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Constitutional Provisions Relating to State Finance

Introduction

This report consists of six major parts.

1. An examination of the purposes and functions of a constitution. In order to review the entire financial structure of a state government the state constitution provides the starting point. It is especially important in the state of Minnesota that the study of the financial structure originate with the basic document, because Minnesota has placed so much of its financial control within the constitution.

2. A review of legislative powers with respect to finance. Although legislative powers are also included as an integral part of our study on Legislative Reorganization, they are so inextricably bound up with finance that treatment of them in this report cannot be avoided.

3. A bird's-eye view of the scope of the subject of State Finance. Because it is impossible to make an exhaustive study of this field in the time at our disposal, this is given in outline form, its primary purpose being to provide a short orientation in what is encompassed in finance. The use of the outline facilitates more immediate comprehension of the relationships of each of the parts to the whole, and thus may serve as a guide for further work in this field. It is not so important at this time to become well-versed in all phases of finance as it is to become cognizant of the ramifications of the subject and of how the parts fit together.

4. An analysis of constitutional provisions relating to finance. This is limited primarily to a comparison of Minnesota provisions with those of the Model State Constitution, published by the National Municipal League.

5. Trends in state expenditures. Although the legislative powers and the finance procedures vary greatly from one state to another, expenditures show a remarkably uniform pattern. Government expenditures have a universal history of constant increase, though at varying rates. The years since the end of World War II, however, have witnessed an accelerated rate of increase in state expenditures, particularly in the areas of education, highways, mental health and welfare.

6. A preview of the 1955 legislative session. This does not truly belong in this report, but is included because this is a legislative year.

It may seem as though the topics of constitutional form and legislative powers are being overdone by their inclusion in the reports of both Legislative Reorganization and Finance. Their importance at this stage of the game, however, cannot be over-emphasized. These topics will form the nucleus and set the pattern for League decisions as to the most desirable type of constitution for which to strive. Later, details can be discussed and fit in or not according to such basic principles as we shall evolve as a result of this year's study.

I. PURPOSES AND FUNCTIONS OF CONSTITUTIONS

Definition: Webster defines the word constitution, in the sense in which we are using it, as the "fundamental, organic law or principles of government of a nation, state, society or other organized body of men, embodied in written documents or implied in the institutions and customs of the country or society; also, a written instrument embodying such organic law and laying down fundamental rules and principles for the conduct of affairs." The words "fundamental" and "organic" seem to be the keys for further analysis. In the legal sense of the terms, "fundamental" is given as a synonym of "organic". Because the definition of "organic" is more precise, we will use it to define more sharply the meaning of "constitution." "Organic" means: "designating or pertaining to, the law or laws by virtue of which a government or organization exists as such; designating the laws incorporated or involved in the organization of a state, political organism, other organized association."

A constitution need not be written to be effective. Because most of those with which we are familiar are written down, however, we tend to think of the document itself as the constitution, rather than the principles and rules embodied in it. Most states follow some principles and practices that are not printed in any written document but which, nevertheless, have the force and effect of constitutional provision. Usually we think of the written provisions as being the only ones enforceable by the courts. Many times, however, the courts will rule, not on the basis of the written word of the constitution, but on the basis of the spirit of the constitution.

Characteristics:[1] The characteristics which a constitution must have to be successful are stability and flexibility. Stability. "Unless the group of principles and rules which govern the operation of the government is somewhat stable, the government's relation to the individual, the relations of one part of the government to another part, and many other important political and legal relations, cannot be known to any degree of certainty...As a consequence progress will be seriously impeded." Flexibility. On the other hand, it is essential that it be possible to make changes in these rules and principles in order that the government may function effectively under different circumstances and changed conditions.

How can two so different qualities be reconciled? There are two ways. (1) The first is by drafting the constitution properly. "The written record...should deal only with the fundamentals of government and its functions. Only the fundamental inter-governmental relations should be included, and only the fundamental relations between the government and the individual should be cast into a somewhat permanent form. The constitution should be very short and phrased in terms which are precise and yet be possible of elaboration by the process of interpretation." (2) The second method of balancing stability with flexibility is to make the constitution amendable. "It should be possible to amend the constitution so as to vary the principles and rules which are to be applied in a given period of time in order that the people of that time may be well governed according to the needs and standards of their particular day."

Method 1 above was a prime consideration in the drafting of the new constitution which New Jersey adopted in 1947. "One factor which the delegates (to the Constitutional Convention) kept constantly before them in their deliberations was the need for a short, flexible, simple document which would be restricted to the incorporation of fundamental principles. The desirability of these characteristics was impressed on them very frequently by the Governor, the President of the convention, and witnesses who came before the committees. The delegates had learned a lesson from constitutions of other states which were long, incorporated much legislative material and hence proved inflexible."[2]

The Trend Toward Long Constitutions. The early state constitutions tended to be short; later ones, during the latter part of the 19th century and early part of the 20th, became lengthy. This trend has been attributed to the following causes:[3]

1. A distrust of legislatures had developed. This manifested itself in three ways. (a) An ever-increasing number of restrictions were imposed upon what the legislature was allowed to do.[4] The many restrictions upon legislative control of state finance illustrate this point. (b) Subjects were dealt with in more detail in the constitution because of the fear that the legislature would not act properly with regard to them. (c) Numerous procedural limitations were imposed on state legislatures.[5]

2. Changing conditions created new problems of government. In order that these might be dealt with adequately by the state government, it was necessary to give the legislatures new powers.

3. The need for additional governmental machinery resulted in the creation of various boards and commissions. In a number of constitutions these boards were provided for in the body of the constitutions.

4. A tendency to insert into the constitution more provisions dealing with the administrative details of state government developed.

The most serious objections to long and consequently involved constitutions are: (1) Because they are detailed, they need change too often - more often than is possible and more often than the people should be called upon to participate in the work of government. (2) Measures of temporary importance are put into permanent form. (3) The greater the number of restrictions upon the legislature, the more often will

1. Quotes in this section from Bates and Field, State Government. 1928. Harper & Bros. Chapter 4.
2. Baisden, Richard N., Charter for New Jersey; The New Jersey Constitutional Convention of 1947. 1952. P. 104.
3. Bates and Field, Op. Cit. Chap. 4.
4. This is discussed in the next section.
5. See "Legislative Reorganization" material.

its acts be challenged in the courts. Hence, long constitutions throw a heavier burden on the courts than do shorter, simpler ones. (4) The inclusion of great detail tends to break down the distinction between constituent functions (those which belong in the constitution as functions of the people) and legislative functions. This differentiation, however, is difficult to make, and usually resolves itself largely into a matter of policy. (5) Because so many restrictions have been imposed upon legislatures by constitutional provisions, the courts have developed the doctrine of implied limitations by which any mention of a subject in the constitution is interpreted to mean that the legislature is prohibited from any legislation on it beyond the absolute letter of the law.

A constitution must be amendable. "If state constitutions were properly drafted, containing only very brief outlines of the government to be established and a few statements of the relation which the government is to bear to the individual, the process of amendment would not need to be easy" because such constitutions would not need so frequent change. Most state constitutions are not properly drafted and consequently do need frequent change, however. For this reason the trend has been to make the amending process easier.[6] Minnesota, with its long and detailed constitution, is an exception to this trend. In 1898 after 41 years of operation with a simpler amending process, it enacted an amendment to make the process much more difficult.

II. LEGISLATIVE POWERS

Their Historical Development.[7] It is essential to know the history of the changes which have taken place in the thinking about state government in order to judge whether these changes and their causes apply to present day needs and conditions.

The early legislatures had practically no limitations on the scope of their activities and relatively few directions as to their organization and procedure. The distrust soon engendered resulted in a curbing of legislative powers. It was produced mainly by two factors. (1) The questionable relationships of legislatures with private and special interests. These relationships were built up by the submission of the legislators to pressures of special interests for favorable grants and privileges. The legislatures then had many favors to dispense in the form of (a) the practice of creating corporations by special legislation; (b) the vast extent of public lands left to their disposition; and (c) legislation creating banks and extending banking privileges.

(2) Mismanagement of financial affairs. By 1837, when the great financial panic occurred, the states had incurred obligations of more than fifty million dollars in order to engage in banking activities themselves or to support private banking corporations by loan of their credit. At the insistence of land speculators and settlers the states embarked on ambitious programs of internal improvement. By the end of 1837 bonds had been issued or authorized (in addition to other forms of financial encouragement) in the aid of banks, roads, canals, railroads and similar undertakings to the extent of $170,000,000.

The loss of prestige suffered by the legislatures because of such machinations began to be evidenced by the middle of the 19th century in the form of steps designed to circumscribe their activities and powers. These steps took three forms. (1) Strengthening the powers and expanding the functions of other branches of the government at the expense of the legislature, (2) restricting their freedom of action with respect to their organization and procedure, and (3) limiting the scope of their activities. This last method of restriction is the only one we will discuss here, because the limitations in scope of legislative activities dealt mostly with finance and special legislation. We are concerned here only with the restrictions on finance. Three areas of finance were affected - taxation, appropriation and indebtedness.

6. Bates and Field. Op. Cit. P. 81f.
7. Bates and Field. Op. Cit. Chap. 7.

Taxation. Among the early modifications were sweeping attempts to secure equality in taxation. Most widespread is the directive that taxes be uniform and equal upon all property.[8] (This requires that all property be valued upon the same base and taxed at the same rate. Under this system all kinds of property, from houses to industrial plants, are lumped together and taxed alike.) Legislatures are thus directed to provide for the just valuation of all property, real and personal.[8] In some instances this is supplemented by specific instructions as to the valuation of mines, livestock, land and improvements, as well as corporate property of all kinds.[8] In some constitutions tax rates, either all of them or for special forms of taxation, have been fixed.[9] Some prescribe that persons, corporations, and localities shall not be exempted from taxation,[8] or that only specified exemptions shall be made.[10]

Appropriations. Appropriations are most frequently directed to be "made only by bill, and not by resolution or otherwise;[11] and that they shall be only for public purposes.[12] In a number of instances power to make appropriation is limited to the amount of estimated revenues, except in cases of dire emergency such as invasion or insurrection.[13] Specific objects for which appropriation cannot be made are sometimes specified, including the support of sectarian schools or of private or corporate enterprises, or grants to local areas of government.[11] It is frequently required that the general bill shall provide only for ordinary expenses of government and that salary bills shall not contain other matters.[14] In bills other than this, appropriations must be for specific purposes;[15] and the specific sums in each case shall be mentioned."[15]

Indebtedness. "In most states there are found very definite limitations upon the power of the legislature to incur debt, either by borrowing or by the loan of the credit of the state to support debts incurred by persons, corporations, or localities.[11] In some instances there is an absolute prohibition upon the creating of a debt save for specific purposes mentioned. The purposes most commonly thus specified are to repel invasion, suppress insurrection, and to pay the interest on or to refund existing debt. Sometimes debt for other unspecified purposes is permitted, but to a very limited amount.[13] The maximum of indebtedness either as a fixed amount, ranging from fifty thousand dollars in some of the older states, to as much as two millions in the far west, or it may be determined as a certain per cent of the total valuation of the state.[16] In perhaps a third of the states, these limits may be ex-

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8. These provisions are not found in Minnesota's present constitution. In 1906 the so-called wide-open tax amendment was adopted, which, with additional amendments, constitutes the present clause. It states that taxes shall be uniform upon the same class of subjects. An Illinois amendment to allow classification of property for tax purposes failed of ratification in 1953!
9. Although the constitution does not actually fix any tax rates, the clause on gross earnings tax on railroads does so in effect by stipulating that any rate change must be submitted to referendum.
10. Our constitution specifies exemptions but they are broad - so much so that the Constitutional Commission noted with its recommendations that "in 1944 approximately 25% of the assessed value of all taxable real property in Minnesota was exempt from taxation."
11. True of Minnesota constitution.
12. This applies to the Minnesota Constitution by interpretation of Article I, Section 1, (Bill of Rights). "Government is instituted for the security, benefit and protection of the people."
13. The Minnesota Constitution allows for the contraction of debt for extraordinary expenditures, in addition to war, invasion and insurrection, but does not specifically limit appropriations to amount of estimated revenue.
14. These provisions are not in the Minnesota Constitution.
15. In Minnesota appropriations are made for specific purposes and in specific amounts. This is standard practice, though not required by the constitution.
16. Minnesota's Constitution limits the amount of debt to $250,000. For the building and maintenance of the trunk highway system, however, the debt limit is $75,000,000. The general limit is actually no longer operative, as ways have been found to circumvent it.

ceeded with the consent of the voters obtained through a referendum.[14] Still other limitations upon the debt-incurring power are requirements that the act of authorization shall specify distinctly the object of the debt, and shall be passed with certain unusual formalities or by an unusual majority.[11] To prevent the accumulation of arrearages of interest and delay in the payment of the principal, the duty of making specific provisions for meeting both are imposed on the legislatures.[11] Not only is the power to create and to perpetuate debts by direct means thus closely restrained, but the power to create them indirectly is still more strictly limited. The disastrous consequences of the liberal and even reckless policy pursued in aid of internal improvements led the people to specify in no uncertain terms that the credit of the state shall not be given or loaned to any political subdivision or to any private individual or corporation.[11] Neither can any local or private debt be assumed or paid by act of the legislature.[11] The budget system, when incorporated in state constitutions, has for its purpose the limitation of the power of the legislature to continue the haphazard methods which they had hitherto pursued in making appropriations and levying taxes" as well as the purpose of strengthening the powers of the executive department.[14]

In reading this material and paying close attention to the footnotes it may seem at first glance that Minnesota has a minimum of these limitations of legislative powers in her constitution. Minnesota, however, had devised a different scheme for tying the hands of the legislators even more firmly than do many of the provisions listed above. That is the earmarking of revenues for specific purposes, and in exact percentages in the case of revenues allotted to more than one special fund. The stringent restrictions imposed by this method leaves our legislatures with little authority to act constructively in the field of finance. Not only does this system allow the accrual of unusable balances in some funds at the expense of other services, but prevents constructive budgeting or other control of expenditures of these revenues, and limits legislative discretion with respect to use of state revenues.

<u>The Present</u>. Two questions arise from this discussion of the history of legislative powers in the state constitutions.

(1) Do the reasons for the 19th century distrust of legislatures still obtain? If so, are our most effective controls to be found in constitutional limitations? If not, is it desirable to continue from force of habit treatment of a disease long-since cured? The downfall of the early legislatures was caused primarily by their being able to create corporations and banks and to dispose of public lands. No longer are the legislatures able to do these things, not only because such powers have been removed from them, but also because (a) there are so many corporations and banks that their establishment and regulation must necessarily be accomplished under general laws, and (b) the vast extent of public lands no longer exists. It is probably safe to predict that legislatures will always be besieged with requests of special interest groups, however. Rather than specify what the legislatures <u>cannot</u> do with respect to special interests, it might be more effective to specify restrictions on the activities of the pressure groups themselves. (This is hardly a matter for constitutional consideration, however.) Such action has been taken in some states and is being urged in others, including Minnesota.

The radical changes in our communication and transportation systems in the past hundred years have been of prime importance in bringing about more popular control of our legislatures. Whereas today we get an almost blow-by-blow account of what the legislature is doing, and can voice comments in practically a matter of minutes, it must have required virtually months, long ago, to find out what the legislature <u>had</u> done.

(2) With the advent of modern management techniques in government might not the principles of good management better be served by a different approach to these legislative problems? An even cursory discussion of management techniques would take us far afield into the administrative sphere of government, with which we are not directly concerned at the moment. Suffice it to say that many of these techniques should be, are being, and have been adopted by government. Among them, in the area of finance, are the executive budget system, uniform accounting, consolidation of finance functions in a single department, the pre-audit as an administrative function, and the post-audit as a legislative function. (In this state the post-audit is an administrative function.)

We are not alone in our consideration of these problems. The National Municipal League in its explanation of its Model State Constitution has this to say: "As a result of the necessity for re-assessment of the fitness of our institutions in this postwar atomic age, we appear to be entering another great era of constitution-making in our states. It is important that the planning that goes into this revision be thoughtful, hard-headed, and up-to-date."

III. THE SCOPE OF STATE FINANCE

Public finance, of which state finance is a part, is the science of governmental financial management. It deals with the provision, custody, and disbursement of the resources needed for the conduct of public or governmental functions. Its scope has broadened to cover all phases of governmental financial activity and its importance becomes greater as the burden of government increases.

To discuss the scope of activities encompassed by the field of state finance in any detail requires at least one entire volume. Therefore, that we may get acquainted with the extent of the subject without the burden of too much reading, it is presented here in outline form. This outline is not intended to be comprehensive. Much detail has been omitted for the sake of emphasizing major points.

Taxes and debt are both sources of revenue. In the outline, however, they are treated separately - taxation because it is the most important and complex source of public income; debt because its operations are so distinct from those of other revenues.

AN OUTLINE OF STATE FINANCE[17]

I. EXPENDITURES. The expenditures of government are a measure, in terms of money, of the services performed by public agencies.
   - A. Classification of expenditures is a systematic arrangement of expenditures into groups.
     - 1. There is no standard classification system.
     - 2. Classification is necessary for several purposes.
       - a. It aids the budget procedure.
       - b. It helps give meaning to financial reports.
       - c. It permits comparisons of comparable figures.
       - d. It simplifies accounting procedures.
   - B. The trend of governmental costs is one of a strong and steady increase, which has been manifest for centuries. It has risen at a rapid rate during recent years.
   - C. Expenditure programs should be watched closely since demand for additional or increased spending is the creator of new or more onerous tax measures.

II. REVENUES, or public income.
   - A. Since the government does not operate on a profit basis, the total income from revenues and borrowings should generally correspond rather closely to the total expenditures.
   - B. Sources of revenue
     - 1. Commercial revenues (or proprietary revenues): Those which arise from operations in which the state stands in the position of a proprietor.
       - a. The public domain
       - b. Public industries (water supply systems, etc.)
     - 2. Administrative revenues. The outcome of governmental activities, incidental to the routine process of governmental administration.
       - a. Fines: a charge levied upon an individual, for law-enforcement purposes.

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17. Material largely from: Lutz, H. L. Public Finance. Appleton Century Co. 1947.
    Bates and Field, Op. Cit., Chap. 9.

b. Fees: a charge made for a special service rendered or a privilege granted to the individual by the government.

(1) Service fees: Charges made for service rendered to the individual against whom the charge is made. Eg., recording deeds.

(2) License fees: a charge levied for a privilege or permission granted to the party paying the fee.

c. Special assessments: a proportional contribution upon land to defray the cost of a public improvement which is assumed to confer special benefit upon the property assessed. (This is used primarily by municipalities.)

III. TAXES. A tax is most generally defined as a compulsory contribution from the individual to the government to defray the expenses incurred in the interest of all, without reference to benefits.

A. Essential characteristics of a tax system.

1. Adequate to provide, combined with other sources of income, sufficient funds for the support of government.

2. Equitable in its distribution of the burden through the community.

a. Double taxation, a problem of the distribution of the tax burden, occurs whenever an object is taxed twice by the same or by coordinate jurisdictions. For example:

(1) Taxation of the same property or income by more than one state.

(2) Taxation of property for both local and state purposes.

b. Two major issues are involved in double taxation.

(1) It may be discriminatory. Only then is it inequitable.

(2) The weight of the combined taxes on the individual taxpayer.

3. Economical in that it takes from the taxpayer no more than required for the needs of economically administered government.

4. Elastic, so that it may be capable of expansion and contraction to meet the varying needs of the treasury.

5. Flexible, so that if changed conditions make changes desirable in the system, they can readily be made.

6. Simple, both in structure and in administration, so that it may be easily understood and grievances readily adjusted.

B. Forms of Taxation. No one form can satisfy all essentials of equitable taxation. Consequently a number of different taxes are imposed, together forming a system and designed to supplement one another.

1. Property Tax.

a. Characteristics of the property tax.

(1) It provides virtually all of the tax revenue of the counties, school districts, and miscellaneous minor subdivisions of the United States, and 87% of the tax revenue of the cities and towns. (1942)

(2) Another characteristic of American property taxation has been the rise and decline of the so-called "general property tax."

(a) Originated as a tax on property in general, on all property considered as a homogeneous whole - real and personal, tangible and intangible.

(b) Its defects in theory and administrative procedure became apparent, and eventually insuperable, with the transition from primitive to complicated methods of economic organization, and with the emergence of large amounts of corporate securities and other forms of intangible wealth.

(3) The next characteristic is the emergence of various schemes of property classification - creation of classes of property - each of which is to be dealt with in some manner separately from other classes in determining the taxes to be imposed.

b. Problems of property taxation
   (1) To base property taxation on capital or annual income values.
   (2) The establishment of appropriate property classes.
   (3) Elimination of property tax legislation from constitutions.
   (4) Development of an assessment and equalization technique.
   (5) The attainment of more effective central administrative control.
   (6) A rational exemption policy.
   (7) The increase in the use of property tax rate limitation (the mill-levy limit allowed) indicates the problem of control of public expenditures and the proper and equitable distribution of tax burdens.
   (8) Improvement of the collection system. This has been the weakest aspect of property tax administration.

2. Income Tax. Has been adopted on the assumption that income is the best index of ability to pay.
   a. Rates are usually progressive, i.e., the higher the income, the higher the rate.
   b. A few states apply the income tax to corporations only, while in a few others individuals only are affected.
3. Poll Tax. Also known as a head tax or capitation tax, a levy at a fixed amount per person or, in other words, per head.
4. State taxes on specific commodities. All states now tax gasoline and alcoholic beverages.
   a. Gasoline tax.
   b. Alcoholic beverages tax, including licenses to handle and tax on the commodity.
   c. Non-alcoholic beverages. Some states now tax these beverages too.
   d. Tobacco, including dealers' licenses and cigarette tax.
5. Taxation of business
   a. Principal methods of taxing business.
      (1) Capital stock
      (2) Gross receipts (or equivalent term as gross sales, etc.) Not included in this category are taxes on gross earnings <u>in lieu</u> of property tax.
      (3) Net income. Applied only to corporations. All states except New York follow the practice of the federal government in taxing business income of partnerships and sole proprietor concerns to the individuals receiving it, instead of taxing the business as such.
   b. Taxation of airlines.
   c. Taxation of banks.
   d. Other business taxes.
      (1) Sales tax. From the standpoint of the theory of the legal nature of this tax, the laws fall into two groups:
         (a) Those that impose the tax on the privilege of selling.
         (b) Those that impose it on the act of sale.
      (2) Use Tax: a levy on the use, storage, or consumption of tangible personal property bought outside the state, which would be subject to the sales tax if bought within the state.
      (3) Motor vehicle licenses.
      (4) Severance taxes: The name "severance" tax was originated in Louisiana to describe a tax imposed on the privilege of removing, or severing, certain raw materials or natural resources from the land or water within the state's jurisdiction. The Minnesota tax on iron ore (called "occupational") may properly be regarded as a severance tax.

6. Inheritance and estate taxes
   a. The inheritance tax is based on the shares received by the respective heirs.
   b. The estate tax is based on the entire estate before it is distributed to the heirs.
   c. The Gift tax is a plan of dealing with the problem, inherent in death taxes, of transferring property before death. It is imposed on all gifts whenever made, in excess of established limits.

C. Constitutional limitations on taxation.
   1. Federal restrictions on state taxing powers
      a. States prohibited from levying any duty on imports or exports, except such charges as may be necessary to carry out the state's inspection laws for police purposes.
      b. No state may levy any tonnage duty upon vessels entering its ports.
      c. Grant to the federal government of the exclusive control over interstate commerce.
      d. Neither the property nor agencies of the United States subject to state taxation. (By judicial action)
   2. The most common restriction in state constitutions has been that the rate of assessment and taxation shall be uniform and equal.

IV. DEBT

A. Public borrowing has been resorted to because the public has been demanding that the state perform a wider range of services which calls for extraordinary expenditures such as for lands, buildings, public improvements and bonuses.

B. Rules have been generally accepted for guidance in the creation of public debts.
   1. Borrowing should not be employed to meet current expenses except in anticipation of revenues, but should be resorted to only to pay for improvements of a permanent character or for emergencies such as war or public calamity.
   2. When debt is contracted the period allowed for discharging it should not be longer than the life of the object for which the debt is incurred.

C. Classification and form of debts: debts of public bodies are usually distinguished with respect to their time of maturity and the form of the certificate or evidence of the debt.
   1. Funded debt. Usually created by emergency or expensive and permanent improvement.
      a. Has a long but definite period to run
      b. Evidenced by bonds or serial notes
   2. Floating debt.
      a. Has no fixed time to run, but the period is expected to be short.
      b. Evidences are "treasury notes" or "treasury warrants."
   3. Current debts. Incurred in the course of the current operations of government.
      a. Presumed to be payable from the revenues of the current year.
      b. Evidenced by book accounts or by short-term paper called "revenue loans," "tax-warrants," or "auditor's warrants."
   4. Status of debts may be changed from short to longer forms, up to funded debt.

D. Debt redemption. Methods of paying public debts.
   1. Bonds
      a. Definition: a series of notes with the following characteristics in common:
         (1) Form
         (2) Interest rate
         (3) Date of issue
         (4) Date of maturity

b. Usual method of payment is by the accumulation of a sinking fund.
   (1) This is a fund into which is to be paid periodically a sum which will, with accumulated interest, suffice to redeem the bonds at the date of maturity.
   (2) Sinking fund method not effective if:
      (a) Annual contributions not regularly made.
      (b) The accumulations in the fund impaired by unwise or corrupt management

2. Serial notes (or certificates of indebtedness)
   a. Characterics:
      (1) These securities also have a common date of issue
      (2) Are divided into a number of groups equal to the number of years allowed for payment of the whole debt.
      (3) The several groups are arranged to mature in succession at intervals of one year until the debt is paid.
   b. Advantages of this method.
      (1) Avoids the uncertainties of the accumulation and preservation of large sinking funds.
      (2) Compels the government to provide in its budget for both the interest charges and the redemptions falling due each year.

E. State constitutional limitations upon borrowing. Result of the tendency to substitute for the rigorous methods of taxation the easier way of borrowing and leaving to succeeding administrations the task of repayment.

V. FINANCIAL ADMINISTRATION

A. Financial administration may be viewed as a cycle of operations, including

1. Assessment. The determination of the amount of the tax base by appraisal or other appropriate means. (The term "assessment" is improperly applied when used to mean the imposition of the tax. That step is the "levy.")
   a. Valuation. The work of the assessors is to prepare a list of all persons holding property within their jurisdictions subject to the levy, and to determine the valuation to be placed on it for purposes of taxation. Valuation of incomes is usually done by the taxpayer.
   b. Certain forms of highly specialized property and property extending through more than one taxing jurisdiction are generally assessed by state officials.
   c. Local review and equalization. This function is performed to place upon the roll omitted property and to equalize valuations between individuals and between assessment districts.
   d. Certification to the state. Any equalization among counties is done by state agency.

2. Levy. The formal order for tax payment upon the assessed base, at certain rates or in specified amount. The procedure of levy varies with the different taxes.

3. Collection. The goal of the whole taxing process is the provision of revenues. Therefore it is important that the taxes be collected.
   a. General characteristics of collection.
      (1) The collection process requires authoritative sanction because it involves taking private property for a public purpose.
      (2) Collection may be handled by the officer who makes the assessment, or by some one connected with another division of the government.
      (3) It is generally desirable to make collection convenient for the taxpayers.
   b. Tax laws, like any other laws, must provide adequate penalties in order to produce results through proper observance.

4. Custody. The means for securing the proper public custody of the monies collected as public receipts, and for providing adequate means of collection, safe-keeping, transfer and disbursement.
   a. Practice originally prevailed of keeping the funds in the vaults of the treasurer's office.
   b. Funds are now deposited in depository banks throughout the state. Such bank deposits are called "demand deposits" because they must be surrendered upon request.
      (1) For the protection of public deposits, most states:
         (a) Require that the depository banks must either give an approved surety bond or pledge approved collateral security.
         (b) Limit the amount that may be deposited in any bank.
      (2) The federal banking act of 1933 prohibits payment of interest on these demand deposits.
   c. The <u>fund</u> system of finance. Under this system the revenue in the state treasury are not all available for general state purposes. (Minnesota is an example of this system.)
      (1) "Special" funds are created for certain specific purposes and such proceeds cannot be drawn upon for other purposes.
      (2) Disadvantages of special fund system
         (a) Seriously handicaps the development of an effective budget system.
         (b) It can easily happen that very desirable work in one department must be stopped for lack of money while at the same time a considerable surplus may be lying unused in another fund.

5. Budgeting. A budget is a comprehensive financial plan for a definite period, based on careful estimates of expenditure needs and probable income of government.
   a. Essential elements of a budget
      (1) Presupposes an intelligent consideration by some central authority of the various services to be performed, their relation to one another and to the welfare of the state as a whole, and the wisest distribution of available funds among these services.
      (2) Implies also the consideration of revenues, whether to be increased or decreased, at what point, and to what extent.
   b. The budgetary cycle is composed of three major steps.
      (1) Formulation of the budget plan.
         (a) Gathering of information
            (1) Obtaining estimated expenditures from departments.
            (2) Conducting hearings for more complete explanation of the estimated expenses.
            (3) Obtaining suggestions from departments for more efficient administration.
         (b) Preparation of a financial plan to make the most advantageous distribution of the state's revenues.
         (c) Plan must include:
            (1) Statement of anticipated revenues
            (2) Debt statement
            (3) Balance sheet for the period just closing
            (4) Plans for meeting any anticipated deficits.
      (2) Determining the plan - the appropriation function. An appropriation is an authorization from the legislature to some spending agency, subject in many instances to administrative review, to spend a certain amount of money for a specific purpose; and to the treasury to pay that amount from the proper fund, if money is available, upon presentation of proper vouchers. (Allotment and setting-aside of specified sums (encumbrances) are usually required before obligation can be incurred.)

(3) Control of the execution of the plan.
(a) The old rigid legislative control of expenditures has largely been supplanted by an administrative control, which on account of its flexibility lends itself more readily to an efficient and economical conduct of the state's business.
(b) Trend has been away from the original lump-sum appropriations and appropriations of detailed itemization which followed that period, to a system between these two extremes in which appropriations are made under a few main headings, such as:
(1) Personal services
(2) Supplies
(3) Equipment
(4) Capital outlays

6. Disbursement, or paying bills. The typical method is as follows:
a. After the appropriation has become law the auditor opens accounts with each of the spending departments and credits to each the amounts appropriated to it under the proper heads.
b. When an obligation is incurred by a department (in Minnesota, before an obligation has been incurred), the bill, memorandum, or purchase order, etc., is certified by the department and presented to the auditor.
c. The auditor sets aside funds for payment of that obligation, if he finds that:
(1) The expenditure is authorized by law
(2) There remains unexpended a balance to the credit of that particular heading of appropriation
(3) There are funds available in the treasury.
d. A warrant is issued (not necessarily by the auditor) which may be presented directly to the treasurer for payment. In practice it is customary for the creditor to deposit the warrant in his own bank.
e. From the bank of deposit it goes through the clearing house to a state depository and thence, usually, to the treasurer to be retained by him as his voucher.

B. The trend in recent years, under the reorganized state governments (including Minnesota) has been toward integrating the financial functions in a single department of finance, in which the administrator is directly responsible to the governor.
1. Such a department ideally would centralize the following functions:
a. Budget
b. Accounting, including: (In Minnesota these functions are presently done by the State Auditor)
(1) Maintenance of the central accounts.
(2) Pre-audit of the revenues and expenditures
(3) Settle all claims
c. Treasury
d. Purchasing, to include:
(1) Buying of supplies, materials, and contractual services used by the state
(2) Maintenance of central stores
(3) Supervision of the inventory and care of movable properties of the state.
(4) Supervision of capital investment, buildings, etc.
2. The smaller states might have a bureau or division of taxation to administer the tax system. The larger states might require a separate department to administer taxes. Functions of a tax department include:
a. Equalization of local assessments
b. Supervision of original assessments made by local officials
c. Assessments of certain classes of corporate property
d. Administration, including collection, of all the state taxes, such as income, inheritance, motor vehicle, gasoline and drivers' license.

IV. CONSTITUTIONAL FINANCE PROVISIONS

We have had a preview, though sketchy, of how Minnesota's constitutional finance provisions compare with state constitutions in general in Section II on Legislative Powers. Here we will examine them in more detail, comparing them with those of the Model State Constitution as a yardstick. This model constitution represents the consensus of a large number of the persons best-qualified to do this job in the United States and is the product of many years' efforts. The first edition was published in 1921, the second in 1928, the third in 1933. In 1940 another edition was drafted after a year's study by committees and discussion by the National Municipal League as a whole. The document was re-edited again when the time came for reprinting and became the fifth edition, published in 1948.

COMPARISON OF CONSTITUTIONAL FINANCE PROVISIONS

MINNESOTA	MODEL
TAXATION	
"The power of taxation shall never be surrendered, suspended or contracted away."	Same statement used, but reference to taxation stops here.
"Taxes shall be uniform upon the same class of subjects and shall be levied and collected for public purposes."	No tax to be levied except for public purpose.
Describes many real properties exempt from taxation including	---
"Personal property not exceeding in value $200 for each household, individual or head of a family, and household goods and farm machinery as the legisture may determine."	---
Establishes the occupational tax on all ores mined or produced; taxes on gasoline, motor vehicles, gas used in airplanes, forested lands, and timber yield.	---
Change in gross earnings rates on railroads subject to referendum.	The omission of any reference to the subject implies legislative jurisdiction over ratemaking.
SPECIAL FUNDS	
Provides for the apportionment of revenues from almost all of above sources to special funds.	"...no appropriation shall allocate to any object the proceeds of any particular tax or fund or a part or percentage thereof."
Specifically establishes funds for special purposes; some others by implication and interpretation. Among them: Internal Improvement Land Permanent School Swamp Land Trust Trunk Highway Road and Bridge Trunk Highway Sinking Permanent University	See excerpt immediately above.

MINNESOTA	MODEL
LENDING	
Permanent School Fund may be loaned to counties or school districts for buildings.	No mention made of objects of investment.
Principals of three trust funds may be loaned to political subdivisions and in first mortgages upon improved and cultivated farm lands.	Ditto above.
"The credit of the state shall never be given or loaned in aid of any individual association or corporation, except as hereinafter provided."	"The credit of the state or any civil subdivision thereof shall not in any manner, directly or indirectly, be given or lent to or used in aid of any individual, association or private corporation."
BORROWING	
Sets conditions of state borrowing: For the purpose of defraying extraordinary expenses; $250,000 limit; payment in 10 years; levy enough property tax each year to meet payments. Bill must pass by 2/3 in each houses.	No law authorizing borrowing to be effective until ratified by majority voting on the question at a regular election, except in case of dire emergencies, which are specified.
---	Qualified statement of authorization to borrow to meet expenses for a fiscal year, until revenues received.
Monies borrowed to be used for the object specified in the authorization act.	Debt must be authorized by law for a single object distinctly specified.
Different conditions of borrowing set for financing highways - payment in 20 years, $75 million limit. Debt limit waived.	General provisions apply to all borrowing situations.
Amendments to waive debt limit passed also for airports, rural credits and veterans' bonus.	Ditto above statement.
APPROPRIATIONS	
---	Establishes budget system.
---	No special appropriation bill to be passed until the general bill has been enacted, except in case of emergency appropriation to serve until general bill is passed.
---	The legislature not to appropriate for any fiscal period in excess of income provided for that period.
"No money shall ever be paid out of the treasury of this state except in pursuance of an appropriation by law."	"No money shall be withdrawn from the treasury except in accordance with appropriations made by law."

MINNESOTA	MODEL
---	"...nor shall any obligation for the payment of money be incurred except as authorized by law."
---	"The appropriation for each department, office, or agency of the state, for which appropriation is made, shall be for a specific sum of money..."
"Government is instituted for the security, benefit and protection of the people..." (This clause used to restrict appropriation of funds for public purposes.) Re: taxes, they "shall be levied and collected for public purposes."	No tax to be levied or appropriation made, directly or indirectly, except for public purposes.
No public monies or properties to be used in any case for sectarian schools.	(No public money or property to be used (in any way for any sect, church, denomination, or sectarian institution. (No public money or property to be appropriated for a charitable, industrial, (educational or benevolent purpose, unless a government agency.
---	"No appropriation shall confer authority to incur an obligation after the end of the fiscal period to which it relates."
Bills of revenue to originate in House of Representatives.	Not applicable. Unicameral legislature recommended.
"Governor may cut out items of appropriation bills and otherwise approve."	"The governor may strike out or reduce items in appropriation bills passed by the legislature."

The Model Constitution provides administrative items not found in the Minnesota Constitution. Hence, they are not shown in the comparison. They include:

The governor to have power to reduce expenditures of departments when necessary.

The legislature shall by majority vote appoint an auditor who shall serve during its pleasure.

The governor to appoint an administrative manager of state affairs to whom he may delegate any or all of his administrative powers.

The Model Constitution also incorporates in its finance article a clause on Excess Condemnation, which provides that the state or subdivisions, in acquiring property for public use, may buy more than is actually to be occupied by the improvement in order to restrict the use of such surrounding land. Bonds may be issued for this purpose, not subject to the debt limitation clause, when made a lien on the properties acquired in that way.

The itemized comparison points out the areas in which Minnesota's constitution could best be changed to bring it into better conformance with present-day thinking and conditions.

1. The system of taxation is a legislative function and should be left to the discretion of the legislature, within the limit only of imposing taxes for public purposes. Adherence to this principle would eliminate, perforce, the setting of specific tax rates by any body other than the legislature.

2. No revenues should be allocated to any specific purpose, and as a corollary, no special funds should be established to receive such revenues.

3. The constitution should not specify objects for which the state's credit might be lent. The general clause implies that credit might be extended to subdivisions of the state.

4. Control of the contraction of debt would better be secured through the requirement of referendum than by specific constitutional restrictions on total amount and method of payment.

5. The Minnesota Constitution could be strengthened with the addition of the recommended requirements on appropriations which set the procedure for sound financial management and general control of expenditures.

6. The inclusion in the constitution of the position of administrative manager and legislative authority for the post-audit function, as well as the budget system assure for the state government the basic structure of a good finance system.

All of the authorities in the field of finance and public administration seem to agree on two points: (1) that a constitution should not refer to methods or forms of taxation, and (2) that no revenues should be earmarked for any special purpose or fund. Putting these principles into effect is a different story, as the reports of the Minnesota Constitutional Commission of 1947 testify.

The major recommendations made by the committee were admittedly conservative. It recommended that (1) power to exempt personal property from taxation, in whole or in part, be granted to the legislature, (2) the provision requiring referendum on proposed changes in the gross earnings rates on railroads be eliminated, (3) the restriction on the incurring of indebtedness be eliminated, but with making rather definite and mandatory the provision for debt retirement, and (4) the present restriction on incurring debt for works of internal improvement be continued.

The proposals which created the most decided difference of opinion among the committee were those concerning the state trust funds and dedicated revenues. Although the committee as a whole decided against a ceiling on the trust funds, it was by the small margin of 10 votes to 8. The sub-committee on Taxation and Finance had proposed that measure by a vote of 5 - 2. The sub-committee also recommended a provision abolishing all constitutional and statutory dedication of current revenues and requiring that all such revenues be deposited in a general revenue fund to be disbursed in accordance with appropriations made by law. This proposal met opposition from persons and groups especially interested in highways, schools, and game and fish propogation, and hence was defeated when considered by the whole committee.

V. STATE EXPENDITURES[18]

The ten-year period from 1942 to 1952 witnessed an increase of 196.4% in total expenditures of all the states. (See Table I below.) Of the three parts contributing to this total, the increase in General Expenditures shows the greatest rise - 201.1%.

Education accounts for a considerably larger fraction of state general expenditure than does any other function. In 1952 the states spent $4,026 million for this purpose, 240.7% more than in 1942. The increase has been a steady one during this period, the average annual increase being 24%. Of the 1952 total, $2,525 million was in the form of fiscal aid to local governments for support of public schools, as against $790 million in 1942. (These breakdowns are not shown.)

State expenditure for highways in 1952 amounted to $3,290 million, or 11.3% more than in the previous year, and 190.2% more than in 1942. Public welfare cost, including $976 million in fiscal aid to local governments, totaled $2,386 million. That amount was an increase of 161.4% over the 1942 amount of $913 million. Expenditures for health and hospitals showed the greatest percentage increase in the ten-year period - 304.8%. This reflects the increased emphasis being placed upon mental health. The largest increment in this item occurred in the period between 1948 and 1950. In 1942 these expenditures comprised 6.8% of the general expenditure total, in 1952 9.2%.

Ranking the amounts of the general expenditures from high to low reveals that

18. The Council of State Governments, The Book of the States, 1954-55.

education, highways and welfare were first, second, and third, respectively in both 1942 and 1952. The miscellaneous category was in 4th place in 1942, but moved down to 5th by 1952, yielding to health and hospitals for that place. Natural resources moved up to 6th place from 7th during the decade and public safety from 8th to 7th. Making way for these displacements was the position of general control, which moved from 6th place in amount expended in 1942 down to 8th in 1952.

Mention should be made of veterans' services because this item reveals a different trend during the decade. (This expenditure item is a part of the "Miscellaneous" category shown in Table I.) In 1942 and 1944 one million dollars was spent for this purpose. With the advent of bonuses to veterans, this expenditure took a quick leap to $633 million in 1948. That was the peak, however. Since that time the cost of veterans' services has fallen to $143 million in 1952. The drop is accounted for by the nearness to completion of the bonus programs in several states.

Under Insurance Trust expenditure employee retirement has shown the largest increase in the ten years - 277.8%. This is to be expected, not only because pensions have tended to increase in size, but also because of the increase in the longevity rate.

TABLE I

COMPARISON OF EXPENDITURES OF STATE GOVERNMENTS*
1942 and 1952

ITEM	AMT IN MILLIONS 1952	1942	% CHANGE '42 - '52	% DIST. 1952
GENERAL EXPENDITURE TOTAL	$13,697	$4,549	201.1	100.0
Public Safety	378	146	159.1	2.8
Public Welfare	2,386	913	161.4	17.4
Education	4,026	1,182	240.7	29.4
Highways	3,290	1,134	190.2	24.0
Health and hospitals	1,258	311	304.8	9.2
Natural resources	548	160	241.6	4.0
Employment and Security Administration	177	59	199.6	1.3
General control	368	166	121.6	2.7
Miscellaneous & unallocable	1,202	479	164.3	8.8
LIQUOR STORES EXPENDITURE	$ 723	$ 288	150.9	- -
INSURANCE TRUST EXPENDITURE	$ 1,413	$ 505	179.8	100.0
Employee retirement	247	65	277.8	17.5
Unemployment compensation	971	369	163.2	68.7
Other	195	71	175.4	2.7
TOTAL ALL EXPENDITURES (add the underlined sums)	$15,834	$5,343	196.4	- -

*The amounts in the table include intergovernmental expenditure.

Table II gives the 1952 expenditures for Minnesota for the three principal categories of general expenditure. These figures show that Minnesota is in step with the trend, spending the largest proportion for education and the next largest amount for highways.

TABLE II.

SELECTED GENERAL EXPENDITURES IN MINNESOTA
1952

ITEM	AMT IN THOUSANDS
GENERAL EXPENDITURE TOTAL	$296,922
Public welfare	41,354
Education	102,235
Highways	70,536

Summary: These figures reveal that all expenditures of state government have increased absolutely since 1942. Relatively, some have increased faster than others. Those showing the fastest rates of increase, in descending order, have been expenditures for health and hospitals, natural resources, education, employment and security administration, and highways. Education accounts for the largest proportion of state expenditures, highways are next and welfare ranks third. These three areas of state expenditure accounted for over 70% of the total general expenditures in 1952. Minnesota follows the pattern set by the states as a whole. It may be concluded that these functions will continue to be of prime importance in state government under any method devised for financing them.

VI. LEGISLATIVE GUIDE

Although we are not immediately concerned with what the legislature does, or proposes to do, during the coming legislative session, it behooves us to follow its moves closely because of the effects any bills might have on the total financial picture.

This legislature is certain to have some serious financial headaches. The reason for the tremendous concern over making ends meet is that 79% of the total income of the state is dedicated to special purposes and thus cannot be used for the services in which many of the anticipated shortages of funds exist. While there is likely, apparently, to be a gap between estimated income and proposed expenditures, the total annual revenue of the state is usually somewhat greater than are its expenditures. Below are the current figures on total income and outgo for the fiscal year ending June 30, 1954.[19]

DISBURSEMENTS

Total Operating Disbursements (State employee services, other services, materials and supplies, fixed charges, acquisition of property, and unclassified)	$296,884,836.13
Total Non-Operating Disbursements (Debt service, stores for resale, investments, etc.)	180,723,252.45
TOTAL Net Disbursements	$477,608,088.58[20]

RECEIPTS

TOTAL Receipts, all sources	$489,612,714.98[20]

The favorable difference between the amount of monies received and the amount paid out of the treasury during the last fiscal year was a little over $12,000,000. Now let us look at the balances for the same period. The Unencumbered Cash and Investments in each of the 110 active funds as of June 30, 1954 was $401,181,465.85.[21] Of that amount of cash and investments, the state's four major trust funds held $251,058,041.17.

The Legislature's difficulties are created by the following factors: First, on the revenue side -

(1) As just pointed out, 79% of the state's income is dedicated to specific purposes. The cash balance in the General Revenue fund suffered a decrease of close to three-quarters of a million dollars during this past year, bringing it down to $12,677,444.81, of which very nearly $5½ million dollars has already been obligated. The Department of Administration recently announced that the surplus was depleted and cutbacks amounting to 5% were necessary to balance the budget.

(2) The established tax sources supplying the General Revenue Fund will not produce the anticipated amounts this year. The major probable decreases are in the Occupational Tax on iron ore and the Gross Earnings Tax.

(3) There is increased pressure to reduce if not to abolish the personal property tax. (This is being sponsored primarily by the Minnesota Taxpayers' Association.)

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19. State Auditor of Minnesota, Quarterly Report for period ended June 30, 1954.
20. These two totals include all monies received and paid out, including those for grants to local subdivisions.
21. The Auditor includes the warrants outstanding in arriving at his balance. On June 30, 1954 they totaled $5,655,016.19.

On the expenditure side of this situation:

(1) The educational organizations are proposing increases in the school aids from $80 per-pupil unit to $92 and $100. The amounts presently appropriated annually for school purposes from the Income Tax School Fund exceed the annual receipts to the fund.

(2) A decrease in the state's share of the highway funds is almost certain to demand a source for making up or exceeding the difference. This situation would present no immediate problems for this legislature, however, as any change in allotments to these funds must be made by constitutional amendment.

(3) Already announced have been increases in the requests of the University and teachers' colleges. Other agencies of the state government will probably do likewise.

What, then, is the legislature to do? With such a situation confronting it, it seems inevitable that an additional revenue source must be found to finance the coming biennium. Two frequently-mentioned sources which might be tapped are a sales tax (on non-necessities) and a surtax for general government purposes, on non-corporate income tax returns.

In the realm of longer-range planning other solutions present themselves. Ceilings on the amounts which might be allowed to accrue to the principals of the trust funds could be imposed. As mentioned above, the total principal of the four major trust funds was over $251 million dollars on June 30. In the last two years the amount in the Permanent School Fund alone has increased almost $22 million.

Another aid toward balancing future budgets would be to install the organizational and administrative changes proposed by the Little Hoover Commission, which that committee estimated would amount to savings of over four million dollars each year. Such an extensive reorganization could not be accomplished over-night to be sure. Some of the recommended changes would require constitutional as well as statutory amendment.

Three interim committees have been working on problems directly affecting finance during the current biennium. One is the Committee on Taxation, another a committee to study the highway problems, and the third a Iron Ore committee. Watch the newspapers for these committees' reports, which will be issued toward the end of December. Perhaps they will come up with solutions which so far have not been foreseen.

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Authorization for League work on the state Tax Structure is contained in the 1953-1955 state Current Agenda:

> "The League of Women Voters of Minnesota will work for the calling of a Constitutional Convention and will make recommendations as to what a new constitution should contain."

AN INTRODUCTION TO

STATE FINANCE

IN MINNESOTA

prepared by

League of Women Voters of Minnesota

Room 406, 84 South Tenth Street

Minneapolis 3, Minnesota

February, 1954

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INTRODUCTION

A study of state finance can be voluminous and detailed to the extent that anyone not thoroughly experienced in the field would gain little benefit from it. This is not intended to be that type of review. Rather it attempts to present quite generally the financial structure of our state government and the factors governing and influencing decisions and actions which bear on it. It has as its purpose, too, the stimulation of thought about the faults of the present system and possible remedies.

The material presented here may be categorized as follows:

1. Description of funds, including the source and legal authority for present revenues
2. An evaluation of the inadequacies or inequities of these revenues
3. Possible solutions, including potential new or revised revenues
4. Expenditures.

Table I (page 7) is included particularly to emphasize both the complexity of the fund picture in the state's fiscal structure and the problem of our state Legislature in the situation in which so much of our state's income is set aside in so many different pockets for specific purposes. This multiplicity of funds is in direct conflict with traditional fiscal thinking, as stated by Tannery in his State Accounting Procedures. Because the fund structure is so basic to financial health and general soundness, we quote from Mr. Tannery:

"The existence of a large number of funds narrowly restricted in use not only seriously impedes effective fiscal administration but also tends to defeat the judicious use of public money - the very objective fund restrictions are established to attain. One activity of government is permitted to flourish on the proceeds of an 'earmarked' source of revenue while other activities are inadequately financed. Unnecessarily involved and time-consuming accounting procedures are required, and the task of securing a complete picture of the state's financial condition becomes exceedingly difficult. These considerations suggest that the legislator, the accountant, and the administrator should cooperate in the drafting of legislative measures to build a financial and fund structure fitted to the needs and general functions of the state. Each fund should be broad but definite in scope and should be established only after all other possible means for controlling expenditures have been exhausted.

FUND STRUCTURE

"A state may have only a few funds or it may have many, depending on the fiscal provisions of the constitution and statutes; but regardless of number, funds may be grouped into the following classes:

1. General
2. Special Revenue
3. Working Capital
4. Bond
5. Sinking
6. Trust & Agency
7. Special Assessment
8. Utility"

Table II (page 12) is included primarily to show the changing needs of our state government in this recent period of rising costs, and also to show the limited authority which our legislature is delegated in appropriating for government needs. Note the limited number of funds (13) from which the legislature specifically appropriates as compared with the 120 separate funds listed in Table I. Expenditures are made from all funds, but the legislature, either by constitutional or special prior legislative restriction and precedent, from a practical standpoint, is barred from considering the needs of a great share of our governmental functions and allocating monies where they are most needed in accordance with changing needs.

The Semi-State Bill provides appropriations for quasi-state activities, such as the Minnesota Historical Society, aid to agricultural societies and veterans' organizations. The Social Welfare Bill appropriates monies for welfare purposes, including administration. The Public Institution Bill establishes monies for most of the state's public institutions. The State Department Bill sets up monies for all general government activities not provided in the other special bills. The Education Bill grants funds for school aids, the University, Teachers' Colleges, and administration of the state Department of Education.

Table III (page 13) is provided to afford an indication of the yearly volume of receipts and the purposes for which they are intended. About half of the departmental earnings, totaling in excess of $18,500,000, are dedicated to the agencies receiving them. The balance is deposited in the General Fund. A part of the interest received goes to the General Fund, the balance to the funds which earned the interest or to funds established for specific purposes, such as the Swamp Land Interest Fund.

I. THE FUNDS

A glance at Table I and its 120 different funds is sufficient to enable one to realize that from a practical standpoint it is impossible to discuss in detail all funds of the state. A brief explanation of some of the larger funds, however, will provide some insight into the problem.

General Revenue Fund

Fund 100, the General Revenue Fund, receives its income from a variety of taxes, both direct and excise, charges for services such as hotel and restaurant inspection, and miscellaneous fees, gifts, etc. Major sources of its receipts are described below. The total of these receipts will probably be between 70 and 75 million dollars a year, as compared with appropriations out of the fund for the current biennium of approximately 160 million.

The legislature may appropriate for any purpose of state government from this fund.

The Gross Earnings Tax is levied in lieu of the general property tax. It provides approximately 28% of the receipts of the General Revenue Fund. It is established indirectly by Article IV, Section 32 of the constitution and directly by legislation. The constitution states that any such tax on railroads heretofore or hereafter established by the legislature may be changed only by ratification by a majority of the electors voting in the election. The details of this tax were established by statute. Telephone, telegraph and other public utilities are also taxed on this basis.

The Insurance Gross Premium Tax, which is also in lieu of the general property tax, provides about 9% of the revenues of the General Fund. This tax was established by the legislature.

The Occupational Tax on iron ore was established by the Constitution. Of this tax 50% is dedicated to the General Fund, 40% to the Permanent School Fund and 10% to the Permanent University Fund. The General Fund's share of these receipts amounts to approximately 16% of its total receipts. One-tenth of the 50% of this tax received by the General Fund, however, is dedicated to the Iron Range Resources and Rehabilitation Fund - a restricted fund within the General Fund. The rate of this tax may be changed by the legislature.

The Royalty Tax on iron ore was established by the legislature and provides about $2\frac{1}{2}$ million dollars a year, or $3\frac{1}{2}$ per cent.

The taxes on Gifts, Cigarettes and Liquor account for about 28% of the receipts of this fund. All were established by the legislature.

The balance of the receipts is received from various sources and is composed primarily of payments for services rendered, such as grain inspection and interest on monies invested by the state.

Game and Fish Fund

Fund #236, Game and Fish, was established by the legislature and dedicated to game and fish purposes. Its revenue is obtained largely from the sale of licenses for fishing and hunting.

Income Tax School Fund

Fund #260, the Income Tax School Fund, was established by the Legislature and dedicated to school purposes. Its method of distribution is as a grant-in-aid. From a practical standpoint, the state does not directly supervise expenditures from this fund, except a relatively small amount utilized for administrative and institutional purposes. Contrary to the impression of many taxpayers, state income tax payments are not used for general governmental purposes as they are by the federal government.

Trunk Highway Fund

Fund #270 (Trunk Highway) was established by the constitution. Its main source of receipts is 2/3 of the gasoline tax levied on all gasoline used by vehicles using public highways, and the motor vehicle license tax receipts. These monies are expended for the administration, construction and maintenance of our state highways, but are not specifically appropriated by the legislature.

Road and Bridge Fund

Fund #275 was established by the constitution. Its revenue is derived from 1/3 of the gasoline taxes. All of the monies in this fund are allocated to the counties for the construction and maintenance of county- and state-aid roads.

Federal Grants-in-Aid

All funds numbered in the four-hundreds are federal grants-in-aid provided for specific purposes. The state has no authority to expend such funds other than in the manner and for the purposes set forth by the federal government. Fund #450 does not include some $130,000,000 of money deposited in the Federal Treasury by employers of this state as a reserve for payment of unemployment compensation.

Retirement Funds

The three major retirement funds, numbered 650, 652 and 653, are self-explanatory as to purpose. Source of revenue is contributions by employees and self-sustaining departments, and a state levy on real property for the State Employees' and Teachers' Retirement Funds.

Trust Funds

Fund #832, Swamp Land Principal, was established by the constitution. Only the interest from this fund can be expended. 50% of the interest is allocated to the Endowment School Fund and 50% to charitable and educational institutions. The rate of accretion is slow, since sale or lease of state-owned swamp lands, from which the revenue is derived, does not produce sensational returns.

The Permanent School Fund, #862, was established by the constitution. Principal source of revenue is from taxes on iron ore, dedicated to this fund by the constitution and the legislature. It is important to bear in mind that the constitution does not set a ceiling on the amount of monies which may be credited to this fund in any one year, or the maximum monies which can accrue to this fund. As you will note from Table I, this fund has the largest balance by far of all 120 funds. The most important aspect of this fund is that not one cent of the principal may be spent for any purpose whatsoever. Only the interest earned by the principal may be apportioned for school purposes.

The Permanent University Fund, #863, was established by the Territorial Laws of 1851, Chapter 3, and is reaffirmed by reference in the constitution. Source of revenue is 10% of the Occupational Tax on iron ore, which is dedicated to this fund by the constitution. Comments with respect to this fund are identical to those made with reference to the Permanent School Fund above.

Table III vividly illustrates the fact that the state's greatest revenue producers are dedicated for specific purposes to such an extent that little leeway is left to the legislators in reviewing and allocating state monies in accordance with changing needs.

II. EVALUATION OF MINNESOTA'S FINANCIAL STRUCTURE

The most glaring defect in our financial picture, as indicated by the quotation from Tannery, the thinking of experts in the field of public finance, and a glance at the figures in all of the tables, is the dedication for perpetuity of monies for specific purposes.

We would consider ourselves ridiculously foolish if, because grandpa believed in setting aside $500 each year for the purchase of hay, we continued his practice, regardless of the fact that the horse had long since died and had not been replaced, while at the same time we were unable to buy gasoline for the new tractor, or fertilizer for the south forty.

For all practical purposes it is immaterial whether such dedication is by constitution or by legislation, except that of course the nature of a constitution is such that the establishment of specific taxes and provision for the use of the resulting revenues have no place within it.

When money is dedicated for a specific purpose, there is usually a feeling on the part of those concerned of "let's spend it all so they won't take it away from us." There is almost always less thought given by the legislature, administrative officials and the agencies supported by ear-marked funds to whether they really need a new desk, or car, or employee, and a definite and often-expressed feeling that "this is our money to spend as we see fit."

High balances accrue in one fund which cannot be expended, while at the same time we establish new and more onerous taxes to buy equipment, build school, and provide for the welfare of our people. The total of all balances on June 30, 1953, was $449,068,000. Of this very substantial sum in the state's coffers, only $13,426,000 can be used for general purposes, and of this amount about $5,000,000 is already obligated. The balance of $435,642,000 is restricted in use for special purposes.

III. POSSIBLE SOLUTIONS

Although each group concerned will protest strenuously, is there any reason why the dedication and accrual of funds for special purposes should not be studied with new care? The end result might well be that new taxes could be avoided by utilizing present revenues more equitably for all groups. Although much may be accomplished statutorily, the constitution must be revised in order to accomplish a thorough job. If new taxes are inevitable, the situation should be faced directly, rather than by the haphazard methods used in the past. This is particularly evident in the financing of the Veterans' Bonus. Note in Table III how many different sources were tapped in order to provide the funds necessary for this purpose.

There has been comment to the effect that the state should get out of certain tax fields leaving them to the subdivisions of the state, and in turn discontinue certain apportionment of other taxes so that the state is left in those fields. Let us toy with the idea of the state's retreat from the mill levy on real property and the gross earnings tax. (The state would continue to collect the tax and make distribution to the local subdivisions.) This would mean a loss to the state government of approximately $35,000,000, and a consequent gain to its subdivisions of that amount. In turn the state could retain all of the cigarette and liquor taxes - a gain of approximately $6,000,000. This would mean an increase of approximately 29 million dollars for local needs, and would reduce the unsatisfactory present method of sharing a tax, or, in effect, of two governmental bodies taxing the same item.

To do this would certainly alleviate the crying need of the local governments for more monies for roads, schools, etc., but would leave the state government in a poorer financial position. Table I shows a drop of nearly 20 million dollars in five years in the General Fund balance. If this were projected to June 30, 1955, a further decrease of some 10 to 12 million would be revealed. This means that expenditures are exceeding current income from current taxes. Therefore, unless we reduce government services, and we know from past experience and present needs that this will not occur, we will be faced with the certainty of new taxes or patchwork increases of old ones when the 1955 legislature will have completed its task. If such additional revenues be provided by the establishment of new taxes, two practical forms have been suggested. One is a sales tax on non-necessities. The second is a surtax for general government purposes on all non-corporate income tax returns. If, on the other hand, we should un-dedicate state funds, we might make such new tax levies unnecessary or nominal.

It is desirable, in the meantime, to initiate definite action for the purpose of establishing a ceiling on the amount allowed to accrue to the Permanent University Fund and the Permanent School Fund, and to limit the rate of annual accrual to these funds. Texas is the only state in the United States that has trust funds anywhere near the size of these in our far less wealthy state.

One additional step, which undoubtedly should tend to reduce the need for increased taxation for state purposes, will be the review of charges now made for the many services the state provides. In many cases when services were first established, the fee charged was set at the approximate cost of the service. As years have passed the costs have risen. Yet in most cases the fees remain the same. Legislation similar to that provided by Laws of 1953, Chapter 741, Section 21, Item 3 with respect to grain inspection fees might be provided in all appropriation acts or by specific legislation for all services performed on a fee basis by the state. This law assures payment to the state for inspection of grain on a current cost basis. It is true that because the state partially benefits from some services it performs that the fees need not necessarily equal the cost at all times.

IV. EXPENDITURES

The so-called Reorganization Act (Chapter 431, Laws of 1939) provides excellent budgetary procedures governing expenditure of state funds and bars deficit financing. It has only two glaring weaknesses:

1. Departments financed by dedicated funds object strenuously to close scrutiny of their budgets on the grounds that their departments have received blanket approval for any expenditure by the mere act of dedication of monies. It is difficult to counter that argument.

2. One department, which is financed entirely by transfers from the Federal government mainly of state funds on deposit in the U.S. Treasury, has consistently refused to submit its budget in the manner required of other state agencies so that a detailed examination of its requested expenditures can be made.

The remedy for the first fault must await a change in public thinking with respect to dedicated funds. Perhaps the cure for the latter is administrative discipline. (Information has been received while this report was being prepared that the latter condition may have been corrected recently by administrative order of the Governor.)

TABLE I*

COMPARATIVE STATEMENT OF FUND BALANCES
(Including Investments)
June 30, 1948 & June 30, 1953

Fund No.	Fund Description	Fund Balance, including Investments, June 30, 1948	1953	Net Change in 5 Year Period	Average Annual Change	
	GENERAL FUNDS					
100	General Revenue	33,118,046.32	13,426,993.14	**(19,691,053.18)	(3,938,210.63)	
102	Restricted General Revenue		4,336,359.47	4,336,359.47	1,084,089.87	1
	RESTRICTED FUNDS					
211	Minnesota State Building	1,293,948.85	1,124,303.37	(169,645.48)	(33,929.09)	
212	Gasoline Tax	2,908,794.15	4,708,938.69	1,800,144.54	360,028.91	
213	State Veteran's Service Building	117,170.23	739,217.82	622,047.59	124,409.51	
214	Aviation Fuel Tax	28,188.09	15,000.00	(13,188.09)	(2,637.61)	
217	Bank Excise Tax	191,261.29	29,753.47	(161,507.82)	(32,301.56)	
218	Cigarette Tax Apportionment	1,343,856.49	1,404,564.39	60,707.90	12,141.58	
220	Military & Naval Land		86,732.62	86,732.62	43,366.31	2
224	Minnesota Aeronautics	14,938.10	121,279.13	106,341.03	21,268.21	
225	Securities Commission Investigation	75.00	2,500.00	2,425.00	485.00	
226	Minnesota Metropolitan Airports	42,204.04	857.77	(41,346.27)	(8,269.25)	
227	State Aviation	1,108.14		(1,108.14)	(1,108.14)	3
228	State Airports	59,602.92	18,847.73	(40,755.19)	(8,151.03)	
229	Commissioner of Banks Liquidation	12,687.92	4,423.78	(8,264.14)	(1,652.83)	
230	Red Lake Game Preserve	327,493.01		(327,493.01)		4
230	State Parks Maintenance		6,781.35	6,781.35	6,781.35	5
231	Rental and Royalty - '43-277	350.00	5,431.80	5,081.80	1,016.36	
232	Marshall County Reforestation	95,448.31		(95,448.31)		4
233	Reforestation and Flood Control	295,378.96		(295,378.96)		4
234	State Land Improvement	1,314.08	1,338.86	24.78	4.95	
235	Rental and Royalty - '43-287	22,090.82	49,126.27	27,035.45	5,407.09	
236	Game and Fish	2,952,324.52	2,832,788.32	(119,536.20)	(23,907.24)	
237	State Fair	886,551.30	295,162.65	(591,388.65)	(118,277.73)	
238	Lac Qui Parle & Big Stone Lake Water Control Project	3,192.52	45,195.18	42,002.66	8,400.53	

*This statement was prepared by the State Department of Administration

**Figures in parentheses are minus qualities

TABLE I (continued)
COMPARATIVE STATEMENT OF FUND BALANCES

Fund No.	Fund Description	Fund Balance, including Investments, June 30, 1948	1953	Net Change in 5 Year Period	Average Annual Change	
	RESTRICTED FUNDS - Continued					
239	Auxiliary Forest Fire	126.27	130.24	3.97	.79	
250	Veterans' Compensation		10,713,224.29	10,713,224.29	2,678,306.07	1
252	Executive Council	111,842.70	92,414.80	(19,427.90)	(3,885.58)	
255	Soldiers' Relief	143,849.19	173,587.31	29,738.12	5,947.62	
256	Minnesota Public Relief	424,276.29		(424,276.29)	(84,855.35)	
258	War Veterans	2,027,474.80	315,594.12	(1,711,880.68)	(342,376.13)	
259	Employment Security Contingent	79,003.15	268,567.73	189,564.58	37,912.91	
260	Income Tax School	41,834,670.70	65,414,673.83	23,580,003.13	4,716,000.63	
261	University & Teachers College Bldg.	162,970.87		(162,970.87)	(162,970.87)	3
262	Endowment School	3,120,689.35	2,487,107.44	(633,581.91)	(126,716.38)	
263	General University	184,606.74	175,419.82	(9,186.92)	(1,837.38)	
264	University Building '43-45	414,601.46		(414,601.46)	(103,650.36)	7
265	Swamp Land Interest	28,069.59	6,129.19	(21,940.40)	(4,388.08)	
267	Mayo Memorial Building	922,498.81	454.14	(922,044.67)	(184,408.93)	
270	Trunk Highway	18,655,801.83	35,987,761.00	17,331,959.17	3,466,391.83	
271	Highway Sinking	6,103,178.97	167,656.52	(5,935,522.45)	(1,187,104.49)	
274	Highway Patrol	13,498.79	5,939.38	(7,559.41)	(1,511.88)	
275	Road and Bridge	4,105,799.01	5,933,339.38	1,827,540.37	365,508.07	
279	Internal Improvement Land Interest	2,307.50	3,807.01	1,499.51	299.90	
280	State Forest	10,321.42	15,812.75	5,491.33	1,098.27	
281	Lake Shetek State Park	40,100.00	6,454.03	(33,645.97)	(6,729.19)	
282	Consolidated Conservation Area		1,041,923.54	1,041,923.54	64,720.65	4
	FEDERAL FUNDS					
410	Federal Civil Defense		26,883.84	26,883.84	26,883.84	5
430	Federal Agricultural Aid		10,706.78	10,706.78	3,568.93	6
431	Federal Conservation Area	12,392.72	12,779.29	386.57	77.31	
432	Federal Aid Forestry	55,452.45	46,861.52	(8,590.93)	(1,718.19)	
440	Public Health Service	3,415.22		(3,415.22)		8
441	Venereal Disease Control	954.95		(954.95)		8
442	Maternal & Child Health	18,172.27		(18,172.27)		8
443	Tuberculosis Control	939.03		(939.03)		8
449	Federal Public Health	110,928.29	91,919.07	(19,009.22)	(8,498.14)	8
450	Employment & Security Administration	145,993.06	210,152.68	64,159.62	12,831.92	

TABLE I (continued)
COMPARATIVE STATEMENT OF FUND BALANCES

Fund No.	Fund Description	Fund Balance, including Investments, June 30, 1948	1953	Net Change in 5 Year Period	Average Annual Change	
	FEDERAL FUNDS - Continued					
452	Crippled Children	25,325.76		(25,325.76)	(5,065.15)	
458	Federal Mental Health		15,690.56	15,690.56	7,845.28	2
459	Federal Aids Social Welfare	1,985,744.93	2,610,677.22	624,932.29	124,986.46	
460	Vocational Rehabilitation	12,731.42	4,838.10	(7,893.32)	(1,578.66)	
461	Smith-Hughes Act	139,771.76	133,892.86	(5,878.90)	(1,175.78)	
462	Education Indian Children	7,154.05	17,858.38	10,704.33	2,140.87	
464	George-Barden Act	418,408.76	375,439.62	(42,969.14)	(8,593.83)	
467	National School Lunch Act	64,391.77	86,027.02	21,635.25	4,327.05	
476	Federal Aid Highway Act	281,532.90	649,776.86	368,243.96	73,648.79	
	AGENCY FUNDS					
620	Unclaimed Dividends, Deposits, etc.	112,174.29	123,800.97	11,626.68	2,325.34	
621	Professional & Occupational Examing Bds.	262,001.91	276.613.90	14,611.99	2,922.39	
623	Special Compensation	156,373.79	52,773.29	(103,600.50)	(20,720.10)	
630	Rural Credit	3,320,587.31	1,364,856.73	(1,955,730.58)	(424,465.47)	9
631	Rural Credit Expense	109,774.91		(109,774.91)		9
632	Rural Credit Interest	56,521.88		(56,521.88)		9
633	Rural Credit Deficiency	2,024,194.53	3,706,637.70	1,682,443.17	336,418.63	
638	Donor's Conservation	56.90		(56.90)	(56.90)	3
641	W. K. Kellogg Foundation - Health	5,032.67		(5,032.67)	(5,032.67)	3
650	Teachers' Retirement	6,728,680.25	15,468,510.40	8,739,830.15	1,747,966.03	
652	State Employees Retirement	7,369,305.80	21,975,658.53	14,606,352.73	2,921,270.55	
653	Public Employees Retirement	3,877,820.78	11,055,761.09	7,177,940.31	1,435,588.06	
654	Social Welfare	599,954.75	904,280.39	304,325.64	60,865.13	
655	Highway Patrolmen's Retirement	229,724.06	658,884.86	429,160.80	85,832.16	
660	Vocational Training Deposits	92.65	92.65			
673	Safety Responsibility Act	140,824.00	143,197.38	2,373.38	474.67	
675	Highway Agency	144,245.89	72,556.06	(71,689.83)	(14,337.97)	
691	U.S. Withholding Tax	27.60		(27.60)	(27.60)	3
692	State Employees War Bond	97.85		(97.85)	(97.85)	3
693	Gift and Deposit	142,559.32	107,917.18	(34,642.14)	(6,928.43)	

(4)

TABLE I (continued)
COMPARATIVE STATEMENT OF FUND BALANCES

Fund No.	Fund Description	Fund Balance, including Investments, June 30, 1948	1953	Net Change in 5 Year Period	Average Annual Change	
	TRUST FUNDS					
810	Minnesota Municipal Bond	151,067.11	48,302.93	(102,764.18)	(20,552.83)	
830	Internal Improvement Land - Principal	344,160.67	383,958.12	39,797.45	7,959.49	
832	Swamp Land - Principal	16,007,910.92	21,551,929.06	5,544,018.14	1,108,803.63	
850	Endowment Investment Income - Institutions	127,777.81	112,907.20	(14,870.61)	(2,974.12)	
861	Endowment Investment Income - Teachers College	53,366.52	86,468.36	33,101.84	6,620.37	
862	Permanent School	128,555,775.21	177,526,566.26	48,970,791.05	9,794,158.21	
863	Permanent University	21,635,376.68	33,321,232.57	11,685,855.89	2,337,171.18	
	REVOLVING & MISCELLANEOUS FUNDS					
910	Store Revolving	31,455.40	28,114.53	(3,340.87)	(668.17)	
912	Minnesota Statues Revolving	33,732.51	37,940.71	4,208.20	841.64	
913	Administration Revolving	3,906.48	4,734.00	827.52	165.50	
914	Lac qui Parle Revolving	2,500.00	2,500.00			
915	State Treasurer's Investment Supr. Revolving	61.00	36.91	(24.09)	(4.82)	
916	Minnesota Annotations Revolving	13,118.75	20,788.05	7,669.30	1,533.86	
917	State Treasurer's Check Cashing	60,000.00	60,000.00			
918	Public Examiner's Revolving	33,125.73	61,170.90	28,045.17	5,609.03	
920	State Compensation Revolving	63,512.86	192,088.50	128,575.64	25,715.13	
921	Minnesota Telephone Investigation	24,979.00	24,979.00			
922	Insurance Dept. Examination Revolving	7,500.00	5,500.00	(2,000.00)	(400.00)	
924	Fair Labor Standards Act Revolving	5,974.59	4,484.97	(1,489.62)	(297.92)	
925	Livestock Weighing	38,317.73	42,018.32	3,700.59	740.12	
926	Weights & Measures Revolving	14,386.13	11,302.96	(3,083.17)	(616.63)	
931	State Parks Working Capital	21,916.81	36,450.53	14,533.72	2,906.74	
932	Poultry Improvement Board Revolving	2,500.00	5,960.56	3,460.56	692.11	
933	Weighmasters Revolving	10,537.66	6,298.47	(4,239.19)	(847.84)	
934	State Tree Planting Revolving	8,826.48		(8,826.48)	(2,206.62)	7
935	Pittman-Robertson Revolving	85,999.90	366,419.43	280,419.53	56,083.91	
936	Seed Potato Inspection	94,136.62	99,519.48	5,382.86	1,076.57	
937	Dingell-Johnson Revolving		262,514.47	262,514.47	131,257.23	10

(5)

TABLE I (continued)
COMPARATIVE STATEMENT OF FUND BALANCES

Fund No.	Fund Description	Fund Balance, including Investments, June 30 1948	1953	Net Change in 5 Year Period	Average Annual Change
	REVOLVING AND MISCELLANEOUS FUNDS - Continued				
950	State Prison Revolving	583,644.86	2,061,323.43	1,477,678.57	295,535.72
951	Livestock Contingency	50,034.00	50,118.00	84.00	16.80
952	Blind Vending Stands Revolving	1,763.93	13,160.18	11,396.25	2,279.25
953	Diversified Labor	113,701.77	167,716.73	54,014.96	10,802.99
954	License Plate Revolving	49,537.89	176,326.68	126,788.79	25,357.76
960	On-the-Job Training Program Revolving	14,156.79	24,703.38	10,546.59	2,109.32
	TOTAL ALL FUNDS	318,909,834.79	449,068,171.95	130,158,337.16	

1. Fund set up originally in 1949, therefore, "Average Annual Change" is based on 4 year period.
2. Fund set up originally in 1951, therefore, "Average Annual Change" is based on 2 year period.
3. Fund discontinued in 1949, therefore, "Average Annual Change" is based on 1 year period.
4. Balance in Funds 230, 232, & 233 transferred to Fund 282 during 1949, therefore, "Net Change in 5 Year Period" for these funds has been combined with Fund 282 before determining average annual change.
5. Fund set up originally in 1953, therefore, "Average Annual Change" is based on 1 year period.
6. Fund set up originally in 1950, therefore, "Average Annual Change" is based on 3 year period.
7. Fund discontinued in 1952, therefore, "Average Annual Change" is based on 4 year period.
8. In 1949, Funds 440, 441, 442, and 443 were combined with Fund 449, therefore, "Average Annual Change" is based on combined "Net Change in 5 Year Period".
9. In 1952, Funds 631 & 632 were combined with Fund 630, therefore, "Average Annual Change" is based on combined "Net Change in 5 Year Period".
10. Fund set up originally in 1952, therefore, "Average Annual Change" is based on 2 year period.

TABLE II
COMPARISON OF THE FIVE MAJOR APPROPRIATIONS BILLS
1947 through 1953

TITLE OF BILL	TOTAL APPROPRIATION	% INCR 47-53	PERCENTAGE BREAKDOWN BY FUND												
			GEN REV	GAME & FISH	TRUNK HWY	INC TAX	IRON RGE	AER	RUR CRED	SOLD HOME REL	PRIS REV	VETS ADJ	SEED POT CERT	ROAD & BR	CONSOL CONS AREA
SEMI-STATE															
1953	$ 2,248,014.30	16 %	77 %	9 %	—	4 %	—	—	—	10 %	—	—	—	—	—
1951	2,360,177.83		79½%	10 %	—	4 %	—	—	—	6½%	—	—	—	—	—
1949	1,989,660.33		91½%	7 %	—	—	—	—	—	1½%	—	—	—	—	—
1947	1,937,236.82		92 %	6 %	—	—	—	—	—	2 %	—	—	—	—	—
SOCIAL WELFARE															
1953	38,123,726.64	51½%	100 %	—	—	—	—	—	—	—	—	—	—	—	—
1951	41,023,375.92		100 %	—	—	—	—	—	—	—	—	—	—	—	—
1949	34,315,741.26		100 %	—	—	—	—	—	—	—	—	—	—	—	—
1947	25,134,520.15		100 %	—	—	—	—	—	—	—	—	—	—	—	—
PUBLIC INSTITUTIONS															
1953	45,376,358.50	102 %	88 %	—	—	10 %	—	—	—	—	2 %	—	—	—	—
1951	44,486,832.00		96 %	—	—	2 %	—	—	—	—	2 %	—	—	—	—
1949	36,327,761.68		97½%	—	—	—	—	—	—	—	2½%	—	—	—	—
1947	22,451,566.16		93 %	—	*	—	—	—	—	—	6½%	—	—	—	—
STATE DEPARTMENTS															
1953	46,654,261.04	42 %	65 %	16 %	5 %	10 %	2%	*	*	—	—	*	—	—	1%
1951	43,708,560.93		72 %	14 %	5 %	6 %	1%	*	*	—	—	½%	—	—	—
1949	36,103,769.10		72 %	18 %	4½%	4½%	*	*	*	—	—	—	—	—	—
1947	32,784,847.43		77 %	13½%	4½%	4 %	*	*	*	—	—	—	*	*	—
EDUCATION															
1953	174,427,925.27	137½%	25 %	—	—	75 %	*	—	—	—	—	—	—	—	—
1951	148,261,800.31		27 %	—	—	72 %	*	—	—	—	—	—	—	—	—
1949	115,435,032.72		29½%	—	—	70 %	*	—	—	—	—	—	—	—	—
1947	73,442,993.50		32 %	—	—	68 %	—	—	—	—	—	—	—	—	—
TOTAL APPROPRIATIONS															
1953	306,830,285.75	97 %	50 %	2½%	½%	45 %	*	*	*	*	*	*	—	—	*
1951	279,840,746.99		56½%	2 %	½%	40 %	*	*	*	*	*	*	—	—	—
1949	224,171,965.09		59 %	3 %	½%	37 %	*	*	*	*	*	—	—	—	—
1947	155,751,164.06		62 %	3 %	1 %	33 %	*	*	*	*	*	—	*	*	—

* The asterisks indicate less than 1%.

TABLE III*
STATEMENT OF TAXES AND REVENUES
FISCAL YEAR ENDED JUNE 30, 1953

Source	Amount	Legal Authority	Purpose
FROM TAXES:			
State Property Tax	11,544,893.57	Various Laws	Mostly for State Debt Redemption
Gross Earnings Tax	23,840,003.42	M.S. Ch. 294 & 295**	General Revenue Fund
Mortgage Registration Tax	134,192.34	M.S. Ch. 287	General Revenue Fund
Fire Marshal Tax	167,161.66	M.S. Ch. 73.20	General Revenue Fund
Fireman's Relief Tax	90,441.91	M.S. Ch. 69.54 & 424.165	General Revenue Fund
Air Carrier's Flight Tax	134,924.09	M.S. Ch. 270.075	State Airports Fund
Annual $5 Tax - Corporations	60,968.18	Laws 1949 - Ch. 642	Vets. Adj. Comp. (Bonus)
Annual $5 Tax - Individuals & Others	4,558,669.23	" " " "	" " " "
Annual $5 Tax - National Banks	905.00	" " " "	" " " "
Annual $5 Tax - State Banks	2,520.00	" " " "	" " " "
Income Surtax - Corporations	617,172.99	" " " "	" " " "
Income Surtax - Individuals & Others	3,209,192.89	" " " "	" " " "
Income Tax - Corporations	14,325,763.90	M.S. Ch. 290	Income Tax School Fund
Income Tax - Individuals & Others	39,712,962.82	" " "	" " " "
Gift Tax	84,743.06	M.S. Ch. 292	General Revenue Fund
Inheritance Tax	3,367,021.85	M.S. Ch. 291	80% Gen. Rev.; 20% apportioned to Counties
Bank Excise Tax - National Banks	1,062,011.65	M.S. Ch. 290.361	Apportioned to Counties
Bank Excise Tax - State Banks	616,106.95	" " "	" " "
Bank Excise Surtax - National Banks	55,348.77	Laws 1949 - Ch. 642	Vets. Adj. Comp. (Bonus)
Bank Excise Surtax - State Banks	32,979.78	" " " "	" " " "
Iron Ore Royalty Tax - Veterans Share	213,118.17	" " " "	" " " "
Iron Ore Royalty Tax	2,345,056.53	M.S. Ch. 299	General Revenue Fund
Occupational Tax - Veterans Share	1,953,397.98	Laws 1949 - Ch. 642	Vets. Adj. Comp. (Bonus)
Occupational Tax on Iron Ore	18,843,997.54	Minn. Const. Art. IX	45% Gen. Rev.; 5% I.R.R.&E. Com.; 40% Perm. Sch.; 10% Perm. Univ.
Occupational Tax on Taconite	6,636.11	M.S. Ch. 298.24	1/4 Gen. Rev.; 3/4 apportioned to City, Sch. Dist., County
Gasoline Tax	49,120,960.10	M.S. Ch. 296.02	2/3 Trk. Hwy. Fd.; 1/3 Hi. & Br. Fd.
Fermented Malt Beverage Surtax	237,209.39	Laws 1949 - Ch. 642	Vets. Adj. Comp. (Bonus)
Fermented Malt Beverage Tax	2,372,092.29	M.S. Ch. 340.47	General Revenue Fund
Intoxicating Liquor Surtax	1,077,723.08	Laws 1949 - Ch. 642	Vets. Adj. Comp. (Bonus)
Intoxicating Liquor Tax	11,118,207.71	M.S. Ch. 340.47	70% Gen. Rev.; 30% apportioned to Counties

*This statement prepared by the State Department of Administration **M.S. refers to Minnesota Statutes

(2)

TABLE III (continued)
STATEMENT OF TAXES AND REVENUES
FISCAL YEAR ENDED JUNE 30, 1953

Source	Amount	Legal Authority	Purpose
FROM TAXES: (continued)			
Cigarette Tax	11,726,106.07	M.S. Ch. 297.01 to 297.14	3/4 Gen. Rev.; 1/4 apportioned to Municipalities
Vessel Tonnage Tax	11,751.90	M.S. Ch. 289.01	20% Gen. Rev.; 80% apportioned to Counties
Motor Vehicle Tax	27,121,110.81	M.S. Ch. 168	Trunk Highway Fund
Aircraft License Tax	31,779.01	M.S. Ch. 360.53	State Airports Fund
Boxing Exhibition Tax	7,210.92	M.S. Ch. 341	State Athletic Commission
Oleomargarine	534,461.97	M.S. Ch. 33.10	General Revenue Fund
Total Taxes	230,338,803.64		
FROM SPECIAL SOURCES:			
Statutory Fines	566,114.08		
Forfeits	2,828.45		
Eschests	41,561.28		
Restitutions	25,622.61		
Total Special Sources	636,126.42		
FROM DEPARTMENTAL EARNINGS:			
Service and Inspection Fees	5,602,949.77		
Occupational Permits & Licenses	1,517,016.05		
Non-Occupational Permits & Licenses	3,882,429.81		
Sales of Manufactured Products	4,803,100.27		
Care and Hospitalization of Persons	2,931,438.68		
Sales of Salvage, Scrap, etc.	49,190.68		
All Other	28,810.71		
Total Departmental Earnings	18,814,935.97		
FROM ALL OTHER:			
Rentals	241,051.81		
Interest	9,430,125.93		
Grants-in-aid from U.S. Government	54,017,470.68		
Total All Other	63,688,648.42		
TOTAL TAXES AND OTHER REVENUES	313,478,514.45		

NOTE: Above does not include Receipts from Sale of Investments; Sale of Certificates of Indebtedness; Sale of Real Property or Natural Increment; Agency Deposits such as Pension Assessments and Inmates Deposits; and Refunds.

LEAGUE OF WOMEN VOTERS OF MINNESOTA
84 SOUTH TENTH STREET, ROOM 406
MINNEAPOLIS 3, MINNESOTA
Atlantic 0941

October 20, 1954

Dear Sir:

Public finance in Minnesota has long been of great interest to the members of the League of Women Voters of this state. Concurrently we have been concerned with the need for changing our rigid, outmoded state constitution. Our present study of finance stems from our current program emphasis on the constitution, for it is an impossibility to attempt analysis of the constitution without being informed in the field of finance.

A basic principle governing the actions of the League of Women Voters is that any decision on any issue represents the majority opinion of the membership. This procedure requires that all members know the facts so that they may reach intelligent and informed decisions. Therefore, we make as thorough a study as possible of any issue before attempting to arrive at any conclusions, or subsequently, at any plan of action concerning it. In this field of finance we expect to spend a great deal of time before reaching the goal of supplying sufficient facts.

Last year we devoted our study to the financial structure of the state government itself, including the sources of revenue and the framework of funds into which the revenue is deposited. In this year's study we are concentrating on the financial relationships between the state and its political subdivisions. These relationships are numerous and intricate, and essential to know in order to understand the operations of either the state government or its subdivisions. Because we would like to get some first-hand information, we are selecting a number of cities, villages, school districts and counties for this purpose. The local subdivision of which you are in charge has been selected as one of these. We are enclosing a questionnaire outlining the facts we would like to have you send us. In so doing you will be assisting in the big job of informing Minnesota voters of an essential part of their state government.

We should appreciate your returning the completed questionnaire by Monday, November 8. Thank you for your cooperation.

Sincerely,

Mrs. Basil Young
President

AD

REVENUE QUESTIONNAIRE

NAME of subdivision ______________________

PLACE of headquarters ______________________
(City, village, town)

PART I. GENERAL INFORMATION

1. What is your estimate of your subdivision's present population? __________
2. What is the amount of your present indebtedness? ______________________
3. For what purpose or purposes is the indebtedness. Please list.

PURPOSE	AMOUNT

4. What is your current total mill levy? _______ Please list each of the purposes for which the levy is expended, with the share of the levy allocated to each one.

PURPOSE	ANNUAL AMOUNT OF MILL LEVY

PART II. REVENUES

1. GRANTS-IN-AID. (Include items such as gross earnings & cigarette tax distribution.)

Source	Amount	Source	Amount
Federal			
State			
County			
Others: (Specify)			
		TOTAL GRANTS-IN-AID	

2. OTHER REVENUES.

Source	Amount	Source	Amount
Licenses			
Taxes			
Service fees			
Others: (Specify)			
		TOTAL OTHER REVENUES	

PART III. ADDITIONAL INFORMATION

1. If additional revenue is needed, what amounts do you feel to be minimum for what purpose or purposes? Indicate amounts according to type of expenditure.

EXPENDITURE	AMOUNT	EXPENDITURE	AMOUNT
a. Schools			
b. Roads			
c. Police and fire protection			
d. Welfare			
e. Others: (Specify)			

2. If you need more space for any of the above items, or if you wish to make any comments, please use the back of this sheet.

Return to:
League of Women Voters of Minnesota
Room 406, 84 South Tenth Street
Minneapolis 3, Minnesota

SIGNED ______________________

POSITION ______________________

DATE ______________________

Mrs Down?

LEAGUE OF WOMEN VOTERS OF ALLIANCE

ALLIANCE, OHIO

Will you send to anyone if you have her address? E.Y.

362 Linwood Drive
Alliance, Ohio
December 17, 1954

Mrs. Basil Young
84 South 10th Street, Room 406
Minneapolis 2, Minnesota

Dear Mrs. Young:

One of the Ohio constitutional provisions respecting taxation is the limitation of real property tax levy to ten mills on each dollar valuation within the taxing jurisdiction. This is not absolute, as Article XII Section 2 provides that laws may be passed authorizing additional tax levies above this ten mill limitation. These levies may be for two, three, or the maximum of five years. Consequently, we are almost continually voting additional operating levies for schools, municipalities, parks, or the like. It appears to the voter that he is always being asked to vote more money, when actually it is merely a renewal of a levy; and when this comes at the same time as a bond issue for new school buildings, for instance, it is hard to pass both.

6929

Last year our League tried to interest other Leagues in this state to include on the state platform the following: "The ten mill limit on property should be excised from the Ohio Constitution, and a limit should be provided in the statutes." We wrote letters to all the Leagues in the State of Ohio, but many seemed to believe that there should be constitutional limitation, and hence we had no backing for our proposal.

As a compromise idea, and, perhaps, one that would be more politically acceptable, we are now investigating the idea of an amendment which would keep the additional taxes levied in effect, unless removed by referendum of the voters.

We are interested in finding out if other states have this same problem. We would like to know if you have such a limitation; whether it is constitutional or statutory; how additional funds can be voted, and for what period of time? If you have such a problem, what, if any, steps have been taken to solve it?

Yours sincerely,

Mrs Chas. F. Hanks Jr

Mrs. Chas. F. Hanks Jr., Vice President
League of Women Voters of Alliance

Ajijic, Jalisco
March 2, 1955

Dear Ethyl, Grace, Luella, et al:

You didn't really want me to answer the memo about Bloomington by today, did you? It came yesterday. Isn't it wonderful that Bloomington is already to be recognized? Luella, you must have worked hard and fast on your Financial Structure. Congratulations!

Before I go any further, I enclose, shame-faced, this letter from Alliance, Ohio. Put it in my purse one day long ago to pen an answer while in Guadalajara, and there it got lost until the other day. All I can do about it from here, worse yet, is suggest that you refer it to the state Dept. of Taxation as the proper place for a right answer in the shortest possible time. Perhaps you might call the department first to get the name of the right person to send it to--to prevent its getting lost again there. Big help, aren't I? I'm terribly sorry.

Now things are beginning to pop on Civil Service, we see by the Mpls Star. Wasn't the League represented at the hearing on the bill to make the Director a pure appointee of the Governor? Don't count on the conservative Senate to defeat the bill. The Senate passed the similar one last session. And the bill to assure Oliver Ossanna of a soft job for life harks back to the Farmer-Labor tactics of the 30's. There might be more of that kind to come. What a legislative session it must be!

8929

I am enclosing a $1 bill for the office to use just for airmail stamps to Ajijic--except for the bulkiest packages, of course. Don't include it on the books. It wouldn't really be necessary, would it?

Until later, the best success to the hard-working League gals!

Love,

Audrey

8929

COPY

March 7, 1955

Commissioner of Taxation
State Capitol
St. Paul, Minnesota

Dear Sirs:

We have had an inquiry from Mrs. Chas. F. Hanks, Jr, Vice President of the League of Women Voters of Alliance, Ohio, which we would like to ask you to answer for us, if you will. I am enclosing an envelope addressed to her for your convenience.

She says:

"One of the Ohio constitutional provisions respecting taxation is the limitation of real property tax levy to ten mills on each dollar valuation within the taxing jurisdiction. This is not absolute, as Article XII Section 2 provides that laws may be passed authorizing additional tax levies above this ten mill limitation. These levies may be for two, three, or the maximum of five years. Consequently, we are almost continually voting additional operating levies for schools, municipalities, parks, or the like. It appears to the voter that he is always being asked to vote more money, when actually it is me rely a renewal of a levy; and when this comes at the same time as a bond issue for new school buildings, for instance, it is hard to pass both.

"Last year our League tried to interest other Leagues in this state to include on the state platform the following: "The ten mill limit on property should be excised from the Ohio Constitution, and a limit should be provided in the statutes." We wrote letters to all the Leagues in the State of Ohio, but many seemed to believe that there should be constitutional limitation, and hence we had no backing for our proposal.

"As a compromise idea, and, perhaps, one that would be more politically acceptable, we are now investigating the idea of an amendment which would keep the additional taxes levied in effect, unless removed by referendum of the voters.

"We are interested in finding out if other states have this same problem. We would like to know if you have such a limitation; how additional funds can be voted, and for what period of time? If you have such a problem, what, if any, steps have been taken to solve it?

Yours sincerely,

Mrs. Chas. F. Hanks, Jr, Vice President
League of Women Voters of Alliance"

Thank you very much for your helpfulness.

Sincerely,
Mrs. Harold Wilson, Organization Sec'y.

March 18, 1955

Mrs. Charles F. Hanks, Jr.
362 Linwood Drive
Alliance, Ohio

Dear Mrs. Hanks:

We have been requested by the office of the League of Women Voters of Minnesota to answer your inquiry concerning constitutional limitations upon tax levies in Minnesota.

In your letter you have referred to the constitutional provision in Ohio limiting the tax levy on property to ten mills on each dollar of valuation. You state your constitution further provides that laws may be enacted authorizing additional tax levies for limited periods up to five years. You state that in order to eliminate the constant enactment of property tax levies that you are considering an amendment to keep additional levies in effect unless removed by referendum.

We wish to state that the Constitution of Minnesota contains no express limitation in the rates of taxation on property. Our constitution contains various provisions relating to taxation, the most important of which provides that "The power of taxation shall never be surrendered, suspended or contracted away. Taxes shall be uniform upon the same class of subjects, and shall be levied and collected for public purposes." The constitution further provides that certain types of property shall be exempt from taxation such as schools, churches, cemeteries, charitable institutions and public property used exclusively for any public purpose. The Legislature is also prohibited from levying taxes for private purposes and it is further provided that no tax shall be imposed on lands of the United States, and that nonresident proprietors be taxed no higher than residents. The other constitutional provisions relating to taxation include the authorization of special taxes upon motor vehicles and motor vehicle fuels, upon aircraft, and upon the yields of timber lands.

The limitations upon property taxes in Minnesota are statutory and may be changed at any time by legislation. No vote of the electorate is required to change a limitation on tax levy. The statutory property tax limits are on a specific dollar per capita basis for the general purposes of cities, villages and school districts. Certain statutory limitations occur in terms of mills per dollar of taxable valuation, but such limits apply only to specific public purposes and apply chiefly to the levies of counties and townships.

We hope that the above comments will assist you in gaining an understanding of our situation in Minnesota.

Very truly yours,

G. HOWARD SPAETH
Commissioner of Taxation

By
Allen C. Sulerud
Department Secretary

ACS:gr
cc: Mrs. Harold Wilson
84 South Tenth Street, Room 417
Minneapolis 2, Minnesota

File

League of Women Voters of Minnesota, 15 & Washington Ave. S.E., Minneapolis 14, Minnesota
FEderal 8-8791 April, 1956

Memo: to Ethyl Young, Alene Grossman, Doris Guthrie, and Office
From: Jean Chesley, State Constitutional Revision Chairman

Interpretation of Article IV, Sec. 3 of the Minnesota Constitution as it relates to the LWV study of the constitution and legislative support of constitutional revision:

Excerpts from the "Report of the Minnesota Tax Study Commission", pp. 49 and 50, Dec. 1954

The Minnesota Statutes provide for the imposition of special taxes on certain types of business. Most of these taxes are in lieu of other forms of taxation...........

Probably the most generally known special tax is the 5% levy on the gross earnings of the railroads. This tax relieves the railroads of all other Minnesota taxes except special assessments, and ad valorem taxes on property not used for railroad purposes, and income tax on income derived from non-railroad property.

Many citizens are of the opinion that there is a provision in the Minnesota constitution for the imposition of this form of gross earnings tax on the railroads, but such is not the case. The early legislatures, including the territorial legislatures, in granting the charters for all railroads organized in Minnesota, required provision for this form of taxation and, by legislative act, it was later extended to all railroads operating in this state. The rate of the tax is fixed by the legislature, but, under a constitutional provision, before any change in the rate can become effective it must be approved by a majority of the voters at the next state election.........

Very few states employ the gross earnings method in taxing any of the railroads and Minnesota is the only state that provides for the exclusive use of this tax in lieu of all other taxes on the railroads (except the income tax and special assessments, as noted earlier). All state and local taxes paid by the class one railroads in the U.S. last year were equal to 3.36% of their gross earnings, as compared with 5% in Minnesota. However, in fairness, it should be pointed out that in periods of economic depression, such as 1932, the decline in gross earnings lowers the total tax to be paid to a greater extent than would be true if the railroads were taxed on an ad valorem basis.

The economics of the transportation industry must be considered in judging the desirability of increasing the rate of the gross earnings tax on the railroads. Except possibly during World War II, the railroads for a long period of years have not earned what could truly be called a fair return on their invested capital. The Interstate Commerce Commission fixes the rates charged for transportation services on a regional basis so that higher taxes imposed by any one state cannot be passed on in higher rates to the users of the services rendered in that state. The application of a tax on gross earnings of the railroads tends to increase the revenue from that tax as the cost of performing the service, and consequently the rates charged, automatically rise. This factor, together with increased use of railroad services, has increased the revenue produced by the gross earnings tax on the railroads in Minnesota from $5,578,474 in fiscal 1940 to an all-time record of $14,080,047 in fiscal 1954. The decline in iron ore shipments during the calendar year 1954 will reduce the yield of this tax in the current fiscal year.

If a tax structure is to be fair and equitable, it should impose comparable taxes on competing forms of business. The railroads are now subject to rather intense competition from trucks, buses, barges, and airplanes. This Commission has not been supplied with any data which satisfactorily demonstrate that these competing forms of transportation are paying for all costs of the services they render, including the provision of public facilities, and, in addition, paying for the support of general government in Minnesota to an extent comparable to the proceeds of the gross earnings tax on the railroads.

con't. "Report of the Minnesota Tax Study Commission"

Commenting on the above findings, supplemented by additional research and experience gained while lobbying for the LWV, Mrs. Ralph Norgaard, 1954-55 Constitutional Revision chairman of LWV, has observed:

"The railroads are so traditional in policy that they defeat their own ends. They do not re-examine their policies periodically, as great and growing corporations do. They are entrenched and fear any change in the status quo. Their agents fight everything automatically, and often senselessly. I don't believe that the majority of members of the various Boards of Directors of the railroads have any faintest knowledge of why their roads contribute at every legislative session to the fund that Mr. Mike Galvin spends so generously to prevent a constitutional convention. Mr. Galvin has collected the kitty and spent it for around 30 years, because he was active in the anti-convention movement while he was still in the legislature and before he became counsel for the Great Northern. It has been Mr. Galvin's bread and butter and now it's going to be Gordon Forbes'. All they really know is that if there were a convention, Sec. 3 of Art. IV would surely go and one of their main activities would go with it. That Sec. 3 of Art. IV prevents the legislature from truly equalizing railroad taxes with other taxes and thereby costs the railroads money, doesn't mean a thing to them."

Tax
7
Corresp

May 4, 1958

Mrs Arthur Down
Buffalo, Minnesota

Dear Audrey:

May I ask you to do a real favor for the good old L W V ? I am inclosing a letter from Washington state on the perennial tax problems. Would you be willing to answer it ? If it will involve work or research, just fire it back to me, but I hoped you would be able to answer it with a minimum of both.

How are things going in Buffalo ? I worry over them-and really bled for them when I read in their minutes of the error in printing their survey-that's life-maybe we can inspire them again this year with another Little-League Conference in the state office--they responded to the one we had this winter-

Thank you in advance--

D Anderson

8929

Dup

League of Women Voters of Indiana
July, 1962

LEAGUE Richmond
Date October 30, 1962
Submitted by R. Crum
Position Current Agenda Chairman

TIME FOR DECISION!!!!

These are the questions for Indiana League members to discuss and from which a consensus, or agreement on position, can be determined. In order to reach an intelligent consensus of the League thinking in the state as a whole, we earnestly request that you report FULLY on the discussion and consensus of your local League members. For action to be successful, it is necessary for your State Board to know the extent of your study which is covered in the first part of this form. Please have your Board carefully review the following questions. The deadline for informing the State Board of consensus reached (if any) is NOVEMBER 1, 1962.

COVERAGE:

Please evaluate your League's coverage of Kit V and subsequent material up-dating Kit V. Two General Meetings last year - One this fall to reach consensus

Did all resource committee members have kits and subsequent up-dating material?
yes

Did membership receive "every member" sheets before units or general meetings?
At the meetings.

How many meetings did your resource committee have?
Four last year + two this year

How many membership meetings did you have? Units? General? 2 Last Year, 1 This Year

Approximately how much membership participation was there?
Good last year, about 1/3 of membership, but attendance of experienced members very poor this year

Was discussion good at units?
Very good

Was coverage of materials in other kits(especially Kit I) adequate to give basic background for study and discussion of Kit V?
Very good

List other materials used:

State Chamber of Commerce
Indiana State Tax Commission

CONSENSUS: (in answering the following, indicate if there seemed to be general agreement, fairly general, no agreement, significant divergencies. Please add any comments you feel would be helpful. Amplify answers wherever possible.)

1. Do you feel there is a need for additional state tax revenue? The membership was not anxious for more taxes, but saw the need of more revenue - very reluctantly.

2. Should the League of Women Voters support legislation to increase state tax revenue?

Support legislation to change + improve sources of state revenue

3. If you have answered "yes" to both of the above questions, the State Board will want to know which of the several alternatives likely to be proposed you would prefer to see enacted? (if you have an order of preference, please indicate.)

a. Changes in the gross income tax to increase revenue (rate changes, lowering exemptions, etc.)? Other changes?

Definitely no raise in gross income tax.

b. Increased rates on other present taxes (cigarette, alcholic beverage, etc.)

Increase cigarette + alcohol tax.

c. Some type of tax which would cover interstate sales?

In favor of tax to cover interstate sales, if other states have such a tax and if not injurious to business within the state.

d. Other broad-based taxes, either in combination with the gross income tax or with each other, such as a low rate sales tax in addition to the gross income tax; a sales tax with a net income tax, etc.

Net income tax acceptable, using Federal Form, with slight preference for a progressive tax.

Small sales tax acceptable, with food for home consumption and prescription drugs exempted. Strong feeling that income from sales tax should be for schools.

Also strong feeling there should be combination of two out of three types used, that is, sales, net income, + gross.

e. Other?

College + University fees should be raised.

4. Would you place any limitations on any of the above alternatives taxes which you would support in principle (rates, coverage, degree of progressivity, etc.)?

Sales - Not above 3%
Net Income - No decision reached
Gross Income - Do not raise

5. Should the state contribute a larger proportion of the cost of local schools than at present? A larger proportion of other costs of local government? What about new sources of revenue at the local level in addition to the property tax? Other changes?

Should be enabling legislation to allow local communities to raise revenue by means other than property tax.

6. Should the League support legislation for administrative changes of the state tax structure and/or legislation designed to promote better enforcement of existing laws?

Close all loopholes, such as,
1.) All employers, including those with less than 5 employees, made to withhold gross income tax.
2.) Make impossible to avoid tax on cars, even if it means amending the constitution.

7. Please indicate any areas in addition to those above in which there seemed to be membership consensus and/or unusual interest.

More economic administration of all departments!!

8. Other comments.

More economic administration of all departments!!!

(Use reverse side or additional pages if necessary.)

LEAGUE OF WOMEN VOTERS OF INDIANA

506 ILLINOIS BUILDING, INDIANAPOLIS 46204

AREA CODE 317—TELEPHONE 634-3588

MRS. JEAN PILOT
PRESIDENT

June 16, 1966

Mrs. Harold Nash
R. #7, Box 436
Excelsior, Minnesota 55331

Dear Mary:

So good to hear from you. Had inquired from the Minnesota people at National Convention about you and was pleased to learn that you are still "hooked" on League. Sorry you didn't get to Convention, but enjoyed meeting your state president.

Millie Pilot is progressing nicely according to all reports. However, the doctors have not yet given her an "all clear" to resume full activities, so yours truly is filling in the breach as best I can until Millie is back.

The office has mailed the copy of "How To" which you requested. Thanks for the compliment and the order.

Am enclosing a copy of the consensus questions on the tax study. Since we weren't sure whether you wanted them for the content of the questions themselves or as a general guide for the formulation of consensus questions, we're also enclosing a copy of the consensus questions on our public welfare item. At the moment we are struggling with formulating consensus questions on the judicial item, and believe me it isn't easy. The problem seems to be to find a middle ground between asking specific questions which may tend to direct the consensus and asking broad questions which may be so broad that it is difficult to determine if consensus exists.

Will tell the Indianapolis gals that we have heard from you. Write us any time we can be of help.

Sincerely,

Millie

Mrs. Robert S. Richey
First Vice President

P.S. In case you are wondering, we did get a judicial item at the 1965 State Convention along the lines of the one we tried to get adopted as a not-recommended item at Terre Haute.

St. Paul League of Women Voters April 1966

STUDY OUTLINE FOR STATE ITEM I, FINANCING GOVERNMENT IN MINNESOTA

State Item reads: Financing Government in Minnesota: Evaluation of revenue sources with consideration of state and local needs.

Local Current Agenda Items relevant to this study are:
City Financing: The St. Paul League of Women Voters will support charter revision to meet financial needs of city government. The League will support the principle of non-property taxes as an additional source of revenue to meet local needs.
School Financing: The St. Paul League of Women Voters will support local measures to meet financial needs of St. Paul public schools for current operating funds and continuing capital improvement program.

Criteria of a good tax as usually stated by fiscal experts include:

1. Taxes should be as equitable as possible in their impact upon the various groups and segments of society.
2. Taxes should be adequate to finance governmental activities desired by the citizens.
3. Taxes should have a broad enough base to encompass most of the citizens; they should be convenient as to time and manner of payment.
4. Taxes should be certain, not arbitrary, and should be related to the benefits received by the taxpayer.
5. Taxes should be easy to administer and reasonably economical to collect.

LOCAL GOVERNMENT SERVICES AND REVENUES

For composite of all Minnesota counties and municipalities see Financing Public Services, chapter V; these figures are for our local units of government.

I. Services provided by local government

A. Ramsey County --data from Budget Appropriations, 1966

1. Welfare costs absorb 58.36% of the county tax dollar
   a. Ramsey County Board of Welfare administers St. Paul Ramsey Hospital, County Home, social services including relief, AFDC, OAA grants, aid to disabled etc.
   b. Local property tax revenue will provide $10.5 million; state and federal grants will provide $9.6 million.
2. General Government costs will use 27.36% of the county tax dollar
   a. Law enforcement and related services are large items here -- courts, attorney, sheriff etc.
   b. Parks and recreation, assessment of property in city and county for tax purposes also included.
3. Road and Bridge Fund (Highways) take 10.78% of the county tax dollar
   a. Of almost $3 million projected expenditures for 1966, $840,000 will come from the State Highway Fund.
4. Bonds and Interest will take 3.5% of the county tax dollar.

B. City of St. Paul --data from Budget Appropriations 1966 and Budget Dollar, 1966

1. Public Safety 23.9% of city tax dollar
   a. This includes police, fire, and health.
2. Water Department 13%
   a. This item is not a budget expenditure but is included for accounting purposes.

3. Public Welfare 11.3%
   a. This is the city's 27.5% share of the costs locally financed of the Ramsey County Welfare Board's programs.
   b. County taxpayers (all citizens of St. Paul paying property tax qualify) pay the other 72.5% of Welfare Board costs locally met. Thus St. Paulites pay twice for welfare.

4. Public Works 10.49%
   a. Some funds are received from the state for maintenance of state roads.

5. Debt 10.3%

6. Parks and recreation 6.6%

7. Employee benefits 6.3%

8. Libraries 4%

9. General Government 2.8%

10. Local Improvement Aid 2.8%

11. Public Utilities 2.6%

C. Independent School District #625, St. Paul --data from Anticipated Revenues and Expenditures calendar year 1966

1. Revenues of $23.6 million (approximately) anticipated for 1966
   a. State aid---almost $7 million
   b. Federal aids---$123,723
   c. Tution from districts and patrons --$249,783
   d. Special Taxes---$371,000
   e. Misc.-- $52,900
   f. Carry over-- $110,000
   g. LOCAL TAX LEVY on property-- $15.8 million

2. These monies will finance programs with main expenditures as follows:
   a. Instruction--$17.7 million
   b. Operation of plant-- $2.68 million
   c. Mtce. of plant--$957,000
   d. Attendance and Health Service-- $817,202
   e. Community Services-- $621,723
   f. Administration-- $589,693
   g. Transportation-- $147,350
   h. Fixed Charges-- $78,450

D. Other Agencies perform special services of local government and levy property taxes to derive at least part of their finances --data from Know your Government

1. Metropolitan Planning Commission------------.23 mills
2. St. Paul Housing Authority----------------1.10 mills
3. St. Paul Port Authority------------------3.94 mills
4. Metropolitan Airports Commission----------1.53 mills

Total millrate 1966 is 245.780 (Homestead)

II Revenue Sources for Local Government

A. The property tax, 61.8% of St. Paul's estimated revenues 1966 (Budget Dollar, 1966)

1. Why a property tax?

a. Ability to pay
b. Services of benefit to property owner
c. Stable, local revenue

2. Current administration of the property tax (see p. 40 FINANCING PUBLIC SERVICES)

a. Assessment of property

1) County assessor (66) or Supervisor of Assessments (21)

a) Local assessor may be part time, untrained
b) Ramsey County operates under 1878 law; professional civil service staff

2) Assessor determines "full and true" value

a) About one third of market value
b) Lot size, location, quality of construction, size, age, improvements, usefulness of house
c) Building permits followed; in Ramsey County not permitted to see sales figures.

3) Traditionally business assessments are higher; court cases have required that percentage of market value used for full and true values must be the same for all kinds of property

a) Dulton case - Duluth
b) Donaldson case - Minneapolis
c) Capital Plaza Corporation - St. Paul

4) Classification percentage times "full and true" value equals "assessed value"

a) Patchwork of special legislation
b) See pages 62-63 of FINANCING PUBLIC SERVICES for classification %

5) "Assessed value" times mill rate equals tax bill owed

6) Figure approximate market value from tax bill

7) Procedures for appeal on taxes

b. Money needed from property tax sources determined; property tax used as a residual source of revenue for local government

c. Rates which will raise needed revenue determined

3. Importance of equal assessment

a. State taxes paid at uniform mill rates

b. School aids

c. Community competition for industry

4. Why do property taxes always go up?

   a. Tax base down

   b. Shift to residential property as business assessments brought into line

   c. Demand for more services

5. Criticisms of the property tax

   a. Taxes not related to services received

   b. Taxes encourage blight?

   c. Unequal assessments, difficult administration

   d. Difficulty of checking and appealing taxes

   e. Minnesota's classification system most complex in the country

6. Recommendations for property tax reform

   a. Establish a county assessor system

   b. Give assessors access to taxpayers' books

   c. Simplify classification laws

   d. Simplify appeal system

   e. Eliminate more of the state property tax

   f. Simplify and standardize basis for figuring "full and true" values

   g. Give state Tax Dept responsibility for appraising industrial property

   h. Give taxpayer statement of assessor's values on his property with tax bill

B. Other sources of revenue for local government (see St. Paul BUDGET DOLLAR, 1966)

1. Self sustaining Bureaus 13.3% of city revenues
2. Unencumbered balance 2.8% of city revenues
3. Department receipts 5.6% of city revenues
4. Miscellaneous revenues 17.1%
   a. Licenses, permits fees, fines, etc.
   b. Intergovernmental monies, special taxes

III Financing Public Services in St. Paul

A. The finance problems of central cities are particularly acute because of:

1. Population Patterns
   a. Density of population
   b. Low income in central areas
   c. Growth of the suburbs

2. Type of services cities must provide; mainly current operating expenses rather than capital improvements

   St. Paul Budget 1966

Police, Fire, Health services	23.9%
Public Welfare (City's 27½% share)	11.3%
Public Works (street cleaning and repair garbage collection - snow removal expense is additional)	10.4%

3. Limited Sources of Revenue

   a. Dependence on the property tax
      Growth of the tax rate in St. Paul:

Aggregate property tax rate:	1955	140.44 mills
	1965	239.79 mills
Tax rate for city purposes	1955	59.47 mills
	1965	89.03 mills

   b. Declining Tax Base

Total assessed valuation	1964	$ 249 million
	1966	243 million

   c. Property tax assessment procedures

   d. Dulton case and subsequent decisions

B. Tax Studies of St. Paul

1. Slawik Committee - Nov. 1961 - Sought a long-range solution to revenue problems. Recommended:

   a. Increases in fee and licenses, and in lieu taxes.

   b. A larger return of inheritance taxes from the state.

   c. A city income tax if a new major source of revenue was needed.

2. Cummings Committee - January 1965

   a. Assessment Procedures:

      1) Eliminate State tax on property.

      2) State should share any new broad-based taxes.

      3) State sharing of gross earnings tax on railroads and telephone companies.

      4) A State Interim Commission to study property taxes.

      5) A complete re-assessment of property in Ramsey County.

b. New Sources of Revenue:
Sought a temporary solution to current budget problems, pending major state tax reform.

Recommended:
1) Wheelage tax of $10 per car and $15 per truck.

2) A telephone excise tax of 5%.

3) A direct charge for garbage and rubbish removal.

4) School and water board payments to the city for services.

5) Increases in business, trade and occupational licenses.

6) Increased fines and parking fees.

7) Hotel-motel tax of 5%

C. Cost of Government:

- St. Paul has fewer employees than most comparable cities.

- Salaries paid city employees are relatively high.

- Cost of government in St. Paul is below the average of comparable cities.

Recommendations:

1) Long-range planning of capital improvements.

2) Cost of snow removal and street maintenance should be partly met by a vehicle tax.

3) Budget of the Detentions and Corrections Authority should be subject to improved review procedures.

4) Data processing and computer operations should be centralized.

5) State and federal aid programs should be thoroughly investigated and coordinated.

Projections - City operating Requirements

Requests for 100 more policemen, 35 firemen

3% annual salary increase projected

Annual increase of $1 million estimated for budget

STATE GOVERNMENT SERVICES AND REVENUES

Historical notes on taxation in Minnesota. Our present tax system is a product of historical accident and not the result of careful planning; generally at the close of each legislative session there is a mad scramble to find funds.

1958-1903 The Property Tax Era

Minnesota's Constitution requires that "all taxes ... shall be as nearly equal as may be" and that "all property on which taxes are to be levied shall have a cash valuation and be equalized and uniform throughout the state."

Property tax is the main source of revenue for state and local government. Combined local and state tax revenues rise from $650,000 in 1860 to $19 million in 1903. Despite the constitutional requirements, equalization of assessment for different classes of property and for property in different parts of the state is a problem. (It still is.)

Legislature imposes gross earnings taxes on railroads, insurance, telegraph, telephone, sleeping cars and freight. These are paid instead of property taxes and were considered a way of measuring the value of such properties.

1906 "Wide-open" amendment greatly enlarges the taxing powers of the legislature. Constitution now requires that "Taxes shall be uniform upon the same class of subjects and shall be levied and collected for public purposes..."

Graduated inheritance tax is introduced.

1914 Classification of property enacted:

Class 1	iron ore	assessed at	50% of full and true value
Class 2	household goods	" "	25% " " "
Class 3	rural property	" "	33 1/3% " " "
Class 4	urban property	" "	40% " " "

1915 Combined local and state tax revenues are now $55 million.

1920-1930 Inauguration of the Trunk Highway System financed by motor vehicle and gasoline taxes.

Iron ore taxes are imposed.

Combined local and state tax revenues rise from $123 million in 1920 to $161 million in 1930.

Of the $44 million collected by the state in 1932, $24 million represents revenue from iron ore, gross earnings, gasoline and motor vehicle taxes.

1930-1940 Depression brings requirement for new revenue sources.

A graduated personal income tax is imposed in 1933.
Corporation income tax is imposed in 1933
Property tax relief is given by the enactment of the Homestead Examption.
Repeal of prohibition enables legislature to tax alcoholic beverages.

1940-1945 Prosperity of war years eases financial stress.

Combined local and state tax revenues are now $172 million.

1947-1955 Postwar period: Inflation and increased demand for more services for more people again brings demand for more revenue.

1947 Legislature increases taxes on alcoholic beverages, iron ore and taxes cigarettes.
1949 Legislature imposes special taxes to pay a Veterans Bonus.
1955 "Omnibus" tax bill adds special surtaxes to income taxes.
Combined tax revenues in 1954 are $472 million.

1955-1965 Combined state and local tax revenues during this period more than double. Increases are from higher local property taxes and additional rate increases on state level.

During the past decade there has been evident a tendency to postpone major tax decisions: the need for more revenues has been met by enactment of series of "small taxes" or small increments in present taxes, by accelerating tax payments (windfalls), by luck with increased revenues in a booming economy. Local government has tended to use the property tax as a "residual" source - what could not be otherwise financed, was financed through increases in property taxes.

I Minnesota and the "other" states

A. Factors to consider in taking a look at Minnesota's financial picture

1. Revenues

a. States use different kinds of taxes in different combinations

b. Financial responsibility for services is approached differently in different states. State and local taxes combined must be used to compare one state with another.

c. Property taxes are generally higher in the north central states than in the U.S. as a whole.

2. Services

a. Minnesota is in the top one third of the states in the U.S. in expenditures for education, public welfare and health.

b. Minnesota is average in expenditures for protection and transportation.

3. Debt

a. Nearly all the $860 million debt increase in the ten years from 1953-1962 was incurred by school districts and cities and villages.

B. Drastic effects of shifts and growth in population on the economy and the tax base.

1. Many small towns have literally "lost" their tax base

2. Large cities are affected by a shrinking tax base

C. Increasing tax levels in the future

1. Demand for more and better public services.

2. Resistance to change

3. Inflation

4. Continuing urbanization to bring increased problems and costs

D. Necessity for states to take the lead in resolving their own problems and in relieving local fiscal pressures.

II State revenues and expenditures, an overview from FINANCING PUBLIC SERVICES

A. Expenditures (see diagram page 29, FINANCING PUBLIC SERVICES)

1. Education 41.5% of total state expenditures

a. 40% of total state education expenditure goes to state institutions of higher learning.
b. Most of the remainder goes to local school districts under various school aid formulas.

2. Highways 25.8% of total state expenditures

a. Roads built and/or maintained by the state include the new interstate federal highway system, state trunk highway system, and local state aid roads.
b. Some money comes to the state from the U.S. govt. for highways; the state aids local units of government through the State Highway Fund.

3. Public Welfare 9.7% of total state expenditure

a. Most of the money spent by the state for public welfare is for sharing the costs of categorical aids (OAA, AFDC for example) with the counties which administer the programs (see p. 31 FINANCING PUBLIC SERVICES)

4. Hospitals 7.6% of total state expenditures

a. U. of M. complex
b. 7 hospitals for mentally retarded
c. Braille and sight saving school
d. School for the deaf
e. Gillette
f. Children's treatment center (Hastings)
g. Residential treatment center (Lino Lakes)
h. 2 geriatric homes

5. Other state services and their percentage of total state expenditures include:

a. Natural resources	3.9%	e. Employment security admin.	.8%
b. Corrections	1.7%	f. General control	.5%
c. Health	.7%	g. Financial administration	1.2%
d. Police protection	.7%		

B. State revenues in fiscal 1964 from three sources

1. Tax revenues - 61% (see diagram page 15, FINANCING PUBLIC SERVICES)

   a. Individual income tax - 31% of state tax revenue

      13.1% to general revenue fund
      86.9% to income tax school fund

   b. Corporation income tax - 8% of state tax revenue

      13.1% to general revenue fund
      86.9% to income tax school fund

   c. Bank excise tax - revenue divided between county of origin and general revenue fund

   d. Sales and gross receipts taxes - 34.1% of state tax revenue

      1) Selective sales taxes are paid by the consumer on sales of:
         a) Motor fuel - revenue to highway or aviation fund
         b) Alcoholic beverages - revenue to general revenue fund and local governments
         c) Tobacco products - money to general revenue, cigarette tax apportionment fund, natural resources
         d) Oleomargarine - money to Dept. of Agriculture dairy research program, state board of education, general revenue fund

      2) Gross receipts taxes are assessed against the seller:
         a) Insurance premiums tax - money to general revenue
         b) Telephone, telegraph and railroad gross earnings tax - money to general revenue, except that 94% of taconite railroad tax revenue goes to local units of government

   e. Licenses - 12.9% of state tax revenue

      1) Motor vehicle - revenues by constitutional amendment to state highway fund; really levied instead of personal property taxes on autos, etc.

      2) Miscellaneous other - motor vehicle operators, hunting and fishing, boats

   f. Property tax - 6.6% of state tax revenue

      1) Money goes to soldiers' relief, teachers' retirement, state building
      2) Some taxes are levied by state in lieu of property taxes and revenue mostly distributed to local governments - power companies taxes, mortgage registry tax, grain handling tax, aircraft and flight property taxes, etc.

   g. Severance taxes - 3.1% of state tax revenue

      These are taxes on removal of matural products from land or water; money goes to general revenue fund, income tax school fund, university
      1) Occupation taxes - paid by mining companies in place of corporate income taxes
      2) Royalty taxes - taxes on the royalities paid by mine operators to owners

h. Inheritance and gift taxes - 3.3% of state revenue, money to general revenue fund with small percentage to local governments

i. Document transfer taxes - 0.3% of tax revenue with money to general revenue

2. Intergovernmental grants and transfers 26% of total state revenue

a. $188.7% million from the federal government, mostly for highways, welfare and education in 1964. This was 24% of total state revenues; much of this money is passed on to local units of government

b. $12.9 million from local governments, primarily for highways, health and hospitals. This was 2% of total state revenues in 1964.

3. Charges and miscellaneous 13% of total state revenues in 1964

a. Charges at University and other state schools

b. Also fees for state parks, charges at hospitals, etc.

III Intergovernmental Revenues

A. General Comments

1. Definition - intergovernmental revenues are monies collected at or by one level of government and transferred to another

2. Data: (from FINANCING PUBLIC SERVICES)

a. 1964 Minnesota
   1) 24% of total state revenues from federal funds - $188.7 million
   2) 2% of total state revenues from local funds - $12.9 million

b. 1964 local governments in Minnesota
   1) 32% of their revenues originated in intergovernmental transfers; of these funds 98% came from the state
   2) Federal funds come as grants for specific programs such as urban renewal

c. 1964 counties in Minnesota
   1) 44% of county revenue came from intergovernmental sources
   2) Most of these funds for welfare, highways

3. Observations

a. Most of these monies doled out are for specific purposes and programs

b. Generally, the proportion of <u>local</u> governments' budgets financed by intergovernmental revenues is declining while local governments' budgets are increasing.

c. Does the Twin Cities metropolitan area get a "fair shake"?

B. Intergovernmental revenues for <u>Education</u>

1. State of Minnesota

a. 41.5% of the total budget is spent on education which amounted to $307.0 million in 1964.

b. State institutions of higher education claim 40% of the total budget and they spend four times as much for current operations than for capital outlay and are financed by <u>direct</u> expenditures.

c. The state spends more for education in intergovernmental expenditures (aids to local school districts) than it does directly.

d. Although the number of most other units of gov't. has been increasing in Minnesota since 1952, the number of school districts has declined by 4000 since that year.

e. At end of June 1964, Minnesota had 1515 school districts maintaining ungraded schools and 481 with graded and secondary schools. (96% of all pupils were enrolled in graded and secondary schools.)

f. 48% of the total general revenue of local governments is received by the school districts.

g. Slightly over $\frac{1}{2}$ the total revenue for schools comes from local taxes.

h. State aids provide 38% of the total revenue for school and the most important and costly type of aid is called foundation aid. Such aid is given only for operating costs and amounted to $132.3 million in 1964-65.

i. Foundation aid is based on school attendance and property valuations. The factors which effect the amount of aid paid are:

   1) Pupil units - school attendance is counted in pupil units and pupil unit totals are reckoned according to their average daily attendance (ADA) throughout the school year.

   2) EARC: This is the Equalization Aid Review Committee composed of the Commissioners of Education, Taxation and Administration. It was created in 1955 to try to compensate for wide variations in local property tax assessments which were found to range from 19% to 70% of "full and true" value.

      a) EARC issues annual report setting each district's assessment ratio to be used in school aid computations. EARC figures based on actual property sales, or when these are unavailable, appraisals.

j. School districts receive foundation aids under whichever of two formulas gives them the most money.

   1) Formula A (true foundation aid): $315 for each pupil unit in ADA <u>minus</u> what would be raised by a 19 mill levy on local property valuations as equalized under EARC assessment ratios.

   2) Formula B (an outgrowth of the former "basic aid"): $95 per pupil unit plus $10 census aid

k. Other major aids include:

   1) Census aid (also called income tax aid) is money paid to the public school for every child on school census between ages 6-16 regardless of wherever he attends public school.

2) Apportionment aid: ($817 million, 1964-65): Included under both formulas A. and B., this is the distribution of interest earned by permanent trust funds earmarked for schools.

3) Emergency aid: Given only to schools in urgent need at the discretion of the State Board of Education.

4) Transportation aid - nearly $15 million, 1964-65: This reimburses districts for costs of school bus operation and is paid in seven categories, but none is paid to Twin Cities and Duluth or to many suburbs because of statutory restrictions.

5) Special Education Aids (nearly $4.5 million, 1964-65): Grants which reimburse districts for salaries of teachers of the handicapped (up to $3,600 per year), for supplies and equipment up to $50 per child, and for transportation.

6) Vocational Aids (4.5 million, 1964-65): Supplemented by federal funds, these are paid for teachers of agriculture, home economics, trade and industrial courses, business, sales and other distributive occupations and for vocational counselors.

2. County expenditures:

7% of the county budget is spent on schools which covers mainly transportation aids to adjacent school districts for high school students living in the few areas which still have no secondary schools.

3. St. Paul - Current data from ANTICIPATED REVENUES AND EXPENDITURES 1966, Independent School District #625.

a. Funds from the federal government estimated to be $123,723

1) Vocational education (some of this comes by way of the state)

2) National Defense Education Act

3) Elementary and Secondary Education Act

4) Economic Opportunity Act

Applications for participation in the last two programs mentioned above have been made by the school district under the poverty program.

b. Funds from special taxes and other sources, $371,000

1) Tax penalty - state tax, $22,000

2) 50% of mortgage registry tax, $56,000

3) 36% of bank excise tax, $230,000

4) 40% sale of tax forfeited property, $25,000

5) 36% grain tax, $3,500

6) Mobile Home registration tax, $4,500

7) Redevelopment in Lieu of Taxes, $30,000

c. State aids for 1966 to be almost $7 million.

1) In St. Paul the percentage of current school expenses financed by the local tax levy is going up and the percentage financed by state aids is going down.

2) St. Paul will receive in 1966 Income Tax Aid totalling $636,750; also called Census Aid. (Refer to previous section on education, State of Minnesota)

3) St. Paul will receive in 1966 BASIC AID under formula B (used for cities of 1st class) amounting to $4,849,919 figured at $95 per pupil unit.

4) The percentage of total funds available to St. Paul schools from state and federal funds declined from a high of 41.6% in 1953 to 30.4% in 1964. Thus although state aids to St. Paul schools have risen considerably in the past few decades, the chances of this rise continuing are slight since the state can but barely meet the costs of its statewide programs. The citizens of St. Paul then, will continue to contribute more in income taxes than is returned to the city by the state in the form of state aids each year.

C. Intergovernment Revenues for Highways

1. In 1964 $84.25 million of the funds received by Minn. from the U.S. govt. (totalling $188.7 million) were for highways. In 1964 the state received $6.03 million from local units for highways.

2. In 1964 Minnesota spent $191.1 million for highways. Of this amount $41.1 million was transferred by the state to the local units of govt.

a. The State Highway Fund, established by the constitution, is the source of this money. 100% of the motor vehicle license fees and of the highway fuel tax goes into this fund.

b. State Highway Funds are distributed as follows:

1) 62% to state trunk highways
2) 29% to counties for county aid highways
3) 9% to municipalities of more than 5,000 people for use on municipal state aid streets

3. Receipts for 1966 in our locale include:

a. St. Paul - Dept. of Public Works expects $250,000 for state aid highways, $128,000 for highway maintenance, and $100,000 for street and sewer cleaning on state aid highways.

b. Ramsey County - Road and Bridge Fund expects $840,000 of nearly $3 million budget for this fund.

D. Intergovernmental Revenues for Welfare Activities

1. Minnesota expenditures for welfare in 1964 included $66.1 million to counties as state share of costs of categorical aids (OAA, AFDC, etc.) Counties generally have responsibility for welfare activities.

a. Of the \$188.7 million received by Minn. from the U. S. in 1964, \$47.63 was for welfare, \$5.84 for health and hospitals.

b. Some of the aid given counties thus comes from U.S. In 1963 43.2% of public assistance funds spent in Minn. came from Federal funds, 19.4% from state and 37.4% from local (see FINANCING MINNESOTA'S CITIES). In Minn. local governments pay larger percentage for welfare than in many other states.

2. Ramsey County Board of Welfare

a. Local financing to provide \$10.6 million in 1966; of \$300 total tax bill, for ex., city's share of welfare cost would be \$20.24, county's share would be \$38.51. (YOUR BUDGET DOLLAR)

b. State and Federal grants will total \$9,660,000 in 1966; most for social services (relief, OAA, AFDC, etc.)

E. Intergovernmental revenues to the <u>general revenue funds</u> of local units of government come from variety of taxes collected by the state or county and shared with counties and municipalities

1. State collected taxes

a. Taconite taxes to Iron Range communities

b. Inheritance taxes (on probate estates) - 20% of collections shared with local units. To Ramsey County in 1966 - \$325,000

c. Cigarette taxes of 8¢ per pack divided between natural resources fund (1/8), state general revenue fund (3/4 of balance or 21/32) and cigarette tax apportionment fund (1/4 of balance or 7/32). In 1966 St. Paul expects \$1 million from this and alcoholic beverage taxes combined.

d. Alcoholic beverage taxes - 30% of collections go to cities, villages and townships in proportion to population (rest goes to state general revenue fund which also gets 100% of malt beverage tax)

e. Bank excise taxes go to the counties where they are distributed like personal property tax revenues. In 1966 St. Paul expects \$35,000, Ramsey County \$165,000 and School Dist. #625 St. Paul \$230,000

2. County collected taxes

a. Mortgage Registry tax distributed to state general revenue (1/6), county general revenue (1/6), school district (1/3) and municipality (1/3). In 1966 St. Paul expects \$50,000, St. Paul schools \$56,000, and Ramsey County \$40,000.

b. Grain tax in lieu of personal property tax on grain will yield in 1966 \$4,000 to St. Paul, \$3,500 to St. Paul schools.

F. A look ahead: By 1970 we will be on an even higher level of public expenditure, especially for local government. This is due to pressures of population growth, increased urbanization, and demanded increases in the quality and quantity of public services. Where will the money be found?

1. Are more state aids the answer? If so, what kind?

   a. Grants in aid - for specific purposes or on per capita basis? New York's Moore Plan

   b. Tax supplements
      Ohio cities income taxes

   c. Shared taxes
      Wis shares income taxes with local units

   d. State assumption of responsibility for some services - Mr. Hatfield has suggested that welfare costs could be assumed by the state thus relieving the burden on the property tax.

2. Are more Federal aids the answer?

   a. Restrictions are attached - for example, St. Paul school aids

   b. Should the Federal govt. step in if the states do not act? Urban renewal is the classic example - rural dominated legislatures would not help cities solve problems, so U. S. govt. did.

   c. Heller proposals for sharing of income tax surplus by Federal govt. with states for redistribution to local units

3. Are new revenue sources the answer?

   a. Might we better cut services? Is it realistic to think we can?

   b. How about the sales tax? Should some be shared with local govts?

   c. Are metropolitan-wide, or area-wide, taxes the answer? Metropolitan Mayors Committee; what about problems of distribution?

DEFINITIONS OF TAX TERMS

Intergovernmental revenue - money collected by one level of government and then transferred to another level usually for financing a specific service (such as Minnesota income tax monies collected by the state and returned to local school districts).

Per capita - figures used to indicate the number of people paying for and using governmental services.

Per $1000 of personal income - figures used to indicate wealth of the population and thus the ability to pay for services.

Gross receipts taxes - tax paid by the seller on total receipts for articles sold (for example, the Minnesota tax on insurance premiums).

Gross earnings tax - percentage of gross earnings paid in tax without deductions or exemptions; in Minnesota paid by railroads, telephone and telegraph companies in lieu of the real and personal property taxes.

Progressive tax rate - a tax rate which rises as income rises so that the large wage earner pays a larger proportion of his income than the small wage earner.

Regressive tax rate - a tax rate which takes a larger proportion of the small income than of the large income.

Statutory rate - the tax rate set by law, or statute.

Effective tax rate - the tax rate; rate at which tax is paid after consideration of deductions, exemptions, etc.

Gross income - income before allowable deductions and exemptions are taken; may be taxed by gross income or earnings tax.

Net income - taxable income after tax exemptions and deductions are taken.

Excise tax - a tax on the manufacture, sale or consumption of articles; there is little difference between excise taxes and selective sales taxes.

Severance tax - a tax on the removal of natural resources; measured by value or quantity of products removed or sold.

Assessment - the process of determining the value of something for tax purposes; also refers to the valuation given to the property by the assessor.

Market value - the usual selling price of a piece of property.

Full and true value - valuation placed on property by the assessor; by law supposed to equal market value but actually only a fraction of current market value; the state tax commissioner is urging assessors to aim at full and true values equal to 33 1/3% of market value.

Assessed value or taxable value (generally the same thing) - value to which the tax rate is applied; this value results when the full and true values have the percentages of the classification system applied to them.

Ad valorem tax - a tax based on the value of the property being taxed.

"Homestead exemption" - actually a classification percentage or ratio whereby the first $4000 of full and true value of a owner-occupied house is assessed at 25% if urban (20% if rural); the balance is assessed at 40% (or 33 1/3%)

Tax base - the total value of all taxable property within a given governmental unit.

Tax levy - amount of money required to be raised through a collecting (a levy) of money on taxable property. Also, the difference between estimated expenditures and revenues other than the property tax.

Mill - one tenth of a cent or 1000th of a dollar.

Mill rate - rate of taxation; the number of mills per dollar to be paid in taxes; each unit of government establishes a mill rate to finance its needs and all these individual rates are added up for the total mill rate. The tax rate of a given district is determined by dividing the district's levy by its total assessed valuation.

Foundation aid - term referring to school aid given by the state under formulas A or B financed by the income tax school fund.

Census aid - school aid amounting to $10 per child of school age within the district whether in the public school or not.

Shared taxes - taxes collected by the state and shared with the local units of government usually on a population basis (such as cigarettes).

Grants in aid - aids from the state (or U.S. govt.) to the local unit of government which may be conditional, i.e. earmarked for financing of a specified service or project, or unconditional, that is given without strings attached.

Tax supplement - this is a local tax imposed on top of or in conjunction with a state tax; collected by the state and returned to the local unit.

Surtax - a tax figured on top of a previously calculated tax; after the tax owed is computed, a percentage of that sum is added on (may be paid to local unit or to state for specific purpose).

St. Paul League of Women Voters

April, 1966

QUESTIONS FOR DISCUSSION IN UNIT MEETINGS

1. How does Minnesota compare with neighboring states and U. S. with regard to revenues and expenditures?

2. How much do you estimate that you (and your spouse) pay in taxes each year?
   Income
   Real estate
   Gasoline
   Liquor and cigarettes
   Insurance premiums
   Telephone

3. Did you realize that government services have increased in volume and number but the tax base has not increased at an equal rate? What does this mean for our city? Our schools?

4. What are the major sources of revenue for the state?
   Ramsey County?
   St. Paul?

5. What are the major services financed by the state?

   Ramsey County?

   St. Paul?

6. Almost one third of all property within the city of St. Paul is tax exempt. Should it be or should such property pay for some services?

7. What do you think are the major items to be considered in making a local budget?

St. Paul League of Women Voters   April, 1966

DISCUSSION REPORT FORM FOR STATE ITEM I

Unit #______

Please return to: Mrs. R. M. Michaels   644-5562
2180 W. Hoyt
St. Paul, Minn. 55108

<u>on or before May 15, 1966</u>

1. What areas of the material on financing government seemed unclear or inadequately explained?

   Should they be re-emphasized next year?

2. On what points did most of your unit's discussion take place?

3. Where do you think the League should concentrate its study next year?   Why?

LWV of Minnesota, State Organization Service, U. of Minn., Minneapolis, Minn. 55455
February 1966

SUGGESTED DISCUSSION OUTLINE
FOR
UNIT MEETINGS

Financing Government in Minnesota: Evaluation of revenue sources with consideration of state and local needs.

To begin, explain that the purpose of the meeting is to impart information. (No consensus will be reached as a result of this particular meeting.) This is background knowledge needed before we attempt to evaluate revenue sources with consideration of needs.

Proceed on the assumption that every member has read Financing Public Services. Some visual aids that are not too complex will be helpful throughout your discussion. In your planning session, it will be advantageous to allot specified amounts of time for each part of the discussion. This will prevent the problem of spending too much time on one section and not completing the whole discussion of this outline. The material in each section of the publication can be introduced with questions as follows:

1. How does Minnesota compare with the U. S. average, and with its neighboring states in state and local revenue? In state and local expenditures? (Chapter I)

2. What are the major sources of state revenue? (Chapter II. Don't get bogged down in discussion of each individual tax.)

3. What are the major services financed by the state? (Chapter III.)

4. What are the major sources of revenue for local units of government? In total? Counties? Townships? Cities and villages? School districts? Special districts? Your community? (Chapter V and your own local survey.)

5. What are the major services financed by local governments? In total? Counties? Townships? Cities and villages? School districts? Special districts? Your community? (Chapter V and your own local survey.)

6. What considerations are necessary in formulating state and local budgets? (Chapter IV and your own local survey.)

Summarize very briefly the discussion up to this point. Now you are ready for a free, wide-ranging discussion.

7. What problems are there in financing public services? Don't overly discuss any one problem at the exclusion of all others.)

It would be well to re-read the item at this point and then consider the final question:

8. Where do you think the League should concentrate its study next year? Why?

This outline is one suggested method of handling your unit meetings. One of the purposes of the workshop will be to explore other methods of presentation. Come and share your ideas with us.

FINANCING MINNESOTA'S CITIES

Cities of over 100,000 population in Minnesota are designated by the legislature as Cities of the First Class. These cities are Minneapolis, St. Paul, and Duluth. The fact that the legislature sees fit to treat these central cities separately is one indication that they have particular problems not found in smaller communities.

Central cities must cope with problems resulting from high density of population, the presence of large racial minorities, and considerable numbers of low-income residents. They must provide services not only for city dwellers but also for great numbers of suburbanites who work in the central city, but pay no taxes directly to it.

Expenditures

Although the population of the central cities has not increased appreciably in the last decade, city budgets have grown rapidly. City officials face constantly rising demands and needs for more police protection, fire protection, health, welfare and recreational programs, libraries and other cultural advantages. New programs are needed, such as urban renewal and air pollution control. Costs, particularly wages, constantly increase. The growth of expenditures in the three cities is shown in Table I.

Table I

Total Expenditures for City Services* (1)
(Millions of dollars)

	1950	1955	1960	1963
Minneapolis	$ 26.0	$ 35.2	$ 48.4	$ 53.0
St. Paul	14.2	21.8	29.5	36.1
Duluth	4.1	4.8	7.2	7.2

* (Not including debt redemption or schools)

1. Report of Public Examiner on the Revenues, Expenditures and Debt of the Cities and Villages in Minnesota, State of Minnesota, St. Paul.

In addition to the services provided by the city, two other major expenditures of local government must be met by urban areas. These are the costs of public education provided by the local school district, and the costs of public welfare which are met by the county.

The amount spent for education is a larger percentage of the local tax dollar than that for any other single service. Expenditures for education have risen sharply each year, partly because of new and improved educational programs, and partly because the school-age population of cities has increased rapidly in the last decade even though the general population has remained fairly stable. Central cities have heavy expenses for programs for handicapped children, disadvantaged children, remedial reading, vocational training, and the like. Although a considerable part of total school costs is met by state aids, the formula under which state aids are granted to Minneapolis and St. Paul differs from that of most other school districts.

Minneapolis and St. Paul receive aid under Formula B, while Duluth uses Formula A. A study of Table 2 reveals the fact that in all three cities the current expenses of operating the schools has increased very rapidly. In Minneapolis and St. Paul the percentage of current school expenses financed by the local tax levy has also been going up. This results in a rapidly increasing financial burden on these two cities.

Table 2

SCHOOL EXPENDITURES IN MINNESOTA CITIES * (2)
(Millions of dollars)

	Total Current Expenses	% Financed by Local Tax Levy
Minneapolis		
1955	$ 20.8	65.7%
1960	27.4	60.7
1965	35.7	68.2
St. Paul		
1955	11.3	58.5
1960	16.4	64.3
1965	22.3	69.1
Duluth		
1955	5.3	55.4
1960	8.0	54.8
1965	10.6	47.7

* This table does not include costs of building new schools and financing school debt.

2. Annual Reports to the Commissioner of Education by the Superintendents of schools, 1955, 1960, 1965.

Expenditures by counties for welfare services have also shown great increases in recent years. In urban areas these increases are caused by population congestion, increased unemployment among minority groups, improved hospital services, and larger welfare payments for low-income families. These costs are partially met by state aids. The central cities also make a considerable contribution. Table 3 indicates the growth of county welfare expenditures in recent years in the three counties.

Table 3

COUNTY WELFARE EXPENDITURES * (3)
(Millions of dollars)

	1950	1955	1960	1963
Hennepin	$ 12.0	$ 17.2	$ 25.5	$ 33.6
Ramsey	5.4	7.6	11.6	14.8
St. Louis	5.4	6.6	9.7	11.5

*Classification used: Total Charities Hospitals not included.

The local tax which is levied on property within the city boundaries contributes to the support of several governmental units. Distribution of the 1965 tax to these various units is shown in percentages in Table 4. St. Paul pays 27 1/2% of county welfare costs in Ramsey County in addition to the share shown for county government.

Table 4

LOCAL PROPERTY TAX - DISTRIBUTION AMONG GOVERNMENTAL UNITS - 1965

	State & District	County	Schools	City	
Minneapolis	4.3%	27.1%	36.4%	32.2%	(4)
St. Paul	3.0	23.3	34.2	39.5	(5)
Duluth	2.2	29.2	41.4	27.2	(6)

3. Report of the Public Examiner on the Revenues, Expenditures and Debt of State and Local Governments in Minnesota.

4. Financial Program, City of Minneapolis, 1965

5. City of St. Paul Budget Appropriations, 1965
Levies for special districts are included under State and District.

6. City of Duluth, Minn. "Apportionment of Taxes on City of Duluth Property among Governmental Subdivisions", July, 1965.

"In 1963, the percentage of welfare costs assumed by local governments was greater in Minnesota than in any other state, with the exception of Montana. Table 5 shows the expenditures for public assistance programs and the percentage distribution by source of funds for Minnesota and the U.S. for 1963.

Table 5

EXPENDITURES FOR PUBLIC ASSISTANCE PROGRAMS
AND DISTRIBUTION BY SOURCE OF FUNDS FOR 1963

		Percentage Distribution		
	Expenditures	Federal Funds	State Funds	Local Funds
Minnesota	$ 108,947,000	43.2	19.4	37.4
United States	$ 5,183,683,000	54.8	32.7	12.5

Source: "Welfare in Review" Statistical Supplement 1964 Ed: HEW (7)

Revenues

"The power to tax is conferred on local governments by State constitutions and legislative enactments. No local tax can be imposed without such authorization. Indeed, no local government can exist without the specific or general authorization of the State constitution, its legislature, or both. Traditionally, local power to tax has been confined to the property tax and, under the general police powers, to various types of business and non-business regulatory license taxes." (8)

Minnesota's cities receive revenue from both federal and state governments in the form of grants-in-aid. The state also shares certain taxes with local governments, mainly cigarette and liquor taxes, apportioned on the basis of population, and the gasoline and motor vehicle registration tax, which must be used for local highways and streets.

7. Report of the Mayor's Revenue Action Committee, St. Paul, April 1965.

8. "State Constitutional and Statutory Restrictions on Local Taxing Powers", Advisory Commission on Intergovernmental Relations, October, 1962.

Cities also derive revenue from service charges, licenses, fees, fines, and miscellaneous taxes, but by far the greatest portion of their income comes from the local property tax. The local property tax levy is the only large revenue source under local control. The percentage of total revenues in the three cities which came from the local property tax in 1965 is shown in Table 6.

Table 6

CITY REVENUES FROM LOCAL PROPERTY TAXES 1965

	Amount from Local Property Tax	% of Total Revenue
Minneapolis	$ 31,019,665	63 (9)
St. Paul	$ 21,827,026	65.6 (10)
Duluth	$ 3,979,291	63.0 (11)

The financial problems of the cities clearly reveal the difficulties caused by excessive dependence on a single revenue source, the local property tax. "The entire scheme of local taxation is closely tied to, and probably shackled by, the property levy, a very stable object of taxation. The relative rate of revenue increase among federal, state, and local governments is indicative of this fact." (12)

The value of real and personal property in the city is the base for the property tax levy. This base increases slowly through new building, improvements, and inflation. The increase in value provides a larger amount of revenue each year from the same tax mill rate.

In recent years, however, the rate of increase in the tax base of St. Paul, for example, has tended to be less rapid. One reason is an increase in the amount of tax-exempt property. "The relatively recent slowing down of the increase in the assessed valuation is due in no small part to the removal of property from the tax rolls for inter-regional highways, public housing and urban renewal and by the acquisition of property for public purposes (schools, etc.) and tax exempt institutions (churches, colleges, etc.) ..." (13) Increases in the tax base have by no means kept pace with rising costs of city government. The rising mill rates of city property tax levies make this clearly evident.

9. Financial Program, City of Minneapolis, 1965

10. City of St. Paul, Minn. Budget Appropriations, 1965

11. City of Duluth, Minn. "Where the City Gets Its Money" City Director of Finance, July 1965

12. The Finances of Metropolitan Areas, Larry M. Ellison
Michigan Legal Publications, 1964.

13. Report of the Mayor's Revenue Action Committee, St. Paul, April, 1965

The problem of equitable tax assessment is a difficult one throughout the state of Minnesota. A decision handed down by the Minnesota Supreme Court in the (Duluth) Dulton case, December, 1964, has already caused problems for the cities. The Court held that the percentage applied to market value by the municipal assessor to arrive at full and true value for tax purposes must be uniform as to all classes of property within the taxing district.[14] Taxes paid on other than the lowest percentage used must be refunded. Duluth must now make refunds to some taxpayers, and a serious financial crisis is forseen.[15] A large number of tax appeals have also been filed in Minneapolis under this decision.

In St. Paul the total assessed valuation of real and personal property showed a negligible gain for the year 1964 and a decline for 1965. This was due in large part to an effort by the Ramsey County Assessor to bring personal property assessments in Ramsey County into line with the rest of the state. Minneapolis has also made adjustments to lower the assessed valuation of personal property. The tax base of Minneapolis showed a decline in 1963, but increased in 1964, and in 1965 showed an increase of about 1.8%, the largest increase since 1961.[16]

Voters increasingly resist proposals to raise property taxes. "Contributing factors are the continuing inflationary trend and voter resentment toward the increasing total tax burden placed upon him by Federal, State and local governments. The problem is more acute in the larger cities with their complex social and economic structures than it is in the smaller municipalities where the voters identify themselves more closely with their community and their municipal government."[17]

MEW REVENUE SOURCES

Since 1960, Minneapolis, St. Paul and Duluth have investigated possible new non-property sources of revenue. Citizen's tax study committees, established in all three cities, have done extensive research on new revenue sources. Some possibilities examined are wheelage taxes, hotel taxes, telephone taxes, city sales taxes and various types of city income or payroll taxes. Many cities in the United States have adopted one or more of these taxes.

Minnesota's First Class cities have not adopted any new local non-property taxes. In order for them to do so, several difficulties would have to be overcome. Enabling legislation by the state legislature would be necessary for most new taxes. The legislature is reluctant to share with cities the use of revenue sources which have in the past belonged to the state government.

14. League of Minnesota Municipalities, February, 1965

15. Duluth newspaper, August 15, 1965

16. Minneapolis Tribune, August 20, 1965

17. Report of the Minnesota Legislative Interim Commission on Local Governmental Fiscal Problems, February, 1959.

Another difficulty is the lack of favorable public sentiment toward new taxes. Telephone, hotel, wheelage taxes and the like are called "nuisance taxes" and are opposed because the amount of revenue realized from them would be small. Municipal sales taxes are considered unfeasable unless imposed on a metropolitan area basis. City income or payroll taxes should also be adopted on a metropolitan area basis, and opposition to them is perhaps inevitable where the state income tax is among the nation's highest. "Although the home rule charters of our larger cities provide for the adoption of certain non-property taxes by referendum, the cities have not been very successful in getting such measures approved by the necessary majority of voters. Apparently, a part of the problem is the inability of the city government and interested civic groups to reach and convince a sufficient majority of the voters that additional revenues are necessary to provide the services, and that the proposed financing method is a fair and equitable way to raise the desired additional revenue."(18)

Local governments in states with large urban populations have been more successful in adopting non-property taxes than those in Minnesota. "...two-thirds of all local non-property tax revenue is collected in six states (California, Illinois, New Jersey, New York, Ohio, and Pennsylvania).

"As of mid-1962, approximately 2,000 local governments in twelve states, but concentrated in California, Illinois, Mississippi, and Utah, were imposing general sales taxes. Income taxes are levied by about 1,300 local units in six states, chiefly Ohio and Pennsylvania. Gasoline taxes are imposed by almost 300 localities in six states, especially in Alabama and to a lesser degree in New Mexico. Admissions taxes are found in a dozen states (particularly Ohio, Pennsylvania and Washington, cigarette taxes in nine, and excise taxes on alcoholic beverages in five or six."(19)

FUTURE NEEDS

The increasing inability of city governments to finance needed services on an adequate level with the sources of revenue at their disposal has caused them to turn for help to higher levels of government. The Mayors of Minneapolis, St. Paul and Duluth appeared before a legislative committee of Minnesota's House of Representatives in February, 1965. They stressed the financial plight of their cities and asked the legislature to give consideration to local needs in planning the state fiscal program. They agreed that(20) each of their cities needs a revenue increase of $20 per capita per year.

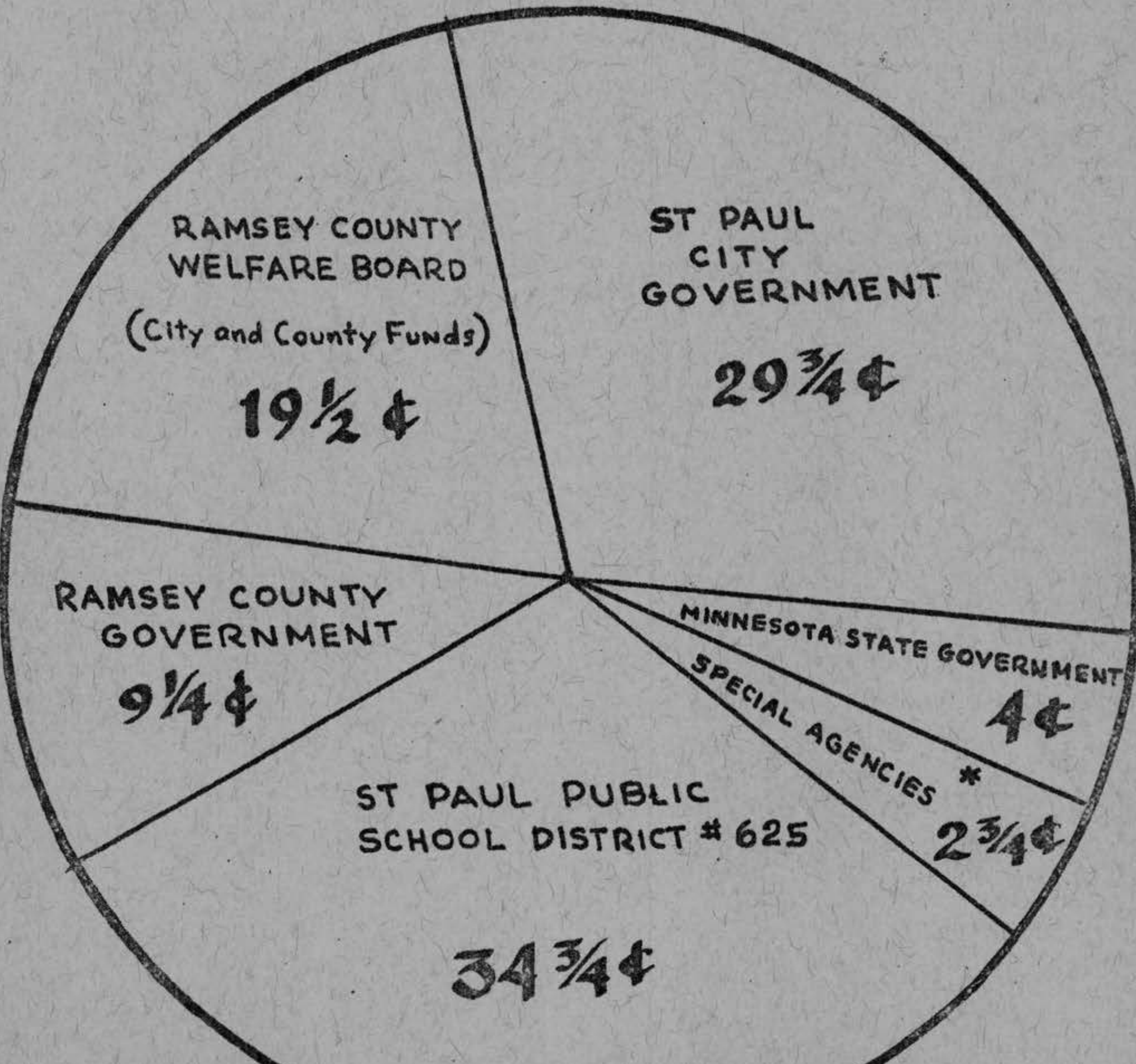
18. Report of the Minnesota Legislative Interim Commission on Local Governmental Fiscal Problems, February, 1959

19. "State Constitutional and Statutory Restrictions on Local Taxing Powers", Advisory Commission on Intergovernmental Relations, October, 1962

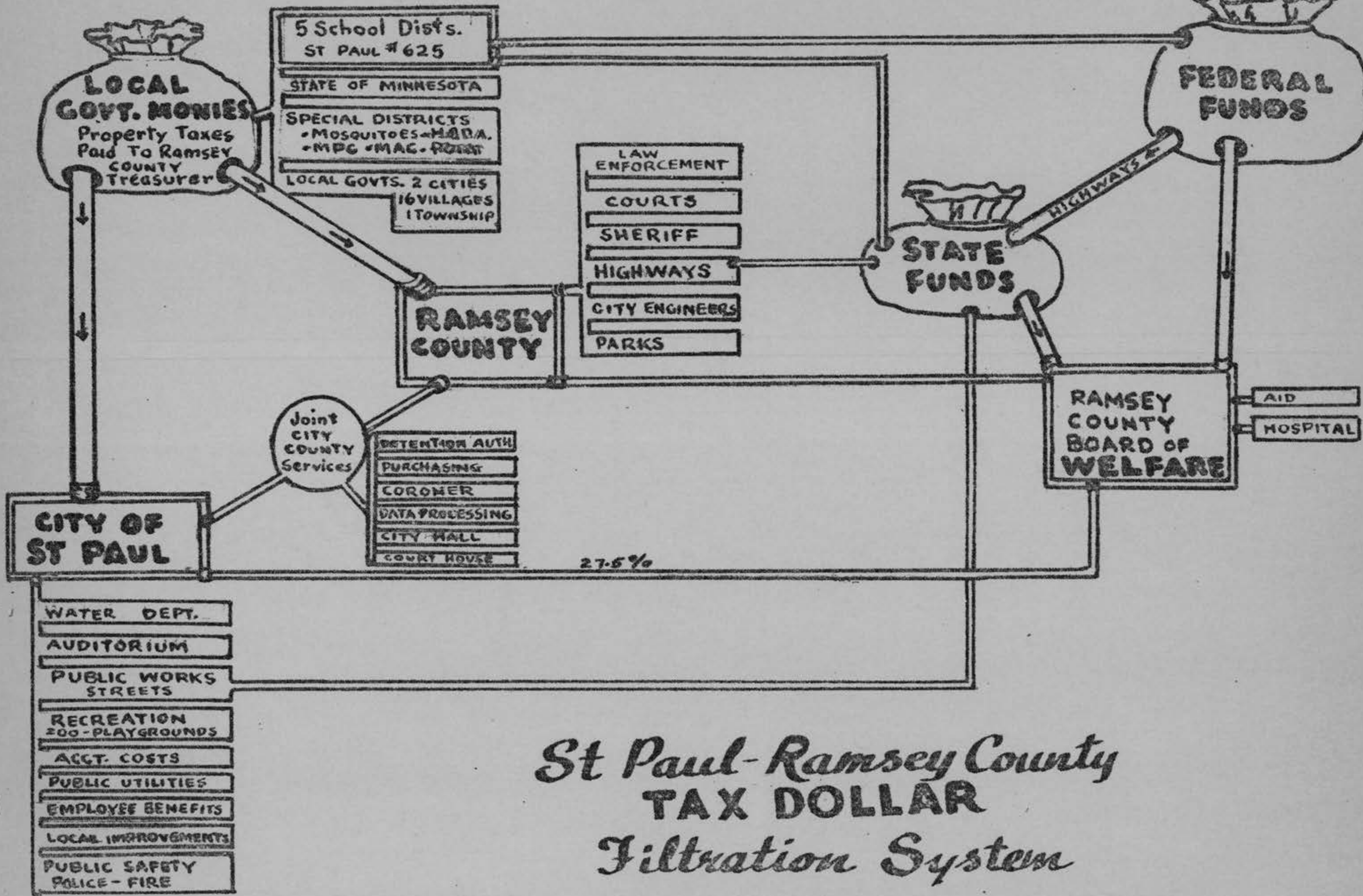
20. St. Paul Dispatch, February 1, 1965

The Federal government has recently sought to fill some of the unmet needs of local governments by making direct grants to them. These aid programs, while eagerly sought by local governments, have some disadvantages from the local point of view. They are usually made for a specific purpose for which local funds are not presently being used. Federal standards may tend to diminish the local role in planning and budgeting. Many of them require matching funds from the local government. In most cases the intent is to terminate the aid after a number of years and leave the entire financial burden to the local district. As presently constituted, direct Federal Aid programs do not provide a complete answer to the basic financial problems of the central city governments.

How your St Paul Property Tax Dollar is shared - 1966



* SPECIAL AGENCIES
- Housing
- Airport
- Port Authority
- Regional planning



St Paul-Ramsey County
TAX DOLLAR
Filtration System

SAINT PAUL HOMEOWNERS PROPERTY TAX

IF YOUR TAXES PAID IN 1966 ARE $300.00
CITY, COUNTY AND STATE GET THESE AMOUNTS

CITY SERVICES		
Public Safety	$27.77	
Public Welfare - City's 27½% Share	20.24	
Debt - Other than Public Schools	13.39	
General Government	12.05	
Employee Benefits	11.25	
Public Works	8.13	
Parks and Recreation and Public Buildings	7.42	
Public Library	4.35	
Public Utilities	2.71	
Detention Authority - City's 50% Share	2.16	
Water Department and Auditorium	None	$109.47
PUBLIC SCHOOLS		
Operation	$80.58	
Employee Benefits	12.19	
Debt	11.46	104.23
OTHER CITY PURPOSES (Port & Housing Authorities - Airports Debt)		8.02
TOTAL - CITY OF ST. PAUL		$221.72
COUNTY OF RAMSEY		
General Purposes	$24.04	
Public Welfare - County's 72½% Share	38.51	
Detention Authority - County's 50% Share	1.42	
Debt	2.31	66.28
STATE OF MINNESOTA		12.00
YOUR $300.00 TAXES PAID		$300.00

Population	1960 U. S. Official Census		313,411
Assessed Valuations	Real Property	$192,515,416.00	
	Personal Property	50,907,616.00	$243,423,032.00
Tax Levy - City Budget (Includes Shrinkage)			
	Operating	$ 19,160,493.00	
	Debt	2,669,403.00	$21,829,896.00

Tax Rate	Homestead	Excess Non-Homestead
City Services	89.69	89.69
Public Schools	85.39	85.39
Other City Purposes	6.57	6.57
Total City Purposes	181.65	181.65
County of Ramsey	54.30	54.30
State of Minnesota	9.83	9.93
Total Tax Rate	245.78	245.88

JOSEPH J. MITCHELL
CITY COMPTROLLER

City of Saint Paul Minnesota

Budget Dollar

1966

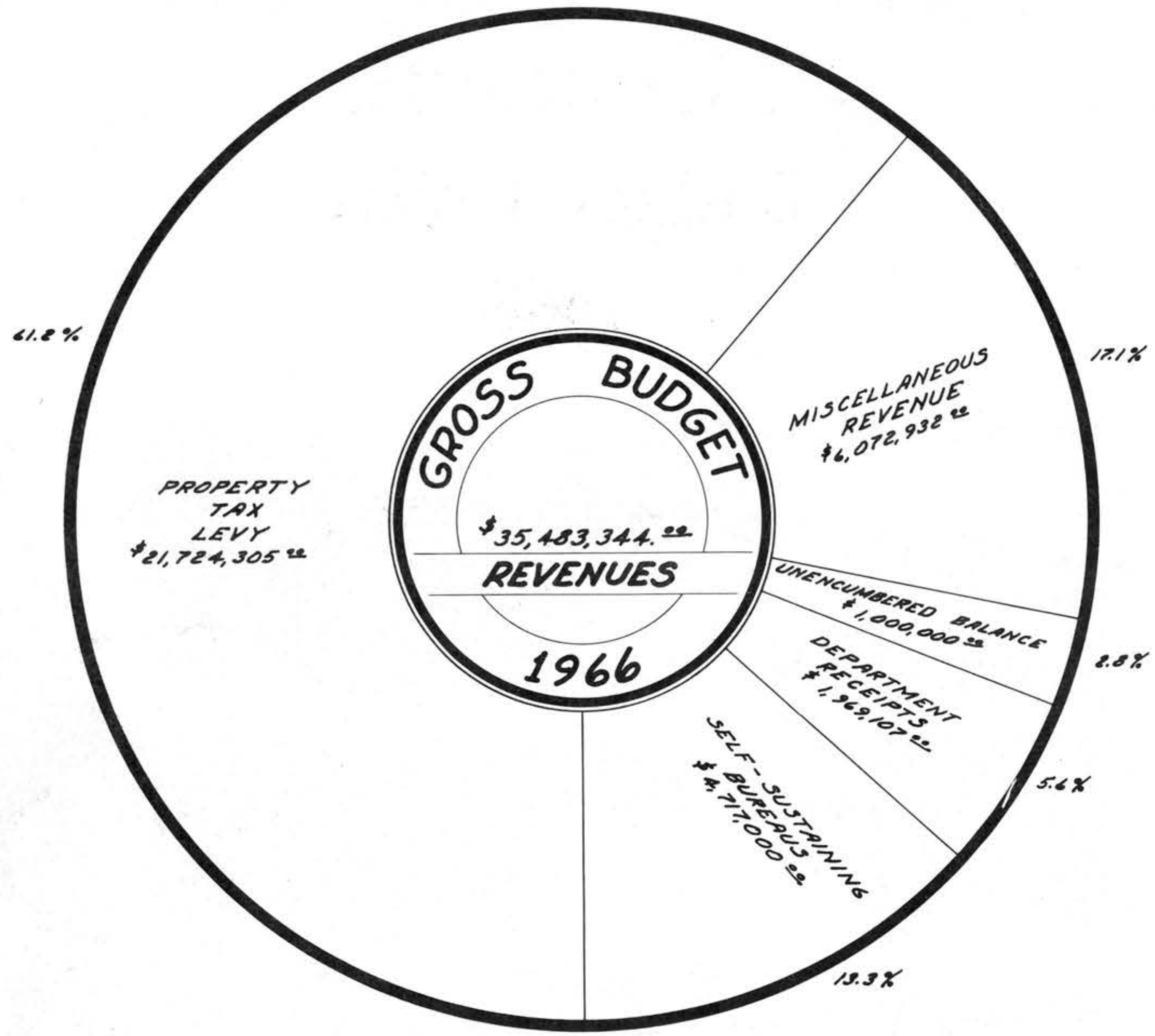
The New Rice Park

City Comptroller

Joseph J. Mitchell

WHERE THE CITY GETS ITS MONEY
City of St. Paul, Minnesota

BUDGET DOLLAR
1966

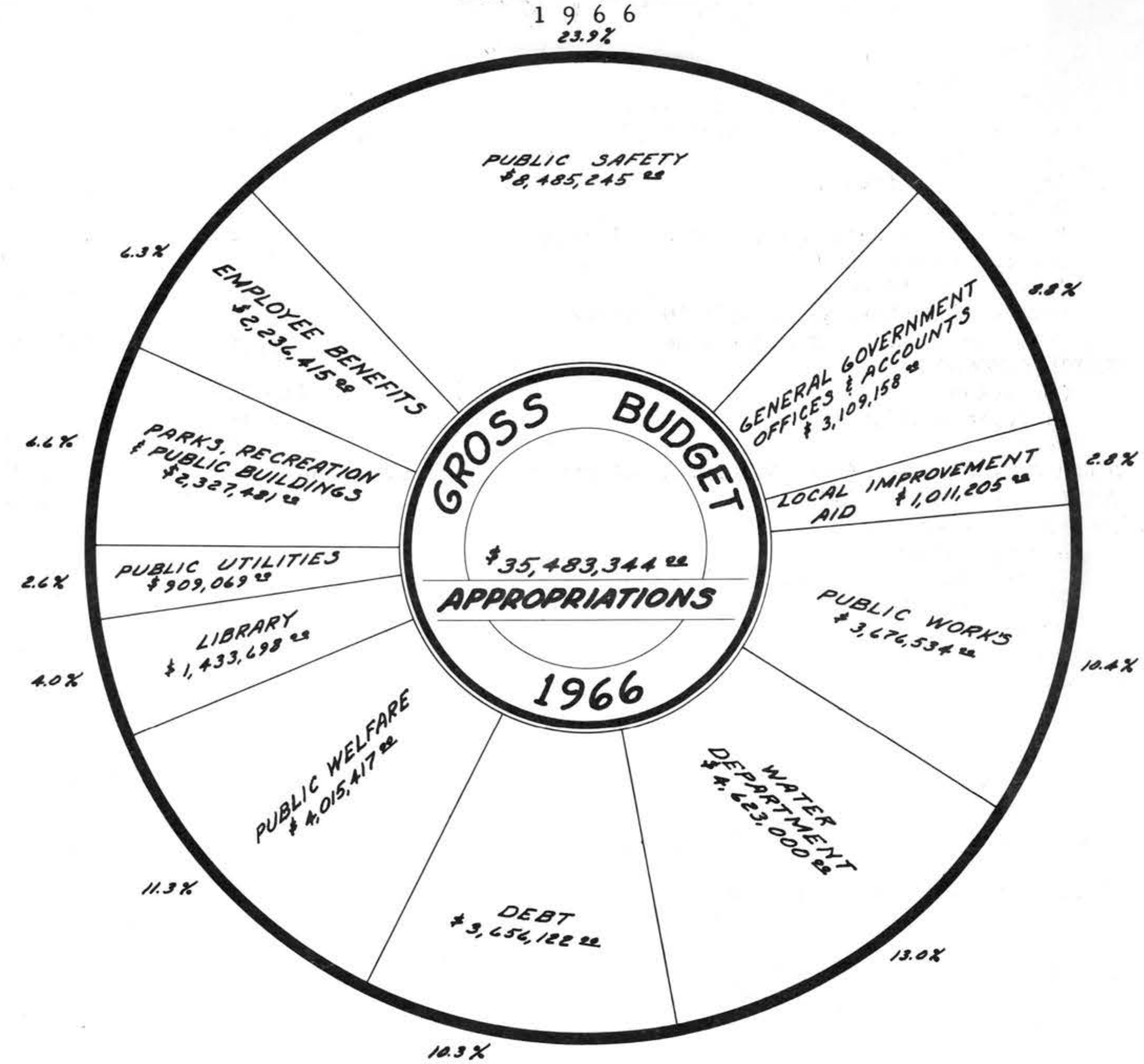


ESTIMATED REVENUES

Property Tax Levy - Real and Personal		$ 21,724,305.00
Miscellaneous Revenue:		
Penalties on Property Taxes	$ 40,000.00	
Forfeited Property Tax Sales Apportionment	10,000.00	
Special Taxes - State Collected	1,350,000.00	
- County Collected	54,000.00	
- City Collected	2,112,000.00	
Payments in Lieu of Taxes	40,000.00	
Licenses and Permits	1,079,000.00	
Fees, Fines and Bail Forfeits	1,077,000.00	
Rents and Miscellaneous	310,932.00	6,072,932.00
Unencumbered Balance - Bond and Interest Account		1,000,000.00
Department Receipts		1,969,107.00
Self-Sustaining Bureaus:		
Auditorium	94,000.00	
Water Department	4,623,000.00	4,717,000.00
TOTAL REVENUES 1966 (GROSS BUDGET)		$35,483,344.00

HOW THE CITY SPENDS ITS MONEY
City of St. Paul, Minnesota

BUDGET DOLLAR
1966



APPROPRIATIONS

Public Safety (Police, Fire, Health)		$ 8,485,245.00
Water Department		4,623,000.00
Public Welfare (City's 27½% Share)		4,015,417.00
Public Works		3,676,534.00
Debt (Maturities and Interest)		3,656,122.00
General Offices and Accounts:		
Commissioner of Finance	$ 277,939.00	
Detention and Corrections Authority (City's 50% Share)	455,376.00	
City Hall and Court House (City's 50% Share)	263,474.00	
Various Offices and Accounts	2,112,369.00	3,109,158.00
Parks and Recreation and Public Buildings		2,327,481.00
Employee Benefits (Includes Pension Contributions)		2,236,415.00
Library (Includes Administration, Auditorium, and Civic Buildings)		1,433,698.00
Local Improvement Aid		1,011,205.00
Public Utilities (Includes Street Lighting and Air Pollution)		909,069.00
TOTAL APPROPRIATIONS 1966 (GROSS BUDGET)		$35,483,344.00

League of Women Voters of Indiana
February 1966

CONSENSUS QUESTIONS ON ADMINISTRATION OF PUBLIC WELFARE SERVICES IN INDIANA TO PROMOTE FAMILY CONSERVATION AND REHABILITATION

On the reverse side are the questions for use in decision-making meeting on Public Assistance. Report FULLY on the discussion and consensus (or lack of it) of your members. The information you supply on this page - along with your Board minutes, bulletins, and other meeting reports - will be valuable to the State Board in determining the point of view of Indiana League members. Please review answers on both these pages with your local Board before fowarding them to the state office.

COVERAGE:

Please evaluate your League's coverage of the resource material:

Did all resource committee members have the Public Assistance publications?

Did every member receive some material before units or general meeting?

How many meetings did your resource committee have?

How many membership meetings did you have? Sets of Units? General?

Approximately how much membership participation was there?

Was discussion good at units?

Was there adequate resource material for the study and decision making?

Please list other materials used:

League:
Submitted by:
Position:
Date:

TWO COPIES
TO BE RETURNED TO THE STATE OFFICE BY MAY 10, 1966

League of Women Voters of Indiana

CONSENSUS QUESTIONS ON ADMINISTRATION OF PUBLIC WELFARE SERVICES IN INDIANA TO PROMOTE FAMILY CONSERVATION AND REHABILITATION

1. What programs or services in Indiana have proven effective in meeting the goal of family conservation? of rehabilitation?

2. Could their effectiveness be increased? If so, how?

3. Are there other approaches to more permanent solutions to welfare problems that Indiana might adopt? If so what?

4. Should changes be made in the administration of public welfare in Indiana? If so, what changes?

5. Do your members have agreement in any other areas of public welfare?

6. Comments

League of Women Voters of Indiana
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League of Women Voters of Indiana

CONSENSUS QUESTIONS ON ADMINISTRATION OF PUBLIC WELFARE SERVICES IN INDIANA TO PROMOTE FAMILY CONSERVATION AND REHABILITATION

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6. Comments

REAL AND PERSONAL PROPERTY TAX RATES ON $1000 IN RAMSEY COUNTY, MINNESOTA, FOR TAXES PAYABLE IN 1966

RATES APPLICABLE OUTSIDE THE CITY OF ST. PAUL

For explanation of how to find the total rate applicable to any particular municipality see note at lower right.*

CITIES, TOWN & VILLAGES	Local	From Schedule I	(3) Subtotal Home-stead	Add'l. Non-Home-stead	(4) Subtotal Non-Homestd.	INDEPENDENT SCHOOL DISTRICTS	
Arden Hills	20.59	76.57	97.16	.10	97.26	282	140.60
Blaine	42.50	78.89	121.39	.10	121.49		
Falcon Heights	32.19	76.57	108.76	.10	108.86	621	144.53
Gem Lake	14.34	76.57	90.91	.10	91.01	621AC	119.53
Lauderdale - Ex. Div. 1	20.53	76.57	97.10	.10	97.20		
Lauderdale - Div. 1	17.28	76.57	93.85	.10	93.95	622	162.22
Little Canada	9.99	76.57	86.56	.10	86.66	622AC	137.22
Maplewood	36.25	76.57	112.82	.10	112.92		
Mounds View	32.48	78.89	111.37	.10	111.47	623	151.36
New Brighton	33.18	76.57	109.75	.10	109.85	623AC	126.36
North Oaks	15.20	76.57	91.77	.10	91.87		
North St. Paul	43.34	72.62	115.96	.10	116.06	624	166.36
Roseville	26.89	76.57	103.46	.10	103.56	624AC	141.36
St. Anthony	20.76	76.57	97.33	.10	97.43		
Shoreview	24.25	76.57	100.82	.10	100.92		
Spring Lake Park	30.20	78.89	109.09	.10	109.19	The "AC" refers to rates applicable to land classified as agricultural or recreational cabins.	
Vadnais Heights	27.51	76.57	104.08	.10	104.18		
White Bear Lake	37.50	72.62	110.12	.10	110.22		
Town of White Bear	11.86	76.57	88.43	.10	88.53		

RATES APPLICABLE IN THE CITY OF ST. PAUL

State Homestead		9.83
County Government:		
Revenue	14.794	
Road & Bridge	5.83	
Welfare	31.55	
Bonds & Interest	1.896	
TOTAL COUNTY GOVERNMENT		54.07
Metropolitan Planning Commission		.23
City Government:		
Revenue	62.14	
Welfare	16.58	
Bonds & Interest	10.97	
TOTAL CITY GOVERNMENT		89.69
City Schools – (Ind. S.D. No. 625):		
Revenue	75.998	
Bonds & Interest	9.392	
TOTAL CITY SCHOOLS		85.39
Housing Authority		1.10
Port Authority		3.94
Metropolitan Airports Commission		1.53
TOTAL HOMESTEAD RATE		245.78
Additional State Non-homestead rate		.10
TOTAL NON-HOMESTEAD RATE		245.88

SCHEDULE I

State Homestead	18.32
County	54.07
Planning Comm.	.23
	72.62
County Library (1)	3.95
	76.57
North Sub. Hospital Dist.(2)	.50
North Sub. Sanitary Sewer District (2)	1.82
	78.89

(1) Does not apply to North St. Paul and White Bear Lake.

(2) Applies only to Blaine, Mounds View and Spring Lake Park.

(3) For total homestead rate add applicable school district rate. The resultant rate is applied to the assessed value of the first $4000 true and full value of homesteads.

(4) For total non-homestead rate add applicable school district rate. The resultant rate is applied to excess,** non-homestead and personal property assessed value.

**Real estate classified as homestead is assessed at 20% of its true and full value, if rural or agricultural, and at 25% of its true and full value if urban, but limited to the first $4000 of such value. The true and full value in "excess" of said $4000 is assessed at 33-1/3% if rural or agricultural, and 40% if urban. To this excess assessed value is applied the non-homestead rate.

*To find the total tax rate applicable to municipalities outside of St. Paul, take the "homestead or non-homestead" rate for your municipality, or both if applicable (see notes at left), and add the rate for the school district in which your property is located. The sum of these two figures is the rate by which the taxable assessed value of your property is multiplied. The result is your tax and is the proportionate share of the cost of government that is borne by your property. To this amount is added any assessments for improvements (curbing, water, etc.) and services (street sprinkling, tree trimming, etc.), which benefit your property.

"KNOW YOUR GOVERNMENT"

Prepared by: Eugene A. Monick
Ramsey County Auditor

There are thirty subdivisions of government (including the state), two commissions, two special authorities and one special agency with taxing authority in Ramsey County. The area over which such taxing authority is exercised is called the taxing district. These districts and the tax rates applicable to them for taxes payable in 1966 are shown on the other side of this sheet.

The County Auditor determines the rate of taxation for all taxing districts in the county, except the state. The rate of taxation is expressed in mills and is usually referred to as the tax or mill rate. A mill is one-tenth of a cent or a thousandth part of a dollar and is expressed as .001 or one-tenth (.1%) of one per cent. The ad valorem tax on a parcel of real property is calculated by multiplying the assessed value of the property expressed in dollars by the mill rate expressed as a decimal fraction. The tax rate of a given district is determined by dividing the district's levy by its total assessed valuation.

The "tax levy" is the amount of revenue required to be raised through a levy of money on taxable property and is arrived at through the budgeting procedure.

The budget is a compilation of the estimated expenditures and revenues of a taxing district for the ensuing fiscal year.

The difference between the estimated expenditures and the estimated revenues anticipated from sources other than property taxes (sale of licenses and permits, municipal liquor store receipts, parking meter receipts, service charges, etc.) is called the "tax levy." Tax levies must be authorized by law and are also limited by law. When the budget is adopted by the governing body of a taxing district, the estimated expenditures listed therein become the appropriations for the ensuing fiscal year.

Real and personal property valuations are determined by the County Assessor. The value placed upon property by the Assessor is called its true and full value. The legislature, through a classification law, has set the percentages of true and full valuation that shall be subject to taxation. Such percentages range from 5% to 50% depending upon the class of property.

Urban homestead property is assessed at 25% of its true and full value but limited to the first $4000 thereof. Urban non-homestead property and the value in excess of $4000 on homestead property is assessed at 40% of its true and full value. (See notes (3) and (4) on other side).

The general property tax is an ad valorem tax which simply means a tax based on the value of the property. The method of computing the ad valorem tax on the property is shown below.

Several taxing authorities may levy taxes on property in the same district (state, county, municipality, school district, special agencies, etc.). The total mill rate used to compute ad valorem taxes on real and personal property in a specific taxing district, therefore, is determined by adding together the individual mill rates of all the taxing authorities which have levied on the property situated within that district.

In addition to the ad valorem tax, the tax levy for general governmental functions referred to above, benefited real property is also subject to assessments for public improvements such as sewer, water, streets, etc., and special services such as street oiling and sprinkling, tree trimming, etc. Public improvement assessments are usually spread in installments over a period of years. Assessments for special services are charged each year. The installments of public improvement assessments and the special service charges are entered on the tax list against the benefited property and become a part of the total taxes to be paid.

The aggregate charge against a parcel of real estate, therefore, consists of the ad valorem tax plus installments of local improvement assessments and special charges, if any. The taxpayer receives an itemized "one-package" tax statement. The total tax shown thereon represents the share of the cost of government (state, county, city, school district, etc.) borne by his property.

Illustration of how the ad valorem tax payable in 1966 is determined on a parcel of real property in St. Paul assessed at $6000 true and full value:

HOMESTEAD PROPERTY	
True and full value	$6000
Maximum homestead value	$4000
Taxable percentage (25%)	x .25
Taxable value	$1000
Homestead rate	x .24578
Amount of tax on maximum homestead value	$245.78
Excess true and full value	$2000
Taxable percentage (40%)	x .40
Taxable value	$ 800
Non-homestead rate	x .24588
Amount of tax on excess	$196.70

NON-HOMESTEAD PROPERTY	
True and full value	$6000
Taxable percentage (40%)	x .40
Taxable value	$2400
Non-homestead rate	x .24588
Total tax on a non-homestead of $6000 true and full value	$590.12

Total tax on a homestead of $6000 true and full value $442.48
Maximum difference between the homestead and non-homestead tax in St. Paul is $147.64

Personal property taxes are determined by multiplying the assessed value thereof by the non-homestead rate.

The tax lists are transmitted to the County Treasurer on or before the first Monday in January of the year following that in which the property was assessed. Real and personal property taxes are payable to WILLIAM M. KILLEEN, RAMSEY COUNTY TREASURER, at Room 138 City Hall and Court House, St. Paul, Minnesota 55102.

Each taxing authority receives its share of collected taxes in the proportion that its mill rate bears to the total mill rate. Apportionment and distribution of collected taxes is made as of the last day of February, May and October each year.

Eugene A. Monick
Ramsey County Auditor