

City of East Lansing Financial Review Team

Report Presented July 09, 2026

Introduction

The City of East Lansing Financial Review Team was established by Council resolution in December 2025. This is the final report prepared by that committee.

The committee included members Timothy Irvin, Roberta Jameson, Ann Holmes, Robert Kleine, Dale Kruithoff, David Lancaster and was chaired by Jill Rhode. We met 13 times from January 15, 2026 to July 9, 2026 and presented a progress report to the City Council in April 2026. We want to thank all the department heads, directors and individuals who made presentations to help us learn and understand the financial challenges facing the City. We want to especially thank the staff of the Finance Department for their patience, time and effort. We also need to thank our Council liaison, Mark Meadows.

We have many recommendations which are detailed in this report within the categories of Revenues, Expenditures, Budget Procedures and Financial Reporting, and Other. While in our review, we may have discussed other funds within the City, the majority of our recommendations pertain to the General Fund.

Our review found that the current finances of the City are not dire, but there are some concerns. The upcoming expiration of the income tax would have a material negative impact on the General Fund and services to the community. In addition, there are possible upcoming expenditures such as stormwater and other infrastructure costs. These recommendations could offset much of these concerns.

We have also made some procedural recommendations which we believe will improve the budgeting process and communication with the citizens.

Revenues

1. Income Tax Extension

The authorization for the income tax along with the accompanying 5 mills reduction in property taxes expires in 2030. The net proceeds are required to be used as follows: 60% for supplemental pension funding, 20% for infrastructure (as defined in the original ballot language) and 20% for public safety.

The State of Michigan Public Act 202 requires the City's pension to be fully funded by 2040. The Municipal Employees Retirement System (MERS) annual valuation provides projections

of annual required contributions based on the 2040 funding date. Once the fully funded level is reached, annual required contributions decrease significantly, which will make available substantial General Fund resources.

In addition, if the income tax revenue could be used to contribute additional funds to fully fund the “Other Post Retirement Benefit” (OPEB) liability, this could materially reduce the cost for retiree health insurance. (Please see recommendation 18.)

Extending the income tax beyond 2040 would result in significant unallocated revenue. Since this is 14 years in the future, it is difficult to determine what the possible uses are for this excess revenue. Therefore, we recommend that the City propose an extension of the income tax and continue with the 5 mills property tax reduction for an additional 10 years to 2040. We also recommend that the use of the 60% allocation be changed from funding supplemental pension costs to funding long-term liabilities (to assist with funding the OPEB liability) and that the 20% for infrastructure and 20% for public safety requirements be retained.

Assuming the extension is approved, we also recommend that it be proposed to make the income tax permanent after 2040 with a possible additional property tax millage reduction. At that time, it could be estimated how much excess funding would be available and if a corresponding property tax millage reduction is feasible.

In summary, we envision that an income tax proposal will be placed on the ballot sometime between 2027 and 2029 asking for the 10-year extension and again between 2037 and 2039 asking for it to be made permanent with a possible corresponding additional property tax millage reduction.

2. Property Taxes

Improving affordable housing opportunities is in part dependent upon controlling the costs of home ownership. Therefore, we recommend that, in general, property tax increases be the last choice for balancing the City’s operating budget.

3. P.A. 289 Fire Protection Reimbursement

We recommend that the City report all fire protection-related expenditures, including all firefighter-related surplus pension payments, when submitting information for inclusion in the P.A. 289 formula that is used to distribute state funds to municipalities that provide fire services for state facilities. This would ensure that the City receives the maximum amount allowed.

4. Parks and Recreation Fees

We recommend that the Parks & Recreation fee structure be reviewed to determine if higher non-resident fees are appropriate.

5. Parks & Recreation Auditorium

We recommend that Parks & Recreation establish a Local Talent Incubator by coordinating with local booking agencies/performing artists to use the Hannah Center auditorium to promote/highlight area talent. An admission fee to attend performances could be charged in order to help support Hannah Center maintenance costs.

6. Street Lighting Special Assessment

Several local communities are assessing special assessments for the cost of street lighting. While we have not had the time or expertise to conduct a complete review of this option, we have determined that this could be a substantial revenue source.

We recommend that the City conduct a full review of this option to determine the feasibility of implementing a special assessment program for the cost of street lighting.

7. State Revenue Sharing

State revenue sharing is currently based on the population of East Lansing without fully accounting for MSU students. Recognizing that most students are on campus roughly nine months of the year, each student could be counted as 0.75 full-time equivalent residents.

The committee recommends that the City aggressively pursue changes to state law that would add students from the fifteen state universities to the population of the municipalities in which those universities are located. This would require the amendment of MCL 141.903 (1) where “population” for the purpose of revenue sharing is defined. If this change was made it could result in increased revenue for the City. We suggest working through our elected representatives and seeking the support of legislators who represent other municipalities that encompass state universities.

8. MSU Events Surcharge

During some or most of Michigan State University (MSU) events, the City of East Lansing provides services and resources. We recommend that City officials and representatives from MSU work together to determine if adding a surcharge to tickets for MSU events is mutually beneficial in providing reimbursement for said services and resources.

The State Legislature has previously entertained a proposal to impose such a fee, but it excluded “collegiate athletic events” and “an event held at a venue with a capacity of 500

individuals or fewer”. We encourage the City to work with elected representatives and/or lobbyists to support similar legislation which would allow a ticket surcharge for college events. We also urge the City to coordinate with other municipalities which could benefit from this legislation.

Expenditures

9. Employee Health Insurance Contribution

We found that in 2026 employees have not been contributing to their health insurance premium. This is very rare among municipalities.

It is our understanding that this has recently changed for next year’s health insurance plans and that the employees will be contributing. We support this change

We recommend that employees continue to contribute to their health insurance for all future periods for the existing health insurance options.

We also recommend that the City offer other health insurance options such as a High-Deductible Plan which would allow employees to contribute to a Health Savings Account. This may be financially beneficial to some employees while possibly reducing the City’s cost.

10. Capital Asset Purchase

We recommend that a proposal to purchase any building, infrastructure or public space must include an evaluation of maintenance costs/depreciation costs as part of the City Council’s consideration.

11. Hannah Center Third Floor

We recommend that renovations of the unused Hannah Center third floor be included in the capital outlay plan to maximize community use of the center. Class fees and possible other charges can help offset the cost of maintenance/utilities for the 3rd floor.

Budget Procedures and Financial Reporting

12. Vacancy Factor

We recommend that the City annually budget a “vacancy factor” to account for open unfilled employee positions. In the past, the City’s budget has assumed that all positions are fully staffed for the entire year. This results in the over budgeting of costs. This recommendation was made early so that it could be implemented for the 2026-27 budget.

13. Balanced Budget

We recommend that the City Manager Proposed General Fund annual budget has expenditures equal to revenue with the exception of planned use of fund balance. The use of any Fund Balance should be for specific items, and a listing of all these items needs to be included with the proposed budget.

14. Future Debt

We recommend that debt service be used to fund allowable City-owned capital outlay projects. We also recommend that the debt service be funded from existing operating fund sources.

15. Budget to Actual Comparisons

We recommend that quarterly allotment schedules be prepared for the General Fund and that all year-to-date reports compare actual personnel expenses to budgeted personnel amounts to determine that budgeted personnel savings estimates are being realized throughout the fiscal year. Implementation of this should help determine if the vacancy factor is within budget. (Please see recommendation 12.)

The Adopted Budget seems to be only a listing of each of the funds supporting the total budget, while the proposed budget is totaled mostly by departments. We also recommend that the quarterly financial report and all other applicable documents include both the adopted budget along with the current amended budget so that citizens can see the impact of the dollar changes for each department throughout the year.

16. Indirect Cost Allocations

We recommend that the City explore alternative internal cost adjustment methods of accounting for indirect cost allocations. The current display of indirect cost allocations as a negative expenditure adjustment for central administrative functions such as City Manager, Finance, Treasury, etc. understates the actual cost of that function and hides the cost of supporting that function to the other departments.

17. Finance Department Website

We found that it was difficult to locate financial information on the City's website. To assist users, we recommend that the Finance Department establish a webpage which would report all financial documents in one location. This would include at least budgets, budget updates, quarterly financial reports, five-year forecasts, capital outlay forecasts and annual financial statements. This will offer citizens and other users a "one-stop" location to find all City related financial information.

Other

18. Retiree Health Insurance Liability

When meeting with the outside Actuary concerning the City's Other Post-Employees Benefits (OPEB) liability, it was determined that once the plan is fully funded, a majority of the amount needed for retiree health insurance could be paid from the plan rather than from the City's annual budget. This could save a considerable amount annually in most City Funds.

As of 12/31/24 (the most recent calculation), the liability was \$11.1 million. Once it is fully funded, the annual cost of retiree health insurance would be materially reduced for all future periods.

We realize that \$11.1 million is a large amount but not necessarily when compared with some of the City's other long-term liabilities.

The current language concerning the allocation of the income tax revenue requires that 60% of the net revenue be used to reduce the pension liability. If the income tax is extended, we recommend that this requirement be changed from reducing pension liability to reducing long term liabilities which could allow OPEB funding.

Until that time, we recommend that the City determine if additional funding is available on an annual or one time basis to work toward fully funding the OPEB liability.

19. Possible Sale of City Assets

We recommend a review of the City's assets to determine whether the asset should be sold, with priority consideration given to any excess property which could be converted to owner-occupied middle-income housing.

20. Police Officers Funded by the Downtown Development Authority

We recommend that the City consider hiring new police officers supported by Downtown Development Authority funding ahead of other positions that will be supported by the General Fund.

21. Regional Coordination

We recommend exploring regional coordination in the areas of public safety, the district court, recreation and other service consolidations through an authority, intergovernmental agreement, or other legal framework, when it saves dollars or results in increases in efficiency or levels of service.

22. Volunteer Financial Group

We recommend that the City consider establishing a small network of East Lansing residents to be used as a focus group and utilized as follows:

- a. To become familiar with the City's budget process as well as recurring revenues and operating expenditures.
- b. To review the City's quarterly financial updates.
- c. To be prepared to advise in the event of unexpected sudden changes in the City's financial outlook regarding new revenues and/or expenditures.
- d. To assist the City in financial outreach information and presentations to further enhance transparency goals.

23. Legal and Settlement Costs

As legally allowed, we recommend that the total cost of all legal fees and settlement costs be reported to the City Council on at least an annual basis.

24. Future Financial Review Committees

We recommend a committee similar to this group be established by City Council at least once every ten years to provide advice and review.