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ADDRESS BY

GOVERNOR ALBERT H. QUIE

APRIL 15, 1981

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STATE OF MINNESOTA

TONIGHT I'M TAKING THE UNUSUAL STEP OF ADDRESSING MY FELLOW MINNESOTANS DIRECTLY BECAUSE WE HAVE A PROBLEM. A PROBLEM OF HOW TO RESOLVE A \$500 MILLION SHORTFALL IN THE STATE BUDGET OVER THE NEXT TWO YEARS. YOU NEED TO KNOW WHAT I AM GOING TO RECOMMEND TO THE LEGISLATURE TO SOLVE THAT PROBLEM AND YOU DESERVE AN EXPLANATION OF HOW WE HAVE GONE FROM A SURPLUS IN 1979 TO A DEFICIT IN 1981. BUT FIRST, WHAT ARE WE GOING TO DO?

WE HAVE TWO CHOICES. WE CAN EITHER CUT SPENDING OR WE CAN INCREASE TAXES.

LET'S LOOK AT WHETHER WE CAN CUT A HALF BILLION OUT OF THE STATE BUDGET. I THINK THAT WOULD BE EVERYONE'S FIRST CHOICE AND THAT'S CERTAINLY MINE. I HAVE SPENT THE PAST WEEK REVIEWING THE ENTIRE STATE BUDGET THAT I PRESENTED IN JANUARY LOOKING FOR WAYS TO CUT DEEPER AND WE CAN. HERE IS WHAT I RECOMMEND.

--I PROPOSE THAT WE ELIMINATE FOUR STATE AGENCIES -- THE STATE PLANNING AGENCY, ENERGY AGENCY, CRIME CONTROL PLANNING BOARD AND THE DEPARTMENT OF ECONOMIC DEVELOPMENT AND COMBINE THEIR FUNCTIONS INTO ONE STATE AGENCY.

--I PROPOSE THAT WE ABOLISH THE HIGHER EDUCATION COORDINATING BOARD, TRANSFERRING ONLY A FEW OF ITS STAFF TO THE DEPARTMENT OF ADMINISTRATION TO ADMINISTER LOANS AND GRANTS.

--I PROPOSE AN ADDITIONAL 3 PERCENT ACROSS-THE-BOARD REDUCTION IN STATE AGENCIES.

--THESE MEASURES COMBINED WITH OTHER REDUCTIONS TOTAL \$140 MILLION IN ADDITIONAL CUTS IN ACTIVITIES OF STATE GOVERNMENT.

SO WE HAVE ROUGHLY 20% OF THE PROBLEM SOLVED.

NOW, CAN WE CUT ANOTHER \$400 MILLION? LET'S SEE:

SOME OF YOU MIGHT SAY CUT WELFARE MORE. AND WE COULD CUT ALL AFDC PAYMENTS, COMPLETELY WIPE THEM OUT -- WE COULD CUT OUT ALL GENERAL ASSISTANCE AND STILL HAVE ONLY HALF THE PROBLEM SOLVED.

THAT'S HOW BIG \$400 MILLION IS.

WE COULD CUT STATE GOVERNMENT BY \$400 MILLION -- BUT THAT WOULD MEAN CLOSING UP ALL THE PARKS, CLOSING DOWN ALL THE STATE HOSPITALS FOR THE ILL AND RETARDED, AND CLOSING DOWN THE PRISONS.

WE COULD CUT ALL AIDS THE STATE GIVES TO LOCAL GOVERNMENT BUT THE EFFECT WOULD BE YOUR PROPERTY TAXES WOULD GO UP ABOUT \$400 PER HOME.

WE COULD CUT THE AIDS TO ELEMENTARY AND SECONDARY EDUCATION BUT THAT, TOO, WOULD FORCE EITHER HUGE INCREASES IN YOUR PROPERTY TAXES IF THE SCHOOLS MADE UP THE DIFFERENCE OR ELIMINATION OF ALL TRANSPORTATION, SPECIAL PROGRAMS AND ATHLETIC PROGRAMS FOR YOUR CHILDREN IF MANY OF THE SCHOOL BOARDS DECIDED TO ABSORB THE CUT.

NOW, I REALIZE THAT NO ONE WOULD TRY TO SLASH ONE FUNCTION OF GOVERNMENT . . BUT MY INTENT IS TO SHOW YOU HOW TOUGH IT IS TO REASONABLY CUT THE STATE BUDGET WHEN 75% OF IT GOES OUT TO YOUR LOCAL GOVERNMENT AND YOUR SCHOOLS. THAT'S RIGHT -- THE STATE BASICALLY SERVES AS A TAX COLLECTOR FOR OTHER UNITS OF GOVERNMENT.

ALMOST 75% OF THE STATE BUDGET IS TRANSFERRED DIRECTLY TO LOCAL GOVERNMENT AND SCHOOLS. THE STATE DOESN'T SPEND IT BUT HANDS IT DIRECTLY OVER AS AIDS AND TAX RELIEF.

I HAVE ASKED MYSELF CAN I RECOMMEND THAT WE MAKE ANY ONE OR ANY COMBINATION OF THOSE CUTS I JUST LISTED. FOR IT IS MY JOB TO WEIGH THE IMPACT OF CUTTING VITAL SERVICES -- SERVICES THAT AFFECT THE LIFE AND SAFETY OF OUR CITIZENS -- VERSUS THE OBVIOUS IMPACT OF RECOMMENDING TAXES.

AND BELIEVE ME, I HAVE DONE SOME DEEP SOUL SEARCHING ON THIS QUESTION.

I HAVE DONE EVERYTHING IN MY POWER TO CUT SPENDING.

EVERY TIME OUR REVENUES HAVE FALLEN, I HAVE CUT SPENDING.

IN AUGUST I CUT \$195 MILLION OUT OF THE STATE BUDGET AFFECTING STATE AGENCIES, YOUR SCHOOLS AND YOUR LOCAL GOVERNMENTS.

IN JANUARY I CUT STATE AGENCIES BACK 5% FOR FISCAL YEAR 1982.

IN MARCH I FROZE STATE HIRING, CONSULTANTS, TRANSPORTATION  
AND PURCHASES.

TWO WEEKS AGO I WITHDREW MY RECOMMENDATION FOR ANY SALARY  
INCREASE FOR MY DEPARTMENT HEADS, JUDGES, THE GOVERNOR, LIEUTENANT  
GOVERNOR AND OTHER CONSTITUTIONAL OFFICERS FOR THE NEXT TWO YEARS.

ALL MY ACTIONS HAVE BEEN TO CUT -- BUT THERE COMES A POINT  
WHERE YOU TOUCH THE NERVE. WHERE YOU CAN CUT NO MORE WITHOUT DOING  
SERIOUS DAMAGE.

THUS, HAVING GONE AS FAR AS I BELIEVE IS POSSIBLE IN CUTTING  
EXPENSES BY CUTTING \$140 MILLION ABOVE AND BEYOND MY CUTS IN JANUARY,  
I BELIEVE THERE IS NO CHOICE BUT TO LOOK AT A TAX INCREASE.

WHEN I MENTION THAT MANY WILL SAY "I THOUGHT YOU SAID WE  
SHOULDN'T INCREASE TAXES WHEN PEOPLE HAD TO TIGHTEN THEIR BELTS".  
I DID SAY THAT. BUT MY JUDGMENT IS WE CANNOT CUT FURTHER THAN I

HAVE RECOMMENDED.

WE MUST EDUCATE OUR CHILDREN.

WE MUST PROVIDE HIGHER EDUCATION AND TRAINING.

WE MUST CARE FOR OUR ELDERLY, OUR POOR AND HANDICAPPED.

THESE ARE NECESSARY SERVICES THAT WE DO NOT WANT TO  
CUT FURTHER.

I BELIEVE YOU ELECTED ME TO MAKE THE BEST JUDGMENT IN A  
TIME OF CRISIS AND NOT BE LIMITED BY SOMETHING SAID WHEN THE  
CIRCUMSTANCES WERE DIFFERENT.

AT THE STATE LEVEL THERE ARE TWO TAXES AVAILABLE TO US --  
THE SALES TAX AND THE INCOME TAX.

DURING THE PAST WEEK I HAVE DISCUSSED THE POSSIBILITY OF INCREASING THE SALES TAX WITH SEVERAL LEGISLATORS. THERE IS LITTLE SUPPORT FOR SUCH AN INCREASE.

I HAVE DECIDED INSTEAD TO PROPOSE THAT THE LEGISLATURE IMPOSE A 5 PERCENT INCOME SURTAX LIMITED TO TWO YEARS. SUCH A TAX WOULD BE TEMPORARY. IN 1961 A 15 PERCENT SURTAX WAS IMPOSED IN MINNESOTA AND DID EXPIRE 3 YEARS LATER.

THIS 5% SURTAX IS EXPECTED TO RAISE \$237 MILLION OVER THE BIENNIUM.

FURTHERMORE, I RECOMMEND THAT WE MAKE OUR STATE TAX CONFORM TO THE FEDERAL TAX REGARDING THE DEDUCTABILITY OF MEDICAL EXPENSES AND EXPENSES OF THE GAS TAX. MAKING MINNESOTA LAW CONSISTENT WITH FEDERAL LAW WILL RAISE AN ADDITIONAL \$180 MILLION.

FINALLY, I HAVE FOUND THAT WE ARE OVERINDEXING THE INCOME TAX AND I AM PROPOSING THAT WE CORRECT THIS OVERINDEXING.



INDEXING, AS YOU KNOW, KEEPS GOVERNMENT FROM GETTING AN INFLATION BONUS AT YOUR EXPENSE.

MY INTENT HAS BEEN THAT IF YOUR INCOME GROWTH IS EQUAL TO INFLATION, YOU WON'T GET BUMPED INTO A HIGHER BRACKET.

HOWEVER, OUR EXPERIENCE WITH THIS NEW CONCEPT TO DATE REVEALS WE MAY WELL HAVE OVER-INDEXED OUR INCOME TAXES. SOME FINE TUNING IS IN ORDER AND THIS WILL PROVIDE \$57 MILLION.

INDEXING HAS ACCOMPLISHED THREE REMARKABLE RESULTS SINCE ITS ENACTMENT IN 1979.

FIRST, IT WILL HAVE SAVED MINNESOTA TAXPAYERS \$ 292 MILLION, MILLION DURING ITS FIRST TWO YEARS. AND EVEN AFTER ITS CORRECTION, IT WILL SAVE MINNESOTANS ANOTHER \$ 660 MILLION BY THE END OF THE NEXT TWO YEARS.

SECOND, THESE SAVINGS WILL HAVE HAD THE GREATEST BENEFIT FOR MIDDLE INCOME MINNESOTANS.

A THIRD BENEFICIAL EFFECT OF INDEXING IS THAT IT MAKES POLITICIANS DECIDE OPENLY WHETHER TO INCREASE TAXES. BEFORE WE HAD INDEXING, INFLATION AUTOMATICALLY TAXED OUR CITIZENS WITHOUT THE LEGISLATURE EVER HAVING TO CAST A SINGLE VOTE.

SOME LEGISLATORS LONG FOR THOSE GOOD OLD DAYS -- BEFORE INDEXING -- WHEN THEY DIDN'T HAVE TO STAND UP AND BE COUNTED. AND THAT'S ONE OF THE GREATEST ADVANTAGES OF INDEXING -- IT MAKES ALL OF US ACCOUNTABLE. IT IS FOR THAT REASON THAT I WILL VETO ANY ATTEMPT BY THE LEGISLATURE TO PUT A MORATORIUM ON INDEXING OR TO REPEAL INDEXING.

BEYOND INDEXING WHICH HOLDS THE STATE ACCOUNTABLE, I WANT TO GIVE YOU ADDITIONAL TOOLS TO HOLD LOCAL UNITS OF GOVERNMENT ACCOUNTABLE.

I RECOMMEND SCHOOL DISTRICTS BE GIVEN THE AUTHORITY TO REDUCE THEIR PROPERTY TAX LEVY IF THEY HAVE FUND BALANCES IN THE BANK OR THEY CAN/ <sup>PRESENTLY</sup> INCREASE THEIR PROPERTY TAX LEVY OVER 23 MILLS BUT THEY CAN INCREASE IT ONLY AFTER A VOTE OF THE PEOPLE.

IN THE SAME MANNER, I PROPOSE THAT LOCAL GOVERNMENT BE HELD TO AN 8% INCREASE PER YEAR IN EXPENDITURES AND THEY CAN GO OVER THAT AMOUNT ONLY AFTER A VOTE OF THE PEOPLE.

THESE TWO MEASURES SHOULD CONTROL LOCAL EXPENDITURES WHILE AT THE SAME TIME GIVING YOU, THE CITIZEN, A GREATER VOICE IN YOUR OWN FUTURE.

FINALLY, I AM RECOMMENDING TO THE LEGISLATURE THAT WE CANNOT AFFORD TO SPEND EVERY LAST CENT THAT WE EXPECT THE STATE TO COLLECT DURING THE NEXT TWO YEARS.

IN VIEW OF THE DIFFICULTY OF PROJECTING REVENUE, I FEEL IT IS NECESSARY AND PRUDENT MANAGEMENT TO ESTABLISH A \$97 MILLION RESERVE TO COVER POSSIBLE ECONOMIC SHORTFALLS. I ALSO PROPOSE THAT WE NOT SPEND THE ANTICIPATED INCREASE IN STATE REVENUES FROM THE FEDERAL TAX CUT AS AN ADDITIONAL RESERVE.

THE ACTIONS WE MUST TAKE -- CUTTING MORE FROM STATE GOVERNMENT, RAISING ADDITIONAL REVENUE, BUILDING A RESERVE TO PROTECT FROM FUTURE DISRUPTIONS -- WILL SEND A CLEAR SIGNAL THAT MINNESOTA STATE GOVERNMENT IS DEALING DIRECTLY AND FORTHRIGHTLY WITH AN UNSETTLED ECONOMY.

IN MENTIONING THE ECONOMY -- THAT BRINGS ME BACK TO GIVING YOU AN ANSWER TO THE SECOND QUESTION.

HOW DID WE GO FROM A SURPLUS TO A DEFICIT?

FIRST, LET'S REMEMBER WHAT A DEFICIT IS. IT MEANS YOU DON'T HAVE ENOUGH INCOME TO PAY FOR WHAT YOU SPEND. BEAR IN MIND THAT I CANNOT SPEND A CENT THAT WAS NOT APPROPRIATED BY THE LEGISLATURE AND BEAR IN MIND THAT I CANNOT RAISE ANY REVENUE THAT WAS NOT ENACTED BY THE LEGISLATURE. WHILE BOTH OF US ARE RESPONSIBLE FOR THAT, NEITHER OF US IS RESPONSIBLE FOR THE ECONOMY. YOU KNOW AND I KNOW THAT WHEN PEOPLE AREN'T WORKING, THEY DON'T PAY WITHHOLDING TAXES.

WHEN REAL EARNINGS HAVE DROPPED, PEOPLE DON'T PAY AS MUCH SALES TAX. IF CORPORATIONS AREN'T SELLING OR GO OUT OF BUSINESS THEY DON'T PAY AS MUCH CORPORATE INCOME TAX.

THESE THREE TAXES ACCOUNT FOR 80% OF THE STATE'S REVENUES, SO THE ECONOMY HAS A DIRECT BEARING ON THE STATE'S BUDGET.

BUT I KNOW THERE WILL BE CRITICISM THAT WE DIDN'T KNOW THAT REVENUES WOULD BE DOWN THIS MUCH.

THAT IS LIKE ASKING THE FARMERS WHY DIDN'T YOU KNOW IT WOULDN'T RAIN?

IT IS LIKE ASKING THE SNOWMOBILE MANUFACTURERS WHY DIDN'T YOU KNOW IT WOULDN'T SNOW.

IT IS LIKE ASKING THE FORECASTERS ALL OVER THE COUNTRY WHY DIDN'T YOU DO A BETTER JOB OF PROJECTING THE ECONOMY?

YOU KNOW THAT IS A USELESS EXERCISE, BUT IT IS POLITICS.

AND BECAUSE THE ECONOMY IS STILL UNSETTLED, WE CANNOT AFFORD TO RUN WILD ON TAX INCREASES. THE MEASURES I HAVE PROPOSED ARE SELECTIVE AND PRUDENT AND THE SURCHARGE IS TEMPORARY. I DO NOT WANT THESE PROPOSALS TO GIVE INSPIRATION TO THOSE WHO ARE ANXIOUS TO GET ON WITH BIG GOVERNMENT SPENDING AGAIN. AND I ASK YOUR HELP IN MAKING SURE THAT WE KEEP THE LID ON.

IF THE PRIVATE SECTOR IS GOING TO BE ABLE TO GROW, TO PRODUCE JOBS AND REVENUES, WE'VE GOT TO BRING SPENDING AND TAXES UNDER CONTROL.

WE NEED A STRONG PRIVATE SECTOR IN MINNESOTA TO ENSURE MEANINGFUL JOBS FOR OUR CITIZENS. A STRONG PRIVATE SECTOR ALSO MEANS AN ECONOMY STRONG ENOUGH TO PRODUCE THE REVENUES TO PROVIDE ESSENTIAL GOVERNMENT SERVICES SUCH AS EDUCATION AND TRANSPORTATION.

LET ME SAY TONIGHT, AS I CLOSE, THAT A PROBLEM OF THIS MAGNITUDE DIDN'T HAPPEN BECAUSE OF ANY ONE INDIVIDUAL AND NO ONE

INDIVIDUAL IS GOING TO GET US OUT. IT WILL TAKE THE COOPERATION OF  
THE EXECUTIVE / <sup>AND LEGISLATIVE BRANCH,</sup> REPUBLICANS AND DEMOCRATS, THE PRIVATE AND PUBLIC  
SECTOR, TAXPAYERS AND RECIPIENTS. I SEEK YOUR HELP IN TRYING TO  
RESOLVE IT.

DURING THE COMING DAYS AND WEEKS AS YOU EVALUATE MY  
PROPOSALS AND THOSE ALTERNATIVES RAISED BY OTHERS, I ASK YOU TO  
JUDGE ALL SUGGESTIONS BY THE FOLLOWING PRINCIPLES:

FIRST, THE REVISION IN MY BUDGET PROPOSAL SHOULD NOT BE USED  
AS AN EXCUSE TO INCREASE SPENDING.

SECOND, THERE MUST BE OPEN DECISIONS ABOUT REVENUES SO THAT  
THERE ARE NO AUTOMATIC, HIDDEN DECISIONS ON INCREASING TAXES.

ANY PLAN THAT CAN'T MEET THESE TESTS WON'T HAVE MY SUPPORT.  
AND I WOULD ARGUE IT SHOULDN'T HAVE YOURS.

IT MAY SOUND DRAMATIC, BUT WE DO FACE SIGNIFICANT DECISIONS  
ABOUT OUR STATE'S FUTURE IN THE NEXT FEW WEEKS.

THE NUMBER OF JOBS IN MINNESOTA MUST INCREASE.

OUR ECONOMY MUST BE ALLOWED TO PERFORM EFFICIENTLY.

THE LEGISLATURE MUST GET THE JOB DONE BY MAY 18.

WE MUST BRING A DIVERGENCE OF PHILOSOPHIES OF GOVERNMENT  
AND ECONOMY INTO QUICK AND DECISIVE ACTION.

THE PLAN I HAVE JUST SET FORTH DOES THAT.

IT'S NOW TIME FOR THE LEGISLATURE TO ACT. YOU THE CITIZENS  
OF MINNESOTA WILL BE THE FINAL JUDGES.



SUMMARY COMPARISONS

(In Millions)

	<u>Original Recommen- dations</u>	<u>April 1, 1981 Re-Forecast</u>	<u>Differ- ence</u>	<u>New Governors Recommen- dations</u>	<u>Revised Budget</u>	<u>Change From Original</u>
F.Y. 81 Balance Forward	\$ 16.4	\$ (112.3)	\$(128.7)	\$ --	\$ (112.3)	\$(128.7)
Other Resources	\$8,729.3	\$8,330.7	\$(397.6)	\$ 460.1 <del>TAX</del>	\$8,790.8	\$ 62.5
Total Resources	\$8,744.7	\$8,218.4	\$(526.3)	\$ 460.1	\$8,678.5	\$ (66.2)
Recommended Expenditures	\$8,740.7	\$8,721.4	\$ (19.3)	\$(139.6) ✓	\$8,581.8	\$(158.9)
Projected Fund Balance	\$ 4.0	\$ (503.0)	\$(507.0)	\$ 599.7	\$ 96.7	\$ 92.7

TAX SUPPLEMENT  
to the  
GOVERNOR'S BUDGET ADDRESS

April 15, 1981

This material is embargoed until April 15, 1981  
8:00 P.M.

# SUMMARY OF TAX PROPOSALS - GOVERNOR QUIE 4-15-81

## 1. Expenditure Controls

- A. Since three-quarters of the state's budget goes to local governments in the form of aids and credits, it is essential that the amounts paid out not exceed the amounts budgeted for them. Therefore, caps will be placed on the following aids and credits:

	BUDGETED AMOUNT		
	<u>FY 82</u>	<u>FY 83</u>	<u>FY 82/83</u>
Agricultural Aid	\$ 68,400,000	\$ 75,400,000	\$ 143,800,000
Wetlands Credit and Reimbursement	3,200,000	3,700,000	6,900,000
Native Prairie Credit and Reimbursement	100,000	100,000	200,000
Reduced Assessment Credit	10,000,000	13,500,000	23,500,000
Homestead Credit (Includes Mobile Home Credit, but Excludes Taconite Homestead Credit)	<u>436,000,000</u>	<u>472,000,000</u>	<u>908,000,000</u>
TOTAL	\$517,700,000	\$564,700,000	\$1,082,400,000

- B. In addition, increases in property tax levies made by local governments will be limited to eight percent for taxes payable in 1982 and 1983. This limit will not apply to levies made by either local school districts, or the Metropolitan Transit Commission.

## 2. Revenue Measures

- A. Indexing provided for the largest portion of the nearly \$1.7 billion reduction in income and other state tax collections estimated for fiscal years 1980 thru 1983. Bracket indexing alone was estimated to save well over \$900 million.

However, the changing makeup of personal income, the difference between inflation and income growth, and the continued impact of high federal taxes require adjustments in the method of indexing.

Essentially, the current system, unless adjusted would provide about \$57.5 million more relief than was intended to meet our goal of preventing the "inflation bonus." The adjustment is effective beginning tax year 1981.

- B. Medical expenses will still be deductible in computing Minnesota income taxes, but federal rules will be followed, providing the state with \$142.4 million in fiscal years 1982/83.

The change is effective beginning tax year 1981.

- C. Gas taxes will no longer be deductible. The federal government has already eliminated this item as a deduction. The change is effective for tax year 1981 and will provide the state \$31.1 million for fiscal years 1982/83.

- D. A surtax of five percent on Corporate and Individual Income Taxes will be effective July 1, 1981 thru June 30, 1983. This measure will provide \$231.7 million for fiscal years 1982/83.

- E. Summary of Revenue Measures:

	(In Thousands)		
	<u>FY 1982</u>	<u>FY 1983</u>	<u>Biennial</u>
Adjust Indexing	\$ 39,800.0	\$ 17,700.0	\$ 57,500.0
Medical Expense Deductions	67,800.0	74,600.0	142,400.0
Gas Tax Deductions	15,800.0	15,300.0	31,100.0
Income Tax Surcharge	92,800.0	102,200.0	195,000.0
Corporate Tax Surcharge	17,300.0	19,400.0	36,700.0
*License Deductability	---	(2,600.0)	(2,600.0)
Total	<u>\$233,500.0</u>	<u>\$226,600.0</u>	<u>\$460,100.0</u>

\*Item 6 is not a change in the law, but is instead the general fund impact of increased license fees in the Highway Funding proposal.

PAYABLE 1980 ACTUAL, PAYABLE 1981 PRELIMINARY AND PAYABLE 1982  
PROJECTED PROPERTY TAX LEVIES AND CREDITS

<u>Levies*</u>	<u>1980 Actual</u>	<u>1981 Preliminary</u>	<u>Percent Change</u>	<u>1982 Projection**</u>	<u>Percent Change</u>
County	\$ 495,600,000	\$ 563,400,000	13.7%	\$ 608,500,000	8.0%
City	305,900,000	352,700,000	15.3	380,900,000	8.0
Town	33,800,000	41,700,000	23.4	45,000,000	8.0
School -					
Basic Maintenance	525,300,000	491,000,000	- 6.5	625,000,000	27.3
All Other	347,400,000	384,000,000	10.5	424,300,000	10.5
Total	872,700,000	875,000,000	0.3	1,049,300,000	19.9
Special District	50,800,000	66,000,000	29.9	71,900,000	8.9
Total	\$1,758,800,000	\$1,898,800,000	8.0%	\$2,155,600,000	13.5%
<u>Credits</u>					
Agricultural	\$ 52,200,000	\$ 70,400,000	34.9%	\$ 80,600,000	14.5%
Wetlands	-0-	2,300,000	--	2,700,000	17.4
Native Prairie	-0-	100,000	--	100,000	-0-
Reduced Assessment	-0-	10,000,000	--	13,500,000	35.0
Taconite Homestead	13,000,000	13,900,000	6.9	15,100,000-A	8.6
Supplemental Homestead	-0-	400,000	--	450,000	12.5
State Paid Homestead	358,300,000	432,000,000	20.6	468,000,000-B	8.3
Total Credits	\$ 423,500,000	\$ 529,100,000	24.9%	\$ 580,450,000	9.7%
<u>Net Tax Payable</u>	\$1,335,300,000	\$1,369,700,000	2.6%	\$1,575,150,000	15.0%
<u>Senior Citizen Homeowner's Credit</u>	35,400,000	31,800,000	-10.2	32,700,000-C	2.8
<u>Property Tax Refund Credit***</u>	47,200,000	31,000,000	-34.3	32,700,000-D	5.5
<u>Net Tax Liability</u>	\$1,252,700,000	\$1,306,900,000	4.3%	\$1,509,750,000	15.5%

\*Levies include the levy on fiscal disparity distribution value.

\*\*All levies except school district and transit district levies reflect a uniform 8 percent increase. The school district basic maintenance levy reflects a 16.3 percent increase in adjusted assessed value and a local effort mill rate of 23 mills. All other school district levies reflect the same increase as from 1980 to 1981 (10.5 percent). Transit district levies reflect the same increase as the 1981 to 1982 assessed value increase (10 percent).

\*\*\*Under age 65 homeowner's credit.

- A - This amount does not include the mobile home taconite homestead credit of \$400,000.
- B - This amount does not include the mobile home state paid homestead credit of \$4,000,000.
- Fiscal year 1982 budget expenditure.
- Fiscal year 1983 budget expenditure.

Note: Fiscal year figures may differ from figures shown for calendar years.

PROPERTY TAX RELATED AIDS AND CREDITS: FISCAL YEARS 1982 AND 1983  
(January Budget And April 14, 1981 Projections)

	January Budget		April 14, 1981 Projections*	
	1982	1983	1982	1983
Local Government Aid	\$270,520,300	\$270,520,300	\$270,520,300	\$270,520,300
Taconite Aid Reimbursement			561,050	561,050
Agricultural Credit	69,378,600	78,626,300	68,400,000	75,400,000
Wetlands Credit & Reimbursement	1,260,000	1,260,000	3,200,000	3,700,000
Native Prairie Credit & Reimbursement	500,000	500,000	100,000	100,000
Reduced Assessment Credit	10,000,000	13,000,000	10,000,000	13,500,000
Taconite Homestead Credit <sup>1</sup>	17,331,100	18,209,200	18,818,121	20,123,193
Supplemental Homestead Credit			425,000	475,000
State Paid Homestead Credit <sup>2</sup>	436,000,000	472,000,000	436,000,000	472,000,000
Property Tax Refund	34,300,000	34,950,000	35,500,000	37,200,000
Renters Credit	95,500,000	107,400,000	101,400,000	121,000,000
Senior Citizen And Disabled Credit	70,500,000	74,200,000	72,700,000	78,800,000

\*All levies except school district and transit district levies reflect a uniform 8 percent increase. The school district basic maintenance levy reflects a 16.3 percent increase in adjusted assessed value and a local effort mill rate of 23 mills. All other school district levies reflect the same increase as from 1980 to 1981 (10.5 percent). Transit district levies reflect the same increase as the 1981 to 1982 assessed value increase (10 percent).

1 - Figures are for the tax collections to this fund. Taconite Homestead Credit estimates are \$15,000,000 for 1982 and \$16,000,000 for 1983.

2 - Includes homestead credit for mobile homes.

Prepared by: Local Government Aids and  
Analysis Division

April 14, 1981

Note: Fiscal year figures may differ from figures shown for calendar years.

PROPERTY TAX BILLS OF REPRESENTATIVE HOMEOWNERS IN 1981 AND 1982 AFTER  
THE SUBTRACTION OF THE STATE PAID HOMESTEAD CREDIT AND PROPERTY TAX REFUND

Market Value Of Home	HOUSEHOLD INCOME							
	\$10,000		\$20,000		\$30,000		\$40,000	
	1981	1982	1981	1982	1981	1982	1981	1982
\$ 25,000	\$ 144	\$ 138	\$ 146	\$ 165	\$ 146	\$ 165	\$ 146	\$ 165
40,000	131	136	267	300	267	300	267	300
60,000	280	340	376	436	449	555	449	555
80,000	557	754	613	754	827	1,024	907	1,104
100,000	1,045	1,303	1,045	1,303	1,315	1,573	1,395	1,653

-----  
1981 Tax based on an 87 mill rate.

1982 Tax based on a 98 mill rate -- a 12.6% increase in gross taxes.

*Note: Fiscal year figures may differ from figures shown for calendar years.*

Prepared by: Local Government Aids and  
Analysis Division  
April 15, 1981



# STATE OF MINNESOTA

OFFICE OF THE GOVERNOR

ALBERT H. QUIE  
GOVERNOR

ST. PAUL 55155

April 15, 1981

To Members of the Legislature:

The purpose of this memo is to provide you with a summary and explanation of the specific measures I recommend to revise the 1981-83 biennial budget to accommodate the reduced level of revenues now estimated for fiscal years 1981, 1982, and 1983.

## A. Concluding Fiscal Year 1981

The Department of Finance now estimates that if no further measures are taken to increase revenues or reduce expenditures, we will conclude F.Y. 1981 with a General Fund deficit of \$112.3 million. This will result from the following considerations:

(In Thousands)

<u>Resources</u>	<u>January Estimate</u>	<u>Revised</u>	<u>Difference</u>
Balance Forward	\$ 120,910.0	\$ 120,910.0	\$ -0-
Prior Year Adjustments	15,000.0	1,500.0	(13,500.0)
Accruals Per GAAP	(31,147.3)	(31,147.3)	-0-
Adjusted Balance Forward	\$ 104,762.7	\$ 91,262.7	(13,500.0)
Individual Income Tax	1,937,600.0	1,831,000.0	(106,600.0)
Corporate Income Tax	369,800.0	356,800.0	( 13,000.0)
General Sales Tax	718,900.0	704,600.0	( 14,300.0)
Accelerated Withholding	60,000.0	61,400.0	1,400.0
All Other Non-Dedicated	774,209.5	779,749.1	5,539.6
Revenue Refunds	(343,730.7)	(356,303.4)	( 12,572.7)
Net Non-Dedicated Revenues	\$3,516,778.8	\$3,377,245.7	(\$139,533.1)
Dedicated Revenues	\$ 159,711.2	\$ 159,711.2	-0-
Transfers from Other Funds	45,203.0	43,784.2	(1,418.8)
<b>TOTAL RESOURCES</b>	<b>\$3,826,455.7</b>	<b>\$3,672,003.8</b>	<b>(\$154,451.9)</b>



(in thousands)

<u>Expenditures</u>	<u>January Estimate</u>	<u>Revised</u>	<u>Difference</u>
Direct Appropriations	\$2,595,680.3	\$2,594,683.5	\$ (996.8)
Open & Standing Appropriations	1,156,922.4	1,158,399.4	1,477.0
Dedicated Revenue Expenditures	159,711.2	159,711.2	-0-
Transfers to Other Funds	122,054.8	120,896.4	(1,158.4)
Budget Reduction Program	195,123.3	195,123.3	-0-
Cancellation Adjustment	(32,500.0)	(57,500.0)	(25,000.0)
Appropriations Carried Forward	3,261.8	3,261.8	-0-
<b>TOTAL EXPENDITURES</b>	<b>\$3,810,007.2</b>	<b>\$3,784,329.0</b>	<b>\$ (25,678.2)</b>
<b>UNRESTRICTED FUND BALANCE</b>	<b>\$ 16,448.5</b>	<b>\$ (112,325.2)</b>	<b>\$(128,773.7)</b>

After careful review of the revenue and expenditure options available, I have concluded that none will yield sufficient additional resources or further reductions in expenditures to achieve a positive fund balance by June 30, 1981, without massive disruption of essential state services. It would not serve the public interest to achieve a balanced budget at the expense of temporarily closing state hospitals, correctional facilities and educational institutions. For that reason, I am recommending that the anticipated negative fund balance be carried forward into the next biennium and addressed as part of the 1982/83 budget. To insure that no legal issues arise, I am further recommending that the Legislature explicitly approve this procedure.

#### B. Revised 1982/83 Outlook

In revising the estimates for the 1982/83 biennium, the Department of Finance has incorporated the following considerations in the table which follows:

1. The negative balance forward from F.Y. 1981.
2. Reduced estimates of revenues to be realized during 1982/83.
3. Updated estimates of the cost of "open and standing" authorizations.
4. Supplemental budget recommendations I have made since transmittal of the budget to the Legislature.

300 mil  
500 General fund  
used for  
biennium

(In Thousands)

<u>Resources</u>	<u>January Estimate</u>	<u>Revised</u>	<u>Difference</u>
Balance Forward	\$ 19,710.3	\$ (108,849.5)	\$(128,559.8)
Prior Year Adjustments	25,000.0	11,000.0	(14,000.0)
Adjusted Balance Forward	44,710.3	(97,849.5)	(142,559.8)
Individual Income Tax	4,679,125.0	4,360,000.0	(319,125.0)
Corporate Income Tax	784,022.5	817,800.0	33,777.5
General Sales Tax	1,772,020.0	1,722,700.0	(49,320.0)
New Legislation	106,060.0	107,983.0	1,923.0
All Other Non-Dedicated	1,721,710.0	1,698,062.2	(23,647.8)
Revenue Refunds	(765,418.3)	(798,923.5)	(33,505.2)
Net Non-Dedicated Revenues	8,297,519.2	7,907,621.7	(389,897.5)
Dedicated Revenues	350,576.4	355,526.7	4,950.3
Transfers from Other Funds	55,163.7	56,434.3	1,270.6
TOTAL RESOURCES	\$8,747,969.6	\$8,221,733.2	\$(526,236.4)
<u>Expenditures</u>			
Direct Appropriations	\$5,459,774.3	\$5,413,596.6	\$ (46,177.7)
Open & Standing Appropriations	2,672,401.4	2,688,544.2	16,142.8
Dedicated Revenue Expenditures	350,576.4	355,526.7	4,950.3
Transfers to Other Funds	322,990.3	328,781.3	5,791.0
Cancellation Adjustment	(65,000.0)	(65,000.0)	-0-
Appropriations Carried Forward	3,261.8	3,261.8	-0-
TOTAL EXPENDITURES	\$8,744,004.2	\$8,724,710.6	\$ (19,293.6)
UNRESTRICTED FUND BALANCE	\$ <u>3,965.4</u>	<u>(502,977.4)</u>	(506,942.8)

### C. Revised Recommendations for 1982/83

In preparing recommendations to revise the 1982/83 budget to reflect the circumstances we now face, I have been guided by five considerations.

1. To the extent feasible, the gap between resources and expenditures should be closed through reductions in expenditures.
2. Any measures to increase tax revenues should be direct and visible. The public should have a clear understanding of how it will be affected.

3. The revised budget should provide for control of expenditures from major "open and standing" appropriations to insure that such expenditures do not exceed the amounts budgeted.
4. The revised budget should provide for a projected fund balance to guard against unanticipated contingencies in revenues or expenditures.
5. All measures proposed should be such that they can be readily reviewed and acted upon by the Legislature in the time remaining between now and the scheduled end of the Legislative Session.

#### Reductions in Proposed Expenditures

In reviewing the expenditure levels proposed in my initial budget for possible reductions, due consideration was given to the substantial reductions/cost containment measures already incorporated in that document. It is also my judgment that no reductions should be contemplated in the various tax relief aids and credits, retirement contributions, and other mandated payments of the state. Additionally, I do not recommend any reductions in the limited number of new programs I have proposed to improve the long-term economic climate of the state. A schedule of all expenditures exempted from the reduction measures recommended below is attached to this memo.

The expenditure reductions recommended are as follows:

##### 1. General Budget Reduction

I am recommending a three percent across-the-board reduction in all state expenditures proposed in my initial budget except those exempted in the attached schedule or addressed explicitly in the other recommendations which follow.

	<u>F.Y. 1982</u>	<u>F.Y. 1983</u>	<u>Biennial</u>
Savings	\$34,278,500	\$35,916,300	\$70,194,800

##### 2. State Share-School Aids

I am recommending that the local effort in support of public education be returned to 23 mills rather than the 21 mills contemplated in my initial budget. While

this will reduce state costs by \$53.7 million, the resulting need to increase property tax relief expenditures will reduce the net savings to the amounts indicated below. I am also recommending that the state dollars "saved" as a result of the higher-than-anticipated EARC growth be deducted from the aids budget. This change was anticipated and incorporated in the April 1st fund balance forecast which yielded the \$503 million problem. I will not recommend any additional resources for aids--it is my belief that the dollars I have already recommended are adequate to meet the needs of school districts. All the measures I am recommending will still result in the state providing more than 70% of the total cost of K-12 education.

	<u>F.Y. 1982</u>	<u>F.Y. 1983</u>	<u>Biennial</u>
Reduced Aids	\$3,249,700	\$(57,018,900)	\$(53,769,200)
Increased Credits	8,000,000	5,899,600	13,899,600
Net Savings	\$11,249,700	\$51,119,300	\$(39,869,600)

### 3. Shade Tree Program

I am recommending that the Shade Tree Program of the Department of Agriculture be reduced to one-half the size contemplated in my initial budget. This includes a reduction in the administrative costs of the program as well.

	<u>F.Y. 1982</u>	<u>F.Y. 1983</u>	<u>Biennial</u>
Savings	\$5,189,600	\$4,796,000	\$9,985,600

### 4. Repair and Betterment Acceleration

The initial budget proposed a major expansion of resources for repair and betterment of state facilities by those agencies which operate state buildings. I am recommending that those proposed increases be rescinded.

	<u>F.Y. 1982</u>	<u>F.Y. 1983</u>	<u>Biennial</u>
Savings	\$4,830,200	\$3,229,800	\$8,060,000

*Higher  
Tuition*

5. Consolidation of State Agencies

I am recommending that the State Planning Agency, Energy Agency, Crime Control Planning Board, and Department of Economic Development be abolished and replaced with a single state Department of Energy, Community and Economic Resources. The net savings (after allowing for cost associated with phasing out positions) will be over eight million dollars for the biennium.

	<u>F.Y. 1982</u>	<u>F.Y. 1983</u>	<u>Biennial</u>
Savings	\$3,050,000	\$4,976,400	\$8,026,400

6. Abolishment of Higher Education Coordinating Board

I am recommending that the HECB be abolished as a state agency. I am further recommending that the HECB's financial aid administration activities be transferred to the Department of Administration and ~~its~~ service activities (such as Minite~~x~~) be transferred to other units of the education community. The net savings after allowing for phase out costs for 31 positions now engaged in planning, coordination, and administration will be as indicated below.

	<u>F.Y. 1982</u>	<u>F.Y. 1983</u>	<u>Biennial</u>
Savings	\$1,051,800	\$937,200	\$1,989,000

7. Community Health Formula Changes

My initial budget provided for an improvement in the existing formula for community Health grants. In view of current circumstances, I am rescinding my recommendation for such formula improvement.

	<u>F.Y. 1982</u>	<u>F.Y. 1983</u>	<u>Biennial</u>
Savings	\$1,000,000	\$1,000,000	\$2,000,000

8. Business Licensing Center

My initial budget provided funding for a new Business Licensing Center. I am recommending withdrawal of this funding in the following amounts:

	<u>F.Y. 1982</u>	<u>F.Y. 1983</u>	<u>Biennial</u>
Savings	\$229,600	\$230,000	\$459,600

## 9. Other Expenditure Changes

In addition to the above items, the Department of Finance has reviewed all other expenditures proposed in my initial budget. As a result of that review, several minor adjustments have been made in estimated expenditures as follows:

	<u>F.Y. 1982</u>	<u>F.Y. 1983</u>	<u>Biennial</u>
Savings	\$ (428,500)	\$ (67,000)	\$ (495,500)

In summary form, the budget reductions I am recommending are as follows:

	<u>F.Y. 1982</u>	<u>F.Y. 1983</u>	<u>Biennial</u>
1. General Budget Reduction	\$34,278,500	\$ 35,916,300	\$ 70,194,800
2. State Share-School Aids	(11,249,700)	51,119,300	29,869,600
3. Shade Tree Program	5,189,600	4,796,000	9,985,600
4. Repair and Betterment Acceleration	4,830,200	3,229,800	8,060,000
5. Consolidation of State Agencies	3,050,000	4,976,400	8,026,400
6. Abolishment of HECB	1,051,800	937,200	1,989,000
7. Community Health Formula	1,000,000	1,000,000	2,000,000
8. Business Licensing Center	229,600	230,000	459,600
9. Other Expenditure Changes	(888,000)	(67,000)	(955,000)
<b>Total</b>	<b>\$37,492,000</b>	<b>\$102,138,000</b>	<b>\$139,630,000</b>

## Proposed Increases in State Tax Revenues

Because the budget reductions I have recommended represent only a partial solution to the problem we face, it is clear that it will be necessary to increase state revenues above the amounts which will be collected under the existing tax structure.

I am determined that this should be accomplished openly through an explicit tax increase. Moreover, I am also determined that--to the extent possible--the increase should remain in place only so long as necessary to compensate for the adverse economic circumstances we now face.

Accordingly, the tax increases I am recommending are as follows:

### 1. Correct Income Tax Indexing

The best information now available clearly indicates that the income tax indexing mechanism enacted in 1979 "over-indexes" tax brackets and personal credits. Our original intent was that the tax burden of our citizens should not increase simply because of inflation; we now find that the indexing mechanism we devised over-compensates for inflation. While the correction required is modest, it should be made.

	<u>F.Y. 1982</u>	<u>F.Y. 1983</u>	<u>Biennial</u>
Increased Revenue	\$39,800,000	\$17,800,000	\$57,500,000

2. Conform to Federal Laws - Medical Deductions

I also recommend that state law governing the deductibility of medical expenses be modified to conform with federal law.

	<u>F.Y. 1982</u>	<u>F.Y. 1983</u>	<u>Biennial</u>
Increased Revenue	\$67,800,000	\$74,600,000	\$142,400,000

3. Conform to Federal Law - Gas Tax Deduction

Several years ago the federal government eliminated gas taxes paid as itemized deductions on the theory that allowing such deductions was contrary to the public policy objective of encouraging conservation. I now recommend that the state take similar action.

	<u>F.Y. 1982</u>	<u>F.Y. 1983</u>	<u>Biennial</u>
Increased Revenue	\$15,800,000	\$15,300,000	\$31,100,000

4. Temporary Income Tax Surcharge

To provide the additional revenues necessary to meet our needs during the coming biennium, I also recommend a five percent income tax surcharge for the next two years. This surcharge should be enacted with a certain termination date of June 30, 1983.

	<u>F.Y. 1982</u>	<u>F.Y. 1983</u>	<u>Biennial</u>
Increased Revenue	\$92,800,000	\$102,200,000	\$195,000,000

5. Temporary Corporate Income Tax Surcharge

To insure that the increased tax burden is equitably shared by individuals and businesses, I also recommend a five percent temporary surcharge be added to the corporate income tax through June 30, 1983.

	<u>F.Y. 1982</u>	<u>F.Y. 1983</u>	<u>Biennial</u>
Increased Revenue	\$17,300,000	\$19,400,000	\$36,700,000

In my judgment the above measures represent the most equitable way to raise the additional revenues required. They retain an indexed tax structure as our basic measure for determining each citizens' tax liability and add an equal surcharge. Moreover, since the tendency to itemize deductions increases with income level, there should be no question as to a disproportionate impact on lower and middle income levels.

Finally, it is also necessary to incorporate the impact of my proposed highway financing measures on the state income tax system. Since the increased cost of license fees will--to some extent--be deductions on individual and corporate income taxes, the net revenue loss is estimated at \$2.6 million in F.Y. 1983.

A summary of the revenue measures I am recommending is as follows:

	(In Thousands)		
	F.Y. 1982	F.Y. 1983	Biennial
1. Correct Indexing	\$ 39,800.0	\$ 17,700.0	\$ 57,500.0
2. Medical Expense Deductions	67,800.0	74,600.0	142,400.0
3. Gas Tax Deductions	15,800.0	15,300.0	31,100.0
4. Income Tax Surcharge	92,800.0	102,200.0	195,000.0
5. Corporate Tax Surcharge	17,300.0	19,400.0	36,700.0
6. License Deductability	-	(2,600.0)	(2,600.0)
Total	\$233,500.0	\$226,600.0	\$460,100.0

The combined impact of the expenditure reductions and revenue increases I am recommending is a projected fund balance for June 30, 1983 of \$96.7 million. While this amount may be augmented by the direct tax benefits the state will realize as a result of a possible federal tax cut, it is my judgment that it would not be prudent to explicitly anticipate such benefits at this time.

It is also my judgment that this amount represents a margin of safety which must be maintained to safeguard against possible variations in actual revenues or unanticipated expenses. For that reason, I will resist any efforts to obligate this projected balance for other purposes.

A detailed fund balance analysis incorporating all of the above recommendations will be provided to legislative committees and staff before the end of this week. Legislation required to implement several of the recommendations will be available early next week.

I am confident that the above recommendations can be reviewed and acted upon by the Legislature in time to insure that the Legislature can conclude its session as scheduled.



Schedule of Exemptions  
From  
General Budget Reduction

*30% against  
post-sec  
& Dept.*

	<u>F.Y. 1982</u>	<u>F.Y. 1983</u>	<u>Biennial</u>
New Legislation (Except Housing Finance and Salary Supplements)	\$ 15,280,900	\$ 13,512,000	\$ 28,792,900
Education Aids .	1,140,764,700	1,080,854,700	2,221,619,400
Tax Relief Aids and Credits	1,071,365,700	1,134,998,900	2,206,364,600
Retirements	179,799,200	193,890,500	373,689,700
Mining Apportionment	58,661,800	60,696,000	119,357,800
Other Open and Standing	2,643,300	2,643,400	5,286,700
Transfers to Other Funds (Except Transfers Reimbursing the Trunk Highway Fund for Transportation and Public Safety Administrative Expenses)	157,233,400	168,481,400	325,714,800
<i>Pre-73</i> Income Maintenance/Medical Assistance	<i>11.3m.</i> 412,700,000	420,200,000	832,900,000
<b>New Initiatives</b>			
State University Board Metro State Nursing Program	308,400	218,300	526,700
University of Minnesota			
Agriculture Extension	600,000	600,000	1,200,000
Agricultural Research	780,000	780,000	1,560,000
Geological Survey	199,500	181,600	381,100
Mineral Resources Research	300,000	450,000	750,000
Science and Technology Center	300,000	400,000	700,000
Plant Biomass Research	225,000	250,000	475,000
External Masters-Nursing	50,000	60,000	110,000
CEE Microwave Tower	70,000	-0-	70,000
Subtotal-University of Minnesota	\$2,524,500	\$2,721,600	\$5,246,100
Agriculture Department			
Marketing Program	148,000	251,000	399,000
Family Farm Security	500,000	1,200,000	1,700,000
Subtotal-Agriculture Department	648,000	1,451,000	2,099,000
Natural Resources Department			
Forest Intensification	1,575,000	1,778,500	3,353,500
Subtotal New Initiatives	5,055,900	6,169,400	11,225,300
Total Exemptions	<u>\$3,043,504,900</u>	<u>\$3,081,446,300</u>	<u>\$6,124,951,200</u>