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May 10, 1993

The Honorable Dee Long
Speaker of the House
Minnesota House of Representatives
463 State Office Building
St. Paul, MN 55155

Dear Speaker Long:

I have vetoed and am returning Chapter 153, House File 1735, the Omnibus Tax Bill.

H.F. 1735, the Omnibus Tax Bill is a unique piece of legislation in two important respects. First, it does not contain any major state tax increases. This is a positive. But second, it is not an Omnibus Tax Bill at all, as a fundamental tax provision which includes increasing income taxes by \$227 million is currently proposed in another bill entirely - specifically the K-12 education funding bill. Departure from the worthy tradition of packaging our major tax provisions in the Omnibus Tax Bill will lead to political chicanery of the most devious sort and will establish a very poor precedent for the future.

From the standpoint of presenting a truly complete tax bill, the Omnibus Tax Bill must be considered together with the K-12 education funding bill to which the income tax increase is currently attached. They are inseparable. I will veto the K-12 education funding bill because of the income tax increase provision, assuming it remains as proposed. A restructuring for compromise on K-12 will of necessity include parts of the Omnibus Tax Bill, so that, too, must be vetoed.

First, the Omnibus Tax Bill provisions relating to establishing the state's reserve at \$360 million violates two of the most fundamental principles of this administration - that we will fund our reserve at a level that avoids short term borrowing in the future and that at the end of fiscal 1997 the state will not be faced with an imbalance of resources and expenditures. We determined that a reserve of 500 million dollars was necessary to achieve those goals. A reduction in the reserve to the level set forth in the Omnibus Tax Bill is fiscally irresponsible and is therefore unacceptable.

Second, this bill again adds significant complication to an already overly complicated property tax system. In a number of areas it moves the property tax system further away from a market value based tax system. Specifically, the limited market value approach



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can only cause future tax base problems and could cost the state additional resources. I would rather join with you in developing a comprehensive reform program.

Third, once again the legislature has needlessly displayed its hostility to job development by denying corporate tax deductions for salaries over one million dollars. The meager revenue raised by this unprecedented meddling in the corporate affairs of our job producing businesses is the clearest signal of the foolish politics of this provision. Add to that the exemption for salaries paid to professional athletes and we can now cynically acclaim a new high water mark in tax policy absurdity.

While the foregoing represents my principal concerns about the Omnibus Tax Bill requiring my veto, there clearly are elements of the bill that are important to the administration and I want to thank the tax conferees for their diligent work:

- The far-sighted treatment of the capital equipment exemption from the sales tax. The conference committee appropriately protected the budget by adopting Department of Revenue language that will prevent a hemorrhage of state funds over the next year. At the same time, they established an Advisory Council to study the entire issue of taxation of capital equipment investments in the State of Minnesota. A rational policy of taxation that will satisfy Minnesota's need to create and maintain jobs would result from such a study, and I sincerely hope that we end the session with this bipartisan effort in place.
- The truth in taxation language relative to employee compensation. This is a significant step toward fuller disclosure of local government costs and will result in greater property tax restraint.
- The removal of the early June sales tax payment for close to 14,000 small businesses. This sends a clear signal to the small businesses of Minnesota that we do care.
- The removal of the housing provisions from the Omnibus Tax Bill. I do support the broad housing goals, but I would like to take a more studied approach during the next year.
- The local government consolidation and cooperation initiatives. These are consistent with the Council on Innovation and I look forward to a coordinated effort.

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So while there are several serious flaws in the conference committee tax bill requiring my veto, there also are many well reasoned and appropriate provisions that indicate true compromise is possible. I will do everything I can to bring about a speedy resolution of the state's tax program for the coming biennium.

Thank you for your consideration.

Warmest regards,



ARNE H. CARLSON
Governor

c: Senator Alan Spear, President of the Senate
Senator Roger Moe, Majority Leader
Senator Dean Johnson, Minority Leader
Representative Steve Sviggum, Minority Leader
Representative Ann Rest
Senator Doug Johnson
Mr. Patrick E. Flahaven, Secretary of the Senate
Mr. Edward A. Burdick, Chief Clerk of the House
Ms. Joan Anderson Growe, Secretary of State