BUDGET AND ECONOMIC FORECAST

MINNESOTA

FEBRUARY 2023

Produced by Minnesota Management and Budget

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Statutory Provisions

In accordance with Minnesota Statutes, section 16A.103, subdivision 1, the commissioner of Minnesota Management and Budget (MMB) must prepare a forecast of state revenue and expenditures in February and November of each year. This forecast must assume the continuation of current laws and reasonable estimates of projected growth in the national and state economies and affected populations.

Revenue must be estimated for all sources provided for in current law. Expenditures must be estimated for all obligations imposed by law and those projected to occur as a result of variables outside the control of the legislature.

A forecast prepared during the first fiscal year of a biennium must cover that biennium and the next biennium. A forecast prepared during the second fiscal year of a biennium must cover that biennium as well as the next two bienniums.

Notes

Numbers in the text and tables may not add to the totals due to rounding.

Unless otherwise noted, years used to describe the budget outlook are state fiscal years (FY), from July 1 to June 30, and years used to describe the economic outlook are calendar years (CY).

Wage and price inflation is included in revenue estimates.

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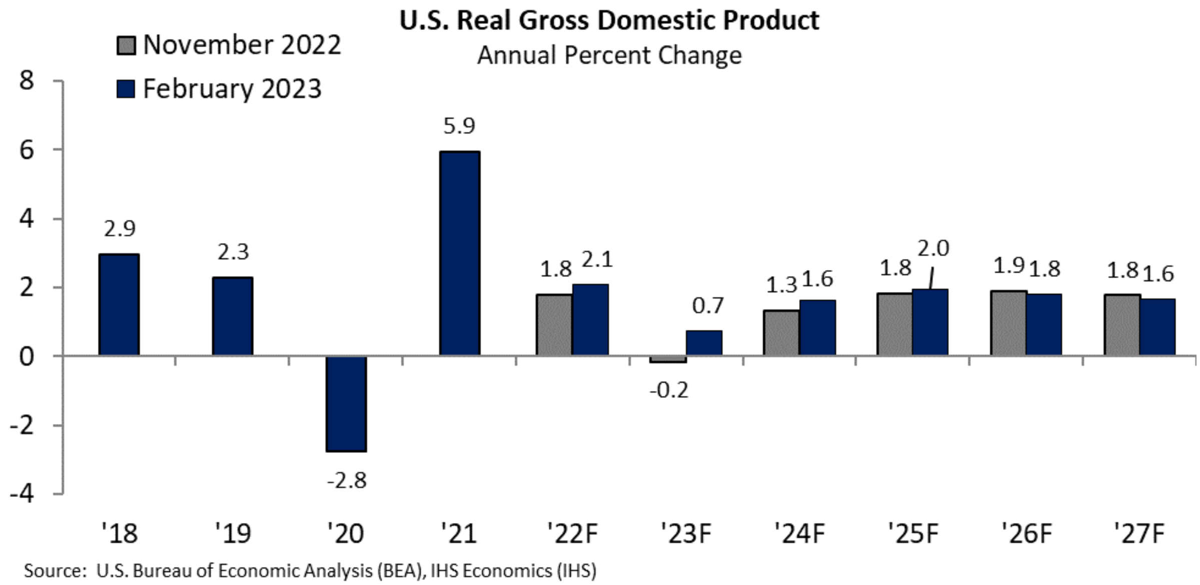
EXECUTIVE SUMMARY

Minnesota's budget and economic outlook remains stable with a general fund balance of $17.455 billion now projected for the next biennium, the majority of which is leftover balance from the current biennium. Higher collections this fiscal year and higher profits raise the individual income and corporate franchise tax forecast; however, the statutory inclusion of inflation in the spending forecast offsets the gain in resources. The U.S. economic outlook is improved with lower expected inflation and a milder recession expected this year. As in November, we expect revenues to exceed spending through FY 2027.

U.S. Economic Outlook. Since Minnesota's *Budget and Economic Forecast* was last prepared in November, U.S. employment and real GDP have grown faster than in IHS' November baseline forecast. CPI inflation has been lower than forecast, and financial conditions have eased, with higher stock prices, lower bond yields, and a stronger U.S. dollar. Consequently, IHS Markit (IHS), Minnesota's macroeconomic consultant, has revised up their forecast for economic growth in 2023. IHS now expects real GDP to grow 0.7 percent in 2023, 0.9 percentage points higher than in the November forecast. They have raised their forecast for real GDP growth in both 2024 and 2025, to 1.6 percent and 2.0 percent, respectively. Beyond 2025, the forecast growth rates have been revised down slightly to 1.8 percent in 2026 and 1.6 percent in 2027. Taken together, IHS expects real GDP growth to average 1.8 percent annually in years 2024-2027, just above the 1.7 average annual rate in the November forecast.

As they did in November, IHS continues to expect a mild, investment-driven recession in 2023. In the February outlook, the recession is shorter, starts later, and has a smaller decline in real GDP and a lower peak unemployment rate than in the prior forecast. In November, the baseline forecast included three consecutive quarters of decline in real GDP growth beginning in the fourth quarter of 2022. The BEA now estimates that real GDP *grew* by 2.7 percent in the fourth quarter of 2022. In the February baseline forecast, IHS expects real GDP to contract in the first two quarters of 2023 at annual rates of 1.3 and 0.2 percent, respectively. The recession is forecast to be mild by historical standards, with a recovery to begin in the third quarter of 2023.



IHS now expects real GDP to grow 0.7 percent in 2023, a 0.9 percentage point increase from the November forecast. They have raised their forecast for real GDP growth in both 2024 and 2025, to 1.6 percent and 2.0 percent, respectively. Beyond 2025, the forecast has been revised down slightly to 1.8 percent in 2026 and 1.6 percent in 2027.

IHS has lowered their forecast of CPI inflation this year to 4.0 percent from 4.3 percent in their November outlook. They now expect inflation to decelerate to 2.3 percent in 2024 as energy and agricultural commodity prices continue to decline, supply chain normalization continues, and wage growth slows. IHS forecasts CPI inflation to moderate further to 2.2 percent annually from 2025 through 2027.

To combat high inflation, the Federal Reserve has raised their policy rate, the federal funds rate, eight times in this policy cycle. In 2022, the Federal Reserve issued four consecutive “super-size” increases of 75 basis points each. In December, the FOMC issued a 50-basis point increase, and on February 1 they issued a 25-basis point increase, bringing the federal funds rate target range to 4.5 to 4.75 percent. This slowing pace of rate hikes is expected to bring the target range to a peak of 5.0 to 5.25 in the spring of 2023. In the IHS February forecast, the Fed reverses course in the spring of 2024 and brings the rate below 3.0 percent in 2025.

Although IHS forecasts a mild recession in the first two quarters of 2023, they expect that real consumer spending will grow in every quarter of our planning horizon after the first quarter this year. The outlook assumes that higher consumer loan interest rates and rising unemployment will restrain spending growth in 2023, when annual spending growth is expected to slow to 1.0 percent from 2.8 percent in 2022.

U.S. employers added 517,000 jobs in January, the largest gain in employment since July 2022. In addition, revisions to the second half of the year resulted in stronger gains in 2022 employment than expected. As a result, IHS’ employment forecast for 2023 is much stronger than in November. They now expect U.S. employment to increase 1.3 percent in 2023 compared to 0.0 percent in their November outlook. In years 2024 through 2027, IHS has lowered their employment growth forecast an average 0.2 percentage points per year, although they expect employment levels to be higher in each year compared to November. IHS forecasts payroll employment to increase by 1.9 million in 2023, decline by 78,000 over the course of 2024, and rise by an average of 445,000 jobs per year in years 2025-2027. IHS expects the U.S. unemployment rate to rise to 4.6 percent by late 2024 before decelerating to 4.5 percent by 2026. This is a significant improvement from the November forecast, which had the unemployment rate peaking at 5.7 percent in 2024.

The current baseline forecast hinges critically on the Fed's ability to curb inflation. IHS assumes the Fed will raise the fed funds rate to 5.0 to 5.25 percent by mid-2023 before gradually decelerating to below 3.0 percent in 2025. As a result, IHS expects inflation to slow to 4.0 percent in 2023 and 2.3 percent in 2024. If inflation persists above this level, the Fed may act more aggressively to raise interest rates than assumed in the baseline forecast.

The baseline forecast assumes that Congress raises the debt ceiling before timely payments by the Treasury are disrupted. Failure to do so poses considerable downside risk to the forecast. Additionally, this forecast assumes a FY 2024 budget is passed in time to avoid a government shutdown in October.

Intensification of the Russian-Ukraine conflict could lead to persistently higher energy prices and re-emergence of supply-chain issues. Conversely, resolution of this conflict could lower natural gas and commodity prices and ease some remaining supply chain issues. This could allow global growth—and consequently U.S. growth—to exceed the rates in IHS' baseline forecast.

Minnesota Economic Outlook. Minnesota's economic recovery from the deep 2020 downturn is expected to continue. The state's labor market remains one of the tightest in the nation, with the fourth lowest unemployment rate and the sixth highest labor force participation rate among states. Although employment growth is constrained by an aging workforce, and the state has not fully recovered the payroll jobs lost in the spring of 2020, Minnesota employers continue to add jobs. Employment increased an average of 7,600 jobs per month through 2022, growing 2.8 percent over the year—a faster rate than in 2021. IHS' forecast for U.S. wage and salary growth after 2023 is lower than in November, and they expect U.S. wages to decelerate as the expected recession pushes the U.S. unemployment rate upward. The national forecast informs our forecast, which shows Minnesota wage income growth also slower after 2023 than in November.

Minnesota's economic outlook is informed by the IHS forecasts for both the U.S. and for Minnesota, data from the Minnesota Department of Economic and Employment Development (DEED), Quarterly Census of Employment and Wages (QCEW), and Minnesota tax revenues.

Minnesota has one of the tightest labor markets in the country, with the fourth lowest unemployment rate in the U.S. (2.5 percent), the sixth highest labor force participation rate (67.9 percent), and more than two open positions for each unemployed individual in Minnesota. The state's employers created an average of 7,600 jobs per month in 2022. December ended 14 months of consecutive job growth with a decline of 5,200 jobs.

Minnesota lost 417,600 jobs in March and April 2020, approximately 14 percent of February 2020 payroll employment. Through December 2022, Minnesota has regained 377,600 of those jobs, or 90 percent of the payroll jobs lost during the pandemic recession, leaving employment 40,000 (1.3 percent) less than in February 2020. U.S. employment surpassed the February 2020 level in June 2022.

After growing 2.4 percent in 2021, we forecast that Minnesota employment grew 2.8 percent (79,300 jobs) in 2022 and will slow to 0.7 percent (19,500 jobs) in 2023 and 0.5 percent (14,100 jobs) in 2024. From 2025 to 2027 we expect employment growth to average 0.3 percent, or about 8,500 jobs per year. Minnesota's employment growth is constrained throughout the forecast horizon by lower levels of immigration into Minnesota and an aging labor force moving into retirement. The MMB model of the Minnesota economy incorporates preliminary information on forthcoming revisions to Minnesota's non-farm payroll employment, as well as personal income wages informed by new data from the Quarterly Census of Employment and Wages (QCEW) and income tax withholding collections since November.

Budget Outlook: Current Biennium. When the last November *Budget and Economic Forecast* was released, the current biennium was projected to end with a budgetary surplus of $11.617 billion. Higher collections relative to forecast and slightly lower spending result in a projected improvement of $867 million to the ending balance. With this forecast, the FY 2022-23 biennium is now projected to end with a surplus of $12.484 billion.

Current Biennium: FY 2022-23 General Fund Budget

Forecast Comparison

($ in millions)	November 2022 Forecast Adj.[1]	February 2023 Forecast	$ Change	% Change
Beginning Balance	**$7,026**	**$7,026**	**$ -**	0.0%
Revenues	59,928	60,681	753	1.3
Expenditures	51,766	51,655	(112)	(0.2)
Cash Flow & Budget Reserves	3,202	3,202	-	0.0
Stadium Reserve	368	366	(2)	(0.4)
Budgetary Balance	**$11,617**	**$12,484**	**$867**	

Revenues. Total general fund revenues for FY 2022-23 are now forecast to be $60.681 billion, $753 million (1.3 percent) more than the November 2022 forecast. Total tax revenues for the biennium are forecast to be $58.023 billion, $720 million (1.3 percent) above the prior estimate. Higher forecasts for the individual income and corporate franchise taxes offset lower forecasts for the general sales tax, the state general property tax, and other tax revenues.

[1] November forecast fiscal information in this document has been adjusted for Ch. 1 (Federal Conformity) and Ch. 8 (Attorney General Appropriation) and minor error corrections. For more information see the *Budget Outlook* section.

Current Biennium: FY 2022-23 General Fund Revenues
November 2022 vs. February 2023 Forecast Comparison

($ in millions)	November 2022 Forecast Adj.	February 2023 Forecast	$ Change	% Change
Individual Income Tax	$31,959	$32,367	$408	1.3%
General Sales Tax	14,092	14,053	(39)	-0.3
Corporate Franchise Tax	5,183	5,587	404	7.8
State General Property Tax	1,534	1,531	(2)	-0.2
Other Tax Revenue	4,535	4,485	(50)	-1.1
Total Tax Revenues	**57,303**	**58,023**	**720**	**1.3%**
Non-Tax Revenues	2,116	2,149	33	1.6
Other Resources	509	509	0	0.0
Total Revenues	**$59,928**	**$60,681**	**$753**	**1.3%**

Revenues for FY 2022-23 are now expected to exceed their FY 2020-21 levels by $10.202 billion (20.2 percent). Total tax revenues are projected to be $10.286 billion (21.5 percent) more than in FY 2020-21. Individual income tax revenues account for 58.3 percent of the biennial tax revenue growth. Net sales tax receipts account for 20.8 percent of the growth. Corporate, state general property tax, and other receipts in FY 2022-23 account for 20.9 percent of the growth and are 22.7 percent higher than in the previous biennium.

This is the fourth forecast of FY 2022-23 since FY 2022 began on July 1, 2021. After 19 months of observed collections, fiscal year-to-date tax and non-tax revenues for FY 2022-23 are $47.662 billion, 79 percent of the total expected over the biennium. With 5 months of collections left to observe, 21 percent of forecast tax and non-tax revenues are outstanding.

Biennial Comparison: FY 2020-21 vs. FY 2022-23 General Fund Revenues
February 2023 Forecast

($ in millions)	FY 2020-21	FY 2022-23	$ Change	% Change
Individual Income Tax	$26,368	$32,367	$5,999	22.8%
General Sales Tax	11,915	14,053	2,138	17.9
Corporate Franchise Tax	3,798	5,587	1,789	47.1
State General Property Tax	1,556	1,531	(25)	-1.6
Other Tax Revenue	4,101	4,485	385	9.4
Total Tax Revenues	**$47,738**	**$58,023**	**$10,286**	**21.5%**
Non-Tax Revenues	1,739	2,149	410	23.6
Other Resources	1,003	509	(493)	-49.2
Total Revenues	**$50,479**	**$60,681**	**$10,202**	**20.2%**

Minnesota individual income tax receipts are now forecast to be $32.367 billion, $408 million (1.3 percent) more than the November forecast. The increase is due to higher-than-forecast payments by partnerships and S-Corporations and technical changes pertaining to the timing of refunds and final payments. These impacts are partially offset by lower payments from fiduciaries. So far in FY 2023—and since our November forecast—net income tax receipts are $255 million more than forecast.

Net general sales tax revenue in FY 2022-23 is now forecast to be $39 million (0.3 percent) less than the prior estimate due to lower forecast gross sales tax receipts. The decreased forecast in the current biennium for gross sales tax receipts primarily reflects lower than expected gross receipts so far in FY 2023, which are partially offset by a slightly higher near-term forecast for taxable sales compared to November. Year-to-date net receipts for FY 2023 are $39 million below the prior forecast.

The corporate franchise tax is forecast to generate $5.587 billion in FY 2022-23, $404 million (7.8 percent) more than the prior estimate. A higher base of gross corporate tax receipts is the primary driver of this change. The forecast change is due to a higher base of corporate receipts so far in FY 2023 and a higher forecast for corporate profits. Year-to-date net receipts for FY 2023 are $285 million above the prior forecast.

Other tax revenue is now expected to be $50 million (1.1 percent) lower than the prior estimate. Among other taxes, the estate tax shows the largest dollar amount change, $31 million (6.4 percent) lower than the prior estimate. The cigarette and tobacco product tax forecast is $10 million (0.1 percent) lower than in November. Non-tax revenues are now expected to be $33 million (1.6 percent) higher than our November forecast.

Expenditures. Total spending for the FY 2022-23 biennium is lower than November estimates. Expenditures in the current biennium are now expected to total $51.655 billion, a reduction of $112 million (0.2 percent) from November estimates.

Current Biennium: FY 2022-23 General Fund Expenditures
Forecast Comparison

($ in millions)	November 2022 Forecast Adj.	February 2023 Forecast	$ Change	% Change
E-12 Education	$20,223	20,184	$(40)	(0.2)%
Property Tax Aids & Credits	4,649	4,641	(7)	(0.1)
Health & Human Services	15,234	15,208	(26)	(0.2)
Debt Service	1,140	1,140	0	0
All Other	10,520	10,481	(39)	(0.4)
Total Expenditures	**51,766**	**51,655**	**(112)**	**(0.2)**

Lower expenditure estimates in E-12 education are the largest driver of change in the current biennium. This reduction is due primarily to lower actual pupil counts. A $26 million decline in estimated health & human services (HHS) spending is largely due to federal law changes related to the COVID-19 public health emergency (PHE), partially offset by higher enrollment in the Medical Assistance (MA) basic care program. Spending in all other areas of the state budget were down $39 million.

Budget Outlook: Next Biennium. A balance of $17.455 billion is now projected for the FY 2024-25 biennium, $66 million lower than November projections. The increased balance from the current biennium plus an increase to the tax revenue forecast for the FY 2024-25 biennium is offset by increased spending estimates, largely due to the impact of the enactment of Ch. 10 by the 2023 legislative which allows for the inclusion of impact of inflation in spending estimates for future biennia.

Next Biennium: FY 2024-25 General Fund Budget
Forecast Comparison

($ in millions)	November 2022 Forecast Adj.	February 2023 Forecast	$ Change	% Change
Beginning Balance	**$15,188**	**$16,053**	**$865**	5.7%
Revenues	60,177	60,776	599	1.0
Expenditures	53,957	55,494	1,536	2.8
Cash Flow & Budget Reserves	3,202	3,202	-	0.0
Stadium Reserve	684	678	(6)	(0.8)
Budgetary Balance	**$17,521**	**$17,455**	**$(66)**	

Revenues. Total revenues for FY 2024-25 are now estimated to be $60.776 billion, an increase of $95 million (0.2 percent) over the current forecast for FY 2022-23 revenues. Total tax revenues for FY 2024-25 are estimated to be $58.320 billion, a 0.5 percent increase over FY 2022-23 forecast revenues. Growth of individual income tax and sales taxes account for nearly all the biennial tax revenue change. Of the major tax types, the corporate franchise tax, the state general property tax, and other tax revenues, show declines in expected revenues from FY 2022-23 to FY 2024-25.

Biennial Comparison: FY 2022-23 vs. FY 2024-25 General Fund Revenues
February 2023 Forecast

($ in millions)	FY 2022-23	FY 2024-25	$ Change	% Change
Individual Income Tax	$32,367	$32,661	$294	0.9%
General Sales Tax	14,053	15,130	1,077	7.7
Corporate Franchise Tax	5,587	4,575	(1,012)	-18.1
State General Property Tax	1,531	1,492	(39)	-2.6
Other Tax Revenue	4,485	4,462	(24)	-0.5
Total Tax Revenues	**$58,023**	**$58,320**	**$296**	**0.5%**
Non-Tax Revenues	2,149	2,260	111	5.2
Other Resources	509	197	(313)	-61.4
Total Revenues	**$60,681**	**$60,776**	**$95**	**0.2%**

The current forecast for FY 2024-25 total revenues is $599 million (1.0 percent) more than the November forecast. Total tax revenues for the next biennium are forecast to be $605 million (1.0 percent) above the prior estimate. A higher forecast for individual income tax receipts and the corporate franchise tax are partially offset by lower forecasts for the general sales tax and other tax revenue.

Next Biennium: FY 2024-25 General Fund Revenues

November 2022 vs. February 2023 Forecast Comparison

($ in millions)	November 2022 Forecast Adj.	February 2023 Forecast	$ Change	% Change
Individual Income Tax	$32,098	$32,661	$563	1.8%
General Sales Tax	15,155	15,130	(26)	-0.2
Corporate Franchise Tax	4,449	4,575	125	2.8
State General Property Tax	1,492	1,492	0	0.0
Other Tax Revenue	4,519	4,462	(57)	-1.3
Total Tax Revenues	**$57,714**	**$58,320**	**$605**	**1.0%**
Non-Tax Revenues	2,266	2,260	(7)	-0.3
Other Resources	197	197	0	0.0
Total Revenues	**$60,177**	**$60,776**	**$599**	**1.0%**

Individual income tax revenues for FY 2024-25 are forecast to be $32.661 billion, $294 million (0.9 percent) more than the current forecast for FY 2022-23. Regarding forecast change, higher forecast gross income tax receipts and lower forecast refunds raise the net income tax forecast $563 million (1.8 percent) from the prior estimate. The change is primarily driven by a higher expected payments from partnerships and S-Corporations, which raises the FY 2024-25 income tax forecast by almost $315 million.

Net general sales tax receipts for FY 2024-25 are expected to exceed FY 2022-23 levels by $1.077 billion (7.7 percent), partially offsetting declines in corporate, statewide property tax, and other revenues. Regarding forecast change, lower expected gross sales tax receipts bring the net sales tax forecast $26 million lower than the prior forecast. Gross sales tax receipts for FY 2024-25 are now forecast to be $26 million (0.2 percent) lower than the prior estimate. The forecast change is due to a lower base of gross sales tax receipts from the lower forecast for FY 2022-23, which is partially offset by higher forecast growth in taxable sales for FY 2024-25.

The corporate franchise tax is forecast to generate $4.575 billion in FY 2024-25, $1.012 billion less than the current forecast for FY 2022-23. Regarding forecast change, a higher forecast for FY 2024-25 gross corporate tax receipts offsets a higher refund forecast to generate a $125 million (2.8 percent) increase in net expected corporate receipts. The forecast change is due to a higher base of gross corporate tax receipts expected in FY 2022-23, as well as a higher forecast for corporate profits.

Other tax revenue is now forecast to decline $24 million (0.5 percent) in FY 2024-25 over FY 2022-23. Regarding forecast change, other tax revenues are now expected to be $57 million (1.3 percent) lower than we forecast in November. Among other taxes, the cigarette and tobacco products tax shows the largest dollar amount change, $20 million (7.6 percent) lower than the prior estimate. Revenue from the insurance gross receipts tax is forecast to be $19 million (1.9 percent) lower than in November due to a higher interest rate forecast. Non-tax revenues are now expected to be $7 million (0.3 percent) lower than our November forecast.

Expenditures. Base spending in the next biennium, including adjustments for expected inflation, is projected to be $55.494 billion, $1.536 billion (2.8 percent) more than November estimates. The majority of this increase is due to the addition of $1.423 billion in expected inflation, an estimate that law prohibited from inclusion when the November forecast was released. Another $106 million in spending increases compared to the last forecast is in the "all other" category and is largely due to the inclusion of debt service and other costs related to the rehabilitation and expansion of the State Office Building, which was approved by the Rules Committee for the Minnesota House of Representatives in December 2022. Compared to estimates for the current biennium, total general fund spending in the next biennium is projected to be $3.839 billion (3.6 percent annually) higher.

Next Biennium: FY 2024-25 General Fund Expenditures
Forecast Comparison

($ in millions)	**November 2022 Forecast Adj.**	**February 2023 Forecast**	**$ Change**	**% Change**
E-12 Education	$21,252	21,302	$50	0.2%
Property Tax Aids & Credits	4,473	4,435	(38)	(0.8)
Health & Human Services	17,811	17,814	3	0.0
Debt Service	1,147	1,140	(7)	(0.6)
All Other	9,274	9,379	106	1.1
Estimated Inflation	0	1,423	1,423	N/A
Total Expenditures	**53,957**	**55,493**	**1,536**	**2.8**

Estimated Inflation. This expenditure forecast also holds an estimated $1.423 billion in the FY 2024-25 biennium to account for the impact of future inflation on state services. Prior to the enactment of Laws 2023, Ch. 10, the commissioner of MMB was prohibited from including an estimate of inflation on state expenditures in the forecast, unless specified by another formula in law. Several state programs including special education, a portion of health care and long-term care spending within the Department of Human Services (DHS), and property tax refunds previously included an allowance for rate or cost increases in current law formulas. In addition, including inflation on certain categories of spending like debt service and capital project appropriations would not be appropriate. After removing these programs from total spending and then inflating the remainder by projected consumer price index growth of 2.9 percent in FY 2024 and 2.1 percent in FY 2025 results in the addition of $1.423 billion in inflationary pressure to total state spending estimates for the next biennium.

Estimated Inflation: General Fund Expenditure Budget
By Fiscal Year, February 2023 Forecast

($ in millions)	FY 2024	FY 2025	FY 2026	FY 2027
Forecast CPI change yr/yr	**2.9%**	**2.1%**	**2.2%**	**2.2%**
Total Base Expenditures	**$26,582**	**$27,492**	**$27,918**	**$28,359**
Expenditures with existing stat. inflation or excluded from calc.				
Med. Asst. Pymts w/ Inflation	5,320	5,625	5,784	6,014
Special Education	1,967	2,076	2,193	2,313
Property Tax Refunds	932	954	971	989
Debt Service	558	582	610	645
Capital Projects	168	173	173	175
Adjusted Base for Inflation Calc.	**$17,636**	**$18,082**	**$18,185**	**$18,222**
Estimated Inflation Added	**$508**	**$914**	**$1,332**	**$1,758**

Budget Outlook: Planning Estimates. This forecast provides planning estimates for the FY 2026-27 biennium. While these estimates inherently carry a higher degree of uncertainty than estimates for FY 2023-25, they do present an outlook of longer run spending and revenue growth that will assist in budget planning when setting the FY 2024-25 budget.

Revenue projections for FY 2024-27 are based on IHS's February Baseline forecast for the planning years. Expenditure projections assume that current law funding levels and policies continue unchanged, adjusted for caseload and enrollment changes authorized in law, as well as formula-driven growth. After determining base expenditures as determined by current law formulas, the expenditure forecast assumes inflationary growth for programs that do not already have allowances for cost growth built into current law formulas. [2]

Planning Horizon: General Fund Budget
By Biennium, FY2024-27, November 2022 Forecast

($ in millions)	**FY 2024-25**	**FY 2026-27**	**$ Change**	**Annual % Change**
Forecast Revenues	$60,776	$64,730	$3,954	3.2%
Projected Spending*	55,493	59,364	3,871	3.4%
Difference	**$5,283**	**$5,366**		
**Estimated inflation included (CPI)*	*$1,423*	*$3,090*		

To highlight structural balance, the table shows forecast revenues and projected spending and excludes the impact of balances from prior years and reserves. In the FY 2024-25 biennium

[2] Inflation calculation grows the estimated general fund spending base in each year by the projected CPI growth rate after removing special education, debt service, property tax refunds, and the state share for managed and some long-term care in HHS.

forecast revenue is expected to exceed base level spending by $5.283 billion and in FY 2026-27 the structural balance is expected to be $5.366 billion. Projected inflationary growth based on the Consumer Price Index is now forecast to be 2.9 percent in FY 2024 and 2.1 percent in FY 2025. In the planning biennium inflation growth is expected to be 2.2 percent per year in FY 2026 and FY 2027.

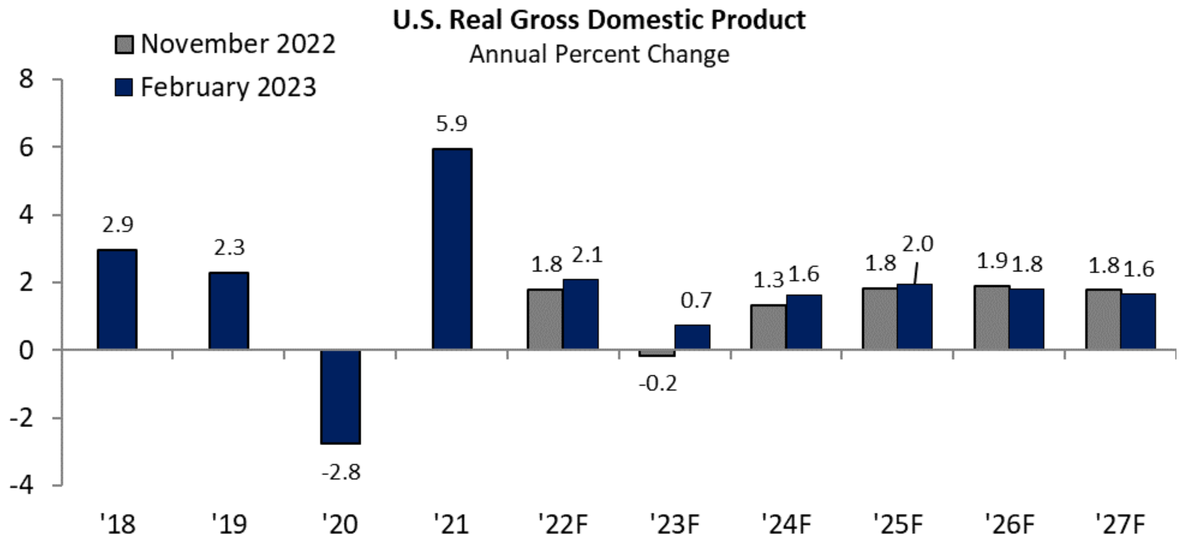
Planning estimates are not intended to predict surpluses or deficits four years into the future; rather, their purpose is to assist in determining how closely ongoing expenditures are likely to match future revenues based on trends in the economy and the level of spending that is needed to maintain programs and services. The FY 2026-27 planning estimates provide an important baseline against which the longer-term impacts and affordability of budget decisions can be measured.

ECONOMIC OUTLOOK

U.S. Economic Outlook

Since Minnesota's *Budget and Economic Forecast* was last prepared in November, U.S. employment and real GDP have grown faster than in IHS' November baseline forecast. CPI inflation has been lower than forecast, and financial conditions have eased, with higher stock prices, lower bond yields, and a stronger U.S. dollar. Consequently, IHS Markit (IHS), Minnesota's macroeconomic consultant, has revised up their forecast for economic growth in 2023. IHS now expects real GDP to grow 0.7 percent in 2023, 0.9 percentage points higher than in the November forecast. They have raised their forecast for real GDP growth in both 2024 and 2025, to 1.6 percent and 2.0 percent, respectively. Beyond 2025, the forecast growth rates have been revised down slightly to 1.8 percent in 2026 and 1.6 percent in 2027. Taken together, IHS expects real GDP growth to average 1.8 percent annually in years 2024-2027, just above the 1.7 average annual rate in the November forecast.

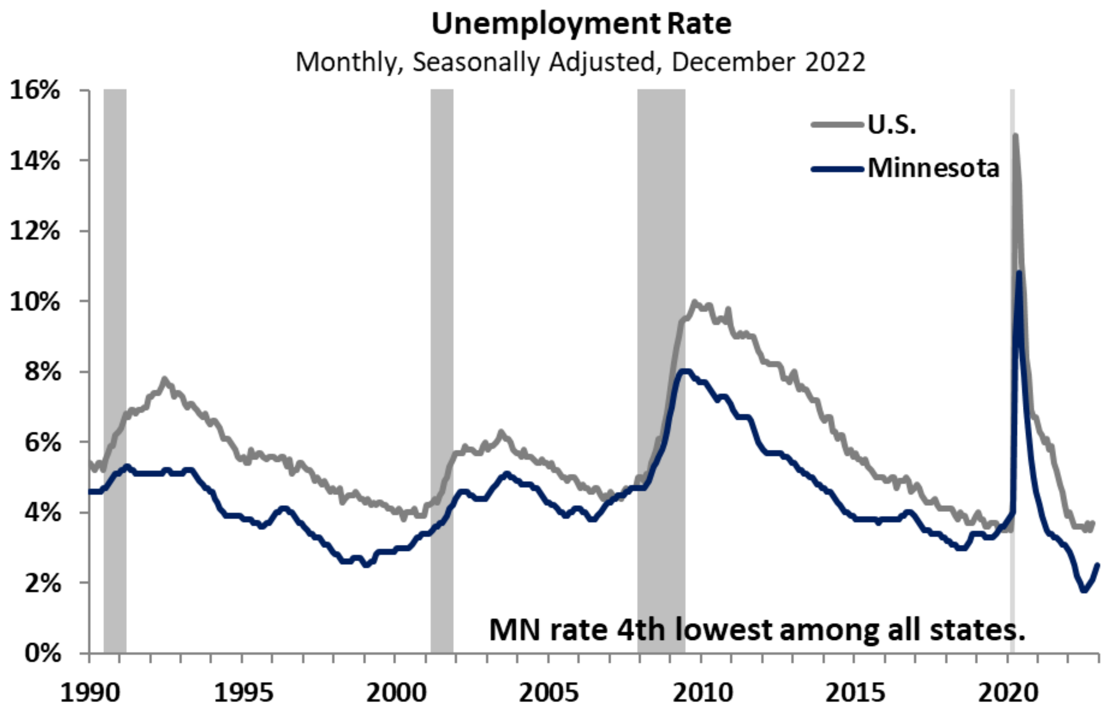
As they did in November, IHS continues to expect a mild, investment-driven recession in 2023. In the February outlook, the recession is shorter, starts later, and has a smaller decline in real GDP and a lower peak unemployment rate than in the prior forecast. In November, the baseline forecast included three consecutive quarters of decline in real GDP growth beginning in the fourth quarter of 2022. The BEA now estimates that real GDP *grew* by 2.7 percent in the fourth quarter of 2022. In the February baseline forecast, IHS expects real GDP to contract in the first two quarters of 2023 at annual rates of 1.3 and 0.2 percent, respectively. The recession is forecast to be mild by historical standards, with a recovery to begin in the third quarter of 2023.



Source: U.S. Bureau of Economic Analysis (BEA), IHS Economics (IHS)

IHS now expects real GDP to grow 0.7 percent in 2023, a 0.9 percentage point increase from the November forecast. They have raised their forecast for real GDP growth in both 2024 and 2025, to 1.6 percent and 2.0 percent, respectively. Beyond 2025, the forecast has been revised down slightly to 1.8 percent in 2026 and 1.6 percent in 2027.

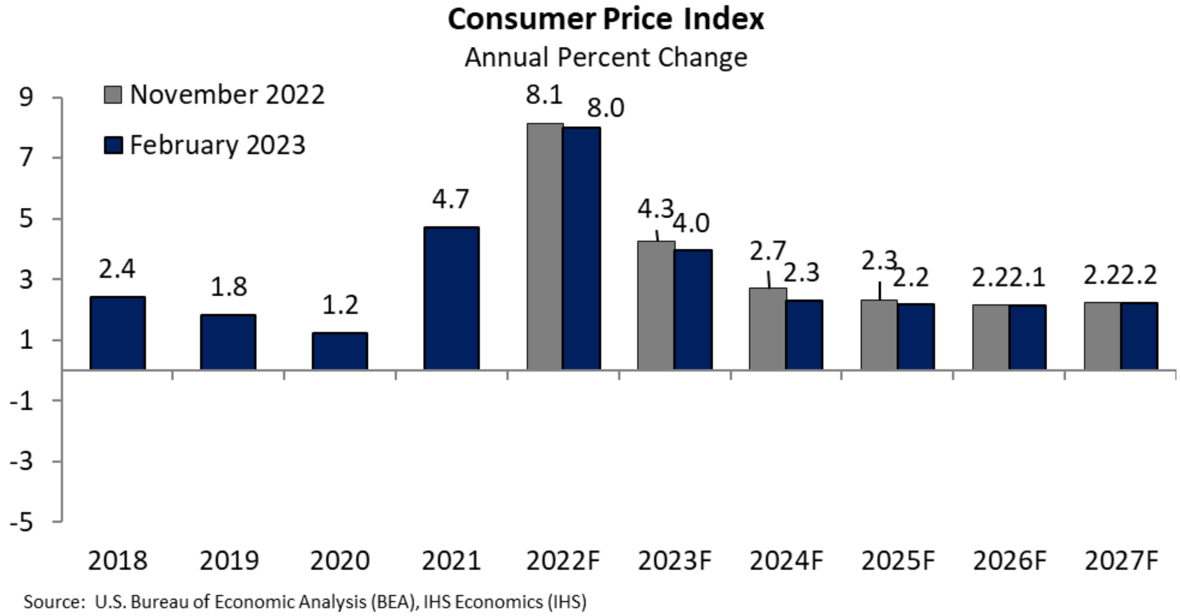
The Business Cycle Dating Committee of the National Bureau for Economic Research (NBER) maintains the history of U.S. business cycles including the peaks and troughs that define each recession. Since 1948, there have been twelve recessions with an average peak-to-trough decline in real GDP of about 2.5 percent. The peak-to-trough decline in real GDP in IHS' near-term recession forecast is 0.4 percent, which would make the recession mild by historical standards.



Source: MN Department of Employment and Economic Development (DEED)

IHS expects this will be a mild recession by historical standards with a recovery beginning in the third quarter of 2023. Since the NBER began tracking U.S. recessions, there have been twelve recessions with an average peak-to-trough decline in real GDP for these twelve recessions of about 2.5 percent. The peak-to-trough decline in real GDP in IHS' near-term recession forecast is 0.4 percent with the unemployment rate reaching 4.0 percent by June 2023 and peaking at 4.6 percent in 2024.

Inflation. IHS has lowered their forecast of CPI inflation this year to 4.0 percent from 4.3 percent in their November outlook. They now expect inflation to decelerate to 2.3 percent in 2024 as energy and agricultural commodity prices continue to decline, supply chain normalization continues, and wage growth slows. IHS forecasts CPI inflation to moderate further to 2.2 percent annually from 2025 through 2027.



IHS has lowered their forecast of Consumer Price Index (CPI) inflation in 2023 to 4.0 percent from 4.3 percent in their November outlook. For 2024, they now expect 2.3 percent inflation compared to 2.7 percent in November, as energy and agricultural commodity prices continue to decline, supply chain normalization continues, and wage growth slows. IHS forecasts CPI inflation to moderate further to 2.2 percent annually in 2025 through 2027.

Monetary Policy. To combat high inflation, the Federal Reserve has raised their policy rate, the federal funds rate, eight times in this policy cycle. In 2022, the Federal Reserve issued four consecutive "super-size" increases of 75 basis points each. In December, the FOMC issued a 50-basis point increase, and on February 1 they issued a 25-basis point increase, bringing the federal funds rate target range to 4.5 to 4.75 percent. This slowing pace of rate hikes is expected to bring the target range to a peak of 5.0 to 5.25 in the spring of 2023. In the IHS February forecast, the Fed reverses course in the spring of 2024 and brings the rate below 3.0 percent in 2025.

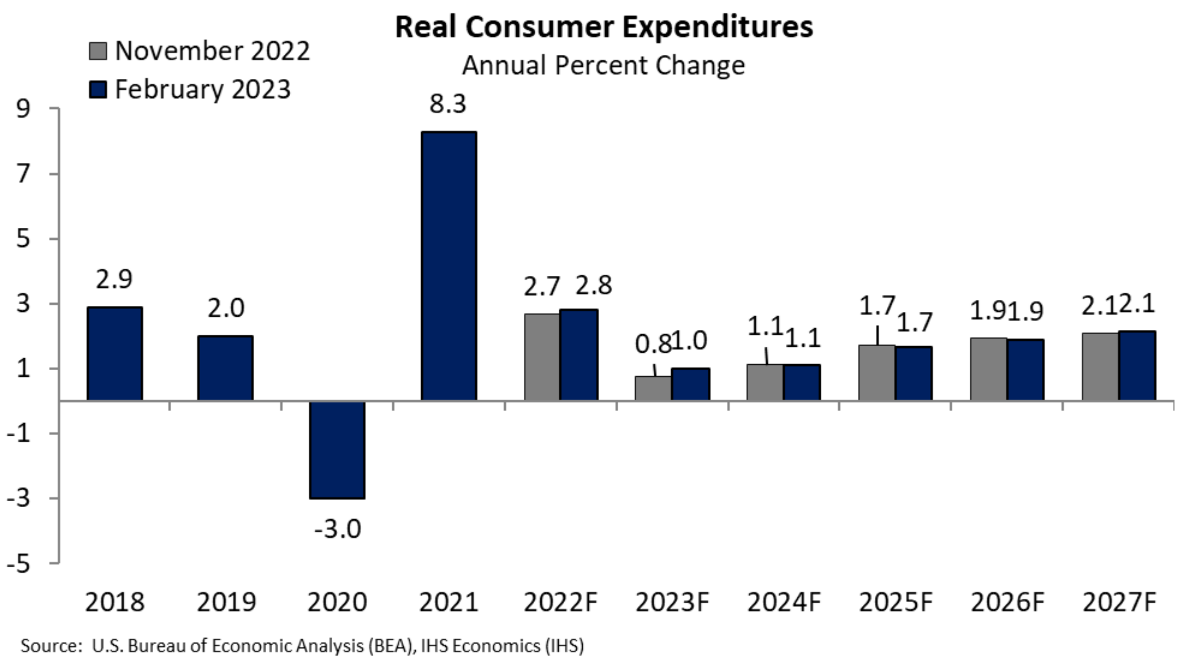
Corporate Profits. In 2021, after-tax corporate profits grew 31.0 percent, the fastest rate in 15 years. In their February outlook, IHS estimates that profit growth slowed to an annual rate of 8.6 percent in 2022. They expect corporate profits to decline 0.2 percent in 2023 followed by modest increases of 1.5 percent and 2.6 percent in 2024 and 2025, respectively. This anticipated period of weak corporate profit growth coincides with relatively low real GDP growth, which IHS expects to average less than 2.0 percent annually in years 2023-2027.

Federal Fiscal Policy. The February IHS forecast assumes the federal debt ceiling is raised in time to avoid default in the summer of 2023, and that a budget for Fiscal Year 2024 is passed without a government shutdown. This forecast reflects the conclusion of several pandemic related benefits, including the expansion of the Child Tax Credit expiring in January; a 15 percent increase in SNAP benefits that expires in March; a 6.2 percentage point increase in the Medicaid FMAP phasing out over 2023; and federal student loan forbearance expiring on July 1. The forecast also includes the impacts of the Infrastructure Investment and Jobs Act (IIJA) enacted in November 2021, the Consolidated Appropriations Act of 2022 funding federal government for fiscal year

2022 enacted March 2022, and the Inflation Reduction Act enacted in August 2022. IHS has not included the impact of federal student loan debt forgiveness in either the baseline or alternative forecasts, while the plan is being considered by the U.S. Supreme Court.

Real Consumer Spending. Although IHS forecasts a mild recession in the first two quarters of 2023, they expect that real consumer spending will grow in every quarter of our planning horizon after the first quarter this year. The outlook assumes that higher consumer loan interest rates and rising unemployment will restrain spending growth in 2023, when annual spending growth is expected to slow to 1.0 percent from 2.8 percent in 2022.

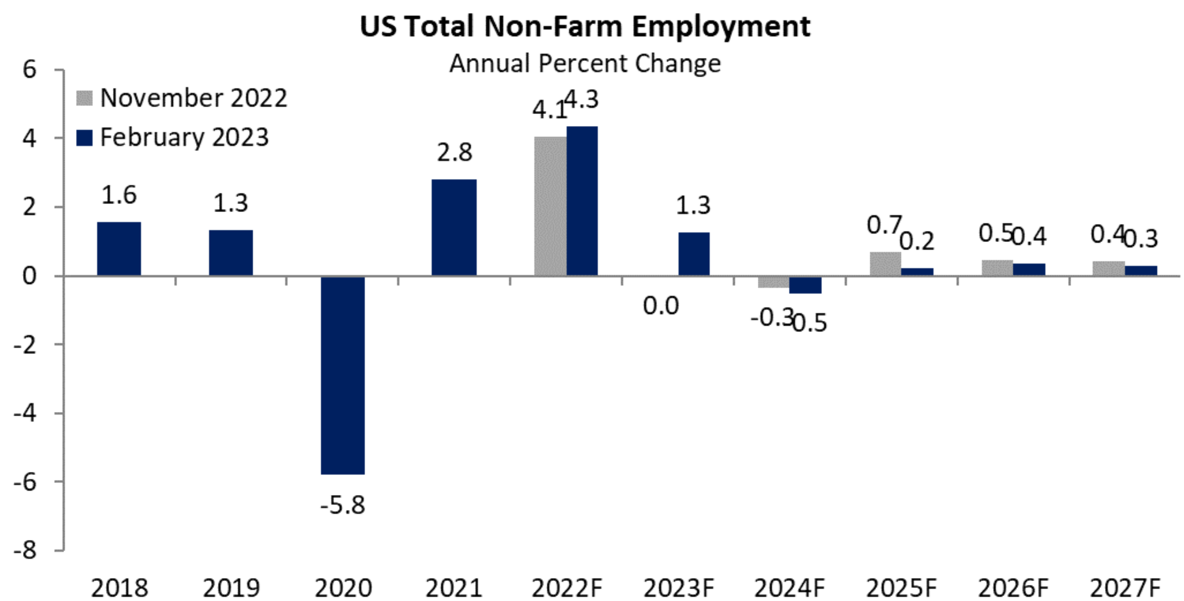
Beyond 2023, the consumer spending forecast is little changed from November. IHS expects spending to grow 1.1 percent in 2024 and then accelerate to 1.7 percent in 2025, 1.9 percent in 2026, and 2.1 percent in 2027. IHS expects consumer spending to remain the primary contributor to growth in the economy.



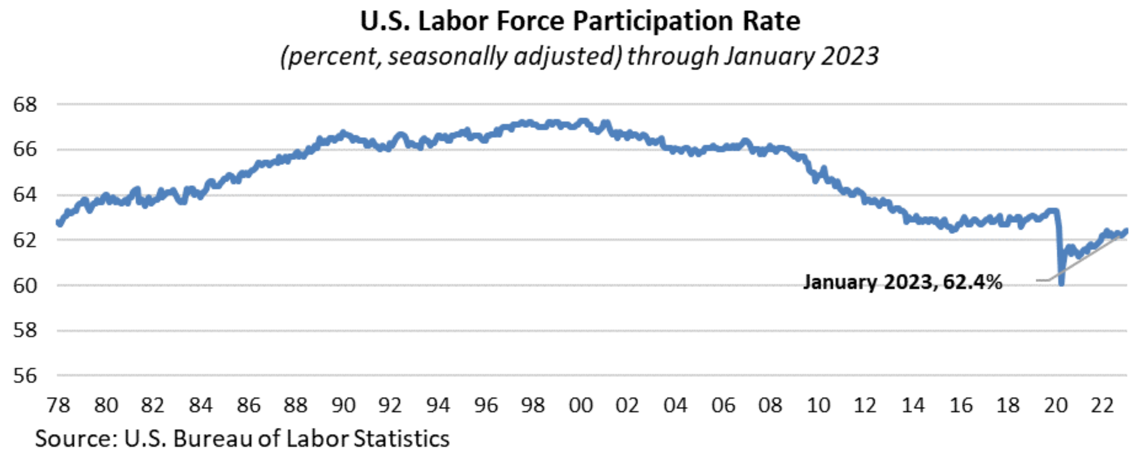
The real consumer spending forecast is little changed from November. IHS expects spending to grow 1.1 percent in 2024 and then accelerate to 1.7 percent in 2025, 1.9 percent in 2026, and 2.1 percent in 2027. IHS expects consumer spending to remain the primary contributor to growth in the economy.

Real consumer spending has remained resilient over the past year even in the face of high inflation. Spending increased 2.8 percent in 2022, while real disposable income decreased 6.4 percent. This indicates that consumers are finding ways to continue spending, even as prices outgrow nominal income. Two important ways that consumers have maintained their spending are by reducing their saving and increasing their use of credit to fund purchases. Nonmortgage consumer credit is expected to increase 11.8 percent in 2023, up from 5.8 percent growth in 2022. The personal saving rate averaged 3.3 percent in 2022, down from the extraordinarily high 2021 average rate of 11.9 percent.

Labor Market. U.S. employers added 517,000 jobs in January, the largest gain in employment since July 2022. In addition, revisions to the second half of the year resulted in stronger gains in 2022 employment than expected. As a result, IHS' employment forecast for 2023 is much stronger than in November. They now expect U.S. employment to increase 1.3 percent in 2023 compared to 0.0 percent in their November outlook. In years 2024 through 2027, IHS has lowered their employment growth forecast an average 0.2 percentage points per year, although they expect employment levels to be higher in each year compared to November. IHS forecasts payroll employment to increase by 1.9 million in 2023, decline by 78,000 over the course of 2024, and rise by an average of 445,000 jobs per year in years 2025-2027. IHS expects the U.S. unemployment rate to rise to 4.6 percent by late 2024 before decelerating to 4.5 percent by 2026. This is a significant improvement from the November forecast, which had the unemployment rate peaking at 5.7 percent in 2024.



U.S. employers added 517,000 jobs in January, the largest gain in employment since July 2022. In addition, revisions to the second half of the year resulted in stronger gains in 2022 employment than expected. As a result, the employment forecast for 2023 is much stronger than in November. U.S. employment is now expected to increase 1.3 percent in 2023 compared to 0.0 percent in November. However, in years 2024 through 2027 the employment forecast was revised down by an average 0.2 percentage points per year, although they expect employment levels to be higher in each year compared to November.



In January, the U.S. labor force participation rate was 62.4 percent. Despite rising wages and job openings near all-time highs, the participation rate remains below the pre-pandemic peak. An aging population is putting downward pressure on the labor force participation rate, a trend expected to continue throughout the forecast horizon.

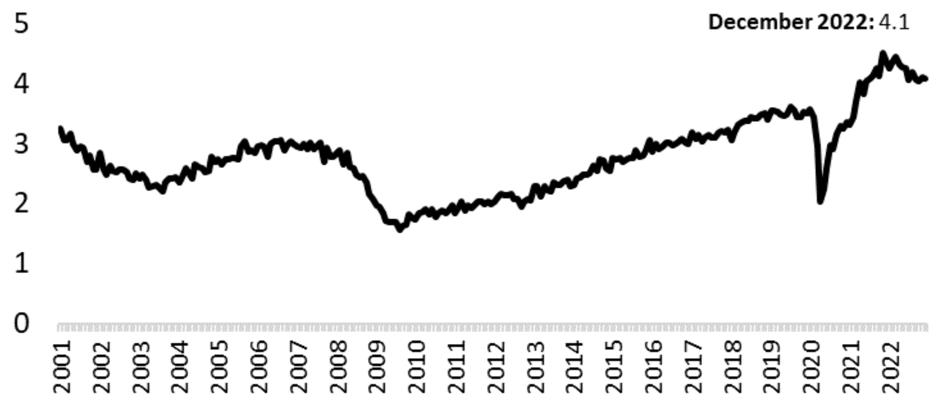
In January, the U.S. labor force participation rate, the proportion of the over-age-16 population who were either employed or unemployed and actively work, was 62.4 percent. Despite rising wages and job openings near all-time highs, the participation rate remains below the pre-pandemic peak. An aging population is putting downward pressure on the labor force participation rate, a trend expected to continue throughout the forecast horizon.

The number of U.S. unemployed persons classified as “permanent job losers”—people who self-report that they do not expect to return to work within six months—was 1.3 million in January, down from 1.6 million in January of last year. The number of workers on temporary layoff—those who do expect to return to work within six months—was 1.3 million compared to 1.5 million one year ago.

The labor market has been experiencing historically high levels of voluntary job separations—or quits—indicating a labor market in which individuals are comfortable leaving one job for higher wages elsewhere. The quits rate—the number of quits as a share of total employment—peaked at 3.0 percent in November and December of 2021 and is slowly moderating toward the 2019, pre-pandemic average of 2.3 percent. The rate slowed throughout 2022, and in December was 2.7 percent, representing 4.1 million people leaving their jobs. As quits continue to decline, labor market tightness is likely to ease, relieving upward pressure on both wages and inflation.

U.S. Quits, Total Nonfarm

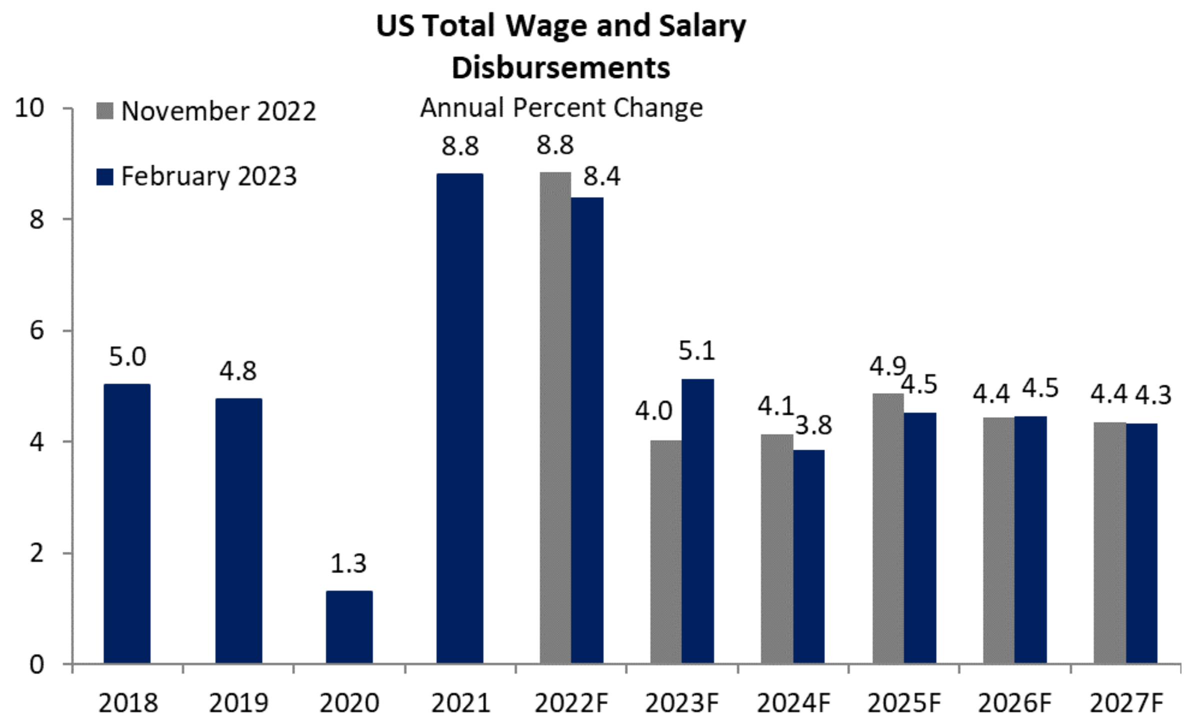
millions, seasonally adjusted



Source: Bureau of Labor Statistics

Historically high levels of quits in 2021 and 2022 have created a very dynamic labor market. Although the rate of quits has slowed throughout 2022, the quits rate has been historically high, with 4.2 million people quitting per month on average.

Wage and Salary Income. In this outlook, firm wage growth and household wealth continue to support consumer spending. IHS now estimates that U.S. total wage and salary income growth was 8.4 percent in 2022, 0.4 percentage points lower than in the November forecast. As monetary policy works to slow economic growth, IHS expects unemployment to increase and the tight labor market to soften. Consequently, wage and salary income growth is forecast to slow to 5.1 percent in 2023 and further to 3.8 percent in 2024. In 2024 and 2025, forecast wage growth is lower than in the November outlook. Beyond 2025, the forecast is little changed, with wage growth at 4.5 and 4.3 percent in 2026 and 2027, respectively.

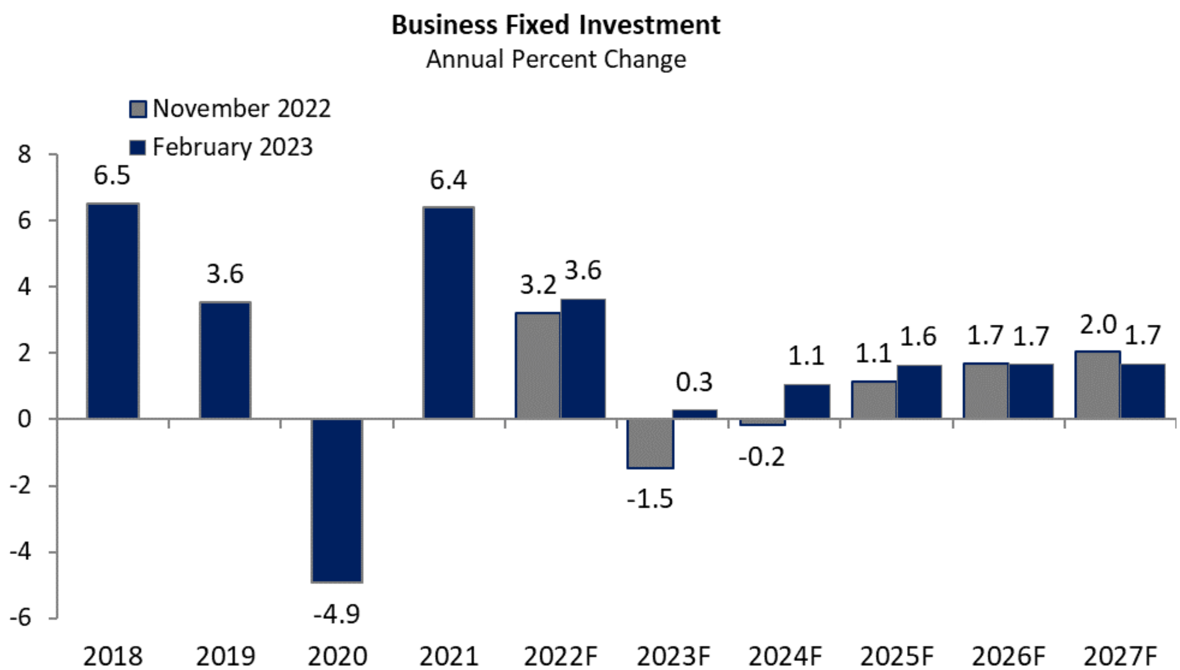


As monetary policy works to slow economic growth, IHS expects unemployment to increase and the tight labor market to soften. Consequently, wage and salary income growth is forecast to slow to from 8.4 percent in 2022 to 5.1 percent in 2023 and further to 3.8 percent in 2024. In both 2024 and 2025, wage growth is forecast to grow more slowly than in the November outlook.

The employment cost index (ECI) is a quarterly measure of the change in the cost of labor, free from the influence of employment shifts among occupations and industries. The index is broken into two components, one for wages and one for benefits. The graph shown below reflects the ECI for wages. ECI growth reached 5.7 percent in the second quarter of 2022, a 40-year high, then fell to 5.1 percent in the fourth quarter. At the same time, price growth as measured by the CPI reached 8.6 percent in the second quarter of 2022, also a 40-year high, then dropped modestly to 7.1 percent in the fourth quarter of 2022. The growth in prices as measured by the CPI has exceeded the growth in wages as measured by the ECI for the past seven quarters. This comparison suggests that although nominal wage growth has been strong, it has not outpaced inflation. However, IHS expects this trend will reverse and wages will again grow faster than inflation beginning in the second quarter of 2023. IHS expects price growth will fall below three percent in 2024 and decelerate to an average of 2.2 percent in years 2025-2027, below the wage growth expectation over the same period.

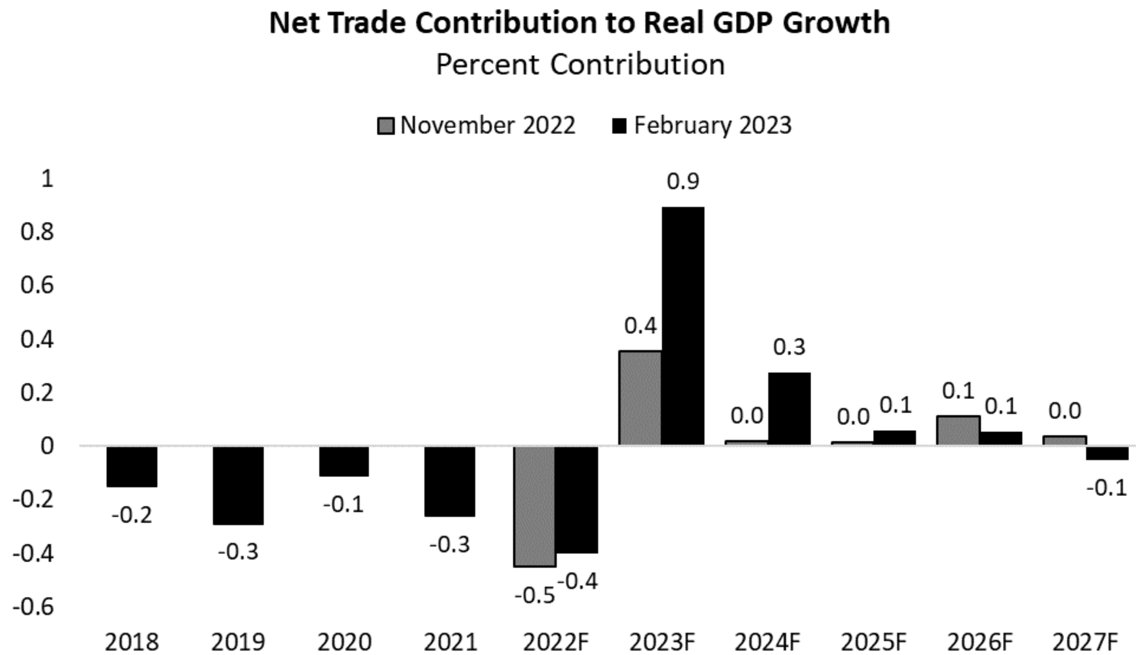
The growth in prices as measured by the CPI has exceeded the growth in wages as measured by the ECI for the past seven quarters. This comparison suggests that although nominal wage growth has been strong, it has not outpaced inflation. However, IHS expects this trend will reverse and wages will again grow faster than inflation beginning in the second quarter of 2023.

Real Business Fixed Investment. Real business fixed investment is expected to slow significantly from 3.6 percent growth last year to 0.3 percent growth in 2023. For years 2024-2027, business fixed investment growth is expected to average 1.5 percent per year compared to an annual average of 1.2 percent in the November forecast. The improvement in the forecast can be attributed to strength in some critical areas of investment, including new motor vehicles and ongoing increases in mining structures. Elevated borrowing costs are expected to continue to weigh on investment spending in 2023.



Real business fixed investment is expected to slow significantly from 3.6 percent growth last year to 0.3 percent growth in 2023. For years 2024-2027, business fixed investment growth is expected to average 1.5 percent growth per year compared to an annual average of 1.2 percent in the November forecast.

International Trade. Net exports have represented a drag on GDP every year since 2013. However, net exports are expected to contribute 0.9 percentage points to GDP in 2023, after deducting 0.4 percentage points in 2022. In their February forecast, IHS expects net exports to positively contribute to GDP growth from 2023 through mid-2026, as foreign demand for U.S. goods outpaces U.S. demand for imports.



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The nominal broad trade-weighted dollar index strengthened considerably in 2022. This strength was partially due to rapidly rising U.S. interest rates and partially due to the Russian invasion of Ukraine, which increased the prices of U.S. exports (specifically oil and agricultural commodities) relative to imports. The index is expected to steadily decline from current levels through 2027, as long-term U.S. interest rates are forecast to fall, supporting exports.

The IHS February baseline forecast is similar to the February Blue Chip Consensus, the median of 50 business and academic forecasts. The Blue Chip Consensus calls for 0.7 percent growth in 2023, matching the IHS forecast. IHS expects real GDP to grow 1.6 percent in 2024, 0.4 percentage points higher than the Blue Chip Consensus of 1.2 percent growth next year.

Forecast risks. The IHS February outlook depends on several important forecast assumptions. If these assumptions do not materialize, the economic outcome will differ from IHS' baseline forecast.

The current baseline forecast hinges critically on the Fed's ability to curb inflation. IHS assumes the Fed will raise the fed funds rate to 5.0 to 5.25 percent by mid-2023 before gradually decelerating to below 3.0 percent in 2025. As a result, IHS expects inflation to slow to 4.0 percent in 2023 and 2.3 percent in 2024. If inflation persists above this level, the Fed may act more aggressively to raise interest rates than assumed in the baseline forecast.

The baseline forecast assumes that Congress raises the debt ceiling before timely payments by the Treasury are disrupted. Failure to do so poses considerable downside risk to the forecast.

Additionally, this forecast assumes a FY 2024 budget is passed in time to avoid a government shutdown in October.

Intensification of the Russian-Ukraine conflict could lead to persistently higher energy prices and re-emergence of supply-chain issues. Conversely, resolution of this conflict could lower natural gas and commodity prices and ease some remaining supply chain issues. This could allow global growth—and consequently U.S. growth—to exceed the rates in IHS' baseline forecast.

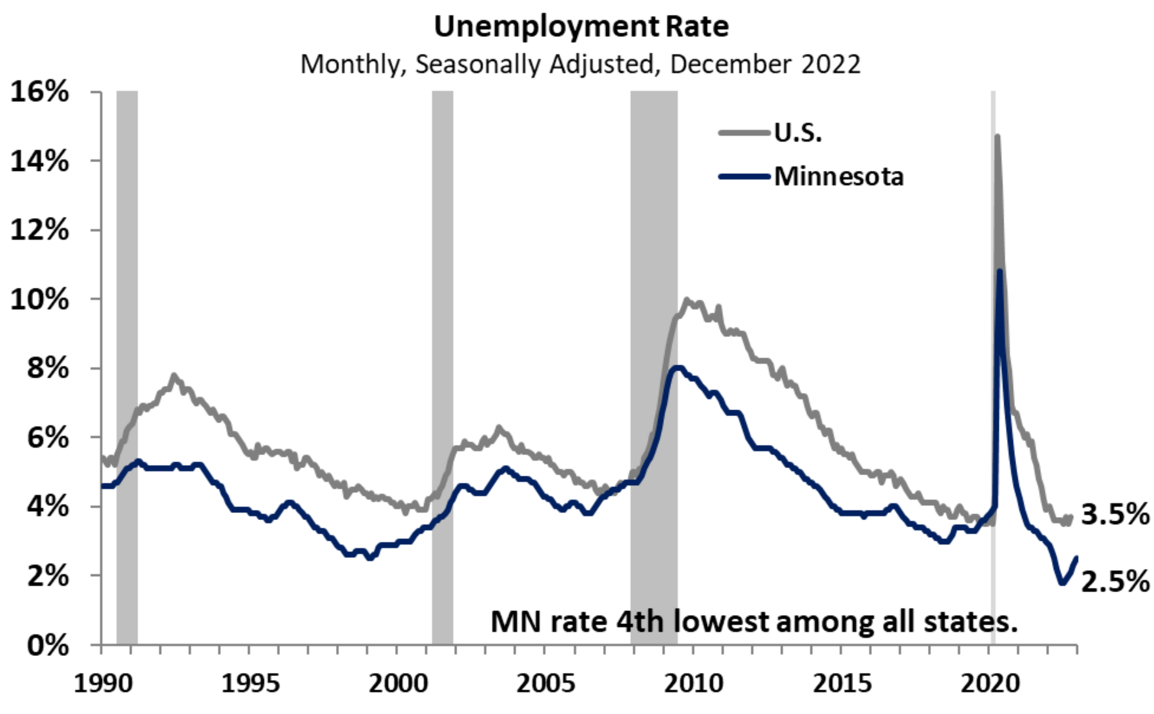
Other key assumptions of IHS' November outlook are: (1) the tariffs enacted by the U.S. and China since 2017 remain in effect, (2) global GDP growth slows from 3.3 percent in 2022 to 1.6 percent in 2023, and (3) the Brent crude oil price will continue to decelerate from $101 per barrel in 2022 to $88 per barrel in 2023.

IHS assigns a 55 percent probability to the February baseline outlook. They assign a 25 percent probability to a more pessimistic scenario, characterized by (1) weaker consumer spending and (2) a deeper two quarter recession than in the baseline forecast arising from an intensification of the Russia-Ukraine conflict, which pushes up prices for energy and other commodities. As a result, real GDP grows 2.1 percent in 2022 and contracts 0.2 percent in 2023, compared to 2.1 and positive 0.7 in the baseline outlook. In their more optimistic scenario, IHS assumes that consumer spending, productivity growth, and business investment are stronger relative to the baseline. This scenario assumes that the federal Infrastructure, Investment, and Jobs Act has a greater economic impact than in the baseline. In this scenario, GDP increases 2.1 percent in 2022 and 1.5 percent in 2023. This optimistic scenario receives a 20 percent probability.

Minnesota Economic Outlook

Minnesota's economic recovery from the deep 2020 downturn is expected to continue. The state's labor market remains one of the tightest in the nation, with the fourth lowest unemployment rate and the sixth highest labor force participation rate among states. Although employment growth is constrained by an aging workforce, and the state has not fully recovered the payroll jobs lost in the spring of 2020, Minnesota employers continue to add jobs. Employment increased an average of 7,600 jobs per month through 2022, growing 2.8 percent over the year—a faster rate than in 2021. IHS' forecast for U.S. wage and salary growth after 2023 is lower than in November, and they expect U.S. wages to decelerate as the expected recession pushes the U.S. unemployment rate upward. The national forecast informs our forecast, which shows Minnesota wage income growth also slower after 2023 than in November.

Minnesota's economic outlook is informed by the IHS forecasts for both the U.S. and for Minnesota, data from the Minnesota Department of Economic and Employment Development (DEED), Quarterly Census of Employment and Wages (QCEW), and Minnesota tax revenues.



Source: MN Department of Employment and Economic Development (DEED)

Minnesota has the fourth lowest unemployment rate in the U.S. The seasonally adjusted unemployment rate in MN was 2.5 percent in December 2022, 1.0 percentage points below the U.S. The unemployment rate does not capture Minnesotans that have left the labor force, including retirements or those who opted to stay home to care for children. Since the onset of the pandemic, Minnesota's labor force has fallen by 90,000.

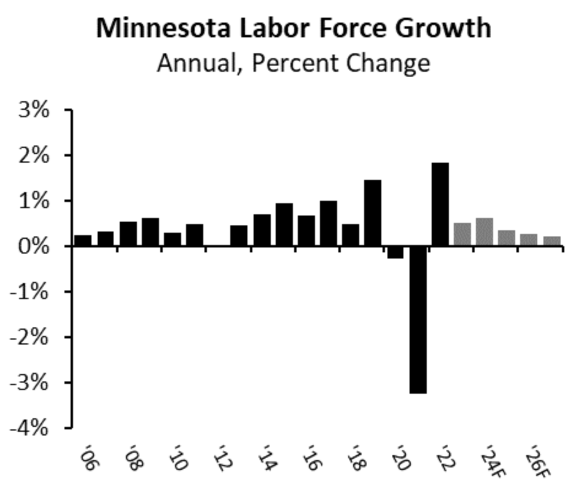
Labor Market. Minnesota has one of the tightest labor markets in the country, with the fourth lowest unemployment rate in the U.S. (2.5 percent), the sixth highest labor force participation rate (67.9 percent), and more than two open positions for each unemployed individual in

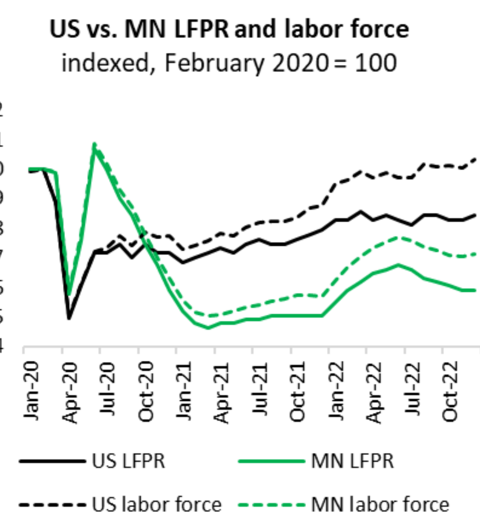
Minnesota. The state's employers created an average of 7,600 jobs per month in 2022. December ended 14 months of consecutive job growth with a decline of 5,200 jobs.

Minnesota lost 417,600 jobs in March and April 2020, approximately 14 percent of February 2020 payroll employment. Through December 2022, Minnesota has regained 377,600 of those jobs, or 90 percent of the payroll jobs lost during the pandemic recession, leaving employment 40,000 (1.3 percent) less than in February 2020. U.S. employment surpassed the February 2020 level in June 2022.

Minnesota's seasonally adjusted December unemployment rate of 2.5 percent is the fourth lowest in the U.S. and 1.0 percentage points below the U.S. unemployment rate of 3.5 percent. In this outlook, an economic slowdown is expected to push the U.S. unemployment rate to 4.6 percent in 2024. We expect Minnesota's unemployment rate to peak at 3.2 percent in the same year.

The unemployment rate does not capture Minnesotans that have left the labor force, including retirements or those who opted to stay home to care for children. Since the onset of the pandemic in February 2020, Minnesota's labor force has fallen by 90,000. This decline in the labor force can also be seen in the labor force participation rate, the share of the over-16 population that is either working or looking for work. As of December, Minnesota's labor force participation rate was 67.9 percent, 0.6 percentage points higher than a year ago and 2.9 percentage points lower than in February 2020. Nevertheless, Minnesota's labor force participation rate remains 5.6 percentage points above the U.S. rate and the sixth highest among U.S. states. This means there is little slack in Minnesota's labor market compared to other parts of the country.

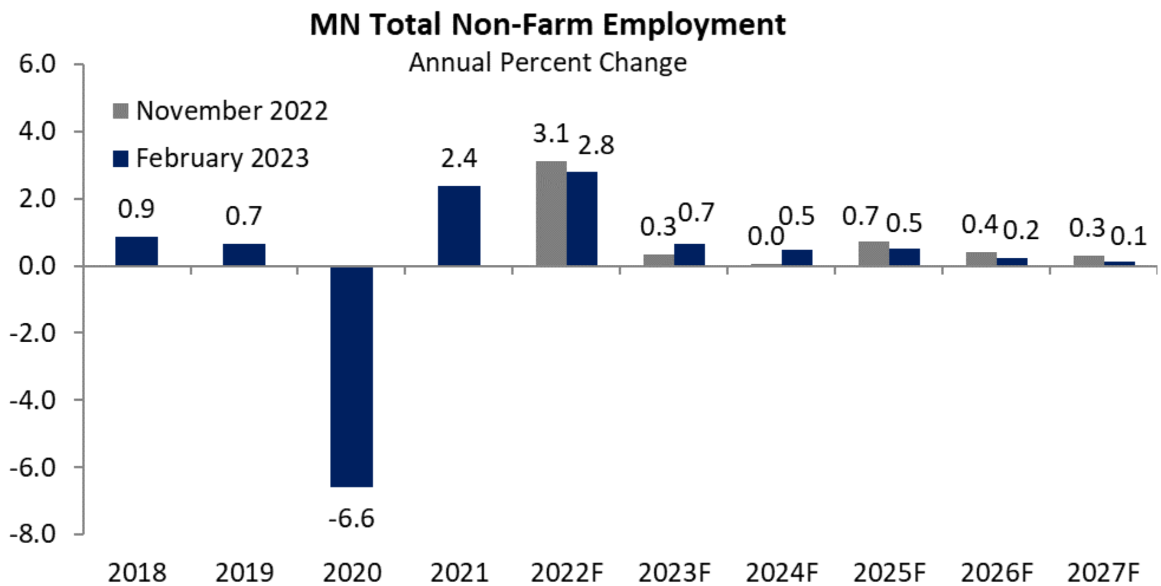




Source: Minnesota Department of Employment and Economic Development (DEED), Minnesota Management & Budget (MMB)

Through December, Minnesota's labor force participation rate remains 5.6 percentage points above the U.S. rate and the sixth highest among U.S. states. This means there is little slack in Minnesota's labor market compared to other parts of the country. Additionally, the forecast for growth in Minnesota's labor force is constrained by an aging population.

After growing 2.4 percent in 2021, we forecast that Minnesota employment grew 2.8 percent (79,300 jobs) in 2022 and will slow to 0.7 percent (19,500 jobs) in 2023 and 0.5 percent (14,100 jobs) in 2024. From 2025 to 2027 we expect employment growth to average 0.3 percent, or about 8,500 jobs per year. Minnesota's employment growth is constrained throughout the forecast horizon by lower levels of immigration into Minnesota and an aging labor force moving into retirement. The MMB model of the Minnesota economy incorporates preliminary information on forthcoming revisions to Minnesota's non-farm payroll employment, as well as personal income wages informed by new data from the Quarterly Census of Employment and Wages (QCEW) and income tax withholding collections since November.



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Broader measures of unemployment can provide additional insights into characteristics of Minnesota's labor market. The most comprehensive measure of unemployment, which the BLS calls U-6, is defined as the number of unemployed people (U-3), plus workers who are marginally attached to the labor force (those not currently in the labor force who looked for work in the last year), plus part-time workers who would prefer full-time jobs. In December, Minnesota's U-6 rate was 4.8 percent, down from 6.5 percent one year ago. All estimates of alternative measures of unemployment are provided in 12-month moving averages to increase the sample size for each measure, and as a result, improve the reliability of each statistic.

About three quarters of the difference between the state's U-3 and U-6 rates is due to workers who have part-time jobs but would prefer to work full time. In December, 24,200 workers fell into this category, 10,700 fewer than in December 2021. In December, 4,000 Minnesotans were counted as discouraged workers--those marginally attached workers who believe no jobs are available to them—down from 4,700 a year ago.

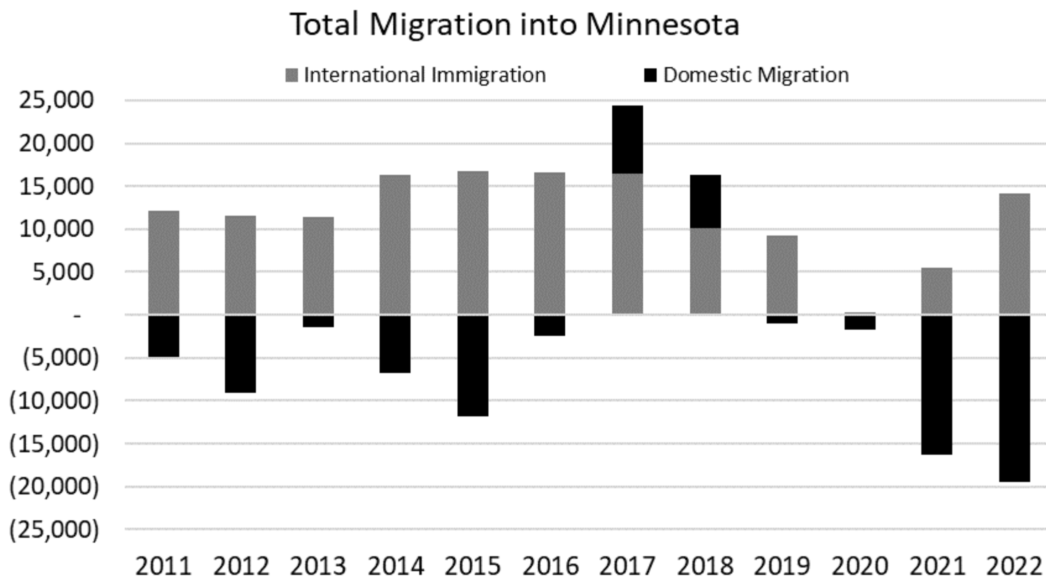
In December, 10,100 Minnesotans were reported as long-term unemployed, those unemployed more than 27 weeks. This number was down from 35,500 one year ago and is comparable to February 2020, when there were 11,100 long-term unemployed.

Demographics. The 2020 Census data revealed that Minnesota grew by 7.6 percent (402,569 people) in the last decade, slightly higher than the national growth during this period of 7.4 percent and more than twice the Midwest regional average of 3.1 percent. However, population growth in Minnesota slowed in 2020. During the 2010s, Minnesota's population grew by 0.8 percent annually (about 40,300 people per year). In comparison, the state's population grew by less than .03 percent (an estimated 1,619 people) between 2020 and 2021 and by 0.1 percent (an estimated 5,713 people) between 2021 and 2022.

This slowing can be attributed to decreased net international migration, movement between Minnesota and other states, lower birth rates, and an increase in mortality as a result of the COVID-19 pandemic and population aging. The very slow rates of growth in Minnesota are consistent with slow growth rates in the United States. The United States population grew an estimated 0.2 percent between 2020 and 2021 and 0.4 percent between 2021 and 2022.

Since we released our November 2022 forecast, the U.S. Census Bureau published 2022 population estimates. Minnesota's population growth is comprised of three parts: natural population increase (number of births less deaths), net domestic migration, and net international immigration. The primary driver of Minnesota's population growth in 2022 is natural increase, the difference between the number of births and the number of deaths in the state. Minnesota's net natural population increase of 11,617 in 2022 ranked 10th highest among U.S. states in absolute terms, but the state's net natural population growth is slowing as death rates climb and birth rates fall.

Minnesota tends to lose more people to other states than it gains in any given year, but in 2017 and 2018 this trend reversed, and Minnesota gained more people than it lost, a bright spot among demographic trends. Since 2018, Minnesota has again experienced net losses each year due to the movement of people around the U.S. Although Minnesota gained 14,194 international immigrants in 2022, the state had a net loss of 19,400 residents to other states. Together, the impact of international migration and movement of residents around the U.S. resulted in an overall net loss of 5,206 Minnesota residents.



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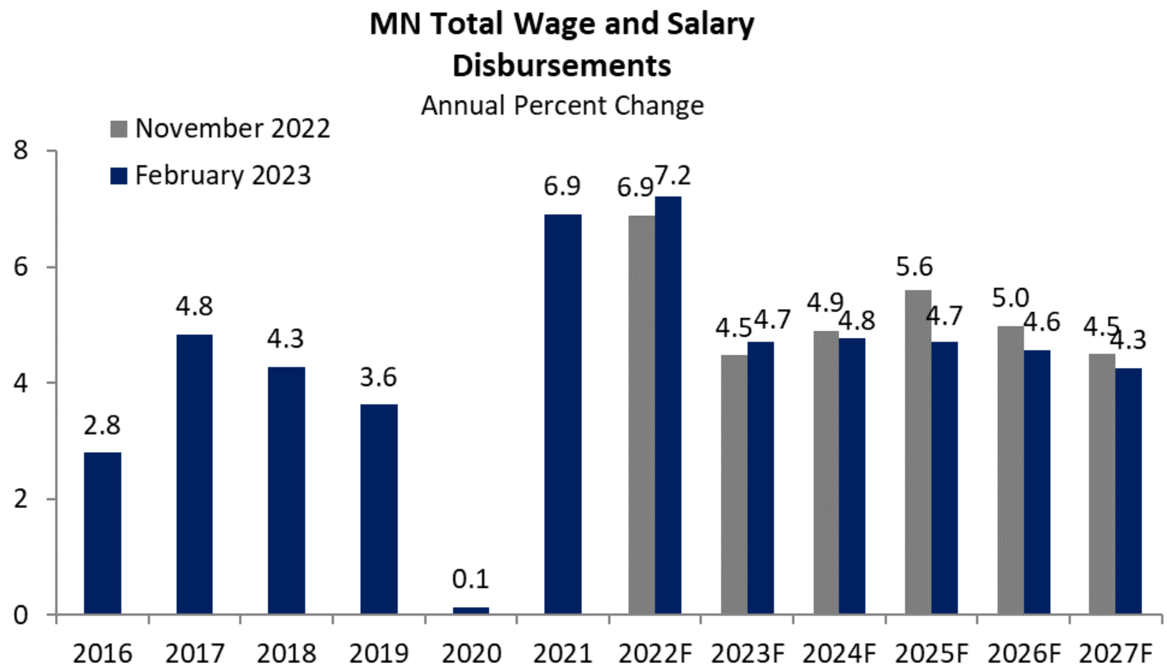
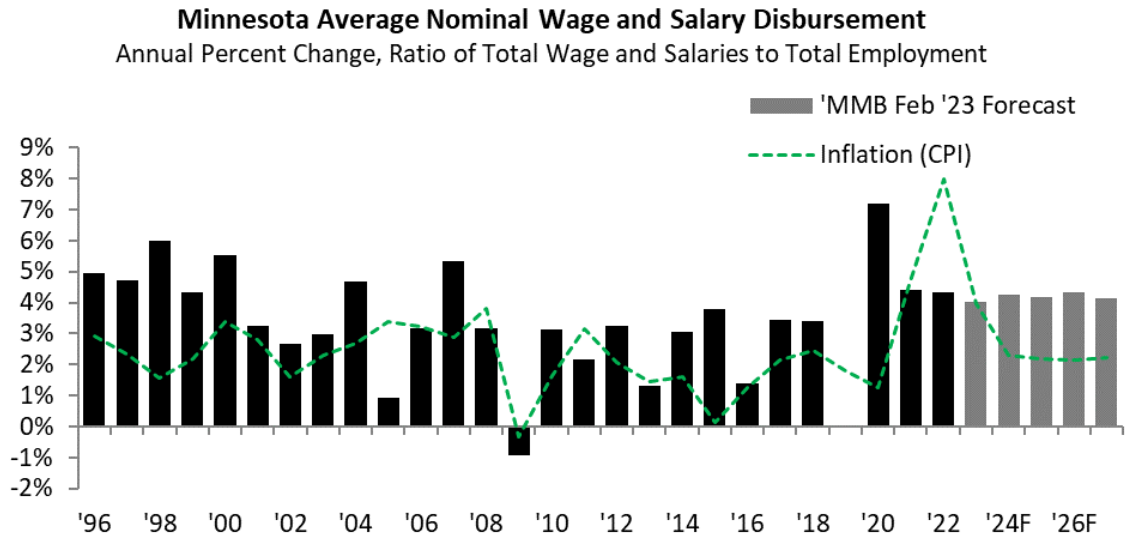
Wage and Salary Income. A crucial variable influencing Minnesota's individual income tax liability is total wage and salary income, estimated to account for approximately 68 percent of federal adjusted gross income for Minnesota residents in 2022. As employers work harder to fill open positions, and businesses invest in productivity-enhancing technologies, wage and salary income per worker—or average wage income—is expected to continue to rise.

In November, we expected total wage income, the sum of all wages paid, to increase 6.9 percent in 2022. We now know that wage and salary income in Minnesota grew 7.2 percent in 2022, 0.3 percentage point faster than we assumed in November. We expect wage growth to continue at a rate of 4.7 percent in 2023 and 4.8 percent in 2024 before decelerating to 4.7 percent in 2025, 4.6 percent in 2026, and 4.3 percent in 2027. After 2023, these are lower growth rates than we assumed in the November forecast, reflecting the lower forecast for U.S. wage income.



We expect wage growth to continue at a rate of 4.7 percent in 2023 and 4.8 percent in 2024 before decelerating to 4.7 percent in 2025, 4.6 percent in 2026, and 4.3 percent in 2027. The downward revision in wage growth in this forecast reflect a deceleration in wages as unemployment rises.

Combining our wage income forecast with our employment growth forecast, we expect growth in the average wage income per worker to average 4.2 percent for years 2023 through 2027. This exceeds forecasted average rates of inflation over the same period (2.6 percent), implying improvements in real wages. With only moderate growth in Minnesota employment in this forecast, average wages (wage and salary income per worker) are expected to be the primary drivers of growth in total nominal wage income through our forecast horizon.



Source: Bureau of Economic Analysis (BEA); Minnesota Department of Employment and Economic Development (DEED); Minnesota Management & Budget (MMB)

We expect total wages in Minnesota to grow an average of 4.6 percent per year from 2023 to 2027. Combined with our employment growth forecast, these rates result in growth of wage income per worker of around 4.2 percent per year in years 2023-2027. This exceeds forecasted rates of inflation over the same period (2.6 percent), implying improvements in real wages.

Forecast Comparison: Minnesota & U.S.

Forecast 2023 to 2027, Calendar Years

	2020	2021	2022	2023	2024	2025	2026	2027
Personal Income (Billions of Current Dollars)								
Minnesota								
February 2023	355.2	378.3	386.8	401.8	422.3	442.7	463.3	484.0
%Chg	6.7	6.5	2.3	3.9	5.1	4.8	4.7	4.5
November 2022	355.2	378.8	385.6	405.1	425.5	447.5	469.1	490.9
%Chg	6.7	6.6	1.8	5.1	5.0	5.2	4.8	4.7
U.S.								
February 2023	19,832	21,295	21,733	22,644	23,640	24,755	25,890	27,070
%Chg	6.7	7.4	2.1	4.2	4.4	4.7	4.6	4.6
November 2022	19,832	21,295	21,787	22,800	23,799	24,875		
%Chg	6.7	7.4	2.3	4.6	4.4	4.5		
Wage and Salary Disbursements (Billions of Current Dollars)								
Minnesota								
February 2023	179.4	191.7	205.6	215.3	225.5	236.1	246.9	257.4
%Chg	0.1	6.9	7.2	4.7	4.8	4.7	4.6	4.3
November 2022	179.4	192.2	205.5	214.6	225.2	237.8	249.6	260.8
%Chg	0.1	7.2	6.9	4.5	4.9	5.6	5.0	4.5
U.S.								
February 2023	9,457	10,290	11,153	11,725	12,176	12,726	13,294	13,870
%Chg	1.4	8.8	8.4	5.1	3.8	4.5	4.5	4.3
November 2022	9,457	10,290	11,199	11,650	12,131	12,721	13,286	13,865
%Chg	1.4	8.8	8.8	4.0	4.1	4.9	4.4	4.4
Total Non-Farm Payroll Employment (Thousands)								
Minnesota								
February 2023	2,786	2,853	2,932	2,952	2,966	2,981	2,987	2,991
%Chg	-6.6	2.4	2.8	0.7	0.5	0.5	0.2	0.1
November 2022	2,784	2,849	2,938	2,948	2,949	2,971	2,983	2,992
%Chg	-6.7	2.3	3.1	0.3	0.0	0.7	0.4	0.3
U.S.								
February 2023	142,153	146,281	152,627	154,574	153,794	154,120	154,663	155,130
%Chg	-5.8	2.9	4.3	1.3	-0.5	0.2	0.4	0.3
November 2022	142,146	146,102	152,021	152,012	151,487	152,525	153,226	153,864
%Chg	-5.8	2.8	4.1	0.0	-0.3	0.7	0.5	0.4
Average Annual Non-Farm Wage (Current Dollars)								
Minnesota								
February 2023	64,376	67,208	70,109	72,926	76,035	79,206	82,633	86,038
%Chg	7.2	4.4	4.3	4.0	4.3	4.2	4.3	4.1
November 2022	64,416	67,464	69,923	72,808	76,341	80,031	83,676	87,165
%Chg	7.3	4.7	3.6	4.1	4.9	4.8	4.6	4.2
U.S.								
February 2023	66,529	70,345	73,076	75,853	79,171	82,572	85,955	89,407
%Chg	7.7	5.7	3.9	3.8	4.4	4.3	4.1	4.0
November 2022	66,533	70,431	73,670	76,637	80,080	83,401	86,711	90,112
%Chg	7.7	5.9	4.6	4.0	4.5	4.1	4.0	3.9

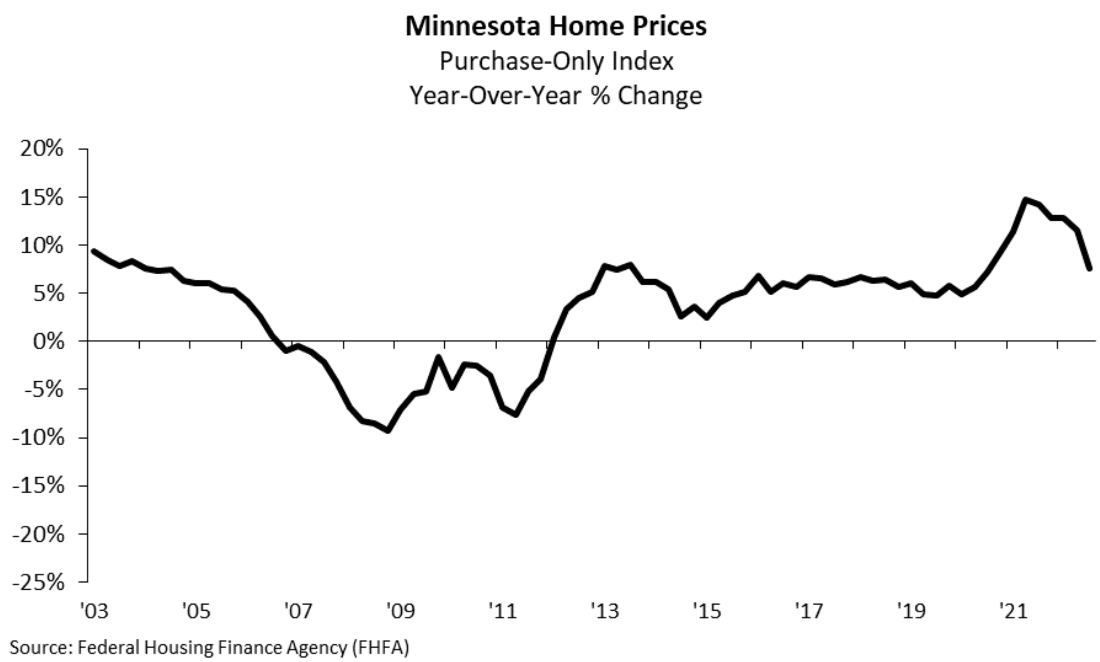
Source: IHS Economics and Minnesota Management and Budget (MMB)

Homebuilding Activity. The U.S. real estate market is cooling as higher mortgage interest rates and rising home prices put pressure on homebuyer budgets. As a result of tightening monetary policy, home mortgage interest rates surpassed 7 percent for the first time in two decades in late October and early November. In Minnesota, a limited supply of available homes, as well as a decrease in new listings as potential sellers are opting to wait to sell later, have kept the housing market competitive and home prices rising. As of January, closed sales are down 33 percent over one year ago, new listings are down 12.4 percent, and pending sales are down 20.1 percent.

The median sales prices for both metro-area homes and homes in greater Minnesota have continued to increase despite rising interest rates, declines in new listings, and declines in pending sales. In January, the median price for metro-area homes was $349,995, 2.7 percent higher than the median price of $332,900 in January of last year. Homes in the metro area were being sold after an average of 60 days on the market compared to an average of 41 days one year ago. On average, metro-area sellers received 96 percent of the original list price at closing. The median sales price in Minnesota was $305,000 in January, up 3.4 percent from a year ago.

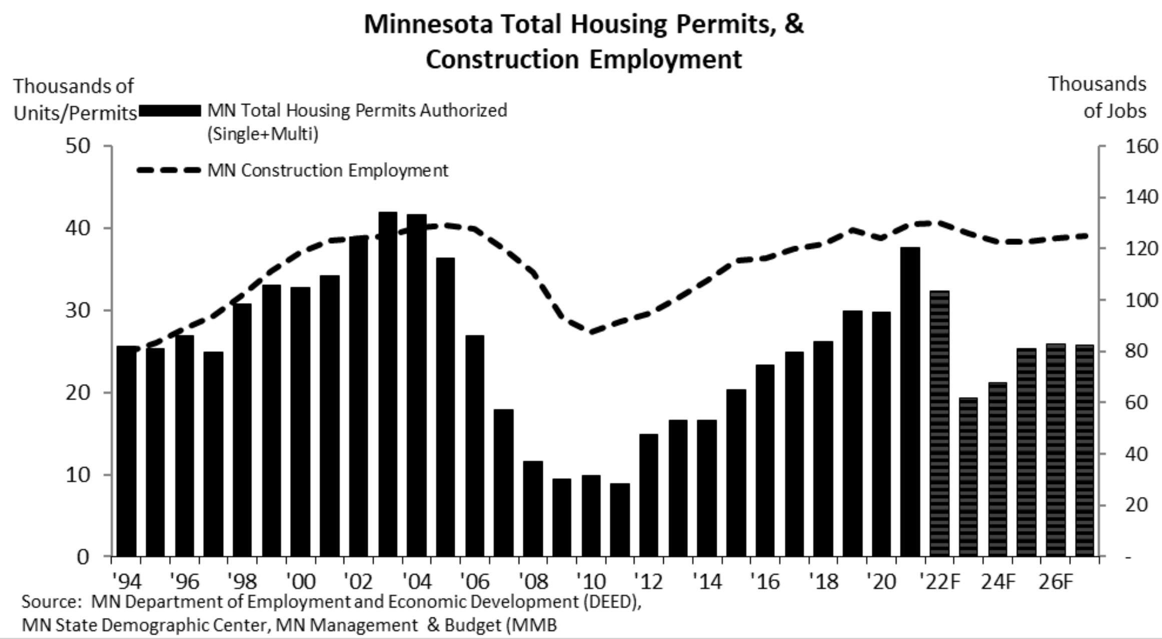
The combination of higher interest rates and rising home prices is challenging affordability. The housing affordability index—the ratio of median household income to the income needed to purchase a home—has dropped to 111, down from 143 one year ago. A lower affordability index means homes are less affordable. In this forecast, IHS expects the 30-year fixed mortgage rate to slowly unwind after reaching a peak in late 2022. They expect the 30-year fixed mortgage rate to fall below 5.0 percent in 2026.

According to the year over year percent change in the purchase only index for Minnesota homes, price growth started to decelerate in the second half of 2022. Home price growth reached a recent high of 15 percent in the second quarter of 2021 but subsided to 8 percent in the third quarter of 2022, the most recent reading.



In Minnesota, a limited supply of available homes, as well as a decrease in new listings as potential sellers are opting to wait to sell later, have kept the housing market competitive and home prices rising. As of January, closed sales are down 33 percent over one year ago, new listings are down 12.4 percent, and pending sales are down 20.1 percent. The median home price in Minnesota was $305,000 in January, up 3.4 percent over one year ago. According to the year over year percent change in the purchase only index for Minnesota homes, price growth started to decelerate in the second half of 2022.

We expect residential construction will slow as builders scale back new construction. According to the U.S. Census Bureau, Minnesota's total number of authorized residential building permits fell to 31,883 in 2022, down from 37,452 in 2021. Permits for both multi-family units and single-family units fell in 2022. Single-family housing permits fell by 24.6 percent and multi-family units fell by 5.8 percent. In this forecast, we expect total housing permits to fall to approximately 19,000 in 2023 and average 25,000 permits per year for years 2024 through 2027. Minnesota's construction employment grew 0.4 percent in 2022 and is expected to fall 3.4 percent in 2023 and 2.3 percent in 2024. Over the same time, IHS expects U.S. construction employment to contract 0.5 percent in 2023 and 1.9 percent in 2024.



According to the U.S. Census Bureau, Minnesota's total number of authorized residential building permits fell to 31,883 in 2022, down from 37,452 in 2021. In this forecast, we expect total housing permits to fall to approximately 19,000 in 2023 and average 25,000 permits per year for years 2024 through 2027.

Exports. Minnesota's exports of goods and services to countries throughout the world is a significant source of income and jobs in the state. DEED reports that exports supported more than 112,000 jobs in 2020. In 2021, both Minnesota and the U.S. rebounded from weak pandemic-related global conditions that impacted exports in 2020. According to DEED, Minnesota's worldwide exports totaled $24 billion in 2021, up 17 percent over 2020, while U.S. exports increased 23 percent over 2020. Global demand for machinery, mineral fuel, oil, and electrical equipment supported Minnesota's recovery in exports in 2021 and helped these industries surpass their 2019 levels. Ranked by export value, Minnesota ranked 22nd among states. The state's largest markets in 2021 were Canada ($6.6 billion), China ($2.7 billion), and Mexico ($2.5 billion).

Minnesota's worldwide exports rose to $7.3 billion in the third quarter of 2022, reaching an historic high. For the period January to September 2022, Minnesota's exports grew 18 percent over 2021 while U.S. exports grew 21 percent. Sales from many of the state's strongest products grew in the third quarter; including mineral fuel, oil (up 188 percent), electrical equipment (up 32 percent), cereals (up 315 percent), and vehicles (up 44 percent). These gains offset declines in pharmaceuticals, machinery, and dairy and eggs.

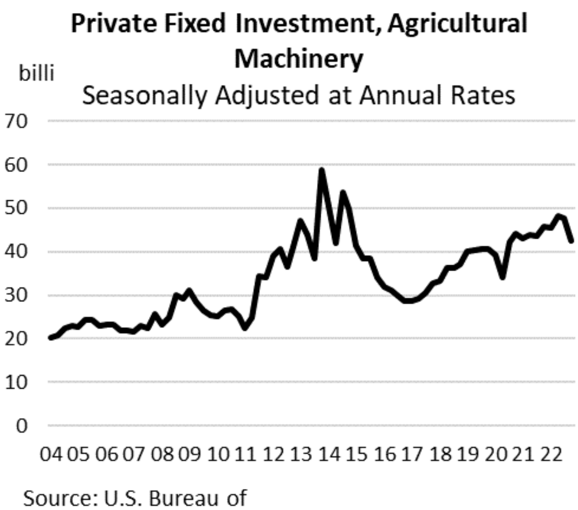
According to DEED, exports through the first three quarters of 2022 were 28 percent higher than they were during the same period in 2021. For the period January to September 2022, Minnesota's exports grew 18 percent over 2021 while U.S. exports grew 21 percent.

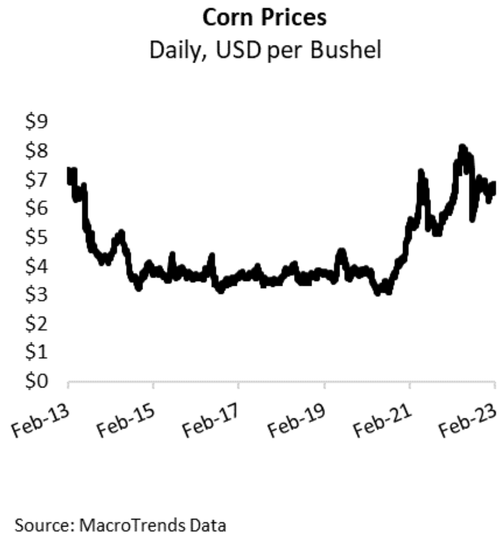
Agriculture. According to the U.S. Department of Agriculture's February 2023 farm income forecast[3], overall U.S. net farm income, a broad measure of profits, is estimated to have increased $21.9 billion (15.5 percent) to $162.7 billion in 2022. Agricultural commodity cash receipts are forecast to have reached a record high 2022 in nominal terms. Accounting for most of the net increase are increased receipts for corn, soybeans, and wheat. According to the latest USDA Agricultural Prices Report, the average price for corn during December 2022 was $6.58 per bushel, $3.60 above December 2021. Similarly, the average price for soybeans was $14.40 per bushel, $1.90 above the December 2021 price. If realized, net farm income in 2022 will be at its highest level since 1973.

Net farm income is expected to decrease 15.9 percent in 2023. Contributing to this expected decline are lower crop cash receipts, particularly for soybeans and corn, lower direct government payments, and higher operating expenses.

The price of U.S. farm output is now more than double its pandemic low. The drop in agricultural exports from Russia and Ukraine led to a disruption in the global crop cycle and higher prices for crops. Farm prices are expected to ease in 2023 as global harvests increase. Investments in agricultural machinery approached all-time highs in 2022 as operations responded to high commodity prices and increased farm income.

[3] U.S. Department of Agriculture, Economic Research Service. *Farm Sector Income & Finances: Highlights from the Farm Income Forecast,* February 7, 2023.



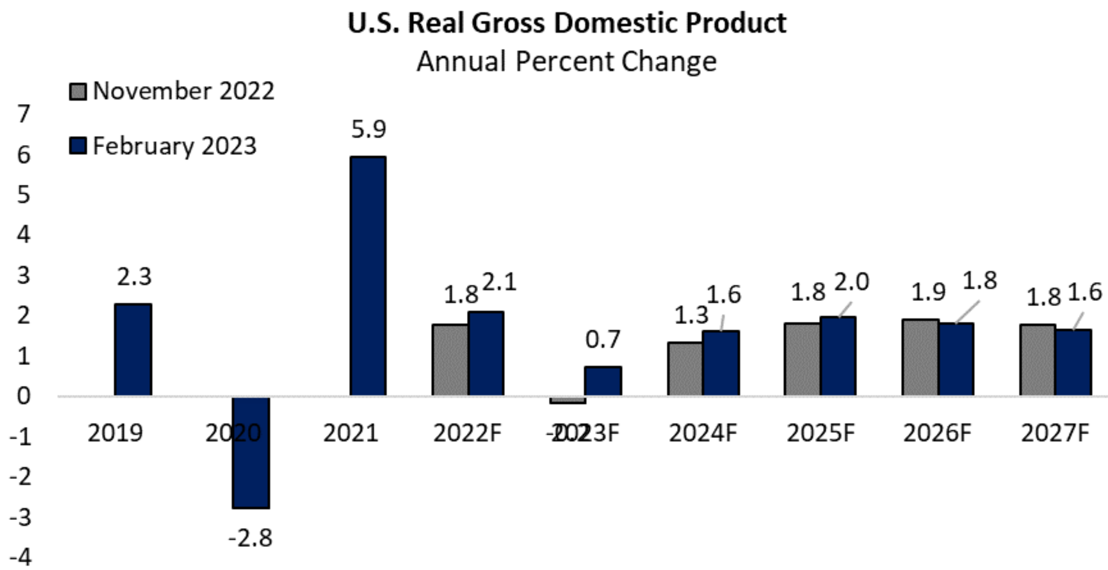


According to the latest USDA Agricultural Prices Report, the average price for corn during December 2022 was $6.58 per bushel, $3.60 above December 2021. Similarly, the average price for soybeans was $14.40 per bushel, $1.90 above the December 2021 price. Investments in agricultural machinery approached all-time highs in 2022 as operations responded to high commodity prices and increased farm income.

Council of Economic Advisors' Statement

Minnesota's Council of Economic Advisors met on February 9, 2023, to review the IHS Markit (IHS) outlook for U.S. economic growth, which includes the macroeconomic assumptions underlying Minnesota's February 2023 *Budget and Economic Forecast*. Since November, U.S. employment and real GDP have grown faster than in the IHS November 2022 baseline, and CPI inflation has been lower. In addition, financial conditions have eased, with higher stock prices, lower bond yields, and a weaker dollar. Consequently, IHS's outlook for U.S. economic growth in 2023 has improved. They now expect real GDP to grow 0.7 percent in 2023, 0.9 percentage points faster than the 0.2 percent decline they forecast in November. They have raised their forecast for real GDP growth in 2024 to 1.6 percent, up from 1.3 percent in the prior forecast.

IHS continues to expect a mild recession in 2023 driven by weakness in residential investment. But in the February outlook, but the recession is shorter, starts later, and has a smaller decline in real GDP than in their prior forecast. In their November outlook, IHS expected real GDP to decline for three consecutive quarters starting with the fourth quarter of 2022. The BEA now estimates that real GDP grew by 2.9 percent in the fourth quarter of 2022. In their February outlook, IHS expects real GDP to contract in the first two quarters of 2023 at annual rates of 1.3 and 0.2 percent, respectively. The recession is forecast to be mild by historical standards, with a recovery to begin in the third quarter of 2023.



Since November, IHS's outlook for U.S. economic growth in 2023 has improved. They now expect real GDP to grow 0.7 percent in 2023, 0.9 percentage points faster than the 0.2 percent decline they forecast in November. They have lowered their forecast for real GDP growth in 2024 to 1.6 percent from 1.8 percent in the prior forecast.

Following the expected recession in 2023, IHS expects modest growth to continue through 2027 at slightly higher annual rates than they forecast in November. They now expect real GDP to grow on average 1.8 percent annually in 2024-2027, just above the 1.7 percent average annual rate in their November outlook.

IHS has lowered their forecast of CPI inflation this year to 4.0 percent from 4.3 percent in their November outlook. They now expect inflation to decelerate to 2.3 percent in 2024 as energy and agricultural commodity prices continue to decline, supply chain normalization continues, and wage growth slows. IHS forecasts CPI inflation to moderate further to 2.2 percent annually in 2025 through 2027.

The IHS February baseline forecast is similar to the February Blue Chip Consensus, the median of 50 business and academic forecasts. The Blue Chip Consensus calls for 0.7 percent growth in 2023, matching the HIS forecast. IHS expects real GDP to grow 1.6 percent in 2024, 0.4 percentage points higher than the Blue Chip Consensus of 1.2 percent growth next year.

Council members agree that IHS' baseline outlook is a reasonable starting point for Minnesota's economic and budget forecast, but they caution about risks to the forecast. There was general agreement that the risks were balanced between the upside and downside.

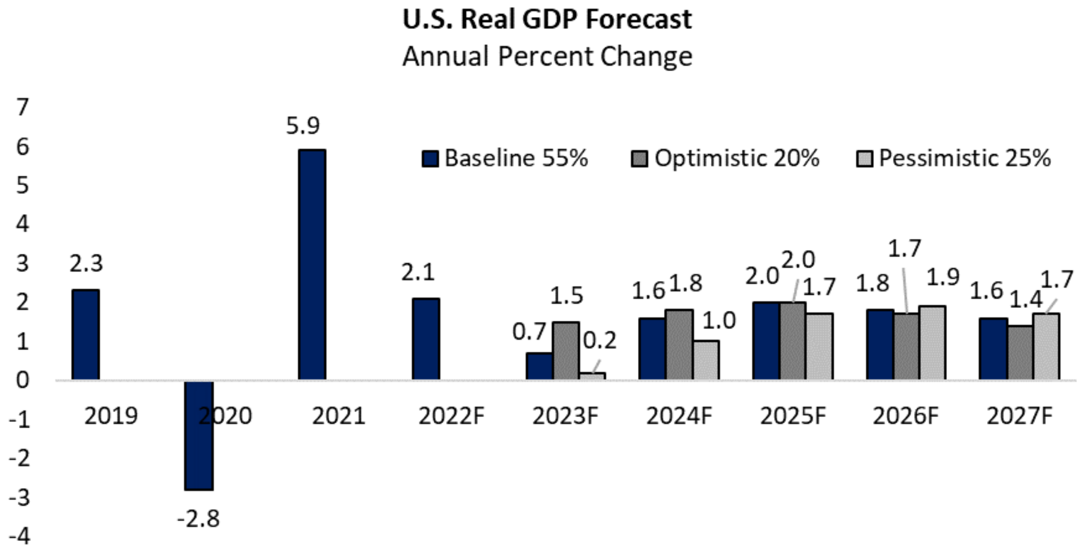
Regarding upside risks, a resolution to the Russia-Ukraine conflict could lower natural gas and commodity prices and ease some remaining supply chain issues. This could allow global growth—and consequently U.S. growth—to exceed the rates in IHS' baseline forecast. In addition, a recovery in labor force participation—perhaps from increased immigration, delayed retirements, or improved access to childcare—could support more robust job growth than what is currently expected.

The path of inflation poses a near-term, downside risk. Council members warn that if the economy remains stronger for longer than anticipated, the pace of disinflation could slow. This could lead the Fed to raise interest rates higher and for a longer period than IHS assumes in their baseline outlook, possibly inducing a contraction in 2023 or 2024 that is deeper and/or longer than IHS has forecast.

IHS assumes that Congress raises the debt ceiling before timely payments by the Treasury are disrupted. Council members agree that failure to do so would induce a tremendous negative shock to the U.S. economy.

Council members warn that the difficulty of projecting long-range economic conditions warrants caution when using forecasts for 2025 through 2027. This is of particular concern as the structural effects of the pandemic on the economy are still not fully known. For example, we have not yet observed the full impact of the shift to telework on the commercial real estate sector.

IHS assigns a 55 percent probability to the February baseline outlook. They assign a 25 percent probability to a more pessimistic scenario, characterized by (1) weaker consumer spending and (2) a deeper two quarter recession than in the baseline forecast arising from an intensification of the Russia-Ukraine conflict, which pushes up prices for energy and other commodities. As a result, real GDP grows 2.1 percent in 2022 and contracts 0.2 percent in 2023, compared to 2.1 and positive 0.7 in the baseline outlook. In their more optimistic scenario, IHS assumes that consumer spending, productivity growth, and business investment are stronger relative to the baseline. This scenario assumes that the federal Infrastructure, Investment, and Jobs Act has a greater economic impact than in the baseline. In this scenario, GDP increases 2.1 percent in 2022 and 1.5 percent in 2023. This optimistic scenario receives a 20 percent probability.



IHS assigns a 55 percent probability to the February baseline outlook. They assign a 25 percent probability to a more pessimistic scenario in which a longer and more intense Russia-Ukraine conflict generates persistently higher prices and slower global growth. They assign a 20 percent probability to a more optimistic scenario, characterized by a stronger impact of the Infrastructure Investment and Jobs Act and a quicker resolution to the Russia-Ukraine conflict.

[Editor note: The following paragraph was prepared before the Minnesota legislature passed and Governor Walz signed into law H.F. 35, allowing the inclusion of expected inflation in the spending forecast.]

As it has done every year since 2003, the Council recommends that budget planning estimates for the next biennium include expected inflation in both spending and revenue projections. Council members noted that Minnesota's current practice of excluding projected changes in the prices of goods and services from a majority of the spending estimate is fundamentally misleading. It is inconsistent with both sound business practices and CBO methods, and potentially encourages legislators and the public to regard the state's financial position more optimistically than the facts warrant. This distortion has increased in importance as inflation has recently risen, and its future path is uncertain. The omission of inflation in the spending estimates in the February 2023 Budget and Economic Forecast understates the cost of maintaining current service levels as provided by law in FY 2024-25 by roughly $1.423 billion and in FY 2026-27 by $3.090 billion. In addition, inflation that has already occurred in CY 2022 and is forecast for the first half of CY 2023 puts cost pressure on the enacted budget for FY 2022-23.

Council members believe that Minnesota's budget reserve—which, at $2.852 billion, has reached the level recommended by the state's budget reserve policy—affords policymakers crucial financial flexibility. The statutory policy assigns an adequate target reserve level based on MMB's annual evaluation of volatility in Minnesota's general fund tax system. The target is a percentage of forecast revenues, allowing reserves to adjust with revenue changes over time. In addition, the policy automatically transfers 33 percent of a positive forecast balance each November into the reserves until the target is reached. Based on MMB's most recent analysis, the target level is 4.8 percent of biennial (two-year) general fund revenues.

BUDGET OUTLOOK

Current Biennium

When the last November *Budget and Economic Forecast* was released, the current biennium was projected to end with a budgetary surplus of $11.617 billion. Higher collections relative to forecast and slightly lower spending result in a projected improvement of $867 million to the ending balance. With this forecast, the FY 2022-23 biennium is now projected to end with a surplus of $12.484 billion.

Current Biennium: FY 2022-23 General Fund Budget
Forecast Comparison

($ in millions)	November 2022 Forecast Adj.	February 2023 Forecast	$ Change	% Change
Beginning Balance	**$7,026**	**$7,026**	**$ -**	**0.0%**
Revenues				
Taxes	57,303	58,023	720	1.3
Non-Tax Revenues	2,116	2,149	33	1.6
Transfers, Other Resources	509	509	-	0.0
Total Revenues	**$59,928**	**$60,681**	**$753**	**1.3%**
Expenditures				
E-12 Education	20,223	20,184	(40)	(0.2)
Property Tax Aids	4,649	4,641	(7)	(0.2)
Health & Human Services	15,234	15,208	(26)	(0.2)
Debt Service	1,140	1,140	-	0.0
All Other	10,520	10,481	(39)	(0.4)
Total Expenditures	**$51,766**	**$51,655**	**$(112)**	**(0.2)%**
Budget Reserve	2,852	2,852	-	
Cash Flow Account	350	350	-	
Stadium Reserve	368	366	(2)	
Budgetary Balance	**$11,617**	**$12,484**	**$867**	

Revenue in the current biennium is now projected to reach $60.681 billion, an increase of $753 million (1.3 percent) compared to prior estimates. A $720 million (1.3 percent) increase to the tax revenue forecast is primarily responsible for this change, largely driven by higher than expected year to date collections in individual income and corporate franchise taxes.

Spending in the current biennium is projected to total $51.655 billion, $112 million (0.2 percent) lower than November estimates. Slight downward adjustments in health and human services (HHS), E-12 education, and property tax aids and credits are responsible for the majority of the change.

The budget reserve and cash flow account balances are unchanged from prior estimates. The stadium reserve is projected to end the biennium with a balance of $366 million, $2 million lower than November estimates due to revisions to the lawful gambling tax forecast.

Adjustments to November Forecast Balance. Since the release of the November *Budget and Economic Forecast,* two bills impacting revenue and spending have been signed into law. In addition, several small technical errors were discovered after the public release. The fiscal representation of the November *Budget and Economic Forecast* has been adjusted to reflect these updates in this document.

Adjustments to November Forecast: General Fund Budget
By Biennium, February 2023 Forecast

($ in millions)	FY 2023-23	FY 2024-25	FY 2026-27
Published Budgetary Balance	**$11,605**	**$17,616**	**$25,700**
Ch. 1. Federal Conformity (Rev.)	0	(103)	(1)
Ch. 8. Attorney General (Spend)	0.3	4	4
Error Corrections (Spend)	(13)	-	(10)
Restated November Balance	**$11,617**	**$17,521**	**$25,609**

Next Biennium

A balance of $17.455 billion is now projected for the FY 2024-25 biennium, $66 million lower than November projections. The increased balance from the current biennium plus an increase to the tax revenue forecast for the FY 2024-25 biennium is offset by increased spending estimates, largely due to the impact of the enactment of Ch. 10 by the 2023 legislative which allows for the inclusion of impact of inflation in spending estimates for future biennia.

Revenues in the next biennium are projected to reach $60.776 billion, $599 million (1.0 percent) higher than prior estimates. The increase is largely due to an increase to the income tax forecast of $563 million (1.8 percent) compared to November estimates. Corporate tax revenues are also projected higher. These higher revenue projections are partially offset by slightly lower estimated sales tax. Compared to estimates for the current biennium, revenues in the next biennium are projected to be $95 million (0.1 percent) higher.

Next Biennium: FY 2024-25 General Fund Budget
Forecast Comparison

($ in millions)	November 2022 Forecast Adj.	February 2023 Forecast	$ Change	% Change
Beginning Balance	**$15,188**	**$16,053**	**$865**	**5.7%**
Revenues				
Taxes	57,714	58,320	605	1.0
Non-Tax Revenues	2,266	2,260	(7)	(0.3)
Transfers, Other Resources	197	197	-	0.0
Total Revenues	**$60,177**	**$60,776**	**$599**	**1.0%**
Expenditures				
E-12 Education	21,252	21,302	50	0.2
Property Tax Aids	4,473	4,435	(38)	(0.8)
Health & Human Services	17,811	17,814	3	0.0
Debt Service	1,147	1,140	(7)	(0.6)
All Other	9,275	9,380	106	1.1
Estimated Inflation	-	1,423	1,423	n/a
Total Expenditures	**$53,957**	**$55,494**	**$1,536**	**2.8%**
Budget Reserve	2,852	2,852	-	
Cash Flow Account	350	350	-	
Stadium Reserve	684	678	(6)	--
Budgetary Balance	**$17,521**	**$17,455**	**(66)**	

Base spending in the next biennium, including adjustments for expected inflation, is projected to be $55.494 billion, $1.536 billion (2.8 percent) more than November estimates. The majority of this increase is due to the addition of $1.423 billion in expected inflation, an estimate that law prohibited from inclusion when the November forecast was released. Another $106 million in spending increases compared to the last forecast is in the “all other” category and is largely due to the inclusion of debt service and other costs related to the rehabilitation and expansion of the State Office Building, which was approved by the Rules Committee for the Minnesota House of Representatives in December 2022. Compared to estimates for the current biennium, total general fund spending in the next biennium is projected to be $3.839 billion (3.6 percent annually) higher.

Estimated Inflation. Prior to the enactment of Laws 2023, Ch. 10, the inclusion of inflation in the forecast for spending was prohibited in statute unless specified by another formula in law. Prior to Ch. 10, several state programs including special education, a portion of spending within the Department of Human Services (DHS), and property tax refunds included the allowance for rate or cost increases in current law formulas. In addition, including inflation on certain categories of spending like debt service and capital project appropriations would not be appropriate. After removing these programs from total spending, inflating the remainder by projected Consumer Price Index growth of 2.9 percent in FY 2024 and 2.1 percent in FY 2025 results in the addition of $1.423 billion in inflationary pressures to total state spending estimates for the next biennium.

Estimated Inflation: General Fund Expenditure Budget
By Fiscal Year, February 2023 Forecast

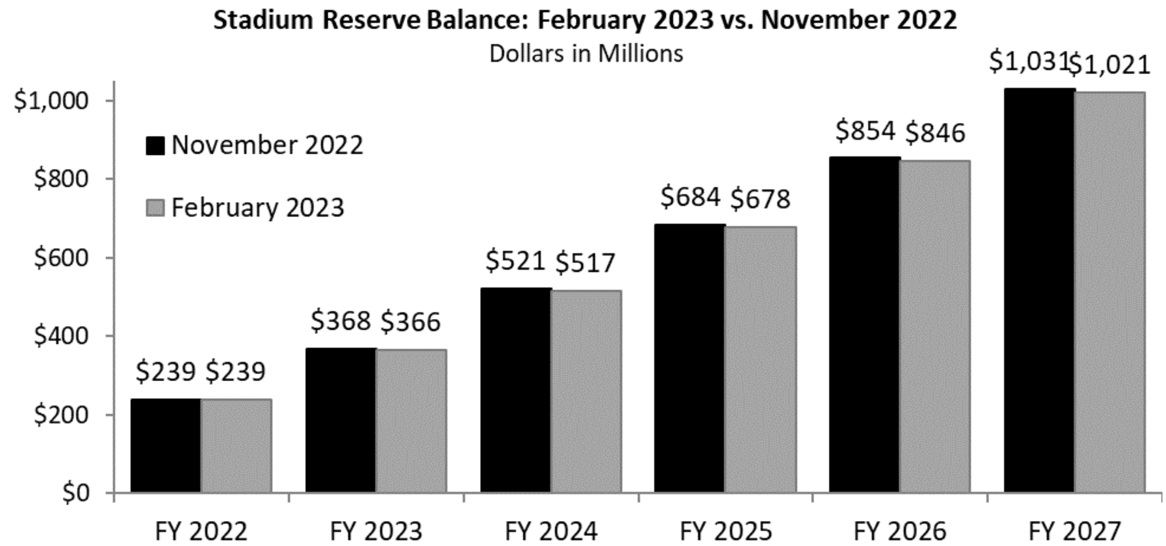
($ in millions)	FY 2024	FY 2025	FY 2026	FY 2027
Forecast CPI change yr/yr	**2.9%**	**2.1%**	**2.2%**	**2.2%**
Total Base Expenditures	**$26,582**	**$27,492**	**$27,918**	**$28,359**
Expenditures with existing stat. inflation or excluded from calc.				
Med. Asst. Pymts w/ Inflation	5,320	5,625	5,784	6,014
Special Education	1,967	2,076	2,193	2,313
Property Tax Refunds	932	954	971	989
Debt Service	558	582	610	645
Capital Projects	168	173	173	175
Adjusted Base for Inflation Calc.	**$17,636**	**$18,082**	**$18,185**	**$18,222**
Estimated Inflation Added	**$508**	**$914**	**$1,332**	**$1,758**

Budget Reserve and Cash Flow Account. The budget reserve balance in the next biennium is projected to be $2.852 billion, unchanged from the current balance and from prior estimates. The cash flow account balance of $350 million is also unchanged from prior estimates.

Next Biennium: FY 2024-25 General Fund Budget
Biennial Comparison; February 2023 Forecast

($ in millions)	FY 2022-23	FY 2024-25	$ Change	% Change
Beginning Balance	**$7,026**	**$16,061**	**$9,035**	
Revenues				
Taxes	58,023	58,320	297	0.3
Non-Tax Revenues	2,149	2,260	111	2.6
Transfers, Other Resources	509	197	(312)	(37.8)
Total Revenues	**$60,681**	**$60,776**	**$95**	**0.1%**
Expenditures				
E-12 Education	20,184	21,302	1,118	2.7
Property Tax Aids	4,641	4,435	(207)	(2.2)
Health & Human Services	15,208	17,814	2,607	8.2
Debt Service	1,140	1,140	(0)	(0.0)
All Other	10,482	9,380	(1,101)	(5.4)
Estimated Inflation	-	1,423	1,423	n/a
Total Expenditures	**$51,655**	**$55,494**	**$3,839**	**3.6%**
Budget Reserve	2,852	2,852	-	
Cash Flow Account	350	350	-	
Stadium Reserve	366	678	312	--
Budgetary Balance	**$12,484**	**$17,455**	**$4,971**	

Stadium Reserve. The stadium reserve is a residual account within the general fund. Its balance can grow when certain general fund revenues identified in statute, like a portion of lawful gambling receipts, exceed general fund appropriations that are either directly for the stadium, like debt service on the bonds for its construction, or are identified in statute to be factored into the stadium reserve calculation.



Lawful gambling revenues are forecast to be slightly lower than prior forecast. Even with this downward revision, the stadium general reserve account is still expected to grow year over year and reach a balance of $1.021 billion by the end of FY 2027.

The FY 2023 projected balance of the stadium reserve account is $366 million, $2 million lower than prior estimates. Most of the expenditures identified in law for the stadium reserve formula are a fixed amount in law or show minimal variance from year to year. Lawful gambling revenue and Minneapolis sales tax receipts are the two revenues identified for the stadium reserve formula that are forecast and can grow year over year. In FY 2022, lawful gambling revenue available for stadium uses was $145 million. Annual lawful gambling revenue available for stadium uses is expected to grow to $197 million by the end of FY 2027. Additionally, the state annually retains Minneapolis sales tax receipts to cover the payments the state remits on behalf of the city for stadium obligations. As specified in statute, the state was required to negotiate the terms of this repayment with the city, which were finalized in fall 2020. In FY 2023, it is projected the state will retain $22 million in Minneapolis sales tax receipts. By FY 2027 that amount is expected to grow to $23 million.

Total state expenditures for the stadium, including those the state makes on behalf of the City of Minneapolis, were $43 million in FY 2022 and are expected to be $45 million per year through FY 2027. All revenue in excess of spending amounts is allocated to the stadium reserve. In FY 2023, $137 million is expected to be added to the stadium reserve. By FY 2027 the amount allocated to the reserve is expected to be $175 million. Given the increasing allocation amounts, the stadium reserve balance is expected to reach $1.021 billion by FY 2027.

Planning Estimates

This forecast provides planning estimates for the FY 2026-27 biennium. While these estimates inherently carry a higher degree of uncertainty than estimates for FY 2023-25, they do present an outlook of longer run spending and revenue growth that will assist in budget planning when setting the FY 2024-25 budget.

Revenue projections for FY 2024-27 are based on IHS's February Baseline forecast for the planning years. Expenditure projections assume that current law funding levels and policies continue unchanged, adjusted for caseload and enrollment changes authorized in law, as well as formula-driven growth. After determining base expenditures as determined by current law formulas, the expenditure forecast assumes inflationary growth for programs that do not already have allowances for cost growth built into current law formulas. [4]

Planning Horizon: General Fund Budget
By Biennium, FY2024-27, November 2022 Forecast

($ in millions)	**FY 2024-25**	**FY 2026-27**	**$ Change**	**Annual % Change**
Forecast Revenues	$60,776	$64,730	$3,954	3.2%
Projected Spending*	55,493	59,364	3,871	3.4%
Difference	**$5,283**	**$5,366**		
**Estimated inflation included (CPI)*	*$1,423*	*$3,090*		

To highlight structural balance, the table shows forecast revenues and projected spending and excludes the impact of balances from prior years and reserves. In the FY 2024-25 biennium forecast revenue is expected to exceed base level spending by $5.283 billion and in FY 2026-27 the structural balance is expected to be $5.366 billion. Projected inflationary growth based on the Consumer Price Index is now forecast to be 2.9 percent in FY 2024 and 2.1 percent in FY 2025. In the planning biennium inflation growth is expected to be 2.2 percent per year in FY 2026 and FY 2027.

Planning estimates are not intended to predict surpluses or deficits four years into the future; rather, their purpose is to assist in determining how closely ongoing expenditures are likely to match future revenues based on trends in the economy and the level of spending that is needed to maintain programs and services. The FY 2026-27 planning estimates provide an important baseline against which the longer-term impacts and affordability of budget decisions can be measured.

[4] Inflation calculation grows the estimated general fund spending base in each year by the projected CPI growth rate after removing special education, debt service, property tax refunds, and the state share for managed and some long-term care in HHS.

REVENUE OUTLOOK

Current Biennium

Total general fund revenues for FY 2022-23 are now forecast to be $60.681 billion, $753 million (1.3 percent) more than the November 2022 forecast. Total tax revenues for the biennium are forecast to be $58.023 billion, $720 million (1.3 percent) above the prior estimate. Higher forecasts for the individual income and corporate franchise taxes offset lower forecasts for the general sales tax, the state general property tax, and other tax revenues.

Current Biennium: FY 2022-23 General Fund Revenues
November 2022 vs. February 2023 Forecast Comparison

($ in millions)	**November 2022 Forecast Adj. [5]**	**February 2023 Forecast**	**$ Change**	**% Change**
Individual Income Tax	$31,959	$32,367	$408	1.3%
General Sales Tax	14,092	14,053	(39)	-0.3
Corporate Franchise Tax	5,183	5,587	404	7.8
State General Property Tax	1,534	1,531	(2)	-0.2
Other Tax Revenue	4,535	4,485	(50)	-1.1
Total Tax Revenues	**57,303**	**58,023**	**720**	**1.3%**
Non-Tax Revenues	2,116	2,149	33	1.6
Other Resources	509	509	0	0.0
Total Revenues	**$59,928**	**$60,681**	**$753**	**1.3%**

Revenues for FY 2022-23 are now expected to exceed their FY 2020-21 levels by $10.202 billion (20.2 percent). Total tax revenues are projected to be $10.286 billion (21.5 percent) more than in FY 2020-21. Individual income tax revenues account for 58.3 percent of the biennial tax revenue growth. Net sales tax receipts account for 20.8 percent of the growth. Corporate, state general property tax, and other receipts in FY 2022-23 account for 20.9 percent of the growth and are 22.7 percent higher than in the previous biennium.

This is the fourth forecast of FY 2022-23 since FY 2022 began on July 1, 2021. After 19 months of observed collections, fiscal year-to-date tax and non-tax revenues for FY 2022-23 are $47.662

[5] November forecast fiscal information in this document has been adjusted for Ch. 1 (Federal Conformity) and Ch. 8 (Attorney General Appropriation) and minor error corrections. For more information see the *Budget Outlook* section.

billion, 79 percent of the total expected over the biennium. With 5 months of collections left to observe, 21 percent of forecast tax and non-tax revenues are outstanding.

Biennial Comparison: FY 2020-21 vs. FY 2022-23 General Fund Revenues
February 2023 Forecast

($ in millions)	FY 2020-21	FY 2022-23	$ Change	% Change
Individual Income Tax	$26,368	$32,367	$5,999	22.8%
General Sales Tax	11,915	14,053	2,138	17.9
Corporate Franchise Tax	3,798	5,587	1,789	47.1
State General Property Tax	1,556	1,531	(25)	-1.6
Other Tax Revenue	4,101	4,485	385	9.4
Total Tax Revenues	**$47,738**	**$58,023**	**$10,286**	**21.5%**
Non-Tax Revenues	1,739	2,149	410	23.6
Other Resources	1,003	509	(493)	-49.2
Total Revenues	**$50,479**	**$60,681**	**$10,202**	**20.2%**

Individual Income Tax. Minnesota individual income tax receipts are now forecast to be $32.367 billion, $408 million (1.3 percent) more than the November forecast. The increase is due to higher-than-forecast payments by partnerships and S-Corporations and technical changes pertaining to the timing of refunds and final payments. These impacts are partially offset by lower payments from fiduciaries. So far in FY 2023—and since our November forecast—net income tax receipts are $255 million more than forecast.

Pass-through businesses, typically S-Corporations and partnerships, may choose to pay a state-level Pass-Through Entity (PTE) tax, which is deductible on their federal returns and credited against Minnesota individual income tax. We report and forecast PTE receipts together with the individual income tax. The PTE tax is a subset of pass-through entity receipts, which include corporate and partnership minimum fees, non-resident withholding, and non-resident composite taxes (a substitute for income taxes for the non-resident owners of PTEs) . Not all PTE taxes that are deductible get reported on individual M1 returns. Some non-residents who have no other Minnesota income may fulfill their state filing requirements by paying the PTE tax.

This forecast builds from estimated final TY 2021 combined individual income and PTE tax liability. In constructing the estimate, we used information from processed income tax, S-Corporation, partnership, and fiduciary tax returns; revenue in the state accounting system; information from a preliminary sample of TY 2021 tax returns. We estimate that final 2021 income tax liability net of the PTE credit reported on individual tax returns is $13.312 billion, $84 million less than our November estimate. We estimate that TY 2021 liability—gross of the PTE credit to make it comparable to TY 2020—grew 23.6 percent over TY 2020.

Calibrating the income tax model to produce our estimated base year liability generally requires making assumptions about base year growth rates for specific income types. Since the November 2021 *Budget and Economic Forecast*, we have forecast wages and unemployment insurance (UI) benefits together, because we think it results in a more accurate depiction of the distribution of taxable income and helps explain the surprisingly high growth in tax liability for TY 2020. In this forecast, growth in the combination of wages and UI benefits is about 0.4 percent lower in TY

2021 than we assumed in the November forecast. Current information from the Bureau of Economic Analysis (BEA) also indicates that Minnesota's wage income in CY 2021 grew more slowly than we had forecast in November. The BEA reports wage income growth of 6.9 percent, compared to the 7.2 percent growth that we assumed in the prior forecast.

To produce estimated tax year 2021 liability, capital gains realized by Minnesota residents were assumed to have grown 77.0 percent from CY 2020. Taxable interest income in TY 2021 is assumed to be 16.0 percent higher than in our November forecast. Non-farm business income is assumed to grow 17.2 percent in TY 2021, resulting in a level of business income that is 1.7 percent lower than we assumed in the November forecast.

Assumed growth rates in various types of income in CY 2022 and CY 2023 affect our forecast for FY 2023 income tax receipts. Overall, we expect CY 2022 and CY 2023 adjusted gross income reported on Minnesota resident tax returns to be slightly lower than we forecast in November. For example, wage income combined with UI benefits on Minnesota tax returns is forecast to be 0.2 percent lower in CY 2022 than the prior estimate. For CY 2023, our forecast for combined wage and UI income is unchanged since November.

In this forecast, we expect capital gains realizations reported by Minnesota residents to decline 44.0 percent in CY 2022 from the very high level in 2021. We expect a further decline of 7.0 percent in CY 2023. This is unchanged from our November forecast.

As the Fed continues its monetary policy tightening, we assume that the effective rate on interest-bearing deposits steadily increases until it reaches a level that is about 1.25 percentage points below the terminal federal funds rate. Consistent with IHS' higher forecast for the federal funds rate, the level of interest income in this forecast exceeds the level in the November forecast for each year beyond CY 2021. Compared to our November forecast, interest income on Minnesota tax returns is forecast to be 7.5 and 1.5 percent higher in CY 2022 and CY 2023, respectively. Taxable dividends reported on individual tax returns are assumed to be 2.1 percent larger in TY 2022 and 5.0 percent larger in TY 2023 than in the prior forecast.

Since November, we have new information from partnership and S-Corporation returns that TY 2021 tax liability for these entities was $103 million higher than we estimated in November. The higher base year liability raises our current forecast for FY 2023 partnership and S-Corporation payments.

We estimate that about 25 percent of the Minnesota-source income of partnerships and S-Corporations is related to capital gains, and we expect a significant *decline* in capital gains in TY 2022 compared to TY 2021. But so far in FY 2023, partnerships and S-Corporations have made TY 2022 PTE tax payments that exceed both our November forecast and the collections these entities made during the same period last year. Consequently, we expect that the large PTE payments observed so far in FY 2023 will result in significantly *smaller* final and extension payments in March when partnership and S-Corporation returns are due. We have raised our forecast of March partnership and S-Corporation payments above our November forecast, but by a smaller amount than would be directly implied by the size of FY 2023 payments to date. This adds about $75 million to the income tax forecast in FY 2023. If we observe higher-than-forecast partnership and S-Corporations payments in March, it will likely be because we underestimated taxable income—including capital gains—of these businesses.

Our observation of payments of individual income taxes other than withholding, estimated tax, and current tax year final payments has been rising. Consequently, we have increased the forecast of this category by about $20 million per year over the FY 2023-2025 period.

The federal SECURE Act, enacted in late 2022, made a number of changes to the federal tax treatment of retirement savings. These provisions have implications for Minnesota's income tax that are effective without action by the state legislature. They add $3 million to our income tax forecast in FY2023.

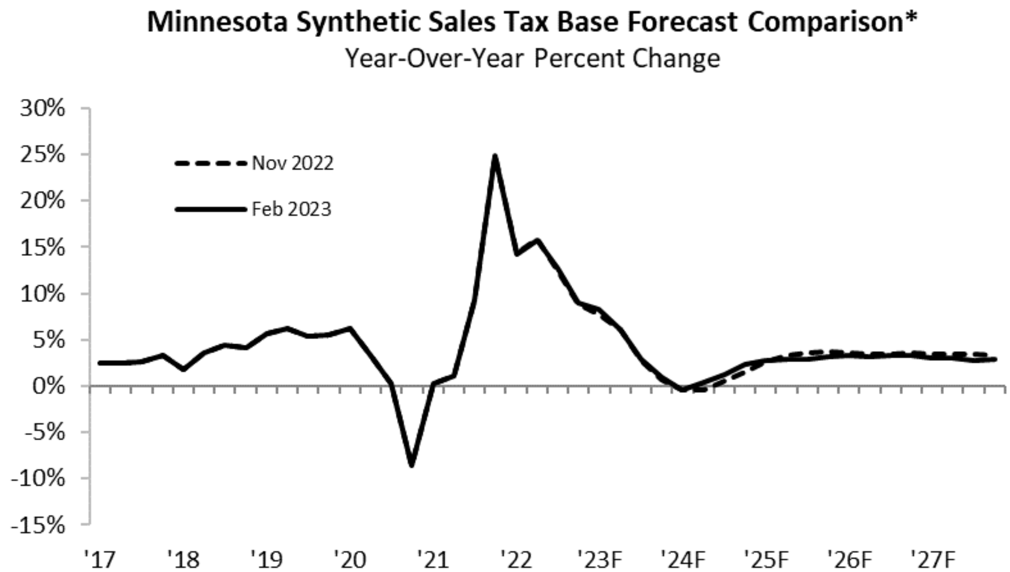
Some technical adjustments raise the FY 2023 income tax forecast on net compared to November. First, correcting an over-estimate of payments from fiduciaries in the November forecast subtracts about $85 million in FY 2023. Part of the over-estimate was technical, and part was related to the fact that electing Small Business Trusts opted to pay the PTE tax, which reduced the fiduciary taxes they had paid prior to enactment of the PTE. This resulted in significant fiduciary refunds.

Second, a shift by taxpayers in the timing of income tax payments and refunds adds $150 million in FY 2023. Third, in each tax year, we collect income tax withholding payments that are larger than total withholding reported on individual tax returns. Because this excess withholding has been growing year over year, in this forecast we raise our estimate of the amount we expect to collect in FY 2023 by $40 million. We assume the amounts return to more normal levels in subsequent years. Finally, our observation of individual income tax payments other than withholding, estimated tax, and current tax year final payments has been rising annually. Consequently, we have increased the forecast of this category of payments by about $20 million in FY 2023.

We did not adjust the income tax forecast for any potential revenue gain from the Biden administration's federal student loan forgiveness program, because the program is currently not being implemented by the federal government, and its economic impacts are not reflected in the IHS February outlook.

General Sales Tax. Net general sales tax revenue in FY 2022-23 is now forecast to be $39 million (0.3 percent) less than the prior estimate due to lower forecast gross sales tax receipts.

The decreased forecast in the current biennium for gross sales tax receipts primarily reflects lower than expected gross receipts so far in FY 2023, which are partially offset by a slightly higher near-term forecast for taxable sales compared to November. Year-to-date net receipts for FY 2023 are $39 million below the prior forecast. Using national forecasts for spending on a wide range of taxable goods and services, in combination with forecasts for state and national income, we construct the Minnesota synthetic sales tax base, a proxy for the actual sales tax base. In this forecast the synthetic base is expected to grow 0.3 percentage points faster in FY 2023 than we expected in November.



Source: U.S. Bureau of Economic Analysis; IHS Economics; Minnesota Management & Budget (MMB)

Using forecasts for spending on a wide range of taxable goods and services, we construct the Minnesota synthetic sales tax base, a proxy for the actual sales tax base. In this forecast the synthetic base is expected to grow 0.3 percentage points faster in FY 2023 than we expected in November.

Corporate Franchise Tax. The corporate franchise tax is forecast to generate $5.587 billion in FY 2022-23, $404 million (7.8 percent) more than the prior estimate. A higher base of gross corporate tax receipts is the primary driver of this change.

The forecast change is due to a higher base of corporate receipts so far in FY 2023 and a higher forecast for corporate profits. Year-to-date net receipts for FY 2023 are $285 million above the prior forecast. The previous corporate tax forecast was based on IHS' November U.S. outlook, which assumed corporate profits growth of 9.4 percent in CY 2022 and a 2.7 percent decline in CY 2023. In this forecast we use IHS' February 2023 baseline outlook which assumes lower growth of 8.6 percent in CY 2022, and a smaller expected decline in CY 2023 of 0.2 percent.

The corporate income tax forecast includes an off-model adjustment for the impact of the Historic Structure Rehabilitation Credit (HSRC). Our practice is to forecast the full revenue impact of the HSRC within corporate refunds, even though some credits accrue to non-corporate taxpayers, and some credits reduce tax payments rather than increase refunds. Total HRSCs have not changed since the November forecast.

Other Tax Revenue, Non-Tax Revenue, Other Resources. Other tax revenue is now expected to be $50 million (1.1 percent) lower than the prior estimate. Among other taxes, the estate tax shows the largest dollar amount change, $31 million (6.4 percent) lower than the prior estimate. The cigarette and tobacco product tax forecast is $10 million (0.1 percent) lower than in November. **Non**-tax revenues are now expected to be $33 million (1.6 percent) higher than our November forecast.

Next Biennium

Total revenues for FY 2024-25 are now estimated to be $60.776 billion, an increase of $95 million (0.2 percent) over the current forecast for FY 2022-23 revenues. Total tax revenues for FY 2024-25 are estimated to be $58.320 billion, a 0.5 percent increase over FY 2022-23 forecast revenues. Growth of individual income tax and sales taxes account for nearly all the biennial tax revenue change. Of the major tax types, the corporate franchise tax, the state general property tax, and other tax revenues, show declines in expected revenues from FY 2022-23 to FY 2024-25.

Biennial Comparison: FY 2022-23 vs. FY 2024-25 General Fund Revenues
February 2023 Forecast

($ in millions)	FY 2022-23	FY 2024-25	$ Change	% Change
Individual Income Tax	$32,367	$32,661	$294	0.9%
General Sales Tax	14,053	15,130	1,077	7.7
Corporate Franchise Tax	5,587	4,575	(1,012)	-18.1
State General Property Tax	1,531	1,492	(39)	-2.6
Other Tax Revenue	4,485	4,462	(24)	-0.5
Total Tax Revenues	**$58,023**	**$58,320**	**$296**	**0.5%**
Non-Tax Revenues	2,149	2,260	111	5.2
Other Resources	509	197	(313)	-61.4
Total Revenues	**$60,681**	**$60,776**	**$95**	**0.2%**

The current forecast for FY 2024-25 total revenues is $599 million (1.0 percent) more than the November forecast. Total tax revenues for the next biennium are forecast to be $605 million (1.0 percent) above the prior estimate. A higher forecast for individual income tax receipts and the corporate franchise tax are partially offset by lower forecasts for the general sales tax and other tax revenue.

Next Biennium: FY 2024-25 General Fund Revenues
November 2022 vs. February 2023 Forecast Comparison

($ in millions)	November 2022 Forecast Adj.	February 2023 Forecast	$ Change	% Change
Individual Income Tax	$32,098	$32,661	$563	1.8%
General Sales Tax	15,155	15,130	(26)	-0.2
Corporate Franchise Tax	4,449	4,575	125	2.8
State General Property Tax	1,492	1,492	0	0.0
Other Tax Revenue	4,519	4,462	(57)	-1.3
Total Tax Revenues	**$57,714**	**$58,320**	**$605**	**1.0%**
Non-Tax Revenues	2,266	2,260	(7)	-0.3
Other Resources	197	197	0	0.0
Total Revenues	**$60,177**	**$60,776**	**$599**	**1.0%**

Individual Income Tax. Individual income tax revenues for FY 2024-25 are forecast to be $32.661 billion, $294 million (0.9 percent) more than the current forecast for FY 2022-23.

Regarding forecast change, higher forecast gross income tax receipts and lower forecast refunds raise the net income tax forecast $563 million (1.8 percent) from the prior estimate. The change is primarily driven by a higher expected payments from partnerships and S-Corporations, which raises the FY 2024-25 income tax forecast by almost $315 million.

Our forecast for wage income combined with UI benefits on Minnesota tax returns is little changed since November. Employment income is forecast to grow 4.7 percent in CY 2023 and 4.8 percent in CY 2024, compared to 4.5 and 4.9 percent in the prior forecast.

Capital gains realizations reported by Minnesota residents are assumed to decline 7.0 percent in CY 2023 followed by growth of 3.5 percent in CY 2024 and 3.0 percent in CY 2025. In this forecast, the level of capital gains realizations over CY 2023-2025 is 0.1 percent lower than in November.

For CY 2024 and 2025, we have raised our forecast of non-farm business income by 2.2 percent in CY 2024 and 3.5 percent in CY 2025. Our forecast of taxable dividend income is 14.5 percent higher in each of CY 2024 and CY 2025 than it was in November.

The level of interest income in this forecast exceeds the level in the November forecast for each year beyond 2021. Compared to our November forecast, interest income on Minnesota tax returns is forecast to be 2.3 and 3.1 percent higher in CY 2024 and CY 2025, respectively.

By statute, Minnesota tax brackets and other parameters of the state tax code are indexed by the chained CPI-U. Inflation as measured by the chained CPI-U is now forecast to be lower than it had been in November. This has the effect of raising forecast liability in TY 2023 by $35 million (primarily raising revenues in FY 2024) and TY 2024 by $47 million (raising revenues in both FY 2025 and FY 2026). On net, the change in indexing adds about $58 million to the income tax forecast in FY 2024-25.

The federal SECURE Act made a number of changes affecting tax-preferred retirement savings that had automatic implications for Minnesota's income tax. These provisions are effective without action by the state legislature. They add $16 million to our income tax forecast in FY2024 and $19 million in FY2025.

Some technical adjustments raise the FY 2024-25 income tax forecast compared to November. First, correcting an over-estimate of payments from fiduciaries in the November forecast subtracts about $92 million in FY 2024-2025. Second, in each tax year, we collect income tax withholding payments that are larger than total withholding reported on individual tax returns. This excess withholding has been growing year over year, and in this forecast we raise our estimate of the amount we expect to collect in FY 2024-25 by $46 million. Finally, our observation of individual income tax payments other than withholding, estimated tax, and current tax year final payments has been rising annually. Consequently, we have increased the forecast of this category of payments by about $40 million in FY 2024-25.

General Sales Tax. Net general sales tax receipts for FY 2024-25 are expected to exceed FY 2022-23 levels by $1.077 billion (7.7 percent), partially offsetting declines in corporate, statewide property tax, and other revenues.

The Minnesota synthetic sales tax base, a proxy for the actual tax base, is expected to grow 4.5 percent in FY 2023 before decelerating to 0.8 percent growth in FY 2024, 0.5 percentage points faster than we forecast in November. The synthetic sales tax base is expected to grow 2.9 percent in FY 2025, 0.4 percentage points slower than the prior estimate. This downward revision is primarily due to a less favorable growth forecast for Minnesota personal income relative to U.S. personal income in FY 2025.

As in the past, the percentage changes in the synthetic base have been reduced by 5 percent to correct for a tendency of the base to grow faster than observed revenue growth. For example, a one percent change in the synthetic tax base implies a 0.95 percent change in sales tax revenue.

Regarding forecast change, lower expected gross sales tax receipts bring the net sales tax forecast $26 million lower than the prior forecast. Gross sales tax receipts for FY 2024-25 are now forecast to be $26 million (0.2 percent) lower than the prior estimate. The forecast change is due to a lower base of gross sales tax receipts from the lower forecast for FY 2022-23, which is partially offset by higher forecast growth in taxable sales for FY 2024-25. The synthetic sales tax base is expected to grow a cumulative 0.2 percentage points faster between FY 2023 and FY 2025 than we assumed in the prior forecast.

Corporate Franchise Tax. The corporate franchise tax is forecast to generate $4.575 billion in FY 2024-25, $1.012 billion less than the current forecast for FY 2022-23. This decline is the result of a slowdown in corporate profits arising from a two-quarter U.S. recession that is expected to impact corporate tax receipts in FY 2024, as well as weak growth in corporate profits in years 2024-2027 corresponding to real GDP growth below 2.0 percent. Corporate refunds are forecast to grow across the biennia by $120 million, contributing to the biennial decline in net corporate taxes.

Regarding forecast change, a higher forecast for FY 2024-25 gross corporate tax receipts offsets a higher refund forecast to generate a $125 million (2.8 percent) increase in net expected corporate receipts. The forecast change is due to a higher base of gross corporate tax receipts expected in FY 2022-23, as well as a higher forecast for corporate profits. The previous corporate forecast estimate was based on IHS' November forecast, which assumed a year over year increase of 1.4 percent in corporate profits in CY 2024 and 2.0 percent growth in CY 2025. In this forecast we use IHS' February 2023 baseline outlook, which assumes growth of 1.5 percent in CY 2024, followed by 2.6 percent in CY 2025.

Source: U.S. Bureau of Economic Analysis (BEA); IHS Economics; Minnesota Management & Budget (MMB)

The corporate franchise tax is forecast to generate $4.575 billion in FY 2024-25, $1.012 billion less than the current forecast for FY 2022-23. This decline is the result of a slowdown in corporate profits arising from a two-quarter U.S. recession that is expected to impact corporate tax receipts in FY 2024, as well as weak growth in corporate profits in years 2024-2027 corresponding to real GDP growth below 2.0 percent.

Other Tax Revenue, Non-Tax Revenue, Other Resources. Other tax revenue is now forecast to decline $24 million (0.5 percent) in FY 2024-25 over FY 2022-23. Regarding forecast change, other tax revenues are now expected to be $57 million (1.3 percent) lower than we forecast in November. Among other taxes, the cigarette and tobacco products tax shows the largest dollar amount change, $20 million (7.6 percent) lower than the prior estimate. Revenue from the insurance gross receipts tax is forecast to be $19 million (1.9 percent) lower than in November due to a higher interest rate forecast. **Non**-tax revenues are now expected to be $7 million (0.3 percent) lower than our November forecast.

Planning Estimates

This is the second reporting of revenue planning estimates for FY 2026-27. Total revenues for the biennium are now estimated to be $64.730 billion, an increase of $3.954 billion (6.5 percent) over the current forecast for FY 2024-25 revenues. Total tax revenues for FY 2026-27 are estimated to be $62.995 billion, an increase of $4.675 billion (8.0 percent) over FY 2024-25.

Planning Estimates: FY 2026-27 General Fund Revenues
Biennial Comparison; February 2023 Forecast

($ in millions)	FY 2024-25	FY 2026-27	$ Change	% Change
Individual Income Tax	$32,661	$35,950	$3,289	10.1%
General Sales Tax	15,130	16,087	958	6.3
Corporate Franchise Tax	4,575	4,707	132	2.9
State General Property Tax	1,492	1,491	(2)	-0.1
Other Tax Revenue	4,462	4,760	298	6.7
Total Tax Revenues	**$58,320**	**$62,995**	**$4,675**	**8.0%**
Non-Tax Revenues	2,260	1,609	(650)	-28.8
Other Resources	197	126	(71)	-35.9
Total Revenues	**$60,776**	**$64,730**	**$3,954**	**6.5%**

Together, the individual income and sales taxes account for about 91 percent of the projected biennial tax revenue growth. The individual income tax shows the largest increase, growing by $3.289 billion (10.1 percent), and contributing 70 percent of the total tax revenue biennial change. The general sales tax is expected to exceed FY 2024-25 forecast levels by $958 million (6.3 percent), accounting for 20 percent of the growth in tax revenues. The corporate franchise tax is expected to exceed FY 2024-25 forecast levels by $132 million (2.9 percent), accounting for 3 percent of the growth in tax revenues. The state general sales tax and other taxes account for the remaining $296 million of biennial growth.

The revenue planning estimates are based on the IHS baseline forecast, which assumes U.S. real GDP will grow 2.0 percent in CY 2025 followed by 1.8 percent in CY 2026 and 1.6 percent in CY 2027.

The planning estimates for FY 2024-25 should be used with caution. First, the projections will be affected by any revenue changes in the supplemental budget for FY 2022-23 and the enacted budget for FY 2024-25. Second, in subsequent forecasts changes to our estimates of individual income tax liability for tax years 2022 through 2025, as well as changes to the base levels of other revenue types for FY 2023 through 2025, will change the FY 2026-27 planning estimates. Third, even small deviations from assumed growth rates for factors affecting revenues will compound and produce sizable changes in revenues. Should the economy grow more slowly (quickly) than forecast or should some volatile income source such as capital gains or corporate profits fall well below (above) forecast, the revenue outlook for FY 2026-27 will deteriorate (improve). Finally, Minnesota's Council of Economic Advisers warn that the difficulty of projecting long range economic conditions warrants caution when using economic forecasts of 2026 and 2027.

EXPENDITURE OUTLOOK

Current Biennium

Total spending for the FY 2022-23 biennium is lower than November estimates. Expenditures in the current biennium are now expected to total $51.655 billion, a reduction of $112 million (0.2 percent) from November estimates.

Current Biennium: FY 2022-23 General Fund Expenditures
Forecast Comparison

($ in millions)	**November 2022 Forecast Adj.**[6]	**February 2023 Forecast**	**$ Change**	**% Change**
E-12 Education	$20,223	20,184	$(40)	(0.2)%
Property Tax Aids & Credits	4,649	4,641	(7)	(0.1)
Health & Human Services	15,234	15,208	(26)	(0.2)
Debt Service	1,140	1,140	0	0
All Other	10,520	10,481	(39)	(0.4)
Total Expenditures	**51,766**	**51,655**	**(112)**	**(0.2)**

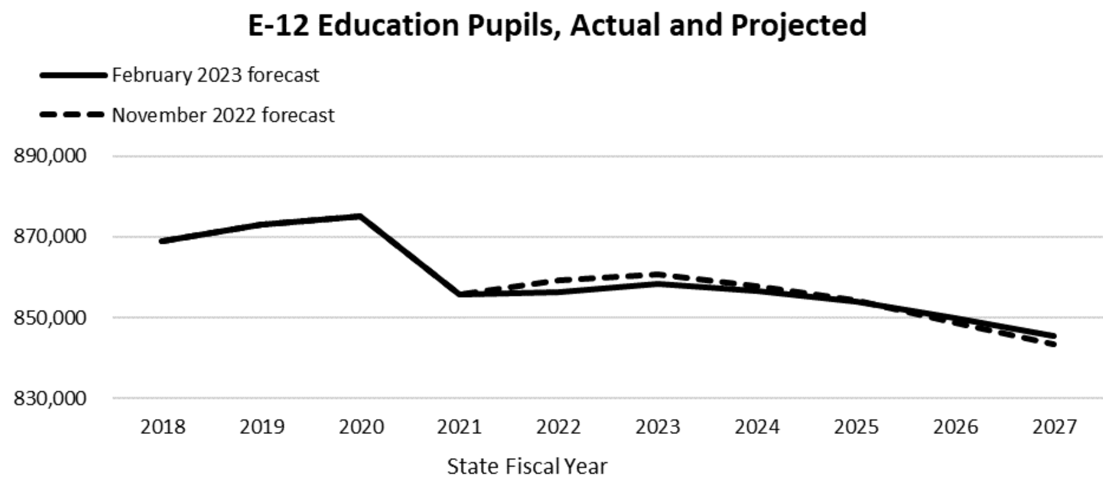
Lower expenditure estimates in E-12 education are the largest driver of change in the current biennium. This reduction is due primarily to lower actual pupil counts. A $26 million decline in estimated health & human services (HHS) spending is largely due to federal law changes related to the COVID-19 public health emergency (PHE), partially offset by higher enrollment in the Medical Assistance (MA) basic care program. Spending in all other areas of the state budget were down $39 million.

E-12 Education. Education finance is the largest category of state general fund spending. It consists of aid programs for general education, special education, early childhood and family education, charter schools, nonpublic pupil programs, and integration programs. E-12 aids can be divided into two major funding streams: 1) general education, the primary source of basic operating funds for schools, and 2) categorical aid, tied to specific activities or categories of funding. In the current biennium, the state is projected to spend $20.184 billion on education.

E-12 education spending in the current biennium is down $40 million (0.2 percent) from prior estimates, driven primarily by lower pupil counts. Actual FY 2022 counts were 2,802 (0.3 percent)

[6] November forecast fiscal information in this document has been adjusted for Ch. 1 (Federal Conformity) and Ch. 8 (Attorney General Appropriation) and minor error corrections. For more information see the *Budget Outlook* section.

lower than previously estimated. Lower counts in FY 2022 also reduce the estimate for FY 2023, which is down 2,373 (0.3 percent) from November estimates. The Minnesota Department of Education (MDE) uses near term growth trends based on historical data and other factors to project pupil counts. This new information about actual enrollment trends updates the base year of the pupil projection model and is the primary cause of the decrease in FY 2022-23 relative to the previous forecast.



Relative to November 2022 estimates, E-12 education pupil projections are slightly lower in the FY 2022-23 and FY 2024-25 biennia and slightly higher in the FY 2026-27 biennium.

Pupils are the primary factor in most E-12 education aid formulas in Minnesota. The largest formula, general education, is estimated to be $53 million (0.4 percent) lower for FY 2022-23 than prior estimates. Included in that decrease is $23 million in FY 2023 associated with final aid payments for the prior school year. Special education is up $10 million (0.3 percent), due to actual expenditures coming in slightly higher than anticipated. All other E-12 spending is up $3 million (0.3 percent).

Health & Human Services. Health and Human Services (HHS) is approximately 28 percent of total state general fund spending. The majority of these expenditures (81 percent) are forecast programs including Medical Assistance (MA), Behavioral Health Fund (BHF), the Minnesota Family Investment Program (MFIP), MFIP Child Care, Alternative Care (AC), General Assistance, Housing Support, Minnesota Supplemental Aid, and Northstar Care for Children.

General fund forecast changes are generally driven by changes to the MA forecast since it accounts for the largest portion of forecast program expenditures. MA is a state-federal, means tested entitlement program for low-income individuals and families, persons with physical or developmental disabilities, and low-income older Minnesotans. MA costs are split between the state and federal government, though only the state share of expenditures is reflected as part of the general fund forecast. In the FY 2022-23 biennium, anticipated HHS general fund spending is $15.208 billion, down $26 million (0.2 percent) from the November 2022 forecast. Forecast program spending is down $77 million (0.5 percent). These changes are partially offset by an additional $51 million allocation from the COVID-19 Management appropriation to agencies in the Health and Human Services bill area. These appropriations were previously included in the state government portion of the forecast and do not impact total state general fund spending.

General Fund Health and Human Services Expenditures
Change From November Forecast

	FY 2022-23		FY 2024-25		FY 2026-27	
($ in millions)	**$ Change**	**% Change**	**$ Change**	**% Change**	**$ Change**	**% Change**
Federal Public Health Emergency Changes	$(103)	(1.6)%	$(93)	(0.6)%	-	-
Basic Care Enrollment	51	1.4	120	1.4	104	1.1
DWRS Average Payments			(12)	(0.2)	(130)	(1.6)
All other MA	(10)	(0.2)	17	(0.2)	24	0.1
Total MA Change	**$(62)**	**0.3%**	**$32**	**0.2%**	**$2**	**0.0%**
CCAP Changes			(14)	(12.6)		
All Other HHS Changes	36	(1.4)	(15)	(1.1)	(21)	1.4
Total HHS General Fund Forecast Change	**$(26)**	**(1.1)%**	**$3**	**0.0%**	**$(19)**	**(0.1)%**

The primary driver of change in the current biennium consists of federal law changes related to the COVID-19 public health emergency and related Medicaid provisions. In December 2022, the federal government passed the Consolidated Appropriations Act (CAA), 2023, which decoupled extensions of the federal COVID-19 public health emergency from requirements for states to maintain continuous coverage for Medicaid recipients. The Family First Coronavirus Response Act (FFCRA), enacted in March of 2020, allowed states to receive an additional 6.2 percent federal match on their Medicaid spending in any calendar quarter a federal public health emergency was active for one day if they provided continuous coverage to enrollees.

Prior to enactment of CAA, when the federal Department of Health and Human Services extended the federal public health emergency, the state's requirement to provide continuous coverage was also extended. This limited the circumstances in which individuals could be disenrolled, resulting in additional MA caseload and costs. The November 2022 forecast assumed continuous coverage requirements would be implemented through January 2023 and additional federal match received through March 2023. This forecast updates the timeline to reflect the continuous coverage requirement being extended through March 31, 2023 and DHS beginning the process of redeterminations in April 2023.

The CAA also provided additional federal match through calendar year 2023, which adds three quarters of enhanced match to the forecast. The state will receive 5.0 percent additional match for April 2023 through June 2023, 2.5 percent additional match for July 2023 through September 2023, and 1.5 percent additional match for October 2023 through December 2023. This additional match provides an additional $118 million in federal share in FY 2022-23. This federal revenue is partially offset by additional continuous coverage unwind costs. The net impact of these changes reduces state expenditures by $103 million (1.6 percent) from the November 2022 forecast.

The savings from the PHE changes are partially offset by higher caseload in the state's basic care program. Enrollment in the state's basic care program has been stronger than expected in recent months. This increases estimated state expenditures by $51 million (1.4 percent) in the current biennium compared to the November 2022 forecast. This additional caseload is partially explained by the impact of updated federal poverty guidelines for the state's public health insurance programs in the state's eligibility system. This has resulted in roughly 7,000 MinnesotaCare enrollees at the lowest income levels shifting to Medical Assistance.

Property Tax, Aids, and Credits. Property tax aids and credits are 9.0 percent of general fund spending. They are paid to local governments, including cities, counties, towns, public schools, and special taxing districts. These aids and credits help offset costs of service delivery and defray costs of state mandates. They are designed to reduce the reliance on local property taxes by substituting state funds for revenues that would otherwise be raised locally. Direct payments to individuals, like property tax refunds for homeowners and renters, are also included in this category because they reduce property tax burdens.

Estimated property tax, aids, and credits spending is $7 million (0.1 percent) lower than November estimates. This change is largely due to a $4 million (0.3 percent) reduction in homestead credit refunds and a $3 million (0.6 percent) reduction in renter's property tax refunds. Actual refund counts are slightly below prior estimates, while average refund size is relatively unchanged.

Debt Service and All Other Spending. With each forecast MMB makes assumptions about the size of future capital budgets. The assumptions have historically been based on the average size of the capital budget bill over the past ten years, differentiating between the larger even year capital budgets and smaller odd year capital budgets. Similar to the previous forecast, in the February 2023 forecast, the debt service forecast was based on an assumption of an $880 million capital budget in 2023 as well as in future even years and a $135 million capital budget in odd years. Debt service expenditures for the current biennium are forecast to be $1.140 billion, which is unchanged from previous estimates.

Spending in all other areas is estimated to total $10.481 billion in the current biennium, which is $39 million (0.4 percent) lower than prior estimates. This reduction is driven primarily by $51 million of allocations from the COVID-19 Management appropriation to agencies in the HHS portion of the forecast, which reduced estimated spending in the state government portion of the forecast. This downward change is partially offset by $12 million in spending associated with building improvements on the State Capitol complex.

In 2021, the legislature authorized capital expenditures that address identified critical health, life-safety, and security needs of buildings located on the State Capitol complex that were constructed before 1940 and for expenditures to ensure the continued operations of affected tenants while those needs are being addressed. The same legislation authorized the issuance of Certificates of Participation or lease revenue bonds to finance the improvements. Funding for these purposes, including to cover debt service payments, was appropriated from the general fund.

In December 2022 the Rules Committee for the Minnesota House of Representatives adopted a resolution to approve the program plan and cost estimate for various elements of a renovation and expansion of the State Office Building on the Capitol complex. Based on this approval and estimated costs of all elements necessary to complete the project, this forecast now assumes debt service for $479 million in Certificates of Participation issued to finance the renovation and expansion of the State Office Building along with an additional $69 million in general fund cash to support predesign, design, rent loss and tenant relocation. These costs associated with this project were not reflected in previously forecasts and are spread across the forecast horizon.

Next Biennium

Next Biennium: FY 2024-25 General Fund Expenditures
Biennial Comparison; February 2023 Forecast

($ in millions)	FY 2022-23	FY 2024-25	$ Change	% Change
E-12 Education	$20,184	$21,302	$1,118	5.5%
Property Tax Aids & Credits	4,641	4,435	(207)	(4.5)
Health & Human Services	15,208	17,814	2,606	17.1
Debt Service	1,140	1,140	0	0.0
All Other	10,482	9,379	(1,103)	(10.5)
Estimated Inflation	-	1,423	1,423	N/A
Total Expenditures	**51,655**	**55,493**	**3,839**	**7.4**

Forecast expenditures in the FY 2024-25 biennium are expected to reach $55.493 billion, an increase of $3.839 billion (7.4 percent) over the FY 2022-23 biennium. Driving the overall increase is growth of $2.606 billion (17.1 percent) in HHS, where MA spending accounts for a majority of the biennial change. E-12 spending is expected to grow $1.118 billion (5.5 percent) due to higher compensatory revenue and special education spending. Spending for property tax, aids, and credits is expected to be $207 million (4.5%) lower than the current biennium. Offsetting the overall growth is a $1.103 billion (10.5 percent) reduction in all other areas of state government, due in large part to one-time spending in the FY 2022-23 biennium.

Total spending in the next biennium is now expected to be $1.536 billion above November estimates. This change is almost entirely due to the inclusion of inflation in the forecast of state expenditures.

Next Biennium: FY 2024-25 General Fund Expenditures
Forecast Comparison

($ in millions)	November 2022 Forecast Adj.	February 2023 Forecast	$ Change	% Change
E-12 Education	$21,252	21,302	$50	0.2%
Property Tax Aids & Credits	4,473	4,435	(38)	(0.8)
Health & Human Services	17,811	17,814	3	0.0
Debt Service	1,147	1,140	(7)	(0.6)
All Other	9,274	9,379	105	1.1
Estimated Inflation	0	1,423	1,423	N/A
Total Expenditures	**53,957**	**55,493**	**1,536**	**2.8**

E-12 Education. E-12 expenditures in FY 2024-25 are forecast to reach $21.302 billion, growing $1.118 billion (5.5 percent) relative to FY 2022-23. The two largest drivers of biennial growth are compensatory revenue and special education. Compensatory revenue payments are forecast to be $539 million (55.6 percent) higher in FY 2024-25 than FY 2022-23. This growth is due in part to a return from abnormally low payments in FY 2022-23, and in part to changes in the state's processes for enrolling students in free or reduced-price (FRP) meals, which was discussed in detail in the November 2022 forecast.

Another large driver of biennial growth is special education, which is increasing $458 million (12.8 percent). While most E-12 education spending does not include inflation, special education is primarily a cost reimbursement program, so instructional and transportation cost inflation contribute to biennial growth.

General Fund Education Expenditures
Change from November 2022 Estimates

	FY 2022-23		FY 2024-25		FY 2026-27	
($ in millions)	**$ Change**	**% Change**	**$ Change**	**% Change**	**$ Change**	**% Change**
General Education	(53)	(0.4)	5	0.0	25	0.2
Special Education	10	0.3	37	0.9	52	1.2
All Other E-12 Programs	3	0.2	8	0.5	13	0.7
Total Education Change	**(40)**	**(0.2)**	**50**	**0.2**	**89**	**0.4**

Relative to November 2022 forecast estimates, overall E-12 education spending is expected to be $50 million (0.2 percent) higher in FY 2024-25. The largest driver of the increase is special education expenditures which are up $37 million (0.9 percent) due primarily to increases in special education transportation costs. Since the November forecast, FY 2022 cost data has been finalized. Because special education aid is largely based on prior year costs, this results in increased aid in FY 2023, and it also increases the baseline of the cost projection model which drives increased costs throughout the forecast period. Special education transportation costs were about 2 percent higher in FY 2022 than previously anticipated and are now expected to grow at a slightly higher rate than previously anticipated.

The General Education program is up $5 million (0.0 percent) relative to prior estimates, which includes a decrease in the basic formula of $17 million due to lower pupil projections, offset by small increases in other components of the program. All other E-12 spending is up $8 million (0.5 percent).

Health & Human Services. Health and Human Services expenditures are projected to total $17.814 billion in the FY 2024-25 biennium, an increase of $3 million (0.0 percent) from November 2022 forecast. Changes to Medical Assistance (MA) are the largest driver of the change, which is forecast to increase $32 million (0.2 percent).

The most significant change in the FY 2024-25 biennium is higher enrollment in the basic care program. Separate from the federal public health emergency, the state has experienced stronger than anticipated MA enrollment, in part because of a shift of MinnesotaCare enrollees becoming eligible for MA as outlined in the previous section. This stronger underlying caseload trend continues from the current fiscal year into the FY 2024-25 biennium. This increases estimated state expenditures $120 million (1.4 percent) from the November 2022 forecast.

The impact of this additional enrollment is partially offset by the impact of the unwinding of the federal public health emergency. Federal law provides an additional 2.5 percent federal match for July 2023 through September 2023, and 1.5 percent additional federal match for October 2023 through December 2023. This provides an additional $176 million in additional federal match for MA, which decreases state spending. However, the delay of the beginning of redetermination process from January 2023 to April 2023 creates additional caseload and cost in the FY 2024-25 biennium. The net impact of these changes decreases state expenditures $93 million (0.6 percent) from the November forecast.

Forecast spending in MA is further reduced by lower average payments for services where rates are set by the Disability Waiver Rate System (DWRS). This change is due to a data correction in forecasting future rate increases in these services. In recent forecasts, the state estimated rate increases beginning November 1, 2024, and July 1, 2026 using Bureau of Labor Statistics wage data that did not align with the prior interpretation of the date specified in statute. This resulted in the state forecasting higher increases than previous practice. This forecast makes no change in the rates that are currently implemented but aligns the wage data source for future rate increases. This change reduces state spending $12 million (0.2 percent) in the FY 2024-25 biennium.

Outside of the MA program, caseloads in the Childcare Assistance Program (CCAP) are projected to decrease 3.9 percent in the FY 2024-25 biennium, which lowers estimated state expenditures by $14 million from November forecast estimates. The decrease is driven by a slight improvement in the economic outlook which results in fewer people accessing the program. However, this forecast holds the same long-term assumptions in utilization rates as the prior forecast.

Property Tax, Aids, and Credits. Property tax aids and credits spending is expected to be $4.435 billion in the FY 2024-25 biennium, a decrease of $38 million (0.8 percent) compared to November estimates. Nearly all this change is attributable to the $30 million (2.1 percent) reduction in homestead credit refunds and the $9 million (1.8 percent) reduction in renter's property tax refunds. These reductions are driven by a combination of faster income growth and slower property tax growth than previous estimates. Faster income growth and lower property tax growth result in lower average refunds.

Debt Service and All Other Spending. Debt service expenditures are forecast to be $1.140 billion in the next biennium, which is $7 million (0.6 percent) less than previous estimates. This estimate reflects lower interest rate assumptions on future bond sales compared to the last forecast. Lower bond interest rates result in higher bond premiums, which together decrease the estimated size of future bond sales and forecasted debt service payments. The overall decrease in debt service expenditures due to lower interest rates was partially offset by a decrease in short-term investment earnings on cash balances in the bond proceeds and debt service funds.

Estimated spending in all other areas of state government are expected to be $9.379 billion, an increase of $105 million (1.1 percent) from November estimates. This increase is largely due to the cost of the State Office Building renovation, which is expected to be $99 million in the next biennium. Of the total cost, $45 million is for predesign, design, rent loss, and tenant relocation and $54 million is for building lease payments.

Estimated Inflation. This expenditure forecast also holds an estimated $1.423 billion in the FY 2024-25 biennium to account for the impact of future inflation on state services. Prior to the enactment of Laws 2023, Ch. 10, the commissioner of MMB was prohibited from including an estimate of inflation on state expenditures in the forecast, unless specified by another formula in law. Several state programs including special education, a portion of health care and long-term care spending within the Department of Human Services (DHS), and property tax refunds previously included an allowance for rate or cost increases in current law formulas. In addition, including inflation on certain categories of spending like debt service and capital project appropriations would not be appropriate. After removing these programs from total spending and then inflating the remainder by projected consumer price index growth of 2.9 percent in FY 2024 and 2.1 percent in FY 2025 results in the addition of $1.423 billion in inflationary pressure to total state spending estimates for the next biennium.

Estimated Inflation: General Fund Expenditure Budget
By Fiscal Year, February 2023 Forecast

($ in millions)	FY 2024	FY 2025	FY 2026	FY 2027
Forecast CPI change yr/yr	**2.9%**	**2.1%**	**2.2%**	**2.2%**
Total Base Expenditures	**$26,582**	**$27,492**	**$27,918**	**$28,359**
Expenditures with existing stat. inflation or excluded from calc.				
Med. Asst. Pymts w/ Inflation	5,320	5,625	5,784	6,014
Special Education	1,967	2,076	2,193	2,313
Property Tax Refunds	932	954	971	989
Debt Service	558	582	610	645
Capital Projects	168	173	173	175
Adjusted Base for Inflation Calc.	**$17,636**	**$18,082**	**$18,185**	**$18,222**
Estimated Inflation Added	**$508**	**$914**	**$1,332**	**$1,758**

Planning Estimates

Spending estimates for FY 2026-27 are higher than prior estimates for the planning biennium. Expenditures in FY 2026-27 are now expected to total $59.364 billion, an increase of $3.209 billion (5.7 percent) from November estimates. This increase is principally due to the inclusion of inflation in the state economic forecast which results in $3.090 billion of additional spending.

Planning Estimates: FY 2026-27 General Fund Expenditures
Forecast Comparison

($ in millions)	November 2022 Forecast Adj.	February 2023 Forecast	$ Change	% Change
E-12 Education	$21,459	$21,548	$89	0.4%
Property Tax Aids & Credits	4,592	4,555	(37)	(0.8)
Health & Human Services	19,881	19,862	(19)	(0.1)
Debt Service	1,257	1,255	(2)	(0.2)
All Other	8,966	9,054	88	1.0
Estimated Inflation		3,090	3,090	N/A
Total Expenditures	**56,155**	**59,364**	**3,209**	**5.7**

E-12 Education. Spending in E-12 education in FY 2026-27 is expected to reach $21.548 billion, growing $247 million (1.2 percent) from FY 2024-25. Inflationary increases in special education costs are the largest driver of growth. Special education spending is estimated to grow by $462 million (11.4 percent) due to an increase in students qualifying for services and increased service costs. This increase is offset by a decrease in general education spending estimated at $241 million (1.6 percent) caused primarily by declining statewide pupil counts, as well as increased property tax valuations driving more program funding to property tax levies rather than state aid.

Relative to November forecast estimates, FY 2026-27 spending is up $89 million (0.4 percent). This is due predominantly to an increase in estimated special education expenditures of $52 million (1.2 percent) attributable primarily to special education transportation. General education is $25 million (0.2 percent) above previous estimates, driven by an increase in the basic formula of $17 million due to increased pupil projections, as well as two model changes. Projected spending for operating capital is $27 million lower due to the correction of an error in the aid/levy split calculation that had overstated aid amounts, and declining enrollment aid is $19 million higher due to a revised calculation methodology. All other E-12 spending is $13 million (0.7 percent) above previous estimates.

Health & Human Services. Health and Human Services expenditures are projected to total $19.862 billion in the FY 2026-27 biennium, an increase of $2.048 billion (11.4 percent) compared to the FY 2024-25 biennium. Nearly all of the biennial increase is driven by MA, which is expected to grow $1.814 billion (13.1 percent). Estimated growth in MA is driven by services for the elderly and people with disabilities. Between FY 2024-25 and FY 2026-27, state spending is expected to increase $1.325 billion (11.5 percent). This is due to enrollment growth in home and community-based services and both enrollment growth and higher average payments in elderly and disabled basic care. State spending for families with children and adults without children is expected to grow by 5.7 percent ($224 million).

HHS spending is forecast to be $19 million (0.0 percent) lower in the FY 2026-27 biennium than November estimates. This decrease is largely explained by changes outside the MA program. Within the MA program, spending is forecast to decrease $2 million (0.0 percent) from the November forecast due to several offsetting changes.

Smaller than previously projected Disability Waiver Rate System rate increases in the FY 2026-27 biennium decrease state spending due to a data correction in the rate increases to be implemented starting November 1, 2024 that also impact forecast rate increases starting July 1, 2026. The impact of these adjustments reduces state spending $130 million (1.6 percent) from November 2022 estimates.

Those reductions are largely offset by stronger enrollment in the basic care program. The impact of stronger than expected enrollment in the current year continues through the forecast horizon and increases state spending $104 million (1.1 percent) from November estimates.

Property Tax, Aids, and Credits. Estimated property tax, aids, and credits spending is $4.555 billion in the FY 2026-27 biennium, $37 million (0.8 percent) lower than November estimates. This is largely due to a $40 million (2.7 percent) reduction in property tax refunds and an $8 million (1.7 percent) reduction in renters’ property tax refunds due to lower projected increases in property taxes. These decreases are partially offset by an estimated $13 million (6.4 percent) increase in school building bond agricultural credits due to the growth in agricultural land outpacing other property types and therefore taking on a greater share of the tax burden.

Debt Service and All Other Spending. The forecast debt service costs for FY 2026-27 are $1.255 billion, a decrease of $2 million from previous estimates. This decrease is mainly due to lower bond interest rates and higher bond premiums, which together decrease the estimated size of future bond sales and forecasted debt service payments.

Expenditures for all other bill areas are forecast to be $9.054 billion, $88 million (9.8 percent) higher than November estimates. This is primarily due to the cost of renovating the State Office Building, which is expected to be $81 million, $9 million of which is for predesign, design, rent loss, and tenant relocation and $72 million of which is for building lease payments.

Estimated Inflation. The impact of future inflation on state expenditures in the FY 2026-27 biennium is expected to total $3.090 billion, which was not included in the November forecast. Inflation growth is expected to be 2.2 percent per year in FY 2026 and FY 2027.

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Stadium Reserve XX

Minnesota Economic Forecast Summary

Forecast 2023 to 2027 - Calendar Years

	2022	2023	2024	2025	2026	2027
Current Dollar Income (Billions of Dollars)						
Personal Income	386.829	401.823	422.318	442.730	463.318	484.048
%Chg	2.3	3.9	5.1	4.8	4.7	4.5
Wage & Salary Disbursements	205.569	215.253	225.503	236.095	246.858	257.360
%Chg	7.2	4.7	4.8	4.7	4.6	4.3
Non-Wage Personal Income	181.258	186.570	196.813	206.635	216.463	226.693
%Chg	-2.8	2.9	5.5	5.0	4.8	4.7
Supplements to Wages & Salaries	43.909	45.554	47.837	50.163	52.517	54.705
%Chg	5.1	3.7	5.0	4.9	4.7	4.2
Dividends, Interest, & Rent Income	72.792	76.492	80.791	85.132	89.072	93.124
%Chg	4.5	5.1	5.6	5.4	4.6	4.5
Farm Proprietors Income	4.926	4.932	5.259	5.249	5.218	5.207
%Chg	49.8	0.1	6.6	-0.2	-0.6	-0.2
Non-Farm Proprietors Income	25.475	25.477	26.323	27.028	27.842	28.667
%Chg	2.9	0.0	3.3	2.7	3.0	3.0
Personal Current Transfer Receipts	67.190	68.509	72.594	76.646	80.977	85.455
%Chg	-13.8	2.0	6.0	5.6	5.7	5.5
Less: Contrib. for Gov. Social Ins.	31.343	32.665	34.261	35.856	37.436	38.739
%Chg	6.7	4.2	4.9	4.7	4.4	3.5
Real Income (Billions of 2009 Dollars)						
Real Personal Income	314.956	316.768	325.555	334.498	343.328	351.658
%Chg	-3.8	0.6	2.8	2.7	2.6	2.4
Real Wage & Salary Disbursements	167.372	169.688	173.835	178.380	182.928	186.970
%Chg	0.9	1.4	2.4	2.6	2.5	2.2
Employment (Thousands)						
Employment - Total Non-Farm Payrolls	2,932.1	2,951.7	2,965.8	2,980.8	2,987.4	2,991.2
%Chg	2.8	0.7	0.5	0.5	0.2	0.1
Construction	130.3	125.8	122.9	122.9	124.0	125.0
%Chg	0.4	-3.4	-2.3	0.0	0.9	0.8
Manufacturing	325.0	324.0	322.1	324.9	328.9	331.9
%Chg	3.5	-0.3	-0.6	0.9	1.2	0.9
Private Service-Providing	2,061.7	2,081.5	2,095.8	2,104.1	2,102.4	2,099.1
%Chg	3.2	1.0	0.7	0.4	-0.1	-0.2
Government	408.8	414.2	419.0	422.9	426.2	429.2
%Chg	1.1	1.3	1.1	0.9	0.8	0.7
Minnesota Civilian Labor Force	3,075.6	3,091.3	3,110.7	3,121.5	3,129.6	3,136.6
Unemployment Rate (%)	2.2	2.5	3.2	3.2	3.1	3.1
Demographic Indicators (Millions)						
Total Population	5.719	5.737	5.759	5.784	5.812	5.839
%Chg	0.1	0.3	0.4	0.4	0.5	0.5
Total Population Age 16 & Over	4.570	4.597	4.627	4.659	4.692	4.724
%Chg	0.4	0.6	0.6	0.7	0.7	0.7
Total Population Age 65 & Over	0.099	0.102	0.105	0.108	0.111	0.113
%Chg	2.8	3.1	3.0	2.9	2.6	2.3
Total Households	2.287	2.303	2.321	2.339	2.358	2.379
%Chg	1.0	0.7	0.8	0.7	0.8	0.9
Housing Indicators (Thousands)						
Total Housing Permits (Authorized)	32.372	19.332	21.112	25.356	25.905	25.815
%Chg	-13.9	-40.3	9.2	20.1	2.2	-0.3
Single-Family	13.779	9.924	13.403	15.651	15.551	15.415
%Chg	-25.3	-28.0	35.1	16.8	-0.6	-0.9

Source: Minnesota Management & Budget (MMB) November 2022 Forecast

U.S. Economic Forecast Summary

Forecast 2023 to 2027, Calendar Years

	2022	2023	2024	2025	2026	2027
Real National Income Accounts (Billions of 2009 Dollars)						
Real Gross Domestic Product (GDP)	20,018.0	20,164.5	20,492.6	20,893.7	21,269.0	21,618.4
%Chg	2.1	0.7	1.6	2.0	1.8	1.6
Real Consumption	14,139.6	14,281.4	14,436.7	14,675.8	14,954.4	15,272.7
%Chg	2.8	1.0	1.1	1.7	1.9	2.1
Real Nonresidential Fixed Investment	2,938.7	2,947.0	2,978.3	3,027.2	3,077.3	3,129.2
%Chg	3.6	0.3	1.1	1.6	1.7	1.7
Real Residential Investment	642.3	532.6	560.4	603.2	621.6	626.0
%Chg	-10.7	-17.1	5.2	7.6	3.1	0.7
Real Personal Income	17,695.3	17,851.2	18,223.8	18,703.2	19,184.7	19,666.0
%Chg	-4.0	0.9	2.1	2.6	2.6	2.5
Current Dollar National Income Accounts (Billions of Dollars)						
Gross Domestic Product (GDP)	25,461.3	26,479.8	27,547.1	28,697.9	29,859.3	31,040.8
%Chg	9.2	4.0	4.0	4.2	4.0	4.0
Personal Income	21,733.0	22,644.4	23,639.8	24,754.8	25,889.5	27,069.6
%Chg	2.1	4.2	4.4	4.7	4.6	4.6
Wage & Salary Disbursements	11,153.4	11,725.0	12,176.0	12,726.0	13,294.1	13,869.8
%Chg	8.4	5.1	3.8	4.5	4.5	4.3
Non-Wage Personal Income	10,579.6	10,919.4	11,463.8	12,028.7	12,595.5	13,199.9
%Chg	-3.9	3.2	5.0	4.9	4.7	4.8
Price and Wage Indexes						
U.S. GDP Deflator (2005=1.0)	127.193	131.317	134.420	137.347	140.385	143.580
%Chg	7.0	3.2	2.4	2.2	2.2	2.3
U.S. Consumer Price Index (1982-84=1.0)	2.926	3.042	3.112	3.180	3.248	3.319
%Chg	8.0	4.0	2.3	2.2	2.1	2.2
Employment Cost Index (Dec 2005=1.0)	1.529	1.597	1.665	1.727	1.791	1.855
%Chg	5.1	4.5	4.2	3.7	3.7	3.6
Employment (Thousands)						
Employment - Total Non-Farm Payrolls	152.6	154.6	153.8	154.1	154.7	155.1
%Chg	4.3	1.3	-0.5	0.2	0.4	0.3
Construction	7.7	7.7	7.6	7.6	7.6	7.7
%Chg	4.2	-0.5	-1.9	0.0	1.0	0.8
Manufacturing	12.8	12.9	12.3	12.1	12.0	11.9
%Chg	3.8	0.4	-4.5	-1.8	-0.7	-0.6
Private Service-Providing	109.3	110.8	110.5	110.8	111.2	111.5
%Chg	5.1	1.4	-0.3	0.3	0.3	0.3
Government	22.2	22.5	22.8	23.0	23.1	23.3
%Chg	0.9	1.5	1.1	0.9	0.7	0.7
U.S. Civilian Labor Force	164.3	166.3	166.9	167.5	168.0	168.6
Employment - Household Survey	158.3	159.7	159.3	159.9	160.6	161.2
Unemployment Rate (%)	3.6	3.9	4.6	4.5	4.4	4.4
Other Key Measures						
Non-Farm Productivity (index, 2005=1.0)	1.133	1.130	1.155	1.174	1.191	1.209
%Chg	-1.5	-0.3	2.2	1.7	1.5	1.5
Total Ind. Production (index, 2007=100)	103.933	102.539	103.254	104.893	106.358	107.572
%Chg	3.9	-1.3	0.7	1.6	1.4	1.1
Manhours in Private Non-Farm Estab.						
Billions of Hours	222.9	224.2	222.7	223.6	224.8	225.5
%Chg	3.7	0.6	-0.6	0.4	0.5	0.3
Average Weekly Hours	33.0	32.9	33.0	33.1	33.1	33.2
Manufacturing Workweek	41.1	40.8	40.9	40.9	40.8	40.8

Source: IHS Economics; November 2022 Baseline

Alternative Forecast Comparison

Calendar Years

	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1	2022	2023	2024	2025
Real Gross Domestic Product (GDP), Percent Change, Seasonally Adjusted at Annual Rate										
Blue Chip Consensus (02-23)	2.9	-0.1	-0.5	-0.1	0.6	1.4	2.1	0.7	1.2	**
IHS Economics Baseline (02-23)	2.9	-1.3	-0.2	0.7	1.8	1.9	2.1	0.7	1.6	2.0
Moody's Analytics (02-23)	2.9	-0.4	1.0	1.8	2.1	**	2.1	1.3	2.2	**
Wells Fargo (02-23)	2.9	-0.6	0.8	-1.9	-1.6	-0.1	2.1	0.6	0.5	**
CBO Outlook (02-23)	4.6	2.3	2.5	3.5	4.1	4.7	1.9	0.3	1.8	2.7
Consumer Price Index (CPI), Percent Change, Seasonally Adjusted at Annual Rate (except where noted)										
Blue Chip Consensus (02-23)	3.1	3.4	3.1	2.8	2.6	2.3	8.0	3.6	2.4	**
IHS Economics Baseline (02-23)	3.1	3.2	3.5	3.1	2.9	1.8	8.0	4.0	2.3	2.2
Moody's Analytics (02-23)	3.1	3.5	3.3	2.5	2.8	**	8.0	3.9	2.4	**
Wells Fargo (02-23) *	7.1	5.5	3.5	2.4	2.2	2.1	8.0	3.4	2.3	**
CBO Outlook (02-23)	4.7	4.3	4.1	4.0	3.5	2.9	8.1	4.8	3.0	2.2

* Year-over-Year Percent Change
**Not Available

IHS Economics Baseline Forecast Comparison

Calendar Years

	2020	2021	2022	2023	2024	2025	2026	2027
Real Gross Domestic Product (GDP), Annual Percent Change								
November 2019	2.1	2.0	1.6	1.5	-	-		
February 2020	2.1	2.0	1.7	1.5	-	-		
April 2020	-5.4	6.3	4.0	1.6	-	-		
November 2020	-3.6	3.1	2.5	2.5	2.9	3.0		
February 2021	-3.5	5.7	4.1	2.3	2.6	2.6		
November 2021	-3.4	5.5	4.3	2.9	2.7	2.6		
February 2022	-3.4	5.7	3.7	2.7	2.6	2.5		
November 2022	-2.8	5.9	1.8	-0.2	1.3	1.8	1.9	1.8
February 2023	-2.8	5.9	2.1	0.7	1.6	2.0	1.8	1.6
Consumer Price Index (CPI), Annual Percent Change								
November 2019	1.9	1.8	2.5	2.5	-	-		
February 2020	1.8	1.7	2.2	2.5	-	-		
April 2020	0.7	2.1	2.7	2.7	-	-		
November 2020	1.3	2.3	2.6	2.2	2.1	2.2		
February 2021	1.3	2.1	2.1	2.0	2.1	2.2		
November 2021	1.2	4.5	3.3	2.1	2.2	2.2		
February 2022	1.3	4.7	4.5	1.9	2.1	2.1		
November 2022	1.2	4.7	8.1	4.3	2.7	2.3	2.2	2.2
February 2023	1.3	4.7	8.0	4.0	2.3	2.2	2.1	2.2

Source: IHS Economics

Forecast Comparison: Minnesota & U.S.

Forecast 2023 to 2027, Calendar Years

	2020	2021	2022	2023	2024	2025	2026	2027
Personal Income (Billions of Current Dollars)								
Minnesota								
February 2023	355.2	378.3	386.8	401.8	422.3	442.7	463.3	484.0
%Chg	6.7	6.5	2.3	3.9	5.1	4.8	4.7	4.5
November 2022	355.2	378.8	385.6	405.1	425.5	447.5	469.1	490.9
%Chg	6.7	6.6	1.8	5.1	5.0	5.2	4.8	4.7
U.S.								
February 2023	19,832	21,295	21,733	22,644	23,640	24,755	25,890	27,070
%Chg	6.7	7.4	2.1	4.2	4.4	4.7	4.6	4.6
November 2022	19,832	21,295	21,787	22,800	23,799	24,875		
%Chg	6.7	7.4	2.3	4.6	4.4	4.5		
Wage and Salary Disbursements (Billions of Current Dollars)								
Minnesota								
February 2023	179.4	191.7	205.6	215.3	225.5	236.1	246.9	257.4
%Chg	0.1	6.9	7.2	4.7	4.8	4.7	4.6	4.3
November 2022	179.4	192.2	205.5	214.6	225.2	237.8	249.6	260.8
%Chg	0.1	7.2	6.9	4.5	4.9	5.6	5.0	4.5
U.S.								
February 2023	9,457	10,290	11,153	11,725	12,176	12,726	13,294	13,870
%Chg	1.4	8.8	8.4	5.1	3.8	4.5	4.5	4.3
November 2022	9,457	10,290	11,199	11,650	12,131	12,721	13,286	13,865
%Chg	1.4	8.8	8.8	4.0	4.1	4.9	4.4	4.4
Total Non-Farm Payroll Employment (Thousands)								
Minnesota								
February 2023	2,786	2,853	2,932	2,952	2,966	2,981	2,987	2,991
%Chg	-6.6	2.4	2.8	0.7	0.5	0.5	0.2	0.1
November 2022	2,784	2,849	2,938	2,948	2,949	2,971	2,983	2,992
%Chg	-6.7	2.3	3.1	0.3	0.0	0.7	0.4	0.3
U.S.								
February 2023	142,153	146,281	152,627	154,574	153,794	154,120	154,663	155,130
%Chg	-5.8	2.9	4.3	1.3	-0.5	0.2	0.4	0.3
November 2022	142,146	146,102	152,021	152,012	151,487	152,525	153,226	153,864
%Chg	-5.8	2.8	4.1	0.0	-0.3	0.7	0.5	0.4
Average Annual Non-Farm Wage (Current Dollars)								
Minnesota								
February 2023	64,376	67,208	70,109	72,926	76,035	79,206	82,633	86,038
%Chg	7.2	4.4	4.3	4.0	4.3	4.2	4.3	4.1
November 2022	64,416	67,464	69,923	72,808	76,341	80,031	83,676	87,165
%Chg	7.3	4.7	3.6	4.1	4.9	4.8	4.6	4.2
U.S.								
February 2023	66,529	70,345	73,076	75,853	79,171	82,572	85,955	89,407
%Chg	7.7	5.7	3.9	3.8	4.4	4.3	4.1	4.0
November 2022	66,533	70,431	73,670	76,637	80,080	83,401	86,711	90,112
%Chg	7.7	5.9	4.6	4.0	4.5	4.1	4.0	3.9

Source: IHS Economics and Minnesota Management and Budget (MMB)

Factors Affecting Tax Revenue

Billions of Current Dollars

	2020	2021	2022	2023	2024	2025	2026	2027
Individual Income Tax (Calendar Year)								
Minnesota Non-Farm Tax Base								
February 2021	265.6	277.1	289.0	301.4775	314.755	329.365		
%Chg	-0.7	4.3	4.3	4.3	4.4	4.6		
November 2021	266.053	282.858	302.010	318.900	335.453	352.298		
%Chg	-0.2	6.3	6.8	5.6	5.2	5.0		
February 2022	266.895	284.215	305.088	320.878	336.385	351.933		
%Chg	0.2	6.5	7.3	5.2	4.8	4.6		
November 2022	271.498	286.655	303.662	319.375	334.763	351.330	367.868	384.188
%Chg	0.7	5.6	5.9	5.2	4.8	4.9	4.7	4.4
February 2023	271.498	286.170	303.837	317.220	332.620	348.255	363.770	379.150
%Chg	0.7	5.4	6.2	4.4	4.9	4.7	4.5	4.2
Minnesota Wage and Salary Disbursements								
February 2021	177.731	188.395	197.785	206.6925	215.5975	225.518		
%Chg	-0.6	6.0	5.0	4.5	4.3	4.6		
November 2021	178.302	193.405	207.565	219.910	231.063	242.383		
%Chg	-0.5	8.5	7.3	5.9	5.1	4.9		
February 2022	179.144	194.137	210.050	221.035	231.293	241.530		
%Chg	0.0	8.4	8.2	5.2	4.6	4.4		
November 2022	179.365	192.220	205.456	214.643	225.165	237.778	249.600	260.813
%Chg	0.1	7.2	6.9	4.5	4.9	5.6	5.0	4.5
February 2023	179.365	191.735	205.569	215.253	225.503	236.095	246.858	257.360
%Chg	0.1	6.9	7.2	4.7	4.8	4.7	4.6	4.3
Minnesota Dividends, Interest, & Rental Income								
February 2021	64.304	64.946	66.764	69.156	72.153	75.574		
%Chg	-1.2	1.0	2.8	3.6	4.3	4.7		
November 2021	63.624	64.135	67.217	70.184	73.788	77.933		
%Chg	-1.8	0.8	4.8	4.4	5.1	5.6		
February 2022	63.624	64.162	67.625	71.344	75.139	79.039		
%Chg	-1.8	0.8	5.4	5.5	5.3	5.2		
November 2022	68.254	69.678	73.117	79.475	84.292	87.874	91.514	95.545
%Chg	0.5	2.1	4.9	8.7	6.1	4.2	4.1	4.4
February 2023	68.254	69.678	72.792	76.492	80.791	85.132	89.072	93.124
%Chg	0.5	2.1	4.5	5.1	5.6	5.4	4.6	4.5
Minnesota Non-Farm Proprietors' Income								
February 2021	23.534	23.774	24.402	25.632	27.003	28.273		
%Chg	0.4	1.0	2.6	5.0	5.3	4.7		
November 2021	24.127	25.320	27.231	28.806	30.600	31.983		
%Chg	6.9	4.9	7.5	5.8	6.2	4.5		
February 2022	24.127	25.916	27.414	28.497	29.951	31.361		
%Chg	6.9	7.4	5.8	4.0	5.1	4.7		
November 2022	23.879	24.757	25.088	25.259	25.307	25.679	26.752	27.828
%Chg	5.2	3.7	1.3	0.7	0.2	1.5	4.2	4.0
February 2023	23.879	24.757	25.475	25.477	26.323	27.028	27.842	28.667
%Chg	5.2	3.7	2.9	0.0	3.3	2.7	3.0	3.0

Factors Affecting Tax Revenue (Continued)

Billions of Current Dollars

	2020	2021	2022	2023	2024	2025	2026	2027
General Sales Tax (Fiscal Year)								
Minnesota Synthetic Sales Tax Base								
February 2021	93.075	96.247	101.985	106.344	110.864	115.735		
%Chg	-0.1	3.4	6.0	4.3	4.3	4.4		
November 2021	93.343	100.164	110.969	114.138	117.784	122.392		
%Chg	0.2	7.3	10.8	2.9	3.2	3.9		
February 2022	93.256	100.214	111.904	115.627	118.788	122.437		
%Chg	0.2	7.5	11.7	3.3	2.7	3.1		
November 2022	93.136	101.012	113.912	118.719	119.106	123.024	127.307	131.659
%Chg	0.2	8.5	12.8	4.2	0.3	3.3	3.5	3.4
February 2023	93.131	100.996	113.942	119.065	120.073	123.573	127.608	131.352
%Chg	0.2	8.4	12.8	4.5	0.8	2.9	3.3	2.9
**Historical data revised as a result of comprehensive GDP account revisions*								
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)								
February 2021	17.915	20.824	20.439	20.652	21.027	21.446		
%Chg	3.4	16.2	-1.8	1.0	1.8	2.0		
November 2021	17.758	21.775	23.314	22.312	22.025	22.390		
%Chg	3.4	22.6	7.1	-4.3	-1.3	1.7		
February 2022	17.761	21.774	23.649	22.954	22.814	22.950		
%Chg	3.5	22.6	8.6	-2.9	-0.6	0.6		
November 2022	17.952	22.688	24.998	25.411	25.127	25.567	26.169	26.792
%Chg	5.1	26.4	10.2	1.7	-1.1	1.8	2.4	2.4
February 2023	17.952	22.688	24.977	25.398	25.044	25.365	25.907	26.455
%Chg	5.1	26.4	10.1	1.7	-1.4	1.3	2.1	2.1
Minnesota's Proxy Share of U.S. Capital Equipment Spending								
February 2021	12.672	13.952	15.783	16.353	16.676	17.589		
%Chg	-2.5	10.1	13.1	3.6	2.0	5.5		
November 2021	12.535	13.932	14.694	15.469	15.992	16.666		
%Chg	-2.2	11.1	5.5	5.3	3.4	4.2		
February 2022	12.537	13.961	15.069	15.671	16.110	16.686		
%Chg	-2.1	11.4	7.9	4.0	2.8	3.6		
November 2022	12.101	12.831	13.839	14.179	13.497	13.654	14.227	14.786
%Chg	-5.5	6.0	7.9	2.5	-4.8	1.2	4.2	3.9
February 2023	12.101	12.831	13.815	14.008	13.658	13.979	14.461	15.017
%Chg	-5.5	6.0	7.7	1.4	-2.5	2.4	3.4	3.8
Minnesota's Proxy Share of U.S. Construction Spending								
February 2021	9.334	9.490	9.416	9.284	9.887	10.584		
%Chg	4.7	1.7	-0.8	-1.4	6.5	7.0		
November 2021	9.359	9.566	10.377	10.841	11.258	11.797		
%Chg	5.9	2.2	8.5	4.5	3.9	4.8		
February 2022	9.366	9.608	10.766	11.257	11.555	12.089		
%Chg	6.0	2.6	12.0	4.6	2.6	4.6		
November 2022	9.449	10.019	10.933	10.463	10.764	11.740	12.444	12.960
%Chg	6.2	6.0	9.1	-4.3	2.9	9.1	6.0	4.1
February 2023	9.445	10.013	10.853	10.404	10.491	11.304	11.991	12.515
%Chg	6.2	6.0	8.4	-4.1	0.8	7.8	6.1	4.4

Factors Affecting Tax Revenue (Continued)

Billions of Current Dollars

	2020	2021	2022	2023	2024	2025	2026	2027
			Corporate Franchise Tax (Calendar Year)					
U.S. Corporate Profits (w/ IVA and capital consumption adjustment)								
February 2021	2,096.9	2,247.6	2,270.823	2,426.746	2,621.6	2,809.5	2,985.4	3,169.3
%Chg	-6.3	7.2	1.0	6.9	8.0	7.2	6.3	6.2
November 2021	2,184.1	2,861.5	2,779.373	2,875.201	3,085.9	3,284.7	3,490.1	3,694.4
%Chg	-3.1	31.0	-2.9	3.4	7.3	6.4	6.3	5.9
February 2022	2,184.1	2,991.0	2,956.946	3,038.843	3,252.2	3,461.7	3,676.5	3,887.1
%Chg	-3.1	36.9	-1.1	2.8	7.0	6.4	6.2	5.7
November 2022	2,399.8	3,138.1	3,433.908	3,342.841	3,389.6	3,457.2	3,595.0	3,759.9
%Chg	4.1	30.8	9.4	-2.7	1.4	2.0	4.0	4.6
February 2023	2,399.8	3,138.1	3,406.583	3,398.785	3,448.3	3,537.9	3,659.1	3,803.3
%Chg	4.1	30.8	8.6	-0.2	1.5	2.6	3.4	3.9
			Deed & Mortgage Tax (Fiscal Year)					
U.S. New and Existing Home Sales (Current $ Value)								
February 2021	1,718.4	2,294.4	2,319.2	2,251.4	2,222.4	2,260.3		
%Chg	4.6	33.5	1.1	-2.9	-1.3	1.7		
November 2021	1,719.2	2,312.8	2,393.1	2,338.1	2,326.3	2,362.5		
%Chg	4.6	34.5	3.5	-2.3	-0.5	1.6		
February 2022	1,719.2	2,312.8	2,459.2	2,410.7	2,359.9	2,395.1		
%Chg	4.6	34.5	6.3	-2.0	-2.1	1.5		
November 2022	1,719.9	2,310.7	2,394.0	1,716.8	1,575.8	1,860.5	2,086.1	2,400.4
%Chg	4.5	34.3	3.6	-28.3	-8.2	18.1	12.1	15.1
February 2023	1,719.9	2,310.7	2,394.0	1,785.4	1,507.0	1,742.9	1,917.7	2,284.2
%Chg	4.5	34.3	3.6	-25.4	-15.6	15.7	10.0	19.1

Comparison of Actual and Estimated
Non-Restricted Revenues

January YTD, 2023-FY2023
($ in Thousands)

	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax			
Withholding	6,503,370	6,536,970	33,600
Declarations	1,031,946	1,088,615	56,669
Miscellaneous	478,572	498,396	19,824
Partnership & S Corporation Gross	1,282,541	1,451,145	168,604
Gross	9,296,430	9,575,126	278,696
Partnership & S Corporation Refunds	82,736	79,335	(3,401)
Individual, Fiduciary, & Withholding Refunds	552,694	580,030	27,336
Total Refunds	635,430	659,365	23,934
Net Income Tax	8,661,000	8,915,762	254,762
Corporate Franchise Tax			
Declarations	1,193,405	1,442,851	249,445
Miscellaneous	113,185	143,275	30,090
Gross	1,306,591	1,586,126	279,535
Refund	76,140	70,658	(5,481)
Net	1,230,451	1,515,467	285,016
General Sales and Use Tax			
Gross	4,801,260	4,761,680	(39,580)
Mpls. sales tax transferred to MSFA	-		-
MPLS Sales Tax w/Holding for NFL Stadium	12,858	12,858	(0)
Sales Tax Gross	4,814,118	4,774,538	(39,580)
Refunds (including Indian refunds)	84,871	84,066	(805)
Net	4,729,246	4,690,472	(38,775)
Other Revenues:			
Net Estate	162,111	163,140	1,029
Net Liquor/Wine/Beer	57,659	56,667	(992)
Net Cigarette/Tobacco	317,049	318,545	1,496
Deed and Mortgage	165,213	164,639	(574)
Net Insurance Premiums Taxes	224,712	226,752	2,040
Net Lawful Gambling	99,492	101,828	2,336
Health Care Surcharge	124,091	96,545	(27,546)
Other Taxes	16	597	581
Statewide Property Tax	360,949	357,919	(3,030)
DHS SOS Collections	57,109	67,750	10,641
Investment Income	174,009	173,090	(919)
Tobacco Settlement	155,170	152,018	(3,152)
Dept. Earnings & MSOP Recov.	125,889	126,054	165
Fines and Surcharges	35,856	43,346	7,489
Lottery Revenues	30,808	44,369	13,561
Revenues yet to be allocated	17,919	13,486	(4,433)
Residual Revenues	132,603	119,122	(13,481)
Other Subtotal	2,240,654	2,225,865	(14,788)
Other Refunds	2,699	2,171	(528)
Other Net	2,237,954	2,223,694	(14,260)
Total Gross	**17,657,792**	**18,161,655**	**503,863**
Total Refunds	**799,141**	**816,260**	**17,120**
Total Net	**16,858,652**	**17,345,395**	**486,744**

FY 2022-23 Current Biennium

February 2023 Forecast
($ in thousands)

	Feb FY 2022	Feb FY 2023	Biennial Total FY 2022-23
Actual & Estimated Resources			
Balance Forward From Prior Year	7,025,957	12,969,000	7,025,957
Current Resources:			
Tax Revenues	29,390,413	28,632,906	58,023,319
Non-Tax Revenues	926,552	1,222,180	2,148,732
Subtotal - Non-Dedicated Revenue	30,316,965	29,855,086	60,172,051
Dedicated Revenue	4	5	9
Transfers In	179,721	159,495	339,216
Prior Year Adjustments	132,779	37,250	170,029
Subtotal - Other Revenue	312,504	196,750	509,254
Subtotal-Current Resources	30,629,469	30,051,836	60,681,305
Total Resources Available	**37,655,426**	**43,020,836**	**67,707,262**
Actual & Estimated Spending			
E-12 Education	9,960,012	10,223,800	20,183,812
Higher Education	1,750,216	1,785,808	3,536,024
Property Tax Aids & Credits	2,052,912	2,588,446	4,641,358
Health & Human Services	6,922,572	8,285,223	15,207,795
Public Safety & Judiciary	1,292,489	1,378,566	2,671,055
Transportation	236,332	245,137	481,469
Environment	195,128	208,334	403,462
Economic Development, Energy, Ag and Housing	841,841	443,290	1,285,131
State Government & Veterans	665,137	1,102,172	1,767,309
Debt Service	592,426	547,759	1,140,185
Capital Projects & Grants	177,361	174,648	352,009
Estimated Cancellations	0	-15,000	-15,000
Total Expenditures & Transfers	**24,686,426**	**26,968,183**	**51,654,609**
Balance Before Reserves	**12,969,000**	**16,052,653**	**16,052,653**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	2,672,484	2,852,098	2,852,098
Stadium Reserve	229,397	366,179	366,179
Appropriations Carried Forward	972,828	0	0
Budgetary Balance	**8,744,291**	**12,484,376**	**12,484,376**

FY 2022-23 Current Biennium

February 2023 Forecast vs November 2022 Forecast
($ in thousands)

	Nov FY 2022-23*	Feb FY 2022-23	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	7,025,957	7,025,957	0
Current Resources:			
Tax Revenues	57,303,180	58,023,319	720,139
Non-Tax Revenues	2,115,521	2,148,732	33,211
Subtotal - Non-Dedicated Revenue	59,418,701	60,172,051	753,350
Dedicated Revenue	9	9	0
Transfers In	339,216	339,216	0
Prior Year Adjustments	170,029	170,029	0
Subtotal - Other Revenue	509,254	509,254	0
Subtotal-Current Resources	59,927,955	60,681,305	753,350
Total Resources Available	**66,953,912**	**67,707,262**	**753,350**
Actual & Estimated Spending			
E-12 Education	20,223,386	20,183,812	-39,574
Higher Education	3,536,024	3,536,024	0
Property Tax Aids & Credits	4,648,600	4,641,358	-7,242
Health & Human Services	15,233,653	15,207,795	-25,858
Public Safety & Judiciary	2,671,055	2,671,055	0
Transportation	481,469	481,469	0
Environment	403,012	403,462	450
Economic Development, Energy, Ag and Housing	1,285,122	1,285,131	9
State Government & Veterans	1,807,325	1,767,309	-40,016
Debt Service	1,140,185	1,140,185	0
Capital Projects & Grants	351,444	352,009	565
Estimated Cancellations	-15,000	-15,000	0
Total Expenditures & Transfers	**51,766,275**	**51,654,609**	**-111,666**
Balance Before Reserves	**15,187,637**	**16,052,653**	**865,016**
Cash Flow Account	350,000	350,000	0
Budget Reserve	2,852,098	2,852,098	0
Stadium Reserve	368,060	366,179	-1,881
Budgetary Balance	**11,617,479**	**12,484,376**	**866,897**

*November Forecast adjusted for enactment of Ch 1. (Federal Conformity) and Ch. 8 (Attorney General) and minor error corrections.

FY 2024-25 Next Biennium

February 2023 Forecast
($ in thousands)

	Feb FY 2024	Feb FY 2025	Biennial Total FY 2024-25
Actual & Estimated Resources			
Balance Forward From Prior Year	16,052,653	19,094,816	16,052,653
Current Resources:			
Tax Revenues	28,675,711	29,643,896	58,319,607
Non-Tax Revenues	1,321,956	937,702	2,259,658
Subtotal - Non-Dedicated Revenue	29,997,667	30,581,598	60,579,265
Dedicated Revenue	5	5	10
Transfers In	96,401	25,807	122,208
Prior Year Adjustments	37,218	37,187	74,405
Subtotal - Other Revenue	133,624	62,999	196,623
Subtotal-Current Resources	30,131,291	30,644,597	60,775,888
Total Resources Available	**46,183,944**	**49,739,413**	**76,828,541**
Actual & Estimated Spending			
E-12 Education	10,619,665	10,681,884	21,301,549
Higher Education	1,752,914	1,752,914	3,505,828
Property Tax AISs & Credits	2,197,802	2,236,813	4,434,615
Health & Human Services	8,603,198	9,211,256	17,814,454
Public Safety & Judiciary	1,338,253	1,338,251	2,676,504
Transportation	135,730	135,730	271,460
Environment	181,210	181,024	362,234
Economic Development, Energy, Ag and Housing	333,039	307,088	640,127
State Government & Veterans	697,704	904,936	1,602,640
Debt Service	557,659	582,255	1,139,914
Capital Projects & Grants	168,617	172,717	341,334
Estimated Cancellations	-5,000	-15,000	-20,000
Estimated Inflation	508,337	914,394	1,422,731
Total Expenditures & Transfers	**27,089,128**	**28,404,262**	**55,493,390**
Balance Before Reserves	**19,094,816**	**21,335,151**	**21,335,151**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	2,852,098	2,852,098	2,852,098
Stadium Reserve	516,962	678,315	678,315
Budgetary Balance	**15,375,756**	**17,454,738**	**17,454,738**

FY 2024-25 Next Biennium

February 2023 Forecast vs November 2022 Forecast
($ in thousands)

	Nov FY 2024-25*	Feb FY 2024-25	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	15,187,637	16,052,653	865,016
Current Resources:			
Tax Revenues	57,714,254	58,319,607	605,353
Non-Tax Revenues	2,266,266	2,259,658	-6,608
Subtotal - Non-Dedicated Revenue	59,980,520	60,579,265	598,745
Dedicated Revenue	10	10	0
Transfers In	122,208	122,208	0
Prior Year Adjustments	74,405	74,405	0
Subtotal - Other Revenue	196,623	196,623	0
Subtotal-Current Resources	60,177,143	60,775,888	598,745
Total Resources Available	**75,364,780**	**76,828,541**	**1,463,761**
Actual & Estimated Spending			
E-12 Education	21,251,951	21,301,549	49,598
Higher Education	3,505,828	3,505,828	0
Property Tax Aids & Credits	4,472,595	4,434,615	-37,980
Health & Human Services	17,811,341	17,814,454	3,113
Public Safety & Judiciary	2,676,504	2,676,504	0
Transportation	271,460	271,460	0
Environment	359,165	362,234	3,069
Economic Development, Energy, Ag and Housing	640,110	640,127	17
State Government & Veterans	1,504,142	1,602,640	98,498
Debt Service	1,146,757	1,139,914	-6,843
Capital Projects & Grants	337,352	341,334	3,982
Estimated Cancellations	-20,000	-20,000	0
Estimated Inflation	0	1,422,731	1,422,731
Total Expenditures & Transfers	**53,957,205**	**55,493,390**	**1,536,185**
Balance Before Reserves	**21,407,575**	**21,335,151**	**-72,424**
Cash Flow Account	350,000	350,000	0
Budget Reserve	2,852,098	2,852,098	0
Stadium Reserve	684,265	678,315	-5,950
Budgetary Balance	**17,521,212**	**17,454,738**	**-66,474**

*November Forecast adjusted for enactment of Ch 1. (Federal Conformity) and Ch. 8 (Attorney General) and minor error corrections.

Biennial Comparison
February 2023 Forecast
($ in thousands)

	Feb FY 2022-23	Feb FY 2024-25	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	7,025,957	16,052,653	9,026,696
Current Resources:			
Tax Revenues	58,023,319	58,319,607	296,288
Non-Tax Revenues	2,148,732	2,259,658	110,926
Subtotal - Non-Dedicated Revenue	60,172,051	60,579,265	407,214
Dedicated Revenue	9	10	1
Transfers In	339,216	122,208	-217,008
Prior Year Adjustments	170,029	74,405	-95,624
Subtotal - Other Revenue	509,254	196,623	-312,631
Subtotal-Current Resources	60,681,305	60,775,888	94,583
Total Resources Available	**67,707,262**	**76,828,541**	**9,121,279**
Actual & Estimated Spending			
E-12 Education	20,183,812	21,301,549	1,117,737
Higher Education	3,536,024	3,505,828	-30,196
Property Tax Aids & Credits	4,641,358	4,434,615	-206,743
Health & Human Services	15,207,795	17,814,454	2,606,659
Public Safety & Judiciary	2,671,055	2,676,504	5,449
Transportation	481,469	271,460	-210,009
Environment	403,462	362,234	-41,228
Economic Development, Energy, Ag and Housing	1,285,131	640,127	-645,004
State Government & Veterans	1,767,309	1,602,640	-164,669
Debt Service	1,140,185	1,139,914	-271
Capital Projects & Grants	352,009	341,334	-10,675
Estimated Cancellations	-15,000	-20,000	-5,000
Estimated Inflation	0	1,422,731	1,422,731
Total Expenditures & Transfers	**51,654,609**	**55,493,390**	**3,838,781**
Balance Before Reserves	**16,052,653**	**21,335,151**	**5,282,498**
Cash Flow Account	350,000	350,000	0
Budget Reserve	2,852,098	2,852,098	0
Stadium Reserve	366,179	678,315	312,136
Budgetary Balance	**12,484,376**	**17,454,738**	**4,970,362**

FY 2026-27 Planning Estimates

February 2023 Forecast
($ in thousands)

	Feb FY 2026	Feb FY 2027	Biennial Total FY 2026-27
Actual & Estimated Resources			
Balance Forward From Prior Year	21,335,151	23,845,442	21,335,151
Current Resources:			
Tax Revenues	30,889,942	32,104,977	62,994,919
Non-Tax Revenues	806,085	803,121	1,609,206
Subtotal - Non-Dedicated Revenue	31,696,027	32,908,098	64,604,125
Dedicated Revenue	5	5	10
Transfers In	25,777	25,967	51,744
Prior Year Adjustments	37,134	37,102	74,236
Subtotal - Other Revenue	62,916	63,074	125,990
Subtotal-Current Resources	31,758,943	32,971,172	64,730,115
Total Resources Available	**53,094,094**	**56,816,614**	**86,065,266**
Actual & Estimated Spending			
E-12 Education	10,730,844	10,817,489	21,548,333
Higher Education	1,752,914	1,752,914	3,505,828
Property Tax Aids & Credits	2,263,356	2,291,241	4,554,597
Health & Human Services	9,781,957	10,080,332	19,862,289
Public Safety & Judiciary	1,332,251	1,332,251	2,664,502
Transportation	135,730	135,730	271,460
Environment	180,770	180,584	361,354
Economic Development, Energy, Ag and Housing	287,914	287,900	575,814
State Government & Veterans	671,915	673,590	1,345,505
Debt Service	610,114	645,202	1,255,316
Capital Projects & Grants	173,374	175,143	348,517
Estimated Cancellations	-5,000	-15,000	-20,000
Estimated Inflation	1,332,513	1,757,865	3,090,378
Total Expenditures & Transfers	**29,248,652**	**30,115,241**	**59,363,893**
Balance Before Reserves	**23,845,442**	**26,701,373**	**26,701,373**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	2,852,098	2,852,098	2,852,098
Stadium Reserve	846,099	1,020,617	1,020,617
Budgetary Balance	**19,797,245**	**22,478,658**	**22,478,658**

Biennial Comparison

February 2023 Forecast
($ in thousands)

	Feb FY 2024-25	Feb FY 2026-27	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	16,052,653	21,335,151	5,282,498
Current Resources:			
Tax Revenues	58,319,607	62,994,919	4,675,312
Non-Tax Revenues	2,259,658	1,609,206	-650,452
Subtotal - Non-Dedicated Revenue	60,579,265	64,604,125	4,024,860
Dedicated Revenue	10	10	0
Transfers In	122,208	51,744	-70,464
Prior Year Adjustments	74,405	74,236	-169
Subtotal - Other Revenue	196,623	125,990	-70,633
Subtotal-Current Resources	60,775,888	64,730,115	3,954,227
Total Resources Available	**76,828,541**	**86,065,266**	**9,236,725**
Actual & Estimated Spending			
E-12 Education	21,301,549	21,548,333	246,784
Higher Education	3,505,828	3,505,828	0
Property Tax Aids & Credits	4,434,615	4,554,597	119,982
Health & Human Services	17,814,454	19,862,289	2,047,835
Public Safety & Judiciary	2,676,504	2,664,502	-12,002
Transportation	271,460	271,460	0
Environment	362,234	361,354	-880
Economic Development, Energy, Ag and Housing	640,127	575,814	-64,313
State Government & Veterans	1,602,640	1,345,505	-257,135
Debt Service	1,139,914	1,255,316	115,402
Capital Projects & Grants	341,334	348,517	7,183
Estimated Cancellations	-20,000	-20,000	0
Estimated Inflation	1,422,731	3,090,378	1,667,647
Total Expenditures & Transfers	**55,493,390**	**59,363,893**	**3,870,503**
Balance Before Reserves	**21,335,151**	**26,701,373**	**5,366,222**
Cash Flow Account	350,000	350,000	0
Budget Reserve	2,852,098	2,852,098	0
Stadium Reserve	678,315	1,020,617	342,302
Budgetary Balance	**17,454,738**	**22,478,658**	**5,023,920**

FY 2026-27 Planning Estimates

February 2023 Forecast vs November 2022 Forecast
($ in thousands)

	Nov FY 2026-27*	Feb FY 2026-27	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	21,407,575	21,335,151	-72,424
Current Resources:			
Tax Revenues	62,822,231	62,994,919	172,688
Non-Tax Revenues	1,641,995	1,609,206	-32,789
Subtotal - Non-Dedicated Revenue	64,464,226	64,604,125	139,899
Dedicated Revenue	10	10	0
Transfers In	51,746	51,744	-2
Prior Year Adjustments	74,236	74,236	0
Subtotal - Other Revenue	125,992	125,990	-2
Subtotal-Current Resources	64,590,218	64,730,115	139,897
Total Resources Available	**85,997,793**	**86,065,266**	**67,473**
Actual & Estimated Spending			
E-12 Education	21,459,335	21,548,333	88,998
Higher Education	3,505,828	3,505,828	0
Property Tax Aids & Credits	4,591,540	4,554,597	-36,943
Health & Human Services	19,881,012	19,862,289	-18,723
Public Safety & Judiciary	2,664,502	2,664,502	0
Transportation	271,460	271,460	0
Environment	358,361	361,354	2,993
Economic Development, Energy, Ag and Housing	575,828	575,814	-14
State Government & Veterans	1,264,833	1,345,505	80,672
Debt Service	1,257,296	1,255,316	-1,980
Capital Projects & Grants	345,090	348,517	3,427
Estimated Cancellations	-20,000	-20,000	0
Estimated Inflation	0	3,090,378	3,090,378
Total Expenditures & Transfers	**56,155,085**	**59,363,893**	**3,208,808**
Balance Before Reserves	**29,842,708**	**26,701,373**	**-3,141,335**
Cash Flow Account	350,000	350,000	0
Budget Reserve	2,852,098	2,852,098	0
Stadium Reserve	1,030,809	1,020,617	-10,192
Budgetary Balance	**25,609,801**	**22,478,658**	**-3,131,143**

*November Forecast adjusted for enactment of Ch 1. (Federal Conformity) and Ch. 8 (Attorney General) and minor error corrections.

FY 2022-27 Planning Horizon

February 2023 Forecast
($ in thousands)

	Feb FY 2022-23	Feb FY 2024-25	Feb FY 2026-27
Actual & Estimated Resources			
Balance Forward From Prior Year	7,025,957	16,052,653	21,335,151
Current Resources:			
Tax Revenues	58,023,319	58,319,607	62,994,919
Non-Tax Revenues	2,148,732	2,259,658	1,609,206
Subtotal - Non-Dedicated Revenue	60,172,051	60,579,265	64,604,125
Dedicated Revenue	9	10	10
Transfers In	339,216	122,208	51,744
Prior Year Adjustments	170,029	74,405	74,236
Subtotal - Other Revenue	509,254	196,623	125,990
Subtotal-Current Resources	60,681,305	60,775,888	64,730,115
Total Resources Available	**67,707,262**	**76,828,541**	**86,065,266**
Actual & Estimated Spending			
E-12 Education	20,183,812	21,301,549	21,548,333
Higher Education	3,536,024	3,505,828	3,505,828
Property Tax Aids & Credits	4,641,358	4,434,615	4,554,597
Health & Human Services	15,207,795	17,814,454	19,862,289
Public Safety & Judiciary	2,671,055	2,676,504	2,664,502
Transportation	481,469	271,460	271,460
Environment	403,462	362,234	361,354
Economic Development, Energy, Ag and Housing	1,285,131	640,127	575,814
State Government & Veterans	1,767,309	1,602,640	1,345,505
Debt Service	1,140,185	1,139,914	1,255,316
Capital Projects & Grants	352,009	341,334	348,517
Estimated Cancellations	-15,000	-20,000	-20,000
Estimated Inflation	0	1,422,731	3,090,378
Total Expenditures & Transfers	**51,654,609**	**55,493,390**	**59,363,893**
Balance Before Reserves	**16,052,653**	**21,335,151**	**26,701,373**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	2,852,098	2,852,098	2,852,098
Stadium Reserve	366,179	678,315	1,020,617
Budgetary Balance	**12,484,376**	**17,454,738**	**22,478,658**

Historical and Projected Revenue Growth

February 2023 Forecast - General Fund
($ in millions)

	Actual FY 2020	Actual FY 2021	Actual FY 2022	Feb FY 2023	Feb FY 2024	Feb FY 2025	Pling FY 2026	Pling FY 2027	Average Annual
Individual Income Tax	$12,135	$14,233	$16,873	$15,494	$15,979	$16,681	$17,561	$18,389	
$ change	(309)	2,097	2,640	(1,378)	485	702	880	828	
% change	**-2.5%**	**17.3%**	**18.6%**	**-8.2%**	**3.1%**	**4.4%**	**5.3%**	**4.7%**	**4.4%**
Sales Tax	$5,746	$6,169	$6,644	$7,409	$7,441	$7,688	$7,929	$8,158	
$ change	(17)	424	474	765	33	247	241	228	
% change	**-0.3%**	**7.4%**	**7.7%**	**11.5%**	**0.4%**	**3.3%**	**3.1%**	**2.9%**	**4.4%**
Corporate Tax	$1,539	$2,258	$2,823	$2,764	$2,318	$2,257	$2,321	$2,386	
$ change	(82)	719	564	(59)	(446)	(61)	64	65	
% change	**-5.1%**	**46.7%**	**25.0%**	**-2.1%**	**-16.1%**	**-2.6%**	**2.8%**	**2.8%**	**7.6%**
Statewide Property Tax	$753	$803	$774	$757	$747	$745	$745	$745	
$ change	(57)	50	(29)	(17)	(10)	(2)	0	0	
% change	**-7.1%**	**6.6%**	**-3.6%**	**-2.2%**	**-1.4%**	**-0.2%**	**0.0%**	**0.0%**	**-1.1%**
Other Tax Revenue	$1,904	$2,197	$2,277	$2,208	$2,190	$2,272	$2,333	$2,427	
$ change	(58)	293	80	(69)	(19)	82	61	94	
% change	**-2.9%**	**15.4%**	**3.6%**	**-3.0%**	**-0.8%**	**3.8%**	**2.7%**	**4.0%**	**2.4%**
Total Tax Revenue	$22,077	$25,660	$29,390	$28,633	$28,676	$29,644	$30,890	$32,105	
$ change	(522)	3,583	3,730	(758)	43	968	1,246	1,215	
% change	**-2.3%**	**16.2%**	**14.5%**	**-2.6%**	**0.1%**	**3.4%**	**4.2%**	**3.9%**	**4.3%**
Non-Tax Revenues	$817	$922	$927	$1,222	$1,322	$938	$806	$803	
$ change	(62)	105	5	296	100	(384)	(132)	(3)	
% change	**-7.0%**	**12.8%**	**0.5%**	**31.9%**	**8.2%**	**-29.1%**	**-14.0%**	**-0.4%**	**1.8%**
Transfers, All Other	$256	$746	$313	$197	$134	$63	$63	$63	
$ change	(8)	490	(434)	(116)	(63)	(71)	(0)	0	
% change	**-3.0%**	**191.4%**	**-58.1%**	**-37.0%**	**-32.1%**	**-52.9%**	**-0.1%**	**0.3%**	**-15.2%**
Total Revenue	$23,150	$27,329	$30,629	$30,052	$30,131	$30,645	$31,759	$32,971	
$ change	(592)	4,178	3,301	(578)	79	513	1,114	1,212	
% change	**-2.5%**	**18.0%**	**12.1%**	**-1.9%**	**0.3%**	**1.7%**	**3.6%**	**3.8%**	**4.1%**

Historical and Projected Spending Growth

February 2023 Forecast - General Fund
($ in millions)

	Actual FY 2020	Actual FY 2021	Actual FY 2022	Feb FY 2023	Feb FY 2024	Feb FY 2025	Pling FY 2026	Pling FY 2027	Average Annual
E-12 Education	$9,836	$9,919	$9,960	$10,224	$10,620	$10,682	$10,731	$10,817	
$ change	248	83	41	264	396	62	49	87	
% change	**2.6%**	**0.8%**	**0.4%**	**2.6%**	**3.9%**	**0.6%**	**0.5%**	**0.8%**	**1.8%**
Higher Education	$1,693	$1,714	$1,750	$1,786	$1,753	$1,753	$1,753	$1,753	
$ change	51	21	36	36	(33)	-	-	-	
% change	**3.1%**	**1.2%**	**2.1%**	**2.0%**	**-1.8%**	**0.0%**	**0.0%**	**0.0%**	**0.8%**
Prop. Tax Aids & Credits	$1,867	$2,026	$2,053	$2,588	$2,198	$2,237	$2,263	$2,291	
$ change	(60)	159	27	536	(391)	39	27	28	
% change	**-3.1%**	**8.5%**	**1.3%**	**26.1%**	**-15.1%**	**1.8%**	**1.2%**	**1.2%**	**3.3%**
Health & Human Services	$7,035	$6,611	$6,923	$8,285	$8,603	$9,211	$9,782	$10,080	
$ change	359	(424)	312	1,363	318	608	571	298	
% change	**5.4%**	**-6.0%**	**4.7%**	**19.7%**	**3.8%**	**7.1%**	**6.2%**	**3.1%**	**4.2%**
Public Safety & Judiciary	$1,237	$1,314	$1,292	$1,379	$1,338	$1,338	$1,332	$1,332	
$ change	11	77	(21)	86	(40)	(0)	(6)	-	
% change	**0.9%**	**6.2%**	**-1.6%**	**6.7%**	**-2.9%**	**0.0%**	**-0.4%**	**0.0%**	**2.5%**
Debt Service	$540	$516	$592	$548	$558	$582	$610	$645	
$ change	(10)	(25)	77	(45)	10	25	28	35	
% change	**-1.8%**	**-4.5%**	**14.9%**	**-7.5%**	**1.8%**	**4.4%**	**4.8%**	**5.8%**	**0.4%**
All Other	$1,570	$1,547	$2,116	$2,159	$2,020	$2,601	$2,777	$3,196	
$ change	125	(23)	569	43	(139)	581	176	419	
% change	**8.7%**	**-1.4%**	**36.8%**	**2.0%**	**-6.4%**	**28.8%**	**6.8%**	**15.1%**	**7.8%**
Total Spending	$23,778	$23,647	$24,686	$26,968	$27,089	$28,404	$29,249	$30,115	
$ change	724	(131)	1,040	2,282	121	1,315	844	867	
% change	**3.1%**	**-0.6%**	**4.4%**	**9.2%**	**0.4%**	**4.9%**	**3.0%**	**3.0%**	**3.0%**

FY 2018-2027 Stadium Reserve Balance

February 2023 Forecast
($ in thousands)

	Actual FY 2018	Actual FY 2019	Actual FY 2020	Actual FY 2021	Actual FY 2022	Projected FY 2023	Projected FY 2024	Projected FY 2025	Projected FY 2026	Projected FY 2027
Actual & Estimated Resources										
Beginning Balance	26,821	44,171	55,075	55,700	106,709	229,397	366,179	516,963	678,316	846,100
Prior Year Adjustments	0	0	42	1	0	0	0	0	0	0
Current Resources:										
Gambling Revenue	38,675	52,835	42,494	82,782	144,819	159,000	173,150	183,650	190,250	197,050
Sales Tax Exemption for Construction Equipment	0	0	0	0	0	0	0	0	0	0
Retained City of Minneapolis Revenue	0	0	0	10,539	21,215	21,704	22,148	22,522	22,710	23,018
Corporate Franchise Tax Revenue	20,000	0	0	0	0	0	0	0	0	0
Cigarette Floor Stocks Tax Reserve Deposit	0	0	0	0	0	0	0	0	0	0
Current Resources	**58,675**	**52,835**	**42,494**	**93,321**	**166,034**	**180,704**	**195,298**	**206,172**	**212,960**	**220,068**
Actual & Estimated Spending										
Debt Service	29,923	30,158	30,156	30,157	30,154	30,155	30,152	30,151	30,152	30,157
Total Payments for City Stadium Obligations	7,947	8,177	8,260	8,259	8,673	9,107	9,562	9,763	10,053	10,354
St. Paul Sports Facilities Grants	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700
Problem Gambling Appropriations	756	897	794	1,197	1,819	1,959	2,101	2,206	2,272	2,340
Total Uses	**41,325**	**41,932**	**41,910**	**42,313**	**43,346**	**43,921**	**44,515**	**44,819**	**45,176**	**45,550**
Sources Minus Uses	**17,350**	**10,903**	**584**	**51,008**	**122,687**	**136,782**	**150,784**	**161,353**	**167,783**	**174,517**
Expenses Covered By General Fund[1]	0	0	0	0	0	0	0	0	0	0
Use of the Reserve	0	0	0	0	0	0	0	0	0	0
Stadium Reserve Balance	**44,171**	**55,075**	**55,700**	**106,709**	**229,397**	**366,179**	**516,963**	**678,316**	**846,100**	**1,020,617**

[1]Per M.S. 297E.021, Subd. 4, the Commissioner of Minnesota Management and Budget, after consultation with the Legislative Commission on Planning and Fiscal Policy, has authority to use funds in the stadium reserve for uses related to the stadium. In FY 2015 and FY 2016 reserve funds were used to reimburse the general fund to the extent that current year revenues were not sufficient to cover stadium related expenses. St. Paul Sports Facilities Grants and problem gambling appropriations are not stadium related so reserve funds were not used to cover those expenses.