MINNESOTA

BUDGET AND ECONOMIC FORECAST

NOVEMBER 2016

Produced by Minnesota Management and Budget

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Statutory Provisions

In accordance with Minnesota Statutes, section 16A.103, subdivision 1, the commissioner of Minnesota Management and Budget (MMB) must prepare a forecast of state revenue and expenditures in February and November of each year. This forecast must assume the continuation of current laws and reasonable estimates of projected growth in the national and state economies and affected populations.

Revenue must be estimated for all sources provided for in current law. Expenditures must be estimated for all obligations imposed by law and those projected to occur as a result of variables outside the control of the legislature. Expenditure estimates must not include an allowance for inflation.

A forecast prepared during the first fiscal year of a biennium must cover that biennium and the next biennium. A forecast prepared during the second fiscal year of a biennium must cover that biennium as well as the next two biennia.

Notes

Numbers in the text and tables may not add to the totals due to rounding.

Unless otherwise noted, years used to describe the budget outlook are state fiscal years (FY), from July 1 to June 30, and years used to describe the economic outlook are calendar years (CY).

Supplemental budget and economic forecast material is available on MMB's website (mn.gov/mmb).

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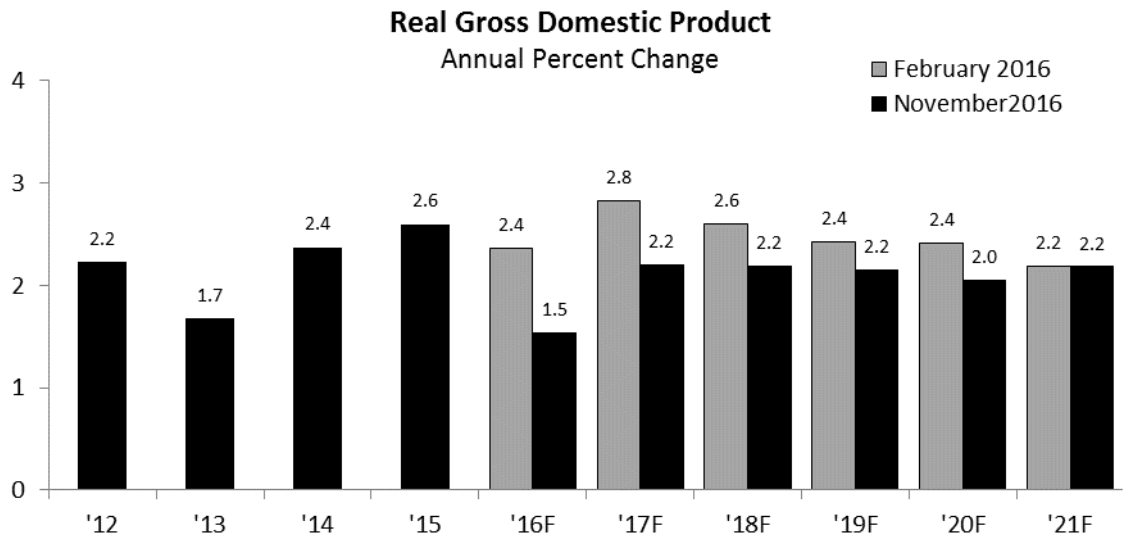
EXECUTIVE SUMMARY

Minnesota's budget and economic outlook remains stable, despite continued slow economic growth. While actual revenues collected in FY 2016 improved compared to previous estimates, revenues in fiscal years 2017-19 are lower than prior estimates. Slower projected economic growth and a lower consumer spending forecast contribute to a lower general sales tax revenue forecast in FY 2017-19. Revenue forecast reductions are offset by lower spending estimates in fiscal years 2016-19, due to enrollment and cost changes in the Medical Assistance (MA) program. The FY 2016-17 biennium is now projected to end with a balance of $678 million, after the statutory allocation of $334 million to the budget reserve.

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 $1.400 billion balance is projected to be available for the upcoming FY 2018-19 biennial budget.

U.S. Economic Outlook. The outlook for U.S. economic growth has weakened since Minnesota's *Budget and Economic Forecast* was last prepared in February 2016. 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 (IHS), has decreased their forecast for real GDP growth in 2016 from 2.4 percent in February's outlook to 1.5 percent in November. Lower forecasts for consumer spending and business capital purchases reduce the 2017 growth forecast from 2.8 percent in February to 2.2 percent in November. Consumer spending growth is expected to remain modest and helps lower the economic growth forecasts for 2018 and 2019.

The IHS November U.S. outlook was released on November 7 and does not reflect possible post-election U.S. policy changes. There is considerable uncertainty in this forecast about which policy changes may be enacted in the coming years and the economic impact of those changes. IHS has said that they are examining the president-elect's policy proposals and trying to determine their likelihood of enactment. As that becomes clearer, IHS will incorporate them into their forecast. It is likely that IHS's assessment of the impacts of U.S. policy will change with each monthly outlook release until policies become more settled. Until then, the impact of potential policy changes on several key economic sectors—including energy, banking, international trade, health care, and immigration—remain sources of risk to this forecast.



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

Reduced business building and equipment purchases in the first half of this year slowed U.S. economic growth for 2016. Lower forecasts for consumer spending and business capital purchases reduce the outlook for 2017 real GPD growth from 2.8 percent in February to 2.2 percent in November.

Key aspects of the U.S. economy remain solid enough that IHS and other forecasters expect continued growth throughout our forecast horizon. The U.S. has added an average of nearly 200,000 jobs per month over the past year, and the most recent employment data show growth in average hourly earnings. Since IHS released their November outlook, BEA has increased their estimate of 3rd quarter real GDP growth on the strength of more robust consumer spending. Over the next couple of years, IHS expects wage growth to outpace inflation and improvements in employment, income, and household net worth to continue to support consumer spending. In turn, consumer spending will remain the primary contributor to growth in the economy.

Despite this outlook, the real GDP growth of 2.0-2.2 percent that is expected in this forecast is well below the 3.1 percent average annual growth that we saw during the 20 years prior to the Great Recession. Slow growth makes the economy more vulnerable to shocks, reducing its capacity to weather an unexpected event.

The IHS November outlook is similar to that of other macroeconomic forecasters. The November Blue Chip Consensus, the average of about 50 business forecasts, calls for real GDP to grow 1.5 percent in 2016 followed by 2.2 percent in 2017, matching the IHS projection. In October, Blue Chip reported long-range consensus forecasts for 2018-2022. For each year in the remainder of our forecast horizon, the IHS growth forecast is in the middle of the range of forecasts in the survey.

Minnesota Economic Outlook. Well into the current economic expansion, Minnesota continues to add jobs at a fairly steady rate. Consistent job growth has contributed to the state's declining unemployment rate, which is now at 4.0 percent on a seasonally adjusted

basis, 0.9 percentage points below the U.S. rate. However, the state's employment growth is seeing the effects of drags on exports and a tightening labor market. State employment grew by 1.1 percent over the 12 months ending in October, below U.S. growth of 1.6 percent. In this forecast, we expect Minnesota employment to grow about 1.0 percent per year for the next several years.

With strong demand for workers and low unemployment, Minnesota's labor market remains tight. The most recent data indicate that there were nearly as many job vacancies as unemployed job seekers statewide. The number of workers filing initial claims for unemployment insurance has fallen, and recent months have seen increases in both the average number of weekly hours worked by private sector employees and their average hourly earnings. We expect Minnesota employers to respond by investing in productivity-enhancing equipment and technology that will allow them to continue operating even as hiring becomes challenging. Productivity improvements should put additional upward pressure on wages.

In this forecast, we expect growth in average annual wages to offset slowing employment growth, allowing total wage and salary income to grow modestly between 4 and 5 percent over the next several years.

A global economic slowdown and a stronger U.S. dollar relative to major trading partners makes Minnesota-produced goods and commodities more expensive elsewhere in the world, reducing demand for the state's products abroad. Exports of Minnesota manufactured goods have fallen over the last year, and manufacturing employment has declined. In this forecast, we expect improvements in global growth to lead Minnesota manufacturers to add jobs starting in 2018.

Source: Minnesota Department of Employment and Economic Development (DEED)

Well into the current economic expansion, Minnesota continues to add jobs at a fairly steady rate. Consistent job growth has contributed to the state's declining unemployment rate, which is now at 4.0 percent on a seasonally adjusted basis, 0.9 percentage points below the U.S. rate.

Budget Outlook: Current Biennium. 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 closed FY 2016 lower than estimates and current year expenditures are forecast to be lower, leaving overall spending in the current biennium $245 million lower than prior estimates. These changes, offset by a small change in the stadium reserve, result in a projected forecast balance in FY 2016-17 of $1.012 billion, $283 million higher than end of session estimates.

With each November *Budget and Economic Forecast* current law directs Minnesota Management and Budget (MMB) to allocate 33 percent of any positive unrestricted general fund balance in the current biennium to the budget reserve account until the target is met. With this forecast $334 million is allocated to the budget reserve account. After allocation, the budget reserve account balance is now $1.930 billion, $147 million below the target amount for the biennium. After allocation to the reserve, the projected unrestricted budgetary balance is $678 million.

Current Biennium: FY 2016-17 General Fund Budget

End of Session vs. November 2016 Forecast

($ in millions)	End of Session	November 2016 Forecast	$ Change	% Change
Beginning Balance	**$2,103**	**$2,103**	**$ -**	0.0%
Revenues	42,341	42,382	41	0.1
Expenditures	41,747	41,502	(245)	(0.6)
Cash Flow & Budget Reserves	1,947	1,947	-	0.0
Stadium Reserve	21	24	3	14.0
Forecast Balance	**$729**	**$1,012**	**$283**	
33% to Budget Reserve		334	334	
Budget Balance	**$729**	**$678**	**$(51)**	

Revenues. Total general fund revenues for FY 2016-17 are now forecast to be $42.382 billion, $41 million (0.1 percent) more than the February 2016 forecast adjusted for law changes. Total tax revenues for the biennium are forecast to be $40.388 billion, $27 million (0.1 percent) below the prior estimate. Lower expected individual income and sales tax revenues bring down the forecast, more than offsetting higher expected corporate, state general property, and other tax revenue.

Current Biennium: FY 2016-17 General Fund Revenues

Change From End-of-Session Estimates

($ in millions)	November 2016 Forecast	$ Change	% Change
Individual Income Tax	$21,822	$(16)	(0.1)%
General Sales Tax	10,612	(107)	(1.0)
Corporate Franchise Tax	2,605	54	2.1
State General Property Tax	1,694	5	0.3
Other Tax Revenue	3,655	37	1.0
Subtotal	**40,388**	**(27)**	**(0.1)%**
Non-Tax Revenues	1,502	34	2.3
Other Resources	492	34	7.4
Total Revenue	**$42,382**	**$41**	**0.1%**

The negative $27 million forecast change for FY 2016-17 tax revenues is the result of the forecast for FY 2017 tax revenues being reduced by $220 million, more than offsetting a positive variance at the close of FY 2016.

Individual income tax receipts are now forecast to be $16 million (0.1 percent) less than the end-of-session estimate. Lower forecast income growth in 2016 and a decrease in assumed tax liability for 2015, the base year for this forecast, contribute to the lower income tax estimate.

Among major tax types, the sales tax shows the largest dollar amount change, a decrease of $107 million from the end-of-session estimate. This change reflects lower than expected sales tax receipts so far in FY 2017, the base of this forecast, and weaker projected taxable sales growth in FY 2017. Gross sales tax receipts—net of the Motor Vehicle Lease (MVL) transfer—are now expected to be $25.4 million lower than the prior estimate, and the sales tax refund forecast has been increased by $82 million.

Higher projected gross corporate tax payments for FY 2016-17 combine with a reduced corporate refund forecast to bring expected net corporate tax revenues $54 million (2.1 percent) above the prior estimate.

Other tax revenue is now expected to exceed the prior estimate by $37 million (1.0 percent). Among other taxes, the mortgage registry tax shows the largest dollar amount change, $23 million (10.5 percent) more than in February.

Expenditures. Spending in the current biennium is now projected to be $41.502 billion, $245 million (0.6 percent) lower than end of session estimates. Lower spending in the closed fiscal year along with a lower forecast for the current year contribute to the overall reduction in estimates.

Current Biennium: FY 2016-17 General Fund Expenditures
Change From End-of-Session

($ in millions)	November 2016 Forecast	$ Change	% Change
E-12 Education	$17,403	$3	0.0%
Property Tax Aids & Credits	3,342	(9)	(0.3)
Health & Human Services	11,808	(206)	(1.7)
Debt Service	1,139	(35)	(3.0)
All Other	7,810	3	0.0
Total Expenditures	**$41,502**	**$(245)**	**(0.6)%**

More than 86 percent of the reduced spending estimate is due to lower projected Health and Human Services (HHS) expenditures. Lower enrollment in health care programs and lower expected payments for certain home and community based services account for the reduction. Smaller than expected bond issuances and lower interest rates result in a lower projected debt service obligation. All other areas of the expenditure budget, including the largest – E-12 education – are nearly unchanged from prior estimates.

Budget Outlook: Next Biennium. A $1.400 billion balance is now projected for the FY 2018-19 biennium. However, that projected balance does not represent an enacted budget, but provides the framework for developing the budget for the next two years. The resources available for FY 2018-19 have been increased by the $678 million balance for the current biennium that will carry forward into FY 2018-19.

When compared to revised estimates for the current biennium, FY 2018-19 revenues are now projected to increase by $2.939 billion (6.9 percent), while current law base spending is projected to increase $3.082 billion (7.4 percent). Expenditure growth into the next biennium is distorted by cost shifting between funds and biennia in health and human services. After adjusting for cost shifting, revenue growth into the next biennium continues to outpace expenditure growth.

These estimate are, however, only the starting point for budget development. It is important to recognize that forecast spending for FY 2018-19 is based largely on the extension of current law and appropriations. Even though state tax revenues are expected to grow at a moderate rate, forecast spending also will continue to grow – driven primarily by growth in human services spending.

Next Biennium: FY 2018-19 General Fund Budget
Biennial Comparison; November 2016 Forecast

($ in millions)	FY 2016-17	FY 2018-19	$ Change	% Change
Beginning Balance	**$2,103**	**$2,982**	**$879**	
Revenues				
Taxes	40,388	43,539	3,151	7.8
Non-Tax Revenues	1,502	1,419	(83)	(5.5)
Transfers, Other Resources	492	363	(129)	(26.2)
Total Revenues	**$42,382**	**$45,321**	**$2,939**	**6.9%**
Expenditures				
E-12 Education	17,403	18,177	774	4.4
Property Tax Aids and Credits	3,342	3,467	125	3.7
Health & Human Services	11,808	14,251	2,443	20.7
Debt Service	1,139	1,143	4	0.4
All Other	7,810	7,547	(263)	(3.4)
Total Spending	**$41,502**	**$44,585**	**$3,082**	**7.4%**
Cash and Budget Reserve	2,280	2,280		
Stadium Reserve	24	38		
Budget Balance	**$678**	**$1,400**		

Major spending forecast areas highlighted above are adjusted only for expected changes in enrollment and caseload. Outside of a limited number of budget areas such as human services health care spending and special education aids, FY 2018-19 current law base spending amounts do not include general inflation or reflect other spending pressures.

Revenues. Total general fund revenues for FY 2018-19 are now forecast to be $45.321 billion, $2.939 billion (6.9 percent) more than the current FY 2016-17 revenue forecast. Total tax revenues for the next biennium are forecast to be $43.539 billion, $3.151 billion, a 7.8 percent increase over FY 2016-17 forecast tax revenues. Growth in the individual income and sales taxes account for nearly all of the biennial tax revenue change. Of major tax types, only the corporate income tax shows a decline in expected revenues from FY 2016-17 to FY 2018-19.

The individual income tax shows the largest biennial growth, accounting for 73 percent of the total tax revenue biennial change. Income tax revenues for FY 2018-19 are forecast to be $24.120 billion, $2.298 billion (10.5 percent) more than the current estimate for FY 2016-17. Growth in income tax revenues for FY 2018-19 over FY 2016-17 is primarily the result of income growth in tax years 2017 and 2018.

General sales tax receipts for FY 2018-19 are expected to exceed FY 2016-17 forecast levels by $807 million (7.6 percent), accounting for 26 percent of the increase in tax revenues. Both higher forecast gross tax receipts and lower refunds contribute to the growth.

Next Biennium: FY 2018-19 General Fund Revenues
Biennial Comparison; November 2016 Forecast

($ in millions)	FY 2016-17	FY 2018-19	$ Change	% Change
Individual Income Tax	$21,822	$24,120	$2,298	10.5%
General Sales Tax	10,612	11,419	807	7.6
Corporate Franchise Tax	2,605	2,540	(65)	(2.5)
State General Property Tax	1,694	1,745	51	3.0
Other Tax Revenue	3,655	3,716	61	1.7
Total Tax Revenues	**40,388**	**$43,539**	**$3,151**	**7.8%**
Non-Tax Revenues	1,502	1,419	(83)	(5.5)
Other Resources	492	363	(129)	(26.2)
Total Revenues	**$42,382**	**$45,321**	**$2,939**	**6.9%**

The corporate franchise tax is forecast to generate $2.540 billion in FY 2018-19, $65 million (2.5 percent) less than the current FY 2016-17 forecast. Gross corporate franchise tax receipts are forecast to shrink by $71 million (2.4 percent), and corporate refunds are expected to grow by $7 million (1.7 percent).

Other tax revenue is now forecast to grow by $61 million (1.7 percent) in FY 2018-19 over FY 2016-17. The largest growth is in insurance gross earnings tax revenues, which are expected to be $48 million (6.5 percent) higher in FY 2018-19 than in FY 2016-17.

The current forecast for FY 2018-19 revenues is $467 million (1.0 percent) less than the end-of-session estimate. Total tax revenues for the biennium are forecast to be $457 million (1.0 percent) below the prior estimate. The forecast change is due to lower expected individual income and sales tax revenues.

Expenditures. Total spending for FY 2018-19 is now forecast to be $44.585 billion, $3.082 billion (7.4 percent) more than the current forecast for the FY 2016-17 biennium.

Next Biennium: FY 2018-19 General Fund Expenditures
Biennial Comparison; November 2016 Forecast

($ in millions)	FY 2016-17	FY 2018-19	$ Change	% Change
E-12 Education	$17,403	$18,177	$774	4.4%
Property Tax Aids & Credits	3,342	3,467	125	3.7
Health & Human Services	11,808	14,251	2,443	20.7
Debt Service	1,139	1,143	4	0.4
All Other	7,810	7,547	(263)	(3.4)
Total Expenditures	**$41,502**	**$44,585**	**$3,082**	**7.4%**

Health and human services spending is the single largest component of biennial growth in general fund spending. Despite reductions in both the current and next biennium, health and human services costs continue to grow year over year. Biennial spending is expected to increase $2.443 billion (20.7 percent) from the current biennium into FY 2018-19.

However, cost shifting between the general fund and health care access fund, along with shifting across budget periods distorts that overall growth. After adjusting for cost shifting of approximately $530 million, biennial growth in health and human services is expected to be 14.4 percent. Increasing costs for Medical Assistance, due to higher enrollment and projected increases in health care costs, drive the underlying growth.

The largest state budget category, E-12 education, is expected to grow $774 million (4.4 percent) to $18.177 billion in the next biennium. Legislative funding increases including a two percent increase to the basic formula in each year of the current biennium drive a portion of the change. Underlying enrollment growth in schools and inflationary cost increases in special education also contribute to the biennial growth in E-12 education.

Property tax aids and credits are expected to grow by $125 million (3.7 percent) over the current biennium. Increases in the property tax refund program due to property tax growth outpacing income growth are responsible for most of this change. Debt service spending in the next biennium is largely unchanged from estimates for the current biennium. All other spending areas actually decline, reflecting one-time grant or project spending in the current biennium that is not forecast to continue in FY 2018-19.

Budget Outlook: Planning Estimates. This report provides the first budget planning estimates for the FY 2020-21 biennium. These longer term planning estimates are materially different than the short term forecasts for FY 2017-19. The longer term projections have a higher degree of uncertainty and a significantly higher potential range of error.

Planning Estimates: General Fund Budget
November 2016 Forecast

($ in millions)	FY 2018	FY 2019	FY 2020	FY 2021
Forecast Revenues	$22,188	$23,133	$23,777	$24,761
Projected Spending	22,025	22,560	23,222	23,837
Difference	**$163**	**$573**	**$555**	**$924**
Estimated Inflation (CPI)	*$446*	*$881*	*$1,341*	*$1,826*

Projected revenue growth exceeds expenditure growth through the forecast horizon, indicating structural balances for FY 2020-21. But, these balances can be misleading. Forecast revenues for the planning estimates are matched against projected current law spending that assumes no changes will occur over the four-year period beyond those incorporated in current law. Increases are largely limited to enrollment, caseload and formula driven costs in education, health and human services and property tax aids and credit programs; while all other areas generally represent FY 2017 appropriated levels continuing unchanged.

Outside of a few specific budget areas, projected spending for FY 2018-21 does not include a general adjustment for inflation; nor does is necessarily reflect the actual cost of continuing current services. Projected inflation based on the consumer price index (CPI) is forecast to be 2.6 percent and 2.4 percent for FY 2018 and FY 2019; followed be 2.4

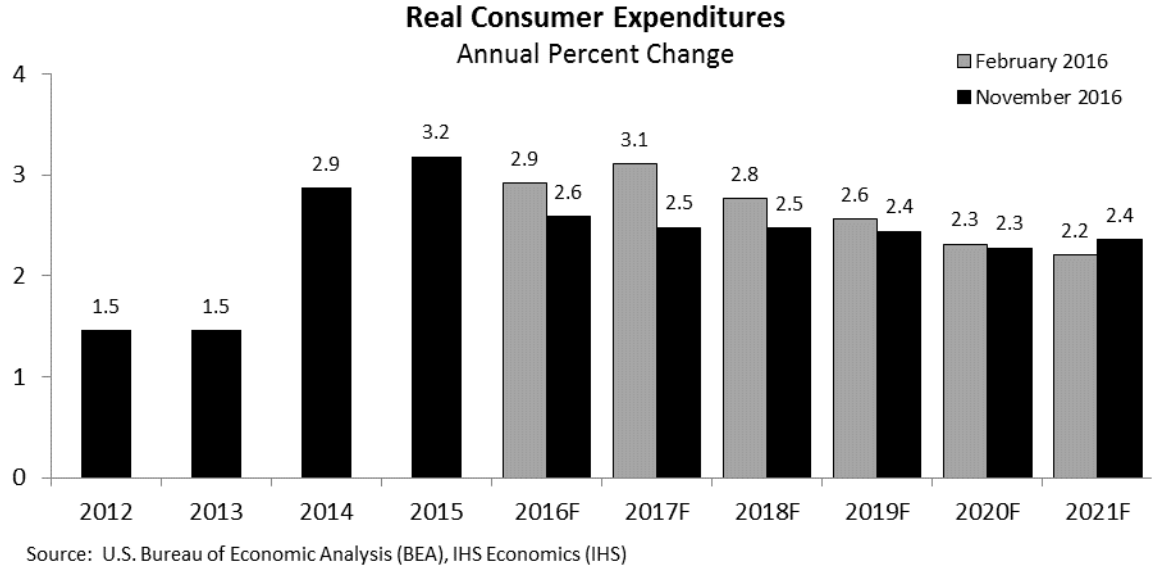
percent and 2.5 percent for the planning years. This inflationary cost growth, compounded over the four-year period, will add pressure to the cost of services currently provided by state government.

The planning estimates are not meant to predict balanced or unbalanced budgets in the future. Their purpose is to assist in determining how well projected state revenues will match ongoing spending over a longer term. The FY 2020-21 projections provide a current law framework to analyze the impacts of FY 2018-19 budget proposals and legislative actions.

ECONOMIC OUTLOOK

U.S. Economic Outlook

The outlook for U.S. economic growth has weakened since Minnesota's *Budget and Economic Forecast* was last prepared in February 2016. 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 (IHS), has decreased their forecast for real GDP growth in 2016 from 2.4 percent in February's outlook to 1.5 percent in November. Lower forecasts for consumer spending and business capital purchases reduce the 2017 growth forecast from 2.8 percent in February to 2.2 percent in November. Consumer spending growth is expected to remain modest and helps lower the economic growth forecasts for 2018 and 2019.



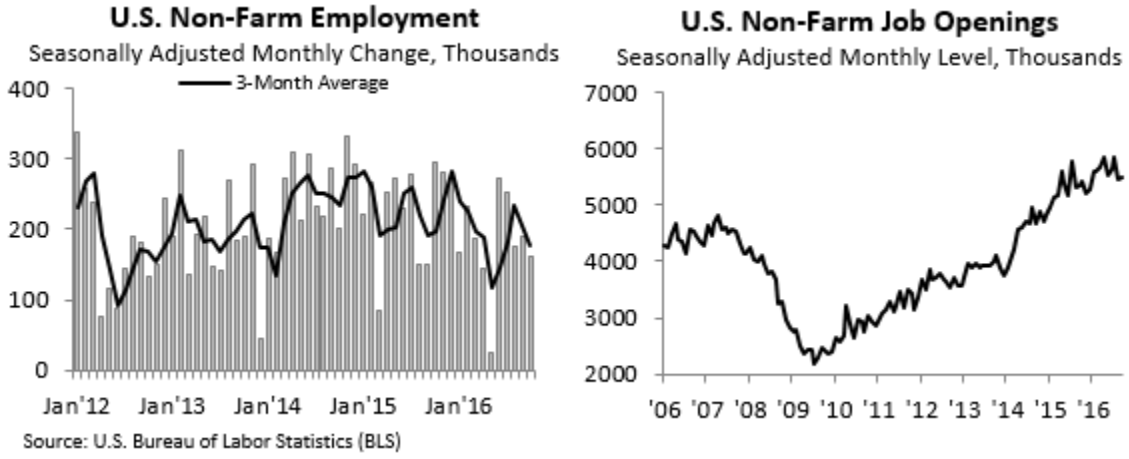
Source: U.S. Bureau of Economic Analysis (BEA), IHS Economics (IHS)

Lower forecasts for consumer spending and business capital purchases reduce the 2017 economic growth forecast. In 2018 and 2019, modest consumer spending growth is expected be supported by wage growth in excess of inflation and improvements in employment and household net worth.

The IHS November U.S. outlook was released on November 7 and does not reflect possible post-election U.S. policy changes. There is considerable uncertainty in this forecast about which policy changes may be enacted in the coming years and the economic impact of those changes. IHS has said that they are examining the president-elect's policy proposals

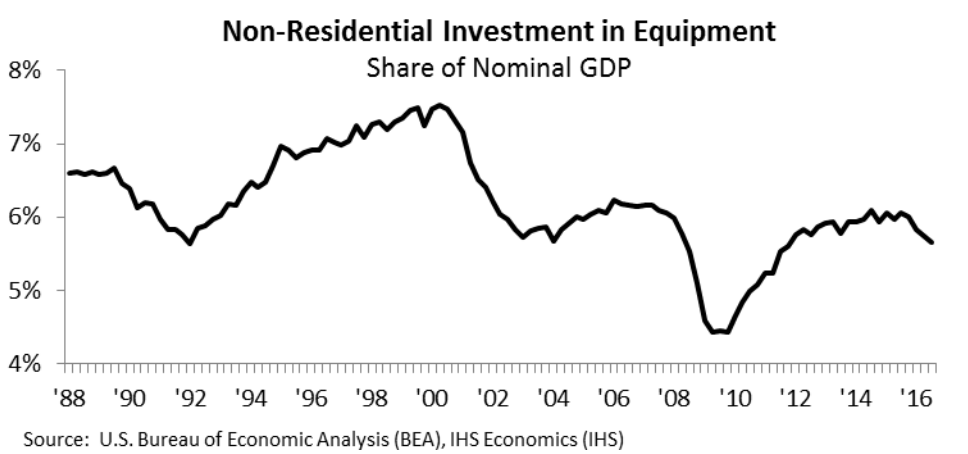
and trying to determine their likelihood of enactment. As that becomes clearer, IHS will incorporate them into their forecast. It is likely that IHS's assessment of the impacts of U.S. policy will change with each monthly outlook release until policies become more settled. Until then, the impact of potential policy changes on several key economic sectors—including energy, banking, international trade, health care, and immigration—remain sources of risk to this forecast.

Going forward into our forecast horizon, IHS expects consumer spending to remain the primary contributor to growth in the economy. Since IHS released their November outlook, BEA has increased their estimate of 3rd quarter real GDP growth to an annual rate of 3.2 percent from their advance estimate of 2.9 percent on the strength of a more robust consumer spending estimate. According to the Bureau of Labor Statistics (BLS), the establishment payroll survey showed that U.S. employers added 161,000 jobs in October. This was a respectable, but not thrilling, number following average additions of about 200,000 per month during the previous 12 months. In addition, the October report showed that average hourly earnings of private sector employees grew 2.8 percent over the year, the largest increase since 2009 and evidence of solid wage gains. IHS expects consumer spending to continue to be supported over the next couple of years by wage growth in excess of inflation and improvements in employment and household net worth.



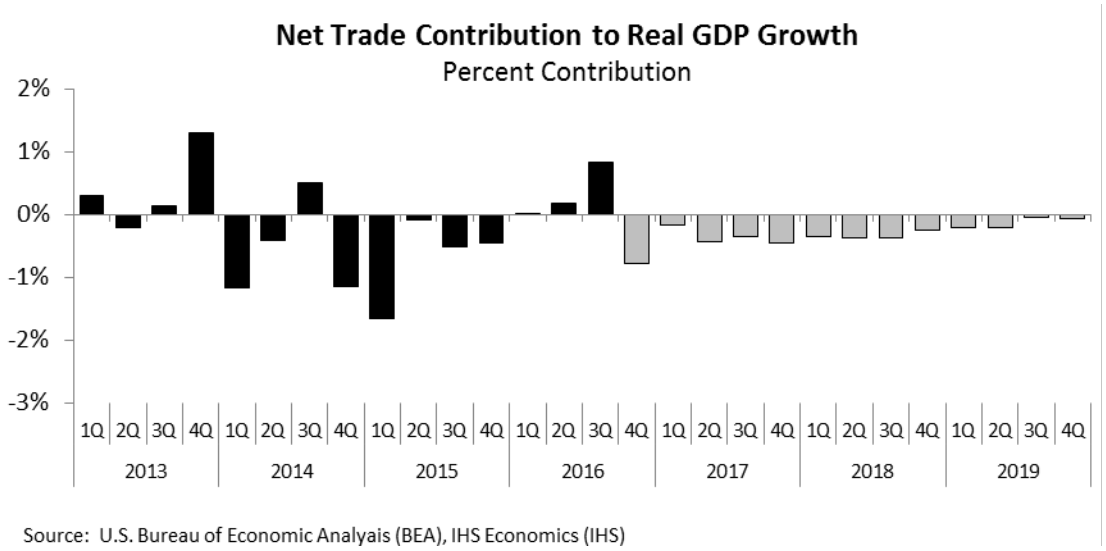
According to the Bureau of Labor Statistics (BLS), the establishment payroll survey showed that U.S. employers added 161,000 jobs in October. This was a respectable number following average additions of about 200,000 per month during the previous 12 months.

Business investment has struggled to contribute to GDP growth in recent years. While spending on buildings has picked up, equipment spending has been a drag on GDP this year and is forecast to decline 0.2 percent in 2016. IHS expects equipment spending to pick up by the end of 2016 and continue to grow in 2017 as three factors that IHS believes to be temporary fade. Those factors are slow global growth, a sell-off of accumulated inventories, and the strong U.S. dollar.



IHS expects equipment spending to pick up by the end of 2016 and continue to grow in 2017 as the impacts of slow global growth, a sell-off of accumulated inventories, and the strong U.S. dollar fade.

The promise of rising U.S. interest rates, while rates remain low or negative in many other countries, together with stronger economic growth in the U.S. than abroad, increases demand for and the value of U.S. currency. A stronger dollar increases the cost of U.S.-made goods and commodities, making them more expensive for overseas customers. This impact has slowed export growth in recent years. IHS now expects the dollar to continue to gain value against major currencies through the first half of 2017, and then begin to fall as global economies recover strength and foreign interest rates start to rise. Consequently, the IHS forecast calls for real exports to grow 2.4 percent in 2017 and 3.2 percent in 2018. However, because imports are expected to recover to more normal levels, net exports will not contribute to real GDP growth for the next several years.



The IHS forecast calls for real exports to grow 2.4 percent in 2017 and 3.2 percent in 2018. However, because imports are expected to recover to more normal levels, net exports will not contribute to real GDP growth for the next several years.

Respectable job and wage growth and little negative economic news increases the likelihood that the Federal Open Market Committee (FOMC) will raise the upper bound of the federal funds rate target at its December 13-14 meeting. Recent comments by FOMC members indicate a rate hike is likely, and federal funds futures traders place the probability at over 90 percent. IHS expects an increase in the rate target of 0.25 percentage points at the December meeting, with gradual tightening as the labor market further improves and inflation moves toward the Fed's target of 2 percent. The IHS November outlook expects the federal funds rate to reach 2.75 percent in late 2019 and then hold steady at that level.

The IHS November outlook is similar to that of other macroeconomic forecasters. The November Blue Chip Consensus, the average of about 50 business forecasts, calls for real GDP to grow 1.5 percent in 2016 followed by 2.2 percent in 2017, matching the IHS projection. In October, Blue Chip reported long-range consensus forecasts for 2018-2022. For each year in the remainder of our forecast horizon, the IHS growth forecast is in the middle of the range of forecasts in the survey.

Forecast risks. Even aside from new policy uncertainty following the U.S. presidential election, there are risks inherent in this forecast. First, annual real GDP growth of 2.0-2.2 percent as is expected in this forecast is well below the 3.1 percent average annual growth that we saw during the 20 years prior to the Great Recession. Slow growth makes the economy more vulnerable to shocks, reducing its capacity to weather an unexpected event. Second, the current economic recovery and expansion period is now well into its eighth year, and will soon be the third longest since the 1850s. If growth continues into the middle of 2019, this will be the longest U.S. expansion, surpassing that of the 1990s. While simple old age is not thought to end an expansion, some would argue that the closer the cycle gets to record-setting length, the lower the probability of continuing to avoid a downturn.

Finally, the IHS November economic outlook depends on several key forecast assumptions. If these assumptions do not materialize, the economic outcome will differ from IHS's baseline forecast. (1) Regarding U.S. fiscal policy, IHS expects to see bipartisan agreements to fund existing obligations without interruption. They assume that Congress will address the lack of a FY 2017 budget by passing another continuing resolution by the December 9 expiration date of the current resolution. (2) IHS expects the Federal Reserve to increase the upper bound of the federal funds rate target to 0.75 percent at their December 13-14 meeting, with the target reaching 2.00 percent by the end of 2018. (3) The November outlook assumes continued slow global growth, with annual real GDP growth for major U.S. trading partners averaging 1.8 percent over the next ten years. (4) IHS assumes that the promise of higher U.S. interest rates and stronger economic growth in the U.S. than abroad will continue to attract investment into the U.S., increasing the value of the dollar until it peaks in mid-2017. (5) IHS expects energy prices to remain subdued, with the price of a barrel Brent crude oil hovering around $50 until mid-2017 and staying below $60 in 2018.

IHS assigns a probability of 65 percent to the November baseline outlook. They assign 20 percent probability to a more pessimistic scenario, in which domestic and global political uncertainty weakens business and consumer confidence and triggers a two-quarter recession during the fourth quarter 2017 and the first quarter of 2018. In IHS's more

optimistic scenario, technology-driven productivity growth boosts wage and salary income, housing demand, and consumer spending and raises real GDP growth in 2017. This scenario gets a 15 percent probability.

Minnesota Economic Outlook

Well into the current economic expansion, Minnesota continues to add jobs at a fairly steady rate. Consistent job growth has contributed to the state's declining unemployment rate, which is now at 4.0 percent on a seasonally adjusted basis, 0.9 percentage points below the U.S. rate. At the same time, the state's employment growth is seeing the effects of drags on exports and a tightening labor market. State employment grew by 1.1 percent over the 12 months ending in October, below U.S. growth of 1.6 percent. In this forecast, we expect Minnesota employment to grow about 1.0 percent per year for the next several years.

With strong demand for workers and low unemployment, Minnesota's labor market remains tight. The most recent data indicate that there were nearly as many job vacancies as unemployed job seekers statewide. The number of workers filing initial claims for unemployment insurance has fallen, and recent months have seen increases in both the average number of weekly hours worked by private sector employees and their average hourly earnings. We expect Minnesota employers to respond by investing in productivity-enhancing equipment and technology that will allow them to continue operating even as hiring becomes challenging. Productivity improvements should put additional upward pressure on wages.

In this forecast, we expect growth in average annual wages to offset slowing employment growth, allowing total wage and salary income to grow modestly between 4 and 5 percent over the next several years.

Well into the current economic expansion, Minnesota continues to add jobs at a fairly steady rate. Consistent job growth has contributed to the state's declining unemployment rate, which is now at 4.0 percent on a seasonally adjusted basis, 0.9 percentage points below the U.S. rate.

A global economic slowdown and a stronger U.S. dollar relative to major trading partners makes Minnesota-produced goods and commodities more expensive elsewhere in the world, reducing demand for the state's products abroad. Exports of Minnesota

manufactured goods have fallen over the last year, and manufacturing employment has declined. In this forecast, we expect improvements in global growth to lead Minnesota manufacturers to add jobs starting in 2018.

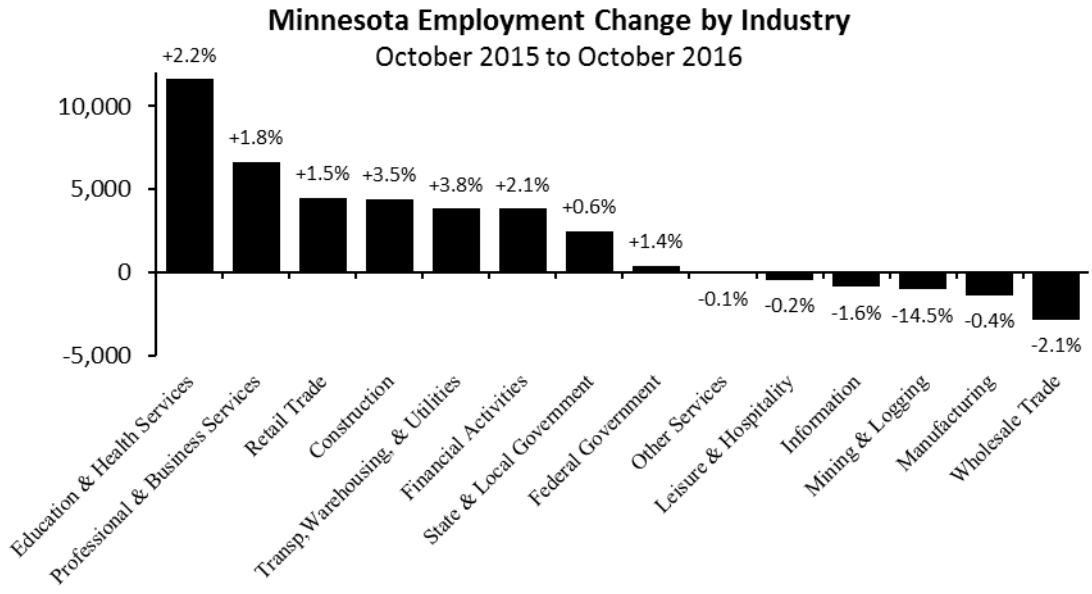
Forecast Comparison: Minnesota & U.S.

Forecast 2016 to 2019, Calendar Years

	2012	2013	2014	2015	2016	2017	2018	2019
Personal Income (Billions of Current Dollars)								
Minnesota								
November 2016	254.0	256.0	268.1	279.3	285.8	297.8	311.6	326.1
%Chg	6.4	0.8	4.7	4.2	2.4	4.2	4.6	4.6
February 2016	254.5	257.1	267.4	277.4	286.2	299.2	313.9	328.2
%Chg	5.2	1.0	4.0	3.7	3.2	4.5	4.9	4.6
U.S.								
November 2016	13,915	14,074	14,810	15,459	15,971	16,665	17,484	18,352
%Chg	5.0	1.1	5.2	4.4	3.3	4.3	4.9	5.0
February 2016	13,915	14,068	14,694	15,357	15,960	16,722	17,564	18,427
%Chg	5.0	1.1	4.4	4.5	3.9	4.8	5.0	4.9
Wage and Salary Disbursements (Billions of Current Dollars)								
Minnesota								
November 2016	135.4	139.6	145.9	153.8	159.4	166.9	174.8	182.9
%Chg	4.9	3.1	4.5	5.4	3.6	4.7	4.7	4.6
February 2016	135.4	139.6	145.9	152.8	158.6	166.0	173.7	181.3
%Chg	4.9	3.1	4.6	4.7	3.8	4.7	4.6	4.4
U.S.								
November 2016	6,930	7,117	7,476	7,855	8,152	8,561	8,994	9,443
%Chg	4.5	2.7	5.1	5.1	3.8	5.0	5.1	5.0
February 2016	6,930	7,114	7,478	7,839	8,216	8,618	9,035	9,468
%Chg	4.5	2.7	5.1	4.8	4.8	4.9	4.8	4.8
Total Non-Farm Payroll Employment (Thousands)								
Minnesota								
November 2016	2,730	2,776	2,814	2,856	2,895	2,923	2,949	2,979
%Chg	1.6	1.7	1.4	1.5	1.3	1.0	0.9	1.0
February 2016	2,730	2,776	2,815	2,853	2,882	2,907	2,931	2,953
%Chg	1.6	1.7	1.4	1.4	1.0	0.9	0.8	0.7
U.S.								
November 2016	134,173	136,381	138,939	141,833	144,308	146,073	147,369	148,851
%Chg	1.7	1.6	1.9	2.1	1.7	1.2	0.9	1.0
February 2016	134,173	136,381	138,939	141,832	144,322	145,921	147,427	148,898
%Chg	1.7	1.6	1.9	2.1	1.8	1.1	1.0	1.0
Average Annual Non-Farm Wage (Current Dollars)								
Minnesota								
November 2016	49,597	50,305	51,858	53,859	55,065	57,098	59,285	61,409
%Chg	3.2	1.4	3.1	3.9	2.2	3.7	3.8	3.6
February 2016	49,598	50,284	51,839	53,571	55,028	57,109	59,250	61,399
%Chg	3.2	1.4	3.1	3.3	2.7	3.8	3.7	3.6
U.S.								
November 2016	51,652	52,182	53,810	55,381	56,488	58,606	61,034	63,440
%Chg	2.7	1.0	3.1	2.9	2.0	3.7	4.1	3.9
February 2016	51,652	52,165	53,820	55,267	56,928	59,056	61,285	63,584
%Chg	2.7	1.0	3.2	2.7	3.0	3.7	3.8	3.8

Source: IHS Economics and Minnesota Management and Budget (MMB)

Employment. Well into the current economic expansion, Minnesota continues to add jobs at a fairly steady rate, but the state's employment growth is seeing the effects of low commodity prices, drags on exports, and a tightening labor market. According to the October 2016 employer survey released by the Minnesota Department of Employment and Economic Development (DEED), the state added 31,375 net new jobs in 2016 (measured fourth quarter to fourth quarter), an increase of 1.1 percent, less than the national rate of 1.6 percent. Minnesota's employment gains continue to be broad based, with solid gains particularly in education and health services (up 11,623 jobs), professional and business services (up 6,644) and trade, transportation and utilities (up 5,532). Additional industries that grew are construction (up 4,436), financial activities (up 3,832), and government (up 2,954).



Source: Minnesota Dept. of Employment and Economic Development (DEED); Minnesota Management & Budget (MMB)

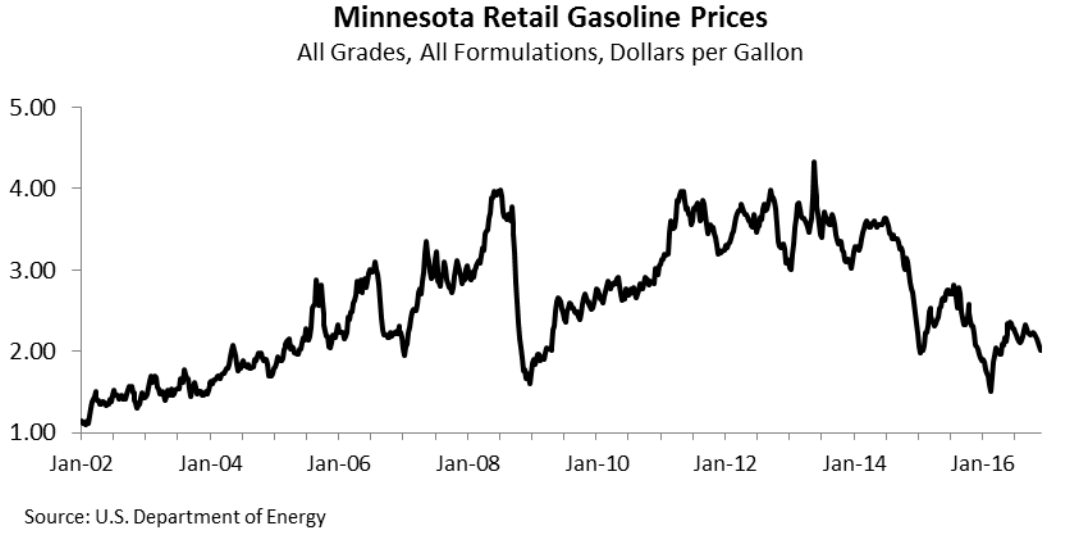
Minnesota continues to add jobs at a fairly steady rate, but the state's employment growth is seeing the effects of low commodity prices, drags on exports, and a tightening labor market.

Minnesota's November 2016 economic forecast assumes overall labor market conditions will continue to improve into 2017. We expect revised employment growth of 43,042 in 2016—measured fourth quarter to fourth quarter—up from 33,641 in 2015 and 35,064 in 2014. Minnesota employers are forecast to add an average of 2,667 jobs per month to their payrolls in 2017. The overall prospect for 2017 is encouraging, with forecast job gains of 27,200, led by education and healthcare, professional and business services, retail trade, and construction. Mining, manufacturing, and wholesale trade are expected to be drags on employment growth this upcoming year due to ongoing global factors.

Consistent job growth over the last several years has driven down Minnesota's unemployment rate to its current level of 4.0 percent. However, we expect to see a deceleration of employment growth in 2017 and 2018 as firms emphasize productivity

improvements to keep labor costs down. Additionally, Minnesota's population has been steadily aging, and in the near future baby-boomers will be retiring at accelerated rates. This is likely to have an impact on hiring behavior in the Minnesota's labor market. Employers will need to replace these retired workers with new employees with similar skills, which could require higher wage offers to skilled candidates. Moreover, the effect of low commodity prices; challenges to exports, such as slow global growth and the strong U.S. dollar; and a tightening labor market are starting to constrain job growth in manufacturing, mining, and leisure and hospitality. According to seasonally adjusted data from DEED, Minnesota employment fell by 12,500 jobs in October, including in those industries. Even though the effect of these factors may suppress employment growth for several years, the broader slowdown is likely to be related to the state nearing its full employment potential, as job growth is being increasingly constrained by slower labor force growth and demographic trends.

Lower Oil Prices. While some Minnesota workers and businesses likely benefitted from the oil and gas boom in neighboring North Dakota, Minnesota is not an oil-producer. The state's overall performance is more a reflection of its large and diverse economic base and the resilience of a major metropolitan area. Lower oil prices have reduce capital investment and drilling exploration among energy producers nationally, and the number of currently active drilling rigs in western North Dakota's Bakken oil fields has dropped to the fewest since mid-2009. For Minnesotans, however, lower prices primarily imply savings in the consumption of gasoline and other petroleum products. According to the U.S. Energy Information Administration, the average price of a gallon of gasoline in Minnesota was around $2 at the end of October, down from $3.60/gallon (or 44 percent) in mid-2014. Lower gas prices likely loosened household budget constraints, freeing up disposable income for spending on non-gasoline goods and services and savings.

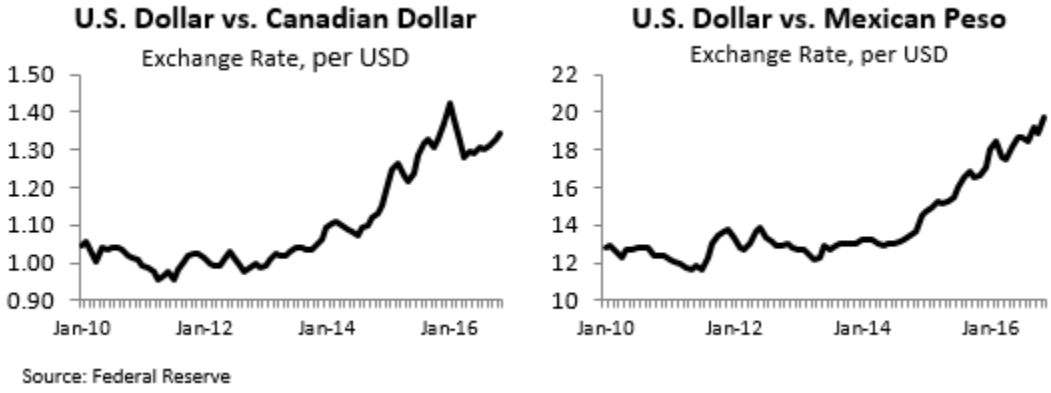


The average price of a gallon of gasoline in Minnesota was around $2 at the end of October, down from $3.60/gallon (or 44 percent) in mid-2014. Lower gas prices likely loosened household budget constraints, freeing up disposable income.

Exports. Minnesota's exports of goods and services to countries throughout the world are an important source of economic strength. According to DEED data for the second quarter of 2016, Minnesota exports, including agricultural, mining and manufactured products, were valued at $4.8 billion, showing a decline of 8 percent since the second quarter of 2015, which is 2 percent more than the national decline of exports over the same period.

A global economic slowdown and stronger dollar relative to major trading partner currencies makes Minnesota-produced goods and commodities more expensive elsewhere in the world, reducing demand for the state's products abroad.

In relation to other states, Minnesota dropped from 22nd to the 23rd largest exporting state. State exports to three of the state's top 10 country markets grew by 5 percent or more, as did exports to some additional smaller markets. Minnesota's manufacturing activity has decelerated, because businesses are adjusting their production to face the conditions of weaker foreign growth and the strong dollar. According to DEED, Minnesota manufactured exports fell about 9 percent to $4.5 billion in the second quarter of 2016, compared with a 6 percent decline nationally. The dollar's strength relative to trading partner currencies has affected Minnesota exports to North America, the European Union and Asia.



Source: Federal Reserve

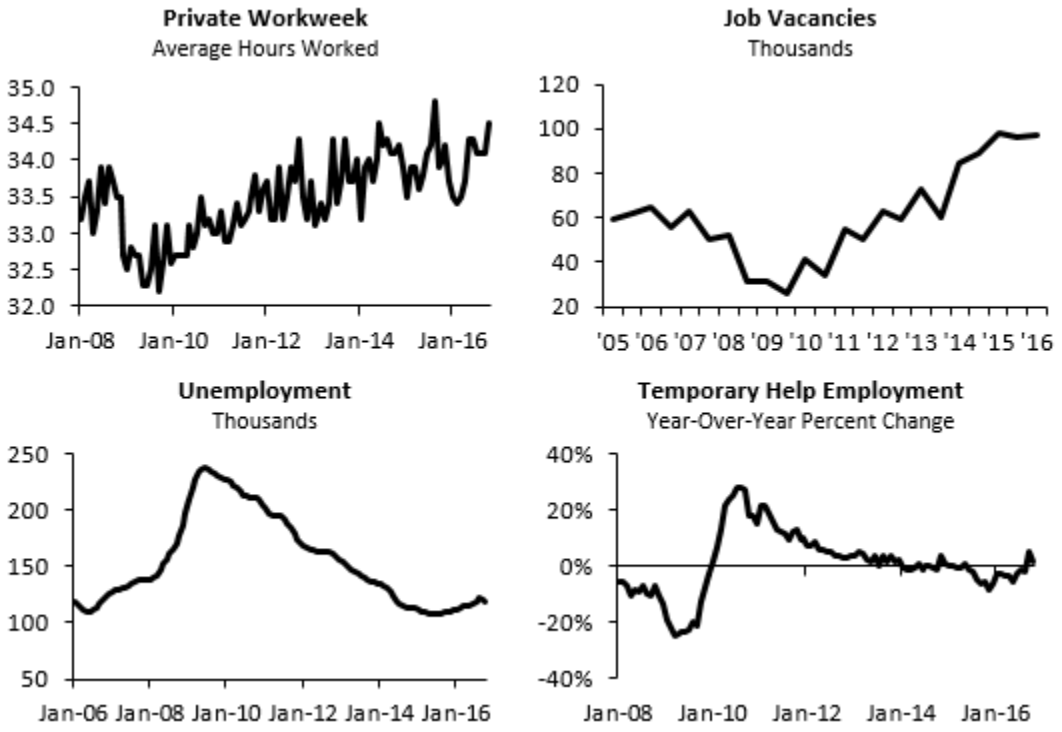
The dollar's strength relative to trading partner currencies has affected Minnesota exports to North America, the European Union and Asia.

Minnesota's exports to North America have fallen $61 million, or 4 percent, to $1.7 billion. Sluggish sales to Canada, which went down by 8 percent, were partially offset by the strong demand in Mexico, which rose 5 percent. The state's exports to Europe dropped 8 percent to $1.1 billion and fell even more to Asia, decreasing by 12 percent, which represents $204 million during this period. On the other hand, Minnesota exports to Africa performed very well, increasing by 32 percent to $43 million. Overall, between the second quarters of 2015 and 2016, exports of the top 10 product groups all declined. Despite the overall decline, the exporting sectors that show growth are diverse, including cereals; chemicals and metal; some metal products; mineral fuel and oil products; and prepared meat, fish and seafood products.

Labor Market. With strong demand for workers and low unemployment, Minnesota's labor market remains tight. Consistent job growth has contributed to the declining unemployment rate. Minnesota's unemployment rate held steady at 4.0 percent on a seasonally adjusted basis in October 2016, 0.9 percentage points less than the national rate. In addition, job vacancies have increased consistently since the Great Recession, and DEED reports 97,580 job vacancies in the second quarter of 2016. The industries with the largest numbers of vacancies are health care and social assistance, accommodation and food service, retail trade, and manufacturing. DEED also reports that about 55.3 percent of job vacancies were located in the Twin Cities seven-county area and the remaining 44.7 percent were in Greater Minnesota.

Another indication that that the state's labor market conditions are tightening is the rate at which employers lay off workers. According to DEED, the number of Minnesotans filing new claims for unemployment benefits, generally a barometer of short-term labor market trends, has averaged about 18,000 per month from January to October 2016.

Minnesota Leading Indicators

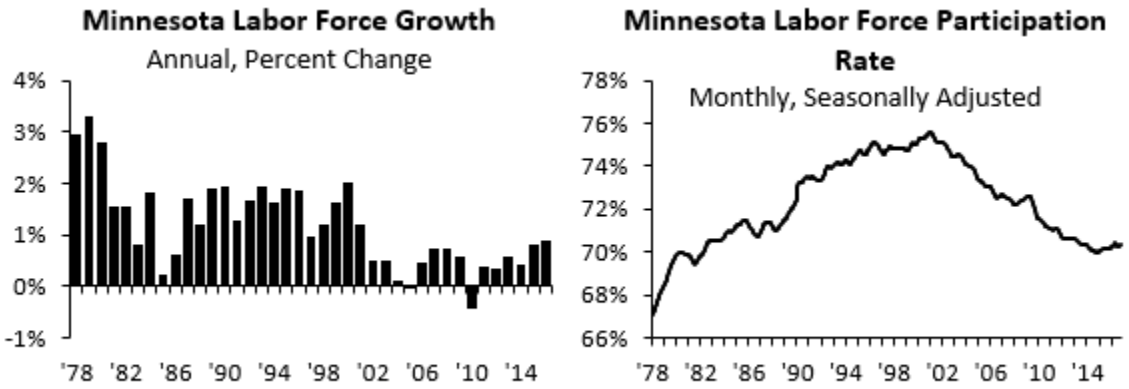


With strong demand for workers and low unemployment, Minnesota's labor market remains tight.

Looking at other leading indicators, DEED reports that the average workweek in the private sector is holding steady in the first 10 months of 2016 at level of 33.95 hours, about the same as in 2015 and up from 32.6 hours in 2009. Temporary help jobs have stabilized into a normal growth path. Finally, DEED data shows that there were 1.2 unemployed job seekers for each job vacancy statewide, equivalent to one year ago. This is the second

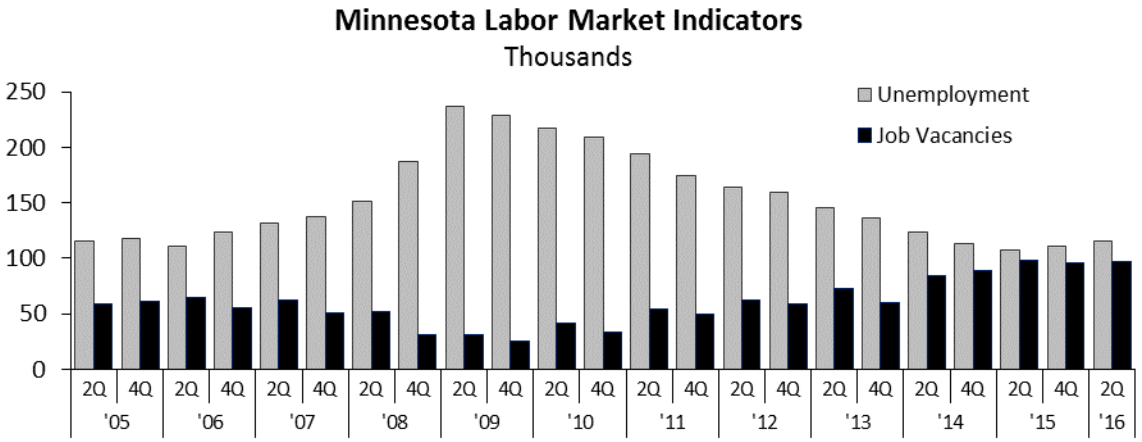
lowest ratio in sixteen years, which indicates that the labor market has continued to improve for job seekers since the recession.

In October 2016, Minnesota's labor force participation rate was 70.4 percent. Minnesota has one of the highest total labor force participation rates among states, surpassing the national average by nearly 8 percentage points. Although we observe modest growth, Minnesota's labor force participation rate continues to be low compared to recent decades. The proportion of the population age 16 and older that is employed or actively looking for work has dropped from about 72 percent near the start of the recession in late 2007, to a bit more than 70 percent in October 2016, which is a bit higher than the more than 30-year low participation rate that has prevailed since late-2014. According to DEED, the number of discouraged workers in Minnesota—those who stopped looking for work because they believed there were no jobs available that fit their qualifications—is converging to a normal pre-recession level. This indicates that retirements among Minnesota's aging population is the main cause of exits from the labor force.



Minnesota has one of the highest total labor force participation rates among states, surpassing the national average by nearly 8 percentage points.

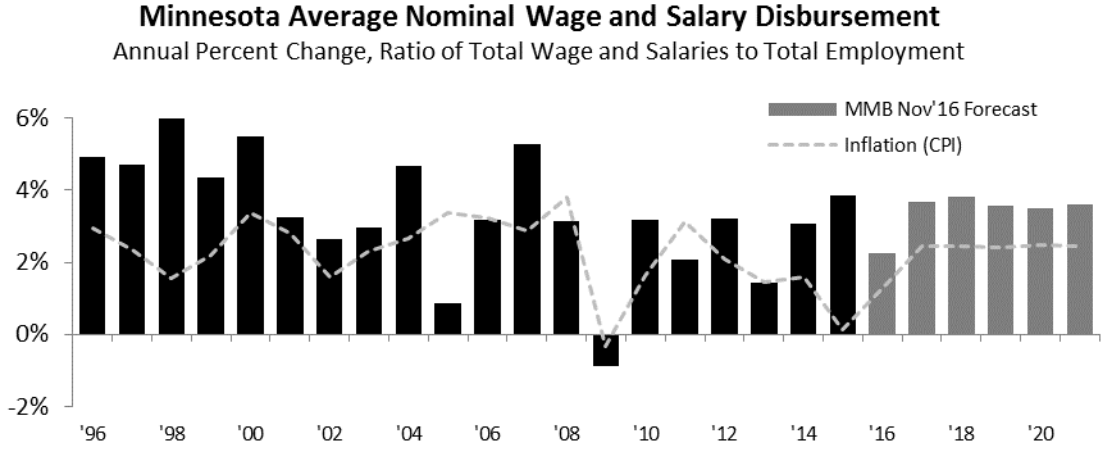
In the November 2016 economic forecast, Minnesota's labor market will continue to tighten as it approaches its full potential. The state's unemployment rate is likely to stay steady in coming months, as little job market slack remains. Sound economic fundamentals nationally and in Minnesota will also support investment in productivity-enhancing technology, and thereby an acceleration in wage growth. We expect to see a situation in which employers have the burden of filling open positions, placing job seekers at an advantage. This is likely to generate wage growth and incentivize some people to re-enter the labor force, thus reducing the decay in Minnesota's labor force participation rate throughout much of the forecast horizon. As a result, annual labor force growth is assumed to pick up, from an average of 0.5 percent between 2012 and 2015, to 0.9 percent in 2016 and average of about 0.6 percent in 2017.



Source: Minnesota Department of Employment and Economic Development (DEED)

Minnesota's labor market will continue to tighten as it approaches its full potential. The state's unemployment rate is likely to stay steady in coming months as little job market slack remains.

Wage and Salary Income. A crucial variable influencing Minnesota's individual income tax liability is total wage and salary income. According to the state's income tax sample, for example, it accounted for over 70 percent of federal adjusted gross income for Minnesota residents in 2014. In MMB's model of Minnesota's economy, total wage income is derived largely as a function of the hourly cost of labor (or average hourly wages), hours worked, and employment. Therefore, tracking the direction of these three important indicators provides a useful account concerning the underlying path of total wage income.

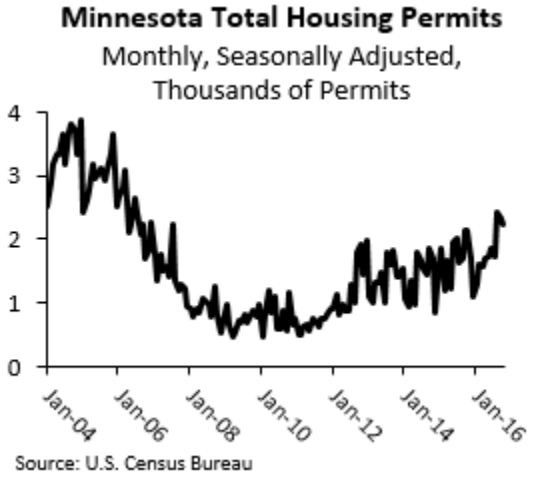


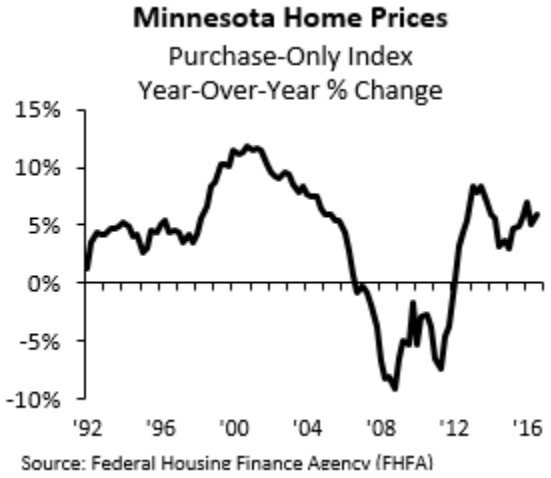
Source: Buearu of Economic Analysis (BEA); Minnesota Department of Employment and Economic Development (DEED); Minnesota Management & Budget (MMB)

Average hourly wage growth in Minnesota has been weak for several years due in part to high overall slack in the labor market and the lack of productivity growth.

Average hourly wage growth in Minnesota has been weak for several years due in part to high overall slack in the labor market and the lack of productivity growth. MMB's proxy measure for the change in workers' average hourly wages in Minnesota is the Employment Cost Index (ECI)—defined as nominal wage compensation per employee hour worked. The ECI has averaged only about 2 percent annual growth since the recession ended more than six years ago. Likewise, the length of the average workweek, MMB's proxy measure for hours worked, declined during the Great Recession, then rebounded to near pre-recession levels by early 2012, and has since fluctuated only little in recent years. Therefore, nominal gains in total wage and salary income throughout much of the recovery have been largely driven by solid job growth. Employment rebounded in the early years following the recession, but unlike hours worked, continued to grow at a steady 1.3 to 1.8 percent pace between 2011 and 2015.

Housing. Minnesota's housing recovery continued to gain traction from its excellent performance in 2015, and as we approach the end of 2016 the results in the homebuilding activity are encouraging. As of October 2016, closed sales of homes in Minnesota preserves its good performance, reaching an 11-year high. Also encouraging are rising median and mean sales prices. According to the Minnesota Association of Realtors, in October 2016 the median sales price in the state rose 8.5 percent, while the average sales price increased 6.1 percent. Even though the market is healthier and prices and sales have recuperated, there are some anomalies such as low inventory that can threaten the proper functioning of this market. As the labor market continues to tighten and wages continue to grow, more people will be looking for long-term stable housing, increasing household formations.



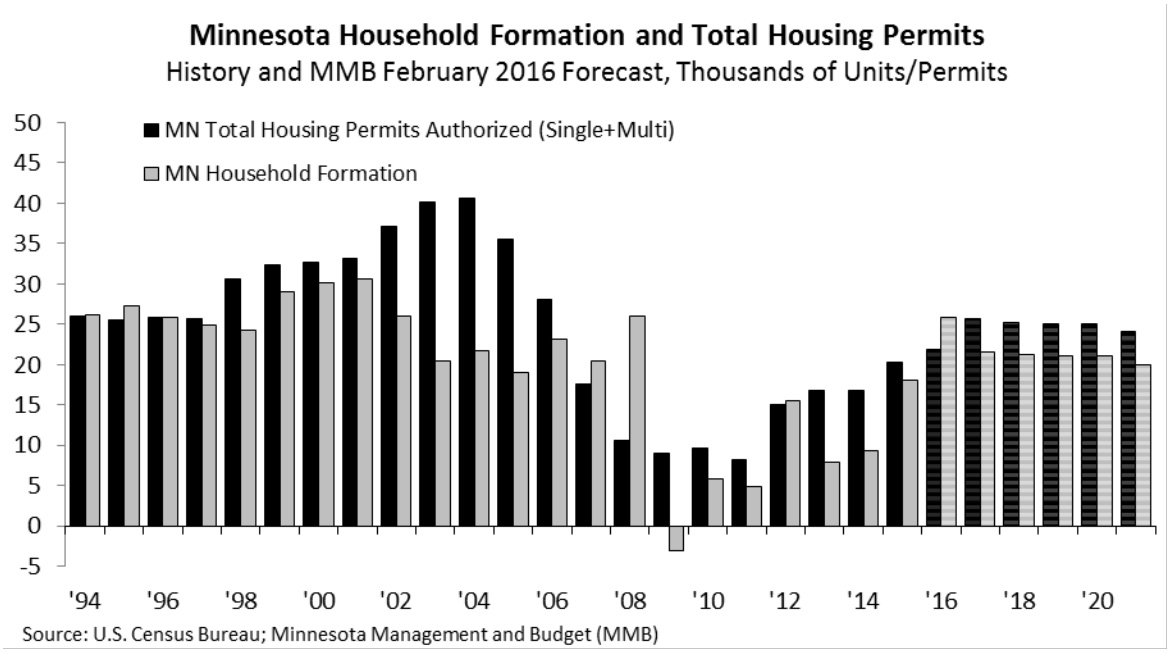


Minnesota's housing recovery continued to gain traction from its excellent performance in 2015, and as we approach the end of 2016 the results in the homebuilding activity are encouraging.

Household formation is a key driver of demand for housing. Increasing formations foster housing sales and starts. After six years of low levels, annual household formations have picked up to 18,000 in 2015, consistent with continued employment growth and improving headship rates among young adults. In 2016 and 2017, annual net new formations are forecast to be around 25,700 and 21,600, respectively. The 30-year fixed mortgage rate has

risen to 4.16 percent at the end of November. Even though this is still low relative to historic norms, if rates keep moving up, it could affect demand for homes.

Despite the persistent irregularity of low housing inventory, the housing affordability picture is still favorable, with Minnesota home prices growing around 5 to 7 percent year-over-year for the three quarters of 2016. Time on the market until a property is sold is about 62 days, which is an 11.4 percent decrease over the same period last year. In many communities across Minnesota, buyers are experiencing a shortage of housing which induces them to made quick decisions in order to secure a purchase. Statewide, there were only about 24,700 homes available for sale at the end of October, according the Minnesota Association of Realtors, down 16.8 percent from an already very low level of 29,700 a year earlier.



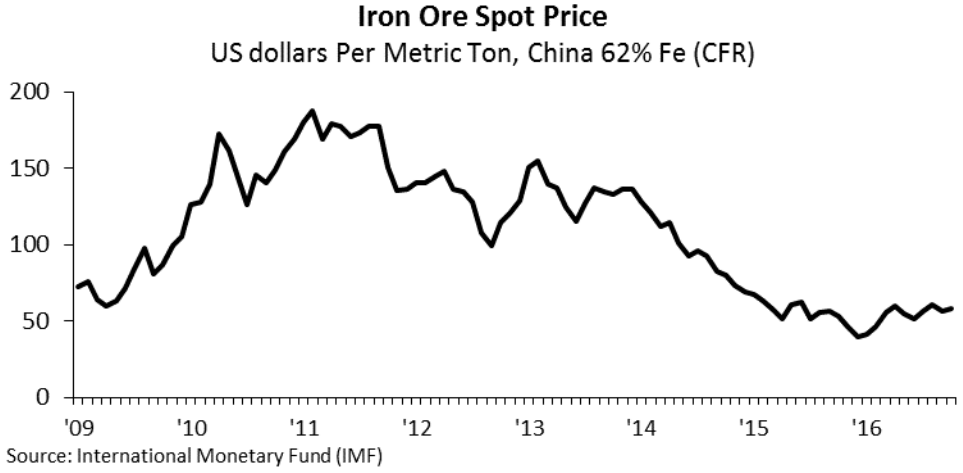
Increasing formations foster housing sales and starts. After six years of low levels, annual household formations have picked up in 2015, and is expected to continue this encouraging pattern through 2016 and 2017.

We expect an increase in residential construction activity due to factors such as increasing home sales, release of pent-up demand from young adults, and an inventory dip. According to the U.S. Census Bureau, the total number of authorized residential building permits in Minnesota rose to 20,344 in 2015, up from 16,789 and 16,810 in the previous two years, although still well below the long-term annual trend of 30,000 permits per year. In MMB's November 2016 outlook, total housing permits are forecast to be 21,817 in 2016 and 25,651 in 2017. The generation of new housing construction projects implies a higher need for building tradesmen such as boilermakers, masons, carpenters and roofers. Residential construction employment, including specialty trade contractors added 5,300 jobs during 2015—measured fourth quarter to fourth quarter— and is estimated to add 5,800 jobs (4.8 percent) in 2016 followed by continued gains of 3,700 jobs (2.7 percent) in 2017.

Therefore, we continue to expect a prosperous construction sector with the capability of absorbing potential job losses in other sectors such as the mining and energy industries.

If household formation rates remain sluggish, due to weaker-than-expected labor market conditions or headship rates among young adults, Minnesota's housing recovery is unlikely to perform as forecast. The low inventory situation is not expected to change immediately. However, more homes will eventually enter the market because of the change in housing preferences combined with demographic shifts. Finally, if mortgage interest rates rapidly exceed the post-financial-crisis average level, this could dampen the eagerness of households to buy.

Iron Ore Mining. Global economic growth is the primary factor that drives iron ore supply and demand. Slower growth in China—which accounts for nearly 70% of global iron ore demand—has affected the global price of iron ore in the last years, negatively affecting Minnesota's Iron Range. Deceleration of demand in China, together with a global excess supply of steel generated a collapse in prices for both finished steel and its primary raw material, iron ore. Prices for iron ore have fallen by nearly 75 percent in the past three years, from $150/ton in early 2013 to below $40/ton at the end of 2015. In 2016, we observe a slightly increasing tendency with a jump to $58/ton on October 2016, however, this is still 61 percent below the price of early 2013.



Slower growth in China—which accounts for nearly 70% of global iron ore demand—has affected the global price of iron ore in the last years, producing a negative impact on Minnesota's Iron Range.

Factors such as the slow recuperation from the collapse of global commodity prices combined with the effects of a stronger dollar are contributing to make imported steel cheaper and accelerating the increase in imports. In addition, speculative futures trading has increased the volatility in iron ore pricing affecting the commodity's strength. This international context has triggered the reaction of U.S. steelmakers resulting in limited production, decreased prices, and trimmed demand for Minnesota taconite iron ore. This has restrained the mining operations on Minnesota's Iron Range since the beginning of last year, directly affecting northeastern Minnesota workers and impacting jobs and income in

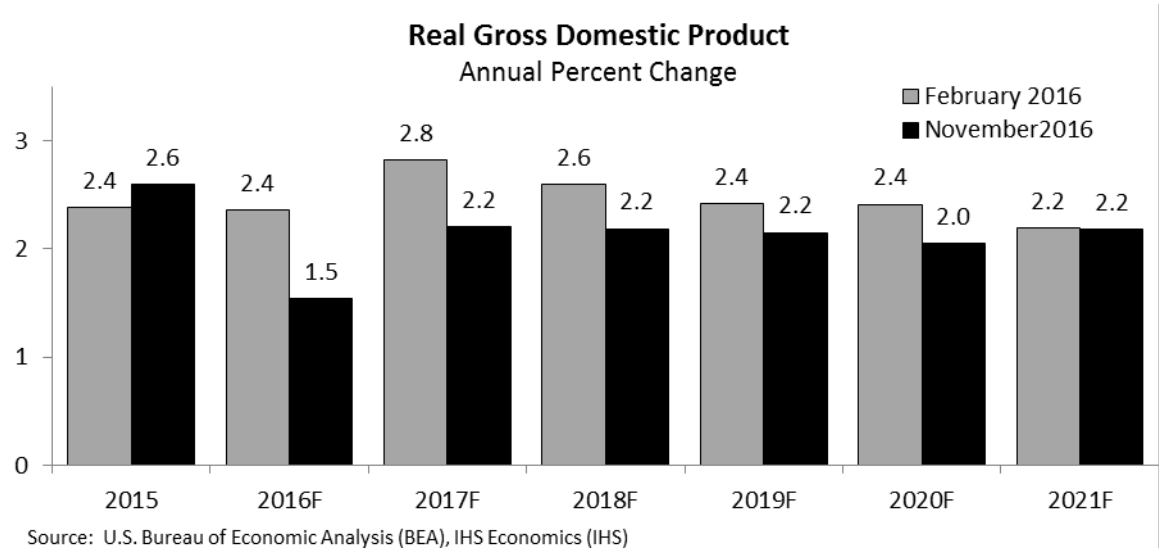
associated industries such as utilities, transportation, manufacturing, and local services. Rebalancing of the global iron ore market could take several years. Additions to supply by low-cost producer countries continues to boost supply so that it surpasses demand. In this context, it is unlikely that global demand for iron ore will return to 2013 levels in the upcoming years.

Council of Economic Advisors' Statement

Minnesota's Council of Economic Advisors (CEA) met on November 14, 2016, to review the IHS outlook for U.S. economic growth, which includes the assumptions underlying Minnesota's November 2016 *Budget and Economic Forecast.* **The November outlook was released one day before the U.S. presidential election and does not incorporate any projected impact on the economy of the election results.** Council members agreed that there is considerable uncertainty about which policy changes may be enacted in the coming years and the economic impact of those changes. As policy proposals and their likelihood of enactment become clearer, IHS will incorporate them into their baseline forecast.

Since February, IHS has decreased their growth expectations for 2016 to 2021. The largest change occurs early in the forecast, with projected real GDP growth in 2016 decreasing from 2.4 percent in February's outlook to 1.5 percent in November. IHS also lowered their forecast for 2017 real GPD growth from 2.8 percent in the February outlook to 2.2 percent in November. In the November outlook, business investment and consumer spending both contribute less to 2016 and 2017 real GDP growth relative to February. Growth expectations for each of the later years are also lower. From 2017 to 2021, IHS now expects real GDP to grow cumulatively 1.1 percentage points more slowly than they had projected in February.

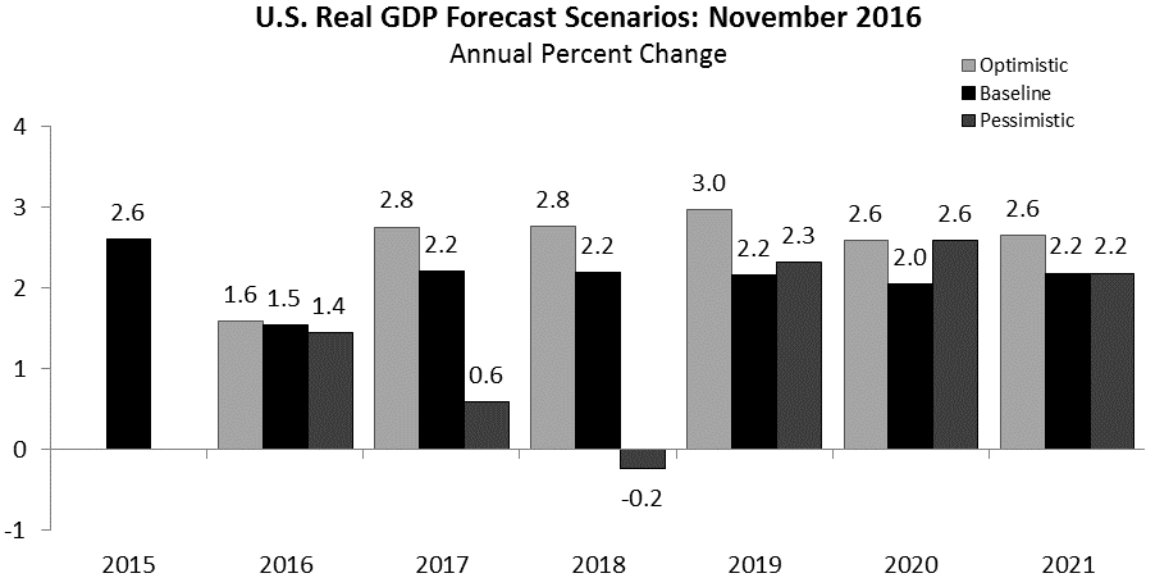
A net reduction in inventories subtracted from growth in the second quarter of this year, and IHS expects that impact to be temporary. As the inventory drag dissipates, IHS expects the recovery in oil prices to stimulate business investment in drilling- and exploration-related equipment and structures, supporting real GDP growth.



The November outlook was released one day before the U.S. presidential election and does not incorporate any projected impact on the economy of the election results. Subject to considerable uncertainties about U.S. economic, policy council members agreed that IHS's expectations for U.S. growth are a reasonable starting point for MMB's forecast.

The IHS November outlook is similar to that of other macroeconomic forecasters. The November Blue Chip Consensus, the average of about 50 business forecasts, calls for real GDP to grow 1.5 percent in 2016 followed by 2.2 percent in 2017, matching the IHS projection. In October, Blue Chip reported long-range consensus forecasts for 2018-2022. For each year in the remainder of the forecast horizon, the IHS growth forecast is in the middle of the range of forecasts in the survey.

Subject to considerable uncertainties about U.S. economic policy, council members agreed that IHS's expectations for U.S. growth are a reasonable starting point for MMB's November 2016 economic forecast. Regarding risks to the forecast, most members believe that for 2017 the potential for the economy to grow more quickly than IHS expects is somewhat larger than the risk of slower growth. As businesses respond to rising wage demands by increasing investment in productivity-enhancing equipment and technology, the economy could grow more quickly than forecast. On the other hand, a monetary policy response to a speed-up of inflation could cause the economy to underperform expectations. Council members also agree that the difficulty of projecting long range economic conditions, particularly in the current environment of policy uncertainty, warrants extreme caution when using forecasts for 2020 and 2021.



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

IHS assigns a probability of 65 percent to the November baseline outlook. They assign 20 percent probability to a more pessimistic scenario, in which weak business and consumer confidence triggers a two-quarter recession during the fourth quarter 2017 and the first quarter of 2018. They assign a 15 percent probability to a more optimistic scenario, in which technology-driven productivity growth raises real GDP growth in 2017.

As it has done every year since 2003, the CEA recommends that budget planning estimates for the next biennium include expected inflation in both the spending and revenue projections. The CEA noted that Minnesota's current practice of excluding projected changes in the prices of goods and services from a majority of the spending estimate is

fundamentally misleading. It is inconsistent with both sound business practices and CBO methods and potentially encourages legislators and the public to regard the state's financial position more optimistically than the facts warrant. The omission of inflation in the spending estimates in the February 2016 *Budget and Economic Forecast* understated the cost of current services as provided by law in FY 2018-19 by roughly $1.7 billion, and thus made the amount of projected revenues above the cost of providing services to appear to be larger than it actually is. This distortion will increase if and when inflation accelerates from current historically low levels.

Council members believe that Minnesota's budget reserve policy affords policymakers crucial financial flexibility during economic downturns and can promote long-term fiscal stability. The statutory policy assigns an adequate target reserve level based on MMB's annual evaluation of volatility in Minnesota's general fund tax system. Based on MMB's most recent analysis, the target level is 4.9 percent of biennial (two-year) general fund revenues. The target is a percentage of forecast revenues, allowing reserves to adjust with revenue changes over time. Finally, the policy automatically transfers 33 percent of a positive forecast balance each November into the reserves until the target is reached.

Minnesota has made progress with its reserve policy, and the state's general obligation bonds are now rated Aaa by Fitch Ratings. Nevertheless, the state's currently funded budget reserve remains below the level two other agencies expect from Aaa-rated credits. State credit ratings depend on a number of factors, but both Standard and Poor's and Moody's specifically include a measure of the adequacy of statutory budget reserves in their credit analyses. In Standard and Poor's analytical framework, states with statutory reserve levels of 4 percent or more of biennial revenue or spending receive top marks. Under Moody's state ratings methodology, statutory reserves of at least 5 percent of biennial revenue is consistent with a Aaa rating. Minnesota's current $1.597 billion budget reserve is only about 3.8 percent of forecast FY 2016-17 revenues.[1]

[1] This reflects the levels of reserves and projected revenues at the time of the November 14, 2016, Council meeting. With the release of the November 2016 *Budget and Economic Forecast*, the budget reserve is $1.930 billion, or 4.6 percent of FY 2016-17 general fund non-dedicated revenues.

BUDGET OUTLOOK

Current Biennium

When the last *Budget & Economic Forecast* was released in February 2016, a balance of $900 million was projected for the current biennium. Actions in the 2016 legislative session including spending changes, tax reductions and a transfer in from the health care access fund left a projected $729 million balance at the end of the biennium and $1.968 billion in the state's cash flow and budget reserve accounts.

November's forecast shows a slight improvement in the state's financial position with seven months remaining in the FY 2016-17 biennium. Forecast revenues are now expected to be $42.382 billion, an increase of $41 million (0.1 percent) over end of session estimates. Biennial spending estimates now total $41.502 billion, a decline of $245 million (0.6 percent) from prior estimates. A small $3 million increase in the projected stadium reserve balance partially offsets spending and revenue changes leaving a forecast balance of $1.012 billion. However, statute automatically allocates 33 percent of any positive budgetary balance in the current biennium to the budget reserve account. After $334 million is allocated to the budget reserve, the available balance at the end of the current biennium is projected to be $678 million.

FY 2016 Close. In August, the books were officially closed for the fiscal year that ended June 30, 2016. FY 2016 ended with a general fund balance of $946 million, $315 million above prior estimates. This gain, representing "money in the bank," accounts for the change in the forecast for the current biennium after adjusting for the FY 2017 changes discussed below.

FY 2016 total revenues, transfers and other resources were $258 million higher than previously forecast, with tax and non-tax revenue accounting for $220 million of the increase. Much of this increase is due to $148 million (1.1 percent) higher corporate income tax collections. Individual income tax receipts were slightly over forecast ($23 million, 0.02 percent) while sales tax collections were flat compared to prior projections.

Collections from other sources, including transfers from other funds, dedicated revenue and prior year adjustments, added $38 million to the bottom line compared to estimates. Prior year adjustments totaled $68 million, $40 million over estimates. Prior year adjustments reflect savings occurring from cancellation of encumbrances (contracts, grants, or purchase orders) or revenues deposited during the past year but are attributable to *prior fiscal years*. These are reflected as adjustments in the most recent fiscal year – in

this case, FY 2016. A small reduction in transfers from other funds partially offset the gain from prior year adjustments.

FY 2016 spending was $245 million below prior estimates. Of that amount, $187 million of unspent appropriations and are reflected as an increase in FY 2017 spending. After carry forward is considered, the net spending decrease for the biennium attributable to FY 2016 close is $58 million. Lower spending in health and human services (HHS) accounted for most of the savings.

Current Biennium: FY 2016-17 General Fund Budget
Change From End-of-Session Estimates

($ in millions)	End of Session	November 2016 Forecast	$ Change	% Change
Beginning Balance	**$2,103**	**$2,103**		
Revenues				
Taxes	40,415	40,388	(27)	(0.1)
Non-Tax Revenues	1,468	1,502	34	2.3
Transfers, Other Resources	458	492	34	7.4
Total Revenues	**$42,341**	**$42,382**	**$41**	**0.1%**
Expenditures				
E-12 Education	17,400	17,403	3	0.0
Property Tax Aids	3,351	3,342	(9)	(0.3)
Health & Human Services	12,015	11,808	(206)	(1.7)
Debt Service	1,174	1,139	(35)	(3.0)
All Other	7,807	7,810	3	0.0
Total Expenditures	**$41,747**	**$41,502**	**$(245)**	**(0.6)%**
Reserves	1,947	2,280	334	
Stadium Reserve	21	24	3	
Budgetary Balance	**$729**	**$678**		

FY 2017. While the close of FY 2016 added to the general fund bottom line in the current biennium, year to date collections in the current year are lower than expected. FY 2017 revenues are now projected to be $21.230 billion, $217 million (1.0 percent) lower than prior forecast. A lower sales tax forecast drives most of the change. Expenditures, after adjusting for appropriation carryforward, are projected to be $187 million (0.9 percent) lower in FY 2017, primarily a result of a lower HHS forecast. The lower expenditure forecast only partially offsets the reduced revenue forecast for FY 2017 leaving the net budgetary balance change attributable to the forecast for the current year $51 million lower.

Budget Reserve. Current law requires a transfer to the budget reserve account with this forecast. M.S. 16A.152 directs MMB to allocate funds to the budget reserve account, provided three conditions are met.

First, the state must have a positive forecast balance for the current biennium. With this forecast, the FY 2016-17 projected forecast balance is $1.012 billion.

Second, existing statutory provisions that allocate forecast balances to restoring reserves, repaying accounting shifts and repaying borrowed funds must be satisfied before depositing additional resources into the reserve. As of this forecast, there are no outstanding provision requiring use of the budgetary balance in the current biennium prior to transferring funds to the budget reserve account.

Third, the state's budget reserve account level must be below the level recommended to adequately mange the volatility of the general fund tax structure. The current report, released in September 2016, recommends a budget reserve level of 4.9 percent of the current biennium's general fund non-dedicated revenues, or $2.077 billion. Prior to the automatic allocation, the budget reserve account balance is $1.597 billion, below the amount recommended.

Since all three conditions are met with this forecast, current law triggers a deposit of 33 percent of the forecast balance to the budget reserve account. Of the total $1.012 billion projected forecast balance for FY 2016-17, $334 million is credited to the budget reserve account, increasing the reserve to $1.930 billion in FY 2017, just $147 million short of the target. The budget reserve target of 4.9 percent is intended to achieve a 95 percent level of confidence that a biennial deficit generated by revenue volatility will not exceed the budget reserve. With this increase, the budget reserve is approximately 4.6 percent of general fund non-dedicated revenue in the current biennium.

Next Biennium

A balance of $1.396 billion is projected for the FY 2018-19 biennium, $376 million lower than end of session estimates of $1.776 billion. Revenues in the next biennium are projected to be $45.321 billion, a decline $467 million (1.0 percent) from prior planning estimates for the biennium. Forecast spending in the next biennium is estimated to be $44.585 billion, $152 million (0.3 percent) lower than planning estimates.

Next Biennium: FY 2018-19 General Fund Budget
Change From End-of-Session Estimates

($ in millions)	End of Session	November 2016 Forecast	$ Change
Beginning Balance	**$2,696**	**$2,982**	**$286**
Forecast Revenues	47,788	45,321	(467)
Projected Spending	44,737	44,585	(152)
Balance Before Reserve	**$3,747**	**$3,718**	**$(29)**
Cash & Budget Reserve	1,947	2,280	334
Stadium Reserve	24	38	13
Budgetary Balance	**$1,776**	**$1,400**	**$(376)**

While the forecast for FY 2018-19 biennium continues to be positive, the balance has been reduced due to lower revenue projections offset by lower spending estimates, leaving an overall reduction in projected unallocated resources for the next biennium. Resources from

the FY 2016-17 biennium contribute to the positive balance, but the gain in the current biennium is allocated, in this forecast, to the budget reserve.

When compared to revised forecast estimates for the current biennium, FY 2018-19 general fund revenues are projected to increase $2.939 billion (6.9 percent) over the two year biennium while spending is expected to grow by $3.082 billion (7.4 percent). Spending growth in the FY 2018-19 biennium is distorted by HHS cost shifting in the FY 2016-17 biennium.

Next Biennium: FY 2018-19 General Fund Budget

Biennial Comparison; November 2016 Forecast

($ in millions)	FY 2016-17	FY 2018-19	$ Change	% Change
Beginning Balance	$2,103	$2,982		
Tax Revenues	40,388	43,539	3,151	7.8%
Non-Tax Revenues	1,502	1,419	(83)	(5.5)
Other Resources	492	363	(129)	(26.2)
Current Resources	**42,382**	**45,321**	**2,939**	**6.9%**
E-12 Education	17,403	18,177	774	4.4
Property Tax Aids and Credits	3,342	3,467	125	3.7
Health and Human Services	11,808	14,251	2,443	20.7
Debt Service	1,139	1,143	4	0.4
All Other	7,810	7,547	(263)	(3.4)
Total Expenditures	**41,502**	**44,585**	**3,075**	**7.4%**
Balance Before Reserves	**2,982**	**3,718**		
Cash and Budget Reserves	2,280	2,280		
Stadium Reserve	24	38		
Budgetary Balance	**$678**	**1,400**		

Revenue. Growth in the general fund's largest revenue source, the individual income tax, accounts for almost 80 percent of the overall biennial revenue growth. Individual income tax receipts are now expected to total $24.120 billion in the next two year budget period, an increase of $2.298 billion (10.5 percent) over the current FY 2016-17 biennium. The second largest source of revenue, the general sales tax, is expected to grow to $11.419 billion in FY 2018-19, an increase of $807 million (7.6 percent). Biennial growth in other major state revenue sources include the statewide property tax ($51 million), the insurance gross earnings tax ($48 million) and lawful gambling taxes ($13 million). Reductions in corporate franchise tax receipts ($65 million), estate and gift tax receipts ($31 million), tobacco settlement revenue ($15 million) and lower transfers from other funds ($87 million) partially offset the overall revenue growth into the next biennium.

Spending. Growth in the second largest spending area, HHS, drives the overall spending increase projected for the next biennium. Total HHS spending in the next biennium is projected to reach $14.251 billion, $2.443 billion (20.7 percent) higher than the current biennium. The underlying biennial growth in HHS continues to be due to rising medical assistance (MA) expenditures, however approximately $530 million of the growth in the

bill area is due to cost shifting both between budget periods and between the general fund and health care access fund. After adjusting for cost shifting, underlying HHS growth into the next biennium is approximately 14.4 percent. Growth of $774 million (4.4 percent) E-12 education due to a rising student population and $125 million (3.7 percent) in property tax aids and credits accounts for the remainder of the expenditure growth. Partially offsetting the overall expenditure growth into the next biennium is $263 million lower spending in all other areas of the state budget, mostly due to the expiration of one-time spending for projects or grants in the current biennium.

Debt Service and Capital Budget Assumptions. In the *Budget & Economic Forecast* MMB makes assumptions about the size of the capital budget that will be authorized in each legislative session over the budget forecast horizon. The assumption has historically been based on an average of the past ten years, differentiating between the larger even year capital budget and the smaller odd year capital budget. In the February 2016 *Budget & Economic Forecast* the debt service forecast was based on an assumption of an $800 million capital budget in even years and a $230 million capital budget in odd years. At the conclusion of the 2016 legislative session, there was not an enacted capital budget. Due to this unique circumstance, MMB has consulted with legislative staff and communicated to the legislature that this forecast will deviate from past practice and assume a larger $800 million capital budget for the 2017 legislative session and use the February 2016 assumptions of $800 million capital budgets for even year legislative sessions and $230 million capital budgets in odd numbered years.

Budget Reserve and Cash Flow Account. In this forecast, the budget reserve account balance in the next biennium is projected to be unchanged from the current biennium, at $1.930 billion. This balance is 4.3 percent of projected revenues in the next biennium. An analysis setting a budget reserve target for the next biennium based on the volatility of general fund revenue sources will be released in September 2017, after the budget is enacted for the FY 2018-19 biennium. The cash flow account balance of $350 million unchanged in this forecast.

Stadium Reserve. An improved gambling tax forecast has increased the stadium reserve account in all years of this forecast compared to prior estimates. Gambling tax receipts are projected to be approximately $4 million higher (8.2 percent) in each year compared to end of session estimates. With this forecast, the stadium reserve account balance is projected to be $38 million by the end of FY 2019, up from a projection of $24 million in prior estimates. By the end of the planning horizon in FY 2021 it is projected that the stadium reserve account will grow to $78 million due in part to the retention of Minneapolis sales tax receipts to reimburse the state for payments and advances made on the city's behalf for stadium obligations.

Planning Estimates

This forecast provides the first planning estimates for the FY 2020-21 biennium. These estimates carry a high degree of uncertainty and inherently larger potential range of error compared to the short term forecast for the current and next biennium.

Planning estimates for FY 2020-21 are presented to assist longer-term financial planning. Revenue projections are based on IHS' November baseline forecast for 2020 and 2021. Expenditure projections assume that current funding levels and policies continue unchanged, adjusted only for caseload and enrollment changes as well as specific formula driven items. The expenditure forecast does not assume cost growth outside of a few specific budget areas like health care, debt service, property tax refunds and special education where assumptions for price increases or market conditions are specified by statute or projected in the forecast.

Planning Horizon: General Fund Budget
By Biennium, FY2014-19, November 2014 Forecast

($ in millions)	FY 2016-17	FY 2018-19	FY 2020-21
Forecast Revenues	$42,382	$45,321	$48,539
Projected Spending	41,502	44,585	47,059
Difference	**$879**	**$736**	**$1,479**
Estimated Inflation (CPI)	*$-*	*$1,327*	*$3,167*

The table shows forecast revenues and projected spending while excluding the impact balances from prior years and reserves in order to highlight the structural balance or imbalance. FY 2018-19 spending is expected to be $736 million less than forecast revenues and in FY 2020-21 revenues are expected to exceed spending $1.479 billion.

Projected inflation based on the Consumer Price Index (CPI) is now expected to be 2.6 percent and 2.4 percent for FY 2018 and FY 2019 followed by 2.4 percent and 2.5 percent annual increases in the planning years. After adjusting for programs with price increases included in the current law formula, applying the annual inflation rate, compounded over the four year period, to current law spending would add $300 million per year to the preceding year's adjusted base.

The planning estimates are not intended to predict surpluses or deficits three or more years into the future. Rather their purpose is to assist in determining how well ongoing expenditures are likely to match future revenues based on trends in Minnesota's economy, and the level of spending that is needed to maintain current programs. The FY 2020-21 planning estimates provide an important baseline against which longer-term impacts and affordability of proposed FY 2018-19 budget solutions and decisions in the 2017 legislative session can be measured.

REVENUE OUTLOOK

Current Biennium

Total general fund revenues for FY 2016-17 are now forecast to be $42.382 billion, $41 million (0.1 percent) more than the February 2016 forecast adjusted for law changes. Total tax revenues for the biennium are forecast to be $40.388 billion, $27 million (0.1 percent) below the prior estimate. Lower expected individual income and sales tax revenues bring down the forecast, more than offsetting higher expected corporate, state general property, and other tax revenue.

Current Biennium: FY 2016-17 General Fund Revenues
Change From End-of-Session Estimates

($ in millions)	End of Session	November 2016 Forecast	$ Change	% Change
Individual Income Tax	$21,838	$21,822	$(16)	(0.1)%
General Sales Tax	10,718	10,612	(107)	(1.0)
Corporate Franchise Tax	2,551	2,605	54	2.1
State General Property Tax	1,688	1,694	5	0.3
Other Tax Revenue	3,619	3,655	37	1.0
Total Tax Revenues	**$40,415**	**40,388**	**(27)**	**(0.1)%**
Non-Tax Revenues	1,468	1,502	34	2.3
Other Resources	458	492	34	7.4
Total Revenues	**$42,341**	**$42,382**	**$41**	**0.1%**

The negative $27 million forecast change for FY 2016-17 tax revenues is the result of the forecast for FY 2017 tax revenues being reduced by $220 million, more than offsetting a positive variance at the close of FY 2016.

Individual Income Tax. Individual income tax receipts are now forecast to be $16 million (0.1 percent) less than the end-of-session estimate. Lower forecast income growth in 2016 and a decrease in assumed tax liability for 2015, the base year for this forecast, contribute to the lower income tax estimate.

This forecast builds from final 2015 income tax liability. Using information from processed tax returns, we estimate that final 2015 tax liability is $9.962 billion, $34 million less than estimated in February.

Calibrating the individual income tax model to produce our estimated base year liability generally requires making assumptions about base year growth rates for particular income types. According the Bureau of Labor Statistics (BEA) Quarterly Census of Employment and Wages (QCEW), Minnesota total wage and salary income grew 0.7 percent faster in CY 2015 than we had forecast in February. Offsetting the slightly stronger wage growth is weaker estimated growth in non-wage income. Assumed 2015 growth in dividend income was lowered to 1.1 percent from 6.6 percent in the February forecast. Taxable interest income is now assumed to have declined 1.9 percent in 2015, compared to assumed growth of 0.3 percent in February. In February we assumed capital gains realizations by Minnesota residents declined 2.1 percent in CY 2015. We now assume the decline was 4.9 percent. In addition, we lowered our estimate of CY 2015 capital gains realizations arising from one-time Minnesota-based corporate activity.

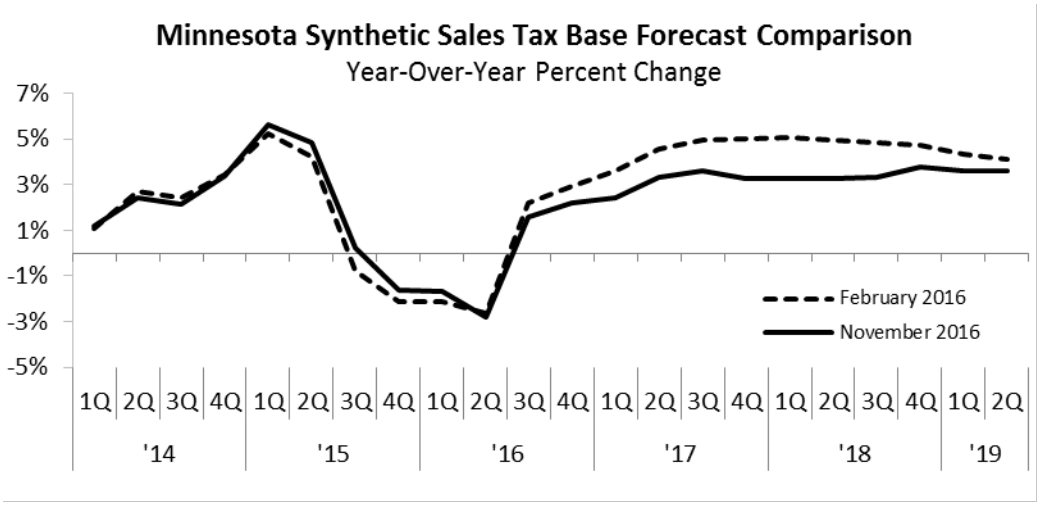
A lower forecast of non-wage income growth in CY 2016 and 2017 combines with the reduced tax year 2015 liability to lower the forecast for FY 2016-17 income tax revenues. Estimated tax payments during the first three quarters of CY 2016 are about $26 million lower than forecast, which is consistent with lower than expected non-wage income growth. We now expect capital gains realizations by Minnesota residents to decline by 5.7 percent in CY 2016, compared to assumed growth of 2.0 percent in the February forecast. Taxable Social Security payments in CY 2016 and 2017 are now forecast to grow more slowly than we had projected in February. These changes are partially offset by higher expected growth in business income, which is now forecast to grow 4.0 percent in CY 2016 compared to 3.5 percent in February.

A higher base for the sum of income taxes paid by fiduciaries and non-resident partnerships combines with higher expected growth in business income—only partially offset by lower capital gains income—adding to the revenue forecast for FY 2016-17. Changes in assumptions about transfers of refunds to estimated tax resulted in a one-time increase in revenues. This was a change in the timing of refunds and does not affect tax liability.

General Sales Tax. Among major tax types, the sales tax shows the largest dollar amount change, a decrease of $107 million from the end-of-session estimate. This change reflects lower than expected sales tax receipts so far in FY 2017, the base of this forecast, and weaker projected taxable sales growth in CY 2017. Gross sales tax receipts—net of the Motor Vehicle Lease (MVL) transfer—are now expected to be $25 million lower than the prior estimate, and the sales tax refund forecast has been increased by $82 million.

In the first four months of FY 2017, gross sales tax collections (net of the MVL transfer) have been $27 million less than expected, lowering the base for this forecast. Minnesota's synthetic sales tax base, a proxy for the actual sales tax base, is now expected to grow more slowly in FY 2017 than had been assumed in February. Forecasts for growth in nearly all of the major components of taxable sales have been lowered since February. The exception is construction materials sales, which are expected to grow faster in this forecast than in the prior estimate.

A law change taking effect in mid-2015 replaced Minnesota's capital equipment sales tax refund with an up-front exemption and adds considerable uncertainty to the sales tax forecast. Currently, capital equipment refunds continue to be paid, because purchasers were allowed up to three-and-one-half years to apply for their refunds. The forecast for sales tax refunds has been raised, in part because of an increase in estimated capital equipment refunds remaining in the pipeline and a noticeable increase in purchaser claims in recent years.



Source: U.S. Bureau of Economic Analysis; IHS Economics; Minnesota Management & Budget (MMB)

Lower than expected taxable sales so far in FY 2017 and lower projected growth in taxable sales in CY 2017-2019 reduce the sales tax forecast for FY 2016-17 and FY 2018-19.

Corporate Franchise Tax. Higher projected gross corporate tax payments for FY 2016-17 combine with a reduced corporate refund forecast to bring expected net corporate tax revenues $54 million (2.1 percent) above the prior estimate. Corporate refunds are now expected to be $2 million lower than the prior estimate, and the gross corporate receipts forecast has been increased by $52 million.

This forecast builds from our estimate of implied CY 2015 corporate franchise tax liability. We estimate total corporate tax liability attributable to CY 2015 to be $1.361 billion, $10 million more than the February estimate.

Higher estimated 2015 corporate liability and higher than expected advance payments so far in CY 2016 offset a weaker corporate profits forecast to raise our estimate of implied CY 2016 corporate tax liability. We estimate total corporate tax liability attributable to CY 2016 to be $1.291 billion, $23 million above the February estimate.

Source: U.S. Bureau of Economic Analysis (BEA); IHS Markit; Minnesota Management and Budget (MMB)

New assumptions for U.S. corporate profits growth in 2017 affect corporate tax revenue for the remainder of FY 2016-17.

In addition to higher CY 2016 implied liability, new assumptions for corporate profits growth in 2017 affect the corporate tax revenue forecast for the remainder of FY 2016-17. Annual profits are now expected to grow by 6.2 percent in 2017, compared to 6.1 percent growth in the February forecast.

The corporate income tax forecast includes an off-model adjustment for the impact of the Historic Structure Rehabilitation Credit (HSRC). Our practice is to forecast the full revenue impact of the HSRC within corporate refunds, even though some credits accrue to non-corporate taxpayers, and some credits reduce tax payments rather than increase refunds. Total HRSCs are now forecast to be $41 million higher in FY 2016-17 than the February estimate.

Other Tax Revenue, Non-Tax Revenue, Other Resources. Other tax revenue is now expected to exceed the prior estimate by $37 million (1.0 percent). Among other taxes, the mortgage registry tax shows the largest dollar amount change, $23 million (10.5 percent) more than in February. Cigarette and tobacco products tax revenues in FY 2016-17 are now expected to be $21 million (1.7 percent) lower than the prior estimate. Revenues from the estate tax are now forecast to exceed the prior estimate by $20 million (5.8 percent).

Next Biennium

Total general fund revenues for FY 2018-19 are now forecast to be $45.321 billion, $2.939 billion (6.9 percent) more than the current FY 2016-17 revenue forecast. Total tax revenues for the next biennium are forecast to be $43.539 billion a $3.151 billion (7.6 percent) increase over FY 2016-17 forecast tax revenues. Growth in the individual income and sales taxes account for nearly all of the biennial tax revenue change. Of the major tax types, only the corporate income tax shows a decline in expected revenues from FY 2016-17 to FY 2018-19.

Next Biennium: FY 2018-19 General Fund Revenues
Biennial Comparison; November 2016 Forecast

($ in millions)	FY 2016-17	FY 2018-19	$ Change	% Change
Individual Income Tax	$21,822	$24,120	$2,298	10.5%
General Sales Tax	10,612	11,419	807	7.6
Corporate Franchise Tax	2,605	2,540	(65)	(2.5)
State General Property Tax	1,694	1,745	51	3.0
Other Tax Revenue	3,655	3,716	61	1.7
Total Tax Revenues	**40,388**	**$43,539**	**$3,151**	**7.8%**
Non-Tax Revenues	1,502	1,419	(83)	(5.5)
Other Resources	492	363	(129)	(26.2)
Total Revenues	**$42,382**	**$45,321**	**$2,939**	**6.9%**

The current forecast for FY 2018-19 revenues is $467 million (1.0 percent) less than the end-of-session estimate. Total tax revenues for the biennium are forecast to be $457 million (1.0 percent) below the prior estimate. The forecast change is due to lower expected individual income and sales tax revenues.

Next Biennium: FY 2018-19 General Fund Revenues
Change From End-of- Session

($ in millions)	End of Session	November 2016 Forecast	$ Change	% Change
Individual Income Tax	$24,155	$24,120	$(36)	(0.1)%
General Sales Tax	11,846	11,419	(428)	(3.6)
Corporate Franchise Tax	2,544	2,540	(4)	(0.2)
State General Property Tax	1,734	1,745	11	0.6
Other Tax Revenue	3,717	3,716	(0)	(0.0)
Total Tax Revenues	**43,996**	**$43,539**	**(457)**	**(1.0)%**
Non-Tax Revenues	1,425	1,419	(7)	(0.5)
Other Resources	366	363	(3)	(0.9)
Total Revenues	**$45,788**	**$45,321**	**$(467)**	**(1.0)%**

Individual Income Tax. The individual income tax shows the largest biennial growth, accounting for 73 percent of the total tax revenue biennial change. Income tax revenues for FY 2018-19 are forecast to be $24.120 billion, $2.298 billion (10.5 percent) more than the current estimate for FY 2016-17.

Growth in income tax revenues for FY 2018-19 over FY 2016-17 is primarily the result of income growth in tax years 2017 and 2018. Minnesota wage and salary income is now forecast to grow 4.7 percent in CY 2017 and 4.8 percent in CY 2018. Non-wage income is forecast to grow 5.1 percent in CY 2017 and 4.7 percent in CY 2018.

Regarding forecast change, lower expected non-wage income growth in CY 2017 and CY 2018 reduces forecast individual income tax receipts for FY 2018-19 by $36 million (0.1 percent). Relative to the February forecast, we have cumulatively reduced expected non-wage income growth by 1.8 percentage points CY 2017 and 2.1 percentage points in CY 2018.

General Sales Tax. General sales tax receipts for FY 2018-19 are expected to exceed FY 2016-17 forecast levels by $807 million (7.6 percent), accounting for 26 percent of the increase in tax revenues. Both higher forecast gross tax receipts and lower refunds contribute to the growth.

Gross sales tax receipts in FY 2018-19 are forecast to exceed FY 2016-17 levels by $592 million (5.2 percent). The Minnesota synthetic sales tax base, a proxy for the actual tax base, is expected to accelerate from 2.4 percent FY 2017 to 3.4 percent and 3.6 per year, respectively, in FY 2018 and FY 2019. As in the past, the percentage changes in the synthetic base have been reduced by 5 percent to correct for a tendency of the base to grow faster than observed revenue growth.

Sales tax refunds in FY 2018-19 are forecast to be $231 million (43.1 percent) lower than the current forecast for FY 2016-17. The biennial decline in refunds is due to the conversion of Minnesota's capital equipment refund to an up-front exemption. Purchasers were allowed up to three-and-one-half years to apply for their refunds. As capital equipment refunds remaining in the pipeline are paid out, total sales tax refunds are expected to fall.

Relative to the prior estimate, the sales tax shows the largest forecast change, with lower expected taxable sales growth combining with higher projected refunds to reduce the FY 2018-19 sales tax forecast by $428 million. Compared to the February forecast, we have reduced expected growth in the synthetic sales tax base by 1.7 percentage points in FY 2018 and 0.9 percentage points in FY 2019

Corporate Franchise Tax. The corporate franchise tax is forecast to generate $2.540 billion in FY 2018-19, $65 million (2.5 percent) less than the current FY 2016-17 forecast. Gross corporate franchise tax receipts are forecast to shrink by $71 million (2.4 percent), and corporate refunds are expected to grow by $7 million (1.7 percent).

Regarding forecast change, a lower forecast for FY 2018-19 gross corporate tax receipts is nearly offset by a lower refund forecast to generate a $4 million (0.2 percent) reduction in net expected corporate receipts.

Other Tax Revenue, Non-Tax Revenue, Other Resources. Other tax revenue is now forecast to grow by $61 million (1.7 percent) in FY 2018-19 over FY 2016-17. The largest growth is in insurance gross earnings tax revenues, which are expected to be $48 million (6.5 percent) higher in FY 2018-19 than in FY 2016-17.

Regarding forecast change, other tax revenue in FY 2018-19 is now expected to match the prior estimate. Among other taxes, the cigarette and tobacco products tax shows the largest dollar amount change, a reduction of $22 million (1.7 percent) from the prior estimate.

Increases in the forecasts for other tax types, including the estate and lawful gambling taxes, offset this change.

Planning Estimates

This is the first reporting of revenue planning estimates for FY 2020-21. Total revenues for the biennium are estimated to be $48.539 billion, an increase of $3.218 billion (7.1 percent) over the current forecast for FY 2018-19 revenues. Total tax revenues for FY 2020-21 are estimated to be $46.749 billion, a 7.4 percent increase over FY 2018-19 forecast revenues.

Together, the individual income and general sales taxes account for 91 percent of the projected biennial tax revenue growth. The individual income tax shows the largest increase, growing by $2. 093 billion (8.7 percent), and contributing 65 percent of the total tax revenue biennial change. The general sales tax is expected to exceed FY 2018-19 forecast levels by $827 million (7.2 percent), accounting for 26 percent of the increase in tax revenues. The corporate franchise tax, statewide property tax, and other taxes together contribute $292 million to the biennial tax revenue change.

The revenue planning estimates are based on the IHS baseline forecast, which assumes that U.S. real GDP will grow 2.2 percent in calendar year 2019, followed somewhat slower growth of 2.0 percent in 2020 and back to 2.2 percent in 2021.

Planning Estimates: FY 2020-2021 General Fund Revenues

Biennial Comparison; November 2016 Forecast

($ in millions)	FY 2018-2019	FY 2020-2021	$ Change	% Change
Individual Income Tax	$24,120	$26,213	$2,093	8.7%
General Sales Tax	11,419	12,244	825	7.2
Corporate Franchise Tax	2,540	2,647	107	4.2
State General Property Tax	1,745	1,833	88	5.1
Other Tax Revenue	3,716	3,813	97	2.6
Total Tax Revenues	**$43,539**	**$46,749**	**3,211**	**7.4%**
Non-Tax Revenues	1,419	1,416	(3)	(0.2)
Other Resources	363	373	10	2.8
Total Revenues	**$45,321**	**$48,539**	**$3,218**	**7.1%**

The planning estimates for 2020-2021 should be used with caution. First, the projections will be affected by any revenue changes in the enacted budget for the 2018-19 biennium. Second, in subsequent forecasts changes to our estimates of individual and corporate income tax liability for 2019 and 2020, as well as changes to the base levels of other revenue types for FY 2017 through 2019 will change the FY 2020-2021 planning estimates. Third, even small deviations from assumed growth rates for factors affecting revenues will compound and produce sizable changes in revenues. Should the economy grow more slowly than forecast, or should some volatile income item such as capital gains or corporate profits fall well below forecast, the revenue outlook for FY 2020-2021 will deteriorate.

Finally, Minnesota's Council of Economic Advisers warn that the difficulty of projecting long range economic conditions, particularly in the current post-election environment of policy uncertainty, warrants extreme caution when using economic forecasts of 2020 and 2021.

EXPENDITURE OUTLOOK

Current Biennium

Spending estimates for FY 2016-17 are lower than prior estimates for the biennium. Expenditures in the current biennium are now expected to be $41.502 billion, a reduction of $245 million (0.6 percent) from end of session estimates. The table below shows forecast changes in spending for the current biennium.

Current Biennium: FY 2016-17 General Fund Expenditures
Change From End-of-Session Estimates

($ in millions)	End of Session	November 2016 Forecast	$ Change	% Change
E-12 Education	$17,400	$17,403	3	0.0%
Property Tax Aids & Credits	3,351	3,342	(9)	(0.3)
Health & Human Services	12,015	11,808	(206)	(1.7)
Debt Service	1,174	1,139	(35)	(3.0)
All Other	7,807	7,810	3	0.0
Total Expenditures	**$41,747**	**$41,502**	**$(245)**	**(0.6)%**

A $206 million reduction (1.7 percent) in estimated spending for health and human services is the primary factor in the overall reduction in spending in FY 2016-17. Lower Medical Assistance (MA) spending accounts for the vast majority of the savings due to lower than projected enrollment in health care services and lower than expected payments for certain home and community based services.

Changes for the current biennium for other spending areas were modest. E-12 expenditures are expected to be $3 million (0.0 percent) higher due primarily to higher pupil counts. Debt service expenditures are $35 million (3.0 percent) lower due to a smaller bond issuance. Property tax aids and credits spending is $9 million (0.3 percent) lower than expected due largely to lower interest on tax refunds.

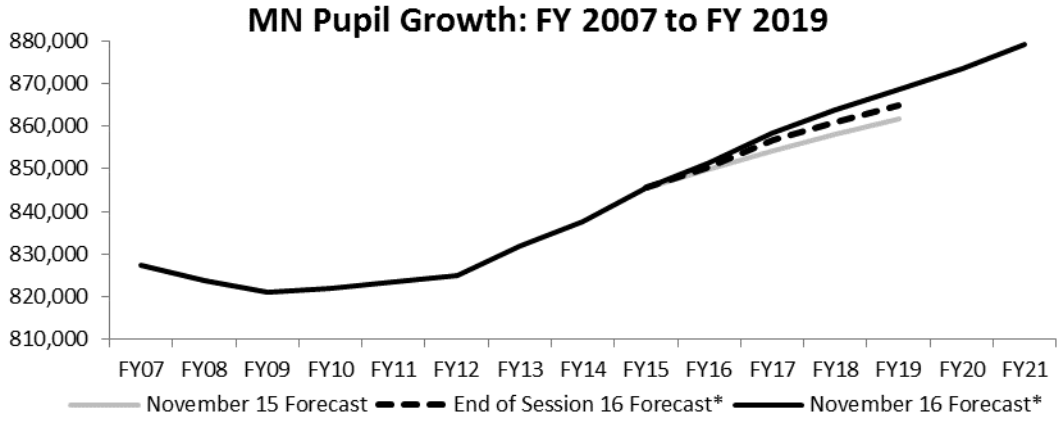
E-12 Education. Education finance is the largest category of state general fund spending. It consists of aid programs for general education, special education, early childhood and family education, charter schools, nonpublic pupil programs, and integration programs. In the current biennium the state is projected to spend $17.403 billion on education aid.

E-12 aids can be divided into two major funding streams: 1) general education, the primary source of basic operating funds for schools; and 2) categorical aid, tied to specific activities or categories of funding.

General Fund Education Expenditures
Change From End-of-Session Estimates

($in millions)	FY 2016-17 $ Change	FY 2016-17 % Change	FY 2018-19 $ Change	FY 2018-19 % Change
General Education	$16	0.1%	$15	0.1%
Charter School Lease Aid	(3)	(2.3)	(4)	(2.3)
Special Education	4	0.1	8	0.3
Debt Service Aid	0	0.0	(7)	(13.5)
All other	(14)	(0.9)	(9)	(0.6)
Total E-12 General Fund Forecast Change	**$3**	**0.0%**	**$3**	**0.0%**

E-12 education spending in the current biennium is anticipated to be $3 million (0.0 percent) higher than end of session estimates. General education expenditures are forecast to increase and are offset by a small decrease in categorical aids and technical changes. General education spending is expected to be $16 million (0.1 percent) higher for FY 2016-17. While there are a variety of factors contributing to this forecast increase, growth in pupil counts, compared to end of session estimates, is the largest factor. The graph below show the recent history of estimated pupil growth.



*November 2016 and End of Session 2016 include voluntary Pre-K enrollment.

While the total number of students is up compared to the forecast, the number of charter school students is reduced in this forecast due to fewer students attending charter schools than projected in the previous forecast. This drives a reduction in spending on charter school lease aid in FY 2016-17. Charter school lease aid spending is $131 million in FY 2016-17, down $3 million from the end of session estimate.

Spending in the education bill area in FY 2016-17 is also reduced by technical changes to expenditure numbers to reflect $8 million in transfers to other agencies and a $2 million

correction of a tracking error. The Office of Higher Education received a onetime $2 million increase in funding to the teacher shortage loan forgiveness program in 2017. This increase was mistakenly carried in the education section of end of session tracking documents.

Health and Human Services. Health and Human Services (HHS) is approximately one quarter of total state general fund spending. The majority of these expenditures (85 percent) are in forecasted programs, which provide payments to individuals for health care, housing, cash assistance, food support, adoption assistance, and support for individuals to help them stay in their own homes. These programs include Medical Assistance (MA), Chemical Dependency (CD), Minnesota Family Investment Program (MFIP), MFIP Child Care, Alternative Care (AC), General Assistance, Group Residential Housing, Minnesota Supplemental Aid and Northstar Care for Children.

General fund forecast changes are generally driven by changes to the MA forecast, since it accounts for the largest portion of forecasted program expenditures. MA is a state-federal, means-tested entitlement program that provides health care and related support for low-income individuals and families, persons with disabilities, and elderly individuals. MA costs are split between the state and federal government, though only the state share of expenditures is reflected as part of the general fund forecast.

In FY 2016-17, HHS general fund spending is down $206 million (1.7 percent) relative to 2016 end of session estimates. MA accounts for $194 million of the reduction (2.2 percent change from end of session).

The largest driver ($81 million) was lower spending for long term care (LTC) waivers which provide funding for individuals to receive services in their homes and communities rather than institutions. This reduction was driven by lower than expected growth in average monthly payments, particularly in the Community Access Disability Inclusion (CADI) waiver program where an influx of lower cost individuals following the expiration of legislative caps on enrollment brought down the average cost. The CADI waiver program provides home and community-based services to 24,000 recipients who otherwise would be in a nursing facility. Spending for LTC facilities was also lower than previously forecast ($34 million) due primarily to lower enrollment in nursing facilities and lower use of intermediate care facilities for developmentally disabled individuals.

Another driver ($80 million) of this reduction is a change in the forecasted pattern of enrollment in Medical Assistance, resulting in a 1.5 percent reduction in basic care expenditures. Program eligibility reviews in calendar year 2016 and the continued diversion of individuals with disabilities to the adults without children eligibility category have contributed to the change. These changes result in lower enrollment of families and children (2.3 percent), adults without children (9.0 percent), and disabled adults (1.8 percent). One eligibility group, elderly individuals, increased by 3.5 percent, reflecting an aging population that is accessing basic care coverage earlier than previously expected.

General Fund Health and Human Services Expenditures
Change From End-of-Session Estimates

($in millions)	FY 2016-17 $ Change	FY 2016-17 % Change	FY 2018-19 $ Change	FY 2018-19 % Change
Lower than expected LTC waiver spending	$(81)	(2.6)%	$(104)	(2.8)%
Lower than expected LTC facilities spending	(34)	(3.3)	(42)	(3.6)
Changes in basic care enrollment	(80)	(1.5)	(172)	(2.6)
Federal payments for Medicare enrollees	35	7.9	62	9.8
Periodic Data Matching delay	12	0.4	34	1.1
All other MA	(43)	(0.5)	18	0.2
Total MA Change	**(194)**	**(2.2)**	**(204)**	**(1.8)**
Non-MA changes	**(13)**	**(0.6)**	**31**	**0.9**
Total HHS General Fund Forecast Change	**$(206)**	**(1.7)%**	**$(173)**	**(1.2)%**

These reductions are offset by increased payments ($35 million) to the federal government for Medicare Part B premiums and the Part D clawback for dual-eligible Medicaid recipients. There are approximately 121,000 people with this dual-eligible status and the state is obligated to pay their Medicare premiums. In addition, the implementation of periodic data matching, a program intended to more regularly verify program eligibility, has been delayed from July 2016 to July 2017 which results in $12 million (0.4 percent) higher forecast spending for families with children and adults without children.

Spending across all non-health care programs decreased $13 million (0.6 percent) in FY 2016-17. Lower spending ($6 million) in the General Assistance (GA) program was the largest driver of this reduction. GA provides a small monthly cash grant to people without children and with serious illness, disability or other issues that limit their ability to work. Most of the reduction is due to lower than expected caseload, which had been relatively flat over the past four years.

Property Tax, Aids, and Credits. Property tax aids and credits are 8 percent of general fund spending. They are paid to local governments, including cities, counties, towns, public schools, and special taxing districts. These aids and credits help offset costs of service delivery, defray costs of state mandates, and reduce local property taxes by substituting state funds for revenues that would otherwise need to be raised locally. Direct payments to individuals, like property tax refunds for homeowners and renters, are also included in this category because they reduce property tax burdens.

In the current biennium, property tax aids and credits spending is now expected to be $3.342 billion, a decrease of $9 million (0.3 percent) from end of session estimates. Interest paid on tax refunds is down $5 million (21.3 percent) due to lower than expected refunds in FY 2016. Property tax refund spending also declined by $2 million (0.1 percent) relative to end of session estimates for the biennium driven by lower FY 2016 refund payments.

Debt Services and All Other Spending. Debt service spending is forecast to be $1.139 billion in the current biennium, a $35 million (3.0 percent) reduction from prior estimates.

The revised debt service costs reflect a smaller 2016 bond issue and forecast debt service costs in the current biennium. The smaller issue was driven by slower than expected expenditures for projects and higher bond premiums from purchasers, as the result of low interest rates. In addition, maximum effort loan repayments from school districts authorized in 2016 legislation were higher than previously estimated, which increases general fund savings. The estimates also reflect higher than expected investment income as well as savings realized from an August 2016 bond refunding.

Next Biennium

Forecast expenditures in the FY 2018-19 biennium are expected to reach $44.585 billion, an increase of $3.082 billion over current estimates for the FY 2016-17 biennium. Driving the overall increase is growth of $2.443 billion (20.7 percent) in health and human services, where Medical Assistance is increasing as a result of payment shifts and enrollment growth. Spending for E-12 education is expected to be $774 million (4.4 percent) higher due to enrollment growth and legislative funding increases. Spending for property tax aids are credits is expected to be $125 million (3.7 percent) higher, and debt service is expected to be $4 million (0.4 percent) higher. Offsetting the overall growth is $263 million (3.4 percent) lower spending in the other areas of state government, due in large part to one-time spending in the FY 2016-17 biennium.

Next Biennium: FY 2018-19 General Fund Expenditures

Biennial Comparison; November 2016 Forecast

($ in millions)	FY 2016-17	FY 2018-19	$ Change	% Change
E-12 Education	$17,403	$18,177	$774	4.4%
Property Tax Aids & Credits	3,342	3,467	125	3.7
Health & Human Services	11,808	14,251	2,443	20.7
Debt Service	1,139	1,143	4	0.4
All Other	7,810	7,547	(263)	(3.4)
Total Expenditures	**$41,502**	**$44,585**	**$3,082**	**7.4%**

Compared to prior estimates for the biennium, overall spending in the next biennium is expected to be down $152 million (0.3 percent). Reduced projections for health and human services spending accounts for $173 million of this change due to lower than expected MA enrollment and long term care payments. Debt service spending is $32 million higher than previous estimates (2.9 percent) reflecting larger future bond issuances than previously assumed. Other areas of the state budget remain largely unchanged compared to prior estimates for FY 2018-19.

Next Biennium: FY 2018-19 General Fund Expenditures
Change From End-of- Session

($ in millions)	End of Session	November 2016 Forecast	$ Change	% Change
E-12 Education	$18,174	$18,177	$3	0.0%
Property Tax Aids & Credits	3,454	3,467	13	0.4
Health & Human Services	14,424	14,251	(173)	(1.2)
Debt Service	1,111	1,143	32	2.9
All Other	7,575	7,547	(28)	(0.4)
Total Expenditures	**$44,737**	**$44,585**	**$(152)**	**(0.3)%**

E-12 Education. E-12 expenditures in FY 2018-19 are projected to reach $18.177 billion, $774 million (4.4 percent) higher than the current biennium. The largest share of growth, nearly $324 million, comes from general education spending. Growth in total pupil counts drives a portion of this change, along with changes in the enacted budget. The FY 2016-17 biennial budget added two percent each year to the basic formula in general education, provided greater operating capital levy equalization aid beginning in FY 2017, and replaced the statewide Student Achievement levy with state aid beginning in FY 2018, resulting in additional growth in FY 2018-19.

Growth in students and inflationary cost increases drive increased spending in Special Education. Special Education district revenue is driven largely by the total number of students in the district and the total cost of providing special education services to students in the prior year. As the number of students grow, and costs increase over time, spending on special education increases. Between FY 2016-17 and FY 2018-19, special education spending increases by $292 million or 12 percent. Achievement and Integration aid is driven by student growth and population change. Districts that have a much higher concentration of students of color than their surrounding districts are eligible for Achievement and Integration aid to implement a plan to increase student achievement and increase racial integration. As the number of districts that qualify increase and the cost of implementing the plans submitted by districts increases, so does state aid. Spending on Achievement and Integration aid increases by $10 million, or 7.3 percent, from FY 2016-17 to FY 2018-19.

Additionally, the long term facilities maintenance aid formula increases significantly in the current and future biennium as a result of policy changes enacted by the 2015 legislature. Long term facilities and maintenance aid begins in FY 2017 and consolidates several other existing facilities funding streams while increasing facilities funding overall. The new program is phased in from FY 2017 through FY 2019, with the amount of aid per student increasing each year and leveling off after FY 2019. Facilities funding in FY 2018-19 will increase by $112 million (45.9 percent) compared to the current biennium.

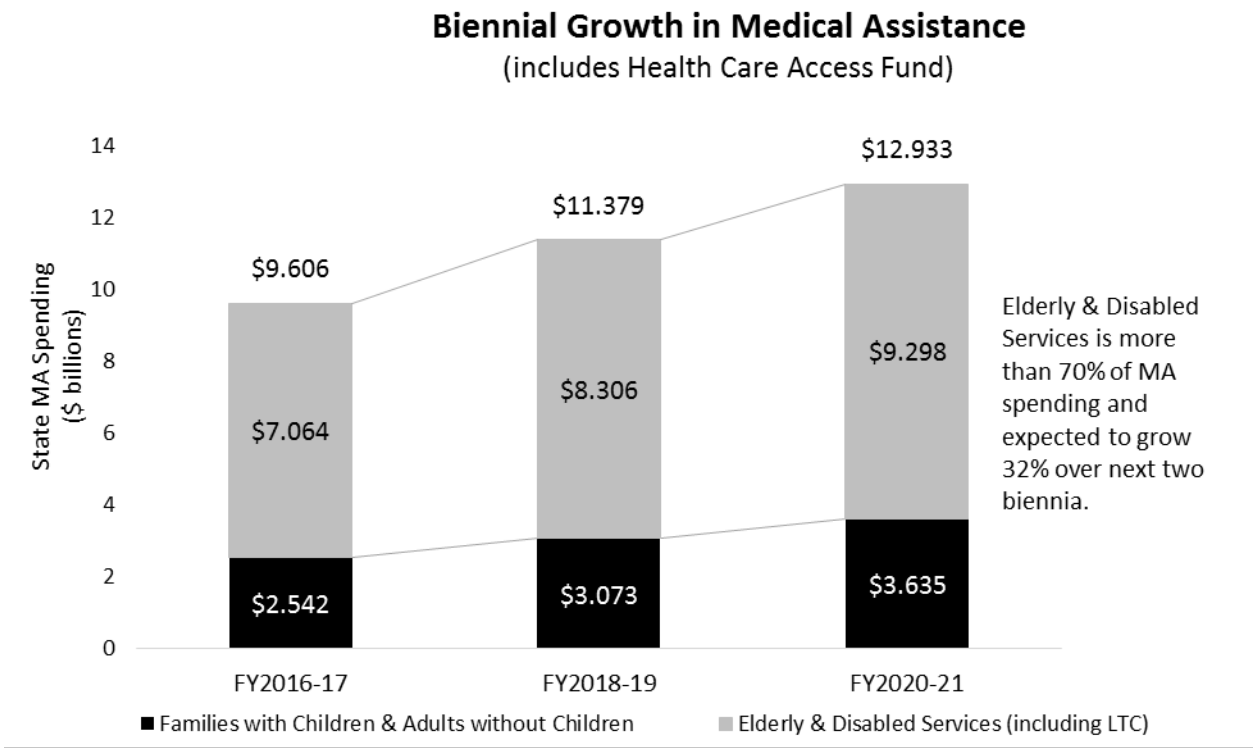
General fund spending on education is expected to be $3 million (0.0 percent) higher in FY 2018-19 than end of session estimates. The offsetting changes in general education and categorical aids seen in the current biennium largely continue in the next biennium. General education expenditures are forecast to increase slightly in the current and

upcoming biennia and are offset in each by decreases in categorical aids compared to end of session estimates. General education spending is expected to be $15 million (0.1 percent) higher than end of session estimates for FY 2018-19, again driven primarily by increased pupil counts.

Growth in special education aids continues into FY 2018-19 and is also driven by increased pupil counts. Special education aids are up $8 million (0.3 percent) for FY 2018-19 compared to end of session. The forecast reduction in charter school lease aid also continues with a reduction of $4 million (2.3 percent) compared to previous estimates. Also offsetting the increase in special education in FY 2018-19 is a reduction in debt service aid. Spending on debt service aid is $48 million in FY 2018-19, a decrease of $7 million (13.5 percent) compared to end of session projections. This decrease is due to changes in two factors, an increase in average net tax capacity of school districts and a reduction in the number of projects approved by voters compared to forecast. Changes to both of these factors led to a decrease in projected spending compared to earlier estimates.

Health & Human Services. General fund spending for health and human services is expected to grow $2.443 billion (20.7 percent) from the current biennium to the next. 90 percent of this growth is a result of Medical Assistance, which is expected to grow $2.196 billion. However, only $1.638 billion of this amount is attributable to actual program growth. The remainder is driven by a $393 million drop in the Health Care Access Fund share of Medical Assistance and a $135 million payment to managed care organizations that was delayed from the FY 2016-17 biennium. After adjusting for these payment splits and delays, the underlying biennial growth in HHS is 14.4 percent into FY 2018-19.

Growth in MA spending is generally driven by two factors, enrollment growth and the cost of care. The figure below illustrates the change in total state spending on Medical Assistance across enrollment categories.



Medical Assistance expenditures are forecast to grow from $9.606 billion in FY 2016-17 to $11.379 billion in FY 2018-19 and $12.933 billion in FY 2020-21. Much of this growth will occur in services for the elderly and individuals with disabilities.

Medical Assistance enrollment is expected to grow by approximately 70,000 from 2016 to 2021. In recent years, the largest changes in enrollment have occurred in groups impacted by eligibility expansions, such as families with children and adults without children. Families with children are expected to be the largest contributor to enrollment growth in the forecast horizon due to their large relative group size. Elderly and disabled basic care is expected to grow at the same rate as families with children. Enrollment in LTC services is expected to grow fastest among MA groups, or 4.5 percent on average annually. Small increases in LTC enrollment can drive large expenditure changes due to the high cost of services.

Spending for adults without children is expected to grow by $164 million (326 percent). This is the largely result of a decreasing federal contribution for adults without children, which will fall from 100 percent to 95 percent on January 1, 2017 to 94 percent in 2018, 93 percent in 2019, and will stabilize at 90 percent in calendar year 2020.

Non-health care spending is expected to grow $246 million (8.0 percent) from FY 2016-17 to FY 2018-19. The biggest driver of this change is Northstar Care for Children, which is forecasted to increase by $81 million (84.5 percent) in the next biennium due to a 15 percent rate increase which takes effect in FY 2018 and increased foster care placements due to enhanced child protection efforts.

Although spending grows from year to year, overall general fund HHS spending is down $173 million (1.2 percent) in FY 2018-19 compared to end of session estimates. As in the previous biennium, changes to MA drive the majority of the reduction ($204 million, a 1.8 percent change from end of session).

Many of the trends impacting FY 2016-17 spending in HHS continue to impact spending estimates in FY 2018-19. Changes in basic care enrollment patterns result in a $173 million reduction (1.2 percent) from the end of session forecast. Lower than expected spending for long term care waiver services drive $104 million (2.8 percent) in reduced spending compared to previous estimates. Increased payments ($62 million) to the federal government for Medicare Part B and Part D premiums offset these reductions.

Spending across non-health care programs increased $31 million (0.9 percent) in FY 2018-19 compared to end of session estimates. Chemical Dependency entitlements increased by $21 million (9.5 percent), reflecting a one-time reconciliation to resolve current payment discrepancies. MFIP grants increased by $15 million (8.0 percent) from end of session estimates.

Property Tax, Aids, and Credits. Expenditures for tax aids and credits spending are expected to be $3.467 billion in FY 2018-19, an increase of $125 million (3.7 percent) over estimated spending in the current biennium. This increase is largely driven by property tax refunds, which grow by $77 million (5.9 percent) as growth in property taxes outpace projected growth in income. Growth is also seen in the Payment in Lieu of Taxes (PILT) program, which increases by $12 million (18.1 percent) in FY 2018-19 as the results of a periodic assessment of acres enrolled in the program are incorporated into program costs. Public safety aids also grow $16 million (8.4 percent) from FY 2016-17 to FY 2018-19. This spending is driven by increases in taxes paid on car insurance premiums and home owner's insurance premiums, which directly translate into increased resources for these aid programs.

In FY 2018-19, property tax aids and credits are forecast to be $13 million (0.4 percent) higher than end of session estimates. This increase is driven by higher average payments in the homestead property tax credit refund program ($19 million, 2.2 percent).

Debt Service and All Other Spending. Debt service expenditures are expected to reach $1.143 billion in the next biennium, $4 million (0.4 percent) higher than the current biennium and $32 million (2.9 percent) higher than previous estimates. The forecast now assumes $800 million of bond authorization in the 2017 legislative session and future capital budgets of $800 million in each even-numbered legislative session and $230 million in each odd-numbered session. The larger assumed bond authorization in 2017 results in higher projected bond sales and forecast debt service costs than previous estimates.

Expenditures in all other areas of the state budget are expected to be $7.547 billion, $263 million (3.4 percent) lower in FY 2018-19 compared to the current biennium. This is a $28 million (0.4 percent) reduction from end of session estimates. One driver of this change is $12 million in lower anticipated state spending for the Destination Medical Center. This forecast reflects that the private investment that triggers state aid is occurring more slowly

than previously anticipated. As a result, the first year that state aid is anticipated be paid remains FY 2018, but the amount of state aid decreased by $4.5 million in FY 2018 and by $7.9 million in FY 2019.

Planning Estimates

The growth in state expenditures shown from the current biennium into FY 2018-19 is expected to be smaller into the FY 2020-21 biennium. Total projected spending in the planning years is expected to reach $47.059 billion, an increase of $2.475 billion (5.6 percent). The growth trends in the major forecast programs remain the same as described for FY2018-19 with growth in health and human services spending accounting for a majority of the increase ($1.711 billion, a 12.0 percent increase from the previous biennium) due to continued MA growth. E-12 education spending is expected to increase $609 million (3.4 percent), largely due to pupil growth and program cost growth. Property tax aids and credits is expected to grow $89 million (2.6 percent), primarily due to higher property tax refunds. Debt service spending is forecast to increase $50 million (4.4 percent).

E-12 Education. Expenditures in FY 2020-21 are projected to be $609 million (3.4 percent) higher than FY 2018-19. Pupil growth and inflationary increases in costs are the largest drivers of this increase. General education spending grows by $195 million (1.4 percent) in FY 2020-21 compared to FY 2018-19. Growth between these two biennia is slower than the previous two because there is no anticipated growth in the basic education formula beyond FY 2017. Growth in general education between FY 2018-19 and FY 2020-21 is driven by pupil growth. Special Education spending grows by $328 million dollars (12.0 percent) due to the factors mentioned previously; more students and increased costs of providing special education services.

The Long Term Facilities Maintenance aid program is fully phased in by FY 2019, so the growth into the FY 2020-21 biennium is the result of two years at the program's full capacity as well as continued pupil growth. Long Term Facilities Maintenance aid grows by $31 million or 17.1 percent in FY 2020-21 compared to FY 2018-19.

Health & Human Services. General fund HHS spending is expected to grow by another $1.711 billion (12.0 percent) from FY 2018-19 to FY 2020-21. Enrollment growth in in long term care waiver programs continues to drive program growth. Higher average payments in elderly and disabled basic care also contribute to higher spending in FY 2020-21. Spending for families with children is expected to grow $422 million (13.6 percent). Of this approximately $120 million is due to the anticipated loss of an enhanced federal payment for the Children's Health Insurance Program.

Property Tax, Aids, and Credits. Projected growth in the tax aids and credits bill area slows to $89 million (2.6 percent) from FY 2018-19 to FY 2020-21. Growth continues in the property tax refunds ($89 million) and public safety aids ($17 million), but is offset by the termination of the Bloomington loan aid ($10 million), the Public Employee Retirement Association (PERA) pension aid ($14 million), and the volunteer EMS stipend aid ($2 million).

Planning Estimates: FY 2020-21 General Fund Expenditures

Biennial Comparison; November 2016 Forecast

($ in millions)	FY 2018-19	FY 2020-21	$ Change	% Change
E-12 Education	$18,177	$18,786	$609	3.4%
Property Tax Aids & Credits	3,467	3,556	89	2.6
Health & Human Services	14,251	15,962	1,711	12.0
Debt Service	1,143	1,193	50	4.4
All Other	7,547	7,563	16	0.2
Total Expenditures	**$44,585**	**$47,059**	**$2,475**	**5.6%**

Debt Service. Debt service estimates are forecast to grow $50 million from FY 2018-19 to FY 2020-21. This reflects an increase in the assumed bond authorization in 2017 from $230 million to $800 million.

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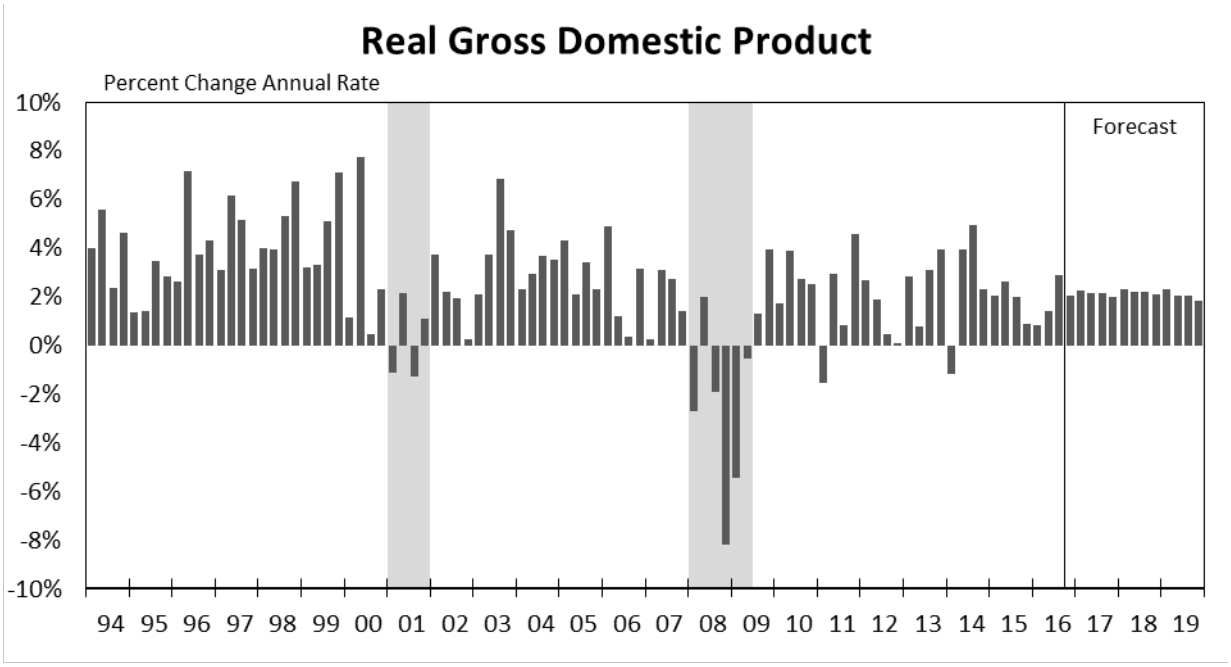
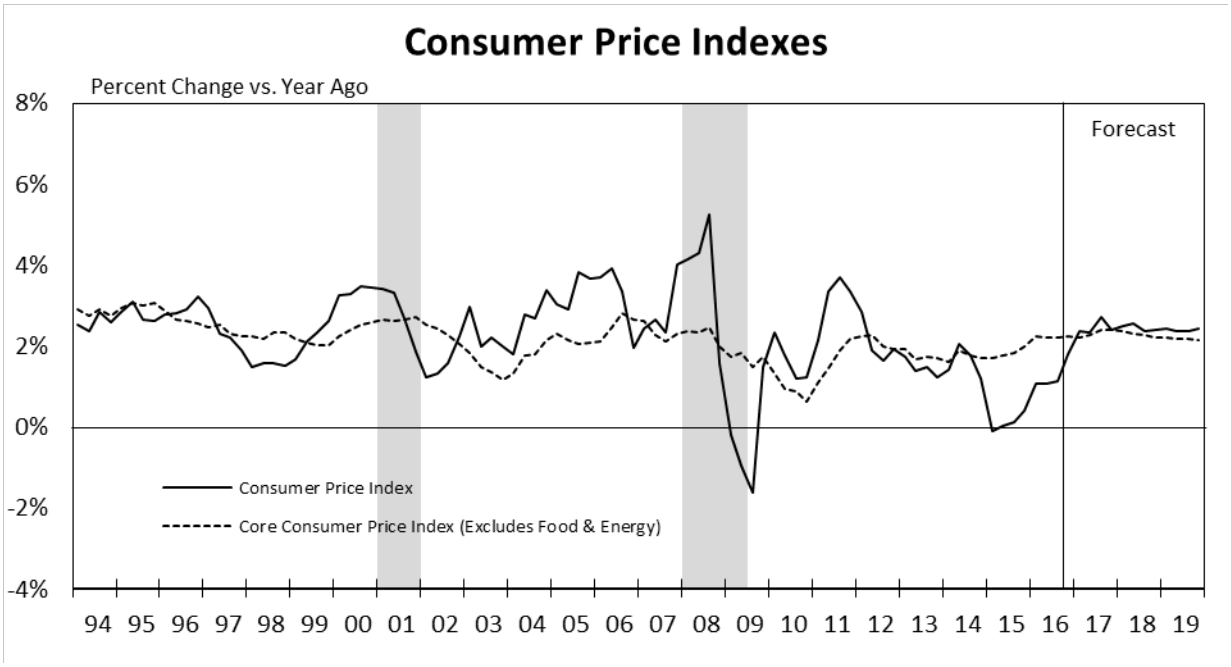


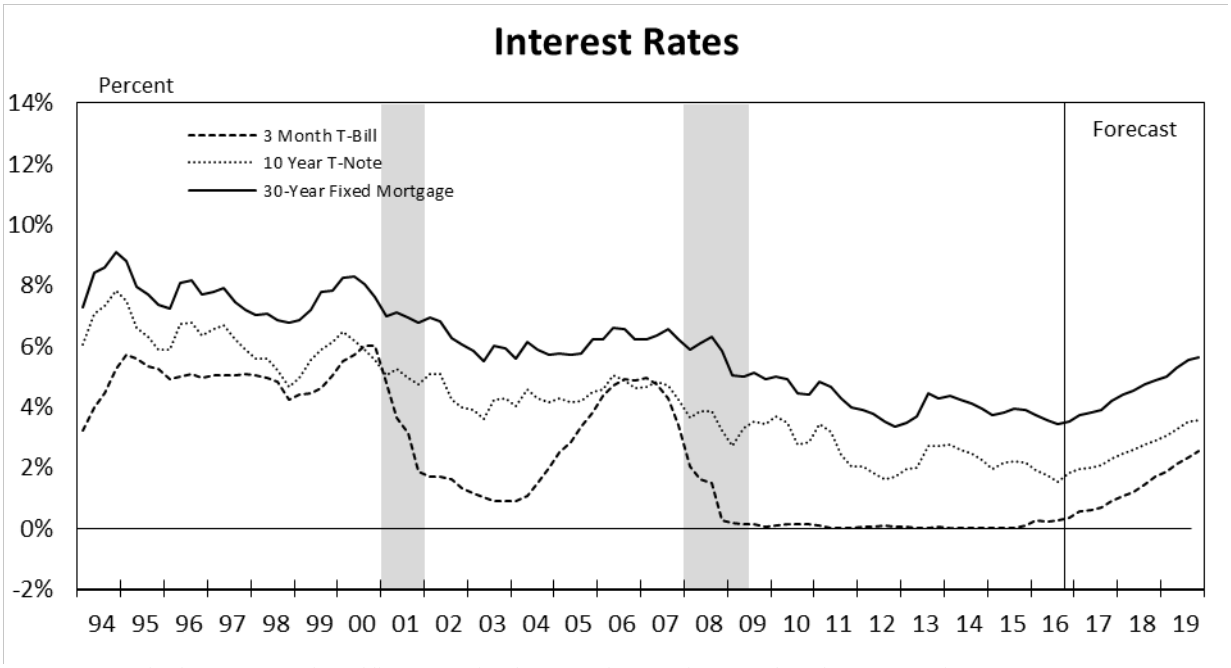
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and IHS Economics

From 2017 through 2021, real GDP grows in a narrow band of 1.8 to 2.3 percent, consistent with modest productivity growth. This is slower than the 3.1 percent average annual growth during the 20 years preceding the '08-'09 recession.



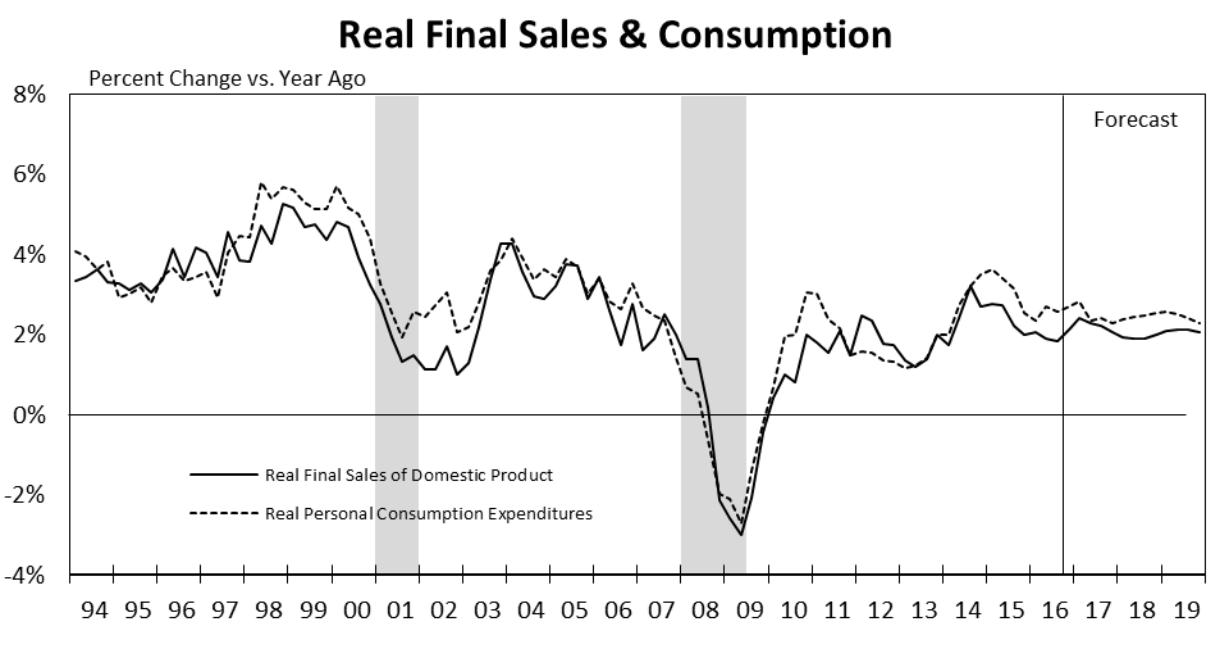
Source: Bureau of Labor Statistics, National Bureau of Economic Research, and IHS Economics

The Consumer Price Index (CPI) remains tame. By 2019 it is growing on average 2.4 percent per year. This is consistent with 2.0-2.1 percent annual growth in the personal consumption expenditure price index, the Federal Reserve's preferred measure of consumer prices. The Fed's target for this price index is about 2.0 percent.



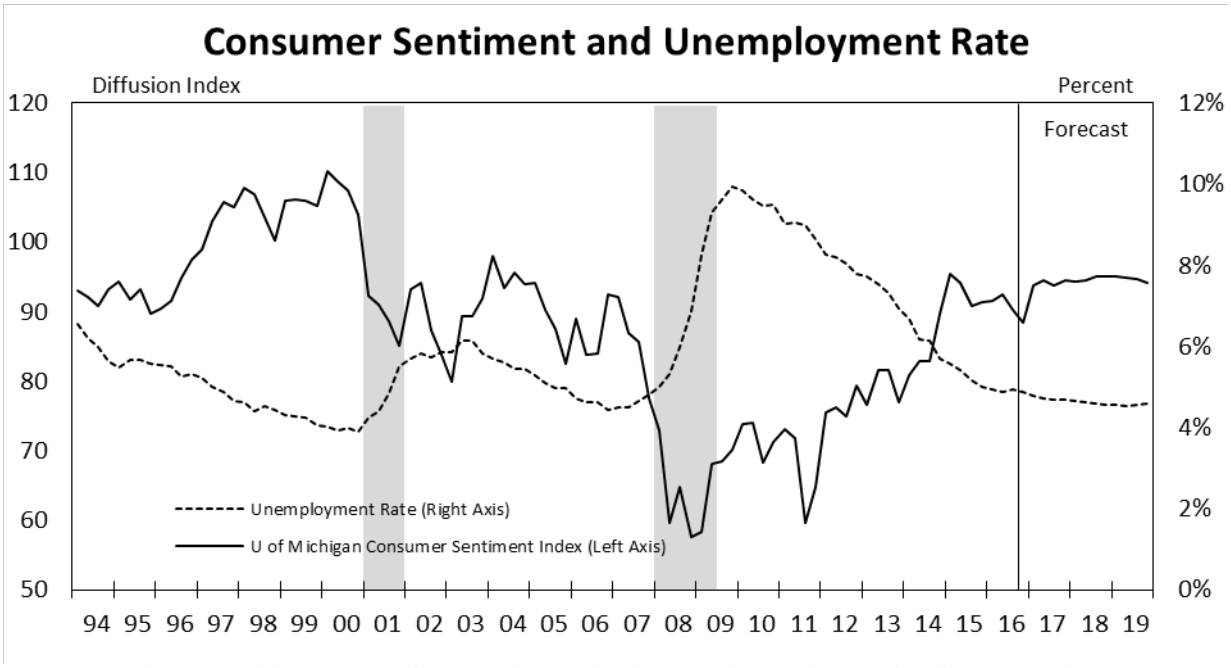
Source: Federal Reserve Board, Freddie Mac, National Bureau of Economic Research, and IHS Economics

In the IHS forecast, the Fed resumes its gradual monetary policy tightening at its December 2016 meeting, pushing up interest rates across the board.



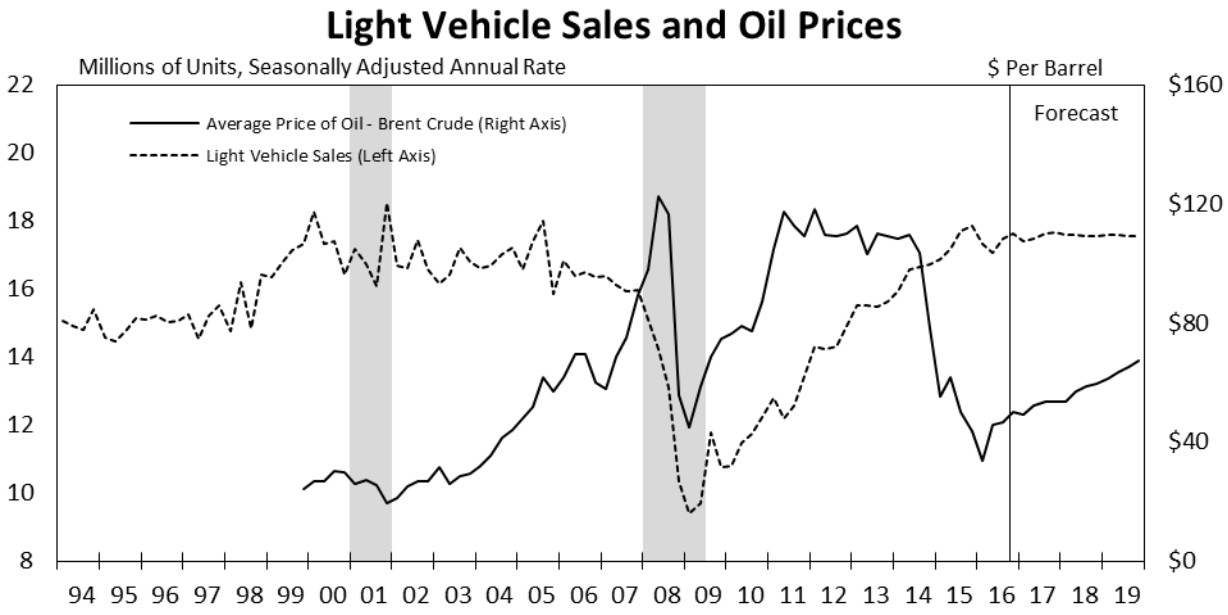
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and IHS Economics

Growth in real personal consumption expenditures averages about 2.5 percent through 2019, consistent with modest real GDP growth.



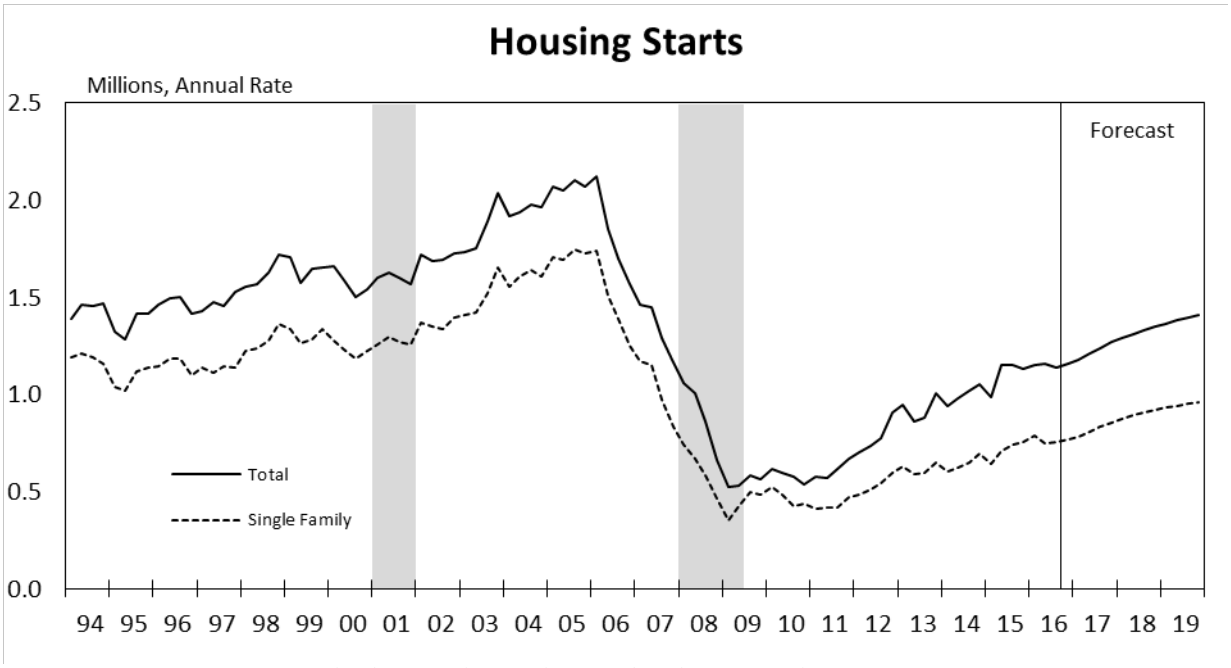
Source: University of Michigan, Bureau of Labor Statistics, National Bureau of Economic Research, and IHS Economics

The IHS forecast calls for the unemployment to gradually drift down to 4.5 percent and for consumer sentiment to stabilize around 95, a healthy reading for this indicator.



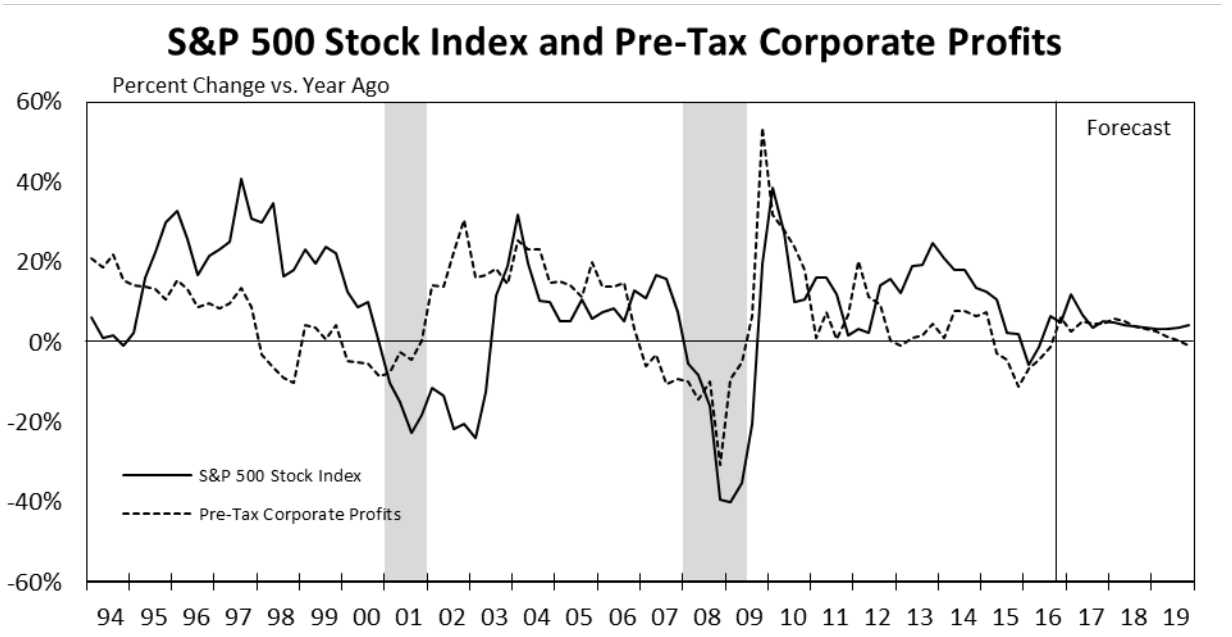
Source: Bureau of Economic Analysis, Investors' Business Daily, National Bureau of Economic Research, and IHS Economics

In the IHS forecast, oil prices gradually rise to $67.00 per barrel by the end of 2019 from the current $45 to $50 range. The gradual increase does not deter purchases of light vehicles.



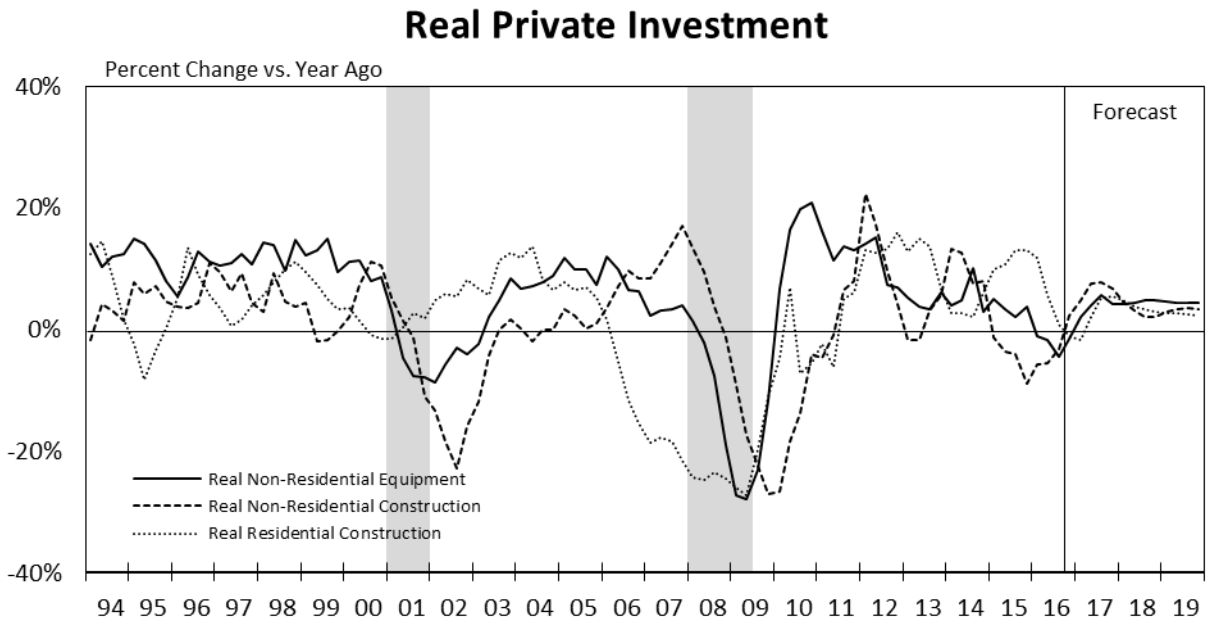
Source: U.S. Census Bureau, National Bureau of Economic Research, and IHS Economics

In this forecast, housing starts rise steadily to 1.4 million units at the end 2019--a reading last seen prior to the '08-'09 recession.



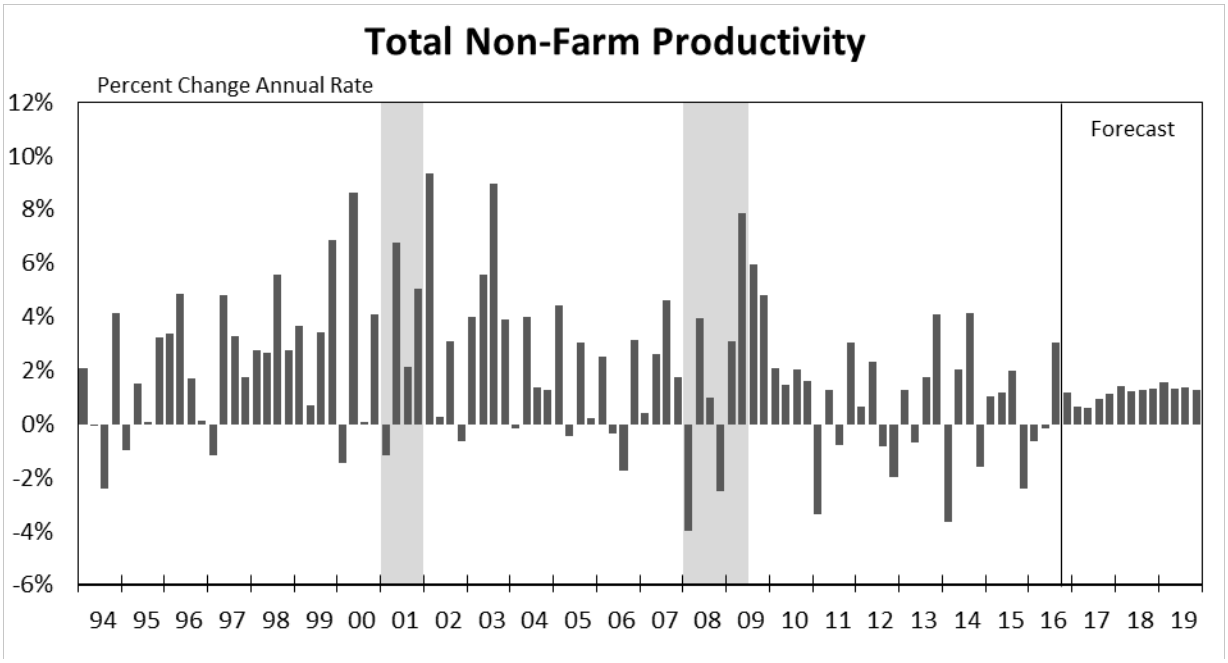
Source: Standard and Poor's, National Bureau of Economic Analysis, National Bureau of Economic Research, and IHS Economics

The forecast calls for modest pre-tax corporate profit growth and a stock market consistent with that growth. As of this writing, the volatile S&P500 index exceeds the average value forecast for the first quarter of 2017.



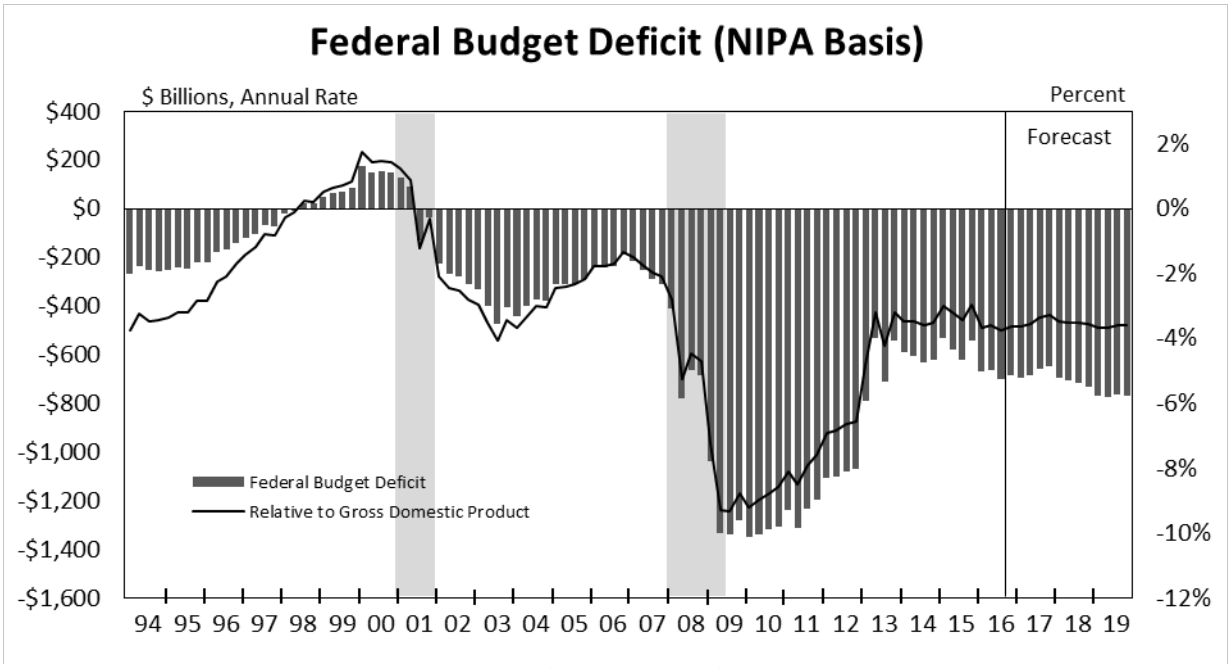
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and IHS Economics

After several quarters of year-over-year decline in private nonresidential investment, it turns positive and grows through the fourth quarter of 2019 at rates that generally exceed the forecast growth rate for real GDP. Much of the decline appears to have been due to lower oil drilling and exploration activity.



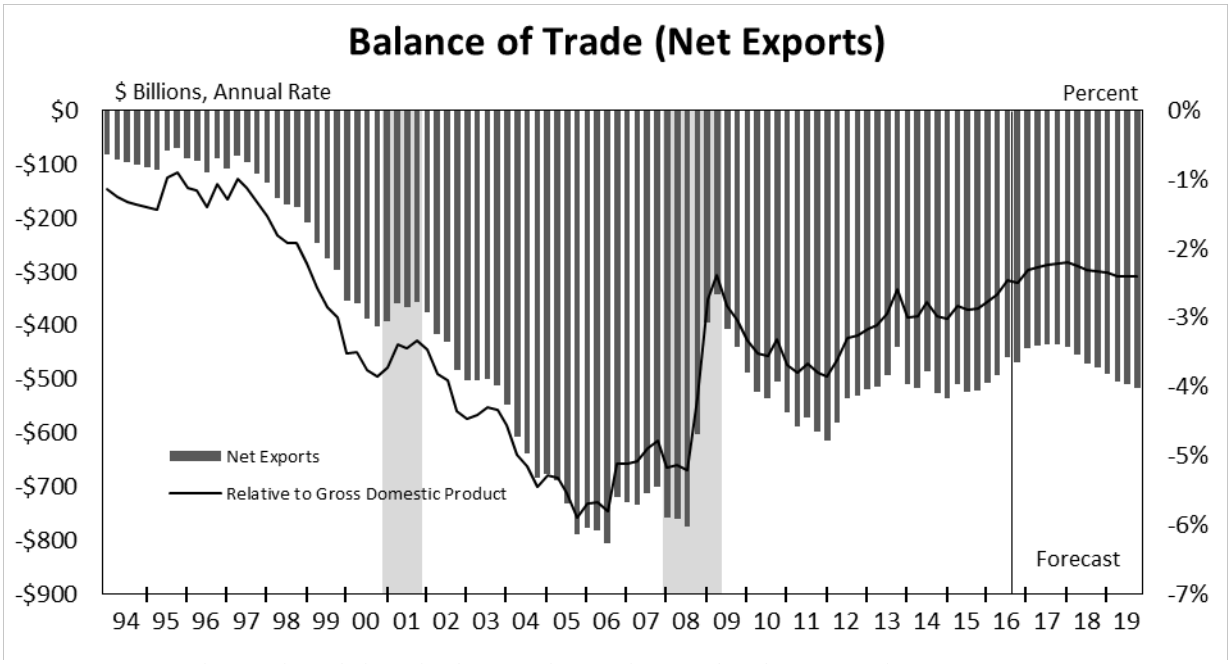
Source: Bureau of Labor Statistics, National Bureau of Economic Research, and IHS Economics

After erratic and disappointing growth over the last several years, growth settles in at a 1.3 to 1.4 percent growth by 2019. This rate is well below the historic average.



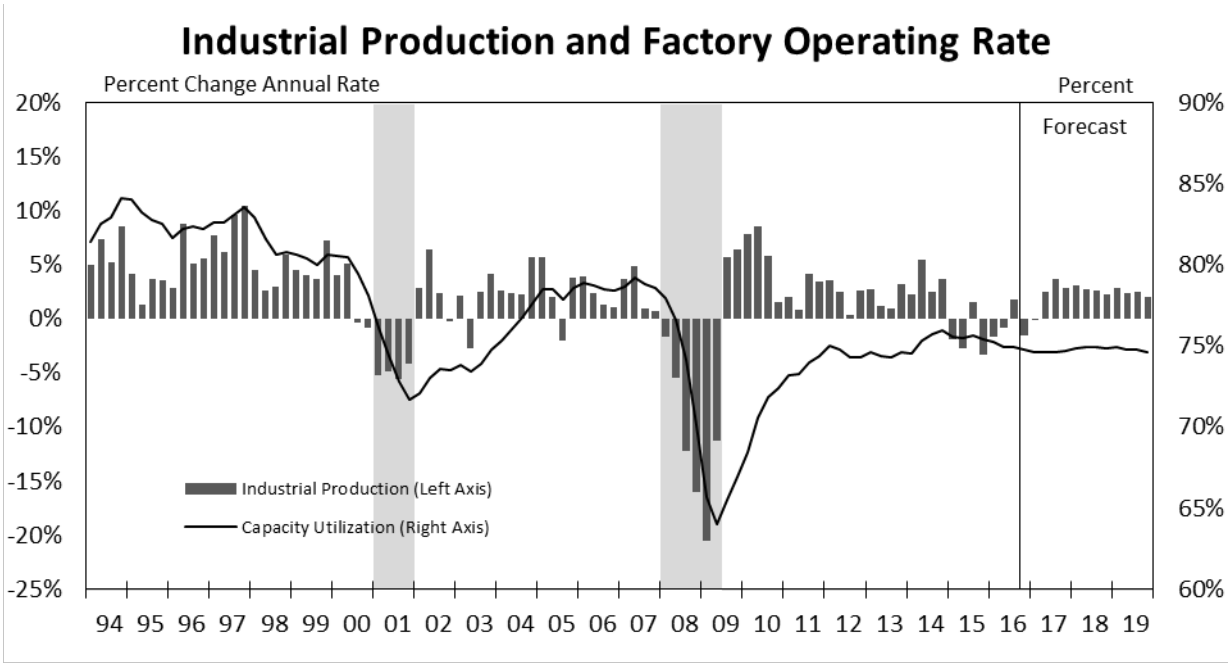
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and IHS Economics

The federal budget deficit is forecast to increase, but as a percent of GDP it remains in the 3.5 to 3.7 percent range to the end of 2019.



Source: Bureau of Economic Analysis, National Bureau of Economic Research, and IHS Economics

The trade deficit increases over time in dollar terms, but as a share of GDP it remains in the -2.3 to 2.5 percent range to the end of 2019.

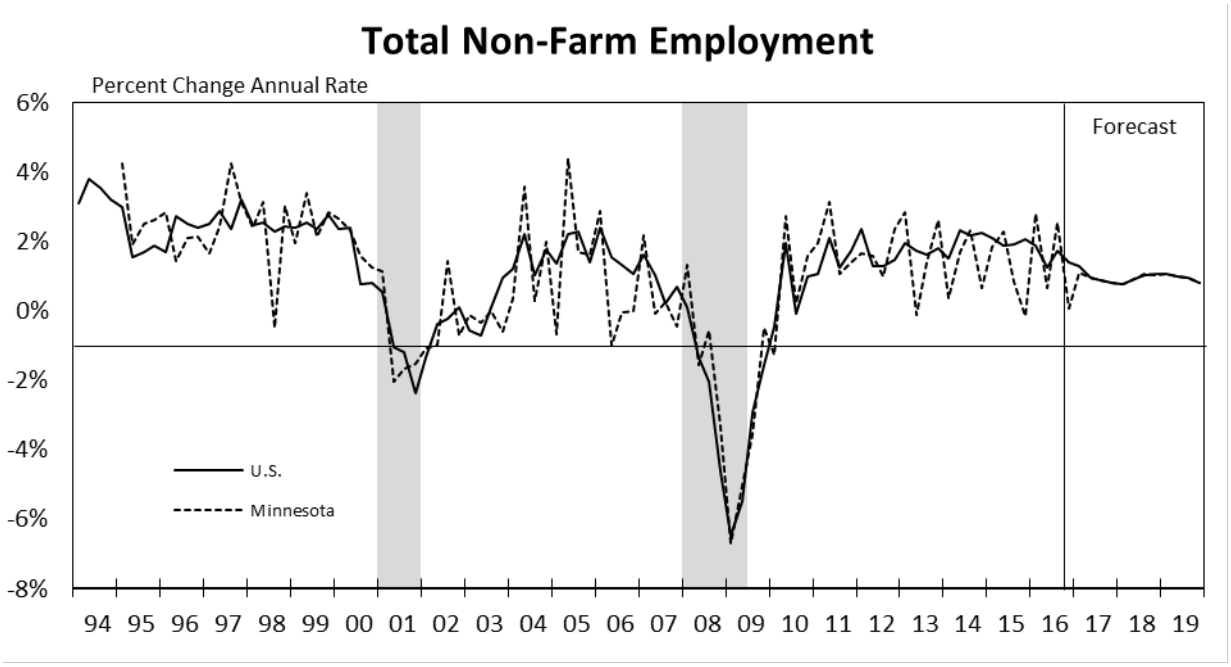


Source: Federal Reserve Board, National Bureau of Economic Research, and IHS Economics

After many quarters of negative growth in the last 2 years—largely, but not entirely, related to an energy sector slowdown--industrial production is expected to grow in the 2.0 to 3.0 percent range to the end of 2019.

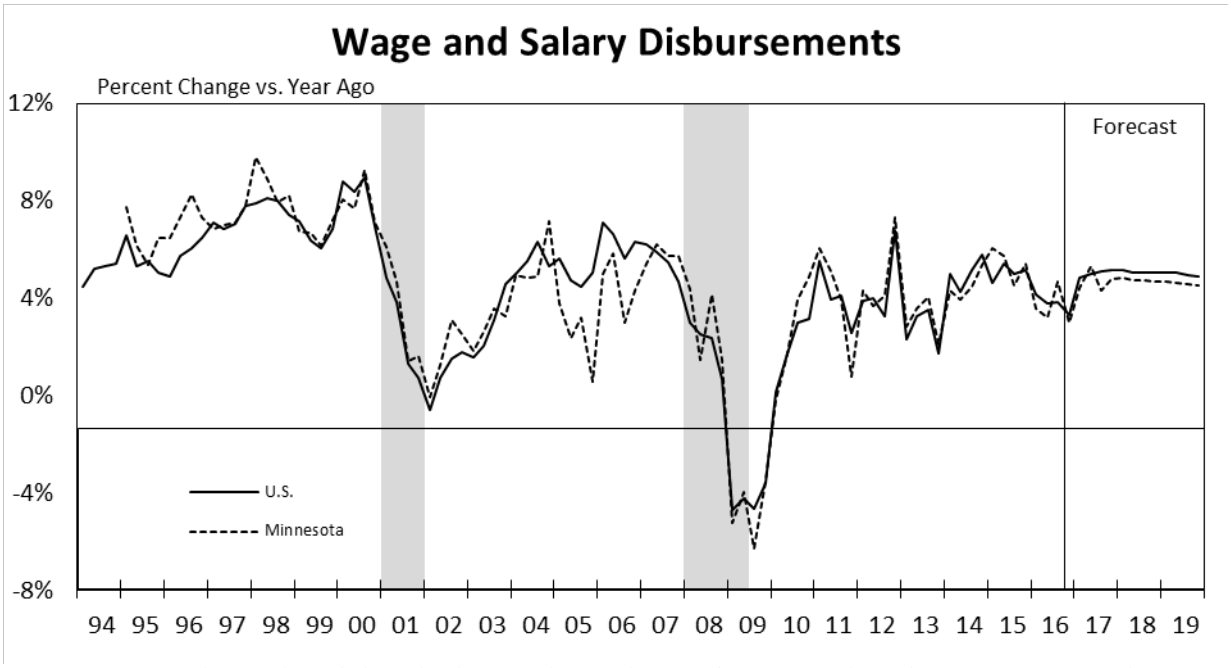
Source: Bureau of Labor Statistics, National Bureau of Economic Research, and IHS Economics

Since the Great Recession, compensation growth for private sector employees as measured by the Employment Cost Index (ECI) has been around 2.0 percent. The ECI is expected to increase to 3.0 percent by 2018 and remain there in 2019. As this level of growth exceeds the IHS forecast for inflation, it represents an increase in real compensation.



Source: Bureau of Labor Statistics, National Bureau of Economic Research, IHS Economics, and MN Management & Budget

Both U.S .and Minnesota annual employment growth is in the 0.8 to 1.0 percent range to the end of 2019.



Source: Bureau of Economic Analysis, National Bureau of Economic Research, IHS Economics, and MN Management & Budget

Over 2017 through 2019, total U.S. total wage and salary income is forecast to grow roughly 5.0 percent per year, and Minnesota wage and salary income is expected to grow 4.7 per year.

Minnesota Economic Forecast Summary

Forecast 2016 to 2021 - Calendar Years

	2014	2015	2016	2017	2018	2019	2020	2021
Current Dollar Income (Billions of Dollars)								
Personal Income	268.126	279.263	285.845	297.765	311.598	326.078	340.740	355.883
%Chg	4.7	4.2	2.4	4.2	4.6	4.6	4.5	4.4
Wage & Salary Disbursements	145.948	153.846	159.410	166.923	174.843	182.918	191.040	199.655
%Chg	4.5	5.4	3.6	4.7	4.7	4.6	4.4	4.5
Non-Wage Personal Income	122.178	125.416	126.435	130.840	136.753	143.158	149.703	156.228
%Chg	5.0	2.7	0.8	3.5	4.5	4.7	4.6	4.4
Supplements to Wages & Salaries	32.604	32.794	34.264	35.792	37.063	38.426	39.824	41.251
%Chg	5.9	0.6	4.5	4.5	3.6	3.7	3.6	3.6
Dividends, Interest, & Rent Income	49.442	50.923	51.865	53.597	56.173	59.217	62.458	65.313
%Chg	8.5	3.0	1.8	3.3	4.8	5.4	5.5	4.6
Farm Proprietors Income	3.067	2.873	0.990	0.921	0.982	0.971	0.948	1.043
%Chg	-43.8	-6.3	-65.5	-7.0	6.7	-1.2	-2.3	10.0
Non-Farm Proprietors Income	18.626	19.968	20.761	21.705	22.645	23.381	24.112	25.056
%Chg	7.4	7.2	4.0	4.5	4.3	3.2	3.1	3.9
Personal Current Transfer Receipts	42.883	44.234	45.117	46.628	49.044	51.573	54.065	56.669
%Chg	4.9	3.2	2.0	3.3	5.2	5.2	4.8	4.8
Less: Contrib. for Gov. Social Ins.	23.173	24.042	25.030	26.261	27.611	28.870	30.165	31.565
%Chg	3.5	3.8	4.1	4.9	5.1	4.6	4.5	4.6
Real Income (Billions of 2009 Dollars)								
Real Personal Income	245.639	254.956	258.139	264.275	271.353	278.358	284.940	291.438
%Chg	3.2	3.8	1.2	2.4	2.7	2.6	2.4	2.3
Real Wage & Salary Disbursements	133.708	140.454	143.958	148.148	152.258	156.150	159.753	163.503
%Chg	3.0	5.0	2.5	2.9	2.8	2.6	2.3	2.3
Employment (Thousands)								
Employment - Total Non-Farm Payrolls	2,814.4	2,856.4	2,895.0	2,923.4	2,949.2	2,978.7	3,005.5	3,031.3
%Chg	1.4	1.5	1.3	1.0	0.9	1.0	0.9	0.9
Construction	107.6	115.2	120.6	124.0	126.7	128.3	130.3	132.4
%Chg	7.1	7.1	4.7	2.8	2.2	1.3	1.6	1.6
Manufacturing	312.3	316.9	316.7	315.7	316.9	318.9	320.6	321.7
%Chg	1.6	1.5	0.0	-0.3	0.4	0.6	0.6	0.3
Private Service-Providing	1,966.7	1,996.4	2,028.9	2,052.2	2,073.5	2,096.0	2,114.4	2,137.1
%Chg	1.0	1.5	1.6	1.1	1.0	1.1	0.9	1.1
Government	420.6	421.0	423.0	425.9	426.4	429.7	434.3	434.2
%Chg	1.5	0.1	0.5	0.7	0.1	0.8	1.1	0.0
Minnesota Civilian Labor Force	2,985.7	3,009.7	3,036.8	3,053.8	3,058.0	3,056.7	3,058.7	3,063.9
Demographic Indicators (Millions)								
Total Population	5.457	5.490	5.525	5.563	5.600	5.635	5.670	5.703
%Chg	0.7	0.6	0.7	0.7	0.7	0.6	0.6	0.6
Total Population Age 16 & Over	4.317	4.348	4.381	4.417	4.450	4.483	4.518	4.551
%Chg	0.8	0.7	0.8	0.8	0.7	0.8	0.8	0.7
Total Population Age 65 & Over	0.780	0.806	0.832	0.862	0.893	0.924	0.957	0.989
%Chg	3.2	3.3	3.2	3.7	3.5	3.5	3.5	3.3
Total Households	2.129	2.147	2.173	2.195	2.216	2.237	2.258	2.278
%Chg	0.4	0.8	1.2	1.0	1.0	1.0	0.9	0.9
Housing Indicators (Thousands)								
Total Housing Permits (Authorized)	16.789	20.344	21.817	25.651	25.245	25.089	25.126	24.035
%Chg	-0.1	21.2	7.2	17.6	-1.6	-0.6	0.1	-4.3
Single-Family	10.276	12.345	13.980	15.724	15.475	15.380	15.402	14.733
%Chg	-3.0	20.1	13.2	12.5	-1.6	-0.6	0.1	-4.3

Source: Minnesota Management & Budget (MMB) November 2016 Forecast

U.S. Economic Forecast Summary

Forecast 2015 to 2021, Calendar Years

	2014	2015	2016	2017	2018	2019	2020	2021
Real National Income Accounts (Billions of 2009 Dollars)								
Real Gross Domestic Product (GDP)	15,982.3	16,397.2	16,649.4	17,015.9	17,387.9	17,762.1	18,126.2	18,521.4
%Chg	2.4	2.6	1.5	2.2	2.2	2.2	2.0	2.2
Real Consumption	10,868.9	11,214.7	11,505.1	11,790.3	12,081.8	12,376.8	12,658.7	12,957.8
%Chg	2.9	3.2	2.6	2.5	2.5	2.4	2.3	2.4
Real Nonresidential Fixed Investment	2,155.6	2,200.2	2,196.6	2,299.2	2,387.7	2,480.9	2,565.3	2,648.6
%Chg	6.0	2.1	-0.2	4.7	3.9	3.9	3.4	3.2
Real Residential Investment	505.4	564.5	588.0	604.2	626.5	642.6	656.3	675.2
%Chg	3.5	11.7	4.2	2.7	3.7	2.6	2.1	2.9
Real Personal Income	13,567.7	14,112.9	14,422.9	14,790.6	15,226.1	15,666.1	16,080.6	16,489.9
%Chg	3.7	4.0	2.2	2.5	2.9	2.9	2.6	2.5
Current Dollar National Income Accounts (Billions of Dollars)								
Gross Domestic Product (GDP)	17,393.1	18,036.7	18,564.2	19,407.9	20,274.2	21,143.8	22,024.3	22,965.7
%Chg	4.2	3.7	2.9	4.5	4.5	4.3	4.2	4.3
Personal Income	14,809.8	15,458.5	15,970.8	16,665.0	17,484.5	18,352.0	19,229.8	20,136.3
%Chg	5.2	4.4	3.3	4.3	4.9	5.0	4.8	4.7
Wage & Salary Disbursements	7,476.3	7,854.8	8,151.6	8,560.7	8,994.5	9,443.1	9,892.8	10,370.5
%Chg	5.1	5.1	3.8	5.0	5.1	5.0	4.8	4.8
Non-Wage Personal Income	7,333.4	7,603.7	7,819.1	8,104.3	8,490.0	8,908.8	9,337.1	9,765.8
%Chg	5.4	3.7	2.8	3.6	4.8	4.9	4.8	4.6
Price and Wage Indexes								
U.S. GDP Deflator (2005=1.0)	108.838	109.999	111.504	114.053	116.595	119.035	121.502	123.991
%Chg	1.8	1.1	1.4	2.3	2.2	2.1	2.1	2.0
U.S. Consumer Price Index (1982-84=1.0)	2.367	2.370	2.400	2.459	2.520	2.580	2.644	2.709
%Chg	1.6	0.1	1.3	2.5	2.5	2.4	2.5	2.5
Employment Cost Index (Dec 2005=1.0)	1.212	1.238	1.264	1.296	1.336	1.378	1.421	1.466
%Chg	2.1	2.1	2.1	2.6	3.1	3.1	3.1	3.2
Employment (Thousands)								
Employment - Total Non-Farm Payrolls	138.9	141.8	144.3	146.1	147.4	148.9	150.2	151.4
%Chg	1.9	2.1	1.7	1.2	0.9	1.0	0.9	0.8
Construction	6.1	6.4	6.7	6.8	6.9	7.1	7.2	7.4
%Chg	5.0	4.8	3.3	1.9	2.3	2.4	2.0	2.2
Manufacturing	12.2	12.3	12.3	12.3	12.4	12.6	12.7	12.8
%Chg	1.4	1.1	-0.3	0.0	0.8	1.5	1.2	0.8
Private Service-Providing	97.8	100.2	102.5	104.1	105.1	106.0	106.8	107.8
%Chg	2.1	2.5	2.3	1.5	1.0	0.9	0.7	0.9
Government	21.9	22.0	22.1	22.2	22.2	22.4	22.7	22.6
%Chg	0.1	0.6	0.7	0.4	0.0	0.6	1.2	-0.3
U.S. Civilian Labor Force	155.9	157.1	159.3	161.2	163.0	164.7	166.2	167.3
Employment - Household Survey	146.3	148.8	151.4	153.5	155.4	157.1	158.4	159.1
Unemployment Rate (%)	6.2	5.3	4.9	4.7	4.6	4.6	4.7	4.8
Other Key Measures								
Non-Farm Productivity (index, 2005=1.0)	1.055	1.065	1.066	1.077	1.090	1.105	1.122	1.139
%Chg	0.8	0.9	0.1	1.1	1.2	1.4	1.5	1.5
Total Ind. Production (index, 2007=100)	104.891	105.215	104.092	105.097	108.161	110.895	113.299	115.459
%Chg	2.9	0.3	-1.1	1.0	2.9	2.5	2.2	1.9
Manhours in Private Non-Farm Estab Billions of Hours	197.6	201.9	205.2	208.5	211.5	214.1	216.0	218.3
%Chg	2.4	2.2	1.6	1.6	1.5	1.2	0.9	1.1
Average Weekly Hours	32.5	32.5	32.4	32.5	32.6	32.7	32.7	32.7
Manufacturing Workweek	42.0	41.8	41.8	41.6	41.7	41.7	41.8	41.8

Source: IHS Economics; February 2016 Baseline

Alternative Forecast Comparison

Calendar Years

	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	2015	2016	2017	2018
Real Gross Domestic Product (GDP), Percent Change, Seasonally Adjusted at Annual Rate										
Blue Chip Consensus (11-16)	2.1	2.2	2.3	2.2	2.1	-	-	1.5	2.2	-
IHS Economics Baseline (11-16)	2.1	2.3	2.1	2.2	2.0	2.3	2.6	1.5	2.2	2.2
Moody's Analytics (11-16)	3.1	3.0	3.2	2.8	-	-	2.6	1.6	2.9	2.7
S&P Economic Forecast (10-16)	2.9	1.9	2.6	2.4	-	-	2.6	1.5	2.4	2.3
Wells Fargo (11-16)	1.9	1.8	2.3	2.1	2.1	2.1	2.6	1.5	2.1	2.1
Congressional Budget Office (08-16)				N/A			-	1.9	2.4	2.2
Consumer Price Index (CPI), Percent Change, Seasonally Adjusted at Annual Rate (except where noted)										
Blue Chip Consensus (11-16)	2.9	2.1	2.4	2.3	2.4	-	-	1.3	2.3	-
IHS Economics Baseline (11-16)	3.4	1.9	2.5	3.1	2.2	2.2	0.1	1.3	2.5	2.5
Moody's Analytics (11-16)	2.1	2.5	2.8	2.9	-	-	0.1	1.2	2.5	2.7
S&P Economic Forecast (10-16)	1.9	2.4	2.6	2.5	-	-	0.1	1.4	2.5	2.3
Wells Fargo (11-16)*	1.7	2.3	2.3	2.6	2.5	2.6	0.1	1.2	2.4	2.6
Congressional Budget Office (08-16)				N/A			-	1.4	2.4	2.3

* Year-over-Year Percent Change

IHS Economics Baseline Forecast Comparison

Calendar Years

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Real Gross Domestic Product (GDP), Annual Percent Change										
February 2011	2.9	3.1	3.3	2.9	-	-	-	-	-	-
November 2011	1.6	2.5	3.5	3.3	-	-	-	-	-	-
February 2012	2.1	2.3	3.3	3.2	-	-	-	-	-	-
November 2012	2.1	1.9	2.8	3.3	2.9	2.1	-	-	-	-
February 2013	2.2	1.9	2.8	3.3	2.9	2.8	-	-	-	-
November 2013	2.8	1.7	2.5	3.1	3.3	3.1	-	-	-	-
February 2014	2.8	1.9	2.7	3.3	3.4	3.1	-	-	-	-
November 2014	2.3	2.2	2.2	2.6	2.8	3.0	2.6	2.6	-	-
February 2015	2.3	2.2	2.4	3.0	2.7	2.8	2.6	2.8	-	-
November 2015	2.2	1.5	2.4	2.4	2.9	2.8	2.7	2.6	-	-
February 2016	2.2	1.5	2.4	2.4	2.4	2.8	2.6	2.4	-	-
November 2016	2.2	1.7	2.4	2.6	1.5	2.2	2.2	2.2	2.0	2.2
Consumer Price Index (CPI), Annual Percent Change										
February 2011	1.7	1.9	2.2	2.2	-	-	-	-	-	-
November 2011	1.5	1.7	2.0	2.1	-	-	-	-	-	-
February 2012	2.0	1.8	1.9	1.9	-	-	-	-	-	-
November 2012	2.1	1.3	1.8	1.7	1.9	1.9	-	-	-	-
February 2013	2.1	1.4	1.7	1.6	1.7	1.8	-	-	-	-
November 2013	2.1	1.4	1.4	1.7	1.9	1.9	-	-	-	-
February 2014	2.1	1.5	1.3	1.7	1.8	1.8	-	-	-	-
November 2014	2.1	1.5	1.7	1.0	1.6	2.2	2.2	2.3	-	-
February 2015	2.1	1.5	1.6	-0.7	2.3	2.7	2.7	2.5	-	-
November 2015	2.1	1.5	1.6	0.0	1.4	2.7	2.4	2.4	-	-
February 2016	2.1	1.5	1.6	0.1	0.6	2.3	2.7	2.7	-	-
November 2016	2.1	1.5	1.6	0.1	1.3	2.5	2.5	2.4	2.5	2.5

Source: IHS Economics

Forecast Comparison: Minnesota & U.S.

Forecast 2016 to 2019, Calendar Years

	2012	2013	2014	2015	2016	2017	2018	2019
Personal Income (Billions of Current Dollars)								
Minnesota								
November 2016	254.0	256.0	268.1	279.3	285.8	297.8	311.6	326.1
%Chg	6.4	0.8	4.7	4.2	2.4	4.2	4.6	4.6
February 2016	254.5	257.1	267.4	277.4	286.2	299.2	313.9	328.2
%Chg	5.2	1.0	4.0	3.7	3.2	4.5	4.9	4.6
U.S.								
November 2016	13,915	14,074	14,810	15,459	15,971	16,665	17,484	18,352
%Chg	5.0	1.1	5.2	4.4	3.3	4.3	4.9	5.0
February 2016	13,915	14,068	14,694	15,357	15,960	16,722	17,564	18,427
%Chg	5.0	1.1	4.4	4.5	3.9	4.8	5.0	4.9
Wage and Salary Disbursements (Billions of Current Dollars)								
Minnesota								
November 2016	135.4	139.6	145.9	153.8	159.4	166.9	174.8	182.9
%Chg	4.9	3.1	4.5	5.4	3.6	4.7	4.7	4.6
February 2016	135.4	139.6	145.9	152.8	158.6	166.0	173.7	181.3
%Chg	4.9	3.1	4.6	4.7	3.8	4.7	4.6	4.4
U.S.								
November 2016	6,930	7,117	7,476	7,855	8,152	8,561	8,994	9,443
%Chg	4.5	2.7	5.1	5.1	3.8	5.0	5.1	5.0
February 2016	6,930	7,114	7,478	7,839	8,216	8,618	9,035	9,468
%Chg	4.5	2.7	5.1	4.8	4.8	4.9	4.8	4.8
Total Non-Farm Payroll Employment (Thousands)								
Minnesota								
November 2016	2,730	2,776	2,814	2,856	2,895	2,923	2,949	2,979
%Chg	1.6	1.7	1.4	1.5	1.3	1.0	0.9	1.0
February 2016	2,730	2,776	2,815	2,853	2,882	2,907	2,931	2,953
%Chg	1.6	1.7	1.4	1.4	1.0	0.9	0.8	0.7
U.S.								
November 2016	134,173	136,381	138,939	141,833	144,308	146,073	147,369	148,851
%Chg	1.7	1.6	1.9	2.1	1.7	1.2	0.9	1.0
February 2016	134,173	136,381	138,939	141,832	144,322	145,921	147,427	148,898
%Chg	1.7	1.6	1.9	2.1	1.8	1.1	1.0	1.0
Average Annual Non-Farm Wage (Current Dollars)								
Minnesota								
November 2016	49,597	50,305	51,858	53,859	55,065	57,098	59,285	61,409
%Chg	3.2	1.4	3.1	3.9	2.2	3.7	3.8	3.6
February 2016	49,598	50,284	51,839	53,571	55,028	57,109	59,250	61,399
%Chg	3.2	1.4	3.1	3.3	2.7	3.8	3.7	3.6
U.S.								
November 2016	51,652	52,182	53,810	55,381	56,488	58,606	61,034	63,440
%Chg	2.7	1.0	3.1	2.9	2.0	3.7	4.1	3.9
February 2016	51,652	52,165	53,820	55,267	56,928	59,056	61,285	63,584
%Chg	2.7	1.0	3.2	2.7	3.0	3.7	3.8	3.8

Source: IHS Economics and Minnesota Management and Budget (MMB)

Factors Affecting Tax Revenue

Billions of Current Dollars

	2014	2015	2016	2017	2018	2019	2020	2021
Individual Income Tax (Calendar Year)								
Minnesota Non-Farm Tax Base								
February 2014	213.810	225.420	238.065	251.045	-	-	-	-
%Chg	5.0	5.4	5.6	5.5				
November 2014	213.919	222.743	234.048	247.250	259.688	271.678	-	-
%Chg	3.8	4.1	5.1	5.6	5.0	4.6		
February 2015	214.375	224.873	236.323	249.318	261.988	274.210	-	-
%Chg	4.0	4.9	5.1	5.5	5.1	4.7		
November 2015	212.873	222.897	232.633	244.093	256.625	269.365	-	-
%Chg	4.5	4.7	4.4	4.9	5.1	5.0		
February 2016	212.873	222.646	229.615	240.335	252.558	264.448	-	-
%Chg	4.5	4.6	3.1	4.7	5.1	4.7		
November 2016	214.016	224.737	232.035	242.225	253.658	265.518	277.610	290.023
%Chg	5.7	5.0	3.2	4.4	4.7	4.7	4.6	4.5
Minnesota Wage and Salary Disbursements								
February 2014	147.110	154.948	162.930	170.663	-	-	-	-
%Chg	5.0	5.3	5.2	4.7				
November 2014	145.147	151.563	158.495	165.898	173.420	181.153	-	-
%Chg	3.9	4.4	4.6	4.7	4.5	4.5		
February 2015	145.733	153.655	161.100	168.953	176.765	184.913	-	-
%Chg	4.3	5.4	4.8	4.9	4.6	4.6		
November 2015	145.926	153.019	159.958	167.580	175.413	183.918	-	-
%Chg	4.6	4.9	4.5	4.8	4.7	4.8		
February 2016	145.926	152.842	158.588	166.015	173.658	181.303	-	-
%Chg	4.6	4.7	3.8	4.7	4.6	4.4		
November 2016	145.948	153.846	159.410	166.923	174.843	182.918	191.040	199.655
%Chg	4.5	5.4	3.6	4.7	4.7	4.6	4.4	4.5
Minnesota Dividends, Interest, & Rental Income								
February 2014	47.300	49.877	53.438	57.725	-	-	-	-
%Chg	4.9	5.4	7.1	8.0				
November 2014	48.489	49.808	53.303	58.403	62.585	65.879	-	-
%Chg	3.1	2.7	7.0	9.6	7.2	5.3		
February 2015	48.454	49.863	52.930	57.410	61.539	64.549	-	-
%Chg	3.0	2.9	6.2	8.5	7.2	4.9		
November 2015	47.508	49.369	50.773	53.305	56.838	59.868	-	-
%Chg	3.9	3.9	2.8	5.0	6.6	5.3		
February 2016	47.508	49.405	49.921	52.211	56.026	59.535	-	-
%Chg	3.9	4.0	1.0	4.6	7.3	6.3		
November 2016	49.442	50.923	51.865	53.597	56.173	59.217	62.458	65.313
%Chg	8.5	3.0	1.8	3.3	4.8	5.4	5.5	4.6
Minnesota Non-Farm Proprietors' Income								
February 2014	19.403	20.595	21.700	22.656	-	-	-	-
%Chg	5.5	6.1	5.4	4.4				
November 2014	20.282	21.372	22.248	22.948	23.683	24.644	-	-
%Chg	4.9	5.4	4.1	3.1	3.2	4.1		
February 2015	20.188	21.356	22.291	22.957	23.681	24.747	-	-
%Chg	4.4	5.8	4.4	3.0	3.2	4.5		
November 2015	19.440	20.510	21.901	23.204	24.374	25.578	-	-
%Chg	5.9	5.5	6.8	6.0	5.0	4.9		
February 2016	19.440	20.397	21.107	22.109	22.877	23.607	-	-
%Chg	5.9	4.9	3.5	4.7	3.5	3.2		
November 2016	18.626	19.968	20.761	21.705	22.645	23.381	24.112	25.056
%Chg	7.4	7.2	4.0	4.5	4.3	3.2	3.1	3.9

Factors Affecting Tax Revenue (Continued)

Billions of Current Dollars

	2014	2015	2016	2017	2018	2019	2020	2021
General Sales Tax (Fiscal Year)								
Minnesota Synthetic Sales Tax Base*								
February 2014	80.121	84.742	89.234	93.625	-	-	-	-
%Chg	3.9	5.8	5.3	4.9				
November 2014	80.113	83.634	87.403	91.537	95.285	98.523	-	-
%Chg	4.1	4.4	4.5	4.7	4.1	3.4		
February 2015	80.213	83.568	88.120	92.585	96.380	100.037	-	-
%Chg	4.2	4.2	5.4	5.1	4.1	3.8		
November 2015	78.560	81.685	85.626	90.097	94.537	98.470	-	-
%Chg	2.8	4.0	4.8	5.2	4.9	4.2		
February 2016	78.587	81.588	84.158	87.161	91.571	95.695	-	-
%Chg	2.8	3.8	3.1	3.6	5.1	4.5		
November 2016	79.007	82.162	80.945	82.860	85.645	88.705	91.581	94.852
%Chg	2.9	4.0	-1.5	2.4	3.4	3.6	3.2	3.6
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)								
February 2014	15.141	15.746	16.512	17.212	-	-	-	-
%Chg	4.4	4.0	4.9	4.2				
November 2014	14.844	15.336	15.920	16.601	17.316	17.943	-	-
%Chg	3.1	3.3	3.8	4.3	4.3	3.6		
February 2015	14.851	15.403	16.139	16.759	17.363	17.964	-	-
%Chg	3.1	3.7	4.8	3.8	3.6	3.5		
November 2015	14.605	15.163	15.803	16.555	17.184	17.870	-	-
%Chg	2.1	3.8	4.2	4.8	3.8	4.0		
February 2016	14.605	15.155	15.805	16.376	17.055	17.678	-	-
%Chg	2.1	3.8	4.3	3.6	4.1	3.7		
November 2016	14.690	15.363	16.030	16.429	16.632	16.998	17.528	18.163
%Chg	3.1	4.6	4.3	2.5	1.2	2.2	3.1	3.6
Minnesota's Proxy Share of U.S. Capital Equipment Spending								
February 2014	14.119	15.649	17.368	18.748	-	-	-	-
%Chg	4.0	10.8	11.0	7.9				
November 2014	14.079	15.116	16.412	17.910	19.108	20.061	-	-
%Chg	4.4	7.4	8.6	9.1	6.7	5.0		
February 2015	14.087	15.280	16.932	18.491	19.807	20.946	-	-
%Chg	4.4	8.5	10.8	9.2	7.1	5.8		
November 2015	13.835	14.697	15.382	16.677	18.007	19.165	-	-
%Chg	2.1	6.2	4.7	8.4	8.0	6.4		
February 2016	13.835	14.686	15.102	15.725	17.017	18.326	-	-
%Chg	2.1	6.2	2.8	4.1	8.2	7.7		
November 2016	13.786	14.451	10.931	10.942	11.436	12.041	12.648	13.308
%Chg	1.5	4.8	-24.4	0.1	4.5	5.3	5.0	5.2
Minnesota's Proxy Share of U.S. Construction Spending								
February 2014	6.684	7.483	8.173	8.819	-	-	-	-
%Chg	12.1	12.0	9.2	7.9				
November 2014	6.721	7.363	7.899	8.319	8.713	9.026	-	-
%Chg	13.3	9.6	7.3	5.3	4.7	3.6		
February 2015	6.653	7.122	7.468	8.023	8.486	8.861	-	-
%Chg	12.3	7.0	4.9	7.4	5.8	4.4		
November 2015	6.598	7.187	7.675	8.214	8.764	9.142	-	-
%Chg	11.8	8.9	6.8	7.0	6.7	4.3		
February 2016	6.596	7.122	7.465	7.793	8.315	8.707	-	-
%Chg	11.8	8.0	4.8	4.4	6.7	4.7		
November 2016	6.738	7.429	7.814	8.189	8.947	9.361	9.759	10.201
%Chg	13.8	10.3	5.2	4.8	9.3	4.6	4.2	4.5

Factors Affecting Tax Revenue (Continued)

Billions of Current Dollars

	2014	2015	2016	2017	2018	2019	2020	2021
Corporate Franchise Tax (Calendar Year)								
U.S. Corporate Profits (w/ IVA and capital consumption adjustment, less profits from Federal Reserve)								
November 2013	2,097.9	2,209.0	2,311.5	2,371.8	-	-	-	-
%Chg	4.3	5.3	4.6	2.6				
February 2014	2,167.7	2,270.4	2,352.2	2,412.5	-	-	-	-
%Chg	6.9	4.7	3.6	2.6				
November 2014	1,994.3	2,183.5	2,282.4	2,295.8	2,331.1	2,427.9	-	-
%Chg	-1.5	9.5	4.5	0.6	1.5	4.2		
February 2015	2,116.7	2,209.6	2,303.6	2,259.0	2,276.9	2,383.0	-	-
%Chg	4.6	4.4	4.3	-1.9	0.8	4.7		
November 2015	1,972.5	1,918.5	1,993.1	2,045.1	2,062.6	2,099.7	-	-
%Chg	0.9	-2.7	3.9	2.6	0.9	1.8		
February 2016	1,972.5	1,862.5	1,857.1	1,970.2	2,020.1	2,036.4	-	-
%Chg	0.9	-5.6	-0.3	6.1	2.5	0.8		
November 2016	2,045.6	1,932.5	1,791.7	1,903.6	2,024.9	2,048.5	2,063.0	2,124.3
%Chg	4.9	-5.5	-7.3	6.2	6.4	1.2	0.7	3.0
Deed & Mortgage Tax (Fiscal Year)								
U.S. New and Existing Home Sales (Current $ Value)								
November 2013	1,334.6	1,509.4	1,574.1	1,548.1	-	-	-	-
%Chg	17.0	13.1	4.3	-1.7				
February 2014	1,273.5	1,472.5	1,574.3	1,559.7	-	-	-	-
%Chg	11.7	15.6	6.9	-0.9				
November 2014	1,221.3	1,339.7	1,455.0	1,517.0	1,525.4	1,600.0	-	-
%Chg	7.0	9.7	8.6	4.3	0.6	4.9		
February 2015	1,221.3	1,362.5	1,547.8	1,642.4	1,701.4	1,807.2	-	-
%Chg	7.0	11.6	13.6	6.1	3.6	6.2		
November 2015	1,221.3	1,341.3	1,481.1	1,634.6	1,748.7	1,796.7	-	-
%Chg	6.9	9.8	10.4	10.4	7.0	2.7		
February 2016	1,221.3	1,341.3	1,458.2	1,611.1	1,712.1	1,747.0	-	-
%Chg	6.9	9.8	8.7	10.5	6.3	2.0		
November 2016	1,223.1	1,342.3	1,467.9	1,594.5	1,676.9	1,735.6	1,791.9	1,858.7
%Chg	6.9	9.8	9.4	8.6	5.2	3.5	3.2	3.7

* Series revised in part due to law changes.

** Beginning in November 2013, includes rest-of-world profits to account for change in the Minnesota tax base.

*** Beginning in November 2014, primary factor became Minnesota Direct Premiums Written: Property and Life.

Current Fiscal Year-to-Date 2017
End of Session vs. Actual Revenue Comparison

Fiscal Year-to-Date 2017 (July, 2016 to October, 2016)

($ in Thousands)	Forecast Revenues	Actual Revenues	Variance Act-Fcst
Individual Income Tax			
Withholding	2,600,100	2,616,092	15,992
Declarations	489,354	471,367	(17,987)
Miscellaneous	215,600	218,390	2,790
Gross	3,305,053	3,305,849	795
Refund	62,230	95,599	33,369
Net	3,242,823	3,210,250	(32,573)
Corporate Franchise Tax			
Declarations	343,919	333,927	(9,991)
Miscellaneous	102,781	84,125	(18,656)
Gross	446,699	418,052	(28,647)
Refund	30,385	29,527	(858)
Net	416,314	388,525	(27,789)
General Sales and Use Tax			
Gross	1,768,361	1,741,362	(26,999)
Mpls. sales tax transferred to MSFA	673	672	(1)
Sales Tax Gross	1,769,034	1,742,035	(26,999)
Refunds (including Indian refunds)	39,904	48,203	8,299
Net	1,729,130	1,693,832	(35,298)
Other Revenues:			
Net Estate	53,800	36,970	(16,830)
Net Liquor/Wine/Beer	23,382	24,311	929
Net Cigarette/Tobacco	162,578	168,285	5,707
Deed and Mortgage	71,085	76,392	5,307
Net Insurance Premiums Taxes	89,435	89,077	(359)
Net Lawful Gambling	13,105	15,198	2,093
Health Care Surcharge	45,964	45,065	(899)
Other Taxes	238	243	5
Statewide Property Tax	194,683	193,927	(756)
DHS SOS Collections	16,129	22,467	6,338
Investment Income	4,333	8,623	4,290
Tobacco Settlement	100	100	-
Dept. Earnings & MSOP Recov.	56,770	56,215	(555)
Fines and Surcharges	21,314	10,645	(10,669)
Lottery Revenues	18,268	9,787	(8,481)
Revenues yet to be allocated	-	280	280
Residual Revenues	28,554	15,979	(12,574)
County Nursing Home, Pub Hosp IGT	2,264	1,698	(566)
Other Subtotal	802,002	775,261	(26,741)
Other Refunds	1,952	1,349	(603)
Other Net	800,051	773,912	(26,138)
Total Gross	**6,322,789**	**6,241,197**	**(81,592)**
Total Refunds	**134,471**	**174,678**	**40,207**
Total Net	**6,188,318**	**6,066,519**	**(121,799)**

FY 2016 Close
November 2016 General Fund Forecast
($ in thousands)

	5-16 Enacted FY 2016	Actuals FY 2016	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	2,103,017	2,103,017	-
Current Resources:			
Tax Revenues	19,917,133	20,110,469	193,336
Non-Tax Revenues	752,013	779,291	27,278
Subtotal - Non-Dedicated Revenue	20,669,146	20,889,760	220,614
Dedicated Revenue	500	1,017	517
Transfers In	195,816	192,727	(3,089)
Prior Year Adjustments	27,632	67,861	40,229
Subtotal - Other Revenue	223,948	261,605	37,657
Subtotal-Current Resources	20,893,094	21,151,365	258,271
Total Resources Available	**22,996,111**	**23,254,382**	**258,271**
Actual & Estimated Spending			
E-12 Education	8,522,589	8,518,138	(4,451)
Higher Education	1,530,893	1,529,168	(1,725)
Property Tax Aids & Credits	1,662,120	1,646,052	(16,068)
Health & Human Services	5,672,870	5,601,161	(71,709)
Public Safety & Judiciary	1,078,120	1,041,299	(36,821)
Transportation	141,847	135,089	(6,758)
Environment & Agriculture	273,910	256,952	(16,958)
Jobs, Economic Development, Housing & Commerce	245,377	212,580	(32,797)
State Government & Veterans	524,979	463,974	(61,005)
Debt Service	609,285	609,285	-
Capital Projects & Grants	140,217	140,225	8
Estimated Cancellations	(5,000)	-	5,000
Subtotal Expenditures & Transfers	**20,397,206**	**20,151,959**	**(245,247)**
Dedicated Expenditures	-	-	-
Total Expenditures & Transfers	**20,397,206**	**20,151,959**	**(245,247)**
Balance Before Reserves	**2,598,904**	**3,102,423**	**503,518**
Cash Flow Account	350,000	350,000	-
Budget Reserve	1,596,522	1,596,522	-
Stadium Reserve	21,196	22,535	1,339
Appropriations Carried Forward	-	187,204	187,204
Budgetary Balance	**631,186**	**946,162**	**314,975**

Current Biennium: FY 2016-17 General Fund Budget
Enacted Budget vs. November 2016 Forecast

($ in thousands)

	5-16 Enacted FY 2016-17	Forecast FY 2016-17	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	2,103,017	2,103,017	-
Current Resources:			
Tax Revenues	40,414,803	40,388,179	(26,624)
Non-Tax Revenues	1,467,755	1,501,693	33,938
Subtotal - Non-Dedicated Revenue	41,882,558	41,889,872	7,314
Dedicated Revenue	1,000	1,531	531
Transfers In	402,341	395,459	(6,883)
Prior Year Adjustments	54,758	94,985	40,227
Subtotal - Other Revenue	458,099	491,975	33,876
Subtotal-Current Resources	42,340,657	42,381,847	41,190
Total Resources Available	**44,443,674**	**44,484,863**	**41,190**
Actual & Estimated Spending			
E-12 Education	17,400,152	17,403,462	3,310
Higher Education	3,071,824	3,081,146	9,322
Property Tax Aids & Credits	3,351,415	3,342,067	(9,348)
Health & Human Services	12,014,756	11,808,443	(206,313)
Public Safety & Judiciary	2,172,866	2,170,205	(2,661)
Transportation	277,899	280,022	2,123
Environment & Agriculture	475,597	474,699	(898)
Jobs, Economic Development, Housing & Commerce	515,782	514,505	(1,277)
State Government & Veterans	1,044,038	1,038,761	(5,277)
Debt Service	1,173,691	1,138,500	(35,191)
Capital Projects & Grants	269,348	266,405	(2,943)
Estimated Cancellations	(20,000)	(15,000)	5,000
Total Expenditures & Transfers	**41,747,367**	**41,502,951**	**(244,916)**
Balance Before Reserves	**2,696,307**	**2,982,412**	**285,342**
Cash Flow Account	350,000	350,000	-
Budget Reserve	1,596,522	1,930,388	333,866
Stadium Reserve	21,196	24,174	2,978
Appropriations Carried Forward	-	-	-
Budgetary Balance	**728,589**	**677,850**	**(51,738)**

Current Biennium: FY 2016-17 General Fund Budget
November 2016 Forecast

($ in thousands)

	Actuals FY 2016	Forecast FY 2017	Biennial Total FY 2016-17
Actual & Estimated Resources			
Balance Forward From Prior Year	2,103,017	3,102,423	2,103,017
Current Resources:			
Tax Revenues	20,110,469	20,277,710	40,388,179
Non-Tax Revenues	779,291	722,402	1,501,693
Subtotal - Non-Dedicated Revenue	20,889,760	21,000,112	41,889,872
Dedicated Revenue	1,017	514	1,531
Transfers In	192,727	202,732	395,459
Prior Year Adjustments	67,861	27,124	94,985
Subtotal - Other Revenue	261,605	230,370	491,975
Subtotal-Current Resources	21,151,365	21,230,482	42,381,847
Total Resources Available	**23,254,382**	**24,332,904**	**44,484,863**
Actual & Estimated Spending			
E-12 Education	8,518,138	8,886,524	17,403,462
Higher Education	1,529,168	1,551,978	3,081,146
Property Tax Aids & Credits	1,646,052	1,696,015	3,342,067
Health & Human Services	5,601,161	6,207,282	11,808,443
Public Safety & Judiciary	1,041,299	1,128,906	2,170,205
Transportation	135,089	144,933	280,022
Environment & Agriculture	256,952	217,747	474,699
Jobs, Economic Development, Housing & Commerce	212,580	301,925	514,505
State Government & Veterans	463,974	574,787	1,038,761
Debt Service	609,285	529,215	1,138,500
Capital Projects & Grants	140,225	126,180	266,405
Estimated Cancellations	-	(15,000)	(15,000)
Total Expenditures & Transfers	**20,151,959**	**21,350,492**	**41,502,451**
Balance Before Reserves	**3,102,423**	**2,982,412**	**2,982,412**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	1,596,522	1,930,388	1,930,388
Stadium Reserve	22,535	24,174	24,174
Appropriations Carried Forward	187,204	-	-
Budgetary Balance	**946,162**	**677,850**	**677,850**

Planning Estimates: FY 2018-19 General Fund Budget
Enacted Budget vs November 2016 Forecast

($ in thousands)

	5-16 Enacted FY 2018-19	Forecast FY 2018-19	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	2,696,307	2,982,412	286,106
Current Resources:			
Tax Revenues	43,996,337	43,538,901	(457,436)
Non-Tax Revenues	1,425,190	1,418,671	(6,519)
Subtotal - Non-Dedicated Revenue	45,421,527	44,957,572	(463,955)
Dedicated Revenue	1,000	1,205	205
Transfers In	312,092	308,585	(3,507)
Prior Year Adjustments	53,284	53,458	174
Subtotal - Other Revenue	366,376	363,248	(3,128)
Subtotal-Current Resources	45,787,903	45,320,820	(467,083)
Total Resources Available	**48,484,210**	**48,303,232**	**(180,977)**
Actual & Estimated Spending			
E-12 Education	18,173,547	18,176,964	3,417
Higher Education	3,069,493	3,069,493	-
Property Tax Aids & Credits	3,453,827	3,466,927	13,100
Health & Human Services	14,424,129	14,251,454	(172,675)
Public Safety & Judiciary	2,184,886	2,174,294	(10,592)
Transportation	243,592	243,592	-
Environment & Agriculture	404,607	403,903	(704)
Jobs, Economic Development, Housing & Commerce	405,011	391,680	(13,331)
State Government & Veterans	1,030,288	1,027,878	(2,410)
Debt Service	1,110,597	1,142,616	32,019
Capital Projects & Grants	256,951	255,985	(966)
Estimated Cancellations	(20,000)	(20,000)	-
Total Expenditures & Transfers	**44,736,928**	**44,584,786**	**(152,142)**
Balance Before Reserves	**3,747,281**	**3,718,446**	**(28,835)**
Cash Flow Account	350,000	350,000	-
Budget Reserve	1,596,522	1,930,388	333,866
Stadium Reserve	24,300	37,690	13,390
Appropriations Carried Forward	-	-	-
Budgetary Balance	**1,776,459**	**1,400,368**	**(376,091)**

Planning Estimates: FY 2018-19 General Fund Budget
November 2016 Forecast

($ in thousands)

	Forecast FY 2018	Forecast FY 2019	Biennial Total FY 2018-19
Actual & Estimated Resources			
Balance Forward From Prior Year	2,982,412	3,145,675	2,982,412
Current Resources:			
Tax Revenues	21,293,131	22,245,770	43,538,901
Non-Tax Revenues	713,086	705,585	1,418,671
Subtotal - Non-Dedicated Revenue	22,006,217	22,951,355	44,957,572
Dedicated Revenue	594	611	1,205
Transfers In	154,291	154,294	308,585
Prior Year Adjustments	26,886	26,572	53,458
Subtotal - Other Revenue	181,771	181,477	363,248
Subtotal-Current Resources	22,187,988	23,132,832	45,320,820
Total Resources Available	**25,170,400**	**26,278,507**	**48,303,232**
Actual & Estimated Spending			
E-12 Education	8,995,276	9,181,688	18,176,964
Higher Education	1,536,592	1,532,901	3,069,493
Property Tax Aids & Credits	1,720,846	1,746,081	3,466,927
Health & Human Services	6,971,224	7,280,230	14,251,454
Public Safety & Judiciary	1,086,700	1,087,594	2,174,294
Transportation	121,796	121,796	243,592
Environment & Agriculture	201,991	201,912	403,903
Jobs, Economic Development, Housing & Commerce	193,053	198,627	391,680
State Government & Veterans	511,877	516,001	1,027,878
Debt Service	562,015	580,601	1,142,616
Capital Projects & Grants	128,355	127,630	255,985
Estimated Cancellations	(5,000)	(15,000)	(20,000)
Total Expenditures & Transfers	**22,024,725**	**22,560,061**	**44,584,786**
Balance Before Reserves	**3,145,675**	**3,718,446**	**3,718,446**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	1,930,388	1,930,388	1,930,388
Stadium Reserve	30,100	37,690	37,690
Appropriations Carried Forward	-	-	-
Budgetary Balance	**835,187**	**1,400,368**	**1,400,368**

Biennial Comparison: FY 2016-17 vs. FY 2018-19
November 2016 Forecast

($ in thousands)

	Forecast FY 2016-17	Forecast FY 2018-19	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	2,103,017	2,982,412	879,396
Current Resources:			
Tax Revenues	40,388,179	43,538,901	3,150,722
Non-Tax Revenues	1,501,693	1,418,671	(83,022)
Subtotal - Non-Dedicated Revenue	41,889,872	44,957,572	3,067,700
Dedicated Revenue	1,531	1,205	(326)
Transfers In	395,459	308,585	(86,874)
Prior Year Adjustments	94,985	53,458	(41,527)
Subtotal - Other Revenue	491,975	363,248	(128,727)
Subtotal-Current Resources	42,381,847	45,320,820	2,938,974
Total Resources Available	**44,484,863**	**48,303,232**	3,818,369
Actual & Estimated Spending			
E-12 Education	17,403,462	18,176,964	773,502
Higher Education	3,081,146	3,069,493	(11,653)
Property Tax Aids & Credits	3,342,067	3,466,927	124,860
Health & Human Services	11,808,443	14,251,454	2,443,011
Public Safety & Judiciary	2,170,205	2,174,294	4,089
Transportation	280,022	243,592	(36,430)
Environment & Agriculture	474,699	403,903	(70,796)
Jobs, Economic Development, Housing & Commerce	514,505	391,680	(122,825)
State Government & Veterans	1,038,761	1,027,878	(10,883)
Debt Service	1,138,500	1,142,616	4,116
Capital Projects & Grants	266,405	255,985	(10,420)
Estimated Cancellations	(15,000)	(20,000)	(5,000)
Total Expenditures & Transfers	**41,502,451**	**44,584,786**	3,082,335
Balance Before Reserves	**2,982,412**	**3,718,446**	736,034
Cash Flow Account	350,000	350,000	-
Budget Reserve	1,930,388	1,930,388	-
Stadium Reserve	24,174	37,690	13,516
Appropriations Carried Forward	-	-	-
Budgetary Balance	**677,850**	**1,400,368**	722,518

FY 2016 - 21 Planning Horizon
November 2016 Forecast

($ in thousands)

	Forecast FY 2016-17	Forecast FY 2018-19	Forecast FY 2020-21
Actual & Estimated Resources			
Balance Forward From Prior Year	2,103,017	2,982,412	3,718,446
Current Resources:			
Tax Revenues	40,388,179	43,538,901	46,749,452
Non-Tax Revenues	1,501,693	1,418,671	1,415,875
Subtotal - Non-Dedicated Revenue	41,889,872	44,957,572	48,165,327
Dedicated Revenue	1,531	1,205	1,222
Transfers In	395,459	308,585	308,905
Prior Year Adjustments	94,985	53,458	63,161
Subtotal - Other Revenue	491,975	363,248	373,288
Subtotal-Current Resources	42,381,847	45,320,820	48,538,615
Total Resources Available	**44,484,863**	**48,303,232**	**52,257,061**
Actual & Estimated Spending			
E-12 Education	17,403,462	18,176,964	18,785,924
Higher Education	3,081,146	3,069,493	3,065,802
Property Tax Aids & Credits	3,342,067	3,466,927	3,556,065
Health & Human Services	11,808,443	14,251,454	15,961,968
Public Safety & Judiciary	2,170,205	2,174,294	2,179,638
Transportation	280,022	243,592	243,592
Environment & Agriculture	474,699	403,903	402,423
Jobs, Economic Development, Housing & Commerce	514,505	391,680	414,067
State Government & Veterans	1,038,761	1,027,878	1,012,279
Debt Service	1,138,500	1,142,616	1,192,619
Capital Projects & Grants	266,405	255,985	264,943
Deficiencies/Other	(1,964)	-	-
Estimated Cancellations	(15,000)	(20,000)	(20,000)
Total Expenditures & Transfers	**41,502,451**	**44,584,786**	**47,059,320**
Balance Before Reserves	**2,982,412**	**3,718,446**	**5,197,741**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	1,930,388	1,930,388	1,930,388
Stadium Reserve	24,174	37,690	77,557
Appropriations Carried Forward	-	-	-
Budgetary Balance	**677,850**	**1,400,368**	**2,839,796**

Historical and Projected Revenue Growth
November 2016 Forecast - General Fund

($ in millions)

	Actual FY 2014	Actual FY 2015	Actual FY 2016	Estimated FY 2017	Estimated FY 2018	Estimated FY 2019	Average Annual
Individual Income Tax	$9,660	$10,403	$10,739	$11,083	$11,754	$12,366	
$ change	647	744	335	344	671	612	
% change	**7.2%**	**7.7%**	**3.2%**	**3.2%**	**6.1%**	**5.2%**	**6.0%**
Sales Tax	$5,043	$5,131	$5,233	$5,379	$5,604	$5,815	
$ change	282	89	101	146	225	211	
% change	**5.9%**	**1.8%**	**2.0%**	**2.8%**	**4.2%**	**3.8%**	**3.5%**
Corporate Tax	$1,278	$1,455	$1,473	$1,132	$1,228	$1,312	
$ change	(3)	177	18	(341)	96	83	
% change	**-0.2%**	**13.9%**	**1.2%**	**-23.1%**	**8.5%**	**6.8%**	**4.4%**
Statewide Property Tax	$836	$838	$854	$840	$861	$883	
$ change	24	3	16	(14)	21	22	
% change	**3.0%**	**0.3%**	**1.9%**	**-1.6%**	**2.5%**	**2.5%**	**1.9%**
Other Tax Revenue	$1,738	$1,758	$1,812	$1,843	$1,846	$1,870	
$ change	456	20	54	31	2	25	
% change	**35.6%**	**1.2%**	**3.0%**	**1.7%**	**0.1%**	**1.3%**	**5.0%**
Total Tax Revenue	$18,554	$19,587	$20,110	$20,278	$21,293	$22,246	
$ change	1,407	1,033	524	167	1,015	953	
% change	**8.2%**	**5.6%**	**2.7%**	**0.8%**	**5.0%**	**4.5%**	**4.9%**
Non-Tax Revenues	$1,288	$753	$779	$722	$713	$706	
$ change	489	(535)	27	(57)	(9)	(8)	
% change	**61.3%**	**-41.6%**	**3.5%**	**-7.3%**	**-1.3%**	**-1.1%**	**1.2%**
Transfers, All Other	$188	$82	$193	$203	$154	$154	
$ change	(414)	(105)	110	10	(48)	0	
% change	**-68.8%**	**-56.1%**	**133.8%**	**5.2%**	**-23.9%**	**0.0%**	**0.7%**
Total Revenue	$20,030	$20,422	$21,082	$21,203	$22,161	$23,106	
$ change	1,483	392	661	120	958	945	
% change	**8.0%**	**2.0%**	**3.2%**	**0.6%**	**4.5%**	**4.3%**	**4.4%**

Historical and Projected Spending Growth
November 2016 Forecast - General Fund

($ in millions)

	Actual FY 2014	Actual FY 2015	Actual FY 2016	Estimated FY 2017	Estimated FY 2018	Estimated FY 2019	Average Annual
K-12 Education	$8,430	$8,188	$8,517	$8,887	$8,995	$9,182	
$ change	(435)	(242)	329	370	109	186	
% change	**-4.9%**	**-2.9%**	**4.0%**	**4.3%**	**1.2%**	**2.1%**	**5.0%**
Higher Education	$1,381	$1,452	$1,529	$1,552	$1,537	$1,533	
$ change	86	71	77	23	(15)	(4)	
% change	**6.7%**	**5.1%**	**5.3%**	**1.5%**	**-1.0%**	**-0.2%**	**1.3%**
Prop. Tax Aids & Credits	$1,321	$1,613	$1,646	$1,696	$1,721	$1,746	
$ change	0	292	33	50	25	25	
% change	**0.0%**	**22.1%**	**2.1%**	**3.0%**	**1.5%**	**1.5%**	**2.7%**
Health & Human Services	$5,430	$6,191	$5,601	$6,207	$6,971	$7,280	
$ change	222	761	(590)	606	764	309	
% change	**4.3%**	**14.0%**	**-9.5%**	**10.8%**	**12.3%**	**4.4%**	**7.0%**
Public Safety	$944	$1,035	$1,041	$1,129	$1,087	$1,088	
$ change	(14)	91	7	88	(42)	1	
% change	**-1.4%**	**9.6%**	**0.6%**	**8.4%**	**-3.7%**	**0.1%**	**1.6%**
Debt Service	$620	$624	$609	$529	$562	$581	
$ change	397	4	(14)	(80)	33	19	
% change	**178.0%**	**0.6%**	**-2.3%**	**-13.1%**	**6.2%**	**3.3%**	**14.3%**
All Other	$1,223	$1,190	$1,208	$1,351	$1,152	$1,151	
$ change	352	(32)	18	143	(199)	(1)	
% change	**40.4%**	**-2.6%**	**1.5%**	**11.8%**	**-14.7%**	**-0.1%**	**4.3%**
Total Spending	$19,348	$20,293	$20,152	$21,350	$22,025	$22,560	
$ change	609	945	(141)	1,199	674	535	
% change	**3.3%**	**4.9%**	**-0.7%**	**5.9%**	**3.2%**	**2.4%**	**4.6%**