

October 2024

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 5.2 percent¹ of the current biennium's general fund non-dedicated revenues, or a \$3.161 billion budget reserve for the 2024-25 biennium.² This represents an increase from the previous recommended target of 4.9 percent of general fund non-dedicated revenues. At the end of the 2024 regular session, Minnesota's projected FY 2024-25 budget reserve was \$2.913 billion. The new recommendation represents an increase of \$248 million in the budget reserve.

	Current \$ Level
Current Budget Reserve	\$2.913 billion
MMB FY2024-25 Recommendation	\$3.161 billion
Difference	\$0.248 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 updated the revenue volatility model to reflect tax base data from 2022, the shares of revenue from different tax bases following changes to statutes made in the 2024 legislative session, and revisions to the National Income and Product Accounts (NIPA). The total volatility measure in our model changes when (1) the volatility of any tax base changes, (2) an interaction between tax bases changes, or (3) the composition of revenues changes. In the 2024 Budget Reserve update, all three factors contribute to a higher measure of volatility:

- First, the volatility of the tax base changed. Overall volatility increased for the corporate income tax, the individual income tax, the sales tax, and other tax revenues. Annual inflation reached a peak of 8.0 percent in 2022, which affected tax revenues and introduced volatility to the system.
- Second, the volatility of the interactions between various tax bases increased.
- Third, the composition of the revenues shifted, with the most volatile tax type – corporate income tax – representing a larger share of revenues than it had in the past.

Consequently, we have raised our recommended reserve percentage to 5.2 percent from 4.9 percent in our 2024 report.

The recommended reserve level of \$3.161 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.

¹ Rounded to the nearest tenth of a percent.

² Based on end of 2024 legislative session *General Fund Balance Analysis*.