Minnesota Revenue Volatility
Minnesota’s taxes make varying contributions to tax policy goals

• General goals:
  – Limited impact on economic choices (efficiency)
  – Equal treatment of equals (horizontal equity)
  – Simplicity

• Among other relevant goals:
  – Ability to pay (vertical equity)
  – Revenue stability

Source: Minnesota Tax Expenditure Review Report, 2011
Revenue volatility and growth vary by source

<table>
<thead>
<tr>
<th>Source</th>
<th>Trend Growth Rate(^1,2)</th>
<th>Revenue Volatility(^3)</th>
<th>Share of FY2014-15 Revenues(^4)</th>
<th>Share of FY2016-17 Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income Tax</td>
<td>4.0%</td>
<td>6.8%</td>
<td>50.3%</td>
<td>52.0%</td>
</tr>
<tr>
<td>General Sales Tax</td>
<td>2.6%</td>
<td>3.4%</td>
<td>26.1%</td>
<td>25.9%</td>
</tr>
<tr>
<td>Corporate Franchise Tax</td>
<td>7.0%</td>
<td>15.8%</td>
<td>6.8%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Property Tax</td>
<td>2.3%</td>
<td>1.6%</td>
<td>4.3%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>0.5%</td>
<td>5.9%</td>
<td>12.5%</td>
<td>11.7%</td>
</tr>
<tr>
<td><strong>Total General Fund Revenue</strong></td>
<td><strong>3.3%</strong></td>
<td><strong>4.3%</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

\(^1\) Based on current law.
\(^2\) Annual, 2012 estimate; Measured using a Hodrick-Prescott filter.
\(^3\) Annual, 2012 estimate; Measured by a time-varying standard deviation.
\(^4\) General Fund; November 2014 *Budget & Economic Forecast*
Minnesota’s revenue volatility has increased since mid-1990s

Minnesota General Fund Revenue Volatility

- MMB study updated in 2014

1. Based on current law tax base.
2. 2012 estimated conditional standard deviation of Minnesota’s General Fund revenue.
Economic factors primarily drive increased revenue volatility

• Some **tax base components** are more volatile:
  – Sales tax base
  – Corporate tax base
  – Wages and salaries
  – Non-wage income, including capital gains

• More volatile **non-wage sources** make up a larger share of individual taxable income.
Revenue volatility and forecast inform budget reserve recommendation

<table>
<thead>
<tr>
<th></th>
<th>Current $ Level</th>
<th>% of FY 2014-15 Non-Dedicated Revenues</th>
<th>% of FY 2016-17 Non-Dedicated Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Reserve Account</td>
<td>$994 million</td>
<td>2.5%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Cash Flow Account</td>
<td>$350 million</td>
<td>0.9%</td>
<td>0.8%</td>
</tr>
<tr>
<td><strong>Total Current Reserves Balance</strong></td>
<td><strong>$1.344 billion</strong></td>
<td><strong>3.4%</strong></td>
<td><strong>3.2%</strong></td>
</tr>
</tbody>
</table>

**MMB Recommendation:**

- FY2014-15: $1.990 billion, 5.1% (or ≥ $1.666 Billion in FY 2016-17)
- FY2016-17: $2.166 billion, - (or ≥ $2.083 Billion in FY 2016-17)

**Rating Agency Top Scores Guideline (% of Biennial Revenues)**

- Standard & Poor’s: ≥ 4%
- Moody’s: ≥ 5%

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1. Based on November 2014 *Budget & Economic Forecast*
2. Rating agency guidelines converted from % of annual as published - to % of biennial for purpose of comparison.

Source: MMB’s 2015 Budget Reserve Report (mn.gov/mmb/forecast)