Executive Summary

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Project Objective

The City of Ann Arbor, Michigan ("City") is conducting a study of the potential effects of instituting a city income tax in lieu of an operating property tax millage. 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.

The City's charter requires that the general operating property tax millage be eliminated if an income tax is implemented. Therefore, it is important to ensure that an income tax would generate enough revenue to offset the loss in general operating property tax revenue.

Project Methodology

To meet our objective, statistical information about the City's population, worker demographics, residential household income and business income from various sources was gathered. 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, we projected revenue that would be generated from the current property tax system 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 Ann Arbor'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 allowed by Michigan law and a $600 exemption allowance would generate approximately $42 million, net of estimated administrative costs in fiscal year 2011. The City's operating property tax millage is estimated to generate approximately $28 million of revenue in fiscal year 2011. Therefore, an income tax could generate sufficient revenue to replace the City's operating property tax millage as a revenue source.

For comparison purposes, we have calculated income tax revenue using alternative exemption levels of $1,000 and $3,000. See Appendix A for the results of these calculations.
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 2009 tax year:

<table>
<thead>
<tr>
<th>Millage</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating</td>
<td>6.1682</td>
</tr>
<tr>
<td>Benefits</td>
<td>2.0560</td>
</tr>
<tr>
<td>Refuse</td>
<td>2.4670</td>
</tr>
<tr>
<td>Debt service</td>
<td>0.4643</td>
</tr>
<tr>
<td>Street repair</td>
<td>1.9944</td>
</tr>
<tr>
<td>Parks development</td>
<td>1.0969</td>
</tr>
<tr>
<td>Parks acquisition</td>
<td>0.4779</td>
</tr>
<tr>
<td>AATA</td>
<td>2.0560</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>16.7807</td>
</tr>
</tbody>
</table>

Under the City charter, if the City implements an income tax, it must eliminate the operating property tax millage (6.1682 mills). The City may continue to levy special-purpose millages; however, the operating millage must be reduced to zero. Since the special-purpose millage rates can only generate revenue to be used for specific expenditures, we have not included them in any aspect of this study. All discussion and reference to “property tax revenue” in the remainder of this report will refer only to the operating millage.

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 to the rate of inflation.

Proposal A

Proposal A limits the increase in taxable value of property 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 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, Ann Arbor Public Schools, Washtenaw Community College, Ann Arbor Public Library 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, we made 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. 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:

<table>
<thead>
<tr>
<th>Factor</th>
<th>Growth Rate Assumption by Tax Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing real property</td>
<td>(8)% in 2010, (3)% in 2011 and 2% each year thereafter</td>
</tr>
<tr>
<td>Existing personal property</td>
<td>(13)% in 2010 and (2)% each year thereafter</td>
</tr>
<tr>
<td>New property, net of losses</td>
<td>1% per year</td>
</tr>
<tr>
<td>Rate of transfers of existing property</td>
<td>2% in 2010 &amp; 2011, 3% each year thereafter</td>
</tr>
<tr>
<td>DDA capture</td>
<td>It is assumed the DDA taxable values will grow at the same rate as the existing real property of the city as a whole, discussed above.</td>
</tr>
</tbody>
</table>

We assumed 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 2009 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), we looked at the makeup of the 2009 taxable values between homestead and non-homestead properties. Since a taxpayer must use property as a principal residence in order to qualify for a homestead exemption, we considered the homestead totals to represent the residents of the City. Homestead properties represented approximately 54% of the total taxable value, while non-homestead properties made up the remaining 46%. We assumed this same breakdown for each year of the model.

**Revenue Projections**

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$28,008,000</td>
</tr>
<tr>
<td>2012</td>
<td>28,654,000</td>
</tr>
<tr>
<td>2013</td>
<td>29,316,000</td>
</tr>
<tr>
<td>2014</td>
<td>29,996,000</td>
</tr>
<tr>
<td>2015</td>
<td>30,694,000</td>
</tr>
</tbody>
</table>
Affect on Downtown Development Authority

According to the current model, the DDA is projected to receive between $674,000 and $744,000 per year over the next several 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 would lose this revenue.
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 Ann Arbor 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, we have prepared three models using different exemption rates: $600, $1,000, and $3,000.

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 Ann Arbor
- Individuals who live in Ann Arbor, but work elsewhere (non-taxing City)
- Individuals who live in Ann Arbor, but work in Detroit (taxing City)
- Individuals who work in Ann Arbor, but live elsewhere (“commuters”)
- Corporations

Since the City is the home of a large university, it is appropriate to point out that in other income tax cities, students are generally treated as non-residents. Their residency is where their permanent home is (the place they will return to whenever they go away). An exception to this treatment is if a student registers to vote in the City, in which case they would be treated as a resident for income tax purposes.
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, we estimated the amount of taxable income for each category.

**Estimate of Taxable Income:**

**Individuals who live in Ann Arbor:** Residents of the City are taxed on their taxable income, regardless of where it was earned. We obtained the amount of income subject to tax from the State of Michigan Department of Treasury. By multiplying the ratio of residents in each of the categories above by the income subject to tax for the entire City, we calculated the taxable income for each category of residents.

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 estimated average salaries for jobs in the Ann Arbor area. Since the University of Michigan (U of M) is the largest employer in the City, the actual number of non-resident employees and estimated average salary earned was segmented for U of M based upon the midpoint of each salary range times the number of employees in each salary range and calculated separately. The remainder of estimated commuters (Total commuters minus U of M non-resident employees) was calculated and multiplied by the average salary for jobs in the Ann Arbor area, based on data from the U.S. Bureau of Labor Statistics.

**Businesses:** To assist in the estimation of income from corporations, we surveyed seven cities that impose an income tax. We requested statistical data about tax collections, the number of returns filed annually, the cost of administration, and the timing of collections. 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., we calculated the average tax collections as a percentage of sales. We then applied the ratio to corporate sales of the City of Ann Arbor to estimate income tax from corporations.

**Note:** Taxable Income Data was estimated based upon actual 2006 income subject to tax from the Michigan Department of Treasury. This information was escalated forward to 2009 based upon the actual annual increase in taxable income from 2002 to 2006 (2%) for 2007 and based
upon the U.S. Department of Commerce, Bureau of Economic Analysis – Ann Arbor region Metropolitan Statistical Area, and both State and National trends for 2008 (estimated at 2.5%).

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, $1,000, and $3,000).

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, $1,000, and $3,000).

Growth/Projection Assumptions

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

<table>
<thead>
<tr>
<th>Data</th>
<th>Growth Rate Assumption</th>
<th>Source of Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>1.18% over next 5 years</td>
<td>Claritas, Inc.</td>
</tr>
<tr>
<td># jobs in Ann Arbor</td>
<td>1.0% per year</td>
<td>U.S. Bureau of Labor Statistics</td>
</tr>
<tr>
<td>Average annual salary</td>
<td>1.18% per year</td>
<td>Claritas, Inc.</td>
</tr>
<tr>
<td>Taxable income for residents</td>
<td>(1%) for 2009</td>
<td>U.S. Dept of Commerce</td>
</tr>
<tr>
<td></td>
<td>0% for 2010-2011</td>
<td>Management Estimate</td>
</tr>
<tr>
<td></td>
<td>1.18% for 2012-2015</td>
<td>Claritas, Inc.</td>
</tr>
<tr>
<td>Worker ratio (resident</td>
<td>Assumed stable ratio throughout the</td>
<td>N/A</td>
</tr>
<tr>
<td>workers, commuters, etc.)</td>
<td>model</td>
<td></td>
</tr>
</tbody>
</table>

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 7.68% of collections.
Revenue Projections

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>42,250,000</td>
</tr>
<tr>
<td>2012</td>
<td>42,964,000</td>
</tr>
<tr>
<td>2013</td>
<td>43,690,000</td>
</tr>
<tr>
<td>2014</td>
<td>44,431,000</td>
</tr>
<tr>
<td>2015</td>
<td>45,184,000</td>
</tr>
</tbody>
</table>
Historical Comparison: Tax Base

Moving to an income tax increases a community’s dependence upon the health of the general economy. The chart on the following page compares the taxable value of property versus the taxable income of residents and non residents for the City of Ann Arbor. It is important to note that the business income is not included in the taxable income estimate.

Property taxable value was obtained from the City for years 1993-2002 and from Washtenaw County Equalization for 2003 - 2007. Taxable income was based on taking 2.99% of the State of Michigan AGI for the years of 1993 through 2007. State of Michigan AGI was provided by the Michigan Department of Treasury for years 1993 to 2002 and taken from the Tax Policy Center at the Urban Institute and Brookings Institution for years 2003 to 2007. The 2.99% value was determined by comparing the taxable value developed in the model to the State 2007 AGI.
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 approximate the schedule on page 13 for years 2013 through 2015. Dollar amounts are based upon the $600 exemption level.

Due to the conversion from a property tax to an income tax for the current operating millage, there will be a “ramp up” period for collecting the majority of income taxes due over the first few years. Following are our assumptions for the first two years of cash flow for the conversion to an income tax:

- Last levy of property tax operating millage – July 2010 (full amount)
- Beginning of income tax – January 2011
- Year 2011 revenue:
  - 70% of total projected revenue
  - Only withholdings revenue
  - Monthly withholdings revenue 70% of total
  - Quarterly withholdings revenue 30% of total
  - Initial monthly withholdings received February 28, evenly distributed throughout the year
  - Initial quarterly withholdings received April 30, 33% received April 30, July 31, and October 30
- Year 2012 revenue:
  - 85% of total projected revenue
  - Withholding, estimated tax and return revenues
    - Withholding – 80%
    - Estimated tax – 10%
    - Returns – 10%
  - Monthly withholdings revenue 70% of total withholding
  - Quarterly withholdings revenue 30% of total withholding
  - Initial monthly withholdings received January 31, evenly distributed throughout the year
  - Initial quarterly withholdings received January 31, 25% received January 31, April 30, July 31, and October 30
  - Timing of estimated tax revenue – 33% received April 30, June 30, September 30 (2012).
  - Timing of return revenue – 30% received in March and 70% received in April
### Year 2011

<table>
<thead>
<tr>
<th>Month</th>
<th>Property Tax</th>
<th>Income Tax</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>$173,300</td>
<td>$ -</td>
<td>$(173,300)</td>
</tr>
<tr>
<td>February</td>
<td>152,322</td>
<td>2,038,534</td>
<td>1,886,212</td>
</tr>
<tr>
<td>March</td>
<td>-</td>
<td>2,038,534</td>
<td>2,038,534</td>
</tr>
<tr>
<td>April</td>
<td>-</td>
<td>5,241,944</td>
<td>5,241,944</td>
</tr>
<tr>
<td>May</td>
<td>-</td>
<td>2,038,534</td>
<td>2,038,534</td>
</tr>
<tr>
<td>June</td>
<td>518,299</td>
<td>2,038,534</td>
<td>1,520,235</td>
</tr>
<tr>
<td>July</td>
<td>15,443,372</td>
<td>5,241,944</td>
<td>$(10,201,428)</td>
</tr>
<tr>
<td>August</td>
<td>10,471,575</td>
<td>2,038,534</td>
<td>$(8,433,041)</td>
</tr>
<tr>
<td>September</td>
<td>452,494</td>
<td>2,038,534</td>
<td>1,586,039</td>
</tr>
<tr>
<td>October</td>
<td>182,360</td>
<td>5,241,944</td>
<td>5,059,584</td>
</tr>
<tr>
<td>November</td>
<td>124,547</td>
<td>2,038,534</td>
<td>1,913,987</td>
</tr>
<tr>
<td>December</td>
<td>212,732</td>
<td>2,038,534</td>
<td>1,825,802</td>
</tr>
</tbody>
</table>

**Total** $27,731,000 $32,034,100 $4,303,100

### Year 2012

<table>
<thead>
<tr>
<th>Month</th>
<th>Property Tax</th>
<th>Income Tax</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>$177,293</td>
<td>$4,219,264</td>
<td>$4,041,971</td>
</tr>
<tr>
<td>February</td>
<td>155,832</td>
<td>$1,845,928</td>
<td>1,690,096</td>
</tr>
<tr>
<td>March</td>
<td>-</td>
<td>$3,032,596</td>
<td>3,032,596</td>
</tr>
<tr>
<td>April</td>
<td>-</td>
<td>$8,306,676</td>
<td>8,306,676</td>
</tr>
<tr>
<td>May</td>
<td>-</td>
<td>$1,845,928</td>
<td>1,845,928</td>
</tr>
<tr>
<td>June</td>
<td>530,242</td>
<td>$3,164,448</td>
<td>2,634,206</td>
</tr>
<tr>
<td>July</td>
<td>15,799,230</td>
<td>$4,219,264</td>
<td>$(11,579,966)</td>
</tr>
<tr>
<td>August</td>
<td>10,712,870</td>
<td>$1,845,928</td>
<td>$(8,866,942)</td>
</tr>
<tr>
<td>September</td>
<td>462,921</td>
<td>$3,164,448</td>
<td>2,701,527</td>
</tr>
<tr>
<td>October</td>
<td>186,562</td>
<td>$4,219,264</td>
<td>4,032,702</td>
</tr>
<tr>
<td>November</td>
<td>127,417</td>
<td>$1,845,928</td>
<td>1,718,511</td>
</tr>
<tr>
<td>December</td>
<td>217,634</td>
<td>$1,845,928</td>
<td>1,628,294</td>
</tr>
</tbody>
</table>

**Total** $28,370,000 $39,555,600 $11,185,600

### Percent of Collections

<table>
<thead>
<tr>
<th>Month</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>9.22%</td>
<td>$4,360,814</td>
<td>$4,434,719</td>
</tr>
<tr>
<td>February</td>
<td>7.26%</td>
<td>3,433,284</td>
<td>3,491,469</td>
</tr>
<tr>
<td>March</td>
<td>7.11%</td>
<td>3,364,665</td>
<td>3,421,688</td>
</tr>
<tr>
<td>April</td>
<td>13.67%</td>
<td>6,466,688</td>
<td>6,576,281</td>
</tr>
<tr>
<td>May</td>
<td>7.48%</td>
<td>3,539,760</td>
<td>3,599,750</td>
</tr>
<tr>
<td>June</td>
<td>8.46%</td>
<td>4,001,160</td>
<td>4,068,969</td>
</tr>
<tr>
<td>July</td>
<td>7.55%</td>
<td>3,572,887</td>
<td>3,633,438</td>
</tr>
<tr>
<td>August</td>
<td>7.26%</td>
<td>3,433,284</td>
<td>3,491,469</td>
</tr>
<tr>
<td>September</td>
<td>8.69%</td>
<td>4,110,003</td>
<td>4,179,656</td>
</tr>
<tr>
<td>October</td>
<td>7.97%</td>
<td>3,769,277</td>
<td>3,833,156</td>
</tr>
<tr>
<td>November</td>
<td>7.08%</td>
<td>3,348,102</td>
<td>3,404,844</td>
</tr>
<tr>
<td>December</td>
<td>8.29%</td>
<td>3,923,076</td>
<td>3,989,561</td>
</tr>
</tbody>
</table>

**Total** 100.00% $47,323,000 $48,125,000 $48,941,000
Burden Shift

By segregating the population of taxpayers into categories, we can estimate the change in the share of tax burden if the City switched from a property tax system to an income tax system. Under the current property tax system, non-residents do not have a share of the burden, while individuals and corporations share the burden at 54% ($15,124,000) and 46% ($12,884,000), respectively.

Under an income tax system, the burden would be shifted to approximately 60.3% ($27,605,000), 32.4% ($14,818,000), and 7.3% ($3,340,000) 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

Since the City’s charter indicates that they may have either an income tax or an operating millage, we have prepared three tables that compare various property tax levels to income tax levels at the $600, $1,000, and $3,000 exemption levels.

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 6.1682 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.

These charts can be found in Appendix B.
<table>
<thead>
<tr>
<th>City</th>
<th>Year Adopted</th>
<th>Resident</th>
<th>Corporate</th>
<th>Non-Resident</th>
<th>2008 Exemption Amount</th>
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<tbody>
<tr>
<td>Albion</td>
<td>1972</td>
<td>1.00</td>
<td>1.00</td>
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<td>$600</td>
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<tr>
<td>Battle Creek</td>
<td>1967</td>
<td>1.00</td>
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<td>Big Rapids</td>
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<td>1.00</td>
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<tr>
<td>Detroit</td>
<td>1962</td>
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<td>Flint</td>
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<td>1.00</td>
<td>0.500</td>
<td>$600</td>
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<td>Grand Rapids</td>
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<tr>
<td>Grayling</td>
<td>1972</td>
<td>1.00</td>
<td>1.00</td>
<td>0.500</td>
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<tr>
<td>Hamtramck</td>
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<tr>
<td>Highland Park</td>
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<td>2.00</td>
<td>1.000</td>
<td>$600</td>
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<tr>
<td>Hudson</td>
<td>1971</td>
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<td>1.00</td>
<td>0.500</td>
<td>$1,000</td>
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<tr>
<td>Ionia</td>
<td>1994</td>
<td>1.00</td>
<td>1.00</td>
<td>0.500</td>
<td>$700</td>
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<tr>
<td>Jackson</td>
<td>1970</td>
<td>1.00</td>
<td>1.00</td>
<td>0.500</td>
<td>$600</td>
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<tr>
<td>Lansing</td>
<td>1968</td>
<td>1.00</td>
<td>1.00</td>
<td>0.500</td>
<td>$600</td>
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<tr>
<td>Lapeer</td>
<td>1967</td>
<td>1.00</td>
<td>1.00</td>
<td>0.500</td>
<td>$600</td>
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<tr>
<td>Muskegon</td>
<td>1993</td>
<td>1.00</td>
<td>1.00</td>
<td>0.500</td>
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<tr>
<td>Muskegon Heights</td>
<td>1990</td>
<td>1.00</td>
<td>1.00</td>
<td>0.500</td>
<td>$600</td>
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<tr>
<td>Pontiac</td>
<td>1968</td>
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<td>1.00</td>
<td>0.500</td>
<td>$600</td>
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<tr>
<td>Port Huron</td>
<td>1969</td>
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<td>1.00</td>
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<td>Portland</td>
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<td>1.00</td>
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<td>Saginaw</td>
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<td>Springfield</td>
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<td>Walker</td>
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<td>$750</td>
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</table>
## CITY OF ANN ARBOR, MICHIGAN

### Income Tax Feasibility Study

**Appendices A-1**  
**July 2009**

### CITY OF ANN ARBOR  
**PROJECTION OF OPERATING PROPERTY TAX REVENUE**  
**JUNE 2009**

#### ASSUMPTIONS

<table>
<thead>
<tr>
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<th></th>
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<td>Proposal A Limits:</td>
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<td>Assessment Cap Inflation Rate</td>
<td>1.30%</td>
<td>1.10%</td>
<td>1.30%</td>
<td>1.30%</td>
<td>1.30%</td>
<td>1.30%</td>
</tr>
<tr>
<td>Percent Increase in Real Property SEV</td>
<td>-8.00%</td>
<td>-3.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
</tr>
<tr>
<td>Percent Increase in Real Property TV</td>
<td>(Cannot exceed lower of 5%, Inflation or SEV increase)</td>
<td>-8.00%</td>
<td>-3.00%</td>
<td>1.30%</td>
<td>1.30%</td>
<td>1.30%</td>
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<tr>
<td>New Real Property Additions to TV / Net of Losses</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
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<tr>
<td>Expected Annual Real Property Transfer Rate</td>
<td>2.00%</td>
<td>2.00%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
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<tr>
<td>Personal Property Additions - Net</td>
<td>-13.00%</td>
<td>-2.00%</td>
<td>-2.00%</td>
<td>-2.00%</td>
<td>-2.00%</td>
<td>-2.00%</td>
</tr>
</tbody>
</table>

#### PROPERTY TAX SEV ESTIMATION

- **Real SEV**
  - Unaudited: 5,767,803,800
  - Estimated: 5,611,482,300
  - Adjusted: 5,218,678,539
  - Final: 5,114,304,968

- **Personal SEV**
  - Unaudited: 309,364,700
  - Estimated: 264,834,300
  - Adjusted: 230,405,841
  - Final: 225,797,724

- **Total Prior Year SEV**
  - Unaudited: 6,077,168,500
  - Estimated: 5,876,316,600
  - Adjusted: 5,449,084,380
  - Final: 5,340,102,692

- **SEV Growth Before Additions**
  - Unaudited: (212,520,500)
  - Estimated: (448,918,584)
  - Adjusted: (156,560,356)
  - Final: 102,826,099

- **New Additions to Personal SEV / Net of Losses**
  - Unaudited: (44,530,400)
  - Estimated: (34,428,459)
  - Adjusted: (4,608,117)
  - Final: (4,515,954)

- **New Additions to Real SEV / Net of Losses**
  - Unaudited: 56,199,000
  - Estimated: 56,114,823
  - Adjusted: 52,186,785
  - Final: 51,143,050

- **Current Year SEV**
  - Unaudited: 5,876,316,600
  - Estimated: 5,449,084,380
  - Adjusted: 5,340,102,692
  - Final: 5,489,015,887

#### PROPERTY TAX TV ESTIMATION (AD VALOREM ROLL)

- **Real TV Subject to Per Parcel Assessment**
  - Unaudited: 4,588,962,757
  - Estimated: 4,629,242,106
  - Adjusted: 4,337,463,453
  - Final: 4,231,949,622

- **Personal TV**
  - Unaudited: 309,364,700
  - Estimated: 278,367,200
  - Adjusted: 243,938,741
  - Final: 239,330,624

- **TV Subject to Prop. Transfer Assessment**
  - Unaudited: 94,474,329
  - Estimated: 88,520,070
  - Adjusted: 130,880,040
  - Final: 134,699,397

- **Total Prior Year TV**
  - Unaudited: 4,892,327,457
  - Estimated: 5,002,003,635
  - Adjusted: 4,669,942,264
  - Final: 4,602,165,286

- **Real TV Growth Before Additions**
  - Unaudited: 79,530,676
  - Estimated: (370,339,369)
  - Adjusted: (130,124,504)
  - Final: 55,015,345

- **Real Property Transfer SEV Step Up ("Uncapped")**
  - Unaudited: 16,511,634
  - Estimated: 14,768,850
  - Adjusted: 20,986,853
  - Final: 21,787,222

- **New Additions to Personal TV / Net of Losses**
  - Unaudited: (30,997,500)
  - Estimated: (34,428,459)
  - Adjusted: (4,608,117)
  - Final: (4,515,954)

- **New Additions to Real TV / Net of Losses**
  - Unaudited: 55,223,002
  - Estimated: 56,114,823
  - Adjusted: 52,186,785
  - Final: 51,143,050

- **Current Year TV**
  - Unaudited: 5,002,083,635
  - Estimated: 4,669,942,264
  - Adjusted: 4,602,165,286
  - Final: 4,724,794,580

- **TIFA, LDFIA and DDA capture**
  - Unaudited: 128,400,000
  - Estimated: 114,128,000
  - Adjusted: 109,204,160
  - Final: 113,388,243

- **Taxable Value (ad valorem roll)**
  - Unaudited: 4,873,683,635
  - Estimated: 4,555,814,264
  - Adjusted: 4,492,961,126
  - Final: 4,612,406,337

- **Plante Moran**

---

*Plante Moran*
## CITY OF ANN ARBOR, MICHIGAN

### Income Tax Feasibility Study
**Appendices A-1**  
**July 2009**

### CITY OF ANN ARBOR  
**PROJECTION OF OPERATING PROPERTY TAX REVENUE**  
**JUNE 2009**

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>MILLAGE RATE:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Headline Rollback Factor</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>AD VALOREM PROPERTY TAXES LEVIED - OPERATING MILLS</strong></td>
<td>$30,062,000</td>
<td>$28,101,000</td>
<td>$27,713,000</td>
<td>$28,352,000</td>
<td>$29,008,000</td>
<td>$29,681,000</td>
<td>$30,372,000</td>
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<tr>
<td>IFT Roll</td>
<td>5,836,400</td>
<td>5,836,400</td>
<td>5,836,400</td>
<td>5,836,400</td>
<td>5,836,400</td>
<td>5,836,400</td>
<td>5,836,400</td>
</tr>
<tr>
<td>IFT Rate (1/2 of operating millage rate)</td>
<td>3,0841</td>
<td>3,0841</td>
<td>3,0841</td>
<td>3,0841</td>
<td>3,0734</td>
<td>3,0626</td>
<td>3,0515</td>
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<tr>
<td>IFT Operating Levy</td>
<td>18,000</td>
<td>18,000</td>
<td>18,000</td>
<td>18,000</td>
<td>18,000</td>
<td>18,000</td>
<td>18,000</td>
</tr>
<tr>
<td>Subtotal Ad Valorem and IFT operating levies</td>
<td>30,080,000</td>
<td>28,119,000</td>
<td>27,731,000</td>
<td>28,370,000</td>
<td>29,026,000</td>
<td>29,699,000</td>
<td>30,390,000</td>
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<tr>
<td>1% Administration Fee</td>
<td>300,800</td>
<td>281,000</td>
<td>277,000</td>
<td>284,000</td>
<td>290,000</td>
<td>297,000</td>
<td>304,000</td>
</tr>
<tr>
<td><strong>TOTAL PROPERTY TAX REVENUE FROM OPERATING MILLS</strong></td>
<td>$30,380,800</td>
<td>$28,400,000</td>
<td>$28,008,000</td>
<td>$28,654,000</td>
<td>$29,316,000</td>
<td>$29,996,000</td>
<td>$30,694,000</td>
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</tbody>
</table>

Based on 2008 Tax Year, percentage of taxable value attributable to non-homestead properties: 46.0%

Property taxes paid by:
- **Residents**: $15,336,000  $15,124,320  $15,473,160  $15,830,640  $16,197,840  $16,574,760  $16,948,728  $17,327,703
- **Businesses**: 13,064,000  12,883,680  13,180,840  13,485,360  13,798,160  14,119,240  

<table>
<thead>
<tr>
<th><strong>DDA TAXABLE VALUES</strong></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Growth Rates:</strong></td>
<td>-8.0%</td>
<td>-3.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td><strong>Market Value Adjustment</strong>:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Taxable Value</strong></td>
<td><strong>$178,400,000</strong></td>
<td><strong>$164,128,000</strong></td>
<td><strong>$159,204,160</strong></td>
<td><strong>$162,388,243</strong></td>
<td><strong>$165,636,008</strong></td>
<td><strong>$168,948,728</strong></td>
<td><strong>$172,327,703</strong></td>
</tr>
<tr>
<td><strong>Base Year</strong></td>
<td><strong>$50,000,000</strong></td>
<td><strong>$50,000,000</strong></td>
<td><strong>$50,000,000</strong></td>
<td><strong>$50,000,000</strong></td>
<td><strong>$50,000,000</strong></td>
<td><strong>$50,000,000</strong></td>
<td><strong>$50,000,000</strong></td>
</tr>
<tr>
<td><strong>Capture</strong></td>
<td><strong>$128,400,000</strong></td>
<td><strong>$114,128,000</strong></td>
<td><strong>$109,204,160</strong></td>
<td><strong>$112,388,243</strong></td>
<td><strong>$115,636,008</strong></td>
<td><strong>$118,948,728</strong></td>
<td><strong>$122,327,703</strong></td>
</tr>
<tr>
<td><strong>DDA Revenue</strong></td>
<td>$704,000</td>
<td>$674,000</td>
<td>$691,000</td>
<td>$708,000</td>
<td>$726,000</td>
<td>$744,000</td>
<td></td>
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</table>

**- The City’s DDA capture is not calculated traditionally. The DDA only captures on the “net new” properties as a percentage of total DDA. The “total district” figure above represents the amount of T.V. that the DDA captured for 2008**

Information only:

**MILLAGE CAPACITY**
## EXECUTIVE SUMMARY

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resident income tax yield</td>
<td>$27,605,000</td>
<td>$27,939,000</td>
<td>$28,276,000</td>
<td>$28,617,000</td>
<td>$28,962,000</td>
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<tr>
<td>Non-Resident income tax yield</td>
<td>14,818,000</td>
<td>15,214,000</td>
<td>15,620,000</td>
<td>16,036,000</td>
<td>16,462,000</td>
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<tr>
<td>Corporate income tax yield</td>
<td>3,340,000</td>
<td>3,383,000</td>
<td>3,427,000</td>
<td>3,472,000</td>
<td>3,517,000</td>
</tr>
<tr>
<td><strong>TOTAL INCOME TAX EXPECTANCY</strong></td>
<td>45,763,000</td>
<td>46,536,000</td>
<td>47,323,000</td>
<td>48,125,000</td>
<td>48,941,000</td>
</tr>
<tr>
<td>Cost of administration - percent of total collections ** = 7.68%</td>
<td>3,513,000</td>
<td>3,572,000</td>
<td>3,633,000</td>
<td>3,694,000</td>
<td>3,757,000</td>
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<tr>
<td><strong>INCOME TAX EXPECTANCY - NET OF ADMINISTRATION COST</strong></td>
<td>$42,250,000</td>
<td>$42,964,000</td>
<td>$43,690,000</td>
<td>$44,431,000</td>
<td>$45,184,000</td>
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<tr>
<td><strong>PROJECTED PROPERTY TAX REVENUE FROM OPERATING MILLAGE</strong></td>
<td>$28,008,000</td>
<td>$28,654,000</td>
<td>$29,316,000</td>
<td>$29,960,000</td>
<td>$30,694,000</td>
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<tr>
<td><strong>DIFFERENCE</strong></td>
<td>$14,242,000</td>
<td>$14,310,000</td>
<td>$14,374,000</td>
<td>$14,435,000</td>
<td>$14,490,000</td>
</tr>
</tbody>
</table>

**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 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 ANN ARBOR, MICHIGAN

### Income Tax Feasibility Study

**Appendices A-2**

**July 2009**

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### CITY OF ANN ARBOR

**INCOME TAX FEASIBILITY STUDY**

**ESTIMATED INCOME TAX EXPECTANCY - DETAILED CALCULATION**

**EXEMPTION LEVEL: $600**

---

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<th></th>
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<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Resident - Works in Ann Arbor</strong></td>
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<tr>
<td>Total Ann Arbor resident income subject to tax</td>
<td>$3,430,891,951</td>
<td>$3,471,376,476</td>
<td>$3,512,338,719</td>
<td>$3,553,784,316</td>
<td>$3,595,718,970</td>
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<tr>
<td><strong>Divide: Total number of Ann Arbor residents who work</strong></td>
<td>38,149</td>
<td>38,146</td>
<td>38,146</td>
<td>38,144</td>
<td>38,143</td>
</tr>
<tr>
<td></td>
<td>$60,271</td>
<td>60,768</td>
<td>60,766</td>
<td>60,763</td>
<td>60,761</td>
</tr>
<tr>
<td>Percent of &quot;Ann Arbor residents working in Ann Arbor&quot; to &quot;total AA resident workers&quot;</td>
<td>62.78%</td>
<td>62.78%</td>
<td>62.78%</td>
<td>62.78%</td>
<td>62.78%</td>
</tr>
<tr>
<td>Times: Total Income subject to tax</td>
<td>$3,430,891,951</td>
<td>$3,471,376,476</td>
<td>$3,512,338,719</td>
<td>$3,553,784,316</td>
<td>$3,595,718,970</td>
</tr>
<tr>
<td>Income subject to tax - residents working in Ann Arbor</td>
<td>$2,153,755,767</td>
<td>$2,179,170,085</td>
<td>$2,204,884,292</td>
<td>$2,230,901,926</td>
<td>$2,257,226,569</td>
</tr>
<tr>
<td>Less: Personal exemptions (Exemption Amount * # of Residents working in Ann Arbor)</td>
<td>$68,668,286</td>
<td>$68,665,539</td>
<td>$68,662,792</td>
<td>$68,660,046</td>
<td>$68,657,299</td>
</tr>
<tr>
<td>* Average Family Size</td>
<td>$72,798,886</td>
<td>$76,311,249</td>
<td>$87,064,416</td>
<td>$87,832,854</td>
<td>$87,815,255</td>
</tr>
<tr>
<td>Less: Additional exemptions for Seniors</td>
<td>$1,766,136,455</td>
<td>$1,787,382,062</td>
<td>$1,808,861,768</td>
<td>$1,830,577,344</td>
<td>$1,852,527,799</td>
</tr>
<tr>
<td><strong>Taxable income before discount factor</strong></td>
<td>$2,077,807,595</td>
<td>$2,102,802,426</td>
<td>$2,128,072,657</td>
<td>$2,153,620,405</td>
<td>$2,179,444,705</td>
</tr>
<tr>
<td><strong>Discount factor</strong></td>
<td>85%</td>
<td>85%</td>
<td>85%</td>
<td>85%</td>
<td>85%</td>
</tr>
<tr>
<td><strong>Estimated taxable income</strong></td>
<td>$1,766,136,455</td>
<td>$1,787,382,062</td>
<td>$1,808,861,768</td>
<td>$1,830,577,344</td>
<td>$1,852,527,799</td>
</tr>
<tr>
<td><strong>Estimated tax yield (1.0%)</strong></td>
<td>$17,661,365</td>
<td>$17,873,821</td>
<td>$18,088,618</td>
<td>$18,305,773</td>
<td>$18,525,278</td>
</tr>
</tbody>
</table>

---

### Resident - Works in Detroit

Total number of Ann Arbor residents commuting to Detroit | 1,218 | 1,218 | 1,218 | 1,218 | 1,218 |
Divide: Total number of Ann Arbor residents who work | 60,768 | 60,766 | 60,763 | 60,761 |
Percent of "Ann Arbor residents commuting to Detroit" to "total AA workers" | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
Times: Total Income subject to tax | $3,430,891,951 | $3,471,376,476 | $3,512,338,719 | $3,553,784,316 | $3,595,718,970 |
Income subject to tax - residents working in Detroit | $68,773,411 | $69,584,937 | $70,406,039 | $71,236,830 | $72,077,425 |
Less: Personal exemptions (Exemption Amount * # of Residents Commuting to Detroit) | 2,192,706 | 2,192,618 | 2,192,530 | 2,192,442 | 2,192,355 |
* Average Family Size |
<p>| Taxable income before discount factor &amp; credit for income tax paid to another city | $66,580,705 | $67,392,319 | $68,213,509 | $69,044,388 | $69,885,070 |
| <strong>Discount factor</strong> | 85.00% | 85.00% | 85.00% | 85.00% | 85.00% |
| <strong>Estimated taxable income before credit for income tax paid to another city</strong> | $56,593,599 | $57,283,471 | $57,981,483 | $58,687,730 | $59,402,310 |
| <strong>Estimated tax yield (1.0%) before credit for income tax paid to another city</strong> | $565,936 | $572,836 | $579,815 | $586,877 | $594,023 |
| <strong>Less: Credit for income tax paid to the City of Detroit (Average Salary in Detroit Area - Exemptions * Detroit non-resident tax rate of 1.025% * Number of residents commuting to Detroit)</strong> | $632,103 | $639,647 | $647,279 | $655,001 | $662,814 |
| <strong>Estimated tax yield after credit for taxes paid to another city</strong> | $- | $- | $- | $- | $- |</p>
<table>
<thead>
<tr>
<th>Income Tax Feasibility Study</th>
<th>Appendices A-2</th>
<th>July 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
<td>2012</td>
</tr>
<tr>
<td><strong>RESIDENT - WORKS IN NON-TAXING CITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total number of Ann Arbor residents who work</td>
<td>60,771</td>
<td>60,768</td>
</tr>
<tr>
<td>Less: number of Ann Arbor residents working in Ann Arbor</td>
<td>38,149</td>
<td>38,148</td>
</tr>
<tr>
<td>Less: number of Ann Arbor residents commuting to Detroit</td>
<td>1,218</td>
<td>1,218</td>
</tr>
<tr>
<td>Equals total number of City residents commuting to a non-taxing city</td>
<td>21,403</td>
<td>21,403</td>
</tr>
<tr>
<td>Divide: Total number of Ann Arbor residents who work</td>
<td>60,771</td>
<td>60,768</td>
</tr>
<tr>
<td>Percent of &quot;Ann Arbor resident commuters to non-taxing cities&quot; to &quot;total AA workers&quot;</td>
<td>35.22%</td>
<td>35.22%</td>
</tr>
<tr>
<td>Times: Total Income subject to tax</td>
<td>$3,430,891,951</td>
<td>$3,471,376,476</td>
</tr>
<tr>
<td><strong>Income subject to tax - residents working in non-taxing city</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: Personal exemptions (Exemption Amt * Number of residents commuting to non-taxing city * Average Family Size)</td>
<td>38,526,281</td>
<td>38,524,740</td>
</tr>
<tr>
<td>Taxable income before discount factor</td>
<td>1,169,836,493</td>
<td>1,184,096,714</td>
</tr>
<tr>
<td>Discount factor</td>
<td>85.00%</td>
<td>85.00%</td>
</tr>
<tr>
<td>Estimated taxable income</td>
<td>994,361,019</td>
<td>1,006,482,207</td>
</tr>
<tr>
<td><strong>Estimated tax yield (1.0%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$9,943,610</td>
<td>$10,064,822</td>
</tr>
</tbody>
</table>

| **NON-RESIDENT - WORKS IN ANN ARBOR (COMMUTERS)** | | | | | |
| Number of commuters into Ann Arbor - estimated U of M commuters | 20,952 | 20,952 | 20,952 | 20,952 | 20,952 |
| Number of commuters into Ann Arbor - estimated other commuters (balance) | 54,301 | 55,437 | 56,583 | 57,742 | 58,912 |
| Total number of commuters into Ann Arbor | 75,253 | 76,389 | 77,535 | 78,694 | 79,864 |
| Times: Average salary - U of M | 60,809 | 61,526 | 62,252 | 62,987 | 63,730 |
| Times: Average salary - Ann Arbor | 51,802 | 52,413 | 53,031 | 53,657 | 54,290 |
| **Income subject to tax - non-resident workers in AA** | | | | | |
| Less: Personal exemptions (Exemption Amt * Number of commuters * Avg family size ) | 133,453,511 | 133,499,495 | 133,563,892 | 134,618,906 | 143,754,742 |
| Taxable income before discount factor | 3,951,491,102 | 4,057,190,324 | 4,165,444,190 | 4,276,311,447 | 4,389,852,159 |
| Discount factor | 75.00% | 75.00% | 75.00% | 75.00% | 75.00% |
| Estimated taxable income | 2,963,618,326 | 3,042,892,743 | 3,124,083,143 | 3,207,233,585 | 3,292,389,119 |
| **Estimated tax yield (.5%)** | | | | | |
| | $14,818,092 | $15,214,464 | $15,620,416 | $16,036,168 | $16,461,946 |

**CORPORATE**

<table>
<thead>
<tr>
<th>Estimated tax yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>(4) $3,340,002</td>
</tr>
</tbody>
</table>
FOOTNOTE EXPLANATIONS

(1) Total resident income subject to tax was provided by the State of Michigan Department of Treasury based on 2006 income tax returns for individuals with Ann Arbor zip codes. Since the City shares several zip codes with neighboring townships, we contacted the post office to determine what percentage of each zip code correlates to parcels in the City limits. The following is a breakdown of the zip codes and the related percentage attributed to Ann Arbor:

48103 - 66%
48104 - 95%
48105 - 50%
48106 - 100%
48107 - 100%
48108 - 50%
48109 - 100%
48113 - 100%

The 2006 amounts were increased or decreased by the following percentages to update the amount to current year values - 2% for 2007, 2.5% for 2008, and 1% for 2009.

(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 2007, updated to current levels assuming 1.08% 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 used was kept consistent from the 2004 income tax study. The factor was calculated based on results of the 2003 tax year as reported by other Michigan cities surveyed as part of the original project compared to our projection of tax revenue for those cities using this model. This discount factor is provided in the model to provide a level of conservatism in our estimates.

(6) Information obtained from U of M. Number of non-resident employees were provided to us by salary range at the University. This number of employees was taken times the midpoint of each salary range and divided by the total number of employees to calculate the average U of M salary.
CITY OF ANN ARBOR

Projected Revenue
Property Tax (Operating Millage) Compared
to Income Taxes ($600 Exemption Level)

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Tax Revenue (net of admin costs)</td>
<td>$42,250,000</td>
<td>$42,964,000</td>
<td>$43,690,000</td>
<td>$44,431,000</td>
<td>$45,184,000</td>
</tr>
<tr>
<td>Property Tax Revenue (incl. 1% admin fee)</td>
<td>$28,400,000</td>
<td>$28,008,000</td>
<td>$28,654,000</td>
<td>$29,316,000</td>
<td>$29,996,000</td>
</tr>
</tbody>
</table>
CITY OF ANN ARBOR, MICHIGAN

Income Tax Feasibility Study
Appendices A-2
July 2009

CITY OF ANN ARBOR
Projected Shift of Tax Burden
$600 Exemption Level

<table>
<thead>
<tr>
<th>Total Taxes Paid</th>
<th>Residents</th>
<th>Non-residents</th>
<th>Corporate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$15,884,000*</td>
<td>14,818,000</td>
<td>12,804,000</td>
</tr>
<tr>
<td></td>
<td>$27,605,000</td>
<td></td>
<td>3,340,000</td>
</tr>
</tbody>
</table>

*Includes many additional taxpayers

- Property Taxes - Operating Millage
- Income Taxes - before admin costs
### CITY OF ANN ARBOR, MICHIGAN

#### Income Tax Feasibility Study
Appendices A-3
July 2009

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**CITY OF ANN ARBOR**
**INCOME TAX FEASIBILITY STUDY**
**ESTIMATED INCOME TAX EXPECTANCY - EXECUTIVE SUMMARY**
**EXEMPTION LEVEL: $1000**

<table>
<thead>
<tr>
<th></th>
<th>’11</th>
<th>’12</th>
<th>’13</th>
<th>’14</th>
<th>’15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resident income tax yield</td>
<td>$26,956,000</td>
<td>$27,288,000</td>
<td>$27,623,000</td>
<td>$27,961,000</td>
<td>$28,303,000</td>
</tr>
<tr>
<td>Non-Resident income tax yield</td>
<td>14,479,000</td>
<td>14,871,000</td>
<td>15,272,000</td>
<td>15,682,000</td>
<td>16,103,000</td>
</tr>
<tr>
<td>Corporate income tax yield</td>
<td>3,340,000</td>
<td>3,383,000</td>
<td>3,427,000</td>
<td>3,472,000</td>
<td>3,517,000</td>
</tr>
<tr>
<td><strong>TOTAL INCOME TAX EXPECTANCY</strong></td>
<td>44,775,000</td>
<td>45,542,000</td>
<td>46,322,000</td>
<td>47,115,000</td>
<td>47,923,000</td>
</tr>
</tbody>
</table>

Cost of administration - percent of total collections **= 7.68%**

<table>
<thead>
<tr>
<th></th>
<th>’11</th>
<th>’12</th>
<th>’13</th>
<th>’14</th>
<th>’15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of administration</td>
<td>3,437,000</td>
<td>3,496,000</td>
<td>3,556,000</td>
<td>3,617,000</td>
<td>3,679,000</td>
</tr>
</tbody>
</table>

**INCOME TAX EXPECTANCY - NET OF ADMINISTRATION COST**

<table>
<thead>
<tr>
<th></th>
<th>’11</th>
<th>’12</th>
<th>’13</th>
<th>’14</th>
<th>’15</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$41,338,000</td>
<td>$42,046,000</td>
<td>$42,766,000</td>
<td>$43,498,000</td>
<td>$44,244,000</td>
</tr>
</tbody>
</table>

**PROJECTED PROPERTY TAX REVENUE FROM OPERATING MILLAGE**

<table>
<thead>
<tr>
<th></th>
<th>’11</th>
<th>’12</th>
<th>’13</th>
<th>’14</th>
<th>’15</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$28,008,000</td>
<td>$28,654,000</td>
<td>$29,316,000</td>
<td>$29,996,000</td>
<td>$30,694,000</td>
</tr>
</tbody>
</table>

**DIFFERENCE**

<table>
<thead>
<tr>
<th></th>
<th>’11</th>
<th>’12</th>
<th>’13</th>
<th>’14</th>
<th>’15</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$13,330,000</td>
<td>$13,392,000</td>
<td>$13,450,000</td>
<td>$13,502,000</td>
<td>$13,550,000</td>
</tr>
</tbody>
</table>

**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 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

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24

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**plante**
**moran**
<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Ann Arbor resident income subject to tax</td>
<td>$3,430,891,951</td>
<td>$3,471,376,476</td>
<td>$3,512,338,719</td>
<td>$3,553,784,316</td>
<td>$3,595,718,970</td>
</tr>
<tr>
<td><strong>RESIDENT - WORKS IN ANN ARBOR</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Number of Ann Arbor residents working in Ann Arbor</td>
<td>38,149</td>
<td>38,149</td>
<td>38,146</td>
<td>38,144</td>
<td>38,143</td>
</tr>
<tr>
<td>Divide: Total number of Ann Arbor residents who work</td>
<td>60,771</td>
<td>60,768</td>
<td>60,766</td>
<td>60,763</td>
<td>60,761</td>
</tr>
<tr>
<td>Percent of &quot;Ann Arbor residents working in Ann Arbor&quot; to &quot;total AA resident workers&quot; Times: Total Income subject to tax</td>
<td>62.78%</td>
<td>62.78%</td>
<td>62.78%</td>
<td>62.78%</td>
<td>62.78%</td>
</tr>
<tr>
<td>Income subject to tax - residents working in Ann Arbor</td>
<td>$2,153,755,767</td>
<td>$2,179,170,085</td>
<td>$2,204,884,292</td>
<td>$2,230,901,926</td>
<td>$2,257,226,569</td>
</tr>
<tr>
<td>Less: Personal exemptions (Exemption Amt * # of Residents working in Ann Arbor * Average Family Size)</td>
<td>$114,447,143</td>
<td>$114,442,565</td>
<td>$114,437,987</td>
<td>$114,433,410</td>
<td>$114,428,832</td>
</tr>
<tr>
<td>Less: Additional exemptions for Seniors</td>
<td>$12,133,144</td>
<td>$12,836,866</td>
<td>$13,581,405</td>
<td>$14,369,126</td>
<td>$15,208,000</td>
</tr>
<tr>
<td>Taxable income before discount factor</td>
<td>$2,027,175,680</td>
<td>$2,051,890,653</td>
<td>$2,076,864,900</td>
<td>$2,102,099,390</td>
<td>$2,127,589,737</td>
</tr>
<tr>
<td>Discount factor</td>
<td>85%</td>
<td>85%</td>
<td>85%</td>
<td>85%</td>
<td>85%</td>
</tr>
<tr>
<td>Estimated taxable income</td>
<td>$1,723,099,158</td>
<td>$1,744,107,055</td>
<td>$1,765,335,165</td>
<td>$1,786,784,482</td>
<td>$1,808,451,276</td>
</tr>
<tr>
<td><strong>Estimated tax yield (1.0%)</strong></td>
<td>$17,230,992</td>
<td>$17,441,071</td>
<td>$17,653,352</td>
<td>$17,867,845</td>
<td>$18,084,513</td>
</tr>
<tr>
<td><strong>RESIDENT - WORKS IN DETROIT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total number of Ann Arbor residents commuting to Detroit</td>
<td>1,218</td>
<td>1,218</td>
<td>1,218</td>
<td>1,218</td>
<td>1,218</td>
</tr>
<tr>
<td>Divide: Total number of Ann Arbor residents who work</td>
<td>60,771</td>
<td>60,768</td>
<td>60,766</td>
<td>60,763</td>
<td>60,761</td>
</tr>
<tr>
<td>Percent of &quot;Ann Arbor residents commuting to Detroit&quot; to &quot;total AA workers&quot; Times: Total Income subject to tax</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
</tr>
<tr>
<td>Income subject to tax - residents working in Detroit</td>
<td>$68,773,411</td>
<td>$69,584,937</td>
<td>$70,406,039</td>
<td>$71,236,830</td>
<td>$72,077,425</td>
</tr>
<tr>
<td>Less: Personal exemptions (Exemption Amt * # of Residents Commuting to Detroit * Average Family Size)</td>
<td>$3,654,509</td>
<td>$3,654,363</td>
<td>$3,654,217</td>
<td>$3,654,071</td>
<td>$3,653,925</td>
</tr>
<tr>
<td>Taxable income before discount factor &amp; credit for income tax paid to another city</td>
<td>$65,118,901</td>
<td>$65,930,574</td>
<td>$66,751,822</td>
<td>$67,582,760</td>
<td>$68,423,501</td>
</tr>
<tr>
<td>Discount factor</td>
<td>85.00%</td>
<td>85.00%</td>
<td>85.00%</td>
<td>85.00%</td>
<td>85.00%</td>
</tr>
<tr>
<td>Estimated taxable income before credit for income tax paid to another city</td>
<td>$55,351,066</td>
<td>$56,040,988</td>
<td>$56,739,049</td>
<td>$57,445,346</td>
<td>$58,159,975</td>
</tr>
<tr>
<td>Estimated tax yield (1.0%) before credit for income tax paid to another city</td>
<td>$553,511</td>
<td>$560,410</td>
<td>$567,390</td>
<td>$574,453</td>
<td>$581,600</td>
</tr>
<tr>
<td>Less: Credit for income tax paid to the City of Detroit (Average Salary in Detroit Area - Exemptions * Detroit non-resident tax rate of 1.025% * Number of residents commuting to Detroit)</td>
<td>$632,103</td>
<td>$639,647</td>
<td>$647,279</td>
<td>$655,001</td>
<td>$662,814</td>
</tr>
<tr>
<td>Estimated tax yield after credit for taxes paid to another city</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
# CITY OF ANN ARBOR, MICHIGAN

## Income Tax Feasibility Study
### Appendices A-3
### July 2009

<table>
<thead>
<tr>
<th>RESIDENT - WORKS IN NON-TAXING CITY</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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<td>38,146</td>
<td>38,144</td>
<td>38,143</td>
<td>38,143</td>
</tr>
<tr>
<td>Less: number of Ann Arbor residents commuting to Detroit</td>
<td>2,128</td>
<td>2,128</td>
<td>2,128</td>
<td>2,128</td>
<td>2,128</td>
</tr>
<tr>
<td>Equals total number of City residents commuting to a non-taxing city</td>
<td>21,403</td>
<td>21,403</td>
<td>21,402</td>
<td>21,401</td>
<td>21,400</td>
</tr>
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</tr>
<tr>
<td>Percent of &quot;Ann Arbor resident commuters to non-taxing cities&quot; to &quot;total AA workers&quot;</td>
<td>35.22%</td>
<td>35.22%</td>
<td>35.22%</td>
<td>35.22%</td>
<td>35.22%</td>
</tr>
<tr>
<td>Times: Total Income subject to tax</td>
<td>$3,430,891,951</td>
<td>$3,471,376,476</td>
<td>$3,512,338,719</td>
<td>$3,553,784,316</td>
<td>$3,595,718,970</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income subject to tax - residents working in non-taxing city</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,208,362,774</td>
<td>$1,222,621,455</td>
<td>$1,237,048,388</td>
<td>$1,251,645,559</td>
<td>$1,266,414,976</td>
<td></td>
</tr>
<tr>
<td>Less: Personal exemptions (Exemption Amt * Number of residents commuting to non-taxing city)</td>
<td>64,210,469</td>
<td>64,207,900</td>
<td>64,205,332</td>
<td>64,202,764</td>
<td>64,200,196</td>
</tr>
<tr>
<td>Taxable income before discount factor</td>
<td>1,144,152,305</td>
<td>1,158,413,544</td>
<td>1,172,843,056</td>
<td>1,187,442,795</td>
<td>1,202,214,781</td>
</tr>
<tr>
<td>Discount factor</td>
<td>85.00%</td>
<td>85.00%</td>
<td>85.00%</td>
<td>85.00%</td>
<td>85.00%</td>
</tr>
<tr>
<td>Estimated taxable income</td>
<td>972,529,459</td>
<td>984,651,521</td>
<td>996,916,597</td>
<td>1,009,326,376</td>
<td>1,021,882,564</td>
</tr>
<tr>
<td>Estimated tax yield (1.0%)</td>
<td>$9,725,295</td>
<td>$9,846,515</td>
<td>$9,969,166</td>
<td>$10,093,264</td>
<td>$10,218,826</td>
</tr>
</tbody>
</table>

## NON-RESIDENT - WORKS IN ANN ARBOR (COMMUTERS)

<table>
<thead>
<tr>
<th>Number of commuters into Ann Arbor- estimated U of M commuters</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>20,952</td>
<td>20,952</td>
<td>20,952</td>
<td>20,952</td>
<td>20,952</td>
<td></td>
</tr>
<tr>
<td>Number of commuters into Ann Arbor- estimated other commuters (balance)</td>
<td>54,301</td>
<td>55,437</td>
<td>56,583</td>
<td>57,742</td>
<td>58,912</td>
</tr>
<tr>
<td>Total number of commuters into Ann Arbor</td>
<td>75,253</td>
<td>76,389</td>
<td>77,535</td>
<td>78,694</td>
<td>79,864</td>
</tr>
<tr>
<td>Times: Average salary - U of M</td>
<td>60,809</td>
<td>61,526</td>
<td>62,252</td>
<td>62,987</td>
<td>63,730</td>
</tr>
<tr>
<td>Times: Average salary - Ann Arbor</td>
<td>51,802</td>
<td>52,413</td>
<td>53,031</td>
<td>53,657</td>
<td>54,290</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income subject to tax - non-resident workers in AA</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4,086,946,612</td>
<td>$4,194,689,819</td>
<td>$4,305,008,083</td>
<td>$4,417,960,352</td>
<td>$4,533,606,900</td>
<td></td>
</tr>
<tr>
<td>Less: Personal exemptions (Exemption Amt * Number of commuters * Avg family size)</td>
<td>225,759,184</td>
<td>229,165,826</td>
<td>232,606,487</td>
<td>236,081,509</td>
<td>239,591,236</td>
</tr>
<tr>
<td>Taxable income before discount factor</td>
<td>3,861,187,428</td>
<td>3,965,523,994</td>
<td>4,072,401,595</td>
<td>4,181,878,843</td>
<td>4,294,015,664</td>
</tr>
<tr>
<td>Discount factor</td>
<td>75.00%</td>
<td>75.00%</td>
<td>75.00%</td>
<td>75.00%</td>
<td>75.00%</td>
</tr>
<tr>
<td>Estimated taxable income</td>
<td>2,895,890,571</td>
<td>2,974,142,995</td>
<td>3,054,301,197</td>
<td>3,136,409,132</td>
<td>3,220,511,748</td>
</tr>
<tr>
<td>Estimated tax yield (1.5%)</td>
<td>$14,479,453</td>
<td>$14,870,715</td>
<td>$15,271,506</td>
<td>$15,682,046</td>
<td>$16,102,559</td>
</tr>
</tbody>
</table>

## CORPORATE

<table>
<thead>
<tr>
<th>Estimated tax yield</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
</table>
(1) Total resident income subject to tax was provided by the State of Michigan Department of Treasury based on 2006 income tax returns for individuals with Ann Arbor zip codes. Since the City shares several zip codes with neighboring townships, we contacted the post office to determine what percentage of each zip code correlates to parcels in the City limits. The following is a breakdown of the zip codes and the related percentage attributed to Ann Arbor:

- 48103 - 66%
- 48104 - 95%
- 48105 - 50%
- 48106 - 100%
- 48107 - 100%
- 48108 - 50%
- 48109 - 100%
- 48113 - 100%

The 2006 amounts were increased or decreased by the following percentages to update the amount to current year values - 2% for 2007, 2.5% for 2008, and (1%) for 2009.

(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 2007, updated to current levels assuming 1.18% 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 were 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 used was kept consistent from the 2004 income tax study. The factor was calculated based on results of the 2003 tax year as reported by other Michigan cities surveyed as part of the original project compared to our projection of tax revenue for those cities using this model. This discount factor is provided in the model to provide a level of conservatism in our estimates.

(6) Information obtained from U of M. Number of non-resident employees were provided to us by salary range at the University. This number of employees was taken times the midpoint of each salary range and divided by the total number of employees to calculate the average U of M salary.
CITY OF ANN ARBOR
Projected Revenue
Property Tax (Operating Millage) Compared to Income Taxes ($1000 Exemption Level)

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Tax Revenue (net of admin costs)</td>
<td>$41,338,000</td>
<td>$42,046,000</td>
<td>$42,766,000</td>
<td>$43,498,000</td>
<td>$44,244,000</td>
</tr>
<tr>
<td>Property Tax Revenue (incl. 1% admin fee)</td>
<td>$28,400,000</td>
<td>$28,008,000</td>
<td>$28,654,000</td>
<td>$29,316,000</td>
<td>$29,996,000</td>
</tr>
</tbody>
</table>
**CITY OF ANN ARBOR, MICHIGAN**

**Income Tax Feasibility Study**  
Appendices A-4  
July 2009

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**CITY OF ANN ARBOR**  
**INCOME TAX FEASIBILITY STUDY**  
**ESTIMATED INCOME TAX EXPECTANCY - EXECUTIVE SUMMARY**  
**EXEMPTION LEVEL: $3000**

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resident income tax yield</td>
<td>$23,713,000</td>
<td>$24,032,000</td>
<td>$24,355,000</td>
<td>$24,680,000</td>
<td>$25,008,000</td>
</tr>
<tr>
<td>Non-Resident income tax yield</td>
<td>12,786,000</td>
<td>13,152,000</td>
<td>13,527,000</td>
<td>13,911,000</td>
<td>14,306,000</td>
</tr>
<tr>
<td>Corporate income tax yield</td>
<td>3,340,000</td>
<td>3,383,000</td>
<td>3,427,000</td>
<td>3,472,000</td>
<td>3,517,000</td>
</tr>
<tr>
<td><strong>TOTAL INCOME TAX EXPECTANCY</strong></td>
<td>39,839,000</td>
<td>40,567,000</td>
<td>41,309,000</td>
<td>42,063,000</td>
<td>42,831,000</td>
</tr>
<tr>
<td>Cost of administration - percent of total collections ** = 7.68%**</td>
<td>3,058,000</td>
<td>3,114,000</td>
<td>3,171,000</td>
<td>3,229,000</td>
<td>3,288,000</td>
</tr>
<tr>
<td><strong>INCOME TAX EXPECTANCY - NET OF ADMINISTRATION COST</strong></td>
<td>$36,781,000</td>
<td>$37,453,000</td>
<td>$38,138,000</td>
<td>$38,834,000</td>
<td>$39,543,000</td>
</tr>
<tr>
<td><strong>PROJECTED PROPERTY TAX REVENUE FROM OPERATING MILLAGE</strong></td>
<td>$28,008,000</td>
<td>$28,654,000</td>
<td>$29,316,000</td>
<td>$29,996,000</td>
<td>$30,694,000</td>
</tr>
<tr>
<td><strong>DIFFERENCE</strong></td>
<td>$8,773,000</td>
<td>$8,799,000</td>
<td>$8,822,000</td>
<td>$8,838,000</td>
<td>$8,849,000</td>
</tr>
</tbody>
</table>

**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 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 ANN ARBOR, MICHIGAN

**Income Tax Feasibility Study**

**Appendices A-4**

**July 2009**

---

**CITY OF ANN ARBOR**

**INCOME TAX FEASIBILITY STUDY**

**ESTIMATED INCOME TAX EXPECTANCY - DETAILED CALCULATION**

**EXEMPTION LEVEL: $3000**

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Ann Arbor resident income subject to tax</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>RESIDENT - WORKS IN ANN ARBOR</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Number of Ann Arbor residents working in Ann Arbor</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>38,149</td>
<td>38,148</td>
<td>38,146</td>
<td>38,144</td>
<td>38,143</td>
</tr>
<tr>
<td><strong>Divide: Total number of Ann Arbor residents who work</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>60,721</td>
<td>60,726</td>
<td>60,766</td>
<td>60,763</td>
<td>60,761</td>
</tr>
<tr>
<td><strong>Percent of &quot;Ann Arbor residents working in Ann Arbor&quot; to &quot;total AA resident workers&quot;</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>62.78%</td>
<td>62.78%</td>
<td>62.78%</td>
<td>62.78%</td>
<td>62.78%</td>
</tr>
<tr>
<td><strong>Times: Total Income subject to tax</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Income subject to tax - residents working in Ann Arbor</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,153,755,767</td>
<td>2,179,170,085</td>
<td>2,204,884,292</td>
<td>2,230,901,926</td>
<td>2,257,226,569</td>
</tr>
<tr>
<td><strong>Less: Personal exemptions (Exemption Amt * # of Residents working in Ann Arbor</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>* Average Family Size</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>343,241,429</td>
<td>343,327,695</td>
<td>343,313,962</td>
<td>343,300,229</td>
<td>343,286,497</td>
</tr>
<tr>
<td><strong>Less: Additional exemptions for Seniors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>36,399,432</td>
<td>38,510,599</td>
<td>40,744,214</td>
<td>43,107,378</td>
<td>45,624,000</td>
</tr>
<tr>
<td><strong>Taxable income before discount factor</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$1,774,014,906</td>
<td>$1,797,331,791</td>
<td>$1,820,832,116</td>
<td>$1,844,494,319</td>
<td>$1,868,316,072</td>
</tr>
<tr>
<td><strong>Discount factor</strong></td>
<td>85%</td>
<td>85%</td>
<td>85%</td>
<td>85%</td>
<td>85%</td>
</tr>
<tr>
<td><strong>Estimated taxable income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$1,507,912,670</td>
<td>$1,527,732,022</td>
<td>$1,547,792,199</td>
<td>$1,567,820,171</td>
<td>$1,588,048,661</td>
</tr>
<tr>
<td><strong>Estimated tax yield (1.0%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$15,079,127</td>
<td>$15,277,320</td>
<td>$15,477,202</td>
<td>$15,678,202</td>
<td>$15,880,687</td>
</tr>
<tr>
<td><strong>RESIDENT - WORKS IN DETROIT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total number of Ann Arbor residents commuting to Detroit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>61,928</td>
<td>61,927</td>
<td>61,926</td>
<td>61,924</td>
<td>61,922</td>
</tr>
<tr>
<td><strong>Divide: Total number of Ann Arbor residents who work</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>60,721</td>
<td>60,726</td>
<td>60,766</td>
<td>60,763</td>
<td>60,761</td>
</tr>
<tr>
<td><strong>Percent of &quot;Ann Arbor residents commuting to Detroit&quot; to &quot;total AA workers&quot;</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
</tr>
<tr>
<td><strong>Times: Total Income subject to tax</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Income subject to tax - residents working in Detroit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>68,773,411</td>
<td>69,584,937</td>
<td>70,406,039</td>
<td>71,236,830</td>
<td>72,077,425</td>
</tr>
<tr>
<td><strong>Less: Personal exemptions (Exemption Amt * # of Residents Commuting to Detroit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>* Average Family Size</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>10,963,528</td>
<td>10,963,089</td>
<td>10,962,651</td>
<td>10,962,212</td>
<td>10,961,774</td>
</tr>
<tr>
<td><strong>Taxable income before discount factor &amp; credit for income tax paid to another city</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>57,809,883</td>
<td>58,621,848</td>
<td>59,443,389</td>
<td>60,274,618</td>
<td>61,115,651</td>
</tr>
<tr>
<td><strong>Discount factor</strong></td>
<td>85.00%</td>
<td>85.00%</td>
<td>85.00%</td>
<td>85.00%</td>
<td>85.00%</td>
</tr>
<tr>
<td><strong>Estimated taxable income before credit for income tax paid to another city</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>49,130,401</td>
<td>49,820,871</td>
<td>50,526,880</td>
<td>51,233,426</td>
<td>51,948,304</td>
</tr>
<tr>
<td><strong>Estimated tax yield (1.0%) before credit for income tax paid to another city</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>491,384</td>
<td>498,286</td>
<td>505,269</td>
<td>512,334</td>
<td>519,483</td>
</tr>
<tr>
<td><strong>Less: Credit for income tax paid to the City of Detroit (Average Salary in Detroit Area - Exemptions * Detroit non-resident tax rate of 1.025% * Number of residents commuting to Detroit)</strong>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>632,103</td>
<td>639,647</td>
<td>647,279</td>
<td>655,001</td>
<td>662,814</td>
</tr>
<tr>
<td><strong>Estimated tax yield after credit for taxes paid to another city</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-</td>
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<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
**City of Ann Arbor, Michigan**

**Income Tax Feasibility Study**

**Appendices A-4**

**July 2009**

<table>
<thead>
<tr>
<th>RESIDENT - WORKS IN NON-TAXING CITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of Ann Arbor residents who work</td>
</tr>
<tr>
<td>Less: number of Ann Arbor residents working in Ann Arbor</td>
</tr>
<tr>
<td>Less: number of Ann Arbor residents commuting to Detroit</td>
</tr>
</tbody>
</table>

Equals total number of City residents commuting to a non-taxing city

<table>
<thead>
<tr>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>60,771</td>
<td>60,768</td>
<td>60,766</td>
<td>60,763</td>
<td>60,761</td>
</tr>
<tr>
<td>38,149</td>
<td>38,148</td>
<td>38,146</td>
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</tbody>
</table>

Divide: Total number of Ann Arbor residents who work

| 60,771 | 60,768 | 60,766 | 60,763 | 60,761 |

Percent of "Ann Arbor resident commuters to non-taxing cities" to "total AA workers"

| 35.22% | 35.22% | 35.22% | 35.22% | 35.22% |

Times: Total Income subject to tax


Income subject to tax - residents working in non-taxing city

| $1,208,362,774 | $1,222,621,455 | $1,237,048,388 | $1,251,645,559 | $1,266,414,976 |

Less: Personal exemptions (Exemption Amt * Number of residents commuting to non-taxing city * Average Family Size)

| $192,631,406 | $192,623,701 | $192,615,996 | $192,608,291 | $192,600,587 |

Taxable income before discount factor

| $1,015,731,368 | $1,029,997,754 | $1,044,432,392 | $1,059,037,268 | $1,073,814,390 |

Discount factor

| 85.00% | 85.00% | 85.00% | 85.00% | 85.00% |

Estimated taxable income

| $863,371,663 | $875,498,091 | $887,767,533 | $900,181,678 | $912,742,231 |

**Estimated tax yield (1.0%)**

| $8,633,717 | $8,754,981 | $8,877,675 | $9,001,817 | $9,127,422 |

**NON-RESIDENT - WORKS IN ANN ARBOR (COMMUTERS)**

Number of commuters into Ann Arbor - estimated U of M commuters

| 20,952 | 20,952 | 20,952 | 20,952 | 20,952 |

Number of commuters into Ann Arbor - estimated other commuters (balance)

| 54,301 | 55,437 | 56,583 | 57,742 | 58,912 |

Total number of commuters into Ann Arbor

| 75,253 | 76,389 | 77,535 | 78,694 | 79,864 |

Times: Average salary - U of M

| 60,809 | 61,526 | 62,252 | 62,987 | 63,730 |

Times: Average salary - Ann Arbor

| 51,802 | 52,413 | 53,021 | 53,657 | 54,290 |

Income subject to tax - non-resident workers in AA

| $4,086,946,612 | $4,194,689,819 | $4,305,008,083 | $4,417,960,352 | $4,533,606,900 |

Less: Personal exemptions (Exemption Amt * Number of commuters * Avg family size)

| $677,277,553 | $687,497,477 | $697,819,461 | $708,244,528 | $718,773,708 |

Taxable income before discount factor

| $3,409,669,059 | $3,507,192,343 | $3,607,188,621 | $3,709,715,824 | $3,814,833,192 |

Discount factor

| 75.00% | 75.00% | 75.00% | 75.00% | 75.00% |

Estimated taxable income

| $2,557,251,794 | $2,630,394,257 | $2,705,391,466 | $2,782,286,868 | $2,861,124,894 |

**Estimated tax yield (.5%)**

| $12,786,259 | $13,151,971 | $13,526,957 | $13,911,434 | $14,305,624 |

**CORPORATE**

Estimated tax yield

FOOTNOTE EXPLANATIONS

(1) Total resident income subject to tax was provided by the State of Michigan Department of Treasury based on 2006 income tax returns for individuals with Ann Arbor zip codes. Since the City shares several zip codes with neighboring townships, we contacted the post office to determine what percentage of each zip code correlates to parcels in the City limits. The following is a breakdown of the zip codes and the related percentage attributed to Ann Arbor:

- 48103 - 66%
- 48104 - 95%
- 48105 - 50%
- 48106 - 100%
- 48107 - 100%
- 48108 - 90%
- 48109 - 100%
- 48113 - 100%

The 2006 amounts were increased or decreased by the following percentages to update the amount to current year values - 2% for 2007, 2.5% for 2008, and (1%) for 2009.

(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 2007, updated to current levels assuming 1.18% 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 used was kept consistent from the 2004 income tax study. The factor was calculated based on results of the 2003 tax year as reported by other Michigan cities surveyed as part of the original project compared to our projection of tax revenue for those cities using this model. This discount factor is provided in the model to provide a level of conservatism in our estimates.

(6) Information obtained from U of M. Number of non-resident employees were provided to us by salary range at the University. This number of employees was taken times the midpoint of each salary range and divided by the total number of employees to calculate the average U of M salary.
CITY OF ANN ARBOR
Projected Revenue
Property Tax (Operating Millage) Compared
to Income Taxes ($3000 Exemption Level)

<table>
<thead>
<tr>
<th>Year</th>
<th>Income Tax Revenue (net of admin costs)</th>
<th>Property Tax Revenue (incl. 1% admin fee)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$36,781,000</td>
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<tr>
<td>2012</td>
<td>$37,453,000</td>
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<td>$29,996,000</td>
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CITY OF ANN ARBOR, MICHIGAN

Income Tax Feasibility Study
Appendices A-4
July 2009

CITY OF ANN ARBOR
Projected Shift of Tax Burden
$3000 Exemption Level

*Includes many additional taxpayers

<table>
<thead>
<tr>
<th>Total Taxes Paid</th>
<th>Residents</th>
<th>Non-residents</th>
<th>Corporate</th>
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</table>

- Property Taxes - Operating Millage
- Income Taxes - before admin costs
### Income Tax Feasibility Study

**Appendix B Tax Rate $600**

**July 2009**

<table>
<thead>
<tr>
<th>Taxable Value</th>
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<th>$80,000</th>
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**Assumptions**

City operating millage rate at 6.1682 mils

$600 deduction level per dependent

Deduction based on ability to claim 3 dependents
## Income Tax Feasibility Study
### Appendix B Tax Rate $3000
### July 2009

<table>
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**Assumptions**
- City operating millage rate at 6.1682 mils
- $1,000 deduction level per dependent
- Deduction based on ability to claim 3 dependents
## CITY OF ANN ARBOR, MICHIGAN

### Income Tax Feasibility Study
Appendix B Tax Rate $3000
July 2009

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### Assumptions
- City operating milage rate at 6.1682 mils
- $3,000 deduction level per dependent
- Deduction based on ability to claim 3 dependents