

BUDGET MESSAGE OF LUTHER W. YOUNGDAHL

DELIVERED TO A JOINT SESSION OF THE 56th SESSION OF THE MINNESOTA LEGISLATURE
ON JANUARY 19, 1949

Mr. Speaker, Mr. President, Members of the 56th Session of the Minnesota
Legislature:

Following the requirements of law, I am submitting to you today the proposed budget for the biennium beginning July 1st, 1949, and ending June 30th, 1951. You have been furnished with a printed copy of the detailed budget, and I will discuss with you now only the highlights of the budget proposed. As you examine the budget, in committee sessions and in discussion on the floor, opportunity will be afforded you to weigh all factors affecting the budget and determine for yourself the needs of the various departments.

Once again, as I have examined reports of the state departments and studied their needs, I have been distressed to see how much less the dollar buys today than it did a few years ago. All who have families know how their household budgets have gone up as prices have risen in the last few years. Our state government, in buying food, materials and other necessities, has been up against the same difficulties with which you and other citizens have been confronted in making purchases for your own homes and your own businesses.

HOW PRICES OF MATERIALS HAVE RISEN

In my budget message of two years ago, I called your attention to the effect of inflation so apparent in all the requests and recommendations.

We tried to anticipate the extent to which prices would rise during the current biennium. Little did we realize, however, the tremendous increases that would occur over the then prevailing high prices.

For example, we estimated that butter would cost approximately 75 cents a pound. We bought many pounds of butter at 90 cents and \$1 a pound. We estimated

the cost of coal at approximately \$3.75 a ton. Today coal is costing us \$13 a ton, an increase of 48.5%.

We were buying No. 2 grade fuel oil for less than 7 cents a gallon back in 1947 when I was giving my first budget message. Today that oil is 14 $\frac{1}{2}$ cents a gallon, or 107% higher. Gasoline which we bought at that time was costing us approximately 15 cents a gallon. It now costs us a fraction over 20 cents per gallon, at tank wagon prices, or 33% more.

Practically all items of food and clothing have gone up. So have the prices of lumber, fixtures, sinks, and other articles used in building. Soil pipe, for instance, has jumped from 70 cents to \$1.35 a foot.

In quantities in which the state must buy, the increases have been tremendous. On coal alone, it is costing us \$318,000 a year more to heat state buildings than it cost two years ago. The increase in fuel oil cost for one state institution amounts to \$15,000 a year. The amount of money appropriated in 1945 to build two cottages for senile patients at each of four mental institutions now is sufficient to build only one unit.

VALUE OF TAX DOLLARS REDUCED

The increases resulting from inflation have reduced materially the value of the dollars which our governmental agencies spend. Our tax commissioner, Howard Spaeth, has just issued a most interesting report tracing the effect of inflation on taxes. This report points out that federal taxes collected in Minnesota increased 200% between 1940 and 1948; state taxes, 100%; and local taxes, 50%. If the tax increases are adjusted to take cognizance of the decreased purchasing power of the dollar, the report continues, we find that the value of the tax dollars collected by local governments in this state in 1948 actually was less than in 1940, and that the value of the state collected dollars remained about the same, while the value of the total federal tax dollars collected went up five times.

We are confronted then with the difficult problem of preparing a budget that will meet impelling human needs in a time when prices have risen to new heights, and it is hard to see what the future holds in economic trends. It would behoove all of us to study carefully the many problems involved, weighing the burdens that will fall upon the people because of our actions and keeping before us as well the rich but intangible gains to be won by proper attention to the development of our human resources.

Before we take up the details of the budget, it may be helpful if we take a brief over-all survey of the problem that confronts us and endeavor to focus attention on the main factors which we must contend with in determining the size of the budget.

I. SERVICES FINANCED THROUGH GENERAL REVENUE FUND

Suppose, as our first step, that we examine the needs which must be met through our general revenue fund. It is from this fund, as you know, that most of the state departments draw their support, and it is from it that we must obtain the funds to finance the expansion and improvement of many of the services I have outlined to you. All recognize, I think, that maintenance funds of the state departments must be increased if we are to (1) meet the tremendous increases in the cost of materials and supplies, and (2) make the advance in the improvement of our mental hospitals and in other programs so essential in the attainment of our human goals. We have explored carefully all aspects of the problem and are submitting to you a budget, which, though higher than in other years, constitutes about the minimum appropriations that ought to be made for these important services.

<p>The appropriations proposed from the general revenue fund for the next biennium are \$139,692,115, compared to \$98,397,733 estimated for the current biennium. You will see that this represents an increase in appropriations of \$41,294,381, or 42%.</p>

SERVICES THAT NEED INCREASES

You naturally want to know what factors contribute to this increase. A substantial portion of the increase, of course, has come from the inflated costs built up by continual price rises, and this is to be found reflected, in greater or less degree, in all departments. Examining the different types of service, we find that the largest increases are for expansion and improvement of institutions for the mentally ill, necessary enlargement of budgets for the University and the Teachers' Colleges, and for removal of the maximum limitation on old age assistance and aid to dependent children and raising of standards generally in the public assistance programs. Here, in brief, are the major items of increase:

For	CURRENT BIENNIUM	1950-1951 BIENNIUM	INCREASE IN DOLLARS
Mental Institutions	\$15,273,000	\$31,086,000	\$15,813,000
Penal, Corrective and other Institutions	7,395,460	10,633,111	3,237,651
Social Welfare	26,402,290	33,695,256	7,292,966
University	19,856,269	29,117,038	9,260,769
Teachers' Colleges	2,628,529	5,526,305	2,897,776
Veterans' Affairs	1,503,560	1,890,064	386,504
Soil Conservation	30,313	200,000	169,687
Youth Conservation	120,223	372,300	252,077
Boys' Camp		298,000	298,000
Business Research and Development	282,239	394,000	111,761
All Other Activities	24,905,847	26,480,040	1,574,193
TOTAL INCREASE			<u>\$41,294,381</u>

BIGGEST INCREASE FOR MENTAL HOSPITALS

The biggest increase in the list, it will be noted, is for improvement of the services of our hospitals for the mentally ill. The appropriations recommended

for this work represent an increase of more than 100% over the funds provided for the current biennium.

A large part of the increased cost proposed is for enlargements of personnel and the raising of the quality of help provided for the institutions. As pointed out in my inaugural address, our mental hospitals have only about half the help needed to give the patients proper attention.

MEASURES TO IMPROVE PERSONNEL.

Quality of the attendants and other employees dealing with the mentally ill may be an important factor in determining how quickly the patient recovers, and any improvement we can make in this line will pay rich dividends. I have included enough funds in the budget for the mental hospitals to cover the expected cost-of-living increase in salaries, placing the employees on the 40-hour week and the added funds that will be required when the civil service department makes the reclassification of employees needed to place this important service on a higher level. I have also included enough in the budget to permit expansion of the number of employees to approximately twice the number now used.

Extension of the 40-hour week to employees in the mental hospitals is required not only out of a sense of fairness but to improve the services for patients in the hospitals. Virtually all state employees already are working on a 40-hour week, except workers in the state institutions, and I feel the rule should be made uniform. Reclassification of the employees in the hospitals likewise is important. We have instituted and will expand training programs which will give employees in the hospitals opportunity to improve their usefulness, and we should be able to compensate them somewhat more nearly in proportion to their increased fitness. I have asked the Civil Service Director for recommendations on salaries for institutional employees commensurate with the expanded duties proposed, and the suggested schedules will be presented in detail before the proper committees considering such matters in your two bodies.

FUNDS TO RAISE FOOD STANDARDS

A big item of increased cost in the proposed budget for the mental hospitals is in the field of food and other current expenses. Cost of food has increased materially, as every family knows, and in the quantity in which the state must buy for these institutions, this is a major problem. I am also including money in the food budget that will permit the hospitals to end the present double standard with one standard of food for employees and another for the patients, and allow an improved, single standard of food which will assure the patients the type of food best adapted to their needs. From the funds provided, the hospitals will be able to improve facilities for preparation and handling of food, where this is needed, so that patients can get their food while it is still warm. I am including funds for repairs and improvements and for equipment for therapy and medical purposes which will improve materially the facilities at the hospitals and allow introduction generally of the new programs contemplated.

The increased funds which I propose for the mental hospitals for the coming two years are made up of the following items:

Salaries, including 40-hour week, cost-of-living increase and increase in personnel	\$ 7,400,000
Increased cost from Civil Service Reclassification	1,200,000
Current expense, including food allowances to give patients adequate diet	5,350,000
Repairs and replacements	275,000
Special improvements and equipment, including needed facilities for therapy and medical purposes	615,000
Psychiatric training program to increase usefulness of attendants and other employees	330,000
Out-patient clinics	100,000
Tuberculosis Hospital at Anoka	210,000
Mental Health Research	100,000
TOTAL FOR THE BIENNIUM	<u>\$15,580,000</u>

Cost of maintenance for the enlarged mental hospital program thus represents an increase cost of \$15,580,000, you see, or an average of only \$7,790,000 a year.

PROPOSALS ON WELFARE GRANTS

I suggested to you in my inaugural address the need for removal of the maximum limitations on allowances for old age assistance and aid to dependent children, as well as the need for providing funds that will permit the director of social welfare to raise standards for the public assistance programs generally. Money has been included in the budget, totaling \$7,292,966 for the biennium, to cover such costs.

I think removal of the maximum for old age assistance and aid to dependent children is highly desirable. It will permit a determination of the allowances on the basis of need in each case, whereas the present plan imposes an arbitrary, inflexible limit which often penalizes the very persons most needing help. The state is amply protected because (1) the Legislature makes the appropriations from which the state's share is paid, and (2) the director of the division of social welfare sets the standards upon which county welfare boards base their grants and the boards can deviate only 10% from the standards set.

INCREASE TO MEET GROWING DEMANDS ON UNIVERSITY

Needs of the University and the Teachers' Colleges have been stressed widely.

Our University, recognized everywhere as one of the greatest in America, is literally besieged with eager boys and girls seeking the opportunities for education it offers. Enrollment in the schools and colleges have climbed to unprecedented heights, and it has been impossible to provide sufficient instructors and impossible in many cases to pay salaries that would assure their retention by the University. Able and devoted members of our University faculty continually are being lost because industry presents more attractive offers, or greater opportunities beckon from other schools.

The University is in many ways the great hope of Minnesota, and we should be able to retain in its services the ablest and most capable of all our men and women. Without going into details at this time, I want to report to you that I have included in the budget for the University for the coming biennium approximately \$9,250,000, or 47%, more from the General Revenue Fund than was appropriated for that purpose two years ago. You will have opportunity to examine in detail the factors contributing to this increase when the budget comes up in your appropriation committees and in discussion on the floor, and I feel sure, when you have all the facts, that you will agree with me that we can do no less than make this added provision for this great institution.

ENLARGED BUDGETS FOR TEACHERS' COLLEGES

Our Teachers' Colleges have been facing much the same situation with which the University has been confronted, oppressed, as they are, by rising costs and seeking with inadequate facilities to do an unprecedented job. These Teachers' Colleges have a very special problem, rapidly becoming one of the gravest in America, in that it is their major responsibility to train the teachers needed to man our schools. Obtaining sufficient trained teachers to supply our schools is becoming increasingly difficult, and I think it is clear that in one way or another we must prepare for the exercising of a bigger role by our Teachers' Colleges. I have included substantially increased funds in the budget for the Teachers' Colleges, as you will note, and I feel sure you will agree with me that more funds are needed for this important function.

VITAL SERVICES NEEDING EXPANSION

So it is with the other services for which increases are being requested in revenue fund appropriations. If you will check over the proposed increases I have listed for you, I think you will agree all are in vital fields of service we cannot afford to ignore. There is an increase of \$100,000 a year for soil conservation.

surely it is important that we encourage conservation of this greatest of our natural resources. It is likewise important that we expand the Youth Conservation work launched two years ago. The Commission has been doing a fine job, getting this important new program under way, and we must provide more funds to increase its usefulness. An item in its enlarged budget which should meet with general approval is that providing for establishment of a boys' camp in St. Croix Park. The \$111,000 increase requested for business research easily may benefit all Minnesota, as will in other ways increased appropriations requested for health work and for veterans affairs. Provision has been made for an enlarged and broadened conservation program, with more funds for protection and development of our forest areas, improvement of our parks and preservation of our other natural resources which mean so much to Minnesota and its people.

ADDITIONAL REVENUE NEEDED

All the proposed increases in appropriations we have been talking about, you will recall, will take a total of \$41,294,381 in revenue fund appropriations for the coming two years. Fortunately, we do not have to raise that much money in taxes. We will have a balance of \$19,500,000 in the General Revenue Fund at the end of the current biennium on June 30th. With this balance and the estimated receipts from various sources that will be available during the two years, we will be able to meet all charges against the General Revenue Fund, including the increases proposed, and balance the budget by raising \$25,480,000 in additional revenue during the biennium, or an average of \$12,740,000 yearly.

Where are we going to get this money? A number of sources have been suggested. I think it is up to all of us to study carefully all the possibilities for additional revenue and endeavor to work out a program that will be fair and place as small a burden as possible on the great mass of the people.

I personally am still opposed to a general sales tax. I do not feel that it is the fairest type of tax as it tends to place too much of a burden on the man of small income. I feel that the program of enlarged services can and should be financed without a sales tax.

PROPOSALS FOR RAISING ADDITIONAL REVENUE

Considering all aspects of the problem, I would suggest that you endeavor to raise this additional money from an increase of 2 cents a package in the cigarette tax, an increase of \$1 a gallon in the tax on hard liquor, an increase in the tax on beer to \$3 per barrel, and a tax on tobacco. This would produce, according to the best estimates, a yearly yield as follows:

2-cent additional cigarette tax	\$5,700,000
An increase in tax on beer to \$3 per barrel	3,232,000
\$1 a gallon additional tax on liquor	3,700,000
Tax on tobacco	400,000
TOTAL PER YEAR	<hr/> \$13,032,000

It will be seen that the increased taxes from these four items will be sufficient to balance the budget and provide the expanded services needed.

II. SERVICES FINANCED FROM DEDICATED FUNDS

We pass now from the activities financed from the General Revenue Fund to another service financed from one of the dedicated funds which is of great interest to most of you. I refer to the aid which the state pays out to help support our local schools throughout the state. Our school aid has been paid entirely from proceeds of the state income tax in recent years, but members of the Legislature have determined the appropriations to be made for the aids just as they have determined the appropriation to be made for other purposes from the General Revenue Fund. Appreciating the difficulties communities everywhere were having in raising sufficient funds to support their schools, the 1947 Legislature

increased appropriations for state school aids some \$22,000,000 for the current biennium as compared with the previous two years.

NEED FOR INCREASING SCHOOL AID

Financial difficulties of the schools have increased steadily the last two years as prices have risen and enrollments have increased, and you will need to re-examine the school aid problem. I feel that state school aids should be increased substantially to help our local schools meet this rising burden, but, realizing that the extent of the increase can only be determined by a thorough examination and discussion of the problem in your two bodies, I have not attempted to say what the amount should be. I can report to you that the income tax school fund will have a balance of approximately \$52,000,000 on hand at the end of the current biennium on June 30th. With this balance and the receipts that may be expected in the coming two years, our estimates indicate that we can finance all state school aid payments provided for on the basis of present laws and have a balance of \$50,580,000 left over at the end of the next biennium on June 30, 1951. This would seem to indicate that you can make a material increase in state school aids without the necessity of imposing additional taxes.

Another of the dedicated accounts is the game and fish account, financed from license fees. The proposed expansion program, fully discussed in my inaugural message, will not, of course, affect the General Revenue Fund.

I will not take time in this statement to discuss in detail expenditures from the various other dedicated funds. Many of the services financed from these funds depend on standing authorizations for their revenue, as you know, and you do not directly make appropriations for them when you gather in your biennial session. The complete information on all such items is available in the budget document, however, and all who want data on a particular service may find it there.

DEDICATED FUNDS INCREASE

I should like to report in passing that the budget proposed for services financed from dedicated funds in the coming two years totals \$339,455,864, compared to expenditure of \$325,052,650 in the current biennium.

III - BUILDING PROGRAMS

I would like to discuss the proposed building program with you. You will remember that the 1947 Legislature designated the sites for improvements from a fund of \$5,000,000 originally set aside for the state hospitals in 1945. You will find the proposed improvements on page 18 in the budget book if you wish to refresh your memory. Included in the list were construction of two cottages for senile patients at each of four mental hospitals - Rochester, Fergus Falls, Moose Lake and St. Peter; erection of a receiving unit and remodeling of another building for a tuberculosis hospital at Anoka; construction of a new unit at the Hastings Hospital and a number of other improvements. You will find them all listed on page 18 under the title, "Deferred Building Account".

INCREASE IN COSTS REQUIRES ADDITIONAL FUNDS

We found soon that the sums appropriated were not sufficient so greatly have prices risen. Funds appropriated for two senile units were found barely adequate for one. When we discovered this on securing the first bids on the senile units, I called a meeting of the House and Senate members of the committees on institutions.

Members of the committees assured us that they would support early consideration of a deficiency appropriation so as to eliminate as much delay as possible. Accordingly, we have prepared the plans on all the buildings authorized and bids are to be received by March 1st on all remaining units of the Deferred Building Program. I know that when these bids are received you will promptly provide the additional appropriations needed to complete the program. I might add that construction already is under way on one unit for senile patients at the St. Peter, Rochester, Fergus Falls and Moose Lake Hospitals, and another cottage is being remodeled for the same purpose at the Willmar Hospital.

To complete the improvements authorized in this program, you will note from the schedule in the budget book, will require an additional appropriation of \$5,001,013.

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BUILDINGS FOR WHICH APPROPRIATIONS PROVED INADEQUATE

We have had somewhat similar experience with the other building programs authorized by the 1947 Legislature. You will recall that appropriations were made for improvements at the mental hospitals, in addition to those already listed under the "Deferred Building Program," and at the State Teachers' Colleges, totaling in all \$8,439,704. You will find them listed on page 19 in the budget book under "State Building Program." Among the items in the list was an appropriation of \$5,000,000 to launch the reconstruction program at the Rochester State Hospital and appropriations for a service building at the St. Peter Hospital, an addition to a ward building at the Fergus Falls Hospital, and other improvements at the mental hospitals. Included also were the appropriations for a dormitory for men at the Moorhead Teachers' College, the auditorium and heating plant at the St. Cloud Teachers' College, the laboratory building at the Bemidji State Teachers' College and other improvements at the Teachers' Colleges as well as an item for rebuilding the Anoka Armory.

All the appropriations for the major improvements in Mental Hospitals and at the Teachers' Colleges, listed in the 1947 State Building Program, will need to be supplemented by substantial sums to make possible completion of this construction. Careful estimates indicate additional appropriations of \$12,808,478 will be required. Biggest item in this increase, you will note, will be the \$10,000,000 which it is estimated will be required to complete the reconstruction of the Rochester State Hospital.

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PROBLEM ON SEWAGE PLANTS

You will remember that the Legislature also made available to the commissioner of administration in 1947 a total sum of \$731,000 for sewage plants at state institutions. The request for these monies was on the basis that the state and the municipalities would participate jointly in the construction of the plants at all points where state institutions are located, except at Hastings and Moose Lake, where the sewage plants would be state plants only.

I can report to you that at the present time contracts have been awarded for the sewage plants at the Hastings and Moose Lake Hospitals, and construction is under way. To date no definite agreements have been reached between the municipalities and the state for the plants necessary at the other points where state institutions are located.

The budget book shows the estimates of cost for the sewage plants at the various locations on the basis of a joint plant with the municipality and the state and on the basis of a state plant alone. You will note that the additional funds needed, on the basis of joint plants, will be \$380,000, whereas the extra cost for state plants alone will run up to \$1,228,000. I hope you will consider this problem from all angles and determine whether you want to insist on cooperative action by the municipalities or build the plants without local assistance. Construction of the sewage plants is essential, and there should be no further delay. Pending your decision, we have included \$800,000 additional in the budget for sewage plants.

TO COMPLETE ALL BUILDINGS THAT HAVE BEEN AUTHORIZED

Summarizing, we find that to complete the buildings and improvements previously authorized by the Legislature, additional appropriations will be required as follows:

For improvements at mental hospitals authorized in Deferred Building Program	\$ 5,001,013
For improvements at mental hospitals and other state institutions and Teachers' Colleges authorized in State Building Program	12,308,478
For completion of sewage plants at state institutions	800,000
For service building at Minnesota State Prison	45,000
TOTAL TO COMPLETE IMPROVEMENTS	<u>\$17,354,491</u>

NEW BUILDING PROGRAM NEEDED

Our needs for buildings and other capital improvements do not end with completion of the improvements previously authorized. Expanding services have prompted requests from the state institutions, the University of Minnesota, the Teachers' Colleges and other agencies of the state for capital improvements totaling more than \$40,000,000. While recognizing the merit of many of these requests, I feel that in view of the tremendous costs, the number of building projects authorized at the present session should be held down to the minimum. Pursuing this course, I suggest a new building program of capital improvements totaling \$19,630,300 for your consideration. Here is the list:

For a new institution for the mentally deficient	\$ 5,000,000
For housing for staff and employees at state institutions	1,607,300
For other necessary building units at state institutions	2,771,000
For dormitories and land at State Teachers' Colleges	1,600,000
For other buildings at State Teachers' Colleges	1,652,000
For University buildings	5,000,000
For new coliseum at State Fair	400,000
For State Capitol Power Plant	1,600,000
TOTAL NEW CONSTRUCTION	<hr/> \$19,630,300

You will note that one of the major items in the program is the proposed construction now of a new institution for the mentally deficient. You will remember that the Legislature previously has recognized the need for a new institution of this type by the appointment of a legislative interim commission to study the question of a suitable location. The pressing demands for additional space to care for the mentally deficient would seem to indicate that we should move forward at this time on construction of the proposed institution.

I feel that the buildings recommended for the University and the Teachers' Colleges likewise are of immediate necessity. We have, in fact, recommended only a minimum building program. I feel that the priorities as we have listed them are essential. You may feel that some other buildings should have prior claim. I am sure that, after all the needs have been presented, we can easily reach agreement on the items that should be included. We simply are offering our suggestions for study.

STATE OFFICE BUILDING

I want to point out that the improvements listed do not include authorization for a new state office building, which, I think, is essential if we are to have proper space for the various departments and agencies of the state government. Our present facilities are badly overcrowded, and it is necessary to rent much space in private buildings to house all our departments. Employees in many of the departments now are working under terrific handicaps. I would suggest that you consider the need of providing for additional rental space, and along with it the question of whether the state should not at an early date provide for a new state office building to shelter the departments now scattered in numerous buildings.

YOUTH DIAGNOSTIC CENTER

I wish to call your attention, too, to the necessity of providing buildings for a youth reception or diagnostic center for the Youth Conservation Commission near the Twin Cities, where we can have the benefit of professional assistance at the University of Minnesota. As I pointed out in my inaugural message, the buildings at the Shakopee Women's Reformatory would be ideal for this purpose and would be sufficient with the addition of one small building. Provision would have to be made for the women inmates at Shakopee if this plan is adopted. If you feel that the Shakopee buildings cannot be utilized for the center, it will be necessary to provide for buildings for the diagnostic center elsewhere.

I should like to suggest also in view of the increased costs that have been encountered in the building of the Mayo Memorial at the University and the necessity of raising additional funds for this important enterprise, that you consider whether the state should make a further contribution to this project.

SUMMARY OF THE BUILDINGS PROPOSED

Summarizing again, we find that the funds needed for buildings and improvements listed in the budget total:

For completion of previously authorized construction	\$17,354,491
For new building program	19,630,300
TOTAL NEEDED FOR BUILDINGS	\$36,984,791

To this total should be added the cost of a building or buildings for the Youth Commission's diagnostic center and the funds for a state office building if you determine that such a building should be erected during the next biennium.

HOW CONSTRUCTION WOULD BE FINANCED

How would this building program be financed? I believe, in view of the fact that the improvements recommended are part of a long-range program serving the people over a long period of years and interest rates now are low, that we should spread the cost over a 15-year span through the issuances of bonds. The mill levy that would be needed on property of the state in the next two years, if the cost is spread over 15 years, and the total mill levies, including this new charge, are shown in the following comparison:

	1949 LEVY	1950 LEVY
Mill levy on property that will be necessary under Legislative authorizations already made	6.18	6.09
Mill levy required by \$36,984,791 building program	1.97	2.22
TOTAL PROPERTY LEVY	8.15	8.31

To finance the building program in succeeding years will require a levy of not more than 2.2 mills annually, on the basis of present valuations, during the remainder of the 15 years.

DEBT CUT \$80,000,000

Minnesota has reduced its state debt tremendously in recent years, and issuance of bonds for the building program should not constitute an undue burden. In the past two years alone, \$9,896,864 has been cut off the state debt, and the total debt outstanding now is only \$54,041,079, which is a far cry from the peak back in 1937, when the state had a debt of \$134,158,899.

PROPOSALS FOR FINANCING BONUS

Another problem that will occupy your attention is the question of payment of a bonus to veterans of World War II. After you determine what type of bonus you should authorize, a method of raising the money outside the usual revenue which we raise for our normal, recurring expenditures should be provided. The bonus is an unusual and extraordinary expense, and the bonus measure should contain provisions for raising revenue for it, spread as widely as possible over all groups of people.

I would suggest that revenues be raised from the following sources to pay the cost of the bonus.

1. An increase in the occupational tax on iron mining and the tax on royalties.
2. An increased tax on gross earnings of telephone companies.
3. A special tax on the production of electricity by private electric companies.
4. Submission of a constitutional amendment authorizing an increase in the gross earnings tax on railroads to be earmarked with other revenue to help pay the cost of the bonus.
5. Imposition of a tax on certain luxury items.

You may determine upon additional sources of revenue than those indicated, but I sincerely hope that you will adopt items that spread the cost widely and that you will avoid a general sales tax. I think that the vote for the constitutional amendment in the recent election is an indication that the people want to see a bonus paid and I feel that most citizens will be willing to meet the cost if we can develop a financing program that spreads the cost fairly, with all groups helping to pay the bill in proportion to their ability to pay.

The money raised from the sources you determine upon should be set aside in a special fund to pay the bonus bonds when due.

RISING TREND IN GRANTS TO LOCAL GOVERNMENTS

I want to discuss briefly another problem that will come before you. I have in mind the search for additional revenue for local units of government and the trends that have developed in state finances as a consequence. Pressed for additional funds and reluctant to add to the heavy burden on property, officials of local units of government and citizens generally have strived from year to year to get ever bigger contributions from the state for aids to local governments. More and more the cost of local government is being shifted to the state. The amount of aids paid out by the state to local units of government, including aids from federal and state funds, has increased until this year it will reach \$87,971,659. Next year, it is estimated, the total will jump to \$97,389,197, and the following year it will reach the unprecedented total of \$101,633,522. You can see from the tables in the budget book how tremendously the distribution of aids to local governments has grown.

I feel that you must give earnest consideration to the question of how far we can proceed along these lines. As I pointed out in my inaugural message, many local governments are in desperate financial plight and will continue to need help until by study we devise a better plan of operation.

DIFFICULTIES IN ADMINISTRATION

Utilizing the state government to collect the revenues we need for local services has many disadvantages, even where it is possible for the state to take over the local burdens. For one thing, huge additional sums must be collected from the people in the local communities, with all the difficulties involved in spreading the burden equitably and with all the inequities that develop in writing formulas for redistributing the money. As more and more of the costs of local services are shifted to the state, control gets farther and farther away from the people. When local officials spend the money and another and different group of officials in the state or national government raises the funds, control of expenditures becomes increasingly difficult, and local officials find it increasingly hard to exercise any effective control over the local services.

STUDY OF STATE AND LOCAL FINANCES NEEDED

I recognize that there are fields of taxation in which the state is in better position than the local governments to raise revenue. I recognize, too, that in many respects, assistance of the state is needed to equalize opportunities among communities. But I wonder if the time hasn't come when we should attempt to examine this whole problem of state and local fiscal policies and see if services aren't being financed by the state which can better be financed locally.

What this leads to is the necessity of a widespread study to determine whether we can't develop a program embracing a number of special taxes which we can authorize the local governments to levy to supplement the income from property taxes. If a satisfactory program of this kind can be developed, the pressure for more and more aid from the state government can be arrested, and, I think, only in this way can the trend be checked. I would like to repeat the suggestion I made previously that a commission be created to make such a study.

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WASH. D.C.
REFERENCE

In closing this message on the budget I want to re-emphasize that the increased appropriations requested that affect the general revenue fund are necessary:

(1) because of inflated costs, over which we have no control; (2) to provide expanded services: (a) for the care of the mentally ill; (b) for our University; (c) for our teachers colleges; (d) for the aged and for dependent and neglected children; (e) for better health and youth programs and for other important activities.

There are no frills or unnecessary governmental services reflected in these increases. They pertain to vital services which will strengthen our society; they pertain to the achievement of human goals which will give greater dignity to the individual personality.

As we request these additional appropriations we recognize our continuing responsibility to the people to economize wherever possible. We pledge our best efforts to operate our state government in a businesslike manner, to get the most out of the tax dollar, and to render adequate services to all of our people as economically as possible.

I want to thank the members of the Senate Finance Committee and the House Appropriation Committee and the members of the two bodies for the conscientious study they have given to our appropriation requests in the past and the careful and earnest consideration I feel they will give to the state's financial problems in this session. Together we shall work out these problems and build a better state.