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# 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**

Today's focus



# Revenue volatility and growth vary by source

	Trend Growth Rate <sup>1,2</sup>	Revenue Volatility <sup>3</sup>	Share of FY2014-15 Revenues <sup>4</sup>	Share of FY2016-17 Revenues
Individual Income Tax	4.0%	6.8%	50.3%	52.0%
General Sales Tax	2.6%	3.4%	26.1%	25.9%
Corporate Franchise Tax	7.0%	15.8%	6.8%	6.3%
Property Tax	2.3%	1.6%	4.3%	4.1%
Other Revenue	0.5%	5.9%	12.5%	11.7%
<b>Total General Fund Revenue</b>	<b>3.3%</b>	<b>4.3%</b>	<b>100%</b>	<b>100%</b>
<i>Inflation</i>	1.7%	1.0%	N/A	N/A

1. Based on current law.

2. Annual, 2012 estimate; Measured using a Hodrick-Prescott filter.

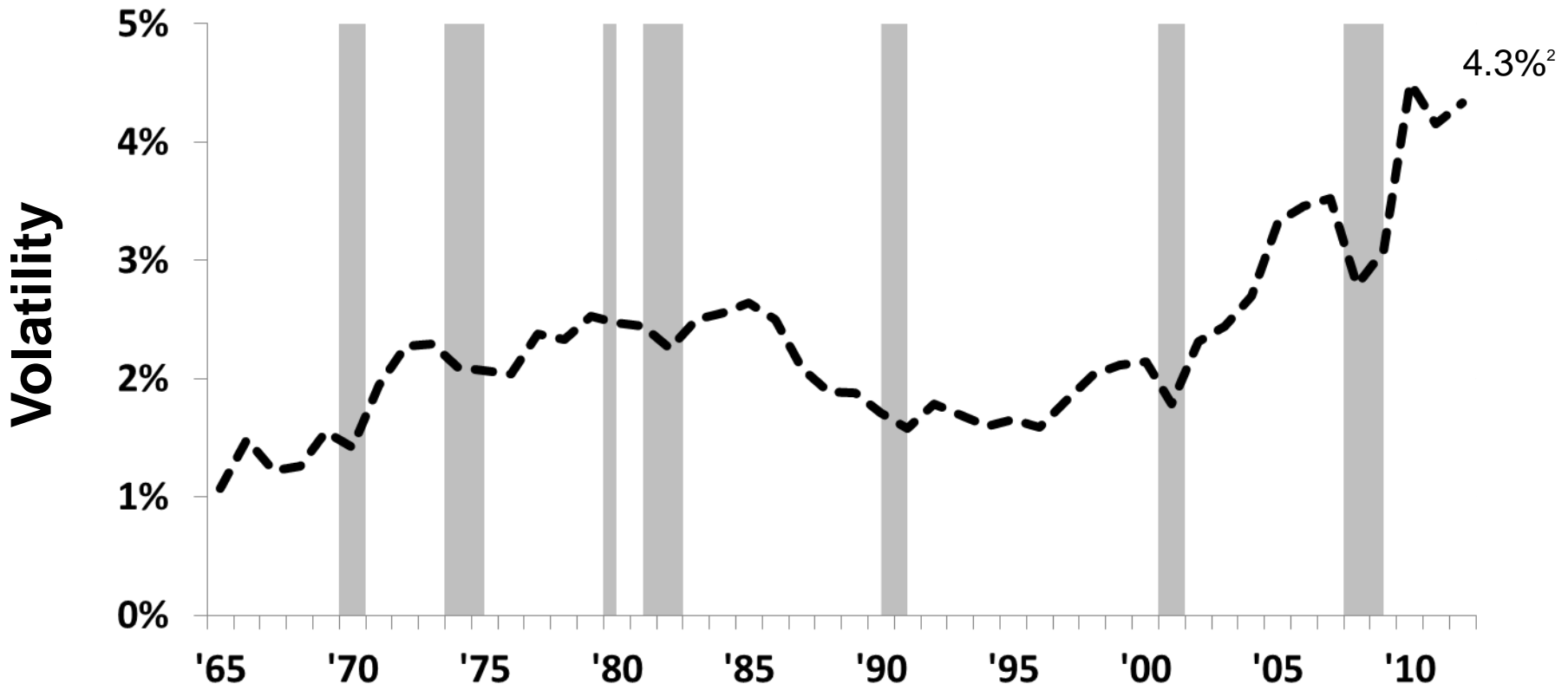
3. Annual, 2012 estimate; Measured by a time-varying standard deviation.

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

	Current \$ Level <sup>1</sup>	% of FY 2014-15 Non-Dedicated Revenues	% of FY 2016-17 Non-Dedicated Revenues
Budget Reserve Account	\$994 million	2.5%	2.4%
Cash Flow Account	\$350 million	0.9%	0.8%
<b>Total Current Reserves Balance</b>	<b>\$1.344 billion</b>	<b>3.4%</b>	<b>3.2%</b>
<b>MMB Recommendation:</b>			
<b>FY2014-15</b>	<b>\$1.990 billion</b>	<b>5.1%</b>	<b>-</b>
<b>FY2016-17</b>	<b>\$2.166 billion</b>	<b>-</b>	<b>5.2%</b>

## Rating Agency Top Scores Guideline (% of Biennial Revenues)<sup>2</sup>

Standard & Poor's	≥ 4%	(or ≥ \$1.666 Billion in FY 2016-17)
Moody's	≥ 5%	(or ≥ \$2.083 Billion in FY 2016-17)

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](http://mn.gov/mmb/forecast))