

**October 2022**

**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 percent<sup>1</sup> of the current biennium’s general fund non-dedicated revenues, or a \$2.699 billion budget reserve for the 2022-23 biennium.<sup>2</sup> At the end of the 2022 regular and special legislative session, Minnesota’s projected FY 2022-23 budget reserve was \$2.656 billion.

	<b>Current \$ Level</b>
Current Budget Reserve	\$2.656 billion
MMB FY2022-23 Recommendation	\$2.699 billion
Difference	\$0.043 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 data from 2020, as well as revisions to the National Income and Product Accounts. With these changes, Minnesota’s estimated degree of revenue system volatility 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 2021 report.

The recommended reserve level of \$2.699 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.

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

<sup>2</sup> Based on end of 2022 legislative session *General Fund Balance Analysis*.