November 2011

HIGHLIGHTS

Budget Outlook Improves -- $876 Million Balance Projected for FY 2012-13

Minnesota's closing balance for FY 2011 was $526 million greater than forecast. Revenues exceeded forecast by $358 million and state spending was $205 million below estimates. A balance of $876 million is now expected for the 2012-13 biennium as spending decreases an additional $348 million while forecast revenues, despite starting from a higher level, fall by $24 million.

Current Law Allocates Entire Balance to Restoring Reserves

Current law requires any forecast balance be used to restore the state's reserves. This forecast adds $255 million to the cash flow account, increasing it to $350 million, and $621 million to the budget reserve, bringing it to $648 million.

Economic Outlook Has Dimmed, Slower Growth Expected Through 2013

Recovery from the Great Recession continues to be slower than anticipated and Global Insight expects that slow economic growth will extend through the biennium. Real GDP growth in FY 2012 and 2013 is now expected to average 1.7 percent. In February, 3.1 percent growth was projected. Domestic economic and political uncertainties and Europe's sovereign debt problems have led Global Insight to set the risk of a 2012 recession at 40 percent.

Revenues Up in FY 2011, Down Slightly in FY 2012-13

State revenues for FY 2011 were $358 million (1.2 percent) more than projected in February. Higher than anticipated final individual income tax liability for tax year 2010 was the source of much of the additional revenue. A significant reduction in the economic growth rates for fiscal 2012 and 2013 reduced forecast revenues in the current biennium, despite the higher base level for FY 2011.

Expenditures Down in FY 2011, Down More in FY 2012-13 Forecast

Lower human services spending accounts for more than 80 percent of a forecast spending reduction of $205 million in FY 2011, and $348 million in FY 2012-13. Most of the savings occurs in the Medical Assistance program where a variety of factors contributed to lower spending growth.

BUDGET UPDATE AND OUTLOOK

FY 2011 Ended with $976 Million Balance, Up $526 Million

The books are now officially closed for the 2011 fiscal year. They show an ending general fund balance of $976 million, $525 million more than previously estimated. This improvement in the state's finances reflects both revenue gains previously reported in September's *Economic Update*, and significant year-end expenditure savings, primarily in human services programs.

FY 2011 - Changes from End-of-Session
($ in millions)

	End of Session	Actual	$ Change
Beginning Balance	$440	$440	-
Income Taxes	7,252	7,529	277
All Other Revenue	8,573	8,655	82
Total Revenues	**15,825**	**16,184**	**358**
Health and Human Services	4,472	4,323	(149)
All Other Spending	15,540	11,012	(56)
Total Expenditures	**15,540**	**15,335**	**(205)**
Balance Before Reserves	725	1,289	564
Reserves / Carryfoward	275	313	38
Ending Balance	**$450**	**$976**	**$526**

Final spending for FY 2011 was $205 million below previous estimates. However, current law authorizes some appropriations unspent at the end of the biennium to carry forward into the next fiscal year. Those appropriations totaled $38 million. After adjusting for appropriations carried forward, actual spending in FY 2011 declined by a net $167 million.

A reduction of $149 million in human services spending accounted for about three-quarters of FY 2011 expenditure savings. Most of the savings occurred in the Medical Assistance program. The principal sources of those savings were a higher than expected federal matching rate for the last quarter of the fiscal year, increased pharmacy rebates and other recoveries, lower than anticipated costs in several programs, and other technical changes.

$876 Million Projected Balance for 2012-13 Biennium Reflects FY 2011 Gain, Small Revenue Decline, and Additional Expenditure Savings

Minnesota's budget outlook is forecast to improve further in the 2012-13 biennium. Forecast revenues are now expected to be $33.700 billion, down $24 million from end-of-session estimates. However, spending is expected to be $33.991 billion, $348 million lower than previous estimates. The ending balance, which includes the additional balance carried forward from FY 2011, is now projected to be $876 million.

FY 2012-13 Budget Summary

($ in millions)

	End of Session	Forecast	$ Change
Beginning Balance	**$725**	**$1,289**	**$564**
Income	16,179	16,214	35
All Other Revenue	17,545	17,486	(59)
Total Revenues	**33,724**	**33,700**	**(24)**
Health and Human Services	11,372	11,064	(308)
All Other Spending	22,967	22,926	(41)
Total Expenditures	**34,339**	**33,991**	**(348)**
Balance Before Reserves	110	998	888
Reserves	95	122	27
Ending Balance	**$15**	**$876**	**$861**

About two-thirds of the projected increase in this biennium's ending balance comes from funds carried forward from FY 2011. The remainder comes from reductions in forecast spending in fiscal 2012 and 2013. A $308 million reduction in human services spending accounted for nearly 90 percent of the decrease in the current expenditure forecast. Approximately $294 million of the savings comes from lower estimates of spending for Medical Assistance.

Revenues are now forecast to be only $24 million below end-of-session estimates despite a significant reduction in expected economic growth during 2011 and 2012. While a larger revenue decline may have been expected, the higher 2010 tax base offsets much of the loss in forecast revenues that would accompany the lower projected rate of real economic growth.

Statutes Direct Forecast Balance To Reserves

Long-standing statutory provisions allocate forecast balances to reserve accounts when these "rainy day" funds have been depleted. This provision was last triggered in 2004 and 2005 to restore reserves and reverse school payment shifts that had been enacted. Based on this forecast, the entire projected balance of $876 million will be placed in reserves – leaving no available budget balance for FY 2012-13.

FY 2012-13 Budget Summary

($ in millions)

	End of Session	November Forecast	Difference
Beginning Balance	**$725**	**$1,289**	**$564**
Forecast Revenues	33,724	33,700	(24)
Projected Spending	34,339	33,991	($348)
Reserves	95	122	$27
Projected Balance (Allocated To Reserves)	**$15**	**$876**	**$861**

The allocation of forecast balances to reserves is one of a series of automatic actions designed to improve the state's finances when forecasts improve. Current law specifies a required priority-ordered allocation of any forecast balance. If, on the basis of a forecast of general fund revenues and expenditures, the commissioner of Management and Budget determines that there will be a positive general fund balance at the close of the biennium, Minnesota Statutes 16A.152 requires that money be allocated to: *first*, the cash flow account; *second*, the budget reserve; *third*, to repay and reverse school aid payment shifts, and; *fourth,* to reverse the school property tax recognition shift.

Based on this requirement, the forecast balance of $876 million is allocated as follows:

1) $255 million to restore the cash flow account from $95 million to the $350 million maximum set in statute.

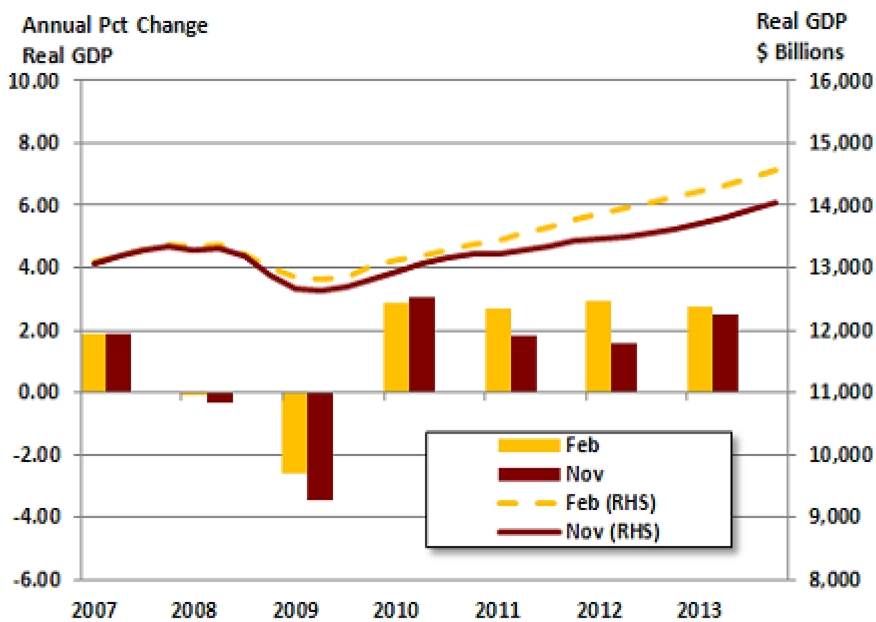
2) $621 million to restore the budget reserve. This additional funding, combined with $27 million received in July from an excess balance in the workers' compensation assigned risk plan, will increase the reserve from zero at the end of the legislative session to $648 million -- $5 million below the $653 million statutory maximum.

Forecasters See Slower Growth, Increased Risk of Recession for U.S. Economy

Economists have tempered their optimism since February's forecast. Part of the reason is that the U.S. economy began 2011 with less underlying strength than had been assumed. Oil price shocks, tepid employment growth, and supply chain disruptions also contributed to slower than anticipated economic growth. The weakness observed appears to have been compounded by a general decrease in the public's confidence in the ability of existing institutions to put the economy back on track. The Eurozone's financial problems remain unresolved and appear to be becoming both more severe and more intractable. And, in the U.S., the belief that partisan political gridlock will dramatically slow, or even prevent, implementation of needed economic policy changes has grown. Regaining the confidence needed to underpin an extended period of healthy economic growth will take some time and will not be easy.

The current forecast for an extended period of sub-par economic growth coupled with a loss of confidence in government's ability to take needed fiscal policy actions on a timely basis also led economists to increase the downside risk in their forecasts. In early 2011 forecasters were setting the probability of a 2012 recession at 20 percent or less. By August that probability had grown to 40 percent. Since then the domestic economic situation appears to have improved slightly, leading some to reduce their estimated probability of recession. But, almost all forecasters still believe the probability of a recession is greater than normal.

Global Insight Has Significantly Lowered Forecast GDP Growth for 2011 and 2012

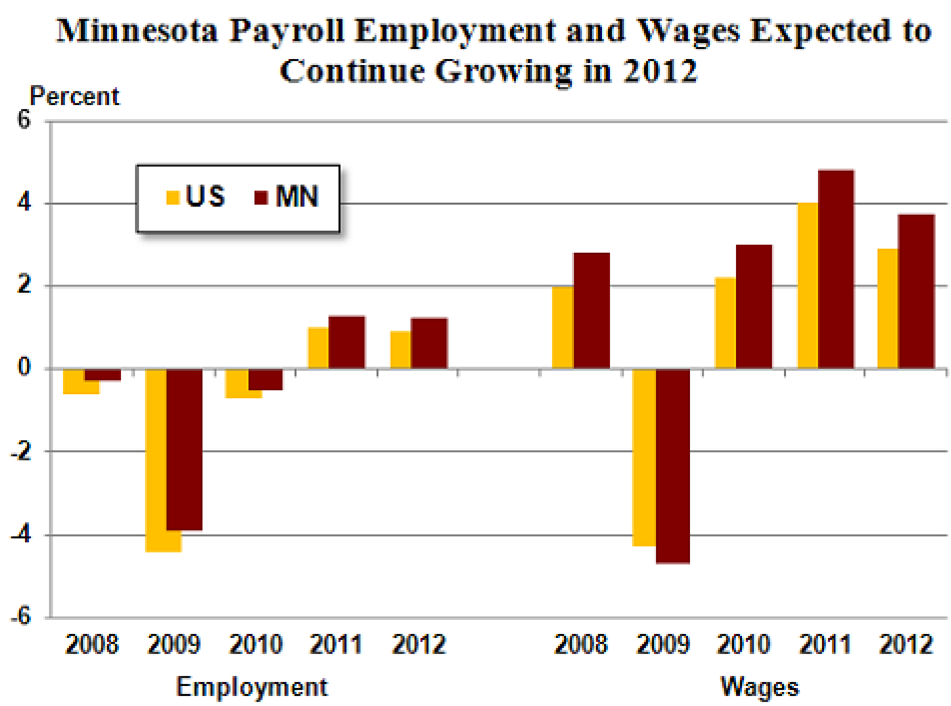


November's baseline forecast from Global Insight Inc. (GII), Minnesota's national macro-economic consultant, is much more subdued than their February forecast. Real GDP continues to grow through the 2011-13 forecast horizon, but growth rates now expected for 2011 and 2012, 1.8 percent and 1.6 percent respectively, are well below February's expected 3.2 percent and 2.9 percent. Global Insight's outlook for 2011 is now identical to the Blue Chip Consensus, but their forecast of 1.6 percent real growth for 2012 is well below the 2.1 percent growth anticipated by the Blue Chip panel. Indeed, GII's 2012 growth rate places it in the bottom fifth of Blue Chip respondents.

Global Insight assigned a 50 percent probability to their November baseline and a 40 percent probability to a more pessimistic scenario containing a three quarter recession beginning at the end of 2011. The extremely high recession probability was attributable in part to GII's perception that the likelihood of a "disorderly" solution to the Eurozone's financial problems had increased.

Minnesota's Economy Has Been Growing Faster than the U.S. Averages

Minnesota's economy struggled during the Great Recession. Employment and wages fell and the unemployment rate shot up dramatically. But, the economic downturn appears to have been less severe in Minnesota than nationally, and the recovery somewhat stronger. Minnesota's labor market is still struggling, unemployment is unreasonably high and it now appears that payroll employment will not yet return to its pre-recession level until early 2014. But, state unemployment rates continue well below the national average and job growth and wage growth are expected to exceed the U.S. average in 2012.



Payroll employment in Minnesota fell by more than 5.5 percent (155,000 jobs) during the Great Recession. Nationally, however, the percentage loss was even greater at 6.3 percent. Since the recovery began Minnesota has recovered 35 percent of the jobs lost in the downturn. Nationally, only 22 percent of the jobs lost have been regained.

A distinctive feature of the Great Recession was that total wages fell below year earlier levels in 2009. Wages actually fell by a greater percentage in Minnesota than nationally in that one year, but over a longer time period wage growth in Minnesota has been stronger. From 2008 through 2011 total wages paid in Minnesota are estimated to have increased by 2.9 percent, while national growth has been just 1.7 percent.

Slower Economic Growth Offsets Higher FY 2011 Revenue Base -- FY 2012-13 Revenues Down $36 Million from End-of-Session Estimates

Minnesota ended fiscal year 2011 with general fund revenues $358 million above forecast. About 80 percent of the additional revenues were from the individual income tax and more than two-thirds of those revenues came from greater than anticipated final payments on tax year 2010 tax returns due April 15, 2011. Net sales tax receipts were $30 million below forecast, corporate tax receipts were $11 million above forecast and all other revenues $100 million above forecast. Nearly $60 million of the increase in other revenues reflects a change in the timing of the posting of Wisconsin's income tax reciprocity settle-up payment. February's forecast assumed that payment would be posted in fiscal year 2012 revenues.

Changes in General Fund Revenues by Fiscal Year

($ in millions)

	FY 2011	FY 2012	FY 2013
Individual	$277	$153	($117)
Sales	(30)	(39)	(66)
Corporate	11	79	71
Other	100	(44)	(61)
Total	$358	$149	($173)

Typically, when actual revenues exceed projections, the forecast for future revenues increases, reflecting the fact that future revenue growth will come from a higher base than thought earlier. This holds true even if projected future growth rates are modestly below rates earlier assumed. Only if the expected future growth rate is well below that assumed in the prior forecast is a significant increase in the base unlikely to produce an increase in forecast revenues. This is one of those times. The projected growth rates in Global Insight's November baseline are sufficiently lower than those used in February that revenues for the 2012-13 biennium are now projected to be less than forecast in February despite the additional revenues received in fiscal 2011.

The individual income tax showed the largest change, dropping to a level $117 million below February's estimate. By 2013 Minnesota wages are 1.1 percent below February's forecast and non-wage income, 2.3 percent below levels used in February. The corporate income tax is the exception, showing significant growth due to a projected increase in corporate profits in 2011.

FY 2012-13 Forecast Spending Declines One Percent

General fund spending for the 2012-13 biennium is forecast to be $33.991 billion, down $348 million (1.0 percent) from end-of-session estimates. The largest decrease, $308 million, occurs in health and human services and is driven almost entirely by changes in the Medical Assistance (MA) program.

The revised forecast for Medical Assistance spending is lower due to incorporating current enrollment and cost trends, particularly in program segments with recent changes in state or federal laws. One-quarter of the savings in the MA program is due to increased pharmacy rebates which Minnesota is now eligible to receive under federal law. Another quarter of the savings is due to lower than expected enrollment in the recently implemented early expansion of MA for adults without children. Additionally, lower enrollment and lower average costs are now projected for other MA categories.

Forecast Spending, FY 2012-13

($ in millions)

	End of Session	Nov Forecast	$ Change	% Change
K-12 Education	$14,545	$14,520	($25)	(0.2)
K-12 Payment Shifts	(907)	(867)	40	nm
Higher Education	2,566	2,566	-	0.0
Property Tax Aids & Credits	2,864	2,839	(25)	(0.9)
Health & Human Services	11,372	11,064	(308)	(2.7)
Debt Service	532	474	(58)	(10.7)
All Other	3,367	3,395	28	0.8
Total Spending	**$34,339**	**$33,991**	**($348)**	(1.0)

Changes in other expenditure areas were modest. Property tax aids and credits declined nearly $25 million from end-of-session estimates reflecting slightly lower projected property tax refunds and local aid estimates. Debt service costs decreased $58 million, primarily reflecting higher expected premiums paid by investors in state bonds.

The forecast for K-12 spending has increased $15 million reflecting minor changes in projected referendum revenues, reductions in the property tax base, offset by a slight reduction in forecast enrollments. All other spending is $28 million higher largely reflecting $38 million of appropriations, unspent in FY2011, that carry forward and are available to be spent in FY 2012.

FY 2014-15 Planning Outlook Improves

A modest $422 million improvement in the longer term revenue forecast, accompanied by a $171 million reduction in projected spending, leaves a $1.3 billion structural shortfall projected for the 2014-15 biennium. This compares with the $1.9 billion gap between expected revenues and expenditures projected at the end of July's special session. Planning estimates for FY 2014-15 now show general fund revenues of $35.717 billion and projected spending of $37.017 billion. The gap between ongoing revenues and spending has decreased $591 million from end-of-session estimates.

FY 2014-15 Planning Estimates
($ in millions)

	FY 2014	FY 2015	FY 2014-15
Resources	$17,492	$18,225	$35,717
Spending	18,474	18,543	37,017
Difference	($982)	($318)	($1,300)
Inflation	*$425*	*$882*	*$1,307*

Expenditure projections do not include any adjustment for projected inflation. Inflation, based on the Consumer Price Index (CPI), is expected to be 2.3 percent in FY 2014 and 2.4 percent in FY 2015. At these levels, recognizing inflation would cost an additional $1.3 billion in the next biennium.

The planning estimates make no assumptions about any actions that might be taken in the 2012 legislative session affecting FY 2012-13 or to reduce the structural shortfall expected for the 2014-15 biennium. The planning estimates are simply a benchmark to determine if ongoing spending will exceed revenues in succeeding budget periods. Economic changes as well as the nature and timing of budget actions will materially affect both revenue and expenditure projections.

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

FORECAST FUNDAMENTALS:

About the Revenue and Expenditure Forecast

November's forecast provides the first comprehensive review of Minnesota's financial outlook for FY 2012-13 since the end of the July 2011 special legislative session. It is the first of four forecasts that will occur during the biennium. This forecast provides revised revenue and expenditure estimates for the current biennium based on the most recent information about the national and state economic outlook, as well as caseload, enrollment, and cost projections. Actual closing information for fiscal year 2011 revenues and expenditures is also included in this report as are revised revenue and expenditure planning estimates for the 2014-15 biennium.

The revised revenue estimates reflect the substantial changes in the national economic outlook that have occurred since February’s forecast. That forecast was the basis for the FY 2012-13 enacted budget. This forecast also incorporates additional year-to-date revenue collection experience. For example, state individual income tax receipts now build from a preliminary estimate of tax year 2010 liability.

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

Revenue projections for FY 2014-15 budget planning are developed from less complex models. As in past years, the economic growth assumptions used to develop the revenue planning estimates have been updated. Economic growth rates for calendar 2014 and 2015 are taken from the GII November baseline scenario. Planning estimates should not be interpreted as explicit forecasts, but rather as a guide to indicate whether any proposed budget actions will create financial problems in future years.

FY 2014-15 expenditure projections in most areas are shown at the level of the appropriations made for FY 2013. Entitlement programs — such as K-12 general education, intergovernmental aids, healthcare, and family support — are forecast based on expected changes in eligibility, enrollment, and average costs. Additional assumptions, such as the long term impact of federal and state law changes, particularly in healthcare programs, are included in the expenditure forecast, but will ultimately be clarified through federal and state actions.

Wage and price inflation is included in the revenue projections, which are based on current laws and tax rates. Inflation is not included in projected expenditures for FY 2014-15. GII’s estimated inflation, based on the Consumer Price Index, is now 2.3 percent for FY 2014 and 2.4 percent for FY 2015.

ECONOMIC SUMMARY

The economic outlook has deteriorated noticeably since earlier this year. In February, when Minnesota's most recent revenue and expenditure forecast was prepared, most forecasters believed the U.S. economy had finally begun to accelerate and that real GDP growth rates of 3 percent, or more, were likely through 2013. To be sure, there were concerns about future job growth and unemployment rates were projected to remain uncomfortably high for an extended period. But early in 2011 most economists believed the U.S. economy was well positioned to enter an extended period of economic growth, albeit with real GDP growth at a slower pace than is typically observed after a recession.

Unfortunately, the first half of 2011 was much weaker than expected and almost everyone's forecast has now been scaled back. Some of that weakness can be explained by a series of unanticipated negative shocks. But, even after adjusting for the impact of poor weather, higher oil prices, and supply chain disruptions caused by the Japanese earthquake and tsunami, the U.S. economy does not appear to have the underlying momentum needed to put it on the growth path thought likely at the start of the year.

Forecasters' optimism has been further tempered by the disappointing performance of policymakers both in the U.S. and abroad. What should have been a routine increase in the U.S. debt ceiling turned into an extended display of partisan political posturing, leaving considerable doubt about whether any future fiscal policy adjustments that might be needed can be made on a timely basis. And, while the U.S. policy outlook is discouraging, the ability of the European Union to make progress on the sovereign debt crisis has been depressing. Many believe the euro-zone has already entered a mild recession. The probability of it evolving into a more severe recession with implications for the global economy increases with the time it takes to resolve Europe's financial turmoil.

Economists debate whether consumer and business confidence indexes are valuable guides to the future performance of the economy. Usually it appears that the economy's recent performance influences consumer sentiment and not the other way around. But, occasionally there are sequences of events that independently trigger a more pessimistic economic outlook by consumers and businesses. When that happens the cut backs in consumer and business spending that follow cause the economy to slow; in extreme cases they may even produce a recession. Some forecasters believe that the combination of political gridlock and disappointing job growth we currently face is creating one of those self-reinforcing confidence crises. The drop in confidence observed recently is not thought to be large enough to create a recession, but it has been large enough to remove any cushion the U.S. economy might have had against another unexpected economic shock. As a result, the probability assigned to recession scenarios has increased.

Most economists began dialing back their 2011 forecasts in the spring, but changes were small until July, when forecasts were reduced significantly. The change in the Blue Chip Consensus was typical. In a rare display of unity all 45 of the forecasters surveyed reduced their outlooks for 2011, and the panel's median real growth rate fell from 2.5 percent in July to 1.8 percent in August. Minnesota's macroeconomic consultant, Global Insight Inc. (GII), also reduced its forecast. Their November baseline now calls for real GDP to grow at a 1.8 percent rate in 2011. In February real GDP was expected to grow at a 3.2 percent annual rate. Real growth rates for 2012 and 2013 have also been reduced. GII now expects real GDP to grow at a 1.6 percent rate in 2012, and a 2.5 percent rate in 2013. Global Insight's February baseline projected real growth rates of 2.9 percent in 2012 and, 3.1 percent in 2013. Inflation is expected to remain under control in November's baseline, with CPI growth dropping to just 1.3 percent in 2012 and 1.9 percent in 2013 after this year's jump to 3.0 percent.

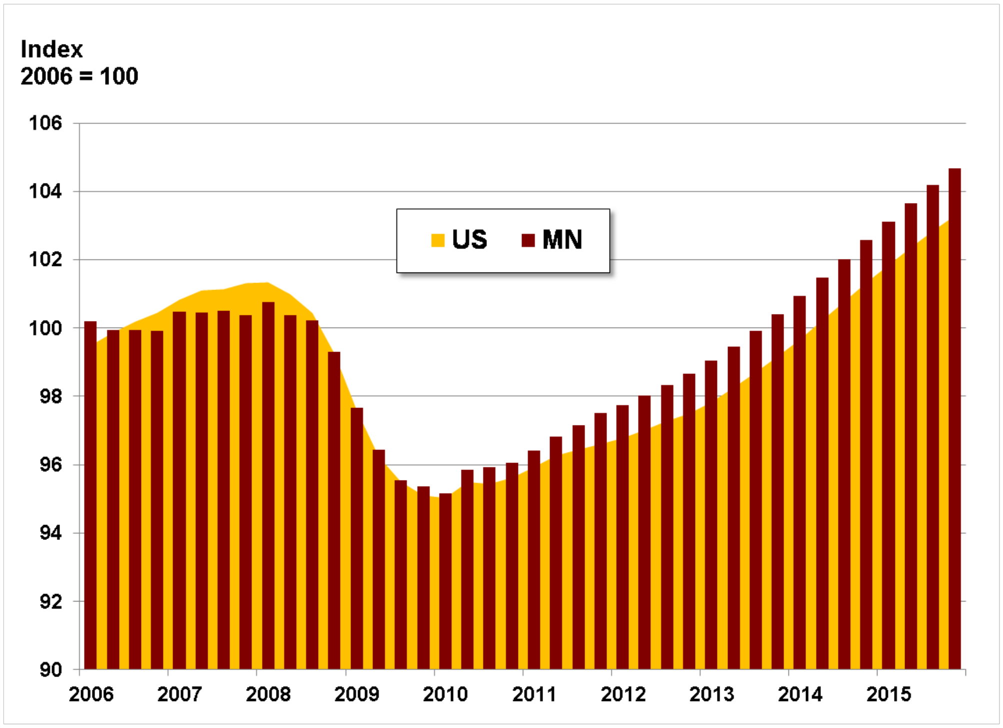
The GII November baseline is very similar to the Blue Chip consensus for 2011, but the Blue Chip panel is more optimistic for 2012 and 2013, calling for real GDP growth rates of 2.1 percent in 2012 and 2.8 percent in 2013. GII's projected 1.4 percent real growth rate for 2012 would place it in the bottom fifth of the Blue Chip Panel. Global Insight assigns a probability of 50 percent to their baseline forecast. A more pessimistic scenario which includes a 3 quarter recession beginning about now is given a probability of 40 percent "largely because of the risks from Europe." A Greek default within the next six months is included in November's baseline. The recession risk comes from potential financial contagion if the default is disorderly.

Most members of Minnesota's Council of Economic Advisors expect the economy to be stronger over the next 18 months than is anticipated in Global Insight's November baseline. They also believe that while the downside risk to the forecast is higher than normal, the odds that the U.S. would fall into a recession in the next 18 months are less than the 40 percent probability assigned by GII. But, despite their slightly more optimistic outlook, the Council agreed that GII's November's baseline forecast was an appropriate starting point for the state's 2012-13 revenue forecast and the 2014-15 revenue planning estimates given the current uncertainty in international financial markets. The Council saw considerable downside risk to the U.S. economy if Europe's sovereign debt problems are left unresolved. And, as one member noted, "Solving Greece does not solve the European problem."

Council members were also concerned about what currently appears to be an impossible environment for fiscal policy initiatives in Washington DC. Political gridlock was included in most members' lists of future concerns. There is considerably more opportunity for fiscal policy to become unduly restrictive over the next few months with the expiration of the FY2012 continuing budget resolution, the expiration of the payroll tax cut, and the super committee's failure to reach agreement by its November 23 deadline.

Council members and MMB economists remain concerned about job growth. While November's payroll employment report reduces the likelihood that we are in a recession, bringing the U.S. unemployment rate down will require adding more than 100,000 jobs per month for an extended period.

Minnesota Employment Has Grown More Rapidly Than The U.S. Average



MMB economists noted that Minnesota appeared to be growing slightly faster than the U.S. averages. The state's official unemployment rate of 6.9 percent is well below the national rate of 9.1 percent. Unofficial calculations which eliminate the distortions caused by July's state government shutdown produce even lower unemployment rates. And, job growth has been stronger in Minnesota than nationally since the end of the recession. State personal income and personal income per capita also grew faster in Minnesota in 2010 than they did nationally.

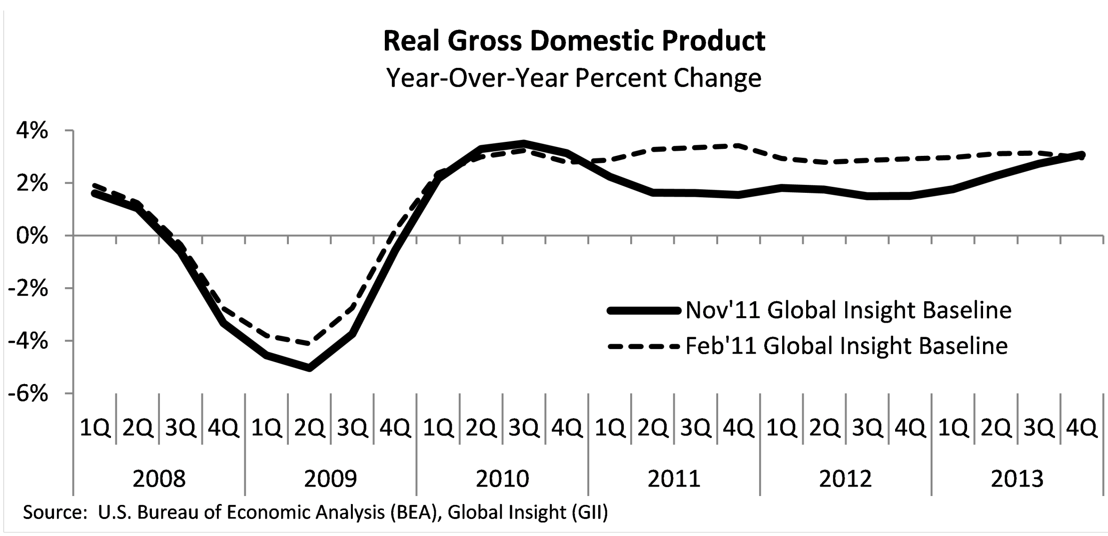
Council members continue to recommend that budget planning estimates for future biennia include an adjustment of future spending to reflect expected inflation. The current practice of including inflation in projected revenues but not in spending projections is misleading and not consistent with either 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 2014-15 biennium by approximately $1.3 billion, but the distortion will grow larger if and when inflation 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.

U.S. ECONOMIC OUTLOOK

The national economic outlook has weakened significantly since Minnesota Management and Budget (MMB) last prepared a revenue and expenditure forecast. In February, The federal tax compromise approved in early December was fueling growing confidence that the economy was finally mounting a genuine recovery. But economic growth was slower than anticipated during the first half of 2011, with real GDP increasing at an average annual rate of less than 1 percent.

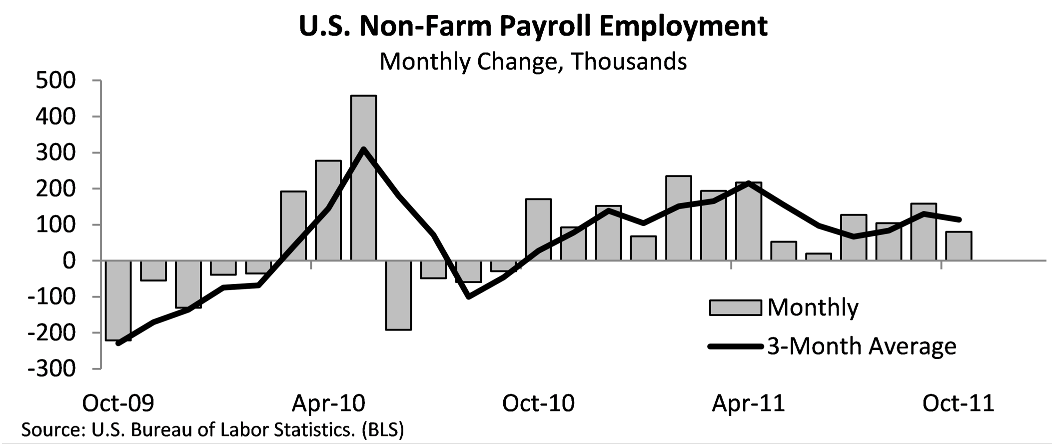
Some of the economic weakness was attributable to temporary shocks, notably high gas and food prices, political unrest in the Middle East and North Africa, and the disaster in Japan. And, the European debt crisis was back in the headlines in May when Portugal became the third country behind Ireland and Greece to request a bailout from the European Union (EU) and the International Monetary Fund (IMF). Then, as European leaders were agreeing to a second Greek bailout a few months later, the regions' fiscal problems began to spread to larger economies such as Italy and Spain.

Historical revisions to GDP in late July revealed that the Great Recession was deeper than previously thought and the subsequent expansion less robust. In early August, consumer and business confidence in the U.S. political process hit new lows when an artificial debt ceiling crisis took the country to the brink of default and the outcome offered neither short-term fiscal support nor long-term reforms. Standard & Poor's downgrade of the nation's credit rating agitated financial markets and equities fell sharply amid extreme volatility. The lack of underlying momentum in the economy and increased risk of a shock from the Eurozone crisis or premature tightening of domestic fiscal policy led Global Insight Inc. (GII), MMB's macroeconomic consultant, to increase the odds of a near-term U.S. recession to 40 percent.



Historical revisions to GDP in July revealed that the depth of the recession was deeper than previously thought and the subsequent expansion less robust. Real GDP increased at an average annual rate of less than 1 percent during the first half of 2011.

Recent indicators are not signaling a U.S. recession, but modest economic growth. Real GDP growth accelerated to a 2.0 percent annual rate in the third quarter of 2011, up from just 1.3 percent in the second quarter and the ninth consecutive quarter of real output growth starting in the third quarter of 2009. Real business fixed investment rose a strong 12.3 percent and despite stagnant wage growth and confidence at recession levels, real consumption expenditures grew at a resilient 2.3 percent annual pace. Inflation is easing with less price pressure from gasoline and food. The unemployment rate has hovered around 9.0 percent all year and hiring remains cautious, but businesses are more profitable than ever. Job openings rose to a three-year high in September and the four-week moving average of initial unemployment insurance claims fell below 400,000 in mid-November for the first time since early April. Nonfarm payrolls climbed a soft 80,000 in October, but this was the 13th consecutive month of gains. And, a second straight month of large historical revisions is contributing to the sense that underlying strength is a little less grim. Nevertheless, the main downside risks to the forecast continue to come from Europe, where the sovereign-debt crisis has intensified, and the possibility that key stimulus measures might not be extended following the failure of the congressional super-committee. GII expects real GDP growth in the 2.5 to 3.0 percent range during the fourth quarter, but because of more recent weakness in personal income and the declining saving rate, assumes growth will slow to below 2 percent in the first half of 2012.



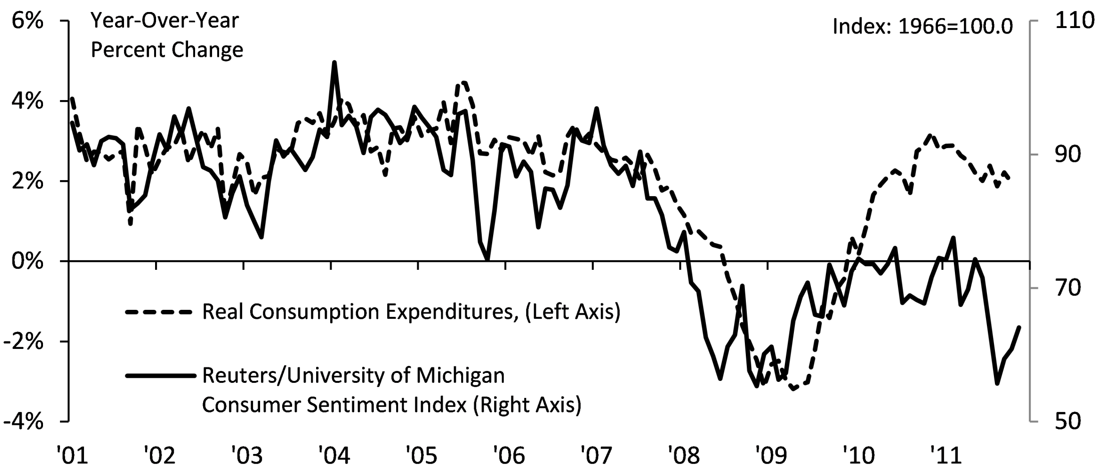
Nonfarm payrolls climbed a soft 80,000 in October, but this was the 13th consecutive month of gains. And, a second straight month of large historical revisions is contributing to the sense that underlying strength is a little less grim.

Gloomy Consumers

Economists have studied how measures of household attitudes influence the future path of real economic conditions since the days of John Maynard Keynes. Normally, confidence in the overall state of the economy moves in tandem with our actions, a psychological force Keynes described as “animal spirits”. Improved confidence, for example, is reflected by a rise in consumer spending. But there has been a widening disconnect between the two since the end of the recession. The economy is strengthening, but consumers remain gloomy.

Consumer spending was one of the main drivers behind the 2.0 percent real GDP growth observed in the third quarter of 2011. But recession risks are still uncomfortably high, largely because confidence remains so low. A recent Nielsen poll found that 92 percent of U.S. consumers believe the country is still in a recession. The loss of 8.75 million jobs, severe unemployment, stagnant wage growth, high debt burdens, declining home values, and public dissatisfaction in the political process has undermined consumer, business, and investor faith in the economic recovery. The Reuters/University of Michigan consumer sentiment index, the Conference Board consumer confidence index, as well as the National Federation of Independent Business small business optimism index have all fallen back to recessionary levels, while the Dow Jones Industrial Average, S&P 500 Index and the Nasdaq Composite each lost more than 12 percent in the third quarter, the worst performance since global financial markets seized up the last quarter of 2008.

Real Consumer Spending and Confidence



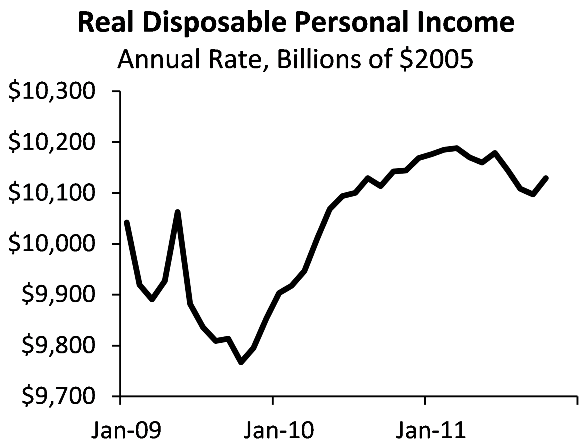
Source: U.S. Bureau of Economic Analysis (BEA), Reuters/University of Michigan

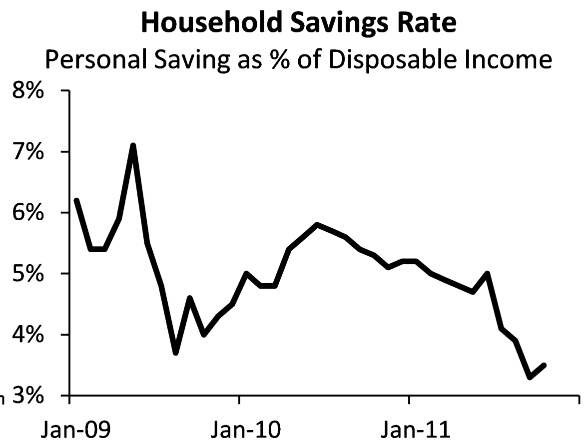
There has been a widening disconnect between consumer spending and confidence since the end of the recession. The economy is strengthening, but consumers remain gloomy.

Ultimately, consumers' willingness to open up their wallets this holiday season and into 2012 will largely depend on their own personal finances. But household incomes are beginning to reflect the weak labor market as slower wage growth is forcing consumers to dip into savings to pay for the higher spending. After accounting for taxes and inflation, real disposable income fell a revised 2.1 percent during the quarter, its biggest decline in two years, and the personal saving rate retreated from 5.0 percent in June to 3.3 percent in September, the lowest savings rate observed since before the recession began.

It will be difficult for consumers to sustain current rates of spending without strong and sustainable increases in employment and real income. The U.S. unemployment rate fell to 9.0 percent in October from 9.1 percent the month before, but is still double what it was five years ago and expectations are low. According to the September Reuters/University of Michigan sentiment survey 89 percent of consumers expected the unemployment rate to remain unchanged or increase during the year ahead. A month later, even with relatively low inflation, the majority of households surveyed expected declines in their real incomes. Unless U.S. and European policymakers successfully restore confidence in the recovery and labor market slack dissipates, bleak expectations of future income gains will weigh heavily on animal spirits, likely forcing consumers to temper spending plans.

In late November, the Bureau of Economic Analysis (BEA) reported that October disposable income adjusted for inflation was up 0.3 percent, after being down three consecutive months. This improvement is a good sign moving into the holiday season. Holiday retail sales rose more than 5.0 percent last year, after two consecutive years of declines. GII expects holiday sales to be 4.2 percent higher than last year, although a large percentage of this increase is due to higher consumer prices. Real consumer spending is estimated to grow 2.3 percent in 2011, up from 2.0 percent in 2010, but decelerate to a range of 1.9 to 2.1 percent growth for 2012 and 2013.





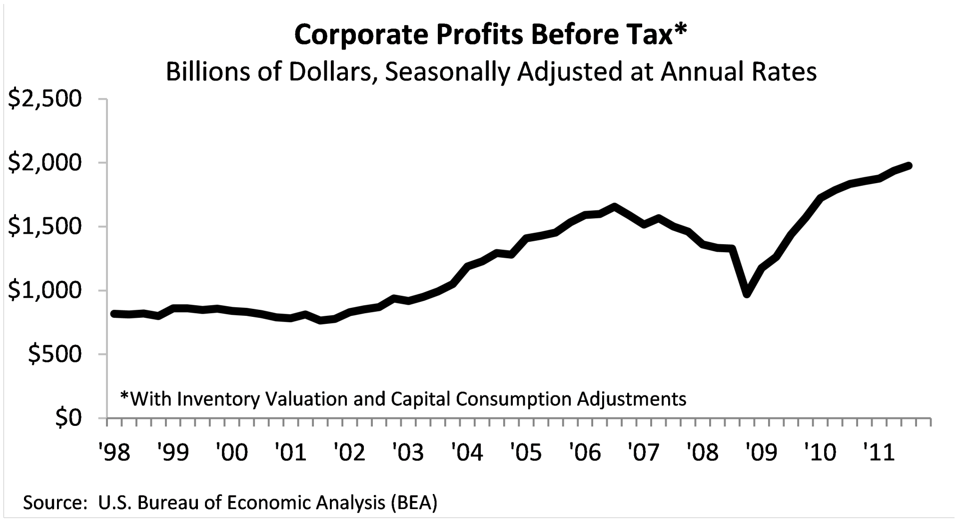
Source: Bureau of Economic Analysis

Incomes are beginning to reflect the weak labor market. After accounting for taxes and inflation, real disposable income fell 2.1 percent during the quarter, its biggest decline in two years, and the savings rate retreated from 5.0 percent in June to 3.3 percent in September, the lowest savings rate observed since before the recession began.

Business Investment: Equipment or Workers?

Business activity has been an important source of economic strength during the recovery. Industrial output has risen nearly 13 percent above its trough in June 2009, manufacturers are operating closer to full capacity than a year ago, and the Institute for Supply Management's (ISM) manufacturing index held above the 50-point expansion threshold in November for the 27th consecutive month. Companies remain flush with cash, corporate balance sheets have generally been restored to health following the financial crisis, and businesses are more profitable than ever. U.S. corporations reported an annualized $1.977 trillion in profit in the third quarter of 2011, an all-time high.

What may be good for corporate profits, has not been good for job creation. After two and a half years of recovery, employment growth remains agonizingly slow. Employers are reluctant to invest in added labor due to a lack of confidence in political and economic conditions as well as the uncertain future of employee health care costs. And, without a clear and sustainable outlook for final demand, they continue to hold down payrolls, squeezing more output from their existing workforce. To put this into perspective, the U.S. economy is now producing more than it did prior to the recession, but with 6.5 million fewer workers.



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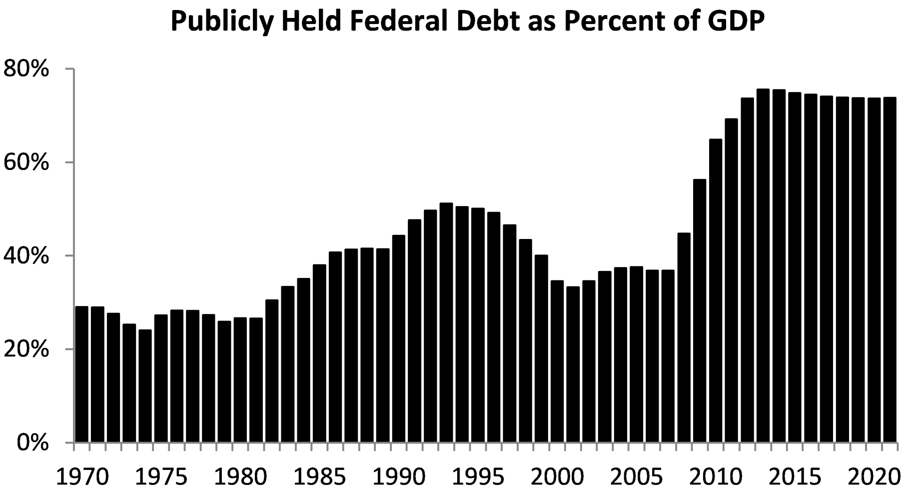
Businesses have found more ways to increase productivity by addressing equipment and technology replacement needs neglected during the recession. Since the recovery began, nominal business equipment and software spending has increased 28.2 percent, while nominal spending on compensation of employees is up just 5.6 percent. Moreover, the price of capital has become cheaper relative to labor. Equipment and software prices have fallen 2.0 percent since the beginning of the recovery. Labor costs, however, have risen 4.7 percent, driven by rising health insurance costs, up 9.6 percent. This combination, along with federal tax incentives allowing businesses to immediately expense qualified capital investments, is encouraging businesses to increase spending on capital rather than hire workers. President Obama's jobs proposal includes a tax credit to encourage hiring in addition to an extension of 100 percent bonus depreciation into 2012. GII has not incorporated either component into the November forecast.

Not So Super Fiscal Policy

Federal fiscal policymakers are facing a difficult political and economic challenge: Agree to further long-term deficit reduction that ensures sustainability and transparency while alleviating the short-term fiscal drag that threatens to impede the economic recovery. Without corrective action by the end of 2011, expiration of the 2 percent employee payroll tax holiday and emergency unemployment insurance benefits combined with discretionary spending cuts from the agreement reached in early August to lift the U.S. debt ceiling will further shift federal fiscal policy from stimulus to restraint. Moody's analytics chief economist Mark Zandi estimates the drag from these and the end of other fiscal stimulus measures enacted in 2009 could subtract as much as 1.7 percentage points from real GDP growth in 2012. Moreover, the Bush tax cuts and other expanded credits and deductions are scheduled to expire at the beginning of 2013 and recent inaction by a Joint Select Committee of Congress could trigger consequential federal budget reduction in federal FY 2013, adding more obstacles to an already shaky U.S. economic outlook.

The Budget Control Act of 2011 signed into law in early August ended the risk of U.S. default and placed a down payment on spending restraint, but fell short of achieving long-term fiscal sustainability or offering clarity. The debt-ceiling agreement cuts as much as $2.4 trillion in spending over the next decade, but this is just over 60 percent of the $4 trillion believed necessary to achieve a stable debt-to-GDP ratio. The deal includes $917 billion in discretionary spending cuts spread evenly over the next 10 years, but contains no tax revenue or entitlement reforms. Those items were deferred to a bipartisan Congressional "super-committee" whose target was to produce legislation that includes additional deficit savings of at least $1.2 trillion by late November. While both sides showed willingness to trim the deficit, the super-committee was unable to bridge the same partisan divide that prevented an agreement during negotiations last summer. This failure to act now triggers an automatic sequester of $1.2 trillion in spending cuts divided evenly between defense and non-defense spending beginning in early 2013. GII has incorporated $917 billion in discretionary spending cuts into the November baseline, reducing real GDP growth by 0.2 percent in both 2012 and 2013. Unconvinced the super-committee would come to an agreement that could pass Congress, but also doubtful an automatic sequester will take effect in early 2013, their forecast assumes the President and a new Congress will produce a new package combining cuts in Medicare, Medicaid, and Social Security, and increases in income tax, sufficient in size to stabilize the debt-to-GDP ratio beginning in early 2014. If the sequester is triggered in early 2013, however, the same time that the Bush tax cuts are scheduled to expire, the contractionary impact would be consequential.

In September, President Obama went before a joint session of Congress to propose a $447 billion jobs plan of temporary tax cuts and spending increases to support the struggling recovery. The largest items in the President's proposal are an extension to this year's employee payroll tax holiday and emergency unemployment insurance benefits. To pay for the package, the president recommended the super-committee furnish additional deficit reduction measures beginning in FY 2014. The super-committee's failure to act, however, leaves the future of these two soon-to-expire stimulus measures uncertain. GII estimates that failure to extend both of these stimulus efforts could subtract 0.6 percentage points from real GDP growth in 2012. Believing politicians will not want to risk withdrawing this stimulus, GII assumes the existing 2 percent payroll tax cut and emergency unemployment insurance benefits are extended for 2012. No other components of the president's jobs plan are incorporated into the November baseline.



Source: U.S. Bureau of Economic Analysis, U.S.Treasury, Global Insight

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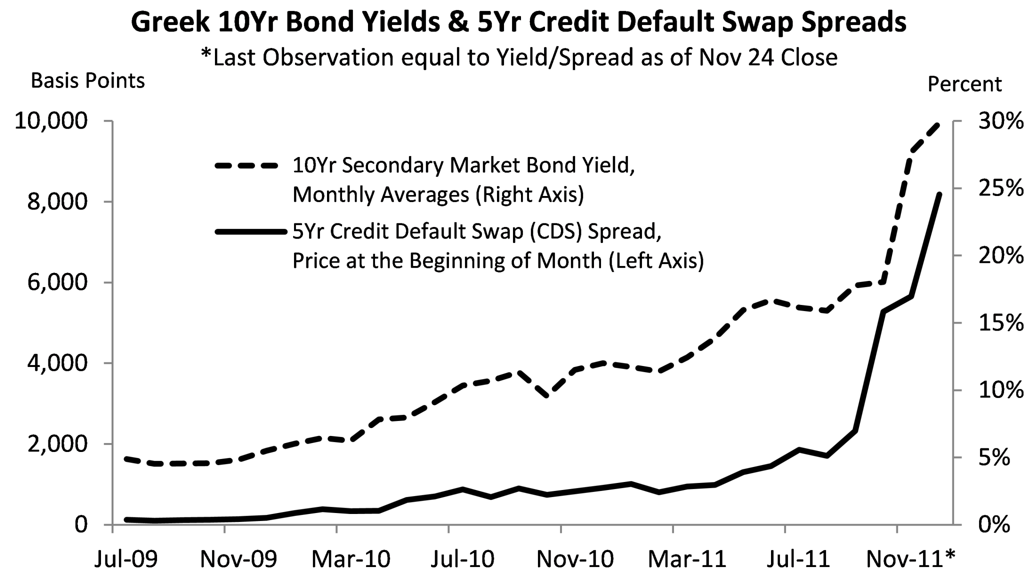
Significant fiscal policy uncertainties remain. Facing a difficult set of choices that can no longer be deferred, policymakers need to stabilize confidence by responding with substantive entitlement and tax reform that will achieve long-term fiscal sustainability without premature tightening. Failure to do so could further unravel consumer and business confidence, upsetting their willingness to spend and invest, and perhaps pushing the economy back into recession.

European Debt Crisis: What Happened?

A series of negotiated bailouts and austerity measures have failed to stabilize Europe's sovereign debt crisis. The region's fiscal problems have spread from Greece to Portugal and Ireland, and now threaten the borrowing costs of larger economies such as Italy, Spain, and even triple-A rated countries, like France. While implementation of agreements has proven laborious and complex given the many levels of political decision making, collective and decisive action will be necessary to restructure Greek debt, shore up the banking system, and erect a firewall to prevent the crisis from spreading further. For the Eurozone to succeed in the long-term, this will ultimately require credible debt guarantees and deepening integration of fiscal policy among currency-members.

The debt crisis first emerged following Greek elections in October 2009, when the new government revealed its predecessor had been grossly underreporting the country's ballooning budget deficit. Rating agencies subsequently downgraded Greek debt, institutional bondholders increased their risk premiums, borrowing costs began to rise rapidly, and Greece began paying more and more to service debt. To avoid default, Greece accepted a €110 billion financial rescue package from the EU and IMF in May, 2010 in exchange for deeply unpopular austerity measures. Moreover, to address growing concerns that a debt crisis may spread beyond Greece, EU policymakers also established a complement to loans guaranteed by the IMF called the European Financial Stability Facility (EFSF). With an initial lending capacity of €250 billion backed by member state guarantees, the EFSF is a safety net providing streamlined support for ailing countries.



CDS Note: A spread of 1,000 basis points means it costs 10% per year to protect value of the debt for 5 years.
Source: European Central Bank , European Commission, Bloomberg

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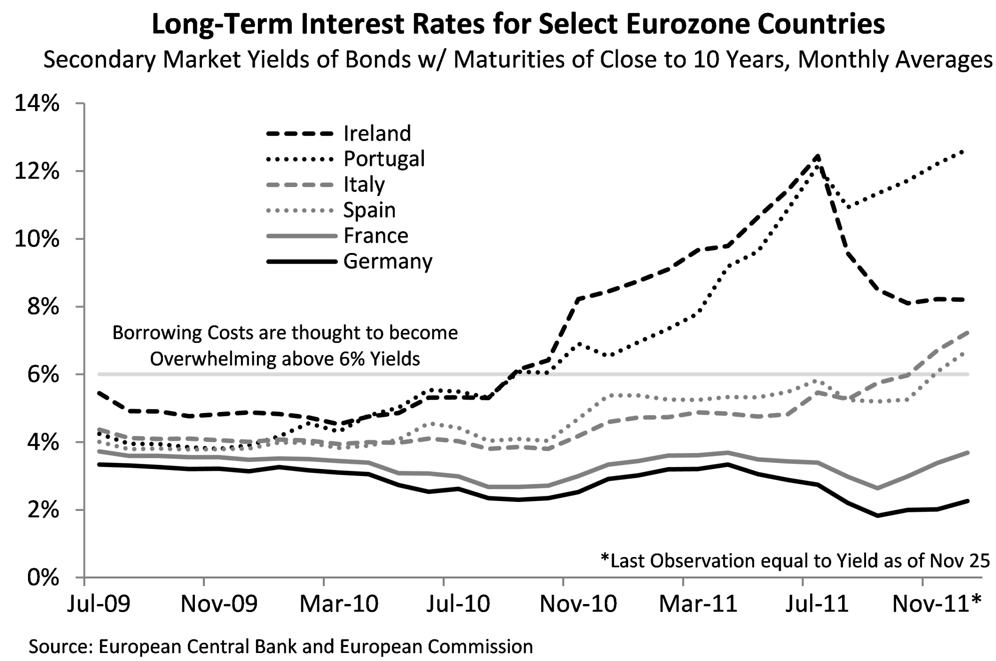
Ireland and Portugal were the first to request and receive aid from the EFSF. Unlike Greece, Ireland had a balanced budget before the crisis, but fell into financial distress after its government repeatedly guaranteed bank liabilities following the collapse of the real estate bubble in 2008. The nationalization of a major bank in 2009 and bailout of several others thereafter contributed to a sharp rise in Ireland's borrowing costs. By late 2010, the EU and IMF agreed to lend the cash-strapped nation €85 billion in exchange for deep spending cuts and tax hikes. A short time later, political unrest, slow growth, higher deficit forecasts, and market contagion pushed the long term interest rates on Portuguese bonds to unsustainable levels. Portugal became the third member of the Eurozone to accept a bailout (€78 billion) in May 2011.

By the summer of 2011, the IMF's austerity plan to restore growth and lower borrowing costs in Greece had become a significant economic drag, pushing the unemployment rate over 17 percent. Greece was entangled in its fifth year of deep recession, its sovereign debt load had worsened, interest rates on its sovereign bonds were hitting new highs, and the nation was struggling to attain mandated deficit targets. Following a critical vote of confidence in June, Greek Prime Minister George Papandreou gained the support necessary to pass additional austerity measures and secure more rescue loans. A month later, European leaders agreed to a second €109 billion Greek bailout, this time asking private creditors to stomach some of the burden. Announcement of a "voluntary" acceptance of losses by investors to avoid triggering payouts on contracts written to protect bondholders against default called credit-default swaps (CDS) sparked a sudden increase in the risk premiums assigned to sovereign debts. That drove up the borrowing costs of larger economies with higher levels of public debt such as Italy and Spain. By early August, the European Central Bank (ECB) began buying large amounts of Spanish and Italian debt to prevent 10-year bond rates from rising to unsustainable levels. Initially, bond yields of both nations fell toward 5 percent following the purchases, but have since drifted back to well above 6 percent, generally considered the upper limit for a sustainable debt burden.



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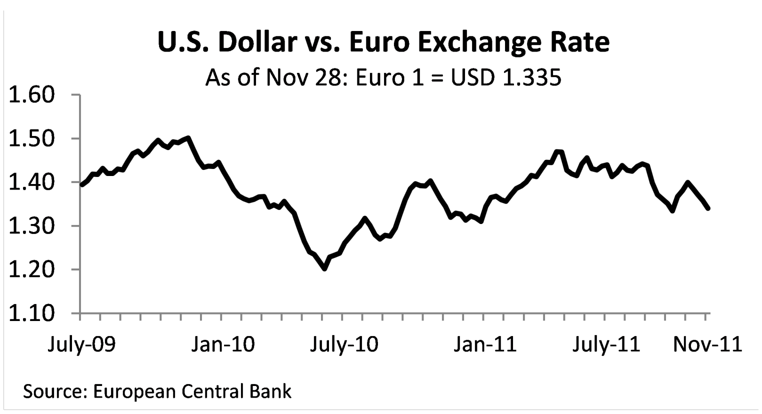
By early October, each of the Eurozone parliaments had ratified a plan to expand the effective lending capacity of the EFSF to €440 billion and widen its mandate, allowing it to buy sovereign debt in the secondary market and recapitalize banks. Later that month the EU held a summit to adopt additional measures to counter the crisis. First, to manage potential borrowing problems in Spain and Italy, members agreed to further increase the leveraged firepower of the EFSF to €1 trillion by guaranteeing a percentage of the losses on Eurozone members' debt and using resources from outside investors such as China and Brazil. This is roughly one-third to one-half as large as most analysts believe required to "ring-fence" larger debt-troubled economics like Spain and Italy. Second, they halved the value of Greek government bonds held by private investors. This again will be voluntary to avoid triggering Greek CDSs. And third, European policymakers announced a plan to shore up the Eurozone's banking system by boosting the capital structure with €106 billion to withstand write-downs and future sovereign defaults. This is again about one-third to one-half of the needed capital requirements estimated by the IMF.

Bond markets reacted to the plan with skepticism, demanding even higher yields on Italian and Spanish debts, despite heavy buying from the ECB. A week later, the Greek Prime Minister stunned EU leaders and global markets by announcing his government would hold a referendum on the new bailout package, threatening to undermine the international effort, prolong uncertainty, and continue to destabilize confidence in global financial markets. Faced with intense domestic and international pressure to drop his plan, Papandreou's misstep eventually forced his resignation in early November to make way for a unified coalition government tasked to implement the restructuring plan. Amid growing fear that a Greek default could spread to Italy and Spain, this was quickly followed a week later by the resignation of his Italian counterpart Prime Minister Silvio Berlusconi, who lost public support and his majority in parliament after wrangling over austerity measures for months, and the election of a fiscally conservative government in Spain by a sweeping victory over the ruling Socialists. But fear that debt-troubled governments will not be able to raise funds in the capital markets, thus eventually requiring outside assistance, are still escalating. Italian and Spanish borrowing costs continue to skyrocket and, more recently, French bond yields have also spiked, a sign that contagion is spreading to larger, even triple-A rated, countries. If France loses its triple-A rating, the EFSF's power to combat the crisis could be severely inhibited. Moreover, a November 23 German debt auction attracted weak demand, a sign that investors may now be losing confidence in even the safest European debt.



The good news is that GII believes direct exposure of the U.S. economy and banking system to the Eurozone is relatively small, but measureable. Tight credit conditions, reduced exports to the Eurozone, lower corporate profits for foreign investors in the Euro-area, and appreciation of the dollar against the euro are estimated to subtract as much as 0.2 to 0.5 percentage points from growth in the U.S.

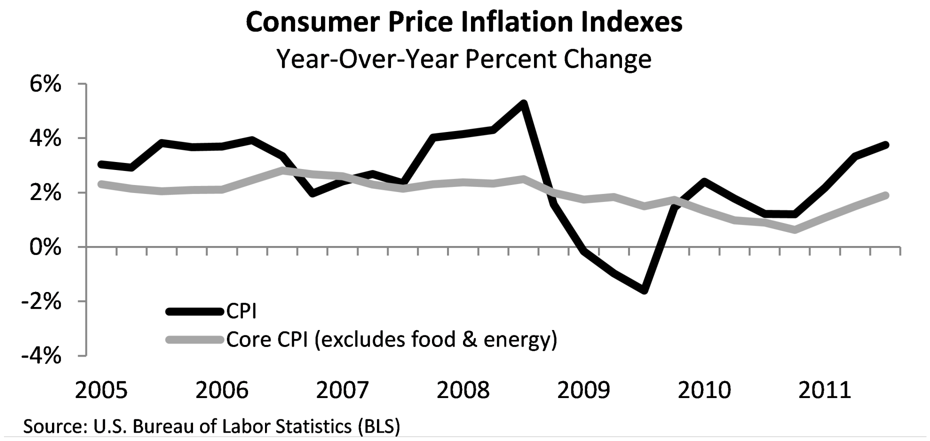
GII believes the Eurozone will experience a least a mild recession. The good news in this scenario is that direct exposure of the U.S. economy and banking system to the Eurozone is assumed to be relatively small, but measureable. Tight credit conditions, reduced exports to the Eurozone, lower corporate profits for foreign investors in the Euro-area, and appreciation of the dollar against the euro are estimated to subtract as much as 0.2 to 0.5 percentage points from growth in the U.S. But exposure of U.S. financial institutions to CDSs is unknown and a source of concern, given their role in the 2008 financial crisis. Moreover, GII attaches a 40 percent probability of a deep European recession to their November 2011 baseline in the event of widespread financial market contagion that is not easily contained. Under this “meltdown” scenario, the euro drops to parity with the dollar and shockwaves to the rest of the world are big, including another U.S. recession.

Without convincing resolution to the debt crisis, risks of financial contagion remain very high. European policymakers must act not only to follow through with further fiscal consolidation and the bank recapitalization deal agreed to in late October, but also provide credible debt guarantees by raising the firepower of the EFSF bailout fund, enabling the ECB to provide unlimited liquidity, or joining to issue a common Eurobond, an idea the European Commission is set to introduce in late November. Germany, however, has repeatedly rejected a joint issuance of bonds by euro-zone countries as it would force the nation to share the default risk and push up its borrowing costs.

Inflation is Higher, But Concerns are Easing

The Bureau of Labor Statistics (BLS) reports that its headline inflation measure, the Consumer Price Index (CPI), accelerated rapidly during the first half of 2011 to annual rate of around 4.7 percent, compared to an average rate of just 1.3 percent the previous two years. Much of the increase is explained by a sharp rise in gasoline and food prices last spring, which coupled with poor wage growth, is increasingly squeezing household budgets.

Even so, core CPI, which excludes more volatile prices of food and energy, rose 1.9 percent in the third quarter of 2011 compared to a year earlier, the most in three years. This is partially being driven by cost pressures on clothing from previously soaring cotton prices and appreciation of Chinese currency, as well as supply-chain disruptions from Japan's mid-March earthquake and tsunami, which put upward pressure on vehicle prices in the early part of the summer. Moreover, changing attitudes and behavior away from homeownership in the U.S. has also been steadily pushing up the cost of rents. The BLS index of rent and owners’ equivalent rent of residences, for example, rose at an annual rate of 2.1 percent in the third quarter 2011, the largest gain since late 2008.

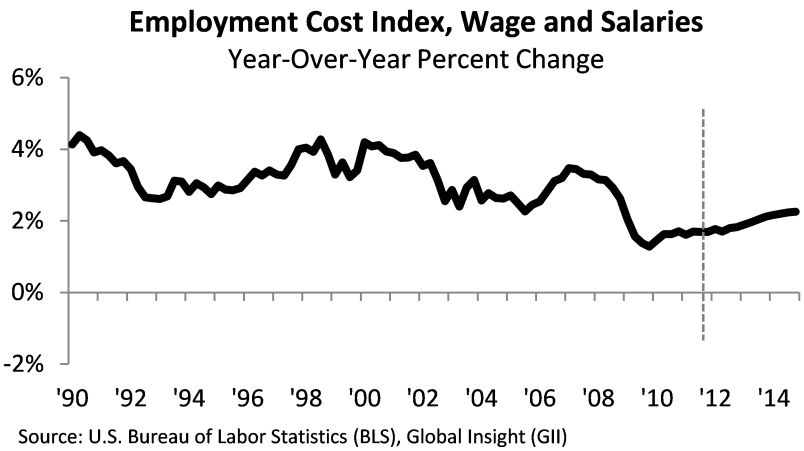


The Bureau of Labor Statistics reports that CPI inflation accelerated rapidly during the first half of 2011 to annual rate of around 4.7 percent. Core CPI, which excludes more volatile prices of food and energy, rose 1.9 percent in the third quarter of 2011 compared to a year earlier, the most in three years.

While prices increased sharply earlier in the year, more recent evidence of weaker economic growth and mounting anxiety over the European sovereign debt crisis has helped ease inflation concerns. The CPI fell back to a 3.1 percent annual rate in third quarter of 2011 as commodity prices either leveled off or retreated from their peaks. Likewise, with less price pressure from oil and food, GII expects consumer inflation to close out the fourth quarter up an annualized 1.1 percent before rising a modest 1.5 percent in 2012. Core prices are assumed to rise 1.5 percent in 2012, down from 1.6 percent growth in 2011. The latter should offer some relief to household finances since more than 80 percent of consumer spending is on non-food and non-energy items.

Monetary Policy at Odds

At an early September luncheon for the Economic Club of Minnesota in Minneapolis, Federal Reserve Board Chairman Bernanke stated that there was little indication that the higher rate of inflation experienced over the summer had become ingrained in the U.S. economy. Indeed, most measures suggest an inflationary spiral is unlikely given long term inflation expectations remain stable and ongoing resource slack in the labor market continues to restrain labor costs. Inflation expectations one-year ahead, for example, as measured by the Reuters/University of Michigan survey fell to 3.2 percent in November, down from the peak 4.6 percent in April 2011. Likewise, the unemployment rate has stalled near 9 percent. Congress' inability to agree on fiscal policies to encourage long-term growth has put added pressure on the Federal Reserve to take further policy action to support a stronger recovery and promote maximum employment.



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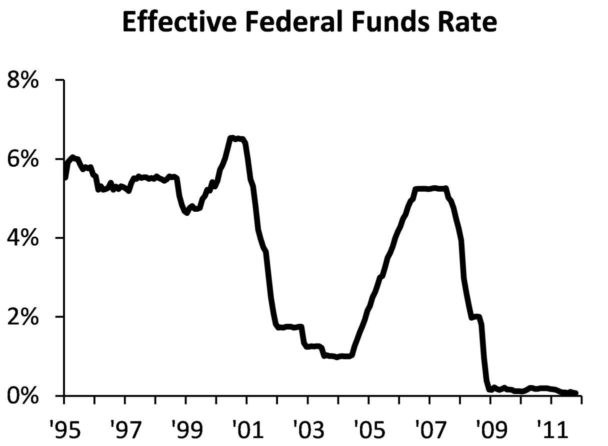
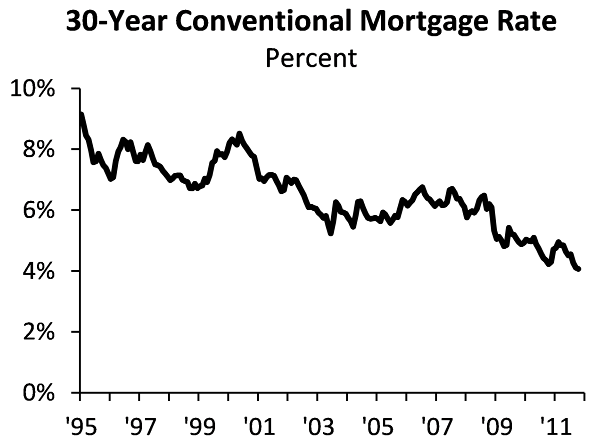
In August the Federal Open Market Committee (FOMC) reaffirmed its commitment to a low interest rate policy by stating it expects to keep the federal funds target in the 0.0 to 0.25 percent range until at least mid-2013. A month later at the September meeting, the FOMC announced a new stimulus measure known as "Operation Twist" that involves selling $400 billion in short-term Treasuries in exchange for the same amount of long-term bonds. The move aims to push down long term interest rates charged on home mortgages, car loans, and other high priced items as an incentive for inducing more consumer borrowing and business investment.

Chairman Bernanke has been very aggressive despite opposition, including a letter sent from the top four Republicans in Congress in the midst of September's two-day meeting urging him to refrain from further easing. Moreover, three of the twelve FOMC committee members dissented from both policy decisions, including Minneapolis Fed President Kocherlakota, making this the most divided Fed since 1992. At a speech in October, Kocherlakota stated that he believes slowness of the recovery is no justification for increasing the level of monetary accommodation and that policy actions of the last two meetings are inconsistent with the Fed's communicated objectives. Facing pressure from other committee members who support even stronger policy action, however, another round of asset purchases to inject money into the economy, or quantitative easing (QE), is viewed as a possible final act. While there were no new policy announcements in the FOMC's early November statement, Chairman Bernanke did suggest that further QE is a viable option. Indeed, with no improvement in wage growth and the unemployment rate still at 9 percent, GII assumes that the Fed will subsequently introduce a QE III program of similar size to QE II ($600 Billion) beginning in early 2012, but believes neither operation will provide much support to growth. GII's expectation is that the Fed will not be raising interest rates until at least 2014.



Source: Federal Reserve

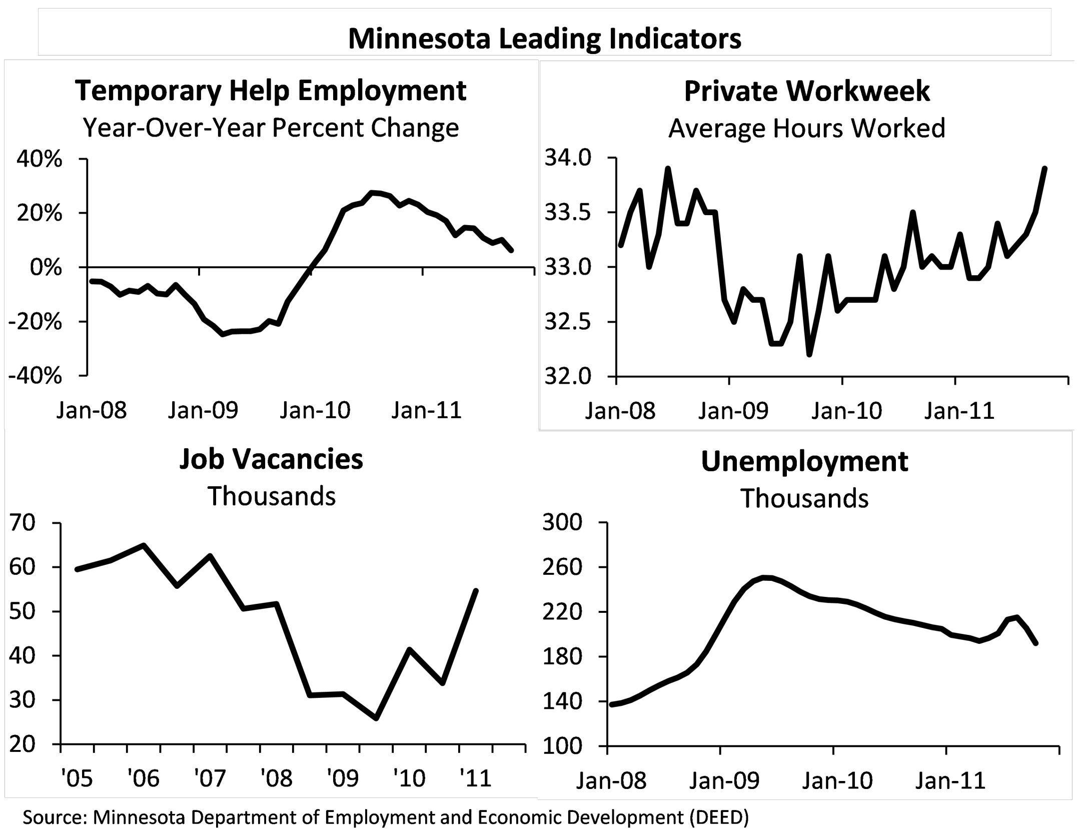


Source: Freddie Mac

In August, the FOMC reaffirmed commitment to keeping short-term interest rates near zero for the next couple years. A month later at the September meeting, the FOMC announced a new stimulus aimed at pushing down long term interest rates charged on home mortgages, car loans, and other high priced items as an incentive for inducing more consumer borrowing and business investment.

MINNESOTA ECONOMIC OUTLOOK

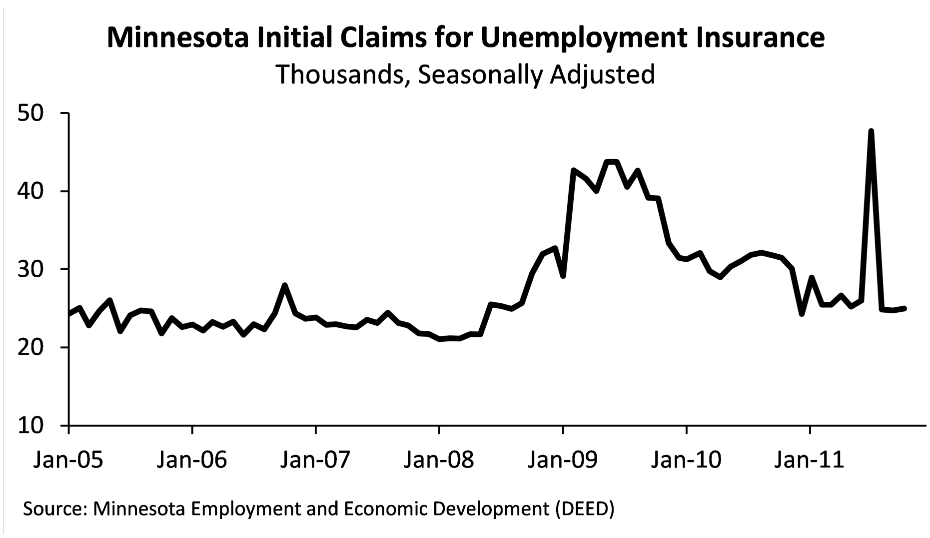
Minnesota's economy continues to grow modestly. Wage and salary disbursements during the first nine months of 2011 are up an estimated 5.2 percent over the same period a year earlier and 30,800 jobs have been created since the beginning of the year. Leading indicators, such as temporary help employment, average hours worked, job vacancies, and unemployment are all improving. The number of first time claims for jobless benefits spiked in July due to the state government shutdown, but have since fallen back to levels not observed since just before the peak of the financial crisis in the fall of 2008. Moreover, the employment recovery remains broad based with healthcare and social assistance, professional and business services, leisure and hospitality, finance and insurance, retail trade, and manufacturing all showing gains. Government cutbacks remain a drag on employment, but even the long-suffering construction sector is now gaining jobs over last year. In October, for the first time since the housing bubble started to burst in April 2006, the industry reported positive job gains relative to 12 months earlier. Minnesota's labor market appears to be firmly on a path toward recovery.



Minnesota's economy continues to grow modestly. Leading indicators, such as temporary help employment, hours worked, job vacancies, and unemployment (after adjusting for the lasting effects of the state government shutdown) are all improving.

Still, while Minnesota continues to outperform the U.S. based on a number of important indicators, the state's economy is not immune from GII's sluggish national economic outlook for slower growth than forecast last February. Business sentiment continues to be weakened by policy uncertainty and a clouded outlook. Until there are clearer signs of a self-sustaining expansion, employers will remain cautious about further hiring decisions and Minnesota's economy will remain under stress with low confidence, slow wage growth, high debt burdens, depleted wealth, and discontent in the political process. This feeds lower household confidence and increases the risk in the state's already modest forecast for economic growth.

Forecasts for state employment and wages have been revised based on recent Minnesota specific information and Global Insight's (GII) November 2011 baseline. The November baseline was used to drive a newly re-estimated Minnesota Management and Budget (MMB) model of the Minnesota economy. MMB economists believe Minnesota's labor market is in recovery, but will be unable to appreciably improve on the current pace of job creation during the first part of 2012. Employment growth is expected to moderate in the first part of the year as consumers continue to repair household finances and regain confidence in the recovery. The November forecast estimates that it will take until early-2014 before Minnesota employment exceeds its pre-recession peak.

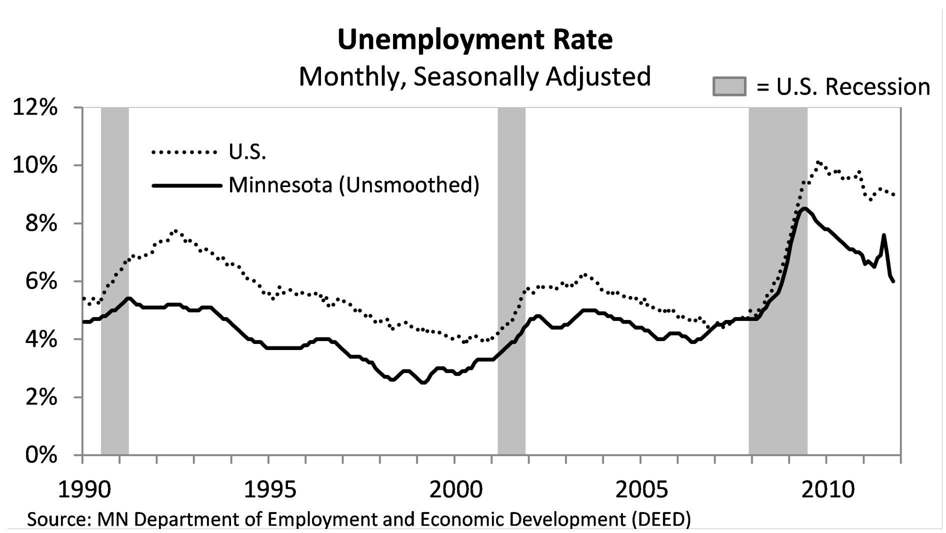


Initial unemployment insurance claims spiked in July due to the state government shutdown, but have since fallen back to levels not observed since just before the peak of the financial crisis in the fall of 2008.

Minnesota Job Conditions are Outpacing U.S.

The latest news on Minnesota's labor market is encouraging. According to the employer survey released by the Minnesota Department of Employment and Economic Development (DEED), after adjusting for the state government shutdown in July, Minnesota non-farm employment payrolls grew 1.0 percent during the first 10 months of 2011 relative to the same period last year, about the same rate as the U.S. Each year, however, these monthly sample-based estimates are re-aligned to incorporate comprehensive universe counts, a process referred to as benchmarking. The universe counts are derived from state unemployment insurance (UI) tax records that nearly all employers are required to file with DEED. Based on UI records for first quarter 2011, MMB estimates currently published employment data since the beginning of the year will be revised upward 0.5 percent, or about 14,000 jobs, when annual benchmark revisions are released in the spring. This is the state's equivalent to the Bureau of Labor Statistics' (BLS) preliminary benchmark revision estimate, released in late September, which similarly suggests an upward adjustment to March 2011 U.S. total nonfarm employment of 0.1 percent. Modifying existing employment estimates by these benchmark revisions will imply that Minnesota is indeed growing about 0.2 to 0.3 percent faster than the U.S. on an annual basis in 2011.

Labor market indicators from Minnesota's household survey have also been outperforming the U.S. The state's seasonally adjusted unemployment rate fell to 6.4 percent in October, down from 7.0 percent a year earlier and well below the 9.0 percent national jobless rate. But the state's October headline rate is being artificially overstated by a mandatory smoothing technique newly imposed on state unemployment data by the BLS to reduce volatility. Because of the smoothing, October's published 6.4 percent jobless rate continues to reflect the temporary impact of the state government shutdown in July. The unsmoothed rate, arguably a better reflection of the underlying month to month changes, fell to 6.0 percent during the month, a full 3 percentage points below the U.S. and a rate not observed since the peak of the financial crisis in October 2008.



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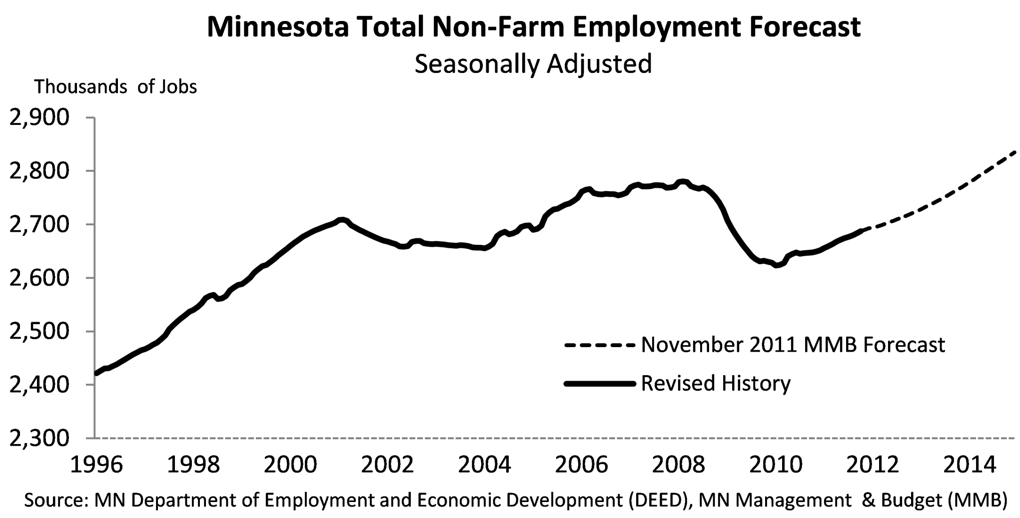
Even better, the recent drop in Minnesota's unemployment rate has resulted from household employment gains outpacing labor force growth, not from people growing discouraged and dropping out of the workforce. The labor force, for example, increased 0.3 percent the first 10 months of 2011 relative to a year earlier as household employment rose 1.1 percent. Although the household survey has a smaller sample size and is consequently more volatile, the fact that it is closely tracking the employer survey is further indication that the 3,400 jobs being added by businesses each month so far in 2011 are indeed enough to noticeably bring down the unemployment rate.

Despite those improvements, without meaningful progress in the national employment picture, it is unlikely the state will be able to markedly increase its current pace of job creation moving into 2012. A persistently high national unemployment rate means U.S. household finances continue to be stressed. That, in addition to stagnant wages, high debt burdens, depleted wealth, a discouraging labor market, and cautious consumption will continue to keep confidence low. These forces combine to create added uncertainty both nationally and in Minnesota. MMB's November 2011 forecast assumes labor market conditions will continue to improve into 2012, albeit at about the same pace as 2011. The number of jobs Minnesota employers add to their payrolls is forecast to average 2,300 a month in the first half of next year before picking up to over 3,500 a month by early 2013. Minnesota's labor market needs to produce an estimated 2,000 jobs a month to keep pace with population growth and new people entering the workforce. This means as perceptions of growing job opportunities continue to improve and previously discouraged workers continue to re-enter the workforce looking for full-employment, it is likely Minnesota's unemployment rate will remain near 6 percent for much of 2012. In the November 2011 forecast, the state does not regain pre-recession peak employment until 2014.

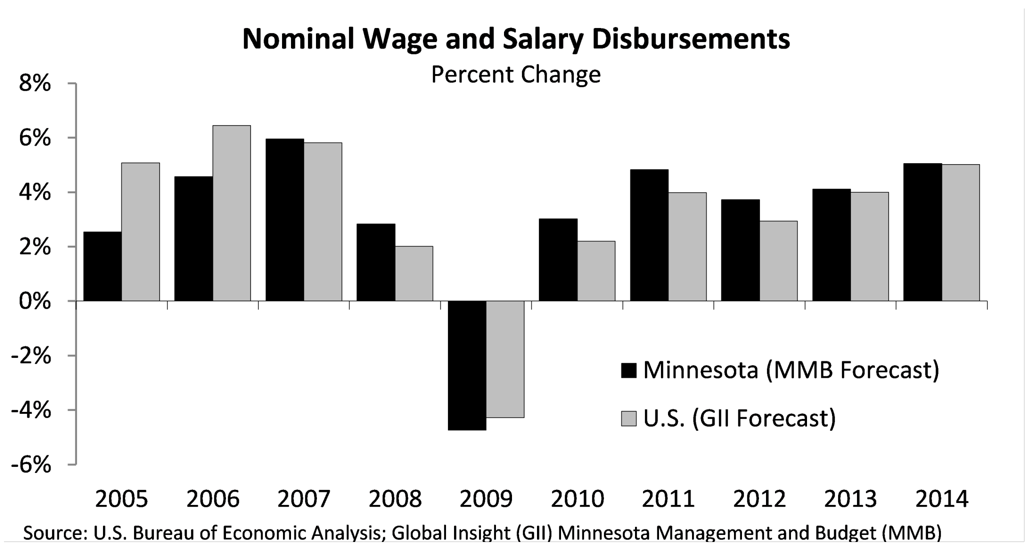


MMB's November 2011 forecast assumes labor market conditions will continue to improve into 2012, albeit at about the same pace as 2011. The state does not regain pre-recession peak employment until early-2014.

And, So Are Nominal Wages

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 nearly 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 largely as a function of employment, average wage growth, and hours worked. Therefore, tracking the direction of these three important indicators provides a useful account concerning the path of wage and salary income.

Employers remained cautious throughout much of 2010, waiting for assurance that the recovery was self-sustaining before committing to costly investments, such as hiring new employees. Indeed, Minnesota’s employment continued to fall, declining 0.5 percent from the year before, as businesses were turning to the less risky options of squeezing maximum productivity from their remaining workforce or increasing hours worked by existing staff. U.S. labor productivity, measured as output per hour of work, rose 4.1 percent in 2010, the strongest growth since 2002. But national productivity would have been higher if not for 0.6 percent rise in the average length of the work week in the U.S. According to DEED, Minnesota’s private hours grew at a faster pace of 1.0 percent during the year. Nonetheless, despite further job losses and a meager 1.9 percent gain in Minnesota’s private hourly compensation, it was this improvement in hours that MMB economists believe largely influenced the 3.0 percent total nominal wage and salary disbursement growth in 2010, outpacing the 2.2 percent wage growth the U.S. experienced during the year.



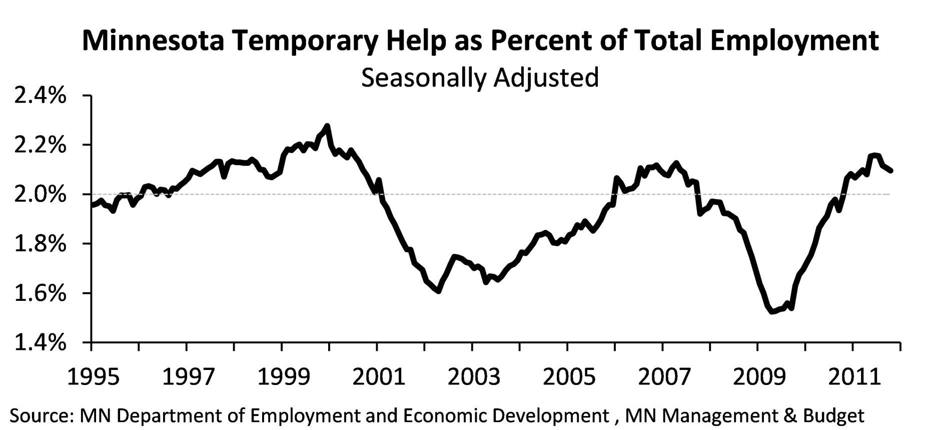
Despite further job losses and a meager 1.9 percent gain in Minnesota’s private hourly compensation in 2010, MMB economists believe it was the 1.0 percent rise in hours that largely influenced the 3.0 percent total nominal wage and salary disbursement growth, outpacing the 2.2 percent wage growth the U.S. experienced during the year.

In 2011, Minnesota's employment growth turned positive, the average length of the workweek continues to climb back toward pre-recession levels, and hourly compensation is unusually strong. According to DEED, private hourly earnings rose 3.2 percent in the first 10 months of 2011 compared with the same period a year earlier. Private hours are up an estimated 1.0 percent during that time. Nationally, average hourly earnings in the private sector are up only 2.1 percent and the average workweek increased 0.7 percent through October. Combined with a 1.3 percent forecast growth in employment, Minnesota nominal wage growth is again forecast to outperform the nation in 2011. Preliminary labor market data and income tax withholding receipts suggest nominal wage income will grow 4.8 percent this year, compared to a GII estimated 4.0 percent growth nationally.

As hours return to pre-recession levels in 2012, their contribution to wage gains will fade. Likewise, with the costs of labor expected to remain weak for several years due to higher unemployment and overall slack in the labor market, future wage growth will continue to depend on job creation. With employment expected to grow slightly faster than the U.S., Minnesota nominal wages are forecast to grow 3.7 percent in 2012 and 4.1 percent 2013, compared to GII estimated U.S. growth rates of 2.9 and 4.0 percent respectively. In 2014, both are forecast to grow 5.0 percent.

Leading Employment Indicators Back to Pre-Recession Peaks

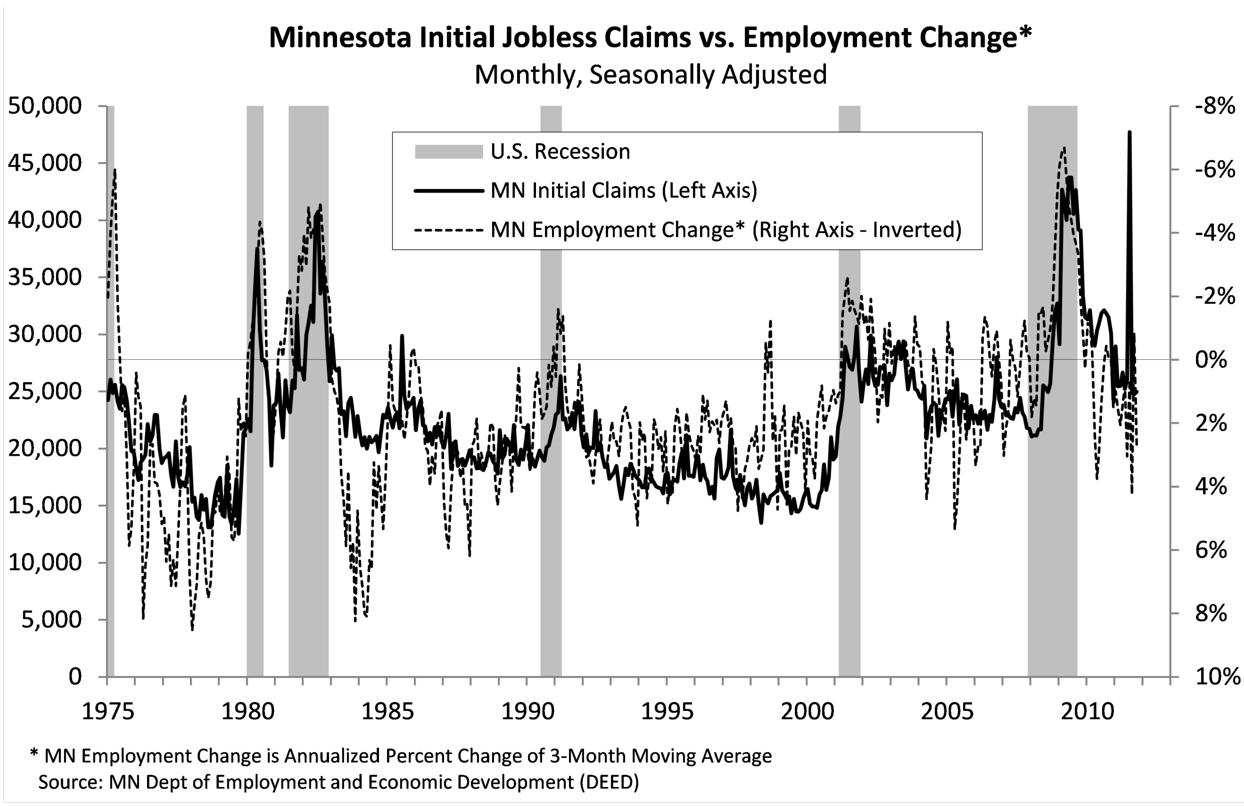
Leading employment indicators, such as average hours worked, temporary help employment, and job vacancies, are returning to levels not observed since before the recession. As expected, to meet growing demand during the recovery, businesses have opted to increase hours of existing staff and turn to more affordable temporary workers. Moreover, the strategy of squeezing maximum productivity from their remaining workforce appears to have reached a limit as hiring demand in Minnesota is on the rise.



Leading employment indicators, such as temporary help employment, are returning to levels not observed since before the recession. The percentage of temporary jobs relative to total employment in the state has risen back above 2 percent, a share consistent with a normal overall job market.

According to DEED, the average workweek in the private sector will increase in 2011 for the second consecutive year, reaching more normal, pre-recession levels. Likewise, the percentage of temporary jobs relative to total employment in the state has risen back above 2 percent, a share consistent with a normal overall job market. Finally, in early September, DEED reported that the number of job vacancies in Minnesota rose over 32 percent in the second quarter of 2011 compared to the same period a year earlier. Employers registered 54,700 openings, the most since the second quarter of 2007. That equates to 3.6 unemployed people for each vacancy, the lowest ratio observed since the spring quarter of 2008.

Also considered a leading indicator of employment growth, Minnesota's initial jobless claims are functioning as a useful barometer of Minnesota's short-term labor market trends. According to DEED, the number of seasonally adjusted first time filers for unemployment insurance benefits spiked in July due to the state government shutdown, but have held below 25,000 for three consecutive months thereafter. This is down from a recessionary peak of nearly 44,000 during the summer of 2009 and back to levels not experienced since just before the financial crisis in mid-2008.



The number of seasonally adjusted first time filers for unemployment insurance benefits spiked in July due to the state government shutdown, but have held below 25,000 for three consecutive months thereafter. With initial claims recently falling to levels statistically linked with better job growth, this is an indicator MMB economists will be watching very closely over the next three to six months.

Historical evidence suggests that once Minnesota’s seasonally adjusted monthly initial claims drop to near 28,000, unemployment will stabilize and consistent month-to-month job losses will fade. Furthermore, when this indicator falls below 25,000 for an extended period, this indicates that employer confidence is improving and that hiring and investment in the state are turning up. Following the 2001 recession, for example, monthly initial jobless benefits in the state dropped below 28,000 during the early months of 2002 and month-to-month job losses faded later that spring. Initial claims, however, consistently remained over 26,000 until the fall of 2003 in part due to what is believed to be the lingering uncertainty resulting from the Iraq War. It wasn’t until monthly claims fell below 25,000 at the end of the year and sank to near 23,500 by mid-2004 that meaningful job growth accelerated in Minnesota. Needless to say, with initial claims for unemployment insurance recently falling to levels statistically linked with better job growth, this is an indicator MMB economists will be watching very closely over the next three to six months.

A Revised Forecast

Forecasts for employment and wages have been revised based on recent Minnesota-specific information and GII's November 2011 baseline. The baseline was used to drive a newly re-estimated MMB model of the Minnesota economy.

Each year, the Current Employment Statistics (CES) survey employment estimates are benchmarked to comprehensive counts of employment for the month of March. These counts are derived from state unemployment insurance (UI) tax records, or Quarterly Census of Employment and Wages (QCEW) data published by DEED. Based on the QCEW for first quarter 2011, the November 2011 forecast assumes current employment data since the beginning of the year will be revised upward 0.5 percent when annual benchmark revisions to Minnesota’s monthly CES are released in the spring. This is the state’s equivalent to the Bureau of Labor Statistics’ (BLS) preliminary benchmark revision estimate, released in late September, which similarly suggests an upward adjustment to March 2011 U.S. total nonfarm employment of 0.1 percent.

The November 2011 forecast for Minnesota’s economy projects the state’s employment rebound in 2012 will remain slow. After declining 3.9 percent in 2009 from a year earlier and falling an additional 0.5 percent in 2010, Minnesota employment is forecast to grow 1.3 percent in 2011. The state gains 1.3 percent in 2012 before job growth accelerates to 1.6 percent in 2013 and 2.0 percent in 2014. The depth of job declines that occurred in late 2008 and 2009 are so extensive that MMB economists estimate it will take until early 2014 before Minnesota employment regains the 2.770 million high reached before the recession began in late 2007.

Minnesota Outlook Compared to the U.S.

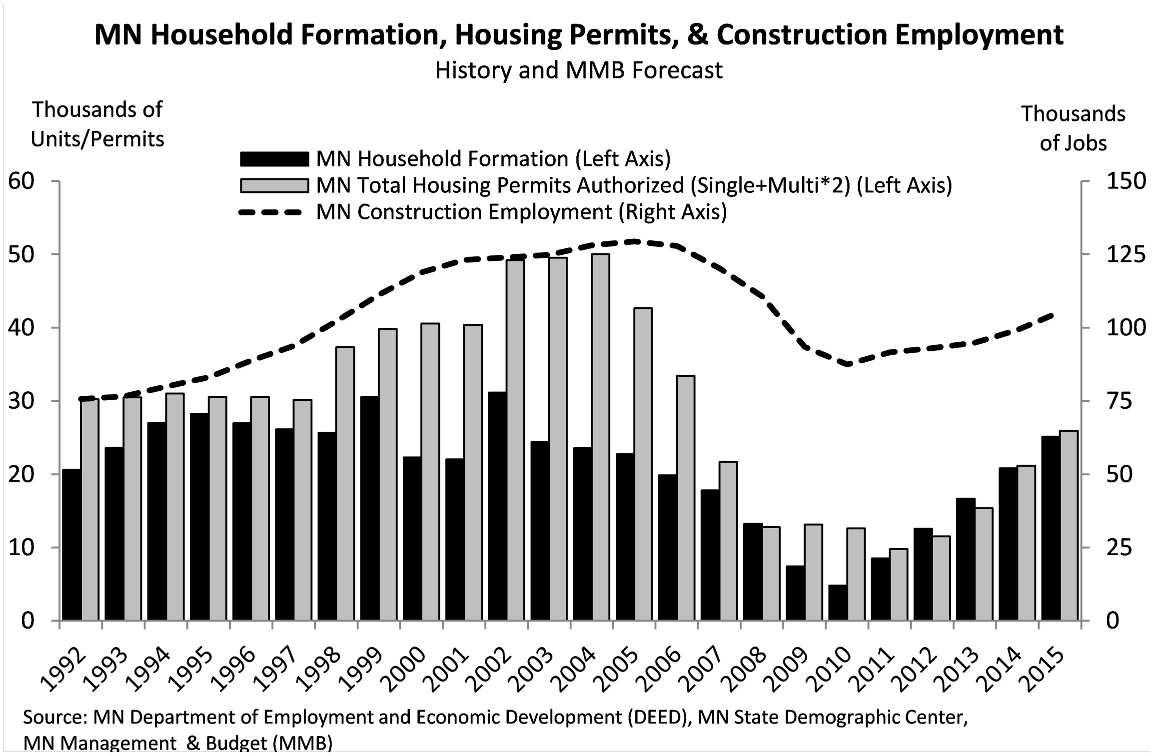
(Calendar Year Percent Change)

	2010	2011	2012	2013	2014
Non-Farm Employment					
Minnesota					
November 2011	-0.5	1.3	1.3	1.6	2.0
February 2011	-0.7	1.0	1.9	2.0	N/A
United States					
November 2011	-0.7	1.0	0.9	1.4	2.0
February 2011	-0.7	1.2	2.0	2.0	N/A
Wage and Salary Income					
Minnesota					
November 2011	3.0	4.8	3.7	4.1	5.0
February 2011	3.9	3.8	4.7	4.7	N/A
United States					
November 2011	2.2	4.0	2.9	4.0	5.0
February 2011	2.1	4.6	4.9	4.8	N/A

Total nominal wage and salary disbursements in Minnesota fell a revised 4.7 percent in 2009 from a year earlier according to the BEA, the first annual decline in this component of state personal income since WWII. Total nominal wages regained 3.0 percent in 2010 and preliminary labor market data and income tax withholding collections suggests income will have grown 4.8 percent in 2011. Nominal wages are forecast to grow 3.7 percent in 2012, before accelerating to 4.1 percent 2013 and 5.0 percent growth in 2013.

Residential home construction continues to remain a drag on Minnesota's outlook. In the November 2011 forecast, the construction industry is forecast to add about 1,400 jobs between the end of 2011 and early 2013, before accelerating in mid-to-late 2013 and 2014. A lasting supply of excess homes built during the housing boom, a slowdown in household formation due to the recession, and weak demand for building activity in 2012 and early 2013 are principal assumptions behind this outlook.

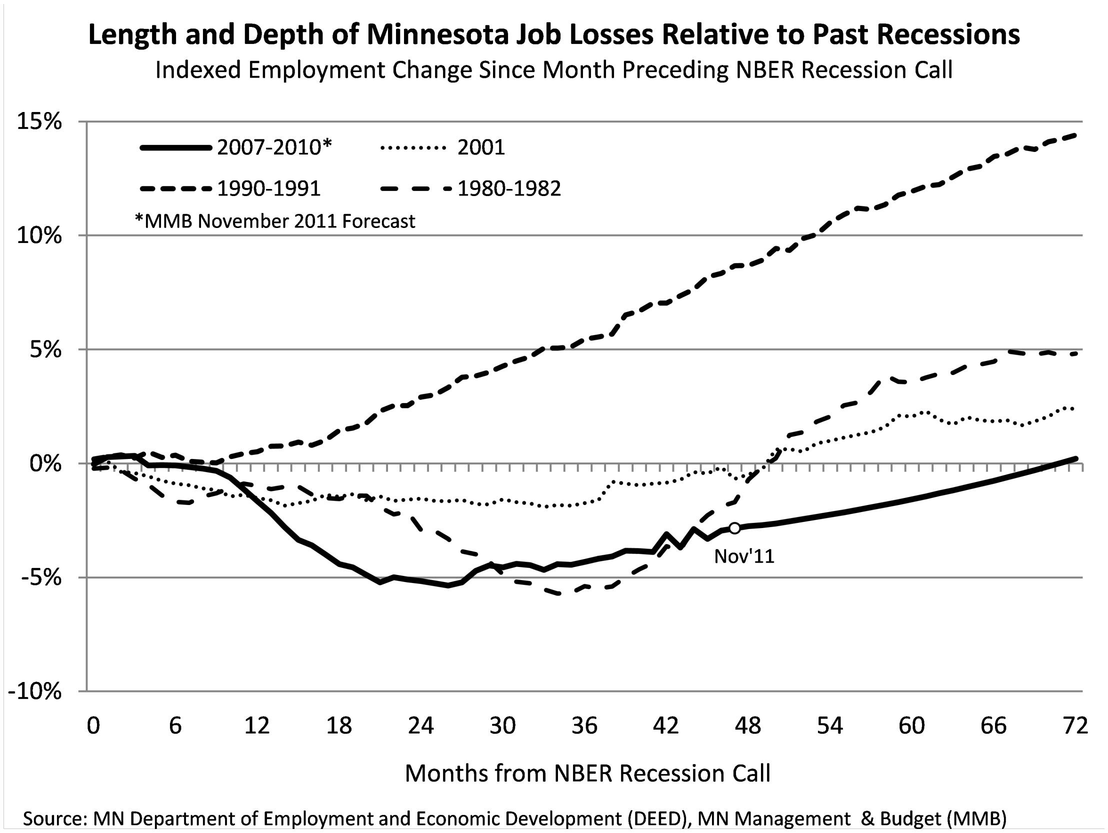
In a normal housing environment, underlying demand for new home construction consists of replacement demand from fires, natural disasters, or old age, demand for second homes, and increases in the number of households. Between 2000 and 2005, however, low mortgage qualification requirements and growing 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 homes built during the housing boom. And, the only sustainable way to work through these excesses is to build new homes at a slower pace than households are being formed.



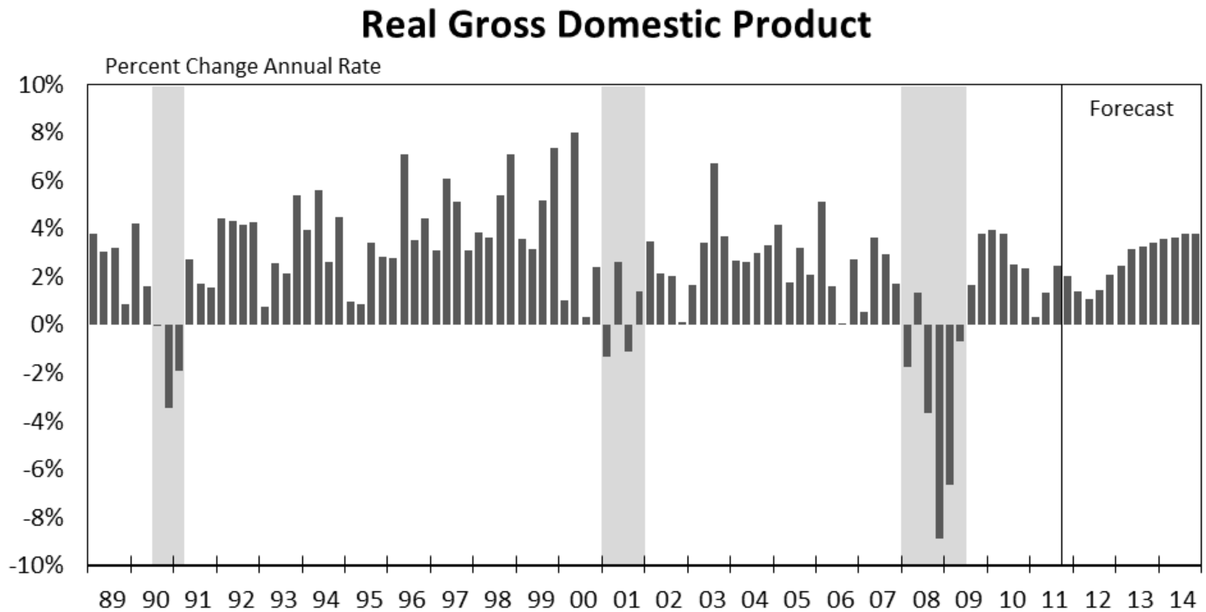
A lasting supply of excess homes built during the housing boom, a slowdown in household formation due to the recession, and continued weak demand for building activity in 2012 and early 2013 are principal assumptions behind the November 2011 outlook for construction employment.

Already, home building activity has been depressed in Minnesota for over five years. Despite this, however, 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 so far that it remains very difficult for the state's housing market to work through excess units created during the housing boom. While improving job growth and increasing household formation rates will help absorb most, if not all, excesses into the market by 2014, there will continue to be very little demand for new residential home construction in 2012 and early 2013. As a result, after nearly six 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 2012 before beginning a modest recovery in early-to-mid 2013. 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 and 2012 as a result of weaker labor market conditions and the housing downturn continues to deepen later into 2013 it is unlikely that Minnesota's economy will perform as forecast.

The forecast assumes that GII's November 2011 baseline materializes. Any unanticipated adverse developments in the U.S. economy, however, such as further deterioration in the financial markets, failure to extend the 2 percent payroll tax holiday, weaker business investment, weaker home sales, a rapid change in price levels, or if confidence remains depressed and consumer spending proceeds more slowly than GII assumes, will have unfavorable effects on the Minnesota economy.

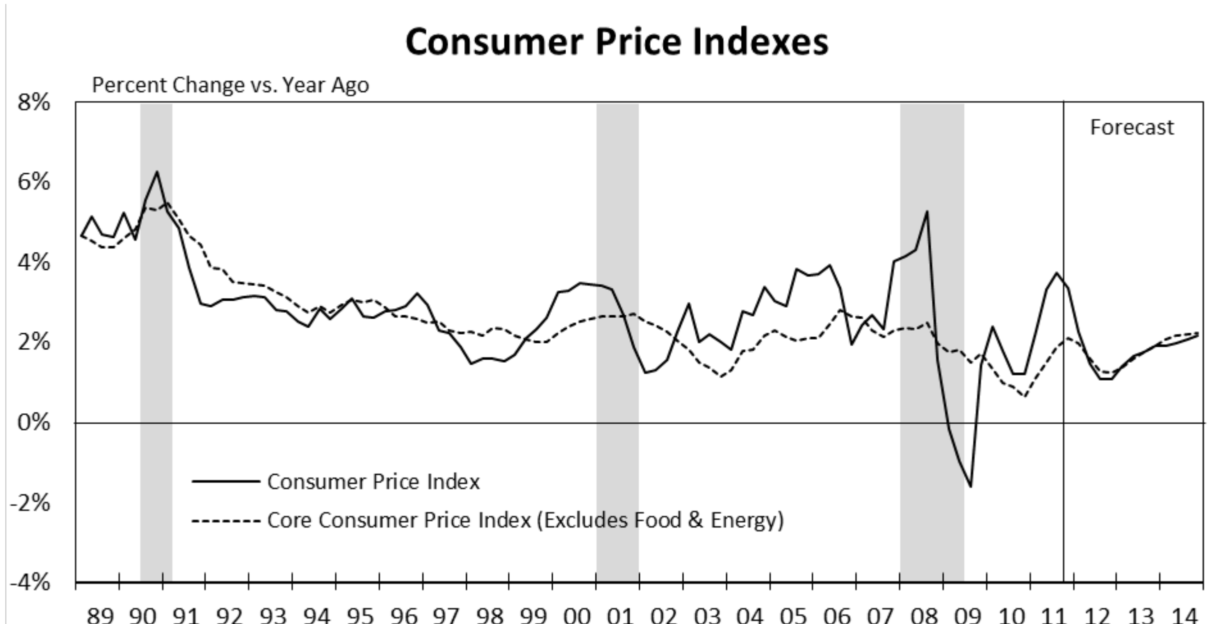


The depth of job declines that occurred in between late 2008 and the middle of 2010 are so extensive that MMB economists estimate it will likely take until early-2014 before Minnesota employment regains the 2.77 million high reached before the recession began in late 2007.



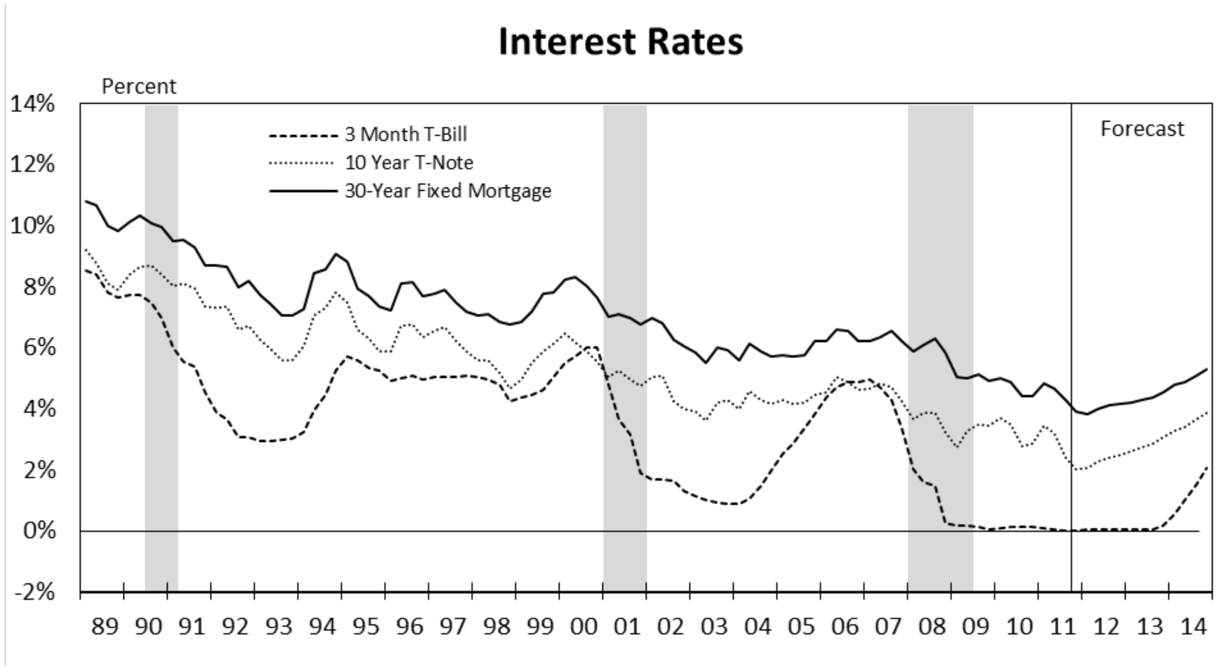
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

Economic growth was slower during the first half of 2011 than anticipated in February, with real GDP increasing at an average annual rate of less than 1 percent. Growth in the third quarter was better than feared, but GII expects real GDP to slip below 2 percent again the first half of 2012.



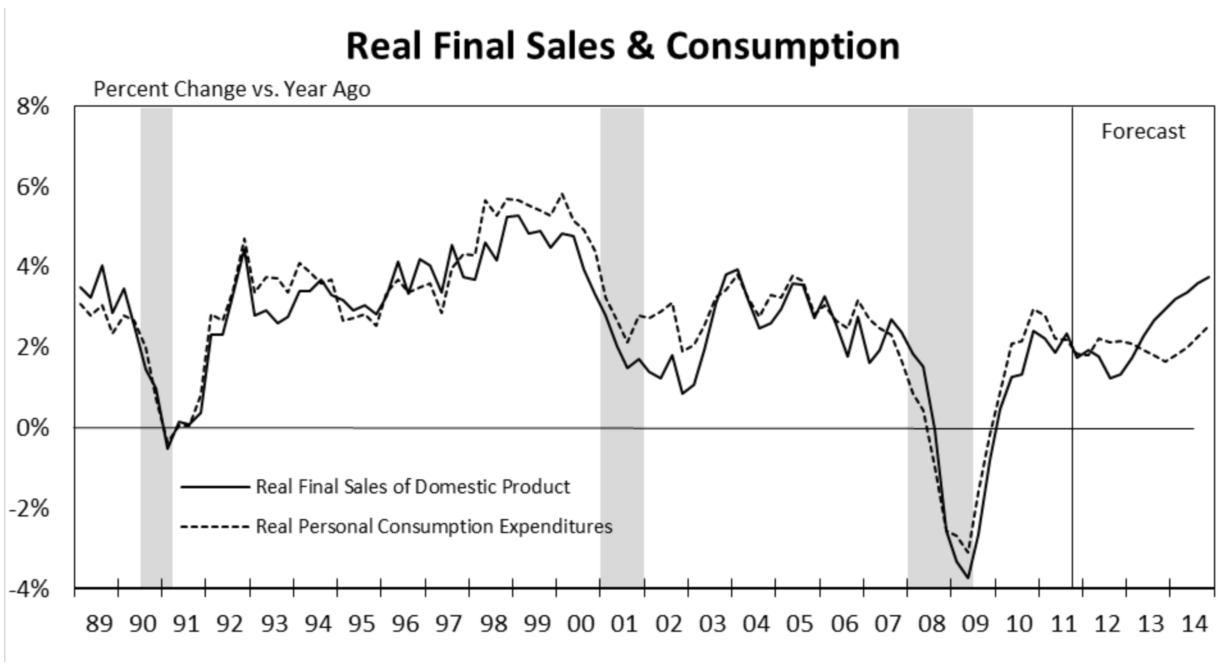
Source: Bureau of Labor Statistics, National Bureau of Economic Research, and Global Insight

While prices increased sharply earlier in the year, more recent evidence of weaker economic growth and mounting anxiety over the European sovereign debt crisis has helped ease inflation concerns. With less price pressure, GII assumes CPI inflation will fall back to 1.5 percent in 2012.



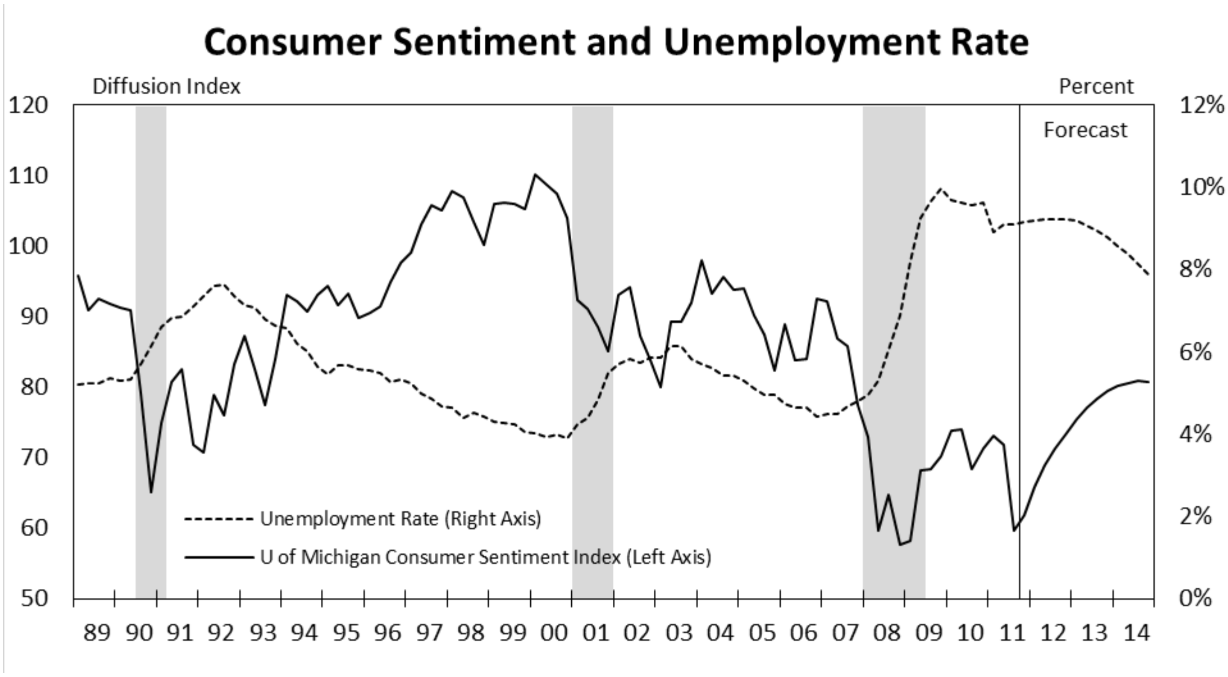
Source: Federal Reserve Board, Freddie Mac, National Bureau of Economic Research, and Global Insight

In August, the FOMC reaffirmed commitment to its low interest rate policy by stating it expects to keep the federal funds target in the 0.0 to 0.25 percent range until at least mid-2013. Likewise, GII foresees ten-year Treasury yields in the 2.0 to 2.5 percent range through the end of 2012.



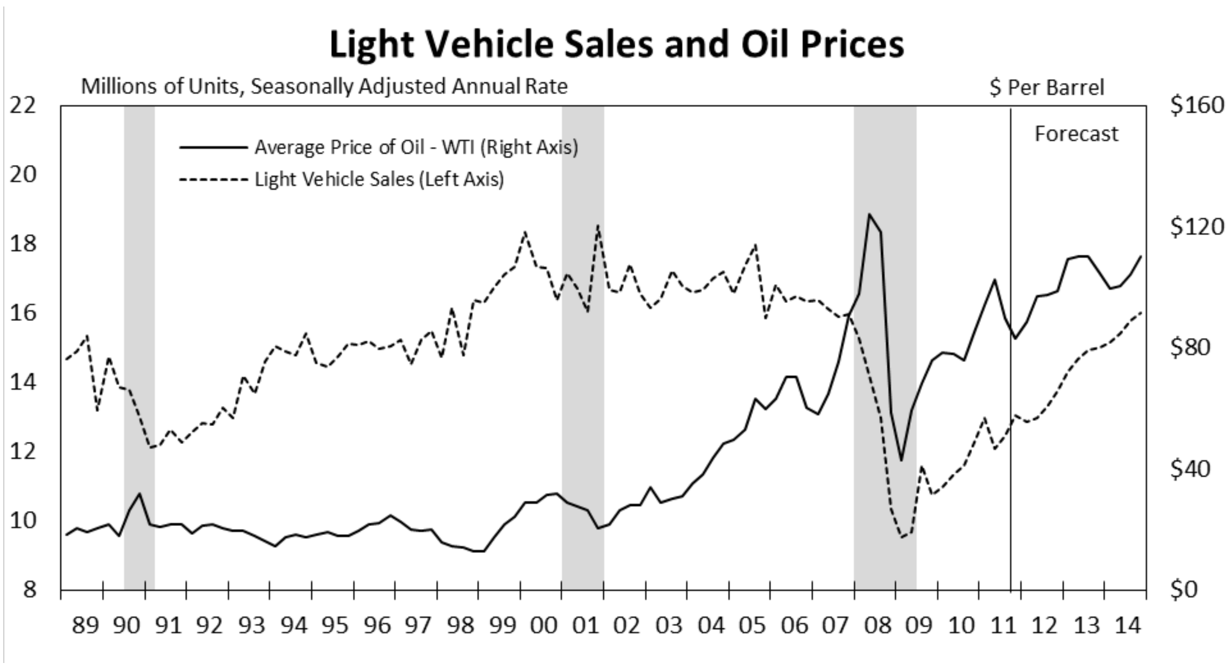
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

Despite stagnant wage growth and confidence at recession levels, real consumer spending grew at a resilient 2.4 percent annual pace in the third quarter of 2011. GII expects real spending growth of 2.3 percent in 2011, up from 2.0 percent in 2010, but not a powerful driver of recovery.



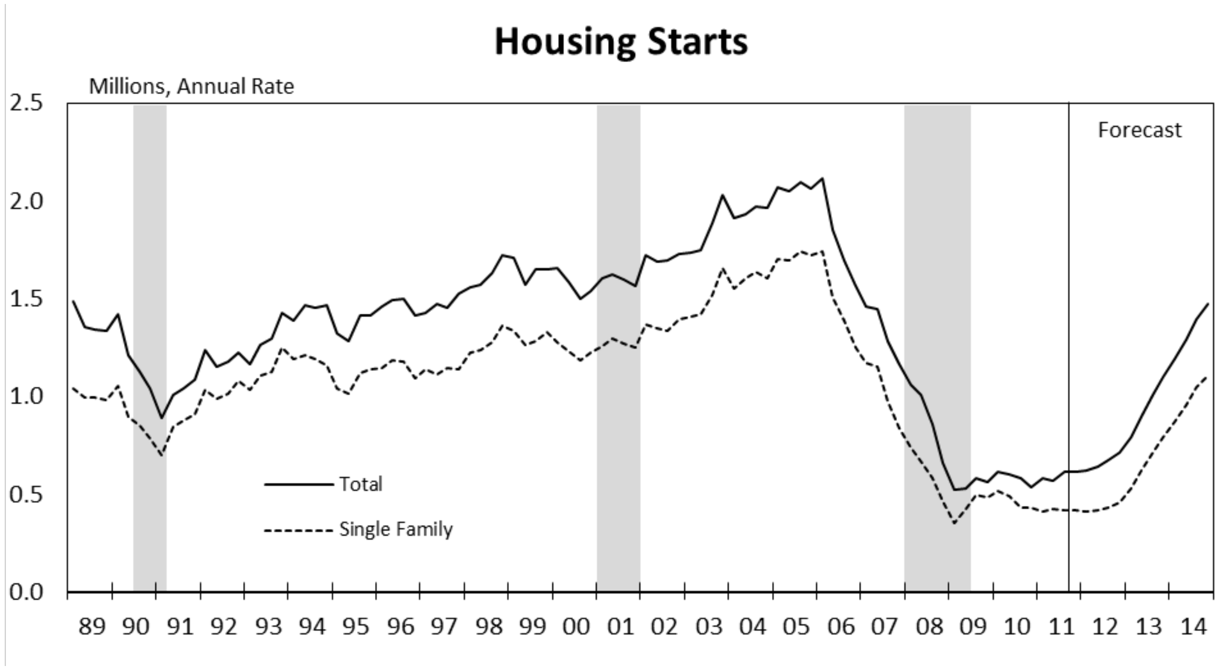
Source: University of Michigan, Bureau of Labor Statistics, National Bureau of Economic Research, and Global Insight

Recession risks are still uncomfortably high largely because confidence remains so low. Consumer and business confidence in the U.S. political process hit new lows when the artificial debt ceiling crisis took the country to the brink of default.



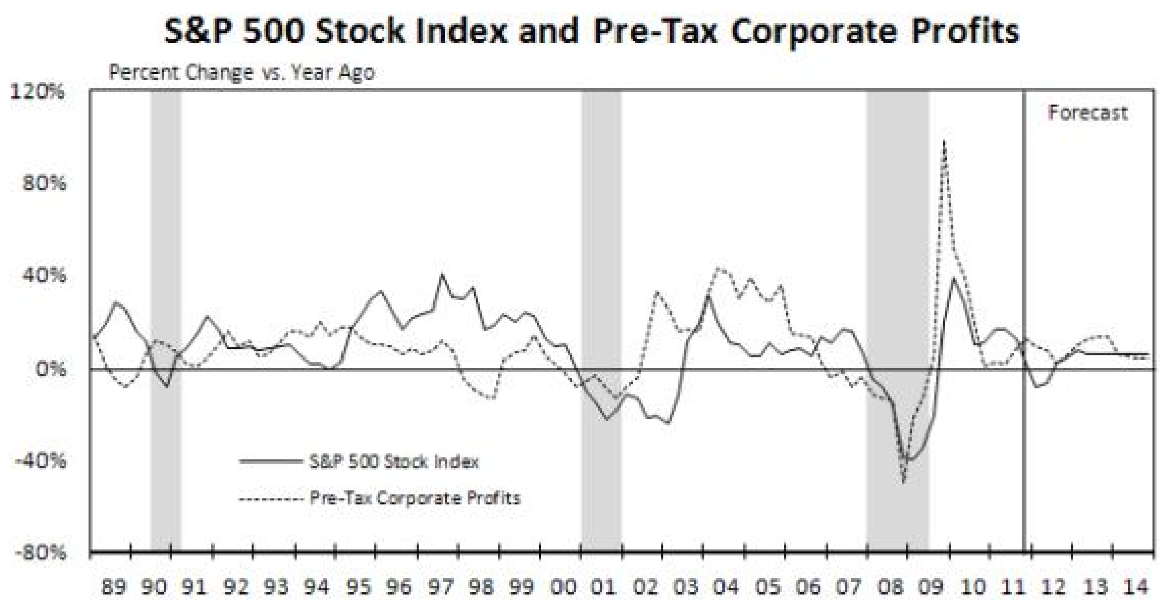
Source: Bureau of Economic Analysis, Investors' Business Daily, National Bureau of Economic Research, and Global Insight

GII expects gasoline prices to average $3.42 per gallon in the fourth quarter of 2011, well below last summer's peak of over $4, but still 50 cents higher than a year earlier.



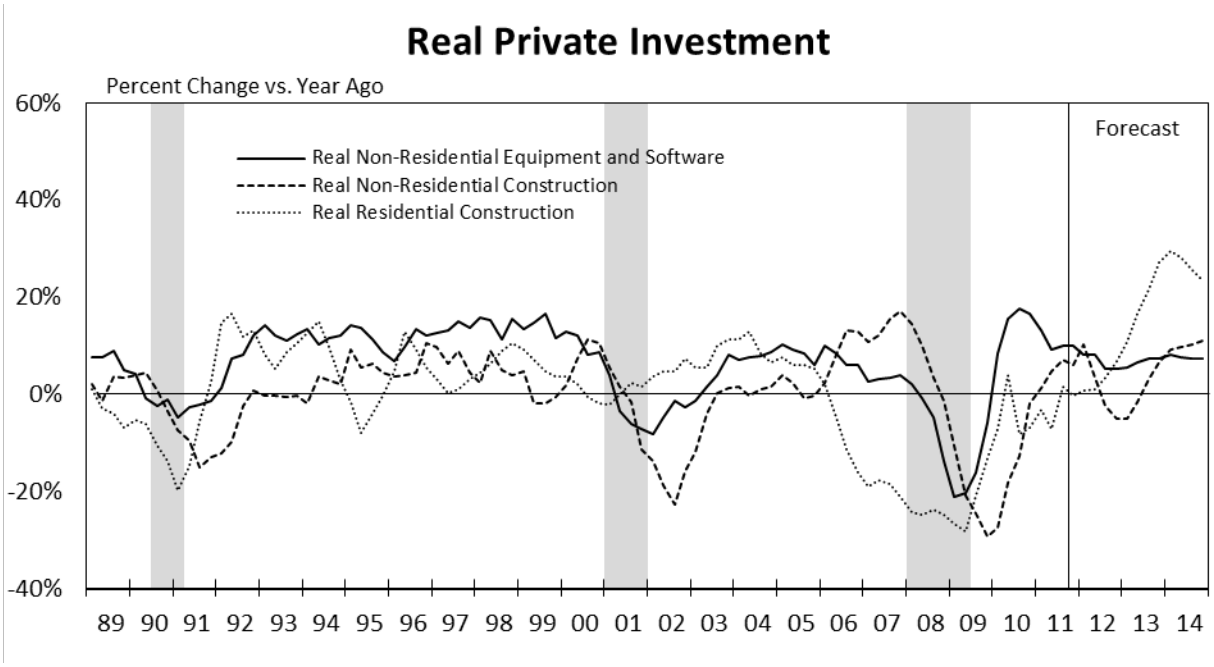
Source: U.S. Census Bureau, National Bureau of Economic Research, and Global Insight

Housing is still very weak, but pent-up demand is building as people have chosen to share housing costs with friends and relatives as a response to tough economic conditions. GII expects only modest improvement in housing starts in 2012, concentrated mainly in the multi-family sector.



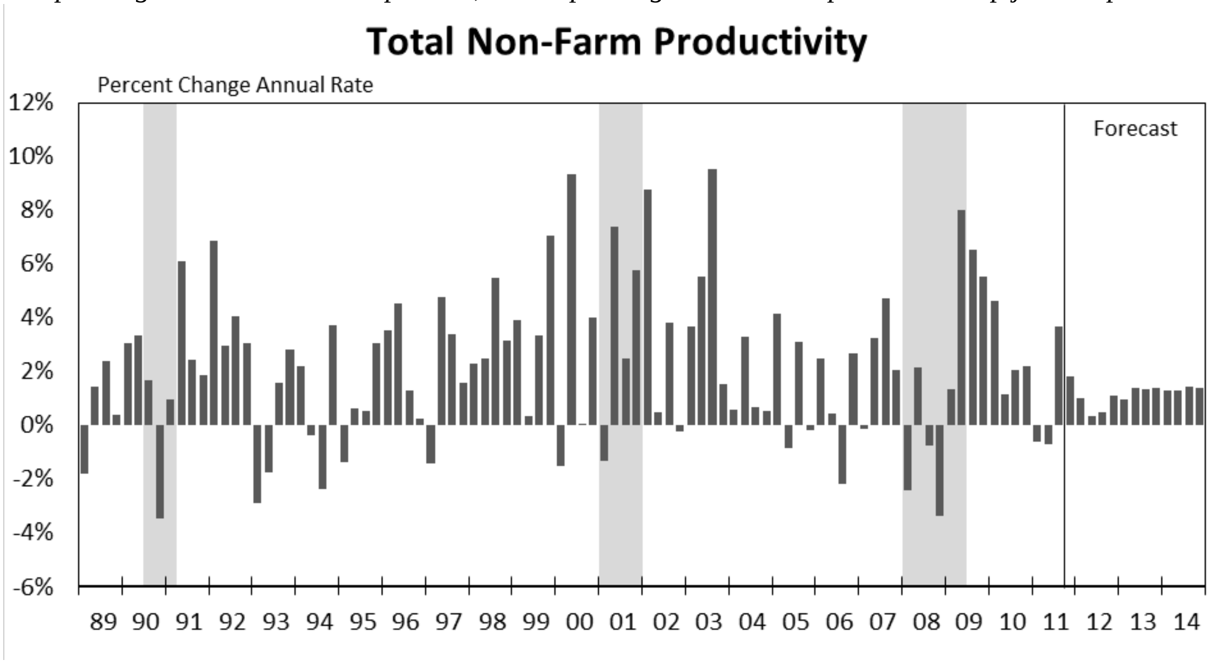
Source: Standard and Poor's, National Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

Companies remain flush with cash, corporate balance sheets have largely been restored to health, and businesses are more profitable than ever. U.S. corporations, for example, reported an annualized $1.977 trillion in profit in the third quarter of 2011, an all-time high.



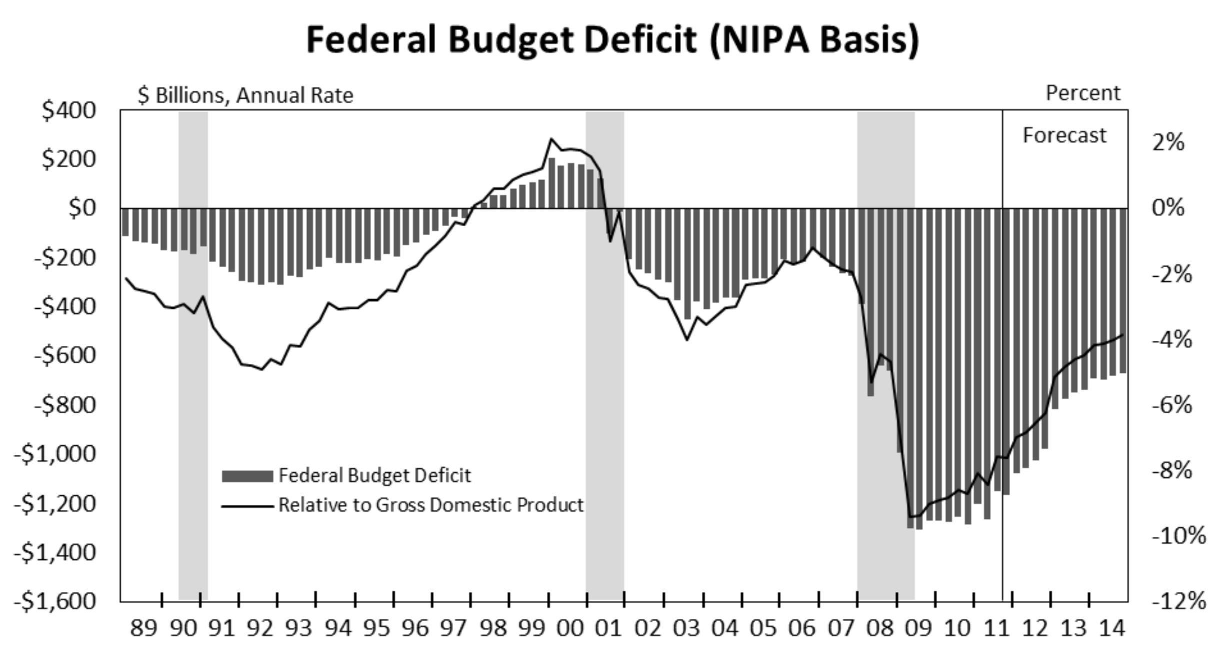
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

Businesses have found more ways to extract productivity by addressing replacement needs neglected during the recession. Since the recovery began business equipment and software spending has increased 28.2 percent, while spending on labor compensation is up just 5.6 percent.



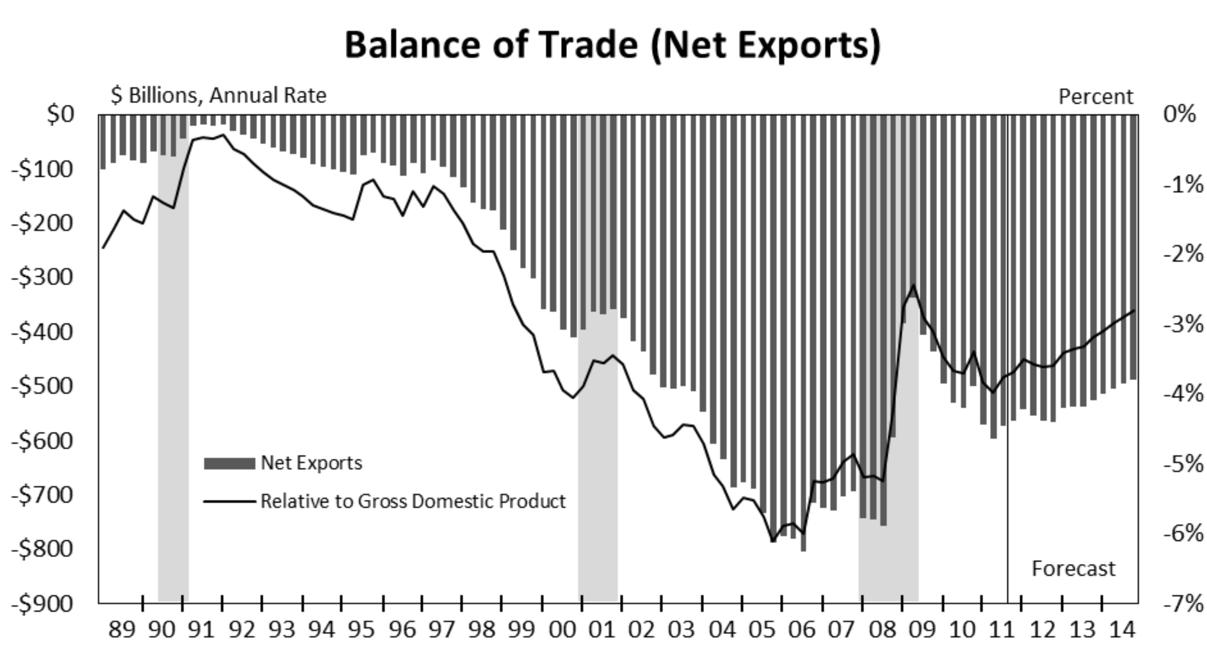
Source: Bureau of Labor Statistics, National Bureau of Economic Research, and Global Insight

Without a clear and sustainable outlook for final demand, employers continue to hold down payrolls by squeezing more output from their existing workforce. The U.S. economy is now producing more than it did prior to the recession, but with 6.5 million fewer workers.



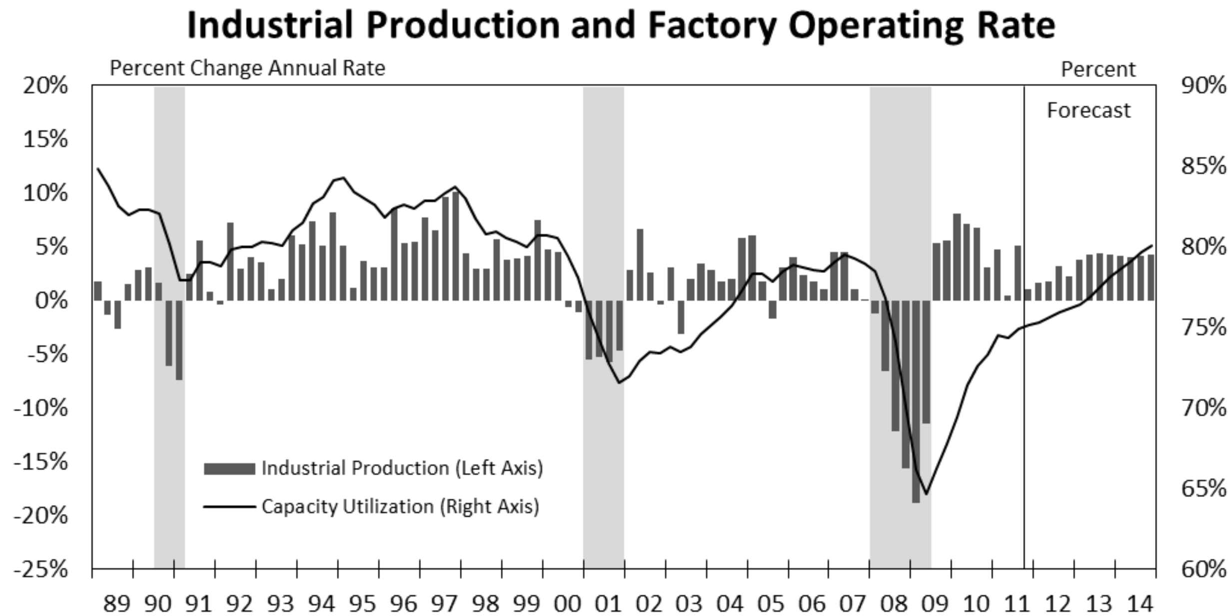
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

The federal deficit came in at $1.3 trillion in FY2011, or 8.7 percent of GDP, roughly the same as FY2010. Despite assuming extension of the existing payroll tax cut and emergency unemployment insurance benefits for 2012, GII expects the FY2012 deficit moderates to just under $1.1 trillion.



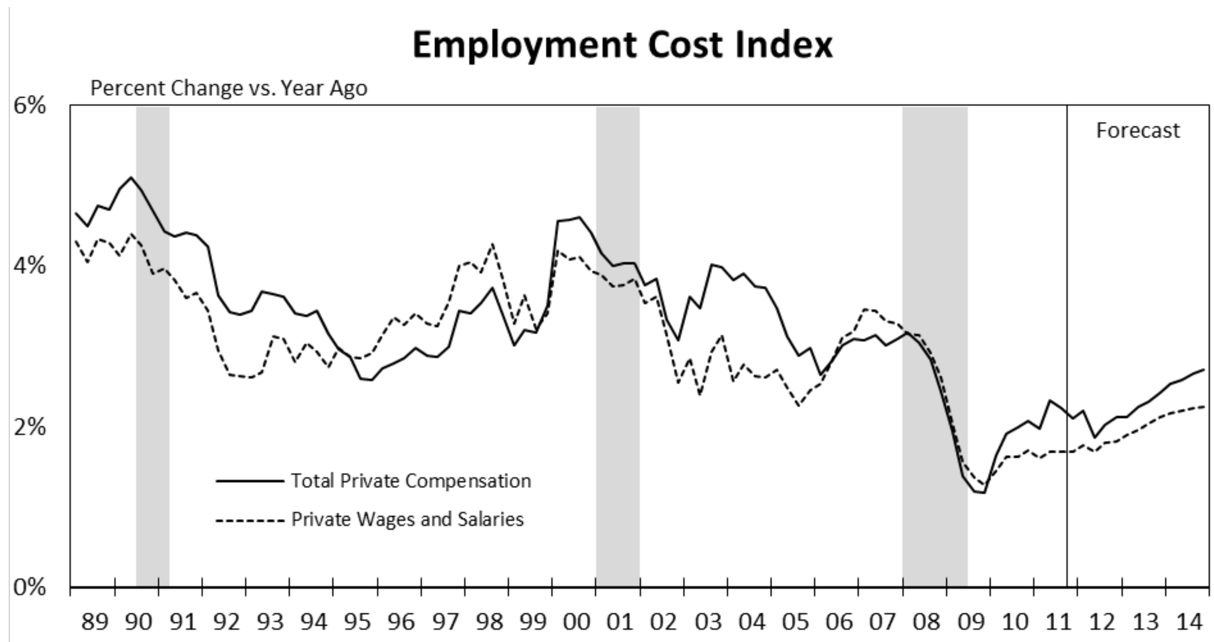
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

GII expects the Eurozone to fall into recession beginning in the fourth quarter of 2011. This is bad news for U.S. export growth, which decelerates from 6.6 percent growth in 2011 to 3.4 percent in 2012.



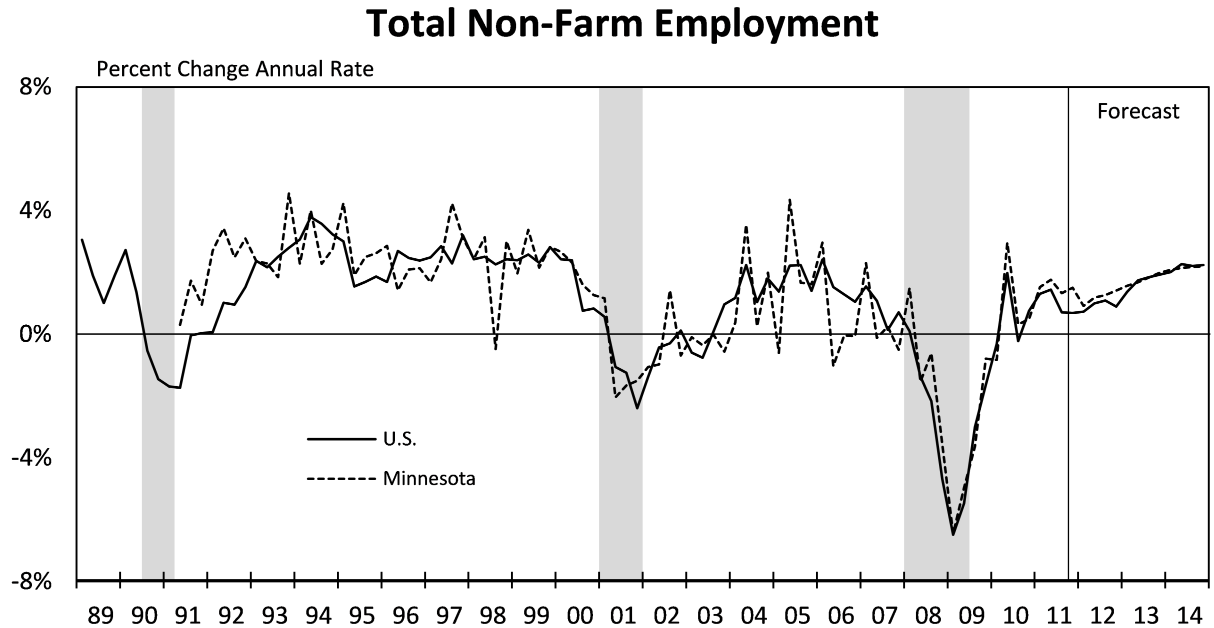
Source: Federal Reserve Board, National Bureau of Economic Research, and Global Insight

Business activity has been an important source of economic strength during the recovery. Industrial output has risen 13 percent above its trough in June 2009 and manufacturers are operating closer to full capacity than a year ago.



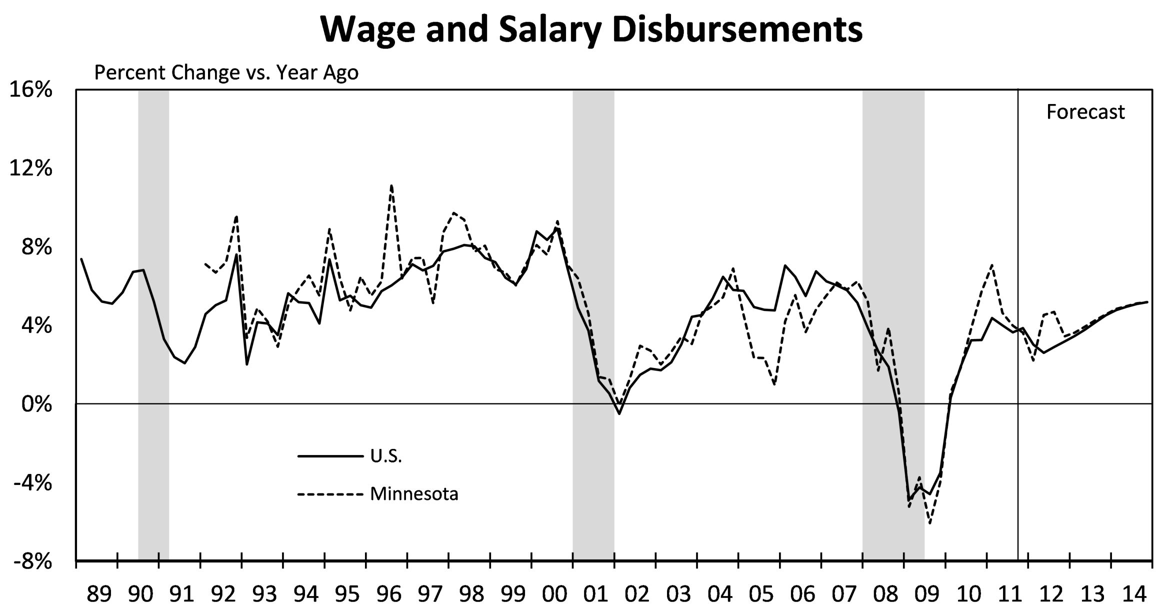
Source: Bureau of Labor Statistics, National Bureau of Economic Research, and Global Insight

It will be difficult for consumers to sustain current rates of spending without strong improvements to wage growth. According to a recent Reuters/University of Michigan sentiment survey, however, the majority of households surveyed expect declines in their real incomes during the year ahead.



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

The November 2011 forecast for Minnesota's economy projects the state's employment rebound will remain slow. After declining a revised 0.5 percent in 2010, the state's employment is forecast to rise 1.3 percent in 2011, before growing the same rate in 2012 and 1.6 percent in 2013.



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

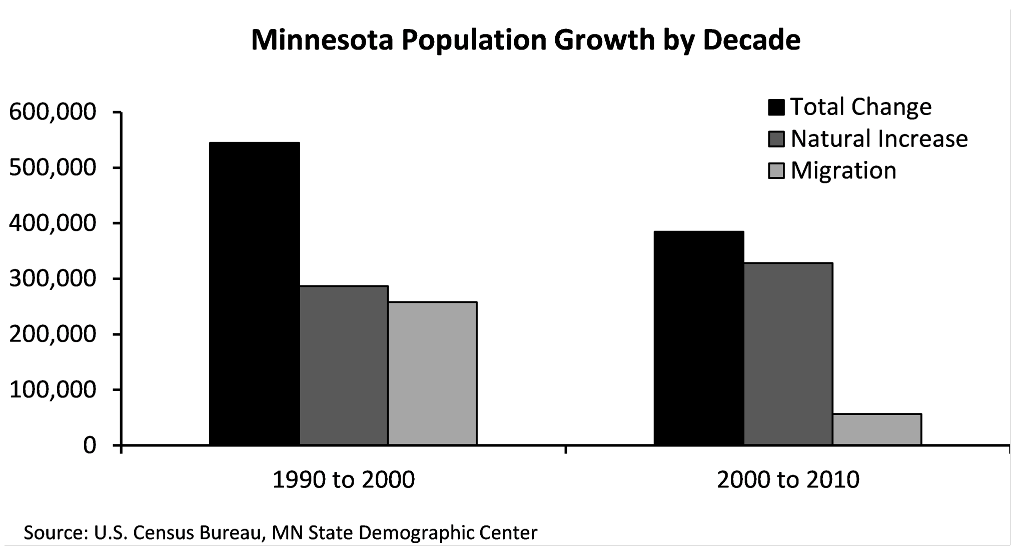
Minnesota's nominal wage and salary income grew 3.0 percent in 2010. In 2011, preliminary labor market data and income tax withholding collections suggests nominal wages will climb 4.8 percent before slowing to 3.7 percent in 2012 and 4.1 percent in 2013.

MINNESOTA DEMOGRAPHIC OUTLOOK

New census data is pointing to several important ways that Minnesota has changed over the past decade. The decade of the 2000s saw a slower rate of household formation, more people living in multi-generational households, and a slowing of migration into the state. Through migration, Minnesota gained residents with low levels of educational attainment, as well as those with college and graduate degrees. Minnesota's population today is older and more diverse than in years past. With the aging of the population, the number of people retiring has begun to accelerate and this trend is expected to continue for many years to come. As racial and ethnic diversity continues to increase in Minnesota, the academic achievement gap across racial groups remains a matter of concern. Each of these population trends has important implications for the future economic vitality of the state.

Population Change and the 2010 Census

From 2000 to 2010, Minnesota added 384,000 residents, reaching a total population of 5.3 million. The population growth rate was 7.8 percent, compared with a 12.4 percent rate during the 1990s. Most of the growth from 2000 to 2010 was due to natural increase, the difference between births and deaths adding 327,000, while migration added 56,600. The primary difference between last decade and the 1990s was the role of migration in growth. In the 1990s, Minnesota added 257,900 residents through migration. Minnesota's population growth ranked it 21st in the nation in total population added and 26th in growth rate. Minnesota and South Dakota continued to lead the Northeast and Midwest portions of the nation in growth rate. Most of the national growth continues to be in the Sunbelt states.



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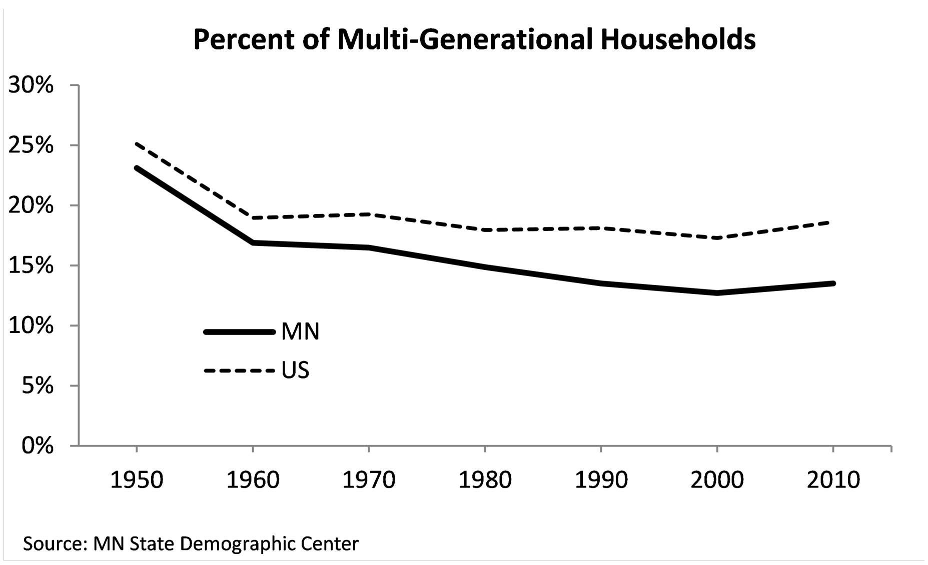
Household Formation Has Slowed

New household formation in Minnesota slowed in 2010, continuing a trend that began mid-decade with the economic downturn. There are a number of factors that influence how quickly households are formed. New households form when adult children move out of their parents' homes, when couples separate, and when individuals living together choose to live apart. Similarly, the number of households declines when two established households combine, either because they are forming a new family or they are choosing to share costs. The number of individuals and families migrating into and out of the state each year also helps determine how many additional households will be formed. Each of these life decisions are impacted by the economic resources of individuals. Under difficult economic circumstances the formation of new households is delayed and the consolidation of households is expedited.

Average household size increased between 2009 and 2010, marking the first rise in household size in decades. Increasingly, people have chosen to form new households or to share housing costs with friends and relatives as a response to tough economic conditions. Multigenerational households, defined as those containing two adult generations, a skipped generation, or three generations, have become more common over the past decade, both in the Minnesota and nationally. This is a reversal of a long-term trend toward a preference toward single-generation households. While people of all ages are now living in larger households than a decade ago, the increase among young adults has been most dramatic. In 2010, more than half of all 18-24 year-olds lived in multigenerational households. Most lived in their parents' households, a trend that has been on the rise for the past several decades.



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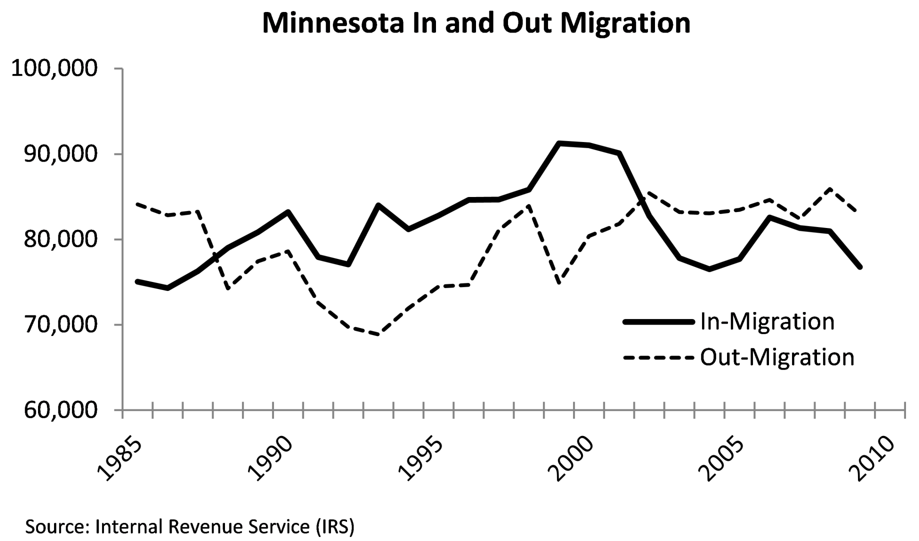
Migration and Population Growth

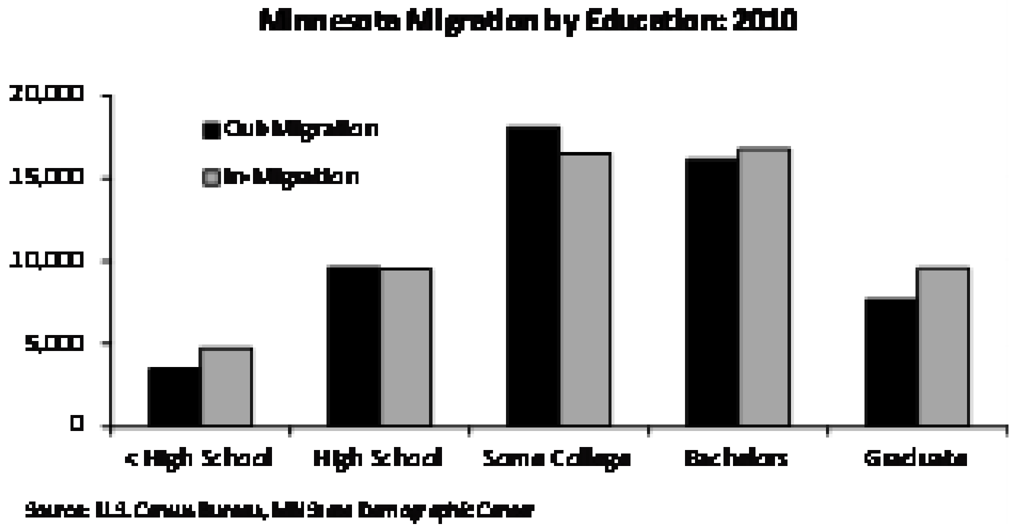
Migration is a major factor in year-to-year population growth. Natural increase tends to change only slowly, but migration can change relatively quickly. Based on total dependents listed on Internal Revenue Service (IRS) matched filer data, Minnesota saw a drop in in-migrants from 2000 to 2004, and has remained at lower levels since. Out-migrants, however, increased over levels experienced in the 1990s.



Based on total dependents listed on IRS matched filer data, Minnesota saw a drop in in-migrants from 2000 to 2004, and has remained at lower levels since. Out-migrants, however, increased over levels experienced in the 1990s.

The IRS matched filer data is useful in understanding annual changes in migration streams, however, it does not account for people who did not file a federal tax form in either the first or second year and it does not account for changes in filer status that might make identification difficult, such as a change from filing separately to filing jointly. Another source of migration data is the American Community Survey (ACS), but that has only been fully implemented since 2006, so there is a limited times series. The ACS data contains more information on the social and economic characteristics of migrants but less geographic detail on an annual basis. The 2010 ACS estimates Minnesota had 91,800 people move into the state from other states and 25,400 from other countries between 2009 and 2010, for a total of 117,200 moving into the state. At the same time, 104,500 moved out of the state.

Approximately two-thirds of all migrants, in and out, are between the ages of 18 and 44 and much migration relates to jobs and higher education. Most migrants have at least some college. Minnesota tends to gain migrants with a college degree or more. The state also typically has more in-migrants with less than a high school diploma. Analysis of education attainment typically looks only at the 25 and older population under the assumption that by that age, most people have completed their education.



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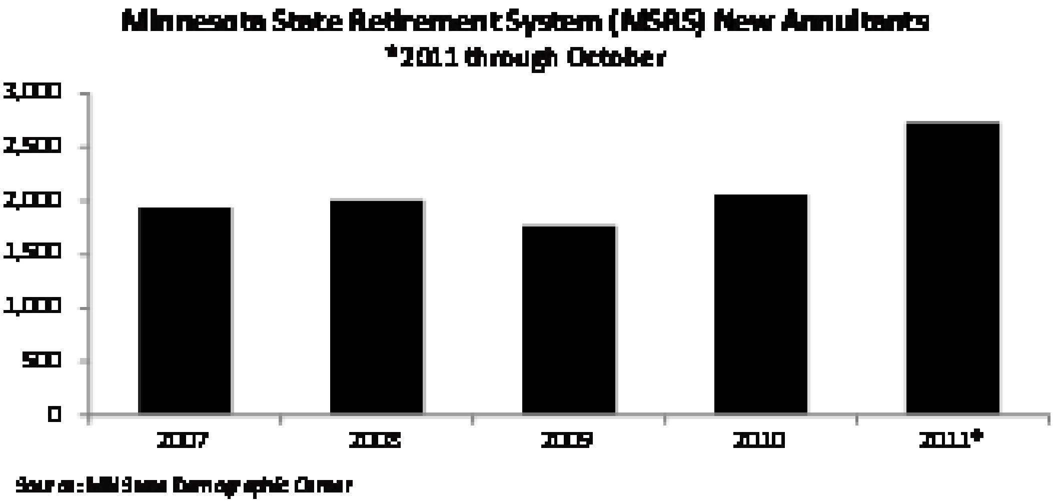
Retirement and Retirement Age

The recession saw a sharp increase in the number of new retirees, measured by the monthly number of new retired worker annuitants. At least some workers had little choice but to retire and initiate their Social Security payments with rising unemployment and related economic issues in 2008 and 2009. However, a large portion of the remaining workforce is in their pre-retirement years, indicating that retirements will continue to increase throughout the decade. The number of new retirees in 2018 is projected to be 38 percent larger than in 2007, before the recession.

The government workforce is generally older than the private sector and is also experiencing rapid increases in the number of retirees. This year, the number of Minnesota State Retirement System (MSRS) new annuitants exceeded the 2010 total by July. Based on data through October, 2011 will be a record year for retirements from Minnesota state government. Unlike the national picture, state government retirements did not spike in 2008 and actually declined in 2009. This year could see as much as a 50 percent increase over 2010, the previous record year.

Is the retirement age increasing? Yes and no. Workers have long indicated a desire to stay in the workforce longer, but the recession appears to have encouraged some to realize this desire, perhaps not for positive reasons. Retirement savings balances were substantially impacted by equity market declines in 2008 and 2009 and exceptionally low rates of return on fixed income investments. Income from bonds, CDs and similar instruments have been substantially impacted by Federal Reserve policies, with interest, dividend and rent income declining by approximately $2,000 per year for people in their early 60s to mid-70s, while retirement income were relatively static and Social Security cost of living adjustments were held to zero in 2009 and 2010.



By July 2011, the number of Minnesota State Retirement System (MSRS) new annuitants had already exceeded the 2010 total. This year could see as much as a 50 percent increase over 2010, the previous record year.

Since the early 1980s, the average age at which Minnesotans and Americans retire is just after their 63rd birthday. In 2007, 47.6 percent of Minnesotans age 63 had already received their first Social Security pension check, rising to 56.5 percent by age 64. Even after the recession, this changed little, with 49.9 percent of Minnesotan's receiving their first Social Security check by age 63. However, of those remaining in the workforce, a higher percentage will continue to work longer. By age 65, in 2007 23.1 percent of Minnesotans were in the workforce, rising to 30.6 percent in 2010. By age 66, only 4.8 percent were still in the workforce in 2007, compared with 14 percent in 2010.

Increasing Diversity and Gaps in Educational Achievement

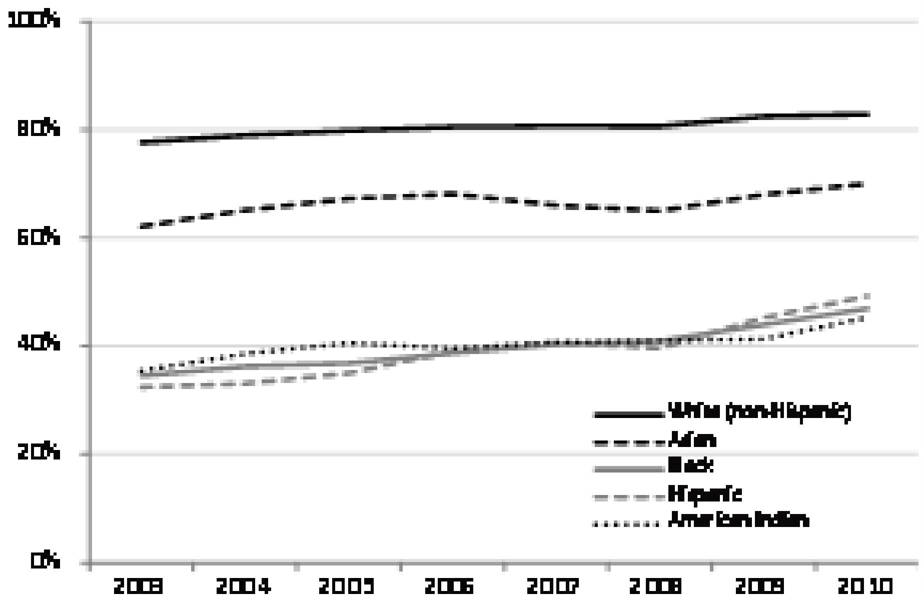
In 2010, the minority population in Minnesota increased to 17 percent, up from 12 percent in 2000. The 320,000 minority residents added to the population this decade accounted for more than 85 percent of total population growth between 2000 and 2010. Rapid growth among minority groups and slower growth among the white population is expected to continue into the future. By 2030, nearly 1 in 4 Minnesota residents will be part of a minority group.

Persons of color tend to be concentrated in the younger age groups, and will make up an increasing share of the working-age population over the next few decades. Of particular concern are the large racial disparities in academic achievement that present themselves early and remain throughout high school. In 2010, 83 percent of Minnesota's majority white high school students graduated on-time, compared with only 53 percent of minority students. Though this gap has narrowed slightly in recent years, large differences still remain. Less than half of all American Indian, Black and Hispanic students graduated on-time this past year.

Recent data indicate that educational attainment is strongly associated with earnings, and Minnesotans with higher levels of education were impacted by the recession to a lesser degree than those with lower levels of educational attainment.

Over the next decade, educational attainment will become increasingly important to workers and employers. A recent Georgetown University study estimates that 70 percent of all job openings in Minnesota in the next decade will require some form of post-secondary education. According to the report, Minnesota ranks third in the nation, only behind North Dakota and Washington D.C., in the percentage of jobs that will require advanced training in the coming years.

Minnesota Four-Year On-Time Graduation Rates by Race



Of particular concern are the large racial disparities in academic achievement that present themselves early and remain throughout high school. In 2010, 83 percent of Minnesota's majority white high school students graduated on-time, compared with only 53 percent of minority students.

FY 2011 YEAR END SUMMARY

FY 2011 Concluded on a Positive Note, Ending Balance Increased $526 Million

In August, the books were officially closed for the fiscal year that ended June 30, 2011. The 2010-11 biennium ended with a general fund balance of $976 million, $526 million more than estimated at the end of the 2011 special legislative session. The closing balance at the end of the biennium carries forward into the current biennium. The increase in the ending balance for the 2011-12 biennium is a significant factor in the forecast for the current biennium - accounting for slightly over 60 percent of the forecast improvement in the projected FY 2012-13 ending balance.

The table below shows how FY 2011 closed compared to at the end of the 2011 special legislative session estimates.

FY 2011 Close: Change from End-of-Session Estimates
($ in millions)

	End of 2011 Spec Sess 1	FY 2011 Close	Change
Beginning Balance	**$440**	**$440**	**$0**
Non-Dedicated Revenue	15,308	15,663	354
Transfers, Other Resources	517	521	4
Total Current Resources	15,825	16,184	358
Expenditures	15,540	15,335	(205)
Balance Before Reserves	725	1,289	564
Cash Flow Account	266	266	0
Budget Reserve	9	9	0
Appropriations Carried Forward	0	38	38
Budgetary Balance	**$450**	**$976**	**$526**

Final FY 2011 Revenues Were $358 Million above End-of-Session Estimates

Total revenues for fiscal 2011 were $358 million higher than estimated in the February 2011 forecast. Individual income tax receipts were $277 million above forecast, and corporate income tax receipts were $11 million higher. Sales tax receipts were $30 million lower than estimated. All other taxes and other non-dedicated revenues and transfers were $100 million higher than end-of-session estimates. More than half of that positive variance resulted from Wisconsin's final income tax reciprocity payment of $59 million being received in FY 2011, rather than FY 2012 as had been anticipated.

FY 2011 Spending $205 Million below Forecast

Actual spending for FY 2011 was $205 million below previous estimates. Normally, unspent appropriations cancel back to the general fund at the end of the biennium. However, current law authorizes some individual unspent appropriations to carry forward into the next biennium. At fiscal 2011 close, $38 million of appropriation balances were carried forward into fiscal year 2012. This amount now shows as FY2012 spending. If this transfer between fiscal years is discounted, adjusted net spending in FY 2011 would have declined $167 million.

A reduction of $149 million in human services spending accounted for nearly all of the savings in FY 2011. Over three-quarters of the savings occurred in the Medical Assistance program and the related Alternative Care program. Principal contributors to the year-end savings were an increase in the federal matching rate in the last quarter of the fiscal year, increased pharmacy rebates and other recoveries, and lower than anticipated costs in several programs.

FY 2011 Ended with $275 Million in Reserves

FY 2011 concluded on June 30, 2011 with a cash flow account of $266 million, and a budget reserve of $9 million - which did not change from end-of-session estimates.

The reserves, however, were reduced at the beginning of FY 2012. The enacted FY 2012-13 budget reduced the cash flow account from $266 million to $95 million and the $9 million budget reserve was reduced to zero.

FY 2012-13 BUDGET SUMMARY
FY 2014-15 PLANNING ESTIMATES

Following 2011 Shutdown, Special Legislative Session Balanced FY 2012-13 Budget

The Governor and legislature failed to reach agreement on an overall budget for the FY 2012-13 biennium by the May 23rd constitutional deadline for the 2011 legislative session. Only an agriculture omnibus appropriations bill was enacted. Appropriation bills to continue all other state government functions past June 30, 2011, were not enacted. A state government shutdown began on July 1, 2011, and lasted 20 days. Critical state operations, primarily limited to programs directly affecting life, safety, and protection of property, were ordered to continue by the Ramsey County District Court.

After 14 days, the Governor and legislative leadership reached a tentative budget agreement for FY 2012-13. The Governor called a one-day special session on July 19 and twelve omnibus appropriation bills were passed, enacting the budget for the FY 2012-13 biennium. The Governor signed the appropriation bills on July 20, and state services resumed on July 21– ending the 20-day state government shutdown.

FY 2012-13 End-of-Session Estimates
($ in millions)

	February Forecast	End of Session	$ Change	% Change
Beginning Balance	**$941**	**$725**	**$(216)**	
Revenues	33,330	33,724	394	1.2
Spending				
K-12 Education	14,322	14,545	223	1.6
K-12 Payment Shifts	1,302	(907)	(2,209)	Nm
Higher Education	2,917	2,566	(351)	-12.0
Health and Human Services	12,338	11,372	(966)	-7.8
Local Aids	3,502	2,864	(638)	-18.2
Debt Service	1,180	532	(648)	-54.9
All Other	3,455	3,367	(88)	-2.5
Total Spending	**39,016**	**34,339**	**(4,677)**	**-12.0**
Reserves	275	95	(180)	
Ending Balance	**$(5,020)**	**$15**	**$5,035**	

The enacted budget resolved the $5.020 billion deficit projected in the February 2011 forecast. Over one-third of the budget solution reflected permanent expenditure reductions, mostly in health and human services ($966 million), tax aids and credits

($638 million) and higher education ($351 million). The budget also included one-time actions that extended and increased the K-12 school aid payment shifts, used proceeds from bonds secured by tobacco settlement receipts, transferred resources from other funds, and reduced budget reserves. As part of the budget solution, the cash flow account was reduced by $171 million from $266 million to $95 million. Additionally, a $9 million balance in the budget reserve was eliminated.

The enacted budget included $5.035 billion in revenue, expenditure and reserve changes to address the $5.020 billion projected general fund deficit. This left a projected budget balance of $15 million for the FY 2012-13 biennium.

Forecast Results in Projected Balance of $876 million for FY 2012-13

The significant increase in the ending balance for FY 2011, combined with revenue and expenditure forecast changes for FY 2012-13, resulted in a revised general fund balance of $876 million projected for FY 2012-13 biennium.

FY 2012-13 Budget Forecast
($ in millions)

	End of Session	Nov Forecast	$ Change	% Change
Beginning Balance	**$725**	**$1,289**	**$564**	**77.8**
Tax Revenues	31,197	31,182	(15)	0.0
Non-Tax Revenues	1,441	1,451	10	0.7
Other Resources	1,086	1,067	(19)	(1.7)
Current Resources	**33,724**	**33,700**	**(24)**	**(0.1)**
K-12 Education	13,638	13,653	15	0.1
Health and Human Services	11,372	11,064	(308)	(2.7)
All Other	9,329	9,274	(55)	(0.6)
Total Expenditures	**34,339**	**33,991**	**(348)**	**(1.0)**
Cash Flow Account	95	95	-	
Budget Reserve	-	27	27	
Balance	**$15**	**$876**	**$861**	

Forecast revenues for the current biennium are now expected to be $33.700 billion. This reflects a decrease of $24 million, less than 0.1 percent, from end-of-session estimates. A small increase in expected income tax revenues ($36 million) and an increase in corporate tax collections ($150 million) are in part offset by lower than expected sales tax collections ($105 million), and declines in other tax revenues. Part of the decline in other tax revenues reflects a $59 million reduction in income tax reciprocity due the timing of Wisconsin's final payment. The payment was received in FY 2011 instead of FY 2012, appearing now as a decrease compared to the prior forecast for FY 2012.

The small net decrease in forecast revenues was more than offset by a significant reduction in forecast spending for the biennium. General fund spending is now expected to be $33.991 billion for the current two-year budget. The forecast has decreased $348 million, 1.0 percent of total spending.

Lower estimates for health and human services programs account for nearly all of the reduction in spending, down $308 million from end-of-session estimates. Revised estimates for the Medical Assistance program (MA) account for $294 million of the reduction from previous estimates. The largest savings occurred in pharmacy rebates collected on managed care business ($80 million) and downward revisions to enrollments and costs in the Adults without Children segment of the program ($74 million).

Forecast decreases in other spending areas included a $25 million (0.9 percent) reduction in property tax aids and credits and a $58 million (10.9 percent) reduction in debt service costs. These savings, however, were in part offset by a small net increase for all other spending areas including K-12 education aid which increased $15 million (0.1 percent).

The enacted FY 2012-13 budget left $95 million in the cash flow account as the only general fund reserves for the biennium. This forecast, however, even before the required statutory allocation, added $27 million to the budget reserve. Under current law (M.S. 79.251 Subd. 1) any annual excess surplus in the workers' compensation assigned risk plan is deposited to the general fund and directed to the budget reserve. In July, $27 million was received under this provision, and was credited to the budget reserve account.

$876 million Forecast Balance Statutory Allocated to Budget Reserves

The forecast balance expected for the FY 2012-13 budget period is now $876 million, up $861 million from previous estimates. However, current law specifies a required priority-ordered allocation of any forecast balance. If on the basis of a forecast of general fund revenues and expenditures the commissioner of Management and Budget determines that there will be a positive general fund balance at the close of the biennium, Minnesota Statutes 16A.152 requires that money be allocated to restoring the cash flow account the budget reserve and then repay and reverse school aid payment shifts, in that order.

FY 2012-13 Budget Balances - Statutory Allocations
($ in millions)

	Initial Nov Forecast	Statutory Allocation	Final Nov Forecast
Balance Before Reserves	**$998**	-	**$998**
Cash Flow Account	95	255	350
Budget Reserve	27	621	648
Ending Balance	**$876**	**$876**	**$0**

As a result, based on the underlying forecast, a portion of the general fund balance for the biennium is first dedicated to restoring the cash flow account to the $350 million celling in statute. This uses $255 million of the projected balance. The remaining $621 million is directed to the budget reserve. This increase, combined with the $27 million deposit from the 'excess surplus' in the assigned risk plan, results in a budget reserve total of $648 million, $5 million below the $653 million ceiling specified in statute. Combined general fund cash flow and budget reserves now total $998 billion, 2.9 percent of forecast spending for the biennium.

Revenue-Expenditure Gap for FY 2014-15 Shrinks

Out-year planning estimates based on current law revenues and expenditures are presented to detail the impacts of the forecast on future years, as well as to help decision-makers identify longer-term impacts of budget decisions. The November forecast updates the FY 2014-15 planning estimates from those prepared at the end of the 2011 legislative session.

FY 2014-15 Planning Estimates
($ in millions)

	End of Session	November Forecast	Change
Forecast Revenues	35,296	35,717	$421
Projected Spending	37,187	37,017	($170)
Difference	(1,891)	(1,300)	$591

Revenue planning estimates are based on Global Insight's November baseline forecast. Expenditure estimates assume current laws and are updated for caseload, enrollment, and other forecast variables in major program areas.

A $422 million increase in projected FY 2014-15 revenues, combined with a $170 million reduction in projected spending improves the gap between ongoing revenues and spending by $591 million compared to end-of-session estimates.

FY 2011-15 Structural Balance by Year
($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Forecast Revenues	$16,184	$16,630	$17,070	$17,493	$18,225
Projected Spending	15,335	16,595	17,395	18,474	18,543
Difference	**$849**	**$35**	**$(325)**	**$(981)**	**$(318)**
Estimated Inflation (CPI)	--	--		*425*	882

Current law projections for the next biennium do not include any adjustment for inflation expected. Inflation, based on the Consumer Price Index (CPI) forecast, is expected to be 2.3 percent in FY 2014 and 2.4 percent in FY 2015. If spending were uniformly adjusted for inflation, this would add about $425 million to the gap shown for FY 2014 spending and $882 million for FY 2015.

It is also important to recognize that the current budget and planning estimates do not include the repayment of the K-12 aid deferral or repayment of the K-12 property tax recognition shift. Repayment of those would cost approximately $2.2 billion and $563 million respectively.

FY 2014-15 Structural Balance Estimates
($ in millions)

	End of Session		Nov Forecast		$
	FY 2014	**FY 2015**	**FY 2014**	**FY 2015**	**Change**
Forecast Revenues	$17,311	$17,985	$17,492	$18,225	$421
Projected Spending	18,543	18,645	18,474	18,543	(170)
Difference	**($1,232)**	**($660)**	**($982)**	**($318)**	**$591**
Estimated Inflation (CPI)	389	*810*	425	*882*	$108

REVENUE ESTIMATES
FY 2012-13

Current general fund revenues for the 2012-13 biennium are now expected to total $33.700 billion dollars, $24 million (0.1 percent) less than forecast in February after adjusting for actions taken during the 2011 special legislative session. Receipts for the state's four major taxes are projected to be $90 million (0.3 percent) more than previous estimates, while other taxes and revenues fell by $114 million. Individual income tax receipts are now projected to exceed previous estimates by $36 million (0.2 percent), while expected sales tax receipts fell by $105 million or 1.1 percent. The forecast for corporate tax receipts was raised by $150 million (9.0 percent). About one-half of the reduction in other revenues was attributable to posting Wisconsin's final income tax reciprocity payment in fiscal 2011. February's forecast assumed that it would be treated as a fiscal 2012 receipt.

Revenues FY 2012-13
($ in millions)

	FY 2010-11	FY 2012	FY 2013	FY 2012-13
Individual Income	$14,060	$7,948	$8,266	$16,214
Sales	8,581	4,619	4,720	9,339
Corporate	1,588	936	889	1,825
Motor Vehicle Sales	105	0	0	0
Statewide Levy	1,534	780	801	1,581
Five Major Taxes	25,867	14,283	14,677	28,960
Other Revenue	3,629	1,697	1,657	3,354
Tobacco	338	162	158	320
Net Non-dedicated	29,834	16,142	16,491	32,633
Other Resources	969	488	579	1,067
Current Resources	**$30,803**	**$16,630**	**$17,070**	**$33,700**

Total receipts from Minnesota's four major taxes have recovered from the severe slump brought on by the Great Recession. Individual income tax receipts during the 2012-13 biennium are now projected to exceed receipts in the prior biennium by 15.3 percent. Forecasts for corporate and sales tax receipts also show healthy gains, up 14.9 percent and 8.8 percent respectively. Total current receipts in the current biennium are now expected to be 9.4 percent greater than in FY 2010-11.

Changes in Economic Assumptions

Since February the Global Insight baseline forecast for real economic growth in 2011 and 2012 has been significantly scaled back. Real GDP in 2011 is now anticipated to grow at a 1.8 percent annual rate. For 2012 real GDP growth is expected to slow further to just

1.6 percent. In February GII called for growth rates of 3.2 percent and 2.9 percent in 2012 and 2013.

Projected growth rates for two major national components of Minnesota's sales tax base fell substantially between February and November. National expenditures on non-auto durable goods during 2012 are now projected to grow 3.3 percent in fiscal 2012; February's projected baseline growth rate was 3.7 percent. The reduction in projected spending on business capital equipment was large. U.S. Business equipment spending had been expected to grow by 10.3 percent in fiscal 2012. That growth rate has now been reduced to 6.7 percent.

The slower real growth rate also produced lower income growth rates. Projected U.S. wage growth rates for 2011 and 2012 were cut back to 4.0 percent and 2.9 percent respectively. In February wage growth rates of 4.6 percent and 4.9 percent were anticipated. Proprietor's incomes in 2012 also grow more slowly than previously thought likely, and the stock mark is now expected to fall through early 2012, finishing next year 11.6 percent below February's estimate.

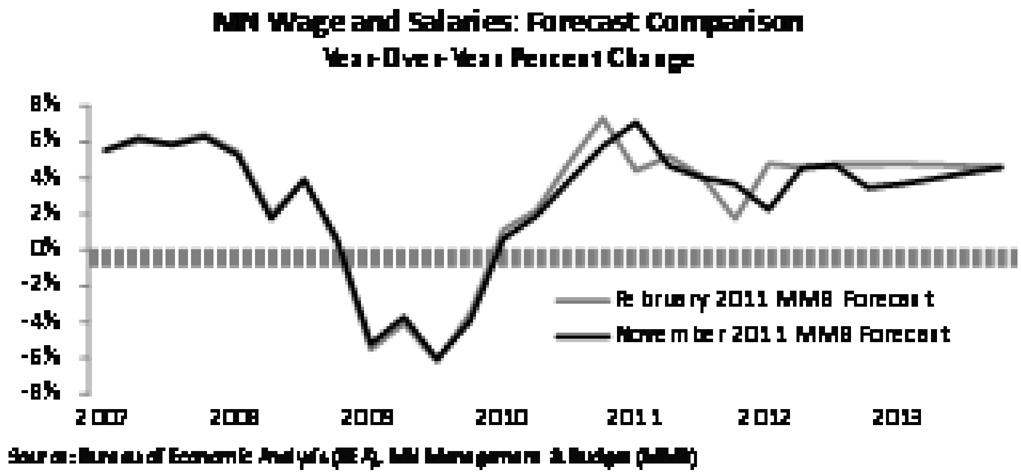
February's GII baseline called for 2012 U.S. corporate profits to be 7.1 percent below their 2010 level. The November baseline shows corporate profit growth of 12.1 percent over that same period, even though real GDP is expected to grow more slowly in 2011 and 2012.

Minnesota's economy is expected to outperform the U.S. averages through 2012. Total wages in the state are expected to grow by 8.7 percent between 2010 and 2012, 1.7 percentage points faster than GII's baseline forecast for U.S. wages. Employment and personal income in the state are also projected to grow faster than the U.S. average between 2010 and 2012, although both are now projected to finish 2012 below February's forecast.

Individual Income Tax

Individual income tax receipts for the 2012-13 biennium are now forecast to total \$16.214 billion, \$36 million (0.2 percent), more than end-of-session estimates. The impact of the weaker economic outlook for calendar 2011 and 2012 can be seen in the change in forecast by fiscal year. Expected income tax revenues for fiscal 2012 are \$153 million more than earlier projections while forecast receipts for fiscal 2013 fall short of end-of-session estimates by \$117 million. In fiscal 2011 individual income tax receipts exceeded forecast by \$277 million.

Expected liability in tax years 2011 and 2012 grows more slowly than in end-of-session estimates. But, because the additional liability associated with tax year 2010 raised the base from which fiscal 2012 and 2013 growth was building on, tax year 2011 liability and fiscal 2012 income tax revenues do not fall below previous projections. By tax year 2012 though, the weaker economic outlook drives projected income tax liability below earlier estimates pushing fiscal 2013 income tax revenue below the end-of-session estimate.



Wage growth rates in tax years 2012 and 2013 are below those used in February's forecast, as are non-wage income growth rates for 2011 and 2012. Non-wage income grows faster in tax year 2013 in this forecast due to a change in the growth rate assumed for capital gains. In February's forecast capital gains realizations were expected to fall in 2013; in this forecast modest growth is projected.

This forecast builds from MMB's estimate of final liability for tax year 2010. That estimate was obtained by adding an estimate of the expected additional tax year 2010 liability on forms yet to be received and processed to the 2010 liability currently reported on the Department of Revenue's Income Tax Processing Report. MMB currently estimates individual income tax liability for 2010 to be $6.877 billion, 3.8 percent more than was projected in February.

This was the first forecast using the 2009 sample. And, since tax year 2009 reflects incomes earned during the worst year of the Great Recession, the sample may not reflect the distribution of incomes across individuals and income types typically observed in more normal years. After testing the model appears to estimate liability about $20 million higher than the 2008 sample.

Calibrating the model to produce MMB's projected tax year 2010 final liability required making several extremely aggressive assumptions about growth rates for particular income types. Capital gains in 2010 are now assumed to have grown by 87 percent, the second highest growth rate on record. In February's forecast growth a 76 percent rate was projected. Taxable IRA distributions are now believed to have grown by 44 percent, more than triple the 14 percent growth rate used in February. The growth rate used for business income was also more than triple February's, increasing to 12.8 percent from the prior estimate of 3.4 percent. Smaller, but significant, changes also were made to dividends, the filer growth rate, and deductions for charitable contributions and mortgage interest. After those changes model results were within $20 million of MMB's estimate of 2010 final liability. The remaining gap was closed using a one-time off-model adjustment. The use of a one-time adjustment was thought prudent given concerns about the unusual nature of 2009 incomes. All assumptions used to calibrate the model will be revisited in

February when the Minnesota sample of 2010 tax returns is available. Even with the unusually high growth rates assumed for some revenue types in 2010, final liability for 2010 remained below 2007 liability.

Wage growth in 2011 was higher than that assumed in February, consistent with BEA wage estimates and state withholding experience. But, projected wage growth rates in calendar 2012 and 2013 are less than projected in February reflecting the scaling back of the national outlook since the last forecast. Minnesota wages grow about 0.5 percent more slowly between 2010 and 2013 than was projected in February. Capital gains realizations are now projected to grow by 8 percent in 2011 and 5 percent in 2012, significantly slower than the 34 percent and 20 percent growth rates used in February's forecast. A lower GII stock market forecast coupled with the extremely rapid growth that apparently occurred in 2010 were the primary reasons for the reduced growth rate. A one-time revenue gain of $40 million was included off-model in tax year 2011 to reflect the expected impact of a large corporate acquisition

Sales Tax

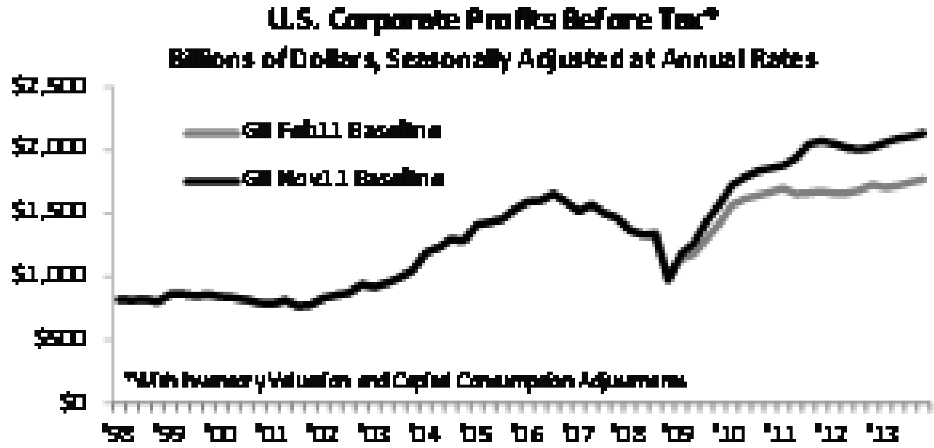
Net sales tax receipts in the 2012-13 biennium are projected to be $9.339 billion, $105 million (1.1 percent) less than end-of-session estimates. The fiscal year-to-date sales tax variance of $8 million was incorporated into the forecast. Gross sales tax receipts were $133 million less than previously forecast and sales tax refunds $28 million lower. Expected net sales tax revenues for the 2012-13 biennium are forecast to be 8.8 percent more than in the 2010-11 biennium.

Global Insight's November baseline forecast has both consumer spending and business investment spending growing more slowly than projected in February. But, because Minnesota's share of U.S. wages and personal income grows in the forecast the state's sales tax base grows slightly faster than it did in February. Minnesota's sales tax base is now expected to grow at a 5.8 percent annual rate in FY 2012 and a 2.8 percent rate in 2013. In February growth rates of 5.2 percent and 3.2 percent were projected.

Gross sales tax receipts in fiscal 2011 were $42 million below forecast, lowering the base from which forecasts for fiscal 2012 and 2013 were made. It was also observed that the synthetic sales tax base, generated using current economic data, has grown faster than actual collections in recent quarters, even when a revenue receipts elasticity of .95 is used. An off-model adjustment of $2.5 million per month was made to correct for the tendency to over forecast.

Corporate Franchise Tax

Corporate franchise tax revenues for the 2012-13 biennium are forecast to total $1.825 billion, $150 million (9.0 percent) more than forecast in February. Expected corporate tax receipts in the 2012-13 biennium are now $237 million (14.9 percent) more than in 2010-11. The $39 million positive variance observed for corporate tax receipts through October was incorporated into the forecast.



Source: U.S. Bureau of Economic Analysis (BEA)

This corporate tax forecast incorporates two major modifications to the model used to generate estimated and final corporate payments. First, because the growth rates of each series are stationary, but levels are not, the model is estimated in log-differences. Second, in prior forecasts, tax domestic corporate profits were used as the main driving variable. That series was then adjusted to reflect historical and future differences between the capital depreciation used under Minnesota tax law and that allowed at the federal level. Recent rounds of federal depreciation changes designed to provide short term economic stimulus have greatly complicated the calculations necessary to continue that series, so an alternative series forecast by GII that directly incorporates an appropriate capital depreciation allowance is now being used in place of the constructed data. These modifications to the corporate tax model materially reduce the corporate income tax forecast for the 2012-13 biennium relative to February, but produce a forecast more consistent with historical experience.

Other Revenues

Other tax and non-tax revenues, including the statewide property tax are expected to total $5.255 billion, $82 million (1.5 percent) less than projected in November. A shift in the receipt date for Wisconsin's final settle-up payment under the income tax reciprocity agreement accounted for $59 million of the reduction in revenue. Other changes were modest. Prospective estate tax receipts were reduced by $21 million and deed tax receipts, by $16 million.

REVENUE PLANNING ESTIMATES FY 2014-15

Total current resources for the 2014-15 biennium are estimated to be $35.718 billion, an increase of $2.018 billion (6.0 percent) over revenues forecast for the 2012-13 biennium and a $421 million (1.2 percent) increase over February's revenue planning estimates for the 2014-15 biennium. General fund receipts for the four major taxes are now projected to be 8.6 percent more than in the 2012-13 biennium. These revenue planning estimates assume that economic growth in both the U.S. and Minnesota continue at a more normal pace beginning in 2013, following the slow growth projected for 2011 and 2012. Real GDP is assumed to grow at a 3.5 percent rate in 2014 and a 3.3 percent rate in 2015. Nominal GDP is assumed to grow by 5.2 percent in both 2014 and 2015.

Revenues FY 2014-15

($ in millions)

	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Individual Income	$16,214	$8,720	$9,125	$17,845
Sales	9,339	4,900	5,106	10,006
Corporate	1,825	955	1,006	1,961
Statewide Levy	1,581	817	833	1,649
Four Major Taxes	28,960	15,379	16,070	31,461
Other Revenue	3,354	1,700	1,755	3,455
Tobacco	320	89	89	178
Net Non-dedicated	32,633	17,181	17,914	35,094
Other Resources	1,067	312	311	623
Current Resources	**$33,700**	**$17,493**	**$18,225**	**$35,718**

The individual income tax provides the largest share of additional revenues for the 2014-15 biennium. Projected income tax receipts are now expected to exceed levels forecast for the 2012-13 biennium by $1.631 billion or 10.1 percent. Sales tax receipts grow by 7.1 percent over projected FY 2012-13 levels, corporate franchise tax receipts by 7.5 percent, and the statewide property tax by 4.3 percent. Motor vehicle sales tax receipts no longer are general fund revenues.

No one can forecast the economy's path 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 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 again in tax years 2008 and 2009 - 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. November's 2014-15 revenue planning estimates again were prepared consistent with the GII baseline forecast. GII projects real GDP growth rates of 3.5 percent in calendar 2014 and 3.3 percent in 2015. GII's GDP growth rates for both 2014 and 2015 are below those assumed by the CBO in their August 2011 Budget and Economic Outlook. The CBO expects annual real GDP growth of 4.4 percent in 2014 and 5.0 percent in 2015. The October Blue Chip Consensus long term outlook is less optimistic than GII's, with real GDP growth rates of 2.9 percent projected for both 2014 and 2015.

As in the past, 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 in GII's 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 reduce the impacts of scheduled tax rate increases.

The complete sales tax model again was used to prepare the 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 and profits received by the Federal Reserve. The deed and mortgage tax was forecast based on the projected growth in the value of new and existing home sales. Planning estimates for other tax and non-tax revenues were based on extrapolation of existing trends.

Expenditure Forecast
FY 2012-15

Actual, Forecast and Projected Spending FY 2010-15

Actual spending for the biennium that ended June 30, 2011 totaled $29.962 billion. The forecast for the current biennium now totals $33.991 billion, a $348 million (1.0 percent) decrease from end-of-session estimates. Projected spending for FY 2014-15 is expected to reach $37.017 billion, decreasing by $170 million (0.5 percent) from earlier estimates.

Actual and Estimated Spending
($ in millions)

	FY 2010-11	FY 2012-13	Change	FY 2014-15	Change
K-12 Education	13,305	14,520	1,215	15,301	781
K-12 Payment Shifts	(1,883)	(867)	1,016	(156)	711
Higher Education	2,813	2,566	(247)	2,565	(1)
Property Tax Aids & Credits	3,016	2,839	(177)	2,762	(77)
Health & Human Services	8,427	11,064	2,637	11,767	703
Debt Service	857	474	(383)	1,330	856
All Other	3,427	3,395	(32)	3,448	53
Total Spending	29,962	33,991	4,029	37,017	3,026
Biennial Percent Change			**13.4**		**8.9**

Forecast FY 2012-13 spending of $33.991 billion represents a $4.029 billion (13.4 percent) increased over actual FY 2010-11 spending. Projected FY 2014-15 spending at $37.017 billion, represents a $3.026 billion increase over FY 2012-13. Those reported changes in spending are distorted by federal funding, payment shifts, and one-time budget balancing actions.

Actual general fund spending in FY 2010-11 is artificially reduced by federal funds, provided under the American Recovery and Reinvestment Act (ARRA). The use of ARRA dollars in FY 2010-11 provides a one-time reduction to general fund spending. ARRA funds consist of $1.512 billion in enhanced Federal Medical Assistance Percentage (FMAP) and $816 million in State Fiscal Stabilization Aid. The enhanced FMAP funds reduce state spending in Medical Assistance, while the Stabilization Aid was used to supplant general fund spending in K-12 education, higher education, human services and corrections.

K-12 school payment shifts also artificially reduce spending. The shift to a 70-30 payment schedule and property tax recognition shift in FY 2010-11 and expansion to 60-40 in FY 2012-13 reduces spending on a one-time basis by $1.883 billion and $867 million respectively. The schools are entitled to their full payments; therefore the shifts only provide one-time savings.

FY 2012-13 total general fund spending was also reduced by the sale of bonds using tobacco settlement receipts. The $643 million in net proceeds from the November bond sale by the Tobacco Securitization Authority is used to offset the debt service transfers that would have been paid from the general fund. Resuming in FY 2014-15, general obligation debt will be paid for from the general fund.

Adjusted Biennial Comparisons

($ in millions)

	Closing FY 2010-11	Forecast FY 2012-13	% Change	Forecast FY 2014-15	% Change
Total Spending	**29,962**	**33,991**	**13.4%**	**37,017**	**8.9**
K-12 Shift Related Savings	1,883				
Federal Stimulus	2,328				
K-12 Shift Expansion		867			
Tobacco Securitization		643			
Comparable Spending	**34,173**	**35,501**	**3.9%**	**37,017**	**4.3**

Once the federal funds, K-12 shifts, and one-time budget balancing actions are accounted the FY 2010-11 adjusted spending is $34.173 billion. The FY 2012-13 adjusted spending is $35.501 billion. Using the adjusted spending numbers, FY 2012-13 estimated spending is 3.9 percent higher than FY 2010-11 spending, compared to the unadjusted amount of 13.4 percent. The biennial growth from FY 2012-13 to FY 2014-15 is 4.3 percent, compared to the unadjusted 8.9 percent.

FY 2012-13 Forecast Expenditures Decrease $348 Million

Forecast changes for spending in FY 2012-13 are compared to end of the special session projection. Total forecast spending has decreased $348 million to $33.991 billion, a 1.0 percent reduction.

Forecast Change in FY 2012-13 Spending
($ in millions)

	End of Session	November Forecast	$ Difference	% Change
K-12 Education	$14,545	$14,520	($25)	(0.2)
K-12 Payment Shifts	(907)	(867)	40	Nm
Higher Education	2,566	2,566	0	0.0
Property Tax Aids & Credits	2,864	2,839	(25)	(0.9)
Health & Human Services	11,372	11,064	(308)	(2.7)
Public Safety	1,807	1,814	7	0.4
Transportation	126	126	0	0.0
Environment, Energy & Natural Res.	253	258	5	2.0
Agriculture & Veterans	77	80	3	3.9
Economic Development	170	176	6	3.5
State Government	905	913	8	0.9
Debt Service	532	474	(58)	(10.9)
Other	46	46	0	0.0
Est. Cancellations	(20)	(20)	0	0.0
Subtotal	$34,336	$33,989	($347)	(1.0)
Dedicated Expenditures	3	2	(1)	(33.3)
Total	**$34,339**	**$33,991**	**($348)**	(1.0)

Three areas of the budget accounted for nearly all of the decrease in forecast spending. Health and human services spending decreased $308 million, property tax aids and credits decreased $25 million and debt service estimated spending went down $58 million when comparing end of session estimates to this forecast. These decreases were offset by increases in spending in other areas of the budget including a $15 million increase in K-12 education largely due to a decrease in savings related to the property tax shift. Increases in spending in other areas of the budget primarily reflect unspent FY 2011 appropriations carried forward to FY 2012. In total, $38 million carried forward from FY 2011 to FY 2012.

The decrease in health and human services spending is primarily the result of changes in the Medical Assistance (MA) program. An increase in pharmacy rebates, which offset Medical Assistance expenditures, accounts for $80 million of the estimated $308 million in lower spending. Lower estimated enrollment in the Adults without Children category of MA accounts for $74 million in reduced spending. The $25 million decrease in property tax aids and credits is primarily due to reduction in property tax refunds to homeowners from lower than expected property tax levy growth. Debt service costs are $58 million lower than previously estimated primarily due to a lower forecast interest rates, which result in higher premiums paid to the state.

FY 2014-15 Projected Expenditures Decrease $107 Million Compared to Prior Estimates

Projected FY 2014-15 expenditures are now $37.017 billion, $170 million (0.5 percent) less than previously estimated. Changes in spending for FY 2014-15 mirror trends observed in FY 2012-13 with the exception of debt service.

Forecast Change in FY 2014-15 Spending

($ in millions)

	End of Session	November Forecast	$ Difference	% Change
K-12 Education	$15,308	$15,301	($7)	0.0
K-12 Payment Shifts	(168)	(156)	12	Nm
Higher Education	2,565	2,565	0	0.0
Property Tax Aids & Credits	2,823	2,762	(61)	(2.2)
Health & Human Services	11,940	11,767	(173)	(1.4
Public Safety	1,819	1,814	(5)	(0.3)
Transportation	180	180	0	0.0
Environment, Energy & Natural Res.	264	264	0	0.0
Agriculture & Veterans	78	78	0	0.0
Economic Development	165	165	0	0.0
State Government	916	910	(6)	(0.7)
Debt Service	1,258	1,330	72	5.7
Other	56	56	0	0.0
Est. Cancellations	(20)	(20)	0	0.0
Subtotal	$37,184	$37,016	($168)	(0.5)
Dedicated Expenditures	3	1	(2)	(66.7)
Total	**$37,187**	**$37,017**	**($170)**	(0.5)

Health and human services spending decreased $173 million mostly due to continued adjustments to pharmacy rebates. Property tax aids and credits spending is $61 million lower due to lower than expected tax refunds. Public safety spending is projected to decrease $5 million resulting from slower prison population growth than indicated in recent forecasts. This projected slowdown is due largely to the flattening of new court commitment admissions, which tend to carry longer lengths of stay, recently observed among offenders. These reductions were partially offset by a $72 million increase in debt service costs due primarily to an increase in the size of assumed future capital budgets and a reduction in forecast investment earnings.

FY 2014-15 Projected Spending Up $3.026 million Compared to FY 2012-13

As noted previously, comparing biennial spending comparisons are difficult due to one-time factors that distort the numbers in several key areas. Using actual unadjusted numbers, FY 2014-15 spending is expected to be $37.017 billion, $3.026 billion (8.9 percent) more than FY 2012-13 estimates.

Biennial Comparisons – FY 2014-15 vs. FY 2012-13
($ in millions)

	Nov Forecast FY 2012-13	Nov Forecast FY 2014-15	$ Change	% Change
K-12 Education	$14,520	$15,301	$781	5.4
K-12 Payment Shifts	(867)	(156)	711	Nm
Higher Education	2,566	2,565	(1)	0.0
Property Tax Aids & Credits	2,839	2,762	(77)	(2.7)
Health and Human Services	11,064	11,767	703	6.4
Debt Service	474	1,330	856	180.6
All Other	3,395	3,448	53	1.6
Total Spending	**$33,991**	**$37,017**	**$3,026**	**8.9**

In this forecast, almost all categories of spending, except for property tax aids and credits, are expected to increase in FY 2014-15 compared to FY 2012-13. Debt service costs are estimated to increase $856 million (180.6 percent). Most of the increase is attributed to the use of tobacco bond sale proceeds to offset various general fund debt service transfer costs. In FY 2012-13, $636 million will be used to offset debt payments for general obligations bonds, $6 million will offset debt payments for MMB's new statewide accounting system (SWIFT) and $1 million will offset debt payments on the Department of Revenue's integrated tax system. Without the issuance of the tobacco securitization bonds, the estimated general fund transfer required for debt service would have been $1.110 million in FY 2012-13 and the biennial growth would have be $220 million (19.8 percent). The remaining portion of the increase is attributed to the size of assumed future capital budgets and a reduction in forecast investment earnings

K-12 education is expected to grow $1.492 billion; however, about one-half of the growth is due to the one-time savings generated in FY 2012-13 by expanding the school shift to a 60-40 payment schedule. Remaining growth is due to programmatic changes, as well as demographic and economic factors.

Health and human services spending is projected to grow by $703 million in FY 2014-15. Over 90 percent of the growth is in the Medical Assistance (MA) program primarily due to increasing program enrollment. The biennial growth rate of 6.4 percent is substantial; however, this rate is significantly less than that in previous biennia. When federal stimulus funding is considered, the biennial growth from FY 2010-11 to FY 2012-13 was 10.1 percent.

Property tax aids and credits is projected to decrease by $77 million in FY 2014-15. The decrease is due primarily to the current law elimination of the market value credit program.

Education Finance Forecast Up $15 million for FY 2012-13

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

K-12 aids can be divided into two major funding streams: 1) general education, the primary source of basic operating funds for schools, and 2) categorical aid tied to specific activities or categories of funding. For the current biennium, Education Finance spending is estimated to be $13.654 billion, an increase of $15 million (0.1 percent) from end of session estimates.

General Education

Just over 80 percent of K-12 aid ($10.90 billion in FY 2012-13) is distributed to schools through the General Education program, and most of the forecast change is also in this program.

The largest change is a $26.5 million decrease in savings related to the property tax shift. This change is a result of a decrease in levies from those forecast in February, with the most significant being the reduction in the Payable 2012 (FY 2013) referendum levy.

Referendum levy revenue is down $38.0 million (4.7 percent) in FY 2013. While there were a large number of levy requests in 2011, the dollar amount per request was considerably smaller than an average year and therefore smaller than forecast. In addition, many of the levy requests were to renew existing referendum authority or had delayed effective dates. Conversely, Referendum Equalization Aid entitlements are up $1.2 million (0.7 percent). State aid is increasing due to lower referendum market values than estimated in February.

General Education entitlements are down by $13.3 million (0.09 percent) since end of session, primarily due to a small reduction in pupil counts and a decrease in Q-Comp spending. Pupil counts are continuing to increase on an annual basis as projected, however the rate of increase is occurring at a more modest pace than was anticipated in February. Public enrollment as measured by Average Daily Membership (ADM) is now projected to be 828,515 in FY 2012 and 836,093 in FY 2013. The changes in ADM projections result in a $4.2 million (0.04 percent) decrease in Basic Education entitlements compared to end of session estimates.

The other notable General Education forecast change is a $7.5 million (7.3 percent) decrease in Alternative Teacher Compensation (Q-Comp) entitlements. This change is due to fewer applications and delayed implementation of new Q-Comp districts in FY 2012. The projected increase in the number of students enrolled in Q-Comp schools as a percentage of total enrollment (1% for school districts and 10% for charter schools) is also down from previous forecasts.

Categoricals

Overall, estimates for categorical aid programs decreased by $11.8 million which partially offsets the increase in General Education aid discussed above. Only a few programs had significant changes: Charter School Lease Aid appropriations are projected to decrease by $5.2 million (6.1 percent) from end of session forecast levels, reflecting lower lease aid per pupil than previously estimated. Integration Revenue appropriations are down $3.2 million (2.6 percent) from end of session estimates. The decrease is primarily due to fewer pupils than previously forecast. Debt service aid is down $2.6 million (10.5 percent) as a result of two offsetting changes. Debt equalization aid increased due to lower adjusted net tax capacity (ANTC) in many districts, however, in some districts qualifying for significant state aid, ANTC increased over levels forecast in February resulting in decreased aid.

FY 2014-15 Education Expenditures Increase $1.49 billion over FY 2012-13

The growth from FY 2012-13 to FY 2014-15 is driven by three types of change, the use of a one-time budget balancing tool in FY 2012-13, programmatic changes made in the 2011 special session, and underlying formula growth and demographic change between the biennia.

Budget Balancing Actions

The Education Aid Payment Shift that shifted payments from 70/30 to 60/40 is a one-time budget balancing tool. This tool allowed the state to reduce general fund expenditures in FY 2012-13 to balance the general fund budget. However, the shift generates only significant one-time savings in FY 2012, reducing FY 2012-13 biennial spending by roughly $700 million.

Programmatic Changes

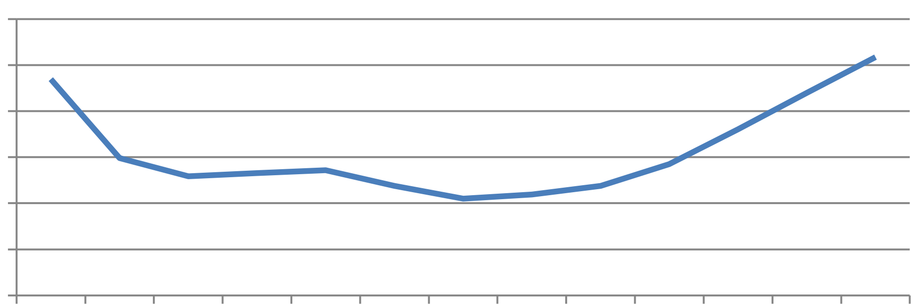
Programmatic changes passed in the 2011 special session such as the General Education formula increase and the creation of the Literacy Incentive Aid and Small School programs account for roughly $120 million of the biennial growth. The General Education formula was increased by $50 in FY 2012 and another $50 in FY 2013, resulting in $50 less per pupil spent in FY 2012-13 than in FY 2014-15. This represents $55 million of the growth between biennia. The new Literacy Incentive Aid program started in the second year of the current biennium. Because of the aid payment shift only 60 percent of one year was funded in FY 2012-13. There is roughly $19.5 million of additional spending in FY 2014-15 due to this program existing in both years of the biennium. Similarly, the Small Schools program started in FY 2013 at $9.5 million and grew to $31.7 million in FY 2014-15.

Demographic and Economic Factors Driving Biennial Change

The remaining growth between biennia is due to typical enrollment, demographic, and formula changes. General Education entitlements grow due to projected increases in both pupil enrollments and poverty concentrations. Adjusted marginal cost pupil units (AMCPU) are projected to increase between FY 2012-13 and FY 2014-15 by about 36,000, and the poverty count used to calculate compensatory revenue is projected to increase by about 38,000. The increase in AMCPU will cause basic revenue to increase between biennia by more than $180 million, and the increase in poverty is the primary reason that compensatory revenue is projected to increase between biennia by more than $91 million.

Within categorical programs, Special Education and Special Education Excess Cost together represent the largest entitlement increase and are expected to grow by $195 million (11.5 percent) and $13.8 million (6.0 percent) respectively. This growth is due to a statutorily-required automatic inflationary factor in Special Education funding combined with growth in the total number of pupils in the state.

The Debt Service entitlement increased by $21.3 million (66.7 percent) from FY 2012-13 to FY 2014-15. This growth is due to lower adjusted net tax capacity (ANTC) values. Charter School Lease Aid entitlement is expected to increase by $19.8 million (20.3 percent) between biennia. The increase is primarily due to anticipated growth in Charter



School enrollment. The number of students served will increase by 15,732 between FY 2012 and FY 2015.

Interdistrict Desegregation Transportation entitlement is expected to increase $7.5 million (23.9 percent) between FY 2012-13 and FY 2014-15. This program is primarily expenditure reimbursement and the increase is a reflection of increasing transportation costs and growth in pupils participating in the program. Finally, Adult Basic Education is increasing $3.6 million (4.0 percent). This growth is based on an increase in contact hours and a statutorily outlined inflationary factor.

FY 2012-13 Health & Human Services Expenditures Down $308 Million from the End of Session

Health and human services expenditures make up one-third of the total state general fund budget, and of those expenditures, 87 percent are forecast programs including Medical Assistance, Chemical Dependency, the Minnesota Family Investment Program (MFIP), MFIP Child Care, General Assistance, Group Residential Housing, and Minnesota Supplemental Aid. General fund forecast changes are generally driven by changes to Medical Assistance (MA) programs, since they account for the largest portion (90 percent) of forecast programs. MA is a state-federal means-tested entitlement program for low-income families, persons with physical or developmental disabilities, and the low-income elderly. MA costs are devided between the state and federal government, though only the state share of expenditures is reflected as part of the general fund forecast.

Health and human services expenditures for FY 2012-13 are expected to be $11.1 billion, a decrease of $308 million (2.7 percent) from the end session. The decrease is driven almost entirely by changes in expected expenditures in the Medical Assistance (MA) program. In addition, a $27 million decrease in Chemical Dependency grants offset by an increase of $9 million in Group Residential Housing contribute to the total change.

Expected expenditure changes by Medical Assistance eligibility category are as follows:

Medical Assistance Eligibility Category	**FY 2012-13 Change from EOS** (millions)	**Change as % of Total MA Expenditures by Category**
MA Pharmacy Rebates	($80)	--
MA Adults Without Children	($74)	(7.5%)
MA Families With Children	($49)	(2.4%)
MA LTC Waivers	($47)	(2.0%)
MA Elderly & Disabled	($31)	(1.2%)
MA LTC Facilities	($13)	(1.4%)
Total MA	**($294)**	**(3.3%)**

A significant expenditure decrease of $80 million, 27 percent of the total change in Medical Assistance from the end of session, is due to increased pharmacy rebates which offset Medical Assistance expenditures. The federal Affordable Care Act (P.L. 111-148 section 1927(b) and P.L. 111-152 section 2501 (c)) requires manufacturers that participate in the drug rebate program to pay rebates for drugs dispensed to individuals enrolled with a Medicaid managed care organization (MCO) if the MCO is responsible for coverage of such drugs. Since the enactment of the Affordable Care Act, the Minnesota Department of Human Services has worked to obtain and test data from managed care plans in order to bill manufacturers appropriately for the rebates. The change in the pharmacy rebate forecast from end of session largely reflects increased payments expected both for the current biennium and retroactively to the enactment of the Affordable Care Act in March 2010.

The MA Adults without Children eligibility group reflects expenditure decreases of $74 million due to adjustments to enrollment. This group became eligible for Medical Assistance starting March 1, 2011 when an early expansion option through the Affordable Care Act was put into effect in state law. Under the option, the state receives a 50 percent federal match on this eligibility category until 2014. Given actual experience with this group in the first six months of the program, enrollment projections were reduced by 7,000 average monthly enrollees in FY 2012 and FY 2013 from end of session estimates.

In the MA Families with Children eligibility category, expenditures are $49 million lower than at end of session, which is equivalent to 2.4 percent of the total expenditures for this eligibility group. Of the total change, $42 million is due to lower expected enrollment and $15 million to lower average cost. Reductions are offset by a $6 million cost associated with delaying the movement of certain legal non-citizens to MinnesotaCare for two months until March 2012.

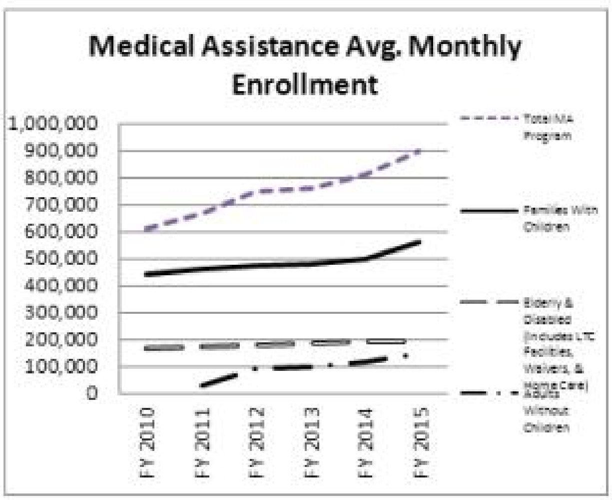
MA Long Term Care Waivers are down $47 million (2 percent of total state expenditures in this category) from end of session estimates. Decreased expenditure projections are due in part to reductions in the Personal Care Assistance (PCA) program ($17 million). Change to this program results from recipient projections 3 percent lower on average based upon recent trends and technical adjustments to PCA increases expected from waiver caps adopted in 2009 and 2010. In addition, the overall decrease was due to minor enrollment and average cost decreases in the Community Alternative for the Disabled Individuals (CADI) waiver ($14 million), the Developmentally Disabled (DD) Waiver ($11 million), all small changes relative to the size of the programs.

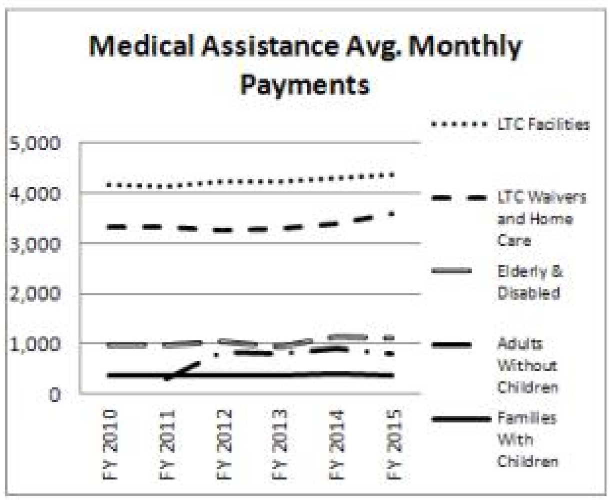
The forecast also shows decreased spending in Chemical Dependency Entitlement Grants (CD) in FY 2012-13 ($27 million). FY 2011 data indicates that earlier forecasts over-estimated increased CD placements as a result of the end of the General Assistance Medical Care (GAMC) program. This expenditure decrease relates to bringing placement trends in line with actual data, which generates savings starting in FY 2011 and carries through FY 2015.

Economic assistance programs are forecast to increase by $9 million (1 percent) driven largely by Group Residential Housing (GRH) expenditures. GRH provides income supplements for room and board for low income individuals who are unable to live independently due to illness or disability. These individuals may also receive cash assistance payments through General Assistance (GA) or Minnesota Supplemental Aid (MSA). The GRH forecast indicates an increase in caseloads of individuals who are dually eligible for GA. This population, although small, can drive program spending, because they are a more expensive group than their MSA counterparts. Because they do not receive SSI payments like MSA recipients, their incomes tend to be lower and therefore they are eligible for higher monthly subsidies.

Health & Human Services Expenditures Increase $703 Million from FY 2012-13 to FY 2014-15.

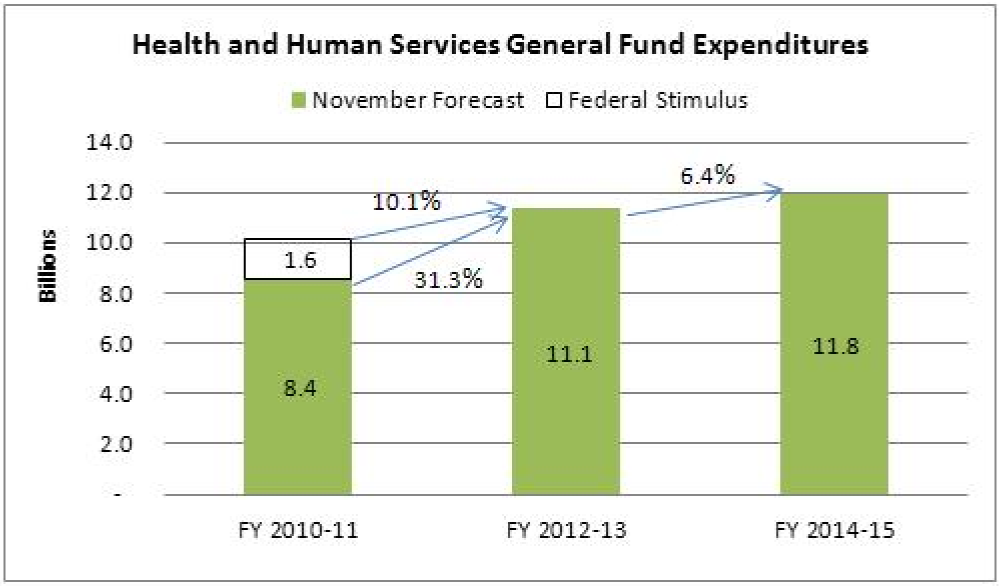
Health and human services expenditures for FY 2014-15 are expected to increase $703 million (6.4 percent) over the current biennium, which is less than previously forecast and reflects slower growth compared to the last biennium. Of the total biennial change in health and human services, $677 million (96 percent) is attributable to the Medical Assistance Program. Medical Assistance growth is driven by program enrollment, which is projected to increase by a total of 153 thousand average monthly enrollees between FY 2012 and FY 2015 or 6.4 percent annually over that same time period. Average cost is expected to remain fairly flat, except in the MA Elderly and Disabled population where average annual growth in cost is expected to be about 2.8 percent. Larger enrollment increases are expected in the MA Families with Children group, especially after January 1, 2014 when the individual mandate to purchase health insurance, required by the federal Affordable Care Act, comes into effect. The forecast incorporates enrollment increases for this group of 4.3 percent in 2014 and 11.3 percent in 2015 resulting both from the individual mandate and from the increase in MA coverage for caretakers up to 133 percent of the federal poverty level. Enrollment growth for MA Adults without Children with incomes below 133 percent of the federal poverty level does not increase forecast expenditures after January 1, 2014 because it is assumed that this group will be considered newly eligible under the federal law and as such a 100 percent federal match will be available to fund the group.





Health and human services expenditure growth between FY 2012-13 and FY 2014-15 is expected to slow from previous forecasts. Biennial growth from FY 2010-11 to FY 2012-13 was 10.1 percent including federal stimulus funds. At the February 2011 forecast, the biennial growth from FY 2012-13 to FY 2014-15 was expected to be similar at 10.6 percent; but growth over the same period is now expected to be significantly lower at 6.4 percent.

Reduced biennial growth is largely due to legislative changes enacted in the 2011 session. Compared to February 2011, forecast HHS expenditures for FY 2014-15 have decreased a total of $1.9 billion. Of that change, $1.7 billion can be attributed to legislative changes. The largest impacts on state expenditures included managed care reforms and related rate reductions to the Medical Assistance and MinnesotaCare programs, as well as the repeal of both inpatient hospital and nursing facility rebasing. The remaining $174 million in decreased expenditures for FY 2014-15 is largely attributed to additional pharmacy rebates to be collected on managed care business under the Affordable Care Act.



Spending in HHS economic assistance programs is forecast to grow by $53 million (8 percent) from FY 2012-13 to FY 2014-15. A majority of this biennial change is driven by Minnesota Family Investment Program (MFIP) and Group Residential Housing (GRH). MFIP general fund expenditures show a projected increase of $16 million (9 percent), yet the overall program spending across all funds is down 2 percent ($11 million) due in part to slightly improved economic conditions. This difference relates to Temporary Aid to Needy Families (TANF) maintenance of effort requirements that specify that the state must maintain spending at a certain level in order to receive federal grant dollars. MFIP general fund expenditures may be reduced before the end of the next biennium, if legislation authorizes the use of other state spending towards the requirement such as the Working Family Tax Credit. GRH biennial growth of $31 million (12 percent) is caused by increases in caseloads (9 percent) and average monthly costs (3 percent). This change is consistent with growth trends since 2000.

Tax Aids and Credits Expected Down $24.9 Million in FY 2012-13 From the End of Session

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

Expenditures for tax aids and credits are expected to be $2.839 billion in FY 2012-13, a decrease of $24.9 million (0.9 percent) from previous estimates for the biennium. The decrease is primarily the result of a decline in expected property tax refund payments, a reduction in expected police and fire aid payments and an accounting shift for income tax interactions related to the 2011 tax bill.

Property tax refunds to homeowners are projected to decline $18 million (2.8 percent) in FY 2012-13 compared to previous estimates due to lower than expected overall property tax levy growth. Aid to police and fire is expected to be $6.5 million (3.8 percent) lower than previous projections due to slower than expected growth in insurance premiums. A significant factor contributing to the net decline in the property tax aids and credits forecast is an accounting shift related to the income tax interactions resulting from the 2011 tax bill. This shift, which had a $16.15 million cost in end of session estimates, is now included in the income tax forecast.

The decline in projected property tax aid and credit spending for FY 2012-13 is partially offset by forecast growth in the renter property tax refund program of $7.5 million (2.0 percent) driven by increasing rent projections and correction of an accounting error in the market value homestead credit program related to the school aid payment shift in the end-of-session estimates.

FY 2014-15 Tax Aids and Credits Expenditures Expected to be $77 Million Lower Than FY 2012-13

Tax aids and credit spending is expected to be $2.762 billion in the FY 2014-15 biennium, a decrease of $77 million (2.7 percent) compared to forecast expenditures for the FY 2012-13 biennium. This decrease is due primarily to the elimination of the market value credit program which has a cost of $173 million in the current biennium but will have zero spending in the FY 2014-15 biennium. Partially offsetting this net decline is growth in the property tax refund program of $67.8 million (6.4 percent) due to forecast property tax growth, an increase in county program aid of $8.7 million (2.7 percent), growth in aid to police and fire aid of $9.7 million (5.8 percent) and $12 million in increased spending due to the return of the political contribution refund program in FY 2014.

Debt Service Projections Decrease $60 Million for FY 2012-13

Projected debt service costs for FY 2012-13 are now expected to be $473 million, down from $532 million from the July 2011 end-of-session estimates.

The primary reason for the lower debt service cost is due to the dollar amount of the premium forecast to be paid by the underwriter on the bond sales in the biennium. The forecast of lower interest rates result in the premiums increasing by $88 million. This reduction in debt service was offset by the increase in the size of the odd-numbered year capital budget. The forecast assumes future capital budgets of $775 million in each even-numbered legislative session and $225 million in each odd-numbered session. The previous estimate for odd-numbered session capital budgets was $175 million. The increase in the size of the capital budgets results in larger bond issues and thus an increase in debt service costs.

In order to increase liquidity and assist in managing the fluctuations of forecast state receipts and disbursements, the State renewed its line of credit in the maximum amount of $600 million. The projected cost for renewing the General Fund Line of Credit is expected to be $1.88 million. $612,000 of the cost was paid at the end FY 2011 in order to renew the line of credit. The remaining projected cost in FY 2012-13 is $1.27 million. This additional cost is included in the state's total debt service projections.

In November 2011, the Tobacco Securitization Authority, an authority independent from the state, issued $757 million in Tobacco Settlement Revenue Bonds. This bond issue resulted in net proceeds of $640 million to the state which was used to refund certain principal and interest payments of the state's debt which would have otherwise been paid for from the state's general fund. Of the $643 million savings ($640 million of net proceeds plus $3 million in investment interest), $636 million is credited to the state's debt service fund, $6 million offsets the debt payment for the Department of Management & Budget SWIFT system, and $1 million for the debt payment for the Department of Revenue Integrated Tax System. Investment interest earned on the net proceeds will be available to the state's debt service fund in the amount of $3.4 million. The tobacco bond proceeds will not be available to reduce debt service after FY2013.

FY 2014-15 Debt Service Projections Increase $856 Million Compared to FY 2012-13

The forecast debt service costs for FY 2014-15 is $1.330 billion, $856 million more than FY 2012-13 estimates.

The dramatic increase in costs is primarily due to use of the aforementioned tobacco bond proceeds. The tobacco bond proceeds were utilized in FY 2012-13 to pay the general obligation debt. In FY 2014-15, general obligation debt will be paid from the general fund. To a lesser extent, the higher debt service cost is due to the increase in the size of the capital budget, a decrease in the short term interest rates on cash balances for investment earnings, and reduced maximum effort capital loan repayments resulting from 2011 legislation allowing capital loan districts to pay off their loans.

The forecast assumes future capital budgets of $775 million in each even-numbered legislative session and $225 million in each odd-numbered session.

All Other Spending Up $28 Million in FY 2012-13 and $53 Million Higher in FY 2014-15

All other spending a relatively small percentage of the total budget; however, the area includes a broad range of agencies, program and services. The breadth of activities includes: natural resources and environmental programs, economic development, agriculture and veterans’ programs, public safety, the general fund portion of transportation, state regulatory and licensing activities, legislative and constitutional offices, as well as general state administration including tax collection, accounting and financial management, and human resources.

Funding for these areas is primarily set as fixed amounts by legislative appropriations. Changes in FY 2012-13 forecast in this area are almost exclusively due to the $38 million carried forward from FY 2011; however, technical adjustments, as well as a few open appropriations impact spending levels. As noted above, FY 2012-13 general fund debt service payments for MMB’s statewide accounting system and Department of Revenue’s integrated tax system reduce spending on a one-time basis in FY 2012-13 by a combined $7 million.

For most of the agencies and programs included in this area, FY 2014-15 current law planning estimates generally represent FY 2013 level of appropriations extended into the following two fiscal years. All other spending is projected to be $53 million higher in FY 2014-15 than in FY 2012-13. The majority of the increase is due to a one-time reduction to Metropolitan Council Transit of over $50 million in FY 2012-13 that is restored in FY 2014-15. As mentioned above, the use of tobacco bond proceeds to pay the debt service on a one-time basis for MMB’s statewide accounting system (SWIFT) and Department of Revenue’s integrated tax system impacts the biennial change. The debt service payments for these systems are once again paid from the general fund in FY 2014-15, increasing the estimates for state government spending compared to FY 2012-13.

Selective Statutory Provisions

Minnesota Statute 16A.152 BUDGET RESERVE AND CASH FLOW ACCOUNTS (Subdivision 2).

Subd. 2.**Additional revenues; priority.**

(a) If on the basis of a forecast of general fund revenues and expenditures, the commissioner of management and budget determines that there will be a positive unrestricted budgetary general fund balance at the close of the biennium, the commissioner of management and budget must allocate money to the following accounts and purposes in priority order:

(1) the cash flow account established in subdivision 1 until that account reaches $350,000,000;

(2) the budget reserve account established in subdivision 1a until that account reaches $653,000,000;

(3) the amount necessary to increase the aid payment schedule for school district aids and credits payments in section 127A.45 to not more than 90 percent rounded to the nearest tenth of a percent without exceeding the amount available and with any remaining funds deposited in the budget reserve;

(4) the amount necessary to restore all or a portion of the net aid reductions under section 127A.441 and to reduce the property tax revenue recognition shift under section 123B.75, subdivision 5, by the same amount;

(5) to the state airports fund, the amount necessary to restore the amount transferred from the state airports fund under Laws 2008, chapter 363, article 11, section 3, subdivision 5; and

(6) to the fire safety account in the special revenue fund, the amount necessary to restore transfers from the account to the general fund made in Laws 2010.

(b) The amounts necessary to meet the requirements of this section are appropriated from the general fund within two weeks after the forecast is released or, in the case of transfers under paragraph (a), clauses (3) and (4), as necessary to meet the appropriations schedules otherwise established in statute.

(c) The commissioner of management and budget shall certify the total dollar amount of the reductions under paragraph (a), clauses (3) and (4), to the commissioner of education. The commissioner of education shall increase the aid payment percentage and reduce the property tax shift percentage by these amounts and apply those reductions to the current fiscal year and thereafter.

ALTERNATIVE FORECAST COMPARISON
REAL GDP (ANNUAL RATES)

	11III	11IV	12I	12II	12III	12IV	10A	11A	12A
GII Baseline (11-11)	2.5	2.0	1.4	1.1	1.5	2.1	3.0	1.8	1.6
Blue Chip (11-11)	2.5	2.3	1.9	2.2	2.4	2.6	3.0	1.8	2.1
Moody's Economy.Com (11-11)	2.5	2.6	2.1	2.9	3.1	3.5	3.0	1.8	2.6
UBS (11-11)	2.5	2.0	2.0	2.5	2.5	3.0	3.0	1.7	2.3
Standard & Poors (11-11)	2.5	2.4	1.5	N/A	N/A	N/A	3.0	1.8	1.7

CONSUMER PRICE INDEX (ANNUAL RATES)

	11III	11IV	12I	12II	12III	12IV	10A	11A	12A
GII Baseline (11-11)	3.1	1.1	0.9	0.9	1.4	1.2	1.6	3.2	1.5
Blue Chip (11-11)	3.1	1.9	2.0	1.9	2.2	2.1	1.6	3.2	2.2
Moody's Economy.Com (11-11)	3.1	1.0	1.8	1.7	2.1	2.4	1.6	3.1	2.0
UBS (11-11)	3.1	0.6	1.4	1.0	3.5	2.0	1.6	3.2	1.9
Standard & Poors (11-11)	3.1	1.1	0.9	N/A	N/A	N/A	1.6	3.2	1.5

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
Nov 11 GII Baseline	3.0	1.8	1.6	2.5	3.5	3.3

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
Nov 11 GII Baseline	1.6	3.2	1.5	1.7	2.0	2.1

MINNESOTA - U.S. COMPARISON REPORT

November 2011 Baseline

(Annual Percent Changes)

	2007	2008	2009	2010	2011	2012	2013
Wage and Salary Income							
United States	5.8	2.0	-4.3	2.2	4.0	2.9	4.0
Minnesota	6.0	2.8	-4.7	3.0	4.8	3.7	4.1
Implied Annual Wage							
United States	4.7	2.6	0.0	2.9	3.0	2.0	2.6
Minnesota	5.5	3.1	-0.9	3.5	3.5	2.4	2.5
Non-Farm Employment							
United States	1.1	-0.6	-4.4	-0.7	1.0	0.9	1.4
Minnesota	0.5	-0.3	-3.9	-0.5	1.3	1.3	1.6
Personal Income							
United States	5.7	4.6	-4.3	3.7	5.0	3.1	3.6
Minnesota	5.3	5.2	-4.5	4.7	5.8	3.1	3.6

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

	October YTD, 2011 -FY2012			October Monthly FY2012		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	2,069,706	2,084,897	15,191	506,790	514,611	7,821
Declarations	241,498	277,632	36,133	14,634	14,403	(231)
Miscellaneous	126,069	120,369	(5,700)	58,405	48,191	(10,214)
Gross	2,437,273	2,482,898	45,625	579,829	577,205	(2,624)
Refund	73,894	68,216	(5,677)	44,155	43,588	(567)
Net	2,363,380	2,414,681	51,302	535,674	533,617	(2,057)
Corporate & Bank Excise						
Declarations	227,595	276,987	49,392	29,795	32,536	2,741
Miscellaneous	76,987	75,962	(1,025)	29,217	21,081	(8,136)
Gross	304,582	352,949	48,366	59,012	53,617	(5,395)
Refund	14,220	23,586	9,366	3,665	13,269	9,604
Net	290,363	329,363	39,000	55,347	40,348	(14,999)
Sales Tax						
Gross	1,562,601	1,570,611	8,010	435,408	434,157	(1,251)
Refunds	58,600	34,779	(23,821)	19,800	18,641	(1,159)
Net	1,504,001	1,535,832	31,831	415,608	415,516	(92)
Other Revenues:						
Estate	53,233	52,520	(713)	13,308	10,627	(2,681)
Liquor/Wine/Beer	21,064	21,907	843	6,219	6,505	286
Cigarette/Tobacco/Cont Sub	69,309	66,731	(2,578)	23,452	19,435	(4,017)
Deed and Mortgage	37,595	38,049	454	11,110	15,514	4,404
Insurance Gross Earnings	67,067	68,862	1,795	1,406	7,376	5,970
Lawful Gambling	10,471	10,841	370	2,560	2,874	314
Health Care Surcharge	77,996	45,962	(32,034)	19,485	15,122	(4,362)
Other Taxes	340	223	(117)	57	61	4
Statewide Property Tax	177,532	159,540	(17,992)	169,813	141,158	(28,655)
DHS SOS Collections	15,143	21,264	6,121	3,786	4,779	993
Income Tax Reciprocity	58,697	0	(58,697)		0	0
Investment Income	500	0	(500)	167	0	(166)
Tobacco Settlement	100	100	0	0	0	0
Departmental Earnings	77,932	63,635	(14,297)	32,127	38,377	6,251
Fines and Surcharges	23,587	9,362	(14,224)	7,891	(10,436)	(18,327)
Lottery Revenues	13,228	6,367	(6,861)	4,409	5,327	918
Revenues yet to be allocated	0	1,052	1,052		(1,433)	(1,433)
Residual Revenues	46,777	54,606	7,829	6,518	3,832	(2,686)
County Nursing Home, Pub Hosp IGT	2,264	2,093	(171)	566	961	395
Other Subtotal	752,837	623,115	(129,721)	302,873	260,080	(42,793)
Other Refunds	12,135	8,200	(3,934)	2,685	5,322	2,637
Other Net	740,702	614,915	(125,787)	300,189	254,758	(45,431)
Total Gross	**5,057,293**	**5,029,573**	**(27,720)**	**1,377,122**	**1,325,059**	**(52,063)**
Total Refunds	**158,848**	**134,781**	**(24,067)**	**70,304**	**80,820**	**10,515**
Total Net	**4,898,445**	**4,894,792**	**(3,653)**	**1,306,818**	**1,244,239**	**(62,579)**

FACTORS AFFECTING THE INDIVIDUAL INCOME TAX

($ in billions)

	Calendar Year					
	2008	2009	2010	2011	2012	2013
Minnesota Non-Farm Tax Base						
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
November 2011 Baseline	185.889	171.854	178.433	187.762	194.610	202.278
Minnesota Wage and Salary Income						
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
November 2011 Baseline	127.594	121.536	125.211	131.254	136.156	141.758
Minnesota Property Income						
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
November 2011 Baseline	43.252	37.088	38.386	40.661	41.734	42.887
Minnesota Proprietors' Income						
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
November 2011 Baseline	15.063	13.231	14.835	15.846	16.723	17.635

(1) Bureau of Economic Analysis Concept

FACTORS AFFECTING SALES AND CORPORATE INCOME TAX

($ in billions)

	Fiscal Year					
	2008	2009	2010	2011	2012	2013
SALES TAX						
Minnesota Synthetic Sales Tax Base						
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%
November 2011 Baseline	72.363	68.089	66.277	70.523	74.604	76.674
Pct.	2.1%	-5.9%	-2.7%	6.4%	5.8%	2.8%
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)						
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
November 2011 Baseline	14.098	12.397	12.838	13.523	14.165	14.636
Minnesota's Proxy Share of U.S. Capital Equipment Spending						
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
November 2011 Baseline	12.861	11.459	11.147	12.600	13.769	14.415
Minnesota's Proxy Share of U.S. Construction						
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
November 2011 Baseline	6.433	5.599	4.734	4.705	5.148	5.414

FACTORS AFFECTING SALES AND CORPORATE INCOME TAX

($ in billions)

		Fiscal Year					
		2008	**2009**	**2010**	**2011**	**2012**	**2013**
SALES TAX (Cont.)							
Minnesota's Personal Income Excluding Farm Proprietors Income							
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
November 2007 Baseline							
CORPORATE FRANCHISE TAX		**Calendar Year**					
U.S. Corporate Profits							
November 2007 Baseline	(2)	1,302.8	1,355.1				
February 2008 Baseline	(2)	1,310.7	1,326.7				
November 2008 Baseline	(2)	1,402.8	1,286.4	1,446.5	1,493.8		
February 2009 Baseline	(2)	1,378.7	993.6	1,286.7	1,480.7		
November 2009 Baseline	(2)	1,219.7	1,189.1	1,291.5	1,480.7		
February 2010 Baseline	(2)	1,219.7	1,167.9	1,273.0	1,466.8		
November 2010 Baseline	(2)	1,031.3	1,012.8	1,369.3	1,365.1	1,427.0	1,486.0
February 2011 Baseline	(2)	1,031.3	1,012.8	1,386.5	1,401.1	1,349.3	1,426.8
November 2011 Baseline	(3)	851.2	953.7	1,385.7	1,518.5	1,492.7	1,571.1

(1) Bureau of Economic Analysis Concept
(2) MMB Estimate of Domestic Corporate Profits & adjusted to net effects of Federal Tax Acts
(3) Before tax Domestic Corporate Profits with capital consumption adjustment, less profits of the Federal Reserve System.

FY 2010-11 Biennium

November 2011 General Fund Forecast

($ in thousands)

	Actual FY 2010	Closing 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	14,854,807	28,220,967
Non-Tax Revenues	805,300	807,944	1,613,244
Subtotal - Non-Dedicated Revenue	14,171,460	15,662,751	29,834,211
Dedicated Revenue	16,383	1,584	17,967
Transfers In	391,546	484,327	875,873
Prior Year Adjustments	40,376	35,016	75,392
Subtotal - Other Revenue	448,305	520,927	969,232
Subtotal-Current Resources	14,619,765	16,183,678	30,803,443
Total Resources Available	**15,066,686**	**16,623,408**	**31,250,364**
Actual & Estimated Spending			
K-12 Education	6,401,429	6,903,566	13,304,995
K-12 Ptx Rec Shift/Aid Payment Shift	(1,063,551)	(819,703)	(1,883,254)
Subtotal K-12 Education	5,337,878	6,083,863	11,421,741
Higher Education	1,455,940	1,356,673	2,812,613
Property Tax Aids & Credits	1,614,125	1,401,477	3,015,602
Health & Human Services	4,103,878	4,322,875	8,426,753
Public Safety	855,603	946,361	1,801,964
Transportation	96,896	69,562	166,458
Environment, Energy & Natural Resources	152,371	149,833	302,204
Agriculture & Veterans	41,592	41,459	83,051
Economic Development	90,723	105,143	195,866
State Government	416,162	441,133	857,295
Debt Service	429,123	401,118	830,241
Capital Projects	10,250	12,648	22,898
Deficiencies/Other	12,212	0	12,212
Estimated Cancellations	0	0	0
Subtotal Expenditures & Transfers	**14,616,753**	**15,332,145**	**29,948,898**
Dedicated Expenditures	10,203	2,590	12,793
Total Expenditures & Transfers	**14,626,956**	**15,334,735**	**29,961,691**
Balance Before Reserves	**439,730**	**1,288,673**	**1,288,673**
Cash Flow Account	266,000	266,000	266,000
Budget Reserve	0	8,665	8,665
Appropriations Carried Forward	106,652	37,860	37,860
Budgetary Balance	**67,078**	**976,148**	**976,148**

FY 2010-11 Comparison: End of Session vs. Close
November 2011 General Fund Forecast
($ in thousands)

	7-11 Spec Sess 1 FY 2010-11	11-11 Fcst FY 2010-11	Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	446,921	446,921	0
Current Resources:			
Tax Revenues	27,883,752	28,220,967	337,215
Non-Tax Revenues	1,595,773	1,613,244	17,471
Subtotal - Non-Dedicated Revenue	29,479,525	29,834,211	354,686
Dedicated Revenue	17,983	17,967	(16)
Transfers In	882,360	875,873	(6,487)
Prior Year Adjustments	65,376	75,392	10,016
Subtotal - Other Revenue	965,719	969,232	3,513
Subtotal-Current Resources	30,445,244	30,803,443	358,199
Total Resources Available	**30,892,165**	**31,250,364**	**358,199**
Actual & Estimated Spending			
K-12 Education	13,312,526	13,304,995	(7,531)
K-12 Ptx Rec Shift/Aid Payment Shift	(1,882,941)	(1,883,254)	(313)
Subtotal K-12 Education	11,429,585	11,421,741	(7,844)
Higher Education	2,814,217	2,812,613	(1,604)
Property Tax Aids & Credits	3,016,002	3,015,602	(400)
Health & Human Services	8,575,672	8,426,753	(148,919)
Public Safety	1,822,206	1,801,964	(20,242)
Transportation	167,036	166,458	(578)
Environment, Energy & Natural Resources	312,018	302,204	(9,814)
Agriculture & Veterans	86,727	83,051	(3,676)
Economic Development	195,430	195,866	436
State Government	884,802	857,295	(27,507)
Debt Service	829,701	830,241	540
Capital Projects	22,898	22,898	0
Deficiencies/Other	16,814	12,212	(4,602)
Estimated Cancellations	(18,700)	0	18,700
Subtotal Expenditures & Transfers	**30,154,408**	**29,948,898**	**(205,510)**
Dedicated Expenditures	12,703	12,793	90
Total Expenditures & Transfers	**30,167,111**	**29,961,691**	**(205,420)**
Balance Before Reserves	**725,054**	**1,288,673**	**563,619**
Cash Flow Account	266,000	266,000	0
Budget Reserve	8,665	8,665	0
Appropriations Carried Forward	0	37,860	37,860
Budgetary Balance	**450,389**	**976,148**	**525,759**

FY 2012-13 Current Biennium Forecast Comparison

November 2011 General Fund Forecast - Before Statutory Allocations

($ in thousands)

	7-11 Spec Sess 1 FY 2012-13	11-11 Fcst FY 2012-13	Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	725,054	1,288,673	563,619
Current Resources:			
Tax Revenues	31,192,811	31,181,960	(10,851)
Non-Tax Revenues	1,441,168	1,450,994	9,826
Subtotal - Non-Dedicated Revenue	32,633,979	32,632,954	(1,025)
Dedicated Revenue	3,200	1,200	(2,000)
Transfers In	1,036,580	1,015,887	(20,693)
Prior Year Adjustments	50,000	50,000	0
Subtotal - Other Revenue	1,089,780	1,067,087	(22,693)
Subtotal-Current Resources	33,723,759	33,700,041	(23,718)
Total Resources Available	**34,448,813**	**34,988,714**	**539,901**
Actual & Estimated Spending			
K-12 Education	14,545,312	14,520,262	(25,050)
K-12 Ptx Rec Shift/Aid Payment Shift	(906,741)	(866,726)	40,015
Subtotal K-12 Education	13,638,571	13,653,536	14,965
Higher Education	2,565,517	2,565,517	0
Property Tax Aids & Credits	2,864,001	2,839,097	(24,904)
Health & Human Services	11,372,201	11,064,055	(308,146)
Public Safety	1,807,417	1,814,510	7,093
Transportation	125,658	125,658	0
Environment, Energy & Natural Resources	252,704	257,758	5,054
Agriculture & Veterans	76,601	79,876	3,275
Economic Development	170,270	176,632	6,362
State Government	905,000	912,936	7,936
Debt Service	532,400	474,148	(58,252)
Capital Projects	45,219	45,219	0
Estimated Cancellations	(20,000)	(20,000)	0
Subtotal Expenditures & Transfers	34,335,559	33,988,942	(346,617)
Dedicated Expenditures	3,200	1,527	(1,673)
Total Expenditures & Transfers	**34,338,759**	**33,990,469**	**(348,290)**
Balance Before Reserves	**110,054**	**998,245**	**888,191**
Cash Flow Account	95,000	95,000	0
Budget Reserve	0	26,995	26,995
Budgetary Balance	**15,054**	**876,250**	**861,196**

FY 2012-13 Current Biennium Forecast Comparison
November 2011 General Fund Forecast - After Statutory Allocations
($ in thousands)

	7-11 Spec Sess 1 FY 2012-13	11-11 Fcst FY 2012-13	Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	725,054	1,288,673	563,619
Current Resources:			
Tax Revenues	31,192,811	31,181,960	(10,851)
Non-Tax Revenues	1,441,168	1,450,994	9,826
Subtotal - Non-Dedicated Revenue	32,633,979	32,632,954	(1,025)
Dedicated Revenue	3,200	1,200	(2,000)
Transfers In	1,036,580	1,015,887	(20,693)
Prior Year Adjustments	50,000	50,000	0
Subtotal - Other Revenue	1,089,780	1,067,087	(22,693)
Subtotal-Current Resources	33,723,759	33,700,041	(23,718)
Total Resources Available	**34,448,813**	**34,988,714**	**539,901**
Actual & Estimated Spending			
K-12 Education	14,545,312	14,520,262	(25,050)
K-12 Ptx Rec Shift/Aid Payment Shift	(906,741)	(866,726)	40,015
Subtotal K-12 Education	13,638,571	13,653,536	14,965
Higher Education	2,565,517	2,565,517	0
Property Tax Aids & Credits	2,864,001	2,839,097	(24,904)
Health & Human Services	11,372,201	11,064,055	(308,146)
Public Safety	1,807,417	1,814,510	7,093
Transportation	125,658	125,658	0
Environment, Energy & Natural Resources	252,704	257,758	5,054
Agriculture & Veterans	76,601	79,876	3,275
Economic Development	170,270	176,632	6,362
State Government	905,000	912,936	7,936
Debt Service	532,400	474,148	(58,252)
Capital Projects	45,219	45,219	0
Estimated Cancellations	(20,000)	(20,000)	0
Subtotal Expenditures & Transfers	34,335,559	33,988,942	(346,617)
Dedicated Expenditures	3,200	1,527	(1,673)
Total Expenditures & Transfers	**34,338,759**	**33,990,469**	**(348,290)**
Balance Before Reserves	**110,054**	**998,245**	**888,191**
Cash Flow Account	95,000	350,000	255,000
Budget Reserve	0	648,245	648,245
Budgetary Balance	**15,054**	**0**	**(15,054)**

* The November 2011 forecast balance of $876 million for FY 2012-13 is allocated by statute to restoring reserves: cash flow account ($255 million) and budget reserve ($621 million)

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

	11-11 Fcst FY 2012	11-11 Fcst FY 2013	Biennial Total
Actual & Estimated Resources			
Balance Forward From Prior Year	1,288,673	1,323,514	1,288,673
Current Resources:			
Tax Revenues	15,388,573	15,793,387	31,181,960
Non-Tax Revenues	753,075	697,919	1,450,994
Subtotal - Non-Dedicated Revenue	16,141,648	16,491,306	32,632,954
Dedicated Revenue	600	600	1,200
Transfers In	462,797	553,090	1,015,887
Prior Year Adjustments	25,000	25,000	50,000
Subtotal - Other Revenue	488,397	578,690	1,067,087
Subtotal-Current Resources	16,630,045	17,069,996	33,700,041
Total Resources Available	**17,918,718**	**18,393,510**	**34,988,714**
Actual & Estimated Spending			
K-12 Education	7,116,650	7,403,612	14,520,262
K-12 Ptx Rec Shift/Aid Payment Shift	(755,904)	(110,822)	(866,726)
Subtotal K-12 Education	6,360,746	7,292,790	13,653,536
Higher Education	1,282,884	1,282,633	2,565,517
Property Tax Aids & Credits	1,470,014	1,369,083	2,839,097
Health & Human Services	5,572,596	5,491,459	11,064,055
Public Safety	908,602	905,908	1,814,510
Transportation	62,829	62,829	125,658
Environment, Energy & Natural Resources	131,410	126,348	257,758
Agriculture & Veterans	48,681	31,195	79,876
Economic Development	93,997	82,635	176,632
State Government	454,977	457,959	912,936
Debt Service	192,070	282,078	474,148
Capital Projects	20,471	24,748	45,219
Estimated Cancellations	(5,000)	(15,000)	(20,000)
Subtotal Expenditures & Transfers	16,594,277	17,394,665	33,988,942
Dedicated Expenditures	927	600	1,527
Total Expenditures & Transfers	**16,595,204**	**17,395,265**	**33,990,469**
Balance Before Reserves	**1,323,514**	**998,245**	**998,245**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	648,245	648,245	648,245
Budgetary Balance	**325,269**	**0**	**0**

∗ The November 2011 forecast balance of $876 million for FY 2012-13 is allocated by statute to restoring reserves: cash flow account ($255 million) and budget reserve ($621 million)

General Fund Biennial Comparison - November 2011 Forecast
FY 2012-13 vs. FY 2010-11
($ in thousands)

	11-11 Fcst FY 2010-11	11-11 Fcst FY 2012-13	$ Change	% Change
Actual & Estimated Resources				
Balance Forward From Prior Year	446,921	1,288,673	841,752	188.3
Current Resources:				
Tax Revenues	28,220,967	31,181,960	2,960,993	10.5
Non-Tax Revenues	1,613,244	1,450,994	(162,250)	(10.1)
Subtotal - Non-Dedicated Revenue	29,834,211	32,632,954	2,798,743	9.4%
Dedicated Revenue	17,967	1,200	(16,767)	(93.3)
Transfers In	875,873	1,015,887	140,194	16.0
Prior Year Adjustments	75,392	50,000	(25,392)	(33.7)
Subtotal - Other Revenue	969,232	1,067,087	98,035	10.1
Subtotal-Current Resources	30,803,443	33,700,041	2,896,778	9.4
Total Resources Available	**31,250,364**	**34,988,714**	**3,738,530**	**12.0**
Actual & Estimated Spending				
K-12 Education	13,304,995	14,520,262	1,215,267	
K-12 Ptx Rec Shift/Aid Payment Shift	(1,883,254)	(866,726)	1,016,528	
Subtotal K-12 Education	11,421,741	13,653,536	2,231,795	19.5
Higher Education	2,812,613	2,565,517	(247,096)	(8.8)
Property Tax Aids & Credits	3,015,602	2,839,097	(176,505)	(5.9)
Health & Human Services	8,426,753	11,064,055	2,637,302	31.3
Public Safety	1,801,964	1,814,510	12,546	0.7
Transportation	166,458	125,658	(40,800)	(24.5)
Environment, Energy & Natural Resources	302,204	257,758	(44,443)	(14.7)
Agriculture & Veterans	83,051	79,876	(3,175)	(3.8)
Economic Development	195,866	176,632	(19,234)	(9.8)
State Government	857,295	912,936	55,641	6.5
Debt Service	830,241	474,148	(356,093)	(42.9)
Capital Projects	22,898	45,219	22,321	97.5
Deficiencies/Other	12,212		(12,212)	
Estimated Cancellations	0	(20,000)	(20,000)	
Subtotal Expenditures & Transfers	29,948,898	33,988,942	4,040,047	13.5
Dedicated Expenditures	12,793	1,527	(11,266)	(88.1)
Total Expenditures & Transfers	**29,961,691**	**33,990,469**	**4,028,781**	**13.4**
Balance Before Reserves	**1,288,673**	**998,245**	**(290,251)**	
Cash Flow Account	266,000	350,000	95,000	
Budget Reserve	8,665	648,245	639,580	
Appropriations Carried Forward	37,860	0	(37,860)	
Budgetary Balance	**976,148**	**0**	**(986,971)**	

FY 2014-15 Planning Estimates
November 2011 General Fund Forecast
($ in thousands)

	7-11 Spec Sess 1 FY 2014-15	11-11 Plng Est FY 2014-15	Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	110,054	998,245	888,191
Current Resources:			
Tax Revenues	33,479,436	33,847,410	367,974
Non-Tax Revenues	1,189,854	1,246,925	57,071
Subtotal - Non-Dedicated Revenue	34,669,290	35,094,335	425,045
Dedicated Revenue	3,000	1,200	(1,800)
Transfers In	573,823	571,973	(1,850)
Prior Year Adjustments	50,000	50,000	0
Subtotal - Other Revenue	626,823	623,173	(3,650)
Subtotal-Current Resources	35,296,113	35,717,508	421,395
Total Resources Available	**35,406,167**	**36,715,753**	**1,309,586**
Actual & Estimated Spending			
K-12 Education	15,307,448	15,301,534	(5,914)
K-12 Ptx Rec Shift/Aid Payment Shift	(167,934)	(156,151)	11,783
Subtotal K-12 Education	15,139,514	15,145,383	5,869
Higher Education	2,565,266	2,565,266	0
Property Tax Aids & Credits	2,823,108	2,761,929	(61,179)
Health & Human Services	11,940,346	11,766,783	(173,563)
Public Safety	1,819,446	1,814,025	(5,421)
Transportation	180,060	180,060	0
Environment, Energy & Natural Resources	263,748	263,748	0
Agriculture & Veterans	77,592	77,592	0
Economic Development	165,270	165,270	0
State Government	915,935	910,231	(5,704)
Debt Service	1,258,425	1,329,956	71,531
Capital Projects	55,668	55,668	0
Estimated Cancellations	(20,000)	(20,000)	0
Subtotal Expenditures & Transfers	37,184,378	37,015,911	(168,467)
Dedicated Expenditures	3,000	1,200	(1,800)
Total Expenditures & Transfers	**37,187,378**	**37,017,111**	**(170,267)**
Balance Before Reserves	**(1,781,211)**	**(301,358)**	**1,479,853**
Cash Flow Account	95,000	350,000	255,000
Budget Reserve	0	648,245	648,245
Budgetary Balance	**(1,876,211)**	**(1,299,603)**	**576,608**
Structural Balance	***(1,891,265)***	***(1,299,603)***	***591,662***

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

	11-11 Fcst FY 2012-13	11-11 Fcst FY 2014-15	Difference	% Change
Actual & Estimated Resources				
Balance Forward From Prior Year	1,288,673	998,245	(290,428)	(22.5)
Current Resources:				
Tax Revenues	31,181,960	33,847,410	2,665,450	8.5
Non-Tax Revenues	1,450,994	1,246,925	(204,069)	(14.1)
Subtotal - Non-Dedicated Revenue	32,632,954	35,094,335	2,461,381	7.5
Dedicated Revenue	1,200	1,200	0	0.0
Transfers In	1,015,887	571,973	(443,914)	(43.7)
Prior Year Adjustments	50,000	50,000	0	0.0
Subtotal - Other Revenue	1,067,087	623,173	(443,914)	(41.6)
Subtotal-Current Resources	33,700,041	35,717,508	2,017,467	6.0
Total Resources Available	**34,988,714**	**36,715,753**	**1,727,039**	**4.9**
Actual & Estimated Spending				
K-12 Education	14,520,262	15,301,534	781,272	
K-12 Ptx Rec Shift/Aid Payment Shift	(866,726)	(156,151)	710,575	
Subtotal K-12 Education	13,653,536	15,145,383	1,491,847	10.9
Higher Education	2,565,517	2,565,266	(251)	0.0
Property Tax Aids & Credits	2,839,097	2,761,929	(77,168)	(2.7)
Health & Human Services	11,064,055	11,766,783	702,728	6.4
Public Safety	1,814,510	1,814,025	(485)	0.0
Transportation	125,658	180,060	54,402	43.3
Environment, Energy & Natural Resources	257,758	263,748	5,990	2.3
Agriculture & Veterans	79,876	77,592	(2,284)	(2.9)
Economic Development	176,632	165,270	(11,362)	(6.4)
State Government	912,936	910,231	(2,705)	(0.3)
Debt Service	474,148	1,329,956	855,808	180.5
Capital Projects	45,219	55,668	10,449	23.1
Estimated Cancellations	(20,000)	(20,000)	0	
Subtotal Expenditures & Transfers	33,988,942	37,015,911	3,026,969	**8.9**
Dedicated Expenditures	1,527	1,200	(327)	**(21.4)**
Total Expenditures & Transfers	**33,990,469**	**37,017,111**	**3,026,642**	**8.9**
Balance Before Reserves	**998,245**	**(301,358)**	**(1,299,603)**	
Cash Flow Account	350,000	350,000	0	
Budget Reserve	648,245	648,245	0	
Budgetary Balance	**0**	**(1,299,603)**	**(1,299,603)**	

Historical and Projected Revenue Growth
November 2011 Forecast
($ in millions)

	Actual FY 2008	Actual FY 2009	Actual FY 2010	Closing FY 2011	Estimated FY 2012	Estimated FY 2013	Average Annual
Individual Income Tax	$7,759	$6,988	$6,531	$7,529	$7,948	$8,266	
$ change		(771)	(457)	998	419	318	
% change		**(9.9%)**	**(6.5%)**	**15.3%**	**5.6%**	**4.0%**	**1.3%**
Sales Tax	4,571	4,344	4,177	4,403	4,619	4,720	
$ change		(227)	(167)	226	216	101	
% change		**(5.0%)**	**(3.8%)**	**5.4%**	**4.9%**	**2.2%**	**0.6%**
Corporate Tax	1,020	708	664	925	936	889	
$ change		(312)	(44)	261	11	(47)	
% change		**(30.6%)**	**(6.2%)**	**39.3%**	**1.2%**	**(5.0%)**	**(2.7%)**
Statewide Property Tax	704	729	767	767	780	801	
$ change		25	38	0	13	21	
% change		**3.6%**	**5.2%**	**0.0%**	**1.7%**	**2.7%**	**2.6%**
Motor Vehicle Sales	186	117	74	31	0	0	
$ change		(69)	(43)	(43)	(31)	0	
% change		**(37.1%)**	**(36.8%)**	**(58.1%)**	**n/a**	**n/a**	**(100.0%)**
Other Tax Revenue	1,172	1,164	1,153	1,200	1,106	1,117	
$ change		(8)	(11)	47	(94)	11	
% change		**(0.7%)**	**(0.9%)**	**4.1%**	**(7.8%)**	**1.0%**	**(1.0%)**
Total Tax Revenue	$15,412	$14,050	$13,366	$14,855	$15,389	$15,793	
$ change		(1,362)	(684)	1,489	534	404	
% change		**(8.8%)**	**(4.9%)**	**11.1%**	**3.6%**	**2.6%**	**0.5%**
Non-Tax Revenues	824	762	805	808	753	698	
$ change		-62	43	3	(55)	(55)	
% change		**(7.5%)**	**5.6%**	**0.4%**	**(6.8%)**	**(7.3%)**	**(3.3%)**
Dedicated, Transfers, Other	444	576	448	521	488	579	
$ change		132	(128)	73	(33)	91	
% change		**29.7%**	**(22.2%)**	**16.3%**	**(6.3%)**	**18.6%**	**5.5%**
Total Current Resources	$16,680	$15,388	$14,619	$16,184	$16,630	$17,070	
$ change		(1,292)	(769)	1,565	446	440	
% change		**(7.7%)**	**(5.0%)**	**10.7%**	**2.8%**	**2.6%**	**0.5%**

Historical and Projected Spending Growth

November 2011 Forecast
($ in millions)

	Actual FY2008	Actual FY2009	Actual FY 2010	Closing FY 2011	Estimated FY 2012	Estimated FY 2013	Average Annual
K-12 Education	$6,819	$6,938	$5,338	$6,084	$6,361	$7,293	
$ change		119	(1,600)	746	277	932	
% change		**1.7%**	**(23.1%)**	**14.0%**	**4.6%**	**14.7%**	**1.4%**
Higher Education	1,563	1,550	1,456	1,357	1,283	1,283	
$ change		(13)	(94)	(99)	(74)	0	
% change		**(0.8%)**	**(6.1%)**	**(6.8%)**	**(5.5%)**	**0.0%**	**(3.9%)**
Prop. Tax Aids & Credits	1,581	1,489	1,614	1,401	1,470	1,369	
$ change		(92)	125	(213)	69	(101)	
% change		**(5.8%)**	**8.4%**	**(13.2%)**	**4.9%**	**(6.9%)**	**(2.8%)**
Health & Human Services	4,630	4,460	4,104	4,323	5,573	5,491	
$ change		(170)	(356)	219	1,250	(82)	
% change		**(3.7%)**	**(8.0%)**	**5.3%**	**28.9%**	**(1.5%)**	**3.5%**
Public Safety	909	957	856	946	909	906	
$ change		48	(101)	90	(37)	(3)	
% change		**5.3%**	**(10.6%)**	**10.5%**	**(3.9%)**	**(0.3%)**	**-0.1%**
Debt Service	409	453	429	401	192	282	
$ change		44	(24)	(28)	(209)	90	
% change		**10.8%**	**(5.3%)**	**(6.5%)**	**(52.1%)**	**46.9%**	**(7.2%)**
All Other	1,094	1,014	830	823	807	771	
$ change		(80)	(184)	(7)	(16)	(36)	
% change		**(7.3%)**	**(18.1%)**	**(0.8%)**	**(1.9%)**	**(4.5%)**	**(6.8%)**
Total Spending	$17,005	$16,861	$14,627	$15,335	$16,595	$17,395	
$ change		(144)	(2,234)	708	1,260	800	
% change		**(0.8%)**	**(13.2%)**	**4.8%**	**8.2%**	**4.8%**	**0.5%**