

GOVERNOR  
WENDELL R. ANDERSON

BUDGET MESSAGE



To the 69<sup>th</sup> Session  
of the Legislature of Minnesota

January 16, 1975

BUDGET MESSAGE OF  
GOVERNOR WENDELL R. ANDERSON

JANUARY 16, 1975

Mr. Speaker, Mr. President, Members of the  
69th Legislature, and fellow citizens of Minnesota:

Today, it is my responsibility to outline the  
budget priorities and recommendations that I briefly  
described last week.

I do so with deep concern that we must protect  
and support the most important activities of our state  
government in a time of national inflation and recession.

But my budget recommendations also reflect my  
faith in the economic strength of Minnesota.

No one can predict with great certainty what  
may happen to the economy in the two and a half years that  
include our budget biennium.

But our economy is stronger than the nation's,  
thanks in large part to its diversity, to the strength of  
its agricultural sector, and to the general productivity of  
our people. We can be hopeful that the economic valley  
will be shallower and shorter here than in many other states.

That is the economic context of my budget  
recommendations.

LEGISLATIVE REFERENCE LIBRARY  
STATE OF MINNESOTA

They reflect two major goals.

First, we must defend and maintain our state commitment to the education and human needs of our citizens. Individual Minnesotans must have a chance to develop and direct their talent, their energy and their opportunity to the best of their ability.

Second, we must meet that priority commitment in this time of inflation and recession without placing additional burdens on our people to finance the work of state government.

And that means we should not and must not increase either the income taxes or sales taxes our people pay.

And we will not do it.

#### ELEMENTARY AND SECONDARY EDUCATION

One of our major priorities must continue to be education.

In 1971, the State of Minnesota was spending 661 million dollars to help support our public schools for two years. Today, I am proposing that our commitment to fair and equitable education be increased to 1.7 billion dollars-- more than two and a half times as much.

State support of school operating costs has risen from less than half to approximately 70 percent. You and I and the people of Minnesota have made a major state commitment. We've tried to make equal educational opportunity a reality in Minnesota.

But we've done more than that. We have also taken a giant step toward equalizing the taxes that property owners pay to provide the local portion of school funding.

In 1971, a family in the Anoka school district had to pay a tax of \$531 on a \$20,000 home so the school district could spend \$572 per pupil for school costs. In the Golden Valley school district a family paid only \$438 on a similar home in order to provide the school district with funds and spend \$940 per pupil. The district that spent less had higher taxes.

But in 1974, the Anoka family paid \$341 in taxes on the same value home to provide \$745 per pupil; and the Golden Valley family paid \$408 to provide \$1119.

Four years ago, the Anoka tax was 21 percent higher than the Golden Valley tax. Today, the Anoka tax is 16 percent lower than the Golden Valley tax. Today the district that spends more, taxes more. And the district that spends less, taxes less. That is how it should be.

That is a fundamental--and appropriate--change.

We must maintain what we have accomplished and continue to move toward equalization. My proposed increase in aids to local school districts, an increase of 360 million dollars over the current biennium, is the largest area of growth in my budget.

It will allow us to continue our commitment to an educational system fair to both children and taxpayers.

It means holding the local school levy limit at 30 E. A. R. C. mills.

It means raising the basic aid per pupil unit from the present \$825 to \$910 in 1975-76, and \$970 in 1976-77, an increase of ten percent and seven percent, respectively.

We adopted this new school finance plan in 1971, in order to increase our state responsibility for financing elementary and secondary education and relieve the inequitable burdens to local property taxpayers. The costs of meeting inflation cannot now be shifted back to local school districts.

Those districts can raise their basic 30 mill levy only through a referendum by their voters. The purpose of those referendums is not to provide for basic cost increases, but to provide funding above the level guaranteed by the state if they want to do it and can convince their voters.

The increase in school aids that I propose is essential if the State is to fulfill the basic responsibility for education it assumed in 1971. I know that this Legislature will meet that responsibility.

We have made tremendous progress since 1971 in fair school financing. But our program is not yet as fair as we should make it. I therefore propose that we continue the six-year plan adopted in 1973 to raise the expenditures of our below-average districts.

That plan will reduce the amount that a district falls below the statewide average by one-half in 1975-76, and by two-thirds in 1976-77. These steps will do much to equalize the spending levels and educational opportunities of our school districts.

We must make some other special efforts as well.

We are proud of our education system, and we should be. Our high school dropout rate is the lowest in the nation. But for thousands of Indian and Latino children in Minnesota, the dropout rate is estimated to be as high as 40 percent.

Many Latino children, for example, come into our school kindergartens speaking poor English--and poor Spanish. Indian children arrive for their first day of school and find a culture for which they are largely unprepared. Their own culture may be ignored at best, or even treated with derision.

When such normal, healthy, promising children are given standard tests, the results may suggest that some of these are retarded. But they're not retarded. That's not the problem.

Their problem is that they can't handle a language which is new to them. They can't cope with an environment so dramatically different from the one they have known since birth.

So these children struggle along. Some of them make it. But too many of them don't. They drop out to become society's failures.

We can't afford to waste those lives and those minds. We can't banish a child from educational opportunity merely because his background requires a different approach from that of his classmates.

I am therefore requesting 900 thousand dollars to establish a pilot program of bilingual and bicultural education for Latino and Indian children in Minnesota. Children who face unique problems because of their linguistic or cultural backgrounds need our help--and we will give it!

We must also increase the special help we provide to school districts with high concentrations of low-income children.

In 1971, we included in the new school aid formula an additional weighting of one-half a pupil unit for each child from an A.F.D.C. family. This extra effort reflected the increased educational costs resulting from broken homes, low economic status, and socially deprived backgrounds. It provided 50 percent more aid for each student from such a family.

In 1973, this factor was improved substantially by also considering what percentage of a school district's total student population is made up of A.F.D.C. families. Under the current formula, a district with nine percent or more of its students from A.F.D.C. families receives an additional 85 percent of a pupil unit credit for each of these students.

But I believe we should do more, particularly in our core city schools. The problems there are enormous: declining enrollments, old buildings, high concentrations of underprivileged children--the list goes on and on.

I propose that the A.F.D.C. concentration weighting be extended in this session to provide a maximum of 1.4 additional pupil units in districts containing 14 percent or more A.F.D.C. students. This will pump an additional 16 million dollars in state aid into those districts with the greatest financial need. It means that when we compute state aid to public schools, every A.F.D.C. student in those districts will be counted almost two and one-half times.

I also recommend that we increase our support of community education aid by changing our method of payment to reflect it in the school aid formula. Any district which has a qualifying community education program and is levying the authorized \$1 per capita additional levy for that purpose would also receive \$.50 per capita in state aids for its community education program. We can extend the program in this way from the present 67 school districts which have programs to all 435 if they will make a local commitment.

I would also urge the Legislature to consider state participation in capital costs so that school districts with inadequate property values can build needed new facilities.

Such help should only be provided if it is clearly needed on the basis of careful study and examination. But it should be provided where it is needed, and we can do it through the resources of our Maximum Effort School Aid law.

SPECIAL PROGRAM AIDS

My budget recommendations also call for substantial increases in the special programs aids that supplement our basic aids to local school districts.

For special education of physically, mentally and emotionally handicapped children I am requesting a total of 83 million dollars, an increase of 28.7 million dollars, or 53 percent. That is money well spent on education and training of the physically and mentally handicapped and those with special learning and behavior problems.

I am also proposing a significant change in our method of funding.

The present reimbursement method leaves the variety and extent of assistance to handicapped children primarily to the judgment of local school districts. Some do more than others. Yet if the state guarantees adequate funding for a non-handicapped child, whether his district is rich or poor, then we owe that same guarantee to a handicapped child.

Under current law the state pledges to pay 60 percent of a handicapped child's educational costs. The actual level of state support, however, often drops below 50 percent, or even 40 percent because of an unrealistic cost ceiling in the law.

We cannot simply remove the ceiling. It would be fiscally irresponsible for the state to give a blank check to any program, however commendable, that is directed by state law and involves large amounts of state funding.

The current reimbursement program also fails to integrate special education aids with the funds available for handicapped children from the regular school aid program.

We need a new special education aid program which accomplishes three things.

First, it must ensure an adequate level of funding for all handicapped children, no matter where they live.

Second, it must coordinate special education aids with regular education aids.

Third, it must be manageable in the total amount of state resources required to finance it. I propose that in 1976-77 special education aids be converted to a system that meets these three criteria.

My recommendation for this program includes funds to make summer school programs mandatory for severely handicapped children who reside full-time in public or private facilities. Starting in the summer of 1976, this program will give these children the year-round training they need in order to make consistent educational progress.

My budget also provides for 132 million dollars in transportation aids, an increase of 40 million dollars, or 43 percent, in this program.

In 1973, transportation aids were converted from a reimbursement aid to an equalized aid. This process should be continued. Minneapolis and St. Paul, which remain on the old reimbursement formula, should be shifted to the equalization plan in 1976-77. This measure will raise the transportation levy in both cities.

Since they will also receive more state aids as a result of the proposed increase in A.F.D.C. weighting, I recommend that the two mill additional levy now permitted Minneapolis and St. Paul be abolished.

In the area of vocational-technical education, I recommend that secondary school vocational-technical education be set at 25 million dollars, that adult vocational-technical aids be set at eight million dollars, and that state aids for post-secondary Area Vocational-Technical Institutes be set at 78 million dollars. I also recommend that A.V.T.I. aid be converted to a formula aid separate from the regular school aid formula, and that it be paid currently rather than as a reimbursement aid.

The skills taught by our vocational-technical education programs help make the Minnesota work force one of the most productive and talented in the nation. The funds we commit to vocational-technical education are a direct investment in the economic potential of our state.

The total vocational-technical aids contained in my budget represent an increase of 19 million dollars, or 21 percent, over funding in the current biennium.

An estimated 210,000 Minnesotans will participate in these programs each year in the next biennium: 54,000 at the secondary level, 26,000 at our A.V.T.I.'s, and 130,000 in adult vocational education.

Our system of 33 Area Vocational-Technical Institutes located throughout the state provide all Minnesotans with the opportunity to attend a tuition-free, modern, and well-equipped vocational school within a reasonable distance from their homes.

But there is one major exception. The facilities in Minneapolis, our largest city, are inadequate and obsolete. Minneapolis voters recognized this fact by passing a referendum last November to pay the local share of a new A.V.T.I.

As it has done elsewhere, the state should contribute its share to this new school. My proposed budget includes 15.5 million dollars for the state share of new vocational-technical construction. This will cover the state's portion of the Minneapolis A.V.T.I. and some smaller projects at other schools.

We must also recognize another problem for some of our school districts.

Over the past year a few of our high spending districts have felt special financial pressures. Under our equalization plan, these districts were limited to the same dollar increase in state aids as that provided an average district.

If our equalization plan were the only factor affecting these districts, they would have felt little pressure. However, a number of these districts also face declining enrollments at a time of rapid inflation. A decline in the student population eventually yields some savings. But overhead costs do not always drop as quickly as enrollments.

Recognizing this fact, the 1971 Legislature provided that school districts would ignore half the lost enrollment as a financial compensation for declining enrollments. The state paid over seven million dollars under this provision in 1973-74.

In addition to enrollment declines and the restraints of our equalization plan, some of these districts employ a disproportionate number of teachers with seniority and salaries at the top of the pay schedule. Because of declining enrollments, fewer new and lower-paid positions are available to balance off this cost, and high-salaried teachers are not transferring to other districts. As a result, some faculties have become extremely expensive for their school districts.

Although the changes in the school aid formula and in the special education aids will greatly help these districts, I am also proposing that four million dollars be set aside to deal with their unique problems. These funds can be used to aid these districts directly, to provide retirement incentives, or to provide incentives for high-salaried teachers to transfer to districts with fewer teachers in the higher pay range.

It is not our intent to penalize any district for being a leader in education. We will always need models of quality education. Many of these districts have traditionally filled that role, and I'm confident that they will continue to do so in the years ahead.

#### PRIVATE AND PAROCHIAL SCHOOL STUDENTS

In 1971, the Minnesota Legislature quite properly passed legislation to provide tax credits to the families of children in the private and parochial elementary and secondary schools of this state.

That legislation has provided more than 18 million dollars of assistance that helped keep healthy private and parochial schools. We believed then and still believe that these schools play a vital role in our state system of education. We believed then and still believe they deserve whatever help we can legally provide.

It is important to note here today that our Minnesota Supreme Court indicated that these credits were constitutional when they were established.<sup>1</sup> But by the time they made their ruling, there had been a change in constitutional interpretation by the United States Supreme Court. Under those changed conditions, the state Supreme Court declared the tax credit method unconstitutional.

In this legislative session. I believe we should take two steps to provide assistance to the children who attend the private and parochial schools of Minnesota.

First, I am recommending an increase from one million dollars to 2.5 million dollars in the categorical program of "shared time" instruction now provided through the Minnesota Department of Education. We should integrate this categorical aid into the formula aid provided to school districts by prorating the "shared time" students from private schools who receive part of their instruction in public schools.

I also believe that we should make non-religious books, instructional materials, and auxiliary services like counseling, testing, speech and hearing diagnosis and other health services available to the children who attend private and parochial schools, on a comparable basis to services that are now available to public school students. I have set aside 24 million dollars for this purpose.

<sup>1</sup> Minnesota Civil Liberties Union vs. State of Minnesota, Minnesota Supreme Court, November 26, 1974, p. 12

PROPERTY TAX STABILIZATION

A principal goal of Minnesota tax reform in recent years has been to reduce reliance on the local property tax as a source of public revenue.

The reason for that goal is that the local property tax is the most unfair, regressive tax on Minnesota's low and middle-income families.

In the last few years we have passed a series of laws to reduce our reliance on property taxes. The President's Advisory Commission on Intergovernmental Relations called our program the "Minnesota Miracle." The massive shift of school costs from local property taxes to state aids in 1971, the increase in state aids to county and municipal governments, the abolition of business personal property taxes, the expansion of homestead credit, renter credit and the senior citizen property tax freeze--all of these measures have greatly reduced the impact of regressive property taxes.

Our success in this effort has been substantial. In the three years (1969, 1970 and 1971) immediately preceding the reforms net property taxes on homes and farms rose 74 percent. In contrast, in the first three years (1972, 1973 and 1974) following passage of the 1971 reforms, net property taxes dropped eight percent.

Another way to show the success of the reforms is to look at the sources of state and local tax revenue in Minnesota. In fiscal 1971, before the reform, property taxes provided 47 percent of the total state and local tax revenue in Minnesota. As a result of these reforms, that percentage has dropped to 34 percent, a remarkable achievement for a four-year period.

But today those gains are in danger as a result of our national economic crisis. The inflation of the last year has renewed the pressure on local governments to increase local property taxes. It is estimated that property taxes this year will rise 15 percent to 20 percent.

There will be one exception to that increase. Because you had the compassion and the foresight in 1973 to freeze property taxes for our senior citizens, this group will not be subject to a property tax increase in 1975. Their taxes will remain frozen at the existing level, and any increase imposed by local governments will be paid by the state. The estimated cost of this program during the next two years will be 53.5 million dollars.

We must take additional steps in this session to help local governments finance their priority efforts. And we must continue our effort to reduce the pressure on property taxes.

Therefore, I am proposing four items as a property tax stabilization package.

First, I propose a major increase and change in the direct property tax relief program of the state. I propose that the existing homestead credit, renter credit, and low-income senior citizen and disabled persons' rent and property tax credit be combined into a single income-adjusted property tax relief system. The senior citizen property tax freeze will continue as a separate program.

Under this proposal, the state would refund to any homeowner, renter, or farmer any property tax on his home, apartment, or farm that exceeds one and a half percent of his income, with the limitation that the refund will not exceed \$425. Renters will also qualify for up to \$425 of property tax relief.

For senior citizens, the maximum refund will be \$625.

This change will tie the amount of property tax relief a family receives directly to family income. As income rises, the property tax credit will fall. As income falls, the credit will rise.

This system offers far greater security to a household in a period of economic flux. It will ensure that more of our property tax relief will go to middle and low-income families who are the most severely pressed by inflation.

For example, the Tax Study Commission reports that in 1974 our present homestead credit law provided a property tax refund of \$193 to a family with a very modest \$5,640 income. Even with this state credit, the property tax amounted to 4.5 percent of that family's income. In contrast, a family with an income of \$55,000 was receiving a state homestead credit of \$325 and was paying a net property tax that amounted to only 1.9 percent of income.

Under the income-adjusted property tax relief program, that low-income family's state refund would have climbed to \$364 and the net property tax would have been reduced to a manageable 1.5 percent of their income. That's 1.5 percent of income going for property taxes instead of 4.5 percent. For a middle-income family earning \$14,400, the old homestead credit of \$299 and the net property tax took 2.7 percent of family income. Under the income-adjusted proposal, this family would have received the maximum credit of \$425 and their property tax would have fallen to 1.9 percent of income.

The Tax Study Commission, under the very able leadership of Senator Alec Olson and former Representative Ray Pavlak, has recommended this approach as superior to our present homestead credit system. I agree, and I urge you to adopt it this session. If you do, Minnesotans will receive approximately 50 million dollars more per year in property tax relief than existing programs would provide.

Second, I am proposing that all of the gross earnings taxes presently collected by the state from telephone, railroad, telegraph and freight line companies be returned to local governments. Gross earnings taxes are paid in lieu of local property taxes. If those companies were subject to normal local property taxes, the revenue would be collected by local governments. Currently, however, gross earnings revenue is collected and spent by the state.

I suggest using the framework of the already existing local government aid formula to return these funds to local governments. They totalled 46.2 million dollars in fiscal 1974, and giving them back to local governments will mean an increase in local government aid of over 33 percent. It will help county, city and town governments to meet their obligations without resorting to further local property tax increases, and it will mean property tax relief for all property owners, homeowners, businessmen, farmers.

Third, I am proposing a change in the property tax classification of homes and farms. Currently the first \$12,000 in the value of a home or farm is assessed at a lower rate than the remainder. Once most homes were below the \$12,000 level. But that figure has remain unchanged since the mid-1930's, and today most homes are well over the low homestead classification. This is one of the causes of excessive taxation of homes.

To correct this inequity, I propose that the \$12,000 low homestead classification be raised to \$14,000 for both homes and farms. In order to prevent that figure from being rapidly eroded by inflation, I propose that an escalator based on the inflation rate of an average home be added to our laws. Such an escalator would automatically adjust the low homestead figure upward as the value of homes increases. This program will require 6.6 million dollars of state funds.

Fourth, I propose that the special low classification given to Title II property for the elderly and Class 3cc homesteads for the disabled be revised so that they are taxed at the same level as comparable private property, and that the state pay the difference between the current low classification and the regular classification. Residents in Title II and 3cc housing will retain the low taxes they deserve, but the cost of their tax relief will be paid by the state rather than by other local property taxpayers.

Title II and 3cc housing are presently burdens on the other taxpayers of communities where this housing is located. This proposal will make them assets, and at no cost to those who live in such housing. The cost of this proposal is 2.5 million dollars a year.

Income-adjusted property tax relief means direct help to taxpayers. Return of gross earnings aids to local communities will increase aid to local government by 33 percent.

Together with the reclassifications I have proposed, adequate school funding, and continued levy limitations, these steps will reaffirm our strong commitment to restrict the unfair property tax.

#### POST-SECONDARY EDUCATION

My recommendations for post-secondary education maintain Minnesota's commitment to educational opportunity for all Minnesotans.

I have already called for increased funding for area vocational-technical schools, and have recommended state support for the development of a vocational-technical school in Minneapolis.

The free tuition that we provide at our vocational-technical schools is also an essential commitment to opportunity for our young people. I continue to reject any proposals to charge tuition in those schools.

But we do charge tuition at our community colleges, state colleges, and the University of Minnesota. Those tuition costs have steadily been increasing over the past several years as the cost of instruction goes up.

In 1965, a community college or state college student in Minnesota paid \$64 per quarter for tuition. Today the cost is \$120 per quarter.

At the University of Minnesota, the tuition charge per quarter in 1965 was \$125 at the College of Liberal Arts. Today it is \$238, even though tuition at the University has been adjusted from college to college to reflect the cost of instruction. In other colleges of the University, the difference is even greater.

We use state scholarships and grants to help the most needy of those students meet the cost of going to school.

During the past two years, more than 12,000 Minnesota students have received help from the scholarship and grant programs. The Higher Education Coordinating Commission informs me that assistance was provided this year for every student who applied and demonstrated special need.

But the rising cost of tuition for all of our public college students in Minnesota concerns me a great deal. It is an increasing burden for more than 100,000 young Minnesotans who attend these schools.

I am convinced that low tuition is the best student assistance we can provide. And I am convinced that all of our Minnesota public college students need help in this time of inflation and recession--when costs are high and part-time jobs are scarce.

The Community College Board and the State College Board have both recommended officially that tuition not be increased for the next two years--that state funds be used to pick up all of the additional cost of instruction in those systems. Deep concern over tuition costs has also been expressed by the Board of Regents of the University of Minnesota.

If my budget recommendations for the public college systems in Minnesota are approved and we increase tuition according to present formulas, we estimate that tuition would increase by 17.5 million dollars in the next two years for the students who attend those schools.

I don't believe we should let that happen. I recommend that we freeze tuition charges for all Minnesota resident students in our public college systems for the next two school years.

If we do that, tuition would then increase according to the present formula only for non-Minnesota residents attending Minnesota schools. The proportion of instructional costs paid by Minnesota public college students will be reduced accordingly.

We have the resources to make this commitment to opportunity for Minnesota young people if we budget carefully in all of our state departments and programs, and I strongly recommend that the Legislature give priority to a tuition freeze. That is the best way to maintain educational opportunity during the next two years for 100,000 Minnesota young people.

I am also requesting an increase of 7.5 million dollars in state scholarship and grant programs, 53 percent above the current level of funding. Four years ago we were spending 5.4 million dollars for state grants and scholarships. In this biennium, the amount is 14 million dollars, and I propose an increase to 21.5 million dollars.

That is four times the amount we spent four years ago.

My request will allow us to continue providing assistance to the private and public college students now receiving assistance and provide help for comparable numbers of entering students during the next two school years. It allows us to raise the limit on individual awards from \$1,000 to \$1,200 per student, to help offset two years of inflation.

This assistance is basic to educational opportunity.

Today, both public and private college students are eligible for these aids, and Minnesotans attending our state-supported area vocational-technical schools are also eligible.

But those who attend such private vocational-technical schools as Dunwoody Institute are not. I recommend that eligibility for these important programs be extended to Minnesota students enrolled in private vocational-technical schools.

I am also recommending today that we substantially increase our state scholarship commitment to our Indian citizens.

We cannot increase opportunity for native-born Americans in Minnesota without increasing their ability to go on to school.

There are three public sources of student assistance in Minnesota for that purpose--the Bureau of Indian Affairs, the Higher Education Coordinating Commission, and the Indian Scholarship program of the Department of Education.

Indian students in Minnesota will benefit from the increase I am proposing in the amount of scholarship and grant help that can be made available to an individual student. But funds in the special Indian Scholarship program are absolutely critical to complete aid packages for these students and make sure that they have the essential economic support they need.

So I am recommending today that the Indian Scholarship fund in the Department of Education also be increased, from \$540,000 to \$800,000 for the next two years, an increase of 67 percent. I strongly recommend your support for this program.

We must also continue our educational reciprocity program with the State of Wisconsin.

Two years ago, we worked out the first unlimited higher education reciprocity agreement between states in America.

That agreement permits residents from both Minnesota and Wisconsin to cross the border and attend a public institution of higher education without paying non-resident tuition. This year some 1,800 Minnesota students will participate in this program, with an average yearly savings of over \$1,000 per student.

We also have an opportunity this year to extend our reciprocity agreement to North Dakota. I am recommending legislation to accomplish that, and similar legislation will be introduced in North Dakota. We estimate that 900 North Dakota students and 1600 Minnesota students will take advantage of this program.

In addition to saving students money, reciprocity agreements help avoid wasteful duplication of programs and permit our educational systems to make better use of their financial resources in a time of fiscal austerity.

I strongly recommend your continued support of Wisconsin reciprocity and establishment of reciprocity with North Dakota this year as well.

To accompany reciprocity, I also recommend that you extend eligibility for state scholarships and grants-in-aid to Minnesota students who are attending school in states with which we have reciprocity agreements. The funds are available, but the authority must be provided.

We must also expand the state post-secondary loan program you established last session.

In 1973, you authorized the Higher Education Coordinating Commission to sell 30 million dollars' worth of revenue bonds and establish a federally-insured student loan program. Your action made it possible for any Minnesota student with financial need to obtain up to \$2,500 a year to study at virtually any institution in the country.

Some 15,000 Minnesota students will obtain loans under this program during the current biennium. It has brought the stability we sought for students who must borrow money to attend school.

All of the available funds are being committed this year, and the need for loan assistance is greater because of inflation and recession. I urge you to double the authorization from 30 million dollars to 60 million dollars and continue this highly successful and worthwhile program. Such action, which requires no appropriation of state general revenue funds, will make low-interest loans available to thousands of Minnesota students with financial need.

We also must provide additional state assistance to our private colleges in Minnesota.

In 1971, we began a program of reimbursing Minnesota private colleges \$500 per year--\$400 for private junior colleges--for each new Minnesota student they enrolled beyond the number they had in 1970.

We had two goals in that program--to maintain the strength of our private college system and to pay a small share of the cost of educating Minnesota students who would otherwise be educated at greater cost in our public colleges and University.

Many of our private colleges were in financial trouble at that time. The state support we have provided since 1971 has helped them to continue to play a vital role in the education of young Minnesotans.

This year the private colleges have requested that we change the basis on which we make the payments and provide some support for every Minnesota student they educate. In my judgment, their need is great and their request is reasonable.

During the current biennium, we are providing 2.9 million dollars of support to our private colleges through this system. I recommend that we provide 7.2 million dollars during the next two years, an increase of approximately 150 percent. We must continue to have a strong private college system in Minnesota.

Two years ago, public higher education in Minnesota had entered a period of declining enrollment, and staffs were being reduced to reflect the new enrollment patterns. Enrollments had dropped by more than 4,300 students at the community colleges, the state colleges, and the University of Minnesota. The only post-secondary education system anticipating enrollment increases at that time was the area vocational-technical system.

Two years ago, I recommended no new faculty members in any of our systems, but asked instead that you provide a special contingency fund to ease the burden of necessary faculty cuts in our state colleges.

I predicted in my 1973 Budget Address that the adjustment would not be easy, that our higher education system heads would have very difficult responsibilities, and that we would be sympathetic to their problems and responsive within our budget limitations.

The adjustment has not been easy, but it has been made thoughtfully and carefully in those systems with a real concern for preserving the excellence of higher education in Minnesota.

For the next two years, enrollments will remain stable in the community college and state college systems, with some increases and decreases in individual schools. The University of Minnesota system is predicting more than 1,800 new students over the next two years, and our area vocational technical students expect to enroll more students than they did this year.

This year, I am proposing faculty and staff increases to meet the growing enrollment at the University of Minnesota. I am also recommending that state funds of 3.5 million dollars be appropriated to maintain the enrollment level at the University of Minnesota Medical School since federal funds will no longer be available for the program that increased our enrollment there.

I am also proposing additional staffing funds to support the state affirmative action policy in our state colleges, and to give athletics for women more equal status with athletics for men at our state colleges and the University of Minnesota.

It is important to maintain the staff-to-student ratios that currently apply to our higher education systems, and provide staffing assistance for affirmative action and women's athletics as well. I am pleased to be able to recommend that we do so.

Even though enrollments have stabilized temporarily, they will drop again in the future as a result of the 40 percent decline in the Minnesota birth rate over the last fifteen years. Enrollments have already begun to drop in the elementary grades. It is only a matter of time before there will be far fewer students available to attend our post-secondary institutions.

We must prepare for these future realities. And part of that preparation must be continued improvement of our efforts to bring cooperation and coordination to our post-secondary education in Minnesota.

Over the past few years, many steps have been taken through the Higher Education Coordinating Commission - review and approval of new programs and proposed new schools, study of manpower needs, and coordination of library resources, to name several.

Two years ago we went one step further by assigning the Higher Education Coordinating Commission the responsibility to review the budget proposals of our colleges and the University of Minnesota as well.

That process is still imperfect, but it deserves the continued cooperation of our public post-secondary institutions. Only through such cooperation can we develop the united effort necessary to keep our total higher education effort strong in the face of changing needs. My budget recommendations include additional funds to maintain and improve the budget review process we began two years ago.

My budget also includes some special appropriations in the area of agriculture. For the University of Minnesota's Technical Colleges at Crookston and Waseca, I am requesting 4.9 million dollars, an overall increase of 18 percent to maintain existing programs and provide for a modest enrollment increase at these two schools.

For the University's Agricultural Extension and Research Programs, I recommend a total of 16.6 million dollars, an increase of 2.7 million dollars or 19 percent. In a state that derives more than 40 percent of its employment and gross economic product from the production and processing of food, we must ensure that these two very important programs are adequately funded.

My total requested increase for the University of Minnesota, state college, and state community college systems is 56.2 million dollars. This includes increases of 34.6 million dollars, or 14 percent at the University; 15.2 million dollars or 17 percent for state colleges; and 7.4 million dollars, or 19 percent at our community colleges. My total budget request for these three systems is 418 million dollars, not including salary increases.

#### EDUCATION OF HEALTH PROFESSIONALS

In my 1971 Budget Message, I noted "the particular despair with which most Minnesotans regard the shortage of trained medical personnel." In the four years since then, the Legislature has made a major financial commitment to the training of doctors and other health professionals.

We must continue that commitment.

I have already noted the 3.5 million dollars needed to compensate for a federal cutback at the University of Minnesota Medical School.

In addition, my budget contains funds to continue two new medical training programs started in 1971. For Mayo Medical School in Rochester, I am requesting 2.4 million dollars, an increase of 888 thousand dollars.

This new money will permit the school to reach an enrollment level of 150 Minnesota students, in keeping with current policy of limiting state support to 40 Minnesota students per class per year.

A similar item, 2.5 million dollars for the medical school at the University of Minnesota-Duluth, will allow the freshman class to grow from 36 to 48 and fund the new staff needed for this growth.

This is also an appropriate time to establish graduate residencies in family practice at affiliated hospitals in Duluth, now that basic resources exist at U.M.D., and my budget contains 300 thousand dollars for this purpose. And for the Dental Hygiene Program at U.M.D., I am requesting a 25 percent increase over the current biennium, the full amount requested by the University.

I also recommend continued support of the Rural Health Physicians Associate Program at the University of Minnesota. This program encourages medical students to practice in rural areas of our state by permitting them to study and work with local doctors during their training. I propose to expand this program with an appropriation of 780 thousand dollars, a 15 percent increase to provide additional core faculty for 40 students per year.

LEGISLATIVE REFERENCE LIBRARY  
STATE OF MINNESOTA

In a related effort to place more doctors in rural Minnesota, I support the Higher Education Coordinating Commission request to add 20 new students in each year of the biennium to its rural medical practice loan program.

For the Family Practice and Community Health Department at the University of Minnesota, I am requesting 2 million dollars, a 21 percent increase to maintain and strengthen this important department. And for undergraduate medical instruction at the University, I propose a 400 thousand dollar increase to extend clinical education to the private hospitals affiliated with the University.

These and other health-related recommendations for post-secondary education will ensure that the state continues to prepare an adequate supply of health professionals for our needs.

#### CATASTROPHIC ILLNESS AND ACCIDENT INSURANCE

If a strong America has a glaring weakness, it is this: each year thousands of American families are reduced to poverty or bankruptcy by the catastrophic cost of prolonged sickness or accident.

Most modern industrialized societies do not tolerate a situation which allows medical costs to wipe out in a short time the precious and hard earned resources of the average working family.

But in our country this happens every day, even to families with the foresight to purchase health insurance adequate for most medical contingencies.

We can no longer force families struck down by catastrophic illness to fend for themselves.

Therefore, I am proposing that we can protect Minnesota families against the catastrophic costs of prolonged illness.

I am recommending a plan to have the state pay a major portion of catastrophic medical expenses after an individual's private insurance has run out.

Those faced with catastrophic costs will be required to make a "deductible" payment based on a percentage of their annual real income.

At the present time, 45 percent of our people, it is estimated, carry major medical health insurance. If any of these individuals exhaust their insurance benefits, they will be required to pay ten percent of their annual income toward the medical costs. The state will pay the rest.

Another 40 percent of our people carry health insurance without major medical benefits. If any of these people are faced with paying catastrophic costs after their insurance benefits have run out, they will pay 25 percent of their annual income, and the state will pay the rest.

The remaining 15 percent of our people who have no insurance will be required to pay 50 percent of their annual income or \$5,000, whichever is higher, before the state will pay out any benefits.

During the second year of illness, the cost to the individual or family will be 25 percent of the deductible expenditure they made during the first year.

I believe that this is a sensible, responsible plan for meeting the problem of catastrophic medical costs. It builds upon and expands the scope of Minnesota's private health insurance system.

It will require precious little in the way of bureaucracy, new positions, or red tape. It provides powerful incentives for people to buy the most comprehensive health insurance coverage available. And it requires that all Minnesotans be provided with an opportunity to purchase necessary coverage.

During the last legislative session, through the no-fault auto insurance law, we achieved a goal of expanded auto insurance coverage for all Minnesotans. This year we must begin not only to protect families from bankruptcy but to increase the number of Minnesotans who are protected financially by full comprehensive health insurance.

Our goal is a simple one: to see the day when each and every Minnesota family is covered by comprehensive health insurance with the company of his or her choice.

This program will dispel the nightmare of destitution for as many as 5,000 Minnesota families. I have set aside 17 million dollars in my budget recommendations to finance the program during the upcoming biennium.

ALCOHOLISM AND DRUG ABUSE

Last week, I announced that I was committing 10 million dollars of my budget recommendations for a program to relieve the misery and tragedy of alcoholism and drug addiction.

We are fortunate in Minnesota because we have great capacity to deal with alcohol and drug problems. We have sufficient primary treatment and half-way house spaces available to our citizens who need help.

We have excellent state and local public agencies and staffs.

Our private treatment professionals are second to none, and our private care facilities are among the best in the country.

Facilities and skilled treatment opportunities are not the problem. The problem is that we are not getting enough of our citizens with drug and alcohol problems to take advantage of the facilities we have.

That is the goal of the program I am proposing -- to reach thousands of Minnesotans who are afflicted by the illnesses of drug and alcohol addiction and help them find their way to treatment -- and to health.

We will need to reach people where they work, and we must begin at home. A major priority of this program will be to identify, counsel, and help state employees receive the treatment they need. I want Minnesota state government to become a model employer in its efforts to deal with the chemical dependency problems of our employees.

We must develop new efforts in local government, the schools, and small businesses as well.

But not all of the people who need help are employed outside their homes. Chemical dependency is a family illness, and it touches one out of every four persons in our state in some way.

We see its harmful effects in divorce statistics, problem students, problem parents, crime rates, and misery among our cultural minorities and senior citizens.

We must reach out to them all. We must take advantage of our facilities and our skills and our national reputation in this field.

I propose that we purchase the services of our excellent private treatment groups to assist in this effort. We will not have to add new state employees to manage this effort. And we will have greater flexibility in the design and implementation of the program.

Our native American citizens of Minnesota have been especially troubled by chemical dependency, and are deeply concerned about developing programs that meet their special needs. I therefore propose that we reserve one million dollars for chemical dependency efforts by and for Indians, both on and off the reservations, in rural areas and in the cities.

In Minnesota, as in the rest of the country, we place a high value on freedom. It saddens me that in 1975 so many of our citizens are not free because they are prisoners of a chemical dependency.

This additional effort to eliminate alcoholism and drug abuse will bring new freedom to many.

Freedom from unnecessary highway fatalities.  
Freedom from crime. Freedom from alienation and unhappiness.

It is my goal to begin the third century of America's freedom in the Bicentennial year of 1976 by insuring that more Minnesotans are truly free from the sickness of addiction to drugs and alcohol.

And I look forward with enthusiasm to our effort to bring them that freedom.

MENTALLY RETARDED AND HANDICAPPED

Last October, a Federal District Court judge told the State of Minnesota that it has a responsibility to provide "a humane and safe environment" for mentally retarded residents of our state hospitals.

I agree.

The Court also observed correctly that our mentally handicapped citizens have a right to "minimally adequate treatment designed to afford each of them a realistic opportunity to be cured or at least to improve upon his mental and physical condition".

I agree. Each and every person sitting in this Chamber agrees.

But in order to insure these rights, the Court directed the state to pour millions of dollars into our existing state hospital system.

I believe we can spend these dollars more wisely than that. Reinforcing our state hospital system is not the answer to the care and education of mentally handicapped Minnesotans.

The fact is that our state hospital system is a relic of a less enlightened era. It is a reminder that our mentally handicapped were once a source of shame. Our state hospitals were built to isolate the retarded from the rest of society.

Our state hospitals were constructed so that we would not see our mentally handicapped, so that we would not have to live with them or work with them. A hospital was a place for putting these citizens out of the way as far away from home as possible.

It was the best thing we knew at the time. As late as 1959 we were still building large and impersonal state institutions and writing off the lives of hundreds of our citizens. We concluded that they could not grow, that they could not learn, that they could not develop and lead richer, fuller lives.

We were wrong.

We overcommitted ourselves to hospital care and undercommitted ourselves to helping our retarded citizens live their lives as normally as possible.

We were genuinely concerned about our mentally handicapped people. We tried to make them as comfortable as possible. And when someone cited a need to do something for our mentally handicapped people, what did we do? We built more hospitals, added more buildings, and hired more staff.

That was proper care for some of our mentally handicapped residents, and it is still proper care for those with the most severe problems. But for many, a great many, of our handicapped people it was the wrong thing to do.

Today we know better.

We know now that many of our mentally handicapped have a significant capacity for growth and development. And we know that real growth and development require a favorable environment.

Today we know that our mentally handicapped, like the rest of us, need a community, family-centered environment. Growth is easiest in the kind of surroundings that we all depend on -- a normal family-based setting where there is personal attention, love and warmth, and the chance that every day will be varied and different.

Try as we might, we can never develop large institutions, however luxurious, that can do all this. That is why I cannot completely accept an approach that says we must initiate a crash program to improve our large institutions alone.

The time for that is past. It should have been over long ago.

Our task now is to comply with the intention of the Court by accelerating the movement we have already begun toward de-institutionalizing our care and placing it where it belongs -- in the community. Because only in the community can the handicapped learn and develop the abilities that will allow them to live in a community environment.

Today I am recommending a course of action that will eventually -- and carefully and sympathetically -- move us away from reliance on our state hospital system as the primary means of caring for our mentally handicapped citizens.

During the next two years we will put Minnesota firmly on the road to community care by setting four goals and applying the resources to fulfill them.

First, we will move seven hundred of our 3,600 mentally retarded persons out of our state hospitals and into the communities of Minnesota. This will reduce the number of mentally retarded hospital residents by nearly 20 percent. In subsequent years, I plan to take whatever measures are necessary to double this reduction. Our goal will be to move an additional 1,300 residents from the hospitals in future years.

In addition, we will move an additional 100 mentally ill and chemically dependent residents from our hospitals and place them closer to home.

These reductions in the number of hospital residents will increase the resident-to-staff ratios for the residents that remain.

To carry out this phase of the program I have set aside 4.7 million dollars of my budget, to be allocated in the following manner:

Of the seven hundred mentally handicapped residents, two hundred children will move back home to the love and warmth of the family under a new family subsidy program, costing 1.9 million dollars.

One hundred of the most severely retarded will be transferred to community care centers at a cost of approximately \$715,000.

Four hundred less severely handicapped will also be relocated in community care centers at a cost of \$850,000.

I am also requesting that 50 mentally ill and 50 chemically dependent residents be transferred to community centers at a cost of approximately 1.2 million dollars.

I am also requesting approximately \$120,000 in additional state funds to provide for the daytime activity center needs of the new community residents.

Our second goal for the coming biennium will be the construction of nearly 50 residential community care and treatment centers to serve the needs of those leaving the state hospitals.

These community centers will be small. Personalized care will be their hallmark. Each will be capable of caring for 8 to 16 residents.

The total cost of constructing these centers will be nearly 10 million dollars. I have already asked the Housing Finance Agency to finance 5 million dollars of this amount, and I will ask the Agency to devote an additional 5 million dollars to the effort. No direct state appropriation is required.

My third goal is to phase out one state hospital and make its facilities available for other purposes, and plan for possible phasing out of a second hospital as well.

I have instructed the Commissioner of Public Welfare to prepare plans to move state hospital residents out of Hastings State Hospital. I am recommending that the Veterans' Home Board take over the facility and transform it into a veterans' home.

In 1959 we had eleven state hospitals with more than 16,000 residents. Today we still have ten state hospitals, but there are fewer than 6,000 residents. The plan I have just described will reduce the number even more.

Obviously, we don't need all of our state hospitals any longer. An alternative use has been found for the Hastings facility that will preserve its economic contribution to the community, and we should proceed.

The dedicated and talented hospital staff at Hastings will have the opportunity to transfer to other facilities where their addition will enhance the staff-to-patient ratio in our remaining hospitals, especially at Cambridge. I sincerely hope that the Hastings staff will choose to remain in state service, and give our other hospitals the full benefit of their skill and experience.

The city of Hastings has graciously and generously supported the hospital in many ways for many years. We will ask them to offer the same support for the new role of the present state hospital.

Moving carefully at Hastings and developing alternative uses there, will give us the opportunity to prepare a model for further efforts to reduce the number of state hospitals. We will also try to find alternative uses for these facilities, so that we can phase in new activities while we phase out the state hospital activities.

My fourth goal is to strengthen the community-based care system already in operation.

In addition to the funding just mentioned, I am recommending 7 million dollars of funding for daytime activity centers, an increase of 3 million dollars or 75 percent over the current biennium. This additional funding will bring daytime activity centers to 13 counties that now lack them, and 800 additional people will be served.

These centers will provide education, training, and recreation for retarded citizens who leave state hospitals in the future. Even more important, this funding will make it possible for handicapped citizens to stay out of our hospitals in the first place.

I am also requesting \$500,000 additional funding for sheltered workshops. These workshops serve the mentally handicapped and the physically handicapped. Sheltered workshops are an avenue of partial or complete self-support for many who would otherwise be completely dependent on public funds for their support. This funding will permit us to establish 520 new work stations during the next two years.

The course of action I am proposing today will provide sounder and better care for our mentally retarded citizens than the plan envisioned by the Court.

We will provide a proper atmosphere for many of our handicapped citizens - where they can live and be cared for; where they can learn to learn and learn to work to the best of their ability; where they can share the quality of Minnesota life instead of being kept apart from it.

I strongly recommend that we make the commitment and begin the effort in this session of the Minnesota Legislature.

NUTRITION ASSISTANCE

Each week, more Minnesotans join the ranks of the jobless. Their income is down. But the price of food is not. Today, food costs 30 percent more than it did 22 months ago.

The national administration has chosen this time to charge Americans more for food stamps. Beginning soon, a single person on Social Security will receive one-third less benefits from the food stamps he buys.

When inflation strikes those with low or fixed incomes, or recession substantially reduces income, many of our citizens have little leeway to respond.

Most of them already are doing without as much as they can. When costs go up, their diets begin to suffer.

My budget recommendations include three efforts to help respond to this situation, at a cost of 1.8 million dollars for the next two years.

First, federal support for nutrition programs for the elderly in Minnesota has not kept up with the rising costs of food. We are in real danger that senior citizens who are now receiving special lunches and other meals through this program may have to be turned away.

I have set \$650,000 aside in my budget to guarantee that the same number of senior citizens will keep receiving this assistance during the next two years.

Second, many eligible Minnesotans with low incomes are not making use of food stamps. Despite the rising cost of these stamps, they can still help thousands of our citizens. But these citizens either are not aware that food stamps are available or do not know they are eligible to receive them.

I propose a special food stamp outreach program to inform eligible Minnesotans of the food stamp benefits available to them, and I have committed \$130,000 of my budget recommendation for that purpose.

Third, some of our young children in Minnesota are victims of inadequate nourishment. Poor nutrition can have bad effects on physical and mental growth in the first few years of life.

Mothers who are poorly nourished during pregnancy are likely to give birth to low weight or premature babies. At least 70 percent of the 50,000 infant deaths reported in the United States each year are the result of low birth-weight babies.

At the present time, 2.7 million dollars of federal funds are providing special nutrition in Minnesota for nursing mothers and small children. I propose we add another million dollars of state funds to this program to help more than 2,500 additional children stay alive each year and have a better chance for normal physical and mental development.

#### HUMAN SERVICES REORGANIZATION

Two years ago, we passed the Human Services Act.

Under that pilot legislation, responsibility for physical and mental health, welfare, and corrections services can be assigned to a single, multi-county board. We had two goals in proposing that cooperative effort with local governments: to respond to human needs in the most effective way possible and to manage more effectively the use of our excellent professional staffs and community facilities.

Since 1973, the Human Services Act has received national attention. Other states have considered the legislation a model reform. I recommend that we continue this program to establish multi-county operational human services boards at a biennial cost of \$300,000 in state funds that can be matched with federal social services funds. We need further operational experience before making a final decision on the value of this effort.

We also need to improve coordination of human services within state government. We must insure that every human services dollar we spend, whether state or federal, produces real benefits for Minnesotans, and we must deal with our needs and our programs on a comprehensive basis.

I therefore propose the establishment of an interim Office of Human Services with two main responsibilities.

It will prepare a single budget and a plan for the reorganization of Human Services Departments in time for legislative review in 1977. At a minimum, this office should include within its scope the Departments of Health, Public Welfare, Corrections, Employment Services, and the Division of Vocational Education of the Department of Education.

The Office of Human Services will also coordinate federally funded planning units with Human Services responsibilities.

My budget request contains \$200,000 for this purpose. Legislation will provide for additional use of federal resources and staff of state departments. I recommend that this office cease to exist at the time the Legislature acts for reorganization in the 1977 session.

HOUSING PROGRAMS

Four years ago, the State of Minnesota entered the housing assistance field for the first time in history.

We created the Minnesota Housing Finance Agency. In 1974 we increased its bonding authority to 600 million dollars and gave it responsibility for rehabilitation loans as well as new housing.

By the end of this year, after two full years of operation, the Housing Finance Agency will have helped to finance housing for more than 10,000 Minnesota families. It is now a national model - a positive government force in the housing field.

This is a remarkable record, particularly in these days of tight money, double-digit inflation, and an uncertain federal housing policy.

The federal government has been an unreliable partner in this effort. Moratoriums, cutbacks, freezes, and bureaucratic red tape have reduced our ability to base a housing policy on federal assistance.

Minnesota needs more than 40,000 new housing units each year. That is twice as many as builders have ever produced in just one year.

But housing starts in Minnesota, as in the rest of the nation, are only half what they were two years ago. Building costs are rising at the rate of 18 percent a year. The average price of a new home in Minnesota is now \$38,000 - if you can get the mortgage money for it.

We must increase our state housing efforts and try new methods if we hope to ever meet our needs.

I am therefore requesting an appropriation of 45 million dollars for the Housing Finance Agency to establish a wide-ranging housing assistance program.

Some of these funds will be available for grants to help low-income homeowners make needed repairs to their property.

Half of the housing units in our state were constructed before 1940, more than 35 years ago. Nearly two-thirds - 63 percent - of the homes in outstate Minnesota were built before 1940. Many of them need major repairs, but the owner simply can't afford them. These grants, together with the Agency's program of home improvement loans, will make it possible to rejuvenate this existing housing.

A revolving loan fund, with interest rates as low as 1 percent, will also be established to finance home

improvements intended to reduce energy consumption and costs. Further details on this energy conservation effort will be contained in my environmental message.

Another portion of this appropriation will be available to develop housing on Minnesota's Indian Reservations. The Bureau of Indian Affairs reports that 46 percent of the housing on our reservations is substandard, and that 980 new units are presently needed. My request will make it possible for the state to respond to these needs.

This appropriation will also provide home financing for low income rural families. These funds will finance the purchase of relatively inexpensive Basic Homes and stimulate the construction industry in outstate Minnesota. It will offer an alternative to families who must now choose between substandard housing or a mobile home.

The agency will also create a "house payment assistance program" for moderate income families who need a short-term subsidy in order to buy a home. For example, a family with a six-year subsidy might have their house payment reduced by \$60 a month during the first year, with this state subsidy gradually decreasing over time. At the end of the sixth year, the family would assume complete responsibility for the payments.

Such a plan will make home purchases possible for families whose income is likely to increase in the future. Payments can be based on their ability to pay. The average cost of assisting a family in this way would be about \$2,500.

I propose this general Housing Assistance Program to permit our Housing Finance Agency to be more flexible in attempting to meet the variety of housing needs that exist across the state.

I also propose that current law be amended to give the Agency more ability to stimulate housing construction and improvement. The building industry is sagging; construction companies are going bankrupt; workers are being laid off. Housing construction costs are at an all-time high, and so are interest rates on money to finance construction.

All of these facts are true at a time when Minnesota is facing a period of unprecedented housing demand.

The efforts of our Housing Finance Agency are presently limited by law to housing for low and moderate income persons. I propose that we expand the Agency's authority to cover all housing, thereby allowing construction loans to builders of single-family homes without regard to the income of the eventual buyer.

It is also possible to adjust state housing policy to bring more vitality to our urban centers.

About 50 percent of the housing in the core cities is for low and moderate income people, compared with about 15 percent in suburban Hennepin and Ramsey Counties. I recommend that we alter this trend by removing income restrictions on loans to home buyers in the inner cities.

In addition, I suggest that the Minnesota Housing Finance Agency be allowed to finance the rehabilitation of rental housing containing less than twelve units, without regard to the owner's income. The percentage of rental-occupied housing units is about twice as high in the core cities as in the Hennepin and Ramsey County suburbs. Present policy makes loans for this housing difficult to obtain, a fact that discourages renovation of older rental properties in the inner city.

As I have indicated earlier, many of the developmentally disabled do not belong in institutions. They belong in the community.

The Department of Welfare estimates that 3,500 of the 5,000 developmentally disabled currently in institutions can be placed in the community.

I recommend that current law be amended to encourage financing a broader range of housing for these individuals. We should also eliminate the income restriction on loans for such housing.

The recommendations I am making today will provide the state with a much more flexible set of tools to meet the housing needs of Indians, senior citizens, low income and rural families, and developmentally disabled persons.

Their adoption will also help to stimulate the construction industry, revitalize our inner cities, and assist with energy conservation.

I strongly recommend additional housing action in this session.

#### EMPLOYMENT PROGRAMS

In my Inaugural Address last week and again today, I have emphasized the impact of national and international economic problems on the people of Minnesota. There is little we can do at the state level to resolve our basic national economic problems, but we can help to reduce the hardships they create.

I urge you to give top priority to unemployment bills authored by Senator Steve Keefe and Representative

Harry Sieben. This legislation will permit us to extend federal unemployment insurance benefits to 9,000 Minnesota workers before March 1. This will bring an estimated 2.3 million dollars in unemployment relief to the state.

I also recommend that we amend our unemployment compensation law to increase payments from the current weekly maximum of \$85 to \$105. In 1973 you passed substantial improvements in this program, but the incredible inflation since then has made present benefits inadequate to meet family needs.

Under the youth employment program we passed in 1973, more than 3,700 young people were provided jobs each of the past two summers. Especially in a time of recession, with part-time jobs difficult to find, we should continue this extremely worthwhile program. My budget contains a recommendation of four million dollars for this purpose.

I am also asking this Legislature to increase the number of labor standards investigators in the Department of Labor and Industry by five. The full enforcement of minimum wage, child labor and wage collection laws is crucial to

every man, woman or child in Minnesota who has been denied a proper wage or worked under abusive conditions. Every working person must receive what his hard work has entitled him to.

#### COMMUNITY CORRECTIONS

In 1973, through passage of the Community Corrections Act, we made a commitment to the principle that the role of state government should be to assist local governments in managing their crime and corrections problems in ways that were most suitable to their communities.

That Act has become model legislation for movement toward community programs throughout the nation. Under its provisions, the state provides subsidies to counties to conduct correctional programs tailored to local needs and available resources, and discourages placing offenders in state institutions.

Pilot projects established in three areas of the state are now beginning to show what can be done through community corrections to reduce placement of offenders in our state institutions.

Olmsted County, for example, has reduced the number of adults it turns over to state authorities to the point

where state commitments from that county are now just one-sixth of the state average. Olmsted County has not committed a juvenile offender to a state facility in more than a year.

I recommend that we continue our commitment to community-based corrections by expanding our assistance to county efforts like this one. My budget recommendations of 3.4 million dollars in additional subsidy funds will allow 20 additional counties to participate in the Community Corrections Act.

In my budget recommendations for the Department of Corrections, I am also proposing that the state invest an additional \$150,000 to maintain and improve the training of correctional counselors in our state prison and reformatory, in order to enhance the ability of institutional staff to deal effectively with institutionalized offenders under present-day requirements of law, regulations, and court decisions concerning the rights of prisoners.

I am also recommending that we commit 1.2 million dollars of state funds to support 14 innovative corrections programs that are presently funded through federal Law Enforcement Assistance Administration funds administered by the Governor's Commission on Crime Prevention and Control.

Of an original 25 projects, the Department has judged 14 to be worthy of continuation. Federal funds, limited to three years of support, must be replaced with state funds.

Two examples of such programs are the Newgate and Reshape programs.

Three years ago we developed a program called "Newgate." This program provides inmates the opportunity to begin college training and complete their education after release to a half way house located on the campus of the University of Minnesota.

During this period, 124 men have completed the program. The success rate has been over 90 percent. This means that 113 offenders have had the opportunity to get at least some college education and have done so without engaging in new crime. In fact, 70 have earned college degrees.

"Reshape" is a drug and alcohol dependency program at the St. Cloud Reformatory which assists inmates in solving their drug dependency problems. Forty inmates have participated in the program so far. Some of them have been released and are living productive lives in their communities, free of chemical dependency.

Providing basic medical care for the prisoner and security for the public is a problem for corrections programs throughout the nation. Minnesota has established a 15-bed security medical facility within Ramsey County Hospital. This facility allows for proper treatment for the inmates and provides security for the public. I am recommending \$400,000 for operating costs during the biennium.

Including this additional medical facility, we will spend more than 3 million dollars in the next two years for adult and juvenile health care in our Minnesota correctional system. This includes a full range of dental, medical, and psychiatric services and drugs.

I am also estimating that the Crime Victims Reparation Board will need an appropriation of \$210,000 for the biennium to compensate the victims of violent crimes, under the legislation passed in 1973.

#### TRANSPORTATION

As you review the few major items that remain from last year's agenda, I urge you again to create a Department of Transportation.

The need for this department is clear. Transportation decisions affect the environment, economic growth and development, population trends and the overall quality of life in Minnesota. Isolated, single-purpose efforts keep

our citizens and businesses from the best access to air, rail, highway, and local public transportation.

The state must adopt a comprehensive approach to transportation. The needs of our people, not the relative power of existing government agencies, must determine what method of transportation is adopted. We must remove existing departmental and regulatory barriers that hinder, if they do not prevent, the development of efficient, economical and safe transportation for our people.

A Department of Transportation is the best way to provide this long overdue comprehensive approach to our transportation needs. Approval of legislation creating such a department will assure our citizens that state government is responsive to the growing transportation problems we face in both metropolitan and rural Minnesota.

The most critical and immediate problem that faces Minnesota in the area of transportation is the damage that inflation, recession, and high oil prices have done to our state highway program.

Highway improvement costs increased 36 percent in one year. So our construction and maintenance dollars buy substantially less.

But people are driving less and driving more slowly in Minnesota. That's good. It saves gasoline. It reduces the need to import oil. But it means our gasoline tax revenues that finance construction and maintenance have actually declined, since they depend on the number of gallons sold.

The net result, according to the Highway Department, is that there is very little money for highway construction in Minnesota after June of this year.

At the same time, it is vital to provide, as we tried to do two years ago, for the funding that will be necessary to develop an improved public transportation system in the metropolitan area.

This should be the year in which the Legislature decides what kind of system to develop, on the basis of the studies that were mandated last year. It is an important decision for this session of the Legislature.

Earlier this week the Commissioner of Highways and the Chairman of the Metropolitan Transit Commission announced a set of recommendations to the Legislature for highway and public transportation funding.

I endorse those recommendations, and I believe it is critical to act on them in this session of the Legislature.

It is also critical to continue the public transportation subsidy and demonstration efforts that we began in 1974.

We appropriated six million dollars to assist with improved services in the metropolitan area and in outstate communities where local public transportation systems were in trouble.

Those state funds have been used to subsidize operating costs for local public transportation in Duluth, Mankato and North Mankato, Red Wing, St. Cloud, and Winona. Applications for assistance have also been received from Moorhead, Albert Lea, Bemidji and Brainerd.

Requests for grants from the available outstate demonstration funds have been received from Northfield, Faribault, Morris, Winona, Moorhead, and Owatonna. Decisions on these requests are pending.

To extend the subsidy program over the two full years of the biennium and continue the demonstration effort to find better ways of providing transportation both in our outstate communities and in the metropolitan area, I recommend an appropriation of nine million dollars for the next two years.

The program is presently administered by the State Planning Agency. We should transfer this program to our new Department of Transportation, when it is created.

We need a comprehensive approach. We can't expect people to give up their cars to ride on buses that haven't been built, along routes that don't exist; take trains that are no longer in service on roadbeds that are no longer safe.

We have provided some help to maintain and improve service both in the metropolitan area and in outstate communities where public transportation services have been deteriorating instead of improving.

We must have both good highways and good public transportation in this state. To have them will require an investment by the 1975 Legislature.

#### STRONGER LOCAL GOVERNMENT

In Minnesota, we have a continuing commitment to effective local government, and we support it through state efforts in a number of ways.

I have already described my recommendations for a 33 percent increase in aid to local governments, for county community corrections subsidies, for continuation of the

effort to reorganize human services management at the inter-county level, and for expansion of our community based facilities for the mentally handicapped.

In my budget recommendations, I am proposing funds for two other efforts to strengthen local government.

One is a program of planning grants to local governments that will help them make decisions on land use. I will describe this proposal more specifically in my environmental message.

The other is an additional appropriation of 1.2 million dollars to further develop the staffs and capability of the Regional Development Commissions that have come into operation throughout the state since 1971.

Regional Development Commissions in Minnesota give local governments and local elected officials an opportunity to work together to solve problems that are too difficult to manage county by county. I believe we should continue to strengthen such opportunities.

#### VETERANS BONUS

In November of 1972, the voters of Minnesota expressed their strong support for a Vietnam veterans bonus. We responded by authorizing 60 million dollars in bonds to provide bonuses ranging from \$100 to \$1,000.

The state has now paid more than 59 million dollars of that amount to 138,000 veterans and surviving relatives, and we expect an additional 12,000 persons to qualify for a bonus. I therefore ask that you give immediate priority to an appropriation request of 5 million dollars to fulfill our commitment to these veterans.

STATE ARTS COUNCIL

The private sector in Minnesota is making a tremendous contribution to support our arts institutions.

More than 23 million dollars in private funds have been raised for the remodeling and construction of the impressive Minneapolis Society of Fine Arts Complex.

Another 12.8 million dollars in private funds were raised for the new Minnesota Symphony Orchestra Hall which has been acclaimed by critics as the best auditorium for listening to music in the United States.

Four years ago, the Guthrie Theater and Walker Art Center completed a fund drive that raised 6.7 million dollars for construction of a new museum and an addition to the theater. Again, the private community responded to that drive with great generosity.

For the past several years, in our funding of the State Arts Council, our goal has been to make such fine

artistic resources available to outstate Minnesota. Still, not all Minnesotans have been able to benefit from the programs of the Guthrie Theater, the St. Paul Chamber Orchestra, the Children's Theater, and other metropolitan groups.

Even in difficult financial times, we must continue to recognize the importance of the arts as a source of cultural sustenance in the lives of our people.

I have set aside 1.6 million dollars in my budget to affirm a public commitment to the arts that will complement the great and continuing contributions made by the private community. It will provide for continuing and expanding the programs of tickets and tours for outstate citizens.

#### ENVIRONMENTAL MESSAGE

We have made great progress in Minnesota in the past four years to preserve and protect our environment.

But even with all that has been accomplished, the challenge to the quality of our environment continues.

I therefore will provide a special message to the Legislature on energy and the environment, as I did in 1971 and 1973. I will be forwarding that message to you within the next two weeks.

RESERVE FUND

In Minnesota, we are required to balance our budget every two years. We are not permitted to borrow money to carry on current operations.

I support the principle that state government should face its needs realistically, that we should finance our programs or else get along without them.

But a balanced budget requires that we estimate not just our needs, but our anticipated revenues as well. And that is difficult to do with complete certainty.

Usually our estimates are wrong.

In 1969, we guessed wrong by 41 million dollars. Our revenue projections were two percent more than we anticipated.

But we were lucky; we were two percent in the black.

In 1971, we guessed wrong, and on the first day of August, 1972 we found revenue projections 91 million dollars less than our estimates. We were 91 million dollars in the red. We missed by seven percent.

Then came 1973. We estimated a fairly large revenue increase. Some legislators were "skeptical" about our growth figures. Others thought we were too optimistic, and one said, "We feel the Governor has gone beyond what is logically expected."

Well, we were wrong. We were 400 million dollars wrong, 11 percent wrong.

We were off, but the critics were off even more. And we were lucky. We were 11 percent in the black.

Runaway inflation was the big reason for it. But our five percent cut in the number of state employees helped. Our Loaned Executive Action Program helped. And the extra interest we earned on our state funds helped, too.

It's really not so bad when you're off on the surplus side of the ledger.

But what happens when you're wrong in the other direction?

There are only two things to do - raise taxes or cut the aids to school districts and local governments. And cutting those aids only transfers the burden. It doesn't solve anything. It just raises taxes of another kind - a worse kind - property taxes.

We are fortunate in Minnesota this year because of our surplus. But some other states are not as fortunate.

In New York, for example, the projected revenues for next year will be one billion dollars short of meeting required increases in the state budget.

That's tragic. It will mean an increase in taxes - state or local - or a reduction in services.

In Minnesota this year, we can take care of our most important needs. And we can even make a little progress in helping the people who need it the most.

But we must do something else as well.

Every prudent businessman, farmer or family tries to set some money aside just in case there are problems tomorrow. It makes good sense to put some money away for a rainy day.

The State of Minnesota has never done that. It's time we do.

I am recommending today that we set aside 150 million dollars of our available revenue in a Budget Protection Fund and use it only to protect our most basic budget commitments in times of financial trouble.

That's just three percent of our total budget.

I also recommend that we work in the future to build this fund up until it reaches a full five percent of the total budget.

Then it can be used to keep our commitments to the people of Minnesota when revenue projections are below estimates - without raising taxes or cutting services.

The biggest single challenge facing this state government in the area of spending reform is to adopt an approach to our present projected surplus that is both simple and conservative.

Since 1971, we have become a national model of state and local finance. That is really what the Advisory Committee on Intergovernmental Relations meant when it called our 1971 reforms "The Minnesota Miracle." We have developed the most rational and effective method of managing state and local government finance in the nation.

I believe that we should regard a portion of our surplus not as a surplus at all, but rather as taxpayers' insurance - insurance against sudden new property tax increases, against funding crises in school districts and local governments.

It is also insurance against bad estimates and against emergency legislative sessions, against government

by crisis and government that cannot keep the commitments it has made.

We have an opportunity today that we have never had before and may never have again. It is an opportunity, once and for all, to get Minnesota state government out of panic budgeting and establish guaranteed fiscal stability for those who are depending on our commitments.

Here in Minnesota, we have a tradition of looking forward, a tradition of innovation, a tradition of keeping our commitments and reforming the least satisfactory of our processes.

And the Budget Protection Fund that I am proposing today will reform our unsatisfactory fiscal prediction process.

#### REVENUE PROJECTIONS

We have been and continue to be prudent in our spending and sound in our revenue philosophy.

The balance and flexibility of our state tax system has put us in a strong position to withstand the grim economic forces of the current recession without sacrificing our essential commitments to education and to human services.

The revenue projections contained in this budget assume that none of our general fund state taxes will be increased in rate. Indeed, the projections include the scheduled repeal of the remaining excise tax on oleomargarine on July 1 of this year. The oleo tax that has raised six million dollars this biennium will no longer exist.

The revenue projections also assume the continuation of the "working poor" income tax credit enacted last year that has just gone into effect. Under this provision the earnings of low-income workers (up to \$5,400 for a family of four) are totally exempt from state income taxes. This measure will reduce state income taxes by over 15 million dollars in the next two years.

Our revenue projections also assume the continued prudent and energetic investment of state funds in a way that will benefit our state budget, the people it is intended to serve, and our taxpayers. In total, we anticipate that wise use of state funds will generate investment income of 54 million dollars.

Some have complained that this investment effort consists of taking state funds out of small banks and placing it in large banks.

That is not the case. This investment effort consists of taking state funds out of banks that pay no interest on

them and placing them, on a bid basis, where they will earn additional money for the state.

There's nothing wrong with that. It's a good idea, and it should have been done long ago.

The bulk of our funds, however, will be from existing state taxes. As has already been said, this is a time of extreme economic uncertainty. When the current state budget was prepared in 1973, no one anticipated the rapid inflation of last year or the slide into recession this year. No one could have anticipated the high oil prices that I spoke of last week.

The future is even less clear today than it appeared in 1973. Our budget must project revenue based upon projections of economic conditions as they will be through the first half of 1977, over two years from now.

It is impossible to speak with confidence and certainty about economic conditions for the next two and one-half years.

We must be careful. We must make the most informed and prudent projections that the uncertainty of our times allow. We must not allow ourselves to indulge in excessive optimism which would result in our defaulting on our commitments. But excessive conservatism, on the other hand, could

force us to make unnecessary sacrifices in our commitments to meeting the needs of the people of our state. We must also allow ourselves flexibility and room for error.

Because of the importance of the revenue question, I have made every effort to arrive at accurate and reasonable projections of our resources for the coming biennium. Within state government, advice on this question has come from our commissioners of Revenue and Finance. In addition, we have sought the services of a respected economist from outside state government, Dr. Francis Boddy of the University of Minnesota, to give us the benefit of his professional advice. Elements of the opinions and projections of all of these sources are included in the projections of revenue used in this budget.

These projections show that in addition to the 400 million dollar surplus, state general fund resources for the next two years will include tax revenue of 4.29 billion dollars, federal revenue sharing and other federal funds of 99 million dollars, investment income of 54 million dollars, and revenue from other sources of 188 million dollars.

These resources will balance this proposed spending budget of 4.88 billion dollars and the reservation of 150 million dollars in the Budget Protection Fund that I have just described.

If we continue to be prudent, and if our economy performs as we anticipate, and if we set aside 150 million dollars in the Budget Protection Fund we will end the coming biennium with a balanced budget. And we will have stability in our budget commitments for the first time in the history of our state.

I am determined to accomplish that, and together I know we will accomplish that.

ADDITIONAL PERSPECTIVES

I have presented a great many numbers to you today.

Some of them are large. This budget proposal represents a substantial commitment to the continuation of the basic thrusts of Minnesota state government.

Let us briefly review what we have recommended.

Thirty-nine percent of this proposed budget will go directly to the schools to finance elementary and secondary education.

Nineteen percent of this proposed budget will provide payments for property tax relief and other tax refunds.

Fourteen percent of this proposed budget will go to county, city, and town governments to help finance their operations and hold down the property taxes that are their only other source of revenue.

Those three items total 73 percent of the budget I am proposing to you today. That means nearly 3.6 billion dollars - nearly three-fourths of the budget, will not be spent by any state agency or institution, but will be paid out directly to local governments and individual citizens of Minnesota.

Or to look at this budget proposal in another way:

Nearly 2.4 billion dollars, or 49 percent, of this proposed budget will be spent on public and private education in this state.

More than 566 million dollars of this proposed budget will be spent on direct property tax relief to homeowners, farmers, renters, and senior citizens.

Almost 181 million dollars of the proposed budget increase will go for that purpose.

I have committed 91.1 million dollars of this proposed budget increase to the priority efforts identified in my Inaugural Address and this message: to housing, to

a tuition freeze, to freeing more of our citizens from addiction to alcohol and drugs, to additional aid for our private colleges, and to the task of beginning to move state hospital residents to community facilities throughout the state.

It is the role of the Governor to present budget recommendations. They are not written in granite. It is your responsibility to make the final decisions.

And it is the responsibility of both the executive and the legislative branches to choose priorities. Not to say what is good, but to choose what is best from the ideas we have and those that are presented to us.

In this time of national economic crisis, I am proud of this budget proposal.

And we can be proud that we can meet our basic commitments to the schools, to local governments, to senior citizens and the handicapped and the schoolchildren of Minnesota without increasing state taxes.

And we can still set aside a substantial portion of our budget surplus for budget protection.

I would remind you of just one other thing:

It is your right, your privilege, your responsibility to add to this budget where you think you must and subtract

from it where you think you must.

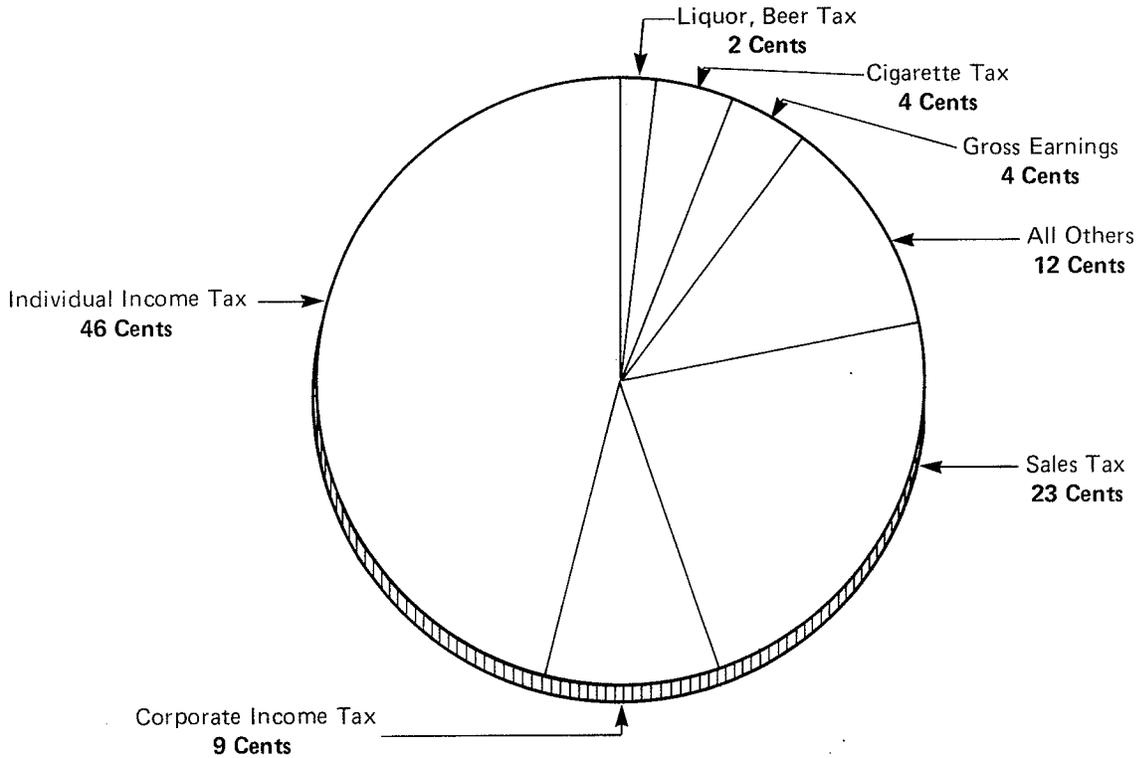
But in my judgment, you should not add to one portion of this proposal unless you are willing to take something else out.

We must balance our budget, we must balance it without cutting into the Budget Protection Fund I have proposed today, and we must finance our activities for the next two years without increasing state taxes.

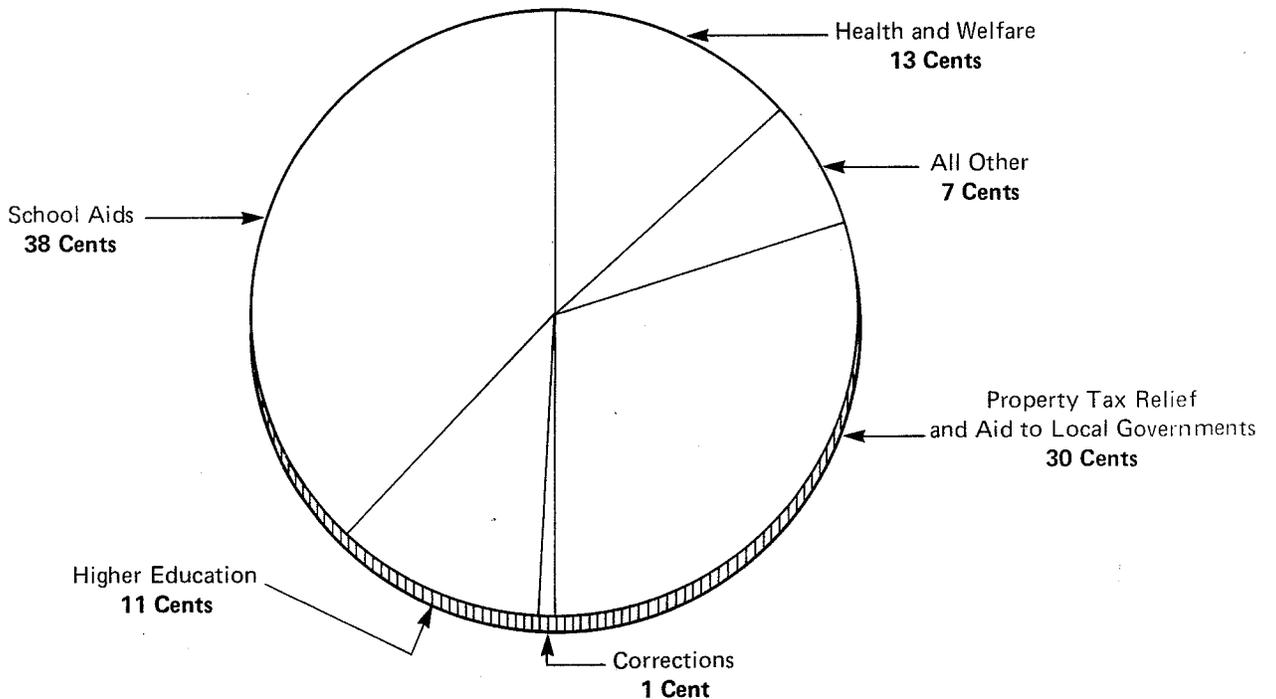
# YOUR STATE TAX DOLLAR

## 1975-77 General Fund

### WHERE IT COMES FROM\*



### WHERE IT GOES\*

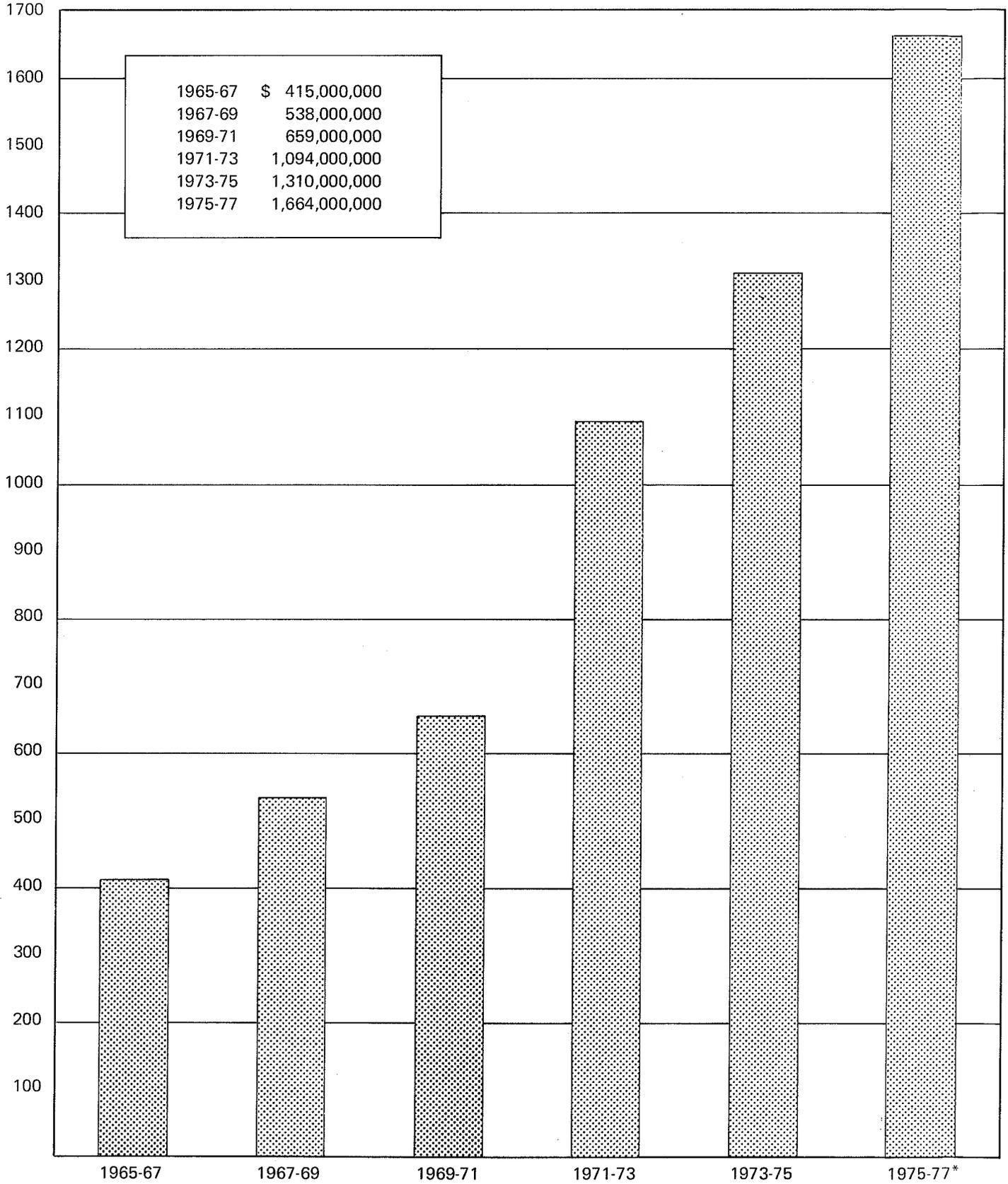


\*EXCLUDING REGULAR REFUNDS AND RESERVE

SOURCE: DEPARTMENT OF ADMINISTRATION  
BUREAU OF PROGRAM, MANAGEMENT AND BUDGET COORDINATION

**STATE SCHOOL AIDS**  
**Elementary-Secondary**  
**1965-1977**  
**(Direct State Aid to School Districts)**

DOLLARS  
(In Millions)

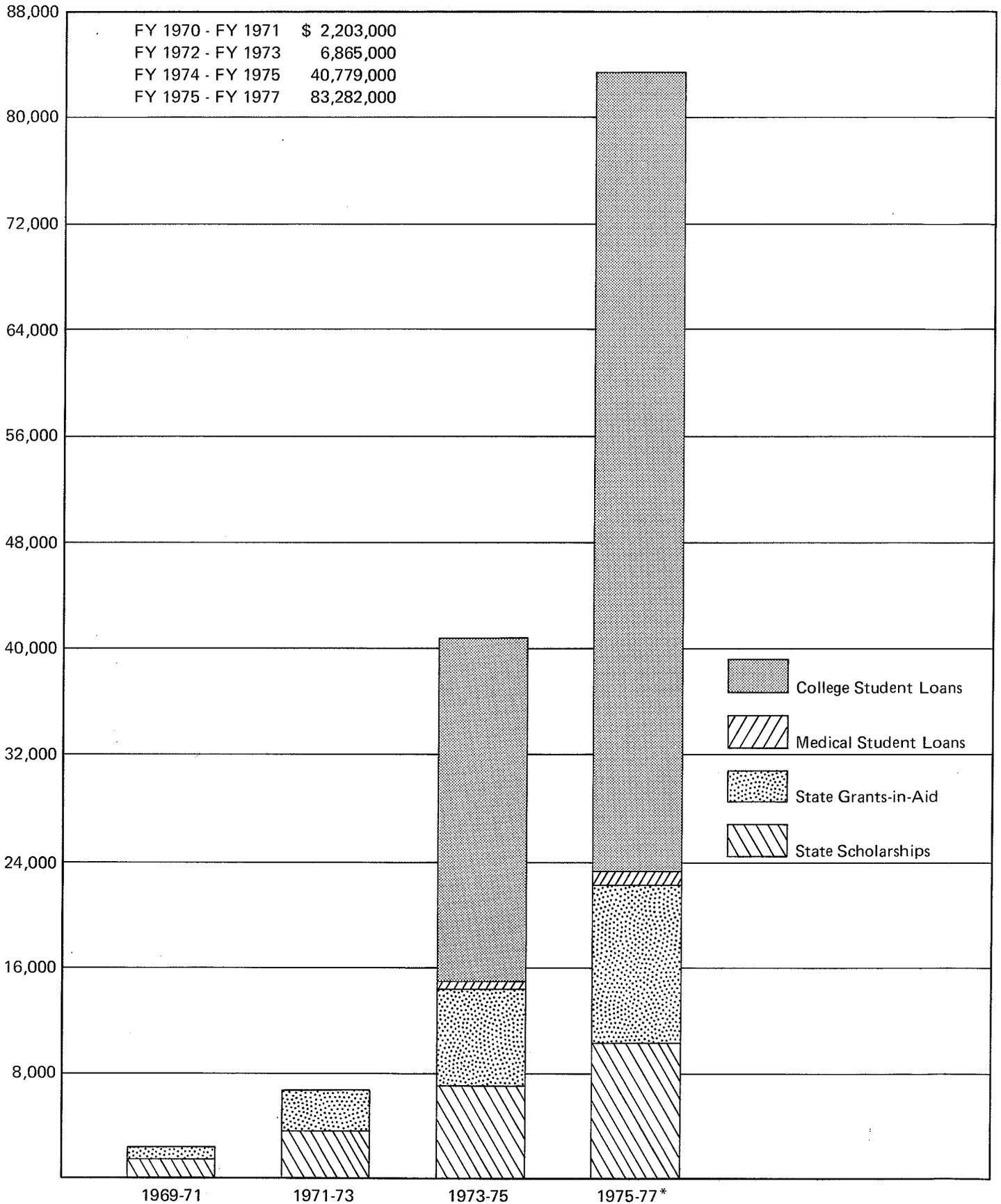


\*ESTIMATED

**SOURCE: BUREAU OF PROGRAM, MANAGEMENT AND BUDGET COORDINATION  
DEPARTMENT OF ADMINISTRATION**

# STATE SCHOLARSHIPS, GRANTS AND LOANS 1969-1977

DOLLARS  
(Thousands)

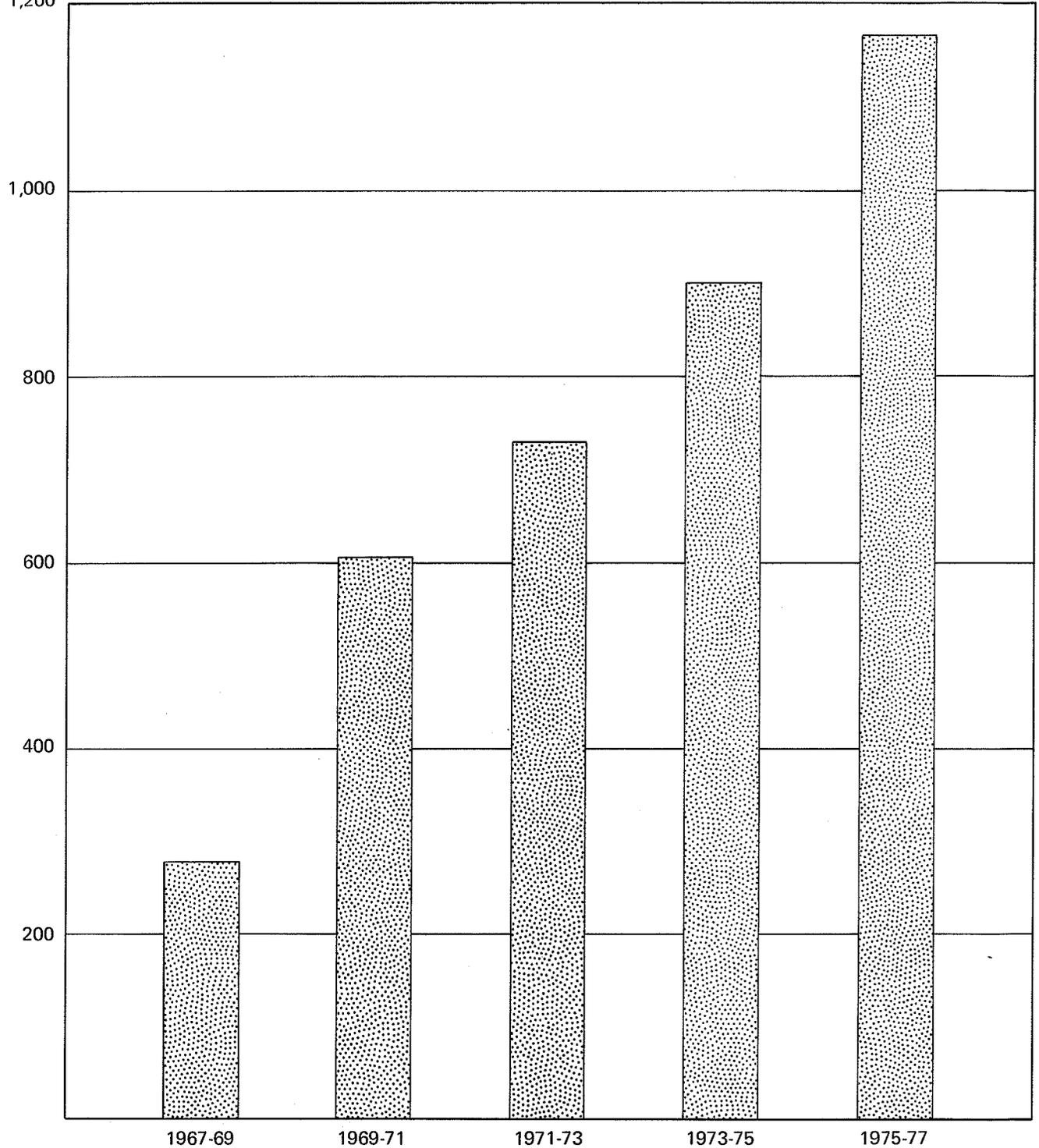


\*Estimated

SOURCE: MINNESOTA HIGHER EDUCATION COORDINATING COMMISSION

# LOCAL GOVERNMENT AIDS\* 1967-1977

DOLLARS  
(In Millions)  
1,200



\*Local aids include homestead credit, local government formula aids, shared taxes (cigarette, liquor, bank excise, taconite, inheritance, gross earnings), exempt property reimbursement, replacement of state property levy, state contribution to local police, fire pension funds.

SOURCE: DEPARTMENT OF REVENUE  
DEPARTMENT OF FINANCE

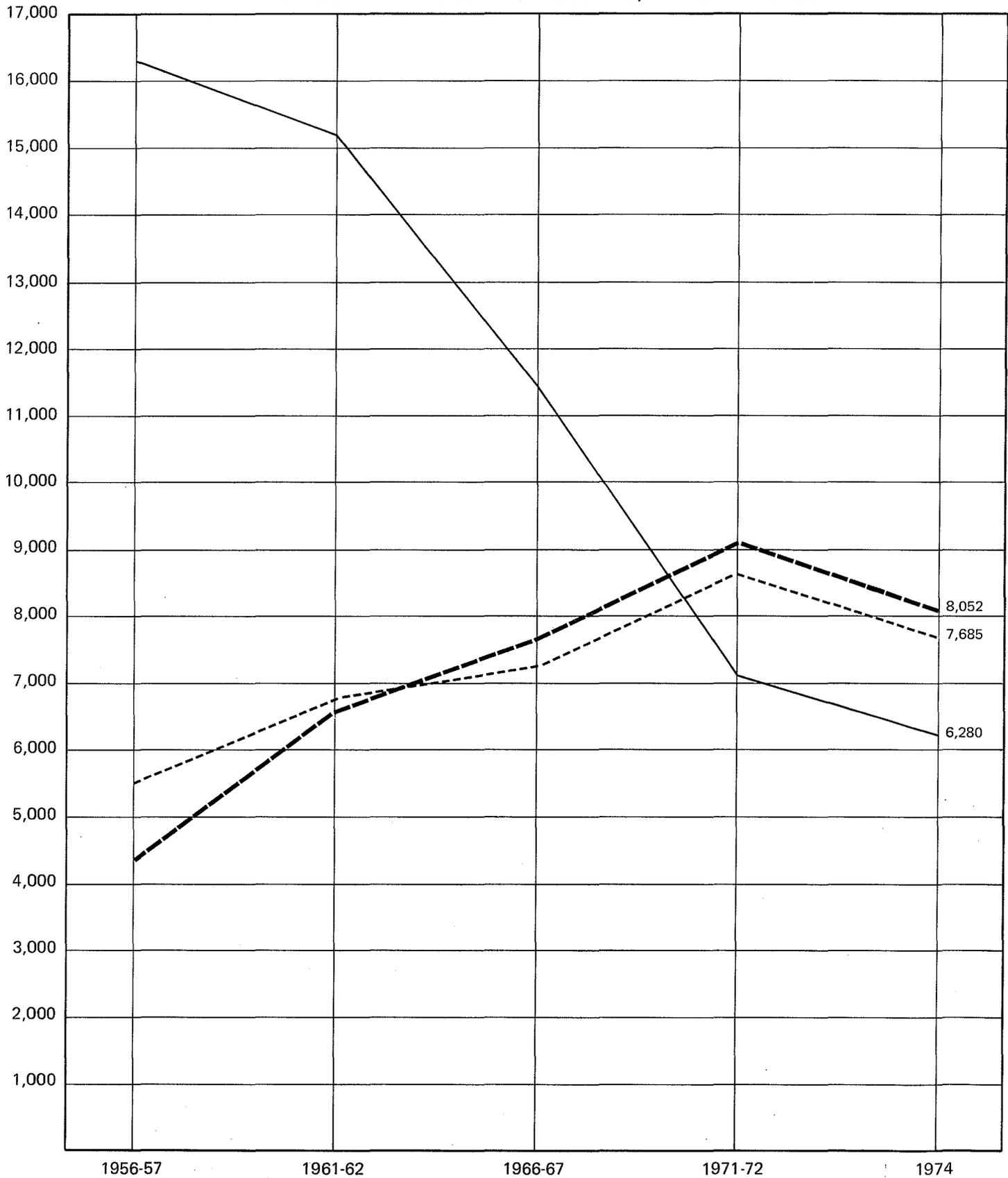
COMPARISON OF STATE PAID PROPERTY TAX RELIEF UNDER THE CURRENT HOMESTEAD CREDIT LAW AND THE PROPOSED  
INCOME-ADJUSTED PROPERTY TAX RELIEF SYSTEM

HOUSEHOLD INCOME	1974 STATE HOMESTEAD CREDIT	PROPOSED INCOME-ADJUSTED STATE PROPERTY TAX RELIEF	DOLLAR INCREASE IN STATE PAID RELIEF
\$ 3,300	\$224	\$425	\$201
\$ 5,640	\$193	\$364	\$171
\$ 8,250	\$204	\$349	\$145
\$11,000	\$243	\$400	\$157
\$14,400	\$299	\$425	\$126
\$19,250	\$325	\$425	\$100
\$26,120	\$325	\$425	\$100
\$35,750	\$325	\$425	\$100
\$55,000	\$325	\$425	\$100

HOUSEHOLD INCOME	1974 PROPERTY TAX AS A PERCENT OF INCOME	1974 PROPERTY TAX AS A PERCENT OF INCOME UNDER PROPOSED SYSTEM	HOUSEHOLD NUMBERS AT THESE LEVELS
\$ 3,300	9.0%	2.9%	73,000 - 8%
\$ 5,640	4.5%	1.5%	96,000 - 11%
\$ 8,250	3.3%	1.5%	77,000 - 9%
\$11,000	2.9%	1.5%	94,000 - 11%
\$14,400	2.7%	1.9%	186,000 - 21%
\$19,250	2.5%	2.0%	185,000 - 21%
\$26,120	2.5%	2.2%	106,000 - 12%
\$35,750	2.4%	2.1%	43,000 - 5%
\$55,000	1.9%	1.7%	14,000 - 2%

Figures supplied by the Tax Study Commission based upon census data on income and home values and using the statewide average 1974 property tax level. The chart assures an income-adjusted property tax relief system under which the state pays all property taxes exceeding 1½% of income, but with a limit of \$425 in state relief. The comparison is for homeowners under 65. Renters and senior citizens are not included in this comparison.

# STATE HOSPITALS FOR MENTALLY ILL, MENTALLY RETARDED AND ALCOHOL, DRUG-ADDICTED



- Average daily population (MI, MR, Inebriates)
- - - Admissions, Readmissions
- Releases

**SOURCE: MINNESOTA DEPARTMENT OF PUBLIC WELFARE**