

## September 2017

### 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 percent<sup>1</sup> of the current biennium’s general fund non-dedicated revenues, or a \$2.187 billion budget reserve for the 2018-19 biennium.<sup>2</sup> Minnesota’s current budget reserve is \$1.603 billion, or 3.6 percent of FY 2018-19 revenues.

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#### Budget Reserve Summary: September 2017

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	Current \$ Level	% of FY 2018-19 Non-Dedicated Revenues
MMB FY2018-19 Recommendation	\$2.187 billion	4.9%
Current Budget Reserve Account	\$1.603 billion	3.6%
Difference	\$0.584 billion	

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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 both an additional year of data and tax law changes enacted by the 2017 legislature. The result of those updates is an estimated degree of revenue system volatility that is similar to what we found last year. Consequently, we have not changed the recommended percentage of revenues from the 4.9 percent we recommended in our September 2016 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.

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<sup>1</sup> Rounded to the nearest tenth of a percent.

<sup>2</sup> Based on end of 2017 legislative session *General Fund Balance Analysis*.