Public Response: Income tax plus property tax reduction: Facts and figures // Erik Altmann

Last night the City Council voted to put two questions on the ballot for the November 7 election: One would adopt a city income tax for East Lansing, the other would lower the cap on property taxes (by charter amendment) in years where the city income tax is levied and collected. (That is, the property tax reduction would become effective only if the income tax is adopted. There are legal reasons why we had to separate the two questions.) We'll have more details available on the city website soon but I wanted to try get ahead of some basic questions.

The income tax for residents would be 1% on roughly the income that is taxed federally, though one important difference is that retirement income (Social Security, pensions, 401(k)s, IRAs, and annuities) is exempt from city income tax in Michigan, even if it's taxed at the state and/or federal level. If you live in East Lansing and earn your income elsewhere, your income is still taxed at 1%. If you live in East Lansing and work in Lansing or some other jurisdiction with a local income tax, you will not pay more than 1% (the jurisdictions split the total). The income tax for people who work in East Lansing but live elsewhere would be 0.5%. Local income tax, like property taxes, are deductible federally.

The property tax reduction would be about 5 mills (0.5% of the taxable value of your property), implemented by charter amendment so that a future increase would require a vote of the people. A 5 mill reduction is 10% of the total property tax we pay on the homes we live in, which is about 50 mills. Note that of this 50 mills, only about 20 mills actually go to the city. The other 30 mills go to many other jurisdictions — the state education fund, the local school board, the county, LCC, CATA, the airport, and the Intermediate School District — even though the city is the tax collector. So the city often gets the blame for high property taxes even though there are other culprits.

The city needs about $8.5 million in new revenues annually to fix our infrastructure, maintain services at current levels, and pay our pension obligations (which we are constitutionally obligated to pay):

$3 million for pension obligations
$2 million for streets and sidewalks
$2 million for sewer and water
$750,000 for parks and rec facilities and city buildings
$750,000 for staff raises and new positions

$8.5 million

The numbers for the first four points come from the Financial Health Team research from last year. You can find their reports by googling "City of East Lansing Financial Health Review Team". On the last point (staff raises and new positions), we've lost 110 staff positions since 2001, which is about a quarter of our workforce. In recent years salaries have fallen relative to inflation. We won't be able to maintain services at their current level without raises and staff increases.

$1.5 million will come from the BWL franchise fee we just adopted. The $2 million for sewer and water will come from increases in sewer and water fees; these have been too low historically because they did not build in a capital reserve, so we have to catch up.

That leaves an annual revenue gap of $5 million. That's what the tax package is designed to raise. Most of the new revenue will come from people who work in East Lansing but live elsewhere, many of them MSU faculty and administrators, not to mention highly-paid coaches. Some East Lansing residents will pay more, some will pay less. Seniors on fixed incomes will generally pay less, because retirement income is not taxed.

Shanna gave a presentation last night (starting at 35:20 of the video[1]) addressing the state's role in the situation we're in. I want to highlight some key points. One is that we currently subsidize fire services for MSU at a rate of $1.6 million annually because the state doesn't reimburse us fully. Another is that the state continues to steal our sales taxes, with revenue sharing still about $2 million below 2001 levels. (The state also continues to prevent us from levying sales taxes of our own to make up the difference. If we could tax beer at the tap and football and basketball tickets, we'd be done.) We are also 40 years into a period of disinvestment in infrastructure at the federal level and are seeing the consequences play out locally at an accelerating rate.

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). We can get to $5 million by cutting our police and fire in half (about 50 police officers and firefighters total). Operationally that would mean going from 5 officers on duty at all times to 2 or 3, and closing Fire Station #2 and browning out ambulances. We could eliminate Parks and Recreation entirely and save $2 million annually, and cut public safety by 30% instead of 50%. Cuts at this level would still substantially affect risk to life and property. That's basically the choice.

More to come on this complex issue. Please contact any of us with questions large or small.

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[1] - http://eastlansing.granicus.com/MediaPlayer.php?view_id=2&clip_id=830&meta_id=51815

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