

- SEWATE -

July 1<sup>st</sup>, 10:15am

- Passage today of continuing resolution, authorization effective July 11, 2005 – no amendments
- Education funding – 5% and 5%, Q Comp at \$30m
- HHS Target - \$9.074b, details to be worked out by Sen. Berglin and Commissioner Goodno
- Tax bill to include at least \$87m in LGA

Submitted by Dean E. Johnson, Senate Majority Leader and Matt Entenza, House Minority Leader



# STATE OF MINNESOTA

## Office of Governor Tim Pawlenty

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

July 1, 2005

The Honorable Dean Johnson  
Minnesota State Senate  
208 State Capitol  
St. Paul, Minnesota 55155

The Honorable Matt Entenza  
Minnesota House of Representatives  
267 State Office Building  
St. Paul, Minnesota 55155

Dear Senator Johnson and Representative Entenza:

I am deeply disappointed that the Senate elected to adjourn last night, well before the midnight deadline, and that we were unable to reach an agreement that would have prevented the partial shutdown of state government. We remain fully dedicated to restoring all state government services and hope we can do so soon, pursuant to a successful negotiation.

I have reviewed your offer from earlier today. As I have reflected on recent negotiations, it seems the process would best be served by first setting an overall revenue target and then deciding how to spend the money reflected in the revenue target.

With that in mind, we will concede to the Senate's emphasis on using working groups to help address these issues. It is our understanding the tax working group is currently considering your latest offer. We will look to their input towards finding an agreement on these issues as soon as possible. Our office is represented by Senior Policy Advisor Ward Einess on tax and revenue matters. He will be available to you and the working group at any time. Please check with Mr. Einess before assuming any offers are supported by me.

Of course, if the working group approach is not fruitful, we will consider other approaches as well.

Once we establish an overall revenue target, we can assign spending targets for the remaining categories of K-12 education and human services.

Senator Dean Johnson  
Representative Matt Entenza  
July 1, 2005  
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We trust that Senator Berglin and Representative Bradley can then produce a health and human services agreement and that Senator Stumpf and Representative Sykora can do the same for K-12 in conjunction with our office and legislative leaders.

Be assured that our commissioners, my staff, and I will be available and will work diligently to resolve these matters as soon as possible for the good of our state.

Your early adjournment last night and rejection of all our previous offers clearly indicates our negotiation positions did not meet your needs. For this reason, please keep in mind that our offers made prior to shutdown should not be considered as a basis for future negotiations.

We urgently look forward to the overall revenue target being set so we can move forward and so the partial shutdown is as short as possible.

If you have any questions or need additional information, please contact Tom Hanson, Deputy Chief of Staff for Legislative and Cabinet Affairs.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Pawlenty', with a long, sweeping underline that extends to the right.

Tim Pawlenty  
Governor

cc: Speaker Steve Sviggum  
Senate Minority Leader Dick Day  
Tax Working Group Members

#2

**SENATOR LAWRENCE J. POGEMILLER**

Northeast, Southeast, Cedar Riverside  
Neighborhoods of Minneapolis  
235 State Capitol Building  
St. Paul, MN 55155-1606  
Office: (651) 296-7809  
E-mail: sen.larry.pogemiller@senate.mn



**Senate**

**State of Minnesota**

July 1, 2005

The Honorable Tim Pawlenty  
Governor, State of Minnesota  
Room 130 Capitol  
St Paul, MN 55144

Dear Governor Pawlenty:

The Senate has received your response to our offer from earlier today.

We are willing to try this your way one more time. To that end, I cordially invite you to attend the Tax Working Group this evening to discuss revenues, particularly the language put forth by the Senate regarding corporate tax law. We will meet starting at 6:00 p.m. in Room 15 of the Capitol.

The members of the Tax Working Group welcome the opportunity to have this discussion with you, in the hope that we can come to an expedient resolution of these important issues. We hope to see you this evening.

Sincerely,

Lawrence J. Pogemiller  
Chair, Senate Committee on Taxes

#3

## Projected Property Taxes Payable in 2006 Compared to Estimated Property Taxes Payable in 2005

### Statewide

	Market Value				Tax Capacity				Net Tax			
	Pay 2005	Pay 2006	Difference	Pct Chg	Pay 2005	Pay 2006	Difference	Pct Chg	Pay 2005	Pay 2006	Difference	Pct Chg
Res Homestead	248,373,430	276,106,790	27,733,360	11.2%	2,497,571	2,779,291	281,720	11.3%	2,645,584	2,860,429	214,845	8.1%
Res Nonhomestd	20,838,199	24,048,609	3,210,410	15.4%	224,772	259,679	34,907	15.5%	267,372	296,113	28,741	10.7%
Apartments	17,894,273	18,757,973	863,700	4.8%	223,678	234,475	10,796	4.8%	274,453	275,701	1,248	0.5%
Seasonal Rec	14,563,312	16,927,842	2,364,530	16.2%	147,436	171,470	24,034	16.3%	173,133	190,344	17,211	9.9%
New Construction	0	10,644,600	10,644,600	0.0%	0	121,493	121,493	0.0%	0	147,150	147,150	0.0%
C/I First tier	8,656,262	9,012,097	355,835	4.1%	129,844	135,181	5,338	4.1%	228,996	228,518	-477	-0.2%
C/I Second tier	45,087,357	48,307,410	3,220,053	7.1%	901,747	966,148	64,401	7.1%	1,550,967	1,583,525	32,558	2.1%
Public Utility	7,008,401	7,218,819	210,418	3.0%	139,777	143,961	4,184	3.0%	217,780	214,466	-3,314	-1.5%
Ag hstd: House	9,870,573	11,006,165	1,135,592	11.5%	98,768	110,168	11,401	11.5%	81,937	89,015	7,078	8.6%
Ag hstd: Land	27,080,358	29,964,763	2,884,405	10.7%	167,684	188,756	21,072	12.6%	130,312	139,848	9,536	7.3%
Ag Nonhomestd	12,500,529	14,170,591	1,670,062	13.4%	125,005	141,706	16,701	13.4%	115,779	124,335	8,556	7.4%
<b>Total</b>	<b>411,872,693</b>	<b>466,165,659</b>	<b>54,292,966</b>	<b>13.2%</b>	<b>4,656,282</b>	<b>5,252,328</b>	<b>596,046</b>	<b>12.8%</b>	<b>5,686,313</b>	<b>6,149,442</b>	<b>463,130</b>	<b>8.1%</b>

### Tax Capacity Spread Levies

	Pay 2005	Pay 2006	Difference	Pct Chg
County	1,870,210	1,980,446	110,236	5.9%
School	918,964	992,466	73,502	8.0%
City/Town	1,370,866	1,482,650	111,784	8.2%
Special Dist	192,180	209,352	17,172	8.9%
<b>Total</b>	<b>4,352,221</b>	<b>4,664,914</b>	<b>312,693</b>	<b>7.2%</b>

### Market Value Spread Levies

	Pay 2005	Pay 2006	Difference	Pct Chg
County	2,467	2,476	9	0.4%
School	409,284	506,131	96,847	23.7%
City/Town	21,736	25,592	3,856	17.7%
Special Dist	0	0	0	0.0%
<b>Total</b>	<b>433,487</b>	<b>534,199</b>	<b>100,713</b>	<b>23.2%</b>

### Tax Rates

	Pay 2005	Pay 2006	Pay 2005	Pay 2006
	NTC	NTC	MV	MV
County	44.99	42.00	0.007	0.006
School	22.11	21.05	1.141	1.248
City/Town	32.98	31.44	0.061	0.063
Special Dist	4.62	4.44	0.000	0.000
<b>Total</b>	<b>104.70</b>	<b>98.92</b>	<b>1.209</b>	<b>1.317</b>

### Tax Base

	Pay 2005	Pay 2006	Difference	Pct Chg
Tax Capacity:	4,656,282	5,252,328	596,046	12.8%
TIF Value	235,631	257,266	21,635	9.2%
FD Contribution:	263,660	279,248	15,588	5.9%
<b>Taxable Value:</b>	<b>4,156,991</b>	<b>4,715,815</b>	<b>558,823</b>	<b>13.4%</b>
FD Distribution:	263,664	279,330	15,667	5.9%

### Homestead Property Tax Examples

	Pay 2005	Pay 2006	Difference	Pct Chg
Low Value:	119,900	133,300	1,136	9.3%
Average Value:	179,700	199,800	1,888	8.4%
High Value:	239,600	266,300	2,641	8.0%

STROSS IMPACT OF GOV & L Prop Tax

Projected Taxes Payable in 2006 including Estimated School Levies Under Governor's Rec

25-May-05  
11:00 AM

Compared to Estimated Property Taxes Payable in 2006

#4

Statewide

	Market Value				Tax Capacity				Net Tax			
	Pay 2003	Pay 2006	Difference	Pct Chg	Pay 2003	Pay 2006	Difference	Pct Chg	Pay 2003	Pay 2006	Difference	Pct Chg
Res Homestead	276,106,790	276,106,790	0	0.0%	2,779,291	2,779,291	0	0.0%	2,860,545	2,921,100	60,555	2.1%
Res Nonhomestd	24,048,609	24,048,609	0	0.0%	259,679	259,679	0	0.0%	296,292	302,090	5,798	2.0%
Apartments	18,757,973	18,757,973	0	0.0%	234,475	234,475	0	0.0%	276,075	280,841	4,766	1.7%
Seasonal Rec	16,927,842	16,927,842	0	0.0%	171,470	171,470	0	0.0%	190,185	193,169	2,984	1.6%
New Construction	10,644,600	10,644,600	0	0.0%	121,493	121,493	0	0.0%	147,097	149,734	2,638	1.8%
C/I First tier	9,012,097	9,012,097	0	0.0%	135,181	135,181	0	0.0%	228,522	231,055	2,533	1.1%
C/I Second tier	48,307,410	48,307,410	0	0.0%	966,148	966,148	0	0.0%	1,583,824	1,597,833	14,009	0.9%
Public Utility	7,218,819	7,218,819	0	0.0%	143,961	143,961	0	0.0%	214,440	217,141	2,701	1.3%
Ag hstd: House	11,006,165	11,006,165	0	0.0%	110,168	110,168	0	0.0%	89,022	91,704	2,681	3.0%
Ag hstd: Land	29,964,763	29,964,763	0	0.0%	188,756	188,756	0	0.0%	139,854	144,247	4,393	3.1%
Ag Nonhomestd	14,170,591	14,170,591	0	0.0%	141,706	141,706	0	0.0%	124,304	127,422	3,118	2.5%
<b>Total</b>	<b>466,165,659</b>	<b>466,165,659</b>	<b>0</b>	<b>0.0%</b>	<b>5,252,328</b>	<b>5,252,328</b>	<b>0</b>	<b>0.0%</b>	<b>6,150,160</b>	<b>6,256,336</b>	<b>106,176</b>	<b>1.7%</b>

Tax Capacity Spread Levies

	Pay 2003	Pay 2006	Difference	Pct Chg
County	1,980,289	1,980,289	0	0.0%
School	994,645	1,076,241	81,596	8.2%
City/Town	1,481,378	1,481,378	0	0.0%
Special Dist	208,474	208,474	0	0.0%
<b>Total</b>	<b>4,664,786</b>	<b>4,746,382</b>	<b>81,596</b>	<b>1.7%</b>

Market Value Spread Levies

	Pay 2003	Pay 2006	Difference	Pct Chg
County	2,477	2,477	0	0.0%
School	506,866	527,932	21,066	4.2%
City/Town	25,564	25,564	0	0.0%
Special Dist	0	0	0	0.0%
<b>Total</b>	<b>534,908</b>	<b>555,973</b>	<b>21,066</b>	<b>3.9%</b>

Tax Rates

	Pay 2003	Pay 2006	Pay 2003	Pay 2006
	NTC	NTC	MV	MV
County	41.99	41.99	0.006	0.006
School	21.09	22.82	1.250	1.302
City/Town	31.41	31.41	0.063	0.063
Special Dist	4.42	4.42	0.000	0.000
<b>Total</b>	<b>98.92</b>	<b>100.65</b>	<b>1.319</b>	<b>1.371</b>

Tax Base

	Pay 2003	Pay 2006	Difference	Pct Chg
Tax Capacity:	5,252,328	5,252,328	0	0.0%
TIF Value	257,266	257,266	0	0.0%
FD Contribution:	279,248	279,248	0	0.0%
<b>Taxable Value:</b>	<b>4,715,815</b>	<b>4,715,815</b>	<b>0</b>	<b>0.0%</b>
FD Distribution:	279,330	279,330	0	0.0%

Homestead Property Tax Examples

	Pay 2003	Pay 2006	Difference	Pct Chg		
Low Value:	133,300	133,300	1,242	1,272	30	2.4%
Average Value:	199,800	199,800	2,047	2,092	45	2.2%
High Value:	266,300	266,300	2,853	2,913	60	2.1%

Estimated Property Taxes Payable in 2005 - Final Levies

Compared to Final Property Taxes Payable in 2004

Statewide

	Market Value				Tax Capacity				Net Tax			
	Pay 2004	Pay 2005	Difference	Pct Chg	Pay 2004	Pay 2005	Difference	Pct Chg	Pay 2004	Pay 2005	Difference	Pct Chg
Res Homestead	216,918,977	242,554,216	25,635,239	11.8%	2,178,340	2,439,379	261,038	12.0%	2,400,167	2,585,834	185,666	7.7%
Res Nonhomestead	16,042,195	19,130,013	3,087,817	19.2%	173,009	206,449	33,440	19.3%	217,126	245,972	28,846	13.3%
Apartments	16,231,867	17,401,775	1,169,908	7.2%	202,898	217,522	14,624	7.2%	264,766	267,393	2,627	1.0%
Seasonal Rec	12,171,066	14,230,699	2,059,633	16.9%	123,125	144,089	20,964	17.0%	151,076	169,132	18,056	12.0%
New Construction	0	9,861,336	9,861,336	0.0%	0	110,894	110,894	0.0%	0	132,103	132,103	0.0%
C/I First tier	8,286,280	8,419,820	133,540	1.6%	124,294	126,297	2,003	1.6%	230,374	222,938	-7,436	-3.2%
C/I Second tier	42,801,806	44,148,059	1,346,253	3.1%	856,036	882,961	26,925	3.1%	1,553,224	1,520,172	-33,052	-2.1%
Public Utility	6,761,364	7,008,401	247,037	3.7%	134,826	139,777	4,951	3.7%	219,795	217,882	-1,912	-0.9%
Ag hstd: House	8,904,107	9,764,094	859,987	9.7%	89,066	97,703	8,637	9.7%	76,355	81,035	4,680	6.1%
Ag hstd: Land	24,453,292	26,885,054	2,431,762	9.9%	148,687	166,518	17,831	12.0%	120,858	129,444	8,586	7.1%
Ag Nonhomestead	11,061,467	12,470,218	1,408,750	12.7%	110,615	124,702	14,088	12.7%	108,218	115,513	7,295	6.7%
	363,632,420	411,873,682	48,241,262	13.3%	4,140,897	4,656,292	515,395	12.4%	5,341,960	5,687,417	345,457	6.5%

Tax Capacity Spread Levies

	Pay 2004	Pay 2005	Difference	Pct Chg
County	1,752,348	1,870,210	117,862	6.7%
School	857,825	918,964	61,139	7.1%
City/Town	1,266,307	1,370,866	104,560	8.3%
Special Dist	171,397	192,180	20,783	12.1%
<b>Total</b>	<b>4,047,877</b>	<b>4,352,221</b>	<b>304,344</b>	<b>7.5%</b>

Market Value Spread Levies

	Pay 2004	Pay 2005	Difference	Pct Chg
County	2,697	2,467	-231	-8.6%
School	386,799	409,284	22,485	5.8%
City/Town	18,718	21,736	3,018	16.1%
Special Dist	0	0	0	0.0%
<b>Total</b>	<b>408,214</b>	<b>433,487</b>	<b>25,272</b>	<b>6.2%</b>

Tax Rates

	Pay 2004	Pay 2005	Pay 2004	Pay 2005
	NTC	NTC	MV	MV
County	47.85	44.99	0.009	0.007
School	23.43	22.11	1.221	1.141
City/Town	34.58	32.98	0.059	0.061
Special Dist	4.68	4.62	0.000	0.000
<b>Total</b>	<b>110.54</b>	<b>104.70</b>	<b>1.289</b>	<b>1.209</b>

Tax Base

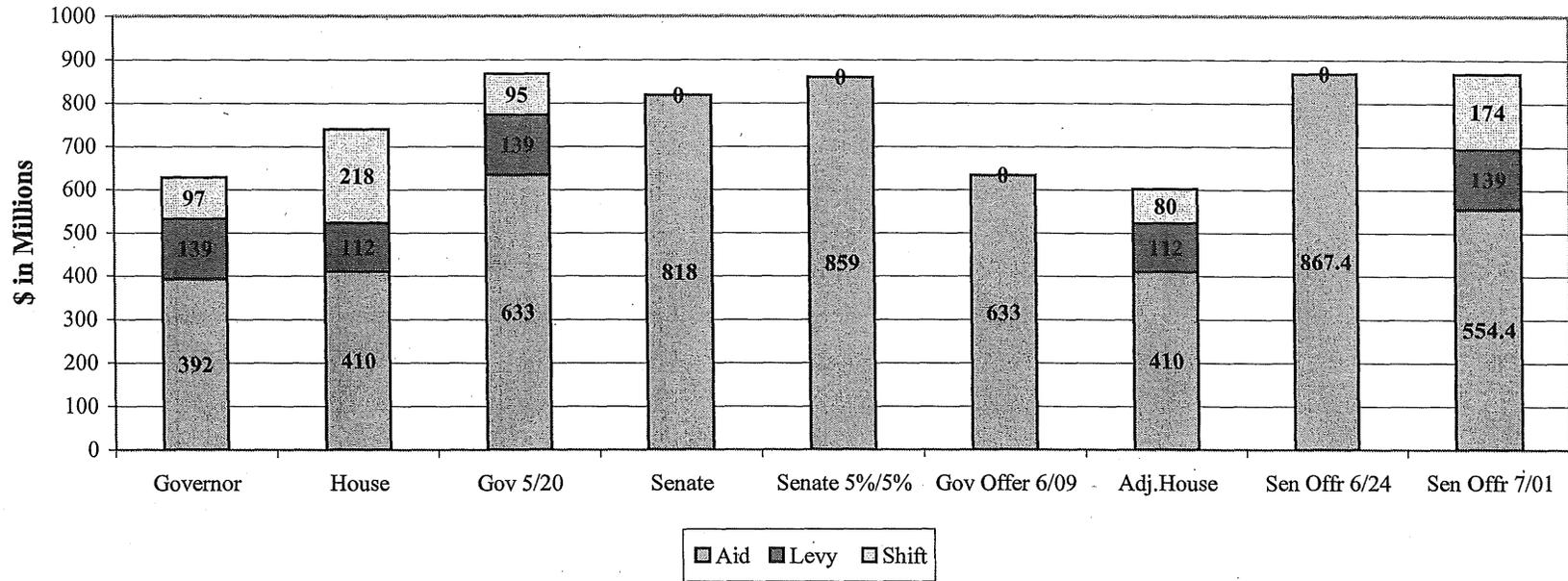
	Pay 2004	Pay 2005	Difference	Pct Chg
Tax Capacity:	4,140,897	4,656,292	515,395	12.4%
TIF Value	224,701	235,631	10,930	4.9%
FD Contribution:	254,136	263,660	9,524	3.7%
<b>Taxable Value:</b>	<b>3,662,060</b>	<b>4,157,001</b>	<b>494,941</b>	<b>13.5%</b>
FD Distribution:	254,187	263,664	9,476	3.7%

Homestead Property Tax Examples

	Pay 2004	Pay 2005	Difference	Pct Chg
Low Value:	106,300	118,800	1,035	8.4%
Average Value:	159,300	178,200	1,737	7.6%
High Value:	212,400	237,500	2,440	7.2%

	Governor	House	Gov 5/20	Senate	Senate 5%/5%	Gov Offer 6/09	Adj.House	Sen Offr 6/24	Sen Offr 7/01
Aid	392	410	633	818	859	633	410	867.4	554.4
Levy	139	112	139	0	0	0	112	0	139
Shift	97	218	95	0	0	0	80	0	174
Total	628	740	867	818	859	633	602	867.4	867.4

### Total Proposed Revenue, FY 2006-07 K-12 and ECFE Programs As of July 1, 2005



<u>Spending Items</u>	<u>Governor's</u> <u>Reductions</u>	<u>Senate</u> <u>Reductions</u>	<u>FY 2006-2007 New GF</u> <u>Revenue Need for</u> <u>Senate Proposal</u>
HHS Total \$9.074	(472,000)	(322,000)	150,000
E-12			867,400
LGA			87,000
<b><u>Total Need</u></b>			<b><u>1,104,400</u></b>
<b><u>Revenues</u></b>			
Cig. Tax at 75 Cents per Pack Floor Stocks Taxed 8-1-05 Eff. Date			367,199
Tobacco Products at 90% of Wholesale Price Floor Stocks Taxed 8-1-05 Effective Date			39,742
Senate Loophole Closing			187,000
Statewide C/I at 2002 Level			196,700
<b><u>Total Revenues</u></b>			<b><u>790,641</u></b>
<b><u>Revenue-Need</u></b>			<b><u>(313,759)</u></b>
<b><u>Additional Solution Items:</u></b>			
Property Tax for Ed			139,000
Property Tax Recognition Shift			95,000
School Payment Shift (House Position @ 83/17)			79,759
<b><u>Total Other</u></b>			<b><u>313,759</u></b>
Structural Balance Revenues from S.F. 62 (includes pipelines updated revenue)			285,495
S.F. 62 Expenditure Changes:			
MVC Reimbursement Delay			35,300
Tax Relief Account Transfer			29,185
<b>Total Change SF 62</b>			<b>349,980</b>

(Dollars in Thousands)	SF 62	Budget Proposal
\$'s Relative to General Fund		
Positive Number equals revenue gain or expenditure reduction		
<b>Item</b>		<b>FY 06-07</b>
<b>Income/Corporate</b>		
Withholding for non resident partners/C's	Source Gov., Senate, House	14,050
Federal Conformity (American Job Creation Act)	Gov., Senate, House	20,765
Tax Deferred Wages/Benda	Senate	4,100
Disallow Deduction for Fine, Fees	Senate	150
Contractor Withholding	Gov., Senate	4,000
<b>Sales Tax</b>		
Leased Vehicles	Gov., Senate, House	38,670
Rental Vehicle Sales Tax	Gov., Senate, House	18,590
Cigarettes at Wholesale	Gov., Senate, House	10,350
State Vendors/Out of State Collections	Gov., Senate, House	3,410
Gas Pipelines	Gov., Senate, House	20,800
Sprint	Senate	3,060
Event Souvenir Clothing	Senate	1,700
<b>Misc.</b>		
Gross Receipts Tax on Alcohol	Gov., Senate, House	83,950
Insurance Stop Loss	Gov., Senate, House	5,100
Abusive Tax Shelters	Senate, House (Senate language)	56,800
<b>Subtotal Revenue Changes in SF 62</b>		<b>285,495</b>
<b>Expenditures and Transfers</b>		
Expenditure Reduction: MVC Reimbursement Delay	Gov., Senate, House	35,300
Tax Relief Account Transfer		29,185
<b>Total Change SF 62</b>		<b>349,980</b>
<b>Revenue Changes and Expenditure Reductions Passed During Regular Session:</b>		
Fractional Homesteads (as per new law)		500
Streamlined Sales Tax Act Conformity (as in new law)		41,320
<b>Grand Total Package</b>		<b>391,800</b>