This document is made available electronically by the Minnesota Legislative Reference Library as part of an ongoing digital archiving project. http://www.leg.state.mn.us/lrl/lrl.asp

MINNESOTA Management & Budget

February 2011 Forecast

HIGHLIGHTS

Budget Outlook for FY 2011-13 Improves by $1.160 Billion

A $264 million projected increase in the expected ending balance for the current biennium combined with an $896 million improvement in the budget forecast for the 2012-13 biennium outlook has reduced next biennium's projected budget deficit to $5.028 billion, $1.160 billion less than forecast in November. An improved outlook for state revenues, due in part to changes in the capital gains forecast, was responsible for most of the additional revenue. Projected general fund revenues for FY 2011 through FY 2013 increased $984 million, while expenditures fell $176 million compared to November's estimates.

U.S. Economic Outlook Improves Modestly

Global Insight's February forecast for the U.S. economy is slightly more optimistic than their November baseline. The projected real GDP growth rate for 2011 increased to 3.2 percent reflecting the unexpected fiscal stimulus included in December's federal tax compromise. November's GII baseline called for 2.3 percent growth. But, since much of the additional stimulus expires at the end of 2011, growth rates for 2012 and 2013 are largely unchanged from November, although that growth builds on a higher base. Global Insight continues to assign a probability of 65 percent to their baseline forecast. Their pessimistic alternative is now given a probability of 15 percent while the probability given to their optimistic scenario is 20 percent. In November the optimistic scenario was given a 15 percent probability.

Long-Term Outlook Improves, but a $4.4 Billion Structural Deficit Remains

The improved revenue outlook continues into the next biennium as well. Long term revenue planning estimates for FY 2014-15 show revenues increasing by $735 million from November's estimates. There was, however, little change in the 2014-15 expenditure projections. In the absence of corrective action Minnesota will have a structural budget gap of nearly $2.2 billion per year for both FY 2014 and FY 2015.

BUDGET UPDATE AND OUTLOOK

Projected Budget Shortfall in FY 2012-13 Falls to $5.028 Billion

December's federal tax compromise provided some much needed short-term recovery insurance for the U.S. economy. The most significant piece, a two percentage point reduction in the employee payroll tax, offers a significant and immediate boost to the economic outlook for 2011. The compromise also provided some indirect relief for state budget deficits by delaying the scheduled 5 percentage point increase in the federal capital gains tax rate until 2013. Holding that tax rate constant is expected to increase capital gains realizations in 2011 and 2012, providing a significant short-term lift to the outlook for state individual income tax receipts. But, because capital gains income is notoriously volatile and extremely difficult to forecast, the risk that actual revenues will fall short of forecast has also increased.

The additional state tax revenue from the improved economic forecast and the continuation of the 15 percent capital gains rate, coupled with a small reduction in projected spending has increased the balance projected for FY 2011 by $264 million to $663 million. The revenue outlook improved by an additional $887 million in the 2012-13 biennium. Overall, Minnesota's 2012-13 budget outlook has improved by $1.160 billion since November, but a projected budget deficit of $5.028 billion still remains.

FY 2011-13 Forecast Changes Compared to November

($ in millions)

	FY 2011	FY 2012-13
November Forecast Balance	**$399**	**($6,188)**
FY 2011 Forecast Change	**-----**	**264**
Changes:		
Forecast Revenues	97	887
Forecast Expenditures	(167)	(9)
Net February Forecast Impact	$264	$896
Budget Balance (Shortfall)	**$663**	**($5,028)**

As in November, current law waives statutory requirements that any forecast balance for FY 2011 be used to restore the cash flow and budget reserve accounts. The $663 million balance now forecast for the close of FY 2011 carries forward to the next biennium, reducing the projected shortfall.

$663 Million Balance Projected for 2010-11 Biennium

Minnesota's budget outlook for FY 2010-11 has improved by $264 million since November. General fund revenues are now expected to total $30.662 billion in the current biennium, $97 million (0.3 percent) more than previously forecast. State general fund expenditures are now projected to be $30.171 billion, $167 million (0.6 percent) below earlier estimates. The state's cash flow account continues to have a balance of $266 million, and the budget reserve a $9 million balance.

FY 2010-11 Budget Forecast

($ in millions)

	November Forecast	February Forecast	Difference
Beginning Balance	$447	$447	—
Revenues	30,565	30,662	97
Expenditures	30,338	30,171	(167)
Reserves	275	275	0
Balance	**$399**	**$663**	**$264**

More than one half of the $264 million forecast change is from a $165 million reduction in projected human services spending. Much of that spending reduction results from changes in the implementation of the early Medical Assistance (MA) expansion. General fund revenues are now expected to exceed November's estimates by $97 million (0.3 percent), with projected receipts from the individual income tax, the sales tax, and the corporate income tax all increasing by very modest amounts. General fund revenues in the current biennium are now expected to be $1.4 billion (4.4 percent) less than in the 2008-09 biennium.

November 2010 forecast revenue and expenditure results have been restated in this document for comparability. Previously, the cost of the contingent MA expansion had been displayed as a net expenditure number - both at end of 2010 legislative session and in the November 2010 forecast. Since the expansion has been authorized, the revenue and expenditure numbers are now reported separately. This restatement increased November's reported non-tax revenues and transfers, as well as spending, by $71 million in FY 2011, and by $439 million in FY 2012-13.

Budget Shortfall of $5.028 Billion Projected for 2012-13 Biennium

Minnesota now faces an expected general fund budget gap of $5.028 billion for the 2012-13 biennium, $1.160 billion less than was projected in November. General fund revenues for FY 2012-13 are now forecast to total $33.330 billion, $887 million (2.8 percent) more than November's estimates. More than half of the additional 2012-13 revenue came from the individual income tax, and about two-thirds of the additional income tax revenue came from higher expected growth in capital gains. Net general fund revenues for the 2012-13 biennium are expected to be 8.7 percent greater than in the 2010-11 biennium.

Expenditures are now projected to be $39.021 billion, $9 million (0.01 percent) less than November's estimate. Total spending, under current law requirements, will grow $8.8 billion, or 29 percent. The unusually high expenditure growth rate is largely the result of replacing one-time federal stimulus resources, the K-12 payment shifts used in the 2010-11 biennium, and the repayment of the education payment shift in FY 2012 required by current law. If these one-time factors are omitted, comparable spending growth would be 9.6 percent.

When projected current law spending is matched against forecast revenues including the expected balance from FY 2011, a budget shortfall of $5.028 billion is forecast for FY 2012-13.

FY 2012-13 Budget Outlook

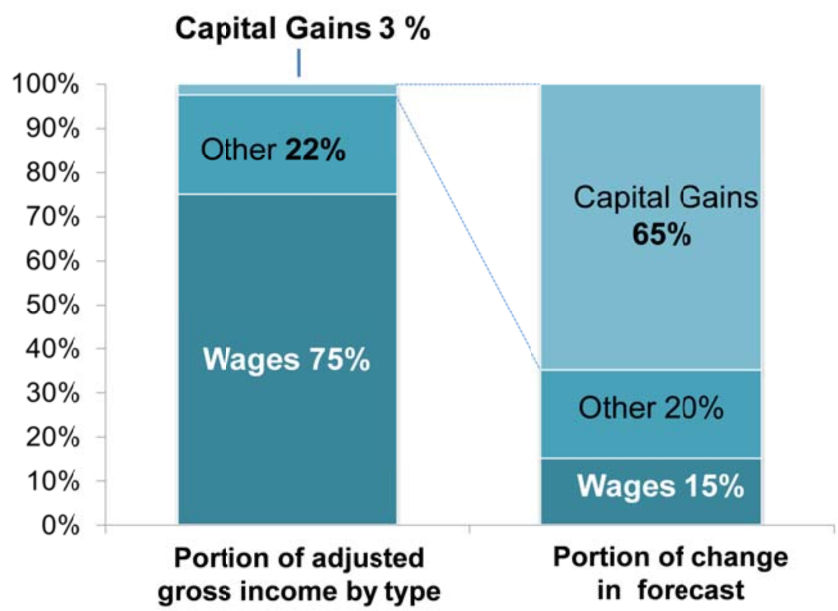
($ in millions)

	November Forecast	February Forecast	Difference
Beginning Balance	$674	$938	$264
Revenues	32,443	33,330	887
Expenditures	39,030	39,021	(9)
Cash Flow Acct	266	266	—
Budget Reserve	9	9	—
Balance	**($6,188)**	**($5,028)**	**$1,160**

Much of the Additional Revenue Comes from Capital Gains, a Highly Volatile Revenue Source

Capital gains income is a small and highly volatile part of Minnesota's income tax base. In this forecast it contributed disproportionately to the change in revenues for the 2012-13 biennium. December's federal tax compromise delayed a scheduled 5 percentage point increase in the capital gains tax rate until 2013. That will encourage investors to turn their portfolios over more rapidly than had the higher rate been allowed to take effect in 2011. And, in turn, that increase in expected realizations adds significantly to Minnesota's income tax base. In this forecast about 65 percent of the increase in adjusted gross income (AGI) projected for FY 2012 and FY 2013 comes from capital gains revenue. Between tax year 2009 and tax year 2013 capital gains income of Minnesota resident filers is expected to increase by more than \$4.5 billion or 180 percent. In November, realizations were expected to roughly double, increasing by just under \$3 billion.

About 65% of the Change in the AGI Forecasts for Tax Years 2011-12 Came from Capital Gains



Capital gains are extremely volatile and forecasting a large increase in revenues from a small portion of the tax base significantly increases the risk associated with this forecast. In tax year 2007 Minnesota resident filers reported \$10.9 billion in net gains from the sale of capital assets and capital gains were 7.2 percent of AGI. By 2009 the combination of the recession, the stock market slump, and widespread investor pessimism had produced more than a 75 percent drop in net gains reported by Minnesota resident filers. Preliminary tax year 2009 data shows Minnesota capital gains falling to about \$2.5 billion. Capital gains income is now expected to grow to \$7.1 billion in 2012.

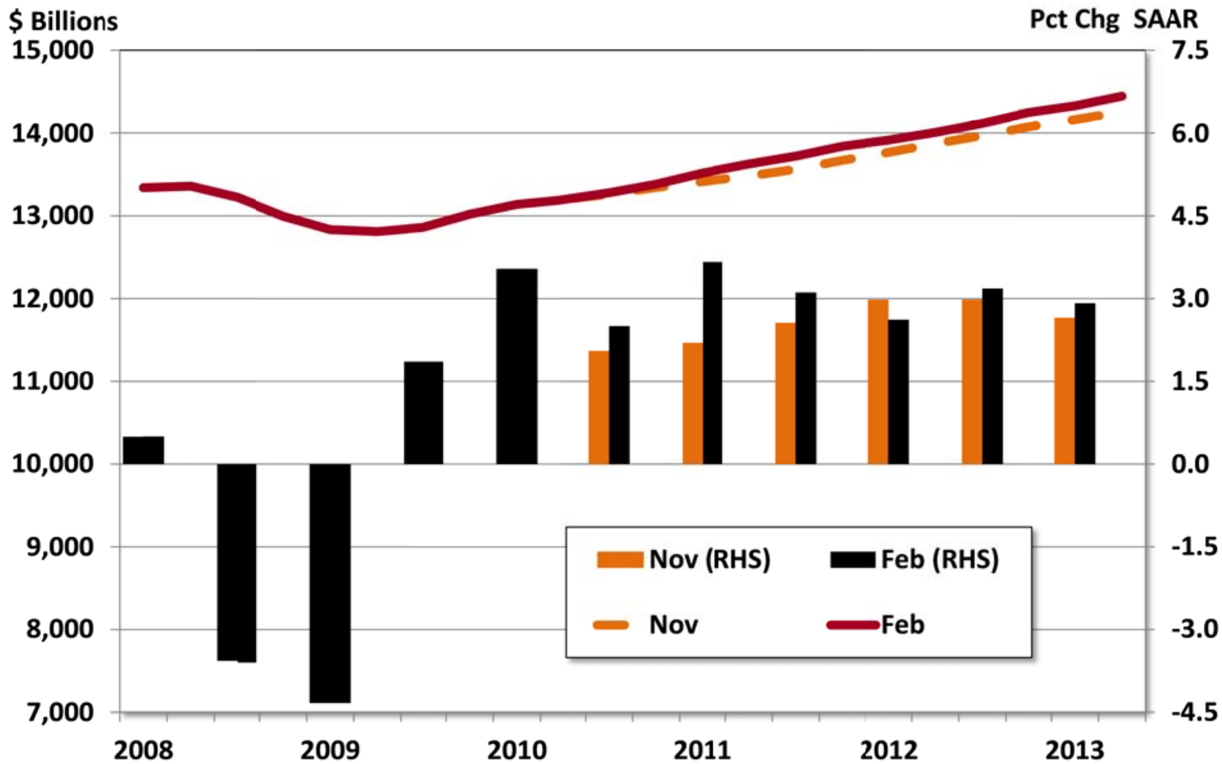
The U.S. Economy Is Growing, but Stronger Job Growth Is Needed

The economic environment is noticeably better now than in November, and almost everyone's expectations for 2011 have been raised. Improvements in several key leading indicators are part of the reason for rosier forecasts, but the tax compromise approved by the President and Congress in early December is the major cause for economists' optimism. Most of the tax provisions in that bill, including the extension of the Bush tax cuts were anticipated and had already been incorporated into earlier projections, but forecasters were truly surprised when the final agreement included a two percentage point reduction in the employee payroll tax rate for 2011. That provides $111 billion in additional stimulus for the economy this year and is anticipated to add about 0.4 percentage points to the 2011 growth rate for real GDP. That change, coupled with other provisions continuing extended unemployment benefits through the end of 2011 and expanding expensing provisions for business investment in capital equipment led most forecasters to raise their forecasts for real GDP growth, adjusting their outlook for 2011 up from sub-par to above average.

The additional stimulus provided by the temporary payroll tax cut also increased economists' confidence that the economic expansion would remain sufficiently robust to bring the U.S. unemployment rate down. And, it generally eliminated forecasters' earlier concerns about back-to-back recessions. But, even with the improved outlook most believe the national unemployment rate will continue at an uncomfortably high level for an extended period, remaining above 7 percent until late 2014. While all the necessary ingredients for increased hiring appear to be in place, to this point at least, job growth remains well below what normally occurs as the economy recovers from a recession.

Like most forecast services, Global Insight Inc (GII), Minnesota's national macroeconomic consultant, expects the economy to perform well during 2011 and 2012. GII expects real GDP growth of 3.2 percent in 2011 substantially above the 2.3 percent rate called for in their November baseline. The short term nature of the payroll tax cut is apparent in 2012, though. Once the tax cut expires, growth slows to 2.9 percent, the same as projected in November. The real GDP growth rate in Global Insight's February baseline is identical to that of the Blue Chip Consensus. But, the Blue Chip panel is more optimistic about 2012, calling for real growth at a 3.3 percent rate.

Stronger Real GDP Growth in 2011 Raises Base for 2012 and 2013



Inflation continues not to be a concern, although the February baseline was released prior to the current unrest in the Middle East. GII's February baseline anticipates the CPI to increase by 1.9 percent in 2011 and 1.7 percent in 2012. In November's baseline CPI growth rates of 1.5 percent and 1.9 percent were projected. Oil prices are assumed to remain below $100 per barrel through mid-2013.

As in November Global Insight assigns a 65 percent probability to its baseline scenario. But the probabilities assigned to their optimistic and pessimistic alternatives have been switched reflecting a slight increase in optimism. GII now assigns a 20 percent probability to its optimistic scenario, five percentage points more than in November. A 15 percent probability is now given to the pessimistic scenario. Also, February's pessimistic scenario no longer contains a recession. Now output slows dramatically for two quarters, but does not decline.

FY 2011 Revenues Up $97 Million from November's Estimate, Revenue Forecast for FY 2012-13 Increased by $887 Million

General fund revenues for the 2010-11 biennium are forecast to total $30.662 billion, $97 million more than projected in November. There were very modest increases to the FY 2011 income, sales and corporate tax forecasts. Expected revenue from the major taxes in the current biennium is 0.3 percent more than was projected in November.

FY 2010-11 and FY 2012-13 Revenues Forecast Changes

($ in millions)

	FY 2010-11	FY 2012-13
Income	$26	$499
Sales	36	249
Corporate	22	19
Statewide Prop Tax	0	12
Subtotal	84	779
Other	13	108
Total	**$97**	**$887**

General fund revenues for the 2012-13 biennium are projected to increase $887 million from November's forecast. Revenues are now expected to be $33.330 billion, 2.8 percent more than previously projected and 8.7 percent more than expected receipts for the 2010-11 biennium. Increases in projected receipts from the income and sales taxes account for almost the entire FY 2012-13 revenue gains. More than one-half of the additional projected revenue came from the individual income tax, and about two-thirds of the projected increase in income tax receipts came from changes in the capital gains forecast. About two-thirds of the $249 million increase in the sales tax forecast came from stronger than previously projected growth in sales and one-third from a reduction in the sales tax refund forecast. Payment by Wisconsin of the $58 million final income tax reciprocity payment, which had been expected in December, is now assumed to occur in fiscal 2012.

Small Changes in Spending for FY 2010-11 and FY 2012-13

Forecast spending for FY 2010-11 is now $30.171 billion, $167 million (0.6 percent) below November's estimates. The saving is almost exclusively due to reductions in estimated spending for health and human services' programs. The principal sources of savings were an increase in expected federal matching rate for Medical Assistance (MA) and lower estimates for the cost of early MA expansion to reflect the Governor's executive order and phased-in implementation.

FY 2010-11 and FY 2012-13 Spending Forecast Changes

($ in millions)

	FY 2010-11	FY 2012-13
K-12 Education	($9)	($24)
Higher Education	0	0
Property Tax Aids & Credits	0	(12)
Health & Human Services	(165)	(8)
Public Safety	0	0
Debt Service	(2)	39
All Other Spending	9	(4)
Total Change	**($167)**	**($9)**

Projected current law spending for the upcoming biennium is now $39.021 billion, a decline of just $9 million since November. Slightly lower estimates for K-12 education, property tax aids and credits, and human services spending are in part offset by a $39 million increase in the debt service forecast.

FY 2014-15 Planning Outlook Improves, But Significant Gap Remains

Changes in the FY 2014-15 planning outlook have implications for FY 2012-13 budget decisions. The long-term budget outlook for FY 2014-15 has improved only marginally since November. General fund revenues are $735 million higher, offset in part by a $50 million increase in projected spending. As a result, the longer term gap between ongoing revenues and spending projected for FY 2014-15 has decreased by $685 million from estimates made in November.

FY 2012-14 Planning Outlook

($ in millions)

	FY 2012	FY 2013	FY 2014	FY 2015
Projected Revenues	$16,198	$17,132	$17,323	$18,007
Projected Spending	19,952	19,070	19,668	20,061
Difference	($3,754)	($1,938)	($2,345)	($2,054)
Estimated Inflation (CPI)	$339	$673	$1,122	$1,611

When compared to November estimates, the structural deficits for both FY 2012-13 and FY 2014-15 have improved slightly. The structural gap for FY 2012-13 was $6.587 billion; it is now $5.692 billion. For FY 2014-15, the November projected structural gap was $5.083 billion; it is now $4.398 billion. The reduction in the revenue-expenditure gaps shown for both biennia is largely the result of increases in the revenue forecast. There was little underlying change in forecast expenditures.

The impact of inflation is not reflected in expenditure projections. The consumer price index (CPI) is projected to increase 1.7 percent in FY 2012 and 1.8 percent in FY 2013. For the following biennium it is forecast to increase 2.1 percent for FY 2014 and 2.2 percent in FY 2015.

Planning estimates become more meaningful once specific budget proposals for closing the FY 2012-13 budget gaps are being considered and a starting point for the following biennium is being established. The large structural gap for FY 2014-15 has implications for determining the long term impact of FY 2012-13 budget solutions.

FORECAST FUNDAMENTALS: About the Revenue and Expenditure Forecast

The February forecast updates the state's financial outlook for fiscal 2011 and provides a new estimate of expected revenues and expenditures for the FY 2012-13 budget considerations now underway in the legislature. It also updates the planning estimates for the 2014-15 biennium. The forecast and planning estimates are revised to reflect the most recent information about the national and state economic outlook, as well as caseload, enrollment and cost projections. No adjustments are made for future inflation except for those contained in statute.

The revised revenue estimates reflect changes in Global Insight's national economic outlook since November, changes in the Minnesota economy, and recent revenue collection experience. Income tax receipts include fourth quarter estimated tax payments and January withholding tax collections. Sales tax receipts include results from the Christmas shopping season.

Revenue estimates for the current year and the next biennium are based on econometric models that forecast the Minnesota economy. The revenue forecast is prepared based on a national economic forecast provided by Global Insight Inc. (GII). That national forecast is then reviewed by Minnesota's Council of Economic Advisors. A summary of their comments is found in the "Economic Summary." The "Economic Outlook" which follows provides a more comprehensive overview of the outlook for the U.S. and Minnesota economies. The revenue planning estimates for the 2014-15 biennium are obtained from slightly less complex models but are based on the Global Insight baseline forecast for 2012 and 2013.

Expenditure estimates in most areas are shown at the level of the appropriation made during the 2010 legislative session. Entitlement programs such as K-12 education, intergovernmental aids, health care, and family support are forecast based on expected changes in eligibility, enrollment and average cost. No adjustments for inflation are made in future spending except where required in statute.

The expenditure forecast reflects only current law. It does not reflect the Governor's budget recommendations or any potential legislative actions. There is a distinct difference between the forecast and budget proposals, but the two may be confused. The "current law" forecast for various areas is the basis for discussion of possible future legislative changes. The forecast provides a current law framework for analyzing the Governor's and legislative budget proposals. The forecast of spending for any area for the next biennium does not preclude the governor or the legislature from proposing and enacting budget changes that would lead to significantly different spending levels than shown in this forecast.

ECONOMIC SUMMARY

The short-term economic outlook appears brighter now than when the last revenue forecast was prepared. In November there was general concern that an early 2011 stumble by the U.S. economy might lead to an extended period of slow growth, or even to back-to-back recessions. Since that forecast though, the economic news has generally been favorable and policy actions reassuring. The two percentage point cut in the payroll tax approved following December's federal tax compromise provided some much needed, short-term recovery insurance and in recent months widely followed leading economic indicators, such as the supply managers indexes have shown further strength. The advance GDP estimates released by the U.S. Department of Commerce in late January offered additional evidence that the U.S. economy is leaving the Great Recession behind. Real GDP in 2010's fourth quarter is now reported to be $13.382 trillion, $60 billion more than the fourth quarter 2007 pre-recession peak.

But, while output has recovered, labor markets have not. The national unemployment rate has fallen by 0.8 percentage points since November, but that still leaves the unemployment rate at 9 percent. And, the recently released benchmark revisions to U.S. employment data indicate that only about one million of the more than 8.7 million jobs lost during the Great Recession have been regained. Most forecasters still believe that U.S. payroll employment will not recover to pre-recession levels until 2013 and that the unemployment rate will remain above 7.5 percent through mid-2014.

Economists do expect that job growth will pick up significantly during this year, with monthly payroll employment increases projected to average between 150,000 and 200,000 per month. Unfortunately, even if 2011's job growth averages 200,000 per month, the 2.4 million jobs created will be less than one-third of the number needed to return to employment levels seen in 2007. Even stronger employment growth would be welcome, but to this point at least, progress has been disappointingly slow. All the necessary ingredients for increased hiring are in place--inventories now are relatively lean, corporate profits high, and credit more readily available. And, balance sheets for both firms and households have generally recovered from the financial shocks of 2008 and 2009. But, business confidence and consumer confidence still remain fragile and while there are several alternative scenarios describing what could cause hiring to take off, the actual conditions needed for job growth to accelerate will remain in question until it actually happens.

The February baseline forecast of Global Insight Inc., (GII), Minnesota's national macro-economic consultant, reflects both the general short-term improvement in forecasts that has been observed since November and some cautious optimism about the future. GII now expects real GDP growth of 3.2 percent in calendar 2011. In November real growth was projected to grow at a 2.3 percent annual rate. Almost all of the change in Global Insight's forecast for 2011 is due to additional stimulus provided in December's federal tax compromise bill, particularly the 2 percentage point reduction in the payroll tax. Differences between the February and November baseline growth rates for calendar 2012 and 2013 are slight. For 2012, February's baseline calls for real GDP growth of 2.9

percent, the same as in November. For 2013, real growth at a 3.1 percent annual rate is now expected, up slightly from Novembers forecast of 2.7 percent growth. Inflation, while now slightly more of a concern to forecasters than in November, is still expected to remain under control through the forecast horizon. February's baseline projects CPI growth of 1.9 percent in 2011, 1.7 percent in 2012, and 1.9 percent in 2013. In November CPI growth rates were also below 2.0 percent through 2013.

Global Insight's current baseline forecast for real GDP growth in 2011 is identical to February's Blue Chip Consensus forecast, while their outlook for real growth in 2012 is slightly less optimistic than the 3.3 percent real growth rate of the Blue Chip panel. The Blue Chip Consensus forecast for CPI inflation in 2011 is identical to Global Insight's baseline forecast, while GII's projected CPI growth for 2012 is slightly below the 2.0 percent Consensus outlook.

As in November Global Insight assigns a 65 percent probability to its baseline scenario. But the generally more optimistic tone of Global Insight's outlook is reflected by the probabilities they assign to their optimistic and pessimistic alternatives and to the changes in the growth patterns shown in those scenarios. The optimistic alternative calls for stronger growth than November's optimistic scenario. It is also assigned a higher probability (20 percent) than was November's optimistic alternative. There were also changes to the pessimistic scenario. The probability assigned to the pessimistic scenario has been reduced by 5 percentage points to 15 percent and projected output levels increased. In November the pessimistic scenario had a two quarter recession. The February pessimistic scenario has two quarters with GDP growth rates near zero, but output only slows it does not decline and there is no recession in the current pessimistic scenario.

Members of Minnesota's Council of Economic Advisors agreed that the Global Insight's February baseline reflects the consensus outlook through 2012. As is typical, some members were more optimistic than Global Insight and some less optimistic, and Council members and MMB economists noted that several well respected national forecasting services were significantly more optimistic in their outlook for 2011 than Global Insight. Council members also generally agreed that that there was more upside potential than down side risk for the Global Insight baseline forecast but all agreed that the February baseline was an appropriate starting point for Minnesota's revenue forecast.

As in November, Council members remained cautious in their outlook. While most believe that real growth rates will be sufficient to begin to bring the unemployment rate down over the next 18 to 24 months, progress thus far was seen as disappointing. One member characterized the labor market's recovery as "maddeningly slow." There was also little agreement about what might provide the spark necessary to stimulate more rapid job growth. Lists of what could go wrong were similar. Geo-political events, further problems in the housing sector, spillovers from state and local budget problems, energy prices, and policy mistakes in elsewhere in the world all were noted as items that could cause the economy to underperform Global Insight's baseline. But, despite those uncertainties Council members agreed that the probability that the economy would out-perform GII's baseline was greater than the probability the economy would grow more slowly than forecast.

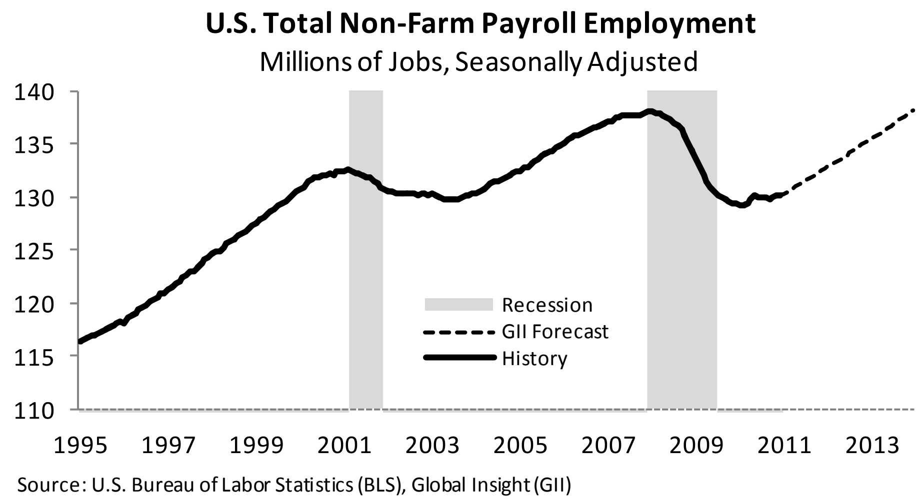
Economists from Minnesota Management and Budget noted that recent federal tax law changes affecting the rates at which capital gains are to be taxed in 2010, 2011, 2012, and 2013 will have a material positive impact on Minnesota realizations and Minnesota taxable income over the forecast horizon. They also pointed out that capital gains realizations are extremely volatile. In both 2008 and 2009 capital gains realizations by Minnesota residents decline by more than 50 percent per year.

Council members continue to recommend that budget planning estimates for future biennia include an adjustment of future spending to reflect expected inflation. The current practice of including inflation in projected revenues but not in spending projections is misleading and not consistent with either sound business practice or the methods of the Congressional Budget Office. Since inflation is relatively low currently, the current method understates the projected deficit in the 2012-13 biennium by approximately one billion dollars, but the distortion will grow larger if and when accelerates to higher levels. The Council has made a similar recommendation in each of its written statements since the current practice was required in 2003.

ECONOMIC OUTLOOK

At year's end, Christmas sales surged and real GDP had regained its pre-recession peak. Now, wages are rising, stock prices are boosting household wealth and confidence, and manufacturing output is growing. Additional stimulus is coming from the tax package enacted last December and possibly from the Federal Reserve's QE2 program. But, consumer and business confidence is still below pre-recession levels and job gains are not quite enough to absorb labor force growth, suggesting a robust economy led by mutually reinforcing consumer spending and hiring could be several months away.

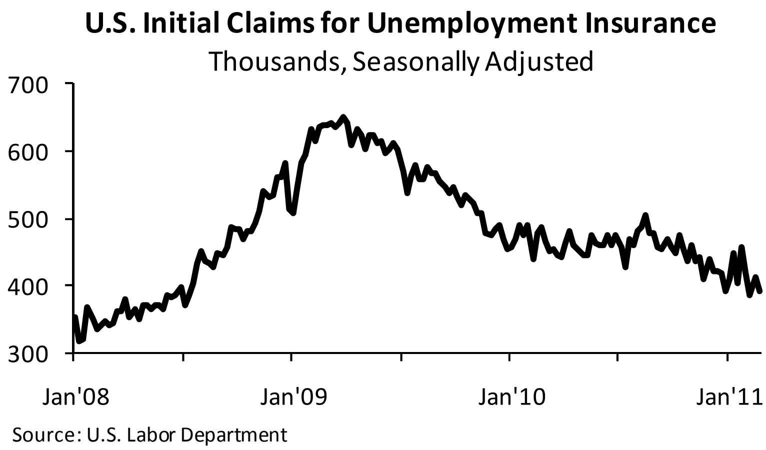
Payroll employment gains picked up to about 130,000 seasonally adjusted jobs per month through January. Before a robust expansion can take hold, however, monthly gains must reach about 200,000. Global Insight (GII) expects this to occur by early summer. Even then, GII forecasts employment will not reach pre-recession levels until late 2013, and the unemployment rate will not decline to a new normal 6 percent until 2017.



Payroll employment gains have picked up to about 130,000 seasonally adjusted jobs per month. Before a robust expansion can take hold, monthly gains must reach at about 200,000. Global Insight (GII) expects this to occur by early summer.

Fresh signs of an improving economy appear regularly, including a lower unemployment rate, declining initial unemployment claims, a longer workweek, rising manufacturing employment, and rising Institute for Supply Management (ISM) indexes. Most economists and the public, however, believe more jobs and easier credit are critically important to a still fragile economy. With the housing market in no position to help, stronger job growth may wait for summer, but credit is improving. The Federal Reserve reports that large banks are easing their standards and making more loans primarily to large and medium sized businesses, but also to a few small firms. Meanwhile, *The Wall Street Journal* reports banks and credit card companies are increasing their consumer and small business marketing efforts. All this favorable news, and the extra fiscal stimulus enacted in December, are responsible for GII forecasting 2011 real GDP growth at 3.2 percent, up from 2.3 percent in November. Fiscal stimulus alone, however, accounts for

0.6 percentage point of the 0.9 point increase, so positive endogenous developments in the economy did not dominate changes in the February baseline outlook.



Fresh signs of an improving economy appear regularly, including a lower unemployment rate and fewer layoffs as reflected in declining initial unemployment claims. Weekly claims have now descended to about 400,000, the point at which net job gains should pick up if past experience proves relevant.

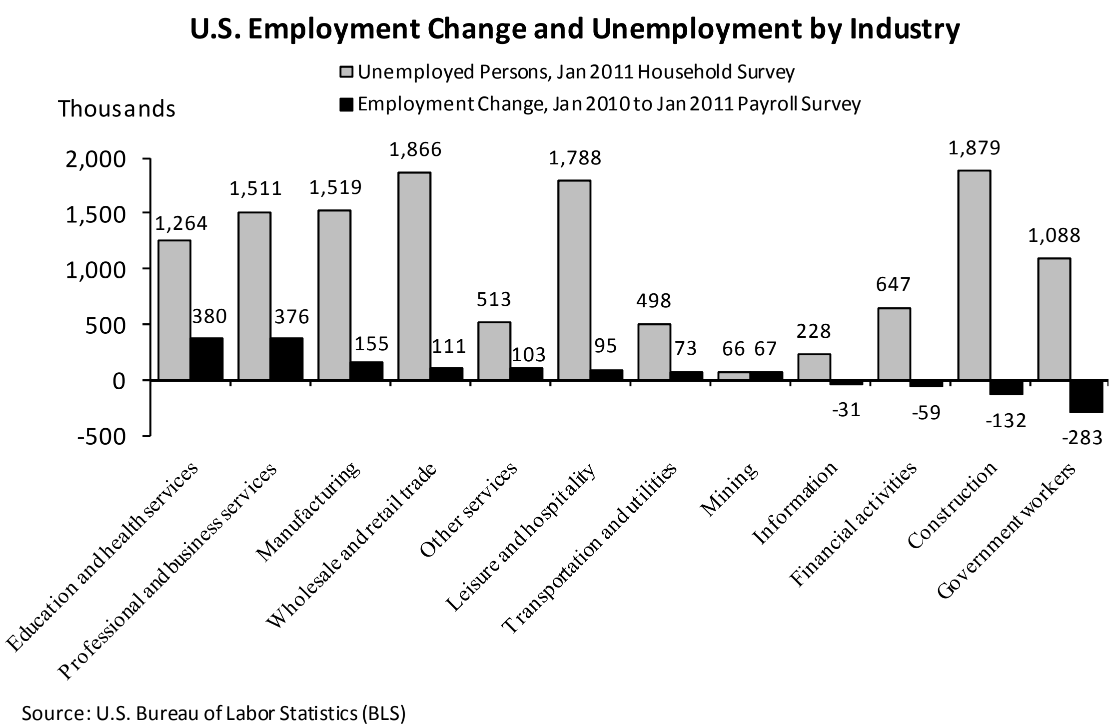
GII released their February pessimistic scenario before Middle Eastern political turmoil intensified. The scenario's probability is 15 percent, down from 20 percent in November. Key risks to a still fragile economy are a deeper housing correction and Europe's sovereign debt problems. Now, GII indicates it may be necessary to add sharply higher oil prices as another risk. According to GII, West Texas crude at about $100 for a year instead of the February baseline's $90 during 2011 would raise gasoline prices by about 24 cents per gallon, and result in the loss of 120,000 jobs. Whether that will happen is highly uncertain at this time because it is unclear whether Libya will stabilize and resume oil deliveries or, if not, whether Saudi Arabia will make up lost supplies. Also unknown is whether turmoil will spread further in the Middle East. GII has not indicated and may not yet know what its March pessimistic scenario will be.

MMB economists believe an alternative pessimistic outcome is possible if certain assumptions in the baseline scenario prove to be erroneous. Businesses may not add as many jobs as contemplated in the February baseline if productivity growth fails to decline as assumed. And, GII notes that even if the jobs materialize, household formation must rise from its recessionary doldrums if consumer spending is to increase as forecast. Should the jobs or household assumptions fail, or should crude oil prices stay $10 or more above $90, the economy could follow a meandering path below the baseline despite fiscal stimulus and Federal Reserve QE2 easing.

Consumer Spending and Jobs

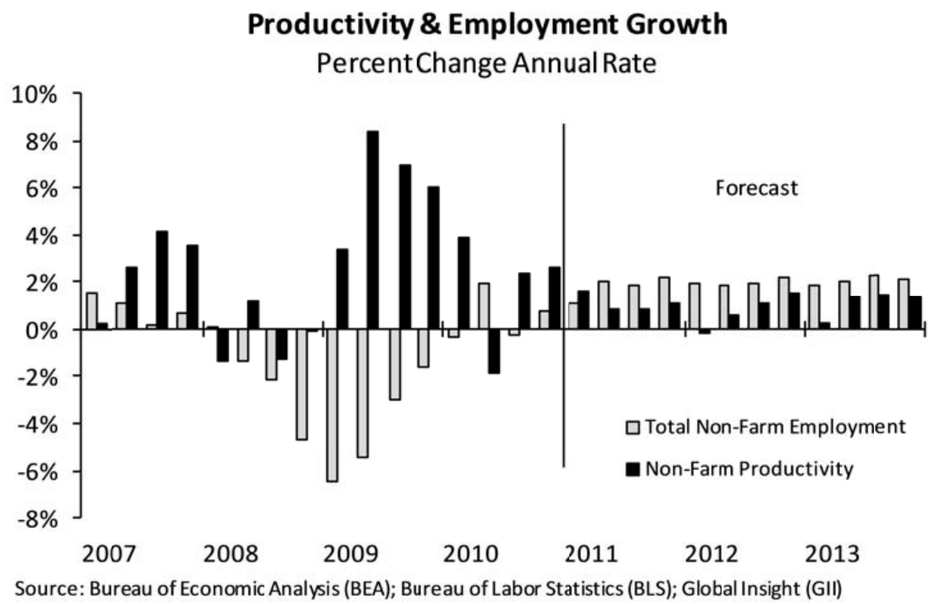
Anecdotes suggest consumer spending is strongest among upper income households, as well as among others unaffected by the housing bubble collapse and those that remained employed during the recession. For them, declining debt, a rising stock market, gains in wealth, and easier credit are boosting spending and confidence. Some analysts take a different view. An article in *Newsweek* suggests strong Christmas sales came from a damn-the-torpedoes urge to spend brought on by "frugality fatigue". That may be, but articles in *The Wall Street Journal* and elsewhere suggest "frugality frustration" is widespread among lower income households and especially those of the unemployed, both groups which spent relatively little at Christmas.

The data show the pool of unemployed identified with specific industries is more than 10 times as large as total jobs gained over the past year. Employment gains over the past year have generated income growth among households of workers concentrated in just a few industries, possibly an indication of serious structural problems. Moreover, the number of unemployed identified with each major industry greatly exceeds jobs growth in all industries except mining. Consumer spending could be adversely affected if the current situation prevails as extended unemployment benefits run out. A broader expansion with more jobs spread across more industries and more households is a prerequisite for the strong consumer spending needed for robust growth. GII's February 2011 baseline assumes slowing productivity growth forces firms to increase hiring.



The number of unemployed identified with each major industry greatly exceeds jobs growth over the past year in all major industries except mining.

In the long term, productivity gains are important for economic growth, jobs, and incomes. Paradoxically, short term increases in productivity following a recession can reduce the need to hire, slowing the recovery. A Federal Reserve Bank of San Francisco study published last fall looked at short term productivity changes, noting that a sharp slowing is necessary if there is to be a robust labor market in the aftermath of the recent recession. The conclusion is that relatively strong productivity growth as experienced during the recent recession tends to continue during recovery.

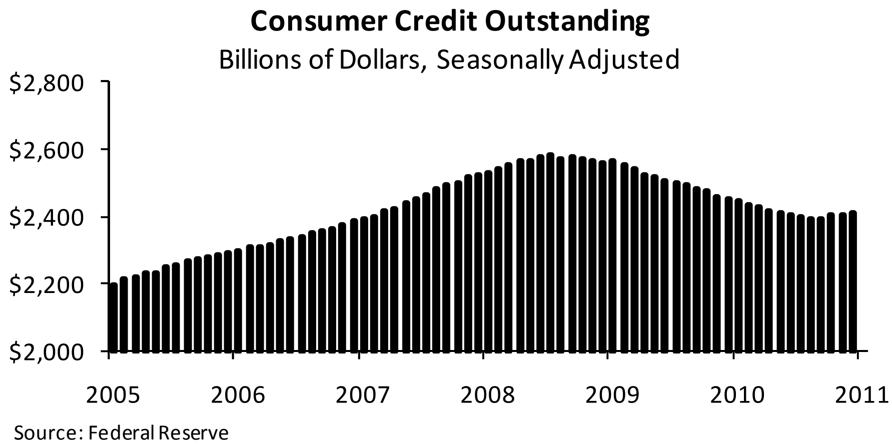


Businesses may not add as many jobs as forecast in the February baseline if productivity growth fails to decline as assumed.

While that does not argue well for GII's February forecast, more firms do seem to be making plans to hire, though maybe too few. According to a news article, a late November *CareerBuilder.com* survey indicated 24 percent of employers plan to hire permanent full-time workers this year, up from 20 percent in 2010. At the same time, 7 percent said they will lay off workers in 2011, down from 9 percent last year. Hiring accelerated from a seasonally adjusted 60,000 per month in the first 9 months of 2010 to about 130,000 per month currently. So, given what happened in 2010 and the survey results, further increases to 200,000 may be possible by year's end.

Credit Conditions Ease a Bit, But Not Universally

Credit conditions are easing for some borrowers. *The Wall Street Journal* reports the larger banks and some credit card companies are stepping up their efforts to make loans to more creditworthy consumers and businesses. Even home equity lending seems to be making a comeback. Lenders are eager to improve profitability, and some borrowers are becoming more creditworthy as they work down debt. Declining job layoffs have apparently helped raise the comfort level in credit transactions between lenders and those steadily employed. Consequently, after declining for 8 consecutive quarters, nonmortgage consumer credit outstanding rose a bit in 2010’s second half.



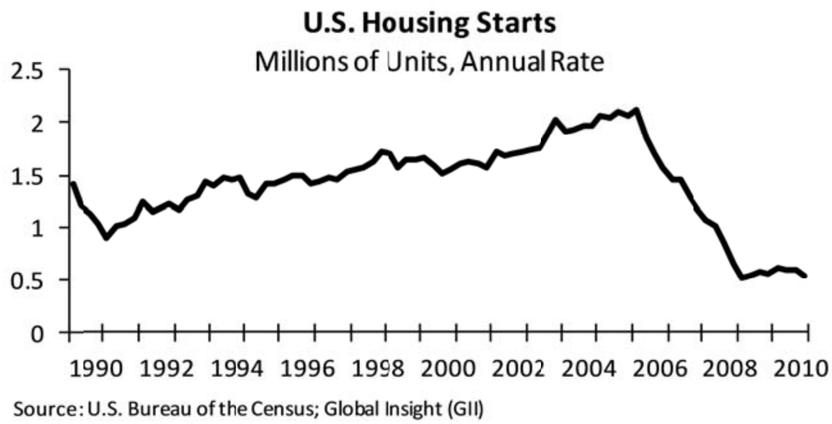
Lenders are stepping up their efforts to make loans to creditworthy consumers. Declining layoffs have helped raise the comfort level in credit transactions between lenders and those still employed. Consequently, after declining for 8 consecutive quarters, consumer credit outstanding rose a bit in 2010's second half.

While credit conditions have improved somewhat for the more creditworthy customers of larger banks, those seeking loans from smaller banks including community banks are often less fortunate. Unlike the largest banks, many small ones have been unable to put the financial crisis behind them, even the ones which received TARP loans. The FDIC's list of troubled banks continues to grow, and already this year, some 2 dozen smaller ones have been closed. *The Wall Street Journal* reports that the primary reason for stress in small banks is bad commercial real estate loans, though weak fee income is also a problem. Right now loan demand by small businesses is weak, but when it picks up, many community banks will be unable or unwilling to respond, possibly crimping an important source of new jobs.

Housing Market Bouncing Along the Bottom

News from the housing market indicates it is bouncing along the bottom with no clear recovery in sight. Driven by low mortgage rates and low prices, existing home sales have increased for months, the only way to absorb the glut on the market and clear the way for new construction. But in 2010, new home sales were the lowest in data going back to 1963 and seasonally adjusted starts remain close to their early 2009 low. Starts are now running about 565 thousand at an annual rate compared with a trend of about 1.6 million. The National Association of Homebuilders estimates that each new home constructed creates 3 jobs for a year and generates $90,000 in taxes. Most analysts believe it will take several years before starts fully recover.

Meanwhile, home prices are widely expected to fall another 5 to 10 percent before bottoming out sometime later this year. In December's release, the Case-Shiller 20 city index declined in 19 markets with Washington DC the exception. Prices in 11 other areas are at cyclical lows.



The housing market is bouncing along a bottom with no clear recovery in sight as housing prices continue falling. While existing home sales have increased during the past several months, new housing starts remain close to the post WWII bottom reached in 2008.

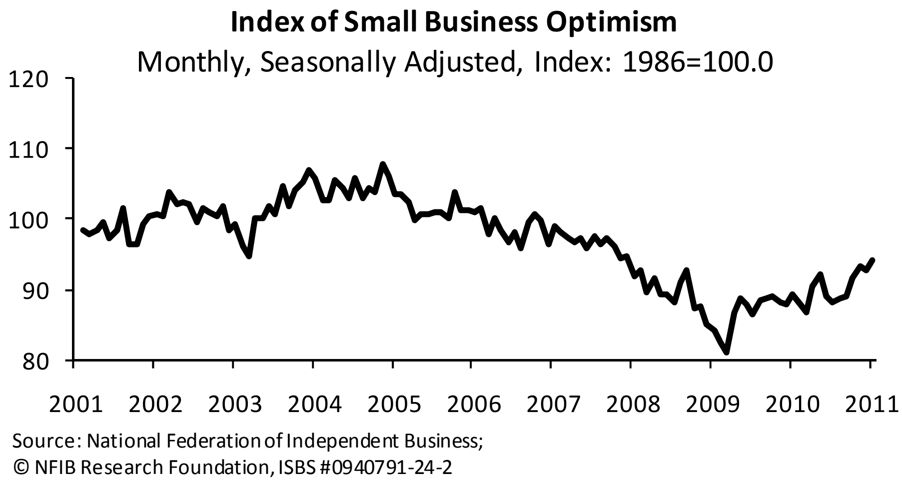
Bad Mortgages Will Come Home to Roost

For the next several years, irregularities in documents, misrepresentation of risks in securitized mortgages, and inflated appraisals will come home to roost on many firms that were in the mortgage industry during the housing bubble. Courts have only begun to sort out the issues, but some banks are already creating reserves to pay repurchase and warranty claims, and it seems more will follow. Barclays Capital estimates that there will eventually be some $85 billion in claims from private investors, Fannie Mae, Freddy Mac, and others. In Barclays' view, however, that alone should not pose unmanageable risks for the financial system.

Even if there were no claims, the financial system faces losses from a large backlog of foreclosures and distressed properties which will be foreclosed on or sold. Estimates of the so-called shadow inventory of homes which will be put on the market in the next few years vary from about 2 million up to 7 million depending on assumptions made. There is a long list of things to consider which includes how many defaults there will be, how many foreclosures are being postponed until legal issues are resolved, how many foreclosures are being postponed by banks and investors unwilling to book losses just yet, and how many homeowners will eventually list or just walk away because their mortgage is under water. A stronger job market could significantly reduce uncertainty by helping to absorb the glut of existing homes, but that has yet to emerge.

Small Business Still in the Doldrums

Small business is expected to play an important role in job creation. January's National Federation of Independent Business (NFIB) survey of enterprises employing up to 250 people reported optimism at its highest level since 2007. That, however, seems to mean small business owners see improvements in the economy which are too small to require an immediate response. Only a seasonally adjusted 12 percent plan to increase employment in the next few months, while 8 percent plan to reduce their workforce, leaving a net 4 percent planning to add jobs. Capital outlays look somewhat better with 22 percent planning investments. So it appears most small firms are waiting to hire and invest until they see excess capacity filling up. They do not expect that to happen soon since sales weakened and inventory liquidation continued at year's end. More than 90 percent of the owners say they are not interested in borrowing.



In view of its importance for job creation, small business is a concern. January's National Federation of Independent Business survey of small enterprises reported optimism at its highest level since 2007. Only 12 percent, however, plan to increase employment in the next few months, while 8 percent plan to reduce their workforce, leaving a net 4 percent planning to add jobs.

Consumption

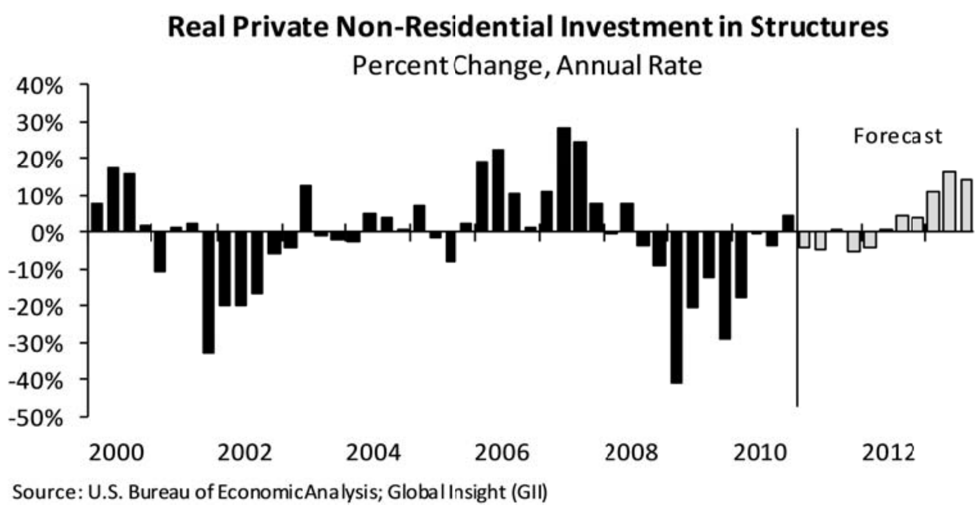
Early this year, forecasters including GII raised their outlook for 2011 after strong Christmas sales, and fourth quarter real consumer spending that, in general, proved to be a pleasant surprise. Commerce Department data indicated Christmas retail sales excluding autos, gasoline, food, and non-store items were up 5.7 percent, the best since 2005. Auto sales, not normally considered part of holiday sales, also were better than expected in part because auto loans became easier to get. While some forecasters continue to assume a significant part of the late 2010 consumer spending surge carried over into this year, GII does not because January retail sales were disappointing, and sales for November and December have been revised down slightly. In view of the new data, GII now indicates there will be a modest downward revision in the March baseline consumer spending forecast.

Anecdotal evidence suggests that Christmas spending increases were not broad based. Both *The Wall Street Journal* and *BloombergBusinessWeek* conclude that firm specific holiday sales data reveals a have-and-have-not situation with households in approximately the top 20 percent or so of the income distribution doing more than their normal share of the spending. For example, high end retailers like Nordstrom, Neiman Marcus, and Tiffany report better sales growth than dollar stores or Wal-Mart, and purchases on American Express credit cards exceed growth reported by Visa and MasterCard.

Despite ominous structural problems related to the recession including a distorted income distribution because of a very large number of unemployed and slow jobs growth, consumer spending shows signs of returning to normal. While hard data does not reveal who did it, consumers became more willing to borrow and lenders became more willing to lend at year's end. Some analysts are suggesting that even absent much jobs growth, declining layoffs have apparently helped raise the comfort level in credit transactions. After declining for 8 consecutive quarters, nonmortgage consumer credit outstanding rose a bit in 2010's second half.

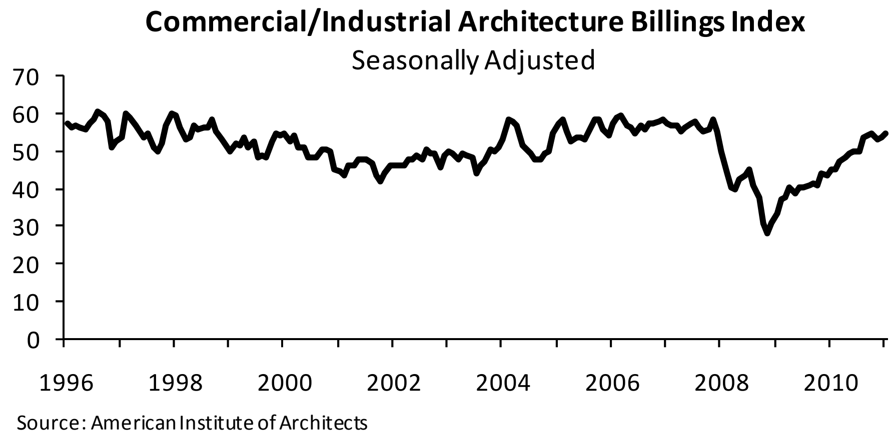
Investment

Last December, Congress passed the 2010 Tax Relief Act which allows firms to expense certain assets put in place until the end of this year, and allows 50 percent bonus depreciation of assets put in place in 2012. In response, Global Insight added $34 billion to the outlook for spending on equipment and software in 2011 and $41 billion in 2012. But, as with Cash for Clunkers and the Homebuyer's Tax Credit, the Act is likely to only accelerate the timing of planned expenditures, reducing spending in 2013 and 2014.



Real business spending for private structures plummeted for 9 quarters before growing in fourth quarter 2010. Though no one is ready to call a turnaround just yet, anecdotes suggest the commercial real estate market is firming up a bit.

While equipment and software outlays have been strong, real spending for private nonresidential structures plummeted for nine quarters before growing in fourth quarter 2010. No one is ready to call a turnaround just yet, though the Federal Reserve reports demand for commercial real estate (CRE) loans has increased slightly, albeit with slightly tighter lending conditions than in 2010. Meanwhile, CRE prices have shown signs of stabilization in some parts of the country and more banks are working out CRE loan restructuring arrangements. Another bit of positive news comes from the American Institute of Architects (AIA) Commercial/Industrial Billings Index which has been on an upward trend since late 2008. It seems as though firms are getting construction projects ready to go once the economy improves further and commercial real estate loans become more readily available.



It seems as though firms are getting construction projects ready to go once the economy improves further and commercial real estate loans become more readily available. The American Institute of Architects (AIA) Commercial/Industrial Billings Index, for example, has been on an upward trend since late 2008.

Government

During the next two years, Congress and the President will make decisions which could have significant impacts on the economy. GII assumes a continuing resolution funding the federal government will be enacted by the March 4 deadline, avoiding a federal government shutdown. A vote on raising the debt ceiling is expected to follow later. Both decisions may require significant changes in the budget. Currently, GII only assumes that by the end of 2012 there will be a one year extension of the Bush individual income tax cuts. Extended unemployment benefits, reduced Social Security taxes, expensing for equipment and software depreciation, and 50 percent first year bonus depreciation are assumed to expire on schedule.

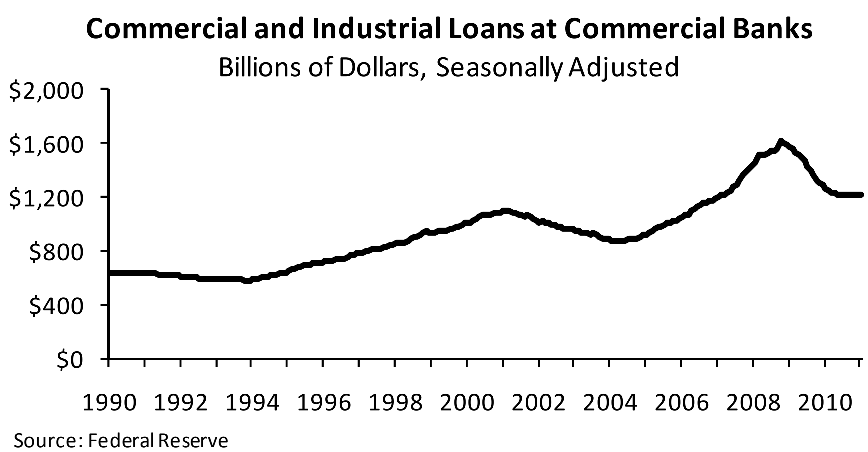
An issue which bears watching is the future of the government sponsored enterprises (GSEs), Fannie Mae and Freddie Mac. Some if not all of the policy alternatives laid out in a recent Treasury white paper would reduce or eliminate the federal role in housing finance. The GSEs bought or guaranteed a large share of home mortgages before the financial crisis, and virtually all of them since. The GSEs are so deeply involved in mortgage financing that shifting a significant part to the private sector hardly seems possible without disruptions such as the possible disappearance of the 30-year mortgage. In the view of MMB economists, there could be substantial impacts on the housing market and the economy that GII and other forecasters would need to take into account.

International

GII expects export growth will begin steadily reducing the U.S. trade deficit in 2012, a boost for real GDP. The U.S. will find its best customers in emerging markets in Asia, China, and South America, more than making up for weakness in Europe and Japan. Risks include accelerating inflation leading central banks in emerging markets to raise interest rates in order to curb domestic demand, which would reduce imports from the U.S. Increased currency manipulation by countries anxious to preserve their foreign markets poses an additional risk to U.S. exports if it effectively raises the value of the dollar.

Monetary

Last November, the Federal Reserve announced it would continue reinvesting the proceeds from maturing Treasury bonds it holds while beginning purchases of additional Treasuries through June of this year. This quantitative easing program, dubbed QE2, is an unusual and controversial policy move intended to spur economic growth and improve financial market conditions by pumping money into the banking system. Buying Treasuries from the banks puts downward pressure on interest rates, reducing borrowing costs while at the same time improving banks ability to make loans. Lower rates also tend to force investors into riskier investments such as private sector bonds and stocks, thus easing financial conditions and generating upward pressure on stock prices which improves household net worth.



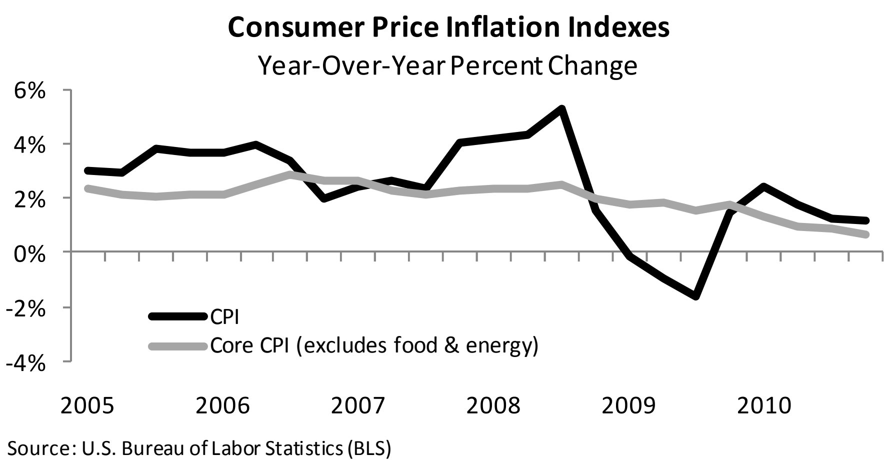
After declining since early 2009, commercial and industrial loans have stabilized and may have started to rise. Possibly as a result of the QE2 program, banks have relaxed their lending standards a bit, and firms are taking advantage of very low interest rates.

Controversy has surrounded QE2 from its beginning. Chariman Bernanke has vigorously defended it before Congress and elsewhere. The issue QE2's domestic critics focus on most is the risk of setting off an inflationary spiral. Dr. Bernanke has repeatedly asserted to Congress and the public that he has all the tools needed to withdraw surplus liquidity from the banking system in the proper amounts and in a timely manner. He points out, however, that monetary tightening needed to subdue inflationary pressures will raise the interest cost of the federal debt. That will exacerbate the deficit problem unless the President and Congress agree on ways to cut spending or raise taxes, or both. In the baseline scenario they have some time to reach an accord since the Fed is assumed to start raising interest rates in about a year. In the optimistic scenario time is almost up, with GII assuming the Fed begins raising rates by mid-2011.

Inflation

Inflation as measured by the headline consumer price index (CPI) and its core remains at or near record lows with rising gasoline and food prices being offset by weak services prices. Because of strong global demand, industrial commodity prices are also rising, raising manufacturing costs which firms are trying to pass on. GII notes that any successes the manufacturers have are unlikely to generate accelerating inflation because wages will not respond quickly in a weak labor market, reducing indefinitely the possibility of a wage-price spiral.

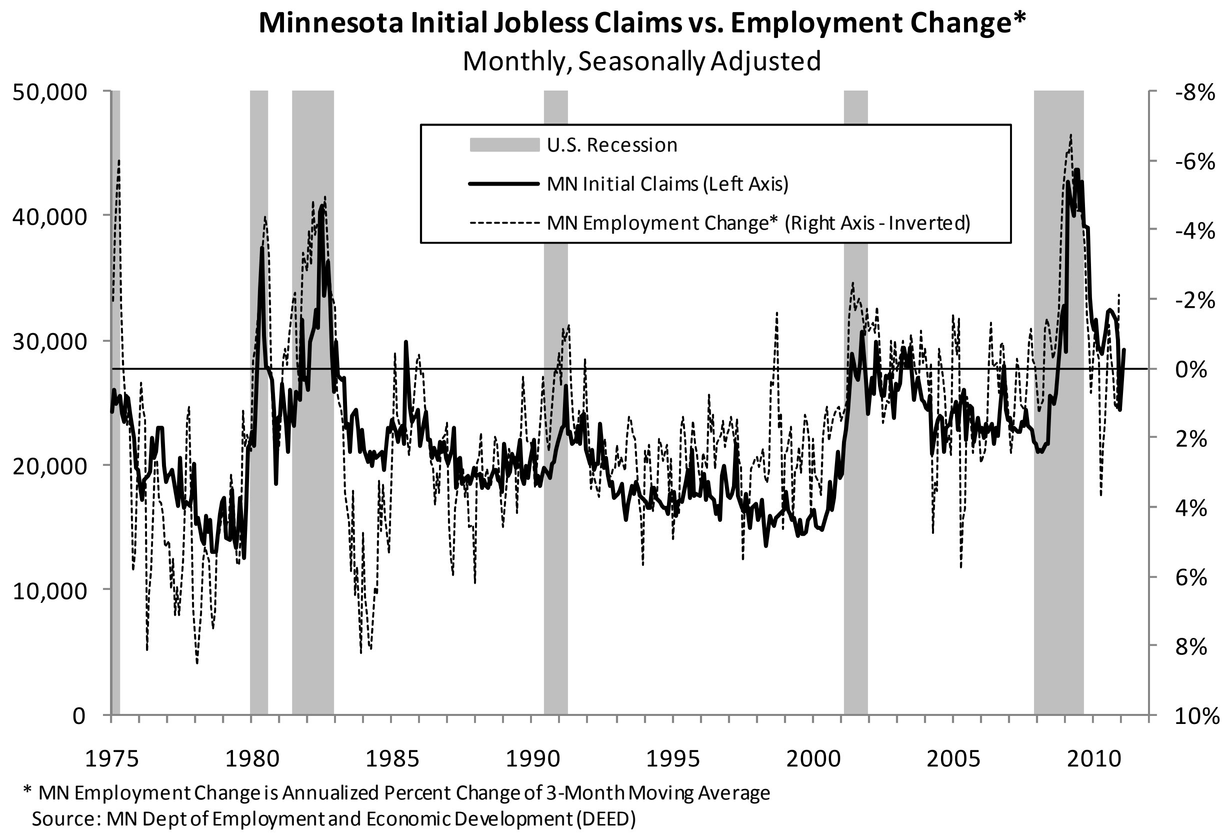
In the February baseline, GII assumes general concern over accelerating inflation leads the Federal Reserve to start raising short term interest rates in early 2012. The February baseline was completed before crude oil prices surged to over \$100 in response to political unrest in the Middle East, so recent events are not taken into account. Faced with the prospect of high oil prices for an extended period, the Fed's track record and its mandate suggest it would choose to raise rates to contain inflation rather than keeping rates low to give the economy a boost.



Inflation as measured by the headline consumer price index (CPI) and its core remains at or near record lows with rising gasoline and food prices being offset by weak services prices. GII's February baseline inflation outlook does not take recent political turmoil in the Middle East and \$100 oil into account.

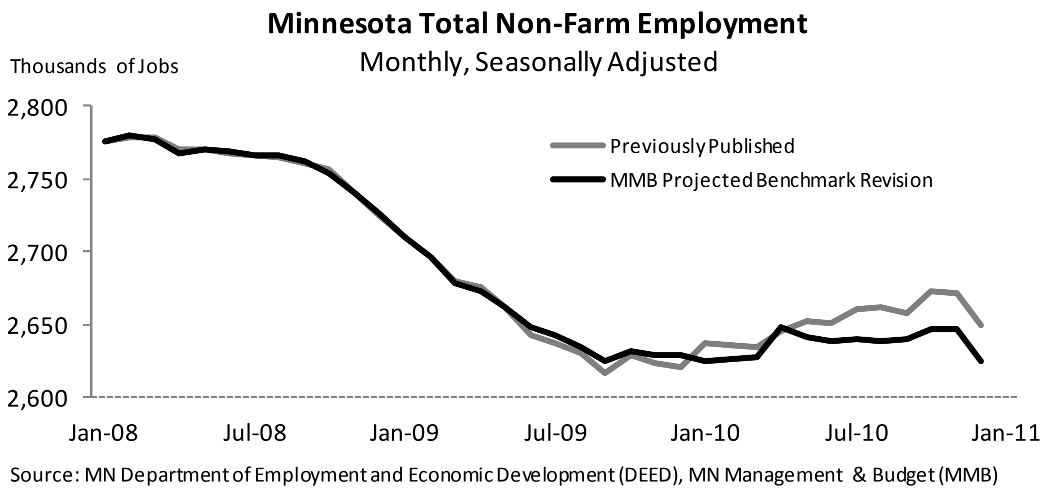
MINNESOTA OUTLOOK

Preliminary benchmark revisions to Minnesota employment data suggests that although the state's labor market conditions are stronger than they have been in over two years, the economy is still struggling to add jobs. The number of first time filers for unemployment insurance benefits in the state, for example, has fallen to the lowest counts in two and a half years, but not yet to levels statistically linked with meaningful job growth. Minnesota businesses remained cautious in 2010, increasing the hours of existing staff, but waiting for assurance that the recovery was self-sustaining before hiring new employees. After three lean years of recession, however, the cost-cutting strategy of increasing productivity appears to have reached a limit just as confidence and spending are on the rise due to an improving stock market and rising household incomes. In order to meet the growing demand, employers will likely need to start hiring, making Minnesota's job climate more promising in 2011.



Often considered a leading indicator of employment growth, Minnesota's initial jobless claims are functioning as a useful barometer of the state's job recovery. In 2010, the number of first time filers for unemployment insurance benefits in the state fell to the lowest counts in two and a half years. While this is consistent with a stable labor market, initial claims have not yet fallen to levels statistically linked with meaningful job growth.

Forecasts for state employment and wages have been revised based on recent Minnesota specific information and Global Insight's (GII) February 2011 baseline. The February baseline was used to drive the same Minnesota Management and Budget (MMB) model of the Minnesota economy used in November. That model, however, has been updated to incorporate preliminary benchmark revisions to Minnesota's nonfarm payroll employment provided by the Minnesota Department of Employment and Economic Development (DEED). Although similar assumptions concerning this revision were incorporated into the November forecast, DEED's newly revised jobs data indicates that while the state's labor market performed slightly better than previously thought in late 2009, the job recovery in 2010 has been noticeably weaker. This mirrors a similar downward revision to national employment numbers released in early February.

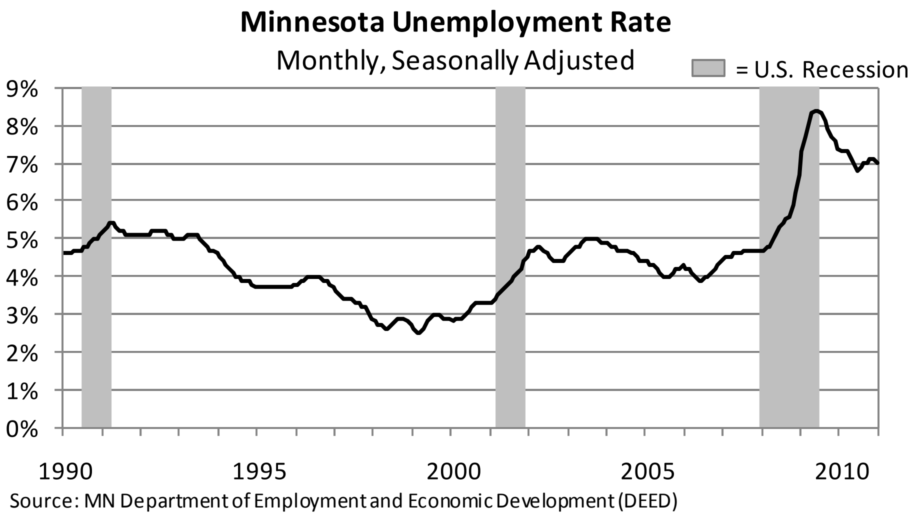


The forecast for state employment has been revised based on preliminary benchmark data revisions to Minnesota's nonfarm payroll employment. The revised employment data indicates that the job recovery in 2010 has been noticeably weaker than previously thought, mirroring a similar downward revision made to national employment numbers in early February.

Mixed Jobs Story

Job vacancies in Minnesota were up more than 30 percent at the end of 2010 from a year earlier. The latest news on Minnesota's labor market has been puzzling. DEED reported Minnesota lost 4,200 seasonally adjusted jobs in September, and gained a healthy 16,000 in October. November was more-or-less flat, but the December payroll employment numbers were downright miserable. Although the state's household survey showed a drop in the unemployment rate from 7.1 to 7.0 percent and a rise in jobs, the employer survey reported Minnesota businesses cut 22,400 jobs during the month, marking the biggest employment decline in the state since at least 1990. As one local writer puts it, tracking the movement in job figures can be "heartening or discouraging, confusing, surprising or misleading. And then the numbers get revised."

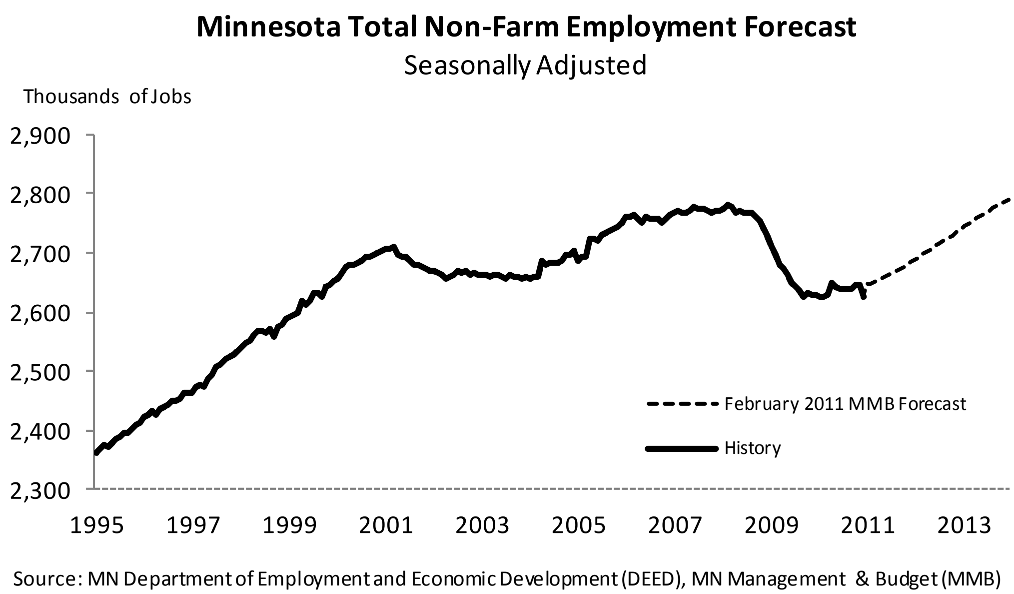
Each year, monthly survey sample-based estimates of Minnesota's non-farm employment payrolls are re-aligned to incorporate comprehensive universe counts, a process referred to as benchmarking. These counts are derived from state unemployment insurance (UI) tax records that nearly all employers are required to file with Minnesota's workforce agency, DEED. Based on UI records for first quarter 2010, the February 2011 forecast assumes current employment data since the beginning of the year will be revised downward 0.4 percent when annual benchmark revisions to Minnesota's monthly employment figures are released in early March. This is the state's equivalent to the Bureau of Labor Statistics' (BLS) benchmark revision to national figures released in early February, which similarly adjusted March 2010 U.S. total nonfarm employment down 0.3 percent. The revisions mean that the monthly peak-to-trough decline in Minnesota's payroll employment now stands at 158 thousand.



After peaking at 8.4 percent in mid-2009, Minnesota's unemployment rate crept down to near 7 percent in early 2010. With job creation still struggling to gain momentum, however, the state's jobless rate has moved very little since April.

MMB economists believe that despite inconsistent reports in late 2010, the latest benchmark revision to employment statistics will suggest the underlying labor market is slowly improving, but job creation remains weak. The private sector, for example, is expected to have added a revised average of just 900 jobs per month during the last nine months of 2010. Minnesota's labor market needs to produce an estimated 2,000 jobs a month to simply keep pace with population growth and new people entering the workforce. That slow pace of job creation continues to make it very difficult to put the state's unemployed and underutilized workers back to work promptly. DEED estimates that in December a seasonally adjusted 206,000 residents were actively seeking work in the state but unable to find employment. This is down only slightly from 216,000 in early 2010 and remains well above the 136,000 seeking work just prior to the recession over three years ago. Add to it an MMB estimated 25,000 more Minnesotans who have grown discouraged with the job market, given up looking for work, and have dropped out of the labor force since the recession started as well as 87,000 more underemployed workers who have had to settle for part time work, and even 18 months after the recession officially ended nearly 1 out of 7 Minnesotans who prefer a full time job is still unable to find one.

In MMB's February 2011 forecast, labor market conditions continue to improve during the first part of 2011, albeit at a sluggish pace. The number of jobs Minnesota employers add to their payrolls is forecast to average 2,500 a month during the first half of the year before advancing to near 5,000 per month by mid-2012. This means as perceptions of growing job opportunities improve over the summer and previously discouraged workers begin to re-enter the workforce looking for full-employment, it is likely Minnesota's unemployment rate will hover around 7 percent for much of 2011. And, because matching the skills and experience of idle workers from harder hit industries like construction with new jobs in higher demand areas could be a slow process and require lengthy retraining, it is likely a higher state unemployment rate may become the new normal for the foreseeable future.

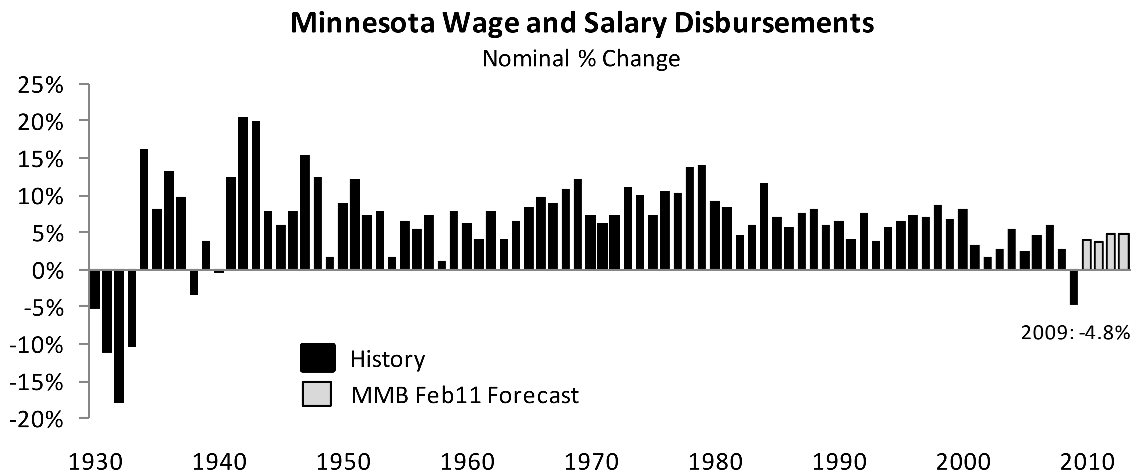


In the February 2011 forecast labor market conditions continue to improve during the first part of 2011, albeit at a sluggish pace. The depth of job declines that occurred in late 2008 and 2009 are so extensive, however, that MMB economists estimate it will likely take until mid-2013 before Minnesota employment regains the 2.77 million high reached before the recession began in late 2007.

Labor Costs and Wage Income

The growth rate in wage and salary income is one of the most important variables used to determine Minnesota's individual income tax liability. According to the state's income tax sample, for example, wages accounted for about three-quarters of federal adjusted gross income for Minnesota residents in 2009. In MMB's model of Minnesota's economy, wage and salary income is derived as a function of employment, wage inflation, and hours worked. Therefore, tracking the direction of these three important indicators may help provide a useful account concerning the path that wage and salary income has taken since the recession began as well as a general perspective looking forward.

In late 2008 and early 2009, Minnesota businesses responded to a sharp decline in the demand for goods and services by aggressively cutting back on labor costs. In addition to customary layoffs, employers resorted to less-traditional cost-saving measures such as unpaid furloughs, curbing entire shifts, and reducing compensation. According to DEED's figures, for example, as employment in the state declined a revised 3.9 percent in 2009 from a year earlier, the average length of the workweek also fell 2.5 percent and average hourly earnings rose a mere 1.0 percent. The effects of declining employment, a drop in hours, and slow hourly compensation growth combined to drive down total wage and salary income in Minnesota a staggering 4.8 percent in 2009 according to the Bureau of Economic Analysis (BEA). That was the first annual decline in the state's wage income, the largest component of state personal income, since the 1930s.



Source: U.S. Bureau of Economic Analysis; Minnesota Management and Budget (MMB)

The effects of declining employment, a drop in hours, and slow compensation growth combined to drive down total wage and salary income in Minnesota a staggering 4.8 percent in 2009 according to the Bureau of Economic Analysis (BEA), representing the first annual decline in the largest component of state personal income since the 1930s.

By early 2010, while job growth remained elusive, income tax withholding collections were already beginning to suggest Minnesota's wage income was starting to climb back. The recession had come to an end, at least technically, and the economy was growing again. Demand slowly returned and inventories were replenished to more normal levels. Employers, however, remained cautious through much of the year, waiting for assurance that the recovery was self-sustaining before committing to costly investments, such as the hiring and training of new employees. Employment in Minnesota continued to fall in 2010, declining 0.7 percent from year earlier levels, and hourly compensation climbed just 1.5 percent, meaning businesses were turning to the less risky options of squeezing maximum productivity from their remaining workforce or increasing the hours of existing staff. Nationally, labor productivity, measured as output per hour of work, rose 3.6 percent in 2010, the strongest growth since 2002. In Minnesota, however, the productivity squeeze was at least partially offset by a 1.2 percent rise in the average length of the workweek. Despite continued job losses in 2010, it was this claw-back in hours that MMB economists believe largely influenced Minnesota's estimated 3.9 percent growth in total wage and salary income during the year.

The cost-cutting strategy taken during the recession of increasing productivity appears to have reached a limit just as confidence and spending are on the rise due to an improving stock market and rising household incomes. Hours are climbing back toward pre-recession levels and in order to meet growing demand, employers will likely need to start hiring. Because labor costs are expected to remain weak for several years due to stubbornly high unemployment and overall slack in the labor market, the key to wage income in Minnesota going forward will be job creation. In 2011, total wages are forecast to grow 3.8 percent. Increases of 4.7 percent are expected in both 2012 and 2013.

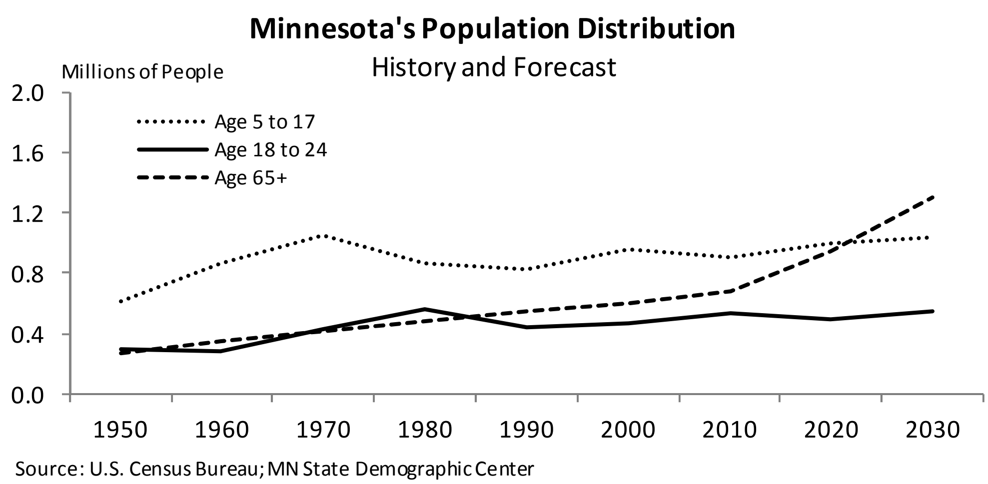
Welcome to the Entitlement Economy

As state and local governments across the U.S. scramble to close sizeable budget holes left behind by the Great Recession, another sleeping giant has begun to stir. The first wave of the Baby Boom Generation started turning age 65 in January. This occasion marks a new milestone of unprecedented demographic change that is beginning to transform Minnesota from a young state into an old state and from a work-based economy into a retirement-based, entitlement economy. By 2020, the Minnesota State Demographic Center estimates for the first time ever the state will have as many people age 65 and older as children in K-12 education.

The impending jump in retirements over the next decade will affect all levels of society, including individuals, businesses, and government. While it will create added opportunities for young people beginning careers and businesses seeking to restructure their workforce, the retirement exodus will also slow labor force growth and rapidly change the mix of services demanded by the public. Left unchecked, the combination of slower labor force growth and growing demand for senior services could lead to chronic government deficits and increased pressures to shift resources from investments in K-12 and higher education, infrastructure and research to health and social care for an aging society. This perennial crisis will in turn dampen the environment for economic progress in Minnesota, potentially reducing future productivity increases, and slowing income growth.

Recently published 10-year projections produced in a joint effort between MMB and the Minnesota State Demographic Center offer a sobering guide to just how serious future problems for the state may be. While total government revenues are forecast to grow at an annual rate of 4.1 percent between 2010 and 2020, demands on large spending components are projected to grow at a much faster pace, mostly the result of demographic change and rapidly increasing costs of healthcare. The most obvious spending increases come in Medical Assistance (MA), which includes three programs that serve the health and long-term care needs of the elderly and account for nearly one out of every six dollars spent out of the state's General Fund: MA Long Term Care, MA Long Term Care Waivers, and MA Elderly and Disabled. As the population ages and the need for long-term care increases, the combination of healthcare cost inflation and expanding caseloads will force overall MA expenditures for the elderly up an estimated 8.5 percent per year over the next decade.

The 2008 Budget Trends Study Commission concluded that given current revenue and healthcare expenditure demand projections, in order to continue achieving balanced budgets over the next 25 years, expenditures on all other segments of the budget, including K-12 education, would have to remain essentially flat. If instead healthcare continues to grow at 8.5 percent annually, and spending on K-12 education grows by 2 percent, all other segments of the budget would be nearly eliminated by 2035. While there are considerable uncertainties in forecasting revenues and expenditure demands over such a long term, certainly the cost of shifting resources toward an aging population will erode an increasingly larger portion of the budget. Inevitably, the current structural imbalance between projected revenue and expenditure growth will threaten effective delivery of other important government services and is sure to prove unsustainable.



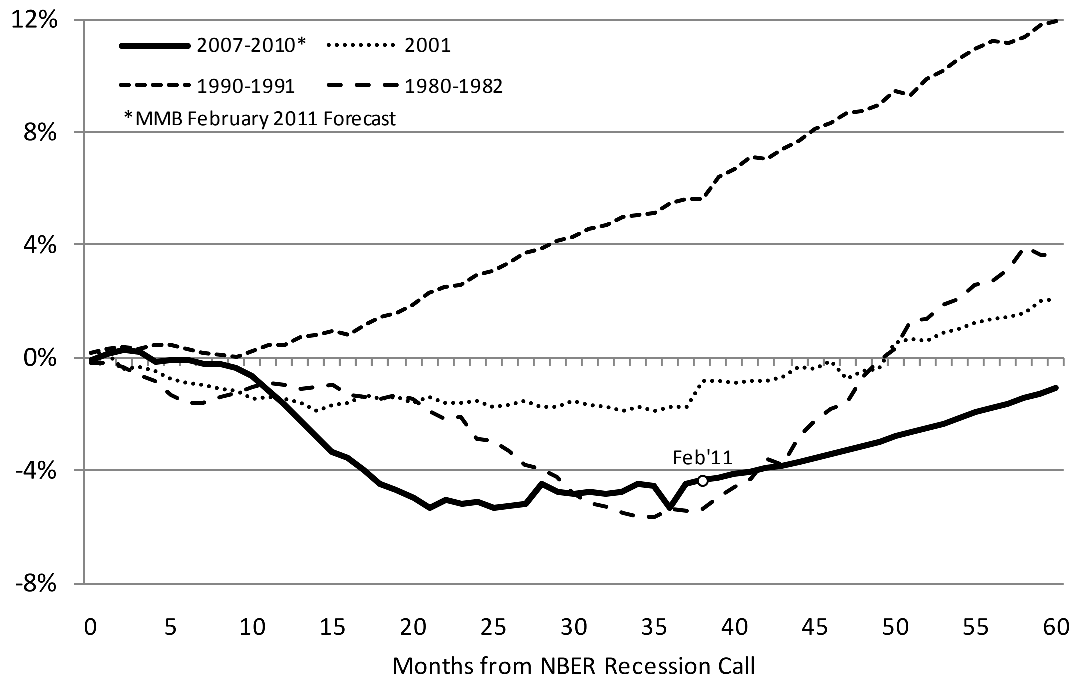
For the first time ever the state will have as many people age 65 and older as children in K-12 education by 2020. The impending jump in retirements will slow labor force growth and rapidly change the mix of services demanded by the public. Left unchecked, the combination of slower labor force growth and growing demand for senior services could lead to chronic government deficits and increased pressures to shift resources toward the health and social care for an aging society.

A Revised Forecast

Forecasts for employment and wages have been revised based on recent Minnesota-specific information and Global Insight's (GII) February 2011 baseline. The February baseline was used to drive the same Minnesota Management and Budget (MMB) model of the Minnesota economy used in November. That model, however, has also been updated to incorporate preliminary benchmark revisions to Minnesota's nonfarm payroll employment provided by the Minnesota Department of Employment and Economic Development.

Like in November, the February 2011 forecast for Minnesota employment is for slow improvement. After declining 3.9 percent in 2009 from a year earlier and falling an additional 0.7 percent in 2010, Minnesota employment is forecast to grow 1.0 percent in 2011, 1.9 percent in 2012, and 2.0 percent in 2013. As in the November forecast, the depth of job declines that occurred in late 2008 and 2009 are so extensive that MMB economists estimate it will likely take until mid-2013 before Minnesota employment regains the 2.77 million high reached before the recession began in late 2007.

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

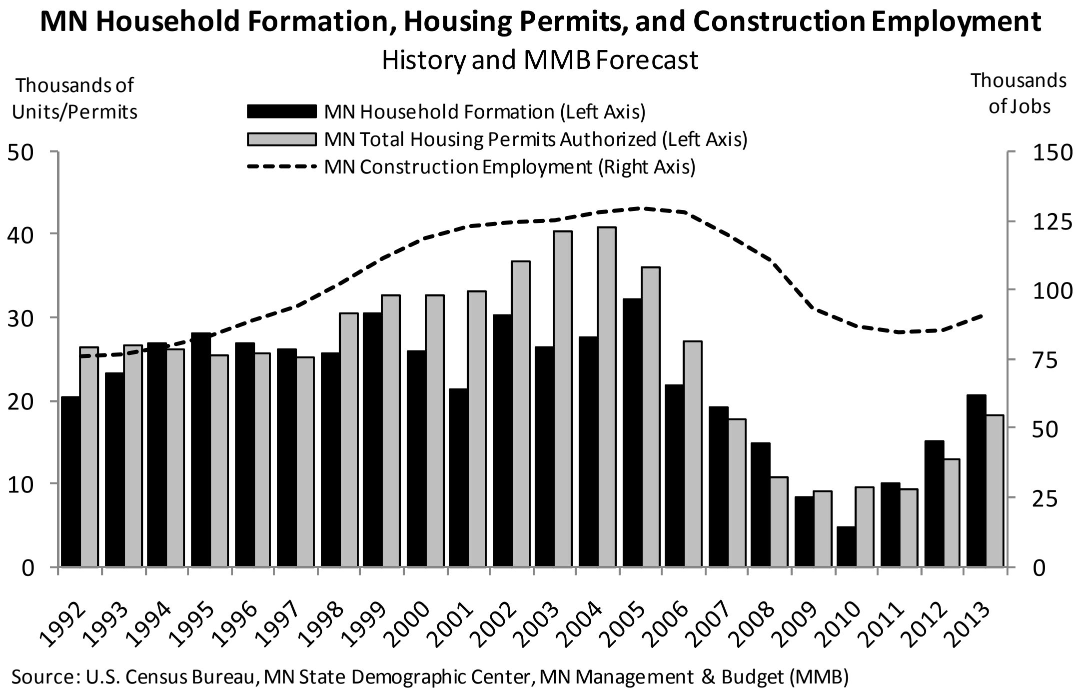


Source: MN Department of Employment and Economic Development (DEED), MN Management & Budget (MMB)

The depth of job declines that occurred in late 2008 and 2009 are so extensive that MMB economists estimate it will likely take until mid-2013 before Minnesota employment regains the 2.77 million high reached before the recession began in late 2007.

Total nominal wage and salary disbursements in Minnesota fell 4.8 percent in 2009 from a year earlier, the first annual decline in this component of state personal income since the 1930s. Preliminary labor market data and income tax withholding collections suggests nominal wage income will have grown 3.9 percent in 2010. In 2011, nominal wages are forecast to grow 3.8 percent and increase by 4.7 percent in 2012 and 2013.

Residential home construction remains a drag on Minnesota's economic outlook. In the February 2011 forecast, the construction industry is forecast to lose an additional 900 jobs between the end of 2010 and early 2012, before slowly beginning to recover in mid-to-late 2012 and 2013. The large excess supply of homes built during the housing boom, the slowdown in household formation due to the recession, and weak demand for building activity in 2011 and early 2012 are principal assumptions behind this outlook.



A lasting supply of excess homes built during the housing boom, a slowdown in household formation due to the recession, and continued weak demand for building activity in 2011 and early 2012 are principal assumptions behind the February 2011 outlook for construction employment.

In a normal housing environment, underlying demand for new home construction consists of replacement demand from fires, natural disasters, or old age, demand for second homes, and increases in the number of households. Between 2000 and 2005, however, low mortgage qualification requirements and growing speculation both nationally and in Minnesota fueled unsustainable levels of home construction that far outpaced market fundamentals. This produced an excess supply of housing units in Minnesota going into the housing downturn in 2006 and the recession in late 2007. Before Minnesota home construction can return to more normal levels of activity, the market needs to work through the excess supply of homes built during the housing boom. And, the only sustainable way to work through these inventories is to build new homes at a slower pace than households are being formed.

Already, home building activity has been depressed in Minnesota for over three years. Despite this, however, inventory excesses in the state's housing market continue to remain stubbornly high mostly due to sluggish demand. This is because the recession has slowed net migration and people are choosing to reduce housing costs by combining expenses. When more Minnesotan's "double up" on housing, there is less demand for new homes or rental units. Indeed, household formation in Minnesota has fallen far enough that it continues to remain very difficult for the state's housing market to work through excess units created during the housing boom. While improving job growth and increasing formation rates will help absorb most, if not all, the excess supply into the market by 2013, there will continue to be very little demand for new residential home construction in 2011 and early 2012.

As a result, after nearly five years of severe declines, the total number of authorized monthly residential building permits in Minnesota will continue to drag along the bottom through much of 2011 before beginning a modest recovery in early-to-mid 2012. Any employment rebound in construction will lag a recovery in building permits by between 6 and 9 months, thus a "catch up" period is assumed in the forecast. If household formation rates continue to worsen in 2011 as a result of weaker labor market conditions and the housing downturn continues to deepen later into 2012 it is unlikely that Minnesota's economy will perform as forecast.

Minnesota Outlook Compared to the U.S.

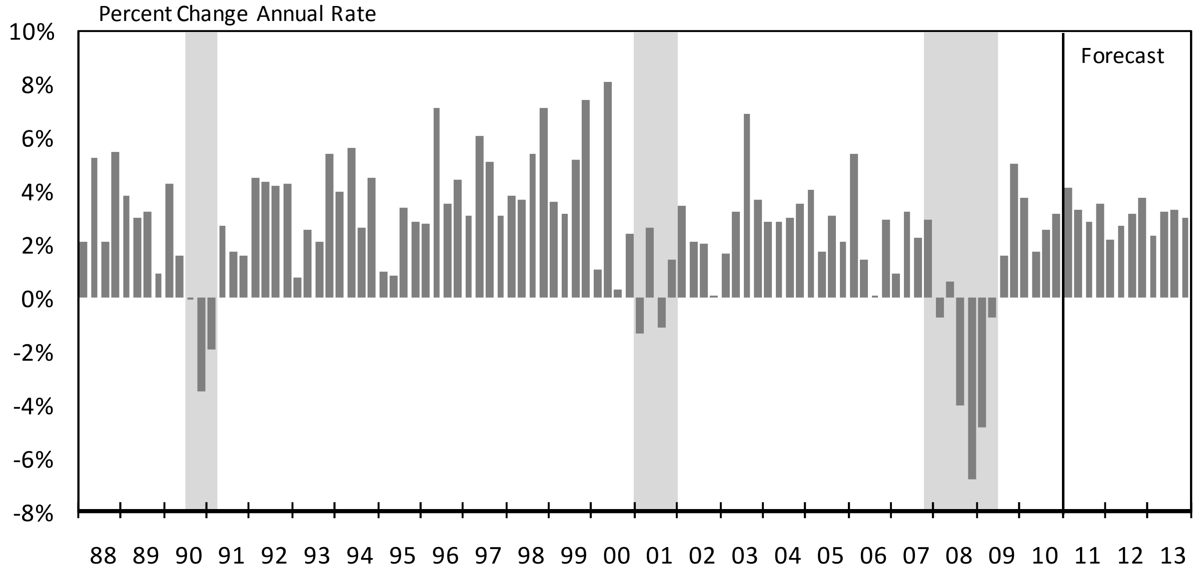
(Calendar Year Percent Change)

	2009	2010	2011	2012	2013
Non-Farm Employment					
Minnesota					
February 2011	-3.9	-0.7	1.0	1.9	2.0
November 2010	-3.9	-0.5	1.0	1.8	1.8
United States					
February 2011	-4.4	-0.7	1.2	2.0	2.0
November 2010	-4.3	-0.5	1.0	1.8	1.8
Wage and Salary Income					
Minnesota					
February 2011	-4.8	3.9	3.8	4.7	4.7
November 2010	-4.8	3.5	3.9	4.4	4.7
United States					
February 2011	-4.3	2.1	4.6	4.9	4.8
November 2010	-4.3	1.4	3.8	4.6	4.6

The forecast assumes that GII's February 2011 baseline materializes. Any unanticipated adverse developments in the U.S. economy, however, such as further deterioration in the financial markets, weaker business investment, weaker home sales, a rapid change in price levels, or if consumer spending proceeds more slowly than GII assumes, will have unfavorable effects on the Minnesota economy.

SELECTED NATIONAL ECONOMIC INDICATORS

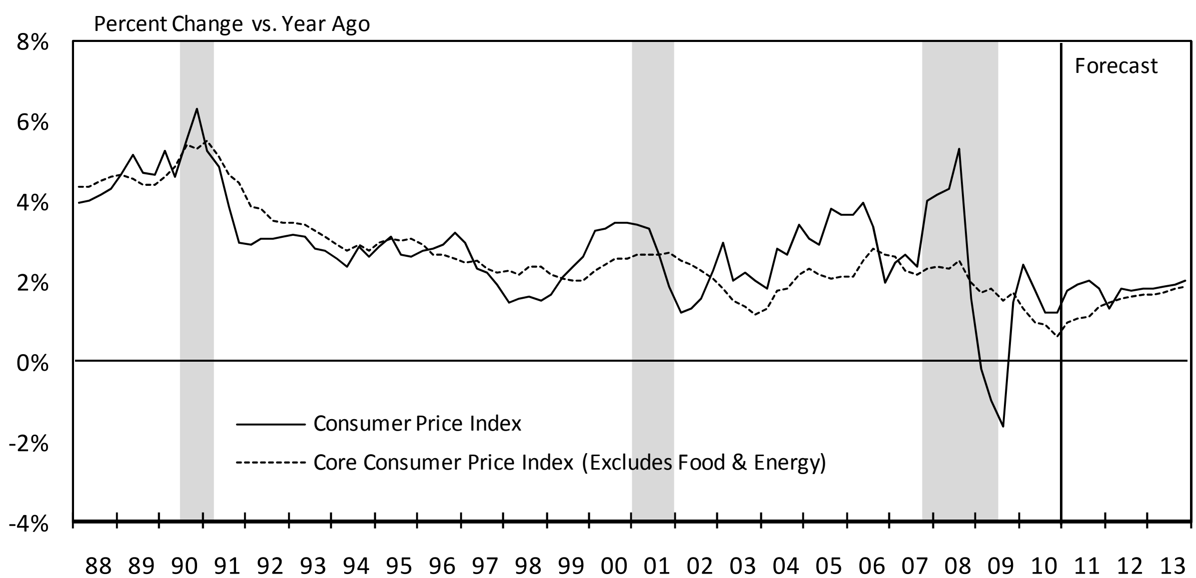
Real Gross Domestic Product



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

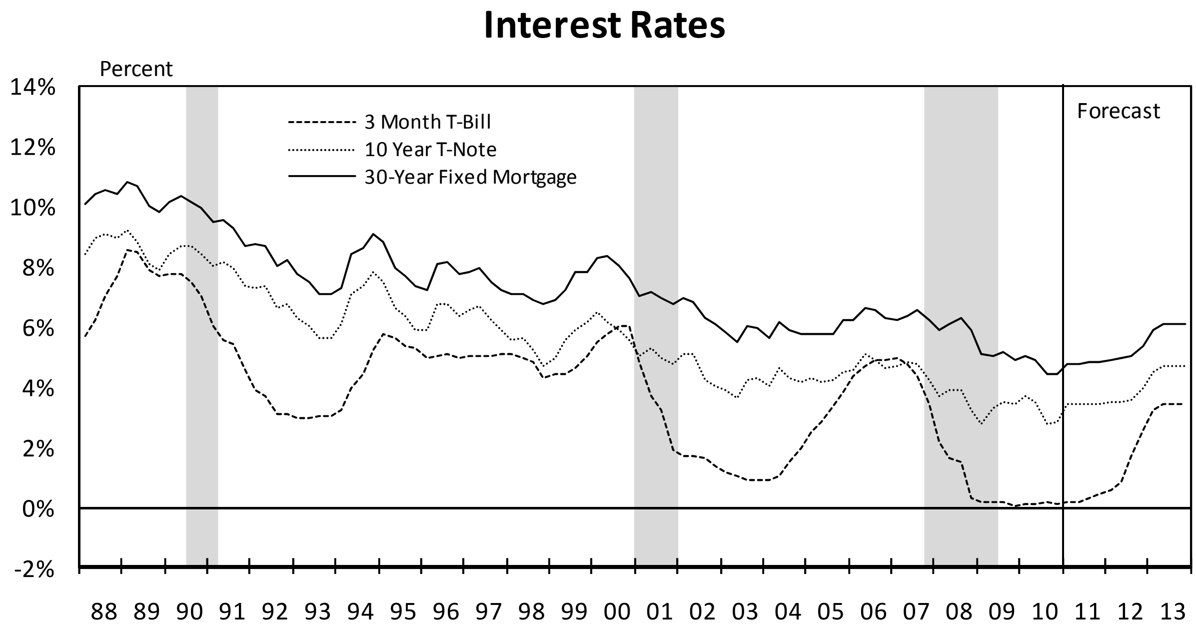
The economy regained momentum after slowing in mid-2010. Global Insight forecasts 3.2 percent real GDP growth in 2011 and 2.9 percent in 2012, as the December tax package provides extra help through this year's payroll tax cut and improves investment incentives for businesses.

Consumer Price Indexes



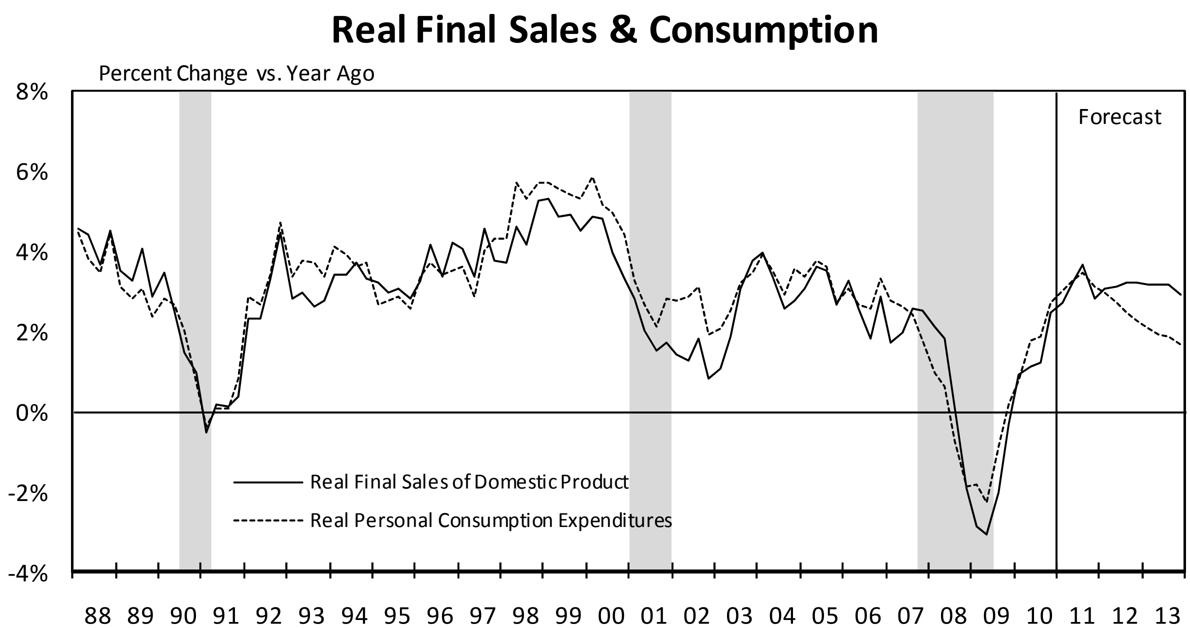
Source: Bureau of Labor Statistics, National Bureau of Economic Research, and Global Insight

Global commodity prices continue to rise, but core inflation remains uncomfortably close to zero. After declining 0.3 percent in 2009 and climbing 1.6 percent in 2010, Global Insight forecasts the CPI to rise 1.9 percent in 2011 and 1.7 percent in 2012.



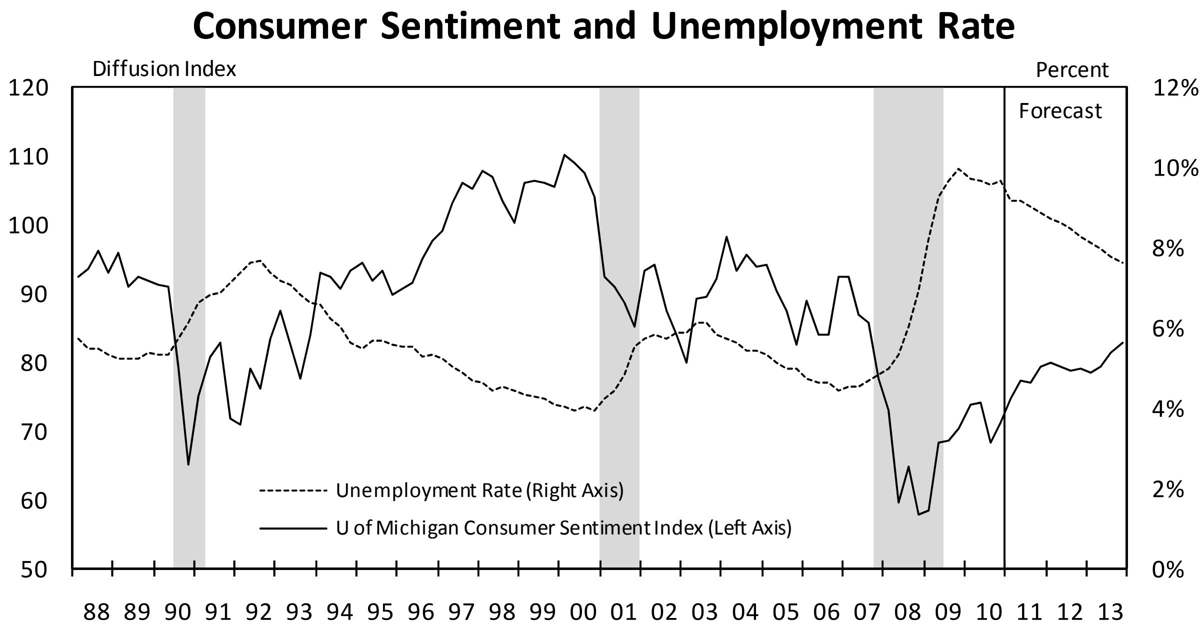
Source: Federal Reserve Board, Freddie Mac, National Bureau of Economic Research, and Global Insight

Global Insight assumes no further quantitative easing from the Federal Reserve beyond what has already been announced. With plenty of slack remaining in the U.S. economy and domestic inflation too distant a threat, the Fed does not begin to raise interest rates until 2012.



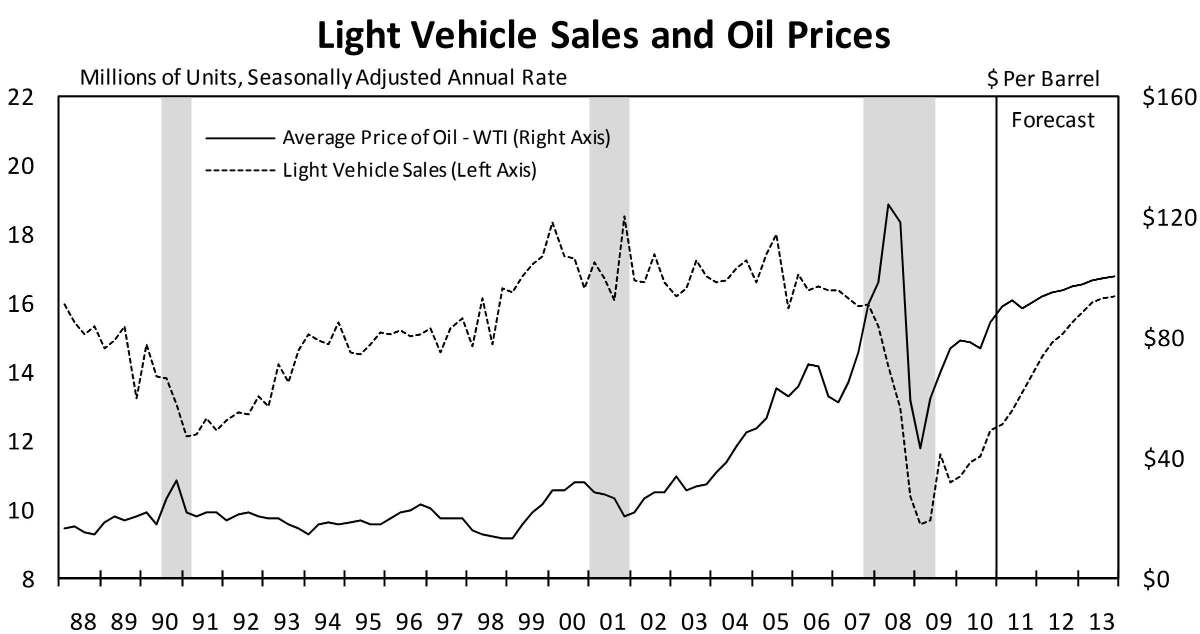
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

The Christmas shopping season was the strongest since 2004, with holiday retail sales rising 5.7 percent from a year ago. After growing 1.8 percent in 2010, Global Insight forecasts real growth in consumer spending to accelerate to 3.2 percent in 2011 before slowing to 2.6 percent in 2012.



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

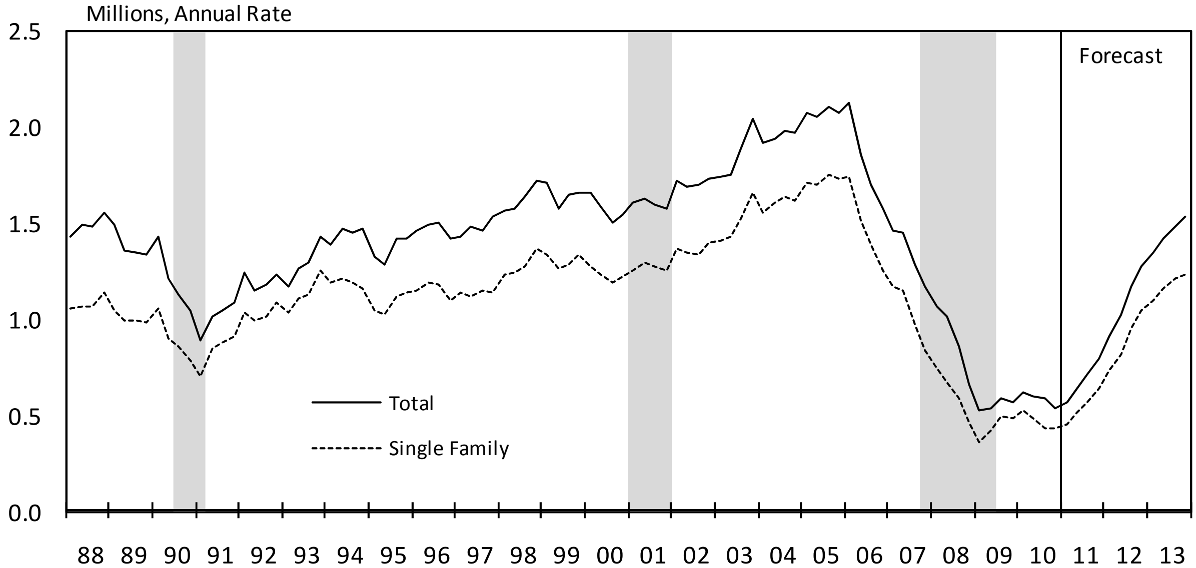
With a Dow Jones average hovering around 12,000, the unemployment rate falling, and incomes rising, consumers are the most optimistic on current economic conditions in three years. However, consumers are more pessimistic about their economic and financial situations a year from now.



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

Faster consumer spending growth is driving light-vehicle sales higher. Global Insight forecasts light vehicle sales of 13.1 million units in 2011 and 14.9 million units in 2012, up from 11.5 million in 2010. Oil prices are expected to average $91/barrel in 2011 and $95/barrel in 2012.

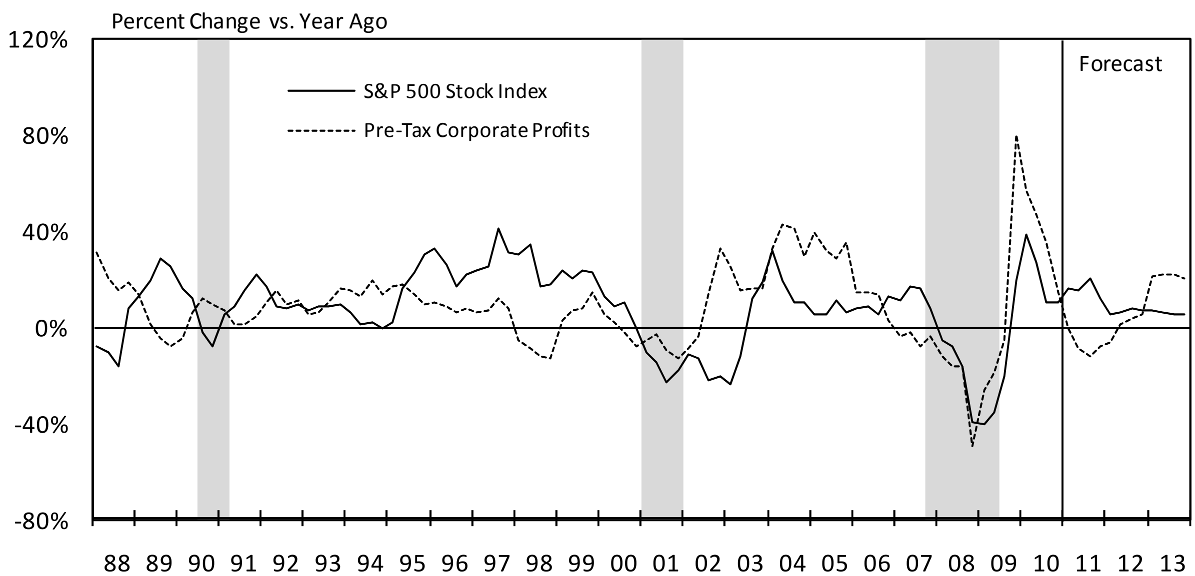
Housing Starts



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

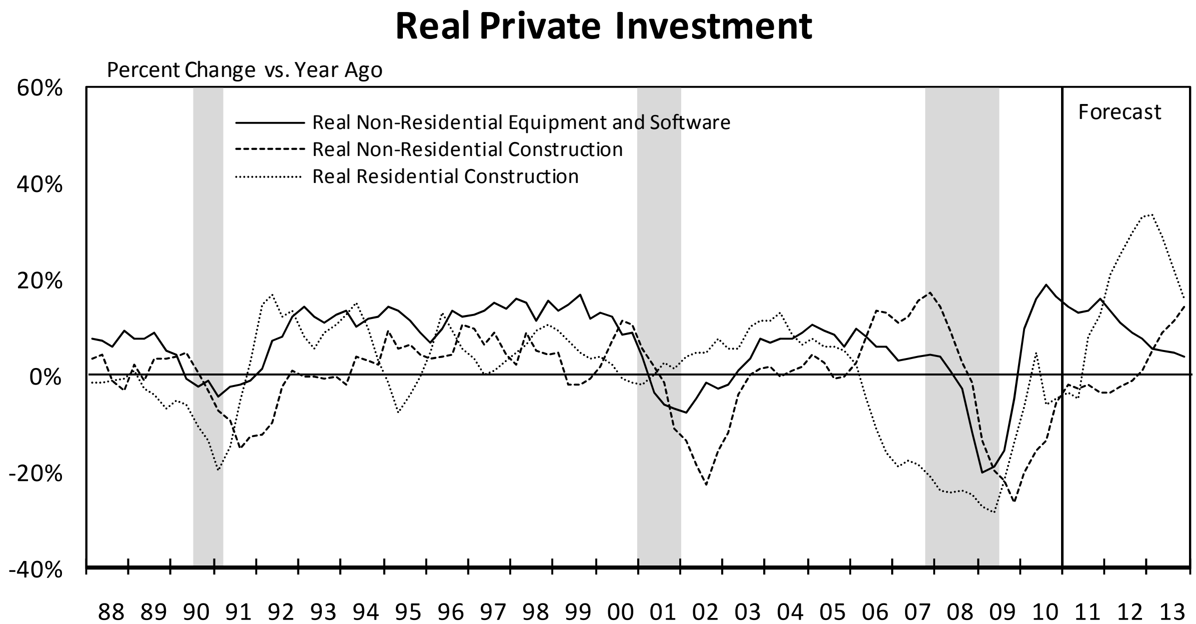
Home sales and housing starts remain deeply depressed, and prices began to fall again in the second half of 2010. As job growth picks up, Global Insight forecasts starts to improve gradually, but only to 680,000 units in 2011, up from 586,000 in 2010 and a postwar low 554,000 in 2009.

S&P 500 Stock Index and Pre-Tax Corporate Profits



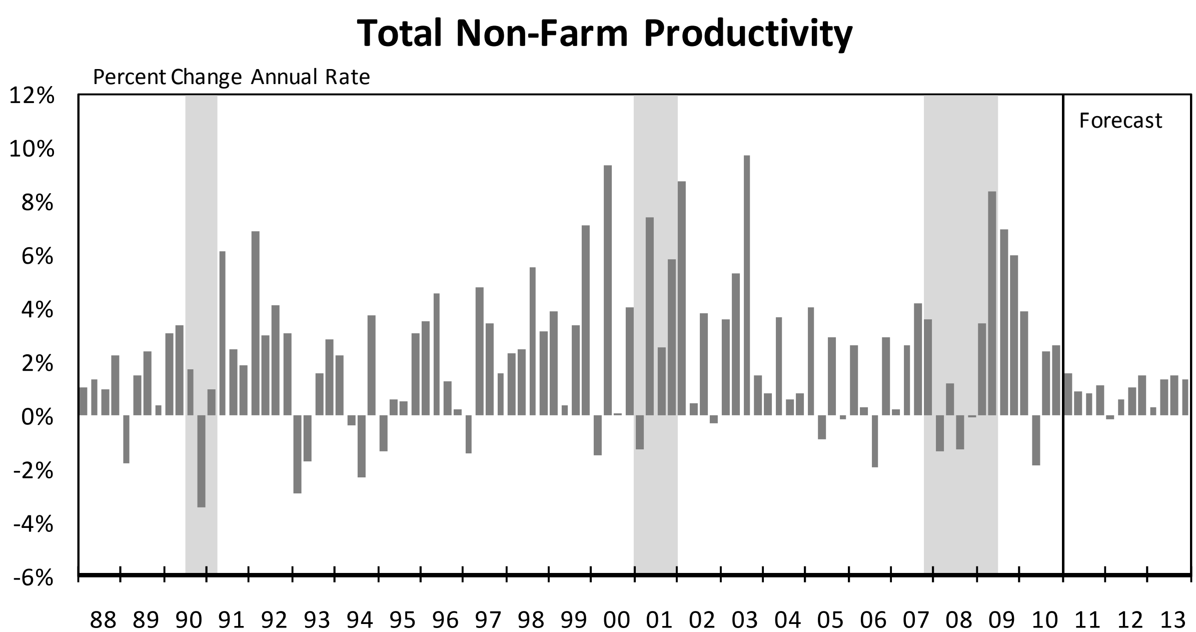
Source: Standard and Poor's, National Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

Massive cost-cutting during the downturn resulted in record corporate profit margins and a surge in earnings. In order to sustain this growth, support stock prices, and meet growing demand, businesses will need to start investing and hiring in 2011.



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

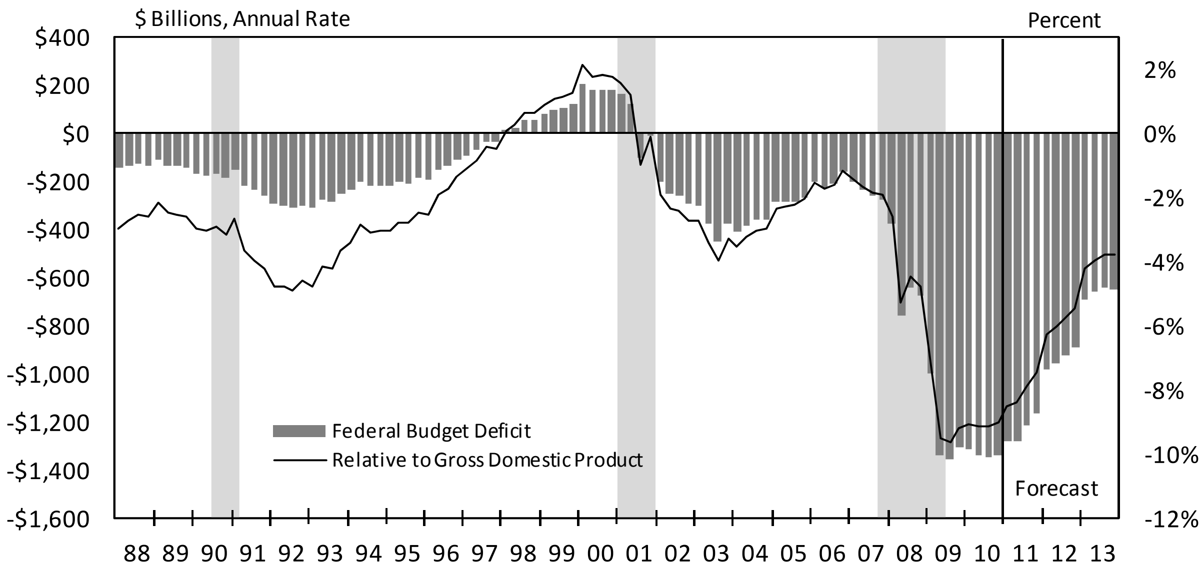
Global Insight's outlook for non-residential construction is for another year of painful declines. Healthy corporate balance sheets, however, will keep equipment and software investment strong in 2011.



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

The sharp rise in labor productivity growth in 2009 and 2010 was mostly the result of cost cutting. This strategy, however, has reached a limit. In order for companies to expand to meet growing demand in 2011, they will have to increase hiring. This is good news for employment growth.

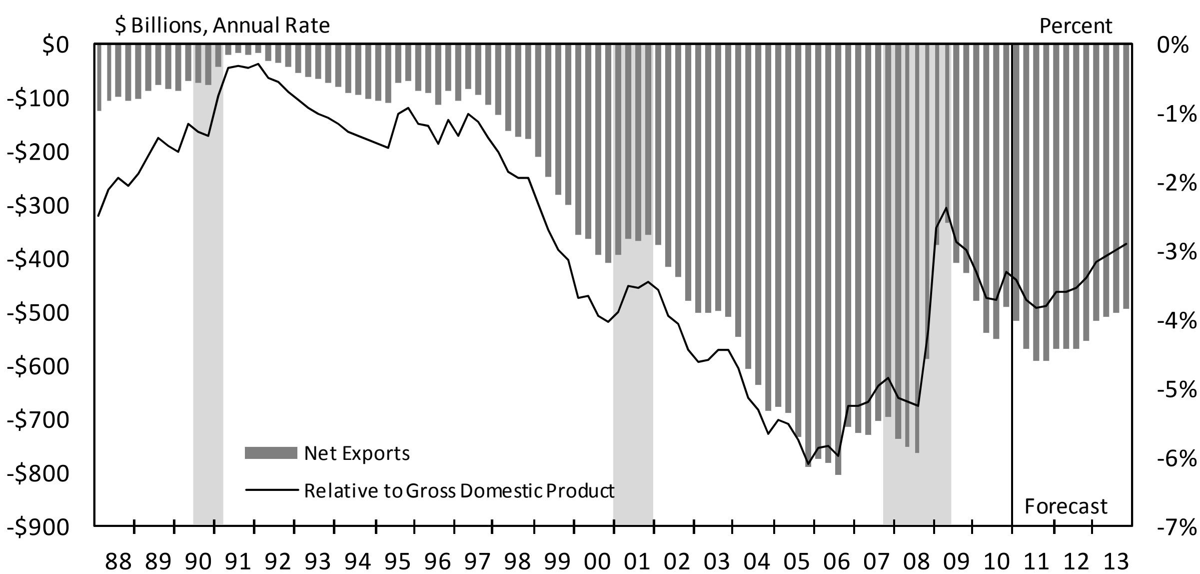
Federal Budget Deficit (NIPA Basis)



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

For fiscal 2011, Global Insight is forecasting a unified basis budget deficit of $1.43 billion, up from $1.29 billion in fiscal 2010. The bulk of this increase in the deficit is connected with the tax cuts enacted by Congress in December 2010.

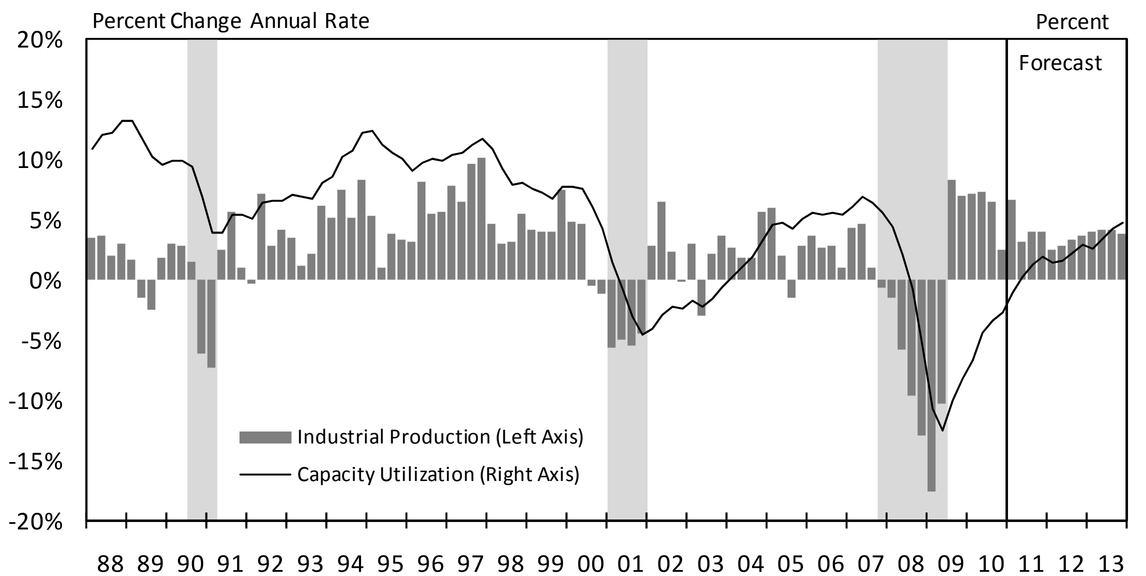
Balance of Trade (Net Exports)



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

Strong growth in emerging markets and a weak U.S. dollar will continue to support export growth. Likewise, strong consumer spending and inventory rebuilding will increase the draw on imports. Overall, Global Insight forecasts trade to be roughly neutral in 2011.

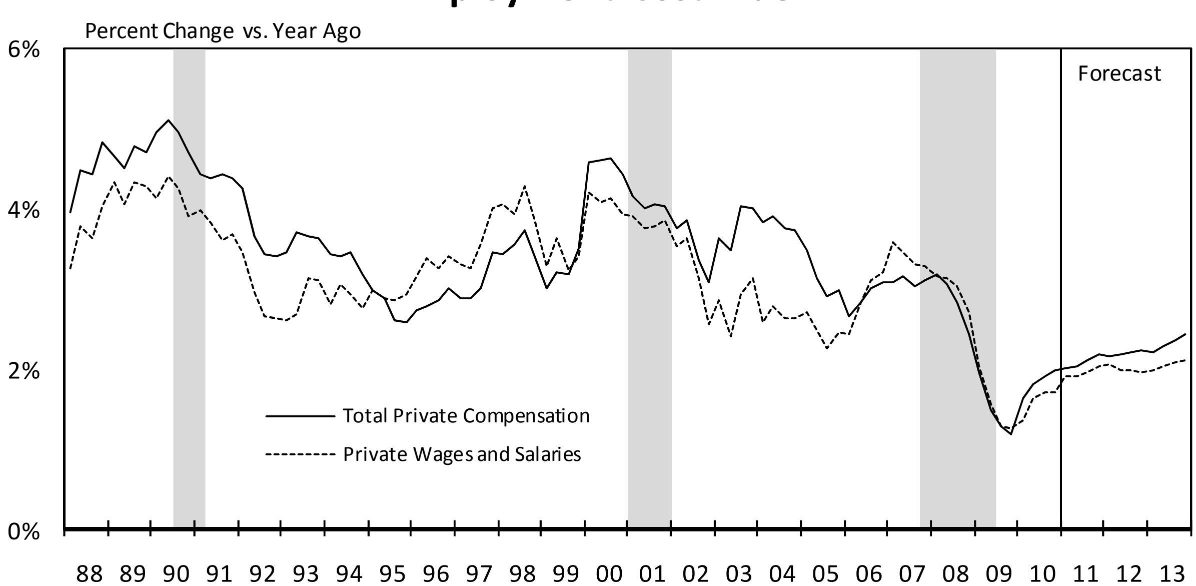
Industrial Production and Factory Operating Rate



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

New orders and output in manufacturing remain strong, especially in capital goods. After climbing 6 percent in 2010, Global Insight forecasts total manufacturing output to rise 5.6 percent in 2011 and 4.2 percent in 2012.

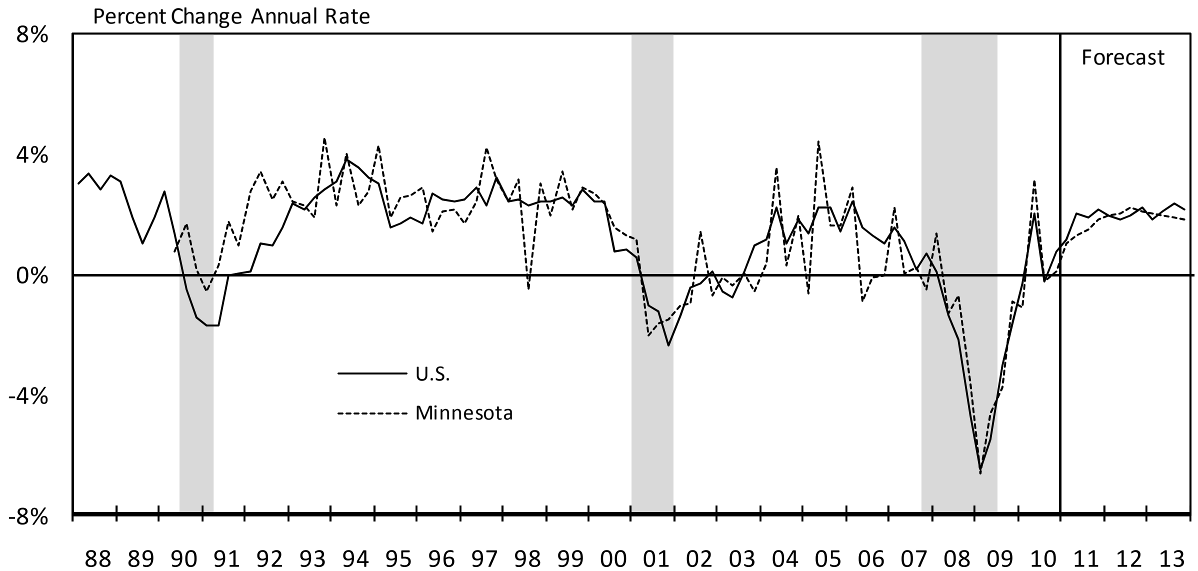
Employment Cost Index



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

High unemployment, low wage inflation, and overall slack in the labor market are not likely to ignite a severe inflationary spiral. Rising food and energy prices, however, are squeezing consumers and will restrain growth in 2011.

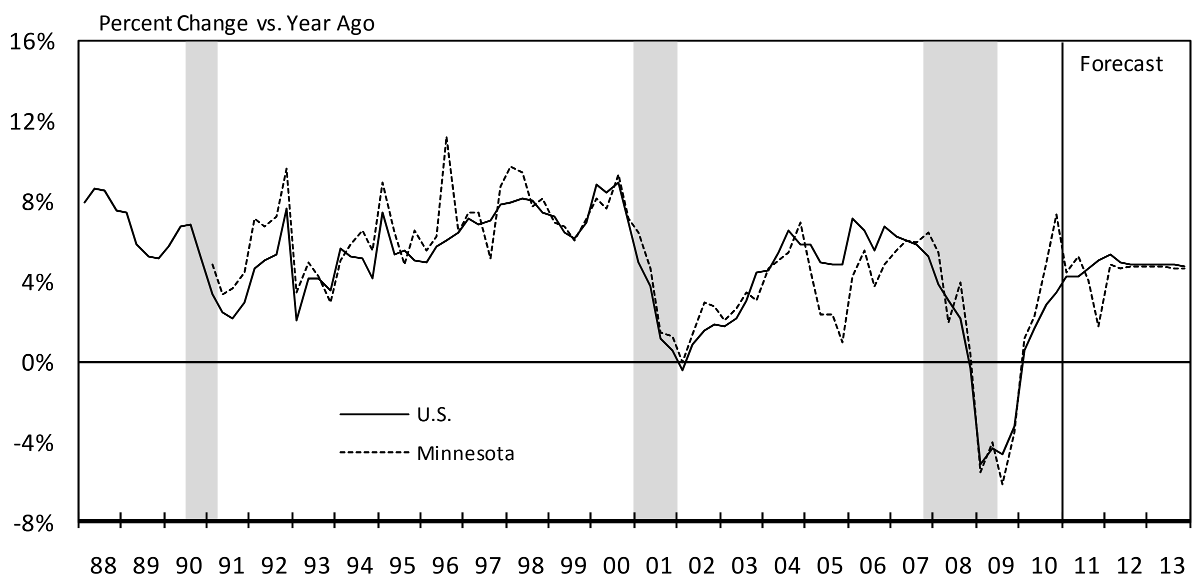
Total Non-Farm Employment



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

The February 2011 forecast for Minnesota's economy projects the state's employment rebound in 2011 will remain slow. After declining a revised 3.9 percent in 2009, the state's employment is forecast to fall 0.7 percent in 2010, before growing 1.0 percent in 2011 and 1.9 percent in 2012.

Wage and Salary Disbursements



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

Preliminary labor market data and income tax withholding collections suggests Minnesota's nominal wage and salary income will grew 3.9 percent in 2010. In 2011, nominal wages are forecast to climb 3.8 percent before increasing 4.7 percent in 2012 and 2013.

FY 2010-11 BUDGET STATUS

Projected FY 2010-11 Balance Increases by $264 million

The November 2010 forecast projected a $399 million general fund balance for the end of the FY 2010-11 biennium. A projected balance of $663 million is now forecast, a $264 million improvement since November.

The new balance reflects changes to the revenue and expenditure forecast, a restatement of the budget impacts from the early expansion of Medical Assistance, and higher than expected federal matching for Medical Assistance.

FY 2010-11 Budget Forecast

($ in millions)

	November Forecast	Federal Stimulus	Forecast Changes	**February Forecast**	**Difference**
Beginning Balance	**$447**			**$447**	**$0**
Forecast Revenues	30,565		97	30,662	$97
Projected Spending	30,338	(30)	(137)	30,171	($167)
Reserves	275			275	$0
Projected Balance	**$399**	$30	$234	**$663**	**$264**

Forecast Changes Add $234 million in FY 2010-11

Excluding federal stimulus, the forecast for the current biennium increased by $234 million due a decline in forecast expenditures ($137 million or 0.6 percent) and an increase in forecast revenues ($97 million or 0.3 percent). Of the decrease in expenditures, $82 million is due to aligning the fiscal effects of the Governor's executive order regarding the implementation of early expansion of Medical Assistance (MA). The change in revenues is small; however, the change in the economic outlook since November impacts the growth rate projected for the remainder of the biennium as well as FY 2012-13.

November Forecast Restated for Medical Assistance Expansion

The November 2010 forecast revenue and expenditure results have been restated within this document for comparability. Due to the contingent nature of the early expansion, a net amount composed of revenue, transfer, and spending impacts was reserved for the program in the end of 2010 legislative session and November 2010 forecast expenditure estimates. Now that the implementation date has been determined, this forecast updates the fiscal estimates and distributes the revenues and expenditures accordingly. For comparability with the new forecast, the revenue, transfer, and expenditure components that had been reflected as a net expenditure amount in November 2010 must be restated. These adjustments increased non-tax revenues and transfers in the November forecast by $71 million in FY 2011 and $439 in FY 2012-13 and decreased spending by the same amounts in those years.

Additional Stimulus Funds Offset State Spending

Minnesota will receive a higher federal matching rate for Medical Assistance (MA) than projected in November. With a higher federal matching rate, the federal government's share of the costs associated with MA (the state's Medicaid program) increases; therefore, the state's spending decreases. State spending is estimated to be $30 million lower than projected in November. Under current federal law, the enhanced match on MA is set to end June 30, 2011. In total, stimulus funds are projected to offset state general fund spending by $2.302 million in FY 2010-11. The state expects to receive over $5.8 billion in stimulus funds; however, only $2.3 billion directly offsets state general fund spending.

FY 2010-11 Stimulus Funds

($ in millions)

	November Forecast	February Forecast	Difference
K-12 Education	$500	$500	$0
Higher Education			
University of MN	89	89	$0
MnSCU	79	79	$0
Health & Human Svcs			
Medical Assistance	1,456	1,486	$30
Other Human Services	110	110	$0
Corrections	38	38	$0
Total	$2,272	$2,302	$30

Reserve Not Increased Despite Projected Balance

As was the case in the November forecast, a state law (Laws of 2010, 2nd Special Session, Chapter 1, Article 3, Section 4), requires the projected positive unrestricted general fund balance of $663 million be carried forward to FY 2012. The law was enacted in the October special session to comply with a general restriction placed on acceptance of the enhanced federal matching rate for Medical Assistance (FMAP). This restriction required that savings from enhanced FMAP could not directly or indirectly contribute to state resources. Typically, under M.S. 16A.152, any positive unrestricted budgetary general fund balance is allocated to restore the cash flow account and budget reserve to their statutory maximums.

REVENUE FORECAST
FY 2010-2011

Current general fund revenues for the 2010-11 biennium are now forecast to total $30.662 billion, $97 million (0.3 percent), more than forecast in November. The forecast for net-non-dedicated revenues has been increased by $130 million or 0.4 percent and the forecast for other resources has been reduced by $33 million. That reduction reflects lower than previously projected transfers to the general fund from the Health Care Access fund. While year-to-date receipts are currently $165 million above forecast, nearly 85 percent of that positive variance comes from the individual income tax and nearly 50 percent of the total positive variance comes from fourth quarter estimated payments by individuals. This forecast projects that much of the additional income tax revenue received thus far in FY 2011 will be offset by lower final payments and higher refunds when tax year 2010 is settled this spring.

Revenues FY 2010-11
($ in millions)

	FY 2008-09	FY 2010	FY 2011	FY 2010-11
Individual Income	$14,747	$6,531	$7,261	$13,792
Sales	8,915	4,177	4,567	8,745
Corporate	1,728	664	990	1,653
Motor Vehicle Sales	303	74	31	105
Statewide Levy	1,434	767	762	1,529
Five Major Taxes	27,127	12,213	13,611	25,824
Other Revenue	3,558	1,791	1,753	3,544
Tobacco	364	168	165	333
Net Non-dedicated	31,049	14,172	15,529	29,701
Other Resources	1,020	448	513	961
Current Resources	**$32,068**	**$14,620**	**$16,042**	**$30,662**

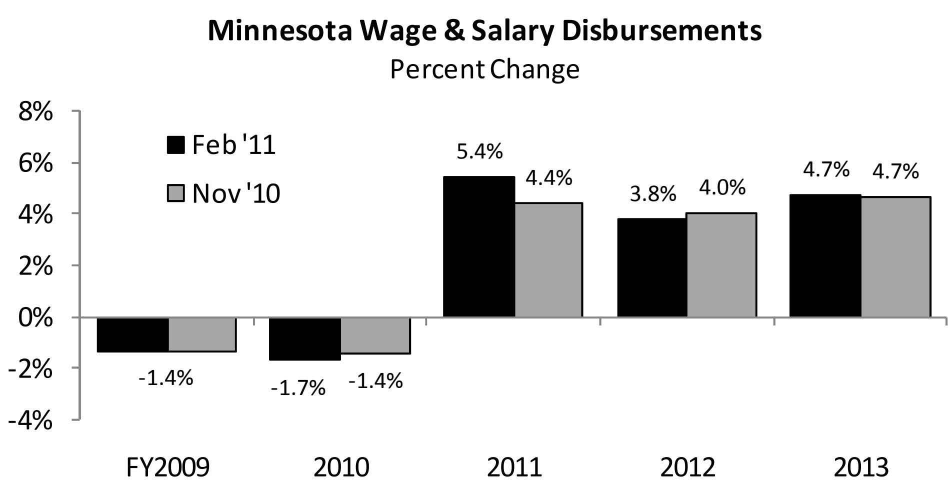
Revenues for the five major taxes are expected to be $86 million (0.3 percent) more than forecast in November, with projected receipts from the individual income tax, the sales tax, and the corporate income tax all having been increased by very modest amounts. Projected individual income tax receipts are $26 million more than in November and expected sales tax receipts, $36 million above November's estimate. The current corporate tax forecast for FY 2011 exceeds November's by $22 million.

Expected revenues for the 2010-11 biennium remain below the amounts received in the 2008-09 biennium. Biennial receipts from the individual income tax are $955 million (6.5 percent), less than receipts in FY 2008-09, while the current sales tax forecast is for $170 million less than was previously received. Total current resources in FY2008-09 were $32.608 billion, $1.406 billion more than currently forecast for FY2010-11.

Changes in Economic Assumptions

Global Insight's February baseline is significantly more optimistic about the economy's prospects in FY2011 than was their November forecast. The additional stimulus provided from policy changes agreed to as part of December's tax compromise, particularly the two percentage point reduction in the federal payroll tax in 2011 led them to raise their forecast for real GDP growth in calendar 2011 to 3.2 percent, a 0.9 percentage point increase from November's projected 2.3 percent. Since much of the improvement in the outlook came in the first half of calendar 2011, real growth in FY2011 was disproportionately affected. In February's baseline real GDP is projected to grow at an annual rate of 3.1 percent in fiscal 2011. In November real growth of 2.5 percent was expected.

The improved outlook for real GDP growth yields a forecast for more rapid growth in wage and salary disbursements. Total U.S. wages are now expected to grow by 3.7 percent during fiscal 2011. In November growth of 2.9 percent was projected. In Minnesota total wages are now projected to grow by 5.4 percent in fiscal 2011, an increase of 1 percentage point from November's forecast. The forecast for growth in purchases of non-auto consumer durables, a key component of Minnesota's sales tax base also increased between November and February. Non-auto consumer durable spending in Minnesota is now expected to grow by 6.6 percent this fiscal year. In November growth of 5.1 percent was expected.



Individual Income Tax

Individual income tax receipts for the 2010-11 biennium are now forecast to total $13.792 billion, $26 million (0.2 percent) more than projected in November. Actual receipts since November have exceeded the forecast by $140 million or 7.1 percent. Withholding was $51 million more than forecast and quarterly estimated tax payments exceeded prior projections by $78 million.

The positive variance through January of $140 million does not translate into a forecast increase of $140 million largely because of a $113 million increase in expected net refunds. The forecast for TY 2010 tax liability was only slightly changed. Wage income grew more in TY 2010 than forecast in November, but the combination of new information from the preliminary TY 2009 sample which alters the 2009 base and changes in the growth rate for various components of non-wage income and deductions left the forecast for Y 2010 liability only $12 million higher than forecast in November.

Estimated final 2009 liability was raised by $2 million from November's level incorporating income tax processing through the end of calendar 2010. Technical, changes made to the income tax withholding model and assumptions made about withheld unemployment benefits cause withholding to grow more slowly than one would otherwise expect. This does not cause liability to be less but it does affect the timing of collections.

Growth rates used in the income tax micro-simulation were adjusted using preliminary data from the 2009 income tax sample to make model liability equal to 2009 tax year liability as reported by the Department of Revenue. The largest change was in capital gains realizations, which were reduced to 42 percent of 2008 levels to be consistent with preliminary sample results. Income from IRAs fell by less than projected. It appears that more filers continued to take their required minimum distributions (RMD) in 2009, even though federal law suspended RMD requirement for one year. Filer growth rates were estimated using a revised model which contained both demographic and employment factors. In the past only employment's affect on filer growth was included. A $5.2 million off model adjustment was used to account for Roth IRA conversions in tax year 2010.

While total Minnesota wages are now expected to increase slightly more rapidly than in November, there was almost no change in the growth in nonwage income. Growth in Minnesota capital gains realizations was increased to 65 percent for calendar 2010, up substantially from the 39 percent growth rate used in November's forecast. The impact on expected 2010 realizations was much more modest since February's higher growth rate was applied to the lower 2009 base indicated by the sample.

Sales Tax

Net sales tax collections for the 2010-11 biennium are now expected to be $8.745 billion, $36 million (0.4 percent) more than estimated in November. Almost the entire change in the forecast is due to a decrease in expected sales tax refunds. Gross sales tax receipts are now projected to total $4.658 billion in FY 2011, just $2 million more than November's estimate. Through January gross sales tax receipts were $10 million below forecast.

Sales tax refunds in excess of $5,000 are currently being held by the Department of Revenue through the end of the fiscal year as part of executive actions taken by Governor Pawlenty in 2009, and further actions taken by the 2010 legislature. All refunds being held were released in early December, 2010. While refunds currently being held will be released in this fiscal year on a first-in, first-out basis once the stock of sales and corporate refunds held reaches $236 million, the total amount of sales tax and corporate refunds being held is currently not expected to reach that level during this biennium. The reduction in the refund forecast reflects lower amounts currently in processing and the smaller inventory of refunds currently being held.

Corporate Franchise Tax

Corporate tax revenues for the 2010-11 biennium are forecast to total $1.653 billion, $22 million (1.3 percent) more than in November. The forecast for the current biennium is $75 million (4.4 percent) less than net corporate tax receipts were in the 2008-09 biennium. Corporate tax receipts have tracked the forecast closely since November. January's positive variance of $16 million has been incorporated into this forecast and accounts for about three-quarters of the addition to the forecast.

As with sales tax refunds, corporate refunds greater than $5,000 are also being held during fiscal 2011 until the $236 million joint target is reached. And as noted above it appears unlikely that target will be reached in FY 2011. Since November corporate tax refunds, both those released in December and those currently being held, have been less than forecast. That reduction in refund payments does not affect FY2011 refunds, but will reduce FY2012 refunds and add to net corporate tax receipts in the 2012-13 biennium.

Motor Vehicle Tax Receipts

Minnesota's sales tax on motor vehicles is now projected to yield $105 million in the current biennium, $1 million more than forecast in November. This is the last fiscal year that the General Fund will receive a share of motor vehicle tax receipts. Beginning in FY 2012 all motor vehicle sales tax receipts will be dedicated to transportation funding.

Other Revenues and Other Resources

Although there was only a small net change in other tax and non-tax revenues, there were significant changes in some items. Income tax reciprocity receipts were reduced by $59 million because Minnesota now does not expect to receive the final settle-up payment from Wisconsin until after the close of the 2011 fiscal year. The $59 million reciprocity payment is now included as part of FY 2012 revenues. Increases in expected receipts from the estate tax ($17 million), the mortgage tax ($9 million), the deed tax ($11 million), the taconite occupation tax ($11 million) and fee revenue ($12 million) offset the loss in reciprocity revenue in the current biennium. Expected transfers to the general fund from the health care access fund fell by $29 million.

FY 2010-11 EXPENDITURE FORECAST

Spending Reductions Due Largely to One-Time Factors

Expenditures for the current biennium are now forecast to be $30.171 billion, $167 million (0.6 percent) below November's estimates. $165 million of the decrease is in health and human services largely due to reflecting the effective date of the early expansion of Medical Assistance ($82 million) and higher than expected federal matching for Medical Assistance ($30 million). These savings are one-time and do not affect the FY 2012-13 expenditure forecast.

FY 2010-11 Expenditures

($ in millions)

	November Forecast	February Forecast	$ Difference	% Change
K-12 Education	$13,328	$13,313	($15)	-0.1%
K-12 Payment Shift	(1,889)	(1,883)	6	nm
Higher Education	2,814	2,814	0	0.0%
Property Tax Aids & Credits	3,019	3,019	0	0.0%
Health & Human Services	8,741	8,576	(165)	-1.9%
Public Safety	1,820	1,820	0	0.0%
Transportation	167	167	0	0.0%
Environment, Energy & Natural Res.	314	314	0	0.0%
Agriculture & Veterans	248	248	0	0.0%
Economic Development	283	283	0	0.0%
State Government	631	633	2	0.3%
Debt Service	832	830	(2)	-0.2%
Other	32	39	7	21.9%
Est. Cancellations	(15)	(15)	0	0.0%
Subtotal	$30,325	$30,158	($167)	-0.6%
Dedicated Expenditures	13	13	0	0.0%
Total	**$30,338**	**$30,171**	**($167)**	-0.6%

K-12 Education Forecast Down $8.6 Million for FY 2010-11

K-12 Education spending in FY 2010-11 has not changed significantly since November. Spending is expected to be $11.430 billion, $8.6 million (0.08 percent) less than forecast in November. The savings is largely driven by a decline in approximately 1,290 adjusted pupil units resulting in a General Education Basic Aid entitlement reduction of $10.4 million (0.11 percent).

Changes in the categorical aid component of the K-12 forecast include a decrease of $1.9 million (6.4 percent) in Nonpublic Pupil Aid and a decrease of $658,000 (1.8 percent) in Nonpublic Pupil Transportation due to a forecasted reduction in nonpublic pupil units. Nonpublic enrollment has been declining and enrollment is expected to decrease at a slightly faster rate than estimated in November.

Health and Human Services Forecast Down $165 million for FY 2010-11

The health and human services forecast for FY 2010-11 decreased $165 million (1.9 percent) from expenditures projected in November, primarily due to two factors.

First, the majority of the decrease resulted from recognizing the effective date of the early expansion of Medical Assistance (MA) for adults without children under 75 percent of the federal poverty guideline (FPG). On January 5, 2011, Governor Dayton issued an executive order directing the Department of Human Services to begin implementing the early expansion of MA no later than March 1, 2011. Prior to the executive order, funding for the early expansion was reserved in the forecast in accordance with the Laws of 2010 and adjusted for the November forecast. Aligning the fiscal effects in the forecast with the Governor's executive order results in reduced MA spending in the general fund of $82 million in FY 2011. Decreased general fund spending is matched by an $84 million increase in the health care access fund forecast for FY 2011, because adults without children under 75 percent of FPG will be covered for an additional two months on MinnesotaCare relative to the November 2010 forecast.

Second, Minnesota will receive an additional $30 million due to a higher federal matching rate for Medical Assistance than projected in November. Under the American Recovery and Reinvestment Act (ARRA) and the related extension in August 2010 (P.L. 111-226), Minnesota has received additional federal matching on MA expenditures since October 1, 2008, which reduced state expenditures in the general fund. The federal matching rates (called Federal Medical Assistance Percentages or FMAP) varies by quarter for the duration of ARRA depending, in part, upon state unemployment rates. FMAP rates are updated when actual unemployment rates are known. In November, the matching rate for the quarter January 1, 2011 to March 31, 2011 was expected to decrease from 61.59 percent to 57.31 percent. Because the federal authorizing agency, the Center for Medicare and Medicaid Services (CMS), failed to notify the Department of Human Services of the unemployment-rate related portion of the rate change within the sixty day notification period set in law, Minnesota will receive a 58.77 percent rate through March 31, 2011. Under current federal law, the enhanced match on MA is set to end June 30, 2011, at which time it will return to 50 percent.

In addition to these factors, estimated expenditures on MA Disabled Basic Care fee-for-service were reduced by $11 million given recent claims experience. An error associated with transfers out to other funds was also corrected, resulting in a $17 million savings to the general fund in FY 2011.

Debt Service Projections Decrease $2.5 Million for FY 2010-11

Estimated debt service costs for the FY 2010-11 biennium are now $828 million, $2.5 million lower than the November 2010 Forecast estimates. The reason for the slightly lower debt service cost is an adjustment in the calculation of interest expense on a new bond issue. The budgetary savings from the recalculation was $2.5 million less than previously forecast.

All Other Spending Virtually Unchanged for FY 2010-11

Since spending in other areas is set by legislative appropriations, there is little material change in the forecast. However, tax aids and credits are forecasted expenditures, and are expected to be $327,000 (.01 percent) higher than previous estimates. Limited growth in market value homestead credits, aid to police and fire and tax refund interest drive the small change.

FY 2012-13 BUDGET OUTLOOK

Modest Improvement in FY 2012-13 Outlook, Projected Shortfall at $5.028 Billion

The projected shortfall for FY 2012-13 is now $5.028 billion. The forecast balance has improved by $1.160 billion from the $6.188 billion cumulative shortfall projected in November. However, a portion of this is due to an increase in the projected balance expected for FY 2011 that carries forward into the next biennium due to state law. For FY 2012-13, the modest improvement in the outlook includes an increase in projected revenues ($887 million), forecasted expenditures fall by $9 million.

FY 2012-13 Budget Forecast
($ in millions)

	November Forecast	February Forecast	$ Change	% Chg.
Beginning Balance	$674	$938	$264	39.2%
Tax Revenues	29,993	30,904	911	3.0
Non-Tax Revenues	1,439	1,426	(13)	(0.9)
Other Resources	1,011	1,000	(11)	(1.1)
Total Resources	**32,443**	**33,330**	**887**	**2.7%**
Expenditures	**39,030**	**39,021**	**(9)**	**0.0**
Cash Flow Account	266	266	0	0.0
Budget Reserve	9	9	0	0.0
Balance	**($6,188)**	**($5,028)**	**($1,160)**	**(18.7%)**

Unlike the forecast for FY 2010-11, the projected $5.028 billion shortfall for FY 2012-13 is not based on an enacted budget, or even a proposed budget. The February revenue forecast is matched against "base level" current law spending. The projected balance provides the framework for establishing the budget for the next two years.

Forecast Revenue and Spending Changes

General fund revenues for the 2012-13 biennium are now forecast to be $33.330 billion - $887 million (2.7 percent) above the November forecast. Revenues in the next biennium are expected to be $2.668 billion (8.7 percent) above expected revenues for the current biennium. The forecast for income, corporate and sales and other miscellaneous general fund taxes have all been increased; however, nearly sixty percent of the forecast revenue increase occurred in individual income taxes.

General fund spending for the 2012-13 biennium is now forecast to be $39.021 billion, $9 million below November's forecast. Significant changes in various components of the human services forecast were largely offsetting, yielding a net $8 million reduction from previous estimates. A $24 million reduction in estimated K-12 education spending and small savings in other forecast areas was offset by a $39 million increase in expected debt service payments.

All forecast spending continues to be based on current laws, not Governor's or legislative proposed budgets. Expenditure projections include provisions currently in law and are adjusted only for enrollment and caseload changes in K-12 education, higher education, human services, corrections and property tax aids and credits. The expenditure forecast does not include estimated general inflation increases beyond the portion that is integrated into the health care cost components of the forecast.

FY 2012-13 Biennial Expenditure Growth

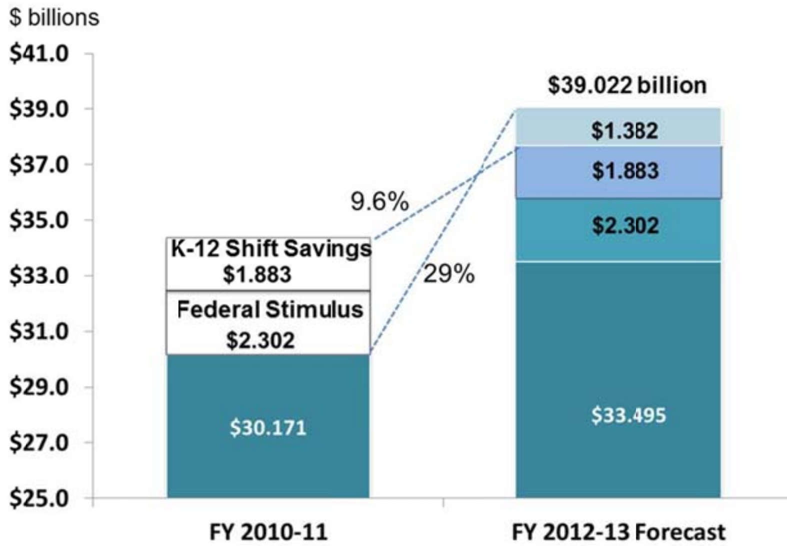
General fund spending for FY 2012-13 is now forecast to be $39.021 billion. When compared to FY 2010-11 forecasted spending of $30.171 billion, unadjusted spending is projected to increase by 29.3 percent.

Projected Spending: FY 2010-11 vs FY 2012-13
($ in millions)

	FY 2010-11	FY 2012-13	$ Change	% Change
K-12 Education	13,313	14,322	1,009	7.6%
K-12 Payment Shifts	(1,883)	1,302	3,185	nm
Higher Education	2,814	2,917	103	3.7%
Local Aids & Credits	3,019	3,457	438	14.5%
Health and Human Services	8,576	12,338	3,762	43.9%
Debt Service	830	1,181	351	42.3%
All Other	3,502	3,504	2	0.1%
Total Spending	30,171	39,021	8,850	29.3%

As noted in the November forecast, significant one-time general fund spending reductions occurred in FY 2010-11 – primarily related to federal stimulus spending and actions that shifted a portion of K-12 payments. The one-time federal stimulus savings, savings from K-12 payment shifts, and the current law requirement of buying back part of the K-12 payment shifts in FY 2012 collectively distort underlying growth figures

One-time Stimulus Funding and K-12
Payment Shifts Distort Spending Growth



To more accurately compare biennium to biennium spending, it is necessary to mitigate the effects of these one-time factors. After the one-time federal stimulus savings ($2.302 billion), K-12 payment shift savings ($1.883 billion), and current law requirement to buy back a significant portion of the K-12 payments shifts in FY 2012 ($1.382 billion) are controlled for, FY 2012-13 expenditures are projected to be $37.639 million. This is 9.6 percent higher than FY 2010-11 projected spending. The projected growth in spending mirrors the 8.7 percent projected increase in revenues for the same time period.

General Fund Expenditure Growth

	FY 2010-11	FY 2012-13	$ Chg.	% Chg.
Total Forecast Spending	**$30,171**	**$39,021**	**$8,850**	**29.3%**
K-12 Shift Savings	1,883	(1,382)		
Federal Stimulus	2,302	----		
Comparable (Spending Adjusted)	**$34,356**	**$37,639**	**$3,283**	**9.6%**

FY 2014-15 Planning Estimates

The planning estimates for FY 2014-15 differ from the short-term forecasts prepared for the 2010-11 and 2012-13 biennia. Projection methods are different and the longer-term estimates carry a higher degree of uncertainty and a larger range of potential error.

Changes in the FY 2014-15 planning outlook have implications for FY 2012-13 budget decisions. The long-term budget outlook for FY 2012-13 has improved only marginally since November. General fund revenues are $735 million higher, offset in part by a $50 million increase in projected spending – driven largely by human services costs. As a result, the longer term gap between ongoing revenues and spending projected for FY 2014-15 has decreased by $685 million from estimates made in November.

FY 2012-15 Planning Outlook
($ in millions)

	FY 2012	FY 2013	FY 2014	FY 2015
Projected Revenues	$16,198	$17,132	$17,323	$18,007
Projected Spending	19,952	19,070	19,668	20,061
Difference	($3,754)	($1,938)	($2,345)	($2,054)
Estimated Inflation (CPI)	339	673	1,122	1,611

When compared to November estimates, the structural deficits for both FY 2012-13 and FY 2014-15 have improved slightly. The structural gap for FY 2012-13 was $6.587 billion; it is now $5.692 billion. For FY 2014-15, the November projected structural gap was $5.083 billion; it is now $4.398 billion. The reduction in the revenue-expenditure gaps shown for both biennia is largely the result of increases in the revenue forecast. There was little underlying change in forecast expenditures.

The impact of inflation is not reflected in expenditure projections. Consumer prices are now projected to increase 1.7 percent in FY 2012 and 1.8 percent in FY 2013, followed by an increase of 2.1 percent for FY 2014, and 2.2 percent for FY 2015.

Adjusting current estimates of forecast spending for inflation would add approximately $1.0 billion to forecast estimates for FY 2012-13. Compounding forecast inflation to current law projected baseline spending for FY 2014-15 would add approximately $2.7 billion.

An alternative inflation measure, the index of government purchased goods and services (PGSL), is expected to average 2.1 percent per year for FY 2012-13, and 2.5 percent per year in FY 2014-15. This measure of government costs is about 0.2 percent higher than forecast increases for the consumer price index for FY 2012-13 – and nearly 0.4 percent higher for the following biennium. Compounding inflation based on the PGSL would be add nearly $216 million to the inflation amount shown for FY 2012-13, and $524 million to the amounts shown for FY 2014-15.

EXPENDITURE FORECAST
FY 2012-2015

FY 2012-13 Forecast Expenditures Decline $9 Million

The forecasted current law spending for FY 2012-13 is now expected to total $39.021 billion, $9 million lower than November's forecast estimates, largely due to small net decreases in K-12 education, property tax aids and credits, and health and human services spending. These decreases, however, are offset in part by a forecast increase in debt service spending. The revised spending estimates represent projected growth of $8.851 billion over the current law forecast for the FY 2010-11 biennium – a 29 percent unadjusted increase.

FY 2012-13 Budget Expenditure Estimates
($ in millions)

	November	February	Difference
K-12 Education	$14,346	$14,322	($24)
K-12 Payment Shift	1,302	1,302	0
Higher Education	2,917	2,917	0
Property Tax Aids & Credits	3,469	3,457	(12)
Health & Human Services	12,346	12,338	(8)
Public Safety	1,782	1,782	0
Transportation	181	179	(2)
Environment, Energy & Natural Res.	349	347	(2)
Agriculture & Veterans	245	245	0
Economic Development	263	263	0
State Government	660	660	0
Debt Service	1,142	1,181	39
Other	45	45	0
Estimated Cancellations	(20)	(20)	0
Subtotal	39,027	39,018	(9)
Dedicated Expenditures	3	3	0
Total	**$39,030**	**$39,021**	**($9)**

FY 2012-13 Biennial Expenditure Growth

When compared to FY 2010-11 projected expenditures of $30.171 billion, the revised FY 2012-13 projected expenditures of $39.021 billion represents a 29.3 percent increase. As previously discussed, after the one-time federal stimulus savings, K-12 payment shift savings, and current law requirement to buy back a significant portion of the K-12 payments shifts in FY 2012 are controlled for, FY 2012-13 expenditure growth is 9.6 percent.

Projected Spending Detail: FY 2010-11 vs FY 2012-13
($ in millions)

	FY 2010-11	FY 2012-13	$ Difference	% Change
K-12 Education	$13,313	$14,322	$1,009	7.6%
K-12 Payment Shift	(1,883)	1,302	$3,185	nm
Higher Education	2,814	2,917	$103	3.6%
Property Tax Aids & Credits	3,019	3,457	$438	14.5%
Health & Human Services	8,576	12,338	$3,762	43.9%
Public Safety	1,820	1,782	($38)	-2.1%
Transportation	167	180	$13	7.9%
Environment, Energy & Natural Res.	314	347	$33	10.3%
Agriculture & Veterans	248	245	($3)	-1.3%
Economic Development	283	263	($20)	-7.1%
State Government	633	660	$27	4.4%
Debt Service	830	1,181	$351	42.3%
Other	39	45	$6	15.4%
Est. Cancellations	(15)	(20)	($5)	33.3%
Subtotal	$30,158	$39,018	$8,860	29.4%
Dedicated Expenditures	13	3	($10)	-76.9%
Total	**$30,171**	**$39,021**	**$8,850**	**29.3%**

FY 2014-15 Projected Expenditures Increase $50 Million

Projected current law spending for FY 2014-15 is now expected to total $39.728 billion, $50 million (0.1 percent) above November. The revised spending estimates now represent projected growth of $707 million over the current law forecast for the FY 2012-13 biennium – a 1.8 percent increase. Growth in projected health and human services spending accounts for nearly all of this growth ($1.311 billion) – offset by a sizable reduction ($758 million) in projected spending for K-12 education that largely reflects the artificially low impact of the one-time school shift payback shown for FY 2012-13, due to one-time provisions in the current state law.

FY 2014-15 Planning Estimates
($ in millions)

	November	February	Difference
K-12 Education	$14,954	$14,948	($6)
K-12 Payment Shift	(81)	(82)	(1)
Higher Education	2,917	2,917	0
Property Tax Aids & Credits	3,546	3,551	5
Health & Human Services	13,600	13,649	49
Public Safety	1,791	1,791	0
Transportation	182	180	(2)
Environment, Energy & Natural Res.	363	360	(3)
Agriculture & Veterans	245	245	0
Economic Development	265	265	0
State Government	669	669	0
Debt Service	1,188	1,196	8
Other	56	56	0
Estimated Cancellations	(20)	(20)	0
Subtotal	39,675	39,725	50
Dedicated Expenditures	3	3	0
Total	**$39,678**	**$39,728**	**$50**

K-12 Education Forecast Down $24 Million for FY 2012-13

Total spending for K-12 Education is now expected to be $15.624 billion in FY 2012-13, a decrease of $24 million (0.2 percent) from November 2010 estimates.

February Forecast enrollment projections for public K-12 schools are now based on actual FY 2010 student data. Average Daily Membership (ADM) is projected to be slightly lower than estimated in November 2010, down approximately 850 in FY 2012 and 905 in FY 2013. The change per year compared to November's projection is approximately 0.13 percent.

Despite the slightly lower pupil unit projection from November's estimates, pupil units are still increasing on an annual basis. Between FY 2012 and FY 2015 pupil units are expected to grow by 27,936 pupil units or approximately 2.9 percent over the four year period.

General Education spending is forecast to be $22.9 million (0.2 percent) lower in FY 2012-13 than was anticipated in November. Basic Education Aid entitlements are down $16.7 million (0.17 percent) due to lower pupil counts. Entitlements in Compensatory Aid, now based on preliminary actual free and reduced price meal eligibility totals from October 2010, have decreased $9.2 million (1.0 percent) since November.

The decreases outlined above are slightly offset by increases in the state aid portion of equalized levies. The adjusted net tax capacities (ANTC) for districts are 4.4 percent lower than estimated in November. Lower tax capacity results in more revenue coming from state aid and less from property taxes on equalized levies. Operating Capital entitlements increased $2.9 million (1.84 percent) and Referendum aid increased $939,000 (0.62 percent).

There are relatively minor changes to the overall categorical component of the K-12 forecast compared to November, however significant changes occurred within individual programs. Nonpublic Pupil Aid and Nonpublic Pupil Transportation spending is forecasted to decrease $3.0 million (7.8 percent) and $3.4 million (7.6 percent) respectively. This is largely due to a continued decrease in nonpublic pupil units. Debt Service is increasing $4.2 million (13.1 percent) and Community Education is increasing $172,000 (14.9 percent), both due to a decline in adjusted net tax capacity (ANTC) from November's forecast.

K-12 Education Forecast Down $7.6 Million for FY 2014-15

K-12 Education expenditures are projected to total $14.866 billion in FY 2014-15, down $7.6 million (0.05 percent) from November's estimate.

As highlighted in the FY 2012-13 overview, the decrease in pupil units continues to generate lower General Education estimates in FY 2014-15. General Education spending is forecast to be $14.8 million (0.1 percent) lower in FY 2014-15 than was anticipated in November. Basic Education Aid entitlements are down $23.2 million (0.23 percent) due to lower pupil counts. Compensatory Aid entitlements, which is based on a lower starting point due to lower than anticipated eligibility totals from October 2010, have decreased $9.9 million (1.0 percent) since November.

Increases in a couple categorical programs partially offset the General Education savings. Debt Service Aid and Deferred Maintenance increases $9.8 (27.0 percent) and $1.1 (19.5 percent) respectively. The increase in both programs is driven by a decrease in property valuation per pupil unit since November's forecast.

Health and Human Services Forecast Down $8 Million in FY 2012-13

Health and human services spending for FY 2012-13 is projected to be $12.338 billion, $8 million lower than previously forecasted. While this change represents less than .08 percent of total spending in this budget area some larger changes are worth noting.

First, in the MA Adults without Children category, estimates for average monthly enrollment increased by about four thousand annually (0.4 percent), adding a cost of $49 million for the biennium. In addition, this forecast adds back $21 million in costs related to a 15 percent ratable reduction in the MinnesotaCare Adults without Children category, which was incorrectly applied to cost projections in the November forecast for adults moving from MinnesotaCare to MA due to the early expansion. Increased costs were more than offset by lower than expected rates paid to managed care plans on behalf of

MA Families and Children enrollees. Based on recently settled contract rates, the forecast reflects a 3.5 percent reduction from managed care rates previously assumed for this category, reducing costs by $64 million in FY 2012-13 and extending into the next biennium.

The forecast shows decreased spending in Chemical Dependency (CD) in FY 2012-13 ($16 million). These savings are related to increased spending in MA, reflecting that more adults without children under 75 percent of FPG will receive CD treatment under that program due to the early expansion. The state's CD costs will decrease more significantly in FY 2014 and beyond as the mandatory expansion of MA to adults up to 133 percent of FPG comes into effect.

Health and Human Services Forecast up $49 Million in FY 2014-15

The health and human services expenditure forecast for FY 2014-15 increased $49 million to $13.649 billion. This is less than 0.4 percent of total spending in this budget area. The increase was driven by the mandatory coverage of all adults up to 133 percent of FPG required by the federal Affordable Care Act. As of November 2010, coverage of adults without children up to 133 percent of FPG was included in the MA forecast starting in FY 2014. After further study of the federal law, the Department of Human Services determined that adults with children under 133 percent of FPG would also require coverage in MA beginning in 2014. For Minnesota, this necessitated the recognition of additional costs in MA for parents between 100 and 133 percent of FPG. This resulted in a cost to the general fund of $57 million for the biennium. In addition, an adjustment of $41 million was made to reflect increased costs in the MA Families and Children category due to a reduction of $60 million in Minnesota's annual federal allocation for the Children's Health Insurance (CHIP) program. The allocation was previously available as federal matching for children with family income over 133 percent of FPG in this category.

The forecast also shows increased general fund spending of $34 million in the Minnesota Family Investment Program (MFIP)/Diversionary Work Program (DWP). This increased spending is caused by an expiring legal provision in state law that allows the state to use a portion of expenditures in the Working Family Tax Credit program as maintenance of effort for federal TANF funds. Unless this legal provision is reauthorized, general fund spending on MFIP/DWP must increase to meet the obligation. This legal provision is typically reauthorized when the state's biennial budget is enacted. The underlying spending for MFIP/DWP is forecasted to decrease by $2.8 million over this same time period.

Increases in projected health and human services expenditures for FY 2012-13 were largely offset by a reduction in projected managed care rates in the MA Families and Children category, which resulted in a savings to the general fund of $87 million.

Effects of Federal Health Care Reform on Minnesota Health Care Programs in FY 2014-15

Starting in 2014, the federal Affordable Care Act requires that all states either establish health insurance exchanges or participate in an exchange to be created by the federal government. The federal government will offer subsidies for individuals with incomes between 133 percent and 400 percent of FPG to purchase insurance coverage through the exchange. In addition, the ACA offers an option for states to establish a basic health plan for individuals between 133 and 200 percent of FPG. If such an option were adopted, the state would receive 95 percent of the funds that would have been paid as federal premium and cost-sharing subsidies for eligible individuals. While the onset of exchanges will have an impact on enrollment in Minnesota Health Care Programs (especially MinnesotaCare), the planning estimates for FY 2014-15 do not reflect effects related to exchanges and associated subsidies at this time. Enrollment projections for MA and MinnesotaCare continue to reflect the state current law baseline in this forecast. As state and federal policy on implementation of exchanges becomes clearer, assumptions related to the potential effects on enrollment will be included in future forecasts.

FY 2012-13 Tax Aids and Credits Spending Expected to be $12.2 Million Lower

Tax aids and credits FY 2012-13 spending is forecasted to be $3.457 billion, $12.2 million (0.4 percent) lower than previous estimates for the biennium. This change results from a $21.8 million (2.3 percent) decrease in property tax refund spending due to lower than previously projected property tax growth and slightly higher income growth. This decrease is partially offset by higher projected spending on Market value credits, up $10.0 million (1.9 percent), due to slower than expected housing value growth.

Tax Aids and Credits Expenditures Expected to be $4.9 Million Higher in FY 2014-15

Tax aids and credit spending is expected to reach $3.551 billion in the FY 2014-15 biennium, an increase of $4.9 million (0.1 percent) over previous planning estimates. This increase is due to growth of $16.1 million (3.1 percent) in the market value homestead credit program resulting from a decrease in projected market value growth. The overall increase in tax aids and credits is partially offset by a $13.1 million (1.1 percent) decrease in forecasted property tax refund payments resulting from lower than previously projected property tax growth.

Debt Service Projections Increase $39 Million for FY 2012-13

Projected debt service costs for FY 2012-13 are now expected to be $1.18 billion, up $39 million from the November 2010 forecast estimates.

The primary reason for the higher debt service cost is the dollar amount of the premiums forecast to be paid by the underwriter on the bond sales in the biennium. The forecast of higher interest rates result in the premiums decreasing by $38 million. Another factor that contributed to the increase in the debt service estimate was a decrease in the short-term interest rates on cash balances for investment earnings by an estimated $1 million.

The forecast assumes future capital budgets of $775 million in each even-numbered legislative session and $140 million in each odd-numbered session.

Debt Service Projections Increase $8 Million for FY 2014-15

The forecast debt service costs for FY 2014-15 is almost $1.197 billion, up $8 million from the November 2010 forecast estimates.

The primary reason for the higher debt service cost is the dollar amount of the premiums forecast to be paid by the underwriter on the bond sales in the biennium. The forecast of higher interest rates result in the premiums decreasing by $6 million. Other factors that contributed to the increase in the debt service estimate was slightly higher interest rates on new bond issues and a decrease in the short-term interest rates on cash balances for investment earnings.

The forecast assumes future capital budgets of $775 million in each even-numbered legislative session and $140 million in each odd-numbered session.

REVENUE ESTIMATES FY 2012-13

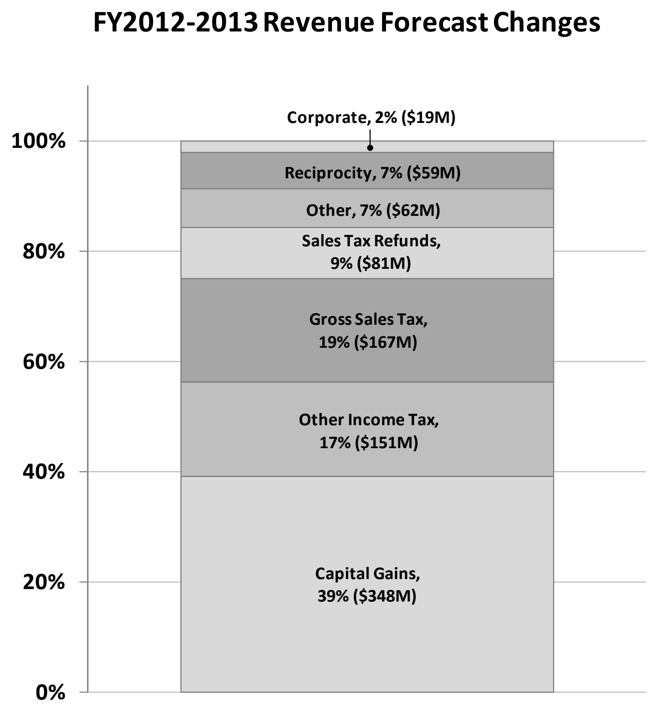
Total current resources for Minnesota's general fund in the 2012-13 biennium are forecast to total $33.330 billion, $887 million (2.7 percent) more than forecast in November. General fund current resources are now expected to exceed their 2010-11 level by $2.668 billion or 8.9 percent. After correcting for completion of the phased transfer of motor vehicle sales tax receipts from the general fund to the funds dedicated to transportation, general fund revenues grow by 9.1 percent.

Revenues FY 2012-13

($ in millions)

	FY 2010-11	FY 2012	FY 2013	FY 2012-13
Individual Income	$13,792	$7,819	$8,355	$16,175
Sales	8,745	4,511	4,769	9,280
Corporate	1,653	772	788	1,560
Motor Vehicle Sales	105	0	0	0
Statewide Levy	1,529	779	793	1,572
Five Major Taxes	25,824	13,881	14,705	28,587
Other Revenue	3,544	1,711	1,713	3,424
Tobacco	333	162	158	320
Net Non-dedicated	29,701	15,754	16,576	32,331
Other Resources	961	444	556	999
Current Resources	**$30,662**	**$16,198**	**$17,132**	**$33,330**

The individual income tax shows the largest increase, up $499 million (3.2 percent) from from November's forecast. Much of that growth was due to an improvement in the outlook for capital gains income. Net sales tax receipts are also projected to significantly exceed November's forecast, up $249 million (2.8 percent). Corporate tax revenues and the statewide property tax showed more modest increases of $19 million and $12 million respectively. All other revenues increased by $132 million over November's estimate, with $59 million of that increase coming from the shift of Wisconsin's final reciprocity payment to FY 2012. Expected income tax collections in the 2012-13 biennium are 17.3 percent greater than is forecast for the 2010-11 biennium and sales tax receipts are projected to be 6.1 percent higher. Corporate tax receipts in 2011-12 decline by5.6 percent.



Changes in Economic Assumptions

Global Insight's February baseline calls for slightly stronger real GDP growth over the 2012-13 biennium than was anticipated in November. Real GDP is now projected to grow at annual rate of 3.1 percent over the biennium, 0.4 percentage points more than in the November baseline. The change in the real growth rate alone, however, understates the improvement in the economy, since that higher growth rate builds from a higher starting point. Projected inflation for the 2012-13 biennium remains almost the same as November. The CPI is now expected to increase at an annual rate of 1.8 percent over the biennium. November's baseline called for an CPI increases to average 1.9 percent.

Individual Income Tax

Individual income tax revenues in the 2012-13 biennium are forecast to total $16.175 billion, $499 million (3.2 percent) more than forecast in November. Income tax receipts in the 2012-13 biennium are now expected to increase by $2.383 billion (17.3 percent) over income tax revenues in the 2010-11 biennium. Much of the increase in revenue is attributable to increases in projected capital gains realizations.

Wages and salaries make up more than three-quarters of adjusted gross income (AGI) for Minnesota resident filers, but in this forecast changes in the wage forecast accounted for only about 15 percent of the increase in projected resident AGI since November. Other, non-capital gains income accounts for over 20 percent of AGI and about 20 percent of the change in projected AGI since November. Almost two-thirds of the AGI growth in this forecast comes from increases in projected capital gains realizations, much of that attributable to the extension of the special 15 percent federal tax rate on capital gains income through the 2012 tax year. In November's forecast capital gains income was projected to growing approximately 100 percent over its 2009 estimated base by tax year 2012. In this forecast capital gains income increases by 180 percent between tax year 2009 and tax year 2012. In 2009 capital gains were less than 2 percent of AGI.

When the tax rate on capital gains increases or decreases the amount of capital gains income realized changes as well. In general, an increase in the tax rate causes investors to hold assets longer, reducing the amount of gains realized, while a reduction in the capital gains tax rate, other things equal, will lead investors to turn portfolios over more rapidly, increasing reported gains income. This "rate elasticity" effect can yield substantial changes in capital gains income and income tax liability when there are tax rate changes. Capital gains realizations also may be affected by a "behavioral" effect, where taxpayers change their behavior in advance of a scheduled rate change to minimize their expected tax liability. Most commonly this is seen as a surge in realizations prior to a scheduled rate increase. In 1986 taxable capital gains income increased by more than 90 percent as investors took profits before the tax increase scheduled in 1987 took effect.

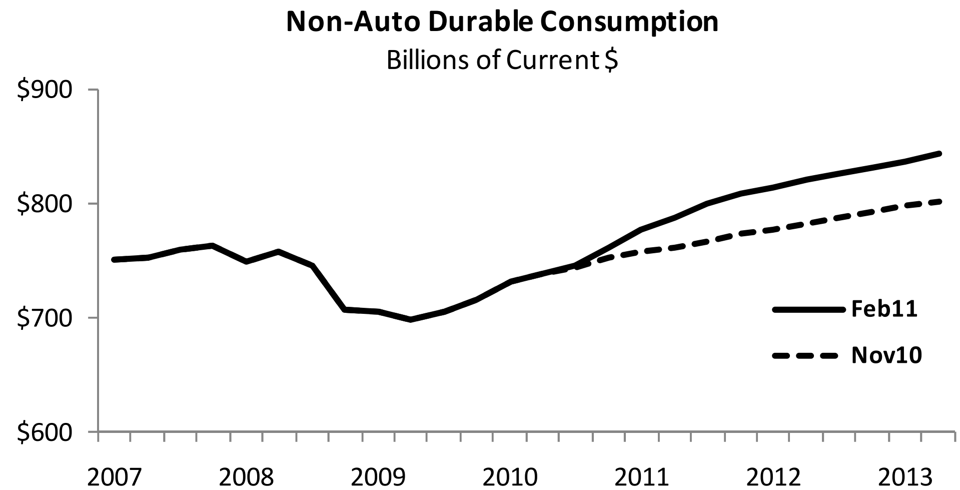
Because Minnesota's revenue forecast is a current law forecast, MMB economists do not anticipate changes in state or federal law in producing their revenue estimates. That meant that November's forecast for the individual income tax included the scheduled 5 percentage point increase in the capital gains rate in 2011 and the rate elasticity effect reduced realizations from what they would have been had the tax rate remained constant. December's federal tax compromise, by eliminating the expected tax change, increased expected realizations significantly from November's estimate. Capital gains income is now projected to grow by 34 percent in 2011 and 20 percent in tax year 2012. In November a 33 percent decline was projected for 2011, the first year taxpayers would be subject to the higher tax rate. Capital gains realizations by Minnesota residents are now projected to total $7.1 billion in 2012, almost 20 percent more than forecast in November.

Changes in projected growth rates for income other than capital gains were modest. Wages are now forecast to grow at a slightly faster rate in 2012 than was expected in November and the forecast for other, nonwage income also improved slightly. Growth rates for mortgage interest deductions and real estate tax deductions were reduced from November's estimates.

Sales Tax

Net sales tax receipts for the 2012-13 biennium are projected to total $9.280 billion, a net increase of $249 million (2.8 percent) over November's forecast. Expected net receipts for the biennium are $534 million more than is projected for the 2010-11 biennium. The stronger economy forecast by GII lifts spending on non-auto consumer durables and business equipment, particularly in FY2012. Construction spending, the third major portion of Minnesota's sales tax base also strengthens during the biennium, but it does not recover to pre-recession levels in the forecast horizon. Sales tax receipts were reduced by $24 million to adjust for the model's recent tendency to slightly over forecast.

A lower forecast for sales tax refunds contributed about one-third of the projected gain in net revenues. FY 2012-13 sales tax refunds are now projected to be $658 million, $84 million less than November's estimate.



Corporate Franchise Tax

Corporate franchise tax revenues for the 2012-13 biennium are forecast to total $1.560 billion, $19 million (1.2 percent) more than forecast in November. The corporate tax forecast for the 2012-13 biennium is now $93 million (5.6 percent) less than the corporate tax forecast for 2010-11. Corporate estimated, miscellaneous and final payments are now projected to be $10 million less than was anticipated in November. That was offset by a reduction in the refund forecast of $29 million. That reduction in refund payments was entirely due to a reduction in the amount of corporate refund payments expected to be held back in FY2011 and paid in FY 2012. In the absence of the change in refund holds, the FY 2012 corporate refund forecast would have been $2 million more than November's estimate.

Other Revenues

Other tax and non-tax revenues, including the statewide property tax are expected to total $5.316 billion, $132 million (2.5 percent) more than projected in November. A shift in the expected receipt date for Wisconsin's final settle-up payment under the income tax reciprocity agreement accounted for $59 million of the total. Increases in the forecasts for the taconite occupation tax, and the mortgage and deed taxes explain much of the remaining increase. Projected receipts from the tobacco settlement are expected to be $7 million more than November's forecast.

REVENUE PLANNING ESTIMATES FY 2014-15

Total current resources for the 2014-15 biennium are estimated to be $35.330 billion, an increase of $2.001 billion (6.0 percent) from the amount forecast for the 2012-13 biennium and a $736 million (2.1 percent) increase over November's revenue planning estimates for the 2014-15 biennium.. General fund receipts for the four major taxes are now projected to be 8.3 percent more than in the 2012-13 biennium. These revenue planning estimates assume that economic growth rates in both the U.S. and Minnesota begin to follow more normal paths in 2011, with real GDP growing at a 3.3 percent rate in 2014 and a 2.9 percent rate in 2015. Nominal GDP is assumed to grow by 5.2 percent in 2014 and by 4.8 percent in 2015.

Revenues FY 2014-15

($ in millions)

	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Individual Income	$16,175	$8,612	$9,035	$17,647
Sales	9,280	4,904	5,067	9,970
Corporate	1,560	847	870	1,716
Statewide Levy	1,572	806	827	1,634
Four Major Taxes	28,587	15,169	15,799	30,967
Other Revenue	3,424	1,736	1,794	3,530
Tobacco	320	153	150	303
Net Non-dedicated	32,331	17,058	17,742	34,800
Other Resources	999	265	265	530
Current Resources	**$33,330**	**$17,323**	**$18,007**	**$35,330**

The individual income tax is the major source of revenue growth in the 2014-15 biennium. Projected income tax receipts are now forecast to exceed levels forecast for the 2012-13 biennium by $1.472 billion or 9.1 percent. Sales tax receipts are projected to grow by 7.4 percent over the level projected for the 2012-13 biennium, and the corporate franchise tax by 10.0 percent. The statewide property tax is expected to grow by 3.9 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 FY 2011, FY2012, or FY2013 will change the revenue planning estimates for 2014 and 2015. Other things equal, stronger than anticipated revenue growth through fiscal 2013 will carry forward and add significantly to revenues in the 2014-15 biennium. But, should the economy grow more slowly than forecast, or should some item of portfolio income such as capital gains fall well below forecast – as it did in tax year 2000 and tax year 2008--the revenue outlook for the 2014-15 biennium will deteriorate.

The revenue planning estimates are only a guide to the level of future revenues. They are not a guarantee. Normally, if the economy remains strong the planning estimates are likely to slightly understate actual receipts. But, taxpayer reaction to the scheduled increases in the tax rate on capital gains could be quite different from that assumed in this forecast. That could lead to either a material increase in revenues in fiscal 2014, or a significant decline. Also, Minnesota's economy is assumed to grow at the national rate in 2014 and 2015. While Minnesota has typically grown at or above the national rate, there is no guarantee the state will not underperform the U.S. economy between now and the close of the 2014-15 biennium. Either outperforming or underperforming the national averages could lead to a material change in projected revenues. Actual revenues for 2014-15 could exceed or fall short of the planning estimates by $4 billion or more depending on the economy's performance.

Since November 2002 the Finance Department has based its revenue planning estimates on Global Insight's baseline forecast. February's 2014-15 revenue planning estimates again were prepared consistent with the GII baseline forecast. GII projects real GDP growth rates of 3.3 percent in calendar 2014 and 2.9 percent in 2015. GII's GDP growth rates for both 2014 and 2015 are below those assumed by the CBO in their January 2011 Budget and Economic Outlook. The CBO expects annual real GDP growth to average 3.4 percent from 2013 through 2016. The October Blue Chip Consensus long term outlook is less optimistic than GII's, with real GDP growth rates of 2.8 percent in 2014 and 2.7 percent in 2015 projected.

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

HITS model pin files were adjusted for changes in federal tax law that will occur in 2013 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, including the return of the federal capital gains tax rate to 20 percent from its current level of 15 percent, expire. Since Minnesota taxes capital gains at the same rate as ordinary income changes in the federal tax rate on capital gain will not affect the rate at which capital gains are taxed in Minnesota. They could, however, have a significant indirect impact on Minnesota taxable income if investors adjust their behavior to maximize after tax returns on investments. Unlike in years past, MMB has not included one-time off model adjustments to tax liability in tax years 2013, 2014, and 2015 to reflect behavioral shifts by taxpayers seeking to mitigate the impacts of scheduled tax rate increases.

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

ALTERNATIVE FORECAST COMPARISON
REAL GDP (ANNUAL RATES)

	10III	10IV	11I	11II	11III	11IV	10A	11A	12A
GII Baseline (2-11)	2.6	3.2	4.1	3.3	2.8	3.5	2.9	3.2	2.9
Blue Chip (2-11)	2.6	3.2	3.5	3.4	3.5	3.5	2.9	3.2	3.3
Moody's Economy.Com (2-11)	2.6	3.2	4.3	4.2	4.1	4.5	2.9	3.7	4.0
UBS (2-11)	2.6	3.2	4.2	3.5	2.9	2.9	2.9	3.3	2.7
Standard & Poors (2-11)	2.6	3.2	3.8	3.2	2.6	3.6	2.9	3.1	2.8

Consumer Price Index (Annual Rates)

	10III	10IV	11I	11II	11III	11IV	10A	11A	12A
GII Baseline (2-11)	1.5	2.6	3.8	-0.2	1.9	1.8	1.6	1.9	1.7
Blue Chip (2-11)	1.5	2.6	2.5	1.6	1.9	1.9	1.6	1.9	2.0
Moody's Economy.Com (2-11)	1.5	2.6	1.7	1.7	1.7	1.7	1.6	1.7	2.3
UBS (2-11)	1.5	2.6	2.4	0.6	2.8	1.8	1.6	1.8	2.1
Standard & Poors (2-11)	1.5	2.6	3.8	-0.1	2.0	1.9	1.6	1.9	1.8

FORECAST COMPARISONS

Real Economic Growth

(Annual Percent Change in Real GDP)

	2010	2011	2012	2013	2014	2015
Nov 06 GII Baseline	3.3	2.9				
Feb 07 GII Baseline	3.1	2.7				
Nov 07 GII Baseline	2.9	2.8				
Feb 08 GII Baseline	3.0	3.2				
Nov 08 GII Baseline	1.7	3.1	3.5	3.1		
Feb 09 GII Baseline	2.0	3.5	3.3	2.9		
Nov 09 GII Baseline	2.2	2.9	3.7	2.9		
Feb 10 GII Baseline	3.0	2.8	3.7	3.2		
Nov 10 GII Baseline	2.7	2.3	2.9	2.7	3.1	3.1
Feb 11 GII Baseline	2.9	3.2	2.9	3.1	3.3	2.9

Inflation

(Annual Percent Change in CPI-U)

Nov 06 GII Baseline	1.8	1.7				
Feb 07 GII Baseline	1.9	2.0				
Nov 07 GII Baseline	1.9	1.8				
Feb 08 GII Baseline	1.9	1.8				
Nov 08 GII Baseline	2.4	3.0	2.4	2.4		
Feb 09 GII Baseline	1.7	2.2	2.3	2.6		
Nov 09 GII Baseline	1.5	2.0	2.0	1.8		
Feb 10 GII Baseline	1.9	1.7	2.0	1.9		
Nov 10 GII Baseline	1.7	1.5	1.9	2.0	2.2	2.2
Feb 11 GII Baseline	1.6	1.9	1.7	1.9	2.2	2.2

MINNESOTA - U.S. COMPARISON REPORT

February 2011 Baseline

(Annual Percent Changes)

	2007	2008	2009	2010	2011	2012	2013
Wage and Salary Income							
United States	5.8	2.1	-4.3	2.1	4.6	4.9	4.8
Minnesota	6.0	2.9	-4.8	3.9	3.8	4.7	4.7
Implied Annual Wage							
United States	4.7	2.7	0.0	2.8	3.3	2.9	2.7
Minnesota	5.5	3.2	-1.0	4.6	2.8	2.8	2.6
Non-Farm Employment							
United States	1.1	-0.6	-4.4	-0.7	1.3	2.0	2.0
Minnesota	0.5	-0.3	-3.9	-0.6	1.0	1.9	2.0
Personal Income							
United States	5.7	4.0	-1.8	3.0	5.2	3.3	4.6
Minnesota	5.3	4.4	-2.5	4.0	4.8	3.3	4.4

COMPARISON OF ACTUAL AND ESTIMATED NON-RESTRICTED REVENUES

January YTD, 2010 - FY2011

($ IN THOUSANDS)

	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax			
Withholding	$3,599,737	$3,650,253	$50,515
Declarations	615,000	693,365	78,365
Miscellaneous	184,931	188,690	3,759
Gross	4,399,668	4,532,308	132,639
Refund	148,380	141,179	(7,201)
Net	$4,251,289	$4,391,129	$139,840
Corporate & Bank Excise			
Declarations	$425,287	$426,199	$911
Miscellaneous	117,623	128,697	11,074
Gross	542,910	554,895	11,985
Refund	38,721	34,833	(3,888)
Net	$504,189	$520,062	$15,873
Sales Tax			
Gross	$2,681,698	$2,671,959	($9,739)
Refunds	83,939	79,982	(3,957)
Net	$2,597,759	$2,591,977	($5,781)
Motor Vehicle Sales Tax	$16,580	$17,219	$639
Other Revenues:			
Estate	$89,708	$115,146	$25,439
Liquor/Wine/Beer	41,732	41,605	(127)
Cigarette/Tobacco/Cont Sub	115,932	120,392	4,460
Deed and Mortgage	74,525	91,568	17,043
Insurance Gross Earnings	129,978	130,760	782
Lawful Gambling	20,311	20,394	83
Health Care Surcharge	133,768	138,894	5,126
Other Taxes	378	341	(37)
Statewide Property Tax	353,129	358,095	4,966
DHS SOS Collections	29,117	30,732	1,615
Income Tax Reciprocity	58,697	0	(58,697)
Investment Income	358	93	(265)
Tobacco Settlement	161,837	164,614	2,777
Departmental Earnings	157,068	168,287	11,219
Fines and Surcharges	47,052	50,847	3,796
Lottery Revenues	24,090	23,208	(881)
Revenues yet to be allocated	0	(447)	(447)
Residual Revenues	80,556	72,875	(7,682)
Sales Tax Rebates (all years)	0	0	0
County Nursing Home, Pub Hosp IGT	3,043	3,043	0
Other Subtotal	$1,521,280	$1,530,449	$9,169
Other Refunds	25,539	19,751	(5,788)
Other Net	$1,495,741	$1,510,698	$14,957
Total Gross	**$9,162,136**	**$9,306,829**	**$144,693**
Total Refunds	**296,579**	**275,745**	**(20,835)**
Total Net	**$8,865,557**	**$9,031,085**	**$165,528**

FACTORS AFFECTING THE INDIVIDUAL INCOME TAX
($ in billions)

	Calendar Year					
	2008	2009	2010	2011	2012	2013
Minnesota Non-Farm Tax Base						
February 2007 Baseline	178.408	189.146				
November 2007 Baseline	176.126	182.836				
February 2008 Baseline	176.042	182.122				
November 2008 Baseline	178.014	178.017	180.893	189.211		
February 2009 Baseline	176.869	173.201	175.674	183.239		
November 2009 Baseline	179.184	168.891	171.395	178.688		
February 2010 Baseline	179.185	169.511	172.985	180.445		
November 2010 Baseline [(1)]	184.314	174.819	179.524	185.413	193.358	203.033
February 2011 Baseline	184.314	174.819	180.193	187.398	196.463	206.145
Minnesota Wage and Salary Income						
February 2007 Baseline	124.034	130.567				
November 2007 Baseline	122.871	127.595				
February 2008 Baseline	122.189	126.100				
November 2008 Baseline	123.530	123.834	126.854	132.244		
February 2009 Baseline	122.772	121.060	123.518	128.709		
November 2009 Baseline	122.923	116.112	118.220	123.020		
February 2010 Baseline	122.924	116.194	117.355	122.365		
November 2010 Baseline [(1)]	127.646	121.491	125.707	130.640	136.453	142.848
February 2011 Baseline	127.646	121.491	126.202	131.010	137.183	143.608
Minnesota Property Income						
February 2007 Baseline	40.223	43.666				
November 2007 Baseline	39.560	40.713				
February 2008 Baseline	40.162	41.289				
November 2008 Baseline	40.622	39.994	39.271	41.252		
February 2009 Baseline	40.322	38.687	37.993	39.363		
November 2009 Baseline	40.915	38.354	38.192	39.805		
February 2010 Baseline	40.915	38.804	40.310	41.843		
November 2010 Baseline	42.614	40.098	40.103	40.313	41.614	44.257
February 2011 Baseline	42.614	40.098	40.312	41.875	43.817	46.363
Minnesota Proprietors' Income						
February 2007 Baseline	14.150	14.912				
November 2007 Baseline	13.694	14.529				
February 2008 Baseline	13.691	14.733				
November 2008 Baseline	13.861	14.188	14.768	15.447		
February 2009 Baseline	13.775	13.453	14.164	15.167		
November 2009 Baseline	15.345	14.424	14.983	15.862		
February 2010 Baseline	15.345	14.514	15.321	16.237		
November 2010 Baseline	14.054	13.230	13.714	14.456	15.293	15.927
February 2011 Baseline	14.054	13.230	13.679	14.559	15.463	16.172

[(1)] Bureau of Economic Analysis Concept

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

($ in billions)

	Fiscal Year					
	2008	2009	2010	2011	2012	2013
SALES TAX						
Minnesota Synthetic Sales Tax Base						
November 2008 Baseline	71.375	69.278	67.178	69.730		
Pct	3.8%	-2.9%	-3.0%	3.8%		
February 2009 Baseline	71.434	68.297	65.132	68.395		
Pct	3.1%	-4.4%	-4.6%	5.0%		
November 2009 Baseline	73.000	70.046	68.483	70.880		
Pct	3.4%	-4.0%	-2.2%	3.5%		
February 2010 Baseline	72.845	70.293	69.222	71.789		
Pct	3.1%	-3.5%	-1.5%	3.7%		
November 2010 Baseline	71.946	68.255	66.738	70.720	73.053	75.597
Pct	2.2%	-5.1%	-2.2%	6.0%	3.3%	3.5%
February 2011 Baseline	71.964	68.206	66.659	70.862	74.606	77.027
Pct	2.2%	-5.2%	-2.3%	6.3%	5.3%	3.2%
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)						
November 2008 Baseline	13.567	12.869	12.257	12.549		
February 2009 Baseline	13.573	12.812	12.150	12.456		
November 2009 Baseline	13.719	13.028	12.756	12.720		
February 2010 Baseline	13.719	13.041	13.123	13.276		
November 2010 Baseline	13.547	12.687	12.818	13.468	13.829	14.118
February 2011 Baseline	13.547	12.687	12.812	13.657	14.363	14.732
Minnesota's Proxy Share of U.S. Capital Equipment Spending						
November 2008 Baseline	12.316	11.760	10.854	11.711		
February 2009 Baseline	12.234	11.427	9.858	10.775		
November 2009 Baseline	12.998	11.906	10.972	12.084		
February 2010 Baseline	12.998	11.924	11.244	12.292		
November 2010 Baseline	12.943	11.600	11.189	12.849	13.901	14.822
February 2011 Baseline	12.943	11.600	11.179	12.833	14.372	14.936
Minnesota's Proxy Share of U.S. Construction Spending						
November 2008 Baseline	6.401	5.966	5.445	6.180		
February 2009 Baseline	6.307	5.732	4.826	5.486		
November 2009 Baseline	6.544	5.618	5.292	5.364		
February 2010 Baseline	6.549	5.764	5.207	5.403		
November 2010 Baseline	6.426	5.574	4.757	4.524	4.273	5.391
February 2011 Baseline	6.428	5.574	4.808	4.632	4.848	5.507

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

($ in billions)

		Fiscal Year					
		2008	2009	2010	2011	2012	2013
SALES TAX (Cont.)							
Minnesota's Personal Income Excluding Farm Proprietors Income							
February 2007 Baseline		216.81	229.20				
November 2007 Baseline		207.70	215.85				
February 2008 Baseline		209.19	216.12				
November 2008 Baseline		210.61	216.41	219.52	227.48		
February 2009 Baseline		210.20	213.84	215.33	223.33		
November 2009 Baseline		213.26	213.68	212.56	219.22		
February 2010 Baseline		213.26	213.65	214.25	219.93		
November 2010 Baseline	(1)	219.04	220.37	221.11	229.65	237.52	247.61
February 2011 Baseline		219.04	220.37	220.74	231.94	240.66	250.36
SALES TAX ON MOTOR VEHICLES							
Minnesota's Proxy Share of U.S. Consumption of Motor Vehicles and Parts							
February 2007 Baseline		9.159	9.597				
November 2007 Baseline		8.681	8.852				
February 2008 Baseline		8.569	8.506				
November 2008 Baseline		8.571	6.895	7.977	8.380		
February 2009 Baseline		8.561	6.642	7.074	7.699		
November 2009 Baseline	(2)	6.193	4.773	4.999	5.502		
February 2010 Baseline	(4)	4.388	3.172	3.571	4.255		
November 2010 Baseline	(2)	6.711	5.276	5.710	6.023	7.111	7.758
February 2011 Baseline	(2)	6.711	5.278	5.717	6.344	6.954	7.470
CORPORATE FRANCHISE TAX			Calendar Year				
U.S. Corporate Profits							
February 2007 Baseline		1,617.8	1,463.6				
November 2007 Baseline	(3)	1,302.8	1,355.1				
February 2008 Baseline	(3)	1,310.7	1,326.7				
November 2008 Baseline	(3)	1,402.8	1,286.4	1,446.5	1,493.8		
February 2009 Baseline	(3)	1,378.7	993.6	1,286.7	1,480.7		
November 2009 Baseline	(3)	1,219.7	1,189.1	1,291.5	1,480.7		
February 2010 Baseline	(3)	1,219.7	1,167.9	1,273.0	1,466.8		
November 2010 Baseline	(3)	1,031.3	1,012.8	1,369.3	1,365.1	1,427.0	1,486.0
February 2011 Baseline	(3)	1,031.3	1,012.8	1,386.5	1,401.1	1,349.3	1,426.8

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

FY 2010-11 Comparison: February 2011 vs November 2010
February 2011 General Fund Forecast
($ in thousands)

	11-10 Fcst FY 2010-11	2-11 Fcst FY 2010-11	Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	446,921	446,921	0
Current Resources:			
Tax Revenues	28,017,148	28,102,747	85,599
Non-Tax Revenues	1,553,438	1,597,908	44,470
Subtotal - Non-Dedicated Revenue	29,570,586	29,700,655	130,069
Dedicated Revenue	17,983	17,983	0
Transfers In	910,654	878,108	(32,546)
Prior Year Adjustments	65,376	65,376	0
Subtotal - Other Revenue	994,013	961,467	(32,546)
Subtotal-Current Resources	30,564,599	30,662,122	97,523
Total Resources Available	**31,011,520**	**31,109,043**	**97,523**
Actual & Estimated Spending			
K-12 Education	13,327,079	13,312,526	(14,553)
K-12 Ptx Rec Shift/Aid Payment Shift	(1,888,922)	(1,882,941)	5,981
Subtotal K-12 Education	11,438,157	11,429,585	(8,572)
Higher Education	2,814,217	2,814,217	0
Property Tax Aids & Credits	3,018,425	3,018,752	327
Health & Human Services	8,740,796	8,575,672	(165,124)
Public Safety	1,820,125	1,820,125	0
Transportation	167,036	167,036	0
Environment, Energy & Natural Resources	314,452	314,392	(60)
Agriculture & Veterans	247,966	247,798	(168)
Economic Development	283,269	283,269	0
State Government	631,479	633,046	1,567
Debt Service	832,167	829,701	(2,466)
Capital Projects	22,898	22,898	0
Deficiencies/Other	9,163	16,814	7,651
Estimated Cancellations	(15,000)	(15,000)	0
Subtotal Expenditures & Transfers	**30,325,150**	**30,158,305**	**(166,845)**
Dedicated Expenditures	12,703	12,703	0
Total Expenditures & Transfers	**30,337,853**	**30,171,008**	**(166,845)**
Balance Before Reserves	**673,667**	**938,035**	**264,368**
Cash Flow Account	266,000	266,000	0
Budget Reserve	8,665	8,665	0
Budgetary Balance	**399,002**	**663,370**	**264,368**

FY 2010-11 Biennium

February 2011 General Fund Forecast

($ in thousands)

	Actual FY 2010	2-11 Fcst FY 2011	Biennial Total
Actual & Estimated Resources			
Balance Forward From Prior Year	446,921	439,730	446,921
Current Resources:			
Tax Revenues	13,366,160	14,736,587	28,102,747
Non-Tax Revenues	805,300	792,608	1,597,908
Subtotal - Non-Dedicated Revenue	14,171,460	15,529,195	29,700,655
Dedicated Revenue	16,383	1,600	17,983
Transfers In	391,546	486,562	878,108
Prior Year Adjustments	40,376	25,000	65,376
Subtotal - Other Revenue	448,305	513,162	961,467
Subtotal-Current Resources	14,619,765	16,042,357	30,662,122
Total Resources Available	**15,066,686**	**16,482,087**	**31,109,043**
Actual & Estimated Spending			
K-12 Education	6,395,297	6,917,229	13,312,526
K-12 Ptx Rec Shift/Aid Payment Shift	(1,056,054)	(826,887)	(1,882,941)
Subtotal K-12 Education	5,339,243	6,090,342	11,429,585
Higher Education	1,455,940	1,358,277	2,814,217
Property Tax Aids & Credits	1,614,125	1,404,627	3,018,752
Health & Human Services	4,103,878	4,471,794	8,575,672
Public Safety	855,603	964,522	1,820,125
Transportation	96,896	70,140	167,036
Environment, Energy & Natural Resources	153,558	160,834	314,392
Agriculture & Veterans	120,660	127,138	247,798
Economic Development	135,185	148,084	283,269
State Government	291,445	341,601	633,046
Debt Service	429,123	400,578	829,701
Capital Projects	10,250	12,648	22,898
Deficiencies/Other	10,847	5,967	16,814
Estimated Cancellations	0	(15,000)	(15,000)
Subtotal Expenditures & Transfers	**14,616,753**	**15,541,552**	**30,158,305**
Dedicated Expenditures	10,203	2,500	12,703
Total Expenditures & Transfers	**14,626,956**	**15,544,052**	**30,171,008**
Balance Before Reserves	**439,730**	**938,035**	**938,035**
Cash Flow Account	266,000	266,000	266,000
Budget Reserve	0	8,665	8,665
Appropriations Carried Forward	106,652	0	0
Budgetary Balance	**67,078**	**663,370**	**663,370**

FY 2012-13 Comparison: February 2011 vs November 2010
February 2011 General Fund Forecast
($ in thousands)

	11-10 Fcst FY 2012-13	2-11 Fcst FY 2012-13	Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	673,667	938,035	264,368
Current Resources:			
Tax Revenues	29,992,641	30,904,176	911,535
Non-Tax Revenues	1,439,480	1,426,136	(13,344)
Subtotal - Non-Dedicated Revenue	31,432,121	32,330,312	898,191
Dedicated Revenue	3,200	3,200	0
Transfers In	957,438	946,134	(11,304)
Prior Year Adjustments	50,000	50,000	0
Subtotal - Other Revenue	1,010,638	999,334	(11,304)
Subtotal-Current Resources	32,442,759	33,329,646	886,887
Total Resources Available	**33,116,426**	**34,267,681**	**1,151,255**
Actual & Estimated Spending			
K-12 Education	14,345,827	14,321,912	(23,915)
K-12 Ptx Rec Shift/Aid Payment Shift	1,301,760	1,301,683	(77)
Subtotal K-12 Education	15,647,587	15,623,595	(23,992)
Higher Education	2,916,580	2,916,580	0
Property Tax Aids & Credits	3,468,946	3,456,728	(12,218)
Health & Human Services	12,346,069	12,337,837	(8,232)
Public Safety	1,782,650	1,782,650	0
Transportation	181,742	180,158	(1,584)
Environment, Energy & Natural Resources	349,128	346,835	(2,293)
Agriculture & Veterans	244,550	244,556	6
Economic Development	262,778	263,033	255
State Government	660,201	660,601	400
Debt Service	1,141,473	1,180,575	39,102
Capital Projects	45,219	45,219	0
Estimated Cancellations	(20,000)	(20,000)	0
Subtotal Expenditures & Transfers	**39,026,923**	**39,018,367**	**(8,556)**
Dedicated Expenditures	3,200	3,200	0
Total Expenditures & Transfers	**39,030,123**	**39,021,567**	**(8,556)**
Balance Before Reserves	**(5,913,697)**	**(4,753,886)**	**1,159,811**
Cash Flow Account	266,000	266,000	0
Budget Reserve	8,665	8,665	0
Budgetary Balance	**(6,188,362)**	**(5,028,551)**	**1,159,811**

FY 2012-13 Biennium
February 2011 General Fund Forecast
($ in thousands)

	2-11 Fcst FY 2012	2-11 Fcst FY 2013	Biennial Total
Actual & Estimated Resources			
Balance Forward From Prior Year	938,035	(2,815,712)	938,035
Current Resources:			
Tax Revenues	15,042,252	15,861,924	30,904,176
Non-Tax Revenues	712,066	714,070	1,426,136
Subtotal - Non-Dedicated Revenue	15,754,318	16,575,994	32,330,312
Dedicated Revenue	1,600	1,600	3,200
Transfers In	417,114	529,020	946,134
Prior Year Adjustments	25,000	25,000	50,000
Subtotal - Other Revenue	443,714	555,620	999,334
Subtotal-Current Resources	16,198,032	17,131,614	33,329,646
Total Resources Available	**17,136,067**	**14,315,902**	**34,267,681**
Actual & Estimated Spending			
K-12 Education	7,077,949	7,243,963	14,321,912
K-12 Ptx Rec Shift/Aid Payment Shift	1,331,715	(30,032)	1,301,683
Subtotal K-12 Education	8,409,664	7,213,931	15,623,595
Higher Education	1,458,240	1,458,340	2,916,580
Property Tax Aids & Credits	1,727,598	1,729,130	3,456,728
Health & Human Services	6,007,249	6,330,588	12,337,837
Public Safety	891,046	891,604	1,782,650
Transportation	90,079	90,079	180,158
Environment, Energy & Natural Resources	173,209	173,626	346,835
Agriculture & Veterans	122,243	122,313	244,556
Economic Development	131,079	131,954	263,033
State Government	328,148	332,453	660,601
Debt Service	596,153	584,422	1,180,575
Capital Projects	20,471	24,748	45,219
Estimated Cancellations	(5,000)	(15,000)	(20,000)
Subtotal Expenditures & Transfers	**19,950,179**	**19,068,188**	**39,018,367**
Dedicated Expenditures	1,600	1,600	3,200
Total Expenditures & Transfers	**19,951,779**	**19,069,788**	**39,021,567**
Balance Before Reserves	**(2,815,712)**	**(4,753,886)**	**(4,753,886)**
Cash Flow Account	266,000	266,000	266,000
Budget Reserve	8,665	8,665	8,665
Budgetary Balance	**(3,090,377)**	**(5,028,551)**	**(5,028,551)**

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

	2-11 Fcst FY 2010-11	2-11 Fcst FY 2012-13	$ Change	% Change
Actual & Estimated Resources				
Balance Forward From Prior Year	446,921	938,035	491,114	109.9%
Current Resources:				
Tax Revenues	28,102,747	30,904,176	2,801,429	10.0%
Non-Tax Revenues	1,597,908	1,426,136	(171,772)	-10.7%
Subtotal - Non-Dedicated Revenue	29,700,655	32,330,312	2,629,657	8.9%
Dedicated Revenue	17,983	3,200	(14,783)	-82.2%
Transfers In	878,108	946,134	68,026	7.7%
Prior Year Adjustments	65,376	50,000	(15,376)	-23.5%
Subtotal - Other Revenue	961,467	999,334	37,867	3.9%
Subtotal-Current Resources	30,662,122	33,329,646	2,667,524	8.7%
Total Resources Available	**31,109,043**	**34,267,681**	**3,158,638**	**10.2%**
Actual & Estimated Spending				
K-12 Education	13,312,526	14,321,912	1,009,386	7.6%
K-12 Ptx Rec Shift/Aid Payment Shift	(1,882,941)	1,301,683	3,184,624	-169.1%
Subtotal K-12 Education	11,429,585	15,623,595	4,194,010	36.7%
Higher Education	2,814,217	2,916,580	102,363	3.6%
Property Tax Aids & Credits	3,018,752	3,456,728	437,976	14.5%
Health & Human Services	8,575,672	12,337,837	3,762,165	43.9%
Public Safety	1,820,125	1,782,650	(37,475)	-2.1%
Transportation	167,036	180,158	13,122	7.9%
Environment, Energy & Natural Resources	314,392	346,835	32,443	10.3%
Agriculture & Veterans	247,798	244,556	(3,242)	-1.3%
Economic Development	283,269	263,033	(20,236)	-7.1%
State Government	633,046	660,601	27,555	4.4%
Debt Service	829,701	1,180,575	350,874	42.3%
Capital Projects	22,898	45,219	22,321	97.5%
Deficiencies/Other	16,814	0	(16,814)	-100.0%
Estimated Cancellations	(15,000)	(20,000)	(5,000)	33.3%
Subtotal Expenditures & Transfers	**30,158,305**	**39,018,367**	**8,860,062**	**29.4%**
Dedicated Expenditures	12,703	3,200	(9,503)	-74.8%
Total Expenditures & Transfers	**30,171,008**	**39,021,567**	**8,850,559**	**29.3%**
Balance Before Reserves	**938,035**	**(4,753,886)**	**(5,691,921)**	
Cash Flow Account	266,000	266,000	0	
Budget Reserve	8,665	8,665	0	
Budgetary Balance	**663,370**	**(5,028,551)**	**(5,691,921)**	

FY 2014-15 Comparison: February 2011 vs November 2010
February 2011 General Fund Forecast
($ in thousands)

	11-10 Plng Est FY 2014-15	2-11 Plng Est FY 2014-15	Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	(5,913,697)	(4,753,886)	1,159,811
Current Resources:			
Tax Revenues	32,609,932	33,417,091	807,159
Non-Tax Revenues	1,408,445	1,382,700	(25,745)
Subtotal - Non-Dedicated Revenue	34,018,377	34,799,791	781,414
Dedicated Revenue	3,000	3,000	0
Transfers In	523,192	477,498	(45,694)
Prior Year Adjustments	50,000	50,000	0
Subtotal - Other Revenue	576,192	530,498	(45,694)
Subtotal-Current Resources	34,594,569	35,330,289	735,720
Total Resources Available	**28,680,872**	**30,576,403**	**1,895,531**
Actual & Estimated Spending			
K-12 Education	14,954,203	14,947,873	(6,330)
K-12 Ptx Rec Shift/Aid Payment Shift	(80,615)	(81,918)	(1,303)
Subtotal K-12 Education	14,873,588	14,865,955	(7,633)
Higher Education	2,916,680	2,916,680	0
Property Tax Aids & Credits	3,546,319	3,551,248	4,929
Health & Human Services	13,600,312	13,649,026	48,714
Public Safety	1,790,838	1,790,838	0
Transportation	181,742	180,158	(1,584)
Environment, Energy & Natural Resources	362,668	360,256	(2,412)
Agriculture & Veterans	244,766	244,772	6
Economic Development	264,840	264,840	0
State Government	668,930	669,301	371
Debt Service	1,188,351	1,196,748	8,397
Capital Projects	55,668	55,668	0
Estimated Cancellations	(20,000)	(20,000)	0
Subtotal Expenditures & Transfers	**39,674,702**	**39,725,490**	**50,788**
Dedicated Expenditures	3,000	3,000	0
Total Expenditures & Transfers	**39,677,702**	**39,728,490**	**50,788**
Balance Before Reserves	**(10,996,830)**	**(9,152,087)**	**1,844,743**
Cash Flow Account	266,000	266,000	0
Budget Reserve	8,665	8,665	0
Budgetary Balance	**(11,271,495)**	**(9,426,752)**	**1,844,743**
Structural Balance	***(5,083,133)***	***(4,398,201)***	***684,932***

FY 2010-15 Planning Horizon
February 2011 General Fund Forecast
($ in thousands)

	2-11 Fcst FY 2010-11	2-11 Fcst FY 2012-13	2-11 Plng Est FY 2014-15
Actual & Estimated Resources			
Balance Forward From Prior Year	446,921	938,035	(4,753,886)
Current Resources:			
Tax Revenues	28,102,747	30,904,176	33,417,091
Non-Tax Revenues	1,597,908	1,426,136	1,382,700
Subtotal - Non-Dedicated Revenue	29,700,655	32,330,312	34,799,791
Dedicated Revenue	17,983	3,200	3,000
Transfers In	878,108	946,134	477,498
Prior Year Adjustments	65,376	50,000	50,000
Subtotal - Other Revenue	961,467	999,334	530,498
Subtotal-Current Resources	30,662,122	33,329,646	35,330,289
Total Resources Available	**31,109,043**	**34,267,681**	**30,576,403**
Actual & Estimated Spending			
K-12 Education	13,312,526	14,321,912	14,947,873
K-12 Ptx Rec Shift/Aid Payment Shift	(1,882,941)	1,301,683	(81,918)
Subtotal K-12 Education	11,429,585	15,623,595	14,865,955
Higher Education	2,814,217	2,916,580	2,916,680
Property Tax Aids & Credits	3,018,752	3,456,728	3,551,248
Health & Human Services	8,575,672	12,337,837	13,649,026
Public Safety	1,820,125	1,782,650	1,790,838
Transportation	167,036	180,158	180,158
Environment, Energy & Natural Resources	314,392	346,835	360,256
Agriculture & Veterans	247,798	244,556	244,772
Economic Development	283,269	263,033	264,840
State Government	633,046	660,601	669,301
Debt Service	829,701	1,180,575	1,196,748
Capital Projects	22,898	45,219	55,668
Deficiencies/Other	16,814	0	0
Estimated Cancellations	(15,000)	(20,000)	(20,000)
Subtotal Expenditures & Transfers	**30,158,305**	**39,018,367**	**39,725,490**
Dedicated Expenditures	12,703	3,200	3,000
Total Expenditures & Transfers	**30,171,008**	**39,021,567**	**39,728,490**
Balance Before Reserves	**938,035**	**(4,753,886)**	**(9,152,087)**
Cash Flow Account	266,000	266,000	266,000
Budget Reserve	8,665	8,665	8,665
Budgetary Balance	**663,370**	**(5,028,551)**	**(9,426,752)**
Structural Balance	***491,114***	***(5,691,921)***	***(4,398,201)***

Historical and Projected Revenue Growth

February 2011 General Fund Forecast

($ in millions)	Actual FY 2008	Actual FY 2009	Actual FY 2010	Estimated FY 2011	Estimated FY 2012	Estimated FY 2013	Average Annual
Individual Income Tax	$7,759	$6,988	$6,531	$7,261	$7,819	$8,356	
$ change		(771)	(457)	730	558	537	
% change		**-9.9%**	**-6.5%**	**11.2%**	**7.7%**	**6.9%**	**1.5%**
Sales Tax	4,571	4,344	4,177	4,567	4,511	4,769	
$ change		(227)	(167)	390	(56)	258	
% change		**-5.0%**	**-3.8%**	**9.3%**	**-1.2%**	**5.7%**	**0.9%**
Corporate Tax	1,020	708	664	990	772	788	
$ change		(312)	(44)	326	(218)	16	
% change		**-30.6%**	**-6.2%**	**49.1%**	**-22.0%**	**2.1%**	**-5.0%**
Statewide Property Tax	704	729	767	762	779	793	
$ change		25	38	(5)	17	14	
% change		**3.6%**	**5.2%**	**-0.7%**	**2.2%**	**1.8%**	**2.4%**
Motor Vehicle Sales	186	117	74	31	0	0	
$ change		(69)	(43)	(43)	(31)	0	
% change		**-37.1%**	**-36.8%**	**-58.1%**	**-100.0%**	**n/a**	**-100.0%**
Other Tax Revenue	1,172	1,164	1,153	1,126	1,161	1,156	
$ change		(8)	(11)	(27)	35	(5)	
% change		**-0.7%**	**-0.9%**	**-2.3%**	**3.1%**	**-0.4%**	**-0.3%**
Total Tax Revenue	$15,412	$14,050	$13,366	$14,737	$15,042	$15,862	
$ change		(1,362)	(684)	1,371	305	820	
% change		**-8.8%**	**-4.9%**	**10.3%**	**2.1%**	**5.5%**	**0.6%**
Non-Tax Revenues	824	762	805	793	712	714	
$ change		(62)	43	(12)	(81)	2	
% change		**-7.5%**	**5.6%**	**-1.5%**	**-10.2%**	**0.3%**	**-2.8%**
Dedicated, Transfers, Other	444	576	448	512	444	556	
$ change		132	(128)	64	(68)	112	
% change		**29.7%**	**-22.2%**	**14.3%**	**-13.3%**	**25.2%**	**4.6%**
Total Current Resources	$16,680	$15,388	$14,619	$16,042	$16,198	$17,132	
$ change		(1,292)	(769)	1,423	156	934	
% change		**-7.7%**	**-5.0%**	**9.7%**	**1.0%**	**5.8%**	**0.5%**

Historical and Projected Spending Growth

February 2011 General Fund Forecast

($ in millions)	Actual FY 2008	Actual FY 2009	Actual FY 2010	Estimated FY 2011	Estimated FY 2012	Estimated FY 2013	Average Annual
K-12 Education	$6,819	$6,938	$5,339	$6,090	$8,410	$7,214	
$ change		119	(1,599)	751	2,320	(1,196)	
% change		**1.7%**	**-23.0%**	**14.1%**	**38.1%**	**-14.2%**	**1.1%**
Higher Education	1,563	1,550	1,456	1,358	1,458	1,458	
$ change		(13)	(94)	(98)	100	0	
% change		**-0.8%**	**-6.1%**	**-6.7%**	**7.4%**	**0.0%**	**-1.4%**
Prop. Tax Aids & Credits	1,581	1,489	1,614	1,405	1,728	1,729	
$ change		(92)	125	(209)	323	1	
% change		**-5.8%**	**8.4%**	**-12.9%**	**23.0%**	**0.1%**	**1.8%**
Health & Human Services	4,630	4,460	4,104	4,472	6,007	6,331	
$ change		(170)	(356)	368	1,535	324	
% change		**-3.7%**	**-8.0%**	**9.0%**	**34.3%**	**5.4%**	**6.5%**
Public Safety	909	957	856	965	891	891	
$ change		48	(101)	109	(74)	0	
% change		**5.3%**	**-10.6%**	**12.7%**	**-7.7%**	**0.0%**	**-0.4%**
Debt Service	409	453	429	401	596	584	
$ change		44	(24)	(28)	195	(12)	
% change		**10.8%**	**-5.3%**	**-6.5%**	**48.6%**	**-2.0%**	**7.4%**
All Other	1,094	1,014	829	853	862	863	
$ change		(80)	(185)	24	9	1	
% change		**-7.3%**	**-18.2%**	**2.9%**	**1.1%**	**0.1%**	**-4.6%**
Total Spending	$17,005	$16,861	$14,627	$15,544	$19,952	$19,070	
$ change		(144)	(2,234)	917	4,408	(882)	
% change		**-0.8%**	**-13.2%**	**6.3%**	**28.4%**	**-4.4%**	**2.3%**