

**ANN ARBOR CITY COUNCIL MINUTES
WORKING SESSION - MONDAY, FEBRUARY 10, 1997**

The working session of the Ann Arbor City Council was called to order at 7:03 p.m. in the City Hall Council Chamber by Mayor Ingrid B. Sheldon.

ROLL CALL OF COUNCIL

PRESENT : Councilmembers Tobi Hanna-Davies, Patricia Vereen-Dixon, David Kwan, Jean Carlberg, Heidi Cowing Herrell, Stephen C. Hartwell, Patrick A. Putman, Christopher Kolb, Elisabeth L. Daley, Mayor Ingrid B. Sheldon, 10.

ABSENT : Councilmember Jane Lumm, 1.

Mayor Sheldon announced that the first half of this working session will be devoted to the presentation and review of the income tax study, which was conducted by Edward Gramlich, Dean of the University of Michigan School of Public Policy, and his graduate students; and that the second half of the working session will focus on the development of a long-term strategic financial plan. The Mayor stated that recent changes in expenses and revenue sources, such as Proposal A and the transfer of responsibilities to local governments, are presenting financial challenges that must be addressed to ensure the future financial health of the City.

INCOME TAX STUDY

Edward Gramlich, Dean of the University of Michigan School of Public Policy, and his graduate students, Karen Gates, Kim Hill, Chris Sauer, Darby Miller Steiger and Meghan Henson, presented a summary of AThe Revenue Impacts of a City Income Tax for Ann Arbor.≡ Mr. Gramlich reported that the purpose of the study was not to support or oppose a city income tax, but to analyze its impact on the City budget and on different categories of individuals in the City. He stated that most of the analysis was based on what is permissible under the city charter, so that a city income tax would require a 6.45 mill reduction in the general operating property tax. Mr. Gramlich pointed out that the students conducted all of the research, wrote the report, and will be making the slide presentation. (Income tax study and slide presentation summary on file in the City Clerk=s Office)

The study's highlights show that a 1% city income tax on residents and corporations and a 0.5% income tax on nonresidents who work in the city, with a \$600 exemption, would provide a steadily growing revenue source for the city, would decrease taxes for businesses and low-income homeowners, and would increase taxes for highest-income homeowners, renters and commuters.

Questions from Council followed the slide presentation. In response to Council interest in higher exemptions and revenue neutral tax rates to ease the burden on lower income people, Mr. Gramlich suggested tying the personal exemption to the state income tax exemption (\$2,400) and then working out the revenue neutral rates. He stated that it would be possible to work out various packages that would be revenue neutral.

The Mayor stated that a public hearing regarding the study will be held in March, and that regional/ward meetings will be planned for interested citizens.

The Mayor declared a recess at 8:31 p.m.

The Mayor again called the meeting to order at 8:44 p.m.

LONG RANGE FINANCIAL PLANNING

City Administrator Neal Berlin and members of the City Strategic Financial Planning Team, Budget Director Alan Burns, Finance Director Dean Moore, and Planning Director Karen Hart, presented a financial assessment of the city for the coming years. (Slide presentation - A Strategic Financial Planning Team Report to Council on file in the City Clerk's Office)

Mr. Burns reported that the overall financial health of the City is currently good, but that the growth rate of expenditures is exceeding the growth rate of revenues in the General Fund. He stated that this trend is due to such factors as property taxes below the rate of inflation, rising population growth, decreased intergovernmental transfer of payment into the city, decline of new construction in the city, removal of property from the tax rolls, wage increases, and rising health care costs for employees and retirees.

The committee's recommendations included the following objectives: maintain a balance of revenues and expenditures, maintain a stable unobligated fund balance within a range of 5% to 15% of the operating expenditures, develop a long-term financial operating and capital financial plan, increase investment in equipment and technology to improve efficiency and service, and maintain the city's high bond

rating. Mr. Burns stated that these objectives should be viewed as a framework for planning and maintaining the City's financial health into the future.

Mr. Burns announced that a long-term financial plan will be presented to City Council for consideration at its February 18 regular session. (Draft A City of Ann Arbor Long-Term Financial Plan and memorandum regarding MML Finance and Taxation Committee Items on file in the City Clerk's Office)

ADJOURNMENT

There being no further business to come before Council, the Mayor declared the meeting adjourned at 9:45 p.m.

W. Northcross
Clerk of the Council

Janet L. Chapin
Recording Secretary