

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.

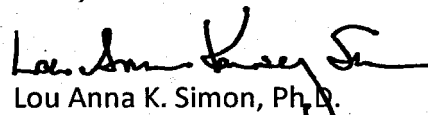
As I have articulated above, I believe that the proposed income tax is not in the best interests either of the City or the University. I believe that many in our community agree with that assessment and, should you choose to go forward, I anticipate you will face significant opposition from those who 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



# CITY OF EAST LANSING

The Home of Michigan State University

JULY 25  
August 14, 2017

President Lou Anna K. Simon  
Hannah Administration Building  
426 Auditorium Road Room 450  
East Lansing, MI 48824

Dear President Simon,

Thank you for your July 21<sup>st</sup> letter suggesting an alternative to the City's proposal to institute an income tax and reduce property taxes. MSU and the City of East Lansing have a long history of collaborating and partnering to make our community a better place for all who live, work and visit here. We know that we share the goal of having East Lansing be a thriving and dynamic Big Ten University city.

Before addressing your specific proposal, I want to respond to some of the assertions in your letter which we believe are inaccurate.

You state that some MSU trustees are reluctant to approve a payment in lieu of taxes because of the City's supposed "past financial mismanagement." This statement is offensive and uninformed. In fact, the City regularly receives awards for sound financial management. Even in the face of property tax limitations, diminishing state-shared revenue, and underfunding of the fire services we provide to MSU under Public Act 289, we have been able to provide needed services while maintaining a high bond rating. Our decision to ask our voters to diversify our tax base by adding an income tax while lowering their property tax burden is an example of continued sound financial management.

You claim that our proposed property tax reduction would give a tax break to businesses, but later you say that the income tax will discourage companies from doing business in East Lansing. We agree that the property tax reduction will help local businesses. But, there is no evidence that a low income tax rate will discourage businesses from locating in East Lansing. In fact, there are numerous studies that show businesses are increasingly making location choices based on the quality of life, infrastructure and services – not tax systems.

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The City also disagrees with your unsupported claims about the impact of our proposal on young families, property values and the City's population. With lower property taxes and a very low income tax rate, East Lansing will remain an attractive place to live and work. Without new revenue it will not—as the research conducted by the Financial Health Team demonstrated.

You asserted in your letter that the income tax would be disproportionately borne by MSU students. If a student earns \$10,000 per year and claims East Lansing as a residence, that student will pay \$100 per year in taxes. If the student claims a different residence, the student will pay \$50 in taxes. This does not seem an undue burden, especially in comparison to your recent tuition increase, which will cost the average upper division student approximately \$600 per year.

Your suggestion that we simply increase fees and property taxes would likely result in the very thing you expressed concern about—making the City less attractive to young families and business expansion. The income tax will diversify our tax base and provide a means by which non-residents who benefit from City services and infrastructure also share a little of the burden of providing services. Following your suggestion would also invariably place a greater burden on students. We are certain that landlords would pass on these extra costs to them.

Now to your offer. We appreciate that you have taken the time to make a detailed offer to the City; however, the offer you made is not adequate in lieu of an income tax, and we cannot accept it.

Consequently, the City proposes that the income tax ballot proposal be withdrawn provided that the following also be the content of a contract between MSU and the City:

- MSU agrees to a payment in lieu of taxes of \$5 million dollars per year for 20 years.
- Future payments are conditioned on the City's compliance with its commitment that no income tax be imposed during the 20-year period.
- The annual \$5 million dollar payment is paid in quarterly installments.
- The payments are directed to restricted funds as delineated in the contract between MSU and the City.
- No payment will be made to the City during any year in which the City Council levies an income tax.

The University and the City have a long and glorious history of collaboration. We engage in nearly 100 different collaborative efforts; and, especially with regard to public safety, our combined forces keep both the University and the City safe. I hope

that you will see this joint financial agreement as just another of our many collaborative efforts.

As always, I look forward to hearing from you.

Sincerely,

A handwritten signature in cursive script, appearing to read "Mark S. Meadows".

Mark S. Meadows  
Mayor  
City of East Lansing

**MICHIGAN STATE  
UNIVERSITY**

**COPY**

July 27, 2017

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

Mayor Meadows,

I am in receipt of your letter dated July 25, 2017.

The Trustees have individually been providing me with their feedback since receiving your proposal. I doubt any would support a \$5 million annual contribution, nor could I, in good conscience, recommend such a proposal to them.

In the spirit of good citizenship and collaboration, I remain willing to seek approval from the MSU Board of Trustees to provide some financial support to the City to protect the MSU students and employees with limited incomes who I believe will be most affected by the income tax. I am willing to do this only insofar as the amount derives from expenses incurred by the City on the University's behalf for which it has not received some offsetting reimbursement or revenue. I cannot simply write a \$5 million check for a 20-year period, committing \$100 million of University assets.

While this proposal does not provide the higher funding that you desire, I am willing to ask the Board to extend the timeline of payments further into the future. Doing so would allow the City more time to capture the revenue from the approximately \$75 million in recently approved TIF arrangements. Should those development projects come to fruition as you anticipate, tax revenues should increase over the next decade resulting in more funds to mitigate your current shortfall. I am willing to help bridge that gap.

I am willing to advocate to the MSU Board of Trustees that MSU support the City of East Lansing through a contribution that is:

- Logically tied to unreimbursed expenses incurred by the City on the University's behalf (e.g., unbudgeted state funding for fire support),
- Time limited (which isn't precluding renewal or extension, but that any payment must be periodically reassessed to ensure that it continues to be logical and appropriate), and
- Based on the understanding that the City withdraws its income tax proposal that, for reasons I will not elaborate on in this letter, but that were expressed in my



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letter of July 21, I believe not to be in the best interests of the City or the University.

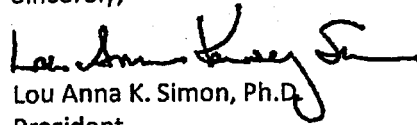
In furtherance of the above principles, I am willing to pursue a contribution as follows:

- MSU will contribute \$2.0 million per year for 10 years.
- The City will use the funds for a mutually agreeable purpose.
- The City will not place on the ballot or otherwise impose an income tax during that time.
- Should the City impose an income tax during that time, further payments would cease.
- If, at any time before the last payment under this agreement is made, the City receives:
  - a. An increase in funding for fire support provided to MSU, or
  - b. Assistance from the State or elsewhere to reduce its OPEB liability, or
  - c. Increased revenue sharing from the State in any manner,the University's payment would be reduced going forward by that amount.

As I have shared with you before, MSU funds its own roads and parks and it is not appropriate for MSU to support the ongoing maintenance of the City's roads and parks which, by the City's own analysis, account for about \$2.7 million of the \$5 million shortfall – the City has other, existing mechanisms through which it can fund that work. MSU also funds its own water and fully contributes to the regional water and sewer authority and, again, the City can fund those services through appropriate charges to those that use them.

Because this proposal represents what I believe are the limits of what the MSU Board might support, it also is the best offer I am able to make and, in that sense, it is a final offer. In the interests of our continuing work together, I look forward to hearing from you regarding this proposal.

Sincerely,



Lou Anna K. Simon, Ph.D.  
President

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

**MICHIGAN STATE**  
**UNIVERSITY**

August 4, 2017

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

Dear Mark,

This letter follows up on our discussions over the last two weeks. Though I know your plan was to formally reply to us upon your return to town Monday, given the time-sensitive nature of any possible agreement, it seemed prudent to supplement our prior communication and propose one, last possible idea.

In my letter of last Thursday, I doubled my prior offer by proposing \$2 million per year for 10 years (as compared to \$2 million per year for five years). This was in response to your counterproposal of \$5 million for 20 years. On Wednesday evening, you got back to us asking if we thought our Board would consider \$2.9 million per year for seven years. I shared that, consistent with prior discussions, I did not believe our Board would support an annual contribution of \$2.9 million. I, in turn, offered to advocate to our Board a contribution of \$2.5 million per year for eight years, maintaining a commitment of \$20 million, but over a slightly shorter time. Unfortunately, you told us on Thursday morning that you did not believe there were enough votes on City Council to support that proposal and that an agreement seemed beyond reach.

Upon further reflection, I would like to suggest one more option for your consideration. While this option would not increase the total amount of MSU's contribution, it would front-end load the contribution to some degree to provide more substantial support in the short term. In short, I propose making contributions over the next eight years as follows: \$2.75 million in the first two years, \$2.5 million in years three through six, and \$2.25 million in years seven and eight. The total amount of the payments over the life of the agreement would not exceed \$20 million. Recognizing the financial stress on the City, we also would forgo the requirement that our contribution be reduced if you receive assistance with your OPEB liability or increased revenue sharing from the State. In exchange, the City would agree not to impose an income tax for a period of ten years. Were the City to impose an income tax during years one through four of this ten-year period, MSU's



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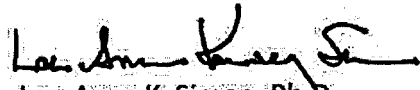
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contribution for those years would be returned in its entirety. Were the City to impose an income tax during years five through ten, MSU's contribution for the last two years would be returned in its entirety. The other terms of the proposal would remain unchanged.

This proposal would provide the City with more support in the early years of the agreement, hoping that these larger payments would provide more immediate bridging relief. As with my prior offers of support, I must state that any agreement would require the approval of the MSU Board of Trustees. Though I am willing to advocate for this agreement, the final decision rests with the Board. Please note again that our proposal to make a payment to the City has been based, in large part, on the City's failure to receive the appropriations it should have from the State for certain fire and safety expenses it incurs as a result of MSU's presence in East Lansing. The farther we move from that model, the more difficult it is likely to be to obtain Board approval for a contribution to the City, as it is difficult to justify dedicating substantial University resources to shoring up the City's finances.

Again, I have taken the liberty of writing to offer this revised approach appreciating that time is of the essence and not wanting to leave any possibility unexplored. Although I am not placing a deadline on this proposal, the need for action by both the MSU Board and the City Council by mid-August if we were to find common ground places practical constraints on how much longer negotiations can proceed. I am prepared to request a special meeting of the MSU Board of Trustees should we be able to reach an understanding. Thank you for your consideration and I look forward to hearing from you soon.

Sincerely,

  
Lou Anna K. Simon, Ph.D.  
President

CC: MSU Board of Trustees  
East Lansing City Council  
East Lansing City Manager  
East Lansing City Clerk



# CITY OF EAST LANSING

The Home of Michigan State University

August 1<sup>7</sup>~~4~~, 2017

President Lou Anna K. Simon  
Hannah Administration Building  
426 Auditorium Road Room 450  
East Lansing, MI 48824

Dear President Simon,

Thank you for your most recent offer to partner with the City of East Lansing in addressing the City's financial challenges.

In your letter of August 4, you propose that the University make a contribution to the city of \$20 million over an 8 year period in the following manner: \$2.75 million for two years, \$2.5 million for 4 years and \$2.25 million for two years. In exchange, the City would agree to defer action on an income tax/property tax rollback vote for 10 years. Your offer also was conditioned on the City agreeing to an incremental payback if an income tax was imposed during that 10 year period.

While unstated in the proposal, I understand from a conversation with Bill Beekman that this proposal includes the current payment made by the University to alleviate fire protection costs through a "Fire Rescue Contract". That payment of \$326,000 over 8 years equals \$2,608,000. The net financial value of the proposal to the City is thus \$17,392,000.

For a number of reasons, the City cannot accept your most recent proposal. I appreciate your willingness to continue discussions and I ask that you consider the reasons the City Council decided to ask our voters to authorize the collection of \$5 million in additional revenue. The majority of this additional revenue will go towards the stabilization of our legacy cost funding and the avoidance of the fiscal cliff that the current payment program will move the City toward. It will take a decade of \$3 to \$3.5 million dollar contributions to our pension fund to stabilize that fund, avoid the fiscal cliff and the drastic cuts to City services that will entail.

This additional revenue is also necessary to enable the community to enhance and preserve its streets, sidewalks, sewer and water lines, park amenities, community centers, etc. Since my last stint on City Council, over 100 fewer employees are providing services to our 48,500 citizens. Not because we were over staffed, but because declining revenues were addressed by staff reductions and austerity budgeting.

There are many more reasons why the decision to allow our voters to decide whether the revenue choices City Council have proposed are the right choices.

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So, with appreciation for your proposal and the University's own financial challenges, let me suggest a different direction. The City proposes that:

- The University make payments to the City totaling \$20,000,000 over a 10 year period at \$2,000,000 per year.
- The \$2,000,000.00 be exclusively utilized to fund everyday costs of police and fire protection.
- The City Council amend its current income tax proposal to provide for a ½% income tax on residents and a ¼% income tax on non-residents.
- Should the City increase the percentage of the income tax during the 10 year period, \$1,674,000.00 of the most recent payment from the University to the City will be returned to the University but, the University will continue to provide an annual contribution of \$326,000 to the City to assist in the provision of fire service to the Campus through the Fire Rescue Contract.
- There will be no decrease or increase in the amount of the \$2,000,000 contribution during the ten year period as a result of any State of Michigan action or inaction relating to revenue sharing, pension, OPEB or any other funding from the state or federal governments.
- The University will publicly support our effort to pass an income tax.

In our conversations, you have emphasized our mutual financial challenges. Both entities have been critically underfunded by the State of Michigan. We need to jointly, with the assistance of other Universities and communities, address this issue and identify a resolution. Hopefully, our partnership in addressing the City's financial challenges will be the first step in our work together on that issue as well.

Thank you for considering the above proposal. I look forward to hearing back from you soon.

Sincerely,



Mark S. Meadows  
Mayor  
City of East Lansing

**MICHIGAN STATE**  
**UNIVERSITY**

August 10, 2017

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

Dear Mayor Meadows:

Thank you for your letter of August 7, 2017.

To begin, I would like to clarify a point on which you and Mr. Beekman seem to have had a misunderstanding. It was never my intention to offset the amount the University presently pays to East Lansing for fire and emergency services against the various sums I have proposed that MSU pay the City in return for dropping the income tax ballot initiative. In each of the last three proposals I made to the City, I offered to take agreements to the MSU Board of Trustees, which would have resulted in total payments to the City of \$20 million. In each case, that would have been \$20 million in new dollars, not \$17,392,000 in new money in addition to sums payable under an existing contract with East Lansing. It has never been my intention, or my proposal, that the University use the contribution we have been negotiating as a basis to back away from any of its existing support for the City.



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Proceeding to your new proposal, in our negotiations thus far each proposal I have made would offer the City better financial terms than its predecessor through either a higher total amount, a shorter payment period, or an up-front loaded payment schedule. The proposal in your August 7, letter, however, in effect constitutes a demand for considerably more money than you had sought in your last conversation with Mr. Beekman before you delivered that letter. This is a clear break with the way we have conducted our negotiations thus far, both in our letters and in your conversations with Mr. Beekman. And that does not even address your demand that I somehow compel the elected Trustees on MSU's Board to support the City's ballot initiative. Your new proposal is a giant step backward.

That some of the money you hope to claim for the City under your new proposal would come from the University and some would come from its employees, particularly its non-resident employees, through the income tax your proposal would retain is, for me, a distinction without a difference. The principal purpose I have sought to achieve in pursuing these negotiations with you has been to avoid any additional tax burden on the University's employees, particularly on students who work to help pay their tuition, on lower salaried unionized employees who are least able to afford a lower paycheck, and on employees who are not residents of East Lansing and thus will have no vote on the adoption of the tax. The contributions for

Mayor Mark Meadows  
August 10, 2017  
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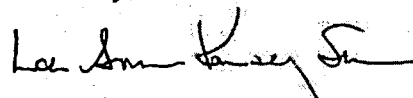
which I offered to seek Board approval were intended to spare the members of the University community from such a tax, and the achievement of that goal was plainly my object in the negotiations conducted thus far.

For reasons I have stated in our previous correspondence, I cannot support and do not favor even a small income tax so long as that tax targets University employees, especially those who do not reside in East Lansing, which at least one of your colleagues on the City Council has admitted is the goal of the ballot initiative. The University maintains its own property and roads, it draws residents and visitors to East Lansing, and its students, employees, and campus activities are the lifeblood of East Lansing's economy. In short, the traditional justifications for a commuter tax do not apply here. Shifting the costs of the City's past policy decisions to individuals who had no role in making these decisions or electing those who made them is not fair.

More basically, an income tax of any kind, no matter to whom it applies, will, in my opinion, make it more difficult for the City to achieve many of the City's and the University's goals for turning East Lansing into a more vibrant and attractive place to live, work, and study. It will discourage businesses from locating in East Lansing and will encourage existing businesses to move elsewhere, if those businesses are not dependent on proximity to our students. It will discourage the young families whose children would attend classes in East Lansing's soon-to-be modernized school buildings from moving to the City. It will make it more difficult to achieve our efforts to improve downtown and to encourage development there based on something other than more student housing. In short, the income tax will exacerbate existing long-term structural weaknesses under the pretext of financial responsibility.

Time is running out to reach an understanding that might be acceptable to MSU's Board and City Council. I will hold my past proposals open as long as it is possible to achieve that result. Your most recent offer, however, does not form a reasonable basis for continued discussions.

Sincerely,



Lou Anna K. Simon, Ph.D.  
President

CC: Board of Trustees  
East Lansing City Council  
George Lahanas, East Lansing City Manager  
Marie Wicks, East Lansing City Clerk



# CITY OF EAST LANSING

The Home of Michigan State University

August 14, 2017

President Lou Anna K. Simon  
Hannah Administration Building  
426 Auditorium Road Room 450  
East Lansing, MI 48824

Dear President Simon,

Thank you for your prompt response to the City's counter proposal regarding the proposed City Income Tax and Property Tax reduction and thank you for your clarification regarding the Fire and Emergency Services Contract I am glad we got that cleared up anyway.

I am a little confused by the rest of your letter however. In our initial conversation regarding this, you indicated that you would not be opposed to the City Income Tax but for the property tax reduction. You indicated that the structure of the ballot proposal put the revenue gain squarely on the backs of MSU employees.

Following that meeting you made proposals to the City indicating that you could justify, in exchange for the elimination of the ballot proposal, the payment of \$20 million dollars to the City because of the recognition by MSU that the City has uncompensated public safety costs associated with MSU.

Our response has always emphasized that on a short term basis, we may be able to entertain some reduction in the revenue we need but that our target remained the same in the general fund. We told you we needed \$5 million for 20 years, we offered to consider \$30 million over 10 years, we offered to consider 2.9 million over 7 years. Your responses always circled around the 20 million you felt you could justify.

The offer you received, which I clarified with Bill Beekman, reduced the income tax to a half percent on residents and a quarter percent on non-residents. The offer that was provided further dedicated the \$2 million from MSU entirely to our public safety costs, the area of our budget you identified as justified for MSU support. Finally, the offer you were provided, eliminated the property tax reduction you found offensive as a component of the establishment of an income tax.

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Quite simply, the offer you were provided accepted your concerns and justifications and was crafted to meet them.

You have indicated that you hold your past proposals open for the City's consideration. We have already considered them. I ask that you reconsider the City's most recent proposal.

Sincerely,

Mark S. Meadows  
Mayor  
City of East Lansing