

Budget Reserve and Cash Flow Account History

A budget reserve and cash flow account are critical tools used to manage risk and maintain the day-to-day operations of state government. The largest of the two reserve accounts is the budget reserve. The budget reserve or 'rainy day fund' is the first line of defense against the budget pressures caused by declining revenues. A cash flow account is designed to offset potential cash shortages caused by the mismatch of monthly revenue collections and spending.

Minnesota Statutes 16A.152 establishes budget reserve and cash flow accounts and specifies procedures to take when anticipated revenues will be less than spending in the general fund. The statute also sets priorities for use of balances that may occur during a biennium after new state forecast of revenue and spending. The following briefly summarizes the history of these accounts.

1980s

The budget reserve was established 1981, and directed the commissioner of Minnesota Management & Budget (formerly Finance) to make regular transfers (of a portion of forecast balances) to the budget reserve until it reached 2.5% of the general fund appropriations.

During the 1980s, the Legislature made various changes to the budget reserve statute, including:

- Renamed as combined budget reserve and cash flow account, recognizing cash flow needs
- Increased amounts in 1983, 1984, 1985, and 1989 to bring the balance to \$550 million
- Set and readjusted options for dealing with a shortfall—such as using the budget reserve, reducing allotments, and implementing accounting shifts.
- In 1985 set and readjusted priorities for distributing positive forecast general fund balances—such as replenishing the budget reserve (up to a level of 5% of current biennium general fund appropriations), restoring previously reduce allotments, and repaying accounting shifts.

1990s

The state drew on the budget reserve in five legislative sessions during the 1990s, including:

- Laws of 1991: Temporary reduction of \$50 million to balance the 1990-91 biennium, restored by a reduction in local aid payments; and permanent reduction of \$150 million to balance the 1992-93 budget
- Laws of 1992: Reduction of \$160 million to balance the 1992-93 biennium
- Laws of 1996: Appropriations from the budget reserve including \$9 million for low income home energy assistance grants and \$1 million for flood-related costs

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- Laws of 1997: Appropriations from the budget reserve account including \$6.5 million for costs of the 1937 treaty and \$21 million for flood-related costs
- Laws of 1998: Appropriation from the budget reserve of \$8.8 million for the federal crop insurance program.

The Legislature also continued to amend the budget reserve statute, including:

- Changing the allocation of additional revenues
- *Defining a separate cash flow account*
- Specifying procedures for handling budget surpluses and deficits
- Stating that the use and restoration of the budget reserve should be governed by principles based on the full economic cycle rather than the budget cycle

2000s

The Legislature increased the budget reserve to \$653 million in 2001 but was then forced to drain it completely in 2002. The Laws of 2002 cancelled the following accounts to the general fund:

- Budget reserve (\$653 million in FY 2002)
- Cash flow account (\$350 million in FY 2002)
- Tax relief account (\$158.1 million in FY 2003)
- LGA reform account (\$14 million in FY 2003)

In order to balance the budget, the Laws of 2002 and 2003 also enacted accounting shifts and transferred the tobacco endowment funds for general fund cash flow needs.

The Laws of 2003 restored the budget reserve to \$300 million at the start of FY 2004 and \$596 million at the start of FY 2005, and also allocated additional forecasted general fund balances to the cash flow account up to \$350 million and to the budget reserve up to \$653 million. Although the available amount was only \$522 million at the start of FY 2005 (rather than the \$596 million set in law), positive forecast general fund balances allowed the budget reserve to reach \$653 million by the end of that year. The accounting shifts from earlier years were repaid in the February 2006 forecast.

The budget reserve remained at \$653 million through fiscal years 2006 and 2007.

The reserves were reduced to zero in the 2008 and 2009 legislative sessions as part of the budget balancing actions, along with Governor Pawlenty's unallotments which also increased the K-12 school shifts. The budget reserve finished FY 2009 with a balance of zero while the cash flow account remained at \$350 million.

2010s

A decline in Minnesota's economy and state revenues in the late 2000s and early 2010s lead to budget shortfalls and structural budget deficits. These conditions made it difficult to refill the budget reserves.

The state drew on the budget reserve in five legislative sessions during the 2010s, including:

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- Laws of 2010: The cash flow account was reduced by \$84 million to \$266 million to balance the FY 2010-11 budget.
- Laws of 2011: A one-day special session following a state shutdown reduced the cash flow account from \$266 million to \$95 million to balance the FY 2012-13 budget. A \$9 million balance in the budget reserve was also eliminated.
- Laws of 2012, 1st Special Session: Budget reserve reduced by \$45 million to \$612 million in order to pay for disaster relief.

As the state economy and revenues improved in the early 2010's, successive positive economic and budget forecasts allowed the state to restore the cash flow account and budget reserve to the amounts specific in state law.

After two positive forecasts, one-time deposits from the workers' compensation assigned risk fund and small residual deposits from provisions governing K-12 school shift buyback, the cash flow account and budget reserve reached the maximum amounts established in law for the FY 2014-15

After the budget reserve was fully restored, \$45 million was used to pay for disaster relief in FY 2012. Two additional positive forecasts and small one-time deposits increased the budget reserve to the current amount of \$661 million. Together with the cash flow account balance of \$350 million, total general fund reserves account for 2.6 percent of the current budget's revenue projections.

In 2014, the Legislature increased the budget reserve by \$150 million, increasing it to \$811 million. The legislation also set a target level of approximately 10 percent of annual revenues, permitted the target level to adjust to changes in revenues and created an automatic process to dedicate one-third of future November forecast balances to the budget reserve to meet reserve target levels.