



STATE OF MINNESOTA

Office of Governor Mark Dayton

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

May 16, 2011

The Honorable Senator Amy T. Koch
Majority Leader, Minnesota Senate
Capitol Building, Room 208
75 Rev. Dr. Martin Luther King, Jr. Blvd.
St. Paul, Minnesota 55155

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

Dear Senator Koch and Speaker Zellers:

From the beginning of this legislative session, it has been clear that compromise by all of us would be the only way we could reach the necessary agreements to achieve a balanced state budget for the next biennium. Most Minnesotans want us to resolve our differences by the Constitutional deadline of May 23rd. That resolution obviously requires compromise.

Compromise requires all of us to agree to items that we don't agree with. That is the essence of compromise. It is the only way we will reconcile our different positions on the state's budget for the next biennium.

The current projected deficit is just over \$5 billion. We agree that the repayment of the previous Governor and Legislature's shift in school aid payments must be postponed. That leaves us with a remaining deficit of \$3.6 billion. You propose to eliminate that deficit entirely through spending reductions. I have proposed to eliminate it through a combination of tax increases and spending reductions.

I am willing to meet you half-way: \$1.8 billion in spending cuts and \$1.8 billion in additional tax revenues. In my February 15th budget, I proposed \$3.356 billion in new tax revenues. I am willing to cut my revenue proposal almost in half to \$1.8 billion. I will also agree to \$1.8 billion in net spending reductions, to be negotiated with you.

Your proposed budget calls for eliminating the remaining \$3.6 billion deficit entirely through reductions in expenditures. Thus, half-way for you would also be \$1.8 billion in spending cuts and \$1.8 billion in additional tax revenues.

My new tax proposal raises the gross income levels at which the 4th tier income tax rate applies for the typical married couple to over \$300,000 (\$250,000 in taxable income) and to almost \$180,000 for the typical single taxpayer (\$150,000 in taxable income). It would raise income taxes on less than 2% of Minnesotans (1.9%). Only the very highest income earners would pay any additional state income taxes under my proposal. The details of my new tax proposal are attached.

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I also withdraw my proposed property tax increase on homes valued over \$1 million. Thus, my proposal would not increase state or local property taxes for anyone in Minnesota. By contrast, the MN Department of Revenue estimates that the cuts in your Conference Report of over \$800 million to local government aid would increase property taxes on almost all Minnesota property owners and businesses by about \$400 million, while also cutting funds for local services by nearly \$400 million. In addition, your cuts of \$186 million to the renters' property tax refund would reduce property tax refunds by more than 45% for 308,000 Minnesotans, including nearly 85,000 senior and disabled Minnesotans.

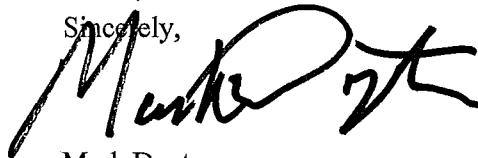
Regarding K-12 education expenditures, I agree to the Senate's position, which increases the state's per-pupil aid formula by \$50 in FY12 and an additional \$50 in FY13, at a cost of \$128 million for the biennium. However, I would obtain that amount from revenues, not from reducing other education funding. That would then require \$1.928 billion in spending reductions (\$1.8 billion + \$128 million), which I am willing to negotiate with you.

My compromise represents a balanced approach to a balanced budget. One-half of the remaining \$3.6 billion deficit would be eliminated by spending cuts and one-half by tax revenue increases. This is the reasonable, responsible middle ground.

If you agree to meet me half-way and adopt this balanced approach to a balanced budget, I am confident we can resolve our remaining differences in time for you to meet your Constitutional deadline of May 23rd for adjournment.

My best regards.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark Dayton', with a stylized flourish at the end.

Mark Dayton
Governor

MBD:kk
Attachment

cc: Senator Tom Bakk
Representative Paul Thissen

Governor Dayton Revised Budget Recommendations

16-May-11

In millions

FY 2012-13

TAX REVENUE SUMMARY

| | | | Total <u>Income*</u> | MN Taxable <u>Income</u> |
|--|-------|-------------------|-------------------------|-----------------------------|
| 4th Tier Income Tax - 10.95% Rate (Affects 2.3% of all returns, 1.9% of MN resident returns) | 1,548 | Married-Joint | \$305,000 | \$250,000 |
| | | Head-of-Household | \$268,000 | \$200,000 |
| | | Single | \$179,000 | \$150,000 |
| Part-Year Resident Income Tax | 30 | | | |
| Non-Resident Estate Tax Provision | 13 | | | |
| Federal Tax Conformity | (18) | | | |
| Enhance R & D Credit | (22) | | | |
| FOC/Foreign Royalties Subtraction | 135 | | | |
| Other Corporate Provisions | 82 | | | |
| Sales Tax Provisions | 31 | | | |
| State Property Tax--\$1M Value Homes | 0 | | | |
| Miscellaneous | 1 | | | |
| Total Tax Revenue Changes | 1,800 | | | |

* Total income includes all forms of cash income, including wages, capital gains, deferred compensation and other taxable and non-taxable income.

SPENDING SUMMARY

| | |
|------------------------------|---------|
| Total Spending Changes | (1,800) |
| Education Formula Increase** | 128 |
| Net Spending Changes | (1,928) |

**Education Formula represents the Senate funding level and the Governor's policy to link formulas.