

MICHIGAN STATE UNIVERSITY

October 27, 2017

To: Faculty Governance

From: Mark Burnham, Vice President Governmental Affairs

Subject: East Lansing Income Tax Proposal

As you are undoubtedly aware, the City of East Lansing has placed the question of adopting a local income tax on the November ballot. We are writing this letter to better inform you of the particulars, and how it may affect you.

Specifically, the City is proposing to impose a 1% income tax on residents of East Lansing and companies that do business in East Lansing, and a 0.5% income tax on non-residents who work in East Lansing. This is combined with a proposed property tax reduction for East Lansing homeowners. This is intended to offset the income tax for most residents. In a separate action, the City Council adopted a measure that would exempt individuals whose adjusted gross income is less than \$5,000 per year from paying the income tax. It is important to note that this exemption amount could change with future City Council action. Additionally, based on State statute, all taxpayers are entitled to a \$600 exemption. It is assumed that the tax will be permanent, as no time limit was included and rescinding it would require a vote of the people.

There are a combination of factors driving this proposal, some of which are beyond the City's control and others, which are not. On the macro level, the twin challenges of the Great Recession back in 2008, which drove property values down substantially, combined with the Headlee Amendment, which limits the growth of taxable value of real property and never envisioned a time when property values would plummet and then bounce back, has dramatically lowered the property taxes the City can collect.

Added to that, the changes in revenue sharing and the elimination of the personal property tax by the State of Michigan have collectively restricted the revenues coming into the City. In addition, the State has not adjusted the fire service grants that help cities that are home to public universities cover the costs of providing fire services. Although there has been a joint fire service chief for Lansing and East Lansing for the last several years, as well as improved cooperation between the two departments, the City has shown very little



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interest in seeking to create a regional fire service or police force with surrounding jurisdictions or to distribute fire assets differently.

Internally, the major factor contributing to the City's supposed need for this new tax is inadequate funding to cover its pension liabilities to retirees. The City continues to operate a defined benefit (pension) program for its employees, and has only in recent years begun to curtail the generosity of those benefits. Unlike the University, which went to defined contributions in 1973 (and presently has a pension obligation of less than \$10 million), the City now has a \$200 million unfunded pension obligation. This is largely driving the income tax proposal, as the requirement to make the minimum payments to meet its pension obligations is steadily diminishing the City's ability to fund its operations.

The question of whether the University costs the City has also been raised in connection with the consideration of the income tax. The short answer is yes, but the University or the State generally tries to address and absorb those costs. As mentioned above, the State provides the City with a fire service grant to cover the expense of providing MSU with fire services. Those grants have not kept pace with increasing costs, but the City also has never sought additional funding from the legislature for those grants. Additionally, MSU pays for all City police overtime for football games (approximately \$50,000 per year) and provides mutual aid, as well as policing, in the City itself. MSU also provides the City access to our gun range, forensic facilities and other specialized equipment they could not otherwise afford to access. Undoubtedly, there are costs associated with being located in close proximity to the University, but there are also many benefits. It should be noted that much of the proposed development in the area has been for additional student housing and businesses catering to students.

You are also likely aware of the University's offer of \$20 million to the City. In reviewing the City's financial health report and tax proposal, it was clear that while some of the problems were self-inflicted, some were brought on by underfunding by the State and other factors beyond the City's control. University administrators believed it would be better for the entire region in the long run if the income tax proposal did not move forward and MSU instead worked to fill in some of the gaps left by the State. Unfortunately, the parties were unable to reach an agreement.

As Election Day approaches, strong voices have emerged with regard to the pros and cons of the income tax proposal. The pro side argues that it would shore up the City's finances and allow the City to maintain its pension program, prevent any changes in operational staffing, repair roads, and enhance its parks, all while lowering property taxes. The con side argues that the proposal is unfair to non-residents, will disproportionately impacts low-income individuals, and will discourage businesses and young families from locating (or remaining) in East Lansing. They argue that over the long term, the proposal will result in a more undergraduate-centered set of businesses in downtown East Lansing. Independent analysis shows that the income tax/property tax trade-off will affect various groups differently. Retired taxpayers who own expensive homes will greatly benefit from the proposal, because pension and retirement

income is not taxed, receiving the largest benefit from the property tax reduction. Conversely, young families with relatively high incomes and starter homes will see their overall tax burden increase. The opponents argue this will result in fewer students in East Lansing Public Schools.

I have attempted to provide a neutral overview of the proposal, including the arguments on both sides of the issue. I hope you find this information helpful. The election will be held on November 7 and I would encourage all who are eligible to vote to do so.

If the proposal passes, you will receive additional information related to determining your income tax liability once the University has worked through the administrative aspects of its implementation.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark A. Burnham", with a long horizontal flourish extending to the right.

Mark A. Burnham
Vice President