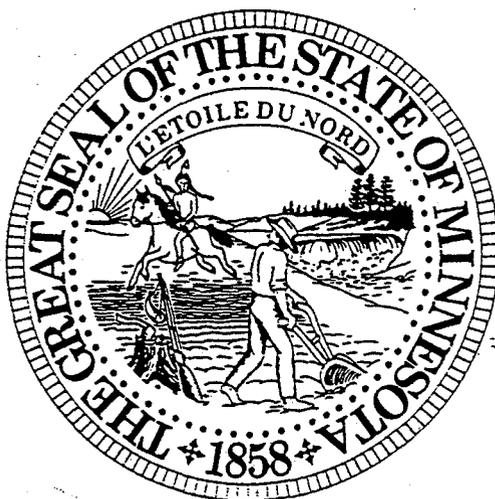


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Governor Arne H. Carlson
Lieutenant Governor Joanell M. Dyrstad

State of the State Address

January 22, 1991

Mr. Speaker, Mr. President, Mr. Chief Justice, members of the Court, Constitutional Officers, members of the Legislature and my fellow Minnesotans:

Opening statement: War in the Middle East; deaths of Karl Rolvaag and Gus Donhowe

I. Quality of Life - Define

Richly blessed with rivers, lakes, streams, major cultural center - agriculture and agribusiness.

Spawned 3M - gave birth to large scale computers at Control Data and Cray Research.

Our University became a major research center guiding the way to everything from taconite to human transplants.

Our people have won awards ranging from Nobel Prizes to Pulitizers to National Athletic Championships.

We are a healthy, productive people with our roots and traditions deep in Minnesota soil.

Our pioneering stock is still with us, we are adventurers, bright, brawny and optimistic.

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II. Now that quality of life is threatened. It is not just the recession or war, but rather driven by our sense of anxiety. We are uncertain about our future.

a. Real income has declined for the past three years. People are working hard and actually earning less. They see us slipping in everything from school test scores to political ethics to down grading of living standards.

b. Jobs have been slowly disappearing along North Dakota and South Dakota and now along Iowa. Wisconsin has now become a real job threat as they have emerged as a lower cost state.

c. Competition for jobs is a real fear. But the real anxiety goes beyond that point. Our values of prudence have been assaulted. Assaulted by a culture that has focused on short-term greed. The "What's in it for me" philosophy has prevailed.

The 80's may we be remembered as the decade of greed. It permeated all institutions and all sectors of life.

d. Now one day after we honor Dr. Martin Luther King, we have an opportunity to put all that aside and do what King's life stood for - an appeal to the best that lies within us all. We must challenge the past or become a prisoner of it. I say that people want a "new beginning" with a focus on excellence, truth and a summons to duty.

Political Challenge

You and I sought the opportunity to serve. We told the people that we had the power and courage to change things - now. Let us live up to that promise of change.

All too often, government holds itself out as an agent of change, but that is not always true. The fact is we tend to dislike change because it compels us to get out of our comfortable rut. The status quo is comfortable.

Politically we created a system where some 4,400 units of government come to St. Paul and plead for more money. There is very little discussion about goals or objectives or performance - primarily just the need for more money to continue the past.

a. For six years during the 80's we ranked third in total government spending growth.

b. Spending grew 35 percent higher than personal income; 42 percent higher than the gross state product; 57 percent higher than inflation.

c. During this timeframe, had we spent at the rate of inflation, we would now have \$9 billion.

Neal Peirce last week changed his tune about Minnesota. No longer were we the state that worked or the Dynamo of Reform, but her one that coasted down "fiscal Easy Street" during the 1980's. We avoided the tough decisions.

We followed the lead of the federal government by spending money that we did not have and pretending to the people that all was well. "Trust us" was our motto. We, on the state level, authorized over \$900 million of new debt, a 22 percent increase since 1988.

Cities, townships and counties increased their debt 54 percent since 1983 -- from \$2.8 billion to a whopping \$4.3 billion.

We favored soccer stadiums over child nutrition, community centers and swimming pools over classrooms while we transferred record levels of debt to our children. On the operating side of the budget, we favored spending over discipline.

Since July of 1989, we on the state level have been spending \$800,000 per day more than we have been taking in. That comes to over \$24 million a month. And when leaders like Gene Merriam and Duane Benson said "fix it," we ignored them and pretended all was well.

So we have a past that is rich with blessings and some short-sighted behavior that embarrasses us. I say, challenge the past. Let us go forth and see the challenges ahead as opportunities and not as pits of hopelessness and anguish.

Let us do what we told our people we would do -- lead with intelligence and courage.

Our first challenge is the current budget. We are now spending, as I indicated, \$800,000 per day more than we have taken in. If we chose to ignore this hemorrhaging, we will have spent \$600 million more over the past two years than we took in.

In order to better plan our financial future, I asked a bi-partisan panel of financial experts to evaluate our current financial situation and make some recommendations.

This Blue Ribbon Panel consisted of former finance commissioners who served both Democrat and Republican Governors and experts from the private sector. Their recommendation was unanimous - cut \$197 million from the current budget right now and then reduce anticipated spending by \$1.8 billion in the budget for the next two year period. I think this is good advice.

It is tempting to go into the state's \$550 million emergency reserve fund. but that would be like dipping into a savings account in order to pay for a life style we cannot afford. It would simply be another postponement of the problem. But let me also share with you certain facts:

1. We have this problem largely because we spent more than we earned. Raising taxes or depleting our savings is not the answer.
2. The recession is saucer-shaped and recovery will be slow.
3. Any tampering with the reserve fund will attract the attention of the bond rating agencies and possibly place our bond ratings and those of local governments in jeopardy.
4. We have an additional \$1.8 billion problem that we will deal with in February, but suffice it to say, prudence says "protect the reserves".

No, the only choice is to reduce our current expenditures.

Now I know that there will be cries of protest. We have built a system of government where spending is favored over prudent behavior. But, let us look at the facts:

1. Every state that surrounds us is more tax and job competitive.
2. The Great Lakes Governors met last week and not one indicated a willingness to increase taxes. They all know the value of jobs.
3. As Joannell and I traveled through Minnesota this summer and fall, the message was clear - reduce government spending and reduce taxes. The people are tightening their belts and they want us to do the same.

Let us do it willingly and without complaint.

I am pleased with the speed with which the Legislature is processing the reduction bill. It shows that we can and will work together, always putting the long-term interests of people first.

Now let me briefly touch on another matter of great urgency - workers compensation reform. Three times this Legislature courageously passed a reform measure and three times it was not signed into law. Rest assured that I will work with you to achieve passage.

Let us send out a bipartisan signal to all those who create jobs. We want our costs of doing business in Minnesota to be competitive with other progressive states because we want jobs and we want more jobs for our people.

If we can just discipline our spending and make job creation costs competitive with other states, believe me, this will be a most successful legislative session.

But I think we can do more.

I. First of all, we can stop micro-managing our entire governmental system. Federal - State - Local. It is too costly and gets in the way of solution and lacks political integrity.

Local Government - day care - education - environment

Our budgets are line-item. We must continue process toward performance based budgeting. Representative Simoneau and Senator erriam have led the way in these reforms. I commend the egislature. Let us focus on outcome and value of our services.

. Focus on Education - We may be short on dollars but not on forms:

1. We will not run local schools from St. Paul. Site-based management will be our goal.

Local Government - Maximize flexibility and creativity.

We are hamstringing our teachers. Let teachers do what they do best - teach

2. A new contract - children - parents - teachers - community - state - accountability and results.

3. Train children for jobs that exist - build an understanding between schools and business so that a natural relationship occurs always with a focus on excellence. Our children must know that there is a linkage between high grades and good jobs.

4. Seventy-four percent of our teenagers are in the labor force. This is the highest in the United States. This is both good news /bad news situation.

a. Work ethic is strong

b. Students who work are often tired - they are lulled into false sense of security. They must know the value of a high school diploma. The primary role of the student is to study and work hard. Jobs are secondary.

III. Long term property tax reform:

1. Commercial-industrial property tax rates are the highest outside of New York City.
2. We must work toward eliminating the third tier of property taxes for homeowners. More progressive than the income tax and very punitive.

IV. New Partnerships

Now we have a host of concerns that compel government to think differently. Over the past twenty years, government has been the provider of first choice and not the provider of last resort.

Somehow we have decided that we have the capacity to solve all problems. We have encouraged people to seek a government remedy without first exploring other options. The result is we have gotten ourselves into activities well beyond government's role and ability.

We have subsidized homes for the very wealthy, thrown enormous subsidies at out of state businesses in the hopes of luring them into Minnesota, and just recently disclosed a tax subsidy to a nightclub promoting nude dancing.

Government must define itself and its mission. We must agree that the states who know where they are going are the ones most likely to take the right direction. After all, as we learned from Alice in Wonderland, if you do not know where you are going, any road will get you there. We know where we are going.

We are going to make Minnesota more job competitive with other states. Four years from now I hope we will read stories in Wisconsin newspapers about how Minnesota is attracting jobs instead of vice versa.

That means we have to hone in on government costs, put logic and fairness in our regulatory system, and focus on our vision for the future by protecting and enhancing our assets and overcoming our liabilities.

The first step will be the creation of a private-public partnership that will help define:

- a. Government relations so we can define the function of government, where that function ought to be located, the value of that function. In other words, specifically define goals and objectives and accountability,
- b. Review governmental costs and work with management on instituting the efficiencies necessary to provide the tax payer with a real quality service at an affordable price.

It is our intent in that this partnership, which we will call the Committee on Reform and Governmental Efficiency -- CORAGE -- will work closely with the Dyrstad commission of local government so that all have input into the process. Rest assured, Minnesotans want cost-efficient government.

Our concept of new partnerships also extends to the one between the Governor and Lt. Governor. I said at the outset that Joanell Dyrstad will be a spokesperson for this administration and I meant it.

Minnesota has always been known as a state filled with people of vision and creativity. If there ever was a moment in our state history when a sense of vision was absolutely essential, it is now.

Our state has, as I have outlined, a serious short-term budget problem, and we will deal with that. But over the next four years, we will be looking beyond the present and into the future of this state. We must become geared up to meet the long-range challenges of interstate and global competition. We need to establish goals and form long term objectives to reach those goals. We can begin by forging new partnerships and creating new structures that will take Minnesota into the 21st Century.

We know we must change the way state and local governments operate. The relationship between the federal government and state and local governments has changed. Federal revenue sharing no longer exists. Federal support to pay for major new, as well as ongoing social initiatives, is no longer a reality. We recognize that and we have and will adapt to it.

In 1932, Supreme Court Justice Louis Brandeis coined the phrase "laboratories of democracy." He was talking about state governments and the idea, as he put it, that "a single courageous state may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country."

A laboratory of democracy is what Minnesota must become over the next four years if we are to make the fundamental changes that are vital to the social welfare and economic health of our state.

One experiment we will be focusing on is the forming of new partnerships and an examination of existing ones. State support of local government activity is being reduced. It is a challenge local government can rise to if they are given the flexibility to do so. Local government has adapted well before and will do so again. The removal of unnecessary mandates and the improvement in the working relationship between state agencies and local governments will be a big step in improving communication and strengthening that relationship.

Municipalities have positioned themselves well with \$183 million in reserves; counties have \$245 million in reserve. They are well aware of the impact of taxes on the creation of new jobs. Many Minnesota firms have moved across the border to Wisconsin and more are posturing themselves to do so because of taxes; and, Governor Thompson has pledged "no new taxes."

We need to realistically face that competition.

To do that, then, we must design new management techniques, restructure bureaucracies, empower our employees and instill a new dedication to making state government and local government consumer-oriented and user-friendly.

It is our responsibility to listen to the taxpayers, not the tax spenders. Our consumers will tell us what they need and are willing to pay for. As I have said, we are challenging the past.

We need to create new partnerships with the people of our state as well. We need to bring down the barriers to participation in the economy, whether they be poverty, racial and/or sexual discrimination, illiteracy, access to child care or government regulation.

We need to start early and focus on prevention. This means supporting programs that reduce unwanted pregnancies, provide access to pre-natal care, and teach parents how to do a good job of raising their children.

We will be focusing on day care. We are not going to be using building codes to keep churches and synagogues out of the day care business any more. If government cannot solve the problem, the least we can do is to help those who can.

And our administration would rather spend \$2,600 to enroll a child in Head Start for a year than pay \$30,000 a year down the line to house that person in a state prison.

We need to forge new partnerships between education and social service organizations. Many of our children just are not ready to learn when they come to school.

Some are not ready because they live in homes where domestic violence so scars them that they lose the capacity to relate to other people.

We have good laws to protect battered families, but we need to improve enforcement. A "cooling off" period may help when someone in the family has been arrested for domestic abuse or for violation of an order for protection.

Had such a policy been in place for Kathryn Hebert (A-BER), we perhaps would not have had to face the horror of finding her body in a shallow grave, and her children would still have a mother.

Children who are not ready to learn, for whatever reason, will not learn, no matter how talented and dedicated are their teachers. Schools need to be able to concentrate their efforts on teaching children. The entire community, each and every one of us, must assume responsibility for each and every child in our state.

Luckily, we will not have to do it all ourselves. This is one of the great things about the people of Minnesota: People want to help. They want to pitch in. They want the barriers removed.

We are fortunate to live in a state where volunteering is an integral part of our culture and heritage. Fifty-eight percent of Minnesota adults give an average of four hours each week to help others. The Minnesota Office on Volunteer Services calculates that Minnesotans contribute about \$4.2 billion dollars worth of services every year.

Minnesotans are extremely creative in developing working volunteer partnerships. Churches, businesses, schools and clubs are reaching out. We are asking you to join us by saying -- "yes, I can do that" -- I can pitch garbage in a can so someone else does not have to pick it up. I can recycle, to save the environment. I can volunteer to help paint someone's house, or deliver a meal, or assist in my child's school. I can lend that helping hand.

You and I must become participants in our society; relying less on government to solve every problem and more on ourselves.

By involving our people and our communities and our institutions in new partnerships, we can create a new model for state government -- one that can provide leadership and vision not only here in Minnesota, but elsewhere in the country.

We will also create new partnerships with business. We need to create an entrepreneurial climate in this state, where public and private sector leaders -- aided, not hindered, by state government -- can come together and pursue new ventures, start new companies, and create new jobs for Minnesotans.

We are excited about forming partnerships with young businesses which will grow and expand and become our Fortune 500 companies of tomorrow.

Minnesota is well known for the ones we have now -- 3M, Northwest Airlines, General Mills, and so many others -- and we must keep them strong. But the state's future is being creative right now with new start-ups -- companies that export products and import jobs.

I have asked some of these people to join us, to give you examples of this spirit. There are many more. These are people who have taken small companies and expanded them through personal initiative and commitment to Minnesota.

Glen Taylor, head of Taylor Corporation of North Mankato, which now employs 3,000 people in the Mankato area; and

Greg Herrick, head of Zeos International of New Brighton, a manufacturer of personal computers;

T. Michael Clarke, CEO of KATUN Corporation of Bloomington, a leading supplier of copier and printer parts;

Ron Eibensteiner, president of Mirror Technologies of Roseville, a manufacturer of peripheral equipment for computers;

Kay Fredericks, president of Trend Enterprises, which designs and manufactures educational products.

Will you people stand up and be recognized. These people represent the future of our state, and there are many more like them.

What will it take for businesses like these to succeed, and for more just like them to grow?

Before we do anything, we must get the fiscal crisis behind us, by reforming workers comp and the commercial-industrial property tax system.

Beyond that, we need to create a competitive environment, an environment that is at least competitive with states with whom we share a border.

Last fall the people of Minnesota chose us to be their agents of change. We intend to fulfill that legacy. Now I would like to touch on a few of our priorities.

Within state government, we intend to create a climate where there is equal opportunity for all Minnesotans. We have asked Linda Barton, Commissioner of Employee Relations, to begin immediately to develop a training program for all state employees to increase awareness and sensitivity to human rights issues. Let no one think for one moment that enduring sexual harassment falls within the scope of their employment. It does not.

When it comes to the environment, we need to start with the notion that we are stewards of our land. Our children deserve to inherit a state which reflects care and respect for the environment.

Our priority this session will be to work for passage of the no-net-loss wetlands bill. This is not a new proposal, but it is one that has never reached the Governor's desk to be signed into law.

We stand here tonight to tell you that we support the no-net-loss wetlands bill and ask you to work together on a bi-partisan basis to pass it.

Representative Willard Munger, you are the dean of this body and we are asking you to join hands with Marcus Marsh and get this bill to my desk as soon as possible.

Also, I want to hold those who pollute our environment accountable for the cleanup. There is also a fairness issue here. Environmental violations must be dealt with fairly and with uniform penalties against all violators, and we will work toward that end.

In the next four years, we believe there is much to be gained from reorganizing both the Pollution Control Agency and the Department of Natural Resources. We would like to see more resources directed to field work throughout the state and less to "paper shufflers" here in St. Paul.

The 1990 Legislature passed a landmark law called the toxic pollution prevention act. It was designed to encourage businesses and individuals to reduce the amount of dangerous chemicals released into the air, water and ground.

Representative Munger, I pledge that our administration will vigorously enforce your law.

Whenever we deal with natural resources, we must remember that we do not inherit these resources from our parents but rather we borrow them from our children. Our children are well ahead of us on this issue.

We intend to forge new partnerships in protecting our environment... In doing so, we must strike a delicate balance and seek mutual harmony among the tourism industry, sports men and women, business, and those who wish to preserve the serenity of a clear river or a majestic forest.

Another priority of ours is affordable health care for every Minnesotan. We recognize that this is an ambitious undertaking, and we will not be able to turn our full attention to it until our budget crisis is solved.

But we will be proposing a pilot project in the budget we submit for the next two years that will begin to address this important matter.

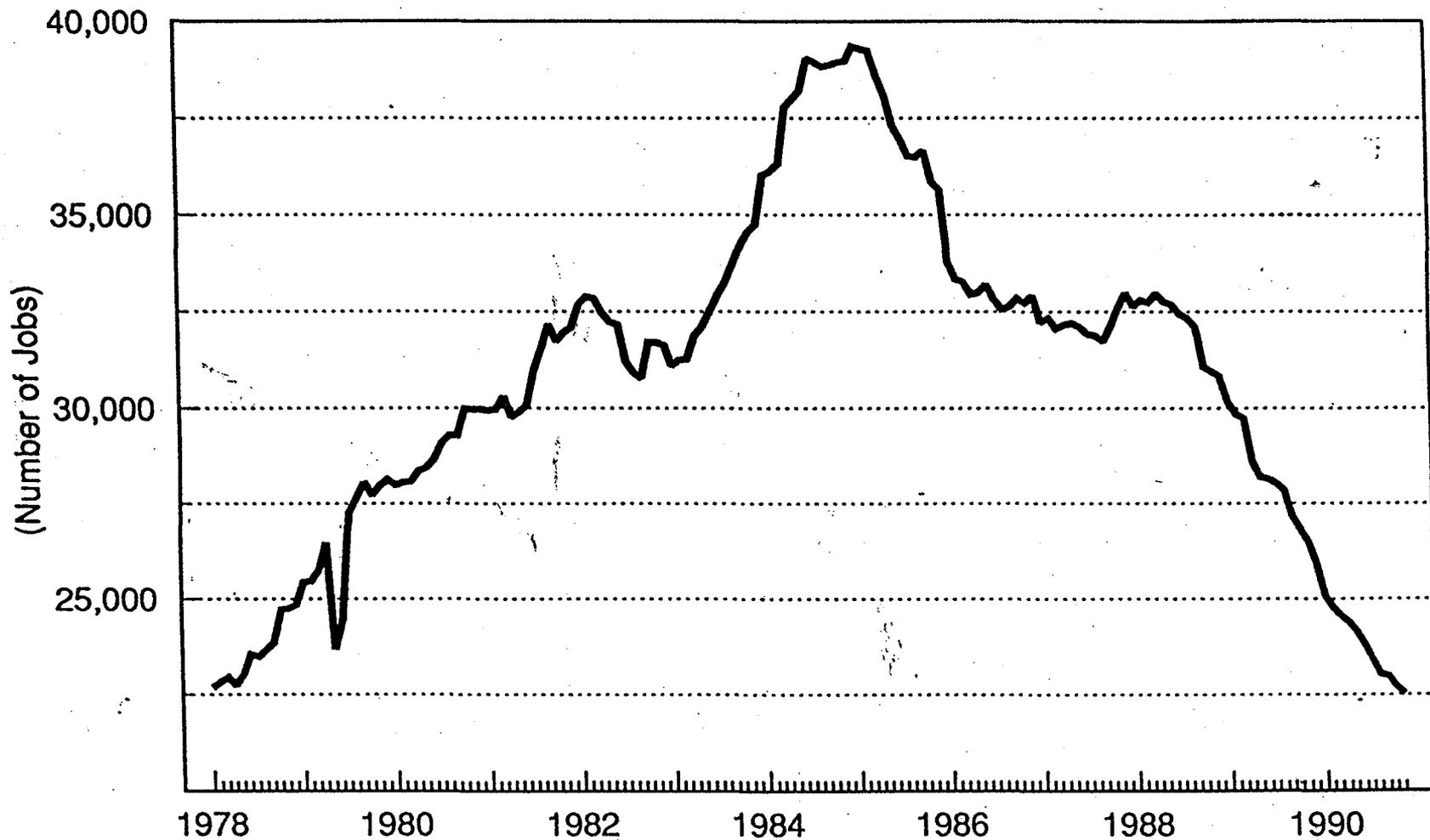
However, we in government are not 100 percent of the answer to this problem either. If everyone in Minnesota would make the commitment to stop smoking, to exercise regularly and to eat more healthy foods we could make enormous reductions in the cost of health care.

We as individuals must begin to recognize that we have an obligation.

Once the budget situation is under control, we would also like to find a way to make higher education affordable to our citizens in an era of spiralling college costs. Higher education should not be out of the reach of so many people, and the Edvest program I proposed earlier is one way to make college more affordable.

Closing statement.

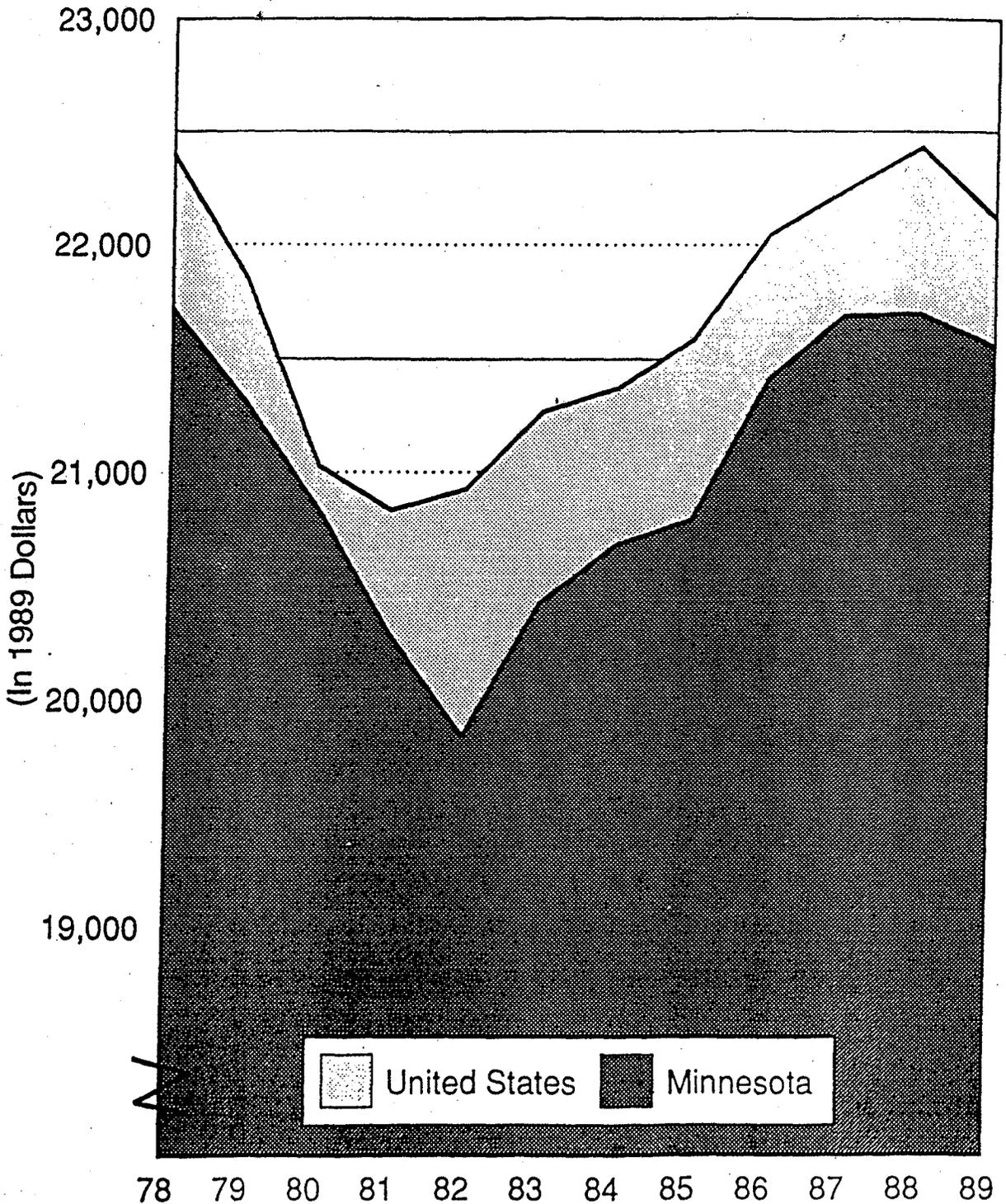
Office & Computing Equipment Employment Trends in Mpls-St. Paul



State Planning Agency Graphic
Source: MN Dept. of Jobs & Training

Chart 1

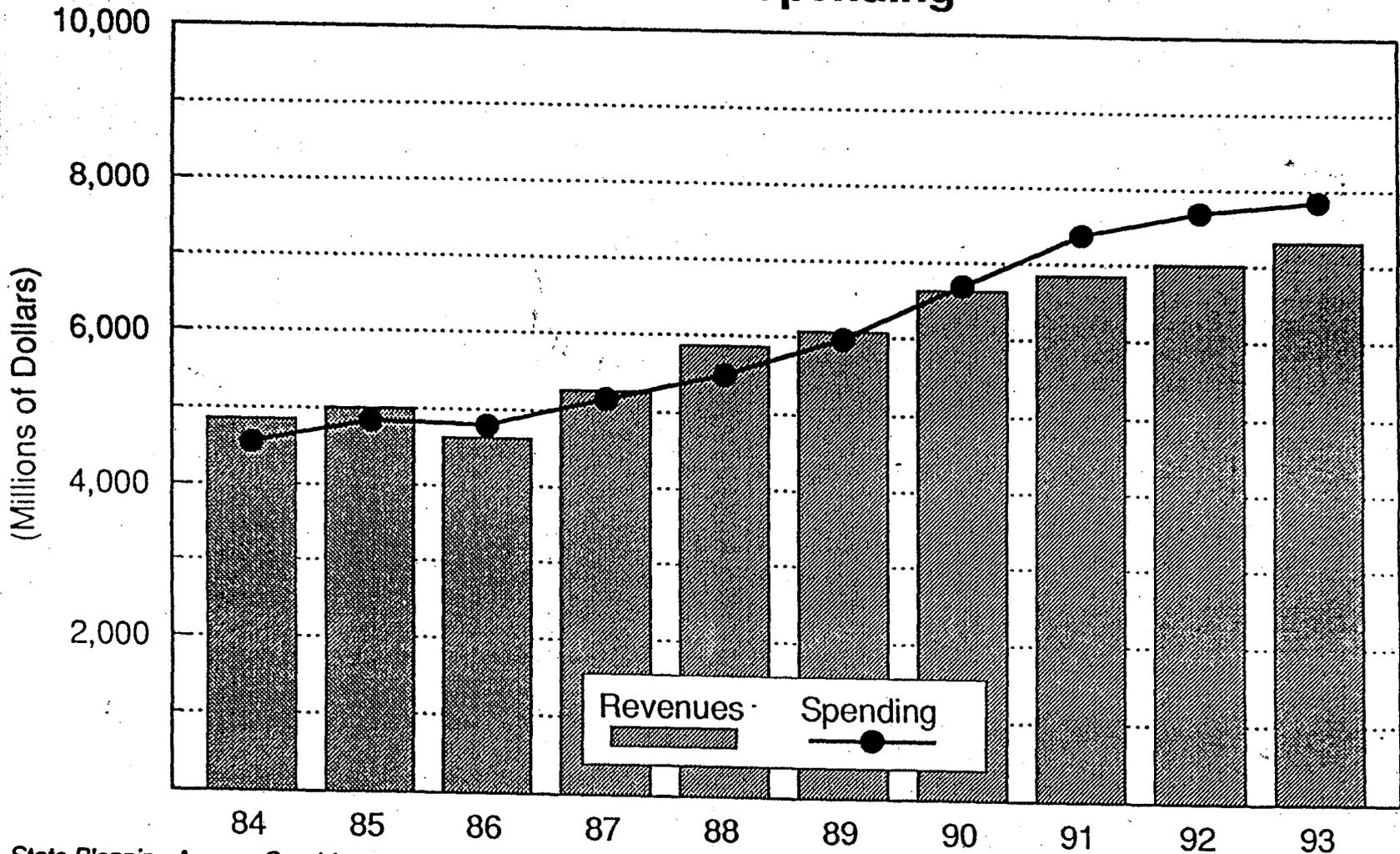
Real Wages Are Falling Again In Minnesota & the U.S.



State Planning Agency Graphic
Source: Bureau of Economic Analysis

Chart 2

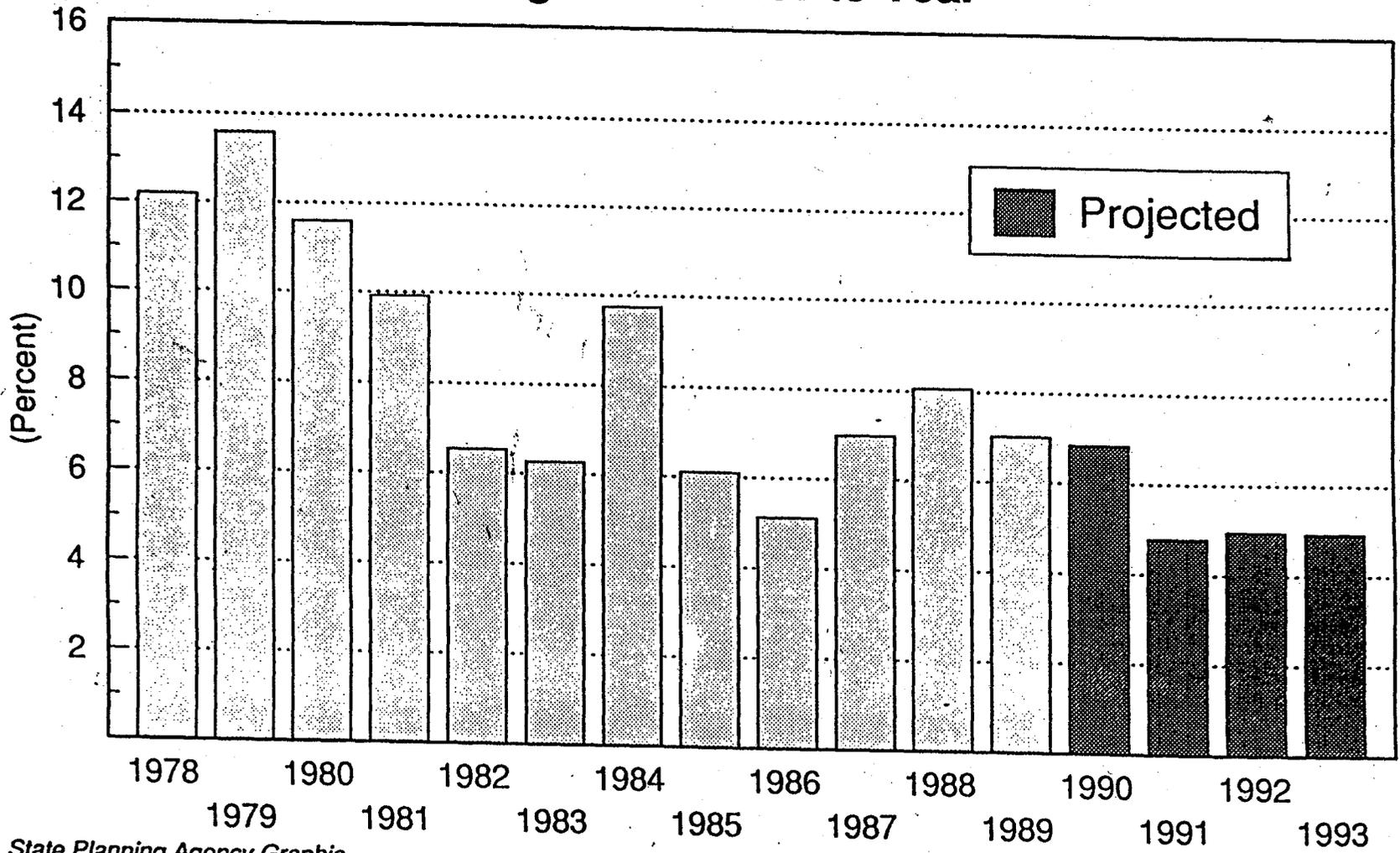
Minnesota General Fund Revenues Vs. Spending



State Planning Agency Graphic
Source: MN Dept. of Finance

Chart 3

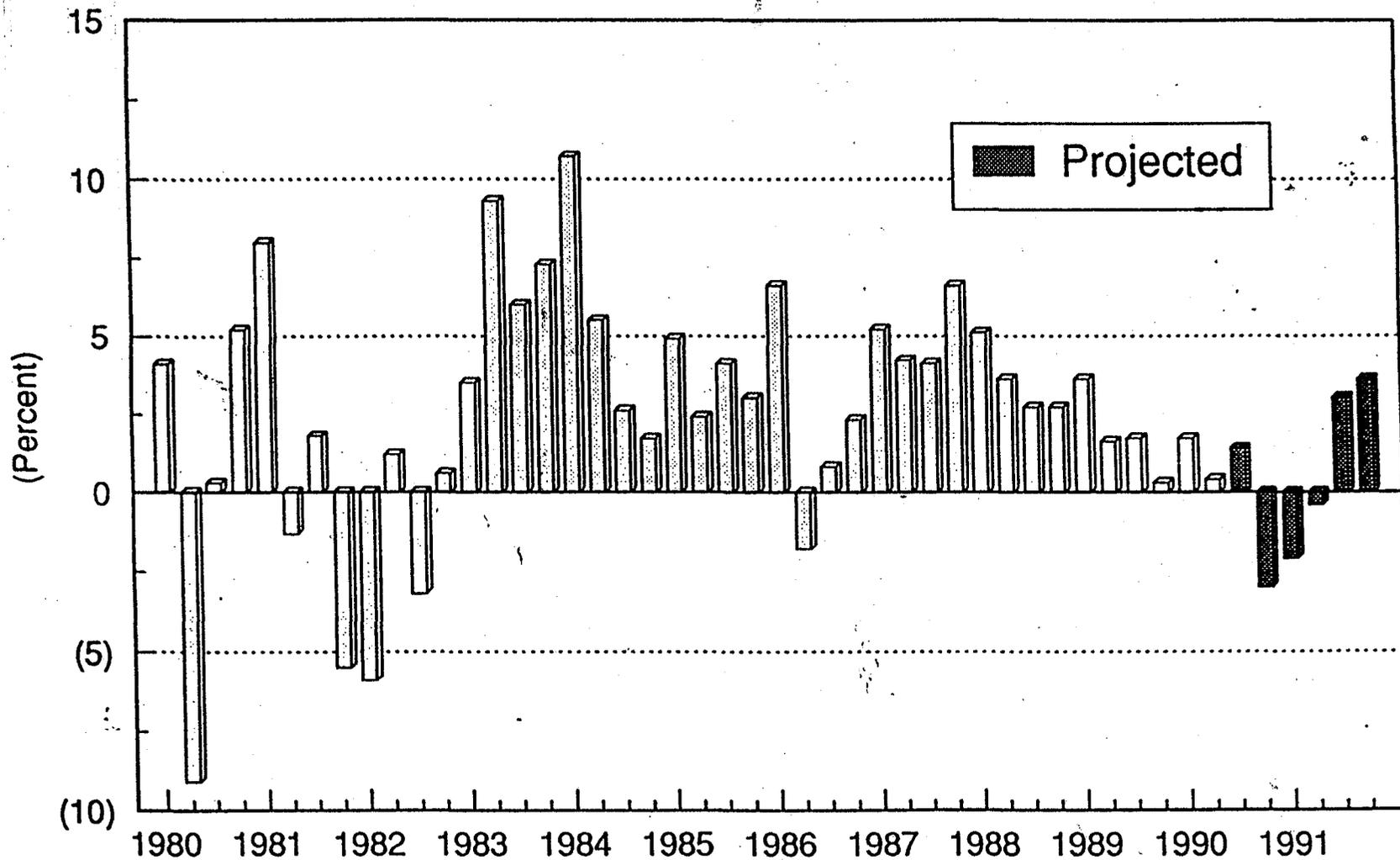
Minnesota Nonfarm Personal Income Change From Year to Year



State Planning Agency Graphic
Source: MN Dept. of Finance, DRI Control 11/90

Supporting Documentation

Real Gross National Product (Compound Annual Growth Rate)

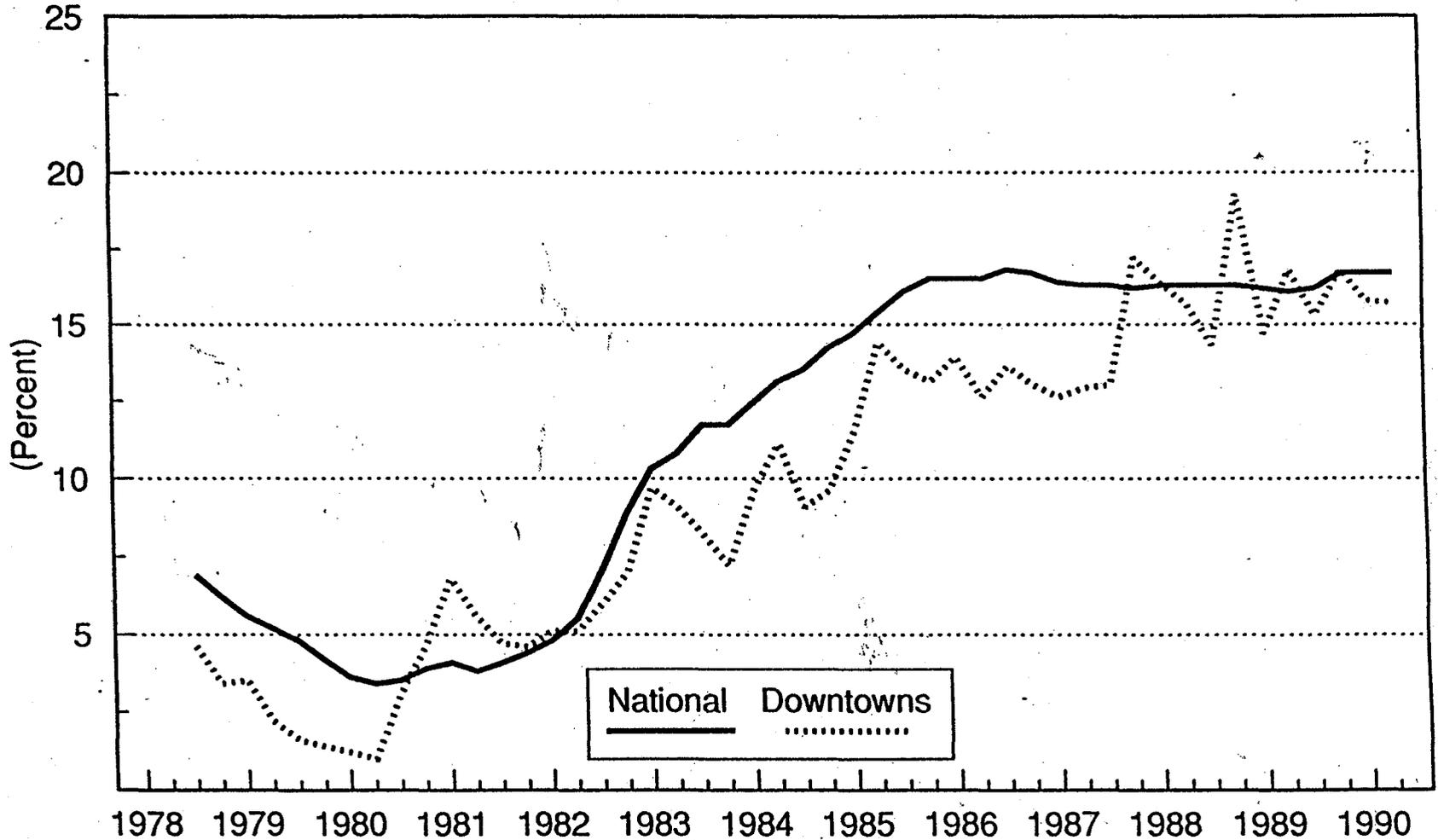


State Planning Agency Graphic

Source: MN Dept. of Finance, DRI Control 11/90

Supporting Documentation

Office Vacancy Rates Nationally Opposed to Downtown Mpls-St. Paul

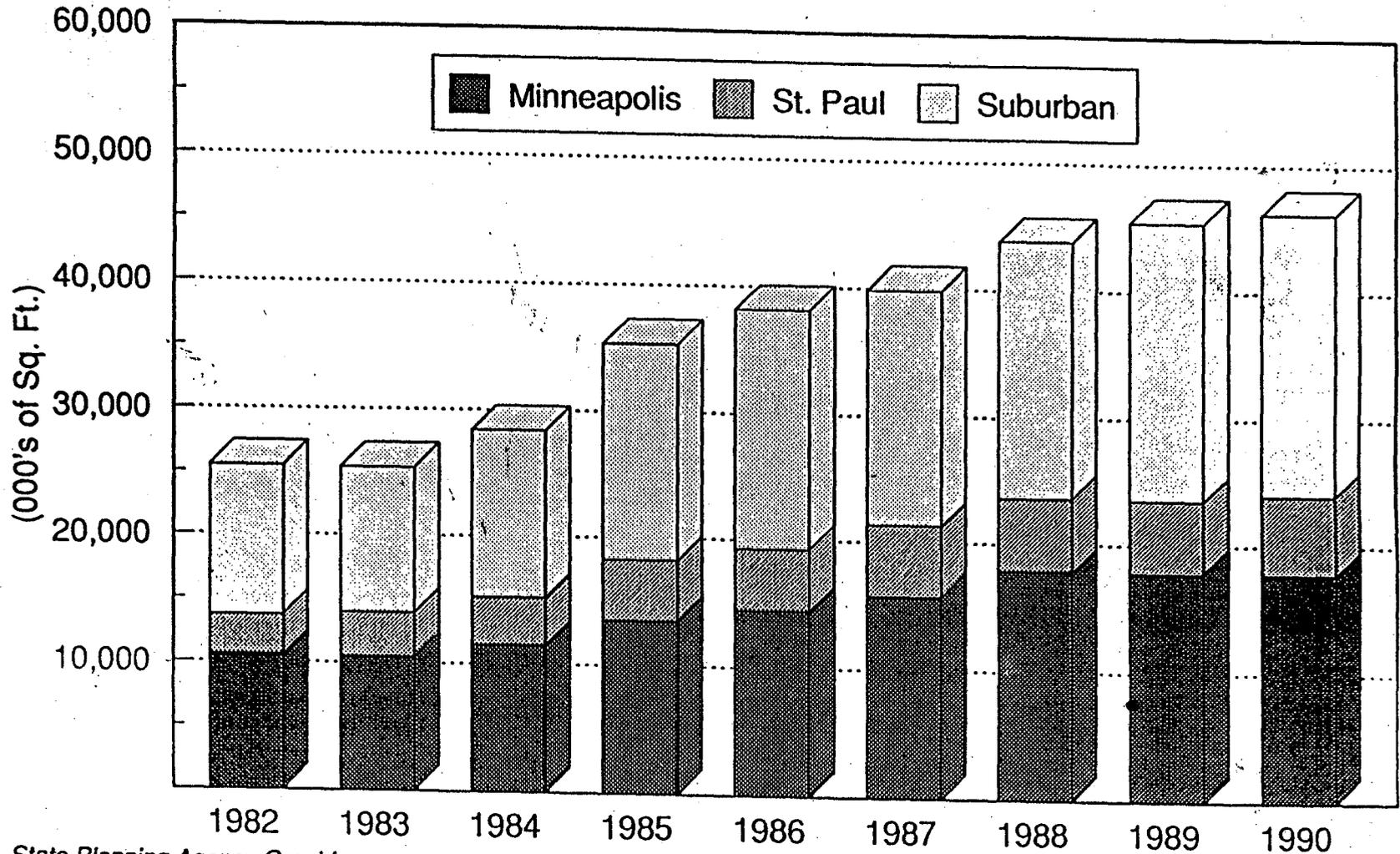


State Planning Agency Graphic

Source: Coldwell Banker

Supporting Documentation

Twin Cities Office Space



State Planning Agency Graphic
Source: Coldwell Banker

Supporting Documentation