

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 percent¹ 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 biennium, 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*.