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Aug. 23, 2006

Thank you so much... However, more than the customary thank you is in order to the Center for the Study of Politics and Governance and the Humphrey Institute of Public Affairs. Yours has been an excellent, meaningful series of forums. We live in a great democracy, but it isn't an absolutely perfect democracy. It appears that some people are not interested in a true debate among the contenders leading up to the Tuesday, Sept. 12 primary – which is now less than three weeks away. So, this forum gives me a great opportunity to speak directly not only to those of you who are here today, but also to Minnesotans listening on the radio and the Internet. This forum gives me an opportunity to speak to you -- unfiltered -- about the most important public policy issues facing our state. Personally, I greatly appreciate this opportunity, and more importantly, I hope Minnesotans find greater understanding and clarity in the choices for statewide elective office they are making.

Minnesota has a long and proud tradition of nurturing success for all citizens. Out of this grand tradition, we have fostered world-class public education and higher education institutions, cultivated the basic research of Norman Borlaug and others that literally has saved millions of lives, pioneered quality health-care systems, and so much more. These achievements came from a deeply rooted belief in moving our society forward for the sake of the common good. It meant creating the opportunities in life for all to succeed.

The sake of the common good was so strongly held, it was fully embraced by prominent Democrats and Republicans alike throughout the 20th century, starting with our first native-born Minnesota governor, John A. Johnson, and moved forward by many truly prominent governors – Floyd B. Olson, Harold Stassen, Elmer L. Andersen, Wendy Anderson, Al Quie, Rudy Perpich and Arne Carlson, among others.

Those of you listening most carefully might have noticed I said “the sake of the common good was so strongly held” throughout the 20th century. For several years now, this basic assumption about how to build a strong foundation of Minnesota society has been under attack. Influenced by some of the wealthiest and most powerful in our society, we have seen a gradual shift in our state mission and our deeply held convictions. They have succeeded in tipping the scales to their favor, moving our neutral and balanced tax system further and further toward a regressive system. Those with the highest incomes now pay state and local taxes at the lowest rates. The burden has shifted dramatically to moderate- and low-income families. This fact is well-documented in the Minnesota Tax Incidence Study. The shift has been accomplished by sliding responsibility over to local property taxes, tuition and fees – typically paid most heavily by those who can least afford it.

This extreme change in the tax system – heaping the heaviest burdens onto those who are already challenged to make ends meet – has had an impact on our ability to meet the essential needs of society.

This has been well-documented by various sources. One of my favorite sources in this debate is the tandem of Jay Kiedrowski and John Gunyou – the two former Minnesota Finance commissioners who served separately in Democratic and Republican administrations. Credible sources, wouldn't you say? They have been beating the drum steadily – warning us that we have lost our fiscal way. In their latest offering earlier this month, they pointed out how our overall state and local public investment has dropped by only one cent out of a dollar, but this has had a tremendous impact on our ability to remain competitive. Since the early 1990s, our ranking in total education spending has dropped from the top third in the nation – 15th overall – to the bottom third – 36th overall.

I want to thank Joel Kramer of the Growth and Justice Foundation and the 200 prominent Minnesotans who stepped forward and sponsored a full-page newspaper ad to say, essentially, they favor a tax policy based on fairness not greed, and restoring faith in the common good. Paul Wellstone originated what has become a favorite saying of mine. That is, “we all do better when we all do better.” You know that the Growth and Justice effort had a real impact on the debate because it incited such a strong reaction from those who want to dismantle our Minnesota traditions.

But Minnesotans are proud of our traditions, so it is actually surprising to me – in proposing my fiscal policy framework – that I am the only candidate for Governor in 2006 to once again embrace the Minnesota tradition of fair tax policy for the sake of the common good.

It really isn't a drastic idea – getting our state back on the right track, heading forward as we managed to do for the entire 20th century. It really isn't a drastic idea to say we can do a little better here than the rest of the country. In Minnesota, it isn't so unusual for a politician to stand up to those who refuse to look out for the common good, and tell them, "Let's play fair." What I find unusual is, I seem to be the only one.

So let's take a look at why we need a Smarter Fiscal Policy Framework.

A Lourey Administration will be committed to a state and local government financing system that offers all Minnesotans the opportunity for success in life by providing the essential public infrastructure and services necessary to achieve this goal. What can give us the ability to achieve the global competitiveness needed to bring prosperity to all, is a focus on tax fairness at every income level, narrowing the achievement gap in education, accomplishing affordable health care for all, securing public safety, addressing our long-term transportation needs by emphasizing energy alternatives, and use of accountability measures to ensure the effectiveness of existing and new investments.

Can this be accomplished by minor fiscal changes and unrealistic tax collection expectations? Based on the real changes we have seen in the past 15 years, the answer clearly is "no." We cannot move Minnesota forward to achieve needed, major policy goals without making some major changes.

We don't have to make the changes all at once. In fact, it is best to change the system incrementally. My fiscal process framework is evolutionary in nature. Recent Minnesota history tells us that rapid and radical fiscal structure changes bring about unanticipated negative consequences.

The 2001 decision to suddenly eliminate the Minnesota education levy triggered yo-yo school financing that was far more closely linked to swings in the state economy. Class sizes from one year to the next should not be solely determined by the strength of the state economy. The sudden change in our fiscal system in 2001 also created unexpected shortfalls for numerous Tax Increment Financing districts.

Another significant jolt to the system came in 2003 when the cities' local government aid (LGA) was reduced by 25%, triggering significant cuts in local public safety expenditures, spend down of reserve funds and rapidly escalating property taxes, especially for residential properties. This cut was nearly twice as great as the overall state budget shortfall. It was a convenient, less painful way to handle the deficit, but it spent down city reserves, resulted in real service cuts, and has played a large part in huge property tax hikes. These property tax hikes continue year after year. The Lourey Fiscal Policy Framework outlines achievable goals we can accomplish over several years, gradually transitioning to a more-stable and fairer structure based on forecast revenues available, and changing expenditure needs at the state and local levels.

This proposal will not detail exact year-by-year fiscal changes, but provides the framework for changing Minnesota's fiscal structure. We will know a lot more about the FY-2008-2009 biennial budget in November. That's when voters will determine whether or not the state will constitutionally dedicate the entire Motor Vehicle Sales Tax to improving roads and transit. If so, we will have moved a long way toward ending transportation funding gridlock, but we will be left with a new, major hole to fill in the General Fund. Those undedicated Motor Vehicle Sales Tax dollars are now going to fund education, health care and the prison system. If the voters pass the ballot question, those important bills will still have to be paid.

I would do the responsible thing -- and pay those bills. But you might have noticed that the message on how to fill the gap is not so clear from the other candidates. In fact, we haven't seen anything you can take to the bank regarding comprehensive tax and fiscal policy from the other candidates. Personally, I intend to vote for the constitutional change in the Motor Vehicle Sales Tax dedication because it is very clear that our roads and transit systems need it. Of course, I also intend to be Governor and will most certainly make good on those commitments in other areas.

On the other hand, if the ballot question fails, we will have a totally different problem -- continued gridlock on transportation funding with not enough revenue for our roads and transit.

So, we will know much more in November after the voters make their decision. And we will know more because that's when the initial budget forecast comes out. Without a crystal ball we need a broad fiscal policy framework – making clear the new direction the state will be taking under a Lourey administration. It is just too soon to talk about the specific changes in tax rates and tax relief.

Actions taken by the Lourey administration will keep Minnesota's Size of Government (SoG) ranking competitive with surrounding states and the nation. (Let me tell you about the Size of Government calculation. It is more comprehensive, and a truer measure than the Price of Government many of you have come to know. Size of Government is the total state and local government revenue as a percentage of personal income – and it includes fees, tuition, intergovernmental transfers and even special assessments. Keep in mind, Minnesota's SoG ranking is now in the bottom third of all states, and is lower than all surrounding states. Minnesota ranked in the top 10 nationally in the early 1990s, fell to the middle of the pack (18th) by Fiscal Year 2000, and most recently dropped to 36th in FY-2004 (which is the latest data available from the U.S. Census Bureau).

Traditionally, candidates don't talk in much detail about how they would fiscally manage the state. Problem is, you start picking winners and losers. But let's be honest here -- too many Minnesotans have been losers under the changes made in the past decade, and a precious few have been winners. This campaign started talking early on about our fiscal structure because it tells people – realistically – how we will pay for new programs.

Everyone is talking about grand new plans. To pay for them, we shouldn't claim magical, unsustainable growth – or say with a wink, “we'll find it from savings somewhere else.” Yes, we will crack down on the tax evaders and avoiders, and close loopholes in the tax code; in fact, that is one of the *seven* elements in my fiscal policy. I'm the only candidate in this race who has voted in the Senate for those tax fixes year-in and year-out.

Now I will share with you my seven key fiscal policy goals. They are:

- A Fairer Tax Structure based on Ability to Pay
- Stability in K-12 Education Financing / Equal Opportunity for All
- Enhanced Public Safety in State and Local Partnership
- Encourage all Employers to provide quality Health Care coverage
- Improve Transportation Infrastructure, encouraging Alternative Energy use
- Maximize State Revenue from Tax Evaders & Avoiders, and
- Accountability Measures for Major Spending Categories, New Initiatives

First, More-Progressive Income Tax Rates

Over the past several years, both state and federal tax changes have resulted in considerable tax relief for the wealthiest in society. This has led us to a regressive tax structure that heavily shifts tax burdens from high incomes to middle and modest incomes. The top 1% in income, those above \$411,000 in yearly income, now pays a 26% lower effective tax rate than middle-income earners, based on 2007 estimated tax incidence by income decile. The numbers come from the most recent 2005 Minnesota Department of Revenue tax incidence study. Changes I will be proposing in the highest income tax bracket will return Minnesota much closer to an overall tax-neutral system so that the burden is shared fairly by all income levels. Specific rate changes will be determined after factoring in the November 2006 forecast, the outcome of the Motor Vehicle Sales Tax ballot question, and assessing FY 08-09 state budget needs. The current three-tier rate structure will be retained, and it is anticipated that the top bracket rate will remain below 10%. In an effort to make the Minnesota Income Tax structure more progressive, the bottom bracket will not be increased. In addition, I would like to enhance the Minnesota Earned Income Tax Credit to ensure affordable tax burdens on our lowest income working families.

Second, an Education Stability Levy

My idea for including a levy is patterned quite closely after the Minnesota Miracle of the 1970s. It is a policy that worked well, lifting our state to educational excellence and limiting property taxes.

Tim Pawlenty clearly does not understand the multi-faceted intricacies of that policy when he claims we are closer to the Minnesota Miracle today than ever. Ask the parents; ask the teachers; ask the students. They all know we are not there. Not even close.

The state must not continue down the unsteady path of funding K-12 Education adequately *only* in the good times. Total elimination of the general education levy five years ago was a mistake. It resulted in unstable financing for Minnesota schools and other unexpected negative consequences.

A limited levy based on adjusted tax capacity will ensure fair funding for all school districts regardless of property wealth. Although the amount is yet to be determined, the new Education Stability Levy will start out considerably smaller than the general education levy we had in 2001. The levy will be equalized by weighting school district poverty and property wealth factors. Savings to the state General Fund will allow for implementation of Public Safety Government Aid. To the greatest extent possible, we will equalize excess levies and limit the impact on property taxes. Among our goals with these changes will be quality education for all – and far fewer levy referenda with the heavier property tax burdens they bring in the long run.

Accountability standards will be applied to measure the impact of the Education Stability Levy on the year-to-year school district finances and measurable outcomes such as class size and curricular offerings. We have lost far too many of our electives, and we simply cannot view our art and music classes as expendable “extras.”

Third, Public Safety Government Aid – State and Local Partnership

The greatest share of state general fund savings from the Education Stability Levy will be utilized to create a new Public Safety Government Aid distribution to cities and counties in order to achieve a stronger and fairer state and local fiscal partnership and enhance state investment in public safety. Major factors determining the Public Safety Government Aid distributions will include: crime rate, traffic accidents, and various other overburden factors tied to public safety.

Let's be very clear about this. I want to see a show of hands from you in the audience here at the Humphrey Institute. How many of you feel safer today than four years ago? For those of you listening out there in the radio audience, not many hands were raised. Many factors go into our public safety concerns. As chair of the Senate Health and Family Security Committee, I held hearings on the directive to release 44 sexual psychopaths from the Minnesota Sex Offender Program at Moose Lake in my Senate district. We have seen cuts to risk assessment, fewer probation officers, and loss of the Gang Strike Force. And we still don't have statewide Public Safety Radio which is an important part of homeland security.

The really big public safety cuts, though, came in the dismantling of the state and local partnership. The reduction in Local Government Aid was nearly twice as great as the overall budget challenge the state faced in 2001. The cuts were most severe in the communities that have what is known as "overburdens." These are the places that face particularly difficult challenges.

For instance, I used to represent Proctor – and that city has a lot of railroad tracks and property that requires city services but provides no tax base. Then there’s St. Paul with a lot of state government buildings that have no tax base. And what about Minneapolis – a regional gathering place for the entire Midwest. The added traffic and activity in Minneapolis translates into higher public service costs – and that is what’s meant by overburdens. Well, those LGA cuts hit hardest in the places where there are overburdens. So, Minneapolis and many other cities had no good choices but to raise property taxes, and tighten their belts far more-so than state government did. In Minneapolis they cut 140 police officers – and now *just this week* we read in the Star Tribune how many violent crimes are *never even assigned* an investigator.

Well, the last thing any Minnesotan wants to see is higher crime rates in the heart of our state. Most of us regularly visit the city, and we know that crime there will spill over into other places. But you know, the problem with cuts to public safety didn’t just happen in Minneapolis. They came to communities all across our state. Now, I know we have some conservative academics who claim that cuts to our police and fire protection, as well as adult-supervised after-school activities have no measurable impact on crime rates. And, perhaps that was what Governor Pawlenty truly believed when he decided that LGA was the best place to cut the most. He probably has revised his thinking – but that awakening is coming far too late for the victims and families who have suffered from personal violence and property crimes.

So, in the Lourey administration we will re-engage the state and local partnership, and the emphasis will be on public safety. Any time we add state revenue – even when it is targeted specifically to public safety needs – there can be a temptation to build up reserves or expand services beyond need. We most likely will need to put a temporary cap on property tax levies as we phase in the additional Public Safety Government Aid.

Accountability standards will be applied to measure the impact of the Public Safety Government Aid, including the effect on crime rates and property taxes.

Fourth, a Health Care Tax Credit

Six months ago, I set a policy goal to reach affordable universal health care in my first term in office, and offered a fully detailed plan. The overall cost of my Health Care Security Plan should be minimal with a relatively small start up cost and long-term savings to Minnesotans. It is recognized as the only comprehensive health care proposal put forward in this governor's race.

In my fiscal policy, I include a non-refundable employer health care tax credit applied against the corporate franchise tax -- or individual income tax in instances of LLCs, partnerships or S-corps. -- targeted toward smaller businesses that often struggle to offer quality health care coverage to their employees. We don't put mandates on business, resulting in frustration, hardship and ill-fitting health coverage. We use a carrot instead of the mandate club. In Wisconsin, Governor Jim Doyle just recently followed my lead and offered a similar health care incentive plan.

Affordable health care is good for business. Healthy workers are more productive. When we take the high cost of health care off of businesses they become more competitive. Providing health coverage for all Minnesotans will make our businesses stronger, not weaker. And we can accomplish it through cost containment, bulk drug purchasing, prevention, paperwork reduction and accountability – without huge increases in state spending.

Here is the most pressing fact: We cannot afford to leave the health care system as it is. Families cannot afford it, and neither can businesses. Our companies are being forced to either cut health benefits – often leaving employees dependent on government safety nets – or cut jobs altogether. The rate of uninsured Minnesotans has swelled on Gov. Pawlenty’s watch – rising 24 percent between 2001 and 2004 (*based on a U. of M. School of Public Health study*).

Only qualifying certified health plans will be eligible for the Health Care Tax Credit. We want to put an emphasis on preventative care and lower administrative expenses. In an effort to maximize the impact of the incentive on smaller businesses most challenged to offer comprehensive health care, the tax credit will be capped.

Accountability standards will be applied to track the impact of the Health Care Tax Credit on expanding health care access, quality of benefits, and its direct impact on business expansion.

As you can see, the Fiscal Policy Framework is central to every key part of state policy. To have a successful health care policy, you have to hook into the fiscal decisions. The same is true with financing education, a successful energy policy, enhancing public safety and the security that comes with conserving resources. It is easy to say we need to do these things, but difficult when it comes to paying for them. I take great pride in presenting a real, honest fiscal policy.

Fifth, Invest in 21st Century Transportation Infrastructure

We cannot borrow our way to a safer, congestion reducing 21st century transportation system. We cannot stand by and watch projects such as the Highway 62 / I-35W crosstown improvements fail to move forward because MnDOT teeters near bankruptcy.

In my first budget, I will propose a staged gas tax increase ranging from 5 to 10 cents overall based on the input taken from business leaders, legislators, MnDOT and the public. As constitutionally required, these new revenues will be directed to the trunk highway fund. If the constitutional amendment passes in November, road improvements will receive up to \$180 million yearly – which allows us to look at a smaller gas tax increase.

In an effort to enhance our investments in transit, light rail and other alternative transportation needs, we will dedicate a new Carbon Tax by statute. The Carbon Tax will be applied to all motor vehicles requiring state registration, with rates calculated by vehicle-model gas mileage per gallon.

Gas mileage serves as a fairly accurate proxy for the carbon produced by combustion engines. If the constitutional amendment passes, the Carbon Tax proposal will be set at a minimal rate. However, if the ballot question fails, transit will miss out on at least \$120 million yearly, and other revenue sources will have to be explored. The dedicated Carbon Tax is a good fit for transit.

Sixth, Maximizing State Revenue from Tax Evaders & Avoiders

Efforts to ensure that all taxpayers - citizens and businesses alike - pay their fair share of tax obligations is the cornerstone of democracy and trust in our system of governance. The vast majority of Minnesota businesses play by the rules, but increasingly they do not get a level playing field in return due to lax state laws encouraging some companies to employ a wide array of questionable accounting gimmicks. Minnesota should join the growing number of states that have closed off-shore foreign operating corporation (FOC) loopholes.

While no other candidate in the race for Governor has my long record of supporting these loophole-closing measures, I recognize that relying solely on this very limited revenue-raising mechanism will not achieve our significant budget goals in education, health care and securing public safety.

Seventh, Accountability Measures

As someone who co-owns a dynamic business, I understand that fiscal discipline is essential to the budget process. This is especially important when we make significant changes in budget priorities and funding mechanisms. Employing accountability measures will ensure fiscal discipline.

The Lourey administration will demand cost-effective implementation of new programs, and accountability for current investments, especially in Education and Health Care. Accountability is essential so we can determine what works, and fix or remove what doesn't.

Conclusion

As a child growing up in Central Minnesota, I learned a lot about fiscal discipline. My father was a good Republican, and he lived through the Great Depression. He always said, “Becky, I know you want to save the world but you must be fiscally responsible. If you do something that brings in revenue, it will pay for itself and you won’t need to tax. If you do something that doesn’t bring in revenue, you must raise the revenue to pay for it. You must not pass the burden on to the next generation.”

Much the same has been said for years now by the two Minnesota Finance commissioners – Jay Kiedrowski and John Gunyou. We cannot promise more than we can deliver. To achieve long-term prosperity, we must make the necessary investments now – especially in education.

So, look closely at what the candidates *are saying*. I have offered an honest, straightforward approach. Tim Pawlenty and Mike Hatch are refusing to debate leading up to the Sept. 12th primary. Perhaps they aren’t entirely comfortable with their similar approaches to the state’s fiscal situation.

We are hearing a lot from the candidates about making the necessary state investments in education, public safety, health care and transportation. At the same time, they are pounding the no new taxes theme. Which promise will voters hold them to?

I'll leave it to you to ponder that question.

Once again, I thank the Humphrey Institute for your dedication to democracy with this series of forums, and for inviting me to speak my piece, unfiltered, but not unplugged! So, I hope I have left you with enough time for some good questions.

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