



ISSUE BRIEF

The Budget Reserve and Potential Changes in the November 2015 Forecast September 2015

Recent changes in the law regarding the budget reserve could result in a significant increase in the budget reserve when the November 2015 state budget forecast is released.

Since 2009 state law has required the commissioner of Minnesota Management and Budget (MMB) to make a recommendation on the level of the state's budget reserve. The recommendation is to be the result of an evaluation of an adequate reserve based on the volatility of the state's general fund tax structure.¹ The commissioner had been required to report on this recommendation by January 15 of each year but in the 2015 legislative session the date of the report was changed to September 30 beginning in 2015.²

At the current time the budget reserve is at \$994,339,000. For the most part the amount in the budget reserve has been dependent on transfers in or out made in legislation during a legislative session. However, a 2014 law established a process for automatically adding portions of a projected budget balance to the budget reserve at the time of the November state budget forecast until the MMB recommended level is reached.³

This 2014 law was first used at the time the November 2014 state budget forecast was released when \$183 million (one-third of the projected \$551 million balance for FY 2014-15) was added to the budget reserve. After that amount was added the budget reserve reached the current \$994 million level. In addition to the budget reserve the cash flow account is at \$350 million. So the state's total reserves are at \$1.344 billion at this time. While the cash flow account is also a reserve it is not included in the budget reserve calculations discussed here.

Given the state's current budget situation there is potential for a substantial amount to be added to the budget reserve when the November 2015 forecast is released.

The most recent budget reserve report issued by MMB in January 2015⁴ recommended a budget reserve of 5.2 percent of FY 2016-17 general fund revenues or \$2.166 billion. MMB is required

¹ Minnesota Statutes Section 16A.152, Subdivision 8

² 2015 Laws, Chapter 77 Article 2, Section 7

³ 2014 Laws, Chapter 150, Article 6, Section 1-3

⁴ http://www.mn.gov/mmb/images/Budget_Reserve_Report_Jan2015.pdf

to issue a new budget reserve report by September 30, 2015 so the recommended budget reserve may change before the November 2015 forecast.

At the time the November 2015 state budget forecast is released one-third of any projected budget balance for the FY 2016-17 biennium will be transferred to the budget reserve. As of the end of the 2015 session and first special session the projected general fund balance at the end of the biennium was \$865.1 million. In addition, general fund revenue in FY 2015 exceeded the forecasted amount by \$554.7 million and revenue for the month of July revenue exceeded the forecasted revenue by \$30 million. The FY 2015 revenue carries forward into FY 2016-17 so both of these amounts can be added to the end of session balance amounts.

The end of FY 2016-17 budget balance projected in the November 2015 forecast will be reduced by contingent transfers enacted in the 2015 session and first special session. The amount of the contingent transfers, which totals over \$93 million, is transferred out of the General Fund if adequate funds are available.

On September 30, if adequate amounts are available in the General Fund at the time of the closing of accounting for FY 2015, the following one-time transfers are to be made:

- a. \$15.0 million to the disaster contingency account in Minnesota Statutes, Section. 12.221, Subdivision 6, and
- b. \$2.5 million to the fire safety account in the special revenue fund in Minnesota Statutes, Section 299F.012⁵, and
- c. An additional \$4.4 million to the disaster contingency account.⁶

At the time of the November forecast, if adequate amounts are available in the General Fund, the following one-time transfers are made:

- a. \$63.215 million to the closed landfill investment fund in Minnesota Statutes, Section 115B.421, and
- b. \$8.1 million to the metropolitan landfill contingency action account in Minnesota Statutes, Section 473.845.⁷

These transfers will occur before a determination is made on the amount of the budget balance and the one-third of that balance that will be transferred to the budget reserve. The chart on the next page estimates the calculations that would determine the amount transferred to the budget reserve under current law if that transfer was being made on September 1. The example is hypothetical – any number of changes between now and the November 2015 state budget forecast could affect the calculation. Some of those changes include: economic and other changes that positively or negatively affect revenue and spending projections for the rest of the FY 2016-17 biennium, any spending or revenue changes that might be enacted in a special session before the November forecast, differences in FY 2015 final revenue numbers from the

⁵ The transfers in items “a” and “b” are authorized in 2015 Laws, Chapter 65, Article 1, Section 17.

⁶ The transfer in item “c” is authorized in 2015 First Special Session Laws, Chapter 4, Article 1, Section 5, paragraph (g).

⁷ The transfers in items “a” and “b” are authorized in Minnesota Statutes, Section 16A.125, Subdivisions 1b and 2 as amended in 2015 First Special Session Laws, Chapter 4, Article 4, Sections 1 and 2.

preliminary amounts, FY 2015 general fund spending changes, and general fund revenue variances from forecast for August, September and October.

Hypothetical Calculation of FY 2016-17 Budget Balance		
As of September 1, 2015		
Contributions to a Budget Balance		
FY 2016-17 Balance - End of 2015 Sessions	865,136	
FY 15 Revenue above Forecast	554,652	
July 2015 Revenue above Forecast	30,000	
Subtotal - Potential FY 2016-17 Balance		1,449,788
Subtractions from a Budget Balance on Sept. 30		
Transfer to Disaster Contingency Account -1	15,000	
Transfer to Fire Safety Account	2,500	
Transfer to Disaster Contingency Account -2	4,400	
Subtractions from a Budget Balance at November Forecast		
Transfer to Closed Landfill Fund	63,215	
Transfer to Metropolitan	8,100	
Subtotal - Transfers Out of General Fund		93,215
Subtotal - Available Resources		1,356,573
One Third of Projected Resources - Potential		
Transfer to the Budget Reserve		452,191

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