



**Responsible.
Accountable.
Flexible.
Informed.
Stable.**

The Campaign for a Better Budget Process

Build the State's Budget Reserves to a Responsible Level

Minnesota's Council of Economic Advisors has long recommended that the state maintain reserves equal to 5% of the state's general fund biennial budget. Currently, the state has \$653 million in the Budget Reserve and an additional \$350 million in the Cash Flow Account. Together, this adds up to just over \$1 billion in reserves, or only about 3% of the state's general fund biennial budget. To meet the Council's recommendations, the state would need a total of \$1.7 billion in reserves for the FY 2008-09 biennium.

A healthy level of reserves **allows policymakers time to make good budget decisions in the face of challenging economic circumstances.** Instead of making quick and drastic choices to balance the state's budget, policymakers can use reserves to buy time to respond to the situation in a more thoughtful and deliberative way. Time to consider the consequences of making cuts to services at a point when they may be most needed, or time to consider the impact of raising additional revenues.

Minnesota no longer benefits from the variety of fund balances – including the \$1 billion Tobacco Endowment – **that were available to help balance the budget the last time** the state faced a large, unexpected deficit. During the next fiscal downturn, the state will require a more substantial level of reserves in order to avoid rash decisions that could be detrimental to the well-being of Minnesotans and the long-term economic health of the state.

Maintaining a healthy level of reserves, as well as enacting a plan for rebuilding them following a deficit, is an indication of well-managed government. **National rating agencies take this into consideration when determining a state's bond rating.** High bond ratings allow the state to borrow funds to build roads and other infrastructure at a lower cost. In 1997, Minnesota achieved the highest rating from all three national rating agencies. But our rating from one agency – Moody's – fell slightly following the budget-balancing choices made in 2003. Building and preserving our reserves can help our state regain and maintain our ratings in the future.

Our Recommendation:

The Minnesota Budget Project recommends incrementally building the size of the state's budget reserves to a responsible level by enacting a plan to make it a priority for the state to build stronger reserves during good economic times and rebuild reserves after a fiscal downturn.

Enacting this recommendation would:

- Encourage responsible fiscal management by incrementally building the state's reserves.
- Build stability into the process of rebuilding reserves after an economic downturn.
- Maintain flexibility by preserving legislative authority to use funds as they see necessary.

Similar to the proposal included in the Governor's budget, the Minnesota Budget Project recommends that the state should automatically divert a portion of any one-time state budget surpluses to a reserve account until the state's reserves reach a predetermined level.