

Chronology of Minnesota's
Fiscal Crisis July 1, 1979
through December 31, 1982

Occasional Paper Number 1

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Fiscal Crisis July 1, 1979
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Occasional Paper Number 1

by

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C.H.S.

Introduction

An economic recession has produced a fiscal crisis for Minnesota. Shortfalls in estimated revenue collections beginning in the 1979-81 Biennium have resulted in reduced appropriations for all state supported services. Recent forecasts indicate continued recession and otherwise lower state revenue during the 1983-85 Biennium.

State budget information is extensive and complex. Comprehension of budgetary conditions and trends is difficult for persons not professionally involved on a day-to-day basis. This paper focuses primarily on the state accounting general fund, one of fifty-some funds the state uses to account for resources it collects. The general fund is the largest and recognizes revenues and expenditures for programs not accounted for in special revenue funds. Major sources of revenue include individual income, corporate income, sales, gross earnings, and other taxes. Major operating expenditures are for health and social service, education, property tax relief, state government, etc.

At the risk of oversimplification, this paper summarizes fiscal events in a chronological framework of revenue receipts, cash flow, and projected fund balance from July 1, 1979 through December 31, 1982. Fiscal events include both actions of elected officials (tax bills, appropriation bills, vetoes, executive orders, statements of policy position, etc.) and management actions (forecasts, receipt/disbursement monitoring, projections, cash flow budgeting etc.). Attention to underlying economic causes of trends is beyond the scope of this paper. Its purpose will be achieved to the extent that the chronology expands awareness of Minnesota's present fiscal condition and the budget problems that lie ahead.

July 1, 1979

The Minnesota general fund budget began the 1979-81 Biennium in a favorable budgetary condition.

Tax and appropriation laws included a \$710.6 million tax reduction package that featured property tax relief and "indexing" to control the impact of inflation on state income taxes.

General Fund Budget Summary 1979-81 Biennium
In millions

Estimated balance forward	\$ 297.3
Estimated revenues and transfers	<u>7,962.8</u>
Resources available	8,260.1
Tax relief	710.6
Expenditures and transfers	<u>7,517.8</u>
Projected balance 6/30/81	\$ 31.7

April 23, 1980

In the 1980 mid-biennium session House File 1121 passed the House 103-29 and the Senate 57-0 providing increased homestead credit and other tax relief measures. The Governor signed the bill (Laws 1980 Chapter 607). The condition of the general fund budget for the 1979-81 Biennium had been changed as of the close of the 1980 regular session as follows (in millions):

Previous projected balance	\$ 31.7
Increased revenue forecast	127.6
Transfer to Debt Service	(76.2) *
1979 Closing adjustments	<u>37.6</u>
New resources available	120.7
Additional appropriations and transfers	<u>117.0</u>
Projected balance 6/30/81	\$ 3.7

*Ruling by Attorney General required maintenance of a Debt Service reserve instead of monthly transfers.

May 31, 1980

General fund receipts of \$236.9 million for May 1980 were \$34.1 million below January 1981 estimates for that month making a \$14.8 million variance from year-to-date revenue estimates. This significant variance was a first indication of a potentially unfavorable budget condition.

June 16, 1980

A Department of Finance budget fund balance analysis update indicated that a relatively small general fund balance of \$25.2 million was projected for the end of the 1979-81 Biennium.

General Fund Budget Summary 1979-81 Biennium
In millions

Balance forward from 1977-79	\$ 296.6
Estimated revenue and transfers	<u>7,616.4</u>
Resources available	<u>7,913.0</u>
Estimated expenditure and transfers	<u>7,887.8</u>
Projected balance 6/30/81	\$ 25.2

June 30, 1980

State general fund revenue receipts for June 1980 were \$286.3 million, \$69.5 million below the January 1980 estimates for the month and \$90.5 million below estimates for the end of FY 1980.

July 11, 1980

The Governor convened a public meeting of state agency heads, legislative leaders, and media representatives to report the June 30, 1980 state financial condition, ordered a revised revenue forecast, and put local government and school district officials on notice that a significant shortfall in revenues could result in state aid reductions.

July 31, 1980

State general fund revenue receipts for July 1980 were \$160.8 million, \$1.2 million above revised estimates for the first month of FY 1981. Ending cash balance was \$170.2 million.

August 21, 1980

The Department of Finance issued a revised general fund forecast showing a net shortfall of \$198.8 million for the 1979-81 Biennium. When combined with the projected balance of \$3.7 million, the short fall required a cut of \$195.1 million to yield a "0" balance at the end of the biennium. (The balance was somewhat illusory in that the Attorney General ruled that the Executive Branch did not have authority to reduce appropriations in other services to cover an estimated \$59 million overrun in welfare without legislative approval.)

Under the authority of M.S. 16A.15 Subd. 1, the Governor made a policy decision that the Commission of Finance reduce allotments to avoid a deficit as opposed to calling a special legislative session. The announced reductions were as follows (in millions):

State and Semi-State Agencies	\$ 49.7
Higher Education, Department of Ed., HECEB, and MECC	35.0
Aids to School Districts	89.5
Aids to Local Government	20.9
Total	<u>\$ 195.1</u>

August 31, 1980

State general fund revenue receipts for August 1980 were \$279.3 million, \$20.8 million below the August 1980 forecast making a year-to-date revenue shortfall of \$19.6 million. Ending cash balance was \$201.0 million.

September 30, 1980

State general fund revenue receipts for September 1980 were \$328.2 million, \$14.1 million above August 1980 revised forecasts reducing the net year-to-date variance to \$5.5 million below estimates. Ending cash balance was \$200.6 million.

October 21, 1980

A hearing was held in Ramsey County District Court on a suit filed by the Minnesota Federation of Teachers challenging the constitutionality of M.S. 16A.15 Subd. 1 authorizing the Governor to reduce aids to school districts to balance the budget.

October 31, 1980

State general fund revenue receipts were \$182.6 million, \$.6 million above August 1980 estimates making net receipts \$4.9 million below year-to-date estimates. Ending cash balance was \$45.7 million.

November 18, 1980

The State sold \$100 million in short term certificates of indebtedness at 8.47 percent interest to facilitate cash flow.

November 30, 1980

Beginning with school foundation aid payments for November 1980 all districts received a 5.3 percent recision for the year to be spread equally over seven monthly payments ending in May 1981 implementing the \$89.5 million reduction in school aids. Cuts to local governments were to be made in March 1981 but payments were postponed until the end of December 1980 to facilitate cash flow.

State general fund revenue receipts for November 1980 were \$261.6 million, \$46.4 million below the August 1980 forecast making the net receipts \$51.4 million below year-to-date

estimates. Ending cash balance was a negative \$42.8 million; including the \$100 million in short-term borrowing it was \$57.2 million.

December 31, 1980

State general fund revenue receipts were \$344.6 million for December 1980, \$24.7 million above the August 1980 forecast making the net receipts \$26.7 million below year-to-date estimates. Ending cash balance was a negative \$95.2 million; including the \$100 million in short-term borrowing it was \$4.8 million.

January 6, 1981

The 1981 regular session of the 72nd Minnesota was convened. In the 67 member Senate, 44 members were Democratic-Farmer-Labor and 23 were Independent-Republican. The 134 member House of Representatives had 70 Democratic-Farmer-Labor Party members and 64 Independent-Republican members.

January 21, 1981

A budget fund balance analysis incorporating the \$195.1 million spending reduction and other adjustments to the 1979-81 Biennium budget supported the following summary:

General Fund Budget Summary 1979-81 Biennium
In millions

Balance forward from 1977-79	\$ 257.4
Estimated revenue and transfers	<u>7,129.9</u>
Resources available	<u>7,387.3</u>
Estimated expenditures and transfers	<u>7,367.6</u>
Projected balance 6/30/81	\$ 19.7

The budget fund balance analysis which supported the Governor's recommended budget for the 1981-83 Biennium to be presented January 27, 1981 is summarized as follows:

General Fund Budget Summary 1981-83 Biennium
In millions

Balance forward from 1979-81	\$ 44.7
Estimated revenue and transfers	<u>8,703.3</u>
Resources available	<u>8,748.0</u>
Estimated expenditure and transfers	<u>8,740.7</u>
Projected balance 6/30/83	\$ 7.3

January 27, 1981

In his biennial budget message, the Governor proposed an \$8.7 billion 1981-83 Biennium budget, an 18.6 percent increase over the previous biennium billed as not providing more services than the citizens could afford. The \$1.4 billion increase was to be supported by \$1.3 billion in new revenue expected from moderate economic growth with 10 percent to 11 percent inflation. Additional revenue was to be obtained by one-time inclusion of two federal income tax refunds in taxable Minnesota income (\$51.4 million), increased state income tax compliance (\$38 million), making state telephone-telegraph tax current (\$37 million), increasing delinquent tax interest rate from 8 percent to 12 percent (\$5 million). Accelerated tax collection would increase cash availability. Another \$248 million would be made available by shifting renter tax credits from April to October, local government aids from March to July, payment of taconite homestead credit from June to July, changing DNR payments in lieu of taxes on public property from January to July, and increasing the October school aid catch up payment from 10 percent to 15 percent.

Of the proposed \$1.4 billion in new expenditure, \$900 million was recommended for school aids, aids to local government and property tax relief. State aids to local school districts were to be increased by \$458 million or 22.2 percent over the 1979-81 biennium for a total of \$2.5 billion; about one-third of the entire budget. A total of \$6.3 billion or 74 percent of the entire budget was for state transfer payments. The remaining \$500 million increase was slated for other state agencies and services. Overall the Governor's budget reflected a 5 percent reduction in state agency budgets and a net 4 percent reduction in staff for the 1981-83 Biennium. Budget requests reportedly exceeded revenue estimates by \$1 billion. Greatest spending restraints were applied to welfare costs; citing lack of expenditure control and a projected \$53 million welfare cost overrun in the 1979-81 biennium. Welfare cost control measures included limited increases for AFDC, general assistance, supplemental aid, medical assistance, and elimination of the catastrophic health program.

January 31, 1981

State general fund revenue receipts during January 1981 were \$233.4 million, \$20.6 million below August 1980 estimates making net year-to-date deficit of \$47.3 million. Ending cash balance was a negative \$91.6 million; including the \$100 million in short-term borrowing the balance was \$8.4 million.

February 5, 1981

The Legislature passed a bill, Senate File 2, restoring the \$89.5 million in school aids unallotted by the Governor and removing the Governor's authority for future school aid reductions. The bill passed the House 111-18 and the Senate 62-3.

February 13, 1981

The Governor signed Senate File 2 into law (1981 Laws Chapter 1).

February 27, 1981

In response to a suit by the Minnesota Federation of Teachers, Ramsey County District Court ruled that the Governor acted within his powers in cutting school aids by \$89.5 million in August of 1980. The decision was of little consequence because a bill restoring the cut had passed both houses and was signed by the Governor on February 13, 1981.

February 28, 1981

State general fund revenue receipts for February 1981 were \$350.1 million, \$8.4 million above August 1981 estimates making a net year-to-date variance of net receipts \$38.8 million below estimates. The persistent shortfall relationship between receipts and estimates was a cause for concern because experience during the 1979-81 Biennium served as a base for 1981-83 revenue projection. Ending cash balance was \$40.5 million; including the \$100 million in short-term borrowing the balance was \$140.5 million.

March 2, 1981

The Governor issued Executive Order No. 81-2 freezing out-of-state travel, hiring, purchasing, and use of consultants to avoid a deficit as of June 30, 1981. The order was expected to reduce spending by at least \$15 million.

March 26, 1981

A tax bill advancing withholding payments, Senate File 366, passed the House 107-19 and the Senate 49-7. This bill accelerated collection of \$61.4 million of withholding into Fiscal Year 1981.

March 30, 1981

The Governor signed Senate File 366 into law (1981 Session Laws Chapter 13).

March 31, 1981

State general fund revenue receipts for March 1981 were \$238.4 million, \$31.3 million below August 1980 estimates making a year-to-date shortfall of net receipts to estimates of \$70.1 million. Ending cash balance was \$29.9 million; including the \$100 million in short-term borrowing the balance was \$129.9 million.

April 1, 1981

The Governor reversed an earlier recommendation of 7 percent annual salary increases for department heads, constitutional officers and judges and recommended a salary freeze.

April 9, 1981

A revised revenue forecast indicated the general fund would end the 1979-81 Biennium with a \$112.3 million deficit. The Governor recommended that the deficit be carried forward into the 1981-83 Biennium and informed the Legislature that the \$112.3 million deficit combined with 1981-83 revenue forecasts indicated a \$503 million budget imbalance.

April 15, 1981

The Governor proposed a \$599.7 million budget adjustment; a \$460.1 million state tax increase and a \$139.6 million expenditure reduction. The tax increase included a 5 percent income tax surcharge for individuals (\$195 million) and corporations (\$36.7 million), an adjustment of the indexing rate (\$57.5 million), making state medical expense deductions similar to federal (\$142.4 million), and dropping gas tax deductions (\$31.1 million). The modified revenue plan included an 8 percent limit on local property tax increases to minimize property tax absorption of state budget cuts.

The \$139.6 million expenditure reduction consisted of a 3 percent across the board cut for most state agencies and programs (\$70.2 million), merger of Energy, State Planning, Economic Development and Crime Prevention Planning into a single department (\$8 million), abolish HECB (\$2 million), increase property tax support for school districts from 21 to 23 EARC mills (\$39.9 million) reduce shade tree program (\$9.9 million), reduce building maintenance (\$8.1 million), reduce community health grants (\$2 million) and eliminate a proposed unified business license center (\$459,000). The net budgetary effect of proposed tax increases and expenditure reductions would be a \$96.7 million balance at the end of the 1981-83 biennium.

April 28, 1981

A bill carrying the Governor's proposed \$460.1 million tax increase was defeated in the House Tax Committee 18-9; the DFL majority prepared to make alternative proposals.

April 30, 1981

State general fund revenue receipts were \$225 million, \$82 million above revised estimates made this month. The net year-to-date receipts exceeded revised estimates by \$12.4 million. Ending cash balance was \$12.1 million; including the \$100 million in short-term borrowing the balance was \$112.1 million.

May 1, 1981

The Governor informed the Senator Majority Leader and the Speaker of the House that an attempt to trade off between funds for highways and social services would result in a veto and a special session.

May 5, 1981

The Governor told a delegation from the House Appropriation Committee that items could be negotiated but not the \$8.7 billion bottom line. Any increase had to be offset by a similar cut elsewhere and the amount of new taxes must be limited to \$460 million. Variation from these conditions would result in a veto requiring a special session.

May 8, 1981

A memo from the Commissioner of Education informed school districts that no school aid payments would be made during April or May 1981.

May 14, 1981

In a letter to the Senate Majority Leader and the Speaker of the House, the Governor indicated he would veto appropriation bills if the Legislature took items from the proposed budget and included them in a supplemental appropriation "bonus" bill.

May 15, 1981

The higher education appropriations bill, House File 1421, passed the House 105-25 and the Senate 63-0 (\$861.9 million). It appropriated \$395.2 million for the University of Minnesota, \$166 million for the State Universities, \$79 million for Community Colleges, and assumed a 10 percent tuition increase.

The school aids bill, House File 70, (\$2.25 billion) passed the House 127-6 and the Senate 38-23. It set the foundation aid formula allowance at \$1,318 in 1981-82 and \$1400 in 1982-83, gave school boards a 2.25 mill discretionary levy, and raised local property tax share from 21 to 23 EARC mills in 1982-83. Major components in the appropriations included \$1,338 million for foundation aid, \$23.4 million for summer school, \$247.2 million for transportation, \$194.3 million for special education and \$42.1 million for secondary vocational education. The bill also

provided for increasing the portion of aids shifted into the following fiscal year from 10 percent to 15 percent (\$49 million) starting with the 1982-83 school year.

May 16, 1981

Two bills affecting the state budget passed in the Legislature. The state department appropriations bill, House File 1443, passed the House 79-51 and the Senate 61-4 appropriating \$1.5 billion for operation of state agencies. Some reduction in expenditures were achieved by merging Economic Development, Crime Control Planning, State Planning and the Energy Agency into a Department of Energy, Planning and Development, cutting the shade tree program, and appropriating less than the Governor requested for forest industry development. The bill also increased hunting and fishing license fees 30 percent, doubled admission to state parks, and increased zoo admissions. Salaries for constitutional officers, department heads, and judges were frozen as recommended by the Governor.

The transportation and semi-state agency appropriation bill, House File 1434, passed the House 100-31 and the Senate 56-7. It totalled \$1.07 billion of which \$914 million was for transportation.

May 18, 1981

A Department of Transportation revenue bill, House File 553, passed the House 87-46 and the Senate 53-13 (\$1.5 billion). It added \$.02 to the present \$.11 per gallon gasoline tax (except for a 7.5 mile strip along Minnesota's borders), authorized a \$.10 fare increase on July 1, 1981 and a \$26.7 million subsidy plus \$9.2 million handicapped transportation for the Metropolitan Transit Corporation, shifted the 4 percent sales tax on cars, trucks and parts from the state general fund to a new dedicated fund (75 percent for highways and 25 percent for transit) on a graduated basis from 23 percent in 1983 to 100 percent by 1989. Policy intent of sales tax diversion was to eliminate need for future gas tax increases.

The first supplemental budget "bonus" bill, House File 1132, passed the House 89-43 and the Senate 57-10 (\$97.9 million). New revenue was to come from a 5-cent increase in cigarette taxes, 16 percent increase in beer and wine taxes, and extend the 4 percent sales tax to soft drinks, candy and chewing gum. Expenditures were \$58.9 million for additional elementary and secondary school aids and \$39 million for a reserved bed policy, more drugs, and rate increases of 10 percent for welfare patients in nursing homes. The Governor vetoed the bill on the same day it passed the Legislature.

A tax bill, House File 1445, passed the House 68-66 and the Senate 38-28 and was vetoed by the Governor. The bill would have provided an additional \$400 million in tax revenue by eliminating state deductions of medical expense (\$142 million), adjustment to indexing (\$130 million), a 1 percent surcharge on business income taxes (\$37 million), and dropping gas tax deductions (\$31 million). The bill also provided for property tax relief through tax calculation on lower assessed values, having the State pay 75 percent of all property tax increases over 20 percent to a maximum of \$200. It would have lowered assessment rates for apartments from 38 percent to 34 percent over two years and limited property tax levies to an 8 percent increase. The bill was vetoed because a) it raised \$60 million less than proposed and would create a later budget deficit and b) it contained too large an adjustment to income tax indexing. The Governor recommended a 1 percent sales tax increase. The veto made a special session necessary to balance the budget.

May 31, 1981

State general revenue receipts for May 1981 were \$244.2 million, \$36.4 million below April 1981 estimates making the year-to-date relationship between net receipts and revised estimates a shortfall of \$24 million. Ending cash balance was \$107.9 million; including the \$100 million in short-term borrowing the balance was \$207.9 million.

June 1, 1981

The Governor signed the following bills affecting the State budget:

Higher education appropriations, House File 1421 (1981 Session Laws Chapter 359).

Transportation and semi-state agencies, House File 1434 (1981 Session Laws Chapter 357).

Transportation revenue bill, House File 553 (1981 Session Laws Chapter 363).

State departments appropriations, House File 1443 (1981 Session Laws Chapter 356).

School aids bill, House File 70 (1981 Session Laws Chapter 358).

June 6, 1981

The Legislature convened for the First 1981 Special Session and passed the following bills affecting the budget which were signed by the Governor on the same day:

A budget balancing tax bill, First 1981 Special Session, House File Number 1 (Laws First 1981 Special Session Chapter 1) passed the House 69-60 and the Senate 41-24. The bill was expected to generate \$587 million mainly by increasing the sales tax from 4 percent to 5 percent through June 30, 1983 (\$416.1 million), adjustment to indexing (\$91.8 million), state medical deductions in conformity with federal (\$74.6 million). Among many other provisions the bill provided relief from expected increases in property taxes on homes, apartments, farms, and businesses by raising home assessed values at the rate of inflation as opposed to the selling price, lowering assessment on the first \$50,000 of small business property value, increasing school agricultural tax credit for farms up to 320 acres and reducing it for farms over 800 acres, the state assuming 75 percent of all property tax increases exceeding 20 percent to a maximum of \$200, lowering assessment ratios for apartment houses from 38 percent to 36 percent in 1982 and 34 percent in 1983, and a stricter 8 percent limit on property tax increases by local government with an 18 percent limit on levies for public assistance and social services.

A second supplemental budget bill, First 1981 Special Session House File Number 2 (Laws First 1981 Special Session Chapter 2) passed the House 102-27 and the Senate 66-0. The \$71.2 million appropriation included \$26.6 million to raise the foundation aid formula allowance from \$1,318 to \$1,333 for 1982-83 and \$1,400 to \$1,416 in 1982-83, \$.13 million for summer school, \$11 million for special education, \$6.7 million for higher education scholarships and private college contracts, and \$29.4 million for a reserved bed policy, drugs, and a 10 percent increase in rates for welfare patients in nursing homes.

State payment shift bill, First 1981 Special Session House File Number 3 (Laws First 1981 Special Session Chapter 3) passed the House 69-59 and the Senate 34-32. The bill moved an estimated \$300 million into the current biennium by accelerating telephone tax collections, providing for deduction of federal income tax on an accrual basis, and other provisions.

A bill amending M.S. 1980 Section 16A.15 Subdivision 1, First Special Session 1981 Senate File 2 (Laws First 1981 Special Session Chapter 5) allowing the state to have a deficit during the first year of a biennium.

June 30, 1981

State revenue collections for June 1981 were \$317.7 million, \$3.9 million below April 1981 estimates. The ending cash balance was \$297.2 million.

The state financial report for the year ended June 30, 1981 indicated a negative general fund ending balance of \$20.5 million. The Legislative Auditor took exception, concluding that general fund liabilities were understated and the fund balance was overstated by \$243.7 million. The \$243.7 million in unstated liabilities consisted of \$89.1 million and \$154.6 million in school aids unallotted/restored and delayed respectively. Clearly, these aid payments were obligations of fiscal year 1981 which could not be met due to revenue short-fall. While legal interpretation may differ, the stated negative balance plus the understated liability would indicate a total negative ending fund balance of \$264.2 million.

July 1, 1981

Two day 1981 Second Special Session convened.

July 2, 1981

A bill, House File 1 was passed by the House 75-51 and the Senate 34-28 and signed by the Governor (1981 Second Special Session Chapter 1) which increased the State's short term borrowing authority to \$360 million or the maximum current cash flow requirement with the recommendation of the Legislative Advisory Commission.

July 21, 1981

State credit rating dropped from AAA to AA-plus by Standard and Poor of New York.

July 30, 1981

Second checks totaling \$177.6 million were mailed to Minnesota school districts completing the shift of \$243.7 million in school aids from the 1979-81 to the 1981-83 biennium. (The first checks were mailed July 17).

July 31, 1981

State revenue collections for July 1981 were \$223.7 million, \$1.7 million below April 1981 estimates for both the month and the year-to-date total. Ending cash balance was \$133.2 million.

August 12, 1981

A \$16 million Department of Finance error in calculating sales tax collections (overestimate) for July 1981 was revealed at a Governor's press conference.

August 21, 1981

State sold \$150 million in certificates of indebtedness at 8.6 percent interest to be repaid on October 1, 1981 for temporary financing of cash flow.

August 24, 1981

The Commissioner of Finance resigned.

August 27, 1981

Due to an error in the tax law, \$13.7 million in insurance premium taxes would not be collected before December 31, 1981 contributing to a greater cash flow problem.

August 31, 1981

State revenue collections for August 1981 were \$258.3 million, \$31.7 million below April 1981 estimates making a net year-to-date shortfall of \$33.4 million in receipts below estimates. Ending cash balance was a negative \$112.7 million; including the \$150 million in short-term borrowing the balance was \$37.3 million.

September 1, 1981

The Governor named a nine-person State Finance Task Force to review forecasting procedures and assumptions.

The Task Force later recommended no changes in forecasting procedures and found that April 1981 forecasts were not unduly optimistic.

September 8, 1981

In an interview, the Governor indicated that the Department of Finance had been directed to prepare contingency plans in the event that the economy remained sluggish. If a new revenue forecast showed an expected June 30, 1982 balance of \$160 million depleted, he would call a special legislative session to cut the budget.

September 22, 1981

State sold \$360 million in certificates of indebtedness at 10.477 percent interest to be repaid July 1, 1982 with a total interest expense of \$29 million.

September 30, 1981

General Fund revenue receipts for September 1981 were \$313.1 million, \$29 million below the April 1981 estimates making a net year-to-date shortfall of receipts \$62.5 million below estimates. The ending cash balance was a negative \$143.3 million; including the 150 million in short-term borrowing the balance was \$6.7 million.

October 29, 1981

The acting State Finance Commissioner indicated preparation of a plan to pay December 1981 aids only to school districts in true

need. All districts would receive aid payments before the end of the 1981-82 school year.

October 31, 1981

The ending cash balance was a negative \$374.8 million; including the \$360 million in short-term borrowing, the balance was a negative \$14.8 million.

November 5, 1981

A reforecast of revenues and expenditures indicated significant changes in the projected general fund budget condition from the previous forecast in April 1981. The new forecast estimated an additional \$618.5 million shortfall in revenue. When revenue shortfall was combined with welfare deficiencies of \$89.9 million, proposed acceleration of depreciation compliance of \$79.0 million, short term interest expense of \$40.9 million and other items the general fund faced a total deficit of \$859.9 million minus a \$92.3 million fund balance allowance leaving a net budget deficit of \$767.6 million.

Using the revised revenue forecast, a budget fund balance analysis was prepared which led to a third set of Governor's budget recommendations. It is summarized as follows:

General Fund Budget Summary 1981-83 Biennium
In millions/(Deficit)

Balance forward from 1979-81	\$ 9.1
Estimated revenue and transfers	<u>8,239.8</u>
Resources available	8,248.9
Estimated expenditure, transfers and appropriations forward	<u>9,016.5</u>
Projected balance 6/30/83	(\$ 767.6)

November 17, 1981

Payments to local governments in the amount of \$78 million for November and December were delayed.

November 24, 1981

The Governor proposed a third revised budget for the 1981-83 biennium. The proposed budget solution was to make cuts totalling \$767.8 million. An overall rate of 11.8 percent reduction was proposed affecting local government aids and property tax relief (\$188.1 million), school aids (\$271.8 million), state agency workforce (\$12.0 million), post secondary systems

(\$85.6 million), constitutional officers and the Legislature (\$9.7 million), 5.9 percent reduction for State hospitals, veterans' homes, and schools for the blind and deaf (\$17.7 million). It was also proposed that the state share of medical assistance, AFDC, and Minnesota Supplemental assistance be returned to 80 percent from the current 90 percent of Medical Assistance and 85 percent of other program costs (\$44.6 million) with the difference to be picked up by the counties. The Governor also recommended cost containment measures proposed by the Task Force on Health Care (\$20 million). On the revenue side the Governor's proposal would have increased local property taxes by \$146.3 million and reduced corporate income taxes \$79 million through accelerated depreciation allowances. The net effect, however, was no additional state collected revenue. The Governor also proposed a State Aids Stabilization Authority which would acquire \$200 million in capital from revenue notes backed by the full faith and credit of local jurisdictions. Local governments, school districts, and post-secondary systems would be allowed to borrow up to one-half of biennium budget reductions after drawing down reserves. Repayment would be made over five years from savings, taxes, or post-secondary tuition.

A revised budget fund balance analysis based on the third set of Governor's budget recommendations indicated the following projected budget condition.

General Fund Budget Summary 1981-83 Biennium
In millions

Balance forward from 1979-81	\$ 9.1
Estimated revenue and transfers	<u>8,242.8</u>
Resources available	8,251.9
Estimated expenditure and transfers	<u>8,221.8</u>
Projected balance 6/30/83	\$ 30.2

November 30, 1981

Ending cash balance was a negative \$474.1 million; including the \$360 million in short-term borrowing the balance was \$114.1 million.

December 1, 1981

The Legislature was called into the 1981 Third Special Session to deal with a severe cash flow problem and the \$767.6 million state budget deficit. The shortfall was actually \$859.9 million minus an anticipated \$92.3 million "cushion."

December 21, 1981

A budget balancing bill, 1981 Third Special Session House File 14 passed the House 69-61 and the Senate 36-29. On the revenue side the bill would have made \$659.5 million available for the biennium; increased income taxes \$199 million, corporate income taxes \$91 million, excise tax \$34.6 million, property tax \$40.9 million and tax shift \$294 million. Spending cuts in the bill totalled \$261.1 million compared with \$630.5 million for the same items in the Governor's November 24 budget revision. Reductions included \$81.1 million for state operations, \$20 million in local government aids, \$129.8 million in school aids, and \$30.2 million for higher education. The bill was vetoed by the Governor because it increased taxes too much and cut spending too little.

December 31, 1981

A bill guaranteeing restoration of \$156 million in state aid payments withheld in the 1981 Third Special Session House File 1 was passed by the House 106-12 and the Senate 50-6 and signed by the Governor (Laws 1981 Third Special Session Chapter 1). The bill provided local governments with an account receivable to insure ending the year in the "black."

December school aid payments in the amount of \$153.8 million were withheld.

General Fund revenue receipts for December 1981 were \$374.1 million, \$30.5 million above November 1981 estimates making the net year-to date receipts \$6.1 million above November estimates. Ending cash balance was a negative \$356.5 million; including the \$360 million in short-term borrowing the balance was \$3.5 million.

January 11, 1982

An \$838.6 million budget balancing bill, 1981 Third Special Session House File 2, passed the House 69-59 and the Senate 50-17. The bill increased taxes \$317.1 million; an 18 month 7 percent income tax surcharge through June 30, 1983 (\$199 million), unitary corporate income tax on national earnings proportionate to investment and earnings in Minnesota (\$63 million), closed loopholes in commodity trading (\$14 million), lowered dividend exclusion for couples from \$400 to \$200 and from \$200 to \$100 for single individuals and eliminated current \$400 interest exclusion for couples and \$200 interest exclusion for singles (\$10.5 million), added state 5 percent sales tax on top of \$.18 cigarette excise tax (\$21.2 million), and increased vending machine sales tax from 3 percent to 5 percent (\$9.4 million).

The bill shifted \$165 million in state obligations to the 1983-85 biennium through a faster collection of sales taxes from large retailers (\$31.0 million) and moving one sixth of school district tax levies 1982 payable 1983 (\$134 million) as replacement revenue for a like amount of state aid in fiscal year 1983.

The bill provided for \$402 million in spending cuts; reduction in public school aid (\$160.9 million) which districts could partially offset by an optional 2-mill property tax levy that could raise up to \$44 million state-wide, reduction of state agency budgets (\$47.4 million), reduced aid to counties, cities, and townships (\$32 million), cuts in health, welfare, and corrections (\$26 million), and aid reductions to semi-state agencies and MTC (\$10 million).

Tax relief measures included in the bill changed Minnesota tax on capital gains from 50 percent to match the current federal 40 percent (\$15 million loss), adoption of federal estate tax system of no tax on property transfer to a surviving spouse (\$3.5 million loss) and research and development tax credits for corporations (\$18.5 million loss).

The bill restored the Governor's authority to unallot school aids and authorized the Commission of Education to delay aid payments for December 1981 and January 1982 until June of 1982.

January school aid payments of \$66.8 million were withheld; \$.7 million of suspended aids were paid on appeal based on need.

January 12, 1982

1982 Regular Session convened.

January 14, 1982

A budget fund balance analysis incorporating provisions of the 1981 Third Special Session House File 2 is summarized as follows.

General Fund Budget Summary 1981-83 Biennium
In millions

Balance forward from 1979-81	\$ 9.1
Estimated revenue and transfers	8,637.2
Resources available	8,646.3
Estimated expenditure, transfers and appropriations forward	8,519.4
Projected balance 6/30/83	\$ 126.9

January 15, 1982

Budget balancing bill, 1981 Third Special Session House File 2 became law (Laws 1981 Third Special Session Chapter 2) with expiration of the Governor's veto time limit. The Governor's office had lobbied against the bill in the Legislature because of variances with the proposed November 24, 1981 budget revision. DFL Legislative leaders indicated that a veto would leave the Governor with responsibilities for the total budget adjustment through the unallotment process. The Governor was reluctant to exercise veto power because of the disruption that would be caused in state services.

January 19, 1982

The Governor appointed a new Commissioner of Finance.

January 25, 1982

The Governor announced that he would not seek re-election, taking some budget issues out of the political arena.

January 31, 1982

State revenue collections for January 1982 were \$308.9 million, \$31 million below November 1981 estimates. The net year-to-date shortfall of receipts below latest revised estimates was \$24.9 million. The ending cash balance was a negative \$167.3 million; including the \$360 million in short-term borrowing the balance was \$192.7 million.

February 28, 1982

State revenue collections for February 1982 were \$316.4 million, \$33.2 million above November 1981 estimates making the net year-to-date receipts \$8.3 million above estimates. The ending cash balance was a negative \$115.5 million; including the \$360 million in short-term borrowing the balance was \$244.5 million.

March 9, 1982

Revised forecasts indicated that general fund receipts were expected to be \$212.1 million less than forecast in November 1981 and that expenditures would be \$17.4 million higher. The net shortfall of \$229.5 million less a projected fund balance of \$126.9 million left the net budget problem of \$102.6 million indicated in the following summary:

General Fund Budget Summary 1981-83 Biennium
In millions/(Deficit)

Balance forward from 1979-81	\$ 9.5
Estimated revenue and transfers	8,424.7
Resources available	8,434.2
Estimated expenditure, transfers and appropriations forward	8,536.8
Projected balance 6/30/83	(\$ 102.6)

March 13, 1982

The Omnibus school aids bill, House File 1555 passed the House 123-0 and the Senate 56-3.

March 19, 1982

A \$231.9 million budget balancing bill, House File 2190, passed the House 68-57 and the Senate 47-14. The bill was expected to increase revenue by \$69 million through an \$18 million extension of the sales tax to candy, soft drinks, etc., a \$2.5 million addition of a 5 percent tax on on-sale liquor, a \$14 million delay in state conformity to federal treatment of capital gains, and \$12 million in other adjustments. The 1981-83 Biennium expenditures were reduced \$161.4 million through a \$102.9 million permanent shift of property tax credit payments, a \$30 million reduction in homestead credits to local government and reductions of \$17.5 million for state departments, \$1.8 million for transportation and semi-state agencies, \$2.2 million for education, and \$8.6 million for health, welfare, and corrections.

The 1982 regular session of the Legislature adjourned.

March 22, 1982

The Governor signed the Omnibus School aid bill, House File 1555 and it became Laws 1982 Session Chapter 548.

March 29, 1982

A re-estimated budget fund balance analysis using House File 2190 data was prepared which indicated a favorable projected budget condition for the 1981-83 Biennium summarized as follows:

General Fund Budget Summary 1981-83 Biennium
In millions

Balance forward from 1979-81	\$ 9.5
Estimated revenue and transfers	<u>8,526.9</u>
Resources available	8,536.4
Estimated expenditure, transfers and appropriations forward	<u>8,408.7</u>
Projected balance 6/30/83	\$ 127.7

March 30, 1982

The 1982 First Special Session convened to deal with unemployment compensation.

March 31, 1982

The Governor signed House File 2190 into law (1982 Session Laws Chapter 641).

March 31, 1982

State revenue collections for March 1982 were \$355.7 million, \$28.2 million above November 1981 estimates. The net year-to-date revenue receipts were \$36.5 million above revised estimates. The ending cash balance was a negative \$169.5 million; including the \$360 million in short-term borrowing the balance was \$190.5 million.

April 6, 1982

Legislative Advisory Commission and Governor agree to authorize \$850 million in short-term borrowing.

April 16, 1982

State's credit rating dropped from MIG-1 to MIG-2 by Moody's Investor Service of New York.

April 30, 1982

State General Fund revenue collections for April 1982 were \$261 million, \$15.7 million below March 1982 estimates and the year-to-date receipts were \$20.9 million above revised estimates. Ending cash balance was a negative \$168.9 million; including the \$360 million in short-term borrowing the balance was \$191.5 million.

May 4, 1982

The State sold \$400 million in short term certificates of indebtedness at 9 percent interest to be repaid June 1, 1983.

May 5, 1982

The \$219.9 million balance of school aid payments withheld in December 1981 and January 1982 were mailed to school districts.

May 31, 1982

State general fund revenue collections for May 1982 were \$230.2 million, \$19 million below March 1982 estimates making the net year-to-date receipts \$1.7 million above revised estimates. Ending cash balance was a negative \$414.6 million; including the \$760 million in short-term borrowing the balance was \$345.4 million.

June 30, 1982

State general fund revenue collections for June 1982 were \$387 million, \$29.3 million above March 1982 estimates for that month and \$31.1 above year-to-date estimates. The ending cash balance was a negative \$237.2 million; with \$760 million in short-term borrowing the balance was \$522.8 million.

July 1, 1982

The State sold \$450 million in short term certificates of indebtedness at 9.5 percent interest to be repaid June 30, 1983.

July 9, 1982

Second 1982 Special Session convened and passed the Iron Range Economic Protection Fund.

July 31, 1982

State general fund revenue collections for July 1982 were \$223.9 million, \$1 million above March 1982 estimates for the month and \$32.1 million above year-to-date estimates. Projected ending cash balance was a negative \$346.2 million; including the \$850 million in short-term borrowing the balance was \$413.8 million.

August 31, 1982

State general fund revenue collections for August 1982 were \$319.3 million, \$19.7 million below March 1982 estimates for the month and \$19.7 million below year-to-date estimates. Projected ending cash balance was a negative \$438.3 million; including the \$850 million in short-term borrowing the balance was \$411.7 million.

September 30, 1982

State general fund revenue collections for September 1982 were \$362 million, \$16.3 million below March 1982 estimates for the month and \$16.3 million below year-to-date estimates. Projected ending cash balance was a negative \$387 million; including \$850 million in short-term borrowing the balance was \$463 million.

October 5, 1982

In compliance with Laws 1981 Second Special Session Chapter I, the Governor submitted a plan for elimination of State short term borrowing. The plan contained interesting forecasts and recommendations to eliminate short-term borrowing but had no impact on the 1981-83 Biennium budget.

October 31, 1982

State general fund revenue receipts for October 1982 were \$288.4 million, \$311.7 million below March 1982 estimates for the month,

\$59.0 million below year-to-date latest revised estimates, and \$41.4 million below adjusted estimates for the 1981-83 Biennium. Projected ending cash balance was a negative \$555.4 million; including the \$850 million in short-term borrowing the balance was \$294.6 million.

November 2, 1982

The DFL candidate was elected Governor and the DFL retained control of the Legislature.

November 18, 1982

The Department of Finance released a revised revenue forecast of \$3,999.5 million for fiscal year 1983; \$414.9 million below the \$4,414.4 million estimate of March 9, 1982. As indicated in the following summary the March 29, 1982 end-of-session projected balance of \$127.7 million had changed to a projected deficit of \$312.5 million on June 30, 1983. The Governor called for a special legislative session on December 7, 1982.

General Fund Budget Summary 1981-83 Biennium
In millions/(Deficit)

Balance forward from 1979-81	\$ 19.1
Estimated revenue and transfers	8,144.6
Resources available	<u>8,163.7</u>
Estimated expenditure, transfers, and appropriations forward	8,476.2
Projected balance 6/30/83	<u>(\$ 312.5)</u>

November 30, 1982

State general fund revenue receipts for November 1982 were \$268.5 million, \$5.6 million above November 1982 estimates for the month and \$5.6 million above year-to-date latest revised estimates. Projected ending cash balance was a negative \$637 million; including the \$850 million in short-term borrowing the balance was \$213 million.

December 7, 1982

The 1982 Third Special Session convened to deal with the projected \$312.5 million biennium deficit announced on November 18, 1982. A negotiated budget balancing bill, House File 1, was introduced. House File 1 provided for a \$368 million budget adjustment by means of \$111.4 million in new taxes, \$100 million in shifts and \$157.4 million in spending reductions. The bill failed on an 80-50 vote with Independent-Republicans unanimously opposed to the tax increase and 19 Democratic-Farmer-Labor representatives voting against the bill primarily because of a provision requiring government employees to pay an additional 2.5 percent of their salaries to pension plans that would have reduced state expenditures by \$77 million.

December 10, 1982

The Legislature passed a \$352 million budget balancing bill, House File 4, 68 to 57 in the House (minimum margin for passing) and 36 to 26 in the Senate. House File 4 provided for \$110 million in tax increases, \$100 million in shifts, and \$142 million in expenditure reduction. The \$110 million tax increase consisted of a 3 percent income tax surcharge added to the present 7 percent surcharge from January 1 to June 30, 1983 (\$27 million), a one-cent sales tax increase to 6 percent for the same period (\$79 million), and a speed up of business taxes on mergers, acquisition, sale of tax deductions etc. to conform with federal tax code (\$3.8 million). The \$100 million in shifts would result from changing the one-sixth levy 1982 payable 1983 shift into FY 1983 to 32 percent and deducting a like amount from school aid payments. Recognizing an additional 16 percent of levy 1982 payable 1983 as revenue for FY 1983 moves \$100 million of 1981-83 Biennium obligations into the 1983-85 Biennium; an adjustment which may have to be repeated in each subsequent fiscal year. The \$142 million spending reduction consisted of \$61.6 million from state pension contributions (additional 2 percent payroll deduction), \$26.9 from Health, Welfare, and Corrections, \$15.5 million from elementary/secondary school aids, \$14.0 million (est.) from local governments, \$8.7 million from state agencies, \$8.6 million from higher education, \$5.2 million by reducing allowable rate of increase for medical assistance from 10 percent to 6 percent, and \$1.4 million from post-secondary AVTI's. The bill also increased the school district cash flow loan fund from \$35,000,000 to \$70,000,000.

December 13, 1982

The Governor signed House File 4 (Laws 1982 Third Special Session Chapter I). Had this bill not become law, the Governor would have had to unallot up to the entire \$312.5 million to balance the budget. The severity of such a reduction is indicated by the fact that a 28.6 percent across-the-board cut on a \$1,093.4 million base amount available as of November 30, 1982 would have been required.

The post-session fund balance analysis indicated the following budget condition:

General Fund Budget Summary 1981-83 Biennium
In millions

Balance forward from 1979-81	\$ 19.1
Estimated revenue and transfers	8,281.1
Resources available	<u>8,300.2</u>
Estimated expenditure, transfers, and appropriations forward	8,260.0
Projected balance 6/30/83	<u>\$ 40.2</u>

December 31, 1983

State general fund revenue receipts for December 1982 were \$385.9 million, \$7.5 million below November 1982 estimates for the month and \$1.9 million below year-to-date estimates. Projected ending cash balance was a negative \$577.0 million; including the \$850 million in short-term borrowing the balance was \$273 million.

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