

Good morning.

It's good to be with a group of tax administrators this morning.

That may sound strange, but in fact it was tax issues (and the spending it pays for) that first got me involved in politics, beginning at the local level where I served as a mayor. So, in a sense, I guess I owe my political career to people like you.

I got involved in politics because I believe people need to get more involved in government and make sure it serves them, rather than the other way around.

And the best way I know to let the people take back control over the decisions that affect them is to make things clear and simple and understandable.

And what government decisions affect more people, more directly, than spending and taxes? And what is more complicated and difficult to understand, even for a roomfull of experts like you, than our tax system?

Here in Minnesota, we've pursued tax reforms to make our state and local taxes simpler and more understandable, and to give the average taxpayer a fighting chance to control spending and the taxes that feed it.

In our state, like all of yours I'm sure, we have tax laws that simply defy logic. Here are a couple of examples we've faced here in Minnesota:

Our property tax has been one of the most complicated anywhere. While we said it was a "local tax," we were raising \$900 million dollars every year through an off-budget, state-mandated property tax levy to help fund the state's basic per-pupil education funding formula. No local taxpayer had any say or control over that tax.

Add to that complicated systems of property classification and local government aids, and the taxpayer's simple question, "Why did my taxes go up?" would be answered only with finger pointing all around.

Another prime example of tax laws that defy common sense is our sales tax. Here in Minnesota, we tax tree removal, but not tree planting. We tax haircuts for dogs, but not haircuts for people (unless you're like me and buy a Norelco to do your hair). We tax the boarding of a dog, but not the boarding of a horse. Obviously, dogs need better lobbyists at the capital.

Our sales tax has also failed to keep up with changes in the economy. Services have grown to make up 60 percent of total consumption. At the same time, catalog and internet sales by out-of-state businesses are increasing.

Despite all this, the sales tax has barely changed at all. It's become badly out of step with the modern economy. As a result, it is becoming increasingly uneven and unfair. Why do some consumption choices get taxed, and others not?

To me, all of this showed the need for an overhaul of the tax system here in Minnesota, and so in the 2001 legislative session I proposed comprehensive tax reform. It included:

--property tax reform and relief through full state funding of the state K12 education formula without requiring a local property tax ;

--income tax cuts;

--and expansion of the sales tax to include most services, along with a half-cent reduction in the rate;

My budget this year combined tax reform with overall tax relief.

We were able to give tax relief by holding the growth in overall state spending to the lowest level in several years.

After all, there's only two things any government can do with a dollar: take it from a taxpayer and spend it, or don't spend it and leave it in the taxpayer's pocket. I always prefer that second choice.

This year we enacted the most comprehensive tax reform in thirty years, including full state funding of basic education costs that promises over \$900 million dollars a year in property tax relief, beginning next year.

And while the Legislature in the end did not adopt my recommendations to reform the sales tax and cut the income tax, we did join with many other states to enact the Streamlined Sales Tax legislation. It's important that states work together, and Congress lets us, to begin to solve the internet sales problem.

But the tax reforms we enacted in 2001 are now history. What's happening today here in Minnesota?

I'm going to start by revealing some new information. Officially it's new, but it's certainly not a surprise to those of us who have worked for tax reform.

This past spring, the Department of Revenue commissioned a statewide survey to get an idea of Minnesotans' perceptions of their tax system.

Guess which tax they consider the fairest, the most understandable and the most predictable?

The sales tax.

I've been saying that all along: the sales tax is the fairest tax. It looks like a lot of Minnesotans agree.

Now. Guess which tax they think is unfair, arbitrary and not based on ability to pay?

That's right, the property tax.

The survey asked them what tax they would reduce if they could choose one. Property tax was far and away the popular choice.

The Revenue Department will release all the survey results in a couple of days, but you get the idea: Minnesotans have been looking for just the type of reform we now have.

I have always maintained that the property tax is unfair, and the sales tax is fair; this year's reform plan was consistent with that philosophy.

My administration, with help from the Legislature, I have to give them credit, accomplished what many administrations before have failed to do: We have significantly reformed the state and local finance system and offered a chance for permanent double-digit property tax relief.

Now, we must make sure all our hard work for the people of Minnesota is not un-done.

How could it be undone? Through the millions of dollars of new spending and property tax levy increases now being pitched by cities, counties, and school districts across the state.

And so now it's time for the people to step up to the plate to protect their investment and keep this year's tax relief from being chipped away.

I just mentioned how our reform is consistent with my overall philosophy.

Now there's another part of my philosophy that comes into play: personal responsibility.

We've done our part. The State has provided major tax relief and reform.

Now it's the citizens' turn:

Right now, cities, counties, and school districts are making the spending and taxing plans that will affect property tax bills next spring. Local taxpayers need to hold their locally elected officials accountable and get involved now in the decisions that are going to affect them.

It's their personal responsibility.

I say to taxpayers: "Go to budget meetings of city councils, county boards and school boards. Ask questions. Make sure they can tell you what your tax money is buying, and what will change for the better if they want more of it. If you want your property taxes to be under control, take control now."

Active, engaged citizens are a major part of my Big Plan, and this is a great opportunity for the citizens to do more than just vote.

And, of course, voting is going to be a big part of it, especially if school districts ask voters to approve new excess levies this fall.

And if a city that's sitting on a huge reserve wants to raise taxes, the people need to know exactly what the situation is.

We have made sweeping changes designed to take a big chunk out of everyone's tax bill.

But if the local governments and schools turn around and want to collect more taxes to cover local issues, the people are back where they started.

And they would only have themselves to blame.

The major reform has happened.

There is a new system in place, one in which the property tax is now simpler, lower, and more truly a local tax.

But to get the benefit of those changes, the public has to make their voices heard on the local level. And that has to start now.

If taxpayers become government watchdogs at all levels and keep an eye on their own money, the revolution we started this year will work just the way it's supposed to.

And that's what the people want.

Thank you.