

# Fiscal Analysis Department

## Minnesota House of Representatives



## ISSUE BRIEF

### Budget Reserve – Current Status February 2016

*With the release of the State's November 2015 state budget forecast the state budget reserve was increased to \$1.597 billion, an increase of \$602 million over the previous reserve amount. \$594 million of that increase was due to language enacted in 2014 that transfers 33.0 percent of any projected budget balance at the time of a November budget forecast to the budget reserve. The other \$8 million was a transfer from the excess reserves of the assigned risk plan.*

Law enacted in 2014 requires that 33.0 percent of any projected positive general fund budget balance for the current biennium be transferred to the budget reserve until the budget reserve reaches an adequate amount based on the volatility of the state's general fund revenue structure. The Commissioner of Minnesota Management and Budget (MMB) is required to issue a report September 30 of each year setting a percentage that reflects the percent of general fund revenue equal to an adequate budget reserve.<sup>1</sup>

The budget reserve report issued by MMB on September 30, 2015 recommended a budget reserve equal to 4.8 percent of biennial FY 2016-17 general fund revenue.<sup>2</sup> That amount was \$2.027 billion at the time the report was issued and was updated to \$2.032 billion in the November 2015 forecast (general fund revenue for the biennium increased in the November forecast).

#### Recent History

The amount to be in the budget reserve was set at \$653 million in 2001.<sup>3</sup> Under law<sup>4</sup> that amount was in effect from 2001 until the dollar amount was increased in 2014. Having that amount set in law meant that any general fund budget balance for the current biennium projected in a budget forecast was transferred to the budget reserve until the budget reserve reached \$653 million.

The budget reserve was at \$660,992,000 going into the 2014 legislative session. (The \$660,992,000 rather than \$653 million occurred because of transfers in from the assigned risk plan and because certain “leftover” amounts from repaying education shifts were transferred to the budget reserve.)

\$150 million was added to the budget reserve in the 2014 session.<sup>5</sup> The November 2014 forecast was the first forecast for which the law transferring 33.0 percent of any general fund balance to the budget reserve was in effect. \$183,347,000 was added to the budget reserve under this provision bringing the budget reserve to \$994,339,000.

<sup>1</sup> Minnesota Statutes, Section 16A.152, Subdivision 8

<sup>2</sup> Budget Reserve Report issued by MMB September 30, 2015. See the report at:  
<http://www.mn.gov/mmb/images/BR-Report-Sept2015.pdf>

<sup>3</sup> 2001 Laws, First Special Session, Chapter 5, Article 20 , Section 2

<sup>4</sup> Minnesota Statutes, Section 16A.152, Subdivision 2

<sup>5</sup> 2014 Laws, Chapter 150, Article 6, Section 16

No changes were made to the budget reserve in the 2015 session. \$8,113,000 was transferred to the budget reserve from the assigned risk plan excess surplus in the fall of 2015.<sup>6</sup> The November 2015 state budget forecast projected a general fund positive balance for FY 2016-17 of \$1.8 billion, after required transfers to two environmental funds. The 33.0 percent of that balance was \$594,070,000. After these transfers the budget reserve was at \$1,596,522,000.

The table below shows how the budget reserve has increased from November 2013 to reach the current level of \$1,596,522,000.

| <b>Changes in Budget Reserve since November 2013 Budget Forecast</b> |                 |
|--|-----------------|
| Budget Reserve in November 2013 Forecast                             | \$660,992,000   |
| Transfer to Budget Reserve in 2014 Session                           | \$150,000,000   |
| November 2014 Forecast – 33% of Balance                              | \$183,347,000   |
| Assigned Risk Transfer – Fall 2015                                   | \$ 8,113,000    |
| November 2015 Forecast – 33% of Balance                              | \$594,070,000   |
| Budget Reserve After November 2015 Forecast                          | \$1,596,522,000 |

## **Cash Flow Account**

The cash flow account is defined in statute as a separate reserve account in the General Fund.<sup>7</sup> The cash flow account has a balance of \$350 million. Unlike the budget reserve, there is no law that increases the amount in the cash flow account. (There is law that returns the cash flow account to \$350 million at the time a budget forecast shows a positive balance if the cash flow account is below \$350 million.)<sup>8</sup> The amount in the cash flow account is not part of the calculation of an adequate budget reserve discussed earlier.

## **Uses of Reserves**

Amounts in the cash flow account can be transferred out only by enacted legislation. Amounts in the budget reserve can also be transferred out by enacted legislation. However, amounts in the budget reserve must be used first in the event that general fund receipts are less than anticipated and the budget balance for the remainder of the biennium is less than needed.<sup>9</sup> The budget reserve would be reduced to \$0 before the Governor, after consultation with the Legislative Advisory Commission, is authorized to reduce appropriations – the process called unallotment.

## **What's Next**

No changes should occur to the budget reserve in the February 2016 forecast because the transfers discussed here occur only in November. On September 30, 2016 MMB will issue a new report recommending an adequate budget reserve amount. In the November 2016 forecast 33.0 percent of any positive balance, if there is a positive balance, would again be transferred to the budget reserve until the reserve reaches the adequate amount as set by MMB.

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<sup>6</sup> See Minnesota Statutes, Section 79.251, Subdivision 1, Paragraph (a), Clause (1) directing excess reserves in the assigned risk plan to be transferred to the budget reserve. This language was enacted in 2002

<sup>7</sup> Minnesota Statutes, Section 16A.152, Subdivision 1

<sup>8</sup> Minnesota Statutes, Section 16A.152, Subdivision 2

<sup>9</sup> Minnesota Statutes, Section 16A.152, Subdivision 4