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Responding to MSU President, Lahanas Defends City?s Financial Management [1]

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By:

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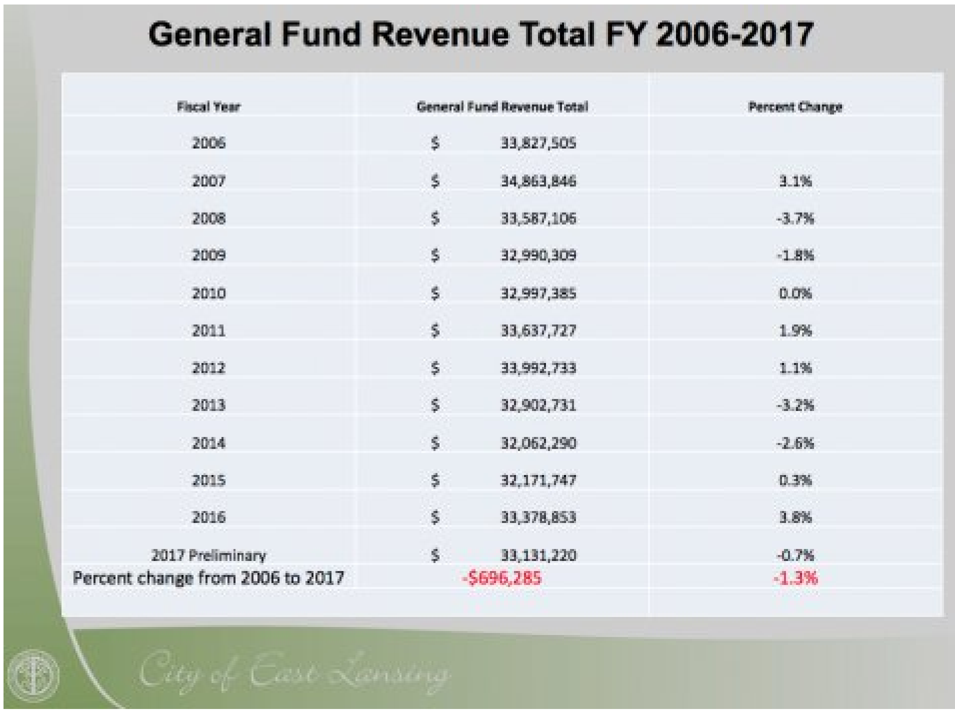
East Lansing City Manager George Lahanas this afternoon responded specifically and strongly to a claim by MSU?s President that the City?s dire financial situation is the result of ?past financial mismanagement.? Meeting with ELi at his request, Lahanas provided a series of figures and graphs from the City?s and the University?s budgets to show why the City is facing a very serious financial crisis, while MSU is not.

As we reported earlier today [2], President Lou Anna K. Simon?s remarks about the City?s alleged financial mismanagement came in the context of her asking the City to back off a plan to institute a city income tax. Simon says the income tax scheme as planned [3] would put 98% of the net new tax burden on MSU employees. Simon claims the income tax would be ?harmful to both the City and the University.?

While Lahanas did not advocate for the proposed income tax during our meeting with him today, he did note that the City?s gross income has actually *dropped* over the last decade. In other words, the City is bringing in *less* money than it did in 2006?down about 1.3% in total, as shown in the following chart provided by Lahanas:


General Fund Revenue Total FY 2006-2017

Fiscal Year	General Fund Revenue Total	Percent Change
2006	$ 33,827,505	
2007	$ 34,863,846	3.1%
2008	$ 33,587,106	-3.7%
2009	$ 32,990,309	-1.8%
2010	$ 32,997,385	0.0%
2011	$ 33,637,727	1.9%
2012	$ 33,992,733	1.1%
2013	$ 32,902,731	-3.2%
2014	$ 32,062,290	-2.6%
2015	$ 32,171,747	0.3%
2016	$ 33,378,853	3.8%
2017 Preliminary	$ 33,131,220	-0.7%
Percent change from 2006 to 2017	-$696,285	-1.3%

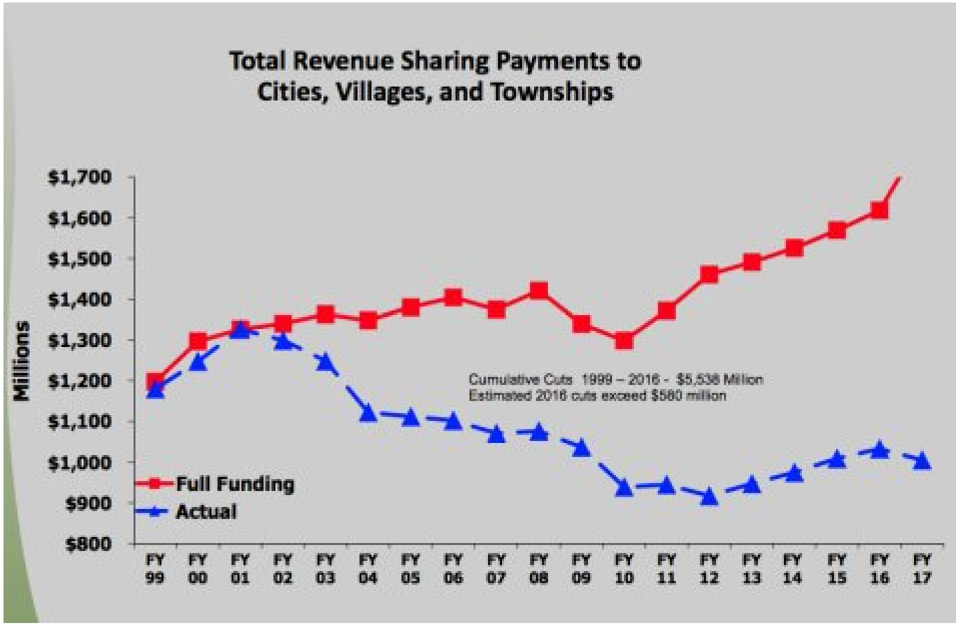
City of East Lansing

(For a larger version of this chart, click here [4].)

The City has been steadily working on reduction of expenditures, given its budget problems. Lahanas notes the City has already reduced its workforce by about 25% from its highpoint. The City has about 120 fewer full-time workers than it did in 2002. The City has also renegotiated contracts to reduce costs and established formal partnerships with other municipalities and nonprofits to reduce various costs.

Meanwhile, many of the sources from which the City obtains income have been generating diminished or flat revenue levels. For example, because of the effects of the recession combined with State law limiting property tax increases, East Lansing?s property tax revenues have not been increasing by much. And of late, court fines collected by the City have actually been decreasing [5].

Additionally, the State of Michigan has not been giving Michigan cities like East Lansing nearly as much money as they would under what mLive has explained [6] would be "the fully-funded statutory revenue sharing model envisioned more than a decade ago." The following graph shows in red what the State of Michigan would be providing to its cities, villages, and townships if it were providing ?full funding.? In blue, you see what the State has actually been providing:



(For a larger version of this chart, click here [7].)

Lahanas noted that MSU has also been suffering from reductions in support from the State. In 2006-07, MSU obtained about $292 million [8] in State appropriations support. By 2016-17, that had dropped to about $276 million [9]?a reduction of about $16 million.

But, Lahanas points out, during that same period, total student fees (tuition and fees) paid by MSU students went from about $447 million to about $948 million?effectively *doubling* MSU?s income from fees during the period in which the City?s income decreased by 1.3%.

Lahanas says that, to understand why the City of East Lansing is in tough shape, you have to understand that about a fifth of its land is occupied by a non-profit institution that brings in tens of thousands of residents and workers needing City services but that doesn?t pay property taxes. In other words, MSU makes East Lansing?s budget tough to manage. [See update below.]

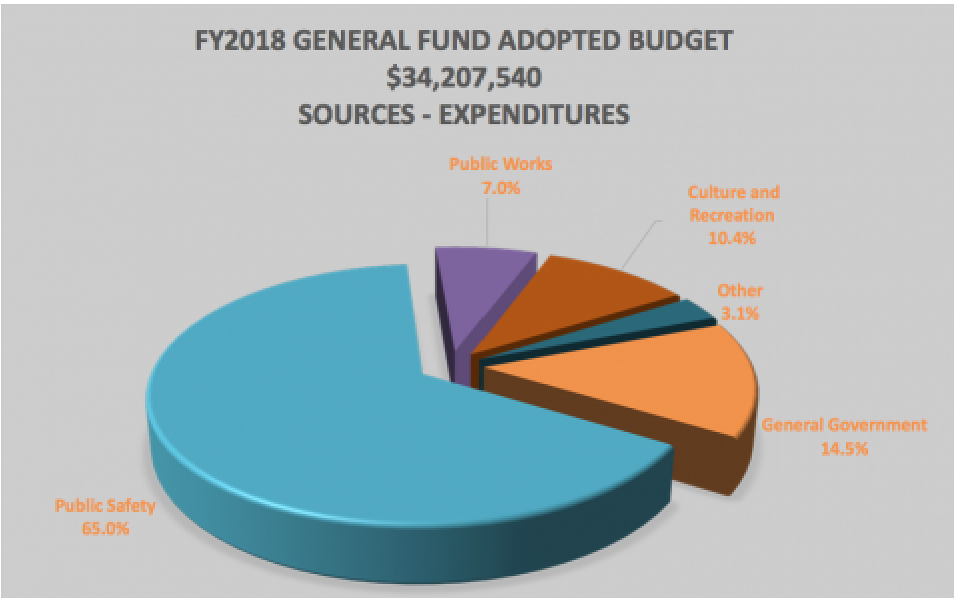
To evidence how MSU leaves East Lansing in a difficult position financially, Lahanas points to a comparison chart [10] that considers ?taxable value per capita.? This is a calculation that compares how big a City?s property tax base is compared to its population. When East Lansing is compared to other Michigan cities, it is shown to be supporting a relatively large population on a relatively small property tax base, putting it in a situation like Lansing and Jackson, both of which have city income taxes.

By comparison, Ann Arbor and Midland have a relatively high taxable value per capita, because they have bigger property tax bases to support their populations. (See chart [11] provided by

Lahanas.)

All in all, Lahanas says, ?It is unfortunate [Simon] would say we are mismanaged. I don?t see that as the case.? He says when you look at Michigan cities across the board, it is clear the problems East Lansing is facing are systemic to Michigan. These problems are only made worse, his data suggest, by East Lansing?s unique position of having so much of its land occupied by such a big nonprofit university, one that generates a lot of public safety costs.

Lahanas offers the following visual to show how much of East Lansing?s budgetary pie Public Safety currently eats up: about 65%.



Who pays for most of that? Property-taxpayers in the City of East Lansing. Property tax revenue accounts for about 49% of the City?s income at the present time.

Says Lahanas of the City?s financial situation, when compared to MSU?s financial situation, ?Our hill to climb is very tough.? He makes it clear he does not believe the City?s situation is the result of mismanagement. And, as he has said frequently in the last year, the City needs to raise revenues to deal with its financial reality, and must do so as soon as possible.

Related ELi reporting:

MSU and East Lansing Play Hardball on Income Tax [2]

City Income Tax to Be on November Ballot with Property Tax Reduction [3]

Will Homeowner's Tax Liability Really Be "Offset"? [12]

Note: After this article was published, the sentence, "Most significantly, under Republican-majority control, the State of Michigan has not been giving Michigan cities nearly as much money as they are supposed to receive" was changed to "Additionally, the State of Michigan has not *been giving Michigan cities like East Lansing nearly as much money as they would under what mLive has explained [6] would be 'the fully-funded statutory revenue sharing model envisioned more than a decade ago.'"*

Additionally, George Lahanas wrote to add the following: "by a measure of taxable value per capita, the City of East Lansing is below the median. Taxable value per capita looks at the overall value of city property and divides that number by the number of residents. This provides a comparative snapshot of a city?s ability to generate sufficient property taxes to provide general fund services. Cities with a high taxable value per capita tend to have large office or industrial uses that add significantly to property value, with few residents. The presence of Michigan State University impacts that calculation because State land is non-taxable, but has a significant number of residents."

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