

Good evening--I'm speaking to you from the Governor's Residence in St. Paul.

This past year the longest lasting economic expansion in United States history came to an end. For years we had been warned that what goes up must come down--and indeed it did.

Last March the country quietly slipped into a recession. However, while there was little notice at the time, it all came crashing home on September 11, 2001.

But as I said after the terrorist attacks, no one, not Osama Bin Laden, nor any of his terrorists can take away our resilience.

When 35,000 of you stood in the rain on the capitol grounds on Sunday, September 16, it was clear that Minnesotans would not forget, and together we will preserve our freedom and rebuild our economy.

And so tonight, I want to talk to you about the challenges the recession brings to the state of Minnesota.

Forty-four states, including Minnesota, are facing budget deficits.

The fact is, people in Minnesota and across the country are getting laid off from their jobs and when that happens families cut back, they buy less, they travel less and so, they pay less taxes.

Over two years Minnesota will collect almost \$2 billion dollars less in taxes and fees than we thought.

And just as important, in all the years after that, revenues will be about \$1.2 billion dollars less than we have committed to spend.

Even though some economists are saying that the economy is beginning to improve, the impact of the recession, and the lost revenue, will always be with us. Unless we bring revenue and spending back into balance we will face continuing budget shortfalls into the future.

As your elected representatives, we have a duty not to just solve the short-run problem, but to face the tough choices required for a permanent budget solution.

The governor and the legislature are required by law to rework the budget and make sure that by the end of this current cycle we have a balanced budget. That's our legal obligation, but some will want to stop there, put off the tough decisions until after the elections and hope for the best.

I won't stand for that.

As I promised you when I was elected I have continued my effort to find an appropriate balance between the amount of money the state collects in taxes and the high level of services that Minnesota citizens have come to expect.

This, of course, is always a dilemma.

Clearly, Minnesota taxpayers have been frustrated as our state continued to rank as one of the most highly taxed in the nation.

Over the past three years my administration has carefully managed our resources to bring down your property taxes, your income taxes, many business taxes and the cost of your car license tabs.

We have created a more fair tax environment that has provided significant property tax reductions in all property classifications, and also succeeded in giving citizens more direct control over the amount of property tax they pay.

However, in addition to lowering taxes, we have also worked hard to make sure that the taxes you do pay bring the most value possible.

When I visit schools I often tell students that the state does not manufacture dollars in the basement of the capitol. Every dollar that we get sent to us comes from the fruits of someone's labor.

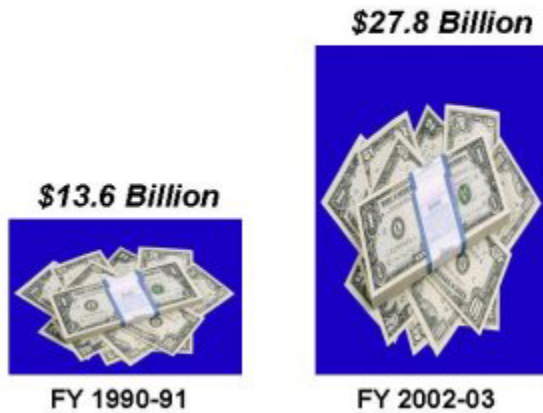
I tell the students that when a worker spends an entire day digging a hole and gets a paycheck of one hundred dollars, the government is going to take about thirty-five dollars of that one hundred to benefit people who didn't have anything to do with digging that hole.

I use this example to illustrate why I am so focused on accountability and results.

I use it to emphasize how important it is to make sure that we are not wasting the fruits of that ditch digger's hard labor.

Ten years ago the state of Minnesota's two-year budget was \$ 13.6 billion dollars. In the current two-year budget cycle we will spend almost \$28 billion dollars on state provided services.

The Budget Has Doubled since 1990-91



That's big government.

We build and maintain roads, bridges, prisons and schools.

We educate our children, we care for our elderly and we protect the public's safety.

We do all these things and much more.

But unfortunately, as you saw on the previous chart, every year that we do more it will cost you more in taxes.

It is my belief that when we are facing a two billion dollar budget deficit we should concentrate on what is necessary and not necessarily what's nice.

And so tonight I would like to talk to you about how we might tackle this budget shortfall.

Basically, we have three options:

Three Approaches to the Problem

Cut Spending



Raise Taxes



Election Year Gimmicks



Cut spending,

Raise taxes, or

We could try to use election year budget gimmicks.

The first two options are legitimate options. The third is just not responsible.

But whatever we do, we need to do it quickly.

We are already six months into our two-year budget and every day that passes without making adjustments means there will be less money in the bank to cushion the blow of budget cutting.

With that in mind, three months ago I began preparing for the worst, and asked my staff and commissioners to begin working on a budget reduction plan that would focus on eliminating programs rather than just cutting across the board.

When considering cuts, I instructed them that everything should be on the table.

In this process there should be no sacred cows.

In addition, I met with legislative leaders and urged them to work together with us to develop a plan that could be implemented early this year.

Clearly, under no circumstances will I tolerate this process dragging on and on, getting bogged down in political turf wars and end up spending even more of your hard earned tax dollars on special legislative sessions.

Now is the time to put aside election year politics and act quickly on what is in the best interests of the people.

The time to fix this problem is now and not in April, May or June during a special session.

And when I say fix I don't mean a political quick fix that would simply postpone the problem and leave it for another year. That's the election year budget gimmick approach that I said earlier is not an option.

Sure, I could take the politically safe approach and use accounting gimmicks to delay making tough decisions, choose not to run again and ride off into the sunset and leave another governor and the taxpayers to deal with the mess.

But I won't do that.

After I was elected I pledged that I would leave the budget in as good a shape as it was when I took over. Whether I leave this job this year or five years from now I will not go back on that promise.

Minnesota leaders have worked hard to gain the respect of Wall Street, and along with only ten other states, we have obtained the highest credit rating in the nation. That triple-A credit rating allows us to borrow money to finance building projects at the lowest interest rate available and consequently save millions of dollars in interest payments.

If we try to solve this budget problem with quick fix accounting gimmicks or borrowing on future revenue sources, you can be sure that Wall Street will be watching and our credit rating will suffer.

I assure you that I will not allow our triple-A credit rating to be put in jeopardy.

And so now we must ask, how *do* we solve this problem?

First of all, we are fortunate that we did plan well.

Last year, we worked with the legislature and provided a beefed up reserve fund of \$653 million dollars. We left \$235 million dollars in the budget that we didn't spend and provided a \$350 million cash flow account.

But it is important to understand that while these funds help us in the short term, they will soon be gone and not available for the long term. This money helps, but only to give us a little time to make the real tough decisions.

Likewise, some argue that if we had not given rebates we could have avoided this problem, but the truth is the rebate money was a one-time surplus that would not have solved the long-term problem of reduced revenues as a result of a national economic recession.

Remember, if the rebate dollars had been used for new spending or permanent tax cuts, our budget problem would be even worse.

When I hear that rebate argument, I simply point out that if the rebates were the problem, why do 43 other states--most of whom didn't give rebates--now have budget shortfalls?

And so the answer to what we do is obvious: First, we must cut our expenses.

But as I said that will not be easy.

Consider this:

Of the entire \$28 billion dollar general fund budget, only five budget areas consume 85% of it.

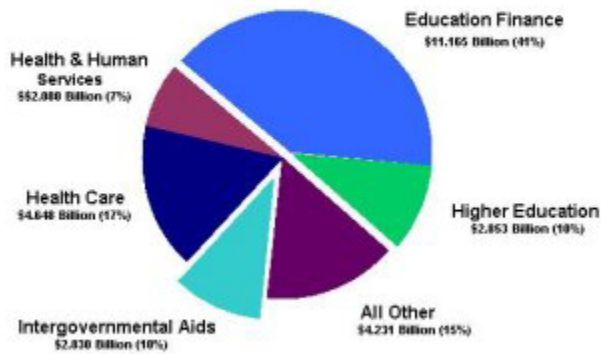


As you can see on the chart the five are:

K-12 Education,

Higher Education,
State aids sent to local governments,
Health Care, and
Human Services.

FY 2002-03 General Fund Budget
Total - \$27.807 Billion



Even more revealing is that if you combine K-12 education and Higher Education, the two make up over 50% of the budget.

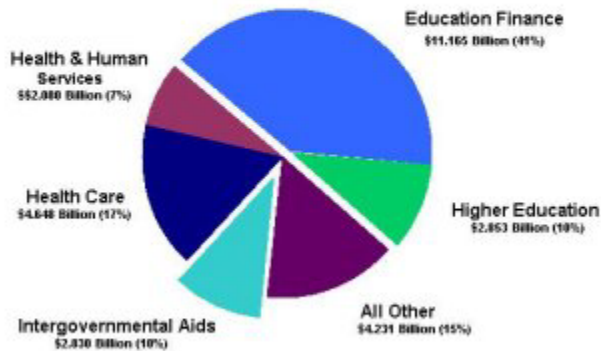
Another tough example is health care. After education, it is the largest area of state spending, and at 29% growth from the last biennium, it is the fastest growing spending item in the budget.

Remember, the more we spend, the more fruits of the ditch digger's labor must go to the government.

I warned you that this isn't going to be easy.

For example, lets look again at the big five budget areas.

FY 2002-03 General Fund Budget **Total - \$27.807 Billion**



Notice that a huge part of the state's budget is given to cities and counties. Because one purpose of these payments to local governments is to hold down property taxes--some might question if it's working.

It is a substantial amount of money and may very well have to be a part of the overall budget solution. However, if some reduction of aid to cities and counties does become a reality, I would expect them to use their reserves, cut costs and reduce services.

Only as a last resort should local property taxes be raised.

Of course, after considering how difficult it may be to cut spending, I fully expect some citizens may lean toward raising taxes.

But as I said earlier, I am not looking for an easy way out. While I am not ruling out any option, I want to cut spending first, and I will adamantly oppose any undoing of the major tax reforms and accountability measures we passed last year.

However, in fairness, I have said that every legitimate option should be on the table and therefore we should talk about taxes that could be raised to avoid even bigger spending cuts.

For example, some people have suggested increasing the gas tax.

Likewise others have suggested raising the tax on cigarettes, extending the sales tax to clothing or re-visiting my proposal to lower the sales tax but extend it to some services.

These are just some of the taxes you will hear about.

We will work with you, legislators and economic experts--not only to find every dollar--but also to ensure that every dollar we find is used to its greatest value.

In that effort, one week from today I will present to you, and the legislature, a budget-balancing plan.

My expectation is that the people and the legislature will review and debate the plan and be prepared to act on the plan in the first week of the session that begins on January 29th.

If, after the first week of the session, the legislature is not ready to begin taking action, I assure you that I will not stand by and watch our state's fiscal integrity be dragged into a political quagmire.

At the appropriate time, I will begin to use my executive powers to begin cutting our expenses and avoid a budget deficit made worse by inaction.

It is absolutely imperative that the executive and legislative branches work together by acting in the best interests of our taxpayers and not politicize this process.

We will all have to accept some sacrifice, but we are not going to turn our backs on the important things that we do.

We have a workforce that is talented and dedicated to the job that must be done.

We understand the added responsibility that the war brings to our mission and we will not sacrifice your safety.

We understand that you expect the state to continue to invest in and protect the state's infrastructure and we will.

And finally, I hope you will understand that while tonight I chose to emphasize the most important challenge before us, there are things going on in our state that we can all be proud of.

Our state--and many of its cities--are often cited as the best place to do high tech business, the best place to raise a family, and one of the healthiest states in the nation.

We must be doing something right.

The terrorist attack on our country and a national economic recession are having a tremendous effect on the state of our state. But be assured, we will not bow to forces of evil nor will we shrink in the face of economic hard times.

Thank you for listening and watching. Good night and have a happy new year.