CITIZENS LEAGUE REPORT

No. 34

Statement: Taxation and Borrowing Policy for Minneapolis

December 1954

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STATEMENT OF
TAXATION AND BORROWING POLICY
FOR MINNEAPOLIS

BY THE

TAXATION AND FINANCE COMMITTEE

DECEMBER 1954

CITIZENS LEAGUE

of

GREATER MINNEAPOLIS

601 SYNDICATE BUILDING

LI 0791

The Taxation and Finance Committee

Over a period of about a year, the Taxation and Finance Committee has had about 60 members. The members who attended the bulk of the meetings during which this report was developed are as follows:

* John Windhorst, Chairman	* Hamlin, Lehan H.
Adams, Salisbury	Jensen, George
* Anderson, Robert B.	Jones, Lloyd
* Barker, John M.	* Leland, W. C.
Bice, Don	Luther, Mrs. C.H.
Boline, Ralph	Patterson, D. T.
* Bennett, Russell	Pratt, James R.
Burger, John	Preus, David
* Colfix, L. B.	Quest, C. F.
Conover, E. S.	Spencer DeForest
* Curry, John A.	Stennes, Stanley
* Fiterman, Harry	* Thulin, W.
* Fitzsimmons, Robert	* Tronbal, N. E.
	* While, R. H.

Those whose names are proceded by an asterisk were present at the meeting at which the statement was adopted by the committee. The others were given an opportunity by mail to indicate their opinions, but registered no active dissent.

The statement was adopted unanimously by those at the last meeting (marked by asterisk), with these exceptions to specific sections:

One member voted "no" on point 7b, page 4a, on the grounds that he does not believe that the general tax structure is so progressive at the present time as to make it inadvisable to introduce an additional tax having a graduated tax structure.

Three members voted "no" on the committee's stand in opposition to adoption of a surtax on the state income tax.

Mr. Leland asked to be specifically recorded as voting "no" on the conclusions set forth in paragraphs 1 through 4 on page 7.

Three members voted "no" on the committee's stand on taxing public utilities,

Four members voted "no" on the committee's stand on the wheelage tax.

CITIZENS LEAGUE OF GREATER MINNEAPOLIS

CONTENTS

SCOPE

Municipal finance deals with the raising and spending of funds for municipal purposes.

The Taxation and Finance Committee believes that its principal function is to study the first aspect of municipal finance: the present and proposed methods of raising funds. This report is, therefore, focused on raising rather than spending money.

To follow a consistent course in studying methods of raising public funds for the City of Minneapolis, the Taxation and Finance Committee believes it is valuable to work out a statement of general principles as guides. It is believed that the principles here proposed will permit the other committees of the League and the public to judge more easily the desirability of proposed action on financial policy.

Before passing on to consideration of principles of raising funds for Minneapolis, the committee wishes to make three observations on expenditures:

(1) The committee believes that it must be concerned with the level of expenditures. The level of expenditures in the long run is the same as the level of taxation, and the question of the acceptable level of taxation is basic in considering tax policy.

(2) The committee recognizes that the study of how much should be spent on specific public purposes is more properly conducted by the League committees that are concerned with analyzing the policies, organization and management of the various governmental operations and projects. However, the committee wishes to state its own firm conviction that the division of available funds among governmental services and projects should be made on the basis of careful budgeting, using all available data and modern budgeting techniques. Such budgeting should include both current expenses and capital expenditures, and the two should be considered in relation to one another.

(3) While the City of Minneapolis needs improvement in budgeting for both current and capital expenditures, capital budgeting is the more serious lack at the present time. The committee, therefore, is pleased to note the formation and progress of the Long Range Capital Improvements Committee in developing a long range plan of capital improvements and a parallel long range plan of financing.

The following statement is presented in two sections: on taxation and on borrowing. Taxation is placed first because it is the normal and, in the last analysis, the basic method of paying the costs of government.

I. STATEMENT OF TAX POLICY

Preface

The Taxation and Finance Committee believes that the taxing and spending policies of any city should be designed to make it a good place in which to live and a favorable place in which to carry on a business. While the committee has devoted its primary attention to raising revenues, it has also considered the economic effects of the expenditure of these revenues and believes that such effects should be taken into account in any final determination of the total effect of municipal fiscal policy on the community. The committee also recognizes that pressure for increased expenditures and hence for increased revenues will continue as the city expands. In this regard, the committee wishes to express its faith in the continuously expanding productivity of our economy, which should make possible the raising of such higher revenues with no real increase in the burden borne by the taxpayer.

Governmental revenue, according to the classification used by the United States Bureau of the Census, consists of taxes, aid from other governments and charges and miscellaneous receipts arising from the conduct of governmental activities. The Taxation and Finance Committee recognizes the importance of the non-tax revenues in Minneapolis' financial picture. In regard to one important part of these -- aids from governments -- the committee is particularly aware of the stand of the Special Revenue Committee of the Nine Largest Minnesota Municipalities asking (1) that municipalities substantially share in any new or increased state taxes; (2) that they share in the existing gross earnings taxes on railroad and telephone companies; and (3) that the constitutional ceiling on gas tax distribution to counties should be replaced by an equitable statutory formula.

The committee also recognizes the importance of sound administration of the property tax, particularly assessing. The competence of such administration affects the equity with which the property tax burden is distributed among (1) property owners in the same community, (2) property owners in the entire state. The committee is aware of complaints about property tax administration in Minneapolis and throughout the state, and believes that such administration should always be given careful scrutiny looking toward improved policies and practices.

The committee believes, however, that the city's fiscal situation and political probabilities make the question of additional tax sources the most important issue in the field of revenue. The committee's first concern, therefore, is the development of a statement of principles to be used in selecting the source of additional tax revenues. The committee at some future time undoubtedly will want to present studies and statements on aids from other governments, other revenue sources and the administration of the property tax.

Principles to be followed in raising money by taxation.

1. The tax system should aim at fair and equitable taxation of all community members. Elements to be considered are:

   (a) the ability of the taxpayer to pay.

   (b) the benefits derived from the City by the taxpayers.

   (c) the effect on the willingness of individuals to work and invest capital.

2. The tax system must encourage the growth of business and industry locally. It must not put local business and industry at a competitive disadvantage.

3. The tax system should be economical to administer.

4. The mechanics of tax payment should be easy and convenient for the taxpayer.

5. The tax system should be realistic and flexible enough to maintain a stable city income.

6. In considering a city tax system, the effect of the entire tax structure, Federal, state and local, must be taken into account.

The level of taxation in Minneapolis

A widely-used method of comparing the burden of taxation of similar units of government is to compare the amount of taxes paid per dollar of income received. In other words, what percentage of income is being paid out in taxes?

This percentage tells us nothing about the distribution of the burden, but does give a general indication of the relative overall load being carried.

A valid comparison of this kind between Minneapolis and other cities requires data on total local and state taxes paid in the cities compared. This is because in different states and in different cities in the same state, similar functions are performed by different units of government. Thus, for example, in Minneapolis poor relief is a city function, whereas in Duluth it is a county function, and in St. Louis, Missouri, it is a state function.

The committee does not have sufficient information at the present time to make such a complete inter-city comparison.

Data are available, however, on a state-wide basis which permit comparisons between Minnesota and other states as to the state and local tax load per dollar of income received. These comparisons can suggest at least tentative conclusions on the relative level of taxation in Minneapolis at the present time.

Table 1 in the appendix shows how Minnesota stands in a group of 11 comparable states with respect to per capita state and local taxes in 1953. Table 2 shows how Minnesota ranks among these states when 1953 state and local taxes are expressed as a percentage of income earned in such states.

Minnesota's state and local taxes in 1953 were about $151 per capita, or third in rank in the 11 states, compared with a high of $156 in Wisconsin, a low of $102 in Missouri and a median (middle item) of $139.

In the ratio of state and local taxes to income, Minnesota's percentage was 9.77%, or fourth in the 11 states, compared with a high of 10.69% in North Dakota, a low of 5.79% in Ohio, and a median of 8.29%.

It seems fair to conclude that among these 11 states Minnesota's burden of state and local taxes relative to income was near the top.

So far as inter-state comparisons are an indicator, this would suggest caution in considering the addition of more taxes. Before coming to a more definite conclusion, however, certain other factors must be considered.

First of all, taxation is not a one-way process. Governmental services are received in return and indeed the demand for these services in general creates the demand for the additional taxes. Thus in deciding whether additions to taxation are advisable, an important question is: Will the tax increase have an adverse effect on the people out of proportion to the benefits to be derived from the services to be acquired by such a tax increase? The answer to this question is not demonstrable on a factual basis.

Secondly, the percentage of state and local taxes to income in Minnesota and elsewhere apparently is not higher than levels reached 20 or 30 years ago. (1) In fact, if state and local government expenditures are taken alone they show a decrease in relation to net national product. Moreover, even if the total non-war related expenditures by federal, state and local governments are considered for the nation as a whole, they are consuming about the same portion of net national product as in the 1920's. (2)

Relating to Minneapolis these general considerations and the data on the State of Minnesota, the committee feels that there is basis for caution in adding to the tax burdens of the city's taxpayers. But the committee believes that increases in our local tax burden will not produce adverse consequences if (a) the additional taxes do not materially impair the competitive position of Minneapolis business enterprise, and (b) the additional tax and spending measures have general public support.

An important consideration in judging whether conditions (a) and (b) do and will exist is the distribution of present and possible future tax burdens. It is necessary, therefore, to understand the present tax structure in Minneapolis.

Minneapolis' Present Revenue System.

Table 3 in the appendix shows a summary of the revenue structure of the local governments with jurisdiction in Minneapolis: the school system, the City government and the County government. It also shows a summary of the revenue structure of local governments in the remainder of Hennepin County. The revenues of the county government have been allocated between Minneapolis and the remainder of Hennepin County in proportion to the assessed valuation in each area.

Data presented in sections 1 and 2 of the appendix throw light on Minneapolis' revenue structure in comparison with the structure in cities of comparable size.

Data presented in section 3 of the appendix, show how the classification of property for taxation purposes in Minnesota affects the distribution of the property tax burden. They also bear on the question of the relative size of property taxes on various types of business in Minneapolis.

General conclusions as to Minneapolis Tax Structure.

On the basis of the principles listed above and the data presented in Tables 3-6 and sections 1, 2 and 3 of the appendix, the committee draws these conclusions:

(1) National Tax Journal, March 1953, pp 43-50
(2) National Tax Journal, June 1953, page 98

1. Minneapolis is well above the average of cities of comparable size in the degree of its reliance on the property tax. (See Tables 4 and 5.)

2. Minneapolis has not kept pace with other cities in finding sources of revenue other than the property tax. (Table 4.)

3. The Minnesota system of classification of property for taxation purposes discriminates against business property and particularly favors homestead property. (Section 3 of appendix).

4. Minneapolis government, including schools, receives somewhat less aid from other governmental units than comparable cities. Minneapolis schools receive an appreciably greater percentage of state aids relative to other large city school systems, while other municipal functions receive a substantially lesser share than similar functions in other cities. (Table 5)

5. The committee believes that taxes imposed on business in the City of Minneapolis are already high compared with taxes imposed on business by surrounding communities and other states. This is because (1) Minneapolis relies heavily on the property tax, which applies to personal as well as real property; (2) the Minnesota property classification system, including the homestead exemption, imposes a relatively higher proportion of the property tax on business than on other property owners; (3) other communities have tended to obtain an increasing part of their revenue from taxes which do not bear heavily on business; and (4) there may be a tendency to assess business property at a higher level than other property. The committee is not prepared to comment on the extent or relative importance of the last factor.

Taxes affect the competitive position of business. As taxes on business in one city become higher than those in other cities where competitors are located, there is increased pressure on businesses in the higher-taxed city to move or expand elsewhere and corresponding discouragement to new business that might move in. The committee believes that, except for businesses which cannot move from Minneapolis, the imposition of further taxes on business in the city would have a tendency to cause business to stay out of or move away from Minneapolis.

In reaching this conclusion, the Committee recognizes that it cannot precisely set a limit of taxation on business. However, the committee believes that the evidence supports the conclusion that businesses located in Minneapolis already are at a competitive disadvantage in so far as taxes are concerned and that an increase in taxation would increase this disadvantage. In the long run it is believed that an increase in such competitive disadvantage would be harmful to persons living or working in this city.

> The committee concludes, therefore, that any additional tax that will fall on business generally must be cautiously approached so long as the tax conditions now existing in Minnesota and surrounding states remain approximately the same as at the present time. This conclusion applies whether the tax is a net income tax, an increased property tax, a tax on gross receipts or any combination or variation of these taxes. It applies even though the tax is levied on both individuals and businesses, as in the case of the general property tax or the net income tax. If a new tax has the effect of reducing an existing tax, or if only a relatively small portion of the new tax falls on business, imposition of the new tax on business then is not foreclosed.

It should be pointed out that while the discussion has been in terms of taxes on business, it should not be concluded that the wage earner is not affected by the taxation of business and its competitive position. An estimated 44% of Minneapolis employees are engaged in the manufacture or distribution of goods sold outside of Minneapolis and they stand to lose by the decline of the competitive position of Minneapolis business.

Whether or not there should be any reduction in the existing taxes imposed on business is a matter which is not, as a practical matter, within the direct control of the voters or the Council of the City of Minneapolis, and must be decided by the Legislature.

6. The committee believes that a selective tax on business probably cannot be adopted in a form which would be reasonably equitable to the parties involved. However, if a selective tax on business is to be imposed it must meet these minimum principles:

(a) If the tax is to be passed on to the public (and the committee believes that substantially all taxes, with the possible exception of part of the net income tax, are passed on to the consumers), the business which is taxed should be of such a nature that the tax is passed on to the public generally and not to some small portion thereof.

(b) The business and its customers which are specially taxed must be of such a nature as to make it difficult or impossible to avoid the tax by leaving the city.

(c) The tax should be separately shown on all statements and invoices to the public, so as to make the public aware that the business which is specially taxed is not bearing the burden of the tax and so as to permit the tax to be deducted by the public for income tax purposes.

7. The committee believes that if any additional tax is to be imposed directly on the public generally, as distinguished from business, it must satisfy these requirements:

(a) The tax must apply to substantially the entire public.

(b) Because the income taxes imposed by the State of Minnesota and by the federal government involve progressive and graduated rate structures, it is inadvisable, from the standpoint of revenue to be derived and from the standpoint of impact on the general public, to introduce an additional progressive or graduated feature in a local tax structure.

8. Where a particular portion of the community receives recognizably greater benefits from a particular improvement or service, maximum possible use should be made of available techniques for collecting the cost from this group. Sewer, water, garbage disposal and other services should be carefully examined in the light of this principle.

Prssible Changes in Tax Structure Whithin Framework of Above Conclusions

In the light of the facts and conclusions set forth above, the committee believes that the following tax changes will produce the revenue indicated in a manner which will not adversely affect the growth and development of the city. Whether or not any one or more of these proposals should be actively promoted is a matter involving political judgments which this committee does not believe it is in a position to make for the League.

1. Municipal income tax

In recent years a growing number of cities have adopted a local tax on income as a supplement to the property tax. At least 46 cities and about 280 smaller units, such as school districts (all the latter in Pennsylvania), have such a tax. Details on municipal income taxes now in effect are given in section 5 of the appendix.

The committee has given consideration to two general variations of the municipal income tax: (1) a locally-administered tax on the earned income of individuals including the total earned income of residents and the locally-earned income of non-residents, and on the net profits of corporations allocable to local sources; and (2) a surtax on the state income tax, to be collected by the state and returned to the localities. The first, hereafter referred to as the "earnings tax", is the type of tax now in effect in United States cities. The second is not currently in effect in the United States to the committee's knowledge, but is being discussed by the Special Revenue Committee of the Nine Largest Minnesota Municipalities as a possible measure for proposal to the 1955 legislature.

Features of the two general types

(a) Earnings Tax.

In most of the cities where the earnings tax is now in effect it applies to earned income of individuals and also to net profits of corporations. The 11 Pennsylvania cities are prohibited by state law from levying on the net profits of corporations. The tax on wage earners is administered by withholding by the employer in every city except Washington, D. C.

The general policy observed is to tax both residents and non-residents. Residents are taxed on income arising anywhere while non-residents are taxed only on income arising within the municipal limits. Where more than one local government in an area has the tax it is necessary to establish rules to avoid double taxation. Two methods are possible: (1) Non-residents can be exempted from taxation by the communities in which their income arises when they pay income taxes to their communities of residence. (2) Residents can be exempted from taxation by their home communities when they pay income taxes to outside communities from which they derive income. Both systems are in use.

The tax is levied at a flat rate of from 0.3% to 1.25%, with a predominance of the 1% rate. Only three cities grant exemptions. Unearned income-- dividends, interest, royalties, etc. -- is taxed only in Washington, D. C., probably because of administrative and legal difficulties. Businesses in non-corporate form are taxed on income after deducting business expenses. Wage earners, however, cannot take deductions. Apparently the tax in this form has been found to be easy and inexpensive to administer.

Costs of collection amount to about 2 to 6 per cent where they can be determined, with the higher percentage occuring in the early years the tax is in effect and in the cities with the lowest rates.

In the cities which tax earned income on individuals and net profits of corporations (that is, the Ohio cities, Louisville (1) and St. Louis), a 1% tax yields from $7.50 to $40 per capita, according to latest figures. The great variation appears to be due to the variation in the amount of business and industry in the city. Estimates indicate that a 1% tax would yield about $9,900,000 in Minneapolis and about $13,000,000 in Hennepin County, or about $18.50 per capita. A rate of ½% would yield about $5,000,000 and $6,500,000 respectively.

(b) Surtax on state income tax

Since this type of municipal income tax is not levied in the United States, no facts on experience elsewhere are available comparable to those on the earnings tax. The description is therefore based on the best information obtainable on the current discussions by the Nine Cities Committee.

Figured as a percentage of the state tax, the surtax would carry with it the exemptions, deductions and rates applicable to the state tax. The state tax on individuals progresses from 1% on the first $1,000 of net income after personal exemption to 10% of all such income over $20,000. The state tax on corporations is 6% of net income. (2) The surtax would reach unearned income as well as earned income. Also, an effort might be made to apply the tax to non-residents as well as residents.

The tax would be collected by the state and returned to the locality. This would relieve the local government of the job of administration. Unless the legislature changed the law to require collection of the state tax at the source, the individual taxpayer would need to determine his own tax liability and submit it to the state with his state tax return. Also, non-residents would need to distinguish their income earned in the city from that earned outside, both unearned and earned.

It is estimated that a 35% surtax would be needed to raise $5,000,000 annually for the City and $6,500,000 annually for the County, and a 70% surtax would be needed to raise $9,900,000 and $13,000,000, respectively.

Committee's views on features of the taxes

Consideration of the features of the earnings tax and the surtax on the state income tax indicates that if a local tax on income is to be imposed, decisions are needed on a number of significant points:

1. Should the tax be applied at a flat rate or at a progressive rate?

2. Should unearned income be taxed?

(1) Louisville, however, does not tax income of residents earned outside the city.
(2) Both individual and corporate rates as stated exclude soldiers' bonus surtax.

3. How important is it to restrict any increase in the taxation of business?

4. Is it better for the state to administer the tax rather than local governments?

Following are the committee's views on these points, most of which may be inferred from conclusions previously stated in this report.

1. The tax system is already progressive enough (page 4a) (1)

2. The potential enforcement problem with respect to investment income and the fact that investment income is already heavily taxed seem to the committee to weigh heavily against the justice of a tax on income derived from these sources. A tax on investment income from securities would produce a strong motive on the part of wealthy individuals to live just outside the limits of the taxing jurisdiction.

3. With progressive rates, the surtax would bear more heavily on industry than the straight percentage tax. Estimated collections from corporate business under a 35% surtax would be $1,600,000, from ½% earnings tax, $500,000. In view of the status of taxation of business referred to above (page 4), the committee favors taxation of business at the lower rate.

4 The experience of other cities indicates the desirability of the withholding system for securing maximum collection of taxes due. Were a surtax to be imposed with the withholding feature, probably a change in the system applicable to the entire state would be required, whereas use of the withholding system for Minneapolis or Hennepin County alone, as in the earnings tax, would necessitate no such statewide change. Even with the withholding feature, the collection of the surtax on unearned income would be difficult to enforce. The committee concludes that administration by local government raises fewer obstacles to legislative approval of the withholding system, and avoids some of the problems of collection inherent in use of the surtax.

<u>For an earnings tax</u>

The committee believes that the tests of the principles set forth in this report are met by the earnings tax: an income tax levied at a flat percentage of all earned income of individuals, and net profits of corporations. The committee therefore favors the local earnings tax and does not favor the local surtax on the state income tax. If a substantial amount of additional local revenue is to be raised the committee believes that the earnings tax is the best available source.

The committee believes, furthermore, that an earnings tax should be levied on a county-wide basis, with authorization for a reciprocal arrangement whereby neighboring counties might levy the tax. If other counties did choose to levy the tax, income should be taxable at the residence of the taxpayer, or should be rebated by the collecting agency to the county of residence.

The committee favors a county-wide tax for these reasons: It is not convinced of the justice of applying a general tax to non-residents for Minneapolis purposes, at least not at the same rate as is applied to residents. It would also seem impracticable to secure legislative authorization for Minneapolis to tax the income earned by non-residents without giving surrounding municipalities the right to

(1) See appendix, Section 6, for the rate schedule which would apply to individuals under 35% surtax.

reciprocate by applying a similar tax on income according to the residence of the recipient. If this were done there would result, in effect, a county-wide tax without the benefit of integrated administration. Furthermore, if such an income tax were to be imposed only on Minneapolis residents it would add an incentive for taxpayers to leave the city. Finally, the county-wide system would give other parts of the county a chance for needed additional revenue.

It is recognized that the arguments given, if followed to their logical conclusion, might point to a tax administered on a broader geographical basis than the county, at least the two counties of Hennepin and Ramsey. As a matter of fact, it is for this reason that the committee would favor authority for neighboring counties to enact similar taxes and provide for reciprocal arrangements whereby persons living in one county and earning income in another would be taxed only at their place of residence.

Taxation of non-residents

A further word probably is necessary regarding the taxation of non-residents. The committee considered the validity of taxing non-residents who earn their livelihoods in the city, and found arguments on both sides of the question. It is true that thousands daily come into the city, use its facilities but do not pay direct taxes for the maintenance of the city's services. The argument for such direct taxation, however, assumes that the local tax structure favors the non-residents at the expense of Minneapolis residents. A good case can be made for the position that, under the present metropolitan tax pattern, Minneapolis actually is at an advantage due to the fact that it has large businesses and industries to tax within its borders. These businesses and industries are to a large extent responsible for the rise of our suburban communities, and many of the people who work for these businesses and industries live in the suburbs. Yet at the present time all the direct taxes for municipal government services (not including county government) go to the City of Minneapolis.

To a large degree this condition, whereby business and industry have municipal responsibilities which overrun governmental boundary lines yet are taxable only by the central city, is responsible for the relatively high school taxes paid in the suburbs and the relatively high percentage which such taxes are of the suburbanites' local tax bill. A similar case, to a lesser degree, can be made for other municipal services, such as street construction and maintenance, sewage, water and health services.

The committee believes that business and industry are contributing more to Minneapolis government than is necessary for the maintenance of governmental services for Minneapolis residents alone. (1) The "surplus" is going to the maintenance of services which are necessary because Minneapolis is a metropolitan center, and certainly a share of this is on behalf of the non-residents who are important members of the metropolitan community. The committee therefore does not believe that it is justifiable to impose an income tax for the sole benefit of Minneapolis which would bear as heavily on the income earned by non-residents as the income earned by residents.

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(1) See appendix, section 7, for data on the proportion of Minneapolis property taxes borne by business property.

Proposal for a county-wide earnings tax

Consistent with the above facts and beliefs, the committee proposes an earnings tax to be levied and administered as described below. Dollar amounts are shown for a rate of ½% and 1%.

Base of tax

(a) Individuals -- All income earned by residents of Hennepin County, without regard to the place where earned. Individual business proprietorships and business partnerships will be taxed on net income. No exemptions, deductions. Investment income not included.

(b) Corporations -- Net income.

Application:

(a) Mandatory for Hennepin County. Mandatory for Ramsey and St. Louis counties if their legislative delegations so desire.

(b) Optional for either of the two counties not mandatory under (a).

(c) Optional for counties contiguous to counties which have adopted the tax.

Administered by: County Auditor and County Treasurer.

How to become effective: In mandatory counties, rate of ½% shall become effective on passage by legislature, with local option to abolish or reduce the tax or increase the rate up to a maximum of 1%. In optional counties, shall become effective upon option of counties, but at rate not less than ½%. Exercise of local option shall require:

(a) Approval of a majority of all the members of the governing body of the cities of the first class; and (b) approval of a majority of the school boards of the county, including school boards of cities of the first class, each school board to determine its position by a majority of all its members.

Estimated yield: Rate of ½%: $6,500,000. Rate of 1%: $13,000,000.

Distribution of Proceeds:

(a) The net proceeds, after allowance for costs of administration, shall be distributed between the cities of the first class, on one hand, and the remainder of the county, on the other hand, in proportion to the assessed valuation in each area as annually determined by the County Auditor.

(b) The share allocable to cities of the first class shall be divided evenly between the city council and the board of education, to be used for general municipal and school purposes, respectively.

(c) The share allocable to the remainder of the county shall be divided among the school districts of the county outside cities of the first class on the basis of annual school census as determined by the County Superintendent of Schools, and shall be used for general school purposes.

Residents working outside the county: Employers of residents of the county working outside the county shall be required to withhold the tax and make a return to the County Auditor of the county in which the tax is in effect.

Double Taxation: In the event a resident of a county in which the tax is applicable derives earned income from another county or counties in which the tax is applicable, the county of residence shall have the prior right to tax the income so earned.

Illustration of distribution of proceeds:

	Assessed valuation in Hennepin County 1954	
	Amount	Percent of total
City of Minneapolis	$350,805,200	76.8
Rest of Hennepin County	105,872,973	23.2
	$456,678,173	100.0%

½% Yield			1%Yield	
$6,500,000 - $260,000 (administrative costs at 4%): $6,240,000			$13,000,000 - $390,000 (administrative costs at 3%): $12,610,000	
MINNEAPOLIS' SHARE		Mill rate equivalent (1954)		Mill rate equivalent (1954)
$6,240,000 x 76.8%:	$4,792,000		$12,610,000 x 76.8% $9,684.000	
City Council - ½:	2,396,000	7.0	4,842,000	14.2
Schools - -½	2,396,000	7.0	4,842,000	14.2
OUTSIDE MINNEAPOLIS				
$6,240,000 x 23.2%:	$1,448,000		$12,610,000 x 23.2%: $2,926,000	

Illustration of return for some typical school districts:

School Districts	Est. enroll. 1954 No.	%	Estimated income tax allocation ½%	1%	Mill rate equivalent (1954) ½%	1%	1954 actual school mill rate
Robbinsdale 24	8,255	18.0	$260,000	$527,000	21.7	43.9	76.4
St.Louis Park 205	7,383	16.1	233,000	471,000	15.6	31.6	88.4
Richfield 12	6,599	14.4	208,000	421,000	19.3	39.0	97.8
Bloomington 142	3,815	8.3	120,000	242,000	20.2	40.7	88.1
Hopkins 225	3,805	8.3	120,000	242,000	9.7	19.6	77.2
Edina-M'side 17	3,720	8.1	117,000	237,000	9.4	19.0	66.2
Minnetonka 7	3,169	6.9	100,000	202,000	15.9	32.1	97.0
Mound 85	1,909	4.2	61,000	123,000	17.7	35.6	98.8
Osseo 43	1,387	3.0	43,000	88,000	22.2	45.4	77.7
Orono 11	1,010	2.2	32,000	64,000	13.9	27.8	126.4

2. Taxation of public utilities

The committee believes that the principal area within which specialized taxes on business may be imposed within the conclusions set forth above is in the case of public utilities. Minneapolis already is taxing the gas company under a franchise payment of 1.6% of gross revenue, which produces about $370,000 per year, and has imposed a similar levy on the power company equal to about 1.5% of gross revenue. This is estimated to produce about $400,000 per year. The only remaining utilities which might be the subject of such a levy are telephone, public transportation and water. The amount of additional revenue to be raised from such levies depends on the rate, but in the light of other rates imposed on utilities, it probably would not exceed $500,000 to $750,000 per year.

The committee re-emphasizes the point made above with regard to selective taxes on businesses: the tax should be separately shown on all statements and invoices to the public.

3. Wheelage tax

The committee believes a local wheelage tax imposed on automobile vehicles would be an acceptable tax. Minneapolis has authority to levy a wheelage tax, but apparently has not done so because of the administrative problems raised by the present enabling act. Among these is the difficulty of determining which motor vehicles are "using the public streets or highways" and enforcing the tax on them.

At least one city in 11 states was levying wheelage tax in 1952, and according to the League of Minnesota Municipalities administration was not difficult. This indicates that under properly drawn legislative authority an enforceable tax could probably be levied in Minneapolis.

The presently authorized tax would amount to $10 per passenger vehicle and $15 per truck. Recognizing the hazard of estimates because of the enforcement problem, the City Research Engineer estimated early in 1953 that the tax would yield about $1,500,000 annually.

4. Homestead exemption

The Interim Committee on Taxation authorized by the 1953 Legislature recently has criticized the homestead exemption, and this criticism has been noted in the daily press. The homestead exemption was adopted in 1934 by the Legislature to give property tax relief to owner-occupants of residential property.

Under the homestead exemption the first $4,000 of the full and true valuation of each home is assessed at 25% of that amount, or $1,000, and the excess of the full and true valuation above $4,000 is assessed at 40%. The effect of the homestead exemption, therefore, is to reduce the assessed value of each home having a full and true value of $4,000 or more in the sum of $600 below what it would be under the general assessment classification otherwise applicable.

If the tax rate is 150 mills, this means that the homestead exemption reduces the tax which otherwise would be paid on that home by $90.00, or a total of almost $5,000,000 in Minneapolis ($1,754,000 for schools and $3,150,000 for all other levies).

This report does not advocate the abolition of the homestead exemption. The committee believes that the entire classification system is of doubtful value, and that as a part of such classification system the homestead exemption should be reconsidered.

5. Property tax

The committee believes that an increase in the general property tax rate is undesirable because our property tax levy is already high.

6. Sales tax

There has been considerable agitation for a sales tax in the State of Minnesota. The committee does not believe that a city sales tax should be considered or adopted. This is because the size and geographical location of the city are such that a city sales tax would encourage the flight of business in many lines to the suburban areas. This objection would be lessened if the tax were on a county basis, but would probably still exist because of the availability of other trading centers in the metropolitan areas.

If a state sales tax is adopted, the following general claims undoubtedly will be made on the proceeds:

(a) The claims of those who wish to have some existing taxes replaced. This includes the personal property tax on inventories and some income tax adjustments.

(b) The claims of those who wish to have the basic state aid for schools continued at the present level or higher.

(c) The claims of those who believe that the state needs additional revenue for expansion of some functions of the state government.

(d) The claims of those who believe that additional state aids on a population basis should be given to units of local government out of state collected taxes.

Because the problem involved in a state sales tax is extremely broad and involves all of the other municipalities in the state, the committee does not believe that it can advocate a specific solution in this field. However, the committee does recognize the special importance of (d) insofar as it would affect Minneapolis' revenue position. Furthermore, whereas the committee plans to give fuller attention to the question of state aids at a later date, it feels it is important to state at this time its following general beliefs:

If a state sales tax is adopted, some portion of the proceeds should be used for the purpose of increased aids to the units of local government. Such aids should be of a general nature and should not be earmarked or limited in use. In determining the amount of such aids, the committee believes that the Legislature should recognize that the costs of government in a large metropolitan community are greater per capita than in small communities, and that where a substantial part of the taxes is collected on a state wide basis (with proportionately larger collections from the metropolitan areas), the needs of the metropolitan communities should be recognized in the adoption of the allocation formula upon which the aids are computed. See section 4 of the appendix for pertinent figures in connection with this problem.

II. STATEMENT ON BORROWING POLICY

When is borrowing justified?

Except in cases of extreme emergencies, the following principles should apply:

1. The City of Minneapolis should not refund existing bonded indebtedness. Maturities of existing bonds are such as to permit payment of the bonds as they mature without increasing present taxes for debt service. If the pattern of maturities of present bonds is not disturbed and the revenue needs for bond retirement are thus clearly fixed, it will clarify the needs for additional expenditures and the ability of the community pay for them.

2. The City should not issue bonds to pay current operating expenses. The bonds issued in emergencies should be short term bonds and should be accompanied by immediate plans to discharge the indebtedness out of increased or new tax revenues in the shortest possible period of time.

3. The City of Minneapolis (which term in this case is used generally and includes the School Board, Park Board, etc.) must make some capital expenditures each year and normally these capital expenditures should be paid out of current tax revenues. This principle implies that current tax sources should be adequate to pay for current operating expenses and normal capital expenditures. If they are not adequate, the issuance of bonds becomes a device to avoid tax limitations.

There are abnormal situations, however, when it is sound fiscal policy to finance capital expenditures out of bond proceeds. These occur when conditions bring about the concentration of a large quantity of capital expenditures in one year. Even here, however, the bonds should not be issued unless the community has the ability to pay the cost of retiring the bonds and the increased operating expenses arising out of the improvements.

The following illustrates an application of the above principles in which the use of bond money for capital improvements is justified:

a) The existence of an unusually high demand for numerous capital improvements by reason of:

   (1) A change in the needs of the community, or

   (2) A growth in the community where the needed capital improvements will be useful over a long period of time and similar improvements will not be required annually.

   (3) An accumulated backlog of capital improvements. Such a backlog may result from wartime restrictions, economic conditions which discourage improvements, or the pursuance during prior years of very conservative fiscal policies.

b) The concentration in a particular year or years of one or more large capital expenditures, projects which cannot be financed out of current tax revenues because of their size without causing a severe fluctuation in the tax levy.

c) Unforeseen emergencies, such as destruction of large items of uninsured property.

d) Those situations in which a particular expenditure will have the demonstrable effect of saving money in an amount in excess of the cost of the improvement over the life of the improvement.

Management of City debt

1. In order to prevent delusions as to the cost to taxpayers of needed capital improvements, to stabilize the tax rate and to remove pressure to refund bonds as they mature, the bonds should mature serially (with approximately equal annual payments of combined principal and interest) over the term of the bonds. Call provisions should be included whenever possible.

2. Terms of bonds should not exceed the anticipated useful life of the improvement they are used to finance.

3. To encourage the development of long term plans, the Council and the Board of Estimate and Taxation should indicate their willingness to consider and schedule an agency's bond requirements for two or more years.

4. If the debt policies stated above are followed, the fact that the net debt is increased or decreased in a particular year is not of major significance. The total amount of bonded debt is subject to legal restrictions and the practical effects of an increasing debt on the City's credit rating. In addition, considerations other than the above principles may affect the timing of construction of public works. These include the level of existing and anticipated costs, and the use of governmental expenditures as part of the control mechanism of the general economy, that is, to stimulate economic activity or to provide work with governmental funds which would otherwise be spent in some part for relief purposes. The committee does not believe, however, that correlation of Minneapolis improvement programs with national economic controls should be regarded as determinative in scheduling Minneapolis public works.

(Section 8 of the appendix provides illustrations of the effect on Minneapolis debt structure of two assumed borrowing policies.)

Appendix

TABLE 1

Per capita state and local taxes, 1953
by state (1)

	State		Local		Total	
	Amount	Rank	Amount	Rank	Amount	Rank
Wisconsin	$ 71.87	4	$84.33	2	$156.21	1
Washington	107.20	1	48.81	11	155.99	2
MINNESOTA	74.52	3	76.59	5	151.10	3
Iowa	65.01	7	83.39	3	148.40	4
Michigan	85.02	2	61.38	8	146.40	5
South Dakota	54.89	10	84.38	1	139.27	6
North Dakota	71.61	5	66.80	6	138.41	7
Illinois	57.14	9	78.23	4	135.37	8
Indiana	68.71	6	62.31	7	131.02	9
Ohio	58.73	8	57.77	9	116.50	10
Missouri	50.58	11	51.73	10	102.31	11
11 states						
Mean	67.76		67.06		134.82	
Median	70.16		71.69		142.80	

(1) These are the states used by Arthur M. Borak, Associate Professor of Economics, University of Minnesota, in his article, "Comparison of Taxes and Costs of Government in Minnesota and Ten Other States", Business News Notes, University of Minnesota School of Business Administration, June 1953. The ten states selected for comparison are "adjacent, neighboring or competitive states".

SOURCE: State and Local Government Revenue in 1953, Bureau of the Census, Department of Commerce, October 27, 1954.

TABLE 2

State and local taxes as percentage of income, 1953
by state

	State		Local		Total	
	%	Rank	%	Rank	%	Rank
North Dakota	5.53	2	5.16	3	10.69	1
South Dakota	4.03	7	6.19	1	10.22	2
Iowa	4.28	4	5.50	2	9.78	3
MINNESOTA	4.82	3	4.95	4	9.77	4
Wisconsin	4.20	6	4.92	5	9.12	5
Washington	5.70	1	2.59	11	8.29	6
Michigan	4.24	5	3.07	9	7.31	7
Indiana	3.75	8	3.39	7	7.14	8
Illinois	2.74	11	3.75	6	6.48	9
Missouri	3.06	9	3.13	8	6.19	10
Ohio	2.92	10	2.87	10	5.79	11
11 states						
Mean	3.63		3.59		7.22	
Median	4.22		4.33		8.71	

SOURCE: State and Local Government Revenue in 1953, Bureau of the Census, Department of Commerce, October 27, 1954.

Table 3

REVENUE STRUCTURE OF LOCAL GOVERNMENTS WITH JURISDICTION (a) IN THE CITY OF MINNEAPOLIS, (b) IN THE REMAINDER OF HENNEPIN COUNTY

1953

(000 omitted)

(a) CITY OF MINNEAPOLIS

	Schools		City		County (1)		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Property tax	$ 11,825	59	$25,124	76	$ 9,417	49	$46,366	64
Special assessments	-	-	305	1	-	-	305	-
State, county and federal aid	7,437	37	1,157	3	8,340	44	15,931	24
Other	829	4	5,586	17	1,330	7	7,745	11
Transfers in	-	-	945	3	-	-	945	1
Total	$20,088	100%	$33,117	100%	$19,087	100%	$72,292	100%

(b) HENNEPIN COUNTY OUTSIDE MINNEAPOLIS

	Schools (2)		Cities, villages and towns (3)		County (1)		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Property tax	$ 6,624	56	$ 2,292	44	$ 2,656	49	$11,572	51
Special assessments	-	-	1,468	28	-	-	1,468	7
State, county and federal aid	4,264	36	266	5	2,353	44	6,883	31
Other	658	6	1,152	23	375	7	2,185	10
Transfers in	379	2	-	-	-	-	379	1
Total	$11, 925	100%	$ 5,182	100%	$ 5,384	100%	$22,491	100%

(1) County revenues apportioned according to assessed valuations in Minneapolis and the remainder of Hennepin County.
(2) For school year ending June 30, 1954. (3) Figures for cities and villages are for year ending December 31, 1952. Figures for towns are for 1953 and are estimates.

TABLE 4

Major Sources of Revenue in Cities* Over 250,000 Population
in Percentages of Total Revenue
1932, 1942 and 1953

(excluding schools)

	Cities over 25,000			Cities over 250,000		City of Minneapolis	
	1932	1942	1953	1942	1953	1942	1953
Total revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Property taxes	74.3%	63.2%	48.8%	64.0%	45.8%	72.8%	64.5%
Sales & gross receipt	---	4.6%	11.0%	6.3%	13.9%	---	0.9%
Other taxes (1)	2.8%	5.0%	6.7%	5.2%	6.7%	2.5%	5.8%
Aid from other Governments	9.4%	17.1%	19.1%	18.3%	19.8%	9.5%	8.4%
Supplementary Revenue (2)	13.5%	10.1%	14.4%	6.2%	13.8%	15.2%	20.4%

(1) Includes license permits and miscellaneous taxes.

(2) Includes charges and miscellaneous revenue from nontax sources.

Note: These figures on Minneapolis differ from those in Table 3 because they are for one year earlier and follow a different classification.

* SOURCE: U. S. Bureau of Census, Historical Review-State and Local Government Finances, 1948; City Government Finances in 1953.

TABLE 5

Sources of Revenue of Minneapolis and Other Cities over 250,000 Population
Distributed between School Revenues and Revenues of all Other City Functions
(000 omitted)

	School systems (1951-1952)		Other city functions (1953)		Total	
All cities over 250,000 population	Amount	% of Total	Amount	% of Total	Amount	% of Total
Property tax	$ 890,438	63.6	$1,753,638	45.8	$2,644,076	50.6
Other taxes	95,382	6.7	788,547	20.6	883,929	16.9
Aid from other govts.	392,950	28.1	756,403	19.8	1,149,353	22.0
Other revenues	22,144	1.6	525,891	13.8	548,035	10.5
Total	$1400,914	100.0	$3,824,479	100.0	$5,225,393	100.0
Minneapolis						
Property tax	$11,896	59.2	$23,644	64.5	$35,540	62.7
Other taxes	171	0.9	2,464	6.7	2,635	4.6
Aid from other govts.	7,434	37.0	3,083	8.4	10,517	18.5
Other revenues	587	2.9	7,441	20.4	8,028	14.2
	$20,083	100.0	$36,632	100.0	$56,720	100.0

SOURCE: (a) Data on school systems -- letter from Lester B. Herlihy, Specialist in Educational Statistics, Office of Education, U. S. Department of Health, Education and Welfare, 12/6/54. The 1951-52 data are the most recent data available.

(b) Data on other city functions -- Compendium of City Government Finances in 1953, U. S. Bureau of the Census.

TABLE 6

Ratio of Property Taxes to
Total Revenue Collected
All Cities in United States with Population
Over 250,000 Inhabitants

Expressed in Terms of Percentage of Property Taxes to Total
Revenue Collected
41 Cities

City	Percentage	City	Percentage
Jersey City	79.3	Cincinnati	46.0
Newark	75.6	Portland, Oregon	45.2
Indianapolis	71.9	Milwaukee	44.2
Houston	70.1	Kansas City, Mo.	42.9
Minneapolis	65.7	New York	42.5
Boston	64.4	Oakland	40.4
St. Paul	59.9	Philadelphia	38.5
Dallas	59.1	Los Angeles	38.0
Detroit	56.7	Akron	38.4
Cleveland	56.9	Memphis	37.6
Buffalo	55.5	Washington, D. C.	36.9
Pittsburgh	53.8*	Seattle	33.8
Omaha	53.6	Louisville	33.1
Fort Worth	52.5	San Diego	32.9
Atlanta	51.8	Birmingham	30.3
San Francisco	50.8	Denver	29.6
San Antonio	50.7	New Orleans	28.7
Baltimore	49.8	Columbus	26.4
Rochester, N. Y.	49.5	Toledo	13.4
St. Louis	49.5	Long Beach	7.9
Chicago	49.4		

* Adjusted for city income tax recently enacted.

SOURCE: Compendium of City Government Finances in 1953, U. S. Bureau of Census.

APPENDIX

1. Comparative sources of city revenue

Rising costs and demands for greater and better governmental services over the past decade have resulted in greatly increased cost of municipal government throughout the United States. Between the years 1940 and 1950 expenditures of cities with populations in excess of 25,000 more than doubled in amount. (1)

Historically the general property tax has been the principal source of local revenue, and until the 1930s this source of revenue was reasonably responsive to the needs of city governments. The depression years of the 1930s, however, revealed the weakness of relying on one source of revenue. The same period of time saw a demand for increased revenue, with the result that cities generally looked to new sources of revenue for collection. (2) Thus while the property tax has since increased in dollar yield, it has, from the 1930s, declined in relative importance as a source of city finances. Data published by the United States Bureau of the Census, and summarized in Table 4 clearly demonstrate this change. (3)

As noted in the table, property taxes accounted for 74% of all tax collections in 1932 for cities with populations of over 25,000, yet despite greatly increased collections only 49% of all the taxes collected in 1952 by all cities of that size were from taxes on property. The deviation from property taxes has been greatest among larger cities as the table indicates, where it will be noted for cities over 250,000 in population only 46.6% of revenues collected in 1952 were from property taxes.

Considering schools and general municipal functions together, Table 5 reveals that Minneapolis has not kept pace with other cities in finding new sources of revenue. Property taxes in 1952-53 accounted for about 63% of its revenue, compared with an average percentage of about 51% for all cities over 250,000 population. At least part of the heavy reliance on property taxes in Minneapolis results from a relatively small percentage of state aids received. Examining the breakdown between the school and the other parts of the total indicates that Minneapolis schools fare above the average in proportion of total revenues received from state aid, while the rest of Minneapolis government fares considerably worse than the average.

2. Property taxes as a source of city revenue

To fully understand the extent to which Minneapolis relies on property taxes as a source of revenue, Table 6 has been prepared from figures released by the Bureau of the Census. In Table 6 property tax collections for each city in the United States of over 250,000 inhabitants has been expressed in a percentage ratio to the total revenue collected by each such city in the year 1952. It will be observed that among all of the 41 cities listed, only Jersey City, Newark, Indianapolis and Houston derive more of their revenue from property taxes than does Minneapolis.

3. Impact of the property tax on business

Minnesota has a classification system in connection with the assessment of its property taxes which by law is purposely weighted against business real estate and

(1) Facts and Figures on Government Finance 1952-53, Tax Foundation, p. 110
(2) "Decline of the General Property Tax", Mabel Newcomer, National Tax Journal, p.38
(3) Source, U. S. Department of Commerce, City Government Finances in 1952

personal property, in favor of residences and farm property. More specifically urban real estate is assessed at 40% of full and true value as compared with 33-1/3% for rural real estate, 25% for the first $4,000 of urban homesteads, and 20% for the first $4,000 of rural homesteads. Personal property, on the other hand, including inventories, is assessed at 33-1/3% of full and true value whereas household goods are assessed at 25%, livestock at 20% and farm machinery at 10% of full and true value. The result of this calssification system is that business pays about 20% more in property taxes than it would pay if no classification existed at all.

The 25% assessment ratio on the first $4,000 of urban homesteads shifts a considerable portion of the local real estate bill to non-homestead real estate. A study published in the June 1953 issue of the National Tax Journal shows that Minnesota stood second highest in 1950 among six states having substantial homestead exemptions, in the percentage by which such exemptions increased taxes on non-homestead property. It was estimated that the increase was 15% on rural property, 22% on urban property and 19% on all property. Thus the burden is shifted off residential property on to business property.

Furthermore, it is common knowledge, that assessment practices are such that efforts are made to assess a greater percentage of the true and full value of business inventories, whereas other personal property is often too carelessly assessed without any relationship to true and full value. A common example is the assessment of household goods in which case taxing authorities readily admit that the tax yield is less than the cost of administration. The committee proposes to undertake in the future a more detailed study of the effect of assessment practices in Hennepin County.

The exact extent to which Minneapolis business is placed at a competitive disadvantage with other cities as a result of relative property taxes, cannot be demonstrated by any specific data reported by the Census Bureau or by any governmental body. This is for the reason that such comparisons depend entirely upon values which are assessed by taxing authorities of the respective cities, and such assessed values have varying relationships to true and full values depending on local practices and assessment procedures. It is necessary, therefore, to find comparisons which have been made between the actual or market values of property assessed in various cities with the assessed values of such property for property tax purposes.

The National Association of Building Owners has assembled the following figures as to real property taxes paid in 1953 by commercial buildings (largely office buildings) stated in terms of taxes per square foot of rental area:

City	Number of buildings	Average tax per sq ft of rental area	City	Number of buildings	Average tax per sq ft of rental area
1. Chicago	34	53.4¢	11. Los Angeles	34	35.1¢
2. Pittsburgh	6	53.3	12. Omaha	18	34.5
3. MINNEAPOLIS	11	49.9	13. Houston	6	33.3
4. Milwaukee	4	47.3	14. Denver	27	31.0
5. San Francisco	87	44.5	15. Indianapolis	13	30.6
6. Dallas	5	40.2	16. Detroit	18	29.8
7. Philadelphia	31	39.1	17. Cincinnati	7	29.4
8. Cleveland	23	38.5	18. St. Louis	10	28.2
9. Miami	5	38.2	19. Columbus	4	21.6
10. Portland	11	37.3	20. Seattle	17	18.0

Appendix

The validity of the above figures depends on the comparability of the buildings located in each city. Members of the Association state they believe that the general averages are comparable. The figure for Minneapolis, for example, is based on the average for the following buildings: Northwestern Bank Building, Baker Building, Baker Arcade, Roanoke Building, Rand Tower, 512 Building, Foshay Tower, Plymouth Building, McKnight Building, LaSalle Building, Medical Arts Building and Northwestern Federal Building.

A similar tabulation by the Associated Merchandising Corporation, which has affiliated retail stores located in the larger cities of the country, leads to a similar conclusion, i.e., that property taxes in Minneapolis are relatively high. The following tabulation shows the relationship between the cities insofar as the ratio between property taxes (both real and personal) and retail sales is concerned. Because the basic figures are confidential, the tabulation has been prepared by assigning to the ratio computed for Minneapolis the designation of 100% and to the ratios developed for the other cities, a computed related percentage:

City	Percentage	City	Percentage
1. Boston	129%	13. Detroit	62%
2. MINNEAPOLIS	100	14. Richmond	53
3. Los Angeles	97	15. Atlanta	52
4. Chicago	90	16. Baltimore	51
5. Indianapolis	88	17. Cincinnati	49
6. Miami	81	18. Houston	45
7. Oakland	78	19. Rochester, N. Y.	45
8. Brooklyn	73	20. Philadelphia	43
9. Milwaukee	73	21. Columbus	41
10. San Francisco	73	22. Pittsburgh	40
11. New York City	64	23. Dayton	39
12. Cleveland	62	24. St. Louis	18
		Median	61%

A similar study has been made by several of the leading manufacturers in the state which do business in Minneapolis as well as in leading cities of neighboring states. The information was presented in a report before the Legislative Interim Tax Committee. (1)

The study shows computed totals of state and local taxes except personal property taxes for the same type of business operation in seven states, as follows:

	State and local taxes except personal property taxes		
	No sales in state	$5,000,000 sales in state	$15,000,000 sales in state
Illinois	$53,137	$ 53,137	$ 53,137
Ohio	56,660	56,660	56,660
Missouri	72,396	75,885	82,868
Iowa	91,229	98,233	112,590
MINNESOTA	84,567	99,733	130,179
Indiana	106,333	106,333	106,333
Wisconsin	136,388	151,599	182,102

(1) Statement of George C. Ludolph before Minnesota Legislative Interim Tax Committee August 13, 1954.

Appendix

The study shows separately data on personal property taxes on inventories paid by the several firms in the seven states. The data are expressed in terms of ratios of taxes paid to actual value of inventories. For purposes of analysis, the ratios are expressed as percentages of the ratio for Minnesota (100%). The percentages are as follows:

MINNESOTA	100%
Illinois	3 to 31% (3%-7%-15%-31%)
Ohio	51% to 80% (51%-73%-80%)
Missouri	15% to 37%
Iowa	32% to 81% (32%-71%-81%)
Indiana	19%
Wisconsin	51%

These ratios were transported into comparative personal property taxes for each state by relating them to a hypothetical business using the same amounts of personal property for such business in each of the various states. The comparison resulted in the following varying amounts of personal property taxes for each of the states listed:

Illinois	$ 4,358 to $ 45,035
Ohio	74,090 to 116,220
Missouri	21,791 to 53,752
Iowa	46,488 to 117,673
MINNESOTA	145,275
Indiana	27,602
Wisconsin	74,000

The comparison of total amount of state and local taxes was completed by combining the first and third sets of figures above. For this purpose, the state and local taxes other than personal property taxes were computed on the premise that the hypothetical branch plant had sales of $5,000,000 within the state. Personal property taxes for each state were computed at the maximum and minimum amounts for each state. The combined totals using the maximum amounts were as follows:

	Maximum total state and local taxes	Other state and local taxes	Maximum personal property tax
Illinois	$ 98,172	$ 53,137	$ 45,035
Ohio	172,880	56,660	116,220
Missouri	129,637	75,885	53,752
Iowa	215,906	98,233	117,673
MINNESOTA	245,008	99,733	145,275
Indiana	133,935	106,333	27,602
Wisconsin	225,689	151,599	74,090

The completed comparison on the maximum basis for the other six states shows that Minnesota's total of $245,008 for all state and local taxes including personal property taxes is greater than that of any other of these states, and more than $70,000 in excess of the seven state average of $174,461.

The foregoing use of maximum personal property taxes in each of the other six states gives the most favorable comparison for Minnesota. If the minimum amounts of personal property taxes for the other six states are used, the totals appear as follows:

	Minimum total state and local taxes	Other state and local taxes	Minimum personal property tax
Illinois	$ 57,495	$ 53,137	$ 4,358
Ohio	130,750	56,660	74,090
Missouri	97,676	75,885	21,791
Iowa	144,721	98,233	46,488
MINNESOTA	245,008	99,733	145,275
Indiana	133,935	106,333	27,602
Wisconsin	225,689	151,599	74,090

The completed comparison on the minimum basis for the other six states shows Minnesota's total of $245,008 more than $97,000 in excess of the seven state average of $147,896.

4. Relative costs of government in large metropolitan communities

Following is a summary of pertinent information from the General Statement on the Revenues and Tax Problems of the Larger Minnesota Municipalities, presented to Legislative Interim Tax Study Commission, August 13, 1953, by Special Revenue Committee of Eight Largest Minnesota Municipalities (Minneapolis, St.Paul, Duluth, Rochester, Winona, St. Cloud, Austin, St. Louis Park).

The League of Minnesota Municipalities prepared a per capita analysis of the revenue receipts and expenditures of Minnesota municipalities by population groups, using as a basis the latest dollar figures reported by the Public Examiner (for the year 1951).

In general, receipts are substantially equal to expenditures plus debt redemption. These are the revenue receipts figures for each class of municipality:

Three cities over 50,000 population . . . . $57.14 per capita

Five municipalities 20,000 to 50,000 population . . . . $47.88 per capita

All other municipalities under 20,000 population . . . . . . $36.99 per capita

APPENDIX

5. Additional details on municipal earnings tax

Municipal income taxes: tax base and rate

September 1, 1953

State and city	Years applicable	Rate	Individuals		Unincorp business		Corporation
			Residents	Nonres.	Res.	Nonres.	
			Salaries, wages and other compensation wherever earned	Income earned within city	Net prof. from activities wherever conducted	Net prof. from activities conducted within city	Net prof. from activities conducted within city [1]
Kentucky							
Louisville	1948-	1.0%	(2)	x	(2)	x	x
Paducah	1950-	.5	(2)	x	(2)		
Newport	1952-	1.0	(2)	x	(2)	x	x
Lexington	1952-	1.0	(2)	x	(2)	x	x
Missouri							
St. Louis[3]	1948-54	.5	x	x	x	x	x
Ohio [4]							
Campbell	1951-53	.3	x	x	x	x	x
Cincinnati	1954-	1.0	x	x	x	x	x
Columbus	1947-57	.5	x	x	x	x	x
Dayton	1950-54	.5	x	x	x	x	x
Lancaster [5]	1952-	.5	x	x	x	x	x
Maumee	1952-57	1.0	x	x	x	x	x
Springfield[6]	1948-57	.6	x	x	x	x	x
Struthers	1952-53	.5	x	x	x	x	x
Toledo	1946-55	1.0	x	x	x	x	x
Warren [6]	1952-55	.5	x	x	x	x	x
Youngstown	1948-53	.5	x	x	x	x	x
Pennsylvania							
Altoona	1948-	.7	x	x	x	x	x
Erie	1948-	1.0	x	x	x	x	x
Johnstown	1948-	1.0	x	x	x	x	x
New Castle	1948-	[7] 1.0	x	x	x	x	x
Philadelphia	1939-	1.25	x	x	x	x	x
Scranton	1948-	.5	x	x	x	x	x
280 other local taxing districts (approx)[8]	(9)	[10] .25-1%					

Treasury Department, Analysis Staff, Tax Division
Source: Overlapping Taxes in the United States, prepared for the Commission on Intergovernmental Relations, January 1, 1954.

Appendix

FOOTNOTES: (For Municipal income taxes: Tax base and rate. Page preceding.)

1 In some cases the tax applies only to corporations with an office or place of business within the city. 2 The tax applies only to income from services rendered and from business activities conducted within the city.
3 The tax enacted in 1948 expired in July 1950. The present tax was enacted in 1952, expired April 1, 1954. 4 In general, a credit is allowed residents for income taxes paid to other cities. Toledo, Lancaster and Maumee limit the credit to 50% of tax liability and require reciprocity. In Struthers, Warren and Youngstown the tax does not apply to income on which a tax has been paid to another city. 5 Remains in effect as long as emergency exists. 6 In Springfield, the first $1,040 of income is excluded, but if income exceeds this amount the total income is subject to tax. In Warren, each taxpayer is allowed a deduction of $1,200. 7 The 1% rate is applicable to calendar year 1953. 8 The tax base is generally similar to that of the larger Pennsylvania cities. 9 Adopted under the State General Enabling Act of 1947. 10 The State Enabling Act limits the maximum rate to 1%.

An article in the November 1954 issue of Public Management reported that at least 46 cities had a municipal income tax at that time.

6. Rate schedule on individual income if surtax on state income tax is 33-1/3%

If the rate schedule (adjusted to 33-1/3% instead of 35% for convenience) of a locally-applied surtax were to be phrased in terms similar to those used by the State of Minnesota, the rates on the net income of individuals would be:

Net income	Rate	
0 - $ 999 -	1/3 of 1%	
$1,000 - 1,999 -	$ 3.33	plus 2/3 of 1% of excess over $1,000
2,000 - 2,999 -	10.00	plus 1% of excess over 2,000
3,000 - 3,999 -	20.00	plus 1 1/3% of excess over $3,000
4,000 - 4,999 -	33.33	plus 1 2/3% of excess over $4,000
5,000 - 6,999 -	50.00	plus 2% of excess over $5,000
7,000 - 8,999 -	90.00	plus 2 1/3% of excess over $7,000
9,000 - 12,499 -	136.67	plus 2 2/3% of excess over $9,000
12,500 - 19,999 -	203.33	plus 3% of excess over $12,500
20,000 and over -	428.33	plus 3 1/3% of excess over $20,000

Less 1/3 of same family and dependency credits as in state income tax.

7. Proportion of Minneapolis property tax paid by business indicated by breakdown of total assessed valuation.

	Individual	Business		Percent
Homestead	$107,000,000			
Household goods	4,000,000			
Total individual			$111,000,000	31.6
Non homestead		$151,000,000		
Utilities		13,000,000		
Business equipment and inventory		76,000,000		
Total business(corporate & non-corporate)			240,000,000	68.4
Total valuation			$351,000,000	100.0%

8. Illustration of effect of assumed borrowing policies on Minneapolis borrowing power

To make the problem of borrowing for Minneapolis government more real, it is helpful to have an understanding of the city's current borrowing potential. Following are two illustrations of the amount of bonds which could be issued under two groups of assumptions. Many variations of these assumptions could be used, and there is no intention to indicate that the particular facts assumed in either example will clearly or even probably prove true.

It should be noted that the amount of bonds which can be issued under the two assumed sets of facts is not dependent on any refunding procedures inasmuch as one of the basic assumptions under both tables is that the outstanding bonds will be paid as they mature. Whether or not part or all of the additional bonds should be issued must be determined by applying the principles set forth in this report.

As of May 1, 1954, the assessed valuation of all real and personal property in the City of Minneapolis was 350 million dollars. The tax rate for 1955 is 149 mills, which includes 18.2 mills for debt service. We have prepared two tables on the following assumptions:

Table A

1. Assume that the assessed value for the next 20 years remains static at 350 million dollars.

2. Assume that the community is willing to continue to pay property taxes on the basis of a mill levy of 149 mills, that the levy for debt purposes will remain at about 18 mills, and that no additional revenue is needed for the operating expenses of the city or, if needed, that it will be provided by other sources.

3. Assume that all bonds issued to pay for capital improvements are 20 year bonds bearing interest at the rate of $2\frac{1}{2}\%$ and amortisable as to principal and interest in equal annual installments.

4. Assume that as the bonds outstanding on January 1, 1955, mature, they are paid in accordance with their terms.

Under these assumptions, the following is a tabulation of the gross additional bonds which can be issued by the City of Minneapolis as of January 1 of each of the years indicated. In each case the figures stated are cumulative and the totals for each year are not to be added together:

Year	Total amount of additional bonds
1955	$ 23,600,000
1956	40,100,000
1957	45,700,000
1958	51,200,000
1959	61,600,000
1960	63,100,000
1961	65,700,000
1962	67,100,000
1963	67,800,000
1964	68,300,000

All of the bond figures under the above table are within the bonded debt limit of the city, although the figures for 1959 and after would bring the city within about $20,000,000 of the present $107,000,000 bonded debt limit.

Table B

1. Make the same assumptions as under Table A above except as modified in 2, below.

2. Assume that additional revenue from the property tax is needed for operating expenses in the aggregate amount of approximately 2 million dollars per year. This would involve an additional current expense levy of about 6 mills and would mean that the levy available for total debt service would be reduced from 18 mills to 12 mills. This could not start until 1956, since present debt service requirements would exceed 12 mills until 1957.

Year	Total amount of additional bonds
1956	$ 7,300,000 (1)
1957	12,900,000
1958	18,400,000
1959	28,900,000
1960	30,400,000
1961	32,900,000
1962	34,400,000
1963	35,100,000
1964	35,600,000

(1) First maturities of these bonds would be in 1957 when tax margin would be available.