MINNESOTA Management & Budget

November Forecast

November 2009

HIGHLIGHTS

Weaker than Projected Economy Leaves $1.203 Billion Budget Deficit

General fund revenues are now forecast to fall $1.156 billion (3.7 percent) below earlier estimates for the 2010-11 biennium. After adjusting for actions taken by the Governor following the legislative session, general fund expenditures are $44 million lower. When combined with a $91 million reduction in the ending balance from FY 2008-09, a budget deficit of $1.203 billion is now projected for FY 2010-11. About 70 percent of the projected deficit is due to a reduction in expected income tax receipts.

Forecast for U.S. GDP on Track, But Labor Markets Weaker than Projected

Real GDP growth turned positive in the third quarter of 2009 and most forecasters believe that signaled the end of the Great Recession. But, that good economic news has yet to be reflected in labor markets.

The unemployment rate, already above the highs projected early in 2009, is expected to trend even higher over the next six months. Payroll employment reports already show greater job losses than were anticipated last February, and most forecasters believe job losses will edge still higher since employers are not expected to start adding new jobs until spring. The additional labor market slack has produced much weaker than expected wage growth. In February, U.S. wages were expected to fall by 0.4 percent in 2009. Global Insight's November baseline projects a decline of 4.5 percent. Non-farm proprietor's income, a measure of small business income, is now expected to show a similar percentage decline.

Structural Shortfall for 2012-13 grows to $5.4 billion

Planning estimates continue to show a significant budget gap in FY 2012-13. Based on updated economic assumptions and current law spending assumptions, on-going expenditures will exceed on-going revenues by an additional $995 million, leaving a total shortfall of $5.426 billion without adjustment for inflation.

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BUDGET UPDATE AND OUTLOOK

$1.2 Billion Deficit Projected for the 2010-11 Biennium

Extended weakness in the U.S. economy has caused a further reduction in Minnesota's budget outlook. An economic recovery is taking place, but the recession's impact on employment and wages was worse than anticipated. Current forecasts do not expect U.S. employment to return to pre-recession highs until early 2013. Total U.S. wages are now expected to remain below previous highs until mid 2011, over one year later than anticipated in February. The result is a lower ending balance for FY 2009 and additional annual shortfalls throughout the forecast horizon.

Revenues for the 2010-11 biennium are now expected to total $29.986 billion, down $1.156 billion (3.7 percent) from end-of-session estimates that include the Governor's unallotment and executive actions. This change in expected revenues, when combined with a small, $44 million decrease in projected general fund expenditures and a $91 million reduction in the balance from the 2008-09 biennium, produces a $1.203 billion budget deficit for the current biennium.

FY 2010-11 Budget

($ in millions)

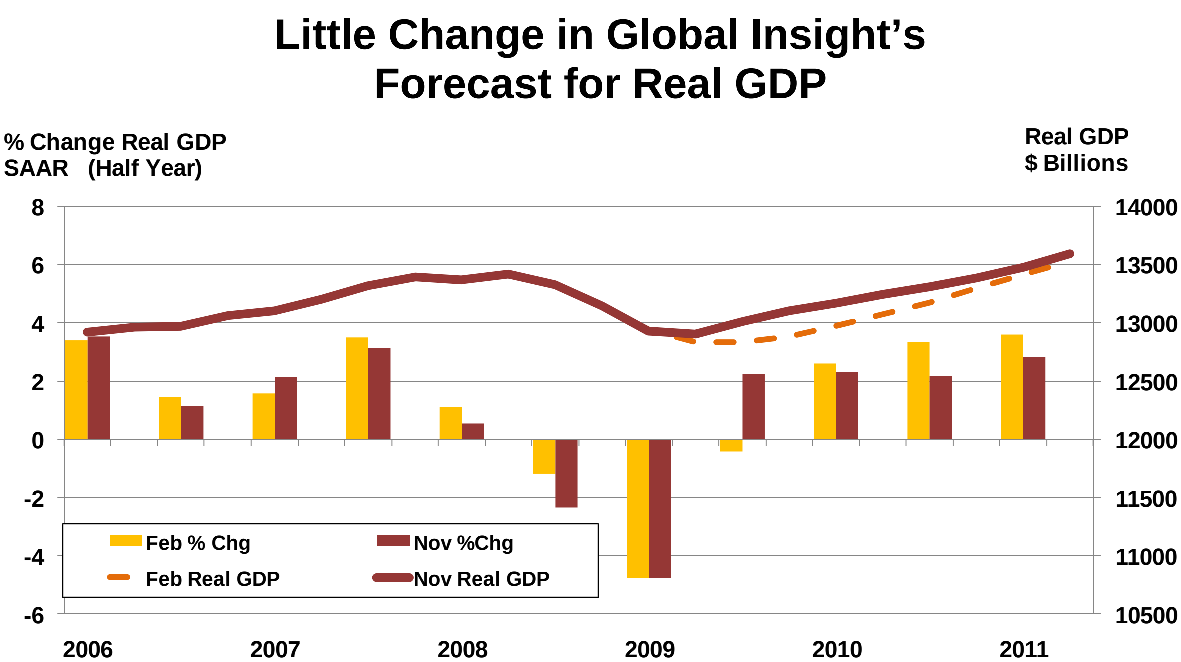
	End of Session	November Forecast	Change
Balance from FY 2009	**$538**	**$447**	**($91)**
Revenues	31,142	29,986	(1,156)
Expenditures	31,330	31,286	(44)
Budget Reserve	0	0	0
Cash Flow Account	350	350	0
Balance	**$0**	**($1,203)**	**($1,203)**

The end-of-session estimates include both the 2009 legislatively enacted budget and the impact of the Governor's unallotment and executive actions. Minnesota continues to have a cash flow account of $350 million. The state's budget reserve is zero.

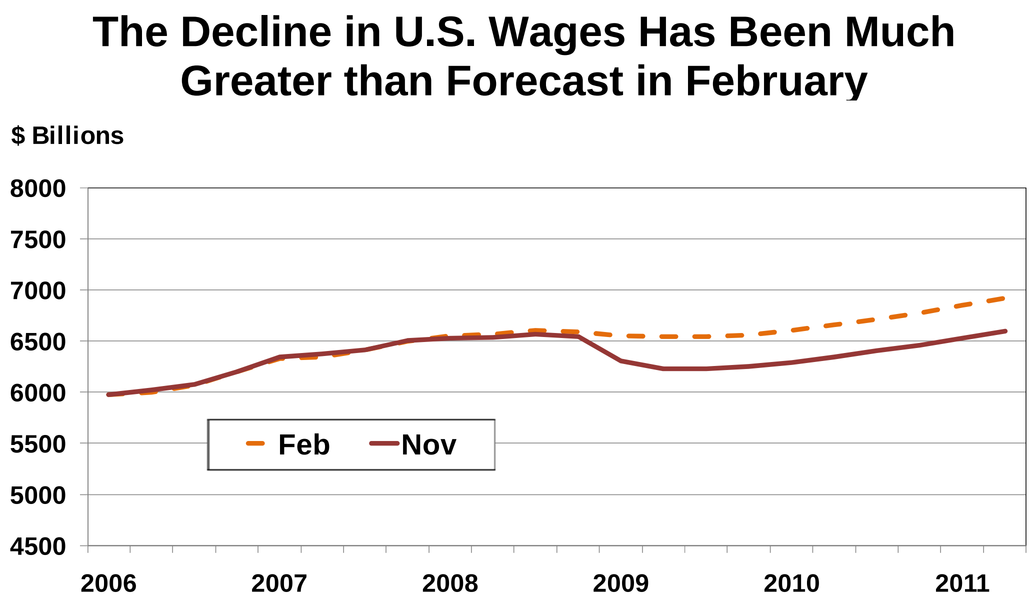
The Great Recession Is History, Here Comes the "Not So Great" Recovery

The worst recession in more than 60 years has ended. But, those expecting a quick leap to a golden age of growth will be disappointed. Most forecasters believe the longest and deepest recession since World War II will be followed by one of the slowest recoveries on record.

Given the extreme uncertainty at the time early 2009 forecasts first were made most have provided reasonable guides to the path GDP has taken through some very difficult economic times. The consensus believed we would see the recession deepen in early 2009, followed by a modest recovery in late summer, and that pattern has (thus far) been correct. While February's baseline forecast from IHS-Global Insight, the state's macroeconomic consultant was slightly more pessimistic than most at that time, its projection of a 2.7 percent decline in real GDP in 2009 is extremely close to the 2.5 percent decline that most observers now expect for this year. Global Insight currently projects real GDP growth of 2.2 percent in 2010 and 2.9 in 2011. February's baseline forecast was very similar with expected 2010 and 2011 growth rates of 2.0 percent and 3.1 percent respectively.



Unfortunately, forecasts of employment and income have been much less successful. The U.S. unemployment rate is already well above the high predicted in February, and job losses currently exceed February's projected peak by more than 20 percent. And, February's expectations for the change in total U.S. wages, a decline of slightly less than 1 percent over three quarters, looks quite cheery compared to what has happened to date. Global Insight now expects five quarters of wage declines on a year over year basis, weakness well beyond anything observed in the post World War II period. In the November baseline U.S. wages do not exceed their previous highs until mid 2011. The labor market lethargy is worrisome since in the absence of a significant pick-up in incomes it will be difficult for the economy to generate the additional spending needed for a sustained recovery. Weak wage growth also has a direct impact on state tax receipts since wages are the largest source of state income tax revenue.

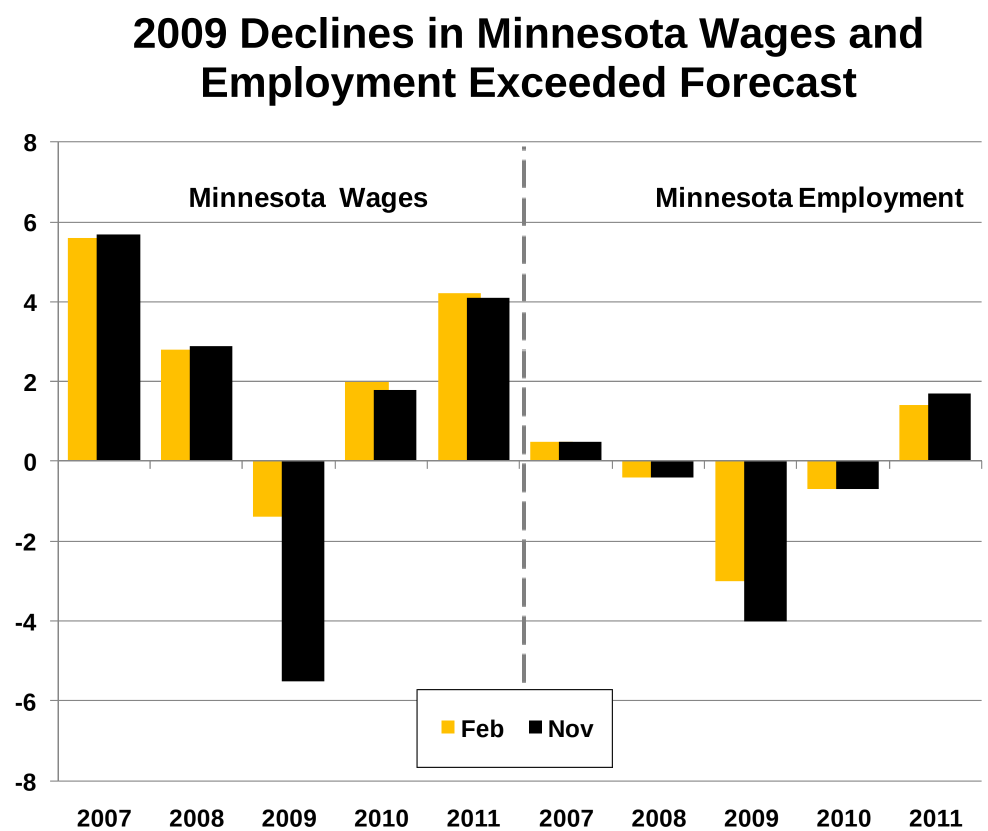


Historically, jobs have not recovered as quickly as GDP and economists have factored that into their forecasts. Payroll employment, down more than 7.3 million from its December 2007 peak is not expected to reach its pre-recession high until 2013 and the U.S. unemployment rate, currently 10.2 percent, is expected to move even higher in the next six months. But, even once the unemployment rate begins to decline, progress will be slow. By 2013 unemployment still is expected to exceed 8 percent. That extended weakness in labor markets is mirrored in household incomes. Total wages received by U.S. workers currently are 5 percent below their summer 2008 high and they are not expected to regain that earlier level again until mid 2011. Proprietors' income are down 4.5 percent in 2009 to the lowest level since 2004. They are projected to remain below 2008 levels until 2011.

Global Insight assigns a probability of 60 percent to their baseline forecast and probabilities of 20 percent each to a more optimistic forecast in which the recovery in GDP follows a V shape and a forecast containing an extended recession. However, even in the more optimistic forecast, it takes until mid 2011 for the unemployment rate to drop below 8 percent and until early 2012 for employment to reach pre-recession levels.

The Great Recession Hit Minnesota Employment and Wages Hard

Minnesota's October unemployment rate was well below the national average, but that does not mean the state's economy has avoided the worst of this recession. Through October, payroll employment in the state has fallen by 131,000 jobs from its previous high and further declines are expected until early spring. Non-farm employment in Minnesota is on track to fall by 4 percent in 2009, the worst single year performance in this state in the post World War II era. The projected decline is a full 1 percentage point more than was forecast in February. Employment in Minnesota is now expected to fall by more than 150,000 jobs between the first quarter of 2008 and the first quarter of 2010, 30,000 more than projected last February. If this forecast holds true, more than a decade of job creation will be lost. The combination of substantial current and expected job losses and what is expected to be a slow recovery, leaves Minnesota employment below its pre-recession level through 2013.



Minnesota's job losses have been accompanied by record declines in total wages paid to state residents. Minnesota wages and salaries had not declined on an annual basis since state wage data was first reported in 1970. Through mid November 2009 wages are on pace to decline by 5.5 percent. In February wages were projected to decline by 1.4 percent. While total wages paid in the state are expected to resume growing in 2010 and continue to grow in 2011, total Minnesota wages and salaries do not reach their previous highs until after the close of the current biennium.

Projected Revenues for 2010-11 Biennium Fall by $1.156 Billion

General fund revenues are now forecast to total $29.986 billion during the 2010-11 biennium, $1.156 billion (3.7 percent) less than expected after the legislative session and executive actions. An $827 million reduction in expected individual tax receipts accounted for nearly three-quarters of the forecast decline. Almost all of the reduction in income taxes was due to reductions in the forecasts for wages and proprietors income. Projected portfolio income changed little in aggregate as reductions to forecasts of some types of income were offset by increases in others.

Forecast Revenue FY 2010-11

($ in millions)

	End-of-Session	November Forecast	$ Change	% Change
Individual Income	$14,927	$14,099	($827)	(5.5)
Sales	8,548	8,516	(32)	(0.4)
Corporate	1,219	1,273	54	4.4
Motor Vehicle Sales	92	99	7	7.7
Statewide-Levy	1,552	1,525	(27)	(1.7)
Subtotal	26,337	25,512	(825)	(3.1)
Other Taxes	2,409	2,250	(159)	(6.6)
Non-Tax Revenues	1,572	1,530	(42)	(2.7)
Dedicated/Transfers	824	694	(130)	(15.8)
Total Revenues	**$31,142**	**$29,986**	**($1,156)**	**(3.7)**

Changes in the forecast for the other major tax types were small and offsetting. The forecasts for corporate taxes and the motor vehicle sales tax were increased by $54 million and $7 million, respectively. The forecast for sales tax receipts and the state wide property tax levy were reduced by $32 million and $27 million. Other tax and non tax revenues including dedicated revenues and transfers fell by a total of $331 million. Some of that revenue decline, however, is due to changes in the accounting treatment of particular revenue items and thus overstates losses in other revenues. For example, a portion of previously projected income tax reciprocity revenue is now included as part of withholding tax collections in the individual income tax.

Final receipts for FY 2009 also were below forecast. General fund revenues closed the last fiscal year $147 million below earlier projections. Individual income tax receipts were $220 million below February’s forecast. Final payments and refunds for tax year 2008 returns were very close to forecast. Almost the entire income tax variance came from lower than projected withholding receipts and estimated payments.

Forecast Spending Slightly Lower

General fund spending for the current biennium is forecast to be $31.286 billion, down $44 million (0.1 percent) from end-of-session estimates.

The largest increase, $109 million, occurs in health and human services. A general fund transfer to the health care access fund in FY 2011 is now forecast to meet MinnesotaCare expenditures that exceed available resources in that fund. Additional MinnesotaCare spending is forecast due to the transition of General Assistance Medical Care (GAMC) enrollees into the program as well as underlying growth in enrollment and managed care rates. Higher than anticipated property tax refunds account for the $36 million change in the property tax aids and credits area.

Offsetting these increases are a $123 million reduction in debt service costs and a $52 million reduction in all other spending. Debt service costs are now lower because of the refinancing of outstanding bonds in 2009, which reduced debt service costs, and lower interest rates assumed for future bond sales. All other spending is down because of an accounting change that transfers dedicated revenues and expenditures from the general fund to other funds, primarily the special revenue fund.

Forecast Spending, FY 2010-11

($ in millions)

	End of Session	November Forecast	$ Change	% Change
K-12 Education	$13,393	$13,337	($56)	(0.4)
K-12 Payment Deferrals	(1,760)	(1,717)	43	
Property Tax Aids & Credits	3,063	3,098	36	1.1
Health & Human Services	9,057	9,166	109	1.2
Debt Service	1,078	955	(123)	(11.4)
All Other	6,499	6,447	(52)	(0.8)
Total Spending	**$31,330**	**$31,286**	**($44)**	**(0.1)**

FY 2012-13 Planning Outlook Worsens

The deterioration in the longer term revenue forecast now results in a $5.426 billion shortfall projected for the next biennium. This compares with a $4.431 billion gap projected at the end of session. Planning estimates for FY 2012-13 now show general fund revenues of $33.218 billion and projected spending of $38.644 billion. The gap between ongoing revenues and spending has increased by $995 million from end-of-session estimates.

FY 2012-13 Planning Estimates

($ in millions)

	FY 2012	FY 2013	FY 2012-13
Resources	$16,023	$17,195	$33,218
Spending	19,680	18,964	38,644
Difference	($3,657)	($1,769)	($5,426)
Inflation	*$413*	*$766*	*$1,179*

Planning estimates assume:

- *Complete repayment of the K-12 aid deferral. Delaying repayment would save $1.167 billion.*
- *No repayment of the K-12 property tax recognition shift. Repayment would cost $562 million.*
- *No continued GAMC spending. Restoring the program would cost $928 million.*

Expenditure projections do not include any adjustment for projected inflation. Inflation, based on the Consumer Price Index (CPI), is expected to be 2.1 percent in FY 2012 and 1.9 percent in FY 2013. At these levels, the cost of inflation would be $1.179 billion in the next biennium.

The treatment of the Governor's unallotments and executive actions is significant. The planning estimates include complete repayment of K-12 school aids deferred in FY 2010-11 ($1.167 billion) and no repayment of the K-12 property tax recognition shift ($562 million). The projections do not include reinstatement of funding for the General Assistance Medical Care (GAMC) program that was line-item vetoed in FY 2011. If the forecast assumed continuation of the program at current levels, an additional $928 million would be required in the 2012-13 biennium.

The planning estimates make no assumptions about any actions that might be taken in the 2010 legislative session to solve the FY 2010-11 deficit or to reduce the structural shortfall expected for the 2012-13 biennium. The planning estimates are simply a benchmark to determine if ongoing spending will exceed revenues in succeeding budget periods. Economic changes as well as the nature and timing of budget actions will materially affect both revenue and expenditure projections.

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

FORECAST FUNDAMENTALS:
About the Revenue and Expenditure Forecast

November's forecast provides the first comprehensive review of Minnesota's financial outlook for FY 2010-11 since the close of 2009 legislative session and including the Governor's unallotment and executive actions from July 2009. It is the first of four forecasts that will occur during the biennium. This forecast provides revised revenue and expenditure estimates for the current biennium based on the most recent information about the national and state economic outlook, as well as caseload, enrollment, and cost projections. Actual closing information for fiscal year 2009 revenues and expenditures is also included in this report as are revised revenue and expenditure planning estimates for the 2012-13 biennium.

The revised revenue estimates reflect the substantial changes in the national economic outlook that have occurred since February's forecast. That forecast was the basis for the FY 2010-11 enacted budget. This forecast also incorporates additional year-to-date revenue collection experience. For example, state individual income tax receipts now build from a preliminary estimate of tax year 2008 liability.

Revenue estimates for the next 20 months of the current biennium are based on econometric forecasts of the U.S and Minnesota economy. The revenue forecast is based on a national economic forecast provided by Global Insights Inc. (GII). GII's national forecast was reviewed by Minnesota's Council of Economic Advisors. The council's comments are found in the "Economic Summary." The "Economic Outlook" which follows provides a more comprehensive overview of the current outlook for the U.S. and Minnesota economies.

Revenue projections for FY 2012-13 budget planning are developed from less complex models. As in past years, the economic growth assumptions used to develop the revenue planning estimates have been updated. Economic growth rates for calendar 2012 and 2013 are taken from the GII November baseline scenario. Planning estimates should not be interpreted as explicit forecasts, but rather as a guide to indicate whether any proposed budget actions will create financial problems in future years.

FY 2012-13 expenditure estimates in most areas are shown at the level of the appropriations made for FY 2011. Entitlement programs — such as K-12 general education, intergovernmental aids, health care, and family support — are forecast based on expected changes in eligibility, enrollment, and average costs. Additional assumptions, such as the long term impact of unallotments and line-item vetoes, are included in the expenditure forecast, but will ultimately be clarified through future legislation.

Wage and price inflation is included in the revenue projections, which are based on current laws and tax rates. Inflation is not included in projected expenditures for FY 2012-13. GII's estimated inflation, based on the Consumer Price Index, is now 2.1 percent for FY 2012 and 1.9 percent for FY 2013.

ECONOMIC SUMMARY

The Great Recession is almost certainly over. Although official notice is unlikely to arrive from the National Bureau of Economic Research (NBER) before spring, the longest and deepest recession since World War II appears to have ended last summer. The U.S. Department of Commerce's preliminary estimate shows that real GDP grew at an annual rate of 2.8 percent during the third quarter of 2009 and in the past there has been a close tie between the return of real economic growth and the date the NBER eventually chooses for the end of the recession. If that linkage holds and GDP growth continues through spring, as most forecasters believe it will, the U.S. economy has already begun what is generally expected to be its long, slow climb back to more normal levels of economic activity.

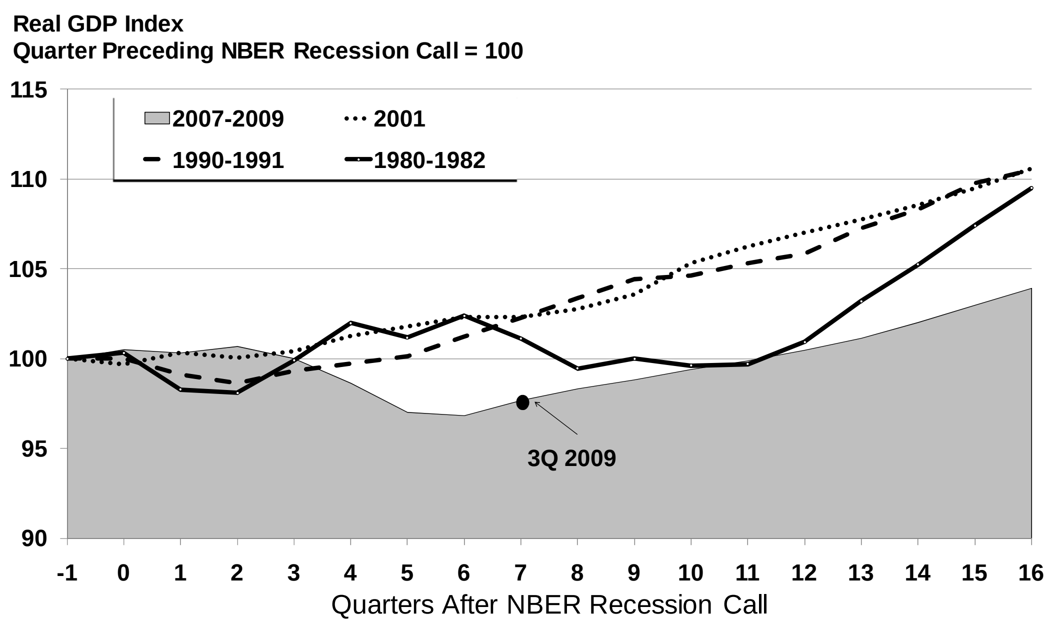
That is good news, but it does not mean the country's economic problems are over. October's U.S. employment report which showed the loss of 190,000 more jobs and a jump in the unemployment rate to 10.2 percent was a sobering reminder that all recession related economic problems do not disappear once GDP growth begins. The U.S. economy has now lost more than 7.3 million jobs since the start of the recession and the Labor Department's most comprehensive measure of the slack in the labor market shows that in October 17.5 percent of the potential workforce was either unemployed, working less than full time because a full time job is not available, or discouraged and not looking for work.

Unfortunately, improvements in payroll employment and the unemployment rate usually come some months after GDP begins to grow. The reason for the lag is simple. In addition to laying off some workers, employers have substantially cut back the hours worked by their remaining employees. Currently, average weekly hours worked are at the lowest level since that data was first collected in the 1960s. Additional hiring is unlikely until their existing staff is more fully utilized and, because permanent declines in the number of unemployed cannot occur until job growth exceeds the number of individuals joining the work force, it usually takes even longer for the unemployment rate to recede. The unemployment rate is not expected to fall until several months after job growth resumes since the number of new jobs created must be greater than the sum of individuals entering the work force for the first time and those returning to the workforce who had dropped out earlier due to their inability to find employment. Most economists expect to see hiring turn up this spring, with the unemployment rate starting its decline after reaching a peak in midsummer.

November's baseline scenario from IHS Global Insight (GII), Minnesota's national economic consultant is very consistent with the consensus outlook. They project a long, slow recovery with growth in non-auto consumer spending struggling to reach the 2.5 percent level by mid 2011. Auto production and construction begin to recover in 2010, but production in those sectors has been so low that what appear to be fairly substantial percentage increases in output in 2010 yield only very modest increases in hiring. The lower valued dollar also helps lift demand for U.S. produced goods, but business spending, particularly non-residential construction, is expected to lag, growing by less than 0.5 percent in 2010. As the stimulus package winds down, the government sector becomes a drag on GDP growth in late 2010 and early 2011.

Global Insight does not expect the economy to follow its typical recovery path. Usually real GDP surges once the recession has come to a close with several quarters of above trend growth following. This time the real GDP growth rate is expected to stay well below trend for at least a year after the recovery began. While the economy continues to grow through the forecast horizon, the November baseline shows real GDP growth dropping to a low 2 percent level in early 2010 and remaining in that range until early 2011. The November baseline calls for real GDP growth of 2.2 percent in calendar 2010 and 2.9 percent in calendar 2011. Global Insight does not expect to see the extended period of above-trend growth typical of post-recession economies until 2012 when real GDP is projected to grow at a 3.7 percent annual rate. GII believes that the weak labor markets eliminate reason for concern about inflation in the short term. November's baseline calls for a decline in the CPI of 0.3 percent in 2009 followed by increases of 1.5 percent in 2010 and 2.0 percent in 2011.

This Recession has been Much More Severe Than Those of 1990-91 and 2001



The GII November baseline is very similar to the Blue Chip Consensus. The Blue Chip panel anticipates only slightly more real GDP growth in the short term with 2010 and 2011 growth rates of 2.7 percent and 3.1 percent. They also expect more inflation in 2010, calling for a CPI increase of 2.0 percent. For 2011, however, the CPI forecast from the Blue Chip Consensus is identical to GII's November baseline.

Global Insight assigns a probability of 60 percent to the November baseline. A probability of 20 percent is assigned to a more optimistic scenario in which the recovery is V shaped. In that scenario real GDP grows at an annual rate of 4.1 percent in 2010 and 3.7 percent in 2011, payroll employment begins to grow in the first quarter of 2010, and the unemployment rate falls to 7.7 percent by the end of 2011. GII's pessimistic scenario, also assigned a probability of 20 percent, contains a double dip recession with real GDP falling during the first three quarters of 2010. In that scenario employment does not begin to grow until the first quarter of 2011 and the unemployment rate at the end of 2011 is 10.5 percent. The November baseline anticipates job growth in the second quarter of 2010 and projects a 9.1 percent unemployment rate at the end of 2011.

Members of Minnesota's Council of Economic Advisors agreed that Global Insight's November Baseline forecast reflects the current outlook for the U.S. economy through 2011. While some members were more optimistic than Global Insight and others less optimistic differences between members' personal forecasts and Global Insight's outlook were small. All believed that the November baseline was an appropriate national starting point for Minnesota to use in the coming revenue forecast.

No Council member doubted that a recovery was underway. Differences in forecasts were primarily related to how strong growth would be in the first half of 2010. Some wondered whether consumers might be hit by "frugality fatigue" and start spending sooner than in the Global Insight baseline. Others were concerned that credit problems associated with commercial real estate might be worse than currently believed leading to tighter credit markets than is implied in the baseline forecast. Council members also agreed that Global Insight's forecast of average annual real GDP growth of 3.5 percent in the 2012-13 biennium was a reasonable starting point to use in preparing the state's revenue planning estimates for the coming biennium.

Some Council members cautioned that all the fiscal and monetary policy stimulus now in place could cause inflation to be more of a problem in the 2012-13 biennium than Global Insight anticipates. The additional inflation, in turn, could force greater than expected Fed tightening and slower economic growth. Others were concerned that problems with increased regulation and/or problems with commercial mortgages could de-rail the economic expansion. Most council members believed that the probability that the economy would out-perform the baseline forecast was slightly higher than the probability it would significantly under-perform the baseline.

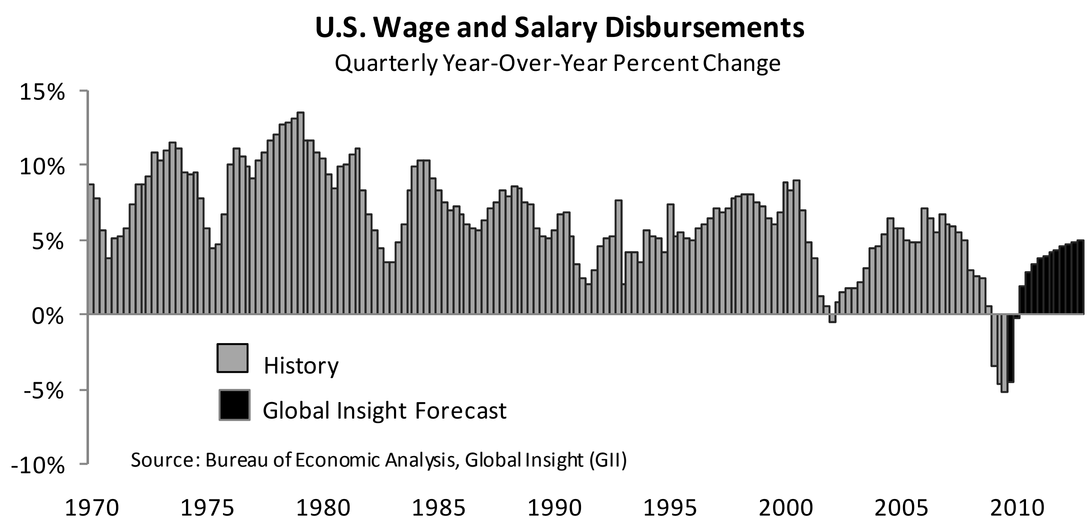
MMB economists noted that revenues in FY2010 had been below forecast, with individual income tax withholding showing a significant variance. In February's forecast MMB projected a decline of 1.4 percent in Minnesota wages in 2009. At that time GII was forecasting a decline of just 0.4 percent in U.S. wages. Since then Global Insight has substantially reduced their U.S. wage and salary forecast. The outlook for Minnesota wages is also expected to be cut back in this forecast.

The Council again noted that projecting future expenditures without making allowances for inflation except where required under current law understates the severity of future financial problems facing the state.

ECONOMIC OUTLOOK

Though a decision from the National Bureau of Economic Research (NBER) is unlikely until sometime next year, most economists believe the Great Recession ended last summer. The economy has stabilized, but improvement will not begin for several months. GII expects payroll employment to continue declining into the spring, with the unemployment rate peaking out at 10.5 percent. Global Insight's (GII) November baseline outlook is a tenuous recovery with no meaningful job growth beginning until next fall. Job gains will be weak before accelerating in 2011. GII forecasts 1.7 percent employment growth in 2011 and 2.6 percent in 2012. As labor market conditions remain weak, this will only be enough to ease the unemployment rate down to about 8 percent by the end of 2012.

After a record four consecutive declines, third quarter real GDP rose at a 2.8 percent annual rate, with the largest gains coming directly or indirectly from fiscal and monetary stimulus. Much of the remaining growth was a result of decelerating inventory liquidation. Third quarter growth, however, will not be matched in the current quarter because there will be no surge in auto sales from cash-for-clunkers, and non-auto consumer spending is too weak to make up the difference. Consumers are holding back because of tight credit conditions, changing demographics, loss of wealth, and unprecedented declines in wage income. Meanwhile, there are indications of modest improvement. Job losses are decelerating and there are favorable signs from retail sales, housing, manufacturing, and exports. This supports GII's view that job growth will eventually generate the income consumers need to make the recovery self-sustaining.

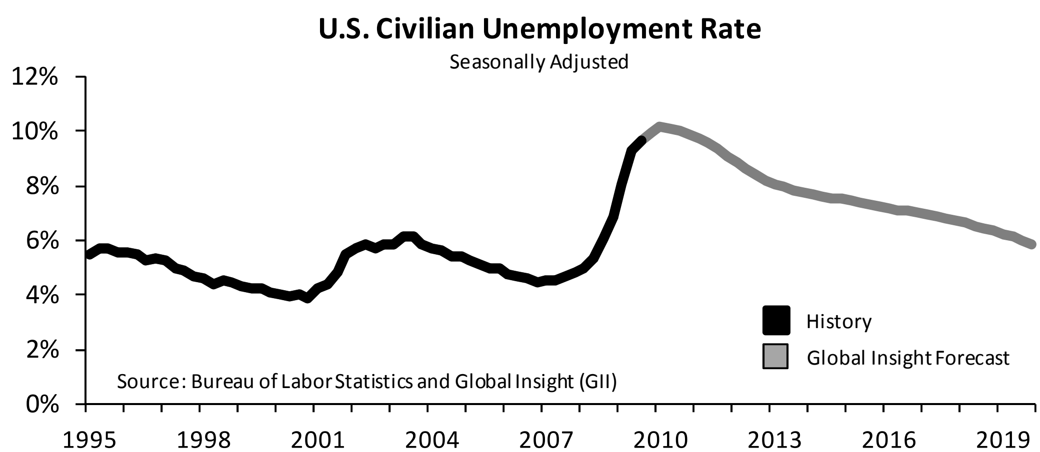


Consumer's role in leading the recovery will be significantly diminished by unprecedented wage income losses in a weak labor market.

Normally, pent up consumer demand leads an economic recovery. This time its role will be considerably diminished, in no small part because of losses to wage income. Total nominal wages declined from one year ago levels during each of the first three quarters of

2009, an unprecedented event in data going back 60 years. Job losses continue and anecdotes of furloughs and reduced hours indicate employers are still finding ways to cut paychecks. In addition, *BusinessWeek* reports that employer payments for health care benefits are cutting into take-home pay. GII's November baseline forecast includes further year-over-year wage declines in this quarter and first quarter 2010 before growth returns.

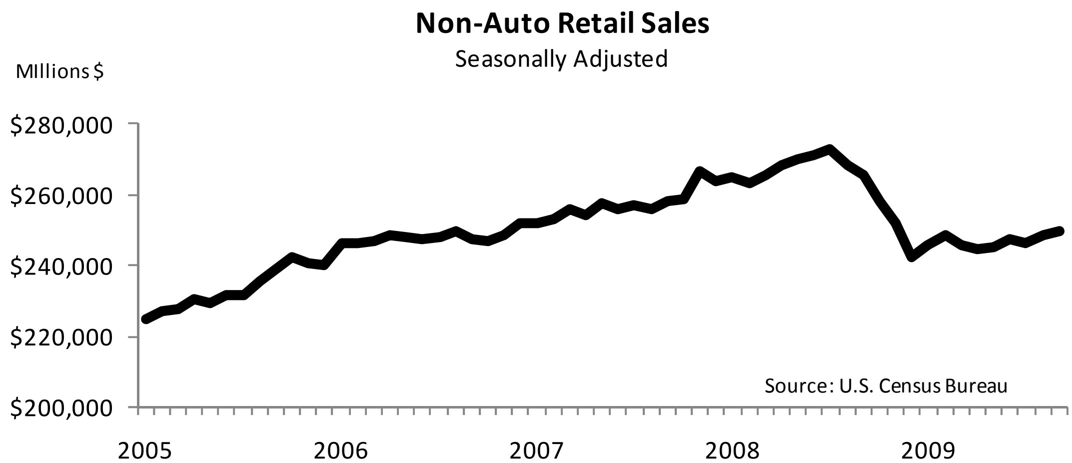
At best, once this recovery gets underway it will be severely credit constrained, slow, and unusually vulnerable. Federal fiscal stimulus feeding into the economy will help, but may not be enough in 2010. Some forecasters believe more stimulus is needed to avoid a double dip recession, especially if there should be a new shock such as the relapse in financial markets assumed in GII's pessimistic scenario. MMB economists believe a financial market setback could come from another wave of residential mortgage foreclosures or from the souring commercial real estate market. Even if a new crisis is avoided, most forecasters, including GII, doubt the undercapitalized banking system is currently capable of commercial and consumer lending needed to support a robust recovery.



The labor market is very weak in GII's November baseline, with the economy spending much of the next decade working the unemployment rate down to pre-recession levels. Meanwhile, there will be a large number of unemployed or underemployed with accompanying loss of wage income.

Signs The Economy has Stabilized

There are signs the economy has stabilized. Job losses are decelerating, the number of firms reporting they will hire is beginning to outnumber those saying they will lay off workers, and the Dow is up some 50 percent from its low last March. Consumer confidence has not improved, but non-auto retail sales seem to have leveled off. Home prices will decline further, but sales have increased, the inventory of unsold homes is being worked down, and news reports indicate some builders are buying land for development next spring. There are also signs a shift toward inventory restocking is underway. Capital goods shipments appear to be reviving as does the manufacturing sector. And, news from export markets, particularly Asia, is getting better. Consumers, however, are not leading the economic recovery as they normally do. Therefore, in GII's November baseline, federal fiscal stimulus, inventory restocking, growing demand from overseas markets, and extremely low interest rates all have key roles in generating growth. MMB economists observe that if just one underperforms, getting up off the bottom could be delayed.



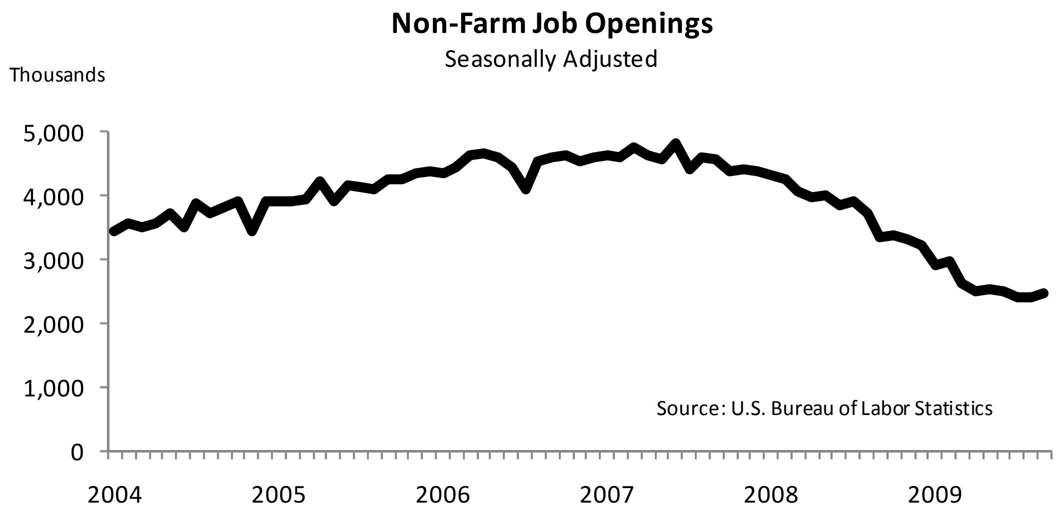
There are signs the economy is close to bottom. For instance, non-auto retail sales seem to have leveled off. Most retailers, however, are expecting at most only a slightly better Christmas season than last year.

Slow Hiring

Based on recent evidence on housing starts and industrial production and assuming weak consumer spending continues, GII now expects 2.0 to 2.5 percent real GDP growth in the current quarter followed by increases in the neighborhood of 2.0 percent in 2010. This is barely enough to begin generating small job gains. Therefore, the unemployment rate will peak out at about 10.5 percent in early 2010 before beginning a slow decline. In the November baseline, unemployment only drops to 8.2 percent by the end of 2012 and to 5.8 percent by the end of 2019, still well above the pre-recession level of 4.6 percent.

Job openings reported by the Bureau of Labor Statistics (BLS) are down almost 50 percent from their pre-recession peak with poor prospects for meaningful near term increases. Firms are not likely to have many more openings until they are convinced the recovery is self-sustaining. Even then, hiring will proceed more slowly than in previous recoveries. One reason is that many firms who reduced normal work weeks and cut overtime during the recession will almost certainly add hours for workers already in place before they make new hires. Another reason for slow hiring is improved efficiency.
Though possibly overstated because of measurement problems as reported in the *New York Times*, productivity rose sharply during the recession. News articles indicate cost conscious firms streamlined their operations resulting in permanent layoffs. Some streamlining was motivated by an ongoing skills gap. More than 60 percent of employers interviewed in a Springboard Project survey, for example, indicated that despite a large pool of unemployed, they are having so much difficulty finding qualified workers that

sometimes production is lost. In GII's view, employers are not especially shorthanded, so recent efficiency gains will not disappear as the economy gathers strength.

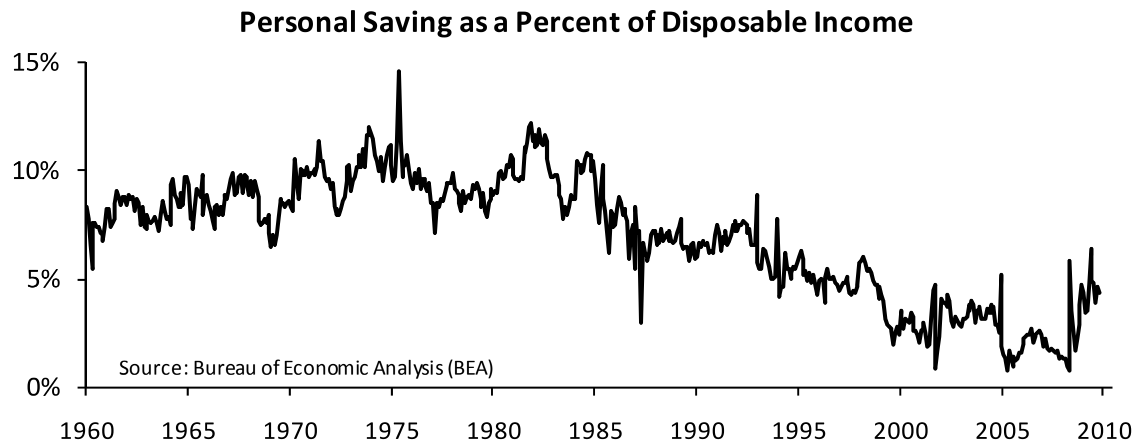


Job openings are down almost 50 percent from their pre-recession peak. Most economists are skeptical that firms will hire until they are convinced the recovery is self-sustaining.

When more job openings materialize, many workers will have difficulty finding an employer in the industry which laid them off. Those who do find another job will likely have to accept a pay cut. Since the beginning of the recession in late 2007, 4 million jobs have been lost in construction, manufacturing, and financial services alone. GII forecasts those industries will add only 700,000 jobs by the end of 2012, leaving former employees unemployed with skills and experience often only marginally useful in other sectors. For eligible workers who cannot find a job, there is Social Security. New applications rose 23 percent in federal fiscal year 2009, well above the 15 percent rate demographics would suggest with the difference attributable to unemployment. It seems clear that this recovery will be characterized by a large pool of underemployed or unemployed workers, with at least some leaving the labor force by going on Social Security, but all with accompanying loss of wage income.

Consumption

Unprecedented income loss is not the whole story behind consumer spending. Demographic factors are also changing consumer behavior. The Great Recession hit just as the oldest Baby Boomers began to retire. During the past 40 years, Boomers spent in a manner reflecting their role as history's most affluent generation, driving the savings rate down to record lows. A *BusinessWeek* article indicates that Boomer spending was responsible for almost 80 percent of GDP growth during the 1995 to 2005 period. In 2005, Boomers had almost 50 percent of national disposable income, but their free spending ways left them able to contribute less than 10 percent of national savings.

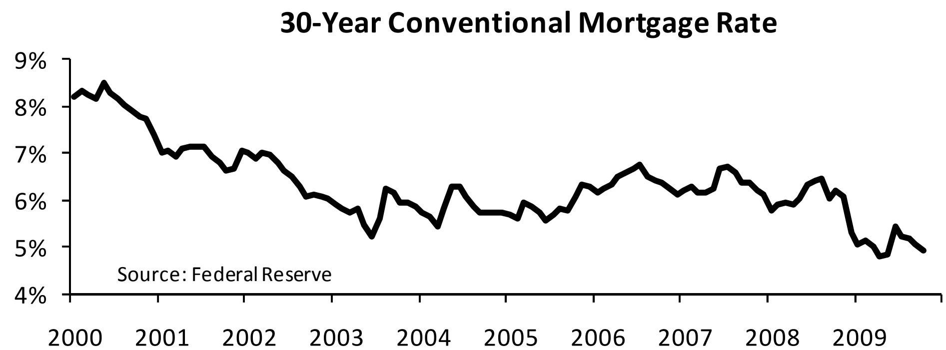


As a result of emerging spending habits, savings has increased throughout this recession, taking some $400 billion annually out of consumer spending.

During the past few years, housing and financial markets crashed, wiping out some $14 trillion in household wealth while the economy went into a deep, prolonged recession, shedding more than 7 million jobs. The job losses and consequent income loss were born disproportionately by younger generations, but soon-to-retire Boomers acutely felt the loss of financial and housing wealth. Now, according to *BusinessWeek*, almost 70 percent of those ages 54 to 63 are financially unprepared for retirement, and clearly many know it. Frugal spending habits are appearing, which Boomers would have otherwise postponed until after retirement. As a result, savings have increased, taking some $400 billion annually out of consumer spending. It will take years to rebuild consumer wealth. This is why many economists expect new emerging consumer habits to be long lasting.

Investment

GII's baseline outlook includes a rebound in new housing construction. After a 19.6 percent decline in real terms in 2009, GII is calling for a 9.9 percent increase in 2010 followed by a 20.0 percent gain in 2011. One of the key assumptions is that currently very low mortgage rates remain below pre-recession levels in 2010 and 2011. Recent news from housing has been mixed. Starts were down sharply in October, but sales rose to the highest level in more than two years, far exceeding expectations. Most analysts attribute weak starts to builders' uncertainty over whether the home buyer's tax credit would be extended and strong sales to home buyer's rush to take advantage of the credit.



Very favorable mortgage rates have created an opportunity for qualified homebuyers. But if a wave of new foreclosures dumps a large supply of existing homes on the market, investment in new homes forecast by GII may not come to pass producing adverse effects on the recovery.

Most mainstream forecasters including GII expect business investment will contribute to a slow, but uninterrupted recovery. Not all kinds of investment, however, can be counted upon. The commercial real estate market will continue to deteriorate, taking investment in structures with it. This view is supported by the American Institute of Architects billings index. Widely considered to be a leading indicator, the index has increased recently, but still indicates further contraction. The outlook for structures would be worse if it were not for narrowly based investment in oil wells and mines where there is reason to expect some residual strength.

Growth in business equipment investment is anticipated in the GII outlook, but may not come soon. During the recession, firms postponed spending for computers, software, and industrial equipment. Therefore, there is now need to upgrade to new, efficiency improving technology. GII predicts a 9.2 percent increase in real equipment investment in 2010 after a 17.2 percent decline in 2009. In 2011, the baseline forecast calls for a 14.9 percent gain. MMB economists are skeptical that firms will embark on extensive technology or capacity upgrades until they are convinced the recovery is self sustaining.

Government

GII assumes $561 billion of the $787 billion fiscal stimulus package flows into the economy during calendar years 2009 and 2010. There is some uncertainty over how fast the states are spending their share of the money. It seems as though much infrastructure spending is just getting underway, possibly because of the bidding process. There is also uncertainty over how fast checks to individuals and reduced withholding are appearing in retail sales, though most of this money probably is spent or committed to savings. What is clear is that cash-for-clunkers and the first time homebuyer credit had immediate, though temporary, impacts. GII believes the stimulus adds about 0.8 of a percentage point to real GDP growth in calendar 2009, primarily in the second half, and 1.3 percentage points in 2010.

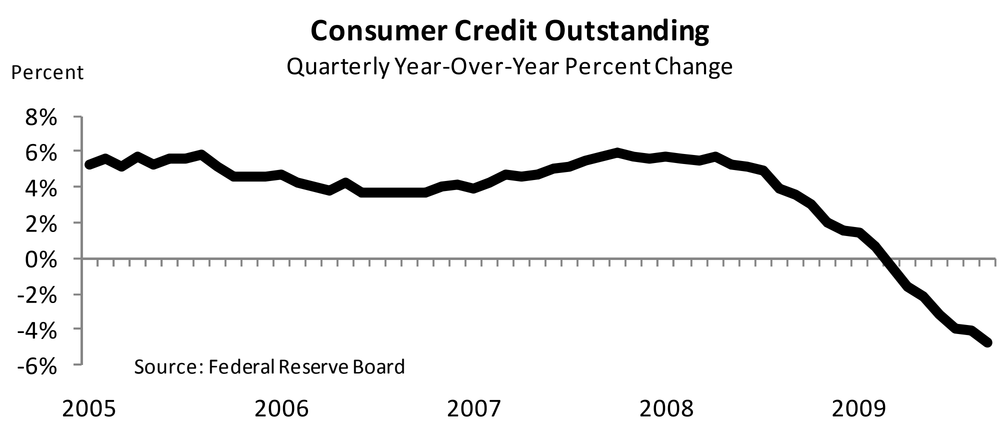
There is growing concern about what happens when the stimulus fades beginning in late 2010. Provided credit conditions ease, GII expects that by then the recovery will be strong enough to sustain itself. A minority of forecasters are concerned that without further stimulus the economy will slip back into recession in 2010, a "double-dip". Longer term, there is also risk that a burgeoning federal deficit, which some analysts consider to be unsustainable, will lead to a sudden, sharp increase in interest rates with adverse effects.

International

World trade is improving, led by Asia and particularly China. That is reflected in the U.S. trade statistics with both imports and exports rising. After providing a much needed boost in the first half of 2009 because of a declining oil import bill, the U.S. trade deficit is expected to resume growing with rising imports subtracting from real GDP growth. Provided a recovering world economy buys enough U.S. produced goods and services, GII expects the trade deficit will not be a serious drag on the domestic recovery.

Monetary

The most recent Federal Reserve Senior Loan Officer Survey showed mixed results with fewer banks tightening lending standards for business and consumer loans while more were raising standards for prime residential borrowers. There is little disagreement that a sustained recovery will require better credit conditions. Financial markets have improved, but are still not functioning normally. Interbank lending has resumed as banks began to trust one another again. For consumers and small business, however, bank credit is expensive and frequently hard to get, either because would-be borrowers are deemed not creditworthy or banks are in trouble.

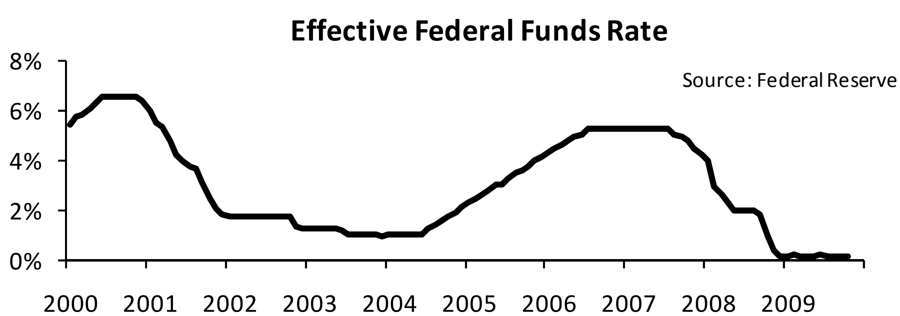


Consumer credit is shrinking at what Global Insight calls an "alarming" rate, the result of both reluctance to borrow and tight lending standards.

There is real concern about the condition of smaller institutions that are normally an important source of loans to small businesses and consumers. This year more than 400 banks nationwide have been put on the Federal Deposit Insurance Corporation (FDIC) troubled list and just as many more could be added next year. As more loans sour, the FDIC will need billions in cash infusions from assessments on banks. Many observers believe inadequate capitalization has kept the banking industry from fully owning up to both a growing shadow inventory of foreclosed residential mortgages and mounting commercial loan losses. On October 30, bank regulators announced new guidelines for restructuring commercial mortgages, but the new rules will apply to only 10 to 20 percent of the loans outstanding. Banks now have more flexibility to absorb losses on commercial real estate loans, which will help some avoid failure, but new lending is unlikely to be encouraged.

Economists generally approved when President Obama nominated Dr. Bernanke for a second term as chairman of the Federal Reserve. The outcome of Senate hearings on the nomination beginning December 3, however, is uncertain. Though there were some controversial decisions, many if not most mainstream economists have little doubt that beginning in October 2008 the Fed and the Treasury headed off imminent disaster with innovative policy moves to shore up collapsing financial markets.

That task is not finished. It remains to be seen how the Fed will unwind last winter's policy moves as they are no longer needed. At least three separate potential problems seem to exist. Federal Open Market Committee (FOMC) minutes and news articles indicate Fed staff is working on the details of how to smoothly withdraw liquidity introduced in late 2008. Another problem is that merging large, floundering institutions with healthier ones created still bigger “too-big-to-fail” banks. Congress is considering sometimes competing pieces of legislation giving federal government agencies including the Fed, Treasury, and the Federal Deposit Insurance Corporation (FDIC) oversight authority over even healthy banks so large they pose systemic risk. Perhaps the biggest problem is that in the grim days of fall and winter 2008, the Fed took the unprecedented step of lowering short term interest rates to near zero. There is near universal agreement that at some point rates will have to be raised if accelerating inflation is to be avoided. The question is when. Since rate changes generally take up to 18 months to take effect, any pre-emptive move may appear unnecessary, adversely affecting a recovering economy. GII assumes the Fed begins raising the federal funds rate next fall just as employment growth begins to accelerate.



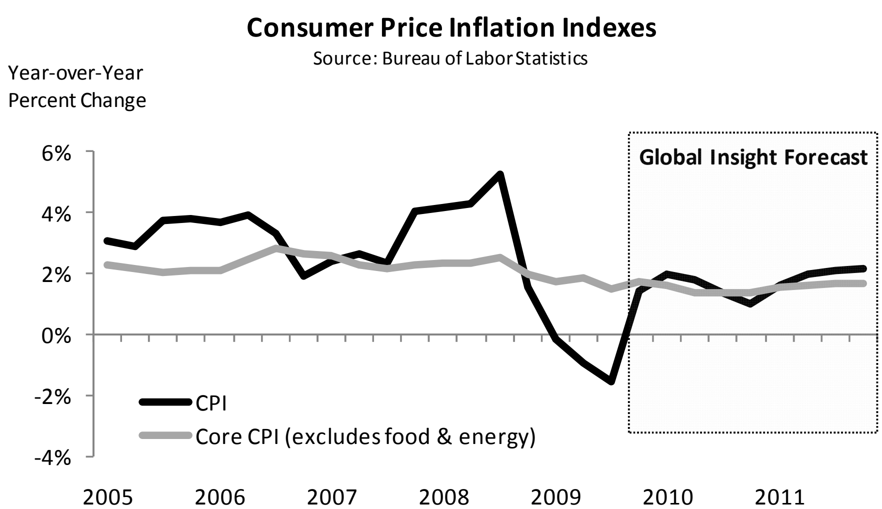
The Federal Reserve now faces the task of unwinding last winter’s policy moves once they are no longer needed. At some point interest rates must be raised if accelerating inflation is to be avoided. Since rate changes take up to 18 months to take effect, any pre-emptive move may appear unnecessary, adversely affecting a recovering economy.

Inflation

Some economists believe the economy is closer to full employment than low capacity utilization and a high unemployment rate suggest. Possibly some marginal plant and equipment counted as part of capacity has been scrapped, and employers have laid off so many workers that they are seriously shorthanded. Business investment and hiring could then accelerate rapidly as favorable news of recovery appears. Growing demand for goods, services, and workers might then begin to drive up prices and wages in what could be the beginning of an inflationary spiral.

Most economists believe slow GDP growth, improved productivity, and a very weak labor market will keep inflationary pressure under control for the foreseeable future, even if the economy rebounds sharply. GII's optimistic scenario has a V-shaped recovery in which credit flows more freely than expected while oil prices are lower than in the November baseline, allowing the stimulus package to achieve greater than expected success. There is also rapid growth in exports driven by strong overseas recovery and a lower-valued dollar than assumed in the baseline. GII concludes, however, that the inflationary impact of stronger growth and a lower-valued dollar would be modest because of improved productivity and lower oil prices.

With the labor market so weak, MMB economists believe oil prices could be the wild card in the inflation outlook. After $150 oil in 2008, lower prices in a growing, post-recession world economy seem impossible to many analysts who believe increases in production are not likely to keep pace with rapidly rising demand from China and India. The International Energy Agency (IEA), however, has recently made a significant downward revision to its outlook for world energy demand. Weaker than previously forecast consumption comes from improved energy-efficiency measures that are a reaction to $150 dollar oil, climate control efforts, and the drop in industrial output during the recently ended recession.



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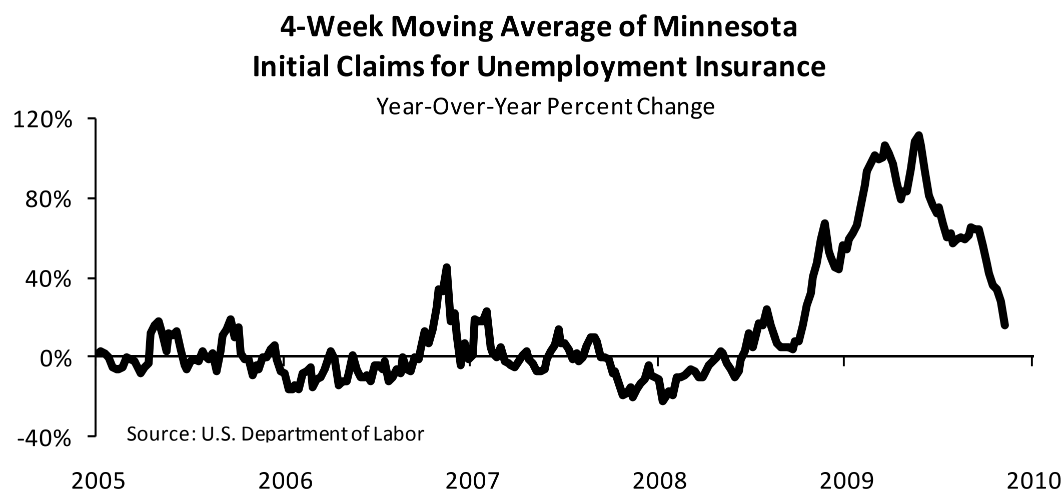
MINNESOTA OUTLOOK

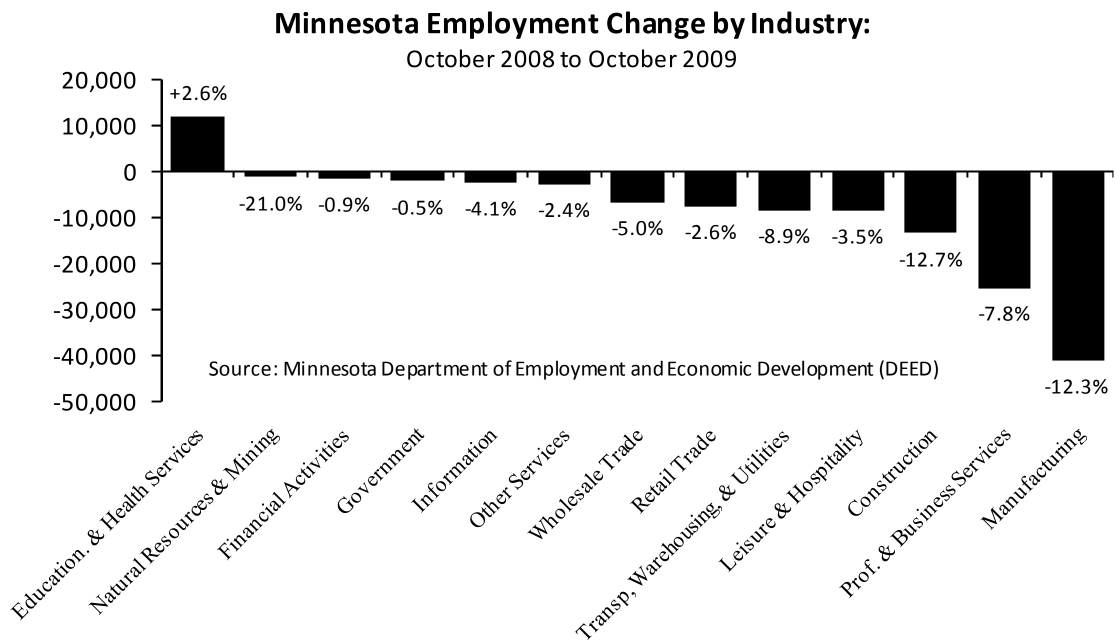
Dismal economic conditions depressing the national economy for two years continue to place an equal burden on Minnesota. Job losses and wage declines throughout the state have been substantial. Since the recession began Minnesota's economy has lost 131 thousand jobs, or 4.7 percent of nonfarm employment, the seasonally adjusted unemployment rate increased from 4.6 percent in late 2007 to a peak of 8.4 percent this past June, and preliminary labor market data and income tax withholding collections suggest that nominal wage and salary disbursements in Minnesota are on track to fall 5.5 percent in 2009 from a year earlier. This will mark the first annual decline in the wage and salary component of Minnesota personal income in 40 years of available data.

The worst recession since the 1930s, however, seems to be loosening its grip on the state. Minnesota's sizeable monthly job declines are steadily easing and other important indicators suggest the state's labor market is beginning to stabilize. The rapid upsurge in both initial and continuing claims for unemployment insurance during the fall of 2008, for example, has moved from critical back down to serious condition since peaking at record high year-over-year growth rates last spring. While only the healthcare and social services sector continues to provide over-the-year job gains in Minnesota, last winter's deep losses in professional and business services, financial activities, retail trade, manufacturing, and mining have all moderated since mid-summer.



The rapid upsurge in both initial and continuing claims for unemployment insurance during the fall of 2008 has moderated since peaking at record high year-over-year growth rates last spring.

Despite recent improvements, Minnesota's unemployment situation remains severe and the job outlook is still grim. Economists often stress that job creation can lag an economic turnaround by as much as 6 to 9 months because of a delay between increases in production and improved hiring. At best, Minnesota's employment recovery will prove no exception to this rule. Tight credit conditions, sluggish demand, and no clear evidence that the recovery is sustainable will force employers to squeeze more productivity from remaining workers and hold back hiring for much of 2010. This will generate an unprecedented number of underutilized workers in the labor force throughout much of the year, creating an extended period of high unemployment and continued downward pressure on the wage income households need to support spending growth. MMB's November forecast has the state's labor market beginning to experience over-the-year wage gains and steadily add jobs around the middle of 2010. Assuming the national labor market begins to pick up next summer, as the Global Insight (GII) baseline scenario suggests, Minnesota should also begin to see meaningful job growth toward the end of the year as employers begin to hire back workers.



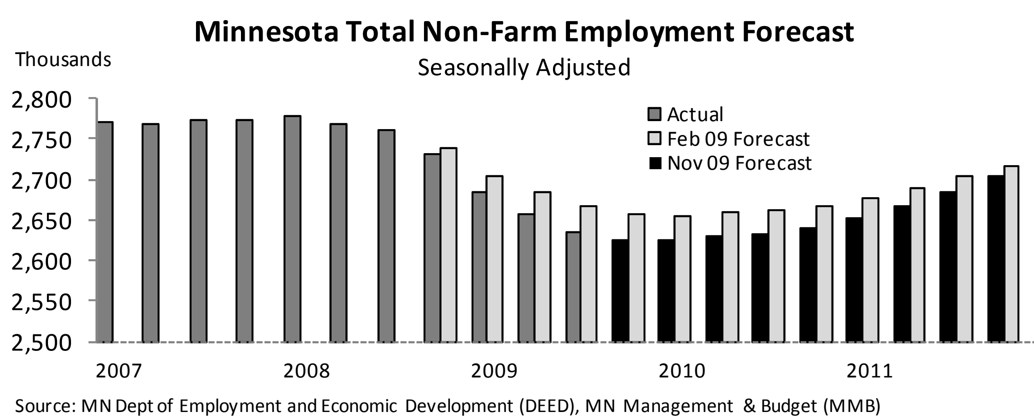
Only healthcare and social services continues to provide over-the-year job gains in Minnesota. The goods-producing sector, consisting of manufacturing, construction, and mining, is down over 12 percent. These deep and widespread losses experienced last winter, however, have moderated since mid-summer.

Little Help Wanted

As the economy rapidly deteriorated last winter, employers reacted to declining consumer demand by aggressively cutting labor costs in order to stabilize earnings. In addition to customary layoffs, the exceptionally severe economic collapse forced many businesses to resort to less-traditional cost-saving measures such as unpaid furloughs, cutting back entire shifts, and reductions in the number of hours worked. By February, for instance, Minnesota manufacturers had reduced the average workweek to 38.1 hours, down from 41.1 just five months earlier. This mirrored a national trend where the average work week reached record lows.

Now that job losses have begun to moderate relative to earlier in the year and companies are experiencing a return to profitability and rising stock prices, attention is shifting away from mass layoffs toward employers' willingness to increase the hours of existing workers and subsequently hire new employees. Already, hours in Minnesota's average manufacturing workweek seem to be returning to more normal levels, a sign that employers may soon be recalling workers to rebuild inventories and may begin further hiring soon. Likewise, temporary employment firms in Minnesota are reporting a surge in requests for workers, another indicator of an imminent job recovery. This anecdotal news reinforces recently released employment numbers from the Minnesota Department of Employment and Economic Development (DEED) which shows the state had solid job growth between August and October in the temporary help component of professional and business services.

What remains to be seen, however, is whether households will encourage more hiring by opening their wallets again. Over much of the summer, spending for goods and services was heavily supported by an unprecedented combination of monetary and fiscal stimulus actions, such as unemployment benefit extensions, tax cuts, and low interest rates. When this government assistance is gradually withdrawn from the economy in 2010, the post-recessionary environment will grow more uncertain. Household finances, already under a great deal of stress from high debt burdens, depleted wealth, tight credit, and a discouraging labor market, will continue to see discretionary purchasing power wear thin. This puts consumer demand in a far less likely position to lead a robust economic recovery. Consequently, growth will be held back enough to discourage meaningful hiring for much of 2010, making Minnesota's job recovery slow to gain much momentum.



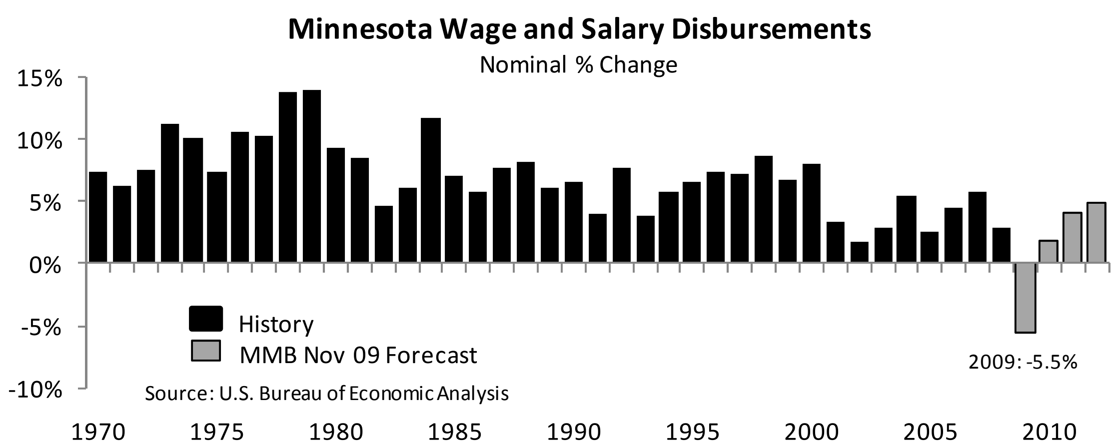
Tight credit conditions, sluggish demand, and no clear evidence that the recovery is sustainable will restrain job growth in Minnesota for much of 2010.

Underutilized and Undercounted

Adding to Minnesota's historically weak labor market conditions are the growing number of individuals who have either returned to the classroom for retraining, involuntarily had to settle for a part time job for economic reasons, or decided to temporarily call off their job search entirely until the employment situation improves. The Minnesota State Colleges and University system, for example, recently disclosed that enrollment this fall was up 7 percent over last year. MMB economists estimate that since the recession began there are upwards of 20,000 new marginally attached workers in the state who had searched for work in the past year and are currently available for employment, but are not counted as being unemployed, nor in the labor force, because they had not looked for work in the past month. Add to this an estimated 90,000 more who have settled for part time work since the recession started and the underutilization rate of the state's labor force swells to nearly 15 percent.

A rapidly growing level of both unemployed and underemployed in the labor market has destructive consequences for wage growth. As the unemployment rate increases and labor market conditions weaken, jobseekers begin to outnumber openings by a greater margin. Increased competition for jobs intensifies the underutilization of workers and employers face less and less pressure to increase compensation. Consequently, wage growth can become severely depressed. This seems to be what transpired during the first 9 months of 2009 in both Minnesota as well as the U.S. Until this recession, the state had not experienced an annual decline in nominal wage and salaries since data collection began 40 years ago. This year pay is on pace to fall by an unprecedented 5.5 percent, proving to be a significant setback to Minnesota's individual income tax base and revenues.

Looking ahead, as Minnesota's job losses moderate and the recovery gets underway, many laid-off workers who grew increasingly discouraged by weak job prospects in 2009 will be returning to the workforce in 2010. Even though Minnesota's official unemployment rate figure has eased this past fall, it is likely that current shadow conditions will maintain a prolonged period of relatively high unemployment and continue to dampen wage growth throughout much of the forecast horizon and beyond.



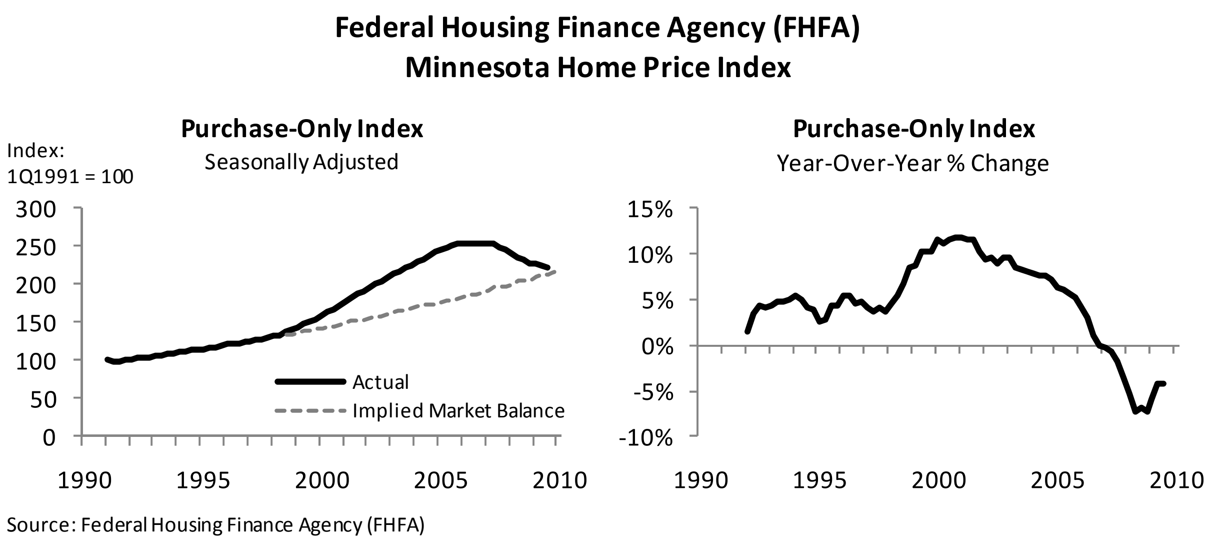
Until this recession, the state had not experienced an annual decline in nominal wage and salary disbursements since data collection began 40 years ago. This year pay is on pace to fall by an unprecedented 5.5 percent, proving to be a significant setback to Minnesota's individual income tax base.

When Home Prices Fall

A major lesson from this recession it is that falling home prices can have a devastating impact on economic stability. Declining home values erode household wealth, undermine consumer spending, cripple the financial system, and in the end can be very harmful to the labor market. In Minnesota, according to the Federal Housing Finance Agency (FHFA), nominal home prices for conventional, conforming mortgages (purchase-only index) have declined 12.7 percent through the third quarter 2009 from the peak in mid-2006, when the housing market first began to deteriorate. While MMB economists believe home prices are beginning to near a level that implies market balance, during this period the state has witnessed the loss of over 131,000 jobs (4.7 percent) and nominal wages have gone from growing at 5.6 percent clip in 2007 to a decline now estimated to be 5.5 percent in 2009.

Just as the employment situation appears to be moderating, low mortgage rates, lower prices, and the home buyer tax credit seem to be tentatively boosting home sales in Minnesota from the depressed levels experienced in 2008. Minneapolis Area Association of Realtors (MAAR) indicators for the Twin Cities, for instance, suggest that indeed Minnesota's housing market is stabilizing. According to MAAR, pending home sales in the metro area rose 34.4 percent in October from the same month a year prior, while closed sales increased 27.9 percent. Likewise, if foreclosures and short sales are excluded, traditional pending sales were up 55 percent in October from a year earlier, a sign that demand is moving back into conventional markets.

The inventory of homes for sale is also receding. MAAR reports that active listings in the Twin Cities are down 21.2 percent in October from a year ago and the month's supply of inventory fell to 6.1 in November, down from 9.0 a year earlier and 9.5 in November 2007. The market is generally considered balanced between buyers and sellers when there is roughly a 4 to 6 month supply of homes available for purchase.



According to the Federal Housing Finance Agency (FHFA) nominal home prices for conventional, conforming mortgages (purchase-only index) have declined 12.7 percent in Minnesota through the third quarter 2009 from their peak in mid-2006. MMB economists believe home prices and inventories are beginning to near an implied market balance and that over the next 3 to 9 months demand for new residential home construction will begin to slowly resurface.

A persistently high level of mortgage delinquencies, however, poses a downside risk to a sustainable housing recovery. Rising unemployment is causing the proportion of troubled prime loans to increase. The reason is that a growing number of homeowners holding prime mortgages now find themselves with an ever more demanding debt load, the result of perhaps a job loss or reduction in wages, but are unable to refinance because they owe so much more on their mortgage than their house is worth. A recent study by the Mortgage Bankers Association, for example, finds that the number of delinquent prime loans in Minnesota climbed by over 5 percent in the third quarter of 2009 from three months prior, suggesting that nearly 1 in every 15 mortgage holders, or 6.9 percent, in the state is now behind on payments, a record high according to the association. Similar results reported by the *Wall Street Journal* find that as of September 30, 2009, 15.5 percent of Minnesota households, or nearly than 1 in 6, are underwater on their mortgage. Although the state is not nearly in such poor shape as states like Nevada, Arizona, Florida, and California, where it is reported that as many as 30 percent of borrowers owe twice as much or more on their mortgage than their home is worth, the FHFA index suggests home prices in Minnesota have returned to levels of late 2003. This means not only are many borrowers underwater who took out a mortgage in 2006 when Minnesota's home values were at their peak, but so are some that took out loans over 6 years ago.

Until labor market conditions improve and job growth returns, mortgage delinquencies will continue to suppress home values in Minnesota, forcing an increasing number of mortgages underwater. This could push an oversupply of inventory back on the market next year as banks acquire more properties through repossession, possibly jeopardizing prospects for a sustainable housing recovery.

A Revised Forecast

Forecasts for employment and wages have been revised based on recent Minnesota-specific information and GII's November 2009 baseline. The baseline was used to drive a newly re-estimated MMB model of the Minnesota economy.

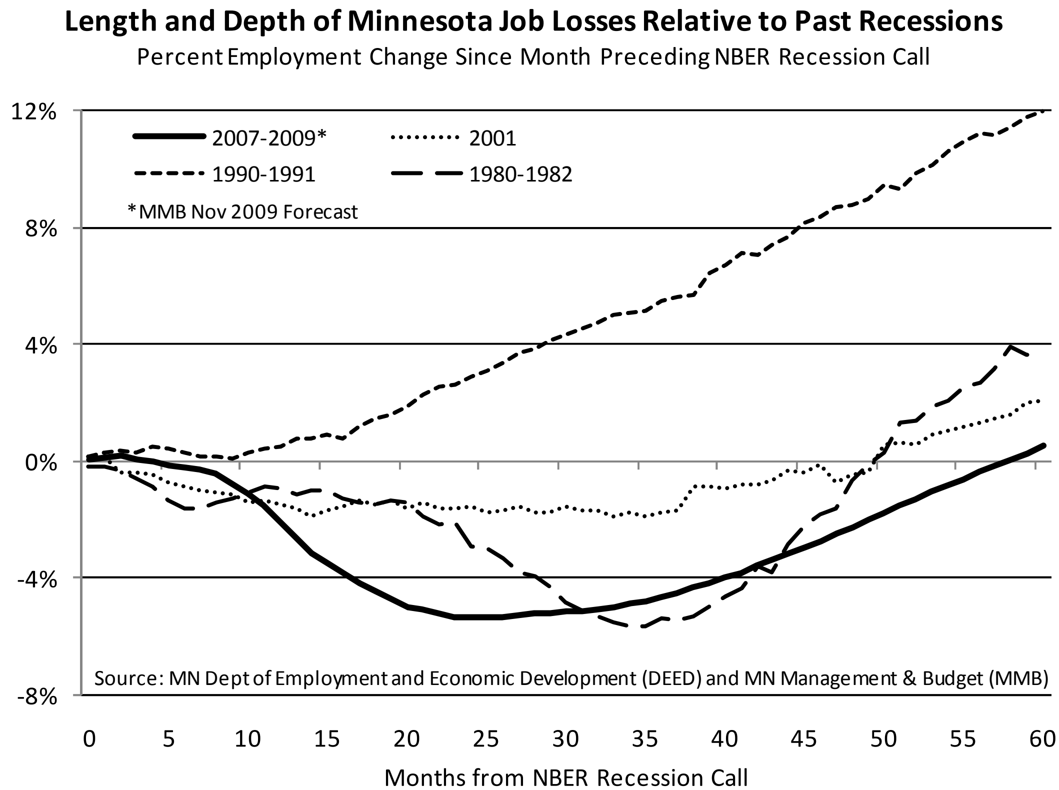
The November forecast for Minnesota's economy projects annual wage and salary disbursement income will decline 5.5 percent and non-farm employment will fall 4 percent in 2009. This employment forecast for 2009 represents the worst annual jobs performance in terms of both percentage and total losses in the post-WWII era. Seasonally adjusted employment is projected to continue falling through the spring of 2010 before modest growth accelerates during the second half of the year. Measured peak-to-trough, the state will lose 154,000 jobs between first quarter 2008 and first quarter 2010, reversing over a decade's worth of job creation.

The employment rebound will be slow. Minnesota employment is forecast to decline 0.7 percent in 2010 from 2009 before growing 1.7 percent in 2011 and 2.8 percent in 2012. The depth of recent job declines is so extensive that MMB economists estimate it will likely take until 2013 before Minnesota regains the 2.770 million high reached before the recession began in late 2007.

Minnesota Outlook Compared to the U.S.
(Calendar Year Percent Change)

	2008	2009	2010	2011	2012
Non-Farm Employment					
Minnesota					
February 2009	-0.4	-3.0	-0.7	1.4	NA
November 2009	-0.4	-4.0	-0.7	1.7	2.8
United States					
February 2009	-0.4	-3.1	-0.1	1.7	NA
November 2009	-0.4	-3.8	-0.9	1.7	2.6
Wage and Salary Income					
Minnesota					
February 2009	2.8	-1.4	2.0	4.2	NA
November 2009	2.9	-5.5	1.8	4.1	4.9
United States					
February 2009	2.8	-0.4	2.1	4.1	NA
November 2009	2.1	-4.5	2.0	4.1	4.8

Housing continues to remain a critical component of the Minnesota outlook. Despite the impact of the economic stimulus package, construction is forecast to lose an additional 5,000 jobs between the fourth quarter of 2009 and the fourth quarter of 2010. There are three principal assumptions behind this outlook. First, MMB economists believe home prices and inventories are beginning to near an implied market balance and that over the next 3 to 9 months demand for new residential home construction will begin to slowly resurface. As a result, similar to February, the November forecast assumes authorized housing permits are establishing a floor in late 2009 and will begin a measured recovery in early 2010. Recent experience suggests that job losses in construction have lagged the decline in building permits by between 9 and 12 months, thus a "catch up" period is assumed in the forecast. Second, as in February, GII's forecast assumes the impacts of a $780 billion fiscal stimulus package. Using analysis provided by GII and Mark Zandi, Chief Economist at Moody's Economy.com, MMB economists continue to estimate that Minnesota's share of the stimulus package will save or create approximately 45 thousand jobs, or 1.6 percent of employment, in Minnesota by the end of 2010. Approximately 7,500 of the total jobs saved or created are construction-related. The jobs impact is assumed to be implicitly captured within the model simulation of GII's November baseline forecast. Finally, it is assumed that the state's housing slump continues to show signs of improvement, via home price moderation and sustained inventory declines, in early-to-mid 2010. If mortgage delinquencies worsen as a result of weak labor market conditions and the housing downturn continues to deepen later into 2010 and 2011, however, it is unlikely that Minnesota's economy will perform as forecast.

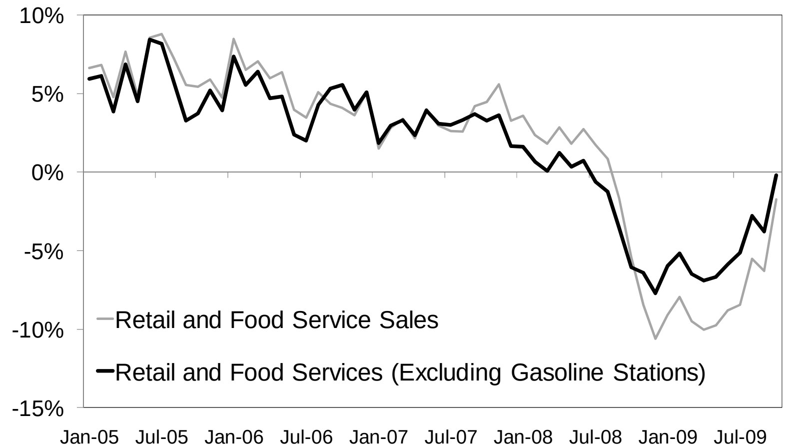


Measured peak-to-trough, the November forecast projects Minnesota will lose 154 thousand jobs, or 5.5 percent, by the first quarter 2010, reversing over a decade's worth of job creation. Although the overall depth of employment loss is similar to the 1980-1982 recession(s), the pace of decline has been sharper and the recovery is forecast to be slower.

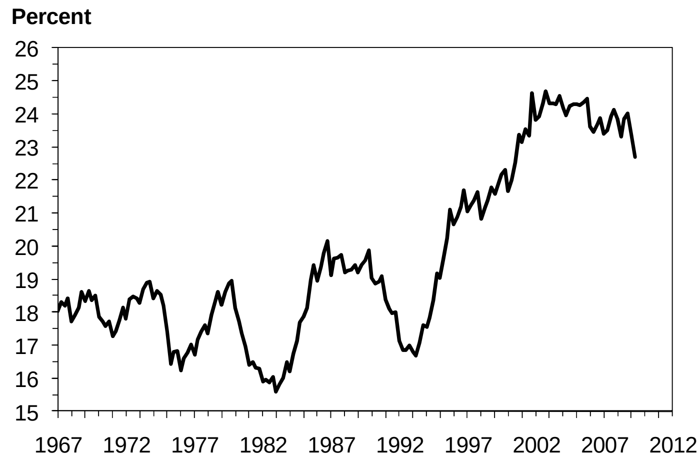
The forecast assumes the GII's November baseline materializes. Although the Minnesota Council of Economic Advisors maintains that the upside/downside risks to the baseline are evenly split, any unanticipated adverse developments in the U.S. economy, such as further deterioration in the financial markets, a rapid increase in energy prices, or should the recovery in consumer spending proceed more slowly than GII assumes, will have unfavorable effects on the Minnesota economy.

SELECTED NATIONAL ECONOMIC INDICATORS

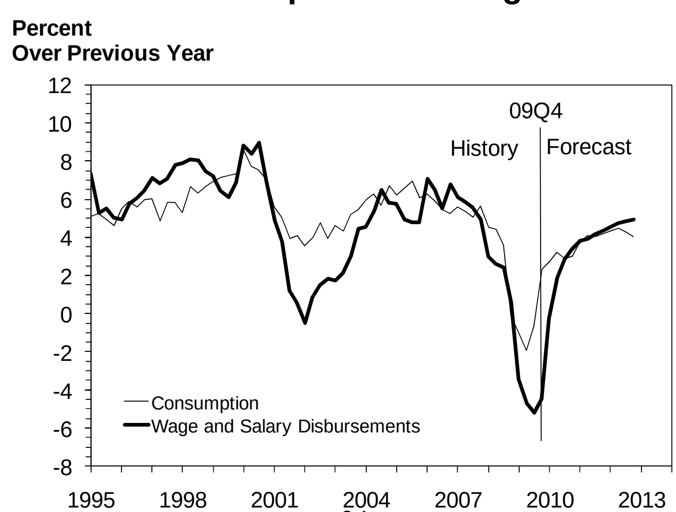
Year-Over-Year Percent Change in Retail and Food Service Sales



Installment Credit Outstanding As a Percent of Disposable Income

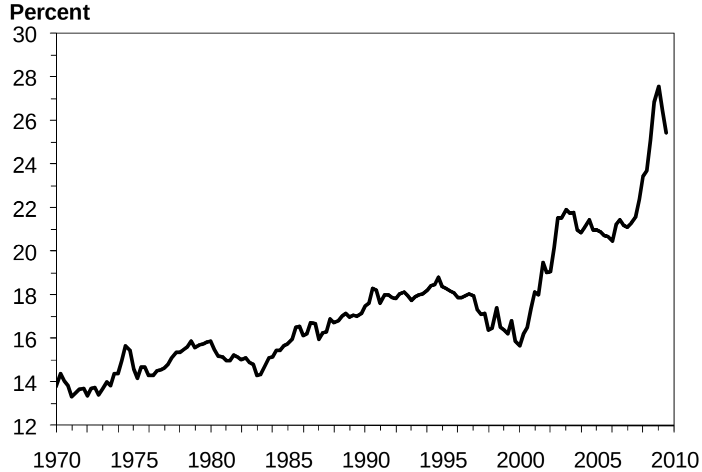


Consumption and Wages

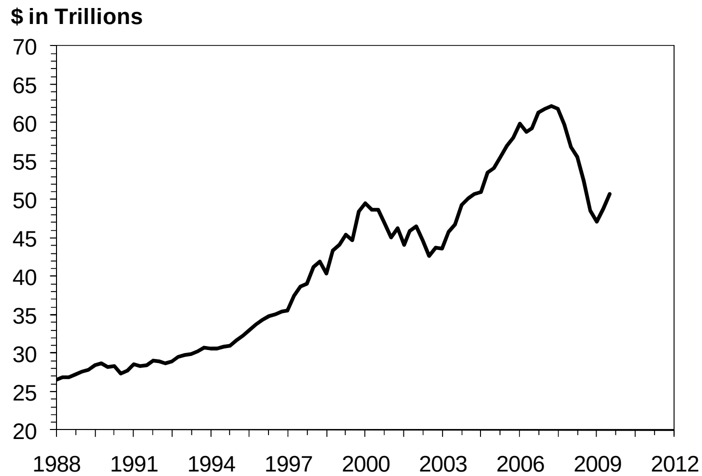


SELECTED NATIONAL ECONOMIC INDICATORS

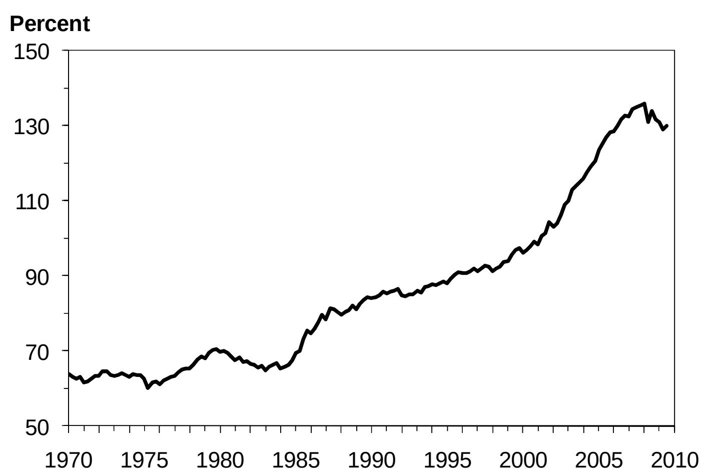
Household Financial Liabilities As a Share of Net Worth



Real Household Net Worth ($ 2005)



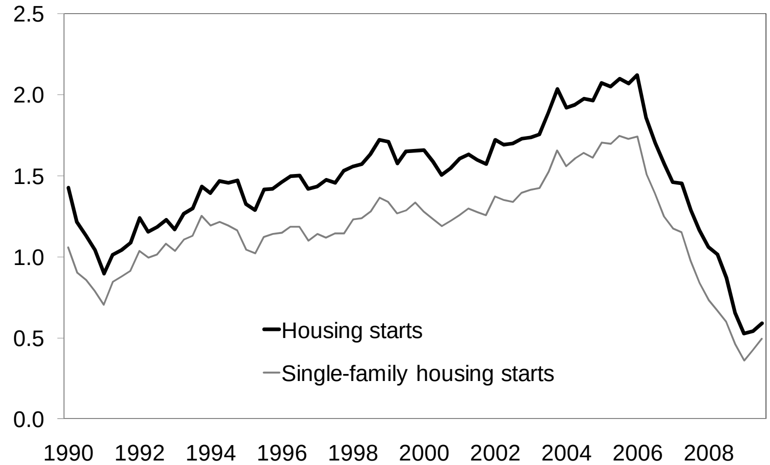
Household Financial Liabilities As a Share of Disposable Income



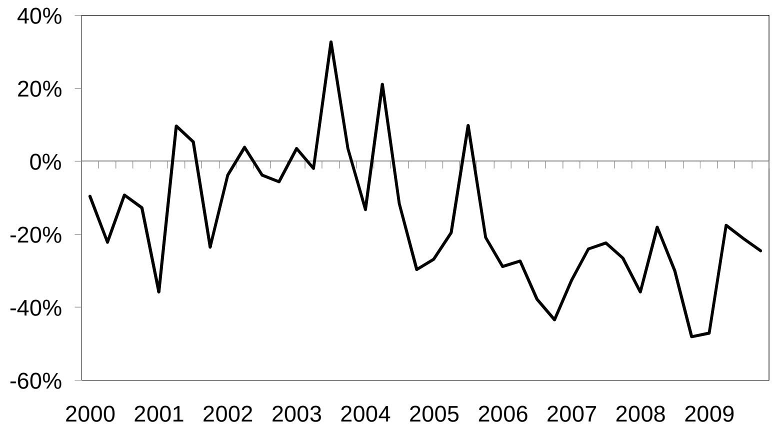
SELECTED NATIONAL ECONOMIC INDICATORS

Housing Starts

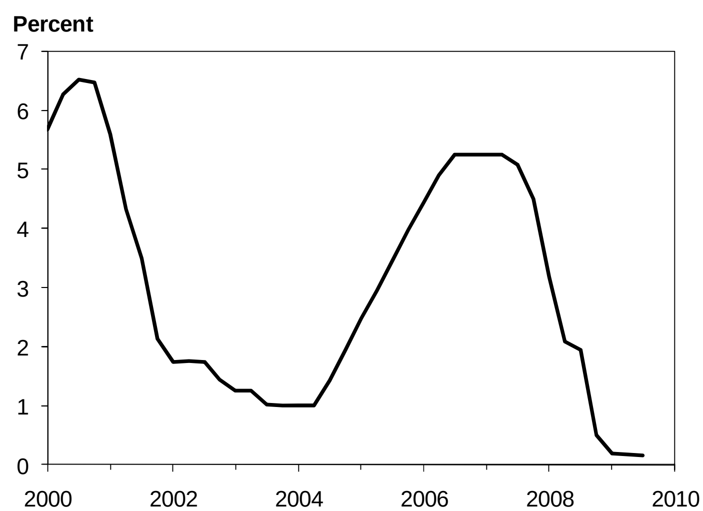
Millions of Units, Seasonally Adjusted



Net Share of Banks Reporting Stronger Demand for Consumer Loans

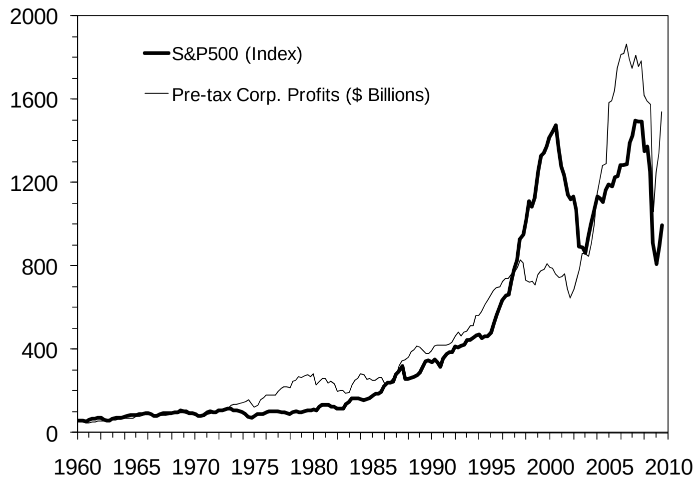


Effective Federal Funds Rate

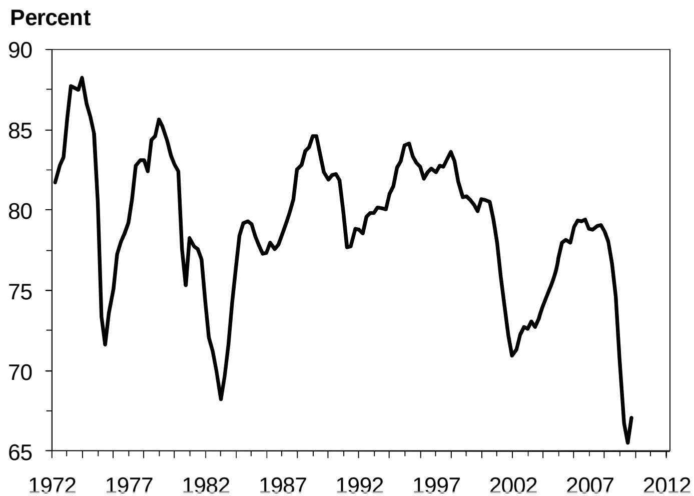


SELECTED NATIONAL ECONOMIC INDICATORS

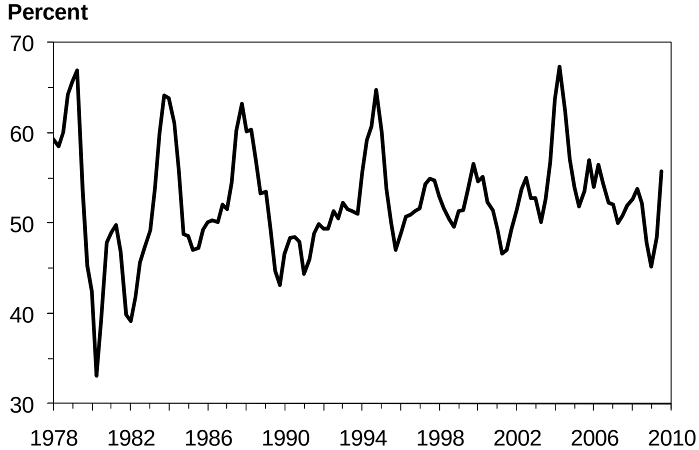
Corporate Profits and the Stock Market



Manufacturing Capacity Utilization



Proportion of Companies Receiving Slower Deliveries



FY 2009 YEAR END SUMMARY

In August 2009, the books were closed for the fiscal year that ended June 30, 2009. FY 2009 ended with a general fund balance of $52 million, $136 million less than estimated at the end of the 2009 legislative session based on the February 2009 forecast. The table below compares final FY 2009 actual revenues and spending compared to those estimates.

FY 2009 General Fund

($ in millions)

	End of Session	FY 2009 Close	Difference
Beginning Balance	**$1,920**	**$1,920**	**$0**
Non-Dedicated Revenue	14,954	14,812	(142)
Transfers, Other Resources	581	576	(5)
Total Resources	15,535	15,388	(147)
Expenditures	16,917	16,861	(56)
Cash Flow Account	350	350	0
Appropriations Carried Forward	0	45	45
Budgetary Balance	**$188**	**$52**	**($136)**

Final FY 2009 Revenues $147 Million Below End-of-Session Estimates

Total general fund revenue for FY 2009 was $15.388 billion, $147 million (0.9 percent) lower than estimated. Individual income tax receipts were $220 million lower, sales tax receipts were $34 million lower. Corporate income taxes were $56 million higher, and all other taxes and resources were $51 million higher than previously forecast.

FY 2009 Spending $56 Million Below End-of-Session Estimates

Final FY 2009 spending, totaling $16.861 billion, was $56 million (0.3 percent) lower than estimates at the end of session. However, limited carry forward authority permitted some agencies to carry $45 million in unspent FY 2009 appropriations into the next fiscal year. This amount is now reflected as an increase in FY 2010 spending.

Excluding the impact of this technical change between fiscal years, spending in FY 2009 would be $12 million lower than prior estimates. Higher spending in health and human services and property tax aids and credits was more than offset by lower spending in other areas of state government.

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

Legislatively Enacted Budget and Governor's Actions Balanced FY 2010-11 Budget

The February 2009 forecast projected a budget gap of $4.570 billion for the 2010-11 biennium. The enacted budget from the 2009 legislative session narrowed this gap, leaving a projected shortfall of $2.676 billion. The Governor's unallotment and executive actions following the session totaled $2.676 billion and balanced the budget. End-of-session estimates incorporating the Governor's unallotments and executive actions showed a $0 balance for the 2010-11 biennium.

FY 2010-11 End-of-Session Estimates

($ in millions)

	Legislatively Enacted Budget	Governor's Unallotments	End of Session
Balance from FY 2009	**$538**	**$0**	**$538**
Revenues	30,925	217	31,142
Expenditures	33,789	(2,459)	31,330
Cash Flow Account	350	0	350
Balance	**($2,676)**	**$2,676**	**$0**

Projected Deficit of $1.2 Billion Now Forecast for FY 2010-11

In this forecast, extended weakness in the economy lowers the FY 2010-11 revenue forecast $1.156 billion. That change in expected revenues, when combined with a small $44 million decrease in projected spending and a $91 million reduction in the ending balance from the 2008-09 biennium, results in a general fund budget deficit of $1.203 billion for the current biennium.

FY 2010-11 Budget
($ in millions)

	End of Session	November Forecast	Change
Balance from FY 2009	**$538**	**$447**	**($91)**
Revenues	31,142	29,986	(1,156)
Expenditures	31,330	31,286	(44)
Cash Flow Account	350	350	0
Balance	**$0**	**($1,203)**	**($1,203)**

A major reduction in expected individual tax receipts ($827 million) accounted for nearly three-quarters of the decline in forecast revenues. Changes in the forecast for the other major tax types were small and offsetting. Other tax and non-tax revenues including dedicated revenues and transfers fell by $329 million.

Expenditure estimates decreased by a small amount, $44 million. Higher spending in health and human services and property tax aids and credits is more than offset by a significant reduction in debt service costs and lower dedicated spending.

Governor's Actions Affected FY 2012-13 Budget Gap

Planning estimates for FY 2012-13 current law revenues and expenditures are an important part of budget decision-making. They help identify longer-term impacts of decisions that will be made in the current biennium.

The enacted budget from the 2009 legislative session showed a gap between projected spending and revenues in the 2012-13 biennium of $3.105 billion. The Governor's unallotment and executive actions increased this gap by $1.326 billion, due to forecast treatment of the repayment of deferred school aids, tax refunds, and other health care costs. End-of-session estimates that incorporate the Governor's unallotment and executive actions showed projected spending exceeding revenues by $4.431 billion.

FY 2012-13 End-of-Session Estimates

($ in millions)

	Legislatively Enacted Budget	Governor's Unallotments	End of Session
Resources	$34,406	($101)	$34,305
Spending	37,511	1,225	38,736
Difference	($3,105)	($1,326)	($4,431)

Planning Shortfall for FY 2012-13 Significantly Larger

The November forecast updates the FY 2012-13 planning estimates compared to end of session figures. The deterioration in the longer term revenue forecast results in a $5.426 billion structural shortfall in the next biennium. This compares with a $4.431 billion structural shortfall projected at the end of session. Planning estimates for the next biennium now show general fund revenues of $33.218 billion and projected spending of $38.644 billion. The gap between ongoing revenues and spending has increased by $995 million from end-of-session estimates.

FY 2012-13 Planning Estimates

($ in millions)

	End-of Session	November Forecast	Change
Resources	$34,305	$33,218	($1,087)
Spending	38,736	38,644	(92)
Difference	**($4,431)**	**($5,426)**	**($995)**
Inflation	*$1,953*	*$1,179*	*($774)*

Planning estimates assume:

- *Complete repayment of the K-12 aid deferral. Delaying repayment would save $1.167 billion.*
- *No repayment of the K-12 property tax recognition shift. Repayment would cost $562 million.*
- *No continued GAMC spending. Restoring the program would cost $928 million.*

Expenditure projections do not include any adjustment for projected inflation. Inflation, based on the Consumer Price Index (CPI), is expected to be 2.1 percent in FY 2012 and 1.9 percent in FY 2013. At these levels, the cost of inflation would be $1.179 billion in the next biennium.

The treatment of the Governor's unallotments and executive actions is significant. The planning estimates include complete repayment of K-12 school aids deferred in FY 2010-11 ($1.167 billion) and no repayment of the K-12 property tax recognition shift ($562 million). The projections do not include the reinstatement of funding for the General Assistance Medical Care (GAMC) program that was line-item vetoed in FY 2011. If the forecast assumed continuation of the program at current levels, an additional $928 million would be required in the 2012-13 biennium.

The planning estimates make no assumptions about any actions that might be taken in the 2010 legislative session to balance the FY 2010-11 deficit or to resolve the structural shortfall for the 2012-13 biennium. The FY 2012-13 planning estimates are simply a benchmark to determine if ongoing spending exceeds revenues in succeeding budget periods. Economic changes as well as the nature and timing of budget actions will materially affect both revenue and expenditure projections.

REVENUE FORECAST
FY 2010-11

Current general fund revenues for the 2010-11 biennium are now expected to total $29.986 billion, down $1.156 billion (3.7 percent) from February's forecast after adjusting for legislative action during the 2009 regular session and the Governor's executive actions and unallotments. Receipts for the state's 5 major taxes are projected to be $825 million less than previous estimates while other tax and non-tax revenues, including dedicated revenues and transfers from other funds are $331 million less than forecast. An $827 million (5.5 percent) reduction in the individual income tax forecast accounted for more than 70 percent of the projected biennial revenue shortfall.

Revenues FY 2010-11

($ in millions)

	FY 2008-09	FY 2010	FY 2011	FY 2010-11
Individual Income	$14,747	$6,720	$7,379	$14,099
Sales	8,915	4,186	4,331	8,516
Corporate	1,728	593	680	1,273
Motor Vehicle Sales	303	70	29	99
Statewide Levy	1,434	759	766	1,525
Five Major Taxes	27,127	12,328	13,185	25,513
Other Revenue	3,558	1,723	1,703	3,426
Tobacco	364	177	177	354
Net Non-dedicated	31,049	14,227	15,065	29,293
Other Resources	1,020	387	307	694
Current Resources	**$32,068**	**$14,614**	**$15,372**	**$29,986**

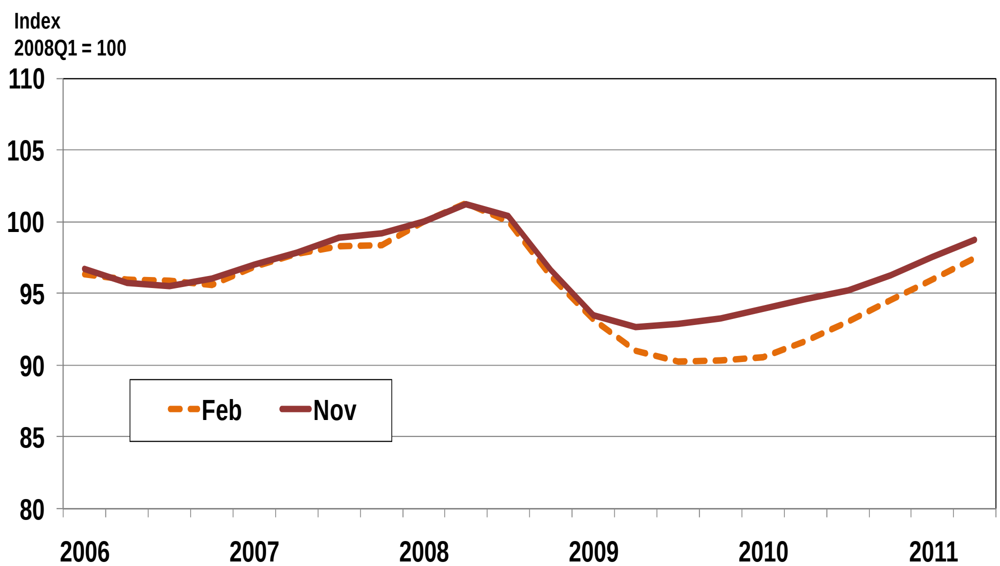
Total receipts from the state's three major tax sources are now below receipts in the 2006-07 biennium. The corporate income tax shows the largest percentage decline, off 43 percent from the amount received in the 2006-07 biennium and 26 percent from receipts in FY2008-09. Income tax receipts in the coming biennium are expected to be 4.4 percent less than in the 2008-09 biennium and only $6 million more than in the 2006-07 biennium. Sales tax revenue in the current biennium is now projected to be 4.5 percent less than was received in FY2007-08 and 5.1 percent below net sales tax collections in FY 2006-07.

Changes in Economic Assumptions

The broad outline of Global Insight's baseline national economic forecast has changed little since February. November's baseline shows the recession ending in the second quarter of 2009, one quarter earlier than February's projection, but projected growth rates for real GDP remain very similar. In February GII expected real GDP to decline at a 2.7 percent annual rate in 2009 then grow at an annual rate of 2.0 percent in 2010. The November baseline has a decline of 2.5 percent followed by an increase of 2.2 percent. The outlook for consumer spending and business equipment spending for 2010 is also modestly more optimistic than it was in early 2009.

But, when one looks beyond GDP to income and employment data, larger differences are apparent. Corporate profits are expected to increase more rapidly than projected in February, while wages and proprietors' income have declined much more than anticipated. Global Insight now expects the national economy to lose more than 7.7 million jobs before hiring resumes in spring 2010, about 800,000 more than forecast in February. Wages and proprietors incomes, two key elements of Minnesota's income tax base also have materially underperformed earlier expectations. In February total U.S. wage payments were expected to fall by 0.4 percent in 2009. In November's forecast the decline is 4.5 percent. In Minnesota wages are projected to decline by 5.5 percent in 2009. The forecast for non-farm proprietors' income has followed a similar pattern. The November baseline now shows a decline of 4.4 percent in 2009 in this measure of small business income.

Proprietors' Income Is Now Believed to Have Fallen by More Than 5 Percent in 2009



Individual Income Tax

Individual income tax receipts for the 2010-11 biennium are now forecast to total $14.099 billion, down $827 million (5.5 percent) from end-of-session estimates. Expected income tax revenues in FY2010 are $322 million below the previous forecast. In FY2011, they are $505 million less than projected in February.

A larger than expected decline in tax year 2009 wages was the source of more than 90 percent of the decline in tax year 2009 liability. Since February's forecast withholding receipts have been $144 million below forecast. Declines in proprietor's and partnership incomes, IRA distributions, and dividend incomes were almost offset by increases in the forecast for capital gains and interest income. While capital gains are now forecast to fall by 25 percent in 2009, the cumulative decline between tax year 2007 and tax year 2009 is less than was projected in February when capital gains were assumed to fall by 45 percent in 2009. Capital gains income is now assumed to have fallen by 42 percent in tax year 2008.

Lower wages were the source of about one-half the projected decline in tax year 2010 liability, and lower forecasts for proprietors' income and capital gains accounted for much of the remainder of the decline. While capital gains realizations are now expected to increase by 65 percent in the 2010 tax year, due in part to the acceleration of realizations as investors take advantage of the lower federal tax rate, that increase in realizations is less than was projected in February. The forecast levels for pensions, taxable social security income, and IRA distributions also were less than projected in February. The forecast for income coming from unemployment insurance was reduced materially to reflect current uncertainty about the continuing eligibility of Minnesota residents for federal extended unemployment insurance. If that program is continued, and if Minnesota residents remain eligible for extended benefits, that income would be included once again in February's forecast.

The Governor's unallotment and executive action package to balance the 2010-11 budget included the elimination of income tax reciprocity with Wisconsin beginning with tax year 2010. That action added $138.5 million to income tax withholding for the biennium.

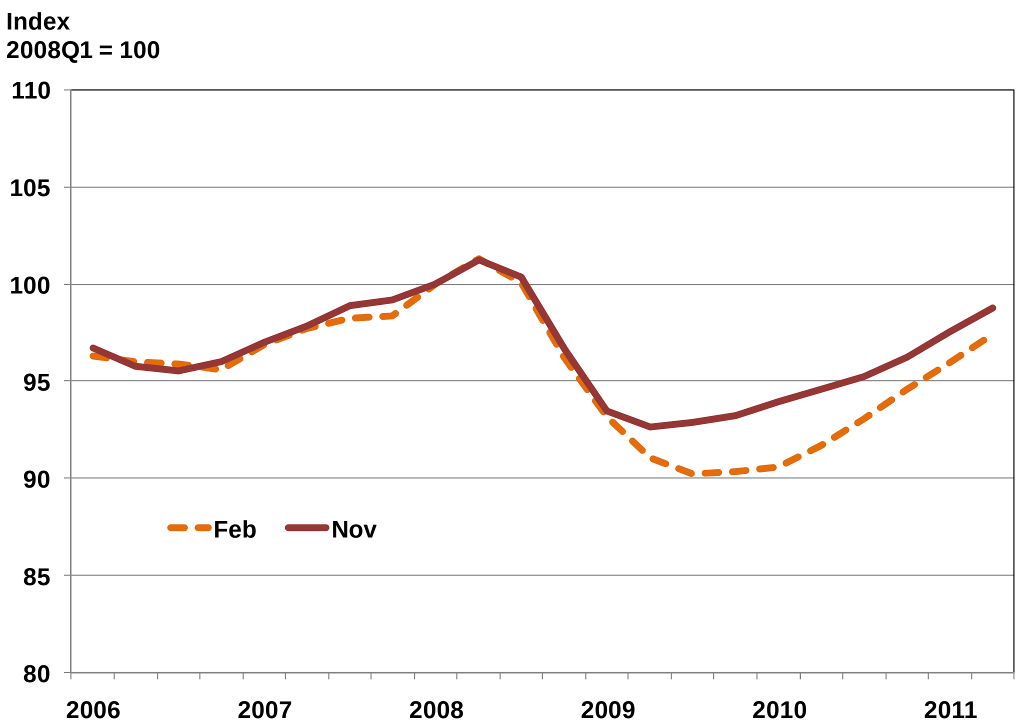
There were a number of technical changes to the forecast, including the reductions in expected payments by fiduciaries and additional compliance revenue produced a net reduction in biennial revenues of $67 million. Higher observed inflation for the 12 months ending August, 2009, turned what had been previously forecast to be a contraction in the income tax brackets for 2010 into an expansion in the brackets, resulting in tax year 2010 reduction in liability of about $35 million.

Sales Tax

Net sales tax receipts in the 2010-11 biennium are projected to reach $8.516 billion, $34 million (0.4 percent) less than end-of-session estimates. The forecast for gross receipts increased by $55 million, but that was more than offset by an increase in expected refunds of $86 million. Net sales tax receipts are now expected to be 4.5 percent less than in the 2008-09 biennium. The negative year to date variance of $13 million for net receipts was incorporated into the forecast.

Global Insight's November baseline forecast has both consumer spending and business investment spending at levels slightly above those forecast in February. While Minnesota's sales tax base continues to contract during fiscal 2010, it is not expected to shrink as much as in February's forecast. In fiscal 2011 the sales tax base grows, but not as fast as projected in February. Receipts elasticities were unchanged from those used in February.

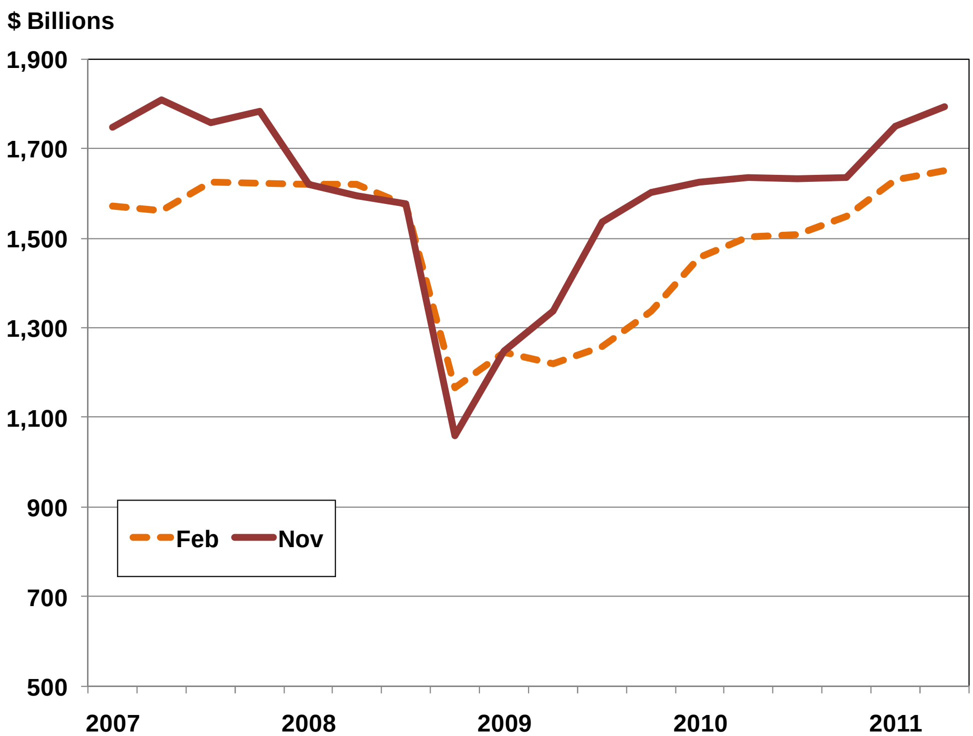
The Outlook for Minnesota Taxable Sales Has Improved Since February



Corporate Franchise Tax

Corporate tax revenues for the 2010-11 biennium are forecast to total $1.273 billion, $54 million (4.4 percent) more than end-of-session estimates. The forecast for the current biennium is 26 percent less than was received in the 2008-09 biennium. Global Insight's outlook for corporate profit growth has strengthened since February, leading to additional revenue growth in fiscal 2010. Consistent with that stronger profit picture projected refunds have declined in fiscal 2011. The decline in refunds reduces the savings available through the Governor's action to hold corporate refunds at the end of the biennium. Savings from holding corporate franchise tax refunds are now estimated to be $28.9 million, $13.1 million less than end-of-session estimates.

U.S. Corporate Profits Are Expected to Increase More Rapidly than Forecast in February



Motor Vehicle Sales Tax

Minnesota's sales tax on motor vehicles is now projected to yield $99 million, $7 million more than projected in February. Auto sales were stimulated during the early part of the 2010 fiscal year by the 'cash for clunkers" program and sales tax receipts were $4 million ahead of February's forecast through October. Much of that additional demand, however, is expected to be borrowed from sales in the relatively near future. After the close of this biennium all motor vehicle sales tax receipts will be directed to dedicated funds for transportation and transit.

Other Revenues

Other tax and non-tax revenues including the statewide property tax levy and dedicated and transfer revenues are expected to total $5.999 billion, $358 million (5.6 percent), less than end-of-session estimates. Much of this decline in projected revenues, however, reflects changes in the way revenues are treated for accounting purposes since the end of session, and not actual declines in revenues. For example, a set of activities formerly considered to be general fund activities funded by dedicated revenues were re-characterized as non-general fund activities and their associated expenditures and revenues removed from the general fund. That accounting change reduced general fund revenues by approximately $104 million from end-of session estimates but was almost completely offset by expenditure reductions.

In addition the elimination of individual income tax reciprocity with Wisconsin reduced that line of revenues by $116 million. Individual income tax revenues, however, were increased by an amount that more than offset that loss to reflect the additional withholding that would be collected from Wisconsin residents who currently work in Minnesota. In this forecast, a $41 million compliance item was allocated and reported as part of the revenue attributable to the particular types of taxes instead of being treated as an additional revenue source as in end-of-session estimates. A $48 million transfer to the general fund in FY 2011 was eliminated due to a projected reduction in the balance available in the health care access fund.

REVENUE PLANNING ESTIMATES FY 2012-13

Total current resources for the 2012-13 biennium are estimated to be $33.218 billion, a $3.231 billion (10.8 percent) increase from the amount forecast for the 2010-11 biennium, but $1.087 billion (3.2 percent) less than end-of-session estimates. General fund receipts for the five major taxes are now projected to be 13.2 percent more than the level expected for the 2010-11 biennium. If the impact of the complete elimination of motor vehicle sales tax revenues from the general fund is factored out major revenues for FY2012-13 are 13.7 percent more than projections for FY2010-11. These revenue planning estimates assume the U.S. and Minnesota economies return to more normal growth paths by mid 2011. But, because that growth builds on a substantially lower base than used in preparing the previous revenue planning estimates revenues fall below the levels projected in February 2009.

Revenues FY 2012-13
($ in millions)

	FY 2010-11	FY 2012	FY 2013	FY 2012-13
Individual Income	$14,099	$7,734	$8,562	$16,296
Sales	8,516	4,524	4,734	9,258
Corporate	1,273	845	920	1,765
Motor Vehicle Sales	99	0	0	0
Statewide Levy	1,525	778	791	1,569
Five Major Taxes	25,512	13,880	15,007	28,887
Other Revenue	3,426	1,669	1,717	3,386
Tobacco	354	176	175	351
Net Non-dedicated	29,293	15,724	16,898	32,622
Other Resources	694	298	297	595
Current Resources	**$29,987**	**$16,023**	**$17,195**	**$33,218**

The individual income tax is the major source of revenue growth in the 2012-13 biennium. Projected income tax receipts are now forecast to be up 15.6 percent from levels now forecast for the 2010-11 biennium. Income tax revenue growth would have been even stronger in the absence of a scheduled increase in the federal capital gains tax rate in 2011. This tax rate increase is anticipated to produce a one-time acceleration in realizations in tax year 2010 as investors accelerate their taking of gains to avoid the higher future tax rate, in effect shifting realizations and tax liability into tax year 2010. In this forecast those additional realizations are assumed to be borrowed from realizations that would otherwise have occurred in the 2011 and 2012 tax years. Because capital gains related changes in tax liability are assumed to be reflected in final payments and refunds, the revenue impact of capital gains changes in 2011 and 2012 are not observed until fiscal 2012 and fiscal 2013. Minnesota income tax receipts for FY2012 were reduced by $188 million and income tax liability in FY2013 by $75 million to adjust for the accelerated realization of gains into the 2010 tax year.

Sales tax receipts are projected to grow by 8.7 percent over receipts in the current biennium, the statewide property tax is expected to increase by 2.9 percent and the corporate franchise tax by 38.7 percent. Receipts from the motor vehicle sales tax are no longer a source of revenue for the state general fund.

No one can forecast the path of the economy five years into the future. The baseline revenue planning estimates presented above are not explicit forecasts; they are extrapolations of projected trends in the economy. Even small deviations from the assumed trend over five years will compound and produce sizeable changes in revenues. In addition, due to the way the estimates are constructed any change in the base level of revenues for fiscal 2011 will change the revenue planning estimates for 2012 and 2013. Other things equal, stronger than anticipated revenue growth through fiscal 2011 will carry forward and add significantly to revenues in the 2012-13 biennium. But, should the economy grow more slowly than forecast during the next nineteen months, or should some item of portfolio income such as capital gains fall well below forecast – as it did in tax year 2001--the revenue outlook for the 2012-13 biennium will deteriorate.

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

Since November 2002 the Finance Department has based its revenue planning estimates on Global Insight's baseline forecast. November's 2012-13 revenue planning estimates again were prepared consistent with the GII baseline forecast. GII projects real GDP growth rates of 3.7 percent and 2.9 percent for calendar 2012 and 2013 and nominal GDP growth of 5.3 percent in 2012 and 4.5 percent in 2013. GII's real GDP growth rate is below that assumed by the CBO in their August economic and budget update. The CBO expects annual real GDP growth of 5.0 percent in 2012 and 4.5 percent in 2013. CBO is projecting a very low inflation environment with nominal GDP growing at a 5.4 percent rate in 2012 and by 5.2 in 2013. The Blue Chip Consensus outlook is closer to GII's. The project real GDP growth rates of 3.3 and 3.0 percent for 2012 and 2013.

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

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

EXPENDITURE FORECAST FY 2010-2013

Actual, Forecast and Projected Spending, FY 2008-2013

While projected expenditures have not changed much from prior estimates in this forecast, the use of federal stimulus funding and the forecast treatment of the Governor's actions following the end of the 2009 legislative session make spending comparisons across biennia more complicated.

Actual spending for the biennium that ended June 30, 2009 was $33.866 billion. The forecast for the current biennium now totals $31.286 billion, a decrease of $2.58 billion (7.6 percent) from spending in FY 2008-09. Spending in 2012-13 is projected to be $38.644 billion, $7.358 billion (23.5 percent) more than spending in the current biennium.

Actual & Estimated Spending: General Fund Only

($ in millions)

	FY 2008-09	FY 2010-11	Change	FY 2012-13	Change
K-12 Education	$13,768	$13,337	($431)	$14,267	$930
K-12 Payment Deferrals	(11)	(1,717)	(1,706)	1,156	2,873
Higher Education	3,113	2,859	(254)	3,026	167
Property Tax Aids & Credits	3,070	3,098	28	3,663	565
Health & Human Services	9,091	9,166	75	11,780	2,614
All Other	4,835	4,543	(292)	4,752	209
Total	**$33,866**	**$31,286**	**($2,580)**	**$38,664**	**$7,358**
Biennial % Change			**(7.6%)**		**23.5%**

The American Recovery and Reinvestment Act (ARRA) provides enhanced Federal Medical Assistance Percentage (FMAP) and State Stabilization aid that partially offsets general fund spending reductions for FY 2009-2011. Enhanced FMAP funding in Medical Assistance (MA) is expected to be $1.76 billion for FY 2009-2011. This is a $60 million decrease from the February forecast, reflecting legislative action and allotment reductions. State Stabilization funding used in K-12 education, higher education, human services, and corrections will be $816 million for FY 2009-2011. The use of these federal stimulus dollars in the current biennium provides a one-time reduction in general fund spending for FY 2010-11. This partially explains the decline shown in general fund spending from FY 2008-09 to FY 2010-11, and the significant increase in general fund spending from FY 2010-11 to FY 2012-13 as the ARRA funding expires.

ARRA Enhanced FMAP and State Stabilization Funding

($ in millions)

	FY 2009	FY 2010-11	Total
K-12 Education	$0	$500	$500
Higher Education	30	138	168
Health & Human Services:			
Medical Assistance	471	1,292	1,763
Other Human Services	0	110	110
Corrections	0	38	38
Total	**$501**	**$2,078**	**$2,579**

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

Adjusted Spending Growth: General Fund and Federal Stimulus

($ in millions)

	FY 2008-09	FY 2010-11	Change	FY 2012-13	Change
K-12 Education	$13,768	$13,837	$69	$14,267	$430
K-12 Payment Deferrals	(11)	(1,717)	(1,706)	1,156	2,873
Higher Education	3,113	2,859	(254)	3,026	167
Property Tax Aids & Credits	3,100	3,236	136	3,663	427
Health & Human Services	9,562	10,568	1,006	11,780	1,212
All Other	4,835	4,581	(254)	4,752	171
Total	**$34,367**	**$33,364**	**($1,003)**	**$38,644**	**$5,280**
Biennial % Change			**(2.9%)**		**15.8%**

FY 2010-11 Forecast Expenditures Decrease $44 Million

Forecast changes for spending in FY 2010-11 are compared to the end of the 2009 legislative session including the impact of July 2009 executive actions. Total forecast spending has decreased $44 million to $31.286 billion, a 0.1 percent reduction.

Forecast Change in FY 2010-11 Spending

($ in millions)

	End-of-Session	November Forecast	Change
K-12 Education	$13,393	$13,337	($56)
K-12 Payment Deferrals	(1,760)	(1,717)	43
Higher Education	2,856	2,859	3
Property Tax Aids & Credits	3,062	3,098	36
Health & Human Services	9,057	9,166	109
Public Safety	1,814	1,819	5
Transportation	191	192	1
Environment, Energy & Natural Res.	356	364	8
Agriculture & Veterans	250	253	3
Economic Development	265	272	7
State Government	623	639	16
Debt Service	1,078	955	(123)
Other	30	30	0
Estimated Cancellations	(21)	(21)	0
Subtotal	$31,194	$31,246	$52
Dedicated Expenditures	136	40	(96)
Total	**$31,330**	**$31,286**	**($44)**

While total spending is largely unchanged, several significant changes provided nearly offsetting increases and decreases. Health and human services spending increased $109 million, the result of general fund spending required to meet additional MinnesotaCare obligations in the health care access fund due to the transition of General Assistance Medical Care (GAMC) recipients into the program. A $36 million increase in property tax aids and credits spending is primarily due to increased property tax refunds. Increases in other spending categories largely reflect unspent appropriations carried forward from FY 2009 that are now shown as FY 2010 spending.

However, these increases are more than offset by a $123 million reduction in debt service costs due to lower interest rates, and a $96 million reduction in dedicated expenditures. The reduction in dedicated expenditures is the result of a statewide effort to clean up dedicated funding arrangements in the general fund, allowable under current law. As a result, expenditures previously reflected in the general fund now appear in other funds, primarily the special revenue fund. The revenues dedicated to the general fund have also been removed from the general fund reducing revenues by an identical amount.

FY 2012-13 Projected Spending Down $92 million

Compared to end-of-session estimates total expenditures are $38.644 billion in the next biennium, $92 million (0.2 percent) less than previously estimated. Changes in spending categories for FY 2012-13 mirror trends observed in the current biennium. Spending is $78 million higher than anticipated in health and human services due to higher caseloads in Medical Assistance and increased MFIP obligations. Property tax aids and credits spending is $48 million higher due to higher refunds. These increases are offset by a reduction of $81 million for K-12 education due to lower pupil counts, $45 million less for debt service due to lower interest rates, and an $88 million reduction in dedicated spending.

Forecast Change in FY 2012-13 Spending

($ in millions)

	End-of-Session	November Forecast	Difference
K-12 Education	$14,348	$14,267	($81)
K-12 Payment Deferrals	1,159	1,156	(3)
Higher Education	3,026	3,026	0
Property Tax Aids & Credits	3,615	3,663	48
Health & Human Services	11,702	11,780	78
Public Safety	1,835	1,829	(6)
Transportation	197	197	0
Environment, Energy & Natural Res.	362	362	0
Agriculture & Veterans	251	251	0
Economic Development	264	264	0
State Government	645	650	5
Debt Service	1,198	1,153	(45)
Other	45	45	0
Estimated Cancellations	(20)	(20)	0
Subtotal	$38,627	$38,623	($4)
Dedicated Expenditures	109	21	(88)
Total	**$38,736**	**$38,644**	**($92)**

Education Finance Forecast Down $13.5 Million for FY 2010-11

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

K-12 aids can be divided into two major funding 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. For the current biennium, Education Finance spending is estimated to be $11.62 billion, a decrease of $13.5 million (0.1 percent) from the end of session.

General Education

Just over 80 percent of K-12 aid ($9.3 billion in FY 2010-11) is distributed to schools through the General Education program, and most of the forecast change is also in this program. While there are several factors that account for this change, the most significant is pupil estimates. Pupil counts are projected to increase on an annual basis starting in FY 2010, however the rate of increase is occurring at a more modest pace than was anticipated previously. Public enrollment as measured by Average Daily Membership (ADM) is now projected to be 835,105 in FY 2010 and 837,700 in FY 2011.

The changes in ADM projections result in a $33.8 million (0.3 percent) decrease in Basic Education entitlements. The ADM changes also drive decreases in Compensatory and Limited English Proficiency (LEP) entitlements. Compensatory entitlements are anticipated to decrease by $1.3 million (0.2 percent) over the biennium compared to the end of session. LEP entitlements are anticipated to decrease by $2.7 million (3.3 percent) compared to previous estimates. While the overall change in ADM projections is down, extended time entitlements are anticipated to increase by $6.3 million (4.8 percent) compared to the end of session due to an increase in the number of learning year programs.

Other notable forecast changes include decreases in Alternative Teacher Compensation (Q-Comp) and Referendum Equalization Aid. Q-Comp entitlements are forecast to decrease by $19.5 million (16.5 percent) for FY 2010-11. This change is due to fewer applications and approvals of new Q-Comp districts in FY 2010. The increase in the number of students enrolled in Q-Comp schools as a percentage of total enrollment (3% for school districts and 10% for charter schools) is also down from previous forecasts. Referendum Equalization Aid entitlements are down $2.1 million (1.5 percent). Savings from the tax shift is down $39.2 million (6.5 percent), largely due to referendum levy changes. The actual amount of new referendum revenue authority requested is 30 percent of what was previously estimated. Additionally, the passage rate of the new referendums that were on the ballot was 32 percentage points lower than previously projected. Both factors are attributed to continuing poor economic conditions.

Because overall education finance spending is estimated to be $13.5 million (0.1 percent) lower than end-of-session estimates, the savings projected from the school aid payment deferral is also projected to be lower. The savings are now estimated to be $2.6 million (0.2 percent) lower than end-of-session estimates for a biennial total of $1.17 billion.

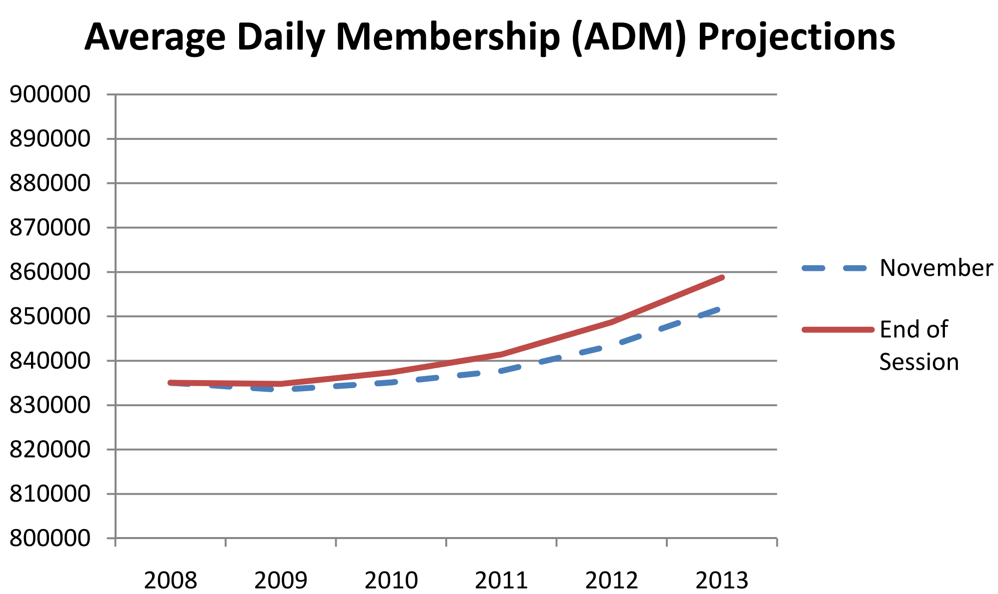
Categoricals

Overall, categorical aid programs show only small changes compared to end-of-session estimates. Only a few programs had significant changes: Charter School Lease Aid appropriations are projected to grow by $3.6 million (4.7 percent) over previously forecasted levels, reflecting higher lease aid per pupil unit than previously estimated. Integration Revenue appropriations are down $3.6 million (3.0 percent) from the end of session. The decrease is partially due to an updated forecasting methodology for the program. Estimates now incorporate prior year under-spending and use that amount to offset future obligations. Past under-spending in the program and slower growth in ADM's results in a decrease in projections for FY 2010-11, however program growth results in higher than projected spending in the out biennium. Finally, Aid for Children with Disabilities is expected to decrease $1.3 million (36.7 percent). This decrease is due to changes in service delivery for wards of the state. Fewer children are housed in state facilities (more children are placed in foster homes) and therefore fewer children qualify for this state aid.

Since FY 2009 close, certified education spending for FY 2009 has decreased by $16.8 million (0.2 percent) due to lower than anticipated pupil units. These savings are reflected in FY 2009 education expenditures and are carried as prior year adjustments in the FY 2010 estimates shown in this forecast.

Education Finance Forecast Down $84.3 million for FY 2012-13

Education Finance spending in the next biennium is now expected to be $15.4 billion, a decrease of $84.3 million from the end of session. Similar to FY 2010-11, slower growth in pupil unit estimates is driving much of this change. Lower ADM estimates in FY 2010-11 create a lower trend line for FY 2012-13.



General Education

The Basic Education entitlement decreased by $87.9 million (0.9 percent) and LEP entitlements decreased by $5.3 million (6.2 percent) from end-of-session estimates. Both of these decreases are driven by the lower ADM projections. Compensatory aid and extended time entitlements, however, are projected to increase by $11.6 million (1.4 percent) and $10.0 million (7.1 percent) respectively over previous estimates due to projected increases in the concentrations of students generating compensatory aid and an increase in extended learning year programs.

Another driver of forecast changes in General Education is Q-Comp. The forecast for Q-Comp entitlements decreased by $22.0 million (15.5 percent) for FY 2012-13. This change is due to fewer applications and approvals of new Q-Comp districts in FY 2010 which lowers the baseline for future years.

Categoricals

In addition to decreases in General Education, a few categorical aid appropriations decreased. Charter School Start-up Aid decreased $1.5 million (53.6 percent) compared to end-of-session estimates. This is primarily due to a decrease in the estimated ADM for first year charter schools based on updated trend data. Spending on Aid for Children with Disabilities is expected to decrease by $1.8 million (41.7 percent). Similar to FY 2010-11, the number of children that qualify for this aid is decreasing.

The increases in some categorical aid appropriations partially offset the decreases in program areas mentioned above. Charter School Lease Aid is expected to increase by $6.8 million (6.2 percent) reflecting an increase in lease aid per pupil unit. Integration Aid is projected to increase by $2.6 million (1.8 percent) due to projected growth in the program. Debt Service Equalization aid is projected to increase by $3.0 million (14.8 percent) due to lower adjusted net tax capacity (ANTC) growth in districts receiving large amounts of debt service aid. A reduction in the tax capacity for districts results in additional state spending to alleviate the disparity in property values across districts.

Health & Human Services Spending Increases in FY 2010-11, FY 2012-13

Total Health and Human Services spending is projected to be $9.2 billion in FY 2010-11 and $11.8 billion in FY 2012-13. This is a forecast increase of $109 million (1.2 percent) for the current biennium and an increase of $77 million (0.7 percent) in planning estimates for FY 2012-13. While overall costs are largely unchanged from end-of-session estimates, there are some significant changes within specific programs: (1) a general fund transfer of $111 million to meet additional MinnesotaCare expenditures in the health care access fund; (2) lower than expected caseload in the MA Long Term Care (LTC) waivers; (3) a higher than expected caseload of disabled individuals; (4) a lower than expected number of certifications in the Chemical Dependency (CD) treatment program; and (5) a significant increase in MFIP/DWP due to the effect of ARRA funds in FY 2012-13.

Basic Health Care

Basic Health Care pays for acute health care services such as physician visits, prescription drugs and hospitalizations that are covered under MA Families and Children Basic Care, MA Elderly and Disabled Basic Care, and GAMC. Basic Health Care expenditures are projected to reach $4.2 billion in FY 2010-11 and $5.6 billion in FY 2012-13, up 1.4 percent and 2.0 percent from end-of-session estimates respectively.

MA Basic Care for Families and Children estimates are $17.5 million (1.0 percent) higher in FY 2010-11 and $45.1 million (1.8 percent) higher in FY 2012-13. More children and parents are expected to receive MA than in previous estimates, but the cost of the increase in caseload is offset by a decrease in average payments caused by lower than expected HMO rates for calendar year 2010. A loss of Medicaid Disproportionate Share Hospital (DSH) matching for Certified Public Expenditures (CPE), which produces dedicated revenue affecting this activity, results from the elimination of funding for GAMC through the Governor's line-item veto. The cost of the lost revenue is partly offset by a reduction in quarterly inpatient payments to hospitals.

MA Elderly and Disabled Basic Care projections increased $39.8 million (1.4 percent) in FY 2010-11 and $63.9 million (2.2 percent) in FY 2012-13. The increase is mainly due to a larger than expected increase in the number of individuals with disabilities in the program. In addition, a portion of costs associated with July unallotment actions were reassigned from Families and Children basic care to correct an allocation error at the end of session. The net effect of the reassignment across MA segments is zero.

GAMC estimates remain unchanged at $329 million for FY 2010. DHS has developed a plan to auto-enroll GAMC recipients in Transitional MinnesotaCare in March 2010. Along with other underlying increases in the MinnesotaCare forecast, this contributes to a deficit in the health care access fund. Under current law, the general fund must transfer funds to the health care access fund to the extent necessary to meet MinnesotaCare obligations. For this reason, a transfer of $111 million from the general fund to the health care access fund is now included in the forecast. A complete explanation of the impact of the forecast treatment of the GAMC line-item veto is presented below.

GAMC Line-Item Veto and MinnesotaCare

Background

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

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

Treatment in November Forecast

This forecast assumes that GAMC program funding in the general fund is eliminated for FY 2011 and beyond, and that GAMC coverage is terminated in March 1, 2010. The forecast includes approximately 11,000 additional monthly average enrollees in MinnesotaCare in FY 2010-11 and 18,000 in FY 2012-13. This increases MinnesotaCare costs $254 million in FY 2010-11 and $520 million in FY 2012-13. Factors other than the GAMC transition have put pressure on the health care access fund including increased enrollment and higher capitation rates – especially for adults with no children. Total MinnesotaCare expenditures increased $394 million in FY 2010-11 and $684 million in FY 2012-13. Approximately 64 percent of the increase in MinnesotaCare for FY 2010-11 is due to the transition of GAMC recipients to Transitional MinnesotaCare. In the planning estimates for FY 2012-13, the GAMC effect accounts for 76 percent of the changes. Combined, the changes result in a forecast deficit in the health care access fund in FY 2011.

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

Effect of GAMC Veto & Executive Actions on MinnesotaCare Expenditures

(in millions)

	FY 2010	FY 2011	FY 2012	FY 2013
Total Projected Cost of MinnesotaCare	$513	$752	$905	$1,034
MinnesotaCare Increase for GAMC Recipients	69	185	239	281
Health Care Access Fund Balance[1]	166	-	(371)	(839)
Added General Fund Cost Due to HCAF Deficit[2]		159	48	48

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

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

Status Quo Scenario

DHS has prepared an alternate scenario in which they assume the full funding for GAMC is restored and that the program continues in its current form. In this scenario, approximately 39,000 enrollees would continue to have coverage in GAMC at total a general fund cost of $765 million in FY 2010-11, and $928 million in FY 2012-13.

In this scenario, GAMC enrollees would not transition to MinnesotaCare. The health care access fund balance would be $96 million at the end of FY 2011, and there would be a deficit in FY 2013 of $223 million. The $48 million annual transfer from the health care access fund to the general fund would continue through FY 2011, and no transfer from the general fund to the health care access fund would be necessary to meet MinnesotaCare expenditures in FY 2011.

Projected GAMC Expenditures Excluding Effect of GAMC Veto & Executive Actions

(in millions)

	FY 2010	FY 2011	FY 2012	FY 2013
Total Projected Cost of GAMC	$361	$405	$452	$476
Health Care Access Fund Balance	235	96	(36)	(223)
Added General Fund Cost Due to HCAF Deficit[1]	-	-	48	48
Added General Fund Cost for GAMC	32	405	452	476

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

Continuing Care Grants

Continuing Care Grants provide funding for long-term care services for individuals with chronic physical and mental health conditions, in both institutional and community-based settings. Two activities within this area comprise the majority of spending: MA Long-Term Care Waivers and MA Long-Term Facilities. Overall, expenditures for Continuing Care Grants are expected to total $3.15 billion for FY 2010-11 and $4.12 billion in FY 2010-11, down $51.6 million (1.6 percent) and $64.7 million (1.5 percent) from end-of-session estimates respectively.

Expenditures for MA LTC Facilities increased $12.2 million (1.6 percent) in FY 2010-11, and $11.2 million (1.2 percent) in FY 2012-13 compared to the end of session. This increase in spending estimates is primarily attributable to higher than expected nursing facility caseloads and average costs. MA Long-Term Care Waiver spending is down $53.2 million (2.8 percent) in FY 2010-11, and $46.5 million (1.8 percent) in FY 2012-13. This change is due to lower estimated caseloads and average costs, especially in the DD (Developmental Disabilities) and CADI (Community Alternative for Disabled Individuals) waiver programs.

Forecast spending for chemical dependency (CD) treatment is down significantly from end-of-session estimates, by $28.3 million (12.3 percent) in FY 2010-11 and $29.4 million (10.9 percent) in FY 2012-13. Projections of placements are down significantly – 15.6 percent in the current and 12.9 percent in the next biennium. Decreases which began in the spring of 2008 were previously believed to be a short-term phenomenon, but additional experience indicates that numbers of placements have remained lower than previous projections.

Children and Economic Assistance Grants

Children and Economic Assistance Grants provide a variety of supports to low-income families and individuals; including cash payments, food support, child care, housing assistance, and job training services. Total spending in these support programs is projected to be $1.01 billion in FY 2010-11 and $1.18 billion in FY 2012-13.

General fund spending for the Minnesota Family Investment Program/Diversionary Work Program (MFIP/DWP) is estimated at $145.8 million, a decrease of $6.5 million (4.2 percent) in the current biennium. For FY 2012-13, spending is estimated to be $209.8 million, an increase of $29.7 million (16.5 percent). Projections of caseloads and average costs are relatively unchanged: Changes in expenditure projections are mainly due to financing changes. ARRA TANF emergency funds generate a TANF fund balance which must be spent in the 2010-11 biennium prior to the use of the general fund. The use of the TANF balance in FY 2010-11, together with the other increases in TANF obligations, requires additional general fund spending in MFIP in FY 2012-13.

MFIP Child Care expenditures will reach $123.3 million, a $3.0 million decrease (2.4 percent) in FY 2010-11; and $141.3 million in FY 2012-13, a $4.5 million increase (3.4

percent) compared to end-of-session estimates. Recent data leads to higher caseload projections, and lower average payments in the program. Spending would have been higher for FY 2010-11, but lower than projected spending in FY 2009 freed up additional federal funds that reduced the state obligation in the first year of the biennium.

Forecast spending for other programs in this area are relatively unchanged. Group Residential Housing (GRH) spending increases by $0.8 million (0.4 percent) in FY 2010-11, and decreases $1.6 million (0.7 percent) in FY 2012-13. General Assistance (GA) projections increase $1.6 million (1.9 percent) in FY 2010-11, and $2.6 million (2.7 percent) in FY 2012-13. Minnesota Supplemental Aid (MSA) forecasted spending is lower in both the current and the upcoming biennium, by $0.2 million (0.3 percent) and $0.1 million (0.1 percent) respectively.

Property Tax Aids and Credits Spending Increases $36 Million for FY 2010-11, $48 Million for FY 2012-13

Tax aids and credits spending is expected to reach $3.10 billion in FY 2010-11 and $3.66 billion in FY 2012-13. This is an increase of $36 million (1.2 percent) in the current biennium and $48 million (1.3 percent) in the planning estimates for FY 2012-13.

Property tax refunds account for the largest portion of the increase for each biennium. Overall spending for property tax refunds is expected to increase $44.6 million (4.8 percent) to $977 million in the current biennium and $36.0 million (3.3 percent) to $1.11 billion in the upcoming biennium. Due to slower than expected income growth and increases in local property taxes, the homeowner's property tax refund program increased $27 million (4.5 percent) for the current biennium and $29.6 million (4.5 percent) in the next biennium. Forecast spending for the renter's property tax refund program, after allotment reductions, increased $11.9 million (3.7 percent) for FY 2010-11 and $7.2 million (1.8 percent) for FY 2012-13. Additionally, the targeted property tax refund program, which directs property tax relief to homeowners who have large property tax increases from one year to the next, is experiencing higher than expected average refunds. As a result forecast payments for the current biennium increased $8.6 million (140.2 percent) and $8.9 million (172.3 percent) for FY 2012-13.

The market value homestead credit program also accounted for a significant portion of the increase in overall tax aids and credits expenditures. After accounting for allotment reductions, expected market value homestead credit spending increased $11.7 million (2.5 percent) to $479 million for FY 2010-11 and $29.9 (5.8 percent) to $548 million for FY 2012-13. This increase in expenditures is due to a larger than expected decrease in homestead market values. Forecasted expenditures for utility value transition aid also increased $1.8 million (53.1 percent) for FY 2010-11 and $882 thousand (60.5 percent) for the subsequent biennium due to a change in aid calculation methodology in order to be consistent with legislative intent.

These increases are partially offset by reductions in police and fire aid distributions. Projected aid to police and fire decreased $15.6 million (8.7 percent) for the current biennium and $14.5 million (7.6 percent) in the planning estimates for FY 2012-13. This decrease is due to lower than previously forecasted growth in benefit payments.

Debt Service Projections Decrease $123 Million for FY 2010-11, $45 Million in FY 2012-13

Estimated debt service costs have been significantly reduced from end-of-session estimates. For FY 2010-11, general fund debt service is now expected to be $955 million, a $123 million reduction. For FY 2012-13, debt service spending will be $1.2 billion, $45 million lower than previously estimated.

The debt service forecast has been reduced for several reasons. First, a lower forecast for interest rates increases the dollar amount of premiums to be paid by the underwriter on bond sales. This reduced debt service costs $68 million in FY 2010-11 and $31 million in FY 2012-13. Second, the state refinanced outstanding bonds in August and November of 2009, reducing costs by $30 million in the current biennium. Finally, other adjustments to the timing of bond sales reduced transfer requirements, but are partially offset by lower interest rates on investment of cash balances. The net impact of these two items reduced spending by $26 million in FY 2010-11 and $14 million in FY 2012-13.

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

ALTERNATIVE FORECAST COMPARISON
REAL GDP (ANNUAL RATES)

	09III	09IV	10I	10II	10III	10IV	09A	10A	11A
GII Baseline (11-09)	3.5	2.7	2.0	2.4	2.0	2.4	-2.5	2.2	2.9
Blue Chip (11-09)	3.5	2.8	2.7	2.9	2.8	3.0	-2.4	2.7	2.9
Moody's Economy.Com (11-09)	3.5	3.1	1.4	1.7	2.5	3.0	-2.4	2.2	NA
UBS (11-09)	3.5	3.0	2.5	2.7	3.0	3.1	-2.4	2.6	3.0
Standard & Poors (11-09)	3.5	1.7	1.8	2.3	NA	NA	-2.5	1.9	3.1

Consumer Price Index (Annual Rates)

	09III	09IV	10I	10II	10III	10IV	09A	10A	11A
GII Baseline (11-09)	3.6	3.2	-0.2	0.6	1.9	1.8	-0.3	1.5	2.0
Blue Chip (11-09)	3.6	2.2	1.8	1.4	1.9	1.9	-0.4	2.0	2.0
Moody's Economy.Com (11-09)	3.6	1.9	1.3	0.9	1.7	2.0	-0.4	1.7	NA
UBS (11-09)	3.6	1.8	1.5	-0.7	1.6	0.6	-0.4	1.3	1.6
Standard & Poors (11-09)	3.6	2.8	1.0	1.2	NA	NA	-0.4	1.9	1.8

FORECAST COMPARISONS

Real Economic Growth

(Annual Percent Change in Real GDP)

	2008	2009	2010	2011	2012	2013
Nov 04 GII Baseline	3.1	3.2				
Feb 05 GII Baseline	3.1	3.3				
Nov 05 GII Baseline	3.4	3.1				
Feb 06 GII Baseline	2.9	3.2				
Nov 06 GII Baseline	3.1	3.3	3.3	2.9		
Feb 07 GII Baseline	3.0	3.2	3.1	2.7		
Nov 07 GII Baseline	1.9	2.9	2.9	2.8		
Feb 08 GII Baseline	1.4	2.2	3.0	3.2		
Nov 08 GII Baseline	1.3	-1.0	1.7	3.1	3.5	3.1
Feb 09 GII Baseline	1.3	-2.7	2.0	3.5	3.3	2.9
Nov 09 GII Baseline	0.4	-2.5	2.2	2.9	3.7	2.9

Inflation

(Annual Percent Change in CPI-U)

Nov 04 GII Baseline	1.9	2.1				
Feb 05 GII Baseline	2.1	2.2				
Nov 05 GII Baseline	2.0	2.2				
Feb 06 GII Baseline	2.0	1.9				
Nov 06 GII Baseline	1.9	1.8	1.8	1.7		
Feb 07 GII Baseline	2.3	2.1	1.9	2.0		
Nov 07 GII Baseline	2.0	1.6	1.9	1.8		
Feb 08 GII Baseline	2.5	1.6	1.9	1.8		
Nov 08 GII Baseline	3.9	-0.9	2.4	3.0	2.4	2.4
Feb 09 GII Baseline	3.8	-1.9	1.7	2.2	2.3	2.6
Nov 09 GII Baseline	3.8	-0.3	1.5	2.0	2.0	1.8

MINNESOTA - U.S. COMPARISON REPORT

November 2009 Baseline

(Annual Percent Changes)

	2005	2006	2007	2008	2009	2010	2011
Wage and Salary Income							
United States	5.1	6.5	5.6	2.1	-4.5	2.0	4.1
Minnesota	2.7	4.9	5.7	2.9	-5.5	1.8	4.1
Implied Annual Wage							
United States	3.3	4.6	4.4	2.6	-0.7	2.9	2.3
Minnesota	1.1	3.5	5.2	3.3	-1.6	2.5	2.3
Non-Farm Employment							
United States	1.7	1.8	1.1	-0.4	-3.8	-0.9	1.7
Minnesota	1.6	1.3	0.5	-0.4	-4.0	-0.7	1.7
Personal Income							
United States	5.1	6.5	5.6	2.1	-4.5	1.9	4.1
Minnesota	3.1	6.3	5.1	3.8	-3.4	2.5	4.1

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

	October YTD, 2009 -FY2010			October, 2009 -FY2010		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	1,923,172	1,859,603	(63,569)	524,945	488,724	(36,222)
Declarations	306,777	250,289	(56,489)	16,755	15,167	(1,588)
Miscellaneous	126,833	120,377	(6,456)	57,668	51,216	(6,452)
Gross	2,356,782	2,230,269	(126,513)	599,369	555,107	(44,262)
Refund	71,430	96,186	24,756	41,835	55,472	13,637
Net	2,285,353	2,134,083	(151,269)	557,534	499,635	(57,899)
Corporate & Bank Excise						
Declarations	150,018	192,249	42,231	22,608	27,726	5,118
Miscellaneous	61,878	58,931	(2,947)	16,182	19,758	3,576
Gross	211,896	251,180	39,284	38,790	47,484	8,694
Refund	86,107	41,372	(44,736)	42,392	19,308	(23,084)
Net	125,788	209,808	84,020	(3,602)	28,176	31,779
Sales Tax						
Gross	1,312,149	1,301,833	(10,316)	388,538	391,096	2,558
Refunds	68,019	70,450	2,431	18,369	13,986	(4,383)
Net	1,244,130	1,231,383	(12,747)	370,169	377,110	6,941
Motor Vehicle Sales Tax	21,534	25,818	4,284	5,352	5,613	261
Other Revenues:						
Estate	41,000	49,610	8,610	10,250	14,132	3,882
Liquor/Wine/Beer	20,499	21,072	573	6,031	6,475	444
Cigarette/Tobacco/Cont Sub	67,475	72,574	5,098	20,084	25,287	5,203
Deed and Mortgage	47,926	48,704	778	13,218	13,045	(173)
Insurance Gross Earnings	70,333	66,920	(3,413)	550	526	(23)
Lawful Gambling	12,926	10,413	(2,513)	2,710	2,526	(184)
Health Care Surcharge	75,662	73,411	(2,251)	18,911	17,404	(1,507)
Other Taxes	238	234	(4)	65	56	(9)
Statewide Property Tax	110	442	332	0	164	164
DHS SOS Collections	17,308	13,696	(3,613)	4,327	2,867	(1,461)
Income Tax Reciprocity	0	0	0	0	0	0
Investment Income	2,500	2,334	(166)	833	103	(730)
Tobacco Settlement	0	100	100	0	0	0
Departmental Earnings	90,160	86,326	(3,835)	45,133	27,875	(17,258)
Fines and Surcharges	29,637	25,624	(4,012)	9,819	8,409	(1,410)
Lottery Revenues	12,418	12,351	(66)	4,139	4,311	172
Revenues yet to be allocated	0	2,082	2,082		928	928
Residual Revenues	30,770	26,303	(4,467)	4,539	4,045	(495)
Sales Tax Rebates (all years)	0	0	0		0	0
County Nursing Home, Pub Hosp	1,739	1,739	0	435	435	0
Other Subtotal	520,701	513,935	(6,766)	141,044	128,586	(12,458)
Other Refunds	12,836	11,739	(1,097)	4,930	2,597	(2,332)
Other Net	507,865	502,196	(5,670)	136,114	125,989	(10,126)
Total Gross	**4,423,062**	**4,323,035**	**(100,027)**	**1,173,091**	**1,127,886**	**(45,206)**
Total Refunds	**238,392**	**219,747**	**(18,645)**	**107,525**	**91,363**	**(16,162)**
Total Net	**4,184,670**	**4,103,288**	**(81,382)**	**1,065,566**	**1,036,523**	**(29,043)**

FACTORS AFFECTING THE INDIVIDUAL INCOME TAX

($ in billions)

	Calendar Year					
	2006	2007	2008	2009	2010	2011
Minnesota Non-Farm Tax Base						
November 2005 Baseline	161.799	170.983				
February 2006 Baseline	161.561	170.274				
November 2006 Baseline	161.271	169.111	177.669	187.572		
February 2007 Baseline	160.564	169.026	178.408	189.146		
November 2007 Baseline	162.525	171.000	176.126	182.836		
February 2008 Baseline	162.284	171.215	176.042	182.122		
November 2008 Baseline	162.407	172.180	178.014	178.017	180.893	189.211
February 2009 Baseline	162.396	172.166	176.869	173.201	175.674	183.239
November 2009 Baseline	167.078	175.381	179.184	168.891	171.395	178.688
Minnesota Wage and Salary Income						
November 2005 Baseline	114.328	119.824				
February 2006 Baseline	113.713	118.957				
November 2006 Baseline	113.827	119.133	124.673	130.636		
February 2007 Baseline	113.045	118.579	124.034	130.567		
November 2007 Baseline	113.369	119.589	122.871	127.595		
February 2008 Baseline	112.953	119.173	122.189	126.100		
November 2008 Baseline	113.072	119.459	123.530	123.834	126.854	132.244
February 2009 Baseline	113.065	119.942	122.772	121.060	123.518	128.709
November 2009 Baseline	113.050	119.464	122.923	116.112	118.220	123.020
Minnesota Property Income						
November 2005 Baseline	33.432	36.204				
February 2006 Baseline	33.754	36.367				
November 2006 Baseline	34.633	36.654	38.739	41.925		
February 2007 Baseline	34.659	37.168	40.223	43.666		
November 2007 Baseline	36.063	38.161	39.560	40.713		
February 2008 Baseline	36.251	38.852	40.162	41.289		
November 2008 Baseline	36.253	39.071	40.622	39.994	39.271	41.252
February 2009 Baseline	36.250	39.072	40.322	38.687	37.993	39.363
November 2009 Baseline	37.923	40.434	40.915	38.354	38.192	39.805
Minnesota Proprietors' Income						
November 2005 Baseline	14.037	14.956				
February 2006 Baseline	14.093	14.950				
November 2006 Baseline	12.811	13.324	14.256	15.017		
February 2007 Baseline	12.861	13.279	14.150	14.912		
November 2007 Baseline	13.093	13.251	13.694	14.529		
February 2008 Baseline	13.080	13.192	13.691	14.733		
November 2008 Baseline	13.081	13.650	13.861	14.188	14.768	15.447
February 2009 Baseline	13.081	13.651	13.775	13.453	14.164	15.167
November 2009 Baseline	16.105	15.483	15.345	14.424	14.983	15.862

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

($ in billions)

	Fiscal Year					
	2006	2007	2008	2009	2010	2011
SALES TAX						
Minnesota Synthetic Sales Tax Base						
February 2007 Baseline*	70.497	72.139	73.905	77.157		
Pct	4.3%	2.3%	2.4%	4.4%		
November 2007 Baseline*	68.299	69.405	70.381	70.572		
Pct	3.3%	1.6%	1.4%	0.3%		
February 2008 Baseline*	68.299	69.342	70.593	70.388		
Pct	3.3%	1.5%	1.8%	-0.3%		
November 2008 Baseline	68.104	69.284	71.375	69.278	67.178	69.730
Pct	3.5%	1.7%	3.8%	-2.9%	-3.0%	3.8%
February 2009 Baseline	68.122	69.306	71.434	68.297	65.132	68.395
Pct	3.5%	1.7%	3.1%	-4.4%	-4.6%	5.0%
November 2009 Baseline	69.431	70.626	72.999	70.045	68.483	70.880
Pct	3.1%	1.7%	3.4%	-4.0%	-2.2%	3.5%
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)						
February 2007 Baseline	13.232	13.788	14.055	14.552		
November 2007 Baseline	12.885	13.289	13.525	13.229		
February 2008 Baseline	12.885	13.287	13.560	13.451		
November 2008 Baseline	12.715	13.163	13.567	12.869	12.257	12.549
February 2009 Baseline	12.715	13.163	13.573	12.812	12.150	12.456
November 2009 Baseline	13.078	13.418	13.719	13.028	12.756	12.720
Minnesota's Proxy Share of U.S. Capital Equipment Spending						
February 2007 Baseline	11.619	12.179	12.834	13.419		
November 2007 Baseline	11.698	11.822	12.227	12.404		
February 2008 Baseline	11.698	11.820	12.199	12.078		
November 2008 Baseline	11.640	11.922	12.316	11.760	10.854	11.711
February 2009 Baseline	11.640	11.922	12.234	11.427	9.858	10.775
November 2009 Baseline	11.851	12.347	12.998	11.906	10.972	12.084
Minnesota's Proxy Share of U.S. Construction Spending						
February 2007 Baseline**	8.510	8.031	7.509	7.829		
November 2007 Baseline***	7.276	7.067	6.304	5.812		
February 2008 Baseline	7.290	6.784	6.267	5.421		
November 2008 Baseline	7.248	6.716	6.401	5.966	5.445	6.180
February 2009 Baseline	7.247	6.720	6.307	5.732	4.826	5.486
November 2009 Baseline	7.353	6.885	6.544	5.618	5.292	5.364

* Series revised
** New Series
*** New Series Begins

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

($ in billions)

	Fiscal Year					
	2006	**2007**	**2008**	**2009**	**2010**	**2011**
SALES TAX (Cont.)						
Minnesota's Personal Income Excluding Farm Proprietors Income*						
November 2005 Baseline	196.70	207.71				
February 2006 Baseline	195.47	206.78				
November 2006 Baseline	195.19	205.96	216.03	227.93		
February 2007 Baseline	195.42	205.82	216.81	229.20		
November 2007 Baseline	190.95	200.20	207.70	215.85		
February 2008 Baseline	190.84	200.00	209.19	216.12		
November 2008 Baseline	190.82	200.36	210.61	216.41	219.52	227.48
February 2009 Baseline	190.80	200.35	210.20	213.84	215.33	223.33
November 2009 Baseline	194.29	205.02	213.26	213.68	212.56	219.22
SALES TAX ON MOTOR VEHICLES						
Minnesota's Proxy Share of U.S. Consumption of Motor Vehicles and Parts						
November 2005 Baseline	8.925	9.340				
February 2006 Baseline	8.919	9.258				
November 2006 Baseline	9.018	9.061	8.993	9.292		
February 2007 Baseline	8.963	8.951	9.159	9.597		
November 2007 Baseline	8.869	8.892	8.681	8.852		
February 2008 Baseline	8.873	8.872	8.569	8.506		
November 2008 Baseline	8.846	8.862	8.571	6.895	7.977	8.380
February 2009 Baseline	8.846	8.862	8.561	6.642	7.074	7.699
November 2009 Baseline**	6.621	6.480	6.193	4.773	4.999	5.502
CORPORATE FRANCHISE TAX	**Calendar Year**					
U.S. Corporate Profits						
November 2005 Baseline	1,137.8	1,299.8				
February 2006 Baseline	1,137.8	1,329.9				
November 2006 Baseline	1,237.4	1,460.7	1,481.5	1,382.8		
February 2007 Baseline	1,237.4	1,460.7	1,617.8	1,463.6		
November 2007 Baseline***	1,368.6	1,392.4	1,302.8	1,355.1		
February 2008 Baseline***	1,368.6	1,373.7	1,310.7	1,326.7		
November 2008 Baseline***	1,557.8	1,510.5	1,402.8	1,286.4	1,446.5	1,493.8
February 2009 Baseline***	1,557.8	1,510.5	1,378.7	993.6	1,286.7	1,480.7
November 2009 Baseline***	1,453.3	1,489.7	1,349.9	1,065.2	1,314.2	1,366.3

* Bureau of Economic Analysis Concept
** Revised by Bureau of Economic Analysis to exclude parts.
*** MMB Estimate of Domestic Corporate Profits & adjusted to net effects of the Federal Tax Acts of 2002, 2003, and 2008.

FY 2008-09 Biennium

General Fund

($ in thousands)

	Actual FY 2008	Closing FY 2009	Biennial Total
Actual & Estimated Resources			
Balance Forward From Prior Year	2,244,935	1,920,021	2,244,935
Current Resources:			
(C) Tax Revenues	15,411,900	14,049,711	29,461,611
(C) Non-Tax Revenues	824,255	762,793	1,587,048
Subtotal - Non-Dedicated Revenue	16,236,155	14,812,504	31,048,659
(D) Dedicated Revenue	74,439	75,612	150,051
(E) Transfers From Other Funds	344,549	472,974	817,523
(B) Prior Year Adjustments	24,951	27,207	52,158
Subtotal - Other Revenue	443,939	575,793	1,019,732
Subtotal Current Resources	16,680,094	15,388,297	32,068,391
Total Resources Available	**18,925,029**	**17,308,318**	**34,313,326**
Actual & Estimated Expenditures			
(G) K-12 Education	6,830,372	6,937,422	13,767,794
K-12 Ptx Rec Shift/Aid Payment Shift	(11,058)	533	(10,525)
Subtotal - K-12 Education	6,819,314	6,937,955	13,757,269
(H) Higher Education	1,563,413	1,549,803	3,113,216
(R) Property Tax Aids & Credits	1,581,087	1,488,550	3,069,637
(I) Health & Human Services	4,630,471	4,460,050	9,090,521
(M) Public Safety	909,378	957,297	1,866,675
(L) Transportation	140,144	113,100	253,244
(J) Environment, Energy & Natural Resources	204,019	197,547	401,566
(S) Agriculture & Veterans	126,936	144,475	271,411
(K) Economic Development	262,313	148,134	410,447
(N) State Government	301,929	366,082	668,011
(O) Debt Service	409,296	452,855	862,151
(T) Capital Projects	10,247	10,248	20,495
(P) Other	10,652	16,837	27,489
Subtotal by Appropriation Bill	16,969,199	16,842,933	33,812,132
(D) Dedicated Revenue Expenditures	35,809	18,464	54,273
Total Expenditures & Transfers	**17,005,008**	**16,861,397**	**33,866,405**
Balance Before Reserves	**1,920,021**	**446,921**	**446,921**
(Y) Cash Flow Account	350,000	350,000	350,000
(Y) Budget Reserve	654,922	0	0
(Y) Appropriations Carried Forward	217,207	44,758	44,758
Budgetary Balance	**697,892**	**52,163**	**52,163**

FY 2009 General Fund Closing

Compared to End of 2009 Session

($ in thousands)

	5-09 Enacted FY 2008-09	Closing FY 2008-09	Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	2,244,935	2,244,935	0
Current Resources:			
(C) Tax Revenues	29,631,399	29,461,611	(169,788)
(C) Non-Tax Revenues	1,559,171	1,587,048	27,877
Subtotal - Non-Dedicated Revenue	31,190,570	31,048,659	(141,911)
(D) Dedicated Revenue	162,908	150,051	(12,857)
(E) Transfers From Other Funds	815,685	817,523	1,838
(B) Prior Year Adjustments	46,569	52,158	5,589
Subtotal - Other Revenue	1,025,162	1,019,732	(5,430)
Subtotal Current Resources	32,215,732	32,068,391	(147,341)
Total Resources Available	**34,460,667**	**34,313,326**	**(147,341)**
Actual & Estimated Expenditures			
(G) K-12 Education	13,788,000	13,767,794	(20,206)
K-12 Ptx Rec Shift/Aid Payment Shift	(10,525)	(10,525)	0
Subtotal - K-12 Education	13,777,475	13,757,269	(20,206)
(H) Higher Education	3,119,469	3,113,216	(6,253)
(R) Property Tax Aids & Credits	3,064,166	3,069,637	5,471
(I) Health & Human Services	9,049,517	9,090,521	41,004
(M) Public Safety	1,876,384	1,866,675	(9,709)
(L) Transportation	256,707	253,244	(3,463)
(J) Environment, Energy & Natural Resources	430,515	401,566	(28,949)
(S) Agriculture & Veterans	269,937	271,411	1,474
(K) Economic Development	411,056	410,447	(609)
(N) State Government	681,286	668,011	(13,275)
(O) Debt Service	862,071	862,151	80
(T) Capital Projects	31,148	20,495	(10,653)
(P) Other	16,030	27,489	11,459
(X) Cancellation Adjustment	(23,700)	0	23,700
Subtotal by Appropriation Bill	33,822,061	33,812,132	(9,929)
(D) Dedicated Revenue Expenditures	100,686	54,273	(46,413)
Total Expenditures & Transfers	**33,922,747**	**33,866,405**	**(56,342)**
Balance Before Reserves	**537,920**	**446,921**	**(90,999)**
(Y) Cash Flow Account	350,000	350,000	0
(Y) Appropriations Carried Forward	0	44,758	44,758
Budgetary Balance	**187,920**	**52,163**	**(135,757)**

FY 2010-11 Biennium Forecast Comparison

November 2009 vs End-of-Session and Executive Actions

($ in thousands)

	7-09 Exec Action FY 2010-11	11-09 Fcst FY 2010-11	$ Difference	% Change
Actual & Estimated Resources				
Balance Forward From Prior Year	537,920	446,921	(90,999)	-16.9%
Current Resources:				
(C) Tax Revenues	28,745,916	27,762,644	(983,272)	-3.4%
(C) Non-Tax Revenues	1,572,091	1,529,837	(42,254)	-2.7%
Subtotal - Non-Dedicated Revenue	30,318,007	29,292,481	(1,025,526)	-3.4%
(D) Dedicated Revenue	170,690	67,096	(103,594)	-60.7%
(E) Transfers From Other Funds	603,629	560,052	(43,577)	-7.2%
(B) Prior Year Adjustments	50,000	66,837	16,837	33.7%
Subtotal - Other Revenue	824,319	693,985	(130,334)	-15.8%
Subtotal Current Resources	31,142,326	29,986,466	(1,155,860)	-3.7%
Total Resources Available	**31,680,246**	**30,433,387**	**(1,246,859)**	-3.9%
Actual & Estimated Expenditures				
(G) K-12 Education	13,393,157	13,337,420	(55,737)	-0.4%
K-12 Ptx Rec Shift/Aid Payment Shift	(1,759,619)	(1,717,382)	42,237	-2.4%
Subtotal - K-12 Education	11,633,538	11,620,038	(13,500)	-0.1%
(H) Higher Education	2,856,155	2,858,555	2,400	0.1%
(R) Property Tax Aids & Credits	3,062,203	3,098,226	36,023	1.2%
(I) Health & Human Services	9,056,556	9,165,634	109,078	1.2%
(M) Public Safety	1,813,941	1,819,185	5,244	0.3%
(L) Transportation	190,801	192,375	1,574	0.8%
(J) Environment, Energy & Natural Resources	356,444	363,585	7,141	2.0%
(S) Agriculture & Veterans	249,638	252,879	3,241	1.3%
(K) Economic Development	265,182	272,404	7,222	2.7%
(N) State Government	623,461	639,160	15,699	2.5%
(O) Debt Service	1,077,540	954,522	(123,018)	-11.4%
(T) Capital Projects	29,800	29,800	0	0.0%
(X) Cancellation Adjustment	(21,000)	(21,000)	0	0.0%
Subtotal by Appropriation Bill	31,194,259	31,245,363	51,104	0.2%
(D) Dedicated Revenue Expenditures	135,987	40,692	(95,295)	-70.1%
Total Expenditures & Transfers	**31,330,246**	**31,286,055**	**(44,191)**	-0.1%
Balance Before Reserves	**350,000**	**(852,668)**	**(1,202,668)**	
(Y) Cash Flow Account	350,000	350,000	0	
Budgetary Balance	**0**	**(1,202,668)**	**(1,202,668)**	

FY 2010-11 General Fund Budget

November 2009 Forecast

($ in thousands)

	11-09 Fcst FY 2010	11-09 Fcst FY 2011	Biennial Total
Actual & Estimated Resources			
Balance Forward From Prior Year	446,921	141,472	446,921
Current Resources:			
(C) Tax Revenues	13,462,526	14,300,118	27,762,644
(C) Non-Tax Revenues	764,650	765,187	1,529,837
Subtotal - Non-Dedicated Revenue	14,227,176	15,065,305	29,292,481
(D) Dedicated Revenue	36,639	30,457	67,096
(E) Transfers From Other Funds	308,366	251,686	560,052
(B) Prior Year Adjustments	41,837	25,000	66,837
Subtotal - Other Revenue	386,842	307,143	693,985
Subtotal Current Resources	14,614,018	15,372,448	29,986,466
Total Resources Available	**15,060,939**	**15,513,920**	**30,433,387**
Actual & Estimated Expenditures			
(G) K-12 Education	6,431,637	6,905,783	13,337,420
K-12 Ptx Rec Shift/Aid Payment Shift	(1,056,238)	(661,144)	(1,717,382)
Subtotal - K-12 Education	5,375,399	6,244,639	11,620,038
(H) Higher Education	1,427,712	1,430,843	2,858,555
(R) Property Tax Aids & Credits	1,586,936	1,511,290	3,098,226
(I) Health & Human Services	4,303,724	4,861,910	9,165,634
(M) Public Safety	892,116	927,069	1,819,185
(L) Transportation	98,225	94,150	192,375
(J) Environment, Energy & Natural Resources	185,557	178,028	363,585
(S) Agriculture & Veterans	129,913	122,966	252,879
(K) Economic Development	140,656	131,748	272,404
(N) State Government	321,875	317,285	639,160
(O) Debt Service	429,098	525,424	954,522
(T) Capital Projects	13,500	16,300	29,800
(X) Cancellation Adjustment	(6,000)	(15,000)	(21,000)
Subtotal by Appropriation Bill	14,898,711	16,346,652	31,245,363
(D) Dedicated Revenue Expenditures	20,756	19,936	40,692
Total Expenditures & Transfers	**14,919,467**	**16,366,588**	**31,286,055**
Balance Before Reserves	**141,472**	**(852,668)**	**(852,668)**
(Y) Cash Flow Account	350,000	350,000	350,000
Budgetary Balance	**(208,528)**	**(1,202,668)**	**(1,202,668)**

General Fund Planning Estimates

November 2009 vs End-of-Session and Executive Actions

($ in thousands)

	7-09 Plng Est FY 2012-13	11-09 Plng Est FY 2012-13	$ Difference	% Change
Actual & Estimated Resources				
Balance Forward From Prior Year	350,000	(852,668)	(1,202,668)	-343.6%
Current Resources:				
(C) Tax Revenues	31,965,534	31,148,564	(816,970)	-2.6%
(C) Non-Tax Revenues	1,561,444	1,474,467	(86,977)	-5.6%
Subtotal - Non-Dedicated Revenue	33,526,978	32,623,031	(903,947)	-2.7%
(D) Dedicated Revenue	150,508	60,914	(89,594)	-59.5%
(E) Transfers From Other Funds	577,745	483,905	(93,840)	-16.2%
(B) Prior Year Adjustments	50,000	50,000	0	0.0%
Subtotal - Other Revenue	778,253	594,819	(183,434)	-23.6%
Subtotal Current Resources	34,305,231	33,217,850	(1,087,381)	-3.2%
Total Resources Available	**34,655,231**	**32,365,182**	**(2,290,049)**	-6.6%
Actual & Estimated Expenditures				
(G) K-12 Education	14,348,544	14,267,321	(81,223)	-0.6%
K-12 Ptx Rec Shift/Aid Payment Shift	1,158,947	1,155,894	(3,053)	-0.3%
Subtotal - K-12 Education	15,507,491	15,423,215	(84,276)	-0.5%
(H) Higher Education	3,025,674	3,025,674	0	0.0%
(R) Property Tax Aids & Credits	3,615,405	3,663,040	47,635	1.3%
(I) Health & Human Services	11,702,501	11,779,839	77,338	0.7%
(M) Public Safety	1,834,927	1,829,420	(5,507)	-0.3%
(L) Transportation	196,770	196,770	0	0.0%
(J) Environment, Energy & Natural Resources	361,655	361,645	(10)	0.0%
(S) Agriculture & Veterans	250,963	251,266	303	0.1%
(K) Economic Development	263,592	263,592	0	0.0%
(N) State Government	645,233	650,550	5,317	0.8%
(O) Debt Service	1,197,522	1,152,851	(44,671)	-3.7%
(T) Capital Projects	45,219	45,219	0	0.0%
(X) Cancellation Adjustment	(20,000)	(20,000)	0	0.0%
Subtotal by Appropriation Bill	38,626,952	38,623,081	(3,871)	0.0%
(D) Dedicated Revenue Expenditures	109,429	21,035	(88,394)	-80.8%
Total Expenditures & Transfers	**38,736,381**	**38,644,116**	**(92,265)**	-0.2%
Balance Before Reserves	**(4,081,150)**	**(6,278,934)**	**(2,197,784)**	
(Y) Cash Flow Account	350,000	350,000	0	
Budgetary Balance	**(4,431,150)**	**(6,628,934)**	**(2,197,784)**	
Structural Balance	***(4,431,150)***	***(5,426,266)***	***(995,116)***	

FY 2012-13 Planning Estimates vs FY 2010-11 Budget
November 2009 General Fund Forecast
($ in thousands)

	11-09 Fcst FY 2010-11	11-09 Plng Est FY 2012-13	$ Difference	% Change
Actual & Estimated Resources				
Balance Forward From Prior Year	446,921	(852,668)	(1,299,589)	(290.8%)
Current Resources:				
(C) Tax Revenues	27,762,644	31,148,564	3,385,920	12.2%
(C) Non-Tax Revenues	1,529,837	1,474,467	(55,370)	(3.6%)
Subtotal - Non-Dedicated Revenue	29,292,481	32,623,031	3,330,550	11.4%
(D) Dedicated Revenue	67,096	60,914	(6,182)	(9.2%)
(E) Transfers From Other Funds	560,052	483,905	(76,147)	(13.6%)
(B) Prior Year Adjustments	66,837	50,000	(16,837)	(25.2%)
Subtotal - Other Revenue	693,985	594,819	(99,166)	(14.3%)
Subtotal Current Resources	29,986,466	33,217,850	3,231,384	10.8%
Total Resources Available	**30,433,387**	**32,365,182**	**1,931,795**	**6.3%**
Actual & Estimated Expenditures				
(G) K-12 Education	13,337,420	14,267,321	929,901	7.0%
K-12 Ptx Rec Shift/Aid Payment Shift	(1,717,382)	1,155,894	2,873,276	(167.3%)
Subtotal - K-12 Education	11,620,038	15,423,215	3,803,177	32.7%
(H) Higher Education	2,858,555	3,025,674	167,119	5.8%
(R) Property Tax Aids & Credits	3,098,226	3,663,040	564,814	18.2%
(I) Health & Human Services	9,165,634	11,779,839	2,614,205	28.5%
(M) Public Safety	1,819,185	1,829,420	10,235	0.6%
(L) Transportation	192,375	196,770	4,395	2.3%
(J) Environment, Energy & Natural Resources	363,585	361,645	(1,940)	(0.5%)
(S) Agriculture & Veterans	252,879	251,266	(1,613)	(0.6%)
(K) Economic Development	272,404	263,592	(8,812)	(3.2%)
(N) State Government	639,160	650,550	11,390	1.8%
(O) Debt Service	954,522	1,152,851	198,329	20.8%
(T) Capital Projects	29,800	45,219	15,419	51.7%
(X) Cancellation Adjustment	(21,000)	(20,000)	1,000	(4.8%)
Subtotal by Appropriation Bill	31,245,363	38,623,081	7,377,718	23.6%
(D) Dedicated Revenue Expenditures	40,692	21,035	(19,657)	(48.3%)
Total Expenditures & Transfers	**31,286,055**	**38,644,116**	**7,358,061**	**23.5%**
Balance Before Reserves	**(852,668)**	**(6,278,934)**	**(5,426,266)**	
(Y) Cash Flow Account	350,000	350,000	0	
Budgetary Balance	**(1,202,668)**	**(6,628,934)**	**(5,426,266)**	

FY 2008 - FY 2013 Planning Horizon

November 2009 General Fund Forecast

($ in thousands)

	Closing FY 2008-09	11-09 Fcst FY 2010-11	11-09 Plng Est FY 2012-13
Actual & Estimated Resources			
Balance Forward From Prior Year	2,244,935	446,921	(852,668)
Current Resources:			
(C) Tax Revenues	29,461,611	27,762,644	31,148,564
(C) Non-Tax Revenues	1,587,048	1,529,837	1,474,467
Subtotal - Non-Dedicated Revenue	31,048,659	29,292,481	32,623,031
(D) Dedicated Revenue	150,051	67,096	60,914
(E) Transfers From Other Funds	817,523	560,052	483,905
(B) Prior Year Adjustments	52,158	66,837	50,000
Subtotal - Other Revenue	1,019,732	693,985	594,819
Subtotal Current Resources	32,068,391	29,986,466	33,217,850
Total Resources Available	**34,313,326**	**30,433,387**	**32,365,182**
Actual & Estimated Expenditures			
(G) K-12 Education	13,767,794	13,337,420	14,267,321
K-12 Ptx Rec Shift/Aid Payment Shift	(10,525)	(1,717,382)	1,155,894
Subtotal - K-12 Education	13,757,269	11,620,038	15,423,215
(H) Higher Education	3,113,216	2,858,555	3,025,674
(R) Property Tax Aids & Credits	3,069,637	3,098,226	3,663,040
(I) Health & Human Services	9,090,521	9,165,634	11,779,839
(M) Public Safety	1,866,675	1,819,185	1,829,420
(L) Transportation	253,244	192,375	196,770
(J) Environment, Energy & Natural Resources	401,566	363,585	361,645
(S) Agriculture & Veterans	271,411	252,879	251,266
(K) Economic Development	410,447	272,404	263,592
(N) State Government	668,011	639,160	650,550
(O) Debt Service	862,151	954,522	1,152,851
(T) Capital Projects	20,495	29,800	45,219
(P) Other	27,489	0	0
(X) Cancellation Adjustment	0	(21,000)	(20,000)
Subtotal by Appropriation Bill	33,812,132	31,245,363	38,623,081
(D) Dedicated Revenue Expenditures	54,273	40,692	21,035
Total Expenditures & Transfers	**33,866,405**	**31,286,055**	**38,644,116**
Balance Before Reserves	**446,921**	**(852,668)**	**(6,278,934)**
(Y) Cash Flow Account	350,000	350,000	350,000
(Y) Appropriations Carried Forward	44,758	0	0
Budgetary Balance	**52,163**	**(1,202,668)**	**(6,628,934)**

Historical and Projected Revenue Growth

November 2009 Forecast

($ in millions)	Actual FY 2006	Actual FY 2007	Actual FY 2008	Actual FY 2009	Estimated FY 2010	Estimated FY 2011	Average Annual
Individual Income Tax	$6,863	$7,231	$7,759	$6,988	$6,720	$7,379	
$ change		368	528	(771)	(268)	659	
% change		**5.4%**	**7.3%**	**-9.9%**	**-3.8%**	**9.8%**	**1.5%**
Sales Tax	4,464	4,506	4,571	4,344	4,186	4,331	
$ change		42	65	(227)	(158)	145	
% change		**0.9%**	**1.4%**	**-5.0%**	**-3.6%**	**3.5%**	**-0.6%**
Corporate Tax	1,062	1,171	1,020	708	593	680	
$ change		109	(151)	(312)	(115)	87	
% change		**10.3%**	**-12.9%**	**-30.6%**	**-16.2%**	**14.7%**	**-8.5%**
Statewide Property Tax	631	666	704	729	759	766	
$ change		34	38	25	30	7	
% change		**5.5%**	**5.7%**	**3.6%**	**4.1%**	**0.9%**	**3.9%**
Motor Vehicle Sales	250	247	186	117	70	29	
$ change		(2)	(61)	(69)	(47)	(41)	
% change		**-1.0%**	**-24.7%**	**-37.1%**	**-40.2%**	**-58.6%**	**-35.0%**
Other Tax Revenue	1,380	1,211	1,172	1,164	1,135	1,115	
$ change		(169)	(39)	(8)	(29)	(20)	
% change		**-12.2%**	**-3.2%**	**-0.7%**	**-2.5%**	**-1.8%**	**-4.2%**
Total Tax Revenue	$14,649	$15,032	$15,412	$14,050	$13,463	$14,300	
$ change		383	380	(1,362)	(587)	837	
% change		**2.6%**	**2.5%**	**-8.8%**	**-4.2%**	**6.2%**	**-0.5%**
Non-Tax Revenues	861	876	824	762	765	765	
$ change		15	(52)	(62)	3	0	
% change		**1.7%**	**-6.0%**	**-7.5%**	**0.4%**	**0.0%**	**-2.3%**
Dedicated, Transfers, Other	452	471	444	576	386	307	
$ change		19	(27)	132	(190)	(79)	
% change		**4.1%**	**-5.7%**	**29.7%**	**-33.0%**	**-20.5%**	**-7.4%**
Total Current Resources	$15,962	$16,379	$16,680	$15,388	$14,614	$15,372	
$ change		417	301	(1,292)	(774)	758	
% change		**2.6%**	**1.8%**	**-7.7%**	**-5.0%**	**5.2%**	**-0.8%**

Historical and Projected Spending Growth

November 2009 Forecast

($ in millions)	Actual FY 2006	Actual FY 2007	Actual FY 2008	Actual FY 2009	Estimated FY 2010	Estimated FY 2011	Average Annual
K-12 Education	$6,301	$6,438	$6,819	$6,938	$5,375	$6,245	
$ change		138	381	119	(1,563)	870	
% change		**2.2%**	**5.9%**	**1.7%**	**-22.5%**	**16.2%**	**-0.2%**
Higher Education	1,348	1,414	1,563	1,550	1,428	1,431	
$ change		66	149	(13)	(122)	3	
% change		**4.9%**	**10.6%**	**-0.8%**	**-7.9%**	**0.2%**	**1.2%**
Prop. Tax Aids & Credits	1,464	1,559	1,581	1,489	1,587	1,511	
$ change		96	22	(92)	98	(76)	
% change		**6.5%**	**1.4%**	**-5.8%**	**6.6%**	**-4.8%**	**0.6%**
Health & Human Services	3,910	4,311	4,630	4,460	4,304	4,862	
$ change		401	319	(170)	(156)	558	
% change		**10.3%**	**7.4%**	**-3.7%**	**-3.5%**	**13.0%**	**4.5%**
Public Safety	812	895	909	957	892	927	
$ change		83	14	48	(65)	35	
% change		**10.3%**	**1.6%**	**5.3%**	**-6.8%**	**3.9%**	**2.7%**
Debt Service	352	400	409	453	429	525	
$ change		47	9	44	(24)	96	
% change		**13.4%**	**2.3%**	**10.8%**	**-5.3%**	**22.4%**	**8.3%**
All Other	1,356	931	1,094	1,014	904	866	
$ change		(426)	163	(80)	(110)	(38)	
% change		**-31.4%**	**17.6%**	**-7.3%**	**-10.8%**	**-4.2%**	**-8.6%**
Total Spending	$15,542	$15,947	$17,005	$16,861	$14,919	$16,367	
$ change		405	1,058	(144)	(1,942)	1,448	
% change		**2.6%**	**6.6%**	**-0.8%**	**-11.5%**	**9.7%**	**1.0%**