

July 21, 2017

Mayor Mark Meadows
East Lansing City Hall
410 Abbot Road
East Lansing, MI 48823

Dear Mayor Meadows:

At our last regularly scheduled meeting on June 7, 2017, we discussed the negative impact that an East Lansing income tax would have on our community and, disproportionately, on Michigan State University. At that meeting, I shared with you that I would discuss your funding request with the MSU Board of Trustees at its annual Board retreat in June. In addition to discussing the topic with the Board in June, we had a second conversation about your request during a work session on July 13.



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President**

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As I shared with you in June, and Bill Beekman recently shared with City Manager George Lahanas, the eight members of our Board continue to have very mixed feelings about your funding request. While some remain adamantly opposed to paying the City to remedy its past financial mismanagement, others may be willing to consider a limited payment subject to certain conditions.

To be clear, I believe that implementing an income tax would be harmful to both the City and the University because:

- The proposed scheme (imposing an income tax while simultaneously decreasing property taxes) will increase taxes on residents while giving a tax break to businesses, as only 46 percent of the property tax reduction would apply to residential homes, with the majority of the tax reduction going to other properties such as rental properties and businesses;
- Young families are likely to see the largest tax increases, likely reducing the number of young families with school-age children in our community at a time when the East Lansing School District cannot afford to lose students;
- The income tax is likely to disproportionately impact students;

- The tax will discourage companies from doing business in East Lansing, since they can serve the same market in adjacent communities without incurring the tax;
- These tax increases may create demand in neighboring communities and result in a corresponding decrease in population and property values in East Lansing; and
- Estimates suggest that based on 2015 earnings, MSU employees would pay \$4.9 million in income tax, or about 98% of the estimated \$5 million that the City hopes to gain from the tax.

In an effort to protect our community from what I believe to be an ill-conceived and highly detrimental taxing scheme, I am willing to ask the Board to authorize me to enter into a contract with the City whereby MSU would contribute \$2.0 million per year for a period of five years to a joint entity created by MSU and the City of East Lansing similar to our successful collaboration through the Community Relations Coalition. The sole function of the entity would be to allocate to the City resources made available in a manner that MSU and the City agree is in their best interests. This amount would fully cover the shortfall in the State of Michigan's funding of the PA 289 Fire Protection Grant and would provide some additional resources to assist in the stabilization of the City's legacy costs (including retiree pensions and healthcare). The details of this proposal are in the Draft Resolution Term Sheet attached to this letter.

During the term of this agreement, the University would continue to provide, at no cost to the City, the many services that it currently gives the City on a complimentary basis. The resources necessary to offer these services represent an MSU investment in excess of \$10 million. MSU will also continue to compensate the City for the work of its officers during major athletic events.

The City asserts that, in addition to its Fire Protection shortfall, OPEB liability and legacy costs, necessary infrastructure improvements justify the need for an income tax. However, the City can itself be responsible for its needed infrastructure improvements and, in fact, has mechanisms available to it – other than an income tax – specifically for those purposes.

Water and sewer rates can be adjusted to accommodate needed maintenance of those facilities. Roads, other infrastructure, and parks and recreation needs can be addressed through a dedicated millage increase. We understand from City staff that the City has approximately 2.5 mills available under the Headlee cap which could be dedicated to the parks and roads as needed.

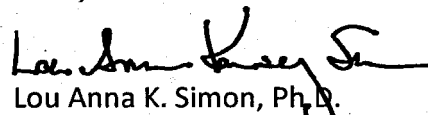
As I have articulated above, I believe that the proposed income tax is not in the best interests either of the City or the University. I believe that many in our community agree with that assessment and, should you choose to go forward, I anticipate you will face significant opposition from those who care about the sustainability and growth of our community, including the Green and White PAC, labor unions (both those affiliated with MSU and others), business leaders, and those who care about the well-being of our local schools.

Additionally, in the event that an income tax is implemented, MSU will work aggressively to educate its students and employees regarding the scope and nature of their potential tax liability to the City and options they may have to reduce it.

Again, I strongly urge you to reconsider your immediate approach and to consider the attached alternative. I must again state that the attached proposal is not final. If it can be supported by the City, I will advocate for its adoption by the Trustees. But that decision, of course, is theirs. I am willing to take a proposal to the MSU Board meeting on August 17. Though that meeting is now scheduled as a work session, it could be changed to a public meeting for the purpose of voting on this proposal. Additionally, a meeting earlier in August could be scheduled if necessary to accommodate your timelines.

Thank you for your consideration and I look forward to hearing from you.

Sincerely,



Lou Anna K. Simon, Ph.D.
President

Cc: Board of Trustees
East Lansing City Council
George Lahanas, East Lansing City Manager