

STATE OF MINNESOTA

Office of Governor Tim Pawlenty

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

May 15, 2007

The Honorable Margaret Anderson Kelliher
Speaker of the House of Representatives
100 Rev. Dr. Martin Luther King Jr. Blvd.
463 State Office Building
Saint Paul, Minnesota 55155

Dear Speaker Anderson Kelliher:

I have vetoed and am returning House File 2294, Chapter 81, relating to property taxes and individual income tax increases.

Although I am supportive of providing property tax relief, it should be funded within the 9.8 percent biennial budget growth and the current surplus of \$2.2 billion and not by increasing income taxes by \$452 million.

The creation of a new 4th tier for individual income taxes at a 9 percent rate would place Minnesota with the third highest tax rate in the nation. This tax would fall most heavily on the job creators and employers in the state as 90 percent of businesses are flow-through entities that pay their taxes through the individual income tax system. A permanent statewide tax increase of this magnitude would place Minnesota at a competitive disadvantage, negatively impacting our economy and the job creators in our state.

This bill also makes significant changes to the state equalization aid formula for excess levy referenda. Current law defines a specific process for calculating a school district's state equalization aid. This bill replaces the current fixed standard to a new standard based on a percentage of "the market value equalization factor." The "market value equalization factor" is a new term that is not defined under current law or in this bill. If this provision became the law, the state would not be able to calculate the equalization aid to otherwise qualifying school districts. This would potentially harm qualifying school districts with less

Speaker Kelliher

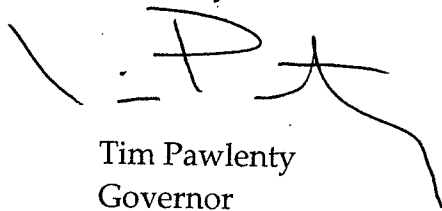
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property tax wealth – these tend to be school districts in rural areas or those in outer ring suburbs.

I encourage the Legislature to pass targeted homeowner property tax relief that is sustainable and is part of the overall budget target agreement. We look forward to working with you in this final week of session to reach a compromise that is acceptable to all on the remaining omnibus tax and funding bills.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tim Pawlenty', with a long horizontal stroke extending to the right.

Tim Pawlenty
Governor

cc: Senator James Metzen, President of the Senate
Senator Lawrence J. Pogemiller, Majority Leader
Senator David Senjem, Minority Leader
Senator Thomas Bakk
Representative Marty Seifert, Minority Leader
Representative David Dill
Representative Ann Lenczewski
Mr. Patrick E. Flahaven, Secretary of the Senate
Mr. Al Mathiowetz, Chief Clerk of the House of Representatives
Mr. Mark Ritchie, Secretary of State