

## **Remarks of Governor Mark Dayton As Delivered: State of the State Address Wednesday, March 9, 2016**

Lt. Governor Smith Mr. Speaker and Members of the Minnesota House of Representatives. Madam President, Majority Leader, and Members of the Minnesota Senate.

Madam Chief Justice and the Distinguished Members of the Minnesota Supreme Court and the Court of Appeals. My fellow Constitutional Officers. Members of my Cabinet and staff.

Governor Wendell Anderson. Other Distinguished Guests. Family and Friends. My fellow Minnesotans.

Thank you, President Kaler and Board of Regents, for graciously hosting us here at the University of Minnesota tonight. As most Minnesotans know, our State Capitol is undergoing a monumental renovation and is largely inaccessible.

So I want to begin tonight by paying tribute to the legislators and other state officials, who have, for the past two years, sacrificed their workplace for the good of Minnesotans during the next century.

Befitting the respect, and even reverence, that our citizens feel for this magnificent Minnesota landmark, legislators of both parties have worked exceptionally well together to make this enormous undertaking a reality.

Supreme Court Justices, Constitutional Officers, state officials, and many citizens have also devoted countless hours to help lead and guide it. I hope that our fellow citizens will recognize and appreciate that, in this important instance, your elected representatives have done their jobs very well.

I look forward to making this address next year at our newly renovated State Capitol. I know that legislators will be even more delighted to have returned.

When I took office five years ago, I pledged "A Better Minnesota." There is no doubt in my mind that our state is better today than it was back then.

But don't take my word for it. Instead, look at our accolades from many national organizations.

Gallup ranks Minnesota first in the nation in its 2015 Job Creation Index. It is the first time Minnesota has achieved this national distinction.

CNBC recently ranked us the best state in the nation for business.

AARP says Minnesota is the best state to retire in, and noted that we offer some of the nation's best housing, health care, and other services to our Senior Citizens.

Wallet Hub recently said Minnesota is the best state in the nation for Women's Economic and Social Well-Being.

Politico ranked us the 2nd-strongest state in the nation in its 2015 "The States of Our Union" report.

Porch and Redfin said we're the 3rd-best state in which to own a home.

And we were named one of the five best-run states in the nation last year by 24/7 Wall Street.

It's hard to get Minnesotans to admit that our state is doing better. Most are too "Minnesota Modest" to say it. Others don't want to believe it. And, of course, for too many others, it's still not true.

We should take deserved pride in what we have accomplished in Minnesota – for our families, for other families, and for our communities. Because we have worked hard to earn it.

Minnesota works, because we work hard to make it work. Let me say that again. Minnesota works, because we work hard to make it work. We have a magnificent state, with incredible beauty and priceless natural resources.

But we don't have some other states' easy advantages. We have no tourist-tempting oceans or mountains. No oil or natural gas, to pad our state revenues. We aren't located in our country's largest commercial centers on the East and West Coasts.

Although, as my son, Eric Dayton, who is here tonight, has pointed out, we're something better: We're North.

We Minnesotans have always built our success through our hard work. Whether farmers in their fields, workers in their factories, executives behind their desks, teachers in their classrooms, truckers in their cabs, or doctors in their clinics – whether through our brains or our brawn, we have worked hard to earn our individual success and our collective progress.

The corollary is that, if we stop working together, we stop making progress. When we slacken our efforts, pause, or take a break, we fall behind.

We should have learned that lesson with our transportation systems. We curtailed our investments, failed to keep pace with our growing population and economy, and we are now suffering the consequences of inadequate and unsafe highways, roads, and bridges, and inadequate transit.

We stopped making the investments of other states in early childhood care and education, providing all-day kindergarten over a decade behind other states, still debating voluntary pre-kindergarten, and then wondering why we haven't eliminated the Achievement Gap.

It's pretty straightforward. We succeed when we do what we have to do to be successful. We fail when we stop.

That is why we can't stop now. There is still so much that we must do. So many challenges and opportunities that, if we face them and seize this moment, will propel our state farther ahead.

To begin, too many Minnesotans are still suffering. It is imperative that we devote some of our time and the resources available over the next ten weeks to relieving some of that suffering and rectifying some of those inequities.

For starters, I will hold the Speaker and House Republicans, to their commitments the last couple months to provide 26 weeks of extended unemployment benefits retroactively to those good men and women on the Iron Range, who, through no fault or choice of their own, have been victimized by illegal dumping of foreign steel into this country.

If you keep those promises – and send the Iron Range families the unemployment benefits they need and have earned – I will sign that legislation next week. If you don't, it will be a broken promise that people will long remember.

I pledge to work with you in this session to provide meaningful unemployment tax reductions for Minnesota businesses. But that change deserves proper review through your established committees and procedures.

To hold \$29 million of desperately needed unemployment benefits hostage to \$272 million in fund cuts is unnecessary. And it's cruel.

We must also take immediate action to begin to relieve the terrible and persistent racial inequalities imbedded in our society.

The median income for U.S. born African American families in Minnesota is 55 percent less than for white families, and their poverty rate is 4 1/2 times greater. The median income for Mexican-American families is 40 percent less than white families. Ojibwe family incomes are 56 percent lower. Somali family incomes are 71 percent lower than average white family incomes in Minnesota.

That is unacceptable.

And tragically, incidents of racial intolerance continue in Minnesota. In November, Asma Jama [Az-ma Jam-a] was attacked in a Coon Rapids Applebee's because she was not speaking English, although she speaks three languages. Another woman smashed a glass beer mug across her face. Asma sustained cuts across her face that required 17 stitches. She said, and I quote:

"I [can't] believe after all these years somebody hit me because I'm different. Somebody hit me because I was speaking a different language."

She said she's feeling 'traumatized' and doesn't feel safe leaving her house alone.

"I'm actually thinking about moving out of Minnesota. I'm scared for my life. I don't feel comfortable here anymore."

I have invited Asma as my guest here tonight. I ask all of you to join me in showing her, and all Muslim-Minnesotans, the open arms and the respect they deserve. Azma? We're very glad you're a Minnesotan.

Two Sundays ago, the Lt. Governor and I paid one of the most profoundly painful site visits of my career. We went to a Mosque in Minneapolis, which had been vandalized just days before. The broken outside doors had been partially repaired. However, there were still holes in doors and walls inside the Mosque.

This despicable act of bigotry was even worse than others. It desecrated a place of worship.

A house of any religion should be sacrosanct. One of the most fundamental rights in our United States Constitution is the freedom to practice the faith of one's own choosing – free from interference by government or anyone else.

In addition to being un-American, illegal, and immoral, this heinous deed had an even more searing effect. We saw children of ages five to fifteen had to walk by this damage on the way to their religious instruction classes. I said to the Lt. Governor, "What does this say to them about who they are? About their right to be who they are? About their acceptance by other Minnesotans, as they are?"

I urge all of us, as leaders of this state, to stand up and speak out together in denouncing any acts of racial or religious intolerance. Minnesota must be better than this.

We must also show our leadership by acting now to reduce the economic and other disparities in our state based upon race, religion, nationality, or disability status.

We cannot resolve these disparities in one legislative session, but we must begin now. Next week my Supplemental Budget will propose a significant initiative to provide better economic opportunities to Minnesotans of color all across our state.

I will be advancing some of my ideas; but it is not intended to be a complete package. I look forward to the ideas and initiatives that legislators will bring forward. I also invite community groups and civic organizations throughout Minnesota to bring forward their proposals. The final legislation should be as broadly inclusive as possible.

Obviously, state government cannot make these necessary changes alone. Last night, I urged the members of the Minnesota Chamber to review their companies' hiring practices and consider how they could do more to provide the quality jobs that will reduce these disparities.

It's time we stopped holding our schools and educators solely responsible for closing our state's opportunity and achievement gaps. Every facet of our society has a part to play. All of us share that responsibility.

I want Minnesota state government to lead by example. We have made increasing the diversity in state agencies and services a top priority. When I took office, 8 percent of state employees were women and men of color. Now that number is 10 percent.

So, under the outstanding leadership of our terrific Chief of Staff, Jaime Tincher, we're doubling down on state hiring practices.

Our goal is to double the percentage of minorities working in state government, when I leave office in January 2019, so that our diversity accurately reflects the diversity in Minnesota's workforce.

We will have to manage these and other priorities within a new Budget Forecast, which is not as robust as before. We have today a remaining \$900 million budget surplus for this current biennium, which ends June 30, 2017. It does not count an additional \$600 million of the surplus, which was deposited in our Budget Reserve, after last November's forecast, boosting that reserve to an unprecedented \$1.6 billion.

Nineteen other states are still facing budget deficits. By contrast, we have righted our state government's fiscal ship. We have turned the \$6 billion projected deficit we faced, when I took office in January 2011, into projected surpluses. We have paid back our schools over \$2 billion borrowed from them. We have cleaned up the other games and gimmicks used to disguise that fiscal mess. And, as I just said, we have built the budgeted reserve fund to an unprecedented level.

Yet, this Forecast should give serious pause to everyone's wish list for this legislative session. The projected surplus for the current biennium, from now through June 30, 2017 dropped by 25 percent, from \$1.2 billion to \$900 million, since the previous forecast just three months earlier.

The projected surplus for the next two years, Fiscal Years 2018 and '19, dropped by 42 percent, from \$2 billion to \$1.2 billion.

State spending is projected to decrease from the previous estimates in both biennia, due to expected reductions in health care spending. The competitive bidding we required last year for Department of Human Service contracts is one of the principal contributors to these health care savings.

However, tax and other revenues are projected to be \$427 million less in this biennium and \$698 million less in the next biennium than previously forecasted.

I am especially concerned about the forecast for the next biennium. It assumes that those lower revenues and surplus would occur despite continued growth in state and national GDP in both 2018 and 2019. However, at the Annual Meeting of the National Governors Association two weeks ago, we heard from a panel of five prominent economists, all of whom predicted the strong likelihood of a national recession by 2018.

Now you've heard before the joke that the nation's economists have predicted twelve of the past five recessions. And we know that no one has a crystal ball that gives insight into economic conditions two years away. If, however, Minnesota's economy were to be caught in a national recession, the surplus projected for Fiscal Years '18 and '19 would quickly erode.

Thus, my Number One priority in this legislative session will be to protect the fiscal integrity of our state government. I will never forget the experience of coming into office in January 2011 and being confronted with a projected \$6 Billion deficit for the upcoming biennium. I will not leave that kind of fiscal disaster to my successor or the people of Minnesota.

This does not mean that I will propose to do nothing with a fiscal impact in this legislative session. My Supplemental Budget next week will propose some more modest spending increases and middle-income tax cuts. But we must make our decisions over the next ten weeks with a close eye on the next ten years.

I support tax reductions for middle-income Minnesotans. My Supplemental Budget will again propose increasing the child care tax credit. The average cost of child care for Minnesota families is one of the highest in the nation. I will also support federal tax conformities, which will further reduce state income taxes for many Minnesotans.

However, some people are proposing permanent tax cuts, which would put our state's budget, once again, on a fiscal precipice.

They say, "Give it all back" to the taxpayers. But that slogan is based upon a wrong premise and a wrong conclusion. Those surpluses did not come from raising personal income taxes on all Minnesotans. Many politicians say it, even though they should know it's not true. As a result, many people believe it.

In 2013, we raised state income tax rates on only the wealthiest two percent of Minnesotans. On only the wealthiest two percent of Minnesotans. No other Minnesotans received a state income tax increase, unless, of course, their personal incomes increased.

The personal income tax rates on those 98 percent of Minnesotans have not been changed for the past fifteen years. Not once. And not since I became governor. In fact, we cut state taxes for over two million Minnesotans by \$500 million in 2014.

Our budget surpluses have resulted entirely from the income tax increases on the wealthiest 2 percent of Minnesotans and from more Minnesotans working, earning higher incomes, and thus paying higher taxes based on those higher incomes -- not from higher tax rates.

The other dead horse, which is being resuscitated for the current political/economic debate, is that those tax increases are the cause of Minnesota's slower projected economic growth in the next biennium. Our state recovered more rapidly than most other states from the Great Recession. Our increases in employment, state GDP, and per capita income outpaced the nation. However, those increases have leveled off, and the forecast predicts they will continue more modest growth over the next few years.

So, of course, we are hearing the perpetual refrain that the state's high taxes and excessive regulation are driving businesses and jobs away and threatening our continued economic progress.

I have worked in and around Minnesota state government for the past 39 years. I have always heard some say that taxes are too high, and the business climate is too awful. If we have a budget surplus, it's because taxes are too high. If we have a budget deficit, it's because our taxes are too high.

I expect it will never change. If a meteor from somewhere in the universe should ever come crashing to earth and land on Minnesota, it will be, some say, because taxes here are too high.

At this pivotal moment, however, it is critically important that we make the correct diagnosis of our economic situation, so that we can prescribe the proper remedy. If a doctor misdiagnoses a patient's condition, and prescribes the wrong treatment, the patient will get sicker and might even die. So it is with state policy-makers.

Our State Economist said recently that the main drivers of slowing future growth in Minnesota's total employment and personal incomes are baby boomer retirements and less labor force growth. Not state tax policies.

She said, "It's simply a factor of demographic change. When the Boomers were in their prime working years, our work force grew and our economy benefited. But we are going to produce a lot fewer workers in the next two decades, as the Boomers continue to transition out of the workforce. And that means we will need to use the talents of ALL the workers we have."

She went on to say that the consequences of baby boomer retirements will be the Minnesota economic story for the years to come.

Furthermore, as recently as 1999 and 2000, Minnesota's then-governor and legislature tried the experiment of cutting the state's personal income tax rates and providing tax refunds. Twice.

And what was the result over the following decade? Did Minnesota's economy surge ahead of other states? No. Was there a demonstrable increase in private investment? No. Did Minnesotans' standards of living improve? No. Even before the Great Recession, Minnesota's growth was not on par with many others.

Meanwhile, the state stopped improving critical functions. State support for higher education dropped drastically, forcing higher tuitions on students and their parents. Real state funding for K-12 education was also cut, causing teacher layoffs, larger class sizes, reduced academic and extra-curricular offerings.

School upkeep and improvements lagged.

The state avoided facing and funding its growing responsibilities for child care assistance, for mental health services, and for elderly care. Growing problems at St. Peter and Anoka state hospitals continued to fester and plague us still.

Then, when the Great Recession arrived, with revenue depleted and fiscal reserves non-existent, the state's economic woes compounded, and its services were further decimated.

So, what astounds me is: Why on earth would we want to go back and try that again? We haven't made such progress during the past five years by having state government do less or fund less that others are doing.

We've done more for Minnesota and we've done it better. All-day kindergarten. Flood control and disaster relief. Response to the Avian Flu epidemic. And to Ebola.

An increased minimum wage. The equal right to marry. Early childhood education. Two year tuition freezes at the U and MnSCU. State-wide property tax relief. And more.

What we have been doing is working. Minnesotans are working. Minnesota is working. How could we stop now, when there is more work left to do?

Let me highlight just a few of those key areas.

Take transportation. The facts are clear. We must make additional investments to repair and improve Minnesota's transportation systems – every year for the next ten years – or they will get worse. Highways, roads, and bridges will become more crowded and less safe. Public transit will become more inadequate to serve our growing metro populations, and more commuters will be forced on to even more crowded streets and highways.

Two questions remain? Will the legislature commit enough real money for the next ten years to improve our state's transportation? And how will they pay for it?

I made my proposal over a year ago. Many people didn't like mine. But it provided real money – and enough of it to make real transportation improvements all over Minnesota. The improvements people and businesses must have, if they are to continue to thrive here.

I'm waiting for an alternative. I'm willing to be flexible, but I will also insist on a real solution. No smoke and mirrors. No double-counting existing revenues. No counting non-existent revenues. This is about construction projects, not campaign posters. And it's too urgent to be left for another year.

We face another growing problem with the quality of our water in some parts of our state. Left unattended, this problem will become a crisis for some of our citizens and communities.

We face the immediate challenge to provide help, especially to smaller communities in Greater Minnesota, who must treat their incoming drinking water to make it safe for human consumption. The cost of those treatment facilities is prohibitive for some.

My bonding bill proposes over \$220 million of low-interest loans, grants, and technical assistance. It will not be enough, but it will be a start.

Then we must face the multiple causes of our increased water contamination. This is a complex problem, without a single or simple solution. But it is one we cannot avoid.

Minnesota has a proud history of tackling environmental problems and finding effective solutions. When I was a boy in the 1950's, our neighboring town of Long Lake was dumping its untreated sewage into its namesake, Long Lake. It produced giant, 70 pound carp, for unsuspecting customers in Japan; but it made the lake unfishable and unswimmable for humans. A modern waste-water treatment plant starved the carp, but saved the humans. That was progress.

On an even larger scale, I recall the 1970's, when Reserve Mining Company was dumping its untreated taconite tailings, filled with asbestos and other contaminants, into Lake Superior. There was a huge uproar, when the Minnesota Pollution Control Agency and finally a federal judge ordered them to stop.

The company threatened to close, eliminating thousands of jobs, if it had to change its ways. But they did change, and the plant has operated to this day – until the recent industry shutdown.

We will hear the same refrain from some, who wish to avoid their share of responsibility for contaminating our state's waters. Fortunately, increasing numbers of their neighbors have accepted the challenge and are leading the way forward.

In partnership with the US Department of Agriculture, our state ag. department has developed the Minnesota Agricultural Water Quality Certification Program.

It provides voluntary opportunities for agricultural landowners to implement conservation practices that protect our water. In return, they gain regulatory certainty for ten years.

To date, our Agriculture Department has certified 104 farms totaling 60,000 acres. An additional 340 applicants are currently working toward certification, and another 450 applicants are expected by June 1st through partnerships with local Soil and Water Conservation Districts.

The program has already reduced sediment loss on those properties by over 4,600,000 pounds per year, prevented over a ton of phosphorus from entering our waters, and reduced nitrogen losses by an estimated 49 percent.

That is important progress. But we must make more.

All Minnesotans should have the right to clean, safe water, for their drinking, bathing, and recreation. No one else should be allowed to take it away from them. Assuring that safety is our legal and moral responsibility.



There are other features in my bonding bill proposal that deserve special mention. In fact, all of them do. We joust every year about the proper size of our bonding bill.

Even though Minnesota ranks in the middle tier of states in bonded indebtedness, some believe minimal capital construction is in the public interest.

I strongly disagree. If we unnecessarily limit the state's capital investments, we unwisely limit its future.

For example, many buildings on the University of Minnesota and MnSCU campuses are badly in need of basic repairs. They cannot be expected to attract and retain first-rate students with second- or third-rate facilities. They also need to build new facilities, in which to provide the world-class educations their students will need to be successful in this global economy.

And, working with local employers, they need to redesign and re-tool their existing programs to better prepare their students for jobs that are now unfilled, due to lack of the necessary training.

I could make similar cases for every one of the capital projects I have proposed and for many that I couldn't fit into my capital budget. I invite legislators to do even more. I urge you not to do less.

Another crucial capital investment, which I will include in my Supplemental Budget, is expanding access to broadband for every part of Minnesota.

This statewide access is vitally important, especially to our citizens and businesses, who reside in Greater Minnesota.

Rebecca Willart, a Genetics Counselor in Belle Plaine, is also my guest here tonight. Rebecca? Welcome.

She wrote me a letter, saying that she is able to do her work thanks to broadband internet access. She said,

"I currently live on a hobby farm outside of Belle Plaine. I am a laboratory Genetic Counselor and work for GeneDx, one of the nation's largest genetic testing companies. I was one of the first of what is now over 30 remote genetic counselors working for this wonderful company.

"Every morning I sit down in my home office and log into my company headquarters in Maryland. The ability to telecommute has greatly expanded the opportunities available to me as a genetic counselor in Minnesota. Additionally it has made it possible for me to be fully engaged with my family by eliminating a 2 to 3 hour drive to commute.

"My only problem is my current Internet connection speed...This is painfully slow for the work that I do...This is an extremely important issue for myself and my family as quite literally my livelihood depends on it. I know that you have supported efforts to expand rural broadband and I beg you to continue these efforts and encourage you to consider the truly rural farms throughout Minnesota. We need service too. Please keep up this important work."

Rebecca, I hope you'll be right.

Elsewhere in Minnesota, the City of Bemidji has seen new business openings in diversified fields, due, in large part, to the city's high-speed internet access. Four Bemidji businesses were recently ranked among the fastest-growing in the United States by Inc. Magazine.

There are other important challenges and opportunities before us to continue to build a Better Minnesota. In addition to clean water, clean air and reducing global warming are other important priorities for my administration. Last month in Washington, the United States Supreme Court stayed federal enforcement of President Obama's Clean Power Plan. Here in Minnesota, some have questioned our decision to continue developing a plan to tackle the worst impacts of climate change.

However, developing clean energy has never been about satisfying federal bureaucrats.

Beginning with my predecessor, Governor Pawlenty, former Lt. Governor Prettner Solon, and other key legislators in 2007, it has always been about serving the best interests of citizens.

Over the past five years, Minnesotans have made their interests clear to my Administration. From kids concerned that pond hockey doesn't start until January to farmers trying to predict growing seasons, to folks wondering why this year's March blizzards have turned into sixty degree days, many thousands of Minnesotans have expressed their concerns about the growing impacts of climate change.

I received one letter from Paul and Susan Schurke, who operate Wintergreen Dogsled Lodge in Ely. They wrote,

"In the 35 years that we've operated Wintergreen Dogsled Lodge in Ely, Minnesota, we've watched our season diminish by nearly 20 percent – from an average of 116 operating days to about 94. And our winter tourism industry is the lucky one – dogsledding is very accommodating of marginal snow conditions. All our dogs need is a few inches of snow & off we go.

"But cross-country skiing and snowmobile tourism need a much more substantial snow base. Those tourism sectors are measuring their operating loss over the past few decades not in days, but rather in weeks. In fact, during some recent winters we've only had a 3-4 week window of optimal cross-country skiing and snowmobiling conditions here in Minnesota's Arrowhead region. One that has been renowned nationally as a winter recreation mecca."

It's clear that we need to do more to protect Minnesota's climate -- and the lungs of our children and grandchildren -- by developing thousands of innovative, clean energy jobs.

We have an opportunity this session to build on the progress of our predecessors. Lt. Governor Smith and I are eager to work with legislators and with businesses to grow Minnesota's clean energy economy.

Some of Minnesota's utilities, like Xcel Energy, are national leaders in developing wind, solar, and other clean energy alternatives.

Let us proceed, not by politicking with the health of future generations, but rather by protecting them.

During my first five years, I have made additional education funding and new initiatives my top priorities. We have made vitally important progress. Much of it, however, was simply making up for past deficiencies. In fiscal 2012, real state support for higher education had fallen to its lowest level in thirty years. And even after the increases in state funding for K-12 education, Minnesota's per-pupil expenditures place us in the middle of the fifty states.

Our citizens properly place a high value on the quality of their children's and grandchildren's educations. Overall, they have been very well-served by our state's extraordinarily dedicated teachers, professors, and other educators.

However, as we know, the challenges facing our schools are more diverse and difficult now than ever before. When I taught in New York City – right after college – just a few years ago – our multi-racial students spoke four different languages. Today, well over 100 different languages and dialects are spoken throughout our state; over 50 in some single school buildings.

More and more students are coming to our schools less ready to learn – from other states or other countries, which lack our education standards. Some recent arrivals from other nations have had no formal education at all.

And, unfortunately, more children from more Minnesota families start school without the education and socialization experiences most other children enjoy. They enter kindergarten or early elementary grades already behind, and they struggle to catch up.

We have finally learned what many child development experts have been telling us for decades: the very first years of a child's life are deeply formative and determinative.

If we don't prevent achievement gaps before they appear, or close them quickly thereafter, they will require much more difficult and more expensive remedial efforts for years following.

Increased legislative support for early childhood care and education has grown significantly over the past five years. And I thank you for that. Yet the numbers of children, who desperately need those services, continue to rise.

Next week I will propose further initiatives to help provide more children with the decent life beginnings that every child deserves.

There are disagreements over how and where to best provide those services, particularly for four year-olds. Some of those disagreements are professional; others are political.

Sixty-thousand Minnesota four year-olds need Minnesota's grown-ups to go beyond their big self-interests and place those little interests first.

In closing, as Minnesotans, we find ourselves at a crossroads. We, the elected leaders of our state, face important choices. Over the last five years we have made great progress toward a Better Minnesota.

We can continue down that road and build a state that works better for ALL Minnesotans. Or, we can reverse course and retreat to where we were just a few years ago: doing less and getting less.

Minnesota has always been at its best when we work together. We are better when we recognize and anticipate the challenges ahead, and come together as One Minnesota to create opportunities for every child; every family; every person to succeed.

That is the Minnesota, which has built our success. That is the Minnesota that you and I must work together to achieve. Thank you very much.