League of Women Voters of Minnesota Records

Minneapolis League of Women Voters
Committee on Municipal Relief

March 1933

THE ADMINISTRATION OF PUBLIC RELIEF IN MINNEAPOLIS

1. The Purpose of the Study

On the Program of Work which was drawn up last fall for Leagues of Women Voters in Minnesota there appears the item "a state and local system of public relief with adequate appropriation and administrative standards assuring the wisest use of federal, state and local funds." It rests upon each local League to assure itself that relief work in its community meets these standards and it is for this purpose that the following information has been secured.

2. The Size of the Relief Problem

At the end of February, 1933 twelve thousand six hundred families were receiving public relief in Minneapolis, while three thousand seven hundred homeless men and women (only 52 women) received aid. The diagram on the next page shows the rapid increase in the load of the Division of Public Relief since 1929, an increase of almost 600%. Counting dependents of relief clients, the number of persons who are being supported by the city of Minneapolis totalled some sixty-five thousand at the end of February 1933.

Last year the city spent two and a quarter million dollars for these people. The estimate for this year is at least $3,000,000, which does not include the Community Fund. Yet the relief burden of the City of Minneapolis is small when compared with that of other large cities.

3. What Part of the City Government Provides Public Relief?

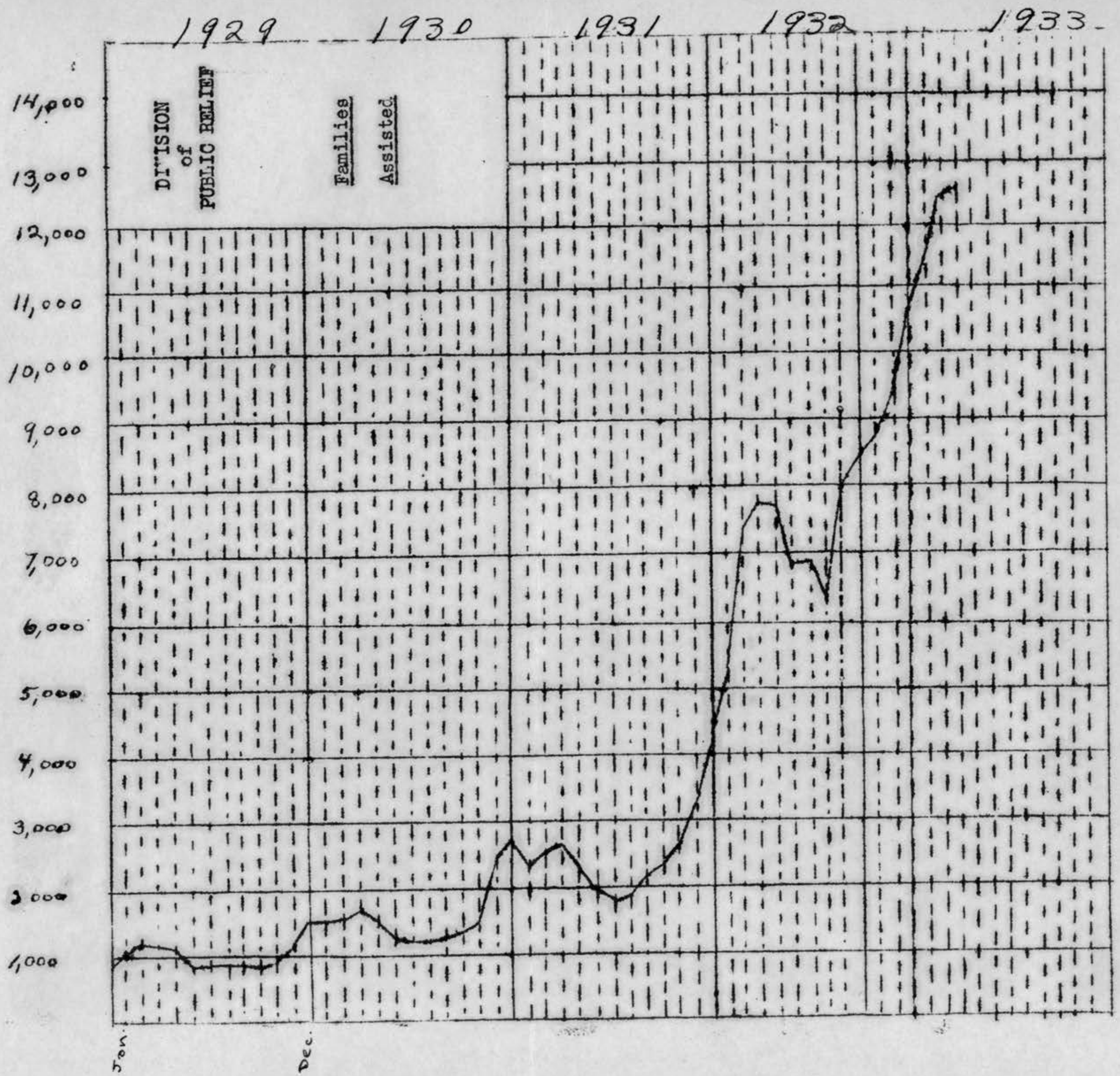
The administration of public relief is one function of the Board of Public Welfare, which has seven members - the Mayor, two aldermen, and four members appointed by the Mayor and approved by the City Council.

The Board controls the Health Department, the City Hospital, and the Workhouse as well as the Department of Public Relief. It appoints the superintendents of these divisions. All employees other than the head of the Health department come under Civil Service regulations.

4. What Is the Source of the Funds Used in Public Relief Work?

The established source of public relief funds is a tax levy on property, which amounted to $133,200 in 1932 and is estimated as $942,000 for 1933. Since these amounts are entirely inadequate it has been necessary to borrow money in order to carry on the relief work. A city borrows money by selling bonds. In 1932 the City of Minneapolis sold bonds to the extent of $1,150,000 for relief purposes.

But the amount of bonds which may be sold is limited; for "the total debt outstanding shall at no time exceed ten percent of the assessed valuation of the property taxable within the city." (From the City Charter) The margin of debt was nearly exhausted in the fall of 1932; but a reassessment in January, 1933 allows a large enough margin for loans for relief purposes.



1929
1930
1931
1932
1933
DI"ISION of PUBLIC RELIEF
Families Assisted
14,000
13,000
12,000
11,000
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
Jan.
Dec.

Another source of revenue has been federal loans. From the Reconstruction Finance Corporation $338,000 has been borrowed by the state of Minnesota for Minneapolis relief work; but this cannot be a large source of funds as the Governor declares that he intends to distribute most of these funds to very poor counties and not to the cities where there is wealth which can support public relief.

5. Does the City Council Have Any Control of Public Relief?

Estimates of financial needs and requests for bond issues sent to the Board of Estimate and Taxation by the Coard of Public Welfare must be concurred in by a two thirds vote of the City Council. Moreover, the Council has two members on the Board of Public Welfare and must concur in the Mayor's appointment of four others.

6. What Determines Whether a Family in Need Goes to the Public Relief or to Community Fund Agencies?

The Public Relief supplies food, fuel and shelter, and in theory takes care of those families who need no help but to be supplied with these material things. The Family Welfare, an agency of the Community Fund, takes charge of those families who have children under 16 years of age or have some problem such as sickness, desertion or delinquency, where constructive work is needed. However, in the winter of 1932 the Family Welfare was forced, through insufficient funds, to turn back 2,600 families to the Public Reliefwhich today handles all types of cases.

The Jewish and Family Welfare agencies continue to care for about 1,600 families; while the Public Relief supports 12,600 families and 3,700 homeless and single persons.

7. Do the Work of the Public Relief and the Community Fund Overlap?

This does not happen because there is a Council of Social Ageneies, a federation of the private and public agencies, which plans and coordinates the work. There is also a Confidential Exchange, which has a central card file, containing identifying information about each family in which any agency has been interested.

The Division of Public Relief and the Private social agencies under the Community Fund clear every case with the Confidential Exchange and do not give relief to the same clients. There is, however, no way to compel independent agencies to clear with the exchange and thereby eliminate all duplication.

The Public Relief uses continuously all the facilities of the private agencies. The Travellers' Aid determines the legal residence of families who come to town; the Public School Child Welfare and the Sunshine Society provide clothing on an order from the Public Relief Division; the records of the Visiting Nurses, Visiting Teachers and School Nurses are used; the Children's Protective Society and the Family Welfare cooperate in every way with the Department of Public Relief. The dieticians of the University and of General Mills study food requirements and grocery allowances for relief clients.

The Superintendent of Public Relief says, "We are endeavoring touse the services of all social organizations with a view not only to save the public treasury, but also to give to the people and families that come within our jurisdiction the advantage of all the social services that the city and community provide."

8. Do Unworthy Cases Receive Re lief?

There are many volunteer relief organizations which do not check with the Confidential Exchange to find out whether people may not already be getting help. This is where practically all of the duplication comes in about which we hear occasionally. The Superintendent of Public Relief estimates that there is a continuous imposture of 3%. Some people make a career of living on the public. Two workers in the office spend their entire time checking over records with a view to eliminating unworthy cases. All reports and suggestions of imposture are investigated.

It has been claimed that the case loads on the few investigators of the Public Relief Division are too heavy for efficient investigation. Social workers say that 150 cases are the maximum that should be carried by an investigator; and yet we have 12,600 families and only 51 investigators - an average of over 200 cases each. Many of these cases are old persons and others whose status does not change and who need not be visited often. Even then, the case load is too high to detect all imposture; but those in charge of relief work consider that the additional cost in salaries for more investigators would not be covered by the savings on detected impostures. As for proper care of the family, Mr. Kjorlaug, Superintendent of the Division of Public Relief, says, "It is recognized that mass treatment is not in accord with the ideal of Social Service. The ideal thing to do is to rehabilitate the family and find a job for the man, but this is impossible under present conditions. All that can be done is to see that no one goes cold or hungry. In the treatment of the individual every effort is made to protect pride and self respect of the applicant."

9. Who May Receive Relief?

The law in this state fixes a legal responsibility upon relatives to take care of their indigent and destitute relatives in the first degree, that is, their parents, children, brothers and sisters. Residents of Minneapolis who cannot provide for themselves and for whom these relatives cannot provide may apply to public relief for sustenance.

10. Does One Have to Sell His House and Car Before Receiving Relief?

If one owns a house or car these do not have to be sold. One has not exhausted one's available resources, however, unless one has put a mortgage on his home. As a rule car licenses are required to be turned in to the Relief Department. There are some instances where a man who can pick up odd jobs with a car is not required to turn in his license. Each case is settled on its own merits after investigation.

11. How Does One Apply for Public Relief?

A person whose family is in need of relief goes to the Assembly Room of the City Hall, where he is interviewed privately by an experienced social service worker. (Homeless women apply at the 7th Street Girls Club and Homeless Men go to the Gateway branch of the public relief office.) The case is immediately cleared with the Confidential Exchange to learn what other social agency contacts the client may have had. If the family is receiving aid from some other agency, he is given no public relief.

If the case seems to require immediate relief, an emergency relief order may be given; but usually the applicant is given an affidavit form of application to fill out at home, an investigation as to his needs and resources is made within twenty-four hours by a visit to the home and by checking with former employers. When the applicant returns to the office, he swears to his affidavit before a Notary Public and is then interviewed by a third social service worker who has before her the report of the investigator together with the recommendation of the Supervisor. Every application for relief is thus passed upon by four different persons. In January, 1933, 344 out of 1,432 new applications were rejected in this process.

If an applicant is accepted, he will be given a grocery order sufficient for two weeks. Should his case be doubtful, he will have the benefit of the doubt until it is cleared up. Upon subsequent applications for grocery allowances, the record and any new circumstances are considered and the application passed upon again. The records are being investigated and checked constantly. During February 1933 over 10,000 visits of investigators were made. Employers are asked to turn in names of reemployed men.

It has been suggested that the city should be divided in four districts with four relief stations where applicants for relief would apply instead of all being required to apply at the City Hall as at present.

The cost of such a system is considered too great by the Board of Public Welfare. Suitable quarters would have to be rented and equipped also a larger staff and more supervisors would have to be paid. Under one head, with one staff in one place a closer control is possible and difficulties problems are settled quickly. While it is admitted that the long distances applicants must come (five or six miles), the congestion and the hours of waiting may be a hardship, it is felt that applicants should be able to endure this twice a month when this is all they must do to obtain their living. A hundred to 150 grocery orders are mailed every day to those who are not able to come in - such as the sick and aged and widows with small children.

12. Do Many Nonresident Men "Live Off" the City?

No homeless men "live off" the city who are not residents of Minneapolis. The Public Relief does not take care of transients, who are cared for instead by the Salvation Army and the Union City Mission through private funds. The Public Relief looks after homeless men who are residents of Minneapolis. The department maintains an office in the Bridge Square District where all homeless and non-family men who wish relief are required to apply.

These men must supply a detailed history and also secure the affidavit of a taxpayer as to residence. They are given weekly books containing tickets for meals and lodging redeemable at the Union City Mission, or Salvation Army. Payment then passes between the city and the agency.

13. Personnel of the Relief Department

There are 37 filed workers and 42 office employes in the Division of Public Relief at the present time. Almost all of these girls are college trained and they all have been selected by Civil Service examinations. Fifteen students from the University are working under the trained supervision of a professor from the University The Superintendent of Relief majored in sociology at Carleton College, is a graduate of the Harvard Law School, had experience in social service work while at Harvard, and was head of the Legal Aid in Minneapolis for some years.

For the most part, the investigators and office workers receive $100 a month. The salaries are lower in the Public Relief department than in other departments of the city government. They are low not only for the training and efficiency required, but for the responsible and exhausting type of work. If the efficiency of these workers is affected in any way, the city must pay by supporting undetected fraud. It is poor economy for the city to make any reduction in the salaries of these social service workers, upon whose work,in large measure, the expenditure of public funds depends.

The overhead of this department is very low, only about 3½%; while 96½% goes to straight relief. Consequently, reduction in salaries will make an insignificant saving in the expenses of this department.

14. Do People "Flock" to the City and Receive Relief?

Indigent persons coming to Minneapolis for relief are not allowed to stay, but are stopped by the Travellers' Aid and sent at once totheir place of legal residence.

When applicants for relief do not have legal residences in Minneapolis, that is, when they have not lived here a year, they are deported to their place of residence. Some persons enter the city and manage to secure relief from private sources for a year, and at the end of this time they fall back on the Public Relief, which must then support them as legal residents of Minneapolis.

15. What Form of Relief is Given?

No cash is given to applicants for Public Relief. Orders for groceries are given to the applicant, while checks for rent are sent to the land lord, checks for fuel and gas to the companies. The department of Public Relief contributes to rent; but not to back rent. One man is kept in the field to make arrangements with the landlords. The amount agreed upon between landlord and field agent is then paid regularly by the department so long as the circumstances of the family remain unchanged. In case of a change the landlord is notified. The tenant comes to the office once a month to ask for the contribution toward rent, but the checks are mailed directly to the landlords.

Medical and dental care as well as medical supplies are furnished to relief clients by the General Hospital.

Grocery allowances are made according to fixed schedules which vary for families of different sizes and health needs. A family of two, for instance, will get about $4.50 worth of grocery allowances for two weeks; while a family of nine receives about $13.50 for two weeks.

16. Is This Relief Adequate?

The prices of foods that the relief client may buy run about 10% above wholesale prices. They are determined by a price stabilization committee composed of representative grocerymen, wholesalers, and produce men, which meets once a month to fix the price on foods for the following month. Moreover, these allowances have been analyzed by the dietitians of the University of Minnesota and of General Mills to make sure that a sufficient quantity and variety of nutritious foods may be obtained on the fixed allowances. Every grocery order bears upon its back a printed list of the foods that may be purchased. A sheet of balanced menus has also been drawn up to assist relief clients in planning the best possible meals from the list of foods within the relief allowance.

17. Is There Any Increase in Malnutrition Among the Children of Minneapolis?

In January 1933 a survey of some eighty thousand school children was made. Our commissioner of health reports: "Taken as a whole there is no outstanding malnutrition apparent among the school enrollment of Minneapolis. On the contrary, there seems to be a trend toward improved nutrition......Many of the reports contain a statement to the effect that families now receiving relief are sending their children to school better nourished and better cared for than was the case when the families were on their own."

18. Would It Be Better Business for the City to Have Its Own Store or Commissary?

The general experience with the commissary system is summed up in a report of a survey covering 104 communities in New Jersey. "The commissary system is unsound...... When commerce and industry are badly disorganized relief agencies must not further disturb the economic equilibrium.....It is important to the community to adhere as closely as possible to the practices followed in normal times. If trade is artificially diverted from normal channels, in many instances the merchants are forced perilously close to bankruptcy. This is unfair since merchants oftentimes have extended credit far in excess of prudent consideration. Hence it is most desirable that those receiving aid be allowed to continue their accustomed ways of buying as freely as relief resources permit in order that there be a minimum of interference with the trade habits of the community as well as for the preservation of the clients' morale."

Orders through local grocers are to be preferred to establishing central commissaries. The former plan lends itself to giving the family some choice in the selection of food and it is fairer to local grocers who bear a large share of the burden of providing for families of curtailed income.

Some fourteen or fifteen hundred grocers have signed an agreement with the city to furnish the specified foods, and no others, at the prices fixed by the stabilization committee. The bill is sent to the public relief department. A grocer who breaks his contract is removed from the list of those from whom relief clients may purchase.

19. Does the Public Relief Require Its Clients to Work for Their Relief?

The Public Relief Department has no authority under our charter to make men work. However, in September 1932 the City Council passed the following Act:

ACT TO PROVIDE AND REQUIRE WORK IN RETURN FOR RELIEF

Passed by the City Council, September, 1932

> That the several departments of the city provide such public works as may be available without interfering with the normal and usual program of public work and tonotify the Public Relief Department of the amount of such work available, that applicants for public relief so far as possible be required to work as a condition of receiving public relief. That relief clients be required to work only so many hours that, at the rate of 62½¢ will equal amounts obtained in public relief, and that they be engaged by the City Engineer on public works and public projects for which no money is available or can be obtained, to be taken care of by the holdover list.

Every able bodied man is required to register with the Civil Service Commission, who send men out to work as requisitioned by the city engineer. Some three to four thousand men worked about five days each in February at clearing up icy streets and cutting wood for fuel.

20. Why Are Not These Men Kept Busy All the Time "Fixing up the City"?

The regular city force is about two thousand laborers. How, then, can the city find enough work or funds to administer work to keep twelve thousand men busy? It must be remembered that these workers must be equipped with warm clothing for outdoor work, with tools, and that they must be supervised - all of which involves additional expense. People seem to expect that after a snowstorm or sudden thaw thousands of men equipped with shovels should at once appear on the streets. They do not realize the tremendous organization this would take. The Park Board will turn to the relief line for labor to put the parks in order after the winter; but this will take a very small proportion of the employable men on the relief line.

21. Is Work Relief Resented by Labor Organizations?

Labor is strongly opposed to men working for grocery orders. They have a fear, which is justified, that the appropriations for regular labor will be reduced, thus throwing more men on the relief line. In 1929 our street maintenance fund was $1,200,000. This year it is $700,000 and the city force has been reduced by one third. The antagonism of labor to seeing relief clients working on our streets in place of regular laborers can be understood. It is impossible for these men, seeing our city full of good cars, well dressed people and other evidence of luxury, to realize that the city itself is caught in the economic maelstrom and must retrench on its expenditures.

Another complication of the work relief problem is that if a workman is injured or killed while on work relief, he comes under the Workmen's Compensation Act and the city must compensate him or his family. Only a short time ago a worker was killed by a falling tree and the city was obliged to pay compensation to his family. In putting relief clients to work the city has to use care that the men are not too inexperienced for the work they are given.

22. Why Does Not the City Have Special "Made Work" Projects Which Pay Wages?

In made work projects the jobs provided must be those for which the city has no regular funds and no intention of undertaking in the immediate future, otherwise labor now employed is merely displaced.

These projects are more expensive than "direct relief" since they require skilled supervision, trucks, tools, and materials. They are less efficient when done with relief labor because men are inexperienced and because of the continual shifts. Moreover, wages in cash do not secure so much in real income as do the same amount of grocery allowances which are based on the relief-adjusted prices.

The value of made work to the morale of men is unquestioned. Men receiving charity finally become demoralized, losing self respect and initiative. But no city can undertake made work programs unless it is assured of adequate funds for direct relief.

Here in Minneapolis storm drains are being constructed at a cost of $150,000. With rotation of crews on alternate weeks 250 laborers will get jobs for four months. Public works do not reach enough people. The proposal of Mr. Roosevelt to rehabilitate the Tennessee valley calls for an expenditure of half a billion and would only directly employ two to three hundred thousand men. Some more would be indirectly employed in producing necessary material; but the total would be a small proportion of the twelve to fifteen million which is the estimate of the nation's unemployed.

What needs to be thought out is a plan whereby the unemployed can be set to work in natural ways, making and exchanging the things they so sorely need. Industry is geographically too interdependent for local efforts to be more than partially successful. Only the backing of the Federal Government can give the revival of industry that wide scope and cor dence which are necessary for permanent relief from unemployment.

One among many interesting schemes of insurance to industry suggests that a er a thorough survey of industry the Reconstruction Finance Corporation might undertake to reestablish a selected list of industries whose activities would reach out and create demands on other industries. The regular bankers of the industries would be the agents of the R.F.C. These industries would be advised that if they borrowed the sum agreed upon, employed men, and manufactured at some stated percent of normal industry, the R.F.C. would guarantee them against loss, provided these industries would pay the government 50% of any profits. Such plans for general improvement in the employment situation should be carefully considered.

23. The Organized Unemployed

The Organized Unemployed, Inc. in Minneapolis is an organization which uses script to facilitate exchanges of services and goods between its members. There are about eight thousand members, making an average of six and a half dollars a week. There are 260 exchanges in the United States similar to this.

These people, through a courageous spirit of cooperation and self help, appear to have developed their own economic system. But in our extensive interdependent economic order a local exchange is inadequate to solve the problems of production and distribution. However, as an alleviation of unemployment it is an important movement and is tackling the problem in a constructive manner.

Senator Smoot in the last Congress introduced a bill authorizing the R.F.C. to make loans to associations organized for the barter of goods and services. The desirability of such a bill is a matter for study. A list of available material may be had from the Industrial Relations Section, Princeton University, New Jersey.

24. Public Employment Offices

In the midst of depression there is one phase of unemployment that can be viewed with satisfaction. This is the development of public employment exchanges.

Employment Bureaus cannot make jobs; but, as coordinated state and local offices now operate, they cut down the waste of irregular employment and of haphazard movements of labor based on rumor; they fit the man to the job, and they tend to give both employer and employee a feeling of security. They are developing also a placement technique which will be useful when general employment recommences.

In July 1931 Public Employment offices in Minneapolis, St. Paul and Duluth, supported by state and city appropriations, were placed under advisory control of the Tri-City Em;loyment Stabilization Committee with a central coordinating office on the University campus. This committee includes representatives of labor and employers, the University, and state and municipal governments. It has had a supplemental grant from the Spelman fund of $80,000 for two years. These two years will be up this July (1933) and the Committee, feeling that a great deal has been accomplished even in the face of these hard times, is asking the legislature for $105,806 for the next two years to compensate for the amount of the Spelman Fund which is expiring.

The governments of the three cities were also asked to increase their appropriations. Minneapolis was urged toincrease the appropriation for the employment office from $4,400 to $15,000 a year. A League member appeared before the Public Welfare Committee of the City Council to support this increase. The Committee recommended the increase to the Committee on Ways and Means, which left the regular appropriation at $4,400 and recommended that the balance of the $15,000 be raised under the authority of the relief bill now being considered by the legislature which permits first class cities to borrow funds for "direct relief, work relief, and placement service...." Mr. Kjorlaug, Superintendent of the Division of Public Relief, says that the placements made by the employment offices more than compensate for the amount which would go to them from the relief funds.

The general run of public employment offices have hitherto been shabby, run down places with dreary and humiliating procedure. They were patronized almost entirely by the casual, common laborer. Now there are, in place of one general office, seven occupation divisions in each of the cities of Minneapolis, Saint Paul and Duluth and they are concerned with every type of wage earner. They are classified as follows:

Commercial and professional	Serving women and men
Skilled and technical	Serving men
Industrial	Serving women
Domestic and day work	Serving women
Farm Labor	Serving men
General labor	Serving men
Hotel and restaurant	Serving women

Duluth and Saint Paul have city work divisions, where workers on "made work" projects, as well as general labor, arecleared.

The new quarters provide a waiting room for each division and a private room for each member of the interviewing staff. These staff members have become selection and placement specialists in the divisions of labor of which they have charge. The applicants are listed for ability, personality and experience. The staff also spends much time visiting plants, stores, offices, securing information about possible jobs, requirements, wages and working conditions. When the employer calls on the service the office is able then to fit the man to the job.

These offices are also used as research laboratories. Through the records they are studying not only the employment service, but industrial changes in the Northwest. They are also making individual studies of the unemployed. They are trying to isolate the skill and personality factors making for success in given occupations. They use psychological tests to determine aptitudes and abilities of "problem" applicants who are not successful in the field for which they have trained.

An increasing number of employers are now doing all their recruiting through the demonstration centers. Two mail order houses in the Twin Cities, each employing several hundred clerical workers, consider only applicants who come with a card of introduction from the office. Similarly, a number of Minnesota department stores, the home offices of two or three insurance companies and some manufacturing concerns are clearing all openings through it. The Hennepin County Medical Association and the Ramsey County Dental Council use the Twin City offices to secure all the clerical and technical help needed by their members. Several Twin City employers have discovered that the psychological testings by these offices furnish a better index of a worker's ability than does "experience." They are now asking that applicants referred to them by the office be first tested, and recommended on the basis of the test results rather than on their work history and references from former employers. Psychological testing is still in the experimental stage; bat it appears to be very promising.

SUMMARY OF ACTIVITIES

Three Cities

July 1, 1931 - January 31, 1933

Applications for employment received	102,979
Orders received from employers	44,343
Referrals made on orders received	54,975
Verified placements made	43,413
Number of employers visited by interviewers during this period	4,617
Individuals seeking vocational guidance	3,848
A special service to physically handicapped applicants.	

Minneapolis

Placements in 1932 (About one half of these were permanent placements)	10,399

Though the work is a local experiment, these centers demonstrate the need of a national system of coordinated employment offices. Even in the depression, records show that differences in climate, in the supply of raw materials, in market demands, in style changes, accentuate an over supply of labor at one point while at another factories and canneries may be calling for more workers.

In Minnesota we have a state and local system of coordinated employment offices, but the Federal offices are in competition with these and there is no apparent cooperation between the two systems. The League of Women Voters is supporting the Wagner Bill which would provide for a local, state and national system of coordinated employment exchanges.

Appraisal

In appraising the Minneapolis system for meeting the unemployment crisis it is well to refer to our opening paragraphs, which show that in three years the relief load increased to six times its original size, a situation which had to be met by emergency rather than ideal arrangements. In judging the adequacy and efficiency of the work which is being done with the public relief funds in Minneapolis we can only hold the local unemployment relief system up beside standards drawn up by experienced social scientists.

The National League of Women Voters has consulted such experts and sends to its local Leagues the following list of practices which are emphasized as valuable in the handling of local relief. A study of these standards will aid you in forming your own estimate of the Minneapolis Division of Public Relief.

1. Public unemployment relief should be administered through the established local government agencies dealing with relief, expanding this service and raising the standard of personnel where necessary.

   See Paragraph 3.

2. Trained social workers should be used wherever possible. Trained supervision should be provided where untrained workers must be used.

   See Paragraph 13.

3. A systematic plan of cooperation between all agencies, public and private, should be developed including a social service index (confidential exchange) and minimum record forms.

   See Paragraph 7.

4. The amount of relief to be given should be determined on the basis of the resources of the family and the amount needed for essential family requirements based on adequate budgets.

   See Paragraphs 15, 16 and 17.

5. Orders through local grocers are to be preferred to establishing central commissaries. The former plan lends itself to giving the family some choice in the selection of food and it is fairer to local grocers who bear no small share of the burden of providing for families of curtailed income. The advantage of low prices may be obtained through enlisting the cooperation of local dealers.

   See Paragraphs 15 and 18.

6. Provision should be made for relief for individuals, men and women, who are detached from family groups.

   See Paragraphs 2 and 11.

7. Continuous effort should be made to aid men and women in finding permanent employment.

   See Paragraph 24.

You have perhaps concluded that the unemployment relief system of Minneapolis compares favorably with the standards of expert social service administrators. But relief, however adequate and efficient, is no answer to unemployment. It is only an expedient; and such an expensive expedient that the administration needs the full support not only of the Board of Public Welfare and the City Council; but also of an informed public opinion.

Mrs. Everett Fraser
Visitor to the Board of Public Welfare

MENU SUGGESTIONS FOR JUNE - JULY - AUGUST

Two Week Period, Two People, Allowance, $4.50

	Breakfast	Lunch	Dinner
SUNDAY	Oatmeal, milk and sugar Coffee Cinnamon Toast	Bread and butter Milk Bananas	Veal stew with carrots and potatoes. Bread and butter. Prune pudding.
MONDAY	Oatmeal with prunes, milk and sugar Coffee Bread and butter	Corn, Egg and Bacon scrambled together Bread and butter	Liver and rice Raw carrot salad Bread and butter
TUESDAY	Fried Cornmeal mush, Bacon and syrup Coffee Milk	Corn soup Bread and Peanut butter	Macaroni with hamburger and tomatoes. Milk, bread and butter Apple pudding
WEDNESDAY	Oatmeal, milk and sugar Bread and syrup	Vegetable casserole Bread and butter Milk	Omelet with bacon Bread and butter Rice with prunes
THURSDAY	Cornmeal mush, milk and sugar Coffee Bread and butter	Potatoe Soup Bread and butter Apple sauce	Boiled beans with pork. Cabbage salad Bread and butter Apple Roll
FRIDAY	Oatmeal and milk Coffee Milk Tomato juice	Macaroni and cheese Bread and butter Orange custard pudding	Boiled fish and potatoes. Milk Bread and applebutter
SATURDAY	Cornmeal, milk and sugar Coffee Stewed prunes	Molded spinach and bacon Bread and butter	Frankfurters and cabbage Milk, bread and butter Apple brown betty.

THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965

What It Does and How It Works

Purpose and Background

The Public Works and Economic Development Act of 1965 is designed to provide new industry and permanent jobs in areas where they are most needed. Its main emphasis is on long-range economic development and programming for areas or communities that are burdened with persistent unemployment and low family incomes. The new Act is based upon a combination of proven ingredients -- the Area Redevelopment and Accelerated Public Works programs -- and incorporates the regional planning concepts of the Appalachian Regional Development Act.

The Act recognizes that economic development of distressed areas, districts, and regions, is an enormously complex process, requiring the full cooperation of both public officials and private enterprise. It requires partnership among officials at all levels of government--local, county, State and Federal.

The new Act has a single primary objective: to create a climate conducive to the development of private enterprise in America's economically distressed communities. It does this by insisting upon local initiative to design and implement community redevelopment in partnership with Government, in order to harness the economic potential of areas that have too long been outside the mainstream of the Nation's prosperity.

President Johnson has told the Nation that the conditions of our depressed areas can and must be righted and that, in this generation, they will be righted. The Economic Development Act provides some of the tools necessary to fulfill the President's pledge. These tools include needed public works, industrial and commercial loans, and a wide variety of technical assistance to remove obstacles to sound and sustained economic progress.

It should be kept in mind that passage of the Act does not automatically provide funds for the program. Projects may not be approved until funds are appropriated by the Congress.

Key Provisions of the Act

1. Public Works -- More than two-thirds of the funds authorized by Congress for the new program -- $500 million annually for four years--will be used for public works and development facility grants.

Loans of up to 100 percent are also authorized for these projects in areas where funds are not otherwise available. Public works provide such facilities as water and sewage systems, access roads and the like, to encourage industrial development that will result in long-term employment. These development facilities will be constructed by providing direct grants of up to 50 percent of the cost of eligible projects and supplementary grants which can bring the Federal share as high as 80 percent in the neediest areas.

2. Business Loans -- To encourage private investment, the Economic Development Act provides low interest, long-term loans to businesses expanding or establishing plants in designated redevelopment areas. Loans of up to 65 percent of the total project cost (including land, buildings, machinery and equipment) may be made for up to 25 years at a rate of interest based on Federal borrowing costs. These loans will be made for projects which cannot be accomplished by financing solely through banks or other lending institutions. Federal guarantees for working capital loans made by private institutions in connection with these projects are also available.

3. Technical Assistance -- To help distressed areas understand the scope of their problems as well as their economic potential, the Economic Development Act provides an extensive program of technical assistance. This assistance may be in the form of studies to identify area needs or to find solutions to industrial and economic development programs. It also takes the form of grants-in-aid of 75 percent of the cost of planning and administering local economic development programs. It may also include management and operational assistance to private firms.

4. Research -- Funds are provided under the Act to develop a continuing program of study, training, and research into the causes of unemployment, underemployment, and chronic depression, and to devise programs and projects to help raise income levels.

Area Eligibility

The basic criteria for area eligibility under the Economic Development Act are substantial unemployment and/or low family income. However, no areas except Indian Reservations may be designated unless they have at least 1,500 population. The boundaries of eligible areas are either labor areas (as defined by the Secretary of Labor), counties, or cities of 250,000 or above.

Areas of Persistently High or Sudden Unemployment

For an area to be eligible for the entire range of assistance under the new program on the basis of unemployment, the unemployment must be high and persistent or sudden and severe. A "labor area" (generally consisting of one or more urban counties) or a municipality of over 250,000 population is eligible for designation if its annual average unemployment rate is above six percent and has been 50 percent above the national average for three of the preceding four years or 75 percent above the national average for two of the preceding three years or 100 percent above the national average for one of the preceding two years. (National annual average unemployment rates were 5.2 percent in 1964; 5.7 percent in 1963; 5.6 percent in 1962; and 6.7 percent in 1961.)

Other areas in which the sudden loss or curtailment of a major source of employment has recently caused, or threatens to cause, an unemployment rate exceeding the national average by 50 percent may also be eligible for designation.

Areas of Low Income

In addition to areas of high unemployment, counties which have an annual median family income of 40 percent or less of the national median are eligible for designation. Such areas must currently have a median family income of $2,264 or less, on the basis of a present national median of $5,660. Areas which have a median family income in excess of $2,264 may also qualify for designation if they have suffered a substantial loss of population in recent years on the basis of currently available data. The basis for such qualification has not yet been established.

The Federal and State Indian Reservations and areas which have the highest unemployment and lowest income levels are also eligible for designation, provided they have a population of at least 1,000 persons.

Former ARA Areas

All areas designated for assistance under the Area Redevelopment Act on or after March 1, 1965, will remain eligible under the new program until completion of the first annual review of eligibility. This first review which will be based primarily upon the annual unemployment rates for calendar year 1965, is expected to be completed by June 30, 1966.

Areas that continue to be eligible solely because they were eligible on March 1, but which otherwise do not meet the statutory unemployment and income criteria, will lose their eligibility upon completion of the first annual review in 1966. Exceptions would be those areas in which there has been a recent increase in unemployment that would qualify them under unemployment eligibility.

Former APW Areas (Title I Areas)

Although areas which were formerly eligible for assistance under the Accelerated Public Works program are not automatically eligible under the EDA program, a similar eligibility standard is contained in Title I of the new Act. Under Section 102 of that title, labor areas which had substantial unemployment (that is, above 6 percent) during the preceding calendar year, on the basis of average annual unemployment statistics, can qualify for public works and development facility grants on the same basis as other areas. However, they are not entitled to financial assistance under any of the other provisions of the Act. These areas are called "Title I Areas" because their eligibility is defined and limited to that title of the Act.

Designation Requests

It is important to note that qualifications for designation does not confer automatic eligibility for participation in the program. A qualified area cannot be officially designated to receive loan and grant assistance under the Act until it has requested such designation and has obtained approval of its Overall Economic Development Program (OEDP) from the Administrator. Continued eligibility of an area is contingent upon a yearly up-dating of its OEDP -- reporting progress and program changes. This OEDP requirement is an important element in the new economic development program.

Economic Development Districts

Eligible communities may qualify for assistance under the new Act in three types of geographic groupings:

Redevelopment Areas -- Counties, labor areas, or larger cities characterized by high unemployment or low family income. (In the case of Title I areas, the geographic boundary would be the labor areas as defined by the Secretary of Labor.)

Economic Development Districts -- Groupings of counties containing two or more redevelopment areas, organized to seek common solutions to common economic problems.

Multistate Development Regions -- Groupings of States whose economic problems are too complex to be dealt with entirely on a local basis, necessitating long-range planning by joint Federal-State Commissions.

The Act authorizes and encourages the formation of economic development districts containing at least two redevelopment areas and at least one development center which can be expected to spur the economic growth of the district as a whole. These economic development districts and development centers will be established in cooperation with the States and, where established, with Regional Economic Development Commissions.

Three factors are essential in designating economic development districts: 1) The proposed district must be a logical economic development unit; 2) the State or States concerned must concur in the boundaries of such a unit; and 3) the counties and localities involved must generally be willing to cooperate in the development effort.

District organizations, like individual redevelopment areas, must submit an OEDP and have it approved before financial assistance can be administered.

Multistate Development Regions

The Act recognizes that certain large geographic areas have a particular need for multistate economic planning. Such broad scale efforts involve projects that no local unit or group of units within a State can undertake effectively without regard to their economic impact in neighboring States.

Multistate economic development regions, consisting of parts of two or more States, may be designated for planning assistance when: 1) there is a relationship between the areas within the region which is economic, geographic, cultural and historic; 2) with the exception of Alaska and Hawaii, the region lies within contiguous States; and 3) there is evidence sufficient to sustain a finding that the region has lagged behind the Nation generally in such economic matters as family income, employment levels, labor migration patterns, technology and production. If the Secretary of Commerce determines that a region meets the necessary criteria, he is authorized to designate it as an Economic Development Region.

After designation, the States involved will be encouraged to take steps to establish appropriate multistate regional commissions. The commissions will advise and assist the Secretary of Commerce in determining the boundaries of the region, initiating and coordinating long-range economic development programs, undertaking needed studies and surveys, advising the Secretary on the establishment of economic development districts, and preparing recommendations for both long-range and short-term programs.

Regional Assistance

Financial assistance to regional commissions is limited to technical assistance and to the costs involved in administrative and planning operations of the commissions. During the first two years, a regional commission may receive Federal reimbursement for the full cost of its allowable administrative expenses, excluding the salaries of State members. Thereafter, the Federal payment for such expenses is limited to 50 percent of total cost.

The Act authorizes technical assistance which will help a region evaluate its potentialities for growth and discover better means of utilizing its human and natural resources. Staff members of the Department of Commerce may be used to carry out these projects. In addition, the capabilities of other Federal agencies may be utilized, or qualified individuals and firms may be employed under contract to the Government.

The Act authorizes $15,000,000 annually for the purpose of funding regional commissions and providing regional technical and planning assistance.

The Act provides no funds for the financing of the comprehensive projects or programs that may grow out of regional planning activities. Such projects and programs will have to be submitted as separate legislative proposals to the Federal government if Federal authorization or financing is required. Of course, redevelopment areas and economic development districts which are included in these multistate regions are eligible for assistance on the same basis as other areas outside such regions.

The goal of the development facility program is to provide the kinds of community and area facilities that will lead to long-range economic growth. Many needed projects financed under the previous Accelerated Public Works program were aimed primarily at immediate and temporary relief of area unemployment. But the new program will seek projects which produce a lasting economic effect on distressed areas such as new roadways, water and sewage systems, vocational schools, industrial parks and other public facilities necessary to attract new commerce. Thus the principal justification for development facilities under the new Act will be the extent of the contribution a given facility can make to stimulate overall economic development.

Pending ARA and APW Applications

Because the APW program was based primarily on the need to create immediate and temporary employment opportunities, the new long-range EDA program will be necessarily more restrictive. However, it requires less stringent financial tests than did the public facilities program of the Area Redevelopment Administration.

Under ARA, public facilities receiving assistance had to be related directly to the support of specific job-creating enterprises.

APW project applications filed previously with other agencies and still in the APW "backlog" will not be eligible as such for financing under the Economic Development Act because of differences in criteria. However, the new Act specifically provides that public facility applications pending before the Area Redevelopment Administration will be eligible for consideration for a period of one year after the enactment of the new Economic Development legislation.

Pending APW projects on file with the Community Facilities Administration of the Housing and Home Finance Agency and the Public Health Service of the Department of Health, Education, and Welfare must be resubmitted to the Economic Development Administration if the applicants wish them to be considered. The new application must provide information to show that the project meets the economic development criteria of the new Act. New engineering plans and cost estimates will not have to be resubmitted if those on file are still up to date. APW applications should not be resubmitted, however, when they clearly bear no relationship to economic development. For example, an APW application for the construction of a courthouse should not be resubmitted since it is not generally related to economic development.

Project Eligibility

Development facility projects may be directly or indirectly related to the establishment of new industry. Examples of projects directly related might include water and sewage facilities or access roads needed to service a new industrial or commercial plant.

Projects indirectly related to economic development are those which relate to the overall program for expansion of an area's economy, but which are not specifically related to an immediate business expansion. A vocational school or a flood control project for which there is a high area priority, but for which other Federal financing is not available would be in this category.

Examples of projects not eligible for assistance are courthouses and town halls, police stations and jails, and golf courses and swimming pools not related to tourism development.

Direct and Supplementary Grants

The Economic Development Act authorizes grants of up to 50 percent for development facility projects in all eligible redevelopment areas. Projects in severely distressed areas may receive supplementary grants of up to a combined total of 80 percent of the cost of the project. The amount of a supplementary grant in a given case depends both on (a) the degree of economic distress of the particular area; and (b) the type of project involved. Projects which have only a limited impact on economic development will not be eligible for the full supplementary grant assistance, whatever the degree of distress of the eligible area.

Direct grants may be made for all eligible projects under appropriate circumstances.

Supplementary grants may be made for projects which receive grants from other Federal grant-in-aid programs, as well as for projects which receive direct grants from the Economic Development Administration.

In many instances projects will not need the maximum allowable grant, either because the community is able to finance a substantial share of the project without assistance or because the project can be financed from the revenues it will produce.

Projects located within economic development centers, that is, within development districts but not within redevelopment areas, are allowed a maximum grant of 50 percent. When a project is located in a development center which is within a redevelopment area (as previously defined), the project is eligible for the same percentage of supplementary grant assistance which is available to the redevelopment area as a whole. Such assistance, however, may include an additional bonus of up to 10 percent of project cost because of the area's participation in a district program.

Public Works Loans

Loans of up to 100 percent for public works and development facilities may be made in redevelopment areas where funds are not otherwise available from private or public sources at the State and local level, or from other Federal agencies, on terms which will permit the accomplishment of the project and provide a reasonable expectation of repayment.

In accordance with present Federal borrowing costs, the interest rate initially charged for development facility loans will be 3-5/8 percent annually. These loans may run as long as 40 years. They may also be used to finance the local share of a project which receives direct or supplementary grant assistance. Such loans are not available for areas designated under Title I of the Act.

Business Loans

The Act authorizes loans of up to 65 percent of the total cost of land, buildings, machinery and equipment needed by private businesses in order to establish or expand their facilities in designated redevelopment areas or centers. Such loans are not available for areas designated under Title I. Loans may be made up to 25 years at a rate of interest based on the Federal borrowing costs, which is currently 4-1/8 percent annually.

At least 15 percent of the total cost of the project must be supplied either in the form of equity capital or as a loan subordinated in lien to the Federal loan. One-third of this 15 percent must ordinarily be provided either by the State or by a public or quasi-public community or area organization. Because of economic distress or for other grave reasons, the five percent State or local participation requirement may be waived. In such cases, it may be supplied by the applicant firm or by some other non-Federal source. Except where waivers are granted, this five percent share of the project investment may be repaid concurrently with the Federal loan.

The following example illustrates how the financing of an industrial project might be initiated under the provisions of the Act.

An applicant needs $200,000 to expand his manufacturing plant. The expansion requires additional land, a new production building, and new machinery and equipment. The applicant can obtain 40 percent of the total funds needed from his local bank. In addition, the local industrial development corporation is willing to lend him the five percent "local share" of the project. (The portion of the loan he receives under the Act could be as much as 65 percent ($130,000) if he could obtain only 20 percent from the bank.)

Total Required	$200,000
First Mortgage Local Bank (40%)	$ 80,000
*First Mortgage Economic Development Administration (45%)	$ 90,000
Second Mortgage or Equity Local Development Corporation (5%)	$ 10,000
Equity Applicant (10%)	$ 20,000

The purpose of the direct loan program is to help start or expand business in distressed areas that will provide new jobs and new income. Since it is not the intention of the Federal government to compete with banks or other lending institutions, loans will not be approved for projects that can be financed through other sources on terms which will permit the accomplishment of the project.

Applications will be evaluated on the basis of economic and technical soundness and the employment potential the projects will create in a given area. However, no loan will be made to assist establishments relocating from one area to another, nor will a loan be made if its approval would contribute to excessive long-range underutilization of industry capacity.

The restriction against assisting the relocation of industry applies not only to the transfer of industrial plants, but also to the shifting of work, machinery, jobs, or work contract, which would result in unemployment or loss of job opportunities at their previous location. Special care will be taken to insure that the use of funds and other forms of assistance under the Act will not help any kind of project or program which would result in job relocation within highly mobile, intensely competitive industries, such as the apparel or garment industry, in which substantial unemployment and unused plant capacity exists.

Similarly, care shall be taken to insure that existing businesses are not harmed through assisting expansions in industries facing a long-term overcapacity situation.

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*Where necessary, EDA may accept a second mortgage, in which case the local development corporation's lien would be a third mortgage.

No financial assistance under the Act may be extended to any project when the result would be to increase the production of goods, materials, or commodities, or the availability of services or facilities, when there is not sufficient demand for such goods, materials, commodities, services, or facilities, to employ the efficient capacity of existing competitive commercial or industrial enterprises.

Another very important consideration in providing financial and other assistance under the Act, whether loan, grant, or technical assistance, is that benefits under the Act must be available to all who qualify for them without discrimination because of race, color, or national origin. This nondiscrimination requirement is an essential element in the basic objectives of the Act of providing new opportunities to all people residing in eligible areas. In this connection applicants for assistance under this program must complete appropriate forms indicating their intention to comply with the provisions of the Civil Rights Act of 1964.

Working Capital Guarantees

Working capital loans made by private lenders to projects in redevelopment areas financed under the direct loan provisions may be guaranteed by the Economic Development Administration. Guarantees are made upon application by the lender and may not exceed 90 percent of the outstanding unpaid balance of the working capital loan. These guarantees will be available only when working capital is otherwise unavailable from private sources. Applicants must justify the need for working capital loans and provide evidence they cannot obtain such a loan without the guarantee.

An annual guarantee service charge on the unpaid balance of the loan may be established. All guaranteed working capital loans will be required to be for a specified term of years.

Technical Assistance

Technical assistance is authorized by the Act to help alleviate or prevent conditions of economic distress by providing meaningful solutions to industry and resource problems.

It is available both to designated redevelopment areas and districts and to other areas having substantial need of such assistance. The program will be used to help to identify and develop the potentials of distressed areas or regions, and can include management and operational assistance to private firms and the training of personnel to administer local, district and State economic development.

Various types of technical assistance projects may be undertaken by the Economic Development Administration directly, through private individuals, firms or institutions working under contract, or through granting funds to public or private nonprofit State, area, district or local organizations.

The program may require repayment of technical assistance costs in certain cases where projects are expected to result in substantial benefits to companies for whom the project is undertaken.

Planning

In addition to technical assistance, the Act authorizes grants-in-aid for expenses associated with economic development planning. These grants-in-aid can be provided for public or private nonprofit State, area, district and local economic organizations to assist in planning development programs.

The grants for staff and administrative expenses cannot exceed 75 percent of the overall cost of a particular planning project. However, appropriate contributions in kind (office space, supplies, professional and clerical staff time, etc.) may be used to make up the non-Federal share of the cost.

Grants can be made to local and district development organizations for the preparation and implementation of overall economic development programs. Grants can also be made to States to help communities and districts organize for economic development and carry out specific projects.

Funds authorized for technical and planning assistance under this section (Sec. 301) will not generally be available for established multistate regional programs. A separate authorization of funds for this type of program is provided under Title V of the Act, which deals with Regional Action Planning Commissions.

Research

An extensive program of research on the causes and effects of chronic unemployment and underemployment will be conducted by the Economic Development Administration. This program will include publishing and making available results of studies, resource investigations, and technical assistance projects that can be of use in area and other economic development efforts.

Reprint from:

REDEVELOPMENT
U. S. Dept. of Commerce
Economic Development Administration
August/September Issue, Vol. 2, No. 7

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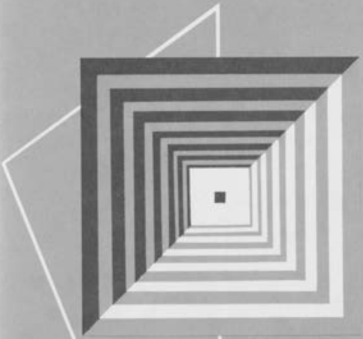


FINANCING PUBLIC SERVICES IN MINNESOTA

CONTENTS

The assistance of many people in the preparation of this booklet is greatly appreciated. For their patience and generosity in supplying information for our use, we would especially like to thank the following members of Minnesota state governmental departments: Val Bjornson, State Treasurer; Norman Dybdahl, State Budget Director, Department of Administration; Loring Ellefson, Supervisor of Municipal Reporting, Department of Public Examiner; Lloyd Woodruff, Director, and Jerome Silkey, Research Analyst: Research and Planning Division, Department of Taxation.

INTRODUCTION

The financing of governmental services is a vitally important aspect of our economy. The subject is complex but not remote. Everyone benefits from the services of government; everyone pays for them, and through the democratic process everyone has a hand in shaping legislation concerning them. This publication will deal with public finances at the state and local levels. It is a point of departure from which anyone interested in gaining an understanding of Minnesota's basic financial structure can set forth. But before focusing on the Minnesota scene, it will be well to take a sweeping glance at the broader economic landscape.

A FRAME OF REFERENCE

The demand for public services, the ability to finance them, the means employed, are all closely related to economic conditions. Minnesota's economy is an indivisible part of the economy of the nation and the world. What the federal government does or does not do in terms of fiscal policy profoundly affects the rate of economic growth. Congressional decisions concerning the direction of federal spending have a definite impact on industries and business activities. The nature and extent of federal grants to states, the kinds of programs they will support at the local level, have a marked bearing on the degree of financial responsibility state and local governments must take. Conversely, the amount of responsibility accepted or refused at the state and local levels influences federal action.

ATTITUDES TOWARD GOVERNMENTAL FINANCES

An objective approach to the subject of public finances is essential, but perhaps easier said than done. George Katona[1] has observed that relatively few people are well informed about taxes, deficits, and governmental spending; that their opinions lack firmness, stability, and even consistency; and finally, that reactions to many aspects of governmental finances are primarily emotional. Mr. Citizen often regards taxes and government spending as "bad," yet he does want to live in a stable, civilized society. So . . . education for his children, highways for his car, prevention of epidemics for his community, police and fire protection for his home and his business seem "good." This is the inconsistency to which Mr. Katona referred.

The point of emphasis is that governmental revenues and expenditures are circular in nature. No one arc of the circle – taxes or revenues or expenditures or services – is "good" or "bad" in itself. Taxes and revenues

[1] Katona, George, *The Mass Consumption Society*, McGraw-Hill, New York 1964. Mr. Katona is Director of the Survey Research Center at the University of Michigan. His observations are based on findings of many surveys over the past 20 years.

must be analyzed rationally on the basis of (a) burden on taxpayers, (b) equity, and (c) adequacy to provide the services which citizens have indicated, through their elected representatives, that they want. Expenditures for services must be analyzed on the basis of (a) efficiency of administration, (b) balance among functions, and (c) equity in distribution among citizens.

Honest but emotionally-laden differences of opinion are held as to (1) what functions should be provided through public versus private channels and to what extent; and (2) if through public channels, then by what level of government. All points of view certainly should be debated in the democratic process through which legislation evolves – and they are. However, a rational analysis of the present situation should come first. This publication is designed to provide a broad general basis for such an analysis.

CONTENTS

Chapter I deals with combined state and local governmental finances in Minnesota; it includes comparisons with the 11 other north central states[2] and with the U. S. average. The next three chapters focus on state finances – revenues, expenditures (including some changes over the past 10 years), and state fiscal procedures. Chapter V is devoted to the financing of local units of government – counties, townships, municipalities, school districts, and special districts – and some of the changes occurring there. The concluding chapter contains a summary, notes some trends in governmental financing, and ends with a brief look ahead.

A WORD OF CAUTION

Figures used in this publication come chiefly from two sources: the U. S. Bureau of the Census and the office of Minnesota's Public Examiner. They may not agree with figures from other sources, even though they presumably cover the same set of facts. This may be due to differences in methods of reporting and accounting, lack of uniform terminology, or variations in the items included under certain categories. Statistics are tricky at best. To assure valid comparisons – particularly where combined finances are involved – figures must be carefully compiled and analyzed by trained statisticians who use consistent classifications. (It may be noted that in the tables and graphs in this publication, the parts do not always exactly add to the whole. This is due to the rounding of figures.)

A final admonition: In the interest of brevity an attempt has been made to avoid repetition. Therefore, in spite of the correctness of each chapter, the chapters are so interdependent that the reader is urged to consider this publication as a whole.

[2] U. S. Bureau of the Census classification.

CHAPTER I

Revenues and Expenditures of State and Local Governments Combined

Study of government finances must necessarily include many complex factors and much detail. Consequently it is easy to get lost on a side road and never get back to the main thoroughfare. This is a road map for the first chapter:

- State and local governmental finances are considered as a whole – combined total revenues, combined total revenue from *taxes only*, combined total expenditures – and Minnesota is compared with the U. S. average and with the 11 other states termed "north central" by the U. S. Census Bureau.
- Total revenues are compared in two different ways – per capita (Figure 1) and per $1,000 of personal income (Figure 2).
- Percentage distribution of Minnesota revenue *from taxes*, by type of tax, is shown in Figure 3; comparisons in Figure 4.
- Proportionate expenditures, by function, are shown for Minnesota in Figure 5; per capita comparisons, by major functions, in Figure 6.

GENERAL CONSIDERATIONS

Except for those functions delegated to the federal government, governing power – and with it the general power to tax – rests with state governments. In many areas of finance, state governments grant varying degrees of autonomy to local governments. As a result there is considerable variation at the local level, both in the means and methods of raising revenue and in expenditures.

The allocation of financial responsibilities for services is approached differently in different states. For example, in some states the local government has almost complete responsibility for financing schools and/or local roads; in others the state government supplies a sizable proportion of the funds expended for these purposes. The goal is to provide the services that citizens have indicated they want at the level of government citizens deem appropriate, and to finance these services in the most feasible manner. For many functions, most states divide financial responsibility between state and local governments or among different units of local government. In Minnesota every citizen is financially involved with the state government and with two or more local taxing and spending units – county, township, municipality, school district, special district.

For the above reasons the best overall picture is obtained by looking first at state and local governmental finances combined. Similarly, the comparisons among states included in this publication are based on the total combined revenues and total combined expenditures of state and local governments. Since financing *government* is the subject of this study, only *general* revenues and expenditures are included; such activities as a municipally operated water or power plant are excluded.

Before getting into specifics, two additional observations are appropriate. First, when making comparisons among states it is necessary to have a common denominator. Total dollar amounts collected or spent are not significant in themselves. Comparisons in this chapter are made either (1) on a per capita basis, which takes population into account, or (2) on the basis of ratio to personal income, which takes the level of the economy into account and, to some degree, the "can we afford it" question. Dollar totals for a given state may be high, but per capita and per income amounts may be low, or vice versa. The table below is included only to illustrate this point.

DIRECT STATE AND LOCAL EXPENDITURES FOR FISCAL 1964

State	*Millions of Dollars Spent*	*Per Capita*	*Per $1,000 Personal Income*
MINNESOTA	$1,430.5	$406	$175
North Dakota	279.3	433	215
Ohio	3,120.5	309	124

Source: *Governmental Finances in 1963-64*, U. S. Bureau of the Census.

Ohio spends the highest amount in dollars and the lowest on both a per capita and personal income basis. For North Dakota – less populous and less industrialized – the reverse is true. Minnesota is in the middle in all of these respects.

Second, it is well to remember that figures – even at best – cannot possibly reflect all of the factors involved in governmental finances. To illustrate: states possess different resources; their public service requirements may differ due to variations in the density or the age distribution of the population, or the unemployment rate, or any number of other factors. States use different kinds of taxes in different combinations. Even similar taxes are difficult to compare. For example, the types and amount of allowable deductions obviously affect the impact of a state income tax, and assessment practices affect the impact of property taxes.

REVENUES

The Census Bureau classifies revenue sources under three major heads:

The most important head is TAXATION, which provided about 70% of the general revenue of state and local governments in Minnesota in 1964. In this state, as in the U.S., taxation in recent years has fluctuated very closely around a 50-50 division between state and local governments.

Second in importance are CHARGES AND MISCELLANEOUS REVENUE. Included are state college and university fees; departmental charges; bridge tolls; hospital charges for university, county, and municipal hospitals; fees for use of parks; sale or rental of governmental property; and interest earnings. In 1964, nearly 17% of general revenue came from these sources.

The FEDERAL GOVERNMENT is the third major source of funds, providing almost 14% of Minnesota's general revenues in 1964. These were federal grants, earmarked for special purposes.

PER CAPITA GENERAL REVENUE OF STATE AND LOCAL GOVERNMENTS IN MINNESOTA, 1964

Source	*Amount*	*Percent*
State and Local Taxes	$282	69.6
Charges and Miscellaneous	68	16.8
Federal Government	55	13.6
Total General Revenue per capita	$405	100

Source: *Governmental Finances in 1963-64*, U. S. Bureau of the Census.

Trends in Minnesota among these major sources of revenue have been for the share of the federal government to increase (from 10% in 1953 to 14% in 1964), for the tax proportion to decline (from 74% in 1953 to 70% in 1964), and for the share from charges and miscellaneous revenue to remain quite constant (16% both in 1953 and 1964).

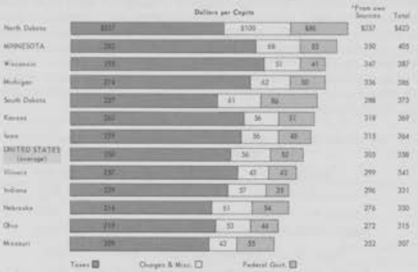
How does Minnesota compare with other states in the region? Figure 1 shows 1964 per capita revenue for the north central states, listed in order of the highest per capita amount to the lowest, with the U.S. average given for comparison. Proportions of revenue received from taxation, charges and miscellaneous, and federal government are indicated. The overall length of the bar shows the total per capita general revenue.

Among the north central states, it will be noted that Minnesota ranked second to North Dakota in total general revenue per capita in 1964. In revenue from taxes, Minnesota was second to Wisconsin; in revenue from charges and miscellaneous, North Dakota was again highest, with Minnesota second; Minnesota ranked fourth in revenue from federal sources, being exceeded by North Dakota, South Dakota and Missouri.

Among all 50 states, Minnesota ranked 15th in total general revenue per capita, 6th in tax revenue, 12th in charges and miscellaneous, and 25th in revenue from federal sources.

In relation to population, Minnesota has relatively high general revenue. Since some states with higher personal income can more easily allocate higher revenues to government, the degree of burden to taxpayers is better understood by a look at statistics which relate revenue to personal income.

FIGURE 1 PER CAPITA REVENUES OF STATE AND LOCAL GOVERNMENTS, BY SOURCE, FOR THE UNITED STATES AND FOR THE NORTH CENTRAL STATES, 1964



*Taxes plus charges and miscellaneous are revenue from the state's own sources.

Source: Governmental Finances in 1963-64, U. S. Bureau of the Census

FIGURE 2 – STATE AND LOCAL REVENUE FROM STATE'S OWN SOURCES (TAXES PLUS CHARGES AND MISCELLANEOUS REVENUE) PER $1,000 OF PERSONAL INCOME, FOR THE UNITED STATES AND FOR THE NORTH CENTRAL STATES, 1964

Source: Governmental Finances in 1963-64, U. S. Bureau of the Census

Omitting revenue from the federal government and concentrating on revenue from the state and local governments' own sources (taxes plus charges and miscellaneous), it is found that in 1964 Minnesota ranked second among the north central states in general revenue per $1,000 of personal income, with a figure of $151. Average for the U. S. was $127; Minnesota ranked fifth among the 50 states. Figure 2 shows the relative position of the 12 north central states when revenue from own sources is related to personal income. Minnesota's taxes and charges are relatively high in proportion to personal income.

Tax Revenue

Although there is a great similarity in type of taxes used by the various state and local governmental units, there are also some differences. To make comparisons meaningful the *total* tax burden must be considered. Figure 3 gives the extent to which state and local governments in Minnesota depended upon different types of taxes in 1964. Figure 4 compares the 12 north central states with regard to proportional dependence upon the three main types of taxes – property, sales and gross receipts, and income. (These figures are for 1962, as 1964 statistics were not yet available.)

Minnesota ranked 12th highest among the 50 states in its dependence upon the property tax. However, all north central states except Missouri depended upon the property tax to a greater extent than the U. S. average of 46%. Relatively heavy dependence upon property taxes is typical of these states where Nebraska[3] had by far the greatest dependence upon the property tax and Minnesota ranked seventh. Michigan, Illinois, and Indiana depended most heavily on sales and gross receipts taxes, with Minnesota ranking 11th among the 12 states. Wisconsin[4] relied most heavily upon income taxes, with Minnesota second.

The Minnesota Public Examiner reported that in the decade of 1953-62, notable shifts in revenues were: increase in federal funds, decline in mining taxes, and increase in income taxes.

Summarizing the proportional dependence upon various types of taxes for revenue, it is found that Minnesota was average among north central states in dependence upon the property tax, high in dependence upon income taxes, and low in dependence upon sales and gross receipts taxes.

Minnesota's state and local tax receipts by type of tax are shown for fiscal 1965 in the Appendix, page 60.

EXPENDITURES

Revenues are one side of the financial picture. Expenditures are the other side. Through expenditures, governmental units provide citizens with services – the benefits received for taxes and charges paid.

[3] Nebraska adopted a personal income tax in 1965.

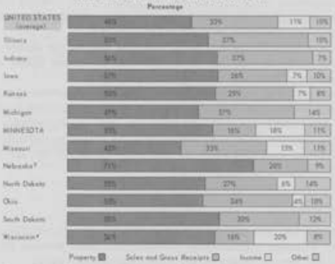
[4] By 1964 Wisconsin had a 3% sales tax, exempting food, medicine, and clothing.

PERCENTAGE DISTRIBUTION OF TAX REVENUE OF STATE AND LOCAL GOVERNMENTS, BY TYPE OF TAX, MINNESOTA, 1964

FIGURE 3

Source: Biennial Report No. 13 for Fiscal 1963-64, Department of Taxation, State of Minnesota

FIGURE 4 PERCENTAGE DISTRIBUTION OF TAX REVENUE OF STATE AND LOCAL GOVERNMENTS, BY TYPE OF TAX, FOR THE UNITED STATES AND FOR THE NORTH CENTRAL STATES, 1962



Source: Census of Governments, 1962, Compendium of Government Finances, U.S. Bureau of the Census.

In the U. S. and in Minnesota the same four major functions received the most expenditures. Education was first, streets and highways were second. When health, hospitals, and sanitation were combined, they came third. Public welfare was fourth.

Figure 5 shows percentages of expenditures of state and local governments in Minnesota, by area of service. Expenditures for education were twice as great as for the next highest function, streets and highways. Streets and highways were allotted as much as health, hospitals, sanitation, and public welfare combined. These four areas comprised four-fifths of expenditures.

Figure 6 presents per capita expenditures for the north central states, totally and for the four major functions. In 1964 Minnesota ranked 14th in the U. S. and second to North Dakota in the north central states in total general expenditures per capita.

Minnesota was 13th in the U.S. and second to Michigan in the north central states in per capita expenditures on education. In per capita expenditures for streets and highways, Minnesota ranked 18th in the U. S. and was sixth in the north central states, being exceeded by South Dakota, North Dakota, Nebraska, Iowa, and Kansas. Minnesota ranked 13th in the U. S. in per capita expenditures for health and hospitals; it was third in the north central states in expenditures for health, hospitals, and sanitation. In public welfare expenditures per capita, Minnesota ranked 11th in the U. S. and was second to Missouri in the north central states. In police and fire protection, Minnesota's per capita expenditures were close to the median, both for the U. S. and for the north central states.

As a generalization, it can be stated that Minnesota ranked in the top one-third of the states in expenditures for personal services – education, public welfare, and health activities, for both the U. S. and the north central states. In expenditures for protection and transportation, Minnesota was about average among the north central states.

Some of the reasons behind the variations in expenditures from state to state were suggested in a recent study by the North Star Research and Development Institute.[3] Among the points made were:

- High expenditures for education do not necessarily indicate high quality in education. Factors other than quality may increase educational costs. For example, a state like Minnesota, with more of the population living in rural areas than the average state, may find educational expenditures relatively high because it cannot take advantage of economies possible in urbanized areas, such as larger schools and less need for transporting pupils. The result is that urbanized states may spend a smaller percentage of the total state and local government money on education than more rural states.
- Highway expenditures are highest per capita in states with smaller populations and less urbanization than average. Even sparsely settled areas need roads.

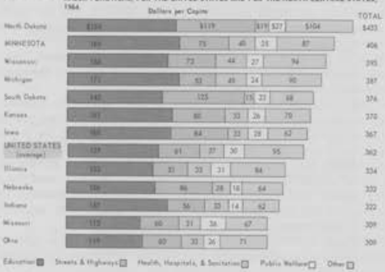
[3] Dale E. Roth, Jack I. Stone, Roger W. Walker and William V. Williams, *Factors Influencing the Economic Growth of the Midwestern States*, North Star Research and Development Institute, 1964.

GENERAL EXPENDITURES BY STATE AND LOCAL GOVERNMENTS, BY FUNCTION, MINNESOTA, 1964

FIGURE 5

Source: Governmental Finances in 1963-64, U. S. Bureau of the Census.

FIGURE 6 PER CAPITA GENERAL EXPENDITURES BY STATE AND LOCAL GOVERNMENTS FOR MAJOR FUNCTIONS, FOR THE UNITED STATES AND FOR THE NORTH CENTRAL STATES, 1964



Source: Governmental Finances in 1963-64, U. S. Bureau of the Census.

• Variations in costs for public welfare may be partially explained by several factors — for example, the proportion of aged to the total population, the number who receive federal benefits, the size of the grant per recipient, or the number of recipients. The level of expenditures does not seem to be closely related to income. Minnesota's relatively high welfare costs are largely attributable to the high rate of the average grant, whereas other states may have high costs because of the number of cases. The authors further suggest that variations in public welfare costs may be explained by "variations in the public conscience."

DEBT

At times governmental units supplement their revenues by borrowing. Some of this debt is short-term for current operation. Most, however, is long-term for capital improvements. The fiscal structure of state and local governments is not complete without a brief statement of debt position.

At the end of fiscal 1964, debt in Minnesota for state and local governments totaled $1,558.6 million (state government, 17%; local government, 83%). Of the total, $1,522.4 million was long-term debt. In terms of debt per capita, Minnesota ranked 21st in the U. S. and third in the north central states, Illinois and Michigan being higher. Debt per capita ranged widely in the north central states, from $104 in South Dakota to $467 in Illinois. Median was $355. Minnesota's debt per capita was $443; average for the U. S. was $482.

The Public Examiner of Minnesota reported that, in the 10-year period of 1953-62 inclusive, indebtedness increased about $860 million. Of the total outstanding, 42% was incurred by school districts and 33% by cities and villages.

SUMMARY

As a broad generalization, it can be said than in 1964 Minnesota consistently ranked in the upper one-third, in the U. S. as well as in the north central states, with regard to both revenues and expenditures of state and local governments combined. This is true whether comparisons are made on a per capita basis or on the basis of ratio to personal income.

Property taxes, by far the largest producer of combined state and local tax revenue, are generally higher in north central states than in the U. S. as a whole. Minnesota is median in the north central states. Revenues in Minnesota depend more on income taxes and less on sales and gross receipts taxes than in most other states.

Education, highways, health activities, and welfare are the four services receiving the largest expenditures in Minnesota as in the nation as a whole. Minnesota spends more than the U. S. average for each of these functions. Relatively higher expenditures do not of themselves guarantee more or better services. The quantity and quality of government services must be evaluated directly.

CHAPTER II

State Governmental Revenues

Chapter I discussed the revenues and expenditures of *state and local* governments combined, and compared Minnesota in this respect with the U.S. average and with the 11 other north central states. This chapter will describe where the revenue for Minnesota *state* government comes from and will make some comparisons with past years.

In fiscal 1964 the *general revenue* for the state of Minnesota amounted to $783 million. State taxes produced 61% of this; the remainder came from other governmental units (26%), and charges and miscellaneous general revenue (13%).

STATE GENERAL REVENUE, 1964

Source		*Amount (in millions)*	*Percent*
State taxes		$479.9	61
Intergovernmental grants and transfers		201.6	
Federal	$188.7		24
Local	12.9		2
Charges and Miscellaneous		101.2	13
Total General Revenue		$782.8	100

Source: *Compendium of State Government Finances in 1964*. U. S. Bureau of Census.

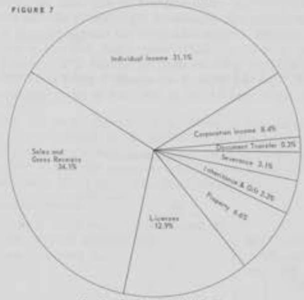
TAX REVENUE

Three-fifths of Minnesota's general revenue comes from state taxes. The many different taxes levied by the state government may be classified into the following general types of taxes: income, sales and gross receipts, licenses, property, inheritance and gift, severance, and document transfer taxes. Figure 7 shows the percentage of total state *tax revenue* obtained from each of these types of taxes in 1964.

Before examining the various taxes in greater detail it should be noted that in Minnesota, as in most states, the tax structures of the state and the various local units of government are closely interrelated. Property taxes are collected by local units of government, but some of the revenue goes to the state. State governmental agencies levy most of the other taxes and collect them either directly or through the local governments, but much of this revenue is distributed to local governments, based on a variety of

STATE TAX REVENUE, MINNESOTA, 1964

FIGURE 7



Total State Tax Revenue ...... $479.9 million

Source: Compendium of State Government Finances in 1964, U.S. Bureau of the Census

formulas. This chapter considers those taxes which are levied by the state government. Taxes levied by local units will be discussed in Chapter V, Local Governmental Finances.

Income Taxes

$189.8 million (1964)

Individual and corporation net income taxes together produce the highest percentage of state tax revenue. The individual income tax produced 31% of Minnesota's tax revenues in 1964. Another 8% came from the corporate income tax.

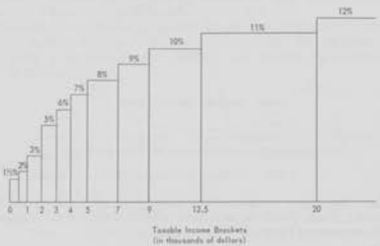
In Minnesota federal income taxes are a deductible item on the state tax returns of both individuals and corporations. This greatly reduces the *effective marginal rates*[6] of these taxes. In the case of corporations, Minnesota has the highest statutory rate of all states imposing such a tax. However, Minnesota now ranks 10th among these states on the basis of the effective marginal rate. Since many states have recently increased individual income tax rates, a similar comparison of these rates is not yet available. But certainly the effective marginal rate in Minnesota is considerably less than the statutory rate due to this deduction of federal taxes.

[6] The effective marginal rate is the percentage of the taxpayer's income by which his tax in a given bracket is increased, because the state tax is levied.

Individual and Fiduciary Income Tax

Minnesota taxes all income earned in the state by individuals and fiduciaries (estates, trusts, guardians) regardless of whether they are resident or non-resident. Certain fiduciaries are exempt because of their special character, such as: charitable, educational, fraternal or religious. Currently, individuals are taxed on their net income at a graduated rate from 1.5% to 12%. The first $500 of net income is taxed at 1.5%; the second $500 at 2%; the second $1,000 at 3%, and so on as indicated in Figure 8.

FIGURE 8 SCHEDULE OF RATES



Source: Instructions for Minnesota Individual Income Tax Return Form M-1, State of Minnesota, 1965

Personal and dependent exemptions are in the form of tax credits. These tax credits reduce the amount of tax actually paid. There are also tax credits for estates, trusts, persons over 65, blind taxpayers, and a portion of taxes paid to other states.

The distribution of revenue[7] from this source is as follows:

To the general revenue fund	13.1% (as of 1965)
To the income tax school fund......	86.9% (as of 1965)

Corporation Income Tax

Minnesota taxes the net income of corporations with the exception of certain cooperative, fraternal and charitable corporations. In addition, banks and mining[8] corporations are exempt from this tax, but subject

[7] Unless otherwise labeled, distribution of revenue is by statutory requirement.

[8] Only net income of mining companies which is directly related to mining activity is exempt from this tax.

to substitute taxes. The statutory tax rate is 10.23% of all taxable income in excess of $500. This includes a normal tax (7.5%), an additional tax (1.8%), and a surtax (10% of the normal plus the additional taxes).

Revenue Distribution:

General revenue fund	13.1% (as of 1965)
Income tax school fund............	86.9% (as of 1965)

Bank Excise Tax

A 12.54% tax on net income is imposed on banking corporations. The greater tax rate is justified by the legislature on the grounds that banks are not subject to any other taxes except the real property taxes. The 12.54% tax rate includes an excise tax (9.5%), an additional tax (1.9%), and a surtax (10% of the excise plus the additional tax).

Revenue Distribution:

County of origin where it is distributed like personal property taxes	100% excise tax
General revenue fund	100% additional tax and 100% surtax

Sales and Gross Receipts Taxes $163.9 million (1964)

Minnesota has no general retail sales tax. Nevertheless, if the selective sales and gross receipts taxes are grouped together, they account for about one-third of the state tax revenue. Selective sales taxes are taxes paid by the consumer on sales of certain articles. Minnesota's selective sales taxes include the motor fuel, alcoholic beverages, tobacco products, and oleomargarine taxes. Gross receipts taxes are commonly considered a type of sales tax since they are based on sales. The difference is that gross receipts taxes are assessed against the seller. In Minnesota the insurance premiums tax and the telephone, telegraph, and railroad companies' gross earnings taxes fall into this category.

Motor Fuel Tax (highway and aircraft)

The largest sales tax producer in Minnesota is the motor fuel tax of 6¢ per gallon on all gasoline and special fuels (diesel, liquefied petroleum gas, jet fuels, etc.) used in motor vehicles on public highways and in aircraft. Provision is made for refunding the tax paid on motor fuels not used on public highways.

Revenue Distribution:

Highway fund	100% highway fuel tax
Aviation fund	100% aviation fuel tax

The highway fund is distributed 62% to trunk highways, 29% to county state-aid highways, and 9% to municipal state-aid streets. This is a constitutional requirement.

Alcoholic Beverages Taxes

Minnesota taxes malt beverages, wines, and distilled spirits. Rates vary depending on the alcoholic content of the item. Malt beverages are taxed 5.2¢ per gallon; wines with 14% or less alcohol, 23¢ per gallon; wines with 14% to 21% alcohol, 69¢ per gallon; and distilled spirits, $2.88 per gallon.

Revenue Distribution:

General revenue fund	100% malt beverage tax and 70% liquor tax
Cities, villages and townships in proportion to population	30% liquor tax

Tobacco Products Taxes

Minnesota taxes tobacco products either through a sales tax or through a use or storage tax imposed on consumers. Although this tax is presumed to be a direct tax on the retail consumer, it must be prepaid by the manufacturer or by the distributor who imports the tobacco products for sale in Minnesota. If consumers import tobacco products from outside the state in quantities above the exemption, thereby avoiding the state sales tax, they must pay a use or storage tax. On a standard pack of cigarettes either tax is 8¢. Other tobacco products are taxed at a rate of 10% of the wholesale price, whether as a sales tax or as a use or storage tax.

Revenue Distribution:

Natural resources fund	1/8 of the cigarette tax
Cigarette tax apportionment fund	1/4 of the balance of the cigarette tax (7/32)
General revenue fund	3/4 of the balance of the cigarette tax (21/32) and 100% of the tax on other tobacco products

The cigarette tax apportionment fund is distribtued to counties, cities and villages on the basis of population.

Oleomargarine Tax

Since July 1, 1963, Minnesota has taxed colored oleomargarine at the rate of 10¢ a pound. This tax replaced the previous 10¢ a pound tax on uncolored oleomargarine.

Revenue Distribution:

Department of Agriculture's Dairy Research Program	$125,000 per year
State Board of Education	$250,000 per year
General revenue fund	The remainder [9]

Insurance Premiums Tax

Most [10] insurance companies doing business in the state are required to pay a 2% gross premiums tax. This is in lieu of all other taxes except real property and income taxes. In addition, fire insurance companies pay a fire marshal's tax and a firemen's relief fund tax.

[9] This amounted to $2.1 million in 1965.

[10] Non-profit insurance companies such as fraternal beneficiary associations, and non-profit prepayment health plans such as The Minnesota Hospital Service Association (Blue Cross) and The Minnesota Medical Service Association (Blue Shield), are exempt from this tax.

Revenue Distribution:

General revenue fund	100%

Public Utilities Taxes

Many public utilities are subject to a gross earnings tax in lieu of the real and personal property taxes. The rates vary with the kind of utility. Telephone companies pay 4% of gross earnings from business in cities with a population of 10,000 or less, and in rural areas. They pay 7% on all other business with one exception: those small companies with gross earnings of $1,000 or less per year pay 30¢ for each telephone connected to the system. The following list shows rates for other kinds of utilities:

Railroads [11] (including taconite railroads)	5% of all gross earnings
Freight line companies	7% of all gross earnings
Sleeping car companies	6% of all gross earnings
Express companies	5% of all gross earnings less payments to railroads
Telegraph companies	6% of all gross earnings

Revenue Distribution:

General revenue fund	100%

Ninety-four per cent of the tax from taconite railroads is apportioned to the local unit of government.

Licenses

$62.1 million (1964)

Licenses are required for the privilege of conducting certain businesses or performing specified non-business activities, such as driving motor vehicles, hunting, fishing, etc. Licenses are often used for regulation, but they also raise revenue.

Motor Vehicle Registration Tax

The motor vehicle "license" tax is paid in lieu of a personal property tax. Seven classes of motor vehicles have been provided for by statutes and each has a different tax base and rate. This tax produced three-fourths of the revenue from licenses in 1964.

Revenue Distribution:

Highway fund (see Motor Fuel Tax)	100%

This is a constitutional requirement.

Miscellaneous

Licenses are also required for motor vehicle operators, corporations, those who sell alcoholic beverages, for hunting and fishing, and for boats. Many occupations and businesses must either be licensed or pay for the privilege of doing business in the state. An example of this is the vessel tonnage tax – a tax applied to vessels navigating in international waters. They are required to pay 5¢ per ton of registered tonnage with a $50

[11] The gross earnings tax on railroads is a constitutional requirement.

minimum tax. Payments are made to the state and 80% is transmitted to the county in which the port of hail in this state is located.

Property Tax — $31.9 million (1964)

Property taxes are levied by both the state government and local governmental units. Since nearly 94% of the total property tax collected in Minnesota in 1964 was levied by local units of government and just over 6% by the state government, the general discussion of the property tax will be found under Local Governmental Finances, Chapter V, page 40. Property taxes account for 98% of local tax revenue and about 7% of state tax revenue.

The three main programs which the *state* supports through property taxes are soldiers' relief, teachers' retirement, and state building programs. Each year a state levy is set to cover the costs of these services. This levy is then added to the levies of the local units of government in each local taxing district as described in Chapter V. The three cities of the first class – Minneapolis, St. Paul and Duluth – locally support their own teachers' retirement funds. Consequently, property owners in these cities do not pay the same *state* rate on property as the rest of the state's property taxpayers. Their state rate is decreased by that amount which the state levies to support the teachers' retirement program.

In addition to the general property tax levy of the state government there are several special taxes levied by the state in lieu of property taxes. Most of the revenue is distributed to local governments, but since the taxes are levied by the state, they are included in this chapter.

Power Companies' Taxes

Power companies' transmission and distribution lines which are located outside the corporate limits of cities and villages are assessed by the State Commissioner of Taxation. The transmission lines are taxed at the average rate of all property taxes levied within the county, and the distribution lines are taxed at the average rate of all property taxes levied within the state. (Within corporate limits of cities and villages they are taxed as class 4 personal property. See Appendix, page 62.)

Revenue Distribution:

County general revenue fund	50%
County school fund	50%

Mortgage Registry Tax

A tax of 15¢ per $100 or fraction thereof is imposed on real property mortgages within the state and must be paid before the mortgage is recorded. The tax is payable to the county treasurer.

Revenue Distribution:

State general revenue fund	1/6
County general revenue fund	1/6
School district	1/3
Municipality	1/3

If the property is not subject to general property taxes, the mortgage registry tax is paid to the State Commissioner of Taxation and retained by the state.

Grain Handling Tax

An annual tax is levied on the business of handling grain in lieu of a personal property tax on grain. Farmers and seed dealers are exempt. The rates are: ½ mill per bushel of wheat, soy beans or flax; ¼ mill per bushel on other grains. Taxes are paid to the county treasurer and distributed on the same basis as personal property taxes.

Coal Dock Occupation Tax

Coal wharf operators pay an annual tax of 1½¢ per ton on bituminous coal and 2¢ per ton on anthracite coal. This tax is in lieu of personal property taxes and is paid to the county. The revenue is distribtued in the same manner as that derived from personal property taxes.

Auxiliary Forests or Tree Growth Taxes

Those who own forest lands *may* ask that certain tracts be designated under the tree growth law. Upon approval, such forests are taxed at the rate of 30% of the estimated annual growth in lieu of property taxes. The taxes are paid to the county treasurer and distributed in the same manner as taxes on real property.

Aircraft and Flight Property Taxes

The flight property of all air carriers certified to operate in Minnesota is taxed. The valuation is apportioned to this state on the basis of a three-factor formula: the total tonnage received and discharged, the equated plane hours of all aircraft in flight, the revenue ton miles flown by the company within this state. After apportionment of the valuation, the assessed value is determined at 33⅓%. The tax rate is the average rate of all property taxes levied throughout the state for the preceding year. The tax is paid to the State Commissioner of Taxation.

Revenue Distribution:

State airports fund	100%

This is a constitutional requirement.

Taconite and Semi-taconite Taxes

Taconite and semi-taconite are taxed per ton of concentrate produced. For taconite the tax is 5¢ per ton plus 1/10¢ per ton for each 1% that the iron content of the concentrate exceeds 55% dried. Semi-taconite is taxed at this same rate if the concentrate is agglomerated in Minnesota, and at twice the rate if agglomerated elsewhere. These taxes are in lieu of all taxes except occupation and royalty taxes. These taxes are required by the Minnesota constitution.

Revenue Distribution:

Municipality	22%
School district	50%
County general revenue fund	22%
State general revenue fund	6%

Severance Taxes $15.0 million (1964)

Severance taxes are taxes imposed on removal of natural products from land or water and measured by value or quantity of products removed or sold. Minnesota derives a larger portion of its state tax revenue from severance taxes than most states. This is a result of Minnesota's rich iron ore deposits.

Occupation Taxes

Occupation taxes combine features of a severance tax and a corporate income tax. They are paid by mining companies in place of Minnesota's normal corporate income tax. The tax base used for determining the amount of occupation tax is the value—at the mouth of the mine—of ore produced in a calendar year, less certain costs as outlined in the law and less credits allowed for high labor costs. Natural iron ores are taxed at a rate of 14.25% and labor credits have generally not been large. Taconite is taxed at 12% but this can be reduced considerably (as much as two-thirds in some cases) by labor credits.

The form of the occupation tax is fixed in the constitution but the rate and formula for determining the value of the ore are statutory.

Revenue Distribution of Iron Ore Occupation Tax:

General revenue fund	50%
Income tax school fund	40%
University	10%

Of the 50% going to the general revenue fund, 10%, or 5% of the total, is appropriated for use by the Iron Range Resources and Rehabilitation Commission.

Revenue Distribution of Taconite and Semi-taconite Occupation Taxes:

General revenue fund	25%
Income tax school fund	40%
University	10%
Local governments	25%

Of the 25% which goes to local governments, one-quarter goes to cities, villages and townships; one-half to school districts, and one-quarter to counties based on the amount of mining and processing activity in the area.

Royalty Taxes

The royalty tax is levied on the royalties paid to owners of mining properties by the mine operators. The royalty tax rate is the same as the effective occupation tax rate after labor credits have been subtracted.

Revenue Distribution:

General revenue fund	100%

Inheritance and Gift Taxes $16.0 million (1964)

Minnesota taxes property transferred by inheritance or gift. (Real and tangible personal property located in Minnesota, all intangible personal property wherever located if the deceased or donor is domiciled in Minnesota.) Certain transfers such as those to governmental units and to religious, charitable, scientific and literary institutions within the state are exempt from these taxes. If the recipient is outside the state, and reciprocal provisions are in effect, the transfer is also exempt from inheritance and gift taxes.

The *inheritance tax* is imposed on each beneficiary and is computed on the fair market value of the property received which is in excess of the beneficiary's exemptions. The *estate tax* is imposed on the estate of the deceased. The federal estate tax law allows credit for state death taxes. Sometimes estates are involved with more than one state. If the total state taxes which have to be paid amount to less than the federal credit allowed, Minnesota imposes an estate tax equal to the difference. Estates under $60,000 are not covered by the estate tax. The *gift tax* is imposed on the donor and is computed annually on the amounts given to any single person that year in excess of $3,000. (There are certain other specific exemptions in addition to the $3,000.) Exemptions and tax rates for the inheritance and gift taxes depend on the relationship of the people and the amount of money involved. Rates for the wife range from 2% to 10% and rates for an unrelated person range from 8% to 30%.

Revenue Distribution:

Local governments	20% probate estates
General revenue fund	80% probate estates 100% non-probate estates and 100% gift tax

Document Transfer Taxes $1.3 million (1964)

Minnesota taxes the transfer of any deed to real property. There are certain exceptions such as the deeds to cemetery lots, or deeds to property sold by the state or federal government. The rate of this tax is $1.10 on the first $1,000 or less, and 55¢ on each additional $500 or fraction of $500.

Revenue Distribution:

General revenue fund	100%

NON-TAX REVENUE

Thirty-nine per cent of state revenue came from other governmental units and charges and miscellaneous revenue. While state tax revenues increased 8.5% between 1963 and 1964, total general revenue increased 12.5% in the same period. During 1964 Minnesota received $188.7 million from the federal government and $12.9 million from local governments in intergovernmental revenue. The distribution of these funds is as follows:

		(in millions)
Revenue Distribution of Federal Funds in 1964:		$188.71
Education		37.86
Highways		84.25
Welfare		47.63
Old Age Assistance	$30.31	
AFDC	13.38	
Blind	0.67	
Disabled	1.86	
Other	1.40	
Health and Hospitals		5.84
Natural Resources		4.37
Agriculture	3.03	
Other		8.75
Revenue Distribution of Local Funds in 1964:		12.94
Education		0.34
Highways		6.03
Health and Hospitals		5.96
Other		0.61

Source: *Compendium of State Government Finances in 1964*, U.S. Bureau of the Census.

It will be noted that the largest portion of the state's $201.6 million intergovernmental revenue comes from the federal government and only about 6% comes from local governments. Ninety per cent of the federal funds are for highways, welfare and education, with highways getting nearly half of that.

Local governments contribute revenue to the state primarily for highways, health and hospitals.

The following table shows the amounts of various charges and miscellaneous revenue received by the state in 1964.

CHARGES AND MISCELLANEOUS REVENUE RECEIVED BY THE STATE IN FISCAL 1964

		(in millions)
Current Charges		$ 71.5
Education	$47.9	
Highways	3.2	
Hospitals	10.6	
Natural Resources	3.9	
Other	5.8	
Sale of Property		0.4
Interest Earnings		18.1
Other *		11.2
TOTAL		$101.2

* Includes fines, rents, donations, etc.

Source: *Compendium of State Government Finances in 1964*, U.S. Bureau of the Census.

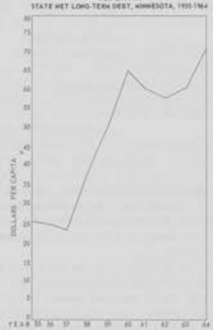
It is seen that most of this revenue comes from current charges. These includes such things as charges at the University and other state schools for dormitories, cafeterias, athletic events, etc., charges at state hospitals for services rendered, fees for the use of state parks, etc.

BORROWING

Prior to 1962 Minnesota's constitutional debt limit was $250,000. In actual practice, however, this provision was circumvented by the issuance of certificates of indebtedness payable from special funds rather than from "general revenue." In April of 1960 the state Supreme Court warned (Naftalin vs. King) that in the future it would declare such methods of financing debt unconstitutional. As a result, a constitutional amendment was drawn up in 1961 and adopted in 1962. It removed the debt limit and allows the state (by three-fifths vote of members of each house of the legislature) to contract debt for specified purposes by levying taxes on real and personal property. Debt may be incurred to acquire and improve public land and buildings and other improvements of a capital nature; to provide money to be appropriated or loaned to any agency or political subdivision of the state for these same uses; for temporary borrowing; for refunding outstanding bonds and certificates of indebtedness; for emergencies.

FIGURE 9

PER CAPITA
STATE NET LONG-TERM DEBT, MINNESOTA, 1955-1964



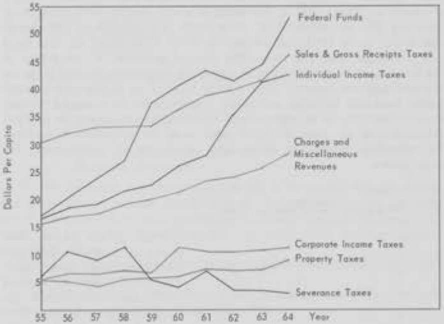
Source: Compendium of State Government Finances, for the years 1955 through 1964, U. S. Bureau of the Census.

This graph shows the state's net long-term debt pattern (per capita basis) since 1955. The sharp rise between 1957 and 1960 reflects the stepped-up state building program. A reason for the subsequent dip is that the 1961 Legislature, under the Court's warning, borrowed no additional money for building construction. Following passage of the debt amendment borrowing was resumed for construction and other purposes such as to provide funds for loans to school districts. Over the 10-year period net debt increased 175%.

THE PAST DECADE

During the last 10 years total per capita general revenue has risen from \$114.53 in 1955 to \$222.32 in 1964. This is an increase of 94%. The increase in total state tax revenue, per capita, has been 74% – from \$78.35 to \$136.31 – during this time. Revenue from the various sources has changed at varying rates. Figure 10 shows the per capita revenue from the major sources from 1955 to 1964.

FIGURE 10 PER CAPITA STATE GENERAL REVENUE FROM SELECTED MAJOR SOURCES, MINNESOTA, 1955-1964



Source: Compendium of State Government Finances, for the years 1955 through 1964, U. S. Bureau of the Census.

Federal funds have shown the greatest percentage gain. They have nearly tripled. Part of this is due to increased funds for established programs and part to new federally supported projects which have been instituted within the last 10 years. The large jump in 1959 probably reflects the beginning of the interstate highway system.

The income taxes are next in rate of increase with the individual income tax revenue showing a gain of 144% and the corporate tax an increase of 121%. The steady rise in per capita personal income has been responsible for part of the increase in revenue from the individual tax. The change to withholding (October 1961), improved collection procedures, and higher rates have also contributed to the gain in these revenues.

Charges and miscellaneous revenue and state property tax revenue each increased about 80% between 1955 and 1964. Although sales and gross receipt taxes produced a relatively large amount of revenue (\$46.54 per capita in 1964, compared with \$9.05 from property tax) the rate of increase (52%) has not been as great as for most other sources. The removing of the ban on sale of colored margarine added to the more rapid increase in these revenues between 1963 and 1964. The 1¢ per package increase in the cigarette tax and the 1¢ per gallon increase in the gasoline tax also contributed to this recent increase in revenue.

The only tax showing a decline during this decade was on mining. Severance taxes produced 30% less revenue in 1964 than in 1955. Receipts from these taxes have fluctuated between \$11.16 per capita in 1958 and \$4.25 in 1964, depending upon the amount and value of ore mined each year.

In considering these changes in state revenue over the past 10 years, it must be kept in mind that during this same time per capita personal income has also been rising. There has been a steady gain from \$1644 per capita in 1955 to \$2329 in 1964 for a total increase of 41.7%.

SUMMARY

State taxes provided a little over three-fifths of the 1964 general revenue for state government, or \$480 million. Individual and corporate income taxes brought in a shade under 40% of the tax total; selective sales and gross receipts taxes were second at 34+%; ore taxes accounted for only 3+%; all other taxes, including motor vehicle registration, property taxes, etc., 23%.

Federal and local governments contributed another \$200+ million to state revenues – about one-fourth of the total general revenue – with the former producing the major share of that. Interest earnings came to \$18 million (2+%); current charges collected by educational institutions, hospitals, etc. amounted to \$71.5 million (9%); and the remainder came from a host of other sources.

State revenues, per capita, have increased steadily over the past decade (94%); net debt has risen (175%); personal income per capita shows a gain of about 42%. Listing revenue sources in order of rate of increases, the federal government is highest, followed by the individual income tax, the corporate income tax, charges and miscellaneous revenue, property tax, sales and gross receipts taxes. The only source showing a decline is ore taxes.

CHAPTER III

State Governmental Expenditures

The previous chapter detailed the source of Minnesota's general revenue for fiscal 1964: 61% from state taxes, 24% from the federal government, 2% from local government contributions, and 13% from charges and miscellaneous general revenue. This chapter will discuss how it was spent in that year, and make some comparisons with spending during the last 10 years.

For the fiscal year ending June 30, 1964, the *general expenditures* of the state of Minnesota amounted to almost $741 million. Fifty-eight per cent was paid out *directly* by the state to employees, suppliers, contractors, etc.; the rest was distributed in grants to other units of governmen to help finance local services such as schools, state aid roads, categorical welfare aids, and the like. This portion of the state's general expenditures (42%) is referred to as *intergovernmental expenditures*.

What do these millions buy in terms of the services expected from government? A first step in analysis obviously is the classification of services into various categories, by function, as is done in Figure 11.[12]

Examination of Figure 11 shows that the top four state expenditure categories are education, highways, public welfare, and hospitals. They also were the top four when *combined state and local* expenditures were analyzed (see Chapter I, p. 11). There, however, public welfare ranked fourth, just below hospitals, health and sanitation. In state expenditures public welfare ranks third. It should be noted that "health" is classified separately from "hospitals" here, but even if the two are combined the rank remains the same.

The state spends more on education than on the next two items combined. The total for education comes within $12 million of equaling the total for the other three top categories. More than four-fifths of the total

[12] Items are classified in standard categories set up by the U. S. Bureau of the Census; these categories are used in the *Compendium of State Government Finances*, a major source of information for this publication. Therefore the amounts here do not usually coincide with figures released by state governments, e.g., expenditures for mental hospitals are included under "public welfare" in the Minnesota State Auditor's reports, but they are under "hospitals" in the *Compendium* figures.

General expenditure amounts presented here include current operating costs and also amounts for assistance and subsidies, capital outlay and intergovernmental expenditures; e.g., amounts for highways include amounts the state spends directly and amounts paid to other governments to spend on roads. Figures include payments for general government with money from all sources and funds, including amounts acquired from borrowing and from balances carried forward from previous fiscal periods. But expenditures for specific government functions, e.g., education, do not cover debt costs; these are lumped together under "interest" in the "Miscellaneous" category.

STATE GENERAL EXPENDITURES BY FUNCTION, MINNESOTA, 1964

FIGURE 11

Source: Compendium of State Government Finances in 1964, U.S. Bureau of the Census.

budget — 84.6% — is spent on education, highways, public welfare, and hospitals.

Education **$307.0 million (1964)**

That the largest share of state money is spent on education is well known, but many of the items involved are less so. Minnesotans are certainly aware of the classroom buildings, dormitories, and libraries at the University of Minnesota, the State Colleges, and the State Junior Colleges. But they might not be aware of the research activities in such wide-ranging fields as beneficiation of ores, feeder cattle studies, and vocational rehabilitation, or of the expensive equipment required. The university campuses are crowded with students during the day, but it is easy to forget the large numbers served in extension and evening classes. Citizens are familiar with their local taxes for elementary and secondary schools, but may not realize how much state funds are helping. Local school districts receive state aid under various formulas for foundation aid, equalization aid, emergency aid, transportation aid, vocational aid, aid for special classes, and other special programs. (See Chapter V, page 51.)

State expenditures for education, in millions, in fiscal 1964 were as follows:

Direct Expenditures				$129.8
State Institutions of Higher Education			122.7	
Current Operations		98.1		
Auxiliary enterprises	21.9			
Capital Outlay		24.6		
Other Education			7.1	
Intergovernmental				177.2
Total for Education				$307.0

Source: *Compendium of State Government Finances in 1964*, U. S. Bureau of the Census.

The state "spends" more for education in intergovernmental expenditures than it does directly. This is the money paid by the state to the local school districts under the various school aid formulas.

State institutions of higher education claim 40% of the total state expenditures for education. They spend four times more for current operation ($98+ million) than for capital outlay ($24+ million).

Expenditures listed under "auxiliary enterprises" include those for dormitories, cafeterias, athletic events, bookstores, and such operations. These are financed mainly through charges for services and are reported here on a gross basis. "Other education" includes state administration and services.

Highways $191.1 million (1964)

When traveling from one part of the state to another one may drive on several types of roads built and/or maintained, at least in part, with state funds: the new interstate federal highway system, the state trunk highways system, the local state-aid roads for which the state has distributed money to local governments. State highway expenditures, in millions, for fiscal 1964 were as follows:

Direct Expenditures		$150.0
Current operation	25.5	
Capital outlay	124.5	
Intergovermental		41.1
Total for Highways		$191.1

Source: *Compendium of State Government Finances in 1964*, U. S. Bureau of Census.

Direct expenditures far outweigh the intergovernmental expenditures. Capital outlay amounts are nearly five times as great as current operation costs. New construction and major improvements to existing roads and bridges are included under capital outlay. This account does *not* include cost of highway patrols (put under "police protection") which may be reported under highways in some state reports. Intergovernmental includes the state payments to counties and municipalities for state-aid roads.

Public Welfare $71.6 million (1964)

In addition to sharing the costs of the categorical aids, clearly shown below, the state also makes payments to counties with limited tax bases for equalization of welfare costs. After such counties have spent their own funds in the amount of 150% of the statewide average mill rate for welfare, the state pays 75% of all additional costs. State expenditures, in millions, for public welfare for fiscal 1964 were as follows:

Direct Expenditures		$5.5
Cash assistance payments		
Aid to the blind	$ .5	
Total vendor payments, including medical care	1.2	
State welfare institutions	.8	
Other public welfare	2.9	
Intergovernmental Expenditures		$66.1
Old age assistance	$42.2	
Aid to families with dependent children	19.6	
Aid to disabled	1.9	
Other	2.4	
Total for Public Welfare		$71.6

This account does *not* include amounts for state hospitals for the mentally ill or institutions for the handicapped (put under "hospitals"). When these institutions are excluded, more than 12 times as much is spent in intergovernmental grants as is spent directly.[13]

Hospitals $56.0 million (1964)

The large complex of hospitals at the University of Minnesota is known far and wide. Not so famous, but included in the 7.6% of the state general expenditures for hospitals are the seven state hospitals for the mentally retarded, the Braille and Sight-Saving School, the School for the Deaf, the Crippled Children's Hospital (Gillette), the Children's Treatment Center (Hastings), the Residential Treatment Center (Lino Lakes), and the two geriatric homes maintained by the

[13] For further information about programs and costs of welfare in Minnesota, refer to *Minnesota Welfare, Biennial Report, Winter 1964*. This is a detailed report, but figures given will not agree with the figures in the *Compendium* and in this publication because of different items included or excluded.

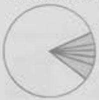
state. State expenditures, in millions, for hospitals for fiscal 1964 were as follows:

Direct Expenditures				$53.3
Current operations			46.5	
Mental institutions		28.5		
Regular mental hospitals	18.1			
General hospitals		12.6		
Other institutions for handicapped		5.3		
Capital outlay			6.8	
Intergovernmental				2.7
Total for hospitals				$56.0

Source: *Compendium of State Government Finances in 1964*, U. S. Bureau of the Census.

In this category the state spends much more (nearly 20 times) on direct expenditures than it does on intergovernmental. Regular mental hospitals claim the largest share of current operation money. Much more money ($46+ million) is spent on current operations than on capital outlay ($6+ million).

Other State Services **$115.1 million (1964)**



The next few paragraphs will serve only to illustrate the range of state services; the list is far from all-inclusive. Further detailed breakdowns may be found in the *Compendium* and state reports.

Natural resources ($28.6 million): Forestry and parks, lands and minerals, game and fish, soil and water conservation, development and promotion of agriculture, services of home demonstration and county agents (paid in part by the state).

Corrections ($12.4 million): State prison (Stillwater), state reformatories for men (St. Cloud) and for women (Shakopee), Training School for Boys (Red Wing) and Home School for Girls (Sauk Center), Youth Conservation Division and its many facilities.

Health ($5.1 million): Medical laboratories, public health nursing, maternal and child health services, control of environmental sanitation, hospital planning.

Police protection ($5.1 million): Highway patrol, crime prevention and criminal apprehension.

Employment security administration ($5.9 million): State-administered unemployment and workmen's compensation funds, state public employment offices. (Only administrative costs are included under general expenditures.)

Miscellaneous ($45.0 million): Rural public libraries aided by state funds, airports, general public buildings, state debt services, state programs

for war veterans, regulatory agencies which license and examine, regulate and inspect everything from financial institutions and insurance companies to sales of alcoholic beverages.

The provision of all of these services – and many more – involves a considerable amount of *general control and financial administration* ($13.0 million). For this we look to the legislature, the state judicial system, the executive branch, the administrative agencies. Even the collection and spending of money costs money.

THE PAST DECADE

Here's a quick look at the expenditure patterns of the four largest sectors of state government over the last 10 years. Total per capita general expenditures have increased from $111.17 in 1955 to $210.44 in 1964. This is an increase of 89%. It should be remembered that part of the increasing costs for government services has been due to inflation. Estimates are that during this period approximately 14% is attributable to this factor.[14] The gain of about 42% in per capita personal income should also be kept in mind. Spending for some sectors has risen much more rapidly than for others as is shown in Figure 12.

[14] *Statistical Abstract of the U.S., 1965*, U.S. Bureau of the Census.

FIGURE 12 PER CAPITA STATE GENERAL EXPENDITURES FROM SELECTED MAJOR SOURCES, MINNESOTA, 1955-1964

*Previous to 1960 the "Hospitals" account was reported differently. The earlier figures are not comparable with those since 1960 and consequently are not included here.

Source: Compendium of State Government Finances, for the years 1955 through 1964, U.S. Bureau of the Census.

A number of factors have contributed to the rapid rise – 113% in the 10-year period – in spending for education. Among them are: the increased number of school-age children since World War II, the increased percentage of the population under 19 years of age, a larger percentage of the population seeking higher education, new and expanded programs brought about by changing concepts in education, and upgrading of teachers' salaries. Consequently, new buildings are being constructed at a fairly constant rate and operating costs are continuing to rise.

Per capita highway expenditures have increased 92% from $28.33 to $54.27 during the 10-year span. The start of the federal interstate highway system caused a larger than usual rise in spending in 1959.

Expenditures for welfare and hospitals have not risen as rapidly as have those for education or highways.

SUMMARY

An examination of state expenditures in Minnesota clearly reveals the multiplicity and variety of governmental services provided and the wide range of spending for different kinds of services. The four categories in which the state spends the greatest part of its funds were found to be education (41.5%), highways (25.8%), public welfare (9.7%), and hospitals (7.6%).

Some comparisons were made for the period from 1955 to 1964. While per capita expenditures in 1964 were nearly twice as high as in 1955, expenditures for education rose most sharply, highways were next, and for public welfare and hospitals the increase was smaller. It is estimated that 14% of the increase in costs is attributable to inflation. Personal income per capita during this period rose about 42%.

CHAPTER IV

State Fiscal Procedures

BUDGET-MAKING

The biennial budget for the state of Minnesota is prepared by the Department of Administration. The finance or budget office of each state agency or department receives a *State of Minnesota Budget Manual* with detailed instructions for preparing and processing a biennial budget. All agencies must present a budget to the Department of Administration and have it approved by the legislature, even those supported almost entirely by dedicated receipts. Accounts are arranged in two groups: (1) those requiring appropriations by the legislature and (2) those *not* requiring such action because they are open appropriation accounts (e.g. for income tax refunds), dedicated receipt accounts (e.g. motor fuel tax funds for highways), or federal aid grants.

Since complete and assembled budget forms must be submitted by October 1 in even-numbered years, agencies and departments have to begin the budgeting process in February. To illustrate how the process works, take state colleges as an example:

In February the chairman of each department in each college requests the members of his faculty to indicate what will be needed for a two-year period to begin a year from the following July. He screens the individual requests as to their reasonableness, combines them, assigns priorities, and hands his list to the dean of his school. The dean screens again for his school, combines the departmental requests, adds what is needed for administration, and assigns his priorities. Requests from all schools, plus those from other operating units such as the library, business office, registrar's office, etc., go to the president's office in each college. After another screening there, a requested budget for the college is made up and presented to the State College Board. This Board screens budget requests from the five state colleges and prepares a budget which it submits to the Department of Administration in the fall.

In addition to the biennial budget, each state agency or department must also present an annual spending plan and a quarterly budget which are much more specific. However, no item may be included in the quarterly request which has not been approved in the biennial budget, except in case of emergency.

The budget division of the Department of Administration checks the data in all budgets for mechanical accuracy and completeness. It reviews each biennial budget request, taking into consideration gubernatorial directives and fiscal policy, propriety, past agency performance, availability of funds, and agency needs. The budget division consults with the agency if the budget requests are not explained in sufficient detail.

The budget division and each agency head arrange formal budget hearings with the Governor, Commissioner of Administration, assistant commissioner of administration and/or budget division personnel. However, if formalized budget hearing is waived by the agency, the budget division consults informally with the agency personnel as often as necessary to obtain a full understanding of budget requests.

The budget division formulates tentative budget recommendations and meets with the Governor for review of proposals. The Governor determines the final executive budget recommendations for all state agencies and operating departments.

BUDGET ADOPTION

The budget division prepares and the central services division prints the executive budget document. One copy of each agency budget request is forwarded to the Senate Finance Committee and one copy to the House Appropriations Committee. The Governor submits the executive budget document to the legislature. He delivers the biennial budget message before a joint session of both houses, normally about a week after his biennial "state of the state" message. The legislature considers the budget recommendations and, after exhaustive hearings are held by the House Appropriations Committee and the Senate Finance Committee, the legislature makes appropriations to cover operation of the state government during the ensuing biennium. The Governor can veto specific items in any appropriations bill without rejecting the whole bill. His veto can be overriden by two-thirds of the members elected to each house. This veto power has been used but not for agency operating appropriations, perhaps because the appropriation bill is usually passed at the very end of the session. Without the legislature in session to override his veto or make the changes necessary for his acceptance, the agencies or departments whose appropriations had been vetoed would be without those operating funds.

COLLECTION AND DISBURSEMENT PROCEDURES

The State Treasurer – an elected official – keeps detailed accounts of monies collected and paid out by the state and publishes detailed reports at the close of each fiscal and calendar year. He is the custodian of all state funds, both cash and invested, and he is the state's paymaster. He receives tax collections from various sources and income items deposited by state departments and institutions.

Minnesota has more than 190 collection accounts in banks around the state. Initial deposits of receipts are made there, and funds are transferred each month to central accounts for disbursement or investment. The 55 active accounts from which daily outlays are met are located wherever there is a state institution or a regional payroll center. Totals in collection accounts are always highest at the end of the month because transfers are

normally made just after the first of the month. Conversely, totals in active accounts run correspondingly higher at the beginning of the month, right after transfers have been completed.

Most taxes are collected directly by the Department of Taxation and then turned over to the State Treasurer, but there are some exceptions. The state property tax is collected by county auditors; they make remittances to the State Auditor. The Department of Insurance collects directly the fire marshal's tax and the firemen's relief tax. Taxes on beer, wine and liquor are collected by the Liquor Control Commissioner. Occupation and royalty taxes on iron ore and taconite are collected by the State Treasurer on the basis of certifications made by the Department of Taxation. The same is true of gross earnings taxes on telephone and railroad companies and the gross premiums tax on insurance companies. The motor vehicle tax is collected by the motor vehicle division of the Secretary of State's office. License plates are sold in the main office in the Highway Building as well as by 101 deputy registrars of motor vehicles scattered all over the state. The documents tax is collected directly by county treasurers who sell the tax stamps in the respective courthouses.

AUDIT FUNCTION

Two types of financial audits are essential in state government. The *pre-audit* is a review of transactions before they are made. In Minnesota this is done by the State Auditor – an elected official. No money can be paid out of the state treasury except upon his warrant. The *post-audit* is a reviw of transactions after they are completed, to learn if and how the money appropriated by the legislature is being spent and to determine the current financial status of the government. This function is carried out in Minnesota by the Public Examiner – appointed by the Governor with the consent of the Senate. His office post-audits all departments and other agencies of the state, as well as certain semi-state agencies, all county governments, cities of the first class, and certain other municipalities and school districts. It also publishes statistical data for state and local governments.

INVESTMENT PROCEDURES

The State Board of Investment – composed of the Governor, State Auditor, State Treasurer, Secretary of State, and the Attorney General (all elected) – administers and directs the investment of all state funds. It is responsible for formulation of state investment policies and the purchase and sale of securities for the Permanent School Fund, the various state retirement funds, the highway funds, and other departmental, current, and surplus funds available by law for investment.

Minnesota has more than a quarter of a billion dollars in permanent trust funds. Returns from their investment (the principal cannot be spent) go almost wholly for the support of education. Earnings from the Permanent School Fund, for example, amount to some $8 million annually, providing an average of more than $11.50 per pupil in school aids.

So-called idle funds, such as building bond proceeds and highway funds committed under pending contracts but not yet payable, are invested in short-term securities usually running not more than three years. Since authorizing legislation was passed in 1943 and 1949, respectively, these investments have earned more than $1 million a year for highway funds and an average of well over $1.5 million a year for the general revenue fund.

Securities are filed and serviced in the office of the State Treasurer. As earnings become payable they are collected and deposited in banks; however, a daily cash balance of $100,000 is retained by the cashier for use in cashing checks pursuant to legislative provisions.

PROCEDURES CONCERNING DEBT

The state constitution (Art. IX, Sec. 6) as amended in 1962, outlines how state debt may be contracted. It must be authorized by law through a 60% vote of the full membership of both houses of the legislature, but can be contracted only for purposes specified and subject to conditions laid down in the constitution. The bonded indebtedness unit of the State Treasurer's office maintains records of the state's indebtedness. It redeems bonds at maturity and pays interest as it falls due on outstanding issues.

CHAPTER V

Local Governmental Finances

An examination of the local scene completes the picture of financing public services in Minnesota. According to the report of the Public Examiner,[15] the 4,786 local governmental units in Minnesota in 1963 included 87 counties, 1,818 townships, 847 municipalities, 1,996 school districts, and 38 special districts.[16] Even though the total number of units has been declining for several years, Minnesota still has considerably more than the average number per state which was 1,825 in 1962.[17] The number of both special districts and municipalities has been increasing over the past years. But townships have decreased somewhat, and the number of school districts has been declining rapidly. There are over 4,000 fewer school districts now than there were in 1952.

Each of these political subdivisions is an agent of the state and as such is subject to unlimited control by the state, except for the cities which have adopted their own charters. Even there the state continues to exercise considerable authority over what these cities can do. All local units of government are required by the state to provide certain services. They also carry out many others which are optional. At the same time the state makes certain restrictions on the methods of raising revenue and on the rates levied.

COMBINED REVENUES OF ALL LOCAL GOVERNMENTAL UNITS

Considered as a whole, local governments in Minnesota receive more revenue than the state government. Their total general revenues in 1964 amounted to slightly over $951 million as compared with $783 million for the state. They received $107 million more in intergovernmental revenue from the state in 1964 than the state received from the federal government. Of the total general revenue of local governments, 48% was received by school districts, 27% by counties, 23% by cities and villages, and 2% by townships. The following table shows the sources of local governmental general revenue.

[15] *Report of the Public Examiner on the Revenues, Expenditures and Debt of State and Local Governments in Minnesota*, 1963.

[16] Only those special districts having the power to tax are included.

[17] *Government in Minnesota*, Vol. VII, No. 23, Census of Governments 1962, U.S. Bureau of the Census.

GENERAL REVENUE OF LOCAL GOVERNMENTS, 1964

Source		*Amount (in millions)*	*Percent*
Local Taxes		$512.4	54
Property	$501.0		
Other	11.4		
Intergovernmental		301.6	32
Federal	5.9		
State	295.7		
Charges and Miscellaneous		137.6	14
Total General Revenue		$951.6	100

Source: *Governmental Finances in 1963-64*, U.S. Bureau of the Census.

Slightly over half of the total *general revenue* of local governments comes from local taxes; intergovernmental funds supply about one-third; charges and miscellaneous revenues provide the remaining one-sixth. About 98% of the local *tax revenue* comes from property taxes and 98% of the *intergovernmental revenue* is furnished by the state.

Property Tax

Taxes on real and personal property are established in three steps. First the taxable value of all real and personal property is determined (assessment). The amount of revenue needed is decided by the legislative body of the state, county, township, municipality, school or special district (determination of needs). Then, on the basis of these figures, the mill rate which will produce the needed revenue is set (establishment of rates).

Assessments. Presently 70 of Minnesota's 87 counties have a county assessor who is responsible for determining the taxable value of all property within the county. Except for Ramsey County these counties also have local (city, village and township) assessors, but power and authority over them is held by the county assessor. In Ramsey County the county assessor has deputy assessors; there are no local assessors. The remaining 17 counties have supervisors of assessments who assist and guide local assessors, but have no authority over them. The county board of commissioners in each county decides whether there will be a county assessor or a supervisor of assessments and then makes the appointment. Local assessors are appointed by the local township, city or village council. The state is responsible for assessing certain kinds of property including pipelines, power transmission lines, and all property at the Twin City International Airport.

"Value" has several meanings in property taxation. *Market value* is the usual selling price of the property. *Full and true value* is a valuation placed on property by the assessor. Legally it is defined as market value, but in practice it is usually only a fraction of current market value.

In 1962 the State Tax Commissioner announced a goal of requiring that the full and true value of all property within the state be at one-third of market value. *Assessed value* is the value which results from applying the classification ratios to full and true value. These ratios range from 5% to 50% of full and true value, depending on the type of property. See Appendix, page 62, for the various classifications. The *taxable value* is the value to which the tax rate is applied; it is the same as the assessed value except in counties which still tax household goods and allow the $100 household credit. By 1964 the household goods assessment had been discontinued in 36 counties under authority of a law enacted by the 1959 Legislature. These counties contained 68.7% of Minnesota's population. Of the remaining 51 counties which did assess household goods, six did not allow the $100 household credit.

The homestead "exemption" (actually classification) was adopted during the depths of the depression. Under this provision the first $4,000 of full and true value of rural homesteads is assessed at 20% and of urban homesteads at 25% of full and true value instead of 33⅓% and 40% respectively. For example, the assessed value of an owner-occupied urban residence which has a market value of $15,000 is determined as follows:

$15,000 x 33⅓% (recommended assessment ratio) equals $5,000 full and true value

$4,000 x 25% (Homestead rate) equals $1,000 assessed valuation

$1,000 x 40% (Non-homestead rate) equals 400 assessed valuation

Total assessed valuation, $15,000 homestead, equals $1,400.

Property exempt from taxation includes most property owned by federal, state and local governments, churches and church property, property used for public charity and "seminaries of learning" (all academies, colleges and universities) even if operated for a profit. Other kinds of property are exempt from property taxation because they are taxed in other ways: telephone and railroad companies pay gross earnings taxes; taconite companies pay a tonnage tax; grain handlers, coal wharf operators pay special taxes in lieu of property taxes.

The total of all taxable values on all taxable property within the boundaries of a given governmental unit is the tax base of that unit of government. Obviously the exemption of many types of property reduces the tax base. The full and true value is only a fraction of market value, and the classification system further reduces the base by more than two-thirds. Thus Minnesota has a small tax base relative to market values and as a consequence mill rates, generally, are high.

Assessments are checked on three levels: The local board of review, the county board of equalization, and the state board of equalization. The purposes of such review and equalization are to see that no class of property is discriminated against, to see that the assessment ratio is equal among assessment districts within each county, and among counties in the state, and to insure that the tax burden is distributed equally on the property assessed locally and the kinds of property assessed by the State

Commissioner of Taxation. In the past these purposes have not always been accomplished.

Widespread inequities exist in the valuation of property for tax purposes in the state. These inequities result from the use of differing percentages of market value to reach full and true value. In the Dulton case,[19] for example, the court found that in the city of Duluth the assessor has established a standard of assessing the full and true value of commercial property at 40% of its market value and residential property at 30% of its market value, but ". . . the nine pieces of commercial property involved in the suit were actually on the tax books at between 65% and 95% of their market values. This practice of taxing commercial property on the basis of a per cent of market value two and three times the per cent applied to residential property has been widespread in the state, and the same policy has been applied to much industrial property."[20] The state Supreme Court decided in the Dulton case that the same percentage of market value must be used in arriving at full and true value regardless of the use to which the property is put—that is commercial or residential. The Donaldson case in Minneapolis was decided similarly in 1965.

Determination of needs. The legislative body of each governmental unit must adopt a budget based on the requirements of each of its subdivisions and on the desires of its citizens. Estimated revenue from other sources is subtracted from the total amount budgeted. The difference is the amount of revenue required from property taxes.

Establishment of rates. The tax rate for each governmental unit is determined by dividing the amount of tax revenue required by the total taxable valuation of the particular unit. Each of these rates is expressed as a certain number of mills per dollar of taxable property valuation.

The county auditor establishes the tax on all property. He adds the mill rates for each of the governmental units in which the property is situated. For example, the tax rate on property in a village *might* include:

Village	50 mills
County	53
State	17
School district	190
Total tax rate	310 mills per dollar taxable valuation

These rates then are applied to the taxable valuation. The $1,400 taxable valuation on the $15,000 home times the 310 mills equals a tax of $434. This amount is paid by the owner to the county treasurer who in turn pays the proper amounts back to each government which has set the levies.

Most of the mill rates are limited either by state law or by city charter. Some limitations are expressed as a percentage of the assessed valuation and some as per capita amounts.

[19] Dulton Realty, Inc. v. State (1964).

[20] *Report of the Property Tax Assessment Review Committee*, Citizens League of Minneapolis and Hennepin County, May 1965.

Special Assessments

When special improvements or services such as sewers, water mains, curbs and gutters, street surfacing, sidewalks, etc., are provided which benefit certain property, they are usually paid, completely or in part, by special assessments levied on the particular property benefited. These costs may be distributed among the various property owners in different ways, either on a unit basis, on the basis of front footage or square footage of each piece of property. These special assessments may usually be paid in full or in yearly installments along with the property tax.

COMBINED EXPENDITURES OF ALL LOCAL GOVERNMENTAL UNITS

Local governments collectively also spend more money than the state government does. In 1964 the state took in a little more than it spent; for the composite of local governments the reverse was true. Expenditures for local units were just over one billion dollars while revenues were about $951 million. Long-term debt of local governments ($1,262.8 million) is almost five times greater than that of the state ($259.6). Figure 13 shows the percentages spent for the various services on the local level in 1964.

DIRECT GENERAL EXPENDITURES OF LOCAL GOVERNMENTS, MINNESOTA, 1964

FIGURE 13

Total Expenditures – $1000.2 million
Source: Governmental Finances in 1963-64, U.S. Bureau of the Census

Nearly half of local expenditures are for education; welfare and highways each receive about one-eighth of the total spent. These three services account for 70% of local governmental spending. Next in cost are the three categories of health and hospitals, police and fire protection, and sewerage and sanitation where expenditures are nearly equal – between 4 and 4½ %.

COUNTIES

The counties taken together cover and include the entire area and population of the state. They vary in size from Ramsey County's 160 square miles to St. Louis County's 6,281 square miles. Their populations range from 3,377 people in Cook County to 842,854 in Hennepin County (1960 census). The assessed valuation of property ranges from Lake of the Woods County's $1.4 million to Hennepin's $622.1 million.[20]

Counties are responsible for administering such functions as rural secondary roads, old age assistance, aid to families with dependent children, aid to the blind and to the totally disabled, as well as for residual relief in most counties. They are also charged with maintenance of courts and general law enforcement and for certain health and education services.

Counties take in and spend about one quarter of the total revenue and expenditures of all local governments. They derive over 97% of their revenue from local taxes (including special assessments) and revenue from other agencies. The latter is largely state shared taxes and grants.

GENERAL REVENUES OF COUNTIES, 1963

Sources	*Amount (in millions)*	*Percent*
Taxes and special assessments	$139.4	54
Revenue from other agencies *	113.2	44
Charges and miscellaneous	5.9	2
Total General Revenue	$258.5	100

* This nomenclature is used in the Public Examiner's report. It is similar to "intergovernmental" as used in the Bureau of the Census reports.

Source: *Report of Public Examiner on the Revenues, Expenditures and Debt of State and Local Governments in Minnesota, 1963.*

GENERAL EXPENDITURES OF COUNTIES, 1963

Functions	*Amount (in millions)*	*Percent*
Charities	$117.3	47
Highways	63.3	25
General government	23.0	9
Schools	17.5	7
All others	30.3	12
Total General Expenditures	$251.3	100

Source: *Report of Public Examiner on the Revenues, Expenditures and Debt of State and Local Governments in Minnesota, 1963.*

[20] *Legislative Manual 1963-64*, "County Government in Minnesota" by Edward A. Howe.

Counties spend more on welfare (called "charities" in the Public Examiner's reports) than on any other single service. The five principal types of assistance and their percentage of the welfare expenditures are old age assistance 47%, aid to families with dependent children 21%, direct relief 18%, aid to disabled 2%, and aid to the blind 1%.

Highway costs of $63 million accounted for one-quarter of the county expenditures. Of this amount $35 million was for administration and maintenance and $28 million was for capital outlay.

The expenditures for schools are mainly transportation and tuition aids to adjacent school districts for those high school students living in the few areas which still have no secondary schools.

The bonded indebtedness of counties continued to rise in 1963 as bonds totaling $14.6 million were issued (including $7.1 million borrowed by Ramsey County for hospital construction) and $3.6 million were paid off, leaving $47.6 million outstanding at the end of that year.

The revenues of counties have remained very close to expenditures during the 10-year span between 1954 and 1963; both have risen at a fairly steady rate during this time. The 10 years have seen an increase of about 78% for each.

TOWNSHIPS

Minnesota is divided into townships which are geographical areas usually six square miles. In 1963, there were 1,818 townships in Minnesota with organized local units of government. The unorganized townships, in the less populated northern part of the state, are governed by the county within which they are situated. "When the people living in a township organize a local government, it is called township or town government. In Minnesota the word 'town' should not be used in the sense of a village or small city. The town is a rural unit of government."[21] The prime responsibility of towns is the maintenance of township roads and bridges. They also provide fire protection, some provide law enforcement and a few, poor relief.

In order to consider the finances of all governmental units in the state, it is necessary to estimate the financial operations of towns since they are not required to report such information to the state. This is done by the Public Examiner's office using data available through records and statements of other governmental units, mainly the state and counties. Towns account for about 2% of the revenues and expenditures of all local governments. In 1963[22] property taxes and special assessments paid to towns amounted to an estimated $13.8 million and constituted 89% of their total revenue of $15.5 million. The town share of the state liquor tax, together with various county aids, came to $1.7 million or 11% of the total revenue.

[21] Kise, Joseph, *Minnesota's Government*, Holt, Rinehart, Winston, New York, 1965.

[22] Source: *Report of the Public Examiner on the Revenues, Expenditures and Debt of State and Local Governments in Minnesota, 1963.*

The estimate of town expenditures is based on receipts. Classification is based on purposes for which tax levies and county grants are made, or for which bonds are issued. Repair and maintenance of roads is the largest function of towns. An estimated $11.3 million or 62% of the total expenditures of $18.3 million was spent on highways in 1963. About 12.5% was spent on general government and the remainder on public safety, charities, interest payments and miscellaneous expenditures.

From 1954 to 1961 the revenues and expenditures of towns remained quite steady, but from 1961 to 1963 they both began to rise. Between 1961 and 1963 revenues increased $1.8 million and expenditures $4.4 million. Towns had a total indebtedness of $6.5 million at the end of 1963. This was an increase of about 75% over the previous year. These recent increases were due largely to two townships at the edge of the metropolitan area which have since become villages.

In the years between the 1950 and 1960 federal census, population of organized towns in Minnesota declined 6.69%. The population of the unorganized territory decreased by 3.03%.

CITIES AND VILLAGES

The 847 municipalities in Minnesota include 109 cities, 737 villages and one borough (Belle Plaine). The cities range in population from 1,000 to 500,000. Ninety cities operate under home rule charters while the other 19 are governed by either general or special laws. All of Minnesota's villages operate under the village code adopted by the legislature in 1949.

Cities and villages are responsible for such things as streets, sewers and sewage treatment plants, fire and police protection, public libraries, hospitals, waterworks, parks and general governmental administration. They are subdivisions of the counties (although some cross county lines). Their residents vote for county officers, pay county taxes, and benefit from county services. They are also included in a school district which may encompass a different area and maintain a separate governing board from the city or village. Although cities and villages receive relatively little state aid, their residents benefit from state aids to the counties and school districts of which they are part.

Municipalities take in nearly one-quarter of the total revenue of all local governments in Minnesota. The revenue of the cities and villages is shown in Figure 14.

In 1963 taxes supplied 52% of total general revenue for all municipalities. However in Minneapolis, St. Paul and Duluth, taxes accounted for 66% of their revenue as compared with 41% to 44% in the other population groups. Similarly the amount of taxes per capita in cities of over 100,000 population — $69.55 — was much greater than in the smaller municipalities where it ranged from $25.98 to $38.23.[23]

[23] Source: *Report of the Public Examiner on the Revenues, Expenditures and Debt of State and Local Governments in Minnesota*, 1963.

The tax base of the central cities increases slowly through new building, improvements and inflation, but an increasing amount of property in these cities is tax exempt — that property used for highways, public housing and urban renewal, schools, churches, etc. Also, as a result of the Dulton case, the same percentage of market value must be used in arriving at full and true value on all types of property. Consequently, the assessed valuation of commercial and industrial property in some cities, particularly Minneapolis and Duluth, has been gradually decreasing as this is being put into practice. As a result, the total rate of increase in the tax base has been small. In the medium-sized, rapidly growing cities the tax base is increasing, but usually not fast enough to pay for the services needed by the increasing population. Consequently, in many cities the property tax rates have been rising.

The second largest source of revenue was from special assessments. Municipalities in the 10,000 to 20,000 population group and the 20,000 to 100,000 group received 26% and 29% respectively from this source compared with 7% in Minneapolis, St. Paul and Duluth. Special assessments are levied mainly to provide funds for local improvements such as sewers, water mains, sidewalks, etc. These are services that rapidly developing suburbs, many of which are in the 10,000 to 100,000 population group, are now establishing. In the three largest cities most of these kinds of local improvements have already been made.

Revenue from other agencies is mainly state shared cigarette and liquor taxes and state grants for highways. Contributions from public service enterprises are mostly profits from municipal liquor stores and electric utilities, neither of which is operated by Minneapolis, St. Paul or Duluth. However in several of the cities and villages in the under-2,500 population group, profits from these enterprises are the major source of revenue.

On the expenditure side some differences are also found since both the amount and number of services in a city grow with the size of the city. The first class cities must cope with problems resulting from high density of population and considerable numbers of low-income residents. They must provide services not only for city dwellers but also for many suburbanites who work in the central cities, but pay no taxes directly to them. Although the population of the core cities has not increased appreciably in the last decade, city budgets have grown rapidly. City officials constantly face rising demands 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, continue to increase.

Many medium-sized cities are facing the problems of rapidly increasing populations with the resultant demands for extending services. They must build or enlarge sewage treatment plants, extend sewer and water mains, add new parks and recreational services, enlarge police and fire de-

FIGURE 14

REVENUE RECEIPTS OF CITIES AND VILLAGES BY POPULATION GROUPS, MINNESOTA, 1963

Population Group	Total - All Units		Over 100,000 (1st class cities)		20,000 to 100,000		10,000 to 20,000		2,500 to 10,000		Less Than 2,500	
1960 Population	2,519,546		903,167		458,549		293,073		429,584		435,173	
Sources	Amount Millions	%	Amount Millions	%	Amount Millions	%	Amount Millions	%	Amount Millions	%	Amount Millions	%
Taxes	$116.5	52	$ 62.8	66	$17.3	41	$11.2	44	$13.9	41	$11.3	43
Special Assessments	34.8	16	6.5	7	12.1	29	6.8	26	6.0	18	3.4	13
Revenue from other Agencies	23.8	11	10.0	10	4.2	10	2.5	10	4.6	13	2.5	9
Fees & charges	19.1	9	8.3	9	3.7	9	2.2	9	3.0	9	1.9	7
Contributions from Public Service Enterprises	12.3	5	--	--	1.7	4	0.9	3	4.4	13	5.3	20
Licenses & Permits	8.5	4	3.9	4	1.3	3	1.2	5	1.2	3	0.9	3
All Others	8.6	4	3.8	4	1.8	4	0.9	3	1.1	3	1.0	4
TOTAL	$223.6	100	$95.3	100	$42.1	100	$25.7	100	$34.2	100	$26.3	100
Total Revenue per Capita	$88.77		$105.54		$91.70		$87.71		$79.53		$60.46	

Source: Report of the Public Examiner on the Revenues, Expenditures and Debt of State and Local Governments in Minnesota, 1963.

FIGURE 15

EXPENDITURES OF CITIES AND VILLAGES BY POPULATION GROUPS, MINNESOTA, 1963

Expenditures 1963 (including capital outlay)	Total - All Units		Over 100,000 (1st class cities)		20,000 to 100,000		10,000 to 20,000		2,500 to 10,000		Less Than 2,500	
1960 Population	2,519,546		903,167		458,549		293,073		429,584		435,173	
Sources	Amount Millions	%	Amount Millions	%	Amount Millions	%	Amount Millions	%	Amount Millions	%	Amount Millions	%
Highways	$ 49.8	21	$ 17.3	18	$ 9.8	23	$ 6.3	24	$ 9.3	24	$ 7.1	24
Public Safety	44.2	19	24.4	25	7.1	16	4.1	15	5.0	13	3.6	12
Sanitation	42.9	18	12.0	12	6.5	15	5.8	22	10.9	28	7.6	25
General Government	18.4	8	5.6	6	3.6	8	1.9	7	4.1	10	3.2	11
Recreation	19.3	8	10.3	11	4.1	9	2.0	8	2.0	5	0.9	3
All Others	60.3	26	26.8	28	12.4	29	6.2	24	7.6	20	7.5	25
TOTAL	$234.9	100	$ 96.3	100	$43.5	100	$26.3	100	$38.9	100	$29.9	100
Current Expense	$163.5	40	$ 76.2	47	$29.5	29	$17.3	42	$22.9	36	$17.6	45
Capital Outlay	71.3	17	20.1	12	14.0	13	9.0	22	15.0	25	12.3	32

Source: Report of the Public Examiner on the Revenues, Expenditures and Debt of State and Local Governments in Minnesota, 1963.

partments and expand most other services. Much of their increased cost is for capital outlay.

The three costliest municipal functions are highways, public safety and sanitation which together accounted for 58% of the total expenditures in 1963. Although the percentage of expenditures for highways is the same in the three smaller population groups, the amount per capita is the lowest in the group under 2,500.

The three largest cities spend a larger percentage of their total expenditures for public safety than do any of the other groups. This is also true on a per capita basis with the largest cities spending nearly twice that of the next two smaller groups and over three times that of the under-2,500 group.

Capital outlay constituted nearly 70% of the total expenditures for sanitation and waste removal. However in the first class cities only 42% of these costs were for capital outlay.[24]

The percentage of expenditures for public safety and recreation increases with the population of the municipality. The opposite is true, however, of expenditures for general government purposes which decrease in percentage as the population increases.

Both revenues and expenditures of cities and villages have nearly doubled between 1954 and 1963. Expenditures exceeded revenues in each of the 10 years during this period. The difference is financed by the issuance of bonds for capital outlay which is included in total expenditures. Bonds totaling $65.5 million were issued by municipalities in 1963 while $36.6 million were paid off, leaving $463.6 million outstanding at the end of that year. This was an increase of $297.9 million (180%) since 1954.

SCHOOL DISTRICTS

At the end of June, 1964, Minnesota had 1,515 school districts maintaining ungraded schools and 481 with graded and secondary schools. Ninety-six per cent of the pupils were enrolled in the graded and secondary schools.

Nearly half the total revenues and expenditures of Minnesota's local governmental units is received and spent by school districts. Their revenue, by source, is as follows:

REVENUE OF SCHOOL DISTRICTS, 1963-64

Source	*Amount (in millions)*	*Percent*
Local taxes	$233.6	51
State aids	171.4	38
County aids	19.4	4
Other school districts	3.3	1
All other	25.9	6
Total Revenue	$453.6	100

Source: *Report of Public Examiner on the Revenues, Expenditures and Debt of State and Local Governments in Minnesota, 1963.*

[24] Ibid.

Slightly over half the total revenue for schools came from local taxes State aids supplied 38%. These aids fall into several categories.[25] The most important – and most costly ($132.3 million in 1964-65) – is foundation aid.

The amount of foundation aid a school receives is based on several factors related to its school attendance and property valuations. The two formulas under which foundation aid is paid will be better understood with explanation of the following terms:

Pupils Units: For aid purposes, school attendance is counted in pupil units: kindergarteners count one-half unit, elementary pupils as one, and junior or senior high students, 1½ units. (In districts with four-year high schools, 7th and 8th graders are each counted as one unit.) Pupil unit totals are reckoned according to their "average daily attendance" (ADA) throughout the school year.

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 variation in local property assessing ratios. These assessments were found to range from 19% to 70% of "full and true" value. The EARC now issues an annual report setting each district's assessment ratio to be used in school aid computations. Their figures are based on actual property sales prices or, when these are unavailable, appraisals.

School districts receive foundation aids under whichever of the following two formulas gives them more money:

Formula A (true foundation aid): $315 for each pupil unit in average daily attendance (but not more than the preceding year's actual adjusted maintenance cost per pupil unit in ADA) MINUS what would be raised by a 19-mill levy on local property valuations as equalized under EARC assessment ratios.

Formula B (an outgrowth of the former "basic aid"): $95 per pupil unit PLUS $10 census aid (see below). No district gets less than this, unless it levies less for education than the equivalent of a 19-mill levy on EARC values or spent less than $315 per pupil unit for maintenance the preceding year.

Other major aids include the following:

Census Aid ($8.5 million, 1964-65): Also called income tax aid, this amounts to $10 paid to the public school for every child on school census between the ages of 6 and 16 attending school, regardless of whether he attends a public school or not. This is included in formula A payments but paid in addition to the $95 in formula B.

Apportionment Aid ($8.7 million, 1964-65): Included under both formulas A and B, this is the distribution of interest earned by permanent trust funds earmarked for schools.

Emergency Aid ($600,000, 1964-65): Given only to schools in ur-

[25] Discussion of aids was taken from a speech given by Richard Kleeman, education reporter, Minneapolis Tribune, to the Minnesota Congress of Parents and Teachers' Convention, 1964.

gent need, and distributed at the discretion of the State Board of Education.

Transportation Aid (nearly $15 million, 1964-65): This reimburses districts for costs of school bus operation and is paid in seven categories. None, however, is paid to the Twin Cities and Duluth or to many suburbs because of statutory restrictions. These districts do, however, receive reimbursement aid for transporting handicapped children.

Special Education Aids (nearly $4.5 million, 1964-65): These grants 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.

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.

EXPENDITURES OF SCHOOL DISTRICTS, 1963-64

Function	*Amount (in millions)*	*Percent*
Instruction	$251.2	53
Operations and maintenance	48.3	10
Transportation	22.2	5
School lunch	20.1	4
Interest payments	19.5	4
Administration	13.4	3
All other	25.2	5
Total Current Expense	$399.9	84
Capital Outlay	78.2	16
Total Expenditures	$478.1	100

Source: *Report of the Public Examiner on the Revenues, Expenditures and Debt of State and Local Governments in Minnesota,* 1963.

Over half of the school expenditures are for instruction. Only 16% of school expenditures are for capital outlay.

During 1963 the school districts issued bonds totaling $62 million and paid off $25 million, leaving a balance of $573 million outstanding at the end of the year. This was an increase of 48% over the previous five years. Bonds issued for the last 15 years have been for school buildings with few exceptions.

Revenues and expenditures have both increased steadily during the past 10 years. In 1954-55 expenditures exceeded revenue by about $44 million. Since that time revenues have increased approximately 134% while expenditures have increased about 100%. By 1963-64 expenditures

exceeded revenue by about $24 million. The difference between expenditures and revenue was financed by the issuance of bonds for capital outlay which is included in expenditures.

SPECIAL DISTRICTS

Many special districts are financed by various governmental units and service charges. For example, the Metropolitan Mosquito Control District receives all of its revenue from the six counties in the district. The library districts are supported mainly by the counties, but the state also contributes, and some funds come from service charges. The mental health centers are financed largely by the state and counties as a part of their regular budgets.

In 1963 there were nine types of special districts in Minnesota with the power to levy taxes. Three of the six drainage and conservancy districts received their revenue from special assessments on the property within their districts. This was used for current expenses.

Taxes formed part of the revenue for seven of the 10 hospital districts. However, most of their revenue came from service charges.

The Metropolitan Airports Commission received nearly three-fifths of its revenue from service charges and almost one-fifth each from taxes and federal funds. Less than one-third of their expenditures was for capital outlay.

About one-third of the revenue of the Twin City Metropolitan Planning Commission came from taxes and the rest from other governmental units. There are two port authorities – one in Duluth and one in St. Paul. St. Paul received some revenue from taxes but Duluth did not. Revenue for both came mainly from service charges.

Most of the revenue for the Hennepin County Park Reserve District came from taxes as was also true for the North Suburban Sanitary District. Five of the seven watershed districts received tax revenue in 1963.

Of the nine housing and redevelopment authorities, six – Chisholm, Duluth, Hibbing, Minneapolis, Mountain Iron and St. Paul – were financed partly by taxes. Minneapolis, St. Paul, Duluth and Chisholm obtained most of their revenue from federal funds and spent most of it for capital outlay.

SUMMARY

Over half of the total general revenue for all local governments comes from local taxes and 98% of the local tax revenue comes from the property tax. About one-third of the total is supplied by intergovernmental funds and 98% of these aids are from the state. Forty-eight per cent of the total general revenue of all local governments is for school districts, 27% for counties, 23% for cities and villages, and 2% for towns.

Local governments have been spending more than they have taken in during the last 10 years. Nearly half of their expenditures are for education, with welfare and highways the next two most costly functions. Seventy per cent of local governmental expenditures go to support these three services.

Counties receive about 54% of their revenue from taxes and special assessments and 44% from other governmental units. Their largest expense is for welfare which accounts for nearly half their expenditures. One-quarter of the total is spent on highways.

Taxes furnish nearly 90% of the revenue for townships. Their largest costs are for highways.

Over half the revenue for cities and villages comes from taxes. Cities over 100,000 population receive two-thirds of their revenue from taxes while the others receive from 41% to 44% from this source. Special assessments form a larger part of the revenue for medium-sized cities than they do for the others. Profits from municipally owned liquor stores and electric utilities are an important source of revenue for many of the cities and villages in the smallest population group.

The three most costly services of cities and villages are highways, public safety and sanitation. The largest cities spend a larger percentage of their money for public safety than do the smaller ones. The medium-sized cities spend more than the other groups on sanitation with large amounts needed for capital outlay.

In the last 10 years total revenues and expenditures of municipalities have each nearly doubled and bonded indebtedness has increased 180%.

About half the total school revenue comes from local taxes and 38% from state aids. A little over half is spent for instruction.

Nine types of special districts levy taxes in Minnesota but taxes are not the major source of revenue for most of them. Service charges form an important source for these units and other governmental agencies also contribute.

CHAPTER VI

A Recapitulation and A Look Toward the Future

Within the context of the material presented in the foregoing chapters — and only within that context — a few broad generalizations can be made.

• In 1964 Minnesota consistently ranked in the upper one-third, both in the United States and in the north central states, with regard to revenues and expenditures of *state and local governments combined*. Taxes and charges paid by Minnesota citizens were relatively heavy in relation to both population and personal income, seeming to indicate acceptance of responsibility for financing public services. The emphasis in expenditures was on personal service areas: education, health activities, and welfare. For protection and transportation Minnesota's expenditures were about average among states in the region.

• Summarizing the proportional dependence upon various types of *taxes for combined state and local revenue*, Minnesota was average among north central states in its dependence upon the property tax (relatively heavy dependence was typical for the region), high in dependence upon income taxes, and low in dependence upon sales and gross receipts taxes.

• In terms of *combined state and local debt* per capita, at the end of fiscal 1964 Minnesota was a little below the average for the United States but above the median amount among the north central states. Of the total outstanding long-term debt, 17% was state debt and 83% was local.

• Considering only *state* revenue for 1964, 61% of the total was derived from taxes, 24% from the federal government, 2% from local governments, and the remaining 13% from charges and miscellaneous general revenue. A breakdown of that portion of the total that came from *taxes* showed the following distribution among the principal sources: individual income taxes, 31%; corporate income taxes, 8%; selective sales and gross receipts taxes, 34%; property taxes, 7%; ore taxes, 3%; and the remaining 17% from many other kinds of taxes. In contrast with the combined local and state tax revenue picture, the state government's dependence on property taxes is low and its dependence on income taxes and "sales" taxes is more evenly divided. Comparing rates of increase in state revenue per capita over the past 10 years, the source producing the greatest gain was the federal government, followed in descending order by the individual income tax, the corporate income tax, charges and miscellaneous revenue, the property tax, and sales and gross receipts taxes. The only source showing a *decline* was ore taxes. Total state taxes, per capita, increased 74% during this period.

• Considering only *state* expenditures for 1964 the range of spending for the host of services provided was wide but the bulk of the state's funds (85%) was used to finance four major services: education (41%), highways (26%), public welfare (10%), and hospitals (8%). During the last decade the per capita amount spent for education rose most sharply, highways were next, and increases for the other two functions were much smaller. Total expenditures per capita (and revenues correspondingly) almost doubled in that 10-year period. It is estimated that 14% of the increase can be attributed to inflation. Personal income per capita climbed (42%) from $1,644 to $2,329 in the same period.

• Considering the revenues and expenditures of only *local units of government* in 1964, over half the total general revenue for all types of units combined came from local taxes, and 98% of this tax revenue came from the property tax. About one-third of the total was supplied by intergovernmental funds, and 98% of these aids were from the state. Local governments spent nearly half of their money for education, with welfare and highways the next two most costly functions; 70% went to support these three services. School districts received nearly half the total local revenue, counties and municipalities about one-quarter each, and townships 2%.

• In contrast with most local governments, townships received nearly 90% of their revenues from taxes; special districts were at the other end end of the spectrum, depending much more on service charges or on contributions from other governmental units. Counties budgeted more for welfare than any other function; townships budgeted more for highways. Highways, public safety, and sanitation were the three services for which cities and villages spent the most. The proportionate amount spent for each varied with the size of the municipalities. About half the school district revenue came from local taxes and 38% from state aids. A little over half was spent for instruction.

TRENDS

A number of emerging trends relate to the financing of governmental services. A brief discussion of some of the more significant follows.

Federal Funds.[20] Minnesota state revenue (per capita) from the federal government has almost tripled in the past 10 years. In the nation as a whole, federal aid payments to both state and local governments and to individuals totaled $12.8 billion in fiscal 1964 – a 17% increase over the previous year. While this was the sharpest increase since 1959, it continued a 10-year trend. Minnesota received almost $250 million or 2.04% of the total, while the state's share of the 1964 federal tax burden (according to the Tax Foundation) was 1.67%. The amount Minnesota received per capita, based on the 1964 census estimate, was $71; the national average was $67 per capita.

[20] Source: Minneapolis *Star*, July 20, 1965, based on Congressional Quarterly data.

The largest programs of 1964 provided Minnesota with the following amounts:

	(in millions)
Highway construction	$84.7
Public assistance	46.2
Public health research and services	27.3
Food distribution (school lunch program, etc.)	13.3
Education	11.1
National guard	8.8
Housing and urban renewal	7.6

The flow of funds from the federal government to state and local governments is expected to accelerate as newly approved federal programs go into operation, but greater outlays for defense could flatten out the curve of acceleration considerably. Federal fiscal policies and direction of federal spending will have a progressively greater impact on financing government at other levels. There seems to be a growing tendency for government to play a larger role in guiding the economy.

Taxes and Expenditures. In the 1953-63 decade, taxes collected by states have doubled. State and local expenditures have been rising about 9% a year, or double the rate of increase of the Gross National Product (GNP), whereas federal expenditures have been a declining percentage of GNP – by about 4% a year. Looking beyond Vietnam, and assuming predictions concerning economic growth hold true, it appears that revenues will outpace expenditures at the federal level while responsibilities outpace revenues at the state and local levels. Ways of reconciling the tremendous revenue raising power of the federal government with the tremendous responsibilities of state and local governments are being studied.

Debt. Since World War II the national debt has gone up 20% while state and local debt has jumped 600%. In Minnesota state and local debt increased about $860 million (200%) in the 10-year period of 1953-62 inclusive. Forty-two per cent of the total outstanding debt was incurred by school districts and 33% by cities and villages.

Services. In Minnesota as in other states, service needs are expanding and changing as the population grows or shifts, as both the quantitative and qualitative demands on education increase to keep pace with technological advances and the evermore stringent requirements of a complex society, as urbanization multiplies the problems of air pollution, sanitation, water, transportation, and public health. This trend seems certain to continue. Many new programs are being initiated at the federal level. Through federal grants, some of which are contingent on matching funds, state and local governments are encouraged to start projects they might not otherwise undertake. The long-term financial responsibility for carrying them on sometimes falls on the state or local government.

Pooling of Effort. Not only is there a trend toward an increased sharing of financial responsibility for public services among the three levels of government; there also is a growing awareness of the need for horizontal cooperation, for example, among local units of government, between private and public agencies, among the states of a region, among educational institutions, and the like. Varying degrees of progress toward integrated planning are evident, and new ways of handling governmental functions on a level appropriate to their scale and nature are being explored.

A LOOK AHEAD

Minnesota, like most other states, is hard-pressed for the dollars it needs to finance expanding public services. Like other states it is experiencing a dramatic shift in population and job opportunities from rural areas to more urban centers – Moorhead, Rochester, Mankato, Albert Lea, Austin, and most of all, to the Twin City metropolitan area. This creates financial problems for the fast-growing communities as well as for those whose population is shrinking. In many quarters there is concern over the local tax burden borne by the owners of real property and those who pay personal property taxes, particularly on business inventories and farm equipment. In other quarters there is concern over state income tax rates. The amount of these taxes is cited by some as a deterrent to business expansion and industrial development. Others say industrial growth is largely determined not so much by taxes as by factors such as availability of markets and supplies, water and sewerage, quality of education (for today's children as well as for the quality of the labor supply) and other amenities of the city or state such as clean streets and outstanding cultural institutions.

A variety of solutions are advocated – changes in the income tax, replacing the personal property tax on business with some other business tax such as a tax on value added or on the gross value of sales, adoption of a "new source" of revenue such as a general sales tax, moving into the field of excise taxes to a greater extent as the federal government moves out, and a variety of proposals which would need action at the federal level. Among these latter proposals are the tax sharing approach (this would distribute to the states a certain percentage of the federal revenue on the basis of collection), the unconditional grant approach (the federal government would give to the states for general governmental purposes a percentage of the federal income tax revenue), the conditional grant approach (which would expand the present grant-in-aid programs to finance specific services) and the direct federal expenditure approach (which would expand programs such as river and harbor construction or start new interstate programs such as air pollution and mass transportation).

Still other proposals take into consideration the special finance problems of metropolitan areas such as the Twin Cities, Rochester, Duluth, Moorhead, and St. Cloud. Proposals are made to raise revenue for metropolitan services using the metropolitan area as a taxing district by levying

a general sales tax, or a tax on earnings, or a selective sales tax (on motel and hotel bills, motor fuel, billboards, parking lots, telephones, or a wheelage tax). Another proposal would distribute the revenue from taxes levied on major commercial and industrial development over the whole metropolitan area rather than just within the municipalities where they are located.

Without regard to the merits of any proposed solution, it should be recognized that actually there are no "new sources" of revenue. In the last analysis citizens are the ultimate source of all revenue – federal, state and local. The question at issue is: By what *methods* should revenue be raised? Various kinds of taxes, the particular provisions of a given tax, and charges all have a varying impact on different groups of people or different segments of the population. The individual trying first to make an objective analysis of the present situation and second, to arrive at his own position with regard to future action, needs to ponder questions such as these:

- Are revenues adequate to provide the services which Minnesota citizens want? Are these services being provided efficiently? Is there a desirable balance of spending among these services? What is the total tax burden relative to the overall economy? To what extent and at what rate has the real tax burden been increasing? Are the total taxes paid by each individual commensurate with his ability to pay?

- Which taxes, if any, are unfair or unwarranted? Why? Because of the basic principle? The rate? Their impact on various groups? Inequitable assessment? Costliness of collection? Inadequate enforcement due to inefficient practices or understaffing? Could undesirable features be corrected or should the tax be eliminated?

In weighing the merits of specific proposals for changes in Minnesota's tax laws, pertinent questions include the following:

- What would the proposal accomplish? Would it produce additional revenue? Is the amount commensurate with the estimated overall need?

- If the proposal is designed wholly or partially to replace some taxes with others, is the proposed shift in the tax burden justifiable? How would it affect revenues at the local governmental level? At the state level? How would it affect land use? What additional costs, if any, would be involved in administration and/or collection? Would the total result be a better balanced tax structure or would new inequities overshadow those eliminated?

- Is the proposal concerned only with additional revenue, is it designed to accomplish basic tax reform, or both?

APPENDIX

STATE AND LOCAL TAX RECEIPTS IN MINNESOTA
FISCAL YEAR ENDING JUNE 30, 1965

(Exclusive of Unemployment Compensation Receipts)

Type of Tax	*Amount*	*Percent of Total*
General Property Levies		
Real Property (1)	$ 488,887,743	44.19%
Personal Property (1)	95,125,616	8.60
Power Companies	3,000,575	0.27
Grain	230,213	0.02
Special Assessments (1)	27,438,325	2.48
Mortgage Registry (Local Share)	1,588,650	0.15
Coal Docks Occupation	24,692	—
Auxiliary Forest	1,246	—
TOTAL—General Property Levies	$ 616,297,060	55.71%
Sales and Gross Receipts		
Motor Vehicle Fuel (2)	$ 78,549,849	7.10%
Aviation Gasoline (2)	600,090	0.06
Alcoholic Beverages	21,966,159	1.99
Tobacco Products	30,881,773	2.79
Insurance Companies	13,319,306	1.20
Public Utilities (3)	25,218,636	2.28
Boxing Exhibitions	1,506	—
Oleomargarine	2,471,519	0.22
TOTAL—Sales and Gross Receipts	$ 173,008,838	15.64%
License and Privileges		
Motor Vehicles	$ 48,923,794	4.43%
Motor Vehicle Operators	1,934,080	0.17
Corporation Fees	415,709	0.04
Cooperative Rural Electric	24,640	—
Alcoholic Beverages	243,511	0.02
Amusements	3,697	—
Occupation and Business (4)	6,684,947	0.61
Hunting and Fishing	5,217,802	0.47
Boat and Water Safety	181,071	0.01
TOTAL—Licenses and Privileges	$ 63,629,251	5.75%
Income		
Individual (5)	$ 169,966,335	15.36%
Corporation	44,116,690	3.99
Bank Excise	4,843,067	0.44
TOTAL—Income	$ 218,926,092	19.79%
Inheritance and Gift		
Inheritance	$ 11,744,263	1.06%
Gift	2,099,071	0.19
TOTAL—Inheritance and Gift	$ 13,843,334	1.25%
Severance		
Iron Ore Occupation (6)	$ 13,100,886	1.18%
Taconite Taxes (7)	2,314,453	0.21
Royalty Taxes (8)	1,951,569	0.18
TOTAL—Severance	$ 17,366,908	1.57%
Mortgage Registry (State Share)	$ 317,730	0.03%
Aircraft and Flight Property	$ 582,547	0.05%
Mobile Homes Registration	$ 1,237,260	0.11%
Deed Transfer	$ 1,115,943	0.10%
TOTAL—STATE AND LOCAL TAX RECEIPTS	$1,106,324,963	100.00%

(1) Property tax levies on real and personal property by governmental units:

State	$ 27,820,384
County	161,255,316
City and Village	141,162,146
Township	13,780,233
School District	267,433,606
TOTAL	$ 611,451,685

(2) Net after refunds. Motor fuel refunds amounted to $10,136,676.

(3) Gross Earnings Taxes:

Telephone	$ 11,401,279
Telegraph	327,862
Railroads	13,141,124
Sleeping Cars	33,162
Freight Lines	273,480
Express	41,728
TOTAL	$ 25,218,635

(4) Includes fees and licenses for:

Grain Inspection	$ 2,515,412
Petroleum Inspection	609,557
Bank Examination	373,705
Insurance	314,157
State Parks	343,397
Feeding Stuffs	237,759
Miscellaneous	2,290,960
TOTAL	$ 6,684,947

(5) Refunds of $30,364,118 including corporation refunds have been deducted.

(6) Includes iron ore and semi-taconite occupation taxes.

(7) Includes taconite occupation tax, taconite tax and semi-taconite tax.

(8) Includes iron ore and taconite royalty taxes.

Source: Department of Taxation and State Auditor. Table appeared in *The Minnesota State and Local Tax System*, Department of Taxation, Research Division.

THE MINNESOTA PROPERTY CLASSIFICATION SYSTEM, 1961

I–PERSONAL PROPERTY

Class	*Description*	*Percent of True and Full Value*
1	All mined ore in stockpile	50
1A	Direct products of blast and open hearth furnaces, not further processed, such as pig iron and ingots	15
2	Household goods and other personal property actually used for personal and domestic purposes or for the furnishing and equipment of the family residence	25
2A	Mobile homes [18]	4½-10
3	Business property, including stocks of merchandise together with the furniture and fixtures used therewith, manufacturer's materials and manufactured articles, all agricultural products not in the hands of the producer, all tools and implements, and all machinery not permanently attached to and a part of the real estate, except agricultural products in the hands of the producer and farm tools and implements and machinery used by the owner in any agricultural purusit	33⅓
3A	All agricultural products in the hands of the producer, except grain	10
3D	All livestock and poultry, and all agricultural tools, implements, machinery used by the owner in any agricultural pursuit	20
3J	Personal property of petroleum refineries	17
4	All personal property not included in the preceding chapters such as structures on railway land not owned by railroads; private property on urban public lands; transmission and distribution systems of utility and pipeline companies; billboards and other advertising devices	40
none given [19]	Electric distribution lines, for sale of electricity to farmers at retail	5
none given [19]	All rural electric transmission lines	40

II–REAL PROPERTY

Class	*Description*	*Percent of True and Full Value*
1	Unmined iron ore	50
1A	"Low-grade" iron ore–usually ore that would require special processing in order to get a product with more than 50 per cent iron content. This ore is assessed at rates that vary with the ore content	48½-30
3	Non-homestead real estate which is rural in character, devoted or adaptable to rural but not necessarily agricultural use	33⅓
3B	First $4,000 of "true and full" value of rural homesteads	20
3C	First $4,000 of "true and full" value of urban homesteads	25
3CC	First $8,000 of "true and full" value of all real estate with special fixtures adapted for occupancy by permanently disabled veterans	5
3E	Land used exclusively to produce timber	20
3H	Real property of petroleum refineries	27
4	Urban real estate and urban homesteads on "true and full" value above $4,000, urban homesteads of totally disabled veterans above $8,000	40

[18] Assessment of mobile homes is administered by the Motor Vehicle Division of the Secretary of State. The tax on these homes is due thirty days following assessment. If the Motor Vehicle Division is unable to assess these homes the County Assessor is called upon to do so. Various rates apply—from 4½ to 10 per cent—of true and full value, which is defined as factory list price.

[19] Transmission and distribution lines in rural areas are assessed by the Comissioner of Taxation.

Source: State of Minnesota, 1961 Personal Property returns, with revisions and additions by the director, Property Tax Division.

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