MANAGEMENT AND BUDGET

October 30, 2025

Senator Ann Rest
Chair, Senate Taxes Committee
Capitol Room 328
St. Paul, MN 55155

Senator Bill Weber
Ranking Member, Senate Taxes Committee
2211 Minnesota Senate Building
St. Paul, MN 55155

Senator John Marty
Chair, Senate Finance Committee
3235 Minnesota Senate Building
St. Paul, MN 55155

Senator Eric Pratt
Ranking Member, Senate Finance Committee
2217 Minnesota Senate Building
St. Paul, MN 55155

Representative Greg Davids
Co-Chair, House Taxes Committee
2nd Floor Centennial Building
St. Paul, 55155

Representative Aisha Gomez
Co-Chair, House Taxes Committee
5th Floor Centennial Building
St. Paul, 55155

Representative Cedric Frazier
Co-Chair, House Ways and Means Committee
5th Floor Centennial Building
St. Paul, 55155

Representative Paul Torkelson
Co-Chair, House Ways and Means Committee
2nd Floor Centennial Building
St. Paul, 55155

RE: 2025 Budget Reserve Report

Dear Senators and Representatives,

I am pleased to submit the Minnesota Management and Budget 2025 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.

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The report is submitted in accordance with Minn. Stat. 16A.152, subdivision 8, which requires the Commissioner of Minnesota Management and Budget to develop and annually review a methodology for evaluating the adequacy of the state 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,

Erin M. Campbell

Erin Campbell
Commissioner

CC: Eric Nauman, Senate Counsel, Research and Fiscal Analysis
Casey Muhm, Senate Counsel, Research and Fiscal Analysis
Emily Adriaens, House Fiscal Analysis
Cynthia Templin, House Fiscal Analysis

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October 2025

Budget Reserve Recommendation

To adequately manage the underlying risks in Minnesota's general fund tax revenue system, and in accordance with Minnesota Statutes section 16A.152 subd.8, Minnesota Management and Budget (MMB) recommends a budget reserve target of 5.2 percent[1] of the current biennium's general fund non-dedicated revenues, or a budget reserve of $3.347 billion for the 2026-27 biennium.[2] The percentage recommendation remains unchanged from last year. At the close of the FY 2024-25 biennium, Minnesota's budget reserve balance was $3.186 billion. That balance carries into the FY 2026-27 biennium. The new recommendation would increase the budget reserve by $0.161 billion ($161 million) if the November Budget and Economic Forecast projects a sufficient surplus in the current biennium.

	Current Level
Current Budget Reserve	$3.186 billion
MMB FY2026-27 Recommendation	$3.347 billion
Difference	$0.161 billion

The recommended reserve percentage of 5.2 percent was determined by MMB's assessment of the volatility in Minnesota's revenue system. We examined 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 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 2023, the shares of revenue from different tax bases from the most recently closed biennia, and the latest revisions to the National Income and Product Accounts (NIPA). With these changes, Minnesota's estimated revenue system volatility does not differ significantly from last year's estimated volatility. Consequently, our budget reserve recommended percentage of revenues remains 5.2 percent of general fund non-dedicated revenues, unchanged from our recommendation in our 2024 report.

The recommended reserve level of $3.347 billion is determined by multiplying the latest estimate of current biennium general fund non-dedicated revenues by the recommended reserve percentage.

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 2025 legislative session *General Fund Balance Analysis*.