

# *BUDGET* AND *ECONOMIC FORECAST*



**NOVEMBER 2021**

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. Expenditure estimates must not include an allowance for inflation.

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).

Supplemental budget and economic forecast material is available on MMB's website ([mn.gov/mmb](http://mn.gov/mmb)).

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## EXECUTIVE SUMMARY

The Minnesota budget and economic outlook is significantly improved in all years of the budget planning horizon. A general fund budget surplus of \$7.746 billion is now projected for the FY 2022-23 biennium. Strong growth in income, consumer spending and corporate profits drove extraordinary revenue growth in FY 2021, and higher tax receipts to date in FY 2022 combine with an improved outlook for income, consumer spending and corporate profits to raise the revenue forecast for the current biennium. Estimates for state spending are down slightly in the current biennium. The improved budget forecast triggers a statutory allocation to the budget reserve, leaving the reserve balance at \$2.656 billion. While economic uncertainty and the pandemic pose significant risk to the forecast, the improved outlook carries into FY 2024-25 planning estimates.

### **U.S. Economic Outlook.**

The U.S. economy continues to recover from the recession triggered by the outbreak of the COVID-19 pandemic. The U.S. unemployment rate fell in October to a seasonally adjusted 4.6 percent, the lowest since March 2020, and total employment is at 97 percent of the pre-pandemic level. Home values, financial asset values, and corporate profits have all risen. Nevertheless, significant challenges remain. The path of the pandemic, supply chain disruptions, labor force participation, and inflation all pose risks to the economic forecast.

IHS Markit (IHS), Minnesota's macroeconomic consultant, is now forecasting U.S. real GDP to increase 5.5 percent in 2021, down from 5.7 percent in their February outlook. IHS expects growth to decelerate to 4.3 percent in 2022, an improvement from the 4.1 percent growth forecast in February. Similarly, the outlook for years 2023 and 2024 have been revised up to 2.9 percent and 2.7 percent from 2.3 percent and 2.6 percent, respectively, while expected growth for 2025 remains unchanged at 2.6 percent.

The downward revision in the 2021 economic outlook is the result of a significant headwind in the second half of this year from supply-chain disruptions, which slowed production and inventory investment and contributed to price inflation. In IHS' November outlook, business investment and government purchases both contribute less to real GDP growth in 2021 than in the February forecast, offsetting a higher forecast for real consumer spending.

Despite the lower forecast for 2021 real GDP growth, some important underlying economic variables have exhibited stronger growth than expected so far this year. The current IHS forecasts for employment and real consumer spending are higher than in their February outlook. In addition, forecasts for nominal consumer spending, wage and salary income, and corporate profits—variables that impact tax revenues—are higher than in February. Looking forward, IHS expects GDP growth in 2022 to be supported by a declining rate of COVID infections, progress on

vaccinations, easing of supply-chain blockages, a rising labor force participation rate, and accommodative monetary policy.



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

*IHS now expects U.S. real GDP to grow 5.5 percent in 2021, a 0.2 percentage point decrease from IHS’ February baseline forecast. IHS expects GDP to grow 4.3 percent in 2022, followed by 2.9 percent in 2023, and 2.7 and 2.6 percent in 2024 and 2025 respectively.*

The U.S. outlook remains uncertain and depends on the path of the pandemic and on the responses of households, businesses, and government to the changing public health landscape. In this forecast, IHS assumes that the rate of COVID-19 infections continues to recede following the recent surge associated with the Delta variant. They now expect U.S. society to move toward managing the risks of co-existing with the virus for an extended period. The IHS November outlook was released on November 8, before the emergence of the Omicron variant became known.

During March and April 2020, the U.S. shed 22.4 million jobs. Since May 2020, the U.S. has added jobs nearly every month, but a 4.2 million hole in payroll employment remains as of October 2021. These 4.2 million jobs represent a 2.8 percent drop in total employment compared to February 2020. IHS forecasts payroll employment to increase by 3.9 million in 2021, 5.7 million in 2022, 2.9 million in 2023, and an average of 1.2 million per year in 2024 and 2025. IHS expects payroll jobs to surpass pre-pandemic levels in mid-2022, the unemployment rate to fall below 4.0 percent by mid-2022, and the unemployment rate to reach a low point at 3.5 percent in 2023.

According to the U. S. Bureau of Labor Statistics (BLS), in October 2021 almost 3.1 million fewer individuals were in the U.S. labor force than in February of last year. This is a 1.9 percent drop in the labor force. October’s labor force participation rate, the proportion of potential workers who were employed or unemployed and actively seeking employment, was 61.6 percent, little changed since July 2020 when labor force participation reached 61.4 percent, and well below the 63.4 percent prior to the onset of the pandemic.

Despite rising wages and job openings near all-time highs, the participation rate remains well below the pre-pandemic peak. Workers may be opting out of the labor force for a variety of reasons, including difficulties finding affordable and accessible daycare, lingering COVID-related safety concerns, and early retirement. IHS expects that the expiration of additional unemployment benefits in September, the widespread availability of vaccinations, and excess savings being drawn down may help the participation rate increase. However, structural changes to the labor force may be a long-term impact of the pandemic.

### Minnesota Economic Outlook

Driven by a stronger U.S. forecast, the economic outlook for Minnesota has improved since MMB's *Budget and Economic Forecast* was prepared in February 2021. The pandemic-induced economic downturn that began in February of 2020 brought severe disruptions to Minnesota's economy. During 2020, the state experienced job and wage income losses, a reduced labor force, and changes in consumer spending patterns. In this forecast, an improved U.S. outlook for consumer spending, wage and salary growth, total employment, and personal income drives our expectation that Minnesota's job and wage losses of 2020 will be followed by positive employment and wage growth through our forecast period, despite many Minnesotans remaining out of the labor force in the near-term. Minnesota's economic outlook is informed by the IHS forecasts for both the U.S. and for Minnesota, data from the Minnesota Department of Economic and Employment Development (DEED), and Minnesota tax revenues.

For the first time since March 2020, the state's unemployment rate fell to 3.5 percent, down from 3.7 in September on a seasonally adjusted basis, and 1.1 percentage points below the U.S. unemployment rate of 4.6 percent. The unemployment rate does not capture Minnesotans that have left the labor force, including retirements or those who opted to stay home to care for children. Since the onset of the pandemic, Minnesota's labor force has fallen by 84,000. This decline in the labor force can also be seen in the labor force participation rate, the share of the over-16 population that is either working or looking for work. As of October, Minnesota's labor force participation rate was 67.8 percent, 1.1 percentage points lower than a year ago and 2.4 percentage points lower than in February 2020. Minnesota's labor force participation rate remains 6.2 percentage points above the U.S. rate and the fifth highest among U.S. states.

An important 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 2021. We expect total wage income, the sum of all wages distributed, to increase 8.5 percent in 2021, the highest year over year increase in Minnesota wage and salary income since 1998. We expect strong wage growth to continue at a rate of 7.3 percent in 2022, 5.9 percent in 2023, and 5.1 and 4.9 percent in 2024 and 2025, respectively.

**Budget Update: Closed Biennium.** The FY 2020-21 biennium ended with a positive general fund balance of \$4.052 billion, \$2.941 billion higher than estimated at the end of the 2021 legislative sessions. The closing balance at the end of the biennium represents "money in the bank" available as a resource for the FY 2022-23 biennium.

**Closed Biennium: FY 2020-21 General Fund Budget  
End-of-Session vs. Actual Comparison**

(\$ in millions)	End-of-Session	Actual	\$ Change	% Change
<b>Beginning Balance</b>	<b>\$3,971</b>	<b>\$3,971</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Revenues</b>				
Taxes	45,122	47,738	2,616	5.8
Non-Tax Revenues	1,670	1,739	69	4.1
Transfers, Other Resources	912	1,003	91	9.9
<b>Total Revenues</b>	<b>\$47,704</b>	<b>\$50,479</b>	<b>\$2,775</b>	<b>5.8%</b>
<b>Expenditures</b>				
E-12 Education	19,839	19,755	(84)	(0.4)
Property Tax Aids	3,973	3,893	(80)	(2.0)
Health & Human Services	13,748	13,646	(102)	(0.7)
Debt Service	1,056	1,056	-	0.0
All Other	9,140	9,075	(65)	(0.7)
<b>Total Expenditures</b>	<b>\$47,756</b>	<b>\$47,425</b>	<b>\$(331)</b>	<b>(0.7)%</b>
Budget Reserve	2,377	2,406	29	
Cash Flow Account	350	350	-	
Stadium Reserve	81	107	26	
Appropriation Carryforward	-	111	111	
<b>Budgetary Balance</b>	<b>\$1,112</b>	<b>\$4,052</b>	<b>\$2,940</b>	

At close, FY 2020-21 total resources – including tax and non-tax revenue, transfers-in and prior year adjustments – were \$2.775 billion (5.8 percent) higher than prior estimates. Tax revenues were \$2.616 (5.8 percent) while non-tax revenue was \$69 million (4.1 percent) higher than projected. Transfers from other funds and other resources were \$91 million (9.9 percent) higher primarily due to reallocating prior COVID-19 response general fund spending to federal sources, resulting in funds cancelling back to the general fund. Adjustments to prior fiscal years including accounting corrections, encumbrance cancellations and revenues attributable to prior years were \$76 million higher than projected.

Actual spending for FY 2020-21 was \$331 million (0.7 percent) below end of session estimates, however a significant portion of that total, \$111 million, is attributed to unspent appropriations that carried forward into the current biennium and are available to be spent. Health and Human services spending was \$102 million lower however \$19 million of the savings carries forward and is appropriated for spending in FY 2022-23. E-12 education spending was \$84 million (0.8 percent) below end of session estimates primarily due to lower-than-expected student counts. Property tax aids and credits expenditures were \$80 million (2.0 percent) lower than end of session estimates mainly due to refinancing COVID-19 small business relief payments for restaurants, bars, gyms, and bowling centers with federal Coronavirus Relief Funds.

The FY 2020-21 biennium concluded with a budget reserve balance of \$2.406 billion, \$29 million higher than projected due to a statutory allocation of surplus assigned risk insurance funds. The stadium reserve ended the biennium with a balance of \$107 million, \$26 million higher than

projected due to higher lawful gambling receipts. The cash flow account was unchanged from prior estimates, ending with a balance of \$350 million.

**Budget Outlook: Current Biennium.** An increased revenue forecast for this biennium combines with slightly lower spending and the balance from FY 2021, partially offset by growth in the stadium reserve, resulting in a forecast balance for FY 2022-23 of \$8.978 billion.

Statute allocates a significant portion of the balance to the budget reserve and a buyback of a sales tax shift. With this forecast, \$870 million is allocated to the budget reserve and \$359 million is allocated to removing the June accelerated sales tax shift from law. These allocations, combined with a \$4 million transfer to the 21st century mineral fund triggered by the forecast balance, result in a projected general fund surplus of \$7.746 billion for the FY 2022-23 biennium.

**Current Biennium: FY 2022-23 General Fund Budget  
End-of-Session vs. November 2021 Forecast Comparison**

(\$ in millions)	End-of-Session	November 2021 Forecast	\$ Change	% Change
<b>Beginning Balance</b>	<b>\$3,920</b>	<b>\$7,026</b>	<b>\$3,106</b>	
<b>Revenues</b>				
Taxes	48,364	53,440	5,077	10.5
Non-Tax Revenues	1,479	1,529	51	3.4
Transfers, Other Resources	1,065	1,068	3	0.2
<b>Total Revenues</b>	<b>\$50,907</b>	<b>\$56,037</b>	<b>\$5,130</b>	<b>10.1%</b>
<b>Expenditures</b>				
E-12 Education	20,987	20,661	(326)	(1.6)
Property Tax Aids & Credits	4,204	4,169	(36)	(0.9)
Health & Human Services	16,504	16,410	(94)	(0.6)
Debt Service	1,243	1,199	(44)	(3.5)
All Other	9,425	9,562	136	1.4
<b>Total Expenditures</b>	<b>\$52,363</b>	<b>\$51,999</b>	<b>\$(364)</b>	<b>(0.7)%</b>
Budget Reserve	1,786	2,656	870	
Cash Flow Account	350	350	-	
Stadium Reserve	201	312	111	
<b>Budgetary Balance</b>	<b>\$127</b>	<b>\$7,746</b>	<b>\$7,619</b>	

*Revenues.* Total general fund revenues for FY 2022-23 are now forecast to be \$56.037 billion, \$5.130 billion (10.1 percent) more than the February 2021 forecast. Total tax revenues for the biennium are forecast to be \$53.440, \$5.077 billion (10.5 percent) above the prior estimate. The forecasts for all major tax types are higher than in February.

**Current Biennium: FY 2022-23 General Fund Revenues  
End-of-Session vs. November 2021 Forecast Comparison**

(\$ in millions)	End-of-Session	November 2021 Forecast	\$ Change	% Change
Individual Income Tax	\$26,742	\$29,450	\$2,708	10.1%
General Sales Tax	12,790	13,611	821	6.4
Corporate Franchise Tax	3,081	4,330	1,249	40.6
State General Property Tax	1,531	1,538	8	0.5
Other Tax Revenue	4,221	4,511	291	6.9
<b>Total Tax Revenues</b>	<b>\$48,364</b>	<b>53,440</b>	<b>5,077</b>	<b>10.5%</b>
Non-Tax Revenues	1,479	1,529	51	3.4
Other Resources	1,065	1,068	3	0.2
<b>Total Revenues</b>	<b>\$50,907</b>	<b>\$56,037</b>	<b>\$5,130</b>	<b>10.1%</b>

Minnesota individual income tax receipts are now forecast to be \$2.708 billion (10.1 percent) more than the February forecast adjusted for law changes. The increase is due to a higher estimate of base year tax liability and higher forecast growth in wage and non-wage income, including business income and capital gains realizations.

At the close of FY 2021, net income tax revenue was \$1.534 billion (12.2 percent) more than forecast. The positive variance was primarily due to higher-than-expected income tax payments and lower than expected refunds for tax year 2020. So far in FY 2022, net income tax receipts are \$149 million (3.8 percent) more than forecast.

Net general sales tax revenue in FY 2022-23 is now forecast to be \$821 million (6.4 percent) more than the prior estimate. A higher forecast for gross sales tax receipts and a lower forecast of tax refunds both contribute to the change. The increased forecast for gross sales tax receipts reflects higher than expected gross receipts so far in FY 2022 and a higher forecast for taxable sales compared to February. The sales tax forecast reflects the impact of a statutory provision that eliminates the June accelerated general sales tax provision in law when a forecast shows a positive balance. An estimate of this impact reduces the forecast by \$359 million.

The corporate franchise tax is forecast to generate \$4.330 billion in FY 2022-23, \$1.249 billion (40.6 percent) more than the prior estimate. Higher forecast gross corporate payments and lower forecast refunds both contribute to the change.

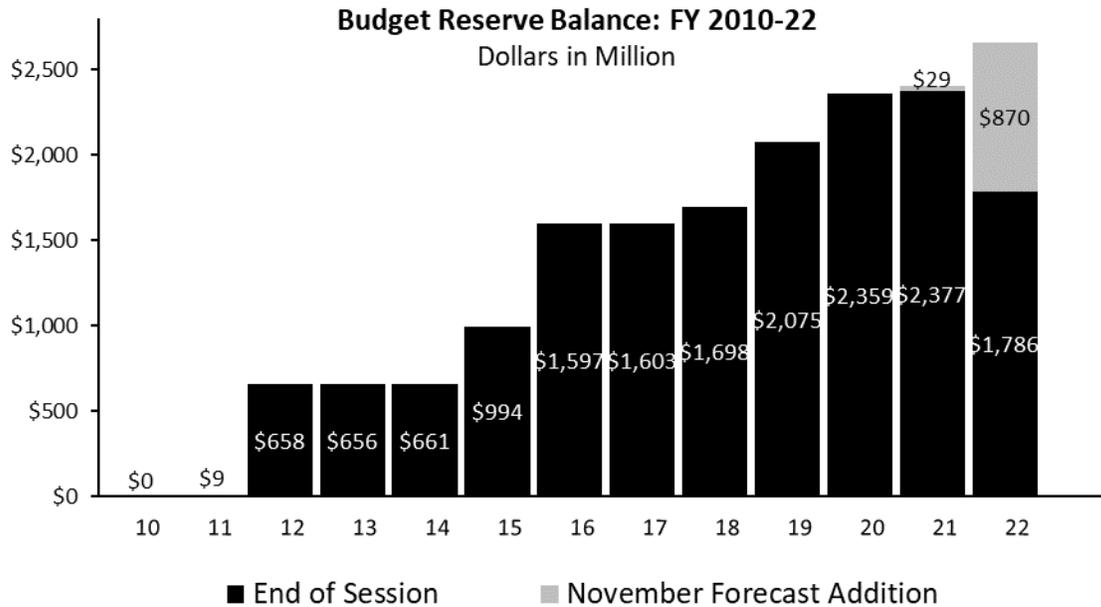
The corporate tax forecast change is due to a higher base of corporate receipts and higher expected growth in corporate profits in CY 2021. At the close of FY 2021, net corporate tax receipts exceeded the February forecast (adjusted for law changes) by \$656 million (37.9 percent). Year-to-date net receipts for FY 2022 are \$401 million above the law-change-adjusted prior forecast. The higher base combines with a higher near-term forecast for corporate profits growth to raise the current biennium net corporate tax receipts forecast. The previous corporate forecast estimate was based on IHS' February forecast, which assumed 5.3 percent growth in corporate profits in CY 2021 and 1.8 percent growth in CY 2022. In this forecast we use IHS' November 2021 baseline outlook which assumes growth of 19.2 percent in CY 2021, nearly four times the growth forecast in February, followed by 1.9 percent growth in CY 2022.

*Expenditures.* Total state general fund expenditures for the FY 2022-23 biennium are projected to be \$51.999 billion, \$364 million (0.7 percent) lower than previously expected. \$326 million of the change is in E-12 education, where spending projections are lower due to updated pupil counts. Other budget areas also lower spending including health and human services, debt service, and property tax aids and credits. These decreases are partially offset by an increase in spending in all other areas of \$136 million (1.4 percent) primarily due to the carryforward of unspent appropriations in FY 2021.

**Current Biennium: FY 2022-23 General Fund Expenditures  
End-of-Session vs. November 2021 Forecast Comparison**

(\$ in millions)	November 2021		\$ Change	% Change
	End-of-Session	Forecast		
E-12 Education	\$20,987	\$20,661	\$(326)	(1.6)%
Property Tax Aids & Credits	4,204	4,169	(36)	(0.9)
Health & Human Services	16,504	16,410	(94)	(0.6)
Debt Service	1,243	1,199	(44)	(3.5)
All Other	9,425	9,562	136	1.4
<b>Total Expenditures</b>	<b>\$52,363</b>	<b>\$51,999</b>	<b>\$(364)</b>	<b>(0.7)%</b>

*Reserves.* Minnesota Statute 16A.152 directs Minnesota Management and Budget (MMB) to allocate funds to the budget reserve account when there is a positive November forecast balance and other provisions such as repaying accounting shifts and funds borrowed from other sources are fulfilled. With this forecast, allocations to the budget reserve are triggered and \$870 million is allocated to the budget reserve account compared to end of session estimates. The balance of budget reserve account, as of this release, is \$2.656 billion.



*The budget reserve account balance in FY 2010 was \$0. Since then, the reserve balance has significantly largely increased due to a law change that sets a reserve target based on the volatility of the state’s revenue sources and allows for automatic allocation to the reserve when there is a projected balance at the time to the November Budget and Economic Forecast.*

**Stadium Reserve.** The FY 2021 ending balance of the stadium reserve account is \$107 million, \$26 million higher than end of session estimates. In FY 2021, \$51 million was added to the stadium reserve, by FY 2025 the amount allocated to the reserve is expected to be \$123 million. Given the increasing allocation amounts, the stadium reserve balance is expected to reach \$550 million by FY 2025.

**Budget Outlook: Planning Estimates.** Out year planning estimates are based on current law revenues and expenditures. These estimates inherently carry a higher degree of uncertainty than estimates for FY 2022-23. Revenue projections for FY 2024-25 are based on IHS’ November Baseline forecast for the planning years. Expenditure projections assume that current law funding levels and policies continue unchanged, adjusted for caseload and enrollment changes authorized in law, as well as formula driven growth. The expenditure forecast does not assume cost growth outside of a few specific budget areas where assumptions for price increases or market conditions are specified by statute.

To highlight structural balance, the table on the following page shows forecast revenues and projected spending and excludes the impact of balances from prior years and reserves. In the FY 2024-25 biennium forecast revenue is expected to exceed base level spending by \$5.953 billion.

Projected inflationary growth based on the Consumer Price Index is now forecast to be 2.2 percent per year in FY 2024 and FY 2025. After adjusting for programs with price increases included in the

current law formula, applying the annual inflation rate, compounded over 2 years, would add approximately \$1.165 billion in spending pressure to the FY 2024-25 biennium.

**Planning Horizon: General Fund Budget  
By Biennium, FY2022-25, November 2021 Forecast**

(\$ in millions)	FY 2022-23	FY 2024-25	\$ Change	Annual % Change
Forecast Revenues	\$56,037	\$60,285	\$4,248	3.7%
Projected Spending	51,999	54,333	2,333	2.4%
<b>Difference</b>	<b>\$4,038</b>	<b>\$5,953</b>		
<i>Estimated Inflation (CPI)<sup>1</sup></i>		<i>\$1,165</i>		

Since the February Forecast the IHS forecast for inflation in FY 2021-23 has significantly increased. The standard methodology used to calculate inflation in this document uses projected inflationary growth into the planning estimates (FY 2024-25) and doesn't factor in any changes in inflation for the current biennium since the budget for FY 2022-23 was enacted. The current circumstance where inflation in the current biennium is materially higher than when the budget was enacted could result in state agencies and programs experiencing inflationary cost pressures that current appropriation levels did not anticipate.

The planning estimates are not intended to predict surpluses or deficits two or more years into the future. Rather their purpose is to assist in determining how well 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 2024-25 planning estimates provide an important baseline against which the longer-term impacts and affordability of budget decisions can be measured.

<sup>1</sup> Inflation calculation grows the estimated general fund spending base in each year by the projected CPI growth rate after removing special education, debt service, property tax refunds, and the state share for managed and long term care.



## ECONOMIC OUTLOOK

### U.S. Economic Outlook

The U.S. economy continues to recover from the recession triggered by the outbreak of the COVID-19 pandemic. The U.S. unemployment rate fell in October to a seasonally adjusted 4.6 percent, the lowest since March 2020, and total employment is at 97 percent of the pre-pandemic level. Home values, financial asset values, and corporate profits have all risen. Nevertheless, significant challenges remain. The path of the pandemic, supply chain disruptions, labor force participation, and inflation all pose risks to the economic forecast.

IHS Markit (IHS), Minnesota's macroeconomic consultant, is now forecasting U.S. real GDP to increase 5.5 percent in 2021, down from 5.7 percent in their February outlook. IHS expects growth to decelerate to 4.3 percent in 2022, an improvement from the 4.1 percent growth forecast in February. Similarly, the outlook for years 2023 and 2024 have been revised up to 2.9 percent and 2.7 percent from 2.3 percent and 2.6 percent, respectively, while expected growth for 2025 remains unchanged at 2.6 percent.

The downward revision in the 2021 economic outlook is the result of a significant headwind in the second half of this year from supply-chain disruptions, which slowed production and inventory investment and contributed to price inflation. In IHS' November outlook, business investment and government purchases both contribute less to real GDP growth in 2021 than in the February forecast, offsetting a higher forecast for real consumer spending.

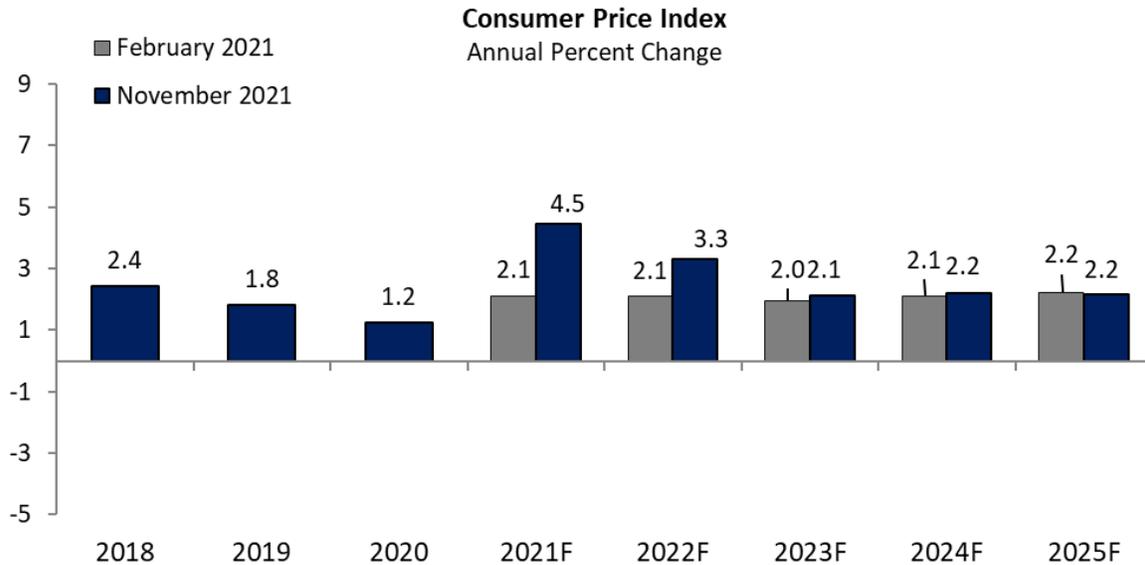
Despite the lower forecast for 2021 real GDP growth, some important underlying economic variables have exhibited stronger growth than expected so far this year. The current IHS forecasts for employment and real consumer spending are higher than in their February outlook. In addition, forecasts for nominal consumer spending, wage and salary income, and corporate profits—variables that impact tax revenues—are higher than in February. Looking forward, IHS expects GDP growth in 2022 to be supported by a declining rate of COVID infections, progress on vaccinations, easing of supply-chain blockages, a rising labor force participation rate, and accommodative monetary policy.



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

*IHS now expects U.S. real GDP to grow 5.5 percent in 2021, a 0.2 percentage point decrease from IHS' February baseline forecast. IHS expects GDP to grow 4.3 percent in 2022, followed by 2.9 percent in 2023, and 2.7 and 2.6 percent in 2024 and 2025 respectively.*

IHS has raised their forecast of Consumer Price Index (CPI) inflation in 2021 to 4.5 percent from 2.1 percent in their February outlook. For 2022, IHS now expects 3.3 percent inflation compared to 2.1 percent in February. These forecast changes for 2021 and 2022 are due to two main developments since February. First, recent energy prices, including oil prices, have been substantially higher than expected in February, and these prices are expected to remain elevated in the near-term. Second, a surge in durable goods inflation started in spring 2021. Year-over-year price changes in durable goods have registered between 10 and 15 percent each month since April. These increases are a sudden departure from the largely deflationary trend in durable goods prices since the late 1990s. Durable goods prices are expected to remain elevated in the near-term. Services-related inflation has only slightly exceeded what was typical in the last decade. IHS expects the gradual resolution of supply-chain issues and a rising U.S. labor force participation rate to slow inflation. They forecast CPI inflation of 2.1 percent in 2023 and 2.2 percent annually in both 2024 and 2025.



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

*IHS has raised their forecast of Consumer Price Index (CPI) inflation in 2021 to 4.5 percent from 2.1 percent in their February outlook. For 2022, they now expect 3.3 percent inflation compared to 2.1 percent in February. IHS expects the gradual resolution of supply-chain issues and a rising U.S. labor force participation rate to slow inflation.*

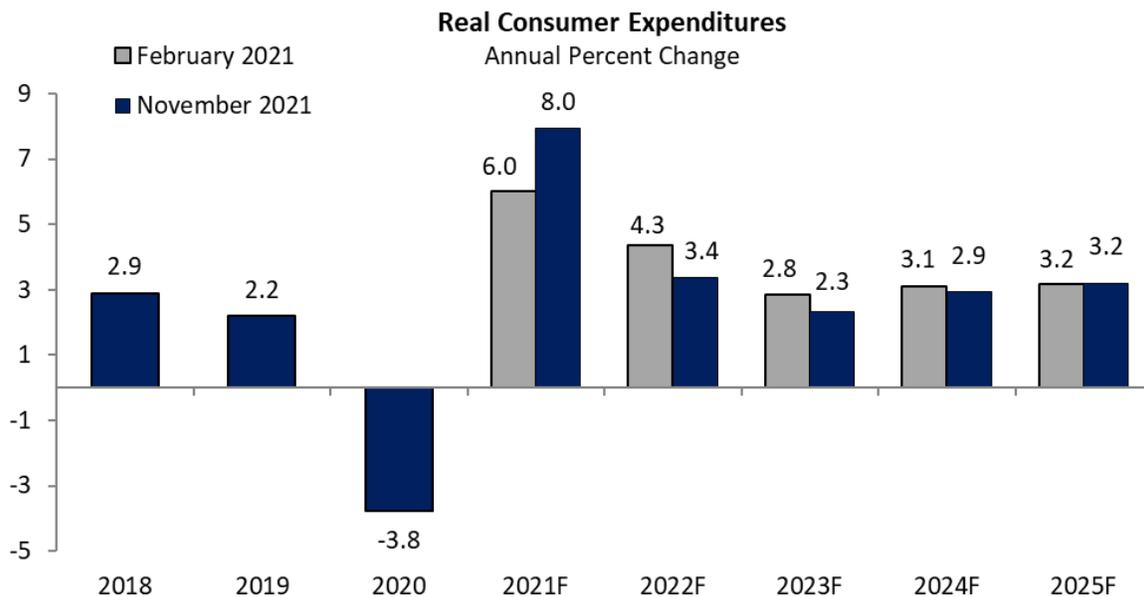
Corporate profits were unexpectedly strong during the first half of 2021, growing at an annual rate of 22.0 and 49.1 percent in the first two quarters of the year respectively. In February, IHS forecast 15.8 and 24.7 percent growth for the first two quarters. They now expect profits to grow 19.2 percent in CY 2021, nearly four times the rate of 5.3 percent they expected in February.

The U.S. outlook remains uncertain and depends on the path of the pandemic and on the responses of households, businesses, and government to the changing public health landscape. In this forecast, IHS assumes that the rate of COVID-19 infections continues to recede following the recent surge associated with the Delta variant. They now expect U.S. society to move toward managing the risks of co-existing with the virus for an extended period. The IHS November outlook was released on November 8, before the emergence of the Omicron variant became known.

**Federal Fiscal Policy.** The November IHS forecast reflects the impact of all federal relief packages enacted in 2020 as well as the \$1.9 trillion American recovery Plan (ARP) enacted in March. The forecast also includes the impact of the Infrastructure Investment and Jobs Act (IIJA) signed into law on November 15th. IHS has not included the Build Back Better (BBB) reconciliation bill in either the baseline forecast or the alternative scenarios forecasts, because its size, scope, and timing remained too uncertain to include in this forecast.

**Real Consumer Spending.** Federal stimulus and an improved COVID-19 situation earlier in 2021 led to strong growth in consumer spending in the first half of the year. The pace of spending slowed as concerns related to the Delta variant weighed on consumer service spending. In addition, ongoing supply-chain issues slowed light vehicle sales in the second half of the year.

According to the third estimates from BEA, real personal consumption expenditures increased by 11.4 percent (annual rate) in the first quarter of 2021 and by 12.0 percent (annual rate) in the second quarter, both substantially higher rates than the 7.5 percent and 3.6 percent growth IHS projected in February. As a result of this higher-than-expected growth in the first half of the year, IHS now expects consumer spending to grow 8.0 percent in 2021, compared to 6.0 percent in the February forecast. Although BEA estimates that real consumption expenditures grew only 1.7 percent (annual rate) in the third quarter, as the spread of the Delta variant weighed on consumer services spending, IHS expects consumer spending growth to reach 4.5 percent in the fourth quarter. They expect consumer spending to remain the primary contributor to growth in the economy, even as the pace of spending eventually slows.

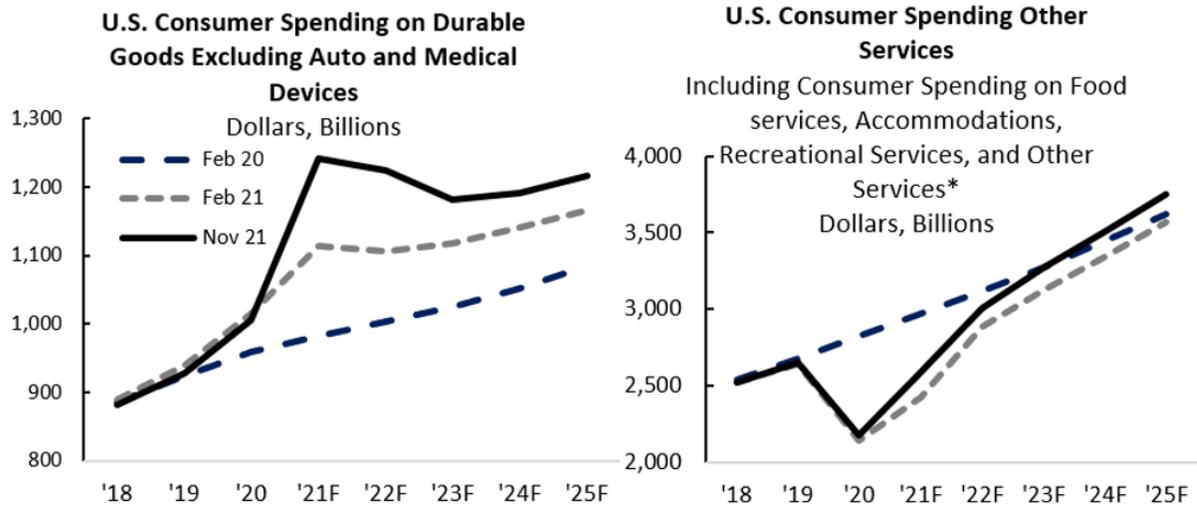


Source: U.S. Bureau of Economic Analysis (BEA), IHS Economics (IHS)

*Federal stimulus and an improved COVID-19 situation earlier in 2021 led to very strong growth in consumer spending in the first half of the year. As a result of this higher-than-expected growth, IHS now expects consumer spending to grow 8.0 percent in 2021, compared to 6.0 percent in the February forecast. IHS expects consumer spending to remain the primary contributor to growth in the economy, even as the pace of spending eventually slows.*

During the pandemic, consumers shifted their spending from personal services and activities like entertainment, dining, and travel, 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. Spending on durable goods other than autos and medical devices grew 23.3 percent in 2021, more than double the 9.7 percent rate forecast in February. This high growth comes on the heels of 8.5 percent growth in 2020, another very strong year. Moving forward, IHS expects a normalization of spending patterns as consumers begin spending more on services and less on goods, which would resume a long-term pre-pandemic trend. IHS expects that spending on goods will remain above its pre-pandemic level, but will reverse its two-year acceleration, which will help alleviate some of the pressure on supply chains committed to the production and distribution of goods.

IHS expects consumer spending on other services, which includes face-to-face services, such as such as food services, accommodations, and recreation, to grow 19.1 percent in 2021 after an 18.0 percent decline in 2020. IHS expects this type of consumer spending to surpass pre-pandemic levels in 2022 and grow 15.8 percent in 2022 and 9.0 percent in 2023.

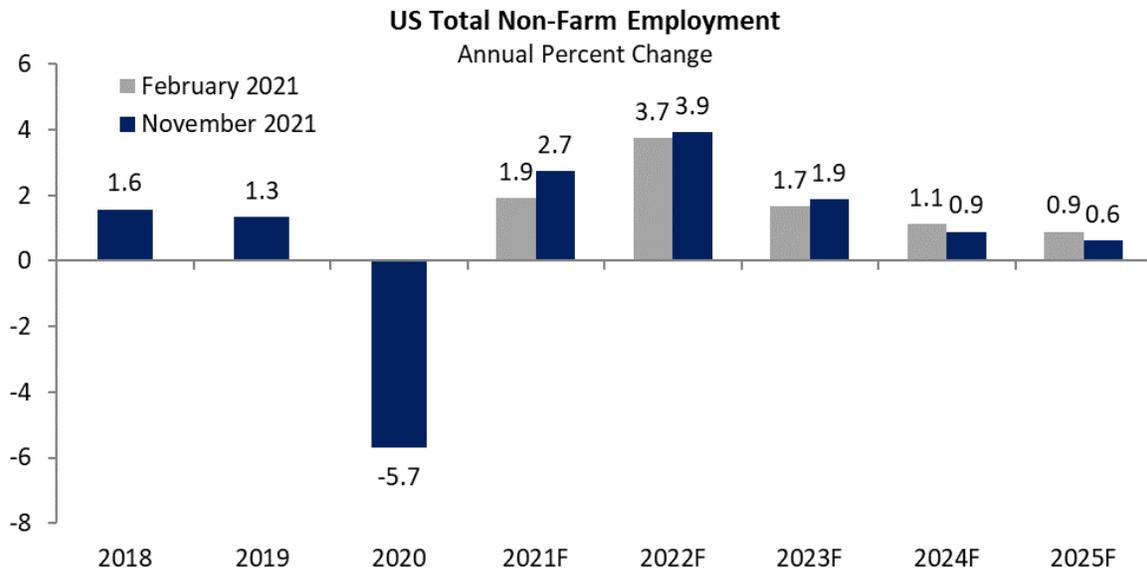


\*Other services includes communication services, education services, professional and other services, personal care and clothing services, social services, and household maintenance services.

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

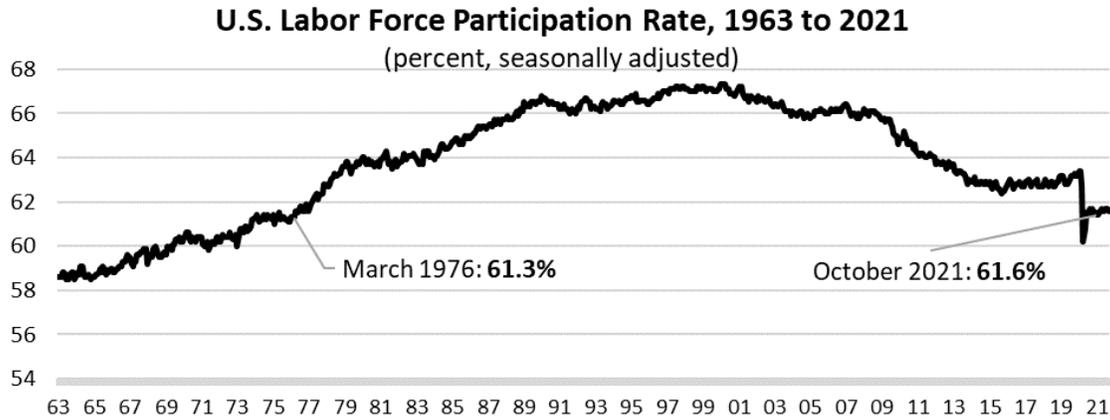
*Spending on durable goods other than autos and medical devices grew 23.3 percent in 2021, more than twice the February forecast of 9.7 percent growth. Moving forward, IHS expects a continued normalization of spending patterns as consumers begin spending more on services and less on goods, which will help alleviate some of the pressures on supply chains. They expect consumer spending on other services, which includes face-to-face services, such as food services, accommodations, and recreational services, to grow 19.1 percent this year and 15.8 percent in 2022 after declining 18.0 percent in 2020.*

**Labor Market.** During March and April 2020, the U.S. shed 22.4 million jobs. Since May 2020, the U.S. has added jobs nearly every month, but a 4.2 million hole in payroll employment remains as of October 2021. These 4.2 million jobs represent a 2.8 percent drop in total employment compared to February 2020. IHS forecasts payroll employment to increase by 3.9 million in 2021, 5.7 million in 2022, 2.9 million in 2023, and an average of 1.2 million per year in 2024 and 2025. IHS expects payroll jobs to surpass pre-pandemic levels in mid-2022, the unemployment rate to fall below 4.0 percent by mid-2022, and the unemployment rate to reach a low point at 3.5 percent in 2023.



*In March and April 2020, the U.S. lost 22.4 million jobs, nearly 15 percent of the February 2020 workforce. Although the economy has added back 18.2 million jobs, total employment in October 2021 was still 4.2 million jobs fewer, or 2.8 percent lower, than it was in February 2020. Total employment in the U.S. fell by 5.7 percent in 2020. IHS expects employment to grow 2.7 percent in 2021 and 3.9 percent in 2022, then decelerate through the remainder of the forecast period.*

According to the U. S. Bureau of Labor Statistics (BLS), in October 2021 almost 3.1 million fewer individuals were in the U.S. labor force than in February of last year. This is a 1.9 percent drop in the labor force. October’s labor force participation rate, the proportion of potential workers who were employed or unemployed and actively seeking employment, was 61.6 percent, little changed since July 2020 when labor force participation reached 61.4 percent, and well below the 63.4 percent prior to the onset of the pandemic.



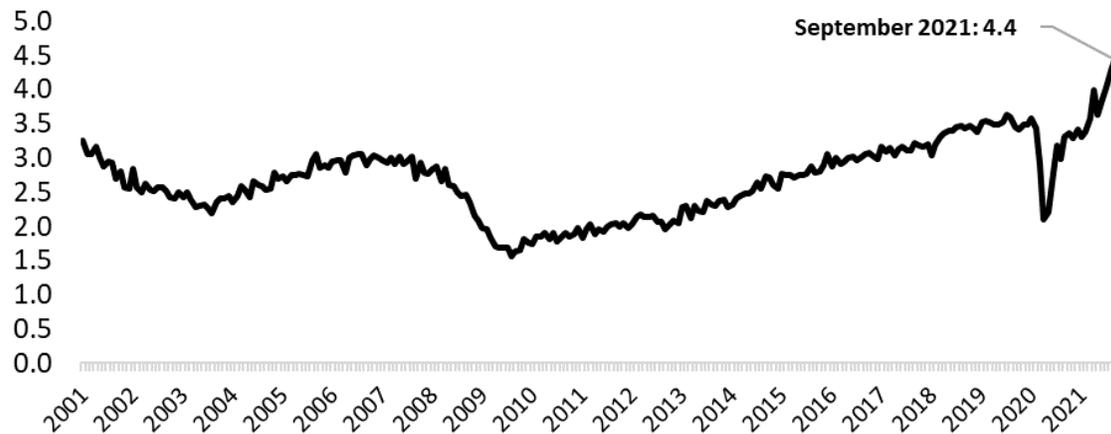
*According to the BLS, in October 2021 there were almost 3.1 million fewer individuals in the labor force compared to February of last year - this is a 1.9 percent drop in the labor force. October's labor force participation rate, the proportion of potential workers who were employed or unemployed and actively seeking employment, was 61.6 percent. Despite rising wages and job openings near all-time highs, the participation rate remains well below the pre-pandemic peak.*

Despite rising wages and job openings near all-time highs, the participation rate remains well below the pre-pandemic peak. Workers may be opting out of the labor force for a variety of reasons, including difficulties finding affordable and accessible daycare, lingering COVID-related safety concerns, and early retirement. IHS expects that the expiration of additional unemployment benefits in September, the widespread availability of vaccinations, and excess savings being drawn down may help the participation rate increase. However, structural changes to the labor force may be a long-term impact of the pandemic.

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 2.1 million in October, 828,000 higher than February 2020 but 1.6 million less than the recent peak of 3.7 million in November 2020. The number of workers on temporary layoff—those who do expect to return to work within six months—was 1.1 million in October, still 306,000 above the February 2020 level.

At the same time that permanent job loss continues to decline, workers have been more likely to quit their jobs, which has contributed to a dynamic labor market. The quits rate for September 2021, which measured the number of quits as a percent of total employment, was the highest in the history of the quits rate series at 3.0 percent. The rate was highest for the accommodation and food services sector at 6.6 percent, and lowest for government at 1.0 percent.

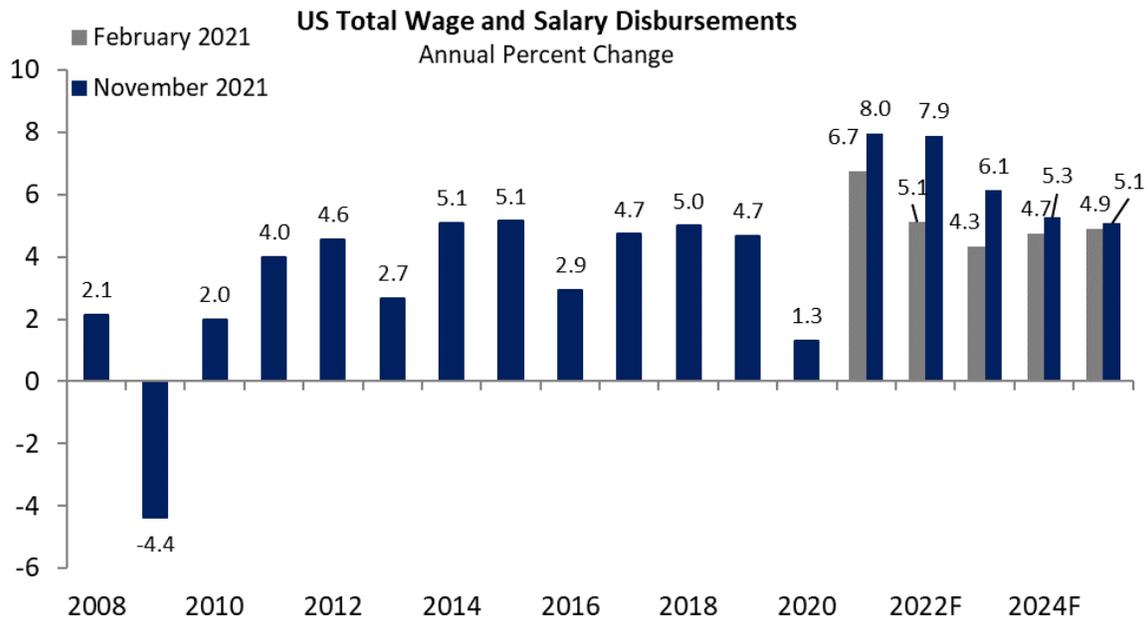
### U.S. Monthly Quits, Total Nonfarm millions, seasonally adjusted



Source: Bureau of Labor Statistics

*The number of workers on payroll who quit their jobs during the month increased noticeably starting in 2021. The level of quits has reached all-time highs several months this year. The months of August and September saw the two highest levels of quits on record, at 4.3 and 4.4 million respectively.*

**Wage and Salary Income.** IHS has increased their forecast for growth in total U.S. wage and salary disbursements compared to February. Wage and salary disbursements declined 3.2 percent year-over-year in the second quarter of 2020, as the pandemic caused mass layoffs and furloughs. But wage and salary income rebounded so strongly in the latter half of the year that it increased 1.3 percent in 2020, a 0.7 percentage point improvement from IHS's February forecast. Wage growth amid tremendous job loss in 2020 illustrates how uneven employment and wage losses last were, with low-wage workers much more likely to lose jobs than high-wage workers. Employment recovery in lower-wage industries has continued to lag employment recovery in higher-wage industries. IHS expects wage income growth of 8.0 percent in 2021, a 1.3 percentage point improvement from the February forecast. The forecast for wage and salary income has been revised upward significantly for years 2022-25, with an average forecast increase of 1.4 percentage points per year. IHS expects wage and salary growth of 7.9 percent next year, 6.1 percent in 2023, and 5.3 and 5.1 percent in 2024 and 2025, respectively.

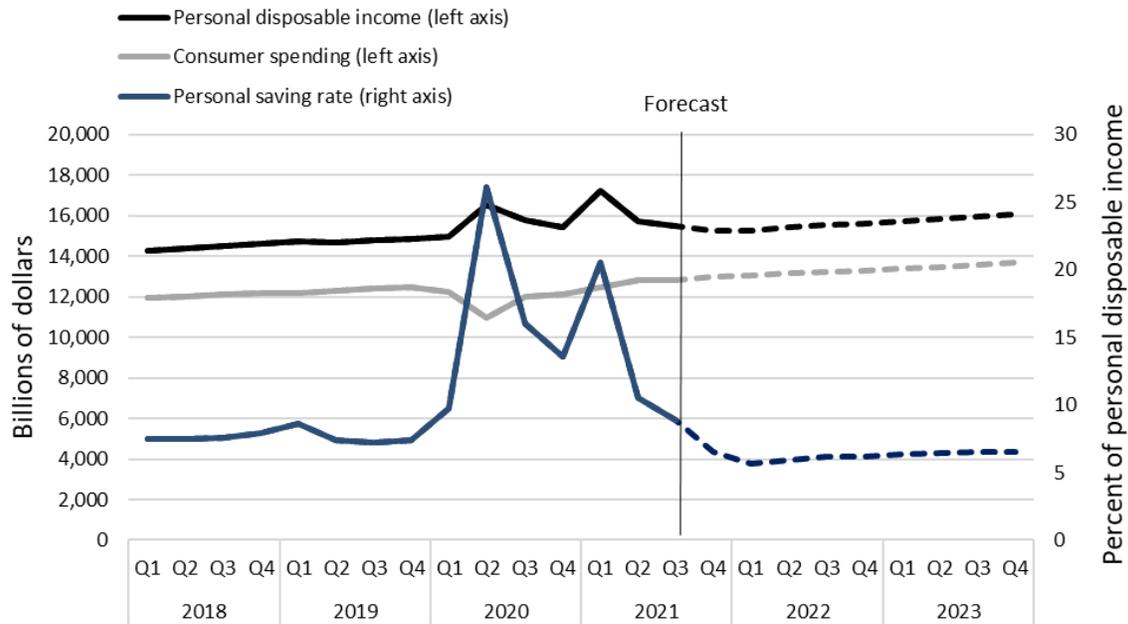


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Despite small wage and salary income growth in 2020, disposable personal income increased substantially. Real disposable personal income increased 6.2 percent in 2020 and is expected to grow 1.7 percent in 2021. Growth in disposable personal income was strongly influenced by pandemic-related government payments. Individuals benefited from federal transfer payments in the form of stimulus checks and emergency unemployment insurance benefits.

The growth in disposable personal income in 2020 and 2021 was accompanied by a significant increase in personal saving. Between 2009 and 2019, the U.S. household saving rate averaged 7.1 percent annually. Fueled by federal transfer payments and limited opportunities to spend on services, the personal saving rate jumped to 16.4 percent in 2020, and IHS expects the personal savings rate to end 2021 at 11.6 percent. IHS expects the personal saving rate to average a more typical 6.4 percent from 2022 to 2025, as households spend down some of their excess savings.

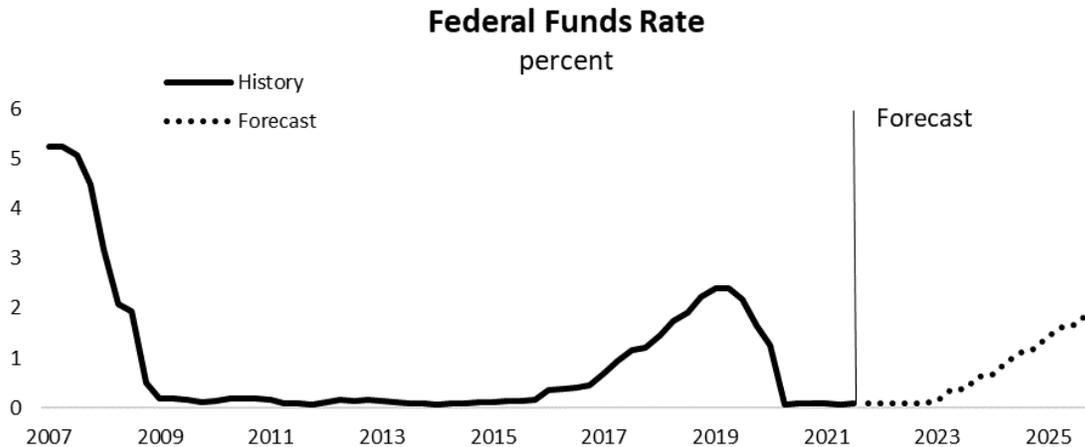
### U.S. Disposable Personal Income, Spending, and Saving



Source: IHS Markit, BEA

*Between 2009 and 2019, the U.S. household saving rate averaged 7.1 percent annually. The personal saving rate was 16.4 percent in 2020, and IHS expects the personal savings rate to be 11.6 percent in 2021. IHS expects the personal saving rate to average a more typical 6.4 percent from 2022 to 2025 as households spend down some of their excess savings.*

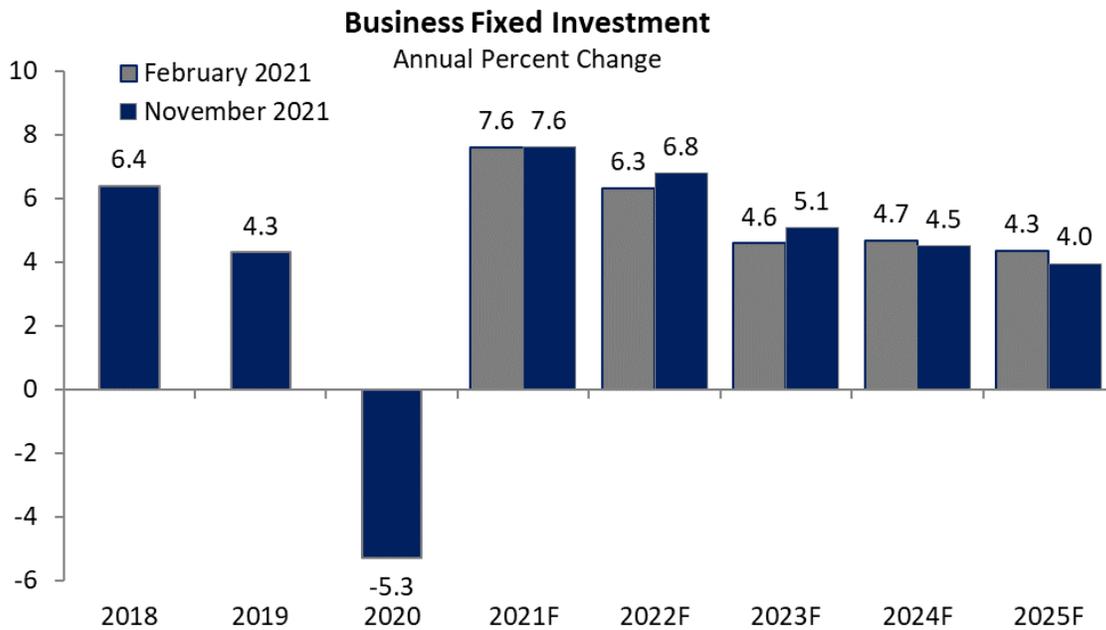
**Monetary Policy.** To keep financial markets stable in 2020, the FOMC cut rates by 150 basis points in March 2020, bringing the effective target federal funds rate to zero. IHS now expects the federal funds rate to remain near zero until March 2023, after which they forecast the Federal Reserve to raise rates. This expected “lift-off” occurs 18 months earlier than IHS expected in February and is driven by upward revisions in near-term inflation. IHS has raised their forecast for headline CPI inflation to 4.5 percent in 2021 and 3.3 percent in 2022, compared to 2.1 percent in both years in their February forecast. IHS expects the Federal Reserve to tolerate inflation slightly above 2 percent beyond 2023.



Source: IHS Markit

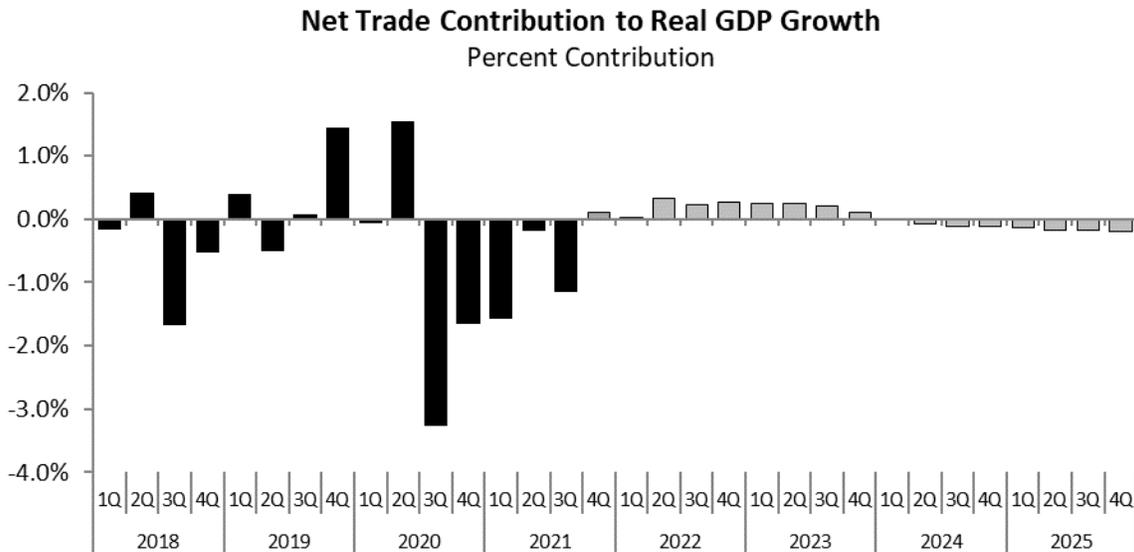
*In their current outlook, IHS expects the FOMC to raise the federal funds rate from its zero lower bound in March 2023, 18 months sooner than forecast in February.*

**Real Business Fixed Investment.** After a decline of 4.0 percent in 2020, real business fixed investment is expected to increase 7.6 percent in 2021 and remain strong at 6.8 percent in 2022. In years 2023-2025, business fixed investment growth is expected to average 4.5 percent per year. Spending in this category was very strong in the first half of 2021, but a drop in vehicle sales due to shortages of semiconductors and low inventories contributed to a softer second half of the year. IHS expects business fixed investment to be a bright spot moving forward, supported by the continuing recovery, and lower interest rates. Firming petroleum prices are also supporting increases in investment spending in mining and petroleum structures.



*In their February outlook, IHS expects business fixed investment to be a bright spot moving forward, forecasting growth of 7.6 percent in 2021, 6.8 percent in 2022, and average 4.5 percent annual growth from 2023 to 2025.*

**International Trade.** Net exports continue to represent a drag on U.S. real GDP growth, which has been the case since the third quarter of 2020. Since the beginning of the global pandemic, U.S. demand for foreign goods has increased relative to the foreign demand for U.S. goods. In their November forecast, IHS expects export growth to begin to outpace import growth in the fourth quarter of this year as foreign markets recover and foreign producers and consumers resume their demand for U.S. products. IHS expects net exports to contribute positively to real GDP growth through the end of 2023.



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

*Net exports represented a 1.1 percent drag on U.S. real GDP growth in the third quarter of 2021. IHS expects export growth to begin to outpace import growth in the fourth quarter and last through the end of 2023 as foreign markets recover and foreign producers and consumers resume their demand for U.S. products. IHS expects net exports to again be a slight drag on the economy in 2024 and 2025.*

The onset of the pandemic in spring 2020 caused the U.S. dollar to sharply appreciate relative to the currencies of other world economies. Since the peak of the nominal broad trade-weighted dollar index in March 2020, the dollar has eased back to slightly below pre-pandemic levels. IHS expects the dollar to depreciate slightly in value from 2022 to 2024 as foreign markets recover from the economic impacts of the global pandemic. This will help support U.S. exports.



Source: Board of Governors of the Federal Reserve System, FRED (Federal Reserve Bank of St. Louis)

*A significant rise in the dollar against U.S. trading partners from 2014 to 2019 strengthened imports and weakened exports. After the nominal broad trade-weighted dollar index appreciated sharply to a peak in March 2020, a 10 percent increase from the end of 2019, the index has eased back to slightly below pre-pandemic levels. IHS expects the dollar to depreciate slightly from 2022 through 2024, supporting exports.*

The IHS November baseline forecast is similar to the Blue Chip Consensus, the median of 50 business and academic forecasts. The Blue Chip consensus expects real GDP growth of 5.5 percent in 2021, matching the IHS forecast. IHS expects 4.3 percent growth in 2022, above the Blue Chip Consensus forecast of 4.0 percent.

**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.

IHS assumes that the recent rapid spread of the Delta strain of the coronavirus delays the recovery in consumer spending on services. They also expect the spread of the variant to restrict supply, both in the form of constricted supply chains and reduced labor force participation. IHS does not expect the U.S. to implement another national lockdown in response to the virus spread, but they anticipate that the U.S. will increasingly treat the coronavirus as an endemic risk. The IHS November forecast was released before the Omicron variant was identified.

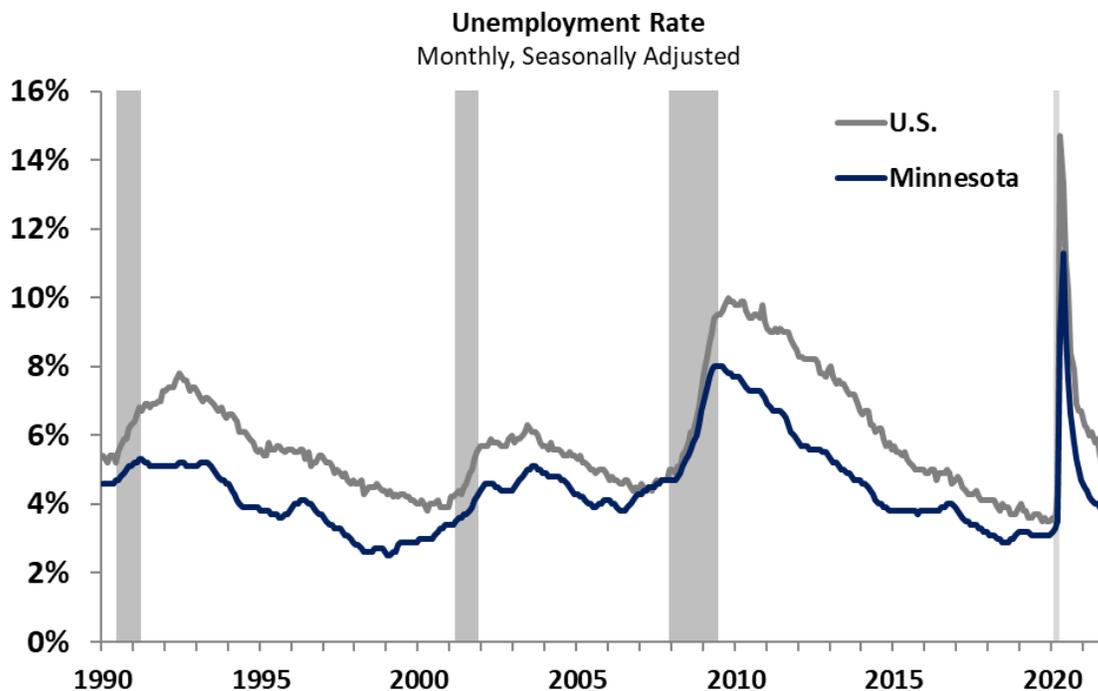
IHS' November baseline outlook continues to reflect all pandemic relief measures enacted in 2020 and 2021, including the American Rescue Plan. IHS also assumes that the IIJA will provide a modest stimulus to the economy after 2022. The Act's peak effect is expected to raise the level of real GDP by 0.5 percent in 2025-26 and raise the level of employment by 750,000 by 2025-26. Growth and employment effects attributable to IIJA are expected to decelerate after 2026. The IIJA primarily entails spending on physical infrastructure over the course of five years, totaling \$548 billion of new budget authority, approximately half of which will go to the U.S. Department of Transportation. IHS does not include Congress's Build Back Better (BBB) reconciliation bill in their baseline forecast, as its size, scope, and implementation remain uncertain.

Other key assumptions of IHS' November outlook are: (1) the Federal Reserve raises the federal funds rate above its zero lower bound in March 2023 and increases it to a "neutral" range of 2.5 – 2.75 percent by mid-2027, (2) the tariffs enacted by the U.S. and China since 2017 remain in effect, (3) global GDP growth reaches 5.5 percent in 2021 and 3.9 percent in 2022 as COVID-19 spread is mitigated, and (4) the Brent crude oil price continues rising steeply to \$84/barrel in the fourth quarter of this year after registering just \$44/barrel one year previously, then subsides to \$69/barrel by the fourth quarter of 2023.

IHS assigns a probability of 50 percent to the November baseline outlook. They consider the forecast risks to be weighted towards the downside. IHS assigns a 30 percent probability to a pessimistic scenario, characterized by (1) weaker consumer spending on services resulting from a resurgence in COVID-19 cases and hospitalizations, and (2) ongoing supply-chain issues that restrict production and consumption of durable goods. In this scenario, real GDP grows 1.3 percent (annual rate) in the fourth quarter of 2021 and 3.1 percent in 2022, compared to 4.4 and 4.3 in the baseline outlook. IHS assigns a 20 percent probability to a more optimistic scenario, in which the economy grows faster than in the baseline. The key assumptions underlying this scenario are (1) a faster acceleration in consumer spending supported by an effective response to the spread of the Delta variant, (2) stronger productivity on the part of firms, which in turn increases corporate profitability, and (3) a stronger consumer and business response to the IIJA. In this optimistic scenario, real GDP grows 7.2 percent (annual rate) in the fourth quarter of 2021 and 5.7 percent in 2022.

## Minnesota Economic Outlook

Driven by a stronger U.S. forecast, the economic outlook for Minnesota has improved since MMB's *Budget and Economic Forecast* was prepared in February 2021. The pandemic-induced economic downturn that began in February of 2020 brought severe disruptions to Minnesota's economy. During 2020, the state experienced job and wage income losses, a reduced labor force, and changes in consumer spending patterns. In this forecast, an improved U.S. outlook for consumer spending, wage and salary growth, total employment, and personal income drives our expectation that Minnesota's job and wage losses of 2020 will be followed by positive employment and wage growth through our forecast period, despite many Minnesotans remaining out of the labor force in the near-term. Minnesota's economic outlook is informed by the IHS forecasts for both the U.S. and for Minnesota, data from the Minnesota Department of Economic and Employment Development (DEED), and Minnesota tax revenues.



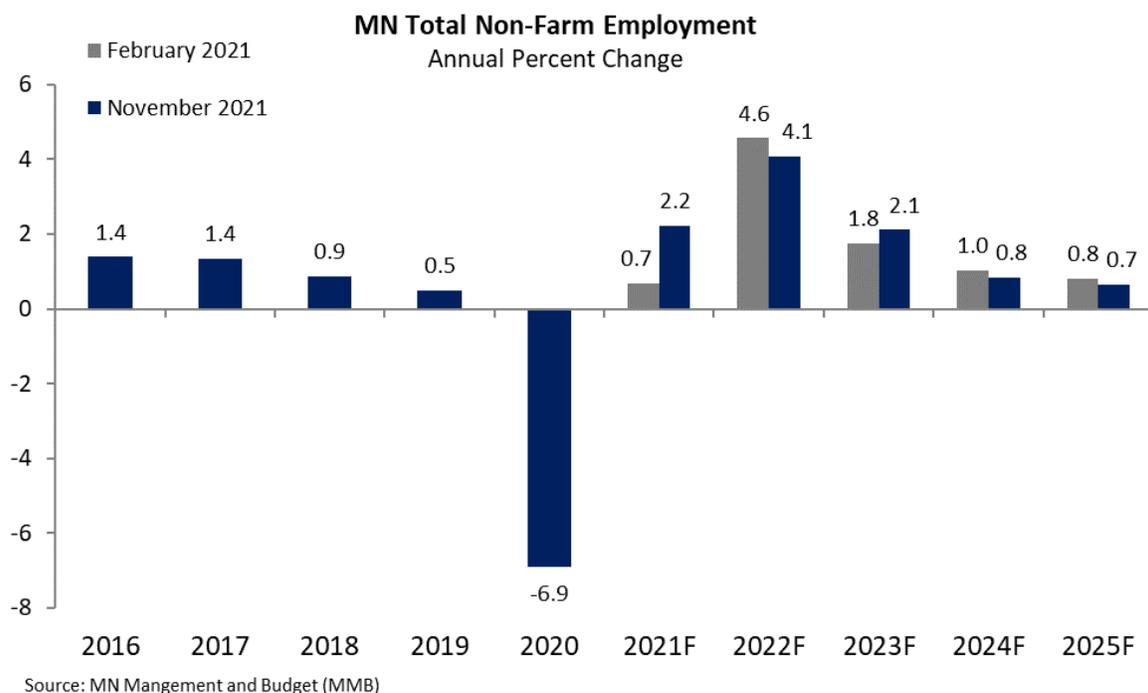
Source: MN Department of Employment and Economic Development (DEED)

*For the first time since March 2020, the state's unemployment rate fell to 3.5 percent in October, down from 3.7 in September on a seasonally adjusted basis, and 1.1 percentage points below the U.S. unemployment rate of 4.6 percent. The unemployment rate does not capture Minnesotans that have left the labor force, including retirements or those who opted to stay home to care for children. Since the onset of the pandemic, Minnesota's labor force has fallen by 84,000.*

**Labor Market.** In March and April 2020, as the pandemic was taking hold, Minnesota lost 416,000 jobs, approximately 14 percent of February 2020 employment. Except for November and December 2020, Minnesota has added jobs on a seasonally adjusted basis each month since May 2020. Through October 2021, 295,800 of the jobs originally lost have been recovered. However, Minnesota's employment levels are still 120,500 (4.4 percent) lower than in February 2020.

For the first time since March 2020, the state’s unemployment rate fell to 3.5 percent, down from 3.7 in September on a seasonally adjusted basis, and 1.1 percentage points below the U.S. unemployment rate of 4.6 percent. The unemployment rate does not capture Minnesotans that have left the labor force, including retirements or those who opted to stay home to care for children. Since the onset of the pandemic, Minnesota’s labor force has fallen by 84,000. This decline in the labor force can also be seen in the labor force participation rate, the share of the over-16 population that is either working or looking for work. As of October, Minnesota’s labor force participation rate was 67.8 percent, 1.1 percentage points lower than a year ago and 2.4 percentage points lower than in February 2020. Minnesota’s labor force participation rate remains 6.2 percentage points above the U.S. rate and the fifth highest among U.S. states.

We forecast that Minnesota employment will recover at a rate of 2.2 percent this year and 4.1 percent next year after a decline of 6.9 percent in 2020. From 2023 to 2025 we expect employment growth to decelerate from 2.1 percent in 2023 to less than 0.7 percent in 2025.



*We forecast that Minnesota employment will recover at a rate of 2.2 percent this year and 4.1 percent next year after a decline of 6.9 percent in 2020. From 2023 to 2025 we expect employment growth to decelerate from 2.1 percent in 2023 to less than 0.7 percent in 2025.*

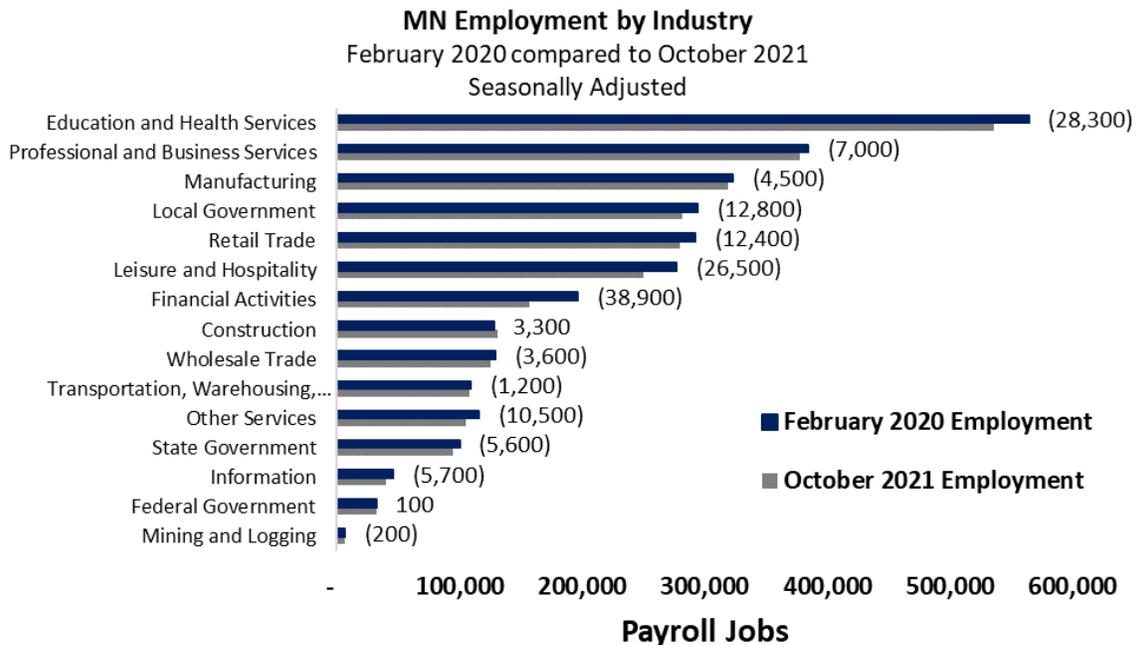
Broader measures of unemployment can provide additional insights into characteristics of Minnesota’s labor market. The most comprehensive measure of unemployment, which the BLS calls U-6, is defined as the number of unemployed people (U-3), plus workers who are marginally attached to the labor force (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 6.8 percent, down from 7.2 percent in September, and well below the 10.1 percent rate of

one year ago. All estimates of alternative measures of unemployment are provided in 12-month moving averages in order 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, 58,300 workers fell into this category, 4,700 fewer than in September and well below 112,500 one year ago. In October, 4,500 Minnesotans were counted as discouraged workers--those marginally attached workers who believe no jobs are available to them--up from 3,200 a year ago.

In October, 41,400 Minnesotans were reported as long-term unemployed, those unemployed more than 27 weeks. This number was down from 44,100 in September but is still much higher than 11,100 in February 2020.

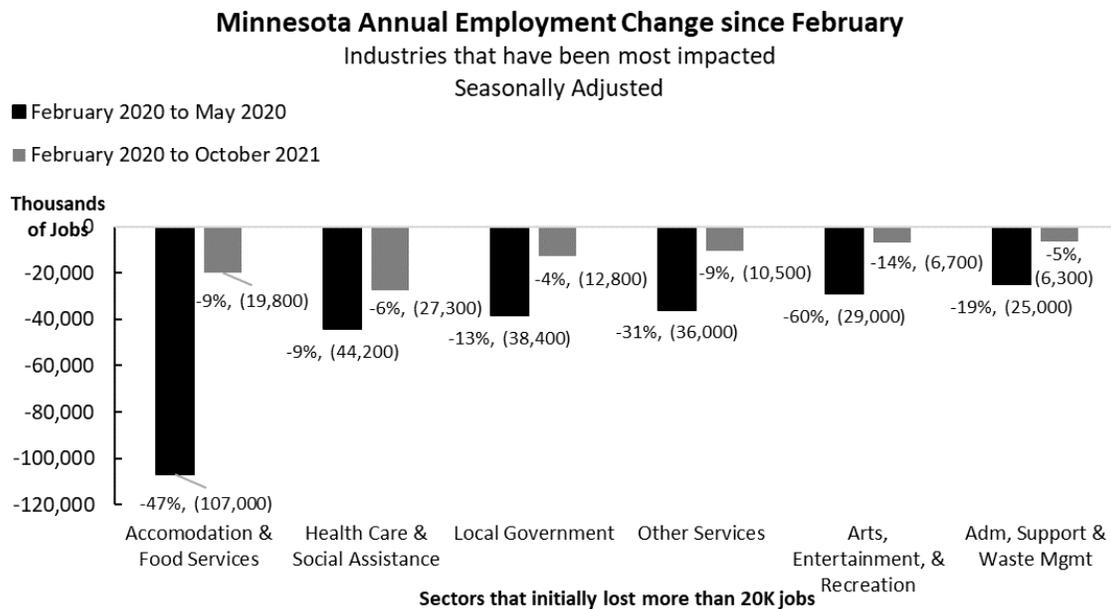
The chart below shows the size of employment sectors in February 2020 (represented in grey bars) compared to October 2021 (represented by blue bars). The numbers at the end of each set of bars indicate the change in employment for each sector between the two months. Minnesota’s three largest sectors by share of employment are Education and Health Services, Professional and Business Services, and Manufacturing. As the chart illustrates, the Leisure and Hospitality industry is the sixth largest sector in Minnesota and has borne the brunt of job loss related to the pandemic, losing 26,500 jobs between February 2020 and October 2021.



*Minnesota’s three largest sectors by share of employment are Education and Health Services, Professional and Business Services, and Manufacturing. The Leisure and Hospitality industry is the sixth largest sector in Minnesota and has borne the brunt of job loss related to the pandemic, losing 26,500 jobs between February 2020 and October 2021.*

Through October 2021, Minnesota still has 120,500 fewer jobs than in February 2020. Six sectors have been most heavily impacted in MN- Accommodation & Food Services; Health Care & Social Assistance; Local Government; Other Services; Arts, Entertainment, & Recreation; and Administration, Support, Waste Management, and Remediation Services. These six industries represent 83,400 of the jobs that have not yet recovered, or 69 percent of the total hole in MN employment of 120,500.

The chart below shows the change in the number of jobs in the six sectors that lost more than 20,000 jobs between February and May of 2020. The bars on the left indicate the number of jobs lost between February and May 2020, and the bars on the right indicate the number of jobs lost through October 2021. The percentage change labels have been included to indicate the declines as a percentage of February 2020 employment by sector. Between February and May 2020, Minnesota’s leisure and hospitality industry—which includes (1) the accommodation and food services sector and (2) the arts, entertainment, and recreation sector—lost 136,000 jobs, about half of its pre-pandemic employment. Through October 2021, the employment loss since February 2020 had been reduced to 26,500 jobs, 10 percent of the industry’s pre-pandemic employment. Job losses in leisure and hospitality have disproportionately impacted low-income workers. Excluding the six hardest-hit sectors in the chart, all other sectors combined had 37,100 fewer jobs in October 2021 than in February 2020.



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

*Between February and May 2020, Minnesota’s leisure and hospitality industry—which includes (1) the accommodation and food services sector and (2) the arts, entertainment, and recreation sector —lost 136,000 jobs, about half of its pre-pandemic employment. Through October 2021, the employment loss since February 2020 had been reduced to 26,500 jobs, 10 percent of the industry’s pre-pandemic employment.*

The 2020 Census data revealed that Minnesota grew by 7.6 percent (402,569) people in the last decade. The national average growth during this period was 7.4 percent. U.S. growth was slower

this decade than in the prior decade due to population aging, and that is true for Minnesota as well. Minnesota’s growth of 7.6 percent in the 2010s was more than twice the Midwest regional average of 3.1 percent. Information on the components of population change, such as domestic in-migration and international immigration, will be released in late December.

**Wage and Salary Income.** An important 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 2021. We expect total wage income, the sum of all wages distributed, to increase 8.5 percent in 2021, the highest year over year increase in Minnesota wage and salary income since 1998. We expect strong wage growth to continue at a rate of 7.3 percent in 2022, 5.9 percent in 2023, and 5.1 and 4.9 percent in 2024 and 2025, respectively.

**MN Total Wage and Salary Disbursements**  
Annual Percent Change



Source: MN Management and Budget (MMB)

*We expect total wage income, the sum of all wages distributed, to increase 8.5 percent in 2021, the highest year over year increase in Minnesota wage and salary income since 1998. We expect strong wage growth to continue at a rate of 7.3 percent in 2022, 5.9 percent in 2023, and 5.1 and 4.9 percent in 2024 and 2025, respectively.*

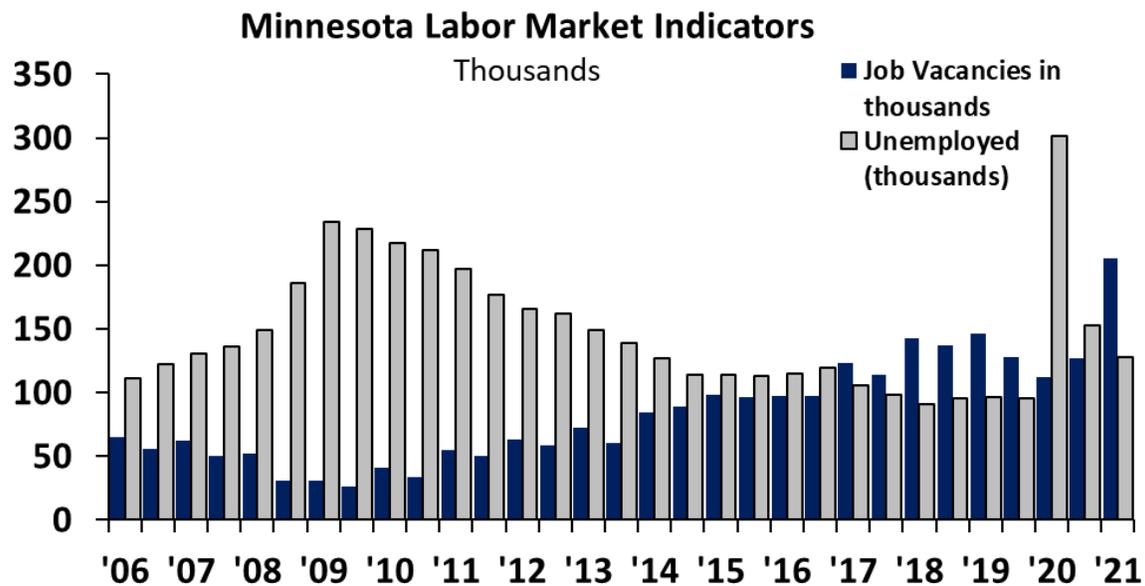
**Forecast Comparison: Minnesota & U.S.**

Forecast 2021 to 2025, Calendar Years

	2018	2019	2020	2021	2022	2023	2024	2025
<b>Personal Income (Billions of Current Dollars)</b>								
<b>Minnesota</b>								
November 2021	319.6	329.5	350.8	371.5	373.9	392.6	412.3	433.0
%Chg	5.0	3.1	6.5	5.9	0.6	5.0	5.0	5.0
February 2021	321.6	331.8	349.3	363.5	363.1	379.8	397.2	415.7
%Chg	5.1	3.2	5.3	4.1	-0.1	4.6	4.6	4.7
<b>U.S.</b>								
November 2021	17,706	18,424	19,628	20,905	21,106	22,158	23,323	24,569
%Chg	5.1	4.1	6.5	6.5	1.0	5.0	5.3	5.3
February 2021	17,852	18,552	19,725	20,590	20,567	21,473	22,534	23,659
%Chg	5.3	3.9	6.3	4.4	-0.1	4.4	4.9	5.0
<b>Wage and Salary Disbursements (Billions of Current Dollars)</b>								
<b>Minnesota</b>								
November 2021	172.9	179.1	178.3	193.4	207.6	219.9	231.1	242.4
%Chg	4.3	3.6	-0.5	8.5	7.3	5.9	5.1	4.9
February 2021	172.8	178.9	177.7	188.4	197.8	206.7	215.6	225.5
%Chg	4.2	3.5	-0.6	6.0	5.0	4.5	4.3	4.6
<b>U.S.</b>								
November 2021	8,901	9,324	9,444	10,195	10,999	11,674	12,288	12,914
%Chg	5.0	4.8	1.3	8.0	7.9	6.1	5.3	5.1
February 2021	8,894	9,309	9,369	10,000	10,513	10,967	11,486	12,051
%Chg	5.0	4.7	0.6	6.7	5.1	4.3	4.7	4.9
<b>Total Non-Farm Payroll Employment (Thousands)</b>								
<b>Minnesota</b>								
November 2021	2,964	2,983	2,777	2,839	2,955	3,017	3,043	3,063
%Chg	0.8	0.6	-6.9	2.2	4.1	2.1	0.8	0.7
February 2021	2,963	2,978	2,782	2,801	2,928	2,980	3,011	3,035
%Chg	0.9	0.5	-6.6	0.7	4.6	1.8	1.0	0.8
<b>U.S.</b>								
November 2021	148,893	150,900	142,252	146,142	151,869	154,731	156,117	157,073
%Chg	1.6	1.3	-5.7	2.7	3.9	1.9	0.9	0.6
February 2021	148,893	150,900	142,259	144,985	150,399	152,907	154,639	156,019
%Chg	1.6	1.3	-5.7	1.9	3.7	1.7	1.1	0.9
<b>Average Annual Non-Farm Wage (Current Dollars)</b>								
<b>Minnesota</b>								
November 2021	58,333	60,043	64,199	68,120	70,242	72,881	75,939	79,143
%Chg	3.4	2.9	6.9	6.1	3.1	3.8	4.2	4.2
February 2021	58,313	60,056	63,888	67,270	67,541	69,362	71,608	74,303
%Chg	3.4	3.0	6.4	5.3	0.4	2.7	3.2	3.8
<b>U.S.</b>								
November 2021	59,778	61,786	66,390	69,763	72,426	75,444	78,711	82,218
%Chg	3.4	3.4	7.5	5.1	3.8	4.2	4.3	4.5
February 2021	59,736	61,692	65,858	68,974	69,901	71,723	74,279	77,239
%Chg	3.4	3.3	6.8	4.7	1.3	2.6	3.6	4.0

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

**Job Vacancies.** Prior to the COVID-19 recession, Minnesota had low unemployment and a high demand for labor. While job losses during the pandemic changed that picture, the most recent data from DEED’s job vacancy report suggests that Minnesota once again has a high demand for labor as employers struggle to fill vacant positions. The most recent Job Vacancy Survey covers the second quarter of 2021 and reports that there are now 205,714 job vacancies in the state, an increase of 84 percent from the same period last year. In the second quarter of 2021 there were 0.6 unemployed persons for each vacancy statewide, or 6 people for each ten job openings.



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

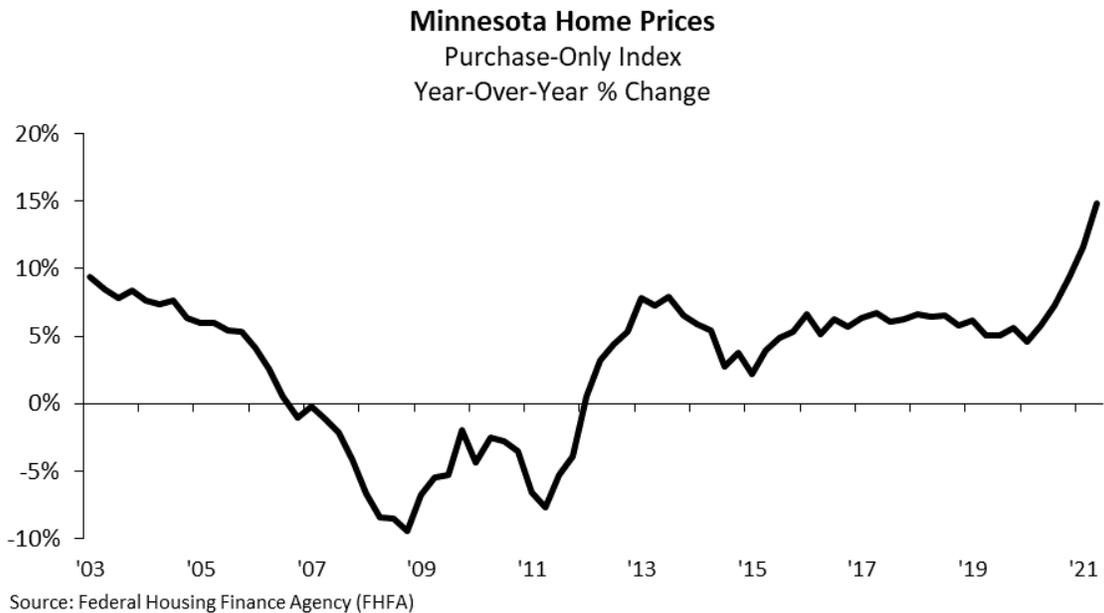
*The most recent data from DEED’s job vacancy survey reports there are now 205,714 job vacancies in the state. Employers are struggling to fill vacant positions, with only 6 unemployed people available for every 10 job vacancies.*

Industries showing the largest numbers of job vacancies include Healthcare and Social Services (39,727 job vacancies), Accommodation and Food Services (37,363 job vacancies), and Retail Trade (36,174 job vacancies).

**Homebuilding Activity.** Minnesota’s housing supply has not been able to keep up with demand for homes in the state, causing a hyper-competitive environment and record sales prices. Rising prices have now defined the state’s housing market for several years, with the median sales price statewide breaking \$300,000 for the first time in April 2021. The statewide median sales price increased through October 2021 to \$308,500, an 8.2 percent increase over one year ago. According to the Minnesota Association of Realtors (MAR), there was a 1.5-month supply of homes in October for sale based on the current statewide sales pace, compared to a 1.9-month supply one year earlier. On average, sellers are receiving 99.7 percent of the original list price at sale. The time a property is on the market until sold is about 30 days, down from 39 days a year ago.

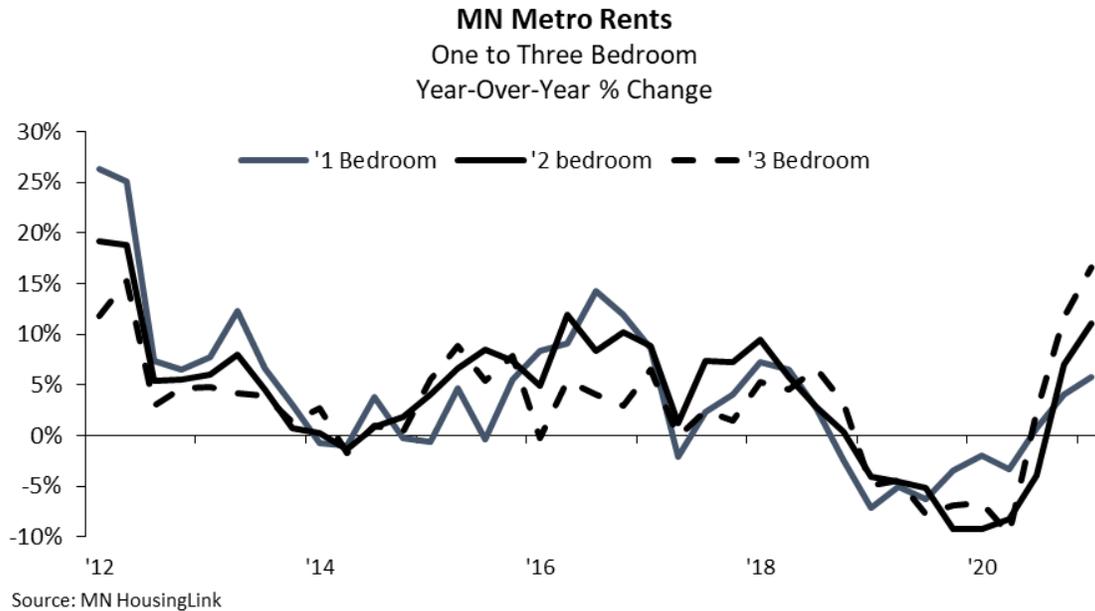
The median sales price for metro-area homes also increased, rising 9.7 percent to \$339,900 compared to \$309,900 in October of last year. Homes in the metro area were being sold after more than 27 days on the market compared to 35 days one year ago. Metro-area sellers received 100.3 percent of the original list price at closing.

The 30-year fixed mortgage rates are now averaging around 3.0 percent, after reaching an all-time low of 2.65 in January 2021. In contrast, rates are now averaging around 3.0 percent, after reaching an all-time low of 2.65 in January 2021. While higher median prices increase monthly payments, lower rates constrain them. Combining these effects, affordability has remained at a constant, relatively low level over the past two years based on the housing affordability index—the ratio of median household income to the income needed to purchase a house. The statewide affordability index was 144 in October, down from 162 one year ago. In this forecast, IHS expects the 30-Year fixed mortgage rate to increase to 3.4 percent in 2022 from 3.0 percent in 2021. IHS expects the rate to increase again to 3.9 percent in 2023.



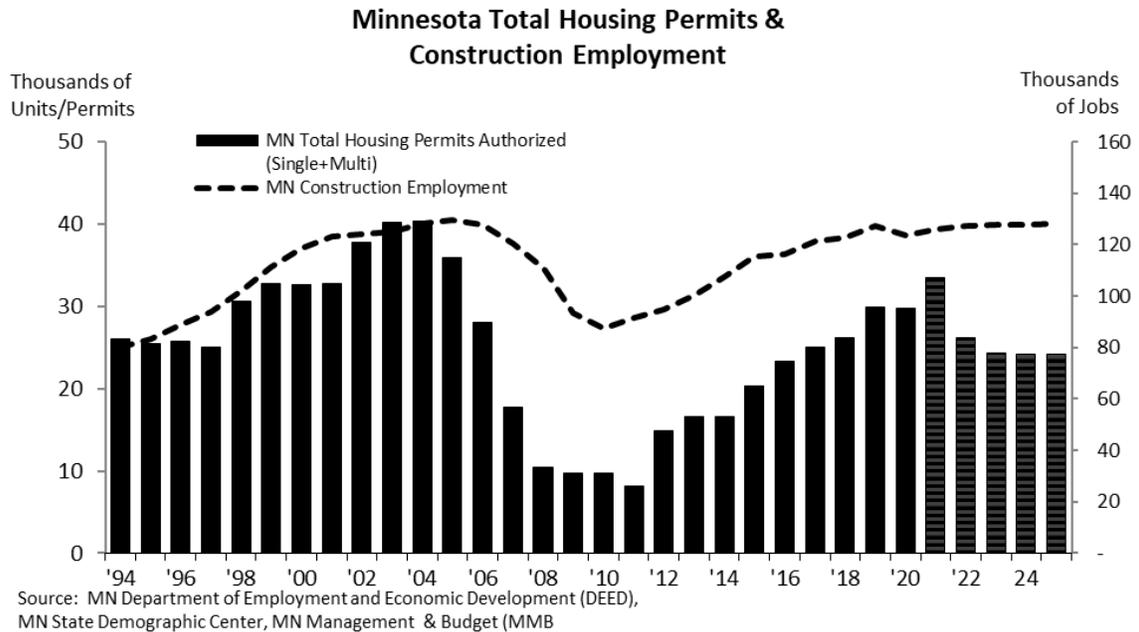
*Rising prices have now defined the state’s housing market for several years, with the median sales price statewide breaking \$300,000 for the first time in April 2021. In October, the statewide median sales price had increased 8.2 percent from a year prior, reflecting a median sales price of \$308,500.*

Similarly, rents in Minnesota are increasing rapidly after a brief decline coinciding with the pandemic. According to data from MN HousingLink, statewide rents for single bedroom units increased by 6 percent in the third quarter of 2021, while rents for two-bedroom units and three-bedroom units increased by 11 percent and 17 percent, respectively. Rents in the metro area are increasing more rapidly than out-state Minnesota. Statewide, rents for single bedroom units increased 9 percent in the third quarter of 2021, rents for two-bedroom units increased 15 percent, and rents for three-bedroom units increased 17 percent.



*According to data from MN HousingLink, rents are increasing rapidly after a brief decline coinciding with the pandemic. Rents in the metro area are increasing more rapidly than out-state Minnesota. Statewide, rents for single bedroom units increased 9 percent in the third quarter of 2021, rents for two-bedroom units increased 15 percent, and rents for three-bedroom units increased 17 percent.*

According to the U.S. Census Bureau, the total year-to-date number of authorized residential building permits (not seasonally adjusted) in Minnesota was 27,500 through September 2021, up from 21,641 the same period last year, a 27.1 percent increase year over year. In this forecast, we expect total housing permits to reach 33,000 in 2021, the strongest annual number since 2005. We expect total housing permits to average 24,700 permits per year through the forecast period. A limited supply of available homes, low interest rates, shifting regional demand, and rising home prices continue to push near-term construction higher. Nationally, the number of homes under construction in September was 1.43 million on a seasonally adjusted basis, the highest total since January 1974.

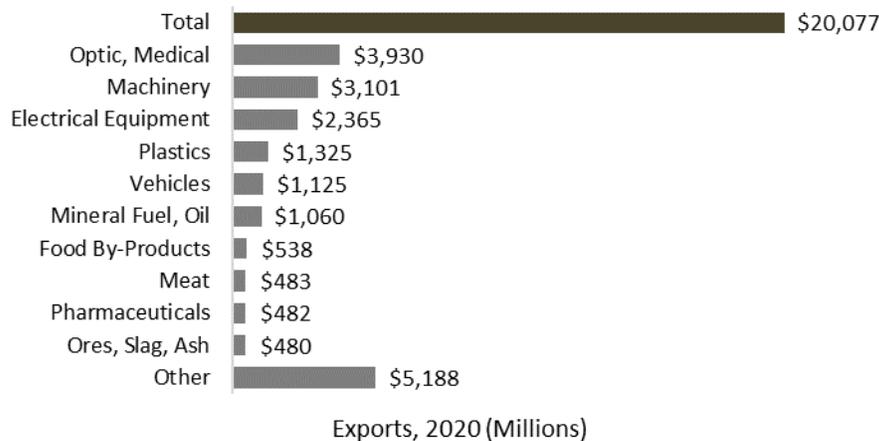


*According to the U.S. Census Bureau, the total year-to-date number of authorized residential building permits (not seasonally adjusted) in Minnesota was 27,500 through September 2021, up from 21,641 the same period last year. In this forecast, we expect total housing permits to reach 33,000 in 2021, the strongest annual number since 2005.*

**Exports.** Minnesota’s exports of goods and services to countries throughout the world is a significant source of income and jobs in the state. DEED reports that exports supported more than 119,000 jobs in 2019. The global pandemic and resulting decline in economic activity has affected Minnesota’s exports, as well as U.S. exports overall. According to DEED, Minnesota’s worldwide exports totaled \$20.1 billion in 2020, down 10 percent from 2019 (total U.S. exports fell 13 percent). Sales from Minnesota’s top 3 export categories in 2019 fell significantly in 2020 – the combined sales of optic/medical, machinery, and electrical equipment fell \$1.5 billion (14 percent). As the primary mitigating factor, Minnesota exports of mineral fuels and oils more than tripled, from \$321 million in 2019 to over \$1 billion in 2020. Ranked by export value, Minnesota ranked 21st among states last year, maintaining its ranking from 2019. The state’s largest markets are Canada (\$4.8 billion), China (\$2.4 billion), and Mexico (\$1.9 billion).

### Minnesota's Top 10 Exported Products, 2020

Millions of USD



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

*According to DEED, Minnesota's worldwide exports totaled \$20.1 billion in 2020, down 10 percent from 2019. Sales from Minnesota's top 3 export categories in 2019 fell significantly in 2020 – the combined sales of optic/medical, machinery, and electrical equipment fell \$1.5 billion (14 percent). Minnesota exports of mineral fuels and oils more than tripled, from \$321 million in 2019 to over \$1 billion in 2020.*

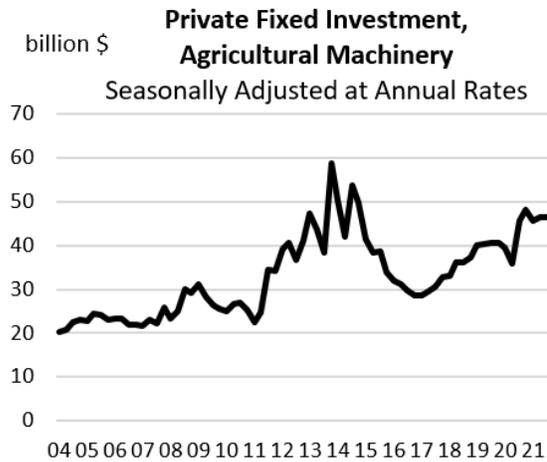
The pandemic continued to negatively impact Minnesota's exports early in 2021. Exports in the first quarter were 4 percent lower than in the first quarter of 2020. However, March 2021 was the first month since the start of the pandemic where Minnesota enjoyed a monthly increase (6 percent) in exports. This was the beginning of a second-quarter resurgence, where exports increased 29 percent from the second quarter of 2020. Exports for eight of Minnesota's top ten export categories exhibited year-over-year growth.

In 2020, Minnesota's exports of ores, slag, or ash totaled \$480 million, \$94 million (16 percent) less than in 2019. Iron ore prices grew furiously between April 2020 and July 2021, from \$84 to \$214 per metric ton.

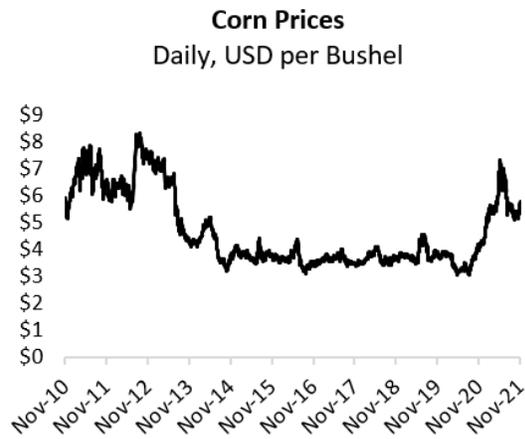
**Agriculture.** The U.S. Department of Agriculture (USDA) forecasts that overall U.S. net farm income, a broad measure of profits, will increase 19.5 percent from 2020 to 2021. This increase is despite rising production expenses and the expectation that direct government payments will decrease by 38.6 percent in 2021. Higher prices are increasing crop cash receipts, which are forecast to increase 19.7 percent from 2020 in nominal terms, the highest level since 2012 if forecasts are realized. Accounting for most of the net increase are increased receipts for corn, soybeans, and wheat. China has resumed purchasing U.S. corn and soybeans, which has bolstered prices for both commodities. According to the latest USDA Agricultural Prices Report, the average price for corn during September 2021 was \$5.58 per bushel, \$2.63 above September 2020. Similarly, the average price for soybeans was \$12.10 per bushel, \$3.08 above the September 2020 price. Finally, total animal and animal product receipts are expected to increase 16 percent in nominal terms in 2021. However, for livestock, both prices and quantities sold contribute to the

increase. Growth in animal and animal product receipts are driven by increases for hogs, cattle, calves, and poultry.

These high realized profits and cash receipts, as well as favorable borrowing conditions, have boosted farms' investment in agricultural machinery over the past year and a half. Investments in the second half of 2020 approached all-time highs and have been sustained through the first three quarters of 2021. Since the third quarter of 2020, investment in agricultural machinery has reached levels not seen since 2014.



Source: U.S. Bureau of Economic Analysis



Source: MacroTrends Data

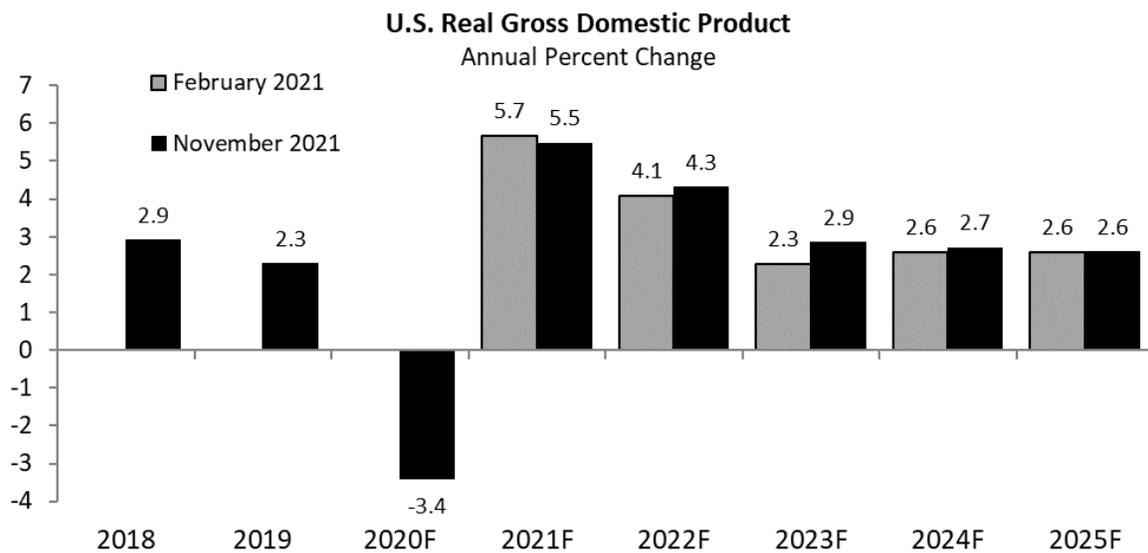
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### Council of Economic Advisors’ Statement

Minnesota’s Council of Economic Advisors met on November 12, 2021, to review the IHS Markit (IHS) outlook for U.S. economic growth, which includes the macroeconomic assumptions underlying Minnesota’s November 2021 Budget and Economic Forecast. Since the state’s last forecast in February, IHS’s outlook for U.S. economic growth in 2021 has slightly weakened. They now expect real GDP to grow 5.5 percent in 2021, down from 5.7 percent in their February outlook. They expect growth to decelerate to 4.3 percent in 2022, an improvement from the 4.1 percent growth they forecast in February.

In the second half of this year, supply-chain disruptions created a significant headwind, slowing production and inventory investment and contributing to price inflation. In IHS’ November outlook, business investment and government purchases both contribute less to real GDP growth in 2021 than in the February forecast, offsetting a higher forecast for real consumer spending.

IHS has raised their forecast of CPI inflation in 2021 to 4.5 percent from 2.1 percent in their February outlook. For 2022, they now expect 3.3 percent inflation compared to 2.1 percent in February. IHS expects the gradual resolution of supply-chain issues and a rising U.S. labor force participation rate to slow inflation. They forecast CPI inflation of 2.1 percent in 2023 and 2.2 percent annually in both 2024 and 2025.



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

*Since the state’s last forecast in February, IHS’s outlook for U.S. economic growth has weakened for 2021 and improved for 2022. They now expect real GDP to grow 5.5 percent in 2021, down from 5.7 percent in their February outlook. Council members agree that the IHS baseline forecast is a reasonable starting point for Minnesota’s economic and budget forecast, but they note risks to the forecast. They warn that the difficulty of projecting long range economic conditions warrants caution when using forecasts for 2024 and 2025. They note that the structural effects of the pandemic are not yet known, and new threats to growth have arisen this year.*

In their November baseline outlook, IHS does not expect the COVID-19 pandemic to require a return to the limits on economic activity that triggered the 2020 recession. The forecast reflects the impact of the Infrastructure Investment and Jobs Act (IIJA), with a peak effect expected to raise the level of real GDP by 0.5 percent in 2025-26 and raise the level of employment by 750,000. No impacts from the federal Build Back Better (BBB) spending bill are included in this outlook.

Despite the challenges currently facing the U.S. economy, IHS expects economic growth to persist through Minnesota's planning horizon. They forecast annual real GDP growth to average a solid 2.7 percent over 2023-2025.

The IHS November baseline forecast is similar to the Blue Chip Consensus, the median of 50 business and academic forecasts. The Blue Chip consensus expects real GDP growth of 5.5 percent in 2021, matching the IHS forecast. IHS expects 4.3 percent growth in 2022, above the Blue Chip Consensus forecast of 4.0 percent for that year.

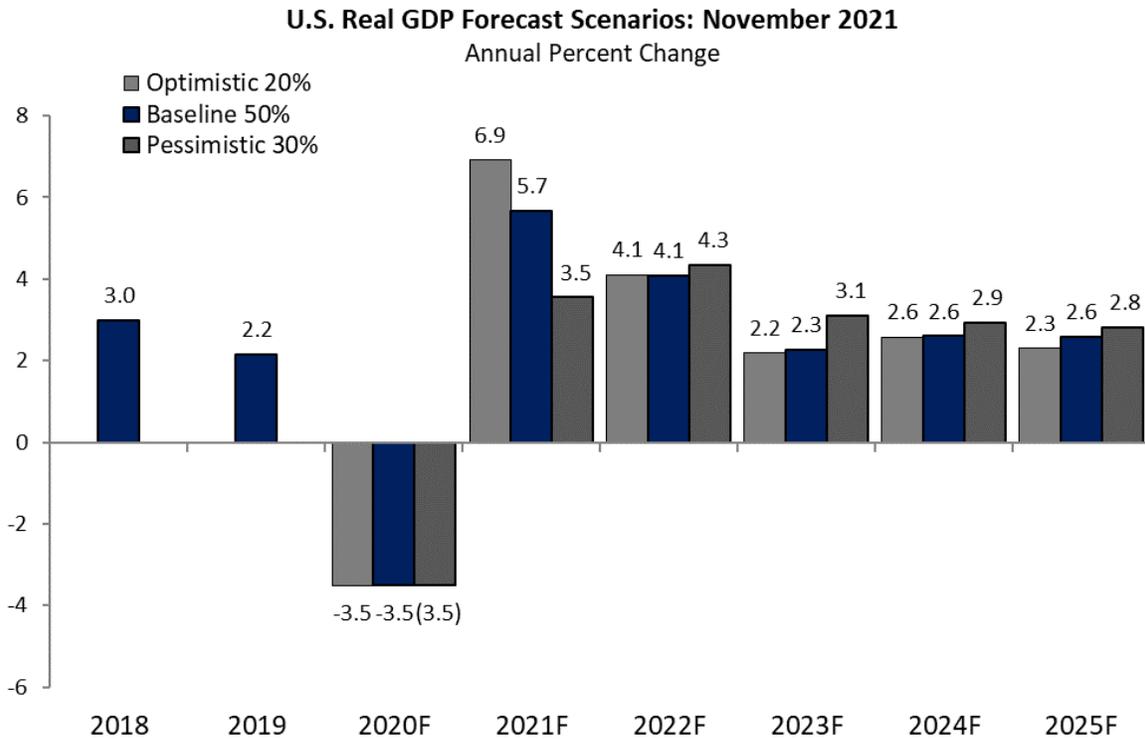
Council members agree that IHS' baseline outlook is a reasonable starting point for Minnesota's economic and budget forecast, but they caution about risks to the forecast. While individual members' views varied, there was general agreement that the risks to the forecast are relatively balanced between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

Regarding upside risks, stronger business investment than IHS expects—either in response to the IIJA or as firms substitute capital for scarce labor—could lead the economy to grow faster than in the baseline outlook. In addition, spending arising from the BBB bill could have positive economic impacts that are not reflected in IHS' November outlook.

Regarding downside risks, Council members warn of impediments to labor force participation. Pandemic-related barriers to work—such as childcare availability and health concerns—may keep people out of the labor force longer than expected. In addition, we do not yet know how the pandemic may have fundamentally altered households' labor supply decisions. If IHS' assumed recovery in the labor force participation rate does not materialize, the economy will grow more slowly than in the baseline forecast. Faster and more broad-based inflation than IHS expects along with sooner-than-expected return to full employment, could lead to earlier Federal Reserve action and earlier deceleration in growth than the baseline assumes. Slower resolution of supply-chain bottlenecks would also drag growth below the forecast.

Council members warn that the difficulty of projecting long-range economic conditions warrants caution when using forecasts for 2024 and 2025. This is of particular concern as the structural effects of the pandemic on the economy are not fully known. In addition, new threats to growth have arisen this year, including rising energy prices, general price inflation, and supply-chain problems. Economic growth in the planning estimate years depends on those issues resolving, and that remains uncertain.

IHS assigns a probability of 50 percent to the November baseline outlook, and they believe the forecast risks to be primarily on the downside. IHS assigns a 30 percent probability to a pessimistic scenario in which supply-chain issues worsen and a late-2021 resurgence of COVID-19 inhibits consumer spending. They assign a 20 percent probability to a more optimistic scenario, characterized by a stronger consumer and business response to the IIJA. Also, in this scenario, businesses are able to extend the productivity gains that they achieved during the pandemic.



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

*IHS assigns a 50 percent probability to the November baseline outlook. They assign a 30 percent probability to a more pessimistic scenario in which supply-chain issues worsen and a late-2021 resurgence of COVID-19 inhibits consumer spending. They assign a 20 percent probability to a more optimistic scenario, characterized by a stronger impact of the Infrastructure Investment and Jobs Act and higher productivity.*

As it has done every year since 2003, the Council recommends that budget planning estimates for the next biennium include expected inflation in both spending and revenue projections. Council members noted that Minnesota’s current practice of excluding projected changes in the prices of goods and services from a majority of the spending estimate is fundamentally misleading. It is inconsistent with both sound business practices and CBO methods, and potentially encourages legislators and the public to regard the state’s financial position more optimistically than the facts warrant. This distortion has increased in importance as inflation has risen this year, and its future path is uncertain. The omission of inflation in the spending estimates in the November 2021 Budget and Economic Forecast understates the cost of maintaining current service levels as provided by law in FY 2024-25 by roughly \$1.165 billion. In addition, inflation that has already occurred in 2021 and is forecast for 2022 puts cost pressure on the enacted budget for FY 2022-23.

Council members believe that Minnesota’s budget reserve—which is \$1.786 billion, \$606 million below the level recommended by the state’s budget reserve policy—affords policymakers crucial

financial flexibility.<sup>2</sup> The statutory policy assigns an adequate target reserve level based on MMB's annual evaluation of volatility in Minnesota's general fund tax system. The target is a percentage of forecast revenues, allowing reserves to adjust with revenue changes over time. In addition, the policy automatically transfers 33 percent of a positive forecast balance each November into the reserves until the target is reached. Based on MMB's most recent analysis, the target level is 4.8 percent of biennial (two-year) general fund revenues.

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<sup>2</sup> This was the size of the budget reserve at the time the Council met. With the release of the November 2021 *Budget and Economic Forecast*, it stands at \$2.656 billion.



## BUDGET OUTLOOK

### Closed Biennium

When the last *Budget and Economic Forecast* was released in February, the FY 2020-21 biennium was expected to close with a balance of \$1.021 billion. Actions in the 2021 regular and special sessions resulted in a small increase to the projected ending balance. At the end of session, the FY 2020-21 biennium was expected to end with a balance of \$1.112 billion.

In August, the books were officially closed for the fiscal year and biennium that ended June 30, 2021. The FY 2020-21 biennium ended with a positive general fund balance of \$4.052 billion, \$2.941 billion higher than estimated at the end of the 2021 legislative sessions. The closing balance at the end of the biennium represents “money in the bank” available as a resource for the FY 2022-23 biennium.

#### Closed Biennium: FY 2020-21 General Fund Budget End-of-Session vs. Actual Comparison

(\$ in millions)	End-of-Session	Actual	\$ Change	% Change
<b>Beginning Balance</b>	<b>\$3,971</b>	<b>\$3,971</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Revenues</b>				
Taxes	45,122	47,738	2,616	5.8
Non-Tax Revenues	1,670	1,739	69	4.1
Transfers, Other Resources	912	1,003	91	9.9
<b>Total Revenues</b>	<b>\$47,704</b>	<b>\$50,479</b>	<b>\$2,775</b>	<b>5.8%</b>
<b>Expenditures</b>				
E-12 Education	19,839	19,755	(84)	(0.4)
Property Tax Aids	3,973	3,893	(80)	(2.0)
Health & Human Services	13,748	13,646	(102)	(0.7)
Debt Service	1,056	1,056	-	0.0
All Other	9,140	9,075	(65)	(0.7)
<b>Total Expenditures</b>	<b>\$47,756</b>	<b>\$47,425</b>	<b>\$(331)</b>	<b>(0.7)%</b>
Budget Reserve	2,377	2,406	29	
Cash Flow Account	350	350	-	
Stadium Reserve	81	107	26	
Appropriation Carryforward	-	111	111	
<b>Budgetary Balance</b>	<b>\$1,112</b>	<b>\$4,052</b>	<b>\$2,940</b>	

At close, FY 2020-21 total resources – including tax and non-tax revenues, transfers-in and prior year adjustments – were \$2.775 billion (5.8 percent) higher than prior estimates. Tax revenues were \$2.616 billion (5.8 percent) while non-tax revenue was \$69 million (4.1 percent) higher than projected. Transfers from other funds and other resources were \$91 million (9.9 percent) higher primarily due to reallocating prior COVID-19 response general fund spending to federal sources, resulting in remaining funds transferring back to the general fund. Adjustments to prior fiscal years, including accounting corrections, encumbrance cancellations and revenues attributable to prior years, were \$76 million higher than projected.

Actual spending for FY 2020-21 was \$331 million (0.7 percent) below end of session estimates, however a significant portion of that total, \$111 million, is attributed to unspent appropriations that carried forward into the current biennium and are available to be spent. Health and human services spending was \$102 million lower driven by lower spending in operating and grant programs; \$19 million of the savings carries forward and is appropriated for spending in FY 2022-23. E-12 education spending was \$84 million (0.8 percent) below end of session estimates primarily due to fewer-than-expected students. Property tax aids and credits expenditures were \$80 million (2.0 percent) lower than end of session estimates mainly due to refinancing COVID-19 small business relief payments for restaurants, bars, gyms, and bowling centers with federal Coronavirus Relief Funds.

The FY 2020-21 biennium concluded with a budget reserve balance of \$2.406 billion, \$29 million higher than expected due to a statutory allocation of surplus assigned risk insurance funds. The stadium reserve ended the biennium with a balance of \$107 million, \$26 million higher than projected due to higher lawful gambling receipts. The cash flow account was unchanged from prior estimates, ending with a balance of \$350 million.

## Federal Fund Maximization

Since the COVID-19 pandemic began in early 2020, the state of Minnesota has committed \$755 million in general fund resources in response. Investments were made quickly to support struggling businesses, families, and individuals to manage extremely difficult circumstances. State funding was appropriated to support the health care system through grants to health care providers and local public health organizations, purchase of critical care supplies, and to bolster capacity for testing and vaccination. Minnesota provided resources for vulnerable people, such as for food security, housing, homelessness prevention and support to tribal communities. The State further provided grant funding to a variety of businesses that were severely impacted by the pandemic.

While the State made these investments to respond quickly, it did so with a mindful eye to fiscal responsibility. As funding has become available through the federal government since March 2020, Minnesota Management and Budget (MMB) maximized opportunities to reallocate expenditures to those federal resources, providing relief to the general fund. In addition, the health care response fund and public health contingency account, both capitalized with general fund dollars during the pandemic response, have returned balances to the general fund. Of the \$755 million in state resources invested, \$310 million has been or is expected to be returned to the general fund.

*General Fund Savings: COVID-19 Federal Funding Source Reallocations.* The November forecast reflects \$156 million in general fund savings resulting from the reallocation of expenditures to federal funds, an increase of \$38 million since the end of the 2021 legislative session. Balances in both the federal coronavirus relief fund and the state COVID-19 MN fund contributed to general fund resources being increased. Both funds benefitted from FEMA reimbursements, insurance reimbursements on test processing, cancellations due to unspent allocations, and interest earned. The coronavirus relief fund balance increased relative to end of session estimates, in part due to \$29 million in greater than anticipated test processing reimbursements from insurance carriers and FEMA. The state's contract with Mayo Clinic and the University of Minnesota to process COVID-19 tests required those entities to seek insurance reimbursements from carriers and pass those reimbursements back to the state. To the extent insurance reimbursement was not collected, FEMA reimbursement was sought. To date, of the total contract expenditures with those entities from the COVID-19 MN fund or the coronavirus relief fund, 97% has been reimbursed either through FEMA or insurance reimbursement or returned to the state. The remainder of the change since end of session is due to less than expected spending in appropriated funds, slightly more than expected FEMA reimbursement, and interest earnings on the balance of the coronavirus relief fund.

#### General Fund Impact of COVID Federal Funding Source Reallocations

(\$in millions)	November 2021		\$ Change
	End of Session	Forecast	
Coronavirus Relief Fund Balance	118	156	38
COVID-19 MN Fund Balance Transfer	17	77	60
Health Care Response Fund	77	17	(60)
Public Health Contingency Account <sup>3</sup>	0	2	2
Cancellations, FEMA and Underspending	58	58	0
<b>Total General Fund Impact</b>	<b>270</b>	<b>310</b>	<b>41</b>

To meet the legislative mandate to maximize federal funding,<sup>4</sup> MMB reallocated several items from the general fund to the coronavirus relief fund, including \$30 million in emergency childcare grants, \$6 million in food shelf response, \$8.9 million in homeless and victim services, \$22 million in emergency shelter grants, \$13 million in movie theater grants, \$66 million in business relief grants, and \$6 million in veterans COVID relief grants, in advance of this forecast.<sup>5</sup>

*COVID-19 MN Fund<sup>6</sup>.* Savings transferred back to the general fund from the COVID-19 MN fund were \$77 million, or \$60 million more than previously forecasted. Additional transfers occurred primarily as a result of lower than expected expenditures and FEMA reimbursement received on eligible expenditures in the fund. New federal resources made available early in 2021 opened opportunity for the state to return state COVID-19 MN dollars to the general fund. In January 2021, FEMA increased its match for eligible expenditures from 75% to 100%. In addition, significant new grants from the Center for Disease Control made it possible for the state to fund testing and vaccination efforts through that funding source. As a result, the state was able to

<sup>3</sup> Laws 2020, Chapter 66

<sup>4</sup> Laws 2021, Special session 1, Chapter 12, Article 5

<sup>5</sup> Laws 2020, Chapter 71 and Laws 2020, Special Session 7, Chapter 2

<sup>6</sup> Laws 2020, Chapter 71, Article 1 Section 7, as amended by Laws 2020, Chapter 81

return more than anticipated COVID-19 MN dollars to the general fund at the end of the obligated period June 30, 2021.

*Health Care Response Fund.*<sup>7</sup> In February 2021, the forecast included an estimated \$77 million in general fund savings from the health care response funds, of which \$66 million was for expected FEMA reimbursement on grants to health care and long-term care providers. Since that time, FEMA informed the state that it will not reimburse directly for provider expenditures made with state grant dollars. While health care providers may seek reimbursement from FEMA for those expenditures, the state cannot do so on their behalf. As such, the reimbursement forecast has been reduced to zero. \$17 million in general fund savings occurred as a result of a \$10 million reallocation by the legislature and some returned funds from grantees.<sup>8</sup>

## Current Biennium

A budgetary balance of \$1.672 billion was projected for the FY 2022-23 biennium in the February *Budget and Economic Forecast*. Actions establishing the FY 2022-23 budget during the 2021 regular and special legislative sessions reduced that projected balance to \$127 million. An increased revenue forecast for this biennium combined with slightly lower spending and the balance from FY 2021, partially offset by growth in the stadium reserve, results in a forecast balance for FY 2022-23 of \$8.978 billion.

Statute allocates a significant portion of the balance to the budget reserve and a buyback of a sales tax shift. With this forecast, \$870 million is allocated to the budget reserve and \$359 million is allocated to removing the June accelerated sales tax shift from law. These allocations, combined with a \$4 million transfer to the 21st century mineral fund triggered by the forecast balance, result in a projected general fund surplus of \$7.746 billion for the FY 2022-23 biennium.

**Revenue.** Revenue in the current biennium is now projected to reach \$56.037 billion, an increase of \$5.130 billion (10.1 percent) over end of session estimates. The revenue forecast is higher for all significant revenue sources, but the three major tax types (individual income, corporate income, and sales) account for \$4.778 billion (93.1 percent) of the increase. The positive forecast balance triggers a statutory provision that eliminates an accelerated sales tax provision, which is reflected in the revenue forecast. Eliminating June accelerated sales tax results in \$359 million lower sales tax receipts compared to the baseline November forecast for sales tax in the FY 2022-23 biennium.

Transfers from other funds are a portion of general fund revenue including a \$633 million transfer from the federal American Rescue Plan Act (ARPA) State Fiscal Recovery Fund (SFRF) that was included in the final FY 2022-23 budget enacted in the 1st Special Session in June 2021; the FY 2024-25 planning estimates also include a \$550 million transfer from the ARPA SFRF that was part of the same legislation.<sup>9</sup> There is no change to these transfers from end of session estimates, so they do not impact the change in the general fund projected balance.

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<sup>7</sup> Laws 2020, Chapter 70

<sup>8</sup> Laws 2020, Special Session 5, Chapter 3, Section 12

<sup>9</sup> Laws 2021, Special Session 1, Chapter 12, Article 5, Section 3

**Current Biennium: FY 2022-23 General Fund Budget  
End-of-Session vs. November 2021 Forecast Comparison**

(\$ in millions)	End-of-Session	November 2021 Forecast	\$ Change	% Change
<b>Beginning Balance</b>	<b>\$3,920</b>	<b>\$7,026</b>	<b>\$3,106</b>	
<b>Revenues</b>				
Taxes	48,364	53,440	5,077	10.5
Non-Tax Revenues	1,479	1,529	51	3.4
Transfers, Other Resources	1,065	1,068	3	0.2
<b>Total Revenues</b>	<b>\$50,907</b>	<b>\$56,037</b>	<b>\$5,130</b>	<b>10.1%</b>
<b>Expenditures</b>				
E-12 Education	20,987	20,661	(326)	(1.6)
Property Tax Aids & Credits	4,204	4,169	(36)	(0.9)
Health & Human Services	16,504	16,410	(94)	(0.6)
Debt Service	1,243	1,199	(44)	(3.5)
All Other	9,425	9,562	136	1.4
<b>Total Expenditures</b>	<b>\$52,363</b>	<b>\$51,999</b>	<b>\$(364)</b>	<b>(0.7)%</b>
Budget Reserve	1,786	2,656	870	
Cash Flow Account	350	350	-	
Stadium Reserve	201	312	111	
<b>Budgetary Balance</b>	<b>\$127</b>	<b>\$7,746</b>	<b>\$7,619</b>	

**Spending.** Total spending in the current biennium is now estimated to be \$51.999 billion, a forecast reduction of \$364 million (0.7 percent). Spending in the largest budget area, E-12 education, is expected to be \$326 million (1.6 percent) lower due to a reduced pupil count projection. HHS, property tax aids and credits, and debt service are also expected to be lower. Partially offsetting the overall reduction is a combined increase in spending in all other areas of the budget due to increased transfers to the disaster contingency account and the 21st century mineral fund triggered by the positive closing balance and forecast surplus and to the inclusion of appropriation carryforward from FY 2021.

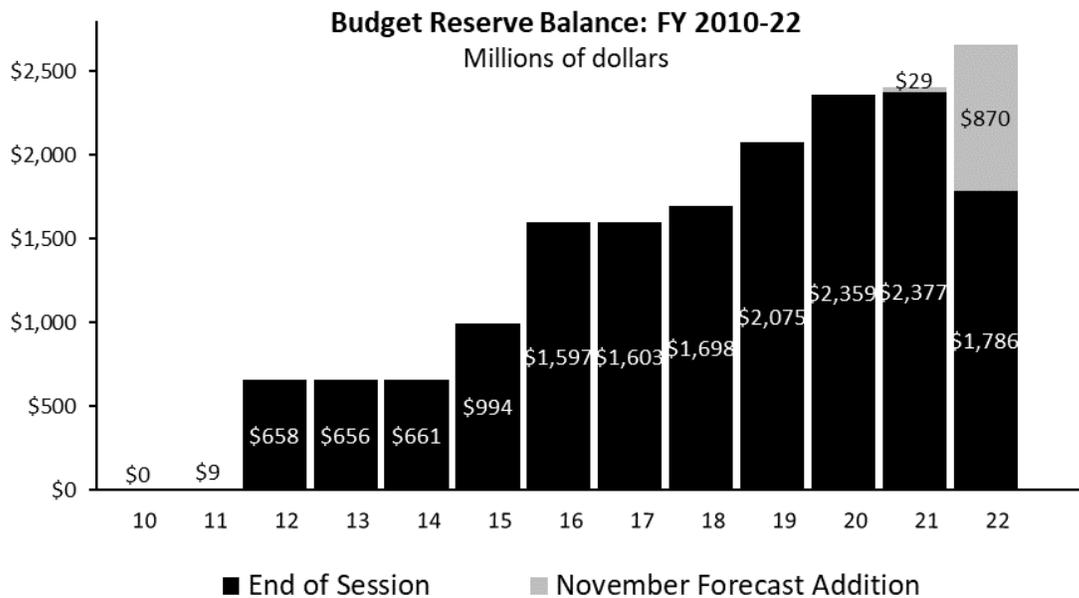
**Budget Reserve.** Minnesota Statute 16A.152 directs Minnesota Management and Budget (MMB) to allocate funds to the budget reserve account when there is a positive November forecast balance and other provisions such as repaying accounting shifts and funds borrowed from other sources are fulfilled. With this forecast two allocations to the budget reserve are triggered:

1. Allocation of available funds until the balance of the budget reserve account is \$2.377 billion. Law enacted when the FY 2020-21 biennial budget was established and with the final FY 2022-23 budget enactment reduced the balance of the budget reserve account on the first day of FY 2022 by \$591 million.<sup>10</sup> This forecast restores that draw of funds back to the budget reserve.

<sup>10</sup> Laws 2019, Special Session 1, Chapter 6, Article 11, Section 17; Laws 2021, Special Session 1, Chapter 7, Article 16, Section 20.

- Allocation of up to 33 percent of the remaining forecast balance to the budget reserve account up to its target level as determined in the budget reserve report.<sup>11</sup> The current report, released in September 2021, recommends a budget reserve level of 4.8 percent of the current biennium’s general fund non-dedicated revenues. Due to the prioritization of the allocation of unallocated forecast balance, the target is calculated using a general fund non-dedicated revenue base before the allocation of reserve balance repaying the June accelerated sales tax shift. General fund non-dedicated revenue in this forecast, before allocation to repaying the June accelerated sales tax shift, is \$55.328 billion; the resulting budget reserve target is \$2.656 billion. The amount needed to reach the target, \$278 million, is less than 33 percent of the remaining forecast balance and thus the full \$278 million is allocated to the reserve.

In total \$870 million is allocated to the budget reserve account compared to end of session estimates. The balance of budget reserve account, as of this release, is \$2.656 billion.



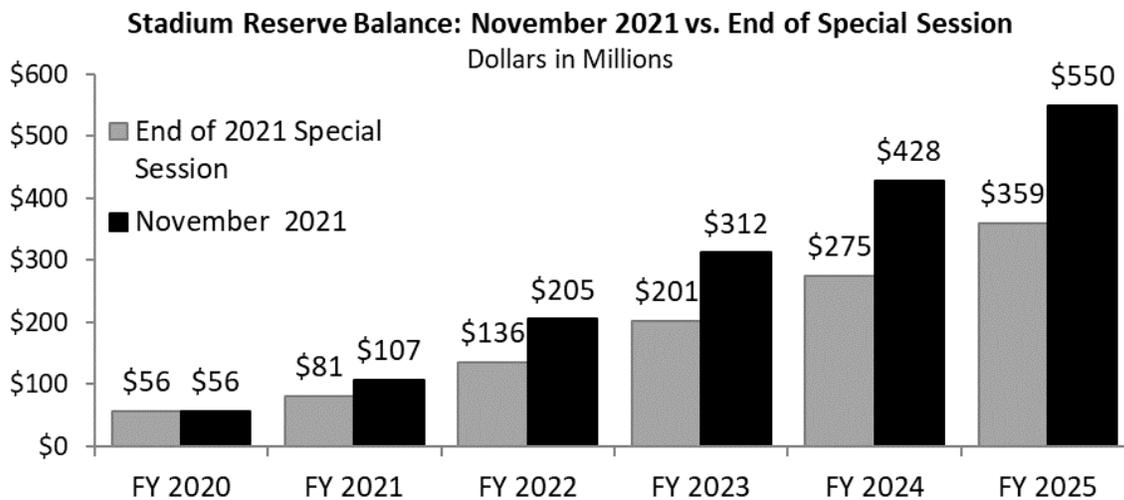
*The budget reserve account balance in FY 2010 was \$0. Since then the reserve balance has significantly largely increased due to a law change that sets a reserve target based on the volatility of the state’s revenue sources and allows for automatic allocation to the reserve when there is a projected balance at the time to the November Budget and Economic Forecast.*

**Stadium Reserve.** The stadium reserve is a residual account within the general fund. Its balance can grow when certain general fund revenues identified in statute, like a portion of lawful gambling receipts, exceed general fund appropriations that are either directly for the stadium,

<sup>11</sup> Minnesota Statutes 16A.152, subd.8

like debt service on the bonds for its construction, or are identified in statute to be factored into the stadium reserve calculation.

The FY 2021 ending balance of the stadium reserve account is \$107 million, \$26 million higher than end of session estimates. Most of the expenditures identified in law for the stadium reserve formula are a fixed amount in law or show minimal variance from year to year. Lawful gambling revenue and Minneapolis sales tax receipts are the two revenues identified for the stadium reserve formula that are forecast and can grow year over year. In FY 2021, lawful gambling revenue available for stadium uses was \$83 million, \$26 million higher than end of session estimates. Lawful gambling revenue available for stadium uses is expected to grow to \$145 million by the end of FY 2025. Additionally, in January 2021 (FY 2021), the state began retaining Minneapolis sales tax receipts to cover the payments the state remits on behalf of the city for stadium obligations. In FY 2021, the state retained \$11 million in Minneapolis sales tax receipts, by FY 2025 that amount is expected to grow to \$23 million.



*The stadium reserve grew \$51 million in FY 2021, \$26 million more than prior projections. This increase is due to higher gambling tax receipts, which are expected to grow through FY 2025. Any excess in the revenues supporting stadium related spending are deposited into the stadium reserve account in the general fund. By FY 2025, annual revenue is expected to exceed spending by \$123 million and the stadium reserve balance is expected to reach \$550 million.*

Total state expenditures for the stadium, including those the state makes on behalf of the City of Minneapolis, were \$42 million in FY 2021 and are expected to be \$45 million by FY 2025. All revenue in excess of spending amounts is allocated to the stadium reserve. In FY 2021, \$51 million was added to the stadium reserve; in FY 2025 the amount allocated to the reserve is expected to be \$123 million. Given the increasing allocation amounts, the stadium reserve balance is expected to reach \$550 million by FY 2025.

## Planning Estimates

Out year planning estimates are based on current law revenues and expenditures. These estimates inherently carry a higher degree of uncertainty than estimates for FY 2022-23. Revenue projections for FY 2024-25 are based on IHS' November Baseline forecast for the planning years. Expenditure projections assume that current law funding levels and policies continue unchanged, adjusted for caseload and enrollment changes authorized in law, as well as formula driven growth. The expenditure forecast does not assume cost growth outside of a few specific budget areas where assumptions for price increases or market conditions are specified by statute.

To highlight structural balance, the table on the following page shows forecast revenues and projected spending and excludes the impact of balances from prior years and reserves. In the FY 2024-25 biennium forecast revenue is expected to exceed base level spending by \$5.953 billion.

Projected inflationary growth based on the Consumer Price Index is now forecast to be 2.2 percent per year in FY 2024 and FY 2025. After adjusting for programs with price increases included in the current law formula, applying the annual inflation rate, compounded over 2 years, would add approximately \$1.165 billion in spending pressure to the FY 2024-25 biennium.

### Planning Horizon: General Fund Budget By Biennium, FY2022-25, November 2021 Forecast

(\$ in millions)	FY 2022-23	FY 2024-25	\$ Change	Annual % Change
Forecast Revenues	\$56,037	\$60,285	\$4,248	3.7%
Projected Spending	51,999	54,333	2,333	2.4%
<b>Difference</b>	<b>\$4,038</b>	<b>\$5,953</b>		
<i>Estimated Inflation (CPI)<sup>12</sup></i>		<i>\$1,165</i>		

Since the February *Budget and Economic Forecast*, the IHS forecast for inflation in FY 2021-23 has significantly increased. The standard methodology used to calculate inflation in this document uses projected inflationary growth into the planning estimates (FY 2024-25) and doesn't factor in any changes in inflation for the current biennium since the budget for FY 2022-23 was enacted. The current circumstance where inflation in the current biennium is materially higher than when the budget was enacted could result in state agencies and programs experiencing inflationary cost pressures that current appropriation levels did not anticipate.

The planning estimates are not intended to predict surpluses or deficits two or more years into the future. Rather their purpose is to assist in determining how well 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 2024-25 planning estimates provide an important baseline against which the longer-term impacts and affordability of budget decisions can be measured.

<sup>12</sup> Inflation calculation grows the estimated general fund spending base in each year by the projected CPI growth rate after removing special education, debt service, property tax refunds, and the state share for managed and long term care.



## REVENUE OUTLOOK

### Current Biennium

Total general fund revenues for FY 2022-23 are now forecast to be \$56.037 billion, \$5.130 billion (10.1 percent) more than the February 2021 forecast. Total tax revenues for the biennium are forecast to be \$53.440 billion, \$5.077 billion (10.5 percent) above the prior estimate. The forecasts for all major tax types are higher than in February.

#### Current Biennium: FY 2022-23 General Fund Revenues End-of-Session vs. November 2021 Forecast Comparison

(\$ in millions)	End-of-Session	November 2021 Forecast	\$ Change	% Change
Individual Income Tax	\$26,742	\$29,450	\$2,708	10.1%
General Sales Tax	12,790	13,611	821	6.4
Corporate Franchise Tax	3,081	4,330	1,249	40.6
State General Property Tax	1,531	1,538	8	0.5
Other Tax Revenue	4,221	4,511	291	6.9
<b>Total Tax Revenues</b>	<b>\$48,364</b>	<b>53,440</b>	<b>5,077</b>	<b>10.5%</b>
Non-Tax Revenues	1,479	1,529	51	3.4
Other Resources	1,065	1,068	3	0.2
<b>Total Revenues</b>	<b>\$50,907</b>	<b>\$56,037</b>	<b>\$5,130</b>	<b>10.1%</b>

Revenues for FY 2022-23 are now expected to exceed their FY 2020-21 levels by \$5.558 billion (11.0 percent). Total tax revenues are projected to be \$5.703 (11.9 percent) more than in FY 2020-21. Individual income tax revenues account for 57.0 percent of the biennial tax revenue growth. Net sales tax receipts account for 29.7 percent of the growth. Corporate, state general property tax, and other receipts in FY 2022-23 account for 13.2 percent of the growth and are 7.8 percent higher than in the previous biennium.

This is the first forecast of FY 2022-23 since FY 2022 began on July 1. After four months of observed collections (through October 2021), fiscal year-to-date receipts are \$7.968 billion, 14.5 percent of the total expected over the biennium. With 20 months of FY 2022-23 collections left to observe, 85.5 percent of forecast receipts are outstanding.

**Biennial Comparison: FY 2020-21 vs. FY 2022-23 General Fund Revenues**  
**November 2021 Forecast**

(\$ in millions)			\$	%
	FY 2020-21	FY 2022-23	Change	Change
Individual Income Tax	\$26,198	\$29,450	\$3,252	12.4%
General Sales Tax	11,915	13,611	1,696	14.2
Corporate Franchise Tax	3,968	4,330	363	9.1
State General Property Tax	1,556	1,538	(18)	(1.2)
Other Tax Revenue	4,101	4,511	410	10.0
<b>Total Tax Revenues</b>	<b>\$47,738</b>	<b>53,440</b>	<b>5,703</b>	<b>11.9%</b>
Non-Tax Revenues	1,739	1,529	(210)	(12.1)
Other Resources	1,003	1,068	65	6.5
<b>Total Revenues</b>	<b>\$50,479</b>	<b>\$56,037</b>	<b>\$5,558</b>	<b>11.0%</b>

Minnesota's revenue forecast changes are consistent with the pattern of changes made by the Congressional Budget Office (CBO), which has markedly adjusted their forecasts for federal tax revenues since early 2020. Between their March 2020 forecast and September 2020 forecast, CBO substantially revised down their revenue forecasts for the individual income tax and corporate tax for fiscal years 2020 through 2023. They subsequently revised these forecasts upward in February 2021, as the U.S. economy recovered more quickly than expected in 2020, and tax collections did not weaken as anticipated. In their most recent forecast in July 2021, CBO once again increased their revenue projections for both tax types from FY 2021 through FY 2023<sup>13</sup>. Revenue forecasts for FY 2021, 2022 and 2023 were now significantly higher than CBO projected in March 2020. In their July forecast, they expected individual income tax revenue to be 24 percent higher in FY 2021, 28 percent higher in FY 2022, and 22 percent higher in FY 2023 than they forecasted in March 2020, and they expected corporate income tax revenue to be 93, 35, and 31 percent higher, respectively.<sup>14,15,16,17</sup>

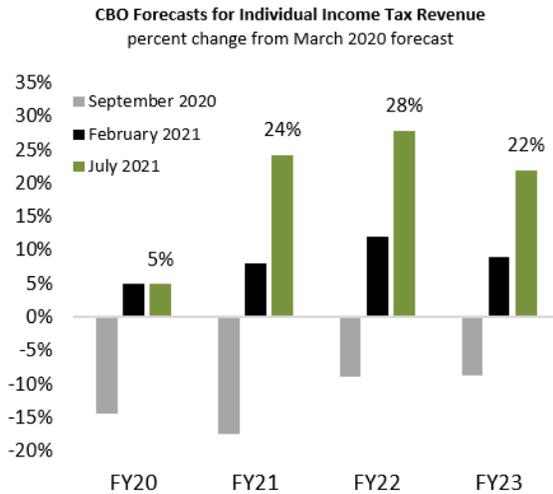
<sup>13</sup> The federal fiscal year runs from October 1<sup>st</sup> through September 30<sup>th</sup>.

<sup>14</sup> Congressional Budget Office (CBO). "Baseline Budget Projections as of March 6, 2020," March 2020, page 6. Available here: <https://www.cbo.gov/system/files/2020-03/56268-CBO-baseline-budget-projections.pdf>

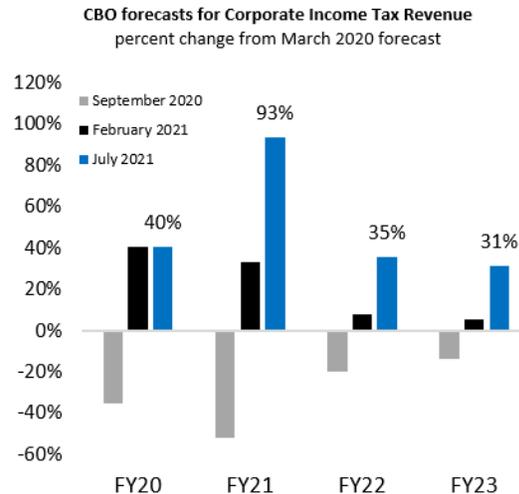
<sup>15</sup> Congressional Budget Office (CBO). "An Update to the Budget Outlook, 2020 to 2030," September 2020, page 6. Available here: <https://www.cbo.gov/system/files/2020-09/56517-Budget-Outlook.pdf>

<sup>16</sup> Congressional Budget Office (CBO). "The Budget and Economic Outlook, 2021 to 2031," February 2021, page 2. Available here: <https://www.cbo.gov/system/files/2021-02/56970-Outlook.pdf>

<sup>17</sup> Congressional Budget Office (CBO). "An Update to the Budget and Economic Outlook, 2021 to 2031," July 2021, page 2. Available here: <https://www.cbo.gov/system/files/2021-07/57218-Outlook.pdf>



Source: Congressional Budget Office; Minnesota Management and Budget



Source: Congressional Budget Office; Minnesota Management and Budget

*The Congressional Budget Office (CBO) has substantially changed their forecasts for major income tax types since early 2020. They substantially lowered revenue forecasts between their March 2020 forecast and September 2020 forecast, and substantially raised revenue forecasts in their February 2021 and July 2021 forecasts. CBO’s July 2021 revenue forecasts for fiscal years 2021, 2022, and 2023 were significantly higher than CBO’s March 2020 forecasts.*

**Individual Income Tax.** Minnesota individual income tax receipts are now forecast to be \$2.708 billion (10.1 percent) more than the February forecast adjusted for law changes. The increase is due to a higher estimate of base year tax liability and higher forecast growth in wage and non-wage income.

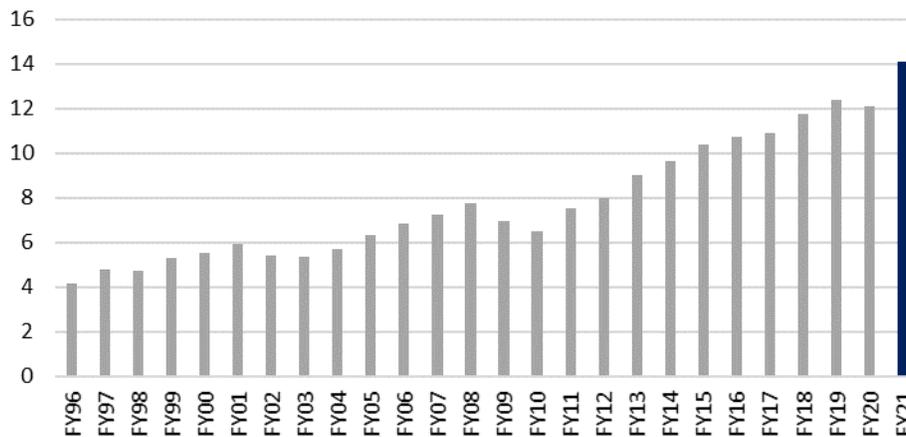
At the close of FY 2021, net income tax revenue was \$1.534 billion (12.2 percent) more than forecast. The positive variance was primarily due to higher-than-expected income tax payments and lower than expected refunds for tax year 2020. So far in FY 2022, net income tax receipts are \$149 million (3.8 percent) more than forecast.

Minnesota’s individual income tax receipts grew 16.6 percent (\$2.010 million) in FY 2021 over FY 2020, consistent with remarkable income tax growth across other U.S. states and the federal government. The National Association of State Budget Officers (NASBO) reports that aggregate state income tax revenues grew 14.7 percent in FY 2021, although they note that in 19 states—excluding Minnesota—the delayed filing deadline for TY 2019 returns depressed FY 2020 income tax revenue and increased FY 2021 growth.<sup>18</sup> In the federal fiscal year ending September 30, the Congressional Budget Office (CBO) reported that individual income tax receipts grew 27 percent (\$436 billion) in FY 2021 over FY 2020.<sup>19</sup>

<sup>18</sup> National Association of State Budget Officers (NASBO). “Summary: 2021 State Expenditure Report,” November 19, 2021, page 7. Available here: <https://www.nasbo.org/home>.

<sup>19</sup> Congressional Budget Office (CBO). “Monthly Budget Review: Summary for Fiscal Year 2021,” November 8, 2021, page 2. Available here: <https://www.cbo.gov/publication/57539>

### Minnesota Net Individual Income Receipts \$ in billions



*Minnesota's individual income tax receipts grew 16.6 percent (\$2.010 billion) in fiscal year 21 over fiscal year 20.*

This forecast builds from estimated final 2020 income tax liability. Using information from processed tax returns, revenue in the state accounting system, and projections of returns remaining to be received and/or processed, we estimate that final 2020 tax liability is \$12.347 billion, \$888 million more than estimated in February. This estimate is before reductions for the 2021 special session omnibus tax bill, which lowered TY 2020 income tax liability through refunds for taxes paid on supplemental unemployment insurance compensation and Paycheck Protection Program loan forgiveness. Because a significant portion of these refunds are still being paid out, our estimate of base year liability is much more uncertain than normal.

Calibrating the income tax model to produce our much higher estimated base year liability generally requires making assumptions about base year growth rates for specific income types. Current information from the Bureau of Economic Analysis (BEA) indicates that Minnesota's wage income in CY 2020 declined 0.5 percent, compared to the 0.6 percent decline that we assumed in the February forecast. The pandemic significantly changed the size and distribution of wages and unemployment benefits. To account for this, we adjusted the way we estimate the impact of those sources on tax liability, raising our forecast for TY 2020 liability by more than \$240 million.

To produce estimated tax year 2020 liability, capital gains realized by Minnesota residents were assumed to have grown 11.7 percent from CY 2019. In the February forecast, we had assumed a decline of 8.1 percent. Non-farm business income is assumed to grow 6.9 percent in 2020, a large swing from the 14.5 percent decline we assumed in the February forecast. In this forecast interest income is assumed to decline 5.9 percent in CY 2020, less than the 24.9 percent decline we assumed in February.

A positive revenue adjustment was made to take into account the fact that workers paid weekly on Friday will have a 53rd payday in 2020, and many of those paid biweekly will have 27 paydays rather than the usual 26.

A higher forecast of income growth for CY 2020 and 2021 combine with the higher base year income tax liability raises the forecast for FY 2022-23 income tax revenues. For example, wage and salary income growth is significantly higher in this forecast than in February. Information from the BEA, Quarterly Census of Employment and Wages (QCEW), income tax withholding collections, and our Minnesota economic forecasting model suggest that Minnesota's growth in wage and salary income has been stronger in 2021 than we forecast in February. Annual growth in wage income included in adjusted gross income (AGI) in 2021 is now expected to be 8.5 percent, up from 6.0 percent in the February forecast. Annual wage growth is now forecast to be 7.3 percent in 2022 and 5.9 percent in 2023, compared to 5.0 and 4.5 percent, respectively, in February.

Changes in expected growth rates in some non-wage income types in CY 2021 and 2022 also increase the FY 2022-23 income tax forecast. Capital gains realizations reported by Minnesota residents are now assumed to grow 10.2 percent in 2021 and decline 0.1 percent in CY 2022, compared to growth of 9.9 and 1.3 percent, respectively, in the prior forecast. Business income growth is cumulatively 21.4 percentage points higher in TY 2020, 9.7 percentage points higher in TY 2021 and 16.6 percentage points higher in TY2022 compared to February. Due to a stronger stock market, in this forecast IRA growth over the 2019 base is 17.6 percent higher in TY 2022 than it was in the February forecast. A similar gap persists through the remainder of the forecast horizon. The growth in taxable social security benefits is cumulatively 5.1 percentage points higher in TY 2022 compared to the February forecast. This gap grows through the remainder of the forecast horizon due to higher inflation boosting cost of living adjustments.

The Working Family Credit and the dependent care credit for TY 2020 are on track to come in \$64 million less than forecast in February. This has the effect of raising net tax liability (revenue) in the November forecast. The amount of these credits largely depends on the number of low to moderate income workers with children. Going forward it is assumed that employment among workers with children will remain below pre-pandemic levels. In addition, greater work-from-home flexibility will reduce the demand for after-school childcare. Consequently, in TY 2021 and 2022, impacting FY 2022 and 2023, the revenue cost of the two credits together is forecast to be \$95 million less than in February, adding \$95 million to our FY 2022-23 revenue forecast.

The forecast for net income tax receipts from fiduciaries (estates and trusts) is \$84.2 million higher than in February. This change is due to higher receipts in FY 2021—41 percent higher than in FY 2020—and higher growth in capital gains and business income.

Direct receipts from partnerships and S-Corporations largely consist of the income taxes these entities pay on behalf of their non-resident partners and shareholders. Net receipts paid by these entities grew dramatically in FY 2021: 64 percent for S-Corporations and 27 percent for partnerships, amounting to a combined growth rate of 46 percent. In FY 2021, these receipts exceeded the forecast by \$84 million. Of this variance, \$51 million falls under the individual income tax, and \$33 million under the corporate franchise tax. We think some of the FY 2021 growth likely represents extraordinary, one-time payments. Consequently, our forecasts for FY 2022 and FY 2023, while higher than our February forecast, are lower than actual FY 2021 receipts.

By statute, Minnesota tax brackets and other parameters of the state tax code are indexed by Chained CPI-U. Inflation as measured by the Chained CPI-U is forecast to be higher than it had

been in February. This has the effect of reducing forecast revenues in FY 2022 by \$73.1 million and FY 2023 by \$199.9 million.

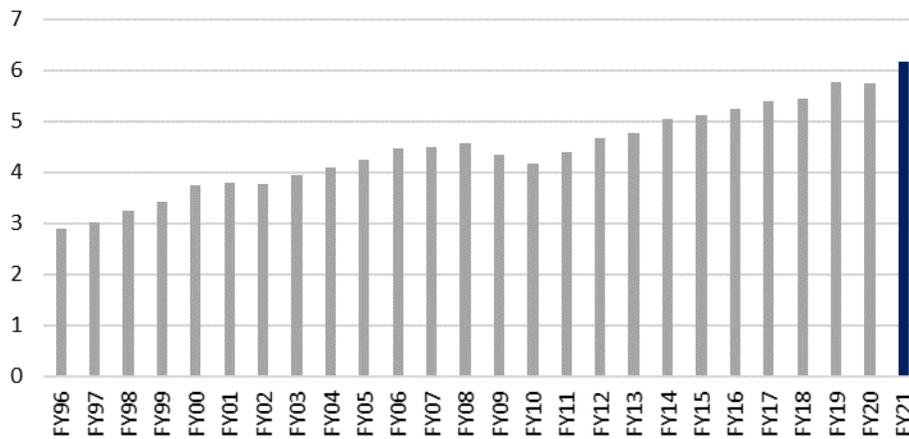
This forecast includes an adjustment for the timing of taxes paid by pass-through businesses, typically S-Corporations and partnerships. Starting in TY 2021, these businesses may choose to pay a state-level pass-through entity (PTE) tax, which is deductible on their federal returns and credited on the Minnesota income tax return. While there is no net state revenue impact of the PTE, it can change the timing of receipts. We assume that some pass-through businesses will start making estimated payments on the PTE as early as December 2021, so the payments may be deducted from their 2021 federal income tax. We assume that \$50 million of PTE estimated tax payments will be made in CY 2021 and refunded in CY 2022, lowering TY 2021 individual income tax liability by the same amount.

New information that is expected to become available between now and February 2022 may change the income tax forecast for FY 2022-23. Mid-January we expect to learn more about actual tax liability for 2020, the year on which this forecast is based. In late January we will also observe fourth quarter income tax withholding and estimated tax payments, which typically provide new information about the liability year that just ended. Finally, in February, we expect to have the first information about 2020 growth rates in various income types—including capital gains—from a preliminary sample of 2020 tax returns. This should help identify income growth arising from sources that are unlikely to carry over into subsequent years.

**General Sales Tax.** Net general sales tax revenue in FY 2022-23 is now forecast to be \$821 million (6.4 percent) more than the prior estimate. Both a \$1.169 billion increase in forecast gross sales tax receipts and a \$12 million reduction in expected refunds contribute to the change. The sales tax forecast reflects the impact of a statutory provision that eliminates the June accelerated general sales tax provision in law when a forecast shows a positive balance. An estimate of this impact reduces the forecast by \$359 million.

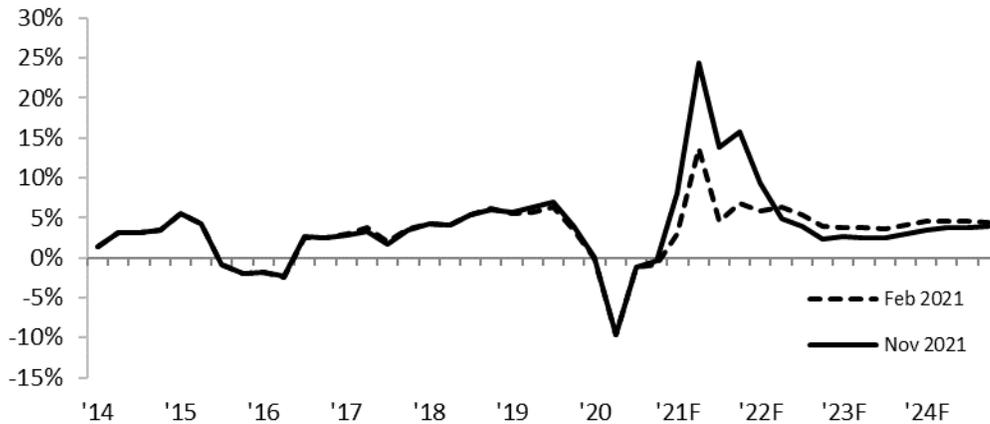
The increased forecast for gross sales tax receipts reflects higher than expected gross receipts so far in FY 2022 and a higher forecast for taxable sales compared to February. Using forecasts for spending on a wide range of taxable goods and services, we construct the Minnesota synthetic sales tax base, a proxy for the actual sales tax base. In this forecast, the synthetic base is expected to grow 3.9 percentage points faster in FY 2021 than in February. Off this higher base, we expect the synthetic sales tax base to grow 4.8 percentage points more in FY 2022 and 1.4 percentage points less in FY 2023 than we forecast in February.

### Minnesota Net Sales Tax Receipts \$ in billions



Minnesota’s sales tax receipts grew 7.4 percent (\$427 million) in fiscal year 21 over fiscal year 20.

### Minnesota Synthetic Sales Tax Base Forecast Comparison\* Year-Over-Year Percent Change



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

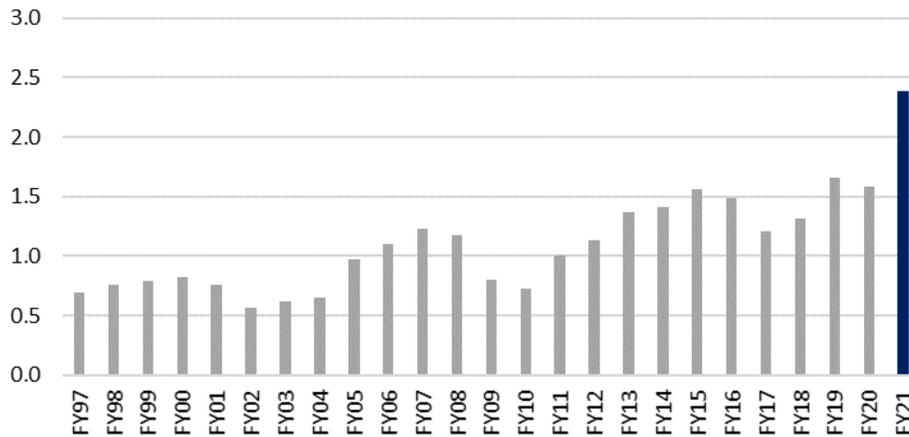
In this forecast, the proxy for Minnesota’s sales tax base grew 3.9 percentage points faster in FY 2021 than we assumed in February. Off this higher base, we expect the synthetic sales tax base to grow 10.8 percentage points in FY 2022 and 2.9 percentage points in FY 2023.

**Corporate Franchise Tax.** The corporate franchise tax is forecast to generate \$4.330 billion in FY 2022-23, \$1.249 billion (40.6 percent) more than the prior estimate. Higher forecast gross corporate payments and lower forecast refunds both contribute to the change.

Minnesota’s corporate receipts grew 51.1 percent (\$807 million) in FY 2021 over FY 2020, consistent with remarkable corporate tax growth across other U.S. states and the federal government. NASBO reports that aggregate state corporate tax revenues grew 34.1 percent in FY 2021.<sup>20</sup> In the federal fiscal year ending September 30, the CBO reported that federal corporate receipts grew 76.0 percent (\$160 billion) in FY 2021 over FY 2020.<sup>21</sup>

### Minnesota Net Corporate Receipts

\$ in billions



*Minnesota’s corporate receipts grew 51 percent (\$807 million) in fiscal year 21 over fiscal year 20.*

The forecast change is due to a higher base of corporate receipts and higher expected growth in corporate profits in CY 2021. At the close of FY 2021, net corporate tax receipts exceeded the February forecast (adjusted for law changes) by \$656 million (37.9 percent). Year-to-date net receipts for FY 2022 are \$401 million above the law-change-adjusted prior forecast. The higher base combines with a higher near-term forecast for corporate profits growth to raise the current biennium net corporate tax receipts forecast. The previous corporate forecast estimate was based on IHS’ February forecast, which assumed 5.3 percent growth in corporate profits in CY 2021 and growth of 1.8 percent in CY 2022. In this forecast we use IHS’ November 2021 baseline outlook, which assumes growth of 19.2 percent in CY 2021, nearly four times the growth forecast in February, followed by growth of 1.9 percent in CY 2022.

<sup>20</sup> National Association of State Budget Officers (NASBO). “Summary: 2021 State Expenditure Report,” November 19, 2021, page 7. Available here: <https://www.nasbo.org/home>.

<sup>21</sup> Congressional Budget Office (CBO). “Monthly Budget Review: Summary for Fiscal Year 2021,” November 8, 2021, page 4. Available here: <https://www.cbo.gov/publication/57539>.



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

*The forecast change is due to both a higher base of gross corporate tax receipts and higher growth in corporate profits. The previous corporate forecast estimate was based on IHS' February forecast, which assumed 5.3 percent growth in before tax corporate profits in CY 2021 and growth of 1.8 percent in CY 2022. In this forecast we use IHS' November 2021 baseline outlook, which assumes growth of 19.2 percent in CY 2021, nearly four times the growth forecast in February, followed by growth of 1.9 percent in CY 2022.*

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 \$8 million lower in FY 2022-23 than in the February forecast.

**Other Tax Revenue, Non-Tax Revenue, Other Resources.** Other tax revenue is now expected to be \$291 million (6.9 percent) more in FY2022-23 than in our prior estimate. Among other taxes, lawful gambling taxes show the largest dollar amount change, \$83.9 million (35.1 percent) more than the prior estimate. Estimated estate tax receipts are \$69.3 million (20.0 percent) higher than in the prior forecast. The end-of-session estimate and November forecast for other resources include a \$633 million transfer from the federal American Rescue Plan Act (ARPA) State Fiscal Stabilization Fund (SFRF) that was included in the final FY 2022-23 budget enacted in the 1st Special Session in June 2021.

## Planning Estimates

Total revenues for FY 2024-25 are now estimated to be \$60.285 billion, an increase of \$4.248 billion (7.6 percent) over the current forecast for FY 2022-23 revenues. Total tax revenues for FY 2024-25 are estimated to be \$57.826 billion, an 8.2 percent increase over FY 2022-23 forecast revenues.

The individual income tax shows the largest increase, growing by \$3.666 billion (12.4 percent), and contributing 83.6 percent of the total tax revenue biennial change. The general sales tax is expected to exceed FY 2022-23 forecast levels by \$1.307 billion (9.6 percent), accounting for 29.8 percent of the growth in tax revenues. Other tax revenues are expected to exceed FY 2022-23 forecast levels by \$169 million (3.8 percent). Receipts from the corporate franchise tax are expected to decline \$716 million (16.5 percent) from FY 2022-23 levels, and statewide property tax receipts are expected to decline \$41 million (3.8 percent).

The revenue planning estimates are informed by the IHS baseline forecast, which assumes that U.S. real GDP will grow 2.9 percent in CY 2023, followed by somewhat slower growth of 2.7 percent in CY 2024 and 2.6 percent in CY 2025.

**Biennial Comparison: FY 2022-23 vs. FY 2024-25 General Fund Revenues**  
**November 2021 Forecast**

(\$ in millions)	FY 2022-23	FY 2024-25	\$ Change	% Change
Individual Income Tax	\$29,450	\$33,116	\$3,666	12.4%
General Sales Tax	13,611	14,918	1,307	9.6
Corporate Franchise Tax	4,330	3,614	(716)	(16.5)
State General Property Tax	1,538	1,497	(41)	(2.7)
Other Tax Revenue	4,511	4,681	169	3.8
<b>Total Tax Revenues</b>	<b>53,440</b>	<b>57,826</b>	<b>4,385</b>	<b>8.2%</b>
Non-Tax Revenues	1,529	1,536	7	0.4
Other Resources	1,068	924	(144)	(13.5)
<b>Total Revenues</b>	<b>\$56,037</b>	<b>\$60,285</b>	<b>\$4,248</b>	<b>7.6%</b>

The planning estimates for 2024-25 should be used with caution. First, the projections will be affected by any revenue changes in a supplemental budget for the 2022-23 biennium. Second, in subsequent forecasts changes to our estimates of individual and corporate income tax liability for 2023 and 2024, as well as changes to the base levels of other revenue types for FY 2022 and 2023, will change the FY 2024-25 planning estimates. Third, even small deviations from assumed growth rates for factors affecting revenues will compound and produce sizable changes in revenues. Should the economy grow more slowly than forecast or should some volatile income source such as capital gains or corporate profits fall well below forecast, the revenue outlook for FY 2024-25 will deteriorate. Finally, Minnesota's Council of Economic Advisers warn that the difficulty of projecting long-range economic conditions warrants caution when using forecasts for 2024 and 2025. This is of particular concern as the structural effects of the pandemic on the economy are not fully known, and new threats to growth have arisen this year, including rising energy prices, general price inflation, and supply-chain problems.



## EXPENDITURE OUTLOOK

### Closed Biennium

The FY 2020-21 biennium ended with a positive general fund balance of \$4.052 billion, \$2.941 billion more than estimated at the end of the 2021 legislative session. Final FY 2020-21 spending totaled \$47.425 billion, down \$331 million (0.7 percent) from end-of-session estimates. This is driven by lower than projected spending in health and human services and E-12 education.

In FY 2021, health and human services (HHS) expenditures were \$102 million (0.7 percent) lower than end-of-session estimates. Of this amount, \$60 million is the result of unspent administrative and grant funds with \$19 million carrying forward into the FY 2022-23 biennium. The remaining change is attributable to a decrease in medical assistance spending, due in large part to lower nursing facility caseloads. The change in HHS also reflects a \$35 million increase in the behavioral health fund that is a result of an accounting error. There is a corresponding \$35 million transfer into the general fund, offsetting the impact. E-12 education spending was \$84 million (0.4 percent) below end-of-session estimates primarily due to fewer-than-expected students. Estimated FY 2021 pupil counts are lower than end-of-session estimates as pandemic-related enrollment changes like delayed kindergarten entry, homeschooling and private schooling were greater than previously estimated.

Additionally, property tax aids and credits expenditures were \$80 million (2.0 percent) lower than end-of-session estimates. COVID-19 small business relief payments for restaurants, bars, gyms, and bowling centers, which were originally appropriated in the general fund, were reallocated to the federal Coronavirus Relief Fund, reducing general fund expenditures.

Included in FY 2021 savings are unspent appropriations that carry forward into the FY 2022-23 biennium. The largest unspent appropriations are for business and community development programs at the Department of Employment and Economic Development, operating appropriations for the legislative branch, and previously mentioned appropriations in HHS.

### Current Biennium

Total state general fund expenditures for the FY 2022-23 biennium are projected to be \$51.999 billion, \$364 million (0.7 percent) lower than previously expected. \$326 million of the change is in E-12 education, where spending projections are lower due to updated pupil counts. Other budget areas also reflect lower forecast spending including health and human services, debt service, and property tax aids and credits. These decreases are partially offset by an increase in spending in all other areas of \$136 million (1.4 percent) primarily due to the carryforward of unspent appropriations in FY 2021.

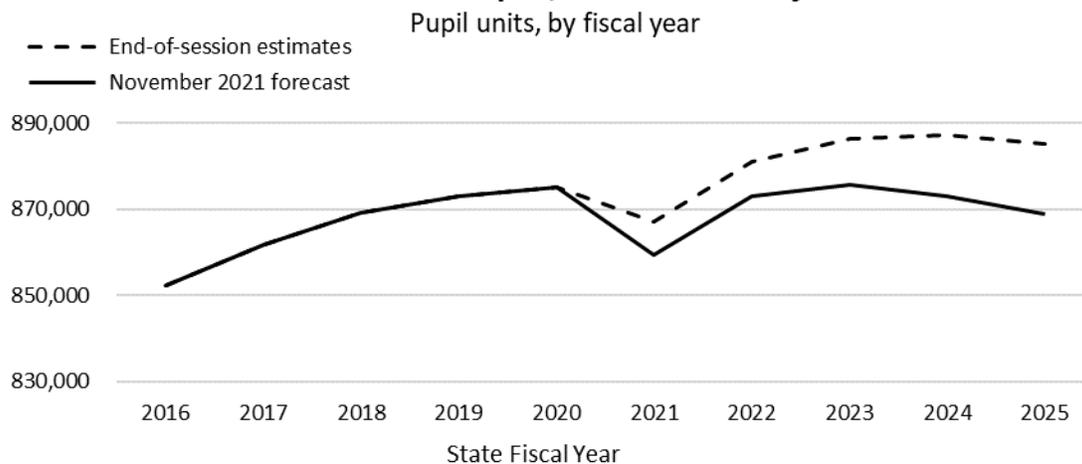
**Current Biennium: FY 2022-23 General Fund Expenditures  
End-of-Session vs. November 2021 Forecast Comparison**

(\$ in millions)	November 2021		\$ Change	% Change
	End-of-Session	Forecast		
E-12 Education	\$20,987	\$20,661	\$(326)	(1.6)%
Property Tax Aids & Credits	4,204	4,169	(36)	(0.9)
Health & Human Services	16,504	16,410	(94)	(0.6)
Debt Service	1,243	1,199	(44)	(3.5)
All Other	9,425	9,562	136	1.4
<b>Total Expenditures</b>	<b>\$52,363</b>	<b>\$51,999</b>	<b>\$(364)</b>	<b>(0.7)%</b>

**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 \$20.661 billion in FY 2022-23, a \$326 million (1.6 percent) reduction from end-of-session estimates. The decrease in education aids is primarily driven by fewer-than-expected students. 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 lower than prior estimates in all forecast years because of updated data and model corrections that better incorporate recent demographic trends. Unlike the enrollment changes that impacted FY 2021, most of these updates are not the result of the pandemic.

**E-12 Education Pupils, Actual and Projected**



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

Pupil counts are expected to be 7,931 (0.9 percent) lower in FY 2022 and 10,836 (1.2 percent) lower in FY 2023, relative to end-of-session estimates. This is primarily due to slower pupil growth in recent years, as well as corrected birth data in the projection model. Pupil growth has slowed from an average of 0.8 percent per year from FY 2013 to FY 2019 to just 0.2 percent from FY 2019 to FY 2020, the most recent year used for this forecast. This updated experience lowers anticipated pupil growth in future years. Additionally, the number of live births in Minnesota decreased from 69,916 in 2014 to 62,624 in 2020. Birth rates correlate to the number of early childhood and kindergarten enrollments in future years. This forecast more accurately accounts for this trend by correcting a previous misalignment in forecast data, resulting in lower pupil projections.

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

(\$ in millions)	FY 2022-23		FY 2024-25	
	\$ Change	% Change	\$ Change	% Change
Basic Formula	\$(121)	(0.9)%	\$(207)	(1.6)%
Compensatory	(39)	(3.8)	(8)	(0.7)
Online Learning	(16)	(65.9)	(21)	(66.0)
Other General Education	(42)	(3.2)	(32)	(2.5)
<b>General Education Subtotal</b>	<b>\$(217)</b>	<b>(1.4)%</b>	<b>\$(267)</b>	<b>(1.7)%</b>
Special Education	(69)	(1.8)	(145)	(3.4)
Nutrition Programs	(17)	(28.0)	(6)	(10.2)
Other Categoricals	(23)	(1.3)	(44)	(2.5)
<b>Total E-12 General Fund Forecast Change</b>	<b>\$(326)</b>	<b>(1.6)%</b>	<b>\$(462)</b>	<b>(2.1)%</b>

The largest reduction in E-12 education is in general education spending, which is down \$217 million (1.4 percent), due in large part to lower pupil projections. Within general education, the pupil-driven basic formula is down \$121 million (0.9 percent). An additional contributor to the general education decrease is compensatory aid, which is \$39 million (3.8 percent) below end-of-session estimates as a result of fewer students being reported as eligible for free and reduced-price lunch. Online learning aid is also down \$16 million (65.9 percent) because an expected increase in participation did not materialize as many districts provided their own online options.

Forecast spending for categorical aids is forecast to be \$109 million below end-of-session estimates. Special education expenditures are \$69 million of the decrease, a 1.8 percent reduction from end-of-session estimates. This is primarily due to decreased pupil counts. Spending on nutrition programs is \$17 million (28.0 percent) lower due to higher federal funding levels for FY 2022.

This forecast also reflects the amount of compensatory revenue attributable to a legislative extension to the reporting deadline for school districts.<sup>22</sup> The cost of the extension was originally estimated to be \$2 million. However, in the summer of 2022 the Commissioner of Education

<sup>22</sup> Laws of Minnesota 2020, 7th Spec. Sess. chapter 2, article 6

certified the actual amount to be \$14 million. This change does not impact the general fund forecast because of a prospective legislative requirement that the state leverage federal funding for this purpose should it become available. As a result, the incremental increase in the costs has been funded through the state's allocation of the American Rescue Plan Act State Fiscal Recovery Fund.

**Health and Human Services.** Health and Human Services (HHS) is approximately 32 percent of total state general fund spending. Most of these expenditures (84 percent) are forecast programs including Medical Assistance (MA), the Behavioral Health Fund (BHF), the Minnesota Family Investment Program (MFIP), MFIP Child Care, Alternative Care (AC), General Assistance, Housing Support, Minnesota Supplemental Aid, and Northstar Care for Children.

General fund forecast changes are generally driven by changes to the MA forecast, since it accounts for the largest portion of forecast program expenditures. MA is a state-federal, means tested entitlement program for low-income individuals and families, persons with physical or developmental disabilities, and low-income older adults. MA costs are split between the state and federal government, though only the state share of expenditures is reflected as part of the general fund forecast. In the FY 2022-23 biennium, anticipated HHS general fund spending is \$16.410 billion, down \$94 million (0.6 percent) from end-of-session estimates.

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

(\$ in millions)	FY 2022-23		FY 2024-25	
	\$ Change	% Change	\$ Change	% Change
Public Health Emergency Extension Additional FMAP	\$(238)	(1.9)%	-	-
Families and Adults without Children Enrollment	221	2.7	81	1.0
Increase Baseline FMAP to 50.79%	(27)	(0.2)	(87)	(0.6)
Nursing Facility Caseload	(92)	(8.2)	(79)	(6.4)
Long Term Care Waiver Changes	188	3.6	259	4.7
All other MA	(49)	(0.4)	(25)	(0.3)
<b>Total MA General Fund Change</b>	<b>3</b>	<b>0.0</b>	<b>149</b>	<b>1.1</b>
Child Care Assistance Program	(137)	(64.0)	(38)	(12.7)
Minnesota Family Investment Program	72	39.1	1	0.3
Behavioral Health Fund	(38)	(17.8)	(50)	(20.7)
All other HHS changes	6	0.3	1	0
<b>Total HHS General Fund Change</b>	<b>\$(94)</b>	<b>(0.6)%</b>	<b>\$63</b>	<b>0.3%</b>

*Medical Assistance Program*

The largest change in medical assistance (MA) is an additional quarter of enhanced federal match due to an extension in the federal public health emergency. On October 15, 2021, Health and Human Services Secretary Becerra announced an extension of the public health emergency for up to another 90 days. Assuming no further action by the Secretary, the federal public health emergency will now extend into January 2022. The Families First Coronavirus Response Act

provides an additional 6.2 percent federal medical assistance percentage (FMAP) for several programs, primarily MA, when a public health emergency is active for at least one day within a calendar quarter. This enhanced match decreases state expenditures \$238 million (1.9 percent) from end-of-session estimates. The forecast does not assume additional extensions of the public health emergency.

Enrollment of families with children and adults without children receiving basic health care services is higher than previous projections, which increases state spending \$221 million (2.7 percent). Relative to end-of-session estimates, adults without children caseload is up 8.5 percent this biennium, and families with children enrollment is up 4.5 percent. This change is driven by both the continuation of the federal public health emergency and an increase in underlying enrollment. As a condition of receiving enhanced federal matching funds, the state must maintain coverage for individuals receiving medical assistance throughout the public health emergency. This requirement results in higher enrollment, which increases state spending. In addition to the extended public health emergency, this forecast incorporates refined assumptions around the plans to resume regular eligibility reviews. These changes, combined, result in MA enrollment peaking in March, rather than December as assumed in previous forecasts. The additional enrollment during these months results in higher costs in MA. Beyond the impacts of the public health emergency, stronger than anticipated actual enrollment increases MA caseload in the current biennium. Of the above enrollment change, the baseline caseload increase represents 2.0 percentage points of the change in families with children and 1.0 percentage point of the change in adults without children.

The state also expects a higher federal share for Medicaid due to an increase to the state's baseline FMAP. The federal government annually recalculates the state's share of the medical assistance program based upon state personal income data compared to the national average. As a result of the review, Minnesota's FMAP is assumed to increase by 0.28 percentage points to 50.79 percent. This reduces state MA expenditures starting in October 2022, resulting in \$27 million (0.2 percent) in lower spending over the last three quarters of FY 2023. This change is unrelated to the federal public health emergency.

Nursing facility spending is \$92 million (8.2 percent) lower than end-of-session estimates in FY 2022-23. Nursing facility caseloads are projected to be 9.2 percent and 7.0 percent lower in FY 2022 and 2023, respectively. This forecast reflects additional data around the impact of COVID-19 on nursing facility use. In particular, these projections incorporate experience from the wave of COVID-19 cases during the winter of 2020-21, which had a larger impact on nursing facility use than was anticipated based on previous experience.

The above savings are partially offset by Long-Term Care (LTC) waiver expenditure increases of approximately \$188 million (3.6 percent) in FY 2022-23. The Community Access for Disability Inclusion (CADI) and Developmental Disabilities (DD) waivers drive most of the expenditure growth. Both programs offer funding for home and community-based services, with CADI serving MA eligible individuals younger than 65 years old who have a certified disability, and DD covering children and adults with developmental disabilities. Average payments in these programs are higher than previous estimates, resulting in \$97 million in higher expenditures in the current biennium. FY 2021 spending was higher than anticipated, which increases projected costs in the current biennium. CADI waiver average payment increases are due to increased use of customized living and supports. DD waiver average payment increases are the result of Disability Waiver Rate

System (DWRS) adjustments and greater than expected use of day services following the lifting of pandemic restrictions. Higher projected enrollment in these two programs results in \$67 million in higher forecast spending. While caseload is growing more slowly than in recent years, the rate is still higher than previously forecast. In FY 2022-23 CADI expenditures are up 4.4 percent and DD expenditures are up 1.5 percent relative to end-of-session estimates.

#### *Other Health and Human Services Expenditures*

In FY 2022-23 Child Care Assistance Program (CCAP) spending is forecast to be \$137 million (64.0 percent) lower than end-of-session estimates. Projected caseload is 35 percent lower in FY 2022 than previous estimates due to the pandemic. This reduces program spending by \$74 million. A smaller baseline caseload reduction of \$6 million occurs in FY 2023. Additionally, unspent federal childcare development funds from FY 2021 used in FY 2022-23 decreases spending \$32 million. Lower average payment projections further decrease CCAP expenditures by \$24 million in the current biennium.

The decrease in CCAP results in \$72 million in higher spending in the state's Minnesota Family Investment Program (MFIP), a 39.1 percent increase from end-of-session. The state must comply with a maintenance of effort (MOE) requirement for federal Temporary Assistance for Needy Families (TANF). The two largest sources of payments to meet the MOE requirements are in the MFIP and CCAP forecast programs. The decrease in CCAP brings the state below its MOE requirement for FY 2022, which increases the general fund share of MFIP by \$78 million, resulting in savings to the TANF fund. Changes driven by MOE requirements are partially offset by caseload decreases in the current biennium.

The state share of expenditures in the behavioral health fund is also forecast to be down \$38 million (17.8 percent). This change is primarily the result of a shift of enrollment to MA managed care covered services. This decreases the obligation of the behavioral health fund. Additionally, the forecast for withdrawal management services is \$11 million lower due to fewer projected treatment days than previously estimated, 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, like property tax refunds for homeowners and renters, are also included in this category because they provide targeted property tax relief.

FY 2022-23 spending for property tax aids and credits is forecast to be \$4.169 billion, \$36 million (0.9 percent) lower than end-of-session estimates. Homestead and renter's property tax refunds account for the most significant part of this change. These property tax refunds are forecast to decrease by \$37 million (2.2 percent) in the current biennium. Average homestead credit refunds are lower than previously forecast in FY 2022, but are projected to increase in FY 2023 and beyond due to growth in property tax levies and homestead market values. For renter's property tax refunds, the decrease can be attributed to stronger income growth and slower rent growth. Police state aid is also forecast to be \$12 million (6.7 percent) less than end-of-session estimates due to a decrease in 2020 automobile insurance premium tax collections, reducing the amount available

for this aid. Other smaller increases in this area partially offset a total decrease in expenditures, including Minneapolis debt service aid. This aid was previously forecast to end in FY 2021 but an additional year of levy for the city's library referendum bonds was not previously recognized, increasing expenditures \$3 million in FY 2022.

**Debt Service and All Other.** Debt service expenditures for the current biennium are forecast to be \$1.199 billion in the current biennium, which is a \$44 million (3.5 percent) reduction from prior estimates. The reduction is primarily due to slower than expected spending on capital projects and lower bond interest rates realized from the September 2021 bond sale. Lower bond interest rates result in higher bond premiums, which together decrease the estimated size of the bond sales and forecast debt service payments.

All other bill area spending is forecast to total \$9.562 billion, \$136 million (1.4 percent) higher than end-of-session estimates. This change is largely the result of unspent FY 2021 appropriations that are available to be spent in FY 2022 and a \$30 million contingent appropriation to the disaster contingency account at the Department of Public Safety. This transfer was triggered by a positive variance in the general fund closing balance for FY 2021. Additional spending contributes to the overall change in other bill areas including an increase of \$12 million in the appropriation for firefighting at the Department of Natural Resources and an increase of \$2 million in the forecast for pre-design and design of the capitol area building, due to higher known project costs.

## Planning Estimates

General fund spending in FY 2024-25 is expected to be \$54.333 billion, \$375 million (0.7 percent) less than end-of-session estimates. This change is primarily the result of lower spending in E-12 education due to a reduction in projected pupils in the upcoming biennium. Additionally, the change is partially offset by smaller increases in spending in health and human services, property tax aids and credits, and debt service.

**E-12 Education.** Spending on E-12 education is expected to reach \$21.294 billion, a \$462 million (2.1 percent) decrease from end-of-session estimates. As in the current biennium, decreases in E-12 expenditures are primarily due to lower enrollment projections. In FY 2024-25, pupils are expected to decline year over year, largely due to decreases in births in Minnesota and slower pupil growth in recent years. Compared to prior estimates, pupil counts are expected to be lower by 14,252 (1.6 percent) in FY 2024 and 16,401 (1.9 percent) in FY 2025.

These changes result in a \$267 million (1.7 percent) decrease in general education and a \$145 million (3.4 percent) decrease in special education. Despite the significant reduction in E-12 forecast spending relative to previous estimates, year-over-year total E-12 spending is expected to increase throughout the forecast period.

**Planning Estimates: FY 2024-25 General Fund Expenditures  
End-of-Session vs. November 2021 Forecast Comparison**

(\$ in millions)	November 2021		\$ Change	% Change
	End-of-Session	Forecast		
E-12 Education	\$21,757	\$21,294	\$(462)	(2.1)%
Property Tax Aids & Credits	4,359	4,367	9	0.2
Health & Human Services	18,358	18,421	63	0.3
Debt Service	1,259	1,273	14	1.1
All Other	8,976	8,978	2	0.0
<b>Total Expenditures</b>	<b>\$54,708</b>	<b>\$54,333</b>	<b>\$(375)</b>	<b>(0.7)%</b>

**Health & Human Services.** In FY 2024-25 biennium, anticipated Health and Human Services spending is expected to reach \$18.421 billion, an increase of \$63 million (0.3 percent) from end-of-session estimates. This increase is explained by changes in the medical assistance program, which is up \$149 million (1.1 percent) and is offset by other forecast program changes.

The change in MA is primarily driven by higher spending in long-term care waivers. Long term care waiver increases forecast in the current biennium continue, increasing spending by approximately \$259 million (4.7 percent) in FY 2024-25. This increase is driven by higher caseloads (\$151 million), and average payment increases (\$115 million) for the CADI and DD waiver programs.

The baseline enrollment changes in the current biennium among families with children and adults without children are expected to continue into the next biennium, and higher enrollment increases forecast general fund spending \$81 million (1.0 percent).

These higher costs are partially offset by the 0.28 percentage point higher federal share for the medical assistance program which is forecast to continue into the FY 2024-25 biennium. The additional match decreases general fund spending \$87 million (0.6 percent) from end-of-session estimates. Nursing home caseload reductions persist in the FY 2024-25 biennium, though the savings are less significant than in the current biennium, resulting in forecast savings of \$79 million (6.4 percent).

Growth in the MA program is partially offset by changes in other forecast programs. CCAP spending is down \$38 million (12.7 percent) from end-of-session estimates as a result of lower caseload and average payments. Factors contributing to decreased spending in the behavioral health fund in the current biennium continue into the FY 2024-25 biennium, with total expected spending down \$50 million (20.7 percent).

**Property Tax, Aids, and Credits.** Property tax, aids and credits expenditures are projected to total \$4.367 billion in FY 2024-25, an increase of \$9 million (0.2 percent) compared to end-of-session estimates. This small net change is due to offsetting growth in several programs. Homestead credit refunds are expected to increase \$17 million (1.3 percent) while renters property tax refunds are expected to decrease \$22 million (4.5 percent). The increase in homestead credit refunds is primarily due to homestead property tax growth and strong growth in homestead market values compared to other property types. Conversely, the decrease in renters property tax refunds can be attributed to stronger projected income growth and lower rent growth that continues from the current biennium. Decreased growth in police state aid due to lower-than-

expected automobile insurance premium tax collections also lowers expenditures \$13 million (6.7 percent) in this area. Lower than expected expenditures for these programs are offset by an increase of \$24 million (14.8 percent) in the School Building Bond Agricultural Credit due to growth in the forecast for school debt service levies.

**Debt Service and All Other.** Debt service expenditures are forecast to be \$1.273 billion in the next biennium, which is \$14 million (1.1 percent) more than previous estimates. Current estimates reflect higher interest rate assumptions on future bond sales and slightly higher spending on capital projects. Higher bond interest rates result in lower bond premiums, which together increase the estimated size of future bond sales and forecast debt service payments. The increase in debt service expenditures is partially offset by an increase in 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 \$8.978 billion in the FY 2024-25 biennium which is materially unchanged (\$2 million, 0.0 percent) from end-of-session estimates.



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## Minnesota Economic Forecast Summary

Forecast 2021 to 2025 - Calendar Years

	2020	2021	2022	2023	2024	2025
<b>Current Dollar Income (Billions of Dollars)</b>						
Personal Income	350.785	371.542	373.905	392.638	412.283	432.950
%Chg	6.5	5.9	0.6	5.0	5.0	5.0
Wage & Salary Disbursements	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
Non-Wage Personal Income	171.431	177.680	166.343	172.728	181.218	190.565
%Chg	14.0	3.6	-6.4	3.8	4.9	5.2
Supplements to Wages & Salaries	38.954	41.084	43.460	45.981	48.272	50.613
%Chg	-0.1	5.5	5.8	5.8	5.0	4.8
Dividends, Interest, & Rent Income	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
Farm Proprietors Income	3.322	4.871	3.608	3.425	3.324	3.272
%Chg	1873.0	46.6	-25.9	-5.1	-2.9	-1.6
Non-Farm Proprietors Income	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
Personal Current Transfer Receipts	71.200	74.271	58.788	60.026	62.532	65.717
%Chg	33.8	4.3	-20.8	2.1	4.2	5.1
Less: Contrib. for Gov. Social Ins.	28.510	30.651	32.607	34.340	35.943	37.598
%Chg	1.9	7.5	6.4	5.3	4.7	4.6
<b>Real Income (Billions of 2009 Dollars)</b>						
Real Personal Income	314.471	321.918	315.000	324.518	333.743	343.145
%Chg	4.9	2.4	-2.1	3.0	2.8	2.8
Real Wage & Salary Disbursements	160.295	167.665	174.860	181.758	187.045	192.108
%Chg	-1.6	4.6	4.3	3.9	2.9	2.7
<b>Employment (Thousands)</b>						
Employment - Total Non-Farm Payrolls	2,777.3	2,839.2	2,955.0	3,017.4	3,042.8	3,062.6
%Chg	-6.9	2.2	4.1	2.1	0.8	0.7
Construction	123.4	126.0	127.5	127.9	127.7	128.2
%Chg	-3.0	2.0	1.2	0.4	-0.2	0.4
Manufacturing	308.7	312.7	319.0	320.5	322.0	323.0
%Chg	-4.7	1.3	2.0	0.4	0.5	0.3
Private Service-Providing	1,932.8	1,985.6	2,081.8	2,136.3	2,158.1	2,174.3
%Chg	-7.9	2.7	4.8	2.6	1.0	0.7
Government	406.3	408.4	420.1	426.0	428.3	430.5
%Chg	-4.6	0.5	2.8	1.4	0.5	0.5
Minnesota Civilian Labor Force	3,094.9	3,033.1	3,104.6	3,165.6	3,202.2	3,228.0
Unemployment Rate (%)	6.2	3.7	2.2	2.0	2.2	2.4
<b>Demographic Indicators (Millions)</b>						
Total Population	5.711	5.724	5.743	5.768	5.795	5.824
%Chg	0.4	0.2	0.3	0.4	0.5	0.5
Total Population Age 16 & Over	5.363	5.383	5.407	5.434	5.462	5.491
%Chg	0.5	0.4	0.4	0.5	0.5	0.5
Total Population Age 65 & Over	0.962	0.991	1.021	1.052	1.082	1.111
%Chg	3.3	3.1	3.0	3.0	2.8	2.7
Total Households	2.258	2.290	2.314	2.339	2.364	2.387
%Chg	0.0	1.4	1.1	1.1	1.1	1.0
<b>Housing Indicators (Thousands)</b>						
Total Housing Permits (Authorized)	29.764	33.479	26.167	24.373	24.187	24.135
%Chg	-0.5	12.5	-21.8	-6.9	-0.8	-0.2
Single-Family	15.971	15.336	10.355	9.357	8.914	8.744
%Chg	11.0	-4.0	-32.5	-9.6	-4.7	-1.9

Source: Minnesota Management &amp; Budget (MMB) February 2021 Forecast

## U.S. Economic Forecast Summary

Forecast 2021 to 2025, Calendar Years

	2020	2021	2022	2023	2024	2025
<b>Real National Income Accounts (Billions of 2009 Dollars)</b>						
Real Gross Domestic Product (GDP)	18,384.7	19,391.5	20,227.5	20,804.2	21,367.2	21,921.2
%Chg	-3.4	5.5	4.3	2.9	2.7	2.6
Real Consumption	12,629.9	13,634.4	14,094.2	14,421.5	14,843.9	15,314.7
%Chg	-3.8	8.0	3.4	2.3	2.9	3.2
Real Nonresidential Fixed Investment	2,671.1	2,874.2	3,069.6	3,225.3	3,370.6	3,503.9
%Chg	-5.3	7.6	6.8	5.1	4.5	4.0
Real Residential Investment	648.0	703.2	663.8	649.2	651.5	651.9
%Chg	6.8	8.5	-5.6	-2.2	0.4	0.1
Real Personal Income	17,647.9	18,135.6	17,780.8	18,313.4	18,879.9	19,472.3
%Chg	5.3	2.8	-2.0	3.0	3.1	3.1
<b>Current Dollar National Income Accounts (Billions of Dollars)</b>						
Gross Domestic Product (GDP)	20,893.7	22,903.5	24,705.7	25,977.6	27,340.5	28,741.5
%Chg	-2.2	9.6	7.9	5.1	5.2	5.1
Personal Income	19,627.6	20,904.8	21,106.1	22,157.6	23,323.2	24,568.6
%Chg	6.5	6.5	1.0	5.0	5.3	5.3
Wage & Salary Disbursements	9,444.1	10,195.3	10,999.3	11,673.6	12,288.2	12,914.1
%Chg	1.3	8.0	7.9	6.1	5.3	5.1
Non-Wage Personal Income	10,183.5	10,709.4	10,106.8	10,484.1	11,035.0	11,654.4
%Chg	11.9	5.2	-5.6	3.7	5.3	5.6
<b>Price and Wage Indexes</b>						
U.S. GDP Deflator (2005=1.0)	113.740	118.203	122.131	124.861	127.949	131.106
%Chg	1.3	3.9	3.3	2.2	2.5	2.5
U.S. Consumer Price Index (1982-84=1.0)	2.588	2.704	2.794	2.853	2.916	2.979
%Chg	1.2	4.5	3.3	2.1	2.2	2.2
Employment Cost Index (Dec 2005=1.0)	1.404	1.455	1.533	1.603	1.668	1.733
%Chg	2.6	3.7	5.3	4.6	4.0	3.9
<b>Employment (Thousands)</b>						
Employment - Total Non-Farm Payrolls	142.3	146.1	151.9	154.7	156.1	157.1
%Chg	-5.7	2.7	3.9	1.9	0.9	0.6
Construction	7.3	7.4	7.5	7.6	7.6	7.6
%Chg	-2.9	2.3	0.9	0.9	0.1	0.5
Manufacturing	12.2	12.4	12.5	12.6	12.5	12.4
%Chg	-4.9	1.6	1.1	0.4	-0.4	-1.3
Private Service-Providing	100.3	103.9	108.6	111.0	112.3	113.3
%Chg	-6.5	3.6	4.6	2.2	1.2	0.9
Government	21.9	21.8	22.6	22.9	23.0	23.1
%Chg	-3.1	-0.4	3.4	1.4	0.5	0.5
U.S. Civilian Labor Force	160.7	161.1	164.0	166.9	168.9	170.3
Employment - Household Survey	147.8	152.4	157.8	161.0	162.7	163.9
Unemployment Rate (%)	8.1	5.4	3.8	3.5	3.6	3.8
<b>Other Key Measures</b>						
Non-Farm Productivity (index, 2005=1.0)	1.103	1.120	1.129	1.146	1.174	1.202
%Chg	2.4	1.5	0.8	1.5	2.4	2.4
Total Ind. Production (index, 2007=100)	94.962	100.171	104.550	107.874	110.206	112.311
%Chg	-7.2	5.5	4.4	3.2	2.2	1.9
Manhours in Private Non-Farm Estab.						
Billions of Hours	201.4	210.0	217.8	221.6	223.3	224.6
%Chg	-5.8	4.3	3.7	1.7	0.8	0.6
Average Weekly Hours	32.2	32.6	32.6	32.6	32.5	32.5
Manufacturing Workweek	40.8	41.5	41.2	41.0	40.9	40.8

Source: IHS Economics; February 2020 Baseline

## Alternative Forecast Comparison

Calendar Years

	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	2020	2021	2022	2023
<b>Real Gross Domestic Product (GDP), Percent Change, Seasonally Adjusted at Annual Rate</b>										
Blue Chip Consensus (02-21)	2.0	4.9	4.4	3.9	3.3	2.7	-3.5	5.5	4.0	**
IHS Economics Baseline (02-21)	2.0	4.4	5.0	4.7	4.0	2.8	-3.5	5.5	4.3	2.9
Moody's Analytics (02-21)	2.0	6.6	6.1	3.6	3.1	4.6	-3.4	5.6	4.6	2.8
Wells Fargo (02-21)	2.0	5.6	4.4	3.3	3.6	3.5	-3.4	5.5	4.1	3.3
CBO Outlook (07-21)	8.6	6.0	4.9	3.5	2.4	1.8	-3.5	6.7	5.0	1.5
<b>Consumer Price Index (CPI), Percent Change, Seasonally Adjusted at Annual Rate (except where noted)</b>										
Blue Chip Consensus (02-21)	6.6	4.7	3.0	2.5	2.3	2.3	1.2	4.4	3.8	**
IHS Economics Baseline (02-21)	6.6	4.6	1.4	2.1	2.2	2.1	1.2	4.5	3.3	2.1
Moody's Analytics (02-21)	6.6	4.4	2.9	2.5	2.2	**	1.2	4.4	3.8	2.2
Wells Fargo (11-20) *	5.3	6.6	7.0	5.7	4.8	3.4	1.2	4.7	5.2	2.0
CBO Outlook (07-21)	2.3	1.9	2.2	2.6	2.3	2.2	1.2	3.3	2.5	2.3

\* Year-over-Year Percent Change

\*\*Not Available

## IHS Economics Baseline Forecast Comparison

Calendar Years

	2018	2019	2020	2021	2022	2023	2024	2025
<b>Real Gross Domestic Product (GDP), Annual Percent Change</b>								
February 2019	2.9	2.4	2.0	1.7	1.6	1.4	-	-
November 2019	2.9	2.3	2.1	2.0	1.6	1.5	-	-
February 2020	2.9	2.3	2.1	2.0	1.7	1.5	-	-
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
<b>Consumer Price Index (CPI), Annual Percent Change</b>								
February 2019	2.4	2.0	2.1	2.3	2.4	2.4	-	-
November 2019	2.4	1.8	1.9	1.8	2.5	2.5	-	-
February 2020	2.4	1.8	1.8	1.7	2.2	2.5	-	-
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

Source: IHS Economics

## Forecast Comparison: Minnesota &amp; U.S.

Forecast 2021 to 2025, Calendar Years

	2018	2019	2020	2021	2022	2023	2024	2025
<b>Personal Income (Billions of Current Dollars)</b>								
<b>Minnesota</b>								
November 2021	319.6	329.5	350.8	371.5	373.9	392.6	412.3	433.0
%Chg	5.0	3.1	6.5	5.9	0.6	5.0	5.0	5.0
February 2021	321.6	331.8	349.3	363.5	363.1	379.8	397.2	415.7
%Chg	5.1	3.2	5.3	4.1	-0.1	4.6	4.6	4.7
<b>U.S.</b>								
November 2021	17,706	18,424	19,628	20,905	21,106	22,158	23,323	24,569
%Chg	5.1	4.1	6.5	6.5	1.0	5.0	5.3	5.3
February 2021	17,852	18,552	19,725	20,590	20,567	21,473	22,534	23,659
%Chg	5.3	3.9	6.3	4.4	-0.1	4.4	4.9	5.0
<b>Wage and Salary Disbursements (Billions of Current Dollars)</b>								
<b>Minnesota</b>								
November 2021	172.9	179.1	178.3	193.4	207.6	219.9	231.1	242.4
%Chg	4.3	3.6	-0.5	8.5	7.3	5.9	5.1	4.9
February 2021	172.8	178.9	177.7	188.4	197.8	206.7	215.6	225.5
%Chg	4.2	3.5	-0.6	6.0	5.0	4.5	4.3	4.6
<b>U.S.</b>								
November 2021	8,901	9,324	9,444	10,195	10,999	11,674	12,288	12,914
%Chg	5.0	4.8	1.3	8.0	7.9	6.1	5.3	5.1
February 2021	8,894	9,309	9,369	10,000	10,513	10,967	11,486	12,051
%Chg	5.0	4.7	0.6	6.7	5.1	4.3	4.7	4.9
<b>Total Non-Farm Payroll Employment (Thousands)</b>								
<b>Minnesota</b>								
November 2021	2,964	2,983	2,777	2,839	2,955	3,017	3,043	3,063
%Chg	0.8	0.6	-6.9	2.2	4.1	2.1	0.8	0.7
February 2021	2,963	2,978	2,782	2,801	2,928	2,980	3,011	3,035
%Chg	0.9	0.5	-6.6	0.7	4.6	1.8	1.0	0.8
<b>U.S.</b>								
November 2021	148,89	150,90	142,25	146,14	151,86	154,73	156,11	157,07
%Chg	3	0	2	2	9	1	7	3
February 2021	148,89	150,90	142,25	144,98	150,39	152,90	154,63	156,01
%Chg	3	0	9	5	9	7	9	9
<b>Average Annual Non-Farm Wage (Current Dollars)</b>								
<b>Minnesota</b>								
November 2021	58,333	60,043	64,199	68,120	70,242	72,881	75,939	79,143
%Chg	3.4	2.9	6.9	6.1	3.1	3.8	4.2	4.2
February 2021	58,313	60,056	63,888	67,270	67,541	69,362	71,608	74,303
%Chg	3.4	3.0	6.4	5.3	0.4	2.7	3.2	3.8
<b>U.S.</b>								
November 2021	59,778	61,786	66,390	69,763	72,426	75,444	78,711	82,218
%Chg	3.4	3.4	7.5	5.1	3.8	4.2	4.3	4.5
February 2021	59,736	61,692	65,858	68,974	69,901	71,723	74,279	77,239
%Chg	3.4	3.3	6.8	4.7	1.3	2.6	3.6	4.0

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

## Forecast Change for Select U.S. Macroeconomic Variables

November 2021 vs. February 2021, Calendar Year Forecasts

	2020	2021	2022	2023	2024	2025
<b>Consumer Spending</b>						
November 2021	12,630	13,634	14,094	14,422	14,844	15,315
% Chg	(3.8)	8.0	3.4	2.3	2.9	3.2
February 2021	12,727	13,490	14,077	14,475	14,926	15,400
% Chg	(3.9)	6.0	4.3	2.8	3.1	3.2
Forecast Change		2.0	(1.0)	(0.5)	(0.2)	(0.0)
<b>Wage and Salary Disbursements (Billions of Current Dollars)</b>						
November 2021	9,444	10,195	10,999	11,674	12,288	12,914
% Chg	1.3	8.0	7.9	6.1	5.3	5.1
February 2021	9,369	10,000	10,513	10,967	11,486	12,051
% Chg	0.6	6.7	5.1	4.3	4.7	4.9
Forecast Change		1.2	2.8	1.8	0.5	0.2
<b>Total Non-Farm Payroll Employment (Thousands)</b>						
November 2021	142	146	152	155	156	157
% Chg	(5.7)	2.7	3.9	1.9	0.9	0.6
February 2021	142	145	150	153	155	156
% Chg	(5.7)	1.9	3.7	1.7	1.1	0.9
Forecast Change		0.8	0.2	0.2	(0.2)	(0.3)
<b>Personal Income (Billions of Current Dollars)</b>						
November 2021	19,628	20,905	21,106	22,158	23,323	24,569
% Chg	6.5	6.5	1.0	5.0	5.3	5.3
February 2021	19,725	20,590	20,567	21,473	22,534	23,659
% Chg	6.3	4.4	(0.1)	4.4	4.9	5.0
Forecast Change		2.1	1.1	0.6	0.3	0.3
<b>U.S. Corporate Profits (w/ IVA and capital consumption adjustment, less profits from Federal Reserve)</b>						
November 2021	2,244	2,674	2,725	2,763	2,885	3,013
% Chg	(5.2)	19.2	1.9	1.4	4.4	4.5
February 2021	2,059	2,168	2,206	2,298	2,422	2,541
% Chg	(8.5)	5.3	1.8	4.2	5.4	4.9
Forecast Change		13.9	0.1	(2.8)	(1.0)	(0.4)
<b>U.S. Consumer Price Index (1982-84=1.0)</b>						
November 2021	2.588	2.704	2.794	2.853	2.916	2.979
% Chg	1.2	4.5	3.3	2.1	2.2	2.2
February 2021	2.589	2.643	2.699	2.752	2.810	2.873
% Chg	1.3	2.1	2.1	2.0	2.1	2.2
Forecast Change		2.3	1.2	0.1	0.1	(0.1)
<b>Real Gross Domestic Product (GDP) (Billions of Current Dollars)</b>						
November 2021	18,385	19,392	20,228	20,804	21,367	21,921
% Chg	(3.4)	5.5	4.3	2.9	2.7	2.6
February 2021	18,423	19,466	20,260	20,720	21,259	21,807
% Chg	(3.5)	5.7	4.1	2.3	2.6	2.6
Forecast Change		(0.2)	0.2	0.6	0.1	0.0

## Factors Affecting Tax Revenue

Billions of Current Dollars

	2020	2021	2022	2023	2024	2025
<b>Individual Income Tax (Calendar Year)</b>						
<b>Minnesota Non-Farm Tax Base</b>						
November 2019	281.573	292.143	303.54	315.605		
%Chg	3.7	3.8	3.9	4.0		
February 2020	280.678	290.903	301.6675	312.565		
%Chg	3.8	3.6	3.7	3.6		
April 2020	259.3	264.0	279.6	289.6		
%Chg	-4.1	1.8	5.9	3.6		
November 2020	264.815	272.17	284.06	295.875	310.85	325.625
%Chg	-1.0	2.8	4.4	4.2	5.1	4.8
February 2021	265.6	277.1	289.0	301.4775	314.755	329.365
%Chg	-0.7	4.3	4.3	4.3	4.4	4.6
November 2021	266.053	282.858	302.010	318.900	335.453	352.298
%Chg	-0.2	6.3	6.8	5.6	5.2	5.0
<b>Minnesota Wage and Salary Disbursements</b>						
November 2019	187.543	195.240	203.418	211.718		
%Chg	4.2	4.1	4.2	4.1		
February 2020	185.943	193.598	201.565	209.025		
%Chg	3.9	4.1	4.1	3.7		
April 2020	168.32	168.88	183.69	192.7125		
%Chg	-5.9	0.3	8.8	4.9		
November 2020	176.416	185.613	195.29	203.705	213.76	223.398
%Chg	-1.4	5.2	5.2	4.3	4.9	4.5
February 2021	177.731	188.395	197.785	206.6925	215.5975	225.518
%Chg	-0.6	6.0	5.0	4.5	4.3	4.6
November 2021	178.302	193.405	207.565	219.910	231.063	242.383
%Chg	-0.5	8.5	7.3	5.9	5.1	4.9
<b>Minnesota Dividends, Interest, &amp; Rental Income</b>						
November 2019	70.994	73.865	77.458	81.473		
%Chg	3.2	4.0	4.9	5.2		
February 2020	71.293	73.784	76.757	80.449		
%Chg	3.9	3.5	4.0	4.8		
April 2020	69.815	71.879	74.023	75.260		
%Chg	1.8	3.0	3.0	1.7		
November 2020	64.082	63.734	64.796	66.811	69.615	72.903
%Chg	-1.5	-0.5	1.7	3.1	4.2	4.7
February 2021	64.304	64.946	66.764	69.156	72.153	75.574
%Chg	-1.2	1.0	2.8	3.6	4.3	4.7
November 2021	63.624	64.135	67.217	70.184	73.788	77.933
%Chg	-1.8	0.8	4.8	4.4	5.1	5.6
<b>Minnesota Non-Farm Proprietors' Income</b>						
November 2019	23.035	23.039	22.661	22.415		
%Chg	1.3	0.0	-1.6	-1.1		
February 2020	23.444	23.519	23.344	23.091		
%Chg	2.5	0.3	-0.7	-1.1		
April 2020	21.122	23.221	21.850	21.670		
%Chg	-8.0	9.9	-5.9	-0.8		
November 2020	24.316	22.825	23.973	25.360	27.473	29.325
%Chg	3.7	-6.1	5.0	5.8	8.3	6.7
February 2021	23.534	23.774	24.402	25.632	27.003	28.273
%Chg	0.4	1.0	2.6	5.0	5.3	4.7
November 2021	24.127	25.320	27.231	28.806	30.600	31.983
%Chg	6.9	4.9	7.5	5.8	6.2	4.5

## Factors Affecting Tax Revenue (Continued)

Billions of Current Dollars

	2020	2021	2022	2023	2024	2025
<b>General Sales Tax (Fiscal Year)</b>						
<b>Minnesota Synthetic Sales Tax Base</b>						
November 2019	98.781	102.337	105.558	108.805		
%Chg	5.1	3.6	3.1	3.1		
February 2020	97.387	100.652	104.004	107.143		
%Chg	3.6	3.4	3.3	3.0		
April 2020	91.611	82.340	92.196	94.886		
%Chg	-2.3	-10.1	12.0	2.9		
November 2020	92.709	95.130	98.570	102.488	106.441	110.718
%Chg	-0.4	2.6	3.6	4.0	3.9	4.0
February 2021	93.075	96.247	101.985	106.344	110.864	115.735
%Chg	-0.1	3.4	6.0	4.3	4.3	4.4
November 2021	93.343	100.164	110.969	114.138	117.784	122.392
%Chg	0.2	7.3	10.8	2.9	3.2	3.9
<i>*Historical data revised as a result of comprehensive GDP account revisions</i>						
<b>Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)</b>						
November 2019	18.516	19.080	19.455	19.839		
%Chg	6.9	3.0	2.0	2.0		
February 2020	18.115	18.548	18.919	19.298		
%Chg	4.6	2.4	2.0	2.0		
April 2020	17.229	15.936	16.964	17.335		
%Chg	-0.5	-7.5	6.5	2.2		
November 2020	17.917	19.997	19.753	19.914	20.130	20.404
%Chg	3.4	11.6	-1.2	0.8		
February 2021	17.915	20.824	20.439	20.652	21.027	21.446
%Chg	3.4	16.2	-1.8	1.0	1.8	2.0
November 2021	17.758	21.775	23.314	22.312	22.025	22.390
%Chg	3.4	22.6	7.1	-4.3	-1.3	1.7
<b>Minnesota's Proxy Share of U.S. Capital Equipment Spending</b>						
November 2019	13.437	13.815	14.075	14.276		
%Chg	0.1	2.8	1.9	1.4		
February 2020	13.197	13.609	14.012	14.339		
%Chg	-1.6	3.1	3.0	2.3		
April 2020	12.997	11.079	12.278	11.941		
%Chg	-3.1	-14.8	10.8	-2.7		
November 2020	12.669	13.650	13.659	14.021	14.316	15.221
%Chg	-2.5	7.7	0.1	2.7		
February 2021	12.672	13.952	15.783	16.353	16.676	17.589
%Chg	-2.5	10.1	13.1	3.6	2.0	5.5
November 2021	12.535	13.932	14.694	15.469	15.992	16.666
%Chg	-2.2	11.1	5.5	5.3	3.4	4.2
<b>Minnesota's Proxy Share of U.S. Construction Spending</b>						
November 2019	8.908	9.154	9.448	9.804		
%Chg	5.1	3.6	3.1	3.1		
February 2020	9.014	9.160	9.357	9.665		
%Chg	2.0	1.6	2.2	3.3		
April 2020	8.664	7.642	8.597	9.080		
%Chg	-0.9	-11.8	12.5	5.6		
November 2020	9.118	8.945	9.139	9.674	10.230	10.786
%Chg	3.3	-1.9	2.2	5.9		
February 2021	9.334	9.490	9.416	9.284	9.887	10.584
%Chg	4.7	1.7	-0.8	-1.4	6.5	7.0
November 2021	9.359	9.566	10.377	10.841	11.258	11.797
%Chg	5.9	2.2	8.5	4.5	3.9	4.8

**Factors Affecting Tax Revenue (Continued)**

Billions of Current Dollars

	2020	2021	2022	2023	2024	2025
<b>Corporate Franchise Tax (Calendar Year)</b>						
<b>U.S. Corporate Profits (w/ IVA and capital consumption adjustment, less profits from Federal Reserve)</b>						
November 2019	2,043.7	2,153.8	2,252.7	2,362.2		
%Chg	2.2	5.4	4.6	4.9		
February 2020	2,025.5	2,124.3	2,222.9	2,335.3		
%Chg	1.2	4.9	4.6	5.1		
April 2020	1,160.0	1,907.4	1,965.382	2,037.580		
%Chg	-42.6	64.4	3.0	3.7		
November 2020	2,054.5	1,835.0	1,951.8	2,069.9	2,222.5	2,379.8
%Chg	-6.8	-10.7	6.4	6.0	7.4	7.1
February 2021	2,059.3	2,168.3	2,206.3	2,298.3	2,421.9	2,540.8
%Chg	-8.5	5.3	1.8	4.2	5.4	4.9
November 2021	2,243.8	2,673.5	2,725.3	2,763.1	2,884.7	3,013.1
%Chg	-5.2	19.2	1.9	1.4	4.4	4.5
<b>Deed &amp; Mortgage Tax (Fiscal Year)</b>						
<b>U.S. New and Existing Home Sales (Current \$ Value)</b>						
November 2019	1,803.3	1,815.6	1,827.4	1,850.2		
%Chg	9.7	0.7	0.6	1.2		
February 2020	1,806.3	1,890.5	1,907.6	1,927.7		
%Chg	9.9	4.7	0.9	1.1		
November 2020	1,718.4	2,210.0	2,178.5	2,168.0	2,170.0	2,211.4
%Chg	4.6	28.6	-1.4	-0.5	0.1	1.9
February 2021	1,718.4	2,294.4	2,319.2	2,251.4	2,222.4	2,260.3
%Chg	4.6	33.5	1.1	-2.9	-1.3	1.7
November 2021	2,008.2	2,329.9	2,388.9	2,315.6	2,340.0	2,371.0
%Chg	16.6	16.0	2.5	-3.1	1.1	1.3

**COMPARISON OF ACTUAL AND ESTIMATED  
NON-RESTRICTED REVENUES**

October YTD, 2021-FY2022  
(\$ IN THOUSANDS)

	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT- FCST
<b>Individual Income Tax</b>			
Withholding	3,221,500	3,322,241	100,741
Declarations	658,134	610,828	(47,306)
Miscellaneous	290,495	324,765	34,270
Gross	4,170,129	4,257,834	87,705
Refund	202,512	141,105	(61,406)
Net	3,967,617	4,116,729	149,111
<b>Corporate Franchise Tax</b>			
Declarations	437,080	723,446	286,366
Miscellaneous	131,747	152,781	21,033
Gross	568,827	876,227	307,399
Refund	132,667	39,565	(93,103)
Net	436,160	836,662	400,502
<b>General Sales and Use Tax</b>			
Gross	1,967,484	2,143,738	176,254
Mpls. sales tax transferred to MSFA	-	-	-
MPLS Sales Tax w/Holding for NFL Stadium	7,072	7,873	802
Sales Tax Gross	1,974,555	2,151,611	177,055
Refunds (including Indian refunds)	53,554	39,953	(13,601)
Net	1,921,001	2,111,658	190,656
<b>Other Revenues:</b>			
Net Estate	55,532	70,042	14,510
Net Liquor/Wine/Beer	28,127	29,781	1,654
Net Cigarette/Tobacco	146,799	154,637	7,838
Deed and Mortgage	96,589	122,997	26,408
Net Insurance Premiums Taxes	103,851	110,362	6,512
Net Lawful Gambling	31,494	47,642	16,148
Health Care Surcharge	101,003	27,989	(73,014)
Other Taxes	(1)	0	1
Statewide Property Tax	179,298	176,105	(3,193)
DHS SOS Collections	30,810	26,941	(3,869)
Investment Income	7,333	5,923	(1,410)
Tobacco Settlement	100	100	-
Dept. Earnings & MSOP Recov.	56,890	57,027	138
Fines and Surcharges	21,001	15,623	(5,378)
Lottery Revenues	12,351	11,786	(565)
Revenues yet to be allocated	-	146	146
Residual Revenues	29,893	46,634	16,741
Other Subtotal	901,069	903,735	2,666
Other Refunds	1,735	631	(1,104)
Other Net	899,334	903,104	3,770
<b>Total Gross</b>	<b>7,614,581</b>	<b>8,189,406</b>	<b>574,825</b>
<b>Total Refunds</b>	<b>390,468</b>	<b>221,254</b>	<b>(169,214)</b>
<b>Total Net</b>	<b>7,224,113</b>	<b>7,968,152</b>	<b>744,039</b>

**FY 2020-21 Closed Biennium**  
 November 2021 Forecast  
 (\$ in thousands)

	Actual FY 2020	Actual FY 2021	Biennial Total FY 2020-21
<b><u>Actual &amp; Estimated Resources</u></b>			
Balance Forward From Prior Year	3,971,359	3,343,865	3,971,359
Current Resources:			
Tax Revenues	22,077,216	25,660,445	47,737,661
Non-Tax Revenues	817,106	921,862	1,738,968
Subtotal-Non-Dedicated Revenue	22,894,322	26,582,307	49,476,629
Dedicated Revenue	795	5	800
Transfers In	155,643	532,294	687,937
Prior Year Adjustments	99,722	214,054	313,776
Subtotal-Other Revenue	256,160	746,353	1,002,513
Subtotal-Current Resources	23,150,482	27,328,660	50,479,142
<b>Total Resources Available</b>	<b>27,121,841</b>	<b>30,672,525</b>	<b>54,450,501</b>
<b><u>Actual &amp; Estimated Spending</u></b>			
E-12 Education	9,835,739	9,919,135	19,754,874
Higher Education	1,693,377	1,714,340	3,407,717
Property Tax Aids & Credits	1,866,803	2,025,878	3,892,681
Health & Human Services	7,035,367	6,611,035	13,646,402
Public Safety & Judiciary	1,236,945	1,313,711	2,550,656
Transportation	174,820	170,750	345,570
Environment	166,422	182,212	348,634
Economic Development, Energy, Ag and Housing	303,980	300,722	604,702
State Government & Veterans	794,715	718,612	1,513,327
Debt Service	540,081	515,544	1,055,625
Capital Projects & Grants	129,727	174,629	304,356
Estimated Cancellations	0	0	0
<b>Total Expenditures &amp; Transfers</b>	<b>23,777,976</b>	<b>23,646,568</b>	<b>47,424,544</b>
<b>Balance Before Reserves</b>	<b>3,343,865</b>	<b>7,025,957</b>	<b>7,025,957</b>
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	2,358,698	2,406,352	2,406,352
Stadium Reserve	55,700	106,709	106,709
Appropriations Carried Forward	246,058	111,033	111,033
	<b>333,409</b>	<b>4,051,863</b>	<b>4,051,863</b>

## FY 2020-21 Closed Biennium

November 2021 Forecast vs End of 2021 1<sup>st</sup> Special Legislative Session  
(\$ in thousands)

	Enacted FY 2020-21	Nov FY 2020-21	\$ Change
<b><u>Actual &amp; Estimated Resources</u></b>			
	3,971,359	3,971,359	0
Current Resources:			
Tax Revenues	45,121,923	47,737,661	2,615,738
Non-Tax Revenues	1,670,371	1,738,968	68,597
Subtotal-Non-Dedicated Revenue	46,792,294	49,476,629	2,684,335
Dedicated Revenue	800	800	0
Transfers In	673,021	687,937	14,916
Prior Year Adjustments	238,016	313,776	75,760
Subtotal-Other Revenue	911,837	1,002,513	90,676
Subtotal-Current Resources	47,704,131	50,479,142	2,775,011
<b>Total Resources Available</b>	<b>51,675,490</b>	<b>54,450,501</b>	<b>2,775,011</b>
<b><u>Actual &amp; Estimated Spending</u></b>			
E-12 Education	19,838,705	19,754,874	-83,831
Higher Education	3,401,789	3,407,717	5,928
Property Tax Aids & Credits	3,973,123	3,892,681	-80,442
Health & Human Services	13,748,103	13,646,402	-101,701
Public Safety & Judiciary	2,565,259	2,550,656	-14,603
Transportation	358,409	345,570	-12,839
Environment	343,016	348,634	5,618
Economic Development, Energy, Ag and Housing	632,752	604,702	-28,050
State Government & Veterans	1,545,208	1,513,327	-31,881
Debt Service	1,055,625	1,055,625	0
Capital Projects & Grants	308,857	304,356	-4,501
Estimated Cancellations	-15,000	0	15,000
<b>Total Expenditures &amp; Transfers</b>	<b>47,755,846</b>	<b>47,424,544</b>	<b>-331,302</b>
<b>Balance Before Reserves</b>	<b>3,919,644</b>	<b>7,025,957</b>	<b>3,106,313</b>
Cash Flow Account	350,000	350,000	0
Budget Reserve	2,377,319	2,406,352	29,033
Stadium Reserve	80,738	106,709	25,971
Appropriations Carried Forward	0	111,033	111,033
<b>Budgetary Balance</b>	<b>1,111,587</b>	<b>4,051,863</b>	<b>2,940,276</b>

## FY 2022-23 Current Biennium

November 2021 Forecast  
(\$ in thousands)

	Nov FY 2022	Nov FY 2023	BiennialTotal FY 2022-23
<b><u>Actual &amp; Estimated Resources</u></b>			
Balance Forward From Prior Year	7,025,957	8,733,114	7,025,957
Current Resources:			
Tax Revenues	25,826,946	27,613,386	53,440,332
Non-Tax Revenues	761,541	767,645	1,529,186
Subtotal-Non-Dedicated Revenue	26,588,487	28,381,031	54,969,518
Dedicated Revenue	5	5	10
Transfers In	176,896	782,285	959,181
Prior Year Adjustments	71,378	37,103	108,481
Subtotal-Other Revenue	248,279	819,393	1,067,672
Subtotal-Current Resources	26,836,766	29,200,424	56,037,190
<b>Total Resources Available</b>	<b>33,862,723</b>	<b>37,933,538</b>	<b>63,063,147</b>
<b><u>Actual &amp; Estimated Spending</u></b>			
E-12 Education	10,180,844	10,479,704	20,660,548
Higher Education	1,756,101	1,755,767	3,511,868
Property Tax Aids & Credits	2,079,740	2,088,846	4,168,586
Health & Human Services	7,211,285	9,198,567	16,409,852
Public Safety & Judiciary	1,353,464	1,327,247	2,680,711
Transportation	327,502	149,722	477,224
Environment	200,110	185,473	385,583
Economic Development, Energy, Ag and Housing	523,452	299,577	823,029
State Government & Veterans	733,533	630,920	1,364,453
Debt Service	592,426	606,410	1,198,836
Capital Projects & Grants	176,152	162,620	338,772
Estimated Cancellations	-5,000	-15,000	-20,000
<b>Total Expenditures &amp; Transfers</b>	<b>25,129,609</b>	<b>26,869,853</b>	<b>51,999,462</b>
<b>Balance Before Reserves</b>	<b>8,733,114</b>	<b>11,063,685</b>	<b>11,063,685</b>
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	2,655,745	2,655,745	2,655,745
Stadium Reserve	204,679	312,108	312,108
<b>Budgetary Balance</b>	<b>5,522,690</b>	<b>7,745,832</b>	<b>7,745,832</b>

**FY 2022-23 Current Biennium**November 2021 Forecast vs End of 2021 1st Special Legislative Session  
(\$ in thousands)

	Enacted FY 2022-23	Nov FY 2022-23	\$ Change
<b><u>Actual &amp; Estimated Resources</u></b>			
Balance Forward From Prior Year	3,919,644	7,025,957	3,106,313
Current Resources:			
Tax Revenues	48,363,812	53,440,332	5,076,520
Non-Tax Revenues	1,478,502	1,529,186	50,684
Subtotal - Non-Dedicated Revenue	49,842,314	54,969,518	5,127,204
Dedicated Revenue	10	10	0
Transfers In	931,644	959,181	27,537
Prior Year Adjustments	133,445	108,481	-24,964
Subtotal - Other Revenue	1,065,099	1,067,672	2,573
Subtotal-Current Resources	50,907,413	56,037,190	5,129,777
<b>Total Resources Available</b>	<b>54,827,057</b>	<b>63,063,147</b>	<b>8,236,090</b>
<b><u>Actual &amp; Estimated Spending</u></b>			
E-12 Education	20,986,960	20,660,548	-326,412
Higher Education	3,511,868	3,511,868	0
Property Tax Aids & Credits	4,204,411	4,168,586	-35,825
Health & Human Services	16,503,557	16,409,852	-93,705
Public Safety & Judiciary	2,637,936	2,680,711	42,775
Transportation	476,352	477,224	872
Environment	369,754	385,583	15,829
Economic Development, Energy, Ag and Housing	775,812	823,029	47,217
State Government & Veterans	1,333,128	1,364,453	31,325
Debt Service	1,242,865	1,198,836	-44,029
Capital Projects & Grants	340,473	338,772	-1,701
Estimated Cancellations	-20,000	-20,000	0
<b>Total Expenditures &amp; Transfers</b>	<b>52,363,116</b>	<b>51,999,462</b>	<b>-363,654</b>
<b>Balance Before Reserves</b>	<b>2,463,941</b>	<b>11,063,685</b>	<b>8,599,744</b>
Cash Flow Account	350,000	350,000	0
Budget Reserve	1,785,950	2,655,745	869,795
Stadium Reserve	200,700	312,108	111,408
<b>Budgetary Balance</b>	<b>127,291</b>	<b>7,745,832</b>	<b>7,618,541</b>

**Biennial Comparison**November 2021 Forecast  
(\$ in thousands)

	Nov FY 2020-21	Nov FY 2022-23	\$ Change
<b><u>Actual &amp; Estimated Resources</u></b>			
Balance Forward From Prior Year	3,971,359	7,025,957	3,054,598
Current Resources:			
Tax Revenues	47,737,661	53,440,332	5,702,671
Non-Tax Revenues	1,738,968	1,529,186	-209,782
Subtotal-Non-Dedicated Revenue	49,476,629	54,969,518	5,492,889
Dedicated Revenue	800	10	-790
Transfers In	687,937	959,181	271,244
Prior Year Adjustments	313,776	108,481	-205,295
Subtotal-Other Revenue	1,002,513	1,067,672	65,159
Subtotal-Current Resources	50,479,142	56,037,190	5,558,048
<b>Total Resources Available</b>	<b>54,450,501</b>	<b>63,063,147</b>	<b>8,612,646</b>
<b><u>Actual &amp; Estimated Spending</u></b>			
E-12 Education	19,754,874	20,660,548	905,674
Higher Education	3,407,717	3,511,868	104,151
Property Tax Aids & Credits	3,892,681	4,168,586	275,905
Health & Human Services	13,646,402	16,409,852	2,763,450
Public Safety & Judiciary	2,550,656	2,680,711	130,055
Transportation	345,570	477,224	131,654
Environment	348,634	385,583	36,949
Economic Development, Energy, Ag and Housing	604,702	823,029	218,327
State Government & Veterans	1,513,327	1,364,453	-148,874
Debt Service	1,055,625	1,198,836	143,211
Capital Projects & Grants	304,356	338,772	34,416
Estimated Cancellations	0	-20,000	-20,000
<b>Total Expenditures &amp; Transfers</b>	<b>47,424,544</b>	<b>51,999,462</b>	<b>4,574,918</b>
<b>Balance Before Reserves</b>	<b>7,025,957</b>	<b>11,063,685</b>	<b>4,037,728</b>
Cash Flow Account	350,000	350,000	0
Budget Reserve	2,406,352	2,655,745	249,393
Stadium Reserve	106,709	312,108	205,399
Appropriations Carried Forward	111,033	0	-111,033
<b>Budgetary Balance</b>	<b>4,051,863</b>	<b>7,745,832</b>	<b>3,693,969</b>

## FY2024-25 Planning Estimates

November 2021 Forecast

(\$ in thousands)

	Nov FY 2024	Nov FY 2025	Biennial Total FY 2022-23
<b><u>Actual &amp; Estimated Resources</u></b>			
Balance Forward From Prior Year	11,063,685	14,203,115	11,063,685
Current Resources:			
Tax Revenues	28,500,796	29,325,015	57,825,811
Non-Tax Revenues	769,564	766,429	1,535,993
Subtotal-Non-Dedicated Revenue	29,270,360	30,091,444	59,361,804
Dedicated Revenue	5	5	10
Transfers In	700,334	149,250	849,584
Prior Year Adjustments	37,064	37,024	74,088
Subtotal-Other Revenue	737,403	186,279	923,682
Subtotal-Current Resources	30,007,763	30,277,723	60,285,486
<b>Total Resources Available</b>	<b>41,071,448</b>	<b>44,480,838</b>	<b>71,349,171</b>
<b><u>Actual &amp; Estimated Spending</u></b>			
E-12 Education	10,614,662	10,679,691	21,294,353
Higher Education	1,752,914	1,752,914	3,505,828
Property Tax Aids & Credits	2,166,213	2,201,012	4,367,225
Health & Human Services	8,956,412	9,464,334	18,420,746
Public Safety & Judiciary	1,324,472	1,324,920	2,649,392
Transportation	135,730	135,730	271,460
Environment	177,896	177,730	355,626
Economic Development, Energy, Ag and Housing	302,307	302,669	604,976
State Government & Veterans	634,005	625,949	1,259,954
Debt Service	635,859	636,864	1,272,723
Capital Projects & Grants	172,863	177,664	350,527
Estimated Cancellations	-5,000	-15,000	-20,000
<b>Total Expenditures &amp; Transfers</b>	<b>26,868,333</b>	<b>27,464,477</b>	<b>54,332,810</b>
<b>Balance Before Reserves</b>	<b>14,203,115</b>	<b>17,016,361</b>	<b>17,016,361</b>
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	2,655,745	2,655,745	2,655,745
Stadium Reserve	427,746	550,332	550,332
<b>Budgetary Balance</b>	<b>10,769,624</b>	<b>13,460,284</b>	<b>13,460,284</b>

**FY2024-25 Planning Estimates**November 2021 Forecast vs End of 2021 1<sup>st</sup> Special Legislative Session  
(\$ in thousands)

	Enacted FY 2024-25	Nov FY 2024-25	\$ Change
<b><u>Actual &amp; Estimated Resources</u></b>			
Balance Forward From Prior Year	2,463,941	11,063,685	8,599,744
Current Resources:			
Tax Revenues	52,403,973	57,825,811	5,421,838
Non-Tax Revenues	1,470,218	1,535,993	65,775
Subtotal-Non-Dedicated Revenue	53,874,191	59,361,804	5,487,613
Dedicated Revenue	10	10	0
Transfers In	849,584	849,584	0
Prior Year Adjustments	74,812	74,088	-724
Subtotal-Other Revenue	924,406	923,682	-724
Subtotal-Current Resources	54,798,597	60,285,486	5,486,889
<b>Total Resources Available</b>	<b>57,262,538</b>	<b>71,349,171</b>	<b>14,086,633</b>
<b><u>Actual &amp; Estimated Spending</u></b>			
E-12 Education	21,756,677	21,294,353	-462,324
Higher Education	3,505,828	3,505,828	0
Property Tax Aids & Credits	4,358,536	4,367,225	8,689
Health & Human Services	18,357,887	18,420,746	62,859
Public Safety & Judiciary	2,649,392	2,649,392	0
Transportation	271,460	271,460	0
Environment	347,481	355,626	8,145
Economic Development, Energy, Ag and Housing	609,826	604,976	-4,850
State Government & Veterans	1,260,755	1,259,954	-801
Debt Service	1,258,780	1,272,723	13,943
Capital Projects & Grants	350,988	350,527	-461
Estimated Cancellations	-20,000	-20,000	0
<b>Total Expenditures &amp; Transfers</b>	<b>54,707,610</b>	<b>54,332,810</b>	<b>-374,800</b>
<b>Balance Before Reserves</b>	<b>2,554,928</b>	<b>17,016,361</b>	<b>14,461,433</b>
Cash Flow Account	350,000	350,000	0
Budget Reserve	1,785,950	2,655,745	869,795
Stadium Reserve	359,403	550,332	190,929
<b>Budgetary Balance</b>	<b>59,575</b>	<b>13,460,284</b>	<b>13,400,709</b>

**Biennial Comparison**November 2021 Forecast  
(\$ in thousands)

	Nov FY 2022-23	Nov FY 2024-25	\$ Change
<b><u>Actual &amp; Estimated Resources</u></b>			
Balance Forward From Prior Year	7,025,957	11,063,685	4,037,728
Current Resources:			
Tax Revenues	53,440,332	57,825,811	4,385,479
Non-Tax Revenues	1,529,186	1,535,993	6,807
Subtotal-Non-Dedicated Revenue	54,969,518	59,361,804	4,392,286
Dedicated Revenue	10	10	0
Transfers In	959,181	849,584	-109,597
Prior Year Adjustments	108,481	74,088	-34,393
Subtotal-Other Revenue	1,067,672	923,682	-143,990
Subtotal-Current Resources	56,037,190	60,285,486	4,248,296
<b>Total Resources Available</b>	<b>63,063,147</b>	<b>71,349,171</b>	<b>8,286,024</b>
<b><u>Actual &amp; Estimated Spending</u></b>			
E-12 Education	20,660,548	21,294,353	633,805
Higher Education	3,511,868	3,505,828	-6,040
Property Tax Aids & Credits	4,168,586	4,367,225	198,639
Health & Human Services	16,409,852	18,420,746	2,010,894
Public Safety & Judiciary	2,680,711	2,649,392	-31,319
Transportation	477,224	271,460	-205,764
Environment	385,583	355,626	-29,957
Economic Development, Energy, Ag and Housing	823,029	604,976	-218,053
State Government & Veterans	1,364,453	1,259,954	-104,499
Debt Service	1,198,836	1,272,723	73,887
Capital Projects & Grants	338,772	350,527	11,755
Estimated Cancellations	-20,000	-20,000	0
<b>Total Expenditures &amp; Transfers</b>	<b>51,999,462</b>	<b>54,332,810</b>	<b>2,333,348</b>
<b>Balance Before Reserves</b>	<b>11,063,685</b>	<b>17,016,361</b>	<b>5,952,676</b>
Cash Flow Account	350,000	350,000	0
Budget Reserve	2,655,745	2,655,745	0
Stadium Reserve	312,108	550,332	238,224
<b>Budgetary Balance</b>	<b>7,745,832</b>	<b>13,460,284</b>	<b>5,714,452</b>

## FY 2020-25 Planning Horizon

November 2021 Forecast

(\$ in thousands)

	Actual FY 2020-21	Nov FY 2022-23	Nov FY 2024-25
<b><u>Actual &amp; Estimated Resources</u></b>			
Balance Forward From Prior Year	3,971,359	7,025,957	11,063,685
Current Resources:			
Tax Revenues	47,737,661	53,440,332	57,825,811
Non-Tax Revenues	1,738,968	1,529,186	1,535,993
Subtotal-Non-Dedicated Revenue	49,476,629	54,969,518	59,361,804
Dedicated Revenue	800	10	10
Transfers In	687,937	959,181	849,584
Prior Year Adjustments	313,776	108,481	74,088
Subtotal-Other Revenue	1,002,513	1,067,672	923,682
Subtotal-Current Resources	50,479,142	56,037,190	60,285,486
<b>Total Resources Available</b>	<b>54,450,501</b>	<b>63,063,147</b>	<b>71,349,171</b>
<b><u>Actual &amp; Estimated Spending</u></b>			
E-12 Education	19,754,874	20,660,548	21,294,353
Higher Education	3,407,717	3,511,868	3,505,828
Property Tax Aids & Credits	3,892,681	4,168,586	4,367,225
Health & Human Services	13,646,402	16,409,852	18,420,746
Public Safety & Judiciary	2,550,656	2,680,711	2,649,392
Transportation	345,570	477,224	271,460
Environment	348,634	385,583	355,626
Jobs, Economic Development & Commerce	604,702	823,029	604,976
State Government & Veterans	1,513,327	1,364,453	1,259,954
Debt Service	1,055,625	1,198,836	1,272,723
Capital Projects & Grants	304,356	338,772	350,527
Estimated Cancellations	0	-20,000	-20,000
<b>Total Expenditures &amp; Transfers</b>	<b>47,424,544</b>	<b>51,999,462</b>	<b>54,332,810</b>
<b>Balance Before Reserves</b>	<b>7,025,957</b>	<b>11,063,685</b>	<b>17,016,361</b>
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	2,406,352	2,655,745	2,655,745
Stadium Reserve	106,709	312,108	550,332
Appropriations Carried Forward	111,033	0	0
<b>Budgetary Balance</b>	<b>4,051,863</b>	<b>7,745,832</b>	<b>13,460,284</b>

## Historical and Projected Revenue Growth

November 2021 Forecast-General Fund  
(\$ in millions)

	Actual FY 2018	Actual FY 2019	Actual FY 2020	Actual FY 2021	Nov FY 2022	Nov FY 2023	Pling FY 2024	Pling FY 2025	Average Annual
<b>Individual Income Tax</b>	\$11,784	\$12,405	\$12,094	\$14,104	\$14,006	\$15,444	\$16,289	\$16,827	
\$ change	852	622	(311)	2,010	(98)	1,438	845	537	
% change	<b>7.8%</b>	<b>5.3%</b>	<b>-2.5%</b>	<b>16.6%</b>	<b>-0.7%</b>	<b>10.3%</b>	<b>5.5%</b>	<b>3.3%</b>	<b>4.6%</b>
<b>Sales Tax</b>	\$5,453	\$5,762	\$5,746	\$6,169	\$6,516	\$7,094	\$7,321	\$7,597	
\$ change	48	309	(17)	424	347	578	226	276	
% change	<b>0.9%</b>	<b>5.7%</b>	<b>-0.3%</b>	<b>7.4%</b>	<b>5.6%</b>	<b>8.9%</b>	<b>3.2%</b>	<b>3.8%</b>	<b>4.2%</b>
<b>Corporate Tax</b>	\$1,315	\$1,660	\$1,580	\$2,387	\$2,292	\$2,039	\$1,827	\$1,787	
\$ change	109	345	(80)	807	(96)	(253)	(212)	(39)	
% change	<b>9.1%</b>	<b>26.3%</b>	<b>-4.8%</b>	<b>51.1%</b>	<b>-4.0%</b>	<b>-11.1%</b>	<b>-10.4%</b>	<b>-2.1%</b>	<b>3.9%</b>
<b>Statewide Property Tax</b>	\$811	\$811	\$753	\$803	\$774	\$764	\$748	\$749	
\$ change	(47)	(1)	(57)	50	(29)	(10)	(16)	0	
% change	<b>-5.5%</b>	<b>-0.1%</b>	<b>-7.1%</b>	<b>6.6%</b>	<b>-3.6%</b>	<b>-1.3%</b>	<b>-2.1%</b>	<b>0.0%</b>	<b>-1.0%</b>
<b>Other Tax Revenue</b>	\$1,885	\$1,961	\$1,904	\$2,197	\$2,239	\$2,272	\$2,316	\$2,365	
\$ change	53	76	(58)	293	42	33	43	49	
% change	<b>2.9%</b>	<b>4.0%</b>	<b>-2.9%</b>	<b>15.4%</b>	<b>1.9%</b>	<b>1.5%</b>	<b>1.9%</b>	<b>2.1%</b>	<b>2.9%</b>
<b>Total Tax Revenue</b>	\$21,248	\$22,600	\$22,077	\$25,660	\$25,827	\$27,613	\$28,501	\$29,325	
\$ change	1,015	1,352	(522)	3,583	167	1,786	887	824	
% change	<b>5.0%</b>	<b>6.4%</b>	<b>-2.3%</b>	<b>16.2%</b>	<b>0.6%</b>	<b>6.9%</b>	<b>3.2%</b>	<b>2.9%</b>	<b>4.1%</b>
<b>Non-Tax Revenues</b>	\$814	\$879	\$817	\$922	\$762	\$768	\$770	\$766	
\$ change	(5)	65	(62)	105	(160)	6	2	(3)	
% change	<b>-0.6%</b>	<b>8.0%</b>	<b>-7.0%</b>	<b>12.8%</b>	<b>-17.4%</b>	<b>0.8%</b>	<b>0.2%</b>	<b>-0.4%</b>	<b>-0.8%</b>
<b>Transfers, All Other</b>	\$235	\$264	\$256	\$746	\$248	\$819	\$737	\$186	
\$ change	(47)	29	(8)	490	(498)	571	(82)	(551)	
% change	<b>-16.6%</b>	<b>12.3%</b>	<b>-3.0%</b>	<b>191.4%</b>	<b>-66.7%</b>	<b>230.0%</b>	<b>-10.0%</b>	<b>-74.7%</b>	<b>-2.9%</b>
<b>Total Revenue</b>	\$22,297	\$23,743	\$23,150	\$27,329	\$26,837	\$29,200	\$30,008	\$30,278	
\$ change	963	1,446	(592)	4,178	(492)	2,364	807	270	
% change	<b>4.5%</b>	<b>6.5%</b>	<b>-2.5%</b>	<b>18.0%</b>	<b>-1.8%</b>	<b>8.8%</b>	<b>2.8%</b>	<b>0.9%</b>	<b>3.9%</b>

## Historical and Projected Spending Growth

November 2021 Forecast-General Fund  
(\$ in millions)

	Actual FY2018	Actual FY2019	Actual FY2020	Actual FY2021	Nov FY2022	Nov FY2023	Pling FY2024	Pling FY2025	AverageAnnual
<b>E-12 Education</b>	\$9,233	\$9,588	\$9,836	\$9,919	\$10,181	\$10,480	\$10,615	\$10,680	
\$ change	332	355	248	83	262	299	135	65	
% change	<b>3.7%</b>	<b>3.8%</b>	<b>2.6%</b>	<b>0.8%</b>	<b>2.6%</b>	<b>2.9%</b>	<b>1.3%</b>	<b>0.6%</b>	<b>1.8%</b>
<b>Higher Education</b>	\$1,651	\$1,642	\$1,693	\$1,714	\$1,756	\$1,756	\$1,753	\$1,753	
\$ change	95	(9)	51	21	42	(0)	(3)	-	
% change	<b>6.1%</b>	<b>-0.5%</b>	<b>3.1%</b>	<b>1.2%</b>	<b>2.4%</b>	<b>0.0%</b>	<b>-0.2%</b>	<b>0.0%</b>	<b>0.8%</b>
<b>Prop. Tax Aids &amp; Credits</b>	\$1,724	\$1,927	\$1,867	\$2,026	\$2,080	\$2,089	\$2,166	\$2,201	
\$ change	49	203	(60)	159	54	9	77	35	
% change	<b>2.9%</b>	<b>11.8%</b>	<b>-3.1%</b>	<b>8.5%</b>	<b>2.7%</b>	<b>0.4%</b>	<b>3.7%</b>	<b>1.6%</b>	<b>3.1%</b>
<b>Health &amp; Human Services</b>	\$6,622	\$6,677	\$7,035	\$6,611	\$7,211	\$9,199	\$8,956	\$9,464	
\$ change	678	55	359	(424)	600	1,987	(242)	508	
% change	<b>11.4%</b>	<b>0.8%</b>	<b>5.4%</b>	<b>-6.0%</b>	<b>9.1%</b>	<b>27.6%</b>	<b>-2.6%</b>	<b>5.7%</b>	<b>4.6%</b>
<b>Public Safety &amp; Judiciary</b>	\$1,130	\$1,226	\$1,237	\$1,314	\$1,353	\$1,327	\$1,324	\$1,325	
\$ change	(4)	96	11	77	40	(26)	(3)	0	
% change	<b>-0.3%</b>	<b>8.5%</b>	<b>0.9%</b>	<b>6.2%</b>	<b>3.0%</b>	<b>-1.9%</b>	<b>-0.2%</b>	<b>0.0%</b>	<b>2.3%</b>
<b>Debt Service</b>	\$563	\$550	\$540	\$516	\$592	\$606	\$636	\$637	
\$ change	34	(13)	(10)	(25)	77	14	29	1	
% change	<b>6.4%</b>	<b>-2.4%</b>	<b>-1.8%</b>	<b>-4.5%</b>	<b>14.9%</b>	<b>2.4%</b>	<b>4.9%</b>	<b>0.2%</b>	<b>1.6%</b>
<b>All Other</b>	\$1,424	\$1,444	\$1,570	\$1,547	\$1,956	\$1,413	\$1,418	\$1,405	
\$ change	124	20	125	(23)	409	(542)	4	(13)	
% change	<b>9.5%</b>	<b>1.4%</b>	<b>8.7%</b>	<b>-1.4%</b>	<b>26.4%</b>	<b>-27.7%</b>	<b>0.3%</b>	<b>-0.9%</b>	<b>-0.2%</b>
<b>Total Spending</b>	\$22,347	\$23,053	\$23,778	\$23,647	\$25,130	\$26,870	\$26,868	\$27,464	
\$ change	1,308	707	724	(131)	1,483	1,740	(2)	596	
% change	<b>6.2%</b>	<b>3.2%</b>	<b>3.1%</b>	<b>-0.6%</b>	<b>6.3%</b>	<b>6.9%</b>	<b>0.0%</b>	<b>2.2%</b>	<b>2.6%</b>

## FY 2016-2025 Stadium Reserve Balance

November 2021 Forecast

(\$ in thousands)

	Actual FY 2016	Actual FY 2017	Actual FY 2018	Actual FY 2019	Actual FY 2020	Actual FY 2021	Projected FY 2022	Projected FY 2023	Projected FY 2024	Projected FY 2025
<b>Actual &amp; Estimated Resources</b>										
Beginning Balance	32,634	22,535	26,821	44,171	55,075	55,700	106,709	204,679	312,108	427,746
Prior Year Adjustments	0	0	0	0	42	1	0	0	0	0
Current Resources:										
Gambling Revenue	19,389	26,989	38,675	52,835	42,494	82,782	119,850	129,350	137,650	144,550
Sales Tax Exemption for Construction Equipment	(11,834)	(1,583)	0	0	0	0	0	0	0	0
Retained City of Minneapolis Revenue	0	0	0	0	0	10,539	21,214	21,703	22,147	22,550
Corporate Franchise Tax Revenue	20,000	20,000	20,000	0	0	0	0	0	0	0
Cigarette Floor Stocks Tax Reserve Deposit	0	0	0	0	0	0	0	0	0	0
<b>Current Resources</b>	<b>27,555</b>	<b>45,406</b>	<b>58,675</b>	<b>52,835</b>	<b>42,494</b>	<b>93,321</b>	<b>141,064</b>	<b>151,053</b>	<b>159,797</b>	<b>167,100</b>
<b>Actual &amp; Estimated Spending</b>										
Debt Service	30,154	30,158	29,923	30,158	30,156	30,157	30,154	30,155	30,152	30,151
Total Payments for City Stadium Obligations	7,500	7,623	7,947	8,177	8,260	8,259	8,672	9,106	9,561	9,848
St. Paul Sports Facilities Grants	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700
Problem Gambling Appropriations	563	639	756	897	794	1,197	1,568	1,663	1,746	1,815
<b>Total Uses</b>	<b>40,917</b>	<b>41,120</b>	<b>41,325</b>	<b>41,932</b>	<b>41,910</b>	<b>42,313</b>	<b>43,094</b>	<b>43,624</b>	<b>44,159</b>	<b>44,513</b>
<b>Sources Minus Uses</b>	<b>(13,362)</b>	<b>4,286</b>	<b>17,350</b>	<b>10,903</b>	<b>584</b>	<b>51,008</b>	<b>97,970</b>	<b>107,429</b>	<b>115,638</b>	<b>122,587</b>
Expenses Covered By General Fund <sup>1</sup>	3,263	0	0	0	0	0	0	0	0	0
Use of the Reserve	[10,099]	0	0	0	0	0	0	0	0	0
<b>Stadium Reserve Balance</b>	<b>22,535</b>	<b>26,821</b>	<b>44,171</b>	<b>55,075</b>	<b>55,700</b>	<b>106,709</b>	<b>204,679</b>	<b>312,108</b>	<b>427,746</b>	<b>550,332</b>

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