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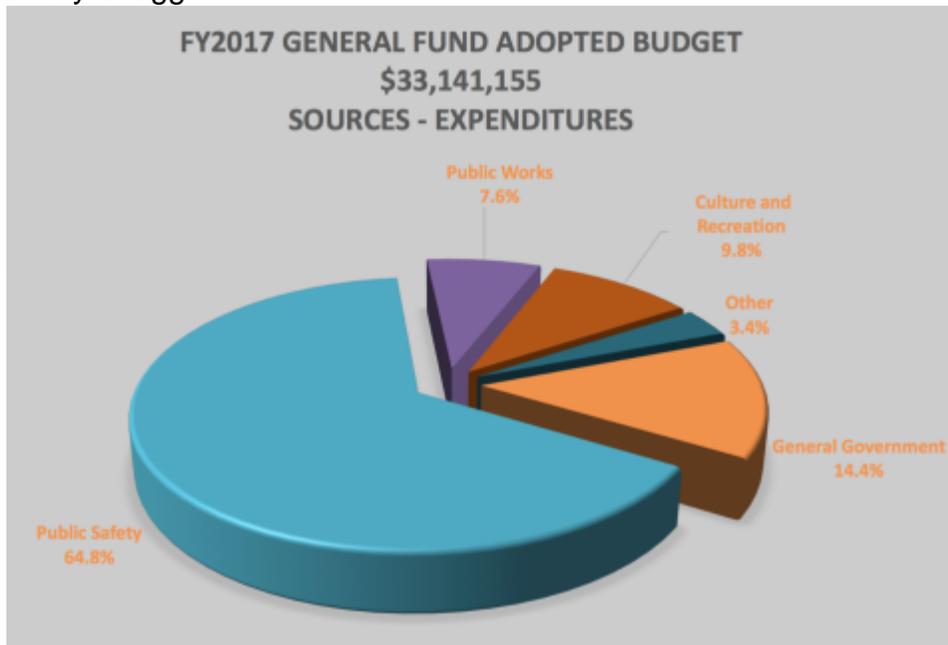
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## City Income Tax to Be on November Ballot with Property Tax Reduction <sup>[1]</sup>

Thursday, June 22, 2017, 8:50 am

**By:**

Jessy Gregg



*Above: A slide from a public presentation by City Manager George Lahanas, showing that public safety is the biggest expenditure in the City. [Click here](#) <sup>[2]</sup> for larger view.*

East Lansing's City Council passed an ordinance <sup>[3]</sup> to adopt the Uniform City Income Tax Ordinance near midnight on Tuesday, June 20, at the second of back-to-back Council meetings. Facing major budgetary problems, Council sees a City income tax as a viable option for keeping City services going.

Although the ordinance was adopted with the Council's unanimous decision, it will not take effect unless the majority of those voting in East Lansing vote "yes" on November 7, 2017. Voters will also be asked to agree to a property tax reduction, which would be contingent on the income tax passing.

Michigan Law allows cities to levy a tax of up to 1% for residents and 0.5% for non-residents whose income is earned within the taxing municipalities borders. (Non-residents can only be required to pay half of whatever a city's residents are required to pay.) Lansing currently has a City income tax, as do Jackson and Grand Rapids.

The suggestion to seek voter approval for an income tax came from the Financial Health Review Team, a volunteer committee that was convened last year to look for solutions for bridging East Lansing's growing budget gap. Because State Law limits the ways in which cities can raise money, East Lansing's two major options for increasing city revenue are an Income tax or increased property taxes.

Following the recommendations of the Financial Health Team (FHT), on Tuesday night, Council adopted a second ordinance <sup>[4]</sup> amending the City Charter to cap City property taxes at 13 mills. This would bring City property taxes down by just under 5 mills. This ordinance would also require a vote before taking effect, and is contingent on a "yes" vote on the income tax.

According to Mayor Pro Tem Ruth Beier, a 5-mill reduction in property taxes would be close to equal to the expense of the income tax for many homeowners in East Lansing. Essentially, this places the net tax burden on people who are working and earning income in the City but not living in owner-occupied properties here.

The decision to reduce property taxes through a Charter Amendment (rather than just through a decision by Council) was a response to criticism, that Council had heard, implying that Council could simply raise property taxes again after temporarily lowering them to get a "yes" on the income tax vote. The only way to increase the property tax cap after the Charter is amended would be by through another round of voter approval.

The estimated net increase in revenue from the income tax is \$10 million dollars, which would fall to about \$4.9 million in net revenue after accounting for the reduction of property taxes.

The meeting on Tuesday about this did not start until 10:30 p.m., because of the lengthy preceding meeting on the City Center Development <sup>[5]</sup>. At public comment on the income tax, an MSU student perspective was provided by Eli Pales, the Community Liaison for Associated Students of Michigan State University (ASMSU).

Pales first specified that ASMSU has not taken a stance on the income tax measure. He then called the tax regressive since packaging it with a property tax reduction ultimately targets renters at a higher rate than property owners, given that landlords would probably choose not to pass property-tax cuts along to renters. Beier agreed with Pales' assumption about this.

One suggestion that has been made for easing the burden on students and other low-income earners is to alter the exemption amount (the amount of income earned before the tax would kick in) so that not as much of their income would be subject to tax.

The report prepared <sup>[6]</sup> in conjunction with the FHT's work estimates tax revenue at several different exemption levels. The lowest exemption of \$600 is set by the adoption of the Universal City Income Tax Ordinance. To change the exemption level, the Council would have to pass amendments to the ordinance, which they have indicated that they will probably do.

An exemption of \$600 would generate about \$10 million in total net revenue, while an exemption level of \$3,000 would generate about \$8.4 million. (Both of those numbers are calculated without the loss of revenue from a property tax roll back.)

At the meeting, Councilmember Shanna Draheim explained the budget gap with a series of graphs. She showed the increasing gap between what Michigan cities have been promised in State Revenue Sharing (whereby cities receive a portion of the taxes and fees collected by the State) and what they are actually receiving. This is a significant problem for all municipalities in Michigan, not just East Lansing.

Draheim also explained that East Lansing should be receiving state funds to offset the cost of the Fire Department that East Lansing operates on MSU's campus, but this has also been only partially funded by the State in preceding years. East Lansing taxpayers are currently paying about \$1.6 million a year to fund emergency services for MSU.

Councilmember Erik Altmann praised the measure as a way to spread out the tax base, with more people paying taxes than currently do. He noted that, under the current plan, the majority of the net new taxes would be paid by people from outside East Lansing.

Because certain types of retirement income such as income drawn from a pension or Social Security would not be subject to the income tax, Altmann suggested that this was a way to give a tax break to a population that "could really use it," namely East Lansing seniors living on fixed incomes who own homes. He said this made the plan a progressive tax, rather than a regressive one.

In a post yesterday <sup>[7]</sup> to Public Response, a public discussion forum, Altmann wrote, "If the proposal fails, we still need to find \$5 million annually if we want to fix the streets and sidewalks and avoid insolvency as our pension payments increase. Finding \$5 million annually in savings will involve substantial cuts to public safety, which is the lion's share of our general fund (about two-thirds)."

City Council asked City staff to prepare a Frequently Asked Questions (FAQ) page for people who have questions about the proposed Income Tax Ordinance before the November Ballot initiative. This will include answers to questions about what types of income will be taxed, and who will owe what.

### **You may also be interested in:**

- Councilmember Erik Altmann's recent post to Public Response on the proposed plan <sup>[7]</sup>
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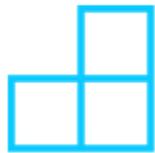
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