STATE OF MINNESOTA

Office of Governor Mark Dayton

130 State Capitol ♦ 75 Rev. Dr. Martin Luther King Jr. Boulevard ♦ Saint Paul, MN 55155

May 24, 2011

The Honorable Kurt Zellers
Speaker of the House
State Office Building, Room 463
100 Rev. Dr. Martin Luther King, Jr. Blvd.
St. Paul, Minnesota 55155

Dear Mr. Speaker:

With this letter, I am vetoing and returning Chapter 38, House File 42, the Omnibus Tax Bill.

Your tax proposal would require most Minnesota property owners and renters to pay higher property taxes. The property tax is the most regressive and unfair of all state and local taxes. Minnesota businesses pay four times more in property taxes than they do in either corporate income taxes or individual income taxes on business income. Your budget would increase property taxes on Minnesota businesses by $89 million in 2012.

By contrast, my proposal makes our tax system more progressive, and it raises taxes only on the top 2% of Minnesota income earners. 98% of all Minnesotans would pay no higher state income or property taxes under my proposal.

On a positive note, I appreciate that the Legislature included conformity to most federal tax law changes in the bill and included provisions necessary to maintain Minnesota's conformity to the streamlined sales and use tax agreement. We agree on the importance of expanding and improving the Research & Development Tax Credit and the Angel Investor's Tax Credit. I would consider supporting other measures, such as the single apportionment formula for business, if we can agree on an overall revenue target for this bill.

Chapter 38 makes unnecessary and geographically imbalanced cuts to local government aids, which the Minnesota Department of Revenue estimates would reduce funding for critical local services by over $400 million and increase property taxes by over $400 million next year and by over $1.2 billion during the next three years. Those property tax increases would fall disproportionately on low and middle income Minnesotans.

Over 20% of your budget solution calls for shifting the state's budget problem to local units of government and property taxpayers. More specifically, Chapter 38:

- reduces local government aid (city LGA) by nearly 30% in FY2012-13, and eliminates aid entirely for selected communities;
- lowers county program aid by almost 19% in FY2012-13 and beyond;
- uses $60 million of local resources, maintained by the state in the Douglas J. Johnson Fund to balance the state budget;
- eliminates the market value homestead credit that targets property tax relief primarily to owners of low-valued homes; and
- cuts property tax refund payments to 308,000 renters statewide by an average of 45%, including 85,000 senior and disabled renters, many of whom are on fixed incomes. Property tax refund payments would be entirely eliminated for 72,000 renters.

After making those cuts to local governments—which would result in significant property tax increases—your bill then directs over $200 million from those cuts to expanded tax expenditures for corporations and others. Further, while advocating for reductions in local government spending, your bill extends authority for local options sales tax to nine cities and grants special tax increment financing authority to others. The Department of Revenue estimates that your local options sales tax provisions will increase sales taxes on Minnesotans and visitors by about $17 million per year.

Chapter 38 includes other problematic provisions, such as various changes to mineral tax laws and the language specifying how the State of Minnesota is to re-establish an income tax reciprocity agreement with Wisconsin. Additionally, the operating budget and workforce reductions in Chapter 40 will diminish the Department of Revenue's ability to effectively collect projected voluntary and compliance revenue.

Your budget solution, which results in the bottom 90% of households paying nearly 20% more of each dollar of income in state and local taxes than do the top 10%, is unacceptable to me. Under your proposal, Minnesota's state and local tax system would become more regressive. My proposal, on the other hand, asks the state's wealthiest 2% to contribute to solving our budget challenge and, even after this increase, the wealthiest 2% would still pay a smaller share of their incomes in state and local taxes than other Minnesotans.

In sum, Chapter 38 would destabilize the state-local finance system, make the tax system more regressive and more complex, and exacerbate our ongoing budget challenges by beginning new tax expenditures in future years and eliminating state budget reserves.

Sincerely,

Mark Dayton
Governor

cc: Senator Michelle L. Fischbach, President of the Senate
Senator Amy T. Koch, Majority Leader
Senator Thomas M. Bakk, Minority Leader
Senator Julianne Ortman
Representative Paul Thissen, Minority Leader
Representative Greg Davis
The Honorable Mark Ritchie, Secretary of State
Mr. Cal R. Ludeman, Secretary of the Senate
Mr. Albin A. Mathiowetz, Chief Clerk of the House of Representatives