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REPORT TO THE SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS COMMITTEE ON GOVERNMENT OPERATIONS UNITED STATES SENATE

Case Studies Of Revenue Sharing In 26 Local Governments

ENCLOSURE S

New Hope, Minnesota p.2791

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

GGD-75-77-S

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SUMMARY

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At the request of the Chairman, Subcommittee on Intergovernmental Relations, Senate Committee on Government Operations, GAO conducted case studies on general revenue sharing at 26 selected local governments throughout the country, including New Hope, Minnesota.

For the period January 1, 1972 through June 30, 1974, New Hope was allocated a total of $228,325 in revenue sharing funds, or a per capita amount of $ 9.85. Of the amount allocated, $204,040 was received by June 30, 1974, and $24,285 was received in July 1974. The revenue sharing funds allocated to New Hope were equivalent to about 15 percent of its own tax collections.

The Chairman's letter listed seven areas on which the Subcommittee wanted detailed information. Following is a brief description of the selected information GAO obtained in each area during its review of New Hope.

1. The specific operating and capital programs funded in part or in whole by general revenue sharing in each jurisdiction. New Hope had obligated or expended $204,790 through June 30, 1974; $178,325 was designated for public safety activities, $14,000 for financial administration, $9,846 for health services, and $2,619 for recreation. The city's accounting records showed that, within these designations, $141,680 was used for operating and maintenance costs, including salaries and services; $32,025 for constructing a fire training center, police garage, and pistol range; and $31,085 for acquiring police cars, fire equipment, and office machines.

2. The fiscal condition of each jurisdiction, including its surplus or debt status. New Hope's fund balances at the end of its 1969-73 fiscal years showed no major increasing or decreasing trends. Its net indebtedness gradually decreased from $2.3 million in 1969 to $1.9 million at the end of 1973. The debt ceiling imposed by State statute has not limited the city's financial planning because New Hope's applicable outstanding debt is only about 28 percent of the ceiling. Because of inflation, the city's revenues have not kept pace with expenditures, and the city was unable to maintain its 1974 level of services in its proposed 1975 budget.

3. The impact of revenue sharing on local tax rates and any changes in local tax laws, and an analysis of local tax rates vis-a-vis per capita income. Declines in property tax rates levied by both the city and the independent school district during the period 1971-73 were attributed to a 1971

State law which shifted part of the financing of local governments and schools from the property tax to State income and sales taxes. In November 1972 the city council reduced the property tax levy by $60,000 because of the availability of revenue sharing funds.

The percentage of a family's income that is paid to New Hope, other local governments--including county, school districts, and special district governments--and to the State government increases as family income increases. The tax burden for a family of four increased from 10.8 to 12.8 to 14.7 percent as family income increased from $7,500 to $12,500 to $17,500, respectively.

4. The percentage of the total local budget represented by general revenue sharing. Revenue sharing funds received by New Hope during the 2-year period ended December 31, 1973, totaled $155,470. Of this total, New Hope did not budget $24,450, which is about 1.0 percent of its 1973 budget. In fiscal year 1972 revenue sharing funds accounted for $20,295, or 1.0 percent, of the city budget, and in fiscal year 1973 revenue sharing funds accounted for $108,520, or 4.4 percent.

5. The impact of Federal cutbacks in three or four specific categorical programs and the degree, if any, that revenue sharing has been used to replace those cutbacks. Federal aid was not a major source of funds for New Hope's overall general operations but increased from $8,555 in 1971 to $28,100 in 1974.

6. The record of each jurisdiction in complying with the civil rights, Davis-Bacon, and other provisions of the law. No complaints have been filed against New Hope alleging discrimination in its employment practices or in its delivery of services. The city government work force of 74 people did not include any minorities. About 38 percent of the city's civilian labor force was female, and females in New Hope's government work force totaled about 23 percent. The New Hope affirmative action and equal employment opportunity officer stated that the number of minorities and females in the city government work force would increase.

New Hope used revenue sharing funds totaling $27,400 to partially fund the construction of a $69,540 police garage and pistol range. The construction contract did not cite the provisions of the Davis-Bacon Act relating to minimum wages. The city manager said it was his understanding that the funds were received before the compliance regulations became effective and that, because all contractors hired by the city were unionized, the construction wages would not have changed.

The city has complied with the prevailing wage provision of the Revenue Sharing Act.

7. Public participation in the local budgetary process and the impact of revenue sharing on that process. The normal budgetary process in New Hope includes holding a public hearing. Although the city (1) published the planned and actual use reports required by the Revenue Sharing Act, (2) published a notice that the revenue sharing appropriation would be considered at the public hearing on the 1975 budget, and (3) sent a newsletter to all local residences and businesses including information on the proposed 1975 budget and on the amount of revenue sharing funds expected, revenue sharing had no apparent impact on public participation in the budgetary process.

CHAPTER 1

INTRODUCTION

The State and Local Fiscal Assistance Act of 1972 (Public Law 92-512), commonly known as the Revenue Sharing Act, provides for distributing about $30.2 billion to State and local governments for a 5-year program period beginning January 1, 1972. The funds provided under the act are a new and different kind of aid because the State and local governments are given wide discretion in how they use the funds. Other Federal aid to State and local governments, although substantial, has been primarily categorical aid which generally must be used for defined purposes. The Congress concluded that aid made available under the act should give recipient governments sufficient flexibility to use the funds for their most vital needs.

On July 8, 1974, the Chairman, Subcommittee on Intergovernmental Relations, Senate Committee on Government Operations, requested us to conduct case studies on general revenue sharing at 26 selected local governments throughout the country. The request was part of the Subcommittee's continuing evaluation of the impact of general revenue sharing on State and local governments. The Chairman requested information on

--the specific operating and capital programs funded by general revenue sharing in each jurisdiction;

--the fiscal condition of each jurisdiction;

--the impact of revenue sharing on local tax rates and tax laws, including an analysis of the tax burden on residents of each jurisdiction;

--the percentage of the total budget of each jurisdiction represented by general revenue sharing;

--the impact of Federal cutbacks in several categorical programs and the degree, if any, that revenue sharing has been used to replace those cutbacks;

--the record of each jurisdiction in complying with the civil rights, Davis-Bacon, and other provisions of the law; and

--public participation in the local budgetary process and the impact of revenue sharing on that process.

New Hope, Minnesota, is one of the 26 selected local governments which include large, medium, and small municipalities and counties as well as a midwestern township.

BACKGROUND INFORMATION ON NEW HOPE

New Hope is a suburban community located about 7 miles northwest of the central business district of Minneapolis. The 1960s was a period of rapid growth for New Hope with the population increasing from 3,500 in 1960 to 23,180 in 1970. New Hope now is approximately 90 percent developed; its 1974 population was estimated at 26,013. The city covers about 5.1 square miles, or 3,270 acres.

The city advertises itself as "styled for family living" and has become one of the prime residential areas in the western suburbs of Minneapolis. At present, there are about 4,300 homes in New Hope. Most of them were built within the last 10 years and are valued at $40,000 or more. According to the 1970 census, New Hope's residents had an annual per capita income of $3,321, compared to a per capita income of $3,038 for all Minnesota residents.

Contributing to its promise as a family-oriented community, New Hope emphasizes its park system. The park and recreation department was awarded national recognition in 1974 for outstanding park and recreation management. The city maintains 207 acres of parks, including playgrounds, natural park areas, 21 tennis courts, a 9-hole golf course, and a swimming pool. The residents recently approved a bond issue for the construction of an indoor ice arena which is expected to open in late 1975. The city has been active in providing recreational activities for retarded children.

New Hope's zoning policies and early planning have contributed to the area's industrial growth. The city has designated for industrial use 700 acres adjacent to two intersecting railroads. The city's policy toward industrial expansion has attracted a diversity of light industry, including distribution warehouses and businesses involved in plastics, medical instruments, metal fabrication, food, electronics, and paint research. About 21 percent of the city's tax base is derived from commercial and industrial property.

New Hope was incorporated as a village in 1953 and became a city on January 1, 1974. The city operates under the council-manager form of government and is governed by a mayor and four councilmen who are elected by the people and serve on a part-time basis. The mayor is elected for a 2-year term and the councilmen for 4-year terms. Assisting the city council are a number of commissions, composed of interested citizens, which advise the council. These include the Planning and Zoning, Economic Development, Youth, Human Rights, and Environmental Commissions. City administration is headed by a full-time city manager, assisted by seven department heads.

Principal services provided to the residents are police and fire protection, street maintenance, protective inspections, park and recreational activities, water distribution, and sewage collection. The city has 22 full-time policemen providing 24-hour service with the assistance of the city's own dispatching system as well as the county's emergency radio dispatch service. Fire protection is provided by a fire chief, a fire inspector, and about 35 volunteer firemen. The street department is responsible for road maintenance, plus occasional storm sewer maintenance and general cleaning of the city. The protective inspections department enforces the codes regulating the development and use of land in the city.

Other important services are provided to city residents by the county, the State, the independent school district, and private organizations.

New Hope is one of 47 communities making up Hennepin County. The Hennepin County government is a diversified, quarter-billion-dollar-a-year enterprise. It is the largest unit of local government in Minnesota, serving approximately 1 million residents. The county administers health and social services, municipal and district courts, highways, parks, and libraries. Other county responsibilities include public safety, veterans' service, disaster planning, and environmental control. The State is responsible for education, welfare and corrections, highways, and the judicial system.

Public education from kindergarten through high school is provided by Independent School District No. 281. This school district serves all or part of seven different suburbs. New Hope lies wholly within the district boundaries. The district operates 27 schools, enrolls about 25,000 students, and employs more than 2,200 persons. About 7,000 of the district's students, or 28 percent, live in New Hope. Eight of the 27 schools are located in New Hope, and these include a senior high school, a junior high school, and 6 elementary schools, none of which is more than 10 years old.

REVENUE SHARING ALLOCATION

Revenue sharing funds are allocated according to a formula in the Revenue Sharing Act. The amount available for distribution within a State is divided into two portions--one-third for the State government and two-thirds for all eligible local governments within the State.

The local government share is allocated first to the State's county areas (these are geographic areas, not county governments) using a formula which takes into account each county area's population, general tax effort, and relative income. Each individual county area amount is then allocated to the local governments within the county area.

The act places constraints on allocations to local governments. The per capita amount allocated to any county area or local government unit (other than a county government) cannot be less than 20 percent, nor more than 145 percent, of the per capita amount available for distribution to local governments throughout the State. The act also limits the allocation of each unit of local government (including county governments) to not more than 50 percent of the sum of the government's adjusted taxes and intergovernmental transfers. Finally, a government cannot receive funds unless its allocation is at least $200 a year.

Our calculations showed that, if the allocation formula were applied in Minnesota without all the act's constraints, New Hope's allocation for the first four entitlement periods (January 1, 1972 through June 30, 1974) would have been $203,228. However, New Hope was allocated the 20 percent minimum amount in all four entitlement periods for a total payment of $228,325. This included $24,285 which was received in July 1974.

The following schedule shows revenue sharing payments per capita and revenue sharing as a percentage of adjusted taxes for New Hope; Columbia Heights, a city with a population of 23,997, which is close to New Hope's population of 23,180; and the two largest cities in Minnesota, Minneapolis and St. Paul, with populations of 434,400 and 309,866, respectively.

City	Revenue sharing funds received for the period January 1, 1972, through June 30, 1974		
	Received (note a)	Per capita share	As a percent of taxes (note b)
New Hope	$ 228,325	$ 9.85	15.4
Columbia Heights	333,976	13.92	15.9
Minneapolis	15,032,401	34.60	12.6
St. Paul	12,145,058	39.19	15.0

a/ Includes payment received in July 1974 for quarter ended June 30, 1974.

b/ Fiscal year 1971 and 1972 taxes, as defined by the Bureau of the Census, were used and adjusted to correspond to the 2-1/2-year period covered by the revenue sharing payments.

For Minnesota, the 145 percent constraint for local governments for the period covered was $71.39 per capita. The 20 percent constraint was $9.83 per capita. The difference between the $9.83 constraint and the $9.85 per capita share for New Hope is due to rounding.

CHAPTER 2

BUDGETING AND PUBLIC PARTICIPATION

IN THE BUDGETARY PROCESS

City operations are financed by 14 funds. One or more funds have been established to account for general operations, special revenues, capital projects, debt redemption, trust and agency moneys, fixed assets, and enterprise operations.

The principal revenue sources and activities financed by major funds were as follows:

1. General fund--finances normal governmental activities, such as police and fire protection, street maintenance, protective inspections, park and recreation programs, and administrative expenses. Revenues are derived primarily from property taxes, State aid, fines, and transfers from various enterprise and special revenue funds.

2. Capital projects fund--finances construction or acquisition of fixed assets or other improvements. Revenues are derived from the sale of bonds, Federal and State grants, and interest on investments.

3. Debt redemption funds--finance payment of bond principal and interest. Revenues are derived from property taxes, payment of special assessments by benefited property owners, and interest earned on investments.

4. Water and sewer fund--finances water and sewer operations. Revenues are derived primarily from service charges to residents.

5. Municipal liquor fund--finances the city's operation of two liquor stores. Revenues are derived from store sales and disbursements are made primarily for personal services and merchandise.

RELATIONSHIP OF REVENUE SHARING TO TOTAL BUDGET

Revenue sharing funds received by New Hope during the 2-year period ended December 31, 1973, totaled $155,470. Of this total, New Hope did not budget $24,450, which is about 1.0 percent of its 1973 budget. In fiscal year 1972 revenue sharing funds accounted for $20,295, or 1.0 percent, of the city budget, and in fiscal year 1973 revenue sharing funds accounted for $108,520, or 4.4 percent.

The following table shows New Hope's budget for 1971, the year before revenue sharing. It also shows revenue sharing funds received and budgeted for 1972 and 1973 and their relationship to New Hope's budgets for these years.

New Hope	1971	1972	1973
City budget:			
General fund	$1,126,793	$ 1,275,254	$ 1,370,015
Debt redemption funds	94,485	110,986	175,262
Water and sewer fund	464,991	509,813	540,029
Municipal liquor fund	126,200	137,945	144,196
Other funds	149,082	189,623	209,497
Total	1,961,551	2,223,621	2,438,999
School district budget (note a)	7,513,000	8,634,000	8,988,000
Total	$9,474,551	$10,857,621	$11,426,999
Revenue sharing payments received	-	$42,795	$112,675
Revenue sharing funds budgeted	-	$22,500	$108,520
Cumulative revenue sharing payments received but not budgeted	-	$20,295	$24,450
Percentage of city budget represented by revenue sharing	-	1.0	4.4
Percentage of city and school district budgets represented by revenue sharing	-	0.2	0.9

a/ Allocation of total budget based on percentage of students residing in New Hope.

School district budget data is included in the above table to make the budgets comparable with those of local governments whose responsibilities include operating local school systems. Although independent school districts do not receive revenue sharing funds directly from the Federal Government, the financing of public schools is a major responsibility at the local government level and represents a significant part of the local tax burden.

	1973		1974		1975	
	Total amount budgeted	Revenue sharing funds	Total amount budgeted	Revenue sharing funds	Total amount budgeted	Revenue sharing funds
Department:						
Mayor and council	$ 16,887	$ -	$ 14,610	$ -	$ 14,270	$ -
City manager	32,314	-	32,262	-	34,434	-
Courts	19,650	-	20,900	-	21,300	-
Municipal clerk	115,490	-	58,564	-	56,427	-
Assessing	38,865	-	43,582	-	21,980	-
Accounting	37,800	6,200	48,111	14,000	37,399	2,700
Planning and zoning	3,635	2,250	2,462	-	1,735	-
Municipal building	34,115	-	35,928	-	37,510	-
Police protection	368,253	45,170	464,457	35,600	505,880	27,620
Fire protection	79,348	5,000	97,423	76,700	106,936	39,880
Protective inspections	53,818	-	71,958	4,118	69,240	-
Animal control	16,095	-	16,957	-	14,995	-
Streets and alleys	119,152	-	101,013	-	140,513	34,800
Snow removal	16,750	-	18,850	-	17,900	-
Street lighting	23,000	-	24,000	-	-	-
Storm sewers	29,820	-	29,044	-	26,861	-
Recreation	137,324	-	153,966	2,700	141,632	-
Parks	166,974	-	183,410	-	190,302	4,000
Health services	10,981	-	7,882	7,882	9,041	-
Other functions	49,744	-	166,251	-	169,577	-
Total	1,370,015	58,620	1,591,630	141,000	1,617,932	109,000
Supplemental items:						
Police protection	92,040	49,900	-	-	-	-
Total	$1,462,055	$108,520	$1,591,630	$141,000	$1,617,932	$109,000

The budgets prepared for 1974 and 1975 provided for applying all available revenue sharing funds, including any surplus funds from the prior year.

PUBLIC INVOLVEMENT IN BUDGETARY PROCESS

Normal budget procedures were followed in processing the 1975 New Hope operating budget. During June 1974 the department heads prepared and submitted budget requests to the city manager, who reviewed the requests and prepared the preliminary budget. During August and early September, the city manager and the city council met for informal discussions on the preliminary budget. A public hearing was held as required by State law. A certified copy of the budget resolution was then forwarded to Hennepin County.

New Hope's 1975 capital improvements budget was composed of an equipment budget and an improvements budget. The equipment budget, financed out of current annual revenues, was prepared to cover the cost of replacing equipment items and motor vehicles. The improvements budget was for major improvements that often require public hearings or a public referendum. These improvements are often financed by issuing bonds, levying special assessments against benefiting property owners, or receiving funds from State or Federal sources.

Besides publishing the planned and actual use reports required by the Revenue Sharing Act, New Hope has made other efforts to publicize the revenue sharing program. The official notice of the 1975 budget hearing printed in the local newspaper stated that the Federal revenue sharing appropriation would be considered at the hearing. Further, the city newsletter, distributed quarterly to all local residences and businesses, included information on the proposed 1975 budget and reported the amount of revenue sharing funds that were anticipated.

Normally some members of local public interest groups attend budget hearings. However, a representative of one group stated that attendance had been minimal because of general satisfaction with city operations. The city council's proposals for the revenue sharing appropriation were not discussed at the 1975 public budget hearings. Revenue sharing had no apparent impact on participation by local public interest groups.

Public interest group representatives indicated that the information they received on the proposed uses of revenue sharing funds was about the same as they received on the uses of other city funds but that more information would be helpful. One representative recommended that the city publicize the revenue sharing program in more comprehensive articles in the local newspaper.

CHAPTER 3

PROGRAMS FUNDED WITH REVENUE SHARING

New Hope was allocated $228,325 in revenue sharing funds for the period January 1, 1972 through June 30, 1974. Of the amount allocated, $204,040 was received by June 30, 1974, and $24,285 was received in July 1974. As of June 30, 1974, interest earned from investment of the funds totaled $3,086. A substantial portion of the total funds available was either expended or obligated as of June 30, 1974.

Funds expended	$158,039
Funds obligated	46,751
Total	204,790
Funds unobligated	26,621
Total	$231,411

USES OF REVENUE SHARING

The uses of revenue sharing funds described in this chapter are those reflected by New Hope's financial records. As we have pointed out in earlier reports on the revenue sharing program ("Revenue Sharing: Its Use by and Impact on State Governments," B-146285, Aug. 2, 1973, and "Revenue Sharing: Its Use by and Impact on Local Governments," B-146285, Apr. 25, 1974), fund "uses" reflected by the financial records of a recipient government are accounting designations of uses. Such designations may have little or no relation to the actual impact of revenue sharing on the recipient government.

For example, in its accounting records, a government might designate its revenue sharing funds for use in financing environmental protection activities. The actual impact of revenue sharing on the government, however, might be to reduce the amount of local funds which would otherwise be used for environmental protection, thereby permitting the "freed" local funds to be used to reduce tax rates, to increase expenditures in other program areas, to avoid a tax increase or postpone borrowing, to increase yearend fund balances, and so forth.

Throughout this report, when we describe the purposes for which revenue sharing funds were used, we are referring to use designations as reflected by city financial records.

Functional uses

The city had obligated or expended $204,790 of revenue sharing funds as of June 30, 1974. Expenditures of $146,224 were for public safety activities, including $114,212 for police protection, $21,570 for fire protection, and $10,442 for sundry items. Additional funds, totaling $11,815, were expended for health services and recreational activities. In addition to funds already expended, the city had unliquidated obligations, totaling $46,751 as of June 30, 1974, for public safety, financial administration, and recreational purposes. The funds expended and obligated by New Hope through June 30, 1974, were as follows.

Function	Expenditures 1972	1973	a/1974	Total	Obligations unliquidated at June 30, 1974
Operations and maintenance:					
Police protection	$22,500	$54,146	$ -	$ 76,646	$23,303
Fire protection	-	-	16,443	16,443	5,000
Other public safety items	-	10,442	-	10,442	-
Health services	-	-	9,846	9,846	-
Total	22,500	64,588	26,289	113,377	28,303
Capital:					
Police protection	-	27,400	10,166	37,566	605
Fire protection	-	4,625	502	5,127	3,193
Financial administration	-	-	-	-	14,000
Recreation	-	-	1,969	1,969	650
Total	-	32,025	12,637	44,662	18,448
Total	$22,500	$96,613	$38,926	$158,039	$46,751

a/ Six months.

Specific uses

The $204,790 expended or obligated as of June 30, 1974, was for the following items.

Function	Description	Amount
Operations and maintenance:		
Police protection	Police payroll	$ 54,949
Police protection	Court settlement ordering payment of lost wages to two policemen for period of dismissal from police department	45,000
Fire protection	Fire payroll	21,443
Crime prevention	Sponsorship of program to work with hard-to-reach juveniles	6,896
Crime prevention	Patrol of park minibike trails	3,546
Health services	Public health nursing service	7,881
Health services	Salary of part-time health inspector	1,965
Total		141,680
Capital:		
Police protection	Construction of police garage and pistol range	27,400
Police protection	Three squad cars	10,771
Fire protection	Construction of fire-training center	4,625
Fire protection	Various pieces of fire equipment	3,695
Financial administration	Bookkeeping machine	14,000
Recreation	Cash register, typewriter, and calculator	2,619
Total		63,110
Total		$204,790

Most of the revenue sharing funds paid expenses of the police and fire departments, but the services provided remained at levels which, according to the city manager, were minimal in relation to city needs. Use of revenue sharing funds in this manner, however, indirectly enabled the city to achieve other effects. For example, in November 1972 the city council was able to reduce the property tax levy by $60,000 because it had revenue sharing funds to meet expenses that otherwise would have been financed from property tax revenues. Also, according to the city manager, revenue sharing funded parks and recreation programs that may have otherwise been eliminated.

Unobligated funds, totaling $26,621 as of June 30, 1974, have been budgeted for the purchase of a fire engine and for volunteer firemen's alarm pay.

ACCOUNTING FOR REVENUE SHARING FUNDS

In February 1973 the city council adopted a resolution establishing a separate set of accounts on the city's financial records to account for the receipt and disbursement of Federal revenue sharing moneys. The city had only one bank account for all its funds. The finance director invested temporary surpluses of Federal revenue sharing moneys, and the interest earned on these investments was credited to the city's Federal revenue sharing fund.

A budget of Federal revenue sharing fund receipts and disbursements was prepared and made part of the city's annual operating budget. This budget showed the specific items for which revenue sharing moneys were to be expended. The actual expenditures for those items, however, were made not from the Federal revenue sharing fund but from other funds, in the normal manner. One or more times during the year, accounting entries were prepared to reimburse the other funds for those expenditures that had been originally budgeted for payment with revenue sharing moneys. These transfer entries were based on actual expenditures.

AUDITS OF REVENUE SHARING

New Hope was audited by a certified public accountant for calendar years 1969-73. The annual audit included tests of the accounting records and other auditing procedures for making an opinion on the fairness of the city's financial statements.

The certified public accountant stated that his review included a financial audit of revenue sharing funds. He said the scope of his review would permit him to express an opinion on separate financial statements of revenue sharing funds. The annual audit, however, did not include a review of the city's compliance with the requirements of the Revenue Sharing Act and related regulations.

No other organizations have audited the city's revenue sharing funds.

CHAPTER 4

COMPLIANCE PROVISIONS OF THE REVENUE SHARING ACT

The act provides that, among other requirements, each recipient shall

--create a trust fund in which funds received and interest earned will be deposited. Funds will be spent in accordance with laws and procedures applicable to expenditure of the recipient's own revenues;

--use fiscal, accounting, and audit procedures which conform to guidelines established by the Secretary of the Treasury;

--not use funds in ways which discriminate because of race, color, national origin, or sex;

--under certain circumstances, not use funds either directly or indirectly to match Federal funds under programs which make Federal aid contingent upon the recipient's contribution;

--observe requirements of the Davis-Bacon Act on certain construction projects in which the costs are paid out of the revenue sharing trust fund;

--under certain circumstances, pay employees who are paid out of the trust fund not less than prevailing rates of pay; and

--periodically report to the Secretary of the Treasury on how it used its revenue sharing funds and how it plans to use future funds. The reports shall also be published in the newspaper and the recipient shall advise the news media of the publication of such reports.

Further, local governments may spend funds only within a specified list of priority areas.

For purposes of this review we gathered selected information relating to the nondiscrimination, Davis-Bacon, and prevailing wage provisions.

NONDISCRIMINATION PROVISION

The act provides that no person in the United States shall, on the ground of race, color, national origin, or sex, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity funded in whole or in part with general revenue sharing funds.

In December 1972 the city council passed a resolution adopting an affirmative action program providing for equal employment opportunity for all persons. The program set forth the city's policies in the areas of employee recruitment, selection, placement, and training; contracts; and program communication. In addition, the program required the city to appoint a top management person as the affirmative action and equal employment opportunity officer, whose duties would be to coordinate the city's efforts, to advise and assist the key staff and elected officials, and to receive complaints.

Minnesota's Department of Human Rights--whose commissioner is appointed by the Governor--is responsible for implementing the Minnesota Human Rights Act, which bans discrimination in matters such as employment, housing, public accommodations, public services, and education. When a respondent fails or refuses to comply with a final decision of the department, the commissioner may file a petition with the clerk of a district court requesting the court to order compliance. The court examines all the evidence and may amend the order in any way it deems just and equitable prior to its decision.

New Hope has established a Human Rights Commission to help the State Department of Human Rights eliminate discrimination and to advise the city council on programs to improve human relations within the community. The commission has not received specific enforcement powers and acts primarily in an advisory capacity. Its members are appointed by the city council.

Comparison of local government work force and civilian labor force

New Hope residents are predominantly white, according to the 1970 census.

	Number	Percent
White	23,033	99.4
Black	40	.2
Indian	39	.2
Others	68	.2
Total	23,180	100.0

Because of the low number of minority residents, the Bureau of the Census did not identify them in its labor force statistics.

New Hope did not have any minorities in its government work force of 74 people. The following schedule compares the percentage of males and females in the city's total civilian labor force in 1970 with that of its 1974 government work force.

	Male		Female		Total	
New Hope	Number	Percent	Number	Percent	Number	Percent
Civilian labor force, 1970	5,971	62.0	3,658	38.0	9,629	100.0
Government work force, 1974	57	77.0	17	23.0	74	100.0

Most of the females hold office or clerical jobs. An analysis of the city government work force by department and job category as of June 30, 1974, is shown in appendix I.

Two males, a building inspector and an appraiser, and two females, an office clerk and a police officer, were hired during the year ended June 30, 1974. No city employees were promoted during this period.

The New Hope affirmative action and equal employment opportunity officer stated that the number of minorities and females in the city's work force would increase in future years. He said the hiring of few employees in the last 3 years had limited the city's opportunities to improve these ratios. Inadequate public transportation from the Minneapolis inner city and other more attractive job opportunities had also limited the hiring of minorities.

We contacted the State Department of Human Rights, the city's Human Rights Commission, the Federal Equal Employment Opportunity Commission, and the National Orginization for Women to see if they knew of any discriminatory employment practices by New Hope in the use of revenue sharing funds. None of the groups were aware of any such instances.

Since December 31, 1971, no complaints have been filed against New Hope regarding discrimination in employment. Further, no civil rights suits or other legal actions involving employment and revenue sharing funds were pending or in effect against New Hope.

Services and capital projects

The services and capital projects funded by revenue sharing were provided and located in such a manner that there was no obvious discrimination on the basis of sex, race, or color. No discrimination complaints involving public services or the location of capital projects financed by revenue sharing have been filed against New Hope. No civil rights suits, administrative orders, or judicial decrees to correct civil rights problems have been issued against the city in those areas.

The State Department of Human Rights, the city's Human Rights Commission, the Equal Employment Opportunity Commission, and the National Organization for Women knew of no discriminatory practices by New Hope in providing services and capital projects funded with revenue sharing funds.

DAVIS-BACON PROVISION

The Revenue Sharing Act provides that all laborers and mechanics, employed by contractors and subcontractors to work on any construction project of which 25 percent or more of the cost is paid out of the revenue sharing trust fund, shall be paid wage rates which are not less than rates prevailing for similar construction in the locality as determined by the Secretary of Labor in accordance with the Davis-Bacon Act, as amended.

The Davis-Bacon Act provides that the specifications for every contract exceeding $2,000 shall contain a provision stating the minimum wages to be paid various classes of laborers and mechanics, as determined by the Secretary of Labor. Further, the contract shall stipulate that the contractor shall pay wage rates not less than those stated in the specifications, regardless of any contractual relationships alleged to exist between the contractor and such laborers and mechanics. A further contract stipulation is that there may be withheld from the contractor so much of accrued payments as considered necessary by the contracting officer to pay to laborers and employees the difference between wage rates required by the contract and rates actually received.

On June 13, 1973, New Hope entered into a standard contract with a local contractor to construct a police garage and pistol range. The total estimated cost of the addition was $69,540. The city council, on June 25, 1973, appropriated $27,400 for construction costs from the 1972 Federal revenue sharing fund. The remaining costs were to be paid with funds from other sources.

New Hope did not have the provisions of the Davis-Bacon Act written into the construction contract. The city manager said he was aware of these provisions, but it was his understanding that the specific Federal revenue sharing funds used were received before the compliance regulations became effective.

The city manager stated that all contractors hired by New Hope were unionized. Therefore, even if the minimum wage provisions of the Davis-Bacon Act had been cited in the contract, the construction wages would not have changed. He said that Davis-Bacon requirements did not influence the decision on whether to use revenue sharing funds or other funds to finance construction projects.

No other construction projects had 25 percent or more of their total costs funded with revenue sharing.

PREVAILING WAGE PROVISION

The Revenue Sharing Act provides that certain recipient employees whose wages are paid in whole or in part out of the revenue sharing trust fund shall be paid at rates which are no lower than the prevailing rates for persons employed in similar public occupations by the recipient government. The individuals covered by this provision are those in any category where 25 percent or more of the wages of all employees in the category are paid from the trust fund.

Our review indicated that, where applicable, the city complied with the prevailing wage provision of the act.

CHAPTER 5

FINANCIAL STATUS

TREND OF FUND BALANCES

The following analysis of the 1969-73 yearend balances of all the city's funds, other than the debt redemption funds, reveals no significant increasing or decreasing trends in its overall surplus position.

Fund	12-31-69	12-31-70	12-31-71	12-31-72	12-31-73
General	$231,857	$210,213	$115,078	$ 49,279	$119,698
Federal revenue sharing	-	-	-	38,861	36,876
Water and sewer	308,552	522,252	595,301	601,124	420,608
Liquor operations	77,767	56,774	51,613	81,841	82,572
Other	-24,906	30,369	46,250	36,106	23,873
Total	$593,270	$819,608	$808,242	$807,211	$683,627

The city does not administer pension plans for its employees. The New Hope Volunteer Fire Department Firemen's Relief Association administers a pension plan for the city's volunteer firemen to which the city makes annual contributions. The unfunded liability at December 31, 1973, was $46,617, and is being amortized over a 20-year period. All the remaining city employees are included in the Public Employees Retirement Association, which is a pension plan administered by the State. The city and the employee both pay towards the cost of the plan. Under this plan, New Hope meets its obligations when they are due.

INDEBTEDNESS

Following is a summary of New Hope's outstanding debt for the period 1969-73, less the related resources that were provided for the retirement of this debt. The net indebtedness computed for each year shows a decreasing trend since 1969.

	12-31-69	12-31-70	12-31-71	12-31-72	12-31-73
Bonds payable	$9,275,000	$8,689,000	$8,084,000	$7,398,000	$7,241,000
Funds provided for retirement of bonds:					
Cash and investments	2,970,008	2,762,945	2,677,684	2,342,797	2,440,699
Special assessments receivable	3,165,496	3,446,887	3,009,850	2,649,849	2,480,221
State aids receivable		200,000	200,000	197,381	292,341
Other sources	844,700	50,500	50,300	65,900	82,930
Total	6,980,204	6,460,332	5,937,834	5,255,927	5,296,191
Net indebtedness	$2,294,796	$2,228,668	$2,146,166	$2,142,073	$1,944,809

Borrowing procedures

The city council must approve the issuance of all bonds, and the appropriate legal notice of pending issuance must be published in the local newspaper. In addition, general obligation bonds must be approved by a public referendum. Gross revenue bonds do not require a public referendum unless the assets being acquired exceed 1 percent of the city's assessed valuation. The city council conducts public hearings on proposed special assessment bond issues, after which it votes to approve or disapprove the project for which the bonds are to be issued.

The quality ratings assigned to the city's bonds by Moody's Investors Services, Inc., have improved steadily since 1962.

During the period 1971-74 voters rejected no planned bond issues and the five bond issues during this period were successfully sold. The interest rates achieved by New Hope were favorable in light of the prevailing market interest rates.

Year	Amount	Percent interest	Type	
1974	$1,030,000	6.6269	$ 910,000	general obligation ice arena bonds
			120,000	general obligation improvement bonds
1973	995,000	4.9149	545,000	improvement bonds
			101,000	State aid street bonds
			349,000	park bonds
1972	950,000	4.7723	950,000	improvement bonds
1971	1,555,000	5.0417	1,155,000	improvement bonds
1971	230,000	5.9900	230,000	gross revenue golf course bonds

Borrowing restrictions

New Hope may issue bonds or other obligations only for those purposes authorized by Minnesota statutes. Those purposes include the acquisition or betterment of public buildings, parks, playgrounds, sewers, streets, and sidewalks. Bonds may not be issued to pay operating expenses.

The State statutes limit the debt that New Hope can incur to 6-2/3 percent of the city's assessed valuation. This debt does not include debt incurred for improvements and payable wholly or partly from the proceeds of special assessments, debt payable wholly from the income from revenue-producing conveniences, or debt incurred for public waterworks systems.

New Hope's debt ceiling as of December 31, 1973, was $5,256,000. Its outstanding debt as of the same date subject to the ceiling was $1,494,000. The city's outstanding debt has been considerably less than the debt ceiling imposed by State statutes; consequently, this ceiling has not limited the city's financial planning.

TAXATION

Major taxes levied

The real property tax was the only major tax which the city and the school district levied on city residents. This tax was based on the appraised value of real property located within the city. Appraised value should represent the best estimate of market value and, accordingly, should be at 100 percent of the property's actual value.

On the basis of a sales ratio study made by Hennepin County, the median value of all appraisals for 1973 was 95 percent of the property's market value. Homestead property was assessed at 25 percent for the first $12,000 and at 40 percent for values over $12,000. Nonhomestead residential property was assessed at 40 percent and commercial-industrial property at 43 percent.

In 1973 the city and the school district levied taxes on real property of 8.65 mills and 44.73 mills, respectively. The mill rates for the county and other governmental units were 29.65, resulting in a total property tax of 83.03 mills, or $83.03 per $1,000 of assessed valuation.

Minnesota enacted legislation in 1971 to shift part of the burden of financing schools and local governments from the property tax to alternate State revenues. The declining level of mill rates levied by New Hope and the school district during the period 1969-73 indicates the success of this program.

	Property tax mill rate			
Year	New Hope	School district	Others	Total
1969	11.03	61.27	23.84	96.14
1970	11.96	71.67	27.23	110.86
1971	11.13	68.30	28.33	107.76
1972	10.21	49.07	30.27	89.55
1973	8.65	44.73	29.65	83.03

The 1973 property tax of 83.03 mills resulted in an average effective tax rate of 2.00 percent on homestead property and 3.26 percent on nonhomestead property. These effective rates are a measure of the property tax in relation to the fair market value of the same property. The city's and school district's share of these taxes was about 10 percent and 54 percent, respectively. The estimated total property taxes that residents paid the city and school district for the period 1969-73 were as follows:

	New Hope	School district
1969	$338,000	$1,644,000
1970	430,000	2,045,000
1971	510,000	2,752,000
1972	564,000	3,302,000
1973	548,000	2,730,000

Taxing limitations

The Omnibus Tax Bill of 1971, passed during a special session of the State legislature, imposed expenditure limitations on local governments. An objective of this bill was to reduce the burden on property taxes collected by local governments and increase the burden on income and sales taxes collected by the State. Under this legislation, New Hope was permitted, with certain exceptions, to increase its tax levy no more than 6 percent each year. The property taxes levied by New Hope for the years 1972, 1974, and 1975 were at or near the levy limitation imposed by the State. In 1973 taxes levied were somewhat below the limitation.

New Hope's general fund revenues have not kept pace with expenditures because (1) the levy limitation permits only a 6 percent increase in the per capita levy per year, (2) the State aid paid to New Hope is relatively stable from year to year, (3) revenues derived from various permits have declined each year as the city has become developed, and (4) large transfers of surplus funds generated in the operation of the water and sewer system and the municipal liquor operation can no longer be made.

Since the rate of inflation has been about 12 percent, the city has been unable to maintain present services and stay within the revenue generated. The proposed 1975 budget was originally based only on providing a 1974 level of services, as determined by the city manager. It was then necessary to cut $101,000 from these planned expenditures. This required cutting back recreation programs and eliminating a major share of capital equipment replacement items. According to the city manager, unless there is some relief from State or Federal sources, New Hope will continue to have such difficulties.

Revenue sharing funds for 1974 and 1975 were budgeted to provide current, normal, and routine services. The city manager stated that the only question has been what specific costs are to be covered by the revenue sharing funds. The revenue sharing program has been providing New Hope with just under $100,000 per year. If these funds were not available, services costing an equal amount might have to be cut. This would have a major impact on a general fund budget totaling $1.6 million.

New Hope has not levied several special taxes permitted under State law. However, the levy of these taxes is either not feasible or would produce minimal amounts of revenue and, consequently, does not represent a significant future source of funds.

Family tax burden

We calculated the 1973 tax burden of city residents by assuming such things as level of income, size of family, and value of real property holdings for three hypothetical families. Each of the three families depicted below had four family members, had income solely from wages earned by the head of the household, and owned a home having a market value equal to 2-1/2 times that of the annual income. The annual incomes of families A, B, and C totaled $7,500, $12,500, and $17,500, respectively. Families A and B each owned one automobile and used 1,000 gallons of gasoline. Family C owned two automobiles and used 1,500 gallons of gasoline.

Tax		Family A		Family B		Family C
City:						
Real property		$ 34		$ 65		$ 104
County:						
Real property		91		173		284
School district:						
Real property		177		336		537
Other special district:						
Real property		20		35		56
State:						
Income	$324		$775		$1,297	
Sales	68		100		130	
Gasoline	70		70		105	
Personal property	28		44		53	
Total		490		989		1,585
Total		$812		$1,598		$2,566
Total as percentage of income		10.8		12.8		14.7

The State also levies several other special taxes which are not included in the above amounts.

Liquor	$0.27 to $4.39 per gallon
Beer (3.2%)	$2.00 per barrel
Beer (strong)	$4.00 per barrel
Cigarettes	$.18 per pack

CHAPTER 6

OTHER FEDERAL AID

FEDERAL AID RECEIVED

During the period 1971-74, Federal aid to New Hope was not a major source of funds for New Hope's overall general operations. In 1973 the city received a direct grant of $88,538 from the Department of Housing and Urban Development for the acquisition of park land. The city also received indirect grants of Federal aid from the Law Enforcement Assistance Administration and the Department of Transportation, for improving its crime prevention and control activities and for detecting and arresting intoxicated drivers, respectively. Federal aid received by New Hope during the period 1971-74 was as follows:

	a/1974	1973	1972	1971
Direct Federal aid:				
Federal Open Space Land Acquisition Grant	$ -	$ 88,538	$ -	$ -
Indirect Federal aid:				
Governor's Commission on Crime Prevention and Control	15,600	5,098	8,570	8,555
Hennepin County Alcohol Safety Action Project	12,500	10,036	7,226	-
Total	28,100	15,135	15,796	8,555
Total	$28,100	$103,672	$15,796	$8,555

a/ Estimated.

REDUCTIONS IN FEDERAL AID AND IMPACT ON NEW HOPE

The Federal Open Space Land Acquisition Grant received in 1973 was a one-time grant to help the city acquire park land. Other Federal aid received by New Hope increased modestly during the 4-year period.

CHAPTER 7

SCOPE OF REVIEW

Our review at New Hope focused primarily on discussions with city officials and review of city budget documents and accounting records. We also contacted representatives of the school district, county government, local public interest groups, and several civil rights organizations. And we contacted the certified public accountant who performed the annual audit of the city during the period 1969-73. Our work was limited to gathering selected data relating to areas identified by the Subcommittee Chairman.

We obtained city officials' views on a variety of matters, including the current and anticipated fiscal condition of New Hope and the effects of revenue sharing on such things as the city government's tax structure, level of services, and public participation in governmental activities.

Officials of New Hope reviewed our case study, and we considered their comments in finalizing it.

APPENDIX I

CITY GOVERNMENT WORK FORCE

NEW HOPE, MINNESOTA

JUNE 30, 1974

Job category	Male Number	Male Percent	Female Number	Female Percent	Total
All departments:					
Officials/administrators	7	9.5	1	1.4	8
Professionals	3	4.1	1	1.4	4
Technicians	12	16.2	-	-	12
Protective services	13	17.4	1	1.4	14
Office/clerical	2	2.7	13	17.4	15
Skilled craft	2	2.7	-	-	2
Service/maintenance	18	24.4	1	1.4	19
Total	57	77.0	17	23.0	74
Police department:					
Officials/administrators	1	3.8	-	-	1
Professionals	2	7.7	-	-	2
Technicians	5	19.3	-	-	5
Protective services	13	50.0	1	3.8	14
Office/clerical	-	-	4	15.4	4
Total	21	80.8	5	19.2	26
Financial administration and general control:					
Officials/administrators	2	16.7	1	8.3	3
Technicians	2	16.7	-	-	2
Office/clerical	-	-	7	58.3	7
Total	4	33.4	8	66.6	12
Parks and recreation:					
Officials/administrators	1	8.3	-	-	1
Professionals	1	8.3	1	8.3	2
Technicians	2	16.7	-	-	2
Office/clerical	-	-	1	8.4	1
Service/maintenance	6	50.0	-	-	6
Total	10	83.3	2	16.7	12
Liquor stores:					
Officials/administrators	1	14.3	-	-	1
Office/clerical	2	28.6	-	-	2
Service/maintenance	3	42.8	1	14.3	4
Total	6	85.7	1	14.3	7
Street department:					
Skilled craft	2	33.3	-	-	2
Service/maintenance	4	66.7	-	-	4
Total	6	100.0	-	-	6
Other departments:					
Officials/administrators	2	18.2	-	-	2
Technicians	3	27.3	-	-	3
Office/clerical	-	-	1	9.1	1
Service/maintenance	5	45.4	-	-	5
Total	10	90.9	1	9.1	11

GAO note: 1. The jobs in this appendix were categorized by the city using Federal Equal Employment Opportunity Commission definitions.

2. All New Hope employees are white.

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