



September 29, 2017

The Honorable Roger C. Chamberlain
Chair, Senate Tax Committee
95 University Avenue W., Room 3225
St. Paul, MN 55155

The Honorable Greg Davids
Chair, House Tax Committee
585 State Office Building
St. Paul, MN 55155

The Honorable Ann Rest
Minority Leader, Senate Tax Committee
95 University Ave. W., Room 2217
St. Paul, MN 55155

The Honorable Paul Marquart
Minority Leader, House Tax Committee
261 State Office Building
St. Paul, MN 55155

The Honorable Julie Rosen
Chair, Senate Finance Committee
3235 Minnesota Senate Building
St. Paul, MN 55155

The Honorable Jim Knoblach
Chair, House Ways and Means Committee
453 State Office Building
St. Paul, MN 55155

The Honorable Richard Cohen
Ranking Minority Member
Senate Finance Committee
2301 Minnesota Senate Building
St. Paul, MN 55155

The Honorable Lyndon Carlson
Minority Leader, House Ways and Means
Committee
283 State Office Building
St. Paul, MN 55155

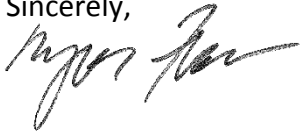
RE: 2017 Budget Reserve Report

Dear Senators and Representatives:

I am pleased to submit Minnesota Management and Budget's (MMB's) 2017 Budget Reserve Report, which outlines our recommendation for the percentage of the current biennium's general fund non-dedicated revenue that should be set aside in the budget reserve. Our methodology for evaluating the adequacy of the state's budget reserve has not changed from prior analysis.

This report is submitted in accordance with 2015 Minnesota Session Laws, Chapter 77, Article 2, Section 7, which requires the commissioner of MMB to develop and annually review a methodology for evaluating the adequacy of the state's budget reserve based on the volatility of Minnesota's general fund tax structure and to report the percentage of the current biennium's general fund non-dedicated revenue that is recommended as a budget reserve.

Sincerely,

A handwritten signature in black ink, appearing to read "Myron Frans". The signature is fluid and cursive, with a long horizontal stroke at the end.

Myron Frans
Commissioner

Attachments

cc: Eric Nauman, Senate Counsel, Research and Fiscal Analysis
Bill Marx, House Fiscal Analysis
Jay Willms, Senate Counsel, Research and Fiscal Analysis
Katherine Schill, House Fiscal Analysis
Cynthia Templin, House Fiscal Analysis

September 2017

Budget Reserve Recommendation

To adequately manage the underlying risks in Minnesota’s general fund tax revenue system, Minnesota Management and Budget (MMB) recommends a budget reserve target of 4.9 percent¹ of the current biennium’s general fund non-dedicated revenues, or a \$2.187 billion budget reserve for the 2018-19 biennium.² Minnesota’s current budget reserve is \$1.603 billion, or 3.6 percent of FY 2018-19 revenues.

Budget Reserve Summary: September 2017

	Current \$ Level	% of FY 2018-19 Non-Dedicated Revenues
MMB FY2018-19 Recommendation	\$2.187 billion	4.9%
Current Budget Reserve Account	\$1.603 billion	3.6%
Difference	\$0.584 billion	

The recommended reserve level is based on MMB’s assessment of volatility in Minnesota’s revenue system. We examine the variability over time of the state’s major tax bases and changes in the composition of tax revenues. The recommended reserve level assumes the budget is structurally balanced through the remainder of the biennium, and policymakers desire a 95 percent level of confidence that a biennial deficit generated by revenue volatility will not exceed the budget reserve.

We have reviewed the revenue volatility model and updated it to reflect both an additional year of data and tax law changes enacted by the 2017 legislature. The result of those updates is an estimated degree of revenue system volatility that is similar to what we found last year. Consequently, we have not changed the recommended percentage of revenues from the 4.9 percent we recommended in our September 2016 report.

The target is for the budget reserve account alone. Minnesota also has a cash flow account, which is intended to offset potential cash shortages caused by a mismatch between monthly revenue collections and spending. The cash flow account is currently funded at \$350 million.

¹ Rounded to the nearest tenth of a percent.

² Based on end of 2017 legislative session *General Fund Balance Analysis*.