

Good afternoon.

After the figures I saw this morning, it's nice to be able to speak to a group that's already going through an economic slowdown.

You all know how things have been the past six months, and especially the past two months.

You've experienced the reductions, you've had to deal with the layoffs-all the factors that drive the state revenue forecast.

So a couple of hours ago we had our annual November forecast release, and in case you haven't heard, we are looking at a projected shortfall of 1.9 billion dollars.

Now, having been governor in both prosperous times, and not-so-prosperous times, I don't plan to get too excited either way, and I certainly don't plan to panic.

Even when we had all those surpluses, I was constantly warning: don't get too comfortable, things can turn on a dime.

Because of our cautious approach, the state is extremely well-prepared for these economic times.

In fact, I would say we're better prepared than any other state in the country. And we have much more flexibility.

If you don't believe me, pick a state, take a look at its budget versus ours, and compare our situations.

For instance, California, Tennessee, even our neighbors in Wisconsin have all seen their credit rating downgraded.

We have put ourselves in a much better position.

We still have plenty of tough decisions to make-there's no doubt about that.

But one thing to remember about all this is that not only are all the states experiencing similar problems, so is the national budget.

Last week there was news out of Washington that we can plan on seeing national deficits for the next few years.

So we have plenty of company as we face the reality of a recession in the national economy, made worse by the events of September 11th.

How are we so well-prepared in Minnesota?

First of all, we have 653-million dollars in budget reserve, and a cash flow account of about 350-million.

That money isn't a solution to all our problems, but it helps, and it puts us way ahead of other states when it comes to dealing with a shortfall.

We will put some of it to use, but it will mostly buy us some time until we work out a responsible, permanent restructuring plan that will keep our budget structurally balanced through the budget planning period.

We also were smart enough to leave \$235 million dollars on the bottom line in our biennial budget.

And weeks ago, we asked every state agency to start looking for ways to cut or reallocate 5 to 10 percent of their budgets.

We also held the line during a difficult labor situation, and came out with a fair and liveable increase for our employees, with a commitment to stay within our budget.

I will carry that same philosophy into solving this budget problem: We should look first, and I hope only, to the spending side to balance the budget.

When the revenue comes in slower, then the spending has to go out slower. You know that in business, and government needs to understand that too.

All too often government looks first to protect itself and what it decides is important, instead of letting the people decide for themselves.

And I know if we do ask the people, they'll say the government should tighten its belt, just like they have to.

I think we can weather this storm without raising taxes, but I'm not ruling out anything at this point. No one can, if they're being honest with the public.

I have no plans to raise taxes, but when you're an independent governor dealing with the republicans and the democrats, you have to be realistic.

So if no one can agree on how to solve our problems, I will keep an open mind about reducing the sales tax rate while expanding what it covers.

Talking about taxes raises another point: as we look into permanent spending and taxing decisions, now is not the time for the partisan bickering we're used to seeing.

We must come together and work together, or the people of Minnesota are going to be the ones who suffer.

I plan to meet with legislative leaders, tomorrow, in fact, to start the process of working cooperatively on solutions.

We're fortunate that it's still early in the biennium and there's a lot that can be done.

I know it's an election year-but some people are just going to have to remember they still have a job to do this winter, and that job is not working on re-election, it's working to come up with permanent answers to our economic problems.

I hope legislators can take a cue from how you in business do it.

You weren't caught by surprise by what has happened in the economy.

When you saw your orders dropping, you made adjustments.

That's what my administration has been doing, and will continue to do.

And it's important that wherever we tighten our belt, we make sure we don't drive businesses from our state.

You're not doing anything for economic recovery if your businesses are leaving your state-that's cutting off your nose to spite your face.

We all know that the events of September 11th helped accelerate our economic problems.

But those events also gave us a clear picture of our number one priority, which is homeland security, and this economic forecast isn't going to change that.

We have an excellent plan for strengthening Minnesota's ability to respond to health and safety emergencies. We're going to put that proposal before the Legislature this session, and we are sticking with it, despite the fact that money is tight.

That's because nothing is more important right now to the people of Minnesota.

Our proposal includes expanding background checks, making penalties for terrorist acts tougher, making it easier to freeze assets of terrorists and tightening security on sensitive information.

We're also planning to strengthen the commissioner of health's emergency authority in cases of quarantines, outbreaks and other public health emergencies.

We're looking at reallocations and some outside sources, particularly the federal government, to fund this plan, but we do not plan to raise taxes to do it.

As for solutions to our economic problems, we'll be looking for cities and counties to do their part as well.

Fortunately, there are some local governments who have built up some significant reserves.

Guess what. Now's the time to use those reserves.

The rainy day has come.

We're going to deal with our economic situation like I do everything in my administration: out in the open, and straightforward-no gimmicks.

I'm confident we can do it, and you should be confident too.

Having flexibility because of our reserves helps right now, but as I said, we're going to have to make some tough, permanent decisions for our state's future.

Since I've been governor, I've stressed the need for a structurally balanced budget for not just two years, but for five years.

And in times like these, that will pay off.

We will also continue to stick to the principle, in law, that bonding should have a statewide benefit, not just a regional or local benefit.

I've consistently vetoed funding for projects that didn't benefit the whole state-I expect the Legislature to follow the law as well.

Nobody could have foreseen the effects of the events of September 11th.

The good news, we were prepared economically as well as we possibly could have been.

We left money on the bottom line, and we left money unspent from last year.

As I said, those decisions will buy us time to do what we need to.

Now is when true leadership really counts, and Minnesotans can be confident they have the right people working on solutions-people who will make good decisions for them, and good decisions for their children.

Thank you.