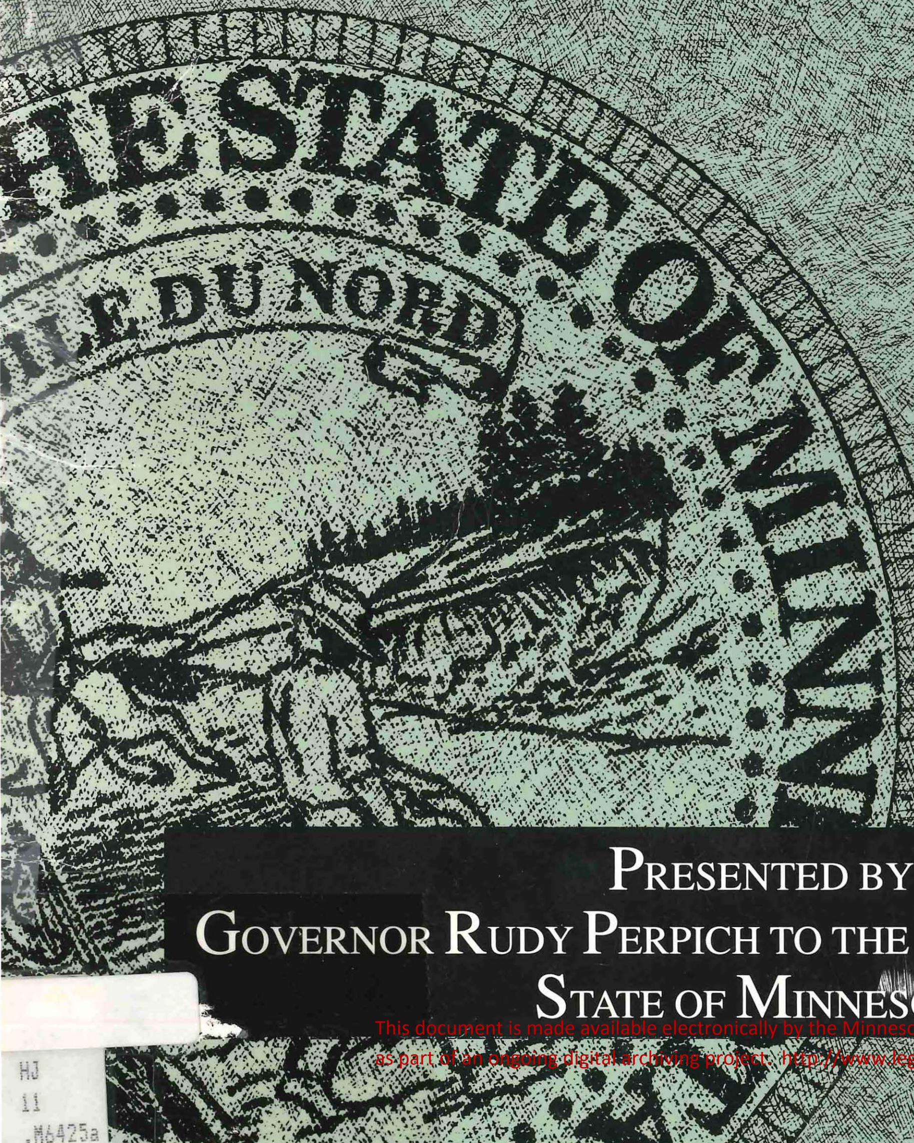
Forecast and Baseline Estimates

Supplemental Budget Recommendations

February 1990



Presented by
Governor Rudy Perpich to the 76th Legislature
State of Minnesota

Forecast & Baseline Estimates

Minnesota Department of Finance

February 1990

HIGHLIGHTS

1990-91 Forecast

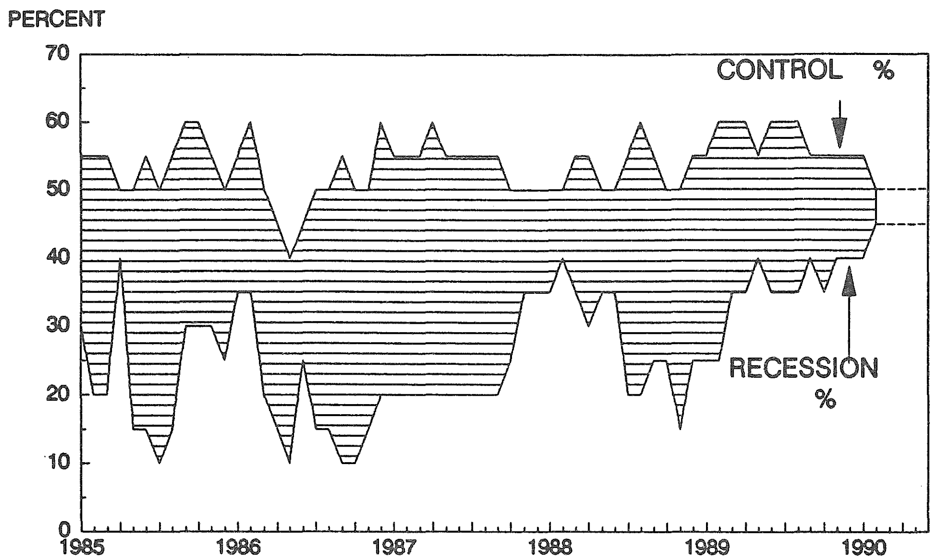
- The budget outlook is largely unchanged from November .
- No recession is forecast, but the probability of a recession before 1993 has increased.
- There is a slight improvement in the underlying economic forecast. The US economy is still expected to grow more slowly in 1990 than in any year since 1982.
- General fund revenues are now forecast to total $13.37 billion, 0.3 percent ($44 million) more than in November.
- General fund expenditures are now expected to total $13.91 billion, an increase of 0.2 percent ($28 million) from November's estimate.
- The general fund shortfall is forecast to be $145 million, about 1 percent of the biennial general fund budget.

1992-93 Baseline Estimate

- This baseline estimate differs from those presented in the past. It is intended as a tool for maintaining fiscal stability. It measures the ability of future revenues, based on current law, to pay for currently enacted and proposed expenditures. It assumes no changes in current law affecting revenues or expenditures.
- If there are no changes in current law through FY 1993, the baseline budget estimate shows an unrestricted ending balance on June 30, 1993 of -$537 million.
- Future law changes to fund typical growth rates in major state spending programs would decrease the ending balance by about $600 million.
- In both the forecast and baseline estimate the reserve is maintained at $550 million.

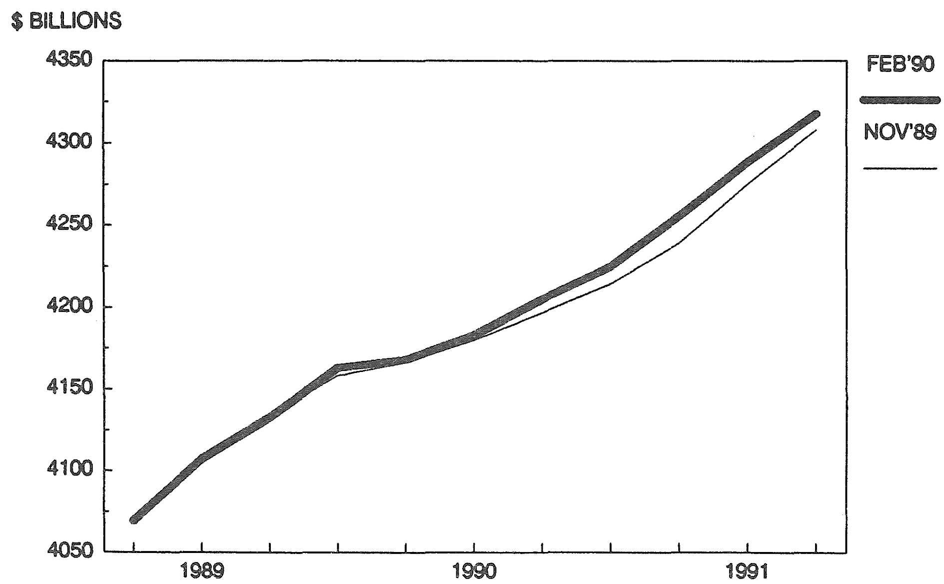
400 CENTENNIAL BUILDING • 658 CEDAR STREET • ST. PAUL, MINNESOTA 55156 • (612) 296-5900

RISK OF RECESSION HIGHER



ECONOMIC FORECAST IMPROVES SLIGHTLY FROM NOVEMBER

(GNP $82)



BUDGET OUTLOOK - LARGELY UNCHANGED

1990 - 91 General Fund

($ in millions)

	February Forecast	Change from November
BEGINNING BALANCE Excluding Budget Reserve	396	--
REVENUES		
Four Major Taxes	10,930	43
Other Revenues	2,440	1
Total Revenues	**13,370**	**44**
EXPENDITURES		
Human Services	2,318	(43)
Education	3,823	32
All Other	7,770	(17)
Total Expenditures	**13,911**	**(28)**
End of F.Y. 1991 (Shortfall)	**(145)**	**16**
Budget Reserve	**550**	**--**

1992-93 BASELINE ESTIMATE

($ in millions)

	F.Y. 90	F.Y. 91	Current Law Baseline F.Y. 92	Current Law Baseline F.Y. 93
BEGINNING BALANCE Excluding Budget Reserve	396	267	(145)	(413)
TOTAL REVENUES	6,523	6,847	7,237	7,613
Percent Change	8.1%	5.0%	5.7%	5.2%
TOTAL EXPENDITURES	6,651	7,260	7,505	7,738
Percent Change	12.0%	9.2%	3.4%	3.1%
ENDING BALANCE	**267**	**(145)**	**(413)**	**(537)**
BUDGET RESERVE	550	550	550	550

BEYOND THE BASELINE

IF FUTURE LAW CHANGES INCREASE SPENDING IN MAJOR STATE PROGRAMS, THE ENDING BALANCE IN F.Y. 1993 WILL DECREASE

3 percent expenditure increase = $400 million

4 percent expenditure increase = $540 million

5 percent expenditure increase = $680 million

IF A RECESSION OCCURS

Revenues will decrease by $540 million

Expenditures will increase by $200 million

The unrestricted balance in F.Y. 1993 will decrease by $740 million

1992-93 BASELINE ESTIMATE

A TOOL FOR MAINTAINING FISCAL STABILITY

ASSUMPTIONS

1992-93 REVENUES

DRI's Winter Trendlong Forecast applied to current law

No recession occurs through 1993

1992-93 EXPENDITURES

Based on current law

Increases reflect only

Growth in caseloads, pupil units, utilization, or specific formula driven factors

Statutory increases previously enacted

Statutory inflators in current law

BUDGET RESERVE

Remains at $550 million

HOW IT CAN BE USED

GOAL:

Maintain a positive unrestricted balance at year end F.Y. 1993

MEANS:

Make changes necessary to achieve a positive F.Y. 1993 unrestricted balance

Any proposed change in future revenue or spending <u>must</u> be offset, if necessary, to maintain a positive F.Y. 1993 unrestricted balance

ECONOMIC SUMMARY

The economy slowed as expected during the fourth quarter of 1989. Real gross national product grew by only 0.5 percent from October through December, according to the Department of Commerce's advance estimate, down from a 3.0 percent rate during the third quarter of 1990. While several extraordinary events--the Boeing strike, the San Francisco earthquake, and Hurricane Hugo--contributed to the economy's lackluster performance, lower auto and housing sales, and flat consumer spending indicated more fundamental problems.

In Minnesota, unusually warm winter weather has hidden some of the national economy's weakness by allowing construction to proceed more rapidly than usual. But, there are also signs of the slowdown. Manufacturing jobs continue to decline, and the national slump in auto and truck sales has forced temporary local shutdowns as national inventories are reduced.

The current economic slowdown is consistent with the "soft landing" forecasts popular in 1989. The question now is whether the economy will quickly resume it's normal rate of growth, or remain sitting on the runway for an extended period. One indication of the degree of uncertainty about the economy's future path is that DRI has reduced the probability assigned to its Control forecast to only 50 percent, 5 percentage points lower than in November, while increasing the probability assigned to an early recession.

Opinions of members of Minnesota's Council of Economic Advisors reflect the general lack of agreement on the economy's future growth rate. No member of the Council expects a recession during 1990, but their individual forecasts differ greatly. Some expect a very slow, almost stagnant economy; others, better than average economic growth. Economists from Minnesota's Department of Finance do not expect the economy to rebound rapidly from the fourth quarter's slowdown.

Recent increases in long-term interest rates are the source of much uncertainty. Since late December US long term interest rates have risen by more than 70 basis points, creating concerns about future growth in the interest sensitive housing and capital equipment sectors. At the same time consumer confidence has been slipping. If consumer spending eases and interest rates remain at current levels, economic growth for 1990 will be lower than most economists currently forecast. DRI now assigns a 25 percent probability to such an "Early Recession" scenario. DRI also assigns a 20 percent probability to a scenario which includes a recession in late 1991 or early 1992.

The DRI Control forecast calls for real growth rates of 1.8 percent for 1990 and 2.7 percent for 1991. Inflation, as measured by the GNP deflator, is expected to hold at a 3.7 percent annual rate during both 1990 and 1991. The enormous increases in producer and consumer prices in January are thought to be one time events brought on by December's extremely cold weather, and unlikely to have any lasting impact on the inflation rate.

The Department of Finance and the Council agree that DRI's February Control forecast represents a mid-point among current forecasts of economic growth. At present, however, there is a wider than usual divergence of opinion among economists about the short term outlook.

Department of Finance economists note that individual investors appear to be delaying the sale of equities and other capital assets, anticipating a cut in capital gains tax rates. This temporary shift in investor behavior caused fourth quarter estimated individual income tax payments to be down significantly from forecast levels, both nationally and in Minnesota.

This February's Control forecast is slightly more optimistic than November's but the current high level of economic uncertainty emphasizes the importance of maintaining a strong budget reserve so that essential state services will not face drastic cuts if the economy falters and revenues fail to meet expectations. Using the reserve to provide a temporary solution to structural imbalances in spending and revenues should be avoided since that reduces the likelihood the reserve will be available for its primary purpose, cushioning revenue losses caused by unexpected national economic shocks.

There has been greater than usual interest in the Department of Finance's baseline planning estimates for revenues and expenditures in the 1992-93 biennium. The economic forecasts underlying these estimates were also discussed.

The Department's practice has been to base the revenue planning estimates on the Trendlong Scenario from the most recent DRI Quarterly Long-Term Forecast. The expected growth for 1992 in Trendlong, 2.3 percent, is the same as DRI's February Control forecast. The expected real growth rate for 1993, 2.2 percent, is consistent with most mid-range forecasts for economic growth. Neither projection anticipates a recession during 1992-1993.

The Council urged the state to continue its practices of quantifying the spending implications of current legislative proposals for future biennia, and of comparing those spending levels with the baseline revenue planning estimate. This allows Minnesota to avoid unknowingly enacting programs which will automatically create financial problems in the next biennium.

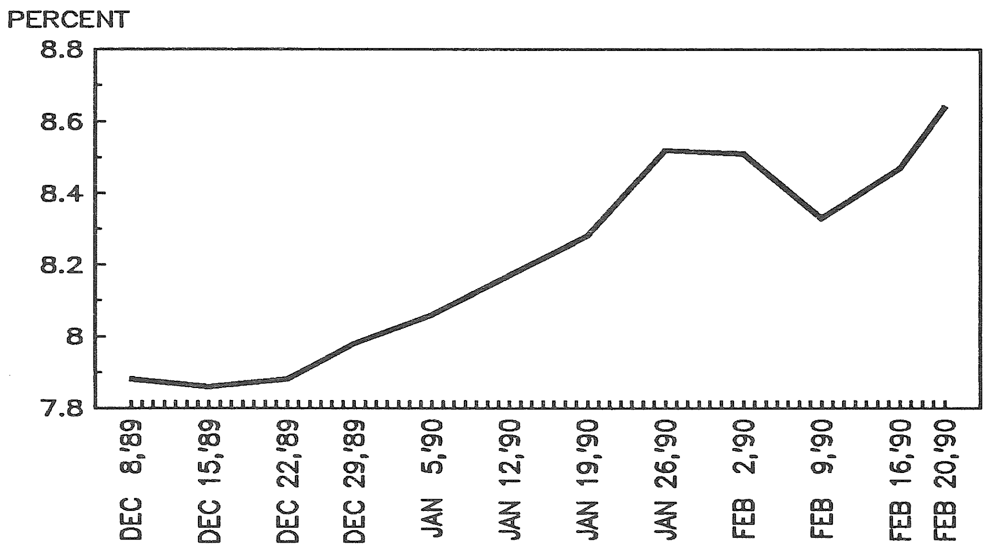
Council members cautioned that all long-term forecasts are subject to substantial error since they cannot anticipate policy changes or economic shocks, such as oil price changes, which can have large and immediate impacts on future growth rates. Finance Department economists noted that the accuracy of the long term forecast is further limited by the fact that several key items affecting the individual income tax base--pensions, capital gains, and deferred compensation--are unrelated to GNP growth. Noting that the existing economic backdrop made it improbable that the economy could proceed through 1993 without a slowdown, the Council recommended that a more conservative long term scenario be used in preparing the baseline revenue estimates for the 1992-93 biennium.

Both the Council and the Department of Finance emphasized that the baseline revenue planning estimates are designed to provide a framework for analysis, and should only be considered guidelines for financial management. Substantial differences (either positive or negative) between revenue estimates prepared using DRI's average long-term growth rate, and later estimates based on more current economic forecasts are very possible.

CURRENT ECONOMIC CONDITIONS AND OUTLOOK

Real economic growth slowed sharply to a very weak 0.5 percent in fourth quarter, 1989. The slowdown is consistent with the November, 1989 forecast. However, the surprising January and February runup in U.S. long term interest rates in response to soaring West German rates is leaving the economy more recession prone than in November (Figure 1). In the opinion of Finance Department economists, the behavior of interest rates makes the current outlook the most uncertain since the twin recessions of the early 1980s.

Figure 1
U.S. 30-Year
Treasury Bond Rate



Although the new Control scenario does not call for a recession, DRI is becoming more concerned that one cannot be avoided. The probability assigned Control is 50 percent, down from 55 percent in November. As an alternative, DRI now puts the probability of a 1990 "Early Recession" at 25 percent, up from 20 percent in November. There is an additional 20 percent probability assigned to a 1992 "Late Recession" scenario. It is significant that "Early Recession" is based on a decline in consumer spending, rather than on Federal Reserve mismanagement of interest rates as it was in November. The consumer is a more dangerous force than the Fed because he controls two-thirds of GNP. Unfortunately, DRI now fears the consumer will turn fickle.

Recent retail sales figures show that consumers are still willing to spend. However, they do it only in response to price cutting for autos and other goods, making a sustained consumer-led rebound from the weak fourth quarter unlikely. The economic indicators tend to confirm this. Slowly eroding consumer confidence, an inventory drawdown, layoffs in manufacturing, declining productivity, and slowly rising unemployment suggest that the economy is extending its slowdown into the current quarter.

Don't Bet The Ranch

Although the economy is very weak, Federal Reserve Board Chairman Greenspan does not seem to be as concerned about a recession as other economists. While admitting a 1990 recession is possible, Dr. Greenspan told Congress in late January and again in February that the economy has bottomed out, and further monetary easing is not necessary now. The chairman indicated that his greatest concern is accelerating inflation rather than a recession.

According to Dr. Greenspan, analysis of the government's index of leading indicators suggests a 20 percent chance of a recession in 1990. However, he hedged, cautioning that he "wouldn't bet the ranch" on the famous index which is often referred to as the "misleading" index by other economists.

Many economists doubt the economy has bottomed out. Some believe Dr. Greenspan's Congressional testimony was an attempt to calm jittery financial markets with a little jawboning. Although it is a weak reed to lean on, jawboning is currently one of the few resources left to a Federal Reserve which cannot move interest rates down.

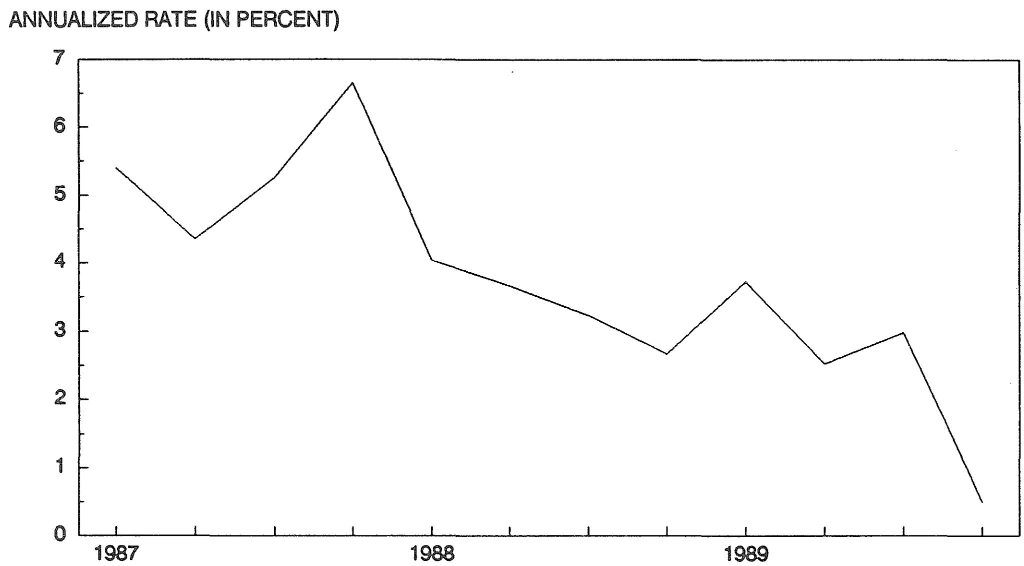
Who's In Charge Of Interest Rates?

Market dictated increases in long-term interest rates in January and February have, temporarily at least, put U.S. rates beyond Federal Reserve control. The reason is that the U.S. must compete in international markets for funds to finance its federal budget deficit. In order to remain competitive, rates rose in U.S. markets following sharp increases in Germany and Japan.

For some time, monetary authorities in those countries have been trying to cool their economies to head off slowly rising inflation. However, the principal reason for recent long-term rate increases overseas is rapid progress on German reunification. When it comes, reunification may create strong inflationary pressures. It surely will create a huge demand for financial capital to rebuild the East German economy. Financial market anticipation of reunification is putting strong upward pressure on West German interest rates. This pressure is being transmitted through global financial linkages to other countries including the U.S.

Those higher interest rates are bad news for the U.S., since our economy is very fragile and in need of stimulus if growth is to resume. (Figure 2)

Figure 2
Real GNP Growth



If a recession is to be avoided, many analysts believe the Federal Reserve should ease, and U.S. rates should fall slowly as the economy weakens. Unfortunately, the Federal Reserve and other central banks are currently sitting on the sidelines since they can do little to direct the strong currents now flowing through international capital markets busy filling the German vacuum. If the U.S. economy needs a safety net in the form of lower interest rates today, it is not there. Even if it were, there is the question of whether the net would work very well.

Would Lower Interest Rates Work?

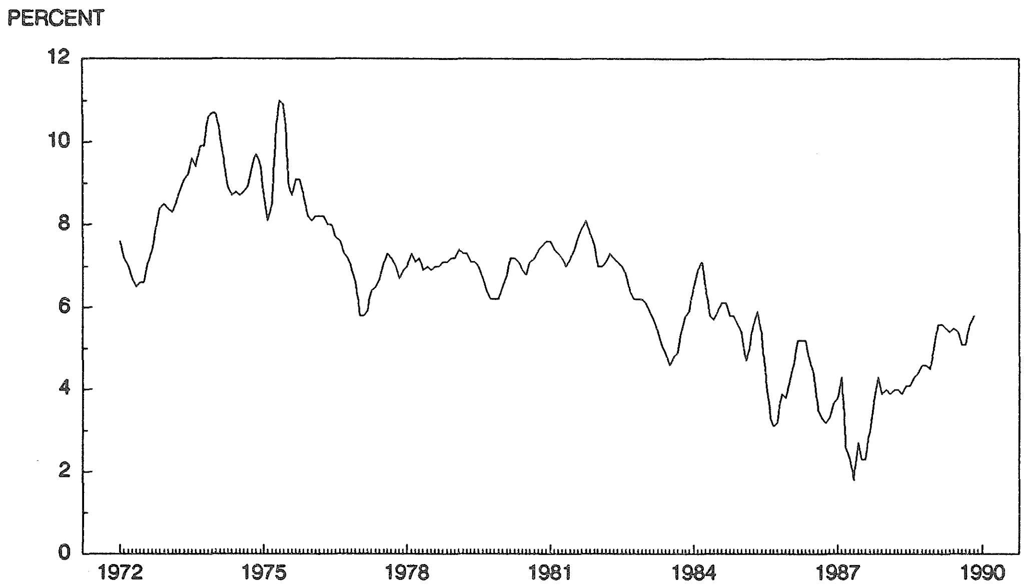
In theory, lower interest rates stimulate sensitive sectors like housing and capital spending by reducing debt service costs for consumers and business. However, lower interest rates in 1989 had only limited effects. Housing responded a little, but consumers would buy cars only when there was a rebate and business firms planned slower growth in capital spending in 1990.

An overbuilt multi-family housing sector, new restrictions on mortgage lending by S&Ls, fear of future declines in prices on existing single-family homes, a nearly saturated market for autos, and falling capacity utilization and profits are among the reasons for the economy's apparent lack of response to lower rates. These conditions will not improve if the slow growth forecast for 1990 persists, increasing the risk that lower interest rates may not be particularly effective in steering the economy clear of recession.

Consumer Spending

Rising real disposable income and a cautiously optimistic near-term outlook are cushioning the gradual slowdown in consumer spending for almost everything except autos. However, consumer confidence is slowly eroding, and loan delinquencies are rising as a still small fraction of households encounter difficulty managing their debt. Saving as a fraction of disposable income has been creeping upward as consumer attitude surveys reveal increasing concern about the distant future. (Figure 3)

Figure 3
Saving As A Fraction of Disposable Income



The higher saving rate is diverting income from the spending stream. In addition, the recent burst of cold-weather induced inflation is undermining purchasing power, and the social security tax increase (which began January 1) is siphoning off income which would otherwise be spent.

Despite troublesome signals, the broad based January retail sales increase suggests the consumer is not yet ready to retrench and lead the economy into a recession. However, the January increase was achieved only by coaxing with auto rebates and price cutting for most other goods, so the margin of safety appears thinner than it was last summer and fall when consumers were spending more freely.

Investment Spending

The most recent Commerce Department and DRI/McGraw Hill surveys of investment spending intentions indicate there will be modest growth in 1990 capital spending. However, the surveys were taken in 1989 before long-term interest rates began rising. It is also doubtful that firms surveyed had fully anticipated the decline in capacity utilization, profits, and cash flow which will accompany slower economic growth. DRI recognizes this and is forecasting less plant and equipment spending than the survey results indicate.

Weak fourth quarter sales contributed to unwanted inventory buildup in many sectors, and especially in autos. The inventory buildup increases the risk of production cuts and layoffs in addition to those already announced if firms curtail production in an effort to hasten an inventory drawdown.

In the National Income Accounts, an inventory drawdown subtracts from GNP. Higher interest rates increase carrying costs, creating an extra incentive to sell off inventory. DRI now anticipates inventory drawdowns during the first quarter will reduce GNP growth by about one-half percentage point.

Increased long term interest rates will depress housing and housing-related expenditures for furniture and appliances. DRI increased its February forecast of 1990 conventional mortgage rates about 21 basis points over the November Control, and is forecasting housing starts at 1.46 million, down from 1.54 million in November.

Government Spending

Although talk of a peace dividend continues, any dividend will occur too far in the future to be a factor in the economic outlook for this biennium. Meanwhile, Congress and the President can agree to suspend the Gramm-Rudman deficit reduction targets if real GNP growth slows to less than one percent for two consecutive quarters.

Suspension would be a temptation if the economy goes into recession and revenue growth falters. Provided this does not happen, DRI is forecasting continued modest reductions in the federal deficit.

International Trade

Increases in the value of the dollar during 1989 will lead to a slight worsening of the trade deficit in 1990. The trade deficit will again begin to improve in 1991 and 1992, if the dollar resumes its decline in 1990, as many analysts expect. In the meantime, the now fragile economy cannot count on a boost from rising exports like it received in 1988 and 1989.

Real exports rose only 4.9% in the fourth quarter 1989, down sharply from the 10 - 15 percent annual growth rates earlier in the year. Even though fourth quarter exports were down because of the Boeing strike, export growth in 1990 is forecast to stay at about a 5 percent annual rate.

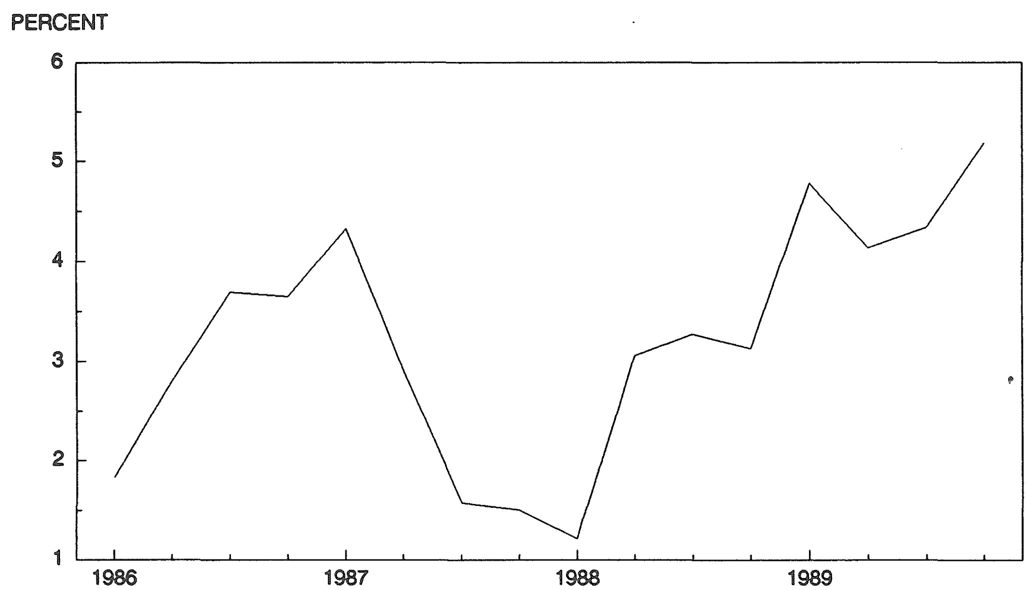
Inflation

Extremely cold weather damaged crops and depleted fuel inventories in December, leading to the current surge in the inflation indicators. Fortunately, the worst price increases should be confined to food and energy and should subside rapidly with consumer price inflation settling back to 4.0 - 4.5 percent.

The cold weather episode serves to illustrate how vulnerable the economy is to inflationary shocks. Many analysts believe there is a risk of renewed inflation from rising oil prices. Reduced U.S. domestic refining capacity, declining inventories, strong foreign oil demand, and rising OPEC production relative to capacity output are making oil markets more sensitive to disruptions. Rapid price increases during December's cold weather may be indicative of future oil price increases should oil supplies be disrupted, or should demand rapidly increase .

Even without shocks from the weather or oil prices, almost all inflation risk is on the upside because price increases are deeply rooted in the economy. Despite the significant easing of inflationary pressures in commodities and labor markets which will come with slower growth, DRI is still forecasting a healthy 4.2 percent increase in consumer prices for 1990 as compared to 4.8 percent in 1989. One major reason for only a modest decline in inflation is that labor costs are rising rapidly because of rising health care and other fringe benefit costs. (Figure 4)

Figure 4
U.S. Unit Labor Costs
Quarter Over Quarter of Previous Year



Monetary Policy

Once the U.S. became a net borrower of overseas funds to finance its federal budget deficit in the 1980's, its financial markets were compelled to offer interest rates which are competitive in international markets. The largest financial markets outside the U.S. are in Japan and West Germany. Higher interest rates there are currently putting upward pressure on U.S. rates.

It is becoming increasingly clear that the opening of the Eastern European economies will create a large new demand for Western capital. During the past ten weeks, West German interest rates have soared as rapidly improving prospects for German reunification have increased the likelihood of major transfers of capital from West German markets into East Germany.

As a result, Federal Reserve Chairman Greenspan recently told Congress that large amounts of Japanese and other overseas capital have been diverted to West Germany in order to take advantage of higher rates there. A large U.S. Treasury refunding in early February attracted an adequate supply of foreign funds, but only at interest rates which were some 60 basis points higher than those of mid-December.

Despite the fact that the Federal Reserve is unable to push interest rates down right now, and despite the worldwide turmoil in financial markets, DRI and other forecasters believe interest rates will decline a little, later in 1990 if the U.S. economy grows as slowly as expected, and no signs of accelerating inflation emerge in Japan, Germany and the U.S. At present, it is not clear when central bankers worldwide will regain control of long-term interest rates.

THE MINNESOTA ECONOMY

Although an extremely cold December and an unusually warm January have distorted the statistics, signs of slower growth in the Minnesota economy are emerging. Manufacturing employment has been gradually declining since last April. Total non-agricultural employment failed to grow in December after increasing at a 4.7 percent annual rate in October and November. In addition, initial claims for unemployment insurance edged ahead of year-ago levels in the November - January period, with many of the new claimants coming from durables manufacturing and retail trade.

Minnesota Follows National Trends

A Grant-Thornton survey released in January showed Twin Cities growth in retail sales and factory hours were lagging behind other parts of the country, indicating the Twin Cities is starting to experience the nationwide slowdown. A recent Minnesota Poll showed consumers are relatively optimistic about their current situation, but are becoming more cautious about the future, an attitude also reflected in nationwide consumer sentiment surveys.

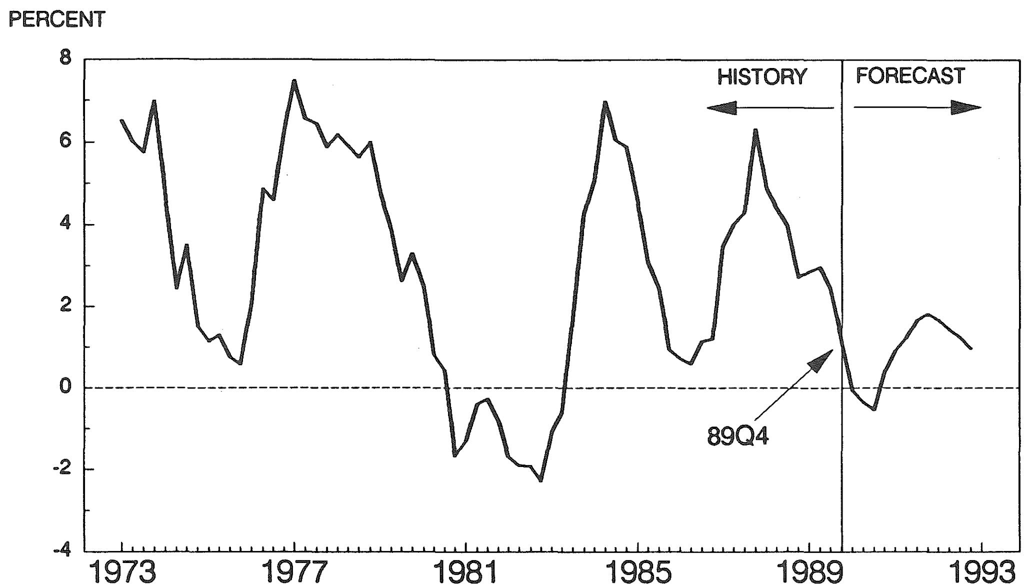
Minnesota Forecast

If the February Control scenario materializes, the Minnesota economy should slow as it now appears to be doing. Non-agricultural employment should grow 1.1 percent in 1990, down from 2.8 percent in 1989. In 1990, durables manufacturing employment will continue to decline slowly, much as it did during most of 1989. Unlike 1989, there will be more noticeable softness during 1990 in the trade and services sectors.

Retail Trade Weakening

Retail employment growth weakened steadily during 1989. On a seasonally adjusted basis, retail employment declined slightly in fourth quarter 1989 and is forecast to decline again in first quarter, 1990. The trade sector should continue to be weak until a modest rebound begins in the fall. (Figure 5)

Figure 5
Minnesota Retail Trade Employment
Quarter Over Quarter Of Previous Year

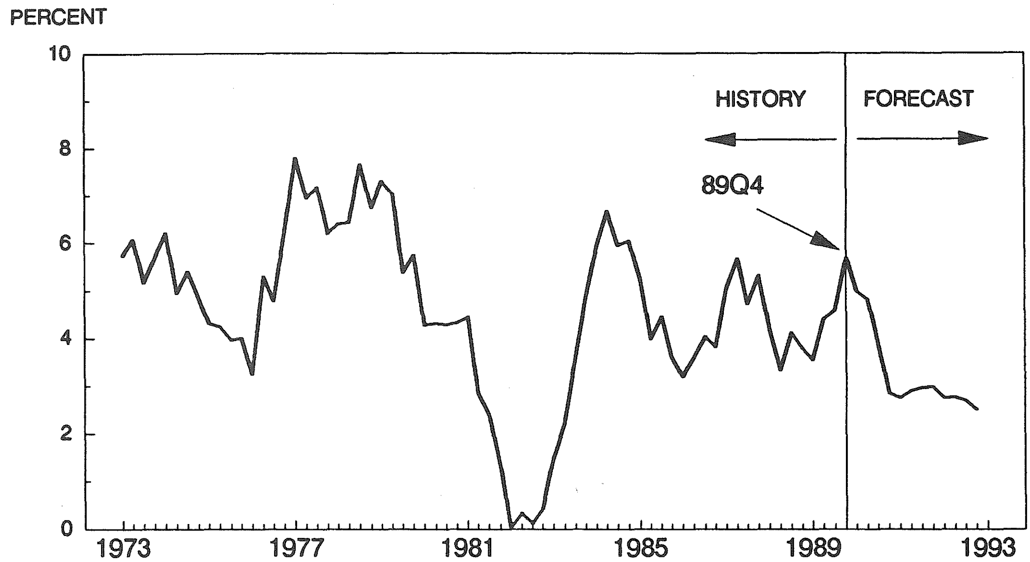


Services Growth Will Soften

So far, the impending slowdown has not affected the services sector which is resistant, but not immune to business cycles. However, the effects of weakening income growth from trade, and from layoffs in the computer industry and other parts of manufacturing should spread to services soon. Most parts of the services sector, including health care, personal services and repair services, should grow more slowly, but there should be no decline in employment. A small decline in the cyclically sensitive business services sector is expected in early in 1990.

Although there should be only a minimal decline in total services jobs early in 1990, there is also virtually no rebound to historic growth rates in the forecast for 1991-1992. (Figure 6) This reflects the modest 1991 rebound in the Control scenario as well as a downward trend in services employment growth which may be related to changing population demographics.

Figure 6
Minnesota Services Employment
Quarter Over Quarter Of Previous Year

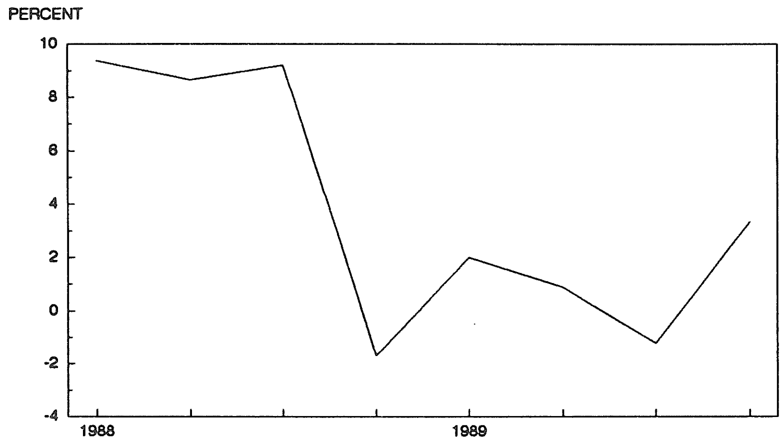


Is The Drought Back?

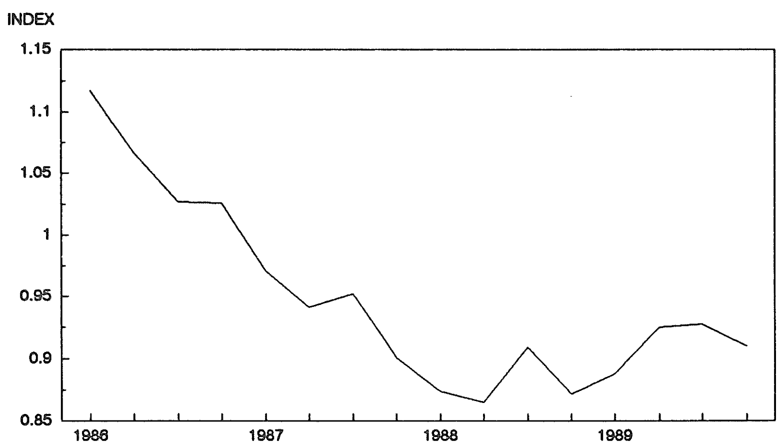
Extremely dry weather during the winter has renewed concerns that Summer, 1990 could a repeat of 1988. While there could be adverse economic impacts if another drought materializes, it is not possible to reasonably predict what they might be at this time. If the drought returns, and crop yields decline, farm income will be more severely impacted than in 1988 because farmer owned stocks of grain have been drawn down.

Selected National and Minnesota Economic Indicators

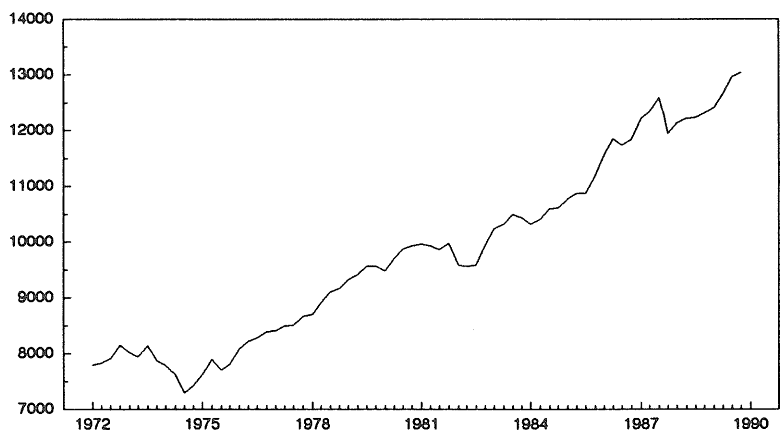
REAL INVESTMENT SPENDING
QUARTER OVER QUARTER OF PREVIOUS YEAR



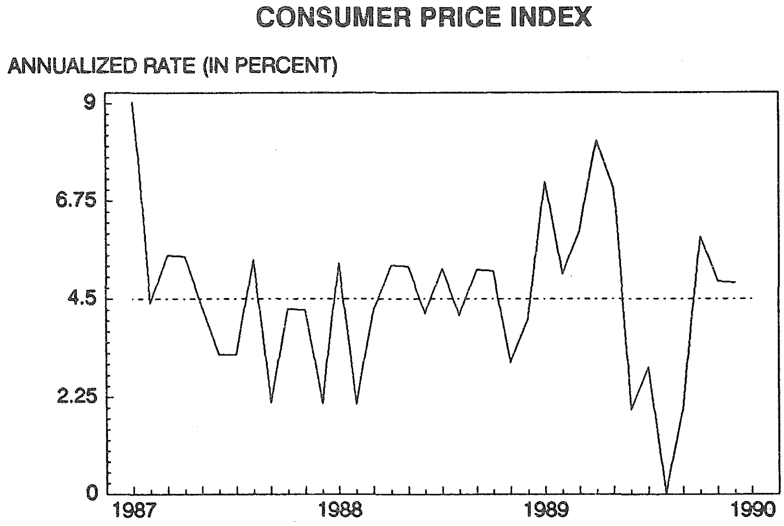
TRADE-WEIGHTED VALUE OF THE DOLLAR

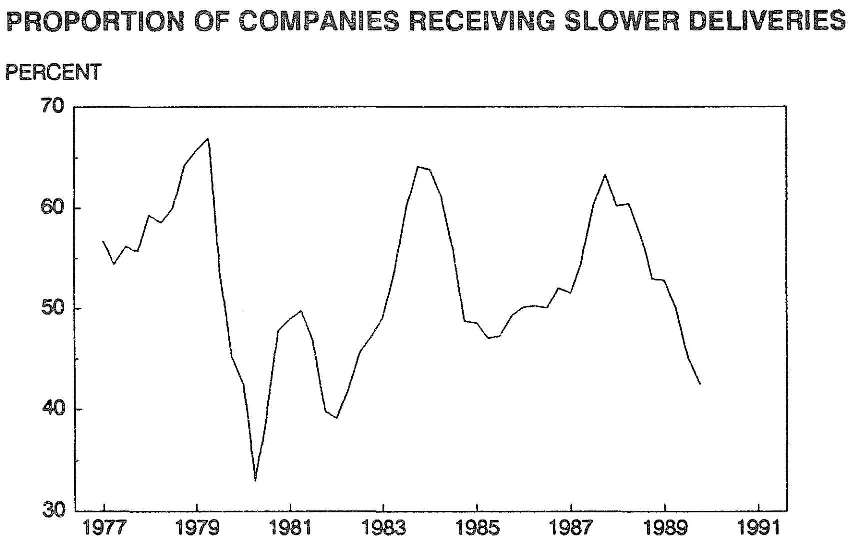


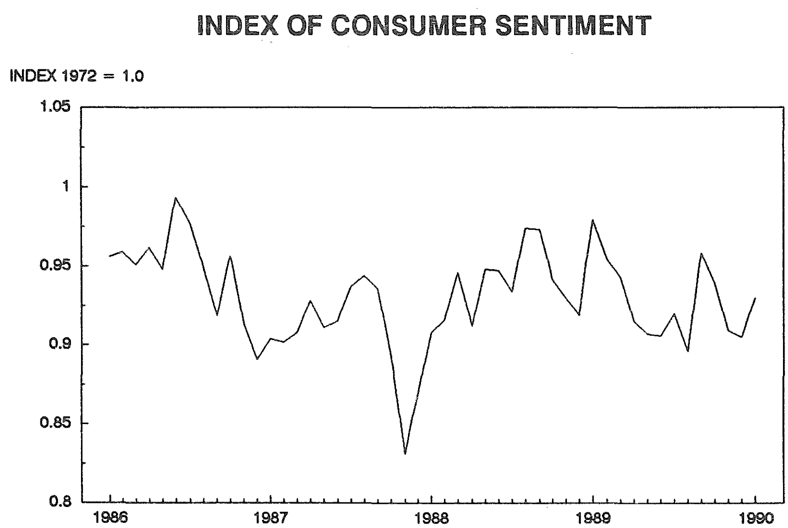
HOUSEHOLD NET WORTH
IN CONSTANT 1982 DOLLARS



Selected National and Minnesota Economic Indicators

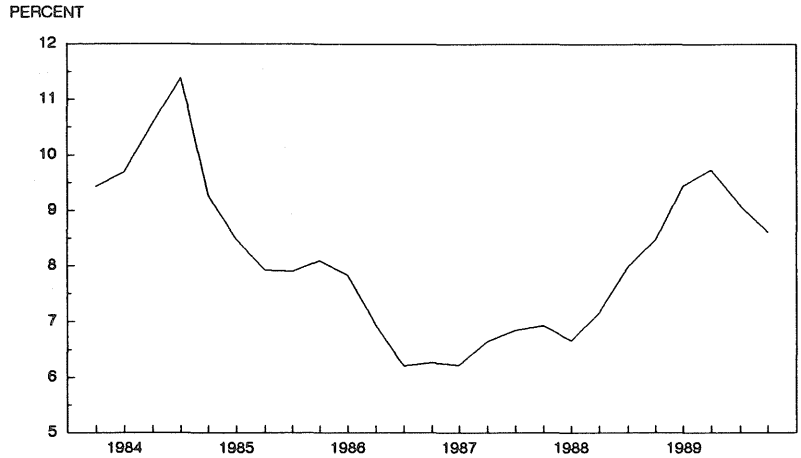




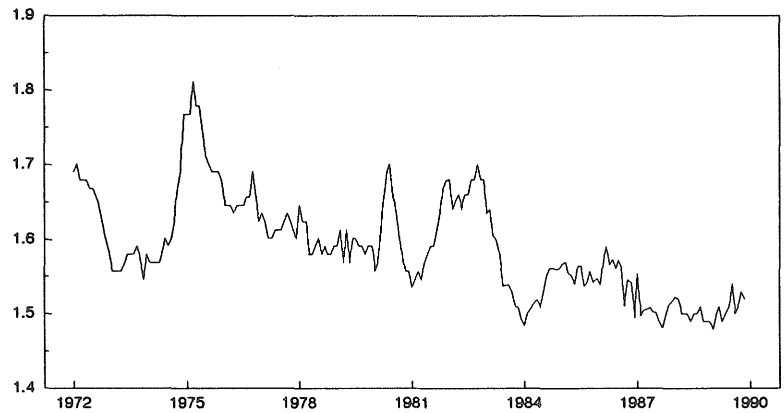


Selected National and Minnesota Economic Indicators

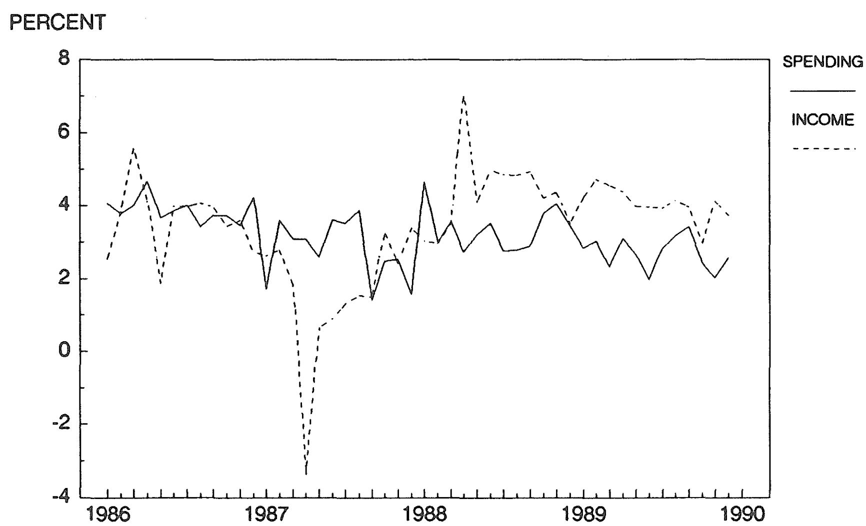
FEDERAL FUNDS RATE



MANUFACTURING AND TRADE INVENTORY TO SALES RATIO



REAL CONSUMER SPENDING AND REAL DISPOSABLE INCOME MONTH OVER MONTH OF PREVIOUS YEAR



REVENUES

Non-dedicated revenues are forecast to total 12.264 billion during the 1990-91 biennium, $34 million more than forecast in November. The combined receipts from the individual and corporate income taxes, the sales tax, and the motor vehicle excise tax are expected to total $11.208 billion, up nearly $46 million from November's estimates. Property tax refunds--treated under law as a reduction in individual income tax payments--are now expected to grow by an additional $3 million. Those higher property tax credits and a decline of more than $8 million in expected receipts from other non-dedicated revenues reduces the increase in net revenues to $34 million.

FEBRUARY 1990 REVENUE FORECAST
($ in Millions)

	FY 88-89 Biennium	FY 90	FY 91	FY 90-91 Biennium
Individual Income Tax (Gross)	5,120.8	2,864.3	3,108.3	5,972.6
Property Tax Refunds	280.0	132.9	143.6	276.5
Individual Income Tax (Net)	4,840.8	2,731.4	2,964.7	5,696.1
Sales Tax	3,453.2	1,867.4	1,980.3	3,847.7
Corporate Income Tax	896.7	471.3	406.3	877.6
Motor Vehicle Excise Tax	486.2	259.1	250.4	509.5
Four Major Taxes	9,676.9	5,329.2	5,601.7	10,930.9
Other Nondedicated Revenues	1,190.4	645.1	687.6	1,332.7
Total Nondedicated Revenues	10,867.3	5,974.2	6,289.4	12,263.6

In this forecast, expected receipts from each of the four major taxes increase by less than 0.5 percent, consistent with DRI's slightly more optimistic outlook for the national economy. Net general fund revenues in 1990-1991 are now expected to grow by 12.8 percent over 1988-89 biennial collections. Actual receipts since November have been slightly less than forecast levels. The combined negative variance for November, December, and January was $7.7 million, or about 3 percent of total receipts. (See Appendix table 4).

Individual Income Tax

Net individual income tax collections are now expected to total $5.973 billion, $31 million or 0.5 percent more than forecast in November. Current law requires that the cost of the renter's credit and circuit breaker programs--$277 million in the 1990-91 biennium--be treated as a reduction in income tax payments. Allowing for that deduction, the forecast for net individual income tax revenues, $5.696 billion, is $28 million greater than previously forecast.

A combination of factors produced that minor increase in expected income tax revenue. Final liability for the 1988 tax year--the starting point for the tax simulation model--was higher than the preliminary estimate used in November. DRI's February Control also contains a slightly more optimistic outlook for growth in wages and salaries than did their November Control. And, lower estimates of the growth in deferred compensation and flexible benefit plans increased taxable income.

Those gains were partially offset by a forecast of lower capital gains. Many investors, anticipating a change in federal capital gains tax rates during 1990, appear to be delaying their sale of stocks and other assets. Declining capital gains realizations reduced taxable incomes in 1989. Actual fourth quarter estimated tax payments were less than expected. Some of this reduction may be temporary, since sales of capital assets are expected to resume at their normal rate once the capital gains tax issue is resolved. But, the recent decline in the stock market has reduced the total value of the pool of potential gains available for realization.

Sales Tax

Net sales tax revenues are expected to total $3.848 billion during the 1990-91 biennium, up $11.0 million from the previous forecast. An increase in gross collections of $16.4 million is partially offset by an expected increase of $5.4 million in sales tax refunds. Of the expected increase $5.9 million reflects experience since the last forecast.

Corporate Income Tax

Net corporate income tax revenues remain virtually identical with levels forecast in November, increasing by only $900,000 to $877.6 million. A forecast reduction in future corporate tax payments of $6.1 million was more than offset by lower than expected levels of refund payments on recently completed, 1988 tax year filings. Corporate income taxes remain the most volatile and difficult to estimate of the four major taxes. Were a recession to occur, corporate tax revenues would decrease by the largest percentage.

Motor Vehicle Excise Tax

Receipts from the motor vehicle excise tax are now expected to be $509.5 million during the 1990-91 biennium, $2.5 million more than November's forecast. Recent rebate programs have increased auto sales from last fall's depressed levels. Whether auto sales can recover to levels consistent with DRI's forecast remains an open question.

Other Revenues

Other non-dedicated revenues are expected to decline by $8 million from the November forecast to a total of $1.333 billion. This category includes minor taxes, such as alcohol and tobacco taxes as well as the charges and miscellaneous fees collected by state agencies. The reduction from the November forecast reflects collection experience to date.

F.Y. 1990-91 BUDGET STATUS

Impact of February Forecast Changes

Compared to the November, 1989 budget forecast, the February update shows very little change. The current forecast anticipates a minor improvement from the $161 million shortfall forecast in November.

A $43 million upward adjustment in the forecast for major revenues and a net gain of $1 million for all other resources is offset by a net $28 million increase in projected spending for the biennium. The combined impact of revenue and expenditure adjustments in the February forecast totals a net positive change of $16 million.

IMPACT OF FEBRUARY FORECAST
F.Y. 1990-91 GENERAL FUND
($ in millions)

November Forecast Shortfall	(161)
	Change from November Forecast
Major Revenues:	
Individual Income Tax	31
Property Tax Refunds	(3)
Sales Tax	11
Corporate Income Tax	1
Motor Vehicle Excise Tax	3
Increase in Major Revenues	43
All Other Resources	1
Total Resources	44
Expenditure Forecast:	
Education Aids	(32)
Human Services	43
Aids & Credits	8
Dedicated Expenditures	4
All Other	5
Increase in Spending	28
Total Forecast Changes	16
Estimated Shortfall, June 30, 1991	(145)

On this basis, an estimated general fund shortfall of $145 million is projected for the end of the current biennium. To the extent that final actions in the 1990 legislative session do not fully offset the estimated shortfall, the State's Budget Reserve would be reduced by a like amount. The Budget Reserve is currently at $550 million.

Forecast Expenditures, F.Y. 1990-91

The forecast of total general fund spending for the 1990-91 biennium has increased only slightly from the November budget forecast. Forecast expenditures now total $13.911 billion, an increase of .2% ($28 million) over November's totals.

The major forecast changes which account for the $28 million net increase are highlighted below.

F.Y. 1990-91 EXPENDITURES
FORECAST CHANGES
($ in Millions)

	Expenditure Increase/(Decrease)
Education Aids	(32)
Human Services	43
Aids and Credits	8
Dedicated Expenditures	4
All Other	5
Total Expenditures	**28**

Expected School Aid Payments Decrease $32 Million

State aid to local school districts for elementary and secondary education is now expected to total $3.823 billion in the 1990-91 biennium, $31.8 million less than forecast in November.

Based on updated enrollment information from school districts for the 1989-90 school year, the estimated number of students has been revised downward. This revision accounts for approximately $11.4 million in savings.

The remainder of the downward revision in the forecast is attributable to two factors. First, an increase in the value of the levy recognition subtraction from the General Education Aid formula will result in approximately $17 million of savings in state appropriations from the November estimate. Second, estimates have increased for the subtractions to the General Education Aid formula for endowment fund earnings ($2 million) and the county apportionment ($1 million). By formula, the values of these items serve to reduce the required state appropriation for school aids.

Human Services Spending Forecast Increases by $43 Million

Revised estimates for the Human Services Income Maintenance programs for 1990-91 show an increase of $43.1 million over the November budget forecast. Medical Assistance (MA) expenditures are expected to account for approximately $26 million of the increase. Changes made to the Medical Assistance program by Congress and an increased nursing home caseload are the principal factors causing the upward revision.

By reducing federal commitments to refugee programs and expanding eligibility for poor children and disabled workers, the impact of federal actions increased Minnesota's MA costs by $12.4 million. Increased MA-eligible nursing home residents adds about $10 million to the forecast. In contrast to recent history, MA nursing home caseload is beginning to slowly increase after having steadily decreased since 1984. Another $3.1 million of the MA increase is attributable to refunding to the federal government certain disallowable payments the state had received for MA services in previous years.

Revised estimates for the Family Support programs for the remainder of the biennium show an increase of $15.6 million. The federal government's reductions in refugee funding will account for an increase in Minnesota's costs of nearly $8.7 million. The largest portion of this is reflected in the Aid to Families With Dependent Children (AFDC) program. The remaining $6.9 million is the result of increased caseload in the Work Readiness (WR) program. Caseload had increased principally as a result of the use of the new combined application for assistance programs. Many people who formerly applied only for food stamps without knowing they were eligible for Work Readiness, are now qualifying for WR benefits also.

Property Tax Aids and Credits Increase by $8 Million

The total 1990-91 estimate for property tax aids and credits has increased by $7.9 million over the November forecast. Changes in the estimated cost of the Homestead and Agricultural Credit Aid (HACA) account for $6.3 million of the increase; revised estimates of Disparity Reduction Aid (DRA), an additional $1.9 million. In both cases, final levy certifications for taxes payable 1990 are now available, and the changes reflect the differences between November estimates and final certifications.

Dedicated and All Other Spending Increases $9 million

The remaining changes in the February forecast account for a net $9 million increase over the November budget forecast. Of this total, $4 million represents an increase in the dedicated revenues and expenditures related to the county share of Income Maintenance costs. An additional $2 million reflects anticipated loans to the state employees workers compensation fund which reflect a similar repayment on the revenue side. Because of the offsetting revenue associated with these items, they do not affect the projected general fund balance.

The remaining forecast changes reflect minor adjustments totalling about $3 million. Increases in the forecast Motor Vehicle Excise Transfer ($9 million) and the Non-Game Wildlife Checkoff ($1.1 million) are representative of these changes.

1992-93 BASELINE ESTIMATE

The February forecast includes a baseline estimate for the 1992-93 biennium. The baseline, summarized below, estimates state general fund revenues and spending if current laws and policies for fiscal 1990-91 were to continue unchanged. It differs from past practice in not including an estimate of what might be proposed or enacted. This baseline measures the ability of future revenues, based on current law, to pay for currently enacted and proposed expenditures.

Proposed discretionary spending increases and other program or policy changes will undoubtedly be considered by the Governor and the 1991 legislative session which will formally adopt a budget for the 1992-93 biennium. This baseline will serve as a tool for analysing these proposals when they are presented.

BIENNIAL SUMMARY

($ in millions)

	1990-91 Estimate	1992-93 Baseline
Beginning Balance Excluding Budget Reserve	396	(145)
Net Non-Dedicated Revenue	12,264	13,904
Other Resources	1,106	946
Total Resources	13,766	14,705
Expenditures	13,911	15,242
Ending Balance	**(145)**	**(537)**
Budget Reserve	**550**	**550**

These baseline estimates for the 1992-93 biennium are not forecasts of future state revenues or expenditures. They provide a framework in which the current budget shortfall, and possible changes in taxes and spending programs can be assessed.

1992-93 BASELINE ESTIMATE

($ in millions)

	F.Y. 90	F.Y. 91	Current Law Baseline F.Y. 92	Current Law Baseline F.Y. 93
BEGINNING BALANCE Excluding Budget Reserve	396	267	(145)	(413)
TOTAL REVENUES	6,523	6,847	7,237	7,614
Percent Change	8.1%	5.0%	5.7%	5.2%
TOTAL EXPENDITURES	6,652	7,259	7,505	7,738
Percent Change	12.0%	9.2%	3.4%	3.1%
ENDING BALANCE	**267**	**(145)**	**(413)**	**(537)**
BUDGET RESERVE	550	550	550	550

The revenue estimates in this baseline were obtained by applying current law to DRI's TRENDLONG forecast. The expenditure estimates are based on current law and estimates of pupil or caseload growth . The estimates make no assumptions about actions of the Governor and Legislature in 1990 or future sessions. Recommendations by the Governor and actions by the legislature will be incorporated into this baseline as they occur. The Budget Reserve is assumed to remain at the current $550 million level. The baseline projections take as their starting point revenues and spending for fiscal year 1991 based on the February, 1990 budget forecast.

REVENUE PROJECTIONS FOR 1992-93

- Baseline estimates of non-dedicated, general fund revenues for the 1992-1993 biennium total $13.9 billion, an increase of 13.4 percent over levels forecast for the 1990-91 biennium. Total revenues, including dedicated revenues, are expected to be $14.8 billion.
- The baseline revenue estimates are based on DRI's Winter TRENDLONG forecast which does not include a recession. Real GNP is expected to grow 2.3 percent in 1992 and 2.2 percent in 1993. Inflation, as measured by the GNP deflator, is expected to be 4.3 percent in 1992 and 4.3 percent in 1993.

1992-93 BASELINE ESTIMATE
PROJECTED RESOURCES

($ in millions)

	2-90 Est. F.Y. 1991	2-90 Base F.Y. 1992	F.Y. % Change	2-90 Base F.Y. 1993	F.Y. % Change
Resources					
Beginning Balance Excluding Budget Reserve	267	(145)		(413)	
Individual Income Tax	2,965	3,257	9.9%	3,507	7.7%
Sales Tax - General	1,980	2,100	6.0%	2,232	6.3%
Corporate Income Tax	406	426	4.9%	411	(3.5%)
Motor Vehicle Excise	250	260	3.8%	273	5.1%
Other Non-Dedicated Revenue	688	717	4.3%	721	0.6%
Subtotal	6,289	6,760	7.5%	7,144	5.7%
Dedicated Revenue, Transfers	543	465	(14.4%)	460	(1.1%)
Other Resources	15	12	(20.0%)	10	(16.7%)
Total Resources	7,114	7,092	(0.3%)	7,201	1.5%

The 1992-93 baseline estimate builds upon the F.Y. 1991 revenue forecast. The individual income tax estimates assumes that the Minnesota filer growth rate will be identical to the long-term US filer growth estimates prepared by the US Treasury Department. All individual deductions and each element of adjusted gross income were assumed to grow by DRI's forecast growth rate for the personal tax base. Indexing assumptions were based on expected inflation rates from the appropriate Control forecast. These assumptions when applied to the state's income tax micro-simulation model provided estimates of calendar year liabilities for 1992 and 1993. Those calendar year liabilities were then converted into fiscal year revenues in the same proportion as occurred in 1991.

Future sales tax, corporate income tax, and motor vehicle excise tax revenues were estimated by first computing the percentage growth rates for 1992 and 1993 in the variable or variables which most closely describe their tax bases. These "base" growth rates were then applied directly to actual revenue collections for 1991. The weighted average of non-auto consumer durable spending, business investment, construction spending and "other consumer nondurables spending" was used as a proxy for the sales tax base. Corporate tax receipts in Minnesota were forecast to grow at the same rate as national before-tax corporate profits. Minnesota's motor vehicle excise tax collections are forecast to grow at the same rate as national consumption of motor vehicles and parts.

Other tax and non-tax revenue sources were estimated forecast using trendline forecasts, based on the current biennium. Anticipated increases in these other revenues range from 0 to 3 percent per year. Those increases were partially offset by the scheduled termination of the telephone and telegraph gross earnings tax in 1992.

SPENDING PROJECTIONS FOR 1992-93

- Baseline estimates for 1992-93 General Fund spending are used to identify the underlying trends in spending.
- The projected expenditures shown for 1992-93 are estimates of the cost of continuing programs at the enacted fiscal 1991 level through the following biennium. Adjustments are made only on the basis of current law provisions and for income support utilization, federal budget impacts or formula requirements in current law.
- Total General Funding spending for 1992-93 under current law would increase by about $1.3 billion to $15.2 billion total.
- Baseline estimates for F.Y. 1992-93 make no assumptions about actions by the Governor or legislature that might affect state programs or state salaries beyond the current contract. During the next biennium the Trendlong forecasts the Consumer Price Index to increase by 4.7 percent in 1992 and 4.5 percent in 1993.

1992-93 BASELINE ESTIMATE
PROJECTED EXPENDITURES

($ in millions)

	2-90 Est. F.Y. 1991	2-90 Base F.Y. 1992	F.Y. % Change	2-90 Base F.Y. 1993	F.Y. % Change
Major Spending Items					
Aid to School Districts	2,142	2,285	6.7%	2,350	2.8%
Post-Secondary Education	1,305	1,314	0.7%	1,321	0.6%
Property Tax Aids & Credits	798	854	7.0%	886	3.7%
Health Care (MA/GAMC)	839	855	1.9%	932	9.0%
Local Government Aid	368	383	4.1%	398	3.9%
Debt Service	208	200	(3.8%)	208	4.1%
Income Support (AFDC, GA, MSA)	156	162	4.1%	174	7.1%
Subtotal	5,817	6,054	4.1%	6,270	3.6%
All Other Spending	1,443	1,451	0.6%	1,468	1.1%
Total Expenditures & Transfers	7,260	7,505	3.4%	7,738	3.1%

The four-year baseline estimate focuses on the seven major program areas which account for 80% of the state budget. The basis of extending these costs into 1992-93 is highlighted by major category.

School Aids

The 1990 General Education formula amount is used for the 1991 and 1992 school years. School levies are assumed to increase by 7.5% for payable 1991 as set in current law and remain constant the following year.

Anticipated increases in pupil unit growth are expected to add an additional 2.5% per year to the cost of the General Education formula. Categorical aids to school districts for K-12 education are also increased by the forecasted 2.5% enrollment growth.

As part of the 1989 property tax reform provisions, some HACA and city/county LGA was redirected to the General Education Aid, Transportation Aid, and Capital Expenditure Aid formulae. Of the amount redirected to schools, only 85% was actually appropriated in state fiscal year 1991. This practice is consistent with the 85%-15% funding of school year versus state fiscal year obligations. The state appropriations will automatically increase in F.Y. 1992 and 1993 by $34 million over F.Y. 1991 levels in recognition of this 15% final payment application to the redirected aids.

Post-Secondary Education

Baseline estimates of higher education spending include expected enrollment growth for the State University and Community College Systems during the 1992-93 period. No other increases are currently in law.

Property Tax Aid and Credit Programs

Homestead and Agricultural Credit Aid (HACA) is estimated based on the property tax class rates and growth formula specified in the 1989 special session tax bill. The cost estimates for the growth formula assume approximately a 6% per year growth for inflation and household growth and a 6% growth in overall market values. The formula provisions account for the projected growth estimated for HACA during 1992-93.

The 1989 tax bill provided for state assumption of local income maintenance costs. Approximately $130 million per year of projected HACA will be redirected as base level funding for this purpose under current law. Additionally, the state will assume the costs of further income maintenance growth over the base amount as well as certain conversion costs. These income maintenance growth and takeover costs will add approximately $70 million to the 1992-93 biennium over the F.Y. 1991 base level.

No increases are provided for the small miscellaneous aids and credits and funding for these is projected to continue at the current F.Y. 1991 level.

Approximately $10 million in new state funding was provided in F.Y. 1991 as the initial step in the assumption of local court costs. No other increases are currently in law.

Local Government Aid (LGA) and Other Major Local Assistance Programs

Local Government Aid to cities for is projected to increase by approximately $15 million per year in 1992 and 1993. This legislated increase was included in the 1989 tax bill. No increase is currently in law for township and county LGA.

No increases are currently in law for other major local assistance grants including the Community Corrections Act, Community Health Services, Community Social Services Act. Police and Fire Aids, which are tied to Insurance Gross Premium receipts, are expected to grow by 6% per year.

The Motor Vehicle Excise transfer is shown with no increase above the 35% transfer enacted for fiscal 1991. A higher percentage transfer would reduce balances shown for the 1992-93 biennium.

Health Care Programs (MA, GAMC)

In Medical Assistance for 1992-93, nursing home caseload is expected to grow by 3.0% per year and nursing home rate adjustments which are factored in per current law, are projected to increase 7.2% annually. No growth is forecast for Intensive Care Facilities/Mentally Retarded (ICF/MR) caseload, but yearly rate increases of about 10% have been assumed per current law in developing 1992-93 estimates.

With the exception of the waiver for the Mentally Retarded, caseload growth in all other Medical Assistance areas is expected to be about 3.6% per year. The MR Waiver caseload is expected to grow 17.0% in 1992 and 13.0% in 1993. Inpatient hospital rates per current law are assumed to increase at 6.9% per year, and all payments to other acute care providers are projected to grow at 3.0% per year.

For General Assistance Medical Care (GAMC), caseload growth of 3.0% and 4.0% is expected for 1992 and 1993. Inpatient hospital rates are assumed to increase by 6.9% per year, while payments to other providers are expected to average about 2.0% annual growth during the biennium.

Preadmission Screening/Alternative Care Grants (PAS/ACG) caseloads are expected to grow by about 12% per year. Rates are expected to increase by about 6.0% per year during the same period.

Family Support Programs (AFDC, GA, MSA)

Within the Family Support programs, the Minnesota Supplemental Aid caseload is assumed to grow by 6.7% per year, and average costs per case are expected to grow 10.0% annually. For the other Family Support programs including Aid to Families with Dependent Children, General Assistance, and Work Readiness, caseload growth is expected to average less than 0.5% per year. No future increases in payment standards are currently in law.

Debt Service

The baseline estimate of the general fund cost of servicing the state's long term debt is developed on current assumptions on payments required by existing debt. No funding has been anticipated in the estimate for the any capital projects which might be approved by the 1990 Legislative session.

State Operations

Operating costs for state agencies, state institutions, legislative, judicial and constitutional officers have been extended based on their F.Y. 1991 appropriations level. No increases are currently in law for state salaries or other operating expense categories.

Budget Reserve

The Budget Reserve for 1992-93 is shown at the current level of $550 million. Current law provides for increasing the Reserve to a maximum of 5% of total General Fund appropriations (total spending) by allocating positive balances resulting from revised forecasts during the biennium. It is assumed that this mechanism will remain in place for the 1992-93 biennium to increase or restore the Reserve as required.

A Question of Budget Tails

Budget "tails" reflect revenue or expenditure actions taken during a legislative session which may have only partial or no fiscal impact on the budgeted biennium, but which have a compounding impact on succeeding budgets.

Each biennial budget has contained examples of these factors in varying dollar magnitudes. With the major exceptions of aid to education, the 1989 special session tax bill, and the second year increases for post-secondary education, the enacted budget for 1990-91 contained few programs which are not fully funded within the biennium.

BEYOND THE 1992-93 BASELINE ESTIMATE

Discretionary Spending Increases

The table below shows the impact on the F.Y. 1993 ending balance of representative changes in major spending areas.

In each case the increase is over and above the baseline in each fiscal year and would reduce the F.Y. 1993 ending balance by the amounts shown.

DISCRETIONARY INCREASES
IMPACT IN F.Y. 1992-93
OF CHANGES IN MAJOR PROGRAMS
($ in millions)

	3% Change	4% Change	5% Change
School Aids	$231	$309	$387
Higher Education (Average Cost Funding)	93	125	156
Human Services - Health Care	66	88	111
Human Services - Family Support	15	20	25
Salaries	61	81	101

Estimates for Local Government Aid and HACA are not presented because statutory increases already in law are included in the baseline estimate.

As proposals for additional spending or revenue are made by the Governor or enacted by the legislature they will be incorporated as appropriate into the baseline. In that way the baseline estimate can serve its primary function as a tool for helping to maintain fiscal stability.

The Cost of a Recession

The current economic situation contains an unusually high risk of a recession. Recognizing those unusual circumstances, Minnesota's Council of Economic Advisors suggested the Department of Finance prepare baseline estimates based on a scenario less optimistic than the combined Control - Trendlong scenario. The Council was particularly concerned that the assumption of no recession during the next 40 months was unrealistic.

Department of Finance economists prepared an alternative long-term forecast based on DRI's February Early Recession Scenario (probability 25 percent) extended into 1992 and 1993 using the Trendlong growth rates. That relatively mild recession over the four year budget and planning horizon reduced revenues by $540 million compard to the combined Control - Trendlong forecast.

Any recession would also adversely impact state spending--particularly in the Human Services area. Recession related increases in the number of persons qualifying for state health care and family support benefits could add up to $200 million to the baseline spending estimates.

THE 1992-93 BUDGET BASELINE ESTIMATE A TOOL FOR FISCAL STABILITY

The 1992-93 baseline estimate provides a framework within which proposed changes in spending and revenue can be analyzed. The key to understanding this planning tool's use is to remember that under Minnesota's Constitution the state budget cannot show a deficit at the end of the biennium. That is, the ending balance cannot be negative. Any projected negative ending balance requires adjustments in spending or revenues. Similarly, if the expected ending balance is zero at the beginning of any period, all proposed spending increases must be balanced by cuts in spending elsewhere, or an increase in revenue. This tool highlights the need for corrective action to achieve and maintain fiscal stability.

If funds are carried forward from the previous biennium, they increase the revenues available to be spent. If there is no spending increase, the ending balance will grow by the amount carried forward.

If a reserve is desired to protect against the risk of economic downturn, the amount of the reserve is not counted in the ending balance. Two examples illustrate this tool's use

Figure 1

	An Estimated Negative Ending Balance		Requires Action to Achieve Stability	
	YR 1	YR 2	YR 1	YR 2
BALANCE (Start of Year)	100	-100	100	0
REVENUES	1,000	1,100	1,000	1,100
EXPENDITURES	1,200	1,200	1,200 -100	1,200 -100
ENDING BALANCE	**-100**	**-200**	**0**	**0**

Figure 2

	A Proposal to Increase Spending		Must Be Accompanied By A Proposal to Retain The Balance	
	YR 1	YR 2	YR 1	YR 2
BALANCE (Start of Year)	100	-100	100	0
REVENUES	1,000	1,100	1,000	1,100
EXPENDITURES	1,000 +200	1,200	1,000 +200 -100	1,100
ENDING BALANCE	**-100**	**-200**	**0**	**0**

APPENDIX TABLES

1. Alternative Forecast Comparison
2. Forecast Comparison
3. Minnesota - U.S. Comparison
4. Actual and Estimated Non-Restricted Revenues Since Last Forecast
5. Factors Affecting the Individual Income Tax
6. Factors Affecting Sales, Corporate, and Motor Vehicle Taxes
7. 1990 - 1991 General Fund forecast
8. Comparison February, 1990 and November, 1989 Forecast
9. 1992 - 1993 Baseline Estimate

ALTERNATIVE FORECAST COMPARISON

Real GNP (Annual Rates)

	89II	89III	89IV	90I	90II	90III	90IV	88A	89A	90A	91A
DRI (02-90)	2.5	3.0	0.5	1.4	2.1	1.9	2.9	4.4	2.9	1.8	2.7
Goldman-Sachs (02-90)	2.5	3.0	0.5	0.2	0.9	2.4	2.1	4.4	2.9	1.3	n.a.
Georgia State (02-90)	2.5	3.0	0.5	0.9	2.6	3.5	1.4	4.4	2.9	1.9	2.1
Shearson-Lehman Hutton (01-15-90)	2.5	3.0	0.4	0.7	1.5	3.1	2.9	4.4	2.9	1.6	2.9
Blue Chip (02-10-90)	2.5	3.0	0.5	1.1	1.7	2.2	2.4	4.4	2.9	1.6	2.4
CBO (01-90)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4.4	2.9	1.7	2.4
First Boston (02-09-90)	2.5	3.0	0.5	1.7	1.9	1.1	1.1	4.4	2.9	n.a.	n.a.

GNP Deflator (Annual Rates)

	89II	89III	89IV	90I	90II	90III	90IV	88A	89A	90A	91A
DRI (02-90)	4.6	3.2	3.5	4.3	3.2	3.5	3.3	3.3	4.1	3.7	3.7
Goldman-Sachs* (02-90)	5.0	2.9	3.8	5.0	4.5	4.0	4.5	4.2	4.5	4.2	n.a.
Georgia State (02-90)	4.6	3.2	3.5	5.1	3.2	3.4	4.9	3.3	4.2	3.9	4.2
Shearson-Lehman Hutton (01-15-90)	4.6	3.2	3.7	5.1	4.2	3.6	3.2	3.3	4.2	4.1	3.7
Blue Chip (02-10-90)	4.6	3.2	3.5	4.5	3.9	3.9	4.0	3.3	4.2	4.0	4.0
CBO (01-90)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.3	4.2	4.0	4.0
First Boston (02-09-90)	4.6	3.2	3.5	4.4	3.4	3.6	3.5	3.3	4.2	n.a.	n.a.

* Fixed Weight Index.

FORECAST COMPARISONS

	Real Economic Growth (Annual %-Change in Real GNP)						Inflation (Annual %-Change in GNP Deflator)					
	1986	1987	1988	1989	1990	1991	1986	1987	1988	1989	1990	1991
Jan 84 DRI Control	2.5	n.a.	n.a.	n.a.	n.a.	n.a.	5.0	n.a.	n.a.	n.a.	n.a.	n.a.
April 84 DRI Control	2.7	n.a.	n.a.	n.a.	n.a.	n.a.	5.5	n.a.	n.a.	n.a.	n.a.	n.a.
July 84 DRI Control	2.5	n.a.	n.a.	n.a.	n.a.	n.a.	5.4	n.a.	n.a.	n.a.	n.a.	n.a.
Oct 84 DRI Control	2.2	4.0	n.a.	n.a.	n.a.	n.a.	4.5	5.2	n.a.	n.a.	n.a.	n.a.
Dec 84 DRI Control	3.1	3.9	n.a.	n.a.	n.a.	n.a.	4.1	4.7	n.a.	n.a.	n.a.	n.a.
April 85 DRI Control	2.3	3.7	n.a.	n.a.	n.a.	n.a.	3.4	4.3	n.a.	n.a.	n.a.	n.a.
July 85 DRI Control	2.3	3.6	n.a.	n.a.	n.a.	n.a.	3.4	4.4	n.a.	n.a.	n.a.	n.a.
Oct 85 DRI Control	2.1	3.8	n.a.	n.a.	n.a.	n.a.	3.2	4.0	n.a.	n.a.	n.a.	n.a.
Jan 86 DRI Control	2.0	3.5	n.a.	n.a.	n.a.	n.a.	3.1	3.6	n.a.	n.a.	n.a.	n.a.
May 86 DRI Control	2.4	3.5	n.a.	n.a.	n.a.	n.a.	2.6	2.5	n.a.	n.a.	n.a.	n.a.
Aug 86 DRI Control	2.6	2.7	n.a.	n.a.	n.a.	n.a.	2.6	2.5	n.a.	n.a.	n.a.	n.a.
Nov 86 DRI Control	2.6	2.6	3.1	2.2	n.a.	n.a.	2.7	2.5	3.4	3.7	n.a.	n.a.
March 87 DRI Control	2.5	2.8	2.9	2.1	n.a.	n.a.	2.6	2.6	3.5	3.7	n.a.	n.a.
Jan 88 DRI Control	2.9	2.8	1.9	3.3	2.9	n.a.	2.6	3.0	3.1	3.7	4.5	n.a.
Nov 88 DRI Control	2.8	3.4	3.8	2.3	1.9	3.2	2.7	3.3	3.3	3.8	4.1	4.6
Mar 89 DRI Control	2.8	3.4	3.8	2.7	1.5	3.2	2.7	3.3	3.4	4.2	3.9	4.2
Nov 89 DRI Control	2.7	3.7	4.4	2.9	1.6	2.7	2.6	3.1	3.3	4.1	3.7	4.2
Feb 90 DRI Control	2.7	3.3	4.4	2.9	1.8	2.7	2.6	3.1	3.3	4.1	3.7	3.7

MINNESOTA - U.S. COMPARISON REPORT

Annualized Percent Changes

February 90 Control

	1984	1985	1986	1987	1988	1989	1990	1991
Wage and Salary Income								
United States	9.7	7.4	6.0	7.4	8.0	8.4	6.7	7.0
Minnesota	11.0	6.8	5.9	7.9	8.4	6.0	6.4	6.9
Implied Annual Wage								
United States	4.7	4.1	3.9	4.6	4.5	5.3	5.1	5.6
Minnesota	4.9	4.2	4.4	4.3	5.0	3.1	5.2	5.6
Non-Farm Employment								
United States	4.8	3.2	2.0	2.7	3.3	2.9	1.6	1.4
Minnesota	5.9	2.5	1.4	3.5	3.2	2.8	1.1	1.3

Comparison of Actual and Estimated Non-Restricted Revenues Fiscal Year to Date, Through January, 1990

($ in thousands)

Major Four Revenues	Forecast Revenues	Actual Revenues	Variance* Act-Fcst
Individual Income Tax			
Withholding	1,366,595	1,401,264	34,669
Declarations	312,035	278,698	(33,337)
Miscellaneous	48,892	44,455	(4,437)
Gross	1,727,522	1,724,417	(3,105)
Refunds	31,902	36,647	4,745
Net	1,695,620	1,687,770	(7,850)
Corporate & Bank Excise			
Declarations	234,496	228,806	(5,690)
Miscellaneous	65,270	65,506	236
Gross	299,766	294,312	(5,454)
Refunds	52,762	45,795	(6,967)
Net	247,004	248,517	1,513
Sales Tax			
Gross	1,080,504	1,088,058	7,554
Refunds	20,335	22,009	1674
Net	1,060,169	1,066,049	5,880
Motor Vehicle Excise	145,046	147,977	2,931
Other Revenues:			
Inherit/Gift/Estate	10,598	9,615	(983)
Liquor/Wine/Beer	31,571	31,569	(2)
Cigarette & Tobacco	81,247	81,510	263
Mining Taxes	1,277	1,336	59
Insurance Gross Earnings	32,817	38,339	5,522
Other Gross Earnings	0	1	1
Telephone & Telegraph G.E.	22,017	20,471	(1,546)
Pari-mutuel Gross Earnings	1,078	817	(261)
Charitable Gambling	19,659	18,022	(1,637)
Departmental Earnings	56,794	43,861	(12,933)
Investment Income	51,034	49,999	(1,035)
Income Tax Reciprocity	19,631	19,778	147
All Other	35,819	38,822	3,003
Other Subtotal	363,542	354,140	(9,402)
Other Refunds	17,358	18,097	739
Other Net	346,184	336,043	(10,141)
Total Gross	3,616,380	3,608,904	(7,476)
Total Refunds	122,357	122,548	191
Total Net	3,494,023	3,486,356	(7,667)

* Since November, 1989 Forecast

FACTORS AFFECTING THE INDIVIDUAL INCOME TAX
(DOLLARS IN BILLIONS)

	CALENDAR YEAR					
	1986	1987	1988	1989	1990	1991
MN Non-Farm Tax Base						
OCT 1985 Control	51.969	55.902				
JAN 1986 Control	51.908	55.697				
MAY 1986 Control	51.339	54.587				
AUG 1986 Control	51.272	54.171				
NOV 1986 Control	51.253	53.806	57.675	61.441		
MAR 1987 Control	51.356	53.859	57.547	60.931		
JAN 1988 Control (1)	52.452	55.519	59.145	62.792		
NOV 1988 Control	52.433	56.400	60.470	64.339	68.410	73.622
MAR 1989 Control	52.433	56.400	60.591	65.528	69.383	74.136
NOV 1989 Control	52.432	56.396	60.780	65.548	69.723	74.108
FEB 1990 Control	52.467	56.482	61.005	65.538	69.592	73.873
MN Wage and Salary Income						
OCT 1985 Control	36.837	39.677				
JAN 1986 Control	37.193	40.009				
MAY 1986 Control	36.913	39.334				
AUG 1986 Control	36.806	38.948				
NOV 1986 Control	36.824	38.739	41.399	44.193		
MAR 1987 Control	36.800	38.885	41.317	43.778		
JAN 1988 Control (1)	37.798	39.905	42.465	45.036		
NOV 1988 Control	37.824	40.780	43.680	46.374	49.380	53.200
MAR 1989 Control	37.824	40.780	43.782	46.971	49.998	53.616
NOV 1989 Control	37.825	40.783	44.061	46.941	50.168	53.635
FEB 1990 Control	37.860	40.868	44.286	46.942	49.962	53.434
MN Property Income						
OCT 1985 Control	11.833	12.748				
JAN 1986 Control	11.509	12.241				
MAY 1986 Control	11.256	11.880				
AUG 1986 Control	11.262	11.731				
NOV 1986 Control	11.220	11.546	12.471	13.189		
MAR 1987 Control	11.355	11.459	12.438	13.115		
JAN 1988 Control (1)	10.473	10.968	11.695	12.39		
NOV 1988 Control	10.567	11.264	12.203	13.245	14.068	15.145
MAR 1989 Control	10.567	11.264	12.239	13.679	14.346	15.132
NOV 1989 Control	10.567	11.264	12.209	13.760	14.441	15.103
FEB 1990 Control	10.567	11.264	12.209	13.761	14.536	15.084
MN Proprietors Income						
OCT 1985 Control	3.299	3.477				
JAN 1986 Control	3.206	3.448				
MAY 1986 Control	3.170	3.373				
AUG 1986 Control	3.204	3.492				
NOV 1986 Control	3.209	3.520	3.804	4.059		
MAR 1987 Control	3.193	3.515	3.792	4.038		
JAN 1988 Control (1)	4.181	4.646	4.985	5.366		
NOV 1988 Control	4.042	4.356	4.587	4.779	4.961	5.277
MAR 1989 Control	4.042	4.356	4.570	4.878	5.039	5.389
NOV 1989 Control	4.039	4.350	4.510	4.847	5.114	5.370
FEB 1990 Control	4.039	4.350	4.510	4.836	5.094	5.356

(1) *The January values reflect major data revisions.*

FACTORS AFFECTING SALES, CORPORATE INCOME AND MOTOR VEHICLE EXCISE TAXES

(DOLLARS IN BILLIONS)

SALES TAX

Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)

	FISCAL YEAR 1986	1987	1988	1989	1990	1991
OCT 1985 Control	3.452	3.617				
JAN 1986 Control	3.558	3.679				
MAY 1986 Control	3.770	3.922				
AUG 1986 Control	3.776	3.893				
NOV 1986 Control	3.727	3.953	4.044	4.210		
MAR 1987 Control	3.727	4.047	4.085	4.168		
JAN 1988 Control (1)	3.752	4.125	4.239	4.297		
NOV 1988 Control	3.809	4.207	4.457	4.675	4.843	5.082
MAR 1989 Control	3.809	4.207	4.458	4.794	5.112	5.358
NOV 1989 Control	3.802	4.198	4.478	4.827	5.069	5.273
FEB 1990 Control	3.802	4.198	4.478	4.830	5.086	5.303

Minnesota's Proxy Share of U.S. Capital Equipment Spending

	1986	1987	1988	1989	1990	1991
OCT 1985 Control	5.467	5.799				
JAN 1986 Control	5.547	5.867				
MAY 1986 Control	5.536	5.695				
AUG 1986 Control	5.561	5.687				
NOV 1986 Control	5.514	5.746	6.016	6.456		
MAR 1987 Control	5.514	5.749	6.079	6.431		
JAN 1988 Control (1)	5.319	5.456	5.876	6.039		
NOV 1988 Control	5.264	5.405	5.928	6.468	6.663	6.860
MAR 1989 Control	5.264	5.405	5.925	6.387	6.836	7.004
NOV 1989 Control	5.269	5.450	5.974	6.457	6.689	6.899
FEB 1990 Control	5.269	5.450	6.004	6.470	6.642	6.886

Minnesota's Proxy Share of U.S. Construction Spending

	1986	1987	1988	1989	1990	1991
OCT 1985 Control	6.001	6.156				
JAN 1986 Control	6.065	6.334				
MAY 1986 Control	6.420	6.543				
AUG 1986 Control	6.398	6.284				
NOV 1986 Control	6.245	5.979	6.006	6.448		
MAR 1987 Control	6.248	6.328	6.442	6.821		
JAN 1988 Control (1)	6.278	6.688	7.014	6.834		
NOV 1988 Control	6.256	6.790	6.973	6.605	6.854	7.369
MAR 1989 Control	6.256	6.790	6.973	6.552	6.642	7.430
NOV 1989 Control	6.291	6.899	6.882	6.740	6.772	7.348
FEB 1990 Control	6.296	6.917	7.060	6.741	6.621	7.157

FACTORS AFFECTING SALES, CORPORATE INCOME AND MOTOR VEHICLE EXCISE TAXES
(DOLLARS IN BILLIONS)

	FISCAL YEAR					
	1986	1987	1988	1989	1990	1991
SALES TAX (Cont.)						
Minnesota Non-Farm Personal Income						
OCT 1985 Control	58.968	63.274				
JAN 1986 Control	59.908	63.063				
MAY 1986 Control	58.458	61.466				
AUG 1986 Control	58.175	61.224				
NOV 1986 Control	58.189	61.082	64.854	69.369		
MAR 1987 Control	58.151	60.718	64.457	68.644		
JAN 1988 Control (1)	59.710	62.869	67.015	70.952		
NOV 1988 Control	59.636	63.374	67.918	73.342	77.016	82.220
MAR 1989 Control	59.636	63.374	67.882	73.029	78.064	82.825
NOV 1989 Control	59.615	63.330	67.814	73.194	78.360	83.075
FEB 1990 Control	59.615	63.413	68.023	73.289	78.383	83.091
MOTOR VEHICLE EXCISE TAX						
Minnesota's Proxy Share of U.S. Consumption of Motor Vehicles and Parts						
OCT 1985 Control	3.087	3.153				
JAN 1986 Control	3.204	3.463				
MAY 1986 Control	3.222	3.442				
AUG 1986 Control	3.232	3.412				
NOV 1986 Control	3.248	3.480	3.672	3.625		
MAR 1987 Control	3.249	3.436	3.522	3.479		
JAN 1988 Control (1)	3.460	3.732	3.940	3.773		
NOV 1988 Control	3.461	3.795	3.902	3.972	3.901	4.034
MAR 1989 Control	3.491	3.795	3.902	4.002	4.076	4.176
NOV 1989 Control	3.502	3.770	3.926	3.979	4.085	4.162
FEB 1990 Control	3.502	3.770	3.926	3.958	4.015	4.148
CORPORATE INCOME TAX						
U.S. Corporation Profits						
OCT 1985 Control	293.1	338.0				
JAN 1986 Control	307.5	345.6				
MAY 1986 Control	275.6	310.7				
AUG 1986 Control	286.3	302.0				
NOV 1986 Control	287.5	307.3	338.2	360.1		
MAR 1987 Control	283.9	309.7	338.8	357.1		
JAN 1988 Control (1)	268.8	279.9	286.0	347.6		
NOV 1988 Control	229.1	257.0	290.9	292.7	297.4	348.6
MAR 1989 Control	229.1	257.0	290.9	310.4	288.6	342.6
NOV 1989 Control	n.a.	n.a.	299.1	324.0	275.3	325.8
FEB 1990 Control	n.a.	n.a.	299.1	324.0	278.7	314.5

(1) *The January 1988 values reflect major national income account revisions and revisions to Minnesota personal income.*

1990–91 General Fund Budget
February, 1990 Forecast

	2-90 EST F.Y. 1990	2-90 EST F.Y. 1991	2-90 EST F.Y. 1990-91
RESOURCES			
BALANCE FORWARD IN	945,660	817,499	945,660
INDIVIDUAL INCOME TAX	2,731,370	2,964,700	5,696,070
SALES TAX-GENERAL	1,867,396	1,980,337	3,847,733
CORPORATE INCOME TAX	471,300	406,300	877,600
MOTOR VEHICLE EXCISE	259,100	250,400	509,500
OTHER NON-DEDICATED REVENUE	645,057	687,613	1,332,670
SUBTOTAL	5,974,223	6,289,350	12,263,573
DEDICATED REVENUE, TRANSFERS	533,588	543,121	1,076,709
OTHER RESOURCES	15,000	15,000	30,000
TOTAL RESOURCES	7,468,471	7,664,970	14,315,942
MAJOR SPENDING ITEMS			
AID TO SCHOOL DISTRICTS	1,681,339	2,141,940	3,823,279
POST-SECONDARY EDUCATION	1,216,003	1,305,152	2,521,155
PROPERTY TAX AIDS & CREDITS	833,639	798,135	1,631,774
MA/GAMC	768,142	839,271	1,607,413
LOCAL GOVERNMENT AID	402,938	368,369	771,307
DEBT SERVICE	189,198	208,080	397,278
INCOME SUPPORT (AFDC, GA, MSA)	152,149	156,145	308,294
SUBTOTAL	5,243,408	5,817,092	11,060,500
ALL OTHER SPENDING	1,407,564	1,442,559	2,850,123
TOTAL EXPENDITURES & TRANSFERS	6,650,972	7,259,651	13,910,623
UNRESERVED FUND BALANCE	817,499	405,319	405,319
BUDGET RESERVE	550,000	550,000	550,000
UNRESTRICTED BUDGETARY BALANCE	267,499	(144,681)	(144,681)

($ in Thousands)

1990-91 General Fund Budget
Comparison: Nov. 1989 - Feb. 1990 Forecasts

	11-89 EST F.Y. 1990-91	2-90 EST F.Y. 1990-91	DIFFERENCE F.Y. 1990-91
RESOURCES			
BALANCE FORWARD IN	945,660	945,660	0
INDIVIDUAL INCOME TAX	5,667,821	5,696,070	28,249
SALES TAX-GENERAL	3,836,757	3,847,733	10,976
CORPORATE INCOME TAX	876,700	877,600	900
MOTOR VEHICLE EXCISE	507,000	509,500	2,500
OTHER NON-DEDICATED REVENUE	1,341,013	1,332,670	(8,343)
SUBTOTAL	12,229,291	12,263,573	34,282
DEDICATED REVENUE, TRANSFERS	1,066,661	1,076,709	10,048
OTHER RESOURCES	30,000	30,000	0
TOTAL RESOURCES	14,271,612	14,315,942	44,330
MAJOR SPENDING ITEMS			
AID TO SCHOOL DISTRICTS	3,855,098	3,823,279	(31,819)
POST-SECONDARY EDUCATION	2,520,598	2,521,155	557
PROPERTY TAX AIDS & CREDITS	1,623,679	1,631,774	8,095
MA/GAMC	1,577,223	1,607,413	30,190
LOCAL GOVERNMENT AID	771,307	771,307	0
DEBT SERVICE	397,277	397,278	1
INCOME SUPPORT (AFDC, GA, MSA)	292,681	308,294	15,613
SUBTOTAL	11,037,863	11,060,500	22,637
ALL OTHER SPENDING	2,844,622	2,850,123	5,501
TOTAL EXPENDITURES & TRANSFERS	13,882,485	13,910,623	28,138
UNRESERVED FUND BALANCE	389,127	405,319	16,193
BUDGET RESERVE	550,000	550,000	0
UNRESTRICTED BUDGETARY BALANCE	(160,873)	(144,681)	16,193

($ in Thousands)

1992–93 Baseline Estimate
General Fund Summary

	2-90 EST F.Y. 1991	2-90 BASE F.Y. 1992	F.Y. % CHANGE	2-90 BASE F.Y. 1993	F.Y. % CHANGE
RESOURCES					
BALANCE FORWARD IN	817,499	405,319		137,085	
INDIVIDUAL INCOME TAX	2,964,700	3,257,269	9.9%	3,506,550	7.7%
SALES TAX-GENERAL	1,980,337	2,099,519	6.0%	2,231,863	6.3%
CORPORATE INCOME TAX	406,300	426,264	4.9%	410,954	-3.6%
MOTOR VEHICLE EXCISE	250,400	259,896	3.8%	273,066	5.1%
OTHER NON-DEDICATED REVENUE	687,613	716,995	4.3%	721,174	0.6%
SUBTOTAL	6,289,350	6,759,943	7.5%	7,143,607	5.7%
DEDICATED REVENUE, TRANSFERS	543,121	464,730	-14.4%	459,703	-1.1%
OTHER RESOURCES	15,000	12,000	-20.0%	10,000	-16.7%
TOTAL RESOURCES	7,664,970	7,641,992	-0.3%	7,750,395	1.4%
MAJOR SPENDING ITEMS					
AID TO SCHOOL DISTRICTS	2,141,940	2,285,100	6.7%	2,349,900	2.8%
POST-SECONDARY EDUCATION	1,305,152	1,313,928	0.7%	1,321,365	0.6%
PROPERTY TAX AIDS & CREDITS	798,135	853,764	7.0%	885,630	3.7%
MA/GAMC	839,271	854,865	1.9%	932,204	9.0%
LOCAL GOVERNMENT AID	368,369	383,369	4.1%	398,369	3.9%
DEBT SERVICE	208,080	200,211	-3.8%	208,391	4.1%
INCOME SUPPORT (AFDC, GA, MSA)	156,145	162,484	4.1%	173,980	7.1%
SUBTOTAL	5,817,092	6,053,721	4.1%	6,269,839	3.6%
ALL OTHER SPENDING	1,442,559	1,451,186	0.6%	1,467,731	1.1%
TOTAL EXPENDITURES & TRANSFERS	7,259,651	7,504,907	3.4%	7,737,570	3.1%
UNRESERVED FUND BALANCE	405,319	137,085		12,825	
BUDGET RESERVE	550,000	550,000		550,000	
UNRESTRICTED BUDGETARY BALANCE	(144,681)	(412,915)		(537,175)	
BALANCE USING RESERVE	405,319	137,085		12,825	

($ in Thousands)

Supplemental Budget Recommendations

Governor Rudy Perpich

February 1990

HIGHLIGHTS

The Current Biennium - F.Y. 1990-91

- The Governor's supplemental budget recommendations, if enacted, will provide for an overall reduction in state spending which will eliminate a $145 million shortfall.

- The Governor's proposal maintains the Budget Reserve at the current $550 million level as a safeguard against increasing economic risks.

- Recommendations include providing funding increases for a number of high priority programs:

Drug Prevention and Treatment	$19 Million
Child Care and Early Childhood Education	$ 7 Million
Alternative Care Grants	$ 5 Million
Gambling Enforcement	$ 3 Million
Growth in Prison Populations	$ 2 Million
Capital Budget	$18 Million

- The shortfall and the above increases will be offset by proposed savings in a number of areas including a major reduction in the general cost of government:

Health Care Cost Containment	$19 million savings
Local Spending Reductions	$66 million savings
Streamlining State Government	$36 million savings
Consolidating State Funds & Activities	$11 million savings
Reducing Business Loans & Credits	$13 million savings
Updated Actuarial Costs	$27 million savings

1992-93 Baseline Estimate

- The baseline estimate for 1992-93 indicates that, without law changes, the state budget will have a shortfall of $537 million.

- The Governor's proposals provide for $146 million in changes for 1990-91 and $426 million in additional savings for 1992-93 biennium which would maintain the $550 Reserve and provide a $35 million balance under the baseline estimate.

1990 SESSION
FISCAL OBJECTIVES

- Eliminate the forecast 1990-91 budget shortfall.
- Ensure continued fiscal stability by achieving a positive ending balance for the next biennium based on current law estimates.
- Maintain the Budget Reserve at the current $550 million level.
- Provide limited increased funding for high priority needs and emergency requests.

Forecast Budget Shortfall
February Forecast

	1990-91 Forecast
Beginning Balance (Excluding Budget Reserve)	396
Resources	13,370
Expenditures	13,911
Ending Balance (Shortfall)	(145)
Budget Reserve	550

PRINCIPLES OF SOUND FISCAL MANAGEMENT

- Reduce current and projected income and expense imbalances.
- Maintain the Budget Reserve as a cushion against the increasing probability of a downturn in the economy.
- Require that proposals for any new spending in 1990 be accompanied by proposed offsetting savings.
- Include explicit productivity improvement expectations and incentives in budgets.
- Target required spending reductions at specific programs to avoid overall degradation in the level of services.
- Focus on restructuring, or redesigning, state programs as a means to maintain service levels while reducing costs.
- Consider both the current and next biennia in evaluating proposals. Actions by the 1990 session must consider the impact on the 1993-93 biennial budget which will be considered next year.

Solving the Budget Shortage

($ millions)

February Forecast Shortage	(145)
Priority Spending Increases	70
Budget Savings	(216)
Total Budget Adjustments	(146)
Ending Balance	1
Budget Reserve	**550**

IMPACT OF GOVERNOR'S RECOMMENDATIONS

The February budget forecast included both a revised financial forecast for 1990-91 and a baseline estimate for the 1992-93 biennium. The baseline, summarized below, estimates state general fund revenues and spending if current laws and policies for fiscal 1990-91 were to continue unchanged.

The Governor's budget recommendations will have a favorable impact through the next biennium. They:

- Reduce the revenue-expenditure imbalance for the 1990-91 biennium.
- Provide for a positive $35 million balance at the end of F.Y. 1993.
- Maintain the current $550 Budget Reserve through F.Y. 1993.

BIENNIAL SUMMARY

($ in millions)

	February Forecast		Governor's Proposal	
	1990-91 Estimate	**1992-93 Baseline**	**1990-91 Estimate**	**1992-93 Baseline**
Beginning Balance Excluding Budget Reserve	396	(145)	396	1
Net Non-Dedicated Revenue	12,264	13,904	12,268	13,910
Other Resources	1,106	946	1,117	946
Total Resources	13,766	14,705	13,781	14,857
Expenditures	13,911	15,242	13,780	14,823
Ending Balance	**(145)**	**(537)**	**1**	**35**
Budget Reserve	**550**	**550**	**550**	**550**

Drug and Alcohol Abuse Funding

The Governor is requesting $18.6 million in additional funding costs to establish a coordinated drug and alcohol abuse program for Minnesota.

These funds will be used for prevention, crime control, and chemical dependency treatment. This package builds on Minnesota's substantial investment and known successes and will make it possible for these programs to reach substantially more families than current resources permit.

The new funds requested will assure that Minnesota has a balanced approach to the state's drug problems with activity in each of 3 areas:

- Prevention/Education/Community
- Criminal Justice/Corrections
- Treatment

These funds will also be used as matching funds, to maximize the increased dollars provided by the federal government for fighting the effects of drugs.

Prevention/Education/Community

- Expansion of Early Childhood and Family Education (ECFE) programs from birth to grade 3 in 10 pilot sites statewide.

- Expansion of Headstart by $1 million to pilot school-community programs.

- $1 million to strengthen the child protection system.

- $575,000 for community prevention and support programs.

- Funds to train Human Services providers to recognize the symptoms of drug and alcohol abuse.

- $300,000 to study the causes of chemical addiction.

- $1 million to provide services to drug-addicted mothers and children born drug-exposed.

Criminal Justice/Corrections

- Training Funds for Judges, Prosecutors, and Public Defenders.

- Funds to evaluate drug enforcement efforts.
- Additional officers for the Bureau of Criminal Apprehension (BCA) for four cities in Greater Minnesota.
- Funds to pilot Court Case Management projects.
- Requires reporting of certain precursor chemicals known to be used to make illegal drugs.
- Provides $1 million in additional funds to expand chemical dependency treatment programs in local and state correctional facilities.
- Expands alternative sentencing options with Sentencing to Service, Intensive Supervision, and drug-testing programs for persons on probation.
- Provides chemical dependency assessments for drug and certain other offenders.
- Funds training for the Drug Abuse Resistance Education (DARE) program, a cooperative effort between schools and police departments.

Treatment

- Provides over $8 million to continue to make Chemical Dependency Treatment available to low income Minnesotans.
- Funds evaluation of treatment and aftercare programs.

Early Childhood Programs

The Governor's budget recommendations include funding increases totaling approximately $7 million for a number of early childhood programs.

The largest share of this increase ($5 million) is attributable to the increased demands on the child care fund in the Department of Human Services. The increased need results from higher than expected use of services by families guaranteed child care under the Family Support Act of 1988. These funds will support the state's effort to ensure child care for families enrolling in the state's jobs program (STRIDE).

An additional $1 million will be targeted to supplement funds to the Higher Education Coordinating Board to provide child care to students. Child care is often a critical factor in a student's decision to attend a post-secondary institution. These funds will increase the availability of child care at these institutions.

The Early Childhood and Family Education (ECFE) program will also receive an increase of approximately $1 million. ECFE programs are operated through school district community education programs and provide parent-child services that enhance the development of children from birth to kindergarten enrollment. These additional funds will meet the increased demand by school districts for ECFE programs.

The Governor also recommends a capital appropriation of $3,000,000 to the Commissioner of Administration for construction of new child care facilities and for upgrading or expansion of existing facilities in the higher education systems.

Alternative Care Grants for the Elderly

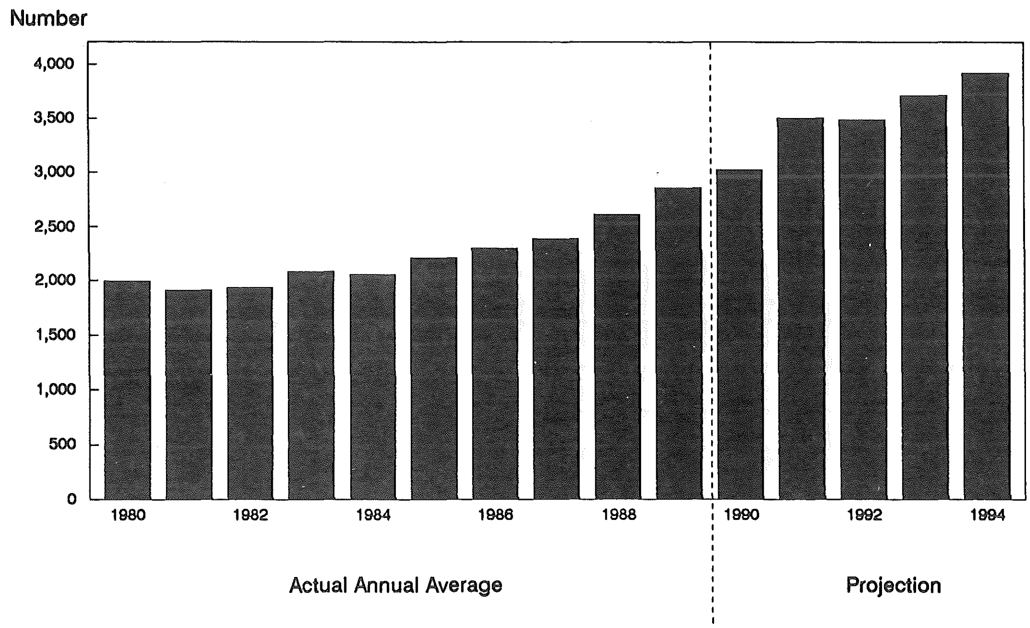
The Governor's budget recommendations include approximately $5 million in new spending in the Alternative Care Grants (ACG) program. The ACG program serves elderly persons age 65 and over, who are at risk of nursing home placement. Services are provided as a way to allow elderly persons to remain in their own homes or in their community as an alternative to nursing home placement. These funds are needed to continue to serve the persons currently on the program, to maintain the states' nursing home moratorium, and to accommodate the needs of 380 clients who are in nursing homes awaiting discharge in order to return home on the ACG program. The number of persons who choose to remain in or return to the community continues to grow at a substantial rate.

Increasing Correctional Funding

The Governor recommends $1.8 million in additional operating costs for the Corrections Department to meet the demands for additional beds caused by the growth in adult inmate populations.

The number of inmates in state prisons has been increasing since the mid 1970's with rapid growth in recent years. The total number of inmates dropped to around 1,900 in 1981 and has increased to over 3,000 currently (see figure 1).

Figure 1 - Minnesota Inmate Population



An increase in the number of commitments of offenders from the courts to the Corrections Department is the primary reason for these changes. In 1980, the average number of commitments each month totaled 70 offenders with the monthly average for 1989 at 161. (see figure 2). Inmate population projections prepared by the Corrections Department and the Minnesota Sentencing Guidelines Commission in October, 1989, indicate that the number of inmates will continue to increase (see figure 3).

As law enforcement steps up efforts against drugs, and as the legislature lengthens and toughens sentences, the number of prisoners in state institutions continues to climb dramatically. In January, 1990, the number of court commitments hit a record high of 207, representing a 200% increase since 1980 (see figure 2). At this time the new prison at Faribault will absorb some of the increase in the men's population. However, the rapid growth in the women's population, requires an immediate response. The Governor's request of $1.8 million will provide an additional 60 new beds for women offenders at the Moose Lake Correctional Facility.

Figure 2 - Adult Court Commitments

Annual Monthly Average

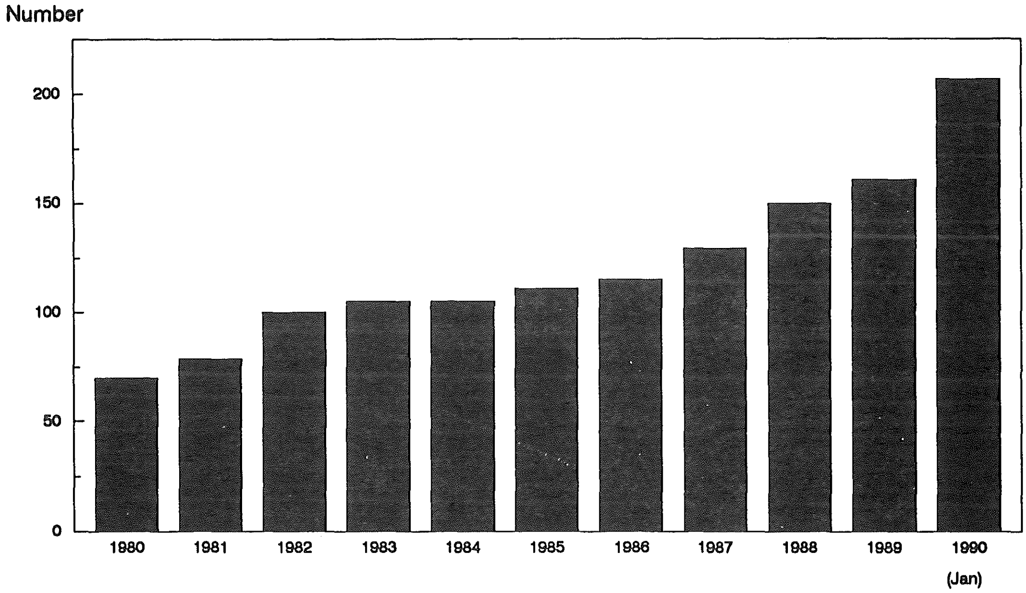
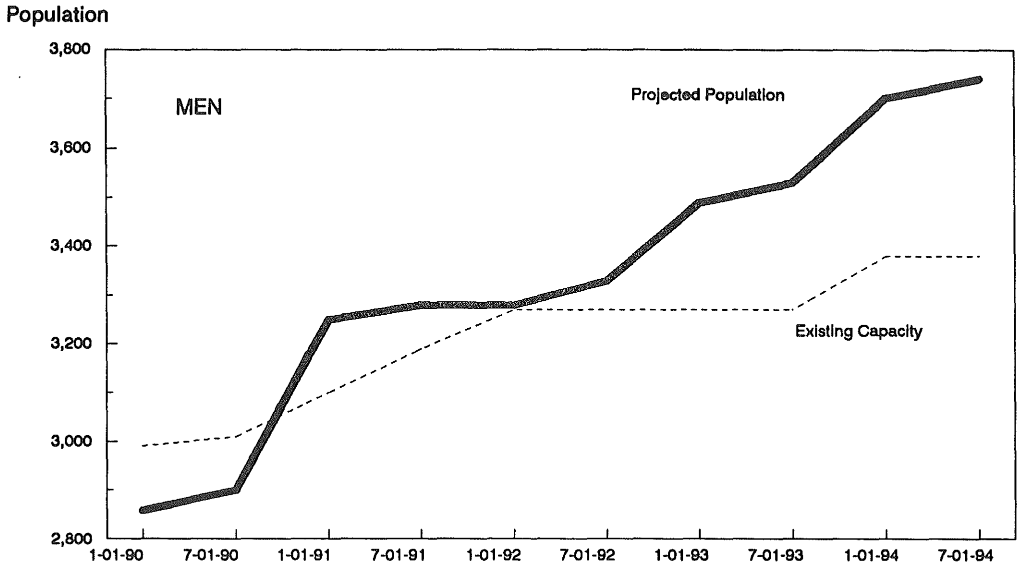


Figure 3 - Prison Population vs. Capacity

Actual and Projected

Minnesota Prisoners Only



Currently, the Corrections Department facilities are operating at capacity and some institutions are over capacity. At the Stillwater facility, cots have been added in cell halls to deal with the population increases. Available beds, including funded expansions, will not meet the projected bed needs. A shortage of up to 150 beds is predicted for males, during the end of 1990 and the beginning of 1991. This shortage is expected to lessen at the beginning of 1992 when population projections level off and additional beds at Faribault are available. However, projected populations accelerate in mid 1992 and continue through mid 1994 when a shortage of over 350 beds is predicted (see figure 3).

Lawful Gambling - Regulation and Enforcement

Lawful gambling (previously known as charitable gambling) has been the fastest growing form of gambling in Minnesota in the last decade. When the Charitable Gambling Control Board was created in 1985, gross receipts from lawful gambling were $100 million. Today those receipts are estimated at $1.2 billion or more. Recent studies and reports show that numerous problems exist in lawful gambling and that state regulation and oversight of that industry has not kept up with its rapid growth.

The Governor recommends that additional funding and staff be added to the state agencies responsible for the regulation and enforcement of lawful gambling. He proposes that nearly $3.3 million and 53 new positions be added to those agencies in F.Y. 1991. The Gaming Department would receive $1,623,000 and 30 positions to better audit, inspect, monitor, regulate and supervise the lawful gambling industry. Tax compliance would be improved by the addition of $621,000 and 13 positions to the Department of Revenue. The Department of Public Safety would receive $985,000 (including $348,000 to fully fund existing positions) and 9 new positions to enforce the criminal laws related to gambling, conduct background investigations, and train local law enforcers. The Attorney General would receive $45,000 and one position to assist the other agencies with gambling-related legal matters.

The Governor also proposes that significant changes be made in the lawful gambling legislation to tighten up the regulatory structure over that industry and to assure that lawful gambling proceeds are used in a proper manner. All persons involved with lawful gambling should have a clear understanding of the rules under which they must operate. Charities should be assured that they are getting their fair share of the gambling proceeds. The addition of resources to state agencies for the regulation and enforcement of lawful gambling and the strengthening of legislation in this area will enable the state to fulfill its proper role in the oversight of lawful gambling.

Capital Budget

The Governor's capital budget recommendations will require an additional appropriation of $13,241 from the General Fund for debt service. This amount keeps the total General Fund expenditure for debt service within the 3% debt management guideline.

The principal program and policy emphasis in the Governor's capital budget are as follows:

- Meeting our environmental commitments
- Expanding capital assistance for school construction and consolidation
- Completing buildings where construction has begun
- Following through on needs of human service and correctional institutions
- Keeping transportation projects on schedule while leveraging federal funds
- More efficiency in financing emergency and repair projects
- Better analysis of project design, cost, construction, and financing
- Greater discipline in managing General Fund expenditures for debt service
- Adherence to our debt management guidelines

The Governor recommends an appropriation of $4,357 from the General Fund in his Capital Budget for relocation of state agencies. This is the estimated amount needed to finance the moving expenses of state agencies that must relocate during the remainder of this biennium, either because their leases are expiring or due to projects recommended by the Governor in the Capital Budget.

Other Items, Spending F.Y. 1991

Cooperation And Combination Aid Deficiency

The Governor recommends appropriating an additional $1,117,000 to avoid a deficiency in the Cooperation and Combination Aid program. This program was established in 1989 as an incentive for school districts to enter cooperative programming agreements. The projected deficiency has resulted because more districts are participating than was anticipated at the time the 1989 appropriations were set.

Alternative Path to Minnesota Teacher Licensure

The Governor recommends $530,000 for the development of an Alternative Path to Teacher Licensure program. The intent of this proposal is to provide an alternative for persons wishing to become licensed teachers in Minnesota. Specific goals are to recruit more minorities into teaching, to improve the preparation of teachers who serve student populations with special needs, and to foster closer relationships between school districts and colleges.

Wisconsin Reciprocity Deficiency

Minnesota's obligations to Wisconsin under the Minnesota-Wisconsin tuition reciprocity agreement will exceed appropriations available in the current biennium. The Governor recommends increasing the F.Y. 1991 appropriation to this program by $750,000 to allow Minnesota to meet its obligations under the contract with Wisconsin.

Higher Education Grants for Survivors of Public Safety Officers

The Governor recommends appropriating $126,000 to the Higher Education Coordinating Board to pay the costs of attendance at Minnesota post-secondary institutions for surviving children of public safety officers killed in the line of duty. The recommended appropriation would pay the portion of cost remaining after existing federal and state grants and survivor's benefits are taken into account.

Math/Science Task Force

The Governor recommends $400,000 for the Math/Science Task Force to complete planning for a math and science program for Minnesota high school students.

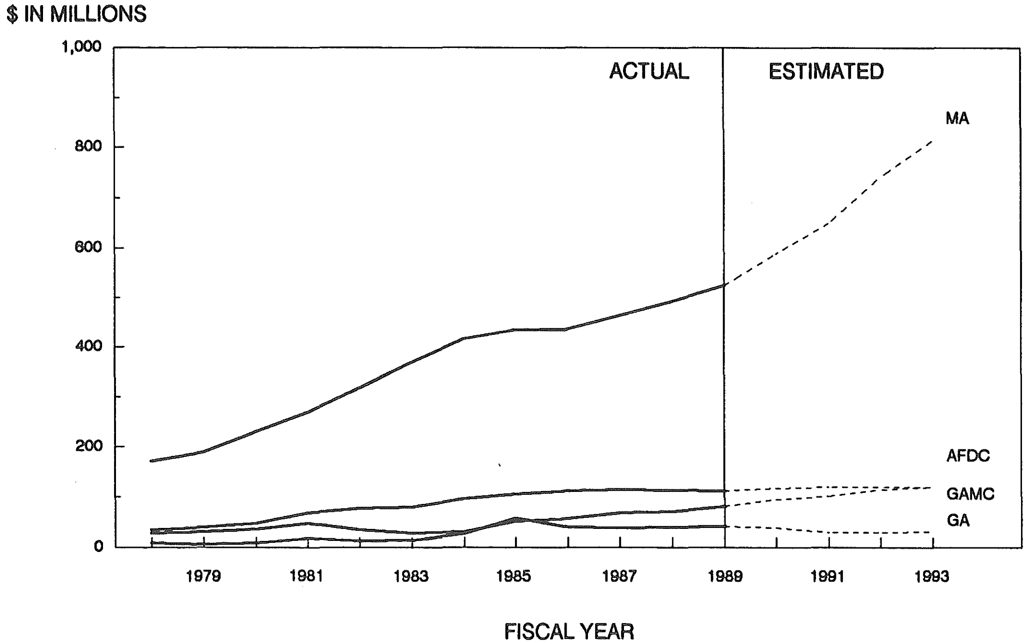
Health Care Cost Containment

The Governor is recommending review of the health care reimbursement system with the goal of a cost containment initiative that will reduce projected increases in health care costs. Preliminary discussions with legislators suggest that it is possible to reduce health care cost increases by approximately $19 million in the 1990-91 biennium.

At the end of the 1989 legislative session, the legislature had appropriated slightly over $1 billion for total expenditures in the state's health care programs. These programs include Medical Assistance (MA), General Assistance Medical Care (GAMC), Alternative Care Grants (ACG) and the Children's Health Plan (CHP). The March forecast shows an increase of approximately $100 million in new health care program costs over the 1989 appropriation.

Income Maintenance Spending

State $



1990 Supplemental Budget
Proposed Savings Recommendations

The recommended increases in funding for selected priority programs for the current biennium totals $70 million. The Governor's recommendations will fund these recommended increases, eliminate the $145 million forecast shortfall and maintain the current $550 million Budget Reserve.

In total the Governor has proposed $216 million in budget savings for the 1990-91 budget period. Major items of the proposed savings are highlighted below, including a major reduction in the general cost of state government.

- Health Care Cost Containment — $19 million savings
- Local Spending Reductions — $66 million savings
- Streamlining State Government — $36 million savings
- Consolidating State Funds & Activities — $11 million savings
- Reducing Business Loans & Credits — $13 million savings
- Updated Actuarial Costs — $27 million savings

The following pages provide a summary of the spending reductions contained in the Governor's proposal to the legislature.

Reducing Local Government Spending

Local Government Aids for F.Y. 1991

Governor's recommendations relating to local government aids reflect his belief that cities, counties, and towns, like state agencies, can reduce their costs and improve service delivery. There will be a reduction in state aids to cities, counties, and townships of $ 66 million in F.Y.1991. This recommended reduction is equal to roughly 3.0% of the levy base for these entities. The levy base consists of actual property tax collections and state aids through the Local Government Aid program, the Disparity Reduction Aid, and the Homestead Agricultural Credit Aid (HACA). This reduction to city, county, and township aids is less than the estimated 5% reduction the Governor is recommending for state agencies.

In addition to this base reduction, the Governor recommends the following policy changes to reduce the growth of F.Y. 1992 and F.Y. 1993 expenditures for local government aids and property tax credit or refund programs:

Homestead Agricultural Credit Aid (HACA) Growth

Current law provides for three types of automatic increases in spending for HACA:

- an increase tied to the Consumer Price Index,
- an increase based on growth in the number of households, and
- an increase to compensate for reductions in property tax capacity class rates.

The Governor recommends eliminating the automatic CPI increase and changing the household growth factor to a homestead growth factor. These changes will result in savings of $16 million to the baseline estimate in F.Y.1992 and $49 million in F.Y.1993.

Local Government Aid (LGA) Growth

Current law provides for automatic increases of about 4.5% per year to city LGA. The Governor recommends eliminating this provision. The change will result in savings of to the baseline estimate $15 million in F.Y.1992 and $30 million in F.Y.1993.

Limitations on Tax Increment Financing (TIF)

The Governor supports continued use of TIF for the elimination of blight, but also supports legislation to limit certain excessive uses of TIF. The Governor recommends modifications to current policy that would allow more new TIF properties to be included in the tax bases of school districts, consequently reducing the need for state school aid payments. These changes will result in savings to the baseline estimates of at least $2 million in F.Y.1992 and $2 million in F.Y.1993.

Reduction of Homestead and Agricultural Credit Aid (HACA) and Disparity Reduction Aid (DRA) in Areas with Low Tax Rates

In areas where property taxes are currently low, there is no strong public purpose served in making property taxes still lower with HACA or DRA payments. Therefore, the Governor recommends:

- reducing HACA payments to cities and townships where the tax rates are less than 90% of the state average. This change will result in savings to the baseline estimates of $12 million in F.Y.1992 and $22 million in F.Y.1993; and

- eliminating DRA payments for areas with low sales-adjusted local tax rates. This change will result in savings to the baseline estimate of $2 million in F.Y.1992 and $2 million in F.Y.1993.

Reduce Renter Credit Overpayments by Changing Basis of the Credit

A 1989 study showed $4.3 million of overpayments on Renter Credit claims attributable to incorrect calculation of the percent of rent paid for property taxes. To eliminate this source of error, the Governor recommends changing the basis of the Renter Credit from the property tax paid to a flat percent of rent paid. This change will result in savings to the baseline estimate of $3 million in F.Y.1992 and $3 million in F.Y.1993.

Streamlining State Government

The Governor recommends that all branches of state government be reduced by a total of $35.5 million in F.Y. 1991, five percent of total spending for state operations.

State agencies will meet this goal by using five means:

- Improving productivity through use of new technology or better work methods.
- Reducing layers of management.
- Simplifying work processes - reducing administrative controls which are not cost-beneficial.
- Consolidating functions and offices.
- Eliminating lower priority activities, including those for which there may be a statutory mandate.

Agencies will be provided with necessary incentives and flexibility to achieve this goal.

For the remainder of this fiscal year, the Governor has urged all agencies to greatly curtail purchases and limit the hiring of new employees. Agency heads must personally approve any exceptions to this policy and forward them to the Commissioner of Finance.

A process will also be established for each biennium which allows the Governor and legislature to target for sunsetting state programs totalling 5% of General Fund expenditures.

Consolidating State Funds

The Governor's recommendations include a one-time transfer of Special Revenue account balances as a result of a fund consolidation recommendation by the Department of Finance to the 1990 legislature. This will amount to a $10.9 million gain in estimated General Fund resources in F.Y. 1991.

The fund consolidation effort is in response to legislation in Laws of MN 1987, Ch. 404, Sec. 18 and continued by legislation in Laws of MN 1989, Chapter 335, Sec. 17. The 1989 legislation requires further consolidation of the Special Revenue Funds with emphasis on funds where open appropriation authority is given, such as, the Enterprise and Internal Service funds.

The 1987 legislature concluded that much of the confusion in the budget process was caused by the large increase in "off-budget" funds and accounts primarily in the Special Revenue Fund area. In order to reverse this trend, the Laws of 1987 instructed the Department of Finance to study and make recommendations to the legislature for reduction and consolidation of non-General Funds in the state's accounting system.

In response to the 1987 legislation, the Department of Finance prepared a report recommending reduction and consolidation of a number of funds and accounts. As a result of these recommendations, the legislature closed out or consolidated 12 funds and over 140 accounts with transfers of revenue and expenditures approaching $100 million annually. This was accomplished in Laws of MN 1989, Ch. 335, Art. 4. The legislature further instructed the department to continue to study this issue and to make further recommendations for consolidation of funds and accounts for presentation to the 1990 legislative session.

The Department of Finance special report recommends further consolidation in the number of funds and accounts now carried in the Statewide Accounting (SWA) System. This will avoid unnecessary complexity, inconsistency and inefficient financial administration. A secondary purpose of the report is to call attention to the trend of dedication of off-General Fund revenues for many special areas. This practice tends to tie the hands of legislative Appropriations and Finance committees because the funds are dedicated in law to be spent for a specific purpose, thereby pre-setting budget priorities. There is a need to limit the provision of dedicated status, to bring some dedicated revenues back into the General Fund, and to group the remainder in a more meaningful, functional structure.

Reduce Business Loans and Credits

The Governor recommends a reduction of $1.45 million in the Office of Tourism's revolving loan program. The Legislature appropriated $1.5 million for this program in 1989 to provide loans or participate in loans to resorts, campgrounds, lodging facilities, and other tourism-related businesses. It is recommended that the program be discontinued.

The Governor recommends sunsetting of the Job Skills Partnership Program effective June 30, 1990. This is a reduction of $1.3 million and three positions in the appropriation to the Department of Trade and Economic Development. Established in 1983, this program assists businesses that are experiencing skills shortages by providing matching grants for programs to retrain workers. Today the Technical Colleges are able to provide these programs directly without additional financial subsidies.

The Governor further recommends elimination of the commercial/industrial equalization refund which is available to only certain commercial and industrial properties. This is a new program created in the 1989 Special Session. Elimination for taxes payable in 1990 will save $10 million in F.Y. 1991. The Governor continues to believe that we must find ways of reducing future property tax burdens on all commercial/industrial property. Options to the current refund approach will be explored.

Updated Actuarial Costs

According to the F.Y. 1989 actuarial valuations completed for the Legislative Commission on Pensions and Retirement, contribution rates for four public employee retirement plans are higher than necessary to pay for currently authorized benefits by the full-funding target date. These plans include the Teachers' Retirement Association and the general, correctional and highway patrol plans of the Minnesota State Retirement System.

The Governor recommends adjusting the contribution rates for these plans to the level calculated in the actuarial valuations, and adjusting state aid programs or agency appropriations to capture the savings. This recommendation will result in F.Y. 1991 savings of $ 26.8 million to the state's General Fund and about $4.6 million to the state's other funds. The following table displays these savings by major functional area:

	General Fund	Other Funds	Total
Education Aids	$ 19.4	0.0	$ 19.4
Higher Education	4.4	0.0	4.4
State Agencies	3.0	4.6	7.6
Total	**$ 26.8**	**4.6**	**31.4**

Supplemental Budget Recommendations

The following pages contain fiscal summaries and detailed information on the Governor's supplemental budget recommendations to the 1990 legislative session.

Page 24 - Summary statement showing for 1990 - 91:

- 1990-91 February Budget Forecast
- Governor's Proposal
- Difference

Page 25 - Summary statement showing 1992-93 Baseline:

- February Forecast
- With Governor's Proposal
- Difference

Page 26 - 35 - Detail Governor's Proposal:

- By Legislative Bill
- By Agency - Item

Supplemental Budget Recommendations
Impact 1990-91 Biennium

	Feb. Forecast F.Y. 1990-91	Gov. Suppl. Rec. F.Y. 1990-91	Difference
RESOURCES			
BALANCE FORWARD IN	945,660	945,660	0
INDIVIDUAL INCOME TAX	5,696,070	5,696,070	0
SALES TAX-GENERAL	3,847,733	3,847,733	0
CORPORATE INCOME TAX	877,600	877,600	0
MOTOR VEHICLE EXCISE	509,500	509,500	0
OTHER NON-DEDICATED REVENUE	1,332,670	1,337,397	4,727
SUBTOTAL	12,263,573	12,268,300	4,727
DEDICATED REVENUE, TRANSFERS	1,076,709	1,087,585	10,876
OTHER RESOURCES	30,000	30,000	0
TOTAL RESOURCES	14,315,942	14,331,545	15,603
MAJOR SPENDING ITEMS			
AID TO SCHOOL DISTRICTS	3,823,279	3,806,416	(16,863)
POST-SECONDARY EDUCATION	2,521,155	2,504,231	(16,924)
PROPERTY TAX AIDS & CREDITS	1,631,774	1,555,774	(76,000)
MA/GAMC	1,607,413	1,587,844	(19,569)
LOCAL GOVERNMENT AID	771,307	771,307	0
DEBT SERVICE	397,278	410,519	13,241
INCOME SUPPORT (AFDC, GA, MSA)	308,294	308,294	0
SUBTOTAL	11,060,500	10,944,385	(116,115)
OTHER MAJOR LOCAL ASSISTANCE	661,899	669,310	7,411
STATE INSTITUTIONS	689,797	691,377	1,580
LEGIS., JUDICIAL, CONST. OFFICERS	267,393	267,393	0
STATE AGENCIES	1,251,034	1,227,644	(23,390)
ESTIMATED CANCELLATIONS	(20,000)	(20,000)	0
SUBTOTAL - ALL OTHER SPENDING	2,850,123	2,835,724	(14,399)
TOTAL EXPENDITURES & TRANSFERS	13,910,623	13,780,109	(130,514)
UNRESERVED FUND BALANCE	405,319	551,436	146,117
BUDGET RESERVE	550,000	550,000	0
UNRESTRICTED BUDGETARY BALANCE	(144,681)	1,436	146,117

($ in Thousands)

Supplemental Budget Recommendations
Impact 1992-93 Baseline

	Feb. Forecast 1992-93 Baseline	Gov. Suppl. Rec. 1992-93 Baseline	Difference
RESOURCES			
BALANCE FORWARD IN	405,319	551,436	146,117
INDIVIDUAL INCOME TAX	6,763,819	6,763,819	0
SALES TAX-GENERAL	4,331,382	4,331,382	0
CORPORATE INCOME TAX	837,218	837,218	0
MOTOR VEHICLE EXCISE	532,962	532,962	0
OTHER NON-DEDICATED REVENUE	1,438,168	1,444,923	6,755
SUBTOTAL	13,903,549	13,910,304	6,755
DEDICATED REVENUE, TRANSFERS	924,433	924,433	0
OTHER RESOURCES	22,000	22,000	0
TOTAL RESOURCES	15,255,301	15,408,173	152,872
MAJOR SPENDING ITEMS			
AID TO SCHOOL DISTRICTS	4,635,000	4,599,484	(35,516)
POST-SECONDARY EDUCATION	2,635,293	2,620,423	(14,870)
PROPERTY TAX AIDS & CREDITS	1,739,394	1,439,394	(300,000)
MA/GAMC	1,787,069	1,721,479	(65,590)
LOCAL GOVERNMENT AID	781,738	781,738	0
DEBT SERVICE	408,602	455,061	46,459
INCOME SUPPORT (AFDC, GA, MSA)	336,464	336,464	0
SUBTOTAL	12,323,560	11,954,043	(369,517)
OTHER MAJOR LOCAL ASSISTANCE	696,512	704,458	7,946
STATE INSTITUTIONS	710,382	713,542	3,160
LEGIS., JUDICIAL, CONST. OFFICERS	288,698	288,698	0
STATE AGENCIES	1,243,325	1,182,072	(61,253)
ESTIMATED CANCELLATIONS	(20,000)	(20,000)	0
SUBTOTAL - ALL OTHER SPENDING	2,918,917	2,868,770	(50,147)
TOTAL EXPENDITURES & TRANSFERS	15,242,477	14,822,813	(419,664)
UNRESERVED FUND BALANCE	12,825	585,361	572,536
BUDGET RESERVE	550,000	550,000	0
UNRESTRICTED BUDGETARY BALANCE	(537,175)	35,361	572,536

($ in Thousands)

			Governor's Recommendation			Projection	
			F.Y. 1990	F.Y. 1991		F.Y. 1992	F.Y. 1993
Agency	Item	Fund	$ in 000's	$ in 000's	Pos.	$ in 000's	$ in 000's
PROPERTY TAX AIDS & CREDITS							
REV DEPT	3% City/Cnty/Twn Levy Base Red	GF	0	(66,000)	0	(66,000)	(66,000)
REV DEPT	HACA-End CPI Adj/Chng HH Grwth	GF	------ 1992-93 Impact -------			(16,000)	(49,000)
REV DEPT	Eliminate LGA Inflators	GF	------ 1992-93 Impact -------			(15,000)	(30,000)
REV DEPT	TIF Savings	GF	------ 1992-93 Impact -------			(2,000)	(2,000)
REV DEPT	HACA-Reduc for Low Levy Rate	GF	------ 1992-93 Impact -------			(12,000)	(22,000)
REV DEPT	Disp Aid Reduc-Low Levy Rate	GF	------ 1992-93 Impact -------			(2,000)	(2,000)
REV DEPT	Renter Credit to % of Rent	GF	------ 1992-93 Impact -------			(3,000)	(3,000)
REV DEPT	Eliminate C/I Refund	GF	0	(10,000)	0	(10,000)	0
	TOTAL--AIDS & CREDITS		0	(76,000)	0	(126,000)	(174,000)
EDUCATION AIDS							
EDUC AIDS	Early Childhd Fam Educ	GF	855	0	0	0	0
EDUC AIDS	Coop & Combin Aid	GF	0	1,117	0	1,117	1,117
EDUC AIDS	Math/Science Task Force	GF	400	0	0	0	0
EDUC AIDS	Alternative Licensure	GF	0	530	0	525	525
EDUC AIDS	No Contract Aid Forfeiture	GF	(365)	0	0	0	0
	TOTAL--EDUCATION AIDS		890	1,647	0	1,642	1,642

			Governor's Recommendation			Projection	
			F.Y. 1990	F.Y. 1991		F.Y. 1992	F.Y. 1993
Agency	Item	Fund	$ in 000's	$ in 000's	Pos.	$ in 000's	$ in 000's
HIGHER EDUCATION							
HECB	Student Grant Adjustment	GF	(9,783)	(4,700)	0	(4,700)	(4,700)
HECB	WI Reciprocity Defic	GF	0	750	0	450	450
HECB	WICHE Membership	GF	0	46	0	52	52
HECB	Child-Care Grnts	GF	0	1,000	0	1,000	1,000
HECB	Pol Off Child Schlrshp	GF	0	126	0	126	126
	SUBTOTAL--HECB		(9,783)	(2,778)	0	(3,072)	(3,072)
TECH COLL	Incr Tuition %	GF	0	(4,500)	0	(9,000)	(13,500)
TECH COLL	Incr Financial Aid	GF	0	1,500	0	2,700	4,000
TECH COLL	Debt Svc Transfer	GF	0	3,000	0	6,300	9,500
	SUBTOTAL--TECH COLL		0	0	0	0	0
	TOTAL--HIGHER EDUCATION		(9,783)	(2,778)	0	(3,072)	(3,072)

			Governor's Recommendation			Projection	
			F.Y. 1990	F.Y. 1991		F.Y. 1992	F.Y. 1993
Agency	Item	Fund	$ in 000's	$ in 000's	Pos.	$ in 000's	$ in 000's
<u>HUMAN RESOURCES</u>							
REVENUES:							
CORRECTIONS	County Probation Rev	GF	0	322	0	322	322
EXPENDITURES:							
HUMAN SVCS	County Aids	GF	0	(696)	0	(696)	(696)
HUMAN SVCS	County Monitoring	GF	0	113	0	113	113
HUMAN SVCS	Child Care Funding Grnts	GF	568	4,417	0	4,417	4,417
HUMAN SVCS	Child Care Admin	GF	0	100	2	100	100
HUMAN SVCS	Foster Care Liab Ins	GF	0	125	0	125	125
HUMAN SVCS	Chemical Depend Fund	GF	------- In Drug Pkg -------				
HUMAN SVCS	Transf MH Grants to Adm	GF	0	0	2	0	0
HUMAN SVCS	MH Educ Contr	GF	0	(163)	0	(163)	(163)
HUMAN SVCS	AFDC Forecast	GF	------- In Forecast -------				
HUMAN SVCS	GA Forecast	GF	------- In Forecast -------				
HUMAN SVCS	WR Forecast	GF	------- In Forecast -------				
HUMAN SVCS	Child Suppt Collect	GF	0	(265)	0	(353)	(353)
HUMAN SVCS	Lump-sum W/Hldng	GF	0	(40)	0	(60)	(60)
HUMAN SVCS	Drv Lic Photos	GF	0	(20)	0	(95)	(174)
HUMAN SVCS	W/Hldng Finan Inst	GF	0	(82)	0	(398)	(727)
HUMAN SVCS	In-kind Income	GF	0	(28)	0	(136)	(249)
HUMAN SVCS	Food Stamp E & T	GF	(1,000)	(1,500)	0	(1,500)	(1,500)
HUMAN SVCS	Employ Special Needs	GF	0	(617)	0	(617)	(617)
HUMAN SVCS	Elim WIN Program	GF	0	(360)	0	(360)	(360)
HUMAN SVCS	Fed Qual Hlth Centers	GF	------- In Forecast -------				
HUMAN SVCS	Qaul Disab Wrk Adlt	GF	------- In Forecast -------				
HUMAN SVCS	OB/GYN & PEDS	GF	------- In Forecast -------				
HUMAN SVCS	Alt Care Grants	GF	0	4,800	0	1,930	1,930
HUMAN SVCS	MA for Children 1-5	GF	------- In Forecast -------				
HUMAN SVCS	MA Forecast	GF	------- In Forecast -------				
HUMAN SVCS	Unalloc 1% Hosp Pay	GF	(715)	0	0	0	0
HUMAN SVCS	GAMC Forecast	GF	------- In Forecast -------				
HUMAN SVCS	MA Cast Metal Dental	GF	0	146	0	205	205

			Governor's Recommendation			Projection	
			F.Y. 1990	F.Y. 1991		F.Y. 1992	F.Y. 1993
Agency	Item	Fund	$ in 000's	$ in 000's	Pos.	$ in 000's	$ in 000's
HUMAN SVCS	MA Metro Transp	GF	0	1,996	0	1996	1996
HUMAN SVCS	MA Metro Transp-RTB	GF	0	(1,996)	0	(1,996)	(1,996)
HUMAN SVCS	Health Care Cost Init	GF	0	(19,000)	0	(32,000)	(34,000)
	TOTAL--HUMAN SERVICES		(1,147)	(13,070)	4	(29,488)	(32,009)
VETS HOMES	Elim. Special Equip-Mpls	GF	0	(150)	0	(150)	(150)
VETS HOMES	Reduce Special Equip-Hstngs	GF	0	(25)	0	(25)	(25)
	TOTAL--VETS HOMES		0	(175)	0	(175)	(175)
JOBS & TRNG	Comm Stabilization	GF	0	75	2	75	75
JOBS & TRNG	Oil Overcharge	SR	3,000	0	0	0	0
JOBS & TRNG	Reed Act Funds	FED	0	200	0	0	0
CORRECTIONS	Moose Lake Women's Unit	GF	0	1,755	24	1,755	1,755
CORRECTIONS	County Probation Svcs	GF	0	322	7	322	322
CORRECTIONS	Grants Admin Pos	GF	0	0	1	0	0
	TOTAL--CORRECTIONS		0	2,077	32	2,077	2,077
HEALTH DEPT	Rent Deficiency	GF	0	140	0	140	140
HEALTH DEPT	Reduce '91 CHS Incr	GF	0	(2,000)	0	(2,000)	(2,000)
HEALTH DEPT	Elim Occup Review	GF	0	(120)	(2)	(120)	(120)
HEALTH DEPT	End Asbestos Study	GF	0	(55)	1	0	0
HEALTH DEPT	Reduce Non-Smoking	GF	0	(473)	0	(473)	(473)
HEALTH DEPT	Indoor Radon Abatement	FED	77	155	0	155	155
	SUBTOTAL-GENERAL FUND		0	(2,508)	(1)	(2,453)	(2,453)
	TOTAL--HEALTH DEPT		77	(2,353)	(1)	(2,298)	(2,298)
BD SOC WORK	Incr Licenses	SR	0	82	0	82	82
PSYCHOLOGY BD	Deficiency	SR	46	0	0	0	0
OPTOMETRY BD	Incr Salaries	SR	4	4	0	4	4
	TOTAL HUMAN RES--GF REVS		0	322	0	322	322
	TOTAL HUMAN RES--GENERAL FUND		(1,147)	(13,601)	37	(29,964)	(32,485)
	TOTAL HUMAN RES--ALL FUNDS		1,980	(13,160)	37	(29,723)	(32,244)

			Governor's Recommendation			Projection	
			F.Y. 1990	F.Y. 1991		F.Y. 1992	F.Y. 1993
Agency	Item	Fund	$ in 000's	$ in 000's	Pos.	$ in 000's	$ in 000's
<u>TRANSPORTATION/SEMI-STATE</u>							
REVENUES:							
AGRIC	Haylift Recoveries	GF	24	0	0	0	0
AGRIC	Apiary Law Change	GF	0	53	0	84	104
AGRIC	Agric Lime Rev	GF	0	60	0	60	60
ARCH ENG BD	Examination Fees	GF	22	0	0	0	0
PUBL SVC	CIP Assessments	GF	35	85	0	85	85
GAMING	Lottery Reimb PS Costs	GF	0	150	0	150	150
	TOTAL REVENUES		81	348	0	379	399
EXPENDITURES:							
DOT	Truck Safety Prog	THF	0	475	7	425	425
DOT	Truck Safety Prog	FED	0	0	(6)	0	0
DOT	Air Traffic Cntrl	FED	3,400	5,700	0	5,700	0
TRANS REG BD	Addtnl Office Space	THF	0	25	0	25	25
PUBLIC SAFETY	Stearns County Grant	GF	0	100	0	0	0
AGRIC	Apiary Defic Funding	GF	39	0	0	0	0
AGRIC	Haylift Expenses	GF	24	0	0	0	0
AGRIC	Bldg Lease Renewal Incr	GF	196	83	0	68	68
AGRIC	Agric Lime Regul.	GF	0	60	1	60	60
AGRIC	Grasshopper Reimb.	GF	597	0	0	0	0
AGRIC	Apiary Law Change	GF	0	52	0	52	52
AGRIC	Elim Subs to MN Grown	GF	0	(200)	0	(200)	(200)
AGRIC	Reduce Interest Adj	GF	(126)	(126)	0	(126)	(126)
AGRIC	Elim Ethanol Promotion	GF	0	(38)	0	0	0
	TOTAL--AGRICULTURE DEPT		730	(169)	1	(146)	(146)

			Governor's Recommendation			Projection	
			F.Y. 1990	F.Y. 1991		F.Y. 1992	F.Y. 1993
Agency	Item	Fund	$ in 000's	$ in 000's	Pos.	$ in 000's	$ in 000's
ANIMAL HLTH BD	Addtnl Complement	GF	0	0	1	0	0
ARCH ENG BD	Examination Costs	GF	22	0	0	0	0
LAWFUL GAMBL	Lawful Gambling	GF	0	3,274	53	3,274	3,274
ARTS BD	Matching NEA Grant	GF	0	116	0	116	116
ARTS BD	Matching NEA Grant	FED	0	100	0	100	100
	TOTAL TRANSP/SEMI-ST--REVENUES		81	348	0	379	399
	TOTAL TRANSP/SEMI-ST--GF EXP		752	3,321	55	3,244	3,244
	TOTAL TRANSP/SEMI-ST--ALL FUNDS		4,152	9,621	56	9,494	3,794

			Governor's Recommendation			Projection	
			F.Y. 1990	F.Y. 1991		F.Y. 1992	F.Y. 1993
Agency	Item	Fund	$ in 000's	$ in 000's	Pos.	$ in 000's	$ in 000's
STATE DEPARTMENTS							
REVENUES:							
ADMIN DEPT	Asbestos Lawsuit Rev	GF	0	400	0	0	0
DNR	Laurentian Revenues	GF	150	0	0	0	0
DNR	Priv Frst Mgmt Fee Incr	GF	0	32	0	32	32
DNR	Incr Water Approp Fees	GF	0	1,710	0	1,710	1,710
DNR	Util Lic Fee Incr	GF	0	58	0	58	58
DNR	Snowmobile Tr Fees	NR	0	250	0	250	250
ZOO	Coral Reef Exh Rev	GF	0	71	0	265	230
PCA	Potlach Cost Reimb	GF	200	0	0	0	0
PCA	E.I.S.-Treated Ash Reimb	GF	250	0	0	0	0
PCA	E.I.S.-Sartell Reimb	GF	0	200	0	0	0
PCA	Winona Cost Reimb	GF	200	0	0	0	0
PCA	Site Resp Fees	ENV	0	80	0	80	80
PCA	Res Recov Fac Fees	ENV	0	70	0	70	70
STATE PLNG	Prairie Is Rev	GF	86	0	0	0	0
L&I	Apprentice Fees	GF	0	71	0	71	71
HUMAN RIGHTS	Cost Recov-Litigation	GF	0	175	0	175	175
HUMAN RIGHTS	Cost Recov-Invest Costs	GF	0	213	0	213	213
HUMAN RIGHTS	Cost Recov-Comp Cert	GF	0	160	0	160	160
VARIOUS	Fund Consolid (Est)	GF	0	10,876	0	0	0
	TOTAL REVENUES-GENERAL FUND		886	13,966	0	2,684	2,649
	TOTAL REVENUES-ALL FUNDS		886	14,366	0	3,084	3,049
EXPENDITURES:							
SPEC. LEGISL.	Drug & Alc Abuse Prog	GF	2,680	15,859	47	15,549	15,549
SPEC. LEGISL.	Drug & Alc Abuse Prog	FED	0	6,873	2	6,873	6,873
ADMIN DEPT	Asb Lawsuit-Legal Fees	GF	0	133	0	0	0
ADMIN DEPT	Comm on Youth Svcs	GF	0	31	0	31	31
	TOTAL--ADMIN DEPT		0	164	0	31	31
REVENUE DEPT	Implement '89 Tax Bill	GF	0	875	12	875	875

			Governor's Recommendation			Projection	
			F.Y. 1990	F.Y. 1991		F.Y. 1992	F.Y. 1993
Agency	Item	Fund	$ in 000's	$ in 000's	Pos.	$ in 000's	$ in 000's
DNR	Grasshopper Control	GF	100	180	0	0	0
DNR	Laurentian Tac Mine EIS	GF	117	0	0	0	0
DNR	Parks-Maint & Ops	GF	0	(300)	(11)	(300)	(300)
DNR	Forestry-Paper Sci & Eng	GF	0	(200)	0	(200)	(200)
DNR	Minrls-Diversif Res Proj	GF	0	(300)	0	(300)	(300)
DNR	Waters-Shrlnd Mgmt Grnts	GF	0	(200)	0	(200)	(200)
DNR	Waters-Reg Grndwtr	GF	0	(300)	0	(300)	(300)
DNR	Wild Rice Grnt	GF	(50)	(50)	0	(50)	(50)
DNR	Beaver Dam Cntrl	GF	0	(100)	0	(100)	(100)
DNR	Reduce Forest Mgmt Grants	GF	0	(810)	0	(810)	(810)
DNR	Snowmobile Tr Grants	NR	0	250	0	250	250
DNR	Corp Tax Chkoff	SR	100	0	0	0	0
	SUBTOTAL-GENERAL FUND		167	(2,080)	(11)	(2,260)	(2,260)
	TOTAL--DNR		267	(1,830)	(11)	(2,010)	(2,010)
ZOO	Coral Reef Exhibit	GF	0	194	3	194	194
PCA	E.I.S.-Potlach Pulp Mill	GF	200	0	0	0	0
PCA	E.I.S.-Treated Ash	GF	250	0	0	0	0
PCA	E.I.S.-Sartell Paper Mill	GF	0	200	0	0	0
PCA	E.I.S.-Winona Incinerator	GF	225	0	0	0	0
PCA	Super Fund Approp	GF	0	(1,000)	0	0	0
PCA	Site Resp Property	ENV	0	80	2	80	80
PCA	Res Rec Fac Operators	ENV	0	70	1	70	70
PCA	General Suppt Staff	SR	0	0	3	0	0
PCA	General Suppt Staff	FED	0	0	(3)	0	0
	SUBTOTAL-GENERAL FUND		675	(800)	0	0	0
	TOTAL--PCA		675	(650)	3	150	150
WASTE MGMT	Sal Sav Startup	GF	(200)	0	0	0	0
WASTE MGMT	Waste Mgmt Reduction	GF	0	(2,273)	0	(2,636)	(2,468)
	TOTAL--WASTE MGMT		(200)	(2,273)	0	(2,636)	(2,468)

			Governor's Recommendation			Projection	
			F.Y. 1990	F.Y. 1991		F.Y. 1992	F.Y. 1993
Agency	Item	Fund	$ in 000's	$ in 000's	Pos.	$ in 000's	$ in 000's
DTED	Sunset Job Skills Partn	GF	0	(1,300)	(3)	(1,300)	(1,300)
DTED	W/draw Subs-Loc Debt Svc	GF	0	(2,686)	0	(2,600)	(2,600)
DTED	Celeb MN 1990 Admin	GF	0	100	0	0	0
DTED	Quality Cncl Award Prog	GF	0	85	0	85	85
DTED	Tourism Revolving Loan	GF	(1,450)	0	0	0	0
DTED	Superbowl	GF	0	250	0	500	0
	TOTAL--DTED		(1,450)	(3,551)	(3)	(3,315)	(3,815)
STATE PLNG	EQB Prep of GEIS	GF	0	100	1	0	0
STATE PLNG	Prairie Is EIS	GF	86	0	0	0	0
	TOTAL--STATE PLNG		86	100	1	0	0
HUMAN RIGHTS	Litigation Expense	GF	64	0	0	0	0
HUMAN RIGHTS	Operational Expend	GF	0	292	4	292	292
	TOTAL--HUMAN RIGHTS		64	292	4	292	292
INDIAN AFFAIRS	Indian Reburial	GF	0	120	0	120	120
INDIAN AFFAIRS	Indian Loan Admin	SR	0	50	1	50	50
VARIOUS	Debt Svc	GF	0	13,241	0	23,604	22,855
VARIOUS	Agency Reloc.	GF	0	4,357	0	0	0
VARIOUS	MSRS Contr Rate Adj	GF	0	(3,072)	0	(3,072)	(3,072)
VARIOUS	MSRS Contr Rate Adj	THF	0	(1,900)	0	(1,900)	(1,900)
EDUC AIDS	TRA Rate Reduction	GF	0	(19,400)	0	(19,400)	(19,400)
HIGHER EDUC	TRA Rate Reduction	GF	0	(4,363)	0	(4,363)	(4,363)
VAR ST AGEN	5% Budget Reduction	GF	0	(35,500)	0	(35,500)	(35,500)
	TOTAL STATE DEPTS--GF REVENUES		886	13,966	0	2,684	2,649
	TOTAL STATE DEPTS--ALL FUNDS REVS		886	14,366	0	3,084	3,049
	TOTAL STATE DEPTS--GF EXP		2,022	(35,837)	53	(29,881)	(30,962)
	TOTAL STATE DEPTS--ALL FUNDS EXP		2,122	(26,051)	59	(20,095)	(21,176)

Agency	Item	Fund	Governor's Recommendation F.Y. 1990 $ in 000's	Governor's Recommendation F.Y. 1991 $ in 000's	Pos.	Projection F.Y. 1992 $ in 000's	Projection F.Y. 1993 $ in 000's
	TOTAL GENERAL FUND REVENUES		967	14,636	0	3,385	3,370
	TOTAL GENERAL FUND EXPENDITURES		(7,266)	(123,248)	145	(184,031)	(235,633)
	BIENNIAL TOTAL-GENERAL FUND IMPACT			146,117			426,419

Governor Rudy Perpich

February 1990

CAPITAL BUDGET HIGHLIGHTS

Summary of Financing

• Bonds financed from new General Fund appropriations	$192,385
• Bonds financed from other appropriations	10,000
Total general obligation bonds	$202,385
• F.Y. 1991 General Fund appropriation for debt service	$13,241
• Agency relocations	4,357
Total F.Y. 1991 General Fund appropriation	$17,598
• Direct appropriations from other funds	$21,388

Program and Policy Emphasis

- Meeting our environmental commitments
- Expanding capital assistance for school construction and consolidation
- Completing buildings where construction has begun
- Following through on needs of human service and correctional institutions
- Keeping transportation projects on schedule while leveraging federal funds

- More efficiency in financing emergency and repair projects
- Better analysis of project design, cost, construction, and financing
- Greater discipline in managing General Fund expenditures for debt service
- Adherence to our debt management guidelines

(This page has been left blank intentionally.)

1990 CAPITAL BUDGET RECOMMENDATIONS

Capital Budget Objectives

The uncertainty of the economy combined with a projected shortfall in the General Fund dictate the need for care in taking on new long term capital project obligations. It is not possible to finance more than a fraction of the $1.5 billion of capital budget requests. We must limit authorization of new bonds to a relatively small number of high-priority projects.

Debt Management

Debt Outstanding

The funding for capital projects is provided through the sale of state general obligation bonds. There are currently $1.5 billion of these bonds outstanding. The table below shows that 84% of the bonds are supported by the General Fund with the remainder supported by other tax sources. The state constitution limits the maturities on these bonds to no more than 20 years.

G.O. Bonds Outstanding
$1.5 Billion

General Fund	$1,278.4	84.3%
Cigarette Tax	112.3	7.4
Trunk Highway	71.4	4.7
Sports & Health Tax	27.6	1.8
Other	26.7	1.8
Total	$1,516.4	100.0%

The state will be selling $185 million in bonds in July, 1990 to finance capital projects that are currently authorized. There is sufficient money in the debt service appropriation to pay the required debt service on these bonds. There is an additional $124 million in current bonding authorizations which will require financing from bond sales in future years.

Debt Management Objectives

The state's debt management policy is based on achieving three objectives. The first is to restore the state's credit rating to AAA. The state is currently rated AA+ by Standard & Poor's Corporation and Aa by Moody's

Investors Service. The second debt management policy objective is to minimize state borrowing costs, and the third is to provide a reasonable financing capacity within a prudent debt burden.

Guidelines

There are three guidelines to achieve the debt management policy objectives. The first guideline limits the appropriation for debt service from the General Fund to 3.0% of non dedicated revenues. The recommendations in this capital budget would put the appropriation at this 3.0% level for the 1990-91 biennium. The second guideline limits the ratio of total general obligation debt to 2.5% of the personal income of the state. The Governor's recommendation would place the ratio at 1.99% for this biennium. The third guideline limits the ratio of total revenue and general obligation debt of the state agencies, public corporations and the U of M to 3.5% of the total personal income of the state. This ratio is at 2.79% for the current biennium.

Interest Rates

The interest rates paid by the state on the bonds influence the amount of new bonds which can be sold. Higher interest rates require more of the appropriated debt service to be used to pay interest costs rather than principal on the bonds. Lower rates would result in less of the debt service appropriation being used to pay interest costs, and therefore, allow more bonds to be sold for a given level of debt service.

The capital budget assumes the following interest rates:

July, 1989	6.6%
July, 1990	7.5%
July, 1991	7.0%
July, 1992	7.0%

Project Cash Flow Requirements

The amount of bonds sold each year to finance capital projects is based on the annual cash flow payment requirements for each project. Some projects in this capital budget, such as building repair, have a short term construction period and are financed fully in one year while others, such as the construction of new buildings, take at least three years to build and are consequently financed over that time period.

Therefore, the amount of bonds sold and the resulting debt service requirement on the bonds is also influenced by the cash flow needs of the projects. In addition, the state constitution requires that the state make available in advance 19 months of debt service on each new issue of bonds sold.

Changes in the Capital Budget Process

- A statewide emergency and repair account of $15 million is created in the Department of Administration for emergency projects, life safety projects, asbestos removal and containment, and miscellaneous repair projects such as roof repair. All state agencies and higher education systems, except the vocational-technical colleges, will rely on this account rather than on the Capital Budget process to finance this type of project. Central review of requests should channel limited resources to the projects based on greatest need.

- We need a better review of project design, cost, construction, and financing to ensure comparability among project costs and long term savings to the state. We have begun the applications of such a supportable cost analysis in this Capital Budget with the Centennial and Ford building projects. We will extend this approach to other projects in both this and future years involving the Departments of Administration and Finance.

- Each bonding commitment that we make carries with it the requirement for annual debt service which must be appropriated out of annual operating funds. That requirement is an important and useful discipline because it requires us to focus on when to invest for long term improvements versus the need to spend in the short term for service delivery.

  This proposal recommends several changes in the capital budget process which incorporate this discipline:

  a. A recommendation that the debt service for capital projects associated with new buildings on the campuses of the post secondary systems be financed from their current base funding; and that this discipline be used in consideration of all future bonding requests from the higher education systems.

  b. A recommendation that the technical college system raise its tuition to 33% of instructional cost over a three year period. The General Fund appropriation to the technical colleges has been reduced by the amount of receipts assumed. As the technical colleges implement this policy, a technical college debt service account in the amount of this tuition increase net of increased financial aids will be created in the General Fund. This account will be used to finance all capital projects authorized for the vocational technical system. It is estimated that this account could finance up to $56 million in bonding authority.

c. A recommendation that debt service for solid waste grants be funded out of the proceeds from the sales tax on solid waste collections.

All three of these changes are designed to ensure that we balance short and long term decision making in the best interest of the state.

Project Distribution By Major Area

The recommendations total $202 million in bonding and $25.7 million in direct appropriations; they are distributed as follows:

Area	Amount	Percentage
Environment	$49,275	22%
Human Services	44,809	20%
Education	39,558	17%
General Government	38,045	17%
Transportation	28,694	12%
Corrections	14,266	6%
Other	13,483	6%

Environment

- $8.9 million to match federal funds for the matching revolving fund used to finance wastewater pollution control facilities.
- $17.4 million for the independent grants program to meet commitments to local governments that have built wastewater pollution control facilities.
- $11.9 million for the combined sewer overflow program that continues the original state share of the financing as well as picking up one half of the cost of the federal shortfall and inflationary increases.
- $10 million for grants to local governments to finance solid waste disposal facilities.

Human Services

- $35 million for planning, working drawings, and initial construction financing for the reconstruction of the Anoka, Moose Lake and Fergus Falls Regional Treatment Centers. It is recommended that the Governor and Legislature approve revised plans and a final construction authorization before any construction bonds are sold.

- Funds for an additional 220 skilled nursing facility beds to be distributed at the Brainerd, Cambridge and Fergus Falls facilities.
- An additional 16 state operated community service facilities.
- These recommendations will continue the process of modernization and reorganization of our regional treatment system in accordance with the completed negotiations.

Education

- $3 million in bond proceeds for child care projects for higher education systems excluding the vocational colleges (see page 5). These funds are appropriated to the Commissioner of Administration and are to be released to the systems after review and approval of project requests.
- Urgent physical plant projects at Bemidji State and Mankato State Universities; a hazardous waste management facility for the University of Minnesota.
- Ten million dollars each to expand the maximum effort school loan program and the secondary school cooperative facilities program.

General Government

- Creation of the $15 million statewide emergency and repair account in the Department of Administration.
- $1.1 million for parking ramp security.
- $14.2 million to renovate the Centennial and Ford buildings and for remodeling in the Capitol Square building.
- Completion of Phase I of the Judicial building.
- $4.4 million for the relocation costs of state agencies moving this biennium.

Transportation

- $7.3 million of bonds for federal demonstration projects and the Interstate Substitution program to be financed from the General Fund.
- $21.4 in direct appropriations from the Trunk Highway Fund and State Airports Fund for various projects according to the request of the Department of Transportation.

Corrections

- $2.7 million to finish construction of the Faribault Correctional Facility authorized last year.
- $8.8 million to expand and upgrade the Lino Lakes Correctional Facility.
- $2.7 million to upgrade the Stillwater Facility.
- These capital recommendations support the Department of Corrections in its effort to keep abreast of its expanding prison population.

Other Capital Recommendations

- $2.2 million to complete the Minnesota History Center.
- $1.9 million to correct severe life safety problems at the laboratories operated by the Health Department and the Bureau of Criminal Apprehension.
- $6.9 million for upgrading at both the Minneapolis and Hastings Veterans Homes. The Veterans Home Board is encouraged to apply to the Department of Administration's emergency and repair account for other requested repair projects (see page 5).

SUMMARY OF RECOMMENDED CAPITAL BUDGET

Agency	Project	Governor's Recommend.
HighEd	Child Care Facilities	3,000
SUS	Bemidji – Emergency Generator System	870
SUS	Mankato – Heating Plant	3,720
SUS	Bemidji – Heating Plant Rehab	4,340
UM	Waste Management Facility	7,500
DOA	Statewide – Life Safety & Repair Fund	15,000
DOA	Parking Lot/Ramp Security	1,128
DOA	Centennial, Capitol Square, Ford Bldgs	14,219
DOA	Remodel Health Dept Lab	1,376
DOA	Complete Phase I Judicial Bldg	3,341
Educ	Faribault-Upgrade Mech Sys in Act. Bldg	128
Educ	Secondary School Coop. Facility Program	10,000
Educ	Maximum Effort School Loan Program	10,000
MilAff	Statewide Underground Fuel Tanks	300
MilAff	Camp Ripley – Educ. Ctr Plan/Wrking Drw	735
MHS	Complete History Center Bldg	2,200
MHS	Repair Split Rock Lighthouse	125
Correc	Stillwater – Cell Locks	594
Correc	Stillwater – Prison Conversion	2,058
Correc	Complete Faribault Prison	2,706
Correc	Expand Willow River Prison	85
Correc	Expand Lino Lakes Prison – Med. Security	6,695
Correc	Lino Lakes – Water/Sewer System	955
Correc	Expand Lino Lakes – Min. Security Prog.	326
Correc	Lino Lakes – Power Generator	318
Correc	Lino Lakes – Expand Industrial Bldg "Q"	529
DHS	Faribault – Re-Configure Roads & Walks	537
DHS	Renovate State Hospitals	35,000
DHS	State Operated Community Service (SOCS)	4,272
DHS	SNFs – Net of 1989 Appropriation	5,000
J&T	Job Service Relocation	1,000
DNR	Water Bank Program	350
DNR	Seal Abandoned Wells on State Property	500
DNR	Underground Fuel Tanks	250
PCA	Federal Match Revolving Fund	8,900
PCA	State Independent Grants Program	17,425
PCA	Combined Sewer Overflow	11,850
PubSaf	BCA Lab Remodeling	545
PubSaf	Salvage Vehicle Inspection	285
DOT	Federal Demonstration Projects	5,606
DOT	Interstate Substitution	1,700

SUMMARY OF RECOMMENDED CAPITAL BUDGET

Agency	Project	Governor's Recommend.
VetHmBrd	Hastings – Heating & Air Conditioning	160
VetHmBrd	Mpls – Demolition & Boiler	98
VetHmBrd	Mpls – Expand Feeding/Lounge Areas	533
VetHmBrd	Hastings – Room Conversion & Renovation	3,005
VetHmBrd	Mpls – Bridge Restoration	928
VetHmBrd	Mpls – Resident Lounge/Activity Area	478
VetHmBrd	Mpls – Trans. Ctr/Ground Sec. Building	240
VetHmBrd	Mpls – Parking	85
VetHmBrd	Mpls – Tunnel Walkway between Bldg	1,390
Subtotal – General Fund Financing		192,385
OWM:SCORE	Solid Waste Grants	10,000
TOTAL – Bonding		202,385
DOA	Agency Relocation (Direct Appropriation)	4,357
DOT	Central Office Building	10,320
DOT	Asbestos Removal & Reinsulation	250
DOT	Marshall Maintenance Building	600
DOT	Underground Storage Tank Replacement	750
DOT	Chemical Storage Sheds	405
DOT	Bemidji Rest Area	250
DOT	Brainerd District Headquarters	6,525
DOT	Mahnomen Truck Station	420
DOT	St. James Truck Station	420
DOT	Land Acquisition	145
DOT	Detroit Lakes Laboratory Addition	344
DOT	Staples Rest Area	224
DOT	Pole Type Storage Sheds	375
DOT	Class II Rest Area Constr	310
DOT	St. Paul Airport – Hangar Building	50
Subtotal – DOT Direct Appropriations		21,388
TOTAL – Direct Appropriations		25,745
GRAND TOTAL – CAPITAL BUDGET		228,130

MANAGEMENT ISSUES

- SHORTFALL
- STRUCTURAL BALANCE
- INCREASED COMMITMENTS
- RISK

GOALS

- BALANCE INCOME AND SPENDING
- MAINTAIN RESERVE
- DEBT SERVICE AT 3% OF GENERAL FUND
- NEW COMMITMENTS REQUIRE
  OFFSETTING SAVINGS
- EXPECT PRODUCTIVITY IMPROVEMENT
- TARGET SPENDING REDUCTIONS
- MANAGE SHORT AND LONG TERM

FEBRUARY FORECAST

	1990-91 Estimate	1992-93 Baseline
Beginning Balance Excluding Budget Reserve	$ 396	$(145)
Revenues	13,370	14,850
Spending	13,911	15,242
Ending Balance	(145)	(537)
Reserve	550	550

BEYOND THE BASELINE

New Spending Commitments at 4% Would Cost - $540 Million

A Recession Would Cost - $740 Million

MANAGEMENT INITIATIVES

- TARGETED REDUCTIONS
- CUT BUREAUCRATIC RULES
- CHANGE CANCELLATIONS
- 5% SUNSET
- DEBT COSTS CHARGED TO AGENCIES
- SPECIAL REHABILITATION & MAINTENANCE FUND
- HEALTH COST CONTAINMENT

GOVERNOR'S SOLUTION

	1990-91 Estimate	1992-93 Baseline
Beginning Balance Excluding Budget Reserve	$ 396	$ 1
Revenues	13,385	14,857
Spending	13,780	14,823
Ending Balance	1	35
Reserve	550	550

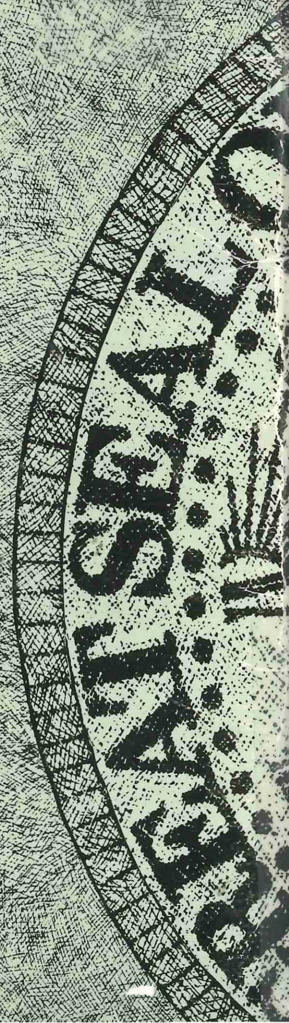
BUDGET RECOMMENDATIONS

INCREASES:

Drug Initiative	$19 Million
Child Care	$ 7 Million
Alternative Care	$ 5 Million
Gambling Enforcement	$ 3 Million
Corrections	$ 2 Million
Capital Budget	$18 Million

SAVINGS:

Health Cost Containment	$19 Million
Fund Consolidation	$11 Million
Updated Actuarial Costs	$27 Million
Local Spending	$66 Million
Business Credits & Loans	$13 Million
Streamlining Government	$36 Million


REAT SEAL O