

802674

OPENING STATEMENT

by

GOVERNOR ALBERT H. QUIE

August 20, 1980

copy

As I indicated last month, the Department of Finance would have revised revenue projections in mid-August. Those figures are now available. They indicate that Minnesota continues to face a potential revenue shortfall.

The impact of the floundering national economy which is affecting state after state is now affecting Minnesota. Just as our neighboring states face deficits, so do we. As you may know, Wisconsin is implementing an across-the-board cut to alleviate a \$154 Million shortfall. The Governor of Michigan has ordered a 20% cut in state government for '81 and cut local aids.

A dozen other states have already faced revenue problems. For example, Pennsylvania cut more than 3,000 state employees.

In Oregon, a \$204 Million shortfall -- which is 12.5 percent of the 1979-81 biennial budget -- has led to consideration of cuts in higher education, human resources and other state programs and \$21.5 Million in deferred capital construction.

And the Minnesota economy, although exceptionally resilient, cannot withstand the strain of the national slowdown.

Accordingly, the Department of Finance has revised its revenue projections which indicate that if revenue collections meet present expectations during the next 10½ months, Minnesota will anticipate a \$195 Million deficit for the current biennium ending June 30, 1981.

Obviously, we will monitor this situation monthly. By mid-September the department will have additional information on quarterly

corporate income payments as well as other economic developments. The forecast will again be reviewed when that information is available. But given the news to date, I would be imprudent not to take action beyond that which we asked state agencies to take a month ago.

In meeting this shortfall, I have three options.

1. I could impose some restraints on spending by state agencies and hope that the savings which result and an early upturn in the economy will erase the currently projected deficit. In other words, cross your fingers and hope. I believe more is expected of me than that easy political choice which would postpone difficult decisions until after November.

2. I could call the legislature into session and propose an increase in taxes or put off some of the recently enacted tax relief measures. But I will not back away from the tax cut we gave our people and so I reject that course of action.

3. The third -- and only realistic -- option I have is to reduce the expenditures of state government.

The state's expenditures fall into six major categories, and total this year \$4 Billion.

-- 30% of the budget is consumed by tax refunds, homestead credits, senior citizen property tax relief, payments due on state bonds, pension payments, and other items of a similar nature. These obligations must be met.

-- 10% of the budget is made up of income maintenance and medical assistance payments representing a commitment to our

economically disadvantaged and elderly citizens. While legitimate questions can be raised about the scope and cost of some of the benefits provided through these programs, no overall budget reductions are possible at this time because the programs are experiencing cost increases which make it doubtful they will be able to conclude the budget year within current resources without reducing costs to balance expenses with available funds.

-- 1.6% of the budget reflects the costs of the legislative and judicial branches of government and the constitutional officers. As Governor, I do not have statutory authority to reduce those budgets of the legislative and judicial branches. And since they are duly elected persons similar to myself, I have not proposed reductions in the budgets of the state's constitutional officers. My office will participate in the reduction. To the extent the legislative, judiciary and constitutional officers wish to voluntarily reduce their expenses, I will welcome such assistance.

Given these considerations the budget reduction will need to be achieved over the three remaining categories of state expenditures.

1) State agencies and departments which make up 14½% of the budget.

2) Education aids, state colleges and universities, and educational programs which constitute 37% of the budget.

3) Aids to cities and counties which amount to 6% of the budget.

|                                |                    |
|--------------------------------|--------------------|
| 1. Education                   | \$1,507,000,000    |
| 2. State Departments           | 596,000,000        |
| 3. Aids to Cities and Counties | <u>251,000,000</u> |
| Total                          | \$2,354,000,000    |

These three components of the state budget account for \$2.3 billion of this year's \$4 billion budget. A budget reduction of \$195 million represents 8.3 percent of the above amount.

In considering how to proceed in this matter, I have been guided by the following principles:

1. It is not our intent to cut aid to individuals totally dependent on the government, such as medical assistance and state mental hospitals.
2. I propose to plan for an equitable decrease in state government and aid from the state over an increased tax burden on the citizens.
3. Any budget reductions necessary must be equitably distributed among the three components of state funds--state departments, education and aids to local units of government. In addition, within the education component of the budget, aids to school districts and support for post-secondary institutions and programs must be treated in an equitable manner.
4. Within state departments and agencies, reductions must be applied in a manner which reflects the nature of the services performed by each department or agency and the type of expenditures necessary to provide those services.

The budget reduction program is consistent with these principles and applies a uniform 8.3 percent reduction for each of the three major functions receiving tax dollars.

|                             | <u>Current<br/>Appropriation</u> | <u>8.3%<br/>Reduction</u> |
|-----------------------------|----------------------------------|---------------------------|
| Education                   | \$1,507,000,000*                 | \$124,900,000             |
| State Departments           | 596,000,000                      | 49,400,000                |
| Aids to Cities and Counties | <u>251,000,000</u>               | <u>20,800,000</u>         |
| TOTAL                       | \$2,354,000,000                  | \$195,100,000             |

The reductions required for state departments and agencies will be implemented immediately. At a cabinet meeting tomorrow, Commissioner Burggraaff will announce the procedure for agency heads to follow in making their reductions. The process devised recognizes the differences in each agency's services and costs.

Each department head then has the responsibility and the flexibility to implement that reduction in his/her department. I have urged all department heads, however, to minimize to the extent possible disruptions of services.

Let me say that a month ago when I put state government on notice that we faced a potential revenue shortfall, I had hoped that state government could absorb the entire shortfall. But given that the anticipated deficit has grown--and that the state agencies themselves only account for 14 percent of the budget--the agencies cannot bear the burden of this size alone.

The prospect of this deficit has forced me to make one of the most difficult decisions of my administration. I have no choice but to consider extending the reductions also to local government and school districts.

---

\*Appropriation for aid to school districts \$1,082,000,000, current appropriation for state colleges, universities and education programs \$425,000,000.00.

Final action on school aids and aids to local government will be deferred until mid-September for two reasons. First, this will allow the Departments of Education and Revenue the time necessary to develop specific procedures to equitably allocate the reductions. Second, it will allow us four more weeks to monitor revenue developments and make such adjustments as may be indicated. All school districts, cities and counties should, however, take immediate steps to prepare for the proposed reduction in aids.

Before I turn to Commissioner Burggraaff for his comments let me indicate why I must act now. As you well know the revenue forecast is just that--a forecast not a guarantee.

But despite these difficulties in forecasting, there comes a time to act on the available information. I'm the person given the responsibility by our state law to direct the Commissioner of Finance to reduce the budget.

I've decided to act now rather than next winter or next spring because it's far easier for all units of government to make reductions in their spending plans if they have nearly a year in which to implement them rather than only a few months or weeks.

To reduce spending for the schools, local government and state government will involve some tough decisions. But I am also mindful that these hard choices come about because our people are suffering hard times. The national economic recession is taking its toll on Minnesotans. Thousands of steel workers have been laid off or work shorter hours. Unemployment exists where many did not expect it. Many small businesses have been pushed to the wall.

And as difficult as it has been to make the decisions I have had to make this past week, I would rather be faced with those decisions than have our state's personal income tax revenues grow faster than inflation if we had not indexed the state income tax last year. Because we did index the income tax--in a time of great economic stress--our people are getting tax relief when they need it the most.

The concept of indexing is fair--fair in good times and in bad times. We, in state government, must now tighten our belts just like every family, every business and every nonprofit organization.

We should recognize that we all face a common problem. If we're going to resolve it effectively . . . if we're going to resolve it fairly . . . then we'll all have to pull together.

I won't allow the burden of the deficit to fall disproportionately on some. It won't do any good to point fingers, to hunt villains, to play politics. Meeting the problem fairly means we all work together. Together we can shoulder the burden without too great a pain to any single group or organization.

There is a way to avoid tax increases. That's for all of us in government to continue tightening our belts along with our taxpayers, our families, our businesses and farms, and our state government until the economy turns around. I truly believe that our local officials in Minnesota, who have consistently shown their responsibility, will take the challenge. They will find ways to hold the line on taxes while continuing to provide essential services during the

coming months. I am certain that taxpayers will work closely with their local officials to find ways in these next months to hold the line until our economy recovers.

If we all pull together and share the burden, we'll get the job done.