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Final Summary Report

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STATE PLANNING AGENCY
OF LOCAL AND URBAN AFFAIRS

Minneapolis-St. Paul Study

Summary Report of Part One: City Financial Conditions MN State Planning Agency Study 1977

Main Objective of Study:

To what extent are the problems of the cities beyond their control and the extent to which the problems of the cities come from their own decisions and policies.

Major Focus Areas:

1. Local government finances
2. Structure and organization of government as it relates to the financial management and decision making process
3. Development policies
4. Demographic characteristics and trends

Major Findings:

1. Municipal property rate is significantly higher in both Minneapolis and St. Paul than surrounding suburbs. Minneapolis's municipal property rate is higher than St. Paul's.
2. There is more tax exempt property in Minneapolis and St. Paul than surrounding suburbs. Particularly tax exempt property of state and regional benefit.
3. Minneapolis spends more on municipal expenditures than any other city in the state including St. Paul.
4. Municipal expenditures have increased at a greater rate than inflation.
5. Minneapolis has more municipal employees per capita with higher salaries than other comparable cities in the state or nationally.
6. Debt has grown significantly in Minneapolis and St. Paul. St. Paul has more municipal tax supported debt and more municipal debt than Minneapolis.
 - State debt limits have had little impact on debt levels because the state has exempted a large portion of the cities tax supported debt from these limits.
7. Levy limits held down tax levies for municipal operating costs. They have not been effective in halting sub. Property tax increases in Minneapolis.
 - Nearly 1/2 of the city's property tax levy is for special levies exempted from levy limits.
8. Intergovernmental revenue accounted for a greater portion of municipal revenue in 1975 reducing reliance on property taxes.
 - In 1967 property taxes accounted for 56% of total municipal revenue. In 1975 it only accounted for 36%.

Municipal Property Taxes Rates are higher in both Minneapolis and St. Paul than in suburban metropolitan cities, with Minneapolis's being higher than St. Paul's.

4/3/78

MINNESOTA STATE PLANNING AGENCY
Office of Local and Urban Affairs

MINNEAPOLIS-ST. PAUL STUDY

FINAL SUMMARY REPORT

June, 1978



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EXECUTIVE SUMMARY OF MAJOR FINDINGS

EXECUTIVE SUMMARY OF MAJOR FINDINGS

Revenues

1. *Since 1967, intergovernmental revenues have increased substantially in Minneapolis and St. Paul.*

Minneapolis total intergovernmental revenues increased from \$6.8 million in 1967 to \$83 million in 1976. St. Paul intergovernmental revenues increased from \$3.7 million to \$59 million. (pp. 15-16)

2. *Intergovernmental revenues have grown much faster than local sources of revenue. As a result, the Cities now raise only about half of their total revenues from their own sources.*

In Minneapolis, the proportion of total revenues raised locally declined from 87.6% in 1967 to 53.6% in 1976. In St. Paul, the proportion of total revenues raised locally declined from 90.3% in 1967 to 48.9% in 1976. (pp. 16-17)

3. *The rapid growth of intergovernmental revenues has decreased the Cities' reliance on the local property tax.*

In Minneapolis, the proportion of total revenues provided by the property tax has declined from 55.6% in 1967 to 31.2% in 1976. In St. Paul, the proportion of total revenues provided by the property tax has declined from 61.2% to 21.4%. (pp. 16-17)

4. *State aid has been the fastest growing source of general City revenue.*

Total State aid to Minneapolis grew from \$4.1 million in 1967 to \$48.1 million in 1976, and now constitutes 27.0% of total City revenues. State aid to St. Paul grew from \$2.9 million in 1967 to \$27.2 million in 1976, and now constitutes 23.5% of total City revenues. (pp. 16-19)

5. *Most of the new State aid has been provided by the Local Government Aid Program, which provides Minneapolis and St. Paul with considerably more local government aid per capita than other communities in the metropolitan area; the program provides Minneapolis with considerably more aid than St. Paul. (pp. 21-24)*

LOCAL GOVERNMENT AID PER CAPITA
1978

Minneapolis	\$104
St. Paul	74
Outstate Cities Over 10,000	63
Othe Metro Cities Over 10,000	30

6. *Although Minneapolis and St. Paul receive more local government aid per capita, the suburban communities receive more school foundation aid per capita. (pp. 23-25)*

SCHOOL FOUNDATION AID PER CAPITA
1978

Minneapolis	\$ 78
St. Paul	83
Other Metro Cities Over 10,000	169

7. *The local government aid advantages of the two Cities relative to the suburbs are largely offset by suburban advantages in school foundation aids.*

The table below shows that overall property tax rates would be more than 40 mills higher in all communities without these State programs. (pp. 23-25)

STATE LOCAL GOVERNMENT AID AND SCHOOL FOUNDATION
AID EXPRESSED IN EQUIVALENT LOCAL PROPERTY TAX MILLS
1978

	Local Government Aid	School Foundation Aid	Total Aid
Minneapolis	24.980	18.659	43.639
St. Paul	19.329	21.686	41.015
Other Metro Cities Over 10,000	6.157	35.047	41.204

8. *The State's objectives of stabilizing municipal property tax rates and reducing municipal tax rate disparities have been at least partially achieved in St. Paul, but have not been achieved in Minneapolis. Although Minneapolis receives substantially more aid per capita than St. Paul and other metropolitan area communities, the City's property tax rate has increased considerably, and the municipal tax rate disparity between Minneapolis and other cities in the metropolitan area, including St. Paul, is growing. (pp. 26-28)*

GROWTH OF MUNICIPAL MILL RATES

	<u>1967</u> <u>Mill Rate</u>	<u>1978</u> <u>Mill Rate</u>	<u>Change</u>
Minneapolis	25.390	48.564	+23.174
St. Paul	33.660	34.863	+ 1.203
Other Metro Cities Over 10,000	13.900	18.257	+ 4.357

9. *As a result of these municipal tax rate disparities, Minneapolis residents pay higher municipal property taxes in Minneapolis than they would elsewhere in the metropolitan area.*

The owner of a \$40,000 home in Minneapolis pays over \$130 more in municipal property taxes than the owner of a \$40,000 home in St. Paul, and about \$300 more than the owner of such a home in the average metropolitan suburb. Renters also pay more property taxes indirectly. (pp. 28-29)

10. *Levy limits have not been effective in halting very substantial property tax increases in Minneapolis. This is primarily because about half of Minneapolis' property tax levy is for special levies, excluded from the levy limitation.*

The two largest special levies have been for debt service and for increased pension costs. In 1978, the total Minneapolis levy was 54% greater than the levy limit. In St. Paul the levy was 23% greater than the limit. (pp. 29-31)

11. *Municipal property tax rate disparities between the two Cities and the suburbs cannot be attributed to inequalities in resources, but rather must be attributed to higher expenditure levels in the Cities.*

In 1976, the overall municipal resource base of the two Cities appeared to be as great as the resource base of other metropolitan area communities. Although the other metropolitan area communities have more taxable value per capita than Minneapolis and St. Paul, the Cities have an advantage in intergovernmental aids that more than offsets the suburbs' greater property tax wealth. (pp. 32-42)

12. *In 1976, Municipal property tax rate disparities between Minneapolis and St. Paul could be partly attributed to St. Paul's heavier reliance on local non-property tax revenues. However, this factor accounts for only 2 mills of the 12 mill property tax rate difference between the two Cities. The remainder was attributable to higher expenditures in Minneapolis. (pp. 32-42)*

13. *The disparity in municipal property tax rates has contributed to an overall mill rate disparity between Minneapolis/ St. Paul, and other communities in the metropolitan area with populations over 10,000.*

In 1967, Minneapolis had the lowest total mill rate of the 34 communities in the metro area with populations over 10,000. St. Paul was fifth lowest. In 1978, St. Paul had the second highest total mill rate and Minneapolis had the third highest. (pp. 31-32)

TOTAL MILL RATES

	<u>1967</u>	<u>1978</u>	<u>Change</u>
Minneapolis	77.583	130.092	+52.509
St. Paul	85.480	131.026	+45.546
Other Metro Communities Over 10,000	94.786	106.232	+11.446

14. *Overall property tax rate disparities between the two Cities and the suburbs can be at least partly attributed to inequalities in resources when all taxing districts are considered.*

The other metropolitan area communities have more taxable value per capita and per household than the Cities and they receive about the same amount of overall property tax relief when school foundation aid is combined with local government aid. (pp. 31-32)

Expenditures

15. *Expenditures per capita and expenditures per household are much higher in Minneapolis and St. Paul than in the other metropolitan area communities. Expenditures are also much higher in Minneapolis than St. Paul. (p. 43)*

1975 OPERATING EXPENDITURES

	<u>Expenditures Per Capita</u>	<u>Expenditures Per Household</u>
Minneapolis	\$334.82	\$779.04
St. Paul	251.84	669.93
Other Metro Cities Over 10,000 (average)	125.16	404.98

16. *The expenditure differences between Minneapolis and St. Paul emerged only in the early 1970s and coincided with substantial increases in State aid. (p. 44)*

17. *Since 1967, the Cities' expenditures have grown much faster than inflation.*

In 1967, total Minneapolis operating expenditures were \$50,086,903. By 1975, expenditures had risen to \$140,175,840, an increase of 179.9%. Only 56.9% of this increase in operating expenditures could be attributed to inflation. The remainder was due largely to increases in the number of City employees and increases in employee compensation beyond inflation.

In 1967, total St. Paul operating expenditures were \$34,920,955. By 1975, operating expenditures had risen to \$80,303,551, an increase of 130.0%. Only 63.3% of this expenditure increase could be attributed to inflation; the rest was due to increases in the number of employees and increases in employee compensation beyond inflation. (p. 45)

18. *The municipal property tax in Minneapolis and St. Paul would have been nearly eliminated in 1975 if, (a) the Cities had been able to hold their expenditure increases to the inflation rate between 1967 and 1975, and (b) the State and Federal government distributed general aids in accordance with a formula which provided the same amount of aid to the Cities as they actually received, but which did not include a factor for local tax effort, and (c) the Cities had been able to raise the same amount of local non-property tax revenues as they actually raised.*

Rather than levying \$31 million of property taxes in 1975, St. Paul would have needed to levy only \$.9 million, less than a mill. Rather than levying \$59.6 million of property taxes in 1975, Minneapolis would have needed to levy only \$5.6 million, less than four mills. (p.45)

19. *In almost all expenditure categories, Minneapolis spends more to operate on a per capita and per household basis than St. Paul.*

In 1975, Minneapolis spent \$1.30 per capita for operation and maintenance for every \$1.00 per capita spent in St. Paul. (pp. 46-47)

20. *The two Cities spend more to operate on a per capita and per household basis than other metropolitan area communities in all expenditure categories except interest expense. (p. 48)*

21. *In the last ten years, Minneapolis has spent the most per capita for capital improvements, but the suburbs have spent the most on a per household basis. St. Paul has invested the least in its capital stock on both a per capita and per household basis. (p. 49)*

22. *Minneapolis and St. Paul have considerably more employees per capita than suburban communities.*

In 1975, Minneapolis had about 13 employees per 1,000 population, St. Paul had 11 employees per 1,000 population, and other metro area communities had about 4 employees per 1,000 population. The total number of employees in both Cities has increased significantly since 1970. In Minneapolis the largest increases occurred among clerical-technical workers, firefighters, and police officers. In St. Paul, the largest increases occurred among police officers and clerical-technical workers. (p. 72)

23. *Public Safety (police, fire, and inspections) contributes more to overall expenditure differences and tax rate disparities than any other single functional category. In 1975, Minneapolis spent \$117 per capita for public safety, St. Paul spent \$99 per capita, and the other metro area communities spent an average of \$35.*

In 1978, the municipal tax rate was approximately 27 mills higher in Minneapolis than in the other metro area communities. Differences in expenditures for public safety accounted for about 11 mills of this total disparity or 39%. In 1978, the municipal tax rate disparity between St. Paul and other metro area communities was 11 mills. The Study estimated that public safety spending differences account for 5.6 mills of this disparity or 51%. (pp. 57-58)

24. *In addition to public safety, the only other major factors contributing to tax rate disparities between St. Paul and the suburbs are: (a) higher pension costs in St. Paul resulting from locally-administered police and fire pension funds, and (b) higher wage levels in St. Paul.*

If broken out separately from each functional expenditure category, local police and fire pension systems contribute about 2-3 mills of the total disparity and wage differences contribute about 5 mills. Other than public safety, no other functional expenditure category contributes more than one mill to the property tax rate disparity. (p. 89)

25. *Although public safety is the major factor, several other expenditure categories contribute significantly to the overall 27 mill municipal tax rate disparity between Minneapolis and the suburbs: parks (3 mills); sanitation, including refuse collection (3 mills); street maintenance, including repair, snowplowing and lighting (3 mills); general government (2.0 mills); and libraries (2 mills). (pp. 87-88)*

26. *Higher wage and pension costs in Minneapolis also contribute to expenditure differences and tax rate disparities between Minneapolis and other metro area communities.*

All of Minneapolis' pension systems are locally-administered; the City provides more generous benefits than most other metro area communities, and is solely responsible for unfunded liabilities. This contributes about 6 mills to the total disparity between the City and the suburbs when pensions are broken out separately from among the functional expenditure categories. Higher wages in Minneapolis contribute about 4-5 mills of the total disparity. (p. 88)

27. *The Study identified seven major explanations of expenditure differences and tax rate disparities between Minneapolis and St. Paul:*

- a. Minneapolis pays slightly higher wages. Minneapolis also offers more generous pension benefits to municipal employees. (pp. 72-82)
- b. Minneapolis has a locally administered pension system for municipal employees, while the municipal employees of St. Paul are covered under the State-wide PERA system. This leads to higher expenditures and tax rates in Minneapolis because the City is solely responsible for the unfunded liabilities of its employees, while the responsibility for the unfunded liabilities of St. Paul employees is shared on a State-wide basis. (pp. 77-82)
- c. Minneapolis has more police officers and higher police costs than St. Paul on both a per capita and per household basis. (p. 57)
- d. Minneapolis and St. Paul have fundamentally different capital investment strategies, with Minneapolis' strategy being more costly at least in the short run. In 1967, Minneapolis began a systematic residential paving project to replace all its oil-dirt streets in 20 years and has financed this program through general obligation bonds supported by the property tax. The Minneapolis paving program also includes systematic sewer separation. The City uses its own municipal crews for residential paving rather than bidding the work to private contractors on a competitive basis.

St. Paul has paved some residential streets in connection with its urban renewal projects, but did not begin a long-range residential paving program until 1977. The City has not attempted a systematic sewer separation program. The City bids all paving work to private contractors. (pp. 65-67)

- e. Minneapolis operates a mandatory residential refuse collection system that is financed through the property tax. St. Paul provides optional municipal service to 20% of City households and this is financed largely by service fees. The remainder of the City is served by an open hauling system.

Minneapolis divides the responsibility for refuse collection between municipal crews and private haulers. The City does not bid the portion of the work that is assigned to the private sector, but rather negotiates exclusively with a consortium of private haulers. (pp. 67-70)

- f. Minneapolis operates larger park and library systems than St. Paul. (58-62)
- g. Minneapolis' redevelopment policies have an indirect impact on tax rate differences between the two Cities. Minneapolis has undertaken several tax increment development districts that require property tax support. (pp. 62-65)

These seven explanations of expenditure differences illustrate that Minneapolis has responded more aggressively to special needs than St. Paul by providing higher levels of municipal services in several major functional areas, including street paving, sewer separation, parks, libraries, and refuse collection. These service levels are an important factor in accounting for overall expenditure differences between Minneapolis and St. Paul. (pp. 50-54)

28. *To a large extent, external factors beyond the Cities' control contribute to expenditure levels that are higher in Minneapolis and St. Paul than in other metropolitan area communities.*

Major examples of such factors are: the age and population size of the Cities, the large concentrations of lower income persons, the historic role of the Cities as regional centers, and the mandates of other units of government. These kinds of external factors contributed to spending differences in every expenditure category studied. (pp. 57-82)

29. *Tax-exempt property is an important example of an external factor that contributes to expenditure differences in several functional areas. The Cities not only have more tax exempt property than other metro area communities, but also have more tax exempt property that is used by nonresidents.*

Approximately 25% of total market value in Minneapolis and St. Paul is tax exempt. Approximately 40% of this tax exempt property in the Cities serves regional or State-wide purposes. In the balance of the metropolitan area, only 17% of total market value is tax exempt, and only 20% of this property serves regional or State-wide purposes. (pp. 50-51)

30. *Total expenditure differences among Minneapolis, St. Paul, and other metropolitan area communities result not only from external factors, but also from internal factors that are largely subject to local control, including: (a) municipal tastes for superior levels of service, (b) city management practices, and (c) government structures and processes.*

These internal factors contribute to higher costs but have little relationship to special needs. Examples of these types of management practices were found in almost every Minneapolis expenditure category studied, including redevelopment, paving, refuse collection, general government, wages, and pensions. Examples of these types of practices in St. Paul were most evident in wages and pensions. (pp. 54-82)

31. *Both Cities, but particularly Minneapolis, appear to have chosen higher spending levels in response to a variety of special interests including business groups, neighborhood groups, and municipal employee unions. For example, City officials have not always represented a forceful management perspective in wage negotiations and pension deliberations. Also, City officials have not always carefully analyzed the long-term costs of major capital projects. This management practice has contributed to unanticipated expenditures and tax levies, especially in Minneapolis development districts. (pp. 57-82)*
32. *Variations in municipal tastes and management practices between Minneapolis and other communities appear to reflect, to a large extent, the structure and decision-making process in Minneapolis.*

Minneapolis has a decentralized, fragmented government structure with many independent boards. Responsibility for managing the City's financial affairs is divided among seven independent governmental entities. The Minneapolis City Council not only serves as a legislative body, but also administers most City departments. City Council members are elected by wards. The Mayor is not the chief executive, although beginning in 1978 the Mayor is responsible for proposing the City's annual budget.

Whatever its possible merit in other areas, this fragmented structure works against the effective management of the City's financial affairs in at least three ways: (1) There is a lack of clearly focused accountability

for expenditure decisions and tax rates. Aldermen in Minneapolis are generally held accountable for the quantity and quality of municipal services in their wards but are held less accountable for high tax rates. (b) There is overlap, duplication, competition, and lack of coordination among the various governmental agencies. (c) The complexity of the system provides extra leverage for special interest groups which have a better understanding of how the system can be made to work for their benefit. (p. 55)

In 1976, Minneapolis voters approved a Charter change making the Mayor responsible for proposing the City budget. It is too early to determine with certainty whether the new system will improve the City's financial management. However, it does not appear that the Mayor has sufficient powers to guarantee that he will be able to lead and coordinate financial management in the City. Rather, the recent Charter change will more likely increase the complexity and fragmentation of City government. (p. 55)

33. *Since the early 1970s, St. Paul has had a very centralized, strong-Mayor system. This system has led to effective management of City financial matters.*

The only major independent board is the Port Authority. The City Council is elected on a City-wide basis and is strictly a legislative body. (p. 55)

Future Financial Prospects

34. *St. Paul enjoys a well-deserved reputation as a healthy and vital City. Several important factors bode well for the City's financial future: major new downtown developments, considerable neighborhood rehabilitation activity, and the City's effective financial management systems. St. Paul has a AA credit rating.*

*The Study has identified four areas of future concern:
(pp. 94-109)*

- a. *St. Paul has neglected to maintain and replace some important elements of its capital stock.*

The City's capital needs now appear to greatly exceed its present resources. St. Paul estimates a need for approximately \$525 million of capital investment between 1976 and 1990. The present estimate of resources available to meet these needs is \$300 million.

- b. *St. Paul has a relatively high level of municipal debt, and a very high level of overlapping debt.*

As of the end of 1976, St. Paul had approximately \$142 million of general obligation municipal debt, most of which was tax-supported. This was about \$500 per capita. As of the end of 1975, St. Paul had \$942 per capita of overlapping debt. Although the City should have no problem meeting its debt obligations, the high level of existing debt inhibits the City's ability to respond more aggressively to its growing capital investment needs.

- c. *Unless action is taken at the State level, the costs of the City police and fire pension funds will place an increasingly severe financial burden on the City.*

Between 1967 and 1976, pension expenditures for police and fire increased from \$1.1 million to \$5.2 million, an increase of 370%. St. Paul now contributes about 30¢ in pensions for every dollar it pays in police and fire salaries. (Police officers and firefighters contribute only 6% of their base salaries.) Also, because the pension funds are locally administered, the City is solely responsible for approximately \$90 million of unfunded liabilities. In 1976, the combined funded ratio of both funds was only 16.7%. A major factor which creates these substantial cost pressures is the escalator provision which provides all police and fire retirees with automatic post-retirement benefit increases equal to the annual percentage increases in the base salary of active members.

- d. *A very high proportion of the City's total revenues is committed to fixed costs such as debt service and pensions; this proportion is growing.*

In 1967, City expenditures for pensions and debt were equal to 20% of the municipal property tax. By 1976, the figure had risen to 57%. This could create problems for the City if intergovernmental aids should level off or decrease. In such a situation, the City would be forced to use local sources of revenue to finance essential services that now are financed with intergovernmental aids. However, if the City is already devoting a major share of its local resources largely to fixed costs, it would have to choose between eliminating genuinely essential services or substantially increasing the property tax.

35. *Minneapolis also has a reputation as a healthy and thriving City. There are several important factors which should help maintain the City's vitality: major new private developments are underway in the downtown; the City has one of the most extensive neighborhood rehabilitation programs in the nation; it has adhered to a rigorous replacement schedule for several major elements of its capital stock, and the City's park system is outstanding. Minneapolis enjoys a AAA credit rating.*

*The Study has identified six areas of future concern:
(pp. 94-109)*

- a. *Minneapolis has a high municipal property tax rate, and a substantial disparity exists between the City and its suburbs.*
- b. *Minneapolis appears to utilize some management practices that may prevent it from lowering its tax rate.*

The City relies on municipal workers to carry out some municipal functions without analyzing alternatives that could be less costly. In the past, City officials have not aggressively represented a management perspective in wage negotiations and pension deliberations. The City has invested a substantial amount of its Federal Community Development Block Grant funds in ways that respond to pressures from neighborhood groups and other special constituencies without evaluating the effectiveness of its block grant activities. Finally, the City has undertaken some large scale capital projects, particularly tax increment projects, without carefully analyzing the risks and indirect costs of such projects.

- c. *Debt in Minneapolis has increased from \$72.4 million in 1967 to \$245.9 million in 1977, an increase of 240%. This increase was largely attributable to special projects including development districts and municipal parking ramps. Although these projects were intended to be self-supporting, they will require some support from the property tax.*
- d. *The costs of the City's pension funds will place an increasingly severe financial burden on the City.*

Expenditures for the City's three locally administered pension funds have grown from \$6.0

million in 1967 to \$19.7 million in 1976, an increase of 228%. The City is solely responsible for over \$359 million of unfunded pension liabilities. (The combined funded ratio of all three funds is 35.2% compared to 62.6% in the State PERA system.) The escalator provision of the police and fire funds will create additional cost pressures in the future, and the Study has identified potential cash flow problems with the Minneapolis Employees' Retirement Fund.

- e. *The City has traditionally dealt with its high property tax rate and other financial problems by successfully seeking more and more State aid. Should intergovernmental aids level off or decrease, the City will be forced to use local sources of revenues to finance essential services. However, a very high proportion of the City's total property tax revenues are committed to fixed costs such as debt service and pensions.*

In 1967, 34 cents of every municipal tax dollar went for pensions and debt. By 1976, this figure had risen to 57 cents. This means that should intergovernmental aids fall off, the City will have less flexibility in finding local sources of revenue to replace the lost aids. The City would then be forced abruptly to choose between even higher property taxes or cutting genuinely essential services.

- f. *The Mayor and City Council have taken steps to improve the City's financial management. However, Minneapolis' fragmented government structure continues to hamper the City in its efforts to more effectively manage its finances.*

The Mayor of Minneapolis has formed a commission on municipal finance, and has promised to propose a budget that reduces the City's mill rate. The Mayor has also developed a plan for stabilizing and managing the City's debt.

The City Council has also taken steps to improve the City's financial management capabilities, including installing a computerized financial management and information system, reorganizing the City Coordinator's Office, forming an office of program monitoring and evaluation, and hiring a pension consultant.

I. MAJOR FINDINGS ON REVENUES

I. MAJOR FINDINGS ON REVENUES

The Minneapolis-St. Paul Study produced three major reports related to City revenues. The first report was a comprehensive summary of revenues, with separate chapters on intergovernmental aids, property taxes, property tax increases, and local, nonproperty tax revenues. Reports were also prepared on levy limits and tax exempt property. The following material represents a greatly simplified summary of these full reports.

A. City Revenue Patterns¹

City revenues can be divided into three general categories: (1) intergovernmental aids, which include both Federal and State aids, (2) local property tax revenues, and (3) local nonproperty tax revenues. Examples of intergovernmental aids are Federal revenue sharing, Federal Community Development Block Grants, and State local government aid. Examples of local, nonproperty tax revenue include special assessments, licenses and permits, departmental fees and service charges, and interest on investments.

The Minneapolis-St. Paul Study contains two major findings about revenue patterns in the two cities:

- (1) Intergovernmental aids have grown much faster than local sources of revenue, and now constitute about half of the Cities' total revenues.
- (2) As a result of this sizable growth of intergovernmental aids, the Cities' reliance of the property tax has decreased significantly since 1967.

Minneapolis total intergovernmental revenues have grown from \$6,809,487 in 1967 to \$82,702,924 in 1976, an increase of over 1,000%. St. Paul intergovernmental revenues grew from \$3,705,172 in 1967 to \$59,173,304 in 1976, an increase of nearly 1,500%. Exhibit 2 on the following page provides a breakdown of intergovernmental revenues by source.

¹The data in this section of the Summary Report is current only through 1976.

EXHIBIT 2

GROWTH OF INTERGOVERNMENTAL REVENUE²
1967-76

	Minneapolis		St. Paul	
	1967	1976	1967	1976
Federal	\$2,138,368	\$31,154,737	\$ 800,007	\$28,151,850
State	4,178,493	48,151,152	2,905,165	27,232,670
County	490,876	1,949,651	--	2,163,327
Other Local Units	1,750	1,447,384	--	1,625,457
Total	\$6,809,487	\$82,702,924	\$3,705,172	\$59,173,304

In Minneapolis, State source revenues greatly exceed Federal source revenues, while in St. Paul, State source revenues are slightly smaller than Federal source revenues. Minneapolis and St. Paul receive about the same dollar amount of Federal revenues, but Minneapolis receives nearly twice as much State aid as St. Paul. There are several reasons for this, two of which are especially important. The Federal Community Development Block Grant formula favors St. Paul relative to Minneapolis, and the State Local Government Aid formula favors Minneapolis relative to St. Paul.

The growth of intergovernmental aid has made the Cities less reliant on local source revenue in general, and the property tax in particular. This means that a decreasing proportion of city spending is being financed by revenues raised by the Cities themselves.

In Minneapolis, the proportion of total revenues raised locally declined from 87.6% in 1967 to 53.6% in 1976, while intergovernmental revenues have increased from 12.4% to 46.4% of total revenues. The proportion of total revenues provided by the property tax has declined from 55.6% in 1967 to 31.2% in 1976.

²Exhibit 2 somewhat overstates the growth of Federal revenues. In 1967, Federal urban renewal grants were made directly to housing and redevelopment authorities, rather than to city general purpose governments. By 1976, Federal policy had changed and renewal assistance was provided directly to city governments through Community Development Block Grants. Therefore, the 1967 figures in Exhibit 2 do not include urban renewal aid, while the figures for 1976 do include urban renewal aid.

In St. Paul, the proportion of total revenues raised locally declined from 90.3% in 1967 to 48.9% in 1976, while intergovernmental revenues increased from 9.7% to 51.1% of total revenues. The proportion of total revenues provided by the property tax has declined from 61.2% in 1967 to 21.7% in 1976.

Exhibits 3 and 4 on the following pages provide more detail on the composition of city revenues. The exhibits show that both Cities raised about half their revenues locally, with half of their revenues coming from intergovernmental sources. The exhibits also show that the Cities have different approaches to raising revenue locally. In Minneapolis, 31.2% of total revenues comes from the property tax, and 22.4% comes from other local sources. In St. Paul, nearly the reverse is true. Only 21.7% of total revenues comes from the property tax, and 27.2% comes from other local sources. (Appendix A at the end of the report contains a more detailed breakdown of 1976 City revenues.)

There are several different factors that account for this difference in local revenue patterns, two of which are especially important. Minneapolis has a higher municipal property tax rate than St. Paul, while St. Paul charges a much higher franchise fee on public utilities.

Exhibit 5 traces the change in the composition of revenues over the entire ten year period between 1967 and 1976. The graph shows that intergovernmental revenues have steadily increased as a percentage of total revenues. Total intergovernmental revenues now surpass local revenues in St. Paul and are approaching this point in Minneapolis.

The Cities' increased reliance on intergovernmental aids raises important and controversial public policy questions. For example, some federal and state officials fear that the Cities do not spend money as cautiously or as prudently when they are relieved of the political burdens of raising revenues locally.

On the other hand, some city officials are concerned with the constraints on local revenue raising capacities that usually accompany intergovernmental aids. For example, Minnesota State law generally prohibits Minnesota cities from imposing local sales or income taxes and establishes levy limits to control increases

EXHIBIT 3
 Minneapolis Composition of Revenues
 1967-76

	<u>1967</u>		<u>1976</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
Property Tax	\$30,654,741	55.6%	\$ 55,544,279	31.2%
Other Local	\$17,572,599	32.0%	\$ 39,901,120	22.4%
Subtotal: Local Revenues	\$48,277,340	87.6%	\$ 95,445,399	53.6%
Federal	\$ 2,138,368	3.9%	\$ 31,154,737	17.5%
State	\$ 4,178,493	7.6%	\$ 48,151,152	27.0%
Other	\$ 492,626	0.9%	\$ 3,397,035	1.9%
Subtotal: Intergovernmental Revenues	\$ 6,809,487	12.4%	\$ 82,702,924	46.4%
TOTAL	\$55,086,827	100.0%	\$178,148,323	100.0%

The Minneapolis Revenue Dollar

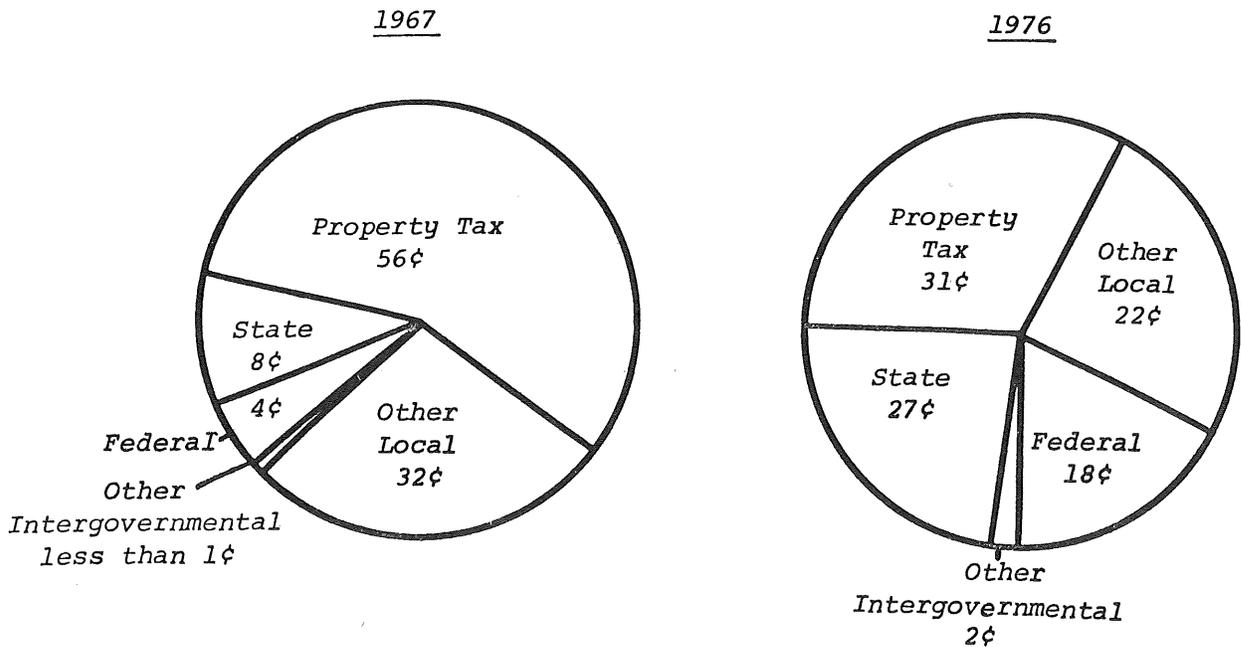


EXHIBIT 4
St. Paul Composition of Revenues
1967-76

	<u>1967</u>		<u>1976</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
Property Tax	\$23,280,171	61.2%	\$ 25,214,990	21.7%
Other Local	\$11,050,375	29.1%	\$ 31,599,131	27.2%
Subtotal: Local Revenues	\$34,330,546	90.3%	\$ 56,814,121	48.9%
Federal	\$ 800,007	2.1%	\$ 28,151,850	24.3%
State	\$ 2,905,165	7.6%	\$ 27,232,670	23.5%
Other	--	--	\$ 3,788,784	3.3%
Subtotal: Intergovernmental Revenues	\$ 3,705,172	9.7%	\$ 59,173,304	51.1%
TOTAL	\$38,035,718	100.0%	\$115,987,425	100.0%

The St. Paul Revenue Dollar

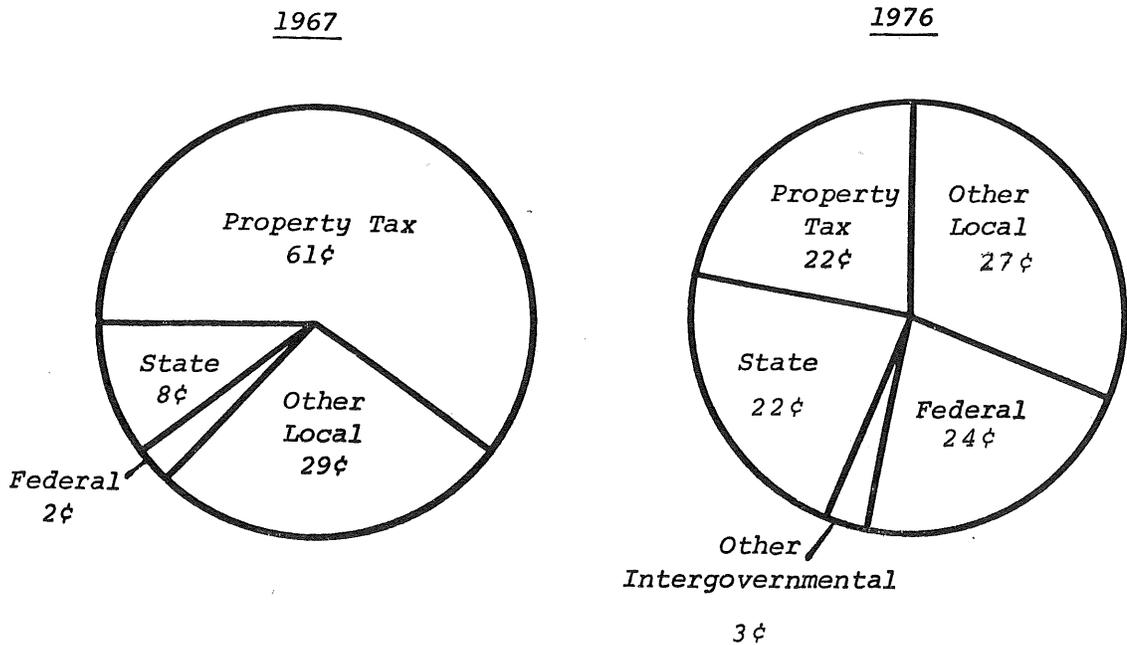
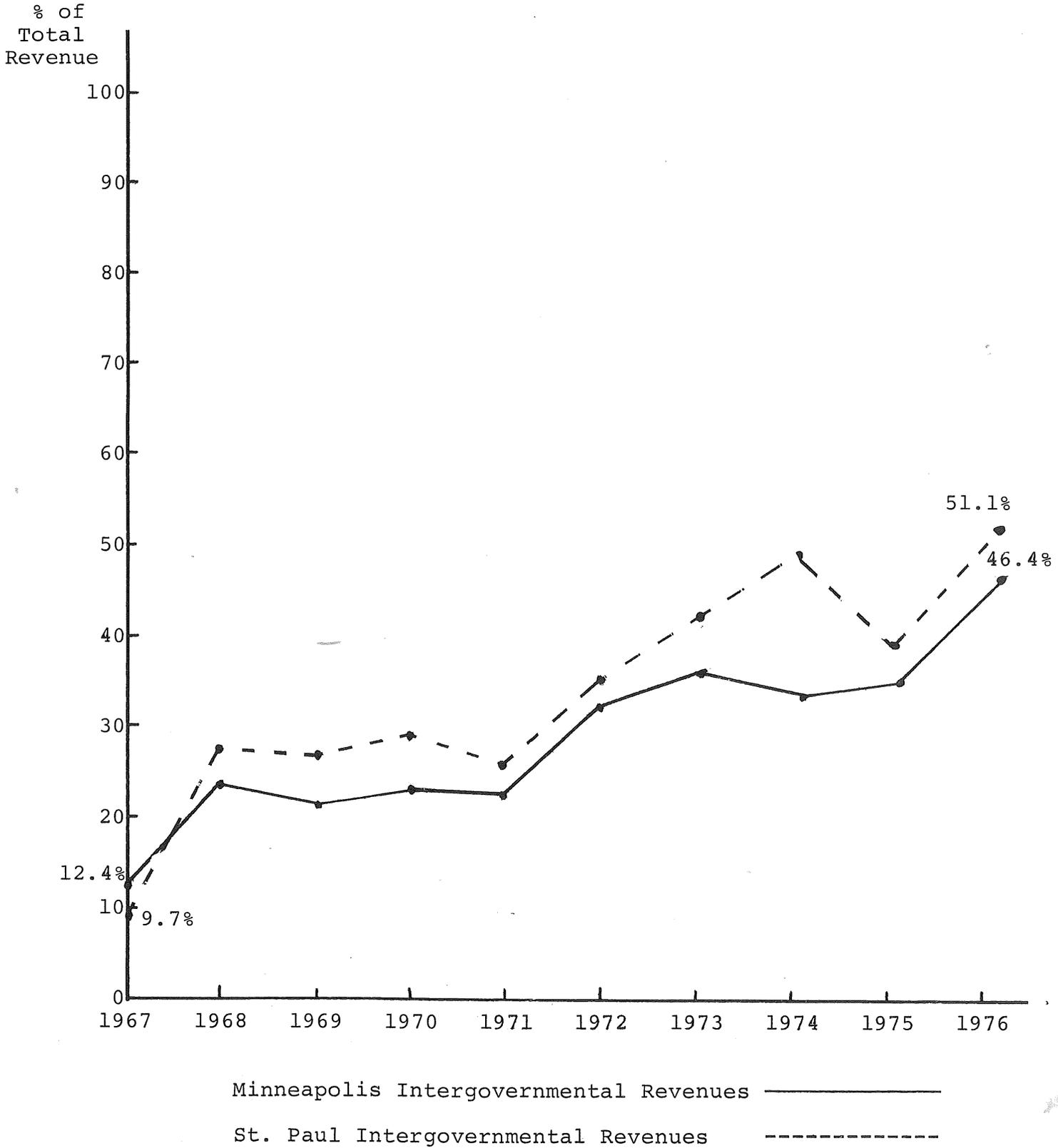


EXHIBIT 5

GROWTH OF INTERGOVERNMENTAL REVENUES AS A
PERCENTAGE OF TOTAL REVENUES
1967-1976



in property taxes. These sorts of limits, along with heavy reliance on intergovernmental aids, leave the cities vulnerable to changes in State or Federal policy, over which they have little direct control.

B. State Aid to Minneapolis and St. Paul³

The Minnesota local government aid program provides direct aids to local governments from state-wide sales and income taxes. One of the most important objectives of the Minneapolis-St. Paul Study has been to analyze the impact of State aids on the financial condition of Minneapolis and St. Paul. Before summarizing this analysis, this section will review briefly the intent of the local government aid program; this will require a review of the school aid program.

In 1971, the State established its present school aid program, which equalized the local property tax burden for financing primary and secondary education. Each school district levies a certain number of equalized mills of property tax (currently 28 mills; will be 27 mills in 1979). The State provides funds for the remaining operating costs according to a formula based on a certain number of dollars in aid per pupil unit.

This decision represented a long range State commitment to the financing of elementary and secondary education in Minnesota. The immediate impact was to provide substantial property tax relief, particularly to those communities which had: (a) high education costs, and (b) school property tax rates that constituted a relatively large proportion of total tax rates. Twin City Metropolitan Area suburbs with their large numbers of school children, and relatively small municipal costs especially benefited from the school aid program. The school aid program provided relatively more total property tax relief to the suburban communities than to Minneapolis and St. Paul, where the school property tax was a much smaller proportion of the total tax. However, the Legislature also provided municipal property tax relief, and this program favored Minneapolis and St. Paul relative to the suburbs.

³The data in this section of the Summary Report extends beyond 1976 and is current through 1978.

In this way the Legislature hoped to provide balanced and equitable tax relief to different types of communities.

The Minnesota local government aid program distributes aids according to a formula which has changed several times since 1971. The current formula is based on population and local tax effort. The State also has enacted a levy limit to prohibit municipalities from raising certain municipal expenditures more than 6% per capita annually. Some levies, such as levies for debt and for increased pension costs, have been excluded from this limit.

The objectives of the Legislature in establishing the local government aid program were more limited than the objectives of the school aid program. Most importantly, the local government aid program is not an attempt to equalize municipal mill rates.

Nevertheless, the levy limits enacted by the Legislature are a clear indication that the local government aid program was intended as an alternative to increases in municipal property taxes. Also, the formula for distributing local government aid is partially based on local tax effort: the greater a municipality's tax rate, the more aid it receives. It is reasonable to assume that by giving communities with high tax rates more aid, the Legislature hoped to at least stabilize local tax rates and reduce municipal tax rate disparities.

The State has provided considerably more aid to Minneapolis and St. Paul than to other metropolitan area communities, and considerably more aid to Minneapolis than to St. Paul. In recent years, the gap in state aids between Minneapolis and other communities has been widening. This is illustrated by Exhibit 6, which traces the growth of local government aid on both a per capita and per household basis between 1971 and 1978.

The graph shows that, in 1978, Minneapolis will receive \$104 of local government aid per capita, while St. Paul will receive \$74 per capita, and other metropolitan area communities over 10,000 in population will receive an average of \$30 per capita.

There are two important factors that account for these differences. The local government aid formula distributes aid on the basis of tax effort and population.

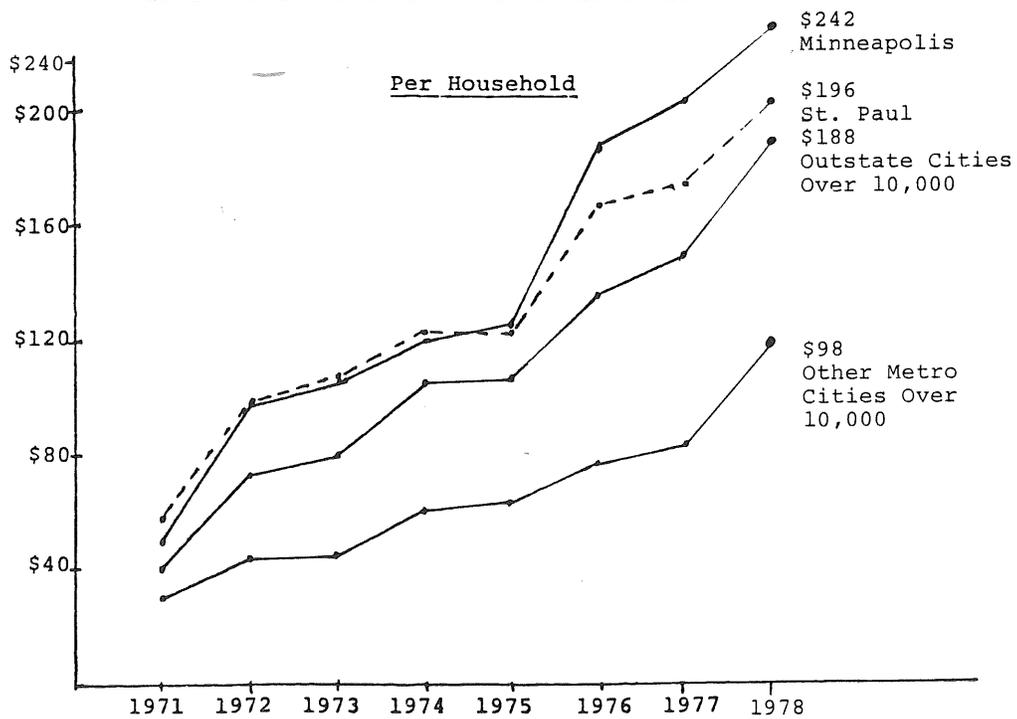
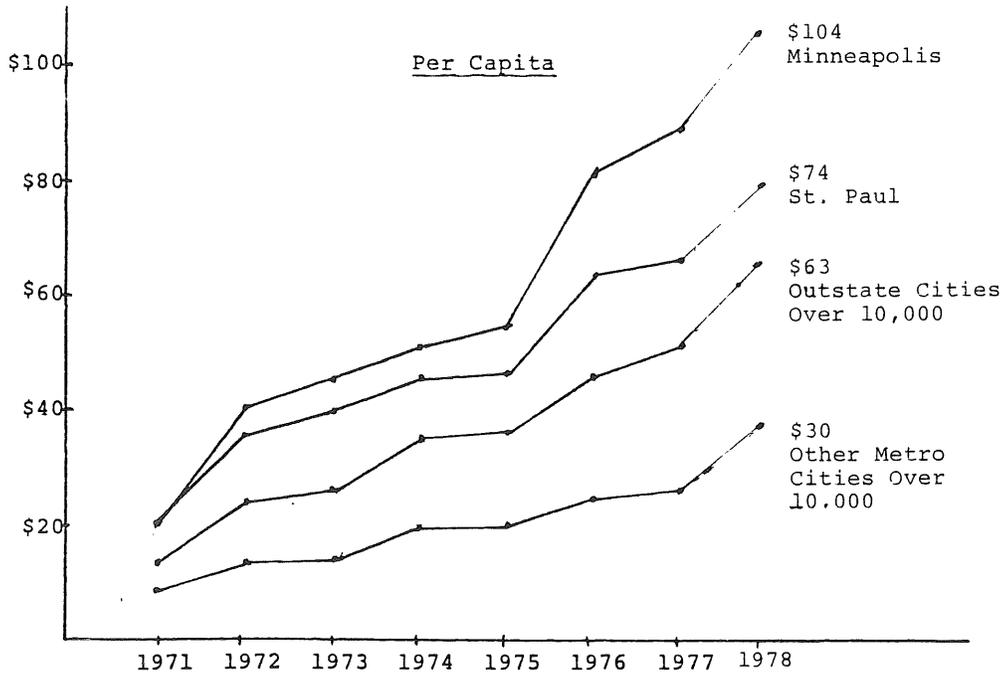
Therefore, because Minneapolis and St. Paul have higher municipal tax rates than suburban communities, they receive more aid per capita. This also explains why Minneapolis receives more aid than St. Paul; Minneapolis has a much higher tax rate. The second factor accounts for differences in a more indirect way. The amount of local government aid for Minneapolis and St. Paul is based on 1970 population. However the figures in Exhibit 6 are based on 1975 population. Since the population of the Cities has declined since 1970, they are receiving more aid per capita than the suburbs in terms of their current population.

While the graphs in Exhibit 6 show clearly that Minneapolis and St. Paul receive more local government aid than the suburbs, it is important to remember that the school aid formula provides greater aid to the suburbs than to the Cities. In 1978, Minneapolis received \$78 of school foundation aid per capita, St. Paul received \$83 per capita, and the other metro communities with populations over 10,000 received \$169 per capita.

Exhibit 7 is intended to compare the amount of State aid provided through both the local government aid program and the school aid program in terms of total property tax relief. The exhibit contains tables for 1972, 1976, and 1978 to show how the impact of State aid has changed. Exhibit 7 illustrates that the large advantage of the Cities in local government aid is offset by the advantage of the suburban communities in school tax relief. In 1978, Minneapolis received the most total tax relief. However, the figures for 1972 and 1976 show that until 1978, the suburbs were provided more total property tax relief than either Minneapolis or St. Paul.

EXHIBIT 6

LOCAL GOVERNMENT AID PER CAPITA AND PER HOUSEHOLD
1971-1978



The figures in Exhibit 7 include only local government aid and school foundation aid. They do not include other State aids such as the homestead credit and special State education aids.

EXHIBIT 7

MINNESOTA LOCAL GOVERNMENT AIDS AND SCHOOL AIDS
EXPRESSED IN PROPERTY TAX MILL EQUIVALENTS

	<u>1972 Local Government Aid</u>	<u>1971-72 School Foundation Aid</u>	<u>Total Aid in Equivalent Mills</u>
Minneapolis	12.017 mills (\$15,746,388)	12.124 mills (\$15,887,378)	24.141
St. Paul	12.037 (\$10,367,102)	13.776 (\$11,864,887)	25.813
Other Metro Cities Over 10,000	4.097 (\$10,710,777)	32.704 (\$85,490,924)	36.801
	<u>1976 Local Government Aid</u>	<u>1975-76 School Foundation Aid</u>	<u>Total Aid in Equivalent Mills</u>
Minneapolis	19.014 mills (\$30,505,572)	15.521 mills (\$24,901,631)	34.535 mills
St. Paul	16.466 mills (\$17,763,757)	21.126 mills (\$22,789,902)	37.592 mills
Other Metro Cities over 10,000	5.336 mills (\$20,693,072)	35.122 mills (\$136,208,177)	40.458 mills
	<u>1978 Local Government Aid</u>	<u>1977-78 School Foundation Aid</u>	<u>Total Aid in Equivalent Mills</u>
Minneapolis	24.980 mills (\$39,280,301)	18.659 mills (\$29,340,209)	43.639 mills
St. Paul	19.329 mills (\$20,851,885)	21.686 mills (\$23,393,815)	41.015 mills
Other Metro Cities over 10,000	6.157 mills (\$25,587,250)	35.047 mills (\$145,629,917)	41.204 mills

In summary, the Minnesota local government aid program complements the school aid program and provides balanced property tax relief to different types of communities. Exhibit 7 shows that this has been accomplished in the metropolitan area, in the sense that all communities now receive about the same amount of total aid relative to their tax bases.

C. Property Tax Rates⁴

1. Municipal Tax Rates

Exhibit 8 compares the growth of Minneapolis and St. Paul municipal property tax rates. The local government aid program appears to have been successful in stabilizing the St. Paul tax rate. Between 1967 and 1978, the municipal mill rate in St. Paul has risen from 33.660 mills to 34.863 mills, an increase of only 1.203 mills. The average municipal mill rate in metropolitan area communities over 10,000 has increased from 13.900 mills to 18.257 mills, a modest increase of 4.357 mills. However, the Minneapolis mill rate has nearly doubled, increasing from 25.390 mills in 1967 to 48.564 mills in 1978, an increase of 23.174 mills. (Appendices B and C show how the actual dollar levy has changed since 1967 and how levies have changed on a per capita and per household basis.)

By 1978, Minneapolis had by far the highest municipal property tax rate in the metropolitan area. There has emerged a considerable municipal tax rate disparity not only between Minneapolis/St. Paul and their suburbs, but also between the two Cities themselves. The disparity between Minneapolis and St. Paul is greater than the disparity between St. Paul and other metropolitan area communities.

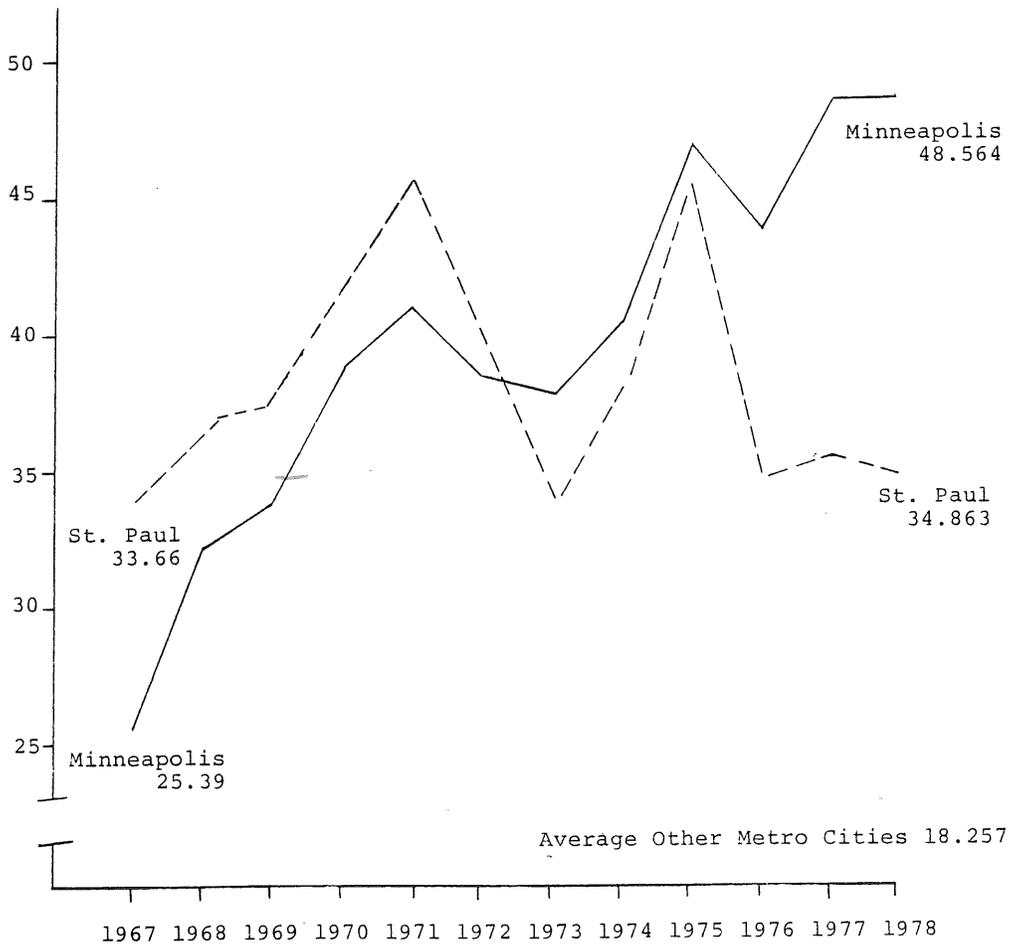
Exhibit 9 compares the 1978 municipal mill rates in Minneapolis and St. Paul with the average municipal mill rate in other metropolitan area communities. Two separate measures are used: (1) actual mill rates, and (2) mill rates adjusted for different assessment practices. This second measure is the more valid indicator when comparing municipal mill rates. It shows what the mill rates would be if each community assessed at 100% of actual market value.

⁴Data in this section of the report is current through 1978.

EXHIBIT 8

MINNEAPOLIS AND ST. PAUL MUNICIPAL MILL* RATES
1967-78

	<u>1967</u> <u>Mill Rate</u>	<u>1978</u> <u>Mill Rate</u>	<u>Change</u>	<u>%</u> <u>Change</u>
Minneapolis	25.390	48.564	+23.174	91.3%
St. Paul	33.660	34.863	+ 1.203	3.6%
Other Metro Communities Over 10,000	13.900	18.257	+ 4.357	31.3%



*A mill is 1/1000 of a dollar and is multiplied by the valuation to derive property taxes.

Using mill rates adjusted for different assessment practices, Exhibit 8 shows a disparity of 27.071 mills between Minneapolis and the average of other metropolitan communities, and a disparity of 10.922 between St. Paul and the average of other metropolitan communities. The disparity between Minneapolis and St. Paul is 16.149 mills.

In 1967, St. Paul rather than Minneapolis had the highest municipal mill rate in the metropolitan area. Minneapolis ranked only fourth. The disparity between Minneapolis and the suburbs was only about 10 mills rather than the 27 mills it is today.

Exhibit 9 also shows the impact of these disparities on homeowners. The owner of a home in Minneapolis with a \$40,000 market value pays approximately \$476 in net municipal property taxes, while the owner of the same home would pay \$343 in St. Paul, and an average of \$169 in other metropolitan cities with populations over 10,000. Therefore, the owner of a \$40,000 house pays about \$130 more a year in municipal property taxes in Minneapolis than the owner of a \$40,000 home in St. Paul, and about \$300 more than the owner of a \$40,000 home in the average metropolitan suburb.

(Appendices D through F of this report consist of four tables that provide additional information on mill rates for each metropolitan area community over 10,000.)

EXHIBIT 9

COMPARISON OF 1978 MUNICIPAL MILL RATES

	<u>Actual Mill Rates</u>	<u>Mill Rates Adjusted for Assessment⁵ Practices</u>	<u>Net Municipal Tax on a \$40,000 Home</u>
Minneapolis	48.564	43.028	\$476
St. Paul	34.863	26.879	\$343
Other Metro Cities Over 10,000	18.257	15.957	\$169

2. Levy Limits

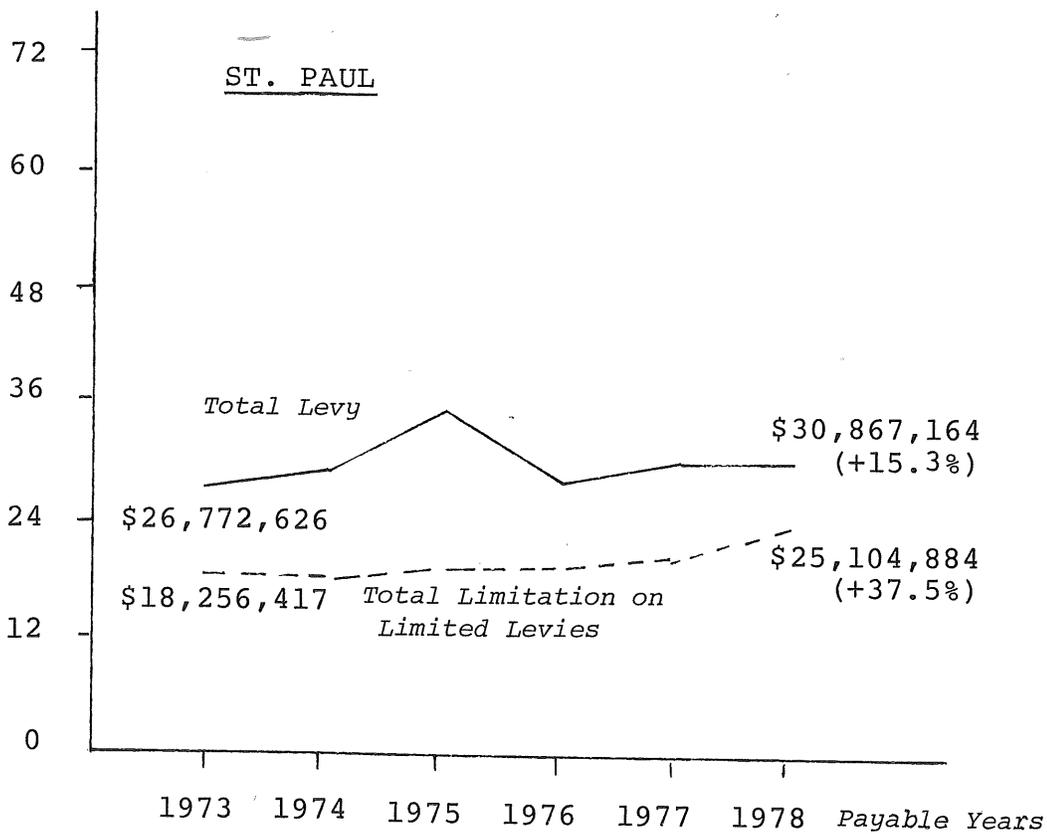
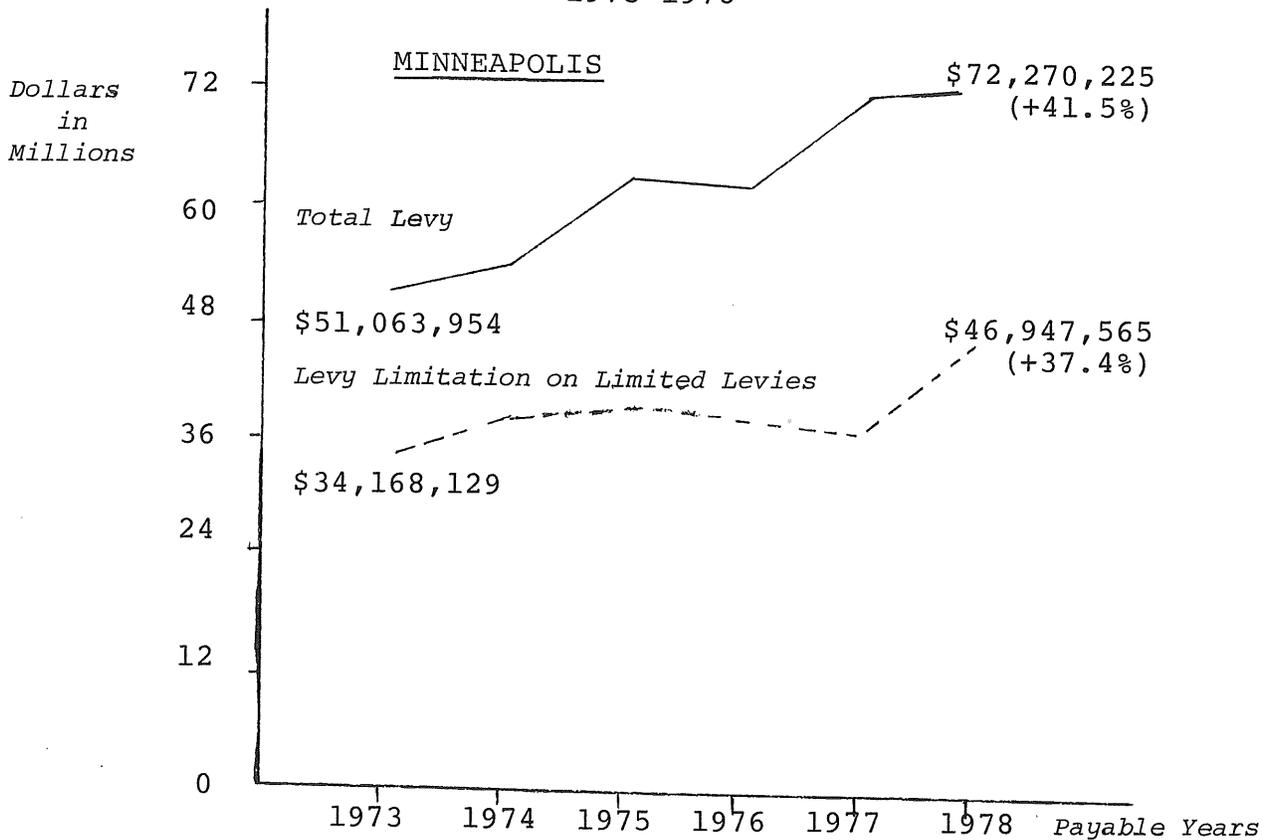
In order to assure that State aids would result in local property tax relief, the Legislature has enacted levy limits. However, the limits do not apply to the overall municipal tax levy, but only to levies for certain types of municipal operating costs. There are no limits at all on several "special levies," such as levies for increased pension costs and for debt service.

Therefore, levy limits may have slowed the growth of tax levies for certain types of municipal expenditures, but they have not prevented substantial overall property tax increases in Minneapolis. Exhibit 10 compares the levy limitation with the actual levy in both Minneapolis and St. Paul. The total levy in Minneapolis is 154% of the levy limitation. In St. Paul the actual levy is 123% of the levy limitation.

⁵This column adjusts the actual mill rate to account for different assessment practices in Minneapolis, St. Paul and other metropolitan communities. Generally, the assessor's market value is somewhat less than the true market value of properties throughout the metropolitan area. The ratio of assessor's value to actual value, however, differs from municipality to municipality. For example, the ratio of assessor's value to actual value, as determined by the selling price of property (sales ratio) is 88.6% in Minneapolis, 77.1% in St. Paul, and 87.4% in the balance of the metropolitan area. This column is derived by multiplying the actual mill rates by the sales ratio. Thus, the column shows what the mill rates would be if each community had a sales ratio of 100.0%. These figures are likely the most meaningful when comparing municipal mill rates.

EXHIBIT 10

CHANGE IN TOTAL LEVY VS. CHANGE IN
LEVY LIMITATION
1973-1978



In St. Paul the actual levy has grown more slowly than the levy limitation. Until 1977, the total Minneapolis levy was growing at a much faster rate than the levy limitation. However, in 1977 the Legislature changed the method by which the limitation was calculated by classifying some pension costs as limited levies.

3. Total Property Tax Rates

The preceding sections of this report have focused exclusively on municipal property tax rates and municipal tax rate disparities. The more significant measure from an individual taxpayer's standpoint is the combined property tax rate from all jurisdictions, including the county and the school district.

Exhibit 11 compares the 1978 total mill rate in Minneapolis and St. Paul with the average municipal mill rate in the 32 other metropolitan area communities with populations over 10,000. The exhibit also indicated how mill rates have changed since 1967. Exhibit 11 shows that total mill rates in Minneapolis and St. Paul have risen faster than total mill rates in the other metropolitan area communities. As a result, there has emerged a sizable disparity between the two Cities and their suburbs. This is a major reversal from the situation that prevailed in 1967, when Minneapolis had the lowest total mill rate of communities in the metro area over 10,000, and St. Paul had the fifth lowest. By 1978, only one community--White Bear Lake--had a higher total mill rate than St. Paul, which was second highest, and Minneapolis, which was third highest. (Appendix G lists the total mill rates in both 1967 and 1978 for all metropolitan area communities with populations over 10,000.)

These disparities have emerged because the State has provided more combined property tax relief through the local government and school aid programs to the suburbs than it has to Minneapolis and St. Paul. Also, the suburbs' tax base has grown faster than the Cities' tax base and the suburbs have more tax base on a per capita and per household basis.

EXHIBIT 11

TOTAL MILL RATES
1967-78

	<u>1967</u> <u>Mill Rate</u>	<u>1978</u> <u>Mill Rate</u>	<u>Change</u>	<u>%</u> <u>Change</u>
Minneapolis	77.583	130.092	+52.509	67.7%
St. Paul	85.480	131.026	+45.546	53.3%
Other Metro Communities Over 10,000	94.786	106.232	+11.446	12.1%

4. Summary of Tax Rate Findings

In summary, the Minneapolis-St. Paul Study found that a sizable municipal property tax rate disparity has emerged between Minneapolis and other communities in the metropolitan area, including St. Paul. These disparities have emerged despite a local government aid program that has provided Minneapolis with significantly more State aid per capita than other metro area communities.

The Study also found that a sizable combined property tax rate disparity has emerged between the two Cities and the other communities in the metropolitan area.

The Minneapolis-St. Paul Study has concentrated more on municipal tax rates than on total tax rates. A major objective of the Study has been to explain why municipal tax rates have grown so much in Minneapolis, and why such great disparities exist between Minneapolis and other communities. These issues are discussed in the next section of the report.

D. Revenue Raising Capacities⁶

There are many factors that could contribute to muni-

⁶ The preceding section traced the growth of mill rates from 1967 through 1978. This section analyzes the impact of various revenue sources on mill rates. Because data available on revenue sources is current only through 1976, this section shows the impact on 1976 rather than 1978 mill rates. Also, all comparisons and conversions are expressed in mills adjusted for assessment practices. Actual mills are adjusted to assume all communities had uniform assessment practices and assessed at 100% of market value.

cipal property tax disparities among Minneapolis, St. Paul, and the metropolitan area suburbs. These different factors can be grouped into two major categories: (1) differences in resource base and (2) differences in expenditure levels.

The Minneapolis-St. Paul Study divides municipal revenues into three general categories: (1) property tax revenues, (2) intergovernmental aids, and (3) local, non-property tax revenues. Property tax rates and property tax rate disparities can reflect differences in revenue raising capacity in each of these three categories of revenues. This can be illustrated by assuming that all municipalities have the same need for municipal spending on a per capita and per household basis. This assumption permits us to focus exclusively on the extent to which differences in resources may contribute to property tax rate disparities. For example:

- (1) If one municipality has less property tax wealth than another municipality, and other factors are equal, the municipality with the less property tax wealth will have to levy a higher tax rate. (In the Minneapolis-St. Paul Study, tax wealth is defined as taxable value per capita or per household.)
- (2) If one municipality receives more general intergovernmental aids than another municipality, and other factors are equal, the municipality that receives fewer intergovernmental aids will have to levy a higher tax rate.
- (3) If one municipality relies less on local, nonproperty tax sources than another municipality, and other factors are equal, than the municipality with less local, nonproperty tax revenues will have to levy a higher property tax rate.

The Minneapolis-St. Paul Study has compared the 1976 resource base of Minneapolis, St. Paul, and other metropolitan area communities in order to determine the impact of different revenue raising capacities and techniques on property tax rate disparities.

The Study determined that (1) both Minneapolis and St. Paul have less property tax wealth than the average in other metropolitan communities; (2) the Cities receive more general intergovernmental aid than other metropolitan area communities; and (3) St. Paul relies

more heavily on local, nonproperty tax revenues than either Minneapolis or the other metropolitan communities. Minneapolis relies the least on local nonproperty tax revenues.

The Study concluded that differences in revenue raising capacity do not appear to play a significant role in explaining property tax disparities among Minneapolis, St. Paul, and other metropolitan area communities. Although Minneapolis and St. Paul have less property tax wealth than other metropolitan communities, this difference is offset by the two Cities' advantages in respect to intergovernmental aids.

The conclusion that differences in revenue raising capacity do not play a major role in property tax disparities is very significant. It means that different expenditure levels account for tax rate disparities rather than unequal resources.

1. Property Tax Wealth

Exhibit 12 compares growth in tax levies with growth in taxable value between 1967 and 1976. It shows that in St. Paul and other metropolitan area communities, the growth of taxable value nearly kept pace with growth in municipal tax levies. St. Paul tax levies grew 28% while taxable value grew 24%. The tax levies in other metropolitan cities grew 165%, but taxable value grew at nearly the same pace--141%. In Minneapolis, however, municipal levies grew 102% while the tax base was growing only 17%. This explains why municipal mill rates in St. Paul and the suburban communities remained relatively constant between 1967 and 1976, while the mill rate in Minneapolis increased substantially. (Appendices H and I provide additional information on the growth of the Cities' tax base and show the impact of fiscal disparities.)

Exhibit 13 compares taxable value per capita and per household in Minneapolis, St. Paul, and other metropolitan area communities. The table shows that the two Cities have less taxable value on a per capita basis, and much less taxable value on a per household basis than the average of suburban communities over 10,000. This means that to obtain the same amount of revenues per capita and per household as the suburbs, the Cities must levy a higher tax rate.

EXHIBIT 12

% GROWTH IN TAX BASE
VS.
% GROWTH IN TAXES

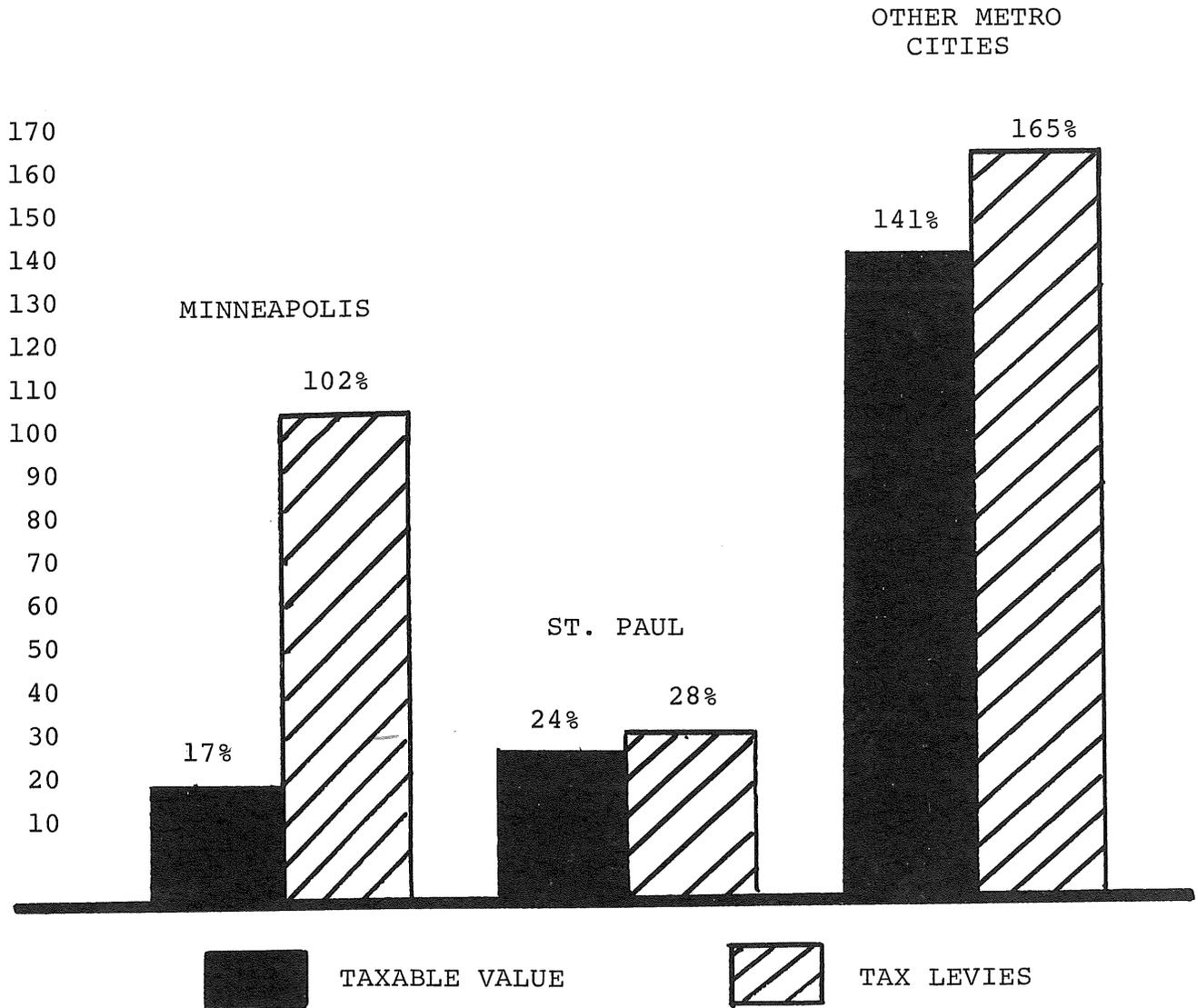


EXHIBIT 13

1976 TAXABLE VALUE

	<u>Per Capita</u>	<u>Per Household</u>
Minneapolis	\$4,244	\$ 9,874
St. Paul	\$3,818	\$10,158
Other Metro Cities Over 10,000	\$4,524	\$14,606

Exhibit 14 attempts to show the extent to which these differences in tax wealth account for property tax disparities.

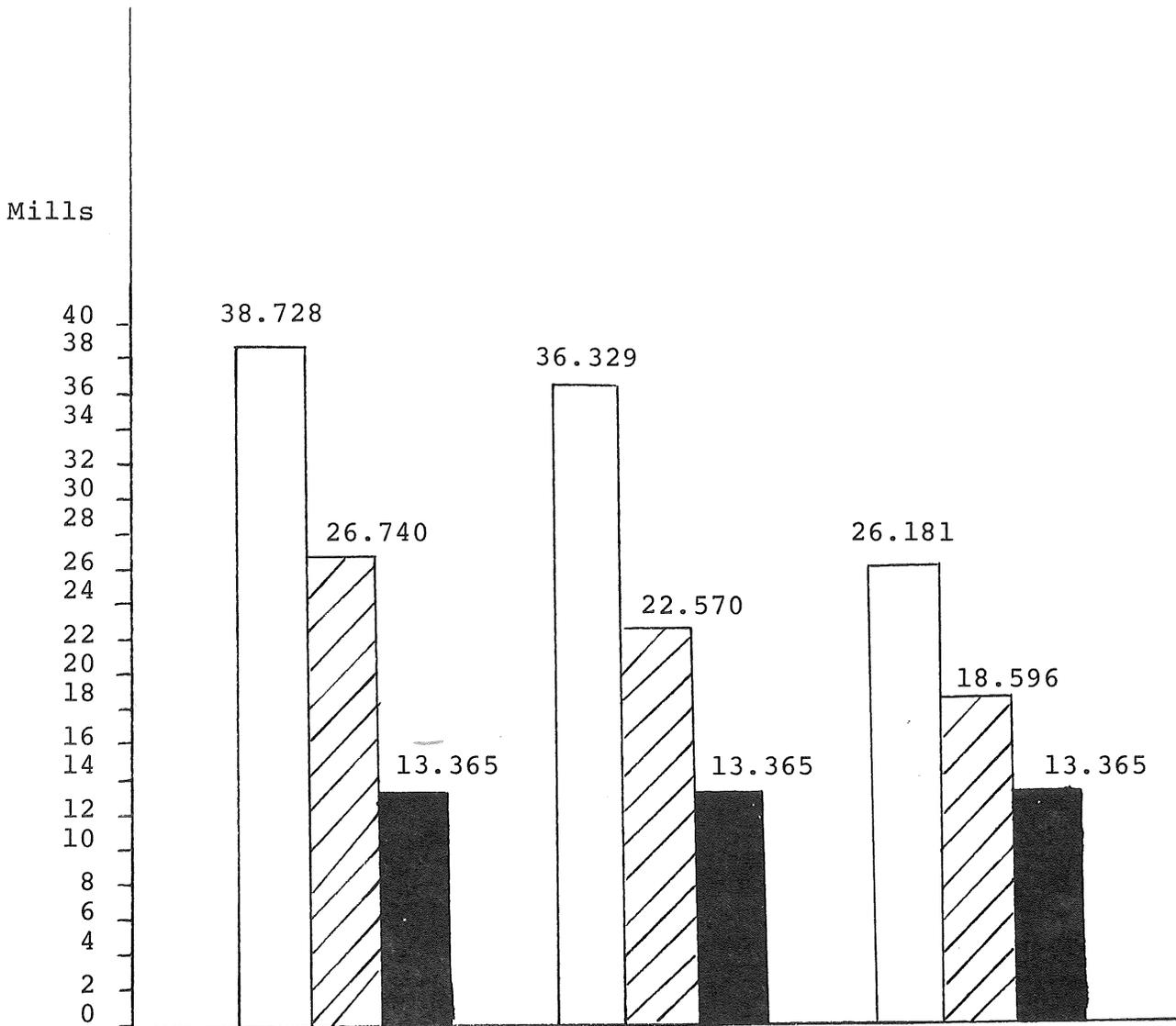
The Exhibit shows that the Minneapolis and St. Paul property tax rates would be lower if the two Cities had the same amount of tax base per capita and per household as other metro area communities.

The graph in Exhibit 14 indicates that equalizing taxable value on a per capita basis would have a relatively small impact on 1976 tax rate disparities. The Minneapolis mill rate would decrease 2.399 mills, and the St. Paul tax rate would decrease 4.170 mills. Therefore, if it is assumed that population is the more valid indicator of need for municipal property tax revenues then differences in tax wealth play a relatively minor role in tax rate disparities between the Cities and their suburbs.

However, the graph also shows that equalizing taxable value on a per household basis would have a significant impact on tax rate disparities. The Minneapolis mill rate would decrease by 12.547 mills, and the St. Paul tax rate would decrease by 8.144 mills. Therefore, if it is assumed that households rather than population is a more valid indicator of need for municipal property tax revenues, then differences in tax wealth play a relatively important role in tax rate disparities between the Cities and their suburbs.

EXHIBIT 14

1976 MUNICIPAL MILL RATES ADJUSTED FOR
DIFFERENCES IN TAX BASE



Actual Mill Rates
Adjusted for As-
sessment Practices

Mill Rates if
Assessed Value
Per Capita in
Minneapolis &
St. Paul were
equal to other
Metro Commu-
nities

Mill Rates if
Assessed Value
Per Household in
Minneapolis &
St. Paul were
equal to other
Metro Commu-
nities

Key



Minneapolis



St. Paul



Other Metro
Communities

It is important to note two major qualifications about the comparison of tax wealth among Minneapolis, St. Paul, and other metropolitan area communities: (1) while differences in wealth may account for part of the tax rate disparity between the two Cities and their suburbs, they do not explain the disparity between Minneapolis and St. Paul. St. Paul has more value per household, but Minneapolis has more value per capita. (2) The Minneapolis-St. Paul Study has determined that Minneapolis and St. Paul receive more than enough State and Federal aid to offset the suburbs' advantage in property tax base. This finding is discussed on the following pages.

2. Intergovernmental Revenues

Total State and federal aid can be converted to equivalent property tax mills to compare the relative value of intergovernmental aid to Minneapolis, St. Paul, and other metropolitan area communities. The results of this computation are shown in Exhibit 15. The last column in the table shows how much higher the mill rate would be if general intergovernmental aids were lost and were replaced by the property tax.

EXHIBIT 15

VALUE OF INTERGOVERNMENTAL AID
EXPRESSED IN MILLS

1976

	State Local Government Aid in Mills	Homestead Credit Revenues in Mills	Federal General Revenue Sharing in Mills	Total General Intergovernmental Aid in Mills
Minneapolis	19.014	3.996	4.320	27.330
St. Paul	16.466	3.063	4.674	24.203
Other Metro Cities over 10,000	5.336	2.247	1.339	8.922

The table in Exhibit 15 shows that both Minneapolis and St. Paul receive over 15 mills more of general intergovernmental aid than other metropolitan area communities with populations over 10,000. If the Cities were receiving only as much intergovernmental aid relative to their tax bases as the suburbs, they would have to raise their tax rates over 15 mills. This would increase municipal property tax rate disparity. For example, the disparity between Minneapolis and the suburbs was about 25 mills in 1976. Without the City's advantages in intergovernmental aid, the mill rate disparity would be over 40 mills.

Exhibit 14 showed that if Minneapolis and St. Paul had the same property tax base per household as the other metropolitan area communities, their mill rates would have been reduced by about 12.5 and 8 mills respectively. Exhibit 15, on the other hand, shows that the Cities receive about 15 more mills of general intergovernmental aid than these same suburban communities. Therefore, general intergovernmental aid has more than equalized tax base on a per household basis, and per household calculations are the most extreme way of portraying the Cities' disadvantages. (The Cities disadvantages are much less if tax base in the Cities and suburbs is compared on a per capita basis.)

The Study also attempted to determine the extent to which inequalities in other types of resources might contribute to property tax disparities.

3. Local Nonproperty Tax Revenues

Local nonproperty tax revenues include special assessments, franchise fees on private utilities, departmental fees and service charges, investment income, and various other miscellaneous sources of revenue. It is relatively easy to develop a measure of resource base or capacity for the property tax; the resource base is simply taxable value. On the other hand, it is quite difficult to develop a measure of capacity for local nonproperty tax revenues. Local nonproperty tax revenues consist of several different revenue raising devices, and separate measures would have to be devised for each separate revenue source. Therefore, for the purposes of the Minneapolis-St. Paul Study, local nonproperty tax revenues are treated in the same way as intergovernmental aids. The amount of revenues received is presumed to be the resource "base".

The Study found that St. Paul relied more heavily on local nonproperty tax revenues than either Minneapolis or the other metropolitan area communities. Minneapolis relied the least on local, nonproperty tax revenues.

There is considerable variation among individual revenue sources. The suburbs rely much more heavily on special assessments than either of the two Cities.⁷

However, Minneapolis and St. Paul rely more heavily on departmental fees, service charges and franchise fees.

Local nonproperty tax revenues can be converted to equivalent property tax mills to compare the relative value of such revenues to Minneapolis, St. Paul, and other metropolitan area communities. The results of this computation are shown in Exhibit 16. The table shows how much higher the property tax rate would be if there were no local revenues other than the property tax.

EXHIBIT 16

VALUE OF NONPROPERTY TAX REVENUES
EXPRESSED IN MILLS

	1976
Minneapolis	24.870
St. Paul	29.292
Other Metro Cities over 10,000	26.758

One major factor explains why St. Paul raises more nonproperty tax revenues relative to its property tax base than Minneapolis. St. Paul charges an 8.5% franchise fee on public utilities, while the fee in Minneapolis is only 3%.

⁷ See Appendix A-3 for a calculation of how property tax rate disparities would be affected if special assessments were treated as a property tax.

4. Summary of All Factors

Exhibit 17 summarizes the results of the preceding analysis. The exhibit contains two tables. The first table shows what mill rates would be if the two Cities had taxable value per capita equal to the other metropolitan communities. The second table shows what mill rates would be if the Cities had equal taxable value per household.

EXHIBIT 17

SUMMARY

	<u>Adjusted Mill Rates</u>	<u>Impact if Cities had Equal Value Per Capita as Suburbs</u>	<u>Impact if Cities had Same Amount of General Intergovernmental Aid as Suburbs</u>	<u>Impact if Cities had Same Amount of Nonproperty Tax Revenue</u>	<u>Total Impact</u>
Minneapolis	38.728	- 2.399	+16.659	-1.888	51.100
St. Paul	26.740	- 4.170	+14.465	+2.534	39.569
Other Metro Communities	13.365	0	0	0	13.365

	<u>Adjusted Mill Rates</u>	<u>Impact if Cities had Equal Value Per Household</u>	<u>Impact if Cities had Same Amount of General Intergovernmental Aid as Suburbs</u>	<u>Impact if Cities had Same Amount of Nonproperty Tax Revenue</u>	<u>Total Impact</u>
Minneapolis	38.728	-12.181	+16.659	-1.888	41.318
St. Paul	26.740	- 8.144	+14.465	+2.534	35.595
Other Metro Communities	13.365	0	0	0	13.365

The first column in the tables show the 1976 mill rates, adjusted to assume all communities had 100% sales ratios. The second column shows how much the mill rate would decrease in Minneapolis and St. Paul if the Cities had as much property tax wealth as the suburbs. The third column shows how much the mill rates of the Cities would rise if they had as little intergovernmental aid as the suburbs. The fourth

II. MAJOR FINDINGS ON EXPENDITURES

II. MAJOR FINDINGS ON EXPENDITURES

Part One of the Minneapolis-St. Paul Study included a major report on municipal expenditures. Part Two of the study produced a detailed analysis of eight specific expenditure categories: (1) pensions, (2) wages and fringe benefits, (3) parks and recreation, (4) libraries, (5) redevelopment, (6) paving, (7) refuse collection, and (8) general government. A separate report was prepared for each category. Also, a report analyzing the impact of government structure on the cities' financial condition was released during Part Two of the study. The following material represents a greatly simplified summary of these full reports.

A. City Expenditure Patterns¹

The preceding analysis of revenues concluded that property tax rate disparities among Minneapolis, St. Paul, and other metropolitan area communities are attributable to differences in expenditure levels. On either a per capita or per household basis, municipal expenditures are much higher in Minneapolis and St. Paul than in the other metropolitan area communities. Expenditures are also much higher in Minneapolis than St. Paul. This is illustrated by Exhibit 18. (Appendix J shows the spending level of each city in Minnesota over 10,000.)

EXHIBIT 18

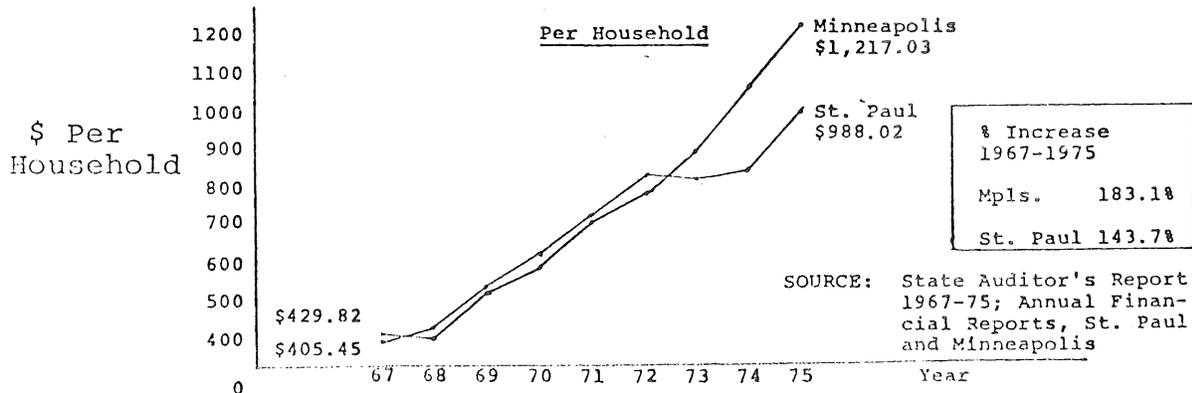
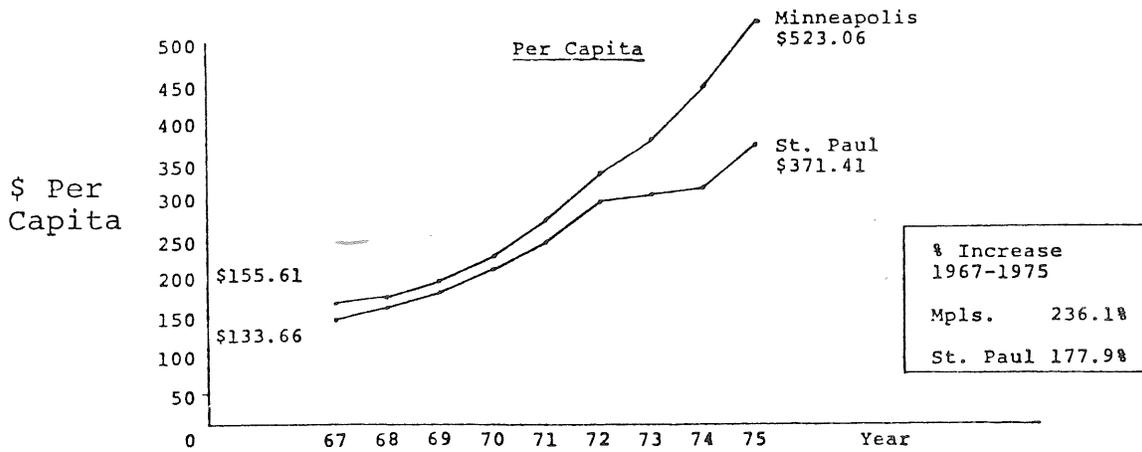
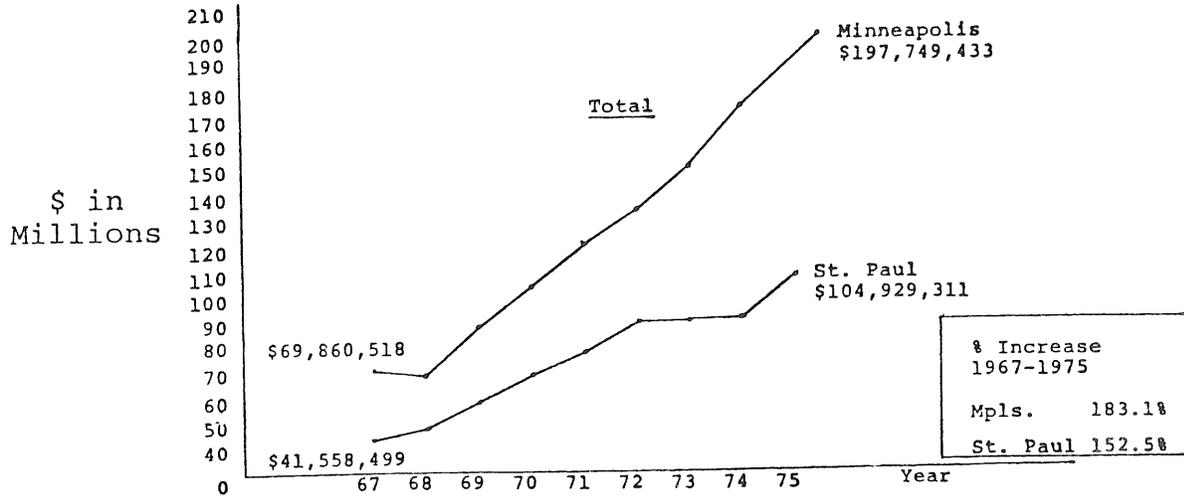
1975 OPERATING EXPENDITURES

	<u>Expenditures Per Capita</u>	<u>Expenditures Per Household</u>
Minneapolis	\$334.82	\$779.04
St. Paul	251.84	669.93
Duluth	192.56	522.71
Other Outstate Cities Over 10,000	165.74	509.94
Other Metro Cities Over 10,000	125.16	404.98

¹It is much easier to obtain current data on revenues than on expenditures. Therefore the data in this section on overall expenditures is current only through 1975 while more recent data is presented in the section on revenues.

EXHIBIT 19

GROWTH OF TOTAL EXPENDITURES
1967-1975



These expenditure differences are much greater than they were in 1967. Exhibit 19 shows that throughout the late 1960's and early 1970's spending levels were about the same in Minneapolis and St. Paul. It is only in the last several years that a sizeable difference has emerged.

The recent emergence of the property tax rate disparity between the two Cities can be traced directly to the emergence of these expenditure differences.

Expenditures in both Cities have grown faster than inflation. In 1967, total Minneapolis municipal operating expenditures were \$50,086,903. By 1975 operating expenditures had grown to \$140,175,840, an increase of 179.9%. Only 56.9% of the dollar increase could be attributed to inflation; the remainder was due largely to increases in the number of city employees and increases in employee compensation beyond inflation.

In 1967, total St. Paul operating expenditures were \$34,920,955. By 1975, operating expenditures had grown to \$80,303,551, an increase of 130.0%. Only 63.3% of the dollar increase could be attributed to inflation; the remainder was due largely to increases in the number of city employees and increases in employee compensation beyond inflation. (See Appendix K for a more detailed analysis of expenditure increases.)

It is useful to examine what would have happened to the Cities' property tax rates if the following three assumptions had prevailed between 1967 and 1975: (1) the Cities had been able to hold their expenditure increases to the inflation rate; (2) the State and Federal government distributed general aids in accordance with a formula which provided the same amount of aid to the Cities as they actually received, but which did not include a factor for local tax effort; and (3) the Cities had been able to raise the same amount of local nonproperty tax revenues as they actually raised.

If these assumptions had prevailed, the municipal property tax could have been nearly eliminated by 1975. Rather than levying \$31,020,524 of property taxes in 1975, St. Paul would have needed to levy only \$937,321, less than a mill. Rather than levying \$59,628,370 of property taxes in 1975, Minneapolis would have needed to levy only \$5,620,659, less than four mills.

Minneapolis' operating expenditures grew \$78.0 million between 1967 and 1975. The five functional expenditure categories that had the greatest percentage increases were: interest expense (339%), general government (238%), street maintenance (206%), street lighting (193%), and police (185%). The five categories showing the greatest dollar increase were police (\$13.5 million), parks and recreation (\$7.8 million), general government (\$7.6 million), street maintenance (\$6.2 million), and interest expense (\$6.1 million). These figures do not include increases in pension costs and fringe benefits, which account for \$11.7 million and \$2.2 million of the total increase respectively.

St. Paul operating expenditures grew \$40.9 million between 1967 and 1975. The five functional expenditure categories that had the greatest percentage increases were: interest expense (234%), health (206%), street maintenance (183%), police (175%), and general government (167%). The five functional categories with the greatest dollar increases were police (\$7.4 million), fire (\$4.6 million), general government (\$4.1 million), interest expense (\$4.0 million), and parks and recreation (\$3.3 million). These figures do not include increases in pension costs and fringe benefits, which account for \$5.6 million and \$1.5 million of the total increase respectively.

B. City Expenditure Categories²

Exhibit 20 compares per capita operating expenditures in Minneapolis and St. Paul by function. The exhibit illustrates that Minneapolis spending per capita exceeds St. Paul spending per capita for all except three categories: fire, sewer maintenance and fringe benefits. Minneapolis spends \$1.30 per capita for operation and maintenance for every \$1.00 per capita spent in St. Paul. (See Appendix L for a comparison of spending on a per household basis.)

²Data in this section is generally current through 1975.

EXHIBIT 20

PER CAPITA EXPENDITURES FOR OPERATION AND MAINTENANCE

1975

	<u>Minneapolis</u>	<u>St. Paul</u>	<u>Ratio</u> <u>Mpls.-St.Paul</u>
General Government	\$ 28.52	\$ 23.23	1.23
Police	55.07	41.04	1.34
Fire	28.16	30.42	.93
Inspections	9.30	6.15	1.51
Street Maintenance	24.29	17.27	1.41
Snow Removal	6.49	4.55	1.43
Street Lighting	5.38	3.53	1.52
Sewers	21.71	22.11	.98
Refuse Collection	15.61	3.18	4.91
Health	13.64	11.89	1.15
Libraries	12.99	8.54	1.52
Parks & Recreation	35.60	22.43	1.59
Interest Expense	21.01	20.53	1.02
Pensions	44.03	26.36	1.67
Fringe Benefits	7.70	8.51	.90
 SUBTOTAL	 \$329.50	 \$249.74	 1.32
 Unallocated	 41.27	 34.53	 1.20
 TOTAL	 \$370.77	 \$284.25	 1.30

Exhibit 21 compares average annual capital outlays in Minneapolis and St. Paul during the period 1967-75. The table shows that Minneapolis has spent more for capital improvements than St. Paul as well as for operations and maintenance.

EXHIBIT 21

AVERAGE ANNUAL CAPITAL OUTLAYS
1967-1975

Per Capita

	<u>Minneapolis</u>	<u>St. Paul</u>
Streets	\$35.70	\$19.25
Sewers	7.57	9.84
Parks & Recreation	13.13	13.44
Redevelopment	16.00	13.23
All Other	3.29	4.95
TOTAL	\$75.69	\$60.71

Exhibit 22 compares per capita operating expenditures in Minneapolis, St. Paul, and other metropolitan area communities with populations over 10,000.

(The figures are somewhat different from the figures in Exhibit 20 because pensions are not broken out as a separate category in Exhibit 22, and spending of certain categorical grants is omitted.) Exhibit 22 shows that Minneapolis and St. Paul outspent the metropolitan area suburbs in every category except interest expense. This was true on both a per capita and per household basis.

EXHIBIT 22

1975 OPERATING EXPENDITURES

	Per Capita			Per Household		Other Metro Cities
	<u>Minneapolis</u>	<u>St. Paul</u>	<u>Other Metro Cities</u>	<u>Minneapolis</u>	<u>St. Paul</u>	
General Government	\$ 33.25	\$25.53	\$15.85	\$ 77.37	\$ 67.92	\$ 51.23
Public Safety	116.52	98.67	34.56	271.11	262.46	111.68
Street Maintenance	39.75	26.55	16.19	92.49	70.61	52.31
Sanitation	38.96	26.05	15.01	90.65	69.29	48.52
Health	15.28	12.62	.69	35.55	33.57	2.22
Libraries	15.26	9.51	.51	35.52	25.29	1.64
Parks & Recreation	39.24	24.49	14.43	91.31	65.14	46.65
Interest Payments	21.01	20.53	21.22	48.68	54.61	70.72
Unallocated	15.54	7.91	6.04	36.16	21.04	19.52
TOTAL	\$334.82	\$251.84	\$125.16	\$779.04	\$669.93	\$404.48

Exhibit 23 compares capital spending in Minneapolis, St. Paul, and other metropolitan area communities. The exhibit shows that Minneapolis has spent the most on a per capita basis, the suburbs have spent the most on a per household basis, and St. Paul has invested the least in its capital stock on both a per capita and per household basis.

EXHIBIT 23

AVERAGE ANNUAL CAPITAL EXPENDITURES

1967-1975

	Per Capita			Per Household		
	Minneapolis	St. Paul	Other Metro Cities	Minneapolis	St. Paul	Other Metro Cities
Streets	\$35.70	\$19.25	\$22.06	\$ 91.24	\$55.14	\$ 77.52
Sewers	7.57	9.84	25.64	19.34	28.20	90.12
Parks & Recreation	13.13	13.43	8.79	33.55	38.49	30.90
Redevelopment	16.00	13.23	.82	40.90	37.89	2.87
Other	3.29	4.95	4.11	8.41	14.20	14.44
TOTAL	\$75.69	\$60.71	\$61.42	\$193.44	\$173.92	\$215.85

After the initial analysis of all expenditure categories, the Minneapolis-St. Paul Study chose eight specific categories for detailed analysis in an effort to determine why Minneapolis and St. Paul spend more than other metropolitan area communities, and why Minneapolis spends more than St. Paul. The eight categories were: (1) pensions, (2) wages and fringe benefits, (3) parks and recreation (4) libraries, (5) redevelopment, (6) paving, (7) refuse collection, and (8) general government. A separate report was prepared on each category.

These detailed analyses of expenditure categories (and resulting property tax rate disparities) found that expenditure differences among Minneapolis, St. Paul, and the suburbs result from the complex interaction of many factors. However, these factors can be grouped into two major categories: (1) external factors, that is, special needs, and (2) internal factors, that is, variations in municipal tastes, management practices and government structure.

1. External Factors: Special Needs and Circumstances

Minneapolis and St. Paul City officials have traditionally based their requests for more State aid on the argument that the two Cities have special needs resulting from unique and uncontrollable social, economic, and historical forces. Some of the major examples of these forces are: the age of the Cities, the large concentrations of lower income, service-dependent persons, the role of the Cities as regional centers, the large concentration of tax exempt property, and the mandates of other units of government.

The Minneapolis-St. Paul Study found ample evidence that these forces exist and that they play a significant role in explaining differences in expenditure levels between the two Cities and the suburbs. A description of some of the most important external factors is presented below.

a. Tax Exempt Property³

The need to provide municipal services to tax exempt property is a special need of the Cities that results in higher spending levels for many different municipal functions including general government, police, fire, street paving, street maintenance, snow removal, sewer maintenance, and street lighting.

The study found that approximately 25% of total market value in Minneapolis and St. Paul is tax exempt. Approximately 40% of this tax exempt property in the Cities serves regional or State-wide purposes. In the balance of the metropolitan area, only 17% of total market value is tax exempt, and only 20% of this tax exempt property serves regional or State-wide purposes. Therefore, Minneapolis and St. Paul not only have more tax exempt property than the suburbs,

³See the Minneapolis-St. Paul Study special report on tax exempt property for a complete analysis.

but also have more tax exempt property that is used by nonresidents. This presents the Cities with the need to provide municipal services to properties that pay no property taxes.

It should be noted, however, that tax exempt properties can have a positive effect on the Cities' tax bases by stimulating business activity, creating employment opportunities, and attracting residents to the Cities. This would at least partly offset the disadvantage of large concentrations of tax exempt property.

b. Population Characteristics

Many previous national studies of municipal expenditures have concluded that for cities above 50,000-100,000 in population there are diseconomies of scale. In other words, the larger a city gets, the higher its per capita costs become. Ironically, higher costs are also associated with population loss.

Minneapolis and St. Paul are the State's two largest cities, and they are both experiencing considerable loss of population. According to the estimates of the U.S. Census Bureau, population in Minneapolis has declined from 448,942 in 1967 to 378,062 in 1975, a decrease of 16%. St. Paul's population has declined from 310,929 in 1967 to 282,515 in 1975, a decrease of 9%. Meanwhile, the population in the other metro cities over 10,000 grew by 18%.

Although Minneapolis and St. Paul population declined, the number of households remained about the same. Minneapolis had 162,536 households in 1967, and 162,485 households in 1975. St. Paul had 102,500 households in 1967, and 106,202 in 1975. Obviously, the size of households is declining in both cities. Minneapolis now averages 2.3 persons per household, and St. Paul averages 2.7 persons.

Minneapolis and St. Paul have higher proportions of minorities and senior citizens than other communities in the metropolitan area. In Minneapolis, 10.8% of the population is over age 65, and 10.0% are minorities. In St. Paul, 13.6% of the population is over 65, and 9.7% are minorities. In the balance of the Metropolitan Area, only 6.7% of the population is over 65 and less than 2% are minorities.

c. Income

In 1970, 11.6% of Minneapolis residents were below the poverty level. In St. Paul, 9.2% of all residents were included in this category. In the total metropolitan area, only 6.6% of all residents were below the poverty line.

Minneapolis and St. Paul residents have a lower median family income than residents of other metro area communities.

In 1975, median family income was estimated to be \$13,734 in Minneapolis, and \$13,572 in St. Paul. Median family income in the metro area as a whole is \$17,300. Since this figure includes Minneapolis and St. Paul, the median income in the suburbs alone would actually be much higher than \$17,300.

The gap between incomes in the two cities and the suburbs is growing. Between 1970 and 1975, median incomes grew 37.7% in Minneapolis, 28.7% in St. Paul, and 48% in the Metro Area as a whole. (From 1970 to 1975, the Consumer Price Index rose 36.9%, so St. Paul median incomes are not even keeping pace with inflation.)

The 1976 unemployment rate was estimated to be 8.6% in Minneapolis, 6.8% in St. Paul, and 5.5% in the balance of the Metro Area.

Although Minneapolis has only 41% of total Hennepin County population, it has 62% of all Hennepin County public assistance cases. St. Paul has only 62% of total Ramsey County population, but has 74% of all County public assistance cases (December, 1976).

d. Age of the Cities

Minneapolis and St. Paul are older cities and have more blight and deterioration than other communities in the metropolitan area.

In Minneapolis, 68% of all housing units were built prior to 1940, and it is estimated that 53% of the City's total housing stock needs rehabilitation. In St. Paul 62% of all housing units were built before 1940, and about 51% of the City's total housing units need rehabilitation. About half of the cities' housing units are owner-occupied. In the balance of the Metropolitan Area, only about 17% of the housing was built before 1940 and only about 10% of all housing units need rehabilitation. Over 75% of the housing is owner-occupied.

It is clear that Minneapolis and St. Paul have many demographic characteristics that create special service needs and demands. It should be remembered, however, that coping directly with the special needs of lower-income and service-dependent populations is largely the responsibility of Federal, State and County governments. For example, the State of Minnesota has established welfare as an exclusively county rather than municipal function. It is also important to note that Minneapolis and St. Paul have similar special needs as expressed by certain demographic conditions. Therefore, the existence of special needs is not a promising, complete explanation of expenditure and tax rate differences between the two Cities themselves.

The population data presented here was obtained from the Minneapolis and St. Paul Planning Departments (based on U.S. Census and Federal Revenue Sharing population counts), reports of the Minnesota State Demographer, and the Metropolitan Council. Income information was obtained from the Cities' Planning Departments,

reports of the State Demographer, and the Minnesota Department of Employment Services. Housing data was obtained from the Metropolitan Council reports; the Plight of the Cities Report (based on Census data); and the Cities' Planning Departments. Some calculations were performed by Minneapolis-St. Paul Study staff to isolate the suburban portion of the metro area from the two central cities.

While the factors described above do have some impact on municipal expenditure levels, the study also found that special needs do not completely explain the differences in spending between the Cities and the suburbs. Nor does the existence of special needs appear to play a major role in explaining why Minneapolis spends more than St. Paul.

2. Internal Factors: Variations in Municipal Tastes, Management Practices, and Governmental Structures and Processes

External factors are beyond the control of City officials. Internal factors can be dealt with locally. Some examples of internal factors are:

a. Municipal Tastes

This term refers to the desire of the municipal citizenry for a superior level of service, that is a level of service that goes beyond what is generally considered adequate to meet a need. Municipal tastes can also express themselves in a desire for a service not typically provided by other municipal governments.

b. Management Practices

This term refers to the methods of providing services that are selected by municipal officials. The term includes salary levels and the choice between municipal workers and private contractors to carry out City functions.

c. Governmental Structure and Processes

This factor refers to the manner in which the government is organized and the procedures it uses to make decisions.

The Minneapolis-St. Paul Study found that internal factors as well as special needs contribute to expenditure differences (and resulting tax rate disparities) among Minneapolis, St. Paul, and other metropolitan area communities.

For example, the study found Minneapolis has provided an exceptionally high level of municipal service in several major functional areas. This appears to be the most important factor in explaining expenditure differences between Minneapolis and St. Paul.

The Study also found that higher expenditure levels in both Cities have resulted from certain management practices that sometimes reflect a willingness to accommodate special interests even if this means higher expenditures and high property tax rates.

These variations in municipal tastes and management practices reflect, to a large extent, the structure and decision making processes of City government.

Minneapolis has a very decentralized, fragmented government with an independent Housing and Redevelopment Authority, Park Board, Library Board, and Board of Estimate and Taxation. In addition, there is an independently elected Comptroller-Treasurer. The Minneapolis City Council not only serves as a legislative body, but also administers most City departments. Minneapolis City Councilmen are elected on a ward basis.

The Mayor of the City is not the chief executive but does have certain appointive powers, heads some City departments, and has the responsibility of proposing the City budget.

As a result of this extremely fragmented system, the responsibility for managing the City's financial affairs is divided among seven independent governmental entities: Mayor, City Council, Comptroller-Treasurer's Office, Board of Estimate, Housing Authority, Park Board, and Library Board.

Although this form of government might have merit in other areas, the Study found considerable evidence to support the conclusion that Minneapolis' form of government and decision making processes often work against the effective management of the City's financial affairs in at least three ways. First, there is a lack of clearly focused accountability for expenditure decisions and tax rates. Second, there is overlap, duplication, competition, and lack of coordination among the various governmental entities. Third, the complexity of the system, combined with ward government and the existence of independent agencies, seems to allow extra leverage for special interest groups.

In 1976, Minneapolis voters approved a charter change giving the Mayor the responsibility of proposing the City budget. Proponents hoped that this change would provide a mechanism for coordinating the management of the City's finances. The current Mayor has attempted to fulfill this leadership role, but because he is not the City's chief executive, he must depend on the cooperation and support of the City Council. So far, the Minneapolis City Council has been reluctant to defer to the Mayor. It is too early to determine for certain whether the new system will improve the City's financial management capabilities. However, this study has concluded that the Mayor does not have sufficient powers to guarantee that he will be able to lead and coordinate financial management in the City. Rather, the impact of the recent charter change more likely will be to increase the complexity and fragmentation of City government.

Since the early 1970s St. Paul has had a very centralized, strong Mayor system. The St. Paul City Council is elected on a City-wide basis and is strictly a legislative body. The only major independent board is the Port Authority. This system clearly facilitates more effective financial management through the elimination of overlap, duplication, and interagency competition. Furthermore, this system focuses responsibility for property tax rates on visible City officials elected on a City-wide basis. While this system by no means guarantees such officials immunity from the influence of special interests, it does make these officials more clearly accountable to the general taxpayer-voter for City financial decisions. The present Mayor of St. Paul has been able to exercise decisive leadership in the management of the City's finances.

The following portion of the Final Summary Report gives examples of how external and internal factors have interacted to contribute to expenditure levels and tax rate disparities. This is simply a summary of selected examples. Full reports have been prepared on expenditures in general and on each of the eight expenditure categories that received detailed study. A report has also been prepared on the impact of government structure and processes on the Cities' financial conditions. Documentation for the findings presented below can be found in these various reports.

C. Analysis of Individual Categories⁴

1. Public Safety

Public safety plays an important role in explaining expenditure differences between the two Cities and their suburbs. In 1975, Minneapolis spent \$117 per capita for public safety, St. Paul spent \$99 per capita, and the other metro communities spent only \$35. Higher public safety expenditures per capita account for 40% of the total per capita expenditure differences between Minneapolis and other metropolitan area communities and about 50% of the difference between St. Paul and the other metropolitan communities. The Cities have substantially increased the size of their police forces despite overall population decline. Between 1967 and 1975, increased police expenditures contributed more to total expenditure increases than any other single expenditure category in both Minneapolis and St. Paul.

Greater expenditures for police, fire, and inspections reflect special needs in a variety of ways. The size, age of the cities, and density requires a full time professional fire department, while many suburbs are able to meet their fire protection needs through volunteer fire departments. The age of the Cities also requires inspection departments to assure the health and safety of city residents. The Cities' large concentrations of economically disadvantaged persons requires additional police services.

Higher public safety costs also reflect the role of the cities as regional centers. Extra police are needed for traffic control and for serving public safety needs resulting from the cities' function as

⁴Although data for overall expenditures in the two preceding sections was current only through 1975, it was often possible to obtain data on individual expenditure categories through 1976. Therefore, most of the data in this section is current through 1976.

employment and entertainment centers. Officials in Minneapolis and St. Paul note that their police and fire departments provide backup service to many suburban communities.

While public safety expenditures clearly reflect special needs, it is important to note again that detailed analyses were not conducted on fire, police, and inspections. Therefore, the study has only limited information on how public safety spending might also reflect variations in municipal tastes and management practices. The individual studies on pensions, however, indicated that a sizeable portion of higher public safety costs is due to significantly higher police and fire pension costs in both Minneapolis and St. Paul. This is less special need than a management issue. The subject of pensions is discussed later in this report.

2. Parks and Recreation

The study found that differences in parks spending is an important factor in overall expenditure differences, not only between the two Cities and their suburbs, but also between the two Cities themselves. In 1975 Minneapolis spent \$39 per capita on parks maintenance, St. Paul spent \$24 per capita, and the other metro communities spent \$14 per capita.

Both Cities provide a number of regional park facilities that are heavily used by non residents. The Metropolitan Council classifies 72% of the park land in St. Paul and 80% of the park land in Minneapolis as a regional park facility. Metropolitan park user surveys have found that 40% of the Minneapolis regional park users and 63% of the St. Paul regional park users were non-residents. Conversely, only 10% of the users of the other regional parks were Minneapolis residents and only 9% were St. Paul residents. Volume of use was also found to be higher in the Cities' parks than in other parks.

There are no County parks within Minneapolis and St. Paul. The maintenance and operation of the Cities' regional parks are financed by the Cities themselves. With the exception of two suburban parks, regional parks elsewhere in Hennepin and Ramsey Counties are financed by a county-wide levy to which Minneapolis and St. Paul are subject. This means that Minneapolis and St. Paul share in the cost of operating regional parks elsewhere in their counties, while other county taxpayers do not share in the cost of operating regional parks in the cities.

This is the clearest example in the Minneapolis-St. Paul Study of a situation where the cities' historic role as regional centers contributes to higher City expenditures and tax rate disparities. This is especially true for Minneapolis, which has more park land than St. Paul.

The Minneapolis park system includes 5,533 acres of park land and parkways, or 14.6 acres per 1,000 population; the St. Paul system contains 3,200 acres of park land and parkways, or 11.3 acres per 1,000 population. Therefore, Minneapolis requires higher operating expenditures.

However, park expenditures is a good example of how difficult it is to distinguish between special needs and internal factors. The Minneapolis-St. Paul Study report on parks found that only about one-third of the total expenditure differences for parks between Minneapolis and St. Paul could be attributed to the larger size of the Minneapolis park system. Most of the expenditure differences were directly attributable to matters of municipal taste, management practice, and government structure. For example, Minneapolis spends \$60 more per acre for parks maintenance than St. Paul. This accounts for 9% of the difference in per capita parks spending between the two Cities. Minneapolis incurs extra administrative costs as a result of the existence of an independent park board. This accounts for 15% of the per capita spending difference. The Park Board also maintains its own special parks police force. This accounts for 17% of the per capita spending difference between Minneapolis and St. Paul. Other examples of management practices that contribute to higher costs in Minneapolis are higher wages paid to parks personnel, and poor coordination between the Park Board and School Board on joint use facilities.

Minneapolis is continuing to build additional parks to provide a more even distribution of neighborhood and community recreational facilities throughout the city. Minneapolis is also developing a major new regional park facility along the Mississippi River in downtown Minneapolis. The development of this new park facility will be financed primarily from Metropolitan-wide sources, but the City will be responsible for maintenance costs. Given the very large size of the existing Minneapolis system, these new park developments do not seem as much a question of special need but rather a reflection of municipal tastes for an outstanding park system.

The Minneapolis-St. Paul Study, in its reports on parks spending and government structure, documented several examples of financial management problems arising from the separation of the Park Board from the City's general purpose government.

For example, the Park Board has recently embarked on a capital development program to provide a more balanced distribution of neighborhood parks and recreation centers. The report on parks indicates that there have been several areas of conflict between the Park Board and the City's Capital Long-Range Improvements Committee (CLIC) over the execution of this program. Areas of conflict include insufficient background information on Park Board bonding requests and the Board's use of Federal and State grants for projects without CLIC's review. Park expansion helps maintain the excellence of the City's park system, but increases operating and maintenance costs, and makes it more difficult to curtail overall spending levels if the City general government determines that curtailment is appropriate city-wide financial policy.

3. Libraries

The Study found that library service is a municipal function in Minneapolis and St. Paul and a county function in most other metropolitan area communities. Thus, libraries is a definite factor in contributing to municipal property tax rate disparities. In 1975, Minneapolis spent \$15 per capita for library operations, St. Paul spent \$10, and the other metropolitan area communities spent an average of \$0.51. (In the other four cities in the metropolitan area which do operate a municipal library, the average per capita expenditure was \$5.)

Although these expenditure differences contribute directly to municipal mill rate disparities between the Cities and the suburbs, the impact of libraries on overall mill rate disparities is much less because the two Cities are exempt from the county-wide tax levy for library service. (As explained in the previous section of this report, this is not true for parks; Minneapolis and St. Paul pay taxes for county parks as well as maintain their own locally-financed regional park facilities.)

The higher level of spending for libraries in the Cities illustrate the difficulty in distinguishing between special needs and municipal tastes. The Minneapolis and St. Paul libraries are by far the

most widely used public reference systems in the metropolitan area, providing 65% of the total public library reference uses in the region. In Minneapolis, 35% of reference service users are non-residents; in St. Paul, 26% of reference service users are non-residents. In addition to reference services, both library systems (especially Minneapolis) provide a variety of unique and specialized services of regional and State-wide significance. The Cities' libraries are partially compensated for these special services by State and Federal categorical grants, but these aids are not adequate to totally compensate for the use of libraries by non-residents. The remaining costs are borne by the Cities' taxpayers.

Therefore, higher level of spending for libraries in Minneapolis and St. Paul is at least partly attributable to the historic role of the cities as regional centers. Yet the Cities do have a certain amount of choice as to how extensively they fill that role. For example, the Minneapolis-St. Paul Study report on libraries found that library services are 25% more costly on a per use basis in Minneapolis and St. Paul than in county library systems. The major regional role played by the Cities' libraries is in reference service, which requires substantial amounts of professionally trained librarian assistance. The proportion of reference use to total use is approximately the same in both Minneapolis and St. Paul. Minneapolis, however, provides a 20% higher ratio of librarian staff to reference uses (one librarian to 8,115 uses) than St. Paul (one librarian to 9,566 uses).

The decision to provide special services, and the level at which to provide them, reflects less a municipal need than a municipal tradition and taste for excellence in library service and a willingness to share this excellence with non-residents. After a case study of the library budgeting process, the Minneapolis-St. Paul Study report on libraries concluded that the decision to maintain this high standard of library service in Minneapolis is partially due to the existence of an independent library board which guarantees a continued advocacy of high levels of library service.

There are several factors that contribute to the difference in library spending between Minneapolis and St. Paul. Minneapolis provides a greater number of specialized services and has a more extensive network of neighborhood library facilities than St. Paul. Therefore, Minneapolis has a larger library staff

relative to its population than St. Paul. Minneapolis also incurs greater administrative costs to staff its independent library board. These are largely matters of municipal tastes and government structure.

4. Redevelopment

Spending for redevelopment is about the same in the two Cities and substantially higher in the two Cities than in the suburbs. During the period 1967-75, Minneapolis spent \$16 per capita per year on redevelopment; St. Paul spent \$13; and the other metro area communities spent less than \$1. Not all the difference in redevelopment spending between the Cities and the suburbs is reflected in property tax rate disparities. Redevelopment is typically financed by categorical Federal grants available solely for redevelopment purposes rather than general revenues.

Redevelopment spending has directly affected the Cities' property tax rate in several ways: (1) Both Cities have traditionally levied a small tax (one-third mill) to provide a local source of funds for their housing and redevelopment authorities. Minneapolis discontinued this tax in 1977. (2) In recent years, the Cities have devised several housing rehabilitation programs that rely on local bonding. These bonds have been largely self-supporting, but have required some support from the property tax. (3) Between 1967 and 1974, St. Paul sold approximately \$20.4 million of general obligation bonds to finance traditional redevelopment activities such as land acquisition and clearance.

When combined, these three activities required a 1976 property tax levy of one mill in Minneapolis, and two mills in St. Paul. Because other metropolitan area communities rarely levy a tax for redevelopment, these tax levies in Minneapolis and St. Paul contribute directly to tax rate disparities between the two Cities and the Suburbs.

In the future, tax increment financing in Minneapolis may have a growing impact on the City's property tax rate and on tax rate disparities between the City and other metropolitan area communities, including St. Paul. The City has 15 separate tax increment projects and has sold \$107.7 million of tax increment bonds. St. Paul has relied very little on tax increment financing and has sold only \$5.0 million of tax increment bonds. Tax increment

financing permits a city to capture all the increased property taxes within a redevelopment project in order to finance public redevelopment costs. Proponents of tax increment financing often argue that the projects "pay for themselves."

However, tax increment financing can contribute both directly and indirectly to property tax rate disparities. The normal procedure is to finance public costs by selling tax increment bonds. Tax increment financing can contribute directly to tax rate disparities if tax increments do not occur as expected, making it necessary for the City to levy a general tax to meet bond repayment requirements. Tax increment financing can contribute indirectly to tax rate disparities even if the project is successful. If even part of the development would have occurred without public subsidy, the City would have been able to retain the tax gain for general purposes. In addition, if the City spends more to serve the new development than it would have spent if the district had not been formed, the cost of these additional public services must be borne by other City taxpayers. The district itself will not contribute any additional taxes to the City's general fund until all the tax increment bonds are repaid.

The Study has found that tax increment financing contributes directly to the Minneapolis tax rate. In the Loring Park and Nicollet-Lake Development Districts, the City has sold \$33,575,000 of general obligation bonds. As of the end of 1977, the total repayment requirement (principle and interest) was \$52,092,608 through 1994. In 1978, the City levied \$1,879,432 or about 1.3 mills for the Loring Park and Nicollet-Lake Development Districts. This levy will contribute directly to the tax rate disparity between Minneapolis and the suburbs and between Minneapolis and St. Paul.

The Minneapolis-St. Paul Study report on municipal debt originally estimated that at least \$16.4 million of the total \$52.1 million bond repayment requirement would have to be paid by a general municipal property tax levy. However, the City Council recently voted to restructure and extend the debt repayment schedule so that a larger portion of the debt will fall due in the later years of the project when the tax increment revenues will be greater. This action had the effect of easing the burden on the City's property tax levy in the short run, although total public costs were increased by an estimated \$7.9 million.

Minneapolis has now undertaken a third district known as City Center. Although it was assumed by the public at the time the project was approved that it would be totally self supporting through tax increments, the project may require a substantial property tax levy through 2002 because of fiscal disparities redistributions. (Minneapolis plans to request that the Legislature change the State law to prevent these fiscal disparities losses. However, a bill accomplishing this change was defeated in the 1978 session of the Legislature because Minneapolis and other communities in the State objected to some of its controls on the use of tax increment financing.)

The Study also found that Minneapolis' use of Community Development Block Grants may be indirectly contributing to the City's higher property tax rate. In the first four years of the program, Minneapolis has received over \$65 million of block grants and St. Paul has received over \$71. The Cities have allocated these funds in fundamentally different ways. St. Paul has spent nearly half of its Block Grants on traditional public improvements and redevelopment activities. Minneapolis has allocated only 16% of its block grant funds to these activities; the vast majority of block grants have been allocated to housing rehabilitation and social services. Therefore, Minneapolis had continued to rely on its tax base to meet public improvement and redevelopment needs. This may contribute indirectly to higher mill rates in Minneapolis. For example, if Minneapolis used block grants rather than tax increment financing to finance redevelopment activities, it could use the tax gain to meet general operating needs rather than to repay tax increment bonds.

To a large extent, the Cities' redevelopment spending reflects special needs resulting from the age of the Cities and their need for renewal. However, the Minneapolis-St. Paul Study report on redevelopment found that internal factors such as management practices and the structure of government also play an role in redevelopment spending, especially in Minneapolis.

In Minneapolis, the risks of the Loring Park and Nicollet-Lake Development Districts were not well known or carefully analyzed at the time bonds were sold. The full Minneapolis-St. Paul Study report on redevelopment contains a detailed case study of the City's decision to approve the City Center Development District. This case study found that the City greatly improved the process by which it considered and approved City Center, but nevertheless did not carefully consider the impact of fiscal disparities on the tax increment plan.

The full report on redevelopment also found that the structure of Minneapolis' government may hamper the City's redevelopment effort. At present, the Mayor, the City Council, and an independent Housing and Redevelopment Authority share major responsibilities for planning and administering urban renewal programs. This had led to overlap, duplication, lack of coordination, and inter-agency competition.

Minneapolis tends to spread its Community Development Block Grants among many separate projects. For example, in 1978 the City funded approximately 60 separate programs. This reflects the fragmentation of the renewal effort, the influence of neighborhood groups and social service providers, and the nature of ward government. The City has not been able to monitor or evaluate all the different programs it funds with block grants.

St. Paul has recently centralized its redevelopment efforts by abolishing its independent Housing and Redevelopment Authority Board and by having the City Council serve this role. All redevelopment and housing rehabilitation activities are assigned to a City Department of Planning and Economic Development.

5. Residential Street Paving

The study found that residential street paving contributes more than any other capital improvement to property tax rate differences among Minneapolis, St. Paul, and the metropolitan area suburbs. Beginning in 1967, Minneapolis undertook a systematic program to repave all the City's oil-dirt streets in 20 years. This program has been financed primarily through city-wide general obligation bonds and is over half completed. The City also undertook a sewer separation program in conjunction with residential street paving.

Minneapolis' systematic residential paving and sewer separation program may be a positive factor in maintaining the City's AAA credit rating. Minneapolis officials argue that adherence to an orderly replacement schedule assures bond rating firms that the City is not accumulating a backlog of unmet capital needs.

St. Paul has pursued a more piecemeal approach to residential paving. The City has done some residential paving in conjunction with federally assisted urban renewal programs and began a systematic long range program in 1977. However, the program was suspended after one year to permit the City to concentrate its resources on Dutch Elm disease. The City has no definite plan or timetable for either repaving its streets or separating its sewers.

The impact on the residential street paving program on the tax rate disparity between the two Cities is easy to measure. In 1977 Minneapolis levied about four mills for residential street paving, while St. Paul levied less than a mill. Minneapolis spends more for street paving on a per capita and per household basis than other metropolitan area communities, while St. Paul spends less.

Residential street paving reflects the special needs of the Cities in several ways. Because Minneapolis and St. Paul are older Cities, their capital stock is wearing out and needs replacement. As built up communities with many lower income households, the Cities must rely on property taxes or intergovernmental grants to pave their streets rather than special assessments.

However, the Minneapolis-St. Paul Study report on street paving analyzed City street paving practices in detail and found that higher expenditures reflect municipal tastes, management practices, and the structure of government as well as special needs. Until very recently, the City paved its residential streets with six inches of portland cement or asphaltic concrete. This was a higher standard than generally prevailed in other metropolitan area communities, including St. Paul. In 1977 the City Council switched to a two inch asphalt surface supported by six inches of crushed concrete base. This paving design gives equal wear at a lower cost. The use of a higher paving standard for so many years contributed to higher expenditures in Minneapolis and appears to have been more a matter of municipal taste than special need.

Minneapolis also uses its own municipal crews (day labor system) to pave residential streets, rather than bidding the work to private contractors. (St. Paul bids its work.) The study on paving found some evidence to indicate that this system may lead to higher costs in Minneapolis. For example, the range of costs for the City's four 1977 day labor projects was \$47.35 to \$56.96 per centerline foot. In the same year, the City took bids for a residential paving project funded with Federal Economic Development Administration funds. The bids ranged from \$40.00 to \$46.91 per centerline foot. If the City has been able to obtain a bid of \$40.00 per centerline foot for its four-day labor projects, it would have saved approximately \$1.6 million in 1977.

According to several Minneapolis officials, the use of the day labor system in Minneapolis results, at least in part, from the influence that the municipal building trade unions are able to exert within the City's governmental structure. It is noteworthy that City laborers not only pave streets, but also maintain them. In the past, the City has tried to pay separate wage rates for these two types of work, with a lower wage being paid for maintenance work. However, this system has proven too difficult to administer, and therefore, the City pays its laborers construction wages for all work--both maintenance and paving. This means that the day labor systems leads to higher street maintenance costs.

The day labor system also seems to reflect the ward structure in Minneapolis. Minneapolis public works officials indicated that aldermen prefer City crews to private contractors because the City crews are more responsive to neighborhood complaints and desires. Individual aldermen can exert more influence in minimizing the disruptive effects of a street paving project in their ward.

6. Refuse Collection

Refuse collection contributes directly to overall expenditure differences and tax rate disparities among Minneapolis, St. Paul, and other metropolitan area communities. The two Cities have fundamentally different systems of residential refuse collection. In Minneapolis, refuse collection is a municipal function financed by general revenues. Work is divided between municipal crews and a consortium of private haulers under contract to the City.

St. Paul has an open hauling system. Individual homeowners may choose to contract with either the City or private haulers. About 20% of St. Paul residences contract with the City and pay for their service through a service fee rather than through the property tax. St. Paul subsidizes a portion of this fee for low income and senior citizen households. This subsidy is provided from general revenues.

In 1976, Minneapolis spent the equivalent of 4,258 mills in general revenues on refuse collection, while St. Paul spent the equivalent of only .274 mills. Most suburban communities have open hauling systems, with individual homeowners contracting directly with private haulers.

Minneapolis's mandatory collection system is partly a response to special needs. The City has more lower income households than most suburbs. Some of these households would find it difficult to pay a refuse collection fee, and private haulers are reluctant to collect refuse in areas where lower income people are concentrated. An open hauling system would also lead to environmental nuisances and public health dangers.

St. Paul tries to contend with these special needs within the framework of its open hauling system by providing municipal service to lower income and senior citizen households at a subsidized rate. This is not a completely satisfactory solution. It is estimated that 10,000 households do not dispose of refuse properly.

Refuse collection is a good example of how tax rate disparities can result from simple variations in service delivery methods. Minneapolis chooses to provide mandatory refuse collection financed by the property tax, while homeowners in St. Paul and most suburbs contract directly with private haulers. Thus, Minneapolis homeowners are paying higher taxes, but homeowners in other communities are paying for service directly. The net impact of refuse collection on the personal finances of a homeowner is not so great as the property tax disparity would imply.

In fact, there are several reasons why Minneapolis' system of refuse collection may be cheaper for the City's homeowners. First, the use of the property tax means that City residents can deduct the costs of refuse collection on their income taxes. The use of the property tax also means that nonresidential

properties finance a large portion of residential collection costs. This is obviously not the case in an open hauling system. Third, Minneapolis received more State local government aid because refuse collection is financed by the property tax. (The State aid formula includes a factor for local tax effort.) Finally, mandatory collection is a more efficient system, permitting compact well organized routes. Open hauling results in many different haulers serving the same residential blocks and more dispersed pick ups.

About 40% of the City's households are served by three man municipal crews and about 60% of the households are served by Minneapolis Refuse Inc. (MRI), a consortium of private haulers.

Assuming other factors are equal, there are several reasons why the Minneapolis municipal system should be less costly than an open hauling system: (1) the City is organized into compact, well-defined routes, and (2) there are cost savings that result from financing the system by general revenues rather than billing individual customers. However, the Minneapolis-St. Paul Study report on refuse collection found that the monthly cost of refuse collection in Minneapolis is about the same as a private hauler would charge in an open hauling system.

There are four factors that may explain why the Minneapolis system costs about the same as an open hauling system, despite the greater efficiency of mandatory, municipally-financed refuse collection. (1) City officials believe that Minneapolis provides a higher level of service than is often provided by private haulers in an open hauling system. (2) City disposal costs may be slightly higher than suburban open hauling systems because the City is more distant from suburban landfills. (3) The City's municipal crews may earn higher pay and benefits than their counterparts in the private sector. Minneapolis also operates with three-man crews, while smaller crews prevail among private haulers. (4) Minneapolis negotiates exclusively with Minneapolis Refuse Inc., and does not solicit competitive bids.

The report on refuse collection estimated that Minneapolis could have saved approximately \$1.0 million dollars a year if all work had been done by private haulers, and a competitive rate had been negotiated or obtained through bids. This was based on a comparison of City costs with refuse collection costs in metropolitan area suburbs which have mandatory collection but which bid all work.

In summary, the Minneapolis mandatory refuse collection system results partly from special needs. The use of the property tax to finance the system may lead to indirect savings to City homeowners. On the other hand, part of these savings may be offset by certain City management practices that are designed to accommodate private haulers and municipal employees. In this respect, higher spending for refuse collection reflects not only special needs beyond the City's control, but also management practices.

St. Paul is considering alternatives to its present open hauling system, and is facing the same kinds of pressures that led Minneapolis to deal exclusively and on a non-bid basis with a consortium of private haulers. St. Paul, however, is moving in the direction of establishing a process that would permit full consideration of all alternatives.

7. General Government

General government refers to those costs that are associated with central staff services including Mayor, City Council, City Clerk, budgeting, financial management, personnel administration, planning, courts, and legal services. Both Cities spend more for general government on a per capita and per household basis than other metropolitan area communities, and Minneapolis spends more than St. Paul. In 1975, Minneapolis spent \$33 per capita for general government expenditures, St. Paul spent \$26 per capita, and on the average, other metro area cities over 10,000 spent \$16 per capita.

These different spending levels clearly reflect special needs and circumstances of government. The size and age of the Cities, the complexity of City problems, and the existence of large concentrations of minority residents are all factors that lead to higher general government costs. For example, the Minneapolis-St. Paul Study report on general government found that the Cities have a need for a number of specialized professionals in such areas as redevelopment planning, legal services, affirmative action, financial management, information systems, grant administration, and intergovernmental liaison. Both Minneapolis and St. Paul have full time city councils and mayors to adequately cope with the volume of administrative and legislative work. The Cities also maintain human rights departments to protect the interests of their minority residents.

Minneapolis and St. Paul have very different government structures, and therefore not all government subcategories are comparable. However, the report on general government was able to compare overall general government expenditures and several similar categories.

In 1967, St. Paul spent 61¢ more per capita than Minneapolis for general government. By 1976, however, Minneapolis was spending \$6.35 more per capita than St. Paul. Higher administrative, budgeting, and financial management costs, which are directly effected by the fragmentation of the financial management function in Minneapolis, account for 29% of the total 1976 per capita difference in general government expenditures between the two Cities. Furthermore, Minneapolis general government expenditures do not include the general administrative costs of the independent Park Board, Library Board, and Housing and Redevelopment Authority. If these costs were included, the per capita difference between the two Cities' general government expenditures would be greater.

Minneapolis' per capita expenditures are higher than St. Paul's expenditures for nine of thirteen comparable categories: administration/budgeting/financial management, assessor, attorney, civil rights, city clerk, city council, licenses and permits, property services, and miscellaneous. St. Paul spends more per capita for accounting/auditing, personnel, planning, and purchasing. The Minneapolis-St. Paul Study report on general government found that in each of these four categories St. Paul provides services for the County or School Board.

There are a few subcategories of general government that are relatively unique to Minneapolis and seem to reflect municipal tastes more than special needs. The most significant of these functions is property assessment. Minneapolis has a City Assessor, while St. Paul uses the services of the Ramsey County Assessor for property valuation. Costs attributable to the Minneapolis City Assessor account for nearly one half of the total general government per capita expenditure difference between Minneapolis and St. Paul, and approximately two thirds of a mill of the Minneapolis property tax rate. This reflects a Minneapolis policy decision to bear the costs of retaining control over property assessment in the City.

Other examples of general government functions undertaken in Minneapolis, but not in St. Paul are the

Municipal Arts Commission, Board of Estimate and Taxation, employee clinic, and Municipal Information Library. These expenditures are relatively small and do not contribute significantly to overall expenditure differences and property tax disparities.

8. Wages and Fringe Benefits

Minneapolis and St. Paul have significantly more employees per capita than other communities in the metropolitan area. The study estimated that in 1975, Minneapolis had about 13 employees per 1000 population, St. Paul had 11 employees per 1000 population, and other metropolitan area cities had about 4 employees per 1000 population.

In 1976, Minneapolis employed more professionals and laborers than St. Paul (relative to population). Minneapolis has more laborers primarily because it uses municipal workers for residential street paving (day-labor system). Minneapolis also employs slightly more police officers and attorneys than St. Paul. Conversely, St. Paul employs more firefighters, building tradesmen, blue collar supervisors, and clerical-technical workers than Minneapolis (relative to population).

Between 1970 and 1976, both Cities increased the size of their work forces. The total number of Minneapolis employees has grown from 4,275 employees (full time equivalents) to 5,020, an increase of 17%. The total number of St. Paul employees has grown from 2,845 to 3,327, an increase of 17%. In Minneapolis, most of this growth occurred among clerical-technical workers, police, and fire. In St. Paul, most of this growth occurred among clerical-technical workers and police. A portion of this employee growth in both Cities can be attributed to CETA workers.

The differences in the work force between the two Cities and the suburbs represent differences in needs and service levels among the various functional categories that have been discussed in the preceding sections of this report. For example, Minneapolis and St. Paul have more police officers, firefighters, and inspectors per capita than other metropolitan area cities. To some extent this reflects social and economic forces unique to the Cities.

However, the Study also found evidence to indicate that City employees had higher earnings than the

employees of other units of government in Minnesota. This phenomenon has relatively little to do with special needs, but is very directly related to the Cities' management practices and governmental processes.

Exhibit 24 compares mean monthly salaries for 21 job categories in Minneapolis, St. Paul, and various other governmental units. Some limited data is also included for the private sector. These 21 categories represent those job classifications for which comparative data was available. They include about half the municipal work force. The table indicates that monthly salaries for a representative group of workers are generally higher in Minneapolis and St. Paul than in other units of government, including the State of Minnesota.

The Minneapolis-St. Paul Study made selective comparisons of financial conditions in Minneapolis and St. Paul to other cities in the same population range outside the deep south.⁵ Exhibit 25 compares the average earnings per employee in 20 cities with populations between 250,000 and 500,000. Minneapolis ranks second and St. Paul ranks fourth, and both are well above the mean.

The high level of municipal wages in Minneapolis and St. Paul does not appear to be due to a higher cost of living factor in the Twin Cities area. A 1976 United States Commerce Department cost of living index places Minneapolis-St. Paul at 103, quite near the national average of 100.

Exhibit 24 indicates that St. Paul salaries are slightly higher than Minneapolis salaries. Exhibit 25, however, shows Minneapolis paying higher salaries than St. Paul. The Minneapolis-St. Paul Study report on wages and fringe benefits examined salary levels in both Cities in several different ways. For example, the report compared both base salaries and actual wage expenditures per employee in selected job categories.⁶ The report found that entry level base salaries are generally higher in St. Paul for most job categories.

⁵National comparisons of wages, employees per capita, and certain municipal expenditures can be found in the General Review of Municipal Expenditures report.

⁶Selected job categories include Clerk-Stenographer II, Recreation Leader I, Police Officer, Firefighter, Laborer, Plumber, Attorney II, Director of Libraries, City Engineer, City Planner II, Equipment Repair Foreman, and Council person.

EXHIBIT 24

1976 MEAN MONTHLY SALARIES
SELECTED JOB CATEGORIES¹

	<u>Mpls.</u>	<u>St. Paul</u>	<u>Metro Counties</u>	<u>Metro Suburbs</u>	<u>State of Minn.</u>	<u>Private Industry</u>
1. Custodian	\$ 968	\$1068	\$ 805	\$ 927	\$ 773	\$ 771
2. Laborer	1085	1229	1084	1001	861	1005
3. Lt. Equip. Operator	1053	1208	1095	1076	999	1161
4. Hvy. Equip. Operator	1260	1418	1204	1157	1137	1191
5. Mechanic	1299	1349	1250	1164	1132	1227
6. Eng. Aide II	1083	1081	980	979	1036	946
7. Eng. Aide III	1326	1242	1353	1146	1267	1220
8. Eng. Aide IV	1524	1435	1542	1343	1626	-
9. Foreman	1513	1507	1410	1331	1255	-
10. Superintendent	1744	1592	1598	1499	1381	-
11. Inspector	1642	1747	-	1318	1420	-
12. Sewer and Water Maint. Worker	1151	1267	-	1076	-	-
13. Patrol Off.	1402	1363	1272	1289	1203	-
14. Detective	1691	1608	1557	1420	1483	-
15. Sergeant	1600	1554	1500	1522	1410	-
16. Firefighter	1359	1355	-	1210	-	-
17. Acctg. Clerk	747	972	726	685	698	660
18. Clerk Typist I	606	650	567	608	587	520
19. Clerk Typist II	779	779	687	688	654	589
20. Senior Steno	839	807	815	739	700	682
21. Attorney I	1752	1346	1577	-	1361	1485
AVERAGE ²	\$1207	\$1227	\$1144	\$1093	\$1071	-

¹ SOURCE: 1976 Twin Cities Metropolitan Area Salary Survey, Vol. 1, Stanton Associates, Inc.

However, the salary ranges in Minneapolis are structured in a way that permits more rapid salary advancement through step increases. In 1976, the average wage expenditures per employee in Minneapolis were slightly higher than in St. Paul in all selected job categories except laborers, and building tradesmen.

The report on wages also found that base salaries and average wage expenditures per employee have grown faster than inflation in both Cities in the period 1967-1976. For example, the inflation rate between 1967 and 1976 was 70.9%. Base salaries increased more than 70.9% in 8 of the selected 12 job categories in St. Paul, and 10 of 12 job categories in Minneapolis.

Pension expenditures and fringe benefits have grown even faster than wages in both Cities.

EXHIBIT 25

AVERAGE EARNINGS PER EMPLOYEE⁷
October, 1975
-National Comparisons-

<u>Rank</u>	<u>City</u>	<u>Earnings Per Employee</u>	
1.	Oakland	\$1265	
2.	Minneapolis	1261	
3.	Portland	1234	
4.	St. Paul	1218	
5.	Newark	1167	
6.	Sacramento	1138	
7.	Toledo	1099	
8.	Akron	1098	Mean \$1015
9.	Kansas City	1002	
10.	Rochester	979	
11.	Jersey City	978	
12.	Cincinnati	947	
13.	Buffalo	941	
14.	Dayton	937	
15.	Omaha	921	
16.	Pittsburgh	895	
17.	Louisville	865	
18.	Wichita	862	
19.	Richmond	799	
20.	Norfolk	691	

⁷For all municipal employees except teachers. Comparability of the data may be biased by variances in work force composition.

Pension expenditures are discussed in the next section of this report. In addition to pensions, there are several other employee benefits that require direct City expenditures. These include health insurance, severance pay, unemployment compensation, workers compensation, and tuition reimbursement. In Minneapolis expenditures for these types of benefits grew from \$998,653 in 1967 to \$5,342,512 in 1976, an increase of 435%. In St. Paul, expenditures for these types of benefits grew from \$925,261 to \$3,192,066, an increase of 245%. (These figures do not include the indirect costs of leave with pay such as sick leave, vacation leave, and holiday leave.) Appendix R shows how total compensation expenditures have changed in both Cities since 1967.

Higher wage levels in the two cities account for a portion of higher overall expenditure levels and higher property tax rates. These wage levels can be traced to City management practices and governmental structure rather than to special needs.

The Minneapolis-St. Paul Study included an analysis of wage negotiations and the process by which wage rates are established. This report found that City elected officials have not aggressively represented a management point of view in wage negotiations. Over 90% of City employees are covered by collective bargaining agreements, and most of these employees belong to municipal employee unions. These employees have considerable political influence. They endorse candidates, influence other labor union endorsements, and contribute heavily to political campaigns. As individuals, municipal employees vote, influence other voters, and sometimes work on political campaigns.

In Minneapolis wage negotiations are conducted by an employee of the City Coordinator's Office. The negotiator is not always backed up by the City Council. Labor officials can and do lobby City Councilmen during the negotiation process. One member of the Coordinator's staff observed that taking a negotiation stance under these circumstances "...is somewhat like trying to stand on a marshmallow; it just keeps giving in". Several months ago the Minneapolis City Council quickly abandoned plans to hire a labor negotiations consultant with a reputation for toughness because union officials objected. Since the passage of the State Public Employment Labor Relations Act in 1971, the City has settled 31 contracts without going to arbitration. This

could be an indication that the City is unwilling to challenge its employee unions.

St. Paul has been taking a somewhat more aggressive stance in wage negotiations in the last few years. Management is now represented by a team of negotiators that includes department heads and representatives of the Mayor's Office. Since the passage of the Public Employment Labor Relations Act in 1971, the City has settled 108 contracts and gone to arbitration 8 times.

The existence of independent Park, Library, and Housing and Redevelopment Boards in Minneapolis makes it much more difficult to monitor wage expenditures and control wage increases. Each agency has its own separate personnel offices and each negotiates separately with employees. Minneapolis officials believe that the existence of these several separate employers enables labor negotiators to play one employer off against another--a technique called whipsawing--in an attempt to achieve the best possible settlement.

A major finding of the study on wages was that Minneapolis has the information and analysis about wage expenditure and work force characteristics necessary to make effective personnel decisions. Minneapolis' fragmented, decentralized government makes it especially difficult to collect and analyze data relating to City wage expenditures. In Minneapolis, 5 different offices--none with any obligation to report to the others--were involved in determining the costs of personnel as presented in the wage report.

Finally, there are certain specific management practices that have become institutionalized in the Cities' personnel systems and contribute to higher wage levels. For example, in both Cities step increases were originally designed to be based on merit. However, these increases are granted so routinely that they have become automatic and thus constitute regular pay increases in addition to cost-of-living increases and contract settlements. In 1977 only ten Minneapolis employees were denied step increases for which they had become eligible. St. Paul officials do not know how many employees were denied step increases, but believe the number is very small.

9. Pensions

Pensions is one of the most important topics addressed by the Minneapolis-St. Paul Study. Although pension

costs are a major municipal expense, there has been a lack of information about the financial status and public costs of the various city pension funds. Both the general public and many of their elected officials not only lack information, but also are unfamiliar with the basic public policy issues related to pensions.

The Minneapolis-St. Paul Study prepared a detailed report on city pension funds. The report found that pension expenditures are much higher in the two Cities than in the suburbs and higher in Minneapolis than in St. Paul. Pension expenditures are a major factor in explaining property tax rate disparities.

Minneapolis and St. Paul have separate pension plans for general municipal employees, police officers, and firefighters. St. Paul municipal employees are members of the Public Employees Retirement Association (PERA), a statewide system that has been coordinated with Social Security since 1968. Minneapolis municipal employees are members of the Minneapolis Municipal Employees Retirement Fund, a locally administered system which was not coordinated with Social Security until 1978. The police and fire funds of both Cities are locally administered and are not coordinated with Social Security.

Pension expenditures are growing rapidly in both Cities. In Minneapolis, pension expenditures have grown from about \$6.0 million in 1967 to \$19.7 million in 1975. St. Paul expenditures have grown from \$1.8 million to \$7.4 million. In both Cities, pension expenditures are increasing faster than overall operating expenditures, faster than wage expenditures, and faster than the property tax rate.

In 1976 Minneapolis levied 12.465 mills for pensions alone. In the same year, the average suburban mill rate for all municipal services was 15.298 mills; the average suburban mill rate for pensions was less than 2 mills. In 1976, St. Paul pension levies were 9.654 mills. Higher expenditures for pensions have improved the ratio of assets to liabilities in the police and fire funds, but total unfunded liabilities have combined to grow. In the Minneapolis Employees Retirement Fund, not only have total unfunded liabilities grown, but also the ratio of assets to liabilities has declined.

As of 1976, St. Paul's police and fire funds had a total unfunded liability of \$90,775,001. (St. Paul

is also responsible for an undetermined share of the PERA unfunded liability.) As of 1976, Minneapolis' three local pension funds had a total unfunded liability of \$359,501,439. (Appendices M and N contain additional information on the financial status and costs of City pension funds.)

Four major factors have led to the dramatic increases in City pension expenditures since 1967:

- a. The number of City employees and their salary levels have increased substantially in both Cities since 1967. Increased pension expenditures reflect changes in both the size and salary levels of the municipal work force.
- b. The State Legislature enacted major benefit improvements for PERA in 1973 and for MERF in 1973 and 1974. The police and fire funds have an escalator provision which provides automatic benefit improvements each year. Cities have had to increase expenditures to cover these improved benefits.
- c. The State Legislature has passed a number of laws designed to improve the financial condition of the various city pension funds. The Legislature has required that MERF be fully funded by 2017. The Legislature's Guidelines Act requires that the cities take steps to freeze unfunded liabilities in the police and fire pension funds by 1980. These two actions have protected or improved the financial health of the funds, but have also required that the cities increase expenditures and tax rates.
- d. The burden of financing increased pension benefits and improving the financial status of the funds have been borne more heavily by the cities and their taxpayers as employers rather than by municipal employees. The one exception to this pattern is PERA: St. Paul and its general municipal employees share pension costs about equally. In the other funds, the public contribution greatly exceeds the employee contribution.

For example, police officers and fire fighters in both Cities contribute 6% of their base salaries for pension benefits. Meanwhile the total public contribution ranges from 31.6% to 43.0%, depending on the particular fund. This means that for every dollar in salary, the employees are contributing 6¢ for pensions,

while the taxpayers are contributing as much as 43¢. (See Appendix N for a breakdown of contribution rates by individual fund.)

The existence of locally administered police and fire funds is a major factor in accounting for pension expenditure differences between the two Cities and the suburbs. In addition, the existence of a locally administered municipal fund in Minneapolis is the most important factor in explaining pension expenditure differences between the two Cities themselves.

It costs Minneapolis taxpayers about 3 mills more to finance pensions than it costs St. Paul taxpayers. This entire tax rate disparity between Minneapolis and St. Paul is attributable to the maintenance of a locally administered pension system for Minneapolis municipal employees (MERF), while St. Paul municipal employees are members of the statewide pension system (PERA). More specifically, this tax rate disparity can be traced to contribution rates for unfunded liabilities. Minneapolis is solely responsible for the unfunded liabilities of its employees, while the responsibility for the unfunded liabilities of St. Paul employees is shared on a statewide basis because St. Paul is a member of PERA. As a result, Minneapolis contributes about 12% of payroll for unfunded liabilities, while St. Paul contributes only 2.5% for Basic Plan members and 1.5% for Coordinated Plan members. The same kinds of phenomena apply to the Cities' locally administered police and fire funds when comparing pension expenditures and tax rates in Minneapolis and St. Paul to the suburbs.

In the sense that present city officials have inherited these more costly locally administered funds, they can reasonably argue that higher pension expenditures are due to historical forces and state decisions.

However, a closer examination of the way in which pension decisions are made reveals that the cities are not so powerless as they first appear. In several major respects, pension expenditures reflect city management practices. For example, salary increases contribute to pension increases and cities control salary levels. Second, the State Legislature requires local government approval of increased benefit provisions for local funds. Third, city officials always have the option of proposing changes in pension systems or benefits to the State Legislature.

This is an option that has rarely been exercised by public officials in Minneapolis and St. Paul. For example, Minneapolis and St. Paul have not actively sought to include their workers under Statewide systems, although Minneapolis City officials did support a bill in the 1978 Session of the Legislature to include new police officers and firefighters in a Statewide system. (The bill did not pass.)

The full Minneapolis-St. Paul Study report on pensions presents a case study of the 1974 decision to improve retirement benefits for employees covered by the Minneapolis Municipal Employees Retirement Fund (MERF). This case study contained several important findings about the decision making process that illustrate very clearly the role of management practices and government structure on pension expenditures. These findings are summarized below:

- a. The 1974 MERF benefit improvements substantially increased the value and cost of employee retirements and have led to increases in City spending and property tax rates.
- b. The benefit improvements were approved by both the Legislature and the City Council with little discussion. There was no thorough analysis of the cost of these benefit changes and their impact on the City's financial condition.
- c. City officials tended to assume that the Legislature would analyze the cost impact of the changes, while Legislators tended to assume that the City would conduct such an analysis.
- d. The City officials responsible for evaluating the financial impact of proposals before the City Council and for protecting the City's financial interest are also members of MERF, and had a direct and substantial financial interest in the 1974 benefit improvements.
- e. The City Council relied solely on employee representatives for information on the cost of the proposed changes. The case study found that information presented was generally inadequate to understand the long term cost implications of the change. In some instances, information presented to the Legislature and City Council was misleading and understated the full cost to the City.
- f. The case study found no one aggressively representing a management interest on behalf of the taxpayers. Elected officials were anxious to please politically influential employee unions. The City's top administrators had a substantial

financial interest in the proposed benefit changes and did not participate in the decision making process.

In summary, the Minneapolis-St. Paul Study has found that pensions is a major factor contributing to property tax rate disparities among Minneapolis, St. Paul, and suburban communities. The study has also identified several areas of concern about pension costs and the financial conditions of the fund.

However, pensions is also a very sensitive political issue. Based on interviews with City and State officials, the report on pensions found that, traditionally, city officials have preferred to avoid the issue of public pensions, rather than risk a confrontation with City employee unions. This is hardly a matter of special needs, but rather is clearly a matter of government structure and management practice.

10. Other Expenditure Categories

The following expenditure categories were not analyzed in detail by the Minneapolis-St. Paul Study and have not been discussed in the summary report: health, snow removal, street maintenance, street lighting, sewer maintenance and public parking ramps. Undoubtedly, examples of special needs as well as internal factors could be found in all these categories.

For example each City maintains its own locally administered health department which relies partly on local revenues. This function is a county responsibility elsewhere in the metropolitan area. The Cities argue that these local health departments reflect the large concentrations of lower income persons in Minneapolis and St. Paul, and that the County is not fulfilling its public health responsibilities.

Public parking ramps is another important category. Minneapolis is constructing a system of downtown parking ramps which was intended to be self-supporting but which is being subsidized by general revenues. The construction of these ramps results in part from certain external factors, but also reflects the entire array of internal factors: municipal tastes, management practices, the influence of special interests, and government structure and processes.

D. Summary of Expenditure Studies

It is difficult to determine precisely how much each different expenditure category contributes to overall

municipal property tax rate disparities among Minneapolis, St. Paul, and other metropolitan area communities. Such a calculation would be relatively simple if all revenues were derived from the property tax. However, each expenditure category is financed by a mix of revenues that not only includes property tax revenues, but also can include general intergovernmental aids, categorical grants, and revenues generated by program activity.

This is only one of several methodological problems. For example, it is difficult to determine how much capital spending contributes to mill rate disparities in any specific year because capital spending is cyclical and is usually financed by municipal borrowing. Another problem is the time lag between tax rate data, which can be obtained for 1978, and detailed expenditures data, which is available only through 1975 for the suburbs and 1976 for the two Cities.

While these factors make it difficult to measure precisely the relative impact of expenditure differences on 1978 municipal tax rate disparities, it is possible to make a rough estimate by: (1) disregarding revenue variations within expenditure categories; (2) disregarding capital spending; and (3) assuming that spending ratios per capita among communities and among expenditure categories are about the same in 1978 as they were in 1975.

The impact of a specific expenditure category on the mill rate disparity can then be estimated by assuming that the category contributes to total mill rate disparities in the same proportion it contributes to overall expenditure differences. For example, in 1975, Minneapolis spent \$210 more per capita to operate than the average suburban community over 10,000. Of this total difference, \$82 or 39% was attributable to public safety. A rough estimate of how much public safety as a single expenditure category contributed to the 1978 mill rate disparity between Minneapolis and the suburbs can be calculated by multiplying the disparity (27 mills) by 39%.

Exhibits 26, 27, and 28 represent brief and greatly simplified summaries of all the expenditure studies. Exhibit 26 compares Minneapolis and other metro communities over 10,000. Exhibit 27 compares St. Paul and the other metropolitan area communities. Exhibit 28 compares Minneapolis and St. Paul.

In each exhibit, there is a bar graph that shows the relative impact of different operating expenditures on overall per capita spending differences. The exhibits also

EXHIBIT 26

DIFFERENCES IN OPERATING EXPENDITURES PER CAPITA
MINNEAPOLIS-OTHER METROPOLITAN COMMUNITIES

	<u>Policy Choices</u>	<u>External Factors</u>	<u>Internal Factors</u>
Other 4% \$9			
Libraries 7% \$15	Minneapolis has own library system; elsewhere county function but Mpls excluded from County levy	Historic role of Cities as regional center	Higher wages, pensions, independent board
Health 7% \$15	Minneapolis has own health department; public health is county function; most money comes from federal govt	Concentration of lower income residents	Wage levels, pensions
General Government 8% \$17	Minneapolis has full time Mayor City Council, many specialized professionals, local assessor	Size, age of City	Local Assessor, higher wage, pension costs
Street Maintenance 11% \$24	Includes snow removal, street lights, repair		Wage levels
Sanitation 11% \$24	Minneapolis has municipally financed mandatory refuse collection system; most other metro cities have open hauling	Concentration of lower income persons	City does not take bids, uses municipal crews, high wage, pension costs productivity issues
Parks 12% \$25	Minneapolis operates its own regional parks system, heavily used by non-residents Elsewhere this is County function	Historic role of City as Regional center	Mpls choses high maintenance levels, independent board parks police; higher wages, locally administered pension system
Public Safety 39% \$82	Minneapolis has more police, full time professional fire dept, more housing & building inspectors	Age of City, many economically disadvantaged residents	Higher wages, locally administered pension systems Police force expanded despite population decrease

Total Differences
\$210 Per
Capita

NOTE: These are operating expenditures only; they do not include capital spending for such activities as housing, redevelopment, street paving, parking ramps and sewer separation.

EXHIBIT 27

DIFFERENCES IN 1975 OPERATING EXPENDITURES PER CAPITA
ST. PAUL-OTHER METRO COMMUNITIES

	<u>Policy Choices</u>	<u>External Factors</u>	<u>Internal Factors</u>
Less than 1% Other			
7% \$9 Libraries	St. Paul has own library system; elsewhere a county function, but St. Paul excluded from County levy	Role of City as Regional center	
8% \$10 General Government	St. Paul has full time Mayor, City Council, various specialized professions	Age, size of City	
8% \$10 Parks	St. Paul operates its own regional park system, heavily used by non-residents, elsewhere this is a county function	Histroic role of the City as a regional center	
8% \$10 Street Maintenance	Includes snow removal, street lights, repair		Higher wage; locally-administered police and fire pension systems; productivity issues
9% \$11 Sanitation	St. Paul has open hauling but residents can choose municipal crews; low income persons & senior citizens are subsidized	Concentration of lower income persons	
9% \$12 Health	St. Paul maintains a local health department; elsewhere a county function but most money comes from federal govt	Concentrations of lower income persons	
51% \$64 Public Safety	St. Paul has more police, a full-time professional fire department, more inspectors	Age of City, concentration of lower income residents	

Total Difference:
\$127 per capita

EXHIBIT 28

DIFFERENCES IN 1975 OPERATING EXPENDITURES PER CAPITA
MINNEAPOLIS-ST. PAUL

		<u>Policy Choices</u>	<u>External Factors</u>	<u>Internal Factors</u>
Health	3% \$3			
Libraries	7% \$6	Minneapolis offers more sewers, larger physical system, has more neighborhood libraries, an independent board		Slightly higher wages in Minneapolis for most job categories; higher pension costs for municipal workers because Minneapolis has local pension system. These factors affect costs in all categories. Use of municipal workers rather than private contractors may affect refuse collection, street paving, street maintenance costs.
Other	9% \$8	Interest expense included here. Is slightly higher in Mpls which has systematic street paving, sewer separation program. St. Paul does not invest as much in streets, sewers.		
General Government	9% \$8	Minneapolis spends more for most general government categories, Mpls own City Assessor, St. Paul uses County Assessor	Size of City	
Sanitation	15% \$13	Includes refuse collection & salvage disposal, Mpls has mandatory collection system-St. Paul has open hauling. St. Paul homeowners who use private haulers must pay directly		
Street Maintenance	15% \$13	Includes snow removal, lighting, repair of streets. Mpls rents street lights from NSP and this spending shows here; in St. Paul this is capital expense		
Parks	18% \$15	Mpls has larger park system, higher maintenance levels, park police, independent board, is still expanding system.	Size of park system	
Public Safety	22% \$18	Minneapolis has more police, inspectors; St. Paul more firefighters		

Total
Difference:
\$83

NOTE: These are operating expenditures only; they include only interest expense. For capital spending such as housing, paving, redevelopment, and sewers.

contain a capsule summary of the critical decisions that contribute to these expenditure differences and an indication of how these decisions reflect external and internal factors.

Exhibit 26 shows that Minneapolis spent \$210 more per capita than the suburbs to operate in 1975. The municipal mill rate disparity between the City and the suburbs was 27 mills in 1978. (All mill rates in this section of the report are adjusted to assume a 100% sales ratio in all communities.) If the spending ratios between the City and the suburbs and among expenditure categories are approximately the same in 1978 as they were in 1975, the mill rate disparity can be allocated as follows:

EXHIBIT 29

1978 MUNICIPAL TAX RATE DISPARITY
MINNEAPOLIS-SUBURBS

<u>Expenditure Category</u>	<u>Mills</u>
Public Safety	10.6
Parks	3.2
Sanitation	3.1
Street Maintenance	3.0
General Government	2.2
Libraries	1.9
Health	1.9
Other	<u>1.1</u>
Total Mill Rate Disparity	27.0

Expenditure differences and tax rate disparities can reflect at least three major variables: larger numbers of employees, higher wage rates, and higher pension costs.

Minneapolis maintains its own locally-administered pension systems for all employees. This means that the City is solely responsible for its pension unfunded liabilities while the unfunded liabilities of other metropolitan area communities are shared on a State-wide basis. Minneapolis also offers better pension benefits than most metropolitan area suburbs. These pension factors lead to higher pension costs per employee. These costs are reflected in each of the separate

expenditure categories listed in Exhibit 29, and would contribute approximately 5-6 mills of the total 27 mill disparity if they were broken out separately.

Minneapolis also pays higher wages than other metropolitan area communities (see Exhibit 24). In 1976 total Minneapolis wage expenditures were approximately \$79.5 million. If the City had paid the same level of wages as the suburbs, its wage expenditures would have been approximately \$72.0 million. These higher wages in Minneapolis are reflected in each separate expenditure category listed in the table above and contribute approximately 4.5 mills to the total 27 mill disparity.

Capital spending differences between Minneapolis and the suburbs are not directly reflected in Exhibit 26. However, some capital improvement categories definitely contribute to the disparity. For example, between 1967 and 1975 Minneapolis spent more per capita than the suburbs for residential street paving. A major portion of these expenditures are financed by bonds, and therefore should be partially reflected in the "other" category which includes interest expense as an operating cost. However, the "other" category aggregates interest for all capital improvements. The suburbs have spent more per capita on new sewers than the City, and this tends to offset the City's greater spending for residential street paving. To some extent, therefore, this technique of allocating the total disparity masks the role of residential street paving in the overall mill disparity.

Redevelopment is one important area where spending patterns have changed since 1975. In 1978, Minneapolis levied about two mills for redevelopment, including 1.3 mills to support the Loring Park and Nicollet-Lake Development District. This contributes directly to the 27 mill property tax rate disparity between the City and the suburbs.

Exhibit 27 shows that St. Paul spent \$127 more per capita to operate in 1975 than the suburbs. The 1978 municipal mill rate disparity between the City and the suburbs was 11 mills. If the spending ratios between the City, the suburbs, and among expenditure categories are approximately the same in 1978 as they were in 1975, the mill rate disparity can be allocated as follows:

EXHIBIT 30

1978 MUNICIPAL MILL RATE DISPARITY
ST. PAUL-SUBURBS

<u>Expenditure Category</u>	<u>Mills</u>
Public Safety	5.6
Health	1.0
Sanitation	1.0
Streets	.9
Parks	.9
General Government	.8
Libraries	.8
Other	<u>trace</u>
Total Mill Rate Disparity	11.0

A portion of these mill rate differences can be traced to the existence of locally-administered police and fire pension funds in St. Paul. These funds offer better benefits than funds that are coordinated with the Statewide police and fire PERA systems. Also, St. Paul is solely responsible for the unfunded liabilities of these funds. Most other metro communities do not maintain locally administered police and fire systems. These pension factors account for about 2-3 mills of the total 11 mill disparity.

St. Paul also pays higher wages than other metropolitan area communities (see Exhibit 24). In 1976, total St. Paul wage expenditures were approximately \$51.3 million. If the City had paid the same level of wages as the suburbs, its wage expenditures would have been approximately \$45.7. These higher wages in St. Paul are reflected in the expenditure categories listed in Exhibit 30 and are equivalent to about 5 mills of property taxes.

Exhibit 28 shows that Minneapolis spent about \$83 per capita more to operate in 1975 than St. Paul. The 1978 mill rate disparity was approximately 16 mills. If the spending ratios between the Cities, and among different expenditure categories are approximately the same in 1978 as they were in 1975, the mill disparity can be allocated as follows:

EXHIBIT 31

1978 MUNICIPAL MILL RATE DISPARITIES
MINNEAPOLIS-ST. PAUL

<u>Expenditure Category</u>	<u>Mills</u>
Public Safety	3.8
Parks	3.1
Street Maintenance	2.8
Sanitation (Includes Refuse Collection)	2.7
General Government	1.6
Libraries	1.2
Health	.6
Interest	<u>.1</u>
Total 1978 Municipal Mill Rate Disparity	15.9

The Minneapolis-St. Paul Study reports on the eight individual categories generally contain expenditure data through 1976. These individual reports adjusted expenditures by subtracting the amount financed by categorical grants before converting to equivalent mills. For this reason the calculations in the individual reports are more up to date and precise than the figures contained in the table above. However, these more precise calculations yield similar results as the technique used to develop Exhibit 31.

Expenditure differences and tax rate disparities, as reported in Exhibit 31, reflect different variables including larger numbers of employees, higher wages, and higher pension costs. The Minneapolis-St. Paul Study found that overall average Minneapolis wage expenditures per employee were 4% higher in Minneapolis than in St. Paul. This contributes approximately 2 mills to the overall tax rate disparity between the two Cities. The Minneapolis-St. Paul Study report on pensions found that the existence of a locally-administered fund for municipal employees in Minneapolis contributes about 3 mills to overall tax rate disparities.

Minneapolis spends more for residential street paving and development districts than St. Paul. These differences do not show up in mill rate disparity calculations

because the calculations in this section of the report include only operating costs. They should be partly reflected in the "interest" category, but the "interest" category aggregates all borrowing. Higher interest in Minneapolis for residential street paving is offset by certain interest costs in St. Paul that are higher than Minneapolis.

In summary, the Minneapolis-St. Paul Study has found seven major explanations of mill rate disparities between Minneapolis and St. Paul.

1. Minneapolis pays slightly higher wages than St. Paul, and provides somewhat more generous pension benefits to its municipal employees. These are largely matters of management practice.
2. Minneapolis has a locally administered pension system for municipal employees, while the municipal employees of St. Paul are covered under the statewide PERA system. This leads to higher expenditures in Minneapolis because the City is solely responsible for the unfunded liabilities of its employees, while the responsibility for the unfunded liabilities of St. Paul employees is shared on a statewide basis. In the sense that City officials have inherited a pension system under ultimate state control, higher expenditures for pensions can be said to reflect external factors. However, Minneapolis has also contributed to its problems by granting more generous pension benefits to its employees than those offered by the statewide system.
3. Minneapolis has higher police costs than St. Paul on both a per capita and per household basis. Both Cities have substantially increased the size of their police forces in the last ten years, but Minneapolis has more police relative to its population. The larger police force in Minneapolis is less a reflection of unique special needs and more a matter of municipal taste.
4. The Cities have fundamentally different capital investment strategies. In 1967 Minneapolis began a systematic residential paving project to replace all its oil-dirt streets in 20 years and has financed this program through general obligation bonds supported by the property tax. The Minneapolis paving program also includes systematic sewer separation. St. Paul has paved some residential streets in connection with

its urban renewal projects, but did not begin a long range residential paving program until 1977. The City has not attempted a systematic sewer separation program. These differences result from a combination of special need and municipal choice. It should be noted that Minneapolis does not bid its paving work to private contractors, but rather maintains its own day labor force. The study found some evidence to indicate this is more costly to the City. This practice is clearly a reflection of management practice and government structure.

5. Minneapolis operates a mandatory residential refuse collection system that is financed through the property tax. St. Paul provides municipal service to only 20% of City households and this is financed largely by service fees. The remainder of the City is served by an open hauling system. Like paving, refuse collection is an example of an expenditure strategy in Minneapolis that responds more aggressively to the City's needs. Minneapolis divides the work between municipal crews and private haulers. The City does not bid the portion of the work that is assigned to the private sector, but rather negotiates exclusively with a consortium of private haulers. The study found evidence to indicate that this is more costly to the City; this practice is clearly a reflection of management practice.
6. Minneapolis operates a larger park and library system per capita than St. Paul, and this contributes to the disparity. Thus, differences in operating costs for these two systems is a reflection of special needs in Minneapolis. However, Minneapolis is continuing to expand its park and library system, and this is a matter of municipal choice that reflects, at least in part, the independent status of the City's Park Board and Library Board.
7. Minneapolis redevelopment policies and practices have made an indirect impact on mill rate differences between the two Cities. Minneapolis has undertaken several tax increment redevelopment projects that have required the support of the property tax. Also, Minneapolis has used a smaller proportion of its Community Development Block Grant Funds for activities such as public works and redevelopment than St. Paul. As a result, Minneapolis relies more heavily on its property tax base to meet these needs.

In summary, Minneapolis has a higher property tax rate than St. Paul because it provides a genuinely higher quality of municipal services in several areas such

as residential street paving, parks, libraries, and refuse collection. These are somewhat a matter of municipal taste, although Minneapolis officials argue that these types of high level services and amenities are needed to keep their City vital and healthy.

A second major reason why Minneapolis has higher tax rates is that City officials have not always carefully considered the cost implications of their decisions. For example, City officials have not always aggressively represented a management perspective in wage negotiations and pension deliberations. The study has found instances where the City has not carefully considered potentially less expensive methods of service delivery because present methods are favored by influential groups. Also, the study has found the City willing to approve major capital projects without considering long range costs and possible alternatives.

Both of these general factors reflect the very fragmented decentralized government structure in Minneapolis.

III. CITY FINANCIAL PROSPECTS FOR THE FUTURE

III . CITY FINANCIAL PROSPECTS FOR THE FUTURE

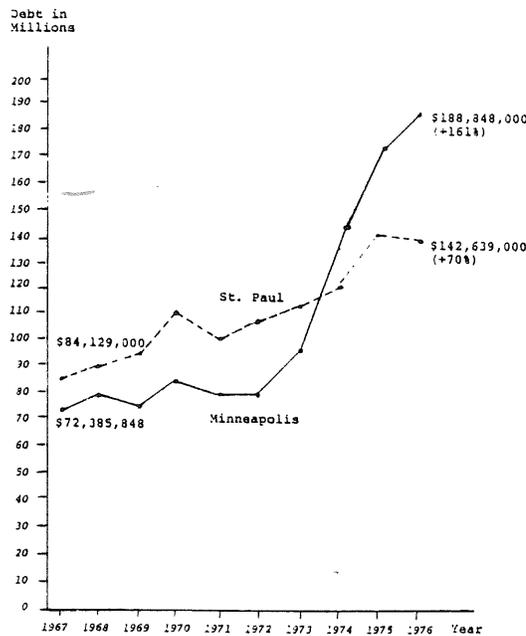
Part One of the Minneapolis-St. Paul Study included a major report on municipal debt in the two cities. This section of the Final Summary Report draws together information from this debt report, along with the report on pensions and other individual reports in order to summarize city financial prospects for the future.

A. City Debt¹

During the last ten years, debt has grown significantly in both Minneapolis and St. Paul, but particularly in Minneapolis. Exhibit 32 traces the growth of total general obligation debt in both cities between 1967 and 1976.

EXHIBIT 32

GROWTH IN MUNICIPAL TOTAL G.O. DEBT 1967-1976



¹Most of the data in this section is current through 1975, although some data on total debt was available through 1976.

In 1967, Minneapolis had less total debt than St. Paul. Nevertheless, 1973 marked the beginning of a sharp increase in Minneapolis debt, and by the end of 1974 Minneapolis had overtaken St. Paul in total debt. The steep increases in Minneapolis debt, as shown on the graph in Exhibit 32, are due primarily to tax increment debt. The City had sold \$54,840,000 of tax increment bonds for Loring Park, Nicollet-Lake, and various Housing and Redevelopment Authority projects through the end of 1976. (In 1977, the City sold an additional \$52,910,000 of tax increment bonds, primarily for the City Center Development District. Minneapolis' total G.O. debt increased from \$188,840,000 at the end of 1976 to \$245,920,000 as of the end of 1977. This increase is not reflected in the analysis presented in Exhibit 32.)

The State Legislature has imposed a limit on "net municipal debt" equal to 3 1/3% of the cities' market values. Nevertheless, the State Legislature has exempted not only self-supporting debt from this limit but also a great deal of tax-supported debt.

Exhibit 33 compares bonds subject to the debt limit (net debt bonds) to actual tax-supported bonds in both cities.

As of December 31, 1976 Minneapolis net debt limit was \$139,569,155. The City had \$58,526,000 of bonds subject to this limit outstanding. However, the City's total tax-supported debt is estimated to be at least \$83,021,000.

As of December 31, 1976, St. Paul's net debt limit was \$84,830,014. The City has \$42,760,000 of bonds subject to this limit outstanding. However, the City's total tax-supported debt is estimated to be \$119,825,000, a figure which exceeds the debt limit.

By exempting so much tax-supported debt from the debt limit, the State Legislature has rendered the debt limit meaningless as an expression of State policy.

Exhibit 33 also shows that although Minneapolis has more total debt, St. Paul has more tax-supported debt. (Appendix O contains debt statements for both cities; Appendix P is a summary of how various debt components have changed since 1967.)

EXHIBIT 33

COMPARISON OF NET DEBT BONDS TO TAX-SUPPORTED BONDS
ST. PAUL
December 31, 1976

Net Debt Bonds	\$ 42,760,000	Tax Supported Bonds	\$119,825,000
Deductible Bonds	<u>99,879,000</u>	Revenue-Supported Bonds	<u>22,814,000</u>
Total G.O. Debt	\$142,639,000	Total G.O. Debt	\$142,639,000
Net Debt Limit: \$84,830,014			

COMPARISON OF NET DEBT BONDS TO TAX-SUPPORTED BONDS
MINNEAPOLIS

Net Debt Bonds	\$ 58,526,000	Tax-Supported Bonds	\$ 83,021,000
Deductible Bonds	<u>130,323,000</u>	Revenue-Supported Bonds	<u>105,828,000</u>
Total G.O. Debt	\$188,849,000	Total G.O. Debt	\$188,849,000
Net Debt Limit: \$139,569,155			

Exhibit 34 shows not only municipal debt, but also the debt of other taxing jurisdictions that is an obligation of Minneapolis and St. Paul taxpayers. The graph shows that St. Paul has significantly higher overlapping debt than Minneapolis. As of December 31, 1975, total overlapping debt in Minneapolis was \$227,312,050 or \$601.26 per capita. Total overlapping debt in St. Paul was \$226,223,730 or \$942.33 per capita

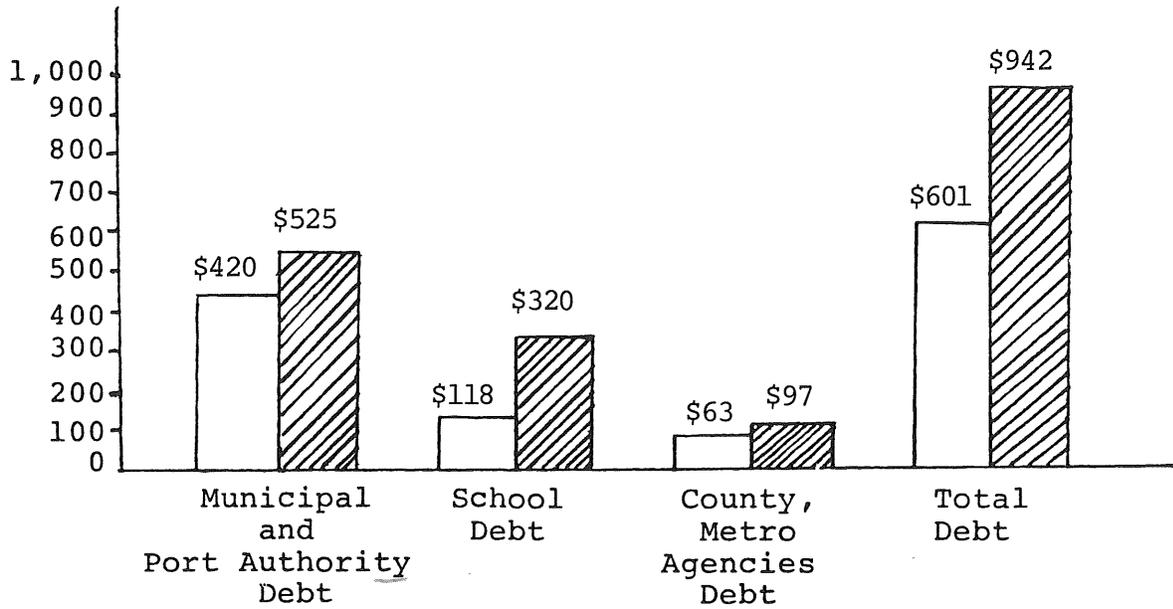
The debt of the St. Paul school district and the Port Authority is responsible for the difference in overlapping debt between Minneapolis and St. Paul. St. Paul school district debt was \$90,290,000 and Port Authority debt was \$22,260,000. Minneapolis school district debt was \$44,675,538, and the City had no port authority debt.

In Minneapolis, municipal debt was 69.8% of total overlapping debt, while in St. Paul, municipal debt was only 47.4% of total overlapping debt. (Appendix Q contains a detailed overlapping debt statement.)

EXHIBIT 34

COMPARISON OF MINNEAPOLIS AND ST. PAUL OVERLAPPING DEBT
December 31, 1975

Debt Per Capita
in Dollars



KEY

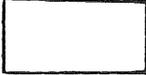
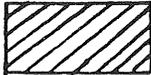
Minneapolis 
St. Paul 

Exhibit 35 summarizes some of the major debt indicators for both Minneapolis and St. Paul:

EXHIBIT 35
SELECTED DEBT INDICATORS

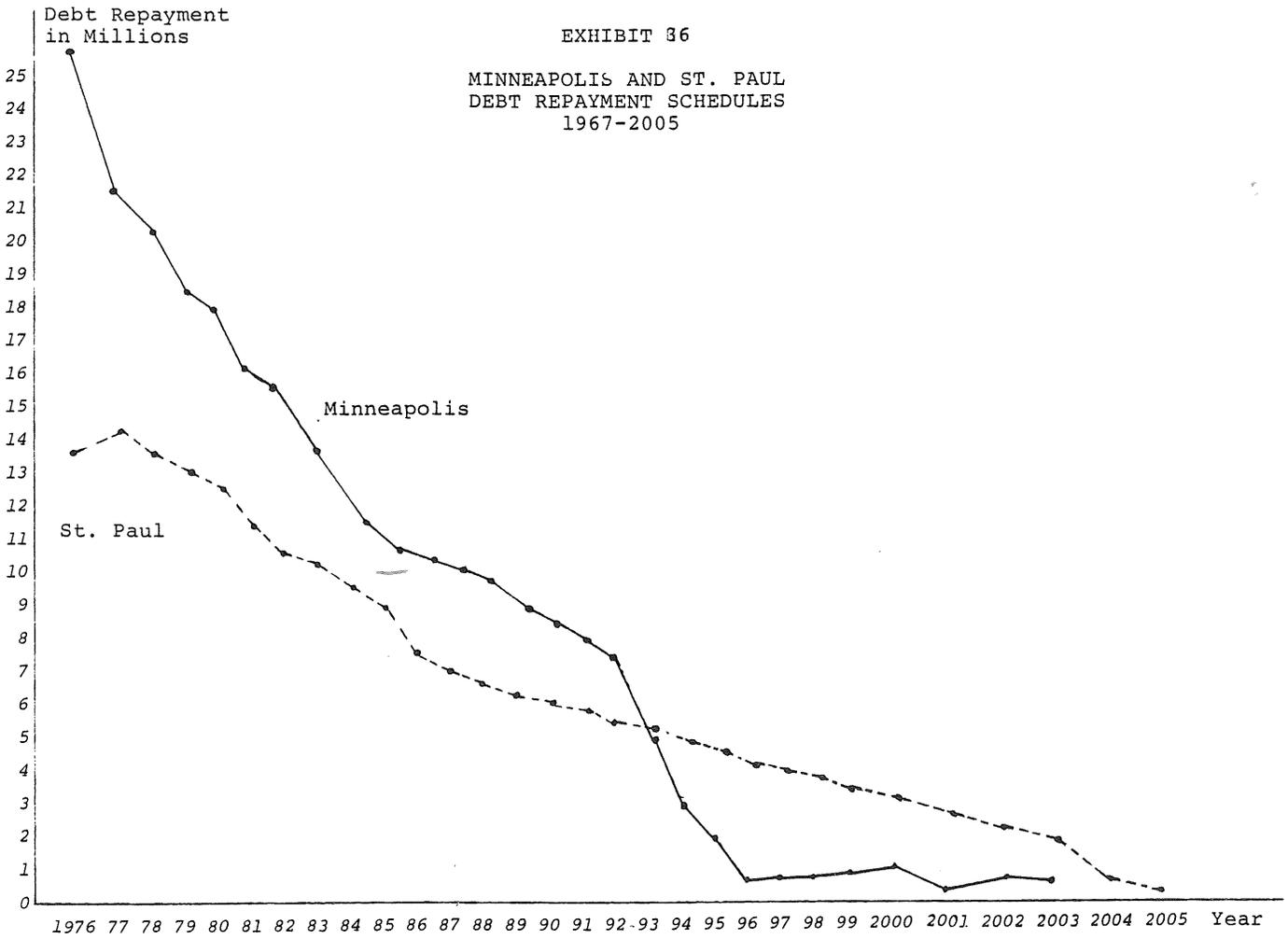
Minneapolis			St. Paul	
1967	1975		1967	1975
AAA	AAA	Credit Rating	AA	AA
\$58,464,848	\$158,669,000	Adjusted General Obligation Debt ¹	\$56,156,000	\$126,185,000
\$130.23	\$419.69	Debt Per Capita	\$180.61	\$446.65
.0521	.1127	Ratio of Debt to Taxable Value	.0778	.1628
4.917	10.508	Debt Levies in Mills	3.813	14.391
17.9%	16.2%	Ratio of Debt to Total Current Expense	9.5%	14.4%

* Excludes bonds with a 5-year self-supporting history.

It should be noted that when the same indicators become available for 1977, they will be considerably higher for Minneapolis because they will reflect the large amounts of tax increment bonds issued in the past two years.

Minneapolis and St. Paul have followed fundamentally different policies of debt management. Exhibit 36 plots the debt repayment schedules for both Cities for debt incurred through 1975. The graph shows that Minneapolis debt is generally shorter term than St. Paul which has chosen to extend its debt over a longer period of time.

By selling shorter term bonds, Minneapolis has saved interest costs, given itself more flexibility in the future, and helped preserve its AAA credit rating. On the other hand, it has placed more of the burden of financing public improvements on current taxpayers rather than spreading the burden over the life of its capital improvements. By selling longer term bonds, St. Paul has been able to hold down its current property tax levy, although it must pay more interest.



It should be noted that higher interest costs in St. Paul could be offset by the effects of inflation. If an inflationary economy prevails during the course of the Cities' bond repayment periods, St. Paul may actually pay less for debt service in constant dollars (dollars discounted for inflation).

B. City Pension Liabilities

Pensions as an expenditure category was discussed in Section III of this report. This section of the report discusses those aspects of city pension systems that have important implications for the Cities' financial future.

In a fully funded pension system, adequate contributions have been made and invested to cover the value of retirement benefits earned by employees during each year. Unfunded liabilities represent that portion of the value of a retirement for which adequate contributions were not made. The ratio of assets to liabilities (or funded ratio) is the percentage of total retirement liabilities for which reserves exist to pay all accrued benefits. It is one of the most important indicators of a pension fund's financial condition.

Since 1967, the City of Minneapolis has dramatically increased its pension expenditures, partly in an attempt to freeze or eliminate unfunded liabilities in its three locally administered funds as prescribed by State law. Despite these increases, total unfunded liabilities have grown from \$157,207,603 in 1967 to \$359,501,439 in 1976. The overall funded ratio has improved only slightly, from 31.6% in 1967 to 35.2% in 1976.

It is noteworthy that in 1976 Minneapolis had a larger total of unfunded liabilities (\$359.5 million) than the entire Statewide PERA and PERA police and fire systems (\$325.1 million).

St. Paul has only two local funds--police and fire. Municipal employees are covered under the Statewide PERA system. Total unfunded liabilities for the St. Paul Police and Fire funds increased from \$56,055,951 in 1967 to \$90,775,001 in 1976, although the funded ratio improved from 1.9% to 16.7%.

Views of the appropriate level of funding vary widely among pension experts and public officials.

Those arguing in favor of a full funding policy cite: (1) proper cost accounting and equity among taxpayers, (2) accountability of public officials, (3) security of retirements, and (4) long-term cost savings as benefits of full funding. Those opposed generally cite: (1) the permanence of government as a resource, (2) the inefficiency of maintaining large reserves for future use, and (3) the unwise use of "hard" dollars to pay benefits which will be cheaper in the future due to inflation.

Bond rating agencies are increasingly looking at unfunded liabilities as a form of municipal debt. Some pension experts argue against treating unfunded liabilities in the same way as municipal debt since a portion of unfunded liabilities represent unvested liabilities of current employees. However, given the rapid increase in the value of retirements and trends toward lower turnover rates among employees, the Study treats unfunded liabilities as an acceptable indicator of future pension obligations. Exhibit 37 below shows the impact of treating unfunded liabilities as debt obligations.

EXHIBIT 37

TOTAL CITY OBLIGATIONS:
GENERAL OBLIGATION DEBT AND UNFUNDED
PENSION LIABILITIES
1976

	<u>Minneapolis</u>	<u>St. Paul</u>
General Obligation Debt	\$188,848,000	\$142,639,000
Unfunded Pension Liabilities	359,501,439	90,775,001 ²
Total Obligations	\$548,349,439	\$233,414,001
General Obligation Debt Per Capita	\$ 499.52	\$ 504.89
Unfunded Pension Liabilities Per Capita	950.91	291.95
Total Obligations Per Capita	\$ 1,450.43	\$ 796.84

The report on pensions concluded that the substantial growth in pension expenditures in both Cities is likely to continue and may even accelerate. The report identified five factors which may lead to increased pension costs:

²St. Paul is responsible for a share of the PERA unfunded liability of \$304.9 million, however, it should be noted that PERA has a very high funded ratio (62.6%).

1. Current actuarial assumptions established by the State Legislature are that salaries will grow 3.5% per year. Since 1967, actual salary increases have averaged over 9% per year. If this trend continues, unfunded liabilities may grow if the salary assumption loss is not offset by an assumption gain. This could lead to future cost increases as the cities try to comply with Legislative requirements to freeze or fully fund unfunded liabilities.
2. Congress has adopted Social Security changes that will require higher employer contributions. These changes will increase both PERA and MERF costs.
3. The escalator provision of the police and fire funds automatically increases the cost of retirements of all retirees.
4. MERF is now separated into two pension plans. The 1977 Session of the State Legislature established a Social Security Coordinated Plan for MERF in which all new employees are required to enroll as of July 1, 1978. Current employees may remain in the Basic Plan which will ultimately be phased out. The Legislature also established a new target date of 2017 to amortize MERF's (Basic Plan) unfunded liabilities. Both of these actions have the effect of reducing contributions to the present MERF system. No new employees will be enrolling and the City will be contributing less to amortize unfunded liabilities. This reduction in contributions may effect the City's ability to comply with an additional State funding requirement to transfer the full value of retirements as they occur to the State Board of Investment. These changes may decrease expenditures in the short run, but may also jeopardize the cash position of the fund and lead to higher expenditures in the future.
5. State requirements to fully fund MERF by 2017 and to freeze unfunded liabilities of the police and fire funds will result in rising expenditures, as long as unfunded liabilities continue to increase.

C. Summary of Financial Prospects for the Future

St. Paul

St. Paul has a well-deserved reputation as a healthy and thriving city. In the last several months major new developments have begun in the City's downtown, and there is considerable rehabilitation activity in the City's older residential neighborhoods. The City has no short-term debt.

In recent years, St. Paul has adopted a strong-Mayor form of government. The Housing and Redevelopment Authority was absorbed by the City, and the Port Authority is the only major independent agency. These changes have resulted in a centralized, streamlined financial management system which seems to be working very effectively.

These factors all bode well for the City's financial future. However, there are several key areas of concern:

- (1) St. Paul has neglected to maintain and replace some important elements of its capital stock. In this respect, the City is far behind Minneapolis. The Minneapolis-St. Paul Study Report on Debt showed capital investment need of approximately \$35,000,000 per year through 1990. This need greatly exceeds the resources which the City estimates will be available. The two greatest areas of need are residential street paving and storm sewers.

Minneapolis shows a similar annual need, but is a much larger city with more resources on which to draw. It is noteworthy that St. Paul has recently adopted a unified capital budget process which will greatly help the City in using its limited capital resources effectively.

- (2) St. Paul has a relatively high level of municipal debt, and a very high level of overlapping debt. The City should have no problem in meeting its debt obligations, but the high level of existing debt limits the City's ability to respond more aggressively to its growing capital investment needs.

- (3) The cost of the City's police and fire pension funds will place an increasingly severe financial burden on the City. Between 1967 and 1976, pension expenditures for police and fire increased from \$1.1 million to \$5.2 million, an increase of 370%. St. Paul now makes a pension contribution of about 30 cents for every dollar it pays in police and fire salaries. (Police officers and firefighters contribute only 6% of their base salaries.)

Also, because the pension funds are locally administered, the City is solely responsible for approximately \$90 million of unfunded liabilities. In 1976, the combined funded ratio of both funds was only 16.7%.

A major factor which creates these substantial cost pressures is an escalator provision which provides all police and fire retirees with automatic post retirement benefit increases equal to the annual percentage increases in the base salary of active members. A very large number of firefighters will shortly become eligible for retirement, putting additional strain on the funds and on City budgets.

Measures have been introduced in the State Legislature to deal with soaring police and fire pension costs. In order to pass, these measures will require the strong support of City officials. This support has typically not been forthcoming in the past, largely because of the considerable political influence of the police and fire unions.

- (4) A very high proportion of the City's total property tax revenues is committed to fixed costs such as debt service and pensions; this proportion is growing. In 1967, 20 cents of every municipal tax dollar went for pensions and debt. By 1976, this figure had risen to 57 cents.

This could create problems for the City if inter-governmental aids should level off or decrease. The present Local Government Aid Formula is based on 1970 population. However, St. Paul has been losing population since 1970. The decennial census is due again in 1980. If the State Legislature maintains its present approach to local

government aid, and simply substitutes 1980 population figures, State aid could decline. (Federal general revenue sharing is also based partly on population.)

If intergovernmental aids should decrease or level off, the City will have to look to local sources of revenue to finance essential services that have been financed with intergovernmental aids. However, if the major local resource--property tax revenues--are devoted largely to fixed costs, the City will have less flexibility in responding to diminished intergovernmental revenues. A choice will have to be made between the elimination of essential services or substantial property tax increases.

Minneapolis

Minneapolis also has a well-deserved reputation as a healthy and thriving city. Recently, several major new private developments have begun in downtown Minneapolis. These new developments reflect an encouraging commitment of major corporations to the long term well-being of the City. City officials believe that the City Center Development District will enhance and preserve the City's downtown retail base.

Minneapolis also has one of the most extensive neighborhood rehabilitation programs in the country. The City has adhered to a rigorous replacement schedule for several major elements of its capital infrastructure including residential streets and sewers, and the City's park system is outstanding. Minneapolis has no short-term debt, and enjoys a AAA credit rating.

All these factors should make a positive contribution to the City's future financial conditions. However, there are some areas of concern.

- (1) As explained throughout this report, Minneapolis has a very high municipal property tax rate, and there exists a substantial disparity between the City and its suburbs.
- (2) The Minneapolis-St. Paul Study reports on various expenditure categories have found evidence that Minneapolis appears to be following a variety of management practices that have prevented it from stabilizing or lowering its property tax rate. Most specifically, the City relies on municipal workers to carry out some municipal functions without analyzing alternatives that could be less costly. City officials have not aggressively represented a management perspective in wage negotiations and pension deliberations. The City has invested a substantial amount of its Federal Community Development Block Grant Funds in ways that respond to pressures from neighborhood groups and other special constituencies. Minneapolis has never carefully considered the relationship of Community Development Block Grants to its overall financial condition. The City has also undertaken large-scale tax increment projects without carefully analyzing the risks and indirect costs of such projects and without analyzing less costly alternatives.
- (3) Debt in Minneapolis has increased very dramatically in the last several years largely because of special projects including development districts and municipal parking ramps. These projects were intended to be self-supporting but have not lived up to City expectations. They are not generating sufficient revenues to meet bond repayment requirements and will need a growing amount of support from the property tax. The City will avoid raising taxes for these projects only if it cuts back on its replacement schedule for traditional capital improvements. Also, while the City has taken effective measures to minimize the risks in its City Center Redevelopment Project, there continues to be a small element of risk and the City has nearly \$100 million of bond repayment requirements on the line.

- (4) The costs of the City's pension funds will place an increasingly severe financial burden on the City. Expenditures for the City's three locally administered pension funds have grown from \$6.0 million in 1967 to \$19.7 million in 1976, an increase of 228%. The City is solely responsible for over \$359 million of unfunded pension liabilities. (The combined funded ratio of all three funds is 35.2% compared to 62.6% in the State PERA system.) The escalator provision of the police and fire funds will create additional cost pressures in the future, and the Study has identified potential cash flow problems with the Minneapolis Employees' Retirement Fund.

Measures have been introduced in the State Legislature to deal with the high costs of the City's police and fire funds. These measures received some support from Minneapolis City Council leaders. In the past, City officials have been willing to ignore the cost problems with pensions rather than risk the loss of political support from the City's employee organizations. This is one reason why pensions are becoming a greater and greater problem.

- (5) The City has dealt with its high property tax rate and other financial problems by seeking more and more State aid. This approach may prove less successful in the future. The present local government aid formula is based on 1970 population. However, Minneapolis has been losing population since 1970. If the State Legislature maintains its present approach to local government aid and simply substitutes more up-to-date figures based on the 1980 census, State aid could actually decrease. In this respect, it should be remembered that as City population declines, so ultimately does City political influence within the State.

If intergovernmental aids should level off or decrease, Minneapolis will have to look to local sources of revenue to finance essential services that have been financed with intergovernmental aids. However, Minneapolis would face a problem similar to St. Paul in this situation. A very high proportion of the City's total property tax revenues are committed to fixed costs such as debt service and pensions; this proportion is growing. In 1967, 34 cents of every municipal tax dollar went for pensions. By 1976, this figure had risen to 57 cents.

This means that if intergovernmental aids should fall off, the City will have less flexibility in finding local sources of revenue to replace the lost aids. The City may have to choose between even higher property taxes or cutting genuinely essential services.

- (6) The Minneapolis-St. Paul Study reports on individual expenditure categories and on government structure have found that the current structure of Minneapolis City government is poorly equipped to deal with these financial issues. The system is very fragmented and complex. Seven different government entities share important financial management responsibilities. This kind of system seems especially susceptible to pressures from special interests.

The present Minneapolis Mayor has formed a commission on municipal finances, and has vowed to propose a budget that reduces the City's mill rate. The Mayor has also developed a plan for stabilizing and managing the City's debt.

The City Council has also taken measures to improve the City's financial management capabilities, including the installation of a new computerized financial management and information system, a reorganization of the City Coordinator's Office, and the formation of an office of program monitoring and evaluation. The City has also hired a pension consultant. City officials argue that these measures demonstrate the City's commitment to sounder management practices. However, these measures will merely provide some better management tools.

In the short run their impact will be to further increase City expenditures by about \$600,000. A better test of the City's commitment to controlling costs would be wage negotiations, pension deliberations, and the Council's willingness to cooperate with the Mayor's proposals to reduce the City mill rate.

At this point in time there is some ambivalence about these issues among City Council members. Some seem willing to deal directly with important financial problems. Others seem unwilling to challenge special interests or cut spending. Aldermen in Minneapolis are generally held accountable for the quantity and quality of municipal services in their wards, but are held less accountable for high tax rates.

There appears to be little interest in Minneapolis at this time in reorganizing the City's government structure.

IV . DESCRIPTION OF THE MINNEAPOLIS-ST. PAUL STUDY

IV. DESCRIPTION OF THE MINNEAPOLIS-ST. PAUL STUDY

A. Background

In the last several years, the State of Minnesota has provided its local communities and school districts with an array of financial assistance and legal tools designed to ease local dependence on the property tax, and to permit the State's older communities to renew their deteriorated areas.

(1) Transfer of Functions from Cities to Counties

In 1973 the State abolished the last vestiges of the township relief system and established welfare as a county rather than a municipal function. The municipal courts function was transferred from Minneapolis to Hennepin County in 1965 and from St. Paul to Ramsey County in 1974. These transfers broadened the base of taxpayers paying for these services.

(2) School Aid Formula

In 1971 the State established its present school aid program, which equalizes the local property tax burden for financing elementary and secondary education. Each school district levies a certain number of equalized mills of property tax (currently 28 mills; will be 27 mills in 1979). The State provides funds for the remaining operating costs, according to a formula based on a specific number of dollars of aid per pupil unit.

(3) Municipal Aid Formula

In 1971 the State established its present municipal aid program, which provides State aids from the income and sales taxes to local units of government. The aids are distributed according to a formula which has changed several times since 1971. The current formula is based on population and local property tax effort.

An important objective of the municipal aid formula is to provide property tax relief. Thus, the State has also enacted a levy limit to prohibit municipalities from raising levies for certain municipal expenditures more than 6% per capita annually. Some levies such as levies for debt and for increased pension costs have been excluded from this limit.

(4) Fiscal Disparities

In 1971 the State enacted fiscal disparities legislation for the seven-county Minneapolis/St. Paul metropolitan area. The fiscal disparities formula provides that 40% of the growth in commercial and industrial tax base in the metropolitan area is redistributed to local taxing districts mainly on the basis of population. The Fiscal Disparities Act became effective in 1975, after a court test, and was made retroactive to 1971.

(5) Property Tax Relief for Homeowners

The State has established a system of direct property tax relief to homeowners and renters. This program has two parts: the homestead credit and the "circuit breaker." Under the homestead credit, the State pays approximately 45% of a homeowner's taxes, up to a maximum of \$325. The circuit breaker can provide additional relief through a partial refund of the remaining property taxes, based on the level of taxes in relation to household income. The two credits together have provided tax relief up to a maximum of \$475 (\$675 for senior citizens). With changes made by the 1977 Legislature, the combined tax relief can be as high as \$800 in certain cases.

(6) State Housing Finance Agency

The State has established a Housing Finance Agency with the power to sell revenue bonds. Bond proceeds are used to finance a low interest housing rehabilitation loan program, and the construction of new housing.

(7) Tax Increment Financing

The State has enacted legislation that permits local communities to finance redevelopment projects by capturing the increased property tax revenue (tax increment) generated as a result of new private development in urban renewal areas and development districts.

(8) Special Programs

The State has also passed a variety of legislation authorizing local communities to undertake special programs to renew their deteriorating physical stock. For example, Minneapolis and St. Paul are authorized to sell bonds to finance industrial development activities and to finance housing rehabilitation loan programs.

Despite these programs, some Minnesota communities continue to encounter financial problems. The problems in Minneapolis and St. Paul attract considerable attention, in part because these are Minnesota's two largest cities, and in part because this is where many perceive the problems to be most severe.

Minneapolis and St. Paul have experienced a substantial population loss. According to the estimates of the United States Census Bureau, Minneapolis' population declined from 448,942 in 1967 to 378,062 in 1975--a decline of 16%. St. Paul's population has declined from 310,929 in 1967 to 282,515 in 1975--a decline of 9%. According to some estimates, the median income of the cities' residents is decreasing relative to the metropolitan area and to the State as a whole.

Despite increased State aids, the two Cities have the highest municipal property tax rates in the metropolitan area. The disparity in total property tax rates is so great between the Cities and some of their suburban neighbors that it now may be a significant factor in influencing developers and home buyers to locate in the suburbs.

In the last decade the property tax base of both Cities has grown less than 3% per year. The Cities have had difficulty finding developers for several of their publicly financed urban renewal projects.

Despite these problems, both Minneapolis and St. Paul are considered to be among the healthiest and most attractive cities in the nation. However, both local and State officials regard these problems as important warning signals that call for additional actions to keep the cities vital and financially sound.

As the Governor and Legislature attempt to devise an appropriate State response to City problems, they are confronted with conflicting information and proposals. Minneapolis and St. Paul argue that their problems are often rooted in social and economic forces beyond their control. City officials appeal continually for more help from the State. They point out that the Cities are fully developed and largely excluded from property tax revenues generated by new development occurring elsewhere in the Metropolitan Area. Meanwhile, their capital stock continues to age, and they must provide special services for a growing concentration of lower income people.

On the other hand, some public officials, particularly suburban officials, often argue that the Cities' own policies and practices contribute to their financial problems.

As a result of these conflicting views, the Governor and the State Legislature have sought an objective analysis of conditions in the Cities. They hope to learn the extent to which the problems of the Cities are beyond City officials' control, and the extent to which the problems arise from the Cities' own decisions and policies.

B. Origins and Organization of the Study

In the summer of 1976, Legislative leaders asked the State Planning Agency to conduct an intensive study of local governance in Minneapolis and St. Paul. In September, 1976 the Legislative Advisory Commission approved a \$135,700 appropriation to finance this study through June 30, 1977. The 1977 Session of the Legislature appropriated \$134,000 to continue the study through June 30, 1978.

The State Planning Agency's Office of Local and Urban Affairs was responsible for the Minneapolis-St. Paul Study. The following Legislators actively critiqued the work of the Planning Agency: Representative Martin Sabo (Speaker of the House of Representatives), Representative Tom Berg (Chairman of the House Local and Urban Affairs Committee) and Senator Nicholas Coleman (Senate Majority Leader). Legislative staff members who worked closely with the Study staff were Tom Todd, James Zehren, Eileen Baumgartner, House; Bill Riemerman and Jay Kiedrowski, Senate.

Early in 1977 the State Planning Agency entered into a contract with the Urban Institute, Washington, D.C., a nationally recognized non-profit institution which studies local government. The Institute was retained to provide outside advice in the preparation of the work plan and to review working drafts of the sections of the report. The role of the Urban Institute was limited to this review function. The responsibility for researching the issues and writing the report remained with the State Planning Agency.

The Planning Agency also contracted with the University of Minnesota's Center for Urban and Regional Affairs (CURA) to provide computerized data processing assistance.

The State Planning Agency and the Legislature agreed that it was imperative to involve the two Cities in the Study. Meetings were held with various city officials to explain the nature and scope of the project. City officials were also asked to review drafts of all sections of the report before release. Both Minneapolis and St. Paul have cooperated fully with the Study and have willingly provided invaluable assistance. In particular, the following officials have been especially generous with their time and expertise: Sid Erickson, Minneapolis Retirement Board, Tom Vasaly, Executive Secretary of the Minneapolis Board of Estimate and Taxation; Charles Hanna, Executive Secretary of the Minneapolis Capital Long-Range Improvement Committee; Lyall Schwarzkoph, Minneapolis City Clerk; Stan Kehl, Minneapolis City Clerk's Office; Frank Forbes, Minneapolis City Coordinator's Office; Zella Shannon, Minneapolis Library Board; Del Green, Minneapolis Park Board; Bob Wetherille, Minneapolis Fire Relief Association; Mike Scully, Minneapolis Police Relief Association; Richard Schroeder, Director of the Mayor's Budget Office in St. Paul, Greg Blee and Ron Kline, Mayor's Budget Office in St. Paul; Robert Trudeau, St. Paul's Chief Accountant, Robert Lang, St. Paul Finance Department; Tom Gleason, St. Paul Personnel Director, Jim Lombardi, Personnel Office in St. Paul; Tom Geldman, St. Paul Fire Relief Association; and Don Trooien, St. Paul Police Relief Association.

C. Progress of the Study

The staff of the Study was assembled in late 1976. The first task was to establish priorities among the four major issue areas that had been identified for consideration when the Study was originally funded by the Legislative Advisory Commission: (1) local government finance; (2) the structure and organization of government--especially as it relates to the financial management and decision-making process; (3) development policies; and (4) demographic characteristics and trends.

After extensive discussions with Legislative staff, it was decided that the Study would concentrate primarily on local government finance and the structure of government. City development policies and demographics were to be given less attention. These priorities reflected the feeling of Legislative leaders that they were adequately informed about the Cities' social and economic problems, and needed to learn more about the Cities' management practices and decision-making processes.

It was decided to divide the Study into two parts. Part One focused on general City financial conditions, and Part Two focused on City expenditure patterns.

1. Part One (November, 1976 - August, 1977)

After this basic decision, a detailed Work Plan was prepared which called for a comprehensive assessment of the Cities' current fiscal conditions. This analysis was completed in June, 1977 and consisted of a series of separate reports on the following topics:

- (1) municipal expenditures
- (2) municipal debt
- (3) municipal revenues including the property tax, intergovernmental revenues, and local, non-property tax revenues
- (4) factors contributing to property tax increases
- (5) tax exempt property
- (6) levy limits.

A summary of these various reports was also prepared and presented to a conference of Legislators and other public officials held in August, 1977 at the College of St. Thomas.

The first part of the Minneapolis-St. Paul Study found sizable property tax rate disparities between the two central Cities and their suburbs and between the two Cities themselves. Municipal property tax rates are generally higher in Minneapolis and St. Paul than in other metropolitan area communities, and higher in Minneapolis than in St. Paul. Part One of the Study also determined that these tax rate disparities could be attributed to higher expenditure levels in both Cities, particularly in Minneapolis.

2. Part Two (September, 1977 - June, 1978)

In response to these findings, State Legislative leaders directed the State Planning Agency to analyze those City expenditure categories which seem to play an important role in overall expenditure differences. Separate reports were prepared on each of the following eight topics:

- (1) Pensions
- (2) Wages and Fringe Benefits
- (3) Parks and Recreation
- (4) Libraries
- (5) Redevelopment
- (6) Paving
- (7) Refuse Collection
- (8) General Government

The Legislature was especially interested in how the structure of government in each City affected its financial condition. A separate report was prepared describing how each City government is structured and how it makes financial decisions.

The separate reports produced during the full course of the Study are listed on the following page. This final summary report is intended to draw together and interpret the major findings of the separate reports. The complete multi-volume Study is available for review at the office of the State Planning Agency, the Legislative Reference Library, the Minneapolis and St. Paul Public Libraries, and the Humphrey Institute Library at the University of Minnesota.

FINAL CONTENTS OF THE MINNEAPOLIS-ST. PAUL STUDY

- A. Final Summary Report
- B. Report on Municipal Revenues
 - 1. Overview
 - 2. Intergovernment Revenues
 - 3. Property Taxes
 - 4. Factors Contributing to Property Tax Increases
 - 5. Local, Non-Property Tax Revenues
- C. Report on Tax Exempt Property
- D. Report on Levy Limits
- E. Report on Debt
- F. Report on Municipal Expenditures: General Review
- G. Reports on Individual Expenditure Categories:
 - 1. Pensions
 - 2. Wages and Fringe Benefits
 - 3. Parks and Recreation
 - 4. Libraries
 - 5. Redevelopment
 - 6. Residential Street Paving
 - 7. Refuse Collection
 - 8. General Government
- H. Report on City Government Structure and Decision-Making Processes

D. Methodological Notes

1. Analytical Techniques

The Minneapolis-St. Paul Study relied on three basic analytical techniques:

- a. The Study attempted to describe current financial conditions. In some instances it was possible to obtain information for 1978. This data is presented wherever possible. However, some types of information were not available for 1978, and the Study had to rely on data from earlier years.
- b. The Study described changes in financial conditions since 1967. The year 1967 was chosen as the base year to provide a full ten year period of trend analysis. Also, most changes in Minnesota State-local fiscal relations have occurred since that year.
- c. The Study compared financial conditions in several different ways: (1) Minneapolis and St. Paul were compared; (2) the two Cities were compared to other communities in their metropolitan area with populations over 10,000; (3) the two Cities were occasionally compared with all cities in Minnesota with populations over 10,000; and (4) the two Cities were compared with the 18 other cities in their population range elsewhere in the county (250,000-500,000). Cities in the deep south were excluded.

The basic method of comparison is to report financial conditions on a per capita and per household basis. These calculations were based on population estimates provided by the U.S. Census Bureau for the purpose of allocating Federal revenue sharing funds. The household data was provided by the State Demographer.

Demographic differences are important when interpreting comparisons between Minneapolis and St. Paul. In the last decade, the population of both Cities has declined, while the number of households has remained stable.

This means that the size of the average household has been growing smaller in each City. This is especially true in Minneapolis. In 1975, the average persons per household was 2.33 in Minneapolis, and 2.66 in St. Paul. (The number of persons per household is higher in the suburbs.)

Because Minneapolis has so many more households relative to its population than St. Paul and other metropolitan area communities, Minneapolis generally fares better when comparisons are expressed in per household rather than per capita terms. Minneapolis City officials often argue that per household is the more valid measure for making most comparisons because households rather than individuals pay taxes and require municipal services. The Minneapolis-St. Paul Study has generally tried to include both per capita and per household measurements.

2. Definition of the Term "City"

For Minneapolis, the term "City," as used throughout the Minneapolis-St. Paul Study, applies to the general purpose government (Mayor and City Council), the Park Board, and the Library Board. Housing and Redevelopment Authority financial activity is generally not included in summary financial data. The Minneapolis School Board is not included at all in the Minneapolis-St. Paul Study.

For St. Paul, the term "City" applies to the Mayor and the Council. Port Authority activity is generally not included in summary financial data, and the School Board is not included in the Study.

V. APPENDICES

APPENDIX A

Appendix A gives a breakdown of municipal revenues by source for Minneapolis and St. Paul in both 1967 and 1976. The figures are given both in dollar terms and in the percentage of total municipal revenues supplied by each source.

BREAKDOWN OF TOTAL REVENUE BY SOURCE, 1967 AND 1976
MINNEAPOLIS AND ST. PAUL

<u>Revenue Source</u>	<u>MINNEAPOLIS</u>			
	<u>1967</u> <u>\$</u>	<u>% Of</u> <u>Total</u>	<u>1976</u> <u>\$</u>	<u>% Of</u> <u>Total</u>
Local Revenue	\$48,277,340	87.6%	\$ 95,445,399	53.6%
Total Taxes	31,790,652	57.7	61,553,360	38.6
Property Taxes*	30,654,741	55.6	55,544,279	36.2
Franchise Taxes	1,135,821	2.1	4,212,131	2.4
Local Sales Taxes	--	--	1,796,950	1.0
Special Assessments	4,060,472	7.4	3,784,837	2.1
Licenses & Permits	2,420,260	4.4	2,902,089	1.6
Fines and Forfeits	1,814,851	3.3	1,733,714	1.0
Departmental Fees & Service Charges	6,447,878	11.7	19,228,156	11.9
Contributions from Public Service Enterprises	--	--	--	--
Interest on Investments	1,244,471	2.3	3,907,859	2.2
Other	498,756	0.9	2,335,384	3.1
Intergovernmental Revenue	6,809,487	12.4	82,702,924	46.4
Federal	2,138,368	3.9	31,154,737	17.5
State	4,178,493	7.6	48,151,152	27.0
County	490,876	0.9	1,949,651	1.1
Other Local Units	<u>1,750</u>	<u>Trace</u>	<u>1,447,384</u>	<u>.8</u>
TOTAL REVENUE	\$55,086,827	100.00%	\$178,148,323	100.0%

*Includes Fiscal Disparities distribution.

(Appendix A Continued)

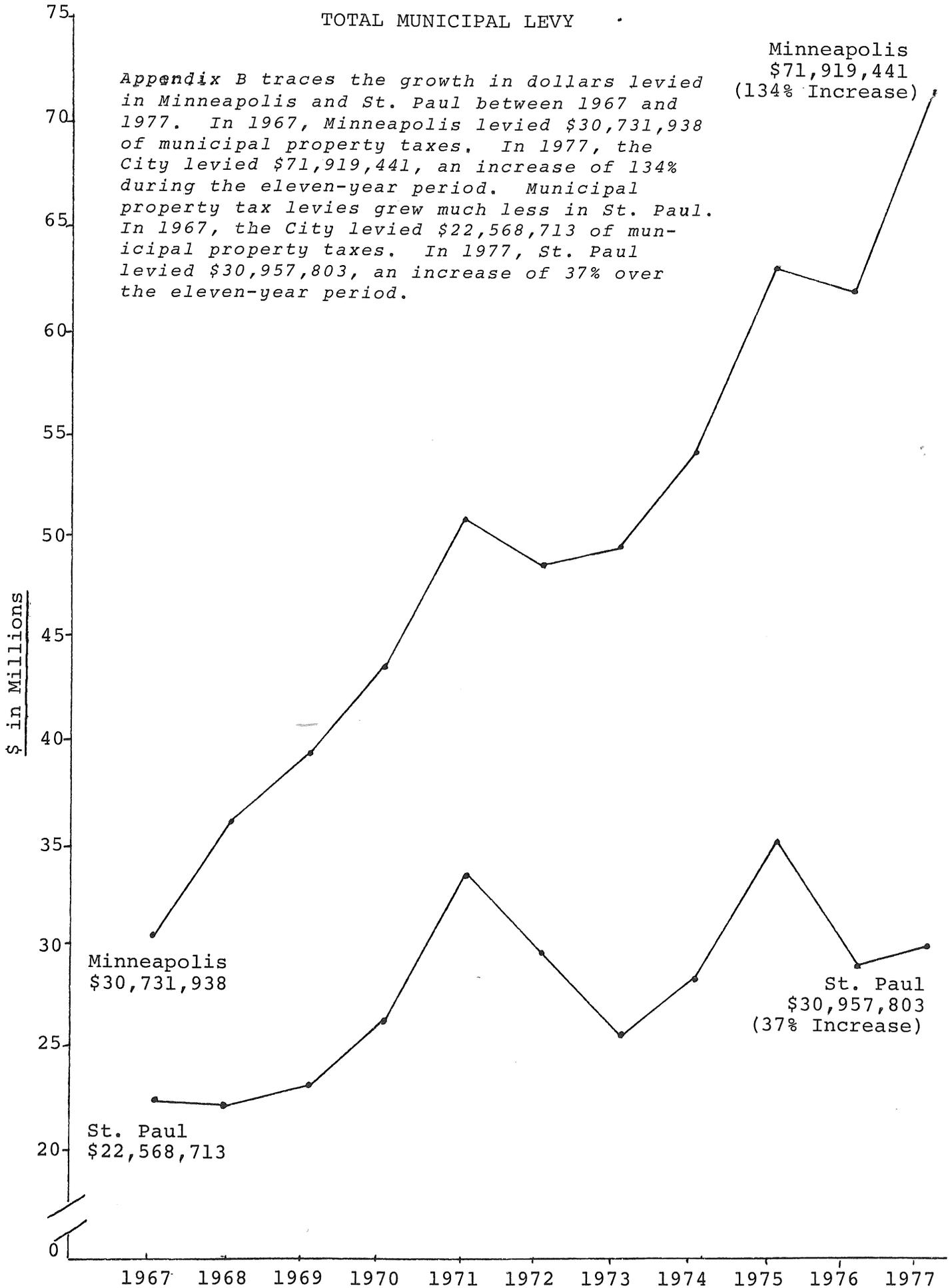
<u>Revenue Source</u>	<u>ST. PAUL</u>		<u>1975</u> <u>\$</u>	<u>% Of</u> <u>Total</u>
	<u>1967</u> <u>\$</u>	<u>% Of</u> <u>Total</u>		
Local Revenue	\$34,300,546	90.3%	\$60,755,407	63.0%
Total Taxes	25,596,114	67.3	34,341,370	29.2
Property Taxes*	23,280,171	61.2	25,214,990	21.4
Franchise Taxes	2,315,943	6.1	8,895,881	7.6
Local Sales Taxes	--	--	230,499	0.2
Special Assessments	2,452,205	6.5	8,240,288	7.0
Licenses & Permits	1,726,800	4.5	1,488,213	1.3
Fines & Forfeits	739,928	2.0	693,345	0.6
Departmental Fees & Service Charges	2,867,737	7.5	13,024,790	11.1
Contributions from Public Service Enterprises	--	--	--	--
Interest Investments	513,889	1.3	1,794,673	1.5
Other	433,873	1.1	1,172,728	1.0
Intergovernmental Revenue	3,705,172	9.7	57,019,276	48.4
Federal	800,007	2.1	28,096,823	23.9
State	2,905,165	7.6	26,106,396	22.2
County	--	--	2,163,327	1.8
Other Local Units	--	--	652,730	0.6
TOTAL REVENUE	\$38,035,718	100.0%	\$97,807,060	100.0%

*Includes Fiscal Disparities distribution

TOTAL MUNICIPAL LEVY

Appendix B traces the growth in dollars levied in Minneapolis and St. Paul between 1967 and 1977. In 1967, Minneapolis levied \$30,731,938 of municipal property taxes. In 1977, the City levied \$71,919,441, an increase of 134% during the eleven-year period. Municipal property tax levies grew much less in St. Paul. In 1967, the City levied \$22,568,713 of municipal property taxes. In 1977, St. Paul levied \$30,957,803, an increase of 37% over the eleven-year period.

Minneapolis
\$71,919,441
(134% Increase)



Minneapolis
\$30,731,938

St. Paul
\$22,568,713

St. Paul
\$30,957,803
(37% Increase)

APPENDIX C

Appendix C compares the municipal property taxes in Minneapolis, St. Paul, and other metro communities on a per capita and per household basis. For example, the table shows that in 1976 Minneapolis levied \$164 of property taxes per capita, St. Paul levied \$102 per capita, and the other metro cities levied an average of \$60 per capita.

TOTAL MUNICIPAL PROPERTY TAX LEVIES
PER CAPITA AND PER HOUSEHOLD
1967-1976

<u>Total Municipal Levies*</u>	<u>Minneapolis</u>	<u>St. Paul</u>	<u>Other Metro Cities Over 10,000</u>
Per Capita			
1967	\$ 68	\$ 73	\$ 27
1976	164	102	60
% Change, 1967-1976	141%	40%	130%
Per Household			
1967	\$189	\$220	\$100
1976	382	272	195
% Change, 1967-1976	102%	23%	96%

*Excludes tax increment levies and special assessments.
Includes amounts levied against fiscal disparities
tax base.

APPENDIX D

Appendix D compares 1976 actual mill rates with the 1967 actual mill rates for each metropolitan community with a population of over 10,000.

COMPARISON OF 1976 AND 1967 MUNICIPAL MILL RATES
IN MINNEAPOLIS, ST. PAUL, AND OTHER METRO CITIES
WITH 1970 POPULATION OVER 10,000

Payable 1976
Municipal Mill Rates

1.	<u>Minneapolis</u>	<u>43.711</u>
2.	<u>St. Paul</u>	<u>34.682</u>
3.	Hastings	25.95
4.	Stillwater	23.24
5.	So. St. Paul	23.22
6.	Columbia Hgts.	21.75
7.	Coon Rapids	21.16
8.	Cottage Grove	20.93
9.	Anoka	20.57
10.	West St. Paul	19.59
11.	Maplewood	19.3
12.	Hopkins	19.094
13.	Moundsvew	17.449
14.	White Bear Lake	17.402
15.	Minnetonka	17.172
16.	Robbinsdale	17.159
17.	Burnsville	16.91
18.	Richfield	16.810
19.	Golden Valley	16.332
20.	No. St. Paul	15.738
21.	Brooklyn Park	15.688
22.	Shoreview	15.562
23.	Brooklyn Center	15.274
24.	St. Louis Park	14.920
25.	Fridley	14.76
26.	New Brighton	14.617
27.	New Hope	14.460
28.	Bloomington	14.418
29.	Inver Grove Hgts.	14.39
30.	Blaine	14.25
31.	Crystal	13.947
32.	Roseville	10.925
33.	Plymouth	9.682
34.	Edina	8.155

Payable 1967
Municipal Mill Rates*

1.	<u>St. Paul</u>	<u>31.26</u>
2.	Stillwater	27.780
3.	Hastings	27.073
4.	<u>Minneapolis</u>	<u>25.39</u>
5.	Columbia Hgts.	25.273
6.	So. St. Paul	22.253
7.	Robbinsdale	19.207
8.	Brooklyn Center	17.207
9.	Hopkins	16.560
10.	Richfield	16.320
11.	Coon Rapids	16.130
12.	Brooklyn Park	16.127
13.	Crystal	15.367
14.	Anoka	15.107
15.	Fridley	14.660
16.	Moundsvew	14.470
17.	No. St. Paul	14.433
18.	Blaine	14.177
19.	Bloomington	14.087
20.	West St. Paul	13.787
21.	St. Louis Park	13.413
22.	Plymouth	12.533
23.	Maplewood	12.380
24.	Minnetonka	12.160
25.	White Bear Lake	12.073
26.	Roseville	11.887
27.	New Brighton	11.007
28.	Cottage Grove	10.847
29.	Golden Valley	10.300
30.	New Hope	10.007
31.	Edina	9.687
32.	Shoreview	9.413
33.	Burnsville	7.800
34.	Inver Grove Hgts.	5.840

Average Municipal Mill Rate
for the Metro Cities Over
10,000 Population Excluding
Minneapolis and St. Paul:
15.298

Average Municipal Mill Rate
for the Metro Cities Over
10,000 Population Excluding
Minneapolis and St. Paul:
13.90

*1967 mill rates have been adjusted to be comparable to 1976 mill rates.

APPENDIX E

Appendix E compares 1976 actual mill rates with 1976 mill rates adjusted for assessment practices for each metropolitan area community.

COMPARISON OF 1976 MUNICIPAL MILL RATES
MINNEAPOLIS, ST. PAUL, AND OTHER METRO CITIES
OVER 10,000 POPULATION

<u>Payable 1976 Municipal Mill Rates</u>		<u>Payable 1976 Municipal Mill Rates Adjusted For Differences in Assessment Practices</u>	
1. Minneapolis	43.711	1. Minneapolis	38.728
2. St. Paul	34.682	2. St. Paul	26.740
3. Hastings	25.95	3. Hastings	21.28
4. Stillwater	23.24	4. Columbia Hgts.	19.49
5. So. St. Paul	23.22	5. Coon Rapids	19.43
6. Columbia Hgts.,	21.75	6. So. St. Paul	19.23
7. Coon Rapids	21.16	7. Stillwater	18.69
8. Cottage Grove	20.93	8. Anoka	18.31
9. Anoka	20.57	9. Cottage Grove	17.14
10. West St. Paul	19.59	10. Hopkins	16.860
11. Maplewood	19.381	11. West St. Paul	15.89
12. Hopkins	19.094	12. Robbinsdale	15.752
13. Moundsview	17.449	13. Golden Valley	15.385
14. White Bear Lake	17.402	14. Richfield	15.264
15. Minnetonka	17.172	15. Minnetonka	14.888
16. Robbinsdale	17.159	16. Burnsville	14.75
17. Burnsville	16.91	17. Maplewood	14.497
18. Richfield	16.810	18. Brooklyn Park	14.260
19. Golden Valley	16.332	19. St. Louis Park	13.756
20. No. St. Paul	15.738	20. Brooklyn Center	13.563
21. Brooklyn Park	15.688	21. New Hope	13.506
22. Shoreview	15.562	22. Bloomington	13.178
23. Brooklyn Center	15.274	23. Fridley	13.03
24. St. Louis Park	14.920	24. White Bear Lake	12.634
25. Fridley	14.76	25. Blaine	12.60
26. New Brighton	14.617	26. Moundsview	12.494
27. New Hope	14.460	27. Crystal	12.092
28. Bloomington	14.418	28. Inver Grove Hgts.	11.92
29. Inver Grove Hgts.,	14.39	29. No. St. Paul	11.426
30. Blaine	14.25	30. New Brighton	11.357
31. Crystal	13.947	31. Shoreview	10.847
32. Roseville	10.925	32. Roseville	8.543
33. Plymouth	9.682	33. Plymouth	8.481
34. Edina	8.155	34. Edina	7.821
Average Municipal Mill Rate for the Metro Cities Over 10,000 Population excluding Minneapolis and St. Paul: <u>15,298</u>		Average Adjusted Municipal Mill Rate for the Metro Cities Over 10,000 Population Excluding Minneapolis and St. Paul: <u>13,365</u>	

*Adjusted for differences in assessment practices by using sales ratio.

APPENDIX F

Appendix F illustrates the impact of including special assessments in both actual 1976 mill rates and 1976 mill rates adjusted for assessment practices (sales ratio differences).

COMPARISON OF 1976 MUNICIPAL MILL RATES
COMPUTED TO INCLUDE SPECIAL ASSESSMENTS
Minneapolis, St. Paul, and Other Metro Cities
Over 10,000 Population*

Payable 1976 Municipal Mill Rates Computed to Include Special Assessments		Payable 1976 Adjusted Municipal Mill Rates Computed to Include Special Assessments and Adjusted for Differences in Assessment Practices**	
1. Minneapolis	45.836	1. Minneapolis	40.611
2. Minnetonka	45.337	2. Minnetonka	39.307
3. Coon Rapids	42.547	3. Coon Rapids	39.058
4. St. Paul	35.102	4. Brooklyn Park	28.583
5. Hastings	34.160	5. Hastings	28.011
6. Moundsview	32.837	6. St. Paul	27.064
7. Shoreview	32.764	7. Burnsville	25.080
8. Brooklyn Park	31.445	8. Inver Grove Hgts.	24.878
9. Cottage Grove	31.202	9. Blaine	24.605
10. Inver Grove Hgts.	24.878	10. Moundsview	23.511
11. Burnsville	28.767	11. West St. Paul	22.848
12. West St. Paul	28.173	12. Shoreview	22.836
13. Blaine	27.834	13. Plymouth	22.398
14. No. St. Paul	27.396	14. Golden Valley	21.204
15. Maplewood	27.137	15. So. St. Paul	20.973
16. Plymouth	25.569	16. St. Louis Park	20.904
17. So. St. Paul	25.330	17. Maplewood	20.298
18. White Bear Lake	23.926	18. Columbia Hgts.	20.207
19. Stillwater	23.672	19. Richfield	20.063
20. St. Louis Park	22.673	20. No. St. Paul	19.889
21. New Brighton	22.516	21. Hopkins	19.860
22. Columbia Hgts.	22.553	22. Anoka	19.620
23. Golden Valley	22.510	23. Fridley	19.537
24. Hopkins	22.492	24. Brooklyn Center	19.283
25. Fridley	22.126	25. Stillwater	19.032
26. Richfield	22.096	26. Cottage Grove	18.553
27. Anoka	22.045	27. Bloomington	18.432
28. Brooklyn Center	21.715	28. Crystal	17.592
29. Crystal	20.291	29. New Brighton	17.541
30. Bloomington	18.432	30. White Bear Lake	17.370
31. Robbinsdale	18.337	31. New Hope	17.058
32. New Hope	18.263	32. Robbinsdale	16.833
33. Roseville	15.982	33. Roseville	12.498
34. Edina	11.974	34. Edina	11.483
Average Municipal Mill Rate Including Special Assessments for the Metro Cities Over 10,000 Population Excluding Mpls. and St. Paul: <u>23.793</u>		Average Adjusted Municipal Mill Rate Including Special Assessments for the Metro Cities Over 10,000 Population Excluding Mpls. and St. Paul: <u>20.787</u>	

* Mill rates were figured by dividing levies and special assessments by taxable value.
**Adjusted for differences in assessment practices by using sales ratio.

APPENDIX G

Appendix G compares 1978 total mill rates (all taxing jurisdictions) with the 1967 total mill rates for each metropolitan community with a population over 10,000.

TOTAL MILL RATES

<u>Payable 1978</u>		<u>Payable 1967</u>			
<u>All Taxing Districts</u>		<u>All Taxing Districts</u>			
1.	White Bear Lake	133.563	1.	Stillwater	122.660
2.	St. Paul	131.026	2.	Columbia Heights	108.817
3.	<u>Minneapolis</u>	<u>130.092</u>	3.	Fridley	105.837
4.	Maplewood	120.489	4.	Brooklyn Center	104.353
5.	Moundsviiew	120.261	5.	Brooklyn Park	100.153
6.	Stillwater	118.840	6.	Blaine	98.900
7.	North St. Paul	118.329	7.	Cottage Grove	98.063
8.	South St. Paul	117.017	8.	South St. Paul	97.603
9.	Shorview	115.784	9.	Richfield	97.107
10.	New Brighton	115.195	10.	Coon Rapids	96.693
11.	Roseville	109.998	11.	Bloomington	96.610
12.	Hopkins	109.398	12.	Golden Valley	96.190
13.	Minnetonka	109.088	13.	Plymouth	96.057
14.	Hastings	107.690	14.	North St. Paul	95.747
15.	Cottage Grove	107.020	15.	Minnetonka	95.633
16.	Robbinsdale	105.786	16.	Robbinsdale	95.567
17.	Brooklyn Park	105.301	17.	Hastings	95.240
18.	Richfield	104.485	18.	Maplewood	94.633
19.	Brooklyn Center	103.554	19.	White Bear Lake	93.997
20.	St. Louis Park	103.523	20.	Anoka	93.337
21.	Bloomington	103.416	21.	St. Louis Park	93.160
22.	Golden Valley	102.834	22.	Hopkins	92.257
23.	New Hope	102.324	23.	Crystal	91.767
24.	Crystal	102.292	24.	Moundsviiew	90.893
25.	Coon Rapids	101.410	25.	Roseville	90.467
26.	Anoka	101.210	26.	New Brighton	86.817
27.	Blaine	99.340	27.	New Hope	86.407
28.	Burnsville	98.512	28.	Edina	85.993
29.	Fridley	96.560	29.	Shoreview	85.670
30.	Plymouth	95.638	30.	<u>St. Paul</u>	<u>85.480</u>
31.	West St. Paul	95.223	31.	West St. Paul	84.993
32.	Columbia Heights	93.710	32.	Inver Grove Hgts	81.650
33.	Inver Grove Hgts	91.853	33.	Burnsville	79.883
34.	Edina	89.793	34.	<u>Minneapolis</u>	<u>77.583</u>

Average Mill Rate excluding
Minneapolis and St. Paul -
106.232.

Average Mill Rate excluding
Minneapolis and St. Paul -
94.786.

APPENDIX H

Appendix H compares growth in tax levies with growth in taxable value between 1967 and 1976. It shows that in St. Paul and other metro communities, the growth in taxable value nearly kept pace with growth in municipal tax levies. St. Paul tax levies grew 28% while taxable value grew 24%. Tax levies in other metro cities grew 165%, but taxable value grew 141%. In Minneapolis, however, municipal levies grew 102% while the tax base was growing only 17%. This helps explain the fact that municipal mill rates in St. Paul and suburban communities remained relatively constant between 1967 and 1976, while the mill rate in Minneapolis increased substantially.

INCREASES IN MUNICIPAL LEVIES COMPARED TO
INCREASES IN TAXABLE VALUE
Payable 1967-1976

	<u>Minneapolis</u>	<u>St. Paul</u>	<u>Other Metro Cities Over 10,000</u>
Total Municipal Levy*			
Payable 1967	\$ 30,731,938	\$ 22,568,713	\$ 19,553,789
Payable 1976	\$ 62,135,249	\$ 28,846,310	\$ 51,851,650
% Change 1967-76	102.18%	27.82%	165.17%
Total Taxable Value**			
Payable 1967***	\$1,210,554,276	\$670,589,526	\$1,408,646,985
Payable 1976	\$1,421,501,423	\$831,737,200	\$3,389,504,139
% Change 1967-76	17.43%	24.03%	140.62%

* Excludes tax increment levies and special assessments. Includes amounts levied against Fiscal Disparities tax base.

**Excludes tax increment values and includes net changes in assessed values due to Fiscal Disparities.

***Adjusted to be comparable to 1976 figures.

APPENDIX I

Appendix I shows that the redistribution of tax base under the Fiscal Disparities Law provided a significant portion of the growth in tax base in Minneapolis and St. Paul between 1967 and 1976. Fiscal Disparities value accounted for 14% of the growth in taxable value in Minneapolis, 13% of the growth in St. Paul, and caused a decline of \$44 million in the taxable value in the other metro cities group. Without the Fiscal Disparities Law, commercial-industrial assessed value in Minneapolis would have declined by \$7.3 million between 1973 and 1976. Because of the \$29.6 million in growth provided through Fiscal Disparities, Minneapolis showed a net growth of \$22.3 million in commercial-industrial property. In St. Paul, commercial-industrial value would have grown by \$7.2 million between 1973 and 1976 without Fiscal Disparities. Because of \$20.3 million in growth provided through Fiscal Disparities, St. Paul showed a total growth of \$27.6 million.

GROWTH IN TAX BASE DUE TO FISCAL DISPARITIES
1967-1976

	<u>Minneapolis</u>	<u>St. Paul</u>	<u>Other Metro Cities Over 10,000 Population</u>
Growth in Taxable Value Not Due to Fiscal Disparities	\$181,361,444 (86.0%)	\$140,819,003 (87.4%)	\$2,025,014,790 (102.2%)
Change in Taxable Value Due to Fiscal Disparities	\$ 29,585,703 (14.0%)	\$ 20,328,671 (12.6%)	\$ -44,157,636 (--)
Total Growth in Taxable Value, 1967-76	\$210,947,147 (100.0%)	\$161,147,674 (100.0%)	\$1,980,857,154 (100.0%)

1975 OPERATING EXPENDITURES PER HOUSEHOLD
ALL MINNESOTA CITIES OVER 10,000

<u>City</u>	<u>\$ Per Household</u>		
1. Minneapolis	\$779.04		
2. Red Wing	721.72		
3. St. Cloud	688.84		
4. St. Paul	669.93		
5. Minnetonka	599.50		
6. Mankato	592.31		
7. Fairmont	571.59		
8. Coon Rapids	562.30		
9. Anoka	559.07		
10. Hibbing	555.58		
11. Austin	554.61		
12. Virginia	539.07		
13. Duluth	522.71		
14. Cloquet	516.86		
15. So. St. Paul	511.67		
16. Fergus Falls	509.60		
17. Rochester	508.86		
18. Bloomington	508.56		
19. Maplewood	506.30		
20. Faribault	501.36		
21. Plymouth	492.59	Mpls.	\$779.04
22. Hastings	478.16		
23. Northfield	475.88	St. Paul	\$669.93
24. Moorhead	568.02		
25. Stillwater	459.75	Duluth	\$522.71
26. Albert Lea	445.29		
27. Golden Valley	444.95	Other	
28. Cottage Grove	439.08	Outstate	\$509.94
29. Bemidji	425.43	Cities	
30. Winona	418.57		
31. Willmar	415.60	Other	
32. West St. Paul	404.32	Metro	\$404.48
33. New Ulm	395.18	Cities	
34. Burnsville	390.76		
35. Fridley	387.45		
36. St. Louis Park	380.54		
37. Robbinsdale	376.78		
38. Hopkins	374.27		
39. Blaine	374.02		
40. Columbia Hgts.	373.41		
41. Inver Grove Hgts.	372.74		
42. No. St. Paul	368.15		
43. Owatonna	361.11		
44. White Bear Lake	357.37		
45. Richfield	353.53		
46. Shoreview	352.73		
47. Edina	349.07		
48. Brooklyn Center	329.69		
49. Brooklyn Park	325.19		
50. Brainerd	322.37		
51. New Brighton	301.02		
52. Crystal	300.23		
53. Roseville	296.75		
54. New Hope	280.52		
55. Mounds View	275.48		

SUMMARY

1975 OPERATING EXPENDITURES PER CAPITA
ALL MINNESOTA CITIES OVER 10,000

<u>City</u>	<u>\$ Per Capita</u>		
1. Minneapolis	\$334.82		
2. St. Paul	251.84		
3. Virginia	218.59		
4. Hopkins	206.31		
5. Red Wing	201.02		
6. Mankato	198.45		
7. Fairmont	195.75		
8. Duluth	192.56		
9. Hibbing	190.56		
10. Austin	190.09		
11. St. Cloud	187.21		
12. So. St. Paul	186.21		
13. Rochester	173.82		
14. Fergus Falls	172.43		
15. Plymouth	167.97		
16. Albert Lea	163.59		
17. Coon Rapids	159.76		
18. Faribault	158.35		
19. Bloomington	155.72		
20. W. St. Paul	150.77		
21. Maplewood	150.25		
22. Moorhead	148.68	Mpls.	\$334.82
23. Minnetonka	146.01	St. Paul	\$251.84
24. Cloquet	143.45		
25. Bemidji	143.27	Duluth	\$192.56
26. Winona	141.02		
27. St. Louis Park	139.22	Other	
28. Golden Valley	137.15	Outstate	\$165.74
29. Robbinsdale	133.20	Cities	
30. Brainerd	128.28		
31. Willmar	127.44	Other	
32. Shoreview	126.57	Metro	\$125.16
33. Richfield	122.28	Cities	
34. New Ulm	122.07		
35. Anoka	119.05		
36. Burnsville	117.61		
37. Owatonna	116.78		
38. Edina	116.68		
39. Hastings	113.56		
40. Stillwater	110.78		
41. Columbia Hgts.	108.81		
42. Roseville	107.20		
43. No. St. Paul	107.13		
44. Brooklyn Center	106.52		
45. Northfield	104.94		
46. Brooklyn Park	103.80		
47. Fridley	103.23		
48. New Brighton	102.05		
49. White Bear Lake	98.54		
50. Cottage Grove	98.05		
51. Inver Grove Hgts.	97.06		
52. Blaine	93.04		
53. Crystal	92.60		
54. Mounds View	91.18		
55. New Hope	88.32		

APPENDIX K

INCREASES IN OPERATING EXPENDITURES
Breakdown of Cost Factors
1967-1975

MINNEAPOLIS

	(100%*) Total Increase in Operating Expenditures, 1967-1975	\$78,033,308
56.9%	Due to Inflation	44,411,417
9.3%	Due to Pension and Fringe Benefit Increases Above Inflation	7,246,169
13.7%	Due to Wage Increases Above Inflation	10,661,112
11.7%	Due to Personnel Increases	9,091,304
8.5%	Other Factors	6,623,306

ST. PAUL

	(100%*) Total Increase in Operating Expenditures, 1967-1975	\$40,897,716
63.3%	Due to Inflation	25,888,750
8.1%	Due to Pension and Fringe Benefit Increases Above Inflation	3,307,920
11.4%	Due to Personnel Increases	4,644,349
10.1%	Due to Wage Increases Above Inflation	4,110,912
7.2%	Other Factors	2,945,785

APPENDIX L

Appendix L compares per household operating expenditures in Minneapolis and St. Paul by function. This table illustrates that Minneapolis spending per household exceeds St. Paul spending for all except four categories: fire, sewer maintenance, interest expense, and fringe benefits. Minneapolis spends \$1.14 per household for operation and maintenance for every \$1.00 spend in St. Paul.

1975 PER HOUSEHOLD EXPENDITURES
FOR OPERATION AND MAINTENANCE

	<u>Minneapolis</u>	<u>St. Paul</u>	<u>Ratio</u> <u>Mpls.-St. Paul</u>
General Government	\$ 66.35	\$ 61.80	1.07
Police	128.14	109.16	1.17
Fire	65.52	80.92	.81
Inspections	21.63	16.35	1.32
Street Maintenance	56.52	45.93	1.23
Snow Removal	15.11	12.10	1.25
Street Lighting	12.51	9.40	1.33
Sewers	50.50	58.82	.86
Refuse Collection	36.33	8.45	4.30
Health	31.74	31.63	1.00
Libraries	30.23	22.71	1.33
Parks & Recreation	82.84	59.66	1.39
Interest Expense	48.89	54.61	.90
Pensions*	102.42	70.10	1.46
Fringe Benefits	17.94	22.63	.79
SUBTOTAL	\$766.66	\$664.27	1.15
Unallocated	96.05	91.87	1.05
TOTAL	\$862.72	\$756.14	1.14

*Municipal, police, and fire pensions.

AVERAGE ANNUAL CAPITAL OUTLAYS
1967-1975

Per Household

	<u>Minneapolis</u>	<u>St. Paul</u>
Streets	\$ 91.24	\$ 55.14
Sewers	19.34	28.20
Parks & Recreation	33.55	38.49
Redevelopment	40.90	37.89
All Other	8.41	14.20
TOTAL	\$193.44	\$173.92

APPENDIX M

Appendix M shows how tax levies and unfunded liabilities have changed between 1967 and 1976 in all City pension funds.

STATUS OF MINNEAPOLIS & ST. PAUL PENSION FUNDS

	<u>1967 Levies & Mill Rates</u>	<u>1976 Levies & Mill Rates</u>	<u>1967 Unfunded Liabilities & Funded Ratio</u>	<u>1976 Unfunded Liabilities & Funded Ratio</u>
<u>Mpls</u>				
MERF	\$3,078,340 (2.543 mills)	\$ 9,344,951 (6.574 mills)	\$ 64,411,642 (52.5%)	\$194,366,146 (46.2%)
Police	928,092 (0.767)	4,739,286 (3.334)	49,458,019 (2.0%)	86,795,570 (18.1%)
Fire	807,036 (0.667)	3,634,779 (2.557)	43,337,942 (0.6%)	78,339,723 (10.4%)
Total	\$4,813,468 (3.977 mills)	\$17,719,016 (12.465mills)	\$157,207,603 (31.6%)	\$359,501,439 (35.2%)
<u>St. Paul</u>				
PERA	\$ 736,553 (1.02mills)	\$ 2,845,516 (3.421mills)	\$ *	\$ *
Police	495,023 (0.687)	2,741,859 (3.296)	28,481,364 (2.9%)	45,308,049 (18.3%)
Fire	608,558 (0.843)	2,442,563 (2.936)	27,574,587 (0.8%)	45,466,952 (15.2%)
Total	\$1,840,134 (2.548mills)	\$ 8,029,938 (9.654 mills)	\$ 56,055,951 (1.9%)	\$ 90,775,001 (16.7%)

*St. Paul PERA share of unfunded liabilities cannot be calculated.

APPENDIX N

Appendix N compares employee contributions (% of salary) with public contributions (% of payroll) in each pension fund. The appendix shows that in all cases except PERA the public contribution is greater than the employee contribution for both total contributions and normal costs alone.

1975 PENSION COST SHARING AS A PERCENTAGE OF PAYROLL

	<u>Employee Contribution</u>		<u>City Contribution For Normal Costs</u>		<u>City Contribution For Unfunded Liabilities</u>	<u>Total City Contribution</u>
Mpls. Police	6	%	13.1	%	16.3	29.4 %
Mpls. Fire	6		9.8		26.1	35.9
St. Paul Police	6		14.5		15.1	29.6
St. Paul Fire	6		9.1		20.0	29.1
St. Paul PERA						
Basic	8		8		2.5	10.5
Coordinated	9.85*		9.85*		1.5	11.35
MERF	8		10.85		11.95	22.8

* Includes 5.85% on salary ceiling. Social Security contributions are based on a different funding system than Minnesota pension plans.

APPENDIX O

CITY OF MINNEAPOLIS
SCHEDULE OF BONDED DEBT AND LEGAL
DEBT MARGIN FOR NEW BONDS
DECEMBER 31, 1977

I.A. GENERAL OBLIGATION (G.O.) DEBT SUBJECT TO DEBT LIMIT

Fire Department	\$ 150,000	
Housing Rehabilitation	8,495,000	
Housing Resources	1,800,000	
Land Development	200,000	
Libraries	2,275,000	
Park Improvements	9,325,000	
Parkway Improvements	4,130,000	
Public Buildings	2,380,000	
Sewers - Storm Drains	66,000	
Storm Drains	9,843,000	
Street Improvements	19,065,000	
Urban Renewal	<u>2,820,000</u>	
Total G.O. Bonds Subject to Debt Limit		\$ 60,549,000
LESS: ASSETS IN DEBT SERVICE FUND		<u>3,108,581</u>

TOTAL DEBT APPLICABLE TO DEBT LIMIT

\$ 57,440,419

I.B. GENERAL OBLIGATION BONDS NOT SUBJECT TO DEBT LIMIT

1. Special Assessments Bonds:		
Park Acquisitions and Improvements	\$ 954,000	
Street Acquisitions and Improvements	<u>26,821,000</u>	
2. Self Supporting Bonds:		
Golf Courses	\$ 370,000	
Ice Center	115,000	
Industrial Development District	3,000,000	
Metropolitan Sports Area	1,420,000	
Public Parking Facilities	12,610,000	
River Terminal	5,770,000	
Temporary Improvement	1,500,000	
Trunk Highways	5,670,000	
Water Works	9,641,000	
Development Districts	83,575,000	
Concert Hall	8,750,000	
Redevelopment	21,175,000	
Municipal State Aid Street Improvement	<u>4,000,000</u>	

Total G.O. Bonds not subject to
Debt Limit

\$185,371,000

Total G.O. Bonds

\$245,920,000

DEBT LIMIT

\$145,809,837

TOTAL G.O. BONDS SUBJECT TO DEBT LIMIT

\$ 57,440,419

MARGIN FOR FUTURE NET DEBT BONDS

\$ 88,369,418

(Appendix O Continued)

CITY OF SAINT PAUL, MINNESOTA
DEBT STATEMENT
December 31, 1977

GENERAL OBLIGATION BONDS:

A. <u>Within Statutory Bonded Debt Limit:</u>		
Auditorium	\$ 143,000	
Capital Improvement, Laws of Minnesota 1967	1,200,000	
Capital Improvement, Laws of Minnesota 1969	3,150,000	
Capital Improvement, Laws of Minnesota 1971	13,300,000	
Capital Improvement, Laws of Minnesota 1976	12,000,000	
Civic Athletic Stadium	887,000	
Civic Educational Center	873,000	
Garbage Disposal Equipment Garage	42,000	
Health Center	68,000	
Libraries Improvement	132,000	
Parks and Playgrounds	622,000	
Public Safety Building	244,000	
Sewer	4,440,000	
Street Lighting	300,000	
Streets and Bridges	<u>6,109,000</u>	\$ 43,510,000
B. <u>Outside Statutory Bonded Debt Limit:</u>		
Capitol Approach Improvement	973,000	
Civic Center (Section 1)	7,360,000	
Civic Center (Section 2)	8,450,000	
Detention and Workhouse Facilities	780,000	
Downtown Development District No. 1	405,000	
Fire Station	280,000	
Flood Control	705,000	
Health Pension Fund	850,000	
Joint City Hall & Court House Rehabilitation	335,000	
Joint Hospital Facilities	3,048,000	
Joint Sewer Study	25,000	
Joint Storm Water Sewer Construction	210,000	
Refunding Bonds		
(Downtown Development District #1)	4,540,000	
Refunding Bonds (Urban Renewal)	10,050,000	
Rehabilitation Loan Program	2,425,000	
Riverview Storm Sewer	340,000	
Urban Renewal	26,300,000	
Water Pollution Abatement	<u>13,420,000</u>	\$ 80,496,000
C. <u>Revenue Supported:</u> (Outside Statutory Bonded Debt Limit)		
Permanent Improvement Revolving Fund	1,000,000	
Trunk Highway	3,090,000	
Water	<u>11,553,000</u>	\$ 15,643,000
Total General Obligation Bonds		\$139,649,000

REVENUE BONDS:

Water	\$ 1,180,000
TOTAL GROSS BONDED DEBT	\$140,829,000
DEBT LIMIT	\$ 90,698,058
TOTAL G.O. BONDS SUBJECT TO DEBT LIMIT	\$ 43,510,000
MARGIN FOR FUTURE NET DEBT BONDS	\$ 47,188,058

APPENDIX P

Appendix P shows the extent to which various categories of municipal debt have grown in Minneapolis and St. Paul between 1967 and 1976. In Minneapolis, total general obligation debt increased from \$72,385,848 in 1967 to \$188,848,000 in 1976, an increase of 161%. In St. Paul, total general obligation debt increased from \$84,129,000 in 1967 to \$142,639,000 in 1976, an increase of 70%.

Although total debt is higher in Minneapolis, tax-supported debt is higher in St. Paul because a very large portion of Minneapolis' total debt is revenue-supported rather than tax-supported. In 1976, tax-supported debt per capita was \$219.60 in Minneapolis and \$424.14 in St. Paul.

GROWTH IN MUNICIPAL DEBT, 1967-1976
MINNEAPOLIS AND ST. PAUL

<u>Minneapolis</u>	<u>1967</u>	<u>1976</u>	<u>% Increase</u>
Debt Limit	\$115,440,773	\$139,569,155	21%
Net Debt	30,955,848	58,526,000	89%
Deductible Debt*	41,430,000	130,323,000	215%
Total G.O. Debt	72,385,848	188,848,000	161%
Tax-Supported Debt**	37,224,348	83,021,000	123%
Total G.O. Debt/Capita	161.24	499.52	210%
Total G.O. Debt/Household	445.35	1,162.25	161%
Tax-Supported Debt/Capita	82.92	219.60	165%
Tax-Supported Debt/Household	229.02	510.95	123%
<u>St. Paul</u>			
Debt Limit	\$ 71,663,137	\$ 84,830,014	18%
Net Debt	23,530,000	42,760,000	82%
Deductible Debt*	60,599,000	99,879,000	65%
Total G.O. Debt	84,129,000	142,639,000	70%
Tax-Supported Debt**	55,691,000	119,825,000	115%
Total G.O. Debt/Capita	370.54	504.89	87%
Total G.O. Debt/Household	820.77	1,343.09	64%
Tax-Supported Debt/Capita	179.11	424.14	137%
Tax-Supported Debt/Household	543.33	1,128.27	108%

* Debt excluded from State-imposed net debt limits.

**Includes that portion of tax increment debt that must be paid from general levy. Debt to be repaid by actual tax increments is considered to be revenue supported.

APPENDIX Q

Appendix Q shows not only municipal debt, but also the debt of other taxing jurisdictions that is an obligation of Minneapolis and St. Paul taxpayers. St. Paul has significantly higher overlapping debt than Minneapolis. The table indicates that as of December 31, 1975, total overlapping debt in Minneapolis was \$227,312,050 or \$601.26 per capita. Total overlapping debt in St. Paul was \$226,223,730 or \$942.33 per capita.

The debt of the St. Paul school district and the Port Authority is responsible for the difference in overlapping debt between Minneapolis and St. Paul. St. Paul school district debt was \$90,290,000 and Port Authority debt was \$22,260,000. Minneapolis school district debt was \$44,675,538, and the City had no port authority debt.

In Minneapolis, municipal debt is 69.8% of total overlapping debt, while in St. Paul, municipal debt is only 47.4% of total overlapping debt.

MINNEAPOLIS - ST. PAUL OVERLAPPING DEBT
12/31/75

<u>Minneapolis</u>					
	Adjusted ¹ Gross Debt	%	City Share of Debt	%	Debt Per Capita
		Attributable To City		of City's Total Debt	
Municipal Debt	\$158,669,000	100%	\$158,669,000	69.8%	\$419.69
School District Debt	44,675,538	100%	44,675,538	19.7%	118.17
County Debt	38,155,711	36.2%	13,812,367	6.1%	36.53
Metro Airports Comm.	7,070,000	20.1%	1,421,070	.6%	3.76
Metro Transit Comm.	9,477,952	21.5%	2,037,760	.9%	5.39
Metropolitan Council	33,315,000	20.5%	6,696,315	2.9%	17.71
Port Authority	-	-	-	-	-
<u>TOTAL</u>	\$291,363,201		\$227,312,050	100%	\$601.26

<u>St. Paul</u>					
	Adjusted ² Gross Debt	%	City Share of Debt	%	Debt Per Capita
		Attributable To City		of City's Total Debt	
Municipal Debt	\$126,185,000	100%	\$126,185,000	47.4%	\$446.65
School District Debt	90,290,000	100%	90,290,000	33.9%	319.59
County Debt	36,943,369	57.4%	21,205,493	7.9%	75.06
Metro Airports Comm.	7,070,000	11.7%	827,190	.3%	2.93
Metro Transit Comm.	9,520,532	12.6%	1,199,587	.5%	4.25
Metropolitan Council	36,380,000	11.7%	4,256,460	1.6%	15.07
Port Authority	22,260,000	100%	22,260,000	8.4%	78.79
<u>TOTAL</u>	\$328,648,901		\$266,223,730	100%	\$942.33

1 Excludes bonds with 5-year self-supporting history: Golf Courses, Trunk Highways, Metro Sports Area, Water Works, Minnesota State Aid (MSA).

2 Excludes bonds with 5-year self-supporting history: Trunk Highways, Water Works, Permanent Improvement Revolving Fund (PIR).

APPENDIX R

MINNEAPOLIS
EMPLOYEE COMPENSATION EXPENDITURES
1967-76

<u>Employee Benefits</u>	<u>1967</u>	<u>1976</u>	<u>% Increase</u>
Health & Life Insurance	\$ 402,670	\$ 2,201,415	447%
Severance Pay (1970)	--	371,833	
Unemployment Compensation (1971)	--	574,525	
Workers Compensation	409,831	1,207,431	195
Tuition Reimbursement	1,431	8,045	462
Employee Clinic	43,425	104,799	141
Health Testing (1973)	--	9,263	
Sick Leave Credit Pay (1970)	--	463,919	
Clothing & Personal Effects	141,296	401,282	184
Subtotal Employee Benefits:	\$ 998,653	\$ 5,342,512	435%
 <u>Retirement System Contributions</u>			
Minneapolis Municipal Employees	\$ 4,144,885	\$ 12,260,196	196%
Police Relief Association	1,099,016	\$ 4,739,286	331
Firefighter Relief Association	801,424	3,634,779	354
Subtotal Retirement Systems:	\$ 6,045,325	\$ 20,634,261	241%
 <u>Wage Expenditures</u>	 \$31,942,145	 \$ 79,535,182	 148%
 TOTAL COMPENSATION EXPENDITURES	 \$38,986,123	 \$105,511,955	 171%

(Appendix R Continued)

ST. PAUL
EMPLOYEE COMPENSATION EXPENDITURES
1967-76

<u>Employee Benefits</u>	<u>1967</u>	<u>1976</u>	<u>% Increase</u>
Health and Welfare Insurance	\$ 483,530	\$ 1,965,760	307%
Active Employees	444,062	1,798,697	305
Retired Employees	39,468	167,063	323
Severance Pay	86,297	178,167	107
Unemployment Compensation	93,447	214,347	129
Building Trades Fringe Benefits	--	67,818	100
Workers Compensation	242,352	580,853	140
Tuition Reimbursement	NA	7,122	
Clothing Allowances	19,635	177,999	807
Subtotal Employee Benefits:	\$ 925,261	\$ 3,192,066	245%
<u>Retirement Systems</u>			
PERA and Social Security	\$ 736,533	\$ 2,970,868	303%
Police Relief Association	495,023	2,741,859	454
Firefighter Relief Association	608,558	2,442,563	301
Subtotal Retirement Systems:	\$ 1,840,114	\$ 8,155,290	343%
<u>Wage Expenditures</u>	\$25,832,887	\$51,323,756	99%
TOTAL COMPENSATION EXPENDITURES	\$28,598,262	\$62,671,112	119%