BUDGET AND ECONOMIC FORECAST

MINNESOTA

NOVEMBER 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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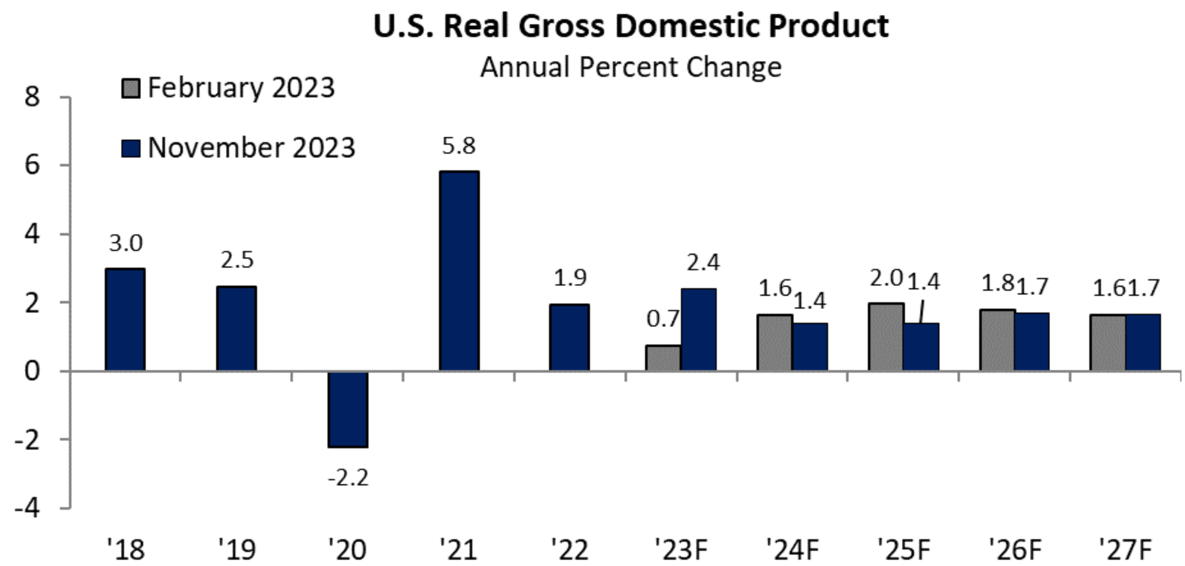
EXECUTIVE SUMMARY

Minnesota's budget and economic outlook remains stable in the current biennium, but a significant structural imbalance constrained the budget outlook in FY 2026-27. The current FY 2024-25 surplus is projected to be $2.4 billion, up $808 million from the end-of-session estimate. Higher expected consumer spending and corporate profit growth raise the FY 2024-25 tax revenue forecast. The near-term U.S. economic outlook has improved since February, driven by stronger than expected consumer spending, business investment, and employment. Higher estimates in health and human services and education raise total spending in FY 2024-2027, resulting in a negative structural balance in the next biennium.

U.S. Economic Outlook. Since Minnesota's *Budget and Economic Forecast* was last prepared in February, real GDP has grown faster than forecast, driven by faster than expected real consumer spending and business investment. This, along with unexpectedly strong employment growth, prompted SPGMI Global Market Intelligence, IHS Global Inc (SPGMI), Minnesota's macroeconomic consultant, to raise their GDP outlook for 2023. SPGMI is now expecting real GDP to increase 2.4 percent in 2023, up 1.7 percentage points from their February outlook, when they forecast a mild, two-quarter recession this year. In the prior forecast, SPGMI expected real GDP to decline in the first two quarters of 2023. The BEA now estimates that real GDP *grew* by 2.2 and 2.1 percent (annual rate) in the first two quarters of this year, respectively. In addition, BEA estimates that real GDP grew 5.2 percent in the third quarter.

Long-term interest rates have risen higher than forecast in February, causing financial conditions to become more restrictive. In addition, largely in response to stronger than expected economic growth since February, the Federal Reserve is now expected to raise rates higher than SPGMI forecast in February and to hold rates at a higher level for a longer period. Consequently, SPGMI has reduced their growth expectations beyond 2023. SPGMI is now forecasting U.S. real GDP to increase 1.4 percent in both 2024 and 2025, down from 1.6 and 2.0 percent in their February outlook. From 2024 to 2027, average annual real GDP growth is now expected to be 0.2 percentage points less than in the February baseline.



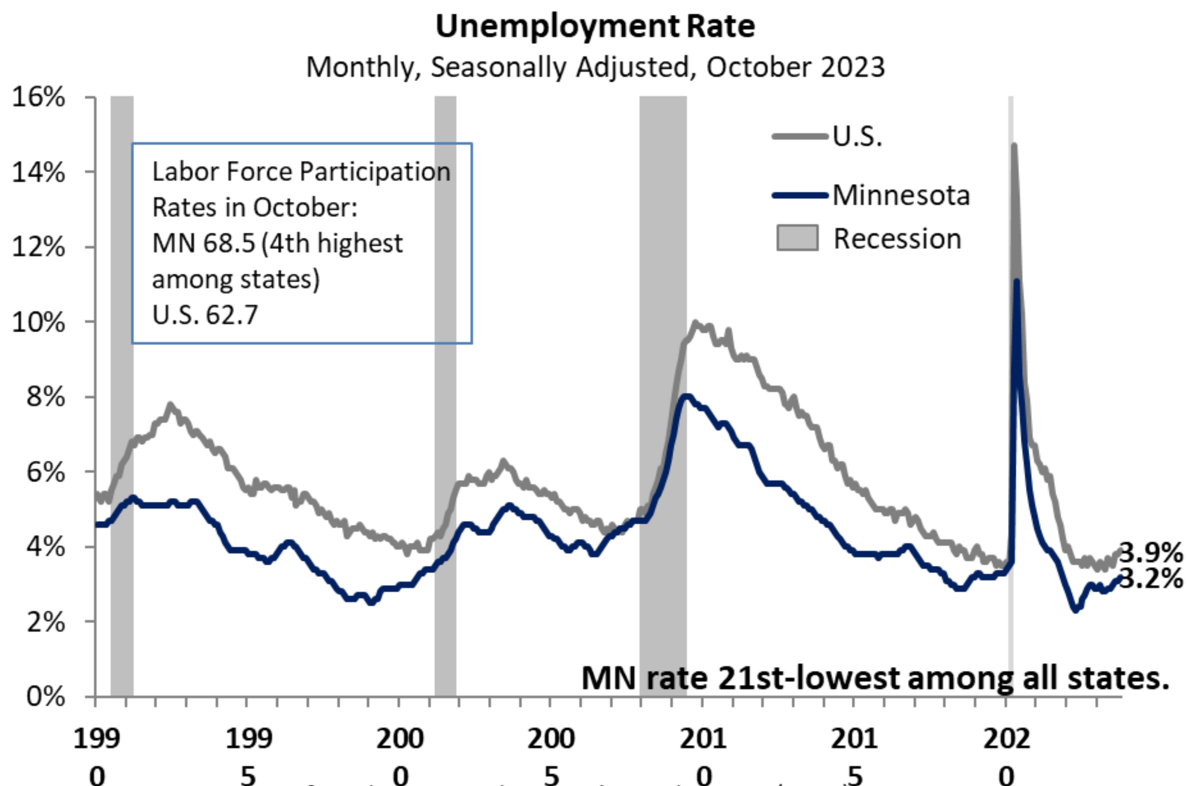
Source: U.S. Bureau of Economic Analysis (BEA), S&P Global Market Intelligence, IHS Market Inc

SPGMI now expects U.S. real GDP to grow 2.4 percent in 2023, a 1.7 percentage point increase from their February baseline forecast. SPGMI expects GDP to grow 1.4 percent in 2024 and 2025, followed by 1.7 percent growth in 2026 and 2027.

Minnesota Economic Outlook. The near-term economic outlook for Minnesota has improved since MMB's *Budget and Economic Forecast* was prepared in February 2023. At that time, Minnesota's macroeconomic advisor, SPGMI, expected a mild two-quarter recession, which the U.S. economy has managed to avoid. Since then, Minnesota's employment and wage income have continued to grow, the unemployment rate has remained below the U.S. rate, and jobs have surpassed the pre-pandemic level.

In this forecast, the strengthened near-term economic outlook raises our expectation for growth in Minnesota's employment and wages in 2023 and 2024 compared to our prior forecast. Beyond 2024, we now forecast slower growth in employment and wages than we expected in February.

Minnesota's economic outlook is informed by the SPGMI forecasts for both the U.S. and 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)

In April 2022, Minnesota's unemployment rate reached an historic low of 2.3 percent, 1.3 percentage points below the U.S. unemployment rate of 3.6 percent. The gap between the U.S. unemployment rate and the MN unemployment rate has been narrowing. In October, Minnesota's unemployment rate was 3.2 percent, the 21st lowest among U.S. states and 0.7 percentage points below the U.S. rate of 3.9 percent.

Budget Outlook: When the last *Budget and Economic Forecast* was released in February 2023 it was projected that a positive balance of $17.455 billion was available for the 2024-25 biennial budget setting process. After the enactment of the budget in May 2023, the positive balance expected to be left over at the the current biennium was $1.583 billion. A larger closing balance to the previous biennium and an increased revenue forecast, partially offset by increases to estimated spending, result in a projected surplus of $2.392 billion for the current biennium, an improvement of $808 million.

Current Biennium: FY 2024-25 General Fund Budget
End-of-Session vs. November 2023 Forecast Comparison

($ in millions)	End-of-Session	November 2023 Forecast	$ Change	% Change
Beginning Balance	**$15,485**	**$16,516**	**$1,031**	**6.7%**
Revenues				
Taxes	56,348	57,058	710	1.3
Non-Tax Revenues	2,278	2,400	121	5.3
Transfers, Other Resources	191	197	6	2.9
Total Revenues	**$58,818**	**$59,655**	**$837**	**1.4%**
Expenditures				
E-12 Education	24,259	24,464	205	0.8
Property Tax Aids	5,314	5,478	163	3.1
Health & Human Services	20,623	21,118	495	2.4
Debt Service	1,180	1,141	(39)	(3.3)
All Other	18,142	18,315	174	1.0
Total Expenditures	**$69,518**	**$70,516**	**$998**	**1.4%**
Budget Reserve	2,852	2,913	61	
Cash Flow Account	350	350	-	
Budgetary Balance	**$1,583**	**$2,392**	**$808**	

Revenues. Total general fund revenues for FY 2024-25 are now forecast to be $59.655 billion, $837 million (1.4 percent) more than the end-of-session estimates. Total tax revenues for the biennium are forecast to be $57.058 billion, $710 million (1.3 percent) above the prior estimate. The forecasts for Minnesota's three largest tax types are higher than the end-of-session estimates.

Revenues for FY 2024-25 are now expected to fall short of their FY 2022-23 levels by $1.766 billion (2.9 percent). Total tax revenues are projected to be $1.471 billion (2.5 percent) less than in FY 2022-23. Current biennium individual income tax revenues are now forecast to decline $2.304 billion (7.1 percent) from the FY 2022-23 level. Corporate and statewide property tax receipts are also forecast to decline in FY 2024-25, while net sales tax receipts and other tax revenues are now forecast to exceed their FY 2022-23 levels.

Current Biennium: FY 2024-25 General Fund Revenues

Change from End-of-Session

($ in millions)	End-of-Session	November 2023 Forecast	$ Change	% Change
Individual Income Tax[1]	$30,141	$30,347	$206	0.7%
General Sales Tax	15,076	15,232	156	1.0
Corporate Franchise Tax	5,163	5,413	250	4.8
State General Property Tax	1,492	1,481	(11)	-0.7
Other Tax Revenue	4,476	4,585	109	2.4
Total Tax Revenues	**56,348**	**57,058**	**710**	**1.3%**
Non-Tax Revenues	2,278	2,400	121	5.3
Other Resources	191	197	6	2.9
Total Revenues	**$58,818**	**$59,655**	**$837**	**1.4%**

This is the first forecast of FY 2024-25 since FY 2024 began on July 1, 2023. After four months of observed collections (through October 2023), fiscal year-to-date receipts for FY 2024-25 are $8.771 billion, 14.8 percent of the total expected over the biennium. With 20 months of FY 2024-25 collections left to observe, 85.2 percent of forecast receipts are outstanding.

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

November 2023 Forecast

($ in millions)	FY 2022-23	FY 2024-25	$ Change	% Change
Individual Income Tax	$32,650	$30,347	($2,304)	-7.1%
General Sales Tax	14,090	15,232	1,142	8.1
Corporate Franchise Tax	5,752	5,413	(339)	-5.9
State General Property Tax	1,539	1,481	(58)	-3.8
Other Tax Revenue	4,498	4,585	87	1.9
Total Tax Revenues	**$58,529**	**$57,058**	**($1,471)**	**-2.5%**
Non-Tax Revenues	2,273	2,400	127	5.6
Other Resources	618	197	(421)	-68.1
Total Revenues	**$61,420**	**$59,655**	**($1,766)**	**-2.9%**

Minnesota individual income tax receipts are now forecast to be $206 million (0.7 percent) more than the end-of-session estimates. Technical adjustments, which on net raise the income tax forecast, offset lower base year income tax liability.

[1] Individual income tax totals do not include the estimated revenue impact related to a drafting oversight impacting the standard deduction in Ch. 64 (2023 tax bill) that would result in approximately $350 million in added revenue each fiscal year if not corrected. It is assumed that the 2024 Legislature will pass legislation to correct this oversight.

Net general sales tax revenue in FY 2024-25 is now forecast to be $156 million (1.0 percent) more than the prior estimate. Both a $179 million increase in forecast gross sales tax receipts and a $24 million increase in expected refunds contribute to the change.

The corporate franchise tax is forecast to generate $5.413 billion in FY 2024-25, $250 million (4.8 percent) more than the end-of-session estimate. A higher base of gross corporate tax receipts and a higher forecast for corporate profits both contribute to this change.

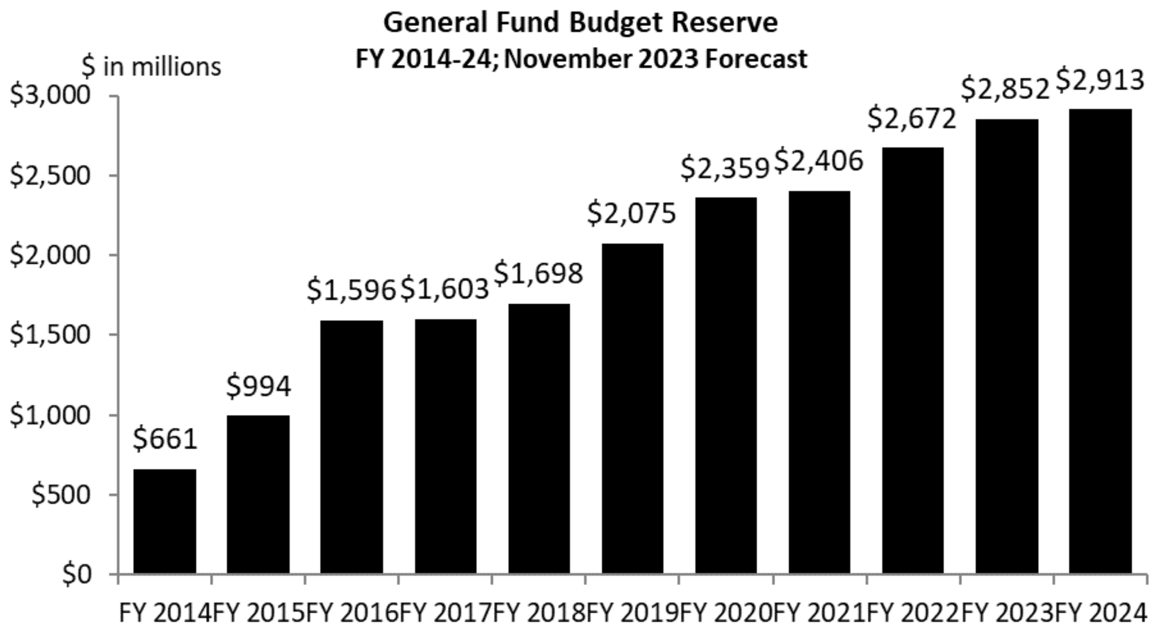
Other tax revenue is now expected to be $59 million (1.3 percent) higher than the prior estimate. Among other taxes, Insurance Gross Premiums taxes show the largest dollar amount change, $148.2 million (15.5 percent) higher than the prior estimate. Estimated deed transfer receipts are $48.1 million (12.0 percent) lower than in the prior forecast.

Expenditures. Total general fund expenditures for the FY 2024-25 biennium are projected to be $70.515 billion, $998 million (1.4 percent) higher than previously forecast. Spending is higher than end-of-session estimates across all major areas, with the exception of the cost of debt service on state capital projects. The three largest areas of the general fund budget drive this change. E-12 expenditures are forecast to reach $24.464 billion in FY 2024-25, a $205 million (0.8 percent) increase from end-of-session estimates. The primary drivers of this increase are greater than expected pupil counts and higher than anticipated spending in nutrition programs . Total health and human services (HHS) expenditure are forecast to reach $21.118 billion, $495 million (2.4 percent) higher than end-of-session estimates. Increased projected costs in home and community-based services for people with disabilities drive most of the increase in HHS. Higher homestead and renter refunds push the property tax aids and credits forecast to $5.478 billion, an increase of $163 million (3.1 percent) compared to end-of-session. The non-forecast areas of the budget show an increase of $174 million over end-of session estimates, but this increase is largely due to appropriations left unspent in the prior biennium that have authority to be spent in the current biennium. The forecast for debt service costs is down $39 million, largely dirven by a smaller than anticipated summer 2023 bond sale.

Current Biennium: FY 2024-25 General Fund Expenditures
End-of-Session vs. November 2023 Forecast Comparison

($ in millions)	**End-of-Session Forecast**	**November 2023 Forecast**	**$ Change**	**% Change**
E-12 Education	$24,259	$24,464	$205	0.8%
Property Tax Aids & Credits	5,315	5,478	163	3.1
Health & Human Services	20,623	21,118	495	2.4
Debt Service	1,180	1,141	(39)	(3.3)
All Other	18,130	18,315	174	1.0
Total Expenditures	**$69,518**	**$70,516**	**$998**	**1.4%**

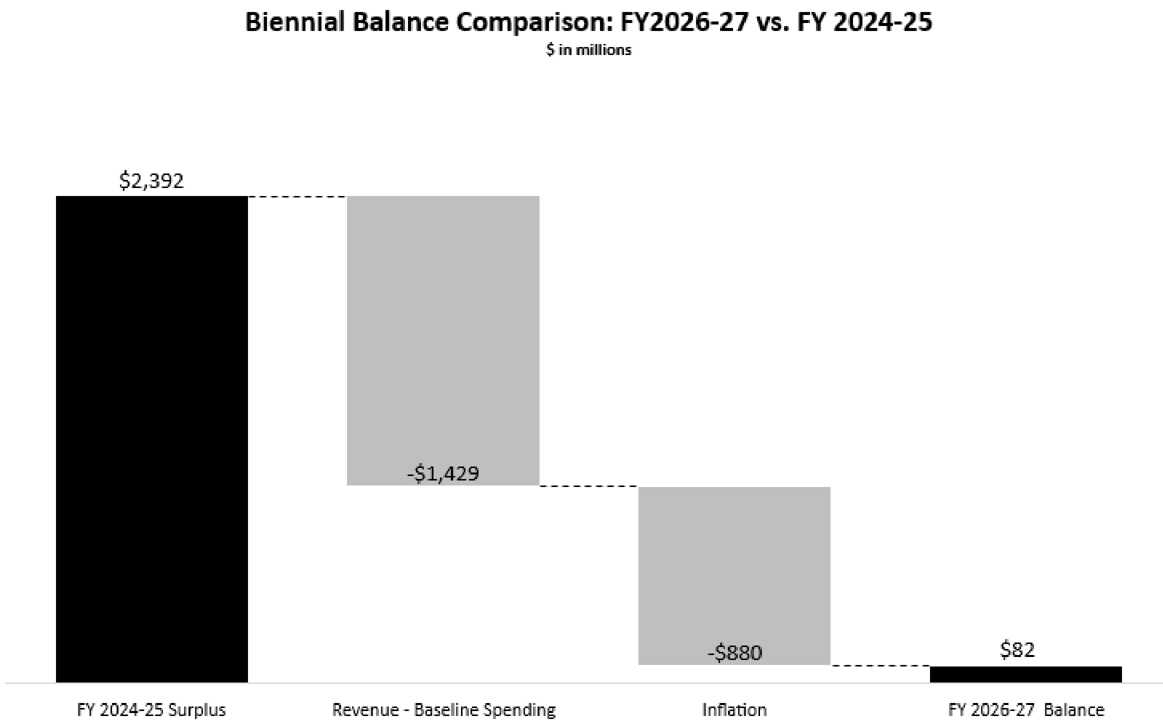
Reserves. Minnesota Statutes 16A.152 directs MMB to allocate funds to the budget reserve account up to the recommended budget reserve level when there is a projected surplus in the current biennium in the *November Budget and Economic Forecast.* In September, MMB, in accordance with Minnesota Statutes section 16A.152 subd.8, recommended a budget reserve target of 4.9 percent.[2] When calculated using the updated revenue forecast with this release, the budget reserve target level is $2.913 billion. Given the reserve balance at the end of FY 2023 was below the new target level, $61 million from the projected surplus is allocated to the reserve so that the balance is now at the target level of $2.913 billion. The cash flow account balance is unchanged at $350 million.



By statute the budget reserve balance is increased each November forecast when there is a projected surplus in the general fund and the reserve balance is not at its statutory target level.

Biennial Budgetary Growth. When the budget for the 2024-25 biennium was enacted in May 2023, a significant surplus from the previous biennium was anticipated to be available for one-time uses in the current biennium. After the close of the FY 2022-23 biennium, the actual surplus that carried forward into the current biennium was $13.103 billion. In the enacted budget, this one-time resource was partially allocated to one-time revenue reductions and one-time spending increases across the budget. On-going spending and revenue changes were planned so that budgetary balance would be maintained in both the current biennium and the FY 2026-27 planning estimates. In this forecast, spending increases projected for the current biennium are forecast to continue into the next biennium while revenue forecast gains are not projected to continue. The budgetary impact of these changes result in the surplus from the current biennium offsetting the structural imbalance in the next biennium with the remaining balance reduced to $82 million by the end of the next biennium.

[2] September 2023 Budget Reserve Close Report



Projected spending, included the added impact of inflationary growth, significantly exceeds forecast revenues for the FY 2026-27 biennium. The resulting impact is a spend down of the current surplus in the next biennium.

Budget Outlook: Planning Estimates. The increased spending forecast continues into the FY 2026-27 biennium with estimated spending projected to reach $66.217 billion, $982 million (1.5 percent) more than estimated at end-of session. Revenues in the planning biennium are projected to total $63.907 billion, $30 million lower than prior forecast. The structural balance, the difference between revenue and spending in a given budget period, in the planning biennium is negative $1.429 billion before inflation is added to spending estimates and negative $2.309 billion after including inflation.

Planning Estimates: FY 2026-27 General Fund Budget
By Fiscal Year; November 2023 Forecast

($ in millions)	FY 2026	FY 2027	FY 2026-27
Forecast Revenues	$31,500	$32,406	$63,907
Projected Spending	32,378	33,839	66,217
Difference	**$(878)**	**$(1,433)**	**$(2,310)**
**Estimated inflation included (CPI)[3]*	*$[281]*	*$[600]*	*$[880]*

[3] Inflationary growth estimates are based on the consumer price index forecast and are estimated to be 2.2 percent in FY 2026 and 2.4 percent in FY 2027.

The planning estimates for the FY 2026-27 beinnium inherently carry a higher degree of uncertainty than estimates for FY 2024-25. Revenue projections for FY 2026-27 are based on the November Baseline economic 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 2023 Forecast

($ in millions)	FY 2024-25	FY 2026-27	$ Change	Annual % Change
Forecast Revenues	$59,655	$63,907	$4,252	3.5%
Projected Spending*	70,516	66,216	(4,300)	(3.1)%
Difference	**$(10,861)**	**$(2,309)**		
**Estimated inflation included (CPI)*	*n/a*	*$880*		

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.

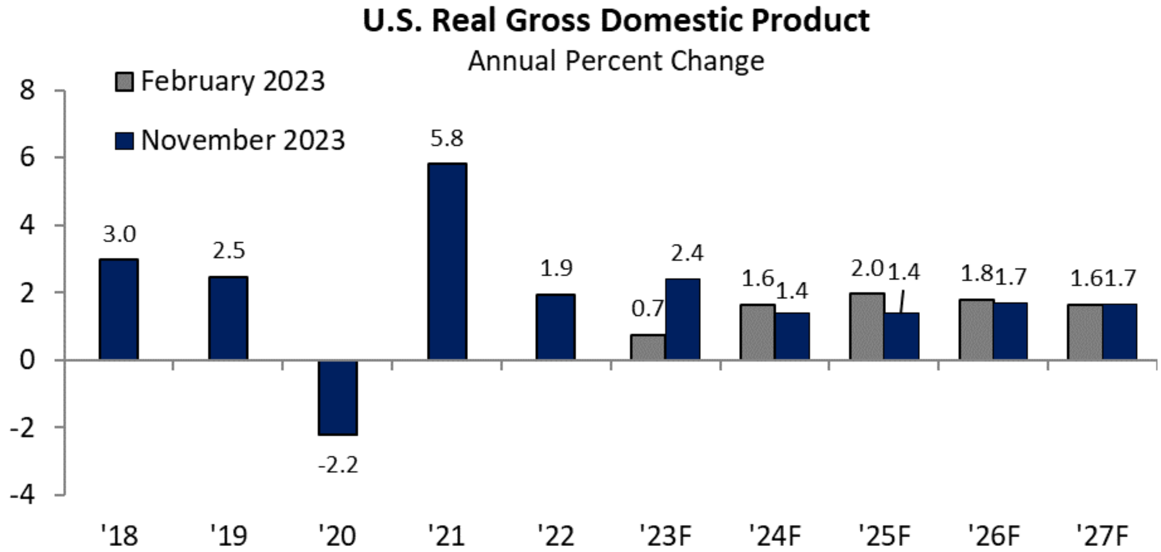
[4] Inflation calculation grows the estimated general fund spending base in each year by the projected CPI growth rate after removing general education, special education, debt service, property tax refunds, and the state share for managed and some long-term care in HHS.

ECONOMIC OUTLOOK

U.S. Economic Outlook

Since Minnesota's *Budget and Economic Forecast* was last prepared in February, real GDP has grown faster than forecast, driven by faster than expected growth in real consumer spending and business investment. This, along with unexpectedly strong employment growth, prompted S&P Global Market Intelligence, IHS Global Inc (SPGMI), Minnesota's macroeconomic consultant, to raise their GDP outlook for 2023. SPGMI is now expecting real GDP to increase 2.4 percent in 2023, up 1.7 percentage points from their February outlook, when they forecast a mild, two-quarter recession this year. In the prior forecast, SPGMI expected real GDP to decline in the first two quarters of 2023. The BEA now estimates that real GDP *grew* by 2.2 and 2.1 percent (annual rate) in the first two quarters of this year, respectively. In addition, BEA estimates that real GDP grew 5.2 percent in the third quarter.

Long-term interest rates have risen higher than forecast in February, causing financial conditions to become more restrictive. In addition, largely in response to stronger than expected economic growth since February, the Federal Reserve is now expected to raise rates higher than SPGMI forecast in February and to hold rates at a higher level for a longer period. Consequently, SPGMI has reduced their growth expectations beyond 2023. SPGMI is now forecasting U.S. real GDP to increase 1.4 percent in both 2024 and 2025, down from 1.6 and 2.0 percent in their February outlook. From 2024 to 2027, average annual real GDP growth is now expected to be 0.2 percentage points less than in the February baseline.



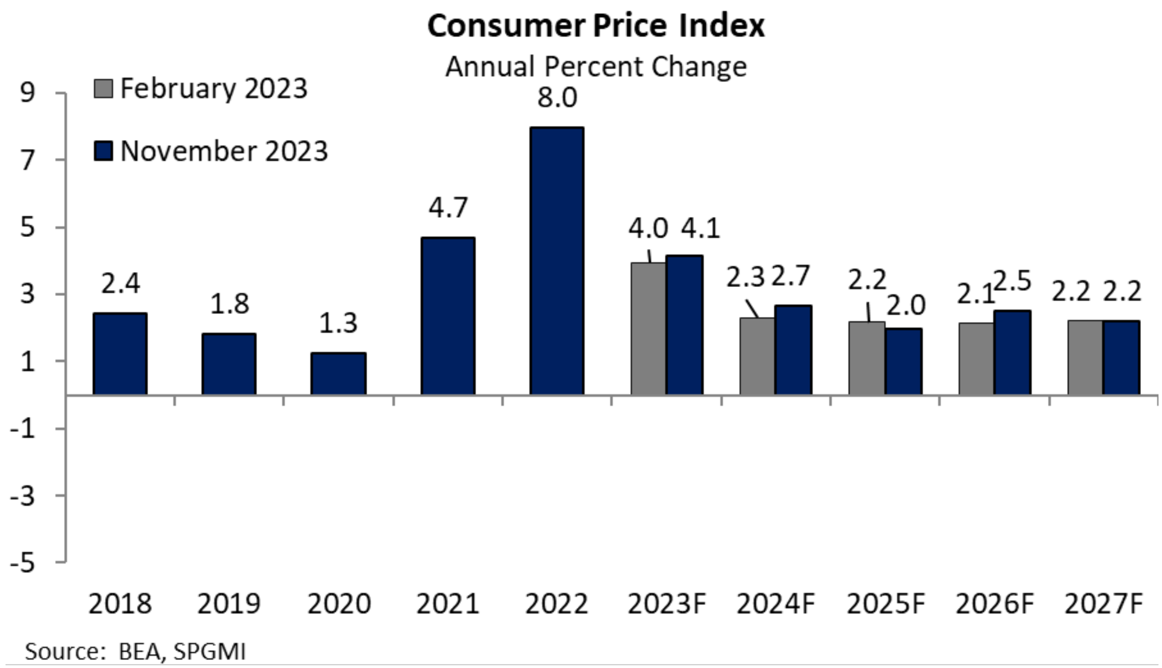
Source: U.S. Bureau of Economic Analysis (BEA), S&P Global Market Intelligence, IHS Market Inc

SPGMI now expects U.S. real GDP to grow 2.4 percent in 2023, a 1.7 percentage point increase from their February baseline forecast. SPGMI expects GDP to grow 1.4 percent in 2024 and 2025, followed by 1.7 percent growth in 2026 and 2027.

Labor markets have shown signs of easing since February. Employers have added an average of 239,000 payroll jobs per month this year through October, after adding an average of 399,000 jobs per month in 2022. The U.S. unemployment rate averaged 3.5 percent over the first six months of the year, and the rate has ticked up to average 3.8 percent over the past four months. In this forecast, SPGMI expects the unemployment rate to reach 4.7 percent in early 2025 and remain there until 2026, when they expect it will begin falling again.

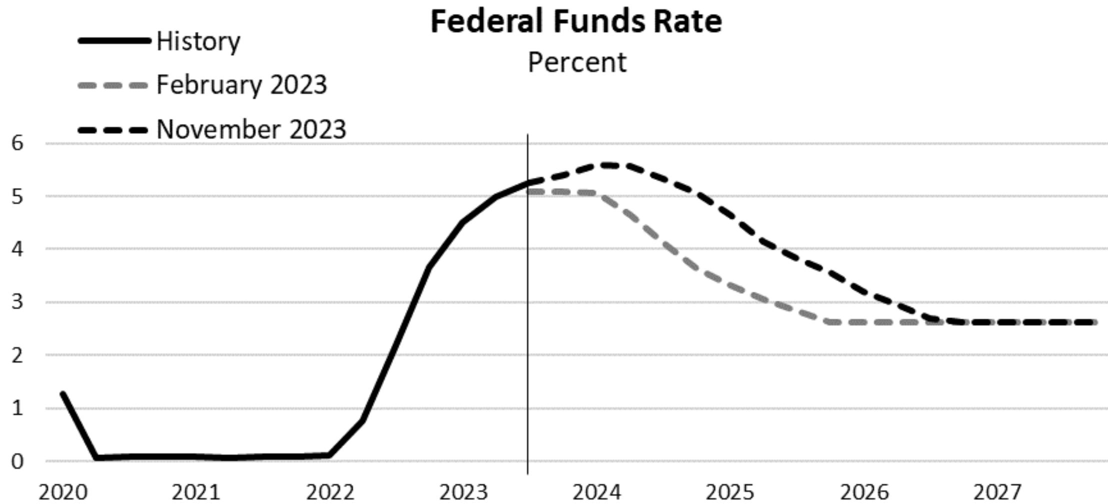
SPGMI expects that easing labor markets will allow inflation to ebb to 2.0 percent by mid-2025. Inflation has already decreased significantly without the economy experiencing aggregate job losses. CPI inflation has decreased by 5.8 percentage points since June 2022, from 9.1 to 3.2 percent, while payroll jobs have increased by 4.5 million.

Inflation. Inflation has largely decelerated, as SPGMI had expected in their February forecast. CPI inflation was 3.2 percent in October, 2.8 percentage points lower than in February. Food and fuel inflation are substantially lower than they were in February, and the other components of inflation have also subsided. SPGMI now expects annual CPI inflation of 4.1 percent in 2023, 0.1 percentage points higher than they forecast in February. SPGMI expects slower economic growth and the eventual softening of labor market conditions to continue to bring down inflation. They forecast CPI inflation to fall to 2.7 percent in 2024 and average 2.2 percent annually in years 2025 to 2027.



SPGMI has raised their forecast of Consumer Price Index (CPI) inflation in 2024 to 2.7 percent from 2.3 percent in their February outlook. For 2025, they now expect 2.0 percent inflation compared to 2.2 percent in February. SPGMI expects slower economic growth and the eventual softening of labor market conditions to continue to bring down inflation.

Monetary Policy. To combat high inflation, the Federal Reserve began raising their policy rate, the federal funds rate, in early 2022. At that time, their target range for the rate was 0 to 0.25 percent. The Fed raised the rate 425 basis points in 2022, including four consecutive 75-basis point increases. Rate increases have been slower in 2023 – the Fed has raised the federal funds rate 100 basis points since January. The target range for the federal funds rate is currently 5.25 to 5.5 percent. In their current outlook, SPGMI expects the Fed to raise its policy rate range to a peak of 5.5 to 5.75 percent in December. SPGMI then expects a policy reversal in June 2024, initiating a gradual unwinding of the rate where it falls below 3.0 percent in 2026.



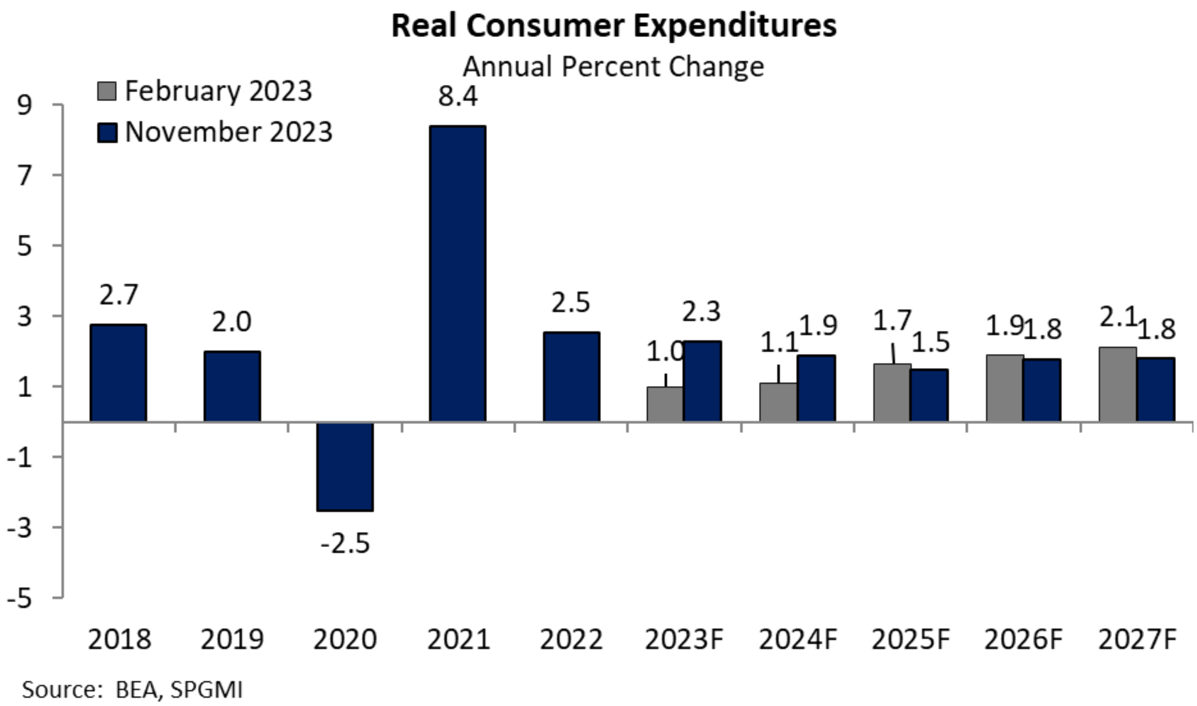
Source: SPGMI

In their current outlook, SPGMI expects the Fed to raise its policy rate range to a peak of 5.5 to 5.75 percent in December. SPGMI then expects a policy reversal in June 2024 and expects the rate to fall below 3.0 percent in 2026.

Corporate Profits. Before-tax corporate profits grew 9.8 percent in 2022, and SPGMI expects profits will grow 3.2 percent in 2023. Beginning in the third quarter next year, SPGMI expects corporate profits to decline for eight consecutive quarters, through mid-2026. On an annual basis, SPGMI expects before-tax corporate profits will grow 0.9 percent in CY 2024, followed by declines of -3.1 and -0.1 percent in CY 2025 and CY 2026, respectively. SPGMI expects growth in corporate profits to resume in CY 2027 at 1.4 percent.

Federal Fiscal Policy. The November SPGMI forecast assumes that the debt ceiling is suspended through 2024 under the Fiscal Responsibility Act of 2023 (FRA23) and raised without incident before then. This forecast assumes that a FY 2024 budget is passed in time to avoid a government shutdown in mid-November. Additionally, this forecast reflects the impact of all federal relief packages enacted in 2020, the $1.9 trillion American recovery Plan (ARP) enacted in March 2021, the impact 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, the Inflation Reduction Act enacted in August 2022. This forecast includes the resumption of student loan payments and assumes that taxes are governed by current policy.

Real Consumer Spending. SPGMI's outlook for near-term consumer spending has markedly improved since February. Spending has remained more resilient in 2023 than SPGMI expected in February, as the two-quarter mild recession that was included in February's forecast never materialized. SPGMI now expects consumer spending to grow 2.3 percent in 2023, a slight deceleration from the 2.5 percent growth in 2022 but 1.3 percentage points higher than the growth expected in February. SPGMI expects spending to increase 1.9 percent in 2024, 0.8 percentage points higher than their February forecast. Growth then decelerates in years 2025-2027, averaging 1.7 percent annually, at slightly lower rates than SPGMI expected in February. SPGMI expects consumer spending to remain the primary contributor to growth in the economy.

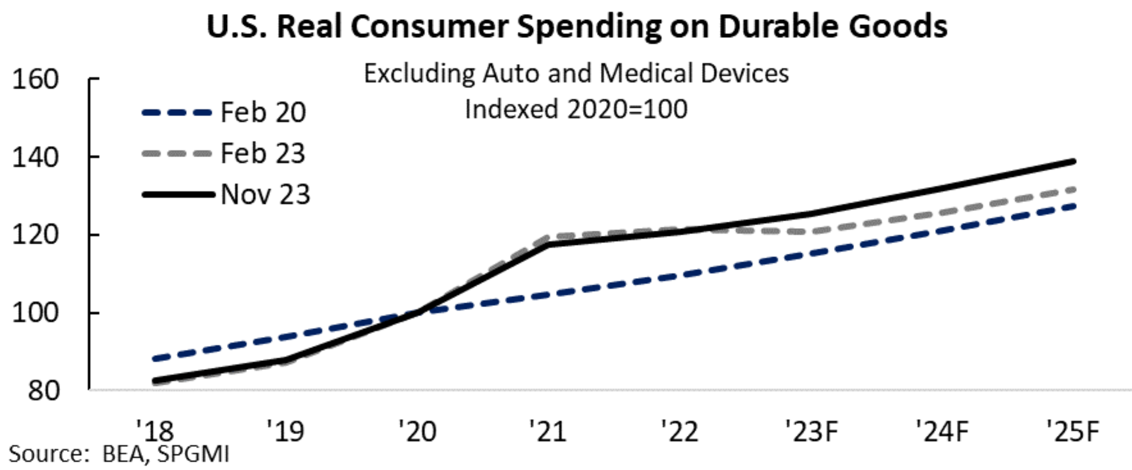


SPGMI now expects consumer spending to grow 2.3 percent in 2023 and 1.9 percent in 2024, both increases from the February forecast. Growth then decelerates in years in years 2025-2027, averaging 1.7 percent annually, at slightly lower rates than SPGMI expected in February.

Consumers have maintained resilient spending habits this year not only from growth in wage and salary income, but also by reducing saving and increasing their use of credit to fund purchases. The personal saving rate averaged 5.0 percent in the first six months of 2023 but has decreased to an average of 3.8 percent in the last three months. For context, the average monthly saving rate in 2019 was 7.4 percent. According to the Federal Reserve, consumer loans, including credit cards and other revolving credit plans, increased 8.7 percent year-to-date through September, compared to a 5.1 percent increase in nominal consumer spending during the same time period.

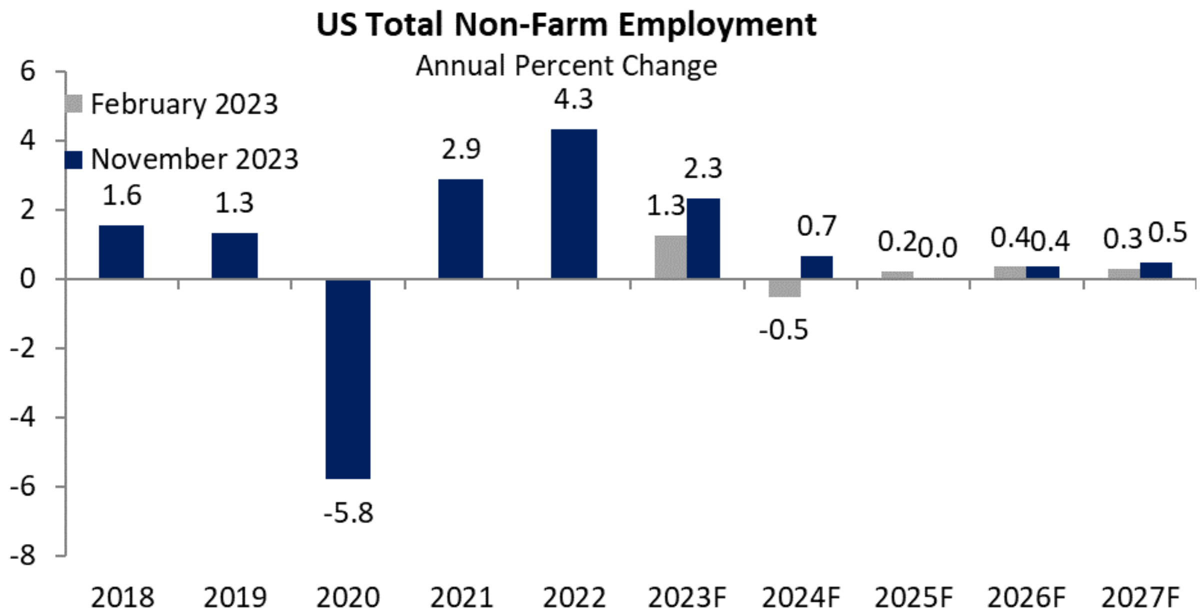
Real disposable personal income decreased 6.0 percent in 2022, as high inflation and decreased direct government payments outweighed growth in other nominal personal income sources. This annual decrease was the largest in the history of the series, which began in 1960. Inflation has subsided in 2023, while wages and salaries and other income sources have continued to grow. As a result, SPGMI expects real disposable income to increase by 4.0 percent in 2023. SPGMI expects real disposable income to increase 2.5 percent per year on average from 2024 to 2027 as income continues to outpace inflation.

During the pandemic, consumers shifted their spending from personal services and recreational activities to goods. This shift caused spending on durable and non-durable goods to substantially exceed their pre-pandemic peaks, and both types of spending remain at elevated levels compared to their pre-pandemic trends. Spending on durable goods other than autos and medical devices grew 17.4 percent in 2021 and 2.8 percent in 2022. Goods spending has continued to outperform expectations this year. After expecting a 0.5 percent decline in 2023 in their February forecast, SPGMI now expects this category of spending to grow 3.9 percent this year. SPGMI expects durable goods spending to increase more than five percent each year in 2024 and 2025.



During the pandemic, consumers shifted their spending from personal services and recreational activities to goods. Durable goods spending remains elevated compared to its pre-pandemic trend. After expecting a 0.5 percent decline in 2023 in their February forecast, SPGMI now expects this category of spending to grow 3.9 percent this year. SPGMI expects durable goods spending to increase more than five percent each year in 2024 and 2025.

Labor Market. During March and April 2020, the U.S. labor market shed 22.0 million jobs. Since May 2020, the labor market has added jobs nearly every month. In June 2022, the labor market surpassed its pre-pandemic level of payroll employment. In 2022, employers added an average of 399,000 jobs per month. Employment growth has decelerated in 2023, where employers have added an average of 239,000 jobs per month through October. SPGMI now forecasts that payroll employment will increase by 3.6 million in 2023, compared to 1.9 million in their February forecast. SPGMI expects employment to increase 1.0 million in 2024, compared to a decrease of 800,000 in their February forecast. Employment increases by an average of 471,000 jobs per year in years 2025-2027. SPGMI expects the unemployment rate to rise gradually to 4.7 percent in late 2025.



Source: SPGMI

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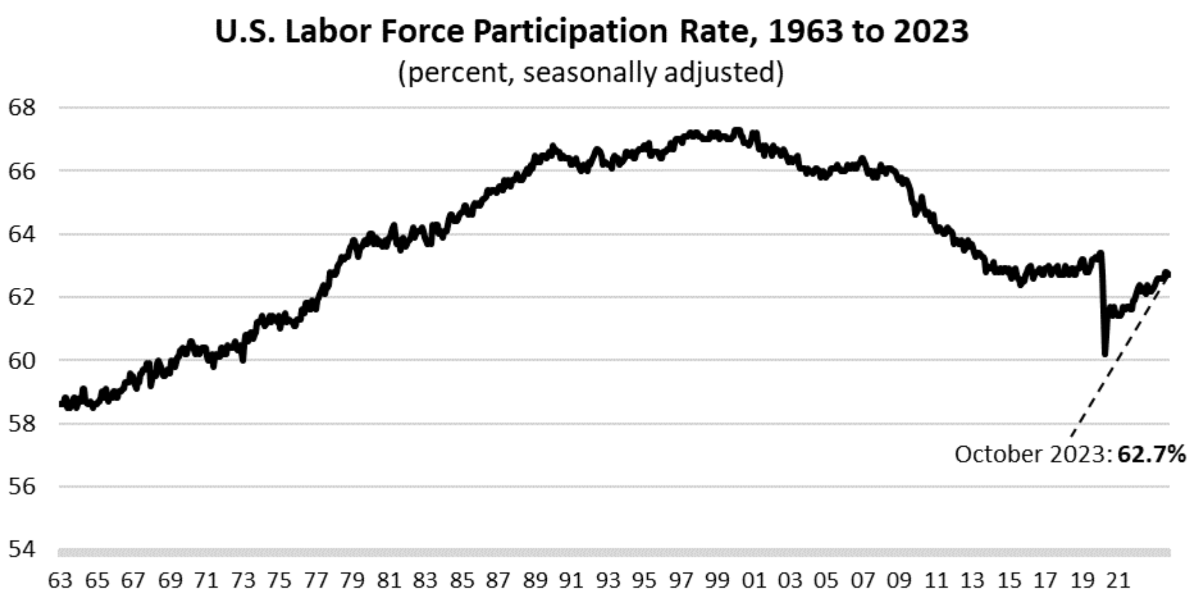

Source: U.S. Bureau of Labor Statistics (BLS)

The U.S. labor force participation rate, the proportion of potential workers who were employed or unemployed and actively seeking employment, was 62.7 percent in October 2023, 0.2 percentage points higher than in February. The participation rate remains below the pre-pandemic peak. An aging population is a major factor putting downward pressure on the labor force participation rate, a trend expected to continue throughout the forecast horizon.

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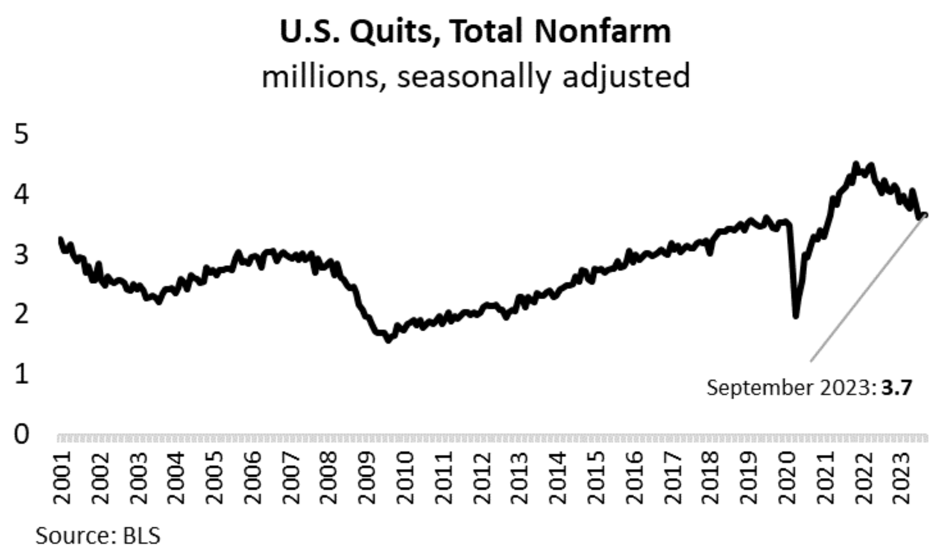
The number of unemployed persons classified as "permanent job losers"—people who self-report that they do not expect to return to work within six months—was 1.6 million in October, 200,000 higher than in February. The number of workers on temporary layoff—those who do expect to return to work within six months—was 873,000.

In the past couple years, the labor market experienced historically high levels of voluntary job separations—or quits—which illustrated a labor market in which individuals were comfortable leaving one job for higher wages elsewhere. Quits peaked at 4.5 million in November 2021, which represented 4.5 million workers voluntarily leaving their jobs during the month. Quits have slowly moderated to their current level of 3.7 million, which is still higher than levels seen just prior to the pandemic. If the labor market softens as SPGMI expects, quits are likely to decline further, which would relieve upward pressure on both wages and inflation.



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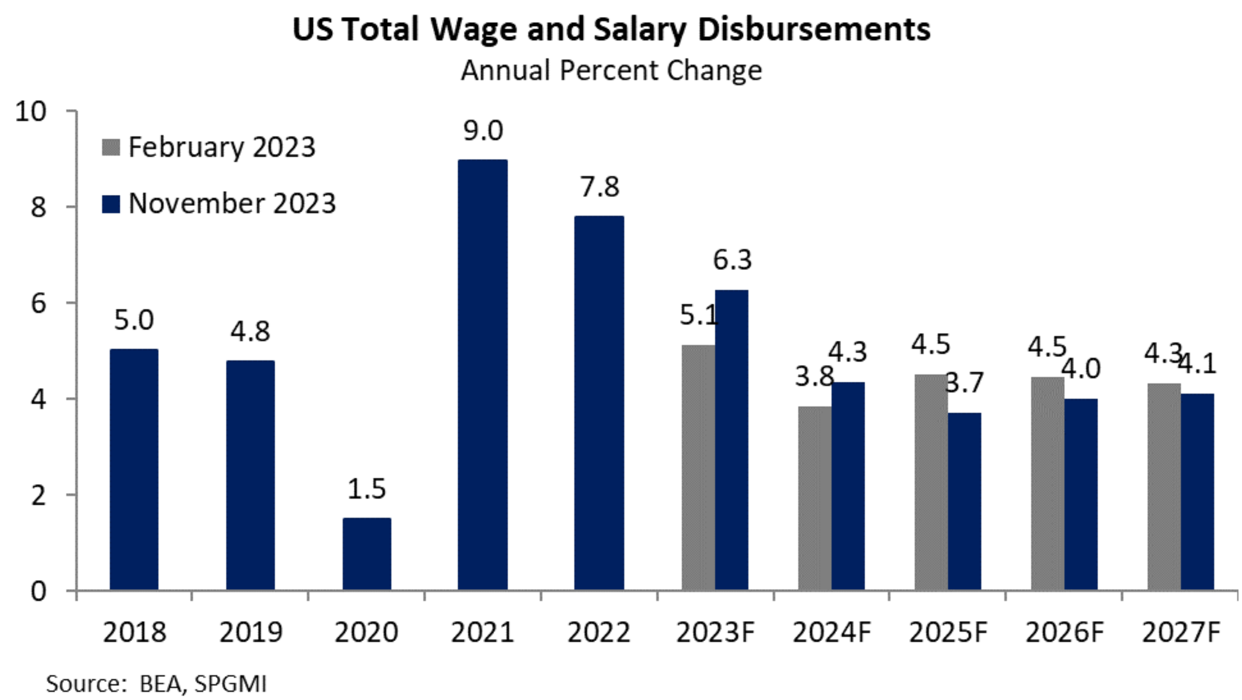
Wage and Salary Income. Firm wage growth and household wealth continue to support consumer spending in this forecast. Federal stimulus payments to households have ended, and unemployment insurance benefits have decreased to more typical levels. As a result, SPGMI expects wage and salary income to be the primary driver of personal income growth during the forecast period. SPGMI has increased their near-term forecast for growth in total U.S. wage and salary disbursements compared to February. SPGMI expects wage income growth of 6.3 percent in 2023 and 4.3 percent in 2024, both years revised up from the February forecast. The forecast for wage and salary income growth has been revised down each year from 2025 to 2027, to an average of 3.9 percent per year.



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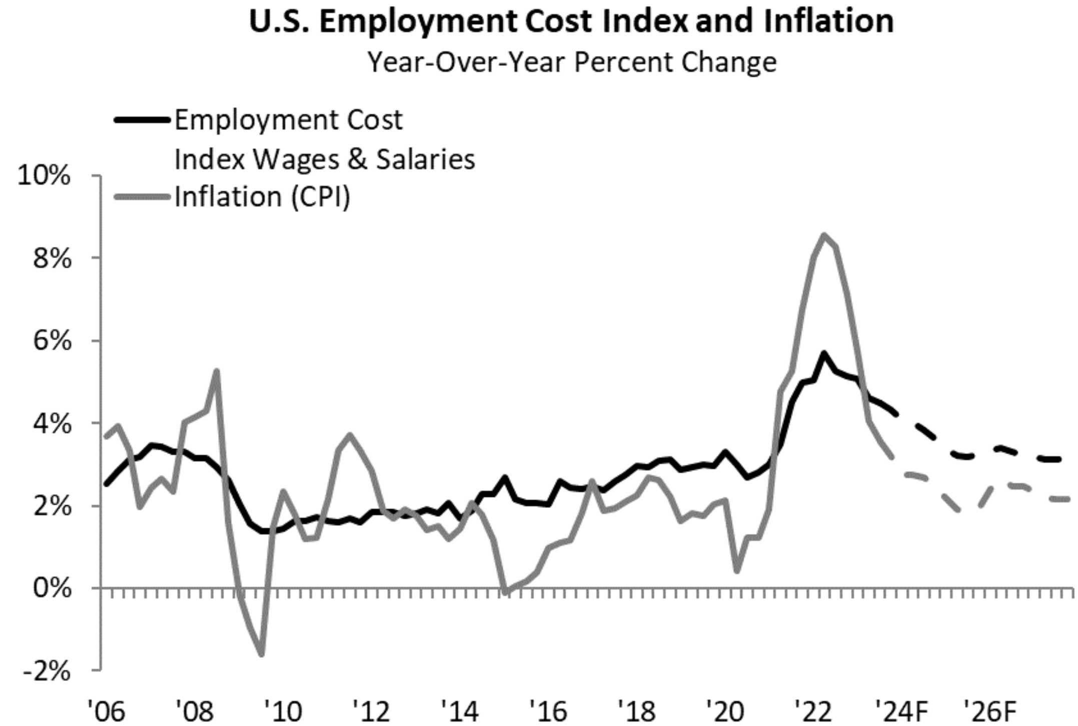
Wages and salaries are the largest component of the employment cost index (ECI), a quarterly measure of the change in the total cost of labor. The ECI is constructed to be free from the influence of employment shifts among occupations and industries, so it is often a desired indicator of labor cost trends. The index can also be broken into two components, one for wages and one for benefits. The index shown below is the ECI for wages. From the second quarter of 2021 through the first quarter of 2023, the growth in prices as measured by the CPI exceeded the growth in wages as measured by the ECI. In the second quarter of 2023, growth in wages as measured by the ECI exceeded inflation for the first time in two years. Wages continued to outpace inflation in the third quarter. SPGMI expects wages will continue to grow faster than inflation throughout the forecast horizon.



Source: BEA, SPGMI

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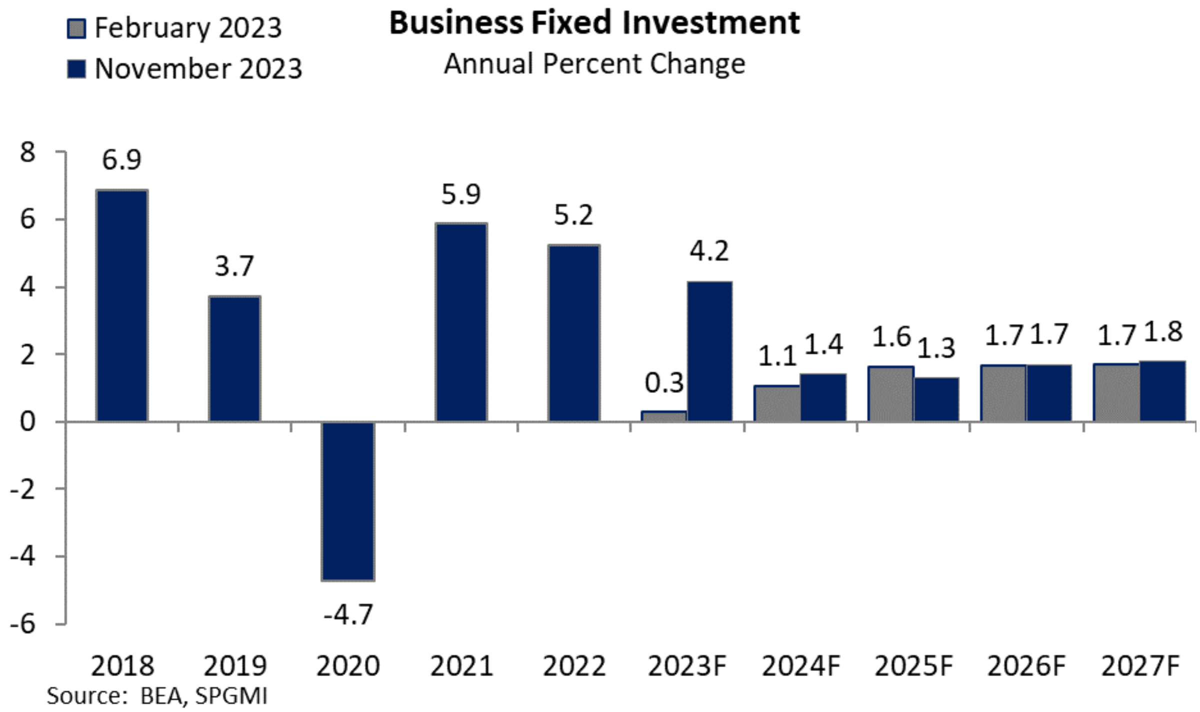
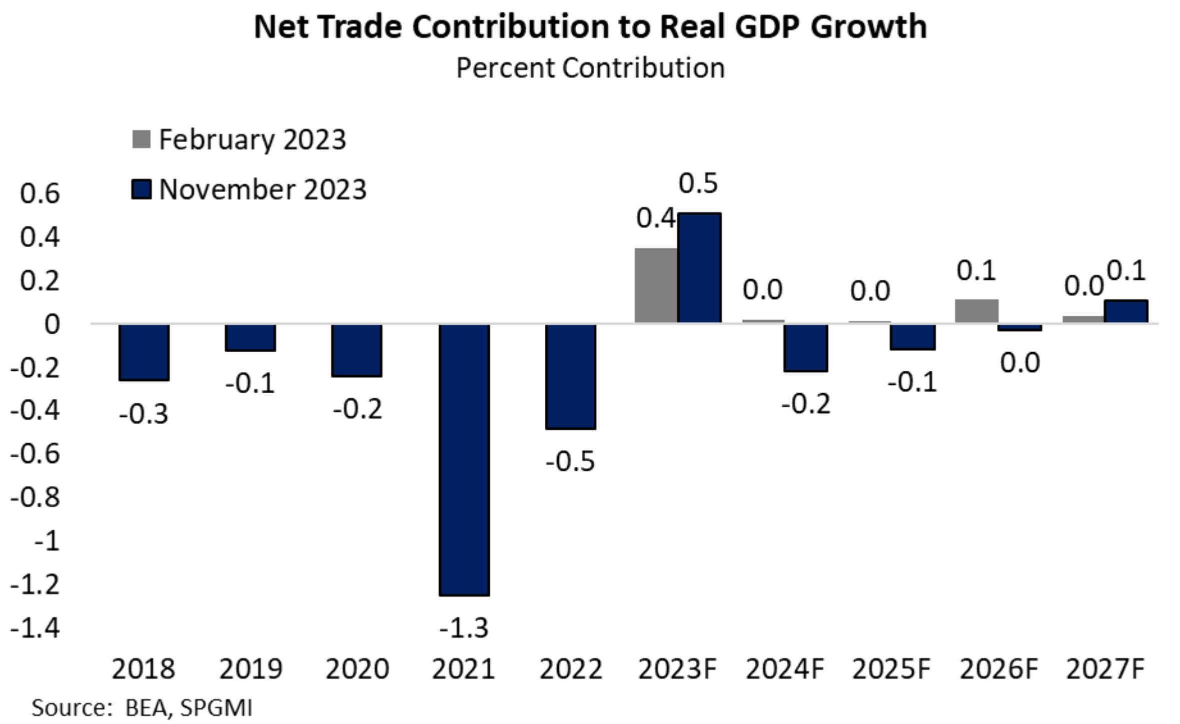
Real Business Fixed Investment. In their November outlook, SPGMI expects business fixed investment to be much stronger through 2023 and 2024 than expected in February. Real business fixed investment is now expected to increase 4.2 percent in 2023, almost four percentage points higher than SPGMI expected in February. This recent strength is in large part due to strong investment in manufacturing structures, particularly in plants producing semiconductors and electric vehicle batteries. Tightening lending standards and elevated real borrowing costs are expected to weigh on business fixed investment in the next few years. In years 2024-2027, business fixed investment growth is expected to average 1.6 percent per year.



In their November outlook, SP expects business fixed investment to be much stronger through 2023 and 2024 than expected in February.

International Trade. The U.S. economy has experienced a trade deficit every year since 1976. The deficit reached a record high in 2022 but has lessened in 2023, from a monthly deficit of 71 billion dollars in December 2022 to a deficit of 59 billion dollars in August 2023, which was the smallest deficit since September 2020. After representing a drag on GDP growth every year from 2014 to 2022, net exports are expected to contribute 0.5 percentage points to growth in 2023. In their November forecast, SPGMI expects net exports to weigh on GDP growth once again from 2024 to 2026, as growth in U.S. demand for foreign goods and services outpaces foreign demand for U.S. goods and services. This reverses SPGMI’s expectation of positive contributions to growth in their February forecast.



The U.S. trade deficit reached a record high in 2022 but has lessened in 2023. The monthly deficit in August 2023 was the smallest deficit since September 2020. Net exports are expected to contribute 0.5 percentage points to growth in 2023. In their November forecast, SPGMI expects net exports to weigh on GDP growth once again from 2024 to 2026.

The nominal broad trade-weighted dollar index strengthened considerably from July through October this year. According to SPGMI, this appreciation was largely due to widening long-term yields. SPGMI expects the dollar index to continue to strengthen to a peak in the first quarter of 2024 before beginning a multi-year decline through the end of the forecast horizon, as long-term U.S. interest rates fall. This decline will support export growth.

The SPGMI November baseline forecast for 2023 matches the November Blue Chip Consensus, the median of 50 business and academic forecasts. Both the SPGMI and the November Blue Chip Consensus calls for 2.4 percent growth this year. SPGMI's forecast for 2024 is higher than the Blue Chip Consensus. SPGMI expects real GDP to grow 1.4 percent in 2024, 0.2 percentage points more than the Blue Chip Consensus of 1.2 percent growth next year.

Forecast risks. The IHS November 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 on the Fed's ability to further curb inflation. SPGMI assumes the Fed will raise its policy rate range to a peak of 5.5 to 5.75 percent in December. SPGMI then expects a policy reversal in June 2024, initiating a gradual unwinding of the rate where it falls below 3.0 percent in 2026. As a result, SPGMI expects CPI inflation to slow to 2.7 percent in 2024 and 2.0 percent in 2025. If inflation persists above this level, the Fed may act more aggressively to raise interest rates than assumed in the baseline forecast.

Worsening conflicts in Ukraine and in the Middle East pose risk to this forecast if they persist and/or intensify, leading to persistently higher energy prices and re-emergence of supply-chain issues.

Other key assumptions of SPGMI's November outlook are: (1) the tariffs enacted by the U.S. and China since 2017 remain in effect, (2) global GDP growth grows from 2.0 percent in 2023 to 2.5 percent in 2024, and (3) the Brent crude oil price will continue to decelerate from a peak of $113 in the second quarter of 2022 to $89/barrel in the fourth quarter of this year and subsiding to $85/barrel by the fourth quarter of 2024.

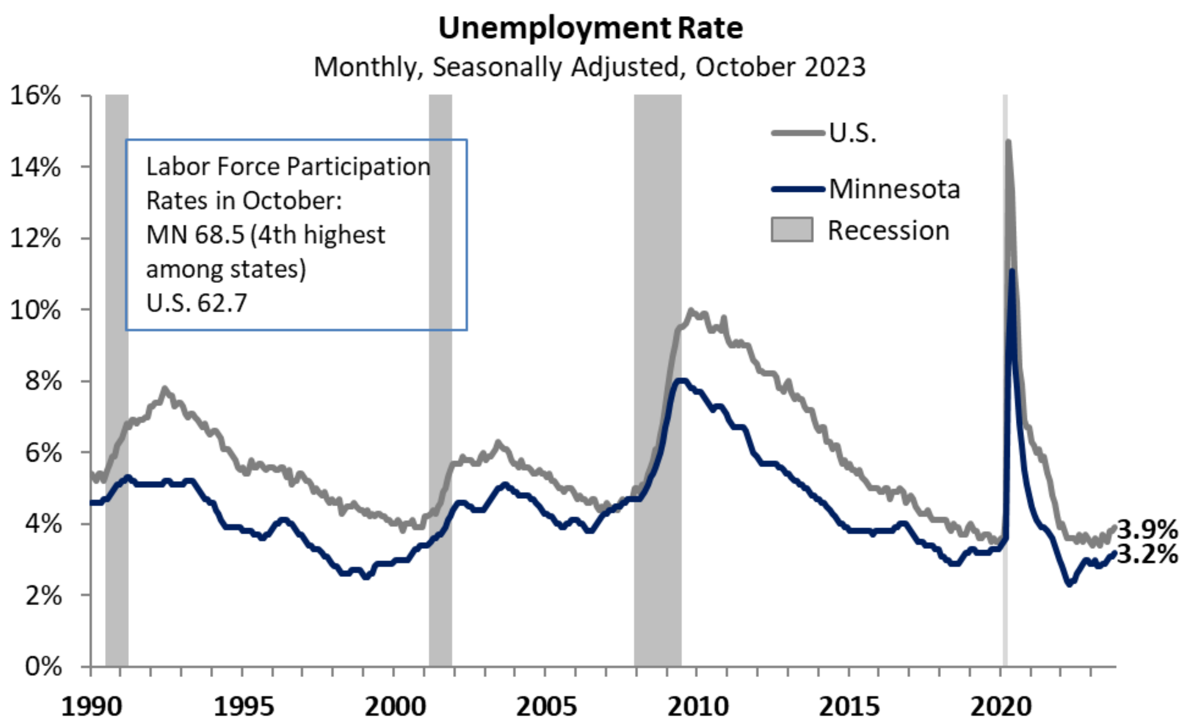
SPGMI assigns a 55 percent probability to the November baseline outlook. They assign a 30 percent probability to a more pessimistic scenario, characterized by (1) a significant tightening of lending standards by financial institutions that restrains consumer spending and small business activity, and (2) higher energy prices caused by worsening conflicts in Russia-Ukraine and the Middle East. Growth in consumer spending and business fixed investment is diminished in 2024, and the price of Brent crude oil and the unemployment rate are both higher than in the baseline scenario. In their more optimistic scenario, SPGMI assumes (1) strong credit expansion on the part of financial institutions that supports consumer spending, and (2) a quicker resolution to the Russia-Ukraine and Middle East conflicts, which leads to lower energy prices. Consumer spending and business fixed investment both grow faster than in the baseline. The optimistic scenario receives a 15 percent probability from SPGMI.

Minnesota Economic Outlook

The near-term economic outlook for Minnesota has improved since MMB's *Budget and Economic Forecast* was prepared in February 2023. At that time, Minnesota's macroeconomic advisor, SPGMI, expected a mild two-quarter recession, which the U.S. economy has managed to avoid. Since then, Minnesota's employment and wage income have continued to grow, the unemployment rate has remained below the U.S. rate, and jobs have surpassed the pre-pandemic level.

In this forecast, the strengthened near-term economic outlook raises our expectation for growth in Minnesota's employment and wages in 2023 and 2024 compared to our prior forecast. Beyond 2024, we now forecast slower growth in employment and wages than we expected in February.

Minnesota's economic outlook is informed by the SPGMI forecasts for both the U.S. and 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)

In April 2022, Minnesota's unemployment rate reached an historic low of 2.3 percent, 1.3 percentage points below the U.S. unemployment rate of 3.6 percent. The gap between the U.S. unemployment rate and the MN unemployment rate has been narrowing. In October, Minnesota's unemployment rate was 3.2 percent, the 21st lowest among U.S. states and 0.7 percentage points below the U.S. rate of 3.9 percent.

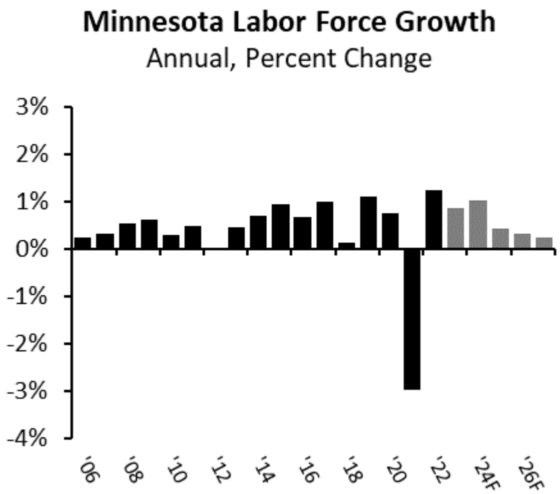
Labor Market. In April 2022, Minnesota's unemployment rate reached an historic low of 2.3 percent, 1.3 percentage points below the U.S. unemployment rate of 3.6 percent. The gap between the U.S. unemployment rate and the MN unemployment rate has narrowed. In October, Minnesota's unemployment rate was 3.2 percent, the 21st lowest among U.S. states and 0.7 percentage points below the U.S. rate of 3.9 percent.

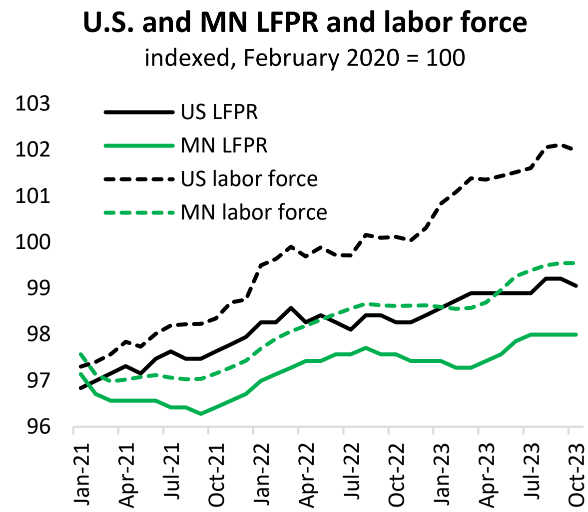
In September, Minnesota's payroll employment surpassed its pre-pandemic level. During March and April 2020, Minnesota lost 416,000 jobs, approximately 14 percent of February 2020 payroll employment. Across the entire U.S., total employment surpassed the February 2020 level in June 2022.

Minnesota's payroll employment increased by 7,000 jobs in October, pushing the total number of seasonally adjusted jobs in the state to an historic milestone of over 3 million for the first time. The state's employers have added an average of 4,200 jobs per month in 2023, 30 percent below the rate of 6,000 jobs added per month over the same period last year. However, this employment growth is stronger than we anticipated in February, when we expected employment growth to grow by about 1,600 jobs per month in 2023.

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 family members. Minnesota's labor force is now 14,000 below its level at the onset of the pandemic in February 2020. In October 2023, Minnesota's labor force was 0.5 percent smaller than in February 2020, while the U.S. labor force was 1.9 percent above its pre-pandemic level.

Minnesota's labor force participation rate, the share of the over-16 population that is either working or looking for work, was 68.5 percent in October, 5.8 percentage points above the U.S. rate and the fourth highest among states. This is one indication that there is less slack in Minnesota's labor market compared to other parts of the country. While both the state and U.S. participation rates have risen since early 2020, neither has reached its pre-pandemic level. The state rate is at 98 percent of the February 2020 level, and the U.S. rate is at 99 percent. Also, the differential between the Minnesota and U.S. participation rates has shrunk since early 2020. In February 2020, Minnesota's participation rate was 6.6 percentage points above the U.S. rate, compared to the 5.8 percent gap now.





Source: DEED, MMB

Since the onset of the pandemic in February 2020, Minnesota's labor force has fallen by 14,000. In October 2023, Minnesota's labor force was 0.5 percent smaller than in February 2020, while the U.S. labor force has grown by 1.9 percent over the same time. Among U.S. states, Minnesota's current labor force participation rate of 68.5 percent ranks fourth highest among states. This is one indication that there is less slack in Minnesota's labor market compared to other parts of the country.

Another indicator of Minnesota's tight labor market is the number of job openings per unemployed worker in the state. According to the BLS, as of September 2023 there are more than two job openings per unemployed worker in the state. Although this measure of labor market tightness is lower than record highs in 2022, it suggests that the labor market is still tighter than in pre-pandemic years. The measure also suggests that workers may have more bargaining power than they did prior to the pandemic. Employers may be incentivized to improve compensation and benefits at higher rates to attract potential employees, since these workers have more job options to choose from.

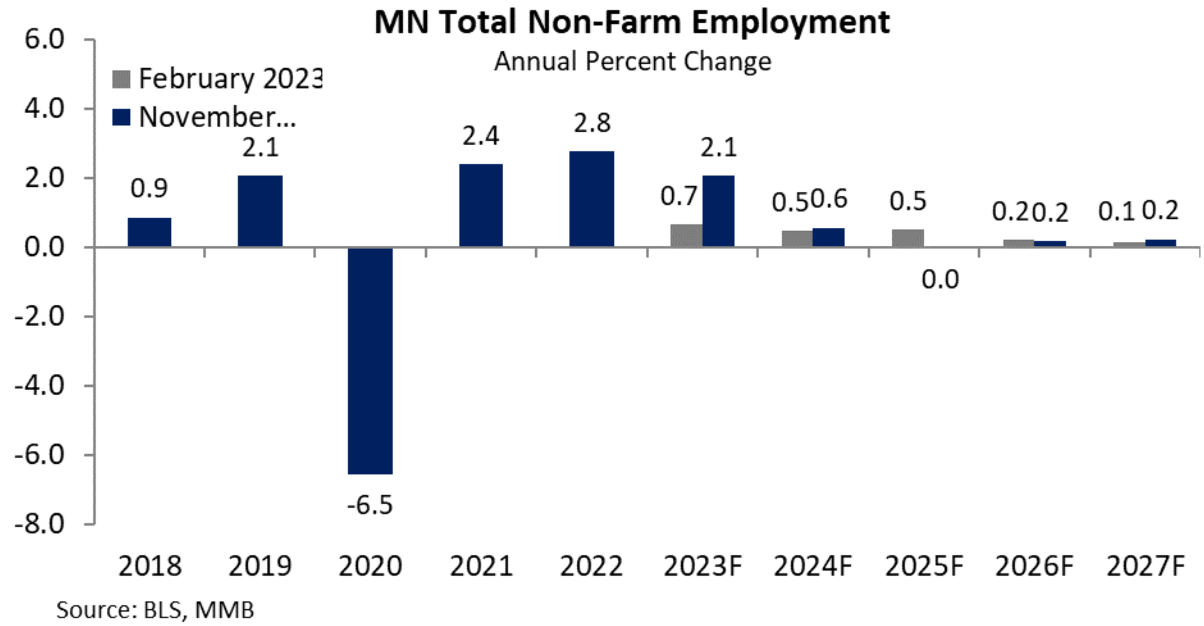
Minnesota job openings per unemployed worker
(seasonally adjusted)

Source: BLS, MMB

According to the BLS, there are currently more than two job openings per unemployed worker in the state. Although this measure of labor market tightness is lower than record highs in 2022, it suggests that the labor market is still tighter than in pre-pandemic years.

The MMB model of the Minnesota economy incorporates preliminary information on forthcoming revisions to Minnesota's non-farm payroll employment, personal income and wages informed by new data from the Quarterly Census of Employment and Wages (QCEW), and income tax withholding collections since early October. Following 2.8 percent growth in 2022, our projections indicate that Minnesota payroll employment is set to expand by 2.1 percent, equivalent to 61,200 jobs, for the current year. This growth is anticipated to decelerate in 2024 to 0.6 percent, corresponding to 17,000 jobs. We expect employment growth to level off at 0.0 percent in 2025, indicating a nearly flat employment change of -900 jobs. We expect employment growth to average 0.2 percent, or 6,000 jobs per year, in 2026 and 2027.

Over 2023-2027, we forecast annual average job growth of 18,000. This is less than half the annual average over 2011-2019. This subdued trajectory for Minnesota's employment growth can be attributed to an aging workforce with an increasing number of individuals transitioning into retirement.



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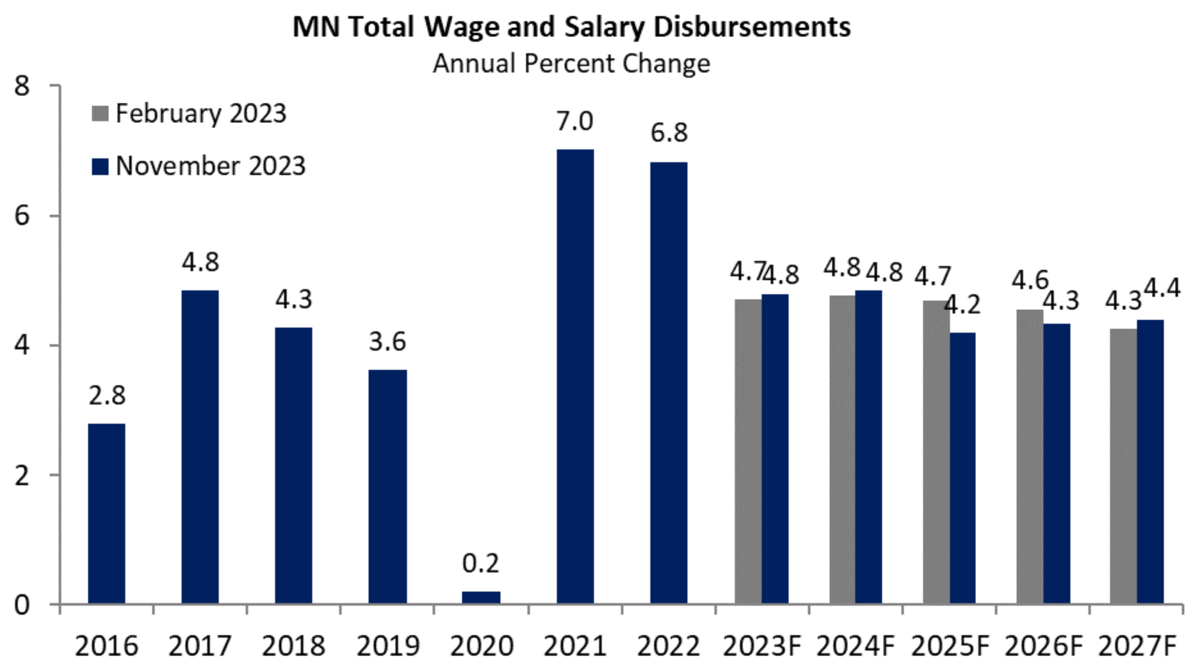
Broader measures of unemployment can provide additional insights into characteristics of Minnesota's labor market. The most comprehensive measure of unemployment, which the BLS calls U-6, is defined as the number of unemployed people (U-3), plus workers who are marginally attached to the labor force (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 October, Minnesota's U-6 rate was 5.5 percent, up from 4.9 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 October, 47,500 workers fell into this category, 3,200 more than in October 2022. In October, 3,000 Minnesotans were counted as discouraged workers--those marginally attached workers who believe no jobs are available to them--down from 4,900 a year ago.

In October, 9,400 Minnesotans were reported as long-term unemployed, those unemployed more than 27 weeks. This number was down from 11,500 one year ago.

Wage and Salary Income. A crucial variable influencing Minnesota's individual income tax liability is total wage and salary income, estimated to account for 69 percent of federal adjusted gross income for Minnesota residents in tax year 2022. As employers work harder to fill open positions, and businesses make investments in technologies that enhance productivity, wage and salary income per worker—or average wage income—is expected to continue to increase.

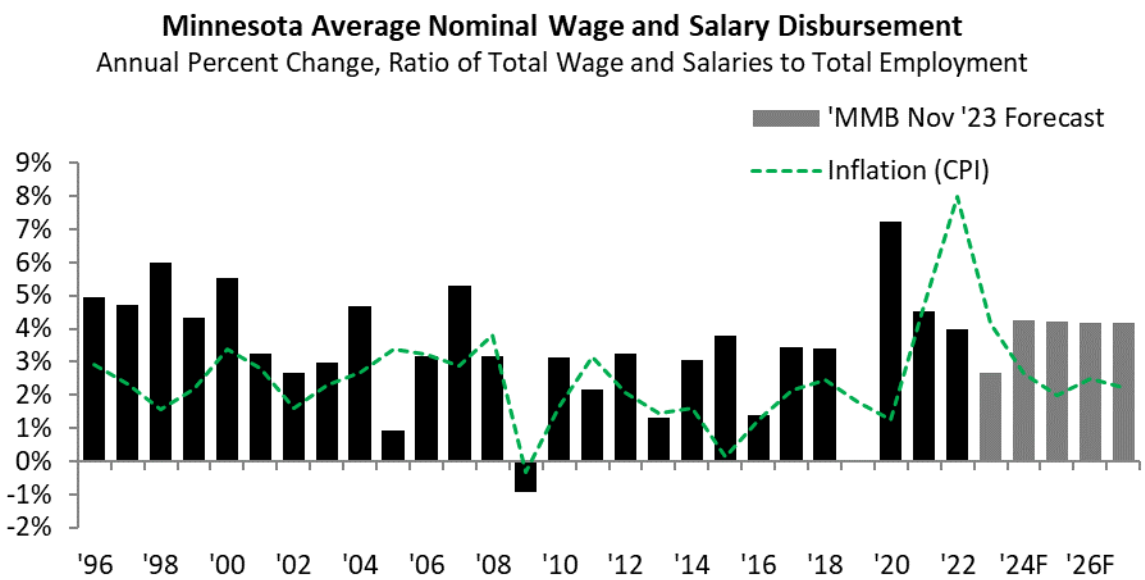
In February, our projection indicated that total wage income, the sum of all wages distributed, would increase 7.2 percent in 2022. Actual data from BEA reveals that wage and salary income in Minnesota expanded 6.8 percent in 2022. Looking ahead, we anticipate robust wage growth to persist at a rate of 4.8 percent in both 2023 and 2024. We expect wage growth to decelerate to an average of 4.3 percent per year for years 2025-2027.



Source: U.S. Bureau of Labor Statistics (BLS), Minnesota Management & Budget (MMB)

We expect total wage income, the sum of all wages distributed, to increase 4.8 percent in 2023 and 2024 before decelerating to an average of 4.3 percent per year in years 2025-2027.

With only moderate growth in Minnesota employment in this forecast, average wage growth (growth in wage and salary income per worker) is expected to be the primary driver of growth in total nominal wage income through our forecast horizon. We expect growth in average wage income per worker to average 3.9 percent in years 2023-2027. Average wage income growth is expected to be 2.7 percent in 2023 and accelerate to 4.3 percent in 2024. Our forecast expects wage income per worker to grow 4.2 percent per year on average in years 2025-2027. This exceeds forecasted average rates of inflation over the same period (2.2 percent), implying improvements in real wages on average.



Source: BEA, DEED, MMB

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Forecast Comparison: Minnesota & U.S.

Forecast 2023 to 2027, Calendar Years

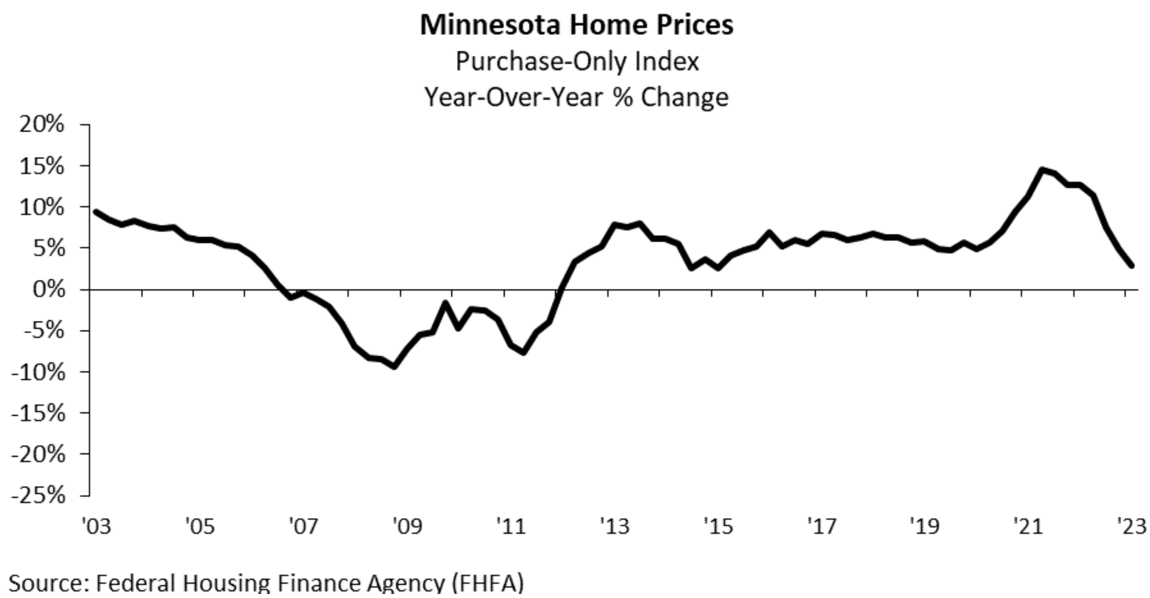
	2021	2022	2023	2024	2025	2026	2027
Personal Income (Billions of Current Dollars)							
Minnesota							
November 2023	381.8	393.6	411.9	435.0	459.9	482.3	504.1
%Chg	9.1	3.1	4.7	5.6	5.7	4.9	4.5
February 2023	378.3	386.8	401.8	422.3	442.7	463.3	484.0
%Chg	6.5	2.3	3.9	5.1	4.8	4.7	4.5
U.S.							
November 2023	21,408	21,841	22,977	24,097	25,319	26,465	27,606
%Chg	9.1	2.0	5.2	4.9	5.1	4.5	4.3
February 2023	21,295	21,733	22,644	23,640	24,755	25,890	27,070
%Chg	7.4	2.1	4.2	4.4	4.7	4.6	4.6
Wage and Salary Disbursements (Billions of Current Dollars)							
Minnesota							
November 2023	192.1	205.2	215.1	225.5	235.0	245.2	256.0
%Chg	7.0	6.8	4.8	4.8	4.2	4.3	4.4
February 2023	191.7	205.6	215.3	225.5	236.1	246.9	257.4
%Chg	6.9	7.2	4.7	4.8	4.7	4.6	4.3
U.S.							
November 2023	10,313	11,116	11,813	12,327	12,787	13,300	13,847
%Chg	9.0	7.8	6.3	4.3	3.7	4.0	4.1
February 2023	10,290	11,153	11,725	12,176	12,726	13,294	13,870
%Chg	8.8	8.4	5.1	3.8	4.5	4.5	4.3
Total Non-Farm Payroll Employment (Thousands)							
Minnesota							
November 2023	2,894	2,974	3,035	3,052	3,051	3,056	3,064
%Chg	2.4	2.8	2.1	0.6	0.0	0.2	0.2
February 2023	2,853	2,932	2,952	2,966	2,981	2,987	2,991
%Chg	2.4	2.8	0.7	0.5	0.5	0.2	0.1
U.S.							
November 2023	146,281	152,625	156,190	157,214	157,286	157,878	158,628
%Chg	2.9	4.3	2.3	0.7	0.0	0.4	0.5
February 2023	146,281	152,627	154,574	153,794	154,120	154,663	155,130
%Chg	2.9	4.3	1.3	-0.5	0.2	0.4	0.3
Average Annual Non-Farm Wage (Current Dollars)							
Minnesota							
November 2023	66,385	69,017	70,870	73,884	77,009	80,212	83,548
%Chg	4.5	4.0	2.7	4.3	4.2	4.2	4.2
February 2023	67,208	70,109	72,926	76,035	79,206	82,633	86,038
%Chg	4.4	4.3	4.0	4.3	4.2	4.3	4.1
U.S.							
November 2023	70,499	72,832	75,635	78,410	81,296	84,243	87,294
%Chg	5.9	3.3	3.8	3.7	3.7	3.6	3.6
February 2023	70,345	73,076	75,853	79,171	82,572	85,955	89,407
%Chg	5.7	3.9	3.8	4.4	4.3	4.1	4.0

Source: SPGMI, MMB

Homebuilding Activity. Surging borrowing costs, rising sales prices, and limited inventory are keeping potential homebuyers on the sidelines. The 30-year fixed mortgage interest rate, the most popular home loan in the United States, recently approached 8 percent for the first time since 2000. These high rates have discouraged buyers of both new and existing homes and have “locked in” owners of existing homes, who could lose lower rates on their current mortgages if they sell in such a high-rate environment. Sales of existing Minnesota homes are down 18.4

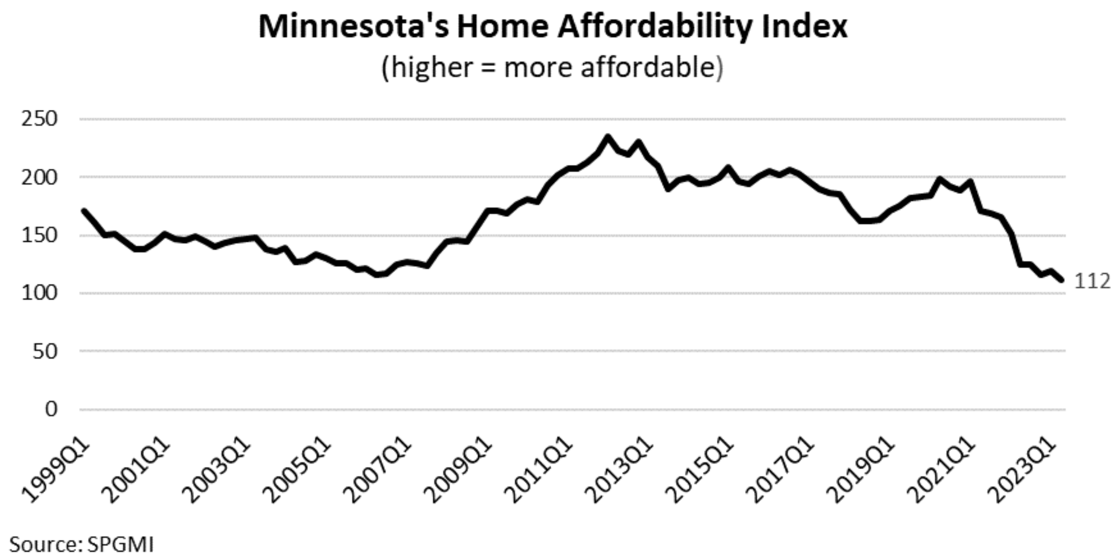
percent year-to-date through October, and new listings in Minnesota are down 12.8 percent over the same time period.

As total home inventory remains constrained, Minnesota home prices continue to rise. 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 and closed sales. In October, the median price for metro-area homes was $366,000, 1.7 percent higher than one year ago. On average, metro-area sellers received 98.5 percent of the original list price at closing. The median sales price in Minnesota was $330,000 in October, up 3.1 percent from a year ago.



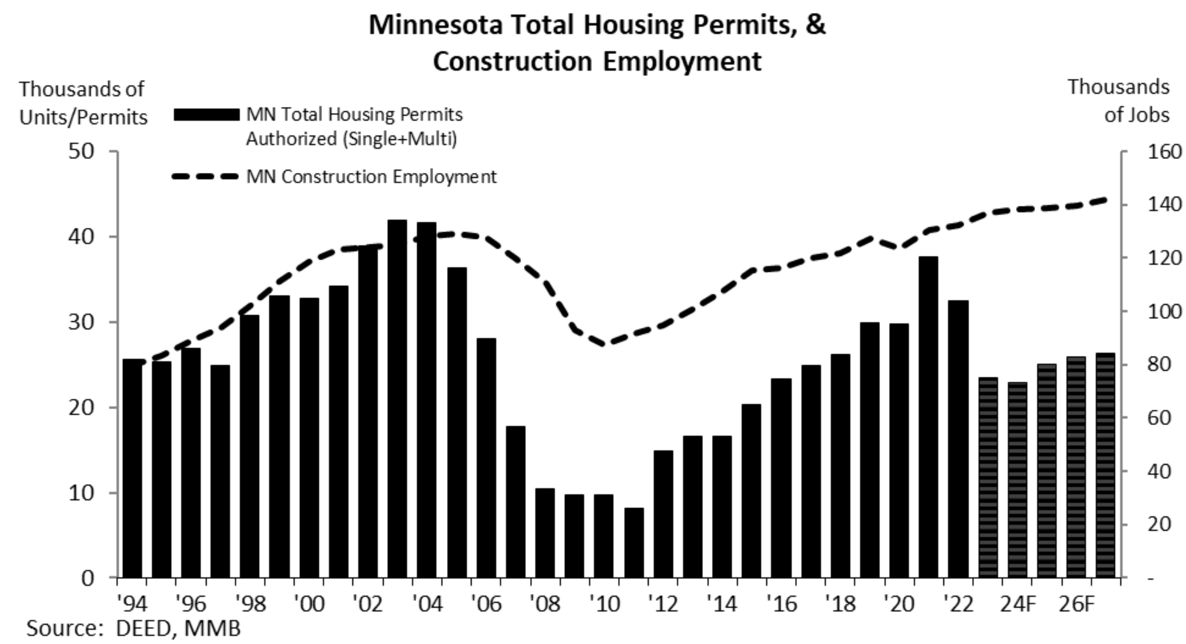
Minnesota home prices continue to rise while inventory is limited, although the pace of price increases has slowed from recent highs. According to the FHFA, Minnesota home prices increased 2.5 percent in the second quarter of 2023 compared to a year prior.

The combination of higher interest rates and rising home prices is challenging affordability. According to analysis from SPGMI, in the second quarter of 2023, Minnesota's home affordability index reached 112, its lowest level since the data has been recorded, dating back to 1991. An affordability index of 100 is the point where the median household has just enough income to afford a median priced home; a lower affordability index means homes are less affordable. A value below 100 means that the median household has less income than necessary to acquire a mortgage, and a value above 100 means the median household earns more income than required. The same study found that Minnesota ranks 20th among U.S. states for affordability. States in the Midwest tend to be among more affordable states, but recently affordability in even historically affordable regions is reaching historic lows. In this forecast, SPGMI does not expect improvements in affordability in the near-term. SPGMI expects the 30-Year fixed mortgage rate to peak at 7.64 percent in the fourth quarter of 2023, followed by a deceleration to less than 5.0 percent in 2027.



According to analysis from SPGMI, in the second quarter of 2023, Minnesota's home affordability index reached its lowest level since the data has been recorded, dating back to 1991. An affordability index of 100 is the point where the median household has just enough income to afford a median priced home; a lower affordability index means homes are less affordable.

According to data through September from the U.S. Census Bureau, the total year-to-date number of authorized residential building permits (not seasonally adjusted) in Minnesota is lagging last year by 25.3 percent. The decline is due to a 17.3 percent decline in single-family housing permits and a 31.3 percent decrease in multi-family permits. Last year Minnesota issued 32,000 housing permits, including 18,000 for multi-family units. In this forecast, we expect total housing permits to fall to 23,000 in 2023 and average 25,000 permits per year in years 2024-2027. Single-family permits are a critical housing data source because they are well-measured and are a dependable indicator of where single-family construction is heading.



Minnesota housing permits slowed from 37,600 in 2021 to 32,400 in 2022. In this forecast, we expect total housing permits to fall to 23,000 in 2023 and average 25,000 in years 2024-2027.

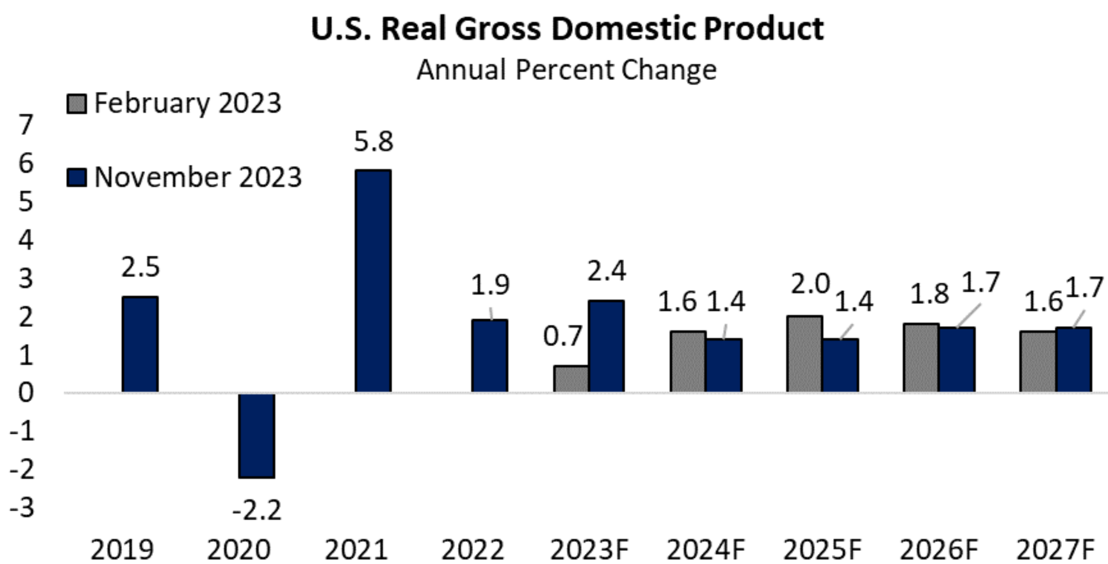
Agriculture. According to the U.S. Department of Agriculture's (USDA) farm income forecast, overall U.S. net farm income, a broad measure of profits, is estimated to decrease $41.7 billion (22.8 percent) from 2022 to $141.3 billion in 2023. This decrease follows an increase of $42.9 billion (30.7 percent) from 2021 to a record high of $183.0 billion in 2022. Lower commodity prices are pushing down crop cash receipts, which are forecast to decline 4.3 percent in 2023 in nominal terms. Total animal and animal product receipts are expected to fall by $11.9 billion (6.9 percent) percent in nominal terms in 2023, following declines in receipts for milk, broilers, eggs, and hogs. Lower direct government payments and higher production costs--including interest expense, labor costs, and cash rent--contribute to the lower forecast for farm income.

According to the latest USDA Agricultural Prices Report, the average price for corn during September 2023 was $5.21 per bushel, down $1.88 from September 2022. Similarly, the average price for soybeans was $13.20 per bushel, $1.00 below the September 2022 price.

Council of Economic Advisors' Statement

Minnesota's Council of Economic Advisors met on November 6, 2023, to review the SPGMI Global (SPGMI) outlook for U.S. economic growth, which includes the macroeconomic assumptions underlying Minnesota's November 2023 *Budget and Economic Forecast.* Since February, real GDP has grown faster than in SPGMI's February 2023 baseline forecast, driven by faster than expected real consumer spending and business investment. This, along with unexpectedly strong employment growth, prompted SPGMI to raise their GDP outlook for 2023. They now expect real GDP to grow 2.4 percent this year, 1.7 percentage points faster than the 0.7 percent growth they forecast in February. At the same time, long-term interest rates have risen higher than forecast in February, presaging tighter financial conditions and leading SPGMI to reduce their growth expectations beyond 2023. They have lowered their forecast for real GDP growth in 2024 to 1.4 percent in 2024 from 1.6 percent in the prior forecast. Growth in 2025 is now expected to be to 1.4 percent, down from 2.0 percent in February. Over 2024-2027, average annual real GDP growth is now expected to be 0.2 percentage points slower than in the February baseline.

The November outlook no longer includes the mild recession that SPGMI expected in February. In the prior forecast, SPGMI expected real GDP to decline in the first two quarters of 2023. The BEA now estimates that real GDP *grew* by 2.2 and 2.1 percent (annual rate) in the first two quarters of this year, respectively.



Source: BEA, SPGMI

Since February, SPGMI's outlook for U.S. economic growth in 2023 has improved. They now expect real GDP to grow 2.4 percent this year, 1.7 percentage points faster than the 0.7 percent growth they forecast in February. Driven by tighter financial conditions, average annual real GDP growth over 2024-2027 is now expected to be 0.2 percentage points slower than in the February baseline.

U.S. inflation as measured by the Consumer Price Index (CPI) has fallen this year, as agricultural commodity prices declined, and supply chains continued to normalize. According to the BLS, in February the 12-month percent change in the CPI was 6.0; by October it had slowed to 3.2

percent. In their February outlook, SPGMI anticipated this deceleration, so there is little difference between their prior and current inflation forecasts. Their November outlook has annual CPI inflation at 4.1 percent in 2023 compared to 4.0 percent in February. SPGMI now expects inflation to decelerate to 2.7 percent in 2024 and to moderate further to 2.0 percent annually in 2025 and 2.5 percent in 2026.

SPGMI now anticipates a monetary policy path that keeps the federal funds rate higher for longer than they had expected in February. In their November forecast, SPGMI expects that the federal funds rate will reach a peak of 5.6 percent in the first quarter next year and go below 3.0 percent in mid-2026. In February, they expected the rate to peak at 5.3 percent and fall below 3.0 percent in mid-2025.

The SPGMI November baseline forecast for 2023 matches the November Blue Chip Consensus, the median of 50 business and academic forecasts. Both the SPGMI and the November Blue Chip Consensus call for 2.4 percent growth this year. SPGMI's forecast for 2024 is higher than the Blue Chip Consensus. SPGMI expects real GDP to grow 1.4 percent in 2024, 0.2 percentage points more than the Blue Chip Consensus of 1.2 percent growth next year.

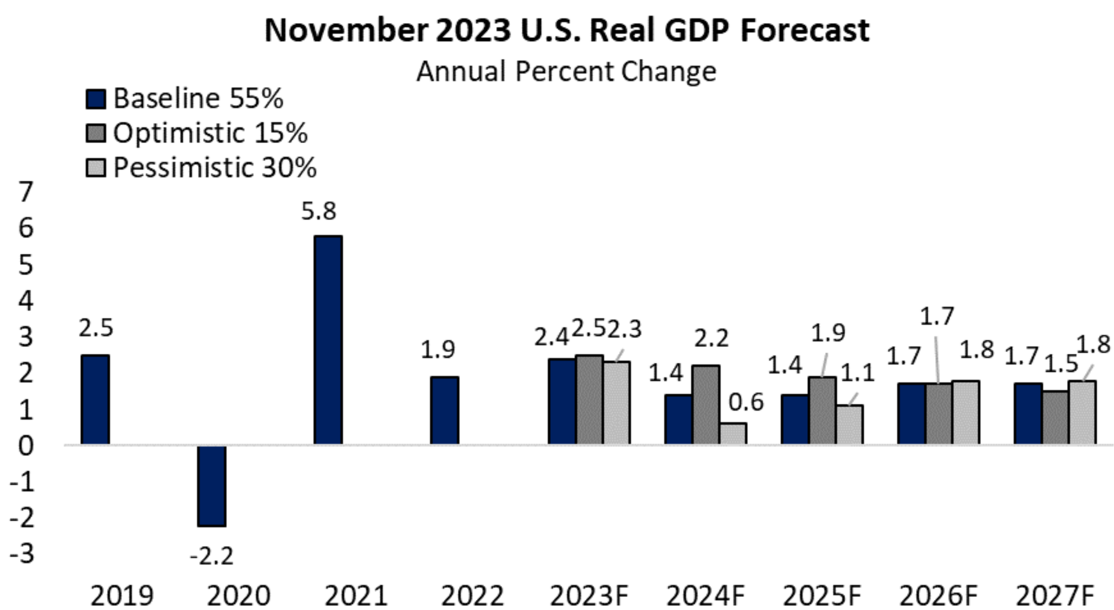
Council members agree that SPGMI's baseline outlook is a reasonable starting point for Minnesota's economic and budget forecast, but they caution about risks to the forecast. They agree that the risks are generally balanced between the upside and downside. Council members also agreed that the forecast implies more stability than the U.S. economy is likely to experience. Members can envision a variety of possible shocks that, separately or in combination, could throw the economy off the projected path. In addition to the optimistic and pessimistic scenarios that SPGMI constructs, Council members would assign a low—but non-zero—probability to a *more* pessimistic scenario that includes a U.S. recession.

Regarding upside potential, a recovery in labor force participation—perhaps from increased immigration, delayed retirements, or improved access to childcare—could support more robust job growth than is currently expected. A resolution to the Russia-Ukraine conflict could lower some commodity prices and allow global growth—and hence U.S. growth—to outperform the forecast.

Federal legislative volatility and international conflicts pose the biggest downside risks. SPGMI assumes that the federal government remains open through the November 17 continuing resolution but notes that the specter of a shutdown is a downside risk to the forecast. Council members agree that disarray in the House of Representatives heightens the risk of a shutdown, which would slow economic growth through the affected quarter(s). Worsening of the Russia-Ukraine war or spread of the Israel-Hamas conflict to other countries in the region could raise energy prices and create a drag on global growth.

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. In addition, long-range forecasts must consider the potential drag from the growing federal debt.

SPGMI assigns a 55 percent probability to the November baseline outlook. SPGMI assigns a 30 percent probability to a more pessimistic scenario, characterized by (1) a significant tightening of lending standards by financial institutions that restrains consumer spending and small business activity, and (2) higher energy prices caused by worsening conflicts in Russia-Ukraine and the Middle East. Growth in consumer spending and business fixed investment is diminished in 2024, and the price of Brent crude oil and the unemployment rate are both higher than in the baseline scenario. In their more optimistic scenario, SPGMI assumes (1) strong credit expansion on the part of financial institutions that supports consumer spending, and (2) a quicker resolution to the Russia-Ukraine and Middle East conflicts, which leads to lower energy prices. Consumer spending and business fixed investment both grow faster than in the baseline. The optimistic scenario receives a 15 percent probability from SPGMI. Council members see the upside and downside risks as more balanced than SPGMI does. They would assign roughly equal weights to an optimistic and pessimistic scenario.



SPGMI assigns a 55 percent probability to the November baseline outlook. They assign a 30 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 15 percent probability to a more optimistic scenario, characterized by expanded credit in support of consumer spending and a quicker resolution to the Russia-Ukraine conflict.

Council members believe that Minnesota's budget reserve—which, at $2.852 billion, is $21 million below 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 4.9 percent of biennial (two-year) general fund revenues.

BUDGET OUTLOOK

Closed Biennium

When the last *Budget and Economic Forecast* was released in February 2023 it was projected that a positive balance of $17.455 billion was available for the 2024-25 biennial budget setting process. After the enactment of the budget in May 2023, the positive balance expected to be left over at the the current biennium was $1.583 billion. A larger closing balance to the previous biennium and an increased revenue forecast, partially offset by increases to estimated spending, result in a projected surplus of $2.392 billion for the current biennium, an improvement of $808 million.

Current Biennium: FY 2024-25 General Fund Budget
End-of-Session vs. November 2023 Forecast Comparison

($ in millions)	End-of-Session	November 2023 Forecast	$ Change	% Change
Beginning Balance	**$15,485**	**$16,516**	**$1,031**	**6.7%**
Revenues				
Taxes	56,348	57,058	710	1.3
Non-Tax Revenues	2,278	2,400	121	5.3
Transfers, Other Resources	191	197	6	2.9
Total Revenues	**$58,818**	**$59,655**	**$837**	**1.4%**
Expenditures				
E-12 Education	24,259	24,464	205	0.8
Property Tax Aids	5,314	5,478	163	3.1
Health & Human Services	20,623	21,118	495	2.4
Debt Service	1,180	1,141	(39)	(3.3)
All Other	18,142	18,315	174	1.0
Total Expenditures	**$69,518**	**$70,516**	**$998**	**1.4%**
Budget Reserve	2,852	2,913	61	
Cash Flow Account	350	350	-	
Budgetary Balance	**$1,583**	**$2,392**	**$808**	

Previous Biennium. In August, the books were officially closed for the fiscal year and biennium that ended June 30, 2023. The FY 2022-23 biennium ended with a positive general fund balance of $13.103 billion, $820 million higher than estimated at the end of the 2023 legislative session.

The closing balance at the end of the biennium represents "money in the bank" available as a resource that carries into the FY 2024-25 biennium.[5]

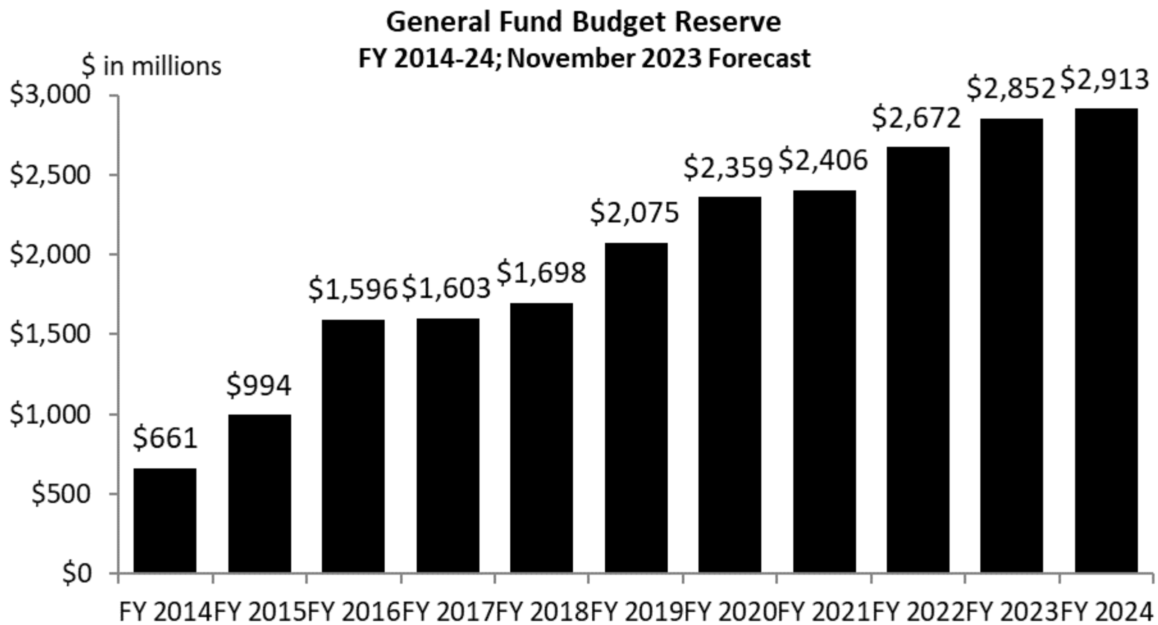
Revenue. Total general fund revenues for FY 2024-25 are now forecast to be $59.655 billion, $837 million (1.4 percent) more than the end-of-session estimates. Total tax revenues for the biennium are forecast to be $57.058 billion, $710 million (1.3 percent) above the prior estimate. The forecasts for Minnesota's three largest tax types are higher than the end-of-session estimates. Individual income tax totals in the current biennium and next biennium do not include the estimated revenue impact related to a drafting oversight impacting the standard deduction in Ch. 64 (2023 tax bill) that would result in approximately $350 million in added revenue each fiscal year if not corrected. It is assumed that the 2024 Legislature will pass legislation to correct this oversight.

Spending. Total general fund expenditures for the FY 2024-25 biennium are projected to be $70.515 billion, $998 million (1.4 percent) higher than previously forecast. Spending is higher than end-of-session estimates across all major areas, with the exception of the cost of debt service on state capital projects. The three largest areas of the general fund budget drive this change. E-12 expenditures are forecast to reach $24.464 billion in FY 2024-25, a $205 million (0.8 percent) increase from end-of-session estimates. The primary drivers of this increase are greater than expected pupil counts and higher than anticipated spending in nutrition programs . Total health and human services (HHS) expenditure are forecast to reach $21.118 billion, $495 million (2.4 percent) higher than end-of-session estimates. Increased projected costs in home and community-based services for people with disabilities drive most of the increase in HHS. Higher homestead and renter refunds push the property tax aids and credits forecast to $5.478 billion, an increase of $163 million (3.1 percent) compared to end-of-session. The non-forecast areas of the budget show an increase of $174 million over end-of session estimates, but this increase is largely due to appropriations left unspent in the prior biennium that have authority to be spent in the current biennium. The forecast for debt service costs is down $39 million, largely dirven by a smaller than anticipated summer 2023 bond sale.

Reserves. Minnesota Statutes 16A.152 directs MMB to allocate funds to the budget reserve account up to the recommended budget reserve level when there is a projected surplus in the current biennium in the *November Budget and Economic Forecast.* In September, MMB, in accordance with Minnesota Statutes section 16A.152 subd.8, recommended a budget reserve target of 4.9 percent.[6] When calculated using the updated revenue forecast with this release, the budget reserve target level is $2.913 billion. Given the reserve balance at the end of FY 2023 was below the new target level, $61 million from the projected surplus is allocated to the reserve so that the balance is now at the target level of $2.913 billion. The cash flow account balance is unchanged at $350 million.

[5] For more information on the final close of the previous biennium, see the FY 2022-23 Biennium Budget Close Report, published October 16, 2023.

[6] September 2023 Budget Reserve Close Report

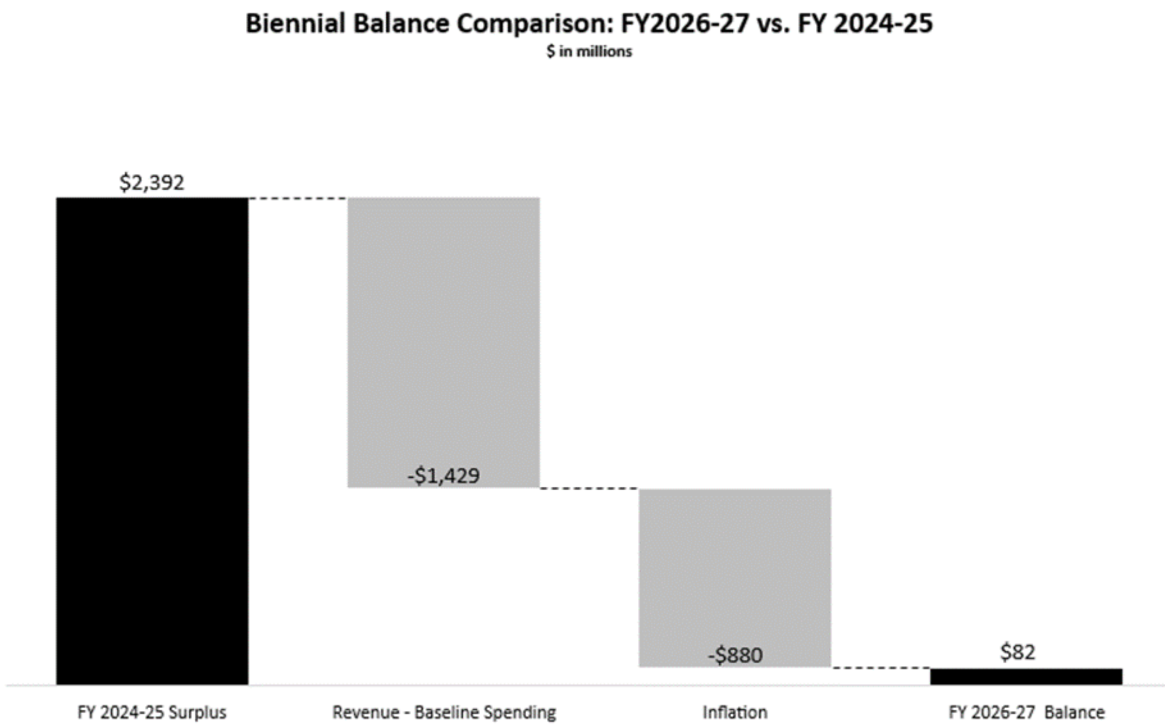


By statute the budget reserve balance is increased each November forecast when there is a projected surplus in the general fund and the reserve balance is not at its statutory target level.

Budget Horizon: FY 2022-27 General Fund Budget
Biennial Comparison; November 2023 Forecast

($ in millions)	FY 2022-23	FY 2024-25	FY 2026-27	Annual % Change
Beginning Balance	**$7,026**	**$16,516**	**$5,654**	
Revenues				
Taxes	58,529	57,058	61,779	1.1
Non-Tax Revenues	2,273	2,400	1,727	(5.3)
Transfers, Other Resources	618	197	401	(8.3)
Total Revenues	**$61,420**	**$59,655**	**$63,907**	**0.8%**
Expenditures				
E-12 Education	20,164	24,464	25,479	4.8
Property Tax Aids	4,622	5,478	4,650	0.1
Health & Human Services	15,137	21,118	22,861	8.6
Debt Service	1,140	1,141	1,340	3.3
All Other	10,867	18,315	11,006	0.3
Estimated Inflation	-	-	880	n/a
Total Expenditures	**$51,930**	**$70,516**	**$66,216**	**5.0%**
Budget Reserve	2,852	2,913	2,913	
Cash Flow Account	350	350	350	
Budgetary Balance	**$13,103**	**$2,392**	**$82**	

Biennial Budgetary Growth. When the budget for the 2024-25 biennium was enacted in May 2023, a significant surplus from the previous biennium was anticipated to be available for one-time uses in the current biennium. After the close of the FY 2022-23 biennium, the actual surplus that carried forward into the current biennium was $13.103 billion. In the enacted budget, this one-time resource was partially allocated to one-time revenue reductions and one-time spending increases across the budget. On-going spending and revenue changes were planned so that budgetary balance would be maintained in both the current biennium and the FY 2026-27 planning estimates. In this forecast, spending increases projected for the current biennium are forecast to continue into the next biennium while revenue forecast gains are not projected to continue. The budgetary impact of these changes result in the surplus from the current biennium offsetting the structural imbalance in the next biennium with the remaining balance reduced to $82 million by the end of the next biennium.



Projected spending, included the added impact of inflationary growth, significantly exceeds forecast revenues for the FY 2026-27 biennium. The resulting impact is a spend down of the current surplus in the next biennium.

Planning Estimates

The increased spending forecast continues into the FY 2026-27 biennium with estimated spending projected to reach $66.217 billion, $982 million (1.5 percent) more than estimated at end-of session. Revenues in the planning biennium are projected to total $63.907 billion, $30 million lower than prior forecast. The structural balance, the difference between revenue and spending in a given budget period, in the planning biennium is negative $1.429 billion before inflation is added to spending estimates and negative $2.309 billion after including inflation.

Planning Estimates: FY 2026-27 General Fund Budget
By Fiscal Year; November 2023 Forecast

($ in millions)	FY 2026	FY 2027	FY 2026-27
Forecast Revenues	$31,500	$32,406	$63,907
Projected Spending	32,378	33,839	66,217
Difference	**$(878)**	**$(1,433)**	**$(2,310)**
**Estimated inflation included (CPI)*[7]	*$[281]*	*$[600]*	*$[880]*

The planning estimates for the FY 2026-27 beinnium inherently carry a higher degree of uncertainty than estimates for FY 2024-25. Revenue projections for FY 2026-27 are based on the November Baseline economic 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. [8]

Planning Horizon: General Fund Budget
By Biennium, FY2024-27, November 2023 Forecast

($ in millions)	**FY 2024-25**	**FY 2026-27**	**$ Change**	**Annual % Change**
Forecast Revenues	$59,655	$63,907	$4,252	3.5%
Projected Spending*	70,516	66,216	(4,300)	(3.1)%
Difference	**$(10,861)**	**$(2,309)**		
**Estimated inflation included (CPI)*	*n/a*	*$880*		

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.

[7] Inflationary growth estimates are based on the consumer price index forecast and are estimated to be 2.2 percent in FY 2026 and 2.4 percent in FY 2027.
[8] Inflation calculation grows the estimated general fund spending base in each year by the projected CPI growth rate after removing general education, 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 2024-25 are now forecast to be $59.655 billion, $837 million (1.4 percent) more than the end-of-session estimates. Total tax revenues for the biennium are forecast to be $57.058 billion, $710 million (1.3 percent) above the prior estimate. The forecasts for Minnesota's three largest tax types are higher than the end-of-session estimates.

Current Biennium: FY 2024-25 General Fund Revenues

Change from End-of-Session

($ in millions)	End-of-Session	November 2023 Forecast	$ Change	% Change
Individual Income Tax[9]	$30,141	$30,347	$206	0.7%
General Sales Tax	15,076	15,232	156	1.0
Corporate Franchise Tax	5,163	5,413	250	4.8
State General Property Tax	1,492	1,481	(11)	-0.7
Other Tax Revenue	4,476	4,585	109	2.4
Total Tax Revenues	**56,348**	**57,058**	**710**	**1.3%**
Non-Tax Revenues	2,278	2,400	121	5.3
Other Resources	191	197	6	2.9
Total Revenues	**$58,818**	**$59,655**	**$837**	**1.4%**

Revenues for FY 2024-25 are now expected to fall short of their FY 2022-23 levels by $1.766 billion (2.9 percent). Total tax revenues are projected to be $1.471 billion (2.5 percent) less than in FY 2022-23. Current biennium individual income tax revenues are now forecast to decline $2.304 billion (7.1 percent) from the FY 2022-23 level. Corporate and statewide property tax receipts are also forecast to decline in FY 2024-25, while net sales tax receipts and other tax revenues are now forecast to exceed their FY 2022-23 levels.

[9] Individual income tax totals do not include the estimated revenue impact related to a drafting oversight impacting the standard deduction in Ch. 64 (2023 tax bill) that would result in an estimated $350 million in added revenue each fiscal year if not corrected. It is assumed that the 2024 Legislature will pass legislation to correct this oversight.

This is the first forecast of FY 2024-25 since FY 2024 began on July 1, 2023. After four months of observed collections (through October 2023), fiscal year-to-date receipts for FY 2024-25 are $8.771 billion, 14.8 percent of the total expected over the biennium. With 20 months of FY 2024-25 collections left to observe, 85.2 percent of forecast receipts are outstanding.

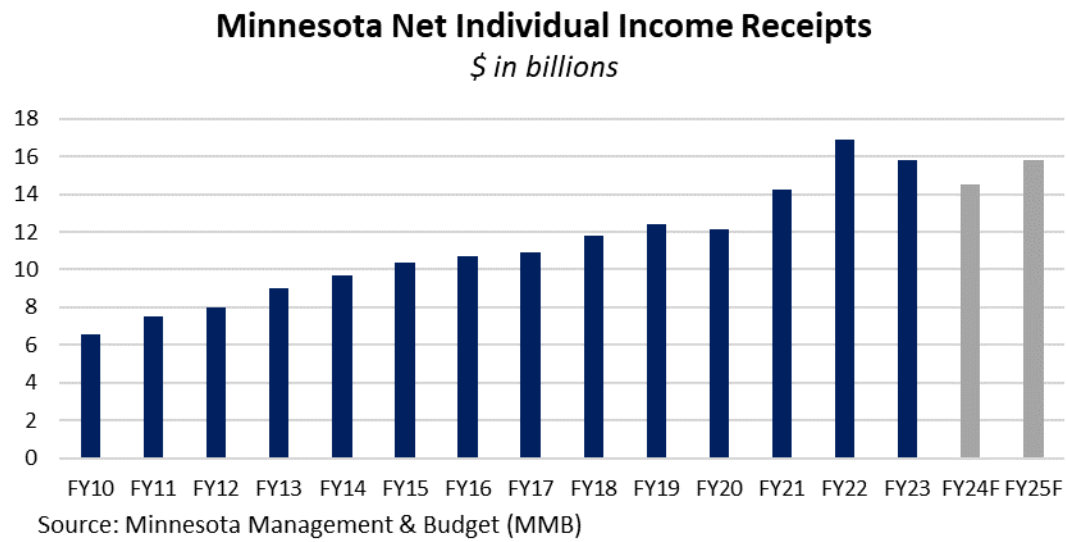
Biennial Comparison: FY 2022-23 vs. FY 2024-25 General Fund Revenues

	November 2023 Forecast			
($ in millions)	**FY 2022-23**	**FY 2024-25**	**$ Change**	**% Change**
Individual Income Tax	$32,650	$30,347	($2,304)	-7.1%
General Sales Tax	14,090	15,232	1,142	8.1
Corporate Franchise Tax	5,752	5,413	-339	-5.9
State General Property Tax	1,539	1,481	-58	-3.8
Other Tax Revenue	4,498	4,585	87	1.9
Total Tax Revenues	**$58,529**	**$57,058**	**($1,471)**	**-2.5%**
Non-Tax Revenues	2,273	2,400	127	5.6
Other Resources	618	197	-421	-68.1
Total Revenues	**$61,420**	**$59,655**	**($1,766)**	**-2.9%**

Individual Income Tax. Minnesota individual income tax receipts are now forecast to be $206 million (0.7 percent) more than the end-of-session estimates. Technical adjustments, which on net raise the income tax forecast, offset lower base year income tax liability.

Minnesota's individual income tax receipts declined 6.5 percent ($1.10 billion) in FY 2023 over FY 2022. Similarly, in the federal fiscal year ending September 30, the Congressional Budget Office (CBO) reported that U.S. individual income tax receipts declined 17 percent ($456 billion) in FY 2023 over FY 2022,[10] after growing 29 percent ($588 billion) in FY 2022 over FY 2021.[11] As a share of U.S. GDP, receipts from federal individual income tax collections decreased from a high of 10.4 percent of GDP in 2022 to 8.1 in 2023, close to the average over the past 50 years of percent.

[10] Congressional Budget Office (CBO). "Monthly Budget Review: Summary for Fiscal Year 2023," November 8, 2023, page 4. Available here: https://www.cbo.gov/system/files/2023-11/59640-MBR.pdf.
[11] Congressional Budget Office (CBO). "Monthly Budget Review: Summary for Fiscal Year 2022," November 8, 2022, page 4. Available here: https://www.cbo.gov/publication/58592/html.



Minnesota's individual income tax receipts fell 6.5 percent ($1.10 billion) in FY 2023 over FY 2022. Current biennium individual income tax revenues are now forecast to decline $2.304 billion (7.1 percent) from the FY 2022-23 level.

This forecast builds from estimated final TY 2022 M1 individual income tax liability net of the Pass-Through Entity (PTE) tax credit. In constructing the estimate, we used information from processed income tax, S-Corporation, partnership, and fiduciary tax returns; revenue in the state accounting system; and projections of returns remaining to be received and/or processed. We estimate that final 2022 income tax liability net of the PTE credit reported on individual tax returns is $12.689 billion, $233 million less than our February estimate. We estimate that TY 2022 liability fell 4.7 percent from TY 2021. On its own, a lower estimate of base year tax liability reduces our forecasts of liability going forward.

Calibrating the income tax model to produce our lower estimated base year liability generally requires making assumptions about base year growth rates for specific income types. To produce estimated tax year 2022 liability, capital gains realized by Minnesota residents were assumed to have declined 43.2 percent in CY 2022 from CY 2021. In the February forecast, we had assumed a decline of 44.0 percent. Based on information from processed federal TY 2022 income tax returns, we significantly lowered our forecast of taxable interest income. In this forecast interest income is assumed to grow 20.0 percent in CY 2022, a significant change from the 48.4 percent growth we assumed in February. Due to a technical change, we now assume taxable IRA distributions grew 17.9 percent in CY 2022 compared to 33.6 percent in the prior forecast. Non-farm business income is now assumed to grow 3.3 percentage points faster in CY 2022 than we estimated in February.

Changes in our assumptions about the growth rates in different income types in CY 2023 through CY 2025 affect our revenue forecasts for FY 2024-25. Adjusted gross income on Minnesota income tax returns is now forecast to grow cumulatively 1.2 percentage points more slowly through CY 2025 than we assumed in February.

Changes in expected growth rates in some non-wage income types in CY 2023 and 2024 also change the FY 2024-25 income tax forecast. Capital gains realizations reported by Minnesota residents are now assumed to decline 4.0 percent in 2023, compared to a decline of 7.0 percent in the February forecast. From CY 2021 to CY 2025, capital gains are forecast to grow cumulatively 0.6 percentage points faster than we assumed in February. In this forecast, taxable interest income is assumed to grow 31.5 percent in TY 2023 and 23.9 percent in TY 2024, compared to 54.4 and 23.6 percent in the prior forecast. We now forecast non-farm business income to grow cumulatively 8.2 percentage points faster through CY 2025 than we had estimated in February.

By statute, Minnesota tax brackets and other parameters of the state tax code are indexed by Chain CPI-U. Inflation as measured by the Chain CPI-U is forecast to be lower than it had been in February. This has the effect of reducing forecast income tax liability in TY 2024 by $46 million (primarily lowering revenues in FY 2024) and by $14 million in TY 2025 (primarily lowering revenues in FY 2025).

A large number of technical and timing changes—which on net add revenue to the forecast—offset the lower forecast of income tax liability in TY 2023 and TY 2024, affecting the FY 2024-25 income tax forecast. First, in each tax year, we collect income tax withholding payments that are larger than total withholding reported on individual tax returns. Based on our observation of annual growth in excess withholding, in this forecast we raise our estimate of the amount we expect to collect by about $40 million per fiscal year. Second, our observation of individual income tax payments other than withholding, estimated tax, and current tax year final payments has also been rising annually. Consequently, we have increased the forecast of this category of payments by about $20 million per fiscal year.

Third, the forecast for net income tax receipts from fiduciaries (estates and trusts) is about $87 million lower than in February. Fourth, an overestimate of the cost of the onetime refundable tax credit paid to taxpayers raises FY 2024 revenues by $140 million via lower expected refunds. Fifth, individual estimated tax payments have been coming in below our prior forecast, possibly because some business owners are effectively making estimated payments through their partnership or S Corporation when the entity makes a PTE payment. This has led us to lower our forecast of estimated payments and results in a shift of roughly $130 million out of the biennium. Sixth, based on our observation of the amount of income tax overpayments that taxpayers choose to transfer to the next year's estimated tax (in lieu of requesting a refund), we have raised our estimate of these transfers in each year. This raises forecast revenue on a one-time basis in FY 2024-25 by $278 million. Finally, a technical change in the cost of the 2023 tax bill reduces the revenue forecast by roughly $110 million, and a change in the forecast of the renter's credit reduces net revenue in FY 2025 by $15 million.

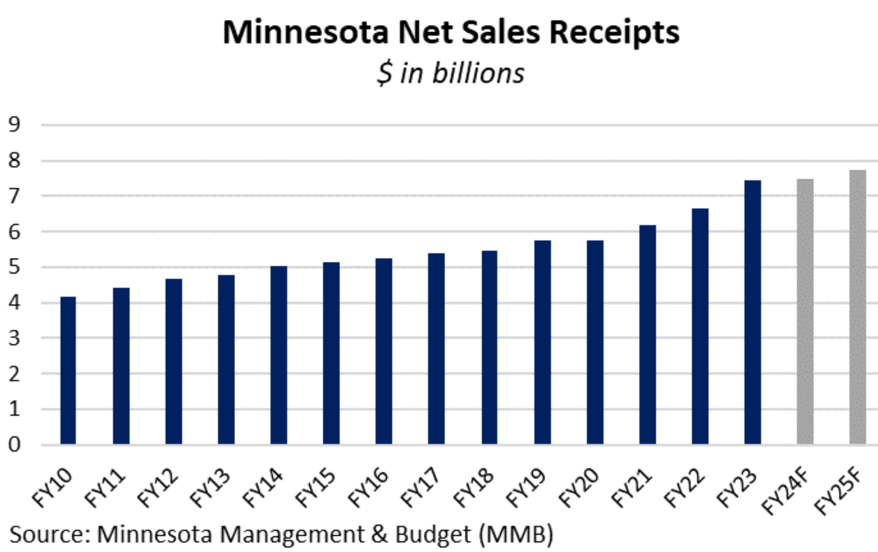
New information that is expected to become available between now and February 2024 may change the income tax forecast for FY 2024. Mid-January we expect to learn more about actual tax liability for 2022, the year on which this forecast is based. In December and January, we will see fourth quarter estimated payments of partnerships and S Corporations. Many entities will make payments in late December so that their PTE tax will be deductible on TY2023 federal income forms. In January we will also observe fourth quarter income tax withholding and in early February individual estimated tax payments, which typically provide new information about the liability year that just ended. Finally, in February, we expect to have the first Minnesota-specific information about 2022 growth rates in various income types—including capital gains—from a preliminary sample of 2022 tax returns. This should help identify income growth arising from sources that are unlikely to carry over into subsequent years.

The income tax forecast for the current biennium is adjusted for 2023 Minnesota tax law changes. The adjustments lower the forecast by $2.520 billion on net. Large tax law changes such as these increase the level of uncertainty in the revenue forecast throughout our forecast horizon.

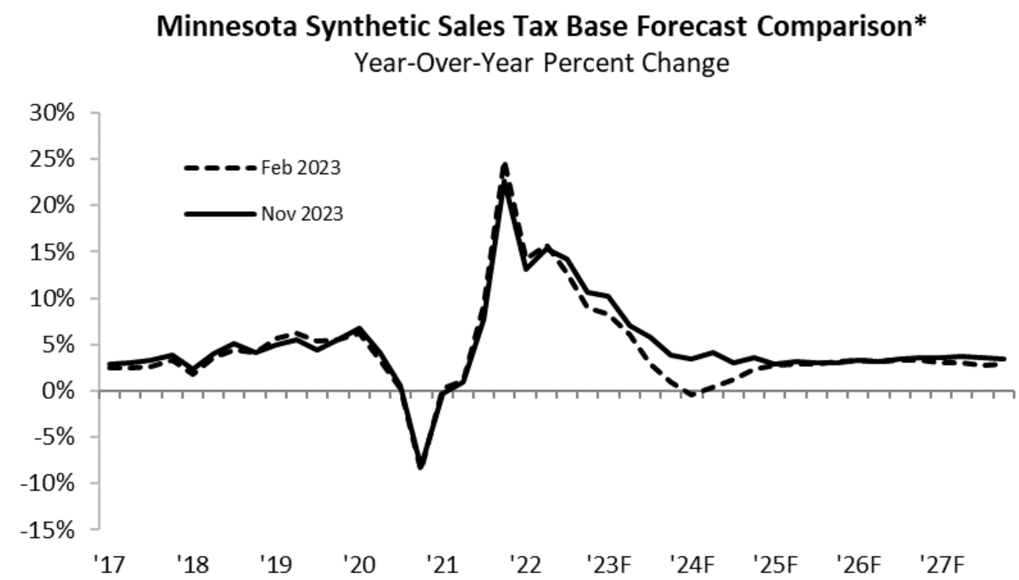
General Sales Tax. Net general sales tax revenue in FY 2024-25 is now forecast to be $156 million (1.0 percent) more than the prior estimate. Both a $179 million increase in forecast gross sales tax receipts and a $24 million increase in expected refunds contribute to the change.

The sales tax forecast for the current biennium is adjusted for 2023 Minnesota tax law changes. On net, the adjustments lower the forecast by $53 million on net from our February forecast. Net sales tax receipts ended fiscal year 2023 $38 million above the end-of-session estimate. So far in FY 2024, net sales tax receipts exceed the end-of-session estimate by $71 million (2.6 percent).

The increased forecast in the current biennium for gross sales tax receipts reflects higher than expected gross receipts in FY 2023 and FY 2024 and a higher near-term forecast for taxable sales compared to February. 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. The synthetic base grew 2.2 percentage points faster in FY 2023 than we forecast in February, and in this forecast the base is expected to grow 2.7 percentage points faster in FY 2024 than we expected in February. Off this higher base, we expect the synthetic sales tax base to grow 0.2 percentage points faster in FY 2025 than we forecast in February. Current biennium sales tax revenues are now forecast to increase $1.142 billion (8.1 percent) from the FY 2022-23 level.



Minnesota's sales tax receipts grew 12.1 percent ($803 million) in FY 2023 after growing 7.6 percent in FY 2022. FY 2023 growth is exogenously high due to a 2021 session law change that removed June accelerated payments. Without the law change, FY 2023 estimated growth would have been significantly lower at 6.2 percent, and FY 2022 estimated growth would have been significantly higher at 13.6 percent. Current biennium sales tax revenues are now forecast to increase $1.142 billion (8.1 percent) from the FY 2022-23 level.



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

In this forecast, the proxy for Minnesota's sales tax base is expected to grow 2.7 percentage points faster in FY 2024 than we had assumed in February. Off this higher base, we expect the synthetic sales tax base to grow 0.2 percentage points faster in FY 2025.

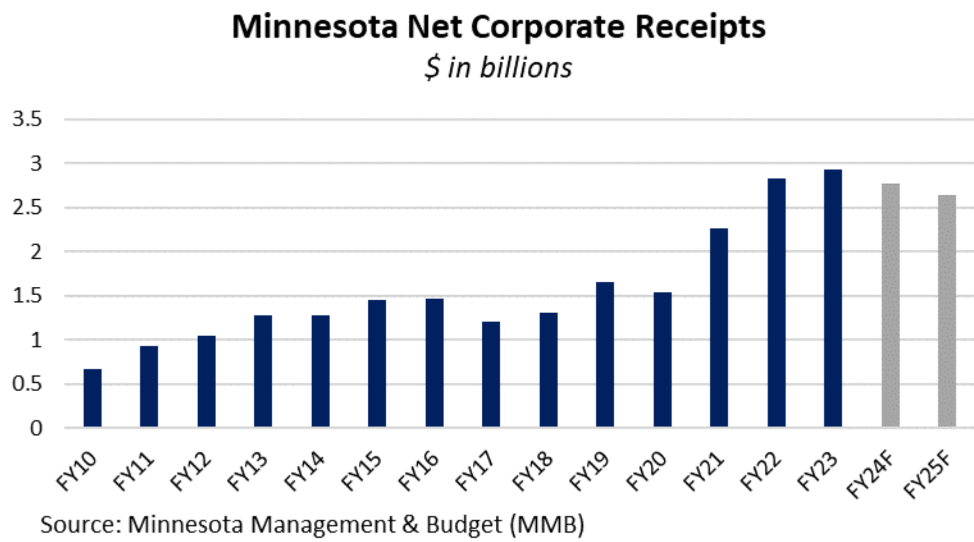
Corporate Franchise Tax. The corporate franchise tax is forecast to generate $5.413 billion in FY 2024-25, $250 million (4.8 percent) more than the end-of-session estimate. A higher base of gross corporate tax receipts and a higher forecast for corporate profits both contribute this change.

The corporate tax forecast for the current biennium is adjusted for 2023 Minnesota tax law changes. On net, the adjustments raise the forecast by $588 million from our February forecast. Net corporate receipts ended fiscal year 2023 $165 million above the end-of-session estimate. So far in FY 2024, net corporate receipts exceed the end-of-session estimate by $36 million (4.1 percent).

Minnesota's corporate receipts increased 3.8 percent ($106 million) in FY 2023 over FY 2022. Minnesota's corporate receipts slightly outpaced federal corporate receipts. In the federal fiscal year ending September 30, the CBO reported that federal corporate receipts declined 1.0 percent ($5 billion) in FY 2023 over FY 2022[12], after growing 14.0 percent ($53 billion) in 2022.[13]

[12] Congressional Budget Office (CBO). "Monthly Budget Review: Summary for Fiscal Year 2023," November 8, 2023, page 5. Available here: https://www.cbo.gov/system/files/2023-11/59640-MBR.pdf.

[13] Congressional Budget Office (CBO). "Monthly Budget Review: Summary for Fiscal Year 2022," November 8, 2022, page 4. Available here: https://www.cbo.gov/publication/58592/html.



Minnesota's corporate receipts increased 3.8 percent ($106 million) in fiscal year 23 over fiscal year 22. Current biennium corporate tax revenues are now forecast to decrease $339 million (5.9 percent) from the FY 2022-23 level.

The forecast change is due to both a higher base of corporate receipts and a higher forecast for corporate profits. Year-to-date net receipts for FY 2024 are $36 million (4.1 percent) above the law-change-adjusted prior forecast. The previous corporate forecast estimate was based on S&P's February 2023 forecast, which assumed a year over year decline of 1.4 percent in corporate profits in CY 2023 and a further decline of 0.1 percent in CY 2024. In this forecast we use S&P's November 2023 baseline outlook, which assumes growth of 5.5 percent in CY 2023, followed by a 0.7 percent decline in CY 2024, a 5.9 percent decline in CY 2025 and a 0.2 percent decline in CY 2026.

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

The forecast change is driven by both a higher base of gross corporate tax receipts, and a higher forecast for corporate profits. The previous corporate forecast estimate was based on the S&P February forecast, which assumed a year over year decline of 1.4 percent in corporate profits in CY 2023 and a decline of 0.1 percent in CY 2024. In this forecast we use S&P's November 2023 baseline outlook which assumes growth of 5.5 percent in CY 2023, followed by a 0.7 percent decline in CY 2024, a 5.9 percent decline in CY 2025 and a 0.2 percent decline in CY 2026.

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 are now forecast to be about $11 million higher in FY 2024-25 than the February forecast.

Other Tax Revenue, Non-Tax Revenue, Other Resources. Other tax revenue is now expected to be $109 million (2.4 percent) higher than the prior estimate. Among other taxes, Insurance Gross Premiums taxes show the largest dollar amount change, $148 million (15.5 percent) higher than the prior estimate. This change is consistent with the S&P forecast for consumer spending on insurance. Estimated mortgage registry tax receipts are $31 million (11.2 percent) lower than in the prior forecast. This change is consistent with S&P's expectation in this forecast that interest rates will stay higher for longer than they assumed in February.

Planning Estimates

Total revenues for FY 2026-27 are now estimated to be $63.907 billion, an increase of $4.252 billion (7.1 percent) from the current forecast for FY 2024-25 revenues. Total tax revenues for FY 2026-27 are estimated to be $61.779 billion, an increase of $4.721 billion (8.3 percent) over FY 2024-25 forecast revenues. Growth of individual income tax accounts for 72 percent of the biennial tax revenue change and sales taxes account for 23 percent of the biennial tax revenue change. Of the major tax types, only the corporate franchise tax shows an anticipated decline in expected revenues from FY 2024-25 to FY 2026-27.

The revenue planning estimates are informed by the S&P baseline forecast, which assumes that U.S. real GDP will increase 1.4 percent in CY 2025, followed by below-trend growth of 1.7 percent in both CY 2026 and CY 2027.

Biennial Comparison: FY 2024-25 vs. FY 2026-27 General Fund Revenues

November 2023 Forecast

($ in millions)	FY 2024-25	FY 2026-27	$ Change	% Change
Individual Income Tax[14]	$30,347	$33,765	$3,419	11.3%
General Sales Tax	15,232	16,312	$1,080	7.1
Corporate Franchise Tax	5,413	5,346	($67)	-1.2
State General Property Tax	1,481	1,491	$10	0.6
Other Tax Revenue	4,585	4,864	$279	6.1
Total Tax Revenues	**$57,058**	**$61,779**	**$4,721**	**8.3%**
Non-Tax Revenues	2,400	1,727	-673	-28.0
Other Resources	197	401	204	103.7
Total Revenues	**$59,655**	**$63,907**	**$4,252**	**7.1%**

The current forecast for FY 2026-27 total revenues is $30 million (0.0 percent) less than the end-of-session estimate. Total tax revenues for the next biennium are forecast to be $105 million (0.2 percent) below the prior estimate. A lower forecast for individual income tax receipts is partially offset by higher forecasts for general sales tax revenues and corporate tax receipts.

Next Biennium: FY 2026-27 General Fund Revenues

Change from End-of-Session

($ in millions)	End-of-Session	November 2023 Forecast	$ Change	% Change
Individual Income Tax	$34,269	$33,765	($504)	-1.5%
General Sales Tax	16,072	16,312	240	1.5
Corporate Franchise Tax	5,201	5,346	145	2.8
State General Property Tax	1,491	1,491	0	0.0
Other Tax Revenue	4,850	4,864	14	0.3
Total Tax Revenues	**$61,883**	**$61,779**	**($105)**	**-0.2%**
Non-Tax Revenues	1,658	1,727	69	4.2
Other Resources	395	401	6	1.5
Total Revenues	**$63,937**	**$63,907**	**($30)**	**0.0%**

[14] Individual income tax totals do not include the estimated revenue impact related to a drafting oversight impacting the standard deduction in Ch. 64 (2023 tax bill) that would result in an estimated $350 million in added revenue each fiscal year if not corrected. It is assumed that the 2024 Legislature will pass legislation to correct this oversight.

Individual Income Tax. Individual income tax revenues for FY 2026-27 are forecast to be $33.765 billion, $3.419 billion (11.3 percent) more than the current forecast for FY 2024-25. This accounts for 72 percent of the total tax revenue biennial change.

Regarding forecast change, lower forecast gross income tax receipts—driven by a lower base of income tax liability for TY 2025 and TY 2026 and slower growing income—and a higher refund forecast bring the net income tax forecast for FY 2026-27 $504 million (1.5 percent) lower than the end-of-session estimate. Indexing of the income tax brackets reduces revenue by $130 million. We now assume that income included in AGI will grow 4.2 percent in TY 2025 and 4.0 percent in TY 2026, compared to 4.7 and 4.5 percent, respectively, in the prior estimate. Wage income, interest income, and taxable IRA distributions all are forecast to grow more slowly in this forecast than in February. In addition, we have lowered our forecast for payments by fiduciaries (estates and trusts) and by partnerships and S Corporations (net of PTE credits). A technical change to the cost of the 2023 tax bill reduces revenue by about $110 million, and a higher forecast of the renter's credit reduces revenue by about $45 million.

General Sales Tax. General sales tax receipts for FY 2026-27 are expected to exceed FY 2024-25 levels by $1.081 billion (7.1 percent), accounting for 23 percent of the total tax revenue biennial change. Changes from the 2023 Legislative Session contribute -$15 million to the FY26-27 biennium. Growth in forecast gross sales tax receipts and an increase in refunds between FY 2024-25 and FY 2026-27 both contribute to the biennial change.

Gross sales tax receipts in FY 2026-27 are forecast to exceed FY 2024-25 levels by $1.080 billion (7.1 percent). The Minnesota synthetic sales tax base, a proxy for the actual tax base, is expected to grow 3.5 percent in FY 2024 and 3.1 percent in FY2025 before accelerating to 3.4 percent in FY 2026 and 3.6 percent in FY 2027. 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, higher expected refunds partially offset higher expected gross sales tax receipts to bring the net sales tax forecast $240 million higher than the end-of-session estimate. The forecast change for gross receipts is due to both a higher base of gross sales tax receipts from the higher forecast for FY 2024-25 and higher growth in taxable sales. The synthetic sales tax base is expected to grow a cumulative 6.6 percentage points faster between FY 2022 and FY 2027 than we assumed in the prior projection.

Corporate Franchise Tax. The corporate franchise tax is forecast to generate $5.346 billion in FY 2026-27, $67 million (1.2 percent) less than the current FY 2024-25 forecast. Changes from the 2023 legislative session contribute $494 million to the FY26-27 biennium.

The biennial decline from FY 2024-25 to FY2026-27 is the result of an anticipated slowdown in corporate profits. The forecast change is due to a higher base of gross corporate tax receipts and a higher forecast for corporate profits. The previous corporate forecast estimate was based on IHS' February forecast, which assumed a year over year growth of 2.0 percent in corporate profits in CY 2026 and 3.4 percent in CY 2027. In this forecast we use IHS' November 2023 baseline outlook which assumes a decline of -0.2 percent in CY 2026, followed by 1.3 percent increase in CY 2027.

Other Tax Revenue, Non-Tax Revenue, Other Resources. Other tax revenue is now forecast to grow $279 million (6.1 percent) in FY 2026-27 over FY 2024-25.

EXPENDITURE OUTLOOK

Current Biennium

Total state general fund expenditures for the FY 2024-25 biennium are projected to be $70.516 billion, $998 million (1.4 percent) higher than previously forecast. Spending is higher than end-of-session estimates across all major areas, with the exception of the cost of debt service on state capital projects.

Current Biennium: FY 2024-25 General Fund Expenditures
End-of-Session vs. November 2023 Forecast Comparison

($ in millions)	End-of-Session Forecast	November 2023 Forecast	$ Change	% Change
E-12 Education	$24,259	$24,464	$205	0.8%
Property Tax Aids & Credits	5,315	5,478	163	3.1
Health & Human Services	20,623	21,118	495	2.4
Debt Service	1,180	1,141	(39)	(3.3)
All Other	18,141	18,315	174	1.0
Total Expenditures	**$69,518**	**$70,516**	**$998**	**1.4%**

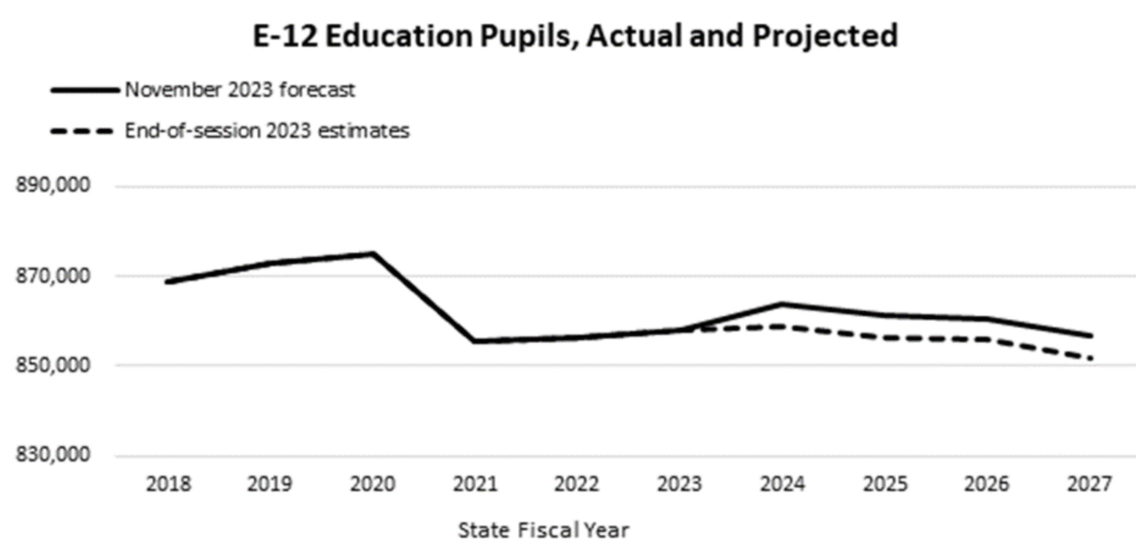
E-12 Education. Education finance is the largest category of state general fund spending. It consists of aid programs for general education, special education, early childhood and family education, charter schools, nonpublic pupil programs, and integration programs. E-12 aids can be divided into two 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.

E-12 expenditures are forecast to reach $24.464 billion in FY 2024-25, $205 million (0.8 percent) above end-of-session estimates. Of this, $110 million is due to higher-than-projected spending in general education, and $95 million is in categorical aids.

General Fund Education Expenditures
Change From End-of-Session Estimates

	FY 2024-25		FY 2026-27	
($ in millions)	**$ Change**	**% Change**	**$ Change**	**% Change**
Basic Formula	$71	0.5%	$109	0.8%
Compensatory	29	1.8	(75)	(4.2)
Other General Education	10	0.8	38	2.7
General Education Subtotal	**$110**	**0.7%**	**$71**	**0.4%**
Special Education	19	0.4	(38)	(0.7)
Nutrition Programs	81	18.4	95	20.0
Other Categoricals	(5)	(0.2)	(17)	(0.7)
Total E-12 General Fund Forecast Change	**$205**	**0.8%**	**$112**	**0.4%**

Greater-than-expected student enrollment drives the increased spending forecast for the general education basic formula and certain other education aids. Student enrollment is measured by pupil counts, the primary factor determining E-12 education spending in Minnesota. Pupils are projected by the Minnesota Department of Education (MDE) using near-term growth trends based on historic data and other factors. Pupil projections are higher than end-of-session estimates by approximately 5,000 (0.6 percent) students in each year of the forecast horizon. The primary factor is a revised migration assumption. In recent forecasts, the projection model has included an assumption to account for migration at levels greater than historic trends would predict. Preliminary data received from school districts for this school year indicates actual levels of migration are higher than previously assumed, resulting in a higher pupil forecast. Postsecondary enrollment options (PSEO) and early childhood special education (ECSE) pupil projections are also higher based on recent participation data.



E-12 education pupil projections are higher than end-of-session estimates across the forecast horizon.

Compensatory spending, a component of general education, is $29 million (1.8 percent) above end-of-session estimates due to a larger-than-anticipated impact from a hold harmless provision enacted in the 2023 legislative session.[15]

Categorical aids are projected to be $95 million above previous estimates. Nutrition program spending is up $81 million (18.4 percent) over end-of-session estimates. Recent legislation[16] established the free school meals program effective in FY 2024, which represented a significant expansion of state aid for the school lunch and school breakfast programs. State aid amounts are now linked to U.S. Department of Agriculture (USDA) reimbursement rates for school nutrition programs, which are greater than previously estimated in all years of the forecast period. Additionally, early data from this school year indicate that participation in the program is above the estimates assumed at the time of enactment. In addition, special education spending is up $19 million (0.4 percent) from end-of-session estimates. This is primarily due to higher projected spending on special education transportation, where recent costs have come in higher than previously anticipated.

Health and Human Services. Health and Human Services (HHS) is approximately 30 percent of total state general fund spending. Most of these expenditures (76 percent) are forecast programs including Medical Assistance (MA), the Behavorial 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 means-tested entitlement program for low-income individuals and families, persons with physical or developmental disabilities, and low-income older adults. MA costs are shared between the state and federal government. Only Minnesota's share of MA expenditures is included in the general fund forecast. In the FY 2024-25 biennium, anticipated HHS general fund spending is $21.118 billion, up $495 million (2.3 percent) from end-of-session estimates.

[15] Laws 2023, Chapter 18, Section 3
[16] Laws 2023, Chapter 18

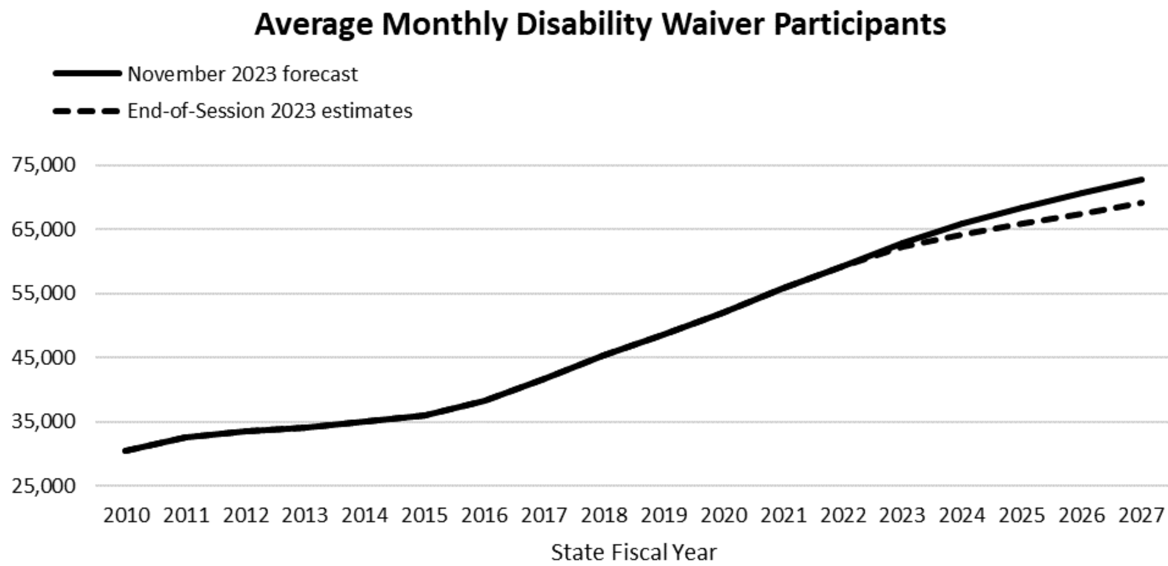
General Fund Health and Human Services Expenditures
Change From End-of-Session Estimates

($ in millions)	FY 2024-25 $ Change	FY 2024-25 % Change	FY 2026-27 $ Change	FY 2026-27 % Change
Long Term Care Waiver Enrollment and Average Payments	355	5.8	513	7.2
Federal Compliance for Public Health Emergency Unwind	182	4.6	-	-
Basic Care for Families with Children	(129)	(1.5)	(119)	(1.2)
Decrease in Statutory FMAP	39	0.2	124	0.7
All Other MA	66	0.4	195	0.4
Total MA General Fund Change	**512**	**3.2**	**582**	**3.2**
Child Care Assistance Program	(42)	(22.9)	(34)	(7.8)
Minnesota Family Investment Program	1	0.5	13	6.2
Behavorial Health Fund	(10)	(5.1)	(10)	(4.5)
All Other HHS Changes	35	0.1	13	0.1
Total HHS General Fund Change	**$495**	**2.4%**	**$564**	**2.5%**

Medical Assistance Program

MA accounts for $512 million (3.2 percent) of increased expenditures from end-of-session estimates. The main drivers of higher spending are from trends in long-term care programs for people with disabilities, the implementation of federal compliance requirements related to the public health emergency unwinding, and a decrease in federal MA funding. Lower-than-expected enrollment of families with children partially offsets these increases.

The largest change in MA is an increase in spending for long-term care (LTC) waiver services. Long-term care waivers provide home and community-based services for individuals who need the level of care provided in a nursing home or other long-term care facility but choose to receive these supports in their homes and communities. Of the total increase, $168 million is due to more people using these services and $186 million is due to increases in the average cost of services for participants. The overall increase of $355 million is a 5.8 percent increase from end-of-session estimates. These changes are based on recent enrollment and cost trends in LTC waiver programs.



Average monthly disability waiver participants are higher than end-of-session estimates across the forecast horizon.

The Community Access for Disability Inclusion (CADI) waiver drives a significant portion of the expenditure growth for LTC waiver programs. The CADI program offers funding for home and community-based services and serves MA-eligible individuals younger than 65 years old who have a certified disability. Total spending on the CADI waiver is up $244 million due to both higher enrollment (5.2 percent) and higher average costs per enrollee (5.4 percent). Average costs per CADI recipient tend to be influenced by the type of services received, frequency of use, and service rate. While the CADI caseload is growing more slowly than in recent years, the rate is still higher than previously forecast. Enrollment and average payments in the Developmental Disabilities (DD) waiver are also higher than previously estimated, increasing expenditures by $102 million (4.4 percent) from end-of-session estimates.

FY 2024-25 MA spending is also higher due to the temporary extension of coverage for some households, resulting in a $182 million increase in basic care health care services, primarily for families with children. This increase is part of the ongoing eligibility redetermination process following the close of the COVID-19 public health emergency (PHE). During the PHE, Minnesota paused eligibility redeterminations to ensure that families would maintain their coverage during the unprecedented disruptions caused by the COVID-19 pandemic. These eligibility redeterminations have resumed. However, the Department of Human Services implemented several temporary extensions of coverage for households to ensure that their MA coverage was appropriately renewed and in compliance with federal requirements. These extensions result in enrollment that is temporarily higher than assumed in previous forecasts.

Another driver of the higher MA forecast is a change in the share of costs covered by the federal government. The state expects a lower federal share of funding for MA, which will increase the state portion of MA spending by $39 million (0.2 percent) in the FY 2024-25 biennium. This decrease is due to a decrease to the state's baseline Federal Medical Assistance Percentage (FMAP). The federal share is primarily determined by how Minnesota's average per capita income compares to the national average per capita income. Since Minnesota's per capita income growth has exceeded the growth in national per capita incomes, the state's FMAP will decrease from 51.49 percent to 51.16 percent starting October 2024.

These increases are partially offset by a net $128 million decline in basic health care spending for households with children. This decline is the result of additional enrollment data from the close of the COVID-19 PHE. This data revealed lower-than-expected enrollment, which decreased forecast FY 2024-25 expenditures by $216 million. This decline is partially offset by an increase in average payments for these enrollees, which increased forecast FY 2024-25 expenditures by $87 million. The increase in average payments is due to a combination of managed care rates that grew more than projected, and fee-for-service payments that grew slightly less than projected.

Other Health and Human Services Expenditures

Child Care Assistance Program (CCAP) spending is $42 million (22.9 percent) lower than end-of session estimates due to both lower caseloads and average payments. The decrease in CCAP spending is driven by several factors including higher incomes and lower unemployment, resulting in fewer qualifying families. Other drivers include changes in childcare consumer behavior that began during the COVID-19 pandemic and have to a lesser degree persisted.

The state share of expenditures in the Behavioral Health Fund is down $10 million (5.1 percent) from end-of-session estimates. This change is primarily the result of increased federal funding for residential and medically-assisted substance use disorder treatments. Additionally, the forecast for managed care residential treatment is $3 million lower, reflecting actual program experience.

Property Tax, Aids, and Credits. Property tax aids and credits are approximately 8 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, such as property tax refunds for homeowners and renters, are also included in this category because they provide targeted property tax relief.

FY 2024-25 spending for property tax aids and credits is forecast to be $5.478 billion, $163 million (3.1 percent) higher than end-of-session estimates. Homestead and renters property tax refunds account for the most significant part of this forecast change. Homestead credits are forecast to increase $94 million (6.2 percent), primarily due to higher actual refund counts and higher average refund amounts in FY 2024. The increase in both the count and average size of refunds are primarily due to homestead market values growing faster than anticipated. The FY 2024 increase is expected to continue into FY 2025. Higher-than-forecast local government property tax levies provide additional upward pressure on homestead credit refunds in FY 2025. Similarly, the $34 million (6.5 percent) increase in renters property tax refunds can be attributed to higher refund counts and higher refund amounts in FY 2024, which results in a higher base in FY 2025. Special property tax refunds, which are for homeowners experiencing significant increases in net property taxes, are forecast to increase $12 million (25.3 percent) from end-of-session estimates due to higher actual counts in FY 2024. The increase in higher actual counts is due to faster growth in home values and property tax levies than previously forecast.

Debt Service and All Other. Debt service expenditures for the current biennium are forecast to be $1.141 billion, which is a decrease of $39 million (3.3 percent) from previous estimates. The reduction is primarily due to a smaller-than-expected bond sale in 2023 due to slower-than-expected spending on capital projects. Also contributing to the reduction were some savings realized from an August 2023 bond refunding. These reductions were partially offset by smaller investment returns than previously expected and by higher forecast interest rates which lead to lower bond premiums and thus increase the estimated size of future bond sales and forecast debt service payments.

MMB makes assumptions about the size of future capital budgets in each forecast. The assumptions have historically been based on the average size of general obligation (GO) bonds authorized in capital budget bills over the past ten years, differentiating between the larger even-year capital budgets and smaller odd-year capital budgets. This forecast updates the assumptions for future capital budgets based on last year's capital investment bill, resulting in the following new 10-year averages: $1.010 billion in even-year legislative sessions and $165 million in odd-year sessions. However, to remain in compliance with the State's debt capacity guidelines,[17] an $830 million capital budget is assumed for the next legislative session. This is a slight reduction from previous forecasts, which assumed an $880 million capital budget. As reported in the November 2023 Debt Capacity Forecast, the State measures debt under three capital investment guidelines that together demonstrate a commitment to long-term capital and financial planning. Two guidelines measure outstanding debt against personal income, and the third guideline measures how quickly the state is scheduled to repay general obligation debt. In order to remain in compliance with the third debt guideline regarding the schedule of debt retirement, the Debt Capacity Report shows that $830 million is the maximum amount of general obligation debt the legislature could authorize in 2024 while maintaining compliance with that debt guideline. This is a one-time adjustment and the forecast assumes a return to the normal 10-year averages starting with the 2025 legislative session.

All other bill area spending is forecast to total $18.315 billion, $174 million (1.0 percent) higher than end-of-session estimates. Carryforward of unspent appropriations in FY 2023 increase spending in the current biennium by $190 million. This increase in carryforward is partially offset by $24 million of lower estimated spending on the relocation and lease purchase agreement for the State Office Building due to updated tenant relocation planning assumptions and actual debt service payments being lower in the first year compared to prior estimates.

Biennial Budgetary Growth

When the FY 2024-25 biennial budget was enacted in May 2023, spending and revenue changes were based on the February 2023 *Budget and Economic Forecast* which showed a large budgetary balance for the FY 2024-25 biennium but projected on-going resources to be be smaller in the FY 2026-27 biennium. Given this fiscal structure, the enacted budget planned appropriations so that a large portion, approximately $9 billion, of the FY 2024-25 new spending was one-time while on-going appropriations totaled approximately $5 billion per biennium. Due to the one-time vs. on-going structure of the enacted budget, spending in the FY 2026-27 planning estimates was projected to be $4.3 billion lower than the current biennium when the budget was enacted.

[17] *November 2023 Debt Capacity Forecast*, Minnesota Management and Budget

Budget Horizon: FY 2022-27 General Fund Spending
Biennial Comparison; November 2023 Forecast

($ in millions)	FY 2022-23	FY 2024-25	FY 2026-27	Annual % Change
E-12 Education	20,164	24,464	25,479	4.8
Property Tax Aids	4,622	5,478	4,650	0.1
Health & Human Services	15,137	21,118	22,861	8.6
Debt Service	1,140	1,141	1,340	3.3
All Other	10,867	18,315	11,006	0.3
Estimated Inflation	-	-	880	n/a
Total Expenditures	**$51,930**	**$70,516**	**$66,216**	**5.0%**

The cost of the new or expanded programs enacted by 2023 legislature is not tracked in this forecast at the individual proposal level; however, the impact of those increases is included in forecast spending estimates across the budget horizon. Forecast spending increases in the current biennium are projected to occur in the next biennium at similar levels. As a result, projected spending in the FY 2026-27 planning estimates remains $4.3 billion below the current biennium.

Planning Estimates

General fund spending in FY 2026-27 is expected to be $66.216 billion, $982 million (1.5 percent) higher than end-of-session estimates. This change is primarily the result of higher spending in health and human services, due to an increase in MA spending on long-term care waivers. E-12 education, property tax aids and credits, the inclusion of a new forecast appropriation for Metro Mobility costs, and higher cost estimates for discretionary inflation add to this increase. The overall spending increase is slightly offset by a reduction in debt service costs.

Planning Estimates: FY 2026-27 General Fund Expenditures
End-of-Session vs. November 2023 Forecast Comparison

($ in millions)	End-of-Session	November 2023 Forecast	$ Change	% Change
E-12 Education	$25,367	$25,479	$112	0.4%
Property Tax Aids & Credits	4,505	4,650	145	3.2
Health & Human Services	22,297	22,861	564	2.5
Debt Service	1,353	1,340	(13)	(1.0)
All Other	10,895	11,007	112	1.0
Inflation	817	880	63	7.7
Total Expenditures	**$65,234**	**66,216**	**$982**	**1.5%**

E-12 Education. Spending on E-12 education is expected to reach $25.479 billion, a $112 million (0.4 percent) increase from end-of-session estimates. The general education basic formula is up $109 million (0.8 percent) over end-of-session estimates. About 60 percent of this increase is due to the increased pupil projections discussed above; the other 40 percent is due an increase in the projected basic formula allowance for FY 2026 and FY 2027. Recent legislation linked the basic formula allowance for FY 2026 and later to an inflationary measure, with a minimum increase of

2.0 percent and a maximum increase of 3.0 percent. [18] At the end of session, the formula allowance was anticipated to increase by 2.00 percent in FY 2026 and another 2.17 percent in FY 2027, based on inflation estimates at the time. The formula allowance is now anticipated to increase by 2.40 percent in FY 2026 and another 2.00 percent in FY 2027 resulting from updates in the inflation forecast.

Nutrition program spending in FY 2026-27 is up $95 million (20.0 percent) from end-of-session estimates due to greater than anticipated reimbursement rates and participation. Compensatory spending is down $75 million (4.2 percent). Compensatory revenue is calculated at a school site basis and is dependent on the number and percentage of students at each site that are eligible for free or reduced-price meals (using federal definitions) via direct certification. Recent legislation adjusted the formula for compensatory revenue for FY 2026 and later and established a statutory minimum amount of compensatory revenue for FY 2026 and FY 2027.[19] An updated analysis indicates compensatory revenue generated under the formula will trigger the statutory minimums. As a result, this forecast assumes spending will be at those statutory minimum amounts.

Special education spending is down $38 million (0.7 percent) in FY 2026-27 compared to end-of-session estimates. The increase in special education transportation spending in the current biennium is expected to continue. Offsetting this is a reduction in projected spending due to a revised assumption about how an unemployment insurance (UI) law change from the 2023 session will impact special education spending.

Health & Human Services. In the FY 2026-27 biennium, Health and Human Services spending is expected to reach $22.861 billion, an increase of $564 million (2.5 percent) from end-of-session estimates. The forecast increase is explained by increases in projected MA spending, which is up $582 million (3.2 percent) and partially offset by other, smaller forecast program changes.

The change in MA is primarily driven by higher spending in long-term care waivers. Long term care waiver increases in the current biennium are expected to continue, increasing spending by approximately $513 million (7.2 percent) in FY 2026-27. This increase is driven by both higher caseloads ($320 million) and average payments ($193 million) in long-term care waiver programs.

The lower federal share for MA is forecast to continue into the FY 2026-27 biennium. This change increases general fund spending by $124 million (0.7 percent) from end-of-session estimates.

Growth in the MA program is partially offset by changes in other forecast programs. CCAP spending is down $34 million (7.8 percent) from end-of-session estimates due to lower caseloads and average payments. The factors contributing to decreased behavioral health fund spending in the current biennium continue into the FY 2026-27 biennium. Total expected spending from the fund is forecast to be $10 million (4.6 percent) lower than end-of-session estimates.

These increases are partially offset by a $119 million (1.2 percent) decrease in basic health services for families with children. This decrease is driven lower baseline enrollment ($274 million) that is partially offset by higher average costs ($155 million).

[18] Laws 2023, Chapter 55, Article 1, Section 10
[19] Laws 2023, Chapter 55, Article 1, Sections 13-16

Property Tax, Aids, and Credits. Property tax aids and credits expenditures are projected to total $4.650 billion in FY 2026-27, an increase of $146 million (3.2 percent) compared to end-of-session estimates. Homestead credit refunds are $81 million (5.6 percent) higher than previously forecast due to a projected continuation of the increase in the FY 2024-25 biennium. The rate of increase is moderated by lower homestead property tax growth. School building bond agricultural credits are $57 million (27.0 percent) higher than previously forecast, accounting for the second biggest change in this category. This increase is due to a combination of higher agricultural land values and higher school debt service levies.

Debt Service and All Other. Debt service expenditures are forecast to be $1.340 billion in the next biennium, which is $13 million (1.0 percent) less than previous estimates. This estimate factors in higher interest rate assumptions on future bond sales compared to the last forecast. Higher bond interest rates result in lower bond premiums, which together increase the estimated size of future bond sales and forecast debt service payments. However, the overall reduction in debt service expenditures was due to higher estimated short-term investment earnings on cash balances in the bond proceeds and debt service funds.

All other areas of the state budget are projected to total $11.007 billion in the FY 2026-27 biennium, $112 million (1.0 percent) higher than end-of-session estimates. This increase is driven by transportation spending, which is $127 million (36.6 percent) higher. Metropolitan Council's special transportation service program, more commonly known as Metro Mobility, accounts for $123 million of the increase as it is scheduled to become a forecast program starting in the FY 2026-27 biennium. As a result of a provision enacted in 2021, the state is required to pay from the general fund the annual net costs to Metropolitan Council to operate Metro Mobility beginning in FY 2026. [20] These costs include the amount necessary to maintain service levels and the general existing condition of the fleet, including replacement of the bus fleet. The law also requires that the state provide an amount necessary to match the difference between actual costs from the prior year and forecasted costs, less funding from nonstate sources. These costs were not reflected in previous forecasts.

State aid for the Destination Medical Center is forecast to be $17 million (22.3 percent) lower than previous estimates in the FY 2026-27 biennium due to lower estimated local contributions than previously assumed.

[20] Laws 2021, 1st Special Session, Chapter 5, Article 4, Section 114

APPENDIX

ECONOMIC DATA

REVENUE EXPERIENCE

GENERAL FUND BALANCE SHEETS

OTHER DATA

Minnesota Economic Forecast Summary

Forecast 2023 to 2027 - Calendar Years

	2022	2023	2024	2025	2026	2027
Current Dollar Income (Billions of Dollars)						
Personal Income	393.569	411.916	435.008	459.923	482.343	504.135
%Chg	3.1	4.7	5.6	5.7	4.9	4.5
Wage & Salary Disbursements	205.241	215.088	225.498	234.968	245.165	255.950
%Chg	6.8	4.8	4.8	4.2	4.3	4.4
Non-Wage Personal Income	188.328	196.828	209.513	224.955	237.180	248.178
%Chg	-0.7	4.5	6.4	7.4	5.4	4.6
Supplements to Wages & Salaries	43.553	46.120	49.822	52.312	54.786	57.248
%Chg	4.3	5.9	8.0	5.0	4.7	4.5
Dividends, Interest, & Rent Income	78.843	83.792	90.586	99.107	105.223	109.875
%Chg	9.9	6.3	8.1	9.4	6.2	4.4
Farm Proprietors Income	4.922	3.915	4.065	5.411	5.670	5.313
%Chg	32.2	-20.5	3.8	33.1	4.8	-6.3
Non-Farm Proprietors Income	27.424	28.661	29.633	30.317	31.072	32.190
%Chg	6.2	4.5	3.4	2.3	2.5	3.6
Personal Current Transfer Receipts	67.847	70.542	73.321	77.092	81.253	85.814
%Chg	-13.4	4.0	3.9	5.1	5.4	5.6
Less: Contrib. for Gov. Social Ins.	32.429	34.370	36.071	37.442	38.978	40.419
%Chg	8.1	6.0	4.9	3.8	4.1	3.7
Real Income (Billions of 2012 Dollars)						
Real Personal Income	339.150	341.857	352.340	365.105	374.980	384.225
%Chg	-3.2	0.8	3.1	3.6	2.7	2.5
Real Wage & Salary Disbursements	176.859	178.503	182.650	186.528	190.593	195.075
%Chg	0.4	0.9	2.3	2.1	2.2	2.4
Employment (Thousands)						
Employment - Total Non-Farm Payrolls	2,973.8	3,035.0	3,052.1	3,051.2	3,056.5	3,063.5
%Chg	2.8	2.1	0.6	0.0	0.2	0.2
Construction	132.5	136.8	138.3	138.7	139.8	141.9
%Chg	1.7	3.2	1.1	0.3	0.8	1.5
Manufacturing	323.7	324.8	324.7	326.9	330.9	334.5
%Chg	3.4	0.3	0.0	0.7	1.2	1.1
Private Service-Providing	2,062.1	2,105.9	2,112.2	2,104.0	2,102.0	2,101.0
%Chg	3.1	2.1	0.3	-0.4	-0.1	0.0
Government	449.0	461.0	470.4	475.2	477.6	479.9
%Chg	1.1	2.7	2.1	1.0	0.5	0.5
Minnesota Civilian Labor Force	3,077.4	3,104.4	3,136.6	3,150.0	3,160.5	3,168.4
Unemployment Rate (%)	2.7	3.0	3.4	3.6	3.5	3.3
Demographic Indicators (Millions)						
Total Population	5.718	5.732	5.751	5.773	5.799	5.825
%Chg	0.1	0.2	0.3	0.4	0.4	0.4
Total Population Age 16 & Over	4.581	4.604	4.630	4.658	4.688	4.717
%Chg	0.4	0.5	0.6	0.6	0.6	0.6
Total Population Age 65 & Over	0.100	0.103	0.107	0.109	0.112	0.114
%Chg	3.1	3.3	3.0	2.7	2.3	2.0
Total Households	2.287	2.306	2.327	2.344	2.361	2.380
%Chg	1.0	0.8	0.9	0.7	0.7	0.8
Housing Indicators (Thousands)						
Total Housing Permits (Authorized)	32.446	23.408	22.845	25.101	25.827	26.273
%Chg	-13.8	-27.9	-2.4	9.9	2.9	1.7
Single-Family	13.747	10.213	12.025	12.624	13.172	13.647
%Chg	-25.5	-25.7	17.7	5.0	4.3	3.6

Source: Minnesota Management & Budget (MMB) November 2023 Forecast

U.S. Economic Forecast Summary

Forecast 2023 to 2027, Calendar Years

	2022	2023	2024	2025	2026	2027
Real National Income Accounts (Billions of 2012 Dollars)						
Real Gross Domestic Product (GDP)	21,822.0	22,345.6	22,655.5	22,968.4	23,358.1	23,745.9
%Chg	1.9	2.4	1.4	1.4	1.7	1.7
Real Consumption	15,090.8	15,434.5	15,723.7	15,957.5	16,241.3	16,531.8
%Chg	2.5	2.3	1.9	1.5	1.8	1.8
Real Nonresidential Fixed Investment	3,131.6	3,262.2	3,308.0	3,350.5	3,407.5	3,468.7
%Chg	5.2	4.2	1.4	1.3	1.7	1.8
Real Residential Investment	822.6	730.9	718.0	743.3	771.3	785.2
%Chg	-9.0	-11.1	-1.8	3.5	3.8	1.8
Real Personal Income	18,821.2	19,069.2	19,517.6	20,099.1	20,574.2	21,039.7
%Chg	-4.2	1.3	2.4	3.0	2.4	2.3
Current Dollar National Income Accounts (Billions of Dollars)						
Gross Domestic Product (GDP)	25,744.1	27,350.4	28,472.8	29,514.5	30,636.7	31,790.8
%Chg	9.1	6.2	4.1	3.7	3.8	3.8
Personal Income	21,840.8	22,977.0	24,096.6	25,318.7	26,465.0	27,605.6
%Chg	2.0	5.2	4.9	5.1	4.5	4.3
Wage & Salary Disbursements	11,116.0	11,813.4	12,327.2	12,786.8	13,300.1	13,847.3
%Chg	7.8	6.3	4.3	3.7	4.0	4.1
Non-Wage Personal Income	10,724.7	11,163.6	11,769.5	12,531.9	13,165.0	13,758.3
%Chg	-3.3	4.1	5.4	6.5	5.1	4.5
Price and Wage Indexes						
U.S. GDP Deflator (2005=1.0)	117.995	122.403	125.675	128.497	131.158	133.876
%Chg	7.1	3.7	2.7	2.2	2.1	2.1
U.S. Consumer Price Index (1982-84=1.0)	2.926	3.047	3.128	3.190	3.270	3.342
%Chg	8.0	4.1	2.7	2.0	2.5	2.2
Employment Cost Index (Dec 2005=1.0)	1.529	1.597	1.659	1.712	1.769	1.824
%Chg	5.1	4.5	3.9	3.2	3.3	3.1
Employment (Thousands)						
Employment - Total Non-Farm Payrolls	152.6	156.2	157.2	157.3	157.9	158.6
%Chg	4.3	2.3	0.7	0.0	0.4	0.5
Construction	7.7	8.0	8.1	8.2	8.3	8.4
%Chg	4.2	2.8	1.6	0.8	1.8	1.5
Manufacturing	12.8	13.0	12.9	12.3	12.1	11.9
%Chg	3.8	1.2	-0.8	-4.2	-2.0	-1.4
Private Service-Providing	109.3	111.9	112.5	112.9	113.5	114.1
%Chg	5.1	2.4	0.6	0.4	0.5	0.6
Government	22.2	22.7	23.1	23.2	23.3	23.4
%Chg	0.9	2.4	1.6	0.6	0.5	0.4
U.S. Civilian Labor Force	164.3	167.1	168.6	169.4	170.0	170.6
Employment - Household Survey	158.3	161.0	161.4	161.5	162.2	162.9
Unemployment Rate (%)	3.6	3.6	4.3	4.7	4.6	4.5
Other Key Measures						
Non-Farm Productivity (index, 2005=1.0)	1.142	1.156	1.170	1.191	1.210	1.228
%Chg	-1.9	1.2	1.2	1.7	1.6	1.5
Total Ind. Production (index, 2007=100)	102.608	102.844	102.516	102.869	104.206	105.509
%Chg	3.4	0.2	-0.3	0.3	1.3	1.3
Manhours in Private Non-Farm Estab.Billions of Hours	221.1	223.7	223.6	222.9	223.4	224.3
%Chg	4.0	1.2	0.0	-0.3	0.2	0.4
Average Weekly Hours	33.0	32.8	32.7	32.6	32.5	32.5
Manufacturing Workweek	41.1	40.7	40.5	40.5	40.5	40.5

Source: SPGMI; November 2023 Baseline

Forecast Comparison: Minnesota & U.S.

Forecast 2023 to 2027, Calendar Years

	2021	2022	2023	2024	2025	2026	2027
Personal Income (Billions of Current Dollars)							
Minnesota							
November 2023	381.8	393.6	411.9	435.0	459.9	482.3	504.1
%Chg	9.1	3.1	4.7	5.6	5.7	4.9	4.5
February 2023	378.3	386.8	401.8	422.3	442.7	463.3	484.0
%Chg	6.5	2.3	3.9	5.1	4.8	4.7	4.5
U.S.							
November 2023	21,408	21,841	22,977	24,097	25,319	26,465	27,606
%Chg	9.1	2.0	5.2	4.9	5.1	4.5	4.3
February 2023	21,295	21,733	22,644	23,640	24,755	25,890	27,070
%Chg	7.4	2.1	4.2	4.4	4.7	4.6	4.6
Wage and Salary Disbursements (Billions of Current Dollars)							
Minnesota							
November 2023	192.1	205.2	215.1	225.5	235.0	245.2	256.0
%Chg	7.0	6.8	4.8	4.8	4.2	4.3	4.4
February 2023	191.7	205.6	215.3	225.5	236.1	246.9	257.4
%Chg	6.9	7.2	4.7	4.8	4.7	4.6	4.3
U.S.							
November 2023	10,313	11,116	11,813	12,327	12,787	13,300	13,847
%Chg	9.0	7.8	6.3	4.3	3.7	4.0	4.1
February 2023	10,290	11,153	11,725	12,176	12,726	13,294	13,870
%Chg	8.8	8.4	5.1	3.8	4.5	4.5	4.3
Total Non-Farm Payroll Employment (Thousands)							
Minnesota							
November 2023	2,894	2,974	3,035	3,052	3,051	3,056	3,064
%Chg	2.4	2.8	2.1	0.6	0.0	0.2	0.2
February 2023	2,853	2,932	2,952	2,966	2,981	2,987	2,991
%Chg	2.4	2.8	0.7	0.5	0.5	0.2	0.1
U.S.							
November 2023	146,281	152,625	156,190	157,214	157,286	157,878	158,628
%Chg	2.9	4.3	2.3	0.7	0.0	0.4	0.5
February 2023	146,281	152,627	154,574	153,794	154,120	154,663	155,130
%Chg	2.9	4.3	1.3	-0.5	0.2	0.4	0.3
Average Annual Non-Farm Wage (Current Dollars)							
Minnesota							
November 2023	66,385	69,017	70,870	73,884	77,009	80,212	83,548
%Chg	4.5	4.0	2.7	4.3	4.2	4.2	4.2
February 2023	67,208	70,109	72,926	76,035	79,206	82,633	86,038
%Chg	4.4	4.3	4.0	4.3	4.2	4.3	4.1
U.S.							
November 2023	70,499	72,832	75,635	78,410	81,296	84,243	87,294
%Chg	5.9	3.3	3.8	3.7	3.7	3.6	3.6
February 2023	70,345	73,076	75,853	79,171	82,572	85,955	89,407
%Chg	5.7	3.9	3.8	4.4	4.3	4.1	4.0

Source: SPGMI, MMB

Alternative Forecast Comparison

Calendar Years

	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	2023	2024	2025	2026
Real Gross Domestic Product (GDP), Percent Change, Seasonally Adjusted at Annual Rate										
Blue Chip Consensus (02-23)	1.7	2.4	2.9	2.5	2.0	1.6	2.4	1.2	**	**
S&P Global (02-23)	2.2	2.1	4.9	1.1	0.9	0.1	2.4	1.4	1.4	1.7
Moody's Analytics (02-23)	2.2	2.1	4.9	0.8	1.1	1.2	2.4	1.7	**	**
Wells Fargo (02-23)	2.2	2.1	4.9	0.7	0.9	-0.3	2.4	0.8	1.4	**
CBO Outlook (02-23)	5.4	3.6	3.2	3.1	3.5	3.7	1.5	1.0	2.2	**
Consumer Price Index (CPI), Percent Change, Seasonally Adjusted at Annual Rate (except where noted)										
Blue Chip Consensus (02-23) *	5.8	4.1	3.6	3.3	3.0	2.9	4.1	2.7	**	**
S&P Global (02-23)	3.8	2.7	3.6	2.8	1.9	2.8	4.1	2.7	2.0	2.5
Moody's Analytics (02-23)	3.8	2.7	3.6	3.2	2.7	2.6	4.2	2.8	**	**
Wells Fargo (02-23) *	5.8	4.1	3.6	3.4	3.1	2.7	4.2	2.5	2.4	**
CBO Outlook (02-23)	3.8	2.8	3.2	3.3	3.0	2.5	4.2	2.9	2.3	**

* Year-over-Year Percent Change

**Not Available

IHS Economics Baseline Forecast Comparison

Calendar Years

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Real Gross Domestic Product (GDP), Annual Percent Change										
April 2020	2.9	2.3	-5.4	6.3	4.0	1.6	-	-		
November 2020	3.0	2.2	-3.6	3.1	2.5	2.5	2.9	3.0		
February 2021	3.0	2.2	-3.5	5.7	4.1	2.3	2.6	2.6		
November 2021	2.9	2.3	-3.4	5.5	4.3	2.9	2.7	2.6		
February 2022	2.9	2.3	-3.4	5.7	3.7	2.7	2.6	2.5		
November 2022	2.9	2.3	-2.8	5.9	1.8	-0.2	1.3	1.8	1.9	1.8
February 2023	2.9	2.3	-2.8	5.9	2.1	0.7	1.6	2.0	1.8	1.6
November 2023	3.0	2.5	-2.2	5.8	1.9	2.4	1.4	1.4	1.7	1.7
Consumer Price Index (CPI), Annual Percent Change										
April 2020	2.4	1.8	0.7	2.1	2.7	2.7	-	-		
November 2020	2.4	1.8	1.3	2.3	2.6	2.2	2.1	2.2		
February 2021	2.4	1.8	1.3	2.1	2.1	2.0	2.1	2.2		
November 2021	2.4	1.8	1.2	4.5	3.3	2.1	2.2	2.2		
February 2022	2.4	1.8	1.3	4.7	4.5	1.9	2.1	2.1		
November 2022	2.4	1.8	1.2	4.7	8.1	4.3	2.7	2.3	2.2	2.2
February 2023	2.4	1.8	1.3	4.7	8.0	4.0	2.3	2.2	2.1	2.2
November 2023	2.4	1.8	1.3	4.7	8.0	4.1	2.7	2.0	2.5	2.2

Source: S&P Global

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								
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
November 2023	266.570	289.692	311.508	327.541	345.718	364.393	381.460	398.020
%Chg	0.2	8.7	7.5	5.1	5.5	5.4	4.7	4.3
Minnesota Wage and Salary Disbursements								
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
November 2023	179.514	192.115	205.241	215.088	225.498	234.968	245.165	255.950
%Chg	0.2	7.0	6.8	4.8	4.8	4.2	4.3	4.4
Minnesota Dividends, Interest, & Rental Income								
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
November 2023	64.239	71.747	78.843	83.792	90.586	99.107	105.223	109.875
%Chg	-0.8	11.7	9.9	6.3	8.1	9.4	6.2	4.4
Minnesota Non-Farm Proprietors' Income								
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
November 2023	22.818	25.830	27.424	28.661	29.633	30.317	31.072	32.190
%Chg	2.9	13.2	6.2	4.5	3.4	2.3	2.5	3.6

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								
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
November 2023	95.123	102.143	115.697	123.430	127.788	131.711	136.174	141.058
%Chg	0.7	7.4	13.3	6.7	3.5	3.1	3.4	3.6
**Historical data revised as a result of comprehensive GDP account revisions*								
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)								
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
November 2023	17.646	21.789	23.989	24.961	25.798	26.526	27.455	28.380
%Chg	4.5	23.5	10.1	4.0	3.4	2.8	3.5	3.4
Minnesota's Proxy Share of U.S. Capital Equipment Spending								
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
November 2023	12.590	13.058	14.212	14.846	14.650	14.856	15.304	15.997
%Chg	-4.3	3.7	8.8	4.5	-1.3	1.4	3.0	4.5
Minnesota's Proxy Share of U.S. Construction Spending								
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
November 2023	9.536	10.179	11.271	11.397	11.985	12.116	12.657	13.203
%Chg	6.0	6.7	10.7	1.1	5.2	1.1	4.5	4.3

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)								
November 2021	2,184.1	2,861.5	2,779.373	2,875.201	3,085.9	3,284.7	3,284.7	3,284.7
%Chg	-3.1	31.0	-2.9	3.4	7.3	6.4	6.4	6.4
February 2022	2,169.0	2,934.8	2,793.825	2,787.388	2,925.9	3,069.8	3,223.3	3,371.3
%Chg	-5.8	35.3	-4.8	-0.2	5.0	4.9	5.0	4.6
November 2022	2,196.7	2,914.8	3,068.713	2,895.524	2,901.3	2,926.9	3,023.8	3,146.4
%Chg	-6.0	32.7	5.3	-5.6	0.2	0.9	3.3	4.1
February 2023	2,196.7	2,917.4	3,058.6	2,900.9	2,906.1	2,931.0	3,025.5	3,146.9
%Chg	-6.0	32.8	4.8	-5.2	0.2	0.9	3.2	4.0
November 2023	2,314.6	3,071.4	3,249.635	3,428.217	3,405.2	3,203.2	3,197.9	3,239.1
%Chg	-6.0	32.7	5.8	5.5	-0.7	-5.9	-0.2	1.3
Deed & Mortgage Tax (Fiscal Year)								
U.S. New and Existing Home Sales (Current $ Value)								
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
November 2023	1,720.0	2,307.6	2,391.4	1,851.8	1,831.2	2,090.9	2,350.2	2,586.3
%Chg	4.4	34.2	3.6	-22.6	-1.1	14.2	12.4	10.0

COMPARISON OF ACTUAL AND ESTIMATED NON-RESTRICTED REVENUES

October YTD, 2023-FY2024
($ IN THOUSANDS)

	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax			
Withholding	3,630,096	3,656,403	26,307
Declarations	515,830	438,386	(77,445)
Miscellaneous	283,626	292,752	9,126
Partnership & S Corporation Gross	484,114	568,252	84,138
Gross	4,913,666	4,955,792	42,126
Partnership & S Corporation Refunds	51,684	39,230	(12,454)
Individual, Fiduciary, & Withholding Refunds	1,274,142	1,094,009	(180,133)
Total Refunds	1,325,827	1,133,240	(192,587)
Net Income Tax	3,587,839	3,822,552	234,713
Corporate Franchise Tax			
Declarations	825,901	883,616	57,715
Miscellaneous	82,713	54,183	(28,530)
Gross	908,614	937,800	29,185
Refund	37,671	30,938	(6,733)
Net	870,943	906,862	35,918
General Sales and Use Tax			
Gross	2,794,633	2,826,947	32,314
Mpls. sales tax transferred to MSFA	-		-
MPLS Sales Tax w/Holding for NFL Stadium	7,968	7,968	(0)
Sales Tax Gross	2,802,601	2,834,915	32,314
Refunds (including Indian refunds)	64,586	25,596	(38,990)
Net	2,738,015	2,809,319	71,304
Other Revenues:			
Net Estate	79,236	98,319	19,083
Net Liquor/Wine/Beer	30,891	31,675	784
Net Cigarette/Tobacco	146,035	136,781	(9,254)
Deed and Mortgage	81,678	75,130	(6,548)
Net Insurance Premiums Taxes	120,527	154,614	34,087
Net Lawful Gambling	50,985	53,236	2,251
Health Care Surcharge	44,140	29,373	(14,767)
Other Taxes	-	-	-
Statewide Property Tax	172,311	171,108	(1,203)
DHS SOS Collections	35,809	55,092	19,283
Investment Income	172,674	256,938	84,264
Tobacco Settlement	-	-	-
Dept. Earnings & MSOP Recov.	50,557	59,823	9,266
Fines and Surcharges	13,673	18,593	4,920
Lottery Revenues	14,458	23,172	8,714
Revenues yet to be allocated	-	12,163	12,163
Residual Revenues	29,302	56,692	27,390
Other Subtotal	1,042,276	1,232,708	190,432
Other Refunds	1,801	870	(931)
Other Net	1,040,476	1,231,838	191,363
Total Gross	**9,667,157**	**9,961,215**	**294,058**
Total Refunds	**1,429,884**	**1,190,644**	**(239,240)**
Total Net	**8,237,273**	**8,770,571**	**533,298**

Previous Biennium: FY 2022-23

Actual FY 2022-23
($ in thousands)

	Actual FY 2022	Actual 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	29,138,776	58,529,189
Non-Tax Revenues	926,552	1,346,243	2,272,795
Subtotal - Non-Dedicated Revenue	30,316,965	30,485,019	60,801,984
Dedicated Revenue	4	1	5
Transfers In	179,721	162,304	342,025
Prior Year Adjustments	132,779	143,291	276,070
Subtotal - Other Revenue	312,504	305,596	618,100
Subtotal-Current Resources	30,629,469	30,790,615	61,420,084
Total Resources Available	**37,655,426**	**43,759,615**	**68,446,041**
Actual & Estimated Spending			
E-12 Education	9,960,012	10,204,038	20,164,050
Higher Education	1,750,216	1,767,950	3,518,166
Property Tax Aids & Credits	2,052,912	2,569,273	4,622,185
Health & Human Services	6,922,572	8,214,743	15,137,315
Public Safety & Judiciary	1,292,489	1,430,248	2,722,737
Transportation	236,332	171,126	407,458
Environment & Energy	188,853	185,399	374,252
Jobs, Commerce, Ag and Housing	848,116	474,688	1,322,804
State Government & Veterans	665,137	1,112,086	1,777,223
Debt Service	592,426	547,759	1,140,185
Capital Projects & Grants	177,361	566,109	743,470
Total Expenditures & Transfers	**24,686,426**	**27,243,419**	**51,929,845**
Balance Before Reserves	**12,969,000**	**16,516,196**	**16,516,196**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	2,672,484	2,852,098	2,852,098
Stadium Reserve	229,397	0	0
Appropriations Carried Forward	972,828	211,070	211,070
Budgetary Balance	**8,744,291**	**13,103,028**	**13,103,028**

Previous Biennium: FY 2022-23

Actual FY 2022-23 vs End of 2023 Legislative Session
($ in thousands)

	EOS FY 2022-23	Actual FY 2022-23	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	7,025,957	7,025,957	0
Current Resources:			
Tax Revenues	58,023,319	58,529,189	505,870
Non-Tax Revenues	2,148,732	2,272,795	124,063
Subtotal - Non-Dedicated Revenue	60,172,051	60,801,984	629,933
Dedicated Revenue	9	5	-4
Transfers In	339,216	342,025	2,809
Prior Year Adjustments	170,029	276,070	106,041
Subtotal - Other Revenue	509,254	618,100	108,846
Subtotal-Current Resources	60,681,305	61,420,084	738,779
Total Resources Available	**67,707,262**	**68,446,041**	**738,779**
Actual & Estimated Spending			
E-12 Education	20,182,712	20,164,050	-18,662
Higher Education	3,536,024	3,518,166	-17,858
Property Tax Aids & Credits	4,641,530	4,622,185	-19,345
Health & Human Services	15,202,551	15,137,315	-65,236
Public Safety & Judiciary	2,730,604	2,722,737	-7,867
Transportation	482,698	407,458	-75,240
Environment & Energy	387,780	374,252	-13,528
Jobs, Commerce, Ag and Housing	1,479,543	1,322,804	-156,739
State Government & Veterans	1,708,467	1,777,223	68,756
Debt Service	1,140,185	1,140,185	0
Capital Projects & Grants	744,709	743,470	-1,239
Estimated Cancellations	-15,000	0	15,000
Total Expenditures & Transfers	**52,221,803**	**51,929,845**	**-291,958**
Balance Before Reserves	**15,485,459**	**16,516,196**	**1,030,737**
Cash Flow Account	350,000	350,000	0
Budget Reserve	2,852,098	2,852,098	0
Appropriations Carried Forward	0	211,070	211,070
Budgetary Balance	**12,283,361**	**13,103,028**	**819,667**

Current Biennium: FY 2024-25

November 2023 Forecast
($ in thousands)

	Nov FY 2024	Nov FY 2025	Biennial Total FY 2024-25
Actual & Estimated Resources			
Balance Forward From Prior Year	16,516,196	7,836,566	16,516,196
Current Resources:			
Tax Revenues*	27,764,292	29,293,743	57,058,035
Non-Tax Revenues	1,393,759	1,005,798	2,399,557
Subtotal - Non-Dedicated Revenue	29,158,051	30,299,541	59,457,592
Dedicated Revenue	1,970	2,055	4,025
Transfers In	97,600	25,807	123,407
Prior Year Adjustments	34,943	34,601	69,544
Subtotal - Other Revenue	134,513	62,463	196,976
Subtotal-Current Resources	29,292,564	30,362,004	59,654,568
Total Resources Available	**45,808,760**	**38,198,570**	**76,170,764**
Actual & Estimated Spending			
E-12 Education	12,145,836	12,318,015	24,463,851
Higher Education	2,079,158	2,115,326	4,194,484
Property Tax AISs & Credits	2,826,157	2,651,408	5,477,565
Health & Human Services	10,722,648	10,395,549	21,118,196
Public Safety & Judiciary	1,803,043	1,746,516	3,549,559
Transportation	1,196,489	198,870	1,395,359
Environment & Energy	675,168	373,295	1,048,463
Jobs, Commerce, Ag and Housing	3,093,942	850,191	3,944,133
State Government & Veterans	1,753,981	1,133,211	2,887,192
Debt Service	507,577	633,192	1,140,769
Capital Projects & Grants	1,173,196	143,061	1,316,257
Estimated Cancellations	-5,000	-15,000	-20,000
Total Expenditures & Transfers	**37,972,195**	**32,543,634**	**70,515,828**
Balance Before Reserves	**7,836,566**	**5,654,936**	**5,654,936**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	2,913,422	2,913,422	2,913,422
Budgetary Balance	**4,573,144**	**2,391,514**	**2,391,514**

* Individual income tax totals in FY 2024-27 do not include the estimated revenue impact related to a drafting oversight impacting the standard deduction in Ch. 64 (2023 tax bill) that would result in an estimated $350 million in added revenue each fiscal year if not corrected. It is assumed that the 2024 legislature will pass legislation to correct this oversight.

Current Biennium: FY 2024-25

November 2023 Forecast vs End of 2023 Legislative Session
($ in thousands)

	EOS FY 2024-25	Nov FY 2024-25	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	15,485,459	16,516,196	1,030,737
Current Resources:			
Tax Revenues*	56,347,741	57,058,035	710,294
Non-Tax Revenues	2,278,435	2,399,557	121,122
Subtotal - Non-Dedicated Revenue	58,626,176	59,457,592	831,416
Dedicated Revenue	10	4,025	4,015
Transfers In	122,308	123,407	1,099
Prior Year Adjustments	69,061	69,544	483
Subtotal - Other Revenue	191,379	196,976	5,597
Subtotal-Current Resources	58,817,555	59,654,568	837,013
Total Resources Available	**74,303,014**	**76,170,764**	**1,867,750**
Actual & Estimated Spending			
E-12 Education	24,258,581	24,463,851	205,270
Higher Education	4,173,528	4,194,484	20,956
Property Tax Aids & Credits	5,314,496	5,477,565	163,069
Health & Human Services	20,622,802	21,118,196	495,394
Public Safety & Judiciary	3,557,456	3,549,559	-7,897
Transportation	1,315,295	1,395,359	80,064
Environment & Energy	1,037,957	1,048,463	10,506
Jobs, Commerce, Ag and Housing	3,894,598	3,944,133	49,535
State Government & Veterans	2,867,601	2,887,192	19,591
Debt Service	1,179,726	1,140,769	-38,957
Capital Projects & Grants	1,315,481	1,316,257	776
Estimated Cancellations	-20,000	-20,000	0
Total Expenditures & Transfers	**69,517,521**	**70,515,828**	**998,307**
Balance Before Reserves	**4,785,493**	**5,654,936**	**869,443**
Cash Flow Account	350,000	350,000	0
Budget Reserve	2,852,098	2,913,422	61,324
Budgetary Balance	**1,583,395**	**2,391,514**	**808,119**

* Individual income tax totals in FY 2024-27 do not include the estimated revenue impact related to a drafting oversight impacting the standard deduction in Ch. 64 (2023 tax bill) that would result in an estimated $350 million in added revenue each fiscal year if not corrected. It is assumed that the 2024 legislature will pass legislation to correct this oversight.

Biennial Comparison

November 2023 Forecast
($ in thousands)

	Actual FY 2022-23	Nov FY 2024-25	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	7,025,957	16,516,196	9,490,239
Current Resources:			
Tax Revenues*	58,529,189	57,058,035	-1,471,154
Non-Tax Revenues	2,272,795	2,399,557	126,762
Subtotal - Non-Dedicated Revenue	60,801,984	59,457,592	-1,344,392
Dedicated Revenue	5	4,025	4,020
Transfers In	342,025	123,407	-218,618
Prior Year Adjustments	276,070	69,544	-206,526
Subtotal - Other Revenue	618,100	196,976	-421,124
Subtotal-Current Resources	61,420,084	59,654,568	-1,765,516
Total Resources Available	**68,446,041**	**76,170,764**	**7,724,723**
Actual & Estimated Spending			
E-12 Education	20,164,050	24,463,851	4,299,801
Higher Education	3,518,166	4,194,484	676,318
Property Tax Aids & Credits	4,622,185	5,477,565	855,380
Health & Human Services	15,137,315	21,118,196	5,980,881
Public Safety & Judiciary	2,722,737	3,549,559	826,822
Transportation	407,458	1,395,359	987,901
Environment & Energy	374,252	1,048,463	674,211
Jobs, Commerce, Ag and Housing	1,322,804	3,944,133	2,621,329
State Government & Veterans	1,777,223	2,887,192	1,109,969
Debt Service	1,140,185	1,140,769	584
Capital Projects & Grants	743,470	1,316,257	572,787
Estimated Cancellations	0	-20,000	-20,000
Estimated Inflation	0	0	0
Total Expenditures & Transfers	**51,929,845**	**70,515,828**	**18,585,983**
Balance Before Reserves	**16,516,196**	**5,654,936**	**-10,861,260**
Cash Flow Account	350,000	350,000	0
Budget Reserve	2,852,098	2,913,422	61,324
Appropriations Carried Forward	211,070	0	-211,070
Budgetary Balance	**13,103,028**	**2,391,514**	**-10,711,514**

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FY 2026-27 Planning Estimates

November 2023 Forecast
($ in thousands)

	Nov FY 2026	Nov FY 2027	Biennial Total FY 2026-27
Actual & Estimated Resources			
Balance Forward From Prior Year	5,654,936	4,777,817	5,654,936
Current Resources:			
Tax Revenues*	30,285,924	31,492,704	61,778,628
Non-Tax Revenues	876,126	850,929	1,727,055
Subtotal - Non-Dedicated Revenue	31,162,050	32,343,633	63,505,683
Dedicated Revenue	2,316	2,379	4,695
Transfers In	301,552	25,967	327,519
Prior Year Adjustments	34,527	34,454	68,981
Subtotal - Other Revenue	338,395	62,800	401,195
Subtotal-Current Resources	31,500,445	32,406,433	63,906,878
Total Resources Available	**37,155,381**	**37,184,250**	**69,561,814**
Actual & Estimated Spending			
E-12 Education	12,509,840	12,968,891	25,478,731
Higher Education	1,985,078	1,985,142	3,970,220
Property Tax Aids & Credits	2,280,143	2,370,034	4,650,177
Health & Human Services	11,150,224	11,710,651	22,860,875
Public Safety & Judiciary	1,690,797	1,690,726	3,381,523
Transportation	238,620	243,795	482,415
Environment & Energy	217,358	217,256	434,614
Jobs, Commerce, Ag and Housing	420,796	406,823	827,619
State Government & Veterans	824,234	816,833	1,641,067
Debt Service	641,294	698,758	1,340,052
Capital Projects & Grants	143,601	145,328	288,929
Estimated Cancellations	-5,000	-15,000	-20,000
Estimated Inflation	280,579	599,846	880,425
Total Expenditures & Transfers	**32,377,564**	**33,839,083**	**66,216,647**
Balance Before Reserves	**4,777,817**	**3,345,167**	**3,345,167**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	2,913,422	2,913,422	2,913,422
Budgetary Balance	**1,514,395**	**81,745**	**81,745**

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FY 2026-27 Planning Estimates

November 2023 Forecast vs End of 2023 Legislative Session
($ in thousands)

	EOS FY 2026-27	Nov FY 2026-27	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	4,785,493	5,654,936	869,443
Current Resources:			
Tax Revenues*	61,883,420	61,778,628	-104,792
Non-Tax Revenues	1,657,836	1,727,055	69,219
Subtotal - Non-Dedicated Revenue	63,541,256	63,505,683	-35,573
Dedicated Revenue	10	4,695	4,685
Transfers In	327,519	327,519	0
Prior Year Adjustments	67,862	68,981	1,119
Subtotal - Other Revenue	395,391	401,195	5,804
Subtotal-Current Resources	63,936,647	63,906,878	-29,769
Total Resources Available	**68,722,140**	**69,561,814**	**839,674**
Actual & Estimated Spending			
E-12 Education	25,367,192	25,478,731	111,539
Higher Education	3,970,220	3,970,220	0
Property Tax Aids & Credits	4,505,124	4,650,177	145,053
Health & Human Services	22,297,307	22,860,875	563,568
Public Safety & Judiciary	3,391,523	3,381,523	-10,000
Transportation	345,897	482,415	136,518
Environment & Energy	433,294	434,614	1,320
Jobs, Commerce, Ag and Housing	844,156	827,619	-16,537
State Government & Veterans	1,641,065	1,641,067	2
Debt Service	1,353,342	1,340,052	-13,290
Capital Projects & Grants	288,208	288,929	721
Estimated Cancellations	-20,000	-20,000	0
Estimated Inflation	817,060	880,425	63,365
Total Expenditures & Transfers	**65,234,388**	**66,216,647**	**982,259**
Balance Before Reserves	**3,487,752**	**3,345,167**	**-142,585**
Cash Flow Account	350,000	350,000	0
Budget Reserve	2,852,098	2,913,422	61,324
Budgetary Balance	**285,654**	**81,745**	**-203,909**

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Biennial Comparison

November 2023 Forecast
($ in thousands)

	Nov FY 2024-25	Nov FY 2026-27	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	16,516,196	5,654,936	-10,861,260
Current Resources:			
Tax Revenues*	57,058,035	61,778,628	4,720,593
Non-Tax Revenues	2,399,557	1,727,055	-672,502
Subtotal - Non-Dedicated Revenue	59,457,592	63,505,683	4,048,091
Dedicated Revenue	4,025	4,695	670
Transfers In	123,407	327,519	204,112
Prior Year Adjustments	69,544	68,981	-563
Subtotal - Other Revenue	196,976	401,195	204,219
Subtotal-Current Resources	59,654,568	63,906,878	4,252,310
Total Resources Available	**76,170,764**	**69,561,814**	**-6,608,950**
Actual & Estimated Spending			
E-12 Education	24,463,851	25,478,731	1,014,880
Higher Education	4,194,484	3,970,220	-224,264
Property Tax Aids & Credits	5,477,565	4,650,177	-827,388
Health & Human Services	21,118,196	22,860,875	1,742,679
Public Safety & Judiciary	3,549,559	3,381,523	-168,036
Transportation	1,395,359	482,415	-912,944
Environment & Energy	1,048,463	434,614	-613,849
Jobs, Commerce, Ag and Housing	3,944,133	827,619	-3,116,514
State Government & Veterans	2,887,192	1,641,067	-1,246,125
Debt Service	1,140,769	1,340,052	199,283
Capital Projects & Grants	1,316,257	288,929	-1,027,328
Estimated Cancellations	-20,000	-20,000	0
Estimated Inflation	0	880,425	880,425
Total Expenditures & Transfers	**70,515,828**	**66,216,647**	**-4,299,181**
Balance Before Reserves	**5,654,936**	**3,345,167**	**-2,309,769**
Cash Flow Account	350,000	350,000	0
Budget Reserve	2,913,422	2,913,422	0
Budgetary Balance	**2,391,514**	**81,745**	**-2,309,769**

* Individual income tax totals in FY 2024-27 do not include the estimated revenue impact related to a drafting oversight impacting the standard deduction in Ch. 64 (2023 tax bill) that would result in an estimated $350 million in added revenue each fiscal year if not corrected. It is assumed that the 2024 legislature will pass legislation to correct this oversight.

FY 2022-27 Planning Horizon

November 2023 Forecast
($ in thousands)

	Actual FY 2022-23	Nov FY 2024-25	Nov FY 2026-27
Actual & Estimated Resources			
Balance Forward From Prior Year	7,025,957	16,516,196	5,654,936
Current Resources:			
Tax Revenues*	58,529,189	57,058,035	61,778,628
Non-Tax Revenues	2,272,795	2,399,557	1,727,055
Subtotal - Non-Dedicated Revenue	60,801,984	59,457,592	63,505,683
Dedicated Revenue	5	4,025	4,695
Transfers In	342,025	123,407	327,519
Prior Year Adjustments	276,070	69,544	68,981
Subtotal - Other Revenue	618,100	196,976	401,195
Subtotal-Current Resources	61,420,084	59,654,568	63,906,878
Total Resources Available	**68,446,041**	**76,170,764**	**69,561,814**
Actual & Estimated Spending			
E-12 Education	20,164,050	24,463,851	25,478,731
Higher Education	3,518,166	4,194,484	3,970,220
Property Tax Aids & Credits	4,622,185	5,477,565	4,650,177
Health & Human Services	15,137,315	21,118,196	22,860,875
Public Safety & Judiciary	2,722,737	3,549,559	3,381,523
Transportation	407,458	1,395,359	482,415
Environment & Energy	374,252	1,048,463	434,614
Jobs, Commerce, Ag and Housing	1,322,804	3,944,133	827,619
State Government & Veterans	1,777,223	2,887,192	1,641,067
Debt Service	1,140,185	1,140,769	1,340,052
Capital Projects & Grants	743,470	1,316,257	288,929
Estimated Cancellations	0	-20,000	-20,000
Estimated Inflation	0	0	880,425
Total Expenditures & Transfers	**51,929,845**	**70,515,828**	**66,216,647**
Balance Before Reserves	**16,516,196**	**5,654,936**	**3,345,167**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	2,852,098	2,913,422	2,913,422
Appropriations Carried Forward	211,070	0	0
Budgetary Balance	**13,103,028**	**2,391,514**	**81,745**

* Individual income tax totals in FY 2024-27 do not include the estimated revenue impact related to a drafting oversight impacting the standard deduction in Ch. 64 (2023 tax bill) that would result in an estimated $350 million in added revenue each fiscal year if not corrected. It is assumed that the 2024 legislature will pass legislation to correct this oversight.

Historical and Projected Revenue Growth
November 2023 Forecast - General Fund
($ in millions)

	Actual FY 2020	Actual FY 2021	Actual FY 2022	Actual FY 2023	Nov FY 2024	Nov FY 2025	Pling FY 2026	Pling FY 2027	Average Annual
Individual Income Tax	$12,135	$14,233	$16,873	$15,778	$14,511	$15,836	$16,474	$17,291	
$ change	(309)	2,097	2,640	(1,095)	(1,267)	1,325	639	817	
% change	**-2.5%**	**17.3%**	**18.6%**	**-6.5%**	**-8.0%**	**9.1%**	**4.0%**	**5.0%**	**3.7%**
Sales Tax	$5,746	$6,169	$6,644	$7,446	$7,494	$7,738	$8,013	$8,299	
$ change	(17)	424	474	802	48	244	275	286	
% change	**-0.3%**	**7.4%**	**7.7%**	**12.1%**	**0.6%**	**3.3%**	**3.6%**	**3.6%**	**4.5%**
Corporate Tax	$1,539	$2,258	$2,823	$2,929	$2,773	$2,640	$2,663	$2,683	
$ change	(82)	719	564	106	(156)	(133)	23	20	
% change	**-5.1%**	**46.7%**	**25.0%**	**3.8%**	**-5.3%**	**-4.8%**	**0.9%**	**0.7%**	**9.7%**
Statewide Property Tax	$753	$803	$774	$765	$738	$743	$745	$745	
$ change	(57)	50	(29)	(9)	(27)	5	2	0	
% change	**-7.1%**	**6.6%**	**-3.6%**	**-1.2%**	**-3.5%**	**0.7%**	**0.3%**	**0.0%**	**-1.1%**
Other Tax Revenue	$1,904	$2,197	$2,277	$2,221	$2,248	$2,336	$2,390	$2,474	
$ change	(58)	293	80	(56)	27	88	54	84	
% change	**-2.9%**	**15.4%**	**3.6%**	**-2.5%**	**1.2%**	**3.9%**	**2.3%**	**3.5%**	**2.7%**
Total Tax Revenue*	$22,077	$25,660	$29,390	$29,139	$27,764	$29,294	$30,286	$31,493	
$ change	(522)	3,583	3,730	(251)	(1,375)	1,529	992	1,207	
% change	**-2.3%**	**16.2%**	**14.5%**	**-0.9%**	**-4.7%**	**5.5%**	**3.4%**	**4.0%**	**4.1%**
Non-Tax Revenues	$817	$922	$927	$1,346	$1,394	$1,006	$876	$851	
$ change	(62)	105	5	419	48	(388)	(130)	(25)	
% change	**-7.0%**	**12.8%**	**0.5%**	**45.3%**	**3.5%**	**-27.8%**	**-12.9%**	**-2.9%**	**2.7%**
Transfers, All Other	$256	$746	$313	$162	$135	$62	$338	$63	
$ change	(8)	490	(434)	(151)	(27)	(72)	276	(276)	
% change	**-3.0%**	**191.4%**	**-58.1%**	**-48.2%**	**-17.0%**	**-53.6%**	**441.8%**	**-81.4%**	**-15.3%**
Total Revenue	$23,150	$27,329	$30,629	$30,647	$29,293	$30,362	$31,500	$32,406	
$ change	(592)	4,178	3,301	18	(1,354)	1,069	1,138	906	
% change	**-2.5%**	**18.0%**	**12.1%**	**0.1%**	**-4.4%**	**3.7%**	**3.7%**	**2.9%**	**3.9%**

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Historical and Projected Spending Growth

November 2023 Forecast - General Fund
($ in millions)

	Actual FY 2020	Actual FY 2021	Actual FY 2022	Actual FY 2023	Nov FY 2024	Nov FY 2025	Pling FY 2026	Pling FY 2027	Average Annual
E-12 Education	$9,836	$9,736	$9,779	$10,204	$12,146	$12,318	$12,510	$12,969	
$ change	248	(99)	43	425	1,942	172	192	459	
% change	**2.6%**	**-1.0%**	**0.4%**	**4.3%**	**19.0%**	**1.4%**	**1.6%**	**3.7%**	**3.7%**
Higher Education	$1,693	$1,714	$1,750	$1,768	$2,079	$2,115	$1,985	$1,985	
$ change	51	21	36	18	311	36	(130)	0	
% change	**3.1%**	**1.2%**	**2.1%**	**1.0%**	**17.6%**	**1.7%**	**-6.2%**	**0.0%**	**3.1%**
Prop. Tax Aids & Credits	$1,867	$2,026	$2,053	$2,569	$2,826	$2,651	$2,280	$2,370	
$ change	(60)	159	27	516	257	(175)	(371)	90	
% change	**-3.1%**	**8.5%**	**1.3%**	**25.1%**	**10.0%**	**-6.2%**	**-14.0%**	**3.9%**	**5.5%**
Health & Human Services	$7,035	$6,611	$6,923	$8,215	$10,723	$10,396	$11,150	$11,711	
$ change	359	(424)	312	1,292	2,508	(327)	755	560	
% change	**5.4%**	**-6.0%**	**4.7%**	**18.7%**	**30.5%**	**-3.1%**	**7.3%**	**5.0%**	**5.8%**
Public Safety & Judiciary	$1,237	$1,314	$1,292	$1,430	$1,803	$1,747	$1,691	$1,691	
$ change	11	77	(21)	138	373	(57)	(56)	(0)	
% change	**0.9%**	**6.2%**	**-1.6%**	**10.6%**	**26.1%**	**-3.1%**	**-3.2%**	**0.0%**	**6.4%**
Debt Service	$540	$516	$592	$548	$508	$633	$641	$699	
$ change	(10)	(25)	77	(44)	(40)	126	8	57	
% change	**-1.8%**	**-4.5%**	**14.9%**	**-7.5%**	**-7.4%**	**24.7%**	**1.3%**	**9.0%**	**1.5%**
All Other	$1,570	$1,547	$2,116	$2,509	$7,888	$2,684	$2,120	$2,415	
$ change	125	(23)	569	393	5,379	(5,204)	(563)	295	
% change	**8.7%**	**-1.4%**	**36.8%**	**18.6%**	**214.4%**	**-66.0%**	**-21.0%**	**13.9%**	**8.2%**
Total Spending	$23,778	$23,464	$24,505	$27,243	$37,972	$32,544	$32,378	$33,839	
$ change	724	(314)	1,042	2,738	10,729	(5,429)	(166)	1,462	
% change	**3.1%**	**-1.3%**	**4.4%**	**11.2%**	**39.4%**	**-14.3%**	**-0.5%**	**4.5%**	**4.8%**