


DATE: July 31, 2020

TO: Governor Tim Walz
Lt. Governor Peggy Flanagan

FROM: Myron Frans, Commissioner 

SUBJECT: Revenue Update

According to Minnesota statutes, Minnesota Management and Budget (MMB) provides two forecasts every year, one in February and one in December. Also, MMB releases monthly revenue reports and quarterly economic updates. This year MMB released an additional report, the *May 2020 Interim Budget Projection*, because of the economic downturn resulting from COVID-19. Today's revenue report is an update to the July 10 *Revenue and Economic Update* and the May projection. The next forecast is scheduled for early December unless circumstances require otherwise.

Tax Year 2019 income tax payments associated with July 15 due date lower than projected in May

Minnesota's net general fund receipts for Fiscal Year 2020 are now estimated to total \$22.890 billion, \$58 million (0.3 percent) lower than projected in our *May 2020 Interim Budget Projection*.

In our July *Revenue and Economic Update*, published July 10, we reported that estimated revenues for Fiscal Year 2020 were \$168 million (0.8 percent) more than projected in the *May 2020 Interim Budget Projection*. We noted in the July 10 report that tax year 2019 income tax final payments are attributable to Fiscal Year 2020, even though this year they were not due until July 15. Now that those payments have been received and processed, we estimate that tax year 2019 income tax final and extension payments net of refunds are \$226 million below our May projection for those payments. This shortfall reduces the Fiscal Year 2020 estimated closing variance from the positive \$168 million (0.8 percent) we reported in the July *Revenue and Economic Update* to negative \$58 million (0.3 percent).

Negative projected balance for the next biennium

To help decision-makers begin the budget planning process for the next biennium, we are providing updated planning estimates of revenues and expenditures for FY 2022-23. In the February *Budget and Economic Forecast* revenues were expected to exceed base budget expenditures and leave a modest structural balance in the next biennium. With this update, the next biennium is no longer structurally balanced. Expenditures are now expected to exceed revenues by \$4.7 billion. The change is due to a lower projection of revenues and higher projected expenditures. These planning estimates were constructed using the same economic assumptions and modelling as the FY 2020-21 projections that we released as part of the *May 2020 Interim Budget Projection*. With closing revenues for Fiscal Year 2020 now estimated to be within 0.3 percent of our May projection, FY 2022-23 estimates based on the same assumptions as the May projection are acceptable for use in budget planning.

The planning estimates for the next biennium should be used with caution. First, in subsequent forecasts changes to our estimates of individual tax liability for Tax Years 2020 through 2022, as well as changes to the base levels of other revenue types for Fiscal Years 2020 and 2021, will change the FY 2022-23 planning estimates. Second, even small deviations from assumed growth rates for factors affecting revenues will compound and produce sizable changes in revenues. Economic conditions remain extraordinarily volatile. Should the economy grow at a different rate than projected, or should some volatile income source such as capital gains or corporate profits fall well outside of projections, the revenue outlook for FY 2022-23 will change.

cc: Senator Paul Gazelka, Majority Leader
Senator Susan Kent, Minority Leader
Representative Melissa Hortman, Speaker of the House
Representative Ryan Winkler, Majority Leader
Representative Kurt Daudt, Minority Leader