



BUDGET AND ECONOMIC FORECAST



NOVEMBER 2025

Produced by Minnesota Management and Budget

Larger Surplus in FY 2026-27, Structural Imbalance Grows

- FY 2026-27 surplus is \$2.465 billion, \$579 million more than prior estimates
- Projected shortfall in planning years now \$2.960 billion as spending continues to exceed revenues
- Higher FY 2025 collections lift near-term income tax forecast
- Slow economic growth lowers revenue projections in planning years
- Growing health care costs drive higher spending forecast
- Budget reserve grows to \$3.422 billion

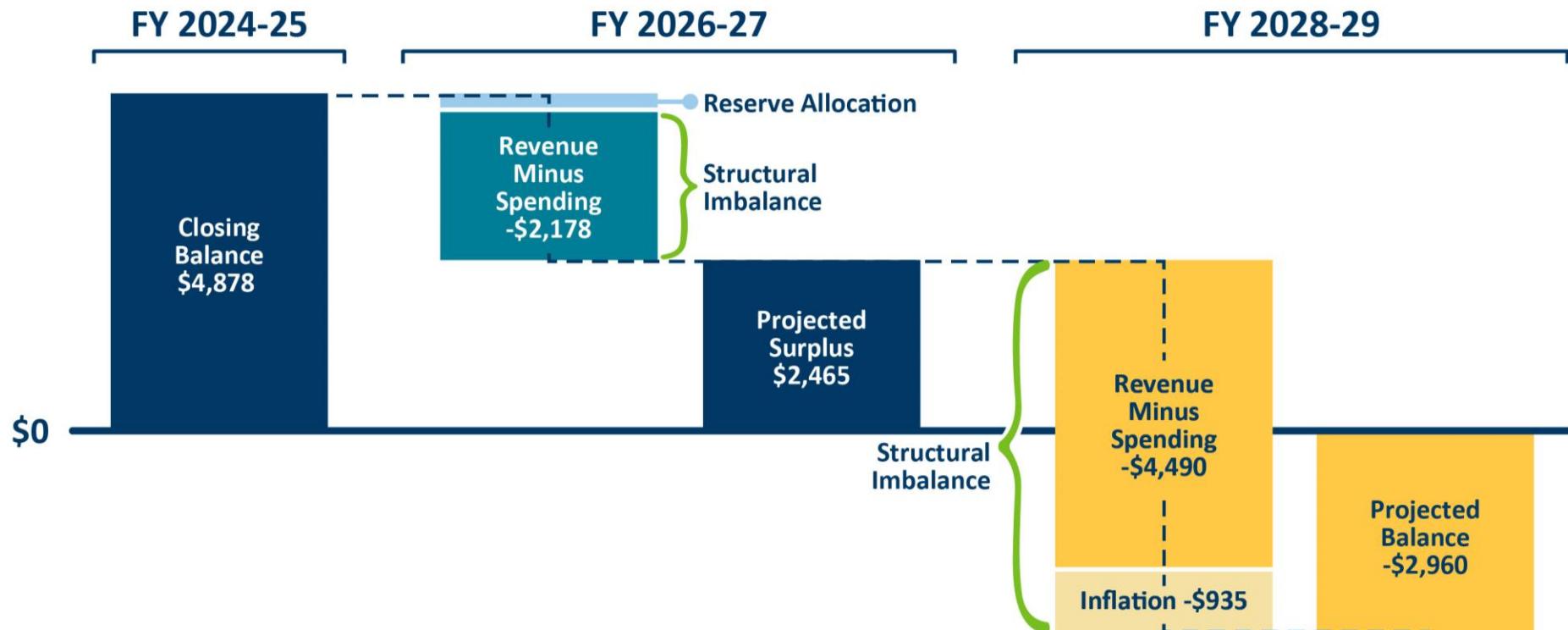
FY 2026-27 Forecast Changes

| (\$ in millions) | FY 2026-27 End of Session | FY 2026-27 Nov Forecast | Net Forecast Change* |
|--------------------------|------------------------------|----------------------------|-------------------------|
| | | | |
| Beginning Balance | \$7,464 | \$10,273 | \$949 |
| Total Revenues | 64,823 | 66,262 | 1,440 |
| Total Spending | 66,874 | 70,299 | 1,566 |
| Reserves | 3,527 | 3,772 | 244 |
| Budgetary Balance | \$1,885 | \$2,465 | \$579 |

*\$1.859 billion of appropriation carryforward removed from change in beginning balance and total spending to isolate actual forecast changes

Fiscal Snapshot: Forecast Horizon FY 2024 through FY 2029

(\$ millions)



*Figures exclude FY 25 appropriations carryforward

Economic and Revenue Outlook

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

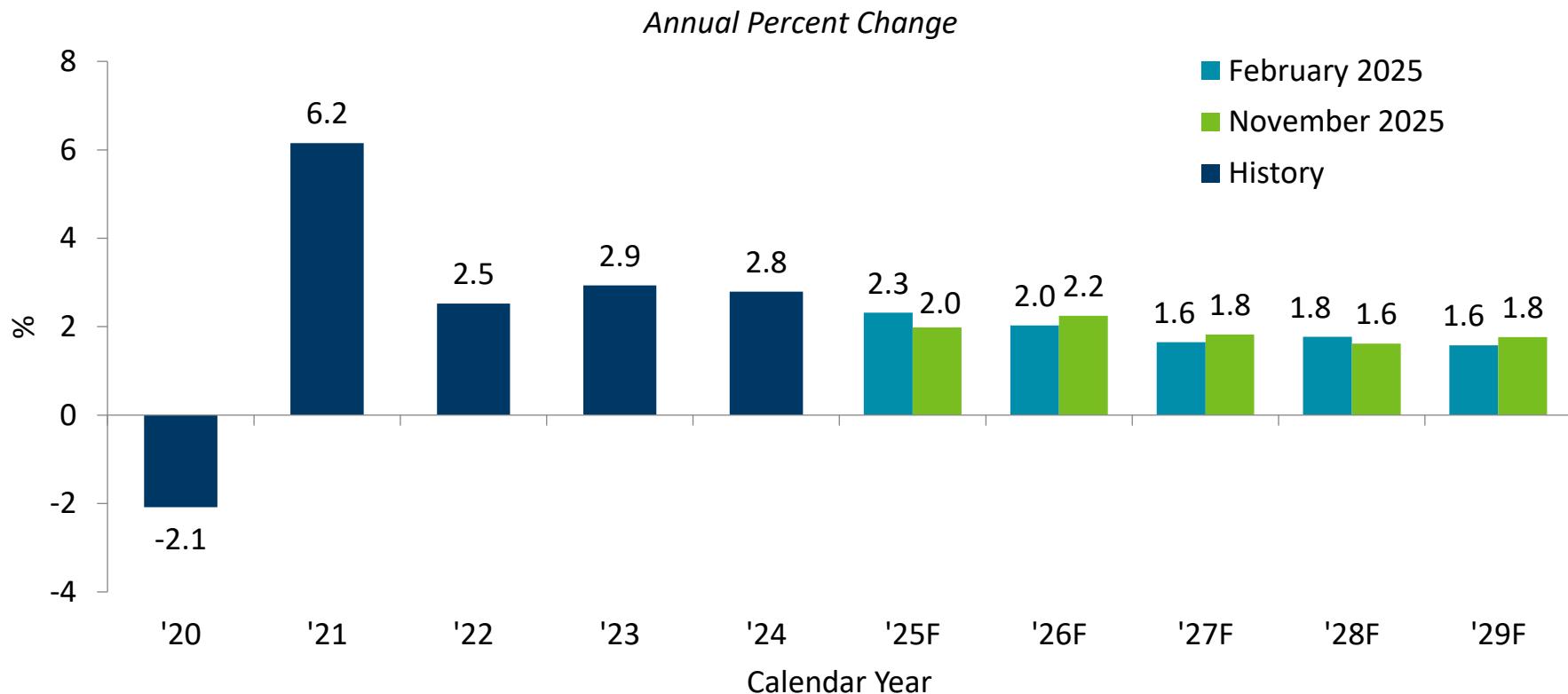


SPGMI's Economic Forecast Assumptions

- SPGMI forecast released on Nov 5, 2025
- Impact of 6-week federal shutdown incorporated
- One additional 25 basis point rate cut in Dec 2025 and two cuts in 2026
- Effective tariff rate of 18 percent
- Net U.S. migration reduced by 500,000 annually through 2028

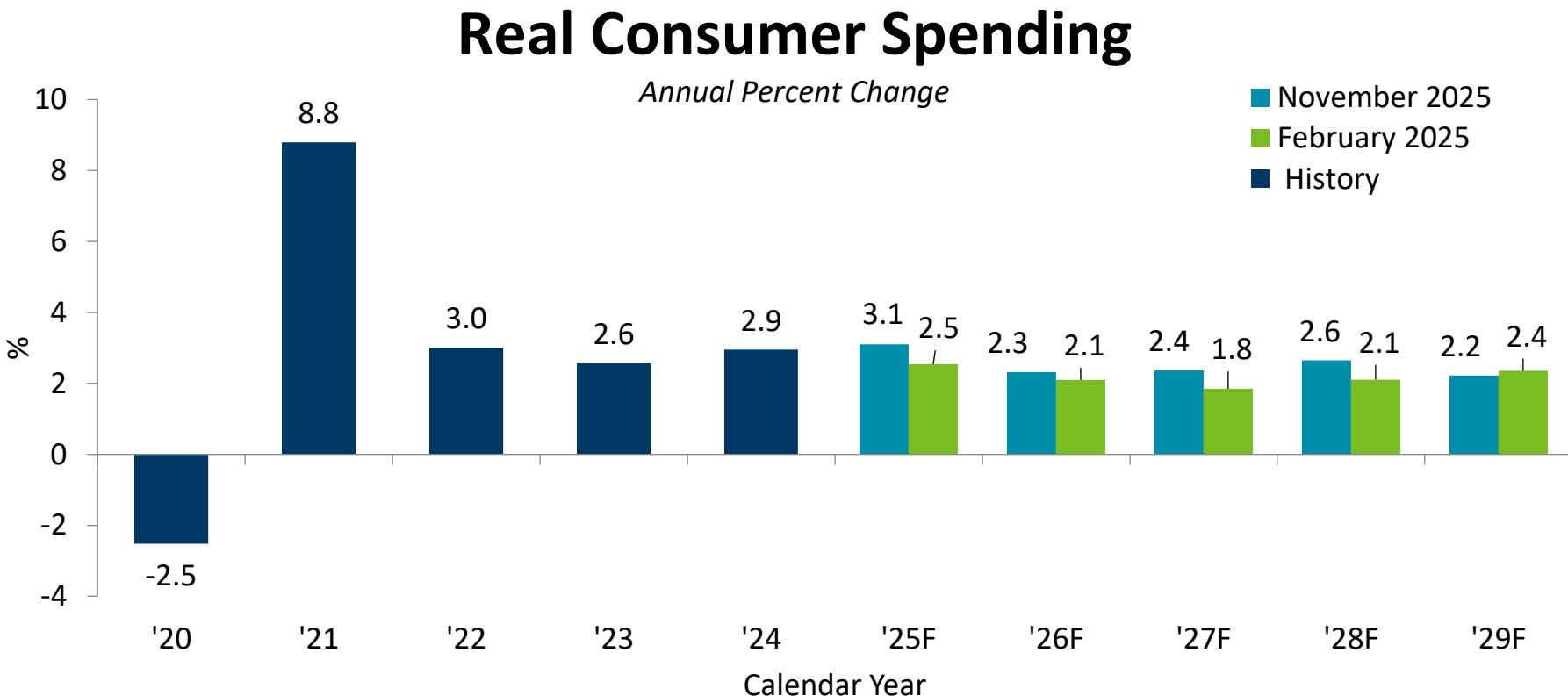
U.S. Economic Outlook Holds Steady

U.S. Real Gross Domestic Product



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

Slightly Lower Growth in Consumer Spending

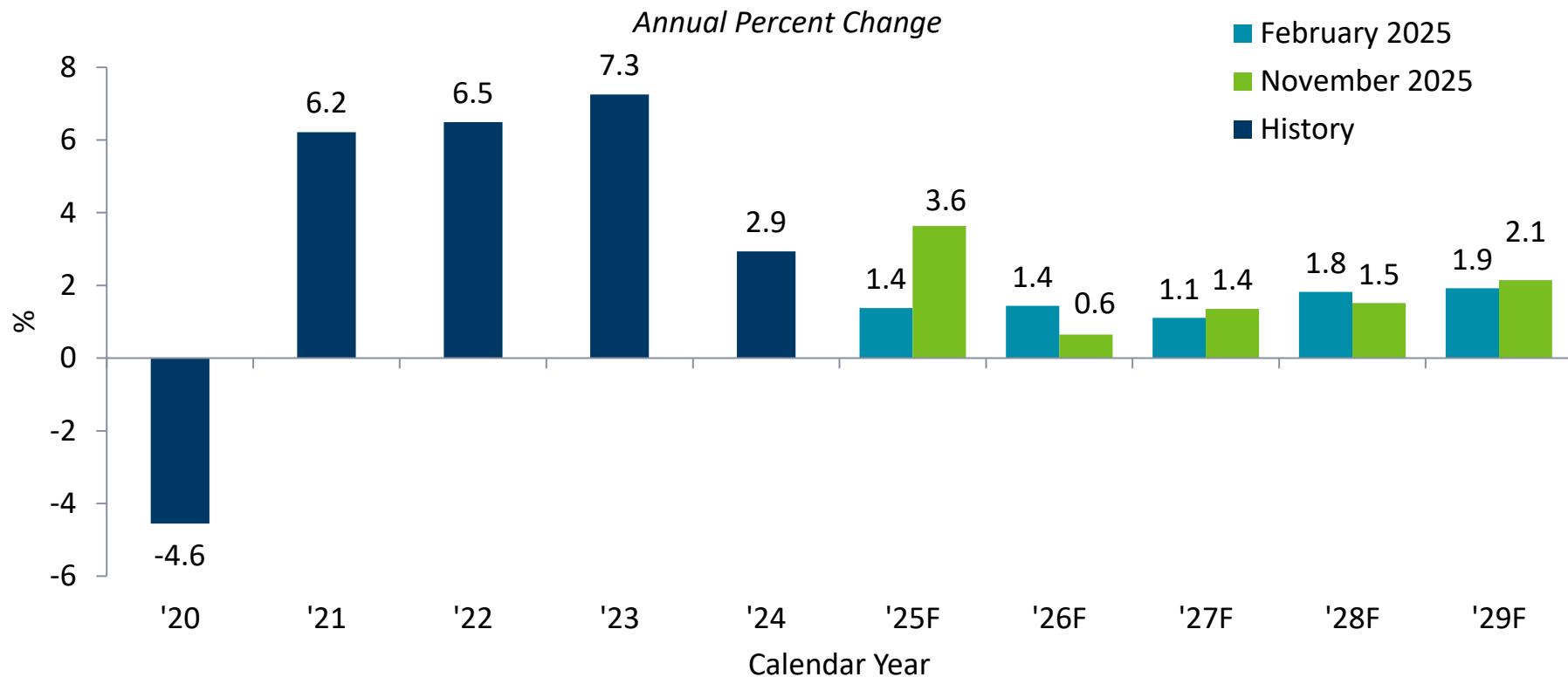


Source: U.S. Bureau of Economic Analysis (BEA), SPGMI

Real (inflation adjusted) consumer expenditures are expected to grow slightly slower through 2028 and will continue to be the main driver of real GDP growth.

Lower Near-Term Growth in Business Fixed Investment

Real Business Fixed Investment

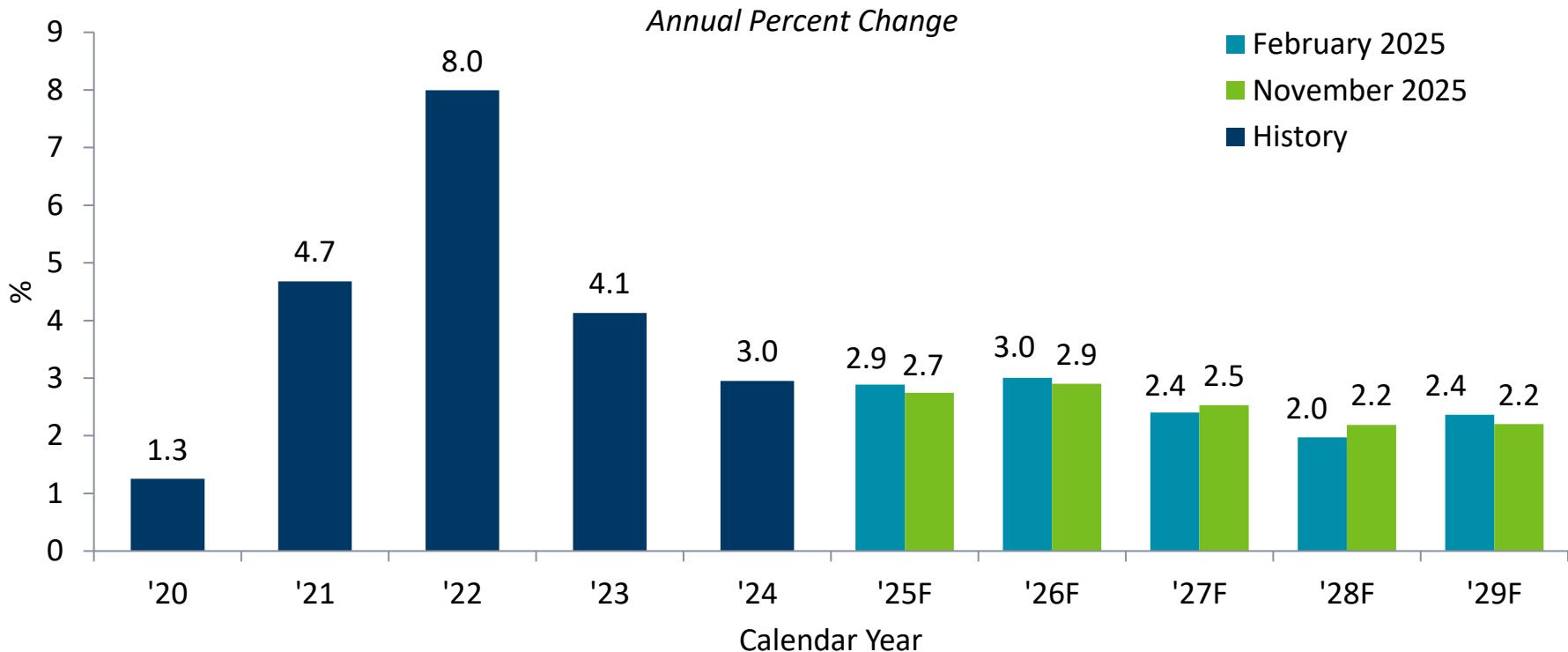


Source: U.S. Bureau of Economic Analysis (BEA). SPGMI

Business (nonresidential) fixed investment is expected to grow at an historically low annual rate through our forecast period.

Elevated Inflation Remains in Near-Term

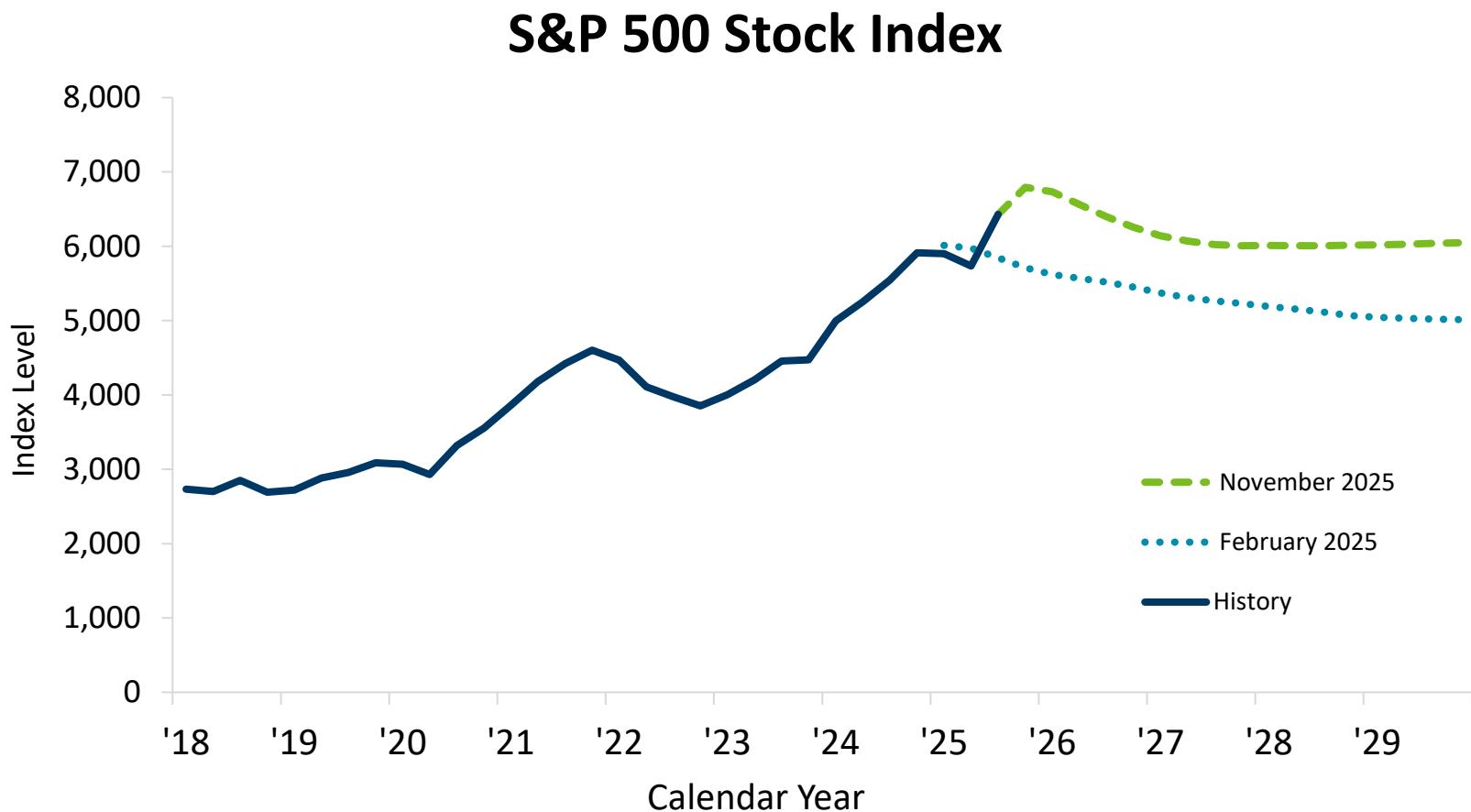
Consumer Price Index



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

HR1 tax cuts, tariffs, and immigration actions remain ongoing sources of inflationary pressure. Recent job-market weakness may lead to lowering of interest rates and add to inflationary pressures.

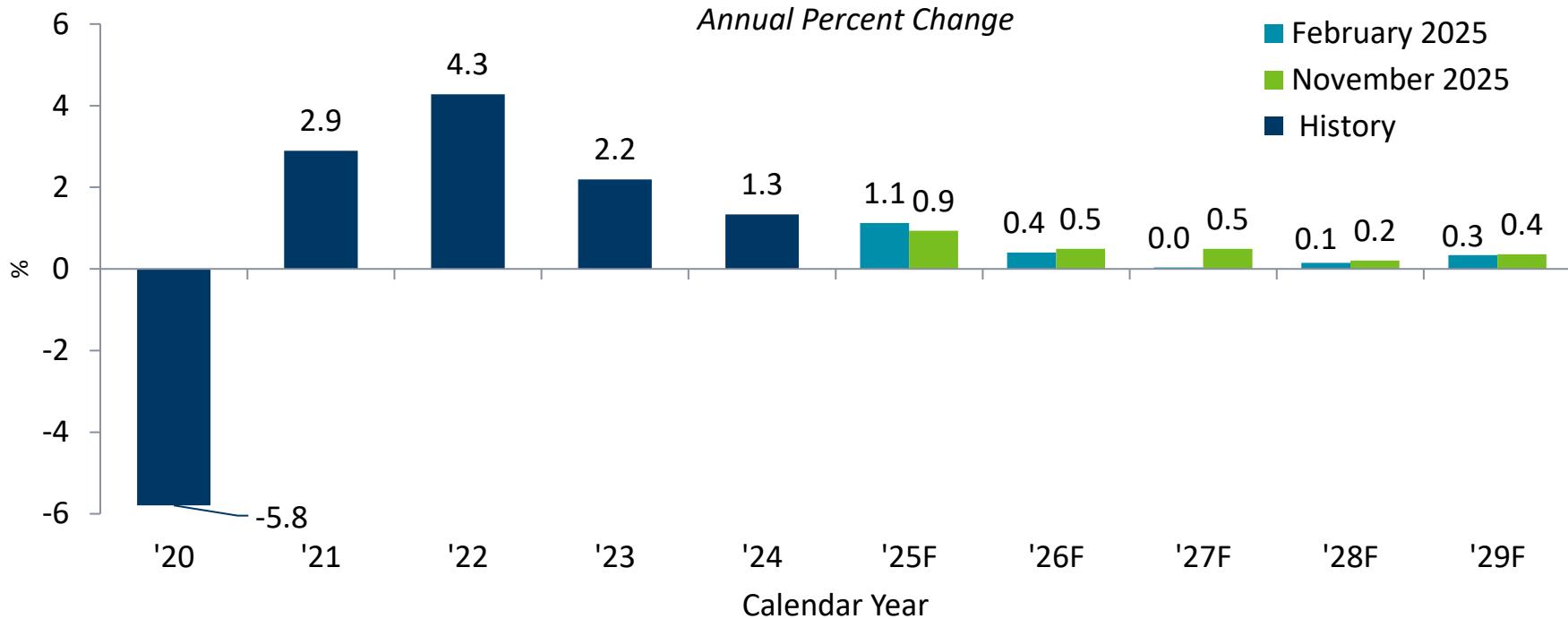
Equity Markets Present Upside and Downside Risks



Source: SPGMI; Minnesota Management & Budget (MMB)

Weak Employment Outlook through the Forecast

U.S. Total Non-Farm Employment



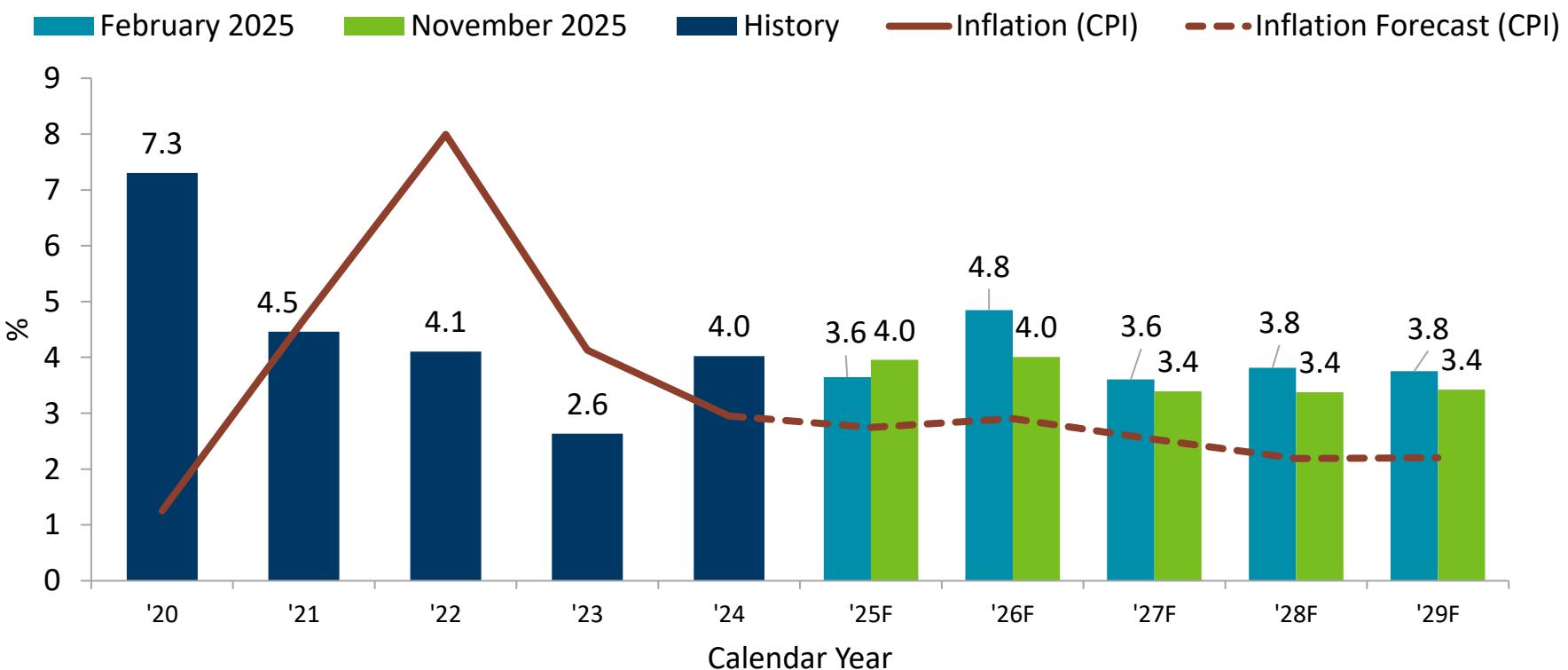
Source: U.S. Bureau of Labor Statistics (BLS), SPGMI

The long-term outlook is for limited employment growth. Uncertain future immigration policies and a weakening labor market add substantial risk to this outlook.

Rise in Wages Per Worker to Exceed Inflation

Minnesota Average Wages and Salaries per Employed Worker

Annual Percent Change



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

U.S. Economic Forecast Risks

- Policy Uncertainty: trade and tariffs, immigration
- Disruptions from federal agency closures, contract suspensions
- Federal shutdown effects, missing and incomplete federal statistical agency data
- Monetary policy path depends on both inflation and labor market conditions
- Equity markets present upside and downside risks
- Twenty months until the end of FY 2026-27

Revenue Forecast

(\$ in millions)

| | FY 2026-27 | | FY 2028-29 | |
|-------------------------|--------------------|-----------------|--------------------|-----------------|
| | Nov. 2025 Forecast | Forecast Change | Nov. 2025 Forecast | Forecast Change |
| Individual Income Tax | \$34,513 | \$1,515 | \$35,515 | \$(221) |
| General Sales Tax | 15,797 | (343) | 16,462 | (664) |
| Corporate Franchise Tax | 6,272 | (63) | 6,377 | (100) |
| All Other Revenue | 9,680 | 331 | 9,433 | 416 |
| Total Revenues | \$66,262 | \$1,440 | \$67,787 | \$(570) |

Spending and Long Term Budget Outlook

- Expenditure Forecast
- Long Term Budget Outlook

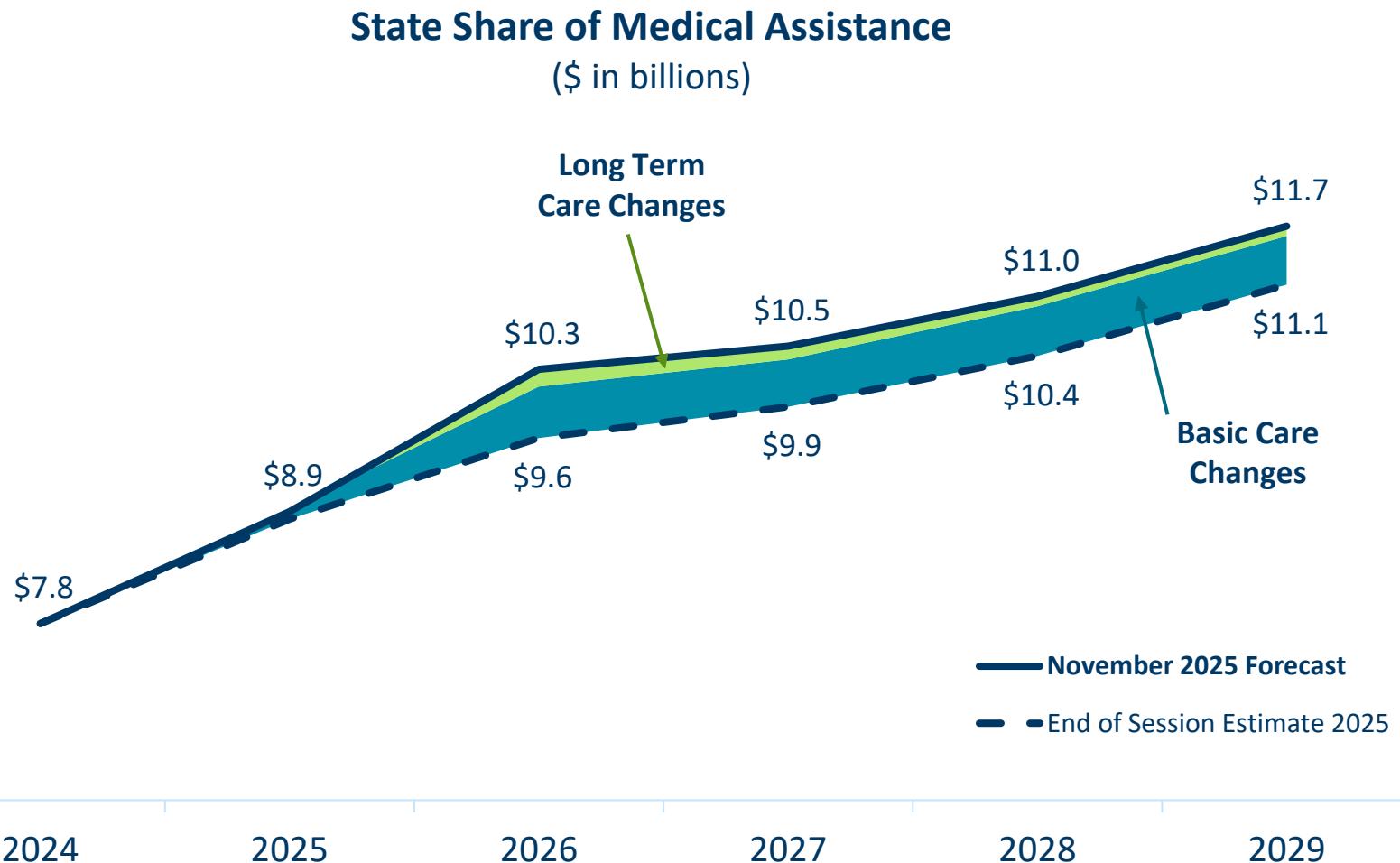


Spending Forecast Up, Driven by Growth in Health and Human Services

| (\$ in millions) | FY 2026-27 | | FY 2028-29 | |
|-----------------------------|------------------------|--------------------|-----------------------|--------------------|
| | Nov. 2025 Forecast* | Forecast Change | Nov. 2025 Forecast | Forecast Change |
| E-12 Education | \$25,812 | \$115 | \$27,168 | \$288 |
| Health & Human Services | 25,405 | 1,406 | 27,633 | 1,362 |
| Property Tax Aids & Credits | 4,839 | 84 | 5,046 | 116 |
| Debt Service | 1,165 | (41) | 1,218 | (12) |
| All Other | 11,219 | 1 | 11,211 | (9) |
| Baseline Spending | 68,440 | 1,566 | 72,277 | 1,746 |
| Carryforward (all areas) | 1,859 | 1,859 | | |
| Discretionary Inflation | | | 935 | 119 |
| Total Expenditures | \$70,299 | \$3,425 | \$73,212 | \$1,865 |

*All FY 2025 carryforward are reflected on the carryforward line.

Health Care Costs Drive MA Forecast Change



Higher Managed Care Rates Increase Spending \$1.6B Over Forecast Horizon

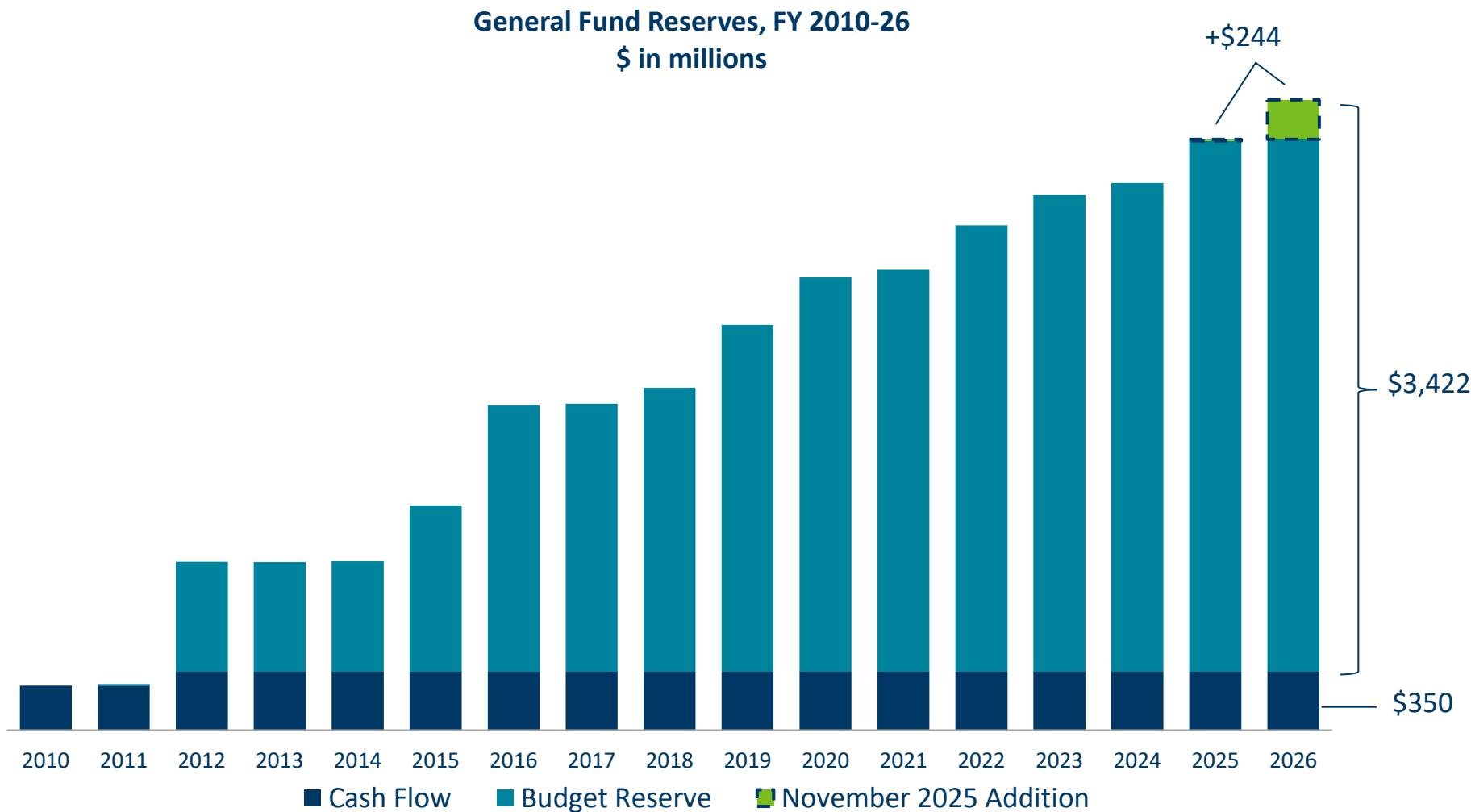
Actual 2026 Managed Care Capitation Payments Compared to End of Session Estimates

| (\$ in millions) | % Rate Difference | General Fund Spending Impact | |
|------------------------|-------------------|------------------------------|--------------|
| | | FY 2026-27 | FY 2028-29 |
| Elderly | 12.5% | \$163 | \$202 |
| Disabled | 13.5 | 146 | 178 |
| Families With Children | 8.0 | 309 | 303 |
| Adults Without Kids | 28.3 | 125 | 250 |
| Total | | \$742 | \$834 |

Long Term Budget Outlook

| \$ in millions | FY 2026-27 | FY 2028-29 | Biennial | Annualized % |
|---|------------|------------|----------|--------------|
| | | | Growth | Growth |
| Forecast Revenues | \$66,262 | \$67,787 | \$1,525 | 1.2% |
| <i>Baseline Spending</i> | 68,440 | 72,277 | 3,837 | 2.8% |
| <i>Discretionary Inflation</i> | | 935 | 935 | |
| <i>Carryforward</i> | 1,859 | | (1,859) | |
| Total Forecast Spending | 70,299 | 73,212 | 2,913 | 2.1% |
| Structural Balance | | \$ (5,426) | | |
| <i>Structural Balance Without Discretionary Inflation</i> | | \$ (4,490) | | |

Total General Fund Reserves: \$3.772 billion





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