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STATE OF THE STATE ADDRESS

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Governor Arne H. Carlson

My fellow Minnesotans.

Much has been made about the selection of this location and this audience for the state of the state address. Some have questioned the decision to move the speech outside of the traditional Capitol chambers. Some have questioned the decision to speak to an unconventional audience, full of entrepreneurs and job creators from across Minnesota.

Well, I must admit: the critics are on to something. We picked this place and this audience precisely because our times demand that we break old conventions, alter old habits, and revise old ways of doing business.

We want change, reform, and growth for Minnesota, and I salute you for helping to lead the way. More broadly, it is Minnesotans themselves -- both in and out of this room -- who are demanding change, reform, and growth. It is now the task of those of us in government to respond and to deliver.

Join me, and together, we will.

We are trying something else new tonight. We are using technology -- video, computer graphics, photos, and other visual images -- to highlight this address. We do this not only to benefit the audience, but to illustrate our commitment to change, to emphasize the need to embrace the future, to think and act anew.

With that said, I suggest there is no better way to begin than to listen to what our fellow Minnesotans think of the state of the state, and to tell us, in their own words, how we can improve it.

(VIDEO SEGMENT)

As you can see, Minnesotans welcome change. In fact, they demand it. And they know what I know: that when Minnesotans unite, and work together towards a goal, there is little we cannot achieve.

I know this because five times I've come before the Legislature in a state of the state address and five times we have accomplished big things together. We have built a record of reform and results of which we can all be proud.

Take our biggest challenge, fiscal reform. When I first spoke to you as Governor, the state faced a \$1.8 billion budget deficit. Our state spending was growing 15 percent faster than inflation and outpacing personal income. The state's bond rating had slipped and our financial house was in complete disarray.

Five years later, look what we have accomplished. We now have a \$824 million surplus, not a deficit. We have stood firm against increases in taxes and have even cut some. Minnesota is now ranked among the top four states in financial management and we have reclaimed our AAA bond rating. Thanks to the Price of

Government Resolution passed last year, we are actually on course to reduce the state's claim on personal income from 18.4 to 17.7 percent over the next five years.

The big spenders said it would never be done, but we held firm, and we all won.

Take health care reform. Three years ago, 95,000 Minnesotans including 4,100 families could not afford private health insurance. Today, thanks to MinnesotaCare, we are helping these families get the quality care they need; care that keeps babies and pregnant mothers healthy; care that keeps children well, in school, and ready for success.

The critics said it could not be done, but we insisted it could, and we all won.

Take welfare reform. Just last spring, I signed a landmark bill that rewards work, helps families stay together, and eliminates welfare altogether for employable adults without children. Overnight, we have begun to transform the cycle of welfare dependency and despair into an action plan for work, opportunity, and hope. What is more, the twin reforms of health care and welfare are actually helping the state to save money: some \$200 million last year alone.

The status quo said it should not be done, but we demanded change, and we all won.

Take workers' compensation reform. The cost of Minnesota's workers' compensation system hit \$1.2 billion in 1993, an all-time high. Prior to the reforms passed last year, Minnesota's rates averaged 25 percent more than neighboring states, driving businesses out of the state, despite a better safety record. Thanks to our joint efforts, the bill I signed cuts premiums up to 25 percent. It rewards employers for safe workplaces, reduces lawsuits, and helps those most in need.

The nay-sayers said it must not be done, but we did it, and we all won.

In the end, however, our success is not measured by the volume of our legislative work or by the number of decisions made at the state Capitol. What matters is that Minnesotans are enjoying wider economic and social success.

Personal income is up. From 1990 to 1994, income per person in Minnesota grew 18.5 percent, outpacing the national average. Our ranking among the states in personal income moved up from 19th to 16th.

Job creation is up. Minnesota grew 240,000 new non-agricultural jobs between 1991-95, a pace nearly twice the national average. Unemployment is down. Minnesota's jobless rate in November was just 2.8 percent, less than half the national average.

Our economy is the strongest in the Midwest. In a state-by-state comparison, the Corporation for Enterprise Development ranked Minnesota as having the nation's fifth best job market and the region's best overall economic performance. They also ranked us as enjoying the highest quality of life. Minnesotans worked hard to build this record of success and we are not going to let the spenders, the nay-sayers, or the critics take it away.

These are not just statistics, positive as they are. The real story is that broad economic success allows Minnesotans to pursue their dreams, from owning a home to buying a business. It allows them to provide for their families, to save for their children's education, to plan for their retirement. It means more than money, more than material. It means lives less burdened by worry, lives more full, lives more free.

Despite these successes, problems remain: problems that are testing our faith in the American dream, in our hopes for a better community, state, and nation. Left ignored, they threaten to undue all we have accomplished together.

First, too many of our schools --- especially in Minneapolis and St. Paul --- are failing, and large numbers of our children are failing, too. Over six years, we have increased spending on education 57 percent --- almost ten percent per year --- and yet scores for most students in our core cities are declining.

Consider Minneapolis. According to tests reported by the Minneapolis school district, the percentage of fifth graders who passed basic math dropped 14 points in just five years. The percentage dropped 11 points on the basic writing test and 10 points for reading. These are the results despite the fact that per pupil funding in Minneapolis has risen to \$9,200, almost 50 percent more than the average school district.

Consider St. Paul. The four year drop out rate for grades 9-12 is more than 50 percent, according to St. Paul's own statistics. For native American children, the rate climbs to 78 percent, for African Americans it hits 67 percent, for Hispanics, 65 percent. My friends, this is nothing short of wholesale crisis.

Minnesota simply cannot compete and win in the global economy if we accept such widespread failure as "good enough." Nor can Minnesota afford the social costs of more street crime, massive expansions in our welfare rolls, and more stress on our already over-burdened justice system.

We cannot afford dawdling and delay, we must move to reform education now. Join me, and together, we will.

Second, despite tougher sentences, crime is up, and people feel less safe. Last year, we saw an unprecedented explosion of violence in Minneapolis. A city once known nationally for its exceptional quality of life and as a vibrant business and cultural center now generates stories about its soaring murder rate --- 97 last year.

Violence has also become more random. Innocents and bystanders are being killed, creating tragedy for their families and raising fears for all.

The costs of responding to this social breakdown are also spiraling out of control. Violent crime among juveniles has climbed 260 percent, thereby driving up incarceration rates. If we continue at this pace, Minnesota will be forced to build a prison every two years, at a cost of \$100 million each.

We must change this course. Join me, and together, we will.

Third, Minnesotans feel anxious about job security, and sense that their quality of life is threatened. Major corporations are downsizing, laying off hundreds, sometimes thousands of employees. High-pay, high-benefit middle management jobs are being slated for extinction, as companies rush to stay competitive in the global marketplace.

Many middle class families are finding it difficult to get ahead, with the big bite of taxes and the press of monthly bills. Even many double-income households are one paycheck away from debt, one downturn away from the unemployment line.

These are the realities and complexities of life in the middle 1990s. Times have changed, and we must change with them. Join, me, and together we will.

The old ways will not work. We cannot tax are way out of these problems; more taxes will only reduce, not increase, our social

and economic well-being. We cannot spend our way out of these problems; the state and local governments already face future budget shortfalls of \$8 billion by 2001. We cannot look to Washington, D.C., for salvation; thanks to reformers there, the federal government is finally attempting to live within its means. But that means less for Minnesota.

One thing is clear: past approaches are outdated, ineffective, or unaffordable. We need bold approaches, fresh thinking, and new ways of doing business.

The comprehensive report, prepared at my request by former Congressman Vin Weber and former state Senator John Brandl recommending ways to solve our upcoming budget gaps, highlights this fresh thinking. I urge the state Legislature and all Minnesotans to give their proposals serious consideration, because this Administration certainly will.

But I also want to offer my strategy for managing the new realities, my plan for meeting Minnesota's challenges.

Three years remain in my term and what I outline now is my three year plan. Before I get to other specifics, however, I suggest we focus first on rebuilding our confidence in lawmakers and democratic institutions. That confidence has been shaken lately by Phoneygate, by criminal probes of legislators, by headline stories of unethical conduct.

Let us face it: public officials have a credibility gap. To be credible reformers, we must first fix our own system. For too long, it has been too open to abuse of power, too prone to excessive influence by special interests, too removed from the will and aspirations of the people.

I propose comprehensive legislative reform. I do not refer to tweaking around the edges. I mean full scale change that lets the public know we mean business.

This session, I will offer a package that will restrict per diem only to days the Legislature is actually in session. Taxpayers should not be asked to pick up the tab unless the people's business is being done.

We must end certain conflicts of interest, like requiring a member to excuse himself or herself from voting on matters relating directly to their occupation. We must require the state auditor to audit the Legislature. In the past, the Legislature has tried to audit itself, an arrangement that lacked proper distance and oversight.

We must apply all laws to the Legislature itself. Inexcusably, the Legislature has excused itself from affirmative action and pay-equity laws, strict civil service code and collective bargaining agreements, and a variety of other special arrangements.

The Legislature should live by a simple rule: if a law is good enough for the people of Minnesota, it is good enough for legislators.

We must create a unicameral Legislature. Minnesota has the fifth largest Legislature in the nation and the cost of maintaining it is enormous. In 1972, it cost \$8.5 million. In 1992, it cost \$77 million. Let us pass a constitutional amendment for a one-house legislature.

We must provide for initiative and referendum. The state Capitol is not the repository for all wisdom. Let us give the people the chance to express their will on the ballot.

And I want term limits. Term limits will inject new blood, new vitality into a system too often controlled by the vested, and

the entrenched. No politician is so valuable he can't be furloughed.

These reforms will restore trust and confidence in our system. Before I leave office, I will insist that comprehensive legislative reform becomes law.

One area where we have already built public trust is in fiscal management. We have done so because we held firm to our conviction that good financial planning -- living within our means -- is a necessary first step to good government. Our efforts have paid off with a \$824 million surplus.

I know there will be a rush to spend this money a hundred different ways. Some legislators remind me of a teenager with a new credit card: they never met a spending limit they could not exceed.

But I tell you: this is not the politician's money, it is the taxpayer's money. Minnesotans worked hard to provide it. And as long as I am Governor, we will respect their labors and we will not squander their hard-won surplus.

We will not propose dramatic new spending, but we will request targeted investments, targeted tax relief, and wise planning for the future.

Out of the \$824 million, some \$200 million comes about due to savings as a result of health and welfare reform, we will spend just \$160 million on our top priorities. Those priorities include crime enforcement and prevention, youth jobs and intervention, and education technology and reform.

We will target \$24 million to tax relief, \$100 million over four years. These tax cuts will help retain and create jobs in Minnesota and will help parents provide advanced education for their children.

All the rest --- nearly two-thirds of a billion dollars --- we will save.

The first \$140 million will go to the budget reserve we created last year to help us prepare for federal cutbacks, an economic downturn, and future shortfalls. The balance --- some \$500 million --- will be saved.

But make no mistake: we will not surrender it up to the spenders. During my time in office, I have built something of a reputation for using the veto pen. If the spenders in the Legislature attempt to fritter away this surplus, I am going to relish the chance of adding to that reputation.

Within this framework, then, we will make targeted investments. The first must be to protect public safety because that is the first role of government. Nothing else can succeed --- not job growth, not social bonds --- unless we first are physically secure.

By public safety I do not mean safe only in certain areas, only at certain times, only if you are a certain sex, and only if you are a certain color.

I mean safe anytime, anywhere, no matter who you are, all over Minnesota.

We offer a two-track approach. The first is improved enforcement. Minnesota already has enough laws, tough sentences, and strong penalties in place. Our task now is to confront the gangs, the thugs, and the criminals directly on the streets.

Police Chief Wade Setter in Brooklyn Park provides a model for what works. This 17-year veteran supervises a force of 68

officers who patrol the streets and neighborhoods of that city. In the past five years, homicide, assault, burglary, larceny, and auto theft have all declined, thanks to neighborhood watch groups, citizen involvement, and community policing they helped organize.

I propose the "Safe Streets Initiative" to build on this success. Through this program, we will hire police on overtime to conduct neighborhood sweeps. During these sweeps, officers will strictly enforce all laws, including curfew, truancy, and traffic laws. Police will develop street contacts, check for outstanding warrants, and generate intelligence on suspected criminals. The objective is simple: arrest all violators.

The sweeps will also be conducted across jurisdictions, using many law enforcement agencies. For example, the Hennepin and Ramsey County Sheriff's Departments will work with Minneapolis and St. Paul. Bloomington will work with Brooklyn Park, and Burnsville will work with Maplewood.

To the thugs who would prey on our citizens we say this: get out of Minnesota now, or you will pay the price. Stay, and you will do time.

We will build the effectiveness of law enforcement agencies by upgrading their communications systems. We will also insist on building up a full staff complement for the State Patrol. I will ask for 46 additional troopers to keep our motorists safe.

We will do more to strengthen community policing, to help citizens form block clubs and crime watch groups, and to build closer ties between law enforcement and the people they protect.

Through partnerships and teamwork, we can and we will take back our streets, our schools, our homes, and our neighborhoods.

Crime control also requires prevention. We must do more to give our youth positive alternatives to life on the streets. We can start by investing directly in community programs that work, rather than in more government bureaucracies that don't. We want to empower existing community organizations like YMCA's, neighborhood recreation centers, and church groups that reach out to at-risk juveniles.

A good example is the St. Paul Children's Youth Initiative, supervised by Kathleen Vellenga. They run a program called the Dad's Group, which helps men become more effective, more responsive fathers. Given the high rates of teenage pregnancy and single-parent families in the inner city, nothing could be more important than strengthening fatherhood.

I also believe that the best anti-crime remedy ever invented is something called a job. Work not only pays the bills. It builds self-respect. It fosters personal responsibility. It strengthens community.

That is why I propose to provide \$6 million for summer jobs that will reach 5,000 at-risk youth. The need for this program is especially acute now, given federal cutbacks in this area. Let us agree to give these children a shot at success by giving them a shot at a job.

I also want schools to become full partners in crime prevention. That is why I will call for \$20 million to finance new construction or remodeling of schools and community centers that offer after-school enrichment programs. I will also propose \$5 million in grants to three neighborhoods in St. Paul, and three in Minneapolis, that establish after-school enrichment programs. We will target those areas with especially high rates of poverty, teen pregnancy, and juvenile crime.

Some may not like these investments. But consider the

alternative. In addition to social costs, criminal justice is the fastest growing part of the budget, up 25 percent in just two years. Left unchecked, these trends will soon crowd out spending in areas like education and health care. We must move now to change our course.

From the beginning, we have been committed to strengthening the twin pillars of job growth and quality of life because they define who we are as people, and as a state. In a competitive global economy, we dare not take them for granted. We must pursue an aggressive strategy that improves both.

I offer two examples from our bonding bill which illustrate what I mean by a commitment to quality of life. The first is our request to fund a new \$34 million Science Museum of Minnesota on the riverfront in St. Paul.

The Science Museum is nothing short of a state-wide treasure. Its exhibits, displays, and films help minds, young and old, to understand and appreciate their world. And as a hub for St. Paul's riverfront redevelopment project, a new science museum will do more than inform and enrich. It will serve as a draw for the entire area, bringing world-wide tourists and economic vitality with it. The Science Museum models how interdependent quality of life and economic success are.

We will also invest in Minnesota's natural resources and our citizen's love of the outdoors. Our entire environmental package will top \$65 million next year, \$174 million over six years. But one program exemplifies our commitment.

The Reinvest in Minnesota program --- RIM --- is now ten years old and yet has never been fully funded. RIM helps retire marginal land for the benefit of water, soil, fish, and wildlife. Fully 1.4 million Minnesotans bought hunting or fishing licenses last year, pouring \$1.5 billion into our economy to pursue their pastimes. They, and we, want to conserve our natural resources for our children and grandchildren. That is why I am proud to fund RIM at \$12 million on its 10th Anniversary and I ask the Legislature to approve it.

We also must have a strategic approach to job creation. We propose to advance the sales tax exemption on capital equipment, bringing the rate down to zero by January, 1998. We do this because equipment-intensive sectors, including forest products, printing, and value-added agriculture are among the biggest, and most productive, in Minnesota. Cutting this tax means jobs, pure and simple.

We also propose targeted tax relief to entrepreneurs who invest in our core cities, bringing employment and opportunity with them. We want areas that had been red lined by businesses to become red hot with the energy and vitality of new jobs.

We will push for development of new products in agriculture and related industries, which provide one in nearly four jobs in Minnesota. We are especially excited by the possibilities of value-added products, which are turning soybeans into building materials; corn into fuel; and in the future, alfalfa into electricity.

But perhaps our most exciting proposal is in the field of medical technology, a \$2 billion industry in this state. Minnesota is home to 500 medical product companies employing 16,000 people, ranking us second in the nation. Our medical expertise at the University of Minnesota and the Mayo clinic has built a national and international reputation.

The best is exemplified by Dr. Frank Cerra, Dean of the Medical School, and Dr. Wei-Shou, inventors of an artificial liver. The product they developed is called the Regenerex machine, which will help support the livers of patients until they can receive a

liver transplant. They now need funding in order to seek FDA approval.

There are other obstacles. For example, researchers at the University are working on 21st century problems in labs developed 50 years ago, using equipment that in some cases dates back 20 years. Unless we act now, Minnesota could lose hundreds, even thousands of jobs to high-tech states like California.

Our plan is to make the University of Minnesota a medical technology resource center second to none and to create a seamless "medical alley" to Rochester Mayo. That is why I am asking for \$6.5 million to upgrade the university's medical research facilities. We have an urgent need for more lab space with the latest equipment.

We want to make sure that when bright ideas are developed, they get turned into marketable products. This is called "technology transfer," a service provided by a state funded organization known as Minnesota Technology. Minnesota Technology does a good job; we want them to do even better, which is why they are working closely with our Department of Trade and Economic Development to make sure that Minnesota's brightest minds get connected to Minnesota's best entrepreneurs.

That's how Minnesota gave birth to Medtronic, which now employs 5,000 in Minnesota and generates \$2 billion in business a year. Win Wallen, the company's Chairman of the Board, put it succinctly: "Without the University of Minnesota, Medtronic never would have located here." We want the Medtronics of the future to say the same thing: we will grow in Minnesota.

We cannot prevent or reduce crime, grow jobs, or create long-term economic and social opportunity unless we first reform our education system. To do that, we must be honest about its problems.

Before I address those, let me first say that I know many parents strongly support their public schools and are pleased with the quality of their children's education. They are right to be proud. Public schools in Edina, Fergus Falls, Willmar, Burnsville, Kenyon-Wanamingo and hundreds of other communities in Minnesota work and work well. I salute the parents, teachers, administrators and school boards in them all.

But those successes cannot blind us to our failures. While it is true our college bound students are doing pretty well, our non-college bound students are falling further behind. For example, just 10 of 53 elementary schools in Minneapolis scored at or above the national average on the California Achievement Test.

Employers are the first to pick up on this low achievement. A majority of employers in Minneapolis and St. Paul report that over half of today's job applicants lack basic skills in math, reading and writing.

Those who embrace the status quo are quick to quibble over statistics. But I ask you: how many ways must we count failure --- how many more children must we lose --- before we admit the problem and begin providing solutions?

I say this: the time for delay is over. The time for leadership is now and I intend to provide it.

We have a multi-front strategy aimed at freeing up teachers, schools, parents, and children and giving them the tools they need to succeed.

First, we want to give teachers more freedom: freedom to receive rewards for outstanding work in the classroom in the form of merit pay. Teaching is a noble profession. Few roles in society

are more important than that of educator and mentor. We entrust our very future to those who would excite and expand young minds.

Merit pay rewards excellence. Merit pay spurs performance. We want our good teachers to be well compensated and for school districts to have incentives to recruit and retain them. We will seek merit pay for teachers.

We want to loosen teacher tenure. Too often, tenure locks in mediocrity and locks out our finest young teachers. Is it not an injustice against children when three Teachers of the Year in the past 15 years are not rehired because of tenure? We must put a premium on excellence, not seniority. We will seek changes in tenure.

We also want binding arbitration. We support the right of teachers to bargain collectively. But when both sides negotiate in good faith, should we not resolve the dispute through an honest broker, a neutral third party? Must we hold six, seven, and eight year-old children hostage to a labor dispute? We will seek binding arbitration.

I spoke of freeing up teachers. We also must free up schools. We will say to schools: tell us the mandates that are blocking your path to excellence and we will remove them. We are not in the procedure business. We are not in the inputs business. We are in the results business. If a mandate is an obstacle to achievement, we will not balk. It will be waived.

We will also invest in technology. I propose \$22 million for hardware, software, and communications technology for Minnesota's public schools. Some of that money will expand fiber optic lines, some will purchase computers, some will buy programming. We want a student in Blackduck to learn French via the Internet while the student in Eagan writes a term paper using the Library of Congress. We want to equip our children with the computer literacy skills they will need to excel in the workplace of the future.

We will also get business involved. We will expand our program to refurbish computers donated by the private sector, a program which also builds partnerships and relationships schools need to succeed. Our goal is to put Minnesota schools in the top five in technology.

Most importantly, we must free up parents. The best school districts already are responsive to parents, already seek out and value their views. But we must do more to empower parents, to put them in charge of their children's educational destiny.

One way is to offer parents an education IRA, a program we call Edvest. We propose to allow parents to create a special tax free savings account for higher education and to exempt the first \$4000 they deposit into it each year. The private sector and non-profit organizations will also be encouraged to donate matching funds.

My friends, this is a tax cut for families working to educate their children and I say it's about time.

This program embodies our belief that, given the proper tools, parents will invest in their children's future. We trust parents more than institutions to make the best decisions on behalf of their children and to take responsibility for the results.

This is why we embrace parental choice. We want to give children from moderate and low-income families the same opportunities the affluent already enjoy. Our plan builds on open enrollment, which Minnesota passed in 1987 amid many of the same objections we are hearing now. We want to expand the range of choices to include private and parochial schools. Our choice pilot program includes Minneapolis, St. Paul, Brooklyn Center and one outstate

school district.

With choice, we not only get more freedom, we get more competition. And we want to promote competition between schools. The truth is that competition spurs excellence. Competition keeps the focus on outcomes. Just as Detroit auto companies were forced to innovate, change, and improve thanks to foreign competition in the 1970s and 1980s, schools will improve thanks to school choice.

Let us not allow a whole generation of Minnesota children to slip away. Let us not allow the forces of inertia and the status quo to keep us from doing what is right.

I pledge today: Minnesota parents will have school choice.

With the 1996 legislative session now underway, I hear many things. Some say we should do little this year and next. Maybe just fine tune the budget, embrace the status quo, coast, simply manage the ride. But that is not why we are here. And that defensive posture escalates the social price.

It means even lower public trust in democratic institutions. It means chronic budget cuts or chronic tax increases. It means accepting failure in many inner city public schools. It means escalating crime rates and violence. It means a new 600-bed prison every two years. It means losing ground to global competition, the steady erosion of high-paying jobs and Minnesota's quality of life.

My friends, it is irresistible: Change will overwhelm the status quo. The only question is whether we make change our enemy or our ally.

Simply put, we have an exciting journey ahead. It represents an opportunity for all of us to more closely define and protect the one ingredient that brings us all together and that is our love for the quality of life in Minnesota. The fact is, whether you live in Warroad or Caledonia or Worthington or Duluth, we like life in Minnesota. We expect government to prevent harm and to enhance success.

Tonight I outlined in the State of the State new job creation opportunities that will allow us to continue to out-pace national growth, new partnerships that link our great Universities with the Mayo Clinic and the private sector, unprecedented access to computers for all of our children, and a prevention program that is second to none. These are not concerns that are either Republican or Democrat and they cannot be defined or measured according to the normal political slide rule. The fact is, we recognize change and we want to harness that change for the betterment of all people.

I want all of us to cast aside that which divides and begin moving in the direction that defines a better Minnesota, a safer Minnesota, a more opportunistic Minnesota and a winning Minnesota.

The truth is my friends, this is a marvelous state and you and I are going to work together to make it even better. We want to make absolutely certain that we give to our children no less than what our parents gave to us. And we want their children to have the same shot at happiness and success.

We remain committed to that agenda, to that goal, to that dream.