

For the first time in nine years, a state forecast was released today that projects fewer dollars being available than what was thought in the previous forecast.

But the good news is we were not taken by surprise. We were all aware that a slow down in our economy was coming.

This awareness allowed us to plan accordingly and as a result no major adjustments will have to be made to our budget proposal.

In fact, if our national forecasters are right, this is a very temporary slowdown and not the beginning of a prolonged downturn. The economy should improve fairly quickly and economic performance should rebound to about the same levels of growth we have recently been experiencing,

And if luck is on our side, Minnesota should do better economically than the nation as a whole.

And the timing is right--it is much less disruptive to get news of a economic slowdown when you're preparing the next two year budget--as compared to being in the middle of that two year budget.

Bottom line?

The planning that went into the development of my budget means that we can quickly bring things back into balance without sacrificing the policy goals that serve as it's foundation.

And it is these goals that I want to reinforce.

Now, more than ever, we need to admit that our economy is changing. Two major revenue sources for state government programs are the income tax and sales tax.

We're now expecting that income tax revenues will fall by 2.0%, but the sales tax falls by 2.6%.

We need to protect the stability of the sales tax by broadening base to include services.

Is this controversial?

Of course, no meaningful change in policy is accomplished easily. But to quote Margaret Thatcher "Standing in the middle of the road is very dangerous; you get knocked down by traffic from both sides."

We have to recognize that increasingly we're becoming a service sector economy and if we don't acknowledge that in our tax policy we'll have to rely even more strongly on less fair taxes, specifically income taxes and property taxes.

Let me remind you that my budget is a package and that I also support reductions in income and property tax burdens, making our system more fair, more understandable and our state more competitive.

I believe this may be the last chance for us to do this in the foreseeable future, maybe even my lifetime. Now is the time to set the course for the future, to consider difficult, but important agenda items.

That, after all, is why we're elected to office, to safeguard the long-term interests of Minnesotans not to enact the expedient to curry favor with interest groups.

Within the next couple of days I will develop the specific adjustments to my budget that, in light of this forecast, are required to keep it balanced.

As I said, given the flexibility I built into my budget earlier these adjustments will not be difficult. Be assured that I will submit adjustments to keep it balanced through 2005, and I will continue to recommend prudent increases in the budget reserve as a safeguard for future adjustments.

Finally, let me add this: I just came from the National Governor's Association Meeting in Washington D.C. where I spoke with many fellow governors.

Without exception, I heard that as governors it is important that we be leaders in proposing long term solutions to funding of state government.

That we resist crafting budgets that satisfy short term interests and only serve to further complicate an already complicated tax system.

And most importantly, I heard from many governors that Minnesota's effort to update our sales tax system and streamline its administration, is a model for the rest of the country. But what is important is that while Minnesota could be a model--we aren't yet. As usual, we have the opportunity to be a leader, but we aren't there yet.

To rely on the property tax as the number two source of revenue to fund government in Minnesota is a prescription for furthering an unfair tax system.

As I said, now is our chance, and thankfully this latest forecast will still allow us to get it done, and we should not let this opportunity fade away.

Thank you.