MICHIGAN STATE
UNIVERSITY

COPY

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.

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;

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- 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 though 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

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

A~~ugust 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 21st 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.

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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.

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,

Mark S. Meadows
Mayor
City of East Lansing

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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.

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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

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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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

Lou Anna K. Simon, Ph.D.
President

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

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August 1~~4~~7, 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.

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 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

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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.

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

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August 21, 2017

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

Dear Mayor Meadows:

I am in receipt of your letter dated Monday, August 14, 2017.

The City's willingness to remove the property tax rebate from the ballot, which was not included in your letter of August 7, would not have altered the proposals I have previously given or made your last proposal acceptable. I believe an income tax is bad public policy which will adversely affect the City and the University in the future. Cutting the tax in half and killing the property tax rebate does not make the tax a better idea.

Twenty million dollars is an extraordinarily generous offer to help solve the City's financial problems. The support proposed by the University would help fund the City's budget shortfall in health and safety (including a portion of the City's unfunded retirement liability for police and fire personnel). The City's aspirations to improve its roads and parks can be supported by other sources of revenue.

Your recent actions and those of some other City officials suggest that the City no longer has an interest in reaching an agreement with the University. Our good faith offer, $20 million in lieu of an income tax, nevertheless remains open until your deadline to remove the income tax proposal from the ballot has passed.

Sincerely,

Lou Anna K. Simon, Ph.D.

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

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(delivered electronically, hard copy to follow)

August 18, 2017

Dear Mayor Meadows:

I am in receipt of your letter dated Monday, August 14, 2017.

The City's willingness to remove the property tax rebate from the ballot, which was not included in your letter of August 7, would not have altered the proposals I have previously given or made your last proposal acceptable. I believe an income tax is bad public policy which will adversely affect the City and the University in the future. Cutting the tax in half and killing the property tax rebate does not make the tax a better idea.

Twenty million dollars is an extraordinarily generous offer to help solve the City's financial problems. The support proposed by the University would help fund the City's budget shortfall in health and safety (including a portion of the City's unfunded retirement liability for police and fire personnel). The City's aspirations to improve its roads and parks can be supported by other sources of revenue.

Your recent actions and those of some other City officials suggest that the City no longer has an interest in reaching an agreement with the University. Our good faith offer, $20 million in lieu of an income tax, nevertheless remains open until your deadline to remove the income tax proposal from the ballot has passed.

Sincerely,

Lou Anna K. Simon, Ph.D.

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

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August 23, 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 letter dated Friday, August 18, 2017.

The City appreciates MSU's renewal of its offer to contribute $2 million dollars per year for 10 years in exchange for the City withdrawing its ballot proposal regarding a 1% income tax on resident net incomes and ½% income tax on non-resident net incomes as well as lowering the City operating property tax millage to a maximum of 13 mills.

As I have explained in all my previous letters, your proposal is insufficient to adequately address the City's needs. If your final offer is $20 million over 10 years, we will go forward with our ballot proposal. If, on the other hand, you are willing to negotiate, I am confident that we can reach an agreement that benefits the University and the City.

It is useful to put our respective financial circumstances in perspective. Since 2000, state revenue sharing provided to the City was reduced by 26% and our property values have decreased. In response to this (and other) declining revenue, the City reduced its work force by 130 employees, initiated pension and health care changes, enacted a small increase in property taxes equating to an 11% increase and managed to maintain its excellent bond rating.

During that same time period, state support for MSU declined 14%. In response, MSU increased tuition by 217% from about $152 per credit hour to about $482 a credit hour. MSU's salaries went from $442 million to $847 million and its general fund budget went from $618 million to $1.3 billion. Most importantly, the percentage of the MSU general fund supported by tuition went from 41% to 72%, shifting even more of the cost of a MSU education to students and their families.

As you said in 2015 when addressing tuition increases, "the decision to increase tuition isn't taken lightly but is necessary to keep the university functioning at a competitive level." In 2016 you justified the tuition increases and cited "slumping state aid for Michigan's universities." You can substitute City for university and me for Lou Anna Simon and these statements would be just as true a rationale for the authority the City is seeking from its citizens.

The City does not have the revenue options that MSU has. We are limited to property taxes and local income taxes as a means to independently raise revenue. We cannot simply annually raise taxes on our citizens to maintain high quality services, expand our workforce, meet our financial obligations and address our infrastructure needs. I am sure you can appreciate why your suggestion that the City just raise its property taxes to deal with its financial constraints is not realistic since the available property tax increase would simply yield $2 million. Our Financial Health Team examined the local income tax option in depth and found it to be the best option available to the City in dealing with its financial challenges.

It is also troubling that MSU has had one of its lobbyists recruiting members of the legislature to sponsor legislation that would eliminate the ability of voters in Michigan communities to decide whether they should be subject to a local income tax. If MSU is successful, every city in the state will be left with just the property tax as a source of revenue. Given the limitations on that revenue source, the change could result in the bankruptcy of many cities. Eliminating the local income tax option for cities would be like prohibiting universities from raising tuition.

As I indicated above, our previous offers remain open until the November ballots are printed. We are also open to compromise proposals that generate more than $20 million over 10 years.

Sincerely,

Mark S. Meadows
Mayor
City of East Lansing

MICHIGAN STATE
UNIVERSITY

August 24, 2017

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

Dear Mayor Meadows:

I am in receipt of your letter of August 23.

Today's letter was the second consecutive letter you've sent – addressed to me – that reached the desk of the Lansing State Journal before it reached my desk. This approach to communications and negotiations can't help but bring into question your motivation for writing.

Nevertheless, as you are aware based on prior discussions we have had with you and City officials, our Government Affairs office is in constant communications with many in State government. Its staff members continue to seek financial relief for both the City and the University encompassing a number of options. Legacy health care costs (often referred to as Other Post-Employment Benefits, or OPEB costs) are affecting many, many cities across the State; not just East Lansing. These OPEB costs are at the core of your own financial health team's recommendation for the urgency of new revenue. The Governor and the State Legislature are carefully reviewing these municipal legacy costs, and solutions may be imminent. It makes little public policy sense to create a permanent solution in the form of an income tax to a problem that, depending on the outcome of the State's work, may be resolved. Thus, some options have included a moratorium on new income taxes as our State officials explore options to help solve this problem.

As a matter of good public policy, we are actively engaging in discussions in Lansing to explore how Michigan cities can have more flexibility to generate revenue, including allowing other tax revenues that are currently not permitted under State law. We have heard your arguments on limited revenue options and are working to help find solutions. To accuse us of doing otherwise in a letter or via media is disingenuous.

Office of the President

Hannah Administration Building
426 Auditorium Road Room 450
East Lansing, MI 48824

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president.msu.edu

We are not unsympathetic to the City's financial circumstances, but MSU should not be the overwhelming source of revenue to compensate for your own legacy costs, or to expand your parks and improve roads. We will continue to try and work for both of our long-term interests; MSU needs and wants a vibrant home community. That again is why we continue to offer the City $20 million over 10 years to help you bridge your financial gap.

Finally, I disagree with your attempts to paint the University and City in the same light when it comes to financial health. The University, particularly its employees, should be applauded for taking on legacy costs that are vexing to the City. We have had a defined contribution plan since 1973. More importantly, we eliminated post-retirement health care benefits for families of new employees in 2005 and for all new employees in 2010. Clearly, enrollment is a key to our revenue. We should be applauded rather than critiqued for building quality and investing in the future to grow and sustain enrollment with stronger academic credentials given the declining K-12 demographic. We would hope that good community partners would applaud the growth of new revenue for federal research and philanthropy.

But more to the point, it is not the University's finances that are at issue. While I'm happy to discuss our finances with you or others, it would seem only to distract from the issue at hand. The University is willing to be a partner in helping the city with our continuing offer of $20M over 10 years. However, on both principled and pragmatic grounds, I object (and assume others would as well) to having a history of tough decisions by the University be a reason for shifting a disproportionate burden of your financial troubles to MSU employees, who already have foregone wages and post-retirement benefits as we tackled the university's own financial issues. They have already sacrificed once, and asking them to do so again to solve your own financial crisis is unfair. These same employees, through their ideas and efforts, have enhanced the value of the community yet have no vote on the income tax proposal.

Sincerely,

Lou Anna K. Simon

Lou Anna K. Simon, Ph.D.

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

CITY OF EAST LANSING
The Home of Michigan State University

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August 25, 2017

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

Dear President Simon,

I am in receipt of your letter of August 24.

I want to clear up some misconceptions about the release of correspondence between us to news media. You make mention of two instances involving the City's response to FOIA requests. In both instances, my correspondence was delivered to your office before we responded to FOIA requests which covered those documents.

As to your acknowledgement that the University has been lobbying to eliminate the local income tax option, I thank you for being forthright.

As to your statement regarding expanding municipal revenue options and MSU's advocacy in that regard, I am unaware of any statement from the City or any elected or appointed official of the City regarding that effort. Please provide me with more information regarding your assertion.

As to the remainder of your letter, my reference to the University's tuition increases was meant to illustrate the difference between the options that the City has and the University has. It is good to know that the University's financial issues were not fueled by legacy cost increases. Sadly, the majority of our financial challenges relate to just that issue as well as experiencing little revenue growth over the past two decades.

In your letter you also restate that the University is opposed to the local income tax because the University wants to protect students and University employees from additional costs. It would be helpful if you could identify the percentage of University employees and students who live in East Lansing, Lansing and the surrounding areas. Then we could evaluate the impact of our tax proposal in detail, as well as the proportion of those affected who will be able to vote on it.

Thank you for continuing our frank communications. As before, I hope we can reach a mutually agreeable resolution.

Sincerely,

Mark S. Meadows
Mayor
City of East Lansing