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MINNESOTA Management & Budget

November 2010 Forecast

Highlights

$399 Million Surplus in FY 2010-11, $6.2 Billion Shortfall in FY 2012-13

A general fund balance of $399 million is now projected for the close of the 2010-11 biennium. This improvement in the state's short-term financial outlook comes entirely from expenditure savings, including the six-month extension of a higher federal matching rate for Medical Assistance. The revenue outlook has deteriorated slightly. FY 2010-11 revenues are now projected to be $44 million less than end-of-session estimates.

FY 2012-13 revenues are now forecast to total $32.004 billion and biennial spending is projected to be $38.591 billion. The gap in forecast revenues and expenditures is reduced by the $399 million balance now expected at the close of FY 2011, leaving a projected budget shortfall for the 2012-13 biennium of $6.188 billion - $593 million worse than previous estimates.

Revenue-Expenditure Gap Drives Longer Term Budget Outlook

The FY 2012-13 budget picture remains similar to that at the end-of-session. While revenues for FY 2012-13 are forecast to grow by $1.510 billion (5.0 percent) over FY 2010-11, expenditures are projected to grow by $8.324 billion (27.5 percent). The unusually high expenditure growth rate stems primarily from actions that yielded one-time savings in FY 2010-11, such as federal stimulus aid and K-12 school payment shifts. These short-term federal subsidies and one-time actions allowed the state to balance its 2010-11 budget without significantly reducing overall spending commitments for 2012-13 and beyond. This causes 2012-13 spending to increase dramatically over the current biennium. Absent significant changes, the current level of spending, matched against revenue growth permanently lost during the recession, will likely create significant budget gaps well beyond FY 2012-13.

Slow Growth Economic Recovery Expected to Continue

The economy's recovery from the Great Recession has been slower than expected and forecasts for economic growth in 2011 and 2012 have been scaled back. Back-to-back recessions are not anticipated, but an extended period of sub-par growth continues to be very likely. Global Insight's November baseline calls for real GDP growth of 2.5 percent in FY 2011, and 2.7 percent over the 2012-13 biennium. In February, growth rates of 2.8 percent and 3.5 percent were anticipated.

BUDGET SUMMARY

$399 Million Surplus Projected for FY 2010-11, $6.188 Billion Budget Shortfall Now Forecast for FY 2012-13

This forecast improves the state's budget outlook for the current biennium. But, the short-term good news quickly gives way to increased shortfalls in the longer term outlook. The balance for FY 2010-11 has increased from the $6 million projected in May to $399 million. By October, federal action had provided an estimated $231 million for a six-month extension of a higher federal matching rate for Medical Assistance (the state's Medicaid program) while the October legislative session authorized $38 million for disaster relief. Forecast changes now contribute an additional $202 million, with FY 2010-11 projected spending $255 million lower, offset by a $44 million reduction in revenues.

While the short-term outlook has improved slightly, the outlook for the 2012-13 biennium has worsened. Expected revenues are less than previously projected, and that revenue decline is only partially offset by lower forecast spending.

Budget Forecast, FY 2010-13

($ in Millions)

	FY 2010-11	FY 2012-13
Beginning Balance	$447	$674
Revenues	30,493	32,004
Spending	30,266	38,591
Budget Reserve	9	9
Cash Flow Account	266	266
Budget Balance	**$399**	**($6,188)**
Structural Gap (excluding FY 2010-11 Balance)	**- - -**	**($6,587)**

Normally any forecast balance would be allocated by statutory requirements to restore the general fund cash flow account and the budget reserve. However, this provision was suspended the October special legislative session because federal law prohibits any state savings resulting from the higher Medicaid matching rate from contributing directly or indirectly to state reserves. Separately, $8.6 million from the workers' compensation assigned risk plan was deposited in the budget reserve, a surplus directed to the reserve by current statutes.

The $399 million FY 2010-11 balance will carry forward into FY 2012-13 and partially offset a $6.587 billion revenue-expenditure gap now projected for next biennium, leaving a $6.188 billion prospective budgetary shortfall.

Little Change in Projected Revenues, Significant Savings in Spending for FY 2010-11

General fund revenues for the 2010-11 biennium are now forecast to total $30.493 billion, $44 million (0.1 percent) less than end-of-session estimates. The forecast for total taxes falls by only $9 million or less than 0.1 percent. There were larger changes in particular sources of revenue. Individual income tax receipts are now forecast to fall short of earlier projections by $314 million (2.2 percent). Much of that decline comes from lower than expected tax year 2009 final liability. The drop in expected income tax revenue was largely offset by a $199 million improvement in the corporate income tax forecast and a $55 million increase in expected net receipts from the sales tax.

FY 2010-11 Forecast Changes

($ in millions)

	End of Session	November Forecast	$ Difference
Revenues			
Income tax	14,080	13,766	(314)
Corporate	1,432	1,631	199
Sales Tax	8,654	8,709	55
Other Taxes	3,860	3,911	51
Non-Tax Revenues	1,597	1,570	(27)
Transfers & Other	914	906	(8)
Total Revenues	**$30,537**	**$30,493**	**($44)**
Spending			
K-12 Education	11,390	11,438	48
Health & Human Services	8,852	8,669	(183)
Debt Service	955	832	(123)
All Other	9,324	9,327	3
Total Spending	**$30,521**	**$30,266**	**($255)**

Projected spending in FY 2010-11 is $255 million below end-of-session estimates. A $183 million decrease in health and human services spending is due to lower than expected Medical Assistance costs – as well as revised estimates of the closeout of the General Assistance Medical Care program and the contingent early expansion of MA to single adults. A $123 million reduction in FY 2011 debt services costs results from one-time savings from bond refinancing in September 2010 and savings from this past summer's bond sale.

The forecast for K-12 education spending increased $48 million. The increase results primarily from a $58 million reduction in savings for the property tax recognition shift. Small increases occur in the general education formula, but are more than offset by reductions in the forecast for Q-Comp and other aid programs resulting in a net $10 million reduction in expected aid payments without the impact of shifts.

Revenue-Expenditure Gap Drives Longer Term Budget Outlook

General fund revenues for FY 2012-13 are now forecast to be $32.004 billion, a $1.510 billion (5.0 percent) increase from expected revenue collections in the current biennium. Projected current law spending is expected to reach $38.591 billion, an increase of $8.324 billion (27.5 percent) over the spending forecast for the current biennium.

FY 2012-13 Budget Forecast

($ in millions)

	FY 2010-11	FY 2012-13	$ Change	% Change
Beginning Balance	**$447**	**$674**	**$227**	
Revenues				
Taxes	28,017	29,993	1,976	7.1
Non-Tax Revenues	1,570	1,475	(95)	(6.1)
Transfers, Other Resources	906	536	(370)	(40.8)
Total Revenues	**30,493**	**32,004**	**1,510**	**5.0%**
Expenditures				
K-12 Education	13,327	14,346	1,019	7.6
Payment Shifts	(1,889)	1,302	3,191	nm
Higher Education	2,814	2,917	102	3.6
Local Aids & Credits	3,018	3,469	450	14.9
Health & Human Services	8,669	11,907	3,238	37.3
Debt Service	832	1,141	309	37.2
All Other	3,495	3,509	14	0.4
Total Spending	**30,266**	**38,591**	**8,324**	**27.5%**
Budget Reserve	9	9	--	--
Cash Flow Account	266	266	--	--
Budget Balance	**$399**	**($6,188)**		

Tax revenues for the FY 2012-13 biennium are forecast to be $1.976 billion above amounts expected in the current biennium. General fund receipts from non-tax revenues and transfers from other funds however, are expected to be well below amounts received in the 2010-11 biennium mainly due one-time resources transferred to the general fund as part of actions taken to balance the budget.

Projected current law spending for the biennium is $8.324 billion above forecast amounts for FY 2010-11. If significant one-time impacts are excluded, approximately $2.0 billion of the growth represents forecast program growth. Growth in human services programs accounts for about 70 percent of underlying forecast growth, reflecting increasing health care costs, growth in enrollments, and program changes like the contingent early expansion of medical assistance. Growth in K-12 spending accounts for a significant portion of the remainder, due primarily to slightly higher pupil unit growth and changing demographics of student populations.

Understanding the Projected FY 2012-13 Budget Shortfall

Factors Contributing to $8.3 Billion Spending Growth in FY 2012-13

By any standard, the projected 27.5 percent growth in current law spending is unusually large. Three-quarters, about $6.3 billion, of the $8.3 billion of the growth shown in projected FY 2012-13 spending is from one-time federal stimulus resources, education payment shifts, and one-time budget actions that created general fund savings in FY 2010-11 that do not continue into the next biennium.

Major components include:

- $2.3 billion in federal stimulus funding used to reduce general fund spending in FY 2010-11; including $1.456 billion from a higher federal matching rate for Medical Assistance (FMAP) and $816 million state fiscal stabilization funding.
- $1.9 billion of K-12 education payment shifts that reduced FY 2010-11 spending
- $1.4 billion increase in FY 2012 spending for K-12 payment shift buyback required in current law
- $660 million in one-time reductions made in FY 2010-11. These occur primarily in higher education, local aids and credits, and human services' programs.

Approximately $2 billion of the remaining biennial growth represents forecast program growth. That growth is driven by increases in K-12 education, health and human services, local aids and credits and debt service due to expected changes in eligibility, enrollments, and projected changes in some costs affecting these major areas. If the significant one-time events are excluded, biennial spending growth would be about 6.6 percent, rather than 27.5 percent.

Factors Affecting Revenue Growth

Revenue growth is distorted in a similar, but less significant manner. FY 2010-11 budget actions delayed $236 million in sales and corporate refunds in FY 2011 until FY 2012, effectively reducing tax revenue growth shown for the biennium. Legislative action also resulted in $340 million of transfers from other state funds to the general fund in FY 2010-11. These transfers do not recur in FY 2012-13, also effectively reducing the total revenue growth shown for the biennium.

FY 2012-13 Revenues Down $904 million from End-of-Session Planning Estimates

Minnesota general fund revenues for the 2012-13 biennium are forecast to total $32.004 billion, $904 million (2.8 percent) less than prior revenue planning estimates. A slightly weaker outlook for economic growth through the entire forecast horizon is the primary reason for the decline in the revenues outlook from the end-of-session planning estimates to this forecast. This is the first official forecast of revenues for the 2012-13 biennium. Previous revenue estimates for FY 2012-13 have been based on trend growth rates for the U.S. economy and have not incorporated Minnesota specific data into the tax models.

FY 2012-13 General Fund Revenue Forecast
Change from End of Session Revenue Planning Estimates

($ in millions)

	November Forecast	Change ($)	Change (%)
Income Tax	15,676	(471)	(2.9)
Sales Tax	9,031	(119)	(1.3)
Corporate Tax	1,541	(185)	(10.7)
Statewide Levy	1,560	(3)	(0.2)
Subtotal	27,808	(778)	(2.7)
Other	4,196	(126)	(2.9)
Total Revenue	32,004	(904)	(2.8)

Individual income tax receipts showed the largest dollar decline from the planning estimates, down $471 million or 2.9 percent. Corporate income taxes had the largest percentage decline, off 10.7 percent or $185 million. Sales tax receipts are now forecast to fall short of prior planning estimates by $119 million or 1.3 percent.

Forecast for FY 2012-13 Expenditures Down $108 Million from End-of-session Estimates

Projected spending in FY 2012-13 is $108 million (0.2 percent) below end-of-special session estimates. A $111 million decrease in estimated health and human services spending is the primary source of the savings. Small overall adjustments to enrollment growth and average cost for Medical Assistance programs account for the decrease from prior forecasts.

The forecast for K-12 education spending increases $26 million from previous estimates. The increase results primarily from a $41 million reduction in savings from the property tax recognition shift, due to a downward revision in expected property tax levies. Small increases occur in the general education formula payments, but this is more than offset by reductions in Q-Comp and other aids, resulting in a net $15 million reduction in forecast aid payments exclusive of the impact of shifts.

Other forecast savings include a small, $12 million reduction in debt service estimates. Lower interest rates on new bond issues, offset by slightly higher assumptions on the size of capital budgets and bond sales, result in the savings.

FY 2012-13 Expenditures - Forecast Changes

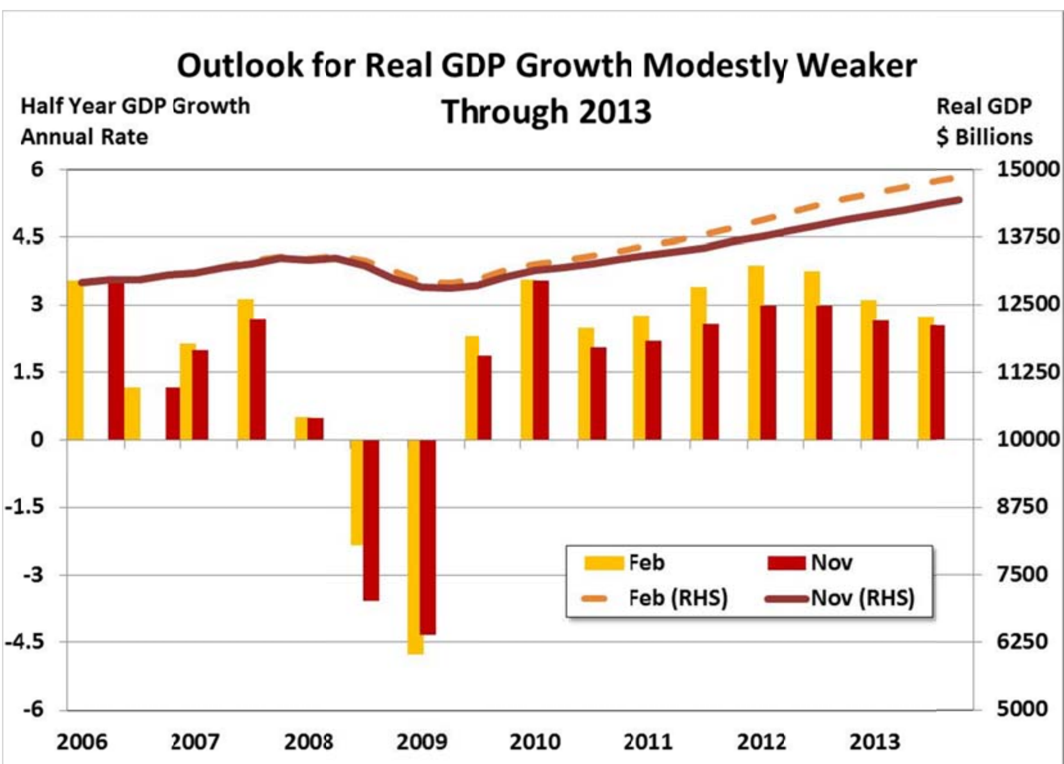
($ in millions)

	End of Session	November Forecast	$ Difference
K-12 Education	$15,622	$15,648	$26
Higher Education	2,917	2,917	0
Health & Human Services	12,018	11,907	(111)
Debt Service	1,153	1,141	(12)
All Other	6,989	6,978	(11)
Total Spending	**$38,699**	**$38,591**	**($108)**

This Economic Recovery Has Been Even Slower than Previously Forecast

The 2007-09 recession is over. In September the National Bureau of Economic Research made it official declaring that the economy turned up again in June, 2009. But, real GDP growth over the past 16 months has been unusually slow for quarters immediately following a recession, and U.S. employment growth has been very disappointing. Forecasters who in February expected a robust, V-shaped recovery have been proven overly optimistic, but even those who were more pessimistic have been surprised by how slowly the economy has moved to right itself. February's consensus forecast of a long slow recovery has been replaced with one calling for an even slower, and even more extended recovery.

February's baseline forecast from Global Insight Inc. (GII), Minnesota's national macro-economic consultant, had real GDP reaching its pre-recession high in the late spring of 2010 but U.S. payroll employment was expected to remain below its earlier high for almost until early 2013. At that time the unemployment rate would still be at the uncomfortably high 8 percent level. GII's November baseline is slightly more pessimistic, with quarterly growth rates for every quarter from the start of fiscal 2011 through the end of fiscal 2013 below February's estimates. Reductions on the forecast are not large when viewed on an individual basis, but their cumulative impact is significant. February's baseline showed real GDP growth of 10 percent between the end of the 2010 fiscal year and the end of fiscal 2013. In GII's November baseline real GDP growth over those three fiscal years is only 8.0 percent. Real GDP is now not expected to reach its pre-recession high until early 2011.



Global Insight does expects slightly slower real GDP growth over the 2011 – 2013 forecast horizon than the Blue Chip Consensus. November's baseline is assigned a probability of 65 percent. A more optimistic scenario with a considerably more rapid recovery is assigned a probability of 15 percent, while GII assigns a scenario with a recession beginning in early 2011 a probability of 20 percent.

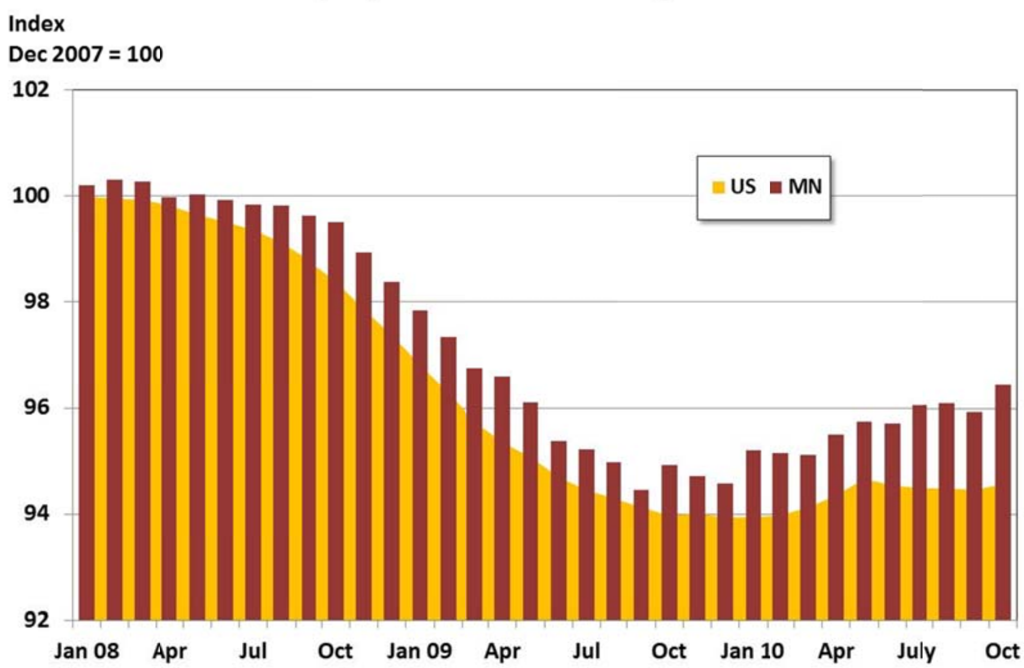
Minnesota's Recovery Appears to be Stronger Than the U.S. Average

The Great Recession had a devastating impact on employment. Nationally almost 8.4 million jobs were lost between December of 2007 and December 2009, and the unemployment rate climbed to as high as 10.1 percent. There has been job growth in 2010, but the numbers have has been disappointing and the unemployment rate appears to have settled in at 9.6 percent. Global Insight now believes that U.S. employment will not reach its pre-recession high until late 2013 and that the unemployment rate will exceed 8 percent until 2014.

Minnesota's job market also has suffered through a very difficult three years. But, it has not weakened by as much as the national averages. Minnesota lost 157,000 jobs between the start of the recession in December 2007 and September, 2009 when employment in the state reached its low. Since then the recovery appears to be progressing faster here than nationally. We have added 44,000 jobs in the last year and nearly 55,000 since September's low.

Employment in Minnesota's leisure and hospitality sector grew the most, up nearly 13,000 jobs from year earlier levels. Professional and business services (which includes temporary employment services), health services, and manufacturing sectors also showed significant growth with employment levels in each of those sectors at least 8,800 above their October 2009 levels. Construction employment, down more than 6,000 and local government employment, down 4,000 continued to decline. Minnesota's current unemployment rate is 7.1 percent, 2.5 percent less than the national average.

Minnesota Employment Is Recovering Faster than the U.S.



Planning Estimates Outlook

Most states continue to face sizeable budget problems and many national observers suggest that states are unlikely to see improvements in their fiscal positions in the near future. Historically, state revenues and fiscal stability lag economic recovery. For this reason, a longer term outlook is a useful measure when formulating state budget plans. In Minnesota, the gap between revenue growth and increased spending will continue until significant, ongoing budget changes are enacted.

This report provides the first revenue and expenditure planning estimates for the 2014-15 biennium. The planning estimates provide a necessary framework against which the potential impact of FY 2012-13 budget decisions can be judged. Projected revenues for FY 2014-15 are based on long-term trends of economic growth and personal income growth not a specific short-term forecast.

Expenditure planning estimates do not include spending changes beyond those in current law. Current law projections have been adjusted only to reflect enrollment and caseload growth in entitlement programs and areas where specific statutory formulae exist. Expenditure estimates are also not adjusted for general inflation so there may be spending pressures beyond those reflected.

FY 2014-15 Long Term Planning Estimates

($ in millions)

	FY 2010-11	FY 2012-13	FY 2014-15
Revenues	$30,493	$32,004	$34,595
Spending	30,266	38,591	39,678
Difference	**$227**	**($6,587)**	**($5,083)**
Inflation (CPI)		*$1,039*	*$2,813*

The planning estimates shown above display projected revenues compared to projected spending. The differences highlight the “structural” gap – how much more is being spent than collected. Changes in the economic outlook, as well as changes to the budget, will materially affect the planning estimates for the 2014-15 biennium.

Spending projections for FY 2012-13 and FY 2014-15 do not include estimated inflation. Inflation, based on the CPI, is forecast to be 1.7 and 2.0 percent for FY 2012 and FY 2013 respectively. At these levels, the cost of inflation would be $1.039 billion in the next biennium.

For FY 2014-15 inflation is expected to average slightly over 2.1 percent per year. Applying forecast inflation to the total of current law projected spending base over the four-year horizon would add about $2.8 billion to FY 2014-15 spending.

A complete version of this forecast can be found at the Minnesota Management & Budget’s World Wide Web site at http://www.mmb.state.mn.us/. This document is available in alternate format.

FORECAST FUNDAMENTALS
About the Revenue and Expenditure Forecast

The November forecast establishes the starting point for FY 2012-13 budget considerations. It contains revised revenue and expenditure estimates for the current biennium based on the most recent information about the national and state economic outlook, caseloads, enrollments, and cost projections. Additionally this forecast provides closing balances for FY 2010 and compares how actual revenue collections and expenditures in that year compare to end-of-session estimates.

The revised forecast for the 2010-11 biennium is followed by the first complete forecast for the next budget period, FY 2012-13, and by revenue and expenditure planning estimates for FY 2014-15. The planning estimates should not be interpreted as explicit forecasts, but rather as a guide to indicate whether proposed budgetary actions are sustainable in future years.

Revenue estimates for the current year and the next biennium are based on econometric models that forecast the Minnesota economy. Those models are driven by a national economic forecast prepared by Global Insight Incorporated (GII).

The GII baseline forecast is then reviewed by Minnesota's Council of Economic Advisors. Their 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 2014-15 are driven entirely by the longer-term national economic forecast provided by GII. No Minnesota specific forecast is used.

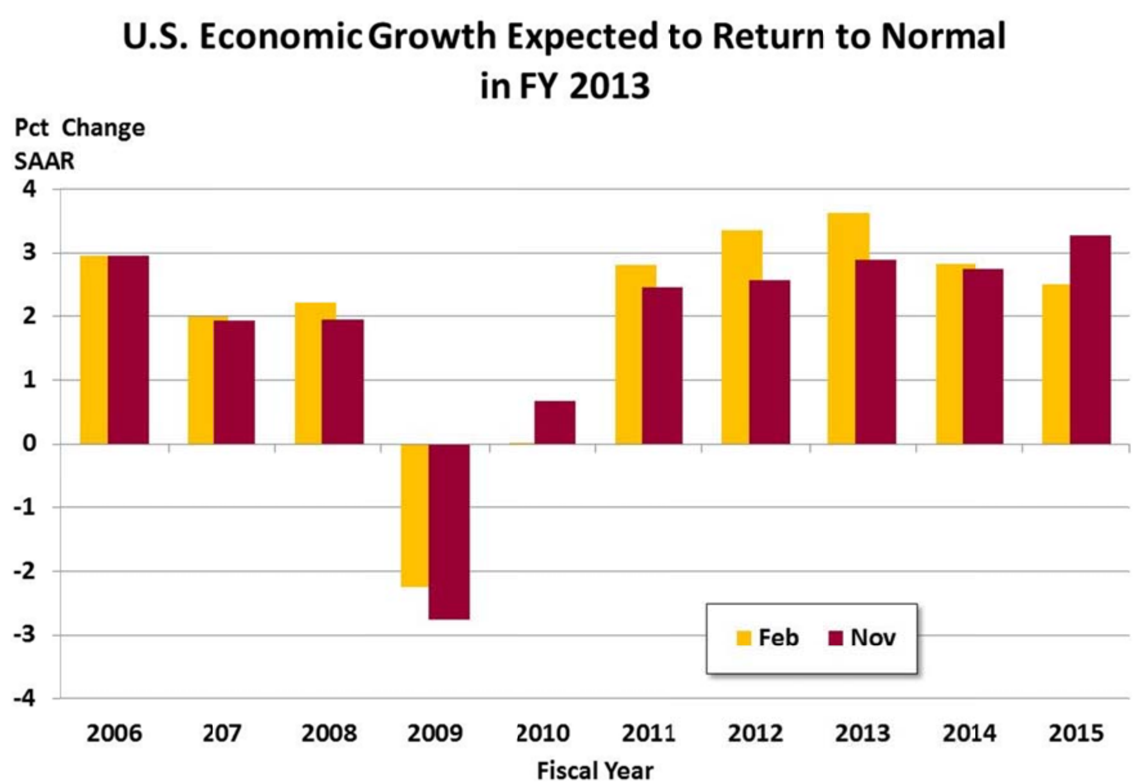
Expenditure estimates in most areas are shown at the level of FY 2011 appropriations plus any authorized future spending increases. Entitlement programs—such as K-12 education, property tax aids, health care, and family support are forecast based on expected changes in eligibility, enrollment, and average cost. No general adjustments for inflation were made in future spending.

The difference between the forecast and the budget process is clearly defined, but often confused. The forecast does not reflect the Governor's budget recommendations or potential legislative action, only current law. Presentation of the current law forecast for various areas will likely be accompanied by a discussion of possible future legislative changes. The forecast presents only a current law framework for those discussions. A forecast increase in spending for any area in the current biennium or the next biennium does not preclude the Governor or the Legislature from proposing budget changes that would lead to significantly different spending levels than are shown in this forecast.

ECONOMIC SUMMARY

Economic conditions have improved since mid-2009, but they have not improved enough. Even though real GDP has grown for five consecutive quarters, national output is still less than when the recession began. And, there are 7.5 million fewer jobs than at the close of 2007, the unemployment rate is currently 9.6 percent, and third quarter 2010 wages paid to U.S. workers totaled 2.2 percent less than the amount paid in the fourth quarter of 2007. Economists expected the recovery from the Great Recession to be slow and extended, and thus far, they have been right.

In February most expected real GDP to grow at an annual rate between 2½ and 3 percent in 2010 then accelerate modestly through 2013. Now, even though an economic recovery is clearly underway, those forecasts appear to have been too optimistic. To this point the recovery appears less substantial than anticipated and projections for growth in 2011 and beyond have been scaled back. Most forecasters now call for real GDP growth rates to increase only gradually from the 2 percent rate observed in the third quarter of 2010, not reaching a long-term sustainable rate of between 2 ¾ and 3 percent until mid-2012. Job growth, while projected to proceed at a faster pace in the near future, is not expected to be sufficient to bring the unemployment rate below 8 percent until 2014. A second, "back-to-back" recession is not seen as particularly likely, but there is growing concern that the U.S. economy has entered an extended period of sub-par growth.



The November baseline forecast of Global Insight Inc., (GII), Minnesota's national macro economic consultant, reflects the more modest growth path economists currently expect for the U.S. economy. GII now expects real GDP growth of 2.7 percent in calendar 2010 and 2.3 percent in 2011. For 2012 and 2013 real growth rates of 2.9 percent and 2.7 percent are anticipated. February's baseline was modestly more optimistic, calling for growth rates of 3.0 percent in 2010, 2.8 percent in 2011, and 3.7 percent and 3.2 percent in 2012 and 2013. Except for the 2012 forecast, differences between yearly growth rates in the February and November baselines are not large, but when compounded over a four year forecast horizon, the resulting cumulative growth rates are significantly different. In November's baseline real GDP grows by 11 percent between 2009 and 2013. In February's, growth of 13 percent, more than 2 percentage points more, was projected. GII expects inflation to remain under control with annual increases in the CPI remaining under 2 percent through 2013.

Global Insight's 2010 forecast for real GDP growth is identical to the Blue Chip Consensus and their 2011 forecast is just 0.2 percentage points below the Blue Chip Consensus forecast of 2.5 percent. Blue Chip's survey covers longer range projections only twice each year. In October their consensus expected slightly higher growth rates in 2012 and 2013 than did GII's November baseline. The Blue Chip Consensus calls for real GDP growth rates of 3.2 and 3.0 percent in 2012 and 2013. For 2014 and 2015 GII projects real GDP growth to proceed at a 3.1 percent annual rate. The Blue Chip Consensus calls for growth rates of 2.8 percent in 2014 and 2.7 percent in 2015. Both GII and the Blue Chip group expect inflation to remain under control through 2015, with projected annual CPI growth at 2.2 percent.

Global Insight assigns a probability of 65 percent to their November baseline. A somewhat more optimistic forecast is assigned a probability of 15 percent while a more pessimistic forecast which includes a recession in the first three quarters of 2011 received a probability of 20 percent. The optimistic forecast has the recovery following a more normal path with real GDP growth exceeding 4 percent in each of the next five quarters.

While their individual forecasts generally were slightly more optimistic than the GII baseline, members of Minnesota's Council of Economic Advisors agreed that the November baseline forecast reflects the consensus economic outlook through mid-2012. Most Council members also believed that the probability GII assigned their recession scenario was too high, and that there was a greater probability that the economy would outperform the baseline over the next two years than that real growth would fall short of projections. That said, Council members remained cautious in their outlook. Several noted that the level of short term uncertainty was unusually high, and that uncertainty about the economy, as well as future taxes, future health care costs, and future regulatory activity was holding back both investment and hiring. Some Council members believe the economy would benefit if some additional fiscal stimulus could be applied through spring 2011, but all recognized that any such action was extremely unlikely. Council members believe that the Federal Reserve's quantitative easing program is unlikely to have any significant impact on job growth or the speed at which the recovery progresses.

Council members also agreed that Global Insight forecast for real GDP growth of 3.1 percent in both 2014 and 2015 was an appropriate starting point for the state's baseline budget planning estimates for the 2014-15 biennium. Several council members, however, noted that given the monetary and fiscal policy actions taken in 2008 and early 2009 to combat the recession, there was a greater than usual probability that inflation would exceed the levels expected by Global Insight and the Blue Chip Consensus. Minnesota Management and Budget (MMB) economists noted that higher inflation estimates would lead to higher revenues than forecast.

MMB economists noted that state withholding tax receipts have exceeded forecast by 5 percent since the start of the 2011 fiscal year, indicating that wage growth in Minnesota has likely been stronger than anticipated. They also noted that other states and the federal government were also reporting stronger than projected growth in withholding receipts. MMB economists cautioned, however, that tax year 2009 liability remains more than $200 million (3 percent), below the level forecast in February. A reduction in tax year 2009 liability has a disproportionate impact on the revenue forecast because it lowers the base from which all future income tax forecasts are made, including those for tax years 2012 and 2013.

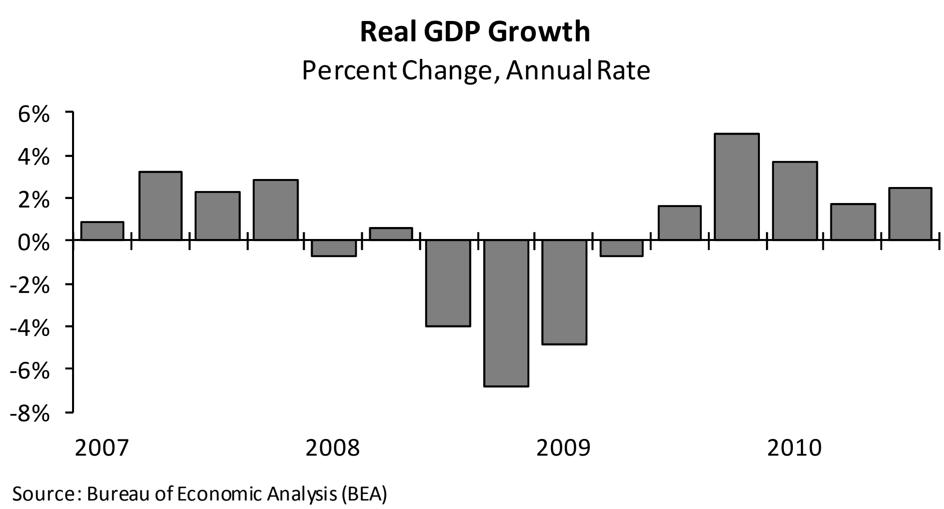
MMB economists also noted that the growth in household formation in the U.S. had fallen to post World War II lows. This helps explain the slow pace of the recovery thus far, particularly in the housing sector which is expected to remain depressed through 2011.

Council members again voiced concern that projecting future expenditures without making allowance for inflation, except where required under current law, understates the severity of any financial problems the state may face in future biennia. They also noted that should inflation accelerate from its currently very low levels, the difference between the level of expenditures reported in the state's planning estimates for the out-years and the amount required to maintain service levels at the levels approved for the current biennium will increase, leaving an even larger gap than at present between the official expenditure estimate and the level of expenditures needed to hold service levels constant.

ECONOMIC OUTLOOK

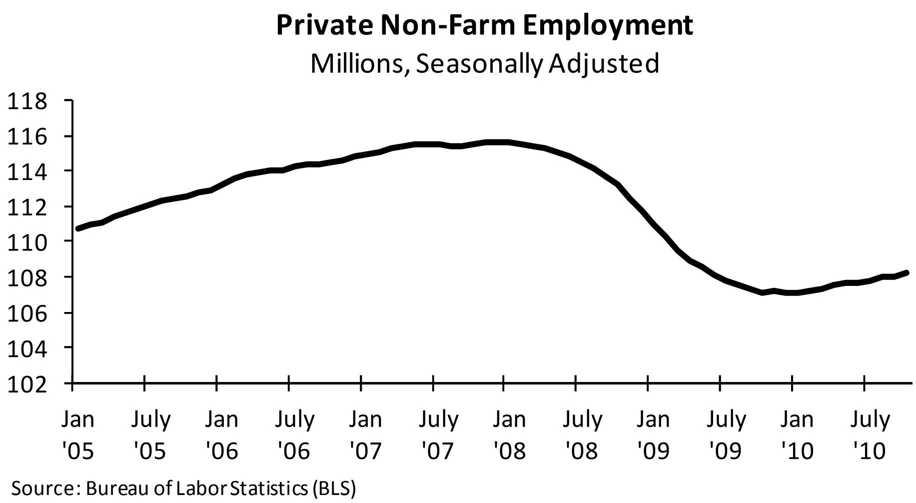
Economists were disappointed when the economy decelerated last spring. After growing at a 5.6 percent annual rate in fourth quarter 2009 and 3.7 percent in first quarter 2010, real GDP growth slowed to a less-than-expected 1.7 percent in the spring quarter and 2.5 percent in the third quarter. Meanwhile, fiscal stimulus faded, the trade deficit worsened, housing indicators weakened, and inflation descended to alarmingly low levels. In early November, a concerned Federal Reserve commenced buying long term Treasury bonds, a largely untested move called quantitative easing, intended to boost a slowing economy by forcing down interest rates on mortgages, corporate bonds, and other loans.

There are doubts about the new Federal Reserve policy's efficacy. Global Insight (GII) estimates it will add only a few tenths of a percentage point to real GDP growth next year, providing almost no insurance that this slow moving, vulnerable recovery will continue. Additional insurance would be welcome for the list of potential destabilizing events is long. A gridlocked Congress could fail to extend the Bush tax cuts and other fiscal measures. Global financial markets could become much more unstable if Europe's festering sovereign debt problems spread outside Greece and Ireland. In the U.S., another banking crisis could erupt as well. Major banks face billions in losses, possibly hundreds of billions, connected with mortgages they underwrote and sold to investors as mortgage backed securities. A *Barron's* article and a report by the Congressional Oversight Committee indicate there are multiple issues concerning misrepresentation of mortgage backed securities and irregularities in mortgage and foreclosure documents which courts could hold banks responsible for. Mindful of risks, GII puts the odds of a new recession at 20 percent, remarking that the reason the odds are not higher is because cyclical drivers like housing and autos are already close to bottom.



After climbing into positive territory during 2009, real GDP growth decelerated in 2010 as fiscal stimulus faded, the trade deficit worsened, housing indicators weakened, and inflation descended to very low levels. The revised third quarter estimate of 2.5 percent is generally taken as a favorable sign the economy has stabilized, though growing too slowly to reduce the unemployment rate.

Absent an adverse shock, GII forecasts real GDP will plod along at a sub-par 2.0 to 2.5 percent annual rate over the next year before accelerating in early 2012. That assumes the economy is now stabilized and the recovery is gradually broadening, a view supported by recent data. Third quarter real GDP was revised upward, there are modest gains in some parts of consumer spending, incomes are improving, initial claims for unemployment benefits are declining, and demand for non-financial services is getting stronger. Most important, October's employment growth was the best in several months, with seasonally adjusted jobs up 151 thousand. That, however, was not enough to reduce the 9.6 percent unemployment rate.

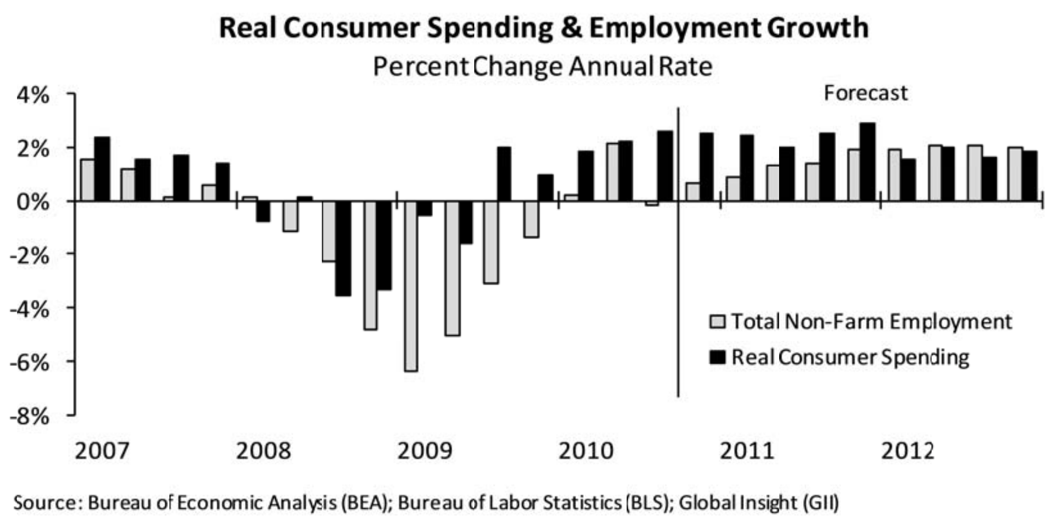


The private sector has added over one million jobs since last December, though employment remains far below its previous peak. In early November, a Federal Reserve concerned about a weak labor market and slowing real GDP growth commenced quantitative easing in an effort to boost the economy.

The economy needs to generate 200 thousand net new jobs each month to begin bringing down the unemployment rate and 300 thousand if the rate is to decline by one percentage point over the course of a year. Improvement will depend on the consumer. With confidence slowly improving, consumers are selectively spending a little more for some goods and services as they pay down credit cards and regain wealth in the stock market. But, it is only a gradual thaw. In GII's baseline scenario it will be this time next year before consumer spending creates enough new jobs to begin bringing down the unemployment rate, but not by a full percentage point until the middle of 2013. In the baseline, employment does not reach its pre-recession peak until late 2013 or early 2014.

Stronger Recovery's Timing and Strength Are Uncertain

Absent new stimulus, most economists are resigned to waiting for stronger consumer spending to gradually develop on its own. Constituting some 70 percent of GNP, consumer spending is the only source of demand capable of putting the recovery on a self-sustaining course. Most mainstream forecasters, including GII, have constructed more-or-less similar baseline scenarios that include a consumer revival. That evolves from release of pent-up demand, improved confidence, less debt, restored household wealth, less saving, and more consumer credit. Everything seems to be moving in the right direction, except for credit. Rather than borrow, consumers are continuing to pay off debt, even though credit standards are easing a bit. The most recent Federal Reserve survey of loan officers suggests some banks, especially larger ones, are becoming slightly more willing to make consumer installment loans and are easing credit card standards. But, household demand for credit remains weak. Assuming consumer spending continues its revival, output will increase to keep up with demand and more jobs will eventually follow. The timing will depend on when slowing productivity gains from the existing workforce lead firms to hire new workers.



During the first three quarters of 2010, real consumer spending rose at the strongest pace since 2006. In the Global Insight baseline forecast, consumer spending leads jobs growth until the beginning of 2012.

The economy's structural problems will impede a stronger recovery led by consumer spending and jobs growth, though how much is unclear. Problems include mismatches between unemployed workers' skills and the needs of employers, unemployed workers who are unwilling to relocate because they are unable to sell a house, prolonged job searches resulting from incentives created by extended unemployment benefits, and weak community banks. Credit from community banks is especially important for small business expansion and hiring.

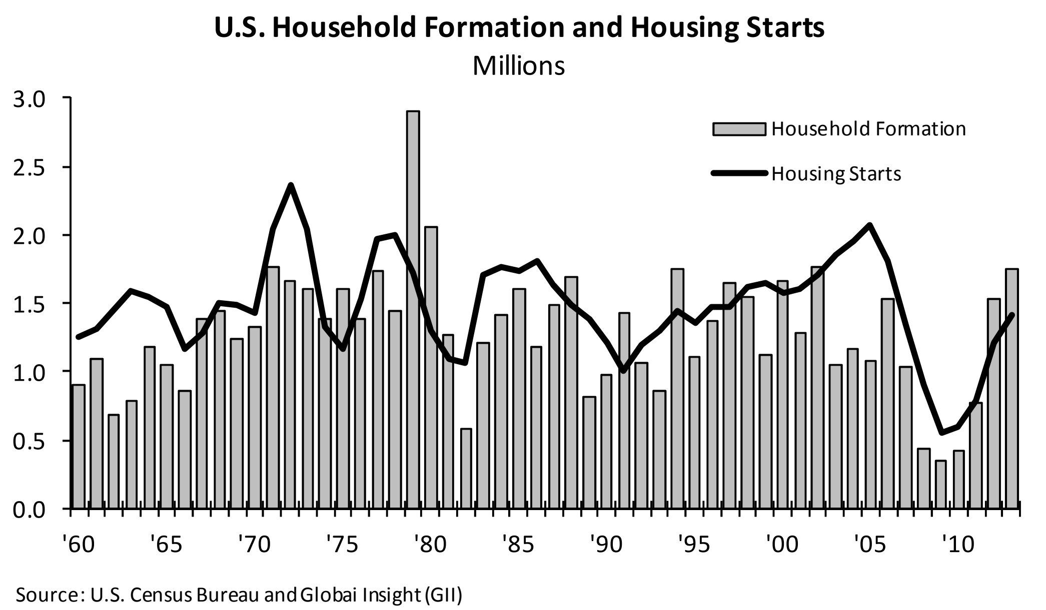
Barring new adverse shocks, forecasters are assuming the economy is resilient and will eventually resolve its problems. In the view of MMB economists, no one can be sure exactly how this will work, or how fast. The Great Recession was so severe that many relationships among economic variables may be broken, making once reasonable assumptions questionable. Temporary help employment, for example, has been a leading indicator of job growth in previous recoveries, but not this time. One year ago, the best estimate by GII and its peers was that economic growth would be accelerating by now. Obviously that has not happened, and now the message is maybe this time next year if nothing goes wrong.

Excess Supply and Slow Household Formation Mean Weak Housing Starts

In the GII baseline, housing starts gradually accelerate from their current, very low 600 thousand annual rate, eventually reaching a normal level of about 1.5 million in early 2014. Housing starts will contribute relatively little to the recovery during the next year, and possibly longer, because of an excess supply of existing housing and weak demand. *Bloomberg BusinessWeek* estimates there is a 7 million unit "shadow inventory" of houses which when listed will compete directly in the marketplace with conventional listings and new homes. Meanwhile, with housing demand very soft, sales are not keeping up with listings, so the visible supply of houses on the market is increasing.

A major reason for soft housing demand is household formation. Growth in the number of households is running at the lowest rate on record, apparently a consequence of slow job growth. How much and how fast more jobs would increase household formation, and consequently housing demand, is unclear. It may be that the link between jobs and household formation was changed due to the Great Recession.

Deflation in housing prices may also be a factor. Excess supply and weak demand are putting considerable downward pressure on prices with most analysts, including GII, forecasting a decline of some 10 percent over the next year. Many potential homebuyers may wait for a better deal while that works itself out.

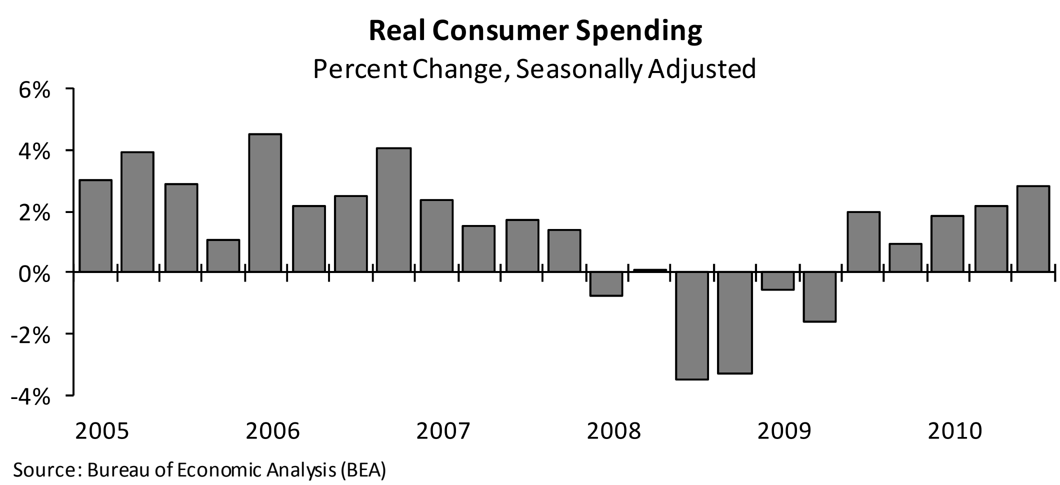


A major reason for soft housing demand is lower household formation. A consequence of the Great Recession, growth in the number of households is running at its lowest rate on record.

Foreclosure issues are also contributing to uncertainty about future house prices. There was downward pressure on prices from large numbers of foreclosures, which accounted for some 35 percent of total home sales, just before widespread irregularities in documents were discovered last October. Since then, many banks have suspended foreclosures and *The Wall Street Journal* reports they have been slow to restart them. Meanwhile, delays resolving issues concerning second mortgages have increased. So, at this time it seems the housing market clearing process has slowed significantly. If that is the case, house prices may hold up a little better in the short run, but not bottom next year as GII and other mainstream forecasters now assume. The shadow inventory is also a potential source of uncertainty if it means there are still many more houses to move onto a depressed market. GII believes that more jobs, income and household formation will head off or resolve many delinquencies, defaults, and foreclosures.

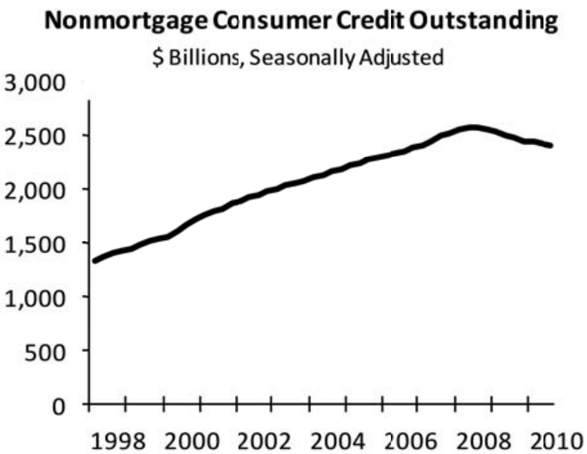
Consumption

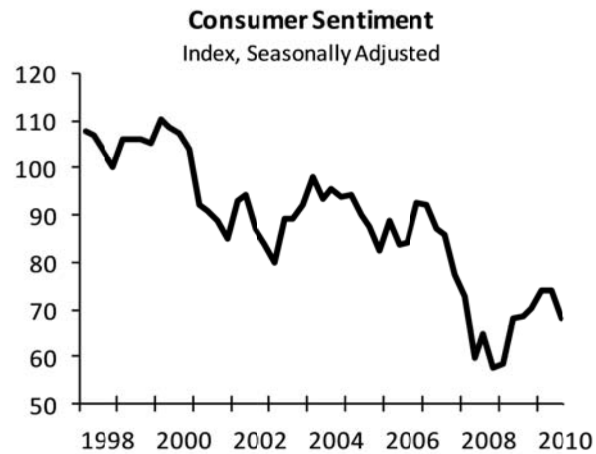
Economists believe consumers are only spending at levels needed to keep the economy moving at its current, sub-par pace. Real consumer spending increased at a 2.6 percent annual rate in the third quarter, up from 2.2 percent in the second quarter and 1.9 percent in the first, the best performance since 2006. Faster growth does not seem imminent because consumers are spending selectively. Data from various sources including the Bureau of Economic Analysis (BEA), the Federal Reserve, industry sources, and retail sales reports suggest additional spending is largely confined to autos, sporting goods, necessities, luxury goods, travel, and tourism. Autos appear to be the only bright spot in sales of big ticket goods normally bought using credit. Furniture, appliances, electronics, health, and department store sales are flat or declining. Consumers looking hard for a bargain helped wholesale clubs post a sharp year-over-year sales increase in October.



During the first three quarters of this year, consumer spending turned in its best performance since 2006. But consumers are only spending enough to keep the economy moving at its current pace. Faster growth does not seem imminent because consumers are spending selectively.

Consumers are spending selectively because they are still deleveraging and sentiment remains well below pre-recession levels. Because the job market is weak, shoppers do not seem to be in the mood for a Christmas spending spree. Projections are for the best retail season since 2007, but there is considerable uncertainty. *Bloomberg BusinessWeek* reports projections for growth compared to last year range from flat to about 4.5 percent. At least some of the uncertainty comes from surveys showing large differences in the intentions of different income groups. Survey results have many retailers focusing their advertising on low income households, who seem reluctant to spend more than last year. In order to gain attention, many retailers opened especially early for Black Friday and are discounting aggressively.





Source: Federal Reserve Board and Reuters/University of Michigan

Consumers are spending very selectively, in part because they are still deleveraging and sentiment remains well below pre-recession levels. Given these circumstances, shoppers do not seem in the mood for a Christmas spending spree.

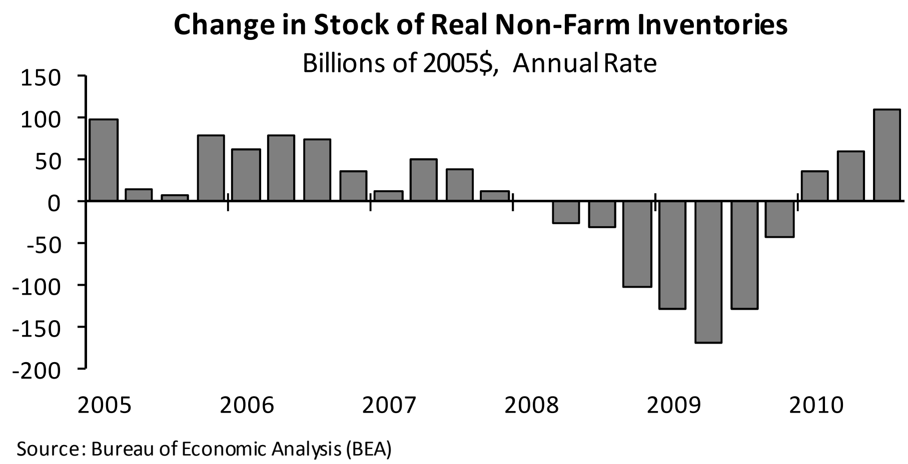
Investment

BEA data shows that business investment in equipment and software remains a bright spot in an otherwise grim picture. Flush with cash, firms are replacing old equipment and outdated software. GII's baseline forecast is for strong equipment and software spending to continue through 2013, contributing about a 0.8 percentage point to real GDP growth each year.

Firms are cutting back on spending for structures rather than adding to excess capacity. As a result, commercial real estate market conditions continue to deteriorate. A general decline is underway with construction for lodging, offices, commercial buildings (including healthcare), educational facilities, and manufacturing plants down year-over-year. Some headline news has been misleading. A widely noted third quarter increase in spending for non-residential structures in the BEA data, the first since first quarter 2008, is solely attributable to oil well drilling.

In September, the American Institute of Architect's (AIA) Architectural Billings Index finally exceeded 50, only to slip back to 48.7 in October. Assuming the AIA Index is the same leading indicator that it has been in the past and does not decline further, investment in non-residential structures will turn around toward the end of next year as GII forecasts. Before that can happen, however, currently falling commercial real estate prices must stabilize so developers can obtain financing.

Business investment in inventories surged during the spring and summer of 2010, adding significantly to real GDP growth. In the third quarter, inventory accumulation accounted for an unsustainable portion of the newly revised 2.5 percent growth in GDP. Going forward, GII expects inventories' contribution to GDP will taper off as shelves fill up.



Business investment in inventories surged during the spring and summer of 2010. In the third quarter, inventory accumulation added an unsustainable 1.3 percentage points to growth in real GDP. Going forward, the contribution from inventories must be replaced by other sources of aggregate demand if real GDP growth is to be sustained. That burden will fall primarily on consumers.

Just whose shelves are filling up is not apparent. Clearly, some firms are accumulating inventories in anticipation of increased sales. But, it does not seem to be small business, which is not experiencing the sales improvements reported by some large firms. That is potentially an ominous sign since small business historically has created a disproportionate share of new jobs. The National Federation of Independent Business (NFIB) reports that most of its survey respondents report continued inventory liquidation in response to weak sales. Soft sales have replaced lack of credit as their principal business problem. It is not that ease of financing expansion is improving, but that NFIB members are finding demand so weak that most of them do not need credit at this time.

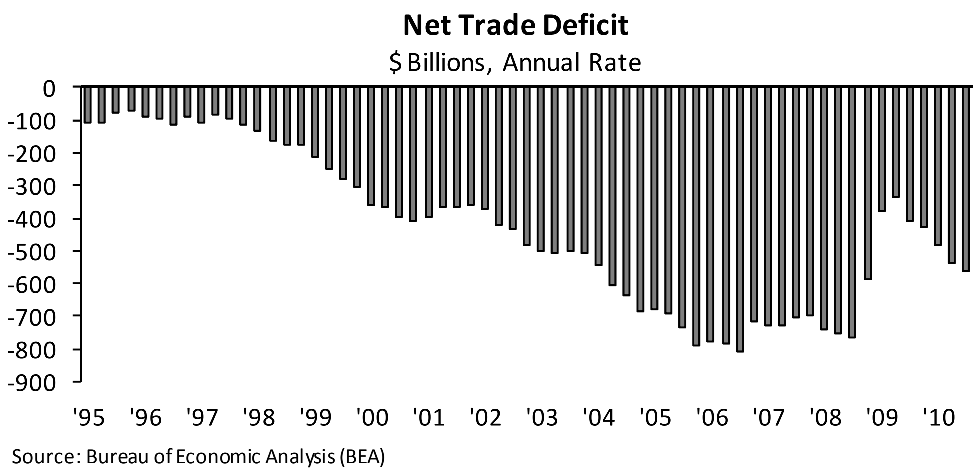
Government

State and local government layoffs have been a drag on the economy. In October, US payrolls increased by 151,000, net a loss of 8,000 state and local jobs. The question moving forward is how further tightening of state and local budgets will affect future employment levels. GII forecasts total employment will grow by about 1.8 million by this time next year, but 73,000 more state and local government jobs will be lost.

About $55 billion in new stimulus spending is included in GII’s baseline outlook. Baseline assumptions concerning current tax law and unemployment benefits amount to much more. The baseline assumes Congress extends all the Bush tax cuts, the making work pay tax credit extension, and the alternative minimum tax fix for at least the next year. That would add $235 billion to federal fiscal year 2011 spending, about 1.5 percent of GDP. Should gridlock prevail, GII says failure to extend the tax cuts would amount to a significant fiscal tightening, which would drive consumer spending growth down to nearly-zero at the beginning of 2011. If the tax provisions are not extended, and in addition Congress fails to reinstate $60 billion in emergency unemployment benefits, which expired November 30, consumer spending growth would be negative in the first quarter of next year. Although not enough to guarantee a new recession, this would leave the economy in a very precarious position.

International

Foreign trade has been a significant drag on the economy this year. Some imports were used to restock depleted inventories, but modest increases in domestic demand pulled in consumer goods, autos and parts, food and beverages, raw materials, and capital goods produced abroad. Meanwhile, export growth softened, primarily because of weak demand from Europe, which is imposing government austerity measures as it tries to solve its sovereign debt problems. In GII's baseline outlook, a slowdown in imports and growing exports to emerging economies stabilizes the trade deficit in 2011.



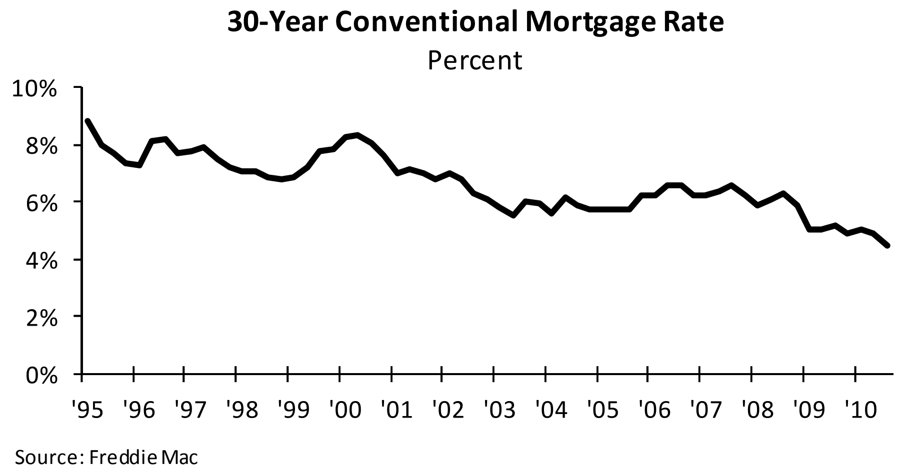
Foreign trade has been a significant drag on the economy this year. Modest increases in domestic demand pulled in consumer goods, autos and parts, food and beverages, raw materials, and capital goods. Export growth softened, primarily because of weak demand from Europe.

Ever since the European Union (EU) and the International Monetary Fund (IMF) bailed out Greece in May, Europe has tried to convince global financial markets that it can contain its debt problems. Then, in November, Ireland was forced to accept an international bailout of its failing banking system. This raises anew the possibility of European loan defaults, causing financial market instability which spreads to the U.S. Since the Irish meltdown, investors are expressing new concerns about Portugal and Spain. While the EU and the IMF have enough resources to bail out tiny Portugal, problems in Spain, the EU's fourth largest economy, could be overwhelming. Some observers considering that prospect suggest the EU might breakup in one of two ways. One is that Spain could be expelled. The other is that Germany, the EU's largest and strongest economy, might leave. Economists are thinking through the implications of both possibilities, but the situation poses serious risks to international financial market stability and world economic growth.

In some analysts' view, there is increasing risk of successive rounds of competitive devaluation by the world's major trading partners. Some partners are running large trade deficits year after year, while others are consistently running large surpluses. The temptation for the deficit countries is to give their GDP a boost by intervening in the markets to drive down the value of their currencies, making exports cheaper as a means of raiding surplus countries' markets. Surplus countries' natural response is to keep their customers by devaluing their own currencies. Taken to an extreme, successive rounds of devaluation could disrupt trade flows or destabilize fragile financial markets, slowing world economic growth. Long simmering tensions over trade imbalances surfaced with quantitative easing in the U.S., a large deficit country. Easing has the side effect of forcing down the dollar's value, raising the ire of surplus countries. The November meeting of the G20 countries was supposed to make progress resolving trade issues, but it did not.

Monetary

With the economy looking up last February, the Federal Reserve announced it would gradually liquidate the portfolio of Treasury bonds and mortgage backed securities it bought during the 2008-2009 financial crisis while pumping liquidity into the faltering banking system. Last spring and summer, however, the Fed's public statements about the course of the recovery became steadily less optimistic. In August, the Fed stopped liquidating its portfolio in favor of investing the proceeds from maturing assets into Treasuries, a slight easing of monetary policy. Soon after, the Fed began dropping hints that it would purchase more Treasuries than reinvesting required. In early November, the Fed announced it would print money in order to go ahead with a second round of so-called quantitative easing, now known as QE2, with the 2008-2009 bank reliquification dubbed QE1. While QE1 was intended to reliquify faltering banks, QE2 is intended to stimulate the economy by bidding up the price of Treasuries, thereby driving down long term interest rates. Hopefully, this will increase demand for bank loans while the extra liquidity created makes banks more willing to lend to the public.



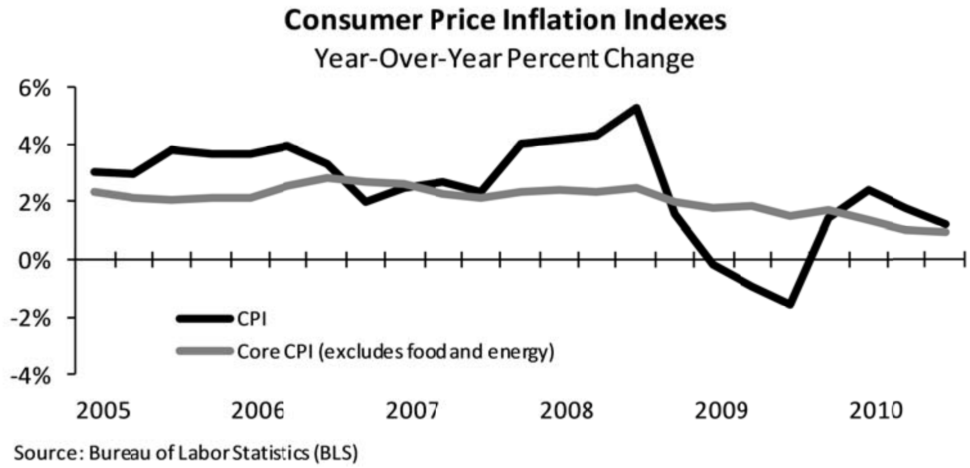
Mortgage rates declined sharply during the third quarter in anticipation that the Federal Reserve would commence quantitative easing.

QE1 was controversial as part of a general bailout of the big bank dominated financial system. Now, there is controversy among economists both inside and outside the Federal Reserve over how much QE2 will stimulate the economy, and at what risk for future inflation. A *Wall Street Journal* report estimates the impacts on output range from nothing to a little, but in virtually all cases less than QE1, which mainstream economists generally credit with helping pull the financial system out of a downward spiral that could have taken the economy along with it.

Inflation

There is so much slack in the labor market and elsewhere in the economy and inflation has slowed so much that many forecasters, including GII and the Federal Reserve, are raising the possibility of deflation, a sustained general decline in wages, prices of goods and services, and asset values like the one which has devastated the Japanese economy since the 1990s. U.S. inflation, as measured by the core consumer price index, has declined below the 1 to 2 percent level which the Fed informally views as the minimum safe level consistent with price stability. In October, the core rose just 0.9 percent year-over-year, a record low. GII expects that rising food, energy, and health care costs will keep inflation from going much lower and cause it to accelerate to about 2.0 percent by 2012.

While the primary reason the Fed decided in November to pump liquidity into the financial system was to give domestic demand a boost, a second reason was short term risk of deflation. General knowledge of added liquidity is already buying a little insurance against deflation by raising the public's expectations of future inflation. This should at least cause consumers to consider buying more goods and services now before prices go up rather than wait for them to go down.



Many forecasters, including Global Insight, say deflation, not inflation, poses a significant risk. Inflation as measured by the core consumer price index has declined below 1 percent, which the Federal Reserve views as the minimum safe level consistent with price stability.

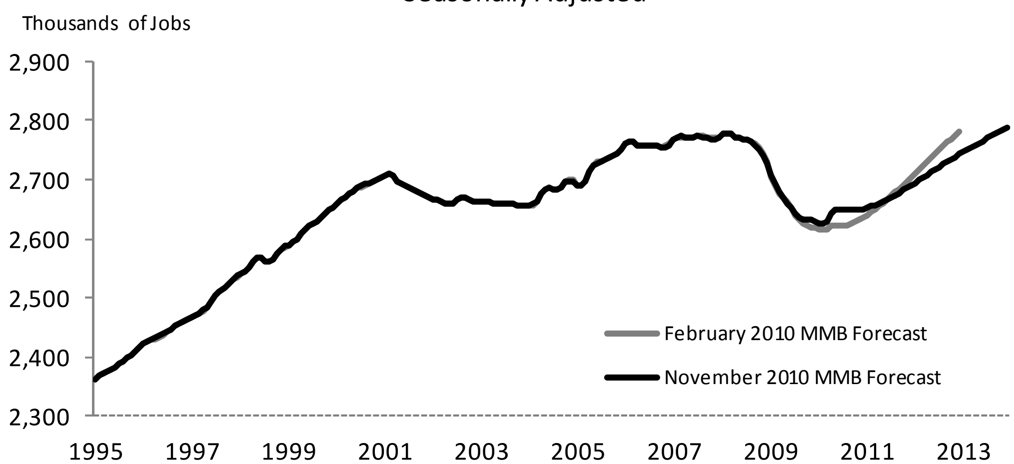
As a practical matter, little can happen until the money is turned into loans and spent. Therefore, the short term impact on GDP and the price level will be minimal. Once the economy shakes off its current lethargy, however, the $2.2 trillion the Fed pumped into the financial system under QE1, plus the $600 billion of QE2 money it will spend in the next 6 to 8 months, plus about $300 billion in reinvestment purchases, may create enough additional aggregate demand to give inflation a boost. Some critics of quantitative easing say there is significant risk of setting off an inflationary spiral. That, however, depends on how well the Fed does at recognizing inflationary signs so it can start pulling money out of the banking system by selling Treasuries. Watching for signs and judging when the time has come will be a challenge for Dr. Bernanke and the Federal Open Market Committee. Some Fed critics assert that getting everything right could be very difficult or impossible.

MINNESOTA OUTLOOK

Minnesota's economy is in much better shape than it was this time last year. Wage and salary disbursements during the first nine months of 2010 are up an estimated 3.2 percent over the same period a year earlier and 54,600 private sector jobs have been created since the beginning of the year. The state has regained one-third of the 162,200 jobs lost at the lowest point of the recession, the total number of people collecting unemployment insurance has been dropping consistently since February, and the number of first time claims for jobless benefits in November fell to the lowest level in two years. Minnesota's labor market appears to be firmly on a path toward recovery.

Still, Minnesota is not immune to the problems of a national economy that is expected to grow slowly during the first half of 2011. Business confidence continues to be weakened by soft sales, policy uncertainty, and a clouded outlook. Until there are clearer signs of a self-sustaining expansion, employers will remain cautious about further hiring decisions and Minnesotan's will remain stressed with severe unemployment and underutilization in the job market, stubbornly high concentrations of home foreclosures, high debt burdens, and depleted wealth.

Minnesota Total Non-Farm Employment Forecast Comparison
Seasonally Adjusted



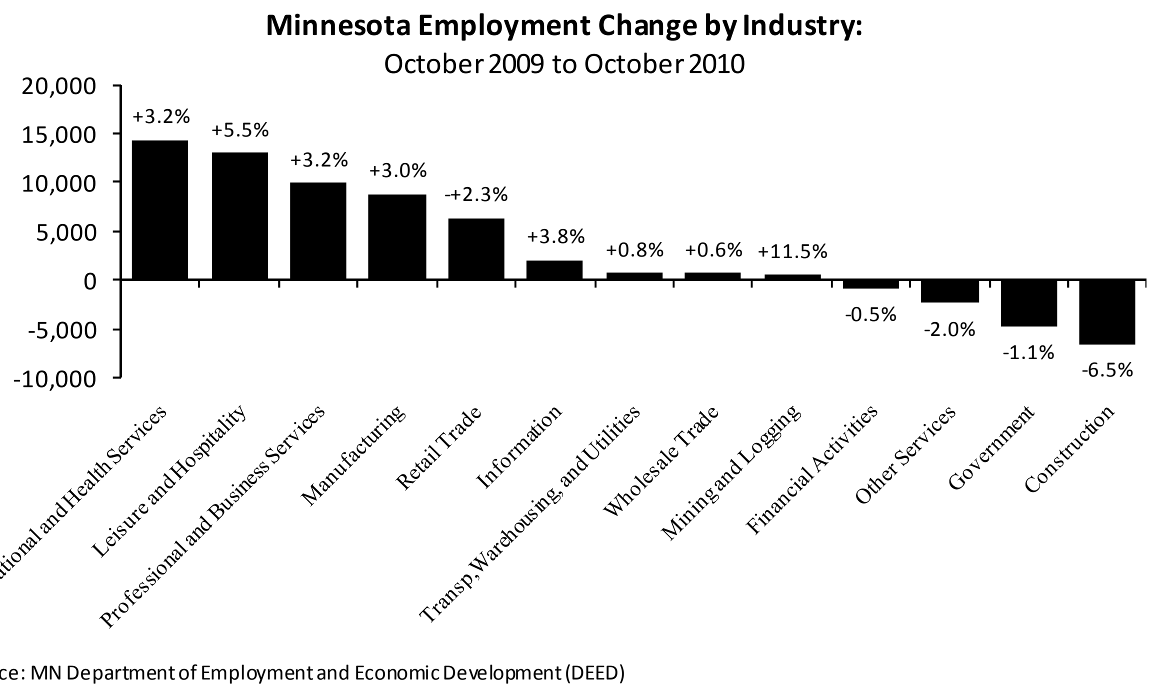
Source: MN Department of Employment and Economic Development (DEED), MN Management & Budget (MMB)

Without a noticeable improvement in the national employment picture, it is unlikely Minnesota will be able to sustain its current pace of job creation in 2011. In the November 2010 forecast, labor market conditions will continue to improve into 2011, but more slowly than forecast in February.

Forecasts for state employment and wages have been revised based on recent Minnesota specific information and Global Insight's (GII) November 2010 baseline. The November baseline was used to drive a newly re-estimated Minnesota Management and Budget (MMB) model of the Minnesota economy. MMB economists believe Minnesota's labor market is in recovery, but will be unable to sustain the current year's pace of job creation moving into 2011. Employment growth is expected to slow in the first part of the year as consumers continue to repair household finances and the housing market inches toward recovery. The November forecast estimates that it will take until mid-2013 before Minnesota employment returns to peak pre-recession levels.

Jobs, Jobs, Jobs

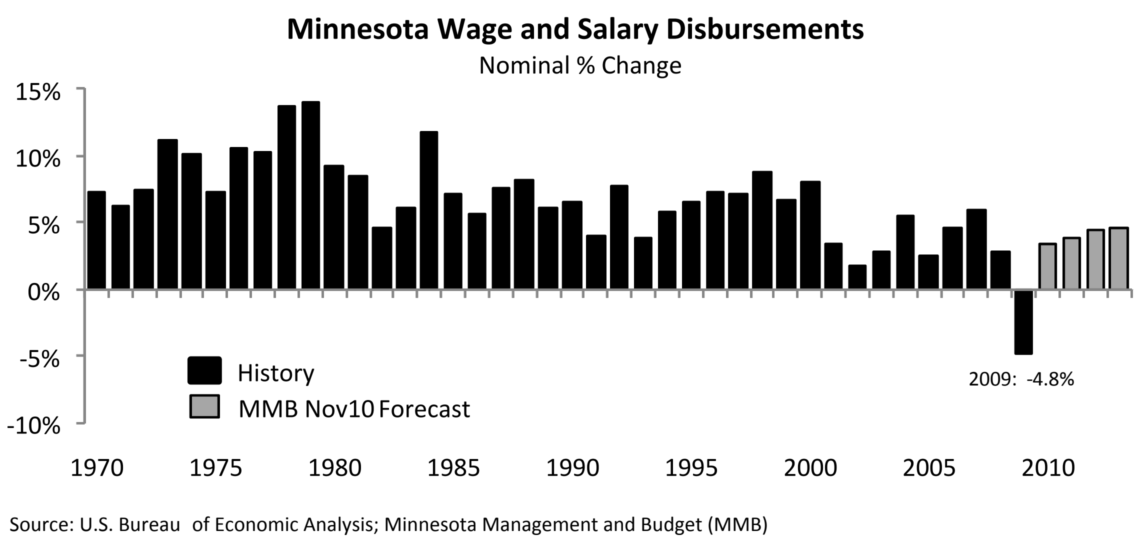
Recent job reports in the state have been encouraging. According to current figures released by the Minnesota Department of Employment and Economic Development (DEED), an average of 5,500 private sector jobs have been added each month in 2010 and the job recovery has been broad based, with education and health services, professional and business services, leisure and hospitality, and manufacturing all showing gains. Minnesota payrolls in October were growing at a year-over-year rate of 1.6 percent, or triple the national rate of 0.5 percent, and the state's unemployment rate has crept down to near 7 percent since peaking at 8.4 percent in mid-2009. Although still high, Minnesota's 7 percent unemployment rate is well below the national rate of 9.6 percent.



Recent job reports in Minnesota have been encouraging. Employment gains over the past year rose to 42,100 in October and the job recovery has been broad based in education and health services, leisure and hospitality, professional and business services, retail trade, and manufacturing.

Despite improvements, Minnesota's economy has not reached a point where it is immune from a sluggish national economic outlook for slower growth than forecast last February. Without noticeable improvement in the national employment picture, it is unlikely the state will be able to sustain the current pace of job creation moving into 2011. A persistently high national unemployment rate means household finances remain stressed with high debt burdens, a lack of credit, depleted wealth, a discouraging labor market, and cautious consumption. These forces combine to create added uncertainty both nationally and in Minnesota, meaning the state's economy will struggle to grow as demand for goods and services slows. Minnesota employers are expected to have less need to hire more workers over the next 6 to 12 months.

Looking forward, labor market conditions will continue to improve into 2011, albeit more slowly. The number of jobs Minnesota employers add to their payrolls is forecast to average just 2,000 a month in the early part of next year before picking up to over 4,000 by early 2012. Minnesota's labor market needs to produce an estimated 2,000 jobs a month to simply keep pace with population growth and new people entering the workforce. This slower pace of job creation over the next 6 to 12 months will continue to make it very difficult to put the state's unemployed, displaced, and underutilized workers back to work promptly. The result is Minnesota's unemployment rate is likely to remain above 7 percent for much of 2011 and higher for the foreseeable future. In the November 2010 forecast, the state does not regain pre-recession peak employment until mid-2013.



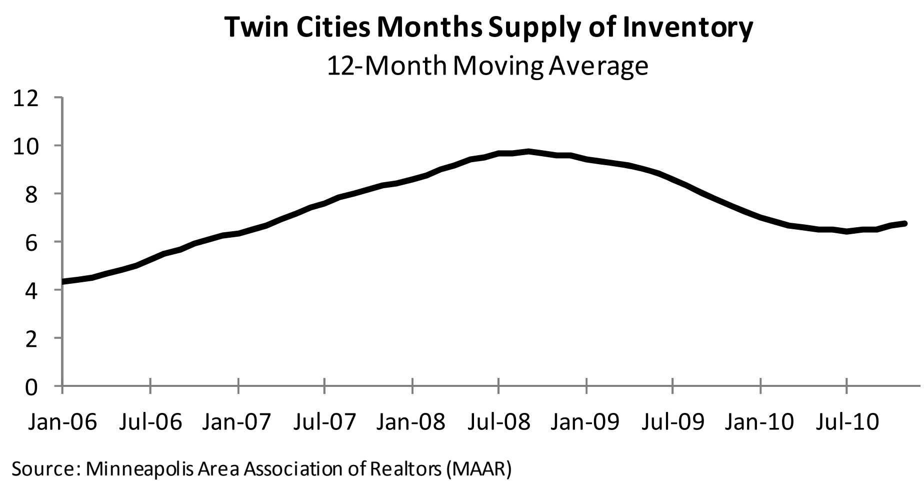
Total nominal wage and salary disbursements in Minnesota fell 4.8 percent in 2009 from a year earlier according to the Bureau of Economic Analysis (BEA), representing the first annual decline in this component of state personal income since data was first reported in 1969.

Total nominal wage and salary disbursements fell 4.8 percent in 2009 from a year earlier in Minnesota according to the Bureau of Economic Analysis (BEA), representing the first annual decline in this component of state personal income since data was first reported in 1969. In 2010, preliminary labor market data and income tax withholding receipts suggest nominal wage income will grow 3.5 percent, although withholding collections are an imperfect indicator of wage growth. Minnesota's average length of the workweek, which fell 2.4 percent in 2009 from 2008 according to DEED, is contributing an estimated 1.2 to 1.3 percentage points to nominal wage gains in the first 10 months of

2010. As hours recover back toward pre-recession levels, however, its contribution to wage gains will fade. With wage inflation forecast to remain weak over the forecast horizon, the key for labor income going forward will be employment growth. In 2011, nominal wages are forecast to grow 3.9 percent and increase by 4.4 and 4.7 percent respectively in 2012 and 2013. MMB continues to estimate that total wages paid in Minnesota will not return to pre-recession highs until mid-2011.

Housing, Housing, Housing

Expiration of the homebuyer tax credit at the end of April pushed the state's housing market back into a slump over the summer. According to the Minneapolis Area Association of Realtors (MAAR), for example, pending home sales in the Twin Cities metro area have been consistently down 30 to 40 percent from the previous year since mid-May. Meanwhile, the metro's inventory of homes for sale has moved back higher. MAAR reports that active listings in the Twin Cities are up 10.6 percent in October over last year and the month's supply of inventory increased to 8.2 in November, up from 6.1 a year earlier. The market is generally considered in balance between buyers and sellers when there is around 4 to 6 months supply of homes available for purchase.



Expiration of the homebuyer tax credit at the end of April pushed Minnesota's housing market back into a slump over the summer. According to the Minneapolis Area Association of Realtors (MAAR), the Twin Cities region's inventory of homes for sale has moved back higher. The metro's month's supply of inventory increased to 8.2 in November, up from 6.1 a year earlier.

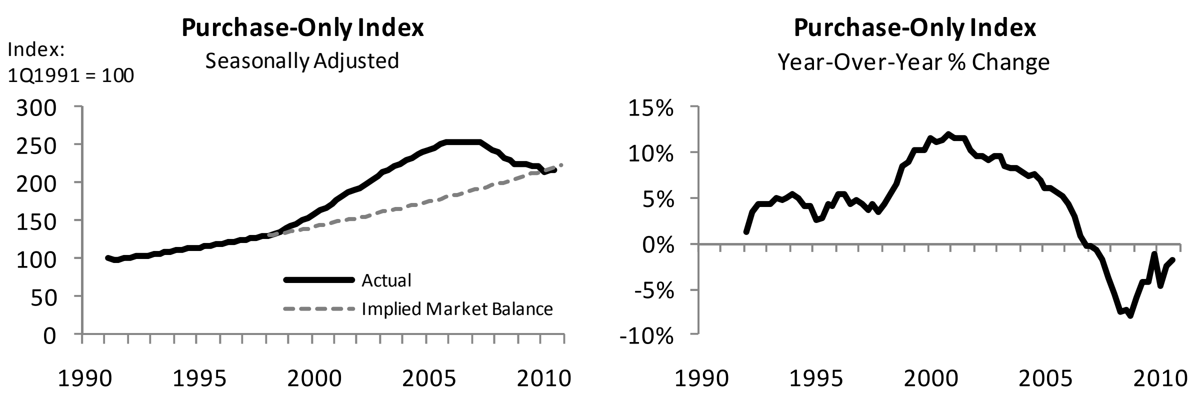
Weak demand for housing and rising inventories comes despite record high affordability. The average rate on a 30-year fixed mortgage averaged just 4.39 percent in mid November, according to Freddie Mac, up from a record-low 4.17 earlier in the month. Also, the Federal Housing Finance Agency (FHFA) estimates that conventional home prices in Minnesota have declined 14.6 percent since the spring of 2006, the median sales price in the Twin Cities has declined 25.4 percent in the past four years according to MAAR's October report, and the September S&P/Case-Shiller Home Price Index for the

Minneapolis-St. Paul metro has fallen 30.7 percent since early 2006. When combined, MAAR's Housing Affordability Index, a formula measuring housing affordability for the Twin Cities market, jumped in October to its highest level since tracking started in 2001 and more than 80% above its low point in mid-2006.

Much of the price declines since 2006 are the result of increasing sales of mediated properties and foreclosures and their direct competition with traditional listings. The median price of a lender mediated house in the Twin Cities, according to MAAR, for example, was about $115,000 in October, significantly less than the $215,000 median price for a traditional listing. In the same month, as much as 31 percent of the homes for sale in the metro area were foreclosures and short sales. Three years ago, this group comprised just 16 percent of the inventory. This, along with weak demand, increases the risk of further price declines in 2011.

In an encouraging turnaround, however, Minnesota's mortgage delinquencies have begun to experience some relief since peaking in late 2009, a change that may be signaling a beginning of the end of the foreclosure crisis in Minnesota. A recent study by the Mortgage Bankers Association (MBA) finds that the number of delinquent home mortgage loans in the state that were at least 30 days past due declined from a peak of 7.3 percent in late 2009 to 6.3 percent in the third quarter of 2010. Not surprisingly, this decline in the state's delinquency rate naturally follows a notable improvement in first time claims for jobless benefits as well as changes in Minnesota's overall employment picture in late 2009. It is also indicative of increasingly fewer mortgage problems feeding into the system moving forward.

Federal Housing Finance Agency (FHFA)
Minnesota Home Price Index



Source: Federal Housing Finance Agency (FHFA)

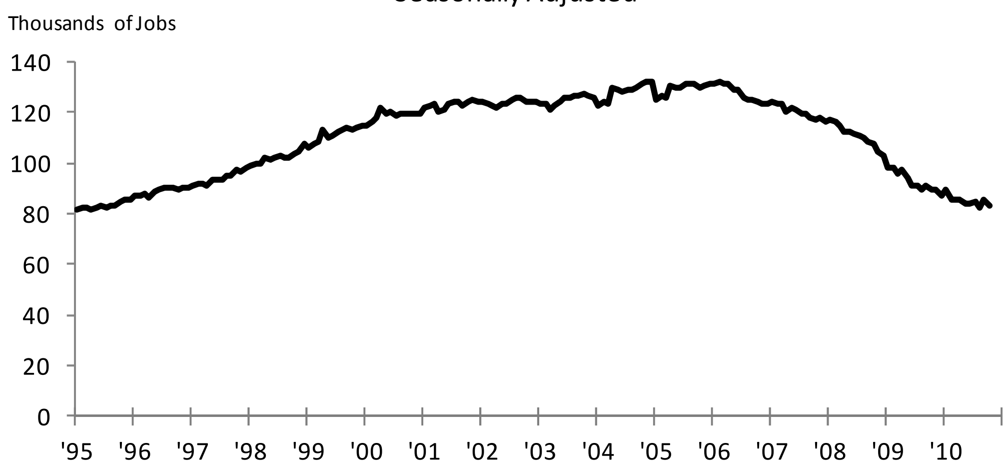
Expiration of the homebuyer tax credit at the end of April pushed the state's housing market back into a slump over the summer. Weak demand for housing and rising inventories comes despite record high affordability. The Federal Housing Finance Agency (FHFA) estimates, for example, that conventional home prices in Minnesota have declined 14.6 percent since the spring of 2006.

Still, mortgage delinquencies in the state remain extremely high from an historical perspective. Four years ago, in mid-2006, approximately 1 in every 32 mortgage holders in Minnesota was behind on payments according to MBA. By mid-2008, when foreclosures were being driven by questionable lending practices and subprime mortgages, the rate had jumped to 1 in 22. Today, the delinquency rate is nearly 1 in every 16. Unlike 2008, however, this year's defaults are the result of higher long-term unemployment and a growing number of traditional homeowners finding themselves with an ever more demanding debt load, the result of perhaps a job loss or reduction in wages. As the foreclosure crisis enters its fourth year, with more and more Minnesota homeowners now owing more on their mortgage than their house is worth, many are unable to refinance and may simply choose to walk away altogether.

The Recession, Household Formation, and the Housing Market

As Minnesota's housing market continues to struggle and with foreclosure rates near historic levels, the state's construction industry remains depressed. Residential home building plunged after the collapse of the housing bubble in 2006. Since then, Minnesota's construction sector has lost 45,000 jobs, or one out of every three in this industry.

Minnesota Construction Employment
Seasonally Adjusted



Source: MN Department of Employment and Economic Development (DEED)

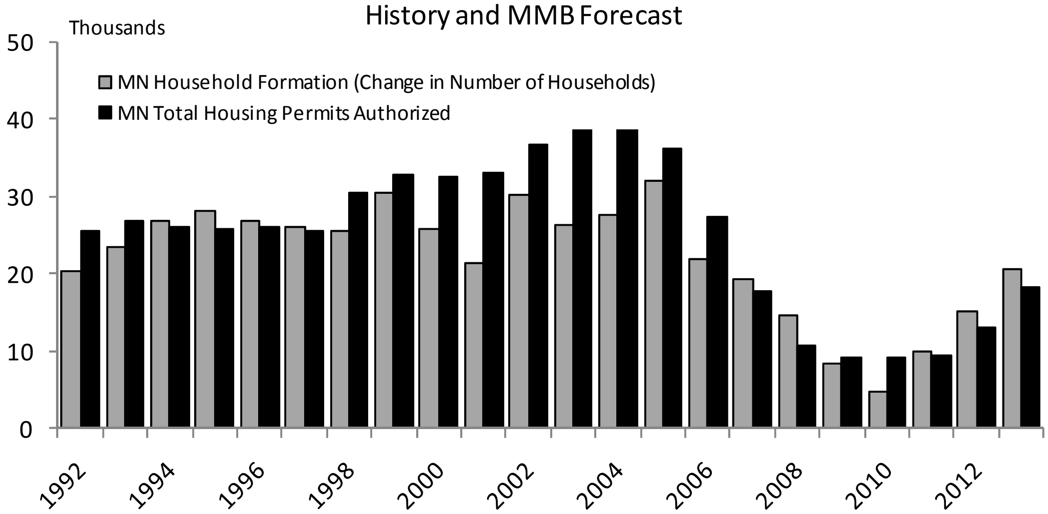
As Minnesota's housing market continues to struggle and with foreclosure rates near historic levels, the state's construction industry remains depressed. Since early 2006, Minnesota's construction sector has lost 45,000 jobs, or one out of every three in this industry.

In a normal housing environment, underlying demand for new home construction consists of replacement demand from fires, natural disasters, or old age, demand for second homes, and increases in the number of households. Between 2000 and 2005, however, low mortgage qualification requirements and growing speculation both nationally and in Minnesota fueled unsustainable levels of home construction that far outpaced market fundamentals. Total housing units authorized by building permits in the state, for example, grew by 219,000 over this period, while Minnesota households increased by just 163,000. If approximately 3,000 to 4,000 new homes are needed each year to simply keep pace with the replacement of older homes and meet the demand for vacation homes, such as cabins, this suggests Minnesota entered the recession with excess of some 32,000 to 38,000 housing units, a level similar in size to the city of Duluth.

Before Minnesota home construction can return to more normal levels of activity, the market needs to work through excess homes built during the housing boom. The only sustainable way to work through these excesses is to build new homes at a slower pace than households are being formed. Already, home building activity has been depressed in Minnesota for over two years. Only 10,700 building permits were authorized for new home construction in the state during 2008, a record low 9,200 were approved in 2009, and MMB estimates just 9,000 will be issued in 2010. By comparison, during normal building conditions, approximately 30,000 permits would be authorized to meet underlying demand.

Minnesota Household Formation vs. Authorized Housing Permits

History and MMB Forecast



Source: U.S. Census Bureau, MN State Demographic Center, MN Management & Budget (MMB)

The only sustainable way to work through excess homes built during the housing boom is to build at a slower pace than households are being formed. As a result of Minnesotan's "doubling up" on housing during the recession, however, household formation in the state has fallen far enough that it continues to remain very difficult for the state's housing market to work through these excess units.

Despite sharp declines in home building activity, however, excesses in Minnesota's housing market continue to remain stubbornly high mostly due to sluggish demand. The national recession and employment environment is greatly influencing the number of people starting a household. During recessions, household formation rates generally fall as net migration slows, young adults stay or return to live with parents, and people choose to reduce housing costs by combining expenses. The latest data from the State Demographer shows that just 14,700 households formed in Minnesota in 2008 and only 8,400 formed in 2009, the lowest increase since the 1982 recession. The November 2010 forecast estimates that just 4,800 households will be formed in 2010. By comparison, the average number of new households being formed each year in the state between 1995 and 2007 was just over 26,000.

When more Minnesotan's "double up" on housing, there is less demand for new homes or rental units. Indeed, household formation in Minnesota has fallen far enough that it continues to remain very difficult for the state's housing market to work through excess units created during the housing boom. MMB economists estimate that as a result of low formation rates, only about one-third of these excesses will have been absorbed by the end of 2010. In contrast, had Minnesota's household formation rate continued to grow in the past two years at its average annual rate, it is probable the state would have already more than absorbed excesses created by the housing boom.

The key measure for housing going forward is employment growth. Until job opportunities return and the unemployment rate begins to fall, household formation will slow the state's housing market recovery. MMB economists estimate that improving job growth and increasing formation rates will help absorb most, if not all, excesses into the market by 2013. This means, however, there will continue to be very little demand for new housing in 2011 and much of 2012. Likewise, construction jobs are not forecast to quickly return to the same levels the industry experienced just before the recession. The November 2010 forecast estimates employment in this industry will decline another 1,000 jobs by late 2011 before slowly beginning to recover in mid-2012 and 2013.

A Revised Forecast

Forecasts for employment and wages have been revised based on recent Minnesota-specific information and GII's November 2010 baseline. The baseline was used to drive a newly re-estimated MMB model of the Minnesota economy.

Each year, the Current Employment Statistics (CES) survey employment estimates are benchmarked to comprehensive counts of employment for the month of March. These counts are derived from state unemployment insurance (UI) tax records, or Quarterly Census of Employment and Wages (QCEW) data published by DEED. Based on the QCEW for first quarter 2010, the November 2010 forecast assumes current employment data since the beginning of the year will be revised downward 0.3 percent when annual benchmark revisions to Minnesota's monthly CES are released in the spring. This is the state's equivalent to the Bureau of Labor Statistics' (BLS) preliminary benchmark revision estimate, released in early October, which similarly suggests a downward adjustment to March 2010 U.S. total nonfarm employment of 0.3 percent.

The November 2010 forecast for Minnesota's economy projects the state's employment rebound in 2011 will remain slow. After declining a revised 3.9 percent from 2008 to 2009, Minnesota employment is forecast to fall an additional 0.5 percent in 2010 from a year earlier, before growing 1.0 percent in 2011 and 1.8 percent in 2012 and 2013. The depth of job declines that occurred in late 2008 and 2009 are so extensive that MMB economists estimate it will likely take until mid-2013 before Minnesota employment regains the 2.770 million high reached before the recession began in late 2007.

Total nominal wage and salary disbursements in Minnesota fell 4.8 percent in 2009 from a year earlier according to the BEA. Preliminary labor market data and income tax withholding collections suggests nominal wage income will grow 3.5 percent in 2010. In 2011, nominal wages are forecast to grow 3.9 percent and increase by 4.4 and 4.7 percent respectively in 2012 and 2013. MMB continues to estimate that total wages paid in Minnesota will not return to pre-recession highs until mid-2011.

Minnesota Outlook Compared to the U.S.

(Calendar Year Percent Change)

	2009	2010	2011	2012	2013
Non-Farm Employment					
Minnesota					
November 2010	-3.9	-0.5	-1.0	1.8	1.8
February 2010	-4.1	-1.0	1.8	2.9	N/A
United States					
November 2010	-4.3	-0.5	1.0	1.8	1.8
February 2010	-4.3	-0.7	1.5	2.8	2.4
Wage and Salary Income					
Minnesota					
November 2010	-4.8	3.5	3.9	4.4	4.7
February 2010	-5.5	1.0	4.3	5.2	N/A
United States					
November 2010	-4.3	1.4	3.8	4.6	4.6
February 2010	-3.3	3.1	4.2	5.1	5.2

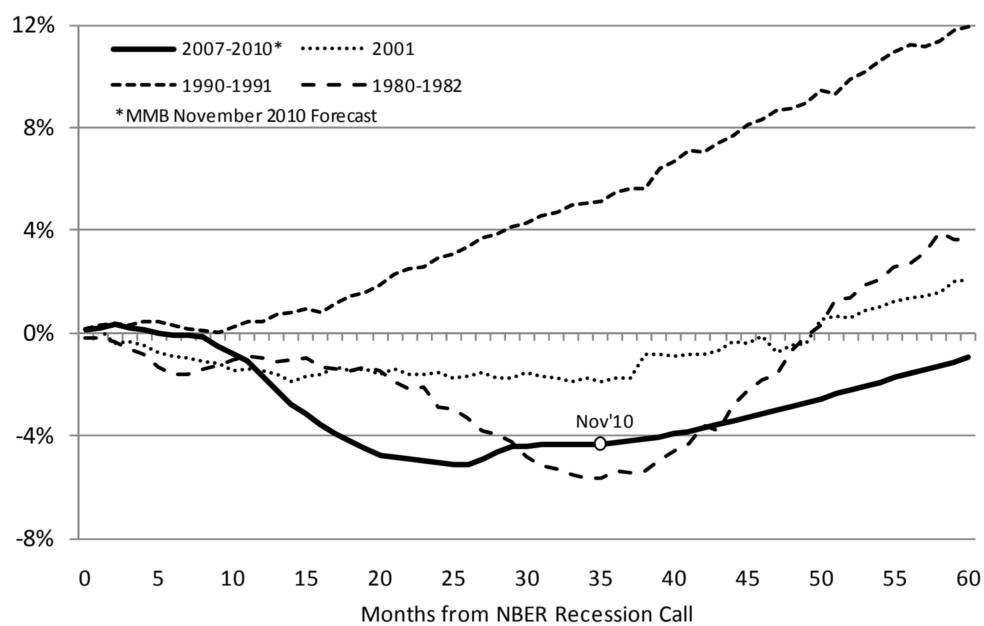
Residential home construction continues to remain a critical component of Minnesota's outlook. Despite the impact of the economic stimulus package, which is now beginning to wane, construction is forecast to lose an additional 1,000 jobs between now and the end of 2011, before slowly beginning to recover in mid-to-late 2012 and 2013. There are two principal assumptions behind this outlook.

First, as a result of the recession, household formation in Minnesota has fallen so much that it will be very difficult for the state's housing market to work through excess units created during the housing boom. MMB economists estimate that improving job growth and increasing formation rates will help absorb most, if not all, excesses into the market by 2013. This means, however, there will continue to be very little demand for new residential home construction in 2011 and early 2012. As a result, after four and a half years of severe declines, and with little demand, the total number of authorized monthly residential building permits in Minnesota will continue to drag along the bottom through much of 2011 and then begin a modest recovery in early-to-mid 2012. Recent evidence suggests that, while job losses in construction have stabilized, any employment rebound will lag a recovery in building permits by between 6 and 9 months, thus a "catch up" period is assumed in the forecast.

Second, although the November 2010 forecast assumes home prices and inventories have fallen back in Minnesota, as the state's employment picture continues to improve, delinquency rates will decline further and fewer mortgage problems will feed into the system moving forward. Low mortgage rates, lower prices, and declining foreclosure rates will help stabilize the state's housing market, but not until early 2012. If mortgage foreclosures worsen as a result of weaker labor market conditions and the housing downturn continues to deepen later into 2012 it is unlikely that Minnesota's economy will perform as forecast.

The forecast assumes that GII's November 2010 baseline materializes. Any unanticipated adverse developments in the U.S. economy, however, such as further deterioration in the financial markets, failure to extend the Bush tax cuts, weaker business investment, weaker home sales, a rapid change in price levels, or the credit constrained recovery in consumer spending proceeds more slowly than GII assumes, will have unfavorable effects on the Minnesota economy.

Length and Depth of Minnesota Job Losses Relative to Past Recessions
Indexed Employment Change Since Month Preceding NBER Recession Call



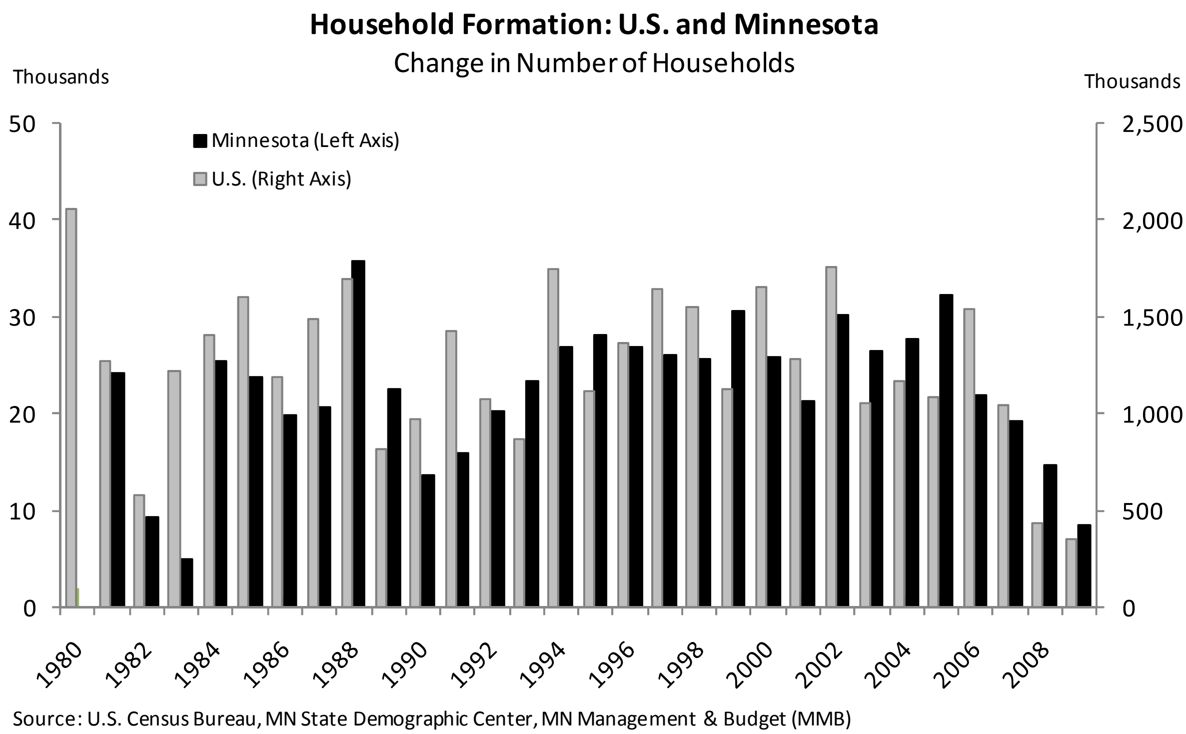
Source: MN Department of Employment and Economic Development (DEED), MN Management & Budget (MMB)

Minnesota's labor market is in recovery, but will be unable to sustain the current year's pace of job creation moving into 2011. Employment growth is expected to slow in the first part of the year as consumers continue to repair household finances and the housing market inches toward recovery. The November forecast estimates that it will take until mid-2013 before the state returns to peak pre-recession job levels

MINNESOTA DEMOGRAPHICS

The first results of the 2010 Census will be available by the end of December, reporting the total population of the state for April 2010 and the number of U.S. House of Representatives seats Minnesota will have for the next decade. Other demographic information will begin to arrive in late February, with the data needed for redistricting. Most of the data will be released by the end of calendar 2011. The 2010 Census will have an impact on a number of federal, state and local programs, boundaries of Congressional and legislative districts, and the benchmarking of statistical series.

Minnesota's population continues to increase at a steady and moderate rate of about 0.73% per year. This moderate growth, however, masks some dramatic shifts. Racial and ethnic diversity is increasing in Minnesota as two thirds of the population growth over the past decade has been minority population. In addition, rapid growth in counties surrounding the Twin Cities has declined as outward expansion of metropolitan areas around the country has slowed as a result of the housing market slump and recession. Household formation in Minnesota slowed dramatically in 2009 and average household size increased as a result of people "doubling-up", reducing demand for housing.



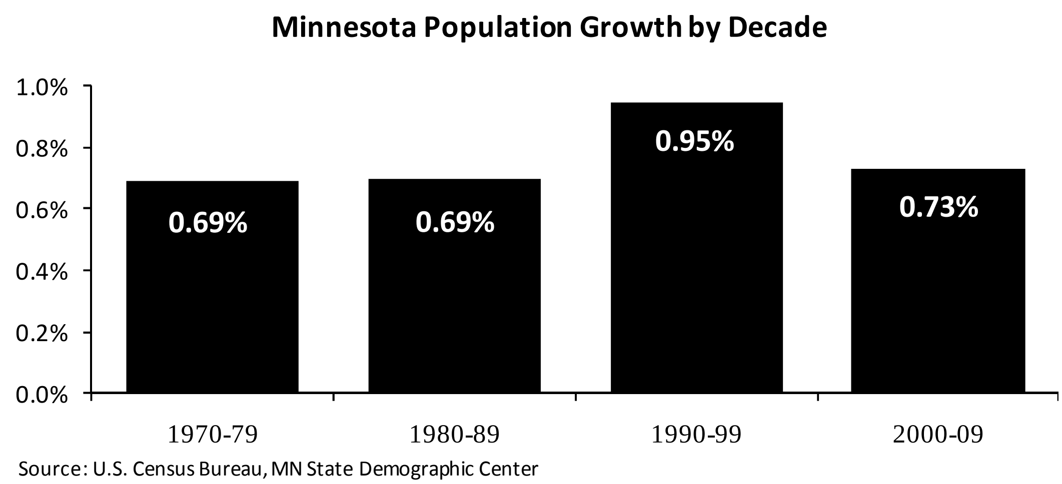
Growth in the number of households slowed sharply both nationally and in Minnesota beginning in 2006. This has a direct impact on the demand for housing.

Aging of the population will affect many areas of economic growth, federal and state government revenues, and expenditures. The first wave of the Boom Generation turns 65 in 2011. Retirements will increase sharply over the next four years and beyond. At the same time, the number of high school graduates, which peaked with the class of 2008, will decline through the middle of the decade. With more retirees and fewer younger people to enter the workforce, labor force growth will slow throughout the decade. Total hours worked will slow even more, as a larger share of the workforce will become older, part-time workers. Slower growth will put downward pressure on economic growth and government revenues and reduce the number of new jobs needed to cover natural growth in the labor force.

The following are a series of demographic factors that will impact Minnesota in the next biennium, as well as years to come. The impacts of the demographics will be widespread, impacting the state's economy and budget.

Overall Population Growth Slows while 65+ Growth Accelerates

From July 2008 to July 2009, Minnesota gained 35,700 people or 0.68%. This growth was the result of natural increase (the excess of births over deaths) of 34,500, domestic net migration of negative 8,800 and immigration of 10,100. Births declined modestly in 2008 and 2009 as a result of the recession. Final population count for the state from the 2010 Census will be available late this month.



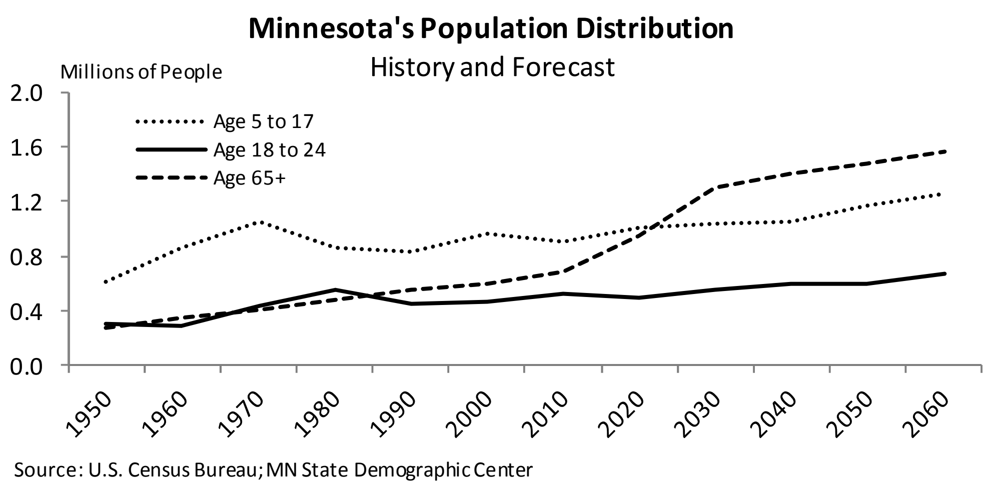
Growth slowed during the 2000s from the relatively rapid pace of the 1990s, when Minnesota's growth rate nearly matched the national rate. Minnesota's current growth rate is similar to that seen in the 1970s and 1980s. South Dakota, New Hampshire and Minnesota continue to lead the frost belt in growth, as they have for several decades.

Minnesota's growth in the past decade has been slower than the nation's and slower than the growth experienced in the 1990s, but consistent with growth in the 1970s and 1980s. The largest changes in components have occurred with immigration, which is much higher than in previous decades and domestic net migration, which is lower than in the 1990s, but consistent with the two prior decades. Since 2000, about 68 percent of

Minnesota's population growth has been in minority races and ethnicity and about 28 percent from increases in foreign born people. These rates are consistent with trends experienced nationally.

Conversely, while overall population growth slows, growth of the 65+ population will accelerate starting in calendar year 2011 to the highest levels on record. The number of people turning 65 in 2011 will exceed the number in 2010 by about 30 percent. Between 2010 and 2020, Minnesota will add 250,000 people 65 and older and between 2020 and 2030, another 350,000.

Historically, Minnesota adds about 75,000 people 65 and older during a decade. By 2020 or 2021 Minnesota will have more people age 65 and older than age 5 to 17, for the first time ever. The same trends are being mirrored nationally. Calendar year 2011 marks the beginning of substantial policy implications of population aging, with large increases in the number of retirees, increases in Social Security as a source of income for an increasing share of the population, increased eligibility for Medicare, and other similar trends.

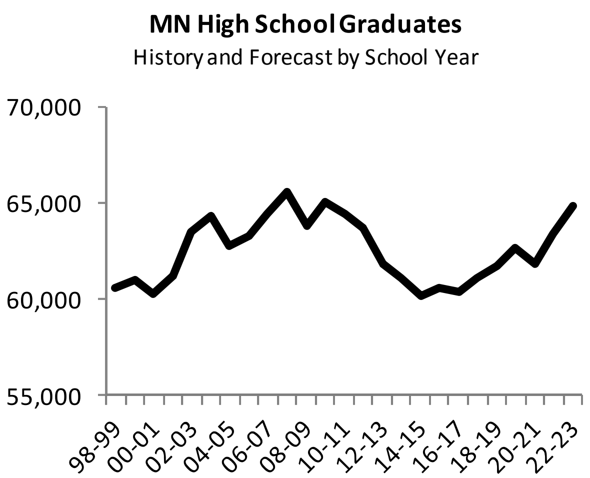


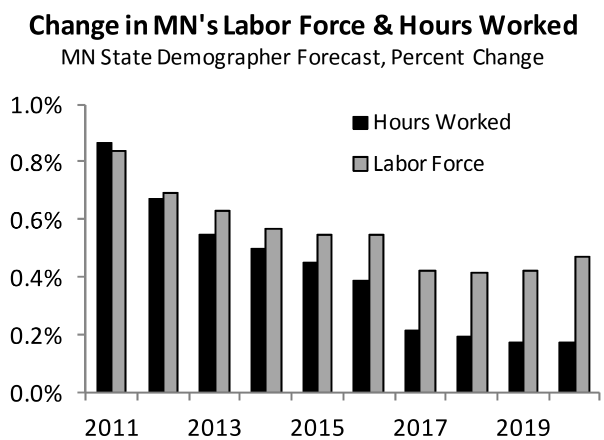
The next ten years will usher in a shift in the age structure from a young to an old population. By 2020, Minnesota and the nation will have as many people age 65 and older as children of school age. This has implications for the relative growth of major budget components.

High School Graduates Decline as Labor Force and Hours Worked Growth Slows

High school graduates reached a peak in school year 2007-08 and are projected to decline through mid-decade, returning to growth in 2017-18. By 2022-23, high school graduates are projected to return to 2010-11 levels. From 2010-11 to 2016-17, Minnesota high school graduates will drop by about 6.3 percent. Mid-decade levels of graduates will resemble the late 1990s, when high school graduates also declined. Declines will occur in both public and private schools. While the overall number will decline, the number of graduates of minority race and ethnicity will increase, in proportion from 16% in 2010-11 to 22 percent by 2020-21. The decline in high school graduates has implications for school enrollments, potential higher education enrollment and natural growth of the labor force.

Labor force and hours worked will slow, resulting in downward pressure on economic growth and government revenue. Increased numbers of workers reaching retirement coupled with lower number of younger, entry level workers will lead to a slowing of the growth rate of the labor force throughout the decade. While the forecast anticipates continued strong levels of immigration and an increasing number and proportion of older workers continuing to work beyond current retirement ages, those effects will not be large enough to overcome the very large numbers of people approaching retirement age. Labor force growth will slow from a rate of about 0.8 percent per year over the next couple years to about 0.4 percent per year at the end of the decade. Natural growth of the workforce, a measure of the level of job growth needed to hold unemployment constant, will decline from about 35,000 per year last decade to 23,000 per year over the next five years and 14,000 per year from 2015-2020. Older workers who do continue to work beyond existing retirement age also tend to work fewer hours. This affect will lead to even slower growth in hours worked than in labor force, contributing to slowing growth in earnings income.





Source: U.S. Bureau of Labor Statistics; MN State Demographic Center

The number of high school graduates peaked with the class of 2008. This measure will decline during the first half of the decade before returning to its 2009-10 level by the 2022-23 school year. With fewer young people available to enter the work force and more workers retiring, labor force growth will slow this decade. Total hours worked will slow even more as older workers shift from full-time to part-time work.

Urban Expansion and Household Growth Slows Significantly

Population growth in some of the fastest growing areas of Minnesota has slowed dramatically since 2006 as the recession has had an impact on inter-state and inter-county migration. Growth in suburban and exurban counties around the Twin Cities has slowed sharply while Hennepin and Ramsey counties are growing more rapidly. This pattern is replicated nationally as well. Population increases in the fastest growing states, such as Nevada, Arizona and Florida, have slowed.

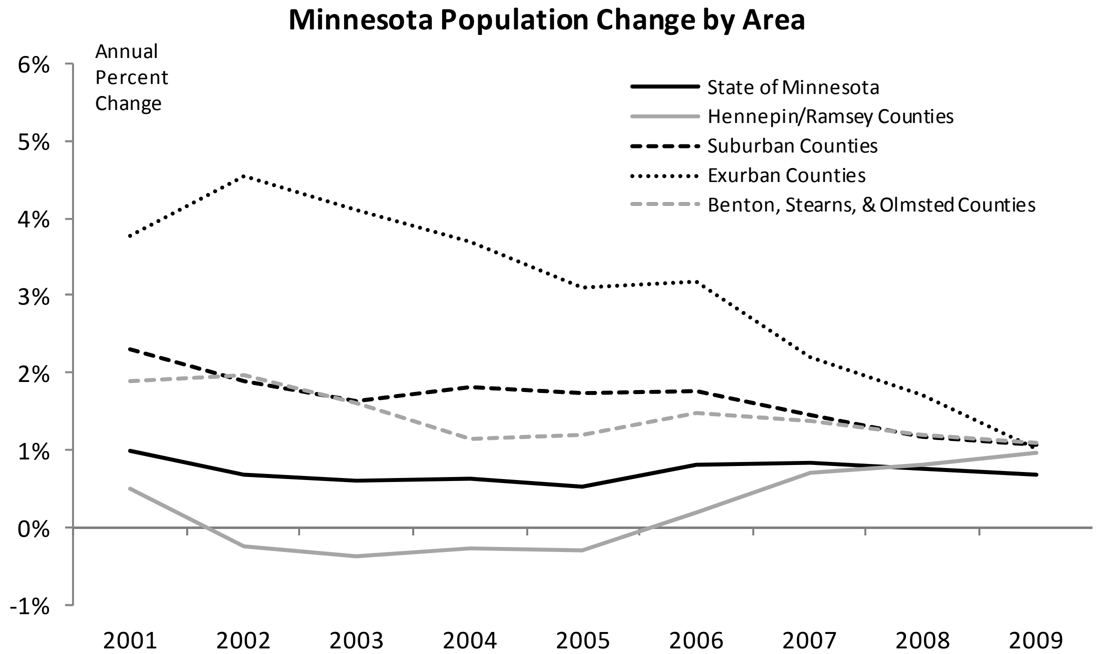
Minnesota population growth has remained fairly stable throughout the last decade, slowing only modestly. Exurban growth ring counties around the Twin Cities have slowed from a growth of 4 percent per year to around 1 percent per year. Suburban counties have also slowed from about 2 percent per year to 1 percent per year. Hennepin and Ramsey picked up from little change to a growth of about 1 percent The rapid growth frontier around many metropolitan areas has slowed, reducing urban expansion. This is a direct result of the housing market slump and recession.

It is uncertain, however, if this shift is a short-run trend in which rapid growth will return when the economy fully recovers or if this is the emergence of a new, long-run trend. This shift may have substantial impact on demand for infrastructure, including roads, bridges, water and sewer, bonding for major projects, and operating budgets for state and local governments.

As the population growth has converged, household formation in Minnesota, which consistently averaged around 24,000 per year since 1990, declined to 8,000 in 2009 and 5,000 in 2010, the lowest levels for more than 20 years. Survey evidence has indicated an increase in persons per household, which had been declining since the late 1960s. Nationally, persons per household tends to increase during recessions as young people move back to their parents house and doubling-up increases in an effort to save housing costs. The 2009 American Community Survey results for Minnesota and the nation show this tendency to increase during 2009.

Implications

The demographic shifts occurring in Minnesota have a direct impact on Minnesota's economy and budget. Take, for example, Minnesota's aging population. As the population ages, growth in the labor force slows, putting downward pressure on personal income growth and income tax receipts, the state's largest source of revenue. Over the long-term this puts upward pressures on health care and long term care costs. The correlation between Minnesota's demographics and our economy and budget cannot be understated.

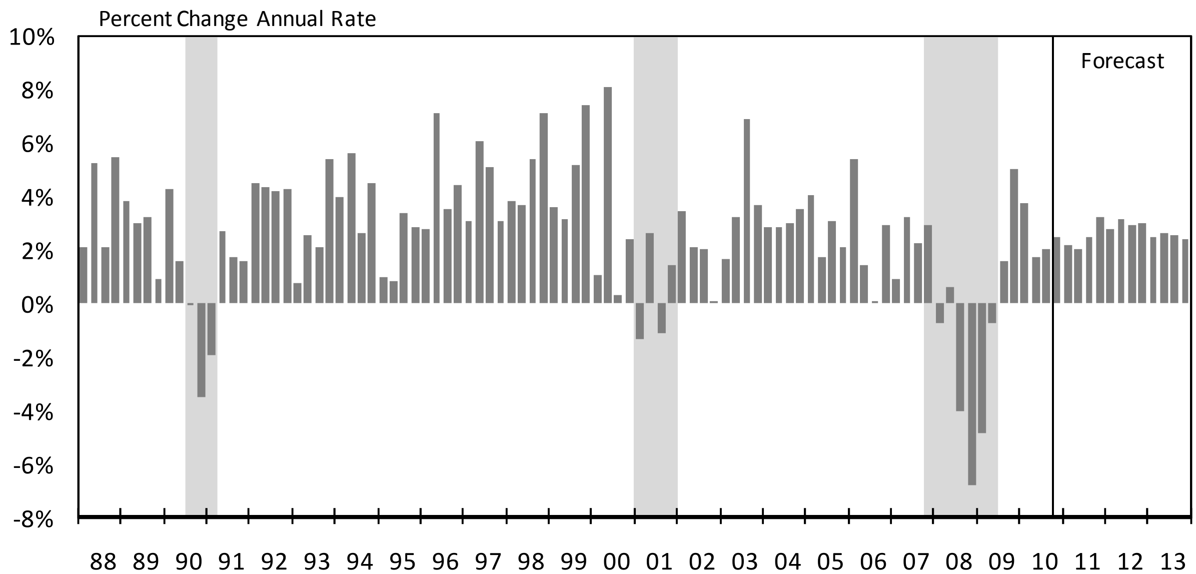


Source: U.S. Census Bureau; MN State Demographic Center

Since World War II, metropolitan areas throughout the nation have expanded outward, reducing growth in the core cities. The Twin Cities metropolitan area, for example, expanded rapidly, with strong growth in the first-ring suburban counties, followed by stronger growth in more exurban counties. Mid-decade, however, these rapidly expanding areas began to experience a substantial slowdown, while growth in the core counties increased. This has led to a convergence in growth rates.

SELECTED NATIONAL ECONOMIC INDICATORS

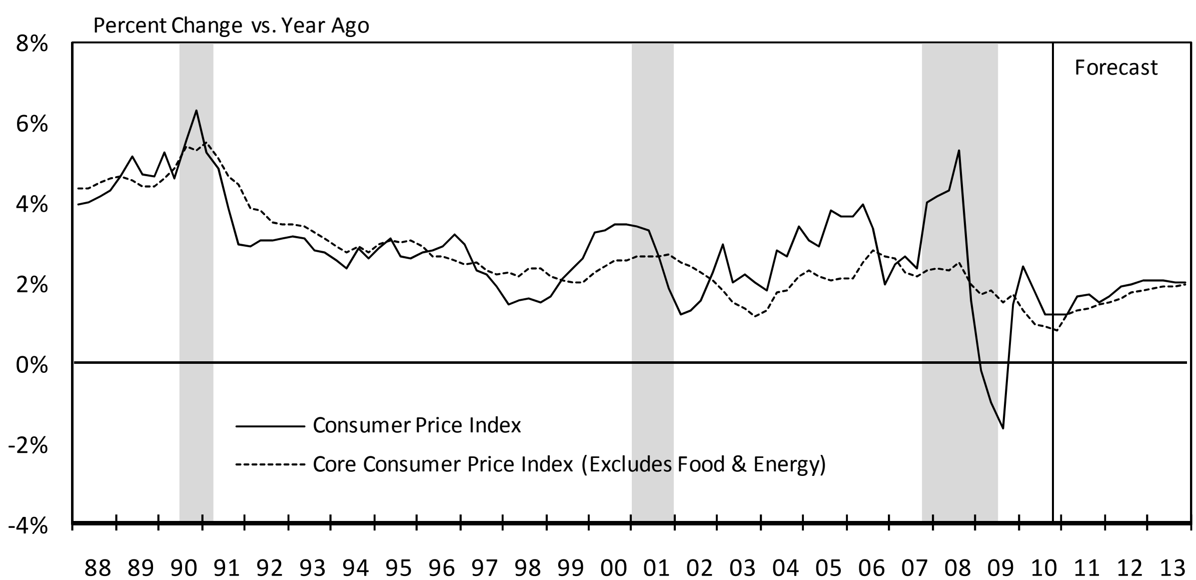
Real Gross Domestic Product



Source: Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

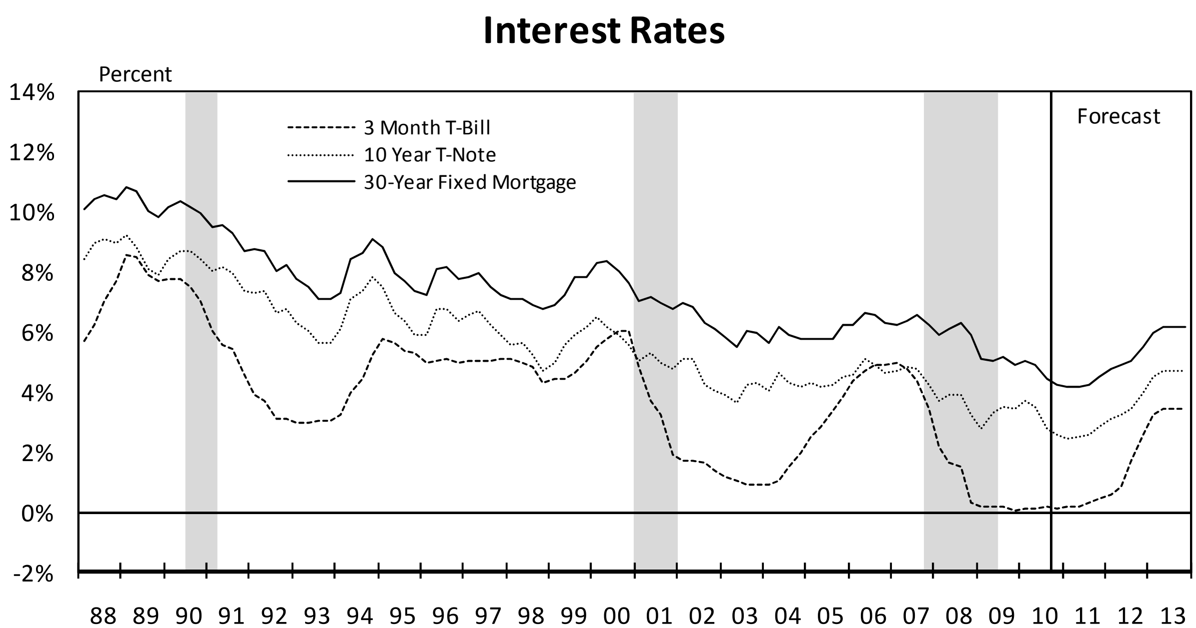
The economy lost momentum in mid-2010, but now appears to be stable. Global Insight forecasts 2.7 percent real GDP growth in 2010 and 2.3 percent in 2011, as consumption and hiring remain cautious, nonresidential building continues to weaken, and housing improves only gradually.

Consumer Price Indexes



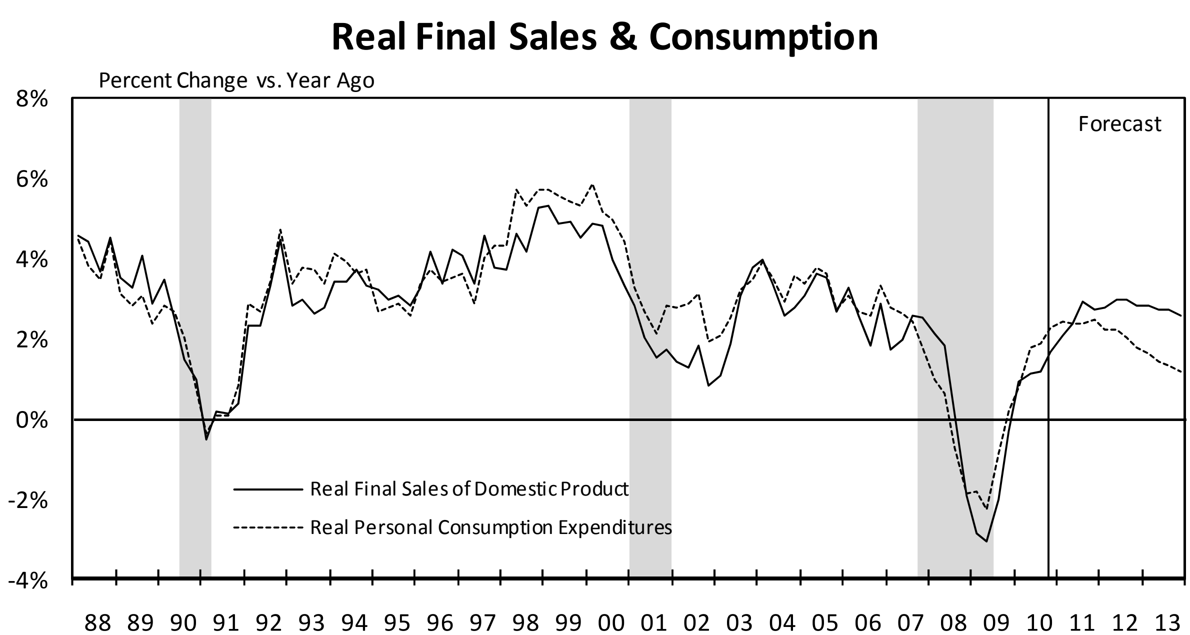
Source: Bureau of Labor Statistics, National Bureau of Economic Research, and Global Insight

With the core CPI falling closer toward zero, the Federal Reserve Open Market Committee remains more concerned about the risk of deflation than inflation. After declining 0.3 percent in 2009, Global Insight forecasts the CPI to rise 1.7 percent in 2010 and 1.5 percent in 2011.



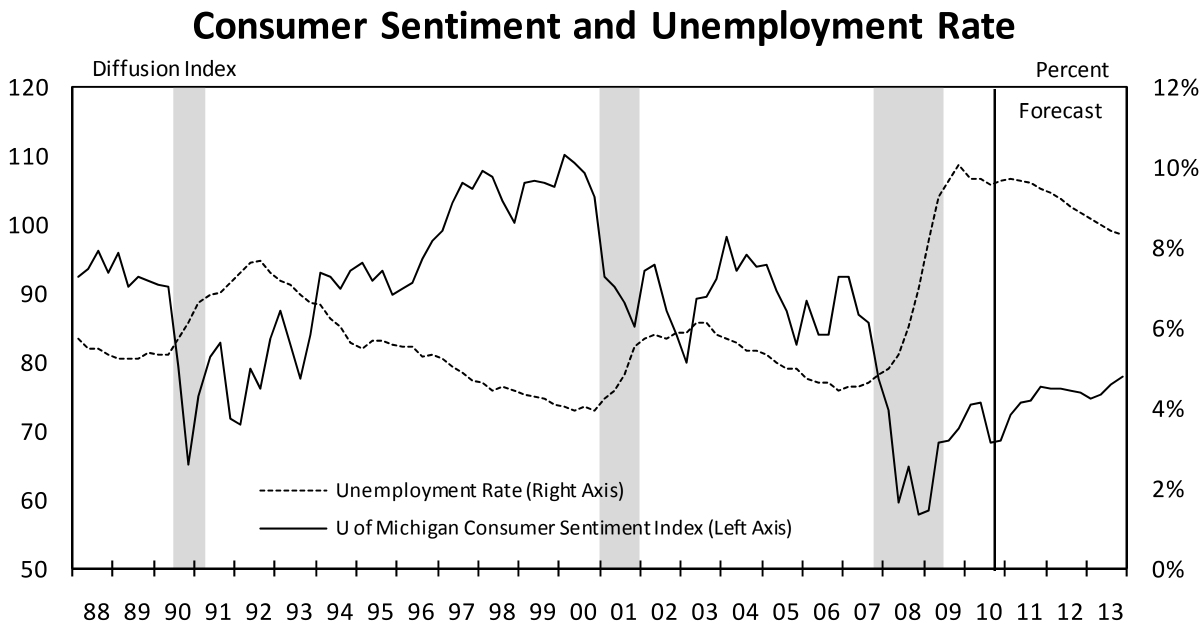
Source: Federal Reserve Board, Freddie Mac, National Bureau of Economic Research, and Global Insight

In Federal Reserve minutes from the meeting of November 2-3, 2010, the FOMC re-asserted "economic conditions are likely to warrant exceptionally low rates for an extended period." The target range for federal funds remained 0.0% to 0.25%.



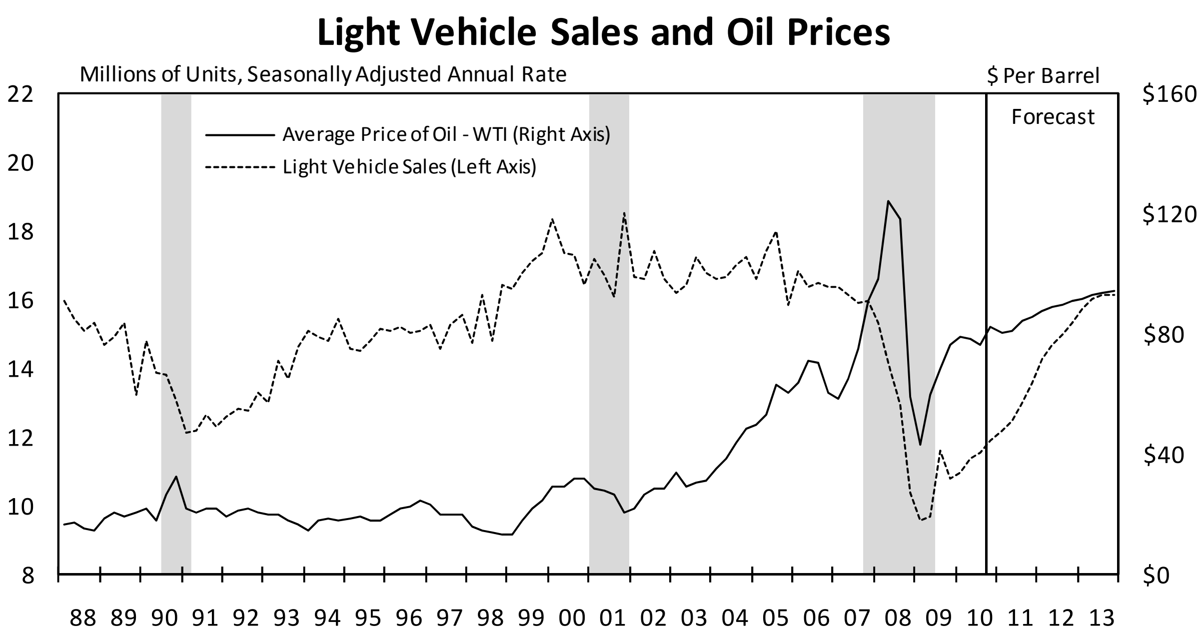
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

Consumers remain cautious, stressed by severe unemployment and depleted wealth. This is reinforcing businesses' reluctance to hire. Global Insight forecasts real growth in consumer spending of 1.7 percent in 2010, rising to 2.4 percent in 2011, and falling to 2.0 percent in 2012.



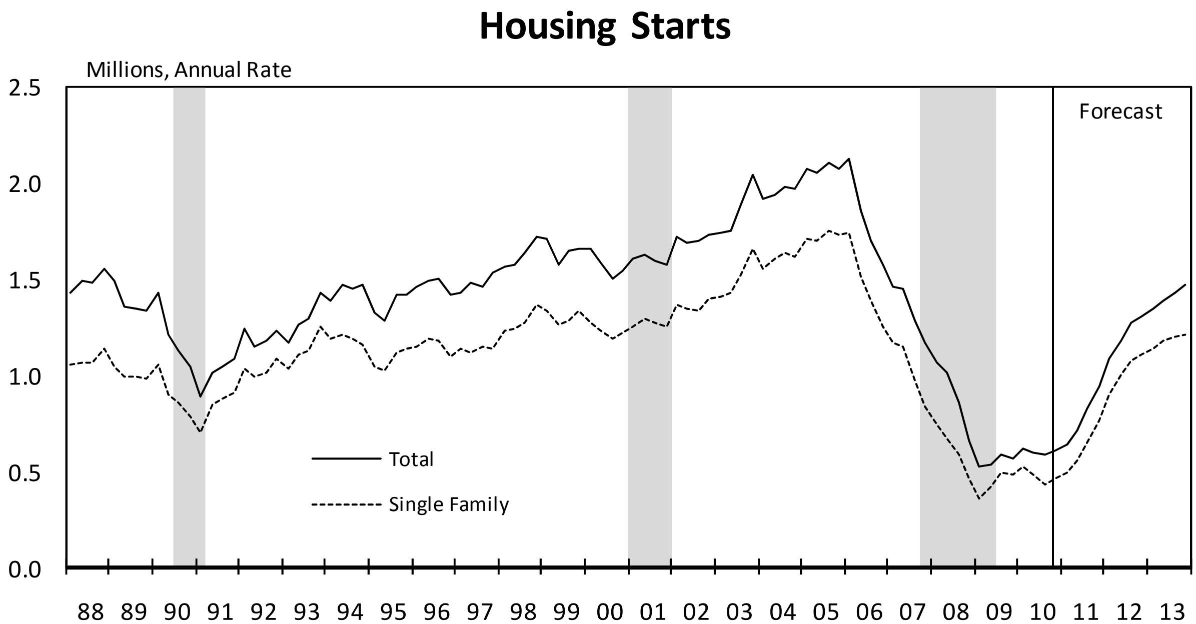
Source: University of Michigan, Bureau of Labor Statistics, National Bureau of Economic Research, and Global Insight

Driven by relatively good news on jobs and rising stock market prices, consumers became more optimistic about the economy in November. The Reuters/University of Michigan consumer sentiment index increased 3.9 points, to 71.6, the highest level since June.



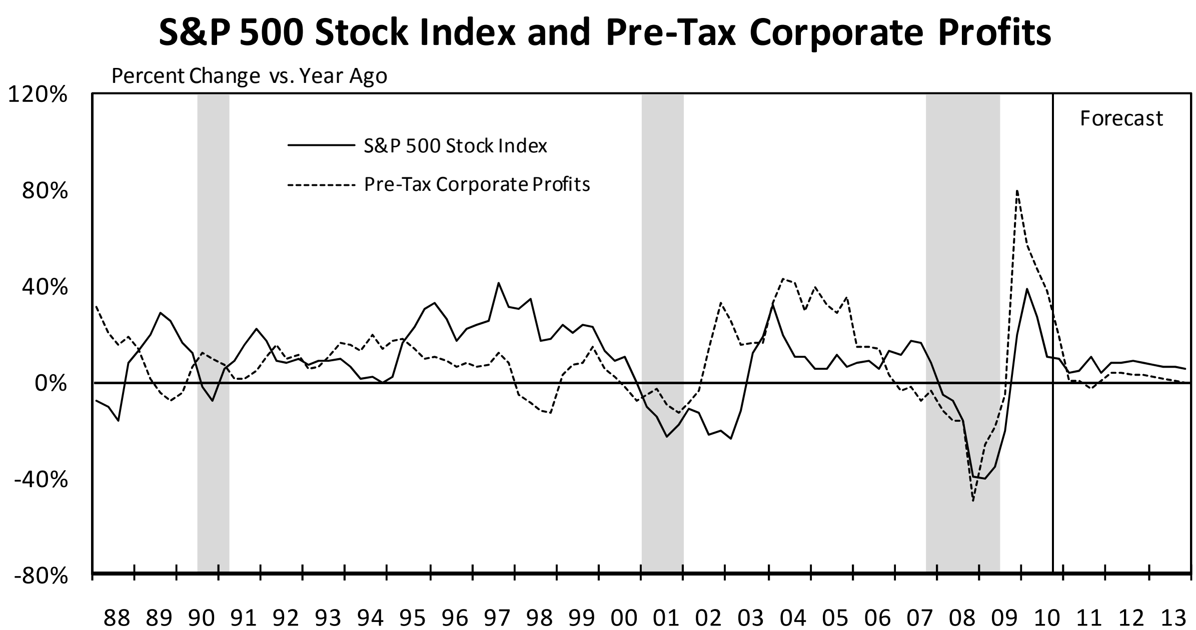
Source: Bureau of Economic Analysis, Investors' Business Daily, National Bureau of Economic Research, and Global Insight

Light vehicle sales are trending higher, but the upward momentum remains modest. Global Insight forecasts light vehicle sales of 11.4 million in 2010, 12.8 million in 2011, and 14.8 million in 2012. Oil prices are expected to stay just above $80/barrel for much of 2011.



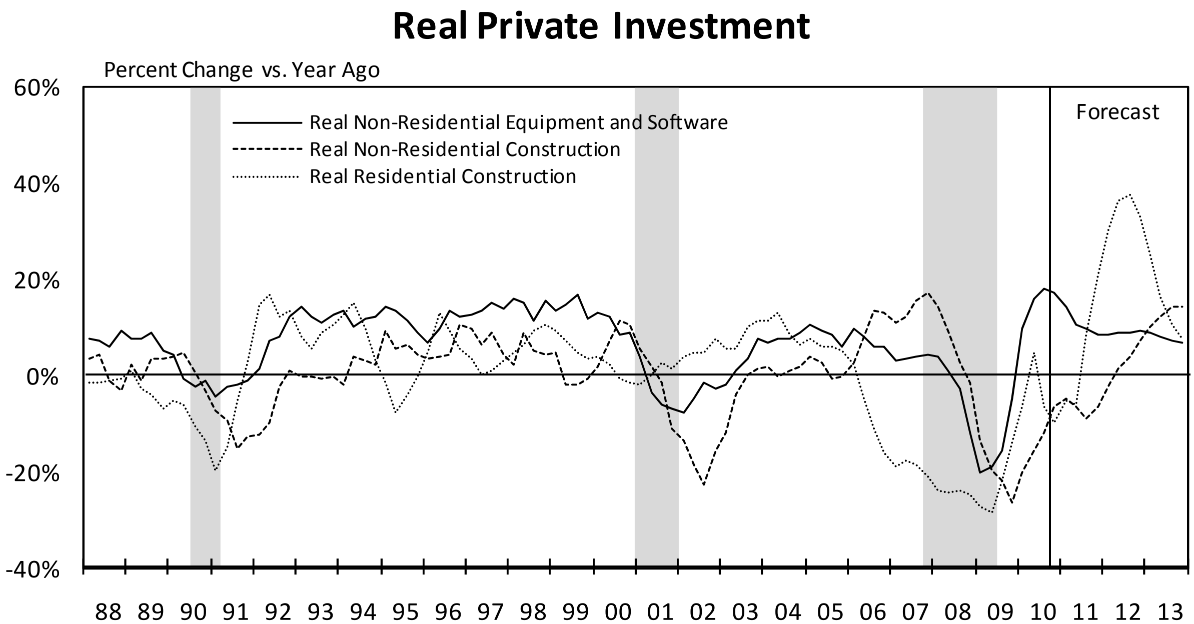
Source: U.S. Census Bureau, National Bureau of Economic Research, and Global Insight

Conditions in the housing market remain poor following expiration of the homebuyers' tax credit in April. Global Insight forecasts housing starts to improve gradually, but only to 783,000 units in 2011, up from 604,000 in 2010 and a postwar low 554,000 in 2009.



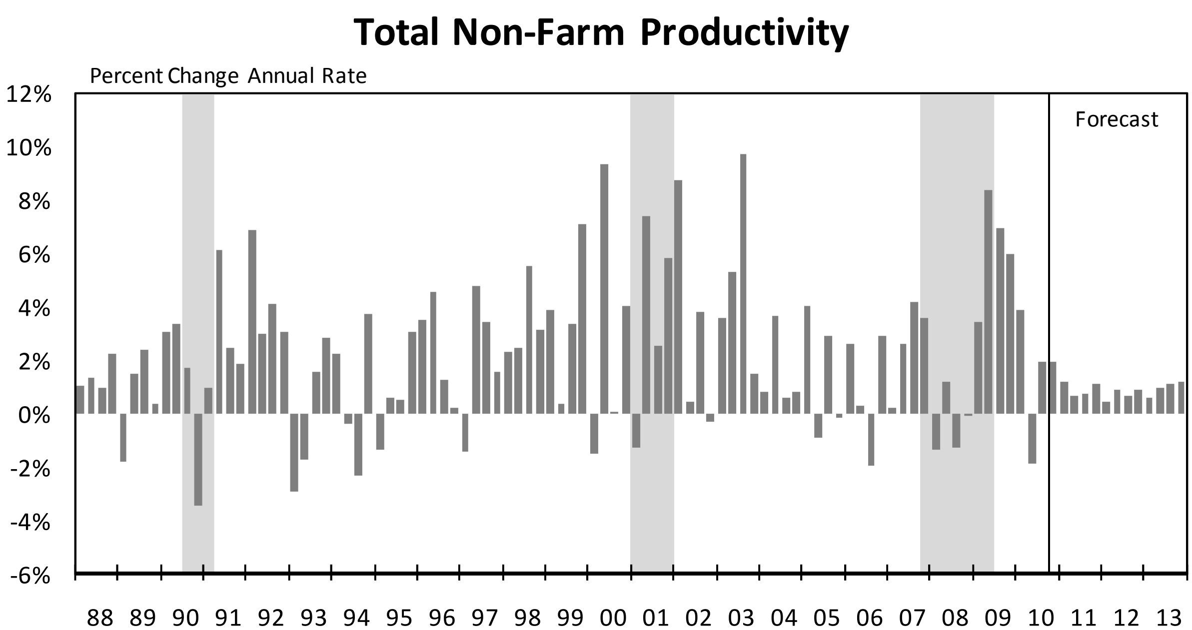
Source: Standard and Poor's, National Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

Massive cost-cutting during the downturn resulted in record corporate profit margins and a surge in earnings. Once firms can no longer increase earnings by cutting costs further, they must invest and hire more. This dynamic is being stalled in the current recovery due to added uncertainty.



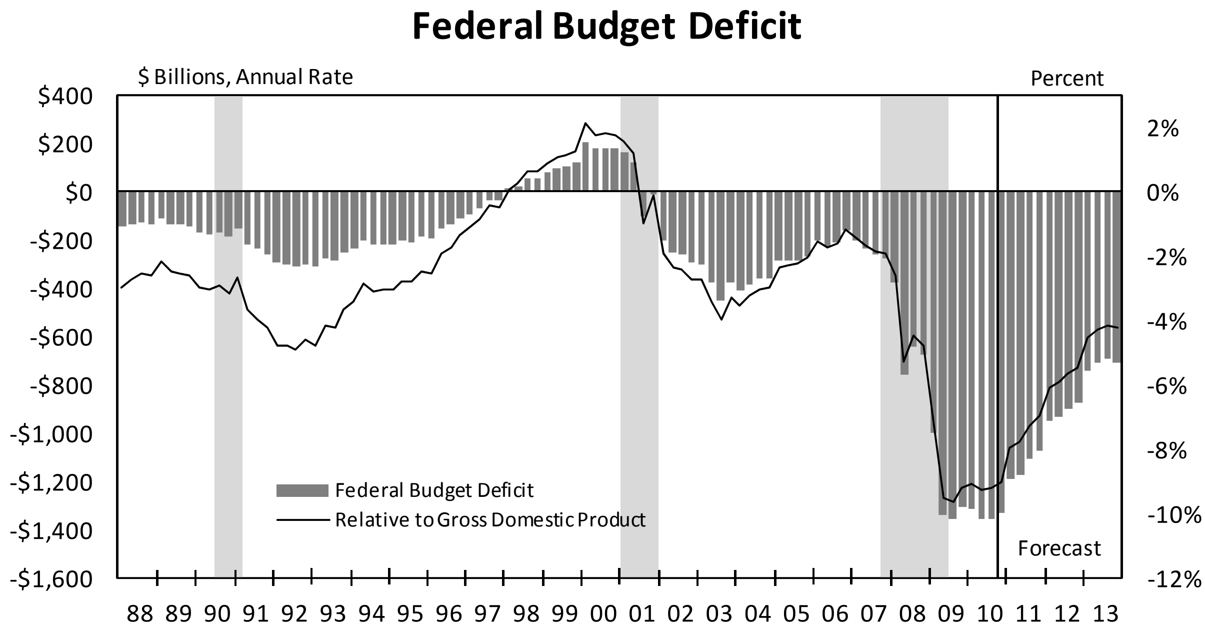
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

Global Insight's outlook for nonresidential construction is for another year of painful declines. Healthy corporate balance sheets, however, will keep equipment and software investment strong in 2011.



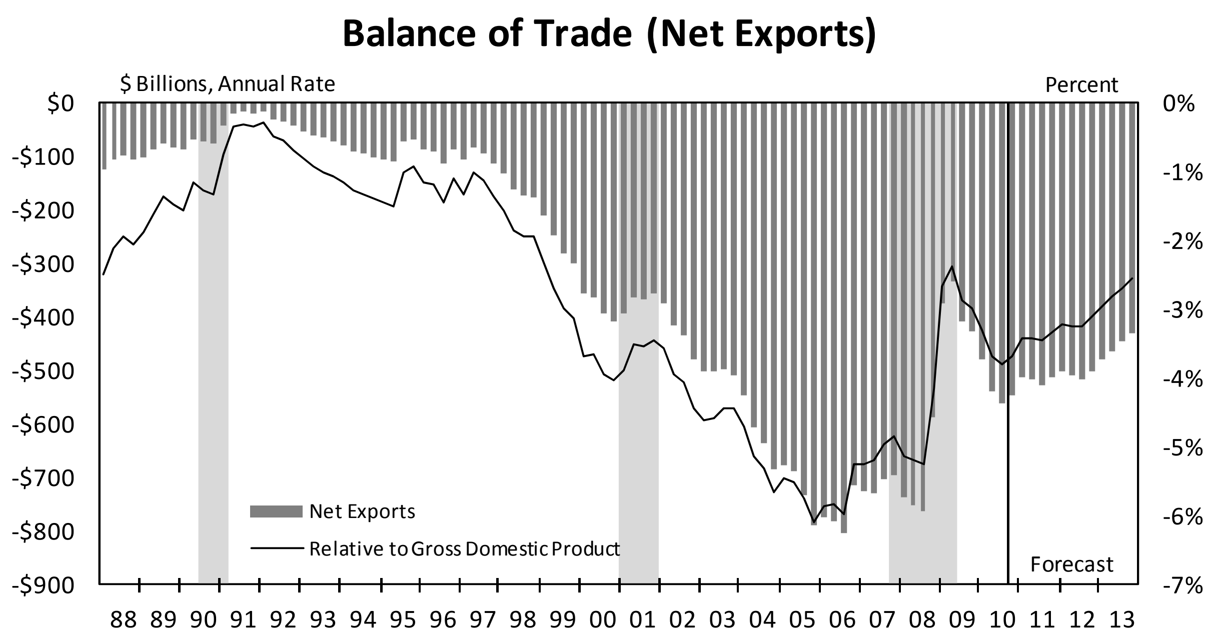
Source: Bureau of Labor Statistics, National Bureau of Economic Research, and Global Insight

Labor productivity growth is slowing in the second half of 2010, meaning businesses will have to hire more workers to meet growing demand. Global Insight expects productivity growth to remain weak in 2011 and 2012. This weakness is good news for employment growth.



Source: Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

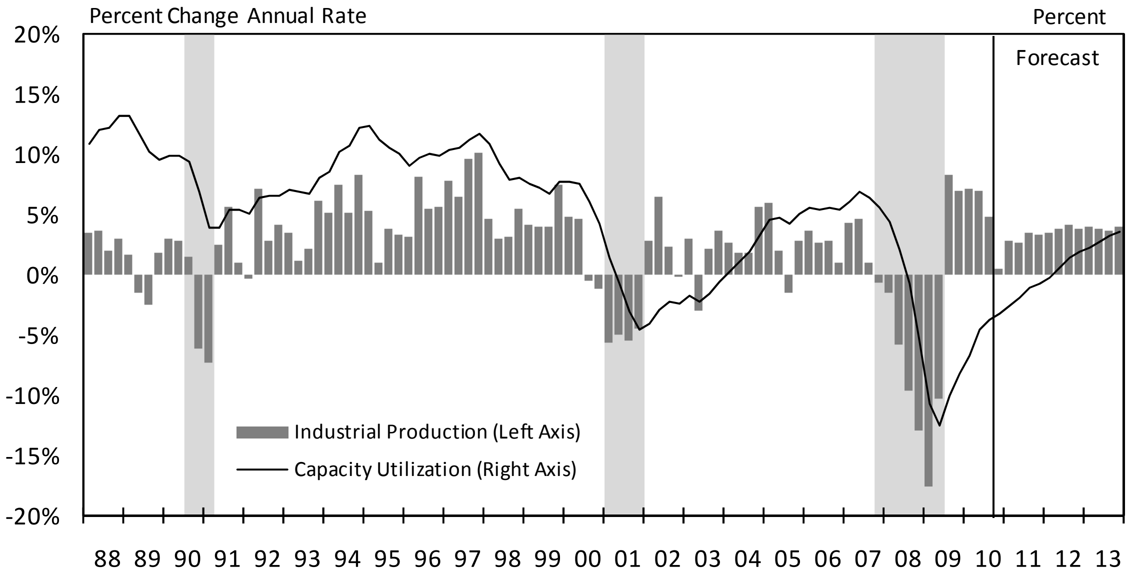
Fiscal policy options to stimulate the economy are limited, constrained by large deficits and political gridlock. According to the U.S. Treasury, the federal budget deficit narrowed in fiscal 2010, to $1.3 trillion, from $1.4 trillion in 2009.



Source: Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

Global Insight forecasts import growth will slow in 2011 as final sales remain constrained by cautious consumers. A weak dollar and emerging market growth, however, will continue to support export growth.

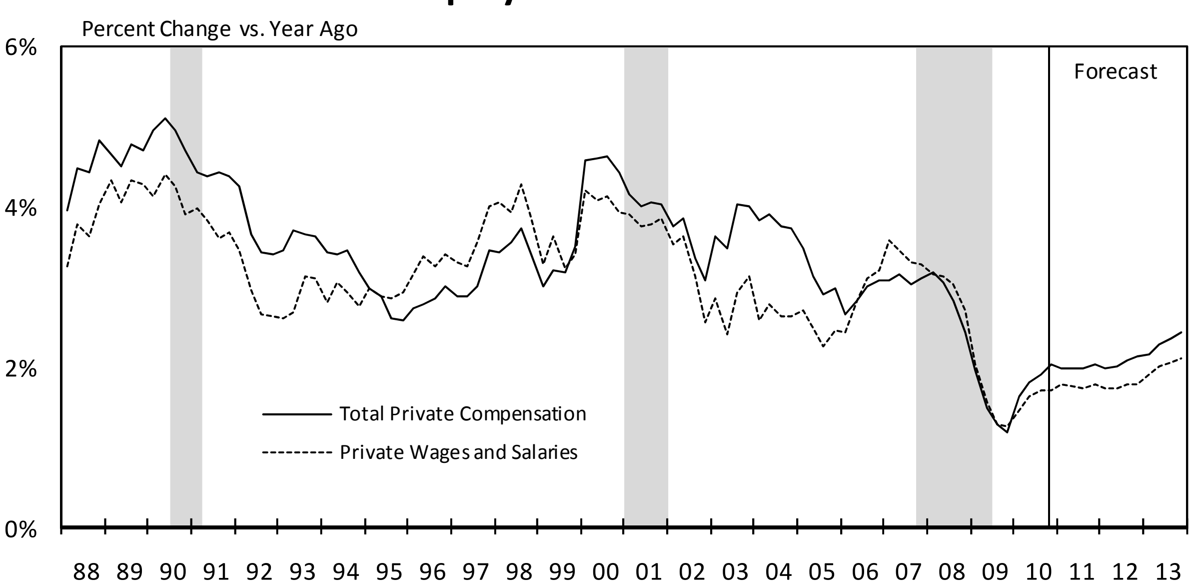
Industrial Production and Factory Operating Rate



Source: Federal Reserve Board, National Bureau of Economic Research, and Global Insight

Growth in manufacturing is slowing. Global Insight forecasts total industrial output to grow 5.3 percent in 2010 and 2.9 percent in 2011. Manufacturing capacity utilization is expected to continue to improve throughout the forecast horizon.

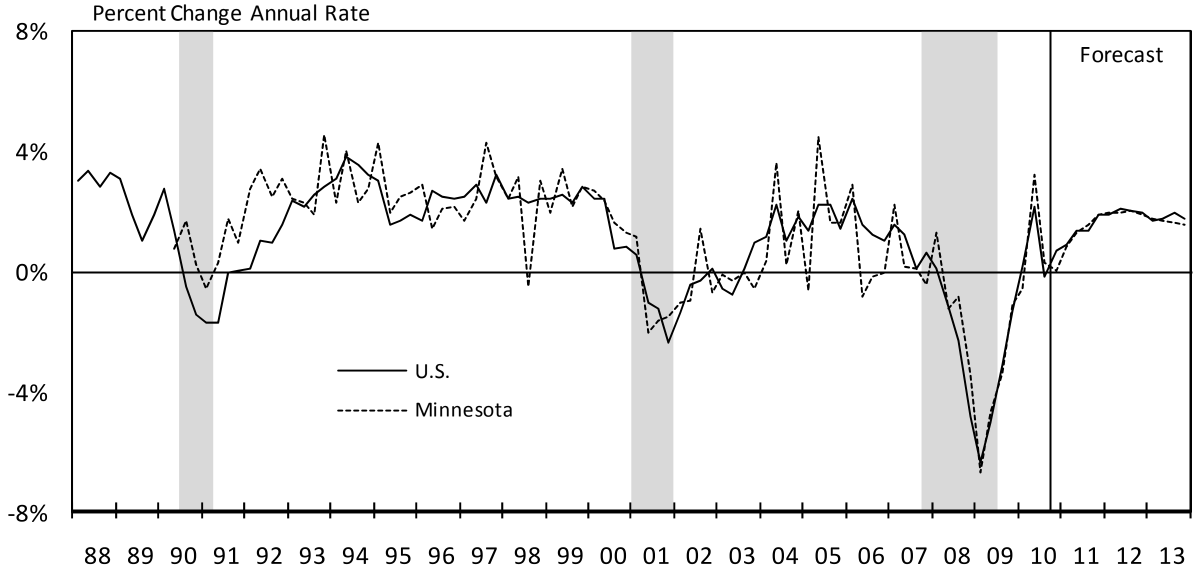
Employment Cost Index



Source: Bureau of Labor Statistics, National Bureau of Economic Research, and Global Insight

Wage inflation remains extremely low. Employment costs for civilian workers were up 1.9% year-over-year in the third quarter of 2010. This is another reason that deflation, not inflation, is more of an immediate concern for policymakers.

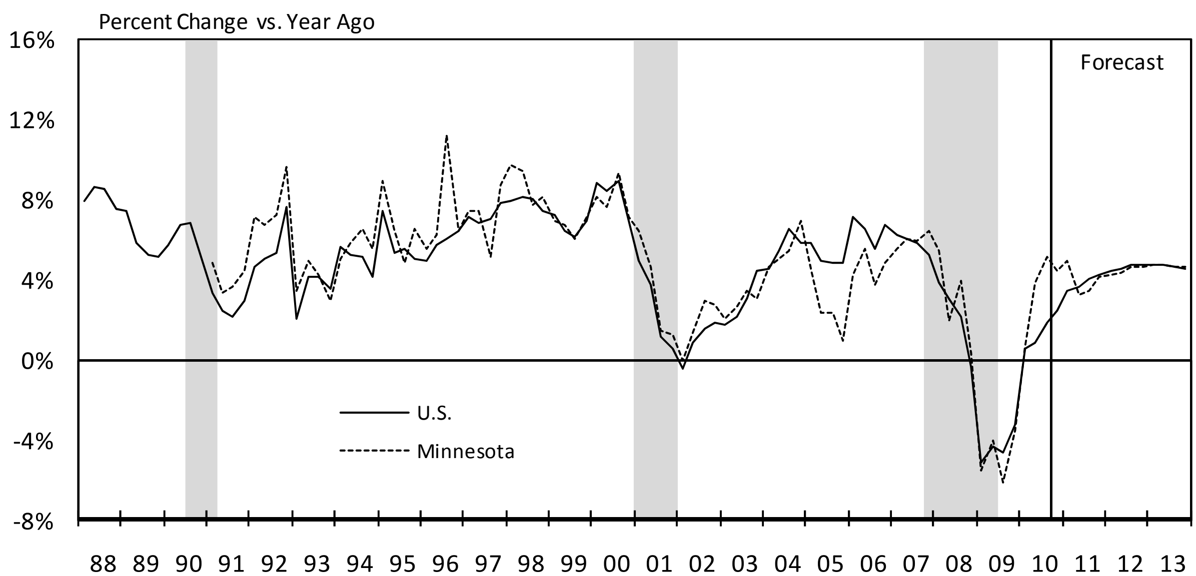
Total Non-Farm Employment



Source: Bureau of Labor Statistics, MN Management & Budget, National Bureau of Economic Research, and Global Insight

The November 2010 forecast for Minnesota's economy projects the state's employment rebound in 2011 will remain slow. After declining a revised 3.9 percent in 2009, the state's employment is forecast to fall 0.5 percent in 2010, before growing 1.0 percent in 2011 and 1.8 percent in 2012.

Wage and Salary Disbursements



Source: Bureau of Economic Analysis, MN Management & Budget, National Bureau of Economic Research, and Global Insight

Preliminary labor market data and income tax withholding collections suggests Minnesota's nominal wage and salary income will grow 3.5 percent in 2010. In 2011, nominal wages are forecast to grow 3.9 percent and increase by 4.4 and 4.7 percent respectively in 2012 and 2013.

FY 2010-11 BUDGET STATUS

$399 Million Projected Balance for FY 2010-11 is Product of a Series of Legislative, Executive and Federal Actions

The FY 2010-11 budget was originally enacted based on the February 2009 Forecast, which a projected general fund budget shortfall of $4.6 billion. The enacted budget, after the Governor's vetoes of tax legislation, left an unresolved shortfall of $2.676 billion for FY 2010-11 and a projected structural shortfall of nearly $5.8 billion in planning estimates for FY 2012-13. In July 2009, the Governor balanced the budget through use of the budget reserve, administrative actions and unallotment authority to reduce spending by $2.455 billion and increase revenue by $217 million.

In February 2010, an additional $994 million general fund deficit was forecast for the 2010-11 biennium. The forecast deficit was based on the legislatively enacted budget including the Governor's subsequent budget balancing actions. In May 2010, the Minnesota State Supreme Court ruled that the Governor's use of unallotment in July 2009 exceeded his authority. The Governor's unallotments were effectively reversed, increasing the size of the deficit from $994 million to $3.425 billion.

In May 2010, during the regular 2010 legislative session and a one-day special session, the $3.425 billion deficit was solved largely through a combination of payment deferrals, federal funds, permanent and one-time spending reductions, transfers from other funds, and a reduction in remaining reserves. Most of the Governor's original unallotments were adopted by the legislature, but a significant portion were implemented as one-time reductions, not permanent cuts. These actions resulted in a forecast general fund ending balance of $6 million for FY 2010-11. Since a substantial portion of final legislative actions were one-time, the projected shortfall in FY 2012-13 planning estimates remained largely unchanged at $5.8 billion.

Impact of Special Sessions on 2010-11 Budget
($ in millions)

	May Special Session	October Special Session	Change
Beginning Balance	**$447**	**$447**	**$0**
Revenues	**30,538**	**30,537**	**(1)**
Spending			
K-12 Education	13,336	13,337	1
K-12 Payment Shifts	(1,947)	(1,947)	0
Higher Education	2,811	2,811	0
Health & Human Services	9,083	8,852	(231)
Property Tax Aids & Credits	2,976	2,976	0
All Other	4,454	4,492	38
Total Spending	30,713	30,521	(192)
Reserves	266	266	0
Ending Balance	**$6**	**$197**	**$191**

In October 2010, a second special legislative session was held to provide disaster assistance. The bill passed by the legislature and signed by the Governor appropriated $38.4 million for flood and tornado relief and recognized a six-month extension of a higher federal matching rate for Medical Assistance (known as FMAP) that was enacted at the federal level in August 2010. Enhanced FMAP temporarily increases the federal share of the state's Medicaid program, Medical Assistance (MA), and decreases state costs for the program – reducing FY 2011 general fund spending by an estimated $231 million.

Fiscal Year 2010 Close Produced Positive News

The *July 2010 Economic Update* reported preliminary year-end revenue results for FY 2010. Year-end revenues were expected to be $99 million below forecast. In August 2010, the books were officially closed for the fiscal year ending June 30, 2010. FY 2010 revenue was only down $77 million instead of the previously estimated $99 million and expenditures were less than estimated. In total, FY 2010 ended with a general fund balance of $67 million, $9 million less than estimated at the end of the 2010 legislative session. The table below shows final FY 2010 activity compared to estimates made at the end of the 2010 legislative session.

FY 2010 Actual

Change From End of Session Estimates

($ in millions)

	End of 2010 Session	FY 2010 Close	Difference
Beginning Balance	$447	$447	$0
Non-Dedicated Revenue	14,248	14,171	(77)
Transfers, Other Resources	446	449	3
Total Resources	14,694	14,620	(74)
Expenditures	14,799	14,627	(172)
Balance Before Reserves	342	440	98
Cash Flow Account	266	266	0
Appropriations Carried Forward	0	107	107
Budgetary Balance	**$76**	**$67**	**($9)**

FY 2010 Revenues Ended $74 Million Below End-of-Session Estimates; Spending Was a Net $65 Million Below Forecast

Total revenues were $74 million lower than estimated at the end of the 2010 legislative session. Individual income tax receipts were $189 million lower than estimated. Corporate income taxes were $32 million higher, and sales tax receipts were $23 million higher than estimated. All other taxes and other resources were $60 million higher than end of session estimates.

FY 2010 expenditures were $172 million lower than estimated at end of session; however, statute provides authority for state agencies to carry forward FY 2010 unspent operating dollars into the next fiscal year. For FY 2010, agencies carried forwarded $107 million into FY 2011. This results in a net spending decrease of $65 million for FY 2010.

November Forecast Adds $202 Million to Projected FY 2010-11 Ending Balance

The current forecast decreases general fund revenues to $30.493 billion, $44 million (0.1 percent) below prior estimates. However, this revenue loss is offset by a reduction in forecast spending of $255 million. General fund spending for FY 2010-11 is now expected to be $30.266 billion, a decrease of $255 million (0.8 percent) from prior estimates. These changes, combined with other reported actions leave a revised forecasted balance of $399 million for the 2010-11 biennium.

Impact of FY 2010-11 Forecast Changes
($ in millions)

	Enacted Budget	Special Session Changes	November Forecast Changes	Revised Budget
Beginning Balance	$447		$0	$447
Revenues	30,538	(1)	(44)	30,493
Expenditures	30,713	(192)	(255)	30,266
Budget Reserve	0	-	9	9
Cash Flow Account	266	-	-	266
Available Balance	**$6**	**$191**	**$202**	**$399**

Budget Reserve Account Now $8.7 Million

At the end of the 2010 legislative session, $266 million remained in the cash flow account. The $653 million budget reserve had been entirely used prior to executive action on unallotments. In accordance with current law (M.S.79.251 Subd.1), $8.7 million in 'excess surplus' in the workers' compensation assigned risk plan was transferred to the budget reserve in July 2010, restoring part of the budget reserve.

Reserves Not Increased Despite Projected Balance

M.S. 16A.152, governs actions relating to the state cash flow account and budget reserve. The statute requires the commissioner of Minnesota Management and Budget to allocate funds to restore the cash flow account and budget reserve to their statutory maximums if a forecast shows a positive unrestricted budgetary general fund balance for the close of a biennium. Due to change in state law (Laws of 2010, 2nd Special Session, Chapter 1, Article 3, and Sec. 4), the projected positive unrestricted general fund balance of $399 million is carried forward to FY 2012. This law was enacted in the October special session to comply with a general restriction placed on acceptance of the enhanced federal matching rate for Medical Assistance (known as FMAP). This restriction required that savings from enhanced FMAP could not directly or indirectly contribute to state reserves.

American Recovery and Reinvestment Act (Stimulus) Funds Decreased FY 2010-11 General Fund Spending Significantly

A substantial portion of general fund spending in the current biennium was replaced by federal stimulus spending. This is significant because the state savings resulting from the infusion of federal funds do not continue into the next biennium. The stimulus bill, which was passed by Congress in February 2009, included several one-time provisions intended to help state and local governments balance their budgets. The two provisions included in the stimulus act that directly impacted the state's general fund budget were the State Fiscal Stabilization Fund (SFSF) and the aforementioned enhanced Federal Medical

Assistance Percentage (FMAP). The table below details the allocation of these federal funds.

FY 2010-11 Stimulus Funds
($ in millions)

K-12 Education	$500
Higher Education	
University of MN	89
MNSCU	79
Health & Human Services	
Medical Assistance	1,456
Other Human Services	110
Corrections	38
Total	$2,272

In most cases, one-time general fund reductions were made in FY 2010-11 due to availability of federal funds. With the enhanced FMAP funds, the share of state Medical Assistance (the state's Medicaid program) expenditures paid by the federal government increases; and state spending on Medical Assistance decreases.

While total general fund expenditures are estimated to be $30.266 billion for FY 2010-11, incorporating the stimulus funds provides a more comparable picture of total spending. With stimulus funds included, FY 2010-11 spending would be $32.538 billion. It is important to note that reviewing only general fund spending, excluding stimulus spending, will distort biennial comparisons.

($ in millions)	**General Fund Only FY 2010-11**	**General Fund and Stimulus FY 2010-11**	**Difference**
K-12 Education	$13,365	$13,865	$500
K-12 Shifts	(1,927)	(1,927)	$0
Higher Education	2,814	2,982	$168
Health & Human Services	8,669	10,235	$1,566
Property Tax Aids & Credits	3,018	3,018	$0
All Other	4,327	4,365	$38
Total	**$30,266**	**$32,538**	**$2,272**

Revenue Forecast
FY 2010-2011

Current general fund resources for the 2010-11 biennium are now forecast to total $30.493 billion, $44 million (0.1 percent) less than was projected at the end of the second special legislative session of 2010. The forecast for the five major taxes and net non-dedicated revenues also has been reduced by 0.2 percent. Receipts for the five major taxes are now projected to be $56 million below earlier estimates. Net non-dedicated revenues are $36 million less than previously expected. Revenues in fiscal 2010 closed $74 million below forecast, but fiscal 2011 projected revenues are now expected to exceed end-of-session estimates by $30 million.

Revenues FY 2010-11

($ in millions)

	FY 2008-09	FY 2010	FY 2011	FY 2010-11
Individual Income	$14,747	$6,531	$7,235	$13,766
Sales	8,915	4,177	4,531	8,708
Corporate	1,728	663	968	1,631
Motor Vehicle Sales	303	74	30	104
Statewide Levy	1,434	767	762	1,529
Five Major Taxes	27,127	12,212	13,526	25,739
Other Revenue	3,558	1,790	1,728	3,518
Tobacco	364	168	162	330
Net Non-dedicated	31,049	14,172	15,416	29,588
Other Resources	1,020	448	457	905
Current Resources	**$32,068**	**$14,620**	**$15,873**	**$30,493**

Although the net change to the biennial revenue outlook was very small, there were larger changes in particular sources of revenue. Individual income tax receipts for the biennium are now forecast to fall short of earlier projections by $314 million (2.2 percent). Much of that decline comes from lower than expected tax year 2009 final liability. Final 2009 settle-up payments (due April 15, 2010) were lower than projected in February's forecast and tax year 2009 refunds, higher. Tax year 2009 liability is now estimated to be $200 million less than forecast in February. Stronger than previously 2010 anticipated withholding growth helped offset some of the decline.

The drop in expected income tax revenue was largely offset by a $199 million improvement in the corporate income tax forecast and a $54 million increase in expected net receipts from the sales tax. Projected receipts from the statewide property tax levy and the general fund's share of the motor vehicle sales tax changed by a total of only $4 million. Net income tax receipts in FY 2010-11 are now forecast to be 6.7 percent less than receipts in FY 2008-09, and 2.3 percent below FY 2006-07 receipts. Net sales tax receipts are expected to be 2.3 percent less than FY 2008-09 levels and 2.9 percent less than in FY 2006-07.

Total current resources are forecast to be 4.9 percent below their FY 2008-09 levels. After adjusting for the phased transfer of motor vehicle sales tax revenue from the general fund to funds dedicated to transportation, a decline of 4.3 percent from 2008-09 levels and 4.6 percent from 2006-07 is anticipated. Adjusting for the effect of $236 million in refunds being held over into the 2012-13 biennium leaves FY 2010-11 revenues projected to fall short of 2008-09 revenues by 5.1 percent.

Changes in Economic Assumptions

Global Insight's November 2010 baseline is very similar to its February 2010 forecast. The economy avoids a second recession, but GII expects the recovery to continue to proceed only a slow, measured pace with growth rates remaining below those normally expected in the period immediately following a recession. Real GDP grew at a 0.7 percent annual rate in fiscal 2010, 0.1 percentage point less than projected in February. In fiscal 2011, real growth of 2.5 percent is now expected, slightly less than the 2.8 percent rate GII called for in February.

Global Insight continues to see very slow growth in U.S. employment. Total employment is now expected to remain below its pre-recession high until early 2014, about 9 months later than was anticipated in February. GII also has cut back on their outlook for U.S. wage growth. In February U.S. wages were projected to grow at an annual rate of 1.7 percent during the 2010-11 biennium. November's baseline calls for growth at just a 0.6 percent rate.

Minnesota employment and wages appear to be recovering more rapidly than the U.S. average. Through October payroll employment in Minnesota has grown by1.1 percent since the start of the 2010-11 biennium. Nationally, payroll employment grew by just 0.1 percent during that same period. Minnesota wages are now projected to grow by 1.5 percent during the current biennium. In February no wage growth was forecast.

Individual Income Tax

Individual income tax receipts for the 2010-11 biennium are now forecast to total $13.766 billion, $314 million (2.2 percent) less than February's estimates after adjusting for actions taken in the 2010 legislative sessions. Actual fiscal 2010 receipts were $189 million less than February's estimate, and receipts for fiscal 2011 are now projected to be $125 million below earlier estimates. Through October, fiscal-year-to-date receipts were $23 million above forecast. Withholding receipts for the 2011 fiscal year currently exceed forecast by $97 million. The elimination of income tax reciprocity with Wisconsin beginning in 2010 may be affecting both the current positive variance in withholding and, indirectly, estimated growth in wages. The elimination of reciprocity was projected to add $139 million to withholding receipts this biennium. The true impact of the change, however, will not be known until calendar 2012 at the earliest.

Estimated final liability for tax year 2009, the starting point for this forecast, was set at $6.132 billion, $200 million less than projected in February. Other things equal a reduction in 2009 final liability produces a similar reduction in liability for all future tax years since it reduces the base from which all future liabilities are computed. The impact of the lower 2009 liability was partially offset, however, by stronger than previously projected wage growth thus far in 2010. Total wages received by Minnesota taxpayers in tax year 2010 are now projected to be 3.5 percent greater than in 2009. In February wage growth of just 1.0 percent was forecast.

Growth rates for non-wage income in tax year 2009 were adjusted from February's forecast to reflect more recent data and to force results from the income tax micro-simulation to equal MMB's preliminary estimate of final tax year 2009 liability. Some large changes to those growth rates were necessary. Capital gains realizations are now believed to have fallen by 47 percent between tax years 2008 and 2009. In February a decline of 25 percent was assumed. Material changes also were made to the dividend income forecast and unemployment compensation projections. Further reductions in proprietors' income also were necessary. Proprietors' income in Minnesota is now assumed to have declined by 10 percent between 2008 and 2009. The growth rates for 2009 income will be revised again in February using preliminary information from the 2009 Minnesota income tax sample and a more complete estimate of 2009 income tax liability.

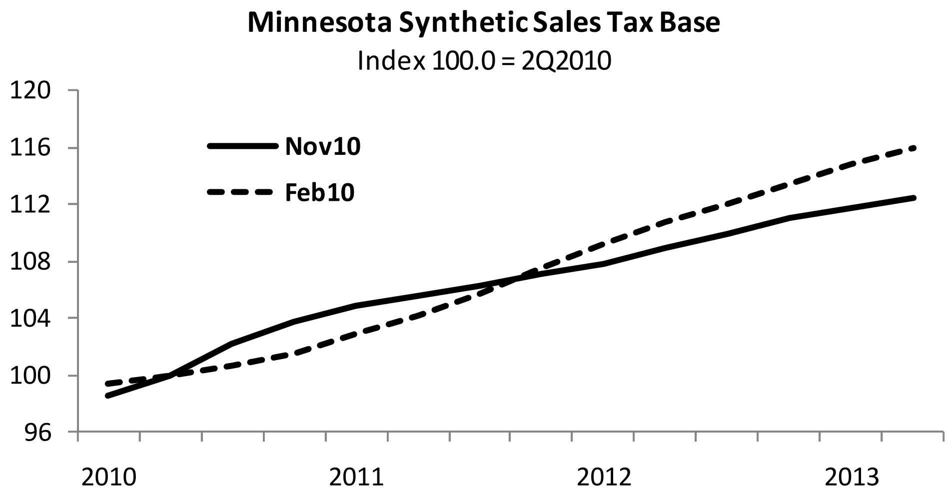
The combination of a larger than anticipated decline in capital gains realizations in 2009 and a change in behavioral assumptions in 2010 leaves the forecast for tax year 2010 capital gains income 34 percent below February's estimate. February's forecast assumed that expiration of the special 15 percent capital gains tax rate in 2010 would cause some taxpayers to take gains in 2010 that would otherwise have been realized in tax years 2011 and beyond. It now appears that taxpayers believe the 15 percent tax rate will be extended for at least one more year leaving no reason to accelerate sales into 2010. This change in the taxpayer behavioral assumption results in a decline in the forecast for capital gains in 2010, but increases in the 2011 and 2012 tax years.

Sales Tax

Net sales tax collections for the 2010-11 biennium are now expected to reach $8.709 billion, $54 million (0.6 percent) more than projected at the end of the second special legislative session. The forecast for gross sales tax receipts increased by $49 million and expected sales tax refund payments fell by $5 million. The refund estimate for fiscal 2011 was reduced by a total of $138 million to cover holds put on capital equipment sales tax refunds as part of executive action taken by the Governor in July, 2009 and further action by the 2010 legislature. The $138 million of sales tax refunds being held will be released in fiscal 2012 after the close of the current biennium. Gross sales tax receipts were $22 million below forecast at the close of FY 2010, but during the first four months of FY 2011 gross sales tax receipts have exceeded forecast by $43 million. Those variances have been incorporated into the current forecast. Net sales tax revenue for the 2010-11 biennium is now expected to be 2.3 percent below its 2008-09 level. Without the refund hold expected net receipts would have been 3.9 percent below the level observed in the previous biennium.

Minnesota's sales tax base is now forecast to grow slightly faster in the 2010-11 biennium than in February, with most of that growth coming in fiscal 2011. Spending on consumer durable goods and spending on business equipment, the two largest components of the state's sales tax base are projected to grow by 5.1 percent and 14.8 percent respectively. Spending on construction materials, however, is projected to continue to decline through fiscal 2012, dropping another 4.9 percent in fiscal 2011.

No changes were made to the receipts elasticity. It remains at .95. The growth rate to e-commerce and catalog sales now averages about 10 percent reflecting recent data released by the U.S. Department of Commerce.



Corporate Franchise Tax

Corporate tax revenues for the 2010-11 biennium are forecast to total $1.631 billion, $199 million (14 percent) more than previously estimated. The forecast for the current biennium is $97 million (5.6 percent) below the level of corporate tax receipts received in the 2008-09 biennium. The corporate forecast also reflects the effect of one-time budget balancing actions taken by the Governor and the legislature. Just over $98 million of corporate income tax refunds for tax year 2009 will be held for release until fiscal 2012. Were those refund payments not held back net corporate tax receipts for the current biennium would be $98 million less than is reported and $195 million (11.3 percent) less than receipts in the 2008-09 biennium.

About two thirds of the change in the outlook for corporate revenues comes from changes in the refund forecast. Refunds were $24 million below forecast in FY 2010. Because of refund holds only $18 million is carried forward into FY 2011. A model revision which incorporates the effect of corporate taxpayers making use of existing "safe harbor" provisions in their estimated tax payment calculations reduced expected corporate refunds by $89 million. A change in assumptions about the proportion of corporate refunds held for payment until fiscal 2012 produced a further $30 million decline in refunds paid in the current biennium. Gross corporate tax receipts for the 2010-11 biennium are now expected to exceed forecast by $65 million. Higher settle-up payments for tax year 2009 account for $37 million of the increase, a modest change in Global Insight's outlook for 2010 corporate profits, the remainder.

Motor Vehicle Sales Tax

Minnesota's sales tax on motor vehicles is now projected to add $104 million to general fund revenues during the 2010-11 biennium, $1 million (1.0 percent) less than previously forecast. This will be the last fiscal year that the general fund will receive a share of motor vehicle sales tax revenue. Under provisions of a constitutional amendment adopted in 2006, the share of motor vehicle sales tax receipts dedicated to transportation funding gradually increases through the end of the 2010-11 biennium. Beginning in fiscal 2012 all motor vehicle sales tax receipts are dedicated to transportation funding. Global Insight's November forecast for U.S. consumer spending on motor vehicles is slightly weaker than their February baseline.

Other Revenue

Other tax and non-tax revenues, including the statewide property tax are expected to total $5.377 billion, $26 million less than forecast in February. The forecast for the deed tax was reduced by $17 million reflecting the extremely weak housing market currently in place and the continuation of the low interest rate environment caused investment income to be reduced by $8 million. Forecasts for estate tax receipts and cigarette tax receipts were increased. Non tax revenues are now expected to be $26 million less than projected in February.

Expenditure Forecast
FY 2010-11 Biennium

At the time of the November Forecast, the state has closed the first fiscal year of the biennial budget and has completed four months of the second year. Forecast expenditures for the 2010-11 biennium now total $30.266 billion, $255 million (0.8 percent) less than estimated at the end of the 2010 legislative session. This change reflects actual spending for FY 2010 and revised estimates for FY 2011.

FY 2010-11 Spending
($ in millions)

	End-of-Session	November Forecast	Difference
K-12 Education	$13,337	$13,327	($10)
K-12 Shifts	*(1,947)*	*(1,889)*	*58*
Higher Education	2,812	2,814	2
Property Tax Aids & Credits	2,976	3,018	42
Health & Human Services	8,852	8,669	(183)
Public Safety	1,816	1,820	4
Transportation	168	167	(1)
Environ. Energy & Natural Res.	355	314	(41)
Agriculture & Veterans	250	248	(2)
Economic Development	280	283	3
State Government	633	631	(2)
Debt Service	955	832	(123)
Other	25	34	9
Est. Cancellations	(22)	(15)	7
Subtotal	$30,490	$30,253	($237)
Dedicated Expenditures	31	13	(18)
Total	**$30,521**	**$30,266**	**($255)**

The change in estimated spending for the current biennium compared to end-of-session is relatively small, $255 million and occurs in three primary areas. An increase in K-12 education spending ($48 million) is more than offset by more significant decreases in health and human services ($183 million) and debt service spending ($123 million).

K-12 Education Spending Increased $48 million

Estimated general fund education spending for FY 2010-11 is up a total of $48 million from end-of-session estimates. The largest factor driving this increase is a $57.1 million decrease in the estimated savings from the property tax recognition shift enacted during the 2010 legislative session. Payable 2012 property tax levies for the general and community service funds are $116.9 million less than previously projected. Slower than anticipated growth in operating referendum levies accounts for a majority of the decrease in projected payable 2012 property tax levies ($68.4 million). This reduces state aid savings from the property tax shift by $57.1 million from end-of-session estimates. Basic Education entitlements have increased slightly, $16.8 million (0.2 percent) from end-of-session estimates, based on slightly higher pupil unit projections. However, forecast reductions in entitlements for programs including County Apportionment ($14 million) and Q-Comp ($17.1 million) and other minor revisions more than offset the increase in general education basic formula payments. These changes yield a net savings of $10 million in expected aid payments without the impact of shifts.

FY 2010-11 Property Tax Aids and Credits up $42 million - No Net General Fund Impact

The net $42 million increase shown in property tax aids and credits over previous estimates is distorted by an annual $22 million transfer from appropriations made to the Department of Natural Resources to the Department of Revenue for Payments in Lieu of Taxes (PILT) to counties for state-owned land. This change, previously shown under environmental programs, has no net impact on the general fund. No significant changes occur in other forecast aid and credit programs. Small increases in tax refund interest, redirected amortization aid and market value homestead credit spending have been offset by downward adjustments to the forecast for property tax refunds, aid to police and fire and disparity reduction aid.

Health and Human Services Estimated Spending Down $183 million

Health and human services spending is $183 million (2.1 percent) below end-of-session estimates due primarily to lower than expected spending in Medical Assistance programs. Overall reductions in expected enrollment, average cost and other small adjustments in Medical Assistance programs accounts for $114 million of the change. In addition, a revised estimate of the contingent early expansion of Medical Assistance for adults without children resulted in a savings to the general fund of $43 million. The remaining decrease in spending is due to the wrap up of the forecasted General Assistance Medical Care program, which ended in the spring of 2010. Although the spending in health and human services is down slightly since the end of session, it is still growing on a biennial basis, driven by health care costs.

FY 2011 Debt Service Costs Reduced $123 million

A significant one-time reduction in FY 2010-11 projected spending results from lower than estimated debt service costs. Estimated debt service costs for the FY 2010-11 biennium will be $832 million, $123 million below the end-of-session estimates. The State continues to benefit from low interest rates. This allowed refunding of previously issued bonds resulting in one-time savings of $101 million in FY 2011. Additionally, similar savings were realized in this past summer’s bond sale for newly authorized projects, even though the size of the sale was higher than previously anticipated. This resulted in an additional $24 million of net savings in FY 2011.

These savings are partially offset by the $1.8 million projected cost to establish and maintain a $600 million line of credit for FY 2011. This line of credit was established in September as a contingency plan to maintain state cash flow liquidity, if necessary. The current estimate is based on the costs of implementing the line of credit, but does not assume that it will be accessed during FY 2011.

All Other Spending Areas Show Little Change

While minor changes in estimates are shown for other areas within the budget, none of these represent significant adjustments to the forecast. Estimated FY 2010-11 spending is 0.8 percent lower than previously forecasted. Department of Natural Resources (DNR) spending is down $39.2 million, largely due to Payment in Lieu of Taxes (PILT). PILT is appropriated to DNR and transferred to the Department of Revenue to make payments to counties for state-owned land.

This forecast, in the second year of the biennium, incorporates actual spending for FY 2010. Unspent operating appropriations have been carried forward into FY 2011. Differences shown from prior forecasts for other program areas and individual agencies largely reflect movement of money between program areas, transfers of funds between agencies, and changes in dedicated revenue estimates and related dedicated spending – not underlying forecast changes.

FY 2012-15 BUDGET OUTLOOK

Forecast FY 2012-13 Budget Shortfall Increased to $6.188 Billion

Modest changes in the economic outlook have produced a lower revenue forecast for the upcoming biennium. This has been offset, in part, by a decrease in projected state spending. The expected structural gap between projected revenues and spending of 5.8 billion projected at the end of the 2010 legislative sessions has grown to nearly $6.6 billion.

The forecast balance of $399 million now projected for FY 2011 carries forward and reduce the structural shortfall projected for FY 2012-13. This leaves a budgetary shortfall of $6.188 billion. The projected shortfall shown for FY 2012-13 is not an actual budget deficit. It is the difference between forecast revenues and “base level”, current law, expenditures. This shortfall estimate provides the framework for developing the budget for the next two years.

When compared to revised forecast estimates for the current biennium, FY 2012-13 revenues are projected to increase by $1.510 billion (5.0 percent) while expenditures are projected to increase by $8.324 billion (27.5 percent). The unusually large increase is driven largely by one-time reductions and savings occurring in the FY 2010-11 biennium that do not continue into FY 2012-13.

FY 2012-13 Budget Forecast
($ in millions)

	FY 2010-11	FY 2012-13	$ Change	% Change
Beginning Balance	$447	$674	$227	
Tax Revenues	28,017	29,993	1,976	7.1%
Non-Tax Revenues	1,570	1,475	(95)	(6.1%)
Other Resources	906	536	(370)	(40.8%)
Total Revenues	30,493	32,004	(1,510)	(5.0%)
Expenditures	30,266	38,591	8,324	27.5%
Reserves	275	275		
Budget Balance	**$399**	**($6,188)**		
Structural Shortfall (excluding FY 2011 Balance)	**- - -**	**($6,587)**		

Major Factors Contributing to the FY 2012-13 Forecast Budget Shortfall

Forecast revenues for the upcoming biennium will grow $1.510 billion (5.0 percent) over estimates for FY 2010-11. This is well below the projected current law expenditure growth of $8.324 billion (27.5 percent). This disparity presents a very difficult financial management challenge.

Even though state tax revenues are increasing, one-time resources and actions relied upon in balancing the FY 2010-11 budget cause current law spending to grow significantly faster in FY 2012-13. One-time federal stimulus monies that directly reduced general fund state spending in FY 2010-11, savings associated with the school payment shifts, and one-time reductions and savings in the current biennium disappear in FY 2012-13.

As a result, the projected growth in spending is unusually large. Nearly three-quarters, about $6.3 billion of the $8.3 billion of the growth shown in projected spending occurs as a result of one-time federal stimulus resources, education payment shifts, and one-time budget actions that occur in FY 2010-11 that do not continue into the next biennium.

The major components of these include:

- $2.3 billion in federal stimulus funding used to reduce general fund spending in FY 2010-11; including $1.456 billion from a higher federal matching rate for Medical Assistance and $816 million in state fiscal stabilization funding.
- $1.9 billion of K-12 education payment shifts that reduced FY 2010-11 spending
- $1.4 billion in increased FY 2012 spending for the K-12 payment shift buyback required in current law
- $660 million in one-time reductions made in FY 2010-11 that are restored in current law. These occur primarily in higher education, local aids and credits and human services' programs

The remaining $2 billion of the biennial growth shown in spending represents forecast program growth. If the significant one-time impacts are excluded, this growth would be about 6.6 percent. The underlying growth is driven by increases in health and human services, K-12 education, and debt service due to expected changes in eligibility, enrollment and changes in forecasted costs for these major areas.

The most significant forecast growth in spending shown for FY 2012-13 occurs primarily in three areas. Human services program costs will increase by about $1 billion - driven largely by increasing health care costs and growth in the older and special need participating in these services. Health care entitlement spending grows at an even higher rate than in good economic periods as additional adults, families, and children become eligible for services. K-12 spending will grow by over $500 million due to an increase in number of pupils, an increase in number and concentration of pupils that qualify for free or reduced lunch, and growth in Special Education expenditures.

Finally, debt services costs for the next biennium will grow slightly over $300 million. This increase reflects both the additional costs of bonding enacted in the current biennium and the significant one-time savings in debt payments in FY 2011 due to the refunding of existing debt and lower interest rates on the 2010 summer bond sale.

Projected spending growth occurring in property tax aids and credits and higher education are largely the result of one-time reductions made in FY 2010-11, which the legislature chose to, either fully or partially restore, in setting current law “base” for FY 2012-13. Most other areas of the budget show little growth, or declines, based on FY 2011 appropriations (base funding) projected forward.

Expenditure estimates for forecast program are based on current law adjusted only for enrollment, caseload changes, and specific formula requirements No adjustment is included for estimated inflation except that which is projected for health care costs in human service programs. The CPI is currently forecast to increase by 1.7 percent in FY 2012, and 2.0 percent in FY 2013. If expenditures were uniformly adjusted for estimated inflation, it would add approximately $1 billion in spending and increase the projected shortfall by a like amount.

FY 2012-13 revenues are now estimated with the same detailed, complete models used to forecast FY 2011 revenues. Overall total general fund revenues will grow $1.5 billion, 5.0 percent above FY 2010-11 estimates. Following the economic downturn revenue growth has recovered, but revenues left during the recession are permanently gone, and revenue growth remains well below the “v-shaped” recovery patterns following past recessions, when state revenues quickly recovered.

Like the one-time factors affecting spending, projected revenue growth is distorted in a similar, but less significant manner. FY 2010-11 budget actions delayed $236 million in sales and corporate tax refunds in FY 2011 and directed they not be paid until FY 2012. Also, the motor vehicle excise tax dedication to the trunk highway fund will be completed in FY 2011, and the $105 million received in FY 2010-11 will no longer go to the general fund. Finally, $340 million of one-time transfers from other funds to the general fund in FY 2010-11 do not continue. Each of these actions effectively reduces the revenue growth shown for the next biennium.

Little Change in Forecast for FY 2012-13 Expenditures, $108 Million Lower Than End-of-Session Estimates

Projected spending in FY 2012-13 is $108 million (0.2 percent) below end-of-session estimates. The decrease is largely due to a reduction of $111 million in expected health and human services spending. The savings are due to small overall adjustments to growth in enrollment and average costs in Medical Assistance programs. Decreases are offset in part by a $24 million increase in the estimated cost of the early expansion of Medical Assistance for adults without children. As guidance was released from the federal government regarding the parameters of the early expansion, estimates as to the cost of the expansion were modified slightly. Lower than expected estimated Medical Assistance spending was also offset in part by a $22 million increase in chemical dependency entitlement grants since the end of session.

Other forecast savings include a reduction in debt service estimates ($12 million). The benefit of slightly lower interest rates than previously forecast on anticipated future bond sales more than offset increases in the size of anticipated sales and slightly lower forecast investment earnings on bond proceeds balances. A $13 million reduction in Public Safety programs primarily reflects Department of Corrections projections of a lower than previously anticipated prison population growth rate.

The forecast for K-12 education spending increases $26 million from previous estimates, primarily due to a $41 million decrease in the estimated savings from the property tax recognition shift. This decrease in savings and a small increase in the cost of the general education formula due to a slightly higher pupil unit forecast are in part offset by reductions in the forecast for Q-Comp and other aid programs.

Increases shown in property tax aids and credits include higher forecast spending for market value credits and property tax refunds that are partially offset by small downward revisions to for other aid programs and police and fire pension aid

FY 2012-13 Expenditures - Forecast Changes

($ in millions)

	End of Session	November Forecast	$ Difference
K-12 Education	$14,361	$14,346	($15)
Ptx Rec/Payment Shift	1,261	1,302	41
Higher Education	2,917	2,917	0
Property Tax Aids & Credits	3,455	3,469	14
Health & Human Services	12,018	11,907	(111)
Public Safety	1,796	1,783	(13)
Debt Service	1,153	1,141	(12)
All Other	1,738	1,726	(12)
Total Spending	**$38,699**	**$38,591**	**($108)**

This Forecast Provides Initial Set of FY 2014-15 Long-Term Planning Estimates

This forecast also provides the first planning estimates for the 2014-15 biennium. These estimates are materially different from the short-term forecasts for the current and 2012-13 biennia. Projection methods are different and the longer-term projections carry a higher degree of uncertainty and an inherently larger potential range of error.

Planning estimates for FY 2014-15 are presented to help identify longer-term state finance issues. Revenue projections are based on the GII November baseline forecast for 2014 and 2015. Expenditure projections assume current funding level and policies continue unchanged, adjusting only for caseload and enrollment changes as well as specific formula-driven items.

FY 2014-15 Long Term Planning Estimates

($ in millions)

	FY 2012	FY 2013	FY 2014	FY 2015
Forecast Revenues	$15,459	$16,545	$16,910	$17,685
Projected Spending	19,774	18,817	19,648	20,030
Difference	**($4,315)**	**($2,272)**	**($2,738)**	**($2,345)**
Estimated Inflation (CPI)	*336*	*703*	*1,162*	*1,651*

For FY 2014-15, inflation is expected to increase slightly to 2.1 and 2.2 percent for 2014 and 2015 respectively. Simply applying forecast inflation to current law projected spending base for the four-year horizon would add about $2.8 billion FY 2014-15 spending.

The table containing the FY 2014-15 planning estimates shows current resources and projected spending. It excludes the projected shortfall for FY 2012-13. The term “current resources” refers to revenues and transfers received *within* a fiscal year or biennium. When compared with projected spending, the difference highlights the “structural” gap – how much more is being spent than collected.

Long Term Planning Estimates Highlight Likely Continued Budget Problems

For FY 2014-15 current resources are projected to reach $34.595 billion, an increase of $2.591 billion (8.1 percent) over the forecast for FY 2012-13. FY 2014-15 expenditures are projected to be $39.678 billion, an increase of $1.087 billion (2.8 percent) over forecast spending levels for FY 2012-13.

Projected revenue growth will exceed expenditure growth in FY 2014-15, but not enough to significantly impact projected future budget shortfalls because of the large gap in yearly revenues and spending in FY 2012-13. Also it must be recognized that spending projections assume no general inflation or legislatively enacted increases in spending in FY 2012-13 or FY 2014-15 beyond those already incorporated in current law (i.e., enrollment, caseloads, and formula-driven aids.)

The planning estimates are not intended to predict surpluses or deficits that far into the future. Rather their purpose is to assist in determining how well ongoing expenditures are likely to match future revenues based on trends in Minnesota’s economy, and what it will cost to maintain current programs. The FY 2014-15 planning estimates provide one important baseline against which the longer-term impacts and affordability of proposed FY 2012-13 budget solutions and decisions in the 2011 legislative session can be measured.

Revenue Estimates FY 2012-13

Total current resources available for Minnesota's general fund in the 2012-13 biennium are now forecast to total $32.004 billion, $1.510 billion, (5.0 percent) greater than the forecast for the 2010-11 biennium but $904 million (2.8 percent), less than planning estimates incorporating actions by the 2010 legislature. General fund receipts for the major taxes are expected to grow by $2.069 billion or 8.0 percent between the 2010-11 biennium and the 2012-13 biennium. After adjusting for the phased dedication of the motor vehicle sales tax to transportation funds, biennium to biennium growth in the major taxes is 8.5 percent. After that same adjustment current resources grow by 5.3 percent.

Revenues FY 2012-13

($ in millions)

	FY 2010-11	FY 2012	FY 2013	FY 2012-13
Individual Income	$13,766	$7,499	$8,177	$15,676
Sales	8,708	4,382	4,649	9,031
Corporate	1,631	728	813	1,541
Motor Vehicle Sales	104	0	0	0
Statewide Levy	1,529	776	785	1,560
Five Major Taxes	25,739	13,385	14,423	27,808
Other Revenue	3,518	1,648	1,699	3,347
Tobacco	330	159	154	313
Net Non-dedicated	29,588	15,192	16,276	31,468
Other Resources	905	267	268	535
Current Resources	**$30,493**	**$15,459**	**$16,544**	**$32,003**

This is the first detailed forecast of revenues for the 2012-13 biennium. Previous revenue estimates for the biennium, termed "planning estimates", were simple extrapolations of projected 2011 revenues using long-term growth trends for the U.S. economy from the Global Insight forecast. No adjustments to reflect the relative performance of the Minnesota economy were made. In addition, in the income tax planning estimates, all elements of income and all individual itemized deductions were assumed to grow at the rate Global Insight projects for taxable personal income. This forecast, and all future forecasts of 2012-13 biennial revenues, will incorporate separate growth rates for each type of income and deduction into the income tax micro simulation. Wage growth rates and growth in the sales tax and corporate income tax bases also take into account the projected strength of Minnesota's economy and are not just based on national economic growth rates.

In this forecast individual income tax receipts grow by $1.910 billion from expected FY 2010-11 levels, but are less than projected in end-of-session planning estimates. State individual income tax receipts are now forecast to be $15.676 billion, $471 million less than earlier planning estimates. Forecasts for net sales tax receipts and corporate tax receipts also are significantly below previous estimates. The sales tax forecast is $119 million (1.3 percent) less than previous planning estimates while the corporate tax forecast is $185 million (10.6 percent) below earlier projections. All other revenues were a total of $129 million below prior planning estimates.

Changes in Economic Assumptions

The 2007-09 recession is officially over, but economic growth in 2010 has not been as strong as predicted last February. Global Insight has lowered their projected real GDP growth rates for every quarter from the start of fiscal 2011 through the end of fiscal 2013. The reductions in the economic outlook are not large when viewed on an individual basis, but their cumulative impact is significant. In February's baseline real GDP in the second quarter of calendar 2013 (the end of the 2013 fiscal year), was expected to be 10.0 percent greater than at the close of the 2010 fiscal year. GII's November baseline continue to show real GDP growth through those three fiscal years, but at the end of the 2012-13 biennium, real GDP is only 8.0 percent greater than at the close of fiscal 2010. Changes in Global Insight's inflation forecast were not sufficient to narrow the gap in real growth rates. In February nominal GDP was forecast to grow by 15.3 percent between the close of fiscal 2010 and the end of fiscal 2013. Now nominal GDP is expected to grow 12.8 percent. There was a very slight decline in GII's projected CPI increase over that same period. In February's baseline the CPI increases by 5.3 percent by the end of fiscal 2013. In November's baseline, it increases by 5.2 percent.

Income Tax

Individual income tax revenues for the 2012-13 biennium are forecast to total $15.676 billion, $1.910 billion (13.9 percent) more than is currently expected for the 2010-11 biennium, but $471 million (2.9 percent) less than planning estimates from the end of the second special session. The revenue decline comes from the combination of a materially lower starting point based on a revised estimate of final liability for tax year 2010 and slower future growth. Adjusted gross income for Minnesota residents in tax year 2013 is now forecast to be 13.3 percent greater than in tax year 2010; growth of 16.6 percent was anticipated in the planning estimates.

The planning estimate's use of the same growth rate for all income sources typically overstates the wage growth rate and understates growth in most other sources of income when compared to use of separate growth rates. When the transition from planning estimates to forecast occurs the greater than previously projected growth in non-wage income -- particularly portfolio income such as capital gains, interest, and dividend incomes, -- offsets the revenue lost due to lower wage growth. In this forecast expected growth rates for non-wage incomes in tax years 2012 and 2013 were not sufficient to keep the growth rate for adjusted gross income from falling below that in the planning estimate. Just under half of the short-fall in non-wage income came from lower than anticipated capital gains, the remainder from reductions in the outlook for business incomes, pensions, and dividends.

Capital gains are now assumed to fall by 33 percent in 2011, then grow by more than 105 percent in 2012, and then fall by 59 percent in 2013. This unusually volatile behavior is due primarily to changes in the federal tax rates applied to capital gains in current law. Under current law the rate at which gains on the sale of financial assets or investment properties is taxed will increase to 20 percent in 2011. The federal health care reform bill then increased the tax rate on capital gains by an additional 3.8 percentage points in 2013 for high income individuals. The tax year 2013 increase in the capital gains tax rate is expected to lead individuals with large capital gains to accelerate gains into tax year 2012, producing the unusually high growth rate forecast for 2012. Realizations fall substantially in 2013 because of the acceleration and because the higher rate discourages future realizations. Under current law the federal tax rate on capital gains increases from 15 percent to 23.8 percent between 2010 and 2013.

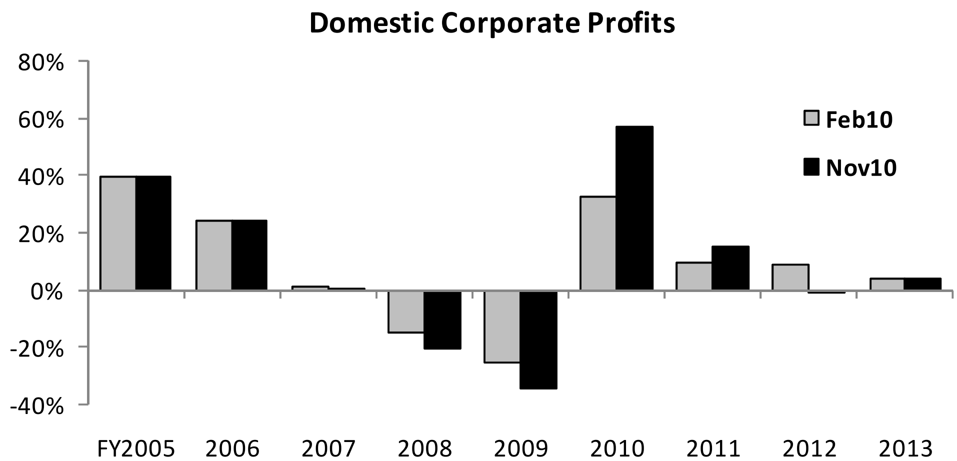
Sales Tax

Net sales tax receipts for the 2012-13 biennium are projected to total $9.031 billion, an increase of $322 million (3.7 percent) from levels currently anticipated for the 2010-11 biennium. This sales tax forecast is $119 million (1.3 percent) less than end-of-session revenue planning estimates. Consistent with slower growth projections for 2012 and 2013, forecasts for purchases of consumer durable goods, business investment goods, and construction materials spending are all lower than they were in February's baseline forecast by GII. The forecast for gross sales tax receipts fell by $103 million and projected sales tax refunds decline by $16 million. The decline in sales tax refunds includes a $30 million reduction in the amount of sales tax refunds that are being held for release after the close of the 2010-11 biennium.

Receipts elasticities were unchanged from those used in February. Growth rates for e-commerce and catalog sales were increased to an average of around 10 percent.

Corporate Franchise Tax

Corporate tax revenues for the 2012-13 biennium are forecast to total $1.541 billion, $90 million (5.5 percent) less than forecast for the 2010-11 biennium. Expected corporate tax revenues are also $185 million (10.7 percent) less than end-of-session planning estimates. Global Insight's November baseline has corporate domestic profits growing more slowly than projected in February. Corporate refunds increase by $30 million from end-of-session estimates due to a change in assumptions about the composition of refunds being held for payment after the start of the 2012-13 biennium. Given current refund forecasts it appears that a larger proportion of $236 million to be held over for payment will be corporate refunds and a smaller proportion sales tax refunds. The refund estimate also includes an additional $8 million to be paid to firms eligible for refunds based on the 2005 Hutchinson Technology decision.



Other Revenue

Other tax and non-tax revenues, including the statewide property tax levy and transfers are expected to total $5.755 billion during fiscal 2012-13, $528 million less than received in the 2010-11 biennium and $128 million below end-of-session planning estimates. Nearly 65 percent of the decline in revenues from the 2010-11 biennium came from a reduction of $340 million in transfers to the general fund from other funds. Transfers in the 2012-13 biennium are now forecast to be $482 million, $7 million more than provided for in the planning estimates.

Forecasts for the deed and mortgage taxes were reduced by $28 million and $40 million respectively reflecting a slower recovery in the residential housing market than had been expected in February. Projected insurance gross premiums tax receipts were lowered by $16 million consistent with Global Insight's forecast of slower growth in consumer spending on insurance services. Non-tax revenues, including fees and other non-dedicated revenues are now expected to be $39 million below earlier estimates.

Revenue Planning Estimates FY 2014-15

Total current resources for the 2014-15 biennium are estimated to be $34.595 billion, an increase of $2.591 billion (8.1 percent) from the amount forecast for the 2012-13 biennium. General fund receipts for the four major taxes are now projected to be 8.8 percent more than the level expected for the 2012-13 biennium. These revenue planning estimates assume that economic growth rates in both the U.S. and Minnesota begin to follow more normal paths by late 2011, with real GDP growing at a 3.1 percent in both 2014 and 2015. Nominal GDP is assumed to grow by 5.1 percent in 2014 and by 5.0 percent in 2015.

Revenues FY 2014-15

($ in millions)

	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Individual Income	$15,676	$8,353	$8,811	$17,164
Sales	9,031	4,778	4,966	9,744
Corporate	1,541	852	878	1,730
Statewide Levy	1,560	798	815	1,613
Four Major Taxes	27,808	14,781	15,470	30,251
Other Revenue	3,347	1,716	1,758	3,474
Tobacco	313	149	144	293
Net Non-dedicated	31,468	16,646	17,373	34,018
Other Resources	535	265	312	577
Current Resources	**$32,003**	**$16,910**	**$17,685**	**$34,595**

The individual income tax is the major source of revenue growth in the 2014-15 biennium. Projected income tax receipts are now forecast to exceed levels forecast for the 2012-13 biennium by $1.489 billion or 9.5 percent. Sales tax receipts are projected to grow by 7.9 percent over the level projected for the 2012-13 biennium, and the corporate franchise tax, by 12.3 percent. Receipts from the motor vehicle sales tax are no longer a source of revenue for the state general fund.

No one can accurately 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 FY 2011, FY 2012, or FY 2013 will change the revenue planning estimates for 2014 and 2015. Other things equal, stronger than anticipated revenue growth through fiscal 2013 will carry forward and add significantly to revenues in the 2014-15 biennium.

But, should the economy grow more slowly than forecast, 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 2014-15 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 2014, or a significant decline. Also, Minnesota's economy is assumed to grow at the national rate in 2014 and 2015. While Minnesota has typically grown at or above the national rate, there is no guarantee the state will not underperform the U.S. economy between now and the close of the 2014-15 biennium. Either outperforming or underperforming the national averages would lead to a material change in projected revenues. Actual revenues for 2014-15 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 2014-15 revenue planning estimates again were prepared consistent with the GII baseline forecast. GII projects real GDP growth rates of 3.1 percent in both calendar 2012 and 2013 and nominal GDP growth of 5.1 percent in 2014 and 5.0 percent in 2015. GII's GDP growth rate for 2014 is below that assumed by the CBO in their August Mid-Session Economic and Budget Review. The CBO expects annual real GDP growth of 4.2 percent in 2014 and 2.7 percent in 2015. The October Blue Chip Consensus long term outlook is less optimistic than GII's, with real GDP growth rates of 2.8 percent in 2014 and 2.7 percent in 2015 projected.

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 2013.

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. The model also has been adjusted for the increased tax rate on unearned incomes for high income filers. 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. It is, however, likely to have a significant indirect impact on Minnesota taxable income as investors adjust their behavior to maximize after tax return on investments.

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 2012-2015

FY 2012-13 Biennial Budget Expenditure Estimates

Projected state general fund spending for FY 2012-13 is now $38.591 billion, a 27.5 percent increase over the current biennium.

FY 2012-13 Expenditure Estimates
($ in millions)

	FY 2010-11	FY 2012-13	$ Difference	% Change
K-12 Education	$13,327	$14,346	$1,019	7.6
Payment/Recognition Shift	(1,889)	1,302	3,191	nm
Higher Education	2,814	2,917	103	3.7
Property Tax Aids & Credits	3,018	3,469	451	14.9
Health & Human Services	8,669	11,907	3,238	37.4
Public Safety	1,820	1,783	(37)	(2.0)
Transportation	167	182	15	9.0
Environment, Energy & Natural Res.	315	349	34	10.8
Agriculture & Veterans	248	244	(4)	(1.6)
Economic Development	283	263	(20)	(7.1)
State Government	632	660	28	4.4
Debt Service	832	1,141	309	37.1
Other	32	45	13	40.6
Estimated Cancellations	(15)	(20)	(5)	nm
Subtotal	**$30,253**	**$38,588**	**$8,334**	**27.6%**
Dedicated Expenditures	13	3	(10)	(76.9)
Total	**$30,266**	**$38,591**	**$8,324**	**27.5%**

Health and human services spending and K-12 education finance costs represent over two-thirds of Minnesota's general fund budget. Health and human services' spending continues to be the most significant contributor to forecast spending growth. Current law spending for K-12 education is projected to grow $4.2 billion over levels for FY 2010-11, almost 37 percent. However, most of this increase is related to one-time savings in FY 2010-11 for the property tax recognition and school payment shifts, $500 million of federal stimulus funding received in FY 2010, and the current law requirement that the $1.4 billion school payment shift savings be repaid in FY 2012. Excluding these items, the underlying forecast growth in K-12 would be about $500 million.

Spending in health and human services programs is now projected to grow $3.2 billion (37.4 percent) over FY 2010-11 levels. Approximately half of the growth is due to the end of one-time federal enhanced FMAP and stabilization funding. The remaining $1.6 billion in growth includes $384 million set aside for potential gubernatorial action on Medical Assistance expansion related to federal health care reform. Excluding these items, underlying forecast growth for existing programs is closer to $1.2 billion.

Projected Spending in FY 2012-13 is $108 Million Below Prior Estimates

Projected spending in FY 2012-13 is now $38.591 billion, $108 million below comparable estimates at the end of the 2010 legislative sessions. A $111 million decrease in estimated health and human services spending is the primary driver of this change. Debt service estimates have been reduced $11 million accompanied by small savings in Public Safety lower a reduction in forecast prison populations and State Government spending related to lower financing costs for two major systems projects.

Offsetting a portion of these decreases is a net $26 million increase in the forecast for K-12 Education, primarily reflecting the result of lower property tax recognition savings associated with a reduction in estimated levies.

FY 2012-13 Expenditures - Forecast Changes

($ in millions)

	End of Session	November Forecast	$ Difference
K-12 Education	14,361	14,346	(15)
K-12 Ptx Rec/Payment Shift	1,261	1,302	41
Higher Education	2,917	2,917	0
Property Tax Aids & Credits	3,455	3,469	14
Health & Human Services	12,018	11,907	(111)
Public Safety	1,796	1,783	(13)
Transportation	180	182	2
Environment, Energy & Natural Res.	345	349	4
Agriculture & Veterans	245	244	(1)
Economic Development	253	263	10
State Government	671	660	(11)
Debt Service	1,153	1,141	(12)
Other	45	45	0
Estimated Cancellations	(23)	(20)	3
Subtotal	**$38,677**	**$38,588**	**($89)**
Dedicated Expenditures	22	3	(19)
Total	**$38,699**	**$38,591**	**($108)**

Health and human services spending is 0.9 percent lower than end-of-session estimates. Reductions in estimated spending primarily reflect adjustments to overall enrollment and average cost in Medical Assistance programs.

Forecast debt service costs for FY 2010-11 are down 0.9 percent from prior estimates. Lower interest rates on long-term tax-exempt bond issues result in lower debt service costs for new state bond issues. In this forecast, the assumed size of the future capital budget is based on the expectation that $775 million capital budgets will be approved in even-year legislative sessions and $140 million in odd-year sessions based on the average size of capital bonding bills over the last ten years.

Slower than anticipated growth in personal income and declining real estate values also result in a small increase (less than one percent) in the forecast for property tax aids and credits spending when compared to end-of-session. Increases in Renters and Homeowners Property Tax Refund and Market Value Homestead Credit programs are offset somewhat by downward revisions to other aid estimates.

Higher K-12 education estimates are driven primarily by revised estimates for the property tax recognition shift due to a downward revision in expected property tax levies and small increases in the general education formula due to slightly higher pupil unit projections. However, the increase in the general education aid estimates related to pupil units is more than offset by reductions in the forecast for Q-Comp and other aid programs.

Within the public safety area, a reduction in the Department of Corrections costs of $13 million from prior estimates reflects continuing decreases in the prison population forecast. The average adult population for FY 2013 is now projected to be 9,216, down from the 9,623 that was anticipated when the current budget was enacted. The projected number of release violators returning to prison has declined, accompanied by declining felony cases and a slight reduction in average prison sentencing lengths. This has been partially offset by growth in new commitments.

Current Law is Starting Point for Budget Planning

FY 2012-13 current law expenditure projections set the context for decisions on the next budget. The expenditure estimates represent the cost of major forecast items adjusted only for enrollment, caseload, or cost increases specifically built into current law or formula. Estimates for other grant programs and operating budgets largely represent FY 2011 appropriations carried forward at the same level. The estimates do not include agency requests or other budget proposals.

The current law expenditure estimates are not automatically adjusted for inflation. Except for a small portion of health care programs where rising prices are an integral part of forecast costs, the estimated impact of inflation on salaries and benefits, goods, or services is *not* generally included in the forecast.

FY 2014-15 Expenditure Projections are Higher, but Show only 2.8 Percent Growth

The spending growth shown for FY 2014-15 planning estimates is much lower than that shown for FY 2012-13. Total spending is projected to increase by nearly $1.1 billion, 2.8 percent over FY 2012-13.

FY 2014-15 Planning Estimates

($ in millions)

	FY 2012-13	FY 2014-15	$ Difference	% Change
K-12 Education	$14,346	$14,954	$608	4.2%
Ptx Rec/Payment Shifts	1,302	($81)	(1,383)	nm
Higher Education	2,917	2,917	0	0.0
Property Tax Aids & Credits	3,469	3,546	77	2.2
Health & Human Services	11,907	13,600	1,693	14.2
Public Safety	1,783	1,791	8	0.4
Transportation	182	182	0	0.0
Environment, Energy & Natural Res.	349	363	14	4.0
Agriculture & Veterans	244	245	1	0.4
Economic Development	263	265	2	0.8
State Government	660	669	9	1.4
Debt Service	1,141	1,188	47	4.1
Other	45	56	11	24.4
Estimated Cancellations	(20)	(20)	0	0.0
Subtotal	38,588	39,675	1,087	2.8
Dedicated Expenditures	3	3	0	0.0
Total	**$38,591**	**$39,678**	**$1,087**	**2.8%**

The impact of one-time actions that drive the unusually large budget growth for FY 2012-13 do not recur in the FY 2014-15 planning estimates. So, the growth shown is much smaller. The growth trend for major forecast programs remains the same as described for FY 2012-13. Health and human services projections account for most of the growth. K-12 education, property tax aids and credits, and debt service projections contribute to biennial spending growth, though to a lesser extent. Estimates for the other major spending areas remain essentially flat.

Changes in out-year spending estimates will largely be driven by decisions made in the next legislative session to balance the budget for FY 2012-13.

Education Finance, FY 2012-15

Education Finance, the largest category of state general fund spending, consists of aid programs for K-12 education, early childhood and family education, and adult education. K-12 aids can be divided into two major funding streams: (1) General Education, the primary source of basic operating funds for schools, and (2) categorical aid tied to specific activities or categories of funding. The number and characteristics of students receiving educational services drive most K-12 education funding.

Education Finance Expected to Increase $4.2 billion in FY 2012-13

The growth from FY 2010-11 to FY 2012-13 is driven by two types of change, the use of one-time budget balancing tools in FY 2010-11 and underlying demographic change between the biennia. The one-time budget balancing tools used in the FY 2010-11 biennium reduced expenditures in those years. The tools include the education aid payment deferral, the property tax recognition shift, and the use of one-time stimulus funds to offset general fund education spending. These one-time tools allowed the state to reduce general fund expenditures for FY 2010-11 to balance the general fund budget. However, each of these tools generates only one-time savings and the aid payment deferral drives increased general fund spending in FY 2012-13. These one-time items account for $3.7 billion of the biennial change.

Budget Balancing Tools	**Dollars in 000s**		
	FY 2010-11 (Savings)/Expenditures	**FY 2012-13 (Savings)/Expenditures**	**Net Change**
Education Aid Payment Deferral	($1,370)	$ 1,370	$2,740
Property Tax Recognition Shift	($ 519)	($ 39)	$ 480
Stimulus Funds	($ 500)	$ 0	$ 500
Total (Savings)/Expenditures	($2,389)	$ 1,331	$ 3,720

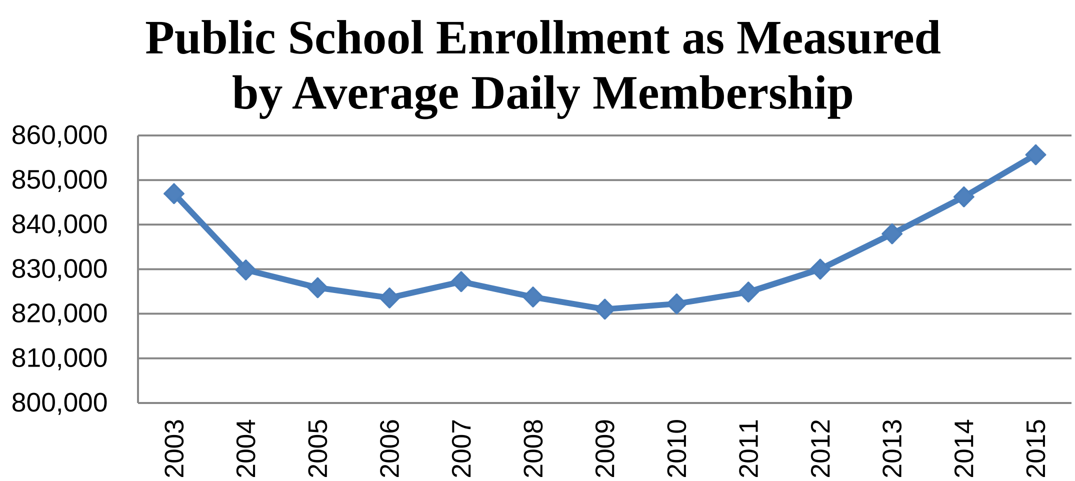
Education Aid Payment Deferral. Since most school revenue is tied to current year data, including the number and characteristics of students served by the district and expenditures for special education, a portion of the funding must be held back until final student data is available to avoid over payments. The consensus is that a 10% hold-back is prudent. However, beginning in the early 1980s, larger holdbacks have been enacted to help balance the state budget during times of fiscal stress. For FY 2010, 27% was held back to be paid in FY 2011, and for FY 2011, 30% was held back, to be paid in FY 2012. This reduced education aid payments for FY 2010 and FY 2011, and increased those payments for FY 2012, resulting in a change in spending from FY 2010-11 to FY 2012-13 of $2.8 billion.

Property Tax Recognition Shift. While property taxes are paid on a calendar year basis, school districts operate on a fiscal year (FY) that runs from July 1 to June 30. The first half of the property taxes payable for the calendar year are due in May and the second half are due in October or November. Typically, all of the school districts' May property tax collections are held and recognized as revenue in the following fiscal year, beginning July 1. During times of state budget constraints, this revenue recognition policy can be changed so that a portion of the spring proceeds are recognized as revenue in the fiscal year of collection. This accounting change provides the state with one-time savings in state aid appropriations, without reducing the overall revenue recognized by a school district. This property tax recognition shift was implemented during the 2010 legislative session at 48.6%, generating $519 million in savings in FY 2011. For FY 2012 and later, the savings is much smaller, generated only on the growth in property tax levies each year.

Stimulus Funds. The American Recovery and Reinvestment Act (Stimulus) provided funds to the state through the State Fiscal Stabilization Fund. These funds were intended to stabilize the state budget during a period of declining revenues. The 2009 legislature appropriated $500 million of the funds to the Department of Education in FY 2010 for General Education Aids, while proportionately reducing the state's general fund education aid spending for that year. In FY 2011, these federal funds were no longer available and were replaced by general fund dollars. This replacement of general fund dollars with federal stimulus dollars increases the difference between general fund spending for education aids in FY 2010-11 and FY 2012-13 by $500 million.

Demographic and Economic Factors Driving Biennial Change

The second type of change between FY 2010-11 and FY 2012-13 is driven by demographic and economic factors that change the number and characteristics of students receiving educational services. Basic Education Aid entitlements are expected to increase by $87.4 million (0.9 percent) over the previous biennium. This increase is due to growth in the total number of enrolled pupils. Pupil counts are expected to increase from 822,228 in FY 2010 to 837,924 in FY 2013 (1.9 percent).



In addition to growth in the Basic Education Aid entitlements, Compensatory Aid entitlements are expected to increase by $119.3 million (15.4 percent) over the previous biennium due to an increasing number of pupils qualifying for free and reduced price lunch and an increase in the concentration of these pupils. Q-Comp entitlements are expected to increase by $28.8 million (32.9 percent) as the program sees a growth in the number of participating districts. Finally, referendum revenue is expected to grow by $33 million (24.2 percent). This growth is largely due to increases in voter-approved referendum revenue and increases in the portion of referendum revenue paid by the state as a result of declining property valuation per pupil.

Within categorical programs, the Special Education entitlement represents the largest increase and is expected to grow by $179.9 million (11.8 percent). This growth is due to a statutorily-required automatic inflationary factor in Special Education funding combined with growth in the total number of pupils in the state.

The entitlement for Charter School Lease Aid is projected to grow by $19.4 million (22.7 percent), reflecting a rising number of students in charters schools and a slight increase in per pupil costs. In addition, the Integration Revenue entitlement is expected to increase by $9 million (7.2 percent) and the Debt Service entitlement is expected to increase $15 million (90.5 percent). The Integration Revenue growth is a result of increased participation in the program, including more pupil units in qualifying districts and additional districts qualifying for aid. The Debt Service Aid increase is driven by a decrease in property valuation per pupil unit, which requires the state to fund a greater percentage of debt service revenue through debt service equalization aid.

Education Finance Expected to Grow $599.7 million in FY 2014-15

Education Finance entitlements will total $14.8 billion in FY 2014-15, an increase of $599.7 million (4.2 percent) over the 2012-13 biennium. The vast majority of this growth occurs in the General Education and Special Education programs.

General Education
General Education entitlement funding is anticipated to increase by $333.7 million (2.9 percent) over the previous biennium. This change is due to both growth in the total number of pupils in the state, and growth in the number and concentration of students receiving free or reduced-price lunch. Basic Education Aid, based on pupil count, is anticipated to increase by $198.9 million (2.0 percent). In addition, Compensatory Aid entitlements, which are based on the number of students qualifying for free and reduced-price lunch, are expected to increase by $84 million (9.4 percent). Finally, referendum revenue is also expected to grow by $30.4 million (17.9 percent). This growth is largely due to increases in the amount of voter-approved referendum revenue.

Categorical Aids
Outside the General Education program, the bulk of the growth between biennia occurs in the Special Education program. The Regular Special Education entitlement is anticipated to grow $198.4 million (11.7 percent) from FY 2012-13 to FY 2014-15. This growth is due to a statutorily-required automatic inflationary factor in special education funding combined with growth in the total number of pupils in the state.

Beyond special education, the most significant area of growth in categorical programming is in Charter School Lease Aid. The Charter School Lease entitlement is expected to grow by $22.9 million (21.8 percent) in FY 2014-15 over the previous biennium due to a continued increase in the number of students enrolling in charter schools.

Post-Secondary Education Spending Increases $102 Million in FY 2012-13

FY 2012-13 spending for higher education will reach $2.917 billion in the next biennium. State funding for the University of Minnesota, MnSCU and student grant programs are not treated as forecast programs – that is, forecast spending is not adjusted for changes in enrollments or other costs. Normally the base funding levels for these areas is current appropriation levels carried forward into future years.

Projected current law base spending for FY 2012-13 is $102 million above FY 2010-11. This increase is primarily the result of one-time spending reductions made in the 2010-11 biennium combined with legislative action, which set FY 2012-13 base appropriations at a higher level than FY 2010-11 base appropriations. In FY 2010, the University of Minnesota and MnSCU received a one-time appropriation of $168 million in federal stimulus funds. These funds were more than offset by $280 million in general fund reductions from the previous biennium's appropriation levels, bringing the FY 2010-11 biennial appropriation total for the University of Minnesota and MnSCU to $2.43 billion. Legislative action set base appropriations for the 2012-13 biennium at $2.55 billion, which accounts for the increase.

Tax Aids and Credits Expected to Grow $451 Million in FY 2012-13

Property Tax Aids and Credits are paid to local governments, including cities, counties, towns, public schools, and special taxing districts. These aids and credits help offset costs of service delivery, defray costs of state mandates, and reduce local property taxes by substituting state funds for revenues that would otherwise need to be raised locally. Direct payments to individuals, like property tax refunds for homeowners and renters, are also included in this category because they reduce property tax burdens.

Expenditures for tax aids and credits are expected to reach $3.47 billion in FY 2012-13, an increase of $451 million (14.9 percent) over spending in the current biennium. The increase is primarily the result of restoration of one time reductions in FY 2010-11 totaling $264 million in aid local units of government, political contribution refunds and the renter's property tax refund program.

Contributing to the biennial growth in tax aids and credits is an increase of $99 million (10.5 percent) in the property tax refund program driven by increased participation in the program, inflation indexing of the refund tables and changes in the 2009 legislative session resulting in higher average value calculations for timberland. Other factors driving the increase include growth in the market value homestead credit program due to slow market value growth and payback of the school shift, growth in aid to police and fire resulting from higher insurance premium tax receipts, tax refund interest payment growth due to administrative and legislative delays in refund payments, and increased taconite aid payments resulting from the program ramping up to normal payment levels after several low production years.

Forecast spending for tax aids and credits in FY 2012-13 increased $14.0 million (0.5 percent) over previous planning estimates for the biennium. This change results from a $17.6 million (3.5 percent) increase in market value credit spending because of slow market growth and a $12.8 million (68.7 percent) increase in sustainable forest incentive credit spending due to a formula change from 2009 that resulted in unanticipated higher per-acre payments for qualifying property. These spending increases were partially offset by decreases in forecasted spending in the homeowner property tax refund program, disparity reduction aids and police and fire aids.

Tax Aids and Credits Expenditures Expected to Grow $77 million in FY 2014-15

Tax aids and credit spending is expected to reach $3.55 billion in the FY 2014-15 biennium, an increase of $77 million (2.2 percent) over forecasted expenditures for the FY 2012-13 biennium. This increase is due primarily to continued growth in the property tax refund program which is expected to reach $1.17 billion in the planning years, an increase of $71.6 million (6.5 percent) over the FY 2012-13 biennium. Additionally, aid to police and fire continues a pattern of growth in FY 2014-15 with an increase of $13.0 million (7.5 percent) over the previous biennium due to continued forecasted growth in insurance gross premium taxes.

Health and Human Services, FY 2012-2015

Health and human services includes state payments for direct health care services, such as hospital and physician visits, nursing home services, home care, and other medical and long-term care services. Approximately three-fourths of the spending in this budget area occurs in the state’s Medicaid program, Medical Assistance (MA). MA is a federal entitlement program for low-income families, persons with physical or developmental disabilities, and the frail elderly. In Minnesota, MA costs are split between the state and federal government. The costs described here are the state share only.

The remainder of this area includes a wide range of human service programs such as cash assistance, child care, grants to counties for child protection, disability grants, and child support enforcement. This document focuses solely on the forecasted programs within the Health and Human Services budget, which are discussed in two categories—Health Care and Other Forecasted Programs.

Health and Human Services Expected to Grow $3.2 Billion in FY 2012-13

Spending in the health and human services budget is now expected to be $11.9 billion in FY 2012-13, $3.2 billion (37.4 percent) more than the current biennium. Increases are driven in part by the end of the enhanced federal medical assistance percentage (FMAP) and state fiscal stabilization funding received under the federal stimulus. The enhanced FMAP reduced state spending on MA from 50 percent to as low as 38 percent of total spending during the period October 1, 2008, through June 30, 2011. The FMAP is expected to return to 50 percent starting July 1, 2011. State fiscal stabilization funds also replaced a portion of general fund spending on human service programs during FY 2010-11. Overall, the end of one-time stimulus funding accounts for half ($1.6 billion) of the growth in health and human services spending in FY 2012-13. The vast majority of the remaining growth relates to changes in MA enrollment and average costs as well as the inclusion of contingent funds for an early expansion of MA to adults without children. While spending is projected to increase in the next biennium, estimates are now $111 million (1 percent) lower for FY 2012-13 than previously forecasted mainly due to small downward adjustments across segments of MA.

Health Care Programs

Health care programs include all categories of Medical Assistance, the General Assistance Medical Care (GAMC) program for adults without children, and Chemical Dependency Entitlement Grants. The MA Families and Children and MA Elderly and Disabled programs include state assistance for basic care, such as clinic and physicians' services for preventative care, as well as acute care, such as hospitalization. MA Long Term Care Waiver Services and MA Long Term Care Facilities include coverage for ongoing support of elderly, chronically ill, and disabled individuals in institutions, like nursing facilities, or in home and community-based settings. Total spending for health care programs is expected to be $6.6 billion in FY 2010-11, increasing to $9.1 billion (39 percent) in FY 2012-13. (These figures do not include the cost of an early expansion of MA for adults without children. See feature section on this issue.)

<u>Medical Assistance</u>

MA Families and Children Basic Care projections for FY 2012-13 costs are expected to be $2.4 billion, an increase of $866 million (56.6 percent) over FY 2010-11. Monthly average enrollment is expected to increase by about 35,400 enrollees (7.8 percent) from FY 2010-11 to FY 2012-13. Average monthly payments are expected to increase 12 percent over the current biennium.

MA Elderly and Disabled Basic Care costs are projected to reach $2.8 billion, an increase of $927 million (49.5 percent) from FY 2010-11 to FY 2012-13. Monthly average enrollment is expected to increase by about 11,500 enrollees (6.7 percent) from FY 2010-11 to FY 2012-13. Average cost is expected to increase about 12 percent from the current biennium.

MA Waiver and Home Based Care Services costs are expected to reach $2.6 billion in FY 2012-13, an increase of $828 million (48 percent) from FY 2010-11. The largest driver of expenditures in this category are the Developmentally Disabled Waiver (44 percent of total expenditures) followed by the Community Alternative for Disabled Individuals Waiver (24.1 percent) and Personal Care and Private Duty Nursing Services (23.5 percent). Increases in expenditures are due to increasing eligibility and average costs for each of the programs as follows:

- Developmentally Disabled (DD) expenditures are projected to increase $310.7 million (39 percent) over the current biennium. Approximately 650 average monthly recipients will be added to the program in FY 2012-13. The average cost per recipient rises as well, increasing 4.9 percent biennium over biennium.

- Community Alternative for Disabled Individuals (CADI) expenditures are estimated to reach $608.4 million in FY 2012-13, a 73 percent increase over the current biennium. Caseload increase in this program was previously capped in law, but the caps expire at the end of FY 2011. The average cost per recipient increases 11 percent over the previous biennium.

- Traumatic Brain Injury (TBI) spending is estimated to increase $41.3 million (51.9 percent) over the previous biennium, totaling $120.9 million in FY 2012-13. The estimated number of TBI recipients is expected to exceed the previous biennium by 10.3 percent, or approximately 144 average monthly recipients.

- Elderly Waiver (EW) expenditures increased from the current biennium by $88.0 million (36 percent). EW services are provided both on a fee for service basis and under managed care. Expenditures for fee for service recipients are reflected in this activity while expenditures for managed care recipients are accounted for under Elderly and Disabled Basic Care. Although approximately 280 fewer average monthly recipients (1.3 percent) will receive services under this waiver, the decrease is more than offset by a 12.7 percent increase in average cost.

Chronically ill and disabled individuals also receive services outside these waiver programs. The bulk of this spending is for personal care assistant (PCA) and private duty nurse (PDN) services. PCA/PCN services account for almost all of the home care spending. PCA/PDN expenditures are projected to reach $593.9 million in FY 2012-13, a 47 percent increase over the current biennium.

MA LTC Facilities expenditures are expected to total $907 million in FY 2012-13, a 20.7 percent increase over the current biennium. The bulk of this activity provides payments for nursing facilities, but also includes services for those with mental illness served in intermediate care facilities (ICF/MRs) and day training and rehabilitation services (DT&H).

Payments for nursing home services total $774.6 million, $135.6 million higher than FY 2010-11. The average monthly caseload is expected to be lower by 1,300 in FY 2012-13, which is consistent with a multi-year trend in nursing home caseload. While the number served is declining, the average monthly cost per recipient is projected to be higher by 3.6 percent.

<u>General Assistance Medical Care</u>
Costs for GAMC are projected to decrease $216.9 million (48 percent) from FY 2010-11 to FY 2012-13. In 2010, GAMC ceased being a forecasted entitlement program for adults without children and instead became a capped, direct appropriated program in law. The biennial change reflects a permanent reduction to the program beginning late in FY 2010.

<u>Chemical Dependency Entitlement Grants</u>
Chemical Dependency entitlement spending is projected to increase $44 million in FY 2012-13, a change of 23 percent from FY 2010-11. This growth largely reflects a 14 percent biennial increase in the number of placements.

Other Forecasted Programs
Other forecasted programs include a variety of economic supports for families and individuals such as childcare subsidies, employment services, food support, and cash and emergency assistance. General fund expenditure estimates in this area are projected at $746 million in FY 2012-13, a 15 percent increase ($95 million) from the current biennium.

Minnesota Supplemental Aid, Group Residential Housing, and General Assistance programs are projected to grow in the next biennium by 13, 11, and 10 percent respectively. This $43 million increase in expenditures is driven by rising monthly average cases and payments in all three programs. This accounts for 45 percent of the growth in the non-health care forecast programs.

Child Care Assistance general fund spending is expected to grow by 41 percent in FY 2012-13, an increase of $40 million. This increase is largely explained by changes in the 2009 and 2010 legislative sessions that replaced general fund expenditures with TANF federal stimulus funds to achieve one-time savings in FY 2010-11. This results in higher state share costs in FY 2012-13, although total state and federal payments are expected to increase by less than 2 percent.

General fund expenditures on Minnesota Family Investment Program/Diversionary Work Program (MFIP/DWP) cash assistance are projected to increase 7 percent in FY 2012-13, from $164 to $175 million. Similar to other economic assistance programs, this increase is partially attributable to higher monthly average caseloads, which are estimated to rise by 7 percent in FY 2012-13. Another factor is reduced spending in other areas that causes increased spending in MFIP/DWP cash assistance to meet federal maintenance of effort obligations.

Early Expansion of Medical Assistance

Background

The federal Affordable Care Act, P.L. 111-148, which was enacted March 23, 2010, expands Medicaid – known as Medical Assistance or MA in Minnesota – by creating a new eligibility group for all non-disabled single adults age 21 to 65 with incomes up to 133 percent of the federal poverty guidelines (FPG). This mandatory expansion is effective January 1, 2014. At that time the federal government will pay the entire cost for a state to cover low income single adults through Medicaid for three years.

Until January 2014, states that have created state-funded health care programs to cover low-income single adults have a new option to use Medicaid to cover that population. The federal government will match the state's cost of covering this optional early expansion group at the state's regular federal matching rate. Minnesota's regular federal medical assistance percentage (FMAP) is 50 percent. States can set the income standard for this new optional group at any level up to 133 percent of FPG.

The 2010 legislature authorized the current or next governor to expand Medicaid eligibility to adults without children with incomes at or below 75 percent FPG. The authorization was effective July 1, 2010, contingent on an executive order by January 15, 2011. The legislature provided funding to pay the state cost of the optional MA expansion; those appropriations are also contingent on the executive order. As of December 2010, the Governor has not ordered the state to elect the optional MA expansion.

Treatment in November Forecast

Based upon law enacted in the 2010 legislative session, funds sufficient to pay the estimated cost of an early expansion of MA were reserved in the general fund. The net cost to the general fund of MA expansion was estimated to be $71 million in FY 2010-11 and $360 million in FY 2012-13 at the end of session. The cost of the expansion is net of savings that would occur in the GAMC program which would end in current law, as well as some transfers from the health care access fund. The transfers are made possible due to a savings in the fund as enrollees shift from MinnesotaCare to MA. The law specifies that the funds be held on a contingent basis until January 15, 2011.

The amounts reserved on a contingent basis at the end of session were based upon a start date for the expansion of July 1, 2010. Since that date has passed without a governor opting in to the early expansion, Minnesota Management & Budget, in consultation with legislative fiscal staff, determined that the next possible date for a governor to opt in to an early expansion would be January 1, 2011. The November 2010 general fund forecast reflects a revised reserved amount of $26 million in FY 2011 and $384 million in FY 2012-13. The reduced reserved amount in FY 2011 reflects six months fewer MA payments for the expansion, as well as six months less savings in the GAMC program, and half of the contingent transfers from the health care access fund. Adjustments to the FY 2012-13 net costs are related to the overall November forecast.

Should a governor opt into early expansion by January 15, 2011, appropriations to DHS will be adjusted in the February 2011 forecast to reflect the expansion. While January 1, 2011, is the first date a governor may opt into early expansion, it may not be the date at which it is possible to implement the program. If a governor was to opt in to an early expansion and determine a different implementation date, the February 2011 forecast would reflect this new date.

If a governor does not opt in to the early expansion by January 15, 2011, the amount reserved for this purpose will be removed from the February 2011 general fund forecast and no adjustments will be made to DHS appropriations.

Alternative Scenario: Projected Effect on the State Budget if a Governor Does Not Opt In to the Early Expansion of MA

If a governor chooses not to opt in to an early expansion of MA, the amount held in the current forecast to fund the program would be adjusted out of the February 2011 forecast. The fiscal impact on the state budget of not opting in to an early expansion is as follows:

(in millions)	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**
General Fund					
Reduced Cost for MA Expenditures	(163)	(482)	(592)	(440)	1
Added Costs for Continuation of GAMC (includes-non dedicated revenue)	49	99	99	117	117
Costs of Reduced MA Reimbursement to CD Entitlements		9	8	8	1
Loss of Transfers from HCAF	88	189	286		
Added Cost Due to HCAF Deficit					
Net Cost (Savings) to the General Fund	**(26)**	**(185)**	**(199)**	**(315)**	**119**
Health Care Access Fund					
Increased Cost to MinnesotaCare	137	397	494	332	43
Savings from No Contingent Transfers	(88)	(189)	(286)		
Net Cost (Savings) to the Health Care Access Fund	**49**	**208**	**208**	**332**	**43**

Since the end of the 2010 legislative session, significant growth in the MinnesotaCare program has become evident in large part due to a shift of individuals from Transitional MinnesotaCare, which no longer exists, and from GAMC, which has been significantly modified. Without the effects of the early expansion of MA reducing MinnesotaCare enrollment, the cost of MinnesotaCare is projected to increase $86 million in FY 2010-11 and $324 million in FY 2012-13 from end of session estimates. Average monthly enrollment is expected to increase by approximately 27,000 enrollees in FY 2010-11 and 40,000 enrollees in FY 2012-13 from the end of session. Total average monthly enrollment is expected to increase from about 149,000 in FY 2010-11 to about 206,000 (38.6 percent) in FY 2012-13. Large increases in enrollment are offset slightly by reductions in HMO rates.

If an early expansion does not occur, the MinnesotaCare savings currently assumed in the forecast will not be realized, resulting in a higher deficit in the health care access fund in the future. In that case, a balance of $5 million in FY 2011, and deficits of $615 million in FY 2013 and $682 million in FY 2015 are expected in the fund. Beginning in FY 2012, under a deficit scenario, the Department of Human Services has authority under M.S. 256L.02 to make adjustments to reduce the cost of the program and balance the shortfall in the fund.

Health and Human Services Grows $1.7 billion in FY 2014-15

Health Care Programs

Health care spending is projected to grow an additional $1.9 billion (20.9 percent) in FY 2014-15 to an estimated $11 billion. MA Families and Children expenditures are expected to be $3 billion in FY 2014-15, an increase of $654.5 million (27.3 percent) over FY 2012-13. Biennial growth of about 49,000 (10.7 percent) is an enrollment effect of the coverage mandate from the federal health care reform starting January 2014. If not for that, the forecast would reflect a small decrease in enrollment based upon the improving economy. Average costs for MA Families and Children are expected to increase about 18.9 percent. MA Elderly and Disabled Basic Care costs are projected to grow $653.1 million (23.3 percent) from FY 2012-13 to FY 2014-15 and reach $3.5 billion in FY 2014-15. Average monthly enrollment is projected to grow by approximately 9,500 (5.2 percent) from FY 2012-2013 to FY 2014-15, while average monthly payments are estimated to increase by 18.5 percent.

MA Long Term Care Waivers expenditures are expected to increase by $431.7 million from FY 2012-13 to FY 2014-15. Growth is due to increases in projected average monthly enrollment of 4,900 recipients over the previous biennium. It is also due to increased average monthly payments, which are expected to rise approximately 8 percent over the previous biennium. Spending for MA Long Term Care facilities increased 12.7 percent over FY 2012-13. While enrollment is trending downward and has for many years, an average monthly payment increase of about 16.9 percent is expected to offset the savings.

Health care spending will incorporate adults without children at or below 133 percent of the federal poverty guideline (FPG) starting January 1, 2014, when provisions under the federal Affordable Care Act, P.L. 111-148, begin for this group. Most states will receive a federal matching rate of 100 percent for this newly covered group until 2017, at which time the rate will gradually start decreasing. Some states that were already providing coverage to adults without children prior to the Affordable Care Act, called “expansion states,” will receive a 75 percent match starting in 2014 rather than a 100 percent match. The rate would gradually be increased to be on par with all states by 2020. Federal guidance is forthcoming, but early indications are that Minnesota will not be considered an expansion state because it did not provide coverage for adults without children under Medicaid as of December 2009. Therefore, the forecast incorporates an assumption that Minnesota will receive a 100 percent match starting in 2014.

General Assistance Medical Care costs remain at the capped appropriation level of $234.8 million for the biennium.

Projected state spending on Chemical Dependency (CD) entitlements is expected to slow considerably as federal health care reform goes into effect in 2014. This results in an increased federal match on CD expenditures for individuals eligible for MA, reducing biennial growth from 23 percent in FY 2012-13 to 6 percent in FY 2014-15.

Other Forecasted Programs

Growth in economic assistance programs is expected to slow in FY 2014-15. These programs are forecasted to increase 2 percent in FY 2014-15 over the previous biennium, compared to the 15 percent growth currently projected for FY 2012-13. This is largely caused by lower estimated spending in Child Care (-1 percent) and MFIP/DWP (-8 percent), compared to estimated increases of 41 and 7 percent respectively in FY 2012-13, and flat spending in General Assistance.

Debt Service Projections Grow $309 Million in FY 2012-13

Projected debt service costs for FY 2012-13 are now expected to be $1.141 billion, $309 million above estimates for the current biennium. Nearly one-half of the growth shown is the result of significant one-time savings achieved in FY 2011 through the refunding of existing state bonds based on currently low interest costs.

The remaining growth is not unexpected and reflects the continuing costs of recently enacted capital budgets including the $732 million general fund supported bonding enacted in the 2010 legislative sessions.

The forecast assumes future general fund supported capital budgets of $775 million in each even-numbered legislative session and $140 million in each odd-numbered session. These assumptions for larger bonding bills are based on the 10-year average procedure used in previous forecasts. Debt service forecasts will continue to reflect increase pressure on debt service costs even in a low interest rate environment.

Debt Service Projections Increase Nearly $47 Million for FY 2014-15

Projected debt service costs for FY 2014-15 will be $1.188 billion, up $47 million from the FY 2012-13. The estimates reflect both slightly higher interest rate assumptions as well as increases in the size of projected bond sales, reflecting the continued growth of long term financing costs based on projected legislative actions on capital budgets.

All other Spending Areas Remains Essentially Flat

The majority of state agencies and programs, outside the major forecast areas, will show little change from FY 2010-11 to projected spending for FY 2012-13. The reasons for this are two-fold. First, most of the reductions implemented in the current biennium were permanent reductions. FY 2011 appropriations, after reductions, are carried forward as the base for FY 2012-13 spending. Second, any one-time appropriations in FY 2010-11do not continue and are reduced in spending levels for the upcoming biennium. Some unique factors however, are highlighted below.

Public Safety

Spending in the public safety area, which includes Department of Public Safety, Department of Corrections, the Courts and several smaller entities, is projected to be $37.4 million lower in FY 2012-13 than in FY 2010-11. There are three major contributing components to this change.

- General fund spending levels at the Department of Corrections are forecasted to be essentially flat from the current biennium to the next biennium. Correction received $38 million in federal stimulus funds that replaced general funds in FY 2010. These federal funds were replaced with general funds in FY 2011; however, the agency's FY 2012-13 general fund base was reduced by $27 million through direct legislative action. This forecast further reduces the base an additional $8.3 million due to a reduced forecast for the future adult prison population. The previous FY 2013 adult prison population estimate was 9,623 and now the estimate is 9,216.
- Department of Public Safety general fund spending is forecasted to be reduced by $28 million in the next biennium. Much of this decline is attributed to the $19 million in one-time disaster relief spending authorized in the current biennium that is not projected for FY 2012-13.
- General fund spending for the Trial Courts is reduced by $18 million in the next biennium mostly due to the annualization of a $12 million transfer to create the new State Guardian Ad Litum Board in FY 2011, and the dedication of reimbursement proceeds previously deposited in the general fund.

Environment, Energy and Natural Resources

The $35 million increase in FY 2012-13 shown for the environment, energy and natural resources area is the product of an artificial accounting distortion of $53 million. The Department of Natural Resources has an open appropriation for payment in lieu of tax (PILT) payments. However, DNR transfers the money to the Department of Revenue, which makes the payments under property tax aids. Consequently, FY 2010-11 shows "$0" while FY 2012-13 shows the $53 million estimated amount required for the next two years. Adjusted for this, spending in this area will actually be $18 million below FY 2010-11 levels.

State Government

An increase of nearly $29 million (4.5%) is anticipated in the state government area, which includes the legislature, constitutional offices, central administrative agencies, and funding for some local government retirement programs. The increase is primarily driven by changes made during the 2010 legislative session which increased appropriations to the Minneapolis Employees Retirement Fund (MERF) by $27.5 million in FY 2012-13 and $30 million in FY 2014-15. The remaining increase is the net impact of higher spending on technology system projects and tax compliance initiatives which are mostly offset by higher indirect cost recoveries and reduced spending in various agencies and accounts.

ALTERNATIVE FORECAST COMPARISON
REAL GDP (ANNUAL RATES)

	10III	10IV	11I	11II	11III	11IV	10A	11A	12A
GII Baseline (11-10)	2.0	2.5	2.2	2.0	2.5	3.2	2.7	2.3	2.9
Blue Chip (11-10)	2.0	2.2	2.4	2.7	3.0	3.3	2.7	2.5	3.2*
Moody's Economy.Com (11-10)	2.0	2.2	2.9	2.9	3.1	4.0	2.7	2.7	N.A
UBS (11-10)	2.0	2.5	3.0	2.8	2.8	3.0	2.7	2.7	2.8
Standard & Poors (11-10)	2.0	2.8	2.4	2.2	N.A	N.A	2.8	2.4	3.1

Consumer Price Index (Annual Rates)

	10III	10IV	11I	11II	11III	11IV	10A	11A	12A
GII Baseline (11-10)	1.5	2.7	1.4	1.1	1.7	1.9	1.7	1.5	1.9
Blue Chip (11-10)	1.5	1.8	1.7	1.5	1.8	1.8	1.6	1.5	2.0*
Moody's Economy.Com (11-10)	1.5	1.7	1.2	1.6	2.0	1.9	1.6	1.5	N.A
UBS (11-10)	1.5	1.6	2.3	0.4	2.5	2.7	1.6	1.6	2.1
Standard & Poors (11-10)	1.5	2.9	1.9	1.2	N.A	N.A	1.7	1.7	2.0

* October Estimates

FORECAST COMPARISONS

Real Economic Growth

(Annual Percent Change in Real GDP)

	2010	2011	2012	2013	2014	2015
Nov 06 GII Baseline	3.3	2.9				
Feb 07 GII Baseline	3.1	2.7				
Nov 07 GII Baseline	2.9	2.8				
Feb 08 GII Baseline	3.0	3.2				
Nov 08 GII Baseline	1.7	3.1	3.5	3.1		
Feb 09 GII Baseline	2.0	3.5	3.3	2.9		
Nov 09 GII Baseline	2.2	2.9	3.7	2.9		
Feb 10 GII Baseline	3.0	2.8	3.7	3.2		
Nov 10 GII Baseline	2.7	2.3	2.9	2.7	3.1	3.1

Inflation

(Annual Percent Change in CPI-U)

Nov 06 GII Baseline	1.8	1.7				
Feb 07 GII Baseline	1.9	2.0				
Nov 07 GII Baseline	1.9	1.8				
Feb 08 GII Baseline	1.9	1.8				
Nov 08 GII Baseline	2.4	3.0	2.4	2.4		
Feb 09 GII Baseline	1.7	2.2	2.3	2.6		
Nov 09 GII Baseline	1.5	2.0	2.0	1.8		
Feb 10 GII Baseline	1.9	1.7	2.0	1.9		
Nov 10 GII Baseline	1.7	1.5	1.9	2.0	2.2	2.2

MINNESOTA - U.S. COMPARISON REPORT

November 2010 Baseline

(Annual Percent Changes)

	2007	2008	2009	2010	2011	2012	2013
Wage and Salary Income							
United States	5.8	2.1	-4.3	1.4	3.8	4.6	4.6
Minnesota	6.0	2.9	-4.8	3.5	3.9	4.5	4.7
Implied Annual Wage							
United States	4.7	2.7	-0.1	2.0	2.8	2.7	2.7
Minnesota	5.5	3.2	-1.0	3.9	2.9	2.6	2.9
Non-Farm Employment							
United States	1.1	-0.6	-4.3	-0.5	1.1	1.9	1.9
Minnesota	0.5	-0.3	-3.9	-0.5	1.0	1.8	1.8
Personal Income							
United States	5.7	4.0	-1.8	2.7	3.2	4.0	4.4
Minnesota	5.3	4.4	-2.5	3.7	3.8	3.5	4.4

COMPARISON OF ACTUAL AND ESTIMATED
NON-RESTRICTED REVENUES
($ IN THOUSANDS)

	October YTD , 2010 -FY2011			October, 2010 -FY2011		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	1,855,778	1,953,256	97,479	447,093	476,761	29,669
Declarations	277,551	243,182	(34,370)	15,411	26,951	11,540
Miscellaneous	142,131	117,443	(24,687)	61,889	52,781	(9,109)
Gross	2,275,459	2,313,881	38,422	524,393	556,493	32,100
Refund	75,019	90,292	15,273	39,156	48,024	8,868
Net	2,200,440	2,223,589	23,149	485,236	508,468	23,232
Corporate & Bank Excise						
Declarations	241,057	236,790	(4,267)	32,832	36,138	3,306
Miscellaneous	45,986	79,177	33,191	14,568	24,721	10,153
Gross	287,043	315,967	28,925	47,400	60,859	13,459
Refund	4,709	898	(3,811)	4,114	627	(3,487)
Net	282,334	315,069	32,735	43,286	60,232	16,946
Sales Tax						
Gross	1,438,441	1,480,963	42,523	399,968	408,191	8,223
Refunds	4,914	9,719	4,805	2,114	5,819	3,705
Net	1,433,527	1,471,244	37,718	397,854	402,373	4,519
Motor Vehicle Sales Tax	10,866	10,205	(661)	2,686	2,390	(296)
Other Revenues:						
Estate	46,667	51,132	4,465	11,667	15,749	4,083
Liquor/Wine/Beer	20,950	21,890	940	6,165	6,508	343
Cigarette/Tobacco/Cont Sub	57,447	63,490	6,043	15,559	14,102	(1,456)
Deed and Mortgage	39,740	43,862	4,121	10,871	13,331	2,460
Insurance Gross Earnings	65,413	65,451	39	1,416	198	(1,218)
Lawful Gambling	11,180	9,817	(1,362)	2,494	1,895	(599)
Health Care Surcharge	73,804	78,494	4,690	18,451	20,191	1,740
Other Taxes	218	197	(21)	55	47	(8)
Statewide Property Tax	158,757	158,699	(58)	158,647	158,647	(0)
DHS SOS Collections	17,217	18,077	860	4,304	5,179	875
Income Tax Reciprocity	0	0	0	0	0	0
Investment Income	2,133	(213)	(2,346)	533	154	(380)
Tobacco Settlement	100	100	0	0	0	0
Departmental Earnings	82,534	84,133	1,599	38,388	38,602	214
Fines and Surcharges	25,905	23,326	(2,579)	8,516	7,579	(937)
Lottery Revenues	12,763	10,562	(2,202)	4,254	3,891	(364)
Revenues yet to be allocated	0	2,980	2,980	0	(2,406)	(2,406)
Residual Revenues	39,928	30,677	(9,251)	10,151	7,940	(2,211)
Sales Tax Rebates (all years)	0	0	0	0	0	0
County Nursing Home, Pub Hosp IGT	1,739	1,739	(0)	435	435	0
Other Subtotal	656,494	664,413	7,919	291,907	292,042	135
Other Refunds	9,991	9,955	(36)	4,569	3,073	(1,495)
Other Net	646,502	654,458	7,955	287,338	288,968	1,631
Total Gross	**4,668,303**	**4,785,430**	**117,127**	**1,266,353**	**1,319,974**	**53,621**
Total Refunds	**94,634**	**110,864**	**16,231**	**49,953**	**57,543**	**7,590**
Total Net	**4,573,669**	**4,674,566**	**100,896**	**1,216,400**	**1,262,431**	**46,031**

FACTORS AFFECTING THE INDIVIDUAL INCOME TAX

($ in billions)

	Calendar Year					
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Minnesota Non-Farm Tax Base						
November 2006 Baseline	177.669	187.572				
February 2007 Baseline	178.408	189.146				
November 2007 Baseline	176.126	182.836				
February 2008 Baseline	176.042	182.122				
November 2008 Baseline	178.014	178.017	180.893	189.211		
February 2009 Baseline	176.869	173.201	175.674	183.239		
November 2009 Baseline	179.184	168.891	171.395	178.688		
February 2010 Baseline	179.185	169.511	172.985	180.445		
November 2010 Baseline (1)	184.314	174.819	179.524	185.413	193.358	203.033
Minnesota Wage and Salary Income						
November 2006 Baseline	124.673	130.636				
February 2007 Baseline	124.034	130.567				
November 2007 Baseline	122.871	127.595				
February 2008 Baseline	122.189	126.100				
November 2008 Baseline	123.530	123.834	126.854	132.244		
February 2009 Baseline	122.772	121.060	123.518	128.709		
November 2009 Baseline	122.923	116.112	118.220	123.020		
February 2010 Baseline	122.924	116.194	117.355	122.365		
November 2010 Baseline (1)	127.646	121.491	125.707	130.640	136.453	142.848
Minnesota Property Income						
November 2006 Baseline	38.739	41.925				
February 2007 Baseline	40.223	43.666				
November 2007 Baseline	39.560	40.713				
February 2008 Baseline	40.162	41.289				
November 2008 Baseline	40.622	39.994	39.271	41.252		
February 2009 Baseline	40.322	38.687	37.993	39.363		
November 2009 Baseline	40.915	38.354	38.192	39.805		
February 2010 Baseline	40.915	38.804	40.310	41.843		
November 2010 Baseline	42.614	40.098	40.103	40.313	41.614	44.257
Minnesota Proprietors' Income						
November 2006 Baseline	14.256	15.017				
February 2007 Baseline	14.150	14.912				
November 2007 Baseline	13.694	14.529				
February 2008 Baseline	13.691	14.733				
November 2008 Baseline	13.861	14.188	14.768	15.447		
February 2009 Baseline	13.775	13.453	14.164	15.167		
November 2009 Baseline	15.345	14.424	14.983	15.862		
February 2010 Baseline	15.345	14.514	15.321	16.237		
November 2010 Baseline	14.054	13.230	13.714	14.456	15.293	15.927

(1) Bureau of Economic Analysis Concept

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

($ in billions)

	Fiscal Year					
	2008	2009	2010	2011	2012	2013
SALES TAX						
Minnesota Synthetic Sales Tax Base						
*February 2008 Baseline	70.593	70.388				
Pct	1.8%	-0.3%				
November 2008 Baseline	71.375	69.278	67.178	69.730		
Pct	3.8%	-2.9%	-3.0%	3.8%		
February 2009 Baseline	71.434	68.297	65.132	68.395		
Pct	3.1%	-4.4%	-4.6%	5.0%		
November 2009 Baseline	73.000	70.046	68.483	70.880		
Pct	3.4%	-4.0%	-2.2%	3.5%		
February 2010 Baseline	72.845	70.293	69.222	71.789		
Pct	3.1%	-3.5%	-1.5%	3.7%		
November 2010 Baseline	71.946	68.255	66.738	70.720	73.053	75.597
Pct	2.2%	-5.1%	-2.2%	6.0%	3.3%	3.5%
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)						
February 2008 Baseline	13.560	13.451				
November 2008 Baseline	13.567	12.869	12.257	12.549		
February 2009 Baseline	13.573	12.812	12.150	12.456		
November 2009 Baseline	13.719	13.028	12.756	12.720		
February 2010 Baseline	13.719	13.041	13.123	13.276		
November 2010 Baseline	13.547	12.687	12.818	13.468	13.829	14.118
Minnesota's Proxy Share of U.S. Capital Equipment Spending						
February 2008 Baseline	12.199	12.078				
November 2008 Baseline	12.316	11.760	10.854	11.711		
February 2009 Baseline	12.234	11.427	9.858	10.775		
November 2009 Baseline	12.998	11.906	10.972	12.084		
February 2010 Baseline	12.998	11.924	11.244	12.292		
November 2010 Baseline	12.943	11.600	11.189	12.849	13.901	14.822
Minnesota's Proxy Share of U.S. Construction Spending						
February 2008 Baseline	6.267	5.421				
November 2008 Baseline	6.401	5.966	5.445	6.180		
February 2009 Baseline	6.307	5.732	4.826	5.486		
November 2009 Baseline	6.544	5.618	5.292	5.364		
February 2010 Baseline	6.549	5.764	5.207	5.403		
November 2010 Baseline	6.426	5.574	4.757	4.524	4.273	5.391

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

($ in billions)

		Fiscal Year					
		2008	2009	2010	2011	2012	2013
SALES TAX (Cont.)							
Minnesota's Personal Income Excluding Farm Proprietors Income							
November 2006 Baseline		216.03	227.93				
February 2007 Baseline		216.81	229.20				
November 2007 Baseline		207.70	215.85				
February 2008 Baseline		209.19	216.12				
November 2008 Baseline		210.61	216.41	219.52	227.48		
February 2009 Baseline		210.20	213.84	215.33	223.33		
November 2009 Baseline		213.26	213.68	212.56	219.22		
February 2010 Baseline		213.26	213.65	214.25	219.93		
November 2010 Baseline	(1)	219.04	220.37	221.11	229.65	237.52	247.61
SALES TAX ON MOTOR VEHICLES							
Minnesota's Proxy Share of U.S. Consumption of Motor Vehicles and Parts							
November 2006 Baseline		8.993	9.292				
February 2007 Baseline		9.159	9.597				
November 2007 Baseline		8.681	8.852				
February 2008 Baseline		8.569	8.506				
November 2008 Baseline		8.571	6.895	7.977	8.380		
February 2009 Baseline		8.561	6.642	7.074	7.699		
November 2009 Baseline	(2)	6.193	4.773	4.999	5.502		
February 2010 Baseline	(4)	4.388	3.172	3.571	4.255		
November 2010 Baseline	(2)	6.711	5.276	5.710	6.023	7.111	7.758
CORPORATE FRANCHISE TAX			Calendar Year				
U.S. Corporate Profits							
November 2006 Baseline		1,481.5	1,382.8				
February 2007 Baseline		1,617.8	1,463.6				
November 2007 Baseline	(3)	1,302.8	1,355.1				
February 2008 Baseline	(3)	1,310.7	1,326.7				
November 2008 Baseline	(3)	1,402.8	1,286.4	1,446.5	1,493.8		
February 2009 Baseline	(3)	1,378.7	993.6	1,286.7	1,480.7		
November 2009 Baseline	(3)	1,349.9	1,065.2	1,314.2	1,366.3		
February 2010 Baseline	(3)	1,349.9	1,065.2	1,283.8	1,355.6		
November 2010 Baseline	(3)	1,244.8	871.1	1,234.9	1,379.3	1,393.1	1,461.5

(1) Bureau of Economic Analysis Concept
(2) Revised by Bureau of Economic Analysis to exclude parts.
(3) MMB Estimate of Domestic Corporate Profits & adjusted to net effects of the Federal Acts of 2002, 2003, 2008, and 2009.
(4) MN's Proxy Share of U.S. Consumption of New Motor Vehicles.

FY 2010-11 General Fund Budget
November 2010 Forecast
Current Biennium
($ in thousands)

	Actual FY 2010	11-10 Fcst FY 2011	Biennial Total FY 2010-11
Actual & Estimated Resources			
Balance Forward From Prior Year	446,921	439,730	446,921
Current Resources:			
Tax Revenues	13,366,160	14,650,988	28,017,148
Non-Tax Revenues	805,300	765,121	1,570,421
Subtotal - Non-Dedicated Revenue	14,171,460	15,416,109	29,587,569
Dedicated Revenue	16,383	1,600	17,983
Transfers In	391,546	430,756	822,302
Prior Year Adjustments	40,376	25,000	65,376
Subtotal - Other Revenue	448,305	457,356	905,661
Subtotal-Current Resources	14,619,765	15,873,465	30,493,230
Total Resources Available	**15,066,686**	**16,313,195**	**30,940,151**
Actual & Estimated Spending			
K-12 Education	6,408,009	6,919,070	13,327,079
K-12 Ptx Rec Shift/Aid Payment Shift	(1,061,115)	(827,807)	(1,888,922)
Subtotal K-12 Education	5,346,894	6,091,263	11,438,157
Higher Education	1,455,940	1,358,277	2,814,217
Property Tax Aids & Credits	1,614,125	1,404,300	3,018,425
Health & Human Services	4,103,878	4,565,549	8,669,427
Public Safety	855,603	964,522	1,820,125
Transportation	96,896	70,140	167,036
Environment, Energy & Natural Resources	153,558	160,894	314,452
Agriculture & Veterans	120,660	127,306	247,966
Economic Development	135,185	148,084	283,269
State Government	291,445	340,034	631,479
Debt Service	429,123	403,044	832,167
Capital Projects	10,250	12,648	22,898
All Other	3,196	5,967	9,163
Estimated Cancellations	0	(15,000)	(15,000)
Subtotal Expenditures & Transfers	**14,616,753**	**15,637,028**	**30,253,781**
Dedicated Expenditures	10,203	2,500	12,703
Total Expenditures & Transfers	**14,626,956**	**15,639,528**	**30,266,484**
Balance Before Reserves	**439,730**	**673,667**	**673,667**
Cash Flow Account	266,000	266,000	266,000
Budget Reserve	0	8,665	8,665
Appropriations Carried Forward	106,652	0	0
Budgetary Balance	**67,078**	**399,002**	**399,002**

FY 2010-11 General Fund Budget - Current Biennium Comparison
November 2010 Forecast vs. End of Special Session 2
($ in thousands)

	10-10 SS2 FY 2010-11	11-10 Fcst FY 2010-11	Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	446,921	446,921	0
Current Resources:			
Tax Revenues	28,026,432	28,017,148	(9,284)
Non-Tax Revenues	1,596,876	1,570,421	(26,455)
Subtotal - Non-Dedicated Revenue	29,623,308	29,587,569	(35,739)
Dedicated Revenue	60,225	17,983	(42,242)
Transfers In	779,517	822,302	42,785
Prior Year Adjustments	73,866	65,376	(8,490)
Subtotal - Other Revenue	913,608	905,661	(7,947)
Subtotal-Current Resources	30,536,916	30,493,230	(43,686)
Total Resources Available	**30,983,837**	**30,940,151**	**(43,686)**
Actual & Estimated Spending			
K-12 Education	13,336,990	13,327,079	(9,911)
K-12 Ptx Rec Shift/Aid Payment Shift	(1,947,339)	(1,888,922)	58,417
Subtotal K-12 Education	11,389,651	11,438,157	48,506
Higher Education	2,811,555	2,814,217	2,662
Property Tax Aids & Credits	2,976,002	3,018,425	42,423
Health & Human Services	8,851,876	8,669,427	(182,449)
Public Safety	1,815,517	1,820,125	4,608
Transportation	167,908	167,036	(872)
Environment, Energy & Natural Resources	354,559	314,452	(40,107)
Agriculture & Veterans	250,113	247,966	(2,147)
Economic Development	279,534	283,269	3,735
State Government	633,046	631,479	(1,567)
Debt Service	955,283	832,167	(123,116)
Capital Projects	27,400	22,898	(4,502)
All Other	0	9,163	9,163
Estimated Cancellations	(22,493)	(15,000)	7,493
Subtotal Expenditures & Transfers	**30,489,951**	**30,253,781**	**(236,170)**
Dedicated Expenditures	30,624	12,703	(17,921)
Total Expenditures & Transfers	**30,520,575**	**30,266,484**	**(254,091)**
Balance Before Reserves	**463,262**	**673,667**	**210,405**
Cash Flow Account	266,000	266,000	0
Budget Reserve	0	8,665	8,665
Budgetary Balance	**197,262**	**399,002**	**201,740**

FY 2012-13 General Fund Forecast
Biennial Comparison
FY 2012-13 vs. FY 2010-11
($ in thousands)

	11-10 Fcst FY 2010-11	11-10 Fcst FY 2012-13	$ Difference	% Change
Actual & Estimated Resources				
Balance Forward From Prior Year	446,921	673,667	226,746	50.7%
Current Resources:				
Tax Revenues	28,017,148	29,992,641	1,975,493	7.1%
Non-Tax Revenues	1,570,421	1,475,480	(94,941)	-6.0%
Subtotal - Non-Dedicated Revenue	29,587,569	31,468,121	1,880,552	6.4%
Dedicated Revenue	17,983	3,200	(14,783)	-82.2%
Transfers In	822,302	482,247	(340,055)	-41.4%
Prior Year Adjustments	65,376	50,000	(15,376)	-23.5%
Subtotal - Other Revenue	905,661	535,447	(370,214)	-40.9%
Subtotal-Current Resources	30,493,230	32,003,568	1,510,338	5.0%
Total Resources Available	**30,940,151**	**32,677,235**	**1,737,084**	**5.6%**
Actual & Estimated Spending				
K-12 Education	13,327,079	14,345,827	1,018,748	7.6%
K-12 Ptx Rec Shift/Aid Payment Shift	(1,888,922)	1,301,760	3,190,682	-168.9%
Subtotal K-12 Education	11,438,157	15,647,587	4,209,430	36.8%
Higher Education	2,814,217	2,916,580	102,363	3.6%
Property Tax Aids & Credits	3,018,425	3,468,946	450,521	14.9%
Health & Human Services	8,669,427	11,906,878	3,237,451	37.3%
Public Safety	1,820,125	1,782,650	(37,475)	-2.1%
Transportation	167,036	181,742	14,706	8.8%
Environment, Energy & Natural Resources	314,452	349,128	34,676	11.0%
Agriculture & Veterans	247,966	244,550	(3,416)	-1.4%
Economic Development	283,269	262,778	(20,491)	-7.2%
State Government	631,479	660,201	28,722	4.5%
Debt Service	832,167	1,141,473	309,306	37.2%
Capital Projects	22,898	45,219	22,321	97.5%
All Other	9,163	0	(9,163)	-100.0%
Estimated Cancellations	(15,000)	(20,000)	(5,000)	33.3%
Subtotal Expenditures & Transfers	**30,253,781**	**38,587,732**	**8,333,951**	**27.5%**
Dedicated Expenditures	12,703	3,200	(9,503)	-74.8%
Total Expenditures & Transfers	**30,266,484**	**38,590,932**	**8,324,448**	**27.5%**
Balance Before Reserves	**673,667**	**(5,913,697)**	**(6,587,364)**	
Cash Flow Account	266,000	266,000	0	
Budget Reserve	8,665	8,665	0	
Budgetary Balance	**399,002**	**(6,188,362)**	**(6,587,364)**	

FY 2012-13 General Fund Forecast
November 2010 Forecast
2012-13 Biennium
($ in thousands)

	11-10 Fcst FY 2012	11-10 Fcst FY 2013	Biennial Total FY 2012-13
Actual & Estimated Resources			
Balance Forward From Prior Year	673,667	(3,641,084)	673,667
Current Resources:			
Tax Revenues	14,454,231	15,538,410	29,992,641
Non-Tax Revenues	737,579	737,901	1,475,480
Subtotal - Non-Dedicated Revenue	15,191,810	16,276,311	31,468,121
Dedicated Revenue	1,600	1,600	3,200
Transfers In	240,609	241,638	482,247
Prior Year Adjustments	25,000	25,000	50,000
Subtotal - Other Revenue	267,209	268,238	535,447
Subtotal-Current Resources	15,459,019	16,544,549	32,003,568
Total Resources Available	**16,132,686**	**12,903,465**	**32,677,235**
Actual & Estimated Spending			
K-12 Education	7,093,755	7,252,072	14,345,827
K-12 Ptx Rec Shift/Aid Payment Shift	1,331,240	(29,480)	1,301,760
Subtotal K-12 Education	8,424,995	7,222,592	15,647,587
Higher Education	1,458,240	1,458,340	2,916,580
Property Tax Aids & Credits	1,732,022	1,736,924	3,468,946
Health & Human Services	5,834,364	6,072,514	11,906,878
Public Safety	891,046	891,604	1,782,650
Transportation	90,871	90,871	181,742
Environment, Energy & Natural Resources	174,360	174,768	349,128
Agriculture & Veterans	122,240	122,310	244,550
Economic Development	130,824	131,954	262,778
State Government	327,925	332,276	660,201
Debt Service	569,812	571,661	1,141,473
Capital Projects	20,471	24,748	45,219
Estimated Cancellations	(5,000)	(15,000)	(20,000)
Subtotal Expenditures & Transfers	**19,772,170**	**18,815,562**	**38,587,732**
Dedicated Expenditures	1,600	1,600	3,200
Total Expenditures & Transfers	**19,773,770**	**18,817,162**	**38,590,932**
Balance Before Reserves	**(3,641,084)**	**(5,913,697)**	**(5,913,697)**
Cash Flow Account	266,000	266,000	266,000
Budget Reserve	8,665	8,665	8,665
Budgetary Balance	**(3,915,749)**	**(6,188,362)**	**(6,188,362)**

FY 2012-13 Biennial Comparison - General Fund
November 2010 Forecast vs. End of Special Session 2
($ in thousands)

	10-10 SS2 Plng Est FY 2012-13	11-10 Fcst FY 2012-13	Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	463,262	673,667	210,405
Current Resources:			
Tax Revenues	30,816,807	29,992,641	(824,166)
Non-Tax Revenues	1,514,109	1,475,480	(38,629)
Subtotal - Non-Dedicated Revenue	32,330,916	31,468,121	(862,795)
Dedicated Revenue	51,372	3,200	(48,172)
Transfers In	474,999	482,247	7,248
Prior Year Adjustments	50,000	50,000	0
Subtotal - Other Revenue	576,371	535,447	(40,924)
Subtotal-Current Resources	32,907,287	32,003,568	(903,719)
Total Resources Available	**33,370,549**	**32,677,235**	**(693,314)**
Actual & Estimated Spending			
K-12 Education	14,361,041	14,345,827	(15,214)
K-12 Ptx Rec Shift/Aid Payment Shift	1,260,534	1,301,760	41,226
Subtotal K-12 Education	15,621,575	15,647,587	26,012
Higher Education	2,916,584	2,916,580	(4)
Property Tax Aids & Credits	3,454,938	3,468,946	14,008
Health & Human Services	12,017,975	11,906,878	(111,097)
Public Safety	1,796,009	1,782,650	(13,359)
Transportation	180,172	181,742	1,570
Environment, Energy & Natural Resources	345,561	349,128	3,567
Agriculture & Veterans	245,223	244,550	(673)
Economic Development	252,712	262,778	10,066
State Government	670,828	660,201	(10,627)
Debt Service	1,152,853	1,141,473	(11,380)
Capital Projects	45,219	45,219	0
Estimated Cancellations	(22,711)	(20,000)	2,711
Subtotal Expenditures & Transfers	**38,676,938**	**38,587,732**	**(89,206)**
Dedicated Expenditures	22,336	3,200	(19,136)
Total Expenditures & Transfers	**38,699,274**	**38,590,932**	**(108,342)**
Balance Before Reserves	**(5,328,725)**	**(5,913,697)**	**(584,972)**
Cash Flow Account	266,000	266,000	0
Budget Reserve	0	8,665	8,665
Budgetary Balance	**(5,594,725)**	**(6,188,362)**	**(593,637)**

FY 2014-15 General Fund Planning Estimates
Biennial Comparison
FY 2014-15 vs FY 2012-13
($ in thousands)

	11-10 Fcst FY 2012-13	11-10 Plng Est FY 2014-15	$ Difference	% Change
Actual & Estimated Resources				
Balance Forward From Prior Year	673,667	(5,913,697)	(6,587,364)	nm
Current Resources:				
Tax Revenues	29,992,641	32,609,932	2,617,291	8.7%
Non-Tax Revenues	1,475,480	1,408,445	(67,035)	(4.5)%
Subtotal - Non-Dedicated Revenue	31,468,121	34,018,377	2,550,256	8.1%
Dedicated Revenue	3,200	3,000	(200)	(6.3)%
Transfers In	482,247	523,192	40,945	8.5%
Prior Year Adjustments	50,000	50,000	0	0.0%
Subtotal - Other Revenue	535,447	576,192	40,745	7.6%
Subtotal-Current Resources	32,003,568	34,594,569	2,591,001	8.1%
Total Resources Available	**32,677,235**	**28,680,872**	**(3,996,363)**	**(12.2)%**
Actual & Estimated Spending				
K-12 Education	14,345,827	14,954,203	608,376	nm
K-12 Ptx Rec Shift/Aid Payment Shift	1,301,760	(80,615)	(1,382,375)	nm
Subtotal K-12 Education	15,647,587	14,873,588	(773,999)	(4.9)%
Higher Education	2,916,580	2,916,680	100	0.0%
Property Tax Aids & Credits	3,468,946	3,546,319	77,373	2.2%
Health & Human Services	11,906,878	13,600,312	1,693,434	14.2%
Public Safety	1,782,650	1,790,838	8,188	0.5%
Transportation	181,742	181,742	0	0.0%
Environment, Energy & Natural Resources	349,128	362,668	13,540	3.9%
Agriculture & Veterans	244,550	244,766	216	0.1%
Economic Development	262,778	264,840	2,062	0.8%
State Government	660,201	668,930	8,729	1.3%
Debt Service	1,141,473	1,188,351	46,878	4.1%
Capital Projects	45,219	55,668	10,449	23.1%
Estimated Cancellations	(20,000)	(20,000)	0	0.0%
Subtotal Expenditures & Transfers	**38,587,732**	**39,674,702**	**1,086,970**	**2.8%**
Dedicated Expenditures	3,200	3,000	(200)	(6.3)%
Total Expenditures & Transfers	**38,590,932**	**39,677,702**	**1,086,770**	**2.8%**
Balance Before Reserves	**(5,913,697)**	**(10,996,830)**	**(5,083,133)**	
Cash Flow Account	266,000	266,000	0	
Budget Reserve	8,665	8,665	0	
Budgetary Balance	**(6,188,362)**	**(11,271,495)**	**(5,083,133)**	
Structural Balance	***(6,587,364)***	***(5,083,133)***	***1,504,231***	

FY 2010-15 Planning Horizon
November 2010 General Fund Forecast
($ in thousands)

	11-10 Fcst FY 2010-11	11-10 Fcst FY 2012-13	11-10 Plng Est FY 2014-15
Actual & Estimated Resources			
Balance Forward From Prior Year	446,921	673,667	(5,913,697)
Current Resources:			
Tax Revenues	28,017,148	29,992,641	32,609,932
Non-Tax Revenues	1,570,421	1,475,480	1,408,445
Subtotal - Non-Dedicated Revenue	29,587,569	31,468,121	34,018,377
Dedicated Revenue	17,983	3,200	3,000
Transfers In	822,302	482,247	523,192
Prior Year Adjustments	65,376	50,000	50,000
Subtotal - Other Revenue	905,661	535,447	576,192
Subtotal-Current Resources	30,493,230	32,003,568	34,594,569
Total Resources Available	**30,940,151**	**32,677,235**	**28,680,872**
Actual & Estimated Spending			
K-12 Education	13,327,079	14,345,827	14,954,203
K-12 Ptx Rec Shift/Aid Payment Shift	(1,888,922)	1,301,760	(80,615)
Subtotal K-12 Education	11,438,157	15,647,587	14,873,588
Higher Education	2,814,217	2,916,580	2,916,680
Property Tax Aids & Credits	3,018,425	3,468,946	3,546,319
Health & Human Services	8,669,427	11,906,878	13,600,312
Public Safety	1,820,125	1,782,650	1,790,838
Transportation	167,036	181,742	181,742
Environment, Energy & Natural Resources	314,452	349,128	362,668
Agriculture & Veterans	247,966	244,550	244,766
Economic Development	283,269	262,778	264,840
State Government	631,479	660,201	668,930
Debt Service	832,167	1,141,473	1,188,351
Capital Projects	22,898	45,219	55,668
Deficiencies/Other	9,163	0	0
Estimated Cancellations	(15,000)	(20,000)	(20,000)
Subtotal Expenditures & Transfers	**30,253,781**	**38,587,732**	**39,674,702**
Dedicated Expenditures	12,703	3,200	3,000
Total Expenditures & Transfers	**30,266,484**	**38,590,932**	**39,677,702**
Balance Before Reserves	**673,667**	**(5,913,697)**	**(10,996,830)**
Cash Flow Account	266,000	266,000	266,000
Budget Reserve	8,665	8,665	8,665
Budgetary Balance	**399,002**	**(6,188,362)**	**(11,271,495)**
Structural Balance	***226,746***	***(6,587,364)***	***(5,083,133)***

Historical and Projected Revenue Growth

November 2010 Forecast

($ in millions)	Actual FY 2008	Actual FY 2009	Actual FY 2010	Estimated FY 2011	Estimated FY 2012	Estimated FY 2013	Average Annual
Individual Income Tax	$7,759	$6,988	$6,531	$7,235	$7,499	$8,177	
$ change		(771)	(457)	704	264	678	
% change		**-9.9%**	**-6.5%**	**10.8%**	**3.6%**	**9.0%**	**1.1%**
Sales Tax	4,571	4,344	4,177	4,531	4,382	4,649	
$ change		(227)	(167)	354	(149)	267	
% change		**-5.0%**	**-3.8%**	**8.5%**	**-3.3%**	**6.1%**	**0.3%**
Corporate Tax	1,020	708	664	968	728	813	
$ change		(312)	(44)	304	(240)	85	
% change		**-30.6%**	**-6.2%**	**45.8%**	**-24.8%**	**11.7%**	**-4.4%**
Statewide Property Tax	704	729	767	762	776	785	
$ change		25	38	(5)	14	9	
% change		**3.6%**	**5.2%**	**-0.7%**	**1.8%**	**1.2%**	**2.2%**
Motor Vehicle Sales	186	117	74	30	0	0	
$ change		(69)	(43)	(44)	(30)	0	
% change		**-37.1%**	**-36.8%**	**-59.5%**	**-100.0%**	**n/a**	**-100.0%**
Other Tax Revenue	1,172	1,164	1,153	1,125	1,069	1,114	
$ change		(8)	(11)	(28)	(56)	45	
% change		**-0.7%**	**-0.9%**	**-2.4%**	**-5.0%**	**4.2%**	**-1.0%**
Total Tax Revenue	$15,412	$14,050	$13,366	$14,651	$14,454	$15,538	
$ change		(1,362)	(684)	1,285	(197)	1,084	
% change		**-8.8%**	**-4.9%**	**9.6%**	**-1.3%**	**7.5%**	**0.2%**
Non-Tax Revenues	824	762	805	765	738	738	
$ change		(62)	43	(40)	(27)	0	
% change		**-7.5%**	**5.6%**	**-5.0%**	**-3.5%**	**0.0%**	**-2.2%**
Dedicated, Transfers, Other	444	576	448	457	267	268	
$ change		132	(128)	9	(190)	1	
% change		**29.7%**	**-22.2%**	**2.0%**	**-41.6%**	**0.4%**	**-9.6%**
Total Current Resources	$16,680	$15,388	$14,619	$15,873	$15,459	$16,544	
$ change		(1,292)	(769)	1,254	(414)	1,085	
% change		**-7.7%**	**-5.0%**	**8.6%**	**-2.6%**	**7.0%**	**-0.2%**

Historical and Projected Spending Growth

November 2010 Forecast

($ in millions)	Actual FY 2008	Actual FY 2009	Actual FY 2010	Estimated FY 2011	Estimated FY 2012	Estimated FY 2013	Average Annual
K-12 Education	$6,819	$6,938	$5,347	$6,091	$8,425	$7,223	
$ change		119	(1,591)	744	2,334	(1,202)	
% change		**1.7%**	**-22.9%**	**13.9%**	**38.3%**	**-14.3%**	**1.2%**
Higher Education	1,563	1,550	1,456	1,358	1,458	1,458	
$ change		(13)	(94)	(98)	100	0	
% change		**-0.8%**	**-6.1%**	**-6.7%**	**7.4%**	**0.0%**	**-1.4%**
Prop. Tax Aids & Credits	1,581	1,489	1,614	1,404	1,732	1,737	
$ change		(92)	125	(210)	328	5	
% change		**-5.8%**	**8.4%**	**-13.0%**	**23.4%**	**0.3%**	**1.9%**
Health & Human Services	4,630	4,460	4,104	4,566	5,834	6,073	
$ change		(170)	(356)	462	1,268	239	
% change		**-3.7%**	**-8.0%**	**11.3%**	**27.8%**	**4.1%**	**5.6%**
Public Safety	909	957	856	965	891	891	
$ change		48	(101)	109	(74)	0	
% change		**5.3%**	**-10.6%**	**12.7%**	**-7.7%**	**0.0%**	**-0.4%**
Debt Service	409	453	429	403	570	572	
$ change		44	(24)	(26)	167	2	
% change		**10.8%**	**-5.3%**	**-6.1%**	**41.4%**	**0.4%**	**6.9%**
All Other	1,094	1,014	821	853	864	863	
$ change		(80)	(193)	32	11	(1)	
% change		**-7.3%**	**-19.0%**	**3.9%**	**1.3%**	**-0.1%**	**-4.6%**
Total Spending	$17,005	$16,861	$14,627	$15,640	$19,774	$18,817	
$ change		(144)	(2,234)	1,013	4,134	(957)	
% change		**-0.8%**	**-13.2%**	**6.9%**	**26.4%**	**-4.8%**	**2.0%**