

***City of Alma, Michigan
Income Tax Study***

June 28, 2011

UMBAUGH
6639 Centurion Drive
Suite 100
Lansing, Michigan 48917
Ph: 517-321-0110
Fax: 517-321-8866
www.umbaugh.com



H.J. Umbaugh & Associates
Certified Public Accountants, LLP
6639 Centurion Drive
Suite 100
Lansing, MI 48917
Phone: 517-321-0110
FAX: 517-321-8866

June 28, 2011

Honorable Melvin Nyman, Mayor
and Members of the City Commission
City of Alma
525 East Superior Street
Alma, MI 48801

RE: 2011 Income Tax Study Report

Dear Mayor and Members of the City Commission:

We completed the 2011 income tax study and have compiled our information and findings into this report. Based upon our study we estimate that \$1,574,172 of income tax revenues would be generated from the adoption of a 1% income tax assuming a \$600.00 annual exemption. Other alternatives regarding the annual exemption and the estimated benefit are also contained in this report.

Our findings are based upon information gathered from the Michigan Department of Treasury, Gratiot County, City of Alma, and cities in Michigan who have implemented an income tax.

In the preparation of these schedules, assumptions were made as noted regarding certain future events. As is the case with such assumptions regarding future events and transactions, some or all may not occur as expected, and the resulting differences could be material. We have not examined the underlying assumptions nor have we audited or reviewed the historical data. Consequently, we express no opinion thereon, nor do we have a responsibility to prepare subsequent reports.

We would appreciate your questions or comments on this information and would provide additional information upon request.

Very truly yours,

UMBAUGH

DRAFT

Thomas Traciak

CITY OF ALMA, MICHIGAN

TABLE OF CONTENTS

<u>Page(s)</u>	
2	Introduction
3	Summary of Act 284 of 1964 the “City Income Tax Act”
4	Present Income Tax Environment
5 – 6	Income Tax Study Methodology and Data Sources
7	Observations and Conclusions
8 – 9	Calculation of Estimated Job Income
10	Calculation of Estimated Resident Income Tax Revenues
11	Calculation of Estimated Non-Resident Income Tax Revenues
12	Total Estimated Income Tax Revenues
13	Resident Income Earned Inside the City Tax Revenue Comparison
14	Comparison of Alma Estimates and Sample of Income Tax Collecting Communities
15	Comparison of Estimated Net Income Tax Collections

CITY OF ALMA, MICHIGAN

INTRODUCTION

Purpose and Objectives

We were employed by the City of Alma to complete a study that would provide City officials with revenue and cost estimates regarding the potential implementation of a city-wide income tax. There are three main taxing groups that were analyzed and are treated distinctly under Public Act 284 of 1964 the “City Income Tax Act.” These taxing groups are as follows:

Residents The “Residents” taxing group is defined by the Act as follows: “an individual domiciled in the city. “Domicile” means a place where a person has his true, fixed and permanent home and principal establishment, to which, whenever absent therefrom, he intends to return, and domicile continues until another permanent establishment is established. If an individual, during the taxable year, being a resident becomes a nonresident or vice versa, taxable income shall be determined separately for income in each status.”

Non-Residents The “Non-Residents” taxing group is defined by the Act as follows: “an individual domiciled outside of the city.”

Corporations The “Corporations” taxing group is defined by the Act as follows: “a corporation or a joint stock association organized under the laws of the United States, this state, or any other state, territory, or foreign country or dependency.”

We have provided income tax revenue estimates for Residents and Non-Residents as shown in the following pages. We did not provide an income tax revenue estimate for Corporations within the City due to insufficient data available regarding Corporation net profit estimates. However, data regarding Corporation income tax revenues from one city who responded is provided.

(Subject to the attached letter
of Umbaugh dated June 28, 2011)

CITY OF ALMA, MICHIGAN

SUMMARY OF ACT 284 OF 1964 THE "CITY INCOME TAX ACT"

In preparation of the report we reviewed the ACT and have provided some pertinent parameters and limitations below. We have also provided a full copy of the ACT as appendix A of this report.

Allowable Tax Rates (141.611 Sec. 11)

Subject to the exclusions, adjustments, exemptions, and deductions herein provided, an annual tax of 1% on corporations and resident individuals and of 1/2% on nonresident individuals for general revenue purposes and the purposes provided for in sections 11a and 11b is hereby imposed as an excise on income earned and received on and after the effective date of this ordinance. However, if the governing body of the city adopts a resolution to impose the tax at a lower rate, the tax is hereby imposed at that lower rate. If the tax is imposed at a lower rate, the rate on nonresident individuals shall not exceed 1/2 of the rate on corporations and resident individuals.

Exemptions (141.631 Sec. 31)

An individual taxpayer in computing his or her taxable income is allowed deductions for the full personal and dependency exemptions authorized by the federal internal revenue code or, on the passage of a further ordinance, a deduction of a minimum of \$600.00 for each personal and dependency exemption under the rules for determining exemptions and dependents as provided in the federal internal revenue code. The taxpayer may claim his or her spouse and dependents as exemptions, but if the taxpayer and the spouse are both subject to the tax imposed by this ordinance, the number of exemptions claimed by each of them when added together shall not exceed the total number of exemptions allowed under this ordinance.

Treatment of Taxing Groups

<u>Residents</u>	Applicable Resident income would be taxed at 100% of the tax rate adopted by the City.
<u>Non-Residents</u>	Applicable Non-Resident income would be taxed at 50% of the tax rate adopted.
<u>Corporations</u>	100% of the tax rate adopted tax shall apply on the taxable net profits of a corporation doing business in the City, being levied on such part of the taxable net profits as is earned by the corporation as a result of work done, services rendered and other business activities conducted in the City, as determined in accordance with this ordinance.

(Subject to the attached letter
of Umbaugh dated June 28, 2011)

CITY OF ALMA, MICHIGAN

PRESENT INCOME TAX ENVIRONMENT

(Per Citizens Research Council of Michigan)

<u>City</u>	<u>Year Adopted</u>	<u>Resident Rate</u>	<u>Corporate Rate</u>	<u>Non-Resident Rate</u>
Albion	1972	1.0%	1.0%	0.50%
Battle Creek	1967	1.0%	1.0%	0.50%
Big Rapids	1970	1.0%	1.0%	0.50%
Detroit	1962	2.5%	1.0%	1.25%
Flint	1965	1.0%	1.0%	0.50%
Grand Rapids	1967	1.5%	1.5%	0.75%
Grayling	1972	1.0%	1.0%	0.50%
Hamtramck	1962	1.0%	1.0%	0.50%
Highland Park	1966	2.0%	2.0%	1.00%
Hudson	1971	1.0%	1.0%	0.50%
Ionia	1994	1.0%	1.0%	0.50%
Jackson	1970	1.0%	1.0%	0.50%
Lansing	1968	1.0%	1.0%	0.50%
Lapeer	1967	1.0%	1.0%	0.50%
Muskegon	1993	1.0%	1.0%	0.50%
Muskegon Heights	1990	1.0%	1.0%	0.50%
Pontiac	1968	1.0%	1.0%	0.50%
Port Huron	1969	1.0%	1.0%	0.50%
Portland	1969	1.0%	1.0%	0.50%
Saginaw	1965	1.5%	1.5%	0.75%
Springfield	1989	1.0%	1.0%	0.50%
Walker	1988	1.0%	1.0%	0.50%

Note: Tax rates adopted prior to 1993 may be higher than the 1.0% limit currently in effect.

(Subject to the attached letter
of Umbaugh dated June 28, 2011)

CITY OF ALMA, MICHIGAN

INCOME TAX STUDY METHODOLOGY AND DATA SOURCES

In order to provide City officials with the best estimate possible regarding income tax revenues we employed a number of different calculations and gathered information from various sources. Below is a summary of the methodology and data sources.

Step 1 – Calculate the Estimated Annual Income Generated Within the City

In order to calculate income tax revenues the first calculation had to estimate the amount of income that is being generated within City limits. In order to perform this calculation data regarding employment and median income was obtained from the Gratiot County Economic Profile (the “County”). The number of jobs was then multiplied by the median income to calculate the annual income generated within in City limits. This calculation is shown on pages 8 – 9.

Step 2 – Calculate the Amount of Estimated Income Generated by Residents

Now that the total income generated within the City was calculated, this income needed to be categorized between residents and non-residents due to the different tax rates. In order to do this estimated information was obtained from state of Michigan Department of Treasury (“Treasury”). Treasury was able to provide an estimated income amount generated by the residents of the City. Treasury was also able to provide us with an estimate of the number of dependents reported. Using these estimates the calculated the resident income tax revenue is shown on page 10.

Step 3 – Calculate the Amount of Estimated Income Generated by Non-Residents

The non-resident income estimate employed the two previous calculations. Estimated non-resident income was calculated by taking the total estimated income generated by the City and subtracting the estimated resident income. The resident dependent information gathered from Treasury was used to estimate the number of non-resident dependents. This calculation is shown on page 11.

Step 4 – Calculate Total Income Tax Revenues

In this step the Resident and Non-Resident income estimates were added together to in order to calculate the total estimated income tax revenues, this is shown on page 12.

(Subject to the attached letter
of Umbaugh dated June 28, 2011)

CITY OF ALMA, MICHIGAN

INCOME TAX STUDY METHODOLOGY AND DATA SOURCES

Step 5 – Review Effect of Residents Who Work Outside the City

One of the limiting factors of the income tax revenue calculation regards the assumption that all resident income is generated inside city limits. While this approach is the most conservative, it is also flawed in that there are certainly many people who are residents of the City but work elsewhere. The problem is that the number of residents and the amount of income that fall into this category are undeterminable. Instead what is provided in the report is a chart that presents the effect on income tax revenues if a certain percentage of residents live within the City but work elsewhere. Page 13 presents a chart comparing the estimated income tax revenue and the assumed percentage of residents who work outside the City. Residents who live within the City would be subject to the tax regardless of where they work, therefore as the percentage of residents who work outside the City increases the amount of income tax revenues increase with it.

Step 6 – Check the Reasonableness of the Calculation

Now that the calculation is complete it is important that it is compared to individual similar sized communities and income tax experiences throughout the state of Michigan. Page 14 compares City statistics and income tax revenue estimates to actual data gathered from the cities of Albion, Big Rapids, and Springfield. As shown on page 14 the estimated amount of revenues appears to be in line with the actual data presented. Page 15 compares the estimated amount of revenues to the actual 2009 net collection data reported by the income tax cities of Michigan. Once again the estimated amount of revenues appears to be in line with other experiences in the state of Michigan.

(Subject to the attached letter
of Umbaugh dated June 28, 2011)

CITY OF ALMA, MICHIGAN

OBSERVATIONS AND CONCLUSIONS

The most significant factor in the analysis is residential taxable income. While other studies sometime utilize census data with varying degrees of success, we included actual tax return information obtained from the Michigan Department of Treasury. This approach greatly enhances the reliability of our estimates.

We are not as fortunate with the data for non-resident taxable income. There is no source for obtaining the taxable income for those working in the City who reside outside the City. However we obtained extensive data from the Gratiot County Economic Profile that estimates how many jobs and the income levels are located within the City, and when we apply assumptions about percentage of residents working inside the City versus outside, we can determine the income level of the jobs within the City held by non-residents. While this is not a perfect system it does provide reasonable estimates.

The level of potential corporate taxable income is not independently obtainable. Even if it were possible to look at the financial statements of a particular corporation, it is highly unlikely that it would contain detail regarding the profitability of the company allocated to operations within the City. The City may wish to pursue legal counsel regarding the requirement to levy the income tax on corporations.

When ordering the local units by population and estimated income tax revenue, the City is in line with figures provided by other cities in Michigan. Hence, the comparison to other local units of government levying an income tax tends to support the reasonableness of our estimates.

Finally, there is a cost of administration of an income tax. Based on the estimates provided by City officials and a software company that estimate is \$69,410 annually. However, this would be dependent on the degree of audit and review the City.

(Subject to the attached letter
of Umbaugh dated June 28, 2011)

CITY OF ALMA, MICHIGAN

CALCULATION OF ESTIMATED JOB INCOME
(Per Gratiot County Estimates)

<u>Earnings Category</u>	<u>Number Employed</u>	<u>% Employed</u>	<u>Median Dollars (Average)</u>	<u>Estimated Income</u>	<u>% Income</u>
Agriculture, Forestry, Fishing, Hunting and Mining	5	0.06%	\$27,078	\$135,390	0.07%
Mining, Quarrying, and Oil and Gas Extraction	22	0.28%	35,500	781,000	0.40%
Construction	138	1.77%	37,289	5,145,882	2.65%
Information	22	0.28%	16,490	362,780	0.19%
Manufacturing	1,411	18.13%	31,610	44,601,710	22.93%
Transportation and Warehousing	73	0.94%	31,648	2,310,304	1.19%
Other Services Except Public Administration	380	4.88%	18,531	7,041,780	3.62%
Utilities	2	0.05%	61,000	122,000	0.06%
Wholesale Trade	119	1.53%	34,191	4,068,729	2.09%
Retail Trade	688	8.84%	16,158	11,116,704	5.72%
Accomodation and Food Services	501	6.44%	9,418	4,718,418	2.43%
Finance and Insurance, and Real Estate, Rental, and Leasing	386	4.96%	22,985	8,872,210	4.56%
Arts, Entertainment, Recreation	55	0.71%	20,292	1,116,060	0.57%
Health Care and Social Assistance	2,305	29.62%	23,944	55,190,920	28.38%

(Continued on next page)

(Subject to the attached letter
of Umbaugh dated June 28, 2011)

CITY OF ALMA, MICHIGAN

(Cont'd)

CALCULATION OF ESTIMATED JOB INCOME
(Per Gratiot County Estimates)

<u>Earnings Category</u>	<u>Number Employed</u>	<u>% Employed</u>	<u>Median Dollars (Average)</u>	<u>Estimated Income</u>	<u>% Income</u>
Professional Scientific, and Technical Services	60	0.77%	\$27,202	\$1,632,120	0.84%
Educational Services	1,308	16.81%	24,570	32,137,560	16.52%
Public administration	<u>306</u>	<u>3.93%</u>	49,480	<u>15,140,880</u>	<u>7.78%</u>
Totals	<u><u>7,781</u></u>	<u><u>100.00%</u></u>		<u><u>\$194,494,447</u></u>	<u><u>100.00%</u></u>

(Subject to the attached letter
of Umbaugh dated June 28, 2011)

CITY OF ALMA, MICHIGAN

CALCULATION OF ESTIMATED RESIDENT INCOME TAX REVENUES

Income tax rate:	1.00%	0.80%	0.70%	0.60%	0.50%
Exemption per individual amount:	\$600	\$700	\$800	\$900	\$1,000
<hr/>					
Total estimated resident adjusted gross income [1]	\$130,000,000	\$130,000,000	\$130,000,000	\$130,000,000	\$130,000,000
Less estimated exemptions [2]	(3,870,000)	(4,515,000)	(5,160,000)	(5,805,000)	(6,450,000)
<hr/>					
Sub-totals	126,130,000	125,485,000	124,840,000	124,195,000	123,550,000
Times assumed income tax rate	1.00%	0.80%	0.70%	0.60%	0.50%
<hr/>					
Estimated income tax revenues	<u>\$1,261,300</u>	<u>\$1,003,880</u>	<u>\$873,880</u>	<u>\$745,170</u>	<u>\$617,750</u>
Number of exemptions	6,450	6,450	6,450	6,450	6,450
Times exemption amount	<u>\$600</u>	<u>\$700</u>	<u>\$800</u>	<u>\$900</u>	<u>\$1,000</u>
<hr/>					
Estimated amount of exemptions	<u>\$3,870,000</u>	<u>\$4,515,000</u>	<u>\$5,160,000</u>	<u>\$5,805,000</u>	<u>\$6,450,000</u>

[1] As estimated by the Michigan Department of Treasury.

[2] Calculated as follows:

(Subject to the attached letter
of Umbaugh dated June 28, 2011)

CITY OF ALMA, MICHIGAN

CALCULATION OF ESTIMATED NON-RESIDENT INCOME TAX REVENUES

Income tax rate:	0.50%		0.40%	0.35%	0.30%	0.25%
Exemption per individual amount:	\$600		\$700	\$800	\$900	\$1,000
Total estimated non-resident adjusted gross income [1]	\$64,494,447		\$64,494,447	\$64,494,447	\$64,494,447	\$64,494,447
Less estimated exemptions [2]	(1,920,000)		(2,240,000)	(2,560,000)	(2,880,000)	(3,200,000)
Sub-totals	62,574,447		62,254,447	61,934,447	61,614,447	61,294,447
Times assumed income tax rate	0.50%		0.40%	0.35%	0.30%	0.25%
Estimated income tax revenues	<u>\$312,872</u>		<u>\$249,018</u>	<u>\$216,771</u>	<u>\$184,843</u>	<u>\$153,236</u>

[1] Calculated as follows:

Total estimated income [page 9]	\$194,494,447
Less estimated resident income [page 10]	(130,000,000)
Estimated non-resident income	<u>\$64,494,447</u>

[2] Calculated as follows:

Total estimated resident income	\$130,000,000
Divided by estimated dependents [page 10]	6,450
Estimated income per dependent	<u>\$20,155</u>
Estimated non-resident income	\$64,494,447
Divided by estimated income per dependent	20,155
Estimated non-resident dependents	3,200
Times exemption amount	\$600
Estimated amount of exemptions	<u>\$1,920,000</u>

	\$64,494,447	\$64,494,447	\$64,494,447	\$64,494,447	\$64,494,447
	20,155	20,155	20,155	20,155	20,155
	3,200	3,200	3,200	3,200	3,200
	\$600	\$700	\$800	\$900	\$1,000
	<u>\$1,920,000</u>	<u>\$2,240,000</u>	<u>\$2,560,000</u>	<u>\$2,880,000</u>	<u>\$3,200,000</u>

(Subject to the attached letter
of Umbaugh dated June 28, 2011)

CITY OF ALMA, MICHIGAN

TOTAL ESTIMATED INCOME TAX REVENUES

Resident income tax rate:	1.00%	0.80%	0.70%	0.60%	0.50%
Non-Resident income tax rate:	0.50%	0.40%	0.35%	0.30%	0.25%
Exemption amount:	\$600	\$700	\$800	\$900	\$1,000
<u>Income:</u>					
Resident [1]	\$130,000,000	\$130,000,000	\$130,000,000	\$130,000,000	\$130,000,000
Non Resident [2]	64,494,447	64,494,447	64,494,447	64,494,447	64,494,447
Sub-totals	194,494,447	194,494,447	194,494,447	194,494,447	194,494,447
<u>Less exemptions:</u>					
Resident [1]	(3,870,000)	(4,515,000)	(5,160,000)	(5,805,000)	(6,450,000)
Non Resident [2]	(1,920,000)	(2,240,000)	(2,560,000)	(2,880,000)	(3,200,000)
Sub-totals	(5,790,000)	(6,755,000)	(7,720,000)	(8,685,000)	(9,650,000)
<u>Taxable income:</u>					
Resident [1]	126,130,000	125,485,000	124,840,000	124,195,000	123,550,000
Times tax rate	1.00%	0.80%	0.70%	0.60%	0.50%
Tax receipts	1,261,300	1,003,880	873,880	745,170	617,750
Non-Resident [2]	62,574,447	62,254,447	61,934,447	61,614,447	61,294,447
Times tax rate	0.50%	0.40%	0.35%	0.30%	0.25%
Tax receipts	312,872	249,018	216,771	184,843	153,236
Total tax receipts	\$1,574,172	\$1,252,898	\$1,090,651	\$930,013	\$770,986

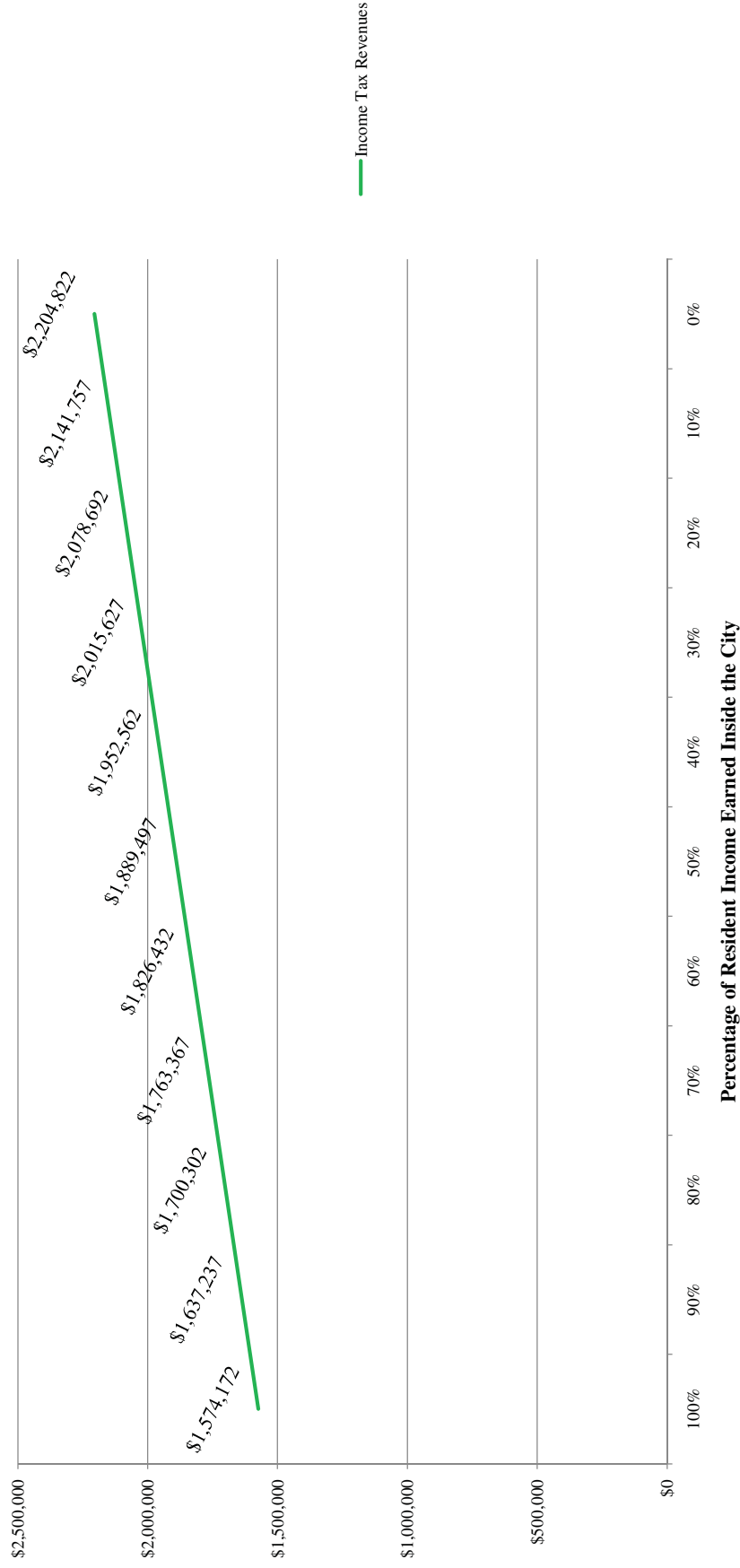
[1] See page 10.

[2] See page 11.

(Subject to the attached letter
of Umbaugh dated June 28, 2011)

City of Alma

Resident Income Earned Inside the City Tax Revenue Comparison



(Subject to the attached letter
of Umbaugh dated June 28, 2011)

CITY OF ALMA, MICHIGAN

**COMPARISON OF ALMA ESTIMATES AND SAMPLE
OF INCOME TAX COLLECTING COMMUNITIES**
(Estimates provided by city officials)

	<u>Estimated Alma</u>	<u>Albion</u>	<u>Big Rapids</u>	<u>Springfield</u>
Population	9,383	8,616	10,601	5,260
Resident tax rate	1.00%	1.00%	1.00%	1.00%
Non-resident tax rate	0.50%	0.50%	0.50%	0.50%
Tax collections				
Resident	\$1,261,300	\$896,579	\$407,000	\$416,000
Non-Resident	312,872	85,941	1,443,000	328,000
Corporate				56,000
Estimated collections	<u>\$1,574,172</u>	<u>\$982,520</u>	<u>\$1,850,000</u>	<u>\$800,000</u>
Annual cost of operations	<u>\$69,410</u> [1]	<u>\$63,000</u>	<u>\$100,000</u>	<u>\$88,000</u>
[1] Per City officials and software cost estimate.				
Assumed employee wages and benefits	\$43,000			
Annual software maintenance	<u>26,410</u>			
Total estimated operating costs	<u>\$69,410</u>			

(Subject to the attached letter
of Umbaugh dated June 28, 2011)

CITY OF ALMA, MICHIGAN

COMPARISON OF ESTIMATED NET INCOME TAX COLLECTIONS
(Per Citizens Research Council of Michigan)

<u>Population Comparison</u>		<u>Collections Comparison</u>	
<u>City</u>	<u>Population</u>	<u>City</u>	<u>2009 Net Collections</u>
Detroit	713,777	Detroit	\$227,769,918
Grand Rapids	188,040	Grand Rapids	51,279,277
Lansing	114,297	Lansing	28,743,034
Flint	102,434	Flint	14,512,261
Pontiac	59,515	Saginaw	12,174,977
Battle Creek	52,347	Battle Creek	11,605,677
Saginaw	51,508	Pontiac	9,624,237
Muskegon	38,401	Walker	7,551,285
Jackson	33,534	Jackson	6,942,669
Port Huron	30,184	Muskegon	6,654,659
Walker	23,537	Port Huron	5,508,396
Hamtramck	22,423	Lapeer	2,267,701
Highland Park	11,776	Hamtramck	2,189,141
Ionia	11,394	Highland Park	2,019,423
Muskegon Heights	10,856	Big Rapids	1,717,415
Big Rapids	10,601	Alma (estimated)	1,504,762
Alma	9,383	Ionia	1,325,260
Lapeer	8,841	Albion	973,740
Albion	8,616	Portland	739,449
Springfield	5,260	Muskegon Heights	720,000
Portland	3,883	Springfield	673,814
Hudson	2,307	Grayling	331,443
Grayling	1,884	Hudson	128,492

(Subject to the attached letter
of Umbaugh dated June 28, 2011)