flows for Michigan)
- (3) Average salary is based on Bureau of Labor Statistics Quarterly Census of Employment and Wages for the area specified. Source data is from 2003, updated to current levels assuming 1.5% increase per year.
- (4) Estimated tax yield from corporate sources was calculated based on experiences of other Michigan cities that levy income tax. The amount is calculated based on corporate taxes collected as a percentage of reported corporate sales for the City. Corporate sales was obtained from Claritas, Inc., a national organization which researches and accumulates consumer and business marketing data.
- (5) A discount factor was used to estimate income that may not be included in taxable income due to apportionment or non-compliance with filing requirements. The factor was calculated based on results of the 2003 tax year as reported by other Michigan cities surveyed as part of this project compared to our projection of tax revenue for those cities using this model.

CITY OF YPSILANTI
Projected Revenue at \$1,000 Exemption Level
Property Tax (Operating Millage) Compared to Income Taxes



	2005	2006	2007	2008	2009
◆ Property Tax Revenue (incl. 1% admin fee)	\$6,783,160	\$7,047,780	\$7,193,220	\$7,389,160	\$7,595,200
■ Income Tax Revenue (net of admin costs)	\$3,649,000	\$3,763,000	\$3,882,000	\$4,005,000	\$4,132,000

CITY OF YPSILANTI, MICHIGAN

Income Tax Feasibility Study Appendix B May 2005

A major concern of the City is the closure of the Visteon Automotive facility within the City. The purpose of the information presented in this appendix is to estimate the impact that this closure would have on potential income tax revenue. Based on discussions with the City, the following assumptions were made.

1. The Visteon facility provides approximately 1,100 jobs
2. It is assumed that residents hold 20% of the jobs and non-residents 80% of the jobs.
3. It is assumed that the average salary at the facility corresponds with the average salary for the community as provided by the Bureau of Labor Statistics.

**CITY OF YPSILANTI
INCOME TAX FEASIBILITY STUDY
ESTIMATED INCOME TAX EXPECTANCY - EXECUTIVE SUMMARY (\$600 Exemption Level)
ASSUMING CLOSURE OF THE VISTEON PLANT**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>EXECUTIVE SUMMARY</u>					
Resident income tax yield	\$ 2,115,000	\$ 2,172,000	\$ 2,232,000	\$ 2,293,000	\$ 2,356,000
Non-Resident income tax yield	1,627,000	1,685,000	1,745,000	1,807,000	1,871,000
Corporate income tax yield	<u>200,000</u>	<u>204,000</u>	<u>209,000</u>	<u>213,000</u>	<u>218,000</u>
TOTAL INCOME TAX EXPECTANCY	3,942,000	4,061,000	4,186,000	4,313,000	4,445,000
Cost of administration - percent of total collections ** = 3.40%	<u>(134,000)</u>	<u>(138,000)</u>	<u>(142,000)</u>	<u>(147,000)</u>	<u>(151,000)</u>
INCOME TAX EXPECTANCY - NET OF ADMINISTRATION COST	<u>\$ 3,808,000</u>	<u>\$ 3,923,000</u>	<u>\$ 4,044,000</u>	<u>\$ 4,166,000</u>	<u>\$ 4,294,000</u>

** Cost of administration as a percentage of collections is based on the average percentage experienced by other Michigan cities surveyed as part of this project. Note this value does not include start up costs

NOTE: This income tax projection is a forecast. Actual results may differ from projections due to events and circumstances which may not occur as expected. Certain factors which may affect actual results include, but are not limited to, the following:

- Significant changes in the economy
- Apportionment of income by non-residents and businesses
- Changes in the City's population
- Change in the number of jobs in the City's limits due to new business and/or relocation of businesses into or out of the City

**CITY OF YPSILANTI
INCOME TAX FEASIBILITY STUDY
ESTIMATED INCOME TAX EXPECTANCY - DETAILED CALCULATION**

		2005	2006	2007	2008	2009
Total resident income subject to tax	(1)	\$ 276,742,343	\$ 280,893,479	\$ 285,106,881	\$ 289,383,484	\$ 293,724,236
<u>RESIDENT - WORKS IN CITY</u>						
Total Number of City residents working in City	(2)	3,241	3,242	3,242	3,242	3,242
Divide: Total number of City residents who work	(2)	<u>11,690</u>	<u>11,690</u>	<u>11,690</u>	<u>11,690</u>	<u>11,691</u>
Percent of "City residents working in City" to "total City resident workers"		27.73%	27.73%	27.73%	27.73%	27.73%
Times: Total resident income subject to tax		276,742,343	290,579,461	305,108,434	320,363,855	336,382,048
Income subject to tax - residents working in City		76,738,955	80,575,903	84,604,698	88,834,933	93,276,680
Less: Personal exemptions (Exemption Amt * # of Residents working in Ypsilanti * Average Family Size)		5,756,841	5,756,956	5,757,071	5,757,186	5,757,302
Less: Additional exemptions for Seniors (Exemption Amt * # Seniors residing in Ypsilanti)		<u>942,600</u>	<u>942,600</u>	<u>942,600</u>	<u>942,600</u>	<u>942,600</u>
Taxable income before discount factor		70,039,514	73,876,347	77,905,027	82,135,146	86,576,778
Discount factor	(5)	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>
Estimated taxable income		<u>59,533,587</u>	<u>62,794,895</u>	<u>66,219,273</u>	<u>69,814,874</u>	<u>73,590,261</u>
Estimated tax yield (1.0%)		<u>\$ 595,336</u>	<u>\$ 627,949</u>	<u>\$ 662,193</u>	<u>\$ 698,149</u>	<u>\$ 735,903</u>
<u>RESIDENT - WORKS IN DETROIT</u>						
Total number of City residents commuting to Detroit	(2)	284	284	284	284	284
Divide: Total number of City residents who work	(2)	<u>11,690</u>	<u>11,690</u>	<u>11,690</u>	<u>11,690</u>	<u>11,691</u>
Percent of "City residents commuting to Detroit" to "total City workers"		2.43%	2.43%	2.43%	2.43%	2.43%
Times: Total resident income subject to tax		276,742,343	280,893,479	285,106,881	289,383,484	293,724,236
Income subject to tax - residents working in Detroit		6,716,706	6,817,457	6,919,719	7,023,515	7,128,867
Less: Personal exemptions (Exemption Amt * # of residents commuting to Detroit * Average Family Size)		<u>503,877</u>	<u>503,887</u>	<u>503,897</u>	<u>503,907</u>	<u>503,918</u>
Taxable income before discount factor		6,212,829	6,313,570	6,415,821	6,519,607	6,624,950
Discount factor	(5)	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>
Estimated taxable income		5,280,905	5,366,534	5,453,448	5,541,666	5,631,207
Estimated tax yield (1.0%) before credit for income tax paid to another city		52,809	53,665	54,534	55,417	56,312
Less: Credit for income tax paid to the City of Detroit (Average Salary in Detroit Area - Exemptions * Detroit non-resident tax rate of 1.275% * Number of residents commuting to Detroit)	(3)	<u>158,881</u>	<u>161,388</u>	<u>163,932</u>	<u>166,515</u>	<u>169,137</u>
Estimated tax yield (0%)		<u>\$ -</u>				

**CITY OF YPSILANTI
INCOME TAX FEASIBILITY STUDY
ESTIMATED INCOME TAX EXPECTANCY - DETAILED CALCULATION**

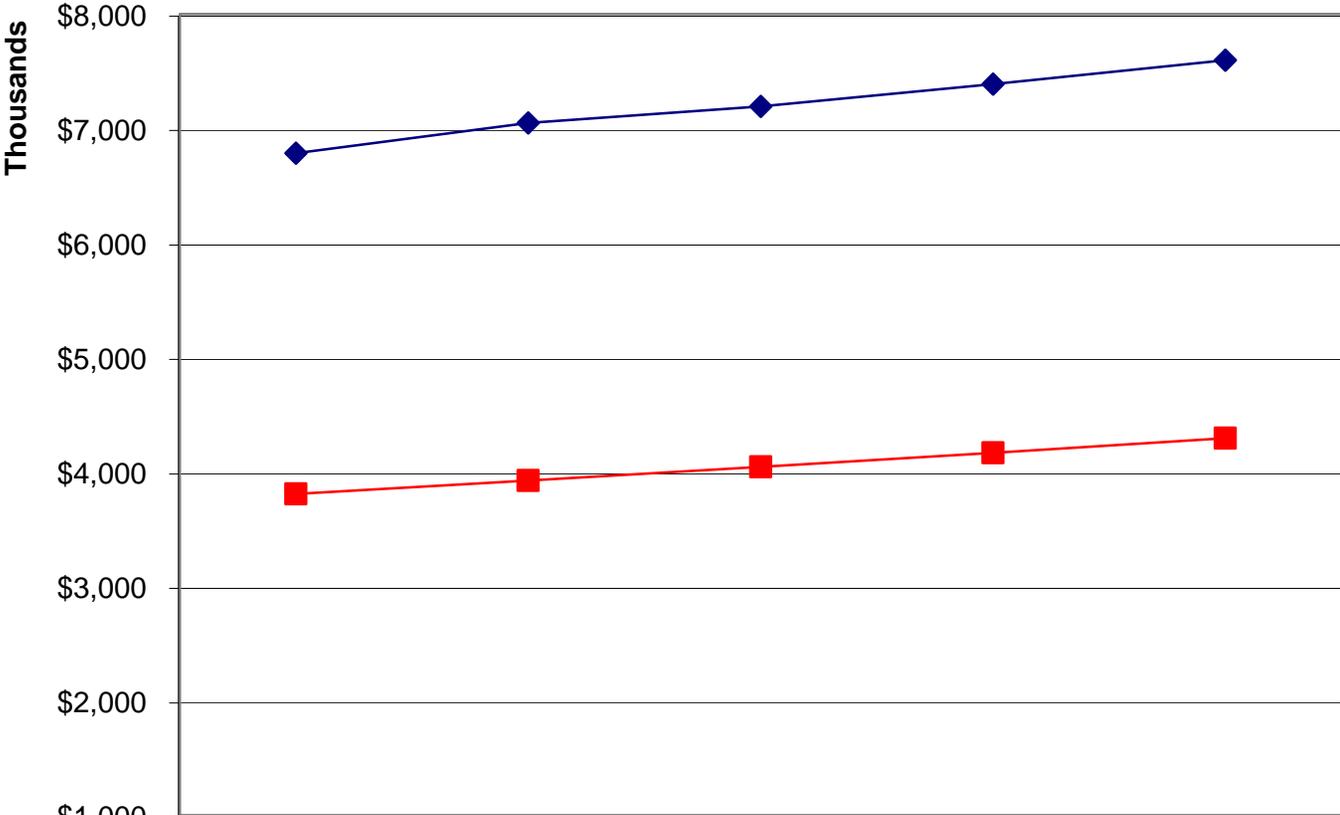
		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>RESIDENT - WORKS IN NON-TAXING CITY</u>						
Total number of City residents who work	(2)	11,690	11,690	11,690	11,690	11,691
Less: number of City residents working in City	(2)	3,241	3,242	3,242	3,242	3,242
Less: number of City residents commuting to Detroit	(2)	<u>284</u>	<u>284</u>	<u>284</u>	<u>284</u>	<u>284</u>
Equals total number of City residents commuting to a non-taxing city		8,164	8,165	8,165	8,165	8,165
Divide: Total number of City residents who work		<u>11,690</u>	<u>11,690</u>	<u>11,690</u>	<u>11,690</u>	<u>11,691</u>
Percent of "City resident commuters to non-taxing cities" to "total City workers"		69.84%	69.84%	69.84%	69.84%	69.84%
Times: Total resident income subject to tax		276,742,343	280,893,479	285,106,881	289,383,484	293,724,236
Income subject to tax - residents working in non-taxing city		193,286,682	196,185,982	199,128,772	202,115,704	205,147,439
Less: Personal exemptions (Exemption Amt * Number of residents commuting to non-taxing city * Average Family Size)		<u>14,500,076</u>	<u>14,500,366</u>	<u>14,500,656</u>	<u>14,500,946</u>	<u>14,501,236</u>
Taxable income before discount factor		178,786,606	181,685,616	184,628,116	187,614,757	190,646,203
Discount factor	(5)	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>
Estimated taxable income		<u>151,968,615</u>	<u>154,432,773</u>	<u>156,933,898</u>	<u>159,472,544</u>	<u>162,049,272</u>
Estimated tax yield (1.0%)		<u>\$ 1,519,686</u>	<u>\$ 1,544,328</u>	<u>\$ 1,569,339</u>	<u>\$ 1,594,725</u>	<u>\$ 1,620,493</u>
<u>NON-RESIDENT - WORKS IN CITY (COMMUTERS)</u>						
Total number of commuters into City	(2)	9,998	10,197	10,398	10,603	10,811
Times: Average salary in Washtenaw County	(3)	<u>45,157</u>	<u>45,834</u>	<u>46,522</u>	<u>47,220</u>	<u>47,928</u>
Income subject to tax - non-resident workers in City		451,493,977	467,365,959	483,751,100	500,665,414	518,125,402
Less: Personal exemptions (Exemption Amt * Number of commuters * Avg family size)		<u>17,757,080</u>	<u>18,109,674</u>	<u>18,467,558</u>	<u>18,830,812</u>	<u>19,199,517</u>
Taxable income before discount factor		433,736,897	449,256,285	465,283,542	481,834,601	498,925,885
Discount factor	(5)	<u>75.00%</u>	<u>75.00%</u>	<u>75.00%</u>	<u>75.00%</u>	<u>75.00%</u>
Estimated taxable income		<u>325,302,673</u>	<u>336,942,214</u>	<u>348,962,657</u>	<u>361,375,951</u>	<u>374,194,414</u>
Estimated tax yield (.5%)		<u>\$ 1,626,513</u>	<u>\$ 1,684,711</u>	<u>\$ 1,744,813</u>	<u>\$ 1,806,880</u>	<u>\$ 1,870,972</u>
<u>CORPORATE</u>						
Estimated tax yield	(4)	<u>\$ 199,690</u>	<u>\$ 204,083</u>	<u>\$ 208,573</u>	<u>\$ 213,161</u>	<u>\$ 217,851</u>

**CITY OF YPSILANTI
INCOME TAX FEASIBILITY STUDY
ESTIMATED INCOME TAX EXPECTANCY - DETAILED CALCULATION**

FOOTNOTE EXPLANATIONS

- (1) Total resident income subject to tax was provided by the State of Michigan Department of Treasury based on 2003 income tax returns for individuals with a zip code of 48197 and 48198. The 2004 amount was increased by a rate of 1.5% per year to update the amount to current year values.
- (2) Source: 2000 Census (Residence MCD/County to Workplace MCD/County Flows for Michigan)
- (3) Average salary is based on Bureau of Labor Statistics Quarterly Census of Employment and Wages for the area specified. Source data is from 2003, updated to current levels assuming 1.5% increase per year.
- (4) Estimated tax yield from corporate sources was calculated based on experiences of other Michigan cities that levy income tax. The amount is calculated based on corporate taxes collected as a percentage of reported corporate sales for the City. Corporate sales was obtained from Claritas, Inc., a national organization which researches and accumulates consumer and business marketing data.
- (5) A discount factor was used to estimate income that may not be included in taxable income due to apportionment or non-compliance with filing requirements. The factor was calculated based on results of the 2003 tax year as reported by other Michigan cities surveyed as part of this project compared to our projection of tax revenue for those cities using this model.

CITY OF YPSILANTI
Projected Revenue at \$600 Exemption Level
Property Tax (Operating Millage) Compared to Income Taxes



	2005	2006	2007	2008	2009
◆ Property Tax Revenue (incl. 1% admin fee)	\$6,783,160	\$7,047,780	\$7,193,220	\$7,389,160	\$7,595,200
■ Income Tax Revenue (net of admin costs)	\$3,808,000	\$3,923,000	\$4,044,000	\$4,166,000	\$4,294,000

**CITY OF YPSILANTI
INCOME TAX FEASIBILITY STUDY
ESTIMATED INCOME TAX EXPECTANCY - EXECUTIVE SUMMARY (\$1,000 Exemption Level)
ASSUMING CLOSURE OF THE VISTEON PLANT**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>EXECUTIVE SUMMARY</u>					
Resident income tax yield	\$ 1,995,000	\$ 2,052,000	\$ 2,111,000	\$ 2,173,000	\$ 2,236,000
Non-Resident income tax yield	1,582,000	1,639,000	1,699,000	1,760,000	1,823,000
Corporate income tax yield	<u>200,000</u>	<u>204,000</u>	<u>209,000</u>	<u>213,000</u>	<u>218,000</u>
TOTAL INCOME TAX EXPECTANCY	3,777,000	3,895,000	4,019,000	4,146,000	4,277,000
Cost of administration - percent of total collections ** = 3.40%	<u>(128,000)</u>	<u>(132,000)</u>	<u>(137,000)</u>	<u>(141,000)</u>	<u>(145,000)</u>
INCOME TAX EXPECTANCY - NET OF ADMINISTRATION COST	<u>\$ 3,649,000</u>	<u>\$ 3,763,000</u>	<u>\$ 3,882,000</u>	<u>\$ 4,005,000</u>	<u>\$ 4,132,000</u>

** Cost of administration as a percentage of collections is based on the average percentage experienced by other Michigan cities surveyed as part of this project. Note this value does not include start up costs

NOTE: This income tax projection is a forecast. Actual results may differ from projections due to events and circumstances which may not occur as expected. Certain factors which may affect actual results include, but are not limited to, the following:

- Significant changes in the economy
- Apportionment of income by non-residents and businesses
- Changes in the City's population
- Change in the number of jobs in the City's limits due to new business and/or relocation of businesses into or out of the City

**CITY OF YPSILANTI
INCOME TAX FEASIBILITY STUDY
ESTIMATED INCOME TAX EXPECTANCY - DETAILED CALCULATION**

		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Total resident income subject to tax	(1)	\$ 276,742,343	\$ 280,893,479	\$ 285,106,881	\$ 289,383,484	\$ 293,724,236
<u>RESIDENT - WORKS IN CITY</u>						
Total Number of City residents working in City	(2)	3,241	3,242	3,242	3,242	3,242
Divide: Total number of City residents who work	(2)	<u>11,690</u>	<u>11,690</u>	<u>11,690</u>	<u>11,690</u>	<u>11,691</u>
Percent of "City residents working in City" to "total City resident workers"		27.73%	27.73%	27.73%	27.73%	27.73%
Times: Total resident income subject to tax		276,742,343	290,579,461	305,108,434	320,363,855	336,382,048
Income subject to tax - residents working in City		76,738,955	80,575,903	84,604,698	88,834,933	93,276,680
Less: Personal exemptions (Exemption Amt * # of Residents working in Ypsilanti * Average Family Size)		9,594,735	9,594,927	9,595,119	9,595,311	9,595,503
Less: Additional exemptions for Seniors (Exemption Amt * # Seniors residing in Ypsilanti)		<u>1,571,000</u>	<u>1,571,000</u>	<u>1,571,000</u>	<u>1,571,000</u>	<u>1,571,000</u>
Taxable income before discount factor		65,573,220	69,409,976	73,438,579	77,668,622	82,110,177
Discount factor	(5)	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>
Estimated taxable income		<u>55,737,237</u>	<u>58,998,479</u>	<u>62,422,792</u>	<u>66,018,329</u>	<u>69,793,650</u>
Estimated tax yield (1.0%)		<u>\$ 557,372</u>	<u>\$ 589,985</u>	<u>\$ 624,228</u>	<u>\$ 660,183</u>	<u>\$ 697,937</u>
<u>RESIDENT - WORKS IN DETROIT</u>						
Total number of City residents commuting to Detroit	(2)	284	284	284	284	284
Divide: Total number of City residents who work	(2)	<u>11,690</u>	<u>11,690</u>	<u>11,690</u>	<u>11,690</u>	<u>11,691</u>
Percent of "City residents commuting to Detroit" to "total City workers"		2.43%	2.43%	2.43%	2.43%	2.43%
Times: Total resident income subject to tax		276,742,343	280,893,479	285,106,881	289,383,484	293,724,236
Income subject to tax - residents working in Detroit		6,716,706	6,817,457	6,919,719	7,023,515	7,128,867
Less: Personal exemptions (Exemption Amt * # of residents commuting to Detroit * Average Family Size)		<u>839,795</u>	<u>839,812</u>	<u>839,829</u>	<u>839,846</u>	<u>839,863</u>
Taxable income before discount factor		5,876,911	5,977,645	6,079,890	6,183,669	6,289,005
Discount factor	(5)	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>
Estimated taxable income		4,995,374	5,080,998	5,167,906	5,256,119	5,345,654
Estimated tax yield (1.0%) before credit for income tax paid to another city		49,954	50,810	51,679	52,561	53,457
Less: Credit for income tax paid to the City of Detroit (Average Salary in Detroit Area - Exemptions * Detroit non-resident tax rate of 1.275% * Number of residents commuting to Detroit)	(3)	<u>158,881</u>	<u>161,388</u>	<u>163,932</u>	<u>166,515</u>	<u>169,137</u>
Estimated tax yield (0%)		<u>\$ -</u>				

**CITY OF YPSILANTI
INCOME TAX FEASIBILITY STUDY
ESTIMATED INCOME TAX EXPECTANCY - DETAILED CALCULATION**

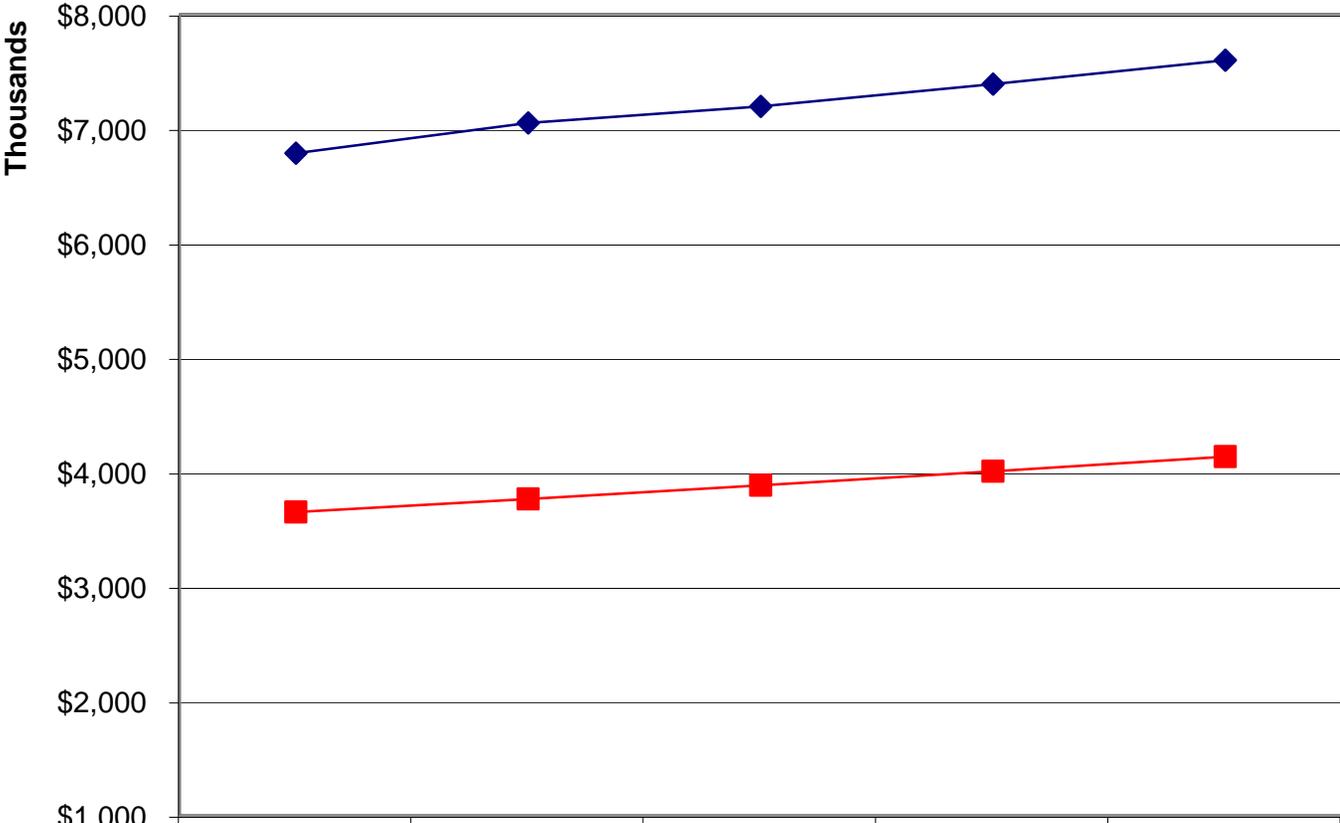
		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>RESIDENT - WORKS IN NON-TAXING CITY</u>						
Total number of City residents who work	(2)	11,690	11,690	11,690	11,690	11,691
Less: number of City residents working in City	(2)	3,241	3,242	3,242	3,242	3,242
Less: number of City residents commuting to Detroit	(2)	<u>284</u>	<u>284</u>	<u>284</u>	<u>284</u>	<u>284</u>
Equals total number of City residents commuting to a non-taxing city		8,164	8,165	8,165	8,165	8,165
Divide: Total number of City residents who work		<u>11,690</u>	<u>11,690</u>	<u>11,690</u>	<u>11,690</u>	<u>11,691</u>
Percent of "City resident commuters to non-taxing cities" to "total City workers"		69.84%	69.84%	69.84%	69.84%	69.84%
Times: Total resident income subject to tax		276,742,343	280,893,479	285,106,881	289,383,484	293,724,236
Income subject to tax - residents working in non-taxing city		193,286,682	196,185,982	199,128,772	202,115,704	205,147,439
Less: Personal exemptions (Exemption Amt * Number of residents commuting to non-taxing city * Average Family Size)		<u>24,166,794</u>	<u>24,167,277</u>	<u>24,167,761</u>	<u>24,168,244</u>	<u>24,168,727</u>
Taxable income before discount factor		169,119,888	172,018,705	174,961,011	177,947,460	180,978,712
Discount factor	(5)	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>	<u>85.00%</u>
Estimated taxable income		<u>143,751,905</u>	<u>146,215,899</u>	<u>148,716,860</u>	<u>151,255,341</u>	<u>153,831,905</u>
Estimated tax yield (1.0%)		<u>\$ 1,437,519</u>	<u>\$ 1,462,159</u>	<u>\$ 1,487,169</u>	<u>\$ 1,512,553</u>	<u>\$ 1,538,319</u>
<u>NON-RESIDENT - WORKS IN CITY (COMMUTERS)</u>						
Total number of commuters into City	(2)	9,998	10,197	10,398	10,603	10,811
Times: Average salary in Washtenaw County	(3)	<u>45,157</u>	<u>45,834</u>	<u>46,522</u>	<u>47,220</u>	<u>47,928</u>
Income subject to tax - non-resident workers in City		451,493,977	467,365,959	483,751,100	500,665,414	518,125,402
Less: Personal exemptions (Exemption Amt * Number of commuters * Avg family size)		<u>29,595,133</u>	<u>30,182,789</u>	<u>30,779,263</u>	<u>31,384,687</u>	<u>31,999,195</u>
Taxable income before discount factor		421,898,844	437,183,170	452,971,837	469,280,727	486,126,207
Discount factor	(5)	<u>75.00%</u>	<u>75.00%</u>	<u>75.00%</u>	<u>75.00%</u>	<u>75.00%</u>
Estimated taxable income		<u>316,424,133</u>	<u>327,887,377</u>	<u>339,728,878</u>	<u>351,960,545</u>	<u>364,594,655</u>
Estimated tax yield (.5%)		<u>\$ 1,582,121</u>	<u>\$ 1,639,437</u>	<u>\$ 1,698,644</u>	<u>\$ 1,759,803</u>	<u>\$ 1,822,973</u>
<u>CORPORATE</u>						
Estimated tax yield	(4)	<u>\$ 199,690</u>	<u>\$ 204,083</u>	<u>\$ 208,573</u>	<u>\$ 213,161</u>	<u>\$ 217,851</u>

**CITY OF YPSILANTI
INCOME TAX FEASIBILITY STUDY
ESTIMATED INCOME TAX EXPECTANCY - DETAILED CALCULATION**

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CITY OF YPSILANTI
Projected Revenue at \$1,000 Exemption Level
Property Tax (Operating Millage) Compared to Income Taxes



	2005	2006	2007	2008	2009
◆ Property Tax Revenue (incl. 1% admin fee)	\$6,783,160	\$7,047,780	\$7,193,220	\$7,389,160	\$7,595,200
■ Income Tax Revenue (net of admin costs)	\$3,649,000	\$3,763,000	\$3,882,000	\$4,005,000	\$4,132,000

City of Ypsilanti
Resident Sensitivity Analysis at \$600 Exemption Level

Taxable Value	\$40,000	\$60,000	\$80,000	\$100,000	\$120,000	\$140,000	\$160,000
City Property Tax	764	1,146	1,527	1,909	2,291	2,673	3,055
Taxable Income							
\$10,000	82	82	82	82	82	82	82
\$20,000	182	182	182	182	182	182	182
\$30,000	282	282	282	282	282	282	282
\$40,000	382	382	382	382	382	382	382
\$50,000	482	470	470	470	470	470	470
\$60,000	582	582	582	582	582	582	582
\$70,000	682	682	682	682	682	682	682
\$80,000	782	782	782	782	782	782	782
\$90,000	882	882	882	882	882	882	882
\$100,000	982	982	982	982	982	982	982

Assumptions

City millage rate at 19.0937 mils

\$600 deduction level per dependent

Deduction based on ability to claim 3 exemptions

City of Ypsilanti
Resident Sensitivity Analysis at \$1,000 Exemption Level

Taxable Value	\$40,000	\$60,000	\$80,000	\$100,000	\$120,000	\$140,000	\$160,000
City Property Tax	764	1,146	1,527	1,909	2,291	2,673	3,055
Taxable Income							
\$10,000	70	70	70	70	70	70	70
\$20,000	170	170	170	170	170	170	170
\$30,000	270	270	270	270	270	270	270
\$40,000	370	370	370	370	370	370	370
\$50,000	470	470	470	470	470	470	470
\$60,000	570	570	570	570	570	570	570
\$70,000	670	670	670	670	670	670	670
\$80,000	770	770	770	770	770	770	770
\$90,000	870	870	870	870	870	870	870
\$100,000	970	970	970	970	970	970	970

Assumptions

City millage rate at 19.0937 mils
 \$1,000 deduction level per dependent
 Deduction based on ability to claim 3 exemptions

