

Testing the Sensitivity of the Mayo Revenue Capture Formula

To provide a sense of the potential magnitude of revenue that might be captured under the formula in the Mayo Clinic bill (H.F. 409), we used Olmsted county data that House Research compiles to publish *Major State Aids and Taxes*. This publication tabulates, by county, the annual amount of major state taxes collected, using data from the Department of Revenue (DOR). H.F. 409 provides for capturing a portion of incremental revenues from four state taxes: (1) individual income, (2) general sales, (3) corporate franchise, and (4) state commercial-industrial property tax. The state property tax has only been imposed since 2002, so we omitted it from this exercise. In addition, none of the amounts were adjusted for inflation. For both of these reasons, the potential capture should be understated. Olmsted county is larger than the city of Rochester. To account for this, the county's income tax collections were adjusted based on the city's share of the county population.¹ Sales tax collections were adjusted using DOR data on collections under the Rochester city sales tax. Corporate tax collections were adjusted based on the city's share of county commercial-industrial property tax capacity. These are all *ad hoc* or rough approximations, but should be reasonable for an exercise of this type.²

To test how much revenue would have been captured, the bill's formula was applied to the data to calculate the capture for five 20-year periods with 1987 through 1991 base years. The bill's formula provides for capturing two-thirds of the increase in nominal revenue over a base year (CY 2011); the total capture is limited to \$75 million per year (or the debt service payments). In all five simulations, the formula led to capturing about \$1 billion in state tax revenues. The hypothetical capture varied somewhat (but not a lot) based on the year chosen as the base. Obviously, using a low revenue year, such as 1991, a recession year, increases the capture. The amounts varied from \$989 million (1990 base year) to \$1.015 billion (1991 base year).

To provide some context, we also computed the amount of capture that would have resulted, if the formula only allowed capture in a year when the growth in revenues for Rochester exceeded the percentage growth in state revenues from the three taxes. Under this approach, if state revenues from the three taxes grew by 5 percent and the revenues attributed to Rochester grew by 6 percent, the capture would equal the difference (6% - 5% = 1%). This formula would essentially define "extraordinary revenue growth" as growth that exceeds the average rate of growth experienced by the entire state. This formula resulted in much smaller capture amounts – less \$40 million for the 20-year periods. This is explained by the fact that during the 1994 – 2007 period, the average state growth rate exceeded that in Rochester.

¹ H.F. 409's formula captures two-thirds of the growth in individual income tax collections attributable to wages and salaries paid to individuals working for private businesses at locations in Rochester and for all employees of the Mayo Clinic. Simply allocating state collections from Olmsted county residents based on Rochester's share of the county's population is obviously both over-inclusive (e.g., it includes growth in investment income, wages earned outside of Rochester, and income of employees of governments) and under-inclusive (e.g., it excludes income of living outside Rochester but working for private businesses in Rochester and for Mayo Clinic employees who live outside of Rochester).

² There are questions about how reliable and accurate the data is, particularly, the corporate franchise tax data, since it is difficult to determine from tax return data from which county corporate income and tax is derived. Similarly, the residence listed on individual income tax returns may not reflect where the individual actually lives or earned the income. However, these are the best data that we have access to.