MINNESOTA Management & Budget

February 2010 Forecast

February 2010

HIGHLIGHTS

$994 Million Budget Deficit Forecast for Current Biennium

Minnesota's budget outlook has improved modestly since November. A $184 million reduction in projected expenditures and a $25 million increase in forecast revenues reduce the expected budget deficit for the 2010-11 biennium to $994 million, or 3.2 percent of projected biennial expenditures. In November a deficit of $1.203 billion (3.8 percent of expenditures) was projected. The current deficit is about 6 percent of FY 2011 spending.

Human Services and Corporate Tax Forecasts Reduce Projected FY 2010-11 Deficit

General fund expenditures in FY 2010-11 are now expected to total $31.102 billion, 0.6 percent less than projected in November. Most of the expenditure reduction came from Human Services programs where larger than projected federal reimbursements for state Medicaid spending combined with slightly lower spending resulted in $150 million of savings. General fund revenues in FY 2010-11 are now projected to be $30.011 billion, 0.1 percent more than forecast in November. A $127 million increase in the corporate income tax forecast offset smaller, generally negative changes to other taxes.

Little Change in Economic Outlook

Global Insight's February baseline scenario is only slightly more optimistic than their November baseline. Over the biennium real GDP growth is now expected to average 1.8 percent, up slightly from the 1.4 percent growth projected in November, but employment growth and wage growth in Minnesota remain a concern. Total wages paid in Minnesota are not expected to return to pre-recession levels until late in 2011 and Minnesota employment does not return to its pre-recession level until 2013.

$5.8 Billion Shortfall Projected for 2012-13

Budget planning estimates for FY 2012-13 now show a shortfall of $5.789 billion, $363 million more than projected in November. Projected spending for FY 2012-13 does not include general inflation. Adjusting for general inflation adds an additional $1.181 billion to spending estimates for the next biennium.

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BUDGET UPDATE AND OUTLOOK

Projected FY 2010-11Budget Deficit at $994 Million

The outlook for the U.S. economy has changed little since November. A small $25 million increase in forecast general fund revenues, combined with a $184 million reduction in forecast spending, reduced the $1.203 billion budget deficit projected in November to $994 million.

FY 2010-11 Forecast
($ in millions)

	November Forecast	February Forecast	$ Change
Beginning Balance	**$447**	**$447**	**–**
Revenues	29,986	30,011	25
Expenditures	31,286	31,102	(184)
Cash Flow Acct	350	350	0
Balance	**$(1,203)**	**$(994)**	**$209**

Compared to estimates at the end of the 2009 legislative session – after the Governor's unallotment and administrative actions – general fund revenues have fallen by $1.131 billion (3.6 percent), while expenditures have fallen by $228 million (0.7 percent).

FY 2010-11 Forecast Compared to End-of-Session
($ in millions)

	July 2009 Exec Action	February Forecast	Total Change	
Beginning Balance	**$538**	**$447**	**($91)**	
Revenues	31,142	30,011	(1,131)	(3.6%)
Expenditures	31,330	31,102	(228)	(0.7%)
Reserves	350	350	0	
Balance	**$0**	**$(994)**	**$(994)**	

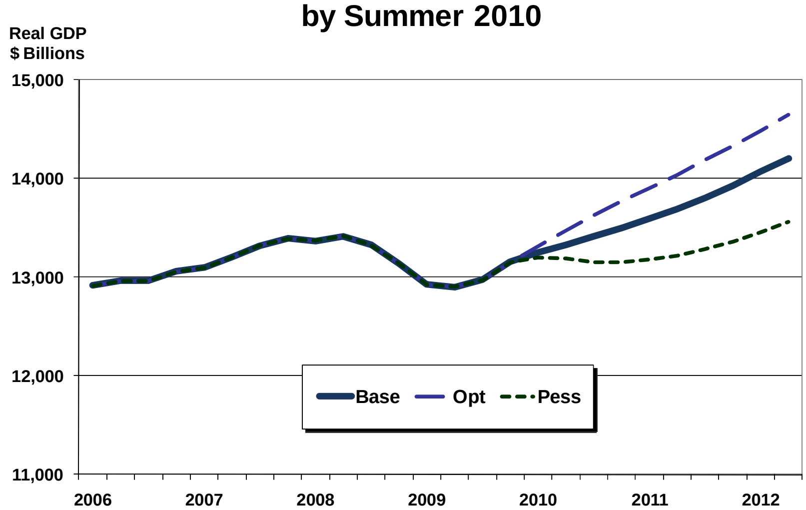
An Economic Recovery Is Underway, But Few Expect a Quick Return to Pre-Recession Levels of Employment and Income

Early last year the U.S. economy faced its most difficult challenge since World War II. Payroll employment had declined by an average of more than 700,000 jobs per month over five months, total wages and consumer spending were falling at worrisome rates, and no end was in sight. The global financial crisis had created the Great Recession. A broad portfolio of fiscal and monetary policy actions were being put into place in late 2008 and early 2009 to re-start the American economy, but there were no guarantees those programs would be sufficient to meet the task at hand. And, stakes were high. If the federal stimulus package and the credit and liquidity initiatives undertaken by the Federal Reserve and the U.S. Treasury failed to produce the desired results an even deeper and longer recession, possibly even a second global depression, was likely.

Fortunately, real GDP began to grow midway through 2009. It will take years for analysts to determine which, if any, of the many policy actions taken were instrumental in turning the economy around and starting it on an upward path, but that is of only secondary interest at present. Now attention is focused on the likely path the economy will follow in recovery, how long it will take for job growth to resume, and when the unemployment rate can be expected to return to more normal levels.

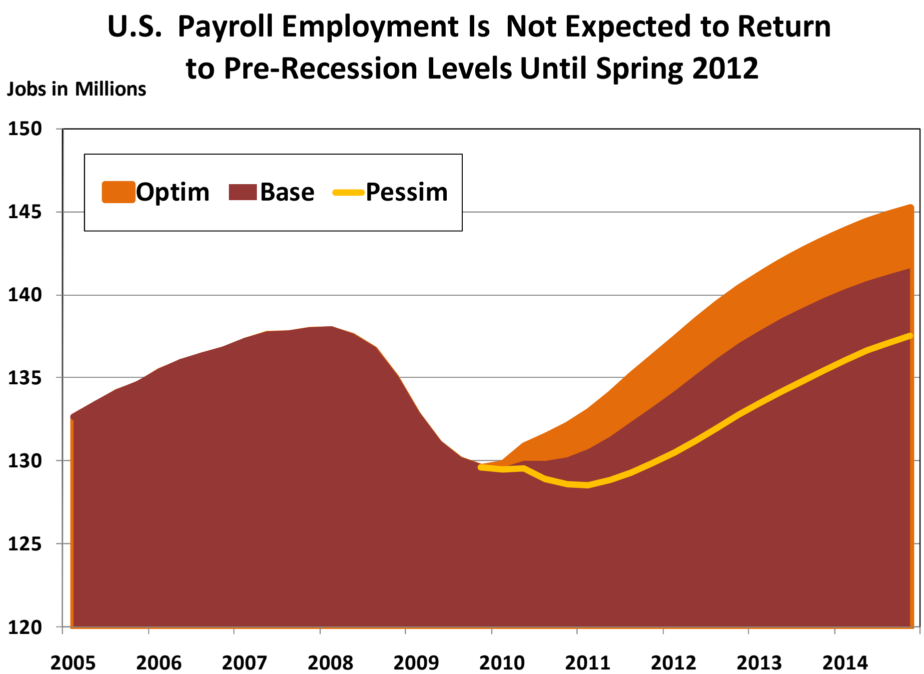
As always there are diverging opinions. Some forecasters expect a V-shaped recovery, arguing that historically, steep economic downturns have been followed by a period of super-normal growth. Others are more pessimistic, citing among other things a long list of concerns about labor markets and credit conditions. They note that the economy could easily return to recession status later this year as the fiscal stimulus currently in place winds down and the temporary jobs produced by the 2010 Census disappear. A growing consensus, however, expect a long, slow, U-shaped recovery. In this scenario the economy grows at sub par rates for an extended period and labor markets do not return to pre-recession levels for several years.

Real GDP Expected to Return to Previous High by Summer 2010



Global Insight (GII) is among the many forecasters who believe a U-shaped recovery is most likely. Their February baseline has real GDP growing at roughly its trend rate of 3 percent through 2011, then strengthening slightly in 2012. As in November, their forecast, along with most others, does not contain the multiple quarters of very strong consumer spending triggered by the release of pent-up demand often seen early in economic recoveries. Instead GII expects a more moderate growth path as the U.S. economy faces headwinds from anemic nonresidential construction, weak existing home sales, and constrained credit access.” Under this more moderate growth path payroll employment does not reach pre- recession levels until 2013 and the unemployment rate remains above 8 percent through the end of the next biennium. Global Insight’s baseline scenario is very similar to the Blue Chip Consensus forecast, and GII assigns a 65 percent probability to their February baseline.

As the economy begins to recover after a recession it is easy to focus on what might go wrong, and the list of items that could derail the recovery typically is much longer than the list of events that could cause growth to be stronger than projected. This time is no exception. Everyone recognizes that while GDP grew at a 2.2 percent annual rate in the third quarter of 2009 and a 5.9 percent rate during the last quarter, this recovery is still fragile and any of a number of shocks could produce another decline in real output and set off another wave of layoffs. GII assigns a scenario with a double dip recession a probability of 15 percent.



What is often overlooked, however, is how modest the upside is if the economic recovery is stronger than anticipated. Global Insight assigns a 20 percent probability to its optimistic V-shaped recovery scenario in which monetary and fiscal policy actions already in place "support a robust recovery….sustaining the energetic growth seen at the end of last year well into 2010." In GII's optimistic, scenario it still takes two years, until mid 2012, for U.S. employment to return to its pre-recession levels and the unemployment rate at that time still exceeds 7 percent. Even under the optimistic scenario U.S. unemployment rates remain above 5.5 percent through mid 2014.

Minnesota's labor market outlook over the forecast horizon is far from normal. Two thirds of the jobs lost in this state over the past two years have been in just three industries – manufacturing, construction, and retail trade. These three industries are projected to regain only about one-quarter of their losses over the next two years. That means that many of those who have lost jobs in this recession will be unable to find employment in the industry that had previously employed them. Many laid off construction and manufacturing workers will need to retrain for work in other sectors where demand for workers is growing more rapidly.

FY 2010-11 Revenues Now $1.131 Billion below End-of-Session Estimates, but Up $25 Million from November

General fund revenues for the 2010-11 biennium are now forecast to total $30.011 billion, $25 million more than projected in November and $1.131 billion (3.6 percent) less than end-of-session estimates. As in November, more than 75 percent of the revenue decline from end-of-session estimates was attributable to a reduction in the individual income tax forecast. Individual income tax receipts are now forecast to be $874 million (5.9 percent) less than end-of-session estimates. Again, almost all of the reduction in expected income tax receipts was due to reductions in the forecasts for wages and proprietors' incomes from the February, 2009 forecast. FY2010-11 revenues are now forecast to be 6.4 percent less than actual general fund receipts in the 2008-09 biennium.

Forecast Revenue FY 2010-11, Changes from End-of-Session

($ in millions)

	February Forecast	Change from November	Change from End-of-Session	% Change
Individual Income	$14,053	$(47)	$(874)	(5.9)
Sales	8,536	19	(12)	(0.1)
Corporate	1,400	127	181	14.9
Motor Vehicle Sales	105	6	13	14.1
Statewide Levy	1,523	(2)	(29)	(1.8)
Other	4,394	(78)	(410)	(8.6)
Total Revenues	**$30,011**	**$25**	**$(1,131)**	**(3.6)**

As was true in November the large decline in other revenues is partially due to changes in the accounting treatment of particular revenue items including income tax reciprocity. Reductions in expected receipts from fees and tobacco settlement payments accounted for more than two thirds of the change to other revenues since November. The $127 million increase in the corporate tax forecast is due to a change in the corporate refund forecast incorporating lower than anticipated refunds paid from October 2009 through January 2010.

FY 2010-11 Forecast Spending $184 Million Lower

General fund spending for the biennium is forecast to be $31.102 billion, down $184 million (0.6 percent), from November's estimate. A $150 million reduction in forecast Human Services spending accounts for most of the savings. Modest decreases in K-12 education and property tax aids and credit spending provide additional savings. A small increase in forecast debt service costs offsets part of the spending reduction.

Forecast Spending, FY 2010-11

($ in millions)

	November Forecast	February Forecast	$ Change	% Change
K-12 Education	$13,337	$13,323	$(14)	(0.1)
K-12 Payment Shifts	(1,717)	(1,716)	1	--
Higher Education	2,859	2,859	0	--
Property Tax Aids & Credits	3,098	3,083	(15)	(0.5)
Health & Human Services	9,166	9,016	(150)	(1.6)
Public Safety	1,819	1,819	0	--
Debt Service	955	956	1	0.1
All Other	1,769	1,762	(7)	(0.4)
Total Spending	**$31,286**	**$31,102**	**$(184)**	**(0.6)**

More than one-half, $83 million, of the total reduction in the human services forecast is an unanticipated one-time savings from a federal expansion of the temporary FMAP. This will reduce the amount Minnesota pays ("clawback") to the federal government to offset the costs of Medicare coverage for prescription drugs for state residents eligible for both Medicare and Medicaid. This temporary savings will be retroactive and cover the same period as the FMAP increase under ARRA, October 1, 2008 through December 31, 2010. Small reductions in caseloads and average costs in elderly and disabled basic care, continuing care grants, and chemical dependency programs provide the remainder of the forecast savings.

Small net declines in K-12 education costs are attributable primarily to lower pupil unit estimates that are, in part, offset by increases in spending estimates for compensatory aid and QComp. Small additional savings in expected property tax refund and aid programs are largely the result of decreased market values in residential properties.

FY 2012-13 Projected Shortfall Increases to $5.789 Billion

The gap between revenues and expenditures in planning estimates for the next budget cycle has grown slightly larger, increasing by $363 million to $5.789 billion.

When the FY 2010-11 budget was enacted - after the Governor's unallotment and administrative actions were implemented - planning estimates for FY 2012-13 showed a gap between expenditures and revenues of $4.431 billion. The impact of changes in both the November 2009 and current forecast are highlighted below.

Change in FY 2012-13 Planning Estimates

($ in millions)

	End-of-Session	Nov Change	Feb Change	Feb Forecast
Projected Revenues	34,305	(1,087)	(312)	32,906
Projected Spending	38,736	(92)	51	38,695
Difference	**(4,431)**	**(995)**	**(363)**	**(5,789)**
Estimated Inflation	—	—	—	*1,181*

Planning estimates assume:

- *Complete repayment of the K-12 aid deferral. Delaying repayment would save $1.163 billion.*
- *No repayment of the K-12 property tax recognition shift. Repayment would cost $564 million.*
- *No continued GAMC spending. Restoring the program would cost $928 million.*

How the Governor's unallotments and executive actions are reflected in FY 2012-13 budget projections is important in assessing the projected budget gap for the next biennium. The $2.5 billion in spending reductions made through unallotment do not become permanent reductions that continue in FY 2012-13. The planning estimates include complete repayment of K-12 school aids deferred in FY 2010-11 ($1.163 billion) and no repayment of the K-12 property tax recognition shift ($564 million). The projections do not include reinstatement of funding for the General Assistance Medical Care (GAMC) program that was line-item vetoed in FY 2011. If continuation of the program at current levels were assumed, an additional $928 million would be required in the 2012-13 biennium.

Expenditure projections for the next biennium do not include any adjustment for inflation. Estimated inflation at 2.1 in FY 2012 and 1.9 percent in FY 2013 would increase the gap between spending and revenues in the next biennium by $1.181 billion.

The planning estimates make no assumptions about any actions that might be taken in the 2010 legislative session to solve the FY 2010-11 deficit or to reduce the structural shortfall expected for the 2012-13 biennium.

FORECAST FUNDAMENTALS:

February's forecast is the second of four forecasts that will occur during the biennium. It provides revised revenue and expenditure estimates for the current biennium based on the most recent information about the national and state economic outlook, and caseload, enrollment and cost projections. That updated revenue and expenditure information is also used to revise the revenue and expenditure planning estimates for the 2012-13 biennium.

The revised revenue estimates reflect changes in the national economic outlook that have occurred since November. This forecast also incorporates additional revenue collection experience into the projections. For example, state sales tax collections now include receipts from the crucial Christmas shopping season. And, fourth quarter estimated tax payments as well as withholding receipts through January are available for further guidance about tax year 2009 liability.

Revenue estimates for the remainder of the current biennium are based on econometric forecasts of the U.S. and Minnesota economy. The revenue forecast is prepared based on a national economic forecast provided by Global Insight Inc., (GII). Minnesota's Council of Economic Advisors reviewed the GII national baseline forecast. The Council's comments are found in the "Economic Summary." The "Economic Outlook" which follows provides a more comprehensive overview of the current outlook for the U.S. and Minnesota economies.

Revenue planning estimates for FY 2012-13 come from less complete models. As in the past the economic growth assumptions used to develop the revenue planning estimates are updated to be consistent with the GII February baseline scenario for the years under consideration. The revenue planning estimates should not be interpreted as explicit forecasts, but rather as a guide to indicate whether proposed actions are likely to create financial problems outside the current biennium.

Expenditure estimates in most areas are shown at the level of the appropriations made by the 2009 legislature for FY 2010-11, plus any authorized spending carried forward from prior years. Entitlement programs—such as K-12 education, intergovernmental aids, health care, and family support–are forecast based on expected changes in eligibility, enrollment and average costs.

While wage and price inflation is included in revenue estimates, it is not included in projected expenditures. The estimated inflation rate for FY 2012 and FY 2013 are now 2.1 percent and 1.9 percent per year respectively.

As with all budget forecasts this report reflects only current law. It does not reflect the Governor's budget recommendations, any potential legislative action. The forecast provides a current law framework for those discussions.

ECONOMIC SUMMARY

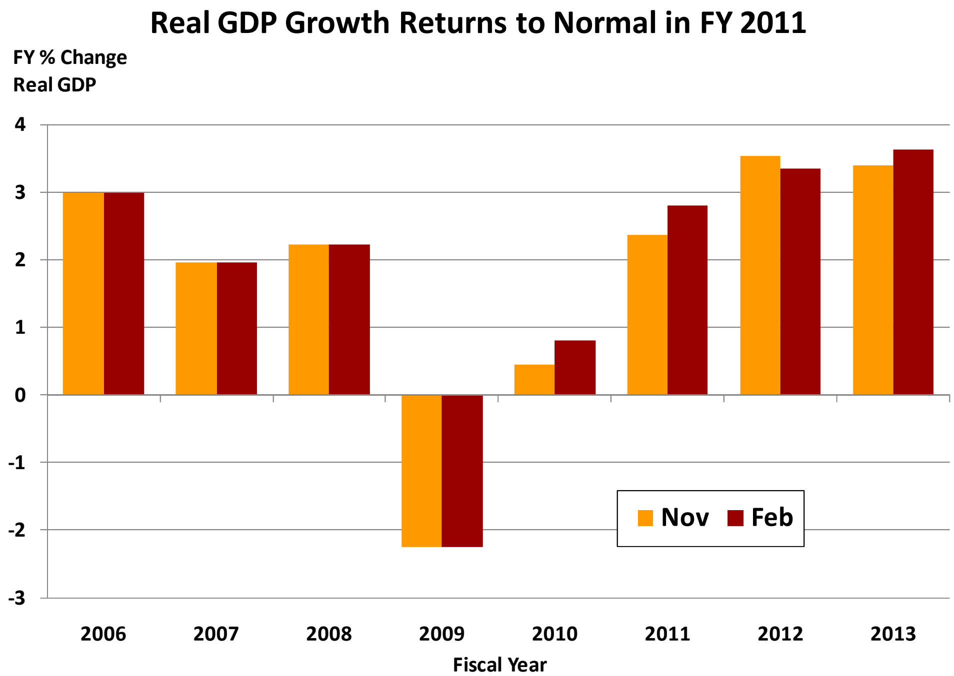
Last February everyone knew we were in a recession, but no one knew how deep that recession would be or how long it would last. Only now, as the economy begins to recover, can we look back and grasp the severity of the economic situation the country faced just one year ago. Job losses had averaged more than 725,000 per month in November, December, and January. Wages were declining from year earlier levels. And household net worth had fallen by more than $18 trillion from its spring 2007 high. Not surprisingly, consumer sentiment was at an all time low, as was the capacity utilization index. Consumer spending had declined at more than a 3 percent annual rate in each of the prior two quarters, housing starts were at their lowest level since World War II, and light vehicle sales were proceeding at an annual rate of less than 60 percent of the average sales rate of the last decade.

The steady cascade of bad news left forecasts appearing unrealistically optimistic before they were even a month old. The forecasts of IHS Global Insight (GII), Minnesota's national macro-economic consultant, were no exception. Each month, from November, 2008 through February, 2009, GII's new baseline or most probable forecast was more pessimistic than the prior month's pessimistic option. Fortunately that downward spiral stopped in March but at the time February's revenue forecast was prepared there was no consensus on how long it would take for the U.S. economy's decline to bottom out or on how deep the slump would be.

Twelve months ago forecasters were focused on identifying when real GDP growth would turn positive and when employment would once again start to grow, and there was general agreement on the likely timing of both those events. Most believed that economic output would begin to increase during the summer of 2009, and it did. And, most believed that job growth would first be visible during the spring of 2010, and there are strong signs that that forecast will also come true.

Now, the challenge for forecasters is predicting how long it takes the economy to recover. The consensus outlook is for a long, slow, U-shaped recovery with U.S. payroll employment taking until late 2012 or early 2013 to return to pre-recession levels. Some economists note, however, that historically, steep declines in the economy have been followed by very rapid increases in output and employment once growth is underway. Such a V-shaped recovery would reduce the time needed to regain jobs lost in this recession, but even under that optimistic scenario it would take at least two more years for employment levels to reach their previous high.

February's baseline scenario from Global Insight is very consistent with the consensus outlook for a longer, more subdued recovery. For 2010 GII expects real GDP to grow at an annual rate of 3.0 percent. In 2011 real growth at a 2.8 percent rate is called for. GII's 2010 forecast is identical to the Blue Chip Consensus forecast and their 2011 forecast is just 0.3 percentage points less than the Blue Chip Consensus of 3.1 percent. As in November, Global Insight continues to see strong growth in 2012 with real GDP growing at an annual rate of 3.7 percent. Inflation is expected to remain under control throughout the2010-2013 forecast horizon with annual CPI increases projected by GII to remain under 2 percent.



Global Insight increased the probability assigned to the baseline forecast to 65 percent in February. The probability assigned to its more optimistic "V-Shaped Recovery" scenario remains at 20 percent while the probability assigned to the pessimistic "Double-Dip Recession was reduced to 15 percent.

Members of Minnesota's Council of Economic Advisors agreed that Global Insight's February baseline forecast is consistent with the current outlook for the U.S. economy through 2011. Some members were more optimistic than Global Insight and others less optimistic, but all believed that the February baseline was an appropriate national forecast to use in the state's revenue forecast. Most Council members believed the probability that the economy would outperform the baseline was slightly less than the probability that the baseline was too optimistic.

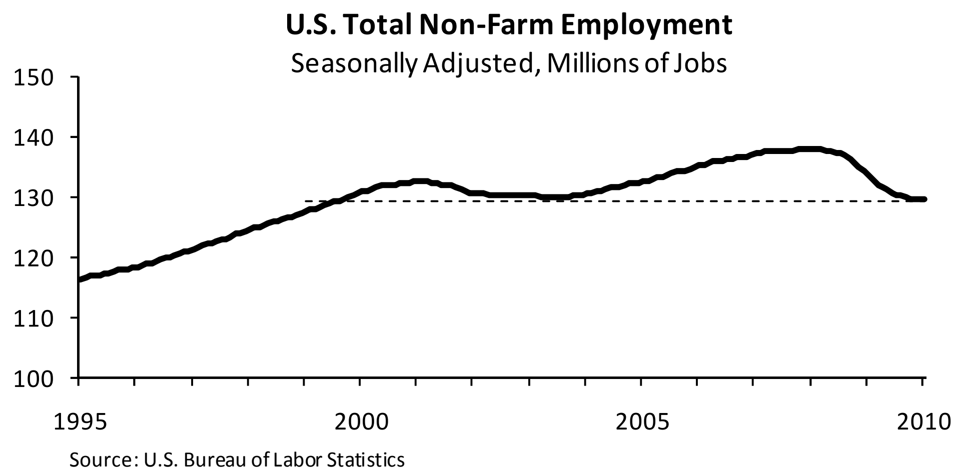
Council discussion centered on circumstances under which the recovery would be slower than currently projected. While all expected the economy to continue to grow through the 2010-11 forecast horizon, Council members worried that potential problems with commercial and industrial mortgages and community banks could slow the recovery more than projected by Global Insight. All acknowledged that U.S. consumers had resumed spending, but several members were concerned that the need to rebuild retirement accounts was likely to limit growth in consumer spending over the forecast horizon. There were also concerns about whether the economy will have generated enough momentum to carry it through the late summer period when the temporary Census jobs scheduled to be added this spring will be eliminated.

MMB economists pointed out that withholding collections indicate that Minnesota wages in the first quarter are likely to decline on a year over year basis. This would be the fifth consecutive quarter that aggregate wages in the state have fallen.

The Council again noted that projecting future expenditures without making allowance for inflation except where required under current law understate the severity of any financial problems the state may face in future biennia.

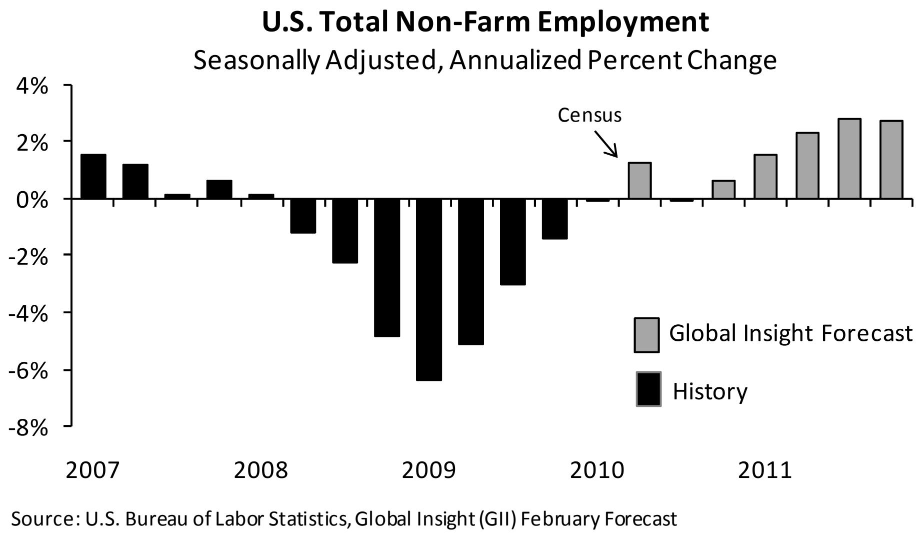
ECONOMIC OUTLOOK

Signs the economy has turned around appear regularly and economists believe the Great Recession is over. But while news this year has been much better, the timing and strength of the recovery remains highly uncertain. Most of third quarter GDP growth came from a onetime cash-for-clunkers boost in auto production. Two-thirds of fourth quarter growth came from a slowing inventory drawdown. Inventory adjustments cannot support the economy for long, and stronger consumer or investment spending will be necessary for continued economic growth. The 2009 Christmas retail season was better than a year earlier and consumer spending has improved since, but incomes are barely growing and sentiment remains at recession levels. Firms are extending the work week and buying some new equipment and software, but hiring and investment in capacity upgrades remains weak. And there are concerns about what will happen when the stimulus fades away. Global Insight (GII) is forecasting 3.0 percent GDP growth in the current quarter followed by 2.4 to 2.8 percent increases in each of the next 5 quarters, a modest recovery by historical standards. A stronger recovery will require accelerating job growth, which is not expected until 2011.



With employment at levels not seen since mid 1999, job losses have slowed, but hiring has yet to begin. Most forecasters believe net job gains are the key to self-sustaining recovery from the Great Recession.

Most forecasters believe that employment and income growth are keys to a self-sustaining, consumer-led, recovery. The first indication of impending job gains may occur when the four-week moving average of initial unemployment claims declines to about 400,000, something GII believes possible next month. Once underway, GII believes employment growth will proceed slowly for most of this year with the exception of a temporary second quarter boost from the Census. In early 2011, job gains accelerate, moving higher in subsequent quarters. Even with the pickup, however, it will take longer to reach pre-recession employment levels than in the "jobless" recovery following the 2001 recession. Since data lags actual activity, GII's February employment forecast implies that it may not even be clear this time next year that the recovery is self-sustaining.



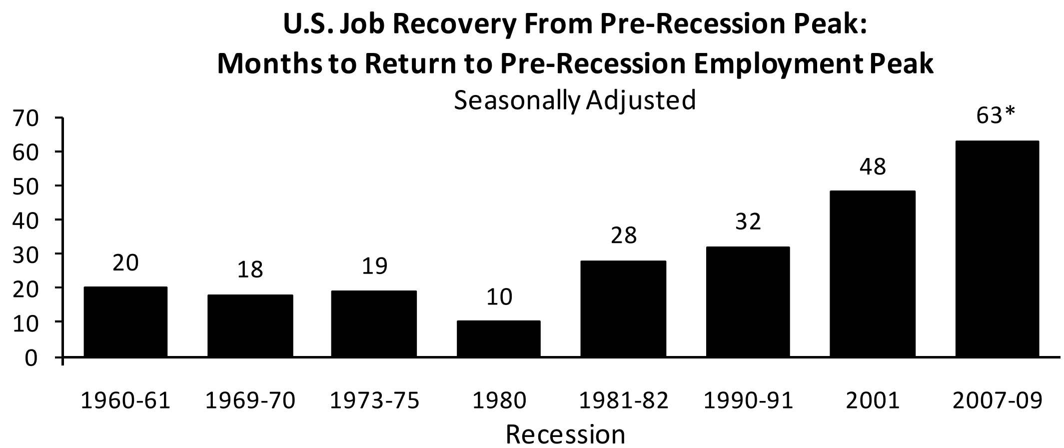
GII is forecasting hiring will proceed slowly this year with the exception of a temporary second quarter boost from the Census. Employment growth will then accelerate in early 2011.

Once the labor market improves, easier credit will be needed to keep the recovery moving. Large money center banks are returning to business as usual, but tight credit conditions prevail on Main Street. Improvement there will need to wait until the housing and commercial real estate markets stabilize and community and regional banks raise fresh capital to offset loan losses. Rising defaults and delinquencies on mortgages and commercial loans are depleting capital and constraining lending by thousands of smaller banks. In response, the Treasury has announced a $1 billion TARP funded lending program for small banks serving low income communities. President Obama has also proposed a broad $30 billion TARP funded program to aid community banks. Whether Congress will approve this bill in time to help small banks remains to be seen.

MMB economists believe there are several wild cards which could restrain the economy in 2010. The most important is consumer behavior. Consumers are now spending more, but sentiment remains at recession levels. Even if steady job gains begin, forecasters can not be sure that more spending will be triggered since another potential wave of foreclosures, further decline in home values, and weak household finances may compel consumers to opt to further increase savings. The souring commercial real estate market is also a serious concern, but it is too early to be sure how much impact it will have on credit conditions and the economy. Finally, while the labor market is too weak to support wage driven inflation, some economists believe an inflation-conscious Federal Reserve might raise interest rates before solid job gains get underway.

Lost Jobs Not Regained Until Early 2013

In GII's February forecast, it takes longer to reach pre-recession employment levels than in the jobless recovery following the 2001 recession. Given the length and depth of the Great Recession, this is not a surprise. And, a recent *BusinessWeek* article points out the time needed has trended upward for decades. GII's forecast expects that jobs will reach their pre-recession levels in early 2013. The unemployment rate is expected to decline only slowly, taking most of the decade to fall back down to pre-recession levels.



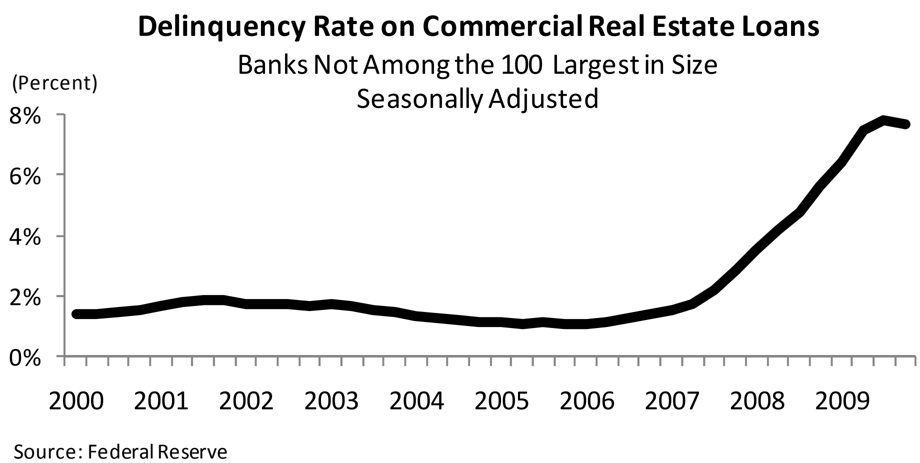
Source: U.S. Bureau of Labor Statistics, National Bureau of Economic Research
*Global Insight (GII) February Baseline

It will take longer to reach pre-recession employment levels than in any recovery since 1961, including the "jobless" recovery begun in 2001.

BusinessWeek notes there are multiple reasons for the slow recovery in the job market. Hiring will be slowed because the Great Recession exacerbated an already growing mismatch between skills possessed by available workers and skills needed to fill available job openings. A growing emphasis on controlling costs in an increasingly competitive global economy will also affect the pace of the recovery. Competition has led to leaner just-in-time inventories which reduce restocking during recoveries and to rising imports from developing countries which displace domestic production. Government job creation programs are unlikely to change those underlying trends.

Tight Community Bank Lending May Constrain Employment Growth

A *Wall Street Journal* survey revealed economists expect that some 2 million of the 8.4 million jobs lost in the Great Recession are unlikely to be restored. This will force many displaced workers to look for work in a different firm or industry. Ordinarily, one good place to look would be a small firm employing 500 people or less. In previous recoveries, small firms created a disproportionately large share of new jobs according to *BusinessWeek*. In this recovery, however, small business hiring is lagging. One reason for this is that community and regional banks are maintaining tight lending standards for commercial and industrial loans that small firms traditionally rely on. A recent report by the Congressional Oversight Panel (COP) predicts some 3,000 out of 8,000 banks in the U.S. are, or will be, forced to curtail lending largely because of commercial real estate related losses. Delinquency rates for commercial real estate loans, which seemingly peaked recently, are likely to rise further. According to COP, some $1.4 trillion in these loans will come due for refinancing by 2014 and about one-half of the loans will exceed the value of the properties. It appears most forecasters have yet to fully incorporate the weakness in the commercial real estate market, where prices are down some 40 percent, into their forecasts. In their February baseline, GII took a first step, sharply reducing the 2011 outlook for commercial building construction because of deteriorating prospects for financing.



Delinquency rates on commercial real estate loans at small banks, which seemingly peaked recently, are likely to rise further according to a report by the Congressional Oversight Panel. Losses must be written off against capital, reducing lending capacity to small business which historically has created a disproportionately large share of new jobs.

Just how much financing prospects are deteriorating is unclear, adding uncertainty about the timing and speed of the recovery. Available information is not particularly helpful. The Federal Reserve Senior Loan Officer Opinion Survey, the Federal Deposit Insurance Corporation (FDIC) bank watch list, and other bank data tracking websites, for instance, are not reflective of banking industry lending capacity. The COP offers no specific capacity measure either, instead recommending that regional and community banks be stress tested like large banks were last spring. GII uses no specific measure, instead building qualitative views of credit conditions into alternative scenarios.

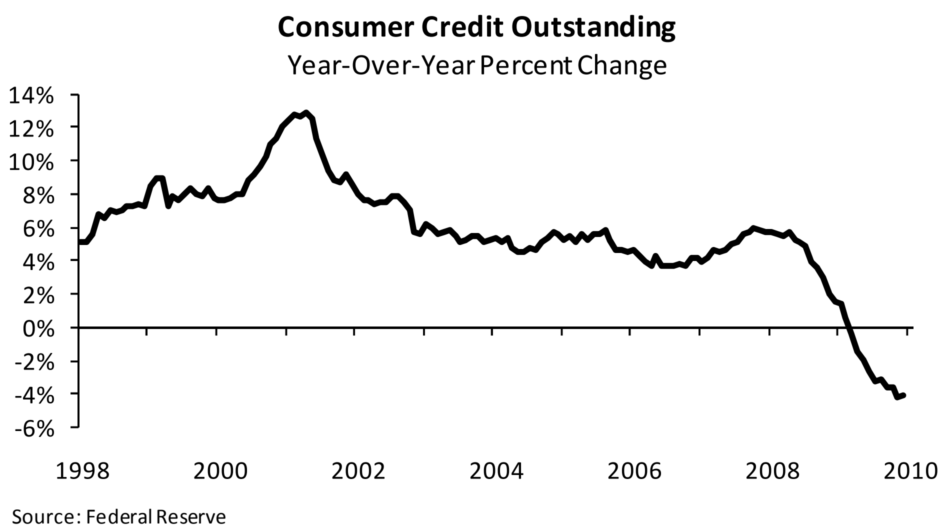
Consumption

Consumers held back during most of the Christmas shopping season, but a last minute spending surge produced a modest sales increase over 2008's dismal showing according to International Council of Shopping Centers (ICSC) data. With a better Christmas, real consumer spending grew at a 1.7 percent annualized rate in the fourth quarter of 2009. Although not robust, this is far better than the 3.1 percent decline in fourth quarter 2008.

Spending toward the end of 2009 clearly showed the lingering effects of the Great Recession with discount chains and wholesale clubs reporting significant sales increases as consumers shopped for value. Department stores and apparel outlets showed much smaller gains.

Even though value shopping continues, more recent ICSC results and retail sales data from the U.S. Department of Commerce show further increases in consumer spending in early 2010. Consumer sentiment, however, remains at recession levels and incomes are virtually stagnant. The University of Michigan Consumer Sentiment Index, for example, was at 73.6 in February, slightly below January's 74.4 reading and well below the pre-recession peak of 97 achieved in January 2007. This raises the possibility that unless incomes improve and consumers become willing to take on more debt, current spending growth may be unsustainable.

It remains unclear when consumers will become willing to take on more debt. More jobs alone may not help if incomes do not grow proportionately. Increased hiring will depend on when employers reach the limit of their ability to get more output from workers already in place. Income gains, however, will depend on how many newly employed workers have to settle for smaller paychecks in new jobs where their skills and experience are not a good match. Pessimism about future income helps explain why consumer credit outstanding is declining for only the second time in 40 years and much faster than during the 1990-1991 recession.

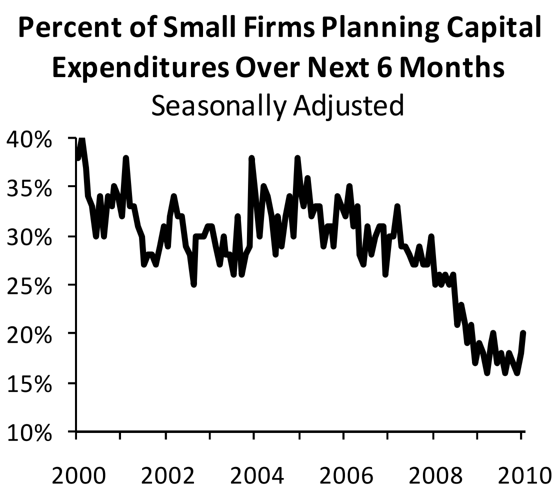


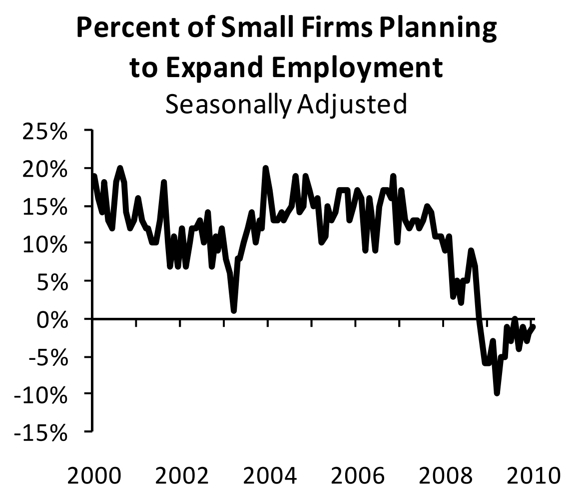
Consumer credit outstanding is declining for only the second time in 40 years and much faster than during the 1990-1991 recession. If consumers become willing to take on more debt, spending could get a strong boost.

Investment

It appears as though firms, especially smaller firms, are reluctant to make capital expenditures. Survey results from the National Federation of Independent Business indicate planned capital expenditures over the next six months are only slightly above a 35 year low. GII expects real business investment to grow only 1.5 percent in 2010 as gains in equipment spending are offset by declines in commercial building construction. The February baseline outlook assumes firms need to replace aging computers and software. Firms now have an improved cash position and can afford those investments, but extensive technology upgrades may be postponed until it becomes evident the economy can grow on its own after federal stimulus is withdrawn.

GII's February baseline includes a rebound in spending for new housing. Compared with November, however, the forecast has been pared back for 2010 and raised for 2011. After a 20.4 percent decline in real terms in 2009, GII is calling for a 4.8 percent increase in 2010, less than half the increase forecast in November. A 29.1 percent increase is forecast for 2011, up from 20.0 percent last November. The modified outlook seems consistent with a 2010 payback for the federal homebuyer's tax credit.





Source: National Federation of Independent Business;
© NFIB Research Foundation, ISBS #0940791-24-2

Survey results from the National Federation of Independent Business indicate planned capital expenditures over the next six months are only slightly above a 35 year low, though small firms are less reluctant to make capital expenditures then they are to hire.

Government

In late fall, unemployment benefits were extended by Congress so as to not expire before Christmas, but the extension expired and Congress is working on a new one. President Obama has new proposals totaling some $100 billion focused on boosting consumer and business lending by small banks, tax incentives for job creation by small business, infrastructure spending, and additional Medicaid funding. GII has not included the tax incentives for jobs creation proposal in the February baseline, arguing that it would only subsidize jobs that would have been created anyway. The situation is still fluid, but GII believes some $250 to $300 billion of unused or repaid TARP funds are available either for new fiscal stimulus or to reduce the federal fiscal 2010 deficit. Reducing the deficit will eventually be necessary since the current federal-debt-to-GDP ratio of some 90 percent cannot be sustained without sharply higher interest rates which would significantly reduce long term growth prospects.

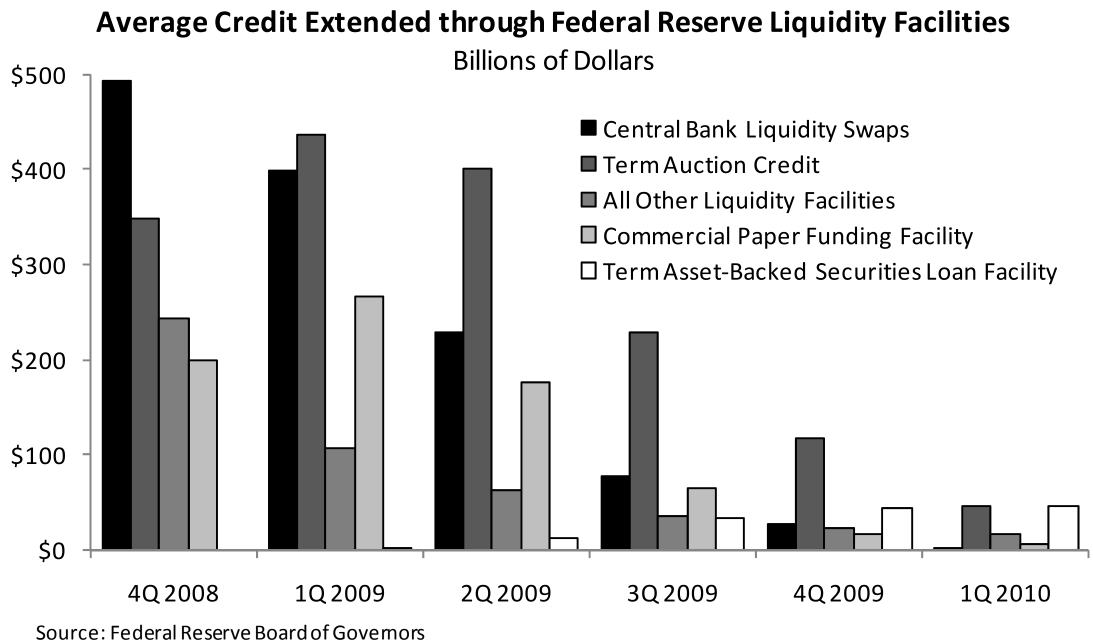
International

Foreign trade contributed only a small part of the fourth quarter's 5.9 percent real GDP growth. This contribution is not likely to be repeated as imports have now begun to exceed exports. GII assumes the trade deficit will widen through 2012 before beginning to narrow in 2013 when overseas demand picks up. The near term outlook could worsen with adverse consequences for GDP if the Euro-zone recovery from the Great Recession continues to falter. Led by Greece, sovereign default risk is rising in several countries where high unemployment rates threaten the social consensus needed to implement fiscal policies that begin to repair severely out of balance budgets. While it is unclear whether Euro-zone financial market difficulties would spread to U.S. financial markets, global markets are increasingly interconnected.

Monetary

Usage of most special Federal Reserve credit and liquidity facilities created in 2008 and 2009 has been declining, indicating improvement in money center financial markets. The very largest banks which received TARP funds have repaid the Treasury and are going back to business as usual including lending to hedge funds and private equity funds. According to *The Wall Street Journal*, the big banks are offering lending not seen in more than two years.

As financial markets improve, the Federal Reserve is winding down its assistance. That signal was given when the discount rate, the interest rate the Fed charges for emergency loans to banks, was raised .25 percentage point in mid-February. Other assistance has or will end soon as well. Most of the special liquidity facilities expired February 1, the Term-Asset-Backed Securities Loan Facility (TALF) which lent to holders of bonds backed by consumer and small business loans will expire March 31, and loans to holders of commercial real estate securities will end June 30. By law, TARP ends October 30. In addition, the Fed has promised to stop buying mortgages which Fannie Mae and Freddie Mac turn into securities by March 31 provided the economy does not weaken and mortgage rates remain relatively stable.



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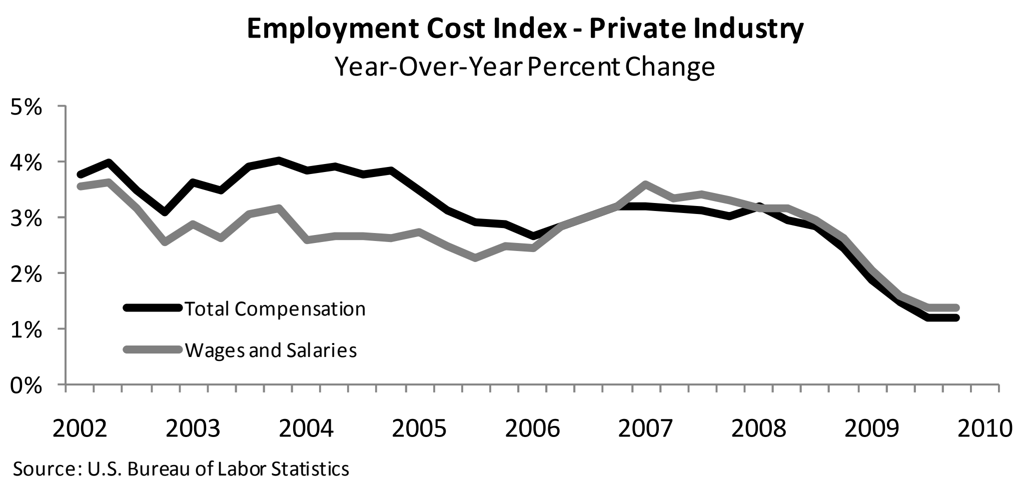
Meanwhile, *The Wall Street Journal* reports bank regulators are requiring many regional and community banks to raise capital to cover expected losses not only on loans they made themselves, but also including losses on mortgage backed bonds and syndicated commercial loans bought before the housing and commercial real estate markets collapsed. The *Journal* reports, however, that many banks' capital raising efforts are handicapped by outstanding trust preferred securities whose holders would hold a senior position should the issuing banks fail. In many cases, the current owners of the securities are unknown and frequently prove very reluctant to sell at a deep discount if they are identified. At least some banks must extinguish their preferred securities if they are to raise the capital needed to avoid failure.

Some observers are concerned that an inflation-conscious Federal Reserve will prematurely raise interest rates before solid job gains appear. Despite Dr. Bernanke's public statements, there is no way to be sure just what the Fed's priorities are, but recent Federal Open Market Committee (FOMC) minutes suggest an interest rate increase is not imminent. Although becoming more optimistic, FOMC minutes indicate weak job growth is a source of uncertainty in the outlook for consumer spending. The FOMC also indicates rising loan losses and pressure to raise capital mean tight bank credit may constrain spending by households and firms with adverse impacts on hiring and business investment.

Inflation

Recent FOMC minutes suggest the Fed shares its view of inflation with most forecasters who believe there is still significant downward pressure on the price level. A substantial slack in labor markets is suggested by the high unemployment rate, a 25-year low in the employment to population ratio, and low weekly hours worked by production workers. Low capacity utilization indicates significant slack in product markets, so firms are having a hard time making price increases stick. Workers are willing to settle for no raises or very small raises in this slack labor market. The employment cost index declined in 2009 as firms found ways to hold down payrolls by squeezing more output from fewer workers. According to GII, an uptick in employment costs at year's end is not enough to suggest accelerating inflation, but does suggest a slightly lower risk of falling into a Japanese style deflation. January's decline in the core inflation rate, the first since 1982, caught analysts by surprise, but is generally viewed as an aberration.

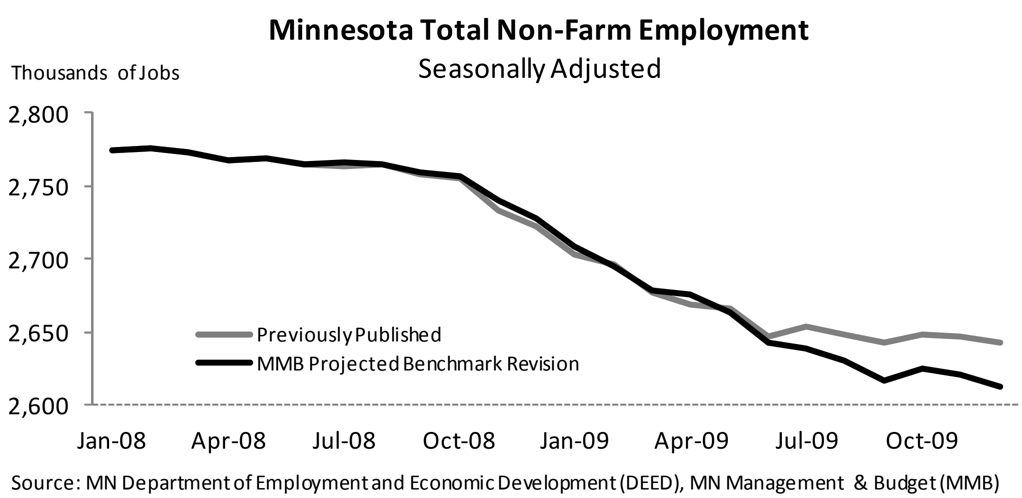


The employment cost index declined sharply in 2009 as firms found ways to hold down payrolls by squeezing more output from fewer workers. It is unclear how long recent productivity increases can continue, but when they decelerate, most economists believe hiring will gain strength.

MINNESOTA OUTLOOK

After two years, the longest U.S. recession since the 1930s has ended, but a sluggish recovery is expected nationally and in Minnesota. Business confidence continues to be suppressed by weak sales, a lack of credit, policy uncertainty, and a clouded economic outlook. Until there are notable signs that the economic recovery is developing into a self-sustaining expansion, employers in the state will remain cautious about further investing or hiring. Minnesotan's will remain stressed by stubbornly high concentrations of home foreclosures, difficult lending conditions, high debt burdens, depleted wealth, and severe unemployment and underemployment in the job market through much of 2010. Slow job creation is likely to limit the income growth necessary to support a robust consumer led recovery.

Forecasts for state employment and wages have been revised based on recent Minnesota specific information and Global Insight's (GII) February 2010 baseline. The February baseline was used to drive the same Minnesota Management and Budget (MMB) model of the Minnesota economy used in November. That model, however, has been updated to incorporate preliminary benchmark revisions to Minnesota's nonfarm payroll employment provided by the Minnesota Department of Employment and Economic Development (DEED). Although a similar assumption concerning this revision was incorporated into the November forecast, DEED's revised jobs data through January concludes that while the state's labor market performed slightly better than previously thought in late 2008, the employment collapse in 2009 was much more severe than reported earlier. As in November, MMB economists believe Minnesota has reached the recession's low point for employment in the current quarter.

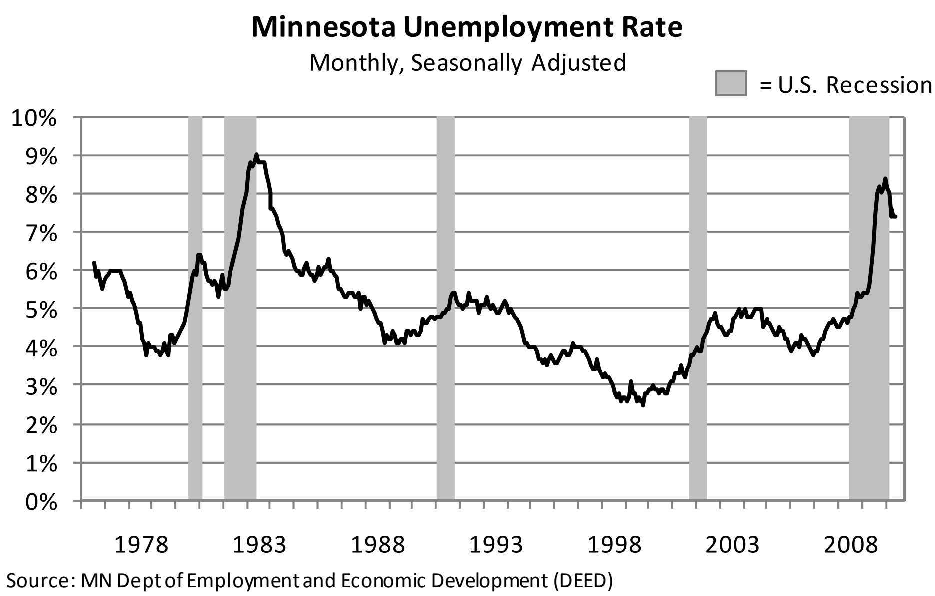


Preliminary benchmark data revisions to Minnesota's nonfarm payroll employment through January show that while the state's labor market performed slightly better than previously thought in late 2008, the employment collapse in 2009 was much more severe than reported earlier.

Measured on a seasonally adjusted basis the state will have lost an estimated 162,000 jobs peak-to-trough between the first quarter 2008 and the first quarter of 2010, reversing over a decade's worth of job creation. Despite a temporary employment boost from government hiring for the national census this spring, the February forecast estimates that it could take until early 2013 before payroll employment returns to peak pre-recession levels in Minnesota.

Turning the Corner, Stuck in Neutral

The summer of 2009 marked an important turning point for Minnesota's labor market. After soaring to record highs the number of first time filers for unemployment insurance began to recede in May, the state's seasonally adjusted unemployment rate peaked at a 26-year high in June, and an extended period of intense mass layoffs started to abate by September. Despite that progress, however, job conditions over the latter part of the year remained generally unresponsive to the recovery underway. Considerable loss of income earlier in the year continued to dampen consumer spending, economic uncertainty overwhelmed employers' willingness to expand, and still-weakening labor markets weighed heavily on confidence. As of the beginning of 2010, Minnesota's labor market seems stuck in neutral. Many important sectors, including retail trade and construction, continue to shed employment, a record number of Minnesotans remain on extended jobless benefit rolls, and more and more jobseekers have grown discouraged.



The summer of 2009 marked an important turning point for Minnesota's labor market. In June, the state's seasonally adjusted unemployment rate peaked at a 26-year high. Even as Minnesota's job market begins to rebound later this year and perceptions of growing job opportunities improve, the rate is likely to increase further over the course of 2010.

Minnesota's lackluster job market is most apparent in the monthly unemployment statistics. DEED estimates that in January a seasonally adjusted 216,000 residents were actively seeking work in the state but unable to find employment. This is down from 251,000 in May 2009 but up from 136,000 seeking work just prior to the start of the recession over two years ago. While the state's seasonally adjusted unemployment rate fell slightly to 7.3 percent in January from December and remains well below the 9.7 percent national rate, it is difficult to fully gauge weakness in the labor market from this figure alone as it understates current underemployment and excludes discouraged jobseekers. MMB estimates there are 22,000 more Minnesotans who have grown frustrated with the job market, given up looking for work, and have dropped out of the labor force since the recession started and an additional 90,000 underemployed workers who have had to settle for part time work since late 2007. Altogether, MMB economists estimate that there are about 200,000 more Minnesotans since the start of the recession whose talents, skills, and experience are being underutilize at the present time. This equates to almost twice the normal pre-recession amount and suggests that nearly 1 out of every 7 Minnesotans who prefer a full time job is unable to find one.

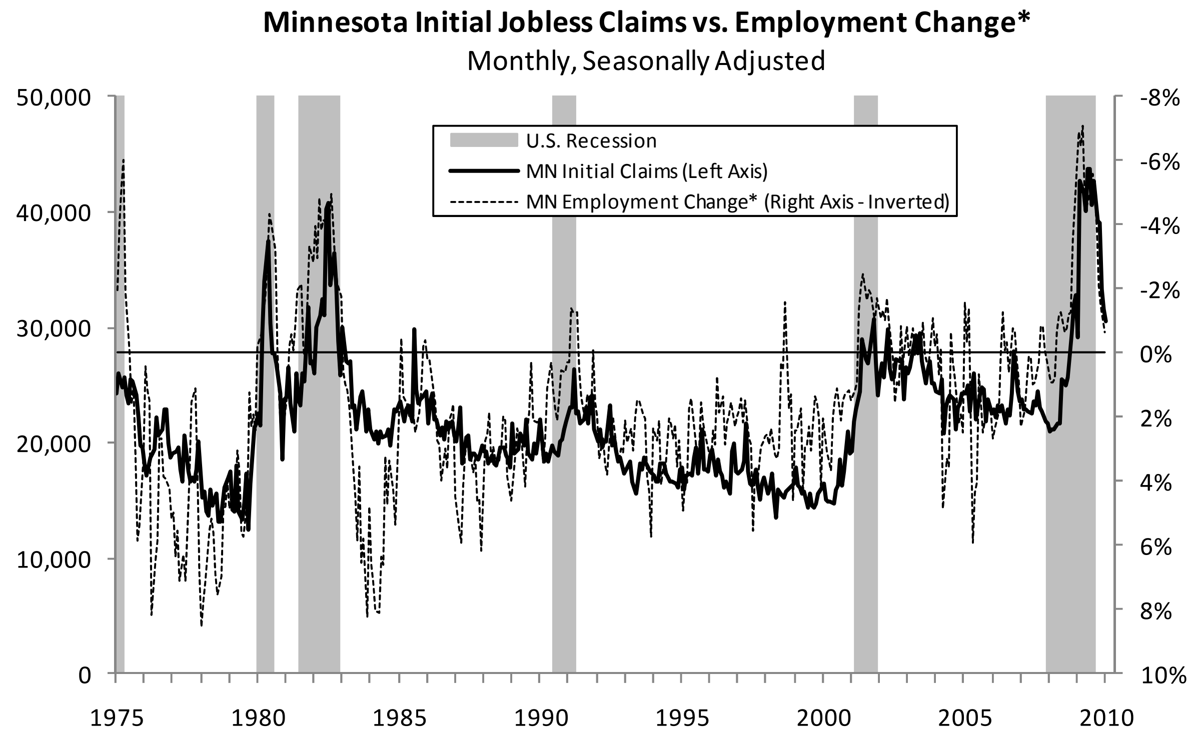
As Minnesota's job market begins to rebound later this year and perceptions of growing job opportunities improve, previously discouraged workers will begin to re-enter the workforce looking for full time employment. This is likely to result in further increases to the state's unemployment rate over the course of 2010. Beyond that, the underutilization of skills and experience in Minnesota's workforce could inhibit economic growth for the foreseeable future.

Signs of Job Recovery in Minnesota's Initial Jobless Claims

Despite a sluggish second half pace in 2009, Minnesota's labor market continues to show modest signs of improvement. The pace of job cuts is slowing and initial claims for unemployment insurance benefits are retreating from historic heights. According to DEED, the number of first time filers for unemployment insurance benefits in the state fell to a seasonally adjusted monthly rate of 30,500 in January 2010, the lowest level in 12 months and down from a recessionary peak of nearly 44,000 early last summer.

Often considered a leading indicator of employment growth, Minnesota's initial jobless claims data may function as a useful barometer of the state's job recovery. Historical evidence suggests Minnesota's seasonally adjusted monthly initial claims must drop to near 28,000 before unemployment stabilizes and consistent month-to-month job losses fade. Since employers seem to have exhausted cost-cutting measures and with the government set to create some 8,500 temporary jobs this spring to conduct the 2010 Census, this threshold is likely to be met sometime before mid-summer.

Further progress on the jobs front, however, is likely to depend on Minnesota employers' belief in the staying power of the economic recovery. Following the 2001 recession, for example, even though monthly initial jobless benefits in the state dropped below 28,000 during the early months of 2002 and month-to-month job losses faded later that spring, initial claims remained consistently above 26,000 until mid 2003 in part due to what is believed to be the lingering uncertainty resulting from the buildup to the Iraq War. Similarly, meaningful job growth did not accelerate in Minnesota until late 2003. If seasonally adjusted initial jobless claims in Minnesota fall below 26,000 for an extended period in late 2010 or early 2011 before settling in for the recovery, this may provide early indication that employer confidence has been restored and that hiring and investment in the state is likely to turn up.



* MN Employment Change is Annualized Percent Change of 3-Month Moving Average
Source: MN Dept of Employment and Economic Development (DEED)

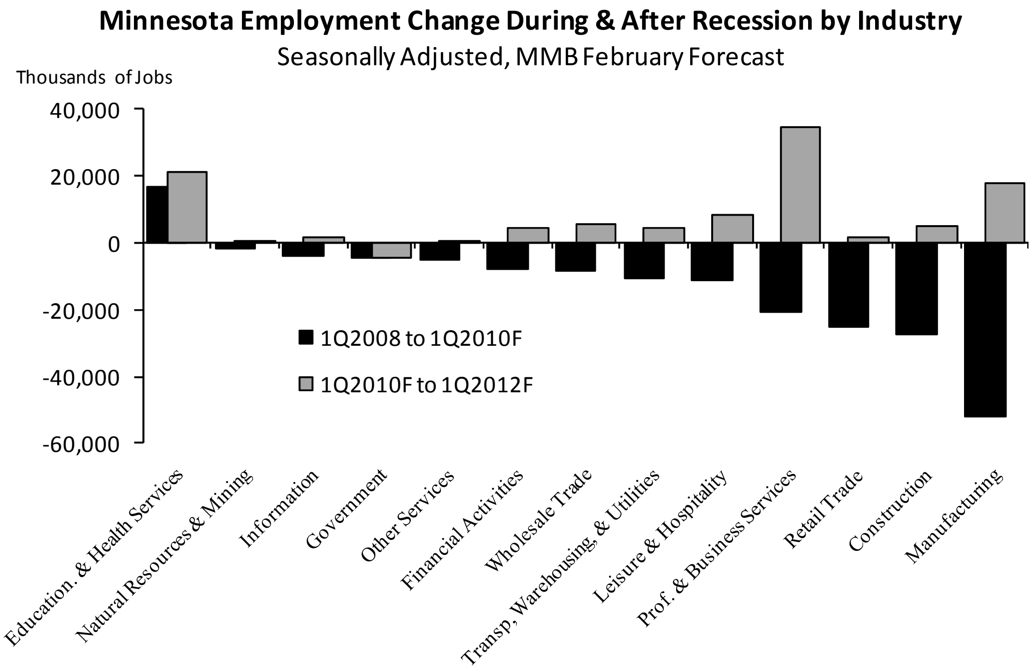
Often considered a leading indicator of employment growth, Minnesota's initial jobless claims data may function as a useful barometer of the state's job recovery. Historical evidence suggests seasonally adjusted monthly initial claims must drop to near 28,000 in Minnesota before unemployment stabilizes and consistent month-to-month job losses fade. Similarly, if initial claims are able to fall below 26,000 for an extended period in late 2010 or early 2011 before settling in for the recovery, this may provide early indication that employer confidence has been restored and that hiring and investment in the state is likely to turn up.

The New Normal?

Despite turning a corner, Minnesota's labor market outlook is far from normal. An often-cited explanation for a slow employment rebound is that job creation can lag an economic turnaround by as much as 6 to 9 months as employers squeeze maximum productivity from their remaining workforce. Unique to this job recovery, however, is that lending conditions remain tight as fall-out from the late-2008 financial crisis continues to place restrictive pressure on many banks' balance sheets. Similarly, unlike the end of most recessions when consumers begin to spend with confidence again, household finances remain stressed from high debt burdens, a lack of credit, depleted wealth, and a discouraging labor market. Finally, a recent study from the Mortgage Bankers Association's reports that mortgage delinquencies in Minnesota reached an all-time high in late 2009. With as many as 1 in 6 Minnesota homeowners owing more on their home than it is worth and foreclosures and short sales still representing nearly half of all sales in the Twin Cities, a persistently high level of defaults continue to pose significant downside risk to a sustainable housing recovery. These forces create added uncertainty, leaving employers reluctant to expand payrolls.

Minnesota businesses are finding ways to do more with less, but for many of those currently looking for a job the concern is whether displaced workers will be rehired once demand picks back up. Of the 162,000 Minnesota jobs lost over the past two years, two-thirds of the declines came in just three industries: manufacturing (down 52,000), construction (down 27,000) and retail trade (down 25,000). Although the state is forecast to recover almost two-thirds of the jobs lost during the recession over the next two years, the three industries with the largest losses are only projected to regain about a quarter of their employment. Construction, for example, inflated by a national housing bubble, was hit very hard by the recession and is not likely to quickly return to the same employment levels the industry experienced just before the downturn. As a result, many laid off construction workers may ultimately need to be retrained into jobs in other growing sectors, such as healthcare or professional and business services, with different education and skill requirements. Matching these idle workers from hard hit industries with new jobs in higher demand areas will be a slow process. Economic uncertainty makes it more difficult for individuals to target retraining efforts in new fields where jobs are “expected” to be three months to two years from now, especially in a labor market saturated with unemployed people with more experience.

But, job retraining will be ineffective without job creation. February’s MMB forecast estimates that Minnesota will only add about 29,000 jobs over the next 12 months, or 2,400 jobs per month on average. While this is certainly better than losing jobs, Minnesota’s labor market needs to produce an estimated 24,000 jobs a year, or about 2,000 a month, to simply keep pace with population growth and new people entering the workforce. The slow pace of job creation in Minnesota for the remainder of 2010 and early 2011 will make it very difficult to put the state’s unemployed, displaced, and underutilized workers back to work promptly. Even with average growth of 6,000 per month in late 2011 through 2012, MMB economists believe it is likely that a higher state unemployment rate may become the new normal for the foreseeable future.



Source: MN Department of Employment and Economic Development (DEED), MN Management & Budget (MMB).

Of the estimated 162,000 jobs lost during this recession in Minnesota over the past two years, two-thirds of the declines came in just three industries: manufacturing (down 52,000), construction (down 27,000) and retail trade (down 25,000). Over the next two years, these three industries combined are only projected to regain about a quarter of their losses.

A Revised Forecast

Forecasts for employment and wages have been revised based on recent Minnesota-specific information and GII's February 2010 baseline. Preliminary benchmark data revisions to Minnesota's nonfarm payroll employment provided by the Minnesota Department of Employment and Economic Development (DEED) conclude that Minnesota's non-farm employment declined 4.1 percent in 2009. As in November, the revised employment figure for the year represents the worst annual jobs performance in terms of both percentage and total losses in the post-WWII era.

The forecast rebound in Minnesota employment is likely to be slow. February's forecast assumes that beginning this spring, supported initially by temporary government hiring for the Census, the state's labor market will begin to show net job creation. Although early job gains in 2010 will be modest throughout most of the summer, meaningful job growth should accelerate toward the end of 2010 and in early 2011. The Census is assumed to add an average of 6,800 jobs in the second quarter of 2010. Census employment then falls to 1,600 in the third quarter and 1,000 in the fourth quarter. Minnesota employment is forecast to decline 1.0 percent in 2010 from 2009 before growing 1.8 percent in 2011 and 2.9 percent in 2012. MMB estimates that Minnesota employment will not return to pre-recession highs until early 2013.

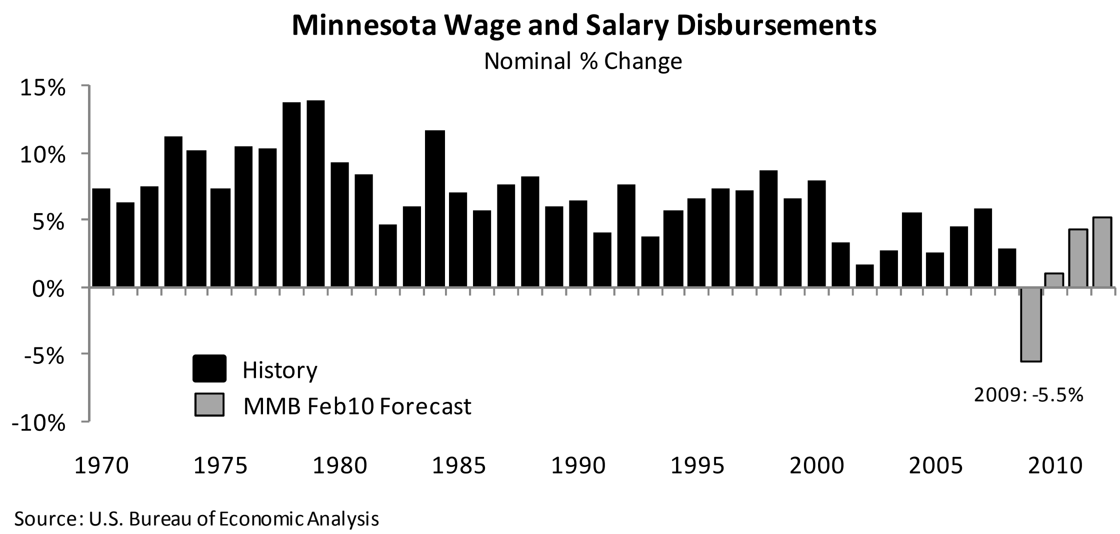
Minnesota Outlook Compared to the U.S.

(Calendar Year Percent Change)

	2008	2009	2010	2011	2012
Non-Farm Employment					
Minnesota					
February 2010	-0.3	-4.1	-1.0	1.8	2.9
November 2009	-0.4	-4.0	-0.7	1.7	2.8
United States					
February 2010	-0.6	-4.3	-0.7	1.5	2.8
November 2009	-0.4	-3.8	-0.9	1.7	2.6
Wage and Salary Income					
Minnesota					
February 2010	2.9	-5.5	1.0	4.3	5.2
November 2009	2.9	-5.5	1.8	4.0	4.9
United States					
February 2010	2.1	-3.3	3.1	4.2	5.1
November 2009	2.1	-4.5	2.0	4.1	4.8

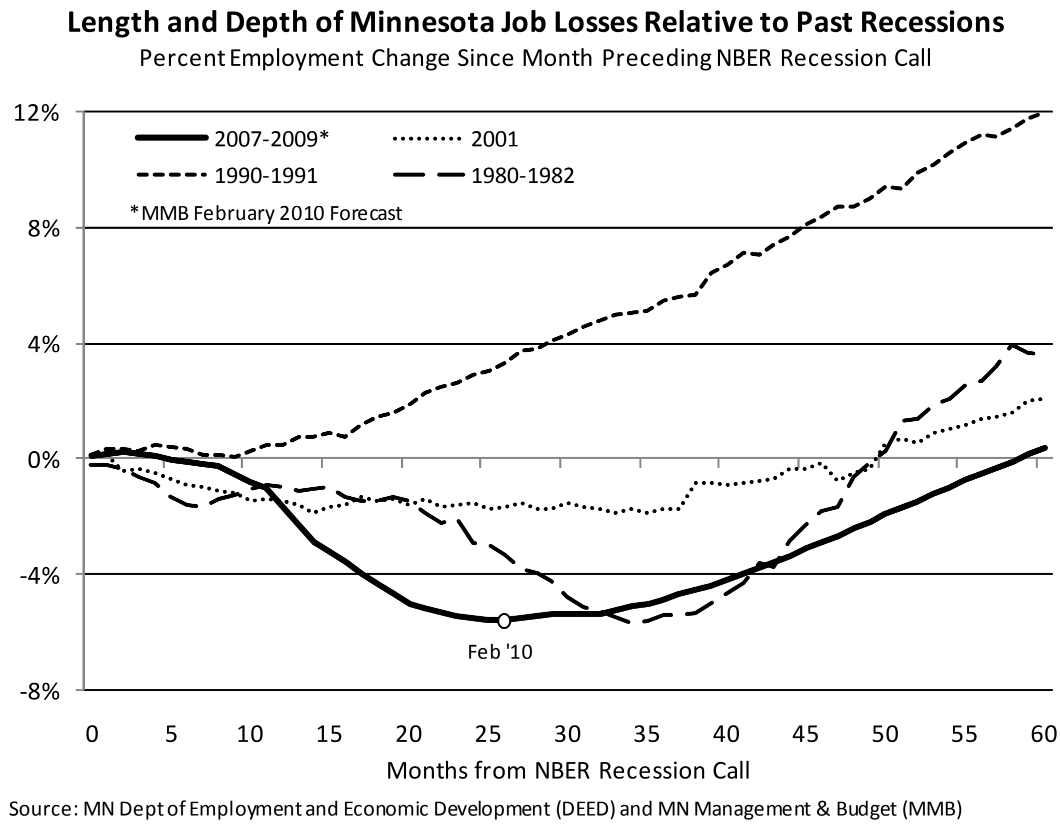
As in November, preliminary labor market data and income tax withholding collections suggest total nominal wage and salary disbursements in Minnesota fell 5.5 percent in 2009 from a year earlier, the first annual decline in this component of state personal income since the beginning of the published series by the US Bureau of Economic Analysis in 1969. In 2010, nominal wages are forecast to grow just 1.0 percent, representing the second lowest performance in 40 years of available data. Total wages in the state are forecast to grow by 4.3 percent in 2011 and 5.2 percent in 2012. MMB estimates that total wages paid in Minnesota will not return to pre-recession highs until mid 2011.

Residential home construction continues to remain a critical component of Minnesota's outlook. Despite the impact of the economic stimulus package, construction is forecast to lose an additional 3,100 jobs between the end of 2009 and the fall of 2010. There are three principal assumptions behind this outlook. First, as in November, MMB economists believe that home prices and inventories have neared an implied market balance in Minnesota and demand for new residential home construction should begin to slowly resurface this summer. As a result, after three and a half years of severe declines, the total number of authorized monthly residential building permits in Minnesota appears to have finally bottomed out in late 2009. But, recent experience suggests that job losses in construction have lagged the decline in building permits by between 9 and 12 months, thus a "catch up" period is assumed in the forecast. Second, GII's forecast assumes the impacts of a $780 billion fiscal stimulus package. Using analysis provided by GII and Mark Zandi, Chief Economist at Moody's Economy.com, MMB economists continue to estimate that Minnesota's share of the 2009 fiscal stimulus package will save or create approximately 45 thousand jobs in Minnesota by the end of 2010, although the impact of the quarter-to-quarter annualized growth rate has already peak. Approximately 7,500 of the total jobs saved or created are construction-related. The jobs impact is assumed implicitly captured within the model simulation of GII's February baseline forecast. GII does not incorporate another major stimulus package, such as a proposed jobs tax-credit or extra infrastructure spending, into their forecast. Finally, it is assumed that the state's housing slump continues to show signs of improvement, via sustained home price and inventory moderation, in early-to-mid 2010. Low mortgage rates, lower prices, and an extension to the federal homebuyer tax credit will continue to help stabilize the state's housing market. But, if mortgage foreclosures worsen and the housing downturn continues it is unlikely that Minnesota's economy will perform as forecast.



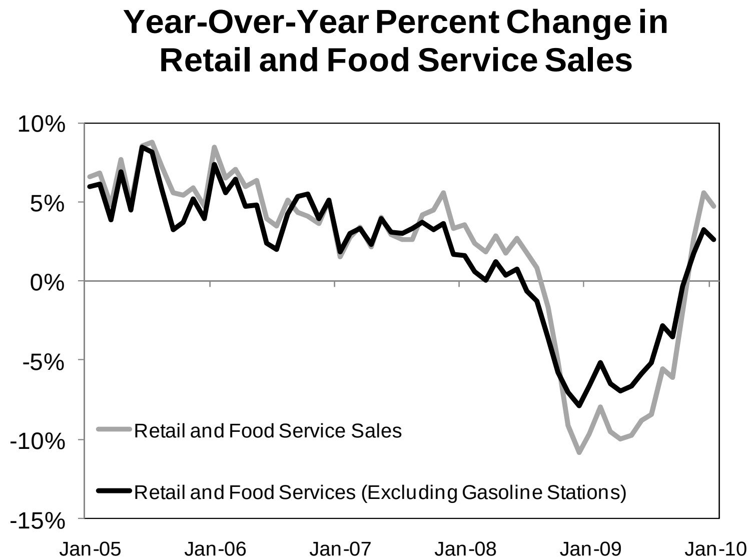
Until this recession, the state had not experienced an annual decline in nominal wage and salary disbursements since the beginning of the series in 1969. Preliminary labor market data and income tax withholding collections suggest this primary component of state personal income fell 5.5 percent in Minnesota during 2009. In 2010, nominal wages are forecast to grow just 1.0 percent, representing the second lowest performance in 40 years of available data.

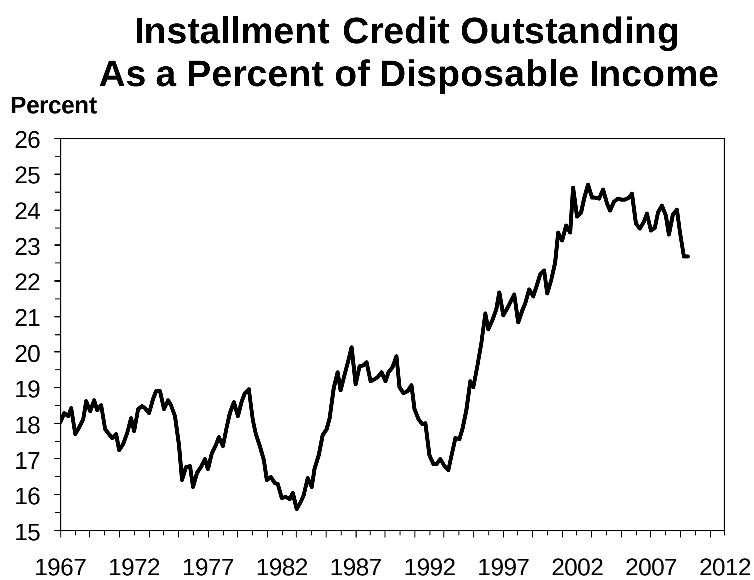
The forecast assumes the GII's February baseline materializes. Any unanticipated adverse developments in the U.S. economy, however, such as further deterioration in the financial markets, weaker business investment, a rapid increase in energy prices, or the credit constrained recovery in consumer spending proceeds more slowly than GII assumes, will have unfavorable effects on the Minnesota economy.

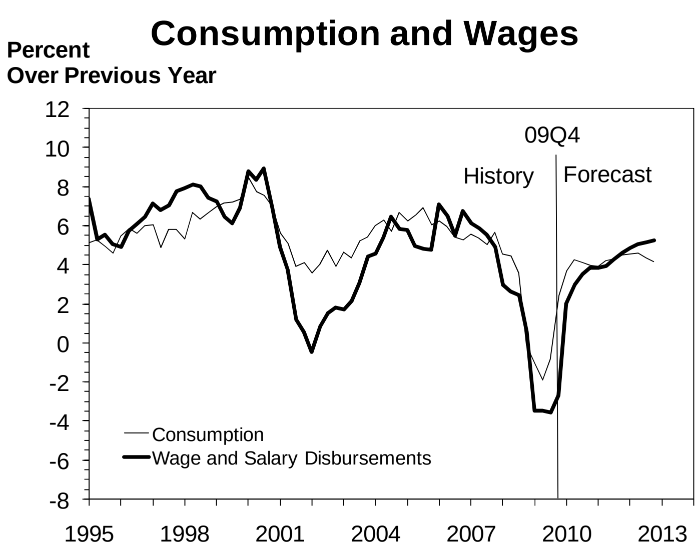


Measured on a seasonally adjusted basis, the state will have lost an estimated 162,000 jobs peak-to-trough between the first quarter 2008 and the first quarter of 2010, reversing over a decade's worth of job creation. Despite an employment boost from government hiring for the national census over much of this year, the February forecast estimates that it could take until early 2013 before the state returns to peak pre-recession job levels.

SELECTED NATIONAL ECONOMIC INDICATORS

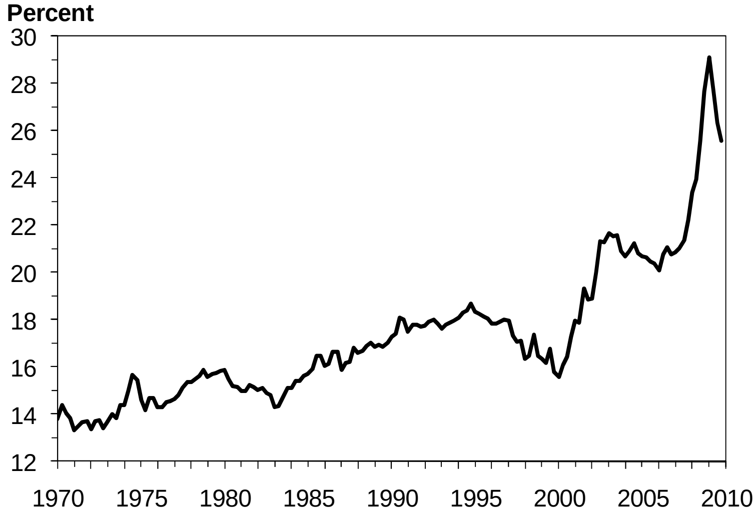




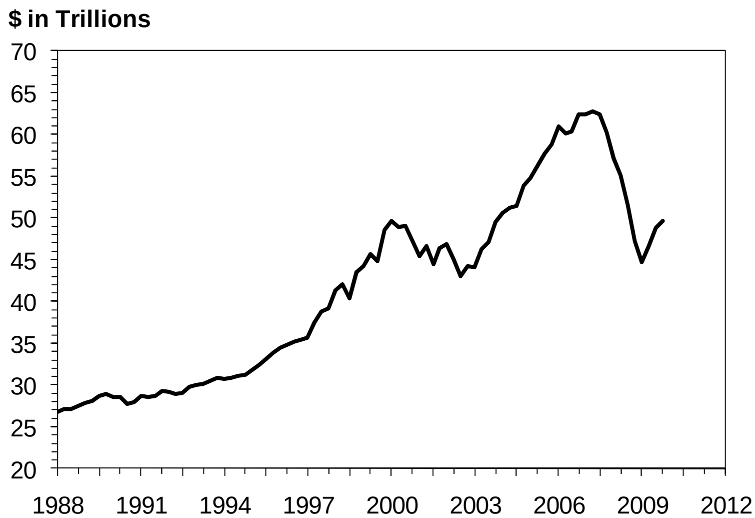


SELECTED NATIONAL ECONOMIC INDICATORS

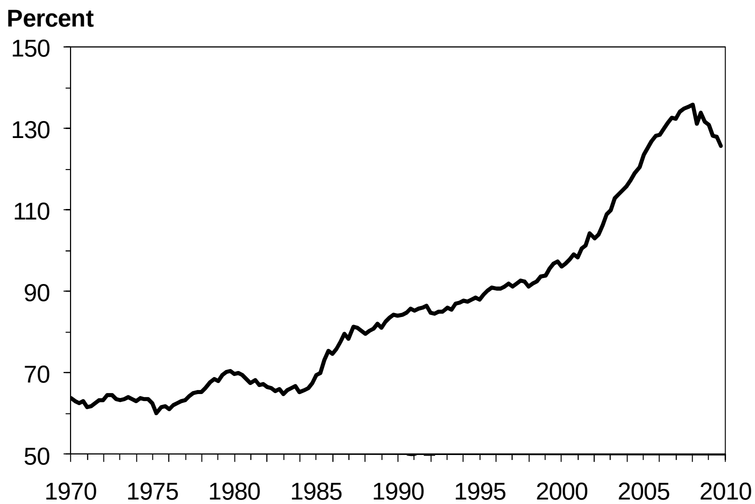
Household Financial Liabilities As a Share of Net Worth



Real Household Net Worth ($ 2005)



Household Financial Liabilities As a Share of Disposable Income



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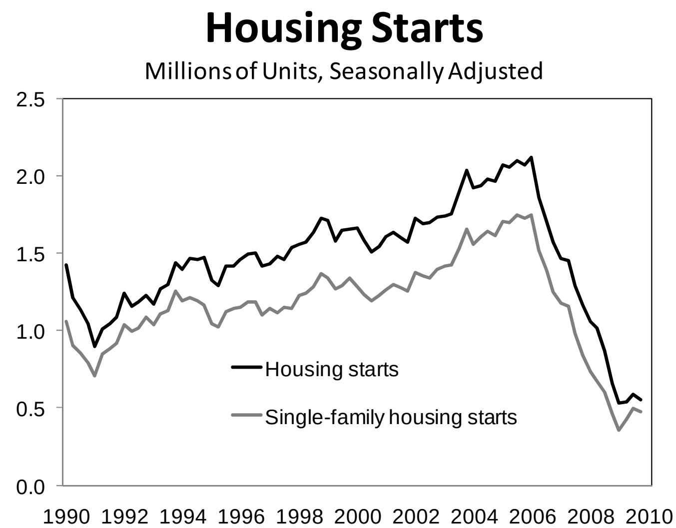
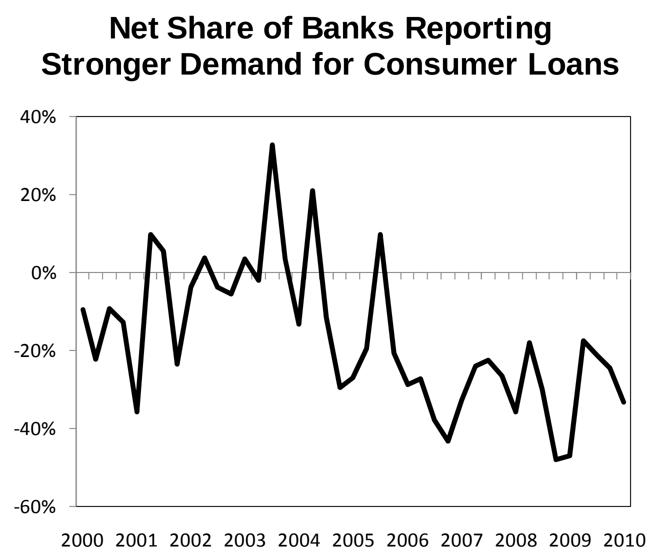
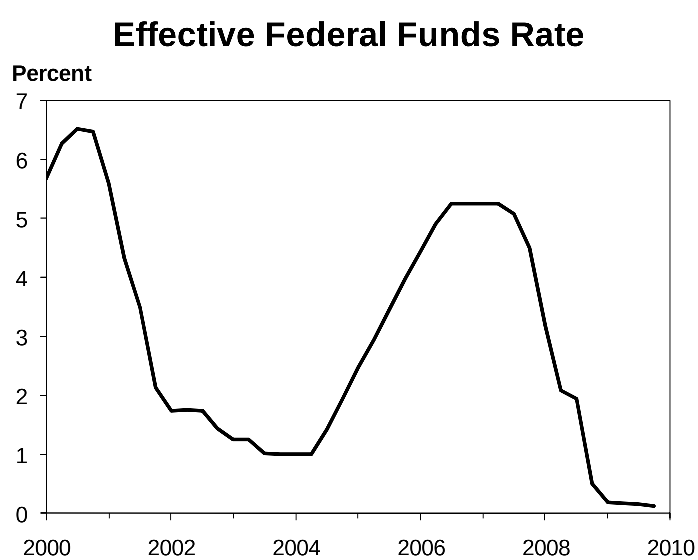
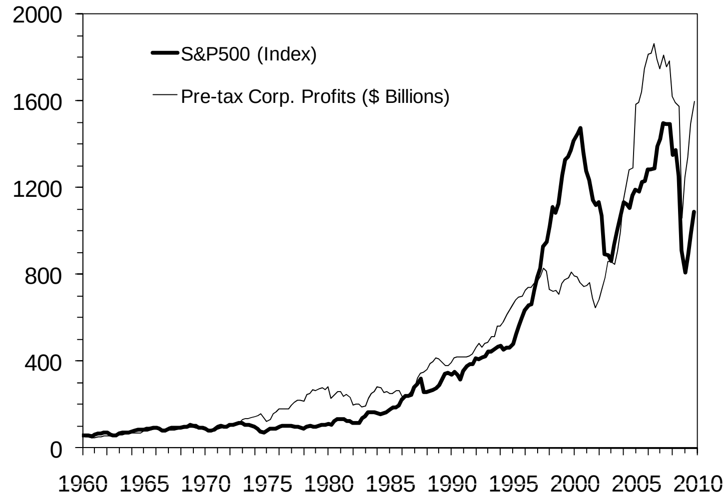




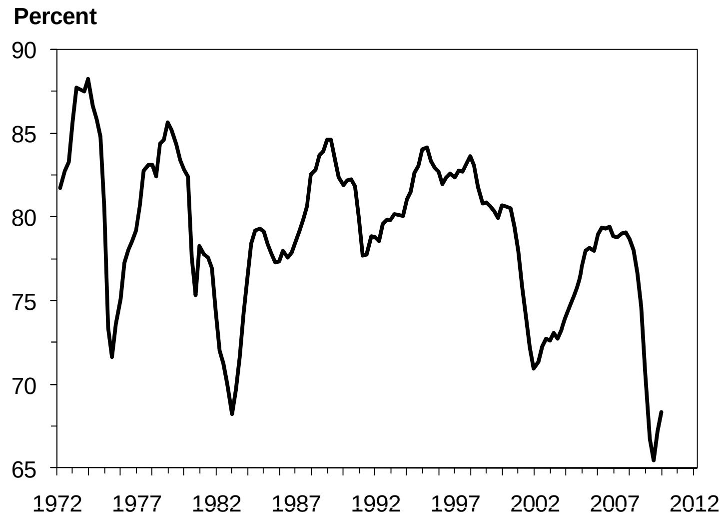


SELECTED NATIONAL ECONOMIC INDICATORS

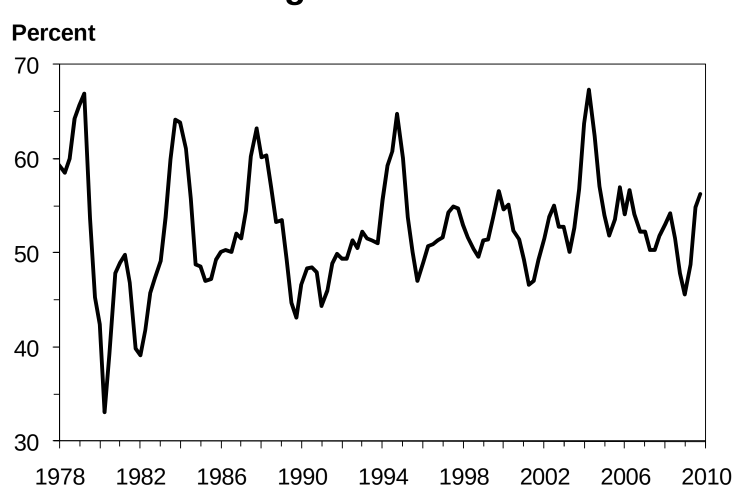
Corporate Profits and the Stock Market



Manufacturing Capacity Utilization



Proportion of Companies Receiving Slower Deliveries



FY 2010-11 BUDGET SUMMARY
FY 2012-13 PLANNING ESTIMATES

$994 Million Deficit Forecast for FY 2010-11

The projected FY 2010-11 budget deficit has been reduced by $209 million in this forecast. Non-dedicated revenues for the current biennium have increased $31 million, while projected transfers, dedicated revenue and other resources have declined $6 million, producing a net revenue gain of $25 million. Forecast spending decreased $184 million. These changes, when combined with November's projected deficit of $1.203 billion, result in a revised forecast deficit of $994 million.

FY 2010-11 Budget
($ in millions)

	November Forecast	February Forecast	$ Change
Beginning Balance	$447	$447	–
Revenues	29,986	30,011	25
Expenditures	31,286	31,102	(184)
Cash Flow Account	350	350	–
Balance	**$(1,203)**	**$(994)**	$(209)

Revenue Forecast Increased by $25 Million from November

General fund revenues are now forecast to total $30.011 billion in the 2010-11 biennium, $25 million (0.1 percent) more than projected in November. When compared to end-of-session estimates revenues are $1.131 billion (3.6 percent) less than projected.

Individual income tax receipts are now projected to be $47 million less than November's estimates, while sales tax estimates have increased $19 million. The largest change occurred in the forecast for corporate tax receipts which increased $127 million (10.0 percent) since November. Corporate income tax refunds are now forecast to be nearly $121 million less than end-of-session estimates. Small decreases in other tax revenues, fees, and dedicated revenues acted to reduce the net total revenue gain to $25 million.

Revenues Now Forecast to Decline by 6.4 Percent in Current Biennium

Revenue growth slows dramatically in the 2010-11 biennium. Some of that slowdown is from the phase-in of the constitutional dedication of the motor vehicle sales tax to transportation funding, and some due to one time events, but even after adjusting for those events biennial revenue growth is well below normal. Even though Global Insight is projecting only a short, mild recession the weaker economy eliminates about one year of revenue growth during the 2010-11 biennium.

Biennial Growth Revenues vs. Expenditures
($ in millions)

	Actual 2008-09	February 2010-11	Biennial Change	
Beginning Balance	$2,245	$447		
Revenues	32,068	30,011	(2,057)	(6.4%)
Expenditures	33,866	31,102	(2,764)	(8.2%)
Reserves	395	350		
Budgetary Balance	$52	$(994)		

Forecast Spending for FY 2010-11 Decreased $184 Million

Forecast spending for the biennium is now expected to be $31.102 billion, $184 million (0.6 percent) less than projected in November. Lower Health and Human Services spending contributed $150 million of this reduction. Lower K-12 education spending contributed $13 million of addition savings. Property tax aids and credits declined nearly $16 million. A modest $1 million increase in debt service offset part of these savings.

Reserves

The general fund budget reserve remains at $0, while the cash flow account is unchanged at $350 million.

FY 2012-13 Planning Estimates Also Indicate Lower Balances

Projected revenues for FY 2012-13 have been reduced $312 million (0.9 percent) from November's estimates, while spending has increased $51 million (0.1 percent). Reductions in projections of individual income taxes accounts for two-thirds ($194 million) of the decline in projected revenues - reflecting reductions in the FY 2011 base.

The net change in spending is small, a 0.1 percent increase over November projections. One-time savings reflected in FY 2010-11 forecasts do not continue into the next biennium. K-12 education spending is $106 million above November's estimate reflecting out-year costs of higher compensatory aid costs, higher state aid contribution for equalized levies, and expected increased participation in Qcomp entitlements.

Human service costs are $39 million lower reflecting slightly lower caseload and average costs reflecting savings in the FY 2010-11 estimates.

The planning estimates do not reflect any Governor's recommendations or potential legislative actions in the 2010 session. Since the forecast makes no assumption about possible budget actions to resolve the forecast deficit for FY 2010-11, the planning estimates for FY 2012-13 highlight only the difference between projected ongoing revenues and ongoing spending.

Change in FY 2012-13 Planning Estimates

($ in millions)

	End-of-Session	November Change	February Change	February Forecast
Projected Revenues	$34,305	$(1,087)	$(312)	$32,906
Projected Spending	38,736	(92)	51	38,695
Difference	**$(4,431)**	**$(995)**	**$(363)**	**$(5,789)**
Estimated Inflation (CPI)				*$1,181*

The gap between FY 2012-13 revenues and expenditures that was projected at the end of the legislative session has grown by more than $1.3 billion. At the end of session, after the Governor’s unallotment and administrative actions to balance the FY 2010-11 budget, planning estimates showed a projected budget gap of $4.431 billion in FY 2012-13; now, a shortfall of $5.789 billion is expected.

Current law projections for the next biennium do not include any adjustment for inflation. Inflation, based on the consumer price index is forecast to be 2.1 and 1.9 percent annually in FY 2012 and FY 2013 respectively, largely unchanged from November. If spending were uniformly adjusted for inflation, this would add about $1.181 billion to forecast spending, $413 million in FY 2012 and $768 million in FY 2013.

REVENUE FORECAST FY 2010-11

Total current general fund resources for the 2010-11 biennium are forecast to be $30.011 billion, $25 million (0.1 percent) more than projected in November and $1.131 billion (3.6 percent) less than end-of-session estimates after adjusting for the Governor's actions to balance the budget. Receipts from the five major taxes are expected to total $25.616 billion an increase of $103 million (0.4 percent) over November's forecast, but $721 million less than end of session estimates. Other tax and non-tax general fund revenues fall by $74 million (1.4 percent) from November's projections. Current general fund resources for the 2010-11 biennium are now projected to be 6.4 percent less than in the 2008-09 biennium and 7.1 percent less than in the 2006-07 biennium

Revenues FY 2010-11

($ in millions)

	FY 2008-09	FY 2010	FY 2011	FY 2010-11
Individual Income	$14,747	$6,720	$7,332	$14,052
Sales	8,915	4,155	4,381	8,536
Corporate	1,728	631	768	1,400
Motor Vehicle Sales	303	74	32	106
Statewide Levy	1,434	759	764	1,523
Five Major Taxes	27,127	12,338	13,278	25,616
Other Revenue	3,558	1,702	1,678	3,380
Tobacco	364	165	163	328
Net Non-dedicated	31,049	14,205	15,118	29,324
Other Resources	1,020	389	299	687
Current Resources	**$32,068**	**$14,594**	**$15,417**	**$30,011**

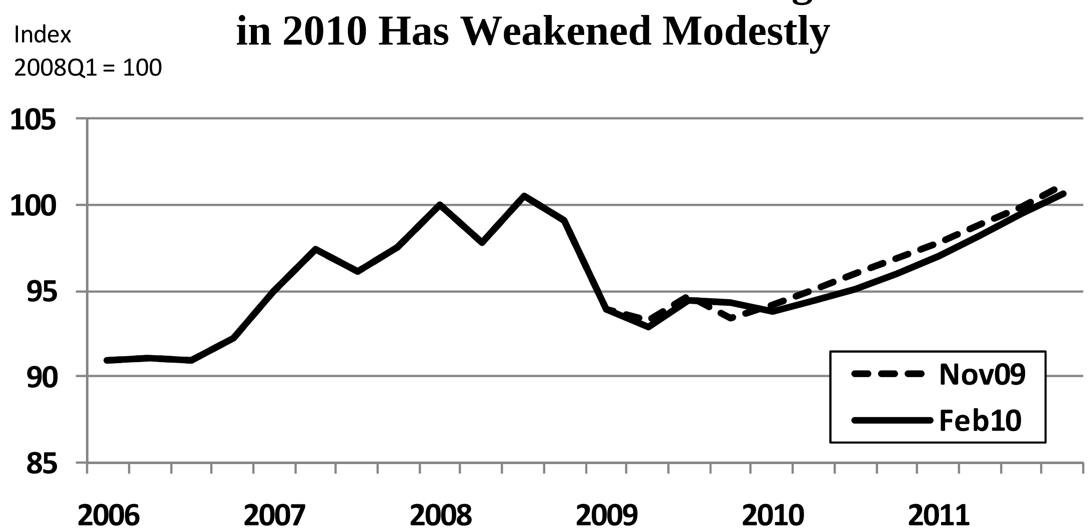
Most changes from November's forecast were minor. The corporate franchise tax posted the largest dollar and percentage increases, up $127 million (10.0 percent). Changes to the forecast for the state's two largest revenue sources, the income tax and the sales tax, were small and almost offsetting. Lower tobacco settlement revenues and fee revenues were the principle reasons for the shortfall in other tax and non tax revenues. Projected income tax receipts for this biennium are 4.7 percent less than actual receipts in the 2008-09 biennium, while the sales tax is forecast to be 4.3 percent below its 2008-09 level. Corporate tax receipts are 19.0 percent below 2008-09 levels and 37.3 percent below corporate tax receipts in FY 2006-07.

Changes in Economic Assumptions

Global Insight's February baseline forecast is slightly more optimistic than their November, 2009 forecast. Real GDP in 2010 is now expected to grow at an annual rate of 3.0 percent. In November, growth at an annual rate of 2.2 percent was projected. That stronger real growth is accompanied by a slight increase in the inflation outlook. The CPI is now expected to increase by 1.9 percent in 2010 and 1.7 percent in 2011. In November inflation rates of 1.5 percent and 2.0 percent was anticipated. Stronger sales of motor vehicles and other, non-auto durable goods lead to a modest increase in projected consumer sending in 2010 from levels expected in November, but there is still a question of whether consumers have either the income or the desire to substantially increase their spending. The Global Insight February baseline does not include passage of a second stimulus bill or healthcare reform.

Global Insight expects growth in U.S. wages and payroll employment in 2010 to be stronger than they factored into their November baseline forecast, while MMB's outlook for Minnesota employment and wage growth in 2010 has weakened modestly. The MMB forecast relies heavily on withholding tax collections as a guide to recent growth and the February forecast is consistent with recent individual income tax withholding collections. Differences between Minnesota wage growth and U.S. wage growth in 2009 and 2010 may be revised away as more complete data become available at the national level.

The Outlook for Minnesota Wages in 2010 Has Weakened Modestly



Inferring wages from observed Minnesota withholding collections was more difficult than usual in this forecast for two reasons. There was an extra Friday pay day in the fourth quarter of 2009 and there was additional withholding due to elimination of income tax reciprocity with Wisconsin. Both these events will produce additional withholding of a significant, but unknown amount. The greater the uncertainty about the "true underlying' value wage estimates based on withholding receipts.

Income Tax

Individual income tax receipts for the 2010-11 biennium are forecast to total $14.052 billion. $47 million (0.3 percent) less than was forecast in November. This forecast of income tax receipts is $874 million less than end-of-session estimates. While both wage and non-wage incomes are expected to grow over tax year 2009 levels in both the 2010 and 2011 tax years, growth rates in 2010 are slightly below those used in November's forecast. Minnesota wages are now estimated to grow by 1.0 percent in tax year 2010 and by 4.3 percent in tax year 2011. In November wage growth rates of 1.8 percent and 4.0 percent were anticipated.

Final tax year 2008 liability was almost identical to the estimate used in November, but some changes in the composition of the tax base were made reflecting more recent information including preliminary results from the Department of Revenue's 2008 sample. Base level values for tax year 2008 were lowered for capital gains, charitable contributions, property tax deductions and mortgage interest, and raised for dividend income. Capital gains realizations in Minnesota are now assumed to have fallen by 49 percent in 2008. For 2009, a further 25 percent decline is projected, followed by an increase of 47 percent in tax year 2010 and a decline of 16 percent in 2011.

Changes to expected accruals, and to carry forwards of net operating losses and losses victims of Ponzi schemes reduced the forecast by $29 million. Unemployment insurance income was increased by 26 percent to reflect a change in current law extending the availability of extended unemployment insurance benefits through July 2010.

Sales Tax

Net sales tax collections for the 2010-11 biennium are now expected to reach $8.536 billion, $19 million (0.2 percent) more than forecast in November and $12 million less than end of session estimates. Gross sales tax receipts are projected to be $34 million less than forecast in November, but that decline in receipts was offset by a $53 million reduction in expected sales tax refunds. The current biennium savings from the Governor's action delaying payment of sales tax refund payments for 90 days during the last three months of fiscal 2011 are now estimated to total $57 million.

As in prior years the nationwide growth in components of the sales tax base was allocated to Minnesota based on Minnesota's projected share of national personal income and wages. But, the substantial differences between U.S. wage growth rates and Minnesota wage growth rates during the first three quarters of the 2010 fiscal year appeared to allocate an unreasonably low share of growth in U.S. sales to Minnesota. MMB economists suspect that Minnesota wage growth has not substantially underperformed the U.S. average and that official estimates of U.S. wages for the first half of fiscal 2010 will be revised to levels which more closely correspond with observed growth in Minnesota withholding tax receipts. To correct for this Minnesota wages were assumed to maintain a constant share of U.S. wages through the first three quarters of FY 2010, then grow at the rate forecast through the remainder of the forecast horizon.

The receipts elasticities used were the same as in November and there were no changes in the estimated rate at which sales tax receipts were lost to e-commerce and catalog sales. Sales tax receipts for purchases made in the months of October, November, and December were more than $19 million less than projected in November. That base reduction was carried forward to fiscal 2011. Additional off-model adjustments totaling $48 million were made to adjust for an apparent upward bias in the sales tax model.

Corporate Franchise Tax

Net corporate franchise tax receipts during the 2010-11 biennium are now estimated to total $1.400 billion, $127 million (10.0 percent) more than forecast in November. Projected corporate tax receipts are now $181 million more than end-of-session estimates after adjusting for executive action by the Governor, but $328 million below corporate tax receipts in the 2008-09 biennium.

Global Insight's forecast for corporate profits after adjusting for foreign source income is slightly weaker than in their November baseline, and receipts of corporate payments have exceeded levels forecast in November by $17 million resulting in a $5 million increase in corporate receipts for this biennium. The forecast for corporate refunds was reduced by $121 million. Much of that change reflects a reduction to the base level of refunds assumed due to lower than anticipated refunds paid between October 2009 and January 2010. Projected biennial savings from the Governor's action delaying payment of corporate tax refunds for 90 days during the last three months of fiscal 2011 are now estimated to total $27 million.

Motor Vehicle Sales Tax

General fund receipts from Minnesota's sales tax on motor vehicles are now projected to total $106 million, $6 million more than November's forecast and $14 million more than end-of-session estimates. Actual receipts for November through January were about $500,000 more than forecast and that positive variance was incorporated into the forecast. Total motor vehicle sales tax receipts which include revenue dedicated to transportation funding is expected to total $976 million, $76 million more than forecast. Global Insight expects substantially stronger growth in unit car sales and in consumer spending for motor vehicles in their February baseline than they expected in November. MMB economists noted that Global Insight's assumption of large increases in used car dealer margins appeared to distort the growth rate in consumer spending on autos the variable normally used to project motor vehicle sales tax receipts. That potential distortion was corrected by re-estimating the MVST model using consumer spending on new autos as the driving variable.

Other Revenues

Other tax and non-tax revenues, including the statewide property tax, are expected to total $5.230 billion, $74 million less than forecast in November and $302 million less than end-of-session estimates. Tobacco settlement revenues and fee revenues showed the largest declines, down $26 million and $28 million respectively. Projected receipts from the cigarette and tobacco tax and the insurance gross premiums tax were each reduced by more than $10 million from November's estimates.

REVENUE PLANNING ESTIMATES FY 2012-13

Total current resources for the 2012-13 biennium are estimated to total $32.907 billion, an increase of $2.896 billion (9.7 percent) from the amount forecast for the 2010-11 biennium, but $311 million (0.9 percent) less than projected in November. General fund receipts for the five major taxes are now projected to be 12.0 percent more than the level expected for the 2010-11 biennium. If the impact of the complete elimination of motor vehicle sales tax revenues from the general fund is factored out major revenues for FY 2012-13 are 12.5 percent more than projections for FY 2010-11. These revenue planning estimates assume that economic growth rates in both the U.S. and Minnesota begin to follow more normal paths by mid 2011. But, because that growth builds on a substantially lower base than was used in preparing previous revenue planning estimates, projected revenues are below those projected in both February and November 2009.

Revenues FY 2012-13

($ in millions)

	FY 2010-11	FY 2012	FY 2013	FY 2012-13
Individual Income	$14,053	$7,666	$8,436	$16,102
Sales	8,536	4,488	4,759	9,247
Corporate	1,400	834	950	1,784
Motor Vehicle Sales	106	0	0	0
Statewide Levy	1,523	774	788	1,562
Five Major Taxes	25,616	13,762	14,933	28,695
Other Revenue	3,379	1,636	1,685	3,321
Tobacco	328	159	154	313
Net Non-dedicated	29,324	15,557	16,771	32,328
Other Resources	688	290	289	579
Current Resources	**$30,011**	**$15,846**	**$17,060**	**$32,907**

The individual income tax is the major source of revenue growth in the 2012-13 biennium. Projected income tax receipts are now forecast to be up 14.6 percent from levels now forecast for the 2010-11 biennium. Income tax revenue growth would have been even stronger in the absence of a scheduled increase in the federal capital gains tax rate in 2011. This tax rate increase is anticipated to produce a one-time acceleration in realizations in tax year 2010 as investors accelerate their taking of gains to avoid the higher future tax rate, in effect shifting realizations and tax liability into tax year 2010. In this forecast those additional realizations are assumed to be borrowed from realizations that would otherwise have occurred in the 2011 and 2012 tax years. Because changes in tax liability are assumed to be reflected in final payments and refunds, the revenue impact of capital gains changes in 2011 and 2012 are not observed until fiscal 2012 and fiscal 2013. Minnesota income tax receipts for FY2012 were reduced by $188 million and income tax liability in FY2013 by $75 million to adjust for the accelerated realization of gains into the 2010 tax year.

Sales tax receipts are projected to grow by 8.3 percent from the 2010-11 biennium, the statewide property tax is expected to increase by 2.6 percent, and the corporate franchise tax by 27.5 percent. Receipts from the motor vehicle sales tax are no longer a source of revenue for the state general fund.

No one can forecast the path of the economy five years into the future. The baseline revenue planning estimates presented above are not explicit forecasts; they are extrapolations of projected trends in the economy. Even small deviations from the assumed trend over five years will compound and produce sizeable changes in revenues. In addition, due to the way the estimates are constructed any change in the base level of revenues for fiscal 2011 will change the revenue planning estimates for 2012 and 2013. Other things equal, stronger than anticipated revenue growth through fiscal 2011 will carry forward and add significantly to revenues in the 2012-13 biennium. But, should the economy grow more slowly than forecast during the next nineteen months, or should some item of portfolio income such as capital gains fall well below forecast – as it did in tax year 2000 and tax year 2008--the revenue outlook for the 2012-13 biennium will deteriorate.

The revenue planning estimates are only a guide to the level of future revenues. They are not a guarantee. Normally, if the economy remains strong the planning estimates are likely to slightly understate actual receipts. But, taxpayer reaction to the scheduled increase in the tax rate on capital gains could be quite different from that assumed in this forecast. That could lead to either a material increase in revenues in fiscal 2012, or a significant decline. Also, Minnesota's economy is assumed to grow at the national rate in 2012 and 2013. While Minnesota has typically grown at or above the national rate, the state has underperformed the U.S. economy in recent years. Either outperforming or underperforming the national averages would lead to a material change in projected revenues. Actual revenues for 2012-13 could exceed or fall short of the planning estimates by $4 billion or more depending on the economy's performance.

Since November 2002 MMB has based its revenue planning estimates on Global Insight's baseline forecast. November's 2012-13 revenue planning estimates again were prepared consistent with the GII baseline forecast. GII projects real GDP growth rates of 3.7 percent and 3.2 percent for calendar 2012 and 2013 and nominal GDP growth of 5.3 percent in 2012 and 4.9 percent in 2013. GII's GDP growth rates are below those assumed by the CBO in their January Economic and Budget Outlook. The CBO expects annual real GDP growth to average 4.4 percent between 2012 and 2014. Nominal GDP is projected to grow at an average rate of 5.6 percent over that same period. The October Blue Chip Consensus long term outlook is closer to GII's calling for real GDP growth rates of 3.3 and 3.0 percent in 2012 and 2013.

As in the past, the individual income tax estimates were prepared using the House Income Tax Simulation (HITS) Model. Assumed filer growth in Minnesota was consistent with average national employment growth for the years in question. All elements of income and all individual itemized deductions were assumed to grow at the growth rate of taxable personal income – the combination of wages and salaries, proprietors' incomes, dividend, interest and rents – as projected by GII in their baseline forecast. Calendar year income tax liabilities were converted into fiscal year revenues using the same proportions as forecast for 2011.

HITS model pin files were adjusted for changes in federal tax law that will occur in 2011 when provisions initially enacted in the Economic Growth and Tax Relief Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 expire, including the return of the federal capital gains tax rate to 20 percent from its current level of 15 percent. Since Minnesota taxes capital gains at the same rate as ordinary income that change in the federal code will not affect the rate at which capital gains are taxed in Minnesota. As noted earlier, however, it is likely to have a large indirect impact on Minnesota taxable income as investors seeking to maximize after tax returns on investment accelerate realizations into 2010.

As in recent years the complete sales tax model was used to prepare sales tax revenue planning estimates. Each component of the sales tax base was assumed to grow at the national average rate for that group of goods or services. Corporate tax receipts in Minnesota were estimated using a model driven by before tax corporate profits on a national income accounts basis reduced for foreign source profits. The deed and mortgage tax was forecast based on the projected growth in the value of new and existing home sales. Planning estimates for other tax and non-tax revenues were based on extrapolation of existing trends.

Expenditure Forecast
FY 2010-13

Projected expenditures are largely unchanged in this forecast. Updated information on the use of federal stimulus funding and biennial spending growth is updated below to provide additional context.

Actual spending for the biennium that ended June 30, 2009 was $33.866 billion. The forecast for the current biennium now totals $31.102 billion, a decrease of $2.764 billion (8.2 percent) from spending in FY 2008-09. Spending in 2012-13 is projected to be $38.695 billion, $7.59 billion (24.4 percent) more than spending in the current biennium.

General Fund Spending
($ in millions)

	FY 2010-11	Change from 2008-09	FY 2012-13	Change from 2010-11
K-12 Education	$13,323	($438)	$14,377	$1,054
K-12 Payment Deferrals	(1,716)	(1,705)	1,152	2,868
Higher Education	2,859	(255)	3,026	167
Property Tax Aids & Credits	3,083	13	3,652	569
Health & Human Services	9,016	(74)	11,741	2,725
All Other	4,537	(305)	4,747	210
Total	**$31,102**	**($2,764)**	**$38,695**	**$7,593**
Biennial % Change		**(8.2%)**		**24.4%**

The availability of federal stimulus in FY 2009-2011 has a significant impact on the data shown above. The American Recovery and Reinvestment Act (ARRA) provides enhanced Federal Medical Assistance Percentage (FMAP) and State Stabilization funding that partially offsets general fund spending reductions for FY 2009-2011. Enhanced FMAP funding in Medical Assistance (MA) is now expected to be $1.834 billion for FY 2009-2011. This is a $71 million increase from the November forecast, reflecting the recent extension of higher matching rates to additional payments (clawback). State Stabilization funding used in K-12 education, higher education, human services, and corrections remains unchanged at $816 million for FY 2009-2011. These federal stimulus dollars provide a one-time reduction in general fund spending. This contributes to the decline shown in general fund spending from FY 2008-09 to FY 2010-11, and the end of federal funding contributes to the significant increase in general fund spending projected for FY 2012-13.

Allocation of Enhanced FMAP and State Stabilization Funding

($ in millions)

	FY 2009	FY 2010-11	Total
K-12 Education	$0	$500	$500
Higher Education	30	138	168
Medical Assistance	471	1,363	1,834
Other Human Services	0	110	110
Corrections	0	38	38
Total	**$501**	**$2,149**	**$2,650**

When both general fund and federal stimulus funding are considered, there is a smaller overall spending decline from FY 2008-09 to FY 2010-11. This reflects a more accurate comparison of underlying spending growth by biennium. Overall growth in spending for FY 2012-13 is largely due to the one-time nature of reductions associated with governor's unallotments in FY 2010-11 ($2.46 billion); repayment of the K-12 school aid deferral ($1.17 billion); and underlying growth in entitlement programs, namely Medical Assistance and K-12 education.

Adjusted Spending Growth: General Fund and Federal Stimulus

($ in millions)

	FY 2010-11	Change from 2008-09	FY 2012-13	Change from 2010-11
K-12 Education	$13,823	$62	$14,377	$554
K-12 Payment Deferrals	(1,716)	(1,705)	1,152	2,868
Higher Education	2,997	(146)	3,062	29
Property Tax Aids & Credits	3,083	(13)	3,652	569
Health & Human Services	10,489	927	11,741	1,252
All Other	4,575	(267)	4,747	172
Total	**$33,251**	**($1,116)**	**$38,695**	**$5,444**
Biennial % Change		**(3.3%)**		**16.4%**

FY 2010-11 Spending $184 Million Lower

Forecast expenditures for FY 2010-11 have decreased from November forecast estimates. Spending is now forecast to total $31.102 billion, a decrease of $184 million (0.6 percent). Of this change, $150 million is due to lower than expected human services program costs.

Forecast Change in FY 2010-11 Spending

($ in millions)

	November Forecast	February Forecast	Difference
K-12 Education	$13,337	$13,323	($14)
K-12 Payment Shifts	(1,717)	(1,716)	1
Higher Education	2,859	2,859	0
Property Tax Aids & Credits	3,098	3,083	(15)
Health & Human Services	9,166	9,016	(150)
Public Safety	1,819	1,819	0
Transportation	192	192	0
Environment, Energy & Natural Res.	364	364	0
Agriculture & Veterans	253	252	(1)
Economic Development	272	272	0
State Government	639	639	0
Debt Service	955	956	1
Other	30	27	(3)
Est. Cancellations	(21)	(22)	(1)
Subtotal	$31,246	$31,064	($182)
Dedicated Expenditures	40	38	(2)
Total	**$31,286**	**$31,102**	**($184)**

A number of relatively minor changes yield a decrease in estimated spending. The most significant changes in human services are split between changes in federal matching funds and lower caseloads and costs in elderly and disabled programs and continuing care grants. K -12 education pupil estimates are slightly lower, but some of the savings is offset by increased costs for compensatory aids. Savings expected in property tax refund programs and other small changes added to the total savings reflected in this forecast.

FY 2012-13 Expenditure Planning Estimates

Projected spending has increased from November for the FY 2012-13 planning estimates. Spending estimates for the next biennium have increased a total of $51 million. The out-year impacts of an increase in compensatory aid entitlements anticipated growth in school districts' demand for Q-Comp entitlements and lower tax base assumptions account for a $106 million increase in K-12 estimates. Small caseload and cost decreases increases in health care programs result in health and human services estimates decreasing $39 million from November levels. Changes in all other spending areas are small. Savings expected in forecast tax aids and credits are partially offset by a small increase in forecast debt service and other changes.

Forecast Change: FY 2012-13 Spending Projections

($ in millions)

	November Forecast	February Forecast	Difference
K-12 Education	$14,267	$14,377	$110
K-12 Payment Shifts	1,156	1,152	(4)
Higher Education	3,026	3,026	0
Property Tax Aids & Credits	3,663	3,652	(11)
Health & Human Services	11,780	11,741	(39)
Public Safety	1,829	1,829	0
Transportation	197	197	0
Environment, Energy & Natural Res.	362	363	1
Agriculture & Veterans	251	249	(2)
Economic Development	264	264	0
State Government	650	650	0
Debt Service	1,153	1,155	2
Other	45	45	0
Est. Cancellations	(20)	(23)	(3)
Subtotal	$38,623	$38,677	$54
Dedicated Expenditures	21	18	(3)
Total	**$38,644**	**$38,695**	**$51**

It is important to note that the estimated impact of inflation during the FY 2012-13 biennium is *not* included in expenditure planning estimates. Inflation during the planning period is expected to be 2.1 and 1.9 percent in FY 2012 and FY 2013 respectively based on GII's forecast of the consumer price index. If major expenditure categories were to be uniformly adjusted for inflation, this would add approximately $413 million to FY 2012 spending and $768 million to FY 2013 amounts.

K-12 Education Forecast Down $13.0 Million in FY 2010-11, Up $105.6 million for FY 2012-13

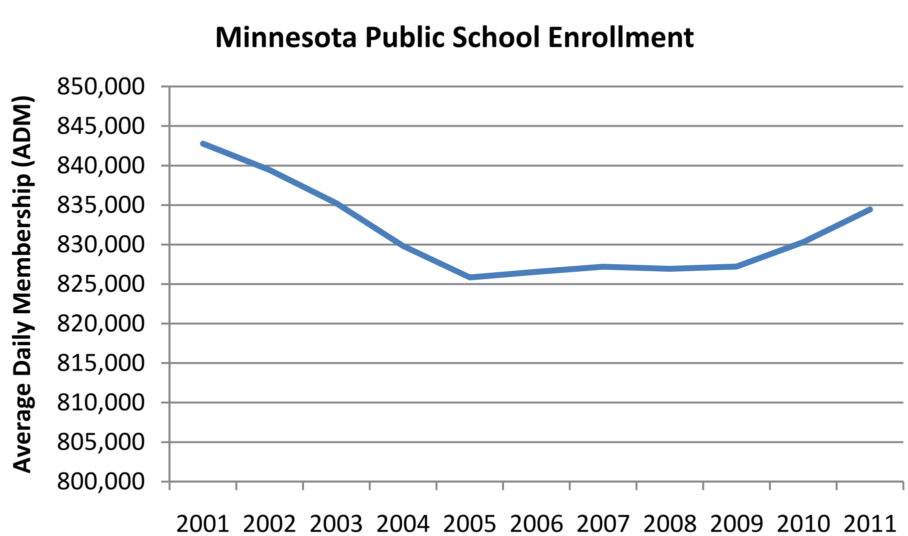
Education finance, the largest category of state general fund spending, consists of aid programs for general education, special education, early childhood and family education, charter schools, nonpublic pupil programs, and desegregation programs.

K-12 aids can be divided into two major funding parts: 1) general education, the primary source of basic operating funds for schools, and 2) categorical aids tied to specific activities or programs. For the current biennium, education finance spending is now forecast to be $11.53 billion, a decrease of $13.0 million (0.1 percent) from November estimates. Projected education finance spending in FY 2012-13 is now expected to reach $15.45 billion, an increase of $105.6 million (0.7 percent) over November estimates.

General Education

Over 80 percent of K-12 aid ($9.25 billion in FY 2010-11) is distributed to schools through the General Education program, and most of the forecast change is also in this program. While there are several factors that account for this change, the most significant are lower pupil estimates, the number of pupils eligible for free and reduced price lunch, and decreasing adjusted net tax capacities.

Pupil estimates are down slightly compared to November estimates. Pupil counts are still projected to increase on an annual basis starting in FY 2010, however the rate of increase is occurring at a more moderate pace than was anticipated in November. The decrease in ADM projections results in an $11.3 million (0.1 percent) decrease in Basic Education entitlements in FY 2010-11 and $15.6 million (0.2 percent) decrease in FY 2012-13 from November.



Public enrollment, as measured by Average Daily Membership (ADM), is now estimated to be 834,068 in FY 2010 and 836,551 in FY 2011 and projected to reach 842,178 in FY 2012 and 850,681 in FY 2012.

Compensatory entitlements are anticipated to increase by $32.9 million (4.4 percent) over the current biennium and $71.2 million (8.7 percent) in FY 2012-13 from November estimates. The increase in Compensatory entitlements is the result of a significant increase in the statewide average compensatory pupils per ADM. The November forecast anticipated an increase in the average poverty concentration at 3.8 percent. Preliminary poverty concentration numbers show a 9.6 percent increase, the largest increase in the number of pupils eligible for free and reduced priced meals and corresponding concentration of these students the state has seen.

Other notable forecast changes include increases in Alternative Teacher Compensation (Q-Comp) and the portion of state aid in equalized levy programs such as equity, transition, capital, and referendum revenue. Q-Comp entitlements are forecast to increase by $5.9 million (6.0 percent) in FY 2010-11 and $28.3 million (23.6 percent) in FY 2012-13 from November estimates. The projected increase is a result of increased school district awareness of the program as well as the recognition of limited additional funding streams. The FY 2012-32 projections assume marked growth in the portion of students in the program – growing from 28 percent in FY 2010 to 54 percent by 2013. Updated tax base assumptions show a 3 percent decline in adjusted net tax capacities (ANTC) and referendum market values (RMV). November estimates were based on slight increases to ANTC and RMV. A decrease in local tax capacity results in a larger share of state aid, $32.3 million, in equalized aid for FY 2012-13 from November estimates.

Because overall education finance spending is estimated to be $13.0 million (0.1 percent) lower than November estimates, the savings projected from the school aid payment deferral is also projected to be lower. The savings are now estimated to be $4.4 million (0.4 percent) lower than November estimates for a biennial total of $1.16 billion. Slight increases in payable 2011 property tax levies for the general and community service funds results in a $2.7 million (0.5 percent) increase in the Property Tax recognition savings for FY 2011 from November.

Categoricals

There are relatively minor changes in the K-12 categorical aids forecast compared to November. Categorical aid appropriations are projected to have a net decrease throughout the various program areas. Nonpublic pupil transportation aid is down $2.6 million (8.0 percent) in FY 2010-11 and $3.4 million (8.2 percent) in FY 2012-13 since November. Nonpublic Pupil Transportation aid decreased $3.4 million (8.2 percent) in FY 2010-11 and $6.4 million (12.7 percent) in FY 2012-13 from November. Both program reductions are due to declining non-public pupil enrollment and program costs. Interdistrict desegregation transportation aid decreased by $6.0 million (18.6 percent) in FY 2010-11 and $14.9 million (31.5 percent) in FY 2012-13 from November estimates due to a decrease in pupils transported and a slower growth in transportation costs than anticipated.

These decreases are partially offset by increases in Debt Service Equalization aid, Deferred Maintenance, and Community Education aid. As with the equalized levy programs under general education, the forecast for these programs are based on updated tax base projections which show substantially lower adjusted net tax capacity (ANTC) and referendum market value (RMV) than was forecasted in November. As school districts' tax capacity declines, state aid obligations within these programs increase. Debt Service Equalization aid increased $13.0 million (56.5 percent) in FY 2012-13, Deferred Maintenance increased $1.7 million (40.7 percent) for FY 2012-13, and Community Education increased $441,000 (52.8 percent) in FY 2012-13 from November estimates.

Health and Human Services Forecast down $150 million in FY 2010-11 and $39 million in FY 2012-13

For the current biennium, health and human services spending is expected to be $9.0 billion, a $149.6 million (1.6 percent) decrease from November estimates. In FY 2012-13 health and human services spending is projected to reach $11.7 billion, a decrease of $39.0 million (0.3 percent) from previous estimates.

The primary factor for decreases in the health and human services forecast is an unexpected extension of enhanced federal reimbursement under the American Recovery and Reinvestment Act (ARRA) for a class of expenditures not previously included in the calculation. Estimates for MA continuing care grants, MA elderly and disabled basic care, and chemical dependency are also less than what was forecasted in November.

Basic Health Care

MA Basic Care for Families and Children projected spending is $7.8 million (0.5 percent) higher in FY 2010-11 and $14.7 million (0.6 percent) higher in FY 2012-13 than November estimates. The change is primarily due to lower projections of receipts of pharmacy rebates. This is partly the result of lower projections of pharmacy expenditures as a percentage of basic care expenditures and partly a cash-flow adjustment recognizing that a portion of the high amount of pharmacy rebates received in FY 2009 would have normally been received in FY 2010. Projected spending on basic care coverage for children and parents, the focus of this budget activity, is practically unchanged.

MA Elderly and Disabled Basic Care projected spending decreased $101.9 million in FY 2010-11 (4.8 percent) and $24.4 million (0.8 percent) in FY 2012-13. The decrease is primarily due to a change in federal policy under ARRA regarding the application of enhanced rates of the federal medical assistance percentage (FMAP) to the calculation of state obligations for clawback payments, which are payments states make to the federal government to offset federal pharmaceutical expenditures under Medicare Part D. In February 2010, the U.S. Department of Health and Human Services agreed to recognize that the enhanced FMAP rates, which produce lower non-federal shares of Medicaid costs, also should result in lower billings to states under the clawback. This change is retroactive to the beginning of the enhanced FMAP rates in October 2008 and continues until the enhanced FMAP rates expire, at the end of December 2010. Of the total expenditure reductions in FY 2010-11 in this category, $82.9 million is due to the change regarding clawback payments. Reductions in average fee-for-service costs for disabled basic care and caseloads in Institutions for Persons with Mental Disease (IMDs) also contributed to the overall decrease in expenditures.

General Assistance Medical Care (GAMC) expenditures are projected to remain at the appropriated level less unallotment, or $329 million for FY 2010. Actual expenditures for the program are expected to be $301 million in FY 2010-11, with residual expenditures of $994 thousand in FY 2012-13. Since the program is expected to end on April 1, 2010, the $26 million remaining in the appropriation will be carried in the forecast until it is re-appropriated in law for a different purpose or cancelled at the end of the biennium. A complete explanation of the February forecast treatment of the GAMC line-item veto is presented on the following pages.

GAMC Line-Item Veto and MinnesotaCare

Background

GAMC is a state-only funded program which pays for health care services for low income Minnesotans ineligible for MA or other publicly-funded health care programs. They are primarily adults between 21 and 64 who do not have dependent children. Funding for the program was appropriated by the Legislature in the 2009 session, but the appropriation for FY 2011 ($381 million) was line-item vetoed by the Governor. Without program funding in FY 2011, DHS projects it will be necessary to terminate the program by April 2010 in order to pay outstanding claims and settle contracts out of available funding. Virtually all GAMC enrollees are eligible for MinnesotaCare. Funded out of the health care access fund, MinnesotaCare provides comprehensive medical benefits but has an annual $10,000 inpatient hospital cap and requires premium payments. Premiums charged to the GAMC population are expected to average $5 per month.

In November 2009, DHS announced plans to auto-enroll those GAMC enrollees with continuing GAMC eligibility in Transitional MinnesotaCare. Beginning April 1, 2010, new applicants who qualify for GAMC will also be enrolled in Transitional MinnesotaCare. If no legislative action occurs to change GAMC funding, the transfer of enrollment from GAMC to MinnesotaCare will greatly increase costs in the health care access fund.

Treatment in February Forecast

This forecast assumes that GAMC program funding in the general fund is eliminated for FY 2011 and beyond, and that GAMC coverage is terminated beginning April 1, 2010, at which time auto-enrollment into MinnesotaCare will occur. The November 2009 forecast assumed that GAMC coverage would end on March 1, 2010. In January 2010, DHS determined that there were enough funds remaining in the FY 2010 appropriation to continue funding the program for an additional month.

MinnesotaCare expenditures are expected to be $1.3 billion in FY 2010-11 and $1.9 billion in FY 2012-13. Expenditures are relatively unchanged from the November forecast, decreasing $11.8 million (0.9 percent) in FY 2010-11 and increasing $4.8 million (0.2 percent) in FY 2012-13. In the current biennium, the majority of the decrease is due to downward risk adjustments in managed care rates compared to what was expected in November. The transition of GAMC recipients to Transitional MinnesotaCare costs $244 million (19.5 percent of total MinnesotaCare spending) in FY 2010-11 and $522 million (26.8 percent of total MinnesotaCare spending) in FY 2012-13.

Because of the resulting forecast deficit in the health care access fund, under M.S. 16A.724, the $48 million yearly transfer from the health care access fund to the general fund will not occur in FY 2011 through FY 2013. This is reflected as a general fund loss in each of those years. Also under M.S. 16A.724, the general fund is required to transfer funds to meet MinnesotaCare expenditures for any remaining deficit in FY 2011, which amounts to $99 million (down from $111 million in November). Beginning in FY 2012, financial management provisions related to MinnesotaCare in M.S. 256L.02 give the DHS commissioner the authority to make adjustments to reduce the cost of the program and balance any shortfall in the health care access fund.

Effect of GAMC Veto & Executive Actions on MinnesotaCare Expenditures

(in millions)

	FY 2010	FY 2011	FY 2012	FY 2013
Total Projected Cost of MinnesotaCare	$491	$762	$902	$1,041
MinnesotaCare Increase for GAMC Recipients	44	200	240	282
Health Care Access Fund Balance[1]	189	-	(369)	(844)
Added General Fund Cost Due to HCAF Deficit[2]	-	147	48	48

[1]Balance before transfers associated with M.S. 16A.724

[2]Costs to the general fund result from requirements under M.S. 16A.724. Due to a projected negative balance in the health care access fund, a $48 million transfer will not occur. In addition, the law requires that a negative balance in the Health Care Access Fund be reimbursed by the general fund through FY 2011.

Status Quo Scenario

DHS has prepared an alternate scenario in which they assume the full funding for GAMC is restored and that the program continues in its current form. In this scenario, approximately 39,000 average monthly enrollees would continue to have coverage from GAMC at total a general fund cost of $756 million in FY 2010-11, and $929 million in FY 2012-13.

In this scenario, GAMC enrollees would not transition to MinnesotaCare. The health care access fund balance would be $98 million at the end of FY 2011, and there would be a deficit in FY 2013 of $226 million. The $48 million annual transfer from the health care access fund to the general fund would continue through FY 2011, and no transfer from the general fund to the health care access fund would be necessary to meet MinnesotaCare expenditures in FY 2011.

Projected GAMC Expenditures Excluding Effect of GAMC Veto & Executive Actions

(in millions)

	FY 2010	FY 2011	FY 2012	FY 2013
Total Projected Cost of GAMC	$352	$404	$453	$476
Health Care Access Fund Balance	233	98	(32)	(226)
Added General Fund Cost Due to HCAF Deficit[1]	-	-	48	48
Added General Fund Cost for GAMC	23	404	453	476

[1]Costs to the general fund result from requirements under M.S. 16A.724. Due to a projected negative balance in the health care access fund, a $48 million transfer will not occur in FY 2012 or FY 2013.

Continuing Care Grants

Spending for Continuing Care grants is $3.1 billion in FY 2010-11 and $4.1 billion in FY 2012-13, down $51.0 million (1.6 percent) for the current biennium and $38.4 million (0.9 percent) for the next biennium, compared to the November forecast. Estimated expenditures for MA Long Term Care Facilities are $24.2 million lower (3.1 percent) in FY 2010-11 and $16.2 million lower (1.7 percent) in FY 2012-13, primarily the result of lower than expected nursing facility caseloads.

Estimated expenditures for MA Long Term Care Waivers are down slightly, $11.4 million (0.6 percent) in FY 2010-11 and $7.6 million (0.3 percent) in FY 2012-13 from November estimates. Lower projected expenditures on personal care assistant (PCA) services, which were limited by 2009 session changes and the Governor’s unallotment, account for most of the net decrease.

Chemical Dependency spending is down $14.5 million (7.3 percent) FY 2010-11 and $14.6 million (6.0 percent) in FY 2012-13. Recent data showed lower actual caseloads and lower average costs than projected in November. Placements are growing overall, but the rate of that growth is lower than previously projected. This lower growth rate reduces CD treatment expenditures for both the current and upcoming biennia.

Children and Economic Assistance Grants

Spending in this area is higher compared to estimates in the November forecast, up $7.6 million (0.7 percent) in FY 2010-11, and $9.2 million (0.8 percent) in FY 2012-13. The bulk of the change is attributable to higher spending in the Minnesota Supplemental Aid (MSA) and Group Residential Housing (GRH) programs. These increases are offset by lower spending on Minnesota Family Investment Program (MFIP) childcare.

MFIP expenditures are relatively unchanged compared to the November forecast, down $113 thousand in FY 2010-11 (0.1 percent) and $4.3 million (2.1 percent) in FY 2012-13. Estimates for MFIP Child Care are lower in the current biennium by $2.2 million (1.8 percent) and higher in the upcoming biennium by $1.9 million (1.4 percent). Caseload estimates are higher in both biennium for child care, but are offset by lower estimated anticipated average payments in FY 2010-11.

Forecasted expenditures for the MSA program are up $6.4 million (10.5 percent) in FY 2010-11 and $1.8 million in FY 2012-13 (2.5 percent). This increase is attributable to the court decision restoring the unallotment of the special diet portion of the MSA program. Projected spending in GRH is $2.8 million (1.2 percent) higher and $9.0 million (3.7 percent) higher in the current and upcoming biennia, due to slightly higher estimates of caseload and average costs.

Tax Aids and Credits Projections Decrease for FY 2010-11

Expenditures for tax aids and credits are projected to decrease $15.5 million or 0.5 percent from November estimates for FY 2010-11. Total spending in this area is now expected to total $3.1 billion for the biennium. This net change is primarily the result of reductions in property tax refunds offset slightly by increases market value credits and tax refund interest spending.

The biggest change was a $22 million or a 2.3 percent decrease in expected property tax refund payments. This decrease is mainly due to decreased market values in residential properties. Additionally, growth in market value credit expenditures is a result of lower than previously forecasted growth in market values; these credits decline for most properties as market value increases, so slower market value growth results in less decline in the program than previously forecasted.

The decrease in the property tax refund payments was partially offset by a $3 million increase in expected payments of tax refund interest and a $700 thousand increase in political contribution refund expenditures.

Tax Aids and Credits Projections Decrease $11 Million for FY 2012-13

For FY 2012-13, tax aid and credit expenditures are expected to reach $3.7 billion, a decrease of $11.3 million (0.3 percent) from November's estimates. This change in planning estimates is primarily the result of a $21 million decrease in expected property tax refund program payments. This decrease in spending is to some extent offset by a $12 million increase in Market Value Homestead credit expenditures resulting from declining market value growth projections.

Debt Service Estimates Remain Largely Unchanged

FY 2010-11 general fund debt service is forecast to be $956 million, $1 million above November's forecast. Similarly, for FY 2012-13 projected debt service is expected to reach $1.155 billion, $2 million above November's projection. These small changes in the forecast are the result of slightly lower forecast interest rates for investment earnings on investment of cash balances. The lower earnings results in slightly higher general fund transfers.

The forecast continues to assume future capital budgets of $725 million in each even-numbered legislative session and $140 million in each odd-numbered session.

ALTERNATIVE FORECAST COMPARISON
REAL GDP (ANNUAL RATES)

	09III	09IV	10I	10II	10III	10IV	09A	10A	11A
GII Baseline (02-10)	2.2	5.7	3.0	2.4	2.4	2.8	-2.4	3.0	2.8
Blue Chip (02-10)	2.2	5.7	2.8	2.8	2.8	3.0	-2.4	3.0	3.1
Moody's Economy.Com (02-10)	2.2	5.7	2.6	2.4	2.0	2.6	-2.4	2.8	3.6
UBS (02-10)	2.2	5.7	2.5	2.5	3.0	3.1	-2.4	3.0	3.0
Standard & Poors (02-10)	2.2	5.7	1.8	2.3	2.5	2.8	-2.4	2.7	2.8

Consumer Price Index (Annual Rates)

	09III	09IV	10I	10II	10III	10IV	09A	10A	11A
GII Baseline (02-10)	3.6	3.4	1.9	-0.2	1.5	1.4	-0.3	1.9	1.7
Blue Chip (02-10)	3.6	3.4	2.0	1.4	1.9	1.9	-0.3	2.2	2.0
Moody's Economy.Com (02-10)	3.6	3.4	2.1	0.7	1.4	1.5	-2.1	2.1	2.8
UBS (02-10)	3.6	3.4	1.8	-1.1	1.4	1.3	-0.3	1.7	1.3
Standard & Poors (02-10)	3.6	3.4	2.2	0.6	1.5	1.6	-0.3	2.1	1.8

FORECAST COMPARISONS

Real Economic Growth

(Annual Percent Change in Real GDP)

	2008	2009	2010	2011	2012	2013
Feb 05 GII Baseline	3.1	3.3				
Nov 05 GII Baseline	3.4	3.1				
Feb 06 GII Baseline	2.9	3.2				
Nov 06 GII Baseline	3.1	3.3	3.3	2.9		
Feb 07 GII Baseline	3.0	3.2	3.1	2.7		
Nov 07 GII Baseline	1.9	2.9	2.9	2.8		
Feb 08 GII Baseline	1.4	2.2	3.0	3.2		
Nov 08 GII Baseline	1.3	-1.0	1.7	3.1	3.5	3.1
Feb 09 GII Baseline	1.3	-2.7	2.0	3.5	3.3	2.9
Nov 09 GII Baseline	0.4	-2.5	2.2	2.9	3.7	2.9
Feb 10 GII Baseline	0.4	-2.4	3.0	2.8	3.7	3.2

Inflation

(Annual Percent Change in CPI-U)

Feb 05 GII Baseline	2.1	2.2				
Nov 05 GII Baseline	2.0	2.2				
Feb 06 GII Baseline	2.0	1.9				
Nov 06 GII Baseline	1.9	1.8	1.8	1.7		
Feb 07 GII Baseline	2.3	2.1	1.9	2.0		
Nov 07 GII Baseline	2.0	1.6	1.9	1.8		
Feb 08 GII Baseline	2.5	1.6	1.9	1.8		
Nov 08 GII Baseline	3.9	-0.9	2.4	3.0	2.4	2.4
Feb 09 GII Baseline	3.8	-1.9	1.7	2.2	2.3	2.6
Nov 09 GII Baseline	3.8	-0.3	1.5	2.0	2.0	1.8
Feb 10 GII Baseline	3.8	-0.3	1.9	1.7	2.0	1.9

MINNESOTA - U.S. COMPARISON REPORT

February 2010 Baseline

(Annual Percent Changes)

	2005	2006	2007	2008	2009	2010	2011
Wage and Salary Income							
United States	5.1	6.5	5.6	2.1	-3.3	3.1	4.2
Minnesota	2.7	4.9	5.7	2.9	-5.5	1.0	4.3
Implied Annual Wage							
United States	3.3	4.6	4.4	2.7	1.1	3.8	2.6
Minnesota	1.1	3.5	5.2	3.2	-1.5	2.1	2.4
Non-Farm Employment							
United States	1.7	1.8	1.1	-0.6	-4.3	-0.7	1.5
Minnesota	1.6	1.3	0.5	-0.3	-4.1	-1.0	1.8
Personal Income							
United States	5.5	7.5	5.6	2.9	-1.4	3.9	4.2
Minnesota	3.1	6.3	5.1	3.8	-2.5	2.0	4.2

COMPARISON OF ACTUAL AND ESTIMATED NON-RESTRICTED REVENUES

($ IN THOUSANDS)

	January YTD, 2010, FY2010		
	Forecast Revenues	Actual Revenues	Variance Act-Fcst
Individual Income Tax			
Withholding	3,381,603	3,380,131	(1,472)
Declarations	633,889	634,963	1,074
Miscellaneous	182,877	181,862	(1,015)
Gross	4,198,369	4,196,955	(1,414)
Refund	218,699	183,237	(35,461)
Net	3,979,670	4,013,718	34,048
Corporate & Bank Excise			
Declarations	351,965	367,588	15,623
Miscellaneous	102,477	104,203	1,725
Gross	454,442	471,791	17,349
Refund	187,138	180,750	(6,388)
Net	267,304	291,041	23,737
Sales Tax			
Gross	2,453,420	2,434,199	(19,221)
Refunds	114,930	113,859	(1,072)
Net	2,338,490	2,320,340	(18,150)
Motor Vehicle Sales Tax	40,767	41,328	561
Other Revenues:			
Estate	82,006	93,900	11,893
Liquor/Wine/Beer	41,156	40,242	(913)
Cigarette/Tobacco/Cont Sub	119,467	117,107	(2,360)
Deed and Mortgage	97,036	90,500	(6,535)
Insurance Gross Earnings	131,787	131,110	(677)
Lawful Gambling	20,318	19,638	(680)
Health Care Surcharge	124,327	135,003	10,676
Other Taxes	(813)	435	1,248
Statewide Property Tax	342,507	362,384	19,877
DHS SOS Collections	25,046	26,434	1,387
Income Tax Reciprocity	66,932	66,932	0
Investment Income	4,122	2,684	(1,438)
Tobacco Settlement	176,842	164,784	(12,058)
Departmental Earnings	164,837	164,969	132
Fines and Surcharges	54,385	47,545	(6,841)
Lottery Revenues	24,791	23,601	(1,190)
Revenues yet to be allocated	2,082	2,211	129
Residual Revenues	69,686	63,513	(6,173)
County Nursing Home, Pub Hosp IGT	3,043	3,043	0
Other Subtotal	1,549,556	1,556,036	6,479
Other Refunds	24,654	26,012	1,358
Other Net	1,524,902	1,530,023	5,121
Total Gross	**8,696,555**	**8,700,309**	**3,754**
Total Refunds	**545,422**	**503,859**	**(41,563)**
Total Net	**8,151,133**	**8,196,450**	**45,317**

FACTORS AFFECTING THE INDIVIDUAL INCOME TAX

($ in billions)

	Calendar Year					
	2006	**2007**	**2008**	**2009**	**2010**	**2011**
Minnesota Non-Farm Tax Base						
February 2006 Baseline	161.561	170.274				
November 2006 Baseline	161.271	169.111	177.669	187.572		
February 2007 Baseline	160.564	169.026	178.408	189.146		
November 2007 Baseline	162.525	171.000	176.126	182.836		
February 2008 Baseline	162.284	171.215	176.042	182.122		
November 2008 Baseline	162.407	172.180	178.014	178.017	180.893	189.211
February 2009 Baseline	162.396	172.166	176.869	173.201	175.674	183.239
November 2009 Baseline	167.078	175.381	179.184	168.891	171.395	178.688
February 2010 Baseline	167.078	175.381	179.185	169.511	172.985	180.445
Minnesota Wage and Salary Income						
February 2006 Baseline	113.713	118.957				
November 2006 Baseline	113.827	119.133	124.673	130.636		
February 2007 Baseline	113.045	118.579	124.034	130.567		
November 2007 Baseline	113.369	119.589	122.871	127.595		
February 2008 Baseline	112.953	119.173	122.189	126.100		
November 2008 Baseline	113.072	119.459	123.530	123.834	126.854	132.244
February 2009 Baseline	113.065	119.942	122.772	121.060	123.518	128.709
November 2009 Baseline	113.050	119.464	122.923	116.112	118.220	123.020
February 2010 Baseline	113.050	119.464	122.924	116.194	117.355	122.365
Minnesota Property Income						
February 2006 Baseline	33.754	36.367				
November 2006 Baseline	34.633	36.654	38.739	41.925		
February 2007 Baseline	34.659	37.168	40.223	43.666		
November 2007 Baseline	36.063	38.161	39.560	40.713		
February 2008 Baseline	36.251	38.852	40.162	41.289		
November 2008 Baseline	36.253	39.071	40.622	39.994	39.271	41.252
February 2009 Baseline	36.250	39.072	40.322	38.687	37.993	39.363
November 2009 Baseline	37.923	40.434	40.915	38.354	38.192	39.805
February 2010 Baseline	37.923	40.434	40.915	38.804	40.310	41.843
Minnesota Proprietors' Income						
February 2006 Baseline	14.093	14.950				
November 2006 Baseline	12.811	13.324	14.256	15.017		
February 2007 Baseline	12.861	13.279	14.150	14.912		
November 2007 Baseline	13.093	13.251	13.694	14.529		
February 2008 Baseline	13.080	13.192	13.691	14.733		
November 2008 Baseline	13.081	13.650	13.861	14.188	14.768	15.447
February 2009 Baseline	13.081	13.651	13.775	13.453	14.164	15.167
November 2009 Baseline	16.105	15.483	15.345	14.424	14.983	15.862
February 2010 Baseline	16.105	15.483	15.345	14.514	15.321	16.237

FACTORS AFFECTING SALES, CORPORATE INCOME AND SALES TAX ON MOTOR VEHICLES

($ in billions)

	Fiscal Year					
	2006	2007	2008	2009	2010	2011
SALES TAX						
Minnesota Synthetic Sales Tax Base						
*November 2007 Baseline	68.299	69.405	70.381	70.572		
Pct	3.3%	1.6%	1.4%	0.3%		
*February 2008 Baseline	68.299	69.342	70.593	70.388		
Pct	3.3%	1.5%	1.8%	-0.3%		
November 2008 Baseline	68.104	69.284	71.375	69.278	67.178	69.730
Pct	3.5%	1.7%	3.8%	-2.9%	-3.0%	3.8%
February 2009 Baseline	68.122	69.306	71.434	68.297	65.132	68.395
Pct	3.5%	1.7%	3.1%	-4.4%	-4.6%	5.0%
November 2009 Baseline	69.432	70.627	73.000	70.046	68.483	70.880
Pct	3.1%	1.7%	3.4%	-4.0%	-2.2%	3.5%
February 2010 Baseline	69.258	70.650	72.845	70.293	69.222	71.789
Pct	2.9%	2.0%	3.1%	-3.5%	-1.5%	3.7%
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)						
November 2007 Baseline	12.885	13.289	13.525	13.229		
February 2008 Baseline	12.885	13.287	13.560	13.451		
November 2008 Baseline	12.715	13.163	13.567	12.869	12.257	12.549
February 2009 Baseline	12.715	13.163	13.573	12.812	12.150	12.456
November 2009 Baseline	13.078	13.418	13.719	13.028	12.756	12.720
February 2010 Baseline	13.078	13.418	13.719	13.041	13.123	13.276
Minnesota's Proxy Share of U.S. Capital Equipment Spending						
November 2007 Baseline	11.698	11.822	12.227	12.404		
February 2008 Baseline	11.698	11.820	12.199	12.078		
November 2008 Baseline	11.640	11.922	12.316	11.760	10.854	11.711
February 2009 Baseline	11.640	11.922	12.234	11.427	9.858	10.775
November 2009 Baseline	11.851	12.347	12.998	11.906	10.972	12.084
February 2010 Baseline	11.851	12.347	12.998	11.924	11.244	12.292
Minnesota's Proxy Share of U.S. Construction Spending						
November 2007 Baseline	7.276	7.067	6.304	5.812		
February 2008 Baseline	7.290	6.784	6.267	5.421		
November 2008 Baseline	7.248	6.716	6.401	5.966	5.445	6.180
February 2009 Baseline	7.247	6.720	6.307	5.732	4.826	5.486
November 2009 Baseline	7.353	6.885	6.544	5.618	5.292	5.364
February 2010 Baseline	7.354	6.885	6.549	5.764	5.207	5.403

FACTORS AFFECTING SALES, CORPORATE INCOME AND SALES TAX ON MOTOR VEHICLES

($ in billions)

	Fiscal Year					
	2006	2007	2008	2009	2010	2011
SALES TAX (Cont.)						
Minnesota's Personal Income Excluding Farm Proprietors Income*						
February 2006 Baseline	195.47	206.78				
November 2006 Baseline	195.19	205.96	216.03	227.93		
February 2007 Baseline	195.42	205.82	216.81	229.20		
November 2007 Baseline	190.95	200.20	207.70	215.85		
February 2008 Baseline	190.84	200.00	209.19	216.12		
November 2008 Baseline	190.82	200.36	210.61	216.41	219.52	227.48
February 2009 Baseline	190.80	200.35	210.20	213.84	215.33	223.33
November 2009 Baseline	194.29	205.02	213.26	213.68	212.56	219.22
February 2010 Baseline	194.33	205.02	213.26	213.65	214.25	219.93
SALES TAX ON MOTOR VEHICLES						
Minnesota's Proxy Share of U.S. Consumption of Motor Vehicles and Parts						
February 2006 Baseline	8.919	9.258				
November 2006 Baseline	9.018	9.061	8.993	9.292		
February 2007 Baseline	8.963	8.951	9.159	9.597		
November 2007 Baseline	8.869	8.892	8.681	8.852		
February 2008 Baseline	8.873	8.872	8.569	8.506		
November 2008 Baseline	8.846	8.862	8.571	6.895	7.977	8.380
February 2009 Baseline	8.846	8.862	8.561	6.642	7.074	7.699
November 2009 Baseline**	6.621	6.480	6.193	4.773	4.999	5.502
February 2010 Baseline****	4.835	4.753	4.388	3.172	3.571	4.255
CORPORATE FRANCHISE TAX	**Calendar Year**					
U.S. Corporate Profits						
February 2006 Baseline	1,137.8	1,329.9				
November 2006 Baseline	1,237.4	1,460.7	1,481.5	1,382.8		
February 2007 Baseline	1,237.4	1,460.7	1,617.8	1,463.6		
November 2007 Baseline***	1,368.6	1,392.4	1,302.8	1,355.1		
February 2008 Baseline***	1,368.6	1,373.7	1,310.7	1,326.7		
November 2008 Baseline***	1,557.8	1,510.5	1,402.8	1,286.4	1,446.5	1,493.8
February 2009 Baseline***	1,557.8	1,510.5	1,378.7	993.6	1,286.7	1,480.7
November 2009 Baseline***	1,453.3	1,489.7	1,349.9	1,065.2	1,314.2	1,366.3
February 2010 Baseline***	1,453.3	1,489.7	1,349.9	1,065.2	1,283.8	1,355.6

* Bureau of Economic Analysis Concept

** Revised by Bureau of Economic Analysis to exclude parts.

*** MMB Estimate of Domestic Corporate Profits & adjusted to net effects of the Federal Tax Acts of 2002, 2003, and 2008.

**** MN's Proxy Share of U.S. Consumption of New Motor Vehicles.

FY 2010-11 General Fund Budget
February 2010 Forecast
($ in thousands)

	FY 2010	FY 2011	Biennial Total FY 2010-11
Actual & Estimated Resources			
Balance Forward From Prior Year	446,921	226,649	446,921
Current Resources:			
Tax Revenues	13,465,708	14,381,347	27,847,055
Non-Tax Revenues	739,423	737,098	1,476,521
Subtotal - Non-Dedicated Revenue	14,205,131	15,118,445	29,323,576
Dedicated Revenue	34,539	28,357	62,896
Transfers From Other Funds	305,751	245,084	550,835
Prior Year Adjustments	48,866	25,000	73,866
Subtotal - Other Revenue	389,156	298,441	687,597
Subtotal Current Resources	14,594,287	15,416,886	30,011,173
Total Resources Available	**15,041,208**	**15,643,535**	**30,458,094**
Actual & Estimated Expenditures			
K-12 Education	6,359,603	6,963,225	13,322,828
K-12 Ptx Rec Shift/Aid Payment Shift	(1,006,808)	(708,973)	(1,715,781)
Subtotal K-12 Education	5,352,795	6,254,252	11,607,047
Higher Education	1,427,712	1,430,843	2,858,555
Property Tax Aids & Credits	1,590,718	1,491,968	3,082,686
Health & Human Services	4,221,568	4,794,467	9,016,035
Public Safety	892,116	927,069	1,819,185
Transportation	98,311	94,236	192,547
Environment, Energy & Natural Resources	186,047	178,421	364,468
Agriculture & Veterans	129,245	122,822	252,067
Economic Development	140,656	131,748	272,404
State Government	321,712	317,160	638,872
Debt Service	429,123	526,510	955,633
Capital Projects	11,100	16,300	27,400
Estimated Cancellations	(6,000)	(16,493)	(22,493)
Subtotal by Appropriation Bill	14,795,103	16,269,303	31,064,406
Dedicated Revenue Expenditures	19,456	18,636	38,092
Total Expenditures & Transfers	**14,814,559**	**16,287,939**	**31,102,498**
Balance Before Reserves	**226,649**	**(644,404)**	**(644,404)**
Cash Flow Account	350,000	350,000	350,000
Budgetary Balance	**(123,351)**	**(994,404)**	**(994,404)**

FY 2010-11 General Fund Forecast Change
February 2010 vs November 2009
($ in thousands)

	11-09 Fcst FY 2010-11	2-10 Fcst FY 2010-11	$ Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	446,921	446,921	0
Current Resources:			
Tax Revenues	27,762,644	27,847,055	84,411
Non-Tax Revenues	1,529,837	1,476,521	(53,316)
Subtotal - Non-Dedicated Revenue	29,292,481	29,323,576	31,095
Dedicated Revenue	67,096	62,896	(4,200)
Transfers From Other Funds	560,052	550,835	(9,217)
Prior Year Adjustments	66,837	73,866	7,029
Subtotal - Other Revenue	693,985	687,597	(6,388)
Subtotal Current Resources	29,986,466	30,011,173	24,707
Total Resources Available	**30,433,387**	**30,458,094**	**24,707**
Actual & Estimated Expenditures			
K-12 Education	13,337,420	13,322,828	(14,592)
K-12 Ptx Rec Shift/Aid Payment Shift	(1,717,382)	(1,715,781)	1,601
Subtotal K-12 Education	11,620,038	11,607,047	(12,991)
Higher Education	2,858,555	2,858,555	0
Property Tax Aids & Credits	3,098,226	3,082,686	(15,540)
Health & Human Services	9,165,634	9,016,035	(149,599)
Public Safety	1,819,185	1,819,185	0
Transportation	192,375	192,547	172
Environment, Energy & Natural Resources	363,585	364,468	883
Agriculture & Veterans	252,879	252,067	(812)
Economic Development	272,404	272,404	0
State Government	639,160	638,872	(288)
Debt Service	954,522	955,633	1,111
Capital Projects	29,800	27,400	(2,400)
Estimated Cancellations	(21,000)	(22,493)	(1,493)
Subtotal by Appropriation Bill	31,245,363	31,064,406	(180,957)
Dedicated Revenue Expenditures	40,692	38,092	(2,600)
Total Expenditures & Transfers	**31,286,055**	**31,102,498**	**(183,557)**
Balance Before Reserves	**(852,668)**	**(644,404)**	**208,264**
Cash Flow Account	350,000	350,000	0
Budgetary Balance	**(1,202,668)**	**(994,404)**	**208,264**

Current Biennium vs Previous Biennium

February 2010 General Fund Forecast

($ in thousands)

	Closing FY 2008-09	2-10 Fcst FY 2010-11	$ Difference	% Change
Actual & Estimated Resources				
Balance Forward From Prior Year	2,244,935	446,921	(1,798,014)	-80.1%
Current Resources:				
Tax Revenues	29,461,611	27,847,055	(1,614,556)	-5.5%
Non-Tax Revenues	1,587,048	1,476,521	(110,527)	-7.0%
Subtotal - Non-Dedicated Revenue	31,048,659	29,323,576	(1,725,083)	-5.6%
Dedicated Revenue	150,051	62,896	(87,155)	-58.1%
Transfers From Other Funds	817,523	550,835	(266,688)	-32.6%
Prior Year Adjustments	52,158	73,866	21,708	41.6%
Subtotal - Other Revenue	1,019,732	687,597	(332,135)	-32.6%
Subtotal Current Resources	32,068,391	30,011,173	(2,057,218)	-6.4%
Total Resources Available	**34,313,326**	**30,458,094**	**(3,855,232)**	**-11.2%**
Actual & Estimated Expenditures				
K-12 Education	13,760,765	13,322,828	(437,937)	-3.2%
K-12 Ptx Rec Shift/Aid Payment Shift	(10,525)	(1,715,781)	(1,705,256)	n/m
Subtotal K-12 Education	13,750,240	11,607,047	(2,143,193)	-15.6%
Higher Education	3,113,216	2,858,555	(254,661)	-8.2%
Property Tax Aids & Credits	3,069,637	3,082,686	13,049	0.4%
Health & Human Services	9,090,521	9,016,035	(74,486)	-0.8%
Public Safety	1,866,675	1,819,185	(47,490)	-2.5%
Transportation	253,244	192,547	(60,697)	-24.0%
Environment, Energy & Natural Resources	401,566	364,468	(37,098)	-9.2%
Agriculture & Veterans	271,411	252,067	(19,344)	-7.1%
Economic Development	410,447	272,404	(138,043)	-33.6%
State Government	668,011	638,872	(29,139)	-4.4%
Debt Service	862,151	955,633	93,482	10.8%
Capital Projects	20,495	27,400	6,905	33.7%
Other	34,518	0	(34,518)	n/m
Estimated Cancellations	0	(22,493)	(22,493)	n/m
Subtotal by Appropriation Bill	33,812,132	31,064,406	(2,747,726)	-8.1%
Dedicated Revenue Expenditures	54,273	38,092	(16,181)	-29.8%
Total Expenditures & Transfers	**33,866,405**	**31,102,498**	**(2,763,907)**	**-8.2%**
Balance Before Reserves	**446,921**	**(644,404)**	**(1,091,325)**	
Cash Flow Account	350,000	350,000	0	
Appropriations Carried Forward	44,758	0	(44,758)	
Budgetary Balance	**52,163**	**(994,404)**	**(1,046,567)**	

FY 2012-13 General Fund Planning Estimates Change

February 2010 vs November 2009

($ in thousands)

	11-09 Plng Est FY 2012-13	2-10 Plng Est FY 2012-13	$ Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	(852,668)	(644,404)	208,264
Current Resources:			
Tax Revenues	31,148,564	30,924,742	(223,822)
Non-Tax Revenues	1,474,467	1,403,103	(71,364)
Subtotal - Non-Dedicated Revenue	32,623,031	32,327,845	(295,186)
Dedicated Revenue	60,914	56,714	(4,200)
Transfers From Other Funds	483,905	471,957	(11,948)
Prior Year Adjustments	50,000	50,000	0
Subtotal - Other Revenue	594,819	578,671	(16,148)
Subtotal Current Resources	33,217,850	32,906,516	(311,334)
Total Resources Available	**32,365,182**	**32,262,112**	**(103,070)**
Actual & Estimated Expenditures			
K-12 Education	14,267,321	14,377,272	109,951
K-12 Ptx Rec Shift/Aid Payment Shift	1,155,894	1,151,521	(4,373)
Subtotal K-12 Education	15,423,215	15,528,793	105,578
Higher Education	3,025,674	3,025,674	0
Property Tax Aids & Credits	3,663,040	3,651,723	(11,317)
Health & Human Services	11,779,839	11,740,900	(38,939)
Public Safety	1,829,420	1,829,420	0
Transportation	196,770	196,770	0
Environment, Energy & Natural Resources	361,645	363,154	1,509
Agriculture & Veterans	251,266	249,415	(1,851)
Economic Development	263,592	263,592	0
State Government	650,550	650,296	(254)
Debt Service	1,152,851	1,154,793	1,942
Capital Projects	45,219	45,219	0
Estimated Cancellations	(20,000)	(22,711)	(2,711)
Subtotal by Appropriation Bill	38,623,081	38,677,038	53,957
Dedicated Revenue Expenditures	21,035	18,435	(2,600)
Total Expenditures & Transfers	**38,644,116**	**38,695,473**	**51,357**
Balance Before Reserves	**(6,278,934)**	**(6,433,361)**	**(154,427)**
Cash Flow Account	350,000	350,000	0
Budgetary Balance	**(6,628,934)**	**(6,783,361)**	**(154,427)**
Structural Balance	***(5,426,266)***	***(5,788,957)***	***(362,691)***

FY 2008-13 Planning Horizon
February 2010 General Fund Forecast
($ in thousands)

	Closing FY 2008-09	2-10 Fcst FY 2010-11	2-10 Plng Est FY 2012-13
Actual & Estimated Resources			
Balance Forward From Prior Year	2,244,935	446,921	(644,404)
Current Resources:			
Tax Revenues	29,461,611	27,847,055	30,924,742
Non-Tax Revenues	1,587,048	1,476,521	1,403,103
Subtotal - Non-Dedicated Revenue	31,048,659	29,323,576	32,327,845
Dedicated Revenue	150,051	62,896	56,714
Transfers From Other Funds	817,523	550,835	471,957
Prior Year Adjustments	52,158	73,866	50,000
Subtotal - Other Revenue	1,019,732	687,597	578,671
Subtotal Current Resources	32,068,391	30,011,173	32,906,516
Total Resources Available	**34,313,326**	**30,458,094**	**32,262,112**
Actual & Estimated Expenditures			
K-12 Education	13,760,765	13,322,828	14,377,272
K-12 Ptx Rec Shift/Aid Payment Shift	(10,525)	(1,715,781)	1,151,521
Subtotal K-12 Education	13,750,240	11,607,047	15,528,793
Higher Education	3,113,216	2,858,555	3,025,674
Property Tax Aids & Credits	3,069,637	3,082,686	3,651,723
Health & Human Services	9,090,521	9,016,035	11,740,900
Public Safety	1,866,675	1,819,185	1,829,420
Transportation	253,244	192,547	196,770
Environment, Energy & Natural Resources	401,566	364,468	363,154
Agriculture & Veterans	271,411	252,067	249,415
Economic Development	410,447	272,404	263,592
State Government	668,011	638,872	650,296
Debt Service	862,151	955,633	1,154,793
Capital Projects	20,495	27,400	45,219
Other	34,518	0	0
Estimated Cancellations	0	(22,493)	(22,711)
Subtotal by Appropriation Bill	33,812,132	31,064,406	38,677,038
Dedicated Revenue Expenditures	54,273	38,092	18,435
Total Expenditures & Transfers	**33,866,405**	**31,102,498**	**38,695,473**
Balance Before Reserves	**446,921**	**(644,404)**	**(6,433,361)**
Cash Flow Account	350,000	350,000	350,000
Appropriations Carried Forward	44,758	0	0
Budgetary Balance	**52,163**	**(994,404)**	**(6,783,361)**

Historical and Projected Revenue Growth

February 2010 Forecast

($ in millions)	Actual FY 2006	Actual FY 2007	Actual FY 2008	Actual FY 2009	Estimated FY 2010	Estimated FY 2011	Average Annual
Individual Income Tax	$6,863	$7,231	$7,759	$6,988	$6,720	$7,332	
$ change		368	528	(771)	(268)	612	
% change		**5.4%**	**7.3%**	**-9.9%**	**-3.8%**	**9.1%**	**1.3%**
Sales Tax	4,464	4,506	4,571	4,344	4,155	4,381	
$ change		42	65	(227)	(189)	226	
% change		**0.9%**	**1.4%**	**-5.0%**	**-4.4%**	**5.4%**	**-0.4%**
Corporate Tax	1,062	1,171	1,020	708	631	768	
$ change		109	(151)	(312)	(77)	137	
% change		**10.3%**	**-12.9%**	**-30.6%**	**-10.9%**	**21.7%**	**-6.3%**
Statewide Property Tax	631	666	704	729	759	764	
$ change		34	38	25	30	5	
% change		**5.5%**	**5.7%**	**3.6%**	**4.1%**	**0.7%**	**3.9%**
Motor Vehicle Sales	250	247	186	117	74	32	
$ change		(2)	(61)	(69)	(43)	(42)	
% change		**-1.0%**	**-24.7%**	**-37.1%**	**-36.8%**	**-56.8%**	**-33.7%**
Other Tax Revenue	1,380	1,211	1,172	1,164	1,127	1,104	
$ change		(169)	(39)	(8)	(37)	(23)	
% change		**-12.2%**	**-3.2%**	**-0.7%**	**-3.2%**	**-2.0%**	**-4.4%**
Total Tax Revenue	$14,649	$15,032	$15,412	$14,050	$13,466	$14,381	
$ change		383	380	(1,362)	(584)	915	
% change		**2.6%**	**2.5%**	**-8.8%**	**-4.2%**	**6.8%**	**-0.4%**
Non-Tax Revenues	861	876	824	762	739	737	
$ change		15	(52)	(62)	(23)	(2)	
% change		**1.7%**	**-6.0%**	**-7.5%**	**-3.0%**	**-0.3%**	**-3.1%**
Dedicated, Transfers, Other	452	471	444	576	389	299	
$ change		19	(27)	132	(187)	(90)	
% change		**4.1%**	**-5.7%**	**29.7%**	**-32.5%**	**-23.1%**	**-7.9%**
Total Current Resources	$15,962	$16,379	$16,680	$15,388	$14,594	$15,417	
$ change		417	301	(1,292)	(794)	823	
% change		**2.6%**	**1.8%**	**-7.7%**	**-5.2%**	**5.6%**	**-0.7%**

Historical and Projected Spending Growth

February 2010 Forecast

($ in millions)	Actual FY 2006	Actual FY 2007	Actual FY 2008	Actual FY 2009	Estimated FY 2010	Estimated FY 2011	Average Annual
K-12 Education	$6,301	$6,438	$6,819	$6,938	$5,353	$6,254	
$ change		138	381	119	(1,585)	901	
% change		**2.2%**	**5.9%**	**1.7%**	**-22.8%**	**16.8%**	**-0.1%**
Higher Education	1,348	1,414	1,563	1,550	1,428	1,431	
$ change		66	149	(13)	(122)	3	
% change		**4.9%**	**10.6%**	**-0.8%**	**-7.9%**	**0.2%**	**1.2%**
Prop. Tax Aids & Credits	1,464	1,559	1,581	1,489	1,591	1,492	
$ change		96	22	(92)	102	(99)	
% change		**6.5%**	**1.4%**	**-5.8%**	**6.9%**	**-6.2%**	**0.4%**
Health & Human Services	3,910	4,311	4,630	4,460	4,222	4,794	
$ change		401	319	(170)	(238)	572	
% change		**10.3%**	**7.4%**	**-3.7%**	**-5.3%**	**13.5%**	**4.2%**
Public Safety	812	895	909	957	892	927	
$ change		83	14	48	(65)	35	
% change		**10.3%**	**1.6%**	**5.3%**	**-6.8%**	**3.9%**	**2.7%**
Debt Service	352	400	409	453	429	527	
$ change		47	9	44	(24)	98	
% change		**13.4%**	**2.3%**	**10.8%**	**-5.3%**	**22.8%**	**8.4%**
All Other	1,356	931	1,094	1,014	899	863	
$ change		(426)	163	(80)	(115)	(36)	
% change		**-31.4%**	**17.6%**	**-7.3%**	**-11.3%**	**-4.0%**	**-8.6%**
Total Spending	$15,542	$15,947	$17,005	$16,861	$14,814	$16,288	
$ change		405	1,058	(144)	(2,047)	1,474	
% change		**2.6%**	**6.6%**	**-0.8%**	**-12.1%**	**10.0%**	**0.9%**