



STATE OF MINNESOTA

Office of Governor Mark Dayton

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

April 5, 2012

The Honorable Kurt Zellers
Speaker of the House
State Office Building, Room 463
100 Rev. Dr. Martin Luther King, Jr. Blvd.
St. Paul, Minnesota 55155

Dear Mr. Speaker:

I have vetoed and am returning Chapter 154, House File 2083, a bill which would raid the State's budget reserves to buy back part of the remaining school shift.

I fully share the Legislature's desire to repay the debt to school districts as quickly as possible. For this reason, my budget proposals last year did not rely on additional borrowing from either our schools or our future (tobacco bonds). During this session, I supported legislation that would repay the school districts with revenues raised from closing corporate tax loopholes, which allow companies to avoid paying Minnesota taxes on their foreign operations. Unfortunately, the legislative majority decided that protecting large corporations' tax breaks for operating overseas was more important than paying back our schools responsibly.

Instead, this bill raids the just-filled budget reserve to pay back the rest of last year's school shift. Admittedly, this notion has superficial appeal. After all, there is no ready constituency for protecting the budget reserve.

However, this action would wrongly perpetuate the terrible legislative practice of the past decade: trying to solve an immediate financial problem by substituting a larger problem, which will not be visible until later.

Last session added \$1.4 billion of debt to the State's balance sheet. It was the principal reason for the subsequent downgrading of its credit rating, which increases the cost to the State of borrowing money. Now the desire to avoid public accountability for those actions motivates yet another ploy: to transfer that fiscal problem from the school districts to the state.

Last session's budget agreement shifted the state's aid payment schedule to school districts to a 60/40 ratio. After the February forecast, \$315 million was available under current state law to reduce the shift to a 64.3/35.7 schedule. This bill would

transfer \$430 million from the state's budget reserves to buy back the rest of last year's school shift. Doing so would reduce the Reserve Fund by almost two-thirds. That tactic is superficially appealing. However, the same people must pay off either school debt or state debt: the people of Minnesota.

A more responsible approach to this situation would have been for the Legislature to have held hearings and considered carefully whether the existing requirements, under state law, for a \$350 million Cash-flow Account and an additional \$653 million Reserve Fund are necessary to assure the State's financial stability, a strong credit rating, and the prompt payment of statutory obligations. If the determination were made that those two funds are more than sufficient, it would then be appropriate to discuss with my administration the best use for the other funds.

However, those careful considerations and discussions did not occur. Media reports about this legislation uniformly report on its political brilliance in rescuing those who voted for last year's school shift from the wrath of the voters. That, not fiscal responsibility, was reportedly the motive for this legislation.

As elected officials, we are responsible for the wise financial management of our state. Our first priority should be assuring state government's financial stability. This bill would significantly increase that risk. Raiding two-thirds of the Budget Reserve would reduce our protection against future volatility. While \$653 million in reserve seems like a large amount, it is less than 2% of the State's \$34 billion biennial budget. The Minnesota Department of Management and Budget (MMB), in its January 2012 Budget Reserve Report to the Legislature, stated that the State actually needs a Reserve of \$1.3 billion, because of our revenue volatility. Thus, in MMB's judgment, our current reserve is only one-half of what is needed to manage adequately the inherent risk.

Furthermore, MMB reported in last February's forecast that, with 16 months remaining in the biennium, we still face a potential variance of \$1 billion in the budget through June 30, 2013. Raiding the reserve funds would put the State's newly-achieved fiscal stability at unacceptable risk.

Our predecessors recognized the wisdom in ensuring adequate budget reserves are in place prior to paying down our other debts. State law establishing the budget reserves has been amended over the years to ensure that fully funding our reserves is our highest priority, that the reserves are funded prior to other spending commitments, and that restoring and maintaining the reserves is an economic necessity, not a budget convenience. Actions taken by previous legislatures have followed this wisdom and

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recognized that the State must get its own finances in order before repaying other obligations. Just getting out of a deep budgetary hole is no reason to cut corners now.

According to MMB, the budget decisions and accounting shifts over the past decade have significantly worsened the timing of General Fund cash revenues and spending, creating serious cash flow problems. Using the reserves to advance the shift payments would only make a bad situation worse and, in MMB's judgment, would likely force the State into short-term borrowing to pay its bills. I cannot support legislation, which could force us into that situation.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark Dayton", written in a cursive style.

Mark Dayton
Governor

cc: Senator Michelle L. Fischbach, President of the Senate
Senator David H. Senjem, Senate Majority Leader
Senator Thomas M. Bakke, Senate Minority Leader
Senator Gen Olson
Representative Paul Thissen, House Minority Leader
Representative Pat Garofalo
The Honorable Mark Ritchie, Secretary of State
Mr. Cal R. Ludeman, Secretary of the Senate
Mr. Albin A. Mathiowetz, Chief Clerk of the House of Representatives