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Facing ?Staggering? Pension Costs, East Lansing Approaches Major Financial Crisis ^[1]

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By:

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East Lansing Finance Director Jill Feldpausch presented a grim five-year budget forecast to City Council last night, showing the City?s fund balance heading into the red in Fiscal Year 2022. Feldpausch explained to Council that, considering likely revenue and expenses, even with major cuts in personnel and services, the City?s fund balance will soon be slipping to levels ?at which the State would be concerned.?

Given that the City is ?already at bad numbers? in terms of being able to meet its pension and Other Post-Employment Benefits (OPEB) obligations, Feldpausch said the City is looking at ?three strikes against us? in the eyes of the State. The third ?strike? would be for the City to have a ?fund balance? of less than 10% held in reserve. The forecast shows the City above 10% for the next two years, but slipping below that in FY 2021 and future years.

Because of changes in rules which now require that the City?s pension be fully funded by 2040, the City is being required to make ever-larger payments to the Municipal Employees? Retirement System (MERS). According to the forecast presented last night, the City currently has paid into MERS only about 50% of the funds needed to meet its pension obligations.

Feldpausch's report put it plainly: "The projections of our required pension contributions are staggering. City-wide the FY18 required contribution is approximately \$7 million [out of a General Fund budget of about \$34 million] and will continue to rise without significant supplemental contributions, reaching almost \$18 million in FY40."



Feldpausch (above) told Council that voluntary extra payments of \$1 million per year, scheduled for each year in the five-year forecast provided to the Council, is better than nothing, but it is not making a large dent in the problem. City Manager George Lahanas said that figure needed to be closer to \$4 million per year to make any difference. At ELi's request, Councilmember Ruth Beier today obtained for us a chart showing the pension liability and how minimum payments will rise dramatically in the coming years; [click here to see it \[2\]](#).

In a somber discussion that lasted over two hours, Council and senior City staff discussed at length possible budget cuts that could be made over the next two years, including closing the Hannah Community Center in July 2019, cutting funding to area social service organizations from both the General Fund and Community Block Development Grant (CDBG) funding, leasing or selling off City properties, and further reducing staffing levels through attrition and lay-offs.

To help people who may be personally impacted plan for their futures, the City advised workers at Hannah Community Center this week that they may be facing lay-offs at the beginning of the summer of 2019. Today, Deputy City Manager Tim Dempsey is sending out letters to

organizations that may see their funding cut. At last night's meeting, Council discussed one of those cases ? cutting all support to Helping Hands Respite Care [3], which provides day care for children and adults with disabilities in a city-owned building in Valley Court Park.



Under consideration are also further cuts to emergency personnel, and dramatic reductions in capital improvements, including the sidewalk repair program. Council also asked questions about whether the City could reduce parks maintenance, eliminate the police cadet program, stop paying \$15,000 per year for membership in the Lansing Economic Area Partnership (LEAP), and reduce healthcare costs, including for retirees. (Retirees over age 65 use Medicare but also obtain supplemental insurance from the City, including through the City's paying of premiums for Medicare Advantage for them.)

The Council has not voted to implement any of these cuts. Cuts will be acted on during the annual budget process that begins in April.

Several times the cost of the Avondale Square housing project came up. As ELI has reported [4], that project cost \$5 million more than anticipated, and as a consequence it is generating no tax revenues for the general fund, using up about \$75,000 per year of Community Block Development Grant funds, and costing the City an additional \$100,000 per year.



Property tax revenue is not expected to rise dramatically in the near future, in part because many big new developments were funded through Tax Increment Financing (TIF) deals, which divert new tax revenue to pay for the developments rather than bringing in additional taxes to the City's general fund. A notable exception is The Hub ^[5], set to be finished by Fall 2019 and expected to have a taxable value of \$7 million.

The Center City District TIF plan ^[6] diverts all new capturable taxes to pay for that project for thirty years, but will bring in a lease payment of \$200,000 per year ^[7] to the City's general fund after construction, along with anticipated new parking revenue. Feldpausch estimates that the City will be obtaining almost \$1 million in Fiscal Year 2018 from the new BWL franchise fee ^[8] that adds a 5% charge onto East Lansing BWL bills, money that goes back to the City.

City Council will be considering five new tax proposals ^[9] soon, including an income tax and various versions of additional property taxes. The financial forecast presented last night was based on an assumption of no new taxes.

The City is hosting a public engagement forum tomorrow night, Thursday, February 22, from 6:30-8:00 p.m. at the Hannah Community Center. The City's news release ^[10] on this indicates that, at that meeting, "Public Sector Consultants will share the results of the survey that community members filled out at the previous community engagement meetings and online. Additionally, East Lansing City Manager George Lahanas (below) will discuss potential cuts over the next two fiscal years and provide additional information about the potential new revenue options that East

Lansing City Council will be considering.?



The next City Council discussion of new revenue options will be at public hearings ^[11] on these possible tax proposals next Tuesday night, February 27, starting at 7 p.m. The Council does not expect to make any decisions on these proposals that night. Mayor Mark Meadows said last night that Council will need to decide by May 15 what to put on the August 2018 ballot.

None of the presentation materials provided at Council have yet been made available online. Besides the 18-page Long-Term Financial Forecast, a suggested list of budget cuts totaling over \$3 million was presented, along with a draft strategic priorities document with dozens of specific plans for City operations. When these become available, ELi will post links to them.

Update, February 23: ELi resorted to using the Freedom of Information Act (FOIA) to obtain the materials presented at the Council meeting. [Click here to see the Long-Term Financial Forecast FY 2019-23](#) ^[12] and [click here to see the City Manager's budget cut recommendations](#) ^[13].

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[Five New Tax Proposals Now Under Consideration](#) ^[9]

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[10] <https://www.cityofeastlansing.com/CivicAlerts.aspx?AID=680>

[11] <https://www.cityofeastlansing.com/DocumentCenter/View/7042>

[12] http://eastlansinginfo.org/sites/default/files/city_of_east_lansing_long-term_financial_forecast_2019-23.pdf

- [13] http://eastlansinginfo.org/sites/default/files/lahanas_recommended_budget_cuts_february_20_2018.pdf
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