



September 2019

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 \$2.334 billion budget reserve for the 2020-21 biennium.² At the end of the 2019 legislative session, Minnesota's projected FY 2020-21 budget reserve was \$2.075 billion, or 4.5 percent of biennial revenues.

Budget Reserve Summary: September 2019

| | Current \$ Level | % of FY 2020-21 Revenues |
|------------------------------|------------------|--------------------------|
| MMB FY2020-21 Recommendation | \$2.334 billion | 4.9% |
| Current Budget Reserve | \$2.075 billion | 4.5% |
| Difference | \$0.259 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 an additional year of data, law changes enacted by the 2019 legislature, and technical model improvements. The result of those updates is an estimated degree of revenue system volatility that is slightly lower than what we found last year, driven by declining volatility in the bases of the corporate and general sales taxes. Consequently, we have decreased the recommended percentage of revenues to 4.9 percent from the 5.0 percent recommendation in our September 2018 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 2019 legislative session *General Fund Balance Analysis*.