



Forecasting Inflation

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- Minnesota Statutes 16A.103 requires in the November and February forecast: “Expenditures must be estimated for all obligations imposed by law and those projected to occur as a result of inflation and variables outside the control of the legislature.”
- MMB implemented this statute after it was amended in February 2023 to include inflation.
- MMB limits the estimate of discretionary inflationary in the spending forecast with the following parameters:
 - Programs and budgets that do not already include rate/cost adjustments in their statutory formula
 - Biennia without an appropriated budget, currently FY 2026-29.

Discretionary vs. Statutory Inflation

- Approximately 60% of the base spending forecast already adjusts with rate or cost changes in statutory formulas, including:
 - Medical Assistance (partial)
 - Managed Care
 - Nursing Facilities
 - Disability Waivers
 - Child Care Assistance Program
 - Minnesota Family Investment Program
 - General Education
 - Special Education
 - School Meals
 - General Assistance
 - Property Tax Refunds
 - Debt Service and Capital Projects
- The discretionary inflation estimate is applied only to the remaining 40%. This amount is not an additional appropriation, but instead an estimate of future cost changes.

- To estimate inflation, MMB applies the forecast rate of inflationary change to base level spending in each year
- MMB uses a single inflationary index, CPI, as forecast by the state's macroeconomic forecasting firm, SPGMI
- In calculating inflation, MMB excludes programs with inflation and/or cost adjustments already built into statute
- Inflation calculation has compounding effect, for instance FY 2029 estimate includes 4 years of compounded inflation

Sample Inflation Calculation

	FY 2026	FY 2027	FY 2028	FY 2029
Base Spending	2,000	2,100	2,200	2,300
Exclude programs with inflation already included	1,000	1,100	1,200	1,300
Remaining base spending	1,000	1,000	1,000	1,000
Forecast CPI	2.2%	2.7%	1.9%	2.3%
Estimated Added Inflation	22	49	69	94

November Forecast Inflation Estimate

Estimated Inflation: General Fund Expenditure Budget By Fiscal Year, November 2024 Forecast

(\$ in millions)	FY 2026	FY 2027	FY 2028	FY 2029
Forecast CPI change yr/yr	2.2%	2.7%	1.9%	2.3%
Total Base Expenditures	\$32,340	\$33,724	\$34,981	\$36,160
Expenditures with existing statutory inflation or excluded from calc.				
MA Pymts w/ Inflation	6,404	6,794	7,231	7,731
Other HHS	104	120	126	132
General Education	8,480	8,718	8,899	9,046
Special Education	2,768	3,010	3,191	3,367
School Nutrition	323	337	343	348
Property Tax Refunds	822	833	861	892
Debt Service	576	644	682	721
Capital Projects	142	145	146	149
Adjusted Base for Inflation Calc.	\$12,722	\$13,122	\$13,500	\$13,775
Estimated Inflation for FY 2026-27 Budget	280	646	665	678
Estimated Inflation for FY 2028-29 Budget	-	-	272	615
Total Estimated Inflation	\$280	\$646	\$936	\$1,294

Forecast Materials Highlight Inflation

(\$ in millions)	FY 2026-27 End of Session	FY 2026-27 Nov Forecast	Forecast Change
Beginning Balance	\$6,555	\$7,279	\$724
Total Revenues	64,845	63,853	(992)
Total Spending	66,417	66,989	572
<i>Spending</i>	<i>65,572</i>	<i>66,063</i>	<i>491</i>
<i>Discretionary Inflation</i>	<i>845</i>	<i>926</i>	<i>81</i>
Cash Flow and Budget Reserve	3,263	3,527	264
Budgetary Balance	\$1,719	\$616	\$(1,103)
<i>Balance without Discretionary Inflation</i>	<i>\$2,564</i>	<i>\$1,542</i>	<i>\$(1,022)</i>

2025 Session vs 2027 Session Inflation

- Discretionary inflation estimates the adjusted cost of continued services in the budget biennium and the planning biennium
- Estimates in the November forecast disaggregate the adjusted cost of services for the budget enacted in the 2025 session from those expected to be adjusted in the budget enacted in the 2027 session.

(\$ in millions)	<u>FY 2026-27</u>	<u>FY 2028-29</u>
Inflation for Budget Enacted in 2025 Session	926	1,343
Inflation for Budget Enacted in 2027 Session	-	887
Total	\$1,719	\$2,231