



# STATE OF MINNESOTA

## Office of Governor Mark Dayton

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

July 6, 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:

In my continuing effort to find a swift resolution to our budget impasse, I offer the following two proposals for your consideration, both of which bridge the \$1.4 billion gap between our respective positions. The first is by far the better solution for Minnesota. However, I am providing a second option that does not include an income tax increase, if your caucus remains opposed to considering that source of revenue.

Both proposals require that we resolve the budget without including any policies to which you and I do not agree. Otherwise, they will complicate and delay our progress toward finding a solution. If so, and if we can agree to the total framework of our budget solution today, I am prepared to call a special session as early as tomorrow night to pass a "Lights On" bill until bills can be drafted next week, which reflect our agreement.

### **Option #1**

1. A temporary 2% income tax surcharge on annual income over \$1 million, which would expire at the conclusion of tax year 2013, would provide \$520 million in additional revenue for the biennium.
2. \$100 million from tax reform, as detailed in Attachment #1, would also provide greater tax equity for Minnesota businesses and individual taxpayers.
3. \$300 million in health care surcharges, \$170 million from hospitals and \$130 million from health plans (excluding Preferred One). They are among the principal beneficiaries of the "Early Medicaid Op-In."
4. \$490 million by increasing the shift in school aid payments from its current 70:30 ratio to 63:37. This delay in payments would appear on the state's biennial budget as a \$490 million spending reduction, thus bringing it closer to your goal. It would be coupled with a \$50 increase for each year in the per-pupil aid formula, which should more than offset any additional borrowing costs a school district might incur from the delay in payments.

**Total Deficit Reduction, Option #1: \$1.410 Billion.**

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**Option #2**

1. Increasing the tax on a pack of cigarettes by \$1.00 (effective 9/1/11) would generate \$283 million of additional revenue in the biennium. It would still leave Minnesota's tax 29 cents below Wisconsin's.
2. \$100 million from tax reform, as detailed in Attachment #1, would also provide greater tax equity for Minnesota businesses and individual taxpayers.
3. \$300 million in health care surcharges, \$170 million from hospitals and \$130 million from health plans (excluding Preferred One). They are among the principal beneficiaries of the "Early Medicaid Op-In."
4. \$700 million by increasing the shift in school aid payments from its current 70:30 ratio to 60:40. This delay in payments would appear on the state's biennial budget as a \$700 million spending reduction, thus bringing it closer to your goal. It would be coupled with a \$50 increase for each year in the per-pupil aid formula, which should more than offset any additional borrowing costs a school district might incur from the delay in payments.

**Total Deficit Reduction, Option #2: \$1.383 Billion**

Either of these two proposals, when combined with the non-repayment of the current school aid shift, reducing expenditures by \$1.449 billion, and my proposed additional spending reductions of \$2.052 billion, would resolve the \$5.0 billion projected deficit. I want to emphasize again that I believe the additional school shift in each proposal is far less preferable than finding a permanent source of revenue that would address the long term structural deficit that has plagued our state for the last several years. However, an even greater imperative right now is to find a solution, upon which we can agree, that will put Minnesotans back to work and get state government fully functioning again.

I look forward to your response.

Sincerely,



Mark Dayton  
Governor

Attachment

# Attachment 1

<b>Tax Reforms</b>	<i>(\$'s in Millions)</i>
Estate Tax Fairness--treat non-resident assets the same as residents	13
Close Corporate Loophole for Out-of-State Sales Subsidiaries	46
Index Minimum Business Fees to Inflation	14
Equal Tax Treatment for Foreign Business Income	6
Equalizes Sales Tax Treatment for On-line and MN Retailers	10
Equalizes Sales Tax Treatment for Computer Software	3
Equalizes Sales Tax Treatment for On-line and MN Lodging Establishments	8
<b>Total Tax Reforms</b>	<b>100</b>