

Budget Message of Governor Edward J. Thye, delivered to a Joint Session of the Fifty-fourth Session of the Legislature on January 17, 1945

Mr. Speaker, Mr. President, Members of the Fifty-fourth Session of the Legislature:

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In accordance with the provisions of the laws of our State, I submit to you today our proposed budget for the next biennium beginning July 1, 1945, and ending June 30, 1947. A copy of the detailed budget for your study during the Session is on your desk.

Before calling your attention to certain high-lights and phases of our fiscal problems during the next two years, I would like to pay a tribute to the Legislature as a whole and in particular to the Senate Finance Committee and the House Appropriations Committee, headed respectively by Senator A. J. Rockne and Representative Claude Allen. It is through the fine, cooperative, painstaking, effort and sound counsel and advice of these two men and their committees that our State finds itself in the splendid financial condition that exists today.

Since July 1, 1939, up to December 31, 1944, the State debt has been reduced approximately Fifty Million Dollars. It will be possible to reduce the now authorized State debt during the next binennium an amount approximating Fifteen Million Dollars.

At the beginning of the next biennium, there should be a balance in the General Revenue Fund approximating Five and One-Half Million Dollars, which will be available to help finance the General Revenue Fund operations during the next biennium if this Legislature sees fit to use it for that purpose.

Before discussing with you any of the recommendations I am making regarding appropriations and expenditures, I would like to touch on the revenue side of the budget. I feel that the estimates of the revenue are conservative and the budget shows that the estimated resources to be available exceed the

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recommended appropriations and expenditures. In other words, the budget as it is being presented to you today is in balance. The only material changes which have been made in estimating the revenues for the next biennium are those that relate to the movement of iron ore out of Minnesota. From the best available information which I have been able to secure from the industry, the Department of Taxation, and the Department of Lands and Minerals, all seem to agree that the tonnage of iron ore will drop. We have estimated Fifty Million Tons for the calendar year 1945, and Thirty-Five Million Tons for the calendar year 1946. This reduction in tonnage of iron ore affects three large items of revenue, namely - Railroad Gross Earnings, Royalty Tax, and Occupational Tax - and it is only on account of this reduction in tonnage of iron ore that our estimated revenues for the next biennium show a substantial reduction under the actual revenues for the year ending June, 1944, and the estimated revenues for the year ending June, 1945.

Depending upon the action that you take as a result of the passage of the Aviation Amendment at the last election, these estimated revenues for the next biennium will be changed if you impose a tax on the aviation gasoline.

I think it may be worthwhile to summarize briefly the picture as regards the general revenue fund. You will see by reference to Schedule A-1 that the general revenue fund non-dedicated receipts for the fiscal year ending June 30th, 1946, will be Thirty-Eight Million, Eight Hundred Forty-Eight Thousand, Six Hundred Forty-Three Dollars and Twenty-Six Cents, according to our estimates, and that the receipts for the second year of the biennium, that ending June 30th, 1947, will be Thirty-Seven Million, One Hundred Sixty-Two Thousand, Ninety-Three Dollars and Seventy-Six Cents. During the first year of the present biennium, general revenue fund non-dedicated receipts were Forty Million, Three Hundred Sixty-Three Thousand, Three Hundred Ninety-Eight Dollars and Thirty-Four cents and for the present year, ending June 30th, the total will reach Forty-Million, Seven Hundred Nine Thousand, One Hundred Ninety-Nine Dollars and Forty-Four Cents, it is estimated.

The estimated decline of about Five Million Dollars for the coming biennium, as compared to the current, is due in the main, as I have suggested, to the decrease that must be expected in the iron ore and gross earnings taxes.

The appropriations recommended for payment from the general revenue fund can be met out of the receipts estimated and the balance that will be left in the fund at the end of this biennium.

Total appropriations from the general revenue fund, you will see from Schedule A-4, for the year ending June 30th, 1946, under this budget would be Thirty-Seven Million, Six Hundred Forty-Three Thousand, One Hundred Twenty-Two Dollars and Twenty-Two Cents, and for the second year, that ending June 30th, 1947, the amount would be Forty-Two Million, Eight Hundred Sixteen Thousand, Six Hundred Eighty-Two Dollars and Sixty-Six Cents. The resources that would be available in the general revenue fund and the obligations against the fund during the coming biennium thus would be:

FUNDS AVAILABLE

Estimated Balance, June 30th, 1945	\$ 5,500,000.00	
Estimated Receipts, Year Ending June 30th, 1946	38,848,643.26	
Estimated Receipts, Year Ending June 30th, 1947	<u>37,162,093.76</u>	
		\$ 81,510,737.02

APPROPRIATIONS

For Year Ending June 30th, 1946	\$37,643,122.22	
For Year Ending June 30th, 1947	<u>42,816,682.66</u>	
		\$ <u>80,459,804.88</u>
BALANCE		\$ 1,050,932.14

The Legislative Advisory Committee authorized the expenditure on the part of the Civil Service Department of Ten Thousand Dollars for the purpose of securing a disinterested agency in making a complete survey of salary schedules and pay plans in the State of Minnesota as they affect State employees. The Public Administration Service of Chicago, an organization which has had very broad experience in this type of work, was selected by the Civil Service Department to make this survey. The survey has been completed and during the course of the Session the suggestions and recommendations, as a result of this survey, will be submitted to the proper committees of your body by the Civil Service Department. If you decide to accept the recommendations contained in this survey, you will see in the budget that there is a sufficient balance to finance the increased cost of personal services.

This budget provides for only Twenty-Five Percent, of the money needed to take back in the State service the employees who have gone into the Armed Forces and who have not been replaced during the first year of the next biennium. This was done on the assumption that all of the former employees will not come back the first year, and those who do return in the first year will not be back for the whole fiscal year. The full amount required has been recommended for the second year.

The budget provides practically no money for new equipment the first year, on the assumption that automobiles, typewriters, office equipment, laboratory equipment, laundry equipment, etc., will not be available because of war restrictions. I am convinced that much of this equipment is needed as soon as it is available.

The recommended salary appropriations are built on the theory that the various departments and agencies will not be able to secure a full complement of help in the next two years any more than they have been able to in the present biennium. The manpower shortage is more acute each day. Even if the European War comes to a close this Spring or early Summer, it will be six or nine months before any real number of men and

women will be released and made available for state employment. For these reasons we have been guided more by what the departments have actually spent for personal services during the present biennium, rather than by what the Legislature appropriated for them during their last session, or by what the departments have requested for the next two years.

The budget provides funds for salary increases for those of our employees who have earned or will earn merit increases under our civil service rules during the next two years. This, I feel, to be most essential as most departments are working extremely short-handed. The employees who are in the State service during these times should receive merit increases in accordance with the rules made by the Civil Service Department.

The last Session of the Legislature directed the Governor to spend not to exceed Five Thousand Dollars on an actuarial study of the State Employees Retirement Fund. A competent Actuary in the City of Chicago was selected and the study has been made. His detailed report will be in the hands of the proper Committees of your Legislature. I call this to your attention because the entire matter of the State Employees Retirement Fund deserves your very careful study. In addition to the actuarial study on the State Employees Retirement Fund, a study of the other three Retirement Funds in which the State is interested, namely, the Public Employees, the Teachers, and the Highway Patrol, have been studied by the same Actuary. The money for this additional study was secured from the Spellman Foundation and no State money was expended on the study.

In the special appropriations for the University, I have recommended, as far as the budget is concerned, the same amount that the Legislature at their last Session appropriated for these purposes. However, I would like to point out that I am convinced that no money can be more wisely spent than in intelligent research at our University, as I feel that the frontiers of tomorrow lie in the research laboratories of today.

At three of our Teachers Colleges during the present biennium we had a training program for the Armed Forces. Moorhead, and St. Cloud had an Army Cadet Flying Program, and Mankato had a Naval Aviation Program. Chapter 46, of the 1943 Laws, provided that the cost of such program should be re-appropriated to the various Colleges. The difference between the cost of the programs and the amount received from the Federal Government as reimbursement leaves a balance which is being held in a special account in the State Auditor's Office for the disposition of the Legislature. This fund amounts to better than Fifty-Eight Thousand Dollars. There are different ways that you can dispose of this money:

- (1) you can have it revert to the General Revenue Fund;
- (2) you may want to use it for the purchase of equipment for the six Colleges; or (3) you may want to use it to offset appropriations at the Colleges which conducted the programs.

We have not included any receipts from the moneys and credit tax in the budget since the Legislature two years ago suspended this tax and we naturally cannot assume, in advance of its action, that the policy so expressed will be altered this year when the matter comes up again. The law suspending the tax expires on July 1st, and a new bill no doubt will be before you shortly dealing with this problem.

The Legislature in 1941 appropriated money for specific buildings. Due to war restrictions, the big majority of these projects have not been built. The 1943 Legislature re-appropriated all of the remaining unexpended and unencumbered money of this building program to June 30, 1945. Still due to war restrictions, this needed construction has not been started, and, therefore, I urge that you again re-appropriate the unexpended balances of the 1941 and 1943 appropriations. In addition, I must call to your attention the material increase in cost of building, both labor and material, and in order to build the type of buildings which the Legislature originally appropriated money for, it will be necessary to have an additional Four Hundred and Eleven Thousand Dollars

which is Twenty-five per cent of the unexpended and unencumbered balances of the moneys appropriated in 1941 and re-appropriated in 1943. Due to the fact that no building of any consequence has been constructed by the State during the past four years, it is most natural that the various agencies of the State have made very extensive requests on the assumption that some time during the next two years the war restrictions will be lifted and we can go ahead with the construction of some badly needed buildings, in addition to the ones that were provided for in the 1941 and 1943 acts.

In my Inaugural Message, I recommended a Ten Million Dollar building program for the biennium. The proper Committees of the Senate and the House will be furnished with a complete, detailed breakdown of the requests on the part of the different departments and agencies of the State. As the total of the requests greatly exceed the program I am recommending, I feel that it is a Legislative responsibility to determine which of the buildings that are being requested should be built. Even though you may feel that war restrictions will prevent any building during the next two years, it is advisable in my opinion that you make this money available at this time. Certainly, if priorities cannot be obtained, the money will not be spent, but if the money is made available, we will be in a position to put this entire building program in blue print stages so that there will be no unnecessary delay in going forward as soon as restrictions are lifted.

In my inaugural address, I pointed out that we have accumulated a reserve of more than Fifteen Million Dollars in the trunk highway fund, most of which will be available for postwar building, and that this fund will continue to grow. With the money that will be made available to Minnesota under the new federal aid program just approved by Congress, we should have, from federal, state, and county funds, approximately Seventy Million Dollars for highway construction in Minnesota in the first three years after the war. Buildings authorized by the 1941 and 1943 Legislatures amounting in all to

Two Million Seven Hundred and Fifty Thousand Dollars are scheduled for construction as soon as federal restrictions will permit. If in addition, the Legislature authorizes the Ten Million Dollar building program I have recommended for state institutions, the teachers' colleges and the University, we will have altogether a highway and building program of more than Eighty Million Dollars.

Our budget naturally has been prepared on the basis of present laws and presently established policies and until the Legislature makes other provisions we can only assume that money for the proposed state building program would come out of borrowed funds, as has been customary with capital improvements. Money has been included in the budget for such interest as may be needed for such a program in this coming biennium. I have recommended a program to you in my inaugural address, however, which will permit us to modify the plan of financing these improvements as well as some of our other expenditures, with financial gain to the State. As you will recall, I suggested that the Legislature pay all educational costs during the next biennium out of the income tax school fund, thus paying from this fund the appropriations for the teachers colleges, the state department of education and the University, which in the past have come from the general revenue fund. If we will make this change, we can pay Five Million Dollars of the proposed Ten Million Dollar building program for state institutions out of current funds in the general revenue fund, put relief costs on a current basis instead of borrowing, prepay out of the general revenue fund the Three Million Dollars that will be required for the rural credit deficiency in the coming biennium and so reduce that much the tax on property and have funds, too, for other worthwhile purposes such as the Capitol Approach and the Mayo Memorial.

Practically all of the departments and agencies of the State prepared their biennial budget requests on the assumption that by the close of the next biennium we would be back to a full peace-time economy, and that prior to that time all types of equipment, materials and supplies, would again be available. This

was a natural and expected action on the part of the departments, because these requests were prepared in September and October, at which time it was generally accepted that the close of the European War theatre was close at hand. It is not necessary for me to inform you as to the change in the trends of events since then.

I do not believe that should the European War come to a close in the Summer of 1945 that the Pacific War will terminate for at least another additional year. If I am correct, I do not believe that we will be in a position to buy great quantities of material, equipment and supplies, which have been denied us under war restrictions, by the close of the next biennium. It is on this theory that the reductions in the departmental requests have been made.

Obviously it is impossible in a brief message of this kind to touch on all the important phases of the budget. All of the phases will be carefully considered and studied by your Committees, and by each House as a whole.

In conclusion I would like to say that I am sure this Budget will receive the painstaking consideration that the former Legislatures have given, and that you will have as your uppermost thought the future welfare of the people of our State. No claim of finality is made as to any recommendation, figure or statement submitted in the budget. They represent only our honest conclusions, based upon an impartial consideration of the situation viewed as a whole, and from the standpoint of the State at large.