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

The Honorable Paul E. Gazelka
Senate Majority Leader
Room 3113, Minnesota Senate Building
St. Paul, Minnesota 55155

Dear Speaker Daudt and Majority Leader Gazelka:

I am signing into law the nine so-called "Budget Bills," in order to forestall a bitter June showdown over a State Government shutdown. I have strong disagreements with certain provisions in every one of those bills. However, having been through twenty tumultuous days in July 2011, I understand the enormous uncertainties and disruptions that even the threat of another shutdown would cause for many thousands of Minnesotans. I also know from prior experience that it is extremely unrealistic for any of us to imagine we would achieve any better results from protracted budget negotiations well into June.

I will allow the tax bill to become law without my signature. I will not sign it, because of very major objections I have with certain provisions in it. However, I cannot veto it, because of the "poison pill" provision you snuck into the State Government bill, which attempts to eliminate all funding for the Minnesota Department of Revenue in Fiscal Years 2018 and 2019, if the tax bill were not enacted.

I consider this provision, snuck into the State Government bill without my knowledge, to be a reprehensible sneak attack, which shatters whatever trust we achieved during the Session. Now I understand why you made it almost impossible for my staff and me to obtain drafts of your bills' language, sometimes not until minutes before they were brought to the floor for passage.

I will not risk a legal challenge to the Department of Revenue's budget and cause uncertainty for its over 1,300 employees. Because of your action, which attempts to restrict my executive power, I am left with only the following means to raise my strong objections to your tax bill, which favors wealthy individuals, large corporations, and moneyed special interests at the expense of the State of Minnesota's fiscal stability in the years ahead.

Thus, I am line-item vetoing the appropriations for the House and Senate in FY 18/19 and FY 20/21. Your job has not been satisfactorily completed, so I am calling on you to finish your work. However, I will allow a Special Session only if you agree to remove the following provisions, which are extremely destructive to Minnesota's future:

1. Eliminate the Tobacco Tax Breaks. In 2013 I proposed, and the Legislature passed, an increase in cigarettes and other tobacco products, first to help resolve a projected $623 million deficit in the coming biennium; and second, to discourage people from smoking; and, especially, to discourage young people from beginning to smoke. The tax increases achieved both intended results.

This bill's tax breaks for tobacco would cost the State Treasury an estimated $13.8 million in the FY 18/19 biennium, $39.7 million in FY 20/21, and even more in subsequent years.

Especially galling, and indefensible, is the tax break for premium cigars, at a cost of $6.9 million over the next two bienniums. I am appalled that there was not enough money left after you satisfied your priorities to expand the Working Family Credit in FY 18/19 or to further increase the Child Care Tax Credit for working parents; yet, you could find room to sneak in a special tax break for premium cigars for some special, moneyed friends.

2. Cancel the Estate Tax Exclusion Increase. There is already a $2 million tax exemption for the estates of the wealthiest Minnesotans and a $5 million tax exemption for farmers and family-owned businesses. Increasing the regular exclusion by another $1 million would benefit only a handful of the richest people in Minnesota at a cost to the State of $34.8 million in FY 18/19, $74.5 million in FY in FY 20/21, and even more in years following.

Whether the State Exclusion is $2 million or $3 million, those millionaires, whose preoccupations are to avoid paying taxes, will continue to find other states, who offer them better Estate Tax avoidance. It would require raising the exclusion to the federal level of $5 million to achieve parity, and that cost would be prohibitive. Reducing state revenues by $109.3 million from the richest Minnesotans to little public benefit is extremely ill-advised.

3. C-I Property Tax Freeze. I support excluding the first $100,000 of business property from statewide property taxes despite its high cost of over $85 million in the next biennium. However, freezing the levy has disastrous effects in future years, costing the State almost $85 million in FY 20/21 and even more in years following. Over the next ten years, the total revenue loss to the State would be over $1 billion.

Look at the attached analysis of forecast uncertainties, prepared by the Department of Management and Budget. Even a moderate national recession would reverse Minnesota's hard-earned fiscal stability. That billion dollars in revenue is essential to our State's financial security.

Tax cuts are politically appealing and much appreciated by those who receive them. However, their total cost to the State must be responsible, not just for tomorrow but also for the days, weeks, and years that will follow. This principle was violated with tax breaks in 2000 and 2001, which helped cast State Government into serious and repeated budget deficits soon thereafter.

When I became Governor in January 2011, the State faced a projected $6.2 billion deficit over the coming biennium. Over the next four years, we went through a very difficult and often painful process to restore our fiscal integrity: to re-establish structural budget surpluses, to pay back the over $2 billion owed our school districts, and to eliminate many shifts and other gimmicks. I refuse to allow the State's financial security to be jeopardized by excessive tax giveaways, which do not benefit most Minnesotans.

It is unfortunate that your last-minute legislative treachery has left me no other option but either to passively permit those tax provisions to become law and decimate our future financial solvency, or to take this action. However, the future well-being of our children and our grandchildren is at stake. I will not willingly allow their futures to be jeopardized.

4. Driver's License Provision. There is another provision, which I insist you agree to remove, before I will call a Special Session. The new language in HF 470, which prohibits undocumented immigrants from obtaining drivers licenses is, as I have said repeatedly, completely redundant and, therefore, unnecessary. Several different legal opinions have stated to me that current law does not allow my Administration to make such a change, without action by the Legislature.

Thus, this provision is nothing more than a strategic attack against people, many of whom have lived in this country for a long time, and most of whom are living responsible lives and contributing to our growing state economy. Your intent to further divide our evermore diverse population might be politically advantageous to you (it must be, or you wouldn't have done it); but it is destructive to the future well-being of the people of Minnesota.

5. Teacher Licensure Provision. I also insist that you re-open and re-negotiate the Teacher Licensure provisions in HF 2. The integrity of Minnesota's professional teaching standards is of paramount importance to all of our state's licensed teachers and to ensuring the quality of teachers, educating all of our children. While I support improving Minnesota's system of teacher licensure, some provisions undermine the high professional standards that have served Minnesota's schoolchildren extremely well.

I will await your response.

Sincerely,

Mark Dayton

Mark Dayton
Governor

cc: Senator Thomas M. Bakk, Senate Minority Leader
Representative Melissa Hortman, House Minority Leader
Representative Greg Davids
Senator Roger Chamberlain

Attachment

MANAGEMENT AND BUDGET

Notes on Risk and Uncertainty for Minnesota FY 2018-19 Revenues

May 15, 2017

What happens to the revenue forecast if a recession starts?

- During the last two relatively mild and short (8 months each) U.S. recessions, we lowered our revenue forecast for the current biennium on average 4.5 percent from one February to the next (so, over 12 months).
    - We lowered our revenue forecast by 0.5 percent in the 1990-91 recession and by 8.6 percent in the 2001 recession.
    - The Great Recession of 2007-09 is too much of an outlier to use as a comparison here.
- If *this year* we were to face an experience similar to the average of those two recessions, we might lower our forecast for FY 2018-19 revenues by about $1.9 billion (4.1 percent) in November 2017, and then by another $200 million (0.5 percent) in February 2018. That would be a $2.1 billion (4.5 percent) forecast reduction over 12 months.
    - With significant impacts on financial income, especially capital gains, the 2001 recession was much harder on Minnesota revenues than the 1990-91 recession. If this year we were to face a similar experience to the 2001 recession, we might lower our forecast for FY 2018-19 revenues by about $3.4 billion (7.5 percent) in November 2017, and then by another $500 million (1.2 percent) in February 2018. That would be a $3.9 billion (8.6 percent) forecast reduction over 12 months.
    - If this year we were to face a similar experience to the 1990-91 recession, we might lower our forecast for FY 2018-19 revenues by about $230 million (0.5 percent) by February 2018.
    - These estimates include all sources of revenue forecast risk, including both economic risk and our own forecast error.
    - These estimates *do not include* the impact of a recession on expenditures. Demand for public services tends to increase during an economic downturn, putting pressure on state government spending.

How far off can revenues be by then end of the biennium?

- In February, we forecast total FY 2018-19 revenues to be roughly $45.7 billion. If our February 2017 forecast is about as accurate as our average forecast, the range of closing values for FY 2018-19 total revenues is $45.7 billion plus or minus $2.4 billion (5.4 percent). That is, revenues could end up as low as $43.2 billion or as high as $48.1 billion. (Values do not add due to rounding.)

- Our average error for 29-months-ahead forecasts is plus or minus 5.4 percent of non-dedicated revenues. We calculated the average over 13 biennia.

- More information is in our March 2017 *Revenue Forecast Uncertainty Report*: https://mn.gov/mmb-stat/000/az/forecast/2017/february-forecast/forecast-uncertainty-report-full.pdf