

# Budget and Economic Forecast

December 5, 2017

# Deficit Projected for FY 2018-19

- Outlook for economic growth has weakened since our February Forecast
- \$188 million deficit now projected for FY 2018-19
- \$586 million negative balance projected for FY 2020-21

# A look back...February 2017 Forecast for FY 2018-19

(\$ in millions)	FY 2018-19		\$ Change
	Feb 2017 Forecast	June 2017 EOS*	
<b>Beginning Balance</b>	<b>\$2,723</b>	<b>\$2,708</b>	\$(15)
Revenues	45,663	45,006	(657)
Spending	44,741	45,557	816
Cash & Budget Reserves	1,953	1,953	-
Stadium Reserve	40	40	-
<b>Forecast Balance</b>	<b>\$1,650</b>	<b>\$163</b>	<b>\$(1,488)</b>

*\*End of Session with Court Order*

# Forecast for FY 2018-19

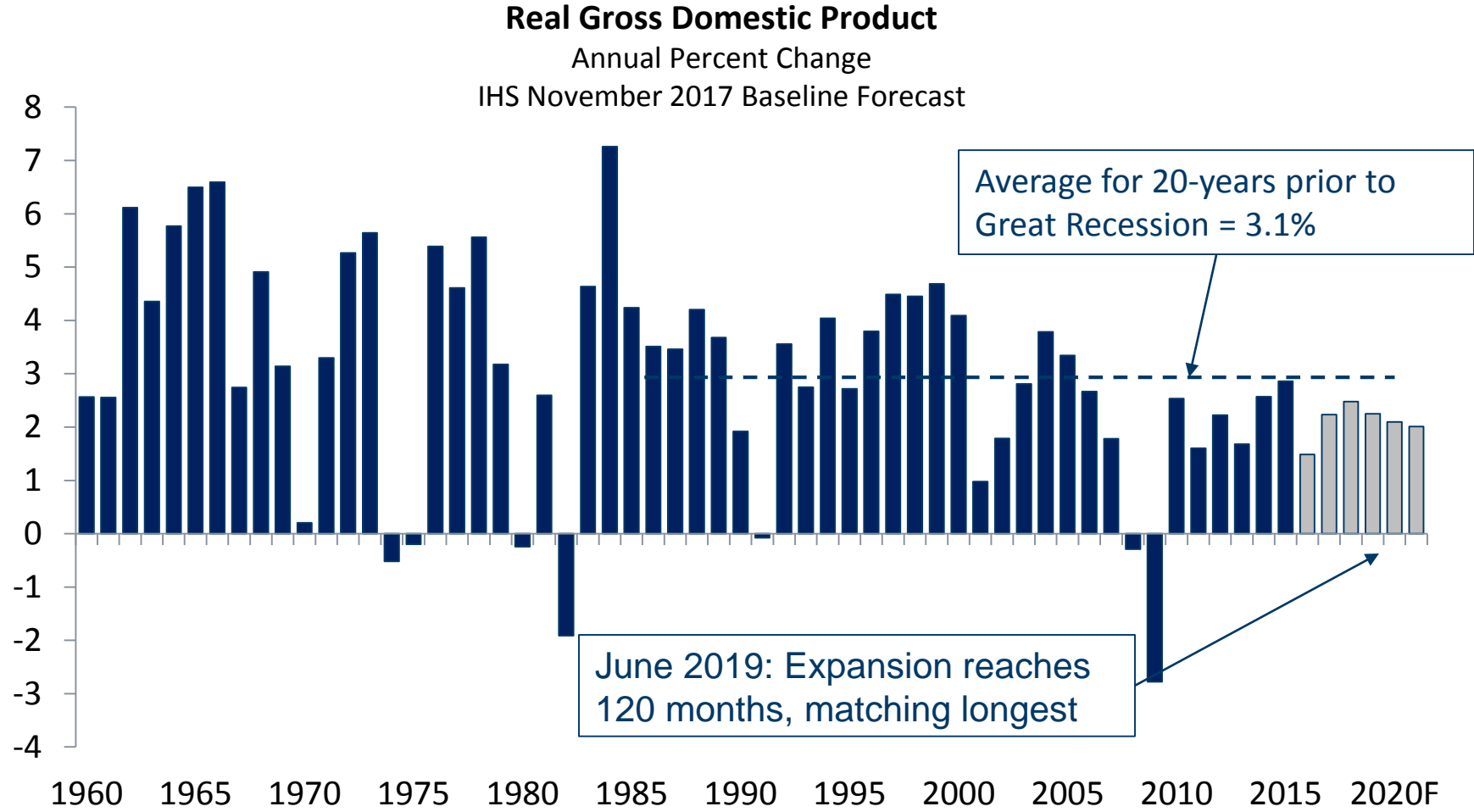
(\$ in millions)	FY 2018-19		\$ Change
	June 2017 EOS	Nov 2017 Forecast	
<b>Beginning Balance</b>	<b>\$2,708</b>	<b>\$3,333</b>	\$625
Revenues	45,006	44,447	(559)
Spending	45,557	45,955	398
Cash & Budget Reserves	1,953	1,958	5
Stadium Reserve	40	55	15
<b>Forecast Balance</b>	<b>\$163</b>	<b>\$(188)</b>	<b>\$(351)</b>

*\*End of Session with Court Order*

# Anticipated Adjustments

	<b>FY 2018-19</b>
(\$ in millions)	<b><u>Nov 2017 Forecast</u></b>
<b>Current Law Forecast Balance</b>	<b>\$(188)</b>
<i>Legislative funding</i>	<i>(114)</i>
<b>Remaining Balance</b>	<b>\$(302)</b>

# Slow-growth U.S. Expansion Expected to Persist

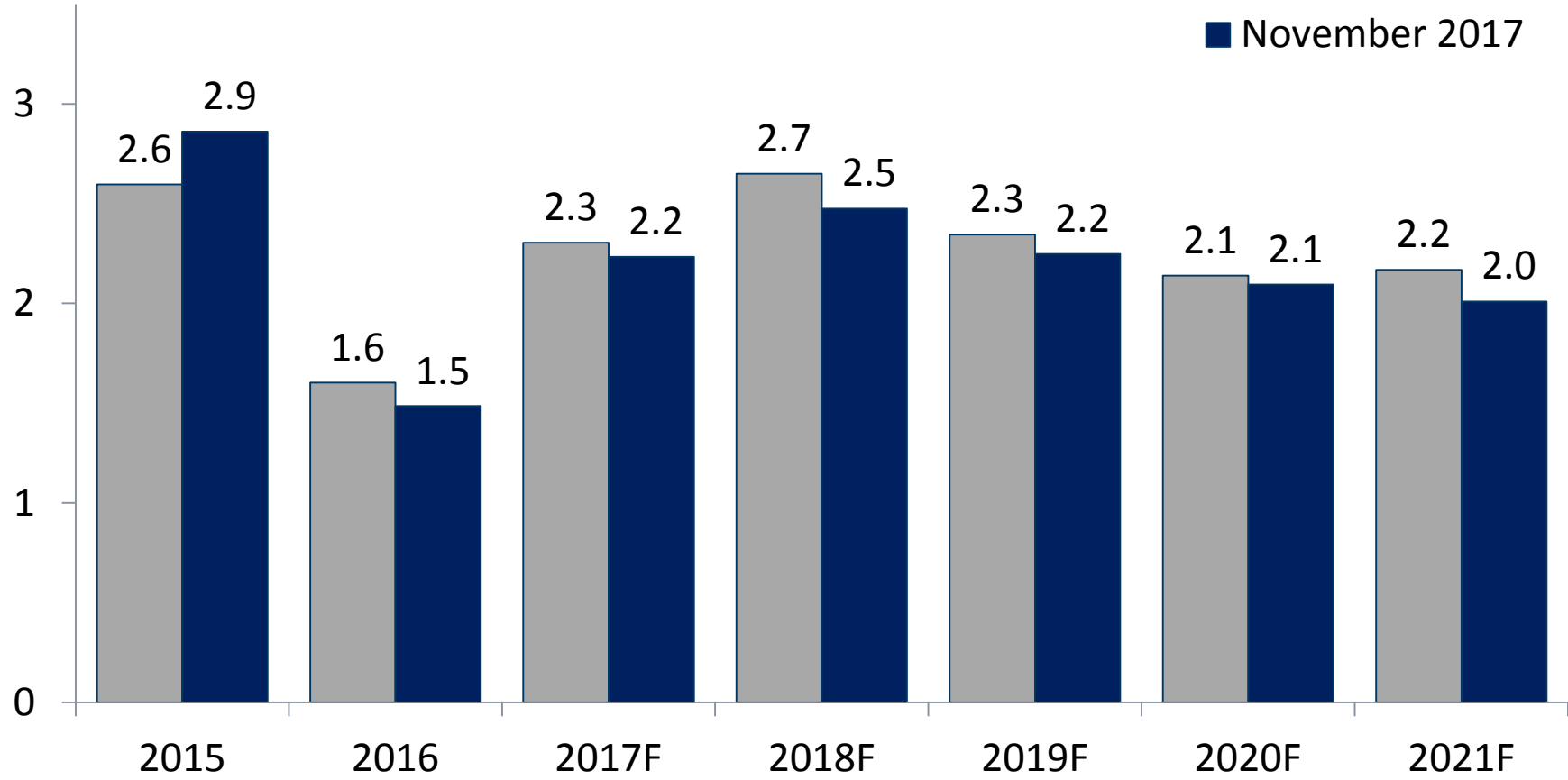


Source: U.S. Bureau of Economic Analysis (BEA), IHS Markit (IHS)

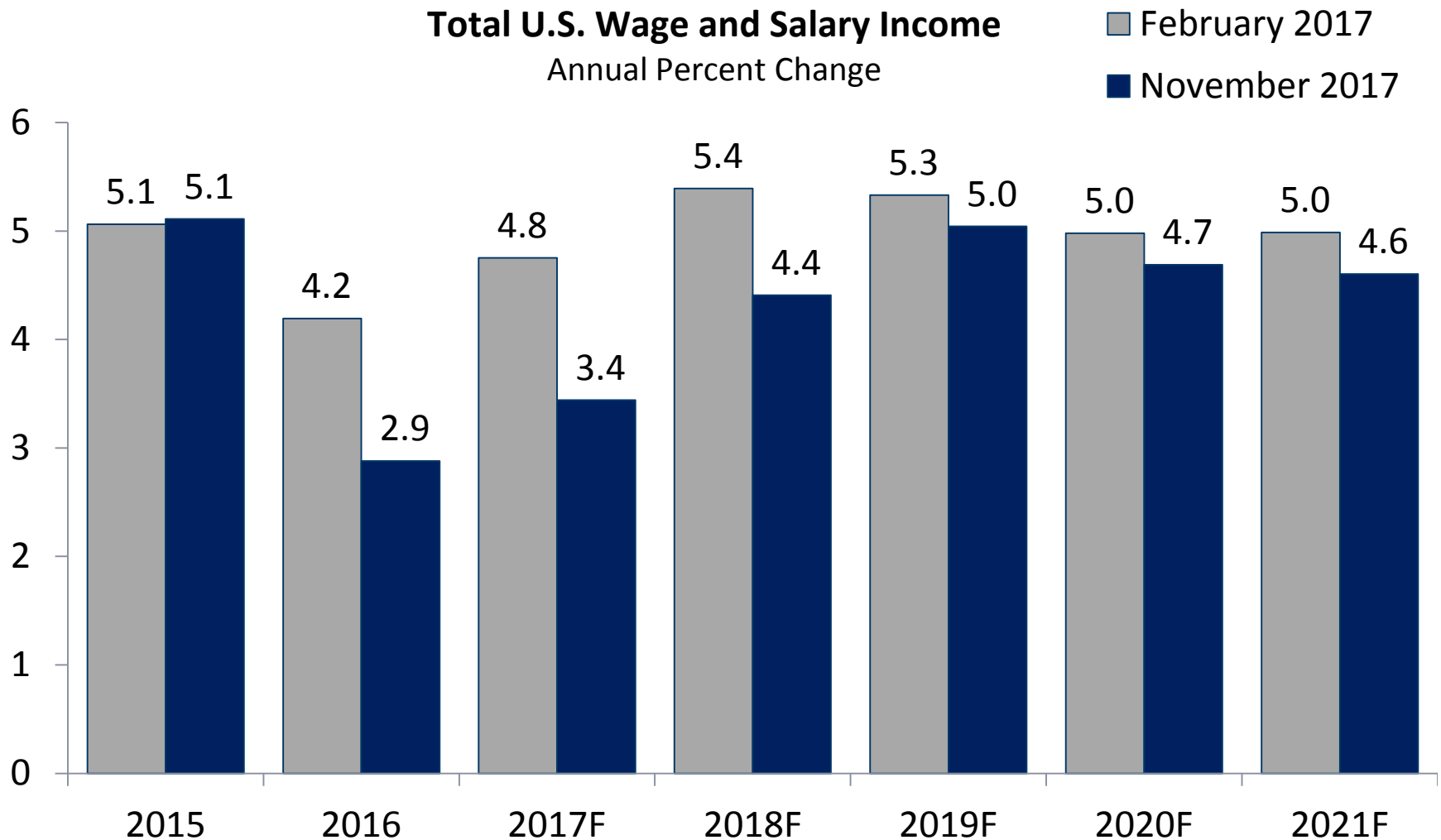
# U.S. Outlook Weakens

**Real Gross Domestic Product**  
Annual Percent Change

■ February 2017  
■ November 2017



# U.S. Wage Income Growth Lower than in February

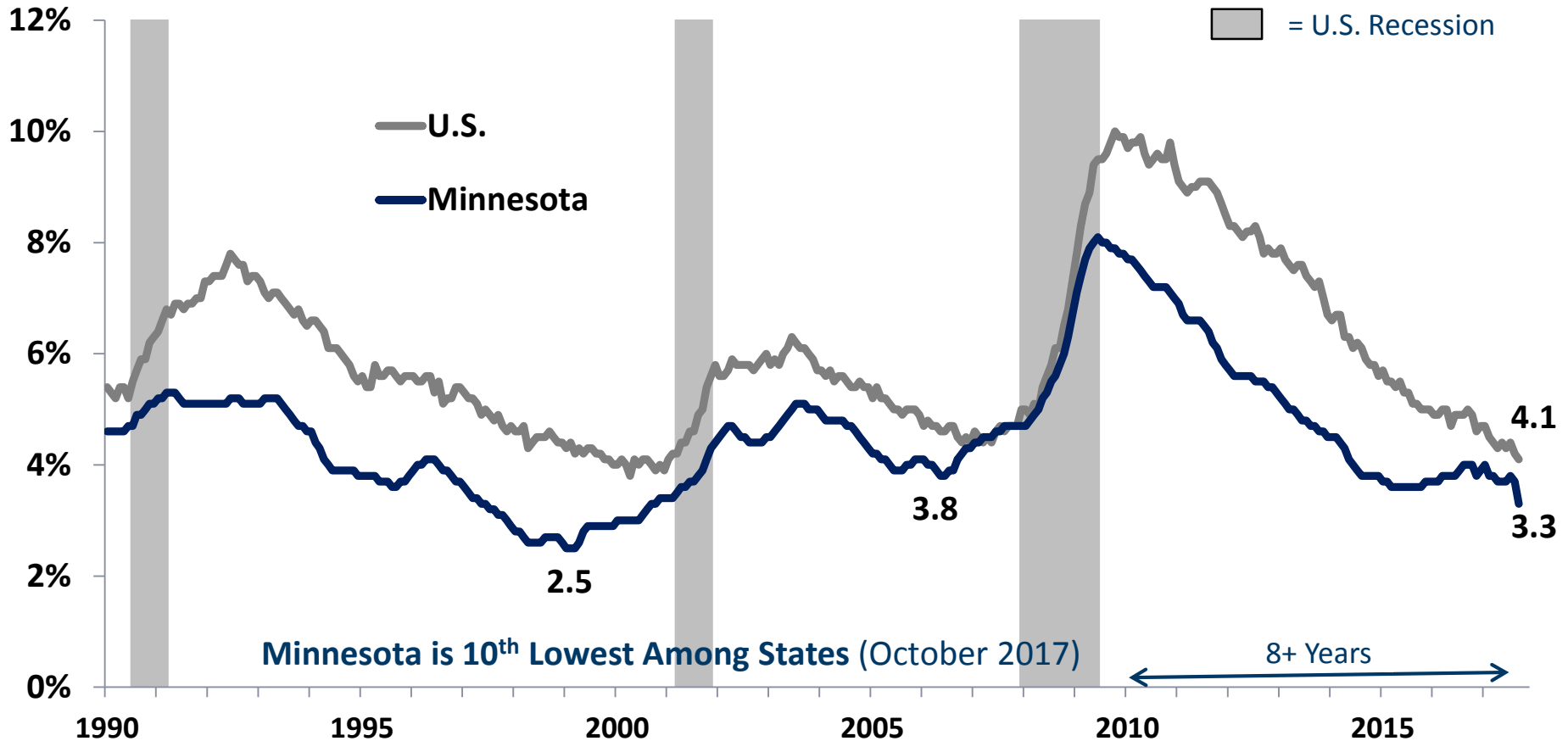




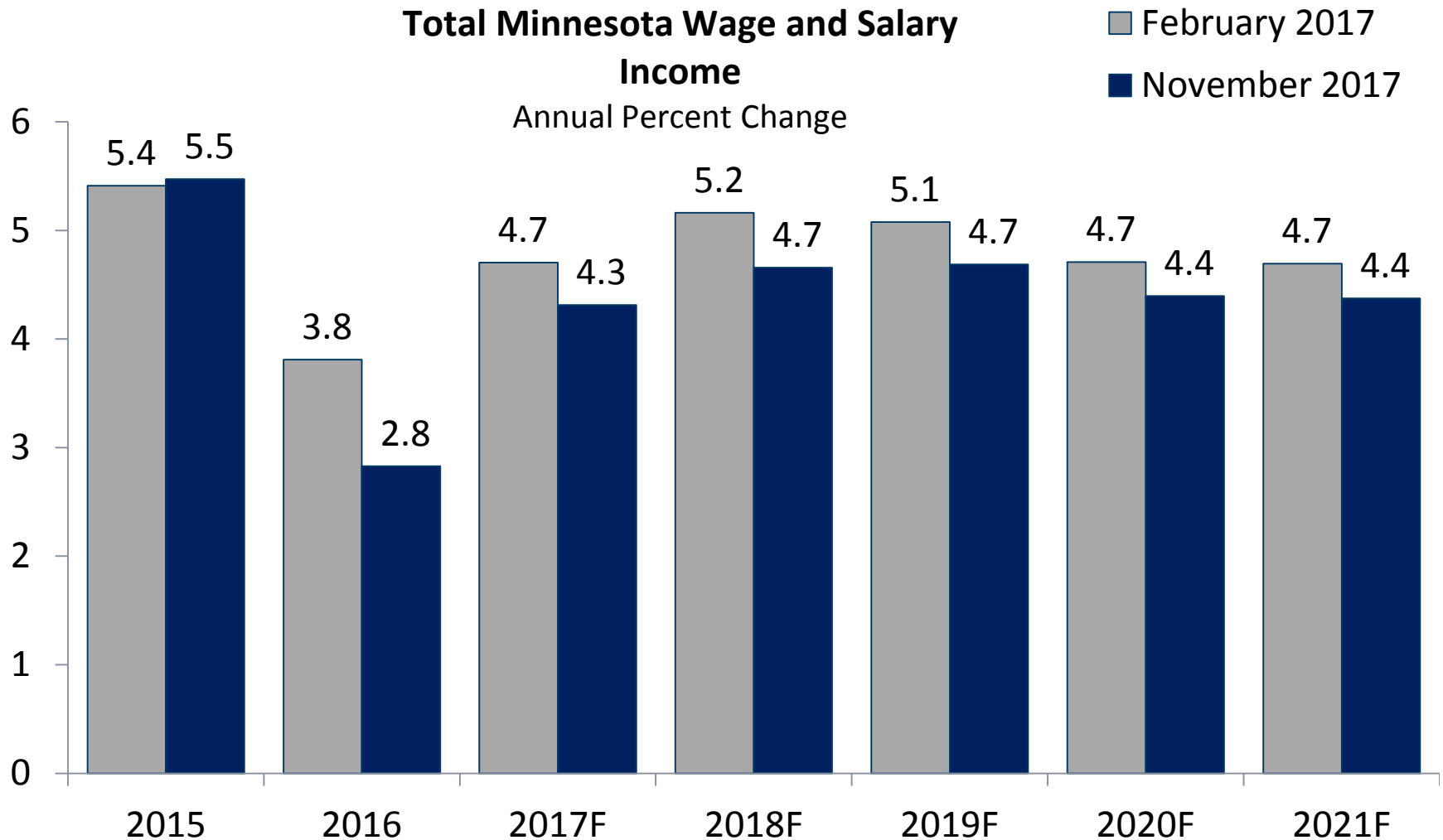
# State Unemployment Rate Remains Below the U.S.

## Unemployment Rate

Monthly, Seasonally Adjusted



# Minnesota Wage Income Grows More Slowly in this Forecast



# Revenue Forecast Lowered in FY 2018-19

(\$ in millions)	FY 2018-19		
	EOS 2017 Forecast	Nov 2017 Forecast	Forecast Change
Individual Income Tax	\$24,150	\$23,690	\$(461)
General Sales Tax	11,209	11,144	(65)
Corporate Franchise Tax	2,621	2,466	(155)
Statewide Property Tax	1,646	1,630	(16)
All Other Revenue	5,379	5,518	139
<b>Total Revenues</b>	<b>\$45,006</b>	<b>\$44,447</b>	<b>\$(559)</b>

*\*End of Session with Court Order*

# Significant Risks with this Forecast

- U.S. policy uncertainty
- Inflation
- Capital gains
- Long, slow-growth expansion

# Spending Forecast Increased for FY 2018-19

## FY 2018-19

(\$ in millions)	June 2017 EOS	Nov 2017 Forecast	Forecast Change
E-12 Education	\$18,758	\$18,879	\$121
Property Tax Aids & Credits	3,641	3,648	7
Health & Human Services	13,858	13,871	13
Debt Service	1,155	1,153	(3)
All Other	8,144	8,404	260
<b>Total Spending</b>	<b>\$45,557</b>	<b>\$45,955</b>	<b>\$398</b>

# Health Care Savings Offsets

	<b>FY 2018-19 Nov 2017 Forecast</b>
(\$ in millions)	
Medical Assistance and Other Savings	\$(248)
Children's Health Insurance Program	178
HCAF Transfer	50
Contingent Premium Subsidy Spending	
Rate Trend Restoration	17
DHS Operations	16
<b>Net Spending</b>	<b>\$13</b>

# Deficit Continues into Next Biennium

(\$ in millions)	<b>FY 2018-19</b>	<b>FY 2020-21</b>	<b>Biennial Growth</b>	<b>Annualized % Growth</b>
Forecast Revenues	\$44,447	\$47,646	\$3,199	3.5%
Projected Spending	\$45,955	\$47,983	\$2,028	2.2%
Structural Balance	\$(1,508)	\$(337)		
<i>Estimated Inflation (CPI from 2.4 to 2.6%)</i>		<i>\$1,311</i>		

# Next Steps

- 2018 February Forecast will provide a clearer picture
- Need to work together—there is time to address projected deficit during 2018 Legislative Session
- Under Governor Dayton’s leadership, we are prepared with nearly \$2 billion in reserves



# Minnesota's Economic Fundamentals Remain Strong

- Economy and wages continue to grow, only more slowly
- Minnesota's unemployment rate is lower than the U.S. rate
- Both upside and downside risks with this forecast