

Good Morning.

Thank you for coming here today.

I think it is appropriate that we have come to a science museum to talk about the budget, a place where people can educate themselves about the "science" of natural phenomena.

The science museum is a place where you might find an example of Newton's basic laws of physics.

In fact, I have often observed that putting together a budget is like physics:
"For every action there is an equal and opposite reaction."

When you spend one more dollar, you have to create one more dollar. And of course if you know anything about biology, you know that *one more dollar* does not grow on a tree.

In two years I have learned a lot about physics and how it applies to the science of putting together a budget.

Two years ago I walked into the transition office with a responsibility of putting together a two-year budget before I had been sworn into office, hired a staff or appointed a single cabinet member.

But with the help of some very talented people I presented a budget that called for tax relief, meaningful investments with the windfall tobacco settlements, and very significant increases in education spending to reduce class sizes, paired with limited growth in other spending.

Yet even then, I had a sense that if I had more time I could have more fully understood the dynamics of the process and delivered more meaningful reform as well. I could have been more scientific in my approach to the budget.

Today, as I present my 2002-2003 budget, I'm much more satisfied with the *science* we applied to this budget. Because this budget is built upon a solid foundation of:

Tax reform and relief, carefully targeted spending, and initiatives designed to better address the demands of a changing economy.

It starts with following through on our commitment to the taxpayers. That means keeping our word about returning the surplus to taxpayers once we've "settled up" and closed the books for the current budget period.

You see, the budget debate we're about to enter into has real meaning. Together, the legislature, the governor, and the people, will debate priorities, roles and tax fairness and make decisions that will result in the next two-year budget.

And then, we should live by it.

We should stick to our agreement with the taxpayers and give back whatever isn't needed to fund the commitments that were made in our original budget.

That's a good start, but it's not enough.

My tax reform and relief recommendations begin with continuing the reduction of motor vehicle tabs to \$75 by 2004, a reduction in income tax rates by 0.5% in each of our brackets, and finally a recognition that we must take additional steps to prepare our state for the next century.

We have the chance to recognize important shifts in the way our economy works, and we should not squander the opportunity to adjust the tax code to improve our competitive position in this global economy.

What specifically does that mean?

It means we now have the chance, and the *leadership* from my office, to reduce our reliance on property taxes for state and local spending, and make our income taxes more competitive as we compete for a shrinking workforce.

How we do that is simple, but not without controversy.

We must accept that consumer spending in our economy has shifted from 60% goods and only 40% services to just the opposite, 40% goods and 60% services.

That shrinking base, and the loss of tax revenues through internet sales, weakens the tax base and will ultimately force us to depend more on the very taxes that seem least fair, property and income, in order to balance our state and local budgets.

It's in our best long-term interests to expand the sales tax to those services. We should reduce this impact by lowering the tax rate from 6.5% to 6.0% and continue to exempt the necessities of life such as food, clothing and heating oil.

Now, there's a long list of lobbyists that are already throwing grenades at this recommendation.

Elected officials are voted into office to consider the best interests of the taxpayers.

Elected officials who dismiss this proposal out of hand, are listening more to lobbyists paid to represent special interests, than to the taxpayers.

It's interesting that the Department of Revenue got a call from a taxpayer that took her dog to get groomed on her way to the hair salon, the dog's haircut was taxed, but hers wasn't.

When you buy a suit, if it needs altering at the time you buy it, those alterations aren't taxed. However, if you gain a couple of pounds, and six months later you need the waist let out, you then will pay sales tax.

All I ask is that you think about these things.

Dry cleaning is taxable, but Laundromats are exempt.

Tree removal is taxable, but tree planting is not.

Telephone services like call forwarding and answering services are taxable when provided by your telephone company, but not when supplied by a different company.

If you pay for the lodging or care of your dog it is taxable, but if you do the same for your horse it is not.

If you buy a membership at the White Bear Swim and Racket Club it is taxable, if you join the YMCA with the same facilities, it is not.

And one more time: Care and lodging for horses is exempt from tax, but care and lodging of dogs is taxable.

Haircuts for people are exempt from tax, but haircuts for dogs are taxable.

Apparently the dogs don't have a very good lobbyist at the capitol.

This is not only crazy tax policy, it is unfair tax policy, and we need to change it.

Another relic of the past is property taxes, a concept that once was a good measure of wealth.

Ask any senior citizen today struggling to pay both increasing property taxes and heating bills and you know those days are gone.

It's not even a local tax anymore.

After all, we tell the local units of government what they must levy for basic education services. Then we wonder why there are only handfuls of people in the state who understand our property tax system.

Let's take a big step this year to truly make the property tax a local tax. Let's start by being honest about financing basic education.

Accountability starts with state government paying fully for its own spending decisions.

And don't worry, I've taken great care to make sure we still help equalize resources so that not only the property-rich school districts can consider additional funding through voter approved referendums. But under my proposal, when school programs are paid for with property taxes it will only represent those choices truly made at the local level.

After all of this, even after paying for part of the cost with some local aid shifts and a statewide levy on business and cabin owners, who don't get to vote in local elections, we still provide double-digit tax relief to all classes of property.

And we do it in a way that is fair to all taxpayers, no matter where they live in our state.

Now, there are going to be those who argue that we should have used those resources to simply increase the level of funding for K-12 education.

So let's talk about the spending in my budget.

You've all heard me say that I think the spending passed in the last two years was too high.

I believe that with a strong economy, low unemployment and growing personal income, the cost of government should not expand at an accelerated rate.

Remember, I am not asking that we change our Minnesota standards of good public services, I am asking that we don't create expectations in good times, that can't be sustained once the economic sky gets a little cloudy.

I do believe, however, that we need to meet our current responsibilities well.

Therefore, in my budget:

I've provided funding for the increased costs expected for wages and benefits for state employees, I've provided for a share of the cost for higher education faculty and staff, and, in the second year of the biennium, I have provided for an increase in funding for workers in our long-term care systems and K-12 teachers.

I've also challenged state agencies to take a hard look at their existing programs before considering new spending.

But I don't have blinders on.

It's not that I can't see a need for strategic investments.

While I'm not recommending radical reductions in state programs, I'm also not recommending radical expansions of state programs either.

What I am recommending is selected strategic investments.

Starting with health care.

The State of Minnesota, just like any other employer, faces a 20% increase in premiums.

The cost of health care is getting so expensive that we just can't move as fast as I'd like in making sure that every child in the state is covered by health insurance.

But while we must keep working to reduce the number of uninsured kids and adults in our state, we also must work harder to keep health care affordable for everyone.

I believe that a renewed focus on prevention and quality improvement is the key to long term cost control, and my budget invests in both strategies.

We need to be creative and disciplined.

We have to change incentives that promote increased consumption of health care services without any real improvement in health status.

But we can't do it alone, we can't just pass a bill, we've got to work together. We've got to educate our citizens and give them a reason to examine these issues.

We should start by getting aggressive at eliminating the glaring disparities in health status within segments of our population, specifically American Indians and communities of color. In a state that prides itself as being on the cutting edge of health care, our record is intolerable.

We're going to make progress in expanding coverage to children by changing the current practice where they lose eligibility just about the time we process their enrollment.

We're going to do this and, at the same time, reduce our reliance on health care taxes to pay for it. I'm recommending an elimination of the wholesale drug tax, the Premium Tax, and the elimination of the scheduled 0.5% increase in the provider tax and make sure it can't ever be increased. To do this, I'm recommending that 85% of the current cigarette tax be deposited directly in the Health Care Access Fund. And finally,

I'm recommending we continue the good policy of setting aside our last one-time tobacco settlement payments. I'm recommending we use them to stabilize funding for the Academic Health Center and to begin an innovative approach to improving children's health.

Healthy kids have a much better chance to learn than sick kids do.

And what about education?

Well, K-12 education was the big winner in the last budget.

And that \$1.3 billion dollar increase in funding doesn't magically go away when this budget cycle ends. It will be there again in the next budget cycle.

Is it enough to do the job? Well, with all due respect to those who believe we can never put enough into education,

I believe that with just a little help, it is.

In this budget, I'm recommending that in addition to the inflationary adjustment in 2003, we should spend more money on:

- Equalizing the debt on school buildings,
- Indian education grants,
- Helping schools in need of improvement,
- School breakfast, and
- Making teacher licensure a self-sustaining activity.

Another thing we clearly need to start doing is paying our teachers not based simply on how long they've been in the profession, but on how well they're performing.

I'm recommending \$15 million this biennium for districts and school sites that are interested in trying alternative approaches to compensation, rather than using the traditional "steps and lanes".

I believe that with the additional money invested in K-12 education over the past two years, along with these targeted investments, our schools can continue to compete with the best in the nation.

As for higher education I am recommending a 4.5% increase in funding that I believe will allow higher education institutions to continue existing programs responsibly.

I am recommending putting additional resources into student financial aid allowing the individual to then choose the higher education provider that best meets their educational needs.

We need to recognize the breadth of public and private higher education institutions that we have in Minnesota. From Brown Institute to the University of Minnesota to St. John's University, we have tremendous resources to help address our workforce development needs.

And these institutions should not be protected from competition in the marketplace, but rather should be flexible enough to meet employer and student demands for workforce skills.

My budget therefore includes increases of:

- \$14 million dollars to expand financial aid to low income, non-traditional and part-time students,

- \$11 million to extend eligibility beyond four years,
- \$5 million to recognize increases in tuition and fees, and
- An additional \$4 million dollars of funding to work with families and students that traditionally don't participate in higher education or are "first generation" students.

Last week when I met with a group of miners who have been laid off from LTV in Hoyt Lakes, worker after worker emphasized to me that they aren't looking for a hand out, they're looking for a hand up.

Those miners are some of the best workers in the world and all they want is to be given a chance to be retrained.

With a changing economy and a workforce that needs to be trained and retrained, higher education can no longer focus so exclusively on the traditional 18 year old, four-year student.

But my interest in addressing workforce development doesn't stop there.

We need to develop incentives to attract individuals to opportunities where there is a critical need, like health care and teaching.

Therefore, I am recommending:

- a \$4.4 million dollar expansion of loan forgiveness programs for health care professionals,
- stabilizing the University's Academic Health Center with funding generated by additional tobacco endowment proceeds, and
- \$10 million dollars for "Teachers for the 21st Century," a new program designed to recruit, train and maintain high-quality teachers in the workforce.

This is in addition to several other recommendations to streamline our bureaucratic licensure system, making it easier for those interested in teaching to get through the system.

In addition to our health and education systems many other things contribute to our strong quality of life here in Minnesota.

We enjoy our natural resources and we protect them.

And in my capital budget I'm recommending around \$50 million dollars to match federal funds to be used to clean up the Minnesota River.

We reallocate resources to different parts of our state to ensure that strong public safety and fair and timely justice doesn't depend on the wealth of individual communities.

In support of our continuing effort to build a Criminal Justice Information System I am recommending that in the next biennium we invest \$27 million dollars.



This investment focuses on areas that are appropriately state functions and suggests careful analysis on the next steps.

While this project is an important example of how an investment in technology can result in better justice and public safety, I want to assure taxpayers that the cost of the project will not get out of hand and exceed its benefit.

While new initiatives are important my first commitment on the spending in my budget is to ensure that core responsibilities are not neglected.

Reasonable resources must be dedicated to these important programs to ensure that we can maintain the commitments that are already in place and reflect both an appropriate public responsibility and priority areas of the budget.

That is NOT to say that those are programs that don't have value, frankly, if they didn't have value to someone we would have eliminated them long ago.

But often times with even our most critical functions there are more cost-effective ways to deliver services and those should be explored.

This biennial budget has numerous examples of reallocating to meet tomorrow's challenges.

One such opportunity that is long past due is a reduction in the operating costs per inmate in the state prison system. A significant portion of the estimated \$18 million in savings from reducing the institutions' operating costs will then be redirected to enhance correctional services for offenders in the community.

Moving these funds "upstream" in the corrections system will reduce repeat offenders and prison costs down the road.

Another major reallocation is the shift away from more expensive institutional care in the nursing home industry.

My budget redirects \$73 million from nursing homes into an \$82 million initiative to expand community-based health care services.

By creating incentives for nursing facility downsizing, more options will be available to help our elderly remain in their homes or live independently.

This principle of giving more choices to our citizens, by leaving more money in their pockets through tax reductions, by providing more choices about how to live independently for our seniors, and by giving more flexibility to those seeking to improve their skills through higher education opportunities,



These are some of the basic aims of my budget. But just as important are the basic principles of budgeting that are so critical to the fiscal security of this state.

In that vein:

I am recommending a biennial budget that is structurally balanced in 2005.

I am recommending that we leave at least \$100 million each year in 2004 and 2005 on the "bottom line" in the event a smaller surplus is available as a result of the February forecast.

I am recommending that the 2004 and 2005 reduction on the income tax rate of 1/10 of 1 percent be implemented only if resources are projected to be available.

I am recommending that the interest off the budget reserve be deposited back into that account, allowing it to grow over time and eventually reach an amount equivalent to 5% of our biennial budget.

I am recommending that we finally undo the business payment "shifts" that were implemented during a financial crisis over a decade ago. It is absolutely unfair for the state to continue to ask business to accelerate the payment of their June sales tax when the fiscal crisis that made it necessary is long over. And finally,

I am recommending that the state go back to sending local government aid in the intended fiscal year.

These are steps that can and should be done today to give us greater financial flexibility in the future.

As I hold myself accountable for responsible budgeting, so will I hold the Legislature.

My expectation is that regardless of the news in the February forecast, we will all agree that it sets the boundaries for financial decision-making and that decision making on targets be agreed upon by April 1.

I am making a commitment here today that if, after the February forecast, the flexibility that I have built into my budget proves to be insufficient, I will immediately send the Legislature any revisions necessary to make sure my recommended budget is still structurally balanced.

Finally, just a few words about the capital budget.

I am recommending a capital budget this year because I believe the Legislature can get both the capital and operating budgets done in one session, in fact they have.

I am submitting a capital budget so that we can accomplish all the state's business and then, absent a state emergency, you can go home to your constituents, your jobs and your families for the rest of the biennium.

Rest assured, I must advise you that if you send a capital budget to my office at the end of session, but don't adjourn *sine die* you will risk a veto of the entire capital package.

Let me be clear, I am not interested in doing anything more than the biennial budget unless it's part of a "single session" legislative reform package.

I started this message referring to Newton's laws; well here's another one of his laws that I think applies to our budget making process:

"A body in motion tends to stay in motion."

I won't go through the whole analogy again, but I think you get the picture. Come May, or earlier if you want, let's have our work done and prove another of Newton's laws:

"A body at rest tends to stay at rest."

I look forward to working with the Legislature and the people during this very important session.

Thank you.