

BUDGET MESSAGE OF GOVERNOR LUTHER W. YOUNGDAHL

DELIVERED TO A JOINT SESSION OF THE MINNESOTA LEGISLATURE
ON THURSDAY, JANUARY 11th, 1951.

Mr. Speaker, Mr. President, Members of the 57th Session of the Minnesota
Legislature:

We meet again in troubled times to consider the financial needs of the state government. I have submitted a budget to you for the biennium beginning July 1st, 1951, and ending June 30th, 1953, as required by law. I am sure this will receive your careful and earnest study. A printed copy has been placed on your desk, and I now will make merely some explanatory statements and discuss with you some of the problems which confronted us when we were preparing the budget.

There is nothing startling or unusual in this budget. What you will see reflected in it is what one would expect -- financial costs of government because of inflation.

In all the history of our state government, never has it been so difficult to prepare a budget for two years of governmental operation. We have been faced with growing needs in many of the services of the state. Hovering over our heads, too, have been prospects of the impending burdens which the people will be asked to assume for civil defense and national security. Prices have been increasing from week to week, making it more and more difficult, both to finance our present services and to meet new needs.

PRICE INCREASES COMPLICATE TASK

Prices of a group of commodities, embracing most of the articles which the state must buy, have gone up about 120% since 1939, a leading commodity index shows. Prices went down after reaching a peak, in most cases, in 1948, but now have gone spiraling upward since the outbreak of the Korean conflict. A recent magazine

survey reported that prices of automobile tires have gone up about 40% since that struggle started. Bed sheets have gone up from 25% to 40%. Increases in other items have varied from 5% to as much as 75%. Of 16 basic materials used in industry, the magazine reported, the increase in prices has averaged 45%.

Our own purchasing department has supplied me with some interesting illustrations of what is happening. During the early months of 1949, when you were wrestling with the 1949 budget, our purchasing division bought canned tomatoes for \$5.75 per dozen. Now, for the same quality, it must pay \$9.64. A grade of coffee which cost 30.5 cents in 1949 when you were passing on our 1949 budget now costs 66 cents, an increase of 119%. Unbleached muslin which we were buying at 20.7 cents last year now costs 29.9 cents, or 44% more.

THE SHRINKING TAX DOLLAR

Our tax dollar has shrunk, just as your dollars have shrunk, under the impact of rising prices, and now buys much less than it used to buy. It now purchases only about 47 cents worth of goods compared to the 100 cents worth of goods in 1925.

How much more prices will go up, how much more the value of our tax dollars will decline, no one can say. While preparing the budget, I was interrupted frequently by reports of additional price increases that required revision of the figures. What further increase will occur in prices will depend upon what steps are taken to control prices, how effectively the controls are administered and other factors that are hidden in the uncertainty of the future.

Never before has inflation's devastating effect been reflected with such force in our budget. It is not strange that it is so. We cannot fight three wars in one generation without paying for it. One of the prices we are paying is devaluation of the dollar. So long as we continue to engage in wars, we cannot expect that in some miraculous way government costs will not be influenced any more than we can

expect to prevent its effect on our individual household. The increased costs of government shown in this budget are, therefore, largely the result of inflation.

MORE DOLLARS REQUIRED

Our budget division and our purchasing officials have had impressive evidence of the effect of inflation on state costs. It was necessary to put an additional item of more than \$3,200,000 in the budget for the welfare division for the coming two years to meet increased costs under our present programs for old age assistance and other welfare needs. Similar arrangements have had to be made, in greater or lesser degree, in the budgets for state institutions and most of the other departments. Provisions which we have had to make in all the budgets for salary increases for state employees are another impressive illustration of the effect of inflation. Appropriations of \$3,357,000 which you made in 1949 for a score of improvements at various state institutions and teachers' colleges proved too small when cost estimates were made recently, and it has been necessary to request appropriations of \$1,538,000 more, due mainly to increases in building costs.

\$14,000,000 TRIMMED OFF REQUESTS

Realizing that rising prices and the necessity for defense expenditures will make it harder to support our state services, I urged our state department heads to reduce expenditures wherever possible, both to ease the burden on the people and to make possible the maintenance of the vital, essential services on an effective basis. Our department heads cooperated in splendid fashion. When the budgets were drawn up, I went over them with our Commissioner of Administration staff and the budget division and through conference and negotiation cut out \$14,000,000 more from the requested appropriations. New services were held down to the minimum. In the recommendations submitted to you we have taken into consideration shortages of materials and restrictions which will be caused by the emergency.

You will want to go over the budgets carefully, as in other years, I know, and determine for yourself the needs of the various services. I have asked our budget-making officials and all our department heads and officials to work with you and place before you any information you may desire that will help you in making your decisions. I urge that you give consideration, not only to the items recommended in the budget, but any other needs which may be brought to your attention in the discussion with our state officials or the citizens appearing before your committees. The fact that I have not included certain items in the budget does not mean that they are not valid services. The stress of the times has required us to curtail expenses. I am sure you will agree, however, that there should be maintained a reasonable balance between defense expenditures and the maintenance of a strong economy at home. It will be your aim, I know, to get the fullest possible information and then make your appropriations on the basis of what is best for the people as a whole.

II. SERVICES FINANCED THROUGH GENERAL REVENUE FUND

First, let us examine the needs which must be met through our General Revenue Fund. It is from this fund, as you know, that most of the state departments draw the bulk of their support. It is with this fund that Legislators have most to do in making their biennial appropriations and authorizing tax levies. Tax rates on dedicated funds only rarely have been changed and, in the case of the highway department, one of the major activities financed mainly from dedicated funds, the Legislature even does not make appropriations.

All of us who have studied needs of the state services financed from the General Revenue Fund, I think, recognize that maintenance funds of the state departments must be increased if the departments are to carry forward even the most essential services on an effective basis and provide for the minimum in new services.

Prices have gone up so much and such further increases are in prospect that beyond doubt it will be necessary to increase appropriations in many cases just to maintain present services. Every department is affected by this trend, and, most of all, those vital services which provide for welfare, education and care of the afflicted. We have explored carefully all aspects of the problem and, after reducing requests wherever possible, are submitting to you a budget for the General Revenue

Fund which, though larger than two years ago, is, we think, about the minimum in appropriations that ought to be made for these important services.

The appropriations from the General Revenue Fund proposed for the coming biennium are \$159,712,072, compared to \$131,527,384 for the current biennium, or \$28,184,688 more. This does not represent, in the main, an expansion of state services, but consists almost wholly of appropriations that will be necessary because of increased costs to maintain existing services or services that have been authorized.

SERVICES THAT FIGURE IN INCREASES

All of you will want to know what the major items are in these increases in appropriations that have been recommended from the General Revenue Fund. One of the main factors, of course, is the inflation built up by continual price increases, which is found reflected, in greater or lesser degree, in all departments. In terms of functions of government, biggest items for which increased funds are needed are (1) continuance of the mental health program, which has increased opportunities for so many men and women in our mental hospitals, (2) provision to meet added costs in education, (3) increased allowances to help persons on old age assistance to meet rising costs and (4) the need for increased salaries for state employees, all items which we cannot very well avoid. Here, in brief summary, are the major items of increase:

To continue Mental Health Program	\$8,018,247
To meet increased costs of old age assistance under present programs	3,222,395
To provide 4-step salary increase for state employees	4,400,000
To provide funds for Forestry Camp, authorized in 1949, and added preventive work under Youth Commission	440,446
To meet increased costs of University of Minnesota and provide more adequate salaries	7,373,779
To meet added costs of state penal, corrective and other institutions	1,068,406
For added costs of Teachers Colleges	1,143,634

EXPLANATION

The added funds sought for the mental hospitals will be used, in the main, to continue the present program and provide additional employees to man facilities already authorized which soon will be providing helpful care and treatment for an increased number of patients.

Proportionately only a small part of the additional sum requested for the mental health program can be fairly considered as new services. This relatively small additional sum is being sought to expand research, improve training of personnel for the hospitals, increase the number of clinics, develop more effective central administrative services and take other steps to increase the usefulness of the hospitals. I think that all Minnesotans, taking cognizance of the improvements made in the care and treatment of our mentally ill, will look with pride on the gains already achieved and give whole-hearted support to the efforts which must be made to push ahead and advance with the minimum refinements which we have suggested.

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The added funds sought by the Youth Commission have been requested to make possible the establishment of a forestry camp to supplement the valuable work of this important agency and the employment of personnel which will carry on an expanded program of preventive activities and probation work. The Commission has found that it can return many youthful offenders to their home communities and work out their rehabilitation without placement in an institution, and facilities ought to be provided to increase this work as well as the preventive programs.

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I feel in justice and good conscience we must raise the wages of our state employees as private industry has raised the wages of its employees. If we are going to hold our employees and avoid ruinous turnover, it is necessary to give them adequate compensation. I have included \$4,400,000 in the budget to cover the cost during the coming biennium of the proposed four-step pay increase authorized by the

bill which has just been introduced. Most employees would get increases from 9 to 16% under this plan.

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Our State University and the Teachers' Colleges both have felt the pressure of rising costs. To meet the needs that have developed as a consequence, increased funds have been included in the budget for these institutions, and I hope they may have your earnest consideration.

ADDITIONAL REVENUE NEEDED

The recommendations we have been talking about, you will recall, require additional appropriations from the General Revenue Fund of \$28,184,688 in the coming two years. Fortunately, money is on hand to cover part of this cost. We will have a balance of \$17,291,000 in the general revenue fund at the end of the current biennium on June 30th.

We have just received some other good news, (too late to be reflected in our printed budget book, which will help very much to ease the task of providing the revenue required to meet the state's needs. Mining companies of the state have just announced that they have scheduled shipments of 79,000,000 tons of ore for the year of 1951, and shipments in the second year of the biennium are expected to be as large. The greatly augmented ore movement anticipated should result in substantial increases in the occupation and royalty taxes which the state collects.

With the balance of \$17,291,900 that will be on hand in the general revenue fund on June 30th, and the estimated receipts that will be available from various sources during the coming two years, (as now revised,) we will be able to meet all charges against the General Revenue Fund, including the increases proposed, and balance the budget by raising \$14,327,224 in additional revenue during the biennium, or an average of \$7,163,612 a year.

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PROPOSALS FOR RAISING ADDITIONAL REVENUE

We have canvassed the various tax sources from which we might obtain the additional revenue needed and have found advantages and disadvantages in most of the suggested sources. I personally am still opposed to the sales tax, because I do not think it distributes the tax burden fairly, and I am convinced that we can raise the revenue needed from other taxes that will be more equitable. Considering all aspects of the problem, I would suggest that you obtain this additional revenue from an increase in the iron ore mining occupation and royalty taxes and an increase in the tax on beer. The taxes I am suggesting would produce, according to the best estimates, a yield during the two years as follows:

Increase in occupation and royalty taxes to 15%	\$ 7,557,000
Imposition of tax of \$3.30 per barrel on all beer	<u>6,800,000</u>
TOTAL	\$14,357,000

It will be seen that the increased taxes from these two items will be sufficient to provide the additional revenue needed and balance the general revenue fund budget. Here is a tabulation showing how the fund will be balanced under the tax program recommended:

Estimated Balance July 1, 1951	17,291,000.00
Estimated Revenues from present sources, 1951-53	123,093,848.26
Estimated receipts from proposed Beer Tax increase	6,800,000.00 ✓
Estimated receipts from proposed Ore Tax increase	<u>7,557,000.00</u> ✓
Total estimated resources, 1951-1953	159,741,848.26
Less recommended appropriations, 1951-1953	<u>159,712,072.70</u>
Estimated Balance June 30, 1953	29,775.56

While I think the two sources suggested constitute perhaps the fairest way to raise the needed revenue, I have no pride of authorship in this plan and will be glad to have others suggested. It is possible that other plans can be suggested that will enable us to raise the required funds equitably and without undue hardship.

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PROPOSALS REQUIRING LEGISLATION

I have made a number of recommendations which would require enactment of Legislation and, since budget items for these purposes probably should wait until legislative policies have been determined, I am not including such items in the general revenue fund budget proposed.

One of the items was a recommendation that the Legislature remove the maximum limitation on grants for old age assistance to provide such help as it will to persons on old age assistance who are having difficulty making ends meet in these days of rising prices. If the Legislature does not see fit to remove the maximum, it should at least raise it. When the policy to be taken is determined, provision will need to be made for sufficient funds to cover the cost.

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Another measure I would like to have you consider is the campaign proposed to combat brucellosis. A committee which I appointed this summer has made an extensive survey of brucellosis in Minnesota and developed plans for an extensive effort to eradicate this disease, which is threatening welfare of the livestock industry and the health of our people. I think the program is very much worthwhile. When the legislature has considered the matter and determined the nature and scope of the effort to be authorized, provision will need to be made for revenue to cover the cost.

CIVIL DEFENSE

I have made some provision in the budget, you will note, for Civil Defense. A reasonable amount has been included for a helpful program, I think, and yet I must warn you that coming events soon may indicate the need for a much broader and more comprehensive program. It is difficult to know how far we should go in preparations for defense. I am aware that steps which we take may not be needed, and I am conscious, too, of the tragedy that might be ours if we fail to prepare. I hope that we can counsel together as the session develops and arrive at some mutual understanding of the problem and determine what action is desirable.

One thing you will need to decide soon, I think, is the degree in which we are to participate in the air raid shelter program. Congress, as you know, has passed a bill authorizing the development of an extensive system of air raid shelters in critical areas, with the cost provided jointly by the federal government and the state. It will be necessary, as soon as federal appropriations are available, for you to decide the extent to which Minnesota is to participate in this program and determine what machinery is needed to carry forward the program. You will need to decide whether the air raid shelter program in our state is to be directed by the Office of Civil Defense which has been set up under our administration or under the director of housing or some other agency, and quite possibly decide other questions of policy.

Provision for additional financing will have to be made on the part of the state if we decide to embark upon an air raid shelter program, either alone or in co-operation with the federal government. If such a program is undertaken, I suggest that you consider the development of projects which can be utilized for utilitarian purposes in times of peace and that you arrange for payment of the state's share of the cost through self-liquidating plans that will return the cost over a period of years.

I have one further suggestion which I hope you will consider. I would recommend that in a time like this, when emergencies may develop without warning, that the Legislature remove the limitation on the amount which the executive council may spend under the calamity act that prompt action can be taken in any emergency that might develop.

II. SERVICES FINANCED FROM DEDICATED FUNDS

INCREASE IN SCHOOL AID

We pass now from the activities financed from the General Revenue Fund to one of the dedicated funds which is of great interest to most of you. I refer to the aid which the state pays out to help support our local schools throughout the state. Our school aid has been paid entirely from proceeds of the state income tax in recent years, and, as you know, members of the Legislature have determined the amount of the appropriations for school aid.

Witnessing the rising prices and conscious of the difficulties most communities are having in raising sufficient funds to support their schools, I have recommended that the Legislature increase the state aid distributed to our schools. I have not attempted to say how much additional aid is required to meet needs of the schools, but you will be in position to measure these needs and I know that welfare of our schools in this respect can be left safely in your hands.

I would like to advise you that balances in the income tax school fund are more than sufficient to meet any presently determined needs, and that you may, therefore, act upon the recommendation without fear of impoverishing the fund, which means so much to our people. The balance in our income tax school fund at the beginning of the new biennium on June 30th this year will be more than \$53,000,000.

CUT IN INCOME TAX

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I have another matter in connection with the income tax which I wish to bring to your attention. As I indicated in my inaugural address, I am recommending that you increase the exemptions on our state income tax.

Everyone feels the impact of higher living costs due to the inflationary spiral. Among those most severely hit are people of the middle and lower income groups whose salaries and wages are relatively fixed. To afford some easing of the tax burden on these groups particularly, I am suggesting the adjustments in the income tax exemptions.

The present basic rates and exemptions have been in effect since 1937. During this period the value of the dollar has steadily declined. What may have been considered a taxable income in 1937 is now hardly a subsistence income.

I am proposing that the exemption for a single person be increased from \$10 to \$15, that the exemption for a married couple be raised from \$30 to \$40 and that for each dependent there be allowed a credit of \$15 instead of \$10, as at present. The increased credit for dependents will give recognition to the problems of the larger families where high costs for food and clothing loom so large in the family budget.

The adjustments proposed will reduce the state income tax revenue about \$5,000,000 a year, according to the estimates that have been made. The change will not endanger our state school aid program and the increased exemptions will afford some relief to many families that are being pressed by rising costs.

Helpful assistance will be given also through another recommendation incorporated in the budget, which calls for payment from the income tax of educational costs of children of school age in eight state institutions, amounting in all to approximately \$1,000,000 for the biennium. In the past this has been paid from the general revenue fund.

Institutions involved include the Minnesota Braille and Sight Saving School, School for the Deaf, State Training School for Boys, Home School for Girls, State School and Hospital, State School and Colony, Gillette Hospital for Crippled Children and State Public School.

III. BUILDING PROGRAM

I now want to discuss the building program with you.

You will find the buildings and improvements recommended set forth quite clearly on pages 22 and 23 in your budget book, and I will not need to make more than a few explanatory statements.

We recognized that restrictions in all probability will be imposed which will make it difficult to obtain materials for any except the most essential building, and only minimum needs have been considered. Total requests for buildings, as a matter of fact, have been cut in two.

Biggest and, I think, most essential item in the list of improvements recommended is the appropriation of \$6,500,000 for the construction of a new institution for the mentally deficient. On our waiting lists are more than 800 mentally deficient children, as I have pointed out, and it is to relieve this most urgent need that the buildings are to be constructed. Many of these children have been waiting for years for an opportunity to get the care and treatment needed, and their parents have made untold sacrifices and suffered all kinds of hardships in the effort to provide for them.

You will note that many of the items listed are for improvements or additions at the various state institutions. Included are a score of improvements, for which appropriations made two years ago now are insufficient and for which additional funds will be needed. I would like to bring to your attention, too, the recommendations which are being made for construction of sewage plants at the various state institutions. I am hopeful that this much needed work can go forward.

You will have opportunity in the course of your session to examine closely the needs for the improvements proposed. It is well to note, if the construction can be carried through, that the building program proposed can be financed over a 15-year-period at a cost of only a little more than one mill a year.

EFFECT OF PROGRAM ON STATE TAX LEVY

I would like to point out that as the budget recommended now stands the total state tax levy on property would be about the same as the levies for the current biennium have been. To finance the building program would take 1.16 mills each year of the biennium. The fixed levies and levies for debt purposes which must be spread will amount to 6.87 mills for 1951 and 6.39 for the following year. It has been suggested that a possible levy of one-half a mill be spread each year for Civil Defense needs. Even if this is done, the total levies for the first year of the new biennium would be only 8.53 mills and for the second year only 8.05, as compared to 8.69 mills and 8.52 for the two past years.

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We all recognize the obligation to conserve at state and local levels of government during the emergency. But the aged, the handicapped, the mentally ill and others in need have so often been denied decent services because of war. Despite the emergency the fundamental needs must still be met. We will be the stronger for it in the protection of our freedom if we show a willingness to discipline ourselves to meet these needs.

I pledge each of you and the people of our State my best efforts in working out the problems before us. I feel sure together we can resolve these problems for the best interests of all of our citizens.

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