



STATE OF MINNESOTA

Office of Governor Mark Dayton

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

March 30, 2012

Senator Julianne Ortman
Chair
Senate Tax Committee
120 State Capitol Building
75 Rev. Dr. Martin Luther King, Jr. Blvd.
St. Paul, Minnesota 55155

Dear Senator Ortman:

Thank you for your letter regarding the statewide property tax levy. Many of the facts presented in your letter are not in dispute. However, I am very concerned about the consequences of committing now to the elimination of the statewide business property tax levy.

The Senate's state business property tax phase-out would reduce General Fund revenue by an estimated \$29 million in the current biennium, \$138 million in the next biennium, and by ever-increasing amounts in subsequent years. By the time the phase-out was complete, cumulative state revenue would be reduced by over \$7 billion based on Revenue Department projections.

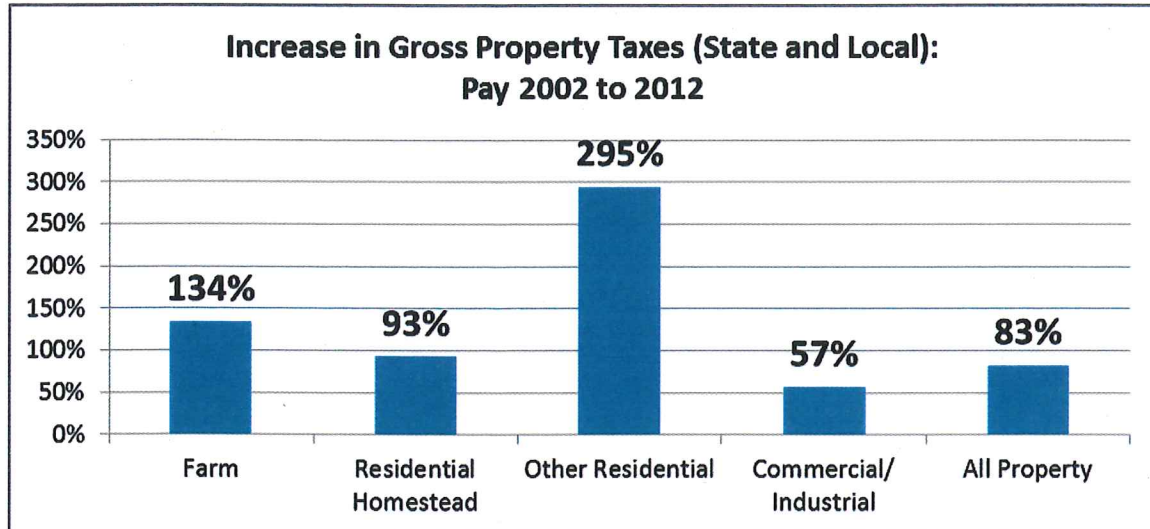
If we take into account the state business property tax phase-out plus all of the other changes in the Senate tax bill, there will be a net general fund revenue reduction of \$193 million in FY 2014-15, which would increase the \$1.1 billion deficit already projected for the next biennium.

The Legislature and I share the responsibility to restore fiscal soundness to state government's financial affairs. I cannot support changes in revenues this year, which would add to the next biennium's expected deficit and compound the problems the Legislature and I will face next year and for the foreseeable future.

I share your desire for property tax relief; however, I want it distributed fairly among all property taxpayers, including families, senior citizens, farmers, and renters, as well as businesses. Minnesota's property tax, at 40 percent of state and local government tax revenues, is seriously out of balance with revenues generated from the sales tax (26 percent) and the income tax (34 percent). That is why I have asked Revenue Commissioner Myron Frans to conduct a complete review of all Minnesota taxes, analyze their inequalities, and recommend to the people of Minnesota, the Legislature, and me a plan for comprehensive tax reform that will re-establish tax fairness and better support Minnesota's economy in the years ahead. His report, based upon meetings across our state, will be released this November.

The Department of Revenue has prepared the graph below, which compares total state and local property tax increases during the past decade among the different tax classes. From 2011 to 2012, commercial/industrial property taxes in Minnesota increased by an estimated 3.7%, which was below the 4.6% increase for all property taxes.

I do commend you and your colleagues in the Senate for not including another reduction to the renters' property tax refund (PTR) in your omnibus tax bill. The renters' PTR is a very progressive feature of our tax system; it keeps dollars in the pockets of low-income households. Economists know that low-income households spend more of every dollar they earn on needed goods and services, and that a larger



share of their money is spent within their state and local economies. By protecting the renters' PTR, you are protecting an important source of consumer demand for Minnesota businesses, as well as enhancing their very modest standards of living.

Again, Senator Ortman, thank you for giving me the opportunity to share my thoughts on eliminating the statewide business property tax. I look forward to working with you and your colleagues in developing solutions, which benefit all Minnesotans, and which are fiscally sound.

Sincerely,

Mark Dayton
Governor

cc: Commissioner Myron Frans, MN DOR
Senator David Senjem, Senate Majority Leader
Senator Thomas Bakk, Senate Minority Leader
Senator John Marty, Minority Lead, Senate Tax Committee
Representative Kurt Zellers, Speaker of the House
Representative Matt Dean, House Majority Leader
Representative Paul Thissen, House Minority Leader
Representative Greg Davids, Chair, House Tax Committee
Representative Ann Lenczewski, Minority Lead, House Tax Committee
Representative Linda Runbeck, Chair, House Property and Local Tax Division
Representative Paul Marquart, Minority Lead, House Property and Local Tax Division