



Minnesota

PREPARING FOR THE 1990'S

GOVERNOR RUDY PERPICH

HJ
11
EXECUTIVE BUDGET SUMMARY

.H6425b
1988

FEBRUARY 11, 1988



RUDY PERPICH
GOVERNOR

STATE OF MINNESOTA

OFFICE OF THE GOVERNOR

ST. PAUL 55155

BUDGET MESSAGE

GOVERNOR RUDY PERPICH

FEBRUARY 11, 1988

TO MEMBERS OF THE 1988 MINNESOTA LEGISLATURE:

Five years ago, I presented a budget and legislative program necessary to restoring the economic health of our State.

Five years ago, we needed to form partnerships, create jobs and pay our debts. We also needed a long range plan to visualize where we were headed five, ten and twenty years down the road.

We are now five years down that road. And we have a long-range plan -- a blueprint for prosperity -- that will carry us into the 21st Century on the strength of brainpower.

We are moving forward with this blueprint on four main fronts.

First, we are improving our system of educational excellence to help our children become the most creative and talented workforce in the world.

To improve what is already the lowest drop-out rate in the nation, I am proposing a series of reforms to achieve our goal of "96 by 96".

Funds for early childhood education, extended day programs, Head Start and childcare at our Technical Institutes are of the highest priority. We have focused the budget on children at-risk, so that our young people can be better prepared for future challenges.

Initiatives to encourage community service work for students and a voluntary Governor's Scholarship Test are also important initiatives.

I am also proposing that state aid be extended to any adult resident who wishes to come back and finish high school.

In addition, we need to establish the Minnesota Employment and Training Fund which can provide for the retraining needs of Minnesotans who have lost their jobs due to plant closings or severe economic downturns.

Second, we are expanding our applied research and development programs to transform the fresh ideas from our classrooms into high-technology jobs for our economy.

The Greater Minnesota Corporation is providing leadership for the long-term economic recovery of rural Minnesota. The primary objective of the GMC is to create new jobs. We must build a significant trust fund for the GMC which can be protected from politics and shifts in the economy. The future of our farming, mining, wood products, and small manufacturing industries depend on the strength of our commitment and support.

Third, we are reforming our tax system and increasing the efficiency of our government services. We are balancing our taxing and spending so that our businesses are profitable and our people have opportunities to fulfill their potential.

Last year, we enacted a major overhaul of our tax system. Today, Minnesotans benefit from a system which is competitive, simple, stable, accountable and enforceable.

These same standards have shaped our property tax reform proposal for 1988.

On the other side of the coin, we have increased the efficiency and quality of our government services through the STEP program. The award winning STEP program has come up with over 50 creative ways for government to save money and increase efficiency.

Future property tax reform should involve further investigation of our system of governance. The Advisory Council on State/Local Relations is sponsoring the first major study of Minnesota's intergovernmental systems in fifteen years. This study will help guide future reform.

Fourth, we are continuing Minnesota's tradition of strong environmental protection that is so basic to our health and our quality of life.

Today's investment in conserving our natural resources and protecting our environment will reduce dramatically unnecessary and costly, corrective actions in the future.

The creation of a Minnesota Environment and Natural Resource Trust Fund was suggested last year by Representative Willard Munger. This trust fund will provide the stable, long-term source of money needed for the care of our environmental and natural resources. A clean, protected environment, and a strong natural resource base for all Minnesotans to enjoy is the most important legacy we leave our children.

To fund this long-term initiative, I propose that the legislature put the question of a state lottery on the ballot for the people of Minnesota to decide. If the people approve of a lottery, I propose that half of the proceeds be earmarked for the Environmental Trust Fund, with the other half going to the Greater Minnesota Corporation. This would provide us with tremendous environmental and economic benefits for decades to come.

The 1988 budget is focused on building Minnesota's future. It is a budget which is based on prudent investments so that we can avoid expensive, corrective expenditures in the years to come. It is a budget which I believe reflects the spirit of innovation and optimism of the people of this State.

I look forward to working with you to shape a future for this State based upon the pride and heritage of our citizens.

Sincerely,

A handwritten signature in cursive script, reading "Rudy Perpich". The signature is written in dark ink and is positioned above the printed name and title.

RUDY PERPICH
Governor

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
INTRODUCTION	9
Chapter 1 - PREPARING FOR THE 1990s	11
Chapter 2 - JOB CREATION	18
Chapter 3 - EDUCATION	22
Chapter 4 - THE ENVIRONMENT	28
Chapter 5 - CELEBRATE MINNESOTA	32
Chapter 6 - TRANSPORTATION	35
Chapter 7 - PROPERTY TAXES AND LOCAL AIDS	38
Chapter 8 - CONTINUATION OF TAX REFORM	42
Chapter 9 - THE CAPITAL BUDGET	46
Chapter 10 - FISCAL STABILITY	50
Chapter 11 - BUDGET SUMMARIES - APPENDIX	53

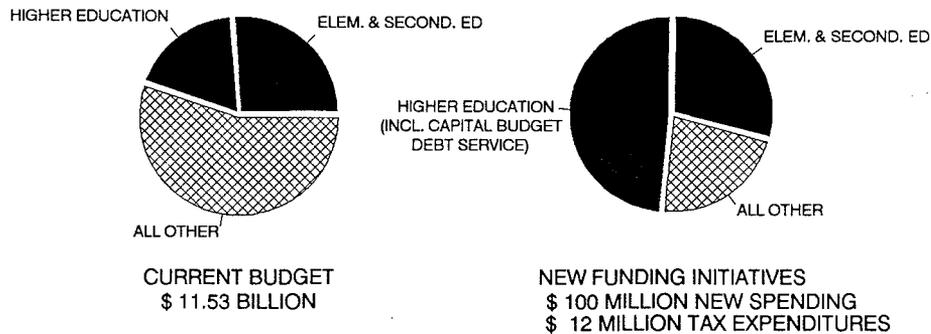
EXECUTIVE SUMMARY

GOVERNOR'S 1988 SUPPLEMENTAL BUDGET

A. GENERAL PRINCIPLES

- 1988 spending should be controlled and limited to meeting longer-term needs.
- Education is the top spending priority.

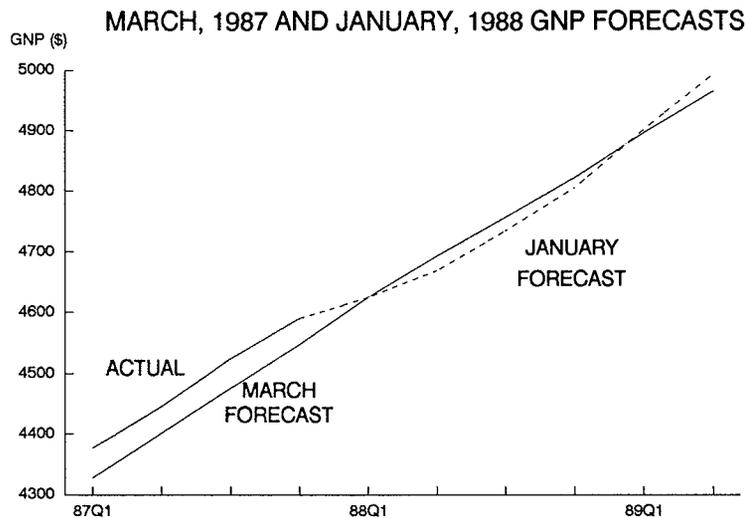
F.Y. 1988-89 GENERAL FUND SPENDING CURRENT BUDGET & NEW INITIATIVES



- Other priorities are job creation, applied research, environmental protection and property tax reform
- There will be no across-the-board tax increases.
- Fiscal stability must be maintained.

B. THE ECONOMIC PICTURE

- The state's economy will continue to grow, but at a slower pace than in 1987.



- Revenues at the end of the current biennium will be \$223 million ahead of the March 1987 forecast.
- Current law expends the forecasted surplus as follows:
 - \$32 million to reduce property tax recognition
 - \$95.5 million to increase the \$250 million reserve
 - \$95.5 million to the Greater Minnesota Corporation.
- The economy remains unstable and additional protections are needed against downside risk.

C. HIGHLIGHTS OF PROPOSED EXPENDITURES

Job Creation

- Create a permanent endowment for the Greater Minnesota Corporation through the dedication of one-half of lottery proceeds, to a maximum of \$1 billion.
- Establish an Employment and Training Fund to provide a permanent funding mechanism to train displaced workers - to be financed by employer and employee contributions totalling \$44 million per year.
- Designate 1990 as a year of celebration in Minnesota with a focus on amateur athletics and community improvement programs--with a cost of \$520,000 plus \$14.2 million in bonding authorization for athletic programs and \$2.8 million for community improvement activities.
- Reduce by \$3.1 million the taxes paid by Minnesota employers on revenues from international business activities.
- Assist in the development of advanced manufacturing, timber and minerals industries with total funding of \$1.6 million plus \$600,000 in bonding authorization.
- Reduce parimutuel taxes by \$3.2 million and redirect the tax savings to track purses.

K-12 Education

- Initiate various early childhood developmental programs costing \$4.2 million and expand extended day programs for students in grades K-6 by \$1.35 million.
- Remove the restriction which prohibits Minnesotans over age 21 from attending secondary schools at state expense--at a cost of \$1.5 million.
- Provide second year desegregation funding for center city schools and initiate interdistrict desegregation programs and planning--at a total cost of \$15.0 million.

- Increase the minimum or "supplemental" school aid increases going to all school districts in the state from \$40 to \$87 per pupil unit at a total cost of \$5.0 million.
- Plan for a Governor's Scholars Program providing tuition credits at Minnesota public colleges and universities for high-scoring students--at a cost of \$200,000.
- Increase by \$2.0 million state support for AIDS education and prevention.
- Expand community service programs for secondary and post-secondary students--at a total cost of \$1.1 million.

Higher Education

- Restore a \$5.7 million deficiency in the HECB grant and scholarship program.
- Increase the University of Minnesota's appropriation by \$23.1 million to support Commitment to Focus and related costs.
- Restore the sales tax exemption for the University of Minnesota Hospital--at a cost of \$1.7 million.
- Expand by \$1.0 million day care offerings at Technical Institutes.
- Authorize \$336 million in bonding for higher education system projects (in a total capital budget request of \$421 million).
- Provide planning and support grants for a Rochester Center, enterprise centers at state university campuses, Technical Institute curriculum restructuring, minority education and higher education quality assessment with total funding of \$3.1 million and \$600,000 in bonding authorization.

Environmental Protection

- Establish the Minnesota Environment and Natural Resources Trust Fund to provide permanent financing for longer-term resource protection activities, and finance the Fund by dedicating one-half of lottery proceeds up to \$1 billion.

- Implement the Comprehensive Waste Reduction and Recycling program to reduce landfill needs and improve groundwater quality, and finance the program by a fee and beverage container deposit.

Taxes and Local Aids

- Reform our system of property taxes and local aids through \$200 million in property tax relief, classification simplification, 100% state assumption of income maintenance, targeting of state aids to needy communities and a 10% reduction in business property taxes.
- Increase from 40% to 100% the amount of the federal elderly and disabled credit able to be claimed on Minnesotans income tax returns--at a cost of \$1.0 million.

Transportation

- Commit to work with the Legislature to package a transportation financing proposal involving a gas tax increase and a transfer of motor vehicle excise tax receipts.

Fiscal Stability

- Maintain the present budgeted reserve of \$345.5 million and our overall goal of a \$550 million reserve.
- Revise current law so that spending cuts must first be considered before any revenue adjustments are implemented.

D. PROPOSED REVENUE SOURCES

- Have state tax law conform to 1987 Federal tax law changes--resulting in a \$33.7 million gain from business tax law changes.
- Expand state corporate and sales tax enforcement laws and programs targeted at non-Minnesota businesses selling products and services in Minnesota--resulting in a \$41 million gain.
- Defer the restoration of the property tax recognition adjustments, and use the \$32 million gain for education expenditures.
- Trim \$6.2 million from already appropriated expenditures.

**F.Y. 1988-89 SUPPLEMENTAL RECOMMENDATIONS
GENERAL FUND**

WHERE THE MONEY COMES FROM :

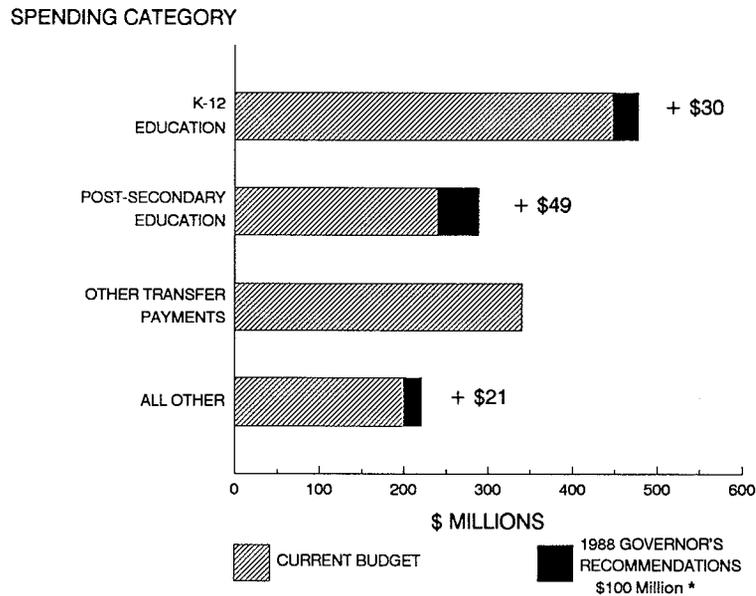
\$113 MILLION

\$33.7	FEEDERAL CONFORMITY
\$41.0	TAX NEXUS / ENFORCEMENT
\$32.0	DEFER PROPERTY TAX RECOGNITION
\$ 6.2	PROGRAM REDUCTIONS

E. OUTCOMES

- Total new expenditures for 1988 will be less than 1% of current spending.
- New education spending will be 71% of all new expenditures.
- Spending increases for education were greater than for other categories in 1987; the percentage increase for education in this Supplemental Budget will be even greater.

**TOTAL SPENDING INCREASES OVER PRIOR BIENNIUM
GENERAL FUND**



* Note: Does not include \$12 million in tax expenditures.

This page intentionally left blank.

INTRODUCTION

The following chapters provide more detail on the Governor's 1988 budget and policy recommendations. Chapter 1 summarizes major trends and issues affecting the state and how the 1988 Supplemental Budget relates to them. Chapters 2 through 10 focus on themes central to the Perpich Administration and the key recommendations related to each of those themes.

These chapters contain substantially more information than was included in prior budget submissions. The Governor believes that it is important for legislators and the public to understand the background behind his recommendations.

Therefore, the chapters outline past accomplishments of this Administration, the goals relating to the recommendations and, in some cases, possible future actions. Finally, each chapter contains a recent statement from Governor Perpich expressing his personal commitment to the goals.

The recommendations listed in these chapters are the significant pieces of the Governor's 1988 budget and policy program. The entirety of his budget recommendations are included in the accompanying Supplemental Budget detail book.

This page intentionally left blank.

CHAPTER 1

PREPARING FOR THE 1990s

The Administration of Governor Rudy Perpich has emphasized longer range planning and analysis in state government. With the help of the State Planning Agency, Minnesota state agencies have become more sensitive to the state's future needs and the future impacts of current policies.

The Governor's budget and policy proposals to the 1988 Legislature help prepare Minnesotans for our future. They help us define what we can do now to best prepare our state for the world society of the next decade and the next century.

"As we head toward the 1990s, Minnesota faces more opportunities and more challenges than ever before. For the past five years, we have been building a clear and comprehensive strategy to seize those opportunities and confront those challenges. We now have a long-range plan--a blueprint for prosperity--that will carry us into the 21st century on the strength of brainpower."

Governor Rudy Perpich

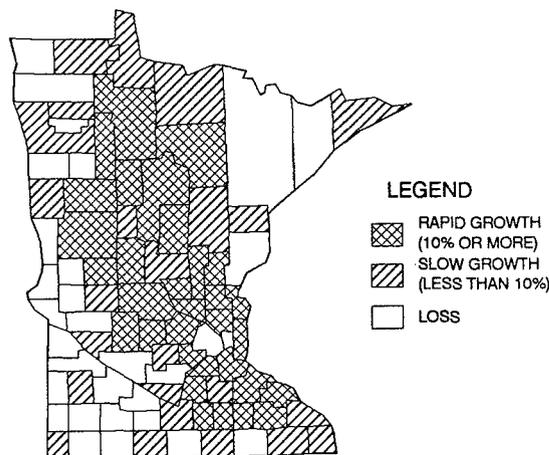
This chapter is a summary of the key trends and coming issues that are critical to Minnesota's future. Not all of the issues identified below require state action; many are best resolved by others or in partnership with the state.

While the state role in respect to the following may be limited, we cannot afford to ignore the issues until they become a crisis. Decisions made today often have unintended consequences for tomorrow.

A. Demographic Trends

- Population growth in Minnesota and in the rest of the nation will continue to slow. This trend will be most pronounced in rural areas of Minnesota. In some portions of rural Minnesota population will decline, with attendant difficulties in providing services and maintaining a local tax base. Programs such as the Greater Minnesota Corporation and Property Tax Reform will help to deal with this issue.

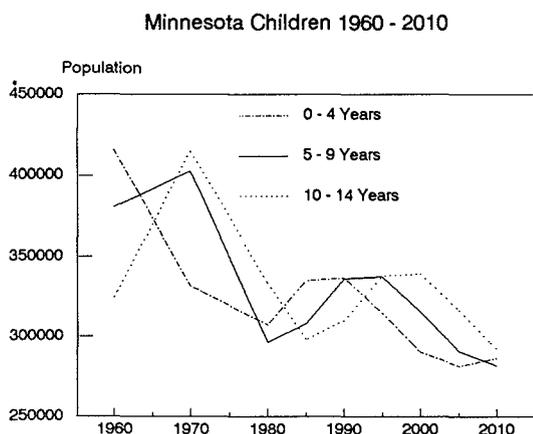
POPULATION CHANGE
1985 - 2000



- The growth of the Minnesota labor force will slow. During the 1990s the rate of labor force growth will be less than one-third of what it was during the 1970s. The work force will be older and more experienced, and retraining existing workers will be the principal way in which new skills will be brought into the work force. We must take steps to attract highly skilled workers, to retain the workers already here, and to re-train workers whose jobs are changing. Programs such as the Governor's proposed Employment

and Training Fund will focus on this need.

- From 1985 to 2000 the number of Minnesotans 85 and older will grow by 51%. Persons over the age of 85 are by far the most likely to require long term health care. Government, providers, and consumers of long-term care all recognize that the present system may not be structured to meet the long-term care needs of the expanding elderly population. Without careful planning, cost issues may overrun quality-of-care issues in coming decades.
- The number of children in Minnesota is increasing. But this increase is temporary and will end as the baby-boom generation ages. Kindergarten enrollments will peak in 1988 and elementary school enrollments in 1991. Secondary school enrollments will continue to decline and will not regain their present levels until the mid-1990s.



Growth in enrollment, however, will vary greatly from school district to school district, with the greatest increases found in the Twin Cities suburbs. Many rural districts will experience little change or decline. Overall, peak school enrollment during the 1990s will be much less than the record enrollments of the 1960s and

early 1970s. Several of the Governor's K-12 initiatives deal with this coming redistribution of enrollments.

- An increasing percentage of births are to unmarried mothers, almost half of whom are teenagers. While Minnesota has one of the nation's lowest rates of out-of-wedlock births, the rate has steadily increased over time. Never-married single parents (the group more likely to use AFDC for an extended period) accounted for 46 percent of Minnesota's AFDC caseload in 1985, up from 28 percent in 1974. For these individuals, education, work training and job support programs such as those included in our jobs and education initiatives are especially critical.
- Many Minnesotans who are unable to completely care for themselves - children, the disabled, and the chronically ill - rely on families for their care. Yet the family care network is being threatened. In future years, the state may be forced to take on more of these responsibilities or to take steps to strengthen family care.

B. Economic Trends

- The Minnesota economy is increasingly intertwined with the global economy. As a result, the state will face greater economic risks and opportunities than at any time in recent history. We face the risk of losing domestic and foreign market share and loss of control over domestic resources. At the same time there is the opportunity for greater access to international resources and a potentially vast expansion of markets. The Governor's 1988 foreign source in-

come tax proposal will help to deal with this issue.



- The economies of Minnesota and the United States are becoming less dependent on manufacturing and more dependent on services. While manufacturing will continue to be a vital part of the overall state economy, especially in a period of a devalued dollar, manufacturing will account for a smaller share of total employment over the long term.
- Minnesota remains dependent on its natural resource-based economy. However, the long-range outlook for growth in the resource sector is mixed. Minnesota products face pressures from protectionism, glutted markets, technological changes affecting demand and geographic shifts. Despite these problems, many resource-based industries, such as wood products and minerals, have the potential for significant growth. We must intensify efforts to diversify or technologically improve the economies of those parts of Minnesota dependent on natural resources. The GMC program, several higher education initiatives, our transportation guidelines, and special appropriations to assist in mineral and timber development are all directed at this issue.

- The increasing technological sophistication of virtually all occupations and industries, and the rapid growth expected in technology-intensive industries, demand a better educated workforce in the future. We need more emphasis on scientific education, foreign languages and the development of higher-order thinking skills at the K-12 level. This trend has prompted the Governor's recommendations on expanded technical education and training programs.

- Much of the state's economic growth has occurred in small, home-grown businesses, suggesting a need for continuing encouragement of entrepreneurship and availability of venture capital. Small businesses, however, are the least likely to provide employee benefits such as pension plans and health insurance and are the most susceptible to economic downturns.
- While Minnesota has enjoyed above-average economic growth in recent years, not all parts of the state have shared equally. Growth has been concentrated in the Twin Cities metropolitan area and in the larger regional centers. Many smaller communities have experienced little if any economic growth. The Governor's higher education capital budget and Property Tax Reform recommendations are in response to this trend.
- The October stock market crash prompted some national economists to forecast reduced economic growth through 1988. These revised forecasts dictate prudent financial management on the part of state and local govern-

ments and prompted the Governor's recommendations on fiscal stability.

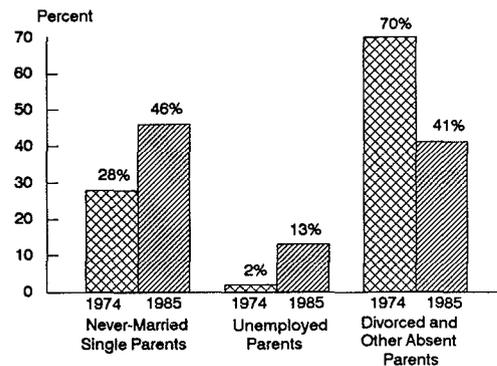
- The Minnesota economy is strong and will continue to grow. However, our rate of growth may slow in response to slowing national growth. The January 1988 revenue forecast for Minnesota was based on an assumption of 1.9% real national growth this year. Applying this assumption to our Minnesota economic model, we now anticipate a surplus of \$223 million by the end of this biennium.

C. Human Service Trends

- National studies indicate that an increasing number of working Americans are not covered by employer-provided health insurance. In 1985, about 11 percent of Minnesotans were without health insurance for all or part of the year. In addition, costs of health insurance and health care continue to rise at a faster rate than inflation. The Administration is closely monitoring health care issues and is recommending law changes affecting private health care providers.
- While the overall quality and availability of rural health care remain high, decreased support for local public health services, lack of insurance coverage, and the consolidation and closure of small rural hospitals could have serious effects in years to come. Rural health care providers, rural communities, and the public sector will need to make continuing adjustments to avoid future problems in the rural health care system.
- Although Minnesotans are less likely to use income maintenance programs such as AFDC than the rest of the country, the number of families receiving AFDC increased by 14 percent from 1979 to 1986.

Most of the growth in AFDC use has been in Greater Minnesota.

THE CHANGING PROFILE OF MINNESOTA'S AFDC FAMILIES



Effective strategies to reduce dependency must focus on job creation or relocation in rural areas, and on reduction of teen and out-of-wedlock births in urban areas. Increasing the earning power of parents through education and occupational skill training will be key in all areas. This year's education and training and next year's welfare reform recommendations all deal with this matter.

- The high costs of institutional care will require an increasing focus on alternative living arrangements for the dependent elderly, the chronically ill, and persons with developmental disabilities. In addition, more attention must be paid to services and programs aimed at the prevention of long-term dependency. Finally, the Governor will be recommending changes in the role played by Regional Treatment Centers in his 1989 legislative program.
- Minnesota is experiencing an increase in the number of homeless individuals. Although the number of such persons in Minnesota does not appear to approach the numbers in other parts of

the country, the problem is growing. The number of people using overnight shelters in Minnesota increased from 1,165 in August 1985 to 2,425 in August 1987 with families growing as a percentage of the homeless. The Governor has directed a multi-agency team to continuously monitor this issue and recommend to him any needed state actions.

- Recent federal tax law amendments and changing economic conditions have limited the ability of state and local government to meet the ever-increasing demand for low and moderate income housing. The Governor has directed the Minnesota Housing Finance Agency to review this issue and to report back to him for possible action in 1989.

D. Environmental Trends

- Previous water and air pollution control efforts have focused largely on the control of point sources of pollution such as discharges from pipes and smokestacks. However, evidence of problems attributable to non-point sources of pollution is increasing. The state's drinking water, surface water, ground water, and air are being contaminated by difficult-to-control sources such as agricultural chemicals, improper waste disposal, leaking underground storage tanks, and automobile emissions. Control of these sources requires new approaches and the combined efforts of state and local entities.
- The rapidly rising cost and uncertain availability of traditional waste management options, such as burial and open burning, are forcing businesses and governments to reduce the amount of solid, hazardous and radioactive wastes they create. The Governor's Comprehensive Waste Reduction and Recycling Program is a direct response to a part of this problem.
- Environmental issues will increasingly affect Minnesota's natural resources. Information is needed on the potential impact of environmental factors such as the effects of acid precipitation on farming, fishing, and forestry. In addition, the potential impact of changes in our use of non-renewable resources, such as technological changes in mining and new minerals discoveries, will continue to be of concern.
- The quality of indoor air is also an emerging concern. The concentration of some contaminants is higher indoors than outdoors, a fact partially attributable to reduced building ventilation and increased use of synthetic building materials. Public health officials are questioning the possibility of adverse health effects from chronic, long-term exposure to substances such as radon.
- Although Minnesota has adequately funded many environmental protection programs in the past, we are reaching our limit of funding major projects with traditional funding sources. The proposed Environment and Natural Resources Trust Fund will resolve many of these research, program and funding needs.
- As our ability to identify and measure environmental hazards grows, we will increasingly be faced with difficult decisions about what constitutes an acceptable level of environmental risk, what level of cost is acceptable to alleviate an unacceptable risk, and who should bear these costs. We may need

to increase our efforts in risk analysis and management as questions of cost and benefit are more explicitly asked than in the past.

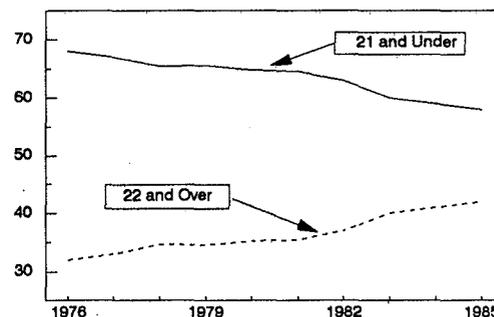
E. Education Trends

- While debate over the desirability and content of early childhood education continues, the demand for such programs increases. Nationally, the percentage of three and four year olds enrolled in early childhood programs increased from 21% in 1970 to nearly 40% in 1985. As demand intensifies, so do questions about equal access. In the U.S., 62% of all three to five year olds living in upper and middle income families have attended a preschool program, compared to only 36% of low income children. This disparity adds fuel to the argument that low income children are starting elementary school at an increasing disadvantage compared to their upper-income peers. The Governor is proposing a comprehensive program of early childhood initiatives to deal with this emerging issue.
- As the number of working mothers continues to grow, the demand for after-school and vacation care will rise. The Minnesota Department of Education estimates the current number of children in after-school child care at 18,000 to 20,000, and predicts that this number could double in the next few years. The U.S. Census Bureau estimates that 2.1 million children nationally are left alone during after-school hours. The Governor is proposing an expansion of after-school programs in 1988.
- Societal changes are forcing schools to assume greater social responsibility for their students. This includes drug and al-

cohol awareness activities, health care clinics, greater attention to personal counseling and school social workers.

- Schools are expected to prepare students for increasingly complex work environments. Higher levels of achievement will be required from all students to meet the nation's increasingly sophisticated economic needs. Students will be expected to prepare for multiple careers requiring greater attention to higher order thinking skills, problem solving ability, flexibility and adaptability. Schools will also be under increasing pressure to demonstrate results in meeting these demands through means such as standardized testing. Adults without a high school diploma will find it increasingly difficult to obtain employment. Several initiatives are being proposed by the Governor this year, including the removal of the age-21 limit on high school enrollment.
- Minnesota post-secondary institutions are experiencing an influx of older students, and the demand for servicing adult students continues to rise. The percentage of students over the age of 21 increased from 32% in 1979 to 42% in 1985. An increasing number of students are attending school part-time, evenings, or weekends.

Age Distribution of Minnesota Undergraduates
Percent of Students



F. Technological Trends

- New technologies are increasingly important to the Minnesota economy. The number of jobs in high technology industries increased by 22% from 1982 to 1985, a rate almost three times faster than the national increase. Employment in technology-intensive fields will continue growing at a much faster rate than employment in other fields. Our educational systems will be under pressure to produce a technologically sophisticated workforce. The Governor's 1988 program calls for significant increases in funding for the University of Minnesota and development of new research initiatives for other programs and institutions.
- Innovations in biotechnology have the potential to stimulate existing Minnesota industries such as agriculture, health care, food processing and forestry. These new technologies, however, may also accelerate the trend towards fewer, more productive farms and further overload already glutted markets. Programs such as GMC and the Agricultural Utilization Research Institute will provide assistance in responding to this trend.
- Advances in medical technology have the potential to greatly enhance the quality of life and contribute to an already thriving Minnesota health care industry. Many new medical technologies, however, bring with them questions of access and cost. An increasing amount of medical research will likely be devoted to making existing technologies more accessible and less costly.
- New telecommunications and information technologies will likely result in more demand for government information. Telecommunications appears to

provide tremendous potential for bringing jobs to Greater Minnesota from the metropolitan areas, and the Administration is committed to helping to promote this development.

- Advances in manufacturing technologies and the development of new industrial materials will likely maintain manufacturing's importance to the our economy while potentially reducing manufacturing employment. As productivity increases, labor costs will become less important in determining the location of manufacturing operations. Economic success will depend in large part on the ability to develop and adopt new technologies faster than our national and international competitors. Improving the linkages between the scientific, educational and industrial communities will become more critical.

G. Sources of Additional Information

The materials used in the preparation of this chapter were derived principally from three sources: various trend and data publications of the Minnesota State Planning Agency, the 1988 Economic Report to the Governor coordinated by the Department of Trade and Economic Development, and the January 1988 Forecast of the Minnesota Department of Finance.

CHAPTER 2

JOB CREATION

The central theme of the Perpich Administration has been job creation. All Administration priorities, whether they be economic development, education, or tax or welfare reform, have had jobs as a central goal. The Governor hopes to maintain the jobs that we have, to encourage the creation of new ones, and to best prepare our people, especially our children, for the jobs of tomorrow.

The Governor's 1988 Jobs focus contains many initiatives. Two of the key ones are summarized in this chapter: the Greater Minnesota Corporation and the Employment and Training Fund. Other job-creating initiatives are summarized in later chapters.

A. Background of the Issue

Job growth in Minnesota in recent years has been exceptional. During calendar 1987, the state had a net increase of 70,000 new jobs--more than 1,300 new jobs a week.

Although this rate has been extraordinary, we cannot assume it will continue indefinitely. The Minnesota economy is increasingly dependent on external forces. Recent studies by a number of state agencies have demonstrated that our job growth is largely tied to the status of international and national markets. The exportation of jobs abroad has imperiled key sectors of our economy and our work force.

Between 1981 and 1986, an estimated 120,000 Minnesota workers were displaced as a result of plant closures, obsolescence or relocations. Another 168,000 workers are now working in state industries which

are not expected to grow through the rest of this century. And these changes are occurring in a time of reduced federal support for job creation or worker retraining.

The changes in the world economy prompted this Administration and the Legislature over the past five years to implement a number of job creation initiatives. Most of these have taken the form of economic development programs that have responded to immediate economic situations within the state and competitive pressures from outside the state.

Most of our programs have attempted to influence the timing and location of business decisions. For example, some programs recruited business expansions, while others sought to retain businesses which were candidates for closure or relocation. Tools available in these programs included low-interest loans, grants, assistance with acquisition of buildings, subsidized training and wages, and tax incentives.

Although these programs have clearly been successful, the times now demand a changed focus. Interest has been growing within the Administration and the Legislature for a more future-oriented focus for job creation.

B. Recent Initiatives - the GMC

A number of new initiatives were begun in the past five years to make Minnesota government more proactive in the creation of future-oriented jobs. The most significant of these recent initiatives was Senate File 1, which was enacted in 1987. At the Governor's initiative, and with strong bipartisan legislative support, this

landmark legislation created the Greater Minnesota Corporation (GMC).



GMC was created to play a critical role in sustaining Minnesota's competitiveness and in diversifying the economy of the entire state - particularly in rural areas which have experienced the most severe economic problems. The corporation's mission is to create jobs and economic growth through applied research, product development and technology transfer. It is to form partnerships with education, business, labor and agriculture.

The Corporation will promote applied research leading to new future-oriented jobs and businesses. Powers of the Corporation relating to research include:

- **Research financing.** GMC may finance applied research in partnership with private businesses, colleges, universities and other post-secondary educational institutions in the state.
- **Research operations.** The Corporation may also construct, own and operate its own research centers. This on-site research capability will enable it to respond swiftly to changing priorities and emerging applied research needs.
- **Regional research institutes.** The Corporation may establish up to four Regional Research Institutes, each to be

located near a Minnesota post-secondary educational facility. One of these, the Agricultural Utilization Research Institute will be located in an agricultural region of the state and will sponsor research and develop new uses for Minnesota's farm commodities.

The Corporation's powers also include transfer of technology and investing in new products and businesses through equity participations, loans and other investments.

Funding for GMC includes:

- \$6.5 million from the state's General Fund
- loan repayments to the state from loan funds superseded by or replaced by GMC
- \$95.5 million from the January, 1988 forecast and up to \$24.5 million from any additional forecast surpluses through June 30, 1989
- \$3.5 million to finance the Agricultural Utilization Research Institute

"The Greater Minnesota Corporation is an ambitious applied research program that paves a path for new products from the classroom to the marketplace. It will turn ideas into jobs that create a better economic and physical environment for Greater Minnesota. It will provide new products, new businesses and new jobs."
Governor Rudy Perpich

It is intended that GMC not rely on periodic appropriations from the Legislature. This intention, coupled with the future selection process for the Board of Directors, is designed to insulate the

Board from the uncertainties of short-term politics. This insulation is again reflective of the long-term focus for the work of GMC.

The Administration's recent job initiatives have not been limited to GMC. For example, the Governor's last biennial budget provided for major initiatives in targeting job search efforts for AFDC recipients. Funds were allocated for the assessment of their training needs and development of employment plans. Increased funding for support services, such as day care, and increased access to medical coverage were also provided.

C. Goal for 1988

The Governor's goal for his 1988 Jobs Creation program is to solidify the base established in the first years of this Administration. The focus will be longer-term development of our work force and our research and industry base.

In addition, the Governor hopes that the two programs discussed in this chapter will permit the consolidation of various economic development and job training programs, beginning in 1989.

D. Recommendations for 1988 Action

The GMC and Employment and Training Fund recommendations described in this section are complementary to each other. While the Fund will train workers who are displaced as a result of technological or market change, the GMC will help to provide new future-oriented jobs for many of these workers.

1. Greater Minnesota Corporation. To be effective in its long-term goal, GMC must have significant and stable funding which is insulated from politics and swings in the

economy. To achieve this funding base, the Corporation has created a fund to serve as an endowment. Earnings from the endowment fund will be available to GMC on an annual basis and would be supplemented by any interest earnings, royalties and other sources of income generated by corporate investments in successful new products and technologies.

The 1987 session appropriated some \$10 million to the Corporation, and this has been supplemented by \$95.5 million from the January 1988 revenue forecast. Although these dollars are significant if spent now, they are inadequate to provide the principal for a permanent endowment fund.

Therefore, in order to allow the Greater Minnesota Corporation to achieve its long-term developmental potential, the Governor recommends that one-half of any state proceeds from a lottery be dedicated to the GMC's endowment fund, up to a maximum of \$1 billion.

These dedicated funds will be deposited in the endowment with only the earnings from the fund available for current spending or investment. The fund assets will be invested under the direction of the GMC Board and an investment advisory committee appointed by the Board.

2. The Employment and Training Fund.

Tens of thousands of Minnesotans have been permanently dislocated from their jobs as a result of job obsolescence, plant closings and regional decline. This dislocation causes serious personal hardship, as well as community, labor market and business problems. The limited resources of traditional job training programs - especially in light of the

uncertainty of federal funding cutbacks - are inadequate to meet the growing need.

The GMC alone will not be able to solve all the employment problems in the state. In fact, the Corporation's soon-to-be-identified research priorities will require a trained work-force to develop, produce, and market new products.

GMC and other job-creating activities in the state will therefore need a comprehensive training program that can help train displaced workers for the jobs of tomorrow. The Employment and Training Fund will fill this need as a permanent and significant source of training assistance for dislocated workers and for businesses wishing to expand in Minnesota.

*"The Minnesota Employment and Training Fund is a self-financing insurance policy that protects Minnesotans who have held up their end of the employment bargain. These Minnesotans deserve to know that if they are dislocated due to plant closings or other forms of economic distress not of their own making, they will not be abandoned."
Governor Rudy Perpich*

The Fund contains several mechanisms for accomplishing its goals:

- It will implement worker readjustment services such as assessment and testing, job search assistance, training, tuition, living allowances and relocation assistance. These services will be available both to employees dislocated on an individual basis as well as those dislocated as part of a mass layoff or plant closing.
- It will provide a mechanism through which new and expanding Minnesota firms can obtain assistance with their

human resource needs. Such assistance will be in the form of customized classroom or on-the-job training designed to meet the specific needs of the firm. Similar assistance will also be available to firms needing to upgrade the skills and productivity of their current work force.

- In an effort to encourage the prompt reemployment of dislocated workers, the Fund will offer a transitional allowance to dislocated workers obtaining early reemployment.
- The Fund will replace final paychecks owed to dislocated workers when their employers file bankruptcy or cease operations prior to payment or settlement with their employees.

It is appropriate that both workers and management participate in the financing of the Fund. Therefore, the Governor recommends that employers and employees each contribute .07% of all earned wages to the Fund (seven one-hundredths of one cent of each dollar earned; or an average of \$10 per year from each worker). Total statewide receipts per year will be \$44 million.

The Employment and Training Fund will be administered by the Department of Jobs and Training in conjunction with the Fund Board and will rely primarily on existing mechanisms and programs for the delivery of services.

CHAPTER 3

EDUCATION

During the last five years, Minnesota has continued its strong tradition of investing in elementary, secondary and post-secondary education. This priority has been reflected in increased education funding, expanded learning opportunities and improved education quality for all students. The Governor's recommendations to the 1988 Legislature will build on these past education reform measures and continue to move the state forward.

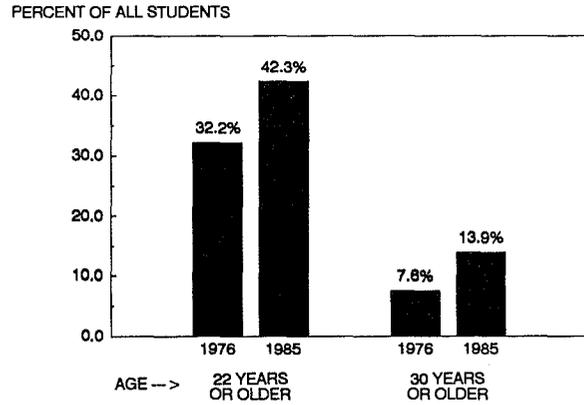
A. Background of the Issue

As we enter an increasingly complex future, every Minnesotan will require the skills and talents to adapt to changing jobs and shifting economic conditions. More than ever, education will serve as the critical link to Minnesota's prosperity and strength.

We have responded to this challenge by recognizing the importance and value of education to our collective future. This concern is mirrored in a variety of measures. Minnesota has one of the best high school graduation rates in the country (92%) and our high school graduates are enrolling in post-secondary institutions in record numbers. Last fall, enrollment at Minnesota's colleges and universities increased 4.2% at a time when the population of high school youth is in gradual decline.

In addition, greater numbers of non-traditional students are enrolling in post-secondary institutions than ever before. More women, minorities, and older students are returning to education to acquire new skills and training.

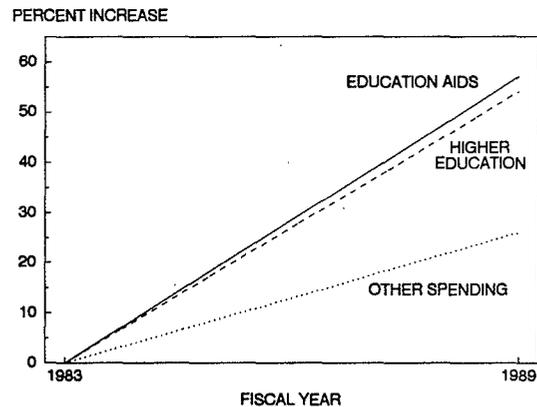
INCREASING AGE OF POST-SECONDARY STUDENTS



Source: HECB Report to the Governor and the 1987 Legislature.

State funding decisions have reflected the importance of education to our future. In the current biennium, 53% of the state's budget is devoted to elementary, secondary and post-secondary education funding. Between 1983 and 1989, appropriations for K-12 education have increased 56%, while post-secondary education funding has grown by 53% (from \$725 million to over \$1 billion).

STATE FUNDING FOR EDUCATION vs OTHER SPENDING PERCENTAGE INCREASE FROM FY 1983 TO FY 1989



Although these funding changes are clearly in the right direction, improvement is still needed. Future global economic competitiveness will accelerate the need for continued investment in education and training and more focused use of existing resources. Higher

focused use of existing resources. Higher levels of achievement will be expected from all students to fuel the increasingly sophisticated needs of Minnesota employers.

B. Recent Policy Initiatives

The Administration of Governor Perpich has initiated a series of education policy initiatives designed to prepare Minnesota for the future. Central themes behind these policies include a commitment to high quality education, expanded learning opportunities for all students and strengthened investment in the physical infrastructure of our schools, colleges, and universities. The following are highlights of the recent policy initiatives.

- "Access to Excellence" - a national model for increased student/parent choice - was introduced in Minnesota schools as a series of credit and transfer opportunities for students and parents. Since 1985, choices for Minnesota students and parents have increased substantially through the Post-Secondary Enrollment Options Act, the Voluntary Enrollment Options Plan, and the High School Graduation Incentives Program.
- A "Mission Differentiation" process was initiated among our public post-secondary systems to evaluate what they do best and to help determine their appropriate roles in the future of Minnesota higher education.
- "Commitment to Focus" was launched to sharpen the focus and quality of the University of Minnesota. Other improvements in University programs include the creation of more than 100 newly-endowed chairs to improve faculty retention and to provide new programs to enhance student learning.
- The Minnesota School for the Arts and Resource Center was established with statewide outreach programs and a commitment to plan for a future residential Arts School and Resource Center.
- State scholarship and grant funding for post-secondary students has increased from \$25 million in 1983 to \$66 million in 1987. The increase has been targeted to students with the greatest financial need.
- We have significantly increased investment in the infrastructure of our higher education system. This was needed in part to make up for neglect in recent years, but also to help restore needed competitiveness and program quality. From 1983 to 1987, \$591 million in new projects were authorized, compared to \$177 million over the prior four years.
- The link between education and economic growth was strengthened. Accomplishments include the creation of four new engineering programs, four enterprise development centers, expanded applied research capacity in our higher education institutions, and customized training programs for our vocational schools.

C. Goals for 1988 Reform

The Governor's 1988 education recommendations reflect our continuing commitment to keep our status as the Brainpower State. Investment in human resources should remain our highest priority. We should continue to encourage a larger proportion of the state's population to enroll in education and training programs.

Access to educational opportunities must be expanded for all Minnesotans. We now have 92% of our high school aged students graduating from high school; our goal is to increase that to 96% by 1996. In addition, the Governor believes that 50% of the workforce in Minnesota should have an education two years beyond high school, and 35% should have completed at least four years of college.

Since 1983, student opportunities have significantly increased through innovative programs and targeted resources like Access to Excellence. We will continue to strengthen our commitment to effective programs, accountability, and targeted resources.

Just as we attract non-traditional students to higher education, so too must we expand programs for the very young. Pre-kindergarten opportunities should be expanded, and educational programs provided beyond normal school hours.

We must renew our commitment to community service in our high schools and universities. Young people should be given both the skills and experiences to succeed in helping others.

Finally, we should encourage the important role of higher education in our state's future economic growth. Increasingly, colleges and universities are recognized as valuable resources for community-based innovation, technology transfer and small business assistance. Applied research has been, and must continue to be, a centerpiece of our education programs.

D. Recommendations for Action in 1988

The following are the Administration's recommendations to the 1988 Legislature:

1. Elementary and Secondary Education Programs

- Early childhood. The Governor recommends a grant program to encourage school districts to plan or expand developmentally appropriate early childhood programs. The cost of this program in F.Y. 89 would be \$3.2 million. In addition, the Head Start program operated through the Department of Jobs and Training would receive increased funding of \$1 million.
- Extended-day programs. The Governor recommends funding for school districts to offer extended-day programs for students in grades K-6. This proposal includes a sliding fee subsidy for low-income families. The cost of this program in F.Y. 89 would be \$1.35 million.
- Removal of age 21 restriction. To allow all Minnesota adults the opportunity to receive a high school diploma, the Governor recommends removing the age-21 restriction on public school enrollment. The cost of this program in F.Y. 89 would be \$1.5 million.
- Intradistrict desegregation. In 1987, the Legislature, with the Governor's support, provided \$11.6 million in grants to help the Minneapolis, St. Paul and Duluth schools implement state-required desegregation plans. The Governor recommends continuing this appropriation at \$12 million. The proposal also provides these districts with additional levy authority for unreimbursed desegregation costs.
- Interdistrict desegregation planning. The Governor recommends \$3 million

for school districts to cooperate with urban districts in planning for voluntary integration programs.

- Secondary Vocational Restructuring Study. The Governor recommends \$100,000 for the Department of Education to begin planning for a restructured model of career education and secondary vocational education that will improve the work-readiness of students and better integrate secondary and post-secondary vocational programs.
- Technology Planning Grants. Because of the need for systematic state-level analysis, the Governor recommends \$100,000 to examine the potential educational uses of interactive television, classroom computers and other emerging technologies. He also recommends a \$200,000 demonstration grant to help establish an innovative technology-intensive school focusing on personalized instruction.
- Foundation aid support for suburbs/rural areas. The Governor recommends \$5 million for F.Y. 89 to increase supplemental aid from \$40 to \$87 per pupil unit. This funding will provide additional state help for districts that received small revenue increases in 1988.
- Community service. The Governor recommends \$750,000 to expand youth service opportunities in schools. Funds would be used to train students and educators, develop curriculum which incorporates youth service, and provide grants of \$500 to \$5,000 for innovative community service models. The Governor also recommends \$260,000 for a fellowship/grant program to recognize college youth for exemplary community service.
- Governor's Scholars Program. The Governor recommends \$200,000 to develop a new Governor's scholars program to provide tuition credits for high-scoring Minnesota students.
- Educational Effectiveness. The Minnesota Educational Effectiveness Program is a successful research-based program for educational improvement, accountability and staff development. The Governor recommends \$500,000 to the Department of Education to expand its school site training and outreach programs, with a particular focus on curricula change.
- Aids Prevention for Adolescents. Research indicates that adolescents are a high priority target group for AIDS prevention efforts. The Governor recommends \$1.2 million for grants to school districts and to regional pilot projects which offer professional development on behaviorally focused AIDS prevention activities. In addition, the Governor is recommending \$706,500 to the Department of Health and the Department of Human Services for related activities.
- Personnel Licensing. The Governor recommends \$90,000 to restore the budget base of the Department of Education section which provides licensing-related services to Minnesota teachers.
- Enrollment options. The Enrollment Options Transportation Program reimburses needy families for transportation costs incurred while transporting children participating in the Enrollment Options Program. The

Governor recommends \$50,000 for this program.

2. Post-Secondary Education Programs

- Grant and scholarship deficiency. The Higher Education Coordinating Board estimates that student demand for its scholarships and grants has exceeded estimates by \$5.7 million for F.Y. 88. The Governor recommends adding this amount to the Higher Education Coordinating Board grant appropriation.
- Commitment to Focus and other programs. The University's Commitment effort is the most important redirection of the University in recent decades. This reprioritizing will enable the University to strengthen a limited number of crucial programs and allow it to be competitive with some of the best institutions in the country. Although the 1987 Legislature provided some funding for Commitment, more is needed immediately. The Governor therefore recommends that \$23.1 million be appropriated for Commitment to Focus and other needs in F.Y. 89.
- Restoration of sales tax exemption. The 1987 Tax Reform Act repealed the sales tax exemption for the University of Minnesota Hospitals, making it the only hospital in the state required to pay the sales tax. The Governor recommends a restoration of the exemption at a cost of \$1.7 million for F.Y. 89.
- HECB Quality Assessment. A vital current research activity of the Higher Education Coordinating Board is their review of processes for measuring quality in education. To assist in this effort, the Governor recommends \$150,000 for F.Y. 89.
- Advanced Manufacturing. Minnesota has a unique opportunity to combine our area's computing capabilities with University expertise in order to develop a program in advanced manufacturing. To begin preparation for such a program, the Governor recommends \$750,000 for operations planning and \$600,000 for facility planning for F.Y. 89. This appropriation would go to the Department of Trade and Economic Development.
- Enterprise centers. One of the more creative attempts by the Legislature to interrelate higher education resources with business opportunities in Greater Minnesota was the development of enterprise centers at various state university campuses. These public-private partnerships unite community resources from businesses, financial institutions, government and education to start and expand new businesses and to help develop new technologies and markets. To continue this program the Governor recommends \$500,000 for F.Y. 89.
- Greater Rochester Area University Center. Civic and education leaders have developed a plan to bring advanced higher education programming to Rochester. That community, with its high technology employers is the only large Minnesota community without a major university campus. To further develop the Rochester Center idea, the Governor recommends \$1.5 million for F.Y. 89. To provide for the planning of new facilities, the Governor is recommending \$600,000 in the capital budget.
- Minority Education Partnership. The Governor recommends \$10,000 to

provide the state's share of matching federal and private sector dollars for this cooperative effort to encourage the development of programs designed to meet the needs of minority students.

- Technical Institutes curriculum restructuring. The state's technical institutes are facing enormous demands brought about by our changing economy and the training needs of older Minnesotans. To help the institutes review and update their curriculums, the Governor is recommending \$1 million for F.Y. 89.
- Technical Institutes day care. A critical element in the state's overall daycare development program is services provided at technical institutes. To help the schools meet those needs, the Governor recommends \$1 million for F.Y. 89.
- Capital Budget. Nearly the entire focus of the Governor's 1988 capital budget is education, and the vast majority of education funding projects are for higher education systems. The Governor is seeking authorization of \$338 million in new bonding for education with a projected debt service for F.Y. 89 of \$13.7 million. This recommendation is more fully described in Chapter 9.

CHAPTER 4

THE ENVIRONMENT

Minnesotans are justly proud of our efforts to protect our environment and our physical resources. Those efforts must continue, and they are given a high priority by this Administration. Environment and resource protection are not inconsistent with economic growth.

A. Background of the Issue

For many years, Minnesota has been recognized as a national leader in environmental protection and resource utilization. Our programs have corrected many past environmental mistakes, and do much to provide a quality environment for current use, as well as for the use of future generations.

Although improvements in environmental quality have occurred, more remains to be done. We have not, for example, provided secure long-term funding sources for a permanent commitment to environment and resource protection. Nearly all of the funding sources for resource-related programs are biennial legislative appropriations. The maintenance and expansion of these programs are dependent on current revenue availabilities and the relative commitment of each Legislature to environmental programs. This funding process does not consistently support activities which do not provide immediate benefits, the very kind of activities necessary to build the foundation for preserving and protecting Minnesota's fragile environment and the high quality of its natural resources.

B. Recent Efforts at Reform

Governor Perpich and the Legislature have initiated a number of significant environmental reforms and programs since 1983. Major accomplishments of the past five years are:

- The Re-Invest in Minnesota Program. RIM is designed to encourage development and enhancement of the state's fish and wildlife resources. RIM Reserve, a major part of the program and the first state-sponsored conservation reserve/set-aside program in the nation, encourages landowners to retire marginal farmland from crop production. In return for easement payments, permanent vegetative cover is established and maintained in order to benefit soil and water conservation as well as wildlife. To date, approximately 30,000 acres of farmland have been enrolled. The program continues to grow in popularity; demand for enrollment has always exceeded available funding.
- Acid rain prevention. Minnesota inaugurated the nation's first and toughest acid rain control program. Annual funding of \$300,000 provides resources to PCA to continue monitoring the effects of acid deposition and compliance with the control plan adopted in 1986. Our acid rain standard and control plan requires that the emissions of acid-forming pollutants be limited from utility plants. Since a large portion of the acid rain falling in Minnesota originates in other states, the Governor has been working with other states and Congress to develop national acid rain control legislation.

- Non-point source pollution. A Clean Water Partnership has been forged between state and local government to address non-point source pollution, our number one cause of water pollution today. \$2 million was appropriated from the Water Pollution Control Fund for the F.Y. 88-89 biennium to provide technical assistance and matching grants to local units of government. These dollars were used for diagnostic studies, planning, and implementation of clean-up programs.
- Superfund. The Minnesota Environmental Response and Liability Act (Superfund) authorizes the Pollution Control Agency to initiate steps leading to the clean-up of hazardous waste sites. PCA's current priority list contains 139 sites where investigation, clean-up or post clean-up monitoring is needed. To date, major accomplishments of the program include 32 remedial actions that have been completed or are underway and the clean-up of over 250 above-ground arsenic sites. Response actions at 59 sites are being conducted by polluters who have committed in excess of \$100 million to site clean-up. Funding for the Superfund comes from hazardous waste taxes, interest earnings, and reimbursements. The Fund received an initial General Fund appropriation of \$5 million and subsequent appropriations of \$4.5 million in F.Y. 88 and \$5.9 million in F.Y. 89 from the Water Pollution Control Fund.
- Nuclear waste disposal. The state has assumed a very active and high-profile stance in opposing the designation of a second national repository for high-level radioactive waste. The state's effort culminated first in the postponement of federal siting and, finally, in the Congressional elimination of the requirement for a second site. In addition to high-level waste activity, we are an active member of the Midwest Compact which is searching for a regional disposal facility for low-level nuclear wastes.
- Tank clean-up. We were the first state in the nation to adopt a program to find and repair or replace leaking petroleum tanks. These tanks, which are most often underground, have been linked to extensive groundwater pollution. The state now has a sophisticated testing program designed to identify leaking tanks and resolve the problem.
- Wastewater Construction Grants-Combined Sewer Overflow (CSO). A long-neglected metropolitan area problem has been discharge into the Mississippi River of untreated sewage. This is a problem in periods of heavy rainfall which forces runoff into sanitary sewers and causes discharges of untreated sewage directly into the Mississippi River. At the initiation of the Governor, the Legislature has appropriated over \$30 million for CSO programs. Additional appropriations through F.Y. 95 will be needed to complete the sewer separation projects. The program is supported by local, federal and state funds and projected to cost approximately \$215 million.
- Beautification. The Administration has initiated a number of environmental beautification programs designed to improve the appearance of cities and rural areas of the state. Examples of beautification targets are riverbeds, abandoned mineland buildings, junkyards, waste tire disposal sites, and roadways. Funding for these projects includes grants, state/local matches,

and volunteer or correctional rehabilitation programs.

- **Environmental education.** The Administration has long supported efforts at public and private environmental education. Specific program examples include a Department of Education rule requiring environmental education programs in grades K-6 and state funding of environmental education through the Minnesota Environmental Education Board.
- **Natural Resources Research Institute.** At the initiative of the Governor, the Legislature established and funded NRRI as the central facility in the state for researching expanded uses of Minnesota's resources for economic gain in a prudent and environmentally safe fashion.

C. Goals for 1988 Actions

The environmental policy of this Administration has been to maintain the balance between a healthy natural environment for future generations and the wise use of our physical resources to benefit today's generations. This goal will continue to be a dominant theme of our environmental program recommendations.

*"We must make sure that future generations have the same opportunity to enjoy the high quality of our state's physical resources as we enjoy today. The state must provide a stable and substantial source of long term funding to support those essential activities."
Governor Rudy Perpich*

D. Recommendations for 1988 Action

To further this policy, the Governor is proposing two major new initiatives for the 1988 session.

1. **Minnesota Environment and Natural Resources Trust Fund.** Environmental programs have been in competition for the state's limited budget dollars. The ever-increasing demands on state tax revenues have made it extremely difficult to provide sufficient support for long-range environmental protection initiatives.

Although the actual amount of dollars spent on environmental programs has increased in recent years, the increase has barely kept pace with inflation. The real buying power of the total dollars spent on environmental activities has only recently returned to its 1976 level.

During this same period, programs initiated from the environmental movement of the early '70s, have grown, and new initiatives were begun. These demands have stretched an already tight environmental budget.

To meet this challenge, the Governor recommends that the Legislature establish by law the "Minnesota Environment and Natural Resources Trust Fund." The mission of the Fund would be to "provide a long-term, consistent, and stable source of funding for environmental and natural resources activities."

Examples of the types of activities to be supported by the Fund include:

- Environmental research
- Data collection and analysis
- Enhancement of the public's environmental awareness
- RIM

- Limited capital investments
- Preservation of unique resources

The Fund would be financed by a dedication of one-half of the proceeds from a state lottery up to a maximum of \$1 billion. Funds from the lottery would accrue as an endowment for the Fund. This type of funding source would mean that longer term environmental needs would not have to compete with shorter-term priorities.

2. Comprehensive Waste Reduction and Recycling. The management of solid waste is a major environmental and resource issue throughout Minnesota. Our precious groundwater is being contaminated by wastes leaching from landfills. Major efforts are underway to shift to alternatives other than producing and disposing of wastes. More must be done to accelerate efforts in waste reduction and recycling.

The Governor therefore recommends a comprehensive program to minimize the amount of waste that is generated and landfilled in Minnesota. To help achieve this goal, existing recycling programs must be expanded and enhanced, and new programs introduced to provide a recycling opportunity to all Minnesotans.

The Comprehensive Waste Reduction and Recycling Act of 1988 will generate funds and establish a recycling management structure that will support, improve and stabilize Minnesota's existing recycling programs. The Act will rely heavily on local government, nonprofit and business initiatives.

Funds for the program will come from two sources: a Waste Reduction Initiative Fee and the collection of unredeemed deposits from a beverage container deposit system.

The fee imposes a small levy on consumer packaging materials that are neither made of recycled materials, capable of being recycled themselves, nor subject to a refundable deposit.

Funds generated by the program will be used for market development, public waste education, transportation of recyclable or recycled materials to markets, and development and improvement of new and existing recycling programs.

CHAPTER 5

CELEBRATE MINNESOTA

In 1990, Minnesota will host the U.S. Olympic Festival, one of the largest gatherings of amateur athletes in the world. This event will draw thousands of participants and up to a half-million spectators. With colorful pageantry to open and close the two-week event, it will be the nation's premier setting for amateur athletics.

The Governor proposes to build on the 1990 Olympic Festival and develop a series of interrelated activities which encourage community improvement and promote amateur athletics. Collectively, these events are referred to as "Celebrate Minnesota."

A. Background of the Issue

The concept behind Celebrate Minnesota 1990 has its roots in other states. For example, Tennessee had its "Tennessee Homecoming" and Michigan had its "Michigan Family Reunion." When Indiana recently hosted the Pan American Games and North Carolina the Olympic Festival, both states used the athletic events as centerpieces for statewide community improvement efforts.

These and other events have substantially increased tourism, served to instill pride in a state's citizens, and improved the appearance of the state and its communities. Citizens gained a renewed confidence in their ability to shape their own futures and a stronger ability to attract and maintain quality jobs.

A statewide observance such as Celebrate Minnesota 1990 offers an excellent opportunity to revisit our history and our heritage,

while focusing on the state's need to plan for the 21st Century.



Amateur athletics will play a central role in helping Minnesotans celebrate that special year. However, the emphasis on athletics will continue long beyond 1990. Not only does amateur athletics provide a healthy and wholesome activity for our citizens, it also is a proven developer of new jobs and economic activity.

The economic impact of sports in the United States is well documented. For example, a 1985 study conducted by the State of Utah estimated that championship amateur sporting events generate \$300 million annually in economic activity for the nation.

Minnesota has 55 amateur sports associations, representing 600,000 Minnesotans. Many of these associations are among the largest in the nation. This strength, coupled with the facilities now being constructed, place Minnesota in a good position for attracting additional major amateur sports events and associated economic benefits.

B. Recent Initiatives

Recent efforts by our public and private sectors have set the stage for the 1990 athletic events. In 1987, the Legislature, at the initiative of Governor Perpich,

created the Minnesota Amateur Sports Commission (MASC) and appropriated \$29.4 million for amateur sports facilities:

- Blaine Soccer Complex/Anoka County - soccer, track and field, cycling, (\$14.7 million)
- St. Cloud Hockey Training Center, St. Cloud State University - ice hockey (\$9.5 million)
- University of Minnesota (Minneapolis) - swimming, diving (\$3 million)
- Giants Ridge Recreational Area, Biwabik - skiing, nordic combined, (\$2.2 million).

To date, the MASC has helped to secure events with an estimated economic impact of \$54 million. In addition, the MASC is bidding for events to be held between 1989 and 1994 with an estimated economic impact of \$58 million. Finally, the MASC is working to secure the 1995 Pan Am Games (estimated economic impact of \$175 million) and the 1996 Summer Olympics (estimated economic impact of \$650 million).

As part of the amateur sports program, the MASC is developing Olympic-style "winter and summer state games." The games will serve as a showcase for amateur athletics in the state. The MASC is also facilitating a Minnesota Amateur Sports Congress and a Governor's Council on Physical Fitness and Sports.

C. Goals for 1988

The Governor hopes to combine celebration activities with the Olympic Festival and other sports and community activities into a grand series of coordinated events in 1990. But the goals extend well beyond that

year. By joining efforts on highly visible activities, he hopes to foster a sense of community that will carry our state forward into the international economy of the 1990s. These spin-off benefits associated with Celebrate Minnesota 1990 and the Festival should provide direct and measurable economic benefits.

*"Through the hard work of many Minnesotans, we attracted to our state the 1990 Olympic Festival. We should build on that success, promote a new sense of community and pride in Minnesota, and lay the groundwork for a continuing series of events and activities in Minnesota. These events will contribute to job creation, particularly in Greater Minnesota, and will improve our quality of life."
Governor Rudy Perpich*

The Governor's amateur athletics recommendations will provide opportunities throughout the state, and particularly in Greater Minnesota. Communities will be encouraged to identify individual sports upon which the community or region might focus. Examples might include Bemidji for softball, Mora for cross-country skiing, Rochester for swimming, Loretto for disabled sports, or Shakopee for bowling.

The Governor believes that no athletes in any major amateur sports should be hampered by the lack of first class facilities. The construction of these additional facilities will also allow the MASC and the amateur sport associations in the state to bid for premier sports events.

Finally, this program will seek to establish our state as a home for national team training. The existence of Olympic-caliber facilities and the resources of na-

tional coaching staffs can be a great catalyst for the development of our youth and for associated economic benefits.

D. Recommendations for 1988 Action

The Governor recommends \$3.3 million in financing and \$14.2 million in bonding authorization to help underwrite the costs associated with Celebrate Minnesota 1990. Key items in the spending plan for the program include:

- \$251,000 for additional administrative resources needed to carry out the statutory obligations of the MASC to develop the economic and social benefits of amateur sports.
- \$270,000 for operation of the new National Sports Center at Blaine. The MASC is the owner and operator of the Blaine facility.
- \$14.2 million for new sports facilities and/or improvements that will enable us to host national events and programming in the following cities: Roseville, Bloomington, Carlton, Duluth, Blaine, St. Cloud and Biwabik.
- \$2.2 million for community improvement and beautification matching grants for programs such as local celebrations, junkyard and riverbed clean-up, tree plantings, and neighborhood and main street revitalization.
- \$600,000 for statewide advertising and communications.

Funding for the celebration, Festival and related activities will be from the dedication of sales tax receipts from sports and health clubs in Minnesota. Dedication from this revenue source is an appropriate al-

location of resources that are directly related to the purposes being funding.

Contributions and other types of participation will be invited from the private sector and from local governments throughout the state.

CHAPTER 6

TRANSPORTATION

Transportation is the lifeline that links products with markets and connects people to jobs, shopping, health services and recreational opportunities. Aging facilities, growing travel demand, changing demographics and safety issues are placing greater burdens on these transportation systems. In addition, the effects of inflation and growing fuel efficiencies are eroding the buying power of traditional revenue sources.

Current revenues are insufficient to address growing highway and transit needs in Minnesota. A vigorous commitment for adequate and stable transportation funding is required to ensure a competitive advantage for Minnesota products and to guarantee essential alternatives for personal mobility.

A. Background of the Issue

Early settlement patterns and agricultural practices have endowed Minnesota with the fifth largest highway system in the country. State responsibility extends to nearly 12,100 miles of trunk highways, 30,000 miles of county state-aid roads and 2,000 miles of municipal state-aid streets.

Transit also serves an important mobility function. The 62 transit systems in Minnesota provide for over 80 million trips annually. Elderly and physically disabled persons account for over 70% of transit riders in rural areas and over 50% in small urban areas. Furthermore, transit provides an essential service for persons with low incomes--with 30% of worktrip riders in small urban areas earning less than \$5,000 per year. In the Twin Cities area, 50% of all

employees in Minneapolis commute to work by transit.

Four key issues and trends are placing increasing burdens on state highway and transit services. The cumulative impacts of these issues are creating an urgent demand for increased investment in transportation programs. These issues include:

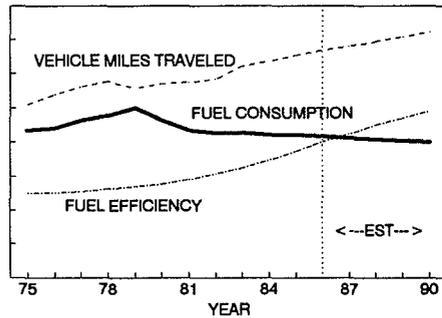
1. Aging Transportation Facilities. Nearly 25% of the state trunk highway system is over 50 years old. In addition, much of the interstate system now exceeds its 20 year design life. In addition, our transit system's buses, garages and other physical equipment are aging.

2. Growing Travel Demand. In 1986, motorists traveled over 33.8 billion miles in the state. Eighty-three percent of this mileage occurred on state supported roadway systems. This travel will grow as will travel by larger and heavier trucks. Five-axle truck travel, which increases road deterioration, is predicted to double by the year 2000.

Growing travel demand is increasing congestion in our urban areas. Travel on metro-area highways, between 1980 and 2000, is expected to increase by 36%. Finally, demand for transit services is also increasing.

3. Inflation, Motor Fuel Efficiencies and a Diminishing Federal Role. Although highway revenues have increased in recent years, the state's buying power has remained at a relatively constant level of investment. Similarly, although vehicle miles of travel are increasing, fuel consumption - and motor fuel tax revenues - are declining because of growing motor vehicle fuel efficiencies.

HIGHWAY REVENUE VARIABLES



While the purchasing power of each dollar diminishes, the amount of total federal transportation funding will also diminish because of continuing federal budget problems. In the past five years the amount of federal support for transit has diminished by almost 25%.

4. **Safety Issues.** A fourth issue affecting highway and transit services is safety. Although Minnesota has an outstanding safety record nationally, outmoded transportation facilities, growing travel demands and an increasing elderly population are making safety a priority area of concern.

B. Recent Efforts at Reform

The Perpich Administration has maintained continuous and strong support for transportation investment in Minnesota. For example, motor fuel taxes were increased by 3 cents per gallon in May 1983, and 1 cent per gallon in January 1984. In addition, automobile and truck registration fees and drivers' license fees were increased. In the last four years, transportation bonding of \$180 million has also been directed toward highway construction, and local bridge replacements.

C. Goals for 1988 Reform

The Governor believes that transportation funding should be increased in the 1988 ses-

sion. An increase is needed to help insure continued economic growth in our state and to maintain an infrastructure that contributes to our quality of life.

Specific goals of this Administration include:

- an orderly investment program to repair and modernize our aging highway and transit systems
- the development of creative alternatives - such as light rail - to meet our future transportation needs
- predictable and secure funding sources sufficient to meet our longer-term system needs.

*"Our transportation system is in need of additional funding. For too long our roadways and transit systems have lacked necessary resources for repair and maintenance. You have my pledge to continue working with the Legislature to find an acceptable financing solution."
Governor Rudy Perpich*

D. Recommendations for Action in 1988

In this budget message, the Governor is not making a specific recommendation for transportation financing. He believes the Legislature should enact a transportation financing package in 1988, and he pledges to support such a package if it meets certain basic guidelines.

The Governor continues to believe that a greater portion of the motor vehicle excise tax (MVET) should be transferred from the General Fund to highway and transit uses. However, such a transfer can only occur if the resulting General Fund deficiency is made up from other sources.

The Governor would also support additional transportation-related tax or fee increases if such increases are needed to meet transportation needs. The Joint House and Senate Transportation Finance Study Commission has proposed increasing the gas tax by 3 cents per gallon, and this would be acceptable to the Governor. Other acceptable transportation-related financing options include energy-related taxes, transportation bonding, broadening the MVET base, or motor vehicle registration fee increases.

A comprehensive transportation financing package should also deal with transit issues. The Governor has consistently supported the development of light rail in the Twin Cities metropolitan area, and he believes that this transportation alternative should be included in financing considerations.

E. Possible Future Actions

The transportation financing methods under current law, and those outlined above, will resolve the current crisis in highway funding. However, they do not solve the long-range funding problems facing our transportation system.

Therefore, the Governor urges continued legislative scrutiny of the problems facing our transportation system, and he pledges the assistance of the Administration in developing a permanent funding solution for presentation to the 1989 Legislature.

CHAPTER 7

PROPERTY TAXES AND LOCAL AIDS

As described more fully in Chapter 8, the 1987 Session of the Minnesota Legislature accomplished a major overhaul of the state's individual and corporate income taxes. Although some changes were also made in our system of property taxes and local aids, needed major reforms of these were deferred until 1988 and beyond. The Administration is now proposing a fundamental restructuring of both the property tax system and the fiscal relationship between state and local governments.

A. Background of the Issue

Minnesota's property tax and local aid systems have evolved over decades into a highly complex system of property differentiation and targeted state assistance. Beginning with four property classes in 1913, the system rapidly expanded into today's structure of some 68 classes.

The method by which the state finances local government activities has also increased in complexity. The system has grown to some 23 separate state-paid aids and credits.

Minnesota's system is far more complex than that of any other state. For example, two-thirds of the states have only one class of property. Others have two or three, but no state approaches our 68. Similarly, many states have three or four aid mechanisms, but no other state has as many as 23.

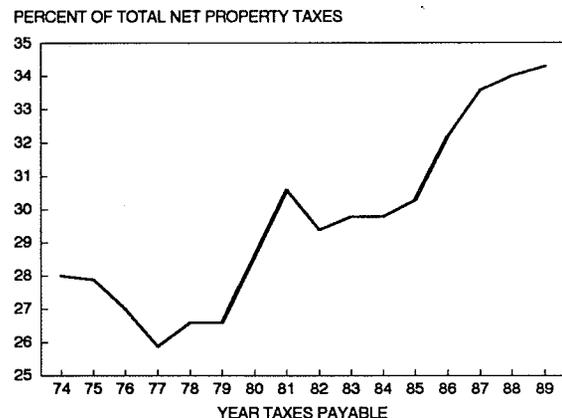
Complexity in the classification and aid systems causes several problems. First, very few people in the state fully understand the systems. And, when tax systems are not un-

derstood, they are perceived - and often become - unfair and distrusted.

Second, complex systems tend to hide public subsidies for the "favored" classes of property. Few taxpayers understand the tremendous subsidy our tax system gives to homes and farms when compared to "non-favored" classes like business property, utilities and vacant land. This system of hidden preferences tends to erode the tax bases and places higher and higher burdens on non-favored classes and on state appropriations.

We now face a major problem of inordinately high property taxes on commercial and industrial properties. Business owners in Minnesota are taxed at rates disproportionate to most other classes and to property taxes paid by business owners in other states. The business share of total property taxes has risen from 26% in 1977 to 34% in 1988. This penalty paid by business owners impairs our ability to attract and maintain jobs in Minnesota.

COMMERCIAL/INDUSTRIAL PERCENT OF NET PROPERTY TAXES, 1974 - 1989



Disparities are also growing between taxes paid by similarly valued and classed properties located in different parts of the state.

**Property Tax Rates Vary Greatly
And Are High On Businesses**

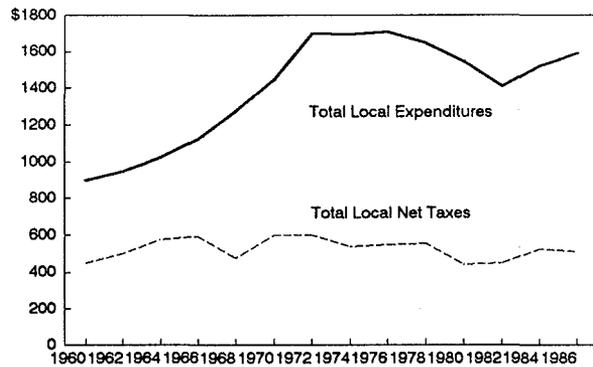
<u>Average Tax Rate</u>	<u>Homes</u>	<u>Businesses</u>
Metro Area	1.4%	4.7%
Greater Minnesota	1.1%	4.8%
Statewide	1.3%	4.7%
<u>Lowest Rate</u>	0.3%	1.5%
<u>Highest Rate</u>	2.5%	9.8%

Finally, our complex property tax and local aids system confuses local taxpayers about which governmental unit is responsible for providing which service. Currently, the state helps to finance virtually every local government activity. Some of the aids and credits are targeted to particular programs; others are simply grants-in-aid without specification as to permissible use.

In other cases, the state prescribes services and funding levels for programs which have statewide benefits, but the state requires local governments to raise the revenues to finance all or most of the total cost.

As the complexity of the property tax and local aid systems has grown, so too has the amount of state appropriations for local government operations and property tax relief. Today, 80 % of the state's general fund appropriations (or about \$4.4 billion per year) are returned as transfer payments to education and local government. The \$3.5 billion returned to local units amounts to 68% of total local government costs. While this percentage has grown from 53% in 1960, total local tax levies have remained relatively constant in real dollar terms over this period.

**PER CAPITA NET PROPERTY TAX and
EXPENDITURES FOR ALL LOCAL GOVERNMENTS
(IN CONSTANT 1986 DOLLARS)**



YEAR TAXES PAYABLE

The various formulas used to distribute aids to local governments were written years ago. Because they have been found to be inadequate for today's needs, ways have been found to avoid them.

For example, the state's Local Government Aid (LGA) formula distributes state aid to 855 cities in the state. However, the formula itself actually determines aids for only 346 of those cities; the rest are "grandfathered" at levels which are "off the formula." The result of this practice has been to distribute aids to most state cities on a basis other than needs and equities.

B. Recent Efforts at Reform

Interest in property tax reform goes back many years in Minnesota. For example, a 1972 Tax Study Commission report recommended a reduction in the number of property tax classes to four. These and other recommendations were not followed, primarily because of the political difficulty of making needed reforms which were perceived to adversely affect specific communities and property classes.

The impetus for more recent change came from the 1985 report of the Tax Study Commission created by Governor Perpich. That group recommended that the number of classes be reduced to three and that the Homestead Credit be eliminated and replaced with local government aids. A 1987 report by the Minneapolis-St. Paul Citizens League recommended a single class system and a variety of other improvements.

The 1987 session of the Legislature took the first steps toward property tax and local aids reform. The 68 classes will be reduced to nine in a law scheduled to become effective next year, and relief was provided business properties through a one-year special credit.

In addition, levels of state aids provided through the homestead and agricultural credits were made appropriation-driven rather than formula-driven. The Legislature will now be appropriating specific amounts to finance these programs, and local governments will no longer receive more state aid simply because they raised local levies.

Although these 1987 changes are helpful, they did not go far enough. Much more work needs to be done.

C. Goals for 1988 Reform

It is appropriate for the state to pay a significant portion of local operations. Local governments in Minnesota have few independent revenue sources, they vary widely in their relative ability to raise needed money from these limited sources, and local governments find themselves in the midst of major federal funding cutbacks.

Minnesota state government should be expected to play a continuing and strong role in local government finance and property tax relief. However, given the inequities in the present system, and the tremendous fiscal exposure of the state, this aid must be carefully targeted and future costs carefully controlled.

*"Major principles that guided tax reform in 1987 were simplicity, competitiveness, accountability and fairness. We must now apply those same principles to the remaining major fiscal problem we have in Minnesota - our property tax and local aid systems."
Governor Rudy Perpich*

Six general objectives guide the Governor's reform program:

- The system of classes and credits must be made simpler and more understandable to taxpayers.
- Permanent property tax relief must be provided for business property.
- State aid for local government should increase, but in a way that controls future state expenditures.
- State aids and credits should be targeted to those taxpayers and communities that need the help the most.
- State government accountability should be increased by having the state finance more of the cost of programs it mandates.
- Local government accountability should be increased by giving cities and counties greater flexibility in raising local dollars for local expenditures.

D. Recommendations for 1988 Action

Consistent with the problems and principles identified above, the Governor makes the following recommendations for overhauling our system of property taxes and local aids:

1. Property reclassification. The system of classification of property should be reduced to four classes for taxes payable in 1989. This reclassification will reduce taxes on two classes which have been taxed at very high rates: commercial/industrial property and apartments. The identification of the four new classes, and the effect of this new system on current statewide tax levels, is shown in the following diagram.

STATEWIDE AVERAGE RESULTS

	<u>% CHANGE</u>
HOMES	0
FARMS	0
COMMERCIAL/INDUSTRIAL	-10%
APARTMENTS	- 8%
SEASONAL RECREATIONAL	-10%
VACANT LAND	- 2%
SEAS. REC. COMMERCIAL	- 7%
UTILITY AND PERSONAL	- 2%

2. Credit eligibility and funding reform. The homestead credit should be retained, but amounts for it should be specifically appropriated each biennium by the Legislature. The homestead credit formula should be changed to remove the credit from homes with extremely low effective tax rates.

3. Increased and targeted state aid. In the 1990-91 biennium, state aids to local government should increase by approximately \$200 million, with the in-

creased aid used to reduce taxes on apartments and commercial/industrial property, to provide for a state takeover of state-mandated income maintenance programs (AFDC, Medical Assistance, General Assistance, General Assistance Medical Care, Minnesota Supplemental Aid, Emergency Assistance, and Work Readiness), and to provide increased local government aid (LGA) to cities based on a new equalized city/county tax burden formula.

4. Increased governmental accountability. Local government levy limits should be repealed after the 1989 transition year. Local governments should have full authority, beginning in 1990, to raise as much in property taxes and other local levies as is needed to provide desired levels of local services.

E. Possible Future Actions

The reforms outlined above will go far toward reforming our current system of property taxes and local aids. However, a more expansive review of the relationship between state and local governments is also needed.

Therefore, the Governor has directed his Advisory Commission on State-Local Relations (ACSLR) to undertake a major study of the distribution of governmental functions between units of state and local government. ACSLR is created by Executive Order and includes representation from eight state agencies having extensive contact with local government and five local government associations. Key legislators from both parties serve as ex-officio members.

This ACSLR study will be prepared in time for legislative action in 1989.

CHAPTER 8

CONTINUATION OF TAX REFORM

At the initiation of the Governor, the 1987 session of the Minnesota Legislature accomplished the most significant one-time restructuring of the Minnesota Tax Code ever attempted.

The Governor's 1988 proposals for tax reform have two essential elements: continuing the initiatives begun in 1987 and overhauling the state's system of property taxes and local aids.

This chapter will focus on the first of these elements; Chapter 7 outlines the latter.

A. Background of the Issue

Three principal factors contributed to reform in 1987. First was the growing dissatisfaction with current law. Prior to the 1987 reforms, Minnesota's tax system had been frequently criticized for its inequities, uncompetitiveness, complexity and revenue instability. A number of tax study commissions had in recent years recommended fundamental restructuring, and some modest improvements had been made. However, the fundamental problems remained.

The most recent comprehensive review of Minnesota's tax structure was the 1984 Report of the Minnesota Tax Commission. That report outlined the myriad of system problems and recommended a comprehensive reform package. Some of the recommendations were adopted in 1985, but most were deferred by the Governor and the Legislature until later years.

In mid-1986, the Department of Revenue was instructed by the Governor to review the work of the Commission and to solicit opinion from citizens and interest groups about reform options. The Department's 1987 report reinforced the conclusion of earlier studies that Minnesota's tax system was in need of major overhaul.

The second impetus for reform in 1987 was the passage of the 1986 Federal Tax Reform Act. That legislation literally forced Minnesota (and all other income tax states) to review our laws and determine whether or not to conform to the sweeping federal changes.

The final impetus for reform was a projected state budget deficit. A slowdown in the national economy forced the Governor and the Legislature to seek additional funding sources.

B. Recent Efforts at Reform

Building from the impetus of the 1986 Federal Tax Reform Act, Minnesota's 1987 tax system overhaul focused on the state's individual and corporate income taxes. Less significant changes were also made in nearly a dozen other taxes.

The 1987 overhaul was guided by six fundamental goals established by the Governor. These goals, and the progress made toward achieving them in 1987, include:

- Improving fairness. The individual and corporate income tax law changes incorporated the federal repeal of many exclusions, preferences and loopholes. In addition, several major Minnesota exclusions and preferences were repealed. Individual income taxes were cut for the majority of Min-

nesotans, and an additional 125,000 lower income persons no longer have any tax liability.

- **Restoring competitiveness.** The 1987 reforms continued our successful efforts to reduce income and corporate tax rates. The 1987 broadening of the tax bases allowed the top individual rate to be lowered from 14% to 8% (with a percentage of the federal surtax for certain higher-income persons). The corporate rate was lowered from 12% to 9.5%. The net effect of these changes was a significant drop in Minnesota's national tax rate rankings. Our individual income tax rate ranking dropped from fourth to sixteenth, and our corporate tax ranking dropped from first to ninth.
- **Adding revenue stability.** The combination of lowered rates and broadened bases made our tax system more stable and more predictable. The addition of a corporate alternative minimum tax added over 8,000 corporate taxpayers to the tax base.
- **Increasing governmental accountability.** Changes in the property tax system added more fiscal control to our expensive state aids and credits. (Note: the Governor's 1988 property tax/local aids reforms, as outlined in Chapter 7, will further this goal.)
- **Simplifying the system.** Our degree of federal conformity was significantly increased by beginning income tax calculations with federal taxable income rather than adjusted gross income. This simplification reduced the length of our long form from 30 to 17 lines, and two-thirds of our taxpayers are now eligible to use the nine line short form. Simplifica-

tions were also made in the corporate, sales and property taxes.

- **Improving system enforceability.** Tax system compliance was improved through a combination of law changes and resource increases for the Department of Revenue. In addition, the broadening of tax bases, reduction in rates, and overall simplification further improved enforcement capabilities.

C. Goals for 1988 Reform

The Governor's proposals for tax reform in 1988 will further the goals adopted for the 1987 reform package. In addition, they will conform our taxes to the 1987 federal tax law changes which were included in the federal budget balancing legislation enacted in December, 1987. This conformity is needed to maintain the simplification and stability gains made last session.

*"We made great progress on tax reform in 1987. We became a national leader in the way we improved progressivity and simplified our system. We removed unfair tax loopholes. We reduced tax rates so that we are no longer among the national leaders on high rates. Some 125,000 additional lower income Minnesotans no longer have tax liability."
Governor Rudy Perpich*

But our work is not done. The Congress recently adopted new tax changes, and these should be incorporated in our tax laws. In addition, stronger tax compliance programs are needed for our sales and corporate taxes.

D. Recommendations for 1988 Action

To accomplish the goals outlined above, the Governor makes the following recommendations.

- Foreign source income. Our future economic health depends in part on our businesses expanding their activities abroad and on multinational businesses expanding their activities in Minnesota. However, our current corporate tax laws attribute more foreign source and intangible income to Minnesota than do the laws of almost any other state. The net result is that we discourage expansion in Minnesota by internationally active businesses.

The Governor recommends that we include only 20% of the income, and none of the expenses, repatriated from the foreign operations of multinational businesses in our corporate income tax base. Further, we should adjust our apportionment formula to take intangible operating income into account. These changes would leave Minnesota among the more aggressive states with respect to such income, but should end the currently prevailing charges of unfairness. For F.Y. 88-89, the cost of this change would be \$3.1 million. For F.Y. 90-91, the cost would rise to \$29.6 million.

- Elderly and disabled credit. As part of the movement toward tax equity and simplification, the 1987 Minnesota Tax Reform Act removed a special tax deduction available only to pension recipients. To offset this loss and to help low income pensioners and disabled persons, the Legislature permitted eligible persons to receive 40% of the federal elderly and disabled credit. The reduced tax rates available to all taxpayers under the 1987

law, and the new federal credit, more than made up for the loss of the deduction for many pensioners. Some low income pensioners, however, still need additional assistance. Therefore, the Governor recommends that the credit be increased to 100% of the federal credit. This change will cost the General Fund \$1.0 million in F.Y. 89 and \$2.1 million in F.Y. 90-91.

- Parimutuel racing. The Governor desires to help develop Thoroughbred horse breeding in Minnesota through changes in our parimutuel tax and the purse structure at Canterbury Downs. Without these changes, the track will become uncompetitive on purses, the quality of our horses and horse breeding industry will drop, and the state's tax revenues will suffer.

The Governor recommends increasing purses from 5% to 9% of betting revenues and decreasing both the parimutuel tax and the residual share of revenues which revert to the track owners. At 9%, purses would be fully competitive with other tracks, and Minnesota breeding and racing would be encouraged.

The current tax rate is 1.75% on the first \$48 million of wagers and 6% on wagers above \$48 million. The Governor proposes to reduce the rate to a flat 1.95% on all wagers. The residual share of betting proceeds paid to the track owners would be reduced from 10% to 9%, but this reduction would be partially offset because the higher purses would mean that the track would no longer need to supplement purses, as it did in the past. Track bettors will continue to receive the same percentage back in winnings.

The cost to the General Fund (which is calculated on the assumption that there would be no increase in betting revenue) would be \$3.2 million in F.Y. 88-89, and \$6.4 million in F.Y. 90-91. It is possible that betting revenue may increase as a result of this change, and highly likely that it would decrease without the change.

- 1987 federal tax law conformity. As part of its program to balance the federal budget and to correct errors in the 1986 Federal Tax Reform Act, the Congress in late 1987 enacted a number of tax increases affecting primarily businesses. In keeping with our commitment to increased federal conformity (which improves our simplicity and enforceability), the Governor recommends adoption of those federal tax law changes. For F.Y. 88-89, the gain to the General Fund will be \$33.7 million; for F.Y. 90-91, the gain will be \$49.4 million.
- Sales and income tax enforcement. As our economy becomes more national and international in scope, we encounter more non-Minnesota businesses selling their products and services in our state. Mail order and telemarketing sales are two segments of this activity that are growing extremely fast.

Unfortunately, many of these non-Minnesota businesses do not pay the corporate income taxes which they owe to Minnesota or collect Minnesota sales tax on their sales. These businesses therefore have an unfair competitive advantage over our in-state businesses.

The Governor proposes a major initiative designed to identify and collect taxes from those out-of-state businesses that do business here without paying their fair

share of taxes. A key part of this program is the Governor's recommendation to expand our sales tax "nexus" laws. This law change, coupled with the 1987 changes on income tax nexus and the out-of-state audit offices recently established, will fully equip the Department of Revenue for a strong effort to collect these taxes and eliminate this serious source of unfair competition for Minnesota merchants. Altogether, these changes will generate \$41 million for the General Fund in F.Y. 88, and \$70 million in F.Y. 90-91.

CHAPTER 9

THE CAPITAL BUDGET

Governor Perpich's 1988 capital budget reflects a principal priority of this Administration - education. It continues our long range goal of restoring our infrastructure and emphasizes one of the foremost long range strategic objectives of the state. This capital budget totals \$422 million and is financed by the proceeds from the sale of state general obligation bonds.

A. Background of the Issue

A capital budget attempts to relate the infrastructure needs of the state with our current bonding capacity. Several factors constrain the amount of bonding capacity that is available. These include the amount of total debt outstanding, our debt management policy guidelines, current and projected interest rates, and cash flow requirements of the specific construction projects.

1. Total debt outstanding. The state now has \$1.3 billion in general obligation bonds outstanding. As noted in the chart, 79% of these bonds are funded by the General Fund, and the remaining bonds are funded by miscellaneous tax sources. The State Constitution limits maturities on these bonds to no more than 20 years.

G.O. Bonds Outstanding
\$1.3 Billion as of January 1, 1988
(\$ millions)

General Fund	\$1,149.4	88.3 %
Cigarette Tax	45.0	3.5 %
Trunk Highway	81.8	6.2 %
All Other	26.2	2.0 %
Total	\$1,303.2	100.0 %

The cost of supporting these bonds will be approximately \$346 million in F.Y. 88-89. These dollars come from a variety of fund sources as reflected below.

Debt Service Appropriation by Fund
(\$ millions)

General Fund	\$274.0	79.1 %
Cigarette Tax	41.8	12.1 %
Trunk Highway	20.8	6.0 %
All Other	9.7	2.8 %
Total	\$346.3	100.0 %

2. Debt policy guidelines. The state's current debt management policy was developed in 1979 and has three objectives. The first is to restore the state's credit rating to triple-A. We lost that prized rating in 1982 and are now rated "Aa" from Moody's Investors Service, and "AA+" from Standard and Poor's Corporation. The second debt policy objective is to minimize state borrowing costs, and the third is to provide a reasonable financing capacity within a prudent debt burden.

Moody's and S & P rate our state's general obligation bonds using four principal criteria:

- The economic vitality of the state
- The financial management of the state
- The tax burden of the state
- The debt burden of the state

Of these four criteria, the two that are the most significant to the rating agencies are economic vitality and financial management.

3. Interest rates. The interest rates tied to state bonds influence the amount of debt service needed to retire the bonds. The Legislature must appropriate sufficient dollars to amortize both interest and principal, and the higher the interest rate (resulting from our credit rating and prevailing market rates), the more appropriated debt service is needed.

This capital budget is premised on the following interest rates:

Interest Rates		
August	1988	7.2 %
February	1989	6.9 %
August	1989	6.9 %
February	1990	6.9 %

4. Timing of construction of financed projects. The construction cycle for each project is important in determining how much cash is needed each year to fund all pending projects. Only enough bonds are sold to meet projected pay-out needs for pending projects. Although many projects can be completed within the biennium in which they are first authorized, others may have a multi-year completion schedule. The more extended the construction periods, the less cash (and therefore bond proceeds and appropriated debt service) are needed at any one time. Also relevant is the constitutional requirement that the state make available in advance at least 19 months of debt service.

B. Goals for 1988 Capital Budget

Over the past several years, the Governor has recommended significant building projects for the state. In part, these requests reflected the need to make up for years of neglect to our state's critical infrastructure

needs. In part, these requests also reflected the Administration's commitment to the state's long-term future. The Governor continues these goals in his 1988 Capital Budget.

The Governor believes that construction for education is the most appropriate--and needed--use of our bonding authority. Therefore, he recommends that 82% of this total bonding request be dedicated to education.

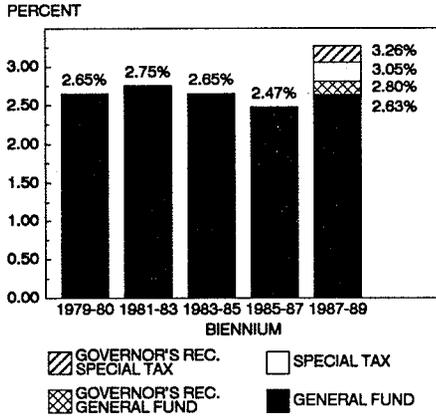
"The focus of the 1988 capital budget is education. This focus is appropriate for three fundamental reasons: the importance of quality education to the future of our children, the dramatic need for major rehabilitation and construction of our education infrastructure, and the significant role that education plays in job creation."
Governor Rudy Perpich

The 1988 capital budget is not limited exclusively to education. Certain life safety and Capitol Area projects are included, but these are added because of emergency needs and the need to continue projects already started.

C. Recommendations for 1988 Action

This capital budget totals \$422 million. Approximately \$20.3 million in General Fund dollars is needed to fund the debt service, and \$2.2 million is necessary to fund those items that are not bondable. The following chart displays how these funding increases impact the state's self-imposed guideline that debt service be limited to 3% of non-dedicated General Fund revenues.

**DEBT SERVICE AS A PERCENTAGE
OF GENERAL FUND NON-DEDICATED REVENUES**



This capital budget targets over \$338.3 million to educationally-related projects. The following chart highlights the bonding authorizations for the education-related projects:

Technical Institutes	\$ 85.9
Community Colleges	62.3
State universities	57.5
University of Minnesota	130.1
Rochester	.6
Corrections	1.9
Total	\$338.3

Most of the projects in the Vocational-Technical Institutes expand classroom space and access to student services, including child care. Examples of these projects, which are found on campuses throughout the state, are:

Detroit Lakes	\$ 3.5m - Classroom Expansion
Winona	\$ 4.5m - Aviation Ctr. Addition
Anoka	\$ 3.8m - Campus Upgrade
Bemidji	\$ 1.2m - Auto & Child Care Addition
Hibbing	\$11.3m - New Campus

The Governor recommends that the Community College System receive \$62.8 million in capital projects. Due to expanding enrollments, additional classroom space is

needed at many of the campuses. The Community College system also serves a significant number of nontraditional students requiring child care and student support services. Examples of community college projects include:

Fergus Falls	\$ 3.6m - Expansion/Remodeling
Normandale	\$ 6.0m - Student Svc. Ctr./Admin.
Cambridge	\$ 2.3m - Expansion
Worthington	\$ 3.1m - Expansion/Remodeling

The State University System is also experiencing significant enrollment increases which have resulted in the need for expansion at several campuses. Continued priority is also given to projects which reinforce the State University System's mission of building a strong foundation for applied research. Examples of projects include:

Mankato	\$ 9.6m - Trafton Engin. Bldg.
Winona	\$ 9.0m - Applied Science
Systemwide	\$ 5.0m - Hazardous Materials Removal
Systemwide	\$ 3.9m - Enclosed Walkways
Mankato	\$ 9.7m - Library

The Governor's recommendations for the University of Minnesota's capital budget will continue efforts to strengthen the University's research and engineering programs. In addition, the University has placed priority on projects which relate to maintenance of its existing buildings. Examples of projects include:

Twin Cities	\$ 6.8m - Biological/Related Sciences
Duluth	\$ 9.4m - Campus Ctr.
Twin Cities	\$14.8m - Electrical Engineering
Austin	\$.3m - Main Facil./Machine Shop
Waseca	\$.3m - Campus Center
Systemwide	\$15.0m - Asbestos Remov./Life Safety

The remainder of the capital projects are needed to address emergency items in our other state facilities, to enhance the state's amateur athletic facilities (as outlined in Chapter 5), and to continue the construction of projects that were authorized in the last capital budget. Examples of these projects include:

Vets Home	\$ 3.5m - Upgrade Elec., Demol. Bldgs Construct Tunnel, Bridge
Health	\$ 1.3m - Laboratory Code Modif.
Cent. Bldg.	\$13.5m - Complete Remodeling
Admin. Bldg.	\$ 5.0m - Remodeling
Capitol Res.	\$ 4.4m - Remodeling
Correct.	\$ 1.8m - Window, Boiler Replacement

CHAPTER 10

FISCAL STABILITY

A consistent theme of the Perpich Administration has been stability in state government finances. In today's period of economic uncertainty, this task is all the more important - and all the more difficult.

A. Background of the Issue

Until the early 1980's, fiscal stability was not a major concern of Minnesota state government. The prevailing trend for the preceding 20 years had been positive. More often than not, revenues came into the Treasury at rates faster than forecast. The principal issue facing governors and legislators was how to distribute the extra dollars, not how to make up shortfalls.

All that changed with the rapid decline of the American and Minnesota economies in the early 1980's. Revenues consistently came in below forecast and the Legislature was called into a record number of special sessions to raise taxes and cut spending.

In those years of financial turmoil, Minnesota reverted to undesirable financial devices. Expected future revenues were moved by accounting "shifts" into current biennia to help balance current budgets. Sometimes current expenditures were "shifted" into future biennia. Minnesota was forced to borrow short-term money to pay current obligations.

Objections increased to the use of accounting devices to balance the budget. The objections of New York bond rating agencies were particularly harmful to the state. Those agencies ultimately took away our state's prized triple-A credit rating, and we were forced to pay higher interest rates on

our bonds. As a result, the state chose to sell fewer bonds, and the condition of our infrastructure deteriorated.

Our fiscal instability was not solely caused by accounting and spending problems. As discussed in Chapters 7 and 8, our tax and local aids systems had become notoriously unstable. As a reflection of this condition, the Federal Advisory Commission on Intergovernmental Relations designated Minnesota as having the most unstable fiscal structure of all the states.

B. Recent Efforts at Reform

Upon taking office in 1983, Governor Perpich committed to a restoration of fiscal stability. This commitment took the form of tax reform, as summarized in Chapter 8, and a reformation of the budgeting practices of the state. Improvements in state fiscal stability included the following:

1. Cessation of short-term borrowing. With adequate and secure funding for state programs, the state was able to stop its sale of bonds to finance current operations.
2. Creation of budgeted reserve. To help guard against unanticipated budget shortfalls, and to provide reserves for cash flow cycles, a budgeted reserve or "rainy day fund" was created in 1983 and strengthened in subsequent years.
3. Reliance on specific appropriations. Several major state spending programs had in the past been funded by formulas rather than dollar-specific appropriations. The results had been uncontrollable spending increases. The solution was to convert several of these

formula-driven programs into specific appropriations.

4. Expanded unallotment authority. The Commissioner of Finance was given expanded authority to order spending cut-backs in periods of revenue shortfalls without obtaining prior legislative authorization.

5. Revenue adjustment. The 1987 session of the Legislature provided for automatic tax rate increases of 0.25% on the income tax and 0.4% on the corporate tax if the November 1988 forecast projected a balance in the reserve of between \$50 million and \$150 million on June 30, 1989. If the reserve was projected to be less than \$50 million, the income tax rates were to be increased by 0.5% and the corporate rate by 0.8%.

C. Goals for 1988 Reform

The gains in fiscal stability achieved through the mechanisms outlined above must be preserved and, in some cases, strengthened.

"All of us now recognize the importance of fiscal stability for the state. We cannot go through the horrors of repeated special session, tax increases and spending cuts. We must do what is necessary to protect our futures, especially in these unpredictable times."

Governor Rudy Perpich

D. Recommendations for 1988 Action

The Governor recommends the following essential steps for the strengthening of fiscal stability in the state.

1. Continue efforts to increase budgeted reserve. The 1987 Omnibus Tax Reform

Act provided that major portions of any forecasted budget surpluses would revert to the budgeted reserve, up to a maximum of \$550 million. The January 1988 forecast increased the reserve by \$95.5 million up to a total of \$345.5 million. This amount must be retained in the reserve during the 1988 session, and the law providing for subsequent additions to the reserve should be continued.

2. Consider spending reductions before tax increases. Upon the issuance of a forecast which projects the reserve to be exhausted, and before any revenue adjustment is implemented, the Commissioner of Finance should be required to consider unallotments of authorized spending. Proposed unallotments should be approved by the Governor and submitted to the Legislative Advisory Commission for consultation.

3. Defer implementation of revenue adjustments. These times of very high economic uncertainty require a higher than normal degree of protection for state finances. A larger budget reserve and the required consideration of unallotments should provide this needed protection. However, in a very severe economic downturn these may not be enough, and a fall-back position is therefore needed.

The Governor recommends that after the reserve is projected to be totally exhausted, and after the Commissioner of Finance has ordered appropriate unallotments, the revenue adjustment should be implemented. Upon implementation, income tax rates would be increased by 0.5% and the corporate rate by 0.8%.

This page intentionally left blank.

Budget Summaries - Appendix

The following section provides additional detail on the historical and recommended level of revenue and spending for the state General Fund. The tables are presented to provide commonly requested information and additional financial detail. The first table highlights resource and spending changes recommended by the Governor for the 1987-89 biennium which ends June 30, 1989.

- Summary: Resources and New Spending Initiatives Page A-1
- Summary: 1987-89 General Fund Resources Page A-2
- Summary: 1987-89 General Fund Spending Page A-3

Other tables present the past biennium and current budget adjusted for the Governors' recommendations displayed by functional spending category and by legislative bill.

- Summary: By Major Functional Categories Page A-4
- Summary: By Legislative Bill Page A-5
- Summary: Percent of Total Page A-6

A four year outlook is presented for planning purposes which highlights the expected impact of the Governors' Property Tax Reform proposal and other recommendations for the next biennium, fiscal years 1990-1991.

- Four Year Outlook, F.Y. 1990-91 Page A-7

Finally, a listing is included which details all revenue and expenditure recommendations by agency and item for the General Fund and other state funds.

- Listing of 1988 Session Budget Recommendations Page A-8
to A-15

Additional information on individual program recommendations and Capital Budget can be found in a companion detailed document **Supplemental Budget Recommendations**.

SUMMARY OF 1988 RECOMMENDATIONS GENERAL FUND

(\$ in thousands)

The January, 1988 forecast, after statutory allocation of a projected \$233 million surplus, results in an increase in the Budget Reserve to \$345.5 million and an unrestricted (spendable) balance of \$ -0- projected for June 30, 1989.

Funding for the Governor's 1988 session initiatives is highlighted below.

REVENUE INCREASES:

TAX CHANGES	
FEDERAL CONFORMITY	33,700.0
TAX NEXUS/ENFORCEMENT	41,000.0
FEES	262.5

EXPENDITURE REDUCTIONS:

DEFER SCHOOL PROPERTY TAX RECOGNITION	31,990.4
PROGRAM REDUCTIONS	6,200.0

TOTAL AVAILABLE	\$113,152.9
------------------------	--------------------

NEW INITIATIVES:

EXPENDITURE INCREASES:

EDUCATION AIDS	29,494.0
POST-SECONDARY EDUCATION	33,465.0
HUMAN RESOURCES	8,075.4
DEBT SERVICE:	
POST-SECONDARY EDUCATION	14,000.0
OTHER DEBT SERVICE	6,272.4
ALL OTHER	8,375.0

TAX EXPENDITURES:

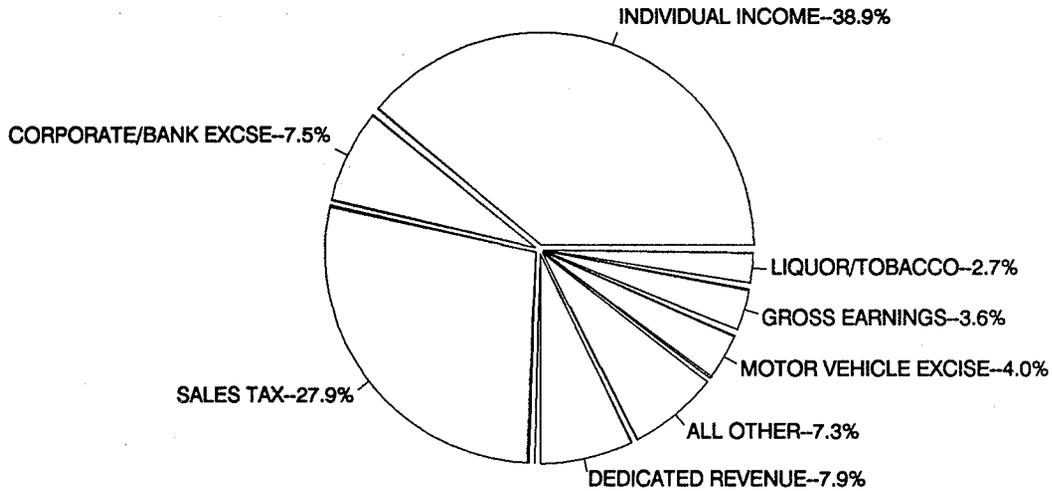
EXEMPT UNIVERSITY HOSPITAL SALES TAX	1,700.0
FOREIGN SOURCE INCOME	3,100.0
ELDERLY CREDIT	1,000.0
ALL OTHER	6,471.5

TOTAL NEW INITIATIVES	\$111,953.3
------------------------------	--------------------

BALANCE	\$ 1,199.6
----------------	-------------------

**1987-89 GENERAL FUND RESOURCES
WITH GOVERNOR'S RECOMMENDATIONS**
(\$ IN THOUSANDS)

1987-89 BIENNIUM
\$11,944,502.5



Balance Forward 6-30-87	477,485.7
Prior Year Adjustments	22,000.0

Revenues:

Individual Income Tax	4,651,600.0
Sales Tax	3,333,485.3
Corporate/Bank Excise	901,100.0
Motor Vehicle Excise Tax	477,200.0
Gross Earnings Taxes	432,404.7
Liquor and Tobacco	325,161.9
Other Revenue	346,045.0
Subtotal-Revenue	\$10,466,996.9

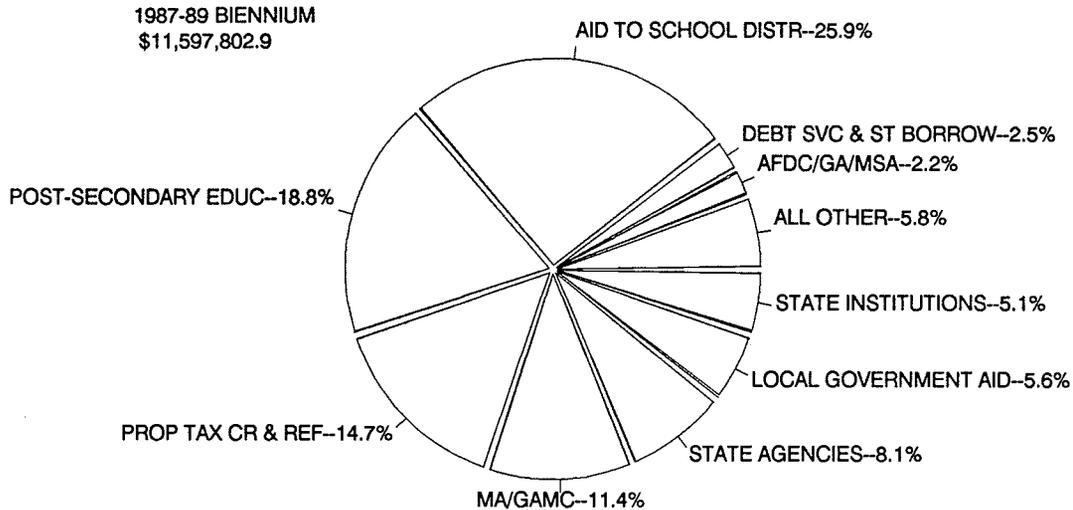
Dedicated Revenue	947,217.5
Transfers From Other Funds	30,802.4
TOTAL AVAILABLE RESOURCES, FY 1987-89	\$11,944,502.5

Less: Estimated Expenditures	(11,597,802.9)
Budget Reserve	(345,500.0)

Projected General Fund Balance 6-30-89	\$ 1,199.6
(February, 1988 Governor's Recommendations)	

DEPARTMENT OF FINANCE
FEBRUARY 11, 1988

**1987-89 GENERAL FUND SPENDING
WITH GOVERNOR'S RECOMMENDATIONS**
(\$ IN THOUSANDS)



Major Spending Items

Aid to School Districts	\$ 3,008,527.4
Post-Secondary Education	2,192,817.9
Property Tax Credits & Refunds	1,713,477.6
MA/GAMC	1,328,195.9
Local Government Aid	647,806.9
Income Maintenance (AFDC, GA, MSA)	251,873.9
Debt Service & Short Term Borrowing	294,542.4
Subtotal	\$ 9,437,242.0

All Other Spending

State Agencies	940,563.1
State Institutions	590,048.2
Other Major Local Assistance	487,904.5
Legislative, Judicial, Const. Officers	182,045.1
Subtotal-All Other Spending	\$ 2,200,560.9

TOTAL AUTHORIZED SPENDING

\$ 11,637,802.9

Less: Estimated Cancellations

(40,000.0)

TOTAL ESTIMATED EXPENDITURES, FY 1987-89

\$ 11,597,802.9

Estimates of expenditures by category including recommendations.

DEPARTMENT OF FINANCE
FEBRUARY 11, 1988

BIENNIAL COMPARISON: MAJOR FUNCTIONAL CATEGORIES

	CLOSING F.Y. 1986-87	GOV'S REC F.Y. 1988-89	\$ DIFFERENCE	PERCENT CHANGE
RESOURCES				
BALANCE FORWARD IN	538,543.9	477,485.7	(61,058.2)	
INDIVIDUAL INCOME TAX	4,260,885.5	4,651,600.0	390,714.5	9.2%
SALES TAX-GENERAL	2,831,001.3	3,333,485.3	502,484.0	17.7%
CORPORATE INCOME TAX	799,988.5	901,100.0	101,111.5	12.6%
MOTOR VEHICLE EXCISE	433,386.1	477,200.0	43,813.9	10.1%
OTHER NON-DEDICATED REVENUE	992,736.6	1,103,611.6	110,875.0	11.2%
SUBTOTAL	9,317,998.0	10,466,996.9	1,148,998.9	12.3%
DEDICATED REVENUE, TRANSFERS	893,083.7	978,019.9	84,936.2	9.5%
OTHER RESOURCES	31,778.1	22,000.0	(9,778.1)	-30.8%
TOTAL RESOURCES	10,781,403.7	11,944,502.5	1,163,098.8	10.8%
MAJOR SPENDING ITEMS				
AID TO SCHOOL DISTRICTS	2,563,086.7	3,008,527.4	445,440.7	17.4%
POST-SECONDARY EDUCATION	1,919,409.5	2,192,817.9	273,408.4	14.2%
PROPERTY TAX CREDITS & REFUNDS	1,694,405.1	1,713,477.6	19,072.5	1.1%
MA/GAMC	1,141,447.7	1,328,195.9	186,748.2	16.4%
LOCAL GOVERNMENT AID	599,348.5	647,806.9	48,458.4	8.1%
DEBT SERVICE & ST BORROWING	233,701.2	294,542.4	60,841.2	26.0%
INCOME MAINT (AFDC, GA, MSA)	288,515.2	251,873.9	(36,641.3)	-12.7%
SUBTOTAL	8,439,913.9	9,437,242.0	997,328.1	11.8%
OTHER MAJOR LOCAL ASSISTANCE	364,503.3	487,904.5	123,401.2	33.9%
STATE INSTITUTIONS	521,361.0	590,048.2	68,687.2	13.2%
LEGIS., JUDICIAL, CONST.	163,472.9	182,045.1	18,572.2	11.4%
STATE AGENCIES	814,666.9	940,563.1	125,896.2	15.5%
SUBTOTAL - ALL OTHER	1,864,004.1	2,200,560.9	336,556.8	18.1%
SUBTOTAL EXPEND. & TRANSFERS	10,303,918.0	11,637,802.9	1,333,884.9	12.9%
ESTIMATED CANCELLATIONS	0.0	(40,000.0)	NA	
TOTAL EXPENDITURES & TRANSFERS	10,303,918.0	11,597,802.9	1,293,884.9	12.6%
UNRESERVED FUND BALANCE	477,485.7	346,699.6	(130,786.1)	
BUDGET RESERVE	250,000.0	345,500.0	95,500.0	
APPROPRIATIONS CARRIED FORWARD	58,956.4	NA	NA	
UNRESTRICTED BUDGETARY BALANCE	168,529.3	1,199.6	(167,329.7)	

BIENNIAL COMPARISON: LEGISLATIVE BILL FORMAT

	CLOSING F.Y. 1986-87	GOV'S REC F.Y. 1988-89	\$ DIFFERENCE	PERCENT CHANGE
ACTUAL AND ESTIMATED RESOURCES				
(A)BALANCE FORWARD	538,543.9	477,485.7	(61,058.2)	NA
(B)PRIOR YEAR ADJUSTMENTS	31,778.1	22,000.0	(9,778.1)	-30.8%
ADJUSTED BALANCE FORWARD	570,322.0	499,485.7	(70,836.3)	-12.4%
NON-DEDICATED REVENUE:				
(C)NET NON-DEDICATED REVENUE	9,317,998.0	10,466,996.9	1,148,998.9	12.3%
(N)NEW LEGISLATION--REVENUES	0.0	0.0	0.0	NA
NET NON-DEDICATED REVENUE	9,317,998.0	10,466,996.9	1,148,998.9	12.3%
(D)DEDICATED REVENUE	860,152.9	947,217.5	87,064.6	10.1%
(E)TRANSFERS FROM OTHER FUNDS	32,930.8	30,802.4	(2,128.4)	-6.5%
TOTAL RESOURCES AVAILABLE	10,781,403.7	11,944,502.5	1,163,098.8	10.8%
ACTUAL AND ESTIMATED EXPENDITURES				
(F)NEW LEGISLATION	0.0	0.0		
(G)EDUCATION AIDS	2,602,876.2	3,046,669.7	443,793.5	17.1%
(H)EDUCATION	1,478,345.3	1,712,819.5	234,474.2	15.9%
(I)HEALTH, WELFARE, CORRECTIONS	1,961,152.3	2,185,133.3	223,981.0	11.4%
(J)TRANSPORTATION/SEMI-STATE	196,593.1	194,705.3	(1,887.8)	-1.0%
(K)STATE DEPARTMENTS	509,203.8	628,878.7	119,674.9	23.5%
(M)UNALLOTTED/BALANCE FORWARD	(8,794.8)	0.0	8,794.8	NA
(O)DEFICIENCIES	0.0	0.0	0.0	NA
TOTAL DIRECT EXPENDITURES	6,739,375.9	7,768,206.5	1,028,830.6	15.3%
(P-S)AIDS, CREDITS, RETIREMENTS	2,409,165.2	2,500,835.2	91,670.0	3.8%
(U)DEDICATED REVENUE EXPENDITURES	860,152.9	947,217.5	87,064.6	10.1%
(V)CANCELLATION ADJUSTMENT	0.0	(40,000.0)	NA	NA
TOTAL EXPENDITURES	10,008,694.0	11,176,259.2	1,167,565.2	11.7%
(X)TRANSFERS TO OTHER FUNDS	295,224.0	421,543.7	126,319.7	42.8%
TOTAL EXPEND. AND TRANSFERS	10,303,918.0	11,597,802.9	1,293,884.9	12.6%
UNRESERVED FUND BALANCE	477,485.7	346,699.6	(130,786.1)	-27.4%
(Y)BUDGET RESERVE	250,000.0	345,500.0	95,500.0	38.2%
APPROPRIATIONS CARRIED FORWARD	58,956.4	NA	NA	NA
UNRESTRICTED BUDGETARY BALANCE	168,529.3	1,199.6	(167,329.7)	NA

BIENNIAL COMPARISON: PERCENT OF TOTAL

	CLOSING F.Y. 1986-87	PERCENT OF TOTAL	GOV'S REC F.Y. 1988-89	PERCENT OF TOTAL
RESOURCES				
BALANCE FORWARD IN	538,543.9	5.00%	477,485.7	4.00%
INDIVIDUAL INCOME TAX	4,260,885.5	39.52%	4,651,600.0	38.94%
SALES TAX-GENERAL	2,831,001.3	26.26%	3,333,485.3	27.91%
CORPORATE INCOME TAX	799,988.5	7.42%	901,100.0	7.54%
MOTOR VEHICLE EXCISE	433,386.1	4.02%	477,200.0	4.00%
OTHER NON-DEDICATED REVENUE	992,736.6	9.21%	1,103,611.6	9.24%
SUBTOTAL	9,317,998.0	86.43%	10,466,996.9	87.63%
DEDICATED REVENUE, TRANSFERS	893,083.7	8.28%	978,019.9	8.19%
OTHER RESOURCES	31,778.1	0.29%	22,000.0	0.18%
TOTAL RESOURCES	10,781,403.7	100.00%	11,944,502.5	100.00%
MAJOR SPENDING ITEMS				
AID TO SCHOOL DISTRICTS	2,563,086.7	24.87%	3,008,527.4	25.94%
POST-SECONDARY EDUCATION	1,919,409.5	18.63%	2,192,817.9	18.91%
HMSTD CR/CIRCUIT BRKR/AGRIC CR	1,694,405.1	16.44%	1,713,477.6	14.77%
MA/GAMC	1,141,447.7	11.08%	1,328,195.9	11.45%
AID TO LOCAL GOVERNMENT	599,348.5	5.82%	647,806.9	5.59%
DEBT SERVICE & ST BORROWING	233,701.2	2.27%	294,542.4	2.54%
INCOME MAINT (AFDC, GA, MSA)	288,515.2	2.80%	251,873.9	2.17%
SUBTOTAL	8,439,913.9	81.91%	9,437,242.0	81.37%
OTHER MAJOR LOCAL ASSISTANCE	364,503.3	3.54%	487,904.5	4.21%
STATE INSTITUTIONS	521,361.0	5.06%	590,048.2	5.09%
LEGIS., JUDICIAL, CONST.	163,472.9	1.59%	182,045.1	1.57%
STATE AGENCIES	814,666.9	7.91%	940,563.1	8.11%
SUBTOTAL - ALL OTHER	1,864,004.1	18.09%	2,200,560.9	18.97%
SUBTOTAL EXPENDITURES & TRANSFERS	10,303,918.0	100.00%	11,637,802.9	100.34%
ESTIMATED CANCELLATIONS	0.0	0.00%	(40,000.0)	-0.34%
TOTAL EXPENDITURES & TRANSFERS	10,303,918.0	100.00%	11,597,802.9	100.00%
UNRESERVED FUND BALANCE	477,485.7		346,699.6	
BUDGET RESERVE	250,000.0		345,500.0	
APPROPRIATIONS CARRIED FORWARD	58,956.4		NA	
UNRESTRICTED BUDGETARY BALANCE	168,529.3		1,199.6	

FOUR YEAR OUTLOOK, F.Y. 1990-91

A budget projection for the F.Y. 1990-90 biennium is presented as a guide to assist planning for the remainder of the current biennium and the next. The projections assume that state revenues will continue a course of strong growth and that the Governor's recommendations will be enacted by the 1988 Legislature.

The projection extends the F.Y. 1989 expenditure base into the following biennium assuming inflationary growth of 2.0 percent per year for fiscal years 1990-91. Levels for school foundation aid and categorical aids are maintained as set in current statutes. Expenditure projections for school aids, health care, and income support programs are based on current forecasts of enrollments, caseloads and other cost factors.

Under this planning projection, after including the impact of budget items recommended by the Governor, the ending balance at June 30, 1991 would be approximately \$413 million including a budget reserve at the current \$346 million level.

PLANNING PROJECTIONS - GENERAL FUND (in \$ millions)			
	Actual 1986-87	Estimated 1988-89	Projected 1990-91
o BALANCE FORWARD	539	477	346
o CURRENT RESOURCES	10,243	11,467	12,731
o TOTAL RESOURCES	10,781	11,945	13,076
o TOTAL EXPENDITURES	10,304	11,598	12,664
Aid to School Districts	2,563	3,009	3,155
Post Secondary Education Aids	1,478	1,713	1,842
Tuition and Fees	441	480	498
Property Tax Credits & Refunds	1,694	1,713	1,829
Local Government Aid (LGA)	599	648	870
Health Care (MA,GAMC)	1,141	1,328	1,623
Income Support (AFDC,GA,MSA)	289	252	323
Debt Service & Sht Tm Borr	234	274	413
Subtotal	8,440	9,417	10,551
All Other	1,864	2,181	2,113
o BALANCE WITHOUT RESERVE	477	347	413
o BUDGET RESERVE	250	346	346
o APPROPRIATIONS CARRIED FORWARD	59	0	0
o UNRESTRICTED BALANCE	169	1	67

1988 SESSION RECOMMENDATIONS

TAX BILL ITEMS

Agency	Request/Item	Fund	Recommendation				FY 1988-89 BIENNIUM \$ in 000's
			F.Y. 1988		F.Y. 1989		
			\$ in 000's	Pos.	\$ in 000's	Pos.	
REVENUES							
TX INDIV	Federal Conformity	GF	2,000.0	0.0	9,200.0	0.0	11,200.0
TX CORP	Federal Conformity	GF	7,000.0	0.0	15,500.0	0.0	22,500.0
TX SALES	Tax Nexus/Enforcement	GF	0.0	0.0	41,000.0	0.0	41,000.0
	SUBTOTAL-TAX CHANGES		9,000.0	0.0	65,700.0	0.0	74,700.0
TX INDIV	Foreign Source Income	GF	0.0	0.0	(3,100.0)	0.0	(3,100.0)
TX SALES	Exempt Univ Hosp	GF	0.0	0.0	(1,700.0)	0.0	(1,700.0)
TX SALES	Dedicate Part Athl Facil	GF	0.0	0.0	(3,271.5)	0.0	(3,271.5)
TX INDIV	Elderly Credit	GF	0.0	0.0	(1,000.0)	0.0	(1,000.0)
TX GAMB	Parimutuel Racing	GF	0.0	0.0	(3,200.0)	0.0	(3,200.0)
	SUBTOTAL-TAX EXPENDITURES		0.0	0.0	(12,271.5)	0.0	(12,271.5)
	NET REVENUES		9,000.0	0.0	53,428.5	0.0	62,428.5
EXPENDITURES							
TX AIDS	Defer Prop Tax Recog	GF	(29,700.0)	0.0	(2,290.4)	0.0	(31,990.4)
	SUBTOTAL-OTHER CHANGES		(29,700.0)	0.0	(2,290.4)	0.0	(31,990.4)
	TOTAL--TAX ITEMS-GENERAL FUND		(20,700.0)	0.0	51,138.1	0.0	30,438.1

1988 SESSION RECOMMENDATIONS

EDUCATION AIDS

Agency	Request/Item	Fund	Recommendation				FY 1988-89 BIENNIUM \$ in 000's
			F.Y. 1988		F.Y. 1989		
			\$ in 000's	Pos.	\$ in 000's	Pos.	
EA ED AIDS	Foun.Aid-Suburb/Rural	GF	0.0	0.0	5,000.0	0.0	5,000.0
EA ED AIDS	Intradistrict Deseg.	GF	0.0	0.0	12,100.1	0.0	12,100.1
EA ED AIDS	Interdistrict Deseg.	GF	0.0	0.0	3,000.0	2.0	3,000.0
EA ED AIDS	Extended Day	GF	0.0	0.0	1,354.3	0.0	1,354.3
EA ED AIDS	Early Childhood	GF	0.0	0.0	3,200.0	1.0	3,200.0
EA ED AIDS	Community Service	GF	0.0	0.0	750.0	1.5	750.0
EA ED AIDS	High Schl-Over 21	GF	0.0	0.0	1,500.3	0.0	1,500.3
EA ED	Aids Funding	GF	0.0	0.0	1,249.3	2.0	1,249.3
EA ED	Educ Effectiveness	GF	0.0	0.0	500.0	0.0	500.0
EA ED AIDS	Testing-Scholarships	GF	0.0	0.0	200.0	0.0	200.0
EA ED AIDS	Technology Planning	GF	0.0	0.0	300.0	0.0	300.0
EA ED	Second. Voc. Restruc.	GF	0.0	0.0	100.0	0.0	100.0
EA ED AIDS	Enrollment Options	GF	0.0	0.0	50.0	0.0	50.0
EA ED AIDS	Planning Grants	GF	0.0	0.0	100.0	0.0	100.0
EA ED	Personnel Licensing	GF	0.0	0.0	90.0	0.0	90.0
TOTAL--EDUC AIDS--GENERAL FUND			0.0	0.0	29,494.0	6.5	29,494.0

1988 SESSION RECOMMENDATIONS

POST-SECONDARY EDUCATION

Agency	Request/Item	Fund	Recommendation				FY 1988-89 BIENNIUM \$ in 000's
			F.Y. 1988		F.Y. 1989		
			\$ in 000's	Pos.	\$ in 000's	Pos.	
			-----		-----		
HE HECB	Grant/Schlshp Deficiency	GF	5,700.0	0.0	0.0	0.0	5,700.0
HE HECB	College Compact	GF	0.0	0.0	260.0	0.0	260.0
HE HECB	Econ/Higher Ed Study	GF	0.0	0.0	200.0	0.0	200.0
HE HECB	Quality Assessment	GF	0.0	0.0	150.0	0.5	150.0
HE HECB	MN Minority Educ Prtshp	GF	0.0	0.0	10.0	0.0	10.0
HE HECB	EP/Innovation Centers	GF	0.0	0.0	500.0	1.0	500.0
HE RCHSTR CNTR	Operating Funds	GF	0.0	0.0	1,470.0	0.0	1,470.0
HE UM	Commitment to Focus	GF	0.0	0.0	23,100.0	0.0	23,100.0
HE VO TECH	Curriculum Restruct	GF	0.0	0.0	1,000.0	0.0	1,000.0
HE VO TECH	Child Care	GF	0.0	0.0	1,000.0	0.0	1,000.0
HE VO TECH	Vocational Council	GF	0.0	0.0	75.0	0.0	75.0
TOTAL POST-SEC EDUC--GEN FUND			5,700.0	0.0	27,765.0	1.5	33,465.0

1988 SESSION RECOMMENDATIONS

HUMAN RESOURCES

Agency	Request/Item	Fund	Recommendation				FY 1988-89 BIENNIUM \$ in 000's
			F.Y. 1988		F.Y. 1989		
			\$ in 000's	Pos.	\$ in 000's	Pos.	
REVENUES							
HR CORRECTIONS	Contract Probation Agent	GF	7.9	0.0	31.6	0.0	39.5
HR DHS	Cty Incen Monitor Rcpts	GF	0.0	0.0	170.2	0.0	170.2
HR DHS	Fd Stamp QC Receipts	GF	0.0	0.0	52.8	0.0	52.8
HR HEALTH	Laboratory Certification	SR	0.0	0.0	310.0	0.0	310.0
HR HEALTH	Restaurant Inspections	SR	0.0	0.0	90.8	0.0	90.8
HR JOBS & TNG	Emplmnt Tng Fund	SR	0.0	0.0	44,000.0	0.0	44,000.0
EXPENDITURES							
HR CORRECTIONS	Probtn Svcs for Juveniles	GF	7.9	1.0	31.6	1.0	39.5
HR CORRECTIONS	Health Care Administrator	GF	0.0	2.0	0.0	2.0	0.0
HR DHS	Food Stamps Employ	GF	169.5	0.0	290.5	0.0	460.0
HR DHS	Optnl Elig Disabl Child	GF	0.0	0.0	252.2	0.0	252.2
HR DHS	MA Eligibility	GF	0.0	0.0	814.4	0.0	814.4
HR DHS	Vets Home-Cont LAC Fnding	GF	265.8	58.0	1,380.3	58.0	1,646.1
HR DHS	Vets Home-Standards	GF	1,250.2	26.0	1,007.3	26.0	2,257.5
HR DHS	Vets Home-R&B	GF	0.0	0.0	425.0	0.0	425.0
HR DHS	MH Trnsfr App fr 88	GF	(1,750.0)	0.0	1,750.0	0.0	0.0
HR DHS	Ind Rev MA Prepd Plans	GF	0.0	0.0	225.0	0.0	225.0
HR DHS	Ventilator Depend Persons	GF	0.0	0.0	49.2	0.0	49.2
HR DHS	AIDS Policy Coordinator	GF	0.0	0.0	44.5	1.0	44.5
HR DHS	Cty Incen Monitor	GF	0.0	0.0	1,544.5	25.0	1,544.5
HR DHS	Food Stamp QC	GF	0.0	0.0	105.5	25.0	105.5
HR DHS	Reduce Aids Tax Equal	GF	0.0	0.0	(1,650.0)	0.0	(1,650.0)
HR DHS	Food Stamp Fed Sanctions	GF	(1,800.0)	0.0	0.0	0.0	(1,800.0)
HR DHS	Sys Alien Verif Entitl	FED	30.0	0.0	120.0	0.0	150.0
HR DHS	MH Appopr Transfer	SR	250.0	0.0	0.0	0.0	250.0
HR HEALTH	AIDS Funding	GF	0.0	0.0	662.0	2.0	662.0
HR HEALTH	Continue LAC/AIDS	GF	0.0	0.0	0.0	4.0	0.0
HR HEALTH	CHS Subsidy	GF	0.0	0.0	0.0	0.0	0.0
HR HEALTH	Laboratory Certification	SR	0.0	0.0	310.0	4.5	310.0
HR HEALTH	Restaurant Inspections	SR	0.0	0.0	90.8	5.5	90.8
HR HEALTH	Indirect Costs	MET LND	19.3	0.0	22.0	0.0	41.3
HR HEALTH	Indirect Costs	PB HLTH	175.2	0.0	200.8	0.0	376.0
HR HEALTH	Indirect Costs	THWY	74.4	0.0	85.5	0.0	159.9

1988 SESSION RECOMMENDATIONS

HUMAN RESOURCES

Agency	Request/Item	Fund	Recommendation				FY 1988-89 BIENNIUM \$ in 000's
			F.Y. 1988		F.Y. 1989		
			\$ in 000's	Pos.	\$ in 000's	Pos.	
HR JOBS & TNG	Headstart Funding	GF	0.0	0.0	1,000.0	1.0	1,000.0
HR JOBS & TNG	MEED Reduction	GF	0.0	0.0	(900.0)	0.0	(900.0)
HR JOBS & TNG	Emplmnt Tng Fund	NEW	0.0	0.0	44,000.0	0.0	44,000.0
HR MH OMBUDSMAN	Staff & Related Exp	GF	0.0	0.0	200.0	3.0	200.0
TOTAL HR REVENUES--GENERAL FUN			7.9	0.0	254.6	0.0	262.5
TOTAL HR REVENUES--OTHER FUNDS			0.0	0.0	44,400.8	0.0	44,400.8
TOTAL HR EXPEND.--GENERAL FUND			(1,856.6)	87.0	7,232.0	148.0	5,375.4
TOTAL HR EXPEND.--OTHER FUNDS			548.9	0.0	44,829.1	10.0	45,378.0

1988 SESSION RECOMMENDATIONS

TRANSPORTATION/SEMI-STATES

Agency	Request/Item	Fund	Recommendation				FY 1988-89 BIENNIUM \$ in 000's
			F.Y. 1988		F.Y. 1989		
			\$ in 000's	Pos.	\$ in 000's	Pos.	
TS AGRIC/DNR	Oak Wilt	GF	20.2	1.0	136.2	2.0	156.4
TS TR REG BD	Addtnl Compl Position	THWY	0.0	0.0	36.6	1.0	36.6
TS PUBLIC SAFETY	Disaster Relief	GF	1,940.0	0.0	0.0	0.0	1,940.0
TS ARTS BD	Special Projects	GF	0.0	0.0	200.0	0.0	200.0
TS HIS SOC	Lind. interp. Ctr.	GF	0.0	0.0	159.1	0.0	159.1
TOTAL TRANSP/SEMI-ST--GEN FUND			1,960.2	1.0	495.3	2.0	2,455.5
TOTAL TRANSP/SEMI-ST--OTH FUND			0.0	0.0	36.6	1.0	36.6

1988 SESSION RECOMMENDATIONS

STATE DEPARTMENTS

Agency	Request/Item	Fund	Recommendation				FY 1988-89 BIENNIUM \$ in 000's	
			F.Y. 1988		F.Y. 1989			
			\$ in 000's	Pos.	\$ in 000's	Pos.		
			-----		-----			-----
REVENUES								
SD	TRNSFR	Wtr Poll Cntrl Fd Trnsfr	GF	0.0	0.0	3,500.0	0.0	3,500.0
EXPENDITURES								
SD	PUBLIC DEF BD	Pub Def Bd, Initiatives	GF	0.0	0.0	332.3	0.0	332.3
SD	DNR	Hill-Annex Mine Trnsfr	GF	0.0	0.0	270.0	5.0	270.0
SD	DNR	Spprt for Coserv Res Prg	GF	210.0	0.0	0.0	0.0	210.0
SD	DNR	Statewide Forest Inven.	GF	270.0	0.0	0.0	0.0	270.0
SD	DNR	Hybrid Aspen-Oper. Studies	GF	125.0	0.0	0.0	0.0	125.0
SD	DNR	Maint. of St. Forest Rds	SR	0.0	0.0	600.0	0.0	600.0
SD	DOA	Gov's Comm Ser & Vol Init	GF	0.0	0.0	145.0	3.0	145.0
SD	DOA	9-1-1 Suppl Prog Costs	SR	119.3	0.0	488.9	0.0	608.2
SD	DOA	Spec Rev Positions	SR	0.0	0.0	0.0	2.0	0.0
SD	LT GOV	Salary Funding & Comp	GF	0.0	0.0	50.0	0.0	50.0
SD	DOER	Public Employ. Ins. Plan	GF	0.0	0.0	1,030.5	7.0	1,030.5
SD	DOER	Customer Rel Tng Prog	GF	0.0	0.0	145.0	0.0	145.0
SD	DOF	Cap. Budget-Debt Service	GF	0.0	0.0	20,272.4	0.0	20,272.4
SD	DTED	Advanced Integ Mfg	GF	0.0	0.0	750.0	0.0	750.0
SD	DTED	Intl Tch Innv & Ent Symp	GF	0.0	0.0	250.0	0.0	250.0
SD	DTED	Celebrate MN 1990	MVT	75.0	4.0	150.0	4.0	225.0
SD	DTED	Celebrate MN 1990	SR	0.0	0.0	2,750.5	3.5	2,750.5
SD	DTED	Amateur Sports Comm Opr	SR	0.0	0.0	251.0	3.0	251.0
SD	DTED	Blaine Sports Fac Opr	SR	0.0	0.0	270.0	7.0	270.0
SD	HRTS	Addtnl Data Proc	GF	0.0	0.0	88.1	2.0	88.1
SD	HRTS	Addtnl Invest	GF	0.0	0.0	261.9	8.0	261.9
SD	L&I	Workers' Comp Study	WCSF	135.0	1.0	0.0	0.0	135.0
SD	PCA	Nonferrous Minerals	GF	216.7	4.0	0.0	4.0	216.7
SD	PCA	Comprehnsv Recycle Pgm	SR	0.0	0.0	4,471.5	30.0	4,471.5
SD	PCA	Property Trans Assist	SF	0.0	0.0	238.5	6.0	238.5

1988 SESSION RECOMMENDATIONS

STATE DEPARTMENTS

Agency	Request/Item	Fund	Recommendation				FY 1988-89 BIENNIUM \$ in 000's
			F.Y. 1988		F.Y. 1989		
			\$ in 000's	Pos.	\$ in 000's	Pos.	
SD SPA	St Loc Serv Resp Study	GF	0.0	0.0	75.0	0.0	75.0
SD SPA	Office of Jobs Policy	GF	0.0	0.0	230.0	6.0	230.0
SD SPA	Aquaculture	GF	0.0	0.0	100.0	0.0	100.0
SD SPA	Minn Futures Proj	GF	0.0	0.0	125.0	0.0	125.0
SD SPA	Environmental Trust Fund	WPC	0.0	0.0	250.0	0.0	250.0
SD DTED	Tourist Info Centers	GF	23.0	0.0	850.0	14.0	873.0
SD MILITARY AFF	Natl Guard Ed Assist	GF	0.0	0.0	372.0	0.0	372.0
TOTAL STATE DEPT REV-GEN FUND			0.0	0.0	3,500.0	0.0	3,500.0
TOTAL STATE DEPTS EXP--GEN FND			844.7	4.0	25,347.2	49.0	26,191.9
TOTAL STATE DEPTS EXP--OTH FND			329.3	5.0	9,470.4	55.5	9,799.7
TOTAL GENERAL FUND			6,648.3	92.0	90,333.5	207.0	96,981.8
TOTAL OTHER FUNDS			878.2	5.0	54,336.1	66.5	55,214.3
TOTAL REVENUES-GENERAL FUND			9,007.9		57,183.1		66,191.0
TOTAL EXPENDITURES-GENERAL FUND			(23,051.7)		88,043.1		64,991.4
			32,059.6		(30,860.0)		1,199.6

