

Speaker Fitzgerald, Speaker Pro Tem Kramer, President Ellis, Majority Leader Fitzgerald, Minority Leader Miller, Minority Leader Barca, Supreme Court Justices, Constitutional Officers, tribal leaders, members of the Cabinet, distinguished guests, members of the Legislature, and most importantly, fellow citizens of Wisconsin, it is an honor to be with you tonight to report on the state of our state.

Yesterday, Trooper Gary Markowski was struck by a vehicle in the line of duty and seriously injured. I spoke to his wife this afternoon, and am grateful to report that tonight he is resting in the hospital on his way to recovery. Let us pause for a moment to offer our thoughts and prayers to the Markowski family, and all those who serve to keep us safe...

In the gallery, we have the First Lady of the Great State of Wisconsin, my wife, Tonette Walker and our sons Matt and Alex, my parents Llew and Pat Walker and my brother and sister-in-law David and Maria Walker. Next to them is General Donald Dunbar and several members of the Wisconsin National Guard.

General Dunbar, we cannot thank you and the brave men and women from Wisconsin who wear our nation's uniform enough. Not only do you defend our nation abroad, but you work on the frontlines during our state's natural challenges, like tonight's storm. Even before I declared a state of emergency you were ready to assist Wisconsin citizens and now you are mobilized to help our state respond.

To you, your families and to all of our other veterans, we say a hearty thank you.

Every year the Governor of Wisconsin comes before this body to report on the state of the state. This year the state of the state is – well – pumped up about our Packers.

I've asked a representative of the Packers to be with us live from Arlington tonight, so that we can wish them well.

We're honored that Packers President Mark Murphy could be with us tonight from Texas

Mark, thank you for taking the time to join us, I know you're busy preparing for the big game against the Steelers, so we won't keep you long. Congratulations on making it to the Super Bowl, what a tremendous victory you had on the road two weeks ago.

Mark, on behalf of the state of Wisconsin, I want you to know that the entire state is rooting for you and we wish you the best of luck. Win or lose we're proud of you.

Here in Wisconsin, we don't need a seating chart to bring Republicans and Democrats together – all we need are the Green Bay Packers.

In fact, we are sitting under evidence of that right now. Thanks to the help of Senators Risser and Hansen, we worked together to illuminate the dome of this Capitol tonight with green and gold lights.

Over the course of this season, our pride for the Green Bay Packers has brought this state together. I believe we need that same unity to get Wisconsin working again.

Tonight, I will layout a clear picture of the state of our state. We will be realistic about the challenges we face while optimistic about our solutions.

First, let me be clear: we have an economic and fiscal crisis in this state that demands our immediate attention. The solutions we offer must be designed to address both job creation and our budget problems.

Wisconsin's once strong economy is in need of repair. Too many of our people are hurting and too many of our employers are struggling.

The unemployment rate in December dropped to 7.5% but that is still 3 points worse than it was just three years ago at this time. We must do better.

As I travel the state, I hear too many stories of families struggling to put food on the table; I see too many young people who can't find a job having to move in with their parents; and I learn of too many small businesses who are forced to layoff workers because of the economy.

Coach Vince Lombardi once said, "Success demands singleness of purpose." We are defining success for this administration by our ability to shape an environment where 250,000 jobs are created. Every action of our administration should be looked at through the lens of job creation.

That is why – moments after taking the oath of office as your Governor – I called a special session of the Legislature to focus on jobs. Already, we are sending a clear message that Wisconsin is open for business!

That singleness of purpose is why we hit the ground running on our very first day and why by our second day we had already introduced legislation to improve Wisconsin's economic environment.

All told, we introduced 8 pieces of legislation to instill in our state an environment that encourages job creation, and to send the message to employers that now is the time to start hiring.

We challenged the Legislature to move swiftly and decisively on our Jobs Plan. Speaker Fitzgerald, Senate Majority Leader Fitzgerald, Senator Darling, and Representative Vos, you and your fellow legislators, like Senator Cullen, accepted that challenge– in many cases with bi-partisan support. On behalf of the people of Wisconsin, I say thank you.

Creating jobs shouldn't be a partisan issue. These are not Republican or Democrat jobs, these are Wisconsin jobs.

In less than 30 days, I have already signed four pieces of legislation into law that will help the private sector create jobs.

And on my desk is another bill giving tax relief to small businesses that I intend to sign on Friday.

The first act I signed as governor eliminated the taxes on health savings accounts, making health care more affordable for small business owners, blue-collar workers and family farmers. I want to thank Representatives Kaufert, Ziegelbauer and Stone and Senators Darling, Olsen and Vukmir for their leadership on HSAs. This change was a long time coming for Wisconsin and brings us into line with the rest of the nation.

Our second act reduced frivolous lawsuits in Wisconsin. The litigation environment in a state is one of the key drivers for business and unfortunately we were once known as "Alabama North" because of our poor lawsuit climate.

Now, we've turned the page on lawsuit reform and offer one more sign that Wisconsin is open for business.

Thanks to Senator Zipperer and Representative Jim Ott for their leadership on this important issue.

Yesterday, I signed an expansion of our relocation and economic development tax credits. These measures will help our state attract and retain businesses and jobs.

More thanks to the Legislature for your swift action – and particular appreciation to Representatives Klenke, Williams, Knilans, and Al Ott and Senators Lazich, Moulton and Wanggaard for your leadership on these bi-partisan measures.

Although we have accomplished a lot in a short time, we should not celebrate too much the bills that have already passed. We are under no illusion that simply calling a Special Session and passing legislation means that all is better in Wisconsin. The fact that we needed to call a special session at all is a sobering reminder of all the work we have left to do.

We still must change the regulatory environment in Wisconsin. From talking with families and businesses across this great state, I sense a spirit that we can grow again when our people are freed from government mandates, rules, regulations and taxes; freed to create jobs, to grow their businesses, to live their lives.

That is why I introduced, and you are working on, regulatory reform legislation. The smallest change in a rule can have unintended consequences that drive up costs for businesses and stand in the way of job growth. Our regulatory reform bill will help get government's hands off our job creators and make it easier for employers to put people to work in Wisconsin.

Two weeks ago, the Assembly Speaker and Senate Majority Leader joined me in writing a column for the Chicago Tribune. We made the case that employers in Illinois should escape to Wisconsin, not only because of Illinois' massive tax hike, but because of the two opposite directions our states are heading.

You see, businesses make decisions based on trends. Before locating a facility or adding jobs somewhere, they look to see what the future there looks like.

That's why the budget and budget repair bills we will introduce in the coming weeks will be even more important than our Special Session legislation.

It is in those budgets where rhetoric meets reality, where we will show that we will make the tough decisions now to lay the foundation for future economic growth.

During the present downturn, Wisconsin 's proud tradition of responsible budgeting gave way to repeated raids on segregated funds, excessive borrowing for operations and an addiction to one-time federal dollars. These are no longer options, and their use has only delayed and worsened the difficult decisions we must now make.

These factors, along with the decline in the global economy that started several years ago, have combined to create a 3 billion dollar deficit for the state budget that starts on July 1. And they are contributing factors to why the state government faces more than a 200 million dollar shortfall for the rest of this fiscal year.

Like Wisconsin , states across the nation are facing major fiscal challenges. States face immediate budget shortfalls totaling 26 billion dollars this fiscal year, with an even larger shortfall over 120 billion looming next year.

Nationwide, states face an over trillion dollar funding shortfall in public-sector retirement benefits. 814 billion dollars of one-time federal stimulus funding is going away. States face a total mandated growth in Medicaid of 51 billion dollars. And state and local governments have a collective 2.4 trillion dollars in debts.

As the Governor of New York said, "there's no Democratic or Republican philosophical dispute here. The numbers have to balance, and the numbers now don't balance...it's painful but it is also undeniable." He is right.

Wisconsin is facing those same undeniable challenges that states across the nation are facing; both in this year's budget and in the next two-year budget.

Throughout Wisconsin 's history we have faced many great challenges. Each time it looked like we might falter and lose our way, we turned back to our Constitution's call for frugality and moderation and marched forward.

It is time to return to our founding principles yet again. We can no longer afford to turn a blind eye to the tough decisions ahead.

Without swift corrective action, entitlement programs and legacy costs will eat up more and more of the operating budget. Failure to act only makes the problems worse in the future.

Last week, our Secretary at the Department of Health Services, Dennis Smith, testified before Congress on some of the challenges we are facing in Medicaid. In that program alone, we face a more than 150 million dollar shortfall over the next 6 months and, over the next biennium, the shortfall exceeds 1.8 billion dollars. These are challenges that cannot be ignored.

In addition to the deficits facing these critically important areas of state government, bill collectors are waiting on the doorsteps of our capitol. Due to a past reliance on short term fixes, one-time money, delayed payments, and fund raids, we owe the State of Minnesota nearly 60 million dollars and we owe the Patient's Compensation fund for a past raid of \$200 million.

The decisions we face are not easy and the solutions we must approve will require true sacrifice. But, the benefit of finally making these tough decisions and being honest with the citizens of this state will help us to balance the budget in a way that creates a permanent, structurally sound state budget.

If we are going to move our state forward, we have to be honest and agree that we no longer can afford to rely on short-term fixes that only delay the pain, compound the problems, and lead to ongoing financial uncertainty.

States, like Wisconsin, are left with two choices: one is to raise taxes, continue to hinder our people with burdensome regulations, and kick the difficult choices down the road for our children and grandchildren; the other is to do the heavy lifting now and transform the way government works in Wisconsin.

Some states will choose the easy way out.

As I mentioned, our neighbors to the south chose to deal with their budget crisis with major income and business tax increases. At the same time, they pushed the most challenging decisions off for another day – and, probably, another tax increase.

We quickly saw the result of their actions. States, including our own, which are committed to holding the line on spending, began circling Illinois as soon as the tax increase passed.

Their lack of action will ultimately lead to fewer jobs and higher taxes.

But there is another way.

We can use our budget challenge as an opportunity; an opportunity to reduce government and to increase flexibility. To ensure that all sectors of our economy contribute equally, so that the entire state benefits. We are Wisconsin, we will lead the way.

In the coming weeks, I will introduce a budget repair bill focusing on the most immediate fiscal challenges our state must address to avoid massive layoffs or reductions in critical services. Our budget repair bill will lay the foundation for a structurally sound budget that doesn't rely on short-term fixes and other stop-gap measures that only delay the pain and create perilous uncertainty.

This is the right moment in time, our moment in time, to refocus government to better serve the taxpayers of this state. To do this, we must provide flexibility to our leaders at all levels.

One area we will have to look at is public employee benefits. Now let me be clear: we have good and decent people who work for government at the state and local level. As Coach Lombardi said, “the measure of who we are is what we do with what we have.” For years, our employees have been asked to do more with less.

However, the difficult reality is that healthcare costs and pension costs have risen dramatically and that has created a benefit system that is simply unsustainable. Government benefits have grown while so many others in the private sector have seen their benefits adjusted in order to protect jobs.

Currently, most state employees pay next to nothing from their salaries toward their pension, while the state’s taxpayers pay more than \$190 million each year on state employees’ behalf.

Similarly, most state workers only pay about 6% of their premium costs for their health care plan.

Asking public employees to make a pension payment of just over 5% (which is about the national average) and a premium payment of 12% (which is about half of the national average) would save the state more than \$30 million over three months. Most workers outside of government would love a deal like that – particularly if it means saving jobs.

Private sector workers have already responded to the tough economic times. When Mercury Marine was on the verge of moving nearly 2,000 jobs to Oklahoma, the company said that “comprehensive changes to wages, benefits and operational flexibility [were] necessary for Mercury to effectively compete in a smaller and fundamentally changed marketplace.”

After a difficult struggle, the workers agreed to major concessions.

It wasn’t easy for the workers, but the jobs stayed in Wisconsin. In fact the company said it would move some new jobs from Oklahoma to Wisconsin.

I took special note of the words of one of the workers who had lost his job during the economic downturn and who had the opportunity to gain it back. He said, "They have treated me and my family more than fairly over the years, and now they are in difficult times. I understand it's time to give back so that we can keep all of the jobs here in town."

That worker was one of 350 returning workers and new hires by Mercury over the last two years; a company which is now positioned to emerge from the downturn stronger and remains based here in Wisconsin .

While state government can't pick up and move, I hope that our state employees feel as if they've been treated fairly over the years, but - like all of us - they should recognize that we are in difficult economic and fiscal times.

Our upcoming budget is built on the premise that we must right size our government. That means reforming public employee benefits – as well as reforming entitlement programs and reforming the state's relationship with local governments.

Most importantly, our budget will focus on items that will help create an environment where the employers of this state can put 250,000 people to work.

The state's facing a fundamentally changed marketplace to which we have to respond. Like Wisconsin companies, our competition isn't just next door in Michigan , Illinois , or Minnesota but also across the world in China , Germany , and India . As a result, we must transform our government and business environment to compete globally.

With global competition also comes global opportunity. For instance, 96 percent of the world's population live, purchase and consume products outside of the United States . Wisconsin businesses who want to grow, expand and create new, good-paying jobs need to be able to get their products out to the world in a cost-effective manner.

That means a strong transportation network in Wisconsin ; re-prioritizing our transportation investments. I challenged the Wisconsin Department of Transportation to look at new ways to reconstruct our state's busiest interchange – the Zoo Interchange – which is used by 350,000 people a day.

Our transportation leaders met the challenge and developed a plan that will start the project ahead of schedule and save the taxpayer's 600 million dollars.

And while we've done big things and we'll continue to do big things to help business grow jobs in Wisconsin , the quiet things matter too. In today's global economy small changes, even on the margins, matter. We'll continue to pursue the big and small changes necessary to get Wisconsin working again.

In my inaugural address, I quoted Article I, Section 22 of the state constitution which reads, "The blessings of a free government can only be maintained by a firm adherence to justice, moderation, temperance, frugality and virtue, and by frequent recurrence to fundamental principles."

Our new budget and government will affirm these values and fundamental principles. As I said when I was sworn in, "it is through frugality and moderation in government that we will see freedom and prosperity for our people."

That's really what this administration is all about: frugality and jobs. It is only through a more frugal government, that our economy can grow faster than others across the nation and around the globe. I want Wisconsin to lead the economic recovery.

That's why our special session Jobs Plan is important. We want to lower the cost of doing business in this state – through lower taxation, regulation and litigation costs and more relief from health care costs - so that more employers are able to create jobs for our people.

And it's why our budget repair bill, and then our budget are even more important. Each will demonstrate to the nation that Wisconsin is ready to meet the challenges of today and capitalize on the opportunities of tomorrow.

By making the tough choices we will send a message loud and clear throughout our state, in Illinois, across the rest of the nation and around the world: Wisconsin is open for business. We are ready to grow. We will tackle the big issues. We will lead the way.

Recently, a national news organization did a story about how fast we are getting to work in Wisconsin. They asked why.

The reason is simple: I spent the past two years in a job interview with the people of Wisconsin telling you what I would do as your next CEO to get this state working again.

As you all know, I was pretty specific on our plans and even on the day I'd start implementing those plans, so I saw no reason to wait a year, or six months or even a month to get to work. Now is the time to take action.

You hired me to put Wisconsin back to work. I love this state and I know that you do too. I know that we can transform our state and – in turn – become a national leader in fiscal and economic reform.

It won't be easy, but the past 30 days have shown that we are ready to turn this state around.

Throughout the football season, the Packers were able to unite the people of our great state. Now, we need to use that same unity to show that we are ready to get Wisconsin working again. Acting together, I know we can...because I believe in Wisconsin.

Thank you. God bless you, God bless our Armed Forces and may God bless Wisconsin.