

BUDGET MESSAGE



Presented By
GOVERNOR ALBERT H. QUIE
To The
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STATE OF MINNESOTA

Mr. Speaker, Mr. President, members of the 71st Session of the Minnesota Legislature, good friends and neighbors.

Before I share with you my budget proposal for our state during the next two years, I would like to make a few personal comments.

First I want to acknowledge the many people who had substantive input into the shape of this budget message:

- the people of Minnesota and their mandate for changes that will be responsive to their needs
- the expertise of hardworking state employees who teamed with my staff to draft specific proposals
- the voiced concern and commitment of many of you members of the legislature, including the advice and counsel of your leadership.

Lieutenant Governor Wangberg and I spent many hours conducting extensive reviews of each state agency budget request. We made hundreds of budget decisions -- some were easy, most were difficult.

The past ten weeks have provided us with a crash course in state finance and budget priorities. Also, hundreds of hours had been invested by the former administration many months before the Lieutenant Governor and I began reviewing the budget. Significant changes and additions have been made. The Quie-Wangberg administration's perspective and planning will more substantially mark the budget of two years from now than can be addressed in the present budget proposal.

You, no doubt, will be investing many hours in pouring over the specifics of this budget. I heartily welcome your positive ideas and constructive criticisms. Only as we work together can we effectively respond to the citizen's demand for fiscal responsibility, needed programs, and necessary services. Fiscal responsibility includes not only careful use of taxpayer dollars, but also wise and compassionate funding of necessary programs and services.

I present this budget message today with the strong confidence that it is a budget that will serve well the people of Minnesota during the next two years. Together we must live up to the high expectations voters have of their elected officials.

We must never forget that we have been elected by the people to unselfishly serve their needs, not to personally advance our own ambitions. I believe the budget message expresses the will of the people by dramatizing fiscal responsibility and human concern. Let us by our actions of support for this budget indicate to the people of Minnesota that state government is listening to them. Let us by our actions show that we are ready to respond to their expectations.

I believe that one way we can indicate that state government is listening to the people is to improve the public's understanding of the Minnesota budget. I have developed a new document called The Budget in Brief: A Report to the People. This document will help the people across our state understand how their tax dollars are being spent. Each of you in the legislature has been given a copy of The Budget in Brief.

The purpose of The Budget in Brief is to condense and summarize the five thick volumes of detailed budget reports and recommendations into a concise, easily understood booklet.

My budget message today has four parts: first, a discussion of the financial outlook for Minnesota state government; second, an explanation of my proposal for tax relief; third, an outline of education priorities; and finally, my support for a wide variety of programs and services that I believe we should provide to our citizens.

Let me first discuss the financial outlook for Minnesota State government. Because of our healthy economy, State revenues during the 1979-81 biennium are expected to increase by 22 percent under existing tax policies.

I also considered the longer term effect of my proposals in developing my short term spending plan for the biennium. After all, it would make little sense to propose a tax cut in one biennium only to have to increase taxes in the next.

I can tell you that the next two years will be lean ones in terms of revenue growth. The long term revenue outlook is very favorable.

I strongly believe that because of this expected revenue growth it is possible to reduce taxes and still provide necessary services. I am recommending changes to existing tax law that will provide \$575 million in tax relief during the next two years.

Even after adjusting for reduced taxes, I am able to propose a budget appropriation of \$7.4 billion for the biennium. This represents an increase of ^{979.6}~~820.10~~ million or ^{15.2}~~10.2~~ percent over the expenditures of the current biennium. This is the lowest percentage increase in the State's budget since 1963, the first year for which the Department of Finance has records. What is important here is not so much the amount of the increase, but rather what this budget means to the people of Minnesota.

It means tax relief for every taxpayer and for every business in the State.

It means an enhanced quality of education.

It means an improved job climate.

It means the preservation of a quality natural environment for present and future generations.

It means better opportunities for the economically disadvantaged, minorities, the elderly and the handicapped.

It means additional recognition of the arts and related cultural activities.

However, before I discuss my budget initiatives, I want to share with you four conclusions I have made regarding State government. These principles have guided me in making many difficult budgetary decisions.

First, the State has adequate resources -- financial resources, yes. But also human resources in the form of talented and motivated employees. These resources can meet the needs and expectations of the people of Minnesota in the foreseeable future.

Second, we need to more closely examine existing programs to make sure they serve a genuine need and that appropriate dollars are spent as intended. This means refining our budgeting to provide for decision-making with strong evaluation strategies.

Third, we must continually evaluate the responsiveness of our programs to the changing requirements of the public. If a program is not meeting its objectives, we need to have the capability to know it is not working and to promptly initiate corrective action.

Fourth, we must strive to better coordinate the activities of all State agencies to prevent the waste that results from duplicate or overlapping programs.

I believe that you will find these principles to be sound. As we work together on this budget, we will be achieving measured progress toward a just and self-governing society.

I want to emphasize again, I believe that State government should exist to serve the people. It should provide essential services where necessary. But, whenever possible, it should act as a catalyst to help local citizens address local needs with locally acceptable solutions.

Many of you may be surprised as you review my proposals. I am recommending a comprehensive tax relief program.

It is my view that taxpayers want State government to make existing programs work before initiating new programs. I agree and my proposed budget reflects this philosophy.

One of the major components of my fiscal plan for the 1979-81 biennium is a comprehensive program of tax relief. People want a greater independence, a greater voice in making their own economic decisions.

But Minnesotans are restricted in their economic choices because they pay one of the highest income taxes in the nation -- nearly twice as much as the average American taxpayer in state income taxes per thousand dollars of personal income.

During the past year, I have repeatedly advocated giving Minnesota taxpayers a 10 percent tax cut. My budget fulfills this promise. Income tax collections for 1979 will be reduced by 10 percent over the amount collected in 1978.

When a person's income increases he or she expects to pay more taxes. This is how our tax system operates. Unfortunately, our tax system does not differentiate between incomes which increase due to a cost-of-living raise caused by inflation and increases which actually raise a person's purchasing power.

Presently, state revenue increases at the expense of taxpayers who have no increase in purchasing power. This gives the State an "inflation bonus." I firmly believe that this "inflation bonus" was not the intended tax policy of our predecessors.

In order to eliminate the State's "inflation bonus" we must reduce the escalating impact that inflation has on our tax structure. The technical term for this process is called "indexing." We need to "index" our tax system so that as incomes increase because of inflation, People will not be taxed at higher rates.

As you know, incomes are grouped in brackets for tax purposes. Incomes within the same bracket are taxed at the same rate. For example, the first \$500 of taxable income is taxed at 1.6 percent. The second \$500 of income is taxed at 2.2 percent. Then brackets become larger, and tax rates rise all the way to 17 percent in the top bracket.

I am recommending a plan to spread each tax bracket so that when incomes go up because of inflation taxpayers will not be taxed at a higher rate. Simply put, people do not expect, and should not expect, to pay taxes caused by inflation.

Inflation has had a devastating effect on all income levels. But the effect has not been uniformly felt. My income tax proposal will cut each individual's taxes by the amount they were increased over the last three years because of inflation.

My proposal will also automatically index individual income tax in the future. In order to be fair to those at the lowest income levels, I am proposing that the low income credit be indexed as well.

The net effect of these proposals will mean that many low income taxpayers will have their income tax eliminated! Other taxpayers whose incomes range as high as \$33,000 will receive at least a 10 percent reduction! The tax cut for the median income family of four will amount to 16.3 percent!

It is my view that this tax cut is long past due. Consequently, I am recommending that the Legislature make this cut effective January 1, 1979.

The result is \$416 million in personal income tax relief during the next two years!

I have spent a considerable amount of time explaining individual income tax relief. Although this amounts to a major portion of my total tax relief package, other features deserve mention.

Tax policy is at the heart of job climate considerations. The types and levels of taxes are the visible symbols to the business community of Minnesota's interest in economic expansion. I feel that our present corporate tax structure is unfair to some Minnesota companies, particularly small businesses whose sales are entirely within the State.

My budget recommends a reduction in the corporate tax rate from 12 percent, which is the highest in the nation, to 6 percent on the first \$20,000 of income. This will create a climate that is conducive to the formation of small businesses which is of utmost concern to the economic vitality of our state. It is through the initiative of small business that a large share of independence and creativity is developed -- especially among our young people.

Companies which conduct a relatively large share of their business in Minnesota will receive an additional tax reduction since I am also proposing that no firm pay more than 10 percent of its total net income in corporate income tax. Businesses whose primary income results from activities outside the state may continue to utilize the present three-factor weighted formula to apportion income to Minnesota.

These proposals will provide nearly \$59 million in tax relief to business over the next two years.

Inflation has caused hardship for nearly everyone but its effects are especially devastating for those who live on fixed incomes. For example, in the Twin Cities metropolitan area, 20 percent of the total population over 65 have incomes below the poverty level.

My budget provides significant tax relief for senior citizens. In addition to giving a 10 percent tax cut and indexing the low income credit, I am proposing that the Legislature enact a new senior citizen property tax freeze. Under this program, all homeowners after reaching age 65 will have their property taxes frozen. In addition, no senior citizen will pay property tax at a rate higher than 1.5 percent of the limited market value of their primary residence.

I am also proposing that our pension tax law be revised to increase the present exclusion from \$7,200 to \$10,000. In addition, all present offsets which reduce the exclusion should be eliminated. The combined tax relief to senior citizens will amount to over \$22 million dollars per year.

I am proposing that the sales tax on farm machinery be reduced from its present 4 percent to 3 percent in 1980 and further reduced to 2 percent in 1981. This will provide farmers with almost \$11½ million in tax relief.

Minnesota's inheritance tax exemptions allow most small estates to escape heavy taxes. This is as it should be. But family farms and other small family businesses are taxed quite heavily.

Recent court decisions have helped to change the situation in certain instances, but it is time to overhaul our system generally.

Therefore, I am proposing that our inheritance tax laws be changed so that spouses are presumed to share ownership equally and that 50 percent of property received by a surviving spouse is exempt from taxation. This program will provide \$10.6 million in tax relief during the biennium.

Railroads have fallen into severe economic difficulty. At the same time, railroads offer a means of transportation relatively frugal in energy consumption. Congress has mandated that states tax railroads in the same manner as they tax businesses.

I am proposing that the gross earnings tax now being imposed on railroads be replaced with an ad valorem tax which will meet the test of fairness mandated by the U.S. Congress. This will reduce by \$15 million annually the amount of taxes collected by the State.

My tax relief program also calls for the elimination of the sales tax on solar energy systems and provides a 10 percent tax credit up to \$1,000 to individuals who purchase solar energy equipment. These programs will provide an estimated \$700,000 in tax relief.

Finally, I feel that the law passed in 1978 did not treat all military reservists equally. Therefore, I propose extending the \$140 tax credit now available to members of the National Guard and to all members of the military reserve. This will provide an additional \$2.8 million in tax relief during the next two years.

As I stated previously, the total amount of tax relief I am proposing is \$575 million for the biennium. Some of you I know are concerned by the scope of this proposal.

We have the resources. Revenue projections by the Department of Finance indicate that we can cut taxes and still improve quality of our schools and local government, as well as strengthen our human services programs. Yes, it will take some thrift on all of our parts, and some common sense, but I want you to know that the budget I propose to you today has been forged with compassion.

Let me share with you some of my concerns.

We all share in our desire to provide tax relief to our constituency. Our constituents demand it. We also share a common interest in improving the quality of education in our State. Education, after all, is a stairway to economic independence and personal development.

As we all know, enrollment in our elementary and secondary schools is presently declining. We as representatives of the state should consider declining enrollments not an obstacle, but an opportunity to improve our educational system. All we must do is appropriate the same amount in constant dollars for elementary and secondary education as we did in the previous biennium. This will mean that more dollars will be available per child.

Where can this additional money be used most effectively?

I believe it can best be used to reduce class size in the primary grades. This is the age when the child is most keenly interested in learning and when the parents are most concerned about the education of their child. My budget, therefore, proposes \$49 million for reducing class size in the primary grades.

Will class size improve achievement? It can. One way to help this occur is to encourage teachers to individualize their instruction methods. My budget, therefore, contains \$11 million for inservice training, new materials, and leadership personnel.

Another way to increase achievement in the early grades is to encourage parents to participate in their child's education.

I am not talking about parents visiting their children's classes. I am talking about the children's classroom teacher visiting the parents and working with the parents on a one-to-one basis. For this purpose, I am proposing \$9 million.

I haven't stopped there, however. My budget proposes increases in sparsity aid, basic skills education at the secondary level, handicapped programs and an overall increase in foundation aid to offset the cost of inflation.

I also feel our present system of school finance needs reexamination. To do this, I plan to appoint two committees of parents, teachers, civic leaders, school administrators, and school board members. The Education Policy Committee will examine policy questions, especially the issue of local control; the Education Finance Committee will consider how the State can better fulfill its school finance responsibility.

Specifics of my education policy will be presented in a special message.

So far, I have talked today about tax relief and education programs. In the remaining minutes, I would like to consider briefly some of my other budget priorities.

There are many in our state who are so poor that they do not have any regular source of income other than welfare payments. When welfare payments are the only source of income for dependent children, tax relief means little.

The average AFDC household in Minnesota consists of a parent with two children, who together receive slightly more than \$400 per month. They must use this money to pay rent, utility bills and transportation costs; to purchase food, clothing, and other necessary items.

Welfare payments need to be increased by at least the amount of inflation. Without such an increase, poor people lose out as we struggle to balance the state budget.

But poor people should not be expected to balance the budget. A balanced budget which neglects the poor is unbalanced in terms of its priorities.

My budget will, therefore, increase AFDC and General Assistance payments by 7 percent in Fiscal Year 1980 and another 7 percent in Fiscal Year 1981.

This is the largest percentage increase ever recommended by a Minnesota governor.

Human services extend beyond welfare.

The cost of health care is dramatically increasing and recognizing this, I have recommended a \$93.1 million increase in the State's share of providing medical assistance to the needy. About 90 percent of this increase will go to the elderly and the handicapped.

I am also recommending that \$2.7 million be appropriated to fund 13 new shelters for battered women and that we expand our existing programs for assisting displaced homemakers.

Our worker's compensation laws ensure that employees are compensated for time away from work due to a work-related injury. Presently there is a backlog of cases. I believe the State has the responsibility to assure that injured employees not only receive adequate compensation but also prompt disposition of their claims. Therefore, I have recommended that we provide \$172,000 to the Department of Labor and Industry to allow them to better serve those filing for worker's compensation.

Chemical dependency drains our state's economy by one billion dollars annually and causes measureless human suffering. I am proposing increased funding for programs which address the chemical dependency problem.

Healthy local economies are vital to the continued existence of our urban areas. My budget recommends a two pronged approach.

First, we must encourage job opportunities for minorities. I propose that we expand vocational training and initiate a basic skills development program at the high school level.

Second, I support legislation to authorize an additional \$450 million bonding program to finance housing construction and rehabilitation. I believe that the majority of the proceeds of this offering should be used for multi-family construction and single family rehabilitation. As a supplement to this bond authorization, I'm recommending an additional appropriation of \$42.5 million. This program will provide ownership opportunities to persons who would not otherwise be qualified to purchase a home.

In addition to providing an incentive to redevelop inner-city neighborhoods, these programs will create new jobs.

Several of our cities have fiscal needs which are not being met by the existing local aid formula. I have recommended an \$89 million increase in the municipal aid formula. I have also recommended the appointment of an advisory group including local government officials to assist state agencies in preparing a comprehensive statewide community development policy.

In the past five years, the State has mandated 51 laws requiring specific action by local governments. I question whether the affected governments had sufficient input prior to the passage of those laws. I will appoint an advisory group to ensure consideration of local interests before the state imposes new requirements.

We have looked at recommendations for welfare, health, urban affairs, and local government. Many other programs in my budget provide needed services.

I wish to emphasize that each of these programs or services is individually important. To those affected, a single program or service is of utmost concern. Let me enumerate a variety of those concerns.

Handicapped persons represent a largely untapped resource in our society. This budget expands for the handicapped educational services at the elementary, secondary, and post secondary levels; additional housing opportunities; job training; transportation assistance; full State funding of the Communication Center for the Blind; and a program to provide the severely handicapped with opportunities for independent living.

Second, my budget recommendations provide annuitants who retired before July 1, 1973, the option to compute their retirement benefits based on their highest five years of salary. This recommendation applies to persons participating in the Teacher's Retirement Association, the Minnesota State Retirement System, and the Public Employee's Retirement Association and other smaller public retirement funds.

Third, a sizable segment of our population has too often been neglected by government. These "forgotten" citizens are discharged from state hospitals and have a difficult time adjusting to society. My budget recommends an appropriation of \$2.0 million to help local governments provide mental health and rehabilitation services to these people.

Fourth, I believe that one of the purposes of government is to support the development and maintenance of the Arts. My budget recommendations propose increased funds for the Arts; expanded programs for the Minnesota Historical Society; and additional dollars for educational television.

Fifth, I am also proposing several investments specifically directed toward assuring a quality environment for future generations.

I am recommending continuation of the shade tree program to replace diseased elm and oak trees along parks and boulevards. Under my budget 750,000 new trees will be planted.

I am recommending \$1.5 million as the State's share of costs to intensify timber management in the counties surrounding the B.W.C.A.

Sixth, as I mentioned in my Inaugural Address, I am most concerned with the conservation and development of energy supplies. This concern is not immediately apparent in my budget message, however, because most development involves the private sector or occurs through regulatory agencies. I would like you to recognize three initiatives I am proposing.

I am recommending \$10 million as the State's contribution to a federal program to insulate schools and hospitals as an initial step toward establishing a program for energy conservation.

I am recommending tax incentives to promote investment in the use of solar energy. Appropriate informational literature describing different methods for using solar energy will be prepared for distribution.

I am recommending one-half million dollars for a pilot study on district heating. These funds will be used to complete an engineering design for the first district heating system in the U.S. using new technology.

My message today has not mentioned every budget line and program. The Budget in Brief will report to the people, and particularly to you, the legislature, a careful accounting of the State's financial priorities.

Many of the programs and services in this budget call attention to the importance of the basic values of thrift, compassion, and common sense. We, the legislature and the governor, are called to act out these values in our decision-making for the State of Minnesota.

In closing, let me emphasize that the people of Minnesota invest more than financial resources to make our state strong. Thousands of citizens volunteer their talents and energies. From local groups to state commissions, Minnesotans are dedicated to serving their neighborhoods and communities in making the democratic system work.

For some a budget is an end in itself. But for many of us, the budget is only a beginning. No budget can substitute
for individual initiative and spirit. Let us look at these figures and dollar signs then, as a starting point for a proud people of a great state working to serve and care for one another.