Interim Budget Projection

MANAGEMENT AND BUDGET

May 5, 2020

MAY 2020 INTERIM BUDGET PROJECTION

Amid the coronavirus pandemic, Minnesota's budget and economic outlook has significantly worsened. A deficit of $2.426 billion is now projected for FY 2020-21. Compared to prior estimates, revenues are expected to be $3.611 billion lower, and spending, including appropriations enacted since February, is expected to be $391 million higher. The $2.359 billion budget reserve remains available to mitigate the budgetary impact of the crisis. Because the path of the pandemic and consumers', businesses', and governments' responses are uncertain, the economic outlook will remain volatile for some time. Consequently, this projection does not include estimates for the next biennium. We expect the impact on state budget in FY 2022-23 will be significantly negative, but we cannot quantify the change until the economic outlook and revenue impact are more certain.

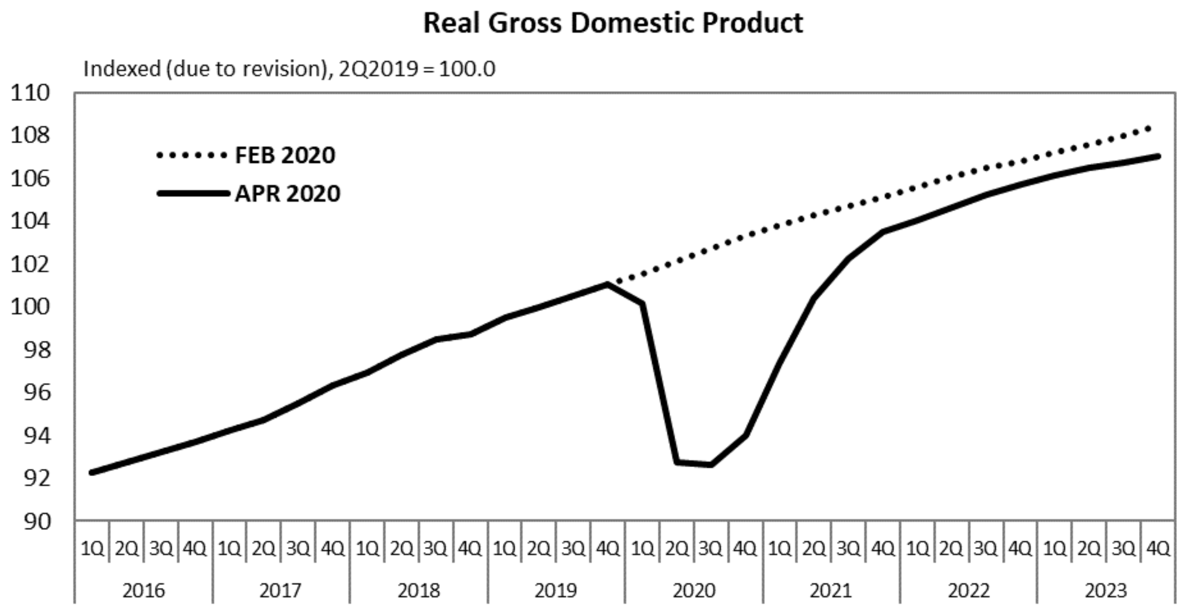
U.S. Economic Outlook. The outbreak of COVID-19 and the measures taken to prevent its spread have dramatically weakened the outlook for U.S. growth since *Minnesota's Budget and Economic Forecast* was prepared in February. IHS Markit (IHS), Minnesota's macroeconomic consultant, is now forecasting a three-quarter recession, resulting in a 5.4 percent decline in real GDP in 2020. In February, they had forecast 2.1 percent annual growth for 2020. Temporary business closures and stay at home orders, volatile financial markets, rising unemployment, and declining wage income contribute to a forecast 5.5 percent decline in real consumer spending in 2020. The contraction is further fueled by a collapse in oil prices, an auto industry shutdown, and a global recession this year.

IHS expects the spread of COVID-19 to peak and then dissipate in the second calendar quarter of 2020, allowing social distancing restrictions to be lifted during the third quarter. Economic recovery begins in the third quarter, and real GDP growth turns positive in the fourth. Real GDP growth in 2021 is forecast at 6.3 percent.

IHS expects real GDP to reach its pre-pandemic level in mid-2021, but within our projection horizon, GDP does not get back to where it would have been without the pandemic. Moreover, the recession is expected to dampen business investment, and slower growth in capital services will limit future economic growth. Consequently, while IHS forecasts the U.S. to regain full employment in 2024, they expect GDP in that year to be below the level they forecast for 2024 February.

The April outlook reflects fiscal and monetary policy measures taken prior to the first week of April, when IHS published their forecast. It includes the impact of the $2.3 trillion federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, which provides unemployment benefits and stimulus checks, in addition to loans, loan guarantees, grants, and the Paycheck Protection Program (PPP) to support businesses and dissuade layoffs. The April IHS forecast includes the first round of PPP, but not the second round, which Congress approved in mid-April.

The April outlook also reflects the measures the Federal Reserve had taken prior to April. The Federal Open Market Committee (FOMC) lowered the target of the federal funds rate by 50 basis points on March 3 and 100 basis points more on March 16, bringing the effective target federal funds rate to zero. IHS expects the federal funds rate to remain near zero until late 2025. The forecast also includes the impact of Fed programs intended to improve liquidity in financial markets and the flow of credit to businesses and households.



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Layoffs amid the economic downturn have led to an unprecedented surge in initial claims for unemployment insurance benefits. Since mid-March, over 30 million people have applied for benefits. In their April outlook, IHS expects the U.S. unemployment rate to reach a high of 10.3 percent in the fourth quarter of 2020 before gradually drifting down to its pre-pandemic level in 2023.

The shock to the U.S. economy from the pandemic is unprecedented in modern, post-war history, and the economic outlook is exceptionally uncertain and volatile. Economic outcomes will depend critically on the pandemic's course, the prospects for an effective treatment and vaccine, government restrictions on economic activity, consumers' and businesses' responses as those restrictions are lifted, and the impact of fiscal and monetary policies. If the path of the pandemic and government responses deviate from IHS' assumptions, their baseline outlook will not materialize. They acknowledge this uncertainty and assign a relatively low subjective probability—45 percent—to their baseline and 35 percent to a more pessimistic scenario that forecasts a deeper recession. They assign a low probability—20 percent—to a more optimistic scenario that includes a shorter, less deep recession.

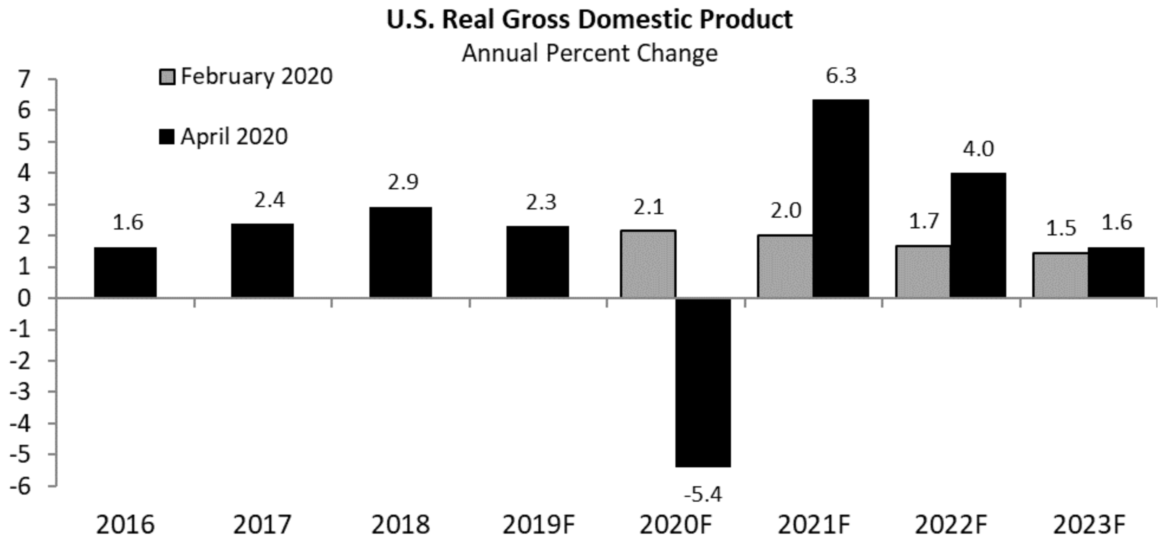
Minnesota Economic Outlook. Minnesota entered the COVID-19 crisis with a high demand for labor, low unemployment, and job growth that had slowed to below the U.S. rate amid a limited supply of workers. The COVID-19 outbreak, the restrictions applied to slow its spread, and the U.S. and global economic contractions have rocked Minnesota's economy and generated conditions that will remain volatile as long as the pandemic persists, and the U.S. outlook remains uncertain.

Official economic data lag our observations about economic activity in our daily lives, making it difficult to measure how the COVID-19 crisis has already impacted the state. However, one frequently published statistic that reflects the labor market impact is the number of people who have filed initial claims for unemployment benefits. Since mid-March, an unprecedented 590,000 Minnesotans have applied for benefits, indicating a dramatic increase in lay-offs by the state's employers. As official employment and unemployment statistics are updated to reflect this change, we expect the state's unemployment rate to rise significantly above the 2019 rate of 3.2 percent.

A crucial variable influencing Minnesota's individual income tax liability is total wage and salary income, estimated to account for more than 70 percent of federal adjusted gross income for Minnesota residents in 2019. As employers reduce hours, cut pay, and lay off and furlough workers, we estimate that total Minnesota wage and salary income will decline 5.9 percent in 2020. This is compared to 3.9 percent growth in our February forecast. We now expect wage income to grow 0.3 percent in 2021 but not reach its pre-pandemic level until 2022.

Our projected 2020 decline in wage income is larger than IHS' forecast decline of 3.2 percent for the U.S. This difference reflects our expectation that IHS will increase their forecast for U.S. unemployment in a subsequent release.

Council of Economic Advisors' Statement. Minnesota's Council of Economic Advisors met on April 21, 2020, to review the IHS outlook for U.S. economic growth, which includes the assumptions underlying Minnesota's May 2020 interim budget projection*.* The outbreak of COVID-19, the measures taken to slow its spread, and a collapse of oil prices have dramatically weakened the outlook for U.S. economic growth as measured by real GDP. IHS now expects a three-quarter recession, resulting in an annual 5.4 percent decline in real GDP in 2020. IHS forecasts annual growth of 6.3 percent in 2021, followed by 4.0 in 2022 and 1.6 percent in 2023. Despite the return of growth, IHS expects U.S. real GDP to remain below the level it would have reached without the crisis throughout the forecast period.



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

The outbreak of COVID-19, the measures taken to slow its spread, and a collapse of oil prices have dramatically weakened the outlook for U.S. economic growth. IHS now expects a three-quarter recession, resulting in an annual 5.4 percent decline in real GDP in 2020. Council members note the tremendous uncertainty surrounding the economic outlook and downside risks to the forecast.

IHS expects the spread of COVID-19 to peak and then dissipate in the second calendar quarter of 2020, allowing restrictions on activity to be lifted during the third quarter. Following declines in real GDP during each of the first three quarters of 2020, they forecast positive growth in the fourth quarter. They expect the U.S. economy to return to full employment in 2024, but with a lower level of real GDP than they forecast for 2024 earlier this year.

The IHS April baseline forecast for 2020 is consistent with the Blue Chip Consensus, the median of 50 business and academic forecasts, which expects a 4.1 percent contraction in 2020. The Blue Chip Consensus calls for 3.8 percent growth in 2021, below IHS' 6.3 percent forecast for that year. For both years, the range of forecasts that make up the Blue Chip Consensus is unusually large, indicating uncertainty about the economic outlook.

Council members note that the outlook for the U.S. economy is exceptionally uncertain. They agree that economic outcomes will depend critically on the pandemic's course, the prospects for an effective vaccine, government restrictions on economic activity, consumers' and businesses' responses as those restrictions are lifted, and the impact of fiscal and monetary policies. Because each of these factors is highly uncertain, this economic forecast carries an extraordinary amount of risk. We should expect the economic outlook to remain volatile and unpredictable for some time.

Council members agree that the three-quarter recession in 2020 in IHS' baseline outlook is plausible, but they expressed caution about some aspects of the forecast. First, most Council members believe that a slower recovery is more likely than IHS' fairly rapid return to economic growth. One reason for this view is that the IHS outlook expects the rate of COVID-19 infections to taper in the second half of the year. A more persistent outbreak or a resurgence of the disease later in the year will slow or interrupt the recovery. In addition, Council members note that the return to employment growth is threatened by the possibility that a longer—or subsequent—period of social distancing could lead to permanent closures of small businesses that are particularly affected by the restrictions.

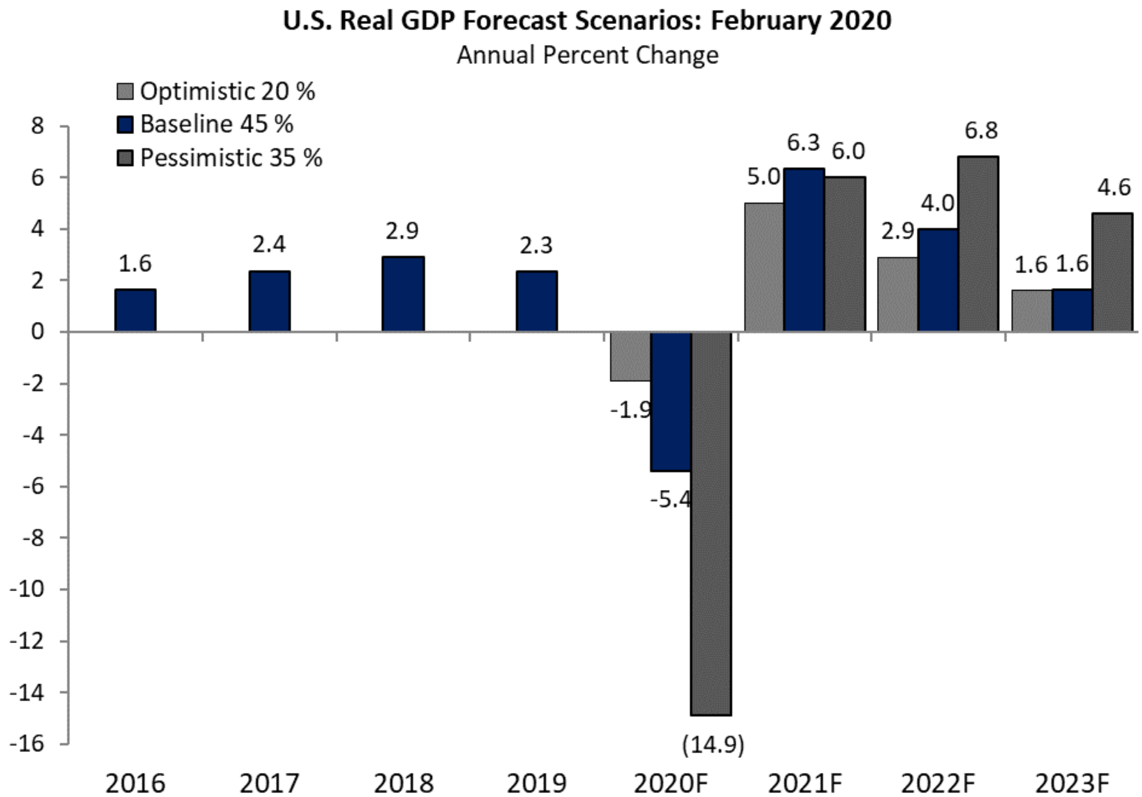
Second, some Council members note that IHS expects both corporate profits and the stock market to reach and exceed pre-crisis levels next year. Those Council members think a less aggressive recovery path for these variables is more likely. A slower stock market recovery would dampen wealth effects and, in turn, slow consumer spending below what IHS expects. In addition, underperformance of corporate profits could lower corporate tax receipts. Consequently, MMB economists reduced the growth in these variables before using them in their projections for Minnesota.

Regarding upside potential to the forecast, some Council members note that a more rapid deployment of a vaccine or treatment for COVID-19 could lead to a faster economic recovery.

MMB economists note considerable challenges with projecting revenues in the current environment. Even before the COVID-19 crisis, there was uncertainty about the revenue impact of taxpayer's responses to recent state and federal tax law changes. Now, revenue data lags—including from sales tax payment delays that have been allowed during the crisis—mean MMB has little information about how deteriorating economic conditions are already affecting state revenues. In addition, while income tax liability for tax year 2019—the base year for the income tax projection—would normally be fairly clear by now, this year taxpayers are allowed to delay final and extension payments until July 15. These factors raise the uncertainty of the revenue projection.

IHS assigns a probability of 45 percent to the April baseline outlook. They assign a 35 percent probability to a more pessimistic scenario, in which COVID-19 causes a larger and longer reduction in employment, income, and production. In addition, the pessimistic scenario assumes that it will take longer to bring COVID-19 under control than in the baseline forecast. In the pessimistic scenario a three-quarter recession occurs in 2020, with annual real GDP dropping 14.9 percent. Additionally, the unemployment rate reaches 22 percent in the third quarter of 2020, just below the 25 percent unemployment rate reached at the height of the Great Depression.

IHS assigns a 20 percent probability to a more optimistic scenario, in which the economy recovers more quickly from the COVID-19 recession. IHS states the underlying assumption in the optimistic scenario is that the spread of COVID-19 and its health ramifications become less threatening within a few months, and the number of new cases gradually diminishes to zero by June. In this scenario the U.S. economy suffers a two-quarter recession in the first half of 2020, resulting in an annual 1.9 percent decline in real GDP in 2020, before recovering to 5.0 percent annual growth in 2021.



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

IHS assigns a 45 percent probability to the April baseline outlook. They assign a 35 percent probability to a more pessimistic scenario, in which the contraction in consumer spending is steeper than in the baseline, driving a larger and longer contraction in production, employment, and income.

Council members believe that Minnesota's budget reserve—which is $2.359 billion, the level recommended by the state's budget reserve policy—will afford policymakers crucial financial flexibility during this dramatic economic downturn. The statutory policy assigns an adequate target reserve level based on MMB's annual evaluation of volatility in Minnesota's general fund tax system. The target is a percentage of forecast revenues, allowing reserves to adjust with revenue changes over time. In addition, the policy automatically transfers 33 percent of a positive forecast balance each November into the reserves until the target is reached. Based on MMB's most recent analysis, the target level is 4.9 percent of biennial (two-year) general fund revenues.

Budget Outlook: Current Biennium. The February 2020 *Budget and Economic Forecast* projected a surplus of $1.513 billion for the current biennium. The Coronavirus pandemic and resulting economic crisis has had a direct and immediate impact on the general fund budget. General fund revenue is now projected to be $3.611 billion (7.4 percent) lower than forecast in February and state spending, including enacted appropriations since February, is expected to be $391 million higher than February. These changes, partially offset by a $63 million lower forecast balance in the stadium reserve, result in a projected deficit of $2.426 billion in FY 2020-21. By law, the $2.359 billion budget reserve and $350 million cash flow account remain intact in this projection. Reserve balances are available to mitigate impact of the crisis on the general fund budget.

Current Biennium: FY 2020-21 General Fund Budget
Comparison February 2020 Forecast

($ in millions)	February 2020 Forecast	May 2020 Projection	$ Change	% Change
Beginning Balance	**$3,971**	**$3,971**	**$ -**	0.0%
Revenues	48,752	45,141	(3,611)	(7.4)
Expenditures	48,373	48,763	391	0.8
Cash Flow Account	350	350	-	-
Budget Reserve	2,359	2,359	-	-
Stadium Reserve	130	66	(63)	(48.5)
Projected Balance	**$1,513**	**$(2,426)**	**$(3,938)**	

Revenues. Total general fund revenues for FY 2020-21 are now projected to be $45.141 billion, $3.611 billion (7. 4 percent) less than the February 2020 forecast. Total tax revenues for the biennium are forecast to be $43.158 billion, $3.511 billion (7.5 percent) below the prior estimate.

Individual income tax receipts are now projected to be $1.659 billion (6.4 percent) less than the February forecast. The decrease is primarily due to projected declines in wage and non-wage income, including capital gains and business income.

We made several adjustments to the income tax projection to account for the current, extraordinary economic environment. We are now projecting a decline in total Minnesota wage income in 2020, and we adjusted the wage estimate for the differential impact of lay-offs—with social distancing measures disproportionately affecting workers in lower-wage food service and accommodation occupations. We also adjusted our estimate of income tax payments on unemployment insurance benefits, following the significant increase since mid-March in the number of Minnesotans receiving those benefits. Finally, we adjusted for taxpayer responses to new federal provisions, including the waiver of required minimum distributions from IRAs in the CARES Act and benefits from the second round of the PPP. Each of these changes is challenging to measure and adds risk to the income tax projection.

Current Biennium: FY 2020-21 General Fund Revenues
Change from February 2020 Forecast

($ in millions)	May 2020 Projection	$ Change	% Change
Individual Income Tax	$24,329	$(1,659)	(6.4)%
General Sales Tax	10,693	(1,351)	(11.2)
Corporate Franchise Tax	2,710	(405)	(13.0)
State General Property Tax	1,550	(12)	(0.8)
Other Tax Revenue	3,877	(84)	(2.1)
Subtotal	**$43,158**	**$(3,511)**	**(7.5)%**
Non-Tax Revenues	1,463	(100)	(6.4)
Other Resources	520	0	0.0
Total Revenue	**45,141**	**$(3,611)**	**(7.4)%**

Capital gains is the most volatile income source, and recent stock market fluctuations increase the uncertainty about capital gains realizations. In their April outlook, IHS expects the S&P 500 index to reach and exceed pre-crisis levels next year. In agreement with those members of our Council of Economic Advisers who believe a less aggressive recovery path for the stock market is more likely, we used a lower growth rate for equity values in our capital gains projection.

Revenue data lags raise the uncertainty of the income tax projection. Income tax liability for tax year 2019—the base year for this projection—would normally be fairly clear by now. This year taxpayers are allowed to delay final and extension payments until July 15. Therefore, we won't have a complete information about tax year 2019 income tax receipts until August. The timing of this signal will depend on the pace of tax return processing.

General sales tax revenue in FY 2020-21 is now projected to be $1.351 billion (11.2 percent) less than the prior forecast. Gross sales tax receipts are estimated to be $1.378 billion lower than in February, and the refunds projection is $27 million lower. The lower gross sales tax receipts projection reflects a lower forecast for taxable sales and a lower share of U.S. sales allocated to Minnesota compared to February.

Sales tax payment delays that have been allowed during the COVID-19 crisis mean that we have little information about how deteriorating economic conditions are already affecting state revenues. This adds to uncertainty about the sales tax projection.

The corporate franchise tax is projected to generate $405 million (13.0 percent) less than the prior forecast. Lower expected gross corporate payments and higher refunds both contribute to the change. So far in FY 2020, gross corporate tax receipts have exceeded the February forecast by $22 million. Based on a reduced forecast for corporate profits, we expect corporate tax revenues to fall $34 below the prior forecast over the remainder of FY 2020 and an additional $370 million in FY 2021. We adjusted our estimate for benefits from the second round of the PPP.

In their April outlook, IHS expects corporate profits to reach and exceed pre-crisis levels next year. In agreement with those members of our Council of Economic Advisers who believe a less aggressive recovery path for corporate profits is more likely, we used a lower growth rate in profits in our corporate tax projection.

Other tax revenue is projected to be $84 million (2.1 percent) lower than in the February forecast. Among these, we re-estimated revenues for those taxes that are particularly sensitive to the changing economic environment and for which we had new data to inform an estimate. The largest dollar amount change is in lawful gambling tax revenue, which is expected to be $64 million lower than in the February forecast. A lower estimate for investment income brings the projection for non-tax revenues $100 million below the prior forecast.

Expenditures. In this Interim Budget Projection expenditure updates were limited to forecast programs in Health and Human Services (HHS) because it is not expected that other forecast programs like E-12 education, property tax aids and credits, and debt service will show immediate budgetary impacts related to the pandemic and economic downturn. However, legislatively enacted appropriations totaling $550 million are also included. With this projection estimated HHS spending is $160 million lower than February estimates. Combining enacted and projected changes, total FY 2020-21 spending is projected to be $48.763 billion, $391 million (0.8 percent) higher than prior estimates.

Current Biennium: FY 2020-21 General Fund Expenditures
Change From February 2020 Forecast

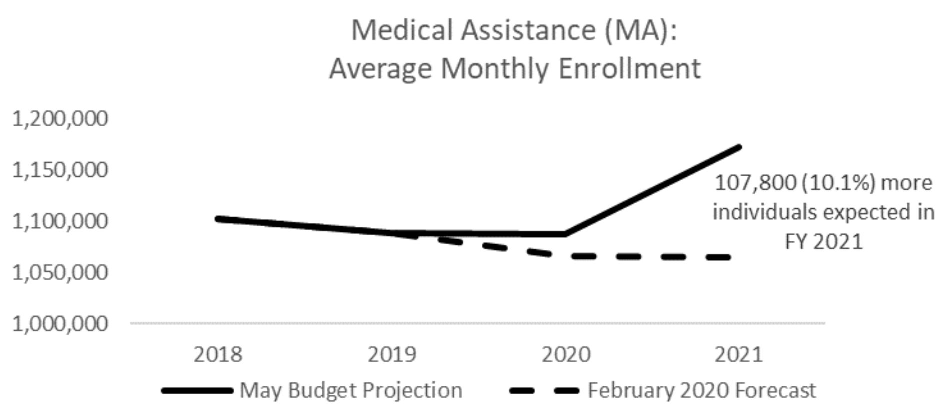
($ in millions)	**May Projection**	**Enacted Change**	**Projection Change**
E-12 Education	$19,999	$ -	$ -
Property Tax Aids & Credits	3,883	11	-
Health & Human Services	14,815	292	(160)
Debt Service	1,130	-	-
All Other	8,937	248	0
Total Expenditures	**$48,763**	**$550**	**$(160)**

Health and Human Services. General fund spending in Health and Human Services (HHS) is expected to be $14.814 billion in FY 2020-21, a $132 million (0.9 percent) increase compared to the February 2020 forecast. The HHS interim budget projection incorporates change due to the COVID-19 pandemic and the economic situation, as well as appropriations already enacted this legislative session.

General Fund HHS Expenditures
Change from February 2020 Forecast

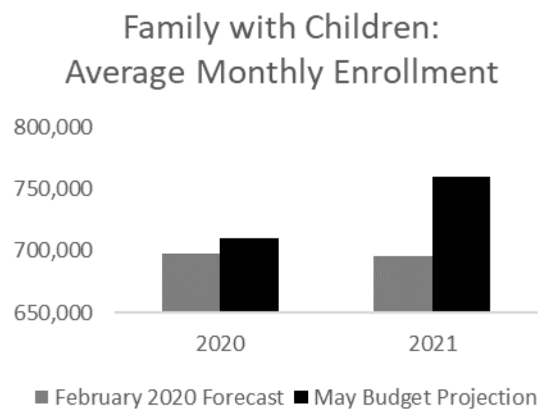
($ in millions)	May Budget FY 2020-2021 $ Change	May Budget FY 2020-2021 % Change
Increased federal share of MA, 6.2% enhanced FMAP	($330)	(2.1)%
Increased caseload due to economic conditions	164	1.4
Executive orders and administrative actions	108	0.9
COVID-19 related disruption to MA long term care services	(70)	(1.3)
All other change	(32)	(0.2)
Subtotal	**($160)**	**(1.1)%**
Chapter 66 – Public Health Response Contingency Account	21	
Chapter 70 – Public Health Response Account	50	
Chapter 70 – Health Care Response Fund	150	
Chapter 71 – Increased Housing Support and DHS Grants	71	
Enacted Change	**$292**	**2.0%**
Total HHS General Fund Change	**$132**	**0.9%**

HHS, Economic Impacts on Program Participation. Public assistance programs are counter-cyclical to the economy. As economic conditions worsen, public program participation is expected to increase. To estimate the impact of the changing economic situation, the same models used in the February 2020 forecast were updated with economic data provided by IHS Global Insights in April 2020. The HHS interim budget projection estimates a $164 million (1.4 percent) increase compared to February 2020 forecast due to higher caseload in Medical Assistance (MA), Minnesota Family Investment Program (MFIP) and Child Care Assistance Program (CCAP) due to a worsening economy.



Unemployment significantly impacts enrollment in public programs. However, enrollment in public programs tends to lag behind changes in unemployment. Overall, including enrollment increases due to executive orders during the peacetime emergency and administrative actions authorized in current law, average monthly enrollment in MA is expected to increase 107,800 or 10.1 percent in FY 2021 compared to February 2020 forecast projections. MA enrollment increases due specifically to higher unemployment projections are expected to be 94,800 or 8.9 percent in FY2021.

Enrollment in two MA eligibility categories, families with children and adults without children, are significantly influenced by the unemployment rate.



The anticipated increased state spending due to unemployment-driven enrollment growth for families with children is anticipated to be $113 million in FY 2020-21 compared to the previous forecast. Lagging impacts following increased unemployment result in an enrollment increase of less than one percent in FY 2020 compared to February forecast. However, the average monthly enrollment in FY 2021 is expected to increase 8.2 percent (56,800 individuals). Based on current projections, enrollment in MA is expected to peak in FY 2021.

In the adults without children eligibility category, or the state's Affordable Care Act (ACA) expansion population, change in average monthly enrollment due to higher unemployment is expected to be 1.4 percent (2,675 individuals) in FY 2020 and 20.0 percent (38,000 individuals) in FY 2021 compared to February 2020 forecast. The impact on state spending is relatively modest ($34 million) because the expansion population is funded with a 90 percent federal share for MA costs.

The HHS interim budget projection includes a $70 million (1.3 percent) decrease from the February 2020 forecast in long term care services utilization resulting from the impacts of COVID-19. This includes a $49 million decrease caused by reduced utilization of adult day services for older adults and people with disabilities. Revised nursing facility caseload projections result in net negative enrollment and account for the remainder of the decrease in projected expenditures.

HHS, Other considerations. Approximately 80 percent of the MA population is served by managed care organizations (MCO). Managed care provides an established "per enrollee" payment to an MCO rather than payments for individual services. Managed care payment rates are already under contract for calendar year 2020, therefore changes to costs incurred by MCOs as a result of the COVID-19 pandemic would be reflected in future year's rates. However, several factors could influence future managed care rates, including increased costs due to COVID-19 patient care and decreased spending associated with reductions in elective care. Given this dynamic, it is unknown at this time how COVID-19 will specifically impact future MCO rates. The HHS interim budget projection does not account for any change in MCO rates as a result of COVID-19.

Increases in enrollment and associated spending in FY 2020-21 are expected to carry over into FY 2022-23. The duration of the COVID-19 emergency and severity of the economic impact will significantly influence HHS spending in this biennium and planning estimates, however the uncertainty of the path of the pandemic and economic impacts prevent the budgetary impact from being quantified for FY 2022-23 in this projection.

HHS, Federal Response to COVID-19 Pandemic. The federal government enacted laws which provide relief and support in response to the COVID-19 pandemic. Under the Family First Coronavirus Response Act, the federal share (i.e. Federal Medical Assistance Percentage or FMAP) within Medical Assistance (MA) and Northstar Care for Children is increased 6.2 percentage points during the quarters during which the federal public health emergency declared in January 2020 is in effect. The expected increase in federal funding is $330 million (2.1 percent), assuming the enhanced match is received during the period from January 1, 2020 through June 30, 2020. Several federally required program changes were implemented through executive order in order to claim increased federal funding. If the federal emergency declaration extends into July or beyond, the state will continue to receive the enhanced federal share for subsequent quarters if it continues to comply with the requirements.

HHS, State Response to COVID-19 Pandemic. This projection incorporates enacted changes made in response to the COVID-19 pandemic since the release of the February forecast. These changes have occurred through executive order during the peacetime emergency and administrative actions authorized in current law. Maintaining eligibility for those enrolled in MA since mid-March is a requirement to earn the enhanced federal share. Through Executive Order 20-12, the Commissioner of Human Services suspended requirements that result in participants being disenrolled from MA which is estimated to cost $48 million compared to previous forecast. Under the same authority, the commissioner suspended similar requirements in economic assistance programs. The commissioner also expedited payments to nursing facilities using authorities in M.S. 12A.10, which results in a $41 million increase in the budget projection compared to February 2020 forecast.

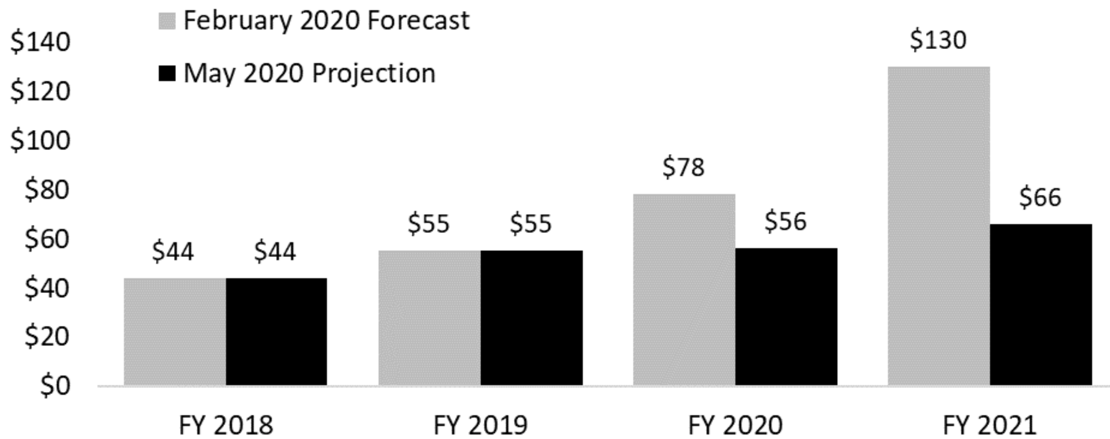
Legislative actions over the last several months are also incorporated into the HHS interim budget projection. Specifically, the legislature has appropriated $287 million (2.0 percent) from the general fund for responding to COVID-19. This includes $221 million dollars administered by the Department of Health. These three separate appropriations fund the state's emerging healthcare needs including grants to providers. The legislature also appropriated $66 million in new grants administered by the Department of Human Services to protect vulnerable populations and support childcare for essential employees.

Other budget areas. This projection also includes enacted appropriations outside of the HHS area totaling $259 million. These appropriations include $200 million transferred to the COVID-19 Minnesota Fund, $30 million transferred to the disaster assistance contingency account, $11 million in grants to tribal nations, $10 million for the small business loan guarantee program, $6 million to the Department of Veteran's Affairs for special emergency grants and $1 million for Second Harvest Heartland grants.

Other areas of the budget that are typically re-estimated with the November or February forecast including E-12 education, debt service and property tax aids and credits are left at February levels in this update. In E-12 education, Minnesota Statutes 126C.05 allows the department of education to adjust pupil counts in the case of an epidemic, and the Governor's Executive Orders' changes have largely held state aid to February forecast levels. While changes in spending estimates may occur in debt service, property tax aids and credits and other forecast appropriations, it is not believed that the impact of the pandemic and resulting economic changes will be as immediate in these areas. In addition, at this time there is not enough new data on spending in these areas to warrant a new update.

Reserves The budget reserve and cash flow account balances are unchanged from February in this projection. The budget reserve balance is $2.359 billion and the cash flow account balance is $350 million. The budget reserve and cash flow account are established in statute and use of these accounts do not occur automatically with a new budget forecast or projection. Executive authority to use the budget reserve when a deficit is projected is delineated in Minnesota Statutes 16A.152 Subd. 3.

Stadium Reserve Balance: May 2020 vs. February 2020
$ in millions



The projected balance of the stadium reserve is $63 million lower than February estimates. For the May 2020 interim budget projection, lawful gambling revenue is projected to be significantly lower due to the closure of dine-in service at bars and restaurants due to the COVID-19 pandemic.

In FY 2020, lawful gambling revenue for stadium uses is projected to be $43 million, $22 million (34.3 percent) lower than February forecast. In FY 2021, lawful gambling revenue available for stadium uses is expected to be $42 million (54.3 percent) lower than February forecast. Beginning in FY 2021 the state will retain Minneapolis sales tax receipts to cover the payments the state remits on behalf of the city for stadium obligations. Based on February forecast, the state will retain $17 million in Minneapolis sales tax receipts in FY 2021. In this projection, the stadium reserve continues to grow year over year in all projected years.

Next Biennium. Given that the path of the coronavirus pandemic and the resulting economic impact continue to be uncertain, it is not possible to accurately project state revenue and spending into the FY 2022-23 biennium. However, it is likely that the negative impact on the state budget in the next biennium will be significant. In the February 2020 *Budget and Economic Forecast* current law revenue exceeded baseline spending by only $433 million or 0.8 percent of estimated revenue. Even a small reduction in projected revenue in that biennium would result in estimated spending exceeding projected revenue. Given this, the FY 2022-23 budgetary impact will remain an important factor when considering spending and revenue proposals.