

BUDGET AND ECONOMIC FORECAST

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FOR IMMEDIATE RELEASE

Minnesota's Budget Outlook Improves

\$1.65 Billion Now Available for Upcoming FY 2018-19 Budget

Increased Revenues Raise Expected FY 2018-19 Balance to \$1.65 Billion; significant risk continues. FY 2018-19 revenues are now forecast to be \$45.663 billion, a \$321 million increase (0.7 percent) compared to November 2016 estimates adjusted for law changes. Current law spending is forecast to be \$44.741 billion, \$156 million (0.4 percent) higher than prior estimates. Stadium reserves increased by \$3 million. As a result, the projected budgetary balance in the next biennium is now \$1.650 billion, \$250 million higher than prior estimates. The positive budget outlook continues into the planning estimates for the 2020-21 biennium, however federal policy unknowns create significant risk for this forecast.

FY 2018-19 General Fund Budget Forecast

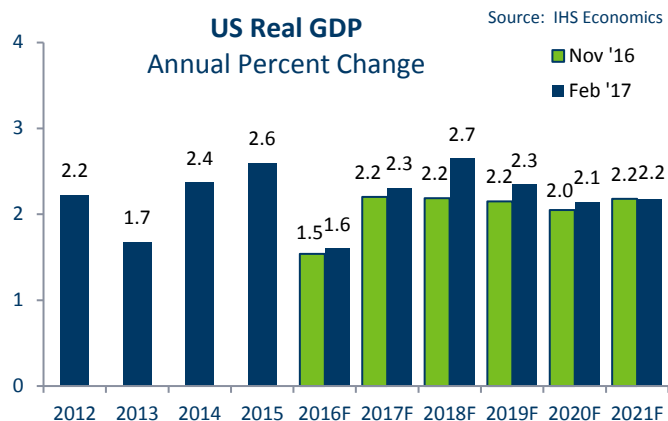
(\$ in millions)	February	\$ Change
Beginning Balance	\$2,721	\$88
Revenues	45,663	321
Spending	44,741	156
Cash & Budget Reserve	1,953	0
Stadium Reserve	40	3
Budgetary Balance	\$1,650	\$250

Stronger expected economic growth raises the tax revenue forecast. FY 2018-19 tax revenues are now forecast to be \$321 million (0.7 percent) more than the prior estimate. Higher expected income growth raises forecast individual income tax revenue for the next biennium by \$274 million. Higher forecast taxable sales growth—driven in part by expected fiscal stimulus—offsets higher projected refunds to raise the general sales tax forecast by \$48 million. A stronger corporate profits forecast adds \$69 million to expected corporate tax revenue.

FY 2018-19 General Fund Revenue Forecast

(\$ in millions)	February	\$ Change
Individual Income	\$24,401	\$274
General Sales	11,466	48
Corporate Franchise	2,623	69
Statewide Property	1,742	(2)
All Other Revenues	3,667	(50)
Total Tax Revenues	\$43,899	\$339
All Other Revenues, Transfers	1,764	(18)
Total Revenues	\$45,663	\$321

U.S. economic outlook improves. The last few months of economic data have been mostly positive, showing improvements in personal income, business spending on equipment and structures, employment, and consumer spending. In addition, IHS has incorporated into their baseline outlook federal fiscal stimulus—in the form of lower individual income and corporate tax rates and increased infrastructure spending—which are expected to boost economic growth starting in 2018. IHS has increased their forecast for real GDP growth in 2017 from 2.2 percent in November's outlook to 2.3 percent in February. Higher forecasts for real consumer spending and business capital purchases offset increased drag from net exports to raise the 2018 growth forecast from 2.2 percent in November to 2.8 percent February.



Increased Education and Health Care Forecast Adds to Overall Spending. Spending in FY 2018-19 is now forecast to be \$44.741 billion, \$156 million (0.4 percent) higher compared to prior estimates. Driving the change are higher projections in the education and health and human services budget areas. Higher student enrollment and health care cost estimates increase state obligations for spending.

Long Term Budget Outlook Improves. The fiscal policy-fueled growth that is forecast to begin in 2018 raises the long term economic outlook. Consequently, the increased revenue forecast continues into FY 2020-21. Projected revenues are now estimated to exceed current law spending by \$2.124 billion, which is more than the \$1.480 billion projected in November. Economic changes as well as the nature and timing of any budget changes may materially affect both revenue and expenditure projections for the next biennium.