# MN's Budget Reserve & Cash Flow Account

Minnesota has the largest budget reserve in our history, due to our statutory budget reserve policy.

We currently have $1.603 billion in our budget reserve, $584 million short of our target.

We currently have $350 million in our cash flow account – at it's statutory cap.

In 2010, the budget reserve balance was $0 and cash flow account was $266 million.

Total Reserves

($ in millions)

Legend: Cash Flow ■ Budget Reserve
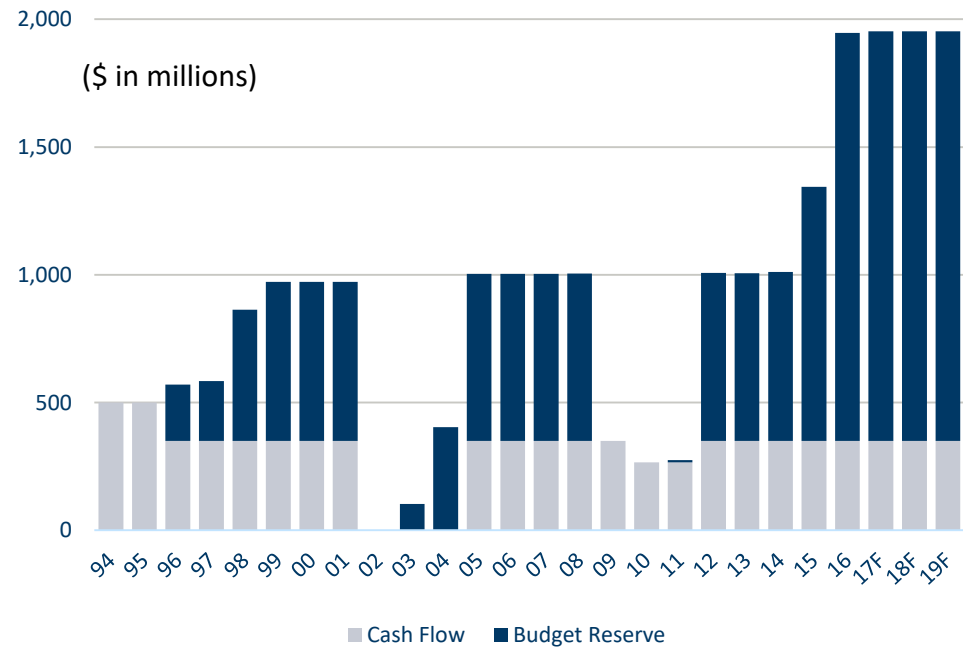
- *Adequate*: The target reserve level is based on an analysis of the state's revenue volatility, helping us better manage revenue uncertainty.

  - Target set at 95 percent level of confidence that deficit generated by revenue volatility will not exceed the budget reserve level.

  - Current Target is 4.9 percent of biennial revenue; current reserve is 3.6 percent of FY 2018-19 forecast revenue

- *Adjustable*: The target reserve level is based on a percentage of forecast revenues, allowing reserves to adjust with revenue changes over time.

  - Target for previous biennium was $2.079 billion; current is $2.187 billion

- *Automatic*: The policy transfers 33% of a positive forecast balance each November into the reserves until the target is reached, ensuring that our reserves are funded before budget changes are considered.

  - Over 3 years, $1.120 billion has been transferred to the reserve using this mechanism.

MANAGEMENT AND BUDGET

- 2008 Budget Trends Study Commission convened to examine:

  - state demographic trends for future state budget conditions, including both expected revenue collections and spending for state government services and local services supported by state revenues

  - the effect of expected demographic changes over the next 25 years on the tax base and revenue collections for state income and sales tax, or other state taxes

  - the structure of the state budget with regard to budget stability and flexibility

- Noted the trade-off between revenue Growth, Volatility and Equity.

- Found that the budget reserve had not grown to an appropriate level to manage underlying risks of tax system over time.

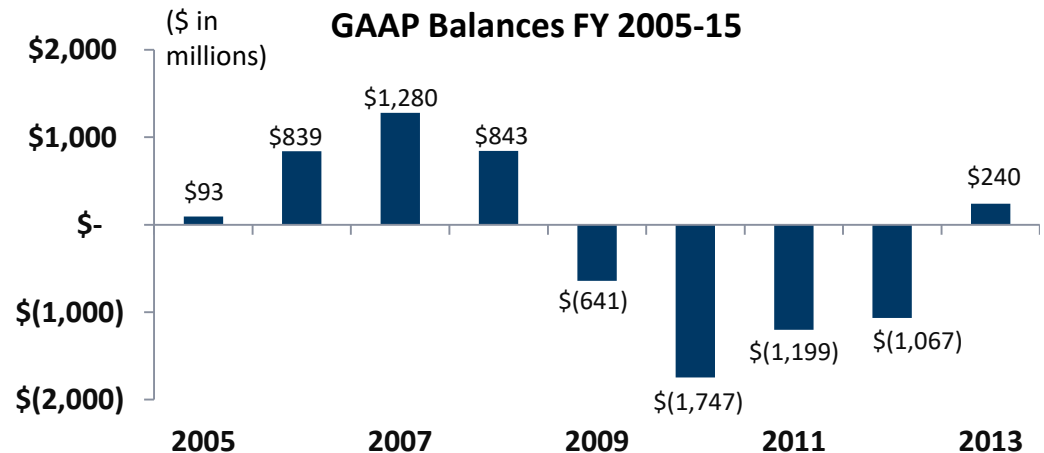- Recommended periodic assessment of volatility and adequate reserve size

MANAGEMENT AND BUDGET

- *Forecast revenues fell dramatically during the recession.*

- *The state solved recurring deficits with numerous onetime solutions including reserves, payment delays, and tobacco settlement revenue securitization.*

- *Payment delays resulted in a 4 year run of negative GAAP balances.*

- *String of deficits ended in 2013 with enactment of significant permanent tax increases*

Forecast Balances 2009-13

($ in thousands)	Budget Setting Biennium	Projected Balance
November 2008	FY 2010-11	$(5,273,556)
February 2009	FY 2010-11	(4,569,656)
November 2009	FY 2010-11	(1,202,668)
February 2010	FY 2010-11	(994,404)
November 2010	FY 2012-13	(6,188,362)
February 2011	FY 2012-13	(5,028,551)
November 2011	FY 2012-13	0
February 2012	FY 2012-13	0
November 2012	FY 2014-15	(1,095,582)
February 2013	FY 2014-15	(626,779)

GAAP Balances FY 2005-15

($ in millions)

Year	Balance
2005	$93
	$839
2007	$1,280
	$843
2009	$(641)
	$(1,747)
2011	$(1,199)
	$(1,067)
2013	$240

Stars align in 2014 for reserve policy

- Beginning in 2009, MMB economists produced an annual report setting a reserve target based on revenue volatility

- In late 2013, MMB convened a results conference on the State Bond Rating which identified reserves as a key factor in attaining AAA rating

- Economic recovery and 2013 tax bill left state with first projected surplus since 2007

- Political will present in legislature

- Institutional expertise present at staff level in both executive branch and the legislature

- Governor willing to sign

- Rating agencies initially skeptical that policymakers would adhere to the new policy

- To date, $1.120 billion transferred to reserves through automatic transfer mechanism

- Fitch cited strong reserve policy in 2016 upgrade to AAA

- 2017 legislature reduced reserves by $327 million to fund health insurance premium assistance

- Instances of legislation written to circumvent reserve mechanism and grab forecast funds

- Possible transfer again this November