MINNESOTA · REVENUE

Budget Reserve Target

March 21, 2014

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 3167 (Lenczewski) / S.F. 2726 (Skoe)

Effective August 1, 2014.

The bill sets a target amount for the budget reserve account in the general fund. The amount is equal to 5% of general fund expenditures and transfers for the current biennium.

Currently, if the forecast of general fund revenues and expenditures indicates a general fund surplus at the close of the biennium, the Commissioner of Management and Budget must allocate money to the following accounts and purposes in priority order:

1. To the cash flow account, until it reaches $350 million
2. To the budget reserve account, until it reaches $653 million
3. To increase the school aid payment schedule to 90%
4. To restore previous school aid reductions and reduce the property tax recognition shift
5. To the state airports fund to restore $15 million previously transferred to the general fund.

Under this proposal, the $653 million limit on the amount to be transferred to the budget reserve account is replaced with an unspecified limit. The allocation to the state airports fund is deleted An additional allocation is made to the budget reserve account until the target amount is reached, provided that the amount of this allocation does not exceed an unspecified percentage of the surplus that remains after the four previous allocations in the list have been satisfied.

Forecasts beginning November 2014 would be required to include the percentage of individual income tax revenue that results from the taxation of capital gains for the current biennium and for the preceding five fiscal years. If the percentage for any fiscal year in the current biennium exceeds the average percentage over the preceding five years, the difference in the percentages multiplied by individual income tax revenue in the current-biennium fiscal years is defined as excess capital gains. Excess capital gains that exceed $5 million in a fiscal year must be transferred to the budget reserve account until the target amount is reached.

The forecast must also include the amount of net corporate franchise tax revenue collected in the prior fiscal year, as well as the average annual amount of net corporate franchise tax revenue over the prior ten years. If the prior-year revenue exceeds 125% of the ten-year average by more than $10 million, the excess over $10 million must be transferred to the budget reserve account until the target amount is reached.

The bill would not affect state tax revenue.

Source: Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx

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