

Good afternoon.

I don't think I've ever seen so many economists and tax policy analysts gathered in the same room before. I hope you'll all take this opportunity to put your heads together and figure out where the economy and state revenues are going--and then don't forget to tell the rest of us, because we're all wondering!

I do want to talk with you about some tax policy issues today, but first we can't ignore what's going in our nation and world.

Despite the events of the past two weeks and those yet to come, we know that taxes (and the spending they pay for) will remain important issues for citizens across our nation.

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 room full 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 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 system 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 capitol.

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 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 the second choice.

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.

Why were we successful in enacting tax reform this year in Minnesota, when it had failed so many times before? Here's the "recipe" we used:

Start with what should be the obvious one: Talk to the people and find out what they want. We did, through everything from a Citizens' Jury to town hall meetings across the state to telephone surveys.

For example, 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, and 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.

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

The next thing you have to do is take a look at your economy and how it is changing--and is your tax system keeping up? We looked at ours and found it was way behind the curve as far as the growing service economy is concerned--and so we created a plan to modernize the sales tax.

After that, the next step is to do your homework: know what the tax and revenue effects of each piece of your reform plan will be, and how the whole package will fit together for taxpayers' bottom line. That's the place where people like you come in, and here in Minnesota the Tax Research staff at Revenue did an excellent job of working, and reworking, the numbers again and again as the legislature kept throwing us curve balls right until the end of June. Thank you, Dick Gebhart and your staff.

The last piece of the recipe for successful tax reform is simply to stick to your principles and don't back down. There are always many in the political process who resist any changes, even when it's clear that the people want them, the policy is sound, and all the homework's been done. At that point, getting tax reform over the top simply becomes the job of executive leadership: insisting that the public's interest be served instead of this or that narrow special interest. I took care of that one.

But now we have tax reform in place here in Minnesota. We--with the help of the legislature--have significantly reformed the state and local finance system and offered a chance for permanent double-digit property tax relief beginning next year.

Now we have to make sure that all our hard work for the people of Minnesota is not un-done.

How could it be undone? Through millions of dollars of new spending and property tax levy increases now being pitched by cities, counties, and school districts across the state. If local governments and schools turn around and raise their own spending and taxes even faster than usual, then the people risk being put right back where they started.

Last week, cities and counties had to set their proposed property tax levies for next year. While all the numbers are not in yet, it appears that in some places local officials decided to go for the absolute biggest levy increase they're allowed under the law, so they'll have the money "just in case they need it."

Isn't that putting the cart before the horse? Whatever happened to setting a budget based on what you'll need to get the job done next year, and then collecting just enough taxes and other revenue to cover it?

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.

And here's where another part of my philosophy 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.

The proposed property tax levies just adopted will be finalized over the next couple of months--and they won't come down unless citizens demand it.

Local taxpayers need to hold their locally elected officials accountable and get involved now in the decisions that affect them.

How can they get involved?

Show up at budget meetings of city councils, county boards, and school boards.

Ask questions: How much is spending going up? And will government deliver more and better services if they get more of your tax dollars?

And if there is a need for more spending, does it have to come from property taxes next year? Ask about your city's reserve funds. All told, cities in Minnesota are holding nearly a billion dollars in unreserved fund balances, according to the State Auditor.

And citizens can vote about their local taxes this fall.

A new report indicates that over half the state's school districts have decided to ask their voters for additional operating referendum authority this fall. If all of them pass, that will mean \$176 million in additional property tax levies next year--eating into the relief that we passed this spring.

Taxpayers need to get educated and get involved in the referendum debate in their school district this fall. Ask how they've used their current budget and what kind of results their getting from it. Ask how they plan to use new tax dollars for more spending and how student results will improve.

If you're satisfied with the answers you get and you're willing to give back some of your state-paid property tax relief for more local spending, then you should vote "yes." If you're not, vote "no".

Either way, you're in charge. That's local accountability, and that's personal responsibility.

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 start making their voices heard on the local level. And that has to happen 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.