

The Pew Charitable Trusts' 2023 report "Tools for Sustainable State Budgeting" examines whether and how states are using long-term budget assessments and budget stress tests to measure and strengthen their fiscal outlooks.¹ This is one of 20 fact sheets describing the approaches of and opportunities to improve for each state that produces at least one of these analyses.²



Minnesota: Tools for Sustainable State Budgeting

<p>Long-term budget assessment: <input type="radio"/></p>	<p>Budget stress test: <input checked="" type="checkbox"/></p>
	<p>Report: "Budget Reserve Recommendation"³</p> <p>Office: Minnesota Management and Budget</p>

Analyses

Minnesota was an early adopter of budget stress testing. As required by a 2014 law, the state's executive budget agency, Minnesota Management and Budget (MMB), each fall recommends the balance needed for the state's rainy day fund, based on the stress test.⁴ MMB economists study the past volatility of state tax collections and the mix of taxes in the current budget to determine the rainy day fund level that will provide "a 95 percent level of confidence that a biennial deficit generated by revenue volatility will not exceed the budget reserve."⁵

The MMB also publishes multiyear revenue and spending projections as part of its annual “Budget and Economic Forecast” report. The February 2023 edition projected revenue to exceed spending through the fiscal year 2026-27 biennium and presented growth rates for key revenue sources and spending categories, showing which areas are expected to grow quickly and which are not.⁶ However, the reports offer little detail on Minnesota’s overall fiscal health and budget risks.

Policy impact

By using the stress test in conjunction with a law that requires rainy day fund deposits, Minnesota has increased its savings. By law, if budget officials expect a surplus at the end of the biennium and other conditions are met, up to 33% of the surplus must be transferred to the rainy day fund until the balance reaches the target identified in the MMB’s stress test.⁷ This provision helped Minnesota reach the targeted savings level in 2019 and (with the help of strong revenue growth) maintain it since then.⁸

Next steps

The MMB’s “Budget and Economic Forecast” provides all the data necessary for a long-term budget assessment and lacks only a narrative discussion that explains the policy implications of the numbers. In such a narrative, the MMB could outline the state’s fiscal strengths and weaknesses, key factors driving projected surpluses, and threats that could prevent the surpluses from materializing. Such an analysis would help policymakers use the report to decide which commitments would be affordable and take action to mitigate risks.

Although Minnesota’s reserve target analysis has served the state well, the stress test could be broadened in several ways. The MMB could examine how recessions would affect spending demands as well as revenue, gauge preparedness based on the availability of other contingencies for balancing the budget in addition to the rainy day fund, and consider the sufficiency of these contingencies using a longer time frame than the current biennium. By incorporating these elements, the stress test could provide a more comprehensive evaluation of the state’s preparedness for a recession.

Endnotes

- 1 The Pew Charitable Trusts, “Tools for Sustainable State Budgeting” (2023), <https://www.pewtrusts.org/en/research-and-analysis/reports/2023/11/tools-for-sustainable-state-budgeting>.
- 2 The Pew Charitable Trusts, “States’ Use of Sustainable Budgeting Tools” (2023), <https://www.pewtrusts.org/en/research-and-analysis/fact-sheets/2023/11/states-use-of-sustainable-budgeting-tools>.
- 3 Minnesota Management and Budget, “Budget Reserve Recommendation” (2022), <https://mn.gov/mmb-stat/000/az/forecast/budget-reserve/report-2022.pdf>.
- 4 Minnesota Stat. Ann. § 16A.152, <https://www.revisor.mn.gov/statutes/cite/16A.152>.
- 5 Minnesota Management and Budget, “Budget Reserve Recommendation.”
- 6 Minnesota Management and Budget, “Budget and Economic Forecast: February 2023” (2023), 49, 58-59, 67-69, <https://mn.gov/mmb-stat/000/az/forecast/2023/budget-and-economic-forecast/february.pdf>.
- 7 Minnesota Stat. Ann. § 16A.152.
- 8 L. Kalambokidis, state economist, Minnesota Management and Budget, email to Josh Goodman, The Pew Charitable Trusts, Aug. 16, 2023.

For more information, please visit: pewtrusts.org/fiscaltools

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