CITIZENS LEAGUE REPORT

No. 7

League Recommendation to Minneapolis increasing tax levy by 4 mil

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C I T I Z E N S L E A G U E O F G R E A T E R M I N N E A P O L I S
148 Baker Building LI 0791

March 3, 1953

Following is the recommendation of the Committee on Taxation and Finance of the Citizens League on the proposals to increase the authorized millage of Minneapolis' Current Expense Fund by four mills and to authorize the City Council broad new taxing powers (the so-called "seven cities" bill). This recommendation was concurred in by the League's Board of Directors.

1. The committee is not convinced of the desirability of granting the Minneapolis City Council broad authority to levy taxes as provided in the proposed "seven cities" bill drafted for submission to the 1953 legislature.

2. The Committee is in the midst of a comprehensive ten-year projection of the City's financial needs and resources and is not yet in a position to present its recommendations for a considered solution to the City's revenue problem.

3. It appears to the Committee that regardless of what action is taken by the 1953 Legislature on the City's financial powers, there is little likelihood for action soon enough to yield the City enough revenues to meet the additional expenditure needs that are claimed unless some new type of tax is authorized. The Committee is opposed to such action because it is not convinced that the Council should have broad authority to select a new tax and no one has made a good case for a specific new tax. It therefore believes that the City will have to get through 1953 with its present revenues.

The Committee believes the 1953 Legislature should authorize the City to levy, for two years only, an additional ad valorem tax on property up to four mills. The City should levy only such part of this additional mill levy as is needed to meet the demonstrated needs of the various agencies under City Council jurisdiction. Granting of such authority should not alter the City Council's recent policy of reducing the net outstanding debt by two or three million dollars annually. This conclusion assumes that there is a valid need for additional revenue but the Committee has not itself attempted to pass on this question.

CITIZENS LEAGUE OF GREATER MINNEAPOLIS

Committee on Taxation and Finance   John Windhorst Chairman

FACT SHEET ON PROPOSALS TO INCREASE THE AUTHORIZED
MILL LEVY FOR THE CURRENT EXPENSE FUND BY FOUR MILLS
AND TO AUTHORIZE THE CITY TO LEVY NEW TAXES

What are the proposals?

a. **The increase in the authorized mill levy for the Current Expense Fund**

The present charter limit on the Current Expense Fund levy is 11 mills. Past legislative action to compensate for the loss of revenue from the money and credits tax and homestead exemptions permits the levy to be 13.475 mills in 1953. The bill requested by Minneapolis City Council would add another four mills to the authorized levy.

b. **The enabling tax proposal ("seven cities" revenue proposal)**

This proposal, prepared by the Special Revenues Committee of the Cities of the First and Second Class, would permit those cities (Minneapolis, St. Paul, Duluth, Rochester, St. Cloud, Winona and Austin) to levy any tax on persons, transactions, occupations, privileges and subjects, with the exceptions noted below. The proceeds could be placed in any appropriate fund and used for any authorized municipal purpose.

Limitations are:

1. The proposal would not authorize an ad valorem property tax; any tax prohibited by Constitution or law; or "any tax on manufacturing, mining, processing, trans-shipping, storing or wholesaling products for transportation or sale beyond the corporate limits of the city; but this exemption does not extend to the income of individuals derived from engaging, or being employed in such businesses."

2. If the City Charter requires a referendum, or seven percent of the registered voters petition, any new tax adopted by City Council would have to be submitted to the voters. A majority of those voting at the referendum is needed for approval.

3. If the total of taxes levied under the proposal exceeds $10 per capita in yield, the excess must be applied to reduce bonded indebtedness or to reduce the permissible property tax levies. The limit of $10 per capita is $5,217,180 in Minneapolis.

4. At least 25% of the yield of such taxes must be used for debt reduction. If less than 25% is enough to cover debt requirements, the remainder must be used to reduce the general property tax levied for other purposes.

What taxes are possible under this authorization?

Except for the taxes noted above, any tax is possible. Alderman George Martens discussed these at a meeting of the Committee on Taxation and Finance:

1. 5% tax on electric and telephone bills. Estimated yield - $800,000

2. Wheelage tax of $10 per passenger vehicle, $15 per truck. Estimated yield - $1,500,000.

3. Payroll or gross earnings tax. Estimated yield at 1% rate - $7,000,000 to $10,000,000.

4. 5% tax on hotel room bills. Estimated yield (if levied only on rooms renting at rate over $2.00 per day) - $500,000.

What is the status of the two proposals?

Minneapolis City Council has officially requested passage of the four mill levy increase. The Hennepin County Senate and House delegations have not taken action, and no bill has been introduced as yet.

The "seven cities" bill has received the endorsement of the seven cities, but no bill has been introduced in either house as yet.

The need for additional revenue

Although under the "seven cities" bill, taxes could be levied to benefit "any appropriate municipal purposes," this proposal, as well as the proposed increase in the Current Expense Fund millage, is regarded mainly as a means of getting funds for the agencies under the City Council. These consist of all City departments other than the Park Board, Library Board, Board of Estimate and Taxation and the Board of Education. They are financed out of the following operating funds: Current Expense, Permanent Improvement, Street and Traffic Maintenance, Public Welfare, Hospitals, Civil Service Commission and Civil Defense.

The immediate need

The 1953 budgets for these funds may be summarized as follows:

Fund	Appropr	Estimated Property Tax Rec'pts	Other Rec'pts & Balances	Total Rec'pts & Balances	Excess of Appropr over Rec'pts & Balances
Current expense	$8,600,461	$4,527,079	$3,943,715	$8,470,794	$129,667
Perm imprvmt	1,129,953	933,009	196,944	1,129,953	-
St & trfc mtce	1,462,289	933,009	529,280	1,462,289	-
Public welfare	1,683,353	1,400,371	254,476	1,654,847	28,506
Hospitals	3,237,704	1,867,684	1,332,422	3,200,106	37,598
Civil serv comm	64,896	58,212	6,733	64,945	-
Civil defense	69,950	69,874	1,771	71,645	-

In three funds appropriations exceed estimated receipts and balances. The budget shows these budgeted deficits as "Estimated Adjustment in Revenues and/or Expenditures."

For the first five funds listed, the property tax is at the limit of the permissible levy, with the following millages: Current Expense -- 13.475; Permanent Improvement -- 2.805; Street Traffic and Maintenance -- 2.805; Public Welfare -- 4.21; and Hospitals -- 5.615.

Since adoption of the 1953 budget, ordinances have been approved providing for a $26 a month cost of living salary increase for employees under City Council jurisdiction, with some exceptions. The City's Research Engineer estimated that, assuming continuation of the number of employees provided for in the 1953 budget, the salary adjustment would require the following additional funds:

Current Expense, Permanent Improvement, Street Traffic and Maintenance, Civil Service Commission and Civil Defense funds:

2,278 full time employees	$710,736
699 half time employees	109,044

Public Welfare and Hospitals funds:

981 full time employees	306,072
147 half time employees	22,932
	$1,148,784

Were these salary increases to be paid without adjustment in revenue or expenditures, funds for salaries would be exhausted some time in the latter part of November 1953. The ordinances granting the salary increases to all employees except those under the City Engineer provide that the increases shall be paid without reducing personnel. The ordinances specify that the City Engineer shall pay the increases in his department (involving about 480 full time and 240 half time employees) out of available funds. Accordingly, he has taken steps to reduce personnel by cutting down on services.

The long run need

At the request of members of the Hennepin County Legislative delegation, the City Research Engineer prepared a statement of needs and demands in Minneapolis requiring a broader area of local taxing powers. In addition to the salary adjustments already granted and mentioned above, he estimated the following unmet needs:

1. Additional public safety personnel 142 police, 38 firemen @ $3,816 each	$686,880
2. Recurring annual needs for permanent improvement, such as storm drains, city portion of paving, sewer, sidewalk, curb and gutter, major equipment	1,000,000

Also shown were demands for additional non-property tax revenue, either to avoid borrowing for current expenses or to relieve the property tax. These were as follows:

1. Reduction in property tax rate for fixed charges on pensions and debt 10 mills @ $339,408 per mill	$3,394,080
2. Current financing of poor relief instead of bond issues, at present levels	1,200,000*

* This measure is contained in a separate legislative proposal which has already been approved by the League.

3. Current financing of school rehabilitation instead of bond issues $1,764,000

The total of these needs for additional revenues, including the $1,148,784 estimated for the salary adjustment, is $9,193,744. The Research Engineer noted that the above list did not include additional demands for health, welfare and other services.

The mill levy for the Current Expense Fund

There appear to be two main reasons for seeking an increase in the Current Expense Fund: (1) the belief that this levy has not shared in increases granted other City operating levies; (2) the belief that such an increase would provide "insurance" in the event the broad enabling tax bill is not enacted and is rejected by the voters, even though the mill levy increase could not become effective to increase revenue until 1954.

On the question of "insurance", it may be noted that additional revenues in the Current Expense Fund could be used to benefit the other funds affected by the salary adjustments mentioned above. This would result either from transfers of money from the Current Expense Fund or the transfers of functions, such as street maintenance, to the Current Expense Fund.

Committee on Taxati[illegible] Finance

Some a[illegible] against the proposed bill to broaden the seven cities' taxing powers.

PRO

1. It is better to have local discretion (home rule) in levying of taxes than to have to rely on a legislative body composed of many people not residents of the local community because the direct representatives of the local voters should decide how they are to be taxed.

2. The provision for a referendum restrains governing bodies from foolish action.

3. $10 per capita limit (with excess revenue to go to debt retirement or reduction of property tax levies) also places some restraint on local governing bodies.

4. Will permit relief of property tax which is generally regarded as high enough.

5. Will authorize imposition of taxes which reach non-residents of cities.

6. Will permit diversification of the tax base.

7. Requirement of use for debt reduction up to 25% of yield will relieve property tax.

8. While there may be some question of the amount of added revenue needed and while the Committee did not attempt to consider the possibilities of improvements in efficiency, sufficient evidence of the need for added revenue exists to make it inadvisable to refuse to grant any additional source of revenue.

9. Because of the unpopularity of new taxes, any council will be cautious in authorizing a new tax, even though it has the power and the power is subject to check by referendum.

CON

1. Governmental reorganization and improved efficiency should precede the granting of more revenue powers.

2. Complete home rule in taxation is not desirable. While it may be desirable to give the local governing body considerable freedom in determining the amount of taxes to be levied, it is not desirable to give them broad authority in selecting the subjects of taxation. This is because:

(a) The citizens should not be subjected to multiple forms of taxation and an orderly system of taxation can best be maintained if the general areas of taxation are controlled by the state.

(b) An equitable tax system requires consideration of taxes imposed by all levels of government. While the relation between the Federal and state systems is primarily on a voluntary basis, the state should retain its historical control over the type of taxes imposed by local units of government.

(c) It is conceivable that some forms of taxation selected by the local units of government might adversely affect the tax revenues of the state.

(d) A local unit of government might be more inclined to select a particular class or industry to subject to discriminatory taxation than would the state because the mere fact of a greater geographical area in a state enhances the possibility that a particular class or industry will be sufficiently numerous to make its voice heard, whereas in a particular local unit of government it may be in such a minority as to have no real political power.

(e) While the proposed bill now contains a limitation, applicable to manufacturing or wholesaling businesses, designed to meet in part the objection noted in (d) above, it is difficult to evaluate this limitation and if it is a substantial limitation it would seem preferable to authorize specific taxes rather than to phrase the authority in general terms subject to general limitations.

(f) The Committee was unable to find a state which granted such broad authority to its cities to levy taxes, although Pennsylvania grants many of its cities the power to levy taxes the state does not levy. However, a complete investigation of grants of taxing power to cities was not made.

3. Although any tax measure adopted by the City Council is subject to a referendum under the proposed bill, this would not protect non-residents who might be taxed. Furthermore, there is serious doubt as to the desirability of a referendum on the question of type of taxes to be levied, since people are unlikely to vote objectively on the question of taxing themselves even when they have the necessary information. The problem of giving the people the necessary information to vote intelligently on this question also is unusually difficult. It, therefore, is argued that the type of taxation should be selected by representatives of the people without a direct vote by the people on the question. This would be true even if the Legislature gave the city some choice as to type of taxation. The mere existence of a referendum may have an undesirable effect on the Council in selecting the type of tax to be levied because the Council will exercise its judgment as to the best type of tax to be levied in the light of its opinion as to the chances of defending the tax against a direct attack at the polls. It is believed that the indirect attack on the tax arising out of the fact that the members of the Council must stand for election i adequate protection against unwise action by the Council.

4. Increasing expenditure commitments far beyond the available revenues is poor fiscal policy, and should not be given endorsement by granting power to raise new taxes.

Committee on Taxation and Finance

Some arguments for and against the proposal to increase the authorized millage for the Current Expense Fund by four mills.

PRO

1. The 1953 budget as adopted was out of balance and did not provide for cost-of-living salary adjustments that have since been voted.

2. The bill would authorize a four mill increase in the levy, but would not require it.

3. By transfers of functions or funds, the increase can benefit other City Council funds that need additional revenues.

CON

1. Governmental reorganization and improved efficiency should precede increased millage levy.

2. Property tax rate is already too high, resulting in businesses and residents leaving the City.

3. Other sources of revenue should be found if expenditures are increased.

4. If a tax limit increase is necessary, it ought to be accomplished by local action through Charter amendment rather than by action of the State legislature.

5. Increasing expenditure commitments far beyond available revenues is poor fiscal policy, and should not be given endorsement by granting the millage increase.