



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



**FEBRUARY 2025**

Produced by Minnesota Management and Budget

# Structural imbalance grows, Significant near-term uncertainty

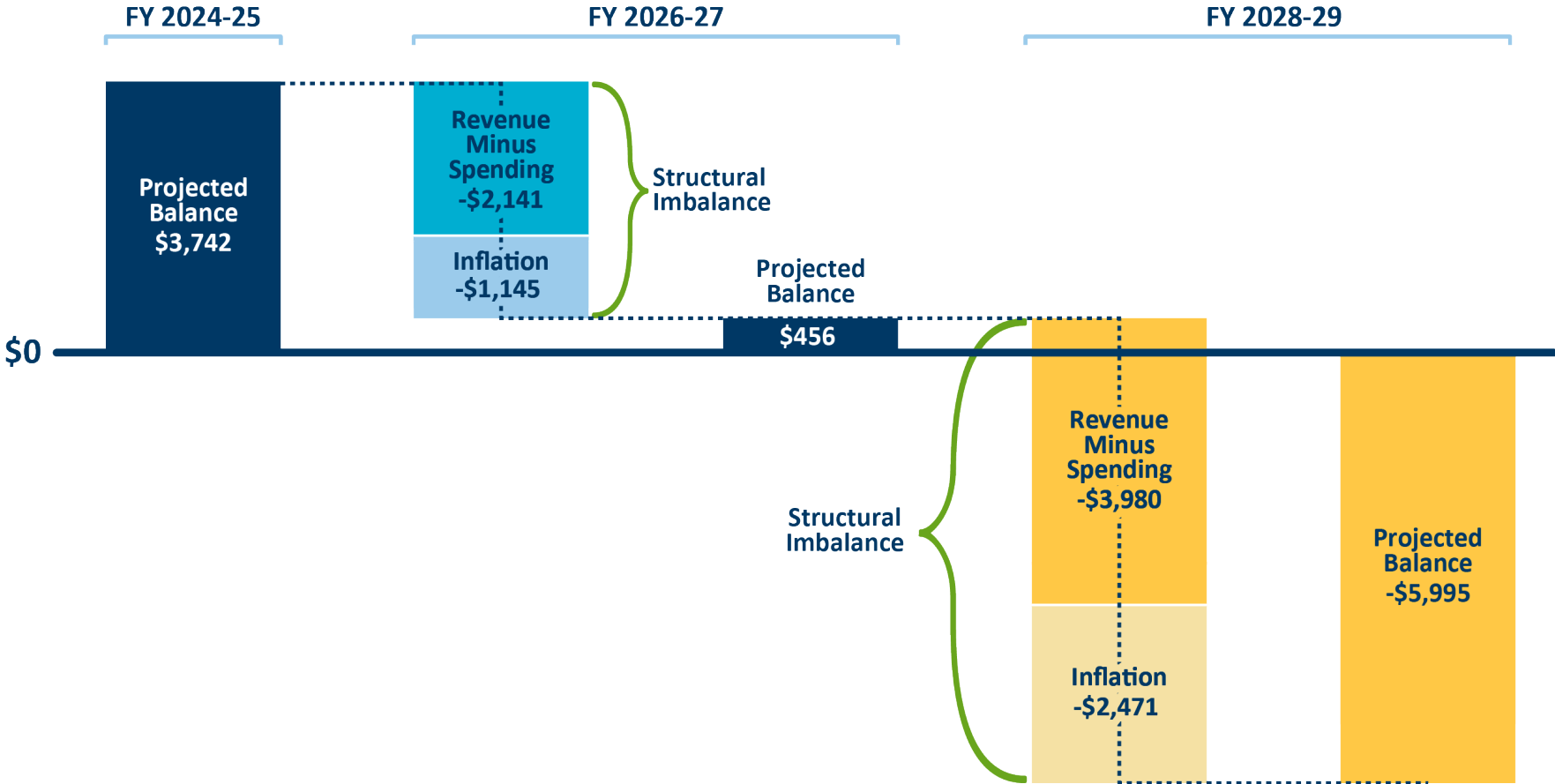
- FY 2026-27 projected balance is \$456 million, \$160 million less than prior estimates
- Projected shortfall in planning years now \$6 billion as spending continues to outpace revenues
- Higher inflation increases revenue and spending forecast
- Shifting policies at federal level create forecast uncertainty

# FY 2026-27 Forecast Changes

(\$ in millions)	FY 2026-27 Nov Forecast	FY 2026-27 Feb Forecast	Forecast Change
<b>Beginning Balance</b>	<b>\$7,279</b>	<b>\$7,269</b>	<b>\$(10)</b>
Total Revenues	63,853	64,494	640
Total Spending	66,989	67,780	790
<i>Spending</i>	<i>66,063</i>	<i>66,634</i>	<i>570</i>
<i>Discretionary Inflation</i>	<i>926</i>	<i>1,145</i>	<i>219</i>
Cash Flow and Budget Reserve	3,527	3,527	-
<b>Budgetary Balance</b>	<b>\$616</b>	<b>\$456</b>	<b>\$(160)</b>
<b><i>Balance without Discretionary Inflation</i></b>	<b><i>\$1,542</i></b>	<b><i>\$1,601</i></b>	<b><i>\$59</i></b>

# Fiscal Snapshot: Forecast Horizon FY 2024 through FY 2029

(\$ millions)





# Economic and Revenue Outlook

- U.S. Economic Outlook
- Minnesota Labor Market
- Revenue Forecast
- Forecast Risks



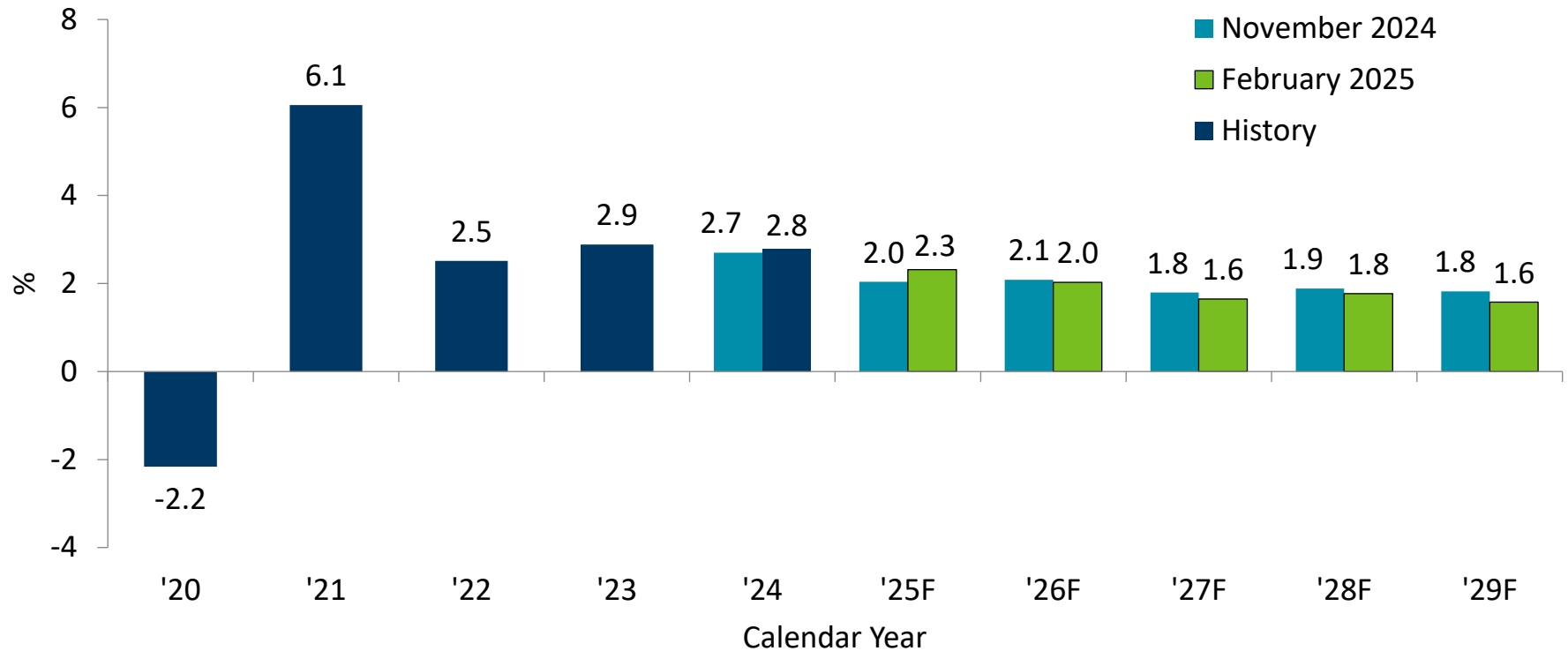
# Economic Forecast Assumptions

- SPGMI forecast released on February 10, 2025
- Some tariffs are included
- One interest rate cut in 2025
- Continuation of current individual income tax policy
- Decrease in corporate tax rate
- Debt ceiling increased or suspended

# Near-term U.S. Economic Outlook Improved; Slow Growth Projected in Long Term

## U.S. Real Gross Domestic Product

*Annual Percent Change*

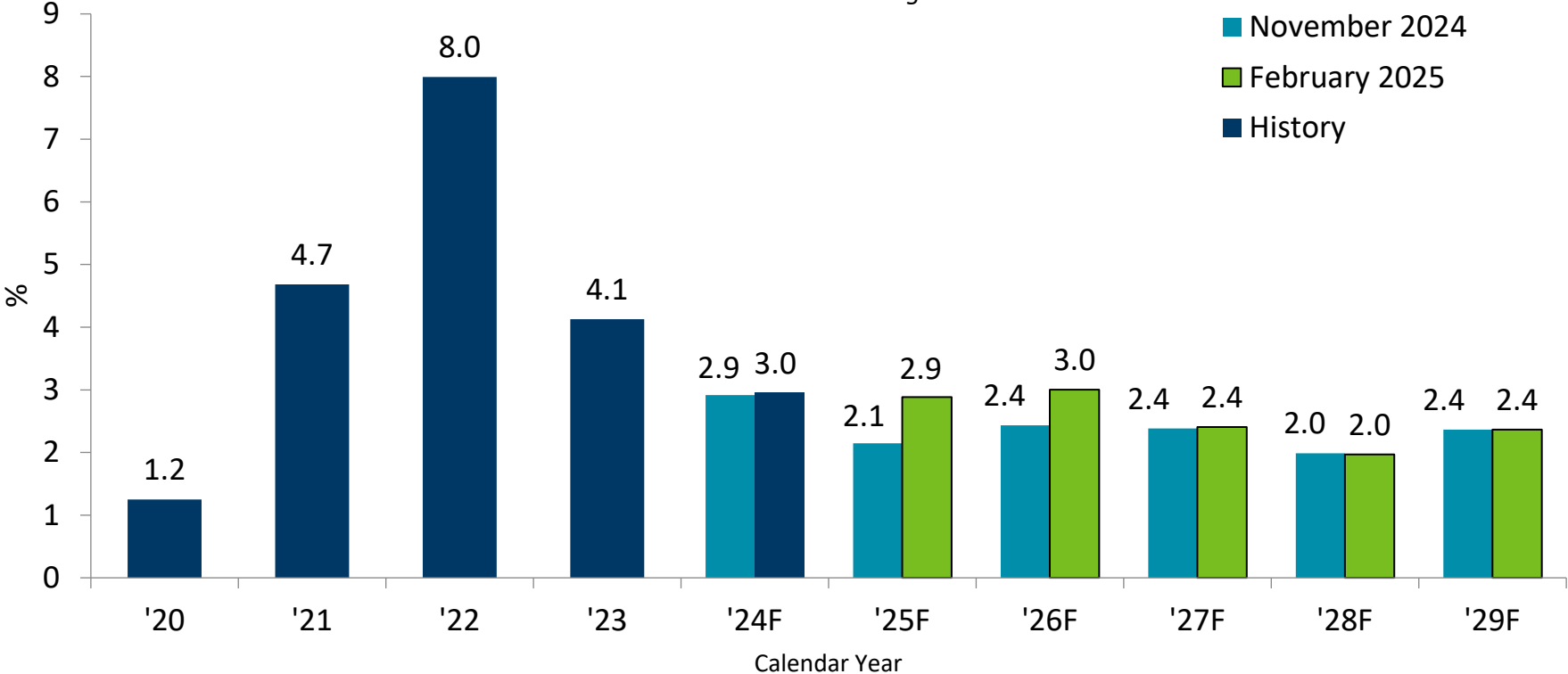


Source: U.S. Bureau of Economic Analysis (BEA), SPGMI

# Inflation Higher in the Near-Term

## Consumer Price Index

*Annual Percent Change*



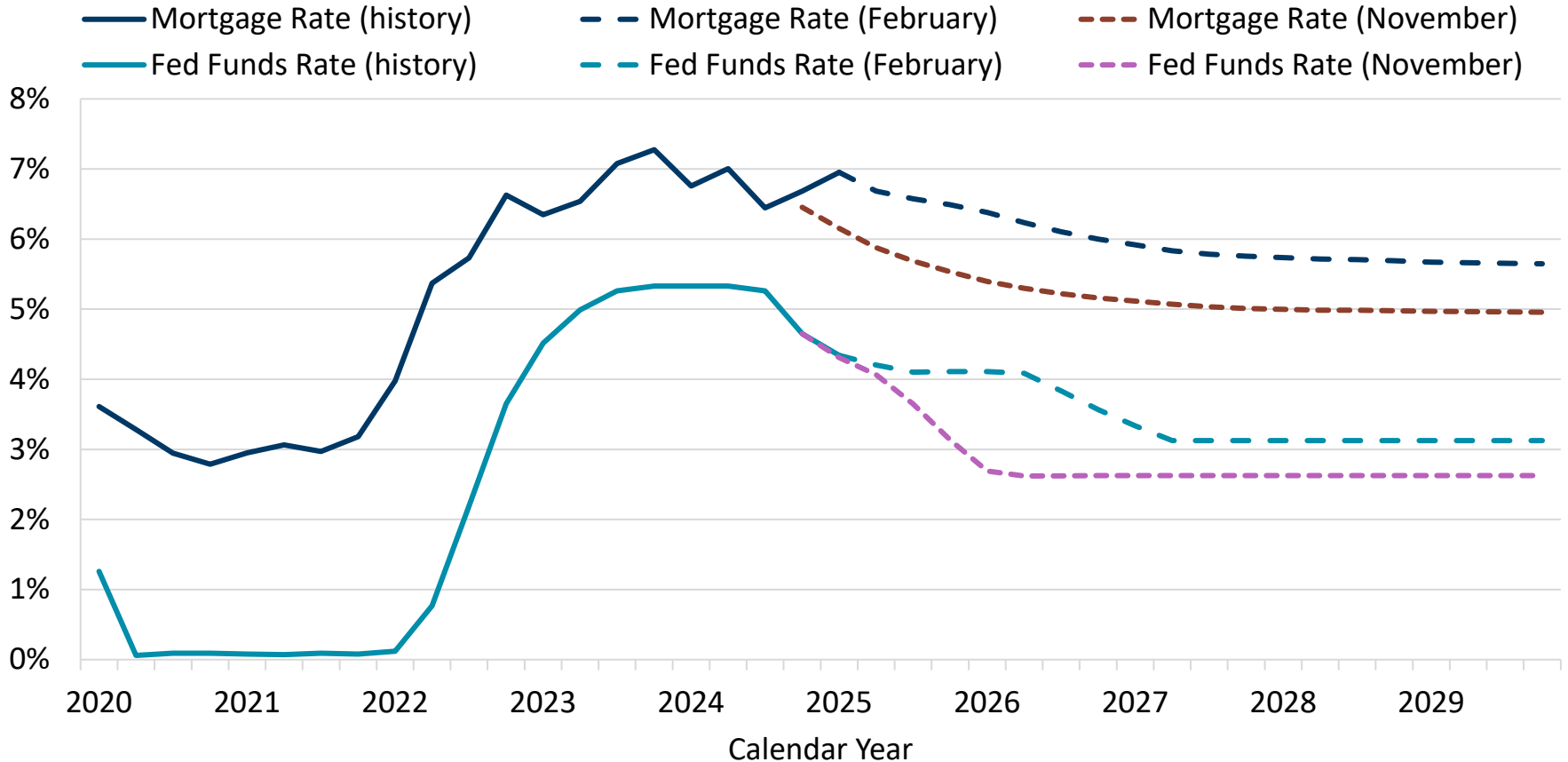
Source: U.S. Bureau of Labor Statistics (BLS), SPGMI



# Interest Rate Cuts to Slow

## Fed Funds Rate vs 30-Year Fixed Mortgage Rate

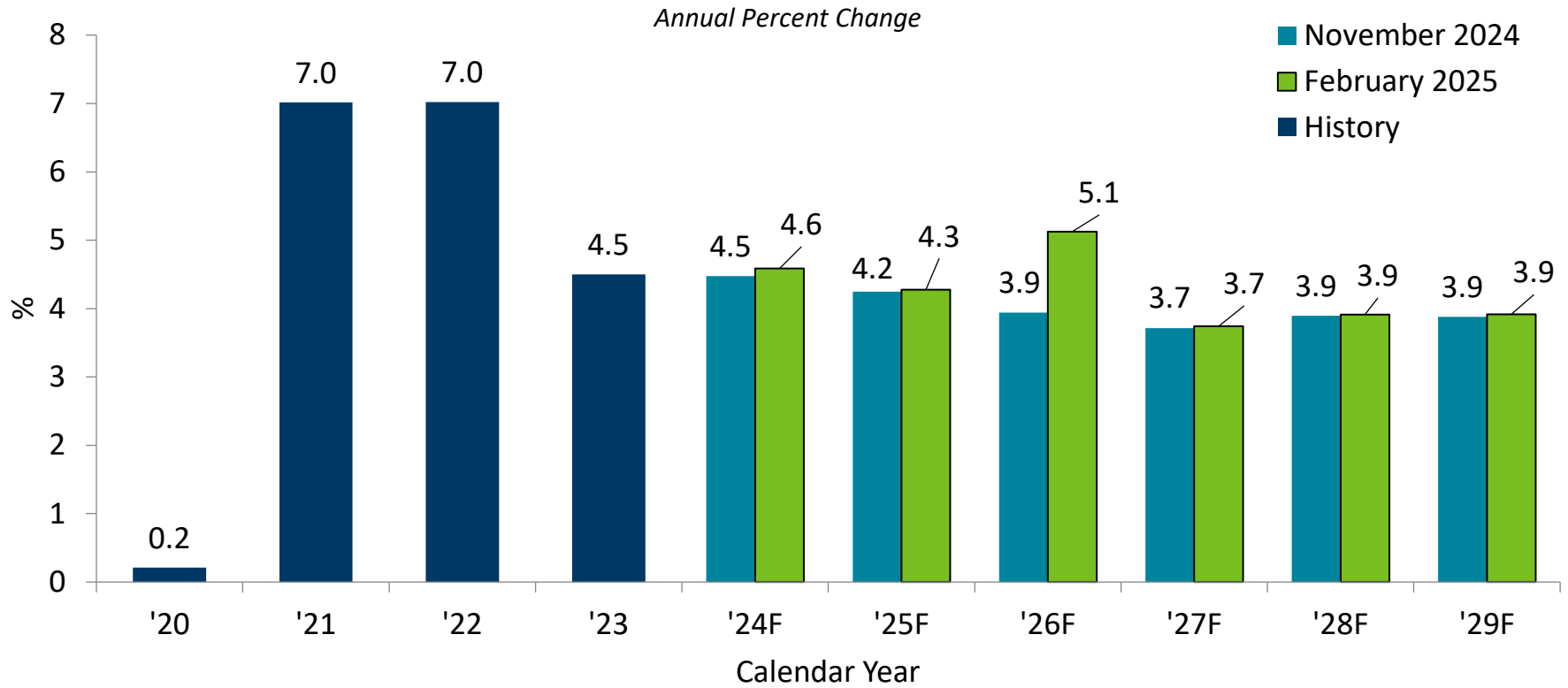
*percent per quarter*



Source: Freddie Mac, SPGMI

# Upward Revision in Growth of Wages & Salaries

## MN Total Wage and Salary Disbursements



Source: Bureau of Economic Analysis (BEA), U.S. Bureau of Labor Statistics (BLS), SPGMI, Minnesota Management and Budget (MMB)

# U.S. Economic Forecast Risks



Policy Uncertainty: trade and tariffs, immigration, energy policies



Disruptions from federal agency closures, contract suspensions



U.S. fiscal policy uncertainties – expenditures and taxation



Inflation



Monetary policy



28 months until the end of FY 2026-27

# Revenue Forecast

(\$ in millions)

	FY 2026-27		FY 2028-29	
	Feb. 2025 Forecast	Forecast Change	Feb. 2025 Forecast	Forecast Change
Individual Income Tax	\$32,999	\$178	\$35,738	\$125
General Sales Tax	16,049	209	16,957	117
Corporate Franchise Tax	6,375	(1)	6,516	(39)
All Other Revenue	8,679	254	8,565	66
<b>Total Revenues</b>	<b>\$64,494</b>	<b>\$640</b>	<b>\$67,776</b>	<b>\$270</b>

# Spending and Long Term Budget Outlook

- Expenditure Forecast
- Long Term Budget Outlook



# Spending Forecast

(\$ in millions)

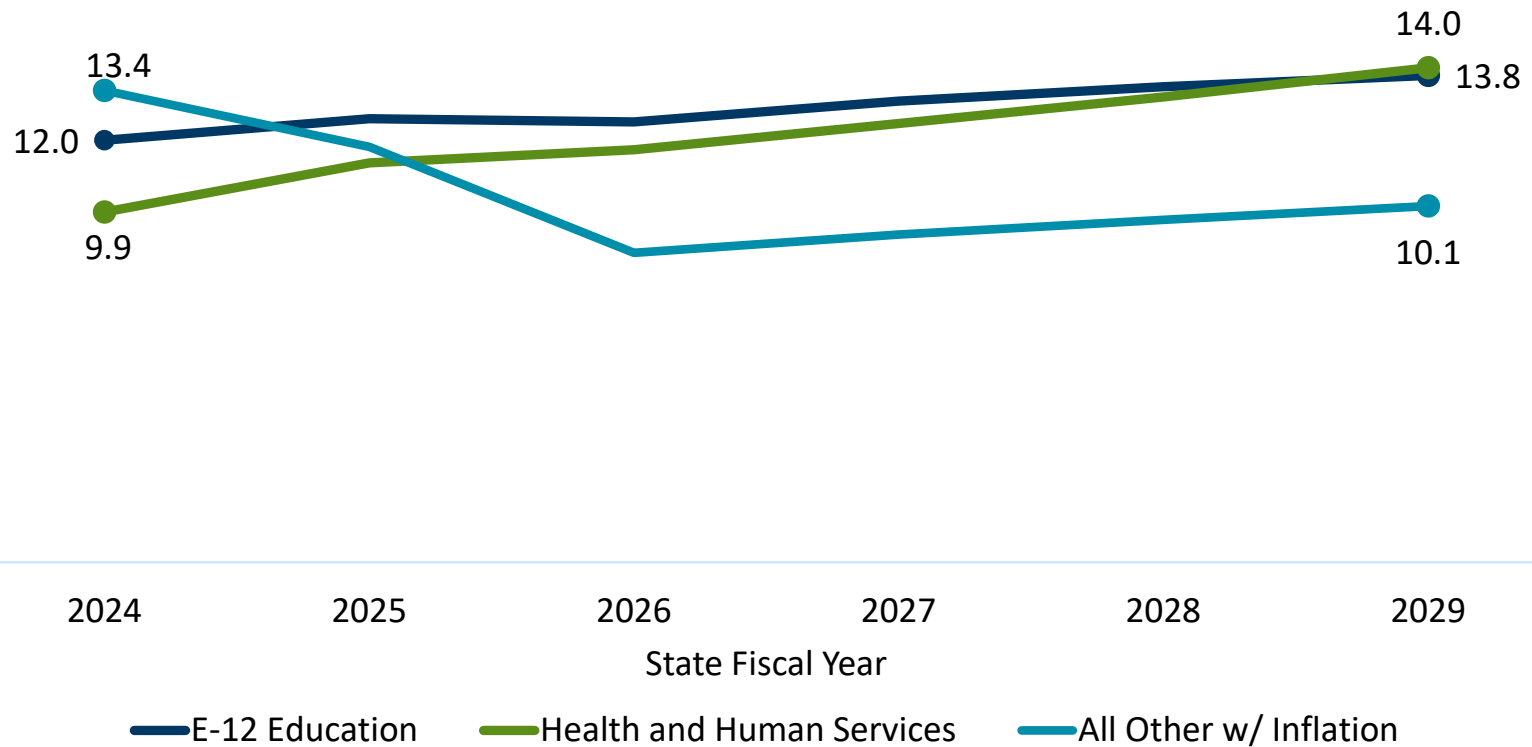
	FY 2026-27		FY 2028-29	
	Feb. 2025 Forecast	Forecast Change	Feb. 2025 Forecast	Forecast Change
E-12 Education	\$25,562	\$198	\$27,292	\$339
Health and Human Services	24,147	338	27,220	359
Property Tax Aids and Credits	4,753	17	4,957	11
Debt Service	1,223	2	1,398	(5)
All Other	10,949	17	10,994	16
<i>Discretionary Inflation</i>	<i>1,145</i>	<i>219</i>	<i>2,471</i>	<i>240</i>
<b>Total Spending</b>	<b>\$67,780</b>	<b>\$790</b>	<b>\$74,332</b>	<b>\$960</b>



# HHS Spending Surpasses E-12 in 2029

## General Fund Spending by Major Bill Area

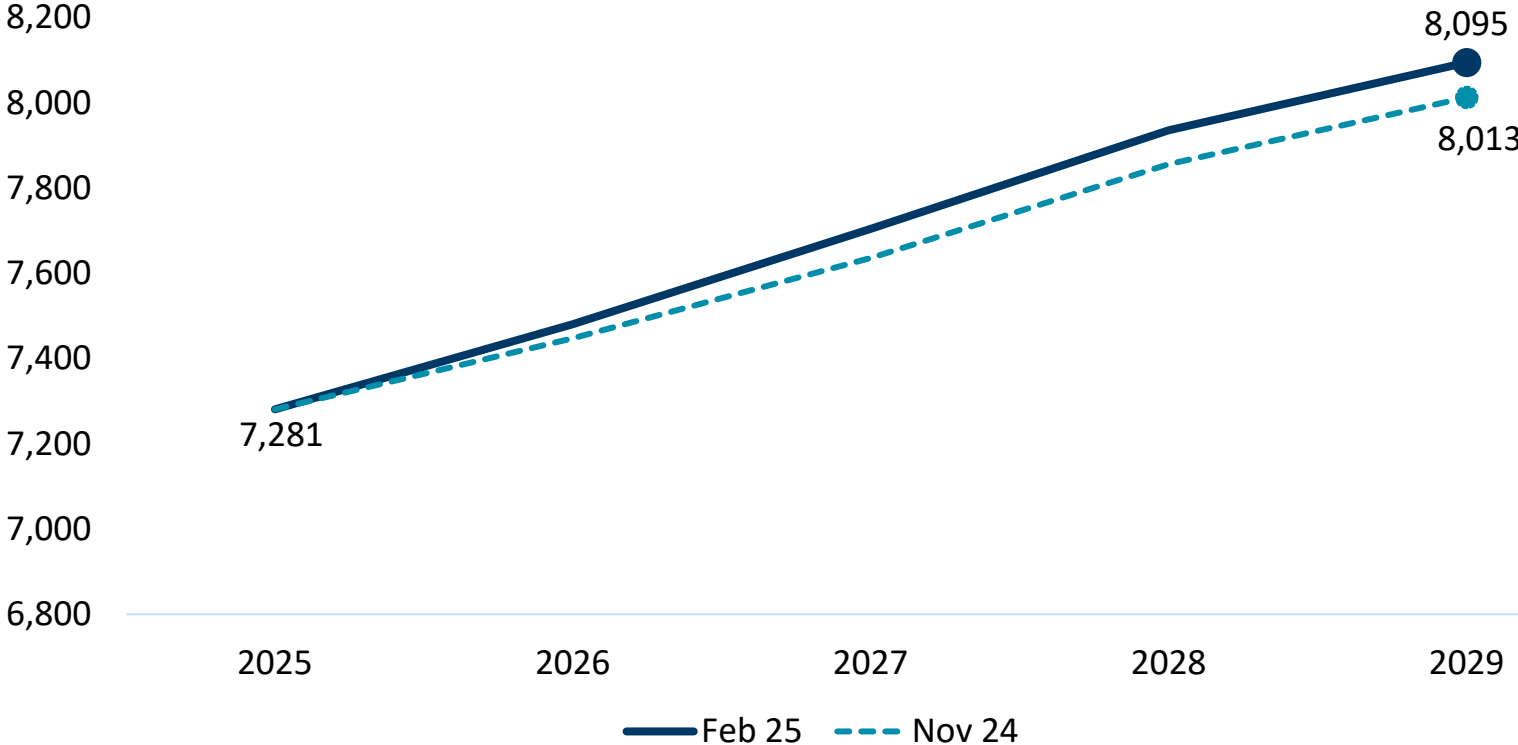
*Annual spending in billions of \$*



# Higher Inflation Increases Per Pupil Education Funding

## General Education Basic Formula Allowance

*\$ per pupil*

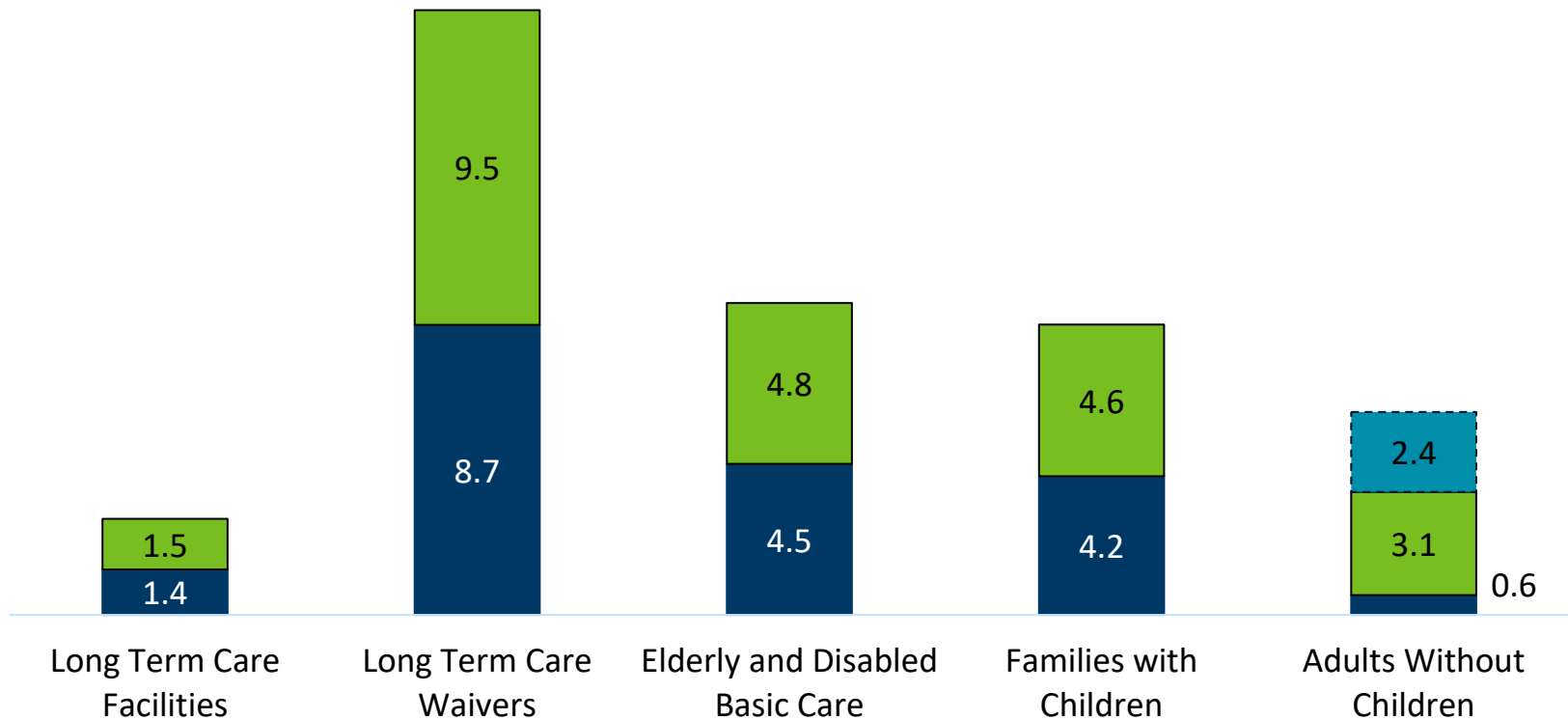


# Federal Funds Cover Majority of Medical Assistance

## FY 2026-27 Medical Assistance Expenditures by Source

*Biennial spending in billions of \$*

■ State Share    ■ Base Federal Match    ■ Enhanced Federal Match



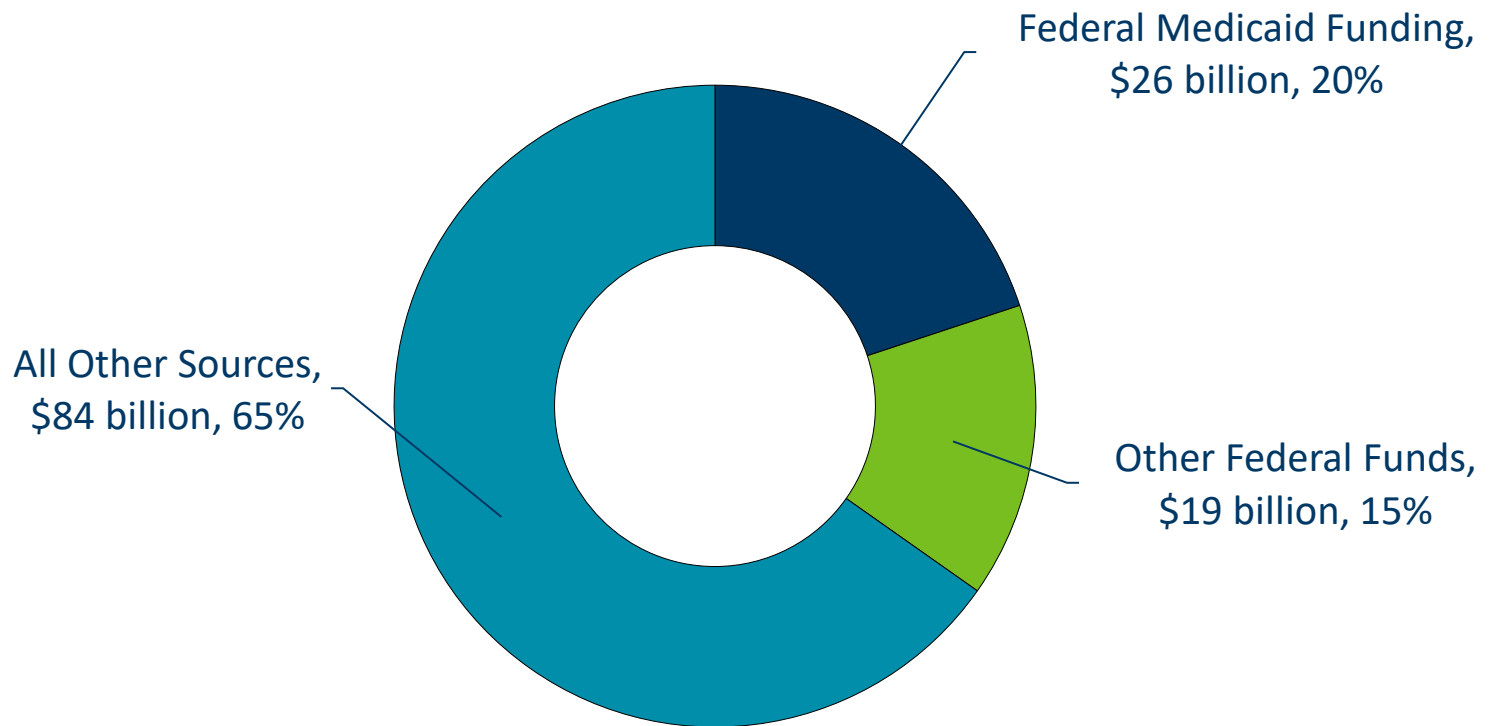
# Long Term Budget Outlook

\$ in millions	FY 2026-27	FY 2028-29	Biennial Growth	Annualized % Growth
Forecast Revenues	\$64,494	\$67,882	\$3,388	2.6%
Total Forecast Spending	67,780	74,332	6,553	4.7%
<i>Baseline Spending</i>	66,634	71,862	5,228	3.8%
<i>Discretionary Inflation</i>	1,145	2,471	1,325	
Structural Balance	\$(3,286)	\$(6,450)		
<i>Structural Balance Without Discretionary Inflation</i>	\$(2,141)	\$(3,980)		

# Potential Federal Budget Cuts Pose General Fund Risk

## FY 2026-27 State Revenues

Total = \$128 billion





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