



BUDGET *AND* ***ECONOMIC FORECAST***



FEBRUARY 2024

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 inflation and variables outside the control of the legislature.

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

Notes

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

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

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

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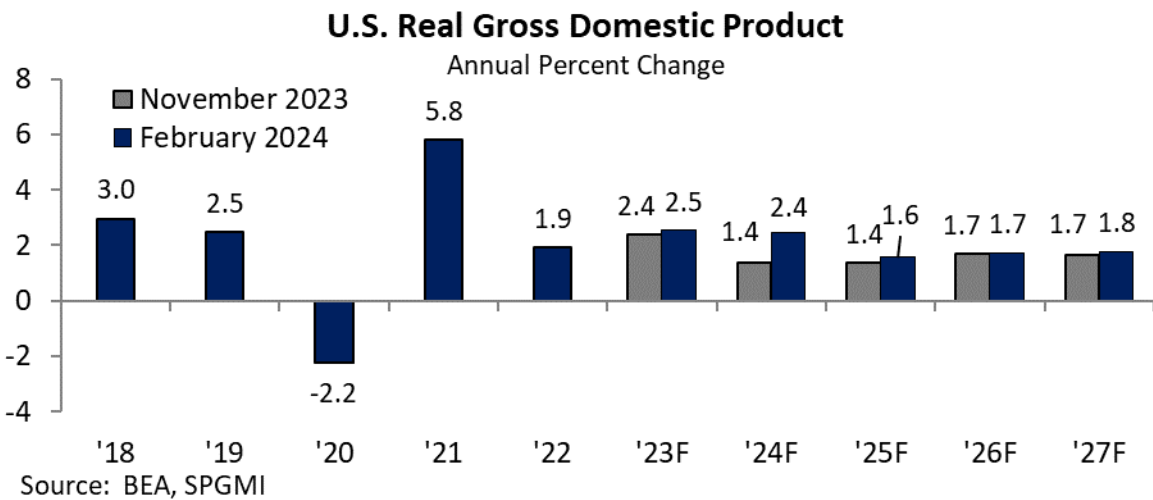
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EXECUTIVE SUMMARY

Minnesota’s budget and economic outlook has improved since November. The 2024-25 biennium is now projected to end with a surplus of \$3.715 billion, an increase of \$1.324 billion compared to November projections. The near-term economic outlook has improved, with growth expected to persist through 2027. Higher collections so far this fiscal year raise the current biennium forecast for all major tax types. Corporate tax revenue shows the largest change, driven by higher expected corporate profits through the forecast horizon. Spending estimates are largely unchanged from November. The higher revenue forecast throughout the FY 2024-27 planning horizon results in improvement to the structural budgetary balance but spending is still projected to exceed revenue through FY 2027.

U.S. Economic Outlook. Since Minnesota’s *Budget and Economic Forecast* was last prepared in November, unexpectedly robust real GDP growth in late 2023, as well as easing financial conditions since the December meeting of the Federal Open Market Committee (FOMC), have improved the U.S. economic outlook. This, along with unexpectedly strong employment growth, prompted SPGMI Global Market Intelligence, IHS Global Inc (SPGMI), Minnesota’s macroeconomic consultant, to raise their GDP outlook for years 2023 through 2027. SPGMI is now expecting real GDP to increase 2.4 percent in 2024, up 1.0 percentage points from their November outlook, followed by 1.6 percent growth in 2025, 1.7 percent in 2026, and 1.8 percent in 2027.

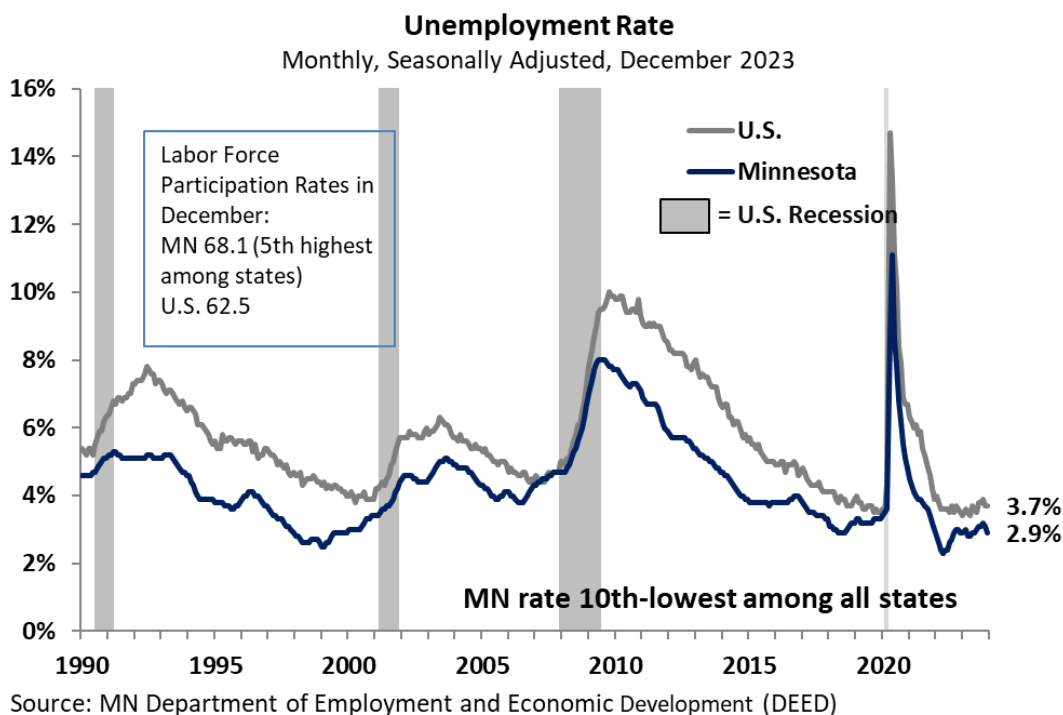


SPGMI now expects U.S. real GDP to grow 2.4 percent in 2024, a 1.0 percentage point increase from their November baseline forecast. The higher near-term forecast is due to unexpectedly robust growth at the end of 2023— which is expected to persist into 2024— as well as easing financial conditions following the FOMC’s December meeting. SPGMI expects GDP to grow 1.6 percent in 2025, followed by 1.7 percent growth in 2026 and 1.8 percent in 2027.

Since 2021, labor markets have proven resilient, even amidst headwinds from a higher-interest rate environment. Employers added an average of 255,000 payroll jobs per month in 2023. In January, payroll jobs increased by 353,000 jobs on a seasonally adjusted basis. The January employment report included comprehensive counts of payroll jobs derived from the Quarterly Census of Employment and Wages (QCEW) and revisions to the employment numbers for 2023. In total, U.S. employers added 3.1 million jobs in 2023, much stronger than the initially reported 2.7 million. Job growth in January was widespread, indicating healthy job growth in professional and business services, health care, retail trade, and social assistance.

Minnesota Economic Outlook. The near-term economic outlook for Minnesota has improved since MMB's *Budget and Economic Forecast* was prepared in November 2023. Unexpectedly robust real GDP growth in late 2023, combined with the impacts of easing financial conditions since the December meeting of the Federal Open Market Committee (FOMC) have improved the outlook for the U.S. economy. These improvements in macroeconomic conditions positively impact the economic outlook for Minnesotans.

In this forecast, the strengthened near-term economic outlook raises our expectation for growth in Minnesota's employment and wages in 2024 compared to our prior forecast. Beyond 2024, the forecasts for growth in Minnesota's wages and employment are little changed since November. With demographic realities of an aging Minnesota challenging employment growth, average wage growth (growth in wage and salary income per worker) is expected to be the primary driver of growth in total nominal wage income through our forecast horizon.



In December, Minnesota's unemployment rate was 2.9 percent, the 10th lowest among U.S. states and 0.8 percentage points below the U.S. rate of 3.7 percent.

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

Budget Outlook: Current Biennium. The general fund surplus for the FY 2024-25 biennium is now projected to be \$3.715 billion, an increase of \$1.324 billion over November levels. Revenue for the biennium is projected \$1.343 billion (2.3 percent) higher than the prior forecast and spending estimates are largely unchanged, \$19 million (0.0%) higher than November projections. The budget reserve balance of \$2.913 billion and cash flow account balance of \$350 million are unchanged from November levels.

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

(\$ in millions)	November 2023 Forecast	February 2024 Forecast	\$ Change	% Change
Beginning Balance	\$16,516	\$16,516	\$ -	0.0%
Revenues				
Taxes	57,058	58,324	1,266	2.2
Non-Tax Revenues	2,400	2,476	76	3.2
Transfers, Other Resources	197	197	-	(0.0)
Total Revenues	\$59,655	\$60,997	\$1,343	2.3%
Expenditures				
E-12 Education	24,464	24,500	37	0.1
Property Tax Aids	5,478	5,482	5	0.1
Health & Human Services	21,118	21,108	(10)	0.0
Debt Service	1,141	1,137	(4)	(0.3)
All Other	18,315	18,307	(8)	0.0
Total Expenditures	\$70,516	\$70,535	\$19	0.0%
Cash Flow Account	350	350	-	
Budget Reserve	2,913	2,913	-	
Budgetary Balance	\$2,392	\$3,715	\$1,324	

Revenues. Total general fund revenues for FY 2024-25 are now forecast to be \$60.997 billion, \$1.343 billion (2.3 percent) more than the prior estimates. Total tax revenues for the biennium are forecast to be \$58.324 billion, \$1.266 billion (2.2 percent) above the prior estimate. The forecasts for Minnesota's three largest tax types are higher than the prior estimates.

Revenues for FY 2024-25 are now expected to fall short of their FY 2022-23 levels by \$423 million (-0.7 percent). Total tax revenues are projected to be \$205 million (-0.4 percent) less than in FY 2022-23. Current biennium individual income tax revenues are now forecast to decline \$1.854 billion (5.7 percent) from the FY 2022-23 level, largely due to extraordinarily strong income growth in FY 2022 and tax law changes that reduced revenue in FY 2024-25. Statewide property tax receipts are also forecast to decline in FY 2024-25, while corporate franchise tax revenues, net sales tax receipts and other tax revenues are forecast to exceed their FY 2022-23 levels.

Current Biennium: FY 2024-25 General Fund Revenues

Change from November

(\$ in millions)	November 2023 Forecast	February 2024 Forecast	\$ Change	% Change
Individual Income Tax	\$30,347	\$30,796	\$449	1.5%
General Sales Tax	15,232	15,359	127	0.8
Corporate Franchise Tax	5,413	6,162	749	13.8
State General Property Tax	1,481	1,476	(6)	-0.4
Other Tax Revenue	4,585	4,532	(53)	-1.2
Total Tax Revenues	57,058	58,324	1,266	2.2%
Non-Tax Revenues	2,400	2,476	76	3.2
Other Resources	197	197	0	0.0
Total Revenues	\$59,655	\$60,997	\$1,343	2.3%

This is the second forecast of FY 2024-25 since FY 2024 began on July 1, 2023. After seven months of observed collections (through January 2024), fiscal year-to-date receipts for FY 2024-25 are \$17.088 billion, 28.1 percent of the total expected over the biennium. With 17 months of FY 2024-25 collections left to observe, 71.9 percent of forecast receipts are outstanding.

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

February 2024 Forecast

(\$ in millions)	FY 2022-23	FY 2024-25	\$ Change	% Change
Individual Income Tax	\$32,650	\$30,796	(\$1,854)	-5.7%
General Sales Tax	14,090	15,359	1,269	9.0
Corporate Franchise Tax	5,752	6,162	410	7.1
State General Property Tax	1,539	1,476	(64)	-4.1
Other Tax Revenue	4,498	4,532	34	0.8
Total Tax Revenues	\$58,529	\$58,324	(\$205)	-0.4%
Non-Tax Revenues	2,273	2,476	203	8.9
Other Resources	618	197	(421)	-68.1
Total Revenues	\$61,420	\$60,997	(\$423)	-0.7%

Minnesota individual income tax receipts are now forecast to be \$449 million (1.5 percent) more than the prior estimates. Technical adjustments, which on net raise the income tax forecast, offset lower base year income tax liability.

Net general sales tax revenue in FY 2024-25 is now forecast to be \$126 million (0.8 percent) more than the prior estimate. The increased forecast in the current biennium for gross sales tax receipts reflects higher than expected gross receipts in FY 2024 and a higher near-term forecast for taxable sales compared to November.

The corporate franchise tax is forecast to generate \$6.162 billion in FY 2024-25, \$749 million (13.8 percent) more than projected in November. The main factors influencing our higher forecast for

Minnesota corporate tax receipts are (1) a higher starting point arising from receipts exceeding our prior forecast and (2) a higher forecast for U.S. corporate profits—an important driving variable in our revenue forecast model.

Other tax revenue is now expected to be \$53 million (1.2 percent) lower than the prior estimate. Among other taxes, taconite occupation tax receipts show the largest dollar amount change, \$32 million (48.2 percent) lower than in the prior forecast.

Expenditures. Spending estimates for the FY 2024-25 biennium are similar in aggregate to the November 2023 forecast. Total state general fund expenditures are now projected to be \$70.535 billion, \$19 million (less than 0.1 percent) higher than previously forecast. Spending is marginally higher than November estimates, primarily due to changes in E-12 education. Property tax aids and credits also contribute to this increase, with slight decreases in health and human services, debt service, and other spending.

**Current Biennium: FY 2024-25 General Fund Expenditures
Forecast Comparison**

(\$ in millions)	November 2023 Forecast	February 2024 Forecast	\$ Change	% Change
E-12 Education	\$24,464	\$24,500	\$37	0.1%
Property Tax Aids & Credits	5,478	5,482	5	0.1
Health & Human Services	21,118	21,108	(10)	(0.0)
Debt Service	1,141	1,137	(4)	(0.3)
All Other	18,315	18,307	(8)	(0.0)
Total Expenditures	\$70,516	\$70,535	\$19	0.0%

E-12 expenditures are forecast to reach \$24.500 billion in FY 2024-25, \$37 million (0.1 percent) higher than the November 2023 forecast. Special education is estimated to cost an additional \$48 million (1.0 percent) and nutrition programs are estimated to cost \$27 million (5.1 percent) more compared to November 2023 estimates. The spending increase is partially offset by a lower projection for general education spending of \$36 million (0.2 percent) relative to the prior forecast.

Anticipated health and human services (HHS) general fund spending in FY 2024-25 is \$21.108 billion, a decrease of \$10 million (less than 0.1 percent) from November 2023 estimates. This change is the result of decreases in the MFIP and MFIP Child Care programs of \$10 million (5.6 percent) and \$21 million (14.8 percent), respectively. These decreases are partially offset by a \$21 million (0.1 percent) increase in medical assistance (MA) driven by higher estimates for both long-term care waiver programs and long-term care facilities.

Debt service expenditures for the current biennium are forecast to be \$1.137 billion, which is a decrease of \$4 million (0.3 percent) from November 2023 estimates. The reduction is primarily due to lower projected rates for future bond sales but is partially offset by an increase in the assumed size of the bonding bill enacted in the 2024 session.

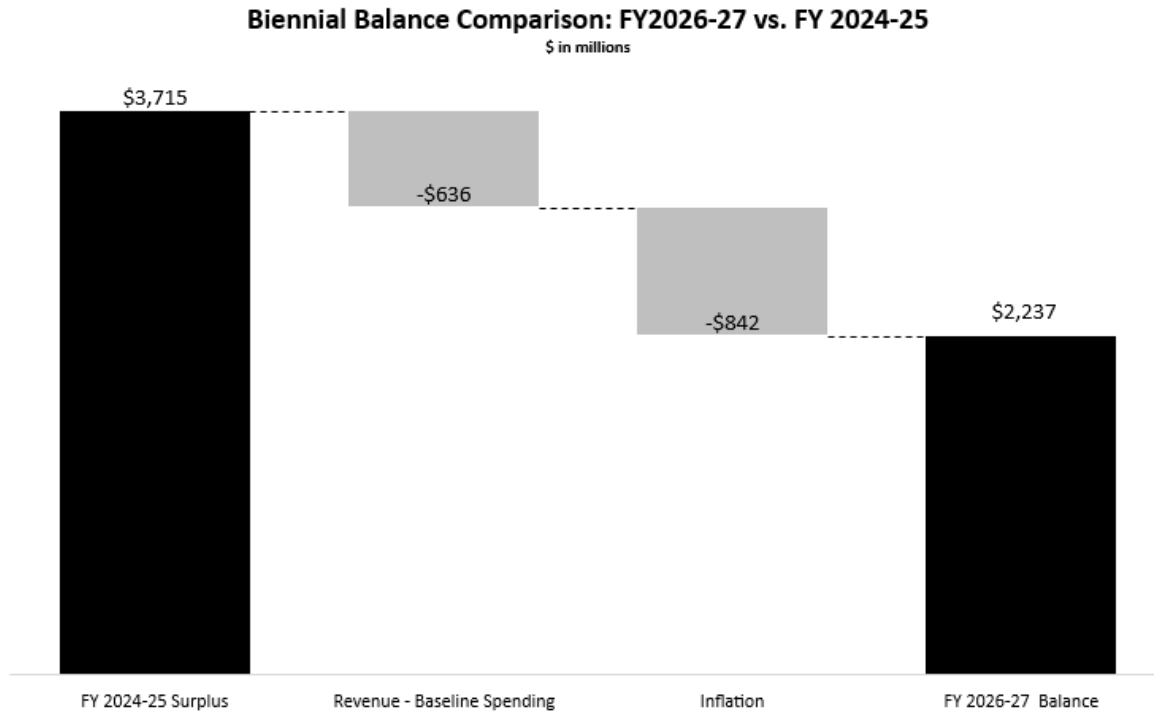
MMB makes assumptions about the size of future capital budgets in each forecast. The assumptions have historically been based on the average size of general obligation (GO) bonds

authorized in capital budget bills over the past ten years, differentiating between the larger even-year capital budgets and smaller odd-year capital budgets. As the state has authorized larger bonding packages in recent years, the assumption of historic averages has come into conflict with the state's Debt Capacity Guidelines. As reported in the February 2024 Debt Capacity Forecast¹, the State measures debt under three capital investment guidelines that together demonstrate a commitment to long-term capital and financial planning. Two guidelines measure outstanding debt against personal income, and the third guideline measures how quickly the state is scheduled to repay general obligation debt.

This forecast maintains the November methodology for future capital budgets by assuming a ten-year historic average unless that results in a bill size that would cause the state to exceed its debt capacity guidelines. In this forecast, the ten-year average is \$1.010 billion in even-year legislative sessions and \$165 million in odd-year sessions. The State's debt capacity guidelines are updated with every forecast. To remain in compliance with the debt capacity guidelines for this forecast, a capital investment bill of \$980 million is assumed for the 2024 legislative session. This is an increase from November 2023, when the forecast assumed an \$830 million capital budget. This is a one-time adjustment, and the forecast assumes a return to the normal 10-year averages starting with the 2025 legislative session.

Biennial Budgetary Growth. When the budget for the 2024-25 biennium was enacted in May 2023, a significant surplus from the previous biennium was anticipated to be available for one-time uses in the current biennium. After the close of the FY 2022-23 biennium, the actual surplus that carried forward into the current biennium was \$13.103 billion. In the enacted budget, this one-time resource was partially allocated to one-time revenue reductions and one-time spending increases across the budget. On-going spending and revenue changes were planned so that budgetary balance would be maintained in both the current biennium and the FY 2026-27 planning estimates. As in November, spending in this forecast is projected to exceed revenue in both the current and next biennium. The budgetary impact of this imbalance results in the surplus from the current biennium partially offsetting the structural imbalance in the next biennium with the remaining balance reduced to \$2.327 billion by the end of the next biennium.

¹ February 2024 Debt Capacity Forecast, Minnesota Management and Budget



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

Budget Outlook: Planning Estimates. The increased revenue forecast for FY 2024-25 is expected to continue into the FY 2026-27 planning estimates, but spending is still expected to exceed revenue in that biennium. Revenues in the planning biennium are projected to total \$64.814 billion, \$907 million higher than prior forecast while spending, including estimated inflation, is forecast to reach \$66.292 billion, \$75 million (0.1 percent) more than November estimates. The structural balance, the difference between revenue and spending in a given budget period, in the planning biennium is negative \$636 million before inflation is added to spending estimates and negative \$1.478 billion after including inflation.

Planning Estimates: FY 2026-27 General Fund Budget

By Fiscal Year; February 2024 Forecast

(\$ in millions)	FY 2026	FY 2027	FY 2026-27
Forecast Revenues	\$31,945	\$32,868	\$64,814
Projected Spending	32,387	33,905	66,292
Difference	\$(442)	\$(1,037)	\$(1,478)
<i>*Estimated inflation included (CPI)²</i>	<i>\$[260]</i>	<i>\$[582]</i>	<i>\$[842]</i>

² Inflationary growth estimates are based on the consumer price index forecast and are estimated to be 2.0 percent in FY 2026 and 2.4 percent in FY 2027.

The planning estimates for the FY 2026-27 biennium inherently carry a higher degree of uncertainty than estimates for FY 2024-25. Revenue projections for FY 2026-27 are based on the February Baseline economic forecast for the planning years. Expenditure projections assume that current law funding levels and policies continue unchanged, adjusted for caseload and enrollment changes authorized in law, as well as formula-driven growth. After determining base expenditures as determined by current law formulas, the expenditure forecast assumes inflationary growth for programs that do not already have allowances for cost growth built into current law formulas.³

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

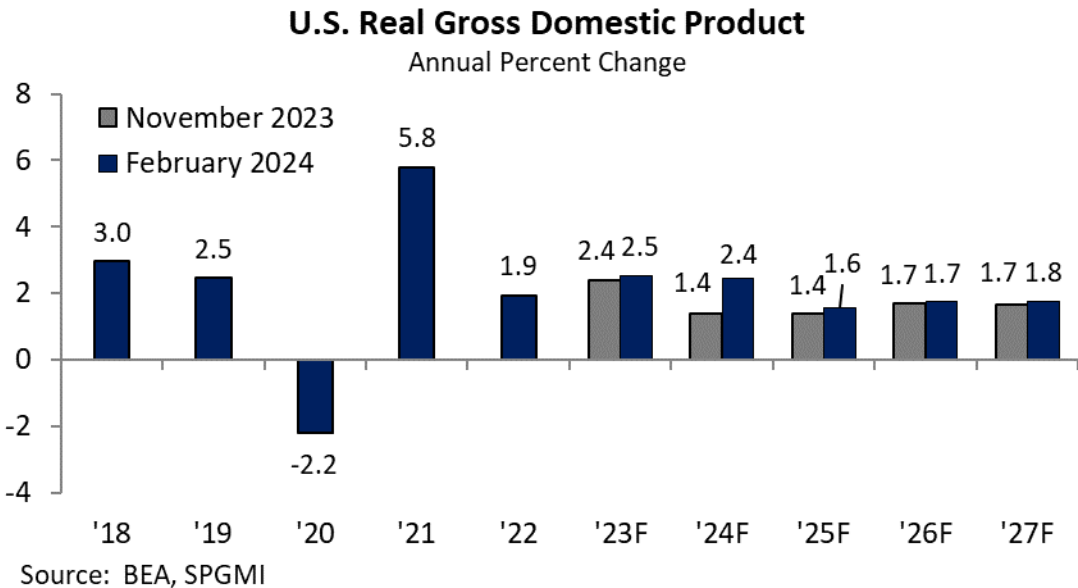
³ Inflation calculation grows the estimated general fund spending base in each year by the projected CPI growth rate after removing general education, special education, debt service, property tax refunds, and the state share for managed and some long-term care in HHS.



ECONOMIC OUTLOOK

U.S. Economic Outlook

Since Minnesota’s *Budget and Economic Forecast* was last prepared in November, unexpectedly robust real GDP growth in late 2023, as well as easing financial conditions since the December meeting of the Federal Open Market Committee (FOMC), have improved the U.S. economic outlook. This, along with unexpectedly strong employment growth, prompted SPGMI Global Market Intelligence, IHS Global Inc (SPGMI), Minnesota’s macroeconomic consultant, to raise their GDP outlook for years 2023 through 2027. SPGMI is now expecting real GDP to increase 2.4 percent in 2024, up 1.0 percentage points from their November outlook, followed by 1.6 percent growth in 2025, 1.7 percent in 2026, and 1.8 percent in 2027.



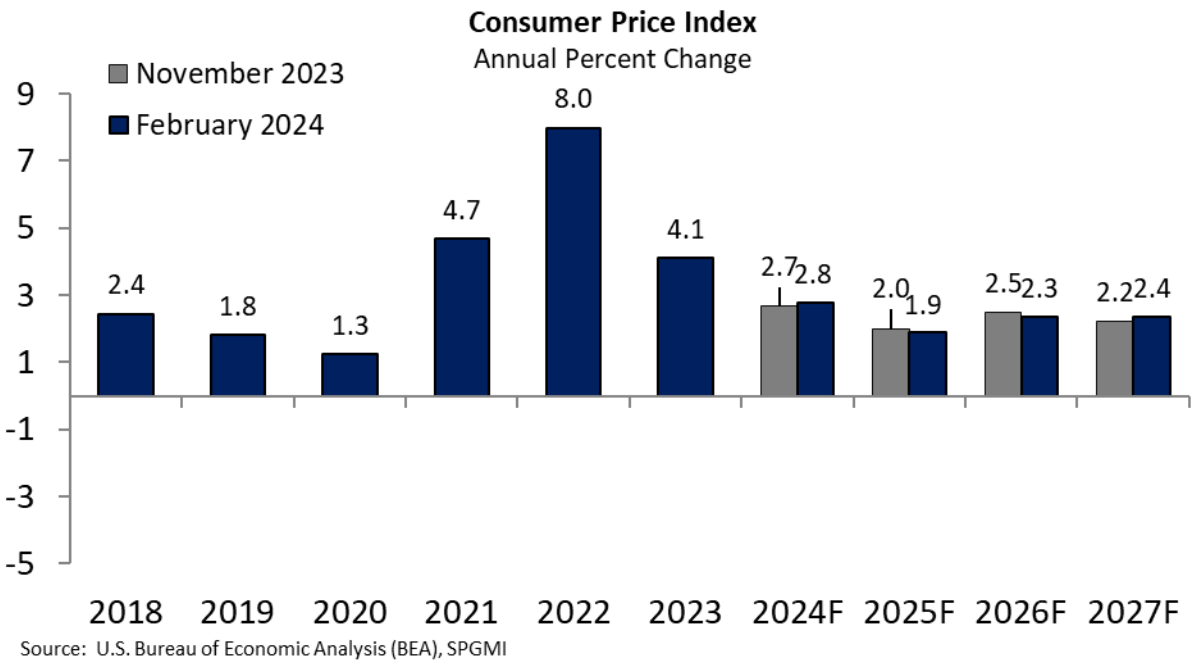
SPGMI now expects U.S. real GDP to grow 2.4 percent in 2024, a 1.0 percentage point increase from their November baseline forecast. The higher near-term forecast is due to unexpectedly robust growth at the end of 2023— which is expected to persist into 2024— as well as easing financial conditions following the FOMC’s December meeting. SPGMI expects GDP to grow 1.6 percent in 2025, followed by 1.7 percent growth in 2026 and 1.8 percent in 2027.

Since 2021, labor markets have proven resilient, even amidst headwinds from a higher-interest rate environment. Employers added an average of 255,000 payroll jobs per month in 2023. In January, payroll jobs increased by 353,000 jobs on a seasonally adjusted basis. The January

employment report included comprehensive counts of payroll jobs derived from the Quarterly Census of Employment and Wages (QCEW) and revisions to the employment numbers for 2023. In total, U.S. employers added 3.1 million jobs in 2023, much stronger than the initially reported 2.7 million. Job growth in January was widespread, indicating healthy job growth in professional and business services, health care, retail trade, and social assistance.

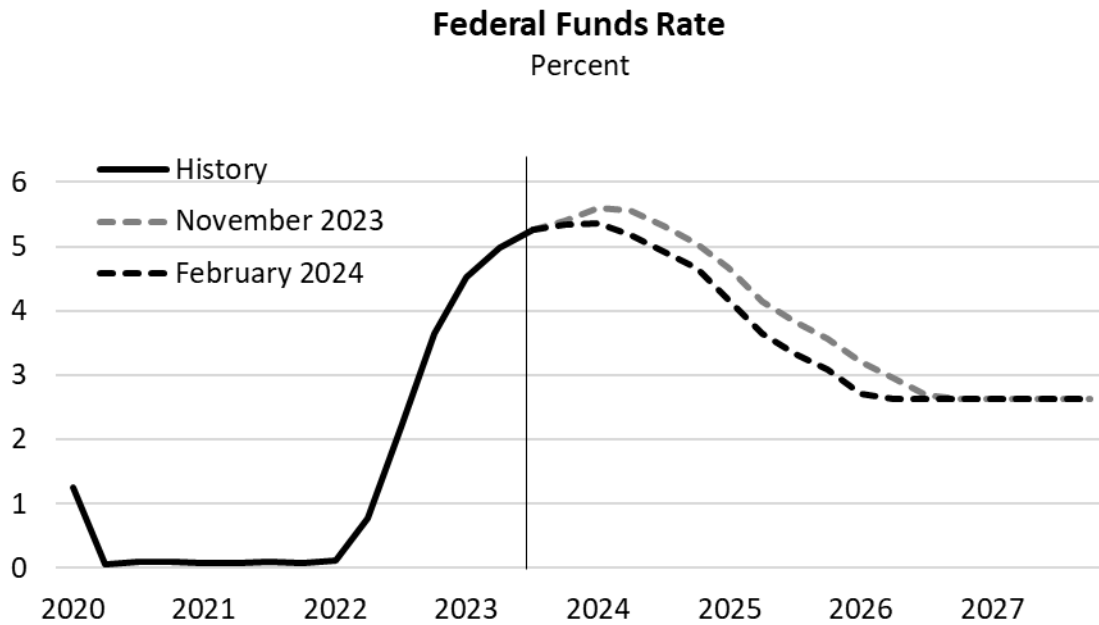
In response to monetary policy tightening that has already taken place, SPGMI expects the U.S. unemployment rate to reach 4.4 percent in late 2025 and remain there until the end of 2027. SPGMI expects that this labor market easing will allow core Personal Consumption Expenditure (PCE) inflation to ebb to 2.0 percent by mid-2025. Inflation has already decreased significantly without the economy experiencing aggregate job losses. Consumer Price Index (CPI) inflation has decreased by 5.9 percentage points since June 2022, from 9.0 to 3.1 percent in January, while payroll jobs have increased by 5.8 million.

Inflation. Over the last two years, declines in agricultural commodity and energy prices, the resolution of supply chain issues, and tightening monetary policy brought annual CPI inflation down to 4.1 percent in 2023. In this outlook, a period of slower U.S. real GDP growth and an eventual softening of labor market conditions allow inflation to settle at the Fed’s objective. SPGMI forecasts CPI inflation to fall to 2.8 percent in 2024 and average 2.2 percent annually in years 2025 to 2027. Geo-political conflicts pose a risk to the inflation forecast through potentially higher shipping, commodity, and energy costs.



Over the last two years, declines in agricultural commodity and energy prices, the resolution of supply chain issues, and tightening monetary policy brought annual CPI inflation down to 4.1 percent last year. In this outlook, a period of slower U.S. real GDP growth and a rise in the unemployment rate allow inflation to settle at the Fed’s objective. Geo-political conflicts pose a risk to the inflation forecast.

Monetary Policy. In their February outlook, SPGMI expects a policy reversal (lowering of the federal funds rate) in May, with four rate cuts by December, initiating an unwinding of the rate, bringing it below 3.0 percent in 2026. In November, they had expected a rate increase in December 2023, which did not happen, and cuts to begin in June 2024. The average 30-year fixed mortgage interest rate has fallen from a high of nearly eight percent in November 2023 to about 6.6 percent in February 2024. The February SPGMI forecast anticipates the average rate will be 5.9 percent by the end of 2024.

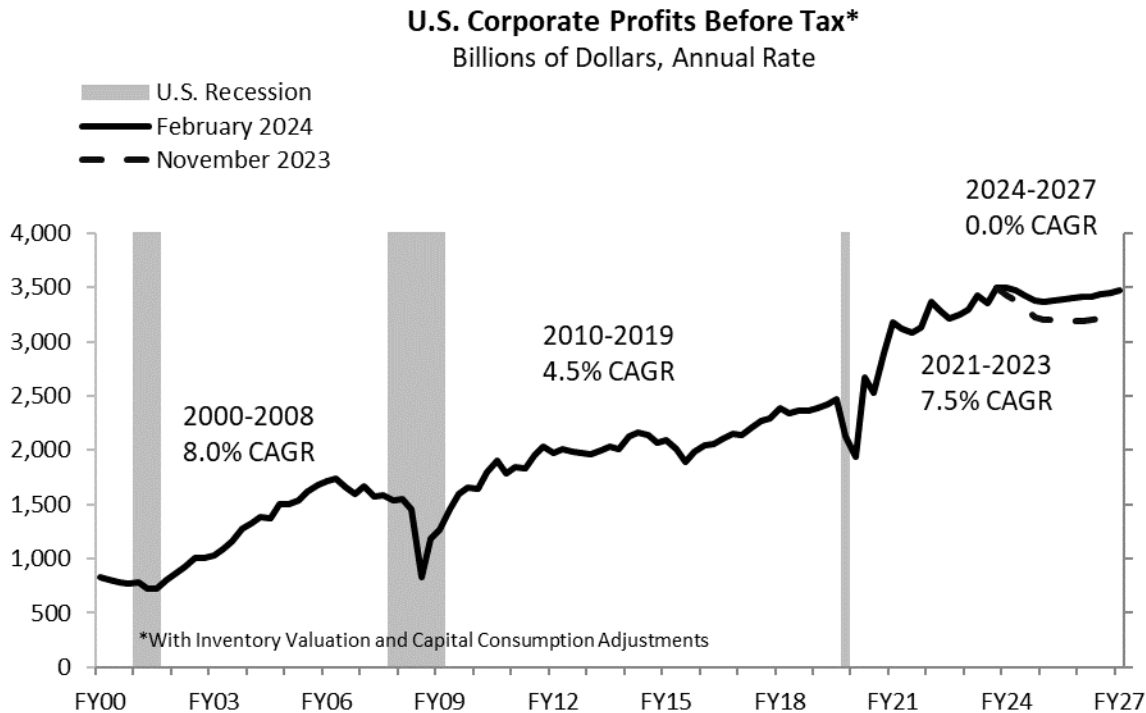


Source: SPGMI

In their February outlook, SPGMI expects a policy reversal (lowering of the federal funds rate) in May, with four rate cuts by December. In November, they had expected a rate increase in December 2023, which did not happen, and cuts to begin in June 2024.

Corporate Profits. Before-tax corporate profits grew 2.4 percent in 2023, and SPGMI expects profits will grow 4.3 percent in 2024. Beginning in the first quarter of 2025, SPGMI expects corporate profits to decline for two quarters. On an annual basis, SPGMI expects before-tax corporate profits will decline 2.7 percent in 2025, followed by an increase of 1.0 percent in 2026 and 1.9 percent in 2027.

The compound annual growth rate for before tax profits was 8.0 percent from FY 2000 to 2008, 4.5 percent from FY 2010 to FY 2019, and 7.5 percent in years 2021 through 2023. In this forecast, the compound annual growth rate anticipated by SPGMI is 0.0 percent from FY 2024 through FY 2027.

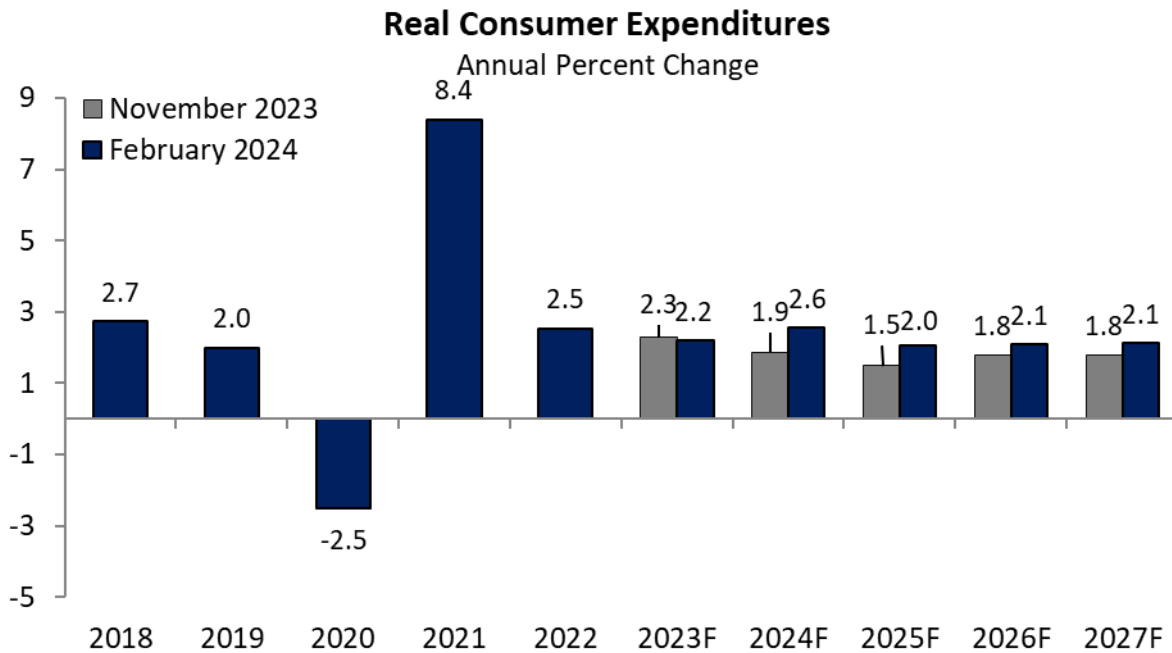


Source: U.S. Bureau of Economic Analysis (BEA); IHS Economics; Minnesota Management & Budget (MMB)

The compound annual growth rate for before tax profits was 8.0 percent from FY 2000 to 2008, 4.5 percent from FY 2010 to FY 2019, and 7.5 percent in years 2021 through 2023. In this forecast, the compound annual growth rate anticipated by SPGMI is 0.0 percent from FY 2024 through FY 2027.

Federal Fiscal Policy. The February SPGMI forecast assumes that the debt ceiling is suspended through 2024 under the Fiscal Responsibility Act of 2023 (FRA23) and raised without incident before then. The federal government is operating under a Continuing Resolution set to expire in early March. SPGMI assumes a shutdown will be averted before then with the passage of either a full-year budget or another Continuing Resolution. Meanwhile, the House has approved a bipartisan tax bill that proposes a temporary expansion of the Child Tax Credit and a temporary reinstatement of business tax breaks set to expire under the 2017 tax act. Because the outcome of this bill in the Senate remains uncertain, SPGMI has not included this legislation in the baseline forecast.

Real Consumer Spending. Real (inflation adjusted) consumer spending is expected to grow faster in each year of our forecast compared to November, supported by continued employment growth and rising wage income. So far in 2024, consumers' perceptions of the economy have improved. In February 2024, the preliminary University of Michigan Consumer Sentiment Index was 79.6, 19 percent higher than one year prior. SPGMI now expects consumer spending to grow 2.6 percent in 2024, 0.7 percentage points higher than the growth expected in November, and 2.0 percent in 2025, 0.5 percentage points higher than the growth expected in November. SPGMI expects consumer spending to increase 2.1 percent in both 2026 and 2027. SPGMI expects consumer spending to remain the primary contributor to growth in the economy.



Source: BEA, SPGMI

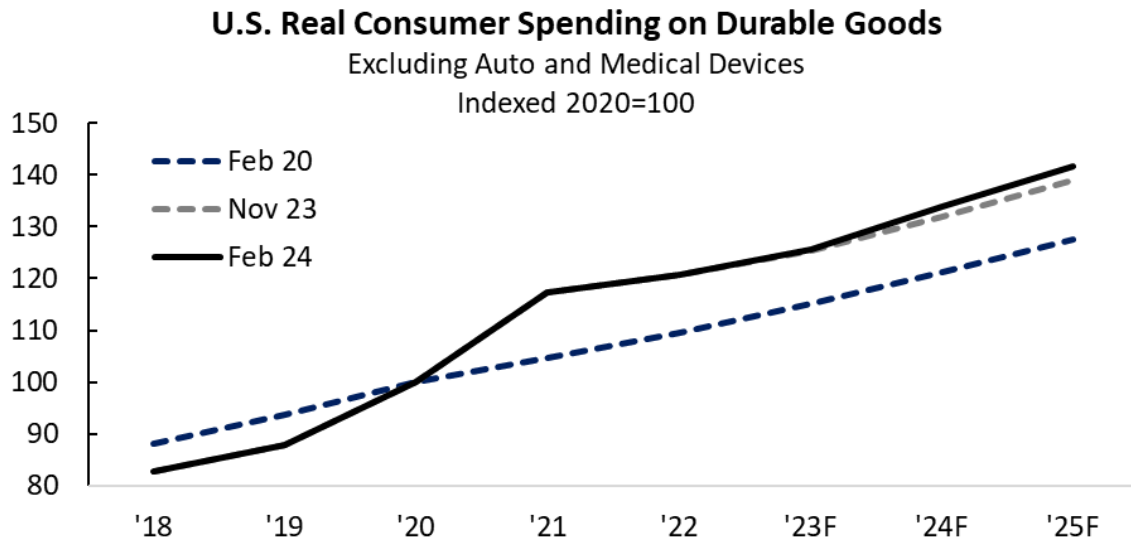
Real (inflation adjusted) consumer spending is expected to grow faster in each year of our forecast compared to November, supported by stronger than expected employment growth and rising wage income.

Real disposable personal income decreased 6.0 percent in 2022, as high inflation and decreased direct government payments outweighed growth in other nominal personal income sources. This annual decrease was the largest in the history of the series, which began in 1960. Inflation subsided in 2023, while wages and salaries and other income sources continued to grow. As a result, real disposable income increased 4.2 percent in 2023. SPGMI expects real disposable income to increase 2.8 percent per year on average from 2024 to 2027 as income continues to outpace inflation.

During the pandemic, consumers shifted their spending from personal services and recreational activities to goods. This shift caused spending on durable and non-durable goods to substantially exceed their pre-pandemic peaks, and both types of spending remain at elevated levels compared to their pre-pandemic trends. SPGMI expects consumer spending on durable goods⁴ to increase a robust 6.7 percent in 2024 and 5.8 percent in 2025. Spending on Other Services⁵ is expected to increase 2.7 percent in 2024 and 1.9 percent in 2025.

⁴ Durable goods exclude automobiles and medical devices. Durable goods are products that can be stored or inventoried and that have an average life of at least three years.

⁵ Other services include communication services, education services, professional and other services, personal care and clothing services, social services, and household maintenance services.



Source: BEA, SPGMI

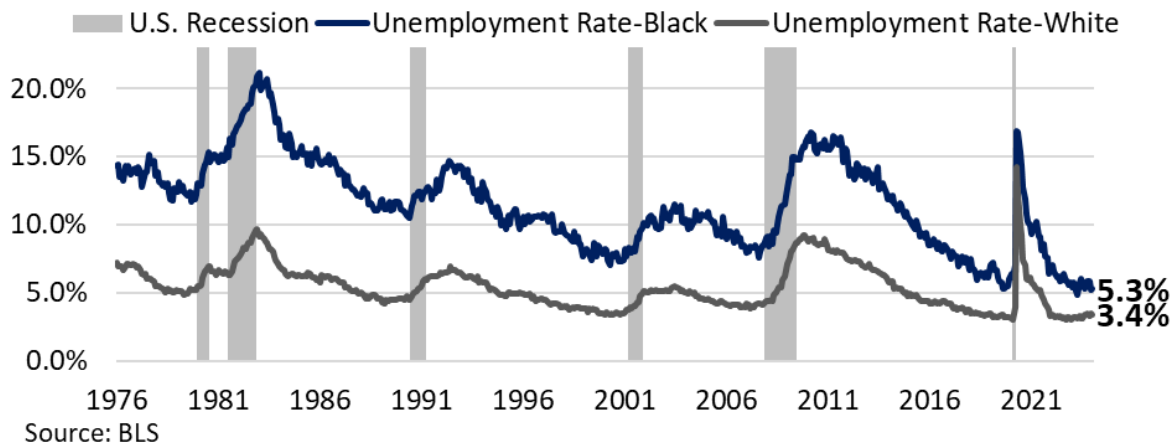
During the pandemic, consumers shifted their spending from personal services and recreational activities to goods. Durable goods spending remains elevated compared to its pre-pandemic trend. SPGMI expects consumer spending on durable goods to increase a robust 6.7 percent in 2024 and 5.8 percent in 2025.

Labor Market. During March and April 2020, U.S. employers shed 21.9 million jobs. Since May 2020, the labor market has added jobs nearly every month. In June 2022, the labor market surpassed its pre-pandemic level of payroll employment. In 2022, employers added an average of 377,000 jobs per month, and a total of 6.3 million jobs. Despite headwinds from a higher-interest rate environment, payroll job gains remained resilient in 2023, when employers added an average of 255,000 jobs per month, or a total of 3.1 million.

The gap in unemployment between Black and white Americans is near a record low. From 2010-2019 the gap between the Black unemployment rate and the White unemployment rate averaged 5.3 percent. Between 2021 and 2023 the gap averaged 3.0 percent, and in the past twelve months the gap has fallen to 2.2 percent. From 2010 to 2019, the gap between the Hispanic-Latino unemployment rate and the White unemployment rate averaged 2.2 percent. Over the past twelve months that gap has narrowed to 1.4 percent.

Unemployment Rate by Race

Seasonally Adjusted, Monthly

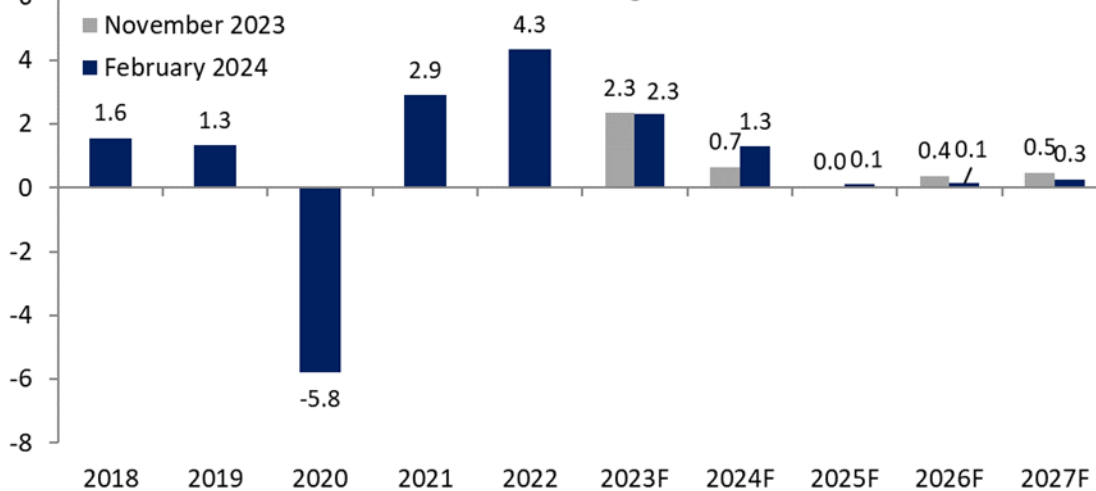


The gap in unemployment between Black and white Americans is near a record low. From 2010-2019 the gap between the Black unemployment rate and the White unemployment rate averaged 5.3 percent. Between 2021 and 2023 the gap averaged 3.0 percent, and in the past twelve months the gap has fallen to 2.2 percent.

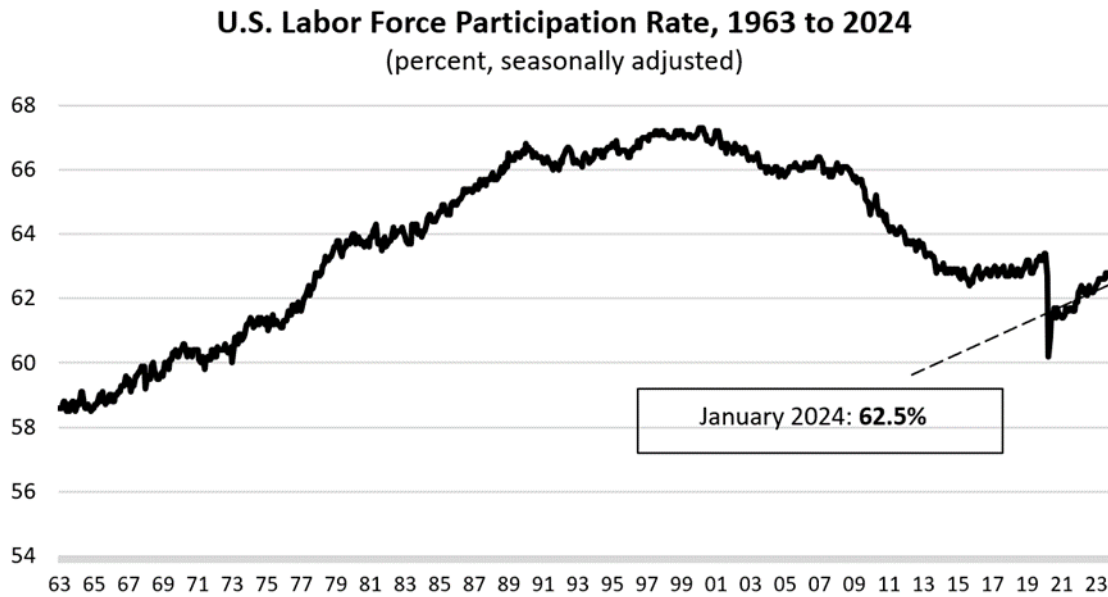
Employment grew by a robust 353,000 in January 2024. SPGMI expects employment to increase 2.0 million in 2024, compared to an increase of 1.0 million in their November forecast. In their February outlook, SPGMI expects U.S. employment to increase by an average of 470,000 jobs per year in years 2025-2027, and the unemployment rate to rise gradually to 4.4 percent in late 2025.

US Total Non-Farm Employment

Annual Percent Change



SPGMI now forecasts that payroll employment will increase by 2.0 million in 2024, compared to 1.0 million in their November forecast. SPGMI expects employment growth to average 470,000 jobs per year in years 2025-2027. SPGMI expects the unemployment rate to rise gradually to 4.4 percent in late 2025.



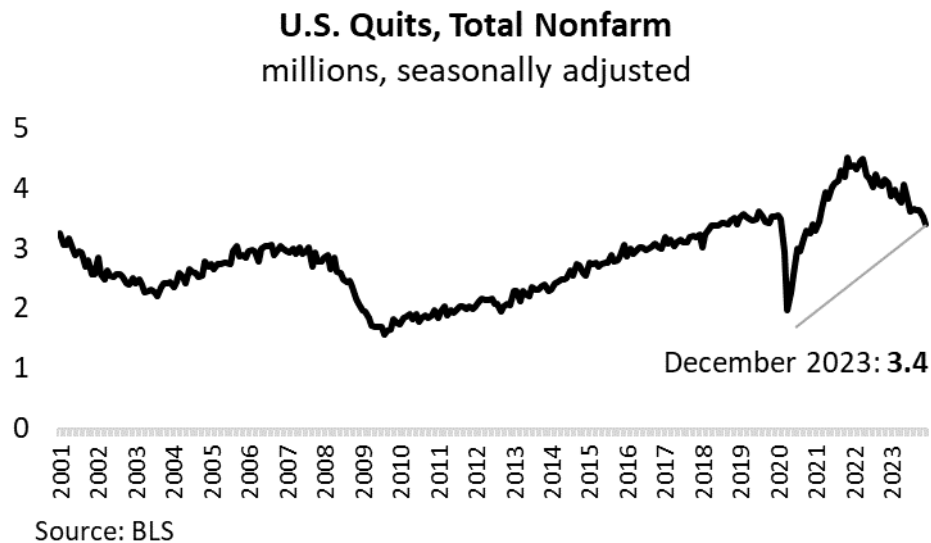
Source: BLS

The U.S. labor force participation rate, the proportion of potential workers who were employed or unemployed and actively seeking employment, was 62.5 percent in January, 0.3 percentage points lower than in November. The participation rate remains below the pre-pandemic peak. An aging population is a major factor putting downward pressure on the labor force participation rate, a trend expected to continue throughout the forecast horizon.

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The number of unemployed persons classified as “permanent job losers”—people who self-report that they do not expect to return to work within six months—was 1.6 million in January, similar to November’s level. The number of workers on temporary layoff—those who do expect to return to work within six months—was 876,000.

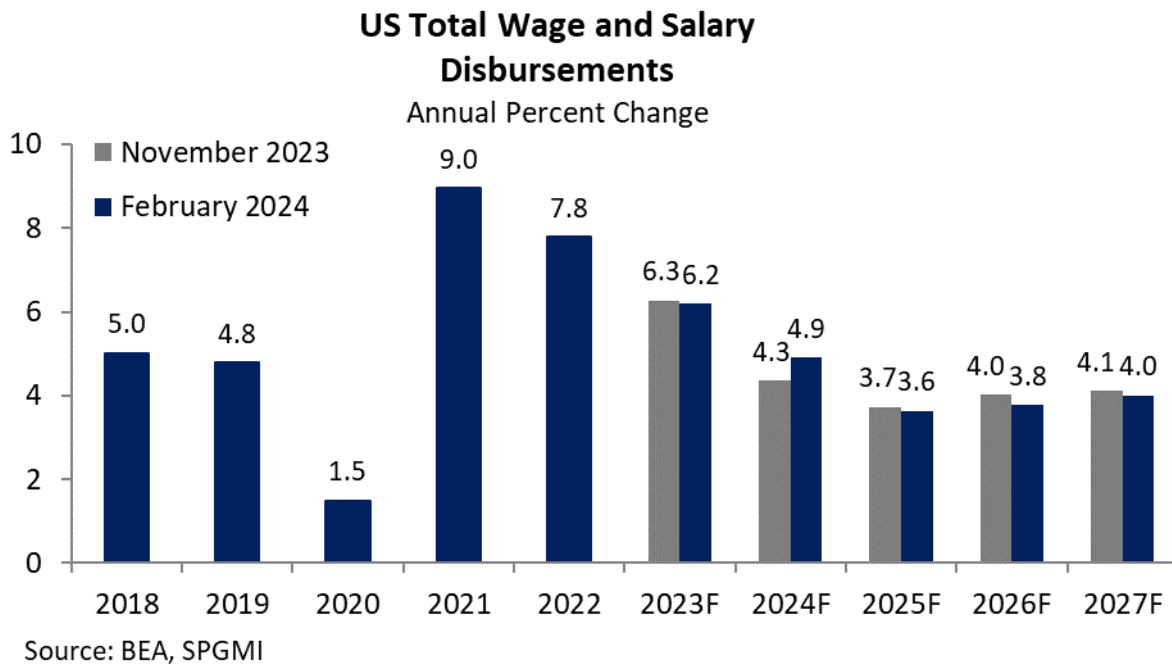
In recent years, the labor market experienced historically high levels of voluntary job separations—or quits—characterizing a labor market in which individuals were comfortable leaving one job for higher wages elsewhere. Quits peaked at 4.5 million in November 2021, which represented 4.5 million workers voluntarily leaving their jobs during the month. Quits have slowly moderated to their current level of 3.4 million, which is consistent with the levels seen just prior to the pandemic.



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Employers have responded to the tight labor market by retaining workers at a higher rate. The layoffs and discharges rate, a measure of the proportion of payroll employees who are laid off or discharged in a given month, has averaged 1.0 percent since 2021 after averaging 1.3 percent from 2010 to 2019.

Wage and Salary Income. Firm wage growth and household wealth continue to support consumer spending in this forecast. SPGMI expects wage and salary income to be the primary driver of personal income growth during the forecast period. SPGMI has increased their near-term forecast for growth in total U.S. wage and salary disbursements compared to November. Wages grew at a robust rate of 6.2 percent in 2023, and SPGMI expects wage growth to continue at a rate of 4.9 percent in 2024, an improvement of 0.6 percentage points since November. The forecast for wage and salary income growth has been revised down each year from 2025 to 2027, to an average of 3.8 percent per year.

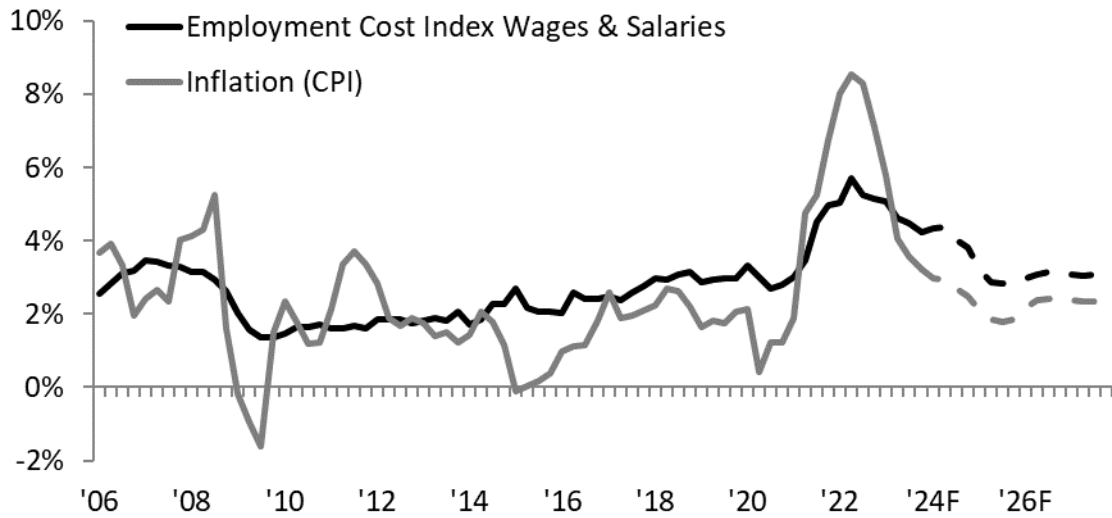


SPGMI expects wage income growth of 4.9 percent in 2024, an increase of 0.6 percentage points since November. The forecast for wage and salary income growth has been revised down each year from 2025 to 2027, to an average of 3.8 percent per year.

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

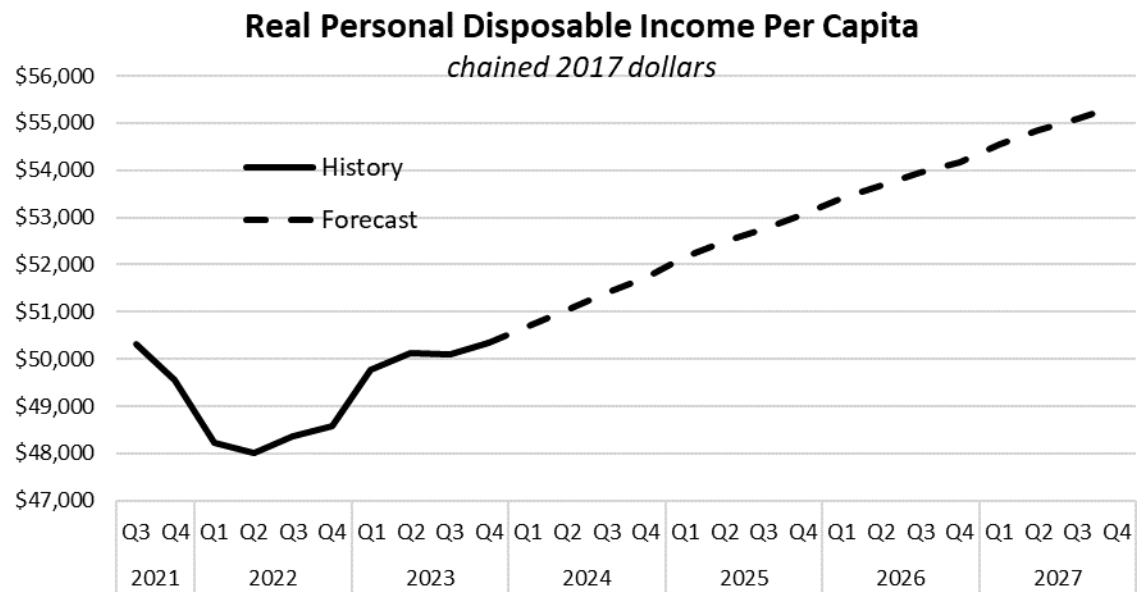
U.S. Employment Cost Index and Inflation

Year-Over-Year Percent Change



From the second quarter of 2021 through the first quarter of 2023, the growth in prices as measured by the CPI exceeded the growth in wages as measured by the ECI. In the second quarter of 2023, growth in wages as measured by the ECI exceeded inflation for the first time in two years, and wages continued to outpace inflation in the third and fourth quarter. SPGMI expects wages will continue to grow faster than inflation throughout the forecast horizon.

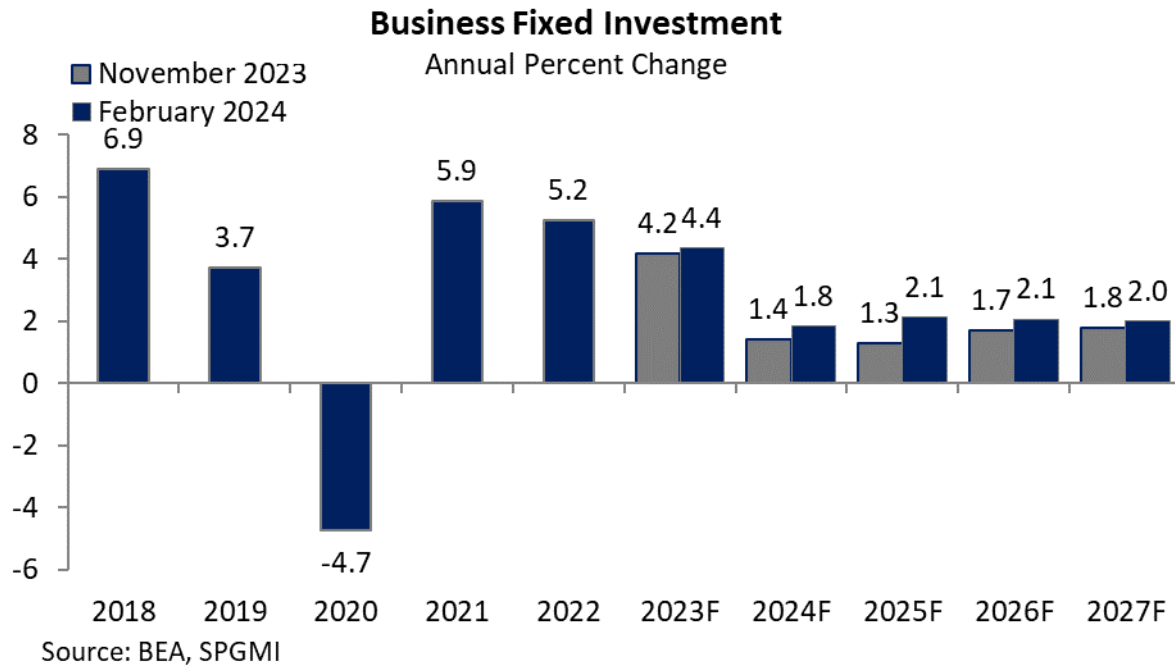
U.S. real personal disposable income per capita, a measure of purchasing power, fell consistently from mid-2021 through mid-2022 as inflation rose. Since mid-2022, it has increased, as inflation subsided and income growth continued at a strong pace. Real personal disposable income per capita now matches the level it was in mid-2021, and SPGMI forecasts that it will grow at a compound annual growth rate (CAGR) of 2.4 percent from now through the end of 2027.



Source: BEA, SPGMI

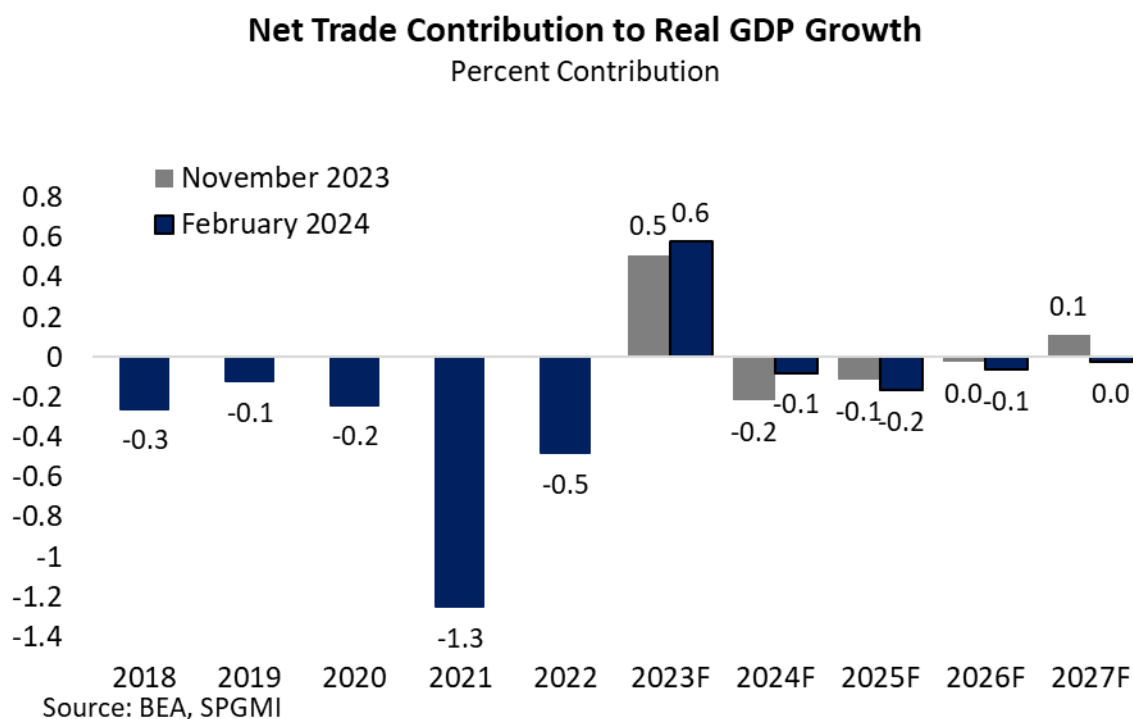
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Real Business Fixed Investment. In their February outlook, SPGMI expects business fixed investment to have grown more in 2023 than they estimated in November, in large part due to strong investment in manufacturing structures, particularly in plants producing semiconductors and electric vehicle batteries. Although they expect that this type of spending is near a peak, easing financial conditions have caused SPGMI to improve their overall investment growth forecast each year starting in 2024. Real business fixed investment is now expected to increase an average of 2.0 percent per year from 2024 to 2027, compared to an average of 1.6 percent in the November forecast.



Bolstered by easing financial conditions, SPGMI now expects business fixed investment to be stronger in years 2023 through 2027 than they expected in November.

International Trade. The U.S. economy has experienced a trade deficit every year since 1976. The deficit reached a record high in 2022 but has lessened in 2023, from a monthly deficit of 71 billion dollars in December 2022 to a deficit of 62 billion dollars in August 2023. After representing a drag on GDP growth every year from 2014 to 2022, net exports are expected to contribute 0.6 percentage points to growth in 2023. In their February forecast, SPGMI expects net exports to weigh on GDP growth once again from 2024 to 2027.



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After reaching an all-time high in October 2022, the nominal broad trade-weighted dollar index has returned to levels that are still elevated historically. The index averaged 120.7 in 2022 and 120.5 in 2023, up from an average of 112.4 in years 2015 to 2019. This appreciation has largely been due to widening long-term yields between the U.S. and other economies and has illustrated the strength of the U.S. dollar in the past couple years. Starting in the first quarter of 2024, SPGMI expects the dollar index to begin a gradual multi-year decline through the end of the forecast horizon, as long-term U.S. interest rates fall. This decline will support export growth.

The SPGMI February baseline forecast for 2024 is higher than the February Blue Chip Consensus, the median of 50 business and academic forecasts. SPGMI expects real GDP to grow 2.4 percent this year, 0.3 percentage points above the Blue Chip average. SPGMI's forecast for 2025 is 1.6 percent, 0.1 percentage points below the Blue Chip average forecast for that year.

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

The current baseline forecast hinges on the Fed's ability to further curb inflation. SPGMI assumes the Fed will begin a policy reversal in June 2024, initiating a gradual unwinding of the federal funds rate where it falls below 3.0 percent in 2026. As a result, SPGMI expects CPI inflation to slow to 2.8 percent in 2024 and 1.9 percent in 2025. If inflation persists above this level, the Fed may act more aggressively to raise interest rates than assumed in the baseline forecast.

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

Supply chain issues and high shipping costs put upward pressure on prices in 2022. Disruption to shipping routes in the Red Sea, necessitating the rerouting of ships around Africa, in addition to low water levels limiting passages through the Panama Canal, could reintroduce supply chain issues and high shipping costs. SPGMI assumes the potential for shortages of goods is more pronounced in Europe than in the U.S. SPGMI analysts anticipate the shipping industry will return to pre-COVID conditions within months, as longer trade routes become standard.

Under the Fiscal Responsibility Act of 2023 (FRA23) the debt ceiling is suspending through 2024 but is assumed raised without incident before then.

Other key assumptions of SPGMI's February outlook are: (1) the tariffs enacted by the U.S. and China since 2017 remain in effect, (2) global GDP growth slows from 2.0 percent in 2023 to 1.9 percent in 2024, and (3) the Brent crude oil price will continue to decelerate from a peak of \$101 in 2022 to \$76/barrel in 2025 and rebounding to \$87/barrel by 2027.

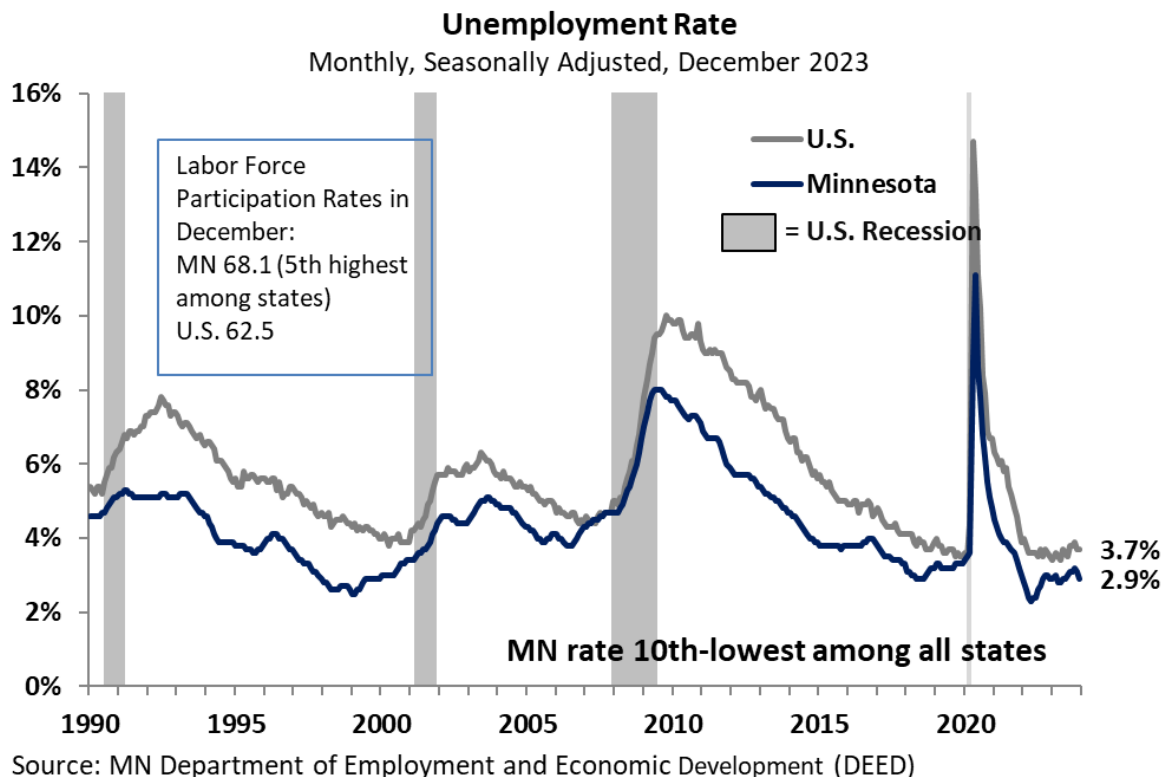
SPGMI assigns a 55 percent probability to the February baseline outlook. SPGMI assigns a 30 percent probability to a more pessimistic scenario, characterized by (1) a significant tightening of lending standards by financial institutions that restrains consumer spending and small business activity, and (2) higher energy prices caused by worsening conflicts in Russia-Ukraine and the Middle East. Consumer spending slows and business fixed investment declines in 2024, and the price of Brent crude oil and the unemployment rate are both higher than in the baseline scenario. In their more optimistic scenario, SPGMI assumes (1) strong credit expansion on the part of financial institutions that supports consumer spending; (2) quicker resolutions to the Russia-Ukraine and Middle East conflicts, which lead to lower energy prices; and (3) larger productivity gains, which boost corporate profits. Consumer spending and business fixed investment both grow faster than in the baseline. The optimistic scenario receives a 15 percent probability from SPGMI.

Minnesota Economic Outlook

The near-term economic outlook for Minnesota has improved since MMB's *Budget and Economic Forecast* was prepared in November 2023. Unexpectedly robust real GDP growth in late 2023, combined with the impacts of easing financial conditions since the December meeting of the Federal Open Market Committee (FOMC) have improved the outlook for the U.S. economy. These improvements in macroeconomic conditions positively impact the economic outlook for Minnesotans.

In this forecast, the strengthened near-term economic outlook raises our expectation for growth in Minnesota's employment and wages in 2024 compared to our prior forecast. Beyond 2024, the forecasts for growth in Minnesota's wages and employment are little changed since November. With demographic realities of an aging Minnesota challenging employment growth, average wage growth (growth in wage and salary income per worker) is expected to be the primary driver of growth in total nominal wage income through our forecast horizon.

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



In December, Minnesota's unemployment rate was 2.9 percent, the 10th lowest among U.S. states and 0.8 percentage points below the U.S. rate of 3.7 percent.

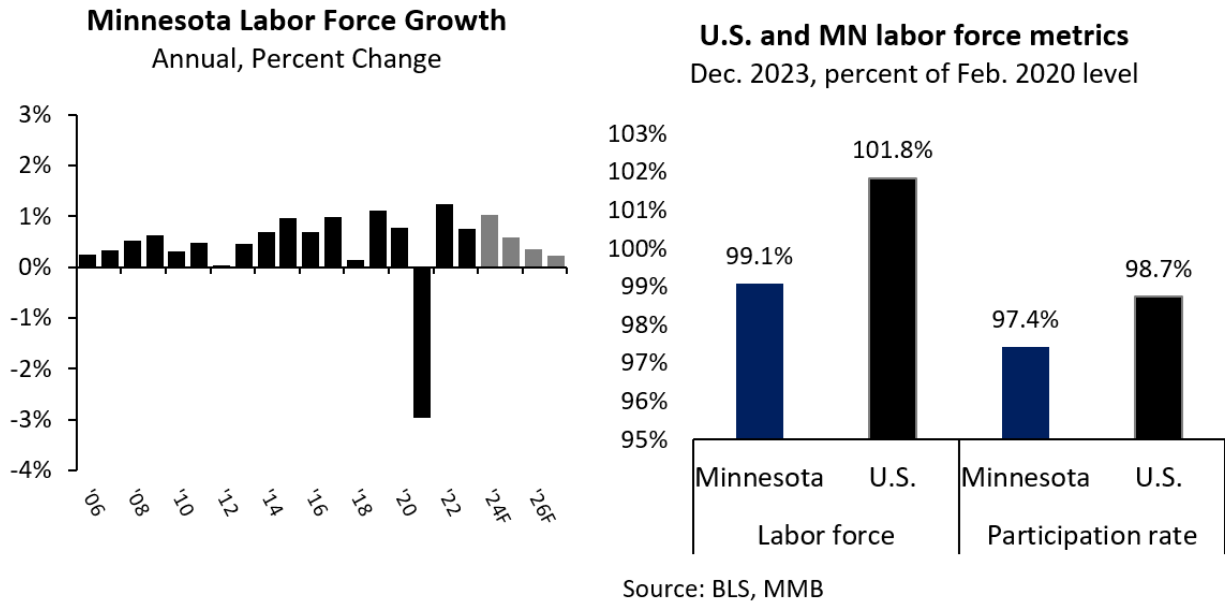
Labor Market. In December, Minnesota's unemployment rate was 2.9 percent, the 10th lowest among U.S. states and 0.8 percentage points below the U.S. rate of 3.7 percent.

In September, Minnesota's payroll employment surpassed its pre-pandemic level. During March and April 2020, Minnesota lost 416,000 jobs, approximately 14 percent of February 2020 payroll employment. In September 2023, Minnesota joined the majority of other states that have now recovered the number of jobs lost during the pandemic recession. Across the entire U.S., total employment surpassed the February 2020 level in June 2022. Through December, Minnesota's total employment exceeds its pre-pandemic level by 0.5 percent, while U.S. employment is 3.2 percent above its pre-pandemic level.

Minnesota's payroll employment increased by 800 jobs in December 2023. Over the year, Minnesota employers added 50,000 jobs on a seasonally adjusted basis, 15 percent fewer than in 2022, when 59,100 jobs were added.

The unemployment rate does not capture Minnesotans that have left the labor force, including retirements or those who opted to stay home to care for family members. In December 2023, Minnesota's labor force was 28,400 below its level at the onset of the pandemic in February 2020. Minnesota's labor force declined by 6,600 people in December 2023 alone, the third consecutive month of labor force declines. In December 2023, Minnesota's labor force was 0.9 percent smaller than in February 2020, while the U.S. labor force was 1.8 percent above its pre-pandemic level.

Minnesota's labor force participation rate, the share of the over-16 population that is either working or looking for work, was 68.1 percent in December, 5.6 percentage points above the U.S. rate and the fifth highest among states. This is one indication that there is less slack in Minnesota's labor market compared to other parts of the country. While both the state and U.S. participation rates have risen since early 2020, neither has reached its pre-pandemic level. The state rate is at 97 percent of the February 2020 level, and the U.S. rate is at 99 percent. Also, the differential between the Minnesota and U.S. participation rates has shrunk since early 2020. In February 2020, Minnesota's participation rate was 6.6 percentage points above the U.S. rate, compared to the 5.6 percentage point gap now.



Source: DEED, MMB

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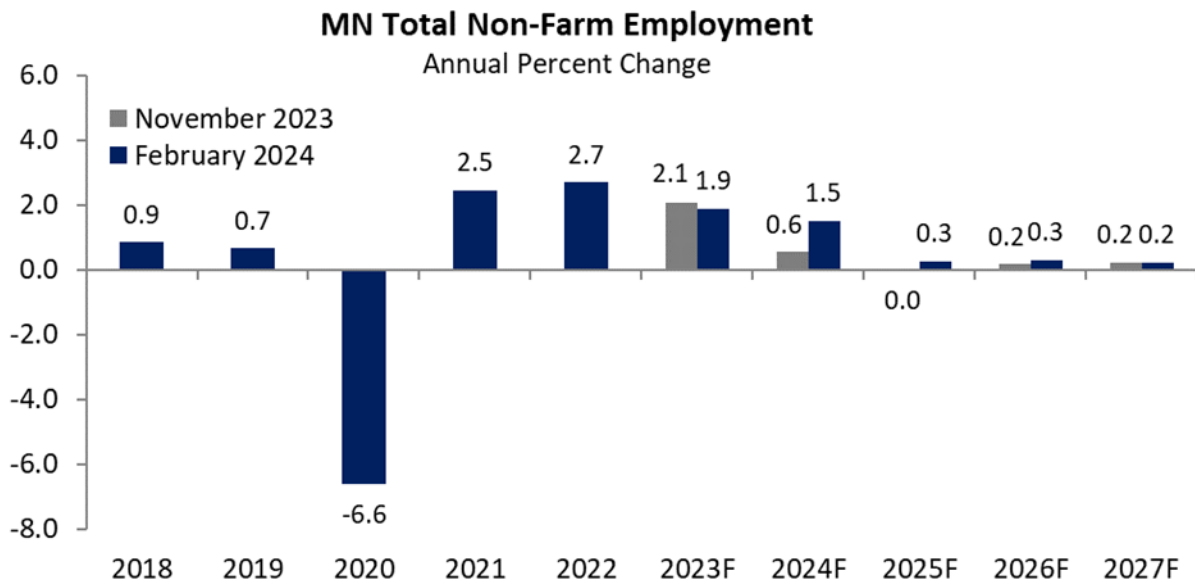
Since the onset of the pandemic in February 2020, Minnesota's labor force has fallen by 28,000. In December 2023, Minnesota's labor force was 0.9 percent smaller than in February 2020, while the U.S. labor force grew by 1.8 percent over the same time. Minnesota's current labor force participation rate of 68.1 percent ranks fifth highest among states. This is one indication that there is less slack in Minnesota's labor market compared to other parts of the country.

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



Source: BLS, MMB

The MMB model of the Minnesota economy incorporates preliminary information on forthcoming revisions to Minnesota's non-farm payroll employment, personal income and wages informed by new data from the Quarterly Census of Employment and Wages (QCEW), and income tax withholding collections since early January. Following 1.9 percent growth in 2023, our projections indicate that Minnesota payroll employment is set to expand by 1.5 percent in 2024, equivalent to 45,300 jobs. This growth is anticipated to decelerate to an average of 0.3 percent growth in years 2025-2027, for an average addition of 8,300 jobs per year. This subdued trajectory for Minnesota's employment growth can be attributed to an aging workforce with an increasing number of individuals transitioning into retirement. Both factors constrain the potential for employment expansion.



Following 1.9 percent growth in 2023, our projections indicate that Minnesota payroll employment is set to expand by 1.5 percent in 2024, equivalent to 45,300 jobs. This growth is anticipated to decelerate to an average of 0.3 percent growth in years 2025-2027, for an average addition of 8,300 jobs per year.

Broader measures of unemployment can provide additional insights into characteristics of Minnesota's labor market. The most comprehensive measure of unemployment, which the BLS calls U-6, is defined as the number of unemployed people (U-3), plus workers who are marginally attached to the labor force (those not currently in the labor force who looked for work in the last year), plus part-time workers who would prefer full-time jobs. In December, Minnesota's U-6 rate was 5.3 percent, up from 4.8 percent one year ago. All estimates of alternative measures of unemployment are provided in 12-month moving averages to increase the sample size for each measure, and as a result, improve the reliability of each statistic.

About three quarters of the difference between the state's U-3 and U-6 rates is due to workers who have part-time jobs but would prefer to work full time. In December, 49,100 workers fell into this category, 3,200 more than in December 2022. In December, 4,500 Minnesotans were counted as discouraged workers--those marginally attached workers who believe no jobs are available to them--up from 4,000 a year ago.

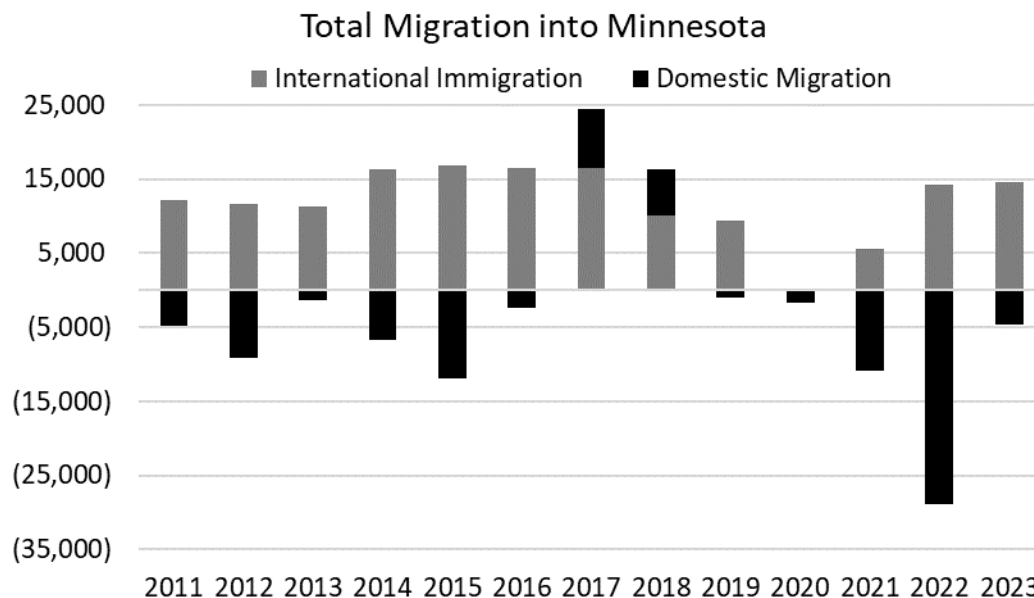
In December, 7,700 Minnesotans were reported as long-term unemployed, those unemployed more than 27 weeks. This number was down from 10,100 one year ago.

Demographics. Since we released our November 2023 forecast, the U.S. Census Bureau published 2023 population estimates. From 2020-2022, population growth in Minnesota slowed due to a combination of factors, including deaths from COVID-10, fewer births, reduced international immigration, and less favorable net domestic migration. In 2023, Minnesota's population growth

returned to healthier levels, although it is still lower than in the 2010s. In 2023, 23,600 people are estimated to have been added to the state, compared to 7,400 in 2021 and -3,700 in 2022.

Minnesota's total population growth of 0.4 percent in 2023 ranks 24th fastest among states, and slightly ahead of the Midwest population growth of 0.2 percent. Minnesota's population growth is comprised of three parts: natural population increase (number of births less deaths), net domestic migration, and net international immigration. The primary driver of Minnesota's population growth in 2023 was international immigration, with 14,600 international immigrants added to Minnesota, on net, in 2023. The second driver of population growth in 2023 was the natural population increase, the difference between the number of births and the number of deaths in the state. The natural population increased by nearly 14,000 people in 2023.

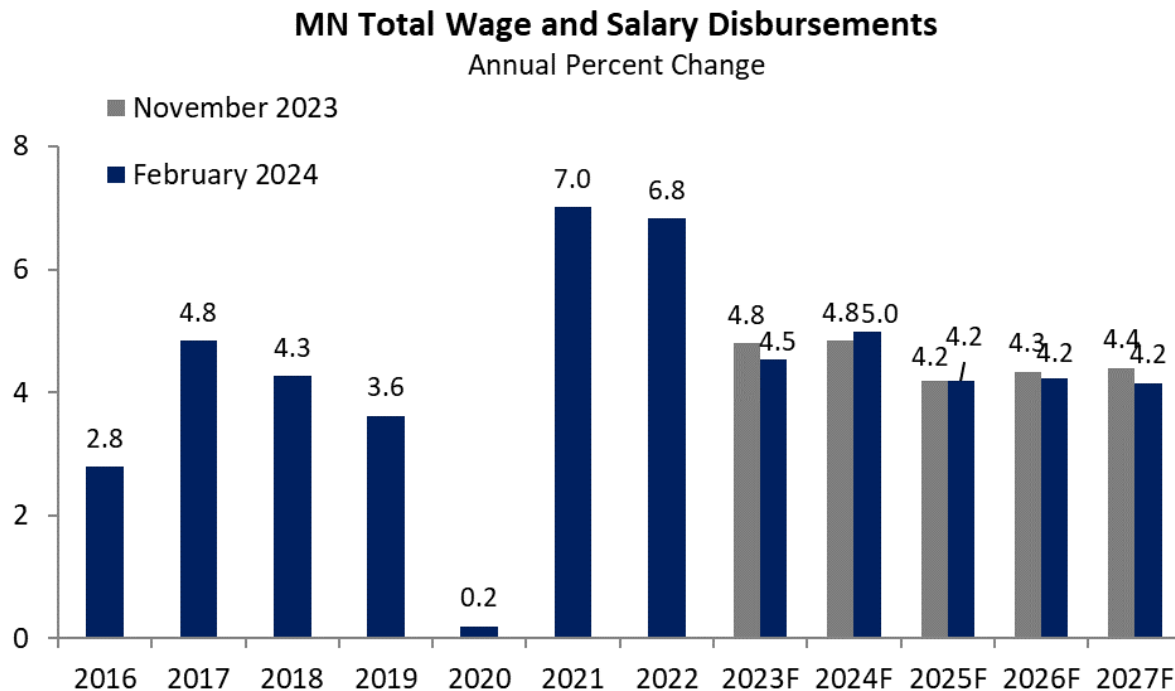
Net migration in Minnesota tends to be positive, as gains in international immigration into Minnesota offset domestic net out-migration, the difference between residents that leave Minnesota for other states and those who move to Minnesota from other states. Minnesota gained 14,600 international immigrants, on net, in 2023 and on net lost 4,700 residents to other states. Together, the impact of international migration and movement of residents around the U.S. resulted in an overall net increase of nearly 10,000 Minnesotans.



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

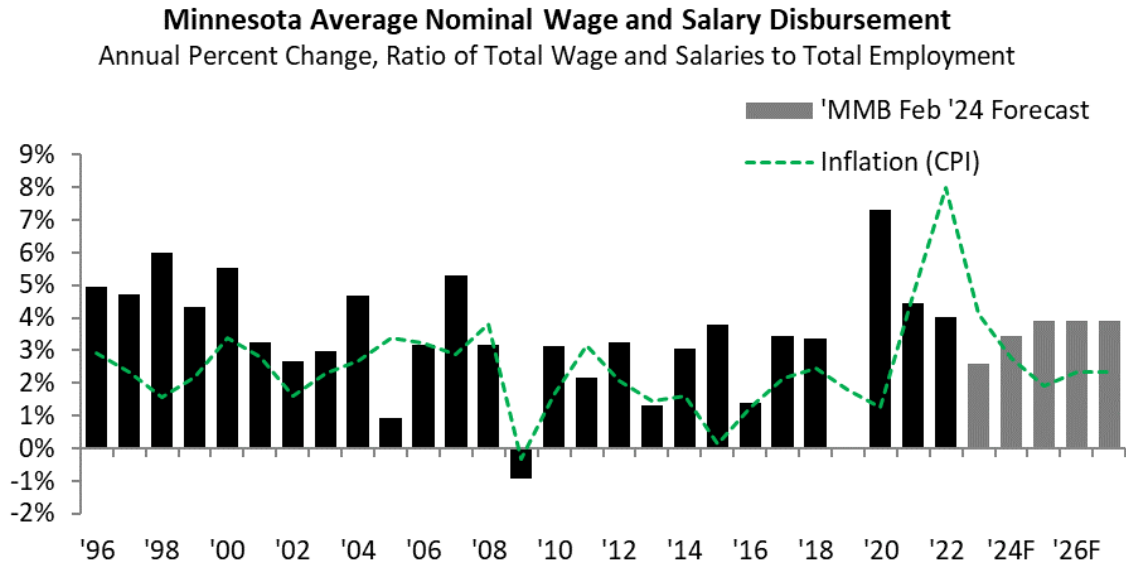
In November, we forecast that total wage income, the sum of all wages distributed, would increase 4.8 percent in 2024. We now expect wages to grow 5.0 percent in 2024 and decelerate to an average of 4.2 percent per year for years 2025-2027.



Source: BLS, MMB

We expect total wage income, the sum of all wages distributed, to increase 5.0 percent in 2024 before decelerating to an average of 4.2 percent per year in years 2025-2027.

With only moderate growth in Minnesota employment in this forecast, average wage growth (growth in wage and salary income per worker) is expected to be the primary driver of growth in total nominal wage income through our forecast horizon. We expect growth in average wage income per worker to average 3.8 percent in years 2024-2027. Average wage income growth is expected to accelerate to 3.4 percent in 2024 from 2.6 percent in 2023. Our forecast expects wage income per worker to grow 3.9 percent per year on average in years 2025-2027. This exceeds forecasted average rates of inflation over the same period (2.2 percent), implying improvements in real wages on average.



Source: BEA, DEED, MMB

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Forecast Comparison: Minnesota & U.S.

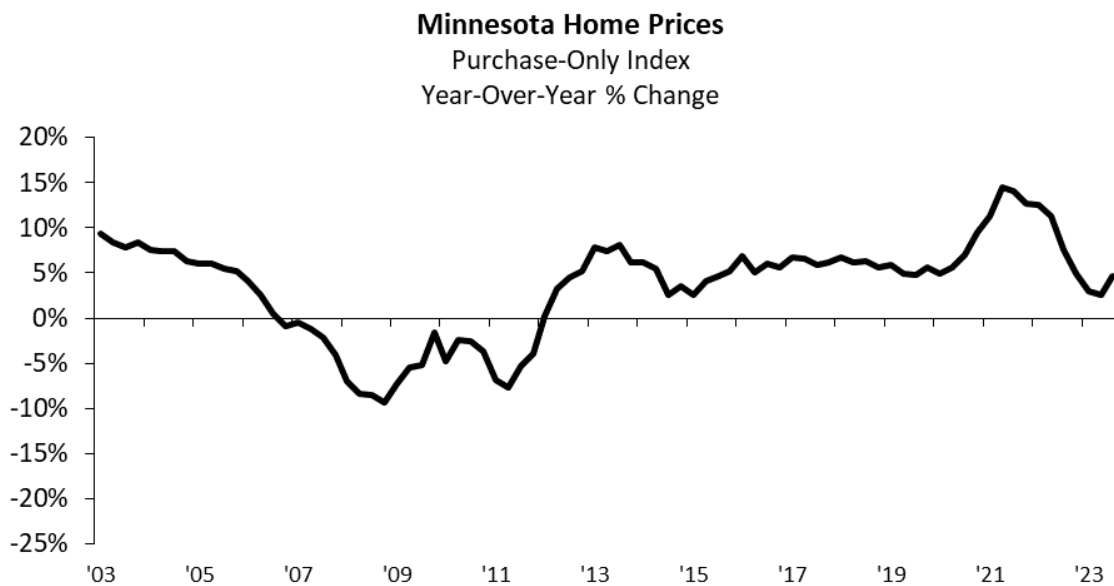
Forecast 2023 to 2027, Calendar Years

	2021	2022	2023	2024	2025	2026	2027
Personal Income (Billions of Current Dollars)							
Minnesota							
February 2024	381.8	393.6	410.7	428.2	452.3	476.2	499.0
%Chg	9.1	3.1	4.3	4.3	5.6	5.3	4.8
November 2023	381.8	393.6	411.9	435.0	459.9	482.3	504.1
%Chg	9.1	3.1	4.7	5.6	5.7	4.9	4.5
U.S.							
February 2024	21,408	21,841	22,966	24,045	25,271	26,493	27,744
%Chg	9.1	2.0	5.2	4.7	5.1	4.8	4.7
November 2023	21,408	21,841	22,977	24,097	25,319	26,465	27,606
%Chg	9.1	2.0	5.2	4.9	5.1	4.5	4.3
Wage and Salary Disbursements (Billions of Current Dollars)							
Minnesota							
February 2024	192.1	205.2	214.6	225.3	234.7	244.6	254.8
%Chg	7.0	6.8	4.5	5.0	4.2	4.2	4.2
November 2023	192.1	205.2	215.1	225.5	235.0	245.2	256.0
%Chg	7.0	6.8	4.8	4.8	4.2	4.3	4.4
U.S.							
February 2024	10,313	11,116	11,805	12,384	12,834	13,319	13,853
%Chg	9.0	7.8	6.2	4.9	3.6	3.8	4.0
November 2023	10,313	11,116	11,813	12,327	12,787	13,300	13,847
%Chg	9.0	7.8	6.3	4.3	3.7	4.0	4.1
Total Non-Farm Payroll Employment (Thousands)							
Minnesota							
February 2024	2,854	2,931	2,987	3,032	3,041	3,050	3,057
%Chg	2.5	2.7	1.9	1.5	0.3	0.3	0.2
November 2023	2,894	2,974	3,035	3,052	3,051	3,056	3,064
%Chg	2.4	2.8	2.1	0.6	0.0	0.2	0.2
U.S.							
February 2024	146,276	152,531	156,069	158,098	158,261	158,493	158,908
%Chg	2.9	4.3	2.3	1.3	0.1	0.1	0.3
November 2023	146,281	152,625	156,190	157,214	157,286	157,878	158,628
%Chg	2.9	4.3	2.3	0.7	0.0	0.4	0.5
Average Annual Non-Farm Wage (Current Dollars)							
Minnesota							
February 2024	67,307	70,015	71,830	74,289	77,190	80,205	83,346
%Chg	4.5	4.0	2.6	3.4	3.9	3.9	3.9
November 2023	66,385	69,017	70,870	73,884	77,009	80,212	83,548
%Chg	4.5	4.0	2.7	4.3	4.2	4.2	4.2
U.S.							
February 2024	70,501	72,877	75,641	78,328	81,095	84,038	87,176
%Chg	5.9	3.4	3.8	3.6	3.5	3.6	3.7
November 2023	70,499	72,832	75,635	78,410	81,296	84,243	87,294
%Chg	5.9	3.3	3.8	3.7	3.7	3.6	3.6

Source: SPGMI, MMB

Homebuilding Activity. High borrowing costs, rising sales prices, and limited inventory are keeping potential homebuyers on the sidelines. The 30-year fixed mortgage interest rate, the most popular home loan in the United States, recently approached 8 percent for the first time since 2000 and has remained above 6 percent since September 2022. High rates have discouraged buyers of both new and existing homes and have “locked in” owners of existing homes, who could lose lower rates on their current mortgages if they sell in such a high-rate environment. Sales of existing Minnesota homes decreased 16.6 percent in 2023, and new listings in Minnesota decreased by 10.9 percent.

As total home inventory remains constrained, Minnesota home prices continue to rise. The median sales prices for both metro-area homes and homes in greater Minnesota have continued to increase despite higher interest rates, declines in new listings, and declines in pending and closed sales. In January, the median price for metro-area homes was \$353,570, 3.1 percent higher than one year ago. On average, metro-area sellers received 96.7 percent of the original list price at closing. The median sales price in Minnesota was \$315,000 in January, up 3.0 percent from a year ago.

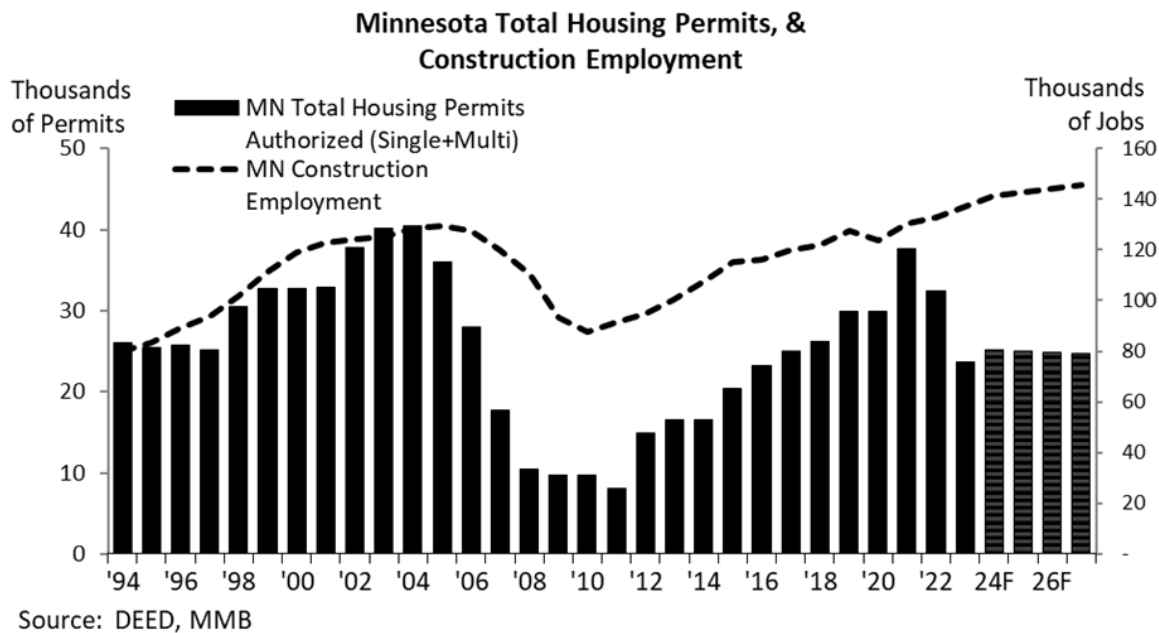


Source: Federal Housing Finance Agency (FHFA)

Minnesota home prices continue to rise while inventory is limited, although the pace of price increases has slowed from recent highs. According to the FHFA, Minnesota home prices increased 4.7 percent in the third quarter of 2023 compared to a year prior.

The combination of higher interest rates and rising home prices is challenging affordability. Minnesota’s housing affordability index--the ratio of median household income to the income needed to purchase a home--has dropped to 103, down from 111 one year ago. A lower affordability index means homes are less affordable. In this forecast, SPGMI estimates that national housing affordability reached a low point at the end of 2023 and will improve gradually through 2027. SPGMI estimates that the 30-Year fixed mortgage rate peaked at 7.3 percent in the fourth quarter of 2023 and will fall below 5.0 percent in 2027.

According to data through December from the U.S. Census Bureau, the total number of authorized residential building permits (not seasonally adjusted) in Minnesota fell from 31,883 in 2022 to 23,789 in 2023, a decline of 25.4 percent. The change is due to a 12.7 percent decline in single-family housing permits and a 34.8 percent decrease in multi-family permits. In this forecast, we expect total housing permits to average 25,000 per year in years 2024-2027. Single-family permits are a critical housing data source because they are well-measured and are a dependable indicator of where single-family construction is heading.



Minnesota housing permits decreased from 32,000 in 2022 to 24,000 in 2023. In this forecast, we expect total housing permits to average 25,000 per year in years 2024-2027.

Agriculture. According to the Minnesota Department of Agriculture, Minnesota ranks sixth in the U.S. in total agricultural production and ranks 5th in crop production. Minnesota is also the 4th largest agricultural exporting state. Net farm income influences Minnesota individual income tax liability.

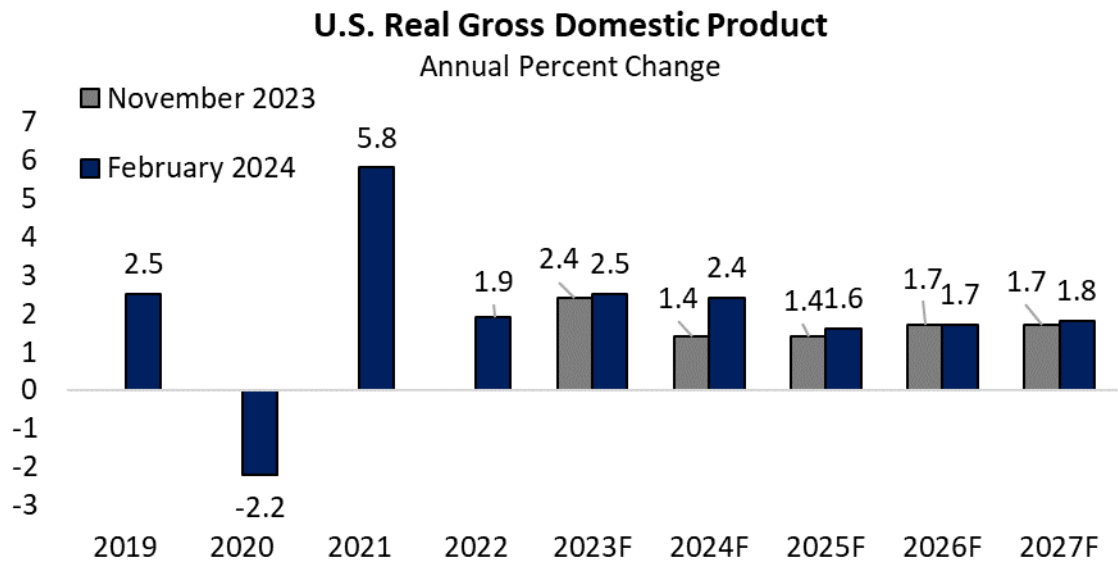
According to the U.S. Department of Agriculture's (USDA) farm income forecast, overall U.S. net farm income, a broad measure of profits, is estimated to decrease \$29.7 billion (16.0 percent) from 2022 to \$155.9 billion in 2023. This decrease is expected to occur after net farm income reached a record high of \$185.5 billion in 2022. USDA forecasts that net farm income will decrease further to \$116.1 billion in 2024, a 25.5 percent decrease from 2023. Crop cash receipts are forecast to decline 6.3 percent in 2024, largely due to lower corn and soybean receipts. Total animal and animal product receipts are expected to fall by 1.9 percent in 2024, following declines in receipts for milk, eggs, turkeys, and cattle/calves. Lower direct government payments and higher production costs—particularly livestock/poultry purchases and labor costs—contribute to the lower forecast for farm income in 2024. Fuel costs are expected to decline in 2024, supporting net income.

According to the latest USDA Agricultural Prices Report, the average price received for corn during December 2023 was \$4.80 per bushel, down \$1.78 from December 2022. The average price for soybeans was \$13.10 per bushel, \$1.30 below the December 2022 price. The average price for turkeys was \$0.47 per pound, down from \$1.22 in December 2022.

Council of Economic Advisors’ Statement

Minnesota’s Council of Economic Advisors met on February 14, 2024, to review the S&P Global Market Intelligence (SPGMI) outlook for U.S. economic growth, which includes the macroeconomic assumptions underlying Minnesota’s February 2024 *Budget and Economic Forecast*. Since November, real GDP has grown faster than in SPGMI’s November 2023 baseline forecast, driven by faster than expected growth in real consumer spending and business investment. The BEA’s first estimate of real GDP growth in the fourth quarter of 2023 was a surprisingly strong 3.3 percent (annual rate). SPGMI expects that strength to carry into 2024. At the same time, financial conditions eased late last year, when the December FOMC meeting ended with no rate increase. This change prompted SPGMI to raise their growth forecasts for 2024 and 2025. SPGMI now anticipates real GDP to grow 2.4 percent this year, one percentage point faster than the 1.4 percent growth they forecast in November. Growth in 2025 is now expected to be to 1.6 percent, up from 1.4 percent in November. Over 2024-2027, average annual real GDP growth is now expected to be 0.3 percentage points faster than in the November baseline.

SPGMI assumes that a period of slower growth and an increase in the unemployment rate to a level consistent with full employment are needed to allow inflation to settle at the Fed’s objective. In this outlook, real GDP growth slows from 2.4 percent in 2024 to 1.6 percent in 2025, while the U.S. unemployment rate rises to peak of 4.4 percent in late 2025.



Source: BEA, SPGMI

Since November, SPGMI’s outlook for U.S. economic growth in 2024 has improved. They now expect real GDP to grow 2.4 percent this year, 1.0 percentage points faster than the 1.4 percent growth they forecast in November. Average annual real GDP growth over 2024-2027 is now expected to be 0.3 percentage points faster than in the November baseline.

The U.S. inflation rate as measured by the Consumer Price Index (CPI) fell last year, as agricultural commodity and energy prices declined, supply chains continued to normalize, and monetary policy tightened. According to the BLS, the annual average percent change in the CPI in 2023 was

4.1 percent, down from 8.0 percent in 2022. In January 2024, the year-over-year percent change in the CPI was 3.1 percent. In their February outlook, SPGMI expects annual average CPI inflation to decelerate to 2.8 percent in 2024 and to moderate further to 1.9 percent annually in 2025.

SPGMI now anticipates a monetary policy path that lowers the federal funds rate sooner than they had expected in November. In their February forecast, SPGMI expects the Fed to implement a policy pivot and begin lowering the federal funds rate in May followed by three more cuts by the end of this year. In this outlook, the federal funds rate will fall to 4.7 percent in the fourth quarter of this year and go below 3.0 percent a year later. In November, they expected the Fed to *raise* the federal funds rate in December 2023—which did not happen—and bring the rate below 3.0 percent in mid-2026.

The SPGMI February baseline forecast for 2024 is higher than the February Blue Chip Consensus, the median of 50 business and academic forecasts. SPGMI expects real GDP to grow 2.4 percent this year, 0.3 percentage points above the Blue Chip average. SPGMI's forecast for 2025 is 1.6 percent, 0.1 percentage points below the Blue Chip average forecast for that year.

Council members agree that SPGMI's baseline outlook is a reasonable starting point for Minnesota's economic and budget forecast, but they caution about risks to the forecast. Most agree that the risks are generally balanced between the upside and downside. Council members also agreed that forecasts, in general, imply more stability than the U.S. economy is likely to experience. Members can envision a variety of possible shocks that, separately or in combination, could throw the economy off the projected path.

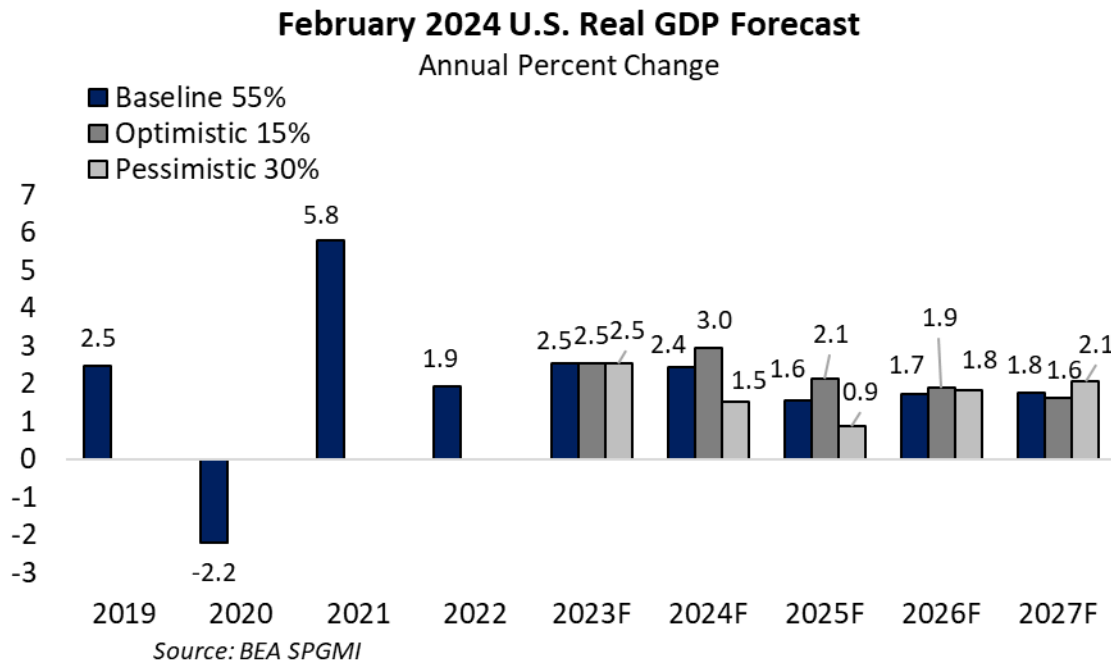
Regarding upside potential, an increase in labor force growth—perhaps from increased immigration, delayed retirements, or improved access to childcare—could support more robust job growth than is currently expected. Higher productivity growth—perhaps from emerging technologies—would also boost economic growth, even if additions to the labor force are modest.

International conflicts pose the biggest downside risk. Broader conflict in the Middle East could trigger an oil supply shock. Worsening or prolongation of conflicts between Russia and Ukraine and in the Red Sea could reintroduce the supply chain issues and high shipping costs that dogged the economy in 2022. This could put upward pressure on prices, threatening the forecast monetary policy path.

Council members warn that the difficulty of projecting long-range economic conditions warrants caution when using forecasts beyond 2025. This is of particular concern as the structural effects of the pandemic on the economy are still not fully known. For example, we have not yet observed the full impact of the shift to telework on the commercial real estate sector. In addition, long-range forecasts must consider the potential economic drag from the growing federal debt.

SPGMI assigns a 55 percent probability to the February baseline outlook. SPGMI assigns a 30 percent probability to a more pessimistic scenario, characterized by (1) a significant tightening of lending standards by financial institutions that restrains consumer spending and small business activity, and (2) higher energy prices caused by worsening conflicts in Russia-Ukraine and the Middle East. Consumer spending slows and business fixed investment declines in 2024, and the price of Brent crude oil and the unemployment rate are both higher than in the baseline scenario. In their more optimistic scenario, SPGMI assumes (1) strong credit expansion on the part of financial institutions that supports consumer spending; (2) quicker resolutions to the Russia-

Ukraine and Middle East conflicts, which lead to lower energy prices; and (3) larger productivity gains, which boost corporate profits. Consumer spending and business fixed investment both grow faster than in the baseline. The optimistic scenario receives a 15 percent probability from SPGMI. Council members see the upside and downside risks as more balanced than SPGMI does. They would assign roughly equal weights to an optimistic and pessimistic scenario.



SPGMI assigns a 55 percent probability to the February baseline outlook. They assign a 30 percent probability to a more pessimistic scenario in which worsening international conflicts generate persistently higher prices and slower global growth. They assign a 15 percent probability to a more optimistic scenario, characterized by expanded credit in support of consumer spending and a quicker resolution to the Russia-Ukraine and Middle East conflicts.

Council members believe that Minnesota's budget reserve—which, at \$2.913 billion, is at the level recommended by the state's budget reserve policy—affords policymakers crucial financial flexibility. The statutory policy assigns an adequate target reserve level based on MMB's annual evaluation of volatility in Minnesota's general fund tax system. The target is a percentage of forecast revenues, allowing reserves to adjust with revenue changes over time. In addition, the policy automatically transfers 33 percent of a positive forecast balance each November into the reserves until the target is reached. Based on MMB's most recent analysis, the target level is 4.9 percent of biennial (two-year) general fund revenues.



BUDGET OUTLOOK

Current Biennium

The general fund surplus for the FY 2024-25 biennium is now projected to be \$3.715 billion, an increase of \$1.324 billion over November levels. Revenue for the biennium is projected \$1.343 billion (2.3 percent) higher than the prior forecast and spending estimates are largely unchanged, \$19 million (0.0%) higher than November projections. The budget reserve balance of \$2.913 billion and cash flow account balance of \$350 million are unchanged from November levels.

Current Biennium: FY 2024-25 General Fund Budget

Forecast Comparison

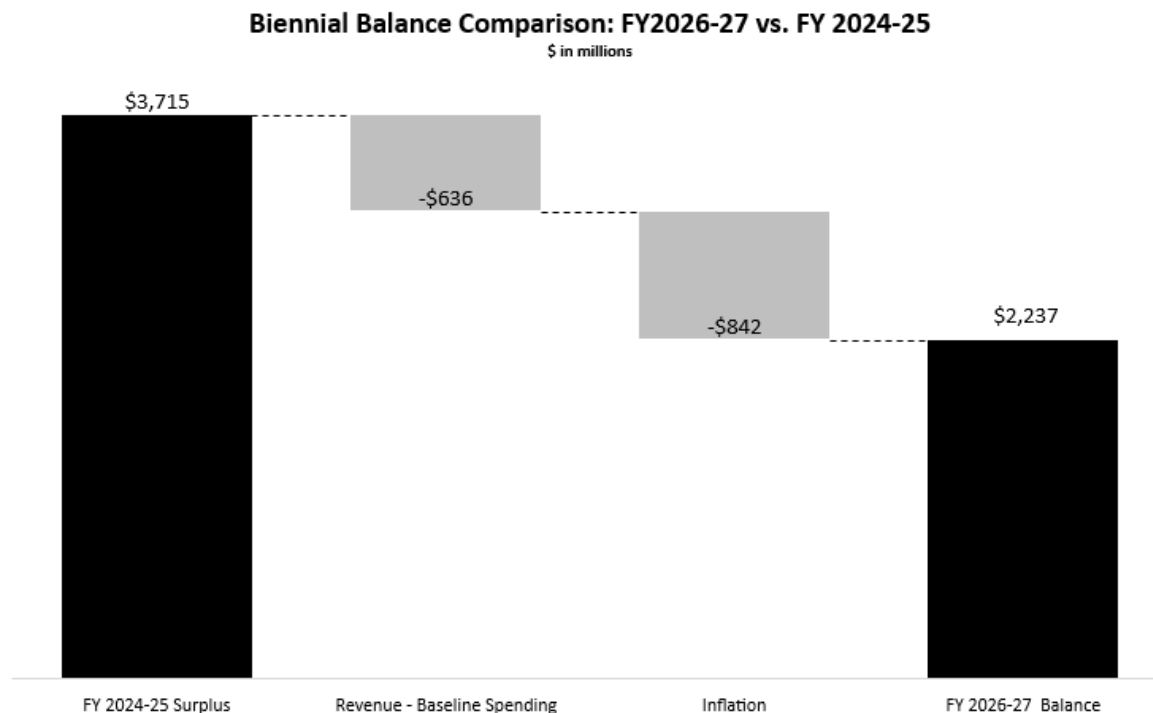
(\$ in millions)	November 2023 Forecast	February 2024 Forecast	\$ Change	% Change
Beginning Balance	\$16,516	\$16,516	\$ -	0.0%
Revenues				
Taxes	57,058	58,324	1,266	2.2
Non-Tax Revenues	2,400	2,476	76	3.2
Transfers, Other Resources	197	197	-	(0.0)
Total Revenues	\$59,655	\$60,997	\$1,343	2.3%
Expenditures				
E-12 Education	24,464	24,500	37	0.1
Property Tax Aids	5,478	5,482	5	0.1
Health & Human Services	21,118	21,108	(10)	0.0
Debt Service	1,141	1,137	(4)	(0.3)
All Other	18,315	18,307	(8)	0.0
Total Expenditures	\$70,516	\$70,535	\$19	0.0%
Cash Flow Account	350	350	-	
Budget Reserve	2,913	2,913	-	
Budgetary Balance	\$2,392	\$3,715	\$1,324	

Revenue. Revenue for the current biennium is now projected to reach \$60.997 billion, an improvement of \$1.343 billion (2.3 percent) over prior estimates. The forecast for all major general fund tax types is higher compared to revenue. Corporate Franchise Tax accounts for the majority of the change with an increase of \$749 million (13.8 percent) while the general fund's two largest tax types also show increases with individual income tax up \$449 million (1.5 percent) and sales tax \$126 million (0.8 percent) higher. Non-tax revenue is also higher, with investment

income driving most of the change with higher actual and projected interest earnings due to larger than projected cash balances and higher interest rates.

Spending. General fund spending in current biennium is now projected to total \$70.535 billion, \$19 million (0.0 percent) higher than previous estimates for FY 2024-25. The largest budget area, E-12 education, is \$37 million (0.1 percent) driven by higher special education cost estimates. Property Tax Aids and Credits is expected to be \$5 million higher (0.1 percent) for the biennium. These spending increases are partially offset by slightly lower estimates for Health and Human Services (HHS), debt service, and appropriations in other areas of the budget. The debt service forecast is down due to a lower interest rate forecast partially offset by a higher assumption (\$980 million) for the bonding bill enacted in the 2024 legislative session.

Biennial Budgetary Growth. When the budget for the 2024-25 biennium was enacted in May 2023, a significant surplus from the previous biennium was anticipated to be available for one-time uses in the current biennium. After the close of the FY 2022-23 biennium, the actual surplus that carried forward into the current biennium was \$13.103 billion. In the enacted budget, this one-time resource was partially allocated to one-time revenue reductions and one-time spending increases across the budget. On-going spending and revenue changes were planned so that budgetary balance would be maintained in both the current biennium and the FY 2026-27 planning estimates. As in November, spending in this forecast is projected to exceed revenue in both the current and next biennium. The budgetary impact of this imbalance results in the surplus from the current biennium partially offsetting the structural imbalance in the next biennium with the remaining balance reduced to \$2.327 billion by the end of the next biennium.



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

Planning Estimates

The increased revenue forecast for FY 2024-25 is expected to continue into the FY 2026-27 planning estimates, but spending is still expected to exceed revenue in that biennium. Revenues in the planning biennium are projected to total \$64.814 billion, \$907 million higher than prior forecast while spending, including estimated inflation, is forecast to reach \$66.292 billion, \$75 million (0.1 percent) more than November estimates. The structural balance, the difference between revenue and spending in a given budget period, in the planning biennium is negative \$636 million before inflation is added to spending estimates and negative \$1.478 billion after including inflation.

Planning Estimates: FY 2026-27 General Fund Budget

By Fiscal Year; February 2024 Forecast

(\$ in millions)	FY 2026	FY 2027	FY 2026-27
Forecast Revenues	\$31,945	\$32,868	\$64,814
Projected Spending	32,387	33,905	66,292
Difference	\$(442)	\$(1,037)	\$(1,478)
<i>*Estimated inflation included (CPI)⁶</i>	<i>\$(260)</i>	<i>\$(582)</i>	<i>\$(842)</i>

The planning estimates for the FY 2026-27 biennium inherently carry a higher degree of uncertainty than estimates for FY 2024-25. Revenue projections for FY 2026-27 are based on the February Baseline economic forecast for the planning years. Expenditure projections assume that current law funding levels and policies continue unchanged, adjusted for caseload and enrollment changes authorized in law, as well as formula-driven growth. After determining base expenditures as determined by current law formulas, the expenditure forecast assumes inflationary growth for programs that do not already have allowances for cost growth built into current law formulas.⁷

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

⁶ Inflationary growth estimates are based on the consumer price index forecast and are estimated to be 2.0 percent in FY 2026 and 2.4 percent in FY 2027.

⁷ Inflation calculation grows the estimated general fund spending base in each year by the projected CPI growth rate after removing general education, special education, debt service, property tax refunds, and the state share for managed and some long-term care in HHS.



REVENUE OUTLOOK

Current Biennium

Total general fund revenues for FY 2024-25 are now forecast to be \$60.997 billion, \$1.343 billion (2.3 percent) more than the prior estimates. Total tax revenues for the biennium are forecast to be \$58.324 billion, \$1.266 billion (2.2 percent) above the prior estimate. The forecasts for Minnesota's three largest tax types are higher than the prior estimates.

Current Biennium: FY 2024-25 General Fund Revenues

Change from November

(\$ in millions)	November 2023 Forecast	February 2024 Forecast	\$ Change	% Change
Individual Income Tax	\$30,347	\$30,796	\$449	1.5%
General Sales Tax	15,232	15,359	127	0.8
Corporate Franchise Tax	5,413	6,162	749	13.8
State General Property Tax	1,481	1,476	(6)	-0.4
Other Tax Revenue	4,585	4,532	(53)	-1.2
Total Tax Revenues	57,058	58,324	1,266	2.2%
Non-Tax Revenues	2,400	2,476	76	3.2
Other Resources	197	197	0	0.0
Total Revenues	\$59,655	\$60,997	\$1,343	2.3%

Revenues for FY 2024-25 are now expected to fall short of their FY 2022-23 levels by \$423 million (-0.7 percent). Total tax revenues are projected to be \$205 billion (-0.4 percent) less than in FY 2022-23. Current biennium individual income tax revenues are now forecast to decline \$1.854 billion (5.7 percent) from the FY 2022-23 level, largely due to extraordinarily strong income growth in FY 2022 and tax law changes that reduced revenue in FY 2024-25. Statewide property tax receipts are also forecast to decline in FY 2024-25, while corporate franchise tax revenues, net sales tax receipts and other tax revenues are forecast to exceed their FY 2022-23 levels.

This is the second forecast of FY 2024-25 since FY 2024 began on July 1, 2023. After seven months of observed collections (through January 2024), fiscal year-to-date receipts for FY 2024-25 are \$17.088 billion, 28.1 percent of the total expected over the biennium. With 17 months of FY 2024-25 collections left to observe, 71.9 percent of forecast receipts are outstanding.

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

(\$ in millions)	FY 2022-23	FY 2024-25	\$ Change	% Change
Individual Income Tax	\$32,650	\$30,796	(\$1,854)	-5.7%
General Sales Tax	14,090	15,359	1,269	9.0
Corporate Franchise Tax	5,752	6,162	410	7.1
State General Property Tax	1,539	1,476	(64)	-4.1
Other Tax Revenue	4,498	4,532	34	0.8
Total Tax Revenues	\$58,529	\$58,324	(\$205)	-0.4%
Non-Tax Revenues	2,273	2,476	203	8.9
Other Resources	618	197	(421)	-68.1
Total Revenues	\$61,420	\$60,997	(\$423)	-0.7%

Individual Income Tax. Minnesota individual income tax receipts are now forecast to be \$449 million (1.5 percent) more than the prior estimates. Technical adjustments, which on net raise the income tax forecast, offset lower base year income tax liability. So far in FY 2024, net income tax receipts are \$189.5 million more than forecast.

This forecast builds from estimated final TY 2022 M1 individual income tax liability net of the Pass-Through Entity (PTE) tax credit. In constructing the estimate, we used information from processed income tax, S-Corporation, partnership, and fiduciary tax returns; and revenue in the state accounting system. We estimate that final 2022 income tax liability net of the PTE credit reported on individual tax returns is \$144 million less than our November estimate. On its own, a lower estimate of base year tax liability reduces our forecasts of liability going forward.

Calibrating the income tax model to produce our lower estimated base year liability generally requires making assumptions about base year growth rates for specific income types. To produce estimated tax year 2022 liability, capital gains realized by Minnesota residents were assumed to have declined 51.4 percent in CY 2022 from CY 2021. In the November forecast, we had assumed a decline of 43.2 percent.

A report on TY 2022 income tax returns processed through late January indicates virtually no growth in the number of returns over TY 2021. In November, we had assumed 1.2 percent growth in the number of TY 2022 returns. All other things equal, lowering the number of tax returns raises the income per return in our forecast, which due to the graduated tax rates in our income tax, raises our revenue forecast. This change adds about \$70 million per year to our income tax forecast. A correction to the off-model, estimated revenue loss from the Child Working Family Credit in the November forecast added about \$45 million dollars each year to the revenue forecast for tax years 2023 through 2026. These changes impact fiscal years 2024 through 2027. This change is offset by estimated increases in the amount of Pass-Through Entity (PTE) tax credits expected be claimed on individual M1 tax returns.

A number of technical and timing changes—which on net add revenue to the forecast—offset the lower base year tax liability, raising the FY 2024-25 income tax forecast. First, in each tax year, we collect income tax withholding payments that are larger than total withholding reported on

individual tax returns. The gap is likely caused by taxpayers who have taxes withheld on their income but file a tax return late or not at all. Based on our observation of annual growth in excess withholding, in this forecast we raise our estimate of the amount we expect to collect by about \$70 million per fiscal year. Second, our observation of individual income tax payments other than withholding, estimated tax, and current tax year final payments has also been rising annually. Consequently, we have increased the forecast of this category of payments by about \$12 million per fiscal year.

Third, the forecast for net income tax receipts from fiduciaries (estates and trusts) is about \$20 million higher than in November. Fourth, based on our observation of the amount of income tax overpayments that taxpayers choose to transfer to the next year's estimated tax (in lieu of requesting a refund), we have raised our estimate of these transfers in each year. This raises forecast revenue on a one-time basis in FY 2024-25 by \$17 million. Fifth, the share (and amount) of income tax refunds that are paid in the second half of the calendar year has been trending up. We increased the assumed second-half refunds, which has the effect of shifting about \$50 million of refunds into the next biennium (and raising net receipts) in the current biennium on a one-time basis. Sixth, we have also observed growth in amended return refunds. Adjusting our refund forecast for this trend had the effect of reducing net revenues by \$12 million per year. Finally, technical corrections to the income tax forecasting model raised the forecast by about \$55 million in each tax year.

As in November, this forecast reflects adjustments to income tax revenues for 2023 Minnesota tax law changes. Large tax law changes such as these increase the level of uncertainty in the revenue forecast throughout our forecast horizon.

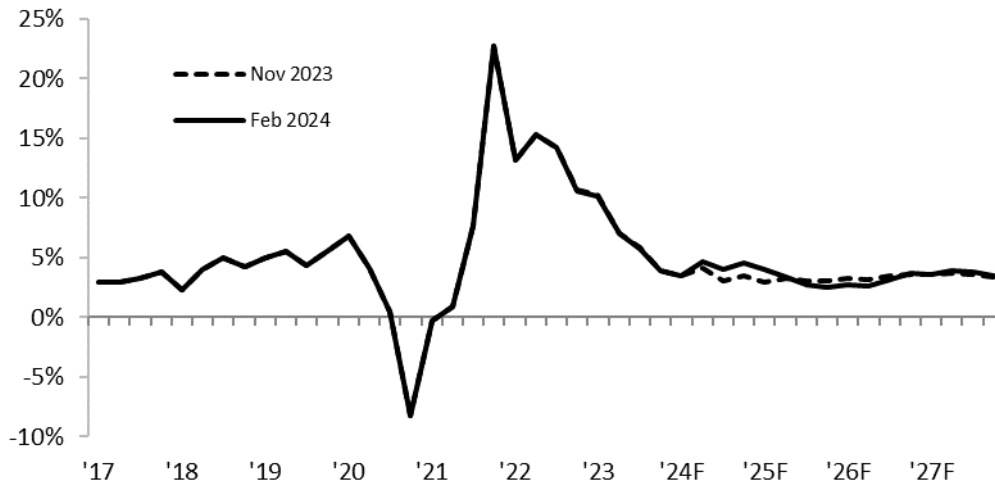
General Sales Tax. Net general sales tax revenue in FY 2024-25 is now forecast to be \$126 million (0.8 percent) more than the prior estimate. Both a \$132 million increase in forecast gross sales tax receipts and a \$5 million increase in expected refunds contribute to the change. Revenue estimates for recent sales tax law changes are built into this forecast.

So far in FY 2024, net sales tax receipts exceed the November forecast estimate by \$40 million (0.8 percent).

The increased forecast in the current biennium for gross sales tax receipts reflects higher than expected gross receipts in FY 2024 and a higher near-term forecast for taxable sales compared to November. 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 4.2 percent in FY 2024, 0.7 percentage points faster than we expected in November. Off this higher base, we expect the synthetic sales tax base to grow 3.2 percent in FY 2025, 0.1 percentage points faster than we forecast in November.

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

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



Source: BEA, SPGMI, MMB

In this forecast, the proxy for Minnesota's sales tax base is expected to grow 0.7 percentage points faster in FY 2024 than we had assumed in November. Off this higher base, we expect the synthetic sales tax base to grow 0.1 percentage points faster in FY 2025.

The gross sales tax receipts forecast includes an \$18 million estimate of a one-time revenue gain in March 2024 due to the historical observation that February economic activity during a leap year increases March collections on a one-time basis.

Corporate Franchise Tax. The corporate franchise tax is forecast to generate \$6.162 billion in FY 2024-25, \$749 million (13.8 percent) more than projected in November. A higher forecast for gross corporate tax receipts and a lower refund forecast both contribute to this change.

The main factors influencing our higher forecast for Minnesota corporate tax receipts are (1) a higher starting point arising from receipts exceeding our prior forecast and (2) a higher forecast for U.S. corporate profits—an important driving variable in our revenue forecast model.

So far in FY 2024, net corporate receipts exceed the November forecast by \$118 million (7.7 percent). This is the largest percentage fiscal year-to-date variance of the major tax types.

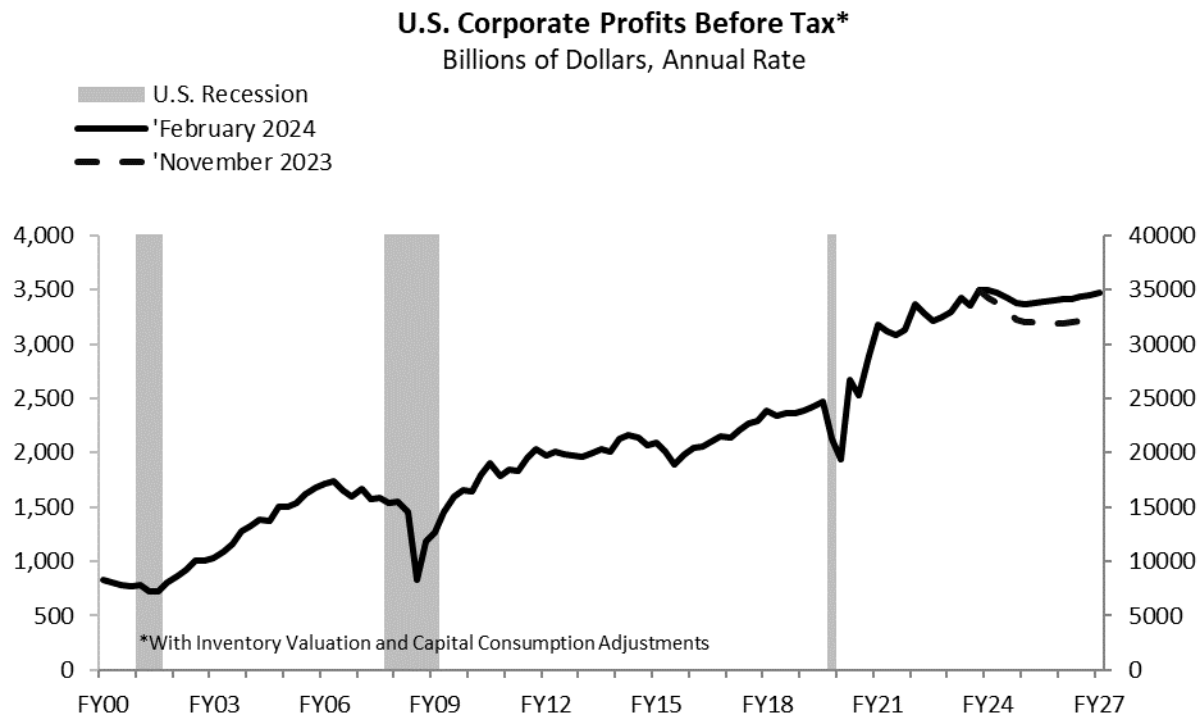
Before-tax U.S. corporate profits grew 2.6 percent in FY 2023, and SPGMI expects profits will grow 5.6 percent in FY 2024. On an annual basis, SPGMI expects before-tax U.S. corporate profits will decline 0.9 percent in FY 2025 and 0.5 percent in FY 2026, a significant improvement from November, when SPGMI expected a decline of 7.2 percent in FY 2025 followed by another year of decline of 2.5 percent in FY 2026.

The compound annual growth rate for before-tax U.S. corporate profits was 8.0 percent from FY 2000 to FY 2008, 4.5 percent from FY 2010 to FY 2019, and 7.5 percent in years 2021 through 2023. In this forecast, the compound annual growth rate anticipated by SPGMI is 0.0 percent from

FY 2024 through FY 2027. In the previous forecast, the compound annual growth rate anticipated by SPGMI was -3.0 percent from years 2024-2027.

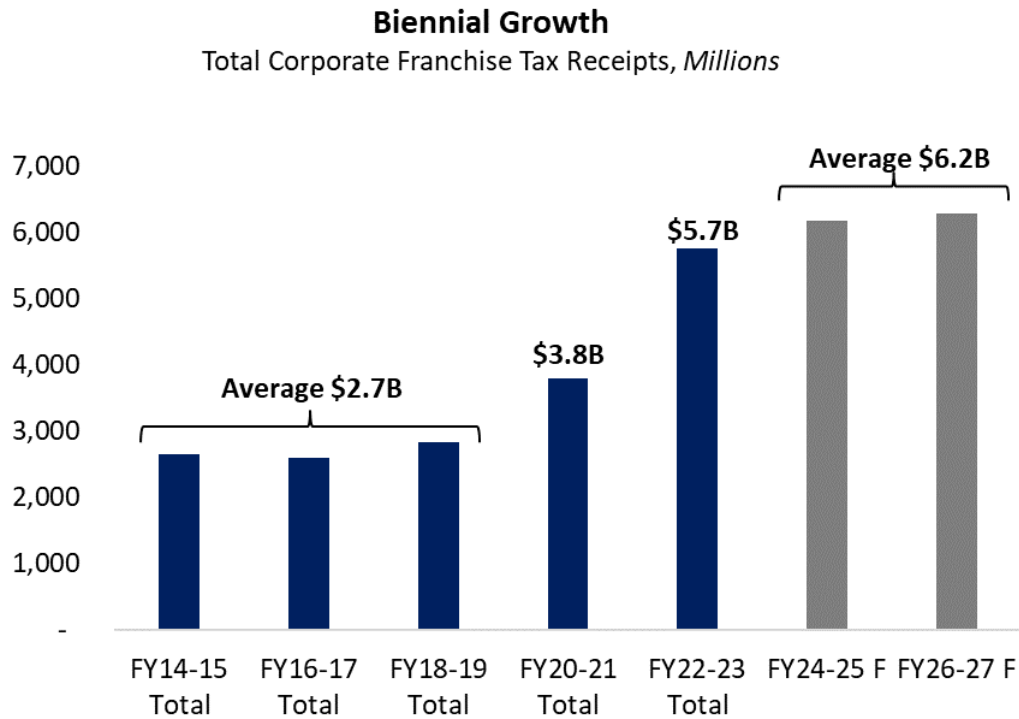
Regarding biennial growth in Minnesota corporate tax receipts, we now expect the corporate franchise tax to grow \$410 million (7.1 percent) in FY2024-2025 over FY 2022-23.

The corporate franchise tax is Minnesota's most volatile source of tax revenue, making it generally difficult to forecast. Moreover, corporate taxpayers may still be adjusting to significant changes to Minnesota's tax law that were enacted in the last legislative session. This adds uncertainty to the corporate tax revenue forecast.



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

The compound annual growth rate for before-tax U.S. corporate profits was 8.0 percent from FY 2000 to 2008, 4.5 percent from FY 2010 to FY 2019, and 7.5 percent in years 2021 through 2023. In this forecast, the compound annual growth rate anticipated by SPGMI is 0.0 percent from FY 2024 through FY 2027. In the previous forecast, the compound annual growth rate anticipated by SPGMI was -3.0 percent from years 2024-2027.



Source: MMB

As a result of the improved SPGMI forecast, our forecast for corporate tax revenues has improved significantly. We expect a biennial increase of \$410 million (7.1 percent) in FY2024-25 and \$124 million (2.0 percent) in FY2026-27. Minnesota's corporate tax are now expected to average \$6.2 billion per biennium in FY 2024-25 and FY 2026-7.

Other Tax Revenue, Non-Tax Revenue, Other Resources. Other tax revenue is now expected to be \$53 million (1.2 percent) lower than the prior estimate. Among other taxes, taconite occupation tax receipts show the largest dollar amount change, \$32 million (48.2 percent) lower than in the prior forecast. The insurance gross premiums tax is now forecast to be \$29 million (2.6 percent) lower than in November. The cigarette and tobacco products forecast is \$14 million (1.4 percent) higher than in November. Among non-tax revenues, the largest dollar amount change is in investment income, now expected to generate \$82 million (10.2 percent) more than the prior estimate.

Planning Estimates

Total revenues for FY 2026-27 are now estimated to be \$64.814 billion, an increase of \$3.817 billion (6.3 percent) from the current forecast for FY 2024-25 revenues. Total tax revenues for FY 2026-27 are estimated to be \$62.739 billion, an increase of \$4.415 billion (7.6 percent) over FY 2024-25 forecast revenues. Growth of individual income tax revenue accounts for 65 percent of the biennial tax revenue change and sales tax revenue growth accounts for 23 percent of the biennial tax revenue change. All major tax types show an anticipated increase in expected revenues from FY 2024-25 to FY 2026-27.

The revenue planning estimates are informed by the SPGMI baseline forecast, which assumes that U.S. real GDP will increase 1.6 percent in CY 2025, followed by growth of 1.7 percent in CY 2026 and 1.8 percent in CY 2027.

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

February 2024 Forecast

(\$ in millions)	FY 2024-25	FY 2026-27	\$ Change	% Change
Individual Income Tax	\$30,796	\$33,662	\$2,866	9.3%
General Sales Tax	15,359	16,383	1,024	6.7
Corporate Franchise Tax	6,162	6,287	124	2.0
State General Property Tax	1,476	1,491	15	1.0
Other Tax Revenue	4,532	4,917	385	8.5
Total Tax Revenues	\$58,324	\$62,739	\$4,415	7.6%
Non-Tax Revenues	2,476	1,673	(803)	-32.4
Other Resources	197	402	205	103.9
Total Revenues	\$60,997	\$64,814	\$3,817	6.3%

The current forecast for FY 2026-27 total revenues is \$907 million (1.4 percent) more than the prior estimate. Total tax revenues for the next biennium are forecast to be \$960 million (1.6 percent) above the prior estimate. A lower forecast for individual income tax receipts is offset by higher forecasts for general sales tax revenues and corporate tax receipts.

Next Biennium: FY 2026-27 General Fund Revenues

Change from November 2023 Forecast

(\$ in millions)	November 2023 Forecast	February 2024 Forecast	\$ Change	% Change
Individual Income Tax	\$33,765	\$33,662	(\$103)	-0.3%
General Sales Tax	16,312	16,383	71	0.4
Corporate Franchise Tax	5,346	6,287	940	17.6
State General Property Tax	1,491	1,491	0	0.0
Other Tax Revenue	4,864	4,917	53	1.1
Total Tax Revenues	\$61,779	\$62,739	\$960	1.6%
Non-Tax Revenues	1,727	1,673	(54)	-3.1
Other Resources	401	402	1	0.1
Total Revenues	\$63,907	\$64,814	\$907	1.4%

Individual Income Tax. Individual income tax revenues for FY 2026-27 are forecast to be \$33.662 billion, \$2.866 billion (9.3 percent) more than the current forecast for FY 2024-25.

Regarding forecast change, a higher forecast for income tax refunds more than offsets higher anticipated gross income tax receipts to bring the net income tax forecast for FY 2026-27 \$103 million (0.3 percent) below the November forecast. A higher forecast for PTE credits appearing on

individual income tax returns in TY 2025 and slower forecast growth in non-wage income (including capital gains, interest, and dividend income) lower our estimate of TY 2025 income tax liability compared to November. This change primarily affects tax revenue in FY 2026. A correction to the estimate of the Minnesota subtraction for bonus depreciation lowered our estimate of tax liability in TY 2025 and TY 2026 and lowered our forecast for income tax receipts by about \$40 million in each of FY 2026 and FY 2027.

General Sales Tax. General sales tax receipts for FY 2026-27 are expected to exceed FY 2024-25 levels by \$1.024 billion (6.7 percent), accounting for 23 percent of the total tax revenue biennial change. Growth in forecast gross sales tax receipts and a decrease in refunds between FY 2024-25 and FY 2026-27 both contribute to the biennial change.

Gross sales tax receipts in FY 2026-27 are forecast to exceed FY 2024-25 levels by \$1.004 billion (6.4 percent). The Minnesota synthetic sales tax base, a proxy for the actual tax base, is expected to grow 3.2 percent in FY 2025, 3.0 percent in FY2026, and 3.7 percent in FY 2027.

Regarding forecast change, net sales tax receipts for FY 2026-27 are now forecast to be \$71 million (0.4 percent) higher than the prior estimate. The forecast change is due to a higher base of gross sales tax receipts from the higher forecast for FY 2024-25 that is partially offset by lower expected growth in taxable sales in FY 2026-27. The synthetic sales tax base is expected to grow a cumulative 0.3 percentage points slower between FY 2025 and FY 2027 than we assumed in the prior estimate.

Corporate Franchise Tax. The corporate franchise tax is forecast to generate \$6.287 billion in FY 2026-27, \$124 million (2.0 percent) more than the current FY 2024-25 forecast.

We have raised our forecast of FY 2026-27 corporate tax receipts by \$940 million (17.6 percent) over our November estimate. The forecast change is due to a higher base from the higher FY 2024-25 corporate tax forecast and a higher forecast for U.S. corporate profits. We based our November corporate tax forecast on SPGMI's November baseline outlook, which assumed a year over year decline of 2.5 percent in corporate profits in FY2026 and a 0.6 percent decline in FY2027. In this forecast we use SPGMI's February baseline outlook which assumes a decline of 0.5 percent in FY 2026, followed by a 1.4 percent increase in FY 2027.

Other Tax Revenue, Non-Tax Revenue, Other Resources. Other tax revenue is now forecast to grow \$385 million (8.5 percent) in FY 2026-27 over FY 2024-25. Non-tax revenues are forecast to be \$803 million (32.4 percent) lower in FY 2026-27 than in FY 2024-25, primarily due to a decline in investment income from the current biennium to the next.



EXPENDITURE OUTLOOK

Current Biennium

Spending estimates for the FY 2024-25 biennium are similar in aggregate to the November 2023 forecast. Total state general fund expenditures are now projected to be \$70.535 billion, \$19 million (less than 0.1 percent) higher than previously forecast. Spending is marginally higher than November estimates, primarily due to changes in E-12 education. Property tax aids and credits also contribute to this increase, with slight decreases in health and human services, debt service, and other spending.

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

(\$ in millions)	November 2023 Forecast	February 2024 Forecast	\$ Change	% Change
E-12 Education	\$24,464	\$24,500	\$37	0.1%
Property Tax Aids & Credits	5,478	5,482	5	0.1
Health & Human Services	21,118	21,108	(10)	(0.0)
Debt Service	1,141	1,137	(4)	(0.3)
All Other	18,315	18,307	(8)	(0.0)
Total Expenditures	\$70,516	\$70,535	\$19	0.0%

E-12 Education. Education finance is the largest category of state general fund spending and accounts for approximately 35 percent of total projected general fund expenditures in the FY 2024-25 biennium. E-12 consists of aid programs for general education, special education, early childhood and family education, charter schools, nonpublic pupil programs, and integration programs. E-12 aids can be divided into two major funding streams: 1) general education, the primary source of basic operating funds for schools, and 2) categorical aid, tied to specific activities or categories of funding.

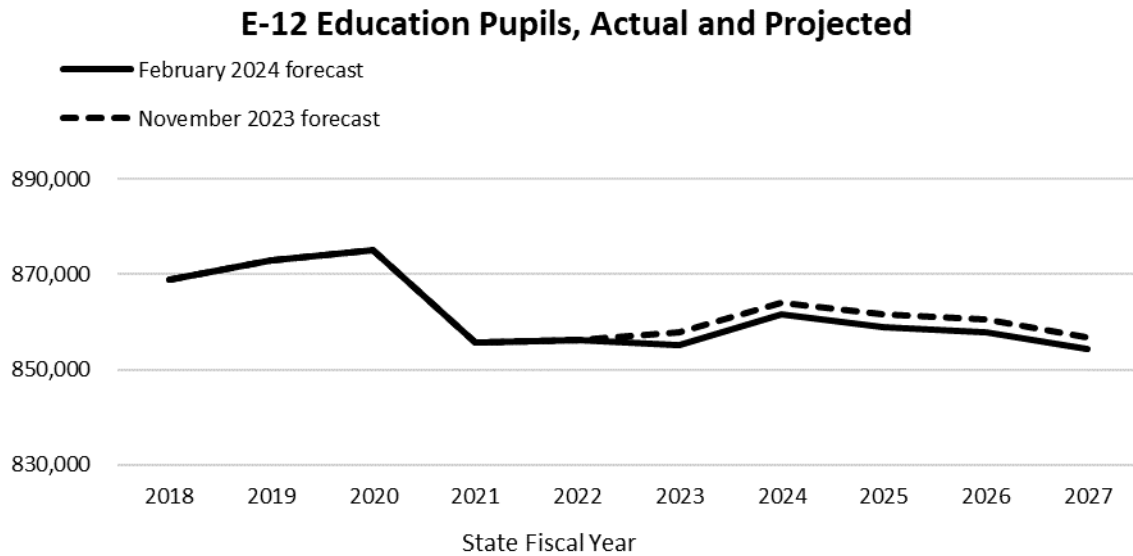
E-12 expenditures are forecast to reach \$24.500 billion in FY 2024-25, \$37 million (0.1 percent) higher than the November 2023 forecast. Special education is estimated to cost an additional \$48 million (1.0 percent) and nutrition programs are estimated to cost \$27 million (5.1 percent) more compared to November 2023 estimates. The spending increase is partially offset by a lower projection for general education spending of \$36 million (0.2 percent) relative to the prior forecast.

General Fund Education Expenditures
Change From November 2023 Estimates

(\$ in millions)	FY 2024-25		FY 2026-27	
	\$ Change	% Change	\$ Change	% Change
Basic Formula	\$(33)	(0.2)%	\$(18)	(0.1)%
Extended Time	(15)	(14.1)	(15)	(14.2)
Compensatory	8	0.5	11	0.7
English Learner	6	2.7	11	3.4
All Other General Education	(1)	0.1	5	0.5
General Education Subtotal	(36)	(0.2)	(5)	(0.0)
Special Education	48	1.0	95	1.8
Nutrition Programs	27	5.1	32	5.5
All Other E-12 Forecast Programs	(3)	(0.1)	0	0.0
Total E-12 General Fund Forecast Change	\$37	0.1%	\$121	0.5%

Higher projected special education and school nutrition program expenditures are the primary drivers of increased costs. Special education expenditure projections for the current biennium are \$48 million (1.0 percent) more than the November forecast. This change is due to higher-than-expected FY 2023 actual district special education expenditures. Special education aid is primarily distributed based on prior year district expenditures. Higher FY 2023 actual special education expenditures increase both the base for the rest of the forecast period as well as projected growth rates. School nutrition programs are up \$27 million (5.1 percent) compared to November due to updated participation data for the current school year. This forecast is based on two complete months of experience implementing the school lunch and breakfast programs that were expanded in the 2023 legislative session.

Spending for general education is forecast to be \$36 million (0.2 percent) below the November 2023 estimate. This includes reductions in forecast expenditures for the basic formula of \$33 million (0.2 percent), as well as extended time aid of \$15 million (14.1 percent), due to revised pupil projections using finalized FY 2023 data. The pupil trends are discussed in greater detail in the following paragraph. These reductions are partially offset by cost increases in compensatory aid of \$8 million (0.5 percent) and English learner aid of \$6 million (2.7 percent). Compensatory aid is higher due to updated FY 2024 data on students eligible for free and reduced-price meals using federal definitions, and English learner aid rose due to a higher-than-expected number of actual FY 2023 English learner students.



E-12 education pupil projections are lower than November 2023 estimates across the forecast horizon.

As mentioned above, pupil counts are now expected to be lower than November 2023 forecast estimates. This forecast assumes a reduction of 2,320 (0.3 percent) pupils in FY 2024 and 2,645 (0.3 percent) pupils in FY 2025 relative to previous estimates. This is primarily due to final student data from FY 2023 being reported by schools since the November estimate. Pupils are projected by the Minnesota Department of Education (MDE) using near-term growth trends based on historic data and other factors. In recent forecasts, MDE has included an adjustment to its projection model to account for migration at levels greater than MDE's underlying pupil projection model would predict. This forecast uses the same migration assumption that was used for the November 2023 forecast.

Health and Human Services. Health and Human Services (HHS) is approximately 30 percent of total projected state general fund spending in the FY 2024-25 biennium. Most of these expenditures (76.2 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 Minnesotans. MA costs are split between the state and federal government, though only the state share of expenditures is reflected as part of the general fund forecast.

In the FY 2024-25 biennium, anticipated HHS general fund spending is \$21.108 billion, a decrease of \$10 million (less than 0.1 percent) from November 2023 estimates. This change is the result of decreases in the MFIP and MFIP Child Care programs of \$10 million (5.6 percent) and \$21 million

(14.8 percent), respectively. These decreases are partially offset by a \$21 million (0.1 percent) increase in MA.

General Fund Health and Human Services Expenditures

Change From November 2023 Estimates

(\$ in millions)	FY 2024-25		FY 2026-27	
	\$ Change	% Change	\$ Change	% Change
Long Term Care Programs	\$31	0.5%	\$43	0.5%
Basic Care for Families with Children	(10)	(0.1)	(11)	(0.1)
All Other MA	1	0.0	1	0.0
Total MA General Fund Change	21	0.1	32	0.2
Child Care Assistance Program	(21)	(14.8)	(9)	(2.2)
Minnesota Family Investment Program	(10)	(5.6)	(2)	(0.7)
Behavioral Health Fund	1	0.4	0	0.1
All Other HHS Changes	(1)	(0.0)	(5)	(0.1)
Total HHS General Fund Change	\$ (10)	(0.0)%	\$ 17	0.1%

Medical Assistance Program

MA accounts for \$21 million (0.1 percent) of increased expenditures from November 2023 estimates. The main driver of higher spending is long-term care programs. Lower estimated costs for basic care partially offset these increases.

The largest change in the MA program is growth in Long-Term Care (LTC) programs. This includes both long-term care waiver programs and long-term care facilities. Compared to November, projected state expenditures for LTC programs are \$31 million (0.5 percent) higher in FY 2024-25.

The LTC increase is driven by growth in the Community Access for Disability Inclusion (CADI) waiver program. Forecast expenditures for CADI are approximately 2 percent higher than November 2023 forecast estimates. This growth is due to increases in projected CADI caseloads, which are 1 percent higher and result in a \$25 million increase in FY 2024-25, along with CADI average payments which are also approximately 1 percent higher, increasing expenditures by \$23 million in the current biennium. Smaller decreases in projected caseloads and average payments in Developmental Disability waivers, Community Alternative Care waivers, and Brain Injury waivers offset some of the increases from CADI.

Forecast state spending for MA basic care is \$10 million (0.1 percent) lower in the current biennium relative to the November 2023 forecast. Lower projections are based on updated enrollment and payment information through December 2023, which results in a slightly lower base. However, future growth trends are similar to those previously projected and the estimated impact of the COVID-19 Public Health Emergency unwinding is consistent with the November forecast.

Other Health and Human Services Expenditures

Forecast spending in the Child Care Assistance Program (CCAP) is \$21 million (14.8 percent) lower in the current biennium. The primary driver of change is lower caseloads in MFIP, which results in fewer families that are expected to use CCAP. Caseload projections have decreased by 5.2 percent from the November 2023 forecast in the current biennium. Forecast expenditures in MFIP are \$10 million (5.6 percent) lower in FY 2024-25 than previously forecast. The decrease is primarily due to an estimated reduction in caseloads, driven by a stronger economic outlook and lower unemployment.

Property Tax, Aids, and Credits. Property tax aids and credits are approximately eight percent of total projected general fund spending in the FY 2024-25 biennium. They are paid to local governments, including cities, counties, towns, public schools, and special taxing districts. These aids and credits help offset costs of service delivery and defray costs of state mandates. They are designed to reduce the reliance on local property taxes by substituting state funds for revenues that would otherwise be raised locally. Direct payments to individuals, such as property tax refunds for homeowners and renters, are also included in this category because they provide targeted property tax relief.

FY 2024-25 spending for property tax aids and credits is forecast to be \$5.482 billion, \$5 million (0.1 percent) higher than November 2023 estimates. Renters property tax refunds account for nearly all of the forecast change. Renters property tax refunds are estimated to be \$5 million (0.8 percent) higher due to increases in actual refund counts and average refund size. Homestead credits are \$1 million (less than 0.1 percent) lower, with higher actual refund counts and average refund size in FY 2024 being more than offset by lower certified property tax levies and a moderation of residential homestead market value growth in FY 2025.

Debt Service and All Other. Debt service expenditures for the current biennium are forecast to be \$1.137 billion, which is a decrease of \$4 million (0.3 percent) from November 2023 estimates. The reduction is primarily due to lower projected rates for future bond sales but is partially offset by an increase in the assumed size of the bonding bill enacted in the 2024 session.

MMB makes assumptions about the size of future capital budgets in each forecast. The assumptions have historically been based on the average size of general obligation (GO) bonds authorized in capital budget bills over the past ten years, differentiating between the larger even-year capital budgets and smaller odd-year capital budgets. As the state has authorized larger bonding packages in recent years, the assumption of historic averages has come into conflict with the state's Debt Capacity Guidelines. As reported in the February 2024 Debt Capacity Forecast⁸, the State measures debt under three capital investment guidelines that together demonstrate a commitment to long-term capital and financial planning. Two guidelines measure outstanding debt against personal income, and the third guideline measures how quickly the state is scheduled to repay general obligation debt.

This forecast maintains the November methodology for future capital budgets by assuming a ten-year historic average unless that results in a bill size that would cause the state to exceed its debt capacity guidelines. In this forecast, the ten-year average is \$1.010 billion in even-year legislative

⁸ February 2024 Debt Capacity Forecast, Minnesota Management and Budget

sessions and \$165 million in odd-year sessions. The State's debt capacity guidelines are updated with every forecast. To remain in compliance with the debt capacity guidelines for this forecast, a capital investment bill of \$980 million is assumed for the 2024 legislative session. This is an increase from November 2023, when the forecast assumed an \$830 million capital budget. This is a one-time adjustment, and the forecast assumes a return to the normal 10-year averages starting with the 2025 legislative session.

All other bill area spending is forecast to total \$18.307 billion, \$8 million (less than 0.1 percent) less than November 2023 estimates. Most of this decrease is the result of \$6 million in costs for the renovation of the State Office Building being shifted into the planning years due to updated cash flow projections for the project.

Biennial Budgetary Growth

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

Budget Horizon: FY 2022-27 General Fund Spending Biennial Comparison; February 2024 Forecast

(\$ in millions)	FY 2022-23	FY 2024-25	FY 2026-27	Annual % Change
E-12 Education	\$20,164	\$24,500	\$25,600	4.9%
Property Tax Aids	4,622	5,482	4,649	0.1
Health & Human Services	15,137	21,108	22,877	8.6
Debt Service	1,140	1,137	1,350	3.4
All Other	10,867	18,307	10,973	0.2
Estimated Inflation	-	-	842	n/a
Total Expenditures	\$51,930	\$70,535	\$66,292	5.0%

The cost of the new or expanded programs enacted by 2023 legislature is not tracked in this forecast at the individual proposal level; however, the impact of those increases is included in forecast spending estimates across the budget horizon. Forecast spending increases in the current biennium are projected to occur in the next biennium at similar levels. As a result, projected spending in the FY 2026-27 planning estimates is \$4.2 billion (6.0 percent) below the current biennium.

Planning Estimates

General fund spending in FY 2026-27 is expected to be \$66.292 billion, \$75 million (0.1 percent) higher than November 2023 estimates. This change is primarily the result of higher spending in E-12 education, due to an increase in cost estimates for special education programs and school

nutrition programs. Increased estimates for MA waiver spending and state debt service add to this increase. The overall spending increase is partially offset by changes in other areas.

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

(\$ in millions)	November 2023 Forecast	February 2024 Forecast	\$ Change	% Change
E-12 Education	\$25,479	\$25,600	\$121	0.5%
Property Tax Aids & Credits	4,650	4,649	(1)	(0.0)
Health & Human Services	22,861	22,877	17	0.1
Debt Service	1,340	1,350	10	0.7
All Other	11,006	10,973	(33)	(0.3)
Inflation	880	842	(38)	(4.3)
Total Expenditures	\$66,217	\$66,292	\$75	0.1%

E-12 Education. E-12 education spending in FY 2026-27 is forecast to be \$25.600 billion, \$121 million (0.5 percent) higher than the November 2023 projection. The primary drivers of the increase are the same as discussed in the Current Biennium section above which include higher projected special education and school nutrition program expenditures relative to prior projections. Laws 2023, Chapter 55 linked the basic formula allowance for FY 2026 and later to an inflationary measure, with a minimum increase of 2.0 percent and a maximum increase of 3.0 percent. Due to updates in the inflation forecast, the formula allowance is now expected to increase above FY 2025 levels by 2.53 percent in FY 2026 and another 2.00 percent in FY 2027, compared to 2.40 percent and 2.00 percent, respectively, in the November 2023 forecast. However, this increase is outweighed by reduced pupil projections, resulting in the basic formula estimates to be \$18 million below prior estimates.

Health & Human Services. In the FY 2026-27 biennium, anticipated Health and Human Services spending is forecast to be \$22.877 billion, an increase of \$17 million (0.1 percent) from the November 2023 forecast. Projected spending for Medical Assistance, the largest portion of the HHS forecast, is expected to cost \$32 million (0.2 percent) more than the previous forecast. This increase is partially offset by lower projections for other programs.

The MA increases are the result of growth trends in the CADI waiver program in the current biennium, which are expected to continue into the FY 2026-27 biennium. Changes in this program account for an additional \$60 million in state expenditures relative to the November 2023 estimate. These additional costs are partially offset by lower projected spending in other waiver programs and basic care. Outside of the MA program, CCAP is estimated to cost \$9 million (2.2 percent) less than the November 2023 forecast. State expenditures for the MFIP are also expected to be \$2 million (0.7 percent) lower.

Property Tax, Aids, and Credits. Property tax aids and credits expenditures are projected to total \$4.649 billion in FY 2026-27, a decrease of \$1 million (less than 0.1 percent) compared to November 2023 estimates. Homestead credit refunds are estimated to increase by \$18 million (1.2 percent) due to higher property tax growth than previously forecast. Special property tax refunds, which benefit homeowners experiencing significant increases in net property taxes, are \$9 million (93.4 percent) higher due to homestead tax growth. These increases are more than

offset by a \$28 million (10.5 percent) reduction in school building bond agricultural credits. This reduction is due to lower actual certified school debt service levies than previously forecast.

Debt Service and All Other. Debt service expenditures are forecast to be \$1.350 billion in the next biennium, which is \$10 million (0.7 percent) higher than November 2023 estimates. This increased estimate is due to a larger assumed bonding bill for the 2024 session. Higher costs are partially offset by a lower interest rate assumptions on future bond sales compared to the last forecast.

All other areas of the state budget are projected to total \$10.973 billion in the FY 2026-27 biennium, \$33 million (0.3 percent) lower than the November 2023 forecast. This difference is driven by Metro Mobility, Metropolitan Council's special transportation service program. Metro Mobility is forecast to cost \$210 million in the FY 2026-27 biennium, which is \$25 million (10.6 percent) less than previous projections. This reduction is due to the inclusion of an estimated \$27 million in revenues the program will receive as a Medical Assistance service provider for a new Metropolitan Council program that will provide evening and weekend transit service to people with a disability receiving MA waiver services. This additional revenue reduces the amount of funding the state must provide to fully fund the program. In addition, state aid for the Destination Medical Center is forecast to be \$13 million (22.7 percent) lower than previous estimates in FY 2026-27, due to a decrease in estimated local contributions. These decreases are partially offset by \$6 million in estimated costs being shifted from the FY 2024-25 biennium to the FY 2026-27 biennium for the renovation of the State Office Building due to updated cash flow projections.



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Minnesota Economic Forecast Summary

Forecast 2023 to 2027 - Calendar Years

	2023	2024	2025	2026	2027
Current Dollar Income (Billions of Dollars)					
Personal Income	410.660	428.153	452.288	476.165	499.033
%Chg	4.3	4.3	5.6	5.3	4.8
Wage & Salary Disbursements	214.559	225.270	234.705	244.638	254.800
%Chg	4.5	5.0	4.2	4.2	4.2
Non-Wage Personal Income	196.101	202.880	217.580	231.533	244.238
%Chg	4.1	3.5	7.2	6.4	5.5
Supplements to Wages & Salaries	45.130	46.288	47.995	50.007	51.993
%Chg	3.6	2.6	3.7	4.2	4.0
Dividends, Interest, & Rent Income	83.572	88.498	95.810	102.603	108.898
%Chg	6.0	5.9	8.3	7.1	6.1
Farm Proprietors Income	3.736	2.978	4.503	5.393	5.465
%Chg	-24.1	-20.3	51.2	19.8	1.3
Non-Farm Proprietors Income	28.955	30.614	32.470	33.973	35.217
%Chg	5.6	5.7	6.1	4.6	3.7
Personal Current Transfer Receipts	70.445	71.679	75.310	79.509	83.904
%Chg	3.8	1.8	5.1	5.6	5.5
Less: Contrib. for Gov. Social Ins.	33.910	35.333	36.664	38.111	39.400
%Chg	4.6	4.2	3.8	3.9	3.4
Real Income (Billions of 2012 Dollars)					
Real Personal Income	341.201	348.923	361.738	373.093	383.153
%Chg	0.6	2.3	3.7	3.1	2.7
Real Wage & Salary Disbursements	178.262	183.588	187.720	191.685	195.633
%Chg	0.8	3.0	2.3	2.1	2.1
Employment (Thousands)					
Employment - Total Non-Farm Payrolls	2,987.0	3,032.4	3,040.6	3,050.2	3,057.1
%Chg	1.9	1.5	0.3	0.3	0.2
Construction	137.2	141.3	142.6	144.3	145.6
%Chg	3.5	3.0	0.9	1.2	0.9
Manufacturing	326.1	324.4	325.3	329.7	334.0
%Chg	0.8	-0.5	0.3	1.4	1.3
Private Service-Providing	2,098.0	2,131.2	2,135.6	2,137.4	2,137.2
%Chg	1.8	1.6	0.2	0.1	0.0
Government	419.3	428.8	430.7	432.4	434.1
%Chg	2.6	2.3	0.4	0.4	0.4
Minnesota Civilian Labor Force	3,100.8	3,132.6	3,151.1	3,162.5	3,169.4
Unemployment Rate (%)	3.1	3.0	3.2	3.3	3.3
Demographic Indicators (Millions)					
Total Population	5.742	5.771	5.798	5.822	5.844
%Chg	0.4	0.5	0.5	0.4	0.4
Total Population Age 16 & Over	4.613	4.650	4.684	4.715	4.743
%Chg	0.7	0.8	0.7	0.7	0.6
Total Population Age 65 & Over	0.104	0.107	0.110	0.113	0.115
%Chg	3.7	3.4	2.8	2.3	2.0
Total Households	2.315	2.337	2.356	2.376	2.395
%Chg	0.8	0.9	0.8	0.8	0.8
Housing Indicators (Thousands)					
Total Housing Permits (Authorized)	23.626	25.134	25.034	24.799	24.723
%Chg	-27.0	6.4	-0.4	-0.9	-0.3
Single-Family	11.668	14.205	13.891	13.693	13.674
%Chg	-15.2	21.7	-2.2	-1.4	-0.1

Source: Minnesota Management & Budget (MMB) February 2024 Forecast

U.S. Economic Forecast Summary

Forecast 2023 to 2027, Calendar Years

	2023	2024	2025	2026	2027
Real National Income Accounts (Billions of 2012 Dollars)					
Real Gross Domestic Product (GDP)	22,375.3	22,922.3	23,282.2	23,685.7	24,101.6
%Chg	2.5	2.4	1.6	1.7	1.8
Real Consumption	15,421.9	15,815.3	16,138.2	16,476.3	16,827.5
%Chg	2.2	2.6	2.0	2.1	2.1
Real Nonresidential Fixed Investment	3,268.0	3,328.1	3,398.5	3,468.4	3,538.1
%Chg	4.4	1.8	2.1	2.1	2.0
Real Residential Investment	734.5	754.6	757.4	766.9	776.0
%Chg	-10.7	2.7	0.4	1.3	1.2
Real Personal Income	19,081.6	19,594.9	20,211.6	20,758.6	21,301.2
%Chg	1.4	2.7	3.1	2.7	2.6
Current Dollar National Income Accounts (Billions of Dollars)					
Gross Domestic Product (GDP)	27,356.4	28,589.9	29,655.2	30,829.4	32,051.3
%Chg	6.3	4.5	3.7	4.0	4.0
Personal Income	22,966.3	24,044.7	25,270.8	26,493.5	27,743.9
%Chg	5.2	4.7	5.1	4.8	4.7
Wage & Salary Disbursements	11,805.3	12,383.6	12,834.2	13,319.4	13,852.9
%Chg	6.2	4.9	3.6	3.8	4.0
Non-Wage Personal Income	11,161.0	11,661.1	12,436.6	13,174.1	13,891.0
%Chg	4.1	4.5	6.6	5.9	5.4
Price and Wage Indexes					
U.S. GDP Deflator (2005=1.0)	122.272	124.722	127.369	130.156	132.980
%Chg	3.6	2.0	2.1	2.2	2.2
U.S. Consumer Price Index (1982-84=1.0)	3.047	3.131	3.191	3.266	3.343
%Chg	4.1	2.8	1.9	2.3	2.4
Employment Cost Index (Dec 2005=1.0)	1.597	1.661	1.710	1.763	1.818
%Chg	4.4	4.1	2.9	3.1	3.1
Employment (Thousands)					
Employment - Total Non-Farm Payrolls	156.1	158.1	158.3	158.5	158.9
%Chg	2.3	1.3	0.1	0.1	0.3
Construction	8.0	8.2	8.3	8.4	8.4
%Chg	3.3	2.4	0.9	0.9	0.9
Manufacturing	12.9	12.9	12.3	12.0	11.9
%Chg	1.0	-0.4	-4.3	-2.5	-1.4
Private Service-Providing	111.7	113.2	113.7	114.1	114.5
%Chg	2.3	1.4	0.5	0.3	0.3
Government	22.8	23.1	23.2	23.3	23.4
%Chg	2.6	1.6	0.4	0.4	0.4
U.S. Civilian Labor Force	167.1	167.9	168.8	169.3	169.7
Employment - Household Survey	161.0	161.4	161.6	161.8	162.2
Unemployment Rate (%)	3.6	3.9	4.3	4.4	4.4
Other Key Measures					
Non-Farm Productivity (index, 2005=1.0)	1.159	1.185	1.203	1.225	1.246
%Chg	1.4	2.3	1.6	1.8	1.7
Total Ind. Production (index, 2007=100)	102.774	102.794	103.224	104.342	105.575
%Chg	0.2	0.0	0.4	1.1	1.2
Manhours in Private Non-Farm Estab.					
Billions of Hours	223.7	224.4	224.4	224.6	225.2
%Chg	1.2	0.3	0.0	0.1	0.2
Average Weekly Hours	32.8	32.5	32.5	32.5	32.5
Manufacturing Workweek	40.7	40.3	40.4	40.4	40.3

Source: SPGMI; February 2024 Baseline

Alternative Forecast Comparison

Calendar Years

	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1	2023	2024	2025	2026
Real Gross Domestic Product (GDP), Percent Change, Seasonally Adjusted at Annual Rate										
Blue Chip Consensus (02-24)	3.3	1.7	1.1	1.2	1.5	1.8	2.5	2.1	1.7	**
S&P Global (02-24)	3.3	2.1	1.5	1.5	1.5	1.5	2.5	2.4	1.6	1.7
Moody's Analytics (02-24)	3.3	1.6	1.5	1.6	1.5	**	2.5	2.3	1.6	**
Wells Fargo (02-24)	3.3	2.4	1.3	1.0	1.1	1.8	2.5	2.4	1.7	**
CBO Outlook (02-24)	0.8	1.3	1.4	1.7	1.7	2.0	2.4	1.8	2.0	2.2
Consumer Price Index (CPI), Percent Change, Seasonally Adjusted at Annual Rate (except where noted)										
Blue Chip Consensus (02-24) *	2.8	2.5	2.4	2.4	2.2	2.2	4.1	2.6	2.2	**
S&P Global (02-24)	2.8	2.8	2.6	2.5	2.0	1.2	4.1	2.8	1.9	2.3
Moody's Analytics (02-24)	2.8	2.4	2.6	2.5	2.4	**	4.1	2.7	2.4	**
Wells Fargo (02-24) *	3.2	2.9	2.8	2.4	2.3	2.2	4.1	2.6	2.2	**
CBO Outlook (02-24)	2.5	2.1	2.7	2.7	2.5	2.5	4.1	2.6	2.5	2.3

* Year-over-Year Percent Change

**Not Available

IHS Economics Baseline Forecast Comparison

Calendar Years

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

Source: SPGMI

Forecast Comparison: Minnesota & U.S.

Forecast 2023 to 2027, Calendar Years

	2021	2022	2023	2024	2025	2026	2027
Personal Income (Billions of Current Dollars)							
Minnesota							
February 2024	381.8	393.6	410.7	428.2	452.3	476.2	499.0
%Chg	9.1	3.1	4.3	4.3	5.6	5.3	4.8
November 2023	381.8	393.6	411.9	435.0	459.9	482.3	504.1
%Chg	9.1	3.1	4.7	5.6	5.7	4.9	4.5
U.S.							
February 2024	21,408	21,841	22,966	24,045	25,271	26,493	27,744
%Chg	9.1	2.0	5.2	4.7	5.1	4.8	4.7
November 2023	21,408	21,841	22,977	24,097	25,319	26,465	27,606
%Chg	9.1	2.0	5.2	4.9	5.1	4.5	4.3
Wage and Salary Disbursements (Billions of Current Dollars)							
Minnesota							
February 2024	192.1	205.2	214.6	225.3	234.7	244.6	254.8
%Chg	7.0	6.8	4.5	5.0	4.2	4.2	4.2
November 2023	192.1	205.2	215.1	225.5	235.0	245.2	256.0
%Chg	7.0	6.8	4.8	4.8	4.2	4.3	4.4
U.S.							
February 2024	10,313	11,116	11,805	12,384	12,834	13,319	13,853
%Chg	9.0	7.8	6.2	4.9	3.6	3.8	4.0
November 2023	10,313	11,116	11,813	12,327	12,787	13,300	13,847
%Chg	9.0	7.8	6.3	4.3	3.7	4.0	4.1
Total Non-Farm Payroll Employment (Thousands)							
Minnesota							
February 2024	2,854	2,931	2,987	3,032	3,041	3,050	3,057
%Chg	2.5	2.7	1.9	1.5	0.3	0.3	0.2
November 2023	2,894	2,974	3,035	3,052	3,051	3,056	3,064
%Chg	2.4	2.8	2.1	0.6	0.0	0.2	0.2
U.S.							
February 2024	146,276	152,531	156,069	158,098	158,261	158,493	158,908
%Chg	2.9	4.3	2.3	1.3	0.1	0.1	0.3
November 2023	146,281	152,625	156,190	157,214	157,286	157,878	158,628
%Chg	2.9	4.3	2.3	0.7	0.0	0.4	0.5
Average Annual Non-Farm Wage (Current Dollars)							
Minnesota							
February 2024	67,307	70,015	71,830	74,289	77,190	80,205	83,346
%Chg	4.5	4.0	2.6	3.4	3.9	3.9	3.9
November 2023	66,385	69,017	70,870	73,884	77,009	80,212	83,548
%Chg	4.5	4.0	2.7	4.3	4.2	4.2	4.2
U.S.							
February 2024	70,501	72,877	75,641	78,328	81,095	84,038	87,176
%Chg	5.9	3.4	3.8	3.6	3.5	3.6	3.7
November 2023	70,499	72,832	75,635	78,410	81,296	84,243	87,294
%Chg	5.9	3.3	3.8	3.7	3.7	3.6	3.6

Source: SPGMI, MMB

Factors Affecting Tax Revenue

Billions of Current Dollars

	2020	2021	2022	2023	2024	2025	2026	2027
Individual Income Tax (Calendar Year)								
Minnesota Non-Farm Tax Base								
February 2022	266.895	284.215	305.088	320.878	336.385	351.933		
%Chg	0.2	6.5	7.3	5.2	4.8	4.6		
November 2022	271.498	286.655	303.662	319.375	334.763	351.330	367.868	384.188
%Chg	0.7	5.6	5.9	5.2	4.8	4.9	4.7	4.4
February 2023	271.498	286.170	303.837	317.220	332.620	348.255	363.770	379.150
%Chg	0.7	5.4	6.2	4.4	4.9	4.7	4.5	4.2
November 2023	266.570	289.692	311.508	327.541	345.718	364.393	381.460	398.020
%Chg	0.2	8.7	7.5	5.1	5.5	5.4	4.7	4.3
February 2024	266.570	289.692	311.508	327.085	344.385	362.988	381.210	398.915
%Chg	0.2	8.7	7.5	5.0	5.3	5.4	5.0	4.6
Minnesota Wage and Salary Disbursements								
February 2022	179.144	194.137	210.050	221.035	231.293	241.530		
%Chg	0.0	8.4	8.2	5.2	4.6	4.4		
November 2022	179.365	192.220	205.456	214.643	225.165	237.778	249.600	260.813
%Chg	0.1	7.2	6.9	4.5	4.9	5.6	5.0	4.5
February 2023	179.365	191.735	205.569	215.253	225.503	236.095	246.858	257.360
%Chg	0.1	6.9	7.2	4.7	4.8	4.7	4.6	4.3
November 2023	179.514	192.115	205.241	215.088	225.498	234.968	245.165	255.950
%Chg	0.2	7.0	6.8	4.8	4.8	4.2	4.3	4.4
February 2024	179.514	192.115	205.241	214.559	225.270	234.705	244.638	254.800
%Chg	0.2	7.0	6.8	4.5	5.0	4.2	4.2	4.2
Minnesota Dividends, Interest, & Rental Income								
February 2022	63.624	64.162	67.625	71.344	75.139	79.039		
%Chg	-1.8	0.8	5.4	5.5	5.3	5.2		
November 2022	68.254	69.678	73.117	79.475	84.292	87.874	91.514	95.545
%Chg	0.5	2.1	4.9	8.7	6.1	4.2	4.1	4.4
February 2023	68.254	69.678	72.792	76.492	80.791	85.132	89.072	93.124
%Chg	0.5	2.1	4.5	5.1	5.6	5.4	4.6	4.5
November 2023	64.239	71.747	78.843	83.792	90.586	99.107	105.223	109.875
%Chg	-0.8	11.7	9.9	6.3	8.1	9.4	6.2	4.4
February 2024	64.239	71.747	78.843	83.572	88.498	95.810	102.603	108.898
%Chg	-0.8	11.7	9.9	6.0	5.9	8.3	7.1	6.1
Minnesota Non-Farm Proprietors' Income								
February 2022	24.127	25.916	27.414	28.497	29.951	31.361		
%Chg	6.9	7.4	5.8	4.0	5.1	4.7		
November 2022	23.879	24.757	25.088	25.259	25.307	25.679	26.752	27.828
%Chg	5.2	3.7	1.3	0.7	0.2	1.5	4.2	4.0
February 2023	23.879	24.757	25.475	25.477	26.323	27.028	27.842	28.667
%Chg	5.2	3.7	2.9	0.0	3.3	2.7	3.0	3.0
November 2023	22.818	25.830	27.424	28.661	29.633	30.317	31.072	32.190
%Chg	2.9	13.2	6.2	4.5	3.4	2.3	2.5	3.6
February 2024	22.818	25.830	27.424	28.955	30.614	32.470	33.973	35.217
%Chg	2.9	13.2	6.2	5.6	5.7	6.1	4.6	3.7

Factors Affecting Tax Revenue (Continued)

Billions of Current Dollars

	2020	2021	2022	2023	2024	2025	2026	2027
General Sales Tax (Fiscal Year)								
Minnesota Synthetic Sales Tax Base								
February 2022	93.256	100.214	111.904	115.627	118.788	122.437		
%Chg	0.2	7.5	11.7	3.3	2.7	3.1		
November 2022	93.136	101.012	113.912	118.719	119.106	123.024	127.307	131.659
%Chg	0.2	8.5	12.8	4.2	0.3	3.3	3.5	3.4
February 2023	93.131	100.996	113.942	119.065	120.073	123.573	127.608	131.352
%Chg	0.2	8.4	12.8	4.5	0.8	2.9	3.3	2.9
November 2023	95.123	102.143	115.697	123.430	127.788	131.711	136.174	141.058
%Chg	0.7	7.4	13.3	6.7	3.5	3.1	3.4	3.6
February 2024	95.113	102.135	115.684	123.374	128.494	132.560	136.579	141.629
%Chg	0.7	7.4	13.3	6.6	4.2	3.2	3.0	3.7
<i>*Historical data revised as a result of comprehensive GDP account revisions</i>								
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)								
February 2022	17.761	21.774	23.649	22.954	22.814	22.950		
%Chg	3.5	22.6	8.6	-2.9	-0.6	0.6		
November 2022	17.952	22.688	24.998	25.411	25.127	25.567	26.169	26.792
%Chg	5.1	26.4	10.2	1.7	-1.1	1.8	2.4	2.4
February 2023	17.952	22.688	24.977	25.398	25.044	25.365	25.907	26.455
%Chg	5.1	26.4	10.1	1.7	-1.4	1.3	2.1	2.1
November 2023	17.646	21.789	23.989	24.961	25.798	26.526	27.455	28.380
%Chg	4.5	23.5	10.1	4.0	3.4	2.8	3.5	3.4
February 2024	17.646	21.789	23.989	24.964	25.788	26.486	27.371	28.374
%Chg	4.5	23.5	10.1	4.1	3.3	2.7	3.3	3.7
Minnesota's Proxy Share of U.S. Capital Equipment Spending								
February 2022	12.537	13.961	15.069	15.671	16.110	16.686		
%Chg	-2.1	11.4	7.9	4.0	2.8	3.6		
November 2022	12.101	12.831	13.839	14.179	13.497	13.654	14.227	14.786
%Chg	-5.5	6.0	7.9	2.5	-4.8	1.2	4.2	3.9
February 2023	12.101	12.831	13.815	14.008	13.658	13.979	14.461	15.017
%Chg	-5.5	6.0	7.7	1.4	-2.5	2.4	3.4	3.8
November 2023	12.590	13.058	14.212	14.846	14.650	14.856	15.304	15.997
%Chg	-4.3	3.7	8.8	4.5	-1.3	1.4	3.0	4.5
February 2024	12.590	13.058	14.212	14.847	14.823	15.365	15.933	16.683
%Chg	-4.3	3.7	8.8	4.5	-0.2	3.7	3.7	4.7
Minnesota's Proxy Share of U.S. Construction Spending								
February 2022	9.334	9.490	9.416	9.284	9.887	10.584		
%Chg	4.7	1.7	-0.8	-1.4	6.5	7.0		
November 2021	9.359	9.566	10.377	10.841	11.258	11.797		
%Chg	5.9	2.2	8.5	4.5	3.9	4.8		
February 2022	9.366	9.608	10.766	11.257	11.555	12.089		
%Chg	6.0	2.6	12.0	4.6	2.6	4.6		
November 2022	9.449	10.019	10.933	10.463	10.764	11.740	12.444	12.960
%Chg	6.2	6.0	9.1	-4.3	2.9	9.1	6.0	4.1
February 2023	9.445	10.013	10.853	10.404	10.491	11.304	11.991	12.515
%Chg	6.2	6.0	8.4	-4.1	0.8	7.8	6.1	4.4
November 2023	9.536	10.179	11.271	11.397	11.985	12.116	12.657	13.203
%Chg	6.0	6.7	10.7	1.1	5.2	1.1	4.5	4.3
February 2024	9.537	10.180	11.267	11.344	12.384	12.663	13.159	13.664
%Chg	6.0	6.7	10.7	0.7	9.2	2.3	3.9	3.8

Factors Affecting Tax Revenue (Continued)

Billions of Current Dollars

	2020	2021	2022	2023	2024	2025	2026	2027
Corporate Franchise Tax (Fiscal Year)								
U.S. Corporate Profits (w/ IVA and capital consumption adjustment)								
February 2022	2,108.2	2,654.1	2,902.6	2,772.5	2,851.3	2,994.8	3,147.5	3,297.3
%Chg	-8.7	25.9	9.4	-4.5	2.8	50.0	5.1	4.8
November 2022	2,160.4	2,648.6	3,004.4	2,978.2	2,911.7	2,902.0	2,969.2	3,084.3
%Chg	-7.3	22.6	13.4	-0.9	-2.2	-0.3	2.3	3.9
February 2023	2,160.4	2,648.6	3,004.4	3,040.4	3,020.5	3,035.5	3,105.5	3,193.4
%Chg	-7.3	22.6	13.4	1.2	-0.7	0.5	2.3	2.8
November 2023	2,237.4	2,820.7	3,175.5	3,259.2	3,529.4	3,274.7	3,194.4	3,214.3
%Chg	-5.3	26.1	12.6	2.6	8.3	-7.2	-2.5	0.6
February 2024	2,237.4	2,820.7	3,175.5	3,259.2	3,443.2	3,412.2	3,393.9	3,442.3
%Chg	-5.3	26.1	12.6	2.6	5.6	-0.9	-0.5	1.4
Deed & Mortgage Tax (Fiscal Year)								
U.S. New and Existing Home Sales (Current \$ Value)								
February 2022	1,719.2	2,312.8	2,459.2	2,410.7	2,359.9	2,395.1		
%Chg	4.6	34.5	6.3	-2.0	-2.1	1.5		
November 2022	1,719.9	2,310.7	2,394.0	1,716.8	1,575.8	1,860.5	2,086.1	2,400.4
%Chg	4.5	34.3	3.6	-28.3	-8.2	18.1	12.1	15.1
February 2023	1,719.9	2,310.7	2,394.0	1,785.4	1,507.0	1,742.9	1,917.7	2,284.2
%Chg	4.5	34.3	3.6	-25.4	-15.6	15.7	10.0	19.1
November 2023	1,720.0	2,307.6	2,391.4	1,851.8	1,831.2	2,090.9	2,350.2	2,586.3
%Chg	4.4	34.2	3.6	-22.6	-1.1	14.2	12.4	10.0
February 2024	1,720.0	2,307.6	2,391.4	1,851.9	1,799.7	2,126.0	2,368.4	2,579.1
%Chg	4.4	34.2	3.6	-22.6	-2.8	18.1	11.4	8.9

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

January YTD, 2024-FY2024

(\$ IN THOUSANDS)

	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax			
Withholding	6,757,727	6,795,007	37,280
Declarations	916,200	966,211	50,011
Miscellaneous	391,917	423,951	32,033
Partnership & S Corporation Gross	1,489,880	1,509,821	19,942
Gross	9,555,724	9,694,990	139,266
Partnership & S Corporation Refunds	70,861	60,840	(10,021)
Individual, Fiduciary, & Withholding Refunds	1,451,329	1,411,139	(40,190)
Total Refunds	1,522,190	1,471,979	(50,211)
Net Income Tax	8,033,534	8,223,011	189,477
Corporate Franchise Tax			
Declarations	1,487,794	1,575,391	87,597
Miscellaneous	133,691	155,657	21,966
Gross	1,621,484	1,731,048	109,564
Refund	87,853	79,067	(8,786)
Net	1,533,631	1,651,980	118,349
General Sales and Use Tax			
Gross	4,788,090	4,819,529	31,439
Mpls. sales tax transferred to MSFA	-	-	-
MPLS Sales Tax w/Holding for NFL Stadium	11,729	11,729	-
Sales Tax Gross	4,799,819	4,831,258	31,439
Refunds (including Indian refunds)	90,874	82,493	(8,381)
Net	4,708,945	4,748,765	39,820
Other Revenues:			
Net Estate	155,748	163,548	7,800
Net Liquor/Wine/Beer	59,015	58,726	(290)
Net Cigarette/Tobacco	303,584	320,750	17,166
Deed and Mortgage	142,777	132,116	(10,661)
Net Insurance Premiums Taxes	272,253	266,410	(5,843)
Net Lawful Gambling	100,519	102,952	2,433
Health Care Surcharge	120,302	106,642	(13,660)
Other Taxes	11	85	74
Statewide Property Tax	345,268	336,403	(8,865)
DHS SOS Collections	88,678	87,309	(1,369)
Investment Income	355,555	395,743	40,188
Tobacco Settlement	151,326	141,814	(9,512)
Dept. Earnings & MSOP Recov.	115,712	133,533	17,821
Fines and Surcharges	36,318	34,107	(2,212)
Lottery Revenues	36,424	43,232	6,808
Revenues yet to be allocated	12,163	13,306	1,142
Residual Revenues	135,269	132,869	(2,400)
Other Subtotal	2,430,924	2,469,545	38,621
Other Refunds	2,607	4,996	2,389
Other Net	2,428,317	2,464,549	36,233
Total Gross	18,407,951	18,726,841	318,890
Total Refunds	1,703,525	1,638,535	(64,990)
Total Net	16,704,426	17,088,306	383,880

Current Biennium: FY 2024-25

February 2024 Forecast
(\$ in thousands)

	Feb FY 2024	Feb FY 2025	Biennial Total FY 2024-25
<u>Actual & Estimated Resources</u>			
Balance Forward From Prior Year	16,516,196	8,505,225	16,516,196
Current Resources:			
Tax Revenues	28,322,380	30,001,873	58,324,253
Non-Tax Revenues	1,494,323	981,700	2,476,023
Subtotal - Non-Dedicated Revenue	29,816,703	30,983,573	60,800,276
Dedicated Revenue	1,970	2,055	4,025
Transfers In	97,600	25,807	123,407
Prior Year Adjustments	34,943	34,601	69,544
23, CH 63 - Cannabis Gross Receipts Tax	134,513	62,463	196,976
Subtotal-Current Resources	29,951,216	31,046,036	60,997,252
Total Resources Available	46,467,412	39,551,261	77,513,448
<u>Actual & Estimated Spending</u>			
E-12 Education	12,147,705	12,352,684	24,500,389
Higher Education	2,079,158	2,115,326	4,194,484
Property Tax AISs & Credits	2,832,316	2,649,800	5,482,116
Health & Human Services	10,711,766	10,396,544	21,108,310
Public Safety & Judiciary	1,803,043	1,746,516	3,549,559
Transportation	1,196,489	198,870	1,395,359
Environment & Energy	675,107	373,123	1,048,230
Jobs, Commerce, Ag and Housing	3,093,956	850,215	3,944,171
State Government & Veterans	1,746,874	1,132,343	2,879,217
Debt Service	507,577	629,228	1,136,805
Capital Projects & Grants	1,173,196	143,114	1,316,310
Estimated Cancellations	-5,000	-15,000	-20,000
Total Expenditures & Transfers	37,962,187	32,572,763	70,534,950
Balance Before Reserves	8,505,225	6,978,498	6,978,498
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	2,913,422	2,913,422	2,913,422
Budgetary Balance	5,241,803	3,715,076	3,715,076

Current Biennium: FY 2024-25

February 2024 Forecast vs November 2023 Forecast
(\$ in thousands)

	Nov FY 2024-25	Feb FY 2024-25	\$ Change
<u>Actual & Estimated Resources</u>			
Balance Forward From Prior Year	16,516,196	16,516,196	0
Current Resources:			
Tax Revenues	57,058,035	58,324,253	1,266,218
Non-Tax Revenues	2,399,557	2,476,023	76,466
Subtotal - Non-Dedicated Revenue	59,457,592	60,800,276	1,342,684
Dedicated Revenue	4,025	4,025	0
Transfers In	123,407	123,407	0
Prior Year Adjustments	69,544	69,544	0
23, CH 63 - Cannabis Gross Receipts Tax	196,976	196,976	0
Subtotal-Current Resources	59,654,568	60,997,252	1,342,684
Total Resources Available	76,170,764	77,513,448	1,342,684
<u>Actual & Estimated Spending</u>			
E-12 Education	24,463,851	24,500,389	36,538
Higher Education	4,194,484	4,194,484	0
Property Tax Aids & Credits	5,477,565	5,482,116	4,551
Health & Human Services	21,118,196	21,108,310	-9,886
Public Safety & Judiciary	3,549,559	3,549,559	0
Transportation	1,395,359	1,395,359	0
Environment & Energy	1,048,463	1,048,230	-233
Jobs, Commerce, Ag and Housing	3,944,133	3,944,171	38
State Government & Veterans	2,887,192	2,879,217	-7,975
Debt Service	1,140,769	1,136,805	-3,964
Capital Projects & Grants	1,316,257	1,316,310	53
Estimated Cancellations	-20,000	-20,000	0
Total Expenditures & Transfers	70,515,828	70,534,950	19,122
Balance Before Reserves	5,654,936	6,978,498	1,323,562
Cash Flow Account	350,000	350,000	0
Budget Reserve	2,913,422	2,913,422	0
Budgetary Balance	2,391,514	3,715,076	1,323,562

Biennial ComparisonFebruary 2024 Forecast
(\$ in thousands)

	Actual FY 2022-23	Feb FY 2024-25	\$ Change
<u>Actual & Estimated Resources</u>			
Balance Forward From Prior Year	7,025,957	16,516,196	9,490,239
Current Resources:			
Tax Revenues	58,529,189	58,324,253	-204,936
Non-Tax Revenues	2,272,795	2,476,023	203,228
Subtotal - Non-Dedicated Revenue	60,801,984	60,800,276	-1,708
Dedicated Revenue	5	4,025	4,020
Transfers In	342,025	123,407	-218,618
Prior Year Adjustments	276,070	69,544	-206,526
23, CH 63 - Cannabis Gross Receipts Tax	618,100	196,976	-421,124
Subtotal-Current Resources	61,420,084	60,997,252	-422,832
Total Resources Available	68,446,041	77,513,448	9,067,407
<u>Actual & Estimated Spending</u>			
E-12 Education	20,164,050	24,500,389	4,336,339
Higher Education	3,518,166	4,194,484	676,318
Property Tax Aids & Credits	4,622,185	5,482,116	859,931
Health & Human Services	15,137,315	21,108,310	5,970,995
Public Safety & Judiciary	2,722,737	3,549,559	826,822
Transportation	407,458	1,395,359	987,901
Environment & Energy	374,252	1,048,230	673,978
Jobs, Commerce, Ag and Housing	1,322,804	3,944,171	2,621,367
State Government & Veterans	1,777,223	2,879,217	1,101,994
Debt Service	1,140,185	1,136,805	-3,380
Capital Projects & Grants	743,470	1,316,310	572,840
Estimated Cancellations	0	-20,000	-20,000
Total Expenditures & Transfers	51,929,845	70,534,950	18,605,105
Balance Before Reserves	16,516,196	6,978,498	-9,537,698
Cash Flow Account	350,000	350,000	0
Budget Reserve	2,852,098	2,913,422	61,324
Appropriations Carried Forward	211,070	0	-211,070
Budgetary Balance	13,103,028	3,715,076	-9,387,952

FY 2026-27 Planning Estimates

February 2024 Forecast
(\$ in thousands)

	Feb FY 2026	Feb FY 2027	Biennial Total FY 2026-27
<u>Actual & Estimated Resources</u>			
Balance Forward From Prior Year	6,978,498	6,537,504	6,978,498
Current Resources:			
Tax Revenues	30,764,630	31,974,382	62,739,012
Non-Tax Revenues	842,483	830,802	1,673,285
Subtotal - Non-Dedicated Revenue	31,607,113	32,805,184	64,412,297
Dedicated Revenue	2,316	2,879	5,195
Transfers In	301,552	25,967	327,519
Prior Year Adjustments	34,527	34,454	68,981
23, CH 63 - Cannabis Gross Receipts Tax	338,395	63,300	401,695
Subtotal-Current Resources	31,945,508	32,868,484	64,813,992
Total Resources Available	38,924,006	39,405,988	71,792,490
<u>Actual & Estimated Spending</u>			
E-12 Education	12,562,244	13,037,929	25,600,173
Higher Education	1,985,078	1,985,142	3,970,220
Property Tax Aids & Credits	2,279,450	2,369,980	4,649,430
Health & Human Services	11,156,566	11,720,825	22,877,392
Public Safety & Judiciary	1,690,797	1,690,726	3,381,523
Transportation	218,620	238,795	457,415
Environment & Energy	217,199	217,099	434,298
Jobs, Commerce, Ag and Housing	409,517	404,945	814,462
State Government & Veterans	823,435	822,742	1,646,177
Debt Service	645,460	704,524	1,349,984
Capital Projects & Grants	143,594	145,298	288,892
Estimated Cancellations	-5,000	-15,000	-20,000
Estimated Inflation	259,542	582,477	842,019
Total Expenditures & Transfers	32,386,502	33,905,482	66,291,985
Balance Before Reserves	6,537,504	5,500,505	5,500,505
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	2,913,422	2,913,422	2,913,422
Budgetary Balance	3,274,082	2,237,083	2,237,083

FY 2026-27 Planning Estimates

February 2024 Forecast vs November 2023 Forecast
(\$ in thousands)

	Nov FY 2026-27	Feb FY 2026-27	\$ Change
<u>Actual & Estimated Resources</u>			
Balance Forward From Prior Year	5,654,936	6,978,498	1,323,562
Current Resources:			
Tax Revenues	61,778,628	62,739,012	960,384
Non-Tax Revenues	1,727,055	1,673,285	-53,770
Subtotal - Non-Dedicated Revenue	63,505,683	64,412,297	906,614
Dedicated Revenue	4,695	5,195	500
Transfers In	327,519	327,519	0
Prior Year Adjustments	68,981	68,981	0
23, CH 63 - Cannabis Gross Receipts Tax	401,195	401,695	500
Subtotal-Current Resources	63,906,878	64,813,992	907,114
Total Resources Available	69,561,814	71,792,490	2,230,676
<u>Actual & Estimated Spending</u>			
E-12 Education	25,478,731	25,600,173	121,442
Higher Education	3,970,220	3,970,220	0
Property Tax Aids & Credits	4,650,177	4,649,430	-747
Health & Human Services	22,860,875	22,877,392	16,517
Public Safety & Judiciary	3,381,523	3,381,523	0
Transportation	482,415	457,415	-25,000
Environment & Energy	434,614	434,298	-316
Jobs, Commerce, Ag and Housing	827,619	814,462	-13,157
State Government & Veterans	1,641,067	1,646,177	5,110
Debt Service	1,340,052	1,349,984	9,932
Capital Projects & Grants	288,929	288,892	-37
Estimated Cancellations	-20,000	-20,000	0
Estimated Inflation	880,425	842,019	-38,406
Total Expenditures & Transfers	66,216,647	66,291,985	75,338
Balance Before Reserves	3,345,167	5,500,505	2,155,338
Cash Flow Account	350,000	350,000	0
Budget Reserve	2,913,422	2,913,422	0
Budgetary Balance	81,745	2,237,083	2,155,338

Biennial ComparisonFebruary 2024 Forecast
(\$ in thousands)

	Feb FY 2024-25	Feb FY 2026-27	\$ Change
<u>Actual & Estimated Resources</u>			
Balance Forward From Prior Year	16,516,196	6,978,498	-9,537,698
Current Resources:			
Tax Revenues	58,324,253	62,739,012	4,414,759
Non-Tax Revenues	2,476,023	1,673,285	-802,738
Subtotal - Non-Dedicated Revenue	60,800,276	64,412,297	3,612,021
Dedicated Revenue	4,025	5,195	1,170
Transfers In	123,407	327,519	204,112
Prior Year Adjustments	69,544	68,981	-563
23, CH 63 - Cannabis Gross Receipts Tax	196,976	401,695	204,719
Subtotal-Current Resources	60,997,252	64,813,992	3,816,740
Total Resources Available	77,513,448	71,792,490	-5,720,958
<u>Actual & Estimated Spending</u>			
E-12 Education	24,500,389	25,600,173	1,099,784
Higher Education	4,194,484	3,970,220	-224,264
Property Tax Aids & Credits	5,482,116	4,649,430	-832,686
Health & Human Services	21,108,310	22,877,392	1,769,082
Public Safety & Judiciary	3,549,559	3,381,523	-168,036
Transportation	1,395,359	457,415	-937,944
Environment & Energy	1,048,230	434,298	-613,932
Jobs, Commerce, Ag and Housing	3,944,171	814,462	-3,129,709
State Government & Veterans	2,879,217	1,646,177	-1,233,040
Debt Service	1,136,805	1,349,984	213,179
Capital Projects & Grants	1,316,310	288,892	-1,027,418
Estimated Cancellations	-20,000	-20,000	0
Estimated Inflation	0	842,019	842,019
Total Expenditures & Transfers	70,534,950	66,291,985	-4,242,965
Balance Before Reserves	6,978,498	5,500,505	-1,477,993
Cash Flow Account	350,000	350,000	0
Budget Reserve	2,913,422	2,913,422	0
Budgetary Balance	3,715,076	2,237,083	-1,477,993

FY 2022-27 Planning HorizonFebruary 2024 Forecast
(\$ in thousands)

	Actual FY 2022-23	Feb FY 2024-25	Feb FY 2026-27
<u>Actual & Estimated Resources</u>			
Balance Forward From Prior Year	7,025,957	16,516,196	6,978,498
Current Resources:			
Tax Revenues	58,529,189	58,324,253	62,739,012
Non-Tax Revenues	2,272,795	2,476,023	1,673,285
Subtotal - Non-Dedicated Revenue	60,801,984	60,800,276	64,412,297
Dedicated Revenue	5	4,025	5,195
Transfers In	342,025	123,407	327,519
Prior Year Adjustments	276,070	69,544	68,981
Subtotal - Other Revenue	618,100	196,976	401,695
Subtotal-Current Resources	61,420,084	60,997,252	64,813,992
Total Resources Available	68,446,041	77,513,448	71,792,490
<u>Actual & Estimated Spending</u>			
E-12 Education	20,164,050	24,500,389	25,600,173
Higher Education	3,518,166	4,194,484	3,970,220
Property Tax Aids & Credits	4,622,185	5,482,116	4,649,430
Health & Human Services	15,137,315	21,108,310	22,877,392
Public Safety & Judiciary	2,722,737	3,549,559	3,381,523
Transportation	407,458	1,395,359	457,415
Environment & Energy	374,252	1,048,230	434,298
Jobs, Commerce, Ag and Housing	1,322,804	3,944,171	814,462
State Government & Veterans	1,777,223	2,879,217	1,646,177
Debt Service	1,140,185	1,136,805	1,349,984
Capital Projects & Grants	743,470	1,316,310	288,892
Estimated Cancellations	0	-20,000	-20,000
Estimated Inflation	0	0	842,019
Total Expenditures & Transfers	51,929,845	70,534,950	66,291,985
Balance Before Reserves	16,516,196	6,978,498	5,500,505
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	2,852,098	2,913,422	2,913,422
Appropriations Carried Forward	211,070	0	0
Budgetary Balance	13,103,028	3,715,076	2,237,083

Historical and Projected Revenue Growth

February 2024 Forecast - General Fund

(\$ in millions)

	Actual FY 2020	Actual FY 2021	Actual FY 2022	Actual FY 2023	Feb FY 2024	Feb FY 2025	Pling FY 2026	Pling FY 2027	Annual
Individual Income Tax	\$12,135	\$14,233	\$16,873	\$15,778	\$14,810	\$15,986	\$16,428	\$17,235	
\$ change	(309)	2,097	2,640	(1,095)	(968)	1,176	442	807	
% change	-2.5%	17.3%	18.6%	-6.5%	-6.1%	7.9%	2.8%	4.9%	3.8%
Sales Tax	\$5,746	\$6,169	\$6,644	\$7,446	\$7,569	\$7,790	\$8,042	\$8,341	
\$ change	(17)	424	474	802	123	221	252	298	
% change	-0.3%	7.4%	7.7%	12.1%	1.6%	2.9%	3.2%	3.7%	4.6%
Corporate Tax	\$1,539	\$2,258	\$2,823	\$2,929	\$3,000	\$3,162	\$3,137	\$3,149	
\$ change	(82)	719	564	106	71	162	(25)	12	
% change	-5.1%	46.7%	25.0%	3.8%	2.4%	5.4%	-0.8%	0.4%	12.2%
Statewide Property Tax	\$753	\$803	\$774	\$765	\$732	\$743	\$745	\$745	
\$ change	(57)	50	(29)	(9)	(33)	11	2	0	
% change	-7.1%	6.6%	-3.6%	-1.2%	-4.3%	1.5%	0.3%	0.0%	-1.1%
Other Tax Revenue	\$1,904	\$2,197	\$2,277	\$2,221	\$2,211	\$2,320	\$2,412	\$2,505	
\$ change	(58)	293	80	(56)	(10)	109	92	93	
% change	-2.9%	15.4%	3.6%	-2.5%	-0.4%	4.9%	4.0%	3.8%	2.6%
Total Tax Revenue	\$22,077	\$25,660	\$29,390	\$29,139	\$28,322	\$30,002	\$30,765	\$31,974	
\$ change	(522)	3,583	3,730	(251)	(817)	1,679	763	1,210	
% change	-2.3%	16.2%	14.5%	-0.9%	-2.8%	5.9%	2.5%	3.9%	4.4%
Non-Tax Revenues	\$817	\$922	\$927	\$1,346	\$1,494	\$982	\$842	\$831	
\$ change	(62)	105	5	419	148	(513)	(139)	(12)	
% change	-7.0%	12.8%	0.5%	45.3%	11.0%	-34.3%	-14.2%	-1.4%	2.4%
Transfers, All Other	\$256	\$746	\$313	\$162	\$135	\$62	\$338	\$63	
\$ change	(8)	490	(434)	(151)	(27)	(72)	276	(275)	
% change	-3.0%	191.4%	-58.1%	-48.2%	-17.0%	-53.6%	441.8%	-81.3%	-15.3%
Total Revenue	\$23,150	\$27,329	\$30,629	\$30,647	\$29,951	\$31,046	\$31,946	\$32,868	
\$ change	(592)	4,178	3,301	18	(696)	1,095	899	923	
% change	-2.5%	18.0%	12.1%	0.1%	-2.3%	3.7%	2.9%	2.9%	4.2%

Historical and Projected Spending Growth

February 2024 Forecast - General Fund
(\$ in millions)

	Actual FY 2020	Actual FY 2021	Actual FY 2022	Actual FY 2023	Feb FY 2024	Feb FY 2025	Pling FY 2026	Pling FY 2027	Average Annual
E-12 Education	\$9,836	\$9,736	\$9,779	\$10,204	\$12,148	\$12,353	\$12,562	\$13,038	
\$ change	248	(99)	43	425	1,944	205	210	476	
% change	2.6%	-1.0%	0.4%	4.3%	19.0%	1.7%	1.7%	3.8%	3.7%
Higher Education	\$1,693	\$1,714	\$1,750	\$1,768	\$2,079	\$2,115	\$1,985	\$1,985	
\$ change	51	21	36	18	311	36	(130)	0	
% change	3.1%	1.2%	2.1%	1.0%	17.6%	1.7%	-6.2%	0.0%	3.1%
Prop. Tax Aids & Credits	\$1,867	\$2,026	\$2,053	\$2,569	\$2,832	\$2,650	\$2,279	\$2,370	
\$ change	(60)	159	27	516	263	(183)	(370)	91	
% change	-3.1%	8.5%	1.3%	25.1%	10.2%	-6.4%	-14.0%	4.0%	5.5%
Health & Human Services	\$7,035	\$6,611	\$6,923	\$8,215	\$10,712	\$10,397	\$11,157	\$11,721	
\$ change	359	(424)	312	1,292	2,497	(315)	760	564	
% change	5.4%	-6.0%	4.7%	18.7%	30.4%	-2.9%	7.3%	5.1%	5.8%
Public Safety & Judiciary	\$1,237	\$1,314	\$1,292	\$1,430	\$1,803	\$1,747	\$1,691	\$1,691	
\$ change	11	77	(21)	138	373	(57)	(56)	(0)	
% change	0.9%	6.2%	-1.6%	10.6%	26.1%	-3.1%	-3.2%	0.0%	6.4%
Debt Service	\$540	\$516	\$592	\$548	\$508	\$629	\$645	\$705	
\$ change	(10)	(25)	77	(44)	(40)	122	16	59	
% change	-1.8%	-4.5%	14.9%	-7.5%	-7.4%	24.0%	2.6%	9.2%	1.4%
All Other	\$1,570	\$1,547	\$2,116	\$2,509	\$7,881	\$2,683	\$2,067	\$2,396	
\$ change	125	(23)	569	393	5,372	(5,198)	(616)	329	
% change	8.7%	-1.4%	36.8%	18.6%	214.1%	-66.0%	-23.0%	15.9%	8.2%
Total Spending	\$23,778	\$23,464	\$24,505	\$27,243	\$37,962	\$32,573	\$32,387	\$33,905	
\$ change	724	(314)	1,042	2,738	10,719	(5,389)	(186)	1,519	
% change	3.1%	-1.3%	4.4%	11.2%	39.3%	-14.2%	-0.6%	4.7%	4.8%