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## Six Residents Tell You How They're Voting on the Income Tax, and Why <sup>[1]</sup>

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**By:**

Alice Dreger, Publisher, and Ann Nichols, Managing Editor



Earlier this month we asked our readers <sup>[2]</sup> to submit entries for an essay contest on the income tax question <sup>[3]</sup> that will appear on the August 7 ballot. Specifically we asked readers leaning strongly ?yes? or strongly ?no? on this issue to submit 500-word essays explaining their reasoning.

Our plan was to have ELi's Community Advisory Board (CAB) select three essays on each side

for publication. We only received three "no" essays, so all three appear below. We received five "yes" essays, and members of the CAB voted on which three to publish. The "no" and "yes" essays appear in an order based on a random drawing. We corrected only typos.

## The "No" Essays

1. *Alec Shrode is a rising senior in Michigan State University's Lyman Briggs College. He works three jobs during the school year to help pay for school—a research assistant, an undergraduate learning assistant, and a pianist for a local church—which would be taxed under this proposal.*

I strongly advocate voting "no" on the income tax proposal because it would be extremely harmful to MSU students, many of whom are already in dire financial situations.

The average college student in the State of Michigan will graduate with over \$30,000 of student loan debt. [4] It is not uncommon to see students working multiple jobs during the school year to help pay for school, from dining hall staff to waiter to TA [teaching assistant]. Students who work these jobs in the city limits would be subject to this new income tax, even though they're just trying to make a little money while they're in school.

"But wait," you say, "what about the \$5,000 exemption? Wouldn't students not have to pay the tax?" If they're listed as a dependent on someone else's tax forms [5], they could be exempt if they make less than \$5,000. But let's take one of those campus dining hall jobs, where wages start at \$9.50/hr. [6] A little back-of-the-envelope calculation: if a student works for \$9.50/hr. for approximately 20 hours a week for approximately 8 four-week months during the school year, their total income would be \$6,080—and they'd have to pay taxes on this whole amount since they wouldn't qualify for the exemption. The \$5,000 exemption would actually not at all help most MSU students avoid being taxed.

Additionally, all MSU students should oppose this income tax because of what it will be used to pay for. And no, I'm not opposed to the 20% that would be used for public safety; I agree that MSU should do more to help compensate the City for these essential services that they provide. [7] I do, however, object to the 60% that would be used to fund pension liabilities. [3] I understand that the City made a promise to their employees that their pension would be paid, but the MSU students of today should not have to pay for the pensions of city employees, especially those who retired long before we even set foot in this town! Additionally, I object to portions of the tax revenue that would fund city recreational facilities: MSU students should not have to fund things like the aquatic center or the Hannah Community Center [8] since we have our own IM facilities right here on campus. I honestly didn't even know that East Lansing had an aquatic center until reading about it in articles about the tax.

And that's just the tip of the iceberg of problems with this proposal? never mind that many students can't even vote on the proposal because they aren't registered to vote in East Lansing or because they (like me) live in an apartment that's just across the city limits so are barred from voting. At the end of the day, this income tax proposal is an ill-disguised attempt to squeeze more money out of MSU students to solve the city's financial problems that were created long before we arrived on campus. I urge you to vote "no."

*2. John Dobrolowski has been a resident of East Lansing on and off ? since the 1970's. He's an MSU graduate, and has recently retired after serving as CFO for several manufacturers in multiple industries and states.*

In regards to the proposed East Lansing city income tax, as a retiree it purportedly would be to my personal financial benefit. That may in fact be so, but I am nevertheless opposed to this income tax increase based on principle.

First, but not foremost, is the insult to taxpayers to know that our civic leaders apparently think we are so ignorant that we got it wrong the last time it came up for vote and it went down in flames.

Or, right up there, is the City's resorting to threats of budget and service cuts to intimidate voters to cow them into knuckling under to their demands. Voters are notorious for falling for government pain avoidance schemes. Maybe not this time.

Perhaps number one for me is their unconvincing assertion that the City has in fact taken a tough-minded stance on solving a (but not *the*) root cause ? city pensions. I have not heard nearly enough angst and gnashing of teeth by employees to just timidly swallow any assertion that all that can be done has in fact been done. A management maxim in times of financial duress is if you're going to cut, don't be shy. Make it bleed. That way you know you haven't left any money on the table.

The root cause of the financial crisis is of course mismanagement by our City's leaders, albeit over the years. Though the crisis is not necessarily the fault of our current leadership (none, some or all), I have seen nothing to evince trust and confidence in them, either. Their well-publicized bumbling in regards to downtown development has made our city a laughing stock. Enough said on that.

And, do we really think that this tax increase will, either on its own or cumulatively, not have a negative impact on property values? Why move here for the privilege of higher than average property taxes and then pay a city income tax to boot? I am guessing it can't help, and if it does have an impact it will hurt far more than the income tax itself.

Finally, do we really think that this is the last time the City will be bellying up to the tax revenue trough? Reduce your property taxes now and of course we won't be back to ask for more! Ever hear of bait and switch?

Being in city government, at times like these especially, is a thankless job, so we voters owe it to our city officials to give them clear direction. The proposal last time was a stinker and this year's version doesn't cut it either. No means no.

City officials need to grow a spine and permanently fix the pension issue first and then come back to the voters. It will not be painless, but voters will be with you rather than against you.

*3. Roy C. Saper is a downtown business owner and the former director of the State Office of Economic Forecasts; economist, tax analyst, and revenue estimator for the State; and the author of reports on property tax revision for a governor's task force. Saper has an Economics PhD coursework ABD [?all but dissertation?] completed at MSU, is the former chair of the East Lansing Downtown Development Authority and has served on many other boards and commissions. Additionally, he was a first-year winner of the Crystal Award and has been an East Lansing resident since 1969.*

1. A local income tax is not common. Of Michigan's 276 cities, only 1 of every 12 imposes an income tax. Ninety-two percent do not.

2. No city has approved an income tax since 1994 other than Benton Harbor (by 21 votes) in 2017.

3. ?Of the 25 cities larger than East Lansing, only 7 have an income tax. (The other 18 manage without.)

4. ?The vast majority of Michigan college towns (44) do not have an income tax.

5. An income tax requires a significant new local bureaucracy to handle form creation, distribution, tax preparation software linkages, administration, management, collections, auditing, security, refund management, legal work, and Council and staff time to create the bureaucracy. Administrative cost of \$400,000 annually equals eight percent of *net* new tax increase.

6. City businesses would be required to withhold income taxes and remit payments to the city for employees and their own net profit plus payroll and tax reports. The city would have records of income and taxes for every person working in the city and every business.

?7. ?Workers would be required to provide W4s to employers and prepare and submit tax forms and possible payments to the city (that are not made by employers through withholding).

?8. ?MERS manages accounts for 720 municipalities which went through the same recession as East Lansing: 401 (56%) have pension accounts that are funded at 70% or more, 66 (9%) are funded at 100%.

9. MERS' funding requirement for the city is not due until 2041.

10. MERS provides guidance to communities facing shortfalls. We are not facing bankruptcy risk due to the MERS funding requirement. MERS has never referred a municipality to the State for

failure to maintain a level of pension funding.

11. It is deceitful to state or imply that retirees would not be levied an income tax. The tax base is AGI [adjusted gross income].

12. It is disingenuous to posit that an income tax will result in better roads. The proposal has nothing to do with using better or longer-lasting road-building techniques or materials or holding accountable those who build roads that fail. The city could allocate existing funds and grants to improve roads and sidewalks. An income tax would not eliminate potholes or asphalt patches. The city has not produced a 12-year street and sidewalk plan for new dedicated revenue.

13. Earmarking funds for public safety does not necessarily increase public safety expenditures. Directing funds for a purpose reduces general fund expenditures to that category.

14. The property tax base will increase due to new construction and improvement of commercial and residential properties. It has increased every year since 2000 except for 2010-13. State revenue sharing is *not* forecasted to decline during the city's five-year projection period.

15. About 46% of the city's cost of personnel services is benefits. Personnel are three-quarters of the city's expenditures. More than a third of city expenditures are for employee benefits.

?16. Most municipalities address budget challenges on the expenditure side of the equation.

## The ?Yes? Essays

1. *Ruth Beier has been a member of East Lansing's City Council since November 2013 and in that role has also served as Mayor Pro Tem. She is an economist with the Michigan Education Association and owns a home in the Oakwood neighborhood of East Lansing.*

I will be voting ?yes? on the income tax.

Because of property tax limitations, reduced state revenue, and pension legacy costs, East Lansing is running out of money. The city has done what it can on the expenditure side by eliminating more than 100 employees and restructuring pensions. It has also put off most non-emergency expenditures, which explains the shape of our roads, sidewalks, and sewers. Even after all of the cuts, the city still needs new revenue to maintain current services.

The income tax is the only revenue option that makes sense. The city is not allowed to levy any kind of sales tax (including a tax on alcohol), and it is already very close to the property tax limitation. The income tax would spread the tax burden among a greater number of people by requiring non-residents who work in East Lansing to pay the tax at a rate of 1/2%. Senior citizens and most students would be exempt from the tax since pension income is not taxable and dependent students who make less than \$5,000 would be exempt. The tax would generate \$5 million per year for 12 years, which would put the city in a solid financial position.

Revenue from the proposed income tax is earmarked for public safety, pension legacy costs, and maintaining and improving parks and recreation. Without new revenue, the city still has to pay its

legacy costs and provide police and fire protection. The money for these functions would have to come from further cuts like shuttering the Hannah Center, closing the Aquatic Center, abandoning the soccer complex, and continued disinvestment in roads, sidewalks, and parks. That is not the East Lansing that I want to live in, which is why I am voting ?yes.?

*2. Jay Brant has been an East Lansing homeowner and resident for about twelve years. He is a retired attorney, having been in private practice for about 30 years and, before that, in public service at the local and federal level for about twelve years. Most of his practice was as a litigator.*

I favor the income tax proposal for a number of reasons. First, the City of East Lansing clearly is in need of additional revenue, as shown by an extensive study of the City's finances by an independent group. This need is largely due to legacy costs, i.e., the costs of funding retirement and health care for retired and retiring employees. The present City Council and City Manager have little responsibility for the underfunding of these costs, which are an accumulation of too small annual payments going back many years.

Second, property taxes are an inadequate source of general fund revenues for many Michigan cities. Indeed, some 22 Michigan municipal governments have enacted a local income tax, including Grand Rapids. One reason for this is that under what is known as the Headlee Amendment and Proposal A, growth of property tax revenues is severely restricted, especially since the severe drop in property values brought on by the 2008-2009 recession.

Third, the City Council and the administration has shown a propensity to partner with developers using what is known as tax increment financing, especially for downtown development. This means that the City foregoes collecting up to 100 percent of property tax revenues on the resulting increase in property values for up to 30 years. Thus, the home owners may get no net benefit from these developments for a long time, perhaps even for their lifetimes. If the proposed income tax is enacted, a general fund benefit will be realized immediately by the tax on those working on the development as well as new residents and employees.

Fourth, an income tax will reach those who are employed by Michigan State University, whether they live in the City or not. In other words, though the University enjoys a total exemption from property taxes, its employees will be subject to the income tax just like all other folks who work but do not live in the City.

Finally, if the income tax proposal is enacted, the property tax paid by homeowners will be reduced by an amount comparable to the income taxes paid. Indeed, retirement income will be altogether exempt from the income tax.

*3. Edward Smith is an East Lansing resident, homeowner, and retired MSU faculty member. As a faculty member in the College of Education, he worked for many years on projects with the East Lansing Public Schools.*

I strongly support the proposed income tax for East Lansing. I am a homeowner in East Lansing

and will benefit from lower property taxes if the income tax is passed. But that is not the reason I support the income tax. East Lansing has cut our public safety budget to the point where we are well below federal recommendations for staffing a city this size, and below the statewide average? (source [9]). Continuing cuts to city personnel will inevitably result in loss of services, despite the best efforts of the remaining personnel. I am concerned about continued cuts to our public safety departments.

My family and I enjoy the many community resources and facilities supported by the city. Loss of things like the Hannah Center or the Aquatic Center would detract substantially from the quality of life we enjoy.

I believe that it is important to understand why the city is in such a difficult situation with its pension liabilities. I do not believe that is primarily a result of mismanagement. (New Poll Shows Dissatisfaction with City's Financial Management [10]) A major contributing factor was a result of historic tax cuts at the federal and state levels, leading to reduced aid to local communities. Pension programs were based on the system of state aid from the federal government and state aid to local governments that had been in place for many years. Historic tax cuts at the federal and state levels undercut this system, leaving local governments around Michigan and other states with the fiscal challenges that East Lansing and many other communities now face. (Reference. [11])

The impact of the great recession is another major factor, simultaneously dropping the value of the investment portfolio which backs City of East Lansing employee's pensions and dropping property values. (See ELi's Voter Guide to the Income Tax [3] and this article [12].)

I believe that it only fair that those who work in East Lansing but live elsewhere should share in the cost of the services that benefit them at their workplaces and in their activities within the city. The financial and cultural benefits they derive justify, in my view, the proposed income tax level.

For these reasons, I urge passage of the income tax proposal.

*Editor's Note: Some of these essays from citizens contain a few sentences that may be seen as misleading. We invite you to check out ELi's comprehensive voter guide [3] to read detailed, factual information about the income tax proposal and the city's finances.*

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

ELi's Voter Guide to the Income Tax Proposal [3]

Who Is Campaigning on East Lansing's Income Tax Vote? [13]

August Ballot Has Another Proposal for Ingham County Voters: New Jail [14]

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[12] <https://www.brookings.edu/articles/state-and-local-budgets-and-the-great-recession/>

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