

BUDGET AND ECONOMIC FORECAST

November 2016

FOR IMMEDIATE RELEASE

Minnesota's Budget Outlook Remains Stable

\$1.4 Billion Available for Upcoming Budget

Current Biennium Balance Increases. \$334 million transferred to budget reserve, \$678 million balance remains. A favorable FY 2016 close, partially offset by a reduced forecast for FY 2017, leaves projected revenues \$41 million higher for the current biennium compared to end of session estimates. Spending in the current biennium is projected to be \$245 million lower than prior estimates. Current law allocates 33 percent, or \$334 million of the resulting balance to the budget reserve. FY 2016-17 is now projected to end with a \$678 million balance, \$51 million lower than previous estimates.

FY 2016-17 General Fund Forecast

(\$ in millions)	November	Change
Beginning Balance	\$2,103	\$ -
Revenues	42,382	41
Spending	41,502	(245)
Cash & Budget Reserves	1,947	-
Stadium Reserve	24	3
Forecast Balance	\$1,012	\$283
33% to Budget Reserve	334	334
Budgetary Balance	\$678	\$(51)

FY 2018-19 General Fund Forecast

(\$ in millions)	November	Change
Beginning Balance	2,982	\$286
Revenues	45,321	(467)
Spending	44,585	(152)
Cash & Budget Reserves	2,280	334
Stadium Reserve	38	13
Forecast Balance	\$1,400	\$(376)

Slower Revenue Growth reduces projected balance in FY 2018-19 to \$1.4 billion. The balance between revenues and spending in the next biennium has been reduced compared to prior estimates. General fund revenues in FY 2018-19 are expected to grow to \$45.3 billion, while projected current law spending is estimated to be just under \$44.6 billion. The \$678 million ending balance forecast for the current biennium adds to resources available for the next biennium. As a result, a \$1.4 billion balance is projected to be available for the upcoming FY 2018-19 biennial budget.

U.S. economic outlook weakens. A reduction in business building and equipment purchases in the first half of this year slowed U.S. economic growth for 2016. Since February, Minnesota's macroeconomic consultant, IHS Markit, has decreased their forecast for real GDP growth in 2016. Lower forecasts for consumer spending and business capital purchases reduce the 2017 growth forecast. Consumer spending growth is expected to remain modest and helps lower the economic growth forecasts for 2018 and 2019.

Slower economic growth lowers next biennium revenue forecast. FY 2018-19 revenues are now forecast to be \$467 million (1.0 percent) less than the prior estimate. The sales tax shows the largest revenue forecast change for the next biennium, with lower expected taxable sales growth combining with higher projected refunds to reduce the general sales tax forecast by \$428 million.

Structural Balance intact; revenue growth expected to outpace spending growth into FY 2020-21. This forecast provides the first budget planning estimates for the FY 2020-21 biennium. The average annual growth rate for revenue, FY 2018 to FY 2021 is 3.7 percent compared to 2.5% for spending. However, these longer term projections have a higher degree of uncertainty and a significantly higher potential range of error. Revenue growth exceeds expenditure growth through the forecast horizon, indicating structural balance for FY 2020-21.

