

Thank you for giving me the opportunity to speak with you about my budget. Last week I delivered my budget address to the Legislature and the media in St. Paul.

I had to deliver the speech in terms they could understand so I tried to use some basic principles of physics.

However, in front of this group finance officers, lawyers and city officials this should be pretty easy for you to understand.

Remember this one?

For every action, there is an equal and opposite reaction.

When you spend one more dollar, you have to create one more dollar. And of course, if you know something about biology you know that "one more dollar" does not grow on a tree.

In two years I have learned a lot about physics and how it applies to the science of putting together a budget. I am satisfied that we applied good science to the 2002-2003 budget. It is built upon a solid foundation of:

- Tax reform and relief,
- Carefully targeted spending, and
- Initiatives designed to better address the demands of a changing economy.

It starts with following through on our commitment to the taxpayers. That means keeping our word about returning the surplus to taxpayers once we've "settled up" and closed the books for the current budget period.

We should stick to our agreement with the taxpayers and give back whatever isn't needed to fund the commitments that were made in our original budget.

That's a good start, but it's not enough.

My tax reform and relief recommendations begin with continuing the reduction of motor vehicle tabs to \$75 by 2004, a reduction in income tax rates by 0.5% in each of our brackets, and finally a recognition that we must take additional steps to prepare our state for the next century.

We have the chance to recognize important shifts in the way our economy works, and we should not squander the opportunity to adjust the tax code to improve our competitive position in this global economy.

What specifically does that mean?

It means we now have the chance, and the *leadership* from my office, to reduce our reliance on property taxes for state and local spending, and make our income taxes more competitive as we compete for a shrinking workforce.

How we do that is simple, but not without controversy.

We must accept that consumer spending in our economy has shifted from 60% goods and only 40% services to just the opposite, 40% goods and 60% services.

That shrinking base, and the loss of tax revenues through Internet sales, weakens the tax base and will ultimately force us to depend more on the very taxes that seem least fair, property and income, in order to balance our state and local budgets.

It's in our best long-term interests to expand the sales tax to those services. We should reduce this impact by lowering the tax rate from 6.5% to 6.0% and continue to exempt the necessities of life such as food, clothing and heating oil.

It's interesting that the Department of Revenue got a call from a taxpayer that took her dog to get groomed on her way to the hair salon.

The dog's haircut was taxed, but hers wasn't.

When you buy a suit, if it needs altering at the time you buy it, those alterations aren't taxed.

However, if you gain a few pounds and six months later you need to let the waist out, you will then pay a sales tax.

Think about it.

Dry cleaning is taxable, but Laundromats are exempt

Tree removal is taxable, but tree planting is not.

Telephone services like call forwarding and answering services are taxable when provided by your telephone company, but not when supplied by a different company.

Let's do this one more time:

- Haircuts for people are exempt from sales tax, but haircuts for dogs are not.
- Care and lodging for horses is exempt from sales tax, but care and lodging of dogs is not.

Apparently the dogs don't have a very good lobbyist at the capitol.

This is not only crazy tax policy, it is unfair tax policy and we need to change it.



This budget is fair to all regions of the state of Minnesota, a principle that is very important to me in light of the situation today in several communities around Minnesota.

The overall Minnesota economy has seen record highs in the last few years, but

Minnesota's non-metro economy hasn't seen the same highs.

My proposal helps make rural Minnesota more competitive by strengthening the workforce, lowering rural Minnesota's tax burden, and overhauling telecommunications laws to bring competition to rural communities.

Rest assured, rural Minnesota WINS with my tax reform proposal.

I can't do anything about the price of corn or milk or soybeans. But I can lower a farmer's cost of business.

My tax reform proposal reduces average property tax, statewide, for all properties, including a reduction of 23 percent for farm homesteads and 18 percent for non-homestead farms.

It reduces commercial/industrial property taxes by 15%, encourages investment in rental housing by reducing property taxes on market rate apartments by 28%, and lowers classification rates on single-family properties.

But most significantly it ends the "shell game" and takes the state mandated basic cost of K-12 education off the local property tax and makes the state responsible for it.

And above all that, my budget gives all workers a pay raise by significantly reducing the amount of income tax they'll pay.

Finally, in order to accomplish this tax reform and to limit an expanding cost of government I am asking that we be very careful and target our spending to programs with the greatest need.

This limited but careful spending plan has been the topic of much discussion this past week.

A roar of protest came from the University of Minnesota, the Minnesota State College and University system and from K-12 education that my budget increases would cripple their systems.

Well I don't buy it. This budget demands accountability.

Last biennium K-12 education received an increase of over \$1.3 billion dollars. That increase does not go away. They will get that again, in addition to the \$123 million in new initiatives I am recommending in this budget.

You know it's funny, but two years ago in my first budget I recommended that K-12 get an increase of over \$800 million dollars, the highest increase in a decade. But all the special interest groups still had press conferences and said it wasn't enough.

Can we ever provide enough?

That is a lot of money and before I am willing to go any further I want to know a lot more about what they are doing with the money they already have.

As for higher education President Yudof and Chancellor Anderson are complaining that they too didn't get enough money.

They say that they need more money to raise salaries of professors.

What I want to know is how can the University of Wisconsin be ranked higher among research universities while paying their professors almost ten- percent less than Minnesota pays theirs?

And more importantly, we have to understand that this whole process is about choices. If we give the University and MnSCU what they want, and if K-12 gets what they want, we are talking about a billion dollars.

In fact, it's interesting to note that if you add up all the requests that come in for this budget it comes to \$8 billion dollars!

So what should we not do? Should we cut out property tax relief to farmers?

How about property tax relief for senior citizens?

As I said in the beginning of my speech, dollars do not grow on trees, they come from the fruit of someone's labor.

So we will have to make some very tough decisions.

I believe that my budget is not only responsible, but also necessary to position our state as a good place to live and do business in the future.

I assure you that I will work as hard as I can to pass this budget. I hope you, as citizens, will get involved and work just as hard.

The debate is just beginning and it should get very interesting.

Thank you.