



BUDGET *AND* ***ECONOMIC FORECAST***



FEBRUARY 2025

Produced by Minnesota Management and Budget

Structural imbalance grows, Significant near-term uncertainty

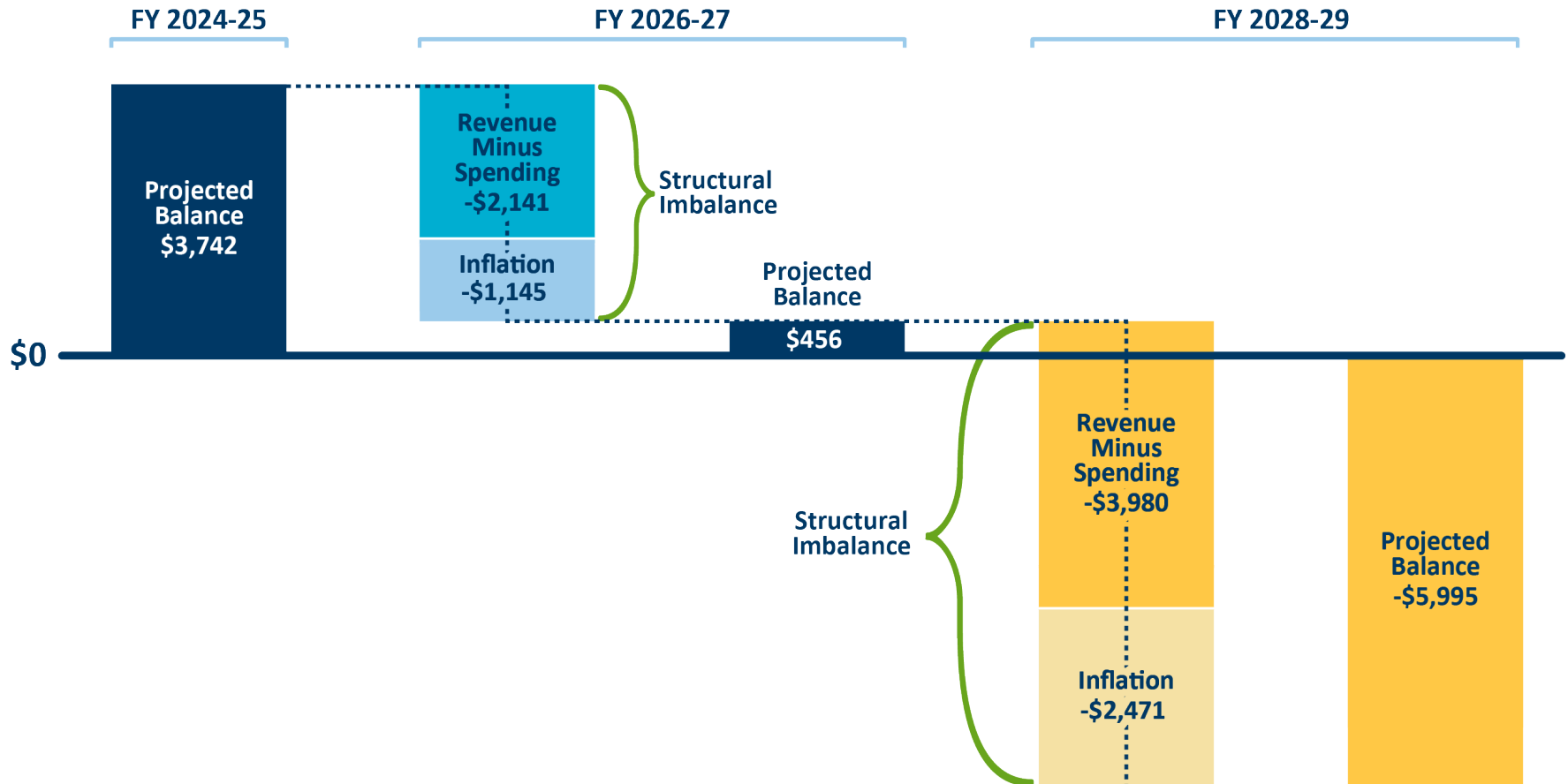
- FY 2026-27 projected balance is \$456 million, \$160 million less than prior estimates
- Projected shortfall in planning years now \$6 billion as spending continues to outpace revenues
- Higher inflation increases revenue and spending forecast
- Shifting policies at federal level create forecast uncertainty

FY 2026-27 Forecast Changes

(\$ in millions)	FY 2026-27 Nov Forecast	FY 2026-27 Feb Forecast	Forecast Change
Beginning Balance	\$7,279	\$7,269	\$(10)
Total Revenues	63,853	64,494	640
Total Spending	66,989	67,780	790
<i>Spending</i>	66,063	66,634	570
<i>Discretionary Inflation</i>	926	1,145	219
Cash Flow and Budget Reserve	3,527	3,527	-
Budgetary Balance	\$616	\$456	\$(160)
 <i>Balance without Discretionary Inflation</i>	 \$1,542	 \$1,601	 \$59

Fiscal Snapshot: Forecast Horizon FY 2024 through FY 2029

(\$ millions)



Economic and Revenue Outlook

- U.S. Economic Outlook
- Minnesota Labor Market
- Revenue Forecast
- Forecast Risks



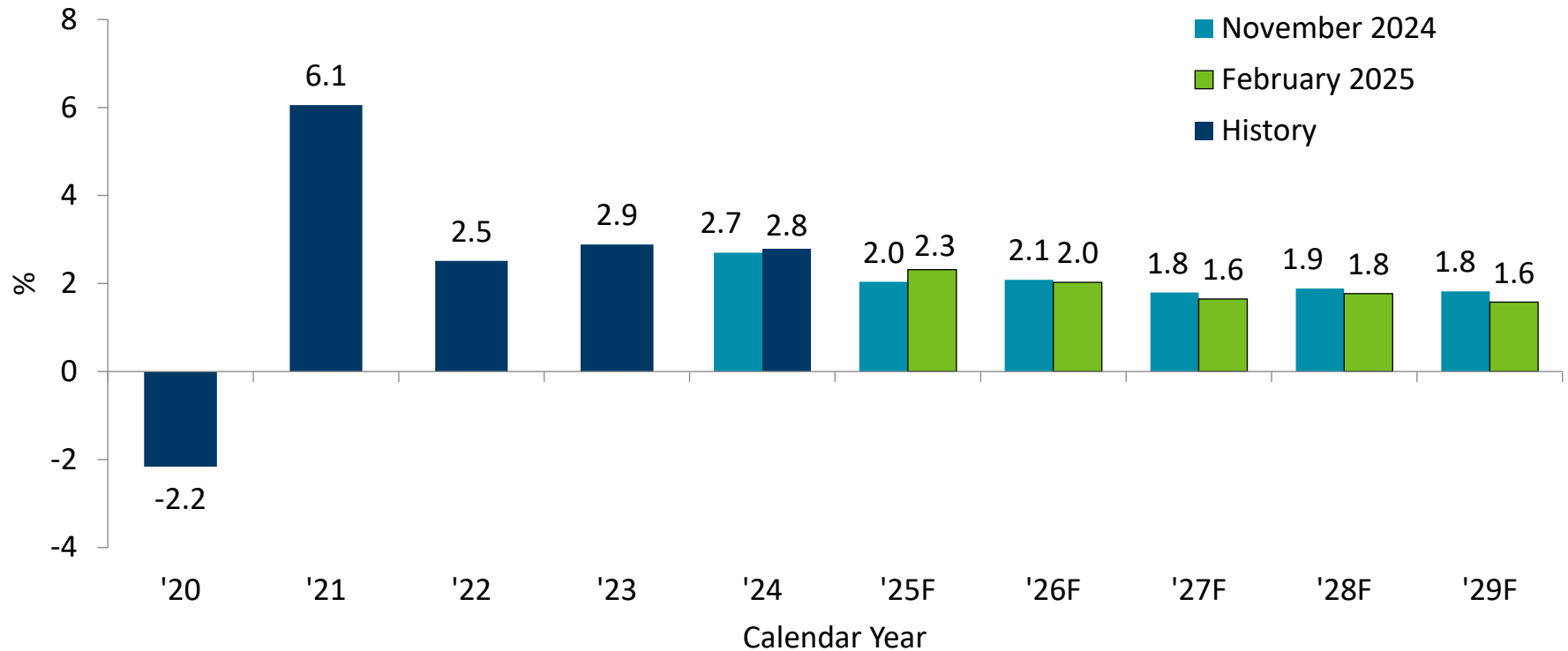
Economic Forecast Assumptions

- SPGMI forecast released on February 10, 2025
- Some tariffs are included
- One interest rate cut in 2025
- Continuation of current individual income tax policy
- Decrease in corporate tax rate
- Debt ceiling increased or suspended

Near-term U.S. Economic Outlook Improved; Slow Growth Projected in Long Term

U.S. Real Gross Domestic Product

Annual Percent Change

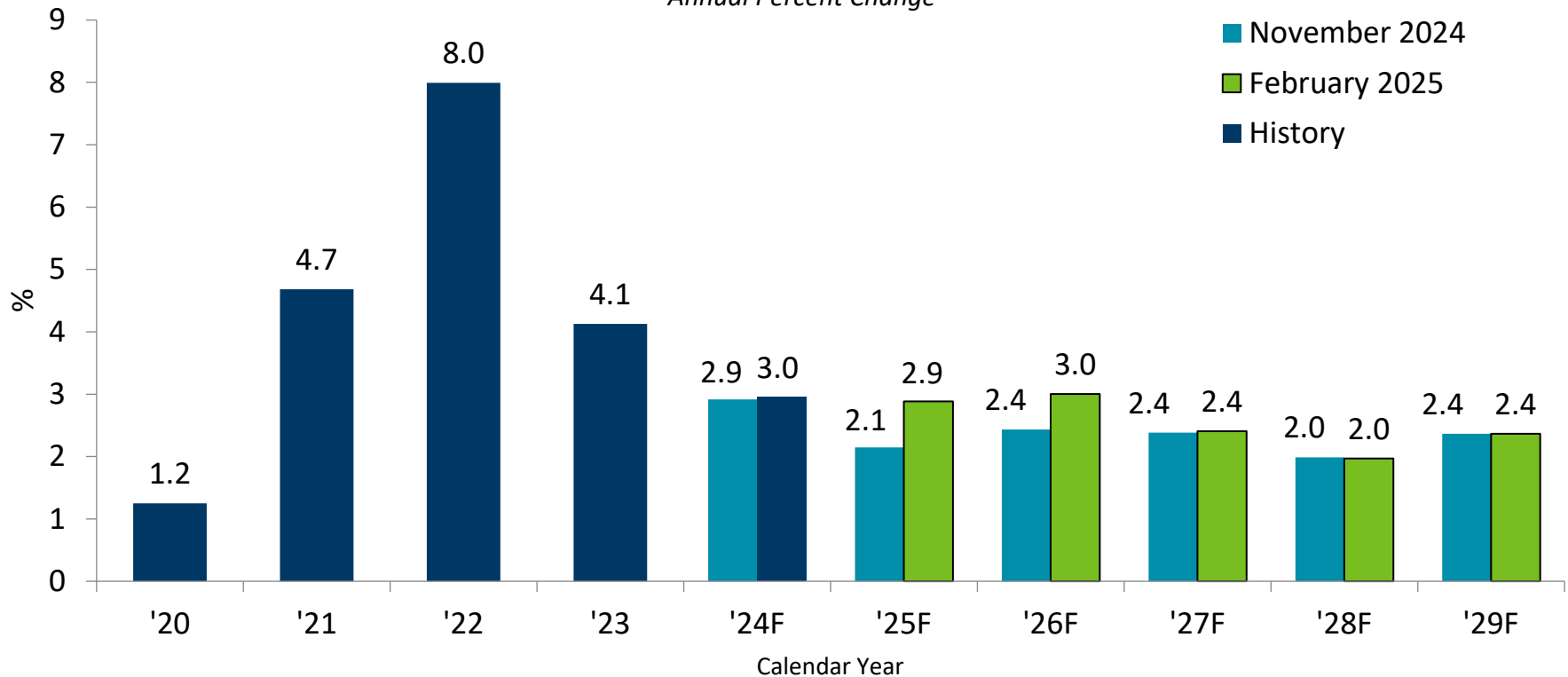


Source: U.S. Bureau of Economic Analysis (BEA), SPGMI

Inflation Higher in the Near-Term

Consumer Price Index

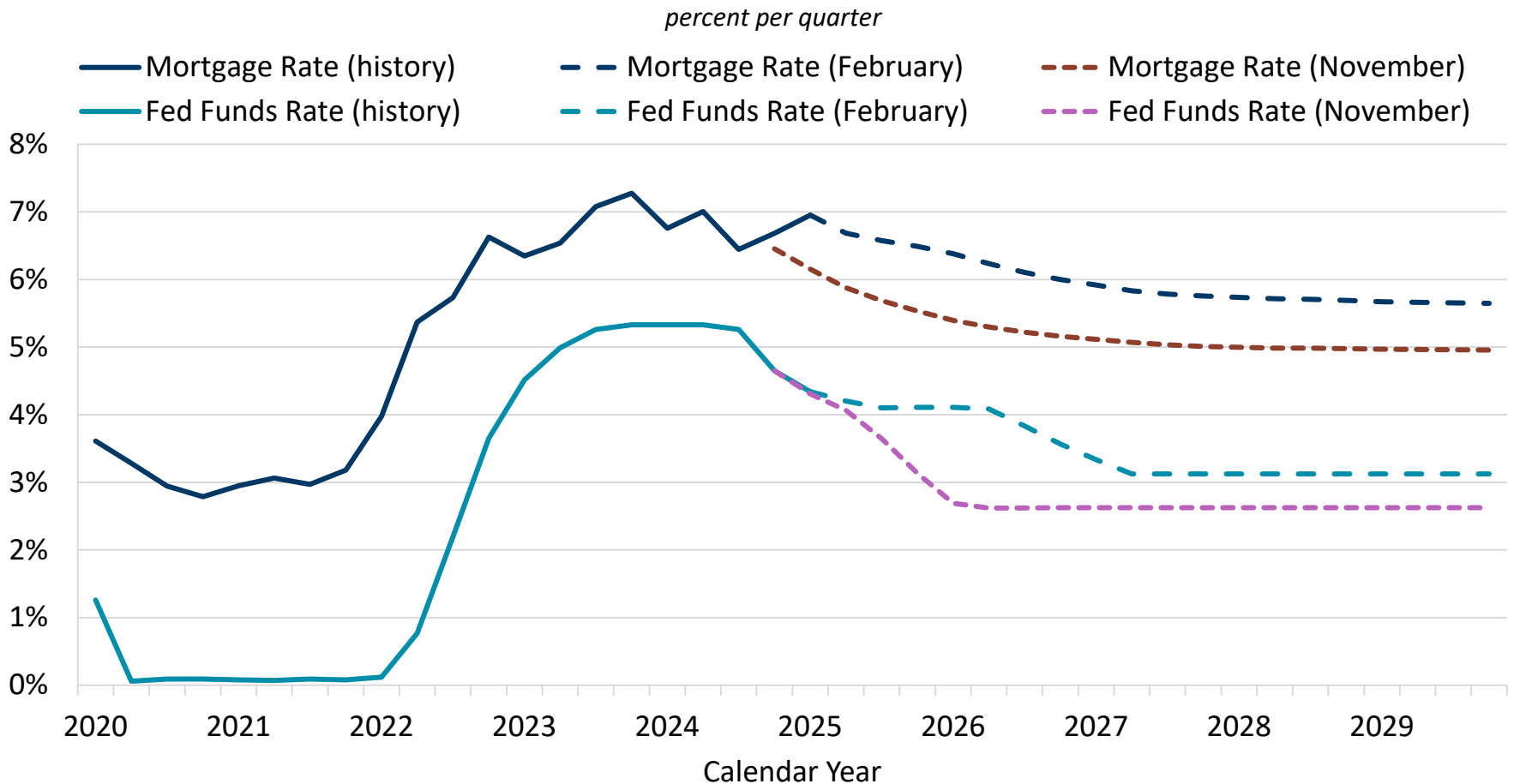
Annual Percent Change



Source: U.S. Bureau of Labor Statistics (BLS), SPGMI

Interest Rate Cuts to Slow

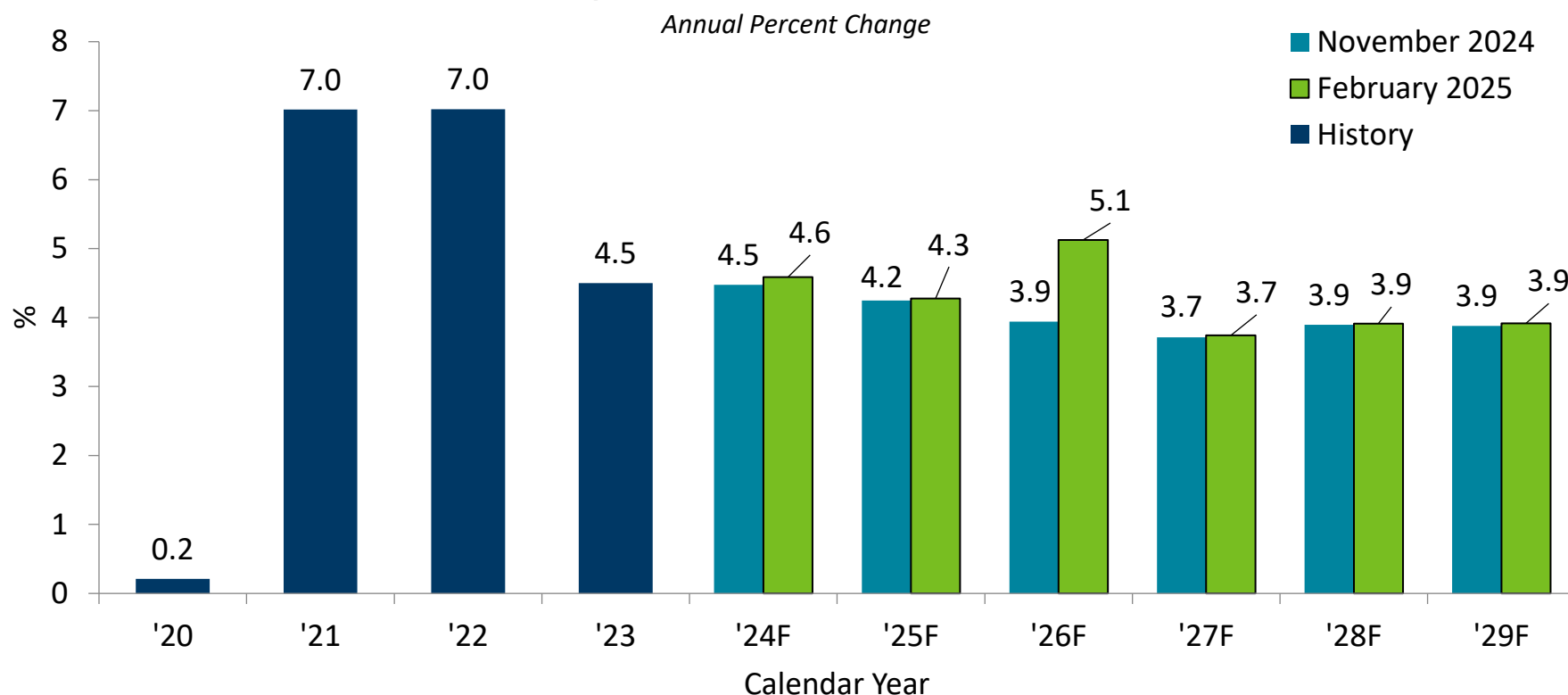
Fed Funds Rate vs 30-Year Fixed Mortgage Rate



Source: Freddie Mac, SPGMI

Upward Revision in Growth of Wages & Salaries

MN Total Wage and Salary Disbursements



Source: Bureau of Economic Analysis (BEA), U.S. Bureau of Labor Statistics (BLS), SPGMI, Minnesota Management and Budget (MMB)

U.S. Economic Forecast Risks



Policy Uncertainty: trade and tariffs, immigration, energy policies



Disruptions from federal agency closures, contract suspensions



U.S. fiscal policy uncertainties – expenditures and taxation



Inflation



Monetary policy



28 months until the end of FY 2026-27

Revenue Forecast

(\$ in millions)

	FY 2026-27		FY 2028-29	
	Feb. 2025 Forecast	Forecast Change	Feb. 2025 Forecast	Forecast Change
Individual Income Tax	\$32,999	\$178	\$35,738	\$125
General Sales Tax	16,049	209	16,957	117
Corporate Franchise Tax	6,375	(1)	6,516	(39)
All Other Revenue	8,679	254	8,565	66
Total Revenues	\$64,494	\$640	\$67,776	\$270

Spending and Long Term Budget Outlook

- Expenditure Forecast
- Long Term Budget Outlook



Spending Forecast

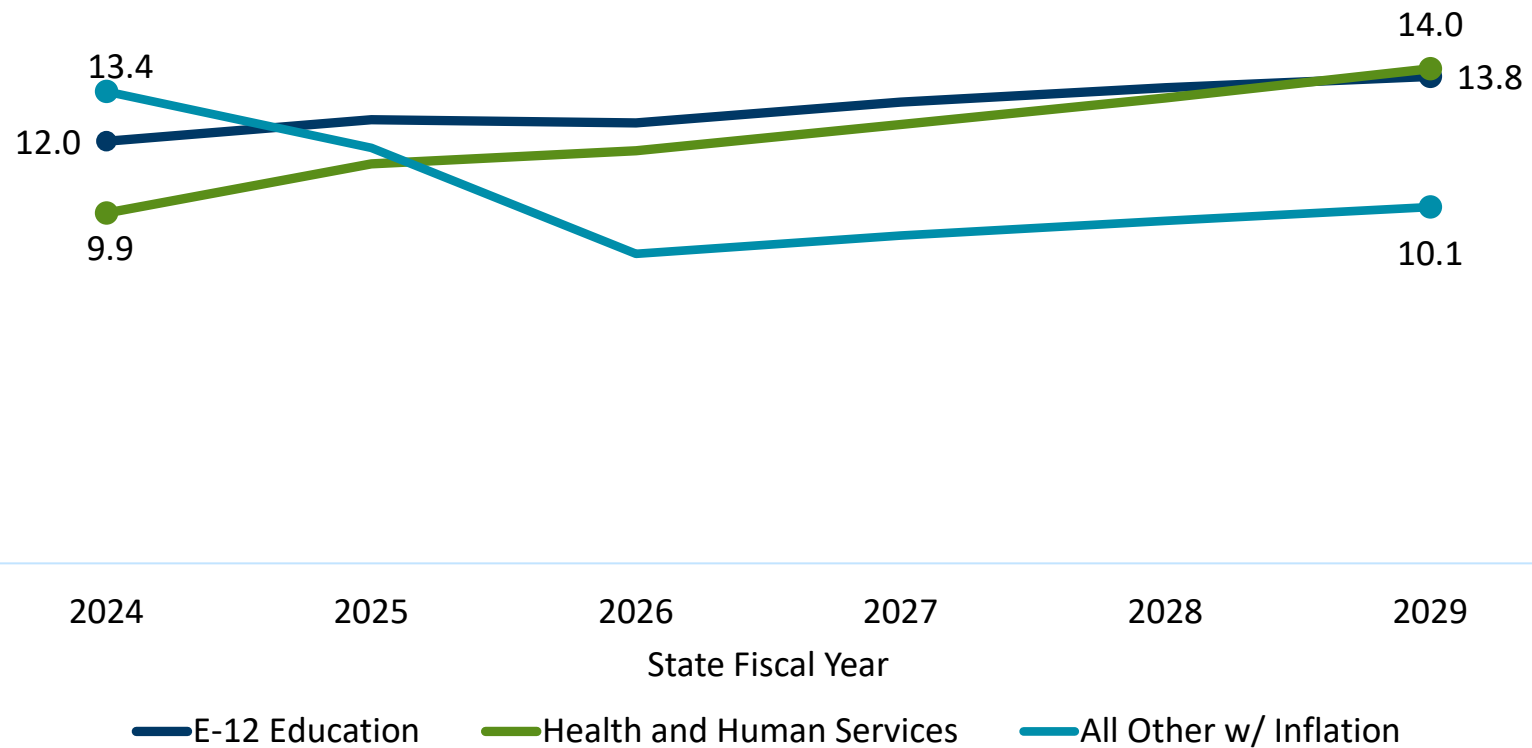
(\$ in millions)

	FY 2026-27		FY 2028-29	
	Feb. 2025 Forecast	Forecast Change	Feb. 2025 Forecast	Forecast Change
E-12 Education	\$25,562	\$198	\$27,292	\$339
Health and Human Services	24,147	338	27,220	359
Property Tax Aids and Credits	4,753	17	4,957	11
Debt Service	1,223	2	1,398	(5)
All Other	10,949	17	10,994	16
<i>Discretionary Inflation</i>	<i>1,145</i>	<i>219</i>	<i>2,471</i>	<i>240</i>
Total Spending	\$67,780	\$790	\$74,332	\$960

HHS Spending Surpasses E-12 in 2029

General Fund Spending by Major Bill Area

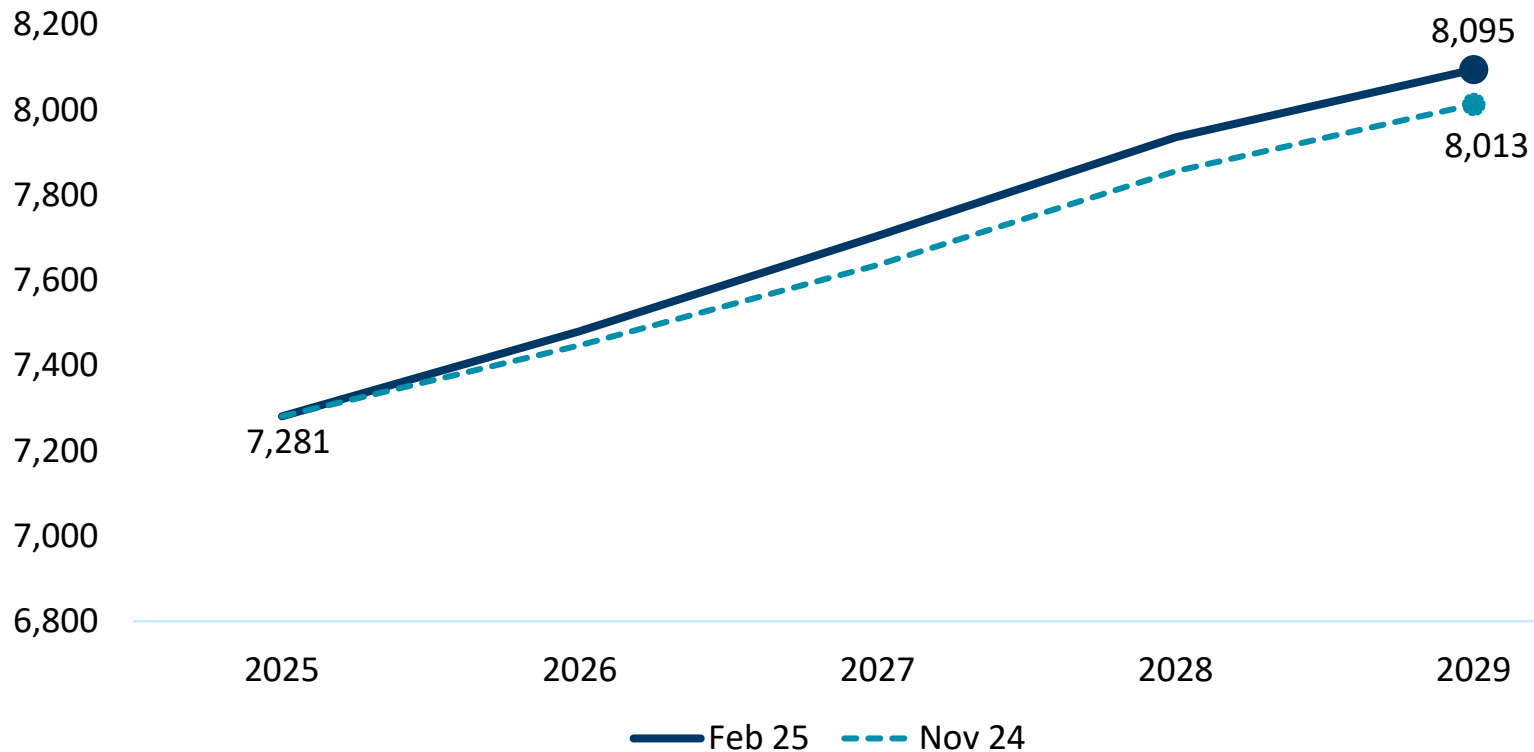
Annual spending in billions of \$



Higher Inflation Increases Per Pupil Education Funding

General Education Basic Formula Allowance

\$ per pupil

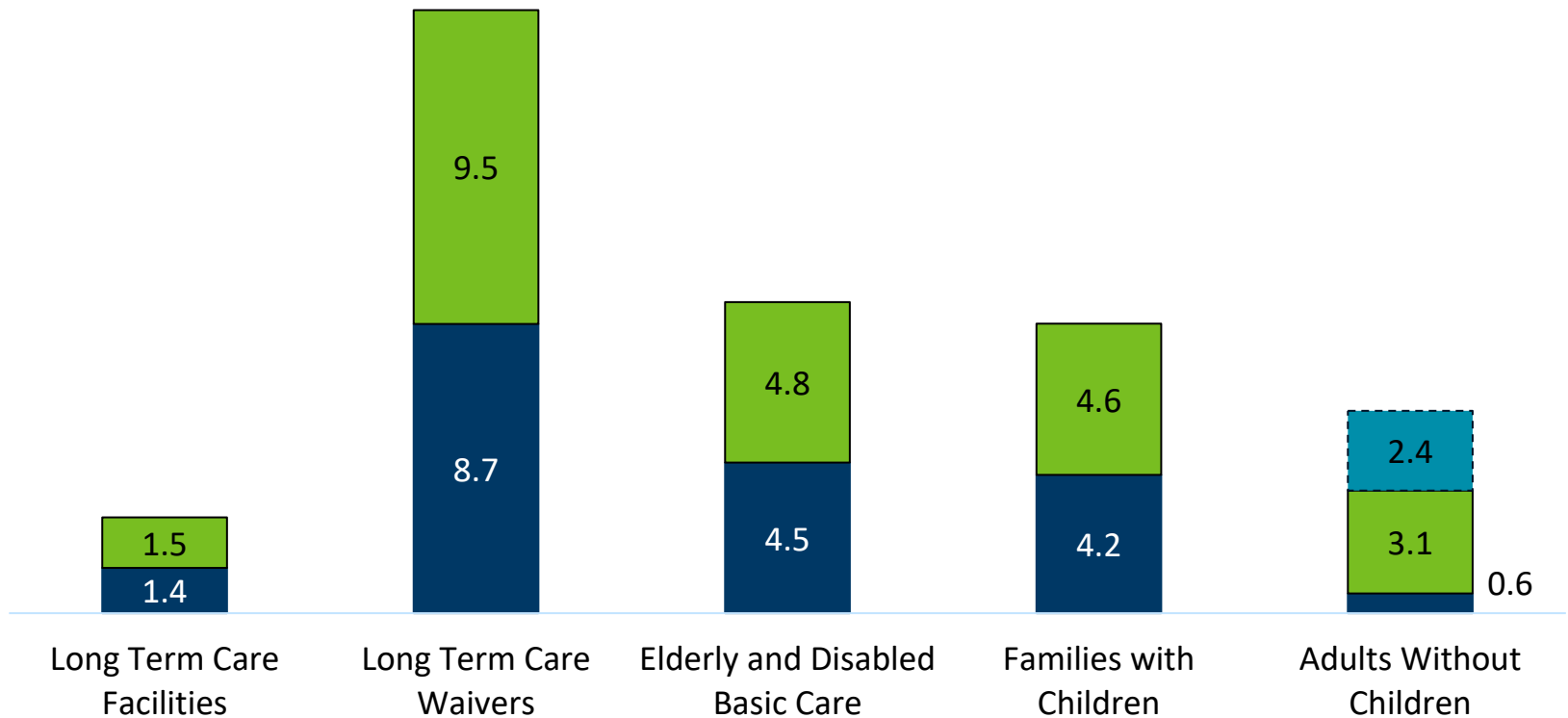


Federal Funds Cover Majority of Medical Assistance

FY 2026-27 Medical Assistance Expenditures by Source

Biennial spending in billions of \$

■ State Share ■ Base Federal Match ■ Enhanced Federal Match



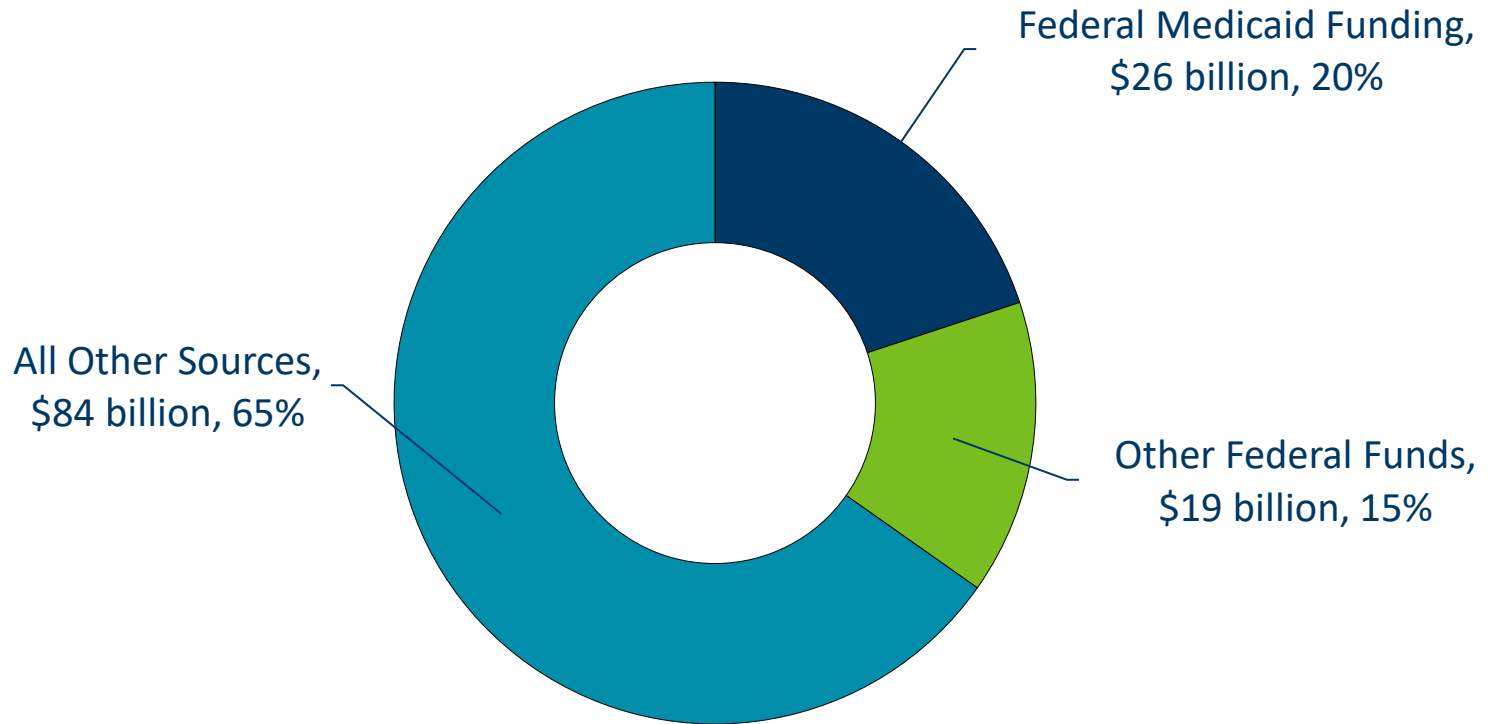
Long Term Budget Outlook

\$ in millions	FY 2026-27	FY 2028-29	Biennial Growth	Annualized % Growth
Forecast Revenues	\$64,494	\$67,882	\$3,388	2.6%
Total Forecast Spending	67,780	74,332	6,553	4.7%
<i>Baseline Spending</i>	<i>66,634</i>	<i>71,862</i>	<i>5,228</i>	<i>3.8%</i>
<i>Discretionary Inflation</i>	<i>1,145</i>	<i>2,471</i>	<i>1,325</i>	
Structural Balance	\$(3,286)	\$(6,450)		
<i>Structural Balance Without Discretionary Inflation</i>	<i>\$(2,141)</i>	<i>\$(3,980)</i>		

Potential Federal Budget Cuts Pose General Fund Risk

FY 2026-27 State Revenues

Total = \$128 billion





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