

I have just vetoed the DFL bill which is aimed at solving Minnesota's budgetary problems.

I have done so because it cuts spending too little and increases taxes too much.

No time is a good time to add to taxpayers' burden. Economic hard times, such as these we are now experiencing, are the worst time to do so.

We must act decisively to meet a projected revenue shortfall of \$768 million by the end of the current biennium in June 1983. This shortfall is caused by the severe national recession, and is compounded by the fact that three out of every four dollars the state collects in taxes is returned to local governments, and by the fact that our property tax relief system has grown unaffordable.

We must also act decisively to meet a more immediate cash flow problem.

The plan I proposed last month to meet these problems is such a decisive plan. It recognizes that the economy may weaken even more. Therefore, now is the time to reduce our spending base. To do as the DFL has recommended would be shortsighted.

My plan remains the soundest plan on the table. It calls for a cut in state spending of more than \$630 million. This is in comparison to the \$261 million in cuts proposed by the DFL.

To lessen the immediate effect of the cuts I propose for local governments, school districts and higher education, my plan calls for the creation of a State Aids Stabilization Authority. This authority will enable local governments, schools, colleges and universities, if they choose, to spread up to half the amount of the cut over five years.

Also to lessen the blow, my plan calls for state agencies to meet the cutback, to the greatest extent possible, through attrition, rather than layoffs.

My proposal relies on the ability of local officials to achieve spending cuts in the programs and services they manage. They will be able to make substantial cuts.

DFL leaders, however, have persisted in claiming that for every dollar of local aid cut that a new dollar of property taxes will have to be raised. They have thrown around predictions of huge property tax increases of more than \$500 million with partisan carelessness. This is nonsense.

I have been candid in acknowledging that property taxes will rise under my plan--but is much less than what the DFL would lead to you believe. They will rise because we must cut back on Minnesota's overextended system of property tax relief. This system has gotten out of hand and we can't afford it anymore.

And I've also been frank in acknowledging that property taxes will rise if, and I emphasize "if," local communities decide to make up for lost aid. But it's clear that local communities will cut their expenses as much as possible rather than raise taxes.

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In total, my plan will result in deep cuts in spending at all levels of government. The DFL plan will not.

The DFL plan focuses on big increases in income taxes. Minnesotans already pay one of the highest income tax rates in the United States.

My plan, on the other hand, recognizes that in order for taxes to be kept as low as possible, citizens must understand the real cost of local services. It returns greater discretion to local communities.

In addition to not coming up with an adequate solution to our projected revenue shortfall at the end of the biennium, the DFL also has not come up with an adequate solution to the state's more immediate cash flow problem. I had requested that these two issues be treated separately so that delay on one would not result in delay on the other. The DFL, however, rejected my suggestion and combined both issues. Consequently, we're left with a solution for neither.

This delay in addressing our short-term cash flow problem places local governments in an increasingly vulnerable position.

I recognize that many people are upset that the state is not acting swiftly in solving our recession-caused budget problems. I share their frustration.

But I'm convinced that citizens would be far more upset, and rightfully so, if I were to sign into law the bill the DFL has given me. For this reason, and because the DFL bill is seriously flawed, I have vetoed it.

Nevertheless, we will not solve our problems until <u>some</u> kind of plan is passed by the Legislature and signed into law by me. Therefore, <u>Independent Republican leaders</u> and I stand ready to work with DFL leaders in coming up with a better bill.

Budget Plans

| | Tax Increases | Governor Quie | Conference Report |
|---|--|---------------------|-------------------|
| | Income Tax Increase | None | \$ 199.0 million |
| | Corporate Tax Increase | (\$- 79.0 million*) | 91.0 million |
| | Excise Tax Increase | None | 34.6 million |
| | Property Tax Increase | 146.3 million (1) | 40.9 million (2) |
| | Future Tax Obligations (shifts) | None | 294.0 million (3) |
| • | TOTAL TAX INCREASES AND FUTURE TAX OBLIGATIONS | \$ 67.3 million | \$ 659.5 million |
| | Spending Cuts | | |
| | State Operations | \$ 148.3 million 4 | \$ 81.1 million 5 |
| | Local Govt. Aids | 55.9 million | 20.0 million |
| | School Aids | 271.8 million | 129.8 million 6 |
| | Higher Education | 85.6 million | 30.2 million |
| | Other | 68.9 million (7) | -0- |
| | TOTAL SPENDING CUTS | \$ 630.5 million | \$ 261.1 million |

FOOTNOTES

- This figure represents property tax increases for 1982 only.
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- This figure represents a \$294 million cost in the next biennium even though a tax source has not been increased to cover the obligation.
- 4 Includes elected officials, MSRS pension changes, and health, welfare and corrections.
- Includes health, welfare and corrections, and State departments.
- This amount will be reduced by \$40.9 million due to an increase in the local property tax effort from 23 to 25 mills.
- 7 Includes mandated payments, salary supplement, H.E.C.B., deficiency, reduction to 80% State support for certain welfare programs and \$16 million of cancellations.
- * Corporate tax cut due to accelerated depreciation.

TAX INCREASES INCLUDED IN BILL

VETOED BY GOVERNOR QUIE (millions)

| Type of Tax Increase | Amount of Tax Increase Next 18 Months 1-1-82 to 6-30-83 | Amount of Tax Increase In Following 24 Months 7-1-83 to 6-30-85 | Total Tax Increase In Next 3½ Years | |
|---|---|---|---|--|
| Reverse Indexing | \$185.0 | \$303.0 | \$488.0 | |
| Tax on Oil Companies | 56.0 | 90.0 | 146.0 | |
| Cigarettes 5¢/Pack Increase-From 18 to 23¢ a Pack | 34.6 B¢ | 50.5 | 85.1 | |
| Other State Income Tax Incre | eases 14.0 | 12.6 | 26.6 | |
| Corporate Income Tax increas | ses <u>35.0</u> | 48.0 | 83.0 | |
| Total Tax Increases | \$324.6 | \$504.1 | \$828.7 | |

INCOME TAX INDEXING PROPÓSAL VETOED BY GOVERÑOR QUIE

Fiscal Impact: Amount of income tax increase next 18 months, 1-1-82 to 6-30-83

Amount of income tax increase in the following 24 months, 7-1-83 to 6-30-85

\$185.0 million 303.0 million

Total income tax increase next 3 1/2 years

\$488.0 million

Assumptions:

Married couple

75% of income earned by one spouse 25% of income earned by other spouse

2 dependents

Deductions are 20% of adjusted gross income

Low Income Credit not used.

Tax Year 1982

Tax Year 1983

| | · lax fear 1982 | | | lax rear 1983 | | | | | |
|------------------------------|-------------------------------------|--------------------|-------------------|-----------------------------|--|-----------------|-------------------|-----------------------------|------------|
| | Present Law Proposal Vetoed by Gove | overnor | Present Law | Proposal Vetoed by Governor | | | | | |
| MN Gross | Tax After | Tax After | Amount of | Percent of | | Tax After | Tax After | Amount of | Percent of |
| Income | Credit | Credit | Increase | Increase | | Credit | Credit | Increase | Increase |
| \$ 9,000 10,000 12,000 | \$ 0 30 . 124 | \$ 11 60 167 | \$ 11 30 43 | 100.00% 34.68 | | \$ 0 3 93 | \$ 0 30 134 | \$ - 27 41 | 900.00% |
| 15,000 | 286 | 337 | 51 | 17.83 | | 253 | 307 | 54 | 21.34 |
| 17,500 | 434 | 495 | 61 | 14.06 | | 405 | 463 | 58 | 14.32 |
| 20,000 | 589 | 662 | 73 | 12.39 | | 559 | 634 | 75 | 13.42 |
| 25,000 | 918 | 1,016 | 98 | 10.68 | | 895 | 993 | 98 | 10.95 |
| 30,000 | 1,271 | 1,384 | 113 | 8.89 | | 1,255 | 1,371 | 116 | 9.24 |
| 35,000 | 1,627 | 1,754 | 127 | 7.81 | | 1,621 | 1,750 | 129 | 7.96 |
| 40,000 | 1,984 | 2,127 | 143 | 7.21 | | 1,987 | 2,138 | 151 | 7.60 |
| 50,000 | 2,676 | 2,830 | 154 | 5.75 | | 2,715 | 2,883 | 168 | 6.19 |
| \$100,000 | 5,863 | 6,128 | 265 | 4.52 | | 6,164 | 6,446 | 282 | 4.57 |