



STATE OF MINNESOTA

Office of Governor Mark Dayton

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

May 30, 2017

The Honorable Kurt Daudt
Speaker of the House
Room 463, State Office Building
St. Paul, Minnesota 55155

Dear Mr. Speaker:

Please be advised that I am returning without signature Chapter 1, House File 1. By allowing it to become "enacted," I am fulfilling the requirement to protect the funding for the Department of Revenue, which you snuck into the State Government Bill without my knowledge.

This bill has many positive features, including my proposed Child Care Tax Credit expansion, Representative Paul Marquart's property tax relief for farmers, and some of the increased local government aid for cities and counties (LGA and CPA) funding that I proposed. However, it also contains many features, which benefit only a relatively few Minnesotans; and its total cost to the State's treasury in future bienniums is excessive and irresponsible.

When I took office in 2011, Minnesota faced a \$6.2 billion budget deficit. Now, after six years of making tough, often painful decisions, Minnesota is finally on sound fiscal footing. However, the cost of this bill, more than \$648.1 million dollars in the next biennium, \$790.6 million in the following biennium, and even more in future years, repeats the irresponsible budgeting of Minnesota's past and seriously jeopardizes our State's future fiscal stability. The bill also contains a \$78 million budget shift, which hides the true cost of the bill and the significant cuts that will grow disproportionately in the future. The Commercial/Industrial levy freeze will cost more than \$1 billion over ten years. The tobacco tax cuts will cost nearly \$300 million over ten years.

In addition to the irresponsible size of the bill, the composition represents misplaced priorities. The bill prioritizes tax relief to some of the most fortunate in our state, large businesses, and special interests at the expense of the State of Minnesota's fiscal stability while ignoring those in Minnesota who have not yet benefitted from the recovery and those who rely on essential government services.

Estate tax cut

The estate tax cut, which costs \$109.3 million over the next four years, will mean that the wealthiest 1,000 estates in Minnesota each year will see a tax cut, significantly reducing the work we have done in Minnesota to make our tax system more progressive. It will do nothing to help family farms and family-owned businesses, because they are already exempt from the estate tax up to \$5 million when they pass on their businesses to their heirs. It will only help the super wealthy to avoid paying their fair share of taxes.

Large business tax cuts

In the near term, the C/I levy changes will allow all businesses to reduce their property taxes with the exclusion of the first \$100,000 of value. I support this targeted tax relief for main-street businesses. But freezing the levy amount will, over time, disproportionately benefit owners of buildings like the IDS Tower and the Mall of America and cost over \$1 billion over the next 10 years.

These business tax cuts undermine our state's long-term economic well-being. Instead of providing needed investments in E-12 and higher education across the state, this bill funds the priorities of powerful special interest groups

Cigarette tax reductions

Among the most egregious provisions in the tax bill is the elimination of the inflator on cigarette taxes. The purpose of the cigarette tax increase and inflator in 2013 was to make strategic investments in health care, education and jobs, and to reduce smoking in Minnesota, in particular among our youth. Each year, more than 6,300 Minnesotans die from smoking-related illnesses, and smoking costs Minnesotans more than \$3 billion in additional health care. Since the increase took effect, smoking has declined, most notably among high school students. Eliminating the inflator on these taxes will make cigarettes and moist snuff affordable for our youth, who are more price sensitive, years down the road.

Especially galling is the tax break for premium cigars at a cost of \$6.9 million over the next two bienniums. I am appalled that you prioritized premium cigars over further expansion of the Working Family Credit or the Child and Dependent Care Credit.

The cost of these provisions is a significant concern as well. They will cost \$13.8 million in this biennium but grow to \$39.7 million in the FY20-21 biennium, and will continue to grow more after that, costing nearly \$300 million over ten years.

Fails to help Minnesota working families

HF 1 provides significant benefits to the wealthiest in Minnesota, businesses and special interests while leaving behind those that need relief most; families across the state working hard and struggling to pay the bills, buy groceries, and raise their kids. It is unfortunate that this bill does not include the full expansion of the Working Family Credit I proposed in January. This credit is targeted toward working and middle class families across Minnesota. Minnesota's economy depends on its most valuable asset – our people – we need to invest in all of them across all areas of the state to ensure our future prosperity.

For these reasons I am unable to sign a tax bill which favors wealthy individuals, large corporations, and special interests at the expense of the State of Minnesota's fiscal stability. A tax bill that prioritizes tax cuts for families and working and middle class Minnesotans while remaining fiscally responsible could earn my signature.

Sincerely,



Mark Dayton
Governor

cc: Senator Michelle L. Fischbach, President of the Senate
Senator Paul E. Gazelka, Senate Majority Leader
Senator Thomas M. Bakk, Senate Minority Leader
Senator Roger Chamberlain, Minnesota Senate
Representative Melissa Hortman, House Minority Leader
Representative Greg Davids, House of Representatives
The Honorable Steve Simon, Secretary of State
Mr. Cal R. Ludeman, Secretary of the Senate
Mr. Patrick Murphy, Chief Clerk of the House of Representatives
Mr. Paul Marinac, Revisor of Statutes