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1992-93 Proposed Biennial Budget

Governor Arne Carlson

Executive Budget Summary

Errata
1992-93 Executive Budget Summary

Page 7, line 18: reference to "Minnesota Family Involvement Plan" should read "**Minnesota Family Investment Plan**" (MFIP).

Page 22: **Table 5. Proposed 1992-93 Budget and 1994-95 Baseline**, displayed incorrect fiscal data for the 1994-95 biennium. The 1994-95 expenditure number should read "**15,024**"; the correct ending balance should be " **$575** " (million). A corrected table is reproduced below:

Table 5. Proposed 1992-93 Budget and 1994-95 Baseline (millions)

General Fund Budget	FY1992	FY1993	Biennium 1992-93	Biennium 1994-95
Total Revenues	$7,204	$7,381	$14,585	$15,599
Total Expenditures	7,413	7,168	14,581	15,024
Ending Balance	(209)	213	4	575
Budget Reserve	550	550	550	550

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Proposed 1992-93 Biennial Budget

STATE OF MINNESOTA
OFFICE OF THE GOVERNOR
130 STATE CAPITOL
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ARNE H. CARLSON
GOVERNOR

February 20, 1991

TO THE PEOPLE OF MINNESOTA AND THEIR 1991 LEGISLATURE:

This budget proposal for 1992-93 has one unique characteristic: it is the first in nearly two decades that holds spending increases to less than two percent per year. It is based on a rather simple premise: state government, like the taxpayers it serves, must not spend more than it makes.

The budget is balanced. It has been done without increasing sales taxes. It has been done without increasing income taxes except to conform with recent changes in federal tax law. And it has been done in a way that restructures government so in the future we will be better served in good times and bad.

The budget in this document reflects our priorities: a prevention agenda for kids, education, and removing the barriers to job creation.

State government cannot continue to spend at will during the good times and then pull the rug out from under people's feet with cutbacks every time the economy takes a dip.

In our first 45 days in office, we confronted a major challenge. To balance this year's budget which ends in July, we made nearly $200 million in adjustments. Those changes affected many Minnesotans. But those cuts were small compared with what lies ahead.

A Decade of Extravagance

As we began the hard work of shaping these budget recommendations for 1992-93, we've had to face the consequences of a decade of extravagance, a decade where state government routinely spent more than we could afford.

This is the challenge we face: state spending for the next two years will exceed our ability to pay by $1.2 billion unless we change our ways.

It is not common practice -- especially in years where there is little money to spend -- to present the budget message to a Joint Session of the state legislature. It is considered too risky politically to be associated with bad news.

But we want to challenge the notion that somehow the public can't understand or shouldn't be involved in finding solutions. This administration has inherited the spending problems of the past. Although the situation is made worse by the current recession, this crisis has been building for a long time.

We believe good leadership means hitting problems head on. We think it is important that the reality of our current fiscal crisis be understood and accepted by all of us.

Various pressure groups representing special interests will not like portions of this proposal. They will want state government to spend more money. They will have good ideas about how to spend it. But we intend to listen to the taxpayers.

And the people of Minnesota are telling us they want state government to live within its means.

Facing up to Reality

The instincts of Minnesotans are sound. They want state government to face reality -- the same reality that private sector employees and businesses have had to deal with for some time now as they adjust to layoffs, downsizing and pay cuts.

Other states, too, are confronting reality. Pennsylvania put $731 million in spending reductions into effect for 1991. The state of New York is looking at eliminating 18,000 jobs, a wage freeze and other cuts in state services. New Hampshire has proposed furloughing state employees for three to five days.

We can approach Minnesota's problem in one of two ways. We can do what we traditionally have done and raise taxes so we can continue spending. But how can we possibly justify this when the hard working people of Minnesota are themselves facing tough times?

The Courage to Change

Or we can see this crisis as an opportunity ... an opportunity to take the first step in what we hope will be a long term commitment to living within our means. We can restructure government so it makes more sense and so it works better for all of us in the future.

Change can be exciting. But change is also frustrating. Change is hard work. Fortunately Minnesotans have a reputation for hard work and for good work. We are people who have the courage to do what is right even when a course of action may prove to be difficult and unpleasant.

The time has come for change ... and a new beginning.

As you study our proposal, you will find recommendations for spending cuts and for reallocations of resources to better meet current needs. But you will also find recommendations for changes in the basic role and structure of government ... changes which will provide a solid foundation for our future.

We can no longer continue to do business as usual in Minnesota. Change must begin with a restructuring of the relationships between state government and local units of government. We need to develop a system that is affordable and appropriate for the 1990s rather than holding on to what worked two decades ago.

We are not proposing to reform the system in an arbitrary fashion. We want to work with all units of government -- cities, counties, townships -- and with taxpayers to remodel it. The Dyrstad Commission has been formed and already has been meeting to begin this dialogue in partnership with local government.

This 1992-93 budget proposal does call for a substantial reduction in state aids to local government when compared with the past two years. Dealing with this change will require thoughtful reexamination of priorities in Minnesota communities.

When compared with other states, Minnesota ranks near the top on any measure of state aid to local governments. Compared with surrounding states, Minnesota consistently ranks higher in the major aid categories.

While the state has been generous in funding local units of government in recent years, its dollars have been transferred with a rather long "string" attached -- mandates to fund programs that may or may not be needed in a particular community, that may or may not be wanted in a particular community and that may or may not deliver results. In other words, spending these tax dollars may or may not improve things for local communities.

Minnesota taxpayers know this is not right and that this cannot continue. Now is the time to fix it. Now is the time to change.

In this proposal, we've tried to build in some options to cushion some of the impact. We think it is important for local government to be in the driver's seat in determining local services.

For that reason we are proposing to reduce state imposed mandates, to provide more access to local option taxes and to remove levy limits for both cities and counties. Major property tax reform to keep Minnesota jobs and to make sure all communities have an equal ability to provide essential services are also part of this budget proposal.

Guidelines for Change

Our departments worked long and hard to put together this budget proposal. We want to thank them for their commitment to meeting this February 20 deadline and for developing a plan which builds in long-term reform, redirects spending, and makes needed cuts. Throughout the process, we were guided by some basic principles:

> Dollars spent must deliver results. We need to measure the success of programs by how effective they are, not by how many dollars we spend. In every area of state government -- from education to human services to running our state agencies -- we need to focus on performance and results.
>
> The state of Minnesota can no longer afford to do everything for everyone. While many programs added in recent years have considerable merit, we cannot continue to fund every good idea. Choices must be made. We need to target our spending to accomplish our highest priorities and we need to review our priorities with every budget cycle.

Greater accountability must be built into all government programs. We need to decide two things before we fund a new initiative: how are we going to measure success and who is going to be held accountable for results?

These three principles -- making sure taxpayers get what they pay for, targeting our resources, and greater accountability -- form the foundation for this budget and for the future of Minnesota.

With any remodeling project, we expect some inconvenience, some discomfort and much frustration. The restructuring we are proposing will be no different. We need to bear in mind that remodeling projects are at their worst at the beginning when we have removed the old, outdated but comfortable and familiar structure. It is at this point that we need to go back to our blueprint for a preview of what we can expect when the project is completed.

This is the time to stay focused on the fact that we are restructuring our government so that it meets the realities of the next century, so it better reflects the lives we are leading now.

A Blueprint for the Future

Our blueprint for change in Minnesota emphasizes traditional Minnesota priorities: quality education, a focus on children and problem prevention and concern for the environment. If it is to succeed, it must also be a blueprint for growth. We need to encourage businesses in the state to grow and help them to create new jobs. We cannot be anti-business and pro-jobs. It doesn't make sense. It just doesn't work.

Businesses create jobs. Jobs make it possible for people to reach their full potential, to feel optimistic about their future. Jobs build communities. Jobs make it possible for people to pay for their homes, to buy a car, to see a movie and to pay taxes. It is these taxpayers who fund the programs that give Minnesota its well-deserved reputation for providing an outstanding quality of life.

For these reasons, removing barriers to job creation is a major part of our agenda. We cannot afford to lose a single job. Minnesota is at great risk in this area. Our companies cannot compete for business because the costs in Minnesota are so high when compared with other states, especially those located near our borders.

Commercial and industrial property taxes are among the highest in the nation. But the principle contributor to our lack of competitiveness is the high cost of providing workers compensation coverage for minnesota workers. Minnesota workers deserve and must have adequate protection for injuries which occur on the job. But we cannot continue to have a situation where it is possible for people to make more while disabled than they do while working.

Providing opportunities for good jobs is the most important difference those of us in government can make for the people of Minnesota. This must be a priority. For that reason, we will be proposing workers compensation reform during this legislative session. We are also proposing substantial reform of the commercial/industrial property taxes.

Because of this need to remain competitive and keep our jobs, we take a dim view of using tax increases to solve this budget crisis. Minnesota cannot continue to tax its way out of every problem. Ultimately, businesses and their employees will vote with their feet. They'll go to those states which appreciate their contributions.

There are some modest tax increases proposed in this budget. But there are none which will further limit our ability to create and retain Minnesota jobs.

We want to emphasize that we have listened to the taxpayers as we have prepared this budget. Minnesota taxpayers are saying their taxes are high enough. They are saying they are not getting fair value for the dollars we are spending now. They are saying that if taxes are increased, they are willing to do so only to fund the areas we have identified as priorities.

Making a Positive Difference for Children

Because children are our future, they are our first and highest priority. This budget reflects that commitment. One of the most serious problems in educating Minnesota kids is that many of them are not ready or able to learn. Some have been abused. Some have seen their mothers being abused in their own homes. They are the victims of their poverty and their parents despair ... the despair of people who turn to drugs and alcohol because they see no hope for their own future.

Some of Minnesota's children are the victims of parental indifference. Others have parents who are not prepared to deal with the challenges of raising a family. No one is setting expectations for these children.

No one is communicating our basic Minnesota values. Work hard. Make your future. You can make a difference.

These are the children who arrive at Minnesota schools. These are the children that Minnesota teachers are committed to educating. Somehow we must help these children. For that reason, we have redirected our spending priorities in this budget.

We are targeting spending on a "prevention" agenda where we intervene early in life to help our most vulnerable children. No state, to our knowledge, has made a greater effort in this area. If we invest our dollars to get our children off to a good start, we will not be faced with the high cost of crime, drugs and alcohol and unemployment when these children reach adulthood. Our resources to address these problems are limited. But we need to make a start.

More than $30 million in new resources have been directed to this prevention agenda for children. We have increased funding for Head Start, Way to Grow and Early Childhood and Family Education Programs. We have directed funds toward new programs -- Families Plus, Families First and the Minnesota Family Involvement Plan -- that will encourage families to work hard at being families.

A recession is not the time to remove the safety net for the vulnerable and poor. For that reason, our budget proposes $3.6 billion in funding for human development, a 15 percent increase over the last biennium. Some programs are being phased out, others are being expanded, and several new initiatives are recommended. In addition, there is substantial reform and restructuring built into this proposal so we can better control the open-ended liabilities which escalate costs. This is part of our agenda to target our spending so we do a better job of helping people take charge of their own lives.

Education and Change

We believe a good education is the best insurance policy to make sure our kids learn what they need to know in order to succeed in life. Our budget provides $4.5 billion in funding for elementary education, a seven percent increase from the previous biennium. We are proposing numerous structural and funding reforms and we are challenging teachers to become more involved in deciding how best to improve educational outcomes for students.

Affordable access to higher education is important if we are to prepare students for the increasingly complex and technical nature of the work world today. But here, too, we need to set priorities and to work within a system we can all afford. Our proposed budget calls for a modest decrease -- less than two percent -- in funding for post-secondary education.

Just as increasing taxes would be the easy answer in meeting the budget shortfall, increasing tuition would be the simplest way to cover increased costs.
But we do not believe students should pay the price for a system in need of reform. Therefore, we strongly recommend that tuition increases be limited to no more than the rate of inflation.

There are significant cost savings that can be realized through a careful reassessment of the higher education systems in Minnesota. For that reason, we built into this budget proposal significant incentives for restructuring and better coordinating the state's four post-secondary systems.

Passage of the no net loss wetlands bill is our number one priority to protect our environment. Available funds for environmental and natural resources programs will increase by $48 million in this proposed budget. More efficient targeting of these funds will give taxpayers the results they deserve. Reorganization of environmental agencies is also proposed.

Cutting the Cost of Government

True budget reform cannot be achieved without reducing the cost of government. Government operations account for about five to six percent of the total General Fund budget ... or about $747 million in the last biennium.

A number of programs are being cut. Total expenditures are being reduced by $32 million, or 4.3 percent, in the next two years. Basic organizational reform must take place here, too. To accomplish this, we have formed the Commission on Reform and Efficiency (CORE), a two-year public/private sector commission to identify immediate cost savings in state government. We have set an initial target of $10 million in net savings by 1992.

Many states have made the decision to lay off large numbers of their employees in order to bring their budgets into balance. But we have opted for a more fair and humane approach.

We are proposing instead that the state's contribution to state employee retirement plans be reduced as a temporary means of achieving our budgetary goals without massive across-the-board layoffs.

Should the recession prove to be more short lived than anticipated or if the CORE commission is able to identify more than $10 million in savings, we recommend that the state's share of the retirement fund contribution be restored to existing levels.

Finally, this proposal maintains the budget reserve. This $550 million "rainy day" fund will be needed to meet our financial commitments during periods when cash levels are insufficient to meet expenditures. We do not think it is wise to resort to short-term and expensive bank borrowing. By taking the approach recommended in this budget, we will end fiscal year 1993 with the fund intact. We believe it is essential that we keep this in place to deal with an extended recession should the war continue or to deal with other unforeseeable emergencies.

The Beginning of a Journey

Change, substantive change, cannot happen overnight. This budget proposal is only the beginning. We recognize that it challenges many of our most cherished ideas about how government contributes to our lives. We welcome your ideas. In fact, many of your ideas are already reflected in this proposal.

We encourage you not to reject change and new ideas out of hand. We invite you to show the personal courage that Minnesotans have always possessed. We need to set our individual self interests aside and ask one question: what can we do that will make things better for all Minnesotans in the century ahead?

A definition of reform ... the one we prefer ... is changing things for the better. If we attack our problems with vigor, with wisdom and with a keen sense of our final outcome, we will succeed. We will change things for the better.

Arne H. Carlson Joanell M. Dyrstad

ARNE H. CARLSON
Governor

JOANELL M. DYRSTAD
Lt. Governor

Budget Overview - A New Beginning

In his recent State-of-the-state address, delivered one day after the nation honored Dr. Martin Luther King, Governor Arne Carlson observed that Minnesota now has an opportunity

> *"...to do what King's life stood for - appeal to the best that lies within us all. We must challenge the past or become a prisoner of it...People want "a new beginning" with a focus on excellence, truth, and a summons to duty."*

1992-93 Budget Priorities

The proposed 1992-93 budget reflects a new beginning for the State of Minnesota. It calls for a reemphasis on the programs that have been traditional priorities of all Minnesotans, and outlines major changes in state and local relationships:

- Education. Education is the top priority of the Carlson/Dyrstad Administration. Elementary/secondary funding initiatives promote greater program equity to ensure that Minnesota's children have access to adequate educational opportunities. Site-based decision making is supported so that teachers, working with parents and students, have principal responsibility for the curriculum, methods, and results of their efforts. The budget recommendations reflect the philosophy that outcome-based results of what students learn should be the measure of success, rather than the time and effort spent on the process. In post-secondary education, strong incentives are provided for clarifying the missions of Minnesota's four separate systems, eliminating duplication, achieving efficiencies and improving program effectiveness.

- Children. The educational readiness and health of all children in Minnesota are also addressed through prevention and risk reduction initiatives. Early childhood and family programs ensure that a safety net is in place to protect the quality of life of Minnesota's children and adequately prepare them for life's challenges. The budget recommendations increase funding for numerous existing programs and initiate several new efforts to promote the health and welfare of the state's children.

- State-local government restructuring. A major restructuring of state and local government operations and financial relationships is proposed through reform of the complex system of local aids and property taxes. More appropriate targeting of property tax relief is introduced, and accountability is enhanced by giving local officials more responsibility for local decisions. Taxpayers benefit through stronger incentives for moderating expenditure growth. Among state agencies, a comprehensive redesign of organizational structures and operating practices is planned to achieve efficiencies and refocus perspectives on customer service.

- Environment. Protection of the environment is also a high priority. Specifically, immediate passage of a no net loss wetlands bill and increased funding for Reinvest in Minnesota (RIM) initiatives is called for. In addition, better targeting of the many environmental programs is recommended to more effectively deliver services and increase efficiency.

- Economic competitiveness. Minnesota's worsening competitive position is addressed through redefinition of the state's role in economic development. Budget recommendations concentrate on improvements in the overall business climate which stabilize and encourage private companies to both start-up and expand. Reform of the state's workers' compensation system and commercial tax structure are top priorities.

Figure 1

General Fund Resources

Governor's Recommendation

1992–93 BIENNIUM
$15,135 Million

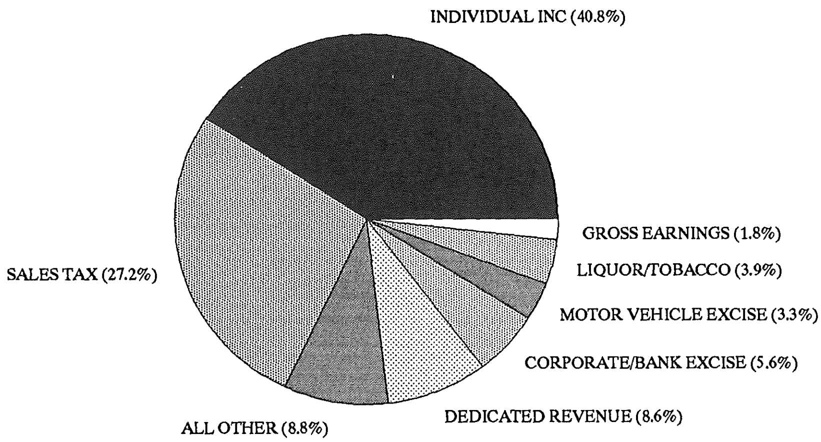
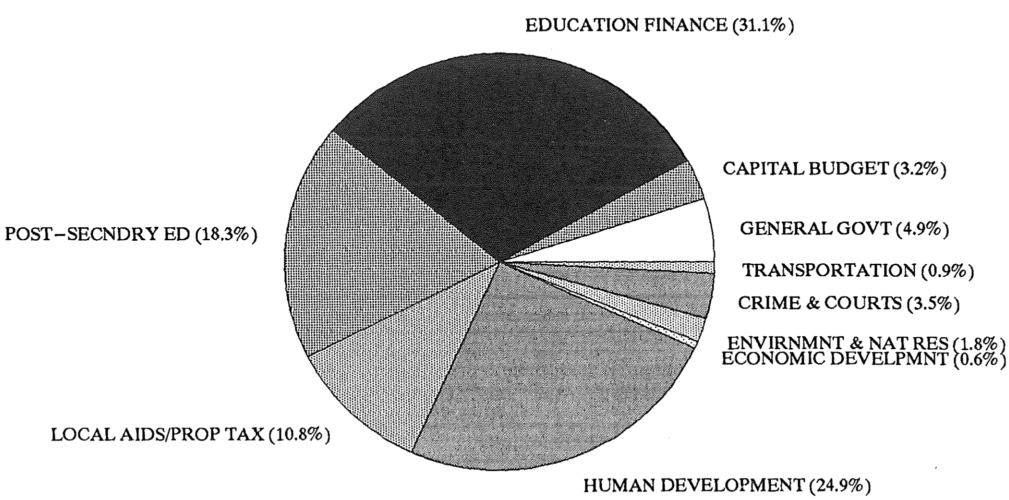


Figure 2

General Fund Spending

Governor's Recommendation

1992–93 BIENNIUM
$14,581 Million Spending
$550 Million Reserve



Revenues and Expenditures

About 70 percent of all state revenues are collected from individual income taxes and sales taxes (Figure 1 and Table 1). Nearly one-half of all state expenditures are for education, with an additional one-fourth for human development programs (Figure 2 and Table 1).

Proposed 1992-93 Budget: (millions)

Table 1. Revenues and Expenditures

	Amount	% of Total
Revenues		
Individual Income Taxes	$ 6,175	41
Sales Taxes	4,109	27
Other Taxes	2,508	17
Other Resources	2,343	15
Total Revenues	$15,135	100
Expenditures		
Elementary/Secondary Education	$ 4,536	31
Post Secondary Education	2,669	18
Human Development	3,636	25
Local Aids	1,576	11
Other Spending	2,164	15
Total Expenditures	$14,581	100
Budget Reserve	$ 550	
Balance	4	

Budget Restructuring

According to the November 1990 forecast, Minnesota faced a projected shortfall of nearly $2 billion over the next two one-half years. Portions of this problem have already been addressed through the baseline budget freeze and the Governor's recommended FY 1991 budget adjustments, so that the remaining shortfall is $1.2 billion for the 1992-93 biennium.

The 1992-93 budget initiates a five-year restructuring of state government so that Minnesota can live within its means, and begins to implement the new vision of the Carlson/Dyrstad Administration. Restructuring savings and new initiatives for education, children and the environment will result in net savings of approximately $958 million over the biennium (Table 2). Increased taxes on cigarettes and alcoholic beverages will generate $190 million, and conformity with federal tax law changes will add $84 million. Increased spending for property tax refunds will offset part of these tax changes. Other revenue changes, including fees, undedicating certain funding sources, and increasing other dedicated revenues will add $223 million to 1992-93 general fund resources.

Proposed 1992-93 Budget: (millions)

Table 2. Shortfall and Budget Solution

1991-93 Shortfall	($1,986)
Less: Baseline Budget Freeze	577
FY 1991 Adjustments	197
1992-93 Shortfall	($1,212)
Savings & New Initiatives	$ 958
Property Tax Relief	(189)
Federal Conformity	84
New Taxes	190
Fees, Other	153
Dedicated Revenue	70
Reimburse Reserve	(50)
Balance	$ 4
Budget Reserve	550

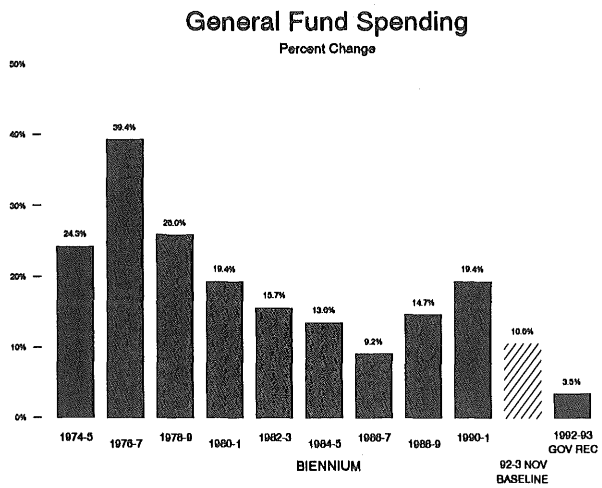
Restructuring strategies emphasize outcome-based management, more appropriate targeting of subsidies and increased accountability at both the state and local levels. Major downsizing is also required so that government can continue to be affordable and competitive. Major budget initiatives emphasize education and children.

A balanced budget is presented for 1992-93, along with baseline projections for a balanced 1994-95 budget. Although the budget reserve is used during the first year of the biennium to meet cash flow needs, it is fully restored by the end of FY 1993.

While spending will increase over the 1990-91 biennium, the 3.5 rate of growth is the lowest of the past two decades (Figure 2 and Table 3).

If restructuring had not taken place, the November forecast indicated a 10.6 percent spending growth would have occurred.

Ongoing revenues and expenditures are fully balanced. The impact of spending "tails" is recognized, either through revenue increases or matching base reductions within other programs.



will grow less than 2 percent annually during the 1992-93 biennium

- Reverse the course of imprudent spending practices by balancing revenues and expenditures; the proposed budget balances a $1.2 billion shortfall in 1992-93 and produces a $575 million surplus in 1994-95 to reverse a projected $700 million deficit

- Provide increased funding for new initiatives in education and for children

- Focus on outcome-based reforms, not additional spending; major efforts initiated for education and state agencies to improve delivery of services

- Provide the restructuring framework for both short and longer term reform agendas for major areas of state spending, including state agencies, elementary, secondary and post-secondary education and local government

Table 3. Proposed Budget: Biennial Comparison (millions)

General Fund Spending

Major Program Areas	1990-91	1992-93	$ Change	% Change
Elem/Secondary Education	$ 3,798	$ 4,536	$ 737	7.1*
Post-Secondary Education	2,623	2,669	46	1.8
Human Development	3,170	3,636	467	14.7
Local Aids	2,328	1,576	(753)	(12.2)*
Other Spending	2,047	2,164	117	3.8*
Total Expenditures	$13,966	$14,581	$614	3.5 *

* Numbers are actual; percentages adjusted for comparability.

Program Area Goals and Recommendations

Goals and key recommendations for each program area reflect the overall philosophy of the Governor's proposed budget.

Budget Philosophy. Manage for the future through a commitment to fiscal integrity. Use the budget and funding process as a catalyst to initiate long-term reform.

- Institute a disciplined approach to restrain the increase in government spending; expenditures

- Empower state and local entities to initiate reforms and restructure existing programs; increase local accountability

- Provide a $550 million Budget and Cash Flow Reserve to allow for the unusually high level of economic uncertainty and to meet cash flow needs

Early Childhood and Elementary/Secondary Education. Fully fund educational commitments, establish clear outcome priorities, promote site-based management, expand early childhood education opportunities, make school funding more equitable.

- Improve education in the early years by providing $4.0 million for Early Childhood/Family Education, $4.4 million for elementary school counselors and additional funding for various child health and family intervention and prevention programs ($8.5 million)

- Encourage greater use of Outcome Based Management (OBM) by providing $7.2 million for staff development in OBM techniques

- Implement an Equity Funding Plan by designating $32.5 million for expanded Training & Experience funding, referendum equalization, increased elementary pupil weighting and AFDC allowances

- Honor existing commitments for Maximum Effort program ($3.8 million)

Post-Secondary Education. Initiate restructuring of the state's four post-secondary systems to clarify missions, eliminate duplication, improve efficiencies and achieve greater program effectiveness.

- Create Commission on the Future of Post-Secondary Education to clarify the mission and components of education strategies for the future, with strong funding incentives to implement reform

- Limit tuition increases to rate of inflation (estimated at 3.7% and 3.2% annually) to ensure continuing higher education accessability; require that a portion of any tuition increases above inflation, which are enacted by systems, be set aside for additional financial aid

- Enact minimal (2%) reductions in systems budgets to begin downsizing process, and to allow restructuring to be phased in

- Fully implement marginal cost funding for 2-year systems

Local Aids and Property Tax Relief. Improve targeting of property tax relief and simplify property tax classification system; modify incentives for expenditure growth and give local officials more responsibility for local decisions.

- Work with Legislature to develop specific local aid/property tax relief package

- Reallocate property tax relief funding from general aid to local governments to targeted direct payments to taxpayers

- Simplify property tax system by implementing a one class, full evaluation approach, with certain exemptions based on use

- Implement new aid equalization program to ensure access to basic life and safety services and establish new categorical aid programs

- Increase access to local revenues and improve accountability for local decisions by removing levy limits and allowing optional regional fees and taxes; continue truth in taxation and permit collection of property taxes more than twice each year to smooth local cash flow

Human Development. Ensure adequate safety net for vulnerable citizens, emphasize prevention and intervention, early childhood services and change the nature of legislative mandates which compromise administrative accountability and represent open-ended funding liabilities.

- Develop community-based low cost alternatives to institutional care by expanding pre-admission screening and alternative care grants ($19.1 million), increasing funding for community living initiatives for persons with mental illness and the frail elderly ($11.9 million), establishing pilot projects to empower clients to choose provider services within spending caps, and restructuring Regional Treatment Centers (RTC) and State Operated Community Service (SOCS).

- Restructure health care programs to institute managed care approaches; increase Family Planning funds ($2.4 million); maintain current eligibility levels for the state's health care programs; continue to work with the legislature on designing strategies that address the needs of Minnesotans without health insurance

- Provide state funding for income support programs by continuing the takeover of income maintenance costs from counties; provide funds ($4.3 million) to implement Minnesota Family Investment Plan demonstration projects to promote self-sufficiency among welfare recipients; restructure the Work Readiness Program by providing administrative authority to adjust eligibility within appropriations; fund new targeted rental assistance housing intiatives ($5 million); Phase-out Special Dislocated Workers' Fund

- Increase Early Childhood programs by: creating an Action Plan for Children, fully funding the Children's Health Plan ($3.7 million increase for $18.2 million total), maintaining commitments to Women, Infants and Children (WIC) Program, expanding the Families First Program ($2.0 million), continuing Way to Grow Program funding ($2.0 million), maintaining commitments to the Child Care Fund, and increasing Head Start ($2.0 million increase for $60 million total federal and state), STRIDE ($16 million total state) and Child Abuse Prevention ($1.0 million) funding; fund new Families Plus program ($4 million) to coordinate local educational and human services; increase funding for children's mental health programs ($3.9 million)

- Continue to support veterans homes activities and honor current Silver Bay and Luverne commitments, but approve no additional facilities

Environment and Natural Resources. Target funding to high priority initiatives without increasing general fund liability, phase out dedicated funding sources not directly related to programs, reduce direct subsidies to local governments, recover regulatory program costs, and restructure environmental agencies.

- Target funds to high priority projects by creating a Wetlands Initiative coordinated with Reinvest in Minnesota (RIM) resources for a $50 million program; continuing progress on GEIS through available funding from the Legislative Commission on Minnesota Resources (LCMR), maintaining funding for the SCORE recycling programs at current levels ($40 million), and supplementing Superfund resources with excess funds from the Waste Tire program ($2 million additional)

- Undedicate funding sources not directly related to program activities by phasing out portions of the cigarette tax, while leaving sufficient revenues to finance recommended LCMR allocations

- Reduce state subsidies for local government discretionary projects where no mandates exist, such as local debt service payments, county forestry grants, payments-in-lieu-of-taxes on tax forfeited land and well sealing grants; continue to allow counties to receive revenue from land and timber sales on tax forfeit land

- Assure that more permitting and enforcement regulatory costs are recovered from fees, rather than taxpayers

- Initiate process to restructure environmental agencies to accomplish outcome-based reforms, including better definition of missions and delivery of services

Economic Development. Improve the competitiveness of Minnesota's business climate by focusing on substantive reforms and reducing direct local subsidies; promote self-sufficiency, rather than continued dependency.

- Improve the business climate by reforming workers' compensation system and commercial-industrial property taxes

- Focus economic development initiatives on job retention by expanding funding for Economic Recovery Program and Forward Minnesota Program ($2.8 million)

- Reduce direct local government subsidies by phasing out URAP grants, eliminating state subsidies to metro parks; referring eligible projects to IRRRB; and reducing state debt service subsidies for local bonding projects

- Downsize agency bureaucracy by eliminating state funding for the World Trade Center; and converting Greater Minnesota Corporation (GMC) funding to a state grant at a reduced level ($12 million annually)

Crime and Courts. Accommodate growth in prison populations cost effectively; reserve state prisons for the most serious offenders and encourage intermediate sanctions at local level; meet state mandated court and public defender funding responsibilities, but introduce greater local accountability.

- Place moratorium on construction of new correctional facilities, and accommodate growth through expansion of existing prisons

- Encourage local accountability by developing statewide non-imprisonment guidelines, providing additional resources to counties to expand use of less costly incarceration alternatives ($32.2 million), and require local per diem charges for short term inmates housed at state prisons

- Maintain Victims Grant funding at current levels ($10 million) and fund detention alternatives to encourage removing juveniles from jails ($1.5 million)

- Honor current state trial court and public defender commitments by fully funding state-mandated services, and increase local accountability by continuing local funding responsibility for local court administration

- Fund Compensation Council commitments for judges, legislators and constitutional officers for the first year only

Transportation. Maintain traditional commitments and reduce funding dedication to provide more flexibility for crisis management, encourage changes in policy priorities and greater trade-off budget discussions.

- Permanently eliminate MVET transfer, which represents less than 5 percent of transportation revenue

- Fund transit subsidies directly from general fund, eliminate direct state funding for county light rail planning and operations, reduce subsidies for non-metro transit

- Cap ethanol development subsidies at current levels, pending development of statewide energy policy

General Government. Refocus and clarify the state's role and downsize operations to achieve efficiency improvements.

- Establish Commission on Reform and Efficiency (CORE) to evaluate the structure and operation of state agencies, for the purpose of achieving cost savings, enhancing accountability, improving customer service and providing quality service at an affordable price

- Refocus the state's role with local and non-government agencies by: eliminating state funding for labor-management coop grants, discontinuing public broadcasting grants; transferring funding for Year of the Cities programs to other state and local agencies; reducing Arts Board funding to FY 1989 levels ($3 million); eliminating Regional Development Commission and local historic preservation grants; capping local government pension amortization subsidies at current contribution levels; and reducing selected agricultural programs, including the farm advocates program

- Increase state government employee pension contributions for a two-year period in order to lower employer costs and allow phase-in of cost-saving restructuring initiatives

- Begin planning statewide financial management system improvements, and continue development of STARS system with a start-up loan

Capital Budget. Introduce more discipline into capital funding process to meet long-term priorities, recognize need for asset replacement, incorporate rational, technical and policy review, and reinforce current debt management policies.

- Reform capital budgeting process by implementing legislative commission recommendations

- Delay uncommitted bond sales and require reviews through new capital planning process

- Eliminate dedicated IDF lottery funding, meet current commitments from general fund and refer all new requests to capital planning process

- Restructure Rural Financing Authority (RFA) bonds to achieve debt service savings

Taxes and Fees. Implement new taxes and fees consistent with long-term restructuring strategies.

- Achieve conformity with recent federal income tax changes, but maintain state competitiveness by not increasing rates

- Increase cigarette taxes 24 cents per pack ($165 million) and alcohol taxes ($25 million) as health initiatives

- Increase selected fees consistent with biennial review of service and administrative costs

Chapter 1

Budget Shortfall

The nation and the state are in a recession. At present, there is a high degree of uncertainty about how long and how deep the recession will be. The timing of the recovery will have a major impact on the state's 1992-93 budget.

With the U.S. in a recession, Minnesota's economy is expected to slump until at least early summer. November's forecast for revenues during the 1992-93 biennium was more than $800 million below the planning estimates used to set spending levels during the last legislative session. More over, the most recent estimates were based on a forecast made before war broke out in the Persian Gulf. The next forecast in March 1991 could well indicate even less revenue for the 1992-93 biennium if the outlook for the national economy weakens.

Unfortunately, Minnesota does not have the luxury to sit and wait for the economic outlook to become more stable before it deals with its budget problems. Even a quick settlement in the Persian Gulf and rapid economic recovery will not remedy the structural budget problems faced by the state. Action needs to be taken now. The budget must be constructed on the information available.

The substantial uncertainty about future revenues makes Minnesota's budget reserve even more important than before. Maintaining the reserve to help guard against the effects of further deterioration in the national economy is a key part of the Carlson/Dyrstad Administration's financial management strategy. It may even be desirable to increase the budget reserve, if possible, in order to provide adequate contingency funds against the present high degree of uncertainty in the economy.

According to the November 1990 forecast, Minnesota faced a projected shortfall of nearly $2 billion over the next two and one-half years. Portions of this shortfall have already been addressed through the baseline budget freeze and the Governor's recommended FY 1991 budget adjustments:

- The baseline budget freeze used to prepare the 1992-93 budget reduced the projected deficit by about $580 million by eliminating the traditionally automatic base budget increase for inflation. In effect, agencies are required to absorb any increased costs for salaries, goods or services in their base budgets through changes in program allocations or service delivery.

Table 4. 1992-93 Shortfall (millions)

1991-93 Shortfall	($1,986)
Baseline Budget Freeze	577
FY 1991 Adjustments	197
1992-93 Shortfall	($1,212)

- The Governor's recommended FY 1991 budget adjustments positioned the state to better achieve its longer-term restructuring goals during the next biennium. In order to minimize program impacts and leave major policy discussions for the biennial budget, the FY 1991 budget adjustments first focused on recapturing excess funding and uncommitted balances, and delaying or deferring uncommitted spending. In addition to these actions, nearly all program areas were targeted for some reductions, especially those areas which had access to alternative sources of funding. Some allowance was also made for high priorities of the new administration. Elementary/secondary education and environmental programs were largely untouched.

While these two actions have helped to position the state to meet the challenges of the next biennium, Minnesota still faces a projected shortfall of over $1.2 billion during the next two years. This represents nearly 8 percent of projected operating expenditures for the 1992-93 biennium (Table 4).

It is important to re-emphasize that both revenue and expenditure forecasts could change significantly depending on the course of the Middle East conflict, as well as the depth and length of the current national and regional recessions. As a result, the predicted $1.2 billion shortfall could increase when the March 1991 forecast is made.

Chapter 2

Restructuring Strategy

Minnesota can no longer afford to do business as usual. The people and businesses of this state, in an already uncompetitive environment, can not be asked to accept further increases in general state taxes in order to keep feeding past spending commitments. Hard choices must be made.

The Challenge and Opportunity

Minnesota must change course if it is to retain its ability to provide essential services to its residents and regain its competitive position within the regional, national and international economies. The two basic five-year goals for this budget are:

- Begin restructuring state government so that Minnesota can live within its means, and
- Implement the new vision of the Carlson/Dyrstad administration.

The new Finance Commissioner recently quoted "Pogo" when he said the state faced "insurmountable opportunities." The challenges are indeed great, but the opportunities are also great. Minnesota can not afford to allow these opportunities to slip by.

But, how can the state best take advantage of its insurmountable opportunities? And how can such a massive restructuring of state and local roles and fiscal relationships take place?

Where we want to be

The first step is to clearly articulate a vision of where we want to be, in order to establish a touchstone for the restructuring process. Restructuring must not become an end in itself; priorities must be clearly delineated. The priorities of the Carlson/Dyrstad Administration are clear:

- Education
- Children
- State-Local Government Restructuring
- Environment
- Economic Competitiveness

The key to achieving the new vision involves a redefinition of the state's role, and the adoption of a simple and direct theme for each program area. A specific restructuring agenda is outlined for each program area according to three general principles:

- <u>Outcome-based management</u>. Former Senator John Brandl recently offered the sobering thought that there is little relationship between what the state spends and what it gets. It is essential that any investment of public funds should pay for results, rather than costs. Government should strive to operate economically, but not at the expense of effectiveness.

  Most importantly, quality must be measured by the users of a service, rather than by the providers. This implies that government programs should emphasize the results of service to consumers, rather than the particular process or delivery system.

- <u>Targeting</u>. The State of Minnesota can no longer afford to do everything for everyone. State involvement must be targeted more judiciously. While many programs undertaken during recent years have considerable merit, choices are made in this budget on both what should be subsidized, as well as who should be subsidized. Hard choices. For example, in economic development, should the state provide direct subsidies or focus primarily on policies that create a healthy business climate?

  More targeting of subsidies must also be considered. Hundreds of millions of dollars are paid directly to cities each year for property tax reduction programs that do little to consider the ability of individual homeowners to pay for local services.

- Accountability. Accountability must be increased at both the state and local levels. Those responsible for making spending decisions and administering programs must also be responsible for making taxing and allocation decisions. This means that local governments must be both empowered to fund, and be held accountable for, local services.

Minnesota has an extremely complex system of mandated services and revenues, made up of state and local taxes and transfer payments. The entire system must be reexamined and changed to provide for more accountability in both taxing and spending decisions.

How we get there

Once we have agreed upon where we want to be, we must then define how to get there. The first goal is to survive the recession. During any period of economy uncertainty or decline, downsizing is a necessity. Private businesses have been scaling back their operations for some time. First Bank Systems recently reduced its workforce by 18 percent, and restructured its orientation to meet current and future economic challenges.

Major downsizing is proposed in this budget so that government can continue to be affordable and the state competitive. For some programs, permanent restructuring and redirection is called for; for others, only temporary downsizing or postponement of expansion to weather the recession.

Table 5. Proposed 1992-93 Budget and 1994-95 Baseline (millions)

General Fund Budget	FY1992	FY1993	Biennium 1992-93	Biennium 1994-95
Total Revenues	$7,204	$7,381	$14,585	$15,599
Total Expenditures	7,413	7,168	14,581	15,003
Ending Balance	(209)	213	4	595
Budget Reserve	550	550	550	550

Accountability also means that state program administrators must have the authority for, and be held accountable for, their decisions. The state must stop creating open-ended entitlements which do not allow for administrative accountability and serve as an open checkbook for the most rapidly growing components of its budget.

Mandates should focus on required outcomes, and state-required standards should be determined by those who manage local services. For each mandate, there should be a general waiver provision in statute that challenges service providers to meet program requirements in a more cost-effective manner.

A balanced budget is presented for 1992-93, along with baseline projections for a balanced 1994-95 budget (Table 5). Although there is an imbalance in revenues and expenditures during FY 1992 while cost-saving measures are phased-in, The budget is balanced at the end of the biennium. The budget reserve is used during the first year to meet cash flow needs, but is fully restored by the end of FY 1993.

The impact of spending "tails" is fully recognized. In addition, the four-year budget plan allows for the impacts of inflation on revenues and expenditures, reflects changes in clientele, and requires that all program tails be offset at the time the 1992-93 budget is adopted, either through revenue increases or matching base reductions within other programs.

It is important to recognize that the projected $1.2 billion shortfall does not mean that the state will spend less in the next biennium than in the current biennium. In fact, revenues are projected to increase by 4.6 percent from the FY 1991 base to the 1992-93 biennium, and are expected to grow by an additional 8.8 percent from the 1992-93 biennium to the 1994-95 biennium.

However, because the current FY 1991 spending base already exceeds this projected growth in revenue, the state faces shortfalls even before existing legal requirements are considered. Federal mandates, state-enacted spending tails and entitlement requirements already adopted into current law far exceed the projected growth in revenue (Table 6).

Table 6. 1992-93 Shortfall and Recommended Budget (millions)

	General Fund Budget		
	F.Y. 1992	F.Y. 1993	Biennium 1992-93
Projected Revenue Base	7,009	7,318	14,327
F.Y. 1991 Spending Base	(7,382)	(7,382)	(14,765)
Spending Gap	(374)	(64)	(438)
Current Law Requirements			
Education	(118)	(165)	(283)
Human Development	(148)	(262)	(409)
All Other	(43)	(40)	(83)
F.Y. 1992-93 Shortfall	(682)	(530)	(1,212)
Budget Recommendations			
Savings and New Initiatives	278	680	958
Property Tax Relief	-0-	(189)	(189)
Federal Conformity	39	45	84
New Taxes	91	99	190
Fees, Other	76	77	153
Dedicated Revenue	39	31	70
Reimburse Reserve	(50)	NA	(50)
Balance, Proposed Budget	(209)	213	4

Restructuring state spending will achieve a net $960 million in savings, which represents a 6.2 percent decrease from the 1992-93 baseline spending estimates. While overall spending will be reduced from the baseline, educational program priorities are maintained at current law 1992-93 baseline levels (Table 7).

Table 7. Proposed Budget: Comparison with Baseline Forecast (millions)

	General Fund Expenditures			
	1992-93 Baseline	1992-93 Gov. Rec.	$ Change	% Change
General Fund Program Area				
Elem/Secondary Education	$ 4,531	$ 4,536	$ 4	0.1
Post-Secondary Education	2,738	2,669	(69)	(2.5)
Human Development	3,810	3,636	(173)	(4.6)
Local Aids	2,215	1,576	(639)	(28.9)
Other Spending	2,245	2,164	(81)	(3.6)
Total Expenditures	$15,539	$14,581	$(958)	(6.2)

While overall 1992-93 spending will still increase in nearly all program areas over the current 1990-91 biennium, the 3.5 percent rate of growth is the lowest of the past two decades. In comparison, the November forecast indicated a 10.6 percent spending growth rate was expected, before the proposed restructuring (Table 8).

Table 8. Proposed Budget: Biennial Comparison (millions)

	General Fund Expenditures			
	1990-91	1992-93	$ Change	% Change
General Fund Program Area				
Elem/Secondary Education	$3,798	$4,536	$737	7.1*
Post-Secondary Education	2,623	2,669	46	1.8
Human Development	3,170	3,636	467	14.7
Local Aids	2,328	1,576	(753)	(12.1)*
Other Spending	2,047	2,164	117	3.8*
Total Expenditures	$13,966	$14,581	$614	3.5*

* Numbers actual, percentages adjusted for comparability.

Elementary and Secondary Education

Education is a top priority of the Carlson/Dyrstad Administration. The 1992-93 budget recommends increasing current total funding levels for elementary/secondary education, and reallocating funding within that total to certain high priority areas through new initiatives. In contrast with many other program areas, which have received actual reductions in funding, the recommended biennial budget for elementary/secondary education provides an increase.

This increase will allow districts to adequately accommodate projected enrollment growth of roughly 2.8% per year, and to undertake selected new program initiatives. The table below shows that the Governor's recommendations, in combination with local levy provisions already in statute, will provide a 5.3 percent increase in elementary/secondary revenues between FY 1991 and FY 1992, and a 6.4 percent increase between FY 1992 and FY 1993.

Elementary/Secondary Education

Enrollments and Recommended Funding

	F.Y.1991	F.Y.1992	F.Y.1993
Students(weighted)	830,112	852,980	876,569
Percent Increase	NA	2.8%	2.8%
Total Entitlement Funding (millions)			
State	$ 2,261	$ 2,302	$ 2,360
Local	1,545	1,704	1,902
Total	$ 3,806	$ 4,006	$ 4,262
Percent Increase	NA	5.3%	6.4%
Entitlement Funding per Student (millions)			
All Funds	$ 4,585	$ 4,697	$ 4,863
Percent Increase	NA	2.4%	3.5%
Operating Funds	$ 4,127	$ 4,240	$ 4,380
Percent Increase	NA	2.7%	3.3%

Where we want to be

The state's primary role in education is to ensure that Minnesota's children have access to adequate educational opportunities. Reaching this goal efficiently and effectively requires:

- establishing clear priorities and objectives,
- providing flexibility to professional staff to work toward those objectives in the manner they judge to be most appropriate, and
- providing an adequate and equitable funding system.

How We Get There

The Carlson/Dyrstad administration commends the State Board of Education, the University of Minnesota, and the State University System for recent efforts to focus attention on questions about what the objectives and priorities should be in an educational system preparing youth for a challenging and fulfilling life in the next century. These efforts must continue over the next year, and should culminate in a joint position statement by the State Board of Education and Minnesota's higher education systems establishing clear fundamental outcome priorities for elementary and secondary education.

Once those outcome priorities are established, the Carlson/Dyrstad administration believes that Minnesota's educators should be afforded flexibility in defining the most appropriate way to work with students and their families to meet these objectives. Site-based management will be encouraged to provide this flexibility, and efforts to improve educators' ability to work with students in this more flexible environment will begin in 1992, with funding for in-service teacher training in the methods of outcome-based educational systems.

The state is both legally and morally obligated to address inequities in the wealth of its many communities to ensure that instructional opportunities are equalized. The Governor's budget incorporates several improvements to the educational aid system to achieve equity goals and greater funding efficiency:

- Changes in the pupil weighing formula and an increase in the basic aid from its current level of $2,953 per pupil to $3,050 in F.Y.1992 and $3,050 in F.Y.1993 will be made to provide more funding for all programs and to direct more resources to the crucially formative elementary education years.

- The formula will incorporate an allowance for increased teacher preparation time for elementary schools.

- Improvements are also recommended for the training and experience component of the funding formula and the AFDC concentration factors used in the formula to provide compensatory education funding. Desegregation funding is continued.

- Funding for students at the Minnesota Arts High School will be established on the same basis as funding for students in other Minnesota high schools; funding for the resource center will be maintained.

- To bridge the gap between immediate needs for additional school funding and the increased biennial savings realized in the 1994-95 biennium from the proposal to restructure the state's local aid system, the Governor recommends changing the school levy recognition factor from the current 31% to 37%.

- A general 5% increase in school general revenue levies is recommended for taxes payable in 1993.

- The Governor is recommending partial equalization of school district referendum levies.

With specific regard to elementary education, a prevention/risk reduction program will be recommended to expand mental health services in elementary schools by increasing the number of student service professionals providing direct counseling to students and families. Incentives for the creation of school-aged child care and extended day programs will be provided by increasing funding support for existing programs.

In addition to K-12 education, the state must expand the support of early childhood programs, such as Head Start and Early Childhood Family Education, which have continued to demonstrate the effectiveness of longer-term payoffs which result from early intervention investments:

- The Early Childhood/Family Education Program will be expanded to enhance the ability of parents to provide for their childrens' learning and development during early years.

- Increased funding is also provided for early childhood health and developmental screening to assist parents and communities with the early detection of health and developmental barriers to learning, and to assist schools in planning educational and health programs for their children at risk.

- Pilot parent resource centers will also be funded to help consolidate and coordinate the many programs available for families.

Finally, the Governor's budget provides $3.8 million for the maximum effort school loan program in FY 1993 to fund the state's share of constructing new facilities in six school districts.

Post-Secondary Education

The proposed 1992-93 budget provides significant incentives for the state's four post-secondary education systems to begin restructuring and coordinating their missions and programs.

Proposed Budget (millions):

Post-Secondary Education Funding

	F.Y.1991	F.Y.1992	F.Y.1993
Student Aid	$ 86.6	$ 89.6	$ 89.6
HECB Administration	3.5	2.9	2.9
Mayo Medical	1.1	1.0	1.0
Institutions:			
State Funds	$ 915.5	$ 859.2	$ 859.1
Tuition & Other	348.4	376.6	387.1
Total	$ 1,263.9	$ 1,235.8	$ 1,246.2
Total:			
State Funds	$ 1,006.7	$ 952.7	$ 952.6
Tuition & Other	348.4	376.6	387.1
Total	$ 1,355.1	$ 1,329.3	$ 1,339.7
Percent Change From F.Y.1991		(1.9%)	(1.1%)

Where we want to be

Enacting change in the higher education system is extremely complicated as a result of the number of independent and competing systems and campuses. Numerous studies have been completed in recent years addressing access and quality, but little attention has been paid to the efficiency or effectiveness of the overall higher education system. In addition, many of the reviews have looked only within each system, rather than taking a coordinated approach throughout the overall higher education complex.

Another complication involves the relatively long lead time necessary to achieve reform. Commitments to staff and students generally require at least a one to four year time period before any change can take place. Nevertheless, restructuring must be initiated now.

The Carlson/Dyrstad administration recommends setting a goal for the University of Minnesota, the State University System, the Community College System, and the Technical College System to jointly develop plans during the next year to focus their missions, eliminate program duplication, clarify program responsibility, reduce administrative costs, and improve the efficiency and effectiveness of the whole higher education system in Minnesota. The administration and faculty of the University of Minnesota are to be commended for the singular leadership they have already shown in addressing these issues.

How we get there

In order to achieve a more concrete vision of higher education reform, the Governor will appoint a Commission on the Future of Post-Secondary Education. The Commission will define a new vision for higher education, detail appropriate mission differentiation, identify the need for individual systems, specify which institutions are necessary in each system, define appropriate programs, and suggest specific strategies to meet budget targets. A two-phased project will take place, with initial principles identified before the end of the 1991 legislative session, and the full report will be prepared by late summer for FY 1993 budget planning.

For F.Y.1993, a $10 million savings target is established as a Commission goal to be reached through a combination of changes that may include system merger and the implementation of resource sharing plans. A strong incentive is provided for the higher education systems to implement the Commission recommendations. The Governor's budget proposes reducing the systems' FY 1993 appropriations by 10% and holding that amount in an escrow account until the recommendations are adopted.

In addition to establishing the Commission on the Future of Post-Secondary Education, the Governor recommends changes in the funding of higher education for the next biennium:

- In order to keep higher educational opportunities accessible to students, the Governor strongly recommends that increases in tuition should be limited to the rate of inflation (currently estimated to be 3.7% for FY 1992 and 3.2% for FY 1993) It is further recommended that the systems set aside a portion of any tuition increases they impose in excess of inflation for additional student financial aid.

- Prior to adoption of the new higher education plan, it is recommended that full average cost adjustments be eliminated, and that marginal cost funding adjustments be provided for the two-year systems. Consistent with their missions and plans, neither the University of Minnesota nor State University System would be penalized for reducing enrollment.

- Tuition subsidies for nonresident and nonreciprocity students are eliminated. Systems would retain spending authority to collect tuition at full cost for these students.

- General appropriation reductions are also recommended for the 1992-93 biennium, prior to implementation of the Commission plans. No differentiation is suggested for funding of instructional and non-instructional activities. In combination with appropriation reductions of approximately 6% and anticipated inflation-related tuition adjustments, this proposal should result in a decrease in total institutional budgets of only about 2% from the 1992-93 budget baseline.

Local Aids/Property Taxes

Minnesota has an extremely complex system of local aids, transfer payments and taxes which must be restructured to provide more accountability. The proposed 1992-93 budget recommends a comprehensive realignment of the state-local financial relationship, to make local governments less dependent on undesignated state aids, enhance local revenue capacity and flexibility, and reduce excessive mandated costs and responsibilities.

Proposed Budget (millions):

Local Government Funding

	F.Y.1991 C.Y.1990	F.Y.1992 C.Y.1991	F.Y.1993 C.Y.1992
General Aids	$ 853	$ 667	$ 169
Net Levies	1,781	1,937	2,222
Sub-Total	$ 2,634	$ 2,604	$ 2,391
Other State Paid Aids	1,109	1,097	1,106
Income Maint. Adjst.	(120)	0	0
Federal-Direct	124	124	124
Other Local Source	1,280	1,280	1,280
Total	$ 5,027	$ 5,105	$ 4,901
Percent Change		1.5%	(4.0)%

Where we want to be

The complex system of direct local government payments and indirect local property tax relief programs have compromised local accountability and rendered local officials dependent on, and vulnerable to, state-wide economic trends and changes in statutory funding policies.

The cord must be cut, and a better partnership formed. While the state has an interest in ensuring that "basic" local services are available to all of its residents, it can not continue to fund nearly one-third of all city services. Although Minnesota has an interest in equalizing basic health and safety services, such as police and fire, there is no compelling reason for the state to provide funding for many other non-essential services. These should be local options.

Because of the "grandparent" clauses in many of the current funding laws, it is not clear what local government services are actually being funded by the state. This causes intense competition among local units of government to gain greater amounts of state revenue.

Local governments complain that the state often mandates programs without paying for the costs. On the other hand, state lawmakers believe the current system encourages spending because state aids mask the true costs of local decisions. This intricate system of mandates and transfer payments must be examined and restructured to accomplish legitimate statewide priorities, while making each taxing authority accountable to the Minnesota citizens who pay the taxes.

With the current system, local governments levy and collect less than one-third of all state and local taxes in Minnesota. In comparison, they make spending decisions for over two-thirds of all state and local programs.

The Legislative Auditor has documented a direct correlation between the high degree of local aid with the high degree of spending in Minnesota. It is not in the state's interest to continue to fund police and fire services which far exceed the average for comparable communities, nor to fund "optional" programs, staffing levels and pay scales for local agencies who wish to offer higher levels than other communities.

The problem is not irresponsible local government spending. Most cities and counties are responsible partners with the state. The problem is the system. Changing the state-local fiscal relationship will be painful as all Minnesota government agencies define the new vision. Nevertheless, change must, and will, take place.

Aid must be targeted through a local matching formula to recognize state mandates, and to those communities that do not have adequate capacity for meeting their citizen's needs. More fundamentally, property tax relief should be provided directly to taxpayers, based on their ability to pay.

Access to funding must also be provided to local governments. State imposed property tax levy limits must be removed immediately if local officials are to be held accountable for their spending and taxing decisions. At the same time, Minnesota's intricate and confusing property tax system must be reformed. The number of classifications must be reduced, confiscatory commercial and industrial tax rates must be lowered, and the circuit breaker program must be expanded to lower effective residential tax rates for citizens with modest incomes.

How we get there

The Governor is committed to working closely with the Legislature to develop a reform package for local aids and property taxes. This budget proposes an initial framework for the discussion.

Any intergovernmental aid restructuring must also incorporate property tax reform. It is proposed that all property be assessed at full market value; the use of the property will determine its relative tax burden according to a one-class system, with selected exemptions. This approach will assure greater fairness in the distribution of the property tax burden between different types of property, and enhance the state's job competitiveness by providing needed tax relief to business property. Reduction of the number of property tax classes will also greatly simplify and facilitate understanding of the system. Greater equity will also be provided by reducing the disparity in taxable tax capacity between school districts and other communities.

In combination, it is recommended that the state's primary policy for providing property tax relief should shift from HACA to the property tax refund program. The state's commitment to provide property tax relief would continue, but the mechanism would target payments directly to households which have relatively high property taxes and little ability to pay.

Intergovernmental aid restructuring will be addressed by the Dyrstad Commission, which has recently been empaneled to evaluate the overall state-local fiscal relationship. Similar to the higher education restructuring commission, this group will define a specific program within various general principles. The overall objective of the recommended restructuring is to make local governments less dependent on undesignated state aids, enhance local revenue capacity and flexibility, reduce excessive mandated costs and responsibilities, and improve accountability.

Specifically, the current Homestead, Agricultural Credit Aid (HACA) and Disparities Reduction Aid (DRA) systems would be eliminated, and city Local Government Aid (LGA) would be more targeted. An equalization formula for mid and smaller-sized cities would be developed to better relate funding needs for basic life and safety services with the capacity to raise revenue. Greater emphasis would be placed on program or categorical aid for larger cities where the state has a greater vested interest in selected infrastructure, housing, economic development and social policies.

In order to expand opportunities for alternative revenue sources, regional areas could be provided access to local option taxes, and all communities could be authorized to levy a pay-in-lieu fee on selected tax exempt properties.

Levy limits would be removed for both cities and counties effective in 1992, and mandated costs would be reduced or eliminated for responsibilities primarily affecting county governments. Truth-in-taxation would continue. Local government cash flow would also be improved by changing the existing property tax collection and distribution schedule.

The overall affect of the proposed intergovernmental aid restructuring would be to make the state a more effective and reliable partner with its local governments by enhancing accountability and simplicity, providing greater local control over local revenue sources, reducing mandates, and implementing an aid program based on need, capacity and specific program or functional requirements.

Human Development

The proposed 1992-93 budget incorporates recommendations to initiate a comprehensive restructuring of human development services. Emphasis is given to prevention and intervention service programs for children and families. Additionally, alternatives to institutional care for the disabled and the frail elderly are encouraged.

Most importantly, the state must limit the number of open-ended liabilities that compromise administrative accountability through the preemption of fiscal responsibility. Instead, the budget recommends placing a cap on certain state funded programs, with appropriate mechanisms in place to provide agency administrators with the flexibility to stay within appropriations.

Proposed Budget: Biennial Comparison (millions)

Human Development Program Expenditures

Department	FY1990-91	FY1992-93	$ Change	% Change
Human Services, Department of				
Economic Support	355.1	407.7	52.6	14.8
Health Care	1,329.9	1,679.0	349.1	26.3
State Residential Facilities	454.0	460.1	6.1	1.3
Community Social Services	102.0	103.2	1.2	1.2
Other Major Local Assistance	124.2	148.4	24.2	19.5
Other Human Service Programs	144.0	171.5	28.1	19.5
Jobs and Training, Department of	74.9	68.9	(6.0)	(8.7)
Health, Department of				
Community Health Services	29.1	29.4	.3	1.0
Other Health Services	61.4	65.8	4.4	7.2
Veterans Nursing Homes	40.5	51.4	10.9	27.0

Where we want to be

For human services, the most rapidly growing area of state expenditures, the appropriate role of the state is to ensure that an adequate safety net is in place to protect and to provide preventative services to vulnerable citizens, especially children, during recessionary times. The Carlson/Dyrstad budget moves the state in the direction of greater commitment to non-institutional human services delivery and a focus on preventive services. An emphasis is also placed on health care cost reductions, especially in the scope of services provided to individuals.

How we get there

Restructuring efforts focus on long-term care expenditure reductions by supporting low-cost alternatives to nursing homes and group homes for the developmentally disabled. Keeping elderly and disabled persons in or close to their own homes and communities is a strong theme throughout this budget. Expanded independent community living opportunities will be provided for persons with mental illness. Regional Treatment Centers (RTC) and State Operated Community Services (SOCS) programs are restructured, and units closed, where appropriate, over the next five years.

These budget recommendations reflect the philosophy that the state should be a provider of institutional care only when no other options are available. Efforts are made to encourage private providers to develop the capacity to care for people needing non-institutional and appropriate institutional services. In those cases where the state is the appropriate provider of last resort, community-based, low cost alternatives are encouraged to be developed for institutional care.

The budget includes proposals to reduce overall long-term care costs through increased spending on the alternative care grants program, funding new independent living initiatives and using independent evaluators to assess service requirements. One major initiative will empower consumers to choose their own provider services within spending caps. This approach will shift institutional cases to intermediate settings and refocus providers on services to clients, rather than service of the bureaucracy. Other initiatives require greater obligations of families with the ability to pay, and target aid for the most needy families.

Initial efforts are made to address the health care access problem in order to ensure that adequate and appropriate care is provided for all Minnesotans. The Carlson/Dyrstad budget retains the current levels of eligibility in the state's health care programs. Recommendations address the need to expand the state's managed care efforts in the Medical Assistance Program. The General Assistance Medical Care Program is restructured to limit the scope of services to most individuals eligible for the program. The budget includes funding sufficient to cover all of the requests received for family planning services in the 1990-91 biennium. In consideration of the public health effects associated with tobacco and alcohol use, increases in the cigarette tax and alcoholic beverages taxes are being recommended.

The Governor commends the public and private groups which have examined the issues of health care access and health care reform. The Governor believes that expending access to basic health care for the uninsured is of great importance to the citizens of Minnesota. In recognition of the state's fiscal condition and pressures to limit implementation of major new programs requiring significant and ongoing resources, the Governor's recommendations serve as a first step in what will be a continuing effort to expand access to basic health services.

The income maintenance program takeover from counties will continue to be funded by the state. This takeover of county costs began January 1, 1991 and covers the total cost of most of the health care and income support programs where state mandates leave little room for optional county spending decisions.

A continued commitment to the Minnesota Family Investment Plan is included in this budget. The demonstration program emphasizes client movement toward self-support by enabling families to increase their income through work. Restructuring of both General Assistance and Work Readiness Programs are recommended in order to increase management accountability for results. The Commissioner would be granted the authority to adjust eligibility to stay within appropriation amounts. In effect, administrators would be held accountable for proper service provision within set appropriations. Funding is also provided for a targeted rental subsidy program to be administered by the Minnesota Housing Finance Authority.

Investments are increased in early childhood programs through funding recommendations for new initiatives. Overall coordination is enhanced through a recommended analysis of the administration, planning and service delivery system, and by better integration of the various agencies which address childrens services. Expansion of the "Families First" program is recommended. This demonstration program provides family-based services to prevent out-of-home placement of children at high-risk. The budget will double the number of counties participating in this project. Current levels of funding for the Women, Infants and Children (WIC) program, which provides nutritional supplements, will be maintained.

The state's fiscal commitment to Head Start will increase, thereby serving a greater portion of eligible children. The Childrens Health Plan is fully funded. Increases in child care funding are recommended, and the Way to Grow program is continued through an appropriation to the Department of Education after Year of the Cities grants are phased-out.

Reductions in general fund financing of Housing Finance activities are made through selected program cut-backs in the Indian Housing and Rehabilitation Loan programs. Within Jobs and Training, funding is maintained to ensure matching federal grants, and high priority childhood programs, but efforts are made to reduce reliance on general fund sources. Funding for Vinland Center Special Projects and the Hospitality Hosts programs are permanently eliminated. In Jobs and Training, a 4% general fund reduction is equivalent to less than 1% of total program funds, since most activities are funded with non-state revenues.

The Special Dislocated Worker Fund is phased-out by FY 1993. This fund was created by the 1990 legislature, and is funded by a one-tenth of one percent assessment on all wages paid by employers. One-half of the FY 1992 funding is retained in the program, with the remainder returned to the general fund. Effective in FY 1993, the special payroll tax is eliminated.

Veterans home activities continue to be supported at current levels, although cost management measures are increased for existing long-term care facilities. The Silver Bay and Luverne home commitments are honored, but no new facilities should be approved.

Chapter 7

Environment and Natural Resources

The environment and natural resources are also a high priority of the Carlson/Dyrstad Administration. The proposed 1992-93 budget calls for the maintenance of current funding commitments and certain increases in core programs. A comparison of the 1990-91 biennium with the Governor's 1992-93 proposals for the principal environmental agencies indicates a major increase in overall funding.

growth of fees deposited in the Environmental Fund.

- Two full years of funding based on the provisions of the SCORE legislation is recommended. The projected growth in the budget of the Office of Waste Management reflects the additional SCORE money, nearly all of which will continue to be allocated or granted to local units of government.

Proposed Budget: Biennial Comparison (millions)

Environment and Natural Resources Funding

Agency	1990-91 Biennium Gen. Fund	1990-91 Biennium All Funds	1992-93 Biennium Gen. Fund	1992-93 Biennium All Funds	% Change Gen. Fund	% Change All Funds
Pollution Control Agency	$ 26.6	$109.7	$ 24.0	$127.8	(9)%	17%
Office of Waste Management	29.8	31.7	39.4	42.9	32%	35%
Department of Natural Resources	180.0	354.6	177.2	371.1	(2)%	5%
Board of Water Soil/Resources	15.1	15.1	15.7	17.2	4%	14%
Totals	$251.5	$511.1	$256.3	$559.0	2%	9%

While the projected 2% growth in resources from the General Fund is less than the estimated rate of inflation, the recommended growth in all available funds for environmental and natural resources programs is $48 million, or 9%. Several factors account for this pattern of expenditures:

- Continued growth in revenues and expenditures in certain dedicated funds in the environment area are not subject to the same revenue shortfall as the General Fund, such as the Game and Fish Fund and the Natural Resources Fund.

- Financing a much greater share of the budget of the Pollution Control Agency is recommended from fees, and a lesser share from the General Fund. The provisions of the Federal Clean Air Act account for a large portion of the

- The budget recognizes the deposit of significant lottery receipts in the Environmental Trust Fund. Allocations from the Legislative Commission on Minnesota Resources (LCMR) show up in the budgets of the above agencies. A significant part of the growth in the budget of the Department of Natural Resources, and nearly all of the growth in the budget of the Board of Water and Soil Resources, are accounted for by LCMR allocations.

Where we want to be

Although environmental protection is a high priority, greater targeting must take place. In addition, with growth in dedicated funding, it is less appropriate that the general fund should continue to fund expanded or new programs and projects in this program area. Reallocations of dedicated funds should take place to recognize changing priorities within environmental and natural resources programs.

How we get there

The emphasis of the 1992-93 budget on the environment and natural resources program area is to increase funding of traditional programs, while encouraging the reallocation of available dedicated funding sources to support new initiatives.

The first priority of the Carlson/Dyrstad administration in the environmental program area is passage of a no net loss wetlands bill. The Governor supports the basic regulatory framework set out in House File 1, and will continue to work closely with the authors and Legislature to craft the best possible bill. Annual wetland losses of roughly 5,000 acres are no longer acceptable. Wetland areas provide valuable flood storage, groundwater and stream flow recharge, and pollutant filtering benefits.

Properly managed, wetland areas also provide excellent fish and wildlife habitat. The Governor believes the state should include wetland areas in the RIM Reserve program, which has an excellent record of providing incentives to landowners to preserve and develop private lands for fish and wildlife. The wetlands bill should include provisions creating new eligibility criteria for type 2 wetlands, the inland fresh meadow areas most in danger of being drained.

This major new commitment to enrolling wetland areas in RIM would be financed by a $50 million bonding authorization spread over several years. The regulatory costs of House File 1, as well as debt service for the bonding program, can be financed by a $5 million annual increase in water user fees. This approach has the advantage of financing wetlands/RIM objectives, providing enhanced incentives for conservation of invaluable water resources -- all at no net cost to the General Fund.

It is recommended that the SCORE program be maintained at the current level of funding. Any SCORE receipts above that level of commitments, will aid in balancing the general fund. This funding level will still provide nearly $40 million in funds for SCORE activities during the 1992-93 biennium.

An increase in Superfund resources is also recommended through a transfer of unobligated balances in the Waste Tire Program, pending further study of the funding needs and source of funds for this important program.

A phase-out of dedicated funding sources which are not related to environmental activities, such as the cigarette tax, is also recommended. Although the Governor's budget leaves sufficient revenues to finance the recommended allocations by the Legislative Commission on Minnesota Resources (LCMR), it is appropriate that the cigarette tax funding be phased-out over time. The state's financial outlook requires measures to broaden the base of general fund receipts in order to achieve more stability. Undedicating a revenue source which is not related to proposed expenditures helps to meet this objective.

It is also recommended that direct subsidies to local governments where no mandates exist should be eliminated. County forestry grants and payments in lieu of taxes for tax-forfeited lands would be reduced, but these counties would still receive receipts from land and timber sales on tax forfeited lands. BSWR well sealing grants would also be eliminated and the Board would work with local water management authorities to explore alternative methods of sealing priority wells. These actions are comparable with the many other reductions in direct local grants recommended in the budget for other program areas.

The Governor is committed to the preparation of a Generic Environmental Impact Statement (GEIS) to properly plan for use and development of the state's forest resources. The State Planning Agency has $200,000 budgeted for this purpose. Funding beyond this level from the general fund is not currently available. The Legislature should consider how research issues and funding recommended by the LCMR could be coordinated to complete additional phases of this important study.

Funding responsibilities will also be shifted from the general fund to PCA fees. Permitting and enforcement costs for hazardous waste, solid waste and water programs will be funded more through fees and less from the general taxpayer. Newly authorized EPA air emissions fees will be phased in over a three-year period, beginning in FY 1992. Improved monitoring and service capabilities will also be implemented, with the transfer of 60 employees to regional PCA field offices.

It is recommended that reorganization of environmental agencies be studied by CORE to achieve greater service delivery efficiencies, eliminate duplication and promote greater field service where resources are located. The functions of the Minnesota Pollution Control Agency (MPCA), Office of Waste Management (OWM), Department of Natural Resources (DNR), Board of Water and Soil Resources (BWSR), Environmental Quality Board and others will be reexamined. These agencies need to provide a standard of service that maximizes environmental protection while enabling a level of regulation that allows continued economic prosperity.

Chapter 8

Economic Development

Although it is a relatively small area of total state spending, major restructuring efforts are suggested in the 1992-93 budget for the economic development program area to better focus the state's role. A comparison of spending for the current biennium and the Governor's recommendations 1992-93 illustrates the significance of the change.

Proposed Budget: Biennial Comparison (millions)

Economic Development Funding

Department	1990-91 Biennium	1992-93 Biennium	Difference	% Change
Department of Trade and Economic Development	$ 75.9	$ 56.4	19.5	(26)%
Greater Minnesota Corporation	36.5	24.0	(12.0)	(34)%
World Trade Center	2.2	0.0	(23.0)	(100)%
TOTALS	$114.6	$80.4	(34.2)	(30)%

The Governor's 1992-93 budget represents a 30% reduction in general fund spending in the economic development area compared with the current biennium.

Where we want to be

The state's role in funding economic development programs must be scaled back dramatically. The general goal of "jobs" cannot continue to be used to justify every program of questionable effectiveness which is proposed for any economically depressed community. The future role of the state must be more focused.

First, the state must concentrate on improvements in the overall business climate that enable and encourage private companies to start-up and expand. Reform of the state's antiquated and inequitable system of workers compensation is first on the list. Minnesota's punitive commercial and industrial tax structure must also be reformed to reverse its deteriorating competitive position in the upper midwest. It is only necessary to look at Wisconsin for a model of a state which has been successful in nurturing its economic development through more targeted intervention and improvements in overall business climate.

Finally, Minnesota must consolidate the activities of multiple agencies which deal with economic development. If the state is to effectively target its limited resources to encourage economic development, programs must be streamlined and coordinated to avoid duplication of efforts and gaps in existing services.

Public subsidies must be limited to the stimulation of private investment to meet identified needs, and they must be provided in a way that does not produce on-going business welfare programs. Similar to human development efforts, economic development programs must promote self-sufficiency, instead of continued dependency.

How we get there

With the 1992-93 budget recommendations, the state's role is refocused from direct subsidies to general improvements in the business climate. The first priority of the Carlson/Dyrstad Administration is reform of the workers' compensation system to help restore Minnesota's regional competitiveness. Proposed legislation calls for inequities to be reduced, and premium costs to be lowered. Claims and litigation procedures would be streamlined, medical costs controlled through a managed care system, benefit eligibility redefined, coordination with social security disability benefits required, automatic benefit increases limited, and caps considered for total litigation fees. It is recommended that reform take place with no fiscal impact to state government.

Available resources are used to emphasize job retention. Privatization will also be encouraged where appropriate, so that the state is not unduly subsidizing industry activities which should be self-supporting.

Specific strategies will focus on business climate improvement and minimize direct local subsidies. The Economic Recovery Program will be focused on the stimulation of private investment, and a Forward Minnesota Program will be established to more aggressively market the state to prospective employers. Tourism joint venture grants will continue, but be reduced to previous levels, and the Motion Picture Board direct state subsidies will be phased out by FY 1994.

Direct local government subsidies will also be phased out, with funding responsibilities transferred to appropriate local and regional agencies. For example, it is more appropriate that metropolitan park funding should be the responsibility of the Twin Cities metropolitan area, rather than the state. Similarly, the IRRRB represents a regional resource that should be looked to first, before general state assistance is sought.

It is also not appropriate that the state should continue to fund the debt service for selected local projects, especially considering its already over-extended debt service load. URAP grants will be phased out by FY 1994, and the Inventors Congress and Project Innovation will be referred to GMC for possible funding after direct state subsidies are eliminated.

Finally, overall economic development activities will be downsized as missions are redefined. The state subsidy for the World Trade Center will be eliminated.

The Governor recommends that all lottery receipts currently dedicated to the Greater Minnesota Corporation should be permanently credited to the general fund. Further, a direct appropriation of $12 million per year should be made to GMC, pending a review of program effectiveness. GMC's programs must be able to meet effectiveness standards similar to those required of other state programs.

Crime and Courts

The criminal justice system in Minnesota involves a highly complex web of local, state and federal agencies. The state's financial share of this system has been growing since 1989, with efforts to redefine the state-local relationship through state financing of major portions of the trial courts and public defender services.

The proposed 1992-93 budget honors current legal commitments to state financing of the state mandated portions of the court system, but does not recommend expansion.

Current and Proposed Budget: (millions)

Court Takeover Funding

	FY 1989 Actual	FY 1990 Actual	FY 1991 Estimated	FY 1992 Proposed	FY 1993 Proposed
Trial Courts	$19.9	$22.6	$32.3	$42.7	$51.5
Public Defender	2.9	2.7	19.8	20.8	20.8

Although Minnesota has one of the lowest rates of incarceration in the country, it has not been immune from the national trend to incarcerate more offenders for longer periods of time. In 1981, the average inmate population in state correctional facilities was 1,919. In 1990, it was 3,093, an increase of over 60 percent. By the end of FY 1995, current estimates project a population of 4,002.

The proposed biennial budget provides $36.2 million for increased funding to address this growing prison population, but recommends no expansion beyond current institutions. In addition, a $7.1 million increase in local funding to Community Corrections Act (CCA) counties is recommended as an incentive to house less serious offenders locally, thus preserving scarce prison space for the most chronic and dangerous offenders.

Public Defense caseloads have also been rising dramatically. It is estimated that 95% of criminal defendants are determined to be indigent and assigned a public defender.

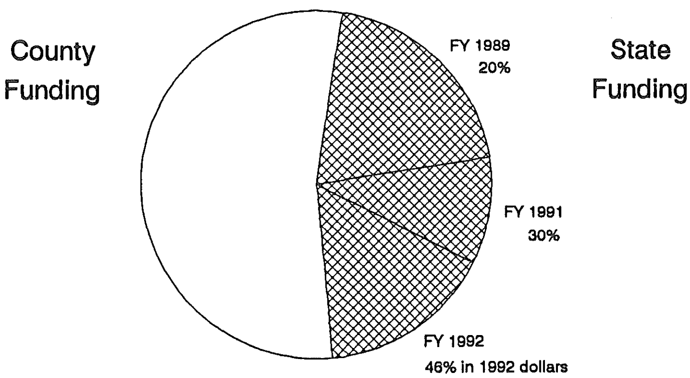
Where we want to be

Because of the state's sentencing guidelines system, which prescribes fixed terms of imprisonment, the state has limited discretion to deal with rising prison populations and costs. Nevertheless, inmate growth must be accommodated in the most cost-effective manner possible. Investments in new facilities must be curtailed, with state prisons reserved for the most serious offenders. Doing so will require the availability and the use of alternative sanctions at the local level.

Funding for the state's takeover of the local judicial system has been offset in the past by corresponding decreases in local HACA aid. With the commitment to date, the state has reached a logical and prudent balance of state and local cost sharing. By the end of the biennium, approximately one-half of district court costs will be state funded. To insure financial accountability, local administrative costs should remain the responsibility of local governments. Those functions most closely related to the judiciary, such as law clerks and court reporters, should be state financed.

Impact on State / County Burden

FY1989 - FY1992



The 1992-93 budget proposes continued state funding for the public defense of felony and gross misdemeanor defendants statewide, and juvenile and misdemeanor defendants in the 2nd, 4th, and 8th districts. However, no expansions are proposed at this time until statewide needs can be addressed, especially for juvenile case loads. In addition, there are concerns about whether the State Board of Public Defense should be accountable for costs that are not completely under their control, such as locally negotiated salary settlements for certain public defenders that the state must fund.

How we get there

Managing the complex criminal justice system requires state and local cooperation and better accountability. The proposed budget acknowledges that shared responsibility by providing significant state funding for services which were previously paid by local agencies, while also encouraging increased local financial accountability.

Careful management of existing prison resources is recommended. The state will not build any new prisons, but will instead maintain the existing facilities, expanding those where possible to meet the projected population increase. New units will be carefully phased to minimize the state's cost of any excess capacity. Doing so will delay the opening of two units at Lino Lakes by one year, and continue the temporary housing of women at Moose Lake until the 1994-95 biennium expansion at Shakopee. Despite a population increase, the department will freeze expenditures for positions that are not security-related.

The proposed budget supports local accountability for effective local corrections and provides $7.1 million to CCA counties to expand their use of intermediate sanctions, that is, those sanctions which are stricter than probation, but less severe than incarceration. This will, in turn, free up jail space and allow counties to keep locally those "short-termers" now sent to state prisons. To encourage the development of these alternatives, a per diem is proposed to be charged to counties which choose to use state prisons for inmates sentenced to less than six months in F.Y. 1992, and less than one year in F.Y. 1993.

Many judges now make use of a wide variety of intermediate sanctions, such as alternative correctional programs. Encouraging their use statewide in a consistent manner will require the development of non-imprisonment guidelines by the Sentencing Guidelines Commission.

This budget proposal maintains current commitments to programs providing victims services. In addition, a state-wide system of detention alternatives for juveniles is funded. This system will meet federal requirements and free up jail space now used by juveniles for adult offenders.

The 1992-93 budget proposes that the state finance those existing commitments which are most appropriately state funded, such as judges' salaries, systems, law clerks and court reporters. Although judicial policy is set at the state level, much of the day-to-day activity is managed locally. Continued local funding for local court administration is recommended, since these expenses can be most effectively controlled locally.

In the area of public defense, no further increase in state financing is proposed at this time. There are accountability questions that need to be addressed, such as the questionable practice of state funding for locally negotiated contracts for certain public defenders.

While the judicial branch has normally had their salary obligations fully funded through the salary supplement, this budget does not propose a salary supplement. However, recognizing existing commitments, the 1992-93 budget does include funding for the salary increases for judges and constitutional officers effective January 1, 1991. No funding is provided for any other increases set by the Compensation Council.

Transportation

The Governor's proposed budget for 1992-93 maintains the state's traditional commitment to transportation funding. In the next biennium, the state will spend nearly $2.2 billion on transportation projects and programs.

More than 95% of the transportation budget is presently derived from non-general fund sources, which are expected to increase. As a result, the Governor's 1992-93 budget recommendations call for permanent retention of Motor Vehicle Excise Tax (MVET) revenues in the general fund.

Although the elimination of MVET as a highway funding source may cause some construction deferrals, the overall funding for the Department of Transportation will increase in the 1992-93 biennium. This is due to natural growth in the traditional funding sources and anticipated additional federal funds.

$285.8 million in the 1992-93 biennium. These resources are largely federal funds which are allocated to Minnesota and distributed to the counties and cities.

The Governor's budget continues transit and ethanol subsidies through a direct appropriation from the general fund and caps the ethanol subsidy, not to exceed $2 million per year. In addition, the Governor proposes that light rail transit grants be eliminated and non-metro subsidies for transit programs be reduced.

Where we want to be

With the exception of MVET, nearly all transportation revenues are constitutionally or statutorily restricted. The dedication of these funds severely limits the ability of the Governor and Legislature to address crisis situations and changing priorities over time.

Proposed Budget: Biennial Comparison (millions)

Transportation Funding (All Funds)

	1990-91 Biennium	1992-93 Biennium
General Fund	10.7	15.3
MVET	43.6	-0-
Trunk Highway Fund without MVET	1,430.6	1,491.9
County State Aid Highways	482.3	482.0
Municipal State Aid Streets	125.4	133.0
State Airports	29.4	35.6
Other Funds	29.2	1.9
Total	2,151.2	2,159.7

The Trunk Highway fund includes federal reimbursements of $429.7 million in the 1990-91 biennium and $491.0 million in the 1992-93 biennium. In addition to the state funds listed above, MNDOT's budget includes federal funds of $330.0 million in the 1990-91 biennium and

The Governor's budget proposes that the 30% of MVET revenues which are assigned to the Trunk Highway Fund should no longer be dedicated. Funding decisions for highways and transit over and above the present level of constitutionally dedicated funds should be considered along with all other general fund priorities.

How we get there

This budget recommends that all MVET proceeds be permanently retained in the general fund. MVET highway revenues represent a minor portion, less than five percent, of total resources available to fund transportation projects and programs throughout the state. It is expected that MN DOT will be able to absorb a large portion of these reductions internally through reductions in non-road construction, deferral of central office building planning, position freezes and other adjustments.

Under current law, all MVET revenues are already scheduled to be used solely for state highway construction projects beginning in FY 1992. This action will have no impact on current or future county and city road projects.

It is further recommended that the current state subsidy for ethanol production be continued with a maximum annual payment not to exceed $2 million. Also, this subsidy should be considered within an overall energy policy, which has yet to be developed.

For transit financing, it is recommended that the dedicated MVET transfer for transit operations also be eliminated, but that all transit subsidies be directly funded from the general fund. This approach will ensure that transit subsidies are subject to the same type of trade-off analysis as all other state programs. It is also recommended that direct funding of light rail transit (LRT) be eliminated, since counties already have the authority to levy a property tax for these purposes. In addition, it is recommended that non-metro transit subsidies be reduced.

Chapter 11

General Government

The General Government program area is composed of the Legislature, Constitutional Officers, the staff departments of Finance, Employee Relations, Administration, and State Planning, and many other medium sized and small agencies. It accounts for approximately 5% to 6% of the total general fund budget. The large number of small and medium-sized organizational entities in this area has confused lines of responsibility, and has compromised accountability, with a large number of agency heads reporting directly to the Governor.

To address this problem, the Governor proposes to create a two-year public/private sector Commission on Reform and Efficiency (CORE) to identify immediate cost savings in state government, and to recommend long-term actions for improving state government efficiency and effectiveness.

Where we want to be

Basic organizational reform is necessary throughout state government agencies. Management flexibility should stimulate innovation, and performance incentives should be provided to help achieve desired results. The entire organizational structure of state agencies must be reviewed. The CORE Commission will undertake three major tasks:

- Recommend changes in current state government operations that will produce immediate savings and improved accountability.

- Recommend investments in new systems and technology to improve state government management and operations, and produce long-term savings.

- Recommend alternative strategies for delivering government services, including a major restructuring of state government to streamline service delivery, reduce costs and improve accountability.

The CORE Commission initiative has targeted net savings of $10 million in FY 1993, and will be coupled with a mandatory across the board reduction to selected state agencies if the commission recommendations are not met.

How we get there

Similar to other program areas, the appropriate state role in general government agencies will be redefined. The long-term plan to accomplish this goal will be developed by the CORE Commission. Short-term actions for balancing the current budget must fit with the ultimate goals of this long-range plan.

Within this context, the Governor recommends actions in this budget which will refocus and clarify the roles of state government vs. non-state entities:

- Discontinue local labor management grants from the Department of Mediation Services to local labor management committees. The grants are used to establish and coordinate work site committees in the private and public sector. This recommendation does not eliminate the program, just the direct state grants to the local areas.

- Discontinue public broadcasting grants to public TV and radio for operations and equipment. These are matching grants amounting to $4.8 million for the biennium.

- Discontinue Community Resource (Year of the Cities) grants of $7.1 million for the biennium to the Cities of Minneapolis, St. Paul and Duluth for various human development needs of intercity neighborhoods. Certain priority children's programs, such as Way to Grow, will be transferred to the Department of Education; other programs referred to the new categorical local aid program.

- Cap at the FY 1991 level, the state's amortization subsidies for both the Minneapolis Employees retirement fund (MERF) and other local pension systems.

- Discontinue the FY 1989 increase given to Arts Board Grants. This will save $1.9 million for the biennium, while leaving the Board with a base of approximately $6.4 million for the biennium.

- Discontinue regional development commission grants to nine planning commissions. These grants are supplements for commission operations which are largely financed through local property taxes.

- Eliminate local historic preservation grants.

- Reduce selected agricultural program grants, including elimination of farm advocates program funding.

Because of the high priority of family farm ownership, the governor will direct greater resources to the Rural Finance Authority by recommending legislation to allocate federally tax-exempt bonds to the Authority. Possible transfer of the Authority to the Department of Agriculture will also be investigated.

The Governor also recommends downsizing to improve efficiency and to enhance the fiscal health of the general fund. Specific actions include:

- Require state agencies to absorb inflation and salary increases. Unlike previous budgets, the Governor's proposed 1992-93 budget does not set aside specific funds for cost increases, including inflation, for employee salaries or other operating expenses. In this budget, state agencies are expected to manage all potential cost increases within existing funding levels by restructuring activities and achieving productivity increases. General inflation, as measured by the Data Resources forecast of the consumer price index is expected to 3.7 and 3.2 percent during F.Y. 1992 and F.Y. 1992. This budget strategy of reallocating existing funding and redefining priorities will reduce state agencies' operating expenditures by approximately $111 million over the next two years.

- Make a general reduction of $1 million for the biennium to the Department of Employee Relations, reflecting a general decrease in hiring activities as state government is restructured.

- Continue development of the STARS system with a start-up loan. The loan covers the gap between availability of service and full utilization of services starting in FY 1992. The STARS system will replace the state's present telecommunications system, will be privately built and owned, and will be managed by the state. The STARS internal service fund will eventually be self-supporting with fees charged to other governmental users of the system. Loan repayment will be made in FY 1996.

- Begin the planning process to upgrade and streamline the Statewide Accounting System (SWA). These systems are the state's primary financial information and management systems for handling payroll, accounts payable, fixed assets, accounts receivable and inventories. The present system is 16 years old. This action is necessary to provide essential financial services and reports to ensure management accountability.

- Provide a fiscal safety net to cover operational emergencies due to fiscal constraints. This recommendation would increase the LAC Contingent fund from its present level of $500,000 for the current biennium to $2.5 million for the 1992-93 biennium.

Because of the economic and fiscal difficulties facing the state, the Governor is convinced that expenditures must be reduced. Likewise, he does not wish to create undue economic or social dislocations, or propose massive expenditure reductions that will cause further unemployment.

Therefore, the Governor proposes to lower state government expenditures through reductions to the employer's share of retirement contributions for all state employees. The proposal includes a corresponding increase to the employees' contribution, in order to maintain the actuarial requirements of retirement funds.

Retirement Contribution Adjustment Savings
($in millions)

	FY 1992	FY 1993	Biennium
State Agencies			
General Fund	($ 10.3)	($ 10.3)	($ 20.6)
Other State Funds	(4.7)	(4.7)	(9.4)
Sub-total	($ 15.0)	($ 15.0)	($ 30.0)

The savings which accrue to the state will be reduced from agency appropriations. The Governor recommends, however, that this adjustment be limited to a two year period. It is the Governor's intention to review this specific recommendation after the March, 1991 forecast if changes in the economic outlook present additional resources.

Capital Budget

The Governor's biennial budget provides an estimate of the funding required to meet our existing and anticipated debt service needs.

Where we want to be

The state's capital budgeting process must be changed. A more disciplined capital planning system is needed to address long-term priorities, provide for the planned replacement of assets, and incorporate rational technical and policy review. Various task forces have reached reasonable consensus on the need for reform; all that remains is the administrative and political will to implement the new process.

How we get there

A great deal of work has been done in recent months to lay a foundation for a coherent, long-term and disciplined approach to capital budgeting. The 1990 Bonding Bill contained several provisions that reform the capital budget process and have the potential for additional improvements. The final report of the Task Force on State Buildings has recommended several changes that would enhance the discipline of capital budgeting.

A refinancing initiative for Rural Financing Authority (RFA) bonds to repay the general fund for the December 1st debt service transfer will reduce the debt service need. More importantly, the 1992-93 capital budget will only include unavoidable moving expenses and emergency needs. This hiatus in new project funding will be used to implement the revised capital process.

The Infrastructure Development Fund (IDF) bonding will be considered as part of the state's total debt burden. As a result of this full recognition of outstanding debt, the state has exceeded its self-imposed 3% resources limit on borrowing. Projects already financed under the IDF will be honored, but no new IDF bonds will be authorized. It is recommended that the IDF be abolished and lottery funds currently dedicated to the IDF be returned to the general fund for allocation among all other projects and programs which will be considered under the new capital planning process.

The state currently has $494 million in authorized, but not yet financed projects. An estimated $182 million of these projects are already legally committed. Bonds will be issued for uncommitted projects, only after careful additional review. Many of the uncommitted projects are for post-secondary education construction which will be subject to the recommendations of the Commission on the Future of Higher Education. Uncommitted projects will be reviewed within the context of the reformed capital planning process. This delaying action will result in considerable debt service savings in the near term.

The capital budget recommendations which will be submitted to the 1991 Legislature will call for a reexamination of past bonding commitments and a reprioritization according to a new capital planning process. The Governor will present his position on the debt management policy for the state, and on reforming the capital budget process. The Governor will also make specific capital budget recommendations for expenditure authorizations that cannot wait until the 1992 session. These recommendations will be forwarded to the Legislature in mid-March.

Revenue Recommendations

Proposed Tax Changes

In order to allow a phase-in of cost-savings from restructuring efforts, and mitigate unacceptable program impacts, certain tax and fee increases are recommended. Two health-related taxes are included in the 1992-93 budget, and conformity of state income taxes with recent changes in federal income tax law is recommended:

Proposed Budget: Recommended Tax Changes (millions)

General Fund Tax Revenues

	FY 1992	FY 1993	1992-93 Biennium
Tax Revenues			
Federal Conformity			
Individual Income	$36.1	$43.9	80.0
Corporate	$2.7	$1.3	4.0
Estate	$(0.1)	$(0.2)	(0.3)
Subtotal	$38.7	$45.0	83.7
Cigarette Tax ($.24/pack)			
Excise	76.6	81.4	158.0
Sales Tax Impact	3.1	3.5	6.6
Subtotal	79.7	84.9	164.6
Liquor, Wine, Beer	11.0	14.0	25.0
Total Tax Increases	129.4	143.9	273.3
Increased Property Tax Refunds	0.0	(189.0)	(189.0)

The $83.7 million in revenues for the biennium from federal conformity includes $80.0 million from the individual income tax and an additional $3.7 million from corporate and estate tax changes. The personal income tax increases are due to the expansion of federal taxable income through the phaseouts of personal exemptions and itemized deductions for high-income taxpayers.

The recommended cigarette tax increase, effective July 1, 1991 raises the rate from 38 to 62 cents per pack and will add $164.6 million in new revenues. The increase in alcoholic beverage taxes beer and wine taxes to levels more comparable with liquor, and is consistent with inflationary increases over the last two decades. In addition, the recommendation converts the current per unit tax on beer, wine and liquor to a tax based on a percent of the wholesale price. This increase will add $25.0 million to biennial revenues.

The budget provides $189 million in additional funding for the direct property tax refund program as part of the administration's restructuring funding of aids to local governments. This increase in payments to homeowners and renters is reported, by law, as a reduction to income tax collections.

Other Revenue Changes

In addition to selective tax changes, the recommended 1992-93 budget includes other revenue adjustments totalling approximately $153 million. These non-tax revenue changes fall into three categories highlighted in the table below.

Dislocated Workers fund represent one-time revenues.

Selective increases in fees are also included in the Governor's budget. Most notably, a motorcycle/moped license surcharge is being recommended to recognize the health costs associated with traumatic head injuries. It is expected that this surcharge will raise $2.8 million over the biennium. The revenue generated by state agencies' fees and other revenue sources will increase by about $15 million for the two year period. Various fee increases are incorporated for agriculture, public safety, certain Minnesota Zoo activities, as well as additional revenues generated by cost recoveries by certain regulatory agencies and licensing activities.

Proposed Budget: Other Revenue Changes (millions)

Other Non-Dedicated Revenues, Transfers

	FY 1992	FY 1993	1992-93 Biennium
Transfers From Other Funds			
Undedicate GMC Lottery Revenues	$16.9	$16.9	33.8
Undedicate IDF Lottery Revenues	23.7	23.7	47.4
Phase-out Dedicated Cigarette Tax	1.0	1.0	2.0
RFA Refinancing	2.3	0.0	2.3
Dislocated Workers Program	10.0	0.0	10.0
Subtotal Transfers	$53.9	$41.6	95.5
Motorcycle/Moped Surcharge	1.4	1.4	2.8
Fees, Other Revenues	9.1	5.6	14.7
Investment Earnings	12.0	28.0	40.0
Net Impact-Other General Fund Revenues	$76.4	$76.6	$153.0

Approximately $95 million in transfers from other funds will result from undedicating certain currently dedicated funding sources. The key recommendations include undedicating the portions of lottery receipts presently directed to the Greater Minnesota Corporation and the Infrastructure Development Fund. Commitments to these programs will be funded directly from the general fund. The budget also proposes phasing out the two cents per pack portion of the cigarette tax currently directed to the Minnesota Resources Fund. Proposals on refinancing of the Rural Finance Authority and transfer of balances in the

Anticipated general fund investment earnings for 1992-93 will increase by $40.0 million as a result of the proposed budget. This is the direct result of the estimated revenue-expenditure cash flow and $550 million reserve balance under the proposed budget.

Chapter 14

Financial Management

In addition to 1992-93 program budget recommendations, certain financial management principles are recommended.

Budget and Cash Flow Reserve

The budget reserve must be maintained. The reserve is Minnesota's principle weapon to manage unanticipated shocks to the system caused by cyclical volatility, and should not be used to perpetuate any imbalance in on-going revenues and expenditures. Unless structural changes are made, use of the reserve is similar to paying daily expenses from a savings account, which merely shifts the problem to the next biennium once the savings are gone.

Considerable discussion has taken place on the purpose and use of the budget reserve. In order to facilitate future policy discussions, it is recommended that the following two principles be adopted:

- Size of the reserve. The Governor will recommend as part of each biennial budget package an appropriate budget reserve amount, which considers both cash flow and potential contingency needs.

  The budget reserve is more than a "rainy day" fund. A principle function of the reserve is to provide necessary cash flow during the year so that short-term borrowing can be avoided. Short-term borrowing incurs interest costs, threatens the state's high bond rating and violates the fundamental financial management principle that revenues and expenditures should be in balance. In order to meet cash flow deficits, the state engaged in short-term borrowing from FY 1981 through FY 1985. At its peak borrowing during FY 1983, $850 million in debt was outstanding, the state's bond rating was lowered by two classes, and $90 million in interest expenses were incurred during FY 1983 alone.

  The budget reserve cash flow account is necessary to smooth out the state's "lumpy" revenue and expenditure patterns. Peaks in sales and income tax collections are experienced each quarter, as well as around the end of each calendar year. Outlays are also uneven. Educational aid payments are scheduled around local property tax collections, debt service payments are generally made twice each year, and local aids are paid in July and December. Unless a portion of the budget reserve is maintained to smooth out these peaks, the state would be forced to borrow to meet its monthly commitments.

  Although the planning figures would vary with alternative spending and tax packages, the proposed budget's impacts on outlays and collections indicates that an estimated reserve of $450 million is needed for cash flow purposes alone during the 1992-93 biennium.

  Because of the continuing high degree of uncertainty in the economy, it would be desirable to increase the rainy day account of the budget reserve. However, because of the major adjustments necessary to balance the 1992-93 budget, it will not be possible to achieve this goal for this biennium.

- Use of the reserve. In order to meet the intent of the principle that the budget reserve should be maintained to deal with cyclical shocks, it is recommended that access to the reserve would only be appropriate when two situations both exist:

  1. Revenues are forecast to be below the level projected in the prior official forecast and a budget shortfall is anticipated within the current budget period. The reserve should

never be used to balance the next biennium's budget or to finance new expenditures within the current biennium.

2. There is a reasonable likelihood that all amounts taken from the reserve in the current biennium can be restored in the following biennium without a tax increase. This principle ensures that use of the reserve takes into account any structural imbalance or long-term economic downturn.

Baseline Budget Review

The current baseline budget approach should be continued. This system allows policy officials to plan for and track the impact of all changes in current law, rather than automatically building increased spending into base budgets.

It is essential that discipline be injected into the state's budgeting process. Budgets have historically been constructed from a base that is assumed to incorporate automatic inflators. Policy discussion then focused on "change" requests, so that budgets were adopted as additions to, or cuts in, the already inflated base, rather than from an examination of the whole program.

Policy debates should instead address the continued usefulness of the priorities reflected in the base spending discussions, rather than automatically assuming inflation of the program. The spending dynamics change immensely when base program spending is required to be re-examined to allow for inflationary pressures and salaries. If something is no longer needed, it will be identified so that newer ideas can be funded.

The program impacts of salary increases granted by the Governor and Legislature are also more evident with the baseline budget approach. In the past, policy officials have required state agencies to absorb increased salary costs without an appropriate debate over potential program impacts. The baseline approach does not ignore inflation; rather it highlights the impact of inflation and salary settlements on current programs by requiring policy officials to evaluate the trade-offs.

Finally, both state agency programs and transfer payments should be required to compete equally for continued funding. All programs should be subject to the same policy trade-off discussions.

1994-95 Outlook

The Governor's budget proposals for 1992-93 have been developed using a four-year planning horizon consistent with the recommendations of the Budget Crisis Management Task Force. This approach:

- ensures that structural imbalances in revenues and expenditures are appropriately corrected,
- ensures that potential use of one-time revenues and shifting of expenditure liabilities do not result in future shortfalls, and
- recognizes that specific proposals for restructuring will require more than a two time frame for implementation.

The Governor's proposals for restructuring state spending will correct inherited imbalances in revenues and spending shown in the November, 1990 forecast. The actions already taken for F.Y. 1991 reduce the spending gap in the current biennium, and the proposed 1992-93 budget will balance revenues and expenditures by the end of F.Y. 1993.

The gap between revenues and expenditures for 1990-1995 is highlighted on the following page. The table illustrates the effect of the Governor's proposed budget in balancing revenues and expenditures.

The baseline outlook for the 1994-95 biennium, based on the Governor's budget recommendations, calls for maintaining the $550 million reserve, and provides a $575 million positive balance. This estimated balance would be available to address inflationary increases or funding other priorities not in the baseline projections.

Revenue-Expenditure Imbalances*
General Fund
($ in millions)

	1990-91 Biennium	1992-93 Baseline	1994-95 Baseline
November Forecast			
Revenues	$13,481	$14,327	$15,591
Expenditures	14,074	15,539	16,280
Shortfall	(593)	(1,212	(689)
Governor's FY 1991 Actions, FY 1992-93 Budget			
Revenues	13,521	14,635	15,594
Expenditures	13,966	14,581	15,024
Shortfall/Excess	(445)	54	570

* Represents revenue-expenditure difference only - not ending balances.

Dedicated Funds

Another fundamental weakness in the state's financial system is the proliferation of dedicated funds -- nearly 100 at present. The dedication of funding sources to specific programs is seductive since it helps ensure an on-going source of support for popular programs. However, such a practice severely hampers policy flexibility in dealing with crisis situations, and does not allow for changes in program priorities over time. It is not reasonable to assume that the same program which was important last year, or 50 years ago, will have the same level of importance today.

More importantly, "off-budget" funds are not subject to competitive trade-off discussions during the budgeting process, thereby weakening policy flexibility and control. No new dedicated funds should be created, and efforts must made to continue to reduce and consolidate the number of existing funds in which spending is restricted to specific programs.

To this end, the proposed 1992-93 budget recommends a continuation of the trend adopted by the Legislature during recent years to reduce earmarking of previously dedicated funds. Existing program commitments are "capped" and any revenue growth is transferred to the general fund for reallocation among all state program activities. In addition, program areas with access to dedicated funding are required to first use these resources for new initiatives, rather than general fund resources.

Fiscal Volatility

The fragile Minnesota revenue structure must be made less vulnerable to economic volatility. The tax base must be broadened so that state and local agencies are not subject to the feast and famine forces inherent in our current structure.

The Budget Stability Report produced by the Minnesota Tax Commission in 1983 documented the volatility of the Minnesota revenue system. While improvements to the income tax structure were made in 1987, considerable volatility still exists.

There is also volatility in the Minnesota expenditure structure. When revenues drop off during recessions, it is difficult for the system to readily adjust to cover ongoing commitments and entitlement programs established during healthier fiscal times. Long-term program commitments must not be based on short-term prosperity, and funding formulas must recognize the implications of economic cycles.

While the temptation to enact new or expanded taxes for a quick fix must be resisted, this budget concurs with the many bipartisan and independent commissions which have called for increasing income tax conformity and simplification, and for broadening of the tax base to dampen the volatility of Minnesota's revenue and expenditure system.

Conformity with new federal income tax law retains the simplification benefits achieved in 1987. Through the new base budget process, it is the Governor's intention to resist any efforts to permanently expand the revenue base without achieving any comparable cost savings.

Financial Planning

The new realities of the state's fiscal position also require a restructuring of the state's financial planning process. Greater fiscal discipline is necessary in the budgeting process. Minnesota can no longer afford the historical practice of deciding which programs to fund, totaling up all the bills and then raising revenue to meet the total. The Governor has suggested that the tax bill should be adopted before the spending bill. He has asked the Legislature to publicly adopt a budget resolution in early April after the session forecast to provide direction to Legislative committees. While both tax and spending issues should be considered, spending limits would be established before the closing hours of the session. Minnesota would first decide what it can afford, before deciding how to spend it.

Revisions in the forecasting process are also needed. One of the principle causes of the current FY 1991 shortfall was the inaccuracy in forecasting health and human services and educational program expenditures. The Governor has issued an Executive Order which requires that the Finance Commissioner be responsible for all expenditure forecasting, as well as revenue estimates. By lodging responsibility in one agency, without political interference in the technical preparation, the integrity of the forecasting process is reinforced. In addition, improved monitoring of expenditures in those areas with more volatility needs to be improved to provide an early warning system of potential budget shortfalls.

Finally, the state's computerized financial system must be redesigned. The Statewide Accounting and Personnel/Payroll systems are more than accounting ledgers. Redesign of these systems, and better interface with the many other state financial systems, will facilitate improved management accountability and provide a foundation for the development of a statewide executive information system. An essential part of state government restructuring is the provision of adequate financial management information so that both administrators and policy officials are fully informed on fiscal matters.

Appendix

The following section provides additional detail on the historical and recommended level of revenue and spending for the state General Fund. The graphics and tables are presented to provide commonly requested information and additional financial data.

Other tables present the current biennium and proposed budget for 1992-93 displayed by functional spending category.

The General Fund statement details individual revenue sources, actual and recommended spending by agency in legislative bill format beginning on page A-10.

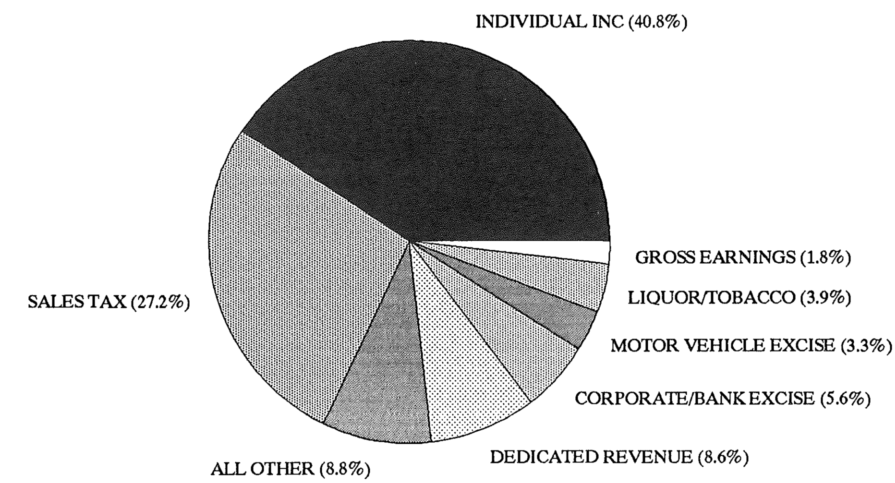
Complete information on individual program recommendations can be found in companion **Detailed Budget** volumes prepared for each omnibus appropriations bill.

Additional information on the economic and revenue forecast can be found in the **November Forecast Report**. An update to the economic forecast and baseline planning estimates for a four-year budget outlook through 1994-95 will be released in March, 1991.

Where the Money Comes From
Governor's Recommendation

($ in Millions)

1992–93 BIENNIUM
$15,135 Million

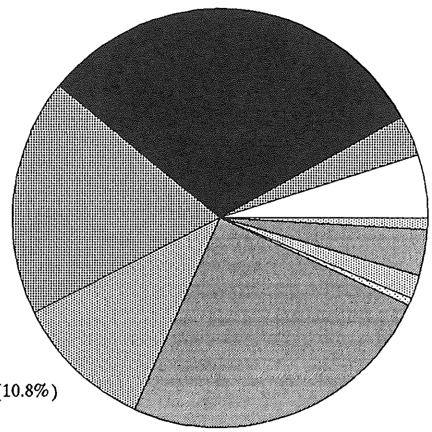


Balance Forward 6–30–91	$500
Non–Dedicated Revenues:	
Individual Income Tax	6,175
Sales Tax	4,109
Corporate/Bank Excise Tax	855
Motor Vehicle Excise Tax	503
Gross Earnings Taxes	275
Liquor and Tobacco Taxes	585
Other Tax Revenues	290
All Other Revenues	400
Subtotal Non–Dedicated Revenues	13,192
Dedicated Revenue	1,296
Transfers From Other Funds	117
Prior Year Adjustments	30
SUBTOTAL CURRENT RESOURCES	14,635
TOTAL AVAILABLE RESOURCES, F.Y. 1992–93	$15,135
Less: Estimated Expenditures	(14,581)
Budget Reserve	(550)
Projected General Fund Balance 6–30–93	$4
February 20, 1991 Governor's Recommendation	

Where The Money Will Go
Governor's Recommendation

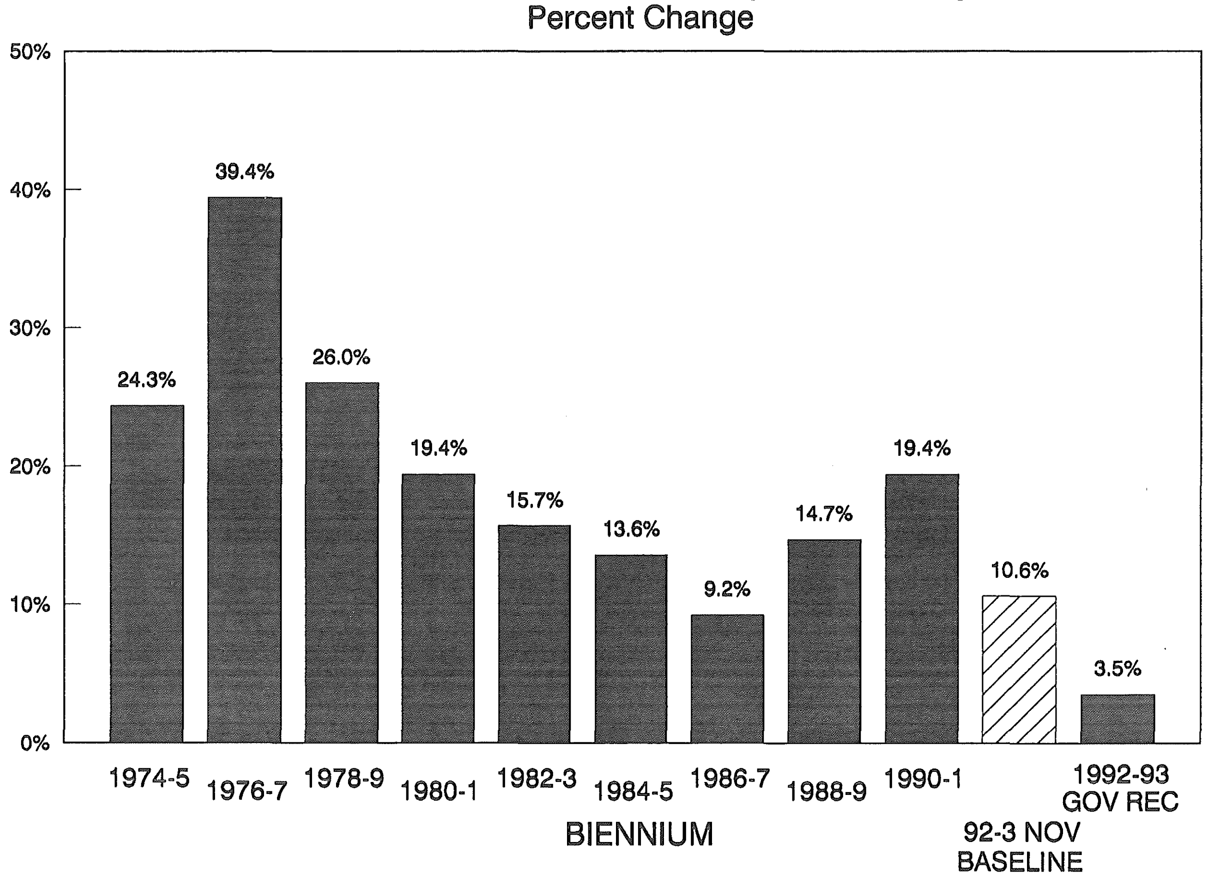
($ in Millions)

1992–93 BIENNIUM
$14,581 Million Spending
$550 Million Reserve



TOTAL AVAILABLE RESOURCES	**$15,135**
Major Spending Items:	
Education Finance	4,536
Post-Secondary Education	2,669
Local Aids/Property Taxes	1,576
Human Development	3,636
Economic Development	81
Environment & Natural Resources	266
Crime & Courts	517
Transportation	125
General Government	715
Capital Budget	460
TOTAL ESTIMATED EXPENDITURES, F.Y. 1992–93	**$14,581**
BUDGET RESERVE	$550
Projected General Fund Balance 6-30-93 February 20, 1991 Governor's Recommendation	$4

General Fund Spending



Revenue-Expenditure Imbalances General Fund

($ in Millions)

	1990-91 Biennium	1992-93 Baseline	1994-95 Baseline
November Forecast			
Revenues	$13,481	$14,327	$15,591
Expenditures	14,074	15,539	16,280
Shortfall	(593)	(1,212)	(689)
Governor's FY 1991 Actions, FY 1992-93 Budget			
Revenues	13,521	14,635	15,594
Expenditures	13,966	14,581	15,024
Shortfall/Excess *	(445)	54	570

* Represents revenue/expenditure difference only -- not ending balance.

Governor's Proposed Budget
F.Y. 1992–93 General Fund

	GOV REC F.Y. 1992	GOV REC F.Y. 1993	GOV REC F.Y. 1992–93
ACTUAL AND ESTIMATED RESOURCES			
Balance Forward From Prior Year	500,249	341,062	500,249
Non–Dedicated Revenue:			
Individual Income Tax	3,104,364	3,071,007	6,175,371
Sales Tax–General	1,995,908	2,113,278	4,109,186
Corporate Income Tax	410,800	443,900	854,700
Motor Vehicle Excise Tax	241,300	261,200	502,500
Other Non–Dedicated Revenue	772,666	777,906	1,550,572
Subtotal Non–Dedicated Revenue	6,525,038	6,667,291	13,192,329
Dedicated Revenue, Transfers	713,680	698,692	1,412,372
Other Resources	15,000	15,000	30,000
Subtotal Current Resources	7,253,718	7,380,983	14,634,701
Total Resources Available	7,753,967	7,722,045	15,134,950
ACTUAL AND ESTIMATED EXPENDITURES			
Education Finance	2,185,370	2,350,362	4,535,732
Post–Secondary Education:			
Direct Appropriations	952,667	952,593	1,905,260
Dedicated Appr	376,630	387,124	763,754
Local Aids/Property Taxes	1,035,208	540,505	1,575,713
Human Development	1,792,942	1,843,326	3,636,268
Economic Development	41,966	39,321	81,287
Environment & Natural Resources	133,973	131,917	265,890
Crime & Courts	250,355	266,467	516,822
Transportation	62,741	62,734	125,475
General Government	361,511	353,158	714,669
Capital Budget	219,542	240,282	459,824
Total Expenditures & Transfers	7,412,905	7,167,789	14,580,694
Unreserved Fund Balance	341,062	554,256	554,256
Budget Reserve	550,000	550,000	550,000
Unrestricted Budgetary Balance	(208,938)	4,256	4,256

($ in Thousands)

Biennial Comparison
F.Y. 1990–91 to F.Y. 1992–93 Recommended

	FEB–91 EST F.Y. 1990–91	GOV REC F.Y. 1992–93	1992–93 vs 1990–91 $ DIFFERENCE	1992–93 vs 1990–91 % CHANGE	
ACTUAL AND ESTIMATED RESOURCES					
Balance Forward From Prior Year	945,660	500,249	(445,411)	–47.1%	
Non–Dedicated Revenue:					
Individual Income Tax	5,602,649	6,175,371	572,722	10.2%	
Sales Tax–General	3,820,157	4,109,186	289,029	7.6%	
Corporate Income Tax	946,901	854,700	(92,201)	–9.7%	
Motor Vehicle Excise Tax	493,258	502,500	9,242	1.9%	
Other Non–Dedicated Revenue	1,340,785	1,550,572	209,787	15.6%	
Subtotal Non–Dedicated Revenue	12,203,750	13,192,329	988,579	8.1%	
Dedicated Revenue, Transfers	1,273,403	1,412,372	138,969	10.9%	
Other Resources	43,758	30,000	(13,758)	–31.4%	
Subtotal Current Resources	13,520,911	14,634,701	1,113,790	8.2%	
Total Resources Available	14,466,571	15,134,950	668,379	4.6%	
ACTUAL AND ESTIMATED EXPENDITURES					
Education Finance	3,798,311	4,535,732	737,421	7.1%	*
Post–Secondary Education:					
Direct Appropriations	1,943,839	1,905,260	(38,579)	–2.0%	
Dedicated Appr	678,848	763,754	84,906	12.5%	
Local Aids/Property Taxes	2,328,254	1,575,713	(752,541)	–12.2%	*
Human Development	3,169,735	3,636,268	466,533	14.7%	
Economic Development	79,244	81,287	2,043	–29.8%	*
Environment & Natural Resources	256,740	265,890	9,150	3.6%	
Crime & Courts	385,151	516,822	131,671	34.2%	
Transportation	199,357	125,475	(73,882)	–37.1%	
General Government	746,588	714,669	(31,919)	–4.3%	
Capital Budget	380,255	459,824	79,569	20.9%	
Total Expenditures & Transfers	13,966,322	14,580,694	614,372	3.5%	*
Unreserved Fund Balance	500,249	554,256	54,007		
Budget Reserve	500,000	550,000	50,000		
Unrestricted Budgetary Balance	249	4,256	4,007		

($ in Thousands)

* Numbers actual, percentages adjusted for comparability. Adjustments include:
FY 1991 HACA/School Aid restructuring, changes to state–local Deed & Mortgage
tax collections, and recommended changes to Greater Minnesota Corporation funding.

Annual Percent Change
F.Y. 1992–93 Proposed Budget

	FEB–91 EST F.Y. 1991	GOV REC F.Y. 1992	PERCENT CHANGE		GOV REC F.Y. 1993	PERCENT CHANGE
ACTUAL AND ESTIMATED RESOURCES						
Balance Forward From Prior Year	884,846	500,249	–43.5%		341,062	–31.8%
Non–Dedicated Revenue:						
Individual Income Tax	2,860,410	3,104,364	8.5%		3,071,007	–1.1%
Sales Tax–General	1,948,987	1,995,908	2.4%		2,113,278	5.9%
Corporate Income Tax	468,000	410,800	–12.2%		443,900	8.1%
Motor Vehicle Excise Tax	236,200	241,300	2.2%		261,200	8.2%
Other Non–Dedicated Revenue	682,006	772,666	13.3%		777,906	0.7%
Subtotal Non–Dedicated Revenue	6,195,603	6,525,038	5.3%		6,667,291	2.2%
Dedicated Revenue, Transfers	675,682	713,680	5.6%		698,692	–2.1%
Other Resources	18,292	15,000	–18.0%		15,000	0.0%
Subtotal Current Resources	6,889,577	7,253,718	5.3%		7,380,983	1.8%
Total Resources Available	7,774,423	7,753,967	–0.3%		7,722,045	–0.4%
ACTUAL AND ESTIMATED EXPENDITURES						
Education Finance	2,115,266	2,185,370	3.3%		2,350,362	7.5%
Post–Secondary Education:						
Direct Appropriations	1,006,942	952,667	–5.4%		952,593	–0.0%
Dedicated Appr	348,414	376,630	8.1%		387,124	2.8%
Local Aids/Property Taxes	1,098,983	1,035,208	–8.0%	*	540,505	–47.8%
Human Development	1,681,727	1,792,942	6.6%		1,843,326	2.8%
Economic Development	38,975	41,966	–32.2%	*	39,321	–6.3%
Environment & Natural Resources	136,671	133,973	–2.0%		131,917	–1.5%
Crime & Courts	215,491	250,355	16.2%		266,467	6.4%
Transportation	66,160	62,741	–5.2%		62,734	–0.0%
General Government	378,451	361,511	–4.5%		353,158	–2.3%
Capital Budget	187,094	219,542	17.3%		240,282	9.4%
Total Expenditures & Transfers	7,274,174	7,412,905	1.2%	*	7,167,789	–3.3%
Unreserved Fund Balance	500,249	341,062			554,256	
Budget Reserve	500,000	550,000			550,000	
Unrestricted Budgetary Balance	249	(208,938)			4,256	

($ in Thousands)

* Numbers actual, percentages adjusted for comparability. Adjustments include:
changes to state–local Deed & Mortgage tax collections,
and recommended changes to Greater Minnesota Corporation funding.

Percent of Total General Fund
By Category

	FEB-91 EST F.Y. 1990-91	PERCENT OF TOTAL	GOV REC F.Y. 1992-93	PERCENT OF TOTAL
ACTUAL AND ESTIMATED RESOURCES				
Balance Forward From Prior Year	945,660	6.5%	500,249	3.3%
Non-Dedicated Revenue:				
Individual Income Tax	5,602,649	38.7%	6,175,371	40.8%
Sales Tax-General	3,820,157	26.4%	4,109,186	27.2%
Corporate Income Tax	946,901	6.5%	854,700	5.6%
Motor Vehicle Excise Tax	493,258	3.4%	502,500	3.3%
Other Non-Dedicated Revenue	1,340,785	9.3%	1,550,572	10.2%
Subtotal Non-Dedicated Revenue	12,203,750	84.4%	13,192,329	87.2%
Dedicated Revenue, Transfers	1,273,403	8.8%	1,412,372	9.3%
Other Resources	43,758	0.3%	30,000	0.2%
Subtotal Current Resources	13,520,911	93.5%	14,634,701	96.7%
Total Resources Available	14,466,571	100.0%	15,134,950	100.0%
ACTUAL AND ESTIMATED EXPENDITURES				
Education Finance	3,798,311	27.2%	4,535,732	31.1%
Post-Secondary Education:				
Direct Appropriations	1,943,839	13.9%	1,905,260	13.1%
Dedicated Appr	678,848	4.9%	763,754	5.2%
Local Aids/Property Taxes	2,328,254	16.7%	1,575,713	10.8%
Human Development	3,169,735	22.7%	3,636,268	24.9%
Economic Development	79,244	0.6%	81,287	0.6%
Environment & Natural Resources	256,740	1.8%	265,890	1.8%
Crime & Courts	385,151	2.8%	516,822	3.5%
Transportation	199,357	1.4%	125,475	0.9%
General Government	746,588	5.3%	714,669	4.9%
Capital Budget	380,255	2.7%	459,824	3.2%
Total Expenditures & Transfers	13,966,322	100.0%	14,580,694	100.0%
Unreserved Fund Balance	500,249		554,256	
Budget Reserve	500,000		550,000	
Unrestricted Budgetary Balance	249		4,256	

($ in Thousands)

Proposed Budget –– November Baseline Estimates
$1.2 Billion Baseline Shortage

	F.Y. 1992–93 BIENNIUM		
	NOVEMBER '90 BASELINE	GOVERNOR'S BUDGET	DIFFERENCE
ACTUAL AND ESTIMATED RESOURCES			
Balance Forward From Prior Year	550,000	500,249	(49,751)
Non–Dedicated Revenue:			
Individual Income Tax	6,284,371	6,175,371	(109,000)
Sales Tax–General	4,102,586	4,109,186	6,600
Corporate Income Tax	850,700	854,700	4,000
Motor Vehicle Excise Tax	502,500	502,500	0
Other Non–Dedicated Revenue	1,310,372	1,550,572	240,200
Subtotal Non–Dedicated Revenue	13,050,529	13,192,329	141,800
Dedicated Revenue, Transfers	1,246,105	1,412,372	166,267
Other Resources	30,000	30,000	0
Subtotal Current Resources	14,326,634	14,634,701	308,067
Total Resources Available	14,876,634	15,134,950	258,316
ACTUAL AND ESTIMATED EXPENDITURES			
Education Finance	4,531,426	4,535,732	4,306
Post–Secondary Education:			
Direct Appropriations	2,058,818	1,905,260	(153,558)
Dedicated Appr	679,043	763,754	84,711
Local Aids/Property Taxes	2,214,713	1,575,713	(639,000)
Human Development	3,809,688	3,636,268	(173,420)
Economic Development	73,087	81,287	8,200
Environment & Natural Resources	274,640	265,890	(8,750)
Crime & Courts	457,855	516,822	58,967
Transportation	240,523	125,475	(115,048)
General Government	747,810	714,669	(33,141)
Capital Budget	451,442	459,824	8,382
Total Expenditures & Transfers	15,539,045	14,580,694	(958,351)
Unreserved Fund Balance	(662,411)	554,256	1,216,667
Budget Reserve	550,000	550,000	0
Unrestricted Budgetary Balance	(1,212,411)	4,256	1,216,667

($ in Thousands)

1994–95 Baseline Planning Estimates
General Fund Summary

	FEB–91 EST F.Y. 1990–91	GOV REC F.Y. 1992–93	2–91 BASELINE F.Y. 1994–95
ACTUAL AND ESTIMATED RESOURCES			
Balance Forward From Prior Year	945,660	500,249	554,256
Non–Dedicated Revenue:			
Individual Income Tax	5,602,649	6,175,371	6,493,114
Sales Tax–General	3,820,157	4,109,186	4,619,756
Corporate Income Tax	946,901	854,700	872,100
Motor Vehicle Excise Tax	493,258	502,500	582,000
Other Non–Dedicated Revenue	1,340,785	1,550,572	1,581,729
Subtotal Non–Dedicated Revenue	12,203,750	13,192,329	14,148,699
Dedicated Revenue, Transfers	1,273,403	1,412,372	1,423,775
Other Resources	43,758	30,000	22,000
Subtotal Current Resources	13,520,911	14,634,701	15,594,474
Total Resources Available	14,466,571	15,134,950	16,148,730
ACTUAL AND ESTIMATED EXPENDITURES			
Education Finance	3,798,311	4,535,732	4,917,995
Post–Secondary Education:			
Direct Appropriations	1,943,839	1,905,260	1,905,186
Dedicated Appr	678,848	763,754	774,248
Local Aids/Property Taxes	2,328,254	1,575,713	1,129,133
Human Development	3,169,735	3,636,268	4,096,755
Economic Development	79,244	81,287	73,542
Environment & Natural Resources	256,740	265,890	265,036
Crime & Courts	385,151	516,822	561,734
Transportation	199,357	125,475	125,468
General Government	746,588	714,669	739,025
Capital Budget	380,255	459,824	436,082
Total Expenditures & Transfers	13,966,322	14,580,694	15,024,204
Unreserved Fund Balance	500,249	554,256	1,124,526
Budget Reserve	500,000	550,000	550,000
Unrestricted Budgetary Balance	249	4,256	574,526

($ in Thousands)

	ACTUAL F.Y. 1990	2-91 EST F.Y. 1991	2-91 EST F.Y. 1990-91	GOV REC F.Y. 1992	GOV REC F.Y. 1993	GOV REC F.Y. 1992-93
ACTUAL AND ESTIMATED RESOURCES						
BALANCE FORWARD FROM PRIOR YEAR	945,660	884,846	945,660	500,249	341,062	500,249
NON-DEDICATED REVENUE:						
TAX REVENUES	5,791,912	5,993,005	11,784,917	6,327,282	6,465,085	12,792,367
OTHER REVENUES	216,235	202,598	418,833	197,756	202,206	399,962
SUBTOTAL NET NON-DEDIC REVENUE	6,008,147	6,195,603	12,203,750	6,525,038	6,667,291	13,192,329
DEDICATED REVENUE	573,450	628,906	1,202,356	648,825	646,852	1,295,677
TRANSFERS FROM OTHER FUNDS	24,271	46,776	71,047	64,855	51,840	116,695
PRIOR YEAR ADJUSTMENTS	25,466	18,292	43,758	15,000	15,000	30,000
SUBTOTAL CURRENT RESOURCES	6,631,334	6,889,577	13,520,911	7,253,718	7,380,983	14,634,701
TOTAL RESOURCES AVAILABLE	7,576,994	7,774,423	14,466,571	7,753,967	7,722,045	15,134,950
ACTUAL/ESTIMATED EXPENDITURES BY BILL						
EDUCATION FINANCE	1,683,045	2,115,266	3,798,311	2,185,370	2,350,362	4,535,732
POST-SECONDARY EDUCATION	936,897	1,006,942	1,943,839	952,667	952,593	1,905,260
HUMAN DEVELOPMENT	1,378,678	1,565,812	2,944,490	1,697,385	1,766,758	3,464,143
ENVIRONMENT & NATURAL RESOURCES	145,923	162,504	308,427	157,501	155,422	312,923
INFRASTRUCTURE & REGULATION	388,974	313,361	702,335	351,286	377,365	728,651
STATE GOVERNMENT AFFAIRS	312,116	351,749	663,865	355,299	348,096	703,395
TAX AIDS & CREDITS	1,267,390	1,137,766	2,405,156	1,074,572	580,341	1,654,913
UNALLOTTED/BALANCE FORWARD	5,675	8,461	14,136	0	0	0
CANCELLATION ADJUSTMENT	0	(16,593)	(16,593)	(10,000)	(10,000)	(20,000)
SUBTOTAL BY APPROPRIATION BILL	6,118,698	6,645,268	12,763,966	6,764,080	6,520,937	13,285,017
DEDICATED REVENUE EXPENDITURES	573,450	628,906	1,202,356	648,825	646,852	1,295,677
TOTAL EXPEND. AND TRANSFERS	6,692,148	7,274,174	13,966,322	7,412,905	7,167,789	14,580,694
UNRESERVED FUND BALANCE	884,846	500,249	500,249	341,062	554,256	554,256
BUDGET RESERVE	550,000	500,000	500,000	550,000	550,000	550,000
APPROPRIATIONS CARRIED FORWARD	73,963	NA	NA	NA	NA	NA
UNRESTRICTED BUDGETARY BALANCE	260,883	249	249	(208,938)	4,256	4,256

($ in Thousands)

		ACTUAL F.Y. 1990	2-91 EST F.Y. 1991	2-91 EST F.Y. 1990-91	GOV REC F.Y. 1992	GOV REC F.Y. 1993	GOV REC F.Y. 1992-93
	NON-DEDICATED REVENUE						
	INDIVIDUAL INCOME TAX	2,742,239	2,860,410	5,602,649	3,104,364	3,071,007	6,175,371
	CORPORATE INCOME & BANK EXCISE	478,901	468,000	946,901	410,800	443,900	854,700
	SALES TAX – GENERAL	1,871,170	1,948,987	3,820,157	1,995,908	2,113,278	4,109,186
	MOTOR VEHICLE EXCISE	257,058	236,200	493,258	241,300	261,200	502,500
	INHERITANCE, ESTATE & GIFT	25,250	20,055	45,305	17,965	17,865	35,830
	LIQUOR, WINE & BEER	56,216	56,249	112,465	67,173	70,233	137,406
	CIGARETTE & TOBACCO PRODUCTS	144,588	147,966	292,554	221,445	226,162	447,607
	IRON ORE OCCUPATION	161	100	261	75	0	75
	TACONITE OCCUPATION	351	2,500	2,851	2,000	2,000	4,000
	ROYALTY TAXES	1,565	89	1,654	0	0	0
	TACONITE PRODUCTION TAXES	55	55	110	55	55	110
	DEED AND MORTGAGE REGISTRATION	38	18,800	18,838	48,000	51,000	99,000
	INSURANCE GROSS EARN & FIRE MARSH	123,749	126,400	250,149	128,900	131,500	260,400
	TELEPHONE & TELEGRAPH GROSS EARN	44,385	35,361	79,746	14,686	0	14,686
	CONTROLLED SUBSTANCE TAX	484	569	1,053	540	540	1,080
	OTHER GROSS EARNINGS	47	46	93	46	46	92
	LEGALIZED GAMBLING TAXES	44,525	56,802	101,327	57,665	57,692	115,357
	INCOME TAX RECIPROCITY	19,778	23,200	42,978	25,100	27,000	52,100
	OTHER TAX REFUNDS	(18,648)	(8,784)	(27,432)	(8,740)	(8,393)	(17,133)
SUBTOTAL	TAX REVENUES	5,791,912	5,993,005	11,784,917	6,327,282	6,465,085	12,792,367
	INVESTMENT INCOME	81,896	50,000	131,896	27,000	33,000	60,000
	DEPARTMENTAL EARNINGS	75,695	85,785	161,480	101,157	97,780	198,937
	OTHER NON-DEDICATED REVENUE	67,227	75,813	143,040	78,599	80,426	159,025
	OTHER AGENCIES' REFUNDS	(8,583)	(9,000)	(17,583)	(9,000)	(9,000)	(18,000)
SUBTOTAL	OTHER REVENUES	216,235	202,598	418,833	197,756	202,206	399,962
TOTAL	NET NON-DEDICATED REVENUE	6,008,147	6,195,603	12,203,750	6,525,038	6,667,291	13,192,329

($ in Thousands)

	ACTUAL F.Y. 1990	2-91 EST F.Y. 1991	2-91 EST F.Y. 1990-91	GOV REC F.Y. 1992	GOV REC F.Y. 1993	GOV REC F.Y. 1992-93
PROPOSED REVENUE CHANGES						
TAXES:						
FEDERAL CONFORMITY						
INDIVIDUAL INCOME	0	0	0	36,100	43,900	80,000
CORPORATE	0	0	0	2,700	1,300	4,000
EXCISE	0	0	0	(100)	(200)	(300)
CIGARETTE TAX .24/PK						
EXCISE	0	0	0	76,600	81,400	158,000
SALES	0	0	0	3,100	3,500	6,600
LIQUOR, WINE, BEER	0	0	0	11,000	14,000	25,000
SUBTOTAL TAXES	0	0	0	129,400	143,900	273,300
INVESTMENT EARNINGS	0	0	0	12,000	28,000	40,000
EDUCATION FINANCE:						
ECSU LOANS	0	0	0	(500)	0	(500)
EDUC DEPT-PRIV VOC FEES	0	0	0	32	33	65
EDUC DEPT-TEACHER LICENSURE	0	0	0	76	89	165
EDUC DEPT-FARIBAULT REV	0	0	0	(338)	(337)	(675)
SUBTOTAL-EDUC FINANCE	0	0	0	(730)	(215)	(945)
POST-SECONDARY DEDICATED	0	0	0	39,562	45,149	84,711

($ in Thousands)

	ACTUAL F.Y. 1990	2-91 EST F.Y. 1991	2-91 EST F.Y. 1990-91	GOV REC F.Y. 1992	GOV REC F.Y. 1993	GOV REC F.Y. 1992-93
HUMAN DEVELOPMENT:						
MOTORCYCLE/MOPED SURCHARGE	0	0	0	1,400	1,400	2,800
DISLCTD WRKR PHASE-OUT (TI)	0	0	0	10,000	0	10,000
HUMAN SVCS DEPT DEDICATED	0	0	0	(118)	(13,816)	(13,934)
HEALTH DEPT	0	0	0	1,136	1,414	2,550
CORRECTIONS-POPULATION INCR	0	0	0	144	144	288
JOBS & TRAINING	0	0	0	(32)	(64)	(96)
VETERANS AFFAIRS	0	0	0	(827)	90	(737)
SUBTOTAL-HUMAN DEVELOP	0	0	0	11,703	(10,832)	871
ECONOMIC DEVELOPMENT:						
GMC-UNDEDICATE LOTTERY REV (TI)	0	0	0	16,915	16,915	33,830
REPAYMENT MUTUAL INS LOAN	0	0	0	5,444	(600)	4,844
IDF-UNDEDICATE LOTTERY REV (TI)	0	0	0	23,680	23,680	47,360
RFA REFINANCING (TI)	0	0	0	2,300	0	2,300
SUBTOTAL-ECONOMIC DEVELOP	0	0	0	48,339	39,995	88,334
ENVIRONMENT & NATURAL RESOURCES:						
AGRICULTURE FEES	0	0	0	793	793	1,586
PHASE-OUT DEDIC CIG TAX (TI)	0	0	0	1,000	1,000	2,000
MN ZOO-AMPHITHEATER FEES	0	0	0	400	400	800
MN ZOO-ADMN FEE INCR	0	0	0	517	517	1,034
SUBTOTAL-ENV & NAT RES	0	0	0	2,710	2,710	5,420

($ in Thousands)

		ACTUAL F.Y. 1990	2-91 EST F.Y. 1991	2-91 EST F.Y. 1990-91	GOV REC F.Y. 1992	GOV REC F.Y. 1993	GOV REC F.Y. 1992-93
	INFRASTRUCTURE & REGULATION:						
	PUBLIC SAFETY	0	0	0	503	557	1,060
	COMMERCE DEPARTMENTAL EARNINGS	0	0	0	641	838	1,479
	ARCH/ENG BD DEPARTMENTAL EARNINGS	0	0	0	13	39	52
	PUBLIC UTIL DEPT EARNINGS	0	0	0	172	235	407
	PUBLIC SVC DEPT EARNINGS	0	0	0	841	1,120	1,961
	ETHICAL PRAC BD DEPT EARNINGS	0	0	0	4	4	8
	HISTORICAL SOC DEPT EARNINGS	0	0	0	0	300	300
	LABOR & IND DEPT EARNINGS	0	0	0	3	5	8
	MN RACING COMM	0	0	0	50	51	101
	SUBTOTAL-INFRA & REG	0	0	0	2,227	3,149	5,376
	TOTAL OFFSET/SHOWN IN DETAIL	0	0	0	(245,211)	(251,856)	(497,067)
TOTAL	PROPOSED REVENUE CHANGES	0	0	0	0	0	0
	DEDICATED REV/EXPENDITURES						
	STATE UNIVERSITY BOARD	83,346	88,244	171,590	102,047	104,982	207,029
	STATE COMMUNITY COLLEGE SYS	46,589	50,411	97,000	56,663	59,728	116,391
	TECHNICAL COLLEGES	58,819	62,837	121,656	66,329	69,024	135,353
	UNIVERSITY OF MINNESOTA	141,680	146,922	288,602	151,591	153,390	304,981
	POST-SECONDARY OFF-BUDGET	[20,267]	[18,074]	[18,513]	[17,975]	[17,975]	[35,950]
	HUMAN SVCS-COUNTY REIMBURSEMNT	75,717	93,982	169,699	85,335	85,335	170,670
	HUMAN SVCS-MA ACCT HOSP RCPTS	143,236	154,287	297,523	155,170	143,480	298,650
	ALL OTHER	24,063	32,223	56,286	31,690	30,913	62,603
TOTAL	DEDICATED REVENUE/EXPEND	573,450	628,906	1,202,356	648,825	646,852	1,295,677

($ in Thousands)

		ACTUAL F.Y. 1990	2-91 EST F.Y. 1991	2-91 EST F.Y. 1990-91	GOV REC F.Y. 1992	GOV REC F.Y. 1993	GOV REC F.Y. 1992-93
	TRANSFERS FROM OTHER FUNDS						
	OTHER SPECIAL REVENUE FUNDS	2,586	3,600	6,186	3,900	3,775	7,675
	ALL OTHER TRANSFERS	549	761	1,310	3,307	3,340	6,647
	REPAY OF REVOLVING FUND LOANS	4,854	3,515	8,369	3,753	3,130	6,883
	1989 SESSION TRANSFERS	16,282	5,565	21,847	0	0	0
	1991, CH 2, TRANSFERS IN	0	33,335	33,335	0	0	0
	1992-93 GOVERNOR'S REC	0	0	0	53,895	41,595	95,490
TOTAL	TRANSFERS FROM OTHER FUNDS	24,271	46,776	71,047	64,855	51,840	116,695
	PRIOR YEAR ADJUSTMENTS						
	CANCEL OF PRIOR YEAR ENCUMBRANCES	17,832	16,000	33,832	16,000	16,000	32,000
	INCOME	4,838	5,000	9,838	5,000	5,000	10,000
	CARRY FORWARD OF PRIOR YEAR ENC.	0	(6,000)	(6,000)	(6,000)	(6,000)	(12,000)
	OTHER	2,796	0	2,796	0	0	0
	LAWS 1991, CHAPTER 2	0	3,292	3,292	0	0	0
TOTAL	PRIOR YEAR ADJUSTMENTS	25,466	18,292	43,758	15,000	15,000	30,000

($ in Thousands)

		ACTUAL F.Y. 1990	2-91 EST F.Y. 1991	2-91 EST F.Y. 1990-91	GOV REC F.Y. 1992	GOV REC F.Y. 1993	GOV REC F.Y. 1992-93
	EDUCATION FINANCE						
	GENERAL EDUCATION	1,226,392	1,562,100	2,788,492	1,616,634	1,748,051	3,364,685
	PUPIL TRANSPORTATION	92,079	114,257	206,336	111,781	123,199	234,980
	SPECIAL PROGRAMS	192,170	215,100	407,270	218,733	229,945	448,678
	COMMUNITY & FAMILY EDUCATION	21,718	23,061	44,779	27,815	28,994	56,809
	EDUCATION FACILITIES/EQUIPMENT	59,476	113,745	173,221	120,328	127,803	248,131
	EDUC ORGANIZATION/COOPERATION	5,148	5,383	10,531	4,384	5,198	9,582
	ACCESS TO EXCELLENCE	1,723	2,472	4,195	4,115	7,331	11,446
	OTHER EDUCATIONAL PROGRAMS	34,902	38,156	73,058	38,359	36,646	75,005
	PUBLIC LIBRARIES	6,046	6,349	12,395	6,374	6,374	12,748
	EDUCATION AGENCY SERVICES	6,152	6,978	13,130	6,520	6,520	13,040
	DISCONTINUED/NONRECURRING	6,915	1,567	8,482	0	0	0
	LAWS 1991, CHAPTER 2	0	(6,192)	(6,192)	0	0	0
	EDUCATION, DEPARTMENT OF	24,865	25,839	50,704	25,513	25,494	51,007
	ARTS SCHOOL/RESOURCE CENTER	5,459	6,451	11,910	4,814	4,807	9,621
TOTAL	EDUCATION FINANCE	1,683,045	2,115,266	3,798,311	2,185,370	2,350,362	4,535,732
	POST-SECONDARY EDUCATION						
	UNIVERSITY OF MINNESOTA	439,026	454,140	893,166	434,610	411,754	846,364
	STATE UNIVERSITY BOARD	167,744	184,646	352,390	166,893	155,520	322,413
	COMMUNITY COLLEGES BOARD	88,295	103,136	191,431	94,294	88,529	182,823
	MAYO MEDICAL SCHOOL	1,034	1,062	2,096	985	956	1,941
	HIGHER EDUC COORDINATING BD	74,131	90,292	164,423	92,529	92,522	185,051
	TECHNICAL COLLEGES	166,667	173,666	340,333	163,356	148,026	311,382
	POST-SEC ESCROW	0	0	0	0	55,286	55,286
TOTAL	POST-SECONDARY EDUCATION	936,897	1,006,942	1,943,839	952,667	952,593	1,905,260

($ in Thousands)

	ACTUAL F.Y. 1990	2-91 EST F.Y. 1991	2-91 EST F.Y. 1990-91	GOV REC F.Y. 1992	GOV REC F.Y. 1993	GOV REC F.Y. 1992-93
HUMAN DEVELOPMENT						
JOBS & TRAINING, DEPT OF	41,128	33,808	74,936	34,824	34,102	68,926
HEALTH, DEPARTMENT OF	42,663	47,751	90,414	47,481	47,652	95,133
NURSING BD	125	169	294	inc.	inc.	0
HUMAN SERVICES, DEPT OF	1,145,484	1,313,856	2,459,340	1,425,834	1,486,070	2,911,904
MH/MR OMBUDSMAN	927	993	1,920	1,008	1,005	2,013
VETS AFFAIRS–NURSING HOMES	19,499	21,033	40,532	24,477	26,881	51,358
HEALTH CARE ACCESS COMM	286	530	816	0	0	0
COUNCIL ON DISABILITY	516	545	1,061	552	551	1,103
CORRECTIONS, DEPT OF	126,565	145,566	272,131	161,669	168,962	330,631
OMBUDSMAN FOR CORRECTIONS	385	393	778	396	395	791
SENTENCING GUIDELINES COMM	249	276	525	241	240	481
COUNCIL ON BLACK MINNESOTANS	180	186	366	189	188	377
COUNCIL FOR SPANISH SPKG PEOPLE	200	205	405	207	207	414
COUNCIL ON ASIAN-PACIFIC MINN	152	163	315	165	164	329
COUNCIL ON INDIAN AFFAIRS	319	338	657	342	341	683
TOTAL HUMAN DEVELOPMENT	1,378,678	1,565,812	2,944,490	1,697,385	1,766,758	3,464,143

($ in Thousands)

		ACTUAL F.Y. 1990	2-91 EST F.Y. 1991	2-91 EST F.Y. 1990-91	GOV REC F.Y. 1992	GOV REC F.Y. 1993	GOV REC F.Y. 1992-93
	ENVIRONMENT & NATURAL RESOURCES						
	POLLUTION CONTROL AGENCY	12,943	13,613	26,556	13,262	10,776	24,038
	OFFICE OF WASTE MANAGEMENT	8,950	20,871	29,821	19,686	19,678	39,364
	HAZARDOUS SUBST INJURY BD	2,110	0	2,110	0	0	0
	AGRICULTURE, DEPT OF	13,818	13,741	27,559	11,863	11,865	23,728
	BOARD OF WATER & SOIL RESOURCES	6,275	8,857	15,132	7,826	7,870	15,696
	BOARD OF ANIMAL HEALTH	2,198	2,191	4,389	2,085	2,080	4,165
	HORTICULTURE SOCIETY	68	68	136	68	68	136
	ACADEMY OF SCIENCE	28	28	56	28	28	56
	NATURAL RESOURCES, DEPT OF	88,769	91,243	180,012	88,410	88,754	177,164
	MN/WISC BOUNDARY AREA COMMISSION	110	115	225	117	117	234
	VOYAGEURS NAT'L PARK ADV COMM	74	72	146	72	72	144
	ZOOLOGICAL GARDEN	9,104	9,167	18,271	8,846	8,826	17,672
	SCIENCE MUSEUM OF MINNESOTA	638	638	1,276	638	638	1,276
	ETHANOL DEV SUBSIDY	MVET	MVET	0	2,000	2,000	4,000
	NON-GAME WILDLIFE FUND (TR OUT)	838	1,900	2,738	2,600	2,650	5,250
TOTAL	ENV & NATURAL RESOURCES	145,923	162,504	308,427	157,501	155,422	312,923

($ in Thousands)

General Fund Summary – Legislative Bill Format

	ACTUAL F.Y. 1990	2-91 EST F.Y. 1991	2-91 EST F.Y. 1990-91	GOV REC F.Y. 1992	GOV REC F.Y. 1993	GOV REC F.Y. 1992-93
INFRASTRUCTURE & REGULATION						
TRANSPORTATION, DEPT OF	4,470	6,241	10,711	7,644	7,643	15,287
REGIONAL TRANSIT BOARD	9,656	7,559	17,215	22,776	22,776	45,552
PUBLIC SAFETY, DEPT OF	27,531	32,291	59,822	32,321	32,315	64,636
PEACE OFFICER TRNG BD	3,621	3,565	7,186	3,583	3,582	7,165
COMMERCE, DEPARTMENT OF	10,359	10,849	21,208	11,741	12,043	23,784
BOARD OF ABSTRACTORS	5	8	13	8	8	16
BOARD OF ACCOUNTANCY	349	373	722	441	445	886
BOARD OF ARCHITECTURAL/ENG	446	425	871	442	470	912
BOARD OF BARBERS EXAMINERS	100	135	235	135	135	270
BOARD OF BOXING	56	63	119	63	63	126
PUBLIC UTILITIES COMMISSION	2,146	2,213	4,359	2,415	2,471	4,886
PUBLIC SERVICE, DEPT OF	6,586	6,996	13,582	7,917	8,177	16,094
GAMING, DEPT OF	139	251	390	202	201	403
LAWFUL GAMBLING CNTRL BD	644	1,962	2,606	1,980	1,978	3,958
STATE LOTTERY	8,304	0	8,304	0	0	0
MN RACING COMMISSION	904	980	1,884	1,046	1,058	2,104
ETHICAL PRACTICES BOARD	293	318	611	340	351	691
MINNESOTA MUNICIPAL BOARD	252	270	522	273	274	547
HISTORICAL SOCIETY	11,927	12,666	24,593	12,570	12,825	25,395
ARTS BOARD	4,137	4,264	8,401	3,320	3,216	6,536
WORLD TRADE CENTER CORP	1,350	835	2,185	0	0	0
GREATER MINN CORP (TR OUT)	0	0	0	12,000	12,000	24,000
LABOR AND INDUSTRY, DEPT OF	7,578	5,379	12,957	5,511	5,589	11,100
SECRETARY OF STATE	2,795	3,758	6,553	4,444	4,722	9,166
MILITARY ORDER PURPLE HEARTS	10	10	20	10	10	20
VETERANS OF FOREIGN WARS	31	31	62	31	31	62
DEBT SERVICE (TR OUT)	189,295	184,294	373,589	204,542	238,086	442,628
ARBITRAGE REBATE (OPEN)	0	0	0	0	2,196	2,196
CAPITAL PROJECT TRANSFERS (TR OUT)	3,866	2,800	6,666	15,000	0	15,000

($ in Thousands)

		ACTUAL F.Y. 1990	2–91 EST F.Y. 1991	2–91 EST F.Y. 1990–91	GOV REC F.Y. 1992	GOV REC F.Y. 1993	GOV REC F.Y. 1992–93
SUBTOTAL	OMNIBUS SPENDING BILL	296,850	288,536	585,386	350,755	372,665	723,420
	MTR VEH EXCISE TRANSFER (TR OUT)	91,540	20,069	111,609	0	0	0
	CAMPAIGN FINANCING (OPEN–TR OUT)	214	4,363	4,577	146	4,323	4,469
	REGION 3 – OCCUPATION TAX (TR OUT)	370	393	763	385	377	762
TOTAL	INFRASTRUCTURE & REGULATION	388,974	313,361	702,335	351,286	377,365	728,651
	STATE GOVERNMENT AFFAIRS						
	LEGISLATURE	42,492	51,770	94,262	49,201	48,717	97,918
	SUPREME COURT	9,280	8,268	17,548	15,379	15,378	30,757
	COURT OF APPEALS	4,130	5,131	9,261	5,445	5,446	10,891
	DISTRICT COURTS	22,580	32,288	54,868	42,689	51,516	94,205
	JUDICIAL STANDARDS, BD OF	138	201	339	171	171	342
	UNIFORM LAWS COMMISSION	17	17	34	21	22	43
	PUBLIC DEFENSE, BD OF	2,712	19,803	22,515	20,782	20,777	41,559
	TAX COURT OF APPEALS	455	463	918	480	482	962
	GOVERNOR/LT GOV OFFICE	3,031	2,847	5,878	2,923	2,916	5,839
	STATE AUDITOR	5,026	5,918	10,944	5,977	5,964	11,941
	STATE TREASURER	600	664	1,264	656	654	1,310
	ATTORNEY GENERAL	18,886	19,913	38,799	19,852	19,824	39,676
	INVESTMENT BOARD	1,741	1,798	3,539	1,992	2,006	3,998
	ADMINISTRATION, DEPT OF	23,617	22,027	45,644	23,126	22,753	45,879
	CAPITOL AREA ARCH & PLNG BD	239	234	473	236	236	472
	STATE PLANNING AGENCY	12,086	9,264	21,350	6,646	6,637	13,283
	FINANCE, DEPT OF	8,196	9,324	17,520	9,148	9,136	18,284
	EMPLOYEE RELATIONS, DEPT OF	10,335	9,914	20,249	8,386	8,254	16,640
	PUBLIC EMPLOYEE RELATIONS BOARD	65	69	134	85	85	170
	REVENUE, DEPT OF	64,923	71,092	136,015	72,463	71,333	143,796
	TRADE & ECONOMIC DEVELOPMENT	38,217	37,697	75,914	29,519	26,875	56,394
	AMATEUR SPORTS COMMISSION	702	443	1,145	447	446	893
	HOUSING FINANCE	12,508	8,984	21,492	12,409	12,409	24,818

($ in Thousands)

	ACTUAL F.Y. 1990	2-91 EST F.Y. 1991	2-91 EST F.Y. 1990-91	GOV REC F.Y. 1992	GOV REC F.Y. 1993	GOV REC F.Y. 1992-93
MEDIATION SERVICES	1,378	1,855	3,233	1,756	1,603	3,359
MILITARY AFFAIRS, DEPT OF	8,517	9,968	18,485	10,100	10,237	20,337
VETERAN AFFAIRS, DEPT OF	2,855	2,668	5,523	2,680	2,674	5,354
HUMAN RIGHTS, DEPT OF	3,023	3,080	6,103	3,131	3,126	6,257
JUDGES RETIREMENT	5,500	5,900	11,400	7,200	7,800	15,000
LEGISLATORS RETIREMENT	456	950	1,406	2,400	2,600	5,000
LEGISL MEMBERS SURV RET (TR OUT)	46	0	46	0	0	0
CONSTITUTIONAL OFFICERS RETIREMENT	112	116	228	200	220	420
PERA SUPPL (TRANSFER OUT)	9	0	9	0	0	0
MPLS PENSION REIMBURSEMENT	10,531	10,955	21,486	10,955	10,955	21,910
LOCAL POLICE/FIRE AMORTIZATION	5,019	4,625	9,644	4,625	4,625	9,250
PRE-1973 RETIRE ADJUSTMENTS	887	917	1,804	917	917	1,834
PENSION CONTRIBUTION	0	0	0	(10,301)	(10,301)	(20,602)
CORE COMMISSION	0	0	0	1,000	(11,000)	(10,000)
TORT CLAIMS	49	557	606	303	303	606
CONTINGENT ACCOUNTS (TR OUT)	0	479	479	1,250	1,250	2,500
FINANCE NON-OPERATING	2,854	550	3,404	50	50	100
INDIRECT COST RECEIPTS OFFSET	(11,096)	(9,000)	(20,096)	(9,000)	(9,000)	(18,000)
TOTAL STATE GOVERNMENT AFFAIRS	312,116	351,749	663,865	355,299	348,096	703,395

($ in Thousands)

	ACTUAL F.Y. 1990	2-91 EST F.Y. 1991	2-91 EST F.Y. 1990-91	GOV REC F.Y. 1992	GOV REC F.Y. 1993	GOV REC F.Y. 1992-93
TAX AIDS & CREDITS						
AGRICULTURAL CREDIT	103,078	7,394	110,472	0	0	0
AID TO LOCAL GOVERNMENT (LGA)	402,938	347,104	750,042	346,280	314,184	660,464
DISPARITY AID	60,214	44,104	104,318	43,154	41,072	84,226
BORDER CITY DISPARITY AID	2,031	2,446	4,477	2,634	2,646	5,280
ATTACHED MACHINERY AID	3,218	3,218	6,436	3,218	3,218	6,436
HOMESTEAD AGRIC CREDIT AID	652,494	664,719	1,317,213	543,505	521,846	1,065,351
SUPPL HMSTD PROP TAX RELIEF	893	894	1,787	910	910	1,820
AID TO POLICE AND FIRE	38,489	39,176	77,665	39,749	40,213	79,962
RTB LEVY REDUCTION	2,360	2,480	4,840	2,604	2,734	5,338
WETLANDS CREDIT & REIMBURSEMENT	37	0	37	0	0	0
NATIVE PRAIRIE CREDIT & REIMB	9	0	9	0	0	0
DISASTER CREDIT	4	0	4	0	0	0
ENTERPRISE ZONE CREDIT	331	131	462	122	122	244
SMALL BUSINESS CREDIT	1,294	0	1,294	0	0	0
HUMAN SERVICES AID	0	26,100	26,100	192,396	192,396	384,792
HACA/DRA ELIM/LGA REDUC	0	0	0	(50,000)	(489,000)	(539,000)
CY 1991 LGA BASE CUT	0	0	0	(50,000)	(50,000)	(100,000)
TOTAL TAX AIDS AND CREDITS	1,267,390	1,137,766	2,405,156	1,074,572	580,341	1,654,913

($ in Thousands)

General Fund Summary – Legislative Bill Format

		ACTUAL F.Y. 1990	2-91 EST F.Y. 1991	2-91 EST F.Y. 1990-91	GOV REC F.Y. 1992	GOV REC F.Y. 1993	GOV REC F.Y. 1992-93
TOTAL	UNALLOTTED/BALANCE FORWARD	5,675	8,461	14,136	0	0	0
	CANCELLATION ADJUSTMENTS						
	CANCELLATION ESTIMATES	0	(10,172)	(10,172)	(10,000)	(10,000)	(20,000)
	LAWS 1991, CHAPTER 2	0	(6,421)	(6,421)	0	0	0
TOTAL	CANCELLATION ADJUSTMENTS	0	(16,593)	(16,593)	(10,000)	(10,000)	(20,000)
	RESERVE/APPROP CARRIED FORWRD						
	BUDGET & CASH FLOW RESERVE	550,000	550,000	550,000	550,000	550,000	550,000
	IN LIEU OF FY91 LGA CUTS	0	(50,000)	(50,000)	0	0	0
	BALANCE FORWARD OUT	73,963	NA	NA	0	NA	NA
TOTAL	RESERVE/APPROP CARRIED FORWARD	623,963	500,000	500,000	550,000	550,000	550,000

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($ in Thousands)