

## State of the State: Building a Better Minnesota

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In a State of the State Address, as in life, it's important to assess where we are, remember how we got here, decide where we want to go, and then determine how best to get there.

Comparing the state of our state today with conditions, when I took office two years ago, we have made important progress. We have much more work still ahead of us; however, we are on the way to a better Minnesota.

According to our Department of Employment and Economic Development, there are over 72,000 more jobs available in Minnesota today than when I took office two years ago. Almost 52,000 of those jobs were added in the past year.

Minnesota's job growth in 2012 was the 12th best among all 50 states; and we outperformed three of our four neighbors. Iowa ranked 30th best; South Dakota was 44th.

Wisconsin, which by the way is open for business, helped bring up the rear at 42nd. And, help spread the word across the St. Croix, their unemployment rate last month was 20% higher than ours, while our per capita income was 12% higher than theirs.

Only North Dakota, in the Upper Midwest, topped us in job growth last year, and their percent increase led the nation.

Our exports of agricultural commodities increased by 13 percent in 2012, compared with 2011. Total exports of all Minnesota goods and services have achieved eight straight quarters of record growth.

Our students' educational attainments have improved. Math scores for all tested grades, improved by 5.3 percent from 2011 to 2012, and reading scores improved overall by 1.3 percent.

We have, and continue to, lead the nation in important measures of health, including the lowest heart disease death rate, and the lowest percentage of obese or overweight children. We have the second longest life expectancy for all our citizens, and we're #1 for males.

I'll let Health Commissioner Ehlinger explain that discrepancy, and I expect that Representative Kahn will soon have a bill to correct it.

Last year, we eliminated premiums and expanded health care access for 16,000 more Minnesota children; and we were recognized for providing the Best Long Term Care Services in the nation by the AARP Commonwealth Fund.

No one should be satisfied, or complacent. However, these and many other improvements are encouraging.

We have also made great progress in restoring fiscal responsibility and operational integrity to Minnesota government, which also tells us a lot about what got us to where we are today.

I became Governor after a decade of deficits in both our federal and state governments. They squandered their positions of financial stability amidst consistent economic growth, which they enjoyed at the beginning of the 21st century, and which were then projected to continue for at least the next decade.

Few politicians can resist the opportunity to cut taxes. President Bush proposed two large tax cuts in 2001 and 2003, which I opposed as a Senator and Congress passed. In Minnesota, Governor Ventura convinced the legislature to reduce income tax rates in both 1999 and 2000. Both leaders assumed that the strong economic growth during the last half of the 1990's would continue. Unfortunately, both were wrong.

Also wrong were the politicians and economists, who promised that cutting taxes would lead to more economic growth, jobs, and revenues. Instead, the two federal tax cuts were soon followed by two recessions, the second the most severe since the Great Depression.

In the decade after Minnesota's income tax reductions, our economy fared worse than the nation and most other states. And at both the federal and state levels, big tax cuts followed by serious recessions produced large budget deficits, which threaten our current fiscal strength and future economic prosperity.

The solutions to those deficits were very clear. However, they were also very painful; so they were postponed, then postponed again, and again. Unfortunately, avoiding financial problems usually makes them worse. Fixing them then becomes even harder.

Thus, when I became Governor in January 2011, the State Budget Forecast projected a \$6 billion deficit for the next two fiscal years. It took six months of difficult negotiations with the Republican-controlled legislature to finally agree upon a balanced budget.

Those decisions were hard for all of us and far more painful for all the Minnesotans denied needed services and assistance. But we had to enact a balanced budget, and we did.

Since then, an improving state economy and savings from health care reforms have boosted our finances by \$2.5 billion for this biennium, enabling us to restore our reserves and repay over 60 percent of the previous school shifts.

We have repaired much of the fiscal damage we inherited, but we're not done yet. We face another deficit, projected at \$1.1 billion, for the next biennium; and we still owe our schools another \$1.1 billion.

My budget for the next biennium would lift us out of this miserable deficit-to-deficit cycle. It would eliminate the \$1.1 billion deficit, balance the biennial budget, and begin the following biennium with a projected surplus that would enable us to pay back the remainder of the school shift.

My proposals have already aroused considerable controversy. Such debate is healthy in our democracy.

The genius of our system of governance is that no one gets to have it all her or his way. Starting with the governor.

Some will characterize any legislative changes in my budget as my loss. I don't see it that way, at all. The winners I care about are the people of Minnesota, whose collective best interests I was elected to represent. As were you in the legislature. Whatever outcome does the most to improve the lives of the most Minnesotans, makes winners of us all.

However, before we refocus on that controversy, I think we should look farther ahead. Former Governor Arne Carlson liked to say, "If you don't know where you're going, any road will take you there." I appreciate that wisdom more every year.

Where do we want to go? Where do we want Minnesota to be in a year, in a decade, or more? We will not agree on every aspect. However, if we can discover our shared goals, perhaps we will find greater accord on how best to achieve them. We can also better assess whether the path we're now on will lead us to them.

This perspective also broadens the time horizon of our decision-making. We must consider not only what is right for Minnesota today, but also what is best for Minnesota in the future.

So, what do I believe offers the best hope for a better future to most Minnesotans? I want Minnesota to provide the best jobs for our citizens, the best lives for their families, and the best environment for our businesses to provide those jobs.

Those who measure "business climate" only by tax rankings will question my strategy, although many surveys rate Minnesota lower in overall taxes than most are led to believe. We're 15th among the states in taxes, according to the Minnesota Center for Fiscal Excellence. And we rank 11th highest in per capita income.

However, Minnesota has not been considered a "low tax" state during my almost four decades of public service. And the facts show that states offering businesses and their top executives the lowest taxes usually offer the rest of their citizens the lowest incomes, the fewest public services, and the highest crime rates.

Furthermore, their job growth typically lags "high value and high performance" states like Minnesota.

So, yes, I absolutely meant what I said. I want Minnesota to provide the best jobs for our citizens, the best lives for their families, and the best support for our businesses to provide those jobs. I want Minnesota state government to provide the best value for everyone's hard-earned tax dollars and the most efficient, effective services anywhere.

I want Minnesota to offer the world's best educations for ALL of our citizens, children and grandchildren. Educations which begin early in life, and continue throughout life; so that all of us can learn the skills, and relearn the new skills, necessary to succeed in a rapidly changing and ever-more-competitive global economy.

We know that our exceptional citizens, who are more inventive, harder working, and more productive than people anywhere, have been the most important contributors to our state's economic progress and social vitality. Most of us agree that our citizens' superior educations have been crucial to our previous successes.

And many of us agree that providing all Minnesotans with the best, most advanced, and yet affordable educational opportunities will be even more essential to their future success, and thus to ours.

I will return shortly to consider whether we are on a path toward that goal.

I want all of us, and especially Minnesota's future generations, to live in a healthy environment; in safe, inclusive communities; and with the same rights and protections as every other American citizen.

A healthy life starts with, and depends upon, clean air to breathe, clean water to drink, protected natural environments to enjoy, and a secure ecological future. No one can endure the severe droughts or floods of recent years; endure (or, some, enjoy) our milder, snow-scarce winters; lather on sunscreen to walk outdoors without being greatly alarmed.

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Governor Mark Dayton  
February 6, 2013



If you're not, talk with my good friend and world-premier polar explorer, Will Steger, who is here tonight, about the drastic climate changes he has witnessed.

Even more alarming is that our state and our nation are still not doing enough to reverse this path toward global catastrophe, before it is too late.

In Minnesota, we have made real progress in areas like energy conservation, more efficient farming and manufacturing practices, and the development and use of clean, renewable energy, especially wind energy, instead of polluting fossil fuels.

The question is: are we progressing fast enough? Are we doing all we can to utilize other renewables, such as solar, and also to make Minnesota the best place to locate these new industries and their jobs?

Many of you, who served in previous legislatures, deserve great credit for your pioneering work to expand our use of clean energy, including Lieutenant Governor Yvonne Prettner Solon and former Senator Ellen Anderson, who is also here tonight.

I challenge this legislature to work again with our state's visionary clean energy advocates, large energy providers, large energy users, other stakeholders, and my administration to use your past achievements as springboards for Minnesota's next big leap toward a sustainable energy future.

Safe, inclusive communities benefit all Minnesotans. Doing everything possible to stop the terrible acts of violence, which end young lives and victimize innocent people, should be an urgent priority for all of us.

Those strategies deserve and require more time than I have available tonight. Let me focus on one initiative, however, and enlist everyone's support.

Studies show that the highest incidences of juvenile delinquency and teenage pregnancy occur during the weekday hours after school. Years ago, there were more organized, supervised after-school programs for young people. The ones remaining do exceptional work; but there are not enough of them, and they struggle to find the funding to continue.

Two years ago, I challenged businesses to "Adopt a School." Some businesses, to their great credit, were already involved in improving our schools, and others accepted my challenge.

Some, however, especially smaller businesses have told me it was just too big an assignment to adopt an entire school.

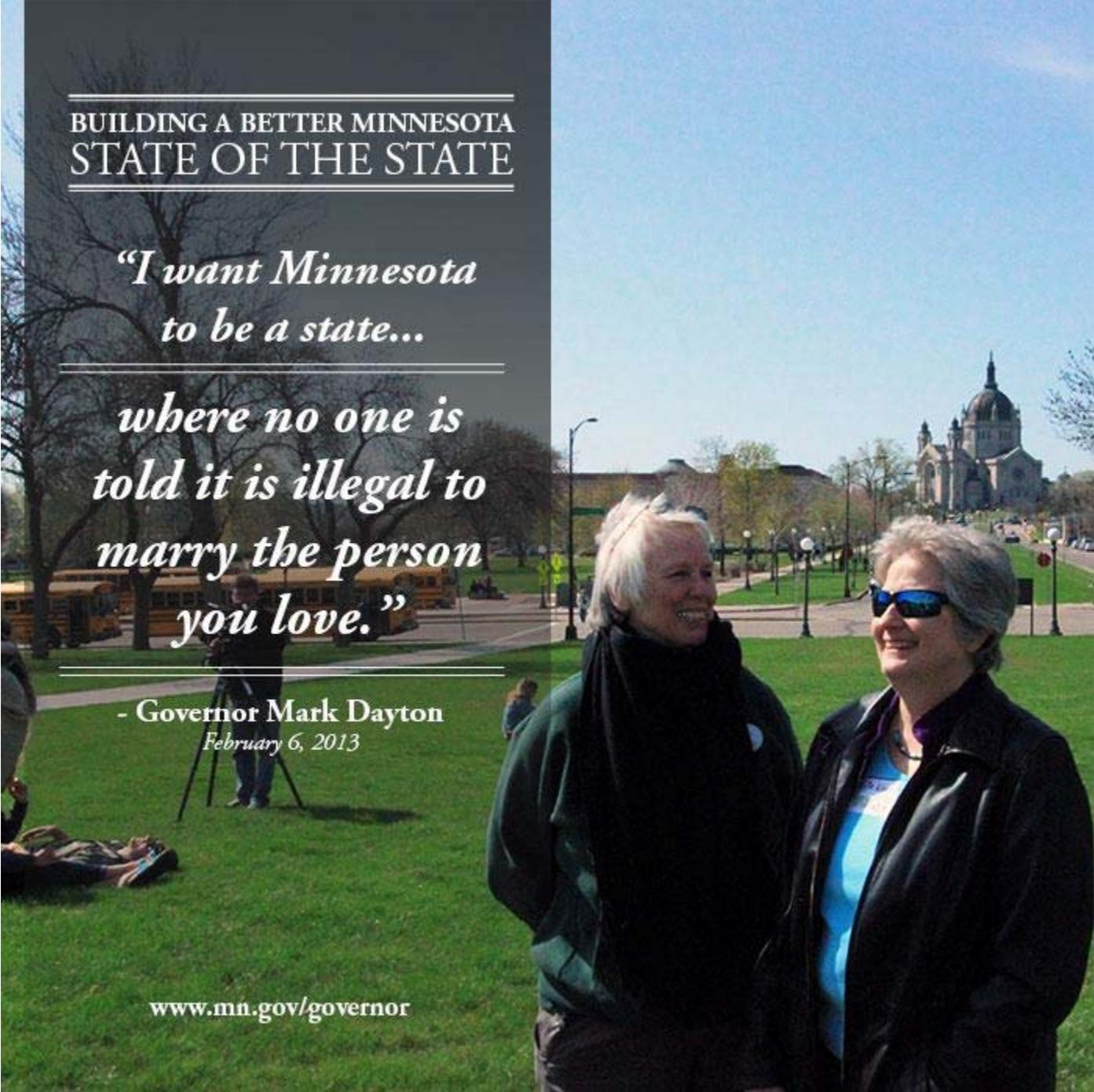
So, I invite you to "Adopt an After-School Program." It might involve a financial contribution, the donation of new or used equipment, or your employees as part-time volunteers. There are so many from which to choose, and so many young people who need better options than unoccupied time, streets, and gangs.

In the coming weeks, we will be releasing more information on how you can help. In the meantime, if you need help finding a worthy program, give me a call. I believe most of you have my home phone number by now. If not, it's 651-201-3468.

For the next two weeks, however, I'm taking calls at home only from "Adopt an After-School Program" volunteers. On anything else, please call my office, at 651-201-3499.

Let me mention one other cause, which is controversial, but consistent with my faith and my principles. And, more importantly, consistent with this country's founding principles and its Constitution. I believe that every Minnesotan should have the freedom to marry legally the person she or he loves, whether of the same or other sex.

Last year, Minnesotans began a conversation about why marriage matters, and we found our common belief that it is about love, commitment, and responsibility. I want Minnesota to be a state, which affirms that freedom for one means freedom for everyone, and where no one is told it is illegal to marry the person you love.



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I realize now that I could fill the rest of the evening, and most of tomorrow morning, with my goals for “A Better Minnesota.” I doubt that anyone wants to sit here for that long, and we’re not set up to serve breakfast!

Many of my goals, however, are contained in my budget for the next biennium, along with new and continuing strategies to help us attain them. My budget addresses two over-riding imperatives: First, to erase a \$1.1 billion deficit and balance the rest of it, while continuing to

improve the efficiency and quality of state services; and Second, to make the investments necessary to move Minnesota ahead.

How does it meet the first requirement? The old-fashioned way: by decreasing spending, enacting cost-saving reforms and raising revenues. My budget is balanced, fair and honest—there are no gimmicks, no games.

I reduce projected state spending, while increasing investments in more jobs and better education. I continue our significant progress in improving the quality and the efficiency of state services.

And I raise revenues responsibly for the first time in many years, while also making our tax structure fairer for hard-working, middle-income Minnesotans.

My budget would reduce overall state spending for the next biennium by \$1.8 billion below what was projected, when I took office in 2011. Back then, the State Budget Forecast predicted that laws enacted by the previous governor and legislature would result in expenditures of almost \$39.7 billion during Fiscal Years 2014 and 2015. My current budget proposes spending \$37.9 billion in that biennium, \$1.8 billion less than originally forecasted.

That's worth repeating. My proposed budget for the next biennium would spend \$1.8 billion less than was forecasted for those two years, when I took office.

Those who criticize my supposed lack of spending reductions evidently do not understand that many of the \$2 billion cuts we made two years ago for the current biennium were permanent; and lowered spending by \$2.5 billion in the next biennium, before I made my new proposals.

Take state funding for higher education, for example, which comprises the University of Minnesota, the MnSCU system, and student financial aid. Facing an overall \$6 billion deficit, the 2011 legislature and I had to cut state support for higher education by 12 percent, to 2 billion, 568 million dollars.

Last November's Budget Forecast assumed the next biennium's expenditures for higher education would be the same as in the current biennium. Take a look. There are no spending increases for higher education; so, the previous 12 percent cut would continue into the next one.

However, that significant cut is only the latest reduction in state support for higher education. Last weekend, I searched the Department of Management & Budget's computerized archives, looking for a previous biennium, when the State of Minnesota spent less money, in real dollars, to support higher education.

I couldn't find one in records, which go back to the 1996/1997 biennium. I did learn that in real dollars, our state spends \$569 million less on higher education in the current biennium, than we did 16 years ago.

I asked the MMB staff to look back even further, into the paper records. They found that the last time we actually spent less to support higher education, in real dollars, than we are in FY12-13 ... was in FY80-81.

I'll say it again. In every biennium since FY80-81, real state spending for all of postsecondary education has been higher than it is today.

My budget would add \$240 million in higher ed. funding for the next biennium. That counts as spending increase, which, technically, it is. However, it falls over \$100 million short of restoring the funding cut from FY10/11; and it still leaves state support for higher education hundreds of million dollars below the real levels 20 and even 30 years ago.

No wonder the most recent comparison of the 50 states by their expenditures for higher education per \$1000 of personal income ranked Minnesota only 32nd. And no wonder tuitions keep rising, making a Minnesota college education less and less affordable for students and their families.

How much lower will we reduce our spending for postsecondary education, either in real dollars or compared to other states? Experts everywhere say that the quality and affordability of higher education is key to our future economic success. Does anyone believe that continuing to reduce our commitment to higher education is the path to a Better Minnesota?

Analyzing other areas of state government spending yields similar results. During the past decade, our state leaders reduced expenditures for many public services, both in real dollars and in comparison to other states. The latest survey places Minnesota 33rd among the states in total expenditures for K-12 education per \$1000 of personal income; 37th for health and hospitals; 19th for police protection; and 48th for fighting fires.

Are we better off today after all those reductions in public services? I say, "No." Trying to cut our way to a Better Minnesota is a failed experiment.

That is why my budget takes a balanced approach. Real spending cuts are partly offset by responsible increases, mostly for better education from early childhood through post-secondary and for job creation incentives. Both are critical to assuring future economic opportunities and enhancing our quality of life.

Overall spending reductions and selective increases are one part of my balanced approach to eliminating the deficit, balancing the budget, and moving Minnesota ahead. Another important strategy is to expand the significant reforms, which my administration has made during its first two years in reducing the costs of services and improving their efficiencies.

We have instituted more reforms and achieved greater progress during our first two years than in all of the previous eight years. I will briefly mention just a few.

Today, Minnesota has retaken its rightful place as a national leader in health care reform. The cost of providing health care for increasing numbers of our citizens has, for years, been the most

rapidly growing part of our state budget, as is true for virtually every other state. Curbing those cost increases, while expanding quality and affordable health care to all of our citizens, is crucial.

Our Department of Human Services contracts with managed care providers and insurance companies for most of its health care services. Thus our first target for reform was the way the state had previously contracted for those services; and we have already achieved significant cost savings.

Commissioner Lucinda Jesson's tremendous success in negotiating a 1 percent profit cap on existing contracts and putting the largest new contracts out for competitive bids, have saved state and federal taxpayers over \$1 billion.

Our reforms do not stop there. My new budget proposes a comprehensive redesign of the fastest growing part of our HHS budget, our long term care system. By providing more choices to keep seniors and people with disabilities in their homes, with better care, we save \$151 million in the short term. More importantly, we will have built a system that is financially sustainable when the age wave descends upon Minnesota starting in 2020.

Last week, we announced yet another reform measure that will change how the state pays for public health insurance, providing better care for 100,000 Minnesotans, and saving taxpayers an estimated \$90 million.

Finally, Minnesota is one of the leading states in implementing this country's sweeping and far-reaching reform of providing and paying for health care.

Over the next two years, our public programs will provide health care to an additional 145,000 poor Minnesotans who do not have insurance today. These are people who otherwise access care through costly emergency room visits, harming their health and driving up the price of health care for all of us.

And through the creation of a Minnesota Insurance Exchange, we will enable individuals, families, and businesses to make more informed decisions about good, affordable health care coverage.

In education, we have worked with DFL and Republican legislators, business executives, and other civic leaders to establish state support for early childhood learning programs, a quality rating system, and scholarships for low-income children.

My new budget would expand significantly early learning opportunities for children statewide. My proposal to provide state funds for optional all-day kindergarten would provide a continuum of learning from early childhood into first grade and beyond.

Two years ago, we worked with the legislature to make administrative and legislative reforms that streamlined businesses' permit application processes. We shortened the time taken by the Pollution Control Agency, to review permit applications to a maximum of 150 days, for all but

the largest projects. We are now progressing toward the next goal of reducing those timelines to 90 days.

We're not done reforming. In fact, we're just getting started. Back in 1998, when I first ran for Governor, a campaign that most people have forgotten and I would like to, there was a television commercial for the soft-drink Seven-Up. Contrasting itself to Coke and Pepsi, it proudly called itself the "un-cola."

In my campaign, I proposed making an even-year legislative session "The Unsession." Except for responding to a fiscal or other emergency and passing a bonding bill, the session would be devoted to eliminating unnecessary or redundant laws, rules, and regulations; reducing the verbiage in those that remain; shortening the timelines for developing and implementing them; and undoing anything else, which makes government nearly impossible to understand, operate, or support.

I suggest making next year's legislative session the first "Unsession." After this session is concluded ... on time, in May ... I will ask my agency heads and legislative staff to begin making lists, checking them twice, and working with any legislators, other public officials, and citizens, who wish to spearhead these reforms.

The third component of my balanced budget approach raises state revenues, which will be necessary to eliminate the deficit and still prevent further reductions in the services and assistance that many Minnesotans need.

Raising revenues requires asking someone to pay more taxes. Making taxes fairer requires asking more of those citizens and corporations, who now pay less than their proportionate share.

Few people like paying taxes, even when they're fair. No one likes paying more taxes, even when necessary to make them fair.

But when taxes are unfair ... and remain unfair, not only do the people who are forced to pay more, rightfully resent it; but they also lose faith in their elected officials, who won't change it. Today, more and more hard-working, middle-class Minnesotans believe that the state's tax structure is unfair to them.

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*And they’re right.”*

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And they’re right. The facts compiled by the nonpartisan staff at the Minnesota Department of Revenue show that the richest Minnesotans pay less of their incomes in state and local taxes than most other Minnesotans. Large multi-national corporations headquartered here admit their effective tax rates are well below the 9.8% paid by many smaller businesses.

Thanks to the excellent work of Minnesota 2020, I recently became aware of a new study, by the Institute on Taxation and Economic Policy, which confirms the Department of Revenue’s

analysis. It found that middle-class Minnesotans pay 26 percent more state and local taxes per dollar of income than do the top one percent of our state's income earners.

When people who have the most pay the least, this state and nation are in trouble. When lobbyists protect tax favors for special interests at the cost of everyone else's best interests, this state and nation are in trouble. My goal is to get us out of trouble.

As I see it, we have three basic budget options.

Plan A is the one I have proposed, or something close to it.

Plan B is to stick with our current tax structure, or something close to it.

Plan C is something better. No one would be happier than me to see a good Plan C. I'm still looking and I'm sure listening. But without one, our choices are between Plans A and B.

Let me briefly address some of my concerns with Plan B, sticking with the status quo. Most of us want stability and certainty in our lives. When confronted with the need for change and its resulting uncertainties, it's human nature to hunker down, hang on, and hope that the established order will return.

Today's reality, however, is that the old order doesn't show any signs coming back. Our state and our nation are engulfed by the new, global economy. We either act now to move ahead, or let ourselves fall behind.

Retaining the current tax structure doesn't even solve our current budget problems; much less advance our state to a better future. It still leaves a \$1.1 billion deficit, which I insist must be resolved through honest, responsible measures. It leaves important services severely cut. And it leaves us unable to make the new investments, especially in jobs, economic growth, and education that I believe are essential to a Better Minnesota.

I have a respectful, but strong, disagreement with some of the other elected officials here tonight, about the value of public investments in, and incentives for, economic growth. My father and uncles taught me the paramount importance of continuous private and public investments in improving the communities in which people work and live. In my job, I apply that principle to the "community" of Minnesota.

For two years, my proposals to make capital investments in the downtowns of major cities, like St. Paul, Duluth, Rochester, Mankato, and St. Cloud, and investments in smaller, but equally essential projects throughout Minnesota were rejected by Republican legislative leaders.

Despite a lagging construction industry and good Minnesotans in the building trades unable to find work, they just said No.

Well, just saying No just won't work ... not in Rochester, where the renowned Mayo Clinic wants us to help them continue to outclass their competitors in other states and other countries ...

and to continue doing so from Rochester. I thank Mayo, whose CEO Dr. John Noseworthy is with us tonight as a guest of Speaker Thissen, for giving Minnesota this chance to partner with them and help assure their world medical pre-eminence for decades to come ... in Rochester, Minnesota.

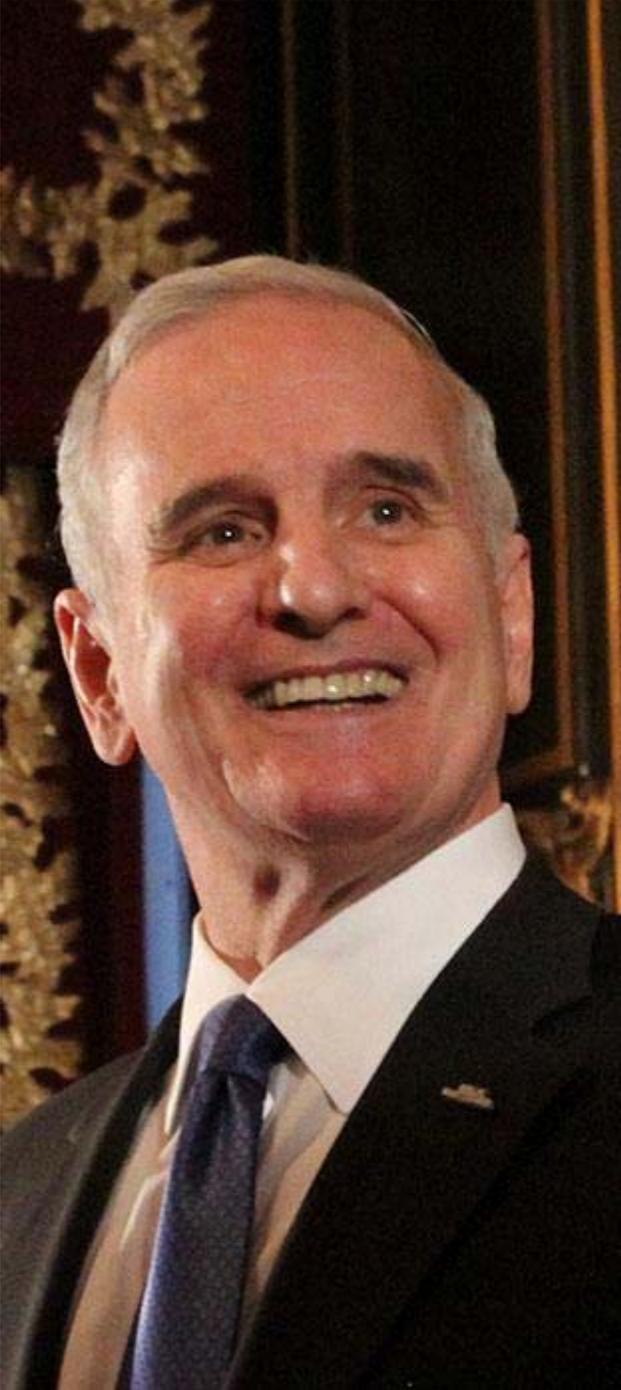
Our vitally important agriculture economy is crucial to our state's future. We cannot afford NOT to keep making new investments to support innovation, new production efficiencies, and even greater prosperity. That is why state funding for the Agricultural Growth, Research, and Innovation Program must remain a high priority

I have shared with University of Minnesota President Eric Kaler, who is here this evening, my high priority to return the University's Medical School to the national prominence it has previously achieved; and he has told me that he shares that goal. That turnaround, however, will require public investments.

I have talked with MnSCU Chancellor Rosenstone about the critical importance of his campuses retooling their programs to prepare their students for the jobs of the future. I know that the Chancellor is addressing this imperative. However, revising curricula, modernizing equipment, and upgrading technology all will require public investments.

And I have not even mentioned tonight ... nor does my budget address ... the critical need to invest in improving our highways, roads, and bridges statewide; our public transit systems; our ageing infrastructure; and the list goes on.

We can choose, as others in our positions have before us, to ignore these growing problems, avoid fixing them, and hope they don't crash down upon us, while we're in office.



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*February 6, 2013*

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Or, we can lead. That is what the people of Minnesota elected us to do. That is what they need us to do.

They need us to lead our state forward. Not back to failed ideologies of the past, now masquerading in new jargon. Not remaining locked into what might have worked in the past; but is faltering now, and will likely fail in the future.

It is an awesome responsibility – to know that Minnesota’s future will depend, in part, on the choices that we are called upon to make.

Those choices will not be easy; and some of them will not be popular. But it is time to prove that Minnesota’s leaders are capable of more than ideological skirmishes and political stalemates, which offend our state’s citizens and jeopardize our state’s future.

This is our time and our responsibility ... to work together and build a state that works.

So, if you’re coming to this State Capitol during the next four months, bring your best ideas and your sincere convictions. Bring your work boots and your hard hats. If you’re interested in nothing more than throwing rocks and casting blame, send the rest of us a letter ... or a postcard.

But if you really want to pitch in, all the way in, even sacrifice a little of your self-interest for everyone’s better interests ... welcome. We need you. Your state needs you.

And please remember always. You’re here to serve the best interests of all the people of Minnesota. Not just your clients. Not just your constituents. Not just the people, who agree with you. Or who agree with me.

You are here. I am here. We are all here ... to serve All of Minnesota. To serve the cause of a Better Minnesota.

So, let us begin.