



September 2018

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 5.0 percent¹ of the current biennium's general fund non-dedicated revenues, or a \$2.222 billion budget reserve for the 2018-19 biennium.² At the end of the 2018 legislative session, Minnesota's projected FY 2018-19 budget reserve was \$1.583 billion, or 3.6 percent of biennial revenues.³

Budget Reserve Summary: September 2018

| | \$ Level | % of FY 2018-19 Non-Dedicated Revenues |
|------------------------------|-----------------|---|
| MMB FY2018-19 Recommendation | \$2.222 billion | 5.0% |
| Budget Reserve Account | \$1.583 billion | 3.6% |
| Difference | \$0.639 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; the Bureau of Economic Analysis' (BEA's) five-year benchmark revision of historical data; and law changes enacted by the 2018 legislature. The result, primarily attributable to the historical data revision, is an estimated degree of revenue system volatility that is slightly higher than what we found last year. Consequently, we have increased the recommended percentage of revenues to 5.0 percent from the 4.9 percent recommendation in our September 2017 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 2018 legislative session *General Fund Balance Analysis*.

³ Any changes to the budget reserve made after the 2018 legislative session will be reported with the November 2018 *Budget and Economic Forecast*.