

Revenue and Economic Update

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State Revenues Exceed Forecast

Minnesota's net general fund receipts for FY 2016 are now estimated to total \$20.898 billion, \$230 million (1.1 percent) more than projected in the February 2016 *Budget and Economic Forecast*. Higher than expected corporate tax and other receipts generated the additional FY 2016 revenue. General fund revenues in FY 2016 are now estimated to be 2.7 percent greater than in FY 2015. State revenues for the final quarter of FY 2016 were \$241 million more than forecast. (See page 3 for details.)

Net individual income tax receipts are estimated to end the fiscal year \$2 million (0.0 percent) more than forecast. Gross income tax receipts were \$11 million below forecast, but this was offset by lower than expected refunds. Payments associated with calendar year 2016 economic activity—income tax withholding and estimated payments—were about \$46 million below forecast. Payments accompanying tax year 2015 final returns and extensions were about \$36 ahead of forecast.

Net corporate tax receipts for FY 2016 were \$147 million (11.1 percent) more than projected. Gross tax payments in excess of the forecast and lower than expected refunds both contribute to the positive corporate tax variance. Other revenues for FY 2016 exceeded the forecast by \$100 million (2.9 percent). Most categories within other revenues are estimated to end the fiscal year ahead of forecast. Residual

revenues generated the largest variance. Net general sales tax receipts ended FY 2016 \$19 million (0.4 percent) below forecast. Gross sales tax receipts exceeded projections by \$17 million (0.3 percent), but these were offset by higher than anticipated sales tax refunds.

All FY 2016 results are preliminary and subject to change. The state's fiscal year that ended June 30, 2016, will officially close on August 12. Values in the estimated closing column on page 3 reflect actual revenues attributable to FY 2016 as well as estimates of revenue accruals through closing and other pre-close adjustments. As of June 30, total FY 2016 revenue was \$20.892 billion. Estimated accruals and pre-close adjustments add less than \$6 million. A complete reporting of FY 2016 revenues will be part of October's Revenue and Economic Update. The next official forecast will be released in early December 2016.

U.S. Economic Outlook Weaker

U.S. economic growth was weak in late 2015 and early 2016. The Bureau of Economic Analysis (BEA) estimates that real GDP rose at a modest 1.1 percent annual rate during the first quarter of the year, down from only 1.4 percent growth in the prior quarter, and the worst six-month performance in nearly three years. The weakness is attributable to a number of

Summary of Revenues: Fiscal Year 2016

(\$ in millions)

	February 2016 Forecast	Estimated Closing ¹	\$ Difference	% Difference
Individual Income Tax	\$10,716	\$10,717	\$2	0.0%
General Sales Tax	5,234	5,215	(19)	(0.4)
Corporate Franchise Tax	1,324	1,472	147	11.1
Other Revenues	3,394	3,494	100	2.9
Total Revenues²	\$20,668	\$20,898	\$230	1.1%

1. Reflects actual revenue attributable to FY 2016, estimates of revenue accruals through closing (August 12), and other pre-close adjustments.

2. Totals may not add due to rounding.

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factors. Manufacturing and foreign trade have been struggling, hurt by a strong U.S. dollar, weak global growth, and collapsing energy prices. These same factors are weighing on business investment. All three of its components—structures, equipment, and intellectual property products—have been declining.

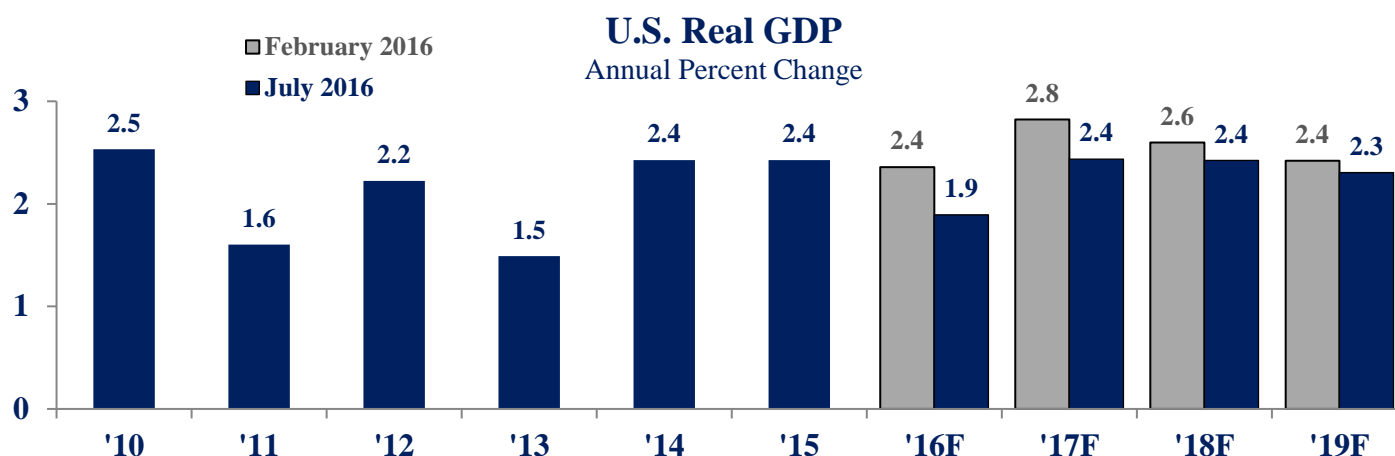
Nonetheless, economic growth in the second quarter appears to have rebounded. Consumer spending in April rose at the strongest pace in almost 7 years, led by spending on vehicles. Recent housing market signals are encouraging, with advances in sales, building permits, and prices. Finally, the drag from international trade has, at least temporarily, diminished. Therefore, despite increased uncertainty from last month's vote by the U.K. to leave the EU, growth prospects for the U.S. economy appear solid.

Looking ahead, MMB's macroeconomic consultant IHS Economics (IHS) continues to believe the headwinds from inventories and energy-sector capital spending will ease by mid-2016, supporting the case for acceleration of economic growth later this year. IHS expects real GDP growth to rebound to 2.2 percent (annual rate) in the second quarter—led by consumer spending—before expanding closer to 2.5 percent by the end of the year. Still, weakness in the early part of the year has reduced prospects for calendar 2016 average growth. The July 2016 outlook from IHS calls for real GDP growth to ease from 2.4 percent in 2015 to 1.9 percent in 2016, before accelerating to 2.4 percent in 2017. The February 2016 outlook projected stronger growth of 2.4 percent in 2016, followed by a 2.8 percent rise in 2017. The IHS July forecast for 2016 real GDP growth matches the consensus estimate from the Blue Chip survey of

about 50 top business forecasters. The IHS forecast for 2017 is at the high end of the Blue Chip survey estimates. The latest Blue Chip Consensus forecast is for 2.2 percent growth in 2017.

Inflation continues to run well below the Federal Reserve's 2 percent objective, partly reflecting earlier declines in energy prices and the stronger dollar. Consumer prices (CPI) rose only 1.1 percent in the first half of 2016 from a year earlier. Even so, the Fed's statements show that officials continue to be reasonably confident inflation will return to 2 percent over the medium term, as transitory effects dissipate and the labor market strengthens further. IHS agrees. Their July 2016 outlook has CPI rising 1.2 percent in 2016 and 2.4 percent in 2017, similar to the 0.6 and 2.3 percent growth IHS expected last February. The latest Blue Chip Consensus forecast is for 1.3 percent inflation growth in 2016 and 2.3 percent growth in 2017.

There have been no changes in the probabilities assigned to the baseline or alternative forecast scenarios since February. IHS continues to assign a probability of 65 percent to their July 2016 baseline. A more pessimistic scenario in which faltering productivity, stumbling global growth, and plunging consumer and business confidence—thanks to a stock market crash—trigger a two-quarter U.S. recession in the middle of 2017, is assigned a probability of 20 percent. Of course, economic growth could also exceed projections. A more optimistic scenario where higher-than-expected productivity growth and foreign growth deliver a boost to the U.S. economy in the middle of 2016 is assigned a probability of 15 percent.



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

Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

	Fiscal Year 2016			April – June FY2016		
	FORECAST REVENUES ¹	ACTUAL REVENUES ²	DIFFERENCE ACTUAL-FCST	FORECAST REVENUES ¹	ACTUAL REVENUES ²	DIFFERENCE ACTUAL-FCST
Individual Income Tax						
Withholding	8,178,206	8,163,186	(15,020)	2,048,702	2,059,743	11,041
Declarations	2,371,500	2,354,888	(16,613)	1,007,300	989,013	(18,287)
Miscellaneous	1,577,200	1,597,531	20,331	1,039,282	1,067,862	28,581
Gross	12,126,907	12,115,605	(11,302)	4,095,284	4,116,619	21,335
Refund	1,411,306	1,398,211	(13,095)	543,420	494,193	(49,227)
Net	10,715,600	10,717,393	1,793	3,551,864	3,622,426	70,562
Corporate Franchise Tax						
Declarations	1,200,189	1,293,789	93,600	312,443	374,345	61,902
Miscellaneous	312,574	319,022	6,449	(23,434)	(18,140)	5,294
Gross	1,512,762	1,612,811	100,049	289,009	356,204	67,195
Refund	188,267	141,099	(47,168)	53,646	15,689	(37,957)
Net	1,324,495	1,471,712	147,217	235,363	340,515	105,152
General Sales Tax						
Gross	5,533,004	5,549,509	16,505	1,565,140	1,564,974	(166)
Mpls. Sales Tax Transferred to MSFA	1,686	1,687	1	436	238	(198)
Sales Tax Gross	5,534,690	5,551,196	16,506	1,565,576	1,565,211	(364)
Refunds (including Indian Refunds)	300,713	336,112	35,399	106,522	127,464	20,942
Net	5,233,977	5,215,083	(18,894)	1,459,054	1,437,747	(21,307)
Other Revenues:						
Net Estate	179,900	184,196	4,296	37,803	40,274	2,471
Net Liquor/Wine/Beer	86,060	88,449	2,389	26,023	28,547	2,524
Net Cigarette/Tobacco	629,170	618,098	(11,072)	169,037	154,915	(14,122)
Deed and Mortgage	217,125	226,002	8,877	65,581	71,948	6,366
Net Insurance Premiums Taxes	362,669	363,159	490	85,465	83,693	(1,772)
Net Lawful Gambling	54,950	56,498	1,548	21,335	18,800	(2,535)
Health Care Surcharge	274,307	280,308	6,000	107,809	115,178	7,369
Other Taxes	3,005	7,275	4,270	2,345	6,556	4,211
Statewide Property Tax	841,080	853,780	12,700	448,626	461,287	12,661
DHS SOS Collections	44,350	54,598	10,247	9,537	13,924	4,387
Investment Income	13,000	15,877	2,877	3,238	4,745	1,508
Tobacco Settlement	162,336	171,238	8,903	-	8,902	8,902
Dept. Earnings & MSOP Recov.	204,369	210,632	6,263	59,051	65,521	6,470
Fines and Surcharges	81,539	83,352	1,813	29,054	31,432	2,378
Lottery Revenues	63,452	67,443	3,991	29,534	27,358	(2,176)
Revenues yet to be allocated	0	0	(1)	(602)	(3)	599
Residual Revenues	174,906	211,799	36,893	47,611	94,803	47,192
County Nursing Home, Pub Hosp IGT	6,792	6,226	(566)	2,038	1,698	(340)
Other Subtotal	3,399,012	3,498,928	99,917	1,143,485	1,229,579	86,094
Other Refunds	5,205	5,442	237	1,685	1,349	(336)
Other Net	3,393,806	3,493,486	99,680	1,141,800	1,228,230	86,430
Total Gross	22,573,370	22,778,539	205,170	7,093,354	7,267,614	174,260
Total Refunds	1,905,491	1,880,865	(24,627)	705,274	638,696	(66,578)
Total Net	20,667,878	20,897,675	229,796	6,388,080	6,628,917	240,837

1. February 2016 Budget & Economic Forecast.

2. Reflects estimates of revenue accruals through FY 2016 closing (August 12) and other pre-close adjustments.