

GOVERNOR AL QUIE'S BUDGET REDUCTION PROPOSALS

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# GOVERNOR AL QUIE



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## NEWS RELEASE

FOR RELEASE  
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Gov. Al Quie today recommended an 11.8 percent reduction in state spending, amounting to a \$776.8 million cut, to balance the 1981-83 state budget.

The governor's budget recommendations followed the Nov. 5 announcement of a new revenue forecast which showed the state would be short \$768 million by the end of the biennium.

Quie said his plan is not a "painless cure" but one that addresses the budget problems head on, cuts deeply into state spending and recognizes that Minnesota taxpayers "can't be asked to bail us out again."

Quie's plan calls for state hospitals, veterans homes, schools for the blind and deaf to be cut at 5.9 percent, half the rate of other entities. Correctional facilities will be exempted from the cuts.

In his speech, the governor also asked legislators to establish a state aids stabilization authority which will permit local governments, schools and public institutions of higher education to borrow up to one-half of the amount of their aids reduction.

Quie said the stabilization authority will function as "a shock absorber so that cuts are not too bone-jarring." Under the plan, local governments, schools and higher education would be allowed to pay back the loans, with interest, over a five-year period.

The stabilization fund would be established through a sale of bonds which would be backed by the full faith and credit of each entity that borrows against the authority. The bond sale would not be a state obligation.

"If drought or flood or hail nearly destroys a farm or a farm family's livelihood, the federal government helps out with loans," Quie said. "We recognize that it would not be in the nation's best interest to lose the productive capacity of that farm.

"The same is true with the stabilization authority. It recognizes that it would not be in Minnesota's best interest if our schools and local governments were unable to serve us."

While Quie's plan calls for no increases in sales and income taxes, he acknowledged that "this is not to say there won't be any tax increases at all." Local units of government may decide to raise property taxes to compensate for their cut in aids, he said. Also, Quie's plan calls for an 11.8 percent cut in the amount appropriated for homestead credit tax relief for the biennium.

Quie blamed part of the reason Minnesota faces its current budget problems on the fact that, "given the current condition of economy, the state committed itself to more property tax relief than we can afford."

The other two factors contributing to Minnesota's budget shortfall, according to Quie, are the national recession which has affected the majority of the states in the nation and the state's inflexible commitment to return three of every four dollars it collects to local units of government.

"The comprehensive plan I've announced to solve Minnesota's fiscal problems recognizes that hard times are not the time to raise sales or income taxes. I say this even as I acknowledge that property taxes will rise. If the state's budget is tight, that's proof everyone's budget is tight.

"We shouldn't lay a heavier burden on taxpayers than we lay on government."

Budget Problem

(in millions)

Decrease in non-dedicated revenues	(605.8)
Net Welfare deficiencies	(89.9)
Accelerated depreciation compliance	(79.0)
School aid adjustments/deficiencies	(23.5)
Net short term interest expenses	(40.9)
F.Y. 1981 budgetary balance forward	(22.3)
Other deficiencies	(6.2)
All other expenditures	+ 7.7

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Total	(859.9)
Less Fund Balance	92.3

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Net Problem	(767.6)
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Budget Solution

(in millions)

Budget Reductions	776.8
Increased Endowment Fund earnings	7.6
Net changes in State tax depreciation policies	3.0
Increased short-term borrowing cost	(16.5)

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Total	770.9
Net Problem	(767.6)

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Final Fund Balance	3.3
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SUMMARY OF GOVERNOR'S PROPOSALS

11/24/81

Budget Deficit - The Governor proposes that the entire projected budget shortfall be resolved through reductions in State expenditures, aids, and transfer payments. The reductions proposed total \$776.8 million.

- The general rate of reduction proposed is 11.8% for each year of the current biennium.
- Local government aids and property tax relief are reduced by 11.8% for the biennium, but the two year total is taken from F.Y. 1983 payments scheduled for the summer and fall of 1982. Such reductions total \$188.1 million out of \$1.6 billion in aid and tax relief budgeted for the biennium.
- School aids are reduced by 11.8% for each year of the biennium for a total reduction of \$271.8 million of the \$2.3 billion budgeted for the biennium.
- State agencies and institutions are reduced by 11.8% each year. The reductions required of State hospitals, veterans homes, and schools for the blind and deaf are at one-half this rate. Correctional facilities are exempted.
- To allow an orderly, cost-effective reduction of the State's workforce, general layoffs will not be required. Agencies will be allowed 18 months for normal attrition to reduce their complement. Virtually no hiring from "outside" State government will be permitted during this period. A \$12 million contingent fund is included in the reduction plan to insure an 11.8% reduction in payroll costs.
- Given the continuing cost-overruns in welfare income maintenance programs, the Governor proposes that the State share for Medical Assistance, AFDC,

and Minnesota Supplemental Assistance be returned to 80% of non-federal cost. This will increase county costs by \$44.6 million for the fiscal year beginning July 1, 1982. (The State currently pays 90% of MA and 85% of the other program costs.) The Governor will also recommend implementation of medical care cost containment measures, many of which were included in the report of his Blue Ribbon Task Force, for an estimated savings of \$20 million.

- The post-secondary systems are recommended for an 11.8% reduction each year, or \$85.6 million out of a biennial appropriation of \$725.7 million. Tuition and fee revenues are exempted, as are the financial aid program administered by the HECB. The HECB will, however, be required to absorb the projected deficiency of \$3.8 million in its tuition reciprocity programs.
- The Governor is recommending an 11.8% per year reduction in the appropriations for constitutional officers and the Legislature itself. No reductions are recommended for the judicial branch.

State Aids Stabilization Authority - The Governor proposes that school districts, local units of government, and the public systems of post-secondary education be provided a mechanism to phase-in reductions in expenditures. To that end he recommends that:

- A state aids stabilization authority be created to allow school districts, local government, and the post-secondary systems to borrow up to one-half of the budget reductions recommended for the 1982/83 biennium. Reserves should be drawn down before borrowing can take place.
- The stabilization authority is to acquire up to \$200 million in working capital through sale of revenue notes backed by the full faith and credit of the local jurisdictions. These notes will not constitute a State liability.

- School districts, local units of government, and the post-secondary systems will be allowed up to five years to repay the stabilization authority. Repayment funds will come from savings resulting from reduced expenditures in future years, or--if the local units so choose--from increased property taxes and post-secondary tuition.
- The stabilization authority will continue past the solution of the current problem; it will provide a measure of stability in future years. To the extent funds are available in subsequent biennia, the State may assist the fund in establishing operating reserves.

Short-Term Cash Flow - To resolve the State's short-term cash flow problem anticipated to peak in early January 1982, the Governor is recommending that:

- School aids due to be paid on December 31, 1981 be deferred for six weeks for those districts which have sufficient cash to meet operating requirements.
- School aids due to be paid on January 30, 1982 be deferred for two weeks for those districts which have sufficient cash to meet operating requirements.
- That no interest be paid for those deferrals.

The above measures will result in equitable treatment for school districts relative to that applied to local government units in November and December of 1981.

Long Term Cash Flow - The Governor will recommend that the Legislature adopt the most direct and open mechanism for balancing the State's cash flow for the rest of the 1982/83 biennium: an increase in the State's borrowing authority. If all of the other recommendations submitted by the Governor are enacted, the short-term borrowing ceiling will need to be increased from \$360 to \$600 million. Any changes in the Governor's budget recommendations may alter this amount.

Recognizing the fact that a direct increase in the State's borrowing authority may encounter legislative resistance, the Governor is prepared to accept an alternative solution:

- Aid payments to school districts for the balance of the biennium would be paid on the basis of the actual cash needs of each district each month.
- County auditors would be required to transmit property tax revenues due school districts within 30 days of May 31 and October 31.
- School districts would be paid interest (at three percentage points below the 90 day Treasury Bill rate) for those payments deferred past February 15, 1982.
- Additional standby borrowing authority of \$100 million would be provided to insure that adequate resources are available for cash flow purposes.

For either approach, the Governor will also recommend relaxation of the absolute requirement that certain aids and credits be paid on the 15th or last day of a month. This change will allow major aid payments to be released within a span of 10-15 days rather than on a single day.



SUMMARY OF RECOMMENDED REDUCTIONS

(In Millions)

	APPROPRIATIONS			REDUCTIONS		
	F.Y.1982	F.Y.1983	BIENNIAL	F.Y.1982	F.Y.1983	BIENNIAL
(1) Mandated Payments	406.1	479.0	885.1	-0-	1.7	1.7
(2) Tax Aids & Relief to Individuals	205.3	131.6	336.9	-0-	22.0	22.0
(3) Entitlements	502.4	546.7	1,049.1	-0-	64.6	64.6
(4) Dedicated Revenues	143.5	156.6	300.1	-0-	-0-	-0-
(5) School Aids-Current Year	1,249.9	1,053.1	2,303.0	147.5	124.3	271.8
(5a) School Aids-Spring 1981 Restoration	155.4	-0-	155.4	-0-	-0-	-0-
(5b) School Related Property Tax Relief	280.3	328.1	608.4	-0-	71.8	71.8
(6) Post Secondary Education	367.0	358.7	725.7	43.3	42.3	85.6
(6a) HECB Financial Aids	45.6	44.8	90.4	-0-	-0-	-0-
(6b) HECB Reciprocity Deficiency	1.6	2.2	3.8	1.6	2.2	3.8
(7) Salary Supplements	72.3	138.7	211.0	15.5	11.4	26.9
(8) Local Government Aid	202.9	270.7	473.6	-0-	55.9	55.9
(8a) Aid to Police & Fire	21.5	23.0	44.5	-0-	-0-	-0-
(8b) Local Gov't. Property Tax Relief	255.2	256.8	512.0	-0-	60.4	60.4
(9) Elected Officials	39.0	42.9	81.9	4.6	5.1	9.7
(9a) Judicial Branch	16.9	17.3	34.2	-0-	-0-	-0-
(10) State Operations	421.6	412.4	834.0	49.7	48.7	98.4
(10a) State Hospitals & Institutions	190.7	185.7	376.4	9.1	8.6	17.7
(10b) Non-Operating Accounts & Reserves	48.6	10.6	59.2	2.5	-0-	2.5
(11) Cancellations	<25.0>	<43.0>	<68.0>	<5.9>	<10.1>	<16.0>
<b>TOTAL GENERAL FUND</b>	<b>4,600.8</b>	<b>4,415.9</b>	<b>9,016.7</b>	<b>267.9</b>	<b>508.9</b>	<b>776.3</b>

REDUCTION RATIONALE & CALCULATIONS

(1) Mandated Payments

Only reduction proposed is elimination of campaign financing for \$1.7 million in F.Y. 1983.

(2) Aids & Relief to Individuals

Cap placed on income for property tax credit/refunds at \$20,000 instead of current level of \$36,000 per year. This saves \$22 million in F.Y. 1983.

(3) Entitlements

a. Reduce State Participation (effective July 1, 1982) to 80.20 for income maintenance programs. Saves \$44.6 million in F.Y. 1983.

b. Other cost containment measures developed by the Governor's Task Force will be recommended. Budgetary savings are estimated at \$20 million.

(4) Dedicated Revenues

No reductions recommended.

(5) School Aids - Current Year

Standard 11.8% @ year - \$271.8 million for biennium

(5a) School Aids - Spring 1981 Restoration

No reductions recommended.

(5b) School Property Tax Relief

Standard 11.8% against biennial total, all taken in F.Y. 1983, which will be a 21.9% cut that year - \$71.8 million in F.Y. 1983.

(6) Post-Secondary Education

Standard 11.8% @ year - \$85.6 million for biennium.

(6a) HECB Financial Aids

No reductions recommended in aids.

(6b) HECB Reciprocity Deficiency

To be absorbed by HECB within financial aid funding - \$3.8 million for biennium.

(7) Salary Supplement

Standard 11.8% reduction @ year, but \$12 million retained in supplm't in F.Y. 1983 as contingent fund for attrition process.

	<u>F.Y. 82</u>	<u>F.Y. 83</u>
Appropriation	72.3	138.7
11.8% reduction	8.5	16.4
Contingent	--	(12.0)
Net Reduction	8.5	4.4
Pension Change MSRS	7.0	7.0
	<u>15.5</u>	<u>11.4</u>

(8) Local Government Aid

11.8% reduction against biennial total, all taken from F.Y. 1983. This results in 20.7% reduction in that year - \$55.9 million in F.Y. 1983.

(8a) Aid to Fire & Police

Pension amortization, no reduction recommended.

(8b) Local Government Property Tax Relief

11.8% reduction against biennial total, all taken from F.Y. 1983. This results in 23.5% reduction in that year - \$60.4 million in F.Y. 1983.

(9) Elected Officials

Standard 11.8% @ year. Includes the Legislature and Constitutional Officers. \$9.7 million for biennium.

(9a) Judiciary

No reduction recommended.

(10) State Operations

Standard 11.8% @ year against total. The following exclusions raise the net levy against individual agencies to 12.4%.

	<u>F.Y. 82</u>	<u>F.Y. 83</u>
Gross Available	421.6	412.4
Criminal Apprehension	(7.9)	(8.4)
Bank Examination	(2.2)	(2.2)
Utility Reg. - PUC	(2.7)	(2.8)
Rev. Collections	(21.8)	(22.3)
Admin. - Telephones	(5.0)	(5.0)
Admin. - Building Code	(0.6)	(0.6)
Net to Reduce	<u>381.4</u>	<u>371.1</u>

The explicit reductions in the Shade Tree program (3.2 million) and DNR workers and unemployment compensation deficiencies (2.4 million) reduce the across the-board reduction to 12.4%.

(10a) State Institutions

	<u>F.Y.82</u>		<u>F.Y.83</u>	
	<u>Approp.</u>	<u>Reduction</u>	<u>Approp.</u>	<u>Reduction</u>
Welfare (5.9%)	137.5	8.1	133.3	7.9
Corrections (-0-)	41.9	-0-	40.8	-0-
Vets Homes (5.9%)	6.6	0.4	6.8	0.4
Schools (5.9%)	4.7	0.6	4.8	0.3
Total	190.7	9.1	185.7	8.6

(10b) Non-Operating Accounts

Reduce transfer to HFA by standard 11.8% - \$2.5 million in F.Y. 1982.

(11) Cancellations

Reduce cancellations by double rate of budget cutbacks. (i.e. by 23.6%).  
Cancellations are reduced from \$68 million to \$16 million for the biennium.

1982/83 GENERAL FUND BUDGET

(In Millions)

	<u>F.Y.1982</u>	<u>F.Y.1983</u>	<u>Biennial</u>
(1) <u>MANDATED PAYMENTS (9.8%)</u>			
Debt Service-Bonds (X)	111.3	114.4	225.7
Debt Service-Short Term Borrowing (Q)	29.8	38.0	67.8
Retirement Contributions	184.4	200.5	384.9
Mining Apportionments (S)	49.7	61.1	110.8
Mining Transfers (X)	29.9	34.8	64.7
Mining Approp. Forward (Y)	-0-	27.5	27.5
Campaign Financing (X)	-	1.7	1.7
Non-Game Wildlife Fund (X)	0.6	0.6	1.2
Claims & Misc. Payments (Q)	0.4	0.4	0.8
Sub-total/Mandated Payments	406.1	479.0	885.1
(2) <u>TAX AIDS &amp; RELIEF TO INDIVIDUALS (3.7%)</u>			
Renters Credit (P)	101.4	-0-	101.4
Sr. Citizens & Disabled Credit (P)	64.9	74.2	139.1
Property Tax Refunds (Inc. Tag.) (P)	39.0	57.4	96.4
Sub-total/Aids & Relief to Individ.	205.3	131.6	336.9
(3) <u>ENTITLEMENTS (11.6%)</u>			
Income Maint. Appropriation (I)	422.6	433.9	856.5
Nursing Home SS Suplm't. (I)	9.9	19.5	29.4
Hospital Earnings (Inc. VA) (D)	38.5	41.6	80.1
Direct Welfare Deficiencies (O)	31.4	51.7	83.1
Sub-total Entitlements	502.4	546.7	1,049.1
(4) <u>DEDICATED REVENUES (3.3%)</u>			
Tuition & Fees - U of M (D)	93.2	101.5	194.7
Tuition & Fees - State U's. (D)	33.0	36.2	69.2
Tuition & Fees - CCS (D)	17.3	18.9	36.2
Sub-total/Dedicated Revenues	143.5	156.6	300.1

(In Millions)

	<u>F.Y.1982</u>	<u>F.Y.1983</u>	<u>Biennial</u>
5) <u>SCHOOL AIDS (34.0%)</u>			
School Aids - Current Year	1,240.9	1,043.1	2,284.0
Spring 1981 Recission Restoration	155.4	-0-	155.4
Est. Deficiencies (G)	9.0	10.0	19.0
Reg. MIS Subsidies (H)	3.2	3.4	6.6
Telecomm. Subsidies (H)	1.7	1.3	3.0
Homestead Credit - School (P)	198.1	234.8	432.9
Ag. Tax Credit (P)	68.6	77.3	145.9
Attch. Mach. Aid - School (P)	2.0	2.0	4.0
Taconite Aid - School (P)	0.6	0.6	1.2
Supplm't. Homestead Credit - School (P)	0.2	0.5	0.7
Reduced Assm't. Credit II - 3 CC - School (P)	4.5	6.2	10.7
Wetlands Credit - School (P)	1.4	1.9	3.3
Native Prairie Cr. - School (P)	-	0.1	0.1
<hr/> Sub-total/Aid to School Districts	<hr/> 1,685.6	<hr/> 1,381.2	<hr/> 3,066.8
(6) <u>POST SECONDARY EDUCATION (9.1%)</u>			
University of Minnesota (H)	239.4	234.0	473.4
State University System (H)	83.8	82.3	166.1
Community College System (H)	40.3	38.7	79.0
HECB - Financial Aids (H)	45.6	44.8	90.4
HECB - Operations (H)	2.0	2.0	4.0
HECB Tuition Rec. Deficiency (O)	1.6	2.2	3.8
Mayo Medical School (H)	1.5	1.7	3.2
<hr/> Sub-total/Post Secondary Ed.	<hr/> 414.2	<hr/> 405.7	<hr/> 819.9
(7) <u>SALARY SUPPLEMENTS (2.3%)</u>			
Annualize 80/81 Increases (K)	16.4	16.4	32.8
82/83 Salary Supplement (K)	55.9	122.3	178.2
<hr/> Sub-total/Salary Supplements	<hr/> 72.3	<hr/> 138.7	<hr/> 211.0

(In Millions)

	<u>F.Y.1982</u>	<u>F.Y.1983</u>	<u>Biennial</u>
(8) <u>AID TO LOCAL GOVERNMENT (11.4%)</u>			
Aid to Local Government (P)	202.9	270.7	473.6
Homestead Credit - Local Gov't. (P)	238.7	234.8	473.5
Aid to Police & Fire (P)	21.5	23.0	44.5
Attach. Mach. Aid - Local Gov't. (P)	9.2	9.2	18.4
Reduced Assm't. Cr. - Local Gov't. (P)	5.5	6.2	11.7
Wetlands Credit - Local Gov't. (P)	1.7	1.9	3.6
Native Prairie Cr. - Local Gov't. (P)	0.1	-	0.1
Pymt. in Lieu of Taxes (DNR) (P)	-	4.7	4.7
Sub-total/Aid to Local Gov't.	479.6	550.5	1,030.1
(9) <u>ELECTED OFFICIALS (1.3%)</u>			
Legislature (K)	24.4	27.1	51.5
Judiciary (K)	16.9	17.3	34.2
Constitutional Officers (K)	14.6	15.8	30.4
Sub-total/Elected Officials	55.9	60.2	116.1
(10) <u>STATE OPERATIONS &amp; INSTITUTIONS (14.1%)</u>			
State Departments (Exc. Vets. Homes) (K)	155.3	153.6	308.9
Health, Welfare & Corrections (Exc. Institutions)	177.7	163.4	341.1
Semi-State Agencies (J)	36.9	38.7	75.6
Transit Subsidies (J)	22.7	29.1	51.8
Dept. of Education (Exc. Institutions) (H)	14.2	14.3	28.5
Leg. Commission on Minn. Resources (K)	14.8	10.9	25.7
DNR Workers/U.C. Deficiencies (O)	-0-	2.4	2.4
Welfare Hospitals & Nursing Homes (I)	137.5	133.3	270.8
Correctional Institutions (I)	41.9	40.8	82.7
Veterans Homes (K)	6.6	6.8	13.4
Schools for Blind & Deaf (H)	4.7	4.8	9.5
Transfers to Other Funds	26.5	4.0	30.5
Unallotted Balance Forward	14.9	-0-	14.9
Contingent Accounts/Exec. Council (K)	7.2	6.6	13.8
Sub-total/State Operations & Institutions	660.9	608.7	1,269.6
(11) <u>CANCELLATIONS</u>	< 25.0 >	< 43.0 >	< 68.0 >
TOTAL	4,600.8	4,415.9	9,016.7

NOTE: Letters following individual items indicate in which section of the State's "Financial Balance Analysis" each item can be found.