
The 1983 Statewide Audit: An Analysis of Minnesota's Finances

November 1984

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

Financial Audit Division

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NOTICE

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Office of the Legislative Auditor
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THE 1983 STATEWIDE AUDIT:
AN ANALYSIS OF MINNESOTA'S FINANCES

Report Summary
November 1984

The Office of the Legislative Auditor has released a report analyzing the State of Minnesota's finances for fiscal year 1983. This document, drawn from data collected during the 1983 Statewide Financial Audit, is designed to give legislators, their staffs, and others interested in state government, a comprehensive overview of the state's finances in fiscal year 1983. Because many financial adjustments were necessary to achieve a balanced budget in fiscal year 1983, the financial data required substantial analysis in order to be comparable to adjacent fiscal years. We anticipate that this report analysis will provide a valuable context for understanding fiscal year 1983 finances and allow past fiscal activity to be properly considered in the impending legislative budget session.

Much of the report focuses on the state's General Fund. Other components include:

- An overview of state finances;
- Federal Grants-In-Aid;
- Unemployment Compensation Fund;
- Special Workers' Compensation Fund;
- Teachers Retirement Fund; and
- Maximum Effort School Loan Fund.

We encourage readers to refer to the "Report Highlights" on pages ix to xii for a more detailed discussion of the report contents.

Finally, we must emphasize that this data is for fiscal year 1983, and that state finances have changed markedly in the past year and a half. We expect to issue a similar report on fiscal year 1984 finances by April 1985.

NOTE:

An error on page ix cites the June 30, 1983 General Fund balance as \$5.3 billion. Please correct this to \$5.3 million.

PREFACE

This document, drawn from data collected during the Statewide Financial Audit, is designed to give legislators, their staffs, and others interested in state government, a comprehensive overview of the state's finances in Fiscal Year 1983. While a variety of more specialized and technical reports are available, this annual report is intended to translate technical information so that it is more readily understandable and useful in the decision-making process.


We must emphasize that this data is for Fiscal Year 1983, and that state finances have changed markedly in the past year and a half. Although readers should be cognizant of this time context, this analysis should serve as a valuable technical aid for the impending legislative budget session. Hopefully, it will allow Fiscal Year 1983 finances to be viewed in a proper context when compared to adjacent fiscal years.


This report continues to chart the progress of the state's General Fund and certain other state funds which were discussed in our Fiscal Year 1982 report. The General Fund, in particular, experienced a dramatic fiscal recovery during Fiscal Year 1983. Although, this recovery was partially attributable to tax increases and expenditure cuts, it is the timing shifts in expenditures and revenues which may cause Fiscal Year 1983 finances to be misunderstood when compared to adjacent fiscal years. The report focuses on the impact of this financial recovery and the bearing of the financial adjustments from an analytical perspective.

Finally, the report introduces a comprehensive overview of state finances and an initial analysis of the role of federal financial assistance. We intend that these analyses will aid in developing the proper context regarding the state's General Fund and other financing sources.

The Financial Audit Division has issued a variety of other reports regarding financial systems and responsibilities of specific state agencies. These Management Letters, including responses from the respective agencies, are available from our office and should be consulted for a more detailed discussion of specific areas of concern. Again, the purpose of this report is to provide a more general review and analysis of the state's financial situation.

The work of all members of the Financial Audit Division staff made this report possible. Questions, however, should be directed to John Asmussen, Deputy Legislative Auditor (296-1727), or Gordon Folkman, Senior Fiscal Analyst (297-3175).


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

STATEWIDE AUDIT
SUMMARY REPORT TO THE STATE LEGISLATURE
FISCAL YEAR 1983

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REPORT HIGHLIGHTS

State Finances in Fiscal year 1983: An Overview (pp.1-4)

- Total state spending, when adjusted for expenditure shifts, amounted to \$6.5 billion in fiscal year 1983. This represents an increase of 3 percent over fiscal year 1982 and an increase of 10 percent since fiscal year 1981.
- In fiscal year 1983, the General Fund accounted for 58 percent of total shift adjusted state spending while federal grants financed 21 percent.
- The primary purpose of state government can be consolidated into five basic functional categories. In fiscal year 1983 approximately 27 percent of total shift adjusted state spending was for education, 21 percent for health and welfare functions, 17 percent for general local government aids and property tax relief, 14 percent for economic security, and 11 percent for transportation.

General Fund Finances

- In order to restore a positive fund balance at the end of the budget period, the state had to undertake fiscal actions amounting to nearly \$1 billion in fiscal year 1983. This objective was accomplished, as the state on June 30, 1983 had a General Fund balance of \$5.3 billion. (pp.5-7)
- Major fiscal actions taken in fiscal year 1983 included: \$170 million in temporary taxes, \$418 million in new and permanent taxes, \$480 million in expenditure shifts to the 1984-85 biennium, and \$331 million in expenditure reductions. (p.6)
- State General Fund revenues increased by \$888 million between fiscal years 1980 and 1983 or at an average rate of 9 percent per year. However, over 90 percent of this growth was attributable to legislative actions that increased tax revenues. (pp.7-13)
- During fiscal year 1983, General Fund expenditures declined by \$811 million or by 14 percent. However, this dramatic decline is potentially misleading because over 60 percent of that reduction represented a restructuring of payment schedules or shifts from fiscal

year 1983 to the next biennium. A more accurate indicator of expenditure commitment during the period is to compare fiscal year 1982 expenditures with those estimated for fiscal year 1984. This comparison indicates an approximate 8 percent annual rate of growth in General Fund expenditures for the period. (pp.13-14)

- Most of the expenditure shifts made in fiscal year 1983 affected two program areas; \$199 million in school aids and \$269 million in direct property tax relief payments were shifted to fiscal year 1984. (pp.23-32)

- Adjusting for expenditure shifts shows that General Fund expenditures have increased by 16.6 percent between fiscal year 1980 and 1983. Changes in specific program areas, however, varied widely (Note: All percentages are based on the three-year period between fiscal years 1980 and 1983):
 - State government operation expenditures increased by 23 percent, of which state departments (other than institutions) increased by 14 percent and institutional net cost expenditures increased by 21 percent. (pp.16-22)

 - Intergovernmental transfer payments (other than state paid property tax credits) declined by 14 percent but would have increased by 15 percent if program cuts totaling \$290 million were not made in fiscal year 1983. As a percent of total General Fund expenditures, Intergovernmental Transfer Payments declined from 53 percent to 45 percent during the period. (pp.23-29)

 - Direct property tax relief (comprised of state paid property tax credits and refunds) increased by 50 percent. In fiscal year 1980, these programs accounted for 15 percent of total General Fund expenditures and increased to 19 percent in fiscal year 1983. (pp.30-33)

 - Expenditures for welfare benefits increased by 55 percent. However, if adjustments are made to reflect changes in the state/county financial ratio for certain programs, then the actual costs for these benefits have increased by approximately 39 percent. (pp.33-37)

 - Debt service expenditures increased by 120 percent which was largely a result of \$116 million in short-term interest costs realized during the 1982-83 biennium. (pp.37-38)

- Because of the degree of fiscal dependence of local governments on the state, the likelihood is that when the state is forced to make significant spending reductions property taxes will be affected. For example, of the \$322 million cut from the General Fund in fiscal year 1983, 81 percent translated into actual or potential property tax increases.

- During the 1982-83 biennium, the state also experienced severe cash flow problems. In fiscal year 1983 the state's short-term borrowing amounted to approximately \$850 million and interest paid on these certificates totaled nearly \$84 million. However, due to improved economic conditions along with the establishment of a budgetary reserve account, the need for short-term borrowing should be either greatly reduced or eliminated by fiscal year 1985. (pp.39-42)
- A significant amount of fiscal year 1984 revenues have also been committed to finance obligations incurred in fiscal year 1983. As of June 30, 1984, approximately \$760 million or 16 percent of estimated fiscal year 1984 revenues have been committed to finance such items as repayments on general obligation bonds and payment shifts. (pp.42-44)

State Expenditures of Federal Grants-in-Aid (pp.49-55)

- In fiscal year 1983, state expenditures of federal grants totaled \$1.4 billion and accounted for 21 percent of total state spending. Of this amount, \$784 million or 57 percent were used to provide direct financial assistance to individuals.
- Federal aids that were received by the state but passed through to local units of government, amounted to \$255 million in fiscal year 1983 or 19 percent of all federal grant expenditures.
- In recent years the state/federal fiscal partnership has changed, placing greater fiscal responsibility on the state. For example, between fiscal years 1981 and 1983 state expenditures intended to assist disadvantaged persons and financed from state revenue sources increased at a faster rate than similar expenditures financed from federal grants. As a result, the state's relative share of total expenditures for these programs has increased from 53 percent in fiscal year 1981 to 58 percent in fiscal year 1983. Depending on how the federal government sets its domestic policy can significantly influence future fiscal demands on the state's General Fund.

Unemployment Compensation Fund (pp.57-63)

[Note: Although not discussed in this report, the Unemployment Compensation Fund's financial status has improved markedly since June 30, 1983.]

- Minnesota's Unemployment Compensation Fund was experiencing serious financial problems primarily as a result of increased dependence on borrowing from the Federal Unemployment Account to meet benefit payment obligations. Specifically, the deficit fund balance increased from \$210 million at June 30, 1982 to \$369 million as of June 30, 1983.

- Because of changes in federal policy, the state is now obligated to pay interest on all loans made to the state on or after April 1, 1982 and is also prohibited from paying the interest costs from revenues in the Unemployment Compensation Fund. The state borrowed \$199 million under this policy by June 30, 1983 and accrued interest costs of \$10.4 million. To meet this obligation, the 1983 Legislature established an emergency interest repayment fund financed through a 10 percent surcharge on employer contributions. Accrued interest of \$14.9 million was paid from this fund to the federal government on September 30, 1983.

Special Workers' Compensation Fund (pp.63-65)

- Unpaid claims have continued to increase despite the increase in collections. At June 30, 1983, estimated unpaid claims totaled over \$49 million. This represented an increase of 36 percent over fiscal year 1982.

Teachers Retirement Fund (pp.63-67)

[Note: Although not discussed in this report, the Teachers Retirement Fund's financial status has improved since June 30, 1983 due to legislative action taken in 1984.]

- The funding ratio of the Teachers Retirement Fund had not significantly improved since 1973 and it appeared that the fund would not be fully funded by June 30, 2009.
- There were several factors affecting the funding ratio which were peculiar to fiscal year 1983.
 - Legislative changes in fiscal year 1983 resulted in decreased employer and employee contributions of approximately \$10 million.
 - TRA recognized significant investment income increases because investment securities were sold as certain responsibilities were transferred to outside money managers.
 - TRA memberships decreased by 5,742 members during fiscal year 1983 as a result of teacher layoffs in recent years.

Maximum Effort School Loan Fund (pp.69-71)

- In 1983 the Legislature took actions which recognized that certain loans from the fund will not be repaid largely as a result of previous legislative action that allowed school districts to defer principal and interest on both debt service and capital loans. Current law now recognizes, in effect, that a portion of this school district funding is really a grant rather than a loan.

SECTION I

STATE FINANCES IN FISCAL YEAR 1983: AN OVERVIEW

In fiscal year 1983 total state spending from all sources approximated \$6.5 billion.¹ This represents an increase of approximately 3 percent over fiscal year 1982 and an increase of 10 percent since fiscal year 1981.

Table 1 shows that the majority of state fiscal activity is accounted for in the General Fund, accounting for 58 percent of all revenues raised and expended by the state in fiscal year 1983. For purposes here the General Fund is comprised exclusively of state own source non-dedicated revenues raised primarily from taxes levied on individual and corporate income, generated from general and selected sales, and selected fees, charges, and investments.² The type of expenditures made from the General Fund range from general government operations, including salaries and administration to individual welfare benefits and aids to local governments. During the 1982-83 biennium, the General Fund was affected with severe fiscal problems. In order to balance the fund's finances, the Legislature was required to make nearly \$2 billion of revenue and expenditure modifications during the budget period. The fiscal activity of the General Fund is examined in detail in Section II.

Grants-in-aid from the federal government also represent a significant component of state finances. In fiscal year 1983, grants from the federal government financed nearly 21 percent of total state spending. In general, federal grants could be considered dedicated resources used primarily to finance health and welfare programs and to subsidize employment security benefits and highway construction. These expenditures are examined in more detail in Section III.

The remaining 20 percent of state fiscal activity can be attributed to three fund types which are dedicated for specific purposes. The Employment Compensation Funds, which we define here as comprised of the Special Workers' and Unemployment Compensation Funds, accounted for nearly 10 percent of total state spending in fiscal year 1983. The Special Workers Compensation Fund operates primarily on revenues from insurers and self-insurers and provides supplementary compensation to workers with certain injuries or disabilities. The Unemployment Compensation Fund is financed from payroll taxes on employers and is designed to provide financial assistance to workers during temporary periods of unemployment. Section IV of this report describes the finances of these funds and also discusses the serious financial problems associated with their operation.

¹Total spending is adjusted for double counting among government funds and fiscal years 1982 and 1983 are "shift adjusted." (See Appendix Tables for more details.)

²This definition differs slightly from that used in Section II where some dedicated revenue and federal aids are included. See Appendix Tables I.A-C for detailed documentation.

Dedicated highway monies, which are largely generated by the state's gasoline tax and transportation bond issuances, represented approximately 8 percent of total state spending in fiscal year 1983. Most of these dollars are accounted for in the Trunk Highway Fund and the Municipal and County State Aid Expendable Trust Funds. These expenditures are used almost exclusively for highway, street, road, and bridge construction and maintenance, and to subsidize public transportation systems. The remaining 4 percent of state total spending is accounted for by miscellaneous dedicated funds. These include finances from selected Special Revenue Funds, primarily the state Airports and Game and Fish Funds, Capital Projects Funds, Endowment Fund, selected Expendable Trust Funds, and dedicated revenues from the General Fund (college tuition and fees, and local share of hospital cost of care). Although we do not present a detailed examination of either the highway nor miscellaneous dedicated funds, their expenditures are shown in Appendix Table II.C and are included in our general functional analysis of state spending.

TABLE 1

STATE EXPENDITURES BY FUND TYPE: FISCAL YEARS 1981 - 1983
(000,000's Omitted)

Fund Type	Fiscal Year 1981		Fiscal Year 1982		Fiscal Year 1983	
	Expenditure	Percent of Total	Expenditure	Percent of Total	Expenditure	Percent of Total
General Fund (Non-dedicated)	\$3,560	60.8%	\$3,937	62.4%	\$3,792	58.3%
Federal Grants	1,284	21.9	1,259	19.9	1,335	20.5
Employment Compensation Funds	365	6.3	421	6.7	632	9.7
Highway Monies	396	6.8	440	7.0	492	7.6
Miscellaneous Dedicated Funds	<u>247</u>	<u>4.2</u>	<u>253</u>	<u>4.0</u>	<u>251</u>	<u>3.9</u>
TOTAL	<u>\$5,852</u>	<u>100%</u>	<u>\$6,310</u>	<u>100%</u>	<u>\$6,502</u>	<u>100%</u>

Source: See Appendix Tables I.A-C.

A functional analysis of total state spending shows that the primary purpose of state government can be consolidated into five major program areas. For example, Table 2 shows that in fiscal year 1983, approximately 27 percent of total state spending from all funding sources was for education. This represents a relative decline of nearly 5 percentage points since fiscal year 1981. In addition, 21 percent of total state spending in fiscal year 1983 was for health and welfare functions, 17 percent for general local government aids and property tax relief, 14 percent for economic security, and 11 percent for transportation. Combined, these functions account for 90 percent of total state spending.

TABLE 2
TOTAL STATE EXPENDITURES BY FUNCTION: FISCAL YEARS 1981 - 1983
(000's Omitted)

EXPENDITURE FUNCTION ^(a)	FISCAL YEAR 1981		FISCAL YEAR 1982		FISCAL YEAR 1983	
	TOTAL EXPENDITURE	% OF BASE TOTAL	TOTAL EXPENDITURE	% OF BASE TOTAL	TOTAL EXPENDITURE	% OF BASE TOTAL
EDUCATION	\$1,822,457	31.1%	\$2,006,070	31.8%	\$1,738,871	26.7%
HEALTH & WELFARE	\$1,230,405	21.0%	\$1,330,683	21.1%	\$1,372,252	21.1%
GENERAL AIDS/PROPERTY TAX RELF.	\$916,987	15.7%	\$1,057,845	16.8%	\$1,081,118	16.6%
ECONOMIC SECURITY	\$634,473	10.8%	\$710,426	11.3%	\$908,934	14.0%
TRANSPORTATION	\$628,838	10.7%	\$642,566	10.2%	\$736,287	11.3%
DEBT SERVICE	\$114,107	1.9%	\$147,714	2.3%	\$214,630	3.3%
NATURAL RESOURCES & ENVIRONMENT	\$149,606	2.6%	\$139,042	2.2%	\$141,705	2.2%
GENERAL GOVERNMENT	\$113,917	1.9%	\$118,573	1.9%	\$123,888	1.9%
PROTECTION OF PERSONS	\$112,451	1.9%	\$111,217	1.8%	\$115,066	1.8%
OTHER	\$164,562	2.8%	\$100,086	1.6%	\$99,371	1.5%
TOTAL	\$5,887,803	100.6%	\$6,364,222	100.8%	\$6,532,122	100.5%
UNALLOCATED ADJUSTMENTS	(\$35,794)	-0.6%	(\$53,137)	-0.8%	(\$30,203)	-0.5%
BASE TOTAL	\$5,852,009	100.0%	\$6,311,085	100.0%	\$6,501,919	100.0%

Source: Appendix Table II.D.

(a) See Appendix Tables II.A-C for detailed documentation of functional definitions.

Distinguishing between state expenditures made from own source revenues from those made with federal grants reveals differences in program emphasis between the two levels of government. Table 3 shows that in fiscal year 1983, health and welfare programs were primarily financed with federal aid, accounting for 53 percent of these functional expenditures. Federal funds were also used extensively to finance economic security and transportation, accounting for 23 and 30 percent of these functional expenditures, respectively. State own source revenues, on the other hand, were used exclusively for general aids to local governments and for property tax relief and almost exclusively for education, protection of persons, natural resources, general government, and debt service.

It is also important to note that among the three major functional areas to which the federal government contributes resources, state expenditures for these same program areas have increased at a faster rate between fiscal years 1981 and 1983. The result has been that the federal share for financing these programs has declined. Specifically, the federal share declined by 7.5 percentage points for economic security, by 1.5 percentage points for education, and has declined slightly (less than 1 percentage point) for health and welfare programs.

TABLE 3
TOTAL STATE EXPENDITURES BY FUNCTION AND BY FUNDING SOURCE
FISCAL YEARS 1981 - 1983
(000's Omitted)

EXPENDITURE FUNCTION (a)	FISCAL YEAR 1981			FISCAL YEAR 1982			FISCAL YEAR 1983		
	TOTAL EXPENDITURE	% STATE	% FEDERAL	TOTAL EXPENDITURE	% STATE	% FEDERAL	TOTAL EXPENDITURE	% STATE	% FEDERAL
EDUCATION	\$1,822,457	90.5%	9.5%	\$2,006,070	92.8%	7.2%	\$1,738,871	92.0%	8.0%
HEALTH & WELFARE	\$1,230,405	46.2%	53.8%	\$1,330,683	46.8%	53.2%	\$1,372,252	46.8%	53.2%
GENERAL AIDS/PROPERTY TAX RELF.	\$916,987	100.0%	N/A	\$1,057,845	100.0%	N/A	\$1,081,118	100.0%	N/A
ECONOMIC SECURITY	\$634,473	69.1%	30.9%	\$710,426	73.6%	26.4%	\$908,934	76.6%	23.4%
TRANSPORTATION	\$628,838	66.9%	33.1%	\$642,566	70.9%	29.1%	\$736,287	69.7%	30.3%
DEBT SERVICE	\$114,107	99.8%	0.2%	\$147,714	99.9%	0.1%	\$214,630	99.9%	0.1%
NATURAL RESOURCES & ENVIRONMENT	\$149,606	94.2%	5.8%	\$139,042	94.7%	5.3%	\$141,705	94.9%	5.1%
GENERAL GOVERNMENT	\$113,917	96.9%	3.1%	\$118,573	96.3%	4.1%	\$123,888	98.0%	2.0%
PROTECTION OF PERSONS	\$112,451	94.1%	5.9%	\$111,217	93.9%	6.1%	\$115,066	94.0%	6.0%
OTHER	\$164,562	74.5%	25.5%	\$100,086	86.7%	13.3%	\$90,371	84.1%	15.9%
TOTAL	\$5,887,863	77.9%	22.1%	\$6,364,222	80.2%	19.8%	\$6,523,122	79.5%	20.5%
UNALLOCATED ADJUSTMENTS	(\$35,794)	53.1%	46.9%	(\$53,137)	98.9%	1.1%	(\$30,203)	91.5%	8.5%
BASE TOTAL	\$5,852,069	78.1%	21.9%	\$6,311,085	80.1%	19.9%	\$6,501,919	79.5%	20.5%

Source: Appendix Table II.D.

(a) See Appendix Tables II.A-C for detailed documentation of functional definitions.

SECTION II

GENERAL FUND FINANCES

II.A. SUMMARY OF FINANCES

The 1982-83 biennium was plagued with severe fiscal problems in the state's General Fund as revenue shortfalls were experienced repeatedly throughout the biennium. Six Special Legislative Sessions were called so that finances could be adjusted, and nearly \$2 billion of financial modifications became necessary during the budget period.

Table 4 illustrates how dramatically General Fund finances had to change during fiscal year 1983 so that a balanced budget could be realized at year's end. The additional time required to institute many of the financial changes resulted in a \$624 million General Fund deficit on June 30, 1982, the midpoint of the biennium. Furthermore, if actions were not taken to alter the fund's revenue and expenditure policies from that of fiscal year 1982, the fund's balance could be expected to decline by an additional \$363 million during fiscal year 1983. In effect, the state was required to achieve a turnaround of nearly \$1 billion in General Fund finances, in a single year, in order to restore a positive fund balance by June 30, 1983. This objective was accomplished as the state ended fiscal year 1983 with a fund balance of \$5.3 million.

TABLE 4

STATE GENERAL FUND

SUMMARY OF ANNUAL FINANCES
FISCAL YEARS 1980 - 1983
(000's Omitted)

	Fiscal Year			
	1980	1981	1982	1983
Revenues	\$3,228,934	\$3,320,587	\$3,687,965	\$4,117,122
Expenditures	<u>(3,401,030)</u>	<u>(3,690,495)</u>	<u>(4,051,036)</u>	<u>(3,487,310)</u>
Net Annual Increases/ (Decreases) to Fund Balance	\$ (172,096)	\$ (369,908)	\$ (363,071)	\$ 629,812
Beginning Fund Balance	\$ 280,607	\$ 108,511	\$ (261,397)	\$ (624,468)
ENDING FUND BALANCE	<u>\$ 108,511</u>	<u>\$ (261,397)</u>	<u>\$ (624,468)</u>	<u>\$ 5,344</u>

Source: Office of the Legislative Auditor, staff computations.
Financial reports adjusted for 1981-82 school aid deferment. See Appendix Table II.D.

To reach this end required a complex array of tax increases, revenue/expenditure shifts, and expenditure cuts. Table 5 illustrates the fiscal impact of these budget balancing actions during the 1982-83 biennium. Of the \$1.9 billion fiscal adjustment that occurred during the biennium, \$1.4 billion or 77 percent of that adjustment was made during fiscal year 1983. On the surface, it appears that the adjustments made in fiscal year 1983 reflected more of a policy which reduced expenditures rather than increased revenues in order to bring the budget back into balance. However, a closer examination reveals that of the total \$1.4 billion, 29 percent was realized from new and now permanent taxes, while 23 percent was generated from reductions in state spending.

TABLE 5
STATE GENERAL FUND
FISCAL IMPACT OF BUDGET-BALANCING ACTIONS
1982-83 BIENNIUM
(000,000's Omitted)

	Biennium .				1982-83 Biennium Totals	Percent of Total Adjustment
	FY'82	Percent of Ad- justment	FY'83	Percent of Ad- justment		
Revenue Enhancements:						
Temporary Taxes	\$ 63	14.8%	\$ 170	11.8%	\$ 233	12.5%
New Taxes	251	58.8	418	29.1	669	35.9
Shifts	28 ^(a)	6.5	37 ^(b)	2.6	65	3.5
Subtotal: Revenues	<u>\$342</u>	<u>80.1%</u>	<u>\$ 625</u>	<u>43.5%</u>	<u>\$ 967</u>	<u>51.9%</u>
Expenditure Actions:						
Cuts ^(c)	\$ 17	4.0%	\$ 331	23.1%	\$ 348	18.7%
Shifts	68	15.9	480	33.4	548	29.4
Subtotal Expenditures	<u>\$ 85</u>	<u>19.9%</u>	<u>\$ 811</u>	<u>56.5%</u>	<u>\$ 896</u>	<u>48.1%</u>
TOTAL FISCAL IMPACT	<u>\$427</u>	<u>100%</u>	<u>\$1,436</u>	<u>100%</u>	<u>\$1,863</u>	<u>100%</u>

Source: Office of the Legislative Auditor, staff computations. See Appendix Table VI for detail on tax law changes and Appendix Tables III and IV for detail on expenditure shifts and cuts.

(a) 1982 accelerated collection of general sales tax equaled \$28 million.

(b) 1983 accelerated collection of gross earnings tax equaled \$37 million.

(c) Expenditure reductions do not include amounts eliminated from state department appropriations for salaries, supplies, and equipment. We were unable to determine to what extent these reduced appropriations would have translated into expenditures foregone or reduced, versus amounts which would have remained unexpended.

During the period between fiscal years 1980 and 1983, state General Fund revenues increased by \$888 million or at a rate of about 9 percent per year. However, over 90 percent of this growth was a direct result of legislative tax increases. Growth due to economic factors contributed only marginally to revenues during this period. Among major tax sources, for example, revenues increased by 34 percent between fiscal years 1980 and 1983 but would have increased by only 9 percent if no legislative actions were taken by the state or federal governments. Section II.B examines the impact of these tax laws and briefly describes other significant trends in state General Fund revenues during this period.

Spending actions taken by the Legislature resulted in reducing the state's General Fund expenditures by \$811 million or by 14 percent in fiscal year 1983. However, this dramatic decline is misleading because \$480 million or 60 percent of that amount was achieved by restructuring payment schedules which shifted the expenditure liability from fiscal year 1983 to fiscal year 1984. As will be discussed in more detail in Section II.C, most of these shifts occurred in two program areas, \$199 million in school aids and \$269 million in direct property tax relief. The analysis in Section II.C will also show that most of the \$331 million that could be classified as expenditure "cuts" translated into either increased local property taxes or later increases in state spending (see Section II.C.4).

In addition to examining significant General Fund revenue and expenditure policies, Section II.D also describes the fund's recent cash flow problems associated with the uneven timing of revenue collections and expenditure payments. The analysis shows that during most of fiscal year 1983, the state's short-term borrowing amounted to \$850 million. Interest paid on these certificates during fiscal year 1983 totaled nearly \$84 million, which represented an increase of \$50 million in short-term borrowing costs over fiscal year 1982. However, due to the improved economic conditions along with the establishment of a budgetary reserve account, the need for short-term borrowing should be either greatly reduced or eliminated by fiscal year 1985.

Future spending commitments are also significant in placing demands on future General Fund resources. For example, the analysis in Section II.E shows that approximately \$760 million of fiscal year 1984 resources were committed as of June 30, 1983. The discussion in Section II.E also cites several contingent liabilities which may place additional spending commitments on the General Fund.

Finally, Section II.F provides a brief discussion which shows the differences between reporting General Fund finances on a budgetary basis from that reported using generally accepted accounting principles (GAAP). The analysis shows that the inconsistencies in the current budgetary measurement provides incomplete information on the state's financial condition.

II.B. ANALYSIS OF REVENUE SOURCES

It has been generally accepted that the economic recession affecting the state in 1981 and 1982 contributed significantly to the state's budgetary problems by depressing revenue growth. Despite the recession, Table 6 shows that between fiscal years 1980 and 1983, revenues from individual taxes increased by 39 percent, sales and excise tax revenues increased by 44 percent, and non-tax revenues increased by 33 percent. In total, state General Fund revenues increased by \$888 million during this period or at a rate of 9 percent per year. However, over 90 percent of this growth was due to increases in tax revenues which was largely a result of legislative actions taken to generate new tax dollars.

TABLE 6
STATE GENERAL FUND
REVENUES BY SOURCE
FISCAL YEARS 1980 to 1983
(000's OMITTED)

REVENUE SOURCE	FY1980	FY1981	PERCENT CHANGE 80 - 81	FY1982	PERCENT CHANGE 81 - 82	FY1983	PERCENT CHANGE 82 - 83	PERCENT CHANGE 80 - 83
TAX REVENUE								
INDIVIDUAL TAXES:								
PERSONAL INCOME	\$1,749,828	\$1,892,685	8.2%	\$1,992,357	5.3%	\$2,300,172	15.4%	31.5%
(LESS REFUNDS)	(\$352,265)	(\$333,866)	-5.2%	(\$293,162)	-12.2%	(\$323,620)	10.4%	-8.1%
NET PERSONAL INCOME	\$1,397,563	\$1,558,819	11.5%	\$1,699,195	9.0%	\$1,976,552	16.3%	41.4%
ESTATE & INHERITANCE	\$40,813	\$23,042	-43.5%	\$26,821	16.4%	\$18,284	-31.8%	-55.2%
TOTAL INDIVIDUAL TAXES	\$1,438,376	\$1,581,861	10.0%	\$1,726,016	9.1%	\$1,994,836	15.6%	38.7%
CORPORATION TAXES:								
CORPORATE INCOME	\$376,095	\$352,462	-6.3%	\$358,300	1.7%	\$285,468	-20.3%	-24.1%
(LESS REFUNDS)	(\$30,386)	(\$63,382)	108.6%	(\$56,151)	-11.4%	(\$63,886)	13.8%	110.2%
NET CORPORATE INCOME	\$345,709	\$289,080	-16.4%	\$302,149	4.5%	\$221,592	-26.7%	-35.9%
BANK EXCISE	\$36,115	\$35,640	-1.3%	\$29,687	-16.7%	\$25,201	-15.1%	-30.2%
GROSS EARNINGS	\$131,082	\$137,070	4.6%	\$136,102	-0.7%	\$175,879 ^{a/}	29.2%	34.2%
MINING TAXES	\$114,752	\$102,699	-10.5%	\$113,910	10.9%	\$84,277	-26.0%	-26.6%
TOTAL CORPORATE TAXES	\$627,658	\$564,489	-10.1%	\$581,848	3.1%	\$506,939	-12.9%	-19.2%
SALES AND EXCISE TAXES:								
GENERAL SALES	\$650,902	\$688,895	5.8%	\$876,078 ^{b/}	27.2%	\$1,009,206	15.2%	55.0%
LIQUOR	\$54,408	\$55,805	2.6%	\$55,469	-0.6%	\$53,336	-3.8%	-2.0%
CIGARETTE & TOBACCO	\$86,929	\$88,638	2.0%	\$88,958	0.4%	\$85,389	-4.0%	-1.8%
MOTOR VEHICLE	\$89,660	\$88,095	-1.7%	\$104,219	18.3%	\$123,808	18.8%	38.1%
TOTAL SALES AND EXCISE TAXES	\$881,899	\$921,433	4.5%	\$1,124,724	22.1%	\$1,271,739	13.1%	44.2%
OTHER TAX REVENUE	\$25,567	\$20,880	-18.3%	\$23,449	12.3%	\$28,502	21.5%	11.5%
TOTAL STATE NET TAXES	\$2,973,500	\$3,088,663	3.9%	\$3,456,037	11.9%	\$3,802,016	10.0%	27.9%
NON-TAX REVENUE								
COST OF CARE FEES	\$57,454	\$62,986	9.6%	\$80,186	27.3%	\$84,013	4.8%	46.2%
TUITION & COLLEGE FEES	\$38,398	\$45,550	18.6%	\$51,575	13.2%	\$61,525	19.3%	60.2%
INVESTMENT INCOME	\$43,358	\$28,957	-33.2%	\$23,026	-20.5%	\$51,466	123.5%	18.7%
MISCELLANEOUS FEES & CHARGES	\$42,225	\$45,320	7.3%	\$43,169	-4.7%	\$42,885	-0.7%	1.6%
OTHER REVENUE	\$18,703	\$29,360	57.0%	\$31,874	8.6%	\$25,871	-18.8%	38.3%
TOTAL NON-TAX REVENUE	\$200,138	\$212,173	6.0%	\$229,830	8.3%	\$265,760	15.6%	32.8%
TRANSFERS FROM OTHER FUNDS								
FEDERAL REVENUE SHARING	\$45,477	\$11,389	-75.0%	N/A	-100.0%	N/A	N/A	N/A
OPERATING TRANSFERS	\$9,819	\$8,362	-14.8%	\$2,089	-75.0%	\$29,042	1290.2%	195.8%
RESIDUAL EQUITY TRANSFERS	N/A	N/A	N/A	N/A	N/A	\$20,304	N/A	N/A
TOTAL TRANSFERRED REVENUES	\$55,296	\$19,751	-64.3%	\$2,089	-89.4%	\$49,346	2262.2%	-10.8%
TOTAL REVENUE:	\$3,228,934	\$3,320,587	2.8%	\$3,687,956	11.1%	\$4,117,122	11.6%	27.5%

SOURCE: Office of the Legislative Auditor staff computations from SWA reports and annual financial statements. Also, see Technical Note in Appendix.

^{a/} Includes accelerated collection of \$37 million.

^{b/} Includes accelerated collection of \$28 million.

Table 7 summarizes the growth in state tax revenue from major sources (personal income, general sales, corporate income, and motor vehicle excise) for the period between fiscal years 1980 and 1983. Although total tax revenues from major sources increased by 34 percent during this period, nearly three-quarters of that growth was a result of legislative action taken by the state or federal governments. In other words, if the tax structure which had existed in 1980 had remained unchanged through 1983, tax revenues from these sources would have increased by only 9 percent or at an average rate of only 3 percent per year.

TABLE 7
STATE GENERAL FUND
ANALYSIS OF PERCENTAGE CHANGE IN TOTAL STATE TAX REVENUE
FROM MAJOR SOURCES:* FISCAL YEARS 1980 - 1983

Change Due To:		
	New State Tax Laws	23.7%
	New Federal Tax Laws	<u>1.1</u>
	Total: New Tax Laws	<u>24.8%</u>
	Economic Growth	9.3%
	TOTAL MAJOR SOURCE TAX REVENUE GROWTH	<u>34.1%</u>

*Personal income tax, general sales tax, corporate income tax, motor vehicle excise tax. These tax sources generate approximately 80 percent of total General Fund revenues.

Source: Office of the Legislative Auditor, staff computations based on data from Table 6 and Appendix Table VI.

More specifically, Table 8 compares the growth in individual major tax source revenues due to economic factors with growth due to tax law changes for the period between fiscal years 1980 and 1983. As can be seen, corporate income tax revenues were particularly sensitive to the recession. During this three-year period, these revenues declined by 28 percent due to economic conditions and declined by an additional 8 percent as a result of legislative action. Economic growth in general sales tax revenue was also greatly depressed, increasing by less than 6 percent or at an average rate of only 2 percent per year during the period. However, because of legislative increases actual revenue from the general sales tax grew by 55 percent.

TABLE 8
STATE GENERAL FUND
PERCENTAGE CHANGE IN STATE TAX REVENUE BY MAJOR SOURCE:
FISCAL YEARS 1980 - 1983

	Due To		TOTAL CHANGE
	<u>Economic Growth</u>	<u>Tax Law Change</u>	
Personal Income	13.6%	27.8%	41.4%
General Sales	5.6	49.5	55.0
Corporate Income	-28.1	-7.8	-35.9
Motor Vehicle	<u>10.2</u>	<u>27.9</u>	<u>38.1</u>
TOTAL	9.3%	24.8%	34.1%

Source: Office of the Legislative Auditor, staff computations based on data from Table 6 and Appendix Table VI.

Most of the state tax law changes were enacted in 1981 and 1982. Table 9 estimates the impact of these tax policies on revenues collected during the 1982-83 biennium. New state tax laws generated approximately \$314 million in fiscal year 1982 and \$588 million in fiscal year 1983. Over 43 percent of these new tax dollars were raised from the general sales tax when the state increased its rate from 4 to 6 percent and expanded the base to include such items as the sale of candy and soft drinks. Laws affecting the state's personal income tax were also responsible for generating 37 percent of the new tax dollars collected during the biennium. The most significant legislation was the 7 and 10 percent surtax rates. Of the new personal income tax revenues shown in Table 9, we estimate that the surtax provisions generated \$63 million in fiscal year 1982 and \$170 million in fiscal year 1983.

In addition to state tax law changes, federal tax policies have also had a significant impact on state tax revenues. As Table 9 shows, in fiscal year 1983, the state may have raised as much as \$149 million in additional revenue due to changes in federal tax policies. This accounted for approximately 20 percent of all new tax dollars raised in fiscal year 1983. Much of this revenue gain was a result of reductions in federal personal income tax rates (about \$121 million or 81 percent) which were enacted as part of the 1981 Economic Recovery Tax Act. Since the state of Minnesota allows taxpayers to deduct their federal tax liability, any reduction in federal taxes results in an increase in Minnesota taxable income. However, the reverse is also true--if federal tax rates increase, Minnesotans will pay less in state personal income taxes.

TABLE 9

STATE GENERAL FUND

SUMMARY OF ESTIMATED REVENUE IMPACT OF MAJOR TAX CHANGES
FISCAL YEARS 1982 AND 1983
(000,000's Omitted)

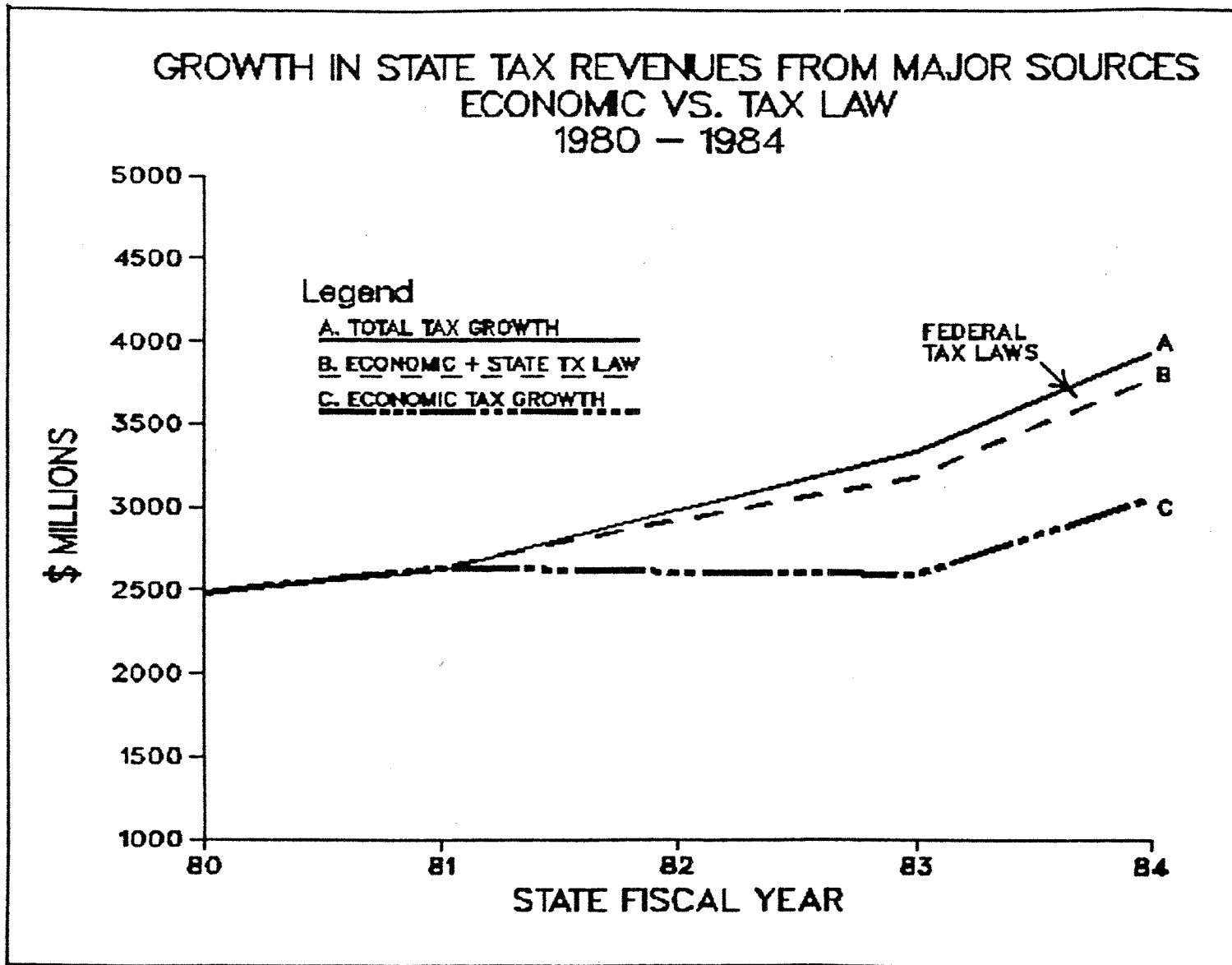
Major Tax Source	Fiscal Year 1982		Fiscal Year 1983		Total 1982-83 Biennium	
	Dollar	Percent	Dollar	Percent	Dollar	Percent
	Change	of Total Change	Change	of Total Change	Change	of Total Change
Personal Income	\$139	37.3%	\$268	36.4%	\$ 407	36.7%
General Sales	159	42.6	322	43.7	481	43.3
Motor Vehicle	16	4.3	25	3.4	41	3.7
Corporate Income	<u>0</u>	<u>.0</u>	<u>(27)</u>	<u>-3.7</u>	<u>(27)</u>	<u>-2.4</u>
Total New State Laws	\$314	84.2%	\$588	79.8%	\$ 902	81.3%
Federal Tax Law Changes	\$ 59	15.8%	\$149	20.2%	\$ 208	18.7%
TOTAL IMPACT	<u>\$373</u>	<u>100.0%</u>	<u>\$737</u>	<u>100.0%</u>	<u>\$1,110</u>	<u>100.0%</u>

Source: Office of the Legislative Auditor, staff computations. See Appendix Table VI for details on tax law changes.

Finally, Exhibit I summarizes the growth in state major source tax revenues for the period between fiscal year 1980 and estimates through fiscal year 1984.¹ The graph compares the growth in tax revenues due to major legislative action through 1984 with growth due to inflation and other economic factors. As can be seen, the impact of new tax laws has been significant accounting for nearly all of the growth in tax revenue between fiscal years 1981 and 1983.

Largely because of legislative action taken since 1981, there has been a relative shift in tax mix among major tax sources which finance the state's General Fund. Table 10 shows that in fiscal year 1980, the state's general sales tax accounted for 20 percent of total General Fund revenues, the personal income tax 43 percent and the corporate income tax raised 11 percent. By the end of fiscal year 1984, it is estimated that the general sales tax and personal income tax proportions will have increased to 26 and 47 percent, respectively, while the corporate income tax share of total General Fund revenues will decline to 6 percent. The relative increase in the share of revenue estimated to be raised by the personal income tax from 43 to 47 percent is largely attributed to the surtax rates which were effective for fiscal years 1982 to 1984. It is also significant to note that major source tax revenues as a percentage of total revenues has increased throughout the period. In fiscal year 1980 these taxes accounted for 77 percent of total General Fund revenues, and estimates indicate that these taxes may account for nearly 83 percent at the end of fiscal year 1984.

¹Department of Finance projections of May 10, 1984.



Source: Office of Legislative Auditor staff computations based on data from Table 6 and Appendix Table VI.

TABLE 10

STATE GENERAL FUND

STATE TAX REVENUE FROM MAJOR SOURCES AS A PERCENTAGE OF TOTAL
STATE GENERAL FUND REVENUE: FISCAL YEARS 1980 - 1984est. ^(a)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984est.</u>
Personal Income	43.3%	46.9%	46.1%	48.0%	47.2%
General Sales	20.2	20.7	23.8	24.5	26.1
Corporate Income	10.7	8.5	8.2	5.4	6.1
Motor Vehicle	<u>2.8</u>	<u>2.7</u>	<u>2.8</u>	<u>3.0</u>	<u>3.6</u>
TOTAL MAJOR SOURCE TAX REVENUE	<u>76.9%</u>	<u>78.8%</u>	<u>80.8%</u>	<u>80.9%</u>	<u>83.2%</u>

(a) Estimates based on Department of Finance projections of May 10, 1984.

Source: OLA staff computations based on data from Appendix Table VI.

Conversely, revenues from many secondary tax sources declined throughout the period for various reasons. Table 6 showed, for example, that between fiscal years 1980 and 1983, estate and inheritance tax revenues have declined by 55 percent due to policy designed to diminish the state's use of this tax. During this same period, mining tax revenues declined by nearly 27 percent reflecting the depressed economic conditions plaguing the industry.

Finally, non-tax revenues generated from fees, charges, tuition, and investment income also increased significantly between fiscal years 1980 and 1983. Table 6 showed that in fiscal year 1980, these sources generated approximately \$200 million or 6 percent of all General Fund revenues. In fiscal year 1983, revenues from these sources increased by 33 percent to nearly \$266 million. However, because of the large tax increases during this period, the relative share of total General Fund revenues from non-tax sources remained at approximately 6 percent.

II.C. ANALYSIS OF EXPENDITURE PROGRAMS

As presented in Table 5, over \$800 million of the state's budget savings during the 1982-83 biennium were achieved in fiscal year 1983. However, \$480 million, or 60 percent of that amount represented a restructuring of payment schedules or shifts from fiscal year 1983 to the next biennium. As will be discussed in more detail later, most of these shifts occurred in two program areas, \$199 million in school aids and \$269 million in direct property tax relief. The payments were shifted from fiscal year 1983 to fiscal year 1984 and resulted in a short-term remedy providing a one-time budget savings. Similarly, the 24 percent reduction of \$331 million that we categorized as expenditure

"cuts" also represent, for the most part, a temporary decline in spending. These reductions in the General Fund either translate into increased local property taxes, later increases in state spending, or at best a temporary reprieve in tax burdens. In effect, only a small amount of these expenditure reductions were ultimately translated into a loss of service or program benefits.

In general, these actions contributed significantly to the overall change in General Fund expenditures which declined by 14 percent when compared to fiscal year 1982. This dramatic decline is potentially misleading because the expenditure shifts, as just discussed, essentially result in noncomparable expenditure bases between fiscal years 1982 and 1983. Table 11 indicates that even after considering expenditure shifts, a 3.7 percent decline was realized in General Fund expenditures during fiscal year 1983. Perhaps a more accurate indicator of expenditure commitment during the period is to compare fiscal year 1982 expenditures with those estimated for fiscal year 1984. This comparison, which incorporates shift adjusted figures for fiscal years 1982 and 1983, indicates an approximate 8 percent annual rate of growth in state General Fund expenditures for the period.

TABLE 11
STATE GENERAL FUND
TOTAL EXPENDITURES ADJUSTED FOR SHIFTS
FISCAL YEARS 1980 TO 1984est.
(000,000's Omitted)

	Amounts FY 1980	Amounts FY 1981	Percent Change 1980-81	Amounts FY 1982	Percent Change 1981-82	Amounts FY 1983	Percent Change 1982-83	Est. Amounts FY 1984 ^(a)	Percent Change 1983-84
Expenditures as Reported	\$3,401	\$3,690	+ 8.5%	\$4,051	+ 9.8%	\$3,487	-13.9%	\$4,547	+30.4%
Add Back: Shifts	--	--		68		479		--	
ADJUSTED EXPENDITURE LEVELS	<u>\$3,401</u>	<u>\$3,690</u>	<u>+ 8.5%</u>	<u>\$4,119</u>	<u>+11.6%</u>	<u>\$3,967</u>	<u>- 3.7%</u>	<u>\$4,547</u>	<u>+14.6%</u>

Source: Office of the Legislative Auditor, staff computations. See Appendix Table III for detail on expenditure shifts.

(a) Department of Finance projections of May 10, 1984, adjusted according to GAAP.

A closer examination of General Fund expenditures shows that there is a wide variation in the rate of change experienced by individual program areas since fiscal year 1980. For the purpose of our analysis, we classified expenditures as follows:

- (A) State Government Operations - This category includes salary cost, administrative expenditures, supplies, and equipment purchases for all state institutions and other state departments.
- (B) Intergovernmental Transfer Payments - This category includes all school aids, aids to the University of Minnesota, Local Government Aids, and a variety of other aids paid to local governments.
- (C) Direct Property Tax Relief Programs - This category includes property tax relief paid to local governments on behalf of property owners, e.g., the Homestead Credit, and refund amounts paid directly to taxpayers, e.g., the Circuit Breaker.
- (D) Subsidies Paid to Individuals - This category is dominated by welfare benefits and includes other programs such as scholarship and grant programs for college students.
- (E) Debt Service Payments - This category includes the repayment of general obligation bond principal and interest, plus interest on short-term certificates of indebtedness.
- (F) Interfund Transfers - This category consists of monies paid to other state funds for expenditure. Primary amounts include the distribution of certain taconite taxes to the Iron Range Resources and Rehabilitation Board and amounts distributed to the Minnesota Housing Finance Agency for housing programs.

The spending patterns for each of these categories will be examined, first, however, a general observation can be made for all categories. The earlier analysis indicated that expenditure growth has not been significantly affected by the financial problems experienced by the state. This occurs because, for practical purposes, major expenditure programs cannot be controlled in the short-term. State policies have established a variety of commitments which are difficult to renege on in the short-term. For example, Direct Property Tax Relief programs were greatly expanded in the 1979 and 1980 legislative sessions and affected local government budget decisions in 1981 and 1982. Since local governments had levied property taxes assuming that the state would provide these payments and other intergovernmental aids, the state was unable to significantly reduce these commitments without devastating local government finances. There are also certain contracted expenditures which are difficult to control in the short-term. These include most salary costs, debt service expenditures, and certain administrative expenditures, such as communications and utilities.

However, there are expenditure programs which can be controlled with short-term notice. These include items which are discretionary and can be reduced or delayed in the short-term, such as travel, consultant contracts, and certain grant programs. These programs, however, constitute a minor amount of the state's budget. Our analysis reveals that most of these controllable expenditures in fiscal year 1983 either approximated or were below fiscal year 1980 spending levels.

Thus, state expenditures are difficult to control in the short-term. State policies and contractual agreements seem to establish expenditure levels which are difficult to adjust. If there is a desire to reduce state spending or make it more flexible, substantial changes in state finances will be necessary.

Examination of Table 12 shows the growth in General Fund expenditures by major program categories between fiscal years 1980 and 1983. The impact of expenditure shifts for intergovernmental transfers to school districts and for various direct property tax relief programs is very apparent as expenditures for these program categories declined by 22 and 31 percent, respectively, in fiscal year 1983. If however, expenditure levels for these programs are adjusted, restoring the amounts shifted to fiscal year 1984, then intergovernmental transfers would have declined by only 14 percent while direct property tax relief payments would actually have shown an increase of 7 percent. The impact of expenditure shifts on these programs are discussed in more detail on pages 23-29.

TABLE 12
STATE GENERAL FUND
EXPENDITURES BY MAJOR CATEGORIES
FISCAL YEARS 1980 - 1983
(000's Omitted)

	FY 1980	FY 1981	FY 1982		FY 1983	
			As Reported	Shift Adjusted	As Reported	Shift Adjusted
Government Operations	\$ 562,152	\$ 605,731	\$ 641,869	\$ 641,869	\$ 689,763	\$ 689,763
Intergovernmental Transfers	1,806,134	1,889,855	2,008,952	2,076,633	1,570,217	1,780,309
Direct Property Tax Relief	510,135	622,387	714,676	714,676	495,682	765,131
Subsidies to Individuals	342,448	440,338	489,020	489,020	499,826	499,826
Debt Service	88,173	93,996	135,302	135,302	194,003	194,003
Interfund Transfers	91,988	38,188	61,217	61,217	37,819	37,819
TOTAL GENERAL FUND EXPENDITURES	<u>\$3,401,030</u>	<u>\$3,690,495</u>	<u>\$4,051,036</u>	<u>\$4,118,717</u>	<u>\$3,487,310</u>	<u>\$3,966,851</u>

Source: Office of the Legislative Auditor, staff computations. See Appendix Table III for detail on expenditure shifts.

II.C.1. State Government Operations

We have classified salaries, administrative expenditures, supplies, and capital expenditures as comprising State Government Operations. These types of expenditures represented nearly 20 percent of General Fund spending in fiscal year 1983. In this section we have included two analyses of this spending category: (1) by expenditure type and (2) by department/institution.

Table 13 illustrates state government operation expenditures by type. The table demonstrates how dominant salaries are as a component of operating expenditures. Salaries comprised approximately 80 percent of all operating expenditures during this period. Although the size of the state's work force has been on the decline for the last few years, salary costs rose at a rate of about 8 percent per year between fiscal years 1980 and 1983. Certainly, some reduction in the work force is attributable to layoffs. However, the costs of severance pay and unemployment compensation ordinarily obviate any significant short-term savings for the state. Furthermore, when negotiated and discretionary salary increases are also considered, annual increases in salary costs should be expected.

A more traditional method of examining state government operational expenditures is presented in Table 14 which shows state spending by departments and institutions. The differences between this and other analyses of the General Fund is that all grant and benefit expenditures have been excluded from state department's budgets. Thus, the amounts shown in Table 14 represent only those expenditures for salaries, administration, supplies, and capital items purchased by state departments (i.e, those items specified in Table 13).

The most significant expenditure pattern shown in Table 14 is that there is a wide variation in the rate of growth experienced by departments and institutions during this three-year period. Between fiscal years 1980 and 1983, government operation expenditures increased by 22.7 percent. During this same period, however, these types of expenditures among state institutions increased by over 30 percent. This occurred, in part, because they were shielded from some of the budget reduction policies taken in fiscal year 1981. Most of state operational spending restrictions were placed on non-institutional agencies and departments and as a result, their operating expenditures increased by only 13.6 percent during the period and actually declined in fiscal year 1982.

Furthermore, it is also important to realize that many state institutions do generate revenues for the General Fund. Colleges and universities collect tuition revenues and the welfare institutions and the veterans homes are partially financed by federal and county dollars and to a lesser degree, by residents' fees. The implication is that if these revenues are not taken into consideration, it would appear from looking at Table 14, that state institutions account for over one-half of all state government operating expenditures. However, analysis of Table 15 shows that if state institution operating expenditures are displayed using a net cost figure, then they comprise less than one-half of all state operating expenditures. Using a net cost figure also shows that state institutional expenditures increased by 21 percent as opposed to 30 percent between fiscal years 1980 and 1983.

TABLE 13

STATE GENERAL FUND
STATE GOVERNMENT OPERATIONS BY EXPENDITURE TYPE
FISCAL YEARS 1980 to 1983
(000's OMITTED)

EXPENDITURE TYPE	FY1980	FY1981	PERCENT CHANGE 80 - 81	FY1982	PERCENT CHANGE 81 - 82	FY1983	PERCENT CHANGE 82 - 83	PERCENT CHANGE 80 - 83
SALARIES	\$444,278	\$486,145	9.4%	\$520,542	7.1%	\$557,346	7.1%	25.4%
ADMINISTRATION:								
COMMUNICATIONS	\$12,632	\$13,566	7.4%	\$14,388	6.1%	\$13,910	-3.3%	10.1%
COMPUTER SERVICES	\$12,520	\$13,226	5.6%	\$12,295	-7.0%	\$12,778	3.9%	2.1%
PROFESSIONAL TECHNICAL SERVICE	\$11,533	\$11,496	-0.3%	\$11,364	-1.1%	\$12,408	9.2%	7.6%
UTILITIES	\$7,998	\$9,053	13.2%	\$9,575	5.8%	\$11,100	15.9%	38.8%
TRAVEL	\$8,960	\$8,192	-8.6%	\$8,686	6.0%	\$8,672	-0.2%	-3.2%
RENT	\$8,298	\$8,039	-3.1%	\$8,394	4.4%	\$7,874	-6.2%	-5.1%
PRINTING	\$6,881	\$6,838	-0.6%	\$6,877	0.6%	\$7,545	9.7%	9.6%
OTHER PURCHASED SERVICES	\$4,279	\$5,292	23.7%	\$5,301	0.2%	\$7,070	33.4%	65.2%
REPAIRS	\$3,069	\$3,249	5.9%	\$3,718	14.4%	\$4,206	13.1%	37.0%
CONSULTANTS	\$1,841	\$1,858	0.9%	\$705	-62.1%	\$629	-10.8%	-65.8%
ADVERTISING	\$1,259	\$1,242	-1.4%	\$981	-21.0%	\$1,045	6.5%	-17.0%
OTHER	\$1,963	\$1,928	-1.8%	\$1,957	1.5%	\$1,879	-4.0%	-4.3%
SUBTOTAL: ADMINISTRATION	\$81,233	\$83,979	3.4%	\$84,241	0.3%	\$89,116	5.8%	9.7%
SUPPLIES	\$34,955	\$32,479	-7.1%	\$36,153	11.3%	\$37,631	4.1%	7.7%
CAPITAL EXPENDITURES	\$12,715	\$13,295	4.6%	\$11,082	-16.6%	\$8,679	-21.7%	-31.7%
OTHER	\$4,724	\$12,019	154.4%	\$9,503	-20.9%	\$12,350	30.0%	161.4%
LESS: REIMBURSEMENTS	(\$15,753)	(\$22,186)	40.8%	(\$19,652)	-11.4%	(\$15,359)	-21.8%	-2.5%
TOTAL STATE GOVERNMENT OPERATIONS	\$562,152	\$605,731	7.8%	\$641,869	6.0%	\$689,763	7.5%	22.7%

SOURCE: Office of the Legislative Auditor staff computations from SWA reports and financial statements. Also see Technical Note in Appendix.

TABLE 14

STATE GENERAL FUND
STATE GOVERNMENT OPERATIONS BY DEPARTMENT/INSTITUTION^{a/}
FISCAL YEARS 1980 - 1983
(000's OMITTED)

DEPARTMENT/ INSTITUTION	FY1980	FY1981	PERCENT	FY1982	PERCENT	FY1983	PERCENT	PERCENT
			CHANGE		CHANGE		CHANGE	CHANGE
			80 - 81		81 - 82		82 - 83	80 - 83
CONSTITUTIONAL OFFICERS:								
ATTORNEY GENERAL	\$8,357	\$9,411	12.61%	\$10,136	7.70%	\$10,727	5.83%	28.36%
GOVERNOR/LT. GOVERNOR	\$1,513	\$1,371	-9.39%	\$1,430	4.30%	\$1,559	9.02%	3.04%
SECRETARY OF STATE	\$678	\$914	34.81%	\$948	3.72%	\$952	0.42%	40.41%
STATE TREASURER	\$812	\$878	8.13%	\$896	2.05%	\$1,008	12.50%	24.14%
STATE AUDITOR	\$241	\$247	2.49%	\$269	8.91%	\$278	3.35%	15.35%
SUBTOTAL	\$11,601	\$12,821	10.52%	\$13,679	6.69%	\$14,524	6.18%	25.20%
JUDICIARY:								
DISTRICT COURT JUDGES	\$10,948	\$11,766	7.47%	\$11,748	-0.15%	\$12,293	4.64%	12.29%
SUPREME COURT	\$3,044	\$3,697	21.45%	\$4,171	12.82%	\$4,952	18.72%	62.68%
SUBTOTAL	\$13,992	\$15,463	10.51%	\$15,919	2.95%	\$17,245	8.33%	23.25%
LEGISLATIVE:								
HOUSE OF REPRESENTATIVES	\$9,305	\$10,664	14.61%	\$10,824	1.50%	\$12,108	11.86%	30.12%
SENATE	\$5,941	\$7,270	22.37%	\$6,895	-5.16%	\$7,915	14.79%	33.23%
LEGISLATIVE AUDITOR	\$1,837	\$2,079	13.17%	\$2,170	4.38%	\$2,124	-2.12%	15.62%
REVISOR OF STATUTES	\$1,199	\$1,573	31.19%	\$1,978	25.75%	\$2,298	16.18%	91.66%
OTHER LEGISLATIVE COMMISSIONS	\$1,313	\$1,956	48.97%	\$1,323	-32.36%	\$1,137	-14.06%	-13.40%
SUBTOTAL	\$19,595	\$23,542	20.14%	\$23,190	-1.50%	\$25,582	10.31%	30.55%
CENTRAL FINANCIAL AND ADMINISTRATIVE:								
REVENUE	\$23,978	\$24,862	3.69%	\$28,054	12.84%	\$31,079	10.78%	29.61%
ADMINISTRATION	\$14,464	\$14,893	2.97%	\$15,167	1.97%	\$15,489	1.99%	7.09%
FINANCE	\$4,975	\$5,050	1.51%	\$5,160	2.18%	\$5,627	9.05%	13.11%
EMPLOYEE RELATIONS	\$2,845	\$2,979	4.71%	\$3,087	3.63%	\$3,208	3.92%	12.76%
INVESTMENT BOARD	\$938	\$1,071	14.18%	\$1,213	13.26%	\$1,203	-0.82%	28.25%
SUBTOTAL	\$47,200	\$48,855	3.51%	\$52,701	7.87%	\$56,606	7.41%	19.93%
DIRECT SERVICE DEPARTMENTS:								
NATURAL RESOURCES	\$35,782	\$40,463	13.08%	\$39,838	-1.54%	\$44,165	10.86%	23.43%
PUBLIC WELFARE	\$19,599	\$20,334	3.75%	\$20,403	0.34%	\$22,972	12.59%	17.21%
EDUCATION	\$10,508	\$10,475	-0.31%	\$10,797	3.07%	\$10,866	0.64%	3.41%
PUBLIC SAFETY	\$11,912	\$11,987	0.63%	\$13,028	8.68%	\$13,875	6.50%	16.48%
CORRECTIONS	\$9,382	\$9,408	0.28%	\$9,449	0.44%	\$9,731	2.98%	3.72%
HEALTH	\$8,531	\$8,962	5.05%	\$9,025	0.70%	\$8,894	-1.45%	4.26%
ENERGY, PLANNING, & DEVELOPMENT ^{b/}	\$9,198	\$9,761	6.12%	\$8,745	-10.41%	\$7,394	-15.45%	-19.61%
COMMERCE ^{b/}	\$5,540	\$5,778	4.30%	\$6,953	20.34%	\$6,546	-5.85%	18.16%
AGRICULTURE--EXC. GRAIN INSPEC. ^{c/}	\$5,592	\$6,028	7.80%	\$6,399	6.15%	\$6,484	1.33%	15.95%
AGRICULTURE--GRAIN INSPEC.	\$7,099	\$8,398	18.30%	\$0	-100.00%	N/A	N/A	N/A
POLLUTION CONTROL	\$4,708	\$4,853	3.08%	\$5,660	16.63%	\$5,709	0.87%	21.26%

TABLE 14 (Cont'd.)
STATE GENERAL FUND
STATE GOVERNMENT OPERATIONS BY DEPARTMENT/INSTITUTION
FISCAL YEARS 1980 - 1983
(000's OMITTED)

DEPARTMENT/ INSTITUTION	FY1980	FY1981	PERCENT CHANGE		PERCENT CHANGE		PERCENT CHANGE	
			80 - 81	FY1982	81 - 82	FY1983	82 - 83	80 - 83
ZOOLOGICAL GARDENS	\$5,005	\$5,059	1.08%	\$4,919	-2.77%	\$5,235	6.42%	4.60%
LABOR AND INDUSTRY <u>d/</u>	\$5,623	\$5,805	3.24%	\$5,138	-11.49%	\$5,583	8.66%	-0.71%
MILITARY AFFAIRS	\$3,721	\$3,979	6.93%	\$4,274	7.41%	\$4,318	1.03%	16.04%
PUBLIC SERVICE/UTILITIES	\$3,586	\$3,682	2.68%	\$3,798	3.15%	\$4,139	8.98%	15.42%
STATE UNIVERSITY BOARD	\$2,988	\$3,004	0.54%	\$3,571	18.87%	\$4,066	13.86%	36.08%
MECC <u>e/</u>	\$3,339	\$3,400	1.83%	\$3,247	-4.50%	\$2,252	-30.64%	-32.55%
COMMUNITY COLLEGE BOARD	\$2,397	\$2,496	4.13%	\$3,062	22.68%	\$3,797	24.00%	58.41%
HECB	\$1,473	\$1,580	7.26%	\$1,514	-4.18%	\$2,086	37.78%	41.62%
ANIMAL HEALTH BOARD	\$1,034	\$1,070	3.48%	\$1,239	15.79%	\$1,080	-12.83%	4.45%
ECONOMIC SECURITY <u>f/</u>	\$2,987	\$4,351	45.66%	\$1,236	-71.59%	\$1,444	16.87%	-51.66%
HUMAN RIGHTS	\$922	\$964	4.56%	\$1,101	14.21%	\$1,183	7.45%	26.31%
MEDIATION SERVICES	\$816	\$932	14.22%	\$1,007	8.05%	\$980	-2.68%	20.10%
OTHER DEPARTMENTS	\$8,459	\$9,279	9.69%	\$10,882	17.28%	\$11,574	6.36%	36.82%
SUBTOTAL	\$170,201	\$182,048	6.96%	\$175,285	-3.71%	\$184,373	5.18%	8.33%
TOTAL NON-INSTITUTIONS	\$262,589	\$282,729	7.67%	\$280,774	-0.69%	\$298,330	6.25%	13.61%
STATE INSTITUTIONS:								
STATE UNIVERSITIES	\$96,439	\$101,245	4.98%	\$121,169	19.68%	\$129,927	7.23%	34.72%
COMMUNITY COLLEGES	\$46,111	\$49,598	7.56%	\$60,079	21.13%	\$62,508	4.04%	35.56%
WELFARE INSTITUTIONS <u>g/</u>	\$122,479	\$133,911	9.33%	\$140,409	4.85%	\$148,954	6.09%	21.62%
CORRECTIONAL FACILITIES	\$32,234	\$35,051	8.74%	\$38,074	8.62%	\$43,488	14.22%	34.91%
VETERANS HOMES	\$4,081	\$5,129	25.68%	\$6,194	20.76%	\$7,449	20.26%	82.53%
SCHOOLS: BRAILLE & DEAF	\$3,884	\$4,184	7.72%	\$4,921	17.61%	\$5,135	4.35%	32.21%
TOTAL INSTITUTIONS	\$305,228	\$329,118	7.83%	\$370,846	12.68%	\$397,461	7.18%	30.22%
UNALLOCATED EXPENDITURES	\$10,088	\$16,070	59.30%	\$9,901	-38.39%	\$9,331	-5.76%	-7.50%
LESS: REIMBURSEMENTS FROM OTHERS	(\$15,753)	(\$22,186)	40.84%	(\$19,652)	-11.42%	(\$15,359)	-21.85%	-2.50%
TOTAL - STATE GOVERNMENT OPERATIONS	\$562,152	\$605,731	7.75%	\$641,869	5.97%	\$689,763	7.46%	22.70%

NOTES FOR TABLE 14

SOURCE: Office of the Legislative Auditor staff computations from SWA reports and annual financial statements. See also Technical Note in Appendix.

- a/ Only major departments are listed.
- b/ These declines were largely caused by department reorganization.
- c/ The Grain Inspection Program and the fees which it generates were moved to a dedicated account in 1982.
- d/ 1982 and 1983 Labor and Industry amounts include expenditures from the Worker's Compensation Court of Appeals. These expenditures were part of Labor and Industry in 1980 and 1981 and have been included here for comparability purposes.
- e/ This apparent decline is due to MECC being taken off the statewide accounting system.
- f/ These drastic changes are caused by a structural tradeoff between certain counselor salaries and vocational rehabilitation benefits. Salaries dropped significantly in the General Fund as they are now paid with federal monies. Vocational rehabilitation benefits rose significantly because they were formerly paid from federal monies and are now paid from the General Fund. These changes were designed to offset each other and negate any significant impact on the General Fund.
- g/ The phasing out of the Rochester State Hospital has reduced its expenditures and thereby affecting total expenditures for welfare institutions.

TABLE 15

STATE GENERAL FUND
STATE GOVERNMENT OPERATIONS
NET COST OF INSTITUTIONS
FISCAL YEARS 1980 to 1983
(000's OMITTED)

INSTITUTIONS	FY1980	FY1981	PERCENT	FY1982	PERCENT	FY1983	PERCENT	PERCENT
			CHANGE		CHANGE		CHANGE	CHANGE
			80 - 81		81 - 82		82 - 83	80 - 83
STATE UNIVERSITIES:								
EXPENDITURES	\$96,439	\$101,245	5.0%	\$121,169	19.7%	\$129,927	7.2%	34.7%
REVENUES	(\$24,070)	(\$28,464)	18.3%	(\$31,722)	11.4%	(\$38,092)	20.1%	58.3%
NET COST	\$72,369	\$72,781	0.6%	\$89,447	22.9%	\$91,835	2.7%	26.9%
COMMUNITY COLLEGES:								
EXPENDITURES	\$46,111	\$49,598	7.6%	\$60,079	21.1%	\$62,508	4.0%	35.6%
REVENUES	(\$14,328)	(\$17,086)	19.2%	(\$19,853)	16.2%	(\$23,431)	18.0%	63.5%
NET COST	\$31,783	\$32,512	2.3%	\$40,226	23.7%	\$39,077	-2.9%	22.9%
WELFARE INSTITUTIONS:								
EXPENDITURES	\$122,479	\$133,911	9.3%	\$140,409	4.9%	\$148,954	6.1%	21.6%
REVENUES <u>a/</u> , <u>b/</u>	(\$57,454)	(\$62,986)	9.6%	(\$74,500)	18.3%	(\$80,493)	8.0%	40.1%
NET COST	\$65,025	\$70,925	9.1%	\$65,909	-7.1%	\$68,461	3.9%	5.3%
VETERANS HOMES:								
EXPENDITURES	\$4,081	\$5,129	25.7%	\$6,194	20.8%	\$7,449	20.3%	82.5%
REVENUES	(\$3,027)	(\$3,023)	-0.1%	(\$3,269)	8.1%	(\$4,889)	49.6%	61.5%
NET COST	\$1,054	\$2,106	99.8%	\$2,925	38.9%	\$2,560	-12.5%	142.9%
EDUCATIONAL FACILITIES:								
EXPENDITURES <u>c/</u>	\$3,884	\$4,184	7.7%	\$4,921	17.6%	\$5,135	4.3%	32.2%
CORRECTIONAL FACILITIES:								
EXPENDITURES <u>c/</u>	\$32,234	\$35,051	8.7%	\$38,074	8.6%	\$43,488	14.2%	34.9%
TOTAL NET COST								
STATE INSTITUTIONS	\$206,349	\$217,559	5.4%	\$241,502	11.0%	\$250,556	3.7%	21.4%

SOURCE: Office of the Legislative Auditor staff computations from SWA reports and annual financial statements. Also, see Technical Note in Appendix.

a/ Retractive adjustments of \$5,686,000 are excluded from revenues as they could distort the trend analysis.

b/ The state's share of medical assistance has been excluded from these revenues because in substance the General Fund is paying itself.

c/ Correctional and educational facilities do not generate significant General Fund revenues.

II.C.2. Intergovernmental Transfers

In fiscal year 1983, Intergovernmental Transfer Payments comprised 45 percent of the General Fund's budget.¹ The programs we have classified into this category are shown in Table 16. For purposes of our analysis, we have categorized Direct Property Tax Relief Payments as a type of intergovernmental aid. The reason is because these payments are either remitted directly to local governments or subsidize the property tax payer, thereby aiding the local governments' ability to tax.

A review of Table 16 indicates the wide range of programs which are designed to provide state financing to local governments. Minnesota governments in many respects maintain a shared tax system. State government has taken much of the responsibility for collecting taxes through the statewide tax sources, such as income and sales taxes, and then has redistributed these proceeds to its local governments. This serves to reduce local governments' reliance on their limited taxing sources, primarily the property tax.

The state provides Intergovernmental Transfer Payments to its local governments in basically two forms: (1) for general government purposes (or general aids), and (2) for specific programs (or categorical aids). Further, it is also useful to distinguish between those aids which are distributed to school districts, to the University of Minnesota, and to other local governments. Comparing fiscal year 1983 to fiscal year 1980, reveals that both general support and categorical aids declined. The most significant reduction occurred in Foundation Aids where the state expended nearly 37 percent less in fiscal year 1983 than it did in fiscal year 1980.

The reason for this apparently dramatic shift in the state's financial commitment to local governments is that Intergovernmental Transfer Payments became the primary program category used to adjust spending levels. As was discussed earlier, the state took actions that reduced state expenditures in fiscal year 1983 by \$811 million through a combination of expenditure reductions and shifts to fiscal year 1984. Of that amount, \$500 million or 62 percent was realized through actions affecting Intergovernmental Transfer Payments. The greatest impact was realized in school aids which experienced a \$411 million spending reduction in fiscal year 1983, accounting for over one-half of the total spending adjustment made to the General Fund. Tables 17 and 18 summarize the impact of these policies on fiscal year 1983 intergovernmental transfer expenditure levels.

¹For purposes of explanation, we consider the University of Minnesota to be a local unit of government. Because of its autonomy from the state, it exhibits budget characteristics more like a local government than a state department.

TABLE 16
STATE GENERAL FUND
INTERGOVERNMENTAL TRANSFER PAYMENTS BY PROGRAM
FISCAL YEARS 1980 TO 1983
(000's OMITTED)

EXPENDITURE TYPE	FY1980	FY1981	PERCENT CHANGE 80 - 81	FY1982	PERCENT CHANGE 81 - 82	FY1983	PERCENT CHANGE 82 - 83	PERCENT CHANGE 80 - 83
SCHOOL AIDS:								
FOUNDATION AIDS	\$644,413	\$653,818	1.5%	\$749,871	14.7%	\$409,164	-45.4%	-36.5%
CATEGORICAL AIDS:								
TRANSPORTATION	\$88,435	\$166,088	20.0%	\$122,372	15.3%	\$75,943	-37.9%	-14.1%
VOCATIONAL	\$108,528	\$123,546	13.8%	\$131,867	6.7%	\$117,866	-10.6%	8.6%
SPECIAL EDUCATION	\$87,353	\$92,189	5.5%	\$105,669	14.6%	\$78,125	-26.1%	-10.6%
OTHER	\$30,336	\$33,829	11.5%	\$41,029	21.3%	\$27,943	-31.9%	-7.9%
SUBTOTAL: CATEGORICAL AIDS	\$314,652	\$355,652	13.0%	\$400,937	12.7%	\$299,877	-25.2%	-4.7%
CONTRIBUTIONS TO TEACHERS PENSION PLANS								
	\$137,833	\$150,773	9.4%	\$159,178	5.6%	\$137,275	-13.8%	-0.4%
TOTAL: SCHOOL AIDS	\$1,096,898	\$1,160,243	5.8%	\$1,309,986	12.9%	\$846,316	-35.4%	-22.8%
AID TO U. OF MINNESOTA:								
MAINTENANCE & OPERATIONS	\$174,320	\$171,479	-1.6%	\$206,493	20.4%	\$210,271	1.8%	20.6%
CATEGORICAL	\$47,823	\$46,231	-3.3%	\$44,939	-2.8%	\$47,259	5.2%	-1.2%
TOTAL: U. OF M.	\$222,143	\$217,710	-2.0%	\$251,432	15.5%	\$257,530	2.4%	15.9%
AID TO OTHER LOCAL GOVTS.								
GENERAL SUPPORT:								
LOCAL GOVERNMENT AIDS	\$230,182	\$231,005	0.4%	\$202,889	-12.2%	\$235,077	15.9%	2.1%
ATTACHED MACHINERY CREDIT	\$11,440	\$11,491	0.4%	\$11,238	-2.2%	\$10,229	-9.0%	-10.6%
DNR PAYMENT IN LIEU	\$4,901	\$4,703	-4.0%	\$4,328	-8.0%	\$0	-100.0%	-100.0%
SUBTOTAL: LEVY COORDINATED AIDS	\$246,523	\$247,199	0.3%	\$218,455	-11.6%	\$245,306	12.3%	-0.5%
SHARED TAXES:								
TACONITE AIDS	\$40,740	\$41,049	0.8%	\$46,279	12.7%	\$47,918	3.5%	17.6%
POLICE AND FIRE AIDS	\$19,219	\$20,837	8.4%	\$21,899	5.1%	\$22,031	0.6%	14.6%
INHERITANCE TAX	\$3,965	\$0	-100.0%	N/A	N/A	N/A	N/A	N/A
SUBTOTAL: SHARED TAXES	\$63,924	\$61,886	-3.2%	\$68,178	10.2%	\$69,949	2.6%	9.4%
SUBTOTAL: GENERAL SUPPORT AIDS	\$310,447	\$309,085	-0.4%	\$286,633	-7.3%	\$315,255	10.0%	1.5%

TABLE 16 (Cont'd.)
STATE GENERAL FUND
INTERGOVERNMENTAL TRANSFER PAYMENTS BY PROGRAM
FISCAL YEARS 1980 TO 1983
(OOO'S OMITTED)

EXPENDITURE TYPE	FY1980	FY1981	PERCENT CHANGE 80 - 81	FY1982	PERCENT CHANGE 81 - 82	FY1983	PERCENT CHANGE 82 - 83	PERCENT CHANGE 80 - 83
PROGRAM AIDS:								
WELFARE NON-BENEFIT AIDS:								
ADMINISTRATION	\$9,741	\$5,894	-39.5%	\$6,950	17.9%	\$0	-100.0%	-100.0%
CSSA	N/A	N/A	N/A	N/A	N/A	\$47,564	N/A	N/A
SOCIAL SERVICE & OTHER	\$49,203	\$55,803	13.4%	\$65,939	18.2%	\$20,175	-69.4%	-59.0%
SUBTOTAL: WELFARE NON-BENEFIT	\$58,944	\$61,697	4.7%	\$72,889	18.1%	\$67,739	-7.1%	14.9%
PUBLIC TRANSIT	\$26,562	\$23,619	-11.1%	\$16,201	-31.4%	\$20,010	23.5%	-24.7%
CORRECTIONS	\$10,323	\$11,467	11.1%	\$12,513	9.1%	\$13,045	4.3%	26.4%
COMMUNITY HEALTH	\$10,193	\$12,255	20.2%	\$11,401	-7.0%	\$10,811	-5.2%	6.1%
SHADE TREE	\$9,623	\$8,415	-12.6%	\$2,699	-67.9%	\$0	-100.0%	-100.0%
PLANNING & RECREATION	\$3,262	\$4,751	45.6%	\$3,682	-22.5%	\$2,388	-35.1%	-26.8%
CONT. TO LOCAL PENSIONS ^{a/}	\$1,763	\$6,352	260.3%	\$10,754	69.3%	\$12,086	12.4%	585.5%
HISTORICAL SOCIETY	\$6,749	\$7,279	7.9%	\$6,715	-7.7%	\$6,578	-2.0%	-2.5%
SUBTOTAL: PROGRAM AIDS	\$127,419	\$135,835	6.6%	\$136,854	0.8%	\$132,657	-3.1%	4.1%
OTHER AIDS TO LOCAL GOVTS & MISC. ADJUSTMENTS	\$49,227	\$66,982	36.1%	\$24,047	-64.1%	\$18,459	-23.2%	-62.5%
TOTAL AIDS TO OTHER LOCAL GOVERNMENTS	\$487,093	\$511,902	5.1%	\$447,534	-12.6%	\$466,371	4.2%	-4.3%
TOTAL INTERGOVERNMENTAL TRANSFERS	\$1,806,134	\$1,889,855	4.6%	\$2,008,952	6.3%	\$1,570,217	-21.8%	-13.1%

SOURCE: Office of the Legislative Auditor staff computations from SWA reports and annual financial statements. Also, see Technical Note in Appendix.

- a) The increase in contributions to local pension plans is due primarily to the state providing aid to amortize the unfunded liability of local police and fire relief associations and of the Minneapolis Employees Retirement Fund.

Table 17 shows that in fiscal year 1983, \$210 million in Intergovernmental Transfer Payments were shifted to fiscal year 1984. Adjusting for the effects of these shifts reveals that Intergovernmental Transfer Payments declined by 14 percent as opposed to 22 percent during fiscal year 1983. Of this amount shifted to fiscal year 1984, \$199 million or 95 percent was realized from aids to school districts. The shift was largely accomplished through actions taken by the state that required early recognition of property taxes by local school districts.¹ This lowered fiscal year 1983 state aid payments by \$158.9 million.² In addition, the state altered the aid payment schedules such that \$40 million which was scheduled to be paid to school districts in fiscal year 1983 was paid in October of fiscal year 1984.³ However, even after adjusting for these expenditure shifts, Table 17 shows that school aids still declined by 20 percent during fiscal year 1983.

Aids to other local governments were also affected by shifts in fiscal years 1982 and 1983. The largest shift occurred in the Local Government Aid (LGA) program where the March payments in 1982 and 1983 were delayed to July of the respective years. This resulted in a \$67.7 million shift from fiscal year 1982 to fiscal year 1983 and a \$73.4 million shift from fiscal year 1983 to fiscal year 1984. The net impact of these actions on fiscal year 1983 was a reduction of \$5.7 million. The payment schedule for in lieu of tax payments was also changed such that \$4.3 million was shifted from fiscal year 1983 to fiscal year 1984. The combined impact of these adjustments, plus actions associated with attached machinery aids, resulted in a net shift reduction of \$10.7 million in aids to other local governments during fiscal year 1983.⁴ Table 17 shows, however, that by adjusting these expenditures for the shifts, aids to other local governments would have declined in fiscal year 1983 by 4.2 percent as opposed to increasing by 3.6 percent.

Even after evaluating the impact of expenditure shifts on Intergovernmental Transfer Payments, it is apparent that these program areas did experience substantive reductions in funding levels in fiscal year 1983. Table 18 shows that as a result of specific legislative actions (see Appendix Table IV), over \$290 million was trimmed from intergovernmental transfer programs in fiscal year 1983. This represented 88 percent of the total amount which could be categorized as actual spending reductions made in the General Fund in fiscal year 1983. If these actions were not taken and if we adjust for shifted expenditure amounts, then intergovernmental transfer spending levels would have remained virtually unchanged between fiscal year 1982 and 1983.

More specifically, the most significant spending reduction occurred in the School Foundation Aid Program where expenditures were reduced by nearly \$116 million in fiscal year 1983. The policy actions responsible for this reduction were the elimination of summer school aid, a decrease in foundation

¹See Appendix Table III.

²Brief note explaining this.

³If property tax refund payments are also included, then approximately \$77 million in aid payments to school districts was shifted from fiscal year 1983 to fiscal year 1984. See Appendix Table III.

⁴The attached machinery aid payment schedule was changed to coincide with the school aid payment schedule and these aids were also affected by the early property tax recognition policy. The impact of these actions shifted \$683,000 from fiscal year 1983 to fiscal year 1984.

TABLE 17
STATE GENERAL FUND
ANALYSIS OF FY 1982 & FY 1983 EXPENDITURE SHIFTS
IMPACT ON INTERGOVERNMENTAL TRANSFER PAYMENTS
(000's OMITTED)

EXPENDITURE TYPE AFFECTED BY FY1983 EXPENDITURE SHIFT	FY1982 AS REPORTED	FY1982 AMOUNT SHIFTED	FY1982 ADJUSTED	FY1983 AS REPORTED	FY1983 AMOUNT SHIFTED	FY1983 ADJUSTED	PERCENT CHANGE AS REPORTED 82 - 83	PERCENT CHANGE ADJUSTED 82 - 83
TOTAL GENERAL FUND	\$4,051,036	\$67,681	\$4,118,717	\$3,487,310	\$479,541	\$3,966,851	-13.9%	-3.7%
SCHOOL AIDS:								
GENERAL SUPPORT (FOUNDATION)	\$749,871		\$749,871	\$409,164	\$145,789	\$554,953	-45.4%	-26.0%
CATEGORICAL:								
TRANSPORTATION	\$122,372		\$122,372	\$75,943	\$11,104	\$87,047	-37.9%	-28.9%
VOCATIONAL	\$131,867		\$131,867	\$117,866	\$14,125	\$131,991	-10.6%	0.1%
SPECIAL EDUCATION	\$105,669		\$105,669	\$78,125	\$25,318	\$103,443	-26.1%	-2.1%
OTHER	\$41,029		\$41,029	\$27,943	\$3,079	\$31,022	-31.9%	-24.4%
SUBTOTAL: CATEGORICAL ^{a/}	\$400,937		\$400,937	\$299,877	\$53,626	\$353,503	-25.2%	-11.8%
CONTRIBUTIONS TO TEACHERS PENSION PLANS	\$159,178		\$159,178	\$137,275		\$137,275	-13.8%	-13.8%
TOTAL SCHOOL AIDS	\$1,309,966		\$1,309,966	\$846,316	\$199,415	\$1,045,731	-35.4%	-20.2%
OTHER LOCAL GOVERNMENT AIDS								
GENERAL SUPPORT:								
LOCAL GOVERNMENT AIDS	\$202,889	\$67,681	\$270,570	\$235,077	\$5,709	\$240,786	15.9%	-11.0%
ATTACHED MACHINERY	\$11,238		\$11,238	\$10,229	\$653	\$10,912	-9.0%	-2.9%
DNR PAYMENT IN LIEU	\$4,328		\$4,328	\$0	\$4,285	\$4,285	-100.0%	-1.0%
SHARED TAXES	\$68,178		\$68,178	\$69,949		\$69,949	2.6%	2.6%
SUBTOTAL: GENERAL SUPPORT	\$286,633	\$67,681	\$354,314	\$315,255	\$10,677 ^{b/}	\$325,932	10.0%	13.7%
ALL OTHER AIDS	\$412,333		\$412,333	\$408,646		\$408,646	-0.9%	-0.9%
TOTAL AIDS TO OTHER LOCAL GOVERNMENTS	\$698,966	\$67,681	\$766,647	\$723,901	\$10,677 ^{b/}	\$734,578	3.6%	42.6%
TOTAL INTERGOVERNMENTAL TRANSFERS	\$2,008,952	\$67,681	\$2,076,633	\$1,570,217	\$210,092	\$1,780,309	-21.8%	-14.3%

SOURCE: Table 16 and Appendix Table III.

^{a/} Includes aids to the University of Minnesota

^{b/} Represents a net shifted amount excluding the \$67.7 million.

TABLE 18
STATE GENERAL FUND
ANALYSIS OF FY 1983 EXPENDITURE CUTS
IMPACT OF INTERGOVERNMENTAL TRANSFER PAYMENTS
(000's OMITTED)

EXPENDITURE TYPE AFFECTED BY FY1983 EXPENDITURE CUTS	FY1982 SHIFT ADJUSTED	FY1983 SHIFT ADJUSTED	FY1983 CUTS	FY1983 SHIFT / CUT ADJUSTED	HYPOTHETICAL ^{b/}	PERCENT
					PERCENT a/ CHANGE 82 - 83	CHANGE AS REPORTED 82 - 83
TOTAL GENERAL FUND	\$4,118,717	\$3,966,851	\$331,346	\$4,298,197	4.4%	-13.9%
SCHOOL AIDS:						
GENERAL SUPPORT (FOUNDATION)	\$749,871	\$554,953	\$115,682	\$670,635	-10.6%	-45.4%
CATEGORICAL:						
TRANSPORTATION	\$122,372	\$87,047	\$42,277	\$129,324	5.7%	-37.9%
VOCATIONAL	\$131,867	\$131,991	\$12,731	\$144,722	9.7%	-10.6%
SPECIAL EDUCATION	\$105,669	\$103,443	\$10,099	\$113,542	7.5%	-26.1%
OTHER	\$41,029	\$31,022	\$2,863	\$33,885	-17.4%	-13.8%
SUBTOTAL: CATEGORICAL	\$400,937	\$353,503	\$67,970	\$421,473	5.1%	-22.0%
CONTRIBUTIONS TO PENSION PLANS	\$159,178	\$137,275	\$28,568	\$165,843	4.2%	-31.9%
TOTAL SCHOOL AIDS	\$1,309,986	\$1,045,731	\$212,220	\$1,257,951	-4.0%	-35.4%
U. OF MINNESOTA	\$251,432	\$257,530	\$20,312	\$277,842	10.5%	2.4%
OTHER LOCAL GOVERNMENT AIDS						
GENERAL SUPPORT:						
LOCAL GOVERNMENT AIDS	\$270,570	\$240,786	\$35,684	\$276,470	2.2%	15.9%
ALL OTHER GENERAL SUPPORT	\$83,744	\$85,146		\$85,146	1.7%	-4.3%
SUBTOTAL: GENERAL SUPPORT	\$354,314	\$325,932	\$35,684	\$361,616	2.1%	10.0%
CATEGORICAL:						
PUBLIC TRANSIT	\$16,201	\$20,010	\$11,169	\$31,179	92.5%	23.5%
CORRECTION AIDS	\$12,513	\$13,045	\$2,174	\$15,219	21.6%	4.3%
COMMUNITY HEALTH	\$11,401	\$10,811	\$1,528	\$12,339	8.2%	-5.2%
WELFARE--ADMINISTRATION	\$6,950	\$0	\$6,950	\$6,950	0.0%	0.0%
ALL OTHER CATEGORICAL	\$89,789	\$88,791		\$88,791	-1.1%	3.1%
SUBTOTAL CATEGORICAL	\$136,854	\$132,657	\$21,821	\$154,478	12.9%	-3.1%
OTHER AIDS & MISC ADJUSTMENTS	\$24,047	\$18,459		\$18,459	-23.2%	-23.2%
TOTAL AIDS TO OTHER LOCAL GOVERNMENTS	\$515,215	\$477,048	\$57,505	\$534,553	3.8%	4.2%
TOTAL INTERGOVERNMENTAL TRANSFERS	\$2,076,633	\$1,780,309	\$290,037	\$2,070,346	-0.3%	-21.8%

SOURCE: Tables 16, 17 and Appendix Table IV.

^{a/} The expenditure amount has been adjusted such that both the shifted and reduced amounts have been restored.

^{b/} The growth rate was computed based on the assumption that neither expenditure shifts nor reductions occurred in fiscal years 1982 nor 1983.

level support from \$1,416 to \$1,346 per pupil, an increase of the locally required mill rate from 23 to 24 mills, and a general reduction in individual school district appropriations. As a result, if these actions were not taken, shift-adjusted foundation aids would have declined by 11 percent in fiscal year 1983 as opposed to the 45 percent decline as reported. This still represents a "natural" decline of approximately \$80 million in fiscal year 1983, which is largely attributable to declining enrollments and increased property assessments.

Spending reductions also greatly affected categorical aids to school districts and other local governments. As Table 18 showed, school categorical aids declined by 22 percent in fiscal year 1983, but would have increased by nearly 9 percent if legislative actions were not taken. Particularly affected were state contributions to teachers pension plans which would have increased by nearly 18 percent in fiscal year 1983 if the state had not reduced its contributing share by 4 percent during the last one-half of the fiscal year. In addition, categorical aids to other local governments would have increased by nearly 16 percent; but primarily because of legislative actions taken to reduce public transit aids and eliminate public welfare administrative assistance, state spending in this area declined by 3 percent in fiscal year 1983.

As a result of recent spending reductions in intergovernmental aids and increases among other General Fund programs, there has been a rather significant shift in the proportion of General Fund expenditures that are used for financing local services. Table 19 shows that the relative share of General Fund expenditures for intergovernmental aid programs declined from 53 percent to 45 percent (shift adjusted) between fiscal years 1980 and 1983. During this period, the only general intergovernmental aid category that showed a relative gain was aid payments made to the University of Minnesota.

TABLE 19
STATE GENERAL FUND
INTERGOVERNMENTAL TRANSFER PAYMENTS AS A PERCENTAGE OF TOTAL
GENERAL FUND EXPENDITURES: FISCAL YEARS 1980 - 1983

	FY 1980	FY 1981	FY 1982		FY 1983	
			As Reported	Shift Adjusted	As Reported	Shift Adjusted
TOTAL GENERAL FUND EXPENDITURES (000,000's) Omitted	\$3,401	\$3,690	\$4,051	\$4,119	\$3,487	\$3,967
School Aids	32.3%	31.4%	32.3%	31.8%	24.3%	26.3%
Foundation Aids	18.9	17.7	18.5	18.2	11.7	14.0
Categorical/TRA and FICA	13.4	13.7	13.8	12.4	12.5	12.9
Aids to Other Local Governments	14.3%	13.9%	11.1%	11.3%	13.4%	11.8%
General Support	9.1	8.4	7.1	7.9	9.0	8.2
Program Aids	3.7	3.7	3.4	3.3	3.8	3.5
Other Aids	1.4	1.8	0.6	0.6	0.5	0.5
University of Minnesota	6.5%	5.9%	6.2%	6.1%	7.4%	6.3%
TOTAL INTERGOVERNMENTAL TRANSFERS	53.1%	51.2%	49.6%	50.4%	45.0%	44.8%

Source: Office of the Legislative Auditor, staff computations based on data from Tables 16 and 17.

II.C.3. Direct Property Tax Relief

Benefits for Direct Property Tax Relief Programs were greatly expanded in the 1979 and 1980 legislative sessions. As a result, Table 20 shows that between fiscal years 1980 and 1982, expenditures for these programs increased by 40 percent. This growth, however, was not shared equally among all types of programs. As can be seen from reviewing Table 20, credits paid to local governments increased by 80 percent, while refunds paid to individuals declined by 16 percent during the period between fiscal years 1980 and 1982. This occurred largely because there exists an inverse relationship between the cost of the homestead credit and refunds paid to individuals (homeowners circuit breaker).¹

TABLE 20
STATE GENERAL FUND
DIRECT PROPERTY TAX RELIEF PAYMENTS BY PROGRAM
FISCAL YEARS 1980 TO 1983
(000's Omitted)

	<u>FY 1980</u>	<u>FY 1981</u>	<u>Percent Change 80-81</u>	<u>FY 1982</u>	<u>Percent Change 81-82</u>	<u>FY 1983</u>	<u>Percent Change 82-83</u>	<u>Percent Change 80-83</u>
Payments to Local Governments:								
Homestead	\$246,058	\$362,530	47.3%	\$436,800	20.5%	\$351,484	-19.5%	42.8%
Taconite Homestead	16,301	17,542	7.6	19,388	10.5	19,331	- 0.3	18.6
Agricultural	37,034	48,671	31.4	68,377	40.5	64,492	- 5.7	74.1
Reduced Assessment Wetlands				10,000		10,500	5.0	---
Native Prairie				3,123		3,160	1.2	---
Native Prairie				100		85	-15.0	---
Subtotal: Credits to Local Governments	<u>\$299,393</u>	<u>\$428,743</u>	43.2%	<u>\$537,788</u>	25.4%	<u>\$449,052</u>	-16.5%	50.0%
Refunds to Individuals:								
Renters	\$ 75,799	\$ 83,000	9.5%	\$ 90,783	9.4%	\$ 2,887	-96.8%	-96.2%
Homeowners	67,265	51,444	-23.5	25,945	-49.6	28,811	11.0	-57.2
Seniors and Disabled	67,678	59,200	-12.5	57,411	- 3.0	3,958	-93.1	-94.2
Targeted Relief				2,749		10,974	299.2	---
Subtotal: Refunds to Individuals	<u>\$210,742</u>	<u>\$193,644</u>	- 8.1%	<u>\$176,888</u>	- 8.7%	<u>\$ 46,630</u>	-73.6%	-77.9%
TOTAL DIRECT PROPERTY TAX RELIEF	<u>\$510,135</u>	<u>\$622,387</u>	<u>22.0%</u>	<u>\$714,676</u>	<u>14.8%</u>	<u>\$495,682</u>	<u>-30.6%</u>	<u>- 2.8%</u>

Source: Office of the Legislative Auditor, staff computations. From SWA reports and annual financial statements. Also, see Technical Note in Appendix.

¹For more details on how these programs are related, see Evaluation of Direct Property Tax Relief Programs, by the Office of The Legislative Auditor, State of Minnesota, February 1983.

Table 20 indicates that this rapid growth ended in fiscal year 1983 as expenditures for Direct Property Tax Relief Programs declined by 31 percent from fiscal year 1982. However, like Intergovernmental Transfer Payments, expenditures for Direct Property Tax Relief Programs were greatly affected by state budgetary actions which shifted significant amounts of fiscal year 1983 expenditure liabilities to fiscal year 1984. Table 21 shows that \$116 million in property tax credit expenditures were shifted from fiscal year 1983 to fiscal year 1984. This was accomplished by changing the credit payment schedule to coincide with the schedule adopted for distributing school aids and by the early recognition requirement of property taxes imposed on local governments. The largest single adjustment occurred in refunds paid to individuals who now receive their annual property tax refund in September/October of each year. This resulted in a shift of over \$100 million from fiscal year 1983 to fiscal year 1984. If the credit and refund programs are shift adjusted, then Table 21 shows that spending for these programs would have increased by 7 percent in fiscal year 1983 as opposed to showing a decline of nearly 31 percent. Refunds paid to individuals showed the greatest impact, increasing by 13 percent after adjusting expenditures for shifts as opposed to exhibiting a decline of 74 percent.

TABLE 21
STATE GENERAL FUND
ANALYSIS OF FISCAL YEAR 1983 EXPENDITURE SHIFTS' IMPACT
ON DIRECT PROPERTY TAX RELIEF PROGRAMS
(000's Omitted)

EXPENDITURE TYPE	FY1982	FY1983 AS REPORTED	FY1983 SHIFTED AMOUNT	FY1983 SHIFT ADJUSTED	PERCENT CHANGE AS REPORTED	PERCENT CHANGE ADJUSTED
TOTAL GENERAL FUND	\$4,118,717	\$3,487,310	\$479,541	\$3,966,851	-13.9%	-3.7%
CREDITS PAID TO LOCAL GOVERNMENTS:						
HOMESTEAD	\$436,800	\$351,484	\$91,931	\$443,415	-19.5%	1.5%
TACONITE	\$19,388	\$19,331		\$19,331	-0.3%	-0.3%
AGRICULTURAL	\$68,377	\$64,492	\$21,969	\$86,461	-5.7%	26.4%
REDUCED ASSESSMENT	\$10,000	\$10,500	\$1,661	\$12,161	5.0%	21.6%
WETLANDS	\$3,123	\$3,160	\$472	\$3,632	1.2%	16.3%
NATIVE PRAIRE	\$100	\$85	\$15	\$100	-15.0%	0.0%
TOTAL CREDITS	\$537,788	\$449,052	\$116,048	\$565,100	-16.5%	5.1%
REFUNDS PAID TO INDIVIDUALS:						
RENTERS	\$90,783	\$2,887	\$97,301	\$100,188	-96.8%	10.4%
HOMEOWNERS	\$25,945	\$28,811		\$28,811	11.0%	11.0%
SENIORS & DISABLED	\$57,411	\$3,958	\$56,100	\$60,058	-93.1%	4.6%
TARGETED RELIEF	\$2,749	\$10,974		\$10,974	299.2%	299.2%
TOTAL REFUNDS	\$176,888	\$46,630	\$153,401	\$200,031	-73.6%	13.1%
TOTAL DIRECT PROPERTY TAX RELIEF	\$714,676	\$495,682	\$269,449	\$765,131	-30.6%	7.1%

Source: Office of Legislative Auditor staff computations based on data from Table 20 and Appendix Table III.

Also, in 1982 the Legislature reduced the homestead credit certification amounts by \$32 million which affected payments made in fiscal year 1983.¹ This partially explains why, after taking into consideration expenditure shifts, homestead credit expenditures increased by only 1.5 percent in fiscal year 1983.

Since fiscal year 1980, the relative share of total General Fund expenditures for Direct Property Tax Relief Programs has increased. In fiscal year 1980, spending for these programs accounted for 15 percent of the General Fund expenditures and, by fiscal year 1983 these programs, after adjusting for expenditure shifts, accounted for over 19 percent. The most significant program by far is the homestead credit which accounted for 7 percent of the General Fund expenditures in fiscal year 1980 and 11 percent (shift adjusted) in fiscal year 1983.

II.C.4. Impact of General Fund Expenditure Cuts on Local Taxes

It is also significant to note that for the period under review, the primary objective of the state's General Fund has been to subsidize, either directly or indirectly, local property taxes. Table 22 shows that in fiscal year 1983, expenditures for direct property tax relief and intergovernmental transfer programs, combined, comprised 64 percent of all General Fund spending. This does, however, represent a decline of 4 percentage points from that share of the General Fund used for this purpose in fiscal year 1980. Much of this relative decline can be directly attributed to spending reductions made in fiscal year 1983.

TABLE 22
STATE GENERAL FUND
PERCENTAGE OF EXPENDITURES USED TO SUBSIDIZE LOCAL PROPERTY TAXES
FISCAL YEARS 1980 - 1983

	FY 1980	FY 1981	FY 1982 Shift Adjusted	FY 1983 Shift Adjusted
TOTAL GENERAL FUND (000,000's) Omitted	\$3,401	\$3,690	\$4,119	\$3,967
Intergovernmental Transfers	53.1%	51.2%	50.4%	44.8%
Direct Property Tax Relief	<u>15.0</u>	<u>16.9</u>	<u>17.4</u>	<u>19.3</u>
TOTAL	68.1%	68.1%	67.8%	64.1%

Source: Office of the Legislative Auditor, staff computations based on data from Tables 16, 17, 20, and 21.

¹Laws of Minnesota 1982, Chapter 641, Article 2, Section 9.

The implication of this fiscal interdependency is that when the state is forced to make significant spending reductions, the likelihood is that property taxes in one way or another will be affected. This relationship is illustrated in Table 23. Of the \$331.3 million reduction realized in the General Fund in fiscal year 1983, \$322 million or 97 percent resulted from actions affecting programs that influence property tax levels or burdens. We estimate that as a result of state spending cuts in these programs, property taxes increased automatically by \$101 million and could have increased by an additional \$161 million. In other words, of the \$322 million cut from the state's General Fund, 81 percent translated into actual or potential property tax increases.

TABLE 23

STATE GENERAL FUND

DIRECT IMPACT OF SPENDING CUTS ON PROPERTY TAXES
FISCAL YEAR 1983
(000's Omitted)

	<u>Automatic Increase</u>	<u>Potential Increase</u>	<u>No Impact</u>	<u>Total</u>
Intergovernmental Transfers	\$ 69,310	\$160,678	\$60,049	\$290,037
Direct Property Tax Relief	<u>32,000</u>			<u>32,000</u>
Total	\$101,310	\$160,678	\$60,049	\$322,037
Percentage Cut	31%	50%	19%	100%

Source: Office of the Legislative Auditor, staff computations based on data from Appendix Table IV.

II.C.5. Subsidies to Individuals

Table 24 indicates that the predominant component of subsidies paid to individuals is for welfare programs.¹ State paid welfare benefit expenditures have increased by 55 percent between fiscal years 1980 and 1983. As a percent of total General Fund expenditures, Table 25 shows that welfare benefits have increased from 8.5 Percent in fiscal year 1980 to 11.4 percent in fiscal year 1983. The largest program consists of Medical Assistance benefits which accounted for nearly 8 percent of the General Fund in fiscal year 1983, a relative increase of nearly 3 percentage points since fiscal year 1980.

¹With the exception of Medical Assistance, General Assistance Medical Care (GAMC), and Catastrophic Health Expense Protection Program (CHEPP), state welfare monies are remitted to the counties who are responsible for paying individuals. However, we do not believe such programs are viewed as local programs because of the many federal and state mandates which govern them. Hence, the state's share of financing is treated as subsidy payments to individuals, rather than Intergovernmental Transfer Payments.

TABLE 24

STATE GENERAL FUND
SUBSIDIES TO INDIVIDUALS BY PROGRAM
FISCAL YEARS 1980 TO 1983
(000's OMITTED)

EXPENDITURE TYPE	FY1980	FY1981	PERCENT	FY1982	PERCENT	FY1983	PERCENT	PERCENT
			CHANGE		CHANGE		CHANGE	CHANGE
			80 - 81		81 - 82		82 - 83	80 - 83
WELFARE BENEFITS:								
MEDICAL ASSISTANCE	\$184,965	\$221,274	19.6%	\$282,151	27.5%	\$312,369	10.7%	68.9%
G.A.M.C.	\$36,970	\$46,908	26.9%	\$37,767	-19.5%	\$33,813	-10.5%	-8.5%
A.F.D.C.	\$49,770	\$71,633	43.9%	\$81,172	13.3%	\$78,557	-3.2%	57.8%
GENERAL ASSISTANCE	\$8,835	\$17,882	102.4%	\$13,609	-23.9%	\$14,971	10.0%	69.5%
M.S.A.	\$6,006	\$8,508	41.7%	\$10,366	21.8%	\$11,064	6.7%	84.2%
CATASTROPHIC HLTH EXPENSE	\$3,808	\$11,914	212.9%	\$0	-100.0%	N/A	N/A	N/A
SUBTOTAL: WELFARE BENEFITS	\$290,354	\$378,119	30.2%	\$425,065	12.4%	\$450,774	6.0%	55.2%
HIGHER EDUCATION BENEFITS:								
STUDENT AIDS:								
SCHOLARSHIPS & GRANTS	\$16,942	\$24,981	47.5%	\$24,733	-1.0%	\$22,836	-7.7%	34.8%
AVTI TUITION SUBSIDY	\$1,735	\$1,329	-23.4%	\$1,085	-18.4%	\$1,273	17.5%	-26.6%
STUDENT WORK-STUDY	\$2,502	\$3,476	38.9%	\$2,594	-25.4%	\$2,751	6.1%	10.0%
PRIVATE COLLEGE AID	\$4,630	\$4,670	0.9%	\$3,417	-26.8%	\$3,076	-10.0%	-33.6%
INTER. TUITION RECPTY.	\$10,189	\$4,992	-51.0%	\$6,746	35.1%	\$5,284	-21.7%	-48.1%
SUBTOTAL: STUDENT AIDS	\$35,998	\$39,448	9.6%	\$38,575	-2.2%	\$35,220	-8.7%	-2.2%
OTHER BENEFIT PROGRAMS:								
WEATHER. & HEATING	\$3,952	\$10,452	164.5%	\$9,720	-7.0%	\$0	-100.0%	-100.0%
LONG-TERM SHEL. WORKSHOPS	\$4,891	\$5,802	18.6%	\$6,355	9.5%	\$6,649	4.6%	35.9%
STATE YOUTH PROGRAM	\$4,499	\$2,503	-44.4%	\$2,909	16.2%	\$368	-87.3%	-91.8%
ECONOMIC OPPORTUNITY	\$1,037	\$1,211	16.8%	\$1,181	-2.5%	\$1,124	-4.8%	8.4%
VOCATIONAL REHABILITATION ^{a/}	\$412	\$1,526	270.4%	\$3,847	152.1%	\$4,394	14.2%	966.5%
MAYO MEDICAL SCHOOL	\$1,305	\$1,277	-2.1%	\$1,368	7.1%	\$1,297	-5.2%	-0.6%
SUBTOTAL: OTHER BENEFITS	\$16,096	\$22,771	41.5%	\$25,380	11.5%	\$13,832	-45.5%	-14.1%
TOTAL SUBSIDIES TO INDIVIDUALS	\$342,448	\$440,338	28.6%	\$489,020	11.1%	\$499,826	2.2%	46.0%

SOURCE: Office of the Legislative Auditor staff computations from SWA reports and annual financial statement. Also, see Technical Note in Appendix.

^{a/} See Note f to Table 14 for explanation of this increase.

TABLE 25

STATE GENERAL FUND

SUBSIDIES TO INDIVIDUALS AS A PERCENTAGE
OF TOTAL GENERAL FUND EXPENDITURES:
FISCAL YEARS 1980 TO 1983

	FY 1980	FY 1981	FY 1982 Shift Adjusted	FY 1983 Shift Adjusted
TOTAL GENERAL FUND (000,000's) Omitted)	\$3,401	\$3,690	\$4,119 ^(a)	\$3,967 ^(a)
Welfare Benefits	8.5%	10.2%	10.4%	11.4%
Medical Assistance	5.4	6.0	6.8	7.9
Other	3.1	4.2	3.6	3.5
Higher Education and Other Benefits	1.6%	1.7%	1.5%	1.2%
TOTAL SUBSIDIES TO INDIVIDUALS	10.1%	11.9%	11.9%	12.6%

Source: Office of the Legislative Auditor, staff computations based on data from Table 24.

(a) Since there were no spending shifts among these benefit programs, only the total General Fund expenditure amount was adjusted to reflect shifts.

This increase, however, is not all due to growth in the basic cost of welfare benefits. Most welfare programs are financed jointly by state, federal, and county governments. Minnesota laws have been revised in the last several years to increase the state's share for welfare benefits while correspondingly reducing the counties' share. This serves as yet another method by which the state provides financial aid to its local units of government. Changes in federal policy have also affected the financing share required by the state in the Medical Assistance program.

Table 26 estimates the increase in state paid welfare benefit expenditures for those programs affected by ratio adjustments implemented by the state and/or federal governments. In fiscal year 1980, for example, the state paid 60 percent of the cost of the Minnesota Supplemental Aid program (MSA) and counties paid 40 percent. State law changed this ratio for fiscal years 1982 and 1983 such that the state paid 85 percent, while the counties' share was reduced to 15 percent. By looking at only total expenditures for this program, it could be concluded that the cost of the MSA program increased by 84 percent between fiscal years 1980 and 1983. However, if an adjustment is made for the change in the state/local financing ratio, MSA program costs only increased by approximately 30 percent during the period.

The analysis in Table 26 shows that welfare benefits actually grew in cost by an estimated 39.3 percent between fiscal years 1980 and 1983, while changes made to the state's financing rate cost an additional 16 percent. Much of the increase in welfare benefit expenditures is attributable to the 59

percent adjusted increase in Medical Assistance payments.¹ During this three-year period, Medical Assistance expenditures due to program factors increased by \$108 million, accounting for 68 percent of the total increase in state paid welfare benefit expenditures. Eligibility requirements were tightened for other programs such as AFDC and General Assistance and the Catastrophic Health Expense Protection Program was phased out. This served to moderate or even eliminate the cost for these programs.

TABLE 26

STATE GENERAL FUND
WELFARE PROGRAMS FOR WHICH THE STATE FINANCING RATIO CHANGED
ESTIMATE OF PROGRAM COST: FISCAL YEARS 1980 - 1983^(a)

BENEFIT PROGRAM	TOTAL INCREASE FY1980 - 83	ESTIMATED INCREASE DUE TO:				PERCENT INCREASE FY1980 - FY1983	
		HIGHER STATE FINANCE RATIO	LOWER FEDERAL FINANCE RATIO	TOTAL FINANCE RATIO CHANGE	OTHER PROGRAM FACTORS	TOTAL ADJUSTED ^(b) PERCENT PERCENT	
A.F.D.C.	\$28,787	\$17,861	\$2,153	\$20,014	\$8,773	57.8%	17.6%
GENERAL ASSISTANCE	\$6,136	\$3,992	N/A	\$3,992	\$2,144	69.5%	24.3%
M.S.A.	\$5,058	\$3,254	N/A	\$3,254	\$1,804	84.2%	30.0%
MEDICAL ASSISTANCE	\$127,404	N/A	\$19,075	\$19,075	\$108,329	68.9%	58.6%
SUBTOTAL	\$167,385	\$25,107	\$21,228	\$46,335	\$121,050	67.1%	48.5%
ALL OTHER	(\$6,965)	N/A	N/A	N/A	(\$6,965)	-17.1%	-17.1%
TOTAL	\$160,420	\$25,107	\$21,228	\$46,335	\$114,085	55.2%	39.3%

SOURCE: OFFICE OF LEGISLATIVE AUDITOR STAFF COMPUTATIONS

a) THESE ESTIMATES WERE BASED ON THE WEIGHTED AVERAGE OF THE STATE'S FINANCING PERCENTAGE FOR EACH FISCAL YEAR. THE WEIGHTED AVERAGES OF THE STATE'S SHARE ARE LISTED BELOW:

PROGRAM	1980	1981	1982	1983
A.F.D.C.	28.89%	34.38%	38.50%	38.77%
GENERAL ASSISTANCE	55.00%	67.50%	75.00%	75.00%
M.S.A.	60.00%	77.50%	85.00%	85.00%
MEDICAL ASSISTANCE	39.92%	39.92%	40.77%	42.52%

1) THE FEDERAL GOVERNMENT ASSUMES APPROXIMATELY 55% OF THE COST OF A.F.D.C. WITH THE STATE AND COUNTIES DIVIDING THE REMAINING 45% AS SPECIFIED BY STATE LAW.

2) THE COUNTIES ASSUME THE REMAINING COST OF THESE TWO PROGRAMS.

3) THE HIGHER STATE RATIO IS BECAUSE THE FEDERAL GOVERNMENT IMPOSED A 3% REIMBURSEMENT REDUCTION ON THE STATE AS MANDATED BY THE OMNIBUS BUDGET RECONCILIATION ACT OF 1981 (PUBLIC LAW 97-35, SECTION 2161).

b) THE ADJUSTED RATE ASSUMES THAT THE FEDERAL, STATE AND LOCAL SHARES WOULD HAVE REMAINED UNCHANGED BETWEEN 1980 AND 1983.

¹The expenditures for Medical Assistance represent the net cost to the state for this program. Gross expenditures have been reduced by counties' reimbursement for their share, amounts recovered from insurers and others, and amounts paid to state hospitals (because this in turn is deposited into the General Fund). Thus, these numbers differ significantly from those presented in budget reports.

In 1982, the Legislature also enacted some minor budget reductions for several benefit programs. Appendix Table IV shows that as a result of these legislative policies, benefit programs experienced a reduction of approximately \$8 million in fiscal year 1983, which represented about 2 percent of the total reductions made to the General Fund. The most significant action affected Medical Assistance which was trimmed by \$5.5 million as a result of a 4 percent reduction made in vendor payments.

II.C.6. Debt Service

Table 27 shows the Debt Service payments for fiscal years 1980 to 1983. Total payments increased by 120 percent during this period, primarily due to the need for short-term borrowing beginning in fiscal year 1981. The short-term borrowing was particularly significant in fiscal year 1983. During most of the year the state had \$850 million of short-term certificates of indebtedness outstanding. Debt service cost for the certificates in fiscal year 1983 was approximately \$84 million, an increase of over \$50 million from fiscal year 1982.

TABLE 27
STATE GENERAL FUND
DEBT SERVICE
FISCAL YEARS 1980 TO 1983
(000's Omitted)

Type of Debt Service	FY 1980	FY 1981	Percent Change 80-81	FY 1982	Percent Change 81-82	FY 1983	Percent Change 82-83	Percent Change 80-83
General - Obligation Bond Repayments: (a)								
Principal	\$54,938	\$61,493	11.9%	\$ 67,652	10.0%	\$ 68,051	0.6%	23.9%
Interest	35,835	42,451	18.5	55,687	31.2	62,124	11.6	73.4
Less: Amount Accumulated in Debt Service Fund	(2,600)	(15,879)	510.7	(19,596)	23.4	(19,924)	1.7	666.3
Subtotal	\$88,173	\$88,065	- 0.1%	\$103,743	17.8%	\$110,251	6.3%	25.0%
Short-Term Interest (b)	-0-	5,931	-----	31,559	432.1	83,752	165.4	-----
TOTAL DEBT SERVICE	\$88,173	\$93,996	6.6%	\$135,302	43.9%	\$194,003	43.4%	120.0%

Source: Office of the Legislative Auditor, staff computations from SWA reports and annual financial statements. Also, see Technical Note in Appendix.

(a) Technically, these amounts are transferred to the Debt Service Fund for repayment.

(b) Only short-term interest is accounted for as an expenditure. The certificates are not treated as either revenues or expenditures, because they must be repaid in the same biennium.

Required transfers to the Debt Service Fund for general obligation bond debt service costs increased 25 percent from fiscal year 1980 to 1983. There has not been a significant increase in the amount of outstanding bonds to be repaid from the General Fund during this time. Amounts outstanding were \$754 million at June 30, 1980 and \$835 million at June 30, 1983, a 10.7 percent increase. There actually was a \$6 million decrease in outstanding bonds from June 30, 1982 to 1983. This resulted because of a fairly limited amount of bond sales (\$60 million) during fiscal year 1983, in part due to high interest rates. In comparison, \$169 million in general obligation bonds repayable from the General Fund were issued in two bond sales during fiscal year 1984. The increase in outstanding debt, as well as the timing of bond sales and debt repayment schedules, has resulted in a 24 percent increase in required transfers for principal payments.

Required transfers for interest costs have risen dramatically during this time period, from \$36 million in fiscal year 1980 to \$62 million in fiscal year 1983, an increase of 73 percent. This is due to higher interest rates on recent bond sales replacing the older bonds, issued at much lower rates, which have matured. Some of the increased cost can also be attributed to the reduction in the state's credit rating in recent years.

The required transfers to the Debt Service Fund are reduced by any investment income which is earned by the fund. Constitutional provisions require the General Fund to transfer the ensuing fiscal year's debt service amounts to the Debt Service Fund on the preceding November 1. These advance deposits, which were first made during fiscal year 1980, allow the fund to earn additional income which reduces the amount which must be transferred in future fiscal years.

In summary, debt service costs to the General Fund have increased by 120 percent since 1980. This is due primarily to the need for short-term borrowing because of budgetary and cash flow problems. Solutions to these problems, which hopefully also would result in a restoration of the state's high credit rating, should help to decrease the significant growth in debt service costs.

II.C.7. Other Transfers

In addition to the long-term debt amounts transferred to the Debt Service Fund, the General Fund transfers various amounts to other state funds for expenditure. The major interfund transfers are identified in Table 28.

Transfer amounts vary significantly from year to year in part because of the methods for distributing monies to the Housing Finance Agency and the various retirement funds. The amounts transferred in fiscal year 1980 were for the entire biennium, so little additional funding was received in fiscal year 1981. This process was changed for the retirement funds in the 1982-83 biennium, when only annual transfers were made. The large increase in General Fund transfers to the retirement funds in fiscal year 1983 was due to a one-time transfer of \$7.5 million to reimburse the funds for lost income and increased refunds as a result of a reduction in employer contributions during the year.

Transfers to the Iron Range Resources and Rehabilitation Board and the Northeast Minnesota Economic Protection Fund have decreased by 27 percent and 71 percent, respectively, during the four-year period with the largest decrease

coming in fiscal year 1983. These payments are based upon taconite tax collections, which also have decreased significantly during the period because of cutbacks in the industry. In addition, mining tax refunds, which reduce revenue, increased in fiscal year 1983 as a result of the settlement of various lawsuits brought against the state.

TABLE 28
STATE GENERAL FUND
INTERFUND TRANSFERS
FISCAL YEARS 1980 TO 1983
(000's Omitted)

Type of Transfer	<u>FY 1980</u>	<u>FY 1981</u>	Percent Change <u>80-81</u>	<u>FY 1982</u>	Percent Change <u>81-82</u>	<u>FY 1983</u>	Percent Change <u>82-83</u>	Percent Change <u>80-83</u>
General Fund to Other Funds:								
Housing Finance Agency	\$45,010	\$ 1,640	- 96.4%	\$19,087	1063.8%	\$ -0-	-100.0%	-100.0%
Iron Range Re- sources and Rehab- ilitation Board	20,843	19,424	- 6.4	22,936	18.1	15,195	- 33.8	- 27.1
Northeast Minne- sota Economic Protection Fund	8,964	9,358	4.4	8,846	- 5.5	2,603	- 70.6	- 71.0
Retirement Funds	11,241	-0-	-100.0	5,494	N/A	13,054	137.6	16.1
Other Funds	<u>5,930</u>	<u>7,766</u>	<u>- 31.0</u>	<u>4,854</u>	<u>- 37.5</u>	<u>6,967</u>	<u>43.5</u>	<u>17.5</u>
TOTAL FUND TRANSFERS	<u>\$91,988</u>	<u>\$38,188</u>	<u>- 58.5%</u>	<u>\$61,217</u>	<u>60.3%</u>	<u>\$37,819</u>	<u>- 38.2%</u>	<u>- 58.9%</u>

Source: Office of the Legislative Auditor staff computations from SWA reports and annual financial statements. Also, see Technical Note in Appendix.

II.D. GENERAL FUND CASH FLOW

In recent years, the General Fund has experienced serious cash flow problems because of the uneven timing of revenue collections and expenditure payments. The upswing in the economy, as well as various actions taken by the Legislature, have improved the cash flow picture for fiscal year 1984. The amount of short-term borrowing necessary has decreased and the state was not forced to defer payments, as had been necessary in prior years.

During most of fiscal year 1983, the state had a total of \$850 million in short-term certificates of indebtedness outstanding. The certificates issued included:

- \$400 million issued May 4, 1982 which were repaid June 1, 1983.
- \$450 million issued July 1, 1982 which were repaid June 30, 1983.

Interest paid on the certificates during fiscal year 1983 totaled \$83.8 million. This was a \$50 million increase in short-term borrowing costs over fiscal year 1982.

In fiscal year 1984 the state engaged in a new form of short-term borrowing. On July 20, 1983, the Governor, after securing the recommendation of the Legislative Advisory Commission (LAC), authorized the Commissioner of Finance to issue general obligation certificates of indebtedness in an aggregate principal amount not to exceed \$500 million, composed of the following:

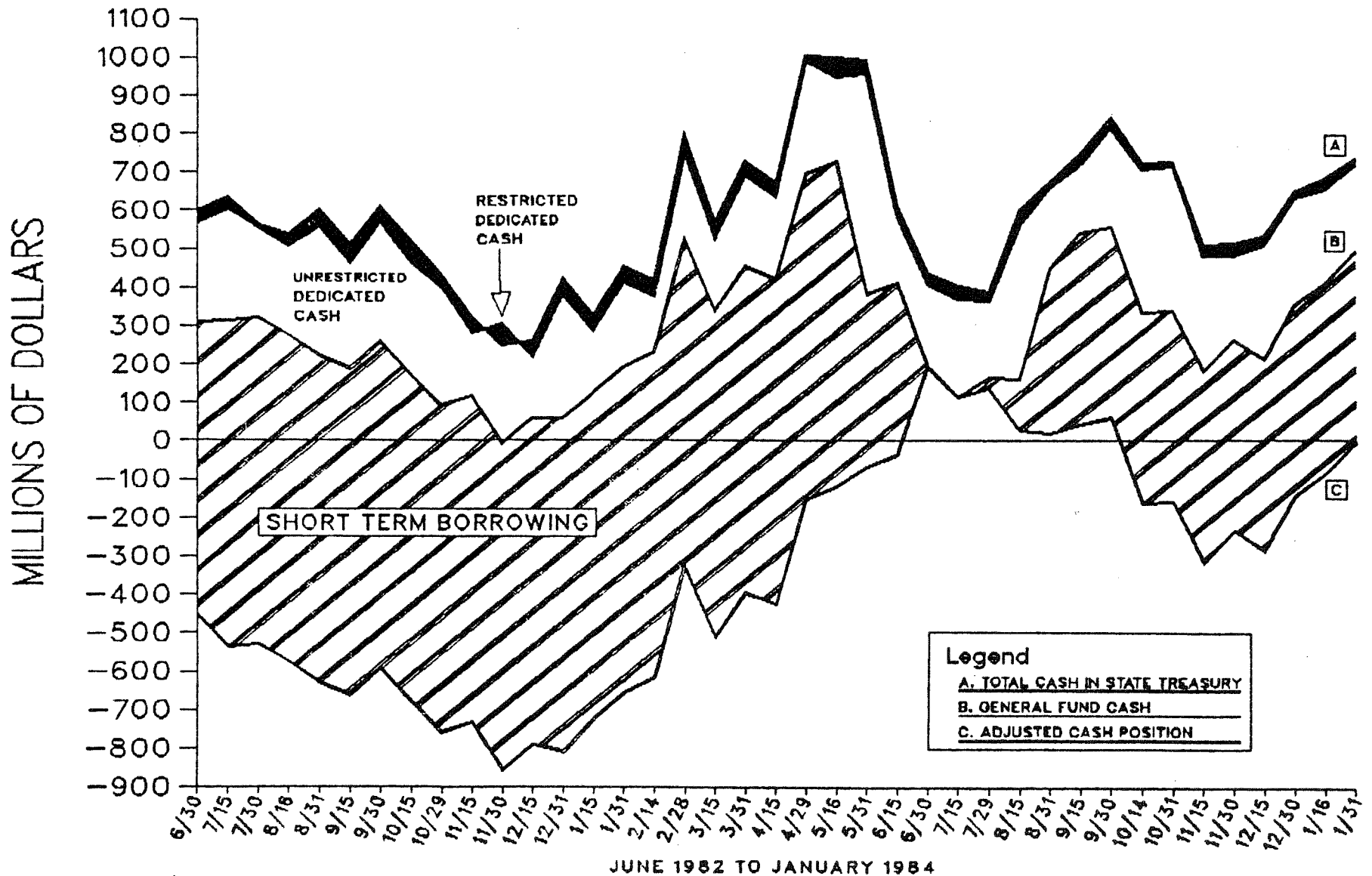
- fixed term certificates of indebtedness maturing within one year of their date of issue, in a principal amount not exceeding \$200 million;
- short-term certificates of indebtedness (Commercial Paper Certificates), maturing within 270 days of their date of issue; and
- fixed term certificates of indebtedness (Revolving Credit Certificates) maturing on the last day of the twelfth month after date of delivery but not later than June 30, 1985.

On August 1, 1983, the state sold \$200 million of general obligation certificates of indebtedness which will mature on July 31, 1984. On July 21, 1983 the state entered into a Dealer Agreement, an Issuing and Paying Agent Agreement, and a Revolving Credit Agreement relating to the issuance of the Commercial Paper Certificates and the Revolving Credit Certificates. Also on July 21, 1983, the state received \$30 million in advances against the Revolving Credit Agreement. The advances are due for repayment on July 31, 1984. On August 15, 1983, the state began issuing short-term Commercial Paper Certificates which mature periodically through the year. From September 2, 1983 through January 31, 1984, the end of our period of review, the total Commercial Paper Certificates outstanding was \$270 million.

Exhibit II shows the cash flow problems of the General Fund during the period from June 30, 1982 through January 31, 1984. Line A represents the total cash in the State Treasury measured at the middle and end of each month. The total includes both the pooled cash of certain dedicated funds which is available for General Fund use to cover cash deficiencies in accordance with Minn. Stat. Section 16A.671, Subd. 2(c) and the remaining cash, as identified by the shaded area, which is restricted and unavailable for General Fund use. It also includes the cash which was impounded and separately invested in the General Fund during the period from February 14 to June 30, 1983 as security for the repayment of the certificates of indebtedness maturing in June 1983. Line B shows the actual cash and investment balance in the General Fund during the time period. Line C shows what the General Fund cash deficiency would have been if the state had not issued Certificates of Indebtedness or borrowed from the pooled cash of dedicated funds.

The low point in General Fund cash flow normally occurs in November each year. The negative cash position of the General Fund (excluding the pooled cash of dedicated funds) exceeded \$800 million in November 1982. However, by November 1983 this had improved to a negative \$300 million. Current Department of Finance estimates show cash flow continuing to improve in fiscal year 1985.

STATE OF MINNESOTA ANALYSIS OF CASH FLOW JUNE 1982 TO JANUARY 1984



However, actions taken during the 1984 Legislative Session will most likely affect the General Fund's cash position and the amount of any future requirements for short-term borrowing.

The high point of the General Fund cash position normally occurs in June each year. As can be seen from Exhibit II, no short-term borrowing was necessary during June 1983. However, this can be somewhat misleading because of the various shifts in expenditures from fiscal year 1983 to 1984. Payments which normally would have been made prior to June 30, 1983 were shifted to the beginning months of fiscal year 1984. For example, the change in the payment schedule for school aids and property tax relief for schools from 90 percent current year/10 percent subsequent year to 85 percent current year/15 percent subsequent year, shifted payments totaling an estimated \$77 million to after June 30. In addition, the change in payment dates for the renters credit and senior and disabled credit shifted an additional \$153 million. This change resulted in a higher cash balance at the end of the fiscal year than would have been realized if payments were made as originally scheduled. However, the low point in the pursuing November would not be affected because the rescheduled payments are required to be made between August and October. This policy change does not, by itself, diminish the state's cash flow problem.

Another area which has an effect on the cash position of the state is the plan to establish a budgetary reserve in the General Fund. In addition to balancing the budget, an appropriated reserve should provide additional cash which is not needed for expenditure. The availability of this additional cash during the first one-half of a fiscal year, when there are many large expenditures, should reduce or eliminate the need for short-term borrowing.

II.E. COMMITMENTS AND POTENTIAL LIABILITIES: THE DEMANDS ON FUTURE RESOURCES

In planning for the use of future resources the Legislature must first consider known commitments and certain potential liabilities which will be funded from these resources. There were certain obligations or commitments which existed at June 30, 1983 but were to be funded from future resources. They resulted in part from normal long-term commitments funded over several years, such as repayments on general obligation bonds, as well as payment shifts and other budgetary decisions, which use future resources to pay prior obligations. Table 29 shows an estimate of the known commitments or obligations for major programs as of June 30, 1983 which were payable from fiscal year 1984 resources. Based upon estimated fiscal year 1984 revenue of approximately \$4.8 billion, Table 29 shows that approximately \$760 million or 16 percent of these resources were committed as of June 30, 1983.

In addition to the known commitments, there are various contingent liabilities, which may place a potential drain on future General Fund resources. Such potential contingent liabilities may result from litigation. The state, at any time, may be involved in various lawsuits which, if settled adversely to the state, could have a detrimental effect on the financial condition of individual funds. In recent years, there have been various lawsuits, primarily relating to mining taxes which, if lost, could have resulted in significant General Fund budget problems. Certain lawsuits, which have resulted in additional liabilities or loss of revenue to the state, are:

- During the last year, the state's position was upheld by the Minnesota Supreme Court in certain Taxonite Occupation Tax cases. The U.S. Supreme Court has declined to hear the mining companies' appeal. Even

with the favorable settlement, the state incurred a liability for refunds relating to certain uncontested issues raised in the cases. At June 30, 1983, approximately \$25 million was recognized in the General Long-Term Obligation Account Group for refunds payable in future years. Procedures have been implemented to offset the liability against future occupation and sales tax owed by the mining companies.

TABLE 29
STATE GENERAL FUND
PRIOR OBLIGATIONS PAYABLE FROM FISCAL YEAR 1984 RESOURCES
(000,000's Omitted)

Transfer to Debt Service Fund for general obligation bonds	\$105
Education aids and other grant final payments for fiscal year 1983 services	175
One-half of calendar year 1983 Local Government Aid (estimated) (a)	135
One-half of calendar year 1983 Homestead Credit (estimated) (a)	270
One-half of calendar year 1983 Agricultural Credit (estimated) (a)	50
Refunds payable resulting from litigation (estimated)	<u>25</u>
TOTAL	<u>\$760</u>

Source: Office of the Legislative Auditor, staff computations from SWA reports.

(a) These programs are intended to provide financing to local governments on a calendar year basis. However, no payments are made until after the start of the new state fiscal year on July 1. Thus, we estimate that one-half of these payments are associated with obligations from the first half of the calendar year which is during the preceding state fiscal year.

- There have been various lawsuits relating to the taconite production tax which, if settled adversely to the state, could have resulted in refunds to the mining companies of several hundred million dollars. Any state liability would have been reduced if the state arranged for local governments, to whom the majority of these taxes were distributed, to bear some of the liability. The legal actions began in the Minnesota Tax Court and, in part, were argued as far as the Minnesota Supreme Court. In April 1984, the mining companies and the Department of Revenue, on behalf of the state, entered into an Agreement of

Settlement relating to the production tax issues. The agreement provided that if certain tax incentives were enacted into law by the Legislature (which was done by Laws 1984, Chapter 502), the mining companies would discontinue any further appeals currently pending regarding their respective production tax liabilities for taxable years 1982 and prior. The agreement also provided that the mining companies were entitled to credits for overpayment of taxes for the years 1977 through 1983 in the total amount of \$17,856,904, which was the estimated liability as a result of the Minnesota Supreme Court decision in one of the cases. The credits are to be made in five equal annual installments beginning with taxes payable in 1985. They will bear interest, at the applicable statutory rate, from the date of overpayment to the date of application. The 1984 legislation provided that these refunds will be credited against the distributions to the funds and accounts which received excessive distributions as a result of the improper computation of the tax in prior years. As a result of these actions, the production tax lawsuits will eventually be dismissed provided the state adheres to the tax law changes enacted by the 1984 Legislature.

- The state General Fund had to pay approximately \$15 million in tax refunds during fiscal year 1983 as the result of losing a lawsuit brought by a newspaper company, which challenged the constitutionality of the use tax imposed on ink and paper products utilized in producing a newspaper.

We believe it is important that all lawsuits be carefully monitored. Losses, or even partial losses, could result in significant liabilities for the state. The current and long-term financial impact of any adverse decision must be carefully considered in the budget process.

II.F. BUDGETARY ACCOUNTING BASIS

Minn. Stat. Section 16A.10 requires the Commissioner of Finance to prepare a biennial budget for all state departments and agencies, subject to the approval of the Governor. Minn. Stat. Section 16A.50 requires the commissioner to prepare a financial report covering the operations of all state funds during the preceding fiscal year. There are no specific requirements as to the accounting basis to be used in the preparation of the biennial budget. However, the annual financial report is to be prepared in conformity with generally accepted accounting principles (GAAP).

The basic financial statements for the General Fund included in the annual financial report are prepared using the modified accrual basis of accounting, as required by generally accepted accounting principles. Revenues are recognized in the accounting period in which they become available and measurable and expenditures are recognized in the accounting period in which the fund, or current liability is recognized. The budgetary statements have not been prepared using a consistent basis of accounting. In some cases, revenues and expenditures are budgeted for on the modified accrual basis, while in other instances the cash basis of accounting is used. As a result, the General Fund revenues, expenditures, and available fund balance reported in the basic financial statements differ from the amounts shown in the budgetary statements.

Table 30 shows a reconciliation of the June 30, 1983 General Fund undesignated fund balance as reported for budgetary and financial reporting purposes. As can be seen from the analysis, at June 30, 1983 there was a \$78 million difference in fund balance between the two sets of statements. This difference increased by approximately \$25 million over June 30, 1982 due primarily to the effect of recognizing deferred tax credits for the first time in the basic financial statements and the one-time shift of community social service act payments from fiscal year 1983 to 1984 on the budgetary statements. The other adjustment amounts have remained fairly stable.

The largest individual component of the fund balance difference is the accrual for Medical Assistance benefit payments (\$38 million). For the budgetary system, the program is reported basically on a cash basis. All payments processed through June 30 of a given fiscal year are recorded as expenditures of that year. All payments made after June 30 are recorded as expenditures of the next fiscal year, irrespective of the time period during which the services were provided. We believe this method of recording expenditures does not give a true picture of the obligations incurred for the program, and is subject to manipulation in that invoices may be held at the end of the fiscal year and not paid until after June 30 in an attempt to reduce the current year expenditures and inflate the available fund balance. Even without manipulation, it is not possible to receive and process all claims by June 30. Although Medical Assistance is reported basically on the cash basis, there are other grant and aid programs such as teachers retirement and social security contributions which are reported on the modified accrual basis for budgetary purposes.

In order to provide meaningful information and to allow for valid comparisons among programs and between fiscal years, we believe a consistent basis for measuring revenues and expenditures should be used for budgetary reporting. The modified accrual basis required by generally accepted accounting principles would satisfy this need and would prevent distortions and manipulations of accounting data based on the timing of cash flow. However, there may be certain disadvantages to unilaterally adopting generally accepted accounting principles as the basis for budgetary accounting. Potentially, it could diminish the legislative prerogative to determine which resources will be used to fund program costs. There may be cases where the Legislature will make a conscious decision that certain costs will be funded from future rather than current resources. Such departures should be carefully considered and enacted in a manner which clearly indicates the intended impact on fund balance.

In summary, there does not appear to be a systematic methodology used to determine the accounting basis for certain areas of the budgetary process. We believe that the inconsistencies in the current budgetary measurement procedures provide incomplete information on the state's financial condition. We believe the Legislature should establish a well defined and uniform policy for measuring revenues and expenditures, such as generally accepted accounting principles. Any such change should be completed so that the Legislature retains control over key funding decisions.

TABLE 30

THE GAAP GAP
State General Fund
Analysis of Differences Between the Budgetary and GAAP Fund Balances
June 30, 1983

FUND BALANCE - BUDGETARY BASIS

\$ 45,755,371

Differences in Revenue Recognition:

Revenue Accruals - Revenue earned but not collected as of June 30. Collection reasonably assured as of September close of books. Budgetary basis records as fiscal year 1984 revenue.

(1) Taxes receivable \$ 10,337,521

- tax return filed with remittance due or taxpayer liability assessed by Department of Revenue

(2) Welfare receivables 7,697,611

- amounts outstanding for state hospital and nursing home cost of care billings and medical assistance reimbursements

Subtotal

\$ 18,035,132

Deferred Revenue - Receipts collected prior to June 30 but revenue not earned during fiscal year 1983. Budgetary basis records as fiscal year 1983 revenue.

(1) Insurance gross premium tax \$(10,201,754)

- receipts collected in June for July and August tax liability

(2) Deferred tax credits

- tax overpayments which were not refunded but will be applied against subsequent year tax liability

- insurance gross premium tax (4,809,906)

- individual, corporate, bank excise tax (8,601,427)

Subtotal

\$(23,613,087)

Miscellaneous Revenue Adjustments

(967,137)

Total Revenue Differences

\$ (6,545,092)

TABLE 30 (con't)

Differences in Expenditure Recognition:

Expenditure Accruals - Liability incurred prior to June 30 but payment made after. Budgetary basis records as fiscal year 1984 expenditures.

(1) Medical assistance	\$(38,299,215)	
- payments for service provided prior to June 30		
(2) Police and fire aid	(22,013,017)	
- payments to counties and municipalities based upon specific revenue collected in fiscal year 1983		
(3) Community social service act	(13,375,915)	
- reimbursement to counties for costs incurred in April, May, June		
(4) Retirement fund contributions	(815,267)	
- amount due for Judges and Legislators' plans		
(5) Workers' and unemployment compensation	(285,372)	
- amounts due for claims paid prior to June 30		
(6) Other	<u>(37,537)</u>	
Subtotal		\$(74,826,323)

Invalid Encumbrances - Expenditures recognized for budgetary purposes based upon encumbrance balance; subsequently determined that encumbrances did not represent actual commitments	<u>\$ 5,767,574</u>
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Total Expenditure Differences	<u>\$(69,058,749)</u>
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Other Differences:

(1) Legislators and Constitutional Officers accumulated retirement contributions which are recorded as a liability at June 30 on the GAAP basis	\$ (2,178,840)
(2) Miscellaneous net transfers from or to other funds (the majority of which are not recurring but were necessary for proper reporting at June 30, 1983)	<u>(244,475)</u>

Total Other Differences	<u>\$ (2,423,315)</u>
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Total Effect of Differences on Fund Balances	<u>\$(78,027,156)</u>
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FUND BALANCE - GAAP BASIS	<u><u>\$(32,271,785)</u></u>
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Source: Office of the Legislative Auditor staff computations from SWA reports and annual financial statements.

SECTION III

STATE EXPENDITURES OF FEDERAL GRANTS-IN-AID FISCAL YEARS 1981 - 1983

In fiscal year 1981, state expenditures of federal funds totaled \$1.4 billion and represented over 23 percent of total state spending. Over the following two years federal grant expenditures ebbed and flowed, declining by 4 percent in fiscal year 1982 and then increasing by 5.5 percent in fiscal year 1983. In fiscal year 1983 federal grant expenditures once again amounted to \$1.4 billion, but accounted for only 21 percent of total state spending.

As shown in Table 31, \$784 million or approximately 57 percent of all federal grant expenditures in fiscal year 1983 were for the purpose of providing financial assistance to individuals, with over 72 percent of these expenditures funding Medical Assistance and AFDC programs. Federal aids that were received by the state but passed through to local units of government, amounted to \$255 million in fiscal year 1983 or 19 percent of all federal grant expenditures. The most significant of these aids were funds sent to school districts totaling \$121 million used primarily for financing educational programs for the disadvantaged and for the school lunch program. County governments also received nearly \$120 million in fiscal year 1983, primarily for the delivery and administrative support of various social service programs and for road and bridge construction or repair. Finally, \$282 million or approximately 21 percent of all federal grant expenditures was used to finance general government operations. Of these expenditures, \$173 million was used for highway construction and \$83 million for employee salaries (also see Table 32).

TABLE 31
 FEDERAL FUND
 EXPENDITURE BY MAJOR CATEGORIES
 FISCAL YEARS 1981-83
 ('000's OMITTED)

EXPENDITURE CATEGORY	FY1981 EXPENDITURE	FY1982 EXPENDITURE	PERCENT CHANGE 81 - 82	FY1983 EXPENDITURE	PERCENT CHANGE 82 - 83	PERCENT CHANGE 81 - 83
STATE GOVT OPERATIONS BY DEPARTMENT						
CONSTITUTIONAL OFFICERS:						
GOVERNOR	\$122	\$178	45.9%	\$186	4.5%	52.5%
ATTORNEY GENERAL	\$103	\$148	43.7%	\$146	-1.4%	41.7%
SUBTOTAL	\$225	\$326	44.9%	\$332	1.8%	47.6%
JUDICIARY:						
SUPREME COURT	\$542	\$164	-69.7%	\$10	-93.9%	-98.2%
LEGISLATIVE:						
LEGISLATIVE COMMISSIONS	\$15	\$14	-6.7%	\$10	-28.6%	-33.3%
CENTRAL FINANCIAL AND ADMIN:						
ADMINISTRATION	\$41	\$41	0.0%	\$49	19.5%	19.5%
EMPLOYEE RELATIONS	\$109	\$19	-82.6%	\$0	-100.0%	-100.0%
SUBTOTAL	\$150	\$60	-60.0%	\$49	-18.3%	-67.3%
DIRECT SERVICE DEPARTMENTS:						
ECONOMIC SECURITY	\$60,220	\$63,483	5.4%	\$65,230	2.8%	8.3%
HEALTH	\$8,520	\$9,805	15.1%	\$8,220	-16.2%	-3.5%
PUBLIC WELFARE	\$5,926	\$5,222	-11.9%	\$6,334	21.3%	6.9%
EDUCATION	\$7,118	\$6,337	-11.0%	\$6,273	-1.0%	-11.9%
POLLUTION CONTROL	\$4,403	\$4,939	12.2%	\$5,366	8.6%	21.9%
MILITARY AFFAIRS	\$2,334	\$3,288	40.9%	\$4,369	32.9%	87.2%
STATE UNIVERSITY BOARD	\$4,547	\$2,055	-54.8%	\$1,582	-23.0%	-65.2%
STATE COMMUNITY COLLEGE BOARD	\$2,738	\$2,778	1.5%	\$2,636	-5.1%	-3.7%
ENERGY, PLANNING AND DEVEL.	\$1,658	\$3,342	101.6%	\$1,987	-40.5%	19.8%
PUBLIC SAFETY	\$2,721	\$2,546	-6.4%	\$1,950	-23.4%	-28.3%
NATURAL RESOURCES	\$3,266	\$1,756	-46.2%	\$1,000	-43.1%	-69.4%
LABOR AND INDUSTRY	\$976	\$1,060	8.6%	\$1,156	9.1%	18.4%
CORRECTIONS	\$1,587	\$950	-40.1%	\$629	-33.8%	-60.4%
AGRICULTURE	\$801	\$502	-37.3%	\$657	30.9%	-18.0%
HUMAN RIGHTS	\$344	\$410	19.2%	\$335	-18.3%	-2.6%
TRANSPORTATION	\$374	\$264	-29.4%	\$238	-9.8%	-36.4%
MINNESOTA ARTS BOARD	\$145	\$126	-13.1%	\$157	24.6%	6.3%
MISCELLANEOUS BOARDS AND COMM.	\$885	\$433	-51.1%	\$149	-65.6%	-83.2%
SUBTOTAL	\$108,563	\$109,296	0.7%	\$108,268	-0.9%	-0.3%
UNALLOCATED EXPENDITURES	\$2,933	\$367	-87.5%	\$173	-52.9%	-94.1%
HIGHWAY CONSTRUCTION	\$167,507	\$148,517	-11.3%	\$173,124	16.6%	3.4%
TOTAL: STATE GOVERNMENT OPERATIONS	\$279,935	\$258,744	-7.6%	\$281,966	9.0%	0.7%
INTERGOVERNMENTAL TRANSFER PAYMENTS:						
AID TO COUNTIES:						
SOCIAL SERVICES BLOCK GRANT	N/A	\$30,522	N/A	\$43,910	43.9%	N/A
ADMINISTRATION FEDERAL AIDS	\$82,976	\$47,152	-43.2%	\$33,016	-30.0%	-60.2%
COUNTY ROADS & BRIDGES	\$29,752	\$34,356	15.5%	\$34,569	0.6%	16.2%

TABLE 31 (Cont'd.)
 FEDERAL FUND
 EXPENDITURE BY MAJOR CATEGORIES
 FISCAL YEARS 1981-83

EXPENDITURE CATEGORY	FY1981 EXPENDITURE	FY1982 EXPENDITURE	PERCENT		PERCENT	
			CHANGE 81 - 82	FY1983 EXPENDITURE	CHANGE 82 - 83	PERCENT CHANGE 81 - 83
FOOD STAMPS	\$5,413	\$7,143	32.0%	\$5,562	-22.1%	2.8%
CHILD WELFARE SERVICES <u>a/</u>	\$26	\$1,458	5507.7%	\$2,290	57.1%	8707.7%
SUBTOTAL-AID TO COUNTIES	\$118,167	\$120,631	2.1%	\$119,347	-1.1%	1.0%
AID TO SCHOOL DISTRICTS:						
SPECIAL EDUCATION	\$17,963	\$17,942	-0.1%	\$18,857	5.1%	5.0%
VOCATIONAL EDUCATION	\$10,392	\$9,187	-11.6%	\$8,053	-12.3%	-22.5%
EDUCATION OF DISADVANTAGED	\$37,892	\$34,479	-9.0%	\$33,135	-3.9%	-12.6%
SCHOOL LUNCH	\$57,029	\$42,677	-25.2%	\$43,698	2.4%	-23.4%
EDUC. DEVEL.-BLOCK GRANT	N/A	N/A	N/A	\$6,138	N/A	N/A
OTHER AIDS	\$23,329	\$14,112	-39.5%	\$10,910	-22.7%	-53.2%
SUBTOTAL-AID TO SCHOOLS	\$146,605	\$118,397	-19.2%	\$120,791	2.0%	-17.6%
AID TO CITIES:						
FEDERAL AIRPORT <u>b/</u>	\$10,298	\$3,963	-61.5%	\$15,332	286.9%	48.9%
TOTAL: INTERGOVTAL TRANSFER PYMTS	\$275,070	\$242,991	-11.7%	\$255,470	5.1%	-7.1%
SUBSIDIES TO INDIVIDUALS:						
MEDICAL ASSISTANCE	\$371,049	\$412,415	11.1%	\$448,897	8.8%	21.0%
AFDC	\$124,275	\$126,720	2.0%	\$120,700	-4.8%	-2.9%
WEATHERIZATION SUBGRANTS	\$18,659	\$5,927	-68.2%	\$9,593	61.9%	-48.6%
EMERGENCY HEATING	\$63,755	\$65,883	3.3%	\$82,463	25.2%	29.3%
JOB TRAINING <u>a/</u>	\$11,838	\$4,726	-60.1%	\$5,795	22.6%	-51.0%
WOMEN, INFANTS AND CHILDREN	\$14,951	\$15,898	6.3%	\$20,714	30.3%	38.5%
REFUGEE ASSISTANCE	\$32,534	\$31,686	-2.6%	\$17,689	-44.2%	-45.6%
ADOPTION ASSISTANCE	N/A	\$3,151	N/A	\$5,430	72.3%	N/A
MATERNAL AND CHILD HEALTH	\$3,164	\$2,754	-13.0%	\$1,722	-37.5%	-45.6%
OTHER GRANTS	\$8,408	\$4,141	-50.7%	\$4,756	14.9%	-43.4%
BASIC SUPPORT REHABILITATION <u>c/</u>	\$6,829	\$3,093	-54.7%	\$1,661	-46.3%	-75.7%
AGING GRANTS	\$10,539	\$10,774	2.2%	\$10,304	-4.4%	-2.2%
HOUSING RENT SUBSIDIES	\$33,702	\$42,650	26.6%	\$46,304	8.6%	37.4%
STUDENT LOAN INTEREST SUBSIDIES	\$12,247	\$15,299	24.9%	\$7,868	-48.6%	-35.8%
TOTAL: SUBSIDIES TO INDIVIDUALS	\$711,950	\$745,117	4.7%	\$783,896	5.2%	10.1%
DEBT SERVICE	\$238	\$199	-16.4%	\$187	-6.0%	-21.4%
UNALLOCATED	\$56,953	\$54,510	-4.3%	\$51,225	-6.0%	-10.1%
TOTAL EXPENDITURES	\$1,324,146	\$1,301,561	-1.7%	\$1,372,744	5.5%	3.7%

SOURCE: Office of the Legislative Auditor staff computations from SWA reports and annual financial statements. Also, see Technical Note in Appendix.

a/ The percentage change in these programs is distorted due to program consolidation and reorganization. This is especially true with respect to comparing Fiscal Year 1981 amounts to FY 1982 or 1983.

b/ There are artificial fluctuations in the dollar amounts due to changes in accounting procedures.

c/ These drastic changes are caused by a structural tradeoff between certain counselor salaries and vocational rehabilitation benefits. See Note (f), Table 14.

TABLE 32
 FEDERAL FUND
 STATE GOVERNMENT OPERATIONS
 EXPENDITURE BY MAJOR CATEGORIES
 FISCAL YEARS 1981-83
 (000's OMITTED)

EXPENDITURE CATEGORY	FY1981 EXPENDITURE	FY1982 EXPENDITURE	PERCENT CHANGE 81 - 82	FY1983 EXPENDITURE	PERCENT CHANGE 82 - 83	PERCENT CHANGE 81 - 83
CURRENT:						
SALARIES	\$83,985	\$85,567	1.9%	\$83,202	-2.8%	-0.9%
ADMINISTRATIVE EXPENDITURES:						
RENT	\$4,949	\$4,866	-1.7%	\$4,719	-3.0%	-4.6%
PROFESSIONAL TECHNICAL SERV.	\$3,931	\$3,714	-5.5%	\$3,596	-3.2%	-8.5%
TRAVEL	\$3,249	\$3,041	-6.4%	\$2,582	-15.1%	-20.5%
OTHER PURCHASED SERVICES	\$3,175	\$1,075	-66.1%	\$2,446	127.5%	-23.0%
COMMUNICATIONS	\$2,152	\$2,320	7.8%	\$2,186	-5.8%	1.6%
COMPUTER SERVICES	\$1,895	\$1,748	-7.8%	\$1,578	-9.7%	-16.7%
PRINTING	\$1,571	\$1,328	-15.5%	\$1,356	2.1%	-13.7%
REPAIRS	\$550	\$710	29.1%	\$868	22.3%	57.8%
CONSULTANT SERVICES	\$676	\$611	-9.6%	\$678	11.0%	0.3%
UTILITIES	\$473	\$514	8.7%	\$649	26.3%	37.2%
OTHER	\$630	\$548	-13.0%	\$505	-7.8%	-19.8%
SUBTOTAL-ADMIN EXP.	\$23,251	\$20,475	-11.9%	\$21,163	3.4%	-9.0%
SUPPLIES	\$2,716	\$2,453	-9.7%	\$2,730	11.3%	0.5%
TOTAL: CURRENT EXPENDITURES	\$109,952	\$108,495	-1.3%	\$107,095	-1.3%	-2.6%
CAPITAL EXPENDITURES:						
HIGHWAY	\$167,507	\$148,317	-11.3%	\$173,124	16.6%	3.4%
OTHER	\$2,476	\$1,732	-30.0%	\$1,747	0.9%	-29.4%
TOTAL: CAPITAL EXPENDITURES	\$169,983	\$150,249	-11.6%	\$174,871	16.4%	2.9%
TOTAL STATE GOVERNMENT OPERATIONS	\$279,935	\$258,744	-7.6%	\$281,966	9.0%	0.7%

SOURCE: Office of the Legislative Auditor staff computations from SWA reports and annual financial statements. Also, see Technical Note in Appendix.

From another perspective an analysis of federal grant expenditures shows that in fiscal year 1983 nearly 53 percent of all federal grants were used to finance health and welfare programs, 16 percent were used for both transportation and economic security, and 10 percent for educational purposes (see Table 33).

TABLE 33
FEDERAL GRANT EXPENDITURES BY FUNCTION
FISCAL YEARS 1981 - 1983
(000's Omitted)

<u>Function</u>	<u>F.Y. 1981 Expenditures</u>	<u>Percent of Total</u>	<u>F.Y. 1982 Expenditures</u>	<u>Percent of Total</u>	<u>F.Y. 1983 Expenditures</u>	<u>Percent of Total</u>
Health and Welfare	\$ 659,373	49.8%	\$ 704,700	54.1%	\$ 724,788	52.8%
Transportation	207,931	15.7	187,100	14.4	223,263	16.3
Economic Security	196,323	14.8	187,232	14.4	212,537	15.5
Education	173,255	13.1	144,866	11.1	139,150	10.1
Natural Resources	8,615	0.6	7,323	0.6	7,180	0.5
Protection of Persons	6,642	0.5	6,784	0.5	6,948	0.5
General Government	3,475	0.3	4,339	0.3	2,537	0.2
Debt Service	238	.0	199	.0	187	.0
Other	68,294	5.2	59,018	4.6	56,154	4.1
TOTAL	\$1,324,146	100.0%	\$1,301,561	100.0%	\$1,372,744	100.0%

Source: Office of the Legislative Auditor staff computations. See Appendix Table II.B.

Between fiscal years 1981 and 1983, federal grant expenditures increased slightly in four of the nine functional categories shown in Table 33. Health and welfare expenditures increased by 9.9 percent, transportation by 7.4 percent, protection of persons by 4.6 percent, and economic security by 8.3 percent. The other five functional categories each experienced double digit reductions in expenditures during the same period. For example, federal grant expenditures for education declined by \$34 million or by nearly 20 percent and expenditures for natural resources declined by 17 percent.

In general, federal grants play a similar role in Minnesota as they do in other states. For the most part, federal grants could be considered dedicated resources used primarily for the purpose of assisting people who are medically, educationally, or economically disadvantaged.¹ Table 33 showed that during the period between fiscal years 1981 and 1983, approximately 78 percent of federal grant expenditures were used to finance health and welfare, economic security, and education programs, all of which directly assist persons who were, in some way, disadvantaged. However, in recent years the federal government has

¹For an overview of the importance of federal grants among the states, see Steven D. Gold, "Federal Aid and State Finances," Legislative Finance Paper #26, National Conference of State Legislatures, 1982.

changed many of its domestic program priorities, objectives, and funding support. The result of these actions, in part, has been a reduction in the federal share of total state expenditures for these types of programs. For example, Table 34 shows, for fiscal years 1981 and 1983, total state expenditures for programs which are designed to assist disadvantaged persons and also indicates what percentage of these expenditures have been financed from state and federal revenue sources. As can be seen, the state's relative share of total expenditures for these programs has increased by 5 percentage points, from 53 percent to 58 percent, in only two years. More specifically, between fiscal years 1981 and 1983 the state's relative share for financing medical assistance increased by 4 percentage points, economic security by 8 percentage points, and educational programs by 5 percentage points. In total, this¹ shift has cost the state approximately \$124 million during this two-year period.

The implication is that it is becoming increasingly more important for the Legislature to concern itself with and apply more scrutiny over federal grant expenditures in Minnesota, primarily because the constituency served by existing federal programs will not vanish as a result of changes in federal program objectives or reduced funding. Depending on how the federal government sets its domestic policy can significantly influence future fiscal demands on the state's General Fund.

¹This amount represents the difference between what the state actually expended for these programs in fiscal year 1983 (\$1,442 million) and what it would have expended if its relative share (53 percent) remained unchanged since 1981 (\$1,318 million).

TABLE 34

AN ANALYSIS OF STATE EXPENDITURES TO ASSIST DISADVANTAGED PERSONS
BY FUNDING SOURCE, FISCAL YEARS 1981 AND 1983
(000,000's Omitted)

Function	Fiscal Year 1981			Fiscal Year 1983		
	Total Expenditures	Percent From		Total Expenditures	Percent From	
		State Sources	Federal Sources		State Sources	Federal Sources
Total Expenditures (a)	\$5,852	78.1%	21.9%	\$6,502	79.5%	20.5%
Expenditures to Assist Disadvantaged Persons:						
Health and Welfare:						
M.A.	\$ 592	37.3%	62.7%	\$ 761	41.0%	59.0%
A.F.D.C.	196	36.7	63.3	200	39.5	60.5
Other	<u>439</u>	<u>62.6</u>	<u>37.4</u>	<u>412</u>	<u>61.2</u>	<u>38.8</u>
Subtotal	\$1,227	46.3%	53.7%	\$1,373	46.8%	53.2%
Economic Security	634	69.1	30.9	909	76.6	23.4
Education (b)	<u>205</u>	<u>44.9</u>	<u>55.1</u>	<u>205</u>	<u>50.2</u>	<u>49.8</u>
TOTAL	<u>\$2,066</u>	<u>53.1%</u>	<u>46.9%</u>	<u>\$2,487</u>	<u>58.0%</u>	<u>42.0%</u>

Source: Office of the Legislative Auditor staff computations. See Appendix Tables II.A and II.B for detailed documentation on functional definitions.

(a) See Appendix Table II.D for reconciliation of expenditure amounts between state funds.

(b) Includes state special education and federal programs for the disadvantaged, school lunch, and block grant. State expenditures to finance general aids to school districts were not included because they represent assistance more to a governmental jurisdiction than to individuals.

SECTION IV

FISCAL PROBLEMS OF OTHER STATE FUNDS

IV.A. THE UNEMPLOYMENT COMPENSATION FUND

[Note: Although not discussed in this report, the Unemployment Compensation Fund's financial status has improved markedly since June 30, 1983.]

Minnesota's Unemployment Compensation Fund, (UC Fund) is experiencing serious financial problems that should concern the Legislature. They include:

- an increased dependence on borrowing from the Federal Unemployment Account to meet benefit payment obligations,
- an increasing deficit fund balance, which grew from \$210 million at June 30, 1982 to \$369 million by June 30, 1983, and
- interest costs to be paid on federal loans made after March 31, 1982.

Minnesota has relied heavily on the Federal Unemployment Account for help in financing its unemployment insurance program. Despite the obvious repercussions to this type of financing, the fund is not capable of sustaining itself under the current set of economic circumstances. The combination of increased dependence on borrowing, the unresponsive tax structure, unfavorable economic conditions, and recent changes in federal law have all contributed to the erosion of the UC Fund.

Table 35 summarizes the fund's cash flow of revenues (including reimbursable accounts but excluding the Federal Supplemental Compensation Program) and expenditures by quarter for fiscal years 1981, 1982, and 1983.

Total revenues increased from \$237.3 million in fiscal year 1982 to \$299.2 million in fiscal year 1983 or 26.1 percent. During the same period total expenditures increased from \$370.4 million to \$481.3 million or 29.9 percent. It should be noted that the first quarter taxes (January 1 - March 31) which are due and collected during the second quarter (April 1 - June 30), represent the highest amount of collections during the year with each successive quarter collections declining from those of the previous quarter. For example, during calendar year 1982, the first quarter collections equalled 40 percent of total collections for the year, those for the second quarter were 29 percent, those for the third quarter were 19 percent, and those for the fourth quarter were 12 percent. This quarterly reduction in tax revenues is a result of the limits of the taxable wage base component of the state tax (discussed later). An employer is not liable for the unemployment state tax on wages paid to employees in excess of the taxable wage base amount.

There are many complex variables that affect the stability of the fund ranging from the unemployment rate to the financing structure of the fund. While it may be extremely difficult to identify the specific impact of any single variable, it is obvious that the fund is headed in the wrong direction. We are not attempting to identify or propose specific solutions, but are suggesting that legislative action appears necessary to assure future fund solvency.

TABLE 35
UNEMPLOYMENT COMPENSATION FUND
REVENUES AND EXPENDITURES
FISCAL YEARS 1981 - 1983

<u>Quarter Ended</u>	<u>Revenues</u>	<u>Loans</u>	<u>Expenditures</u>
September 30, 1980	\$ 66,357,417	\$ -0-	\$ 72,927,128
December 31, 1980	48,664,532	26,300,000	79,100,242
March 31, 1981	35,176,274	71,600,000	106,804,947
June 30, 1981	<u>85,472,812</u>	<u>14,200,000</u>	<u>70,921,722</u>
TOTAL FISCAL YEAR 1981	<u>\$235,671,035</u>	<u>\$112,100,000</u>	<u>\$329,754,039</u>
September 30, 1981	\$ 64,098,091	\$ -0-	\$ 50,437,196
December 31, 1981	40,173,932	-0-	64,147,442
March 31, 1982	28,930,582	77,900,000	128,298,884
June 30, 1982	<u>104,142,190</u>	<u>17,942,117</u>	<u>127,514,516</u>
TOTAL FISCAL YEAR 1982	<u>\$237,344,795</u>	<u>\$ 95,842,117</u>	<u>\$370,398,038</u>
September 30, 1982	\$ 76,750,937	\$ 36,379,000	\$109,180,252
December 31, 1982	49,910,340	41,826,000	102,560,530
March 31, 1983	31,544,612	117,300,000	139,802,159
June 30, 1983	<u>141,003,073</u>	<u>(14,801,000)</u>	<u>129,773,795</u>
TOTAL FISCAL YEAR 1983	<u>\$299,208,962</u>	<u>\$180,704,000</u>	<u>\$481,316,736</u>

Minnesota's unemployment insurance program is a coordinated federal/state program designed to provide economic security to workers during temporary periods of unemployment. The state's employers have financed the program since its inception through the payment of both federal and state unemployment taxes or "contributions." The Department of Economic Security collects and deposits the state tax directly to the UC Fund.

The components of the state tax consist of (1) a contribution (tax) rate and (2) a taxable wage base.

(1) The contribution rate is comprised of a:

- minimum rate which is based on the UC Fund's cash balance at June 30 and effective for the following calendar year, and
- an experience ratio which is calculated by dividing 125 percent of total benefits charged to an employer's account during the previous 36 months ended June 30, by the employer's total taxable payroll for the same period. (For calendar year 1984, and for years 1985 and thereafter, the calculation is based on the previous 48 months and 60 months, respectively.)

The department calculates or assigns an annual contribution rate for all employers for the coming calendar year based on information through the previous June 30. As such, current and future benefits are paid with taxes collected using tax rates calculated on unemployment activity six months to three and one-half years earlier.

The minimum rate treats all employers equally without regard to an employer's experience with unemployment. The minimum rate is graduated based on the fund's cash balance at June 30. The current minimum rate schedule is shown in Table 36.

TABLE 36
UNEMPLOYMENT COMPENSATION FUND
SCHEDULE OF MINIMUM RATES
FISCAL YEARS 1977 - 1983

<u>Fund Balance</u>	<u>Minimum Rate</u>
Below \$80 million	1.0%
Between \$80 and \$90 million	0.9%
Between \$90 and \$110 million	0.8%
Between \$110 and \$130 million	0.7%
Between \$130 and \$150 million	0.6%
Between \$150 and \$170 million	0.5%
Between \$170 and \$200 million	0.3%
Above \$200 million	0.1%

The graduation is structured for tax reductions as the fund's cash balance increases, but does not provide additional support when the fund falls below \$80 million or is depleted.

The experience ratio by nature is designed to place greater responsibility for the cost of unemployment with those employers having higher unemployment rates. The ratio is dependent on benefits paid and chargeable to an employer over a period of time compared to the employer's total taxable payroll for the same time period. Prior to calendar year 1983, state law limited the increase in the experience ratio to no more than 1.5 percent per year. For calendar years subsequent to 1982, the law provides a yearly increase or decrease in the experience ratio to no more than 2.5 percent per year for employers having an annual payroll greater than \$250,000. Employers having an annual payroll of less than \$250,000 can apply for a limitation of the increase or decrease in the experience ratio to no more than 1.5 percent per year.

The maximum contribution rate (minimum rate plus the experience ratio) is legislatively set at 7.5 percent which means the maximum experience ratio for any employer cannot exceed 6.5 percent. As a result, the limit forces the fund to absorb those benefits paid but not chargeable to an employer. The minimum and maximum state contribution rates in effect since 1972 are shown in Table 37.

TABLE 37

UNEMPLOYMENT COMPENSATION FUND

MINIMUM AND MAXIMUM STATE CONTRIBUTION RATES
CALENDAR YEARS 1972 - 1983

<u>Year</u>	<u>Minimum Rate</u>	<u>Maximum Contribution Rate</u>
1972-73	.7%	4.5%
1974-75	.9%	5.0%
1976	.9%	6.0%
1977-83	1.0%	7.5%

(2) The taxable wage base is that portion of each employee's total wage subject to the contribution rate. The taxable wage bases in effect since 1972 are presented in Table 38.

TABLE 38

UNEMPLOYMENT COMPENSATION FUND

STATE TAXABLE WAGE BASE
CALENDAR YEARS 1972 - 1983

<u>Year</u>	<u>State Taxable Wage Base</u>
1972-75	\$4,800
1976	6,200
1977	7,000
1978	7,500
1979-81	8,000
1982	8,300
1983	8,000 or 9,000

For 1983, an employer having a minimum tax rate (1%) used a taxable wage base of \$8,000. Employers having a higher tax rate used a taxable wage base of \$9,000. The Legislature controls and sets both components of the state tax. Since 1977, the minimum rate and the maximum contribution rate have remained unchanged.

Minnesota Employers also pay a federal unemployment tax which is used to finance the administration of Minnesota's unemployment insurance law. The FUTA (Federal Unemployment Tax Act) tax structure is somewhat different than the state tax in that the FUTA tax rate and taxable wage base are less. The FUTA tax rates and taxable wage basis in effect since 1977 are shown in Table 39.

TABLE 39

UNEMPLOYMENT COMPENSATION FUND

FUTA TAX RATES AND TAXABLE WAGE BASE
CALENDAR YEARS 1977 - 1983

<u>Year</u>	<u>FUTA Tax Rate</u>	<u>FUTA Taxable Wage Base</u>
1977	3.4%	\$4,200
1978-82	3.4%	6,000
1983	3.5%	7,000

Employers are allowed a credit against the federal tax for taxes paid into Minnesota's fund. The total credit allowable may not exceed 2.7 percent of taxable FUTA wages. Because of this credit, the effective FUTA tax rate on employers for 1983 was 0.8 percent.

Theoretically, tax revenues should be sufficient to cover benefit payments and to build and maintain the integrity of the fund's reserve. The reserve concept as it relates to an unemployment insurance program is a cash reserve or balance amount identified and maintained as a cushion against future periods of high unemployment. It should not be used as a basis for increasing benefits or reducing taxes, but should serve as a hedge against rising unemployment and borrowing. Generally, as unemployment rises, tax revenue declines, benefit payments increase, and borrowing becomes necessary as reserves are depleted.

Through Title XII of the Social Security Act, Minnesota's Unemployment Compensation Fund (when its reserves were depleted) was allowed to obtain interest free loans from the Federal Unemployment Account. The fund first utilized Title XII in the mid-1970s, and obtained interest free loans totaling \$47 million in 1975, \$76 million in 1976, and \$49 million in 1977. It repaid the outstanding loans totaling \$172 million in 1979. The fund borrowed \$28.8 million during calendar year 1980, \$85.2 million in 1981, \$174 million in 1982, and \$87 million in 1983 (net of \$154.4 million repayment).

Effective January 1, 1980 provisions of Title XII outlined a loan repayment schedule for states whose unemployment compensation funds failed to repay outstanding loans by a certain date. This schedule increases the FUTA tax rate each year until the loans are repaid. For Minnesota, the loan repayment schedule under Title XII for loans received during 1980, 1981, 1982, and 1983 is outlined in Table 40.

Since the fund did not repay the \$28.8 million originally borrowed in 1980 by November 10, 1982, Minnesota employers paid an additional three-tenths of one percent FUTA tax for calendar 1982. This increase was assessed on the 1982 Employer's Annual Federal Unemployment (FUTA) Tax Return and was due by January 31, 1983. The additional amounts collected during calendar year 1983 as a result of this increase totalled \$23,336,809 (\$21,787,631 as of June 30, 1983) and was applied against the oldest outstanding interest free loan. For each

additional year the loans remain outstanding, the FUTA tax is increased by three-tenths of one percent, plus the difference between 2.7 percent and the average contribution rate in the preceding tax year. For calendar year 1983, Minnesota employers will pay an additional six-tenths of one percent FUTA tax.

TABLE 40
UNEMPLOYMENT COMPENSATION FUND
TITLE XII LOAN REPAYMENT SCHEDULE
CALENDAR YEARS 1980 - 1983

Calendar Year	Outstanding Loans as of 12-31-83	Repayment Due	Additional FUTA Tax Rate			
			.3%	.6%	.9%	1.2%
1980	\$ 5,463,191	11/10/82	1982	1983	1984	1985
1981	85,200,000	11/10/83	1983	1984	1985	1986
1982	174,047,117	11/10/84	1984	1985	1986	1987
1983	87,043,000	11/10/85	1985	1986	1987	1988

During 1981, amendments to Title XII Section 1202 eliminated the interest free status of loans made to the state on or after April 1, 1982, and also prohibited the payment of interest (directly or indirectly) by a state from amounts in the Unemployment Compensation Fund. At June 30, 1983, the total indebtedness of the Unemployment Compensation Fund to the Federal Unemployment Account was \$368,758,485, of which \$170,112,369 was interest free. Accrued interest on the remaining \$198,646,117 at June 30, 1983 was \$10,375,093. Interest is due and payable on September 30 of each year. The outstanding loan balance at December 31, 1983 was \$351,753,308 (\$168,563,191 interest free and \$183,190,117 interest bearing).

The 1983 Legislature established an emergency interest repayment fund for the sole purpose of paying the interest accruing on funds advanced from the Federal Unemployment Account pursuant to section 1202 of the Social Security Act. A 10 percent surcharge on employer contributions paid or due and payable for calendar years 1982 and 1983 was/would be assessed and payable by August 31, 1983 and 1984, respectively. Accrued interest of \$14,885,021 was paid to the federal government on September 30, 1983 from the emergency interest repayment fund.

All benefits (regular and extended) are paid out of the UC Fund to eligible individuals as determined by the department. The number of weeks that regular benefits are paid and the weekly benefit amount are based on the number of credit weeks earned and wages paid to a claimant. A claimant can draw regular benefits for a minimum of 11 weeks to a maximum of 26 weeks, and can receive a weekly benefit up to a maximum amount (\$184, \$191, and \$198 for fiscal years 1983, 1984, and 1985, respectively).

Extended benefits are paid to eligible claimants after regular benefits have been exhausted. The maximum extended benefit period (number of weeks) is 50 percent of the regular benefit period. The claimant's weekly extended benefit amount is equal to the weekly regular benefit amount.

During fiscal year ended June 30, 1983, benefit payments exceeded revenues by 61 percent or \$182.1 million. The UC Fund borrowed \$248.7 million during this period but was able to repay \$68 million in May 1983. Therefore, the fund deficit increased from \$210 million to \$369 million or 76 percent.

The effect of the 1982 and 1983 legislative changes will not be immediately felt in terms of reducing either the fund's dependence on borrowing or the deficit. Since employers pay the cost, the impact of any financing decisions will affect them almost immediately. Financing decisions made by the Legislature should be continually evaluated in terms of fund responsiveness to current economic conditions. The efforts toward fund solvency and the building of future fund reserves will be both long and costly for Minnesota employers. The Legislature still needs to identify sound and equitable short-term and long-range plans and goals. The decisions that have to be made from the existing alternatives will be difficult and sensitive. Until such decisions are made, the fund will continue to experience financial difficulties.

IV.B. SPECIAL WORKERS' COMPENSATION FUND

The Special Workers' Compensation Fund was established to provide reimbursement to insurers and self-insurers for money advanced to pay supplementary benefits that augment the claimants workers' compensation benefits. It also reimburses second injury claims for physically impaired individuals who are properly registered under the second injury law and suffer a subsequent injury attributable, at least in part, to the pre-registered impairments. The fund also makes direct payments for wage loss compensation and medical expenses for persons whose employers failed or refused to provide workers' compensation coverage; and it advances benefits to injured workers or dependents when rights to benefits are assured but there is a temporary dispute between two or more employers or insurers regarding legal liability in the case.

The fund operates primarily on receipts from insurers and self-insurers.¹ The 1983 Legislature repealed the provision which authorized the commissioner to set the annual assessment rate in accordance with an adjustment schedule based on the balance in the fund on September 30 each year and an estimate of expenditures during the next calendar year.² Effective January 1, 1984, employers shall³ pay a lump sum amount equal to 20 percent of the total compensation payable. In addition to this assessment, the 1983 Legislature provided that beginning in calendar year 1984 the Commissioner of Labor and Industry shall annually establish a uniform percentage rate to be applied against an employer's assessment base as determined by a method established by rule. The Legislature provided further that the total amount assessed all employers under this method for calendar year 1984 not exceed \$25 million. The total amounts assessed annually thereafter may be increased by up to ten percent beginning on January 1, 1985.

In prior management letters to the Department of Labor and Industry, we have commented on the serious financial problems of the fund. Primarily, receipts collected through the annual assessment process are not sufficient to

¹Minn. Stat. Section 176.101 or 176.111.

²Minn. Stat. Section 176.131, Subd. 10.

³Minn. Stat. Section 176.129, Subd. 3.

pay the amount of benefit claims submitted. Secondly, the fund's accounting system was unable to determine its accrued liabilities at a given point in time. The latter problem has been eliminated with the installation of a new computer system. However, our testing of benefit claims outstanding during 1983 indicated that the department is at least a year behind in paying claims against the fund. The fund is limited as to the benefits it can pay out to the extent of its assessments. As long as claims submitted to the fund for payment exceed its collections, the period of delinquency will increase.

The following analysis presented in Table 41 highlights the financial problems the fund has experienced in the last four fiscal years.

TABLE 41
SPECIAL WORKERS' COMPENSATION FUND
SUMMARY OF FINANCIAL ACTIVITY
FISCAL YEARS 1979 - 1983

	Fiscal Year			
	1980	1981	1982	1983
Assessment Rate	8%	6%	8%	15%
Receipts:				
Collections	\$11,326,000	\$13,344,000	\$16,971,000	\$37,686,000
Investment Income	400,000	203,000	89,000	416,000
Total	<u>\$11,726,000</u>	<u>\$13,547,000</u>	<u>\$17,060,000</u>	<u>\$38,102,000</u>
Disbursements:				
Claims Paid	\$18,412,000	\$16,066,000	\$16,927,000	\$34,319,000
Administration			98,000	125,000
Total	<u>\$18,412,000</u>	<u>\$16,066,000</u>	<u>\$17,025,000</u>	<u>\$34,444,000</u>
Cash and Investments at June 30	\$ 3,041,000	\$ 522,000	\$ 557,000	\$ 4,215,000
Estimated Unpaid Claims at June 30	N/A	<u>\$18,053,000</u>	<u>\$36,423,000</u>	<u>49,467,000</u>
Amount to be Financed from Future Collections	N/A	<u>\$17,531,000</u>	<u>\$35,866,000</u>	<u>\$45,252,000</u>

NOTE: The assessment rate is set on a calendar year basis. The rates shown on the foregoing schedule are the rates to which the fiscal year receipts relate. In effect, the receipts during a given fiscal year are for assessments for the preceding calendar year.

Unpaid claims have increased over the past few years despite the increase in collections. The assessment rate for calendar year 1983 was increased to 17 percent and will be reflected in fiscal year 1984 collections. The assessment rate for calendar year 1984 is currently set at 20 percent, as previously discussed, and will be reflected in fiscal year 1985 collections. Setting of the assessment rate and the establishment of fair workers' compensation benefits are very complex processes involving very sensitive social and fiscal issues. The Department of Labor and Industry is responsible for the financial health of the fund and the overall administration of the workers' compensation law. As such, the department needs to continually consider the overall controversial climate relating to workers' compensation costs in the state and to temper this knowledge with an adequate assessment rate to provide the financing necessary for the fund to meet its obligations.

IV.C. TEACHERS RETIREMENT FUND: CURRENT FUNDING STATUS

[Note: Although not discussed in this report, the Teachers Retirement Fund's financial status has improved since June 30, 1983 due to legislative action taken in 1984.]

The funding ratio of the Teachers Retirement Fund has not significantly improved since 1973 and it appears that the fund will not be fully funded by the target date of June 30, 2009. Table 42 shows that for the past 12 years the funding ratio has remained relatively stable, ranging from 50 to 57 percent. This funding ratio is significantly below that of the other major state pension plans which are approaching an 80 percent funding level. The actuarial reports for the past few years have included the statement that even with the additional support rate currently being contributed by the state, the funding rate of the Teachers Retirement Fund is inadequate.

The two components of the funding ratio are net assets and required reserves (the amount required to fund plan benefits).¹ The law provides a number of assumptions that are used by the actuaries when calculating required reserves, including an assumed 5 percent annual growth rate for investments of the fund and an assumed 3.5 percent annual growth rate for members' salaries. The unfunded liability (unfundedness) of \$1.489 billion as of June 30, 1983 is the amount by which required reserves exceed net assets of the fund.

The unfundedness has occurred because pension benefits which have been earned in the past were not fully financed. Also, unfundedness can be affected significantly when pension benefits undergo major amendments. For example, pension benefits were significantly increased in 1973 when the state began basing annuities on the high five year average salary for each retiree. Because of this major change in pension benefits, TRA's funding ratio dropped from 71.6 percent in 1972 to 53.4 percent in 1973.

Normally, funding of the Teachers Retirement Fund is accomplished three ways:

1. Employees contribute 4.5 percent of their salary. (Note: certain older employees belong to the "Basic" plan which is not coordinated with the social security system. These employees contribute 8.5 percent of their salary. New employees can not join this old plan.)

¹Minn. Stat. Section 356.215.

2. The state, on behalf of the schools, matches the employees' contributions plus an additional 3.05 percent of employee salaries. This additional contribution is intended to finance the unfundedness.
3. Net assets are invested and investment earnings are deposited with the fund.

TABLE 42

TEACHERS RETIREMENT FUND

TWELVE YEAR SUMMARY OF NET ASSETS, UNFUNDED LIABILITIES,
REQUIRED RESERVES, AND FUNDING RATIOS

As of June 30	Net Assets	Unfunded Liabilities	Required Reserves	Funding Ratio
1972	\$ 389,406,363	\$ 154,289,274	\$ 543,695,637	71.6%
1973	468,337,531	409,397,553	877,735,084	53.4%*
1974	538,893,416	539,626,284	1,078,633,461	50.0%
1975	586,870,721	545,075,979	1,131,946,700	51.8%
1976	665,810,655	598,123,281	1,293,764,171	51.5%
1977	822,410,185	640,572,428	1,462,982,613	56.2%
1978	940,345,339	792,431,347	1,732,776,686	54.3%
1979	1,064,237,842	1,015,936,134	2,080,173,976	51.2%
1980	1,232,115,128	1,129,006,116	2,361,121,244	52.2%
1981	1,462,538,605	1,228,407,275	2,690,945,880	54.4%
1982	1,710,750,595	1,397,335,069	3,108,085,664	55.0%
1983	1,983,579,211	1,488,684,825	3,472,264,036	57.1%

*The introduction into TRA Laws of the High 5 Formula program created a significant increase in the amount of the required reserves. This resulted in a decrease of the funding ratio from 71.6% to 53.4%.

These funding sources were changed significantly in 1982.¹ This legislation, enacted to help balance the state budget, reduced employer contributions by four percent of the salaries during the six-month period from January 1, 1983 through June 30, 1983. Conversely, employee contributions were increased by two percent of salaries during the twelve-month period from January 1, 1983 through December 31, 1983. The Legislature appropriated \$5,840,000 from the General Fund to the various pension funds to reimburse them for any negative discrepancies between the adjusted employer and employee contributions and the normal contributions expected during that period. Also,

¹Third Special Session, Chapter 1, Article II, Section 2, Subd. 1.

\$2,000,000 was appropriated to reimburse the pension funds for any investment income lost due to the delay in receipt of the contributions, and \$640,000 was appropriated to provide for increased contribution refunds. Of the above appropriations, \$2.8 million has been allocated to TRA. The original legislation was amended in 1983. This legislation reduced the twelve-month period during which employees were required to pay the additional two percent contribution, to six months, ending June 30, 1983.¹ No additional amount was appropriated to reimburse the pension funds for the contribution reduction of two percent of salaries between July 1, 1983 and December 31, 1983.

The unfunded liability at June 30, 1983 was \$1.489 billion, an increase of \$91 million during fiscal year 1983. Although the total dollar unfundedness increased, the fund did show an increase in its funding ratio, from 55.04 percent to 57.13 percent. This occurred because net assets grew at a higher percentage than required reserves.

Table 43 shows that the increase in the unfunded accrued liability is due to various offsetting differences between the actuarial assumptions required by state statute and the actual activity during fiscal year 1983.

TABLE 43
TEACHERS RETIREMENT FUND
FACTORS AFFECTING INCREASES IN UNFUNDED ACCRUED LIABILITY
FISCAL YEARS 1982 AND 1983

	Fiscal Year Increases (Decreases)	
	1982	1983
Actual rate of salary increases exceeded the assumed rate of 3.5 percent	\$223,323,301	\$216,437,411
Actual employer and employee contributions fell short of the required minimum	24,889,955	56,977,565
Post-retirement mortality differed from actuarial assumptions	(934,341)	934,374
Investment income exceeded the assumed rate of 5 percent	(47,180,491)	(73,873,245)
Adjustment of prior year assets	(2,438,454)	-0-
Membership terminations prior to retirement were at a greater rate than expected	(28,732,176)	(109,126,349)
Net Increase in Unfunded Accrued Liability	<u>\$168,927,794</u>	<u>\$ 91,349,756</u>

¹Laws 1983, Chapter 301, Section 224, Subd. 1.

As can be seen, the increase in the unfunded liability is significantly less in fiscal year 1983 than it was in fiscal year 1982. This improved the funding ratio for fiscal year 1983, however it cannot be assumed that future years will follow in this pattern. Many of the items affecting the fiscal year 1983 unfunded liability are peculiar to that year, as shown by the following examples:

- 1) Actual employer and employee contributions fell short of the required minimum. - The legislative changes in fiscal year 1983, discussed previously, resulted in decreased employer and employee contributions estimated by the department to be approximately \$10 million.
- 2) Investment income exceeded the assumed rate of 5 percent. - During fiscal year 1983, some of TRA's investments were transferred to various outside money managers. This required that many stocks held by TRA be sold, so that each money manager could invest the proceeds. TRA properly recognized the large gain resulting from these stock sales in fiscal year 1983, although much of the gain actually applied to previous years.
- 3) Membership terminations prior to retirement were at a greater rate than expected. - TRA memberships decreased by 5,742 members during fiscal year 1983, as a result of the teacher layoffs in recent years.

The above items are not expected to impact TRA in the future to the extent that they did in fiscal year 1983.

It should be noted that the statutory assumptions utilized for actuarial estimations also affect the calculation of required reserves. The net actuarial loss, discussed above, reflected only the differences between actual 1983 experience and the statutory assumptions. These assumptions further impact total required reserves. Thus, future net actuarial losses could continue to be realized if these assumptions are maintained.

The appropriate funding level for pension plans is a basic policy decision. Normally, governments as well as private industry, attempt to fully fund their pension plans over many years. There are extreme cases when full funding is not attempted, such as the federal social security system. With the enactment of the Employee Retirement Income Security Act of 1974 (ERISA), the federal government has taken the initiative to impose controls and requirements for full funding on private pension funds. The federal government has been considering extending these requirements to pension plans of state and local units of government. Furthermore, there are many advantages for a pension plan to become fully funded as soon as possible. Minimum contribution payments are lower in earlier years because interest income has a longer period to accrue and can contribute more towards reducing the unfunded liability balance. As the required deadline for full funding approaches (2009), there is less time to accrue interest on investments which will force contribution rates to increase if the unfunded liability is to be eliminated. Also, by achieving and maintaining a full funding level, the pension plan ensures that the benefits of future recipients are well protected. In the event the plan terminates or is significantly changed, full funding would enable paying the vested benefits of future retirees without requiring the collection of additional contributions.

For example, if TRA was fully funded, then the additional contribution of 3.05 percent of salary would no longer have to be paid by the state on behalf of the school districts.

Finally, full funding eliminates the problems that demographic changes may introduce for pension plans. An example of this problem is evidenced by the social security system. By making current employees and employers fund the benefits of current retirees, the burden fluctuates widely as the ratio of retired to active employees changes. This fluctuation would not occur if the social security system were fully funded from its inception. It is important to remember that pension plans are designed to set aside sufficient monies to finance future pension benefits. A fully funded plan assures employees that they will receive their pension benefits upon retirement and avoids such financing problems as are now being faced by the social security system and, to a lesser degree, by the Teachers Retirement Fund.

Since the actuarial assumptions play such a key role in funding decisions, they deserve close scrutiny. Our evaluation, using the current statutory assumptions shows that TRA's funding structure needs reform. During fiscal year 1983, the Department of Finance commissioned Winklevoss & Associates, Inc. to review the status of all state retirement funds and to take a critical look at the actuarial assumptions being used. Their study found that even with different assumptions, TRA's funding structure is in need of revision. The Department of Finance is considering several possible changes to the pension laws. Solutions will become more difficult in the future because there will be fewer years over which they can be financed. TRA management is aware of the problem surrounding the funding issue. TRA should continue to work with the Department of Finance and the Legislature in seeking a solution to this problem.

IV.D. MAXIMUM EFFORT SCHOOL LOAN FUND

The maximum effort school aid law (Minn. Stat. Section 124.36 to 124.47) provides loans to school districts which have such low property valuations that the levies required for debt service are excessive. Currently, a district qualifies for assistance if a levy of 16 mills on the Equalization Aid Review Committee (EARC) valuation is not sufficient to meet its debt service needs. At June 30, 1983, loans outstanding in the Maximum Effort School Loan Fund totaled approximately \$47.7 million. These loans to 15 school districts include five debt service loans (\$1.5 million), eleven capital loans (\$44.7 million), and three school construction loans (\$1.5 million). The loans were financed from the proceeds of general obligation bonds (school loan bonds) sold by the state.

Districts can obtain either a debt service or capital loan, or both; however, school construction loans were discontinued in 1959. Debt service loans are available annually to help make principal and interest payments on bonds already issued by the district, and can be as large as one percent of the district's total bonded debt. Capital loans are available to supplement the proceeds of locally issued bonds to acquire sites for school buildings or to acquire, construct, remodel, equip or furnish school buildings.

School district principal and interest payments on the loans are deposited to the loan repayment account within the Maximum Effort School Loan Fund. Minn. Stat. Section 124.46, Subd. 3 provides that on November 1 each year there shall be transferred to the Debt Service Fund from the loan repayment account, a sum of money which, when added to the balance in the Debt Service Fund, will be sufficient to pay principal and interest on the school loan bonds coming due within the next ensuing year and to and including July 1 of the second ensuing year. Because of insufficient moneys in the loan repayment account for the past several years, General Fund support has been necessary to make the required transfers. In 1983 the Legislature appropriated \$2,719,000 and \$3,672,000 to the loan repayment account from the General Fund for fiscal years 1984 and 1985 Debt Service Fund transfers.¹ The purpose of these appropriations is to prevent a statewide property² tax levy if sufficient moneys were not available in the loan repayment account. On November 1, 1983, \$1,795,094 of the \$2,719,000 appropriation was needed to make the required transfer.

The financial problems of the Maximum Effort School Loan Fund have resulted in part because the maximum effort school aid law has been amended in recent years to allow school districts to defer principal and interest on both debt service and capital loans.³ It is uncertain that the capital loans, totaling over \$40 million, will be collected because of various factors affecting the ability of districts to repay the outstanding amounts, including:

- The mill rate established by the Legislature for use in calculating the maximum effort debt service levy and the adjusted assessed valuation, established by the EARC, affect the amount of loan repayments required from the school districts.
- Minn. Stat. Section 124.43, Subd. 4 provides that in the event any capital loan is not repaid within 30 years after it is granted, the liability of the school district thereon shall be satisfied and discharged and interest thereon shall cease.

The Legislature, in 1983, took various actions which recognize the fact that certain of the loans will not be repaid. As stated earlier, specific General Fund appropriations were made to provide funds for repayment of the general obligation bonds issued to finance the loans. In addition, current law now provides that the actual approval for future capital loans will be made by the Legislature,⁴ rather than the Commissioner of Education, who approved previous loans.⁴ The commissioner will recommend future loans to the Legislature,

¹Laws of 1983, Chapter 314, Article 6, Subd. 17.

²Minn. Stat. Section 124.46, Subd. 3.

³Minn. Stat. Sections 124.42, Subd. 4 and 124.43, Subd. 4 provides repayment of the loans shall be made by the school districts when collections of the maximum effort debt service levy exceed the district's required debt service levy.

⁴Laws of 1983, Chapter 314, Article 7, Section 25.

and as part of the loan review process, must prepare information on the estimated yearly repayment by the school districts and the amount of future repayments that may be forgiven after the term of the loan. The Commissioner of Finance must approve the methodology used in the calculations. In the future, if the Legislature approves a loan where there will be an estimated default or forgiveness of principal and interest, they will have necessary information to determine the amount of future General Fund appropriations which will be necessary for required debt service transfers. As such, the state will be recognizing that a portion of this school district funding is really a grant rather than a loan.

APPENDICES

APPENDIX

NOTE ON DATA SOURCES

Primary sources for summary revenue and expenditure data were financial reports prepared by the Department of Finance. Detailed financial data on specific revenues and expenditures were derived from the financial reports and Statewide Accounting records. Both summary and detailed data often had to be adjusted to achieve comparability between fiscal years. Adjustments were basically obtained from Statewide Audit working papers maintained by the Office of the Legislative Auditor.

Appendix Tables I.A to I.C provide a reconciliation between financial reports and expenditures reported in Section I. These amounts have been adjusted for interfund fiscal activity so as to avoid double counting of expenditures.

Appendix Table I.D provides a reconciliation between financial reports and amounts utilized in Section II to show trends in total General Fund revenues, expenditures, and fund balances for fiscal years 1980 - 1983.

Appendix Tables II.A to II.D show detailed expenditure amounts for the General Fund, federal grants, miscellaneous expenditures, and selected dedicated funds. These tables also document the functional code used to summarize expenditures by major function as reported in Section I of the report.

Appendix Table III shows the amount of expenditure shifts made to the General Fund by program during the 1982-83 biennium.

Appendix Table IV shows the amount of expenditure reduction made to the General Fund by program for fiscal years 1982 and 1983.

Appendix Table V reports other non-economic factors that influence the comparability of expenditures between fiscal years 1982 and 1983.

Appendix Table VI shows the estimated impact of tax law changes on revenues for fiscal years 1982 - 1984. The table shows the impact of both state and federal law changes during the period.

APPENDIX TABLE I.A

EXPENDITURE DATA RECONCILED TO FINANCIAL REPORTS:
ADJUSTED FOR INTERFUND FISCAL ACTIVITY
FISCAL YEAR 1981

DATA SOURCES/EXPLANATIONS	GENERAL FUND NONDEDICATED	FED MONIES	HIGHWAY FUNDS	EMPLOYMENT COMP FDS	MISC DEDICATED FUNDS	TOTALS
EXPENDITURES PER FINANCIAL REPORT:						
GENERAL FUND	\$3,375,771					\$3,375,771
SPECIAL REVENUE FUNDS					\$1,920,744	\$1,920,744
CAPITAL PROJECT FUNDS					\$107,612	\$107,612
DEBT SERVICE FUND					\$109,109	\$109,109
EXPENDABLE TRUST FUNDS					\$150,641	\$150,641
TOTAL GOVERNMENTAL FUND EXPEND	\$3,375,771	\$0	\$0	\$0	\$2,288,106	\$5,663,877
REALLOCATIONS:						
EXTRACT FEDERAL REVENUES	(\$3,018)	\$1,282,372			(\$1,279,354)	\$0
HIGHWAY FUNDS (NET OF FED \$):						\$0
TRUNK HIGHWAY FUND			\$240,407		(\$240,407)	\$0
HWY USER TAX DIST FUND			\$6,947		(\$6,947)	\$0
TRANSPORTATION FUND			\$9,782		(\$9,782)	\$0
MUNICIPAL ST AID STREET FUND			\$34,627		(\$34,627)	\$0
COUNTY ST AID HIGHWAY FUND			\$94,598		(\$94,598)	\$0
EMPLOYMENT COMP MONIES:						\$0
UNEMPLOYMENT COMP FUND		\$0		\$330,603	(\$330,603)	\$0
DEBT SERVICE TRANSFERS	\$88,065	\$238	\$9,588		(\$97,891)	\$0
DEDICATED COLLEGE \$ IN GEN FD	(\$45,550)				\$45,550	\$0
COST OF CARE IN GENERAL FUND						\$0
FEDERAL SHARE OF MED ASST	(\$56,687)					(\$56,687)
LOCAL SHARE OF MED ASST	(\$6,299)				\$6,299	\$0
VETS HOME-FED SHARE	(\$3,023)	\$3,023				\$0
NET REALLOCATIONS	(\$26,512)	\$1,285,633	\$395,949	\$330,603	(\$2,042,360)	(\$56,687)
ENTITY ADDITIONS/DELETIONS						
ADDITIONS:						
SPECIAL WORKERS COMP FD				\$34,119		\$34,119
FED COUNTY RD & BRIDGE		\$29,752				\$29,752
MHFA SUBSIDIES		\$33,702				\$33,702
HECB STUDENT LOAN INT SUB		\$12,247				\$12,247
STATE UNIV REV BD FD		\$119				\$119
DELETIONS:						
HISTORICAL SOCIETY		(\$292)			(\$9,595)	(\$9,887)
NET ENTITY CHANGES	\$0	\$75,528	\$0	\$34,119	(\$9,595)	\$100,052
OTHER ADJUSTMENTS						
EXPENDITURE SHIFTS	\$242,000					\$242,000
INTERFUND TRANSACTIONS	(\$31,739)	(\$16,774)				(\$48,513)
MISC ADJ.	\$396	(\$26,497)			\$11,135	(\$14,966)
NET OTHER ADJUSTMENTS	\$210,657	(\$43,271)	\$0	\$0	\$11,135	\$178,521
TOTAL EXPENDITURE BASE--1981	\$3,559,916	\$1,317,890	\$395,949	\$364,722	\$247,286	\$5,885,763

APPENDIX TABLE I.B

EXPENDITURE DATA RECONCILED TO FINANCIAL REPORTS:
ADJUSTED FOR INTERFUND FISCAL ACTIVITY
FISCAL YEAR 1982

DATA SOURCES/EXPLANATIONS	GENERAL FUND NONDEDICATED	FED MONIES	HIGHWAY FUNDS	EMPLOYMENT COMP FDS	MISC DEDICATED FUNDS	TOTALS
EXPENDITURES PER FINANCIAL REPORT:						
GENERAL FUND	\$4,185,456					\$4,185,456
SPECIAL REVENUE FUNDS					\$1,920,291	\$1,920,291
CAPITAL PROJECT FUNDS					\$143,762	\$143,762
DEBT SERVICE FUND					\$116,639	\$116,639
EXPENDABLE TRUST FUNDS					\$179,297	\$179,297
TOTAL GOVERNMENTAL FUND EXPEND	\$4,185,456	\$0	\$0	\$0	\$2,359,989	\$6,545,445
REALLOCATIONS:						
EXTRACT FEDERAL REVENUES	(\$4,256)	\$1,209,500			(\$1,205,244)	\$0
HIGHWAY FUNDS (NET OF FED \$):						\$0
TRUNK HIGHWAY FUND			\$250,054		(\$250,054)	\$0
HWY USER TAX DIST FUND			\$6,738		(\$6,738)	\$0
TRANSPORTATION FUND			\$21,752		(\$21,752)	\$0
MUNICIPAL ST AID STREET FUND			\$41,099		(\$41,099)	\$0
COUNTY ST AID HIGHWAY FUND			\$111,777		(\$111,777)	\$0
EMPLOYMENT COMP FUNDS:						\$0
SPECIAL WORKERS COMP FUND				\$35,395	(\$35,395)	\$0
UNEMPLOYMENT COMP FUND		\$0		\$386,823	(\$386,823)	\$0
DEBT SERVICE TRANSFERS	\$103,743	\$199	\$8,826		(\$112,768)	\$0
DEDICATED COLLEGE \$ IN GEN FD	(\$51,575)				\$51,575	\$0
COST OF CARE IN GENERAL FUND						\$0
FEDERAL SHARE OF MED ASST	(\$67,050)					(\$67,050)
LOCAL SHARE OF MED ASST	(\$7,450)				\$7,450	\$0
VETS HOME-FED SHARE	(\$3,269)	\$3,269				\$0
NET REALLOCATIONS	(\$29,857)	\$1,212,968	\$440,246	\$422,218	(\$2,112,625)	(\$67,050)
ENTITY ADDITIONS/DELETIONS						
ADDITIONS:						
FED COUNTY RD & BRIDGE		\$34,356				\$34,356
MHFA SUBSIDIES		\$42,650				\$42,650
HECB STUDENT LOAN INT SUB		\$15,299				\$15,299
STATE UNIV REV BD FD		\$119				\$119
CORRECTIONS INDUST FD		\$87				\$87
DELETIONS:						
HISTORICAL SOCIETY		(\$450)			(\$9,465)	(\$9,915)
NET ENTITY CHANGES	\$0	\$92,061	\$0	\$0	(\$9,465)	\$82,596
OTHER ADJUSTMENTS						
EXPENDITURE SHIFTS	(\$174,319)					(\$174,319)
INTERFUND TRANSACTIONS	(\$45,186)	(\$601)				(\$45,787)
MISC ADJ.	\$743	(\$45,924)			\$15,381	(\$29,800)
NET OTHER ADJUSTMENTS	(\$218,762)	(\$46,525)	\$0	\$0	\$15,381	(\$249,906)
TOTAL EXPENDITURE BASE--1982	\$3,936,837	\$1,258,504	\$440,246	\$422,218	\$253,280	\$6,311,085

APPENDIX TABLE I.C

EXPENDITURE DATA RECONCILED TO FINANCIAL REPORTS:
ADJUSTED FOR INTERFUND FISCAL ACTIVITY
FISCAL YEAR 1983

DATA SOURCES/EXPLANATIONS	GENERAL FUND NONDEDICATED	FED MONIES	HIGHWAY FUNDS	EMPLOYMENT COMP FDS	MISC DEDICATED FUNDS	TOTALS
EXPENDITURES PER FINANCIAL REPORT:						
GENERAL FUND	\$3,403,038					\$3,403,038
SPECIAL REVENUE FUNDS					\$1,654,254	\$1,654,254
CAPITAL PROJECT FUNDS					\$140,220	\$140,220
DEBT SERVICE FUND					\$130,925	\$130,925
EXPENDABLE TRUST FUNDS					\$810,360	\$810,360
TOTAL GOVERNMENTAL FUND EXPEND	\$3,403,038	\$0	\$0	\$0	\$2,735,759	\$6,138,797
REALLOCATIONS:						
EXTRACT FEDERAL REVENUES	(\$5,187)	\$1,318,453			(\$1,313,266)	\$0
HIGHWAY FUNDS (NET OF FED \$):						\$0
TRUNK HIGHWAY FUND			\$269,895		(\$269,895)	\$0
HWY USER TAX DIST FUND			\$6,709		(\$6,709)	\$0
TRANSPORTATION FUND			\$21,017		(\$21,017)	\$0
MUNICIPAL ST AID STREET FUND			\$37,123		(\$37,123)	\$0
COUNTY ST AID HIGHWAY FUND			\$148,685		(\$148,685)	\$0
EMPLOYMENT COMP FUNDS:						\$0
UNEMPLOYMENT COMP FUND		\$0		\$588,774	(\$588,774)	\$0
SPECIAL WORKERS COMP FUND				\$43,088	(\$43,088)	\$0
DEBT SERVICE TRANSFERS	\$110,251	\$187	\$8,560		(\$118,998)	\$0
DEDICATED COLLEGE & IN GEN FD	(\$61,523)				\$61,523	\$0
COST OF CARE IN GENERAL FUND						\$0
FEDERAL SHARE OF MED ASST	(\$72,444)	(1)				(\$72,444)
LOCAL SHARE OF MED ASST	(\$8,049)				\$8,049	\$0
VETS HOME-FED SHARE	(\$4,889)	\$4,889				\$0
NET REALLOCATIONS	(\$41,841)	\$1,323,529	\$491,989	\$631,862	(\$2,477,983)	(\$72,444)
ENTITY ADDITIONS/DELETIONS						
ADDITIONS:						
MHFA SUBSIDIES		\$46,304				\$46,304
HECB STUDENT LOAN INT SUB		\$7,868				\$7,868
STATE UNIV REV BD FD		\$119				\$119
NET ENTITY CHANGES	\$0	\$54,291	\$0	\$0	\$0	\$54,291
OTHER ADJUSTMENTS						
EXPENDITURE SHIFTS	\$479,541					\$479,541
INTERFUND TRANSACTIONS	(\$48,439)	(\$2,556)				(\$50,995)
MISC ADJ.	\$0	(\$40,526)			(\$6,745)	(\$47,271)
NET OTHER ADJUSTMENTS	\$431,102	(\$43,082)	\$0	\$0	(\$6,745)	\$381,275
TOTAL EXPENDITURE BASE--1983	\$3,792,299	\$1,334,738	\$491,989	\$631,862	\$251,031	\$6,501,919

APPENDIX TABLE I.D

STATE GENERAL FUND

REVENUES, EXPENDITURES, AND FUND BALANCES
 RECONCILIATIONS TO FINANCIAL REPORTS
 FISCAL YEARS 1980 TO 1983
 (In Million \$)

	Fiscal Year			
	1980	1981	1982	1983
REVENUES:				
Amounts Presented in Annual Financial Reports:				
Revenues (Net)	\$3,174	\$3,307	\$3,686	\$4,068
Transfers In and Other Sources	67	20	2	49
Total Financing Sources	<u>\$3,241</u>	<u>\$3,327</u>	<u>\$3,688</u>	<u>\$4,117</u>
Adjustments:				
Cancellation of Prior Encumbrances ⁽¹⁾	(9)			
Miscellaneous	<u>(3)</u>	<u>(6)</u>		
Revenues Reported in Section II	<u>\$3,229</u>	<u>\$3,321</u>	<u>\$3,688</u>	<u>\$4,117</u>
EXPENDITURES:				
Amounts Presented in Annual Financial Reports:				
Expenditures (Net)	\$3,232	\$3,322	\$4,121	\$3,339
Transfers Out and Other Uses	171	135	172	148
Total Financing Uses	<u>\$3,403</u>	<u>\$3,457</u>	<u>\$4,293</u>	<u>\$4,487</u>
Adjustments:				
School Aids Deferred from '81 to '82		242	(242)	
Miscellaneous		<u>(2)</u>	<u>(9)</u>	
Expenditures Reported in Section II	<u>\$3,401</u>	<u>\$3,690</u>	<u>\$4,051</u>	<u>\$3,487</u>
ENDING FUND BALANCE:				
Amounts Presented in Annual Financial Reports:	\$ 149	(\$ 20)	(\$ 624)	\$ 5
Adjustments:				
Prior Period Adjustments ⁽²⁾ from Change in Accounting Recognition				
1981 Changes	(42)			
School Aids Deferred from '81 to '82		(242)		
Miscellaneous	<u>1</u>			
Ending Fund Balances Reported in Section II	<u>\$ 108</u>	<u>(\$ 262)</u>	<u>(\$ 624)</u>	<u>\$ 5</u>

(1) In the earlier years, encumbrances were considered part of expenditures for financial reporting purposes. Any cancelled encumbrances were then considered to be another financing source in the ensuing years. These earlier amounts have been adjusted in an attempt to be comparable to the later years.

(2) As financial reporting has become more sophisticated, it has been necessary to record several retroactive adjustments to properly recognize many transactions. The need for such adjustments was substantially eliminated by 1981.

APPENDIX TABLE II. A

STATE GENERAL FUND
EXPENDITURES BY CATEGORY AND FUNCTION
FISCAL YEARS 1980 - 1983
(000's OMITTED)

EXPENDITURE CATEGORY	FNCT CODE	FY1980	FY1981	FY1982	FY1983
I. STATE GOVERNMENT OPERATIONS					
CONSTITUTIONAL OFFICERS:					
ATTORNEY GENERAL	6	\$8,357	\$9,411	\$10,136	\$10,727
GOVERNOR/LT. GOVERNOR	6	\$1,513	\$1,371	\$1,430	\$1,559
SECRETARY OF STATE	6	\$678	\$914	\$948	\$952
STATE TREASURER	6	\$812	\$678	\$896	\$1,008
STATE AUDITOR	6	\$241	\$247	\$269	\$278
SUBTOTAL		\$11,601	\$12,821	\$13,679	\$14,524
JUDICIARY:					
DISTRICT COURT JUDGES	6	\$10,948	\$11,766	\$11,748	\$12,293
SUPREME COURT	6	\$3,044	\$3,697	\$4,171	\$4,952
SUBTOTAL		\$13,992	\$15,463	\$15,919	\$17,245
LEGISLATIVE:					
HOUSE OF REPRESENTATIVES	6	\$9,305	\$10,664	\$10,824	\$12,108
SENATE	6	\$5,941	\$7,270	\$6,895	\$7,915
LEGISLATIVE AUDITOR	6	\$1,837	\$2,079	\$2,170	\$2,124
REVISOR OF STATUTES	6	\$1,199	\$1,573	\$1,978	\$2,298
OTHER LEGISLATIVE COMMISSIONS	6	\$1,313	\$1,956	\$1,323	\$1,137
SUBTOTAL		\$19,595	\$23,542	\$23,190	\$25,582
CENTRAL FINANCIAL AND ADMINISTRATIVE:					
REVENUE	6	\$23,978	\$24,862	\$28,054	\$31,079
ADMINISTRATION	6	\$14,464	\$14,893	\$15,187	\$15,489
FINANCE	6	\$4,975	\$5,050	\$5,160	\$5,627
EMPLOYEE RELATIONS	6	\$2,845	\$2,979	\$3,087	\$3,208
INVESTMENT BOARD	6	\$938	\$1,071	\$1,213	\$1,203
SUBTOTAL		\$47,200	\$48,855	\$52,701	\$56,606
DIRECT SERVICE DEPARTMENTS:					
NATURAL RESOURCES	N	\$35,782	\$40,463	\$39,838	\$44,165
PUBLIC WELFARE	H	\$19,599	\$20,334	\$20,403	\$22,972
EDUCATION	E	\$10,508	\$10,475	\$10,797	\$10,866
PUBLIC SAFETY	P	\$11,912	\$11,987	\$13,028	\$13,875
CORRECTIONS	P	\$9,382	\$9,408	\$9,449	\$9,731
HEALTH	H	\$8,531	\$8,962	\$9,025	\$8,894
ENERGY, PLANNING, & DEVELOPMENT	6	\$9,198	\$9,761	\$8,745	\$7,394
COMMERCE	S	\$5,540	\$5,778	\$6,953	\$6,546
AGRICULTURE--EXC. GRAIN INSPEC.	N	\$5,592	\$6,028	\$6,399	\$6,484

APPENDIX TABLE II.A (Cont'd.)

STATE GENERAL FUND
EXPENDITURES BY CATEGORY AND FUNCTION
FISCAL YEARS 1980 - 1983
(000's OMITTED)

EXPENDITURE CATEGORY	FNCT CODE	FY1980	FY1981	FY1982	FY1983
AGRICULTURE--GRAIN INSPEC.	N	\$7,099	\$8,398	\$0	\$0
POLLUTION CONTROL	N	\$4,708	\$4,853	\$5,660	\$5,709
ZOOLOGICAL GARDENS	N	\$5,005	\$5,059	\$4,919	\$5,235
LABOR AND INDUSTRY	S	\$5,623	\$5,805	\$6,506	\$6,856
MILITARY AFFAIRS	P	\$3,721	\$3,979	\$4,274	\$4,318
PUBLIC SERVICE/UTILITIES	S	\$3,586	\$3,682	\$3,798	\$4,139
STATE UNIVERSITY BOARD	E	\$2,988	\$3,004	\$3,571	\$4,066
NECC	E	\$3,339	\$3,400	\$3,247	\$2,252
COMMUNITY COLLEGE BOARD	E	\$2,397	\$2,496	\$3,062	\$3,797
MECB	E	\$1,473	\$1,580	\$1,514	\$2,086
ANIMAL HEALTH BOARD	H	\$1,034	\$1,070	\$1,239	\$1,080
ECONOMIC SECURITY	S	\$2,987	\$4,351	\$1,236	\$1,444
HUMAN RIGHTS	S	\$922	\$964	\$1,101	\$1,183
MEDIATION SERVICES	S	\$816	\$932	\$1,007	\$980
OTHER DEPARTMENTS	O	\$8,459	\$9,279	\$9,514	\$10,301
SUBTOTAL		\$170,201	\$182,048	\$175,285	\$184,373
TOTAL NON-INSTITUTIONS		\$262,589	\$282,729	\$280,774	\$298,330
STATE INSTITUTIONS:					
STATE UNIVERSITIES	E	\$96,439	\$101,245	\$121,169	\$129,927
COMMUNITY COLLEGES	E	\$46,111	\$49,598	\$60,079	\$62,508
WELFARE INSTITUTIONS	H	\$122,479	\$133,911	\$140,409	\$148,954
CORRECTIONAL FACILITIES	P	\$32,234	\$35,051	\$38,074	\$43,488
VETERANS HOMES	H	\$4,081	\$5,129	\$6,194	\$7,449
SCHOOLS: BRAILLE & DEAF	E	\$3,884	\$4,184	\$4,921	\$5,135
TOTAL INSTITUTIONS		\$305,228	\$329,118	\$370,846	\$397,461
UNALLOCATED EXPENDITURES	O	\$10,088	\$16,070	\$9,901	\$9,331
LESS: REIMBURSEMENTS FROM OTHERS	O	(\$15,753)	(\$22,186)	(\$19,652)	(\$15,359)
TOTAL - STATE GOVERNMENT OPERATIONS		\$562,152	\$605,731	\$641,869	\$689,763
II. INTERGOVERNMENTAL TRANSFERS					
SCHOOL AIDS:					
FOUNDATION AIDS	E	\$644,413	\$653,818	\$749,871	\$409,164
CATEGORICAL AIDS:					
TRANSPORTATION	E	\$88,435	\$106,088	\$122,372	\$75,943
VOCATIONAL	E	\$108,528	\$123,546	\$131,867	\$117,866
SPECIAL EDUCATION	E	\$87,353	\$92,189	\$105,669	\$78,125

APPENDIX TABLE II.A (Cont'd.)

STATE GENERAL FUND
EXPENDITURES BY CATEGORY AND FUNCTION
FISCAL YEARS 1980 - 1983
(000's OMITTED)

EXPENDITURE CATEGORY	FNCT CODE	FY1980	FY1981	FY1982	FY1983
OTHER	E	\$30,336	\$33,829	\$41,029	\$27,943
SUBTOTAL: CATEGORICAL AIDS		\$314,652	\$355,652	\$400,937	\$299,877
CONTRIBUTIONS TO TEACHERS PENSION PLANS	E	\$137,833	\$150,773	\$159,178	\$137,275
SUBTOTAL: SCHOOL AIDS		\$1,096,898	\$1,160,243	\$1,309,986	\$846,316
AID TO U. OF MINNESOTA: MAINTENANCE & OPERATIONS CATEGORICAL	E E	\$174,320 \$47,823	\$171,479 \$46,231	\$206,493 \$44,939	\$210,271 \$47,259
SUBTOTAL: U. OF M.		\$222,143	\$217,710	\$251,432	\$257,530
AID TO OTHER LOCAL GOVTS. GENERAL SUPPORT:					
LOCAL GOVERNMENT AIDS	X	\$230,182	\$231,005	\$202,889	\$235,077
ATTACHED MACHINERY CREDIT	X	\$11,440	\$11,491	\$11,238	\$10,229
DNR PAYMENT IN LIEU	X	\$4,901	\$4,703	\$4,328	
SHARED TAXES:					
TACONITE AIDS	X	\$40,740	\$41,049	\$46,279	\$47,918
POLICE AND FIRE AIDS	P	\$19,219	\$20,837	\$21,899	\$22,031
INHERITANCE TAX	X	\$3,965	\$0		
SUBTOTAL: SHARED TAXES		\$63,924	\$61,886	\$68,178	\$69,949
SUBTOTAL: GENERAL SUPPORT AIDS		\$310,447	\$309,085	\$286,633	\$315,255
PROGRAM AIDS:					
WELFARE NON-BENEFIT AIDS:					
ADMINISTRATION	H	\$9,741	\$5,894	\$6,950	\$0
CSSA	H	N/A	N/A	N/A	\$47,564
SOCIAL SERVICE & OTHER	H	\$49,203	\$55,803	\$65,939	\$20,175
SUBTOTAL: WELFARE NON-BENFIT		\$58,944	\$61,697	\$72,889	\$67,739
PUBLIC TRANSIT	T	\$26,562	\$23,619	\$16,201	\$20,010
CORRECTIONS	P	\$10,323	\$11,467	\$12,513	\$13,045
COMMUNITY HEALTH	H	\$10,193	\$12,255	\$11,401	\$10,811
SHADE TREE	N	\$9,623	\$8,415	\$2,699	\$0
PLANNING & RECREATION	N	\$3,262	\$4,751	\$3,682	\$2,388
CONT. TO LOCAL PENSIONS	X	\$1,763	\$6,352	\$10,754	\$12,086
HISTORICAL SOCIETY	N	\$6,749	\$7,279	\$6,715	\$6,578
SUBTOTAL: PROGRAM AIDS		\$127,419	\$135,835	\$136,854	\$132,657

APPENDIX TABLE II.A (Cont'd.)

STATE GENERAL FUND
EXPENDITURES BY CATEGORY AND FUNCTION
FISCAL YEARS 1980 - 1983
(000's OMITTED)

EXPENDITURE CATEGORY	FNCT CODE	FY1980	FY1981	FY1982	FY1983
OTHER AIDS TO LOCAL GOVTS & MISC. ADJUSTMENTS	D	\$49,227	\$66,982	\$24,047	\$18,459
TOTAL AIDS TO OTHER LOCAL GOVERNMENTS		\$487,093	\$511,902	\$447,534	\$466,371
TOTAL INTERGOVERNMENTAL TRANSFERS		\$1,806,134	\$1,889,855	\$2,008,952	\$1,570,217
III. DIRECT PROPERTY TAX RELIEF					
PAYMENTS TO LOCAL GOVERNMENTS:					
HOMESTEAD	X	\$246,058	\$362,530	\$436,800	\$351,484
TACONITE HOMESTEAD	X	\$16,301	\$17,542	\$19,388	\$19,331
AGRICULTURAL	X	\$37,034	\$48,671	\$68,377	\$64,492
REDUCED ASSESSMENT	X			\$10,000	\$10,500
WETLANDS	X			\$3,123	\$3,160
NATIVE PRAIRIE	X			\$100	\$85
OTHER CREDITS	X				
SUBTOTAL: CREDITS TO LOCAL GOVTS.		\$299,393	\$428,743	\$537,788	\$449,052
REFUNDS TO INDIVIDUALS:					
RENTERS	X	\$75,799	\$83,000	\$90,783	\$2,887
HOMEOWNERS	X	\$67,265	\$51,444	\$25,945	\$28,811
SENIORS & DISABLED	X	\$67,678	\$59,200	\$57,411	\$3,958
TARGETED RELIEF	X			\$2,749	\$10,974
SUBTOTAL: REFUNDS TO INDIVIDUALS		\$210,742	\$193,644	\$176,888	\$46,630
TOTAL DIRECT PROPERTY TAX RELIEF		\$510,135	\$622,387	\$714,676	\$495,682
IV. SUBSIDIES TO INDIVIDUALS					
WELFARE BENEFITS:					
MEDICAL ASSISTANCE	H	\$184,965	\$221,274	\$282,151	\$312,369
G.A.M.C.	H	\$36,970	\$46,908	\$37,767	\$33,813
A.F.D.C.	H	\$49,770	\$71,633	\$81,172	\$78,557
GENERAL ASSISTANCE	H	\$8,835	\$17,882	\$13,609	\$14,971
M.S.A.	H	\$6,006	\$8,508	\$10,366	\$11,064
CATASTROPHIC HLTH EXPENSE	H	\$3,808	\$11,914	N/A	N/A
SUBTOTAL: WELFARE BENEFITS		\$290,354	\$378,119	\$425,065	\$450,774
HIGHER EDUCATION BENEFITS:					
STUDENT AIDS:					
SCHOLARSHIPS & GRANTS	E	\$16,942	\$24,981	\$24,733	\$22,836
AVTI TUITION SUBSIDY	E	\$1,735	\$1,329	\$1,085	\$1,273

APPENDIX TABLE II.A (Cont'd.)

STATE GENERAL FUND
EXPENDITURES BY CATEGORY AND FUNCTION
FISCAL YEARS 1980 - 1983
(000's OMITTED)

EXPENDITURE CATEGORY	FNCT CODE	FY1980	FY1981	FY1982	FY1983
STUDENT WORK-STUDY	E	\$2,502	\$3,476	\$2,594	\$2,751
PRIVATE COLLEGE AID	E	\$4,630	\$4,670	\$3,417	\$3,076
INTER. TUTION RECPTY.	E	\$10,189	\$4,992	\$6,746	\$5,284
SUBTOTAL: STUDENT AIDS		\$35,998	\$39,448	\$38,575	\$35,220
OTHER BENEFIT PROGRAMS:					
WEATHER. & HEATING	S	\$3,952	\$10,452	\$9,720	\$0
LONG-TERM SHEL. WORKSHOPS	S	\$4,891	\$5,802	\$6,355	\$6,649
STATE YOUTH PROGRAM	S	\$4,499	\$2,503	\$2,909	\$368
ECONOMIC OPPORTUNITY	S	\$1,037	\$1,211	\$1,181	\$1,124
VOCATIONAL REHABILITATION	S	\$412	\$1,526	\$3,847	\$4,394
MAYO MEDICAL SCHDOL	E	\$1,305	\$1,277	\$1,368	\$1,297
SUBTOTAL: OTHER BENEFITS		\$16,096	\$22,771	\$25,380	\$13,832
TOTAL SUBSIDIES TO INDIVIDUALS		\$342,448	\$440,338	\$489,020	\$499,826
V. DEBT SERVICE					
GENERAL OBLIGATION BOND:					
REPAYMENTS:					
PRINCIPAL	D	\$54,938	\$61,493	\$67,652	\$68,051
INTEREST	D	\$35,835	\$42,451	\$55,687	\$62,124
LESS: ACC. DEBT SERVICE	D	(\$2,600)	(\$15,879)	(\$19,596)	(\$19,924)
SUBTOTAL: GEN DBLG. BOND REPAY.		\$88,173	\$88,065	\$103,743	\$110,251
SHORT TERM INTEREST	D	\$0	\$5,931	\$31,559	\$83,752
TOTAL DEBT SERVICE		\$88,173	\$93,996	\$135,302	\$194,003
VI. INTERFUND TRANSFERS					
HOUSING FINANCE AGENCY	S	\$45,010	\$1,640	\$19,087	\$0
IRON RANGE RESC. & REHAB.	S	\$20,843	\$19,424	\$22,936	\$15,195
NORTHEAST MN ECON. PROT.	S	\$8,964	\$9,358	\$8,846	\$2,603
RETIREMENT FUNDS	S	\$11,241	\$0	\$5,494	\$13,054
OTHER FUNDS	D	\$5,930	\$7,766	\$4,854	\$6,967
TOTAL FUND TRANSFERS		\$91,988	\$38,188	\$61,217	\$37,819
TOTAL GENERAL FUND EXPENDITURES		\$3,401,030	\$3,690,495	\$4,051,036	\$3,487,310

APPENDIX TABLE II. A (Cont'd.)

STATE GENERAL FUND
EXPENDITURES BY CATEGORY AND FUNCTION
FISCAL YEARS 1980 - 1983
(000's OMITTED)

EXPENDITURE FUNCTION		FY 1980	FY 1981	FY 1982	FY 1983
EDUCATION	E	\$1,523,483	\$1,594,660	\$1,809,721	\$1,361,000
GENERAL AIDS/PROPERTY TAX RELF.	X	\$803,126	\$916,987	\$990,164	\$800,992
HEALTH & WELFARE	H	\$515,215	\$621,477	\$686,625	\$718,673
GENERAL GOVERNMENT	G	\$101,586	\$110,442	\$114,234	\$121,351
ECONOMIC SECURITY	S	\$120,323	\$73,428	\$100,976	\$64,535
PROTECTION OF PERSONS	P	\$86,791	\$92,729	\$99,237	\$106,488
NATURAL RESOURCES & ENVIRONMENT	N	\$77,820	\$85,246	\$69,912	\$70,559
OTHER	O	\$57,951	\$77,911	\$28,664	\$29,699
DEBT SERVICE	D	\$88,173	\$93,996	\$135,302	\$194,003
TRANSPORTATION	T	\$26,562	\$23,619	\$16,201	\$20,010
TOTAL		\$3,401,030	\$3,690,495	\$4,051,036	\$3,487,310

APPENDIX TABLE II. B

FEDERAL FUND
EXPENDITURE BY CATEGORIES AND FUNCTION
FISCAL YEARS 1981-83
(000's OMITTED)

EXPENDITURE CATEGORY	FNCT CODE	FY1981 EXPENDITURE	FY1982 EXPENDITURE	FY1983 EXPENDITURE
STATE GOVT OPERATIONS BY DEPARTMENT				
CONSTITUTIONAL OFFICERS:				
GOVERNOR	6	\$122	\$178	\$186
ATTORNEY GENERAL	6	\$103	\$148	\$146
SUBTOTAL		\$225	\$326	\$332
JUDICIARY:				
SUPREME COURT	6	\$542	\$164	\$10
LEGISLATIVE:				
LEGISLATIVE COMMISSIONS	6	\$15	\$14	\$10
CENTRAL FINANCIAL AND ADMIN:				
ADMINISTRATION	6	\$41	\$41	\$49
EMPLOYEE RELATIONS	6	\$109	\$19	\$0
SUBTOTAL		\$150	\$60	\$49
DIRECT SERVICE DEPARTMENTS:				
ECONOMIC SECURITY	S	\$60,220	\$63,483	\$65,230
HEALTH	H	\$8,520	\$9,805	\$8,220
PUBLIC WELFARE	H	\$5,926	\$5,222	\$6,334
EDUCATION	E	\$7,118	\$6,337	\$6,273
POLLUTION CONTRDL	N	\$4,403	\$4,939	\$5,366
MILITARY AFFAIRS	P	\$2,334	\$3,288	\$4,369
STATE UNIVERSITY BOARD	E	\$4,547	\$2,055	\$1,582
STATE COMMUNITY COLLEGE BOARD	E	\$2,738	\$2,778	\$2,636
ENERGY, PLANNING AND DEVEL.	6	\$1,658	\$3,342	\$1,987
PUBLIC SAFETY	P	\$2,721	\$2,546	\$1,950
NATURAL RESOURCES	N	\$3,266	\$1,756	\$1,000
LABOR AND INDUSTRY	S	\$976	\$1,060	\$1,156
CORRECTIONS	P	\$1,587	\$950	\$629
AGRICULTURE	N	\$801	\$502	\$657
HUMAN RIGHTS	S	\$344	\$410	\$335
TRANSPORTATION	T	\$374	\$264	\$238
KINNESOTA ARTS BOARD	N	\$145	\$126	\$157
MISCELLANEOUS BOARDS AND COMM.	6	\$885	\$433	\$149
SUBTOTAL		\$106,563	\$109,296	\$108,268
UNALLOCATED EXPENDITURES	0	\$2,933	\$367	\$173
HIGHWAY CONSTRUCTION	T	\$167,507	\$148,517	\$173,124
TOTAL: STATE GOVERNMENT OPERATIONS		\$279,935	\$258,744	\$281,966
INTERGOVERNMENTAL TRANSFER PAYMENTS:				

APPENDIX TABLE II. B (Cont'd.)

FEDERAL FUND
EXPENDITURE BY CATEGORIES AND FUNCTION
FISCAL YEARS 1981-83
(000's OMITTED)

EXPENDITURE CATEGORY	FNCT CODE	FY1981 EXPENDITURE	FY1982 EXPENDITURE	FY1983 EXPENDITURE
AID TO COUNTIES:				
SOCIAL SERVICES BLOCK GRANT	H	N/A	\$30,522	\$43,910
ADMINISTRATION FEDERAL AIDS	H	\$82,976	\$47,152	\$33,016
COUNTY ROADS & BRIDGES	T	\$29,752	\$34,356	\$34,569
FOOD STAMPS	H	\$5,413	\$7,143	\$5,562
CHILD WELFARE SERVICES	H	\$26	\$1,458	\$2,290
		-----	-----	-----
SUBTOTAL-AID TO COUNTIES		\$118,167	\$120,631	\$119,347
AID TO SCHOOL DISTRICTS:				
SPECIAL EDUCATION	E	\$17,963	\$17,942	\$18,857
VOCATIONAL EDUCATION	E	\$10,392	\$9,187	\$8,053
EDUCATION OF DISADVANTAGED	E	\$37,892	\$34,479	\$33,135
SCHOOL LUNCH	E	\$57,029	\$42,677	\$43,698
EDUC. DEVEL.-BLOCK GRANT	E	N/A	N/A	\$6,138
OTHER AIDS	E	\$23,329	\$14,112	\$10,910
		-----	-----	-----
SUBTOTAL-AID TO SCHOOLS		\$146,605	\$118,397	\$120,791
AID TO CITIES:				
FEDERAL AIRPORT	T	\$10,298	\$3,963	\$15,332
		-----	-----	-----
TOTAL: INTERGOVTAL TRANSFER PYMTS		\$275,070	\$242,991	\$255,470
SUBSIDIES TO INDIVIDUALS:				
MEDICAL ASSISTANCE	H	\$371,049	\$412,415	\$448,897
AFDC	H	\$124,275	\$126,720	\$120,700
WEATHERIZATION SUBGRANTS	S	\$18,659	\$5,927	\$9,593
EMERGENCY HEATING	S	\$63,755	\$65,883	\$82,463
JOB TRAINING	S	\$11,838	\$4,726	\$5,795
WOMEN, INFANTS AND CHILDREN	H	\$14,951	\$15,898	\$20,714
REFUGEE ASSISTANCE	H	\$32,534	\$31,686	\$17,689
ADOPTION ASSISTANCE	H	N/A	\$3,151	\$5,430
MATERNAL AND CHILD HEALTH	H	\$3,164	\$2,754	\$1,722
OTHER GRANTS	O	\$8,408	\$4,141	\$4,756
BASIC SUPPORT REHABILITATION	S	\$6,829	\$3,093	\$1,661
AGING GRANTS	H	\$10,539	\$10,774	\$10,304
HOUSING RENT SUBSIDIES	S	\$33,702	\$42,650	\$46,304
STUDENT LOAN INTEREST SUBSIDIES	E	\$12,247	\$15,299	\$7,868
		-----	-----	-----
TOTAL: SUBSIDIES TO INDIVIDUALS		\$711,950	\$745,117	\$783,896
DEBT SERVICE				
	D	\$238	\$199	\$187
		-----	-----	-----
UNALLOCATED				
	O	\$56,953	\$54,510	\$51,225
		-----	-----	-----
TOTAL EXPENDITURES		\$1,324,146	\$1,301,561	\$1,372,744

APPENDIX TABLE II.B (Cont'd.)

FEDERAL FUND
 EXPENDITURE BY CATEGORIES AND FUNCTION
 FISCAL YEARS 1981-83
 (000's OMITTED)

FUNCTION	FNCT CODE	FY 1981 EXPENDITURE	FY 1982 EXPENDITURE	FY 1983 EXPENDITURE
HEALTH & WELFARE	H	\$659,373	\$704,700	\$724,788
TRANSPORTATION	T	\$207,931	\$187,100	\$223,263
ECONOMIC SECURITY	S	\$196,323	\$187,232	\$212,537
EDUCATION	E	\$173,255	\$144,866	\$139,150
NATURAL RESOURCES	N	\$8,615	\$7,323	\$7,180
PROTECTION OF PERSONS	P	\$6,642	\$6,784	\$6,948
GENERAL GOVERNMENT	G	\$3,475	\$4,339	\$2,537
DEBT SERVICE	D	\$238	\$199	\$187
OTHER	O	\$68,294	\$59,018	\$56,154
TOTAL		\$1,324,146	\$1,301,561	\$1,372,744

APPENDIX TABLE II.C
STATE MISCELLANEOUS EXPENDITURES
BY CATEGORY AND FUNCTION
FISCAL YEAR 1981
(000's OMITTED)

EXPENDITURE CATEGORY	FNCT CODE	SUBTOTAL								
		CURRENT	CAPITAL	CUR & CAP	DEBT SERVICE	STATE GOVT OPERATIONS	SUBS TO INDV	TOTAL ST EXPEND	16TP	TOTAL OUTLAYS
SPECIAL REVENUE FUNDS:				\$0		\$0		\$0		\$0
STATE AIRPORTS FUND	T	\$390	\$280	\$670	\$425	\$1,095	\$45	\$1,140	\$10,212	\$11,352
GAME & FISH FUND	N	\$17,828	\$2,052	\$19,880		\$19,880	\$143	\$20,023	\$675	\$20,698
LESS: G & F FED \$	N	(\$2,571)	(\$2,571)	(\$5,142)		(\$5,142)		(\$5,142)		(\$5,142)
GIFT FUND	D	\$1,284	\$964	\$2,248		\$2,248	\$408	\$2,656	\$77	\$2,733
MISC FD-IRRRB	N			\$0		\$0		\$0	\$14,540	\$14,540
MISC FD-OTHER	D	\$15,668	\$2,671	\$18,339		\$18,339	\$3,006	\$21,345	\$1,381	\$22,726
LESS: MISC FD FED \$	D	(\$570)		(\$570)		(\$570)		(\$570)		(\$570)
CAPITAL PROJECTS FDS:				\$0		\$0		\$0		\$0
GENERAL PROJECTS FD	D	\$396	\$2,033	\$2,429		\$2,429		\$2,429	\$382	\$2,811
BLDG FD-EDUC	E	\$517	\$5,629	\$6,146		\$6,146		\$6,146	\$27,375	\$33,521
BLDG FD-DNR & PCA	N	\$2,415	\$8,251	\$10,666		\$10,666		\$10,666	\$14,609	\$25,275
BLDG FD-ST HOSP	H	\$406	\$5,836	\$6,242		\$6,242		\$6,242		\$6,242
BLDG FD-CORRECTIONS	P	\$1,072	\$12,008	\$13,080		\$13,080		\$13,080		\$13,080
BLDG FD-OTHER	D	\$1,766	\$6,410	\$8,176	\$5,355	\$13,531		\$13,531	\$8,725	\$22,256
LESS: BLDG FD FED \$	D	(\$34)		(\$34)		(\$34)		(\$34)		(\$34)
EXPENDABLE TRUST FUNDS:				\$0		\$0		\$0		\$0
ENDOWMENT SCHOOL FUND	E			\$0		\$0		\$0	\$21,021	\$21,021
ENDOWMENT FUND	D	\$4	\$1	\$5		\$5	\$16	\$21		\$21
NE MINN ECON PROT FD	N			\$0		\$0		\$0		\$0
RURAL REHAB TR FD	N	\$83		\$83		\$83		\$83	\$291	\$374
DEBT SERVICE FUND:				\$0		\$0		\$0		\$0
PER FINANCIAL STATEMENTS	D	\$28		\$28	\$109,081	\$109,109		\$109,109		\$109,109
LESS: AMTS ALLOCATED TO OTHER FD	D			\$0	(\$97,891)	(\$97,891)		(\$97,891)		(\$97,891)
LESS: MISC AMTS ALLOCATED	D			\$0	(\$5,780)	(\$5,780)		(\$5,780)		(\$5,780)
LESS: ADJ TO RECONCILIATION	D			\$0	(\$905)	(\$905)		(\$905)		(\$905)
DEDICATED \$ FROM GENERAL FUND:				\$0		\$0		\$0		\$0
COLLEGE TUITION & FEES	E	\$45,550		\$45,550		\$45,550		\$45,550		\$45,550
LOCAL SHARE OF HOSP COST OF CARE	H	\$6,299		\$6,299		\$6,299		\$6,299		\$6,299
TOTAL		\$90,531	\$43,564	\$134,095	\$10,285	\$144,380	\$3,618	\$147,998	\$99,288	\$247,286
=====										
EXPENDITURE FUNCTION										
TRANSPORTATION	T	\$390	\$280	\$670	\$425	\$1,095	\$45	\$1,140	\$10,212	\$11,352
NATURAL RESOURCES & ENVIRONMENT	N	\$17,755	\$7,732	\$25,487	\$0	\$25,487	\$143	\$25,630	\$30,115	\$55,745
OTHER	D	\$18,542	\$12,079	\$30,621	\$9,860	\$40,481	\$3,430	\$43,911	\$10,565	\$54,476
EDUCATION	E	\$46,067	\$5,629	\$51,696	\$0	\$51,696	\$0	\$51,696	\$48,396	\$100,092
HEALTH & WELFARE	H	\$6,705	\$5,836	\$12,541	\$0	\$12,541	\$0	\$12,541	\$0	\$12,541
PROTECTION OF PERSONS	P	\$1,072	\$12,008	\$13,080	\$0	\$13,080	\$0	\$13,080	\$0	\$13,080
TOTALS		\$90,531	\$43,564	\$134,095	\$10,285	\$144,380	\$3,618	\$147,998	\$99,288	\$247,286
=====										

APPENDIX TABLE II.C (Cont'd.)

STATE MISCELLANEOUS EXPENDITURES
BY CATEGORY AND FUNCTION
FISCAL YEAR 1982
(000's OMITTED)

EXPENDITURE CATEGORY	FNCT CODE	SUBTOTAL		DEBT SERVICE	STATE GOVT OPERATIONS	SUBS TO INDV	TOTAL ST EXPEND	1ETP	TOTAL OUTLAYS	
		CURRENT	CAPITAL							
SPECIAL REVENUE FUNDS:				\$0		\$0	\$0		\$0	
STATE AIRPORTS FUND	T	\$447	\$144	\$591	\$386	\$977	\$248	\$1,225	\$7,006	\$8,231
GAME & FISH FUND	N	\$21,652	\$2,594	\$24,246	\$86	\$24,332	\$120	\$24,452	\$14	\$24,466
LESS: G & F FED \$	N	(\$1,841)	(\$1,841)	(\$3,682)		(\$3,682)		(\$3,682)		(\$3,682)
GIFT FUND	O	\$0	\$0	\$0		\$0	\$0	\$0	\$0	\$0
MISC FD-IRKRB	N			\$0		\$0		\$0	\$18,036	\$18,036
MISC FD-OTHER	D	\$23,439	\$2,398	\$25,837	\$203	\$26,040	\$1,408	\$27,448	(\$239)	\$27,209
LESS: MISC FD FED \$	D	(\$236)		(\$236)		(\$236)		(\$236)		(\$236)
CAPITAL PROJECTS FUNDS:				\$0		\$0	\$0			\$0
GENERAL PROJECTS FD	D	\$141	\$271	\$412		\$412	\$1	\$413	\$314	\$727
BLDG FD-EDUC	E	\$374	\$879	\$1,253		\$1,253		\$1,253	\$26,721	\$27,974
BLDG FD-DNR & PCA	N	\$3,533	\$4,040	\$7,573		\$7,573		\$7,573	\$15,041	\$22,614
BLDG FD-ST HDSP	H	\$3,421	\$2,987	\$6,408		\$6,408		\$6,408		\$6,408
BLDG FD-CORRECTIONS	P	\$557	\$4,639	\$5,196		\$5,196		\$5,196		\$5,196
BLDG FD-OTHER	D	\$8,949	\$4,648	\$13,597	\$3,558	\$17,155	\$2,573	\$19,728	\$12,025	\$31,753
LESS: BLDG FD FED \$	D	(\$50)		(\$50)		(\$50)		(\$50)		(\$50)
EXPENDABLE TRUST FUNDS:				\$0		\$0	\$0			\$0
ENDOWMENT SCHOOL FUND	E			\$0		\$0		\$0	\$23,509	\$23,509
ENDOWMENT FUND	D	\$1,300	\$301	\$1,601		\$1,601	\$784	\$2,385	\$68	\$2,453
NE MINN ECDW PROT FD	N			\$0		\$0		\$0		\$0
RURAL REHAB TR FD	N	\$120		\$120		\$120	\$77	\$197	\$262	\$459
DEBT SERVICE FUND:				\$0		\$0	\$0			\$0
PER FINANCIAL STATEMENTS	D	\$34		\$34	\$116,605	\$116,639		\$116,639		\$116,639
LESS: AMTS ALLOCATED TO OTHER FD	D			\$0	(\$112,768)	(\$112,768)		(\$112,768)		(\$112,768)
LESS: MISC AMTS ALLOCATED	D			\$0	(\$4,233)	(\$4,233)		(\$4,233)		(\$4,233)
LESS: ADJ TO RECONCILIATION	D			\$0	(\$450)	(\$450)		(\$450)		(\$450)
DEDICATED \$ FROM GENERAL FUND:				\$0		\$0	\$0			\$0
COLLEGE TUITION & FEES	E	\$51,575		\$51,575		\$51,575		\$51,575		\$51,575
LOCAL SHARE OF HDSP COST OF CARE	H	\$7,450		\$7,450		\$7,450		\$7,450		\$7,450
TOTAL		\$120,865	\$21,060	\$141,925	\$3,387	\$145,312	\$5,211	\$150,523	\$102,757	\$253,280

EXPENDITURE FUNCTION

TRANSPORTATION	T	\$447	\$144	\$591	\$386	\$977	\$248	\$1,225	\$7,006	\$8,231
NATURAL RESOURCES & ENVIRONMENT	N	\$23,464	\$4,793	\$28,257	\$86	\$28,343	\$197	\$28,540	\$33,353	\$61,893
OTHER	D	\$33,577	\$7,618	\$41,195	\$2,915	\$44,110	\$4,766	\$48,876	\$12,168	\$61,044
EDUCATION	E	\$51,949	\$879	\$52,828	\$0	\$52,828	\$0	\$52,828	\$50,230	\$103,058
HEALTH & WELFARE	H	\$10,871	\$2,987	\$13,858	\$0	\$13,858	\$0	\$13,858	\$0	\$13,858
PROTECTION OF PERSONS	P	\$557	\$4,639	\$5,196	\$0	\$5,196	\$0	\$5,196	\$0	\$5,196
TOTALS		\$120,865	\$21,060	\$141,925	\$3,387	\$145,312	\$5,211	\$150,523	\$102,757	\$253,280

APPENDIX TABLE II.C (Cont'd.)

STATE MISCELLANEOUS EXPENDITURES
BY CATEGORY AND FUNCTION
FISCAL YEAR 1983
(000's OMITTED)

EXPENDITURE CATEGORY	FNCT CODE	SUBTOTAL						TOTAL ST EXPEND	IGTP	TOTAL OUTLAYS
		CURRENT	CAPITAL	CUR & CAP	DEBT SERVICE	STATE GOVT OPERATIONS	SUBS TO INDV			
SPECIAL REVENUE FUNDS:				\$0		\$0		\$0		\$0
STATE AIRPORTS FUND	T	\$493	\$88	\$581	\$0	\$581	\$0	\$581	\$9,004	\$9,585
GAME & FISH FUND	M	\$23,494	\$2,649	\$26,143	\$82	\$26,225	\$0	\$26,225	\$213	\$26,438
LESS: G & F FED \$	M	(\$1,625)	(\$1,625)	(\$3,250)		(\$3,250)		(\$3,250)		(\$3,250)
GIFT FUND	D	\$0	\$0	\$0		\$0	\$0	\$0	\$0	\$0
MISC FD-IRRRB	M			\$0		\$0		\$0	\$18,973	\$18,973
MISC FD-OTHER	D	\$30,834	\$4,018	\$34,852	\$203	\$35,055	\$0	\$35,055	\$9,677	\$44,732
LESS: MISC FD FED \$	D	(\$269)		(\$269)		(\$269)		(\$269)		(\$269)
CAPITAL PROJECTS FDS:				\$0		\$0		\$0		\$0
GENERAL PROJECTS FD	D	\$345	\$93	\$438		\$438	\$0	\$438	\$358	\$796
BLDG FD-EDUC	E	\$1,027	\$1,362	\$2,389		\$2,389		\$2,389	\$11,700	\$14,089
BLDG FD-DNR & PCA	M	\$3,844	\$1,784	\$5,628		\$5,628		\$5,628	\$10,253	\$15,881
BLDG FD-ST HOSP	M	\$982	\$253	\$1,235		\$1,235		\$1,235		\$1,235
BLDG FD-CORRECTIONS	P	\$491	\$1,139	\$1,630		\$1,630		\$1,630		\$1,630
BLDG FD-OTHER	D	\$3,104	\$573	\$3,677	\$2,923	\$6,600	\$0	\$6,600	\$1,114	\$7,714
LESS: BLDG FD FED \$	D	(\$26)		(\$26)		(\$26)		(\$26)		(\$26)
EXPENDABLE TRUST FUNDS:				\$0		\$0		\$0		\$0
ENDOWMENT SCHOOL FUND	E			\$0		\$0		\$0	\$25,217	\$25,217
ENDOWMENT FUND	D	\$2,264	\$283	\$2,547		\$2,547	\$1,403	\$3,950	\$0	\$3,950
ME MINN ECON PROT FD	M	\$4,789	\$219	\$5,008		\$5,008	\$78	\$5,086		\$5,086
RURAL REHAB TR FD	M	\$332		\$332		\$332	\$0	\$332	\$588	\$920
DEBT SERVICE FUND:				\$0		\$0		\$0		\$0
PER FINANCIAL STATEMENTS	D	\$86		\$86	\$130,839	\$130,925		\$130,925		\$130,925
LESS: AMTS ALLOCATED TO OTHER FD	D			\$0	(\$118,998)	(\$118,998)		(\$118,998)		(\$118,998)
LESS: MISC AMTS ALLOCATED	D			\$0	(\$3,208)	(\$3,208)		(\$3,208)		(\$3,208)
LESS: ADJ TO RECONCILIATION	D			\$0	\$39	\$39		\$39		\$39
DEDICATED \$ FROM GENERAL FUND:				\$0		\$0		\$0		\$0
COLLEGE TUITION & FEES	E	\$61,523		\$61,523		\$61,523		\$61,523		\$61,523
LOCAL SHARE OF HOSP COST OF CARE	H	\$8,049		\$8,049		\$8,049		\$8,049		\$8,049
TOTAL		\$139,737	\$10,836	\$150,573	\$11,880	\$162,453	\$1,481	\$163,934	\$87,097	\$251,031

EXPENDITURE FUNCTION

TRANSPORTATION	T	\$493	\$88	\$581	\$0	\$581	\$0	\$581	\$9,004	\$9,585
NATURAL RESOURCES & ENVIRONMENT	M	\$30,834	\$3,027	\$33,861	\$82	\$33,943	\$78	\$34,021	\$30,027	\$64,048
OTHER	D	\$36,338	\$4,967	\$41,305	\$11,798	\$53,103	\$1,403	\$54,506	\$11,149	\$65,655
EDUCATION	E	\$62,550	\$1,362	\$63,912	\$0	\$63,912	\$0	\$63,912	\$36,917	\$100,829
HEALTH & WELFARE	M	\$9,031	\$253	\$9,284	\$0	\$9,284	\$0	\$9,284	\$0	\$9,284
PROTECTION OF PERSONS	P	\$491	\$1,139	\$1,630	\$0	\$1,630	\$0	\$1,630	\$0	\$1,630
TOTALS		\$139,737	\$10,836	\$150,573	\$11,880	\$162,453	\$1,481	\$163,934	\$87,097	\$251,031

APPENDIX TABLE II. D

COMPUTATION OF TOTAL STATE SPENDING
INTERFUND ADJUSTMENTS BY FUNCTION
FISCAL YEAR 1981
(000's OMITTED)

FUNCTION	SHIFT ADJUSTED GEN FUND	FUND ADJUSTMENT	ADJUSTED GEN FUND	FEDERAL \$	FUND ADJUSTMENT	ADJUSTED FEDERAL \$	HWY MONIES	COMP FUNDS	MISC DEB FDS	TOTALS
EDUCATION	\$1,594,660	(\$45,550)	\$1,549,110	\$173,255		\$173,255			\$100,092	\$1,822,457
GENERAL AIDS/PROPERTY TAX RELF.	\$916,987		\$916,987	N/A		N/A				\$916,987
HEALTH & WELFARE	\$621,477	(\$66,009)	\$555,468	\$659,373	\$3,023	\$662,396			\$12,541	\$1,230,405
GENERAL GOVERNMENT	\$110,442		\$110,442	\$3,475		\$3,475				\$113,917
ECONOMIC SECURITY	\$73,428		\$73,428	\$196,323		\$196,323		\$364,722		\$634,473
PROTECTION OF PERSONS	\$92,729		\$92,729	\$6,642		\$6,642			\$13,080	\$112,451
NATURAL RESOURCES & ENVIRONMENT	\$85,246		\$85,246	\$8,615		\$8,615			\$55,745	\$149,606
TRANSPORTATION	\$23,619		\$23,619	\$207,931		\$207,931	\$386,361		\$10,927	\$628,838
DEBT SERVICE	\$93,996		\$93,996	\$238		\$238	\$9,588		\$10,285	\$114,107
OTHER	\$77,911		\$77,911	\$68,294	(\$26,259)	\$42,035			\$44,616	\$164,562
TOTAL	\$3,690,495	(\$111,559)	\$3,578,936	\$1,324,146	(\$23,236)	\$1,300,910	\$395,949	\$364,722	\$247,286	\$5,887,803
UNALLOCATED ADJUSTMENTS			(\$19,020) ^{1/}			(\$16,774) ^{2/}				(\$35,794)
BASE TOTAL			\$3,559,916			\$1,284,136	\$395,949	\$364,722	\$247,286	\$5,852,009

^{1/} Includes (\$3,018) million double count (federal) adjustment; transfer adjustment of (\$38,188) million; and various reimbursements from other funds totaling \$22,186 million. See Appendix Table IA.

^{2/} Transfers excluding debt service. See Appendix Table IA.

APPENDIX TABLE II. D (Cont'd.)
 COMPUTATION OF TOTAL STATE SPENDING
 INTERFUND ADJUSTMENTS BY FUNCTION
 FISCAL YEAR 1982
 (000's OMITTED)

FUNCTION	SHIFT ADJUSTED GEN FUND	FUND ADJUSTMENT	ADJUSTED GEN FUND	FEDERAL \$	FUND ADJUSTMENT	ADJUSTED FEDERAL \$	HWY MONIES	COMP FUNDS	MISC DED FDS	TOTALS
EDUCATION	\$1,809,721	(\$51,575)	\$1,758,146	\$144,866		\$144,866			\$103,058	\$2,006,070
GENERAL AIDS/PROPERTY TAX RELF.	\$1,057,845		\$1,057,845	N/A		N/A				\$1,057,845
HEALTH & WELFARE	\$686,625	(\$77,769)	\$608,856	\$704,700	\$3,269	\$707,969			\$13,858	\$1,330,683
GENERAL GOVERNMENT	\$114,234		\$114,234	\$4,339		\$4,339				\$118,573
ECONOMIC SECURITY	\$100,976		\$100,976	\$187,232		\$187,232		\$422,218		\$710,426
PROTECTION OF PERSONS	\$99,237		\$99,237	\$6,784		\$6,784			\$5,196	\$111,217
NATURAL RESOURCES & ENVIRONMENT	\$69,912		\$69,912	\$7,323		\$7,323			\$61,807	\$139,042
TRANSPORTATION	\$16,201		\$16,201	\$187,100		\$187,100	\$431,420		\$7,845	\$642,566
DEBT SERVICE	\$135,302		\$135,302	\$199		\$199	\$8,826		\$3,387	\$147,714
OTHER	\$28,664		\$28,664	\$59,018	(\$45,725)	\$13,293			\$58,129	\$100,086
TOTAL	\$4,118,717		\$3,989,373	\$1,301,561		\$1,259,105	\$440,246	\$422,218	\$253,280	\$6,364,222
UNALLOCATED ADJUSTMENTS			(\$52,536) ^{1/}			(\$601) ^{2/}				(\$53,137)
BASE TOTAL			\$3,936,837			\$1,258,504	\$440,246	\$422,218	\$253,280	\$6,311,085

^{1/} Includes (\$4,256) million double count (federal) adjustment; transfer adjustment of (\$67,932) million; and various reimbursements from other funds totaling \$19,652 million. See Apperdix Table IB.

^{2/} Transfers excluding debt service. See Appendix Table IB.

APPENDIX TABLE II.D (Cont'd.)
 COMPUTATION OF TOTAL STATE SPENDING
 INTERFUND ADJUSTMENTS BY FUNCTION
 FISCAL YEAR 1983
 (000's OMITTED)

FUNCTION	SHIFT ADJUSTED GEN FUND	FUND ADJUSTMENT	ADJUSTED GEN FUND	FEDERAL \$	FUND ADJUSTMENT	ADJUSTED FEDERAL \$	HWY MONIES	COMP FUNDS	MISC DED FDS	TOTALS
EDUCATION	\$1,560,415	(\$61,523)	\$1,498,892	\$139,150		\$139,150			\$100,829	\$1,738,871
GENERAL AIDS/PROPERTY TAX RELF.	\$1,081,118		\$1,081,118	N/A		N/A				\$1,081,118
HEALTH & WELFARE	\$718,673	(\$85,382)	\$633,291	\$724,788	\$4,889	\$729,677			\$9,284	\$1,372,252
GENERAL GOVERNMENT	\$121,351		\$121,351	\$2,537		\$2,537				\$123,888
ECONOMIC SECURITY	\$64,535		\$64,535	\$212,537		\$212,537		\$631,862		\$908,934
PROTECTION OF PERSONS	\$106,488		\$106,488	\$6,948		\$6,948			\$1,630	\$115,066
NATURAL RESOURCES & ENVIRONMENT	\$70,559		\$70,559	\$7,180		\$7,180			\$63,966	\$141,705
TRANSPORTATION	\$20,010		\$20,010	\$223,263		\$223,263	\$483,429		\$9,585	\$736,287
DEBT SERVICE	\$194,003		\$194,003	\$187		\$187	\$8,560		\$11,880	\$214,630
OTHER	\$29,699		\$29,699	\$56,154	(\$40,339)	\$15,815			\$53,857	\$99,371
TOTAL	\$3,966,851	(\$146,905)	\$3,819,946	\$1,372,744	(\$35,450)	\$1,337,294	\$491,989	\$631,862	\$251,031	\$6,532,122
UNALLOCATED ADJUSTMENTS			(\$27,647) ^{1/}			(\$2,556) ^{2/}				(\$30,203)
BASE TOTAL			\$3,792,299			\$1,334,738	\$491,989	\$631,862	\$251,031	\$6,501,919

^{1/} Includes (\$5,187) million double count (federal) adjustment; transfer adjustment of (\$37,819) million; and various reimbursements from other funds totaling \$15,359 million. See Appendix Table IC.

^{2/} Transfers excluding debt service. See Appendix Table IC.

APPENDIX TABLE III
 STATE GENERAL FUND
 EXPENDITURE SHIFTS BY PROGRAM
 1982-83 BIENNIUM
 (000's OMITTED)

PROGRAM/EXPLANATION OF SHIFT	FY 1982	FY 1983	BIENNIUM 1982-83
I. SCHOOL AIDS			
FOUNDATION AIDS			
CHANGE FROM 90/10 TO 85/15 PYMT SCHEDULE	\$0	\$20,162	\$20,162
PROPERTY TAX-EARLY RECOGNITION	\$0	\$125,627	\$125,627
SUBTOTAL-FOUNDATION AIDS	\$0	\$145,789	\$145,789
TRANSPORTATION AIDS			
CHANGE FROM 90/10 TO 85/15 PYMT SCHEDULE	\$0	\$3,872	\$3,872
PROPERTY TAX-EARLY RECOGNITION	\$0	\$7,232	\$7,232
SUBTOTAL-TRANSPORTATION AIDS	\$0	\$11,104	\$11,104
VOCATIONAL AIDS			
CHANGE FROM 90/10 TO 85/15 PYMT SCHEDULE	\$0	\$10,316	\$10,316
PROPERTY TAX- EARLY RECOGNITION	\$0	\$3,809	\$3,809
SUBTOTAL-VOCATIONAL AIDS	\$0	\$14,125	\$14,125
SPECIAL EDUCATION AIDS			
CHANGE FROM 90/10 TO 85/15 PYMT SCHEDULE	\$0	\$3,994	\$3,994
PROPERTY TAX-EARLY RECOGNITION	\$0	\$21,324	\$21,324
SUBTOTAL-SPEC. ED. AIDS	\$0	\$25,318	\$25,318
OTHER EDUCATION AIDS			
CHANGE FROM 90/10 TO 85/15 PYMT SCHEDULE	\$0	\$2,091	\$2,091
PROPERTY TAX-EARLY RECOGNITION	\$0	\$988	\$988
SUBTOTAL-OTHER EDUCATION AIDS	\$0	\$3,079	\$3,079
TOTAL SCHOOL AID SHIFTS	\$0	\$199,415	\$199,415
II. GENERAL SUPPORT			
LOCAL GOVERNMENT AIDS			
SHIFTING MARCH PYMT TO JULY-1982	\$67,681	(\$67,681)	\$0
SHIFTING MARCH PYMT TO JULY-1983	\$0	\$73,390	\$73,390
SUBTOTAL LOCAL GOVERNMENT AIDS	\$67,681	\$5,709	\$73,390
ATTACHED MACHINERY CREDIT			
CHANGE TO SCHOOL AID PYMT SCHEDULE	\$0	\$432	\$432
PROPERTY TAX-EARLY RECOGNITION	\$0	\$251	\$251
SUBTOTAL-ATTACHED MACHINERY	\$0	\$683	\$683

APPENDIX TABLE III (Cont'd.)
 STATE GENERAL FUND
 EXPENDITURE SHIFTS BY PROGRAM
 1982-83 BIENNIUM
 (000's OMITTED)

PROGRAM/EXPLANATION OF SHIFT	FY 1982	FY 1983	BIENNIUM 1982-83
DNR PYMT IN LIEU OF TAXES			
CHANGE PAYMENT DATE	\$0	\$4,285	\$4,285
TOTAL GENERAL SUPPORT AIDS	\$67,681	\$10,677	\$78,358
III. DIRECT PROPERTY TAX RELIEF			
PAYMENTS TO LOCAL GOVERNMENTS			
HOMESTEAD CREDIT			
CHANGE TO SCHOOL AID PYMT SCHEDULE	\$0	\$31,821	\$31,821
PROPERTY TAX-EARLY RECOGNITION	\$0	\$60,110	\$60,110
SUBTOTAL-HOMESTEAD CREDIT	\$0	\$91,931	\$91,931
AGRICULTURAL CREDIT			
CHANGE TO SCHOOL AID PYMT SCHEDULE	\$0	\$3,325	\$3,325
PROPERTY TAX-EARLY RECOGNITION	\$0	\$18,644	\$18,644
SUBTOTAL-AGRICULTURAL CREDITS	\$0	\$21,969	\$21,969
REDUCED ASSESSMENT CREDIT			
CHANGE TO SCHOOL AID PYMT SCHEDULE	\$0	\$899	\$899
PROPERTY TAX-EARLY RECOGNITION	\$0	\$762	\$762
SUBTOTAL-REDUCED ASSESSMENT CREDIT	\$0	\$1,661	\$1,661
WETLANDS CREDIT			
CHANGE TO SCHOOL AID PYMT SCHEDULE	\$0	\$314	\$314
PROPERTY TAX-EARLY RECOGNITION	\$0	\$158	\$158
SUBTOTAL-WETLANDS CREDIT	\$0	\$472	\$472
NATIVE PRARIE CREDIT			
CHANGE TO SCHOOL AID PYMT SCHEDULE	\$0	\$8	\$8
PROPERTY TAX-EARLY RECOGNITION	\$0	\$7	\$7
SUBTOTAL-NATIVE PRARIE CREDIT	\$0	\$15	\$15
TOTAL-PAYMENTS TO LOCAL GOVERNMENTS	\$0	\$116,048	\$116,048
REFUNDS TO INDIVIDUALS			
RENTERS CREDIT			
CHANGE IN PYMT DATES	\$0	\$97,301	\$97,301
SENIORS AND DISABLED CREDIT			
CHANGE PYMT DATES	\$0	\$56,100	\$56,100
TOTAL-REFUNDS TO INDIVIDUALS	\$0	\$153,401	\$153,401
TOTAL DIRECT PROPERTY TAX RELIEF	\$0	\$269,449	\$269,449
TOTAL-ALL SHIFTS	\$67,681	\$479,541	\$547,222

APPENDIX TABLE IV
 STATE GENERAL FUND
 EXPENDITURE CUTS
 FY 1982
 (000's OMITTED)

PROGRAM/EXPLANATION	CUTS POTENTIALLY IMPACTING LOCAL TAXES	CUTS NOT IMPACTING LOCAL TAX EFFORT	TOTAL
AIDS TO UNIV. OF MINN.			
'81-3SP-2-1	\$0	\$6,807	\$6,807
AIDS TO OTHER LOCAL GOV'TS			
PUBLIC TRANSIT AIDS			
'81-3SP-2-1	\$0	\$1,229	\$1,229
CORRECTIONS AIDS			
'81-3SP-2-1	\$0	\$700	\$700
TOTAL CUTS TO INTERGOV'TAL TSFRS	\$0	\$8,736	\$8,736
DIRECT PROPERTY TAX RELIEF			
RENTERS' CREDIT			
'81-3SP-2-4 (8% PYMT REDUCTION)	\$0	\$7,894	\$7,894
SUBSIDIES TO INDIVIDUALS			
MAYO MEDICAL SCHOOL			
'81-3SP-2-1	\$0	\$120	\$120
TRANSFERS:			
HISTORICAL SOCIETY			
'81-3SP-2-1	\$0	\$636	\$636
TOTALS FY82 CUTS	\$0	\$17,386	\$17,386

APPENDIX TABLE IV (Cont'd.)

STATE GENERAL FUND
EXPENDITURE CUTS
SPECIAL SESSIONS
FY 1983
(000's OMITTED)

CUTS IMPACTING LOCAL TAX EFFORT

PROGRAM/EXPLANATION	INTENDED TO INCREASE PROP TAX	POTENTIALLY INCREASE PROP TAX	CUTS NOT IMPACTING LOCAL TAX EFFORT	TOTAL CUTS
I. SCHOOL AIDS				
FOUNDATION AIDS:				
-ELEMENTARY SUMMER SCHOOL AID	\$0	\$12,066	\$0	\$12,066
-DECREASE FORMULA ALLOWANCE (1416 TO 1346) AND RAISE LOCAL MILLS FROM 23 TO 24	\$34,655	\$33,827	\$0	\$68,482
-GENERAL REDUCTION '81-3SP-2-2	\$0	\$22,162	\$0	\$22,162
-GENERAL REDUCTION '82-3SP-1-3	\$0	\$12,972	\$0	\$12,972
SUBTOTAL-FOUNDATION AIDS	\$34,655	\$81,027	\$0	\$115,682
TRANSPORTATION AIDS:				
-INCREASE LOCAL MILLS FROM 1 TO 2	\$34,655	\$0	\$0	\$34,655
-GENERAL REDUCTION '81-3SP-2-2	\$0	\$2,266	\$0	\$2,266
-GENERAL REDUCTION '82-3SP-1-3 '81-1SP-2-9-2	\$0	\$1,306	\$0	\$1,306
	\$0	\$4,050	\$0	\$4,050
SUBTOTAL-TRANSPORTATION AIDS	\$34,655	\$7,622	\$0	\$42,277
SPECIAL EDUCATION AIDS:				
-7.5% CUT-'81-3SP-2-2	\$0	\$7,443	\$0	\$7,443
-GENERAL REDUCTION-'81-3SP-2-2	\$0	\$1,685	\$0	\$1,685
-GENERAL REDUCTION-'82-3SP-1-3	\$0	\$971	\$0	\$971
SUBTOTAL-SPEC. ED. AIDS	\$0	\$10,099	\$0	\$10,099
VOCATIONAL EDUC. AIDS:				
-7.5 OR 8% CUT-'81-3SP-2-2	\$0	\$9,168	\$0	\$9,168
-GENERAL REDUCTION '81-3SP-2-2	\$0	\$2,025	\$0	\$2,025
-GENERAL REDUCTION '82-3SP-1-3	\$0	\$1,538	\$0	\$1,538
SUBTOTAL-VOC. ED. AIDS	\$0	\$12,731	\$0	\$12,731
OTHER EDUCATIONAL AIDS:				
-7.5 OR 8% CUT-'81-3SP-2-2	\$0	\$2,191	\$0	\$2,191
-GENERAL REDUCTION '81-3SP-2-2	\$0	\$459	\$0	\$459
-GENERAL REDUCTION '82-3SP-1-3	\$0	\$213	\$0	\$213
SUBTOTAL-OTHER AIDS	\$0	\$2,863	\$0	\$2,863
CONTRIBUTION TO TEACHERS' PENSION PLAN				
-'82-3SP-1-2	\$0	\$0	\$28,568	\$28,568
TOTAL SCHOOL AIDS	\$69,310	\$114,342	\$28,568	\$212,220

APPENDIX TABLE IV (Cont'd.)

STATE GENERAL FUND
EXPENDITURE CUTS
SPECIAL SESSIONS
FY 1983
(000's OMITTED)

PROGRAM/EXPLANATION	CUTS IMPACTING LOCAL TAX EFFORT			TOTAL CUTS
	INTENDED TO INCREASE PROP TAX	POTENTIALLY INCREASE PROP TAX	CUTS NOT IMPACTING LOCAL TAX EFFORT	
II. AID TO UNIVERSITY OF MINNESOTA				
-'81-3SP-2-1	\$0	\$0	\$13,430	\$13,430
-'82-641-1	\$0	\$0	\$450	\$450
-'82-3SP-1-2	\$0	\$0	\$6,432	\$6,432
TOTAL U OF M	\$0	\$0	\$20,312	\$20,312
III. AID TO OTHER LOCAL GOVERNMENTS				
LOCAL GOV'T AIDS				
-'81-3SP-2-4	\$0	\$30,000	\$0	\$30,000
-'82-3SP-1-4	\$0	\$5,684	\$0	\$5,684
SUBTOTAL-LOCAL GOV'T AIDS	\$0	\$35,684	\$0	\$35,684
PUBLIC TRANSIT AIDS				
-'81-3SP-2-1	\$0	\$0	\$4,045	\$4,045
-'82-641-1	\$0	\$0	\$1,206	\$1,206
-'82-3SP-1-2	\$0	\$0	\$3,675	\$3,675
-'83-643	\$0	\$0	\$2,243	\$2,243
SUBTOTAL-PUBLIC TRANSIT AIDS	\$0	\$0	\$11,169	\$11,169
CORRECTION AIDS				
-'82-3SP-1-2	\$0	\$200	\$0	\$200
-'81-3SP-21	\$0	\$1,628	\$0	\$1,628
-'83-643	\$0	\$346	\$0	\$346
SUBTOTAL-CORRECTIONS AIDS	\$0	\$2,174	\$0	\$2,174
COMMUNITY HEALTH AIDS				
-'82-3SP-1-2	\$0	\$1,528	\$0	\$1,528
WELFARE ADMIN AID				
-SUSPENDED BY '81-3SP-2-1-SUB 4	\$0	\$6,950	\$0	\$6,950
TOTAL CUTS-INTERGOVERNMENTAL TRANSFERS	\$69,310	\$160,678	\$60,049	\$290,037
IV. DIRECT PROPERTY TAX RELIEF				
HOMESTEAD CREDIT				
-'82-641-2	\$32,000	\$0	\$0	\$32,000
V. SUBSIDIES TO INDIVIDUALS				
MEDICAL ASSISTANCE				
-4% REDUCTION TO VENDOR PYMTS '82-3SP-1-2	\$0	\$0	\$5,525	\$5,525

APPENDIX TABLE IV (Cont'd.)

STATE GENERAL FUND
EXPENDITURE CUTS
SPECIAL SESSIONS
FY 1983
(000's OMITTED)

PROGRAM/EXPLANATION	CUTS IMPACTING LOCAL TAX EFFORT			TOTAL CUTS
	INTENDED TO INCREASE PROP TAX	POTENTIALLY INCREASE PROP TAX	CUTS NOT IMPACTING LOCAL TAX EFFORT	
HIGHER ED-SCHOLARSHIPS & GRANTS				
-'81-3SP-2-1	\$0	\$0	\$1,900	\$1,900
HIGHER ED-PRIVATE COLLEGE CONTRACT				
-'81-3SP-2-1	\$0	\$0	\$302	\$302
-'82-3SP-1-2	\$0	\$0	\$40	\$40
SUBTOTAL-PRIVATE COLLEGE CONTRACT	\$0	\$0	\$342	\$342
MAYO MEDICAL SCHDDL				
-'81-3SP-2-1	\$0	\$0	\$250	\$250
TOTAL SUBSIDIES CUT	\$0	\$0	\$8,017	\$8,017
VI. TRANSFERS				
MINNESOTA HISTORICAL SOCIETY				
-'81-3SP-2-1	\$0	\$0	\$970	\$970
-'82-641-1	\$0	\$0	\$122	\$122
-'82-3SP-1-2	\$0	\$0	\$200	\$200
SUBTOTAL HISTORICAL SOCIETY	\$0	\$0	\$1,292	\$1,292
TOTAL FY83 CUTS	\$101,310	\$160,678	\$69,358	\$331,346

APPENDIX TABLE V
STATE GENERAL FUND
OTHER NON-ECONOMIC FACTORS INFLUENCING COMPARABILITY OF EXPENDITURES
FY 1982-83
(000's OMITTED)

PROGRAM ACTION	ESTIMATED IMPACT	
	FY1982	FY1983
SCHOOL AIDS-FOUNDATION		
-21 MILLS-L982	(\$70,000)	\$0
PROGRAM ENDING DURING PERIOD		
-SHADE TREE DISEASE	(\$2,699)	\$0
-WEATHERIZATION	(\$9,720)	\$0
SUBSIDIES TO INDIVIDUALS		
-MEDICAL ASSISTANCE PENALTY	(\$8,000)	(\$21,590)
-AFDC FED OMNIBUS REC ACT OF '81	\$1,700	\$4,400
-GAMC '81 LAWS CH 360 ART 2 SEC 2	\$23,715	\$41,670
NET ADJUSTMENT TO '82 & '83 EXPENDITURES	(\$65,004)	\$24,480

APPENDIX TABLE VI
 STATE GENERAL FUND
 ESTIMATED IMPACT OF MAJOR TAX LAW CHANGES
 FISCAL YEARS 1982 to 1984 est.
 (000,000's OMITTED)

MAJOR TAX LAW CHANGES: 1981-84	FY 82	FY 83	EST. FY 84	SEE TABLE NOTES	LAW REFERENCE
PERSONAL INCOME TAXES (TOTAL)	\$1,699	\$1,976	\$2,258	1	
FEDERAL CONFORMITY					
FED. ACCRUAL TAX DED.	\$52	(\$15)	(\$15)	2	Mn. LAWS 1981, 1ST SS, CH3
MEDICAL EXPENSES		\$75	\$96	3	Mn. LAWS 1981, 1ST SS, CH2; LAWS 1983, CH242, ART. I, SEC16
STRADDLES	\$7	\$7	\$4	4	Mn. LAWS 1981, 3RD SS, CH2
INTEREST & DIVIDENDS		\$10	\$11	5	Mn. LAWS 1981, 3RD SS, CH2
GAS TAX DED.			\$21	6	Mn. LAWS 1983, CH342, ART. I, SEC10
CAPITAL GAINS			(\$14)	4	Mn. LAWS 1981, 3RD SS, CH2 (EFFECTIVE FY '84)
MINIMUM TAX			\$5	4	Mn. LAWS 1983, CH342, ART. I, SEC16
INDV. DEPRECIATION BASE ADJ			\$2	4	Mn. LAWS 1983, CH342, ART. I, SEC16
SUBTOTAL FED CONFRM. CHANGE	\$59	\$77	\$110		
ELIMINATE INVEST. TAX CREDIT			\$28	6	Mn. LAWS 1983, CH342, ART. I, SEC4
ACRS			(\$8)	4	Mn. LAWS 1983, CH342, ART. I, SEC5
SURTAX 7%	\$63	\$70		7	Mn. LAWS 1981, 3RD SS, CH2
SURTAX 10%		\$100	\$101	8	Mn. LAWS 1982, 3RD SS, CH1; LAWS 1983, CH342, ART. I, SEC7
TNIAF (PART OF INDEX. CHANGE)	\$17	\$21	-\$32	9	Mn. LAWS 1981, 1ST SS, CH1
TOTAL: INCOME TAX CHANGE	\$139	\$268	\$263		
GENERAL SALES (TOTAL)					
INCREASE FROM 4 TO 5%	\$159	\$101		7	Mn. LAWS 1981, 1ST SS, CH1
INCREASE FROM 4 TO 6%		\$143	\$381	10	Mn. LAWS 1982, 3RD SS, CH1; LAWS 1983, CH342, ART. 6, SEC4
INCLUSION OF CANDY, POP, ETC. 5% 1ST 7 MONTHS OF FY83		\$42		7	Mn. LAWS 1981, 3RD SS, CH1
6% LAST 5 MONTHS OF FY83		\$36	\$92	11	Mn. LAWS 1982, CH641; LAWS 1983, CH342 ART. 6, SEC4
SUBTOTAL: GEN. SALES TAX CHANGE	\$159	\$322	\$473		
MOTOR VEHICLE EXCISE (TOTAL)					
INCREASE FROM 4 TO 5%	\$16	\$25	\$35	12	Mn. LAWS 1981, 1ST SS, CH1
INCREASE FROM 5 TO 6%			\$28	13	Mn. LAWS 1983, CH342, ART. 6, SEC10
TOTAL: SALES TAXES CHANGE	\$175	\$347	\$536		
CORPORATE INCOME (TOTAL)					
SMALL BUSINESS (INC. BRACKETS) PLUS R & D CREDITS		(\$31)	(\$29)	14	Mn. LAWS 1981, 3RD SS, CH2
TEFRA-FED CONFORMITY		\$4	\$12	4	Mn. LAWS 1982, 3RD SS, CH2
EQUITY INVEST. CREDIT			(\$2)	15	Mn. LAWS 1983, CH342, ART. 8, SEC13

APPENDIX TABLE VI (Cont'd.)

STATE GENERAL FUND
ESTIMATED IMPACT OF MAJOR TAX LAW CHANGES
FISCAL YEARS 1982 to 1984 est.
(000,000's OMITTED)

MAJOR TAX LAW CHANGES:1981-84	FY 82	FY 83	EST. FY 84	SEE TABLE NOTES	LAW REFERENCE
REPEAL DED. FOR OTHER STATE TAXES			\$8	16	Mn. LAWS 1983,CH342,ART.8,SEC14
TOTAL CORP. INC.TAX CHANGE	\$0	(\$27)	(\$11)		
TOTAL IMPACT OF STATE LAW CHANGES	\$314	\$588	\$788		
=====					
FEDERAL TAX LAW CHANGES					
EC. RECOVERY ACT B1					FEDERAL LAWS,ECONOMIC RECOVERY ACT OF 1981 *
PERSONAL INC.RATE CUTS	\$46	\$121	\$191	9	
NET OTHER	\$13	\$30	\$29	9	
TEFRA RECOVERY ACT 1982 '83 LAWS (SOC.SEC.BILL)		(\$2)	(\$9)	4	FEDERAL LAWS, TAX EQUITY & FISCAL RESPONSIBILITY ACT OF 1982 **
			\$5	4	
TOTAL: FEDERAL IMPACT	\$59	\$149	\$216		
=====					
TOTAL TAX LAW IMPACT	\$373	\$737	\$1,004		

TABLE NOTES:

1. FY82-83 FROM SWA;FY84-87est FROM DEPT OF FIN 5/10/84
2. OLA COMPUTATIONS FY82,FY83: DEPT OF REVENUE 4/84
3. DEPT OF REV FY83 5/11/82:DEPT OF REV FY84
4. DEPT OF REVENUE 4/84
5. DEPT OF FINANCE 12/22/82
6. BASED ON \$55 EST FOR 83-85 BIENIUM
7. OLA COMPUTATIONS
8. OLA COMPUTATIONS FY82,83:DOF EST. FY84, 1/1/84 REPEAL
9. DEPT OF REVENUE 4/19/84
10. OLA COMPUTATIONS
11. FY84-87 BASED ON 5% GROWTH RATE
12. OLA COMPUTATIONS FY82,83:EST.AT .2 OF TOT.MOTOR VEHICLE
13. BASED ON \$59 EST FOR 83-85 BIENIUM
14. OLA COMPUTATIONS FY83:FY84 DEPT OF FINANCE
15. BASED ON \$4 EST FOR 83-85 BIENIUM
16. BASED ON \$19 FOR 83-85 BIENIUM

- * MAJOR PROVISIONS INCLUDE:
- INDIVIDUAL RATE REDUCTIONS
 - MARRIED COUPLE DEDUCTION
 - CHANGES IN RETIREMENT PROVISIONS
 - CHANGES IN SAVING PROVISIONS

- ** MAJOR PROVISIONS INCLUDE CHANGES IN:
- MINIMUM TAX DEFINITION
 - CASUALTY LOSS DEDUCTION
 - MEDICAL & DENTAL EXPENSES
 - PENSION LIMITS



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