

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 4.8 percent¹ of the current biennium’s general fund non-dedicated revenues, or a \$2.392 billion budget reserve for the 2022-23 biennium.² At the end of the 2021 regular and special legislative session, Minnesota’s projected FY 2022-23 budget reserve was \$1.786 billion.

	Current \$ Level
Current Budget Reserve	\$1.786 billion
MMB FY2022-23 Recommendation	\$2.392 billion
Difference	\$0.606 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 an additional year of data. Note that the update does not include the impact of the 2020 economic downturn on tax base volatility, because data reflecting that impact is not yet available. 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 2021 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 4.8 percent we recommended in our 2020 report.

The recommended reserve level of \$2.392 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 2021 regular and special legislative sessions *General Fund Balance Analysis*.