Minnesota's Revenue Problem

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During most of the 1990s and into 2001, the economy was booming and the state had large surpluses.

Response:

- Temporary tax rebates (Jesse checks)
- Permanent income tax reductions
- Buy down of general education levy
- State takeover of general education property tax
- State takeover of operating transit costs

Along came the 2001 recession and the subsequent "jobless" recovery, followed by the Great Recession.

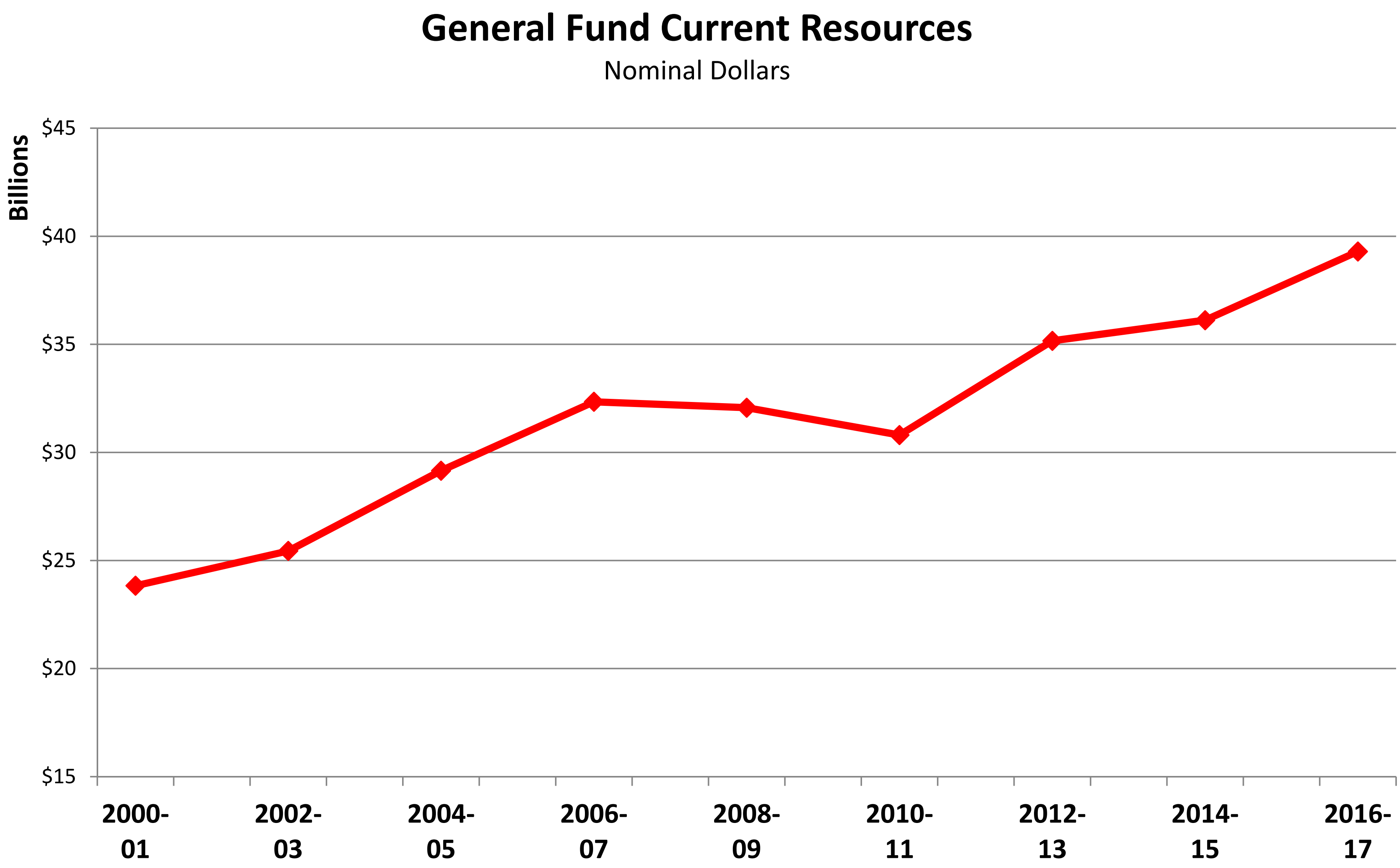
The party was over.

Measuring the Problem

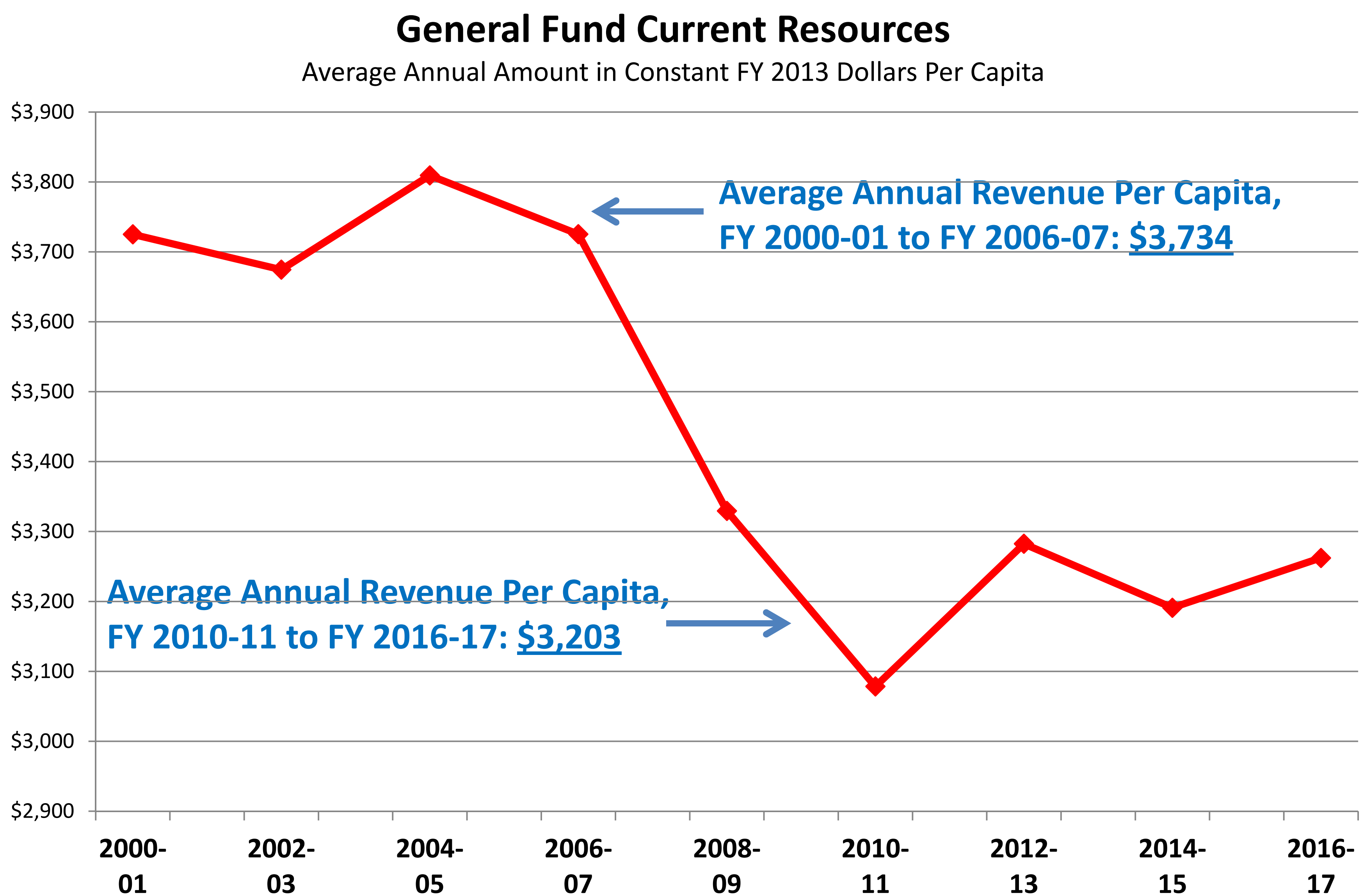
Examine general fund revenue adjusted for:

- Inflation
- Population growth

Things aren't so bad if we ignore inflation and population growth…



…but a meaningful comparison over time requires that both be taken into account.



The revenue problem:

- Real per capita general fund revenue from FY 2010-17 will be 14% less than from FY 2000-07
- Real per capita general fund revenue in next biennium will be at a 20 year low, excluding the biennium of the Great Recession

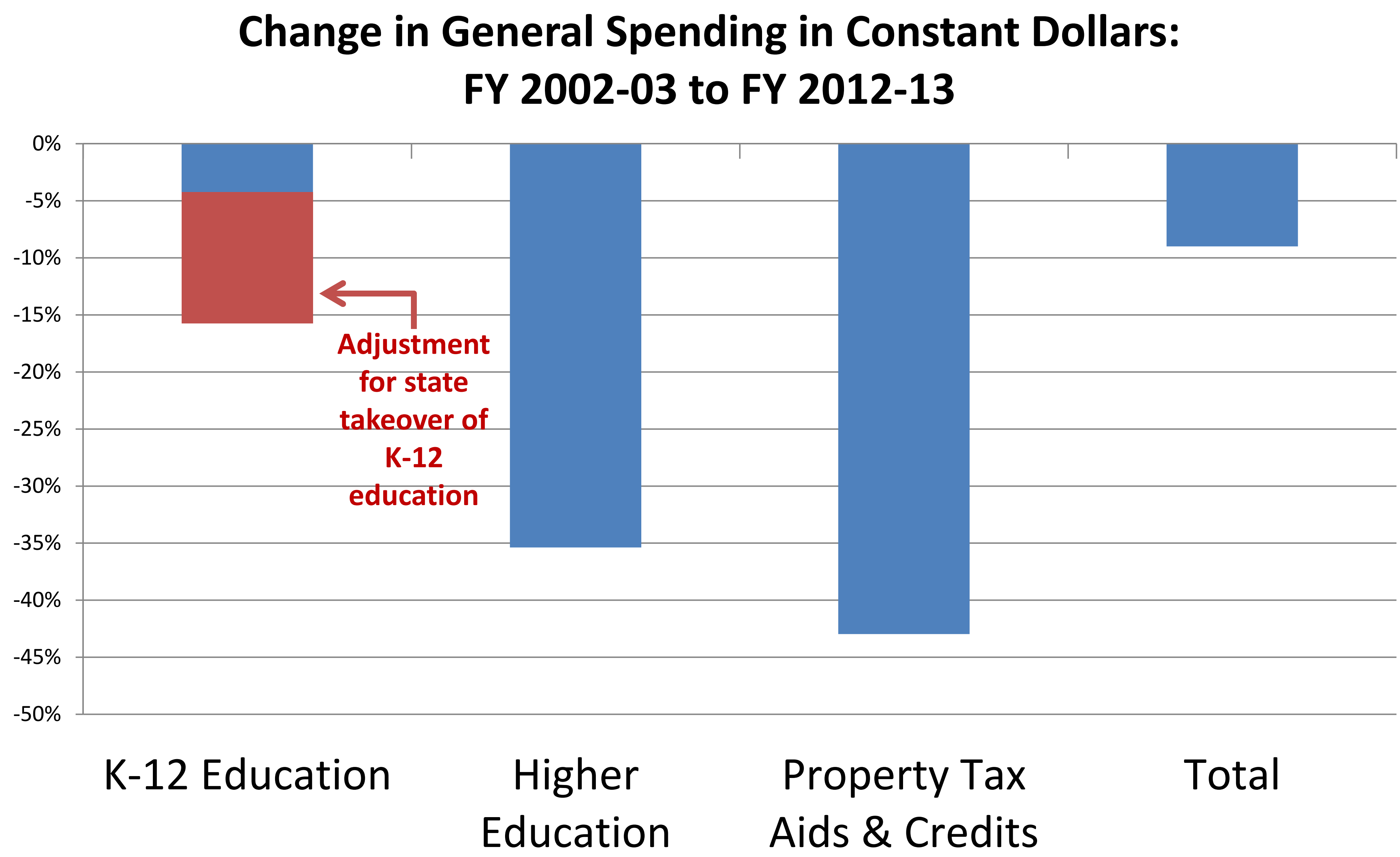
Response:

- “Shifts and gimmicks”
- Spending reductions

Shifts and gimmicks

- School aid payment delays
- School levy recognition shift
- Liquidation of endowments
- Sale of tobacco bonds
- Removal of inflation from budget forecasts

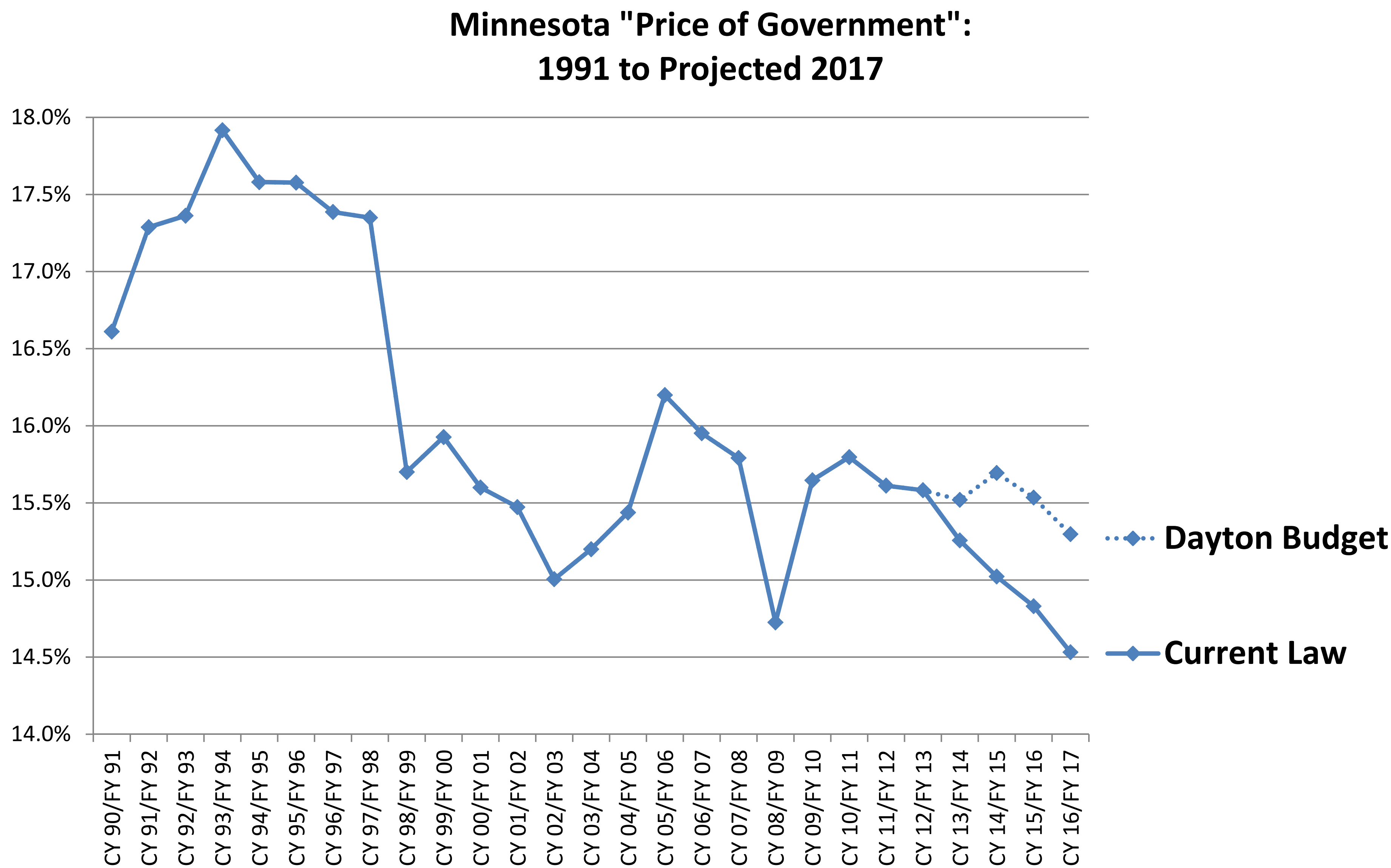
Spending Reductions



Solving the Problem

- Do not need to return to the real per capita revenue levels of the 1990s…
- …but some increase in state revenues is reasonable and affordable.

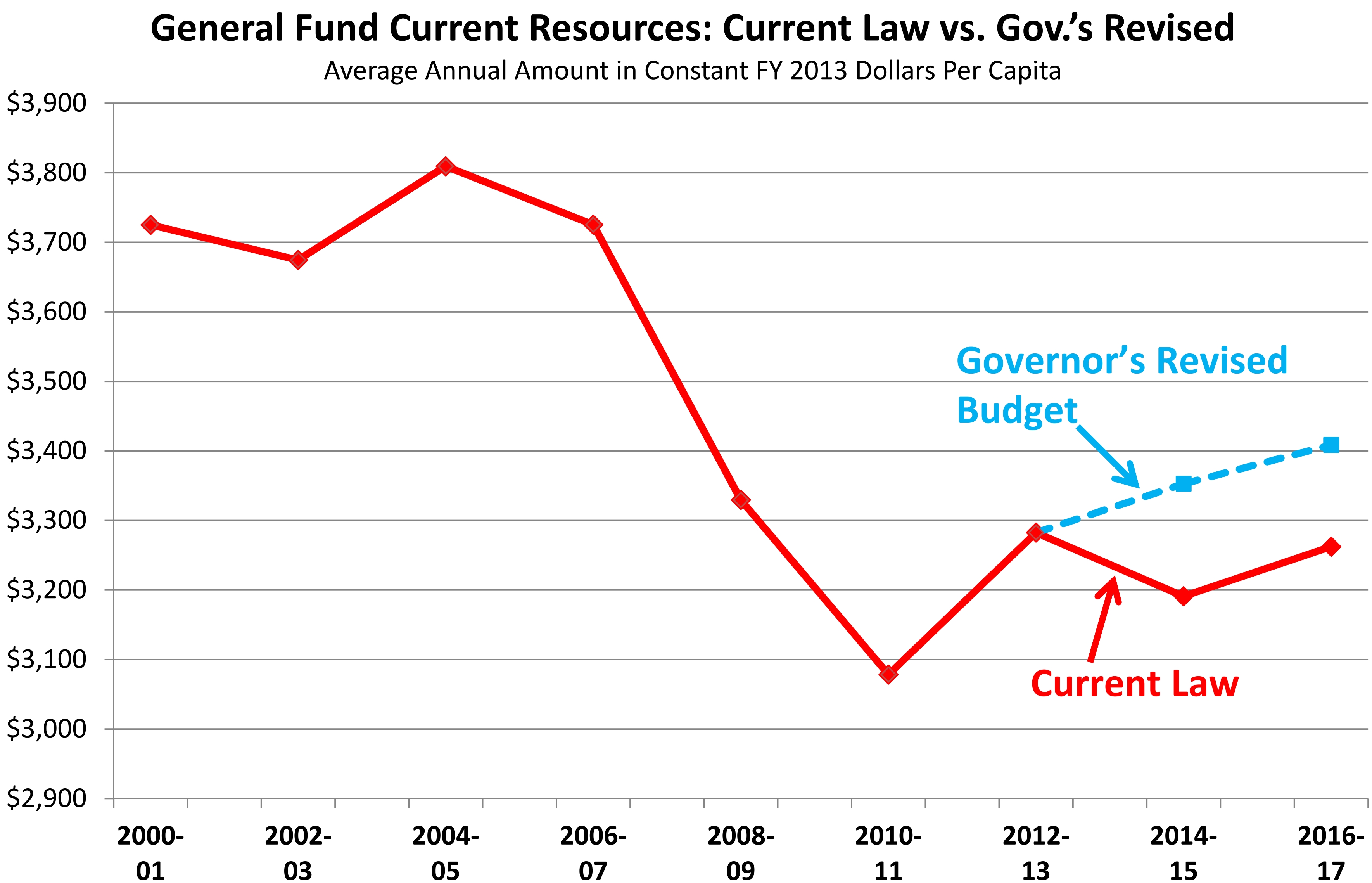
Dayton's ***original*** budget will not increase Minnesota's "Price of Government."



Over the next four years, the "Price of Government" under the *original* Dayton budget will…

- …average 15.5%, slightly less than over the previous four years (15.7%).
- …be slightly less than the average during the Pawlenty years.
- …be much less than the average during the 1990s.

Dayton's *revised* budget will recapture only a portion of Minnesota's revenue loss.



By FY 2016-17, real per capita general fund revenue under the *revised* Dayton budget will…

- …be 3.8% higher than in FY 2012-13 (less than 1.0% growth annually).
- …recapture less than 30% of the revenue loss since FY 2006-07.
- …still be at the lowest level in 20 years, excluding post-Great Recession biennia.

BOTTOM LINE

Minnesota can afford a modest revenue increase in the 2013 budget.

For an on-line version of this presentation, go to:

bit.ly/revenueproblem

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