

CITIZENS LEAGUE REPORT

No. 15

Citizens League position on the Proposed Amendment to change the Minneapolis Board of Estimate and Taxation

July 1953

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 SStaff Memorandum on Proposed Charter Amendment
Affecting the Board of Estimate and Taxation

October 1, 1953

Present status of the Board of Estimate and TaxationReason for establishment

The Board of Estimate and Taxation was established by the legislature in 1919 for three reasons. (1) to relieve the legislature of much time-consuming local legislation in setting Minneapolis tax levies and authorizing bond issues; (2) to provide centralized and improved financial supervision in the City over the numerous separate governing bodies; (3) to remove financial control from a City Council which was regarded as too political. The legislative act creating the Board was incorporated in the City Charter adopted in 1920.

Membership

The Board consists of the Mayor, Comptroller, chairman of the Ways and Means Committee of City Council, one representative each from and chosen by the School Board and the Park Board, and two representatives of the public, elected for four year overlapping terms.

Powers and duties

1. To authorize maximum limits to permissible tax levies and prepare the annual budget estimate for the City.
2. To sell and issue, on request of City Council and various governing boards, bonds for capital improvements.
3. To approve or set aside the issuance of bonds for local purposes.
4. To authorize the transfer of funds from one appropriation to another within a department.
5. To employ staff, and levy a tax not over .067 mill per year for its own purposes.

Performance

Tax levies: The significance of the Board's power to set the maximum on tax levies is reduced by several factors. Thirteen of the 28 levies under its jurisdiction are mandatory, either by statutory provision, court decision or the nature of the levy (debt funds). Of the remaining 15 levies, the five major operating levies under City Council have been at their legal

maxima since 1946. The levy for the Street Forestry Fund has been at the maximum much longer. The levy for Poor Relief is going into effect in 1954, and it is likely to be at its maximum. The levies for library and Park and Playground funds are within fractions of their limits. The Civil Defense Fund has a small levy (.35 maximum in 1953). The Municipal employees Retirement Fund levy has been reduced in recent years below the amount requested, but there is some ground for believing this levy is also mandatory. The Civil Service Fund levy has no maximum and has been manipulated by the Board but it is a relatively small part of total City millage (.175 out of 108.45 total in 1953)

Bond issues: The Board is restricted in authorizing bond issues by the requirement that it can only incur as much debt as is approved by City Council. Both are limited by a statutory debt limit, though Minneapolis debt has not approached the limit in recent years.

The League staff recently analyzed the Board's exercise of the bond-issuing power in the past six years, and concluded:

"The Board of Estimate and Taxation, with the power to issue bonds below but not above the amounts requested by City Council and the four boards (Education, Park, Library and Public Welfare), acts as a brake on the City's incurring of debt. However, judging by the amount of bond issues approved by the Board from 1947 to 1952 as compared with the amount requested by City Council, a considerable amount of pruning of requests is done by City Council before the requests reach the Board. Such pruning may be done after consultation with the Board of Estimate and Taxation to establish the amount of bonds the Board is likely to approve. Yet it seems quite clear that in recent years City Council has taken the leadership in the City's current debt policy."

A considerable amount of the time of the Board Staff (Board Secretary and his secretarial stenographer) is devoted to the details of bond sales.

Bonds for local purposes

In an article in the National Municipal Review some years ago, George M. Link, long-time secretary of the Board said: "The Board's authority over the issue of bonds for local improvements was restricted to such projects as are financed in part by general taxation, the board having no authority over issues to be financed in full from special assessment."

Staff analysis of Board action on local improvement bonds (Elwell's) from 1947 - 1952 revealed no instance where the Board set aside the action of the City Council in approving the proceeding.

Transfers: George Link said: "Rights of the Board over transfers of funds were never fully tested. The terms of the legislative act creating the board were quite vague as to such powers, so vague that the city attorney expressed doubt that the board had any real authority. Hence, no definite attempt was made to exercise that jurisdiction. For a time the board did attempt to exercise control over appropriations, expenditures, etc., on the theory that such control was good business and hence would be accepted."

That acceptance did exist at the time such controls were installed and continued until the movement was started by the public school interests to break the control of the board over school tax levies. When that effort proved successful the board discontinued all efforts to exercise any authority except that necessary to the performance of the duties clearly vested in the board....."

Analysis of the six-year period 1947-1952 revealed the only types of transfers passed on by the Board of Estimate and Taxation involved transfers of unexpended balances of bond funds from one special purpose of a department to another purpose of that same department.

Preparation of budget estimates: The major duty of the Board's paid staff is the compilation of annual budget estimates, which are used especially by City Council and the Board of Estimate and Taxation, and the annual report of financial statistics. The Board has established a uniform classification of accounts for budgetary purposes.

Summary: In sum, the Board of Estimate and Taxation has a relatively minor effect on the control of City tax rates, chiefly because of mandatory levies and the fact that most tax funds require the levy of the maximum permissible levy. The Board has a negative control on bond issues, but this has become less important as City Council has taken greater leadership in debt policy. The Board has no power to control expenditures. Its small staff is occupied with administrative details of compiling budget estimates and financial statistics and conducting bond sales.

The proposed Charter amendment

Board members and their compensation

The Board would be increased from seven to nine members. The President of the Library Board, or such other member thereof as the Library Board might designate, and one elected member would be added. The Mayor would appoint the elected member, subject to Council confirmation, to serve until the next City election. The terms of the elective members would be increased from four to six years and would be staggered.

The Library Board is the only independent tax-levying body that now has no representative on the Board of Estimate and Taxation. There is some indication that in the past this has placed the Library Board at a disadvantage with respect to tax levies. Addition of another elective member would keep membership at an uneven number. The amendment would also change quorum and majority requirements to fit a nine-man Board.

Board members' pay would be increased from \$10.00 per meeting up to a maximum of \$500 per year, to \$25 per meeting up to a maximum of \$1,000 per year. The amendment would also permit officials who receive other City compensation up to \$5000 per year to draw compensation for service on the Board. The effect would be to dis-qualify the Chairman of the Ways and Means Committee for Board compensation in the event aldermen's pay is raised above the present \$5,000. The Mayor and Comptroller would continue to receive no Board pay.

Changes in powers

1. The Board would be specifically prohibited from controlling tax levies on expenditures of the Board of Education, a power which the Board exercised prior to 1933 when it was taken away by court decision.

2. The Board would have power to fix the total amount of all funds to be expended by each of the remaining tax-levying bodies and their agencies, except mandatory funds or interest and debt funds.

3. The Board would be required to fix a single maximum tax rate for each tax-levying body, to include all the tax supported funds under the jurisdiction of each tax-levying body for which individual tax rate limits are fixed by Charter or State law. In no case would the single rate exceed the aggregate total of such Charter or statutory limits. The tax-levying bodies would be permitted to make a single levy within the maximum fixed by the Board of Estimate and Taxation. The Board would be permitted to include mandatory funds in such single maximum, except for the separate tax levies for debt principal and interest and pension and retirement funds.

4. The Board would be required to set up and administer a system of quarterly allotments of expenditures for all departments, except those covered by mandatory funds or debt principal and interest funds.

5. The Board would be required to allocate revenues received from State and Federal agencies for local general purposes, to each of the several taxing bodies according to their needs.

Effect of changes in powers

The proposed amendment essentially would centralize control of budgets now under three separate bodies: City Council, Park Board and Library Board. The Board of Estimate and Taxation's power would be limited in two ways: (1) property taxes allocated to each of the three bodies could not exceed the aggregate of the Charter or statutory maxima of the funds now under each body. Thus, on the 1953 basis the property tax levy for City Council purposes, other than mandatory and debt levies, could not exceed 29.26 mills, for Park Board purposes, 5.05 mills, and for the Library Board, 4.495 mills, (2) Other revenues except revenues received from State and Federal agencies for local general purposes, would have to continue to be credited to the respective governing body. This would probably mean such receipts as private patients' fees at General Hospital would have to be credited to the budget of City Council agencies, since the General Hospital levy is under City Council. Similarly, concession receipts of the parks would continue to go to the Park Board.

Within these limits, the Board of Estimate and Taxation would have full discretion to set the budgets of the Park Board, Library Board and the agencies under City Council.

Staff and finances of Board

The Board's Executive Secretary would be removed from civil service, i.e., he would be appointed by and serve at the will of the Board. The Board would have power to employ additional staff, subject to civil service provisions. The Board's permissible tax levy would be increased from .067 mill (about \$22,000) to .25 mill (about \$82,500).

To carry out its new powers effectively, the Board would require a larger and more skilled staff, capable of analyzing in detail the budgetary needs of the various City agencies.

History of the proposal

This proposal, in one form or another, has been before the Charter Commission since 1948. It was originally submitted by the opponents of the proposed new Charter of 1948, who argued that basic reforms could be effected without wholesale change in the Charter. Some of those who supported it for the original reason are now known to be at least lukewarm to it. The Board of Estimate and Taxation has gone on record several times favoring similar proposals.

Merits and shortcomings of the proposal

The proposed Charter amendment would effect some basic changes in the structure and functioning of Minneapolis City Government.

Minneapolis now has a disintegrated, weak Mayor-Strong Council form of city government. The Mayor has few powers beyond his power to appoint the police chief and his ex officio service on many boards and commissions, such as the Board of Estimate and Taxation, the Board of Public Welfare, the Park Board and the Library Board. The Council, on the other hand, does not exercise all the policy-making powers of the government. The Park and Library boards and the boards of Education and Public Welfare have important policy-making powers, and the Board of Estimate and Taxation has the power to control tax levies and bond issues, although in practice these are greatly modified.

As suggested in the report of the administrative survey of the City of Minneapolis prepared by Public Administration Service in 1947, experience has indicated that best results in effective, responsible city government are obtained when basic policy-making powers (with the possible exception of educational policies) are centered in a single, elected body, and general responsibility for executing these policies is vested in one individual, the chief executive.

Basic to the policy-making power is the budget-making power: the power to distribute the city's financial resources among the various departments of government. It includes the power to plan capital expenditures as well as current expenditures, and, to the extent not retained by the people or legislature, the powers to borrow, tax and control miscellaneous income sources.

A basic executive power is the authority to prepare a plan of expenditures and to see that money is spent in accordance with the plan as adopted by the legislative body: the powers of budget preparation and expenditure control. Usually this duty is best carried out by centralizing under the chief executive the offices of financial administration; budgeting, accounting, purchasing, treasury.

Two forms of city government have been developed which embody these principles: the strong mayor-council form and the council-manager form. There are differences in the relationships between the legislative and executive officials in these two plans, and there are variations in application as among different cities, but in general the strong mayor-council and council-manager form follow the above principles in the location of financial powers.

Viewed against these basic principles of city governmental organization, the Charter proposal appears to accomplish these improvements:

Merits

1. It would permit one overall agency to weigh the resources and respective needs of the many activities carried on by City Council agencies, the Park Board and the Library, and would give it the power to determine the scope of the activities in as much detail as it pleased, subject to the limitations that it could not (1) allocate to the Park Board, Library Board or City Council more tax monies than are permitted by the total aggregate of the levies now authorized each of them, or (2) divert from any of the three receipts other than revenues received from State and Federal agencies for local general purposes.

2. It would facilitate planning of expenditures by increasing flexibility in the distribution of revenue resources among City Council agencies, the Park Board and the Library Board. The Board of Estimate and Taxation would have power at its discretion to distribute among the three governing bodies, revenues received from State and Federal agencies for local general purposes.

3. It would increase flexibility in distribution of resources among activities under City Council by consolidating tax levies and eliminating earmarked funds. There are eight such non-mandatory funds under the City Council. (It should be noted, however, that City Council already has achieved this flexibility to some extent by transfers of money and activities among the different earmarked funds).

4. It would make mandatory the establishment of a system of expenditure controls through a quarterly allotment system and provide the means for administering it.

Shortcomings

1. It tends to give the Board of Estimate and Taxation the policy-making powers of the City Council, Park Board and Library Board. The power to fix and control the amount of expenditures is an indispensable part of the power to determine the number and scope of municipal activities. This power is especially essential to the City Council, which has the general responsibility for making laws for the health and welfare of the City.

2. Even if it were considered desirable from the standpoint of centralizing financial control to give the Board of Estimate and Taxation the powers contained in the proposal, the Board's composition would make it difficult for the voters to hold it responsible. The ex officio members for the Park, School and Library boards and the Chairman of the Council Ways and Means Committee would be subject to change at any time. Though these four positions are elective, therefore, their occupants could not be known in advance by the voters.

3. The proposal would not provide needed centralization of administrative responsibility. Probably the Board through its Executive Secretary and staff would provide some additional coordination by virtue of its budget work and expenditure controls. But it would not have the direct power of administrative direction, supervision and coordination. The present lack of such power in a centralized authority, through the existence of separate Library and Park boards and a variety of administrative departments reporting directly to City Council, would be continued.

4. By retaining the independent levies for the Park and Library boards, it would fall short of providing full centralization of financial control of the agencies affected.

5. By limiting control of miscellaneous revenue sources to revenues received from State and Federal agencies for local general purposes, the Board's control over revenues would still be limited. There are many receipts that would not be included under the Board's power of revenue distribution (miscellaneous revenues of the Current Expense Fund alone amounted to \$3,031,515 in 1952), and there is a question as to whether the Board would have power to allocate the receipts from a new general tax, such as a local income or sales tax.

Practical questions

Weighing of the merits of the proposal should be influenced by practical considerations. These involve a number of questions:

1. Can full-scale reorganization, embodying the accepted principles of sound municipal organization, be adopted? If not, is the proposed amendment an improvement, or would it be likely to place even greater obstacles in the way of eventual basic change?

2. If full-scale improvement were possible, could City Council as presently constituted be trusted to exercise wisely more powers of financial policy determination than it now has?