

OK
Heather
Original
BUDGET MESSAGE OF GOVERNOR HAROLD E. STASSEN DELIVERED TO A JOINT SESSION OF THE SENATE AND HOUSE OF REPRESENTATIVES AT 12:00 O'CLOCK NOON ON FEBRUARY 1st, 1939.

Mr. President, Mr. Speaker, Members of the Senate and House of Representatives:

The laws of Minnesota provide, I quote: "The Governor shall, as soon as may be, after his inauguration, submit to the legislature a budget, embracing the amounts in detail recommended by him to be appropriated for each department or agency of the state government, for each of the years of the next ensuing biennium, the estimated revenue from taxation and other sources, and an estimate of the amount to be raised by taxation."

I meet with you today for the purpose of fulfilling this statutory responsibility. I meet with you personally, because this problem of our budget, our expenditures, and our tax program, is the most vital problem that is before us and affects to a major extent every citizen of our state and every business and activity of our people.

The preparations for fulfilling this responsibility of the budget recommendations of the executive, were started almost immediately after election day. I requested and secured the

assistance of the staff of the Minnesota Institute of Governmental
Research, ^{Mr. H. G. Moore} to work with me in securing factual material on the fiscal
problems of the state. This staff has spent many long hours in
gathering together factual information and data on various state
problems. Every state institution and every state department has
been visited, and its officials conferred with, regarding their
budget requests, many by me personally. We have also had the advan-
tage of advice and suggestions from many of your members and have
been greatly assisted by the work of your interim committees on
taxation and finance two years ago, whose published report analyzes
many of the state's financial and taxation problems.

The entire problem was approached with the principles in
mind which we presented to the people of the state during the past
year and upon which they placed their decisive stamp of approval
on last November 8th. We were determined that we should spend less
money in the next biennium than we had in the past biennium. In
approaching our problem with this in mind, we found in the first
instance that we were confronted with the absolute need of increasing

certain appropriations. We found that it will be necessary to make a larger appropriation for old age assistance than was done two years ago. We are recommending that the appropriation be raised from 9,800,000 dollars, appropriated by the 1937 legislature, to 10,500,000 dollars for the next biennium.

A study of the operation of the old age assistance department leads to the conclusion that in addition to an increased appropriation, the entire functioning of this law should be subjected to careful analysis by you. It appears to me that the provision providing for a maximum limitation of \$3500 in unencumbered property for eligibility should be changed, and made more liberal in this respect, by raising the amount of property permitted to \$5000. I make this suggestion because it is my observation that the present limitation has worked a hardship and a restriction particularly upon the aged men and women in the rural sections of our state who are living on small farms quite heavily encumbered, but who still find themselves excluded by the present pension law, when from the principles involved in the legislation they should be included. It also is my observation that for the proper functioning of the law and for maintaining it on

a sound basis, in accordance with the experience of other states, and the analysis made by our own old age assistance department here in Minnesota, the law should be further revised providing for a reasonable property lien provision, and providing for a more workable method of carrying out the children's responsibility section, as to new applicants. A careful study of this law, and the amendment of it, is of primary importance if we are to maintain old age assistance on a sound basis so that it will continue to give needed help to the aged men and women who through their long lives have made a great contribution to the building of the state and the nation.

Another major portion of our budget is that portion dealing with relief. In this instance, I am recommending to you the appropriation of the full amount recommended by the relief administrator of the last administration, to-wit: 10,900,00 dollars for the biennium, plus a further sum of 1,100,000 dollars to care for the relief needs of the veterans and for high school and university student aids which were ~~raised~~ under the calamity act fund of the executive council, and the soldiers relief fund. It is

suggested that these funds should be obtained by borrowing, as we will be paying off during the biennium a similar amount of past relief debt.

A further major section of our budget is the matter of school aid, which in the current biennium will total 36,382,992 dollars. This amount was paid out to the 7,700 school districts of the state.

Of this amount, \$7,456,000 will represent an apportionment of the endowment and current school fund paid on the basis of average daily attendance in public schools. It is my recommendation that we do not endeavor to economize by reducing school aid. I recommend that the amount appropriated for school aids be maintained at the same level.

It should be observed, however, that only about one-fifth of the monies that are paid out in school aid are paid out in what is known as supplemental aid, that is, to school districts in which there is serious difficulty in securing sufficient revenue to maintain a reasonably satisfactory educational program.

The remaining four-fifths is paid out to all districts

alike without regard to their financial resources.

I am strongly in favor of the principle of equalizing educational opportunities for the school children of the state, regardless of ~~the~~ particular district or section of the state *in which* they may be reared. I believe that this might well be done by providing in the appropriations for aid to schools, that a somewhat larger portion of the fund be paid out upon the supplemental aid basis. The poorer districts would thereby be assisted in financing their educational opportunities, and a smaller portion of the school aid would be paid out on the flat basis to all districts alike. A comparatively small shift in this regard would be of major assistance to the one thousand poorer school districts and would not have any appreciable effect upon the other 6,700 school districts in the state.

I do further recommend that the legislature provide for an interim committee to make a careful study of the state educational system, to study the entire problem of the youth of Minnesota in relation to education, and our state aid program, to be carried on in the manner suggested by that great educator,

the late Lotus D. Coffman, of our own university.

I also recommend that we should not handicap our great university. It is one of the outstanding institutions of higher learning, not only of the nation, but of the world, and each year it has a ~~larger~~ ^{larger} and ~~higher~~ ^{larger} enrollment. I am therefore recommending that their appropriation be adequate and at least be maintained at the same level as of the last biennium, and that the two urgently needed buildings be allowed. Some consideration might be given to a small increase in the maintenance fund if the building program can be postponed.

We also have found certain other instances, such as the new Moose Lake Hospital, where inevitably the budget of the last biennium must be raised.

Notwithstanding these major divisions in which either increases were required or in which no reduction could be made, we have still proceeded to endeavor to effect those economies that I know the people of the state want to see. We therefore proceeded to reduce the appropriation for almost every other department and activity of the state government. May I say that

included among the departments for which we are recommending a reduction in appropriations is the governor's office.

These reductions have further been made on the basis of the reorganization and simplification of our government, elimination of boards, bureaus and agencies as outlined in my inaugural message, by reducing the number and variety of inspectors that have been traveling throughout the state, by providing for the quarterly allotment budget control that should exist under good administrative procedure just as recommended by your own interim tax commission two years ago, by placing all related activities in one department, by the increased efficiency of civil service, and by the new attitude of a higher morale among the employees of the state that is spreading day by day through the realization that service to the people is what this administration expects its employees to render.

Upon this basis we have prepared a budget which we are submitting to you which calls for a reduction in expenditure for this next biennium over the last biennium of \$3,039,372, or a total of \$79,300,823 instead of \$82,340,195.80 as shown in the

tables on your desk. Of this amount approximately 600,000 dollars is a direct saving in the administrative functioning of the state government and in addition, by economies, we have absorbed inevitable (INFORMAL EXPLANATION) increases in some functions of the government.

For the revenue on the income side, refer to table

"B" on your desk. It will be noted that the estimated revenues on the basis of the present tax laws for the next biennium will be \$62,824,000, which with receipts from dedicated funds, cancelled balances and transfers will total \$74,804,880, thus leaving us short \$4,495,943 of meeting the reduced budget. This then presents a real problem. It is my belief that a portion of this difference can and should be met by an increase in state taxes upon the iron ore resources. Approximately \$1,525,000 could be secured through the raising of the occupational and royalty rates back to the ten percent that they were two years ago, from their present eight percent level. In your consideration of this proposal, you should study the entire tax burden upon our iron ore, and I feel it would also be well, considering the unemployment on the iron range, and the importance of conserving this great natural resource, to appoint an interim committee, to make a thorough study of the problems of the iron range.

Further considering this need of more funds and our

entire budget problems, we are confronted with the fact that a very large portion of the taxes and revenue collected by the state is allocated to dedicated funds over which the legislature has little budgeting control. These are found in the Conservation Department, the Highway Department, and numerous other minor boards. To properly supervise most of these activities, these funds should be brought into the general revenue fund ~~and~~ which will place them under the control of the legislature for appropriations. The other funds dedicated to special boards and to the Conservation Department, and the Highway Department, should be charged a five percent general administration fee in order that they may each bear their just portion of the general administrative expense of the state government. A portion of your time, and of the time and expense of every administrative department is taken up with the problems and duties of these respective functions of the government within the field of the dedicated funds.

Through this administrative charge, the sum of \$1,800,000 would be available for the general administration of the state for the biennium. Likewise, all balances remaining in appropriations at the end of the year, should be lapsed and placed in the general

treasury so that a clean start can be made in each biennium in the budgeting control of the legislature and the budget commissioner.

This then leaves us with the necessity of raising additional amounts in excess of a million dollars to balance the budget, This can be done by a one mill levy upon real estate, not including homesteads. The necessity of raising this mill, however, together with the requirements of meeting the interest and principal on past bond issues, issued by previous administrations, would raise the total mill rate over ten mills, and this should not be done. I am therefore recommending that the special mill rate of .23 mills for the University be discontinued, and the .10 for soldiers relief should be discontinued and cared for in the general relief appropriation. And further that the one mill for road and bridge be discontinued and that in place of the funds which the local governments are securing from the one mill for road and bridge fund, the one cent additional gas tax should be reenacted so that the gas tax will remain at its present level for an additional two years. I recommend the continuation of this four cent gas tax only on the basis of its revenue taking the place of the one mill levy on real estate and on the further basis that the department is charged the general five percent adminis-

trative charge that I recommended as to all dedicated funds.

In other words, I feel that if highways are to have the exclusive and large revenues from motor vehicle taxes and gas taxes, then they should not also have an additional revenue rising from the mill tax on real estate, which is already too heavily burdened. Neither should the general revenue fund be carrying the general administrative expense properly chargeable to highways. Unless these provisions for relieving real estate and relieving the revenue fund are worked out, I am opposed to reenacting the four cent gas tax.

By following out these four recommended steps, the budget can be balanced for the next biennium and the state can be placed upon a sound financial basis for the first time in many years.

(INFORMAL DISCUSSION)

From the standpoint of the deficiencies that are required to close this biennium up to July 1st, it will be necessary to appropriate four and a half million dollars for relief, pensions, and shortages in many departments. I recommend that these deficiencies be financed from borrowed funds, and further that any additional cash shortage for the last biennium arising through insufficient revenues

to meet the appropriations authorized by the preceding legislature be likewise financed by borrowing. This issue of indebtedness might well be called the Farmer-Labor Deficiency Bond issue to clearly distinguish it from the problems of our own biennium. A retirement of this bond issue should be provided for over a period of years. We will retire our portion of this deficiency each year of the biennium.

We cannot raise the money for this deficiency during the next biennium and neither should we in fairness be expected to raise it out of current revenue, but should be afforded the opportunity to start out on July 1st with a clear slate.

| The building program for the next ~~biennium~~ biennium which will be financed from borrowing and which I am recommending is in the amount of \$1,687,500 which is shown in Table "C" on your desks, and which covers the most urgent projects of the various activities of the state government. Having in mind the urgency of some of these requests and the advantages of having some building activity with its result in employment of the building trade, I feel that we should proceed with a reasonable building program as outlined

herewith. If federal grants and aid on some of these building projects can be secured and the projects are properly managed with open competitive bidding, the various departments may be able to extend somewhat further their building program under the same appropriations and subject to the approval of the department of administration and finance. In conjunction with the request of the school for the blind for a new industrial and recreational building, I have observed that the buildings at this school are in very poor shape and suggest that you consider the desirability of developing this school adjacent to and on the same general campus as the school for the deaf, which has an exceptionally beautiful campus in the City of Faribault. Some joint services such as power plant and laundry and gymnasium facilities could very well be worked out, although the schools themselves could still be operated from an educational standpoint on a separately recognized basis under good standards. /

From the standpoint of the indebtedness upon schedules we have worked out, including the proposed borrowing for the building program and relief, we find that at the end of the

biennium, our total state indebtedness will be reduced nine million dollars, from 132,883,045 dollars to 123,774,951 dollars, which will also fulfill another one of the major principles we discussed with the people of the state throughout the past year, and which will show a definite turning point in the financial condition of Minnesota.

In the matter of the indebtedness which we propose to incur, I have an important suggestion to make to you. We have at the present time in our trust fund for schools and other purposes over ten million dollars of funds which are not invested, but are lying idle because it is not possible to secure the type of investment specified, at the rate legally required of three percent interest. It appears to me that rather than having these ten million lay idle for want of three percent investment in our trust fund, while we turn to the securities markets to float issues of indebtedness for our relief purposes, we should provide by special act that the investment board may purchase the state's own certificates of indebtedness at perhaps one and a half percent and thereby make a direct saving on that one transaction alone of approximately two

hundred thousand dollars a year, part of which will go to the credit of the trust fund and part to the general revenue fund.

I know you will also be interested to hear that the actual number of bills outstanding and unpaid on the first of the year in the State Highway Department is the sum of \$2,024,796, with only \$339,559 on hand, or a net shortage of \$1,625,236, and that the new highway commissioner and his staff are budgeting and planning on maintaining the highways of the state with the sum of \$6,000,000 in place of the sum of \$11,679,447 used last year. A budget for highway purposes will be submitted to your committees shortly. The new highway commissioner and I agree that we should have sound budgeting of highway funds.

Because of the fact that we are cutting the appropriations very closely, we are providing for a contingent fund of \$300,000 for the biennium, to be used to meet special needs that may arise and that cannot be met under the various department budgets. The elasticity of this general contingent fund can be used for any department of the state in meeting emergencies and will assist in effecting economy throughout by following a close budget procedure.

I cannot emphasize too strongly that this entire program of economy and efficiency is contingent upon the simplification of our state governmental machinery with its many scores of boards, bureaus, agencies and departments, and enactment of a good civil service law. With your cooperation in working out and placing into effect a sound, businesslike plan of the administration by grouping together related functions under single administrative heads, we can provide for the direct responsibility and efficient action that is so obviously needed in the state government today. The principal changes of this nature which are necessary I discussed with you in my inaugural address and I have discussed informally with many of your members the means of working out these necessary changes. The businesslike control of funds through a single commissioner of administration and accounting, taking the place of the present Big Three, which should be abolished, with definite quarterly allotment control and the encumbering of accounts for all liabilities when they occur, will avoid the recurring deficits which we have experienced and will be a major factor in affecting these desired results.

It should also be mandatory to reduce allotments if revenues

decrease and to make regular reports to the public of the condition of the state finances.

The development of a strong, well administered department of social security and public welfare, of a department of taxation and finance, and a department of commerce, bringing in together the many inspection activities of the state, will each be of major assistance not only in effecting the economies, but in giving to the people better service in the many phases of governmental activities, notwithstanding the reduction in expenditures as set forth in this budget proposal. These changes will represent the best experience of the various state governments in effective and economical administration.

In conclusion may I state that you and your committees might develop other and better methods of meeting the financial needs. I will welcome that initiative on your part. I have endeavored, however, to fulfill the legal responsibility placed upon me, frankly, fairly, and straight from the shoulder, and I know that you in your approach to the problems will respect the fundamental principles upon which the people of the state have spoken; the desire of the people for the spending of less money, the adequate meeting of the needs of the men and women who through no fault of their own are in need of public assistance, the

maintaining of our educational system, the pressing onward on a progressive program of social betterment and security, the avoiding of any new tax burdens upon real estate, the reducing of the total indebtedness of the state, and the avoiding of placing upon business and enterprise any additional burdens. By meeting these objectives, we will find that the surge of renewed commercial activity within the state, which is resulting in more jobs for our unemployed, will continue and increase, and we may together meet the citizens of our state when this session is completed with a sincere feeling that we have fulfilled the responsibilities of our joint stewardship and that we have played a part in the building of Minnesota.



MINNESOTA HISTORICAL SOCIETY

Copyright in this digital version belongs to the Minnesota Historical Society and its content may not be copied without the copyright holder's express written permission. Users may print, download, link to, or email content, however, for individual use.

To request permission for commercial or educational use, please contact the Minnesota Historical Society.



www.mnhs.org