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# **Budget Address**

## **January 26, 1993**

**Governor Arne H. Carlson**  
**Lt. Governor Joannell M. Dyrstad**

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**BUDGET MESSAGE TO A JOINT SESSION  
OF THE  
1993 MINNESOTA LEGISLATURE**

by  
**ARNE H. CARLSON**  
Governor

26 January 1993

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Madam Speaker, constitutional officers, members of the legislature and fellow Minnesotans.

This legislative session, like every other session, brings exciting opportunity for change. And this year, we have more reason than ever to seize that opportunity, and shape the future.

Our first and most fundamental responsibility as elected officials is to balance the state's budget for the next two years. But if our only goal was to bring spending and revenues in line for the next two years, we could probably pass and sign a budget by tomorrow afternoon.

I am asking tonight that we take a long-range view, and see our job this session as much more than just balancing another budget. We must minimize the politics and respond to what the people of Minnesota want. They want government to learn to live within its means by spending smarter and planning for the long-term.

You and I have made great strides in the last two years. Since 1991, we have taken Minnesota from being one of the fastest growing governments in the country to being the state with the second lowest government growth rate in the nation. We have reduced state budgets by \$1.5 billion without compromising our special quality of life.

The going has not been easy. But we have started to prioritize, to redesign and to focus our investments more intelligently. These changes will ultimately yield powerful returns.

But the challenges of 1993 demand a much sharper focus.

(CHART 1)

Let's first look at where we are today.

We are here today because throughout the 1980s, rapidly growing taxes continued to feed an increasing government appetite. Growth went unchecked. In the last 20 years, government spending in Minnesota has more than tripled, outpacing even the spending growth at the Pentagon. Minnesota's state and local governments were spending at a rate that was 57 percent above the rate of inflation.

When the 1990s arrived, revenues leveled off. But demands for spending did not.

Today we do not face a lack of tax revenue. Revenues will increase by more than nine percent next biennium, two full points above the projected rate of inflation. Looking ahead, our state will have \$1.3 billion dollars more to spend over the next two years than it had the previous two years.

But spending demands exceed that nine percent by \$769 million. And these soaring demands have put Minnesota on a long-term path that we simply cannot sustain.

We have several alternatives:

- One, we could raise taxes. And if we decide to do that, we must choose between permanently raising income taxes roughly 12 percent across the board; raising the sales tax by 15 percent and earning the distinction of having the highest sales tax in the nation; or increasing property taxes. Some might suggest we raise a little here and a little there. But they all add up. If we solve our problems only with new taxes, Minnesotans will have paid an additional \$3.5 billion in new taxes by June of 1999.

And the real tragedy would be the enormous loss of jobs. Taxes are the poison that will kill our job growth.

- Two, we could opt instead to make deep cuts in services. And if we go this route we must choose among cutting major programs such as education, children's services or health care, particularly for senior citizens, by \$769 million dollars.
- Or we can choose to layoff about 10,000 public employees - and send them and their families into a financial tailspin.

These are some of the options. But Minnesotans deserve a more lasting strategic plan.

In the last election, one fourth of all Minnesotans voted for a presidential candidate who was neither a Republican nor a Democrat. These voters sent a clear message to all of us that they want government to solve its own problems internally and fix its finances once and for all.

It is my hope that you will join me tonight in making a commitment to the hard working people of Minnesota. A promise to live within our means. A promise to spend our time productively over the next several months determining how we can best invest the resources we do have. And a promise to close the gap between spending and revenues without raising property taxes, without raising income taxes, without raising sales taxes and without raising taxes period.

Before drafting this budget proposal, our administration identified three key principles to guide us through the process:

- First, we set our sights on closing the budget gap without new taxes. And we will do that.

During the next several years, taxes at the federal level will go up, and that makes me even more determined to hold the line in Minnesota.

Minnesotans pay enough. Our income taxes rank fourth highest in the country. We rank second in commercial and industrial property taxes, and sixth in state and local taxes overall. Minnesotans are tired of taxes - so tired that some employers and families are packing their bags.

As I said earlier, when I say no new taxes, I am referring to property taxes too. And to make certain that local governments do not break this commitment, we are presenting a budget that does not cut property tax relief by a single cent, and in fact, increases property tax relief by \$200 million.

To me it is an issue of fairness. Few of us over the next two years will realize pay increases that will exceed inflation at seven percent. But our spending systems are asking for 15 percent - double the rate of inflation. This kind of growth is unfair to the taxpayers. We must live within our means.

- Second, we will propose no baseline cuts for any major spending areas.

No system will receive less next year than they received this year. This means we will provide increases for education, local governments, human services, children's programs, violence prevention - everyone will be able to spend a little more.

- Third, we will achieve long and short-term savings by working toward a more purposeful government structure - one that strategically targets results and focuses on Minnesota's priorities. We will spend smarter.

Our budget is strategic - calling for strict restraint in some areas, while **INCREASING** spending for those priorities Minnesotans have told us are most important: children, job creation and protecting Minnesota's special quality of life.

Our largest increases are directed to children because we believe that investing in children is the smartest funding decision we can make. We, as a society, must begin to recognize the raw financial wisdom of investing in our kids.

Here is one example of the costs of failed outcomes.

For a young man who drops out of high school, goes on welfare for five years and then commits a violent crime for which he is incarcerated for 20 years, Minnesota taxpayers will pay approximately \$500,000 by the time he reaches age 45.

Compare this to a young person who graduates from high school, completes a program at a technical college and then earns an average of \$24,000 per year for 25 years. Minnesota ends up about half a million dollars ahead.

In this example, the net difference between the success and failure of just one young person is roughly a million dollars. Multiply this by the number of children who, at this very moment, are falling through the cracks and there is no more compelling case for investing in children.

That is why our budget proposal puts children first, and includes \$894 million dollars in new and reallocated spending for children, bringing total state spending on children to \$6.8 billion dollars over two years, which when combined with local spending amounts to nearly \$11 billion dollars. These dollars will pay dividends.

As I outlined in my State of the State address two weeks ago, if we want results, we cannot simply throw more money at the existing system, we must reform.

We have presented a plan to bring together, into one state agency, programs that serve young people from birth through their early 20s. This new comprehensive approach will provide the missing linkages for our young people, from their earliest years, through elementary and secondary education and on into college and career training.

- Our budget calls for \$10 million in new grants for communities who develop collaborative ways to help families help themselves.
- Our budget includes increases for childhood nutrition
- increases for Head Start
- increases for programs that serve homeless children

- increases for maternal and child health care
- increases for STRIDE and a program called the Minnesota Family Investment Plan which give families on public assistance new incentives to seek job training and work toward self-sufficiency.
- And increases in funding to put teeth into our child support laws. It's time all parents understand their obligations.

These new investments will strengthen families and help assure us that every Minnesota child will come to school prepared to learn.

And when they arrive at school, we want every one of them to have the opportunity to learn the skills they need to compete in a global economy. That means we will introduce a new seriousness about education and we will back up our commitment with a 20 percent increase for education services.

We will also invest more in our capacity to give young people additional career training options so that they can find high-skill, high wage jobs when they leave school.

- We will direct \$5 million in new funding to develop the youth apprenticeship program I outlined two weeks ago to give high school students the opportunity to pursue work-based training.
- We will expand a program that gives young people work experience in the area of natural resources.
- We will make \$25 million available for young people in low-income families to help finance their future job training or college education. This new program represents a break from tradition in that we are directing resources to students, not institutions. This approach will provide incentives for all programs to become more consumer-driven, and in the end, the consumer will win.

These are critical investments we must make if we want all our children to thrive in the new world economy.

But no amount of preparation and training will help our young people find good jobs in Minnesota if we have chased all our employers away with high taxes and a bitter jobs climate.

We must recognize that our social agenda and our fiscal agenda are intertwined. They are one agenda. We cannot pay for better education, more affordable health care and an expanded parks system unless we have a strong jobs climate to support them. Without private sector jobs, there cannot be and should not be any public sector jobs. And without jobs, our kids cannot stay in Minnesota.

That is why our budget is designed to grow jobs.

- Our first obligation to Minnesota employers and employees alike is to close the budget gap without new taxes. This will send a clear message that we are serious when we say we are pro-jobs.
- Second, we will uphold our commitment to further reduce commercial and industrial property taxes. When combined with the progress we made last year, the reductions we are proposing represent a dramatic reversal from where we were headed just a couple of years ago. Employers will take notice.
- And finally, as I outlined in December, our budget is designed to help the small business grow.

We have provided for **ADDITIONAL** property tax relief for small manufacturers; we have budgeted for a sales tax exemption on replacement capital equipment; and we have included \$6 million in seed capital for small and expanding businesses in Greater Minnesota.

I am especially committed to bringing jobs to Greater Minnesota, and I will continue to work toward a warmer business climate that will nurture the growth of high-wage jobs in our rural communities.

It is because of jobs - because of Minnesota's history of having strong, community-minded employers - that we enjoy a very special quality of life. In the past, our economy has enabled us to protect this unique quality of life through good government policy. We pledge to uphold that commitment.

- We know, for example, that our quality of life is directly related to the safety of our communities. That is why we have put \$63 million more dollars into those initiatives that bring us closer to a violence-free Minnesota.

We have increased funding for victims' services by 50 percent - for counseling, shelter and protection for victims of violence. We have allocated more resources to keep dangerous criminals off the streets. We have budgeted for a tracking system to make it easier for law enforcement officers to apprehend stalkers. And our budget accommodates the passage of anti-stalking legislation in 1993.

- And a great many Minnesotans have also told us that our quality of life is directly related to the quality of our natural environment. That is why we have increased funding for recycling, for habitat preservation and for parks and trails by more than \$115 million. We are committed to sustaining Minnesota's natural environment.

We want to make sure that our children enjoy an even better quality of life than we enjoy - from the safety of our streets to the purity of our natural resources.

This new focus on children, on job growth and on protecting our quality of life represent a thoughtful, long-term investment strategy. If we can open new doors of opportunity for our kids today, we will ultimately begin to reduce the number of Minnesotans living in poverty, we will reduce the number of parents working at minimum wage jobs, we will ease the despair and we will ultimately curb the soaring demand for government services. Minnesotans expect and deserve this kind of thoughtful approach to the way we spend their money.

In designing a solution to our \$769 million gap between spending and revenues, we propose to control spending growth in three areas:

- First, we have rebuilt our budgeting process in state government so that funding is tied to results. We did away with the traditional assumption that all past spending was good spending, and therefore only new spending needs to be considered at budget time.

Every program in every state department has had to build a case for funding from the ground up. Programs that were not producing positive results were scrapped. And thanks to the innovation and hard work of our agency commissioners - our administration has begun to reinvent state government and in the process reduced our overall overhead by five percent.

Members of my cabinet are with us tonight, and I want them to know that their courage to change and to lead represents the very best in public service.

- Our budget solution also involves simply spending smarter. Long-term, this new approach of INVESTING, not just spending is our only hope for setting Minnesota on a solid course for the future.
- And finally, we crafted our budget to protect services and protect people from layoffs and pay cuts.

We propose bringing costs under control by providing full funding for services and for the growing need for services throughout the state; but we if we are to live within our means, the state cannot afford to fund discretionary inflation. And discretionary inflation is what is used most often to provide salary increases to state and local public employees.

We are asking public employees to exercise restraint and forego a salary increase for one year. And we are asking local units of government to do that which we are asking of government - to press further to reform, collaborate and reinvent the way they provide services so that we can afford compensation increases in the future.

Minnesota is not unique in asking its public employees to participate in solving a budget gap. Eighteen other states report no pay raises for 1993. New York has eliminated 20,000 state jobs within the last two years and they anticipate another 4,000 people will be laid off this year. Ohio has already frozen pay raises for two years and Massachusetts has frozen increases for five years. This is not a time for business as usual at any level of government in any state of the union. And those in the business community are arriving similar cost control solutions.

If a particular unit of government believes it cannot function without a salary increase and cannot fund such an increase without raising local property taxes; we want those local officials to take their case to the voters and let them decide.

We are also expanding the Truth in Taxation law so that taxpayers can see exactly where their state and local taxes go. They have a right to know, and they have the right to understand where their taxes are going without having a Ph.D. in tax law.

Minnesota's public employees are known for their productivity, their honesty and their commitment to service. If the March revenue forecast brings us good news, we will direct more resources to restore salary growth for public employees. We are committed to doing whatever we can to help local units of government reorganize so that employees can achieve to their highest potential in their public service careers.

My administration recognizes that our government's financial problems stem from a structural imbalance - an imbalance that will only compound if we view our job narrowly as just balancing the budget.

We need more than a short-term solution. We need a strategic plan to redesign Minnesota government from the local level on up, to meet the needs of the 90s -- a new way of thinking about government and how it is financed. My budget proposal gives us a one-year reprieve -- so that we can get that process underway.

We have already begun at the state level. In the last two years, with your support, my administration has taken a number of critical steps toward long term reform that will help us to live within our means and realize steady growth.

- With the help of thousands of citizens from across the state we have set priorities and measurable goals we call Milestones for the next 10, 20 and 30 years. We know that Minnesotans want their children to be healthy, to come to school ready to learn, and to have the advanced education and skills to compete in a global economy. They want towns, cities and rural areas throughout the state to be economically viable places for people to live and work. And they want government to be cost-efficient, with services designed to meet the needs of people who want to use them.
- Using these goals, we established a new performance-based budgeting process that rewards effectiveness and results.
- We have proposed restructuring our service delivery system for children and youth to provide comprehensive help and linkages to jobs.

- We have produced recommendations for higher education to make those systems more effective and consumer-driven and we look forward to the work of the new Higher Education Board.
- We have provided local governments with resources to reinvent their operations with the assistance of \$1 million allocated to the Met Council and \$1 million for the Advisory Commission on Intergovernmental Relations.
- And the Commission On Reform and Efficiency will release its recommendations for government reform in the coming weeks.

Tonight I am urging government at every level to begin the same kind of re-examination and redesigning that we have begun at the state level. We should not be afraid to ask some hard questions. Minnesotans deserve to know, for example:

- Is the Minnesota Miracle still serving us well? I say no.
- Are we spending too much on administrative services and too little on teaching in our schools? I believe we are.
- Can local systems do more to gain efficiency through shared technology? You bet they can.
- Is there instructional duplication among our higher education systems and is there too much remedial education being taught in in our colleges? And can we find ways to collaborate? Absolutely.
- Can we continue to afford our current system of government, in which we have 87 counties, nearly 400 school districts, 855 cities, 1801 townships, 41 watershed districts and so on -- or could we better serve our taxpayers with a more streamlined approach. Of course we could.

Our mandate for change is clear.

Tonight I am announcing the creation of the Council on Government Innovation. Its charge will be to look at a host of issues in cooperation with local units of government and identify and remove barriers that prevent government services from being efficient and consumer driven. The council will bring together representatives from higher education, from local governments, from schools, from the legislature and from state agencies. It will pull together the existing studies and reports and begin to implement models for redesigning government. We want to provide cities, counties, school districts and higher education systems with the tools they need to cope with the changing realities of the 90s.

We can look to the Minnesota Health Care Commission as a model. Here we invited every sector of the health care system to come to the table, and we asked them to agree on how to control health care costs in Minnesota. Yesterday, just six months after they started, they presented a very solid plan which will be largely acceptable to all of us. We can and we must take the same approach to the fiscal restructuring of our state.

Ramsey County Commissioner, Ruby Hunt will chair the council and Valerie Pace of IBM Rochester will serve as vice-chair. Both of them are with us this evening and I want to thank them personally for accepting the challenge to steer us on this exciting journey.

Some innovative efforts are already underway, and I would like to recognize them:

- In Lac qui Parle County, cities and schools are coming together with the county government to talk about how they might share services such as accounting, payroll and purchasing. Like many other local units of government, they already are sharing equipment, police and fire services.
- In Blue Earth, county and school services are being co-located.
- The University of Minnesota and the State University System are both refining their missions and focusing on serving their customers.

- Cities and counties across the state are just beginning to share police and fire services.

Ultimately this budget and the Council for Government Innovation will lead us to a more permanent solution to the tug-of-war between unrestrained spending and the frustrated angry taxpayer. We in government must be the leaders on this path to sensible spending and we must choose the path the taxpayer wants to follow.

Last week I attended the inauguration of the new president. When he met with the governors, Clinton declared that he needed bipartisan help in order to go through the process of what he referred to as "reinventing national government". He understood that the decisions would be difficult and he also understood that the public will no longer accept paralysis and gridlock.

I must ask the same help of you tonight. We have shown that, in spite of the fact that we have a divided government from the perspective of partisan politics, we have a united government when we focus on the real needs of our people. This is an exciting journey that we are on.

To all of you here tonight, I need your help. I need your support. And I look forward to discussing this plan with you and hearing YOUR ideas.

And to all the people of Minnesota, and particularly the taxpayers, I urge you to speak up because this is your money and this budget is a reflection of our future. Don't sit back. Talk to your friends, your neighbors, your newspapers, your local officials and your legislators.

We can all take this opportunity in 1993 to shape our future. And we can all share in this vision of a better and stronger Minnesota.

Thank you very much.