

CITIZENS LEAGUE REPORT

No. 91

**City of Minneapolis Budget Committee
First Progress Report**

August 1958

Adopted by Bd of Directors 8/6/

CITY BUDGET COMMITTEE
FIRST YEAR'S PROGRESS REPORT

No. 91



CITIZENS LEAGUE

Minneapolis and Hennepin County

601 SYNDICATE BUILDING — FEDERAL 8-0791
MINNEAPOLIS 2, MINNESOTA

OFFICERS

John F. Finn, Jr.
President
R. F. Kennedy
Vice President
Otto A. Silha
Vice President
John Bystrom
Vice President
Sander Genis
Vice President
Mrs. Frederick E. King
Secretary
William P. Laird
Treasurer

August 27, 1958

DIRECTORS

John Barker
Jim Bormann
William R. Chapman
Charles W. Cole
Elmer S. Conover
Benedict Deinard
Arthur O. Dietrich
John F. Finn, Jr.
Alan W. Giles
Walter S. Harris, Jr.
Clayton LeFevre
William B. Lockhart
Lee Loevinger
Rabbi Albert G. Minda
Mrs. J. K. Moen
Verne W. Moss, Jr.
Leslie C. Park
Paul W. Petterson
Malcolm Pfunder
Alan Phillips
Mrs. H. F. R. Plass
Desmond F. Pratt
Rev. Morris C. Robinson
Rev. Charles M. Sexton
Otto A. Silha
Archibald Spencer
W. Glen Wallace
Frank W. Walters
John W. Windhorst

Minneapolis City Council
Minneapolis Board of Estimate and Taxation

The Citizens League's City Budget Committee recently completed its first year's analysis of budget organization and procedure for City Council agencies. The resulting report, which is attached, was recently approved by the League's Board, and it seems appropriate to forward it to you now when your attention is directed to 1959 budget matters.

The major recommendation of the report is that, within the present City Charter provisions, the Council's budgetary process should be strengthened by giving authority, responsibility and staff to the Research Engineer to act as the City Council's budget officer. While the League has for many years urged the council to strengthen the Research Engineer's office for fiscal and management control purposes, the present report makes more specific reference to the budget process.

Members of the City Budget Committee and the League staff will be glad to discuss the report with you. We invite your comments.

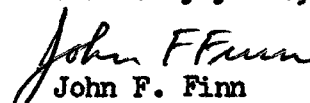
PAST PRESIDENTS

Leonard F. Ramberg
Stuart W. Leck
Leslie C. Park
Charles S. Bellows
Charles T. Silversen
Walter S. Harris, Jr.
John W. Windhorst

STAFF

Verne C. Johnson
Executive Director
Albert J. Richter
Research Director
Elmer L. Jacobsen
Membership Director

Sincerely yours,


John F. Finn
President

July 28, 1958

FIRST YEAR'S PROGRESS REPORT OF THE CITY BUDGET COMMITTEE

Summary

On the basis of our first year's study of the budget organization and procedure of agencies under the City Council,

WE STRONGLY ENDORSE the recommendation of the League's Forms and Structure Committee that for effective financial administration, including budgeting, the City Charter should be changed to provide a centralization of administration under a Chief Administrative Officer.

Although other approaches may provide some improvement, they would at best be only a stopgap solution and at worst may delay establishment of an adequate budget process.

Pending such a change, and within the present Charter provisions on organization structure, WE RECOMMEND that

1. The Research Engineer be given greater authority and responsibility in the City Council's budget procedure, including:
 - a. The holding of departmental budget hearings.
 - b. On the basis of those hearings, preparing a proposed budget for submission to the City Council and the public.
2. In line with these additional duties including the continuing budget analysis implicit therein, the Research Engineer's staff should be expanded.
3. City Council agencies continue to work for more performance budgeting, with the assistance and guidance of the staff of the Research Engineer.
4. City Council operating funds be consolidated (this requires a Charter amendment).
5. The listing of positions and employees in the budget estimate document should be discontinued.
6. Obsolete funds be eliminated from the budget document.

SIGNS OF PROGRESS we have noted are:

1. The City Council's practice of recent years of formalizing budget directions to all departments.
2. The Council's asking departments to submit performance and work load data with their budget requests, and the City Engineer's response to this request.

3. The Board of Estimate's moving up the process of determining the annual bond program so as to coordinate it with the preparation and adoption of the operating budgets.

WE PROPOSE AS OUR CONTINUING PROJECT FOR THE COMING YEAR, to make an intensive analysis of one or more selected City departments for the purpose of developing conclusions as to the adequacy of budget allocations and setting a pattern for use in analysis of other City departmental budgets.

The City Budget Committee and its procedure

The City Budget Committee was set up by the Board of Directors for the purpose of (1) evaluating the Minneapolis budget process and recommending improvements in the process as indicated by the study, (2) judging the adequacy of funds allocated to various departments, and (3) making studies dealing with general management efficiency. The Committee in the past years has limited itself to a consideration of budgeting for all agencies other than the School, Park and Library boards, since the latter have been and are under study by appropriate functional committees of the League. However, the committee expects that its study eventually will encompass those agencies, and is of the opinion that some of its findings are applicable to them.

As orientation the past year, the committee

- (1) met with the executive secretary of the Board of Estimate and Taxation, who has described the City's general budget organization and procedure;
- (2) Undertook a general review of the 1958 budget estimate document. This consisted of a detailed historical comparison of 1950 and 1958 budgets for most of the departments under the City Council.

As a result of our work so far, we have developed two types of conclusions and recommendations:

- (1) On budget organization and procedure, and the budget document.
- (2) On procedure for further analysis by our committee.

In addition we are attaching as an appendix an outline of suggested steps for an intensive budget analysis. Such analysis is an essential part of finding out what budget figures mean in terms of goods and services, as well as making the budget process a tool for effective management.

The budget concept

A budget is a program of work expressed in money terms. It should show what the government plans to do in the coming year, in terms of services and capital improvements, and how it proposes to raise the money to do it. So far as capital improvements are concerned, it should also show the government's projected plans for ensuing periods of years, perhaps five years and 20 years.

A city budget should be comprehensive, accurate and meaningful.

Comprehensive -- in that it should show all planned expenditures and revenues.

Accurate -- in that it should be a sound estimate of what is to be done and how it is to be financed.

Meaningful -- in so far as practicable it should indicate measures of governmental performance -- services and physical improvements.

Obviously, the city budget is important for citizens, policy-making officials, and policy -- executing officials.

For the citizen it is a control device over elected and appointed officials, and explaining to the citizen what the officials plan to do. For policy-making officials such as the City Council it is the means of planning operations and improvements and for seeing that administrative officials carry them out. For administrative officials it is the means of proposing plans and for carrying out the plans adopted by the policy making officials.

Financial planning is fundamental to the success of any organized activity. Sound budgeting in government is probably more important than in private enterprise, for in government there is no yardstick of profit and loss to register whether the government is performing effectively.

Budgeting has three aspects: the organization for budget administration, the budget procedure, and the budget document. All three must be carefully designed if governmental budgeting is to achieve maximum effectiveness.

Recommendations on budget organization which require Charter Change.

The City Budget Committee is familiar with and strongly supports the recommendation of the League's Forms and Structure Committee with respect to Charter changes to effect the reorganization of the financial administration of the City government, including budget administration. Essentially, this would abolish the Board of Estimate and Taxation, place responsibility for financial administration under the chief executive and restrict the City Council to policy-making (including budget adoption) and holding the administration accountable.

We believe that for most effective budgeting the Charter will have to be amended along these lines. Although other approaches may provide some improvement, they would at best be only a stopgap solution and at worst might delay establishment of an adequate budget process.

Our analysis, however, has generally assumed continuation of the present charter-created organization structure, so that our recommendations with respect to organization could be accomplished without any Charter changes. The principles underlying these suggestions would of course be valid when applied to the fundamental structural organization suggested by the Forms and Structure Committee.

Some comments on City's present budget organization and procedure

1. Budget message

Good budget procedure calls for the chief executive to set forth in his budget directive to department heads the general policy lines to be followed in submitting departmental budget requests. This directive would cover such matters of

policy as expansion or contraction of programs and general restrictions on personnel increases.

Since agencies under the City Council do not have a chief executive or administrator, this function, as other functions of the chief executive in the budget process, must be performed by the Council itself, or more directly by its Ways and Means Committee with the skilled assistance of its staff advisor, the Research Engineer.

The possibilities of a challenging budget message, setting forth alternatives for the Council and the public to consider, are seriously restricted in Minneapolis because of the relative inflexibility of revenue resources from year to year. In fact, the only time anything approximating a budget message of this kind appears is when one or the other of the several tax-levying bodies is asking the voters for an increase in the authorized millage for property taxes. This is what happened when the School and Park boards asked for such increases in referenda in recent years, and also when the City Council asked for a three-mill increase in the authorized levy for the Current Expense Fund.

In these cases, of course, the "budget message" is presented to the electorate as a justification of the requested taxing authority, rather than to department heads as an outline of a spending program.

Despite this general limitation on meaningful budget messages in terms of program, the City Council in recent years, through the Ways and Means Committee and Research Engineer, has made commendable progress in spelling out directions to be followed by departments in preparing their budget requests. Directions for the 1959 budget, for example, ask the Welfare Board to supply detailed estimates of 1959 revenues and proposed quarterly commitments; specify instructions for convention expense requests; set up a new Road and Bridge Fund; direct setting up of reserves for capital renewal and replacements out of current funds; direct salary estimates to be made on the basis of schedules in effect June 1, 1958; and call for department heads to submit, as far as practicable, statements showing performance and work load data and forecasts, and statements of planned improvements in organization methods and procedures.

We commend the Council for issuing these instructions, thereby providing needed direction and sense of budget responsibility which until a few years ago was not present, although we doubt whether the Council needs to go to the expense of having them printed.

2. Budget hearings and the screening process.

After the Board of Estimate and Taxation has compiled all the budget requests from the City Council and other agencies, they are published in the budget estimate book. The Ways and Means Committee then holds a series of departmental hearings in August and September, with the assistance of the Research Engineer. These hearings are for the purpose of quizzing the department heads on their requests and do not necessarily indicate what decisions the committee will make on the requests.

At the conclusions of these hearings, the practice has been for the committee to grant time for any outside group to make comments on the budget. The Ways and Means Committee meets with the Research Engineer and on the basis of material gathered in the hearings and further information and suggestions developed by the

Research Engineer, gets down to the serious business of hammering out realistic appropriations for the coming year. There is no further opportunity for the public to be heard on the budget.

We find several objectionable features in this hearing and screening process.

(1) It does not give the public an opportunity to react to a realistic budget proposal.

The first integrated budget proposal is the one that the Ways and Means Committee finally makes to the City Council. Up to that time, the committee has been merely going over requests made by departments. In many cases, the original departmental requests turn out to be the final figures, or close to final figures, adopted by the committee. In other cases, however, they have little relation to reality and are expressions of the departments head's plans of what he could do if he had all the money needed to do what he considered necessary.

Because of this fact, public comment on the budget after the departmental hearings are completed but before the committee goes into its serious sharpened-pencil sessions is slightly more than an academic gesture. The public may comment on general procedure, the past year's performance, and what appears to be coming up, but it lacks a clear picture of the total budget. To put it another way, the citizens of Minneapolis are deprived of the type of integrated executive budget found in many other comparable cities.

(2) The extended departmental hearings are a questionable use of the time of the committee members and department heads.

Frequently questions are discussed which have no relation to the budget before the committee, and could just as well be discussed at the regular session of the committee during the year. Also, a considerable amount of time is consumed developing information or ideas which the Research Engineer has available or could provide in a much shorter time than is required when the entire committee becomes involved.

To meet these two major objections, we suggest:

- (1) The Research Engineer should be given the authority to hold hearings with the department heads, for the purpose of drawing up and proposing to the Ways and Means Committee an integrated budget which represents his best judgment on the needs of the departments within the available resources as he sees them. He should have the necessary trained staff to assist him in doing the added work involved in reviewing departmental requests. The cost of this added staff will pay for itself many times over in the long run.
- (2) The Research Engineer's proposed budget should then be analysed by the Ways and Means Committee with department heads present. This should consume far less time of the committee and produce better results.
- (3) The public should be permitted to analyse and comment to the committee on the Research Engineer's proposal.
- (4) On the basis of the Research Engineer's proposal, the hearings with the Research Engineer, department heads and the public, the Ways and Means Committee would then submit its proposals to the full City Council.

3. Basis of the budget

The City's budget estimate book is prepared on the basis of object of expenditures. Thus, it shows how much money is requested for such items as office equipment (code 311), postage and mailing (code 221), photographic supplies (code 495), membership fees (code 571). This is the traditional method of presenting municipal budgets.

In recent years there has been a trend toward stating governmental budgets in terms of anticipated work volumes rather than the goods and services to be purchased. This is the movement toward the "performance budget", and is intended to give the administrator, the legislative body and the public a better understanding of what is to be accomplished by the expenditure of the public funds. The Hoover Commission brought the term "performance budget" into prominence in connection with its work on the federal administrative agencies. The concept is receiving a great deal of study and application in state and local governments, and has been under study particularly by the Municipal Finance Officers Association.

The performance budget idea has been generally accepted as a laudable one, and most cities are striving to go on a performance budget basis. However, experience thus far has indicated certain difficulties in shifting to the performance budget. For one, while certain municipal activities, particularly in the public works field, lend themselves to work measurement, others, such as the staff and house-keeping functions, do not. Another difficulty is that the establishment of work standards and reports requires at least initially, the introduction of new procedures and records and sometimes the addition of staff. Finally, there is reluctance among some municipal officials throughout the country to develop performance units for comparison with other municipalities because of their belief that use of those comparisons may not take into account inherent differences in the communities compared, such as climate, topography, and general economic base.

Despite these difficulties, the objective is so desirable that cities and associations of officials are continuing their efforts to develop performance budgeting as an effective instrument.

In Minneapolis, while the City's budget estimate book continues to be prepared on the basis of object of expenditures, there have been developments encouraging use of work load and performance measures. For the last several years the City Council, upon the suggestion of the Research Engineer, has directed its departments to submit with its regular budget estimate "statements showing as far as practicable or feasible, actual performance and work load data and forecasts thereof." So far, this request has yielded results primarily from the City Engineer's department.

We have also noticed commendable progress in the Park Board in stating the Budget in performance terms. How much more meaningful it is, for example, to read in the Park budget that the department proposes to spend \$5,450 for installing 35 concrete end settees at \$85.00 each and 13 concrete picnic tables and benches at \$190.00 per set than to read that it plans to spend \$2,220 on personal services and \$3,230 on other than personal service for repair or installation of park facilities, (a total of \$5,450).

We urge that the City Council continue to work for the use of more performance measures in the budget process. This is a logical function of the budget office, since it ties in well with its responsibility for screening departmental

requests and following up to see that the departments perform as they are directed to by the budget.

4. Capital improvements budgeting.

Though Minneapolis has a Permanent Improvement Fund with a separate tax rate for the purpose of financing capital outlays, the maximum rate (2.795 mills in 1958) has not been sufficient to finance the City's capital needs. As a result, major reliance has been placed on bond issues, since the city may impose an unlimited property tax to service bonds.

All bond requests must be funneled through the City council, which in effect has the power to propose to the bond-issuing agency -- the Board of Estimate and Taxation -- what bonds shall be issued. Within the amounts proposed by the Council, the Estimate Board has final authority to determine the maximum amount of bonds which shall be issued for the several purposes, and also determine maturities and scheduling.

In recent years the City Council and Board of Estimate have followed the practice of waiting until after the operating budgets have been adopted and tax levies certified before starting bond hearings. As a result, final determination of bond policy has been delayed until well into the year following adoption of current budgets. This has made it difficult to coordinate current and capital expenditures and the tax funds used to finance them, and is not in accordance with good budget procedure.

It is therefore commendable that the Board of Estimate and Taxation, on recommendation of its secretary, adopted a policy earlier this year of requesting the City Council and other bond-using agencies to submit their bond project requests for the following year by October 1st of each year.

Aside from the budget coordination advantage, advancing of the bond procedure is expected to have these advantages: various departments using bond proceeds will have more time for planning and implementation of bond projects and will be better able to coordinate their construction and operating programs as both will be budgeted on a calendar year basis; and project planning and construction can be scheduled to allow maximum use of the construction season and minimize off-season and split-season construction.

5. The budget document.

We have already made one suggestion relative to the budget document, that is, that efforts be made to make it reflect performance more than it does. Here are some additional suggestions which we feel would improve the budget from the standpoint of expense of preparing and using it and understandability.

(1) Dedication of monies should be eliminated insofar as possible, so that the City Council will have the flexibility to appropriate funds in accordance with current needs. The existence of many funds complicates public understanding, and when it is possible to make transfers among these funds anyway, as is now the case, it give the people a false sense of security.

Consolidation of Council funds would require a charter amendment.

(2) Although the salaries of public employees are and should be a matter of public record and available to any interested party, the listing of individual positions, and in many cases names of employees, in the printed budget involves the presentation of unnecessary detail which may obscure some significant aspects of the budget. Furthermore, it is costly, since about 30 of the total 164 pages in the budget estimate book are used for personnel listing. Positions could be grouped by classes, indicating the number of persons at each pay step if the Council felt it needed this information in the budget book. Otherwise, typewritten lists could be made available for use of the Council. The Council's pay plan, showing salary and wage rates for all positions, is published periodically and is another source of salary information more important than the present listing in the budget.

(3) Where funds have been combined it would appear to be more informative and useful to eliminate the obsolete fund entirely, showing its figures combined all the way back into the surviving fund. Examples in the 1958 budget document were the Upper River Harbor and Engineer's Building Construction Funds which were combined with the Permanent Improvement Fund. Elimination of these funds completely would have saved one printed page in the book.

(4) Insofar as consolidation of funds into the Current Expense Fund has been successful, more comprehensive and meaningful functional reporting will be possible. In addition, however, it is suggested that further improvement can be made in the reporting of functions by adjacent grouping.

6. Budget execution

The City Council adopts an appropriation act which sets forth for each major agency the funds available for the coming year in two categories: personal services and other than personal services. Approval of the Council is required for any agency to exceed either of these figures, or to transfer money from one to the other.

The Comptroller maintains control on expenditures by these two major categories, even though in the budget process department heads submitted a detailed breakdown of each of these categories. The Comptroller's concern is only with the total of each category, but department heads are expected to stay closely within the detailed breakdown as they presented it to the Council. If they depart from the details, such departures show up in the comparative figures presented at the time of the budget hearings, and they are closely questioned as to the reasons for departing from the detailed sums asked.

Control on the spending agencies is indispensable for proper discharge of the responsibilities of the Council as well as the department, namely, to see that expenditures are legal and within Council-established policy. But this detail type of control is not the most significant for the administrator, the Council or the public. It means little to any of these that, say, the City Engineer spent \$46,182 in 1956 for asphalt and tarvia used in paving repairs. What is most significant is how many utility cuts, pot holes, etc., were filled and repaired.

This emphasizes the need for constantly striving to translate dollars and cents into terms of performance. Then the alternatives of various spending proposals are made real to the department head who must present them, to the Council which must make the choice, and to the public which must judge both of them.

Then also it makes the budget-execution of the budget officer more effective, since he may then find out and report back to his superiors in understandable terms whether and to what extent the approved expenditure programs are being carried out.

Further study of adequacy of budget allocations

One of the committee's concerns is to evaluate the adequacy of allocations of funds to City departments. This should be a continuing task for the League. It is not an easy task, and to a great extent is a matter of judgment based on conclusions as to phases of the budget process already mentioned, for example, the soundness of organization and procedures and the use of performance measures.

The committee decided to start in the past year by making a simple comparison of the budgets of 1950 and 1958 of all the departments under the City Council. We soon concluded, however, that while this method had the merit of familiarizing us with the budget document and procedure, it was little help in really explaining changes in the budget, and in judging whether such changes were justified.

Based on this preliminary comparison, it is our conclusion that for the coming year, in addition to further study of the budget organization and procedure, we should concentrate on one or two major departments in an effort to make an intensive analysis of the budgets of those departments and perhaps thereby develop a pattern which may be applicable to other departments. This means finding out a great deal more about the functioning of the departments and measuring of their activities and involves developing performance measures and unit costs. Answers must be found to such questions as: Has the work load increased? Is the output of the department greater? If so, is it commensurate with increased costs, if any?

In many respects this is the sort of activity which should be carried on by the budget agency, and perhaps our project can be helpful for the budget office, when established. In any event, this type of analysis is essential for citizen organizations like the Citizens League, which are constantly striving to provide an independent objective measure and interpretation of the city government.

CITY BUDGET COMMITTEE

Dan Magraw, Chairman
John B. Daniels
R. L. Federman
Mrs. Beatrice M. Gasper
Fred Goff

Ernest Holmquist
George Nelson
Ray Putman
John Savage

APPENDIX

Preliminary Suggestions for Budget Analysis

A. PAYROLL

1. % Increase since 1950.

- a. How much is due to legitimate and approved salary increases granted on an over-all basis?
- b. How much is due to up-grading of jobs.
- c. How much is due to additions of personnel?
- d. How much is due to added functions?
- e. How much is due to transfers of jobs and personnel from other departments and accounts?
- f. Finally, what is the true % increase after recognition and compensation for all known factors?

2. Units of Production

- a. Are they used?
- b. Is the unit defined?
- c. How are units and hours recorded?
- d. How are they used?
 1. Budgeting.
 2. Comparison of actual performance with the budget.
- e. Are mechanical counters used on type-writers?

3. Organization

- a. Are organization charts prepared?
- b. Are responsibilities and authorities defined in writing?
- c. Does everyone have one "boss" and one only?
- d. What is the ratio of supervision of clerical?
- e. Can combinations be successfully developed and made effective?

4. Overtime

- a. Is overtime planned at least 24 hours ahead of the time it will be worked?
- b. Who is the final authority on overtime approvals?
- c. Can overtime be reduced or eliminated by:
 1. Use of outside services.
 2. Co-operation between departments, ie, can advantage be taken of "peaks" and "valleys" in various departments?
- d. How productive is overtime?

5. Fixed Cost Accounts

(Example - City Comptroller)

- a. In budgeting, is this part of the budget considered separately from the so-called variable section. Example of variable - clerical, typists, etc.

6. Work Methods and Procedures

- a. Is dictating equipment utilized to the utmost with a central transcribing unit?
 - 1. What is hourly production of letters transcribed?
- b. Could long-hand notes be utilized, inter-department, instead of letters?
- c. Are executives writing letters longhand and giving them to a stenographer for typing?
- d. How many copies are made of each letter?
 - 1. Why?
 - 2. Who gets them?
 - 3. Who files?
 - a. Is filing up to date?
 - 4. Who purges files?
 - a. How often?
- e. Are secretaries used for messenger service - for cigarets, wife's gifts, etc?
- f. To what extent are specially prepared forms used?
 - 1. Who approves special forms?
 - 2. What is maximum quantity per printing?
 - 3. Who uses the information on the form?
 - 4. How many obsolete special forms are there in the supply vaults?
 - 5. How many special forms are practically duplicates?
- g. Supervision.
 - 1. Are all employees under direct supervision?
 - 2. Are all employees at work for the hours for which they are paid?
 - 3. Are time-clocks monitored periodically?

B. EXPENSE

1. Purchases

- a. Is a purchase order always prepared and approved before the vendor delivers the merchandise?
- b. To what extent are "open orders" used?
- c. Are invoices always checked against the purchase order before payment?
- d. Does the buyer sign the invoice before payment?
- e. Is central purchasing used?

2. Inventory

- a. Are there inventory objectives for each item?
 - 1. Low-point.
 - 2. Maximum.
 - 3. 30 day stock.
- b. Who counts inventory?
 - 1. Frequency.
 - 2. Methods of counting.

- c. Are proper bins and fixtures available?
 - 1. To protect material.
 - 2. To simplify stocking, and counting.

3. Stock Records

- a. Is a stock record maintained on each item?
- b. Is information posted regularly?
- c. Who reviews the record?
- d. Who takes action?

4. Telephones

- a. Can phone expense be reduced by:
 - 1. Layout revisions.
 - 2. Use of extensions.
 - 3. Restrictions on personal calls - both incoming and outgoing.

5. Heating

- a. Would zone controls aid in reducing heating costs?

6. Lighting

- a. Can lights be turned on and off without going to a switch-board?
- b. Has a study been made as to the proper wattage in each area?
- c. Do fluorescent tubes meet the manufacturer's guarantee?
 - 1. If not, what action is taken?
- d. What does it cost to change a light bulb?
 - 1. Should complete areas be re-bulbed on a scheduled basis to avoid repeated costly trips to replace bulbs?

7. Building Cleaning

- a. What is the annual cost per square foot?
- b. What should it be?

8. Purchased Services

- a. Do they actually save money?
- b. To what extent have they reduced other costs?
 - 1. Can these cost reductions be proven?