

October 2023

Budget Reserve Recommendation

To adequately manage the underlying risks in Minnesota’s general fund tax revenue system, Minnesota Management and Budget (MMB), in accordance with Minnesota Statutes section 16A.152 subd.8, recommends a budget reserve target of 4.9 percentⁱ of the current biennium’s general fund non-dedicated revenues, or a \$2.873 billion budget reserve for the 2024-25 biennium.ⁱⁱ At the end of the 2023 regular and special legislative session, Minnesota’s projected FY 2022-23 budget reserve was \$2.852 billion.

	<u>Current \$ Level</u>
Current Budget Reserve	\$2.852 billion
MMB FY2024-25 Recommendation	\$2.873 billion
Difference	\$0.021 billion

The recommended reserve percentage 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 percentage 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 tax base data from 2021, the shares of revenue from different tax types following 2023 Minnesota legislative changes, and revisions to the National Income and Product Accounts. With these changes, Minnesota’s estimated degree of revenue system volatility is slightly higher. As a result, we have raised our recommended reserve percentage to 4.9 percent from 4.8 percent in our 2022 report.

The recommended reserve level of \$2.873 billion is derived by multiplying the recommended reserve percentage by the latest estimate of current biennium general fund non-dedicated revenue.

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.

ⁱ Rounded to the nearest tenth of a percent.

ⁱⁱ Based on end of 2023 legislative session *General Fund Balance Analysis*.