MINNESOTA Management & Budget

February 2012 Forecast

HIGHLIGHTS

Lower Spending Estimates, Small Revenue Gains Improve State Finances

Minnesota's budget outlook has improved by $323 million. General fund revenues for FY 2012-13 are forecast to be $33.793 billion, $93 million (0.3 percent) more than in November and spending is expected to be $230 million (0.7 percent) less than November's estimates.

Forecast Balance Triggers Partial Buyback of School Aid Shift

The entire forecast balance is automatically allocated under current law. The first $5 million is added to the budget reserve bringing it to $653 million. The remaining $318 million is directed to reducing the school aid shifts enacted in recent legislative sessions. Repaying part of the shift increases overall FY 2012-13 education spending and increases the state's current year payment to schools from 60 percent of the entitlement to 64.3 percent. After this action, $2.4 billion in school payment shifts remain to be bought back.

Economic Outlook Improves, Possibility of 2012 Recession Declines

Global Insight's baseline forecast has changed only slightly since November. February's baseline calls for real GDP growth of 2.1 percent in 2012 and 2.3 percent in 2013. The November baseline called for real growth rates of 1.6 percent and 2.5 percent respectively. The probability of a recession in 2012 has been reduced from 40 percent to 25 percent while the probability that the economy will outperform the baseline has increased from 10 percent to 20 percent.

FY 2014-15 Estimates Improve Slightly, $1.1 Billion Shortfall Projected

Planning estimates for FY 2014-15 show a projected shortfall of $1.103 billion, down from November's estimate of $1.300 billion. Federal policy unknowns, such as post-election fiscal policy and state policy choices related to the implementation of the Affordable Care Act, have increased the likelihood of significant changes to the 2014-15 budget outlook.

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Budget Summary

$323 Million Projected FY 2012-13 Balance Triggers School Shift Buyback

Minnesota's financial outlook has improved slightly since November. Forecast revenues are now expected to be $33.793 billion, up $93 million from November estimates and forecast spending is projected to be $33.761 billion, a $230 million decline from previous estimates. These forecast changes result in an expected forecast balance of $323 million. But, after completing a statutorily required transfer to the budget reserve and a partial buyback of school aid shifts, the available balance remains at zero.

FY 2012-13 Forecast
($ in millions)

	February Forecast	Change
Beginning Balance	$1,289	$0
Revenues	33,793	93
Spending	33,761	(230)
Cash Flow Acct	350	0
Budget Reserve	648	0
Forecast Balance	**$323**	**$323**
Transfer to Budget Reserve		*5*
School Shift Buyback		*318*
Available Balance		**$0**

More than two-thirds of the forecast gain came from a $230 million reduction in projected spending. Most of the savings come from the Medical Assistance (MA) program where enrollments and costs for the early expansion of MA for adults without children continued to be significantly lower than anticipated. Education and other spending programs showed relatively little change.

Forecast revenues increased by only $93 million or less than 0.3 percent. Income and sales tax forecasts were up a total of $71 million, while expected corporate tax receipts fell by $26 million. About one-half of the additional forecast revenue came from changes to the forecasts for all other taxes, non-tax revenue and transfers.

Available Balance Drops to Zero after Reserve Transfer and School Shift Buyback

As in November, current law allocates all of the projected balance to restoring the budget reserve and to buying back of a portion of the K-12 education shifts enacted in the 2009, 2010 and 2011 legislative sessions. The order in which the buybacks proceed are specified in Minnesota Statutes 16A.152 which requires that if there is a positive general fund balance at the close of the biennium, that money be allocated *first*, to the cash flow account; *second*, to the budget reserve; *third*, to repay and reverse school aid payment shifts, and; *fourth,* to reverse the school property tax recognition shift.

Statutory Allocation of Forecast Balances

($ in millions)

	November Forecast	February Forecast	Total Allocated
Forecast Balance	$876	$323	$1,199
Statutory Allocations:			
Cash Flow Account	255	0	255
Budget Reserve	621	5	626
K-12 Shift Buyback	----	318	318

The first $255 million of November's $876 million forecast balance was transferred to the cash flow account increasing it from $95 million to the $350 million ceiling in statute. The remaining $621 million was added to the budget reserve increasing it to $648 million -- $5 million below its $653 million statutory amount.

February's forecast balance of $323 million provides an additional $5 million to complete the restoration of the budget reserve to $653 million. The remaining $318 million is automatically allocated to reversing school aid payment shifts. It will be added to K-12 education aids spending in FY 2012-13, changing payment percentages from 60 percent in the current year and 40 percent as a settle-up payment in the following year to 64.3 percent and 35.7 percent.

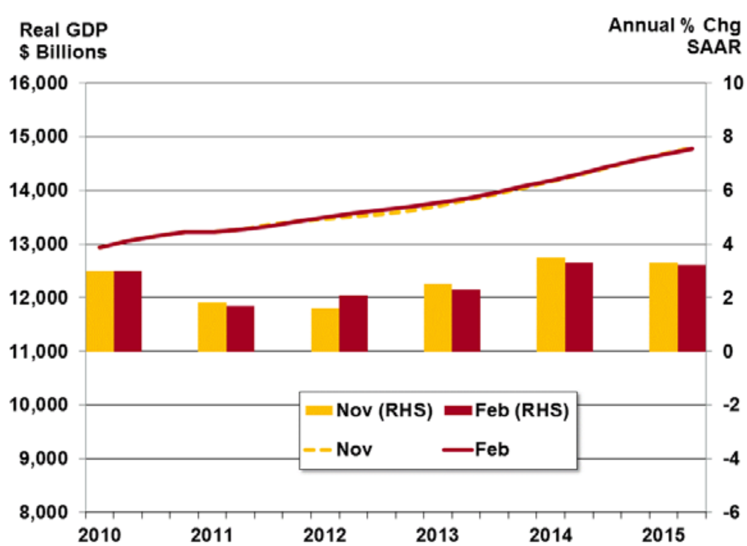
The $318 million buys back slightly over 11 percent of the $2.75 billion outstanding in school payment and property tax recognition shifts. After this partial buyback, $2.4 billion would be required to reverse the remaining shifts. The amount needed to return payment percentages to the original 90-10 payment schedule would be $1.869 billion; the amount required to fully reverse the existing 50 percent property tax recognition shift is estimated to be $563 million.

Economic Outlook Improves, Probability of 2012 Recession Down

Consumers appear to have more confidence in the future than they did last fall. The Eurozone's sovereign debt problems now seem a little less frightening; domestic fiscal policy problems, a little less intractable; and a follow-on recession a little less likely than was thought three months ago. Most important, the labor market is again showing signs of improvement. January's payroll survey showed that jobs had increased by an average of 201,000 per month over the last three months. And, the national unemployment rate has fallen by 0.8 percentage points since September. January's reading of 8.3 percent was the lowest since February 2009.

But, forecasts for real GDP growth in 2012 and 2013 have not improved as much as a casual observer might have expected. Part of the reason is that forecasts last fall never fully reflected the public's negativity. Economists reflected much of their concern through the probabilities they assigned to a 2012 recession, not in the growth rate called for in their baseline forecasts. In November, economists were assigning much heavier than normal weights to recession scenarios and lower probabilities to their slow growth, baseline scenarios. By February most believed the probability of recession had fallen substantially and the probability of more optimistic outcomes increased, but they upgraded their baseline growth for 2012 only modestly.

Little Change in Global Insight Forecast
For Real GDP Growth in 2012 and 2013



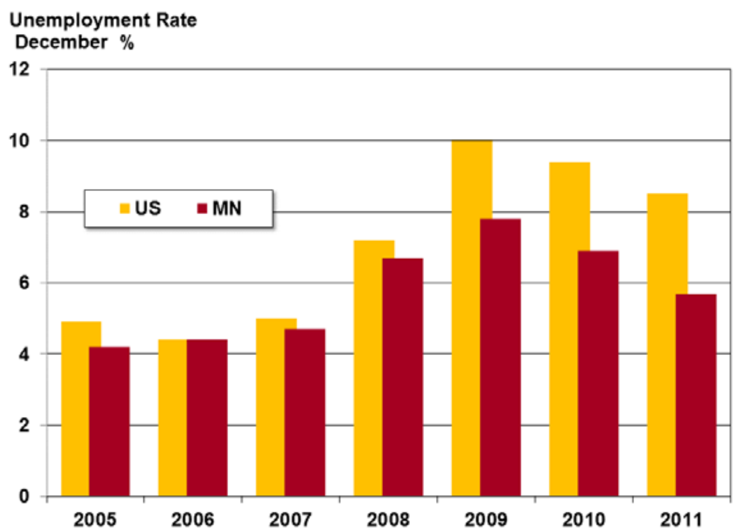
Like most other forecasts February's baseline from Global Insight Inc. (GII), Minnesota's national macro-economic consultant, calls for growth to be only slightly stronger than was projected in November. Real GDP growth in 2012 and 2013 is now expected to be at annual rates of 2.1 and 2.3 percent respectively. In November, growth rates of 1.6 percent and 2.5 percent were projected. GII's outlook for 2012 and 2013 is very similar to the Blue Chip Consensus, which calls for 2.2 percent growth in 2012 and 2.6 percent growth in 2013.

The probability of a 2012 recession has been reduced from 40 percent to 25 percent. Global Insight now assigns a probability of 55 percent to their baseline forecast, and a 20 percent probability to a scenario in which the economy grows at an annual rate of 3.3 percent in 2012 and 4.2 percent in 2013. In November the optimistic scenario was assigned a probability of just 10 percent.

Minnesota's Labor Market Appears Stronger than the Nation's

Minnesota's December unemployment rate of 5.7 percent was well below the 8.5 percent national rate. Over the past 40 years Minnesota's unemployment rate has averaged about 1.4 percentage points less than the U.S. average, so that 2.8 percentage point difference is much greater than normal. The state's unemployment rate also appears to be falling faster than the national average. Since December, 2009, Minnesota's rate has fallen by 2.1 percentage points while the U.S. rate has fallen by 1.5 percentage points. Household survey estimates show that 2.777 million Minnesotans were employed in December, 2011, 20,000 (0.7 percent) less than at the start of the recession in December 2007. Nationally 3.7 percent fewer individuals were employed in December than were working four years earlier when the Great Recession began.

Minnesota's Unemployment Rate Was Well Below the National Rate at the End of 2011



Payroll employment growth in Minnesota is expected to track that of the rest of the nation during the next two years, ending 2013 3.3 percent above the level observed at the close of 2011. Nationally, employment is projected to grow by 3.1 percent over that same period. Minnesota personal income is forecast to grow by 8.7 percent over the next two years and total wages in the state are expected to increase by 12.7 percent between now and the fourth quarter of 2013. National wage growth is expected to lag Minnesota's, increasing by 10.9 percent. U.S. personal income is expected to grow by 8.4 percent over that same two year period.

Significant Unknowns Cloud Future Economic, Revenue and Expenditure Forecasts

Policy assumptions normally are not a major concern in economic, revenue and expenditure forecasts. Analysts can set their models to reflect current law, or they can calibrate their models to produce estimates for a scenario reflecting other likely policy alternatives. As long as the policy alternative is well specified and the change from existing policy small, forecasts can be made using statistical models based on historical data. Occasionally, however, policy alternatives are not clear, or changes in key parameters so large that historical statistical relationships no longer hold. When this occurs estimates of economic growth rates and revenue and spending changes will be much less precise. This appears to be one of those times and state policy makers should recognize that current forecasts for fiscal 2013 and beyond have a substantially larger margin of error.

Part of the problem is that future federal tax and spending policies are likely to change after November’s election, but no one knows how. The Congressional Budget Office (CBO) notes that future fiscal policy “is likely to differ from that embodied in current law,” and that “alternative policies would lead to significantly different economic outcomes.” CBO estimates that replacing their current law scenario with an alternative containing fewer federal tax increases and smaller spending cuts than currently scheduled for 2013 would materially increase economic growth in 2013. In their alternative policy scenario which has only minimal changes from tax and spending policies in place in 2012 they estimate that real GDP would be between 0.5 percent and 3.7 percent higher by the fourth quarter of 2013 than in their current law forecast.

Global Insight’s February baseline forecast also recognizes the policy uncertainty for 2013. It assumes that the President and Congress reach a “grand bargain” in 2013 which replaces the automatic spending cuts and tax increases scheduled to begin in January 2013 with more modest spending cuts and a smaller increase in individual income taxes beginning in 2014. They estimate that maintaining current law rather than reaching a “grand bargain” would reduce their forecast for real GDP growth in 2013 by 2.5 percent.

Minnesota’s revenue outlook for fiscal 2013 and beyond also depends on future federal capital gains tax rates and on changes in taxpayer behavior that occur in response to rate changes. Neither is known at this time, and uncertainty about the rate for tax year 2013 is unlikely to be resolved until after Minnesota’s November 2012 forecast has been released.

Minnesota’s future budget outlook will also be affected by coming major changes in the structure of the state’s health care system. The federal Affordable Care Act and state policy choices associated with it will significantly impact eligibility for state health care programs and the corresponding state and federal revenue streams that finance those programs. These policy decisions will likely produce major changes in how individuals and families access state health care programs, changes that will not be predictable using existing statistical models.

FY 2012-13 Revenue Forecast Up by 0.3 Percent

General fund revenues for the 2012-13 biennium are now forecast to total $33.793 billion, $93 million (0.3 percent) more than projected in November. Changes in the state's three major revenue sources were extremely small on a percentage basis, and partially offsetting. Slightly stronger economic growth produced very modest increases in projected receipts for both the individual income tax and the sales tax. Those revenue gains were partially offset by a small reduction in expected corporate income tax revenue.

Other tax and non-tax revenues showed the largest dollar change, up $48 million (0.8 percent) from November's estimate. General fund current resources are now forecast to be $71 million (0.2 percent) more than was projected at the end of the 2011 special legislative session. Current resources for the 2012-13 biennium are now expected to exceed those in the 2010-11 biennium by $2.989 billion or 9.7 percent.

Forecast Revenues FY 2012-13

($ in millions)

	February Forecast	Change from November	Percent Change
Individual Income	$16,262	$48	0.3%
Sales	9,362	23	0.2
Corporate	1,799	(26)	(1.4)
Subtotal	27,423	45	0.2
Other Taxes	3,838	34	0.9
All Other	2,532	14	0.6
Total Revenues	**$33,793**	**$93**	**0.3%**

Forecast Spending Decreased $230 Million before School Shift Buyback

General fund spending for the biennium is forecast to be $33.761 billion, down $230 million (0.7 percent), from November's estimate. However, buying back a portion of the K-12 education payment shift adds $318 million to K-12 education aids in FY 2012-13, increasing total spending to $34.079 billion, $88 million more than November's estimate.

Forecast Spending, FY 2012-13

($ in millions)

	February Forecast	$ Change	% Change
K-12 Education	**$13,623**	**$(30)**	**(0.2)**
Property Tax Aids & Credits	2,832	(7)	(0.2)
Health & Human Services	10,884	(180)	(1.6)
Debt Service	456	(18)	(3.8)
All Other	5,966	5	0.1
Forecast Total	$**33,761**	**$(230)**	**(0.7)**
Education Shift Buyback	318	318	--
Revised Total	**$34,079**	**$88**	**0.3**

A $180 million reduction in the forecast for human services' programs accounts for nearly 80 percent of the total decrease in projected spending. The majority of the savings, $108 million, relates to the Medical Assistance (MA) early expansion group (adults without children) where lower projected enrollments and lower fee-for-service costs are expected. This change reflects the trend observed since last February which has reduced the enrollment forecast for this group by approximately 16 percent (15,215 and 17,652 monthly average eligible recipients in FY 2012 and FY 2013).

Changes in all other general fund spending were modest. K-12 education estimates decreased $30 million reflecting small downward revisions in forecast enrollment projections. However, the $318 million allocated for K-12 payment shift buyback will now add to K-12 spending, beginning with the March 15th payment to school districts. This additional funding increases K-12 spending for the biennium to $13.941 billion. That bottom-line total for K-12 education aids, including the shift buyback, is used in comparative tables in the remainder of this document, except where explicitly noted.

FY 2014-15 Planning Estimates Improve Slightly

The longer term outlook for the state has improved. But, Minnesota still faces a structural shortfall of $1.1 billion. When the 2012-13 budget was enacted, the planning estimates showed a structural gap of $1.9 billion for the 2014-15 biennium.

Change in FY 2014-15 Planning Estimates

($ in millions)

	End-of-Session	November Change	February Change	February Forecast
Projected Revenues	$35,296	$421	$44	$35,761
Projected Spending	37,187	(170)	(153)	36,864
Difference	$(1,891)	$591	$197	$(1,103)

Projected revenue planning estimates for FY 2014-15 are now $44 million above November estimates, while expenditures are $153 million lower. Current law planning estimates for FY 2014-15 continue to show a structural gap between current law revenues and expenditures of $1.1 billion, a slight improvement from a $1.3 billion gap projected in November.

FY 2014-15 Planning Estimates

($ in millions)

	FY 2014	FY 2015
Revenues	$17,525	$18,236
Spending	18,370	18,494
Difference	$(845)	$(258)
Inflation	*$349*	*$709*

As required by current law, expenditure projections for the next biennium do not include any adjustment for inflation. Estimated inflation, based on GII's baseline forecast of the Consumer Price Index (CPI), is projected to be 1.9 percent in both FY 2014 and FY 2015. Recognizing inflation at the projected CPI rate would add $349 million to FY 2014 spending and $709 million to FY 2015, increasing biennial spending a total of $1.058 billion.

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

February's forecast is the second of four forecasts that will occur during the biennium. It provides revised revenue and expenditure estimates for the current biennium based on the most recent information about the national and state economic outlook, and caseload, enrollment and cost projections. That updated revenue and expenditure information is also used to revise the revenue and expenditure planning estimates for the 2014-15 biennium.

The revised revenue estimates reflect changes in the national economic outlook that have occurred since November. This forecast also incorporates additional revenue collection experience into the projections. For example, state sales tax collections now include receipts from the crucial Christmas shopping season. And, fourth quarter estimated tax payments as well as withholding receipts through January are available for further guidance about tax year 2011 liability.

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

Revenue planning estimates for FY 2014-15 come from less complete models. As in the past the economic growth assumptions used to develop the revenue planning estimates are updated to be consistent with the GII February baseline scenario for the years under consideration. The revenue planning estimates should not be interpreted as explicit forecasts, but rather as a guide to indicate whether proposed actions are likely to create financial problems outside the current biennium.

Expenditure estimates in most areas are shown at the level of the appropriations made by the 2011 legislature for FY 2012-13, plus any authorized spending carried forward from prior years. Entitlement programs—such as K-12 education, intergovernmental aids, health care, and family support–are forecast based on expected changes in eligibility, enrollment and average costs.

While wage and price inflation is included in revenue estimates, it is not included in projected expenditures. The estimated inflation rate for FY 2014 and FY 2015 are both 1.9 percent per year.

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

ECONOMIC SUMMARY

Early last year the U.S. economy appeared to be positioned for an extended period of substantial growth, growth strong enough to create the new jobs needed to restore U.S. payroll employment to its pre-recession level by mid-2013 and significantly reduce the national unemployment rate. Unfortunately those forecasts proved to be overly optimistic and by August they had been cut back considerably. Actual real GDP growth now appears to have been about 1.7 percent in 2011, or slightly more than half as fast as the 3 percent plus annual growth rates anticipated through 2013 when Minnesota's revenue forecast was prepared last February.

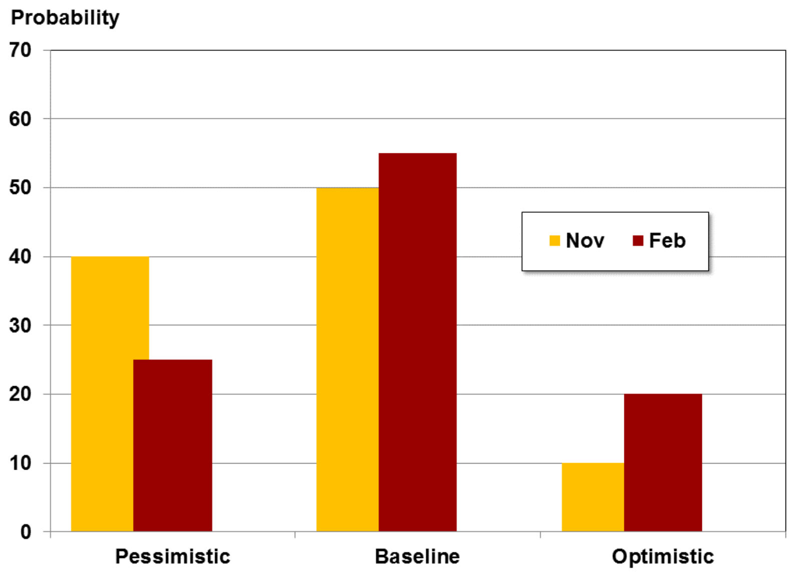
Now, one year later, many of the same positive signs that triggered the optimistic forecasts in early 2011 are re-appearing. But, to this point at least, economists have kept their enthusiasm in check. Forecasts have been raised since November, but increases in projected real growth rates for 2012 and 2013 have been modest, and current forecast growth rates are still well below those anticipated a year ago.

What has changed, though, is the likelihood of a recession. Late last summer forecasters began assigning a 40 percent probability to pessimistic scenarios containing a 2012 recession. Currently forecasters see the likelihood of a recession in 2012 at 25 percent or less. Part of the reason economists see a recession in 2012 as less likely, is that the U.S. economy appears to be better positioned to absorb a shock than it was last summer. January's payroll employment gain of 243,000 and the continuing declines in the unemployment rate are only the most recent examples of economic data coming in stronger than expected. The likelihood of a potentially disastrous mistake by either U.S. or Eurozone policy makers also appears to have lessened. Europe's sovereign debt problems have not been solved but the likelihood that a messy, disorderly resolution to Greece and Portugal's credit problems would impair global capital markets enough to plunge the U.S. economy into recession now appears significantly less than was feared last summer.

Global Insight Inc. (GII), Minnesota's national macroeconomic consultant, is among the forecasters who have modestly raised their projected growth rate for 2012 and reduced their probability of a recession. In November GII expected real GDP growth rates of 1.6 percent in 2012 and 2.5 percent in 2013. Their February baseline calls for 2.1 percent growth in 2012 followed by 2.3 percent growth in 2013. Differences between the February and November baselines are quite small. At the end of 2013 real GDP is now expected to be $14.067 trillion, less than 0.2 percent more than was projected in November. GII's baseline remains slightly more conservative than the Blue Chip Consensus. The Blue Chip panel is expecting real growth rates of 2.2 percent and 2.6 percent in 2012 and 2013 respectively.

Global Insight also has significantly lowered the probability attached to a recession scenario. Their "double-dip recession" scenario is now given a probability of 25 percent. From August through November it had been assigned a 40 percent probability. The probability given the baseline has risen from 50 percent to 55 percent since November and the probability assigned a more optimistic scenario in which real GDP grows at a 3.3 percent rate in 2012 and a 4.2 percent rate in 2013 is now set at 20 percent, up 10 percentage points from November.

Global Insight Has Reduced the Probability Assigned to Its Pessimistic (Recession) Scenario to 25 Percent



Members of Minnesota's Council of Economic Advisors agreed that Global Insight's February baseline is an appropriate starting point for updating the state's 2012-2013 revenue forecast and the 2014-15 revenue planning estimates. As in November most members of Minnesota's Council of Economic Advisors were slightly more optimistic about the short term economic outlook than Global Insight, but differences in between the GII baseline and member's individual forecasts were generally small.

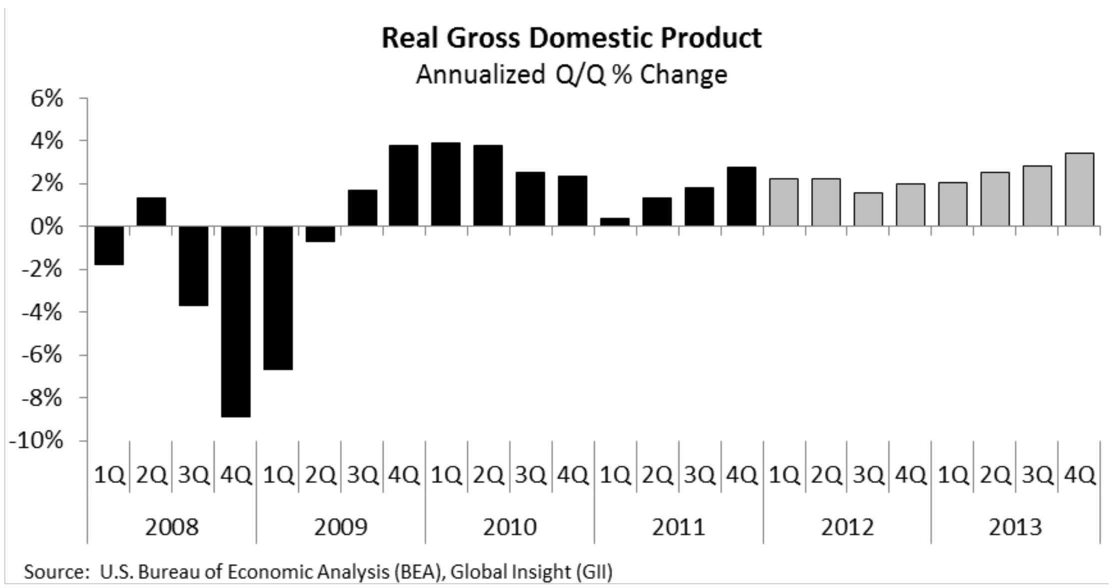
Council members agreed with Global Insight that the risk that the European sovereign debt crisis would bring on a U.S. recession had fallen, but they were not optimistic that Europe's problems would be resolved quickly. Most members agreed with GII that a Greek default was highly likely. One member indicated that he expected to see a series of "mini-shocks" over the next few years.

Council members again voiced concern about the potential for domestic fiscal policy mistakes, particularly at the close of 2012. Global Insight assumes that a "grand bargain" will be struck following the election that will make the necessary transition to an era of lower federal budget deficits a little less abrupt. MMB economists noted that under current law the economy will face an enormous amount of fiscal drag at the start of 2013 and that if there is no "grand bargain" GDP growth in 2013 is likely to be much slower than projected in the baseline. Despite those concerns, Council members were generally agreed that the U.S. economy was more likely to outperform the February baseline forecast than grow more slowly than projected.

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 the revenue planning estimates but not in the spending estimates is misleading and inconsistent with sound business practices and the methods used by the “Congressional Budget Office. Since inflation is relatively low currently, the current method understates the projected deficit in the 2014-15 biennium by about $1 billion, but the distortion will grow if inflation accelerates. 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

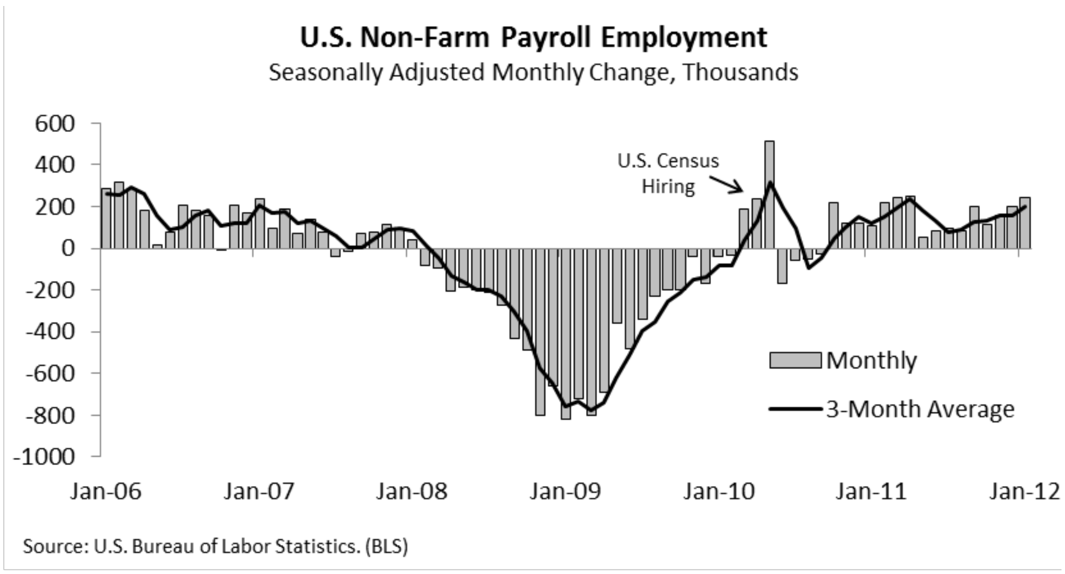
The U.S. economy has been gaining traction in recent months. Real GDP growth accelerated to a 2.8 percent annual rate in the fourth quarter of 2011, up from a revised 1.8 percent in the third quarter and an average annual rate of less than 1 percent during the first half of the year. Corporations are more profitable than ever, manufacturing is looking stronger, and business capital spending and exports are supporting growth. Consumers are feeling more optimistic and inflation continues to ease, although oil prices have recently drifted higher due to tensions in the Middle East. Most important, the unemployment rate has fallen to 8.3 percent, down from 9.1 percent last summer, and the labor market has had back-to-back months of robust, broad-based job gains. Initial unemployment insurance claims fell to four-year lows in February, job openings rose to a four-year high late last year, and hiring appears to be improving, all signs that a virtuous cycle where employment, incomes, and consumer spending move up together may finally be underway.



Real GDP accelerated growth to a 2.8 percent annual rate in the fourth quarter of 2011, up from a revised 1.8 percent in the third quarter and an average annual rate of less than 1 percent during the first half of the year. GII believes the overhang of excess debt and housing supply, however, will restrain economic growth in the coming year.

It is premature though to conclude the economy is finally mounting a self-sustaining economic expansion. Domestic recession risks are diminishing, as the threat from the Eurozone has eased, and Global Insight Inc. (GII), MMB's macroeconomic consultant, has reduced the odds of a U.S. recession from 40 percent last November to 25 percent. But economists have kept their enthusiasm in check because many of these same positive signs were appearing this time last year, only to be spoiled shortly thereafter by a sharp rise in gasoline and food prices, political unrest in the Middle East and North Africa, the disaster in Japan, the European sovereign debt crisis, downward data revisions to GDP, the artificial U.S. debt-ceiling crisis, and Standard & Poor's subsequent downgrade of the nation's credit rating. At the end of 2011, real GDP growth was reported to have increased 1.7 percent, just over half what GII expected at the beginning of the year.

The outlook for economic growth has been raised since Minnesota's revenue forecast was last prepared in November, but the increases are modest and expected growth rates remain well below those anticipated a year ago. GII continues to believe the overhang of excess debt and excess housing supply will keep the economic expansion sustained, yet modest. GII now expects real GDP growth of 2.1 percent in 2012 (up from 1.6 percent in November, but down from 2.9 percent last February), followed by 2.3 percent growth in 2013.



The U.S. labor market had back-to-back months of robust, broad-based job gains in December and January. But economists have kept enthusiasm in check because the same positive signs were appearing this time last year, only to be spoiled shortly thereafter.

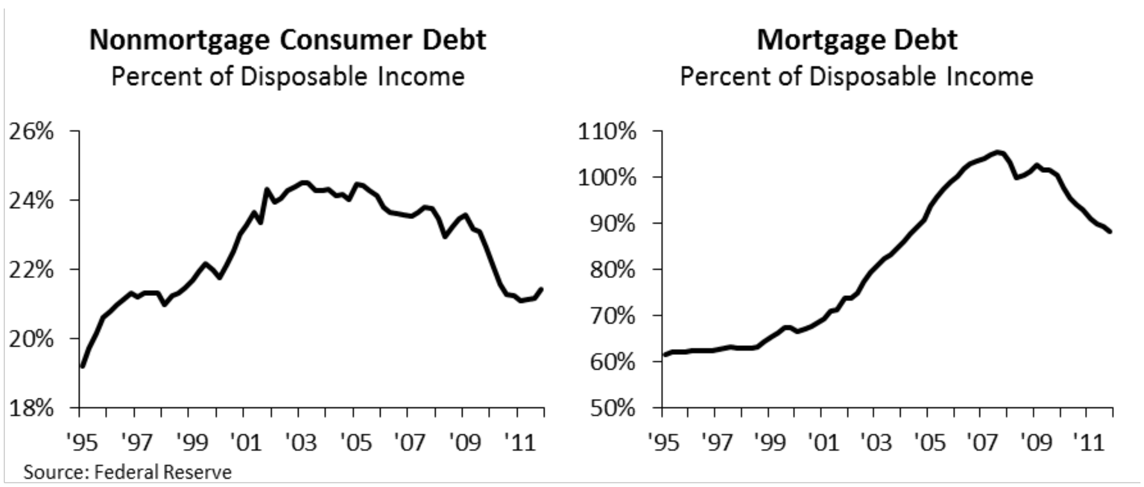
Too Many Negatives?

Since the end of the recession, the real economy has performed better than consumer attitudes would suggest. But consumer optimism is slowly catching back up with the strengthening economy. The Reuters/University of Michigan consumer sentiment index increased for the sixth consecutive month in February to the highest level in nearly a year. Despite the improvement, however, stagnant wage growth, high debt burdens, declining home values, rising gasoline prices, and public dissatisfaction in the political process continue to undermine the overall degree of optimism in the economy.

Put simply, consumers are still facing too many negatives to allow for a robust spending recovery. U.S. households continue to repair their balance sheets by paying down the massive debt load run-up from the past decade. The Federal Reserve reports that revolving credit outstanding, mostly credit card loans, was about $800 billion at the end of 2011, down $175 billion (or 18 percent) since August 2008. Deleveraging is still very much ongoing. Non-mortgage consumer debt as a share of disposable income was at a 13-year low of 21.5 percent in late 2011. And on the housing front, the home mortgage debt ratio is down to 89 percent, from 107 percent in late 2007.

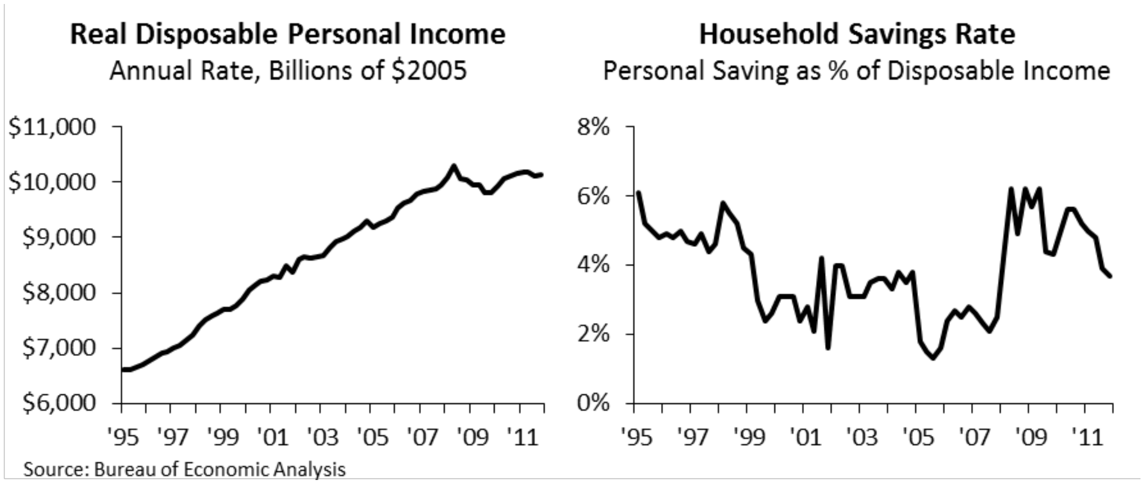
Households' progress toward rebuilding the wealth lost during the recession suffered a major setback last year when equity prices fell sharply following the debt ceiling crisis and home prices continued to sink lower. GII believes real household net worth (the value of assets like homes, bank accounts and stocks, minus debts like mortgages and credit cards) to have finished 2011 down 2.7 percent from a year earlier, the first decline in household wealth since 2008, when the financial crisis hammered the stock market. And, real net worth is still 19 percent off its late 2006 peak, just before nationwide home prices began to unravel.

Labor market conditions have showed signs of improvement in recent months and pent up demand for housing is building, but the U.S. unemployment rate remains well above pre-recession levels and house prices continue to slump. Average prices are down 20 percent from their peak as measured by the Federal Housing Finance Agency (FHFA) purchase-only index, falling 2.4 percent over the course of 2011, and have further to go before turning higher. Consumers are expected to remain cautious until further progress is made in these areas.



Consumers are still facing too many negatives to allow for a robust spending recovery as deleveraging is still very much ongoing. Non-mortgage consumer debt as a share of disposable income was at a 13-year low of 21.5 percent in late 2011. And on the housing front, the home mortgage debt ratio is down to 89 percent, from 107 percent in late 2007.

In the face of all those headwinds, real consumer spending still managed to grow 2.3 percent in 2011. Much of the gain though came from lower savings. Slower wage growth is forcing households to dip into their savings to pay for higher spending. After accounting for taxes and inflation, real disposable income rose just 0.9 percent during the year, compared with a real increase of 1.8 percent in 2010. The personal savings rate retreated to 4.4 percent in 2011, down from 5.3 percent the year before and the lowest savings rate observed since before the recession began. GII believes U.S. households remain focused on repairing finances and it will be difficult for consumers to sustain current rates of spending without strong and sustainable increases in employment and real income. But, expectations remain dismal. According to the February Reuters/University of Michigan sentiment survey just one-in-four households anticipate financial gains in the year ahead, and a mere 8 percent expect their inflation-adjusted income to increase. Those bleak expectations will weigh on confidence, keeping the economic expansion modest. GII expects real consumer spending growth to slow this year to 2.0 percent.



Slower wage growth is forcing households to dip into their savings to pay for higher spending. After accounting for taxes and inflation, real disposable income rose just 0.9 percent in 2011 and the personal saving rate retreated to 4.4 percent during the year, the lowest annual savings rate observed since before the recession began.

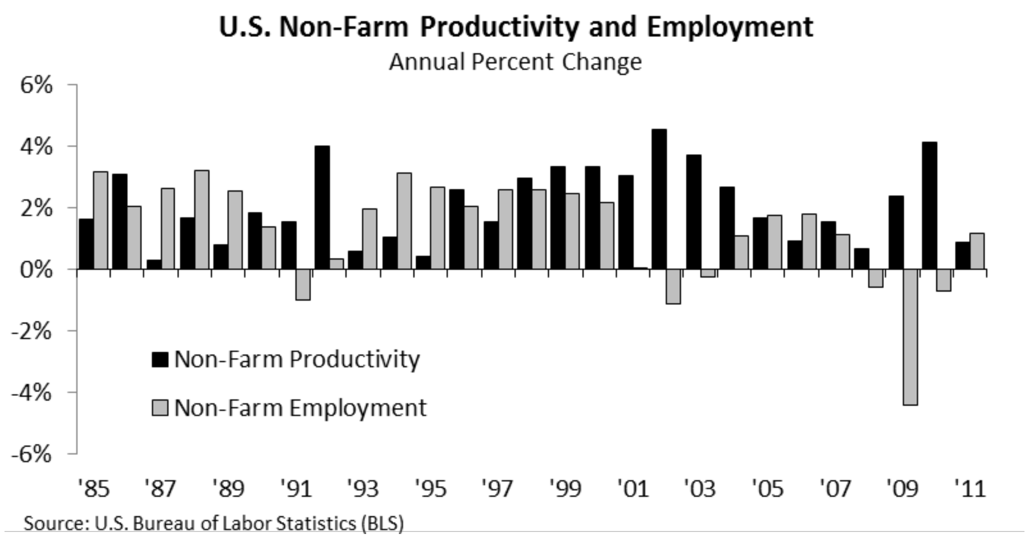
But Wait, Hiring Is Improving

Business activity has been an important source of economic strength. In 2011, industrial production rose 4.1 percent and manufacturing output grew 4.5 percent. The Institute for Supply Management's (ISM) manufacturing index expanded in January for the 30th consecutive month, orders remained strong at the end of the year, and manufacturers are operating closer to full capacity. U.S. corporate profits continue at all-time highs and cash represented its greatest share of non-financial corporate assets since 1959.

Businesses continued to reduce costs and increase productivity in 2011 by addressing capital and technology replacement needs neglected during the recession. Real business equipment and software spending increased 10.3 percent during the year, while real spending on compensation of employees was up just 0.9 percent. Moreover, the price of capital remains cheaper relative to labor. Equipment and software prices rose just 0.1 percent in 2011. Labor costs, however, rose 2.2 percent, driven largely by rising health insurance costs, up 3.5 percent last year. This combination, along with lower rental costs of capital (interest rates and depreciation) and federal tax incentives allowing businesses to immediately expense qualified capital investments, encouraged increased capital spending.

Without a clear and sustainable outlook for final demand, employers appeared reluctant to invest in added labor last year due to a lack of confidence in political and economic conditions and the uncertain future of employee health care costs. But business confidence is gradually climbing back out of recession territory and the productivity growth surge appears to be running out of steam. Productivity grew 0.7 percent in 2011, well below its 2.3 percent 20-year average and the slowest rate since 2008.

Firms appears to be finding it increasingly difficult to squeeze more output from their existing workforce, and hiring is slowly improving. Even after discounting for the mild weather and technical factors related to seasonal adjustment procedures, the labor market had back-to-back months of broad-based job gains near 200,000 in December and January, and the unemployment rate has fallen to 8.3 percent from 9.1 percent in just five months. Overall, the economy added an average of 150,000 jobs per month over the course of 2011 and GII expects job growth to average around 180,000 per month in 2012. GII also hints that this faster hiring could begin to shift income growth away from corporate earnings and back toward households, perhaps establishing a virtuous cycle where employment, incomes, and consumer spending all move up together to form a self-sustaining expansion.



Firms are finding it increasingly difficult to squeeze more output from their existing workforce as the productivity growth surge appears to be running out of steam. Productivity growth was 0.7 percent in 2011, the slowest rate since 2008 and well below the 2.3 percent 20-year average. As a result, hiring is slowly improving.

Fiscal Policy: What a Drag!

Federal fiscal policymakers are faced with a difficult political and economic challenge. They must reach agreement on a further long term deficit reduction plan which is not so austere that it threatens the short-term recovery. The task is not impossible. During a hearing before federal lawmakers in early February, Federal Reserve Chairman Ben Bernanke emphasized that these two goals are in fact mutually reinforcing. A stronger near-term recovery will lower deficits in coming years, while a clear and credible plan that sets fiscal policy on a sustainable longer-term path will hold down borrowing costs and help improve confidence, allowing today's economy to grow faster. But, the task will not be easy in a politically charged presidential election year. Doing nothing is not an option with more than $1.2 trillion in tax increases and spending cuts scheduled under current law to take effect in the two years following January 1, 2013. And, the stakes are high. Without action, Global Insight estimates current policies will reduce real GDP growth by 2.5 percentage points in 2013.

Estimated Effects of Alternative Federal Fiscal Policies on Current Law Projections

(Federal Fiscal Year, Billions of Dollars, Debt Service Not Included)

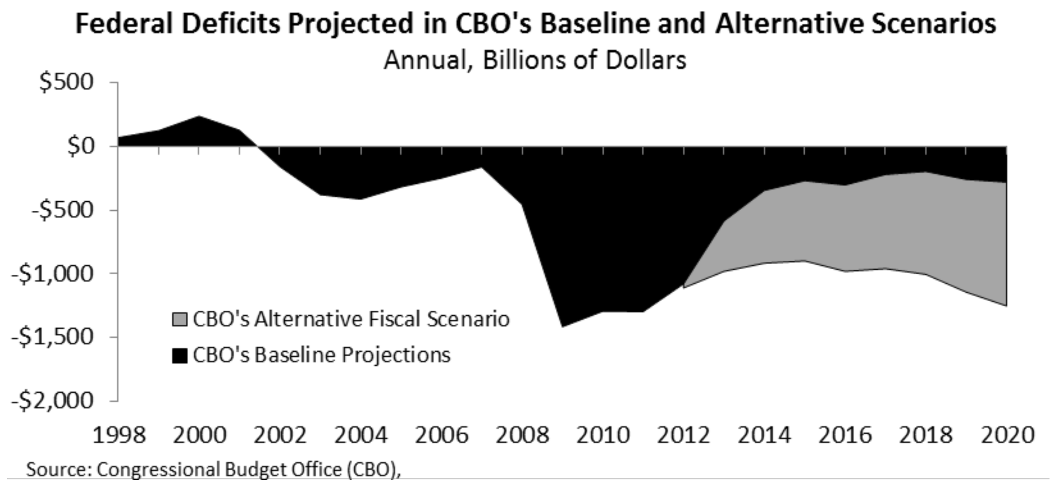
	FY2013	FY2014
Alternative Policies that Affect the Tax Code		
Extend Bush Tax Cuts	-$108	-$233
Index AMT for Inflation after 2011	-$89	-$39
AMT and Bush Tax Cut Extension Interaction	-$35	-$62
Extend Emergency UI & Payroll Tax Cuts	-$109	-$145
Extend Other Expiring Tax Provisions	-$78	-$115
Alternative Policies that Affect Outlays		
Remove Automatic Sequester	-$66	-$93
Hold Medicare Payment Rates Constant	-$17	-$21
Total	**-$502**	**-$708**
% of GDP (Two Year Sum)	3.7%	

Note: Negative numbers indicate increase in the deficit.
Source: Congressional Budget Office (CBO), Minnesota Management & Budget (MMB)

In December 2010, when President Obama and Congress agreed to extend the Bush-era tax cuts for two years, they also approved an economic support package including a cut to Social Security payroll taxes of 2-percentage-points and an extension of emergency unemployment insurance benefits to the long-term unemployed for a year. Those programs were temporarily extended for 60 days in December, and extended through the end of 2012 in late February. GII believes failure to extend the payroll tax cut and emergency UI would have subtracted an additional 0.5 percentage points from their already modest real GDP growth forecast of 2.1 percent this year. That fiscal drag would have been in addition to that from the discretionary spending cuts required in August's agreement to lift the U.S. debt ceiling and the end of fiscal stimulus provisions enacted in 2009, changes already set to subtract as much as 0.8 percentage points from real GDP growth this year according to Moody's analytics chief economist Mark Zandi.

With the payroll tax cut and jobless benefits extended through the rest of the year, federal fiscal drag is set to ramp up dramatically in early 2013. Not only are these temporary programs slated to expire on January 1, but so are the Bush tax cuts. Millions of taxpayers also will become subject to the Alternative Minimum Tax (AMT), the automatic sequester of further discretionary spending cuts is set to trigger in FY 2013, and a host of other expanded credits and deductions will end at the beginning of next year as well.

Obviously, significant fiscal policy uncertainties remain. The Budget Control Act of 2011 signed into law last fall ended the risk of U.S. default and placed a down payment on spending restraint, but it fell short of achieving long-term fiscal sustainability or offering clarity. The debt-ceiling agreement cuts $2.1 trillion in discretionary spending over the next decade, but contains no tax revenue or entitlement reforms and the amount of deficit reduction is just over half of the $4 trillion believed necessary to begin to stabilize the debt-to-GDP ratio.

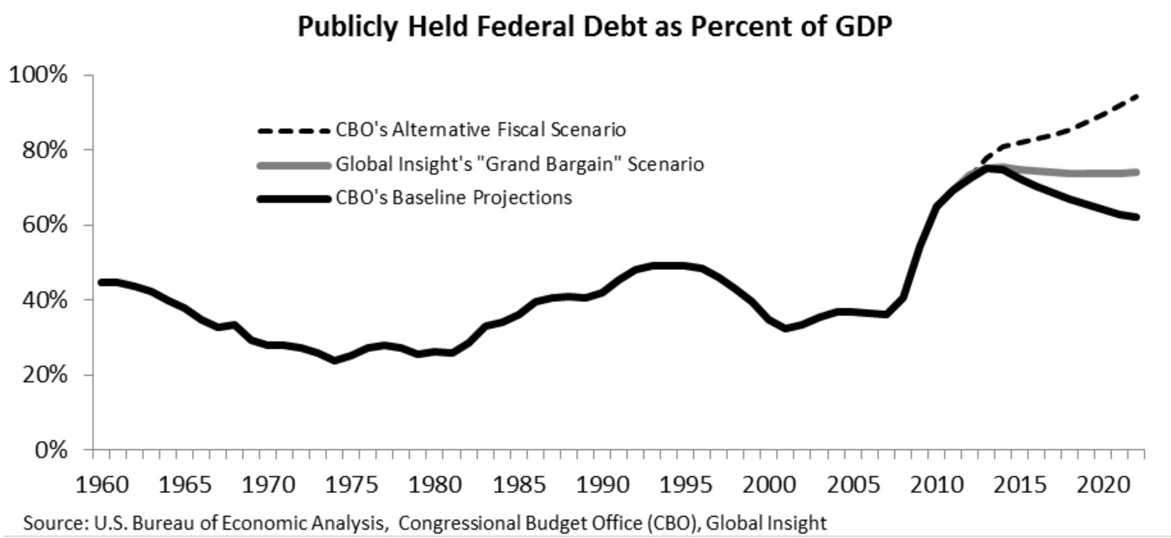


The Congressional Budget Office (CBO) estimates the federal deficit will break $1 trillion for the fourth consecutive year in 2012. CBO's baseline scenario includes a massive tax increase coupled with sudden spending cuts mandated by law to take effect in 2013 and deficits begin to plummet.

Over the next decade, if the U.S. government does not achieve a stable debt-to-GDP ratio, federal borrowing is likely to drive interest rates higher, increase costs on the debt, and crowd out private investment. The Congressional Budget Office (CBO) estimates the federal deficit will break $1 trillion for the fourth consecutive year in 2012 and federal debt held by the public will rise to 73 percent of GDP, nearly double the 36 percent share in 2007. CBO's current law scenario includes a massive tax increase coupled with sudden spending cuts mandated by law to take effect in 2013. Thus deficits begin to plummet and public debt retreats to a manageable 62 percent of GDP by 2022. But the fiscal drag threatens to inflict serious harm to the near-term economy. Real GDP growth slows to just 1.1 percent by the end of 2013 and the unemployment rate rises back over 9 percent.

In reality, the national debt is likely to be much higher. CBO estimates that replacing their current law scenario with an alternative containing fewer tax increases and smaller spending cuts would materially increase economic growth in 2013. In that alternative fiscal scenario, which is closer to current federal policies, real GDP would be greater than projected under current law by as much as 3.7 percent at the end of 2013, resulting in a lower unemployment rate, but much larger deficits. In 2022, debt held by the public would climb beyond a dangerous threshold to 94 percent of GDP and CBO estimates real GDP would be as much as 2.1 percent less than the current law alternative.

Facing a difficult set of choices that can no longer be deferred, policymakers will need to restore confidence by responding with substantive entitlement and tax reform while avoiding premature tightening. GII does not expect that the automatic sequester will take effect and the payroll tax cut and jobless benefits will not end in 2013, nor will all the Bush tax cuts expire in early 2013. Instead GII assumes the newly elected President and a new Congress will produce a “grand bargain” alternative deficit reduction package after the November elections 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. The contractionary impact of failing to do so would be consequential, further unraveling consumer and business confidence and upsetting their willingness to spend and invest, perhaps even pushing the economy back into recession.



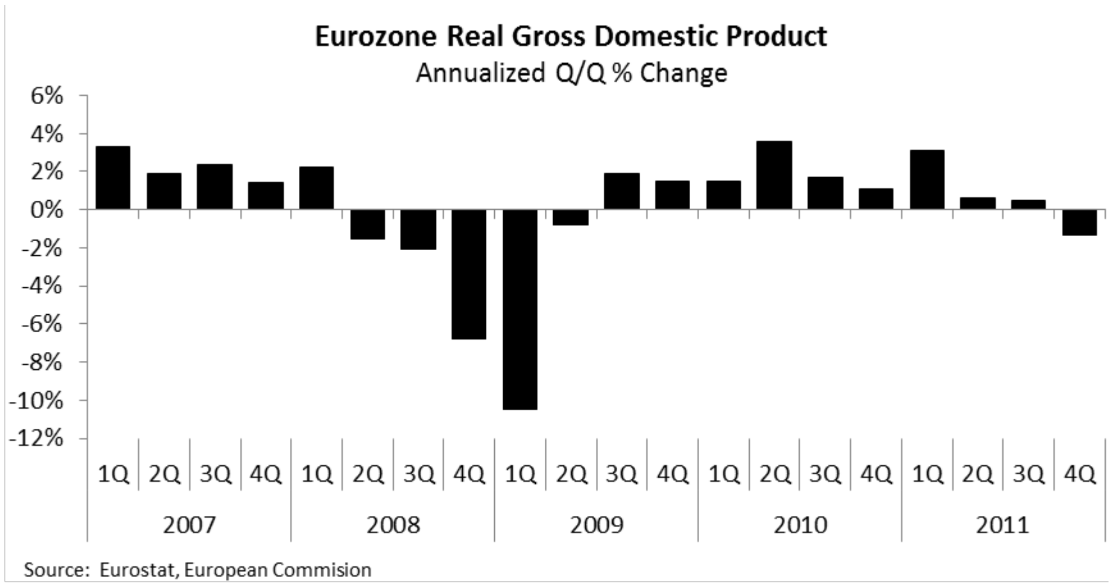
In CBO’s baseline projections, public debt retreats to a manageable 62 percent of GDP by 2022. In reality, however, the national debt could rise much higher.

Eurozone Threat Has Relaxed, But Remains High

European leaders continue their struggle to contain a slow-moving, yet unshakable, sovereign debt crisis. Implementation of a series of negotiated bailouts, structural reforms, and deficit reduction measures has proven laborious and complex given the many levels of political decision making. Austerity-based prescriptions intended to lower debt burdens, restore growth, stabilize investor confidence, and lower borrowing costs have instead become a significant economic drag, making it difficult for struggling governments, like Greece and Portugal, to attain mandated deficit targets. The problems will not be solved by austerity alone and successful deficit reduction will clearly be difficult to achieve without economic growth. But Europe is in recession. Real GDP in the Eurozone fell at a 1.3 percent annualized rate during in the final three months of 2011, a sign that Europe's debt crisis is sparing no member of the single currency union.

This has raised tension among European finance ministers and even questions about the Eurozone bloc's very survival.

A structural weakness of the Eurozone monetary union is that it is governed by a single interest rate policy, but has no common fiscal authority to naturally steer money toward ailing countries or guarantee debts. Instead, Greece, Portugal and Ireland have all accepted financial rescue packages from the International Monetary Fund (IMF), but cannot implement expansionary monetary policies to soften the fiscal austerity demanded by creditors. The result has been further economic weakness, added social unrest, and doubts concerning the future of the European Union. Policymakers must act to not only follow through with further fiscal consolidation, but also provide long-term credible debt guarantees by deepening integration of fiscal policy among currency-members and enabling the ECB to provide unlimited liquidity.

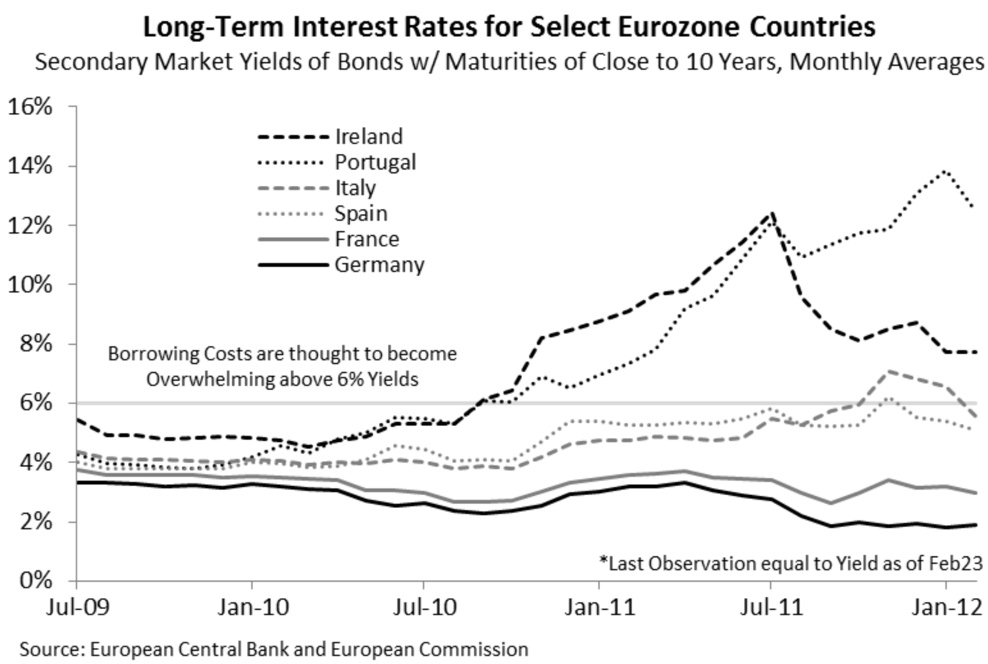


Austerity-based prescriptions intended to lower debt burdens and restore growth have instead become a significant economic drag. Europe is in recession. Real GDP in the Eurozone fell at a 1.3 percent annualized rate during in the final three months of 2011.

In July 2011, entangled in its fifth year of deep recession, it became apparent that Greece would not be able to return to debt markets in 2012 as expected. Consequently, European leaders began to discuss a second Greek bailout, this time asking private creditors to stomach some of the burden. That action sparked a sudden increase in the risk premiums assigned to sovereign debts, driving up the borrowing costs of larger economies with higher levels of public debt, such as Spain and Italy, and forcing the European Central Bank (ECB) to buy large amounts of government bonds to prevent yields from rising to unsustainable levels.

In late October, the EU held a summit to adopt additional measures to counter the crisis, one being to halve the value of Greek government bonds held by private investors. Bond markets reacted to the plan with stark skepticism. Over the next month, European banks began to hoard capital and, despite heavy buying from the ECB, Italian and Spanish borrowing costs skyrocketed.

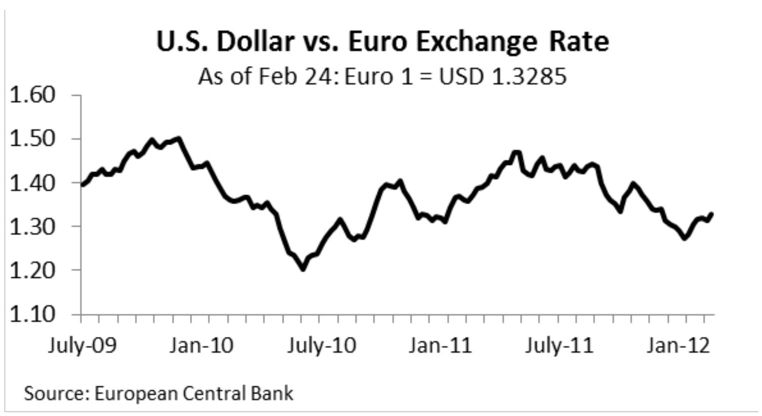
At another EU summit in early December, the Eurozone countries, along with several other EU countries that do not use the euro, collectively agreed to an intergovernmental pact to adopt tighter fiscal controls, with more stringent oversight and sanctions for those that violate the limits. The only hold-out was Britain, whose veto was enough to spoil the hopes of France and Germany to rewrite EU treaties, which would have added more legal muscle. Officials also pressed to expand the Eurozone member-backed lending capacity of its temporary rescue fund, the European Financial Stability Facility (EFSF). Together, it is widely believed that these measures should allow the ECB to beef up its crisis response. The banks' constitution forbids it from financing governments, and even the ECBs limited bond purchases of Eurozone debt are controversial. But just before Christmas, the ECB greatly reduced the risk of a major banking crisis by providing vast sums of long term funding at extraordinarily easy terms to stressed European banks. The ECB also teamed up with the Federal Reserve to provide cheap liquidity to banks seeking loans. Meanwhile, European governments urged banks to use the cheap liquidity to buy sovereign debt, effectively locking in guaranteed profit.



Italian and Spanish borrowing costs skyrocketed in November as their 10-year bond rates soared well above 6 percent, generally considered the upper limit for a sustainable debt burden. Recent ECB actions and major reforms pushed through by new governments, however, have helped bring borrowing costs back in the past two months.

Recent ECB actions, along with major reforms pushed through by new governments, have helped bring down borrowing costs in Italy and Spain over the past two months. But sovereign debt problems have not been resolved. The long term solvency prospects of some European governments, mainly Greece and more recently Portugal, remain highly uncertain. In late January, a consortium of private creditors, including banks and hedge funds, agreed to "voluntarily" exchange existing Greek bonds for new debt securities with less than half the face value, although individual Greek investors are still not legally obliged to take the write-down. Around the same time, market measures of Portuguese default risk reached record highs amid concern the government may seek a similar deal with private creditors. And in mid-February, after more violent protests in Athens, the Greek Parliament again approved a crucial austerity package required by Eurozone finance ministers as a condition to receive more financial support. Next, the government faces the difficult task of swiftly implementing the reforms in the face of fierce public opposition and further economic contraction.

GII expects the Eurozone to experience a least a mild recession, but direct exposure of the U.S. economy and banking system to the downturn is relatively small. Tighter 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 less than one half of a percentage point from U.S. growth. Recent actions by the ECB have led GII to believe that if the Eurozone crisis were to worsen the bank would become a lender of last resort to sovereign governments making progress in reforms and austerity, much like the Federal Reserve in the United States. GII attaches a 25 percent probability of a deep European recession, a scenario in which the pain of relentless austerity proves too much for Greece, and it exits the Eurozone. Under this "double-dip recession" scenario, credit markets freeze up in Europe, widespread financial market contagion sends the stock market plummeting, and the U.S. economy comes to a screeching halt in 2012.



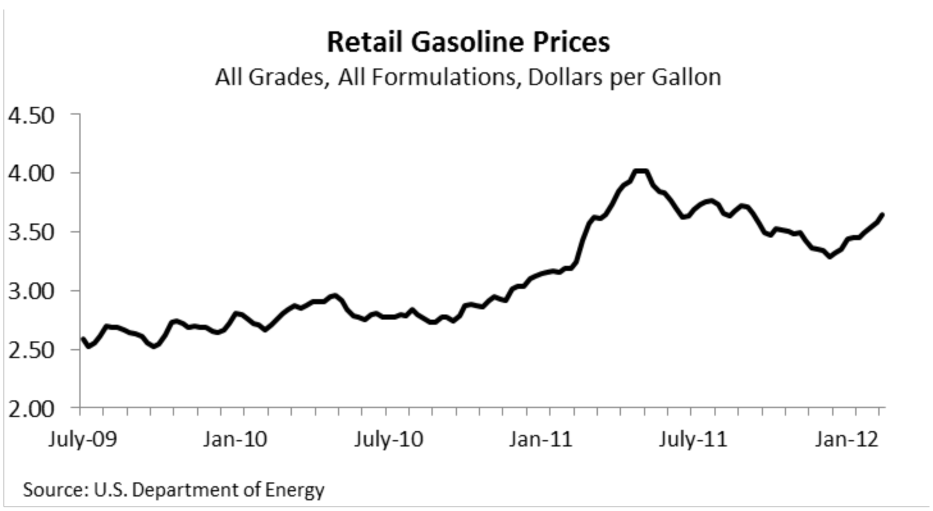
GII believes direct exposure of the U.S. economy and banking system to the downturn is relatively small. Tight credit conditions, reduced exports to the Eurozone, lower corporate profits for foreign investors in the Euro-area, and appreciation of the dollar against the euro are estimated to subtract less than a half percentage points from U.S. growth.

Inflationary Pressures Easing

The Bureau of Labor Statistics (BLS) reports its headline inflation measure, the Consumer Price Index (CPI), grew by 3.1 percent in 2011, nearly double the 1.6 percent growth observed a year earlier. Much the increase was the result of a temporary spike in gasoline and food prices early last spring. Toward the close of the year, however, evidence of weaker economic growth and mounting anxiety over the European sovereign debt crisis eased inflationary pressures. The headline CPI, for instance, slowed to an annual rate of just 0.9 percent during the fourth quarter 2011.

Core CPI, which excludes more volatile prices of food and energy, rose 2.2 percent in the last quarter of 2011 compared to a year earlier, the most in over three years. This is partially being driven by supply-chain disruptions from Japan's mid-March earthquake and tsunami, which temporarily put upward pressure on vehicle prices in the early part of the summer, as well as cost pressures on clothing from previously soaring cotton prices and appreciation of Chinese currency. Perhaps most worrisome, changing attitudes toward homeownership have 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 2.9 percent in the fourth quarter 2011, the largest gain since late 2008.

Oil prices have recently drifted higher due to worries over potential supply disruptions and Middle Eastern tensions. GII believes gasoline prices will top $4 per gallon again by Memorial Day, but the recession in Europe, slower growth in China, relatively stable oil prices, and some moderation in food prices will hold overall consumer price inflation to 2.0 percent in 2012. Sluggish demand and stable commodity prices also restrain core inflation to 2.0 percent growth in 2012, up from 1.7 percent in 2011, but well within the Federal Reserve's comfort zone.



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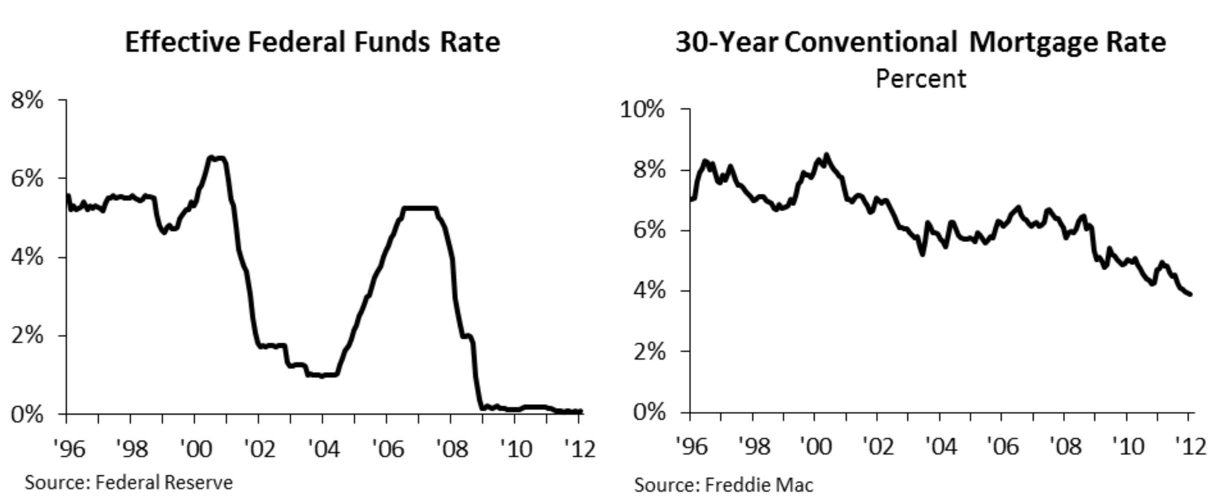
An Accommodative Stance

Speaking at a news conference following a two-day Federal Open Market Committee (FOMC) meeting in late January, Chairman Ben Bernanke stated that because commodity prices have generally flattened out or turned downward and because the ongoing resource slack in the labor market continues to restrain labor costs, inflation concerns are subdued. Indeed, survey measures and financial market indicators suggest long term inflation expectations remain stable. According to the Reuters/University of Michigan survey, for example, inflation expectations one-year ahead stand at 3.3 percent in February, down from a peak of 4.6 percent in April 2011.

The combination of low inflation and high unemployment is allowing Bernanke and the Committee to support the recovery by maintaining a highly accommodative monetary policy. The Feds has been very aggressive since the financial crisis in 2008, pushing short-term interest rates to near zero for over three years, more than tripling the size of its balance sheet, and establishing temporary liquidity swap lines with a number of foreign central banks to provide U.S. dollars to overseas markets. In January, the FOMC took two more historic actions to enhance the clarity and transparency of monetary policy and alleviate uncertainty. First, to reassure investors the Fed will not stray on inflation, a more explicit inflation target of 2 percent was adopted. Second, it began publishing the wide-ranging views of Fed participants concerning the appropriate path of the target federal funds rate. These interest rate forecasts revealed broad agreement among members that the federal funds target should not be raised until at least late-2014, some 18 months later than the Fed had suggested previously. And, the Fed signaled it was ready to offer additional stimulus to promote a stronger economy, suggesting partiality remains toward expanding the balance sheet with perhaps another round of large-scale asset purchases known as quantitative easing (QE).

GII assumes that 2012's growth will undershoot the Federal Reserve's expectations, and thus the Fed will not be raising rates until January 2015. GII also assumes the Fed will subsequently introduce a QE III program of similar size to QE II ($600 billion) sometime in the second quarter of 2012, mostly targeted at mortgage-backed securities. GII admits, however, that given recent improvement in domestic data, mainly the strong jobs report, they are less sure than they were that QE III will be implemented.

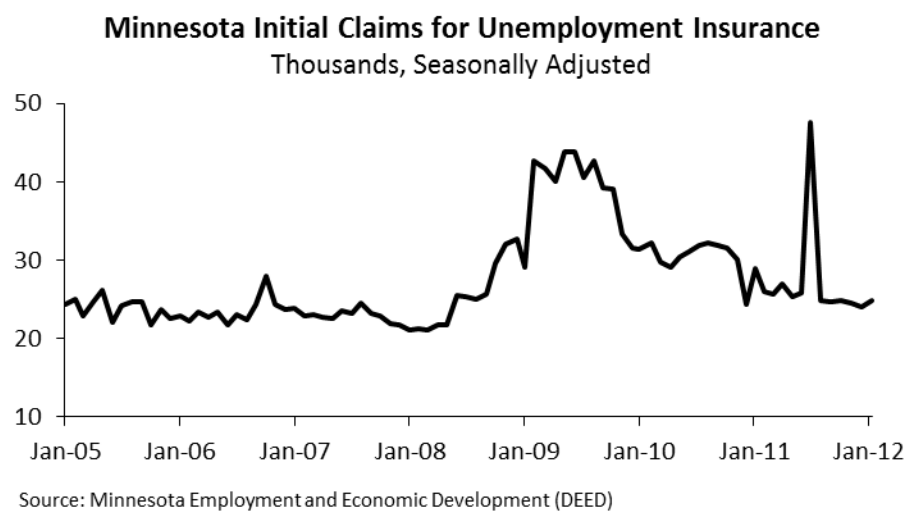


Chairman Bernanke has been very aggressive since the financial crisis in 2008, pushing short-term interest rates to near zero for over three years.

MINNESOTA ECONOMIC OUTLOOK

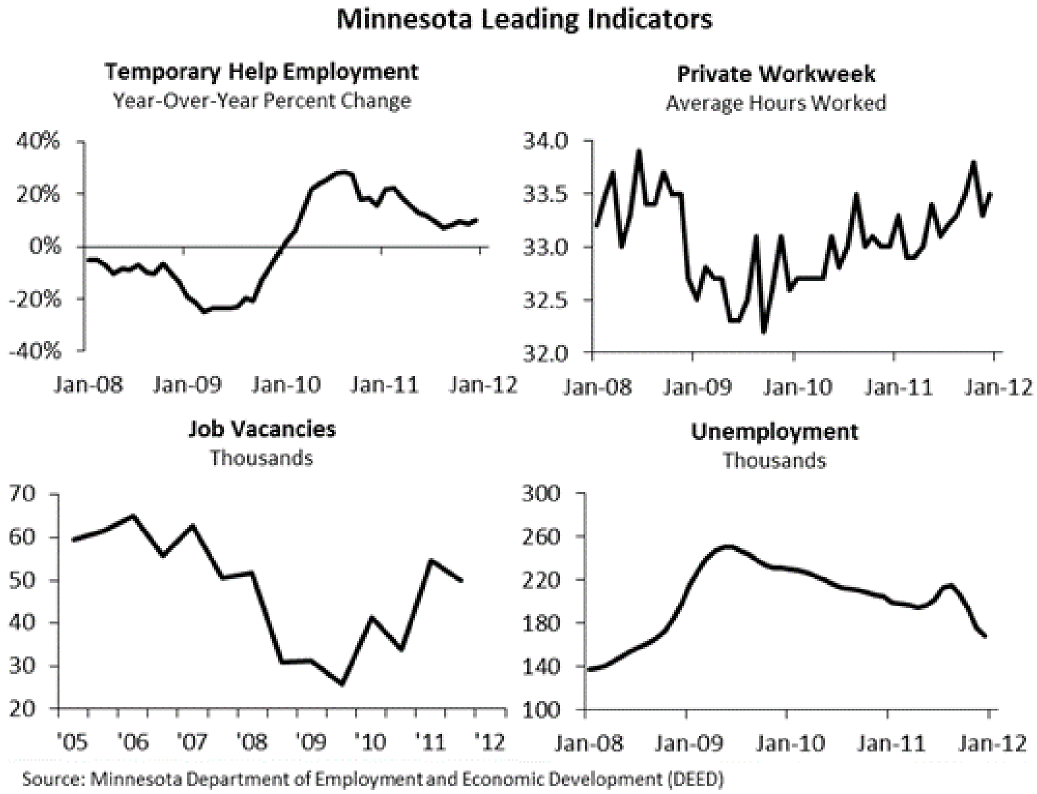
Minnesota's economy continues to improve. Wage and salary disbursements are estimated to be up 4.4 percent in 2011 and personal income is projected to have risen 5.7 percent. The recent drop in the state's unemployment rate appears genuine and upcoming revisions are expected to show employers added about 44,000 jobs from late 2010 to late 2011. Leading indicators, such as temporary help employment, average hours worked, job vacancies, and unemployment all markedly improved in 2011. 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 before the fall, 2008 financial crisis. Moreover, the employment recovery remains broad based with professional and business services, healthcare and social assistance, manufacturing, leisure and hospitality, retail trade, finance and insurance, and construction all showing gains. Federal, state, and local government cutbacks remain a drag on employment, but Minnesota's labor market appears to be firmly on a path toward recovery.

Still, while Minnesota continues to outperform the U.S. based on a number of important indicators, immediate risks are familiar. The housing crisis continues to drag home values in Minnesota down and another wave of foreclosure processing is expected to accelerate this year. Further risks also depend on how the state's economy is affected by a slowdown in global growth, mainly the economic weakness in Europe. MMB economists believe Minnesota's labor market is recovering, but will be unable to appreciably improve on its current pace of job creation until mid-2013. Employment growth of 45,000 is expected this year, about the same as in 2011. The February 2012 forecast estimates that it will take until late-2013 before Minnesota employment returns to peak pre-recession levels, three months sooner than expected last November.



Minnesota's economy continues to improve. 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 before the fall of 2008 financial crisis.

Forecasts for state employment and wages have been revised based on recent Minnesota specific information and Global Insight's (GII) February 2012 baseline. The February baseline was used to drive the same Minnesota Management and Budget (MMB) model of the Minnesota economy used in November. That model, however, has been updated to incorporate preliminary estimates of benchmark revisions to Minnesota's nonfarm payroll employment. Although a similar assumption concerning this revision was incorporated into the November forecast, this newly revised jobs data indicates that the state's labor market performed slightly better than previously thought in late 2010 and early 2011. This mirrors a similar upward, although much smaller, revision made to national employment numbers in early February.

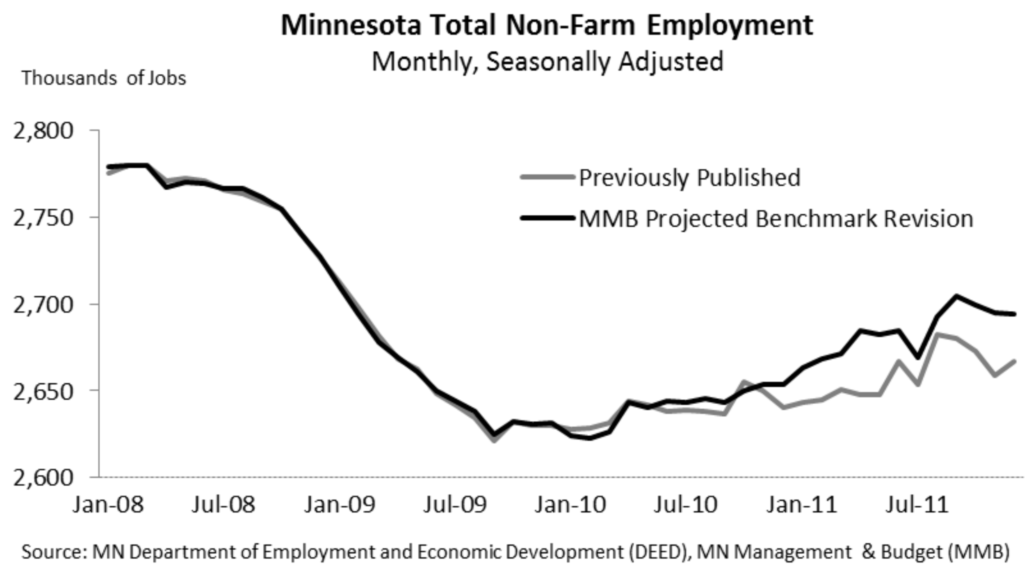


Leading indicators, such as temporary help employment, average hours worked, job vacancies, and unemployment all markedly improved in 2011.

Minnesota Labor Market Conditions are Outpacing U.S.

The latest news on Minnesota's labor market remains encouraging. Leading employment indicators, such as average hours worked, temporary help employment, and job vacancies, are all returning (or have returned) to levels not observed since before the recession. 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 six consecutive months thereafter, a threshold statistically linked with better job growth. And, the state's seasonally adjusted unemployment rate fell to 5.7 percent in December, down from 6.9 percent a year earlier and well below the 8.5 percent national (December) jobless rate. Even better, the drop in Minnesota's unemployment rate over the past year has resulted from household employment gains outpacing labor force growth, not from people growing discouraged and dropping out of the workforce. Minnesota's labor force, for example, grew a modest 0.3 percent in 2011 as household employment rose 1.0 percent. 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, but upcoming revisions to the employer survey are expected to show businesses added an average of 3,600 jobs each month in 2011. When combined with modest labor force growth, that is theoretically enough to bring down the state's unemployment rate.

The Minnesota Department of Employment and Economic Development (DEED) realigns its monthly sample-based employment estimates each year 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 at the beginning of the year will be revised up by 0.8 percent, or about 20,000 jobs, when DEED releases their annual benchmark revisions in early March. This benchmark revision is very large by historical standards. The benchmark revision to national employment estimates last month, for instance, reported an upward adjustment to March 2011 employment of just 0.1 percent. After adjusting for benchmark revisions, Minnesota employment is estimated to have grown 1.6 percent in 2011, about 0.4 percent faster than the U.S. revised figure.



Upcoming revisions are expected to show that the state's labor market performed slightly better than previously thought in late 2010 and early 2011.

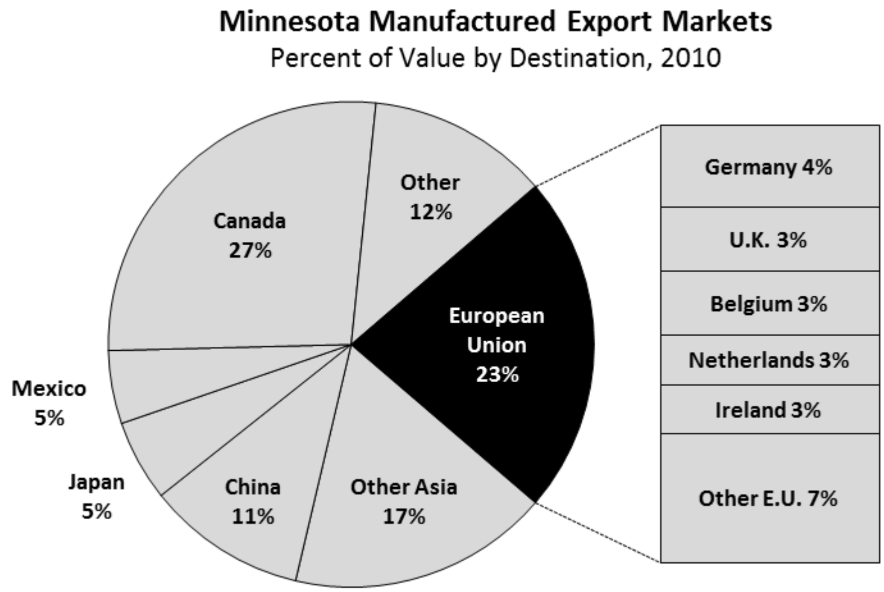
MMB's February forecast assumes labor market conditions in the state will continue to improve into 2012, albeit at about the same pace as 2011. U.S. household finances remain stressed by stagnant wage growth, high debt burdens, depleted wealth, and a discouraging (although improving) labor market. And, a persistently high national unemployment rate means consumer confidence will only gradually climb out of recession territory. This creates added uncertainty both nationally and in Minnesota. Minnesota employers are expected to add an average of about 3,700 a month through mid-2013 before picking up to over 4,200 a month by early 2014. What that does to the state's unemployment rate depends on how the labor force responds. If perceptions of growing job opportunities continue to improve and previously discouraged workers are attracted back into the labor force, it is likely Minnesota's unemployment rate will remain near 6 percent for much of 2012.

The European Recession Will Affect Minnesota

Most economists believe the 17-nation Eurozone has fallen into a mild recession, with real GDP expected to decline through at least mid-summer. Confidence is deteriorating, borrowing costs are rising, and fiscal austerity measures to reduce deficits and combat the sovereign debt crisis in countries like Italy and Spain are depressing household spending and weakening growth. The Eurozone financial crisis alone will mean at least some tightening of global credit conditions, but the recession is also likely to dampen world trade, including export demand for Minnesota goods.

Minnesota's exports of goods and services to countries throughout the world have been an important source of the state's economic strength. According to DEED, after Minnesota businesses sent $14.6 billion worth of manufactured goods abroad in 2009, exports rose over 17 percent the next year to $17.2 billion in 2010. That totals 6.4 percent of state GDP during the year. Canada ($4.6 billion in 2010) and China ($1.8 billion) are among Minnesota's two largest export markets for manufactured goods, including demand for machinery, computers and electronics, iron ore, and snowmobiles and ATVs. European Union countries as a group accounted for $3.9 billion (or 23 percent) worth of manufactured products sent abroad in 2010. Germany, United Kingdom, Belgium, Ireland, and the Netherlands are among Minnesota's largest European purchasers of other goods such as medical instruments and aircraft products and parts.

With nearly a quarter of Minnesota's manufactured exports bound for Europe, slower economic growth in the EU portends slower demand for Minnesota exports. Indeed, although state exporters continued to post strong results during the first half of 2011, growing 12.5 percent over-the-year, Europe's economic troubles helped slow momentum in the third quarter to just 4 percent growth. Europe is an important trading partner to the state and decreased household and government spending is likely to further reduce the demand for Minnesota produced goods throughout the Eurozone in 2012. In addition, a stronger dollar relative to the euro, which would likely accompany a European downturn, will make Minnesota produced goods and commodities more expensive in European markets and elsewhere in the world, further reducing demand for the state's products abroad.



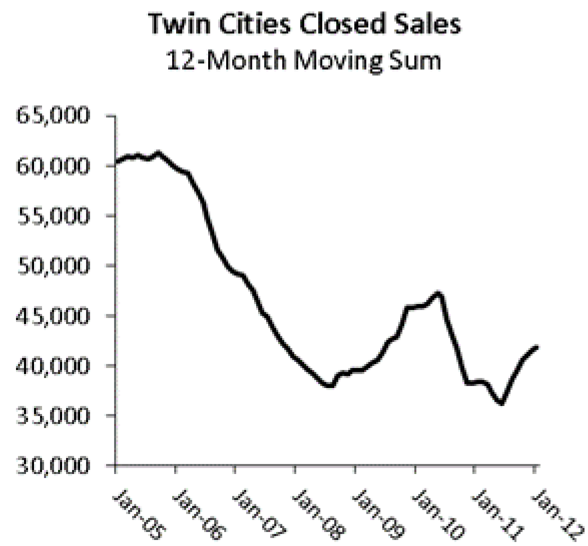
Source: MN Department of Employment and Economic Development (DEED)

Canada and China are Minnesota's two largest export markets for manufactured goods, including demand for machinery, computers and electronics, iron ore, and snowmobiles and ATVs. European Union countries as a group accounted for nearly a quarter of the state's manufactured products sent abroad in 2010.

Distressed Sales Continue to Pose Serious Risk

Minnesota's six-year old housing crisis revealed some encouraging signs of improvement in 2011, but a major revival remains elusive. The number of Minnesota properties with a foreclosure filing fell 19 percent last year according to RealtyTrac, the Minneapolis Area Association of Realtors (MAAR) report showed inventories available for sale down nearly 30 percent in Twin Cities at the end of 2011 compared to a year earlier, and metro home sales have hit bottom. But an expected near-term rise in distressed sales, including foreclosures and short sales, subsequent price declines will continue to pose serious risks to a sustainable housing rebound in 2012.

According to the S&P/Case-Shiller Home Price Index (HPI), nominal home prices in the Minneapolis/St Paul area are down around a third from their peak in 2006. The Twin Cities HPI fell 9 percent in 2011. Likewise, the Federal Housing Finance Agency (FHFA) purchase-only index for conventional, conforming mortgages in Minnesota reports a 21 percent decline from its 2006 peak, down 5 percent in the past year. Much of the price decline continues to be a result of the rising share of distressed sales, where properties sell at a large price discount, relative to traditional listings. The median price of a foreclosure property in the Twin Cities, according to MAAR was $108,000 in 2011, significantly less than the $200,000 median price for a traditional listing. Half of the closed sales in the metro area last year were distressed properties. Five years ago, foreclosures and short-sales comprised just 10 percent of sales.

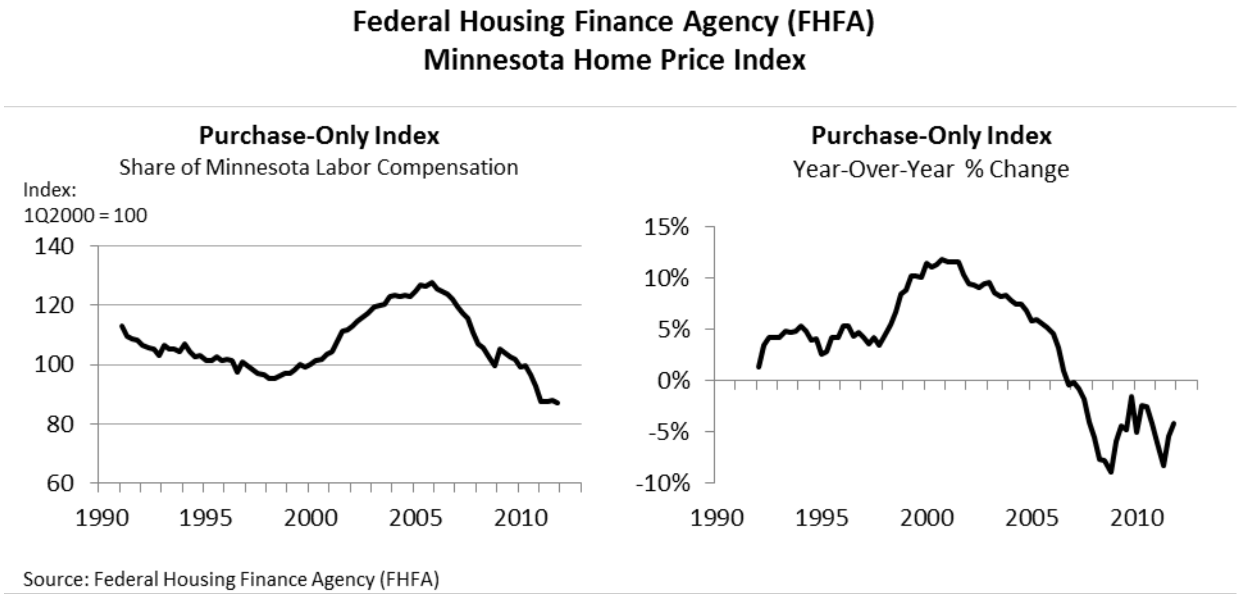


Source: Minneapolis Area Association of Realtors (MAAR)

Minnesota's six-year old housing crisis revealed some encouraging signs of improvement in 2011. The Minneapolis Area Association of Realtors (MAAR) reports inventories available for sale were down nearly 30 percent in Twin Cities at the end of 2011 compared to a year earlier and metro home sales have hit bottom.

In the coming year, there is likely to be added downward pressure on prices because the share of distress sales is expected to rise further. This is because the volume of recent home foreclosures has been temporarily snarled by slow processing and lengthy lawsuits, due to the nationwide "robo-signing" scandal. After it was discovered that employees had approved legal documents using improper methods many major lenders began delaying foreclosure filings. Disclosure also prompted regulatory and legal action against the mortgage-lending industry, including a yearlong joint investigation by the state attorneys general from all 50 states and the federal government into alleged fraudulent misconduct.

In early February, the coalition finalized a multi-state civil agreement with five large financial institutions and a private national mortgage registry worth up to $26 billion. The deal, which represents the largest negotiated industry settlement since a multi-state deal with tobacco companies in 1998, includes up to $280 million in relief to Minnesota homeowners in the form of principle write-downs and loan modifications. With the final settlement wrapped up foreclosure processing is expected to accelerate this year, new listings and sales of distressed properties are likely to rise, and housing prices are expected to fall further. Many economists believe this agreement will eliminate a crucial source of uncertainty that is thought to be delaying a balanced housing recovery.



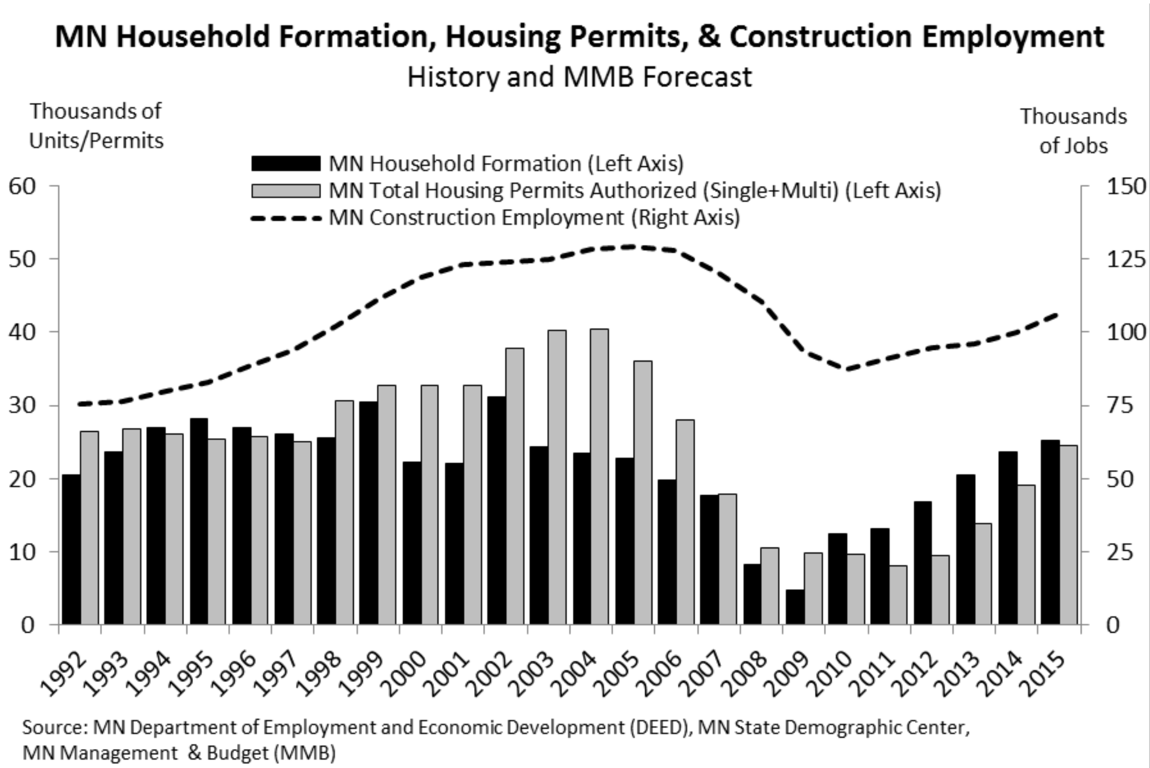
According to the Federal Housing Finance Agency (FHFA) purchase-only home price index, nominal home prices for conventional, conforming mortgages in Minnesota are down 21 percent from their peak in 2006, when the housing market first began to deteriorate. Home values fell another 5 percent in the past year.

Lasting Supply of Excess Housing Remains

Residential home construction remains slow in Minnesota's 2012 outlook. In MMB's February forecast, the construction industry adds a modest 1,700 jobs between now and early 2013, before accelerating in 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 2002 and 2005, however, low mortgage qualification requirements and growing speculation both nationally and in Minnesota fueled unsustainable levels of home construction that far outpaced market fundamentals. Total housing units authorized by building permits in the state, for example, grew by 154,000 over this period, while Minnesota households increased by just 102,000. If between 3,000 to 4,000 new homes are needed each year to simply keep pace with the replacement of older homes and meet the demand for vacation homes this suggests Minnesota entered the recession in late 2007 with excess of some 36,000 to 40,000 housing units, a level of homes similar in size to the city of Duluth.

Before Minnesota home construction can return to more normal levels of activity, the market needs to work through 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. Already, home building activity has been depressed in Minnesota for over five years. Only 9,200 building permits were authorized for new home construction in the state during 2009, just 9,600 were approved in 2010, and a record low 8,300 were issued in 2011. By comparison, during normal building conditions, approximately 30,000 permits would be authorized to meet underlying demand.



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 the February 2012 outlook for construction employment.

Despite sharp declines in home building activity, 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 difficult for the state's housing market to work through excess units created during the housing boom. While improving job growth and increasing formation rates will help absorb most, if not all, 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 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.

A Revised Forecast

Forecasts for employment and wages have been revised based on recent Minnesota-specific information and Global Insight's February 2012 baseline. The February baseline was used to drive the same Minnesota Management and Budget model of the Minnesota economy used in November. That model has also been updated to incorporate preliminary revisions to Minnesota's non-farm payroll employment provided by the Minnesota Department of Employment and Economic Development.

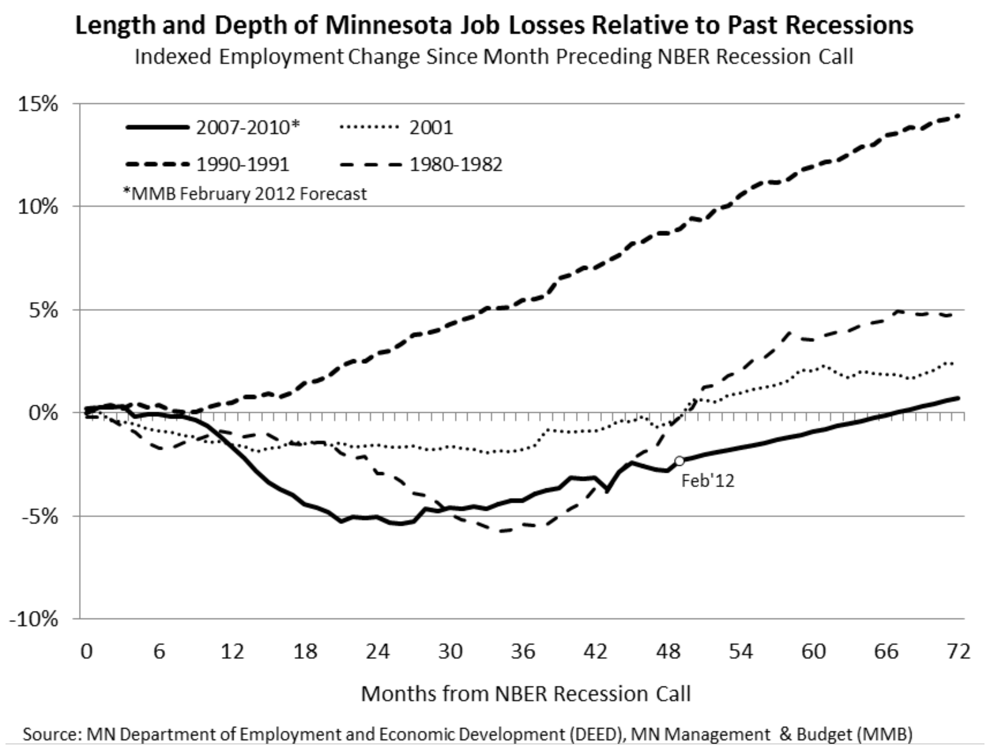
Minnesota Outlook Compared to the U.S.

(Calendar Year Percent Change)

	2010	2011	2012	2013	2014
Non-Farm Employment					
Minnesota					
February 2012	(0.5)	1.6	1.5	1.6	1.7
November 2011	(0.5)	1.3	1.3	1.6	2.0
United States					
February 2012	(0.7)	1.2	1.5	1.5	1.7
November 2011	(0.7)	1.0	0.9	1.4	2.0
Wage and Salary Income					
Minnesota					
February 2012	3.0	4.4	4.2	4.2	4.6
November 2011	3.0	4.8	3.7	4.1	5.0
United States					
February 2012	2.2	3.6	3.6	4.1	4.6
November 2011	2.2	4.0	2.9	4.0	5.0
Personal Income					
Minnesota					
February 2012	4.7	5.7	3.3	3.9	4.9
November 2011	4.7	5.8	3.1	3.6	5.2
United States					
February 2012	3.7	4.8	3.5	4.0	4.9
November 2011	3.7	5.0	3.1	3.6	5.2

Each year, the Current Employment Statistics (CES) survey's estimates of Minnesota employment are benchmarked to comprehensive counts through the second quarter of the preceding year. Based on the QCEW for first quarter 2011, the February 2012 forecast assumes current employment data at the beginning of the year will be revised upward 0.8 percent when annual benchmark revisions to Minnesota's monthly CES are released in early March. This is the state's equivalent to the national employment revision in early February, which similarly reported an upward adjustment of 0.1 percent to March 2011 employment.

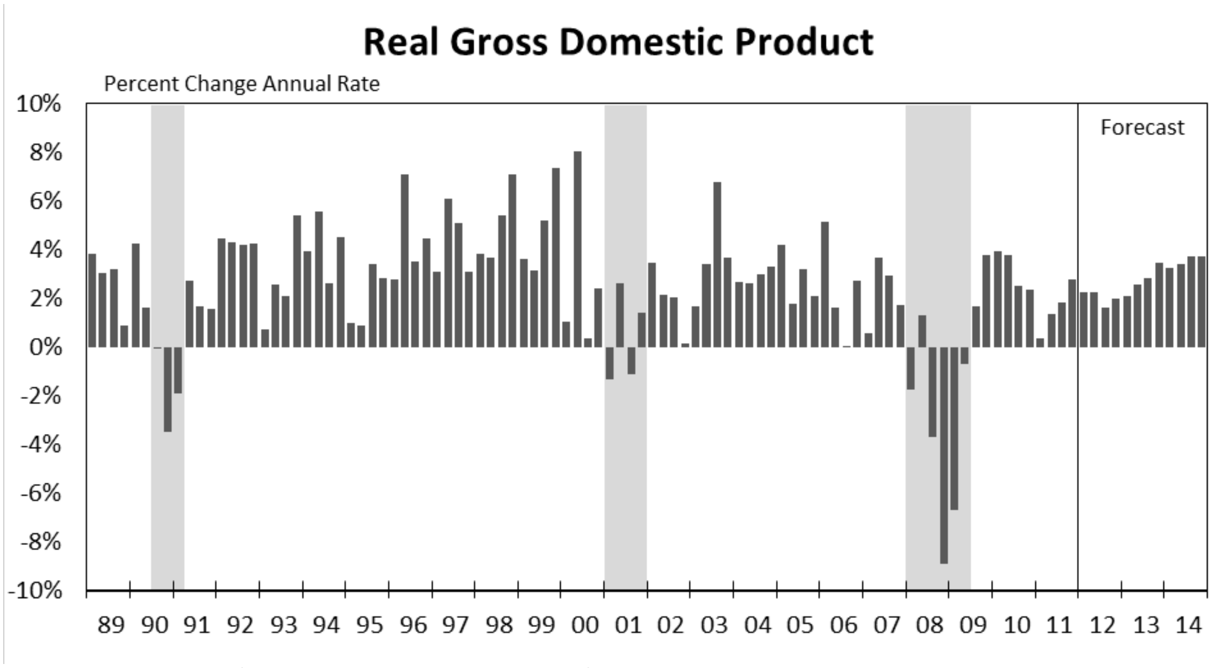
The February 2012 forecast for Minnesota's economy projects the state's employment rebound in 2012 will remain modest. After declining 3.9 percent in 2009 from a year earlier and falling an additional 0.5 percent in 2010, Minnesota employment rebounded 1.6 percent in 2011. Employment in the state is forecast to grow by 1.5 percent in 2012, and then 1.6 percent in 2013 and 1.7 percent in 2014. But Minnesota payroll employment fell so much in late 2008 and 2009 that MMB economists estimate it will take until late 2013 before the state's employment regains the 2.770 million high reached before the recession began in late 2007.



The depth of the job declines that occurred between late 2008 and the middle of 2010 are so extensive that MMB economists estimate it will likely take until late-2013 before Minnesota employment regains the 2.77 million peak reached before the recession began in late 2007.

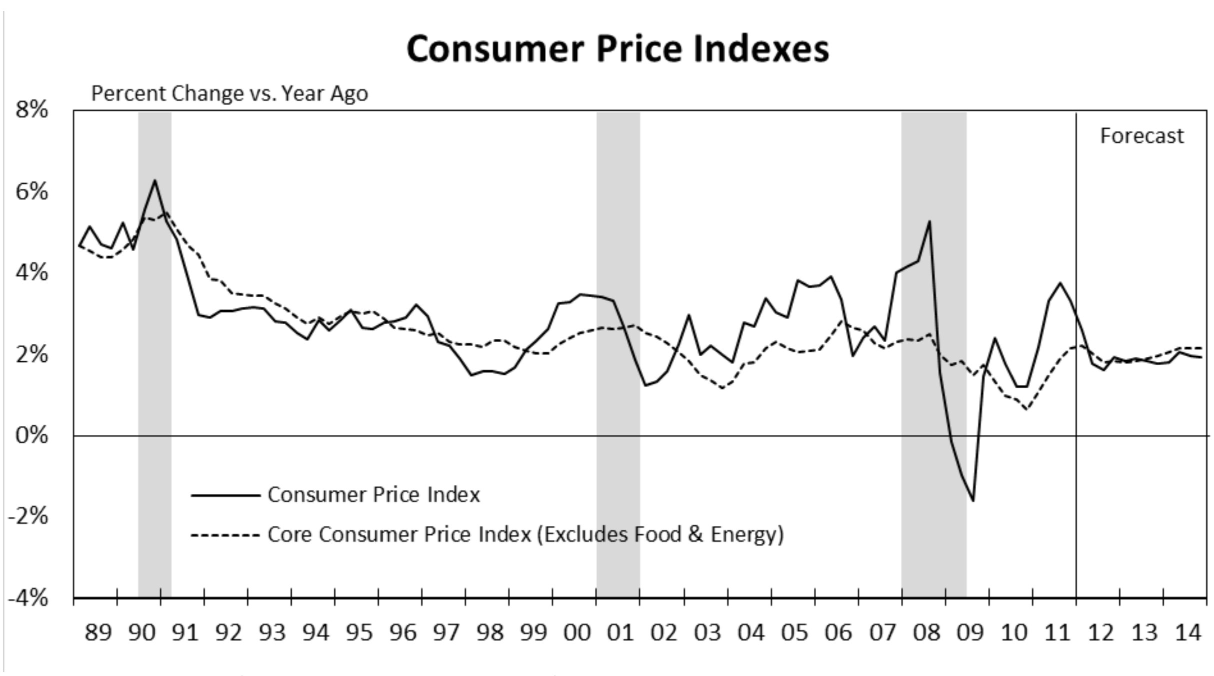
Total nominal wage and salary disbursements in Minnesota fell 4.7 percent in 2009 from a year earlier according to the BEA, the first annual decline in this component of state personal income since the 1930s. Total nominal wages regained 3.0 percent in 2010 and preliminary labor market data and income tax withholding collections suggests income climbed 4.4 percent in 2011. Nominal wages are forecast to grow 4.2 percent in 2012 and 2013, before accelerating to 4.7 percent growth in 2014.

The forecast assumes that GII's February 2012 baseline materializes. Geopolitical risks remains though, as does the possibility of a deeper Eurozone recession than GII assumes. Either of those shocks would materially affect the forecast as would a rapid change in price levels, weaker business investment, or falling home values pushing more homeowners underwater, producing more mortgage defaults and distress sales, and thus more price declines.



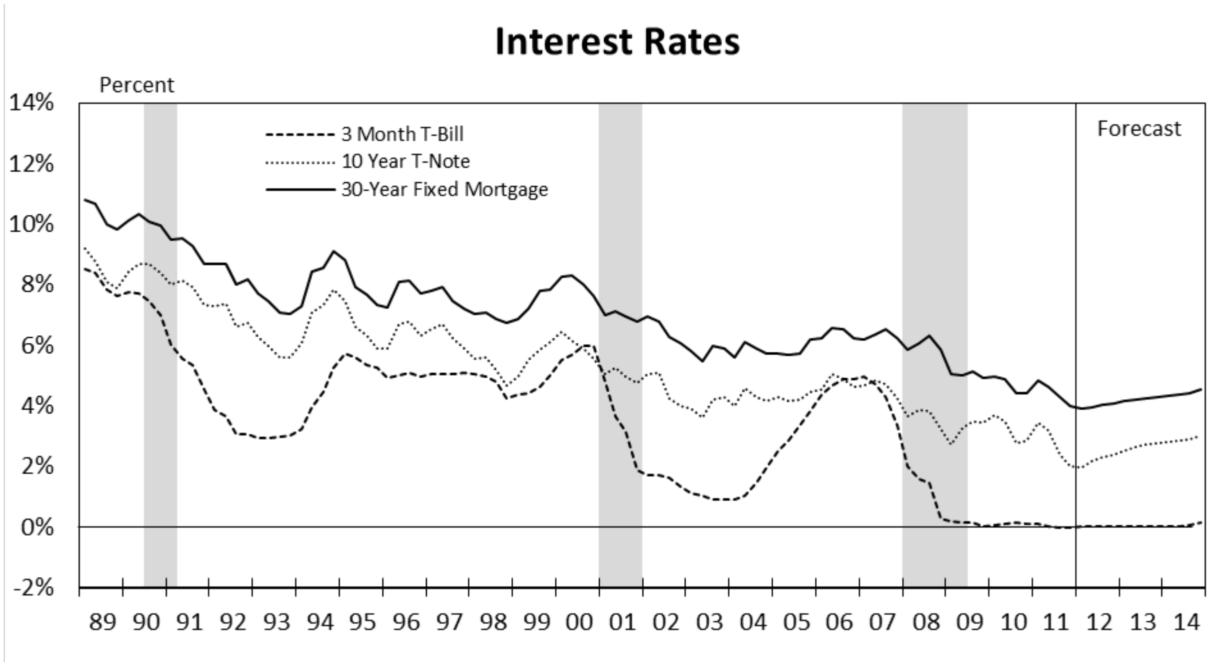
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

Fourth quarter real GDP growth was 2.8 percent, by far the strongest quarter of 2011. GII expects an overhang of excess debt and excess housing supply will keep the domestic expansion a modest one. Real GDP rises 2.1 percent in 2012, followed by 2.3 percent growth in 2013.



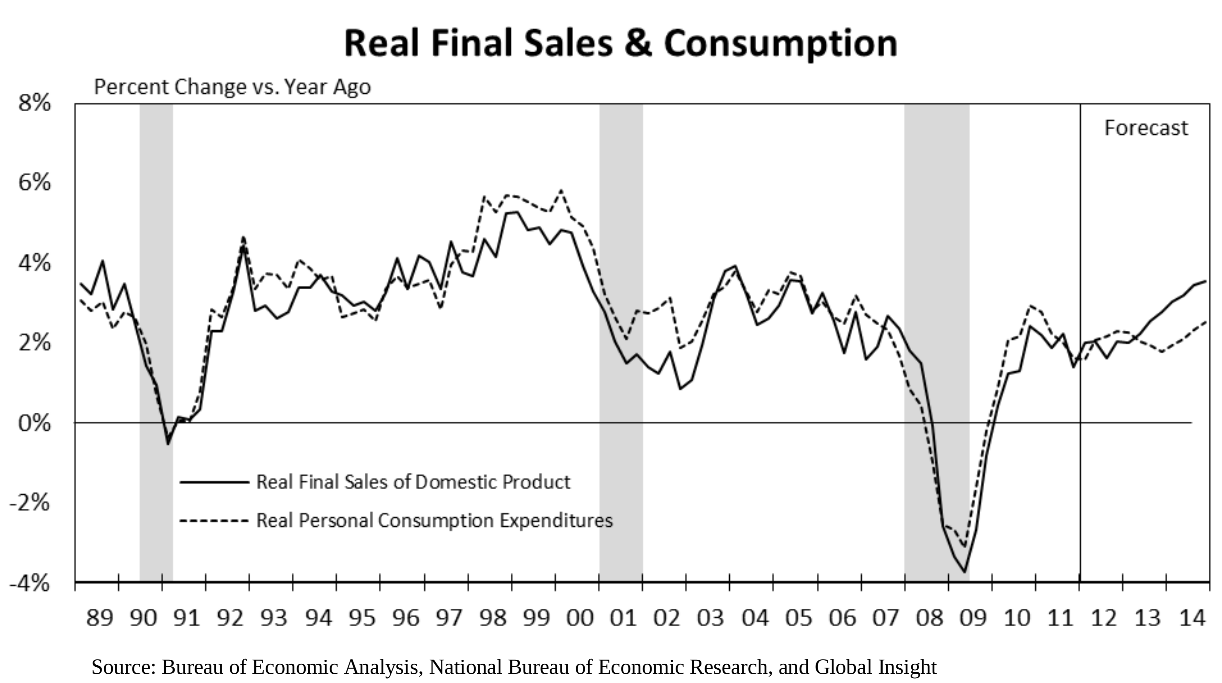
Source: Bureau of Labor Statistics, National Bureau of Economic Research, and Global Insight

A sharp rise in gasoline and food prices during the first half of 2011 raised CPI inflation to 3.1 percent for the year. With less price pressure from oil and food, GII assumes CPI inflation will fall back to 2.0 percent in 2012.



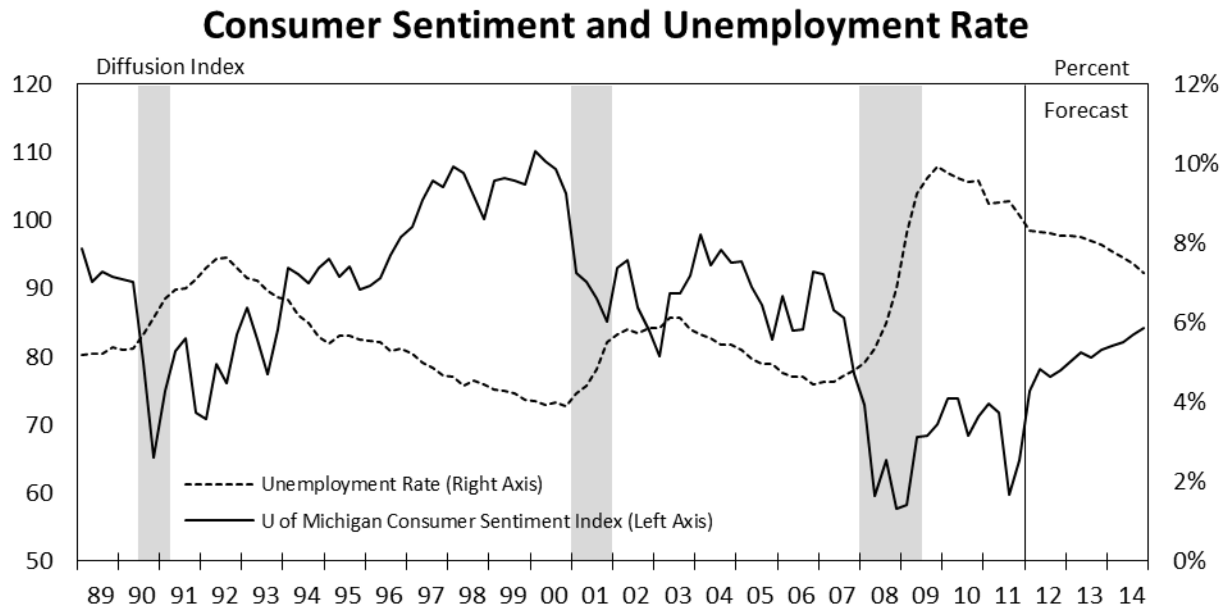
Source: Federal Reserve Board, Freddie Mac, National Bureau of Economic Research, and Global Insight

In January, the FOMC reaffirmed its low interest rate policy by stating it expects to keep the federal funds target in the 0.0 to 0.25 percent range through late 2014. Likewise, GII foresees ten-year Treasury yields in the 2.0 to 2.5 percent range through the end of 2012.



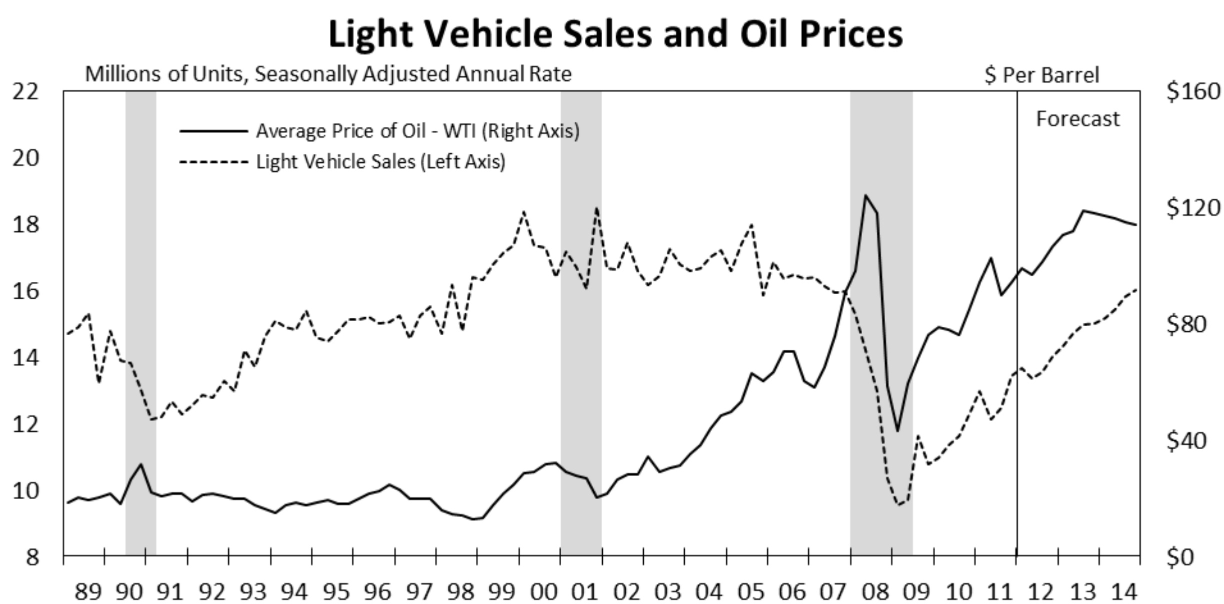
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

Real consumer spending grew at a modest 2.0 percent annual pace in the fourth quarter of 2011, and excluding the surge in new vehicle spending, spending growth was only 1 percent. GII expects real spending growth of 2.0 percent in 2012, with the slowest pace recorded in the first quarter.



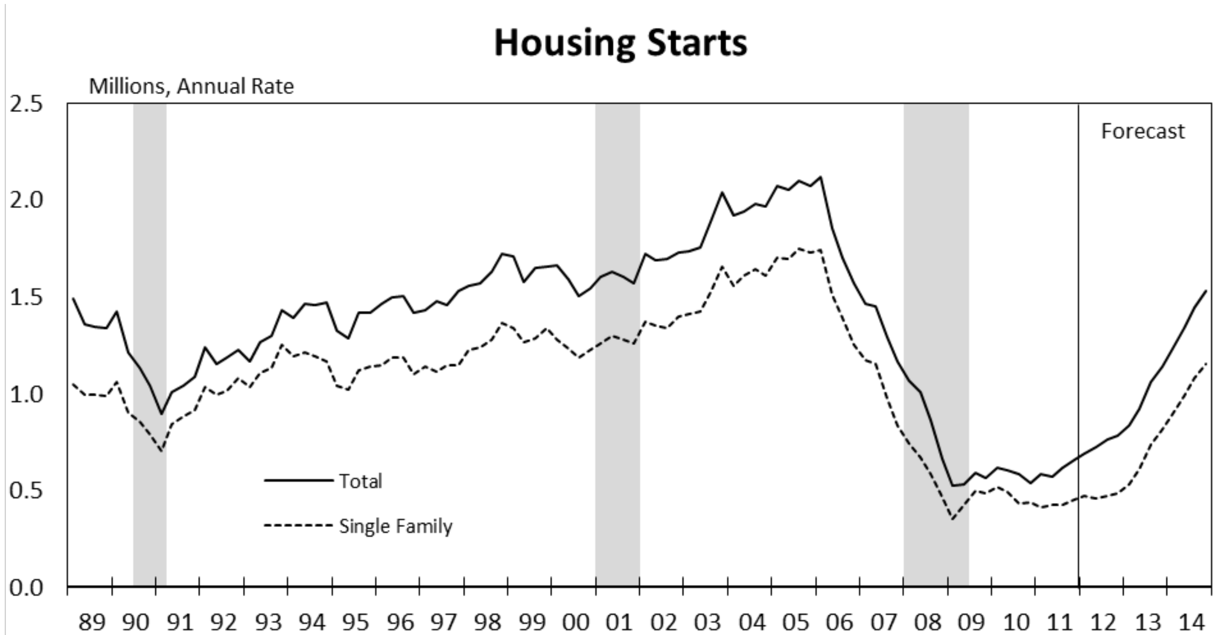
Source: University of Michigan, Bureau of Labor Statistics, National Bureau of Economic Research, and Global Insight

Consumer and business confidence in the U.S. political process hit new lows in mid-2011 when the artificial debt ceiling crisis took the country to the brink of default. Recent improvements in the labor market, however, have sparked renewed optimism for the New Year.



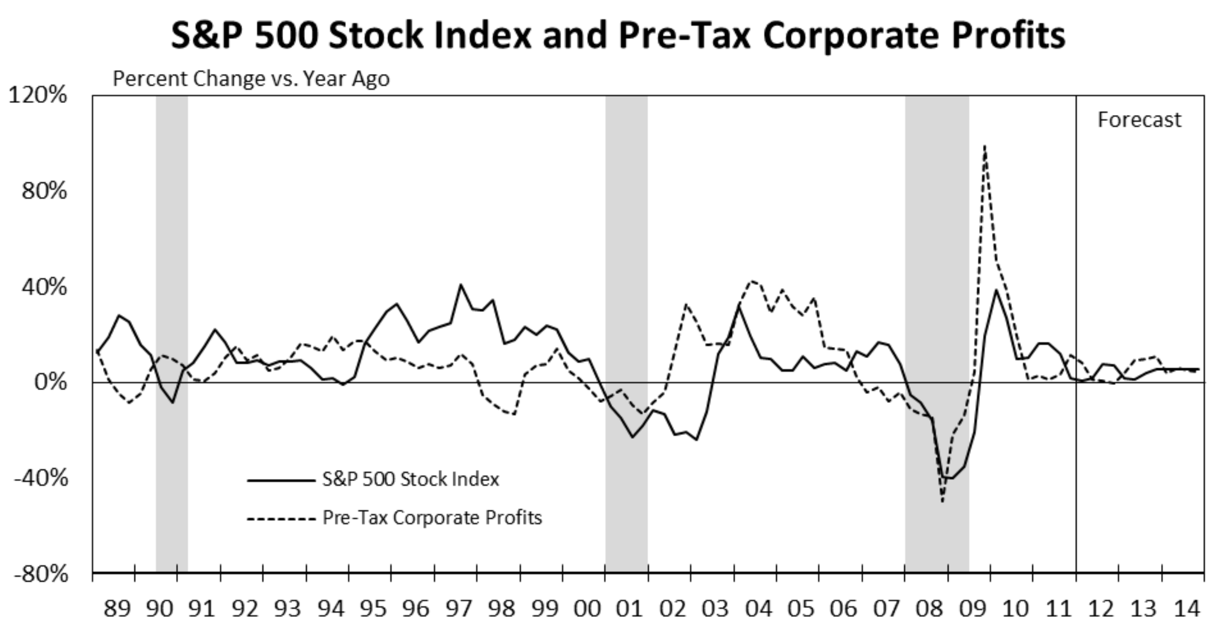
Source: Bureau of Economic Analysis, Investors' Business Daily, National Bureau of Economic Research, and Global Insight

Oil prices have drifted higher due to worries over potential supply disruptions and Middle Eastern tensions. GII believes gasoline prices could top $4 per gallon again by early June 2012 from just normal seasonality.



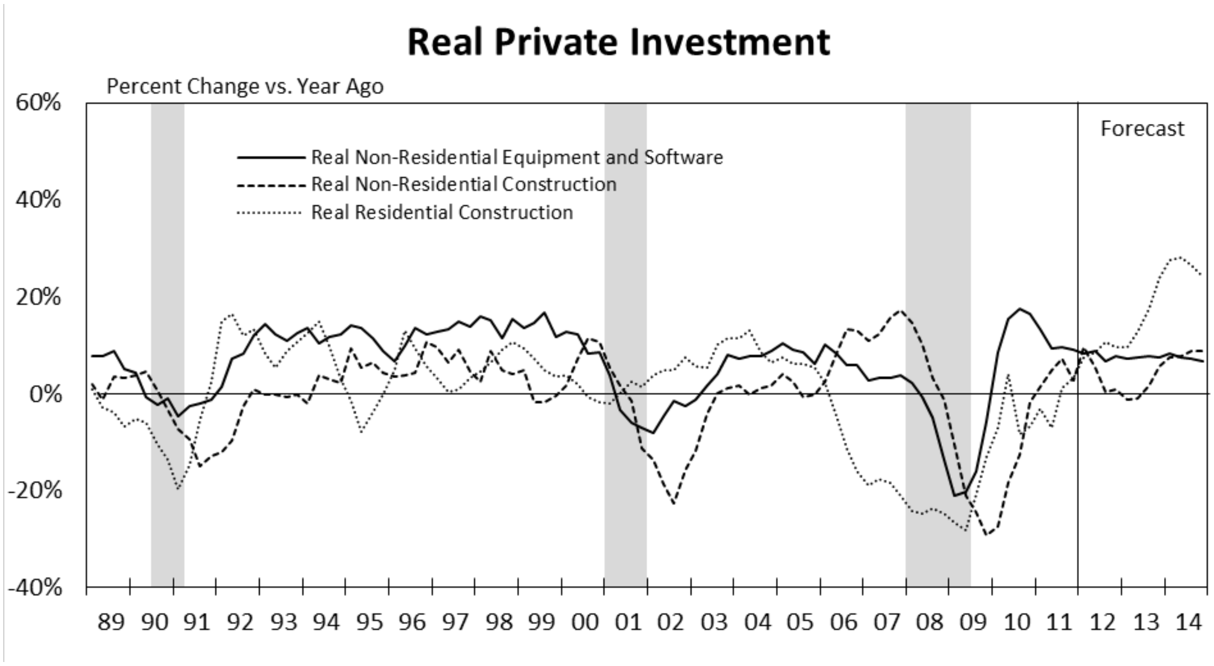
Source: U.S. Census Bureau, National Bureau of Economic Research, and Global Insight

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.



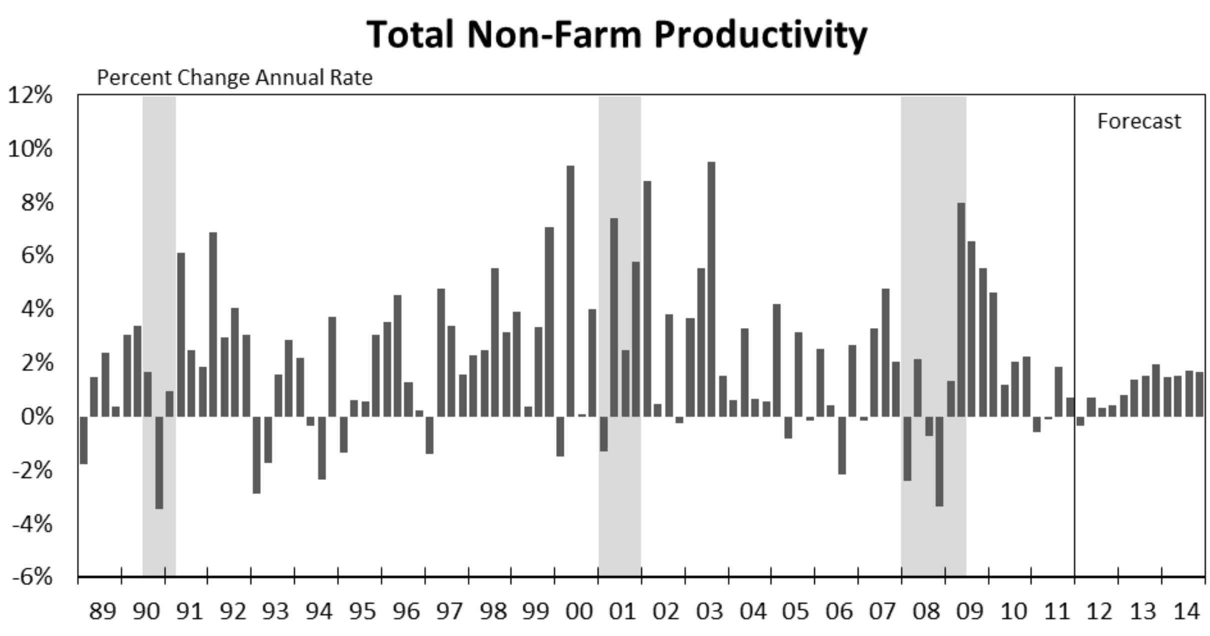
Source: Standard and Poor's, National Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

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 $2.03 trillion in profit in the fourth quarter of 2011, an all-time high.



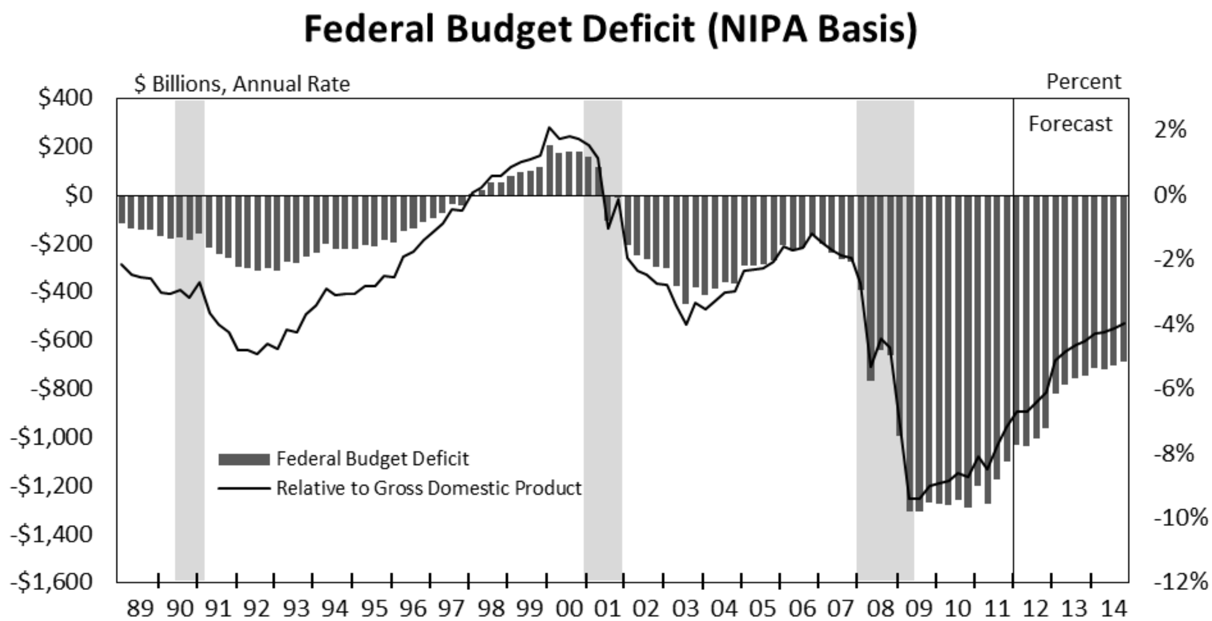
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

Capital equipment and software investment remains an important driver of economic growth. GII expects businesses will continue to address replacement needs neglected during the recession, and business equipment and software spending will rise 7.9 percent in 2012 and 7.6 percent in 2013.



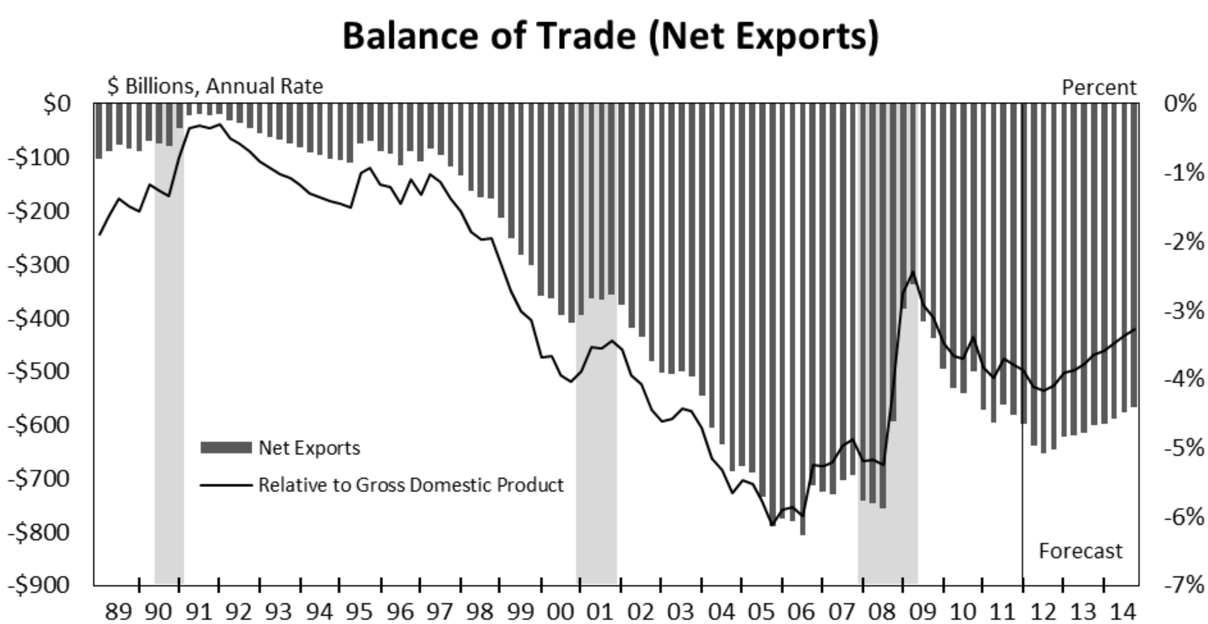
Source: Bureau of Labor Statistics, National Bureau of Economic Research, and Global Insight

Without a clear and sustainable outlook for final demand, employers have continued to cut costs and increase profitability during the recovery. But the productivity growth surge appears to have run out of steam. As a result, hiring is improving and income growth is tilting back to households.



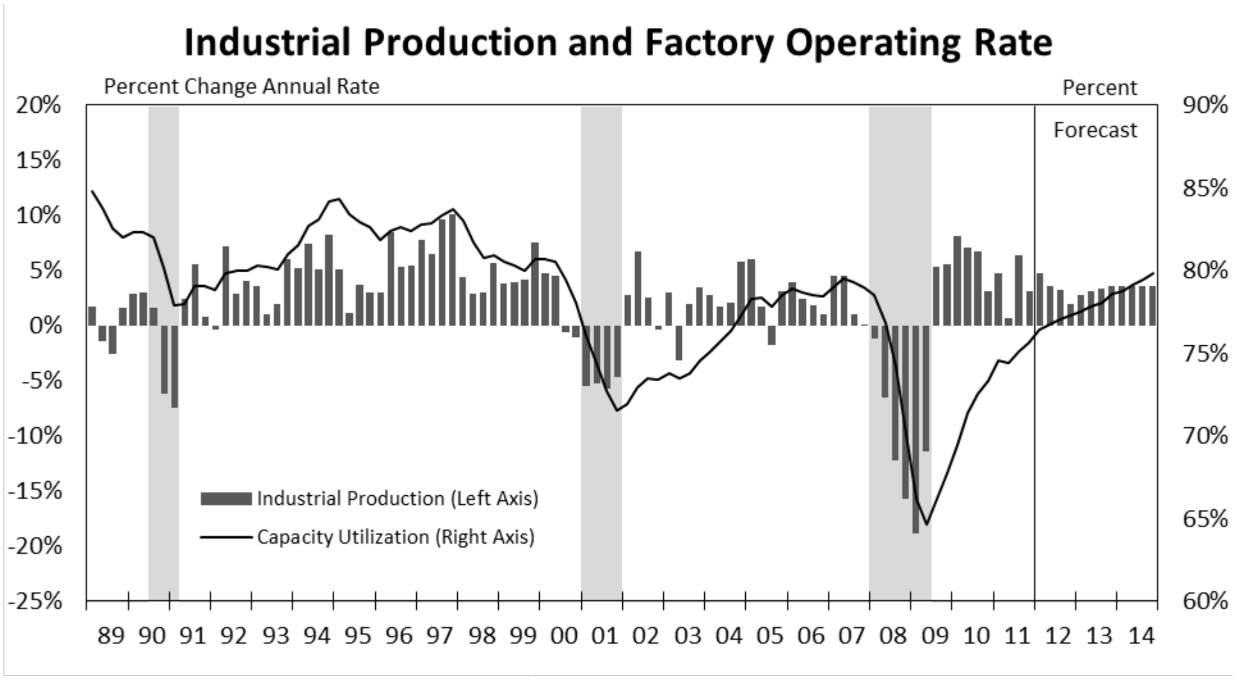
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

GII expects the federal deficit for FY2012 to come in at $1.0 trillion, or about $270 billion lower than FY2011. Federal fiscal policy, however, will be a significant drag on the economy in 2012, as remaining stimulus fades and spending cuts from the August 2011 debt-ceiling deal kick in.



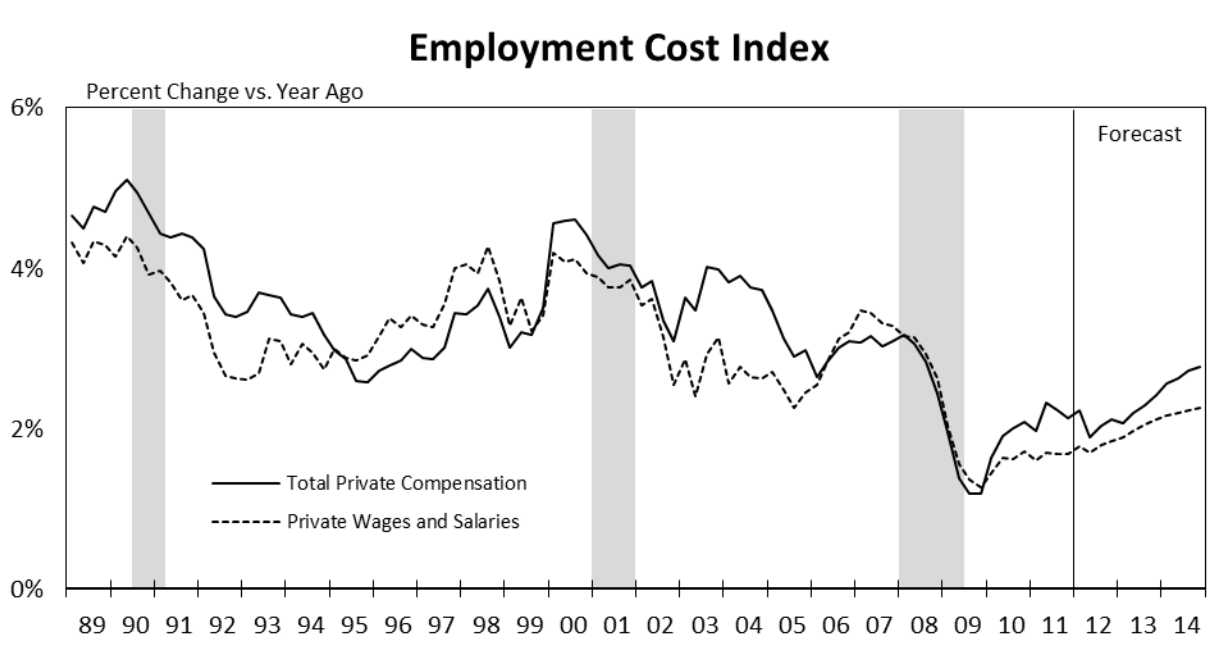
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

China's economy is slowing and the Eurozone is falling into recession. In addition, fears of global recession have pushed the U.S. dollar higher. This combination is bad news for U.S. exports, which GII expects to decelerate from 6.8 percent growth in 2011 to a 4.3 percent rise in 2012.



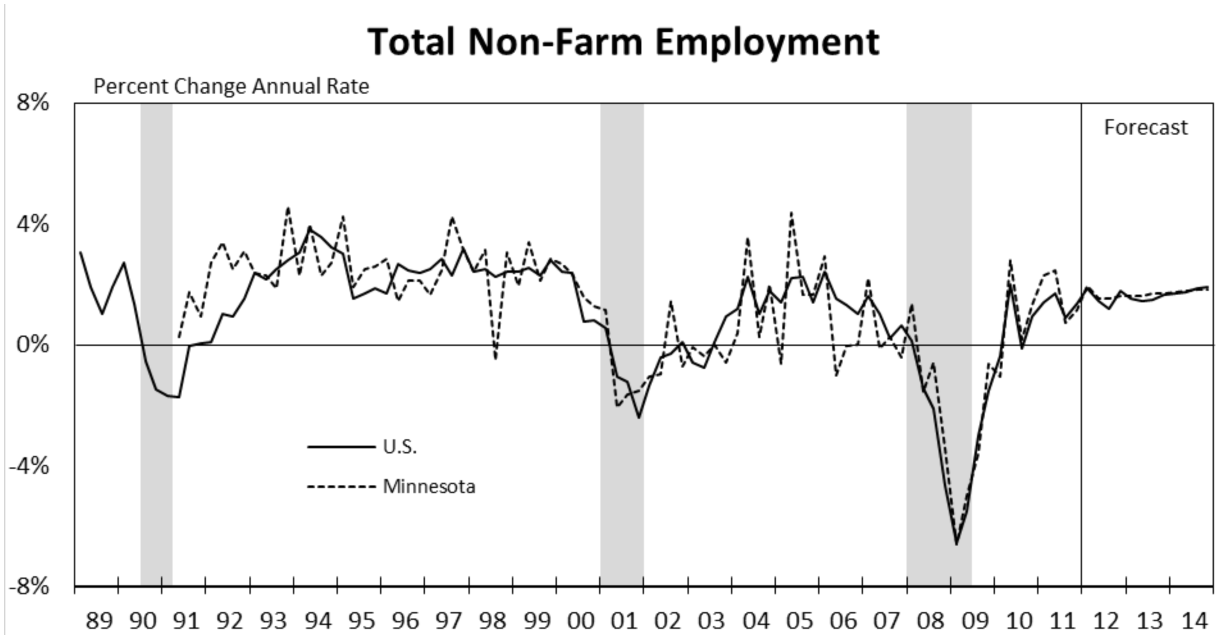
Source: Federal Reserve Board, National Bureau of Economic Research, and Global Insight

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



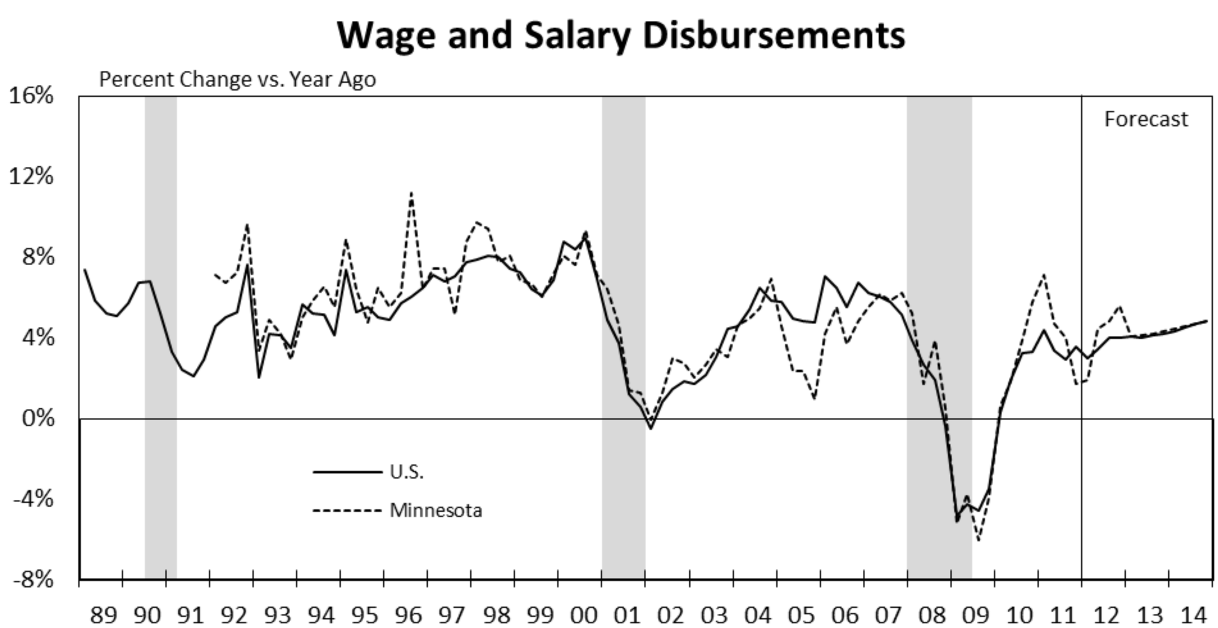
Source: Bureau of Labor Statistics, National Bureau of Economic Research, and Global Insight

The employment cost index (ECI) continued to show very modest compensation inflation in late 2011. It will be difficult for consumers to sustain current rates of spending without strong improvements to wage growth.



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

The February 2012 forecast for Minnesota's economy projects the state's employment rebound will remain modest. After declining 3.9 percent in 2009 and 0.5 percent in 2010, state employment rebounded a revised 1.6 percent in 2011. Employment is forecast to rise 1.5 percent in 2012.



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 and preliminary labor market data and income tax withholding collections suggests income climbed 4.0 percent in 2011. Nominal wages are forecast to rise 4.2 percent in 2012 and 2013.

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

Projected Balance of $323 Million Forecast for FY 2012-13

A slight increase in forecast revenues and lower than expected spending results in a projected balance of $323 million for the 2012-13 biennium. Forecast revenues for the current biennium are now expected to be $33.793 billion, an increase of $93 million (0.3 percent) from November's estimates. General fund spending is projected to be $33.761 billion, $230 million lower (0.7 percent) than previously forecast.

FY 2012-13 Budget Forecast - Before Statutory Allocations

($ in millions)

	November Forecast	February Forecast	$ Change	% Change
Beginning Balance	**$1,289**	**$1,289**	**$0**	**0.0**
Income	16,214	16,262	48	0.3
Sales	9,339	9,362	23	0.2
Corporate	1,825	1,799	(26)	(1.4)
Other Taxes	3,804	3,838	34	0.9
Non-Tax, Transfers, Other	2,518	2,532	14	0.6
Total Resources	**33,700**	**33,793**	**93**	**0.3**
K-12 Education	13,653	13,623	(30)	(0.2)
Health and Human Services	11,064	10,884	(180)	(1.6)
Property Tax Aids and Credits	2,839	2,832	(7)	(0.2)
Debt Service	474	456	(18)	(3.8)
All Other	5,961	5,966	5	0.1
Total Expenditures	**33,991**	**33,761**	**(230)**	**(0.7)**
Budget and Cash Reserves	998	998	0	
Ending Balance	**$0**	**$323**	**$323**	

The $93 million increase in projected revenues for the current biennium is just a 0.3 percent increase over previous estimates. Changes in the state's three major revenues the individual income tax, sales tax and corporate income tax, were small and partially offsetting. Slightly stronger economic growth increased projections for individual income tax by $48 million (0.3 percent) and sales tax estimates increased by $23 million (0.2 percent). Projected increases in these taxes were offset partially by a $26 million (1.4 percent) reduction in corporate income tax.

All other general fund tax revenue is forecast to be $34 million above November's estimates. Increases in the estimates for insurance gross premiums taxe and mortgage registry taxes, $22 million and $14 million respectively, are offset by a nearly $10 million reduction in the estate tax. Non-tax revenue, including transfers and other miscellaneous revenues is up $14 million from modest increases in fees, investment income and lottery revenues.

Before the school shift buyback, general fund spending for the current biennium is forecast to be $33.761 billion, $230 million (0.7 percent) below November's estimates. $180 million of the forecast change is due to lower spending estimates for health and human services.

Health and human services' spending accounts for one-third of total general fund spending. Medical Assistance (MA) accounts for approximately 90 percent of health and human services forecast spending. Reductions in estimated spending for MA are a result of lower than expected enrollments and reductions to forecast fee-for-service payments.

Changes in other categories of spending are minor. K-12 education estimates, before the payment shift buyback, decreased $30 million reflecting slightly slower growth in the enrollment forecast.

Debt service, property tax aids and credits and all other spending are down $20 million (0.2 percent) from previous estimates. An $18 million reduction in debt service cost estimates and $7 million less in property tax aids and credits payments account for the overall reduction in spending estimates. Additional loans being repaid for the Maximum Effort School Loan Program, which results in a reduction in the general fund transfer to the debt service fund, accounts for $16 million of the reduction in debt service estimates. Reductions of $7 million in the homeowner property tax refund program lowers the estimates for property tax aids and credits.

$323 Million Forecast Balance Fills Reserves and Buys Back a Portion of School Shifts

February's forecast changes result in a projected forecast balance of $323 million, however, after fully restoring the budget reserve and buying back $318 million of school payment shifts, the available balance falls to zero. Current law requires a priority-ordered allocation of any forecast balance for the close of the biennium.

Statutory Allocations of FY 2012-13 Forecast Balance
($ in millions)

	Before Allocations	November Forecast	February Forecast	After Allocations
FY 2011-13 Forecast Change		**$876**	**$323**	
Statutory Allocations				
Cash Flow Account	95	255		350
Budget Reserve	27	621	5	653
Education Payment Shift Buyback			318	318
Ending Balance		**$0**	**$0**	

As in November, allocation of February's forecast balance is required by Minnesota Statutes 16A.152. Prior to November's allocation there was $95 million in the state's cash flow account and $27 million in the budget reserve. Officially closing the books for FY 2011 and the November forecast changes to FY 2012-13 resulted in a revised general fund balance of $876 million projected for the current biennium. $255 million of that balance was used to restore the cash flow account to its statutory maximum of $350 million and $621 million was allocated to the budget reserve, leaving it $5 million below its $653 million ceiling.

Of February's additional forecast balance of $323 million, $5 million is allocated to the budget reserve. The $5 million fully restores Minnesota's cash and budget reserves. The $1.003 billion in cash flow and budget reserves represents approximately 2.9 percent of total general fund spending. The last time reserves were at the statutory ceiling was in February 2008.

The remaining $318 million is allocated to reversing school aid payment shifts. That increases K-12 and property tax aids and credits spending in FY 2012-13. The additional allocation changes the payment schedule from a 60-40 to a 64.3-35.7. Any future positive forecast balances will continue to be used to restore the school aid payments until the desired 90-10 payment schedule is reached. Then the property tax recognition shift is bought back. In total, $2.4 billion is needed to reverse the remaining shifts.

School Shift Buyback Increases FY 2012-13 Forecast Spending

The partial buyback of the K-12 education payment shift adds $318 million to K-12 education and educated-related property tax aids and credits spending in FY 2012-13, increasing total spending to $34.079 billion, $88 million more than November's estimate. After the allocation, K-12 spending is now forecast to be $13.941 billion in the current biennium, up $288 million (2.1 percent) from November.

FY 2012-13 Budget Summary - After Allocations

($ in millions)

	November Forecast	February Forecast	$ Change	% Change
Beginning Balance	**$1,289**	**$1,289**	**-**	**0.0**
Total Resources	**33,700**	**33,793**	**93**	**0.3**
K-12	13,653	13,941	288	2.1
Health and Human Services	11,064	10,884	(180)	(1.6)
All Other	9,274	9,254	(20)	(0.2)
Total Expenditures	**33,991**	**34,079**	**88**	**0.3**
Budget & Cash Reserves	998	1,003	5	
Ending Balance	**$0**	**$0**	**$0**	

Budget Reserve Restored, Special Sales Tax Acceleration Suspended

In 2010, changes to due dates for sales tax payments were enacted to improve the state's cash flow. The changes required taxpayers remitting $120,000 or more annually to make their payments on an accelerated schedule. Previously, large sales tax payers were required to remit on the 20th of the month following the month of collection. Under the 2010 changes, large taxpayers could either remit 90 percent of their monthly liability on the 14th of the month after it was collected with the remainder due on the 20th of the month; or remit a portion of their current month's liability (equal to 67 percent of the previous month's liability) in the month in which the taxable sale occurs and pay the remainder on the 20th of the following month. When implemented in September 2010, the accelerated collection of sales tax revenues added approximately $100 million to monthly cash balances during the fiscal year.

Minnesota Statutes 289A.20 provided, however, that once the cash flow and budget reserve accounts reached their statutory amounts, the sales tax schedule would return to the pre-2010 schedule. This condition has been met and sales tax payments will revert to pre-September 2010 payment schedule in the quarter beginning July 1, 2012. Since these provisions largely affected cash collections within the fiscal year, there is no significant net fiscal impact. Reverting to the old payment schedule will reduce projected cash balances beginning next fall.

While revised cash flows based on the February forecast are not yet completed, the trigger language in MS 289A.20 does not mean potential state cash flow problems have been eliminated. In fact, even with restoration of the cash and budget reserves, monthly cash balances in FY 2013 will likely be lower than those in FY 2012. Yearly revenue-expenditure timing disparities are worsened by higher K-12 shift payments in the first months of the fiscal year, and will be further reduced by the suspension of the sales tax acceleration.

FY 2014-15 Planning Estimates Improve Slightly

The longer term budget projections have improved since November. General fund revenue projections for the next biennium now total $35.761 billion, $44 million (0.1 percent) more than November's estimates. General fund spending is forecast to be $36.864 billion, $153 million (0.4 percent) lower than earlier forecast.

FY 2014-15 Planning Estimates

($ in millions)

	November Forecast	February Forecast	Difference
Forecast Revenues	$35,717	$35,761	$44
Projected Spending	37,017	36,864	(153)
Difference	**$(1,300)**	**$(1,103)**	**$197**
Estimated Inflation	*$1,119*	*$1,058*	*$(61)*

The changes in FY 2014-15 mirror the forecast changes in the current biennium with small net increases in revenues and lower spending, primarily in health and human services programs. Revenue planning estimates are based on Global Insight's (GII) February baseline forecast. Expenditure estimates assume current laws and are updated for caseload, enrollment and other forecast variables in program areas.

Current law projections for the next biennium do not include any adjustments for inflation. Estimated inflation, based on GII's baseline forecast of the Consumer Price Index (CPI), is projected to be 1.9 percent in both FY 2014 and FY 2015. At these levels, recognizing inflation would add $349 million and $709 million to the spending projections, adding a total of $1.058 billion to the structural gap.

The structural balance by fiscal year provides details on the revenue and expenditure gap in FY 2013-15. The gap is exaggerated once various budget solutions are reflected. Further explanation on comparable spending estimates can be found on page 61.

Structural Balance Estimates

($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Forecast Revenues	$16,184	$16,607	$17,186	$17,525	$18,236
Projected Spending	15,335	16,496	17,265	18,370	18,494
Difference	**$849**	**$111**	**$(79)**	**$(845)**	**$(258)**

REVENUE ESTIMATES
FY 2012-13

Total current general fund resources for the 2012-13 biennium are forecast to total $33.793 billion, $93 million more than projected in November. General fund revenues are expected to exceed end-of-2011 special legislative session estimates by $69 million. Receipts from the four major taxes are now forecast to total $29.004 billion, $45 million (0.2 percent) more than anticipated in November. Other tax, non-tax, and transfer revenues increase by $48 million (1.0 percent) from November's estimates. Current general fund resources for the 2012-13 biennium are now projected to be 9.7 percent greater than in the 2010-11 biennium.

Revenues FY 2012-13

($ in millions)

	FY 2010-11	FY 2012	FY 2013	FY 2012-13
Individual Income	$14,060	$7,877	$8,385	$16,262
Sales	8,581	4,624	4,738	9,362
Corporate	1,588	947	853	1,799
Motor Vehicle Sales	105	0	0	0
Statewide Levy	1,534	780	801	1,581
Five Major Taxes	25,867	14,227	14,777	29,004
Other Revenue	3,629	1,729	1,679	3,408
Tobacco	338	161	161	321
Net Non-dedicated	29,834	16,117	16,617	32,733
Other Resources	969	490	570	1,060
Current Resources	**$30,803**	**$16,607**	**$17,186**	**$33,793**

Changes from November's forecast for the state's four major revenues were extremely small and partially offsetting. There were very modest increases in the income tax and sales tax forecasts and a small reduction in expected corporate tax receipts. The statewide property tax levy was unchanged. Much of the increase in other revenues came from higher forecasts for the insurance gross premiums tax and the mortgage registry tax. Projected individual income tax receipts for the 2012-13 biennium are now expected to be 15.7 percent more than net income tax receipts in the 2010-11 biennium. Sales tax receipts are now projected to exceed 2010-11 receipts by 9.1 percent; corporate income tax receipts, by 13.3 percent.

Changes in Economic Assumptions

Global Insight's February baseline calls for slightly stronger growth over the biennium than did their November forecast. In November's baseline biennial real GDP growth was expected to average 1.7 percent. The February baseline calls for biennial real growth to average 2.0 percent. The modestly stronger real growth is accompanied by a small increase in expected inflation. The CPI is now expected to increase by 2.9 percent in fiscal 2012 and by 1.8 percent in fiscal 2013. In November CPI growth rates of 2.7 percent and 1.3 percent were projected. February's baseline assumes that the payroll tax cut is extended through the end of 2013 and then gradually phased out. Currently it is scheduled to expire at the end of 2012. GII's February baseline also assumes that the automatic spending cuts and tax increases scheduled to begin in 2013 are delayed and then phased in beginning in 2014. If legislation is not approved changing the timing of those spending cuts and tax increases Global Insight estimates that real GDP growth in 2013 could slow by 2.5 percentage points.

Wage growth rates in 2011 were revised lower for Minnesota based on weaker than anticipated growth in withholding collections between mid-November and mid-February. MMB economists expect Minnesota wage growth rates to rebound in the second quarter of 2012 and to grow faster than the U.S. average through the remainder of 2012. Payroll employment growth rates for 2011 and 2012 were revised upward for Minnesota and the U.S., consistent with recent data releases. MMB economists adjusted Minnesota's payroll employment results to reflect their estimate of the impact of the significant benchmark revisions to be released in early March.

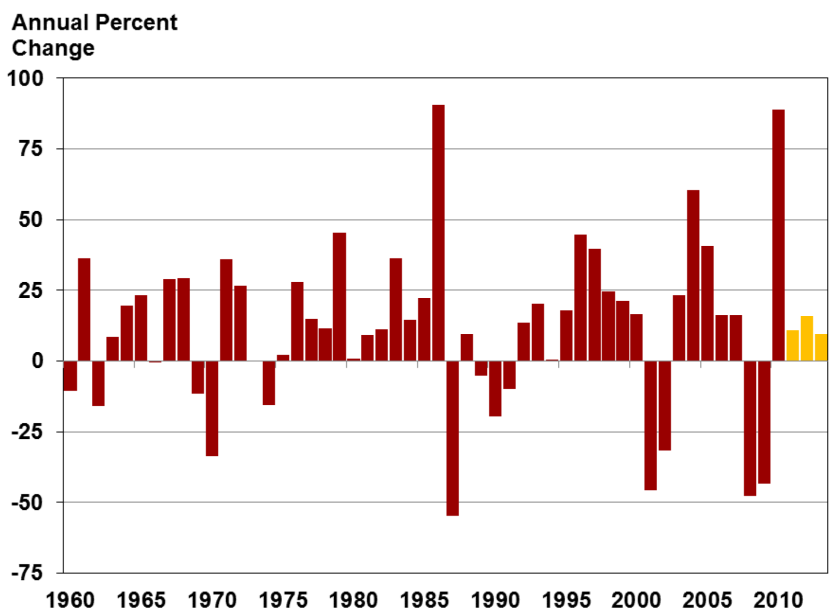
Income Tax

Individual income tax receipts for the 2012-13 biennium are forecast to total $16.262 billion, $48 million (0.3 percent) more than was forecast in November and $83 million more than projected at the end of the 2011 special legislative session. Both wage and non-wage incomes grow faster between tax year 2011 and tax year 2013 in the February baseline, although differences in wage growth were small. Minnesota resident wages are now projected to grow by 8.5 percent over the next two tax years, in November an 8.0 percent growth rate was projected.

Final liability for tax year 2010 was very close to November's estimate and only minor changes to growth rates assumed for particular types of income in November were necessary. Preliminary results from the Minnesota Department of Revenue's income tax sample generally confirmed the aggressive assumptions made for some sources of income in November when calibrating the income tax model. For example, capital gains are now believed to have grown by 89 percent, almost identical to November's assumption of 87 percent growth. Deductions for charitable contributions were increased as was dividend income to be consistent with growth rates observed in the Minnesota sample. Actual growth in returns for 2010 was less than estimated in November, this had the effect of raising average income and hence tax revenue for 2010. The one-time, $20 million, off-model adjustment used in November to close the gap between MMB's estimate of final 2010 liability and the 2010 liability generated by the micro-simulation was eliminated.

The forecast wage growth rate for calendar 2011 fell slightly from November's forecast, but very modest additions to November's forecast for wage growth in calendar 2012 and 2013 left Minnesota resident wages virtually unchanged from November. Capital gains are expected to grow more rapidly in this forecast, increasing by 16 percent in 2012 and 9.0 percent in 2013. In November growth rates of 5.0 percent and 7.0 percent were projected. As in November no behavioral changes are assumed related to the increases in capital gains tax rate scheduled to occur when the Bush tax cuts expire and the surtax on non-wage income for high income individuals provided for in the Affordable Care Act takes effect. Other technical adjustments included an increase in 2012 unemployment insurance income following passage of the continuation of extended unemployment benefits into 2012, and a reduction in assumed gains from merger and acquisition activity in 2011. The greater than normal amount of income tax refunds observed in January were consolidated into the refund forecast. Refunds paid in the first half of calendar 2012 are now forecast to exceed $1.1 billion.

Capital Gains Growth Expected to Continue Through 2013



Sales Tax

Net sales tax collections for the 2012-13 biennium are now expected to reach $9.362 billion, $23 million (0.3 percent) more than forecast in November. Projected gross sales tax receipts increased by $31 million from November's forecast, but that gain was partially offset by an increase in the sales tax refund forecast of $8 million. Net sales tax receipts are now forecast to be $82 million less than end-of-session estimates. The $6 million positive variance in gross sales tax receipts observed since November was included in the forecast.

Changes in growth rates for components of Minnesota's sales tax base were small. The total sales tax base is now forecast to grow slightly more slowly in fiscal 2012 than was projected in November, but then grow more rapidly in fiscal 2013, ending the biennium slightly ahead of November's estimate. A one-time, $6 million, off-model adjustment was made to March 2012 sales tax receipts to reflect the additional shopping day produced by leap year. Taxes on February sales are typically remitted in March.

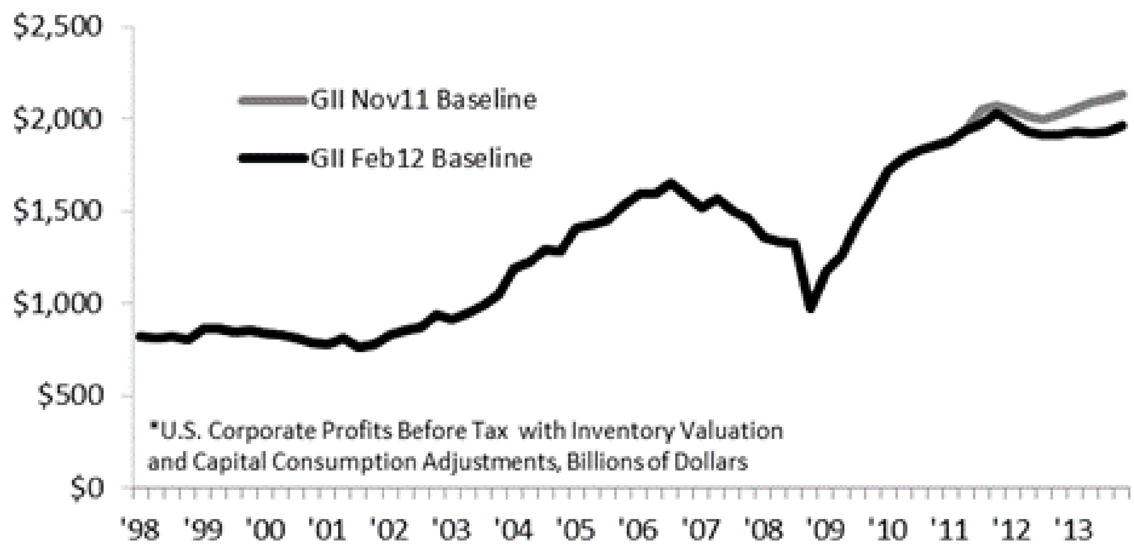
A receipts elasticity of .95 was again used to adjust for the sales tax model's tendency to grow more rapidly than collections. The $2.5 million per month off-model reduction used in November was also left in place. The estimated rate at which Minnesota taxable sales are lost to e-commerce and catalog sales remained unchanged.

Corporate Franchise Tax

Net corporate franchise tax receipts for the 2012-13 biennium are now estimated to total $1.799 billion, $26 million (1.4 percent) less than forecast in November. Expected corporate tax receipts for this biennium are $83 million more than end of session estimates.

Global Insight's forecast for corporate profits growth in 2012 and 2013 has been reduced slightly from November's baseline. That decline in profits is reflected in revenues for 2013 and beyond. An increase in expected payments made through the Minnesota Historical Structures Rehabilitation Credit program also contributed to the decline in fiscal 2013 net revenues. In early 2012 the Department of Revenue paid the last corporate refund required by the Minnesota Supreme Court's 2005 Hutchinson Technology decision.

GII's February Baseline Corporate Profits Forecast is Slightly Below November



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

Other Revenues

Other tax, non-tax revenues (including the state-wide property tax,) and transfers are expected to total $6.371 billion, $48 million (0.8 percent) more than forecast in November. Changes in the forecasts for individual sources of revenue were generally small and offsetting. The insurance gross premiums tax forecast was increased by $22 million, reflecting the expected continuation of positive variances in receipts since November. An increase in the projected amount of mortgage re-financing produced an increase of $14 million in the mortgage registry tax.

REVENUE PLANNING ESTIMATES FY 2014-15

Total current resources for the 2014-15 biennium are estimated to be $35.761 billion, an increase of $1.968 billion (5.8 percent) over revenues forecast for the 2012-13 biennium and a $44 million (0.1 percent) increase over November's revenue planning estimates for the 2014-15 biennium. General fund receipts for the four major taxes are now projected to be 8.5 percent more than in the 2012-13 biennium. These revenue planning estimates assume that economic growth rates in both the U.S. and Minnesota begin to grow at more normal rates beginning in 2013. Real GDP is assumed to grow at a 3.3 percent rate in 2014 and a 3.2 percent rate in 2015. Nominal GDP is assumed to grow by 5.1 percent in 2014 and by 5.0 percent in 2015.

Revenues FY 2014-15

($ in millions)

	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Individual Income	$16,262	$8,804	$9,180	$17,984
Sales	9,362	4,910	5,102	10,013
Corporate	1,799	876	941	1,818
Statewide Levy	1,581	818	835	1,653
Four Major Taxes	29,004	15,408	16,058	31,467
Other Revenue	3,408	1,717	1,779	3,496
Tobacco	321	89	89	178
Net Non-dedicated	32,733	17,214	17,927	35,141
Other Resources	1,060	311	309	620
Current Resources	**$33,793**	**$17,525**	**$18,236**	**$35,761**

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 $1.722 billion or 10.6 percent. Sales tax receipts grow by 7.0 percent over projected FY 2012-13 levels, corporate franchise tax receipts by 1.0 percent, and the statewide property tax by 4.6 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 scheduled increases in the tax rate on capital gains could be quite different from that assumed in this forecast or the capital gains tax rate could be changed. 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 Minnesota Management & Budget (MMB) has based its revenue planning estimates on Global Insight's baseline forecast. February's 2014-15 revenue planning estimates again were prepared consistent with the GII baseline forecast. GII projects real GDP growth rates of 3.3 percent in calendar 2014 and 3.2 percent in 2015. GII's GDP growth rates for both 2014 and 2015 are below those assumed by the CBO in their January 2012 *Budget and Economic Outlook*. The CBO expects real GDP to grow at an annual average rate of 4.0 percent between 2014 and 2017. October's 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 reduction of the federal capital gains tax rate from 20 percent to 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 some prior years, MMB has not included one-time off model adjustments to tax liability in tax years 2012, 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 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. 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

FY 2012-13 Forecast Expenditures Increase $88 Million after Allocations

Forecast changes for spending in FY 2012-13 are compared to November's estimates. Total forecast spending has increased $88 million to $34.079 billion, a 0.3 percent increase.

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

	November Forecast	February Forecast	$ Change	% Change
K-12 Education	$14,520	$14,493	$(27)	(0.2)
K-12 Payment Shifts	*(867)*	*(552)*	*315*	*nm*
Subtotal K-12	13,653	13,941	288	2.1
Property Tax Aids & Credits	2,839	2,832	(7)	(0.2)
Health & Human Services	11,064	10,884	(180)	(1.6)
Debt Service	474	456	(18)	(3.8)
All Other	5,961	5,966	5	0.1
Total Spending	**$33,991**	**$34,079**	**$88**	**0.3%**

Forecast spending is up $88 million compared to November, however, the increase is the result of the $318 million projected balance allocated to buyback a portion of the K-12 payment shifts. This increase in K-12 spending is offset by reductions in health and human services, debt service, and property tax aids and credits.

Health and human services accounts for nearly all of the decrease in forecast spending. In total, health and human services spending decreased $180 million compared to November's estimates. The decrease in health and human services spending is primarily the result of changes in the Medical Assistance (MA) program. Estimates for MA are reduced $190 million, offset slightly by increases of $6 million in chemical dependency (CD) entitlement grants and $4 million in Minnesota Family Investment Program (MFIP) grants. The Adults without Children category accounts for the majority of the projected expenditure decreases ($108 million) in MA. This eligibility category continues to see a lower than expected enrollment growth, as well as reductions in forecast fee-for-service payments.

Total spending for K-12 is up from November's estimates due to the aid payment shift buyback; however, projected K-12 school year aid entitlements are down $31 million (0.2 percent) from November estimates. The reduction in forecasted entitlements reflects slightly slower than previously estimated growth in the enrollment forecast.

Debt service estimates were reduced $19 million, primarily reflecting repayment of some Maximum Effort School Loans, which reduce required general fund debt service transfers. Slightly lower than forecast interest rates also provide $3 million in savings due to higher premiums paid to the state.

Lower than expected costs in the homeowner and renter refund programs and lower property tax levy increases resulted in savings of $7 million in property tax aid and credit programs.

FY 2014-15 Projected Expenditures Decrease $153 Million Compared to November

Projected FY 2014-15 expenditures are now $36.864 billion, $153 million (0.4 percent) less than previously estimated. Changes in spending for FY 2014-15 mirror trends observed in FY 2012-13 related to enrollment and modest improvement in the economy.

Forecast Spending, FY 2014-15
($ in millions)

	November Forecast	February Forecast	$ Change	% Change
K-12 Education	$15,301	$15,247	$(54)	(0.4)
K-12 Payment Shifts	*(156)*	*(118)*	*38*	*nm*
Subtotal K-12	15,145	15,129	(16)	(0.1)
Property Tax Aids & Credits	2,762	2,770	8	0.3
Health & Human Services	11,767	11,625	(142)	(1.2)
Debt Service	1,330	1,331	1	0.1
All Other	6,013	6,009	(4)	(0.1)
Total Spending	**$37,017**	**$36,864**	**$(153)**	**(0.4)**

The most significant reductions in FY 2014-15 estimated spending are in health and human services and K-12 education. Lower than projected growth in enrollment due to a modestly improving economy and lower fee-for-service projections account for the majority of the change. Health and human services estimates are down $142 million in total. Reductions in Medical Assistance eligibility categories Families with Children ($74 million), Adults without Children ($41 million) and Elderly and Disabled Basic Care ($20 million) contribute the majority of the savings.

Overall, K-12 FY 2014-15 spending is down $16 million from November. The underlying school year aid entitlements are projected to total $15.153 billion in FY 2014-15, down $35 million (0.2 percent) from November's estimate. Slightly lower than previously forecast growth in enrollment for K-12 education drives the reductions in FY 2014-15. Offsetting the reductions is a $29 million (40.4 percent) increase in the property tax recognition shift estimate due to updated levy information from the November 2011 election.

The entitlement decreases are also partially offset by increased payments to school districts that result from moving from a 60-40 to a 64.3-35.7 payment split.

Biennial Comparison of Actual and Estimated Spending

FY 2012-13 forecast spending of $34.079 billion represents a $4.117 billion (13.7 percent) increased over actual FY 2010-11 spending. Projected FY 2014-15 spending of $36.864 billion, represents a $2.785 billion (8.2 percent) increase over FY 2012-13; however, the real change in spending continues to be distorted by federal funding, payment shifts, and one-time budget balancing actions.

Actual and Estimated Spending, FY 2010-15

($ in millions)

	FY 2012-13	Change from FY 2010-11	FY 2014-15	Change from FY 2012-13
K-12 Education	$14,493	$1,196	$15,247	$754
K-12 Payment Shifts	(552)	1,328	(118)	434
Higher Education	2,566	(247)	2,565	(1)
Property Tax Aids & Credits	2,832	(184)	2,770	(62)
Health & Human Services	10,884	2,457	11,625	741
Debt Service	456	(374)	1,331	875
All Other	3,400	(59)	3,444	44
Total Spending	**$34,079**	**$4,117**	**$36,864**	**$2,785**
Biennial % Change		**13.7%**		**8.2%**

Actual general fund spending in FY 2010-11 is artificially reduced by federal funds, also known as the American Recovery and Reinvestment Act (ARRA). ARRA funds that offset general fund spending consist of $1.512 billion in enhanced Federal Medical Assistance Percentage (FMAP) and $816 million in State Fiscal Stabilization Aid. The enhanced FMAP funds reduced 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 from a 90-10 payment schedule to a 70-30 payment schedule and property tax recognition shift reduced spending in FY 2010-11 by $1.895 billion. Further expansion of the shift, first estimated at a 60-40 payment split and, as of this forecast, split at 64.3-35.7, further reduces expenditures by $542 million in FY 2012-13. Shifts primarily reduce payments to school districts in the year the payment schedule is changed; therefore, shift savings are primarily a one-time reduction in state K-12 expenditures.

FY 2012-13 total general fund spending was also reduced by the sale of bonds using tobacco settlement revenues. The $643 million in net proceeds from the November 2011 bond sale by the Tobacco Securitization Authority is used to offset debt service transfers that would have been paid for 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 10-11	Forecast FY 12-13	% Change	Forecast FY 14-15	% Change
Total Spending	**$29,962**	**$34,079**	**13.7**	**$36,864**	**8.2**
K-12 Shift Related Savings	1,895				
Federal Stimulus	2,328				
K-12 Shift Expansion		542			
Tobacco Securitization		643			
Comparable Spending	**$34,185**	**$35,264**	**3.2**	**$36,864**	**4.5**

Once the federal funds, K-12 shifts and expansions, and one-time budget balancing actions are accounted for the FY 2010-11 adjusted spending is $34.185 billion. The FY 2012-13 adjusted spending is $35.264 billion. Using the adjusted spending numbers, FY 2012-13 estimated spending is 3.2 percent higher than FY 2010-11 spending, compared to the unadjusted amount of 13.7 percent. This 3.2 percent estimate is slightly lower than November’s estimate of 3.9 percent.

The biennial growth from FY 2012-13 to FY 2014-15 is 4.5 percent, compared to the unadjusted 8.2 percent. This estimate is up from November’s estimate of 4.3 percent.

Education Finance

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.

K-12 aids are usually discussed in two ways: 1) school year aid entitlements, the state aid share of school district revenue that is promised to school districts through Minnesota’s school finance formulas, and 2) state fiscal year spending, the amount paid to school districts by the state during each fiscal year, sometimes referred to as the “payment” or the “appropriation.” In a typical year, a school district receives 90 percent of their current year entitlement and 10 percent of their prior year entitlement – this makes up the state fiscal year spending amount, or the payment to districts. In FY 2012, they will receive 64.3 percent of their current year entitlement and 30 percent of their prior year entitlement. In FY 2013 and beyond, they will receive 64.3 percent of their current year entitlement and 35.7 percent of their prior year entitlement.

Entitlement amounts change from forecast to forecast as a result of demographic and program cost changes or law changes. State fiscal year spending can be impacted by entitlement changes, and by changes in the amount the state shifts between current and prior year payments.

If the amount of a shift changes in a given year, it changes the percent of a school district's entitlement that they receive in a year, which comprises the state fiscal year spending amount. However, it does not change the underlying entitlement, which is determined by Minnesota's school finance formulas. For example, in FY 2012, school districts were expecting to receive 30 percent of their prior year's entitlement and 60 percent of their current year entitlement. As a result of the current forecast, they'll still receive 30 percent of their prior year entitlement, but they will receive 64.3 percent of their current year entitlement, changing state spending for FY 2012, or the payments received by school districts.

For the current biennium, K-12 fiscal year spending amounts are estimated to be $13.9 billion, an increase of $288 million from November estimates. This increase is due to the partial buyback of the aid payment shift. The underlying entitlements are down $31.3 million (0.2 percent) from November estimates as a result of slower than expected pupil growth.

K-12 Entitlements Forecast Down $31 Million for FY 2012-13, State Spending Up $288 Million After Shift Buyback

School year aid entitlements for K-12 Education are now expected to be $14.427 billion in FY 2012-13, a decrease of $31 million (0.2 percent) from November estimates. However, stat fiscal year spending for K-12 is up $288 million since November due to a partial buyback of the school aid payment shift as required by M.S. 16A.152. The shift buyback of $318 million is partially offset by decreased spending related to lower pupil units than previously forecasted.

The remaining discussion of the K-12 expenditure forecast highlights changes from the November forecast on a school year aid entitlements basis.

February forecast enrollment projections for public K-12 schools are now based on actual FY 2011 student data. Average Daily Membership (ADM) is projected to be slightly lower than estimated in November 2011, down approximately 585 in FY 2012 and 761 in FY 2013. The change per year compared to November's projection is approximately 0.08 percent.

Despite the slightly lower pupil unit projection from November's estimates, pupil units are still increasing on an annual basis. Between FY 2012 and FY 2015 pupil units are expected to grow by 22,793 pupil units or approximately 2.9 percent over the four year period.

General Education entitlements are forecast to be $22 million (0.2 percent) lower in FY 2012-13 than was anticipated in November. Basic Education Aid entitlements, the largest component of General Education Aids, are down $13 million (0.1 percent) due to lower pupil counts. Entitlements in Compensatory Aid, based on preliminary free and reduced price meal eligibility totals from October 2011, have decreased $5.4 million (0.6 percent) since November. In addition, entitlements in Extended Time Aid are revised downward by $6.0 million (4.1 percent) based on actual FY 2011 data.

There are relatively minor changes to the overall categorical component of the K-12 forecast compared to November; however, several specific programs contributed to the overall decrease in education entitlements since the November forecast. The biggest decrease was in Interdistrict Desegregation Transportation Aid, which decreased by $4.2 million (13.5 percent). Actual FY 2011 data led the Department of Education to revise ongoing estimates downward for both the number of pupils in the program and the program's transportation costs. Early Childhood and Family Education Aid is forecast to decrease by $1.2 million (2.5 percent) due both to lower pupil counts in that age category and higher school district fund balances in this program, which reduce state aid spending.

K-12 Education Entitlements Down $35 Million for FY 2014-15, State Spending Down $16 million

K-12 Education school year aid entitlements are projected to total $15.153 billion in FY 2014-15, down $35 million (0.2 percent) from November's estimate. State fiscal year spending amounts, which are adjusted for the new 64.3-35.7 payments split, will also be $16 million lower as a result of the decrease in entitlements from November.

As highlighted in the FY 2012-13 overview, the decrease in pupil units continues to generate lower General Education estimates in FY 2014-15. Pupil units continue to increase, but at a lower rate than forecast in November. Pupil estimates are down 907 in FY 2014 and 1,027 in FY 2015 from the November forecast.

Total General Education entitlements are forecast to be $12 million (0.1 percent) lower in FY 2014-15 than anticipated in November. Basic Education Aid entitlements are down $29 million (0.3 percent) due to lower pupil counts. Extended Time Aid decreased $12 million (7.3 percent) since November because final FY 2011 data indicates that program growth will be slower than previously projected. Compensatory and LEP estimates are $6 million (0.6 percent) and $1 million (2.0 percent) lower than estimated in November also as a result of slower pupil unit growth than expected in November. Offsetting a portion of the entitlement reduction is a $29 million (40.4 percent) change in the property tax recognition shift estimate. The November forecast estimated a savings of $72 million from the property tax recognition shift. However, due to updated levy information from the November 2011 election, property tax shift savings are now estimated to be $43 million.

As with FY 2012-13, there are relatively minor changes to the overall categorical component of the K-12 forecast compared to November. The largest decrease is in Interdistrict Desegregation Transportation Aid, which decreased by $9 million (22.5

percent). The lower pupil units and transportation costs impacting FY 2012-13 continue to result in compounded savings in FY 2014-15. Debt Service Aid decreased $5 million (9.1 percent) due to higher than anticipated 2011 property values in specific districts receiving aid. Special Education declines in FY 2014-15 by $5 million (0.2 percent) due to lower pupil counts. Nonpublic Pupil Aid decreased $1 million (3.4 percent) due to a larger decline in private school enrollment than anticipated and Early Childhood and Family Education Aid declined $2 million (3.5 percent) due both to lower pupil counts in that age category and higher school district fund balances in this program, which reduce state aid pay-outs.

Decreased entitlements in FY 2014-15 lead to lower education spending in these years, however, the decreases in entitlements are partially offset by increased payments to school districts that result from moving from a 60-40 to a 64.3-35.7 payment split. Overall, FY 2014-15 spending is down $16 million from November.

K-12 Shifts

There are two types of K-12 shifts that have been used in tough budget times to balance the budget.

- **School Aid Payment Shift –** The typical payment schedule of 90 percent current year payments/ 10 percent prior year payments is adjusted to make a smaller current year payment, generating savings on a one-time basis.
- **Property Tax Recognition Shifts –** Schools are required to recognize a portion of local property tax revenues in an earlier fiscal year in order to offset state spending on a one-time basis.

Both types of shifts were used in 2002 and 2003 to generate additional budgetary savings and help balance the budget. Forecast surplus was used to buy back the shifts starting with the November 2004 forecast, with both shifts fully restored by February 2006.

K-12 shifts were used again starting in FY 2010. The total value of K-12 shifts implemented since the beginning of FY 2010 is $2.7 billion. This forecast represents the first buyback of those shifts, with $2.4 billion remaining to be bought back in the future.

Recent School Aid Payment Shift History

Time Period	Changes in Aid Payment Percentages	(Savings)/Costs[1] $ in millions
2002 Legislative Session	90/10 to 83/17	($438.0)
2003 Legislative Session	83/17 to 80/20	($191.1)
November 2004 Forecast	80/20 to 81.9/18.1	$117.9
February 2005 Forecast	81.9/18.1 to 84.3/17.4	$150.1
November 2005 Forecast	84.3/17.4 to 90/10	$370.4
2010 Legislative Session (FY10)	90/10 to 73/27	($1,072.9)
2010 Legislative Session (FY11)	73/27 to 70/30	($311.4)
2011 Legislative Session (FY12)	70/30 to 60/40	(710.0)
February 2012 Forecast	60/40 to 64.3/35.7	$318.1

Recent Property Tax Recognition Shift History

Time Period	Changes in Early Recognition Percentages	(Savings)/Costs[2] $ in millions
2003 Legislative Session	0 to 48.6	($251.5)
November 2005 Forecast	48.6 to 10.8	$330.7
February 2006 Forecast	10.8 to 0	$93.5
2010 Legislative Session (FY11)	0 to 48.6	(519.1)

[1] Savings do not equal costs because underlying funding formulas were increased beginning in FY 2006. This made the aid payment shift buy back more expensive.
[2] Savings do not equal costs because property values grew significantly while the shift was in place. This generated additional savings for the state, but also increased the cost of the property tax recognition shift buy back.

Health and Human Services Forecast Down $180 Million in FY 2012-13 and $142 Million in FY 2014-15

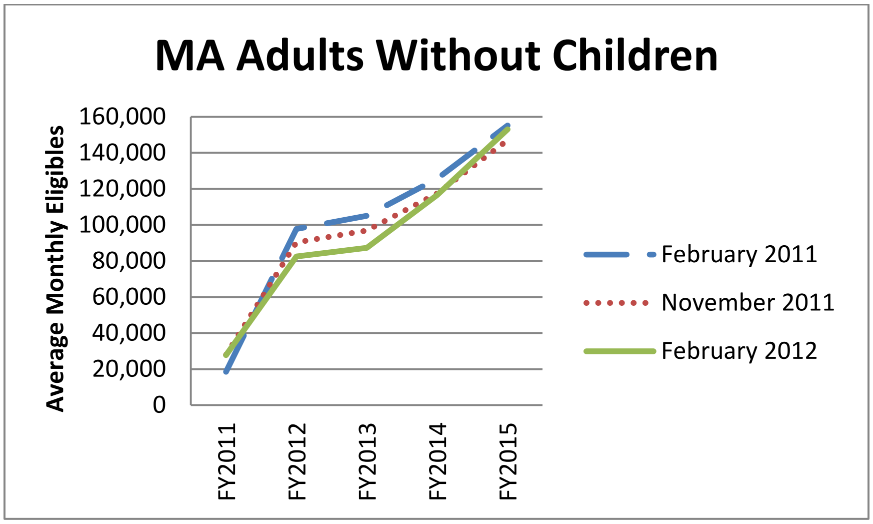
Health and human services expenditures make up one-third of the total state general fund budget, and of those expenditures, 86 percent are for forecast programs including Medical Assistance, Chemical Dependency (CD), the Minnesota Family Investment Program (MFIP), MFIP Child Care, General Assistance, Group Residential Housing, and Minnesota Supplemental Aid. General fund forecast changes are generally driven by changes to the Medical Assistance (MA) forecast, since MA accounts for the largest portion (90 percent) of forecasted program expenditures. 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 split 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 $10.884 billion, a decrease of $180 million (1.6 percent) from the November forecast. The decrease is driven almost entirely by the Medical Assistance (MA) program, which is reduced by $190 million. The reduction in MA is offset by expenditure increases of $6 million in CD entitlement grants and $4 million in MFIP grants.

Expected expenditure changes by Medical Assistance service and eligibility categories are as follows:

MA Eligibility Category	FY 2012-13 Change from NOV (in millions)	Change as % of Nov. Forecast Expenditures
Long Term Care Facilities	$(17)	(1.8)
Long Term Care Waivers	8	0.4
Elderly & Disabled Basic Care	(40)	(1.6)
Adults Without Children	(108)	(11.8)
Families With Children Basic Care	(31)	(1.6)
Consumer Support Grants Transfer Adjustment	(2)	
Total Medical Assistance Change	**$(190)**	**(2.2)**

Adults without Children in MA constitute the majority of projected expenditure decreases in the overall MA program. In that eligibility category, forecast expenditures decreased by $108 million from November estimates due primarily to enrollment adjustments, as well as reductions to forecast fee-for-service payments. 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 adults without children with incomes less than 75 percent of the federal poverty guideline until 2014. Given ten months of actual experience with the new program, the original projected enrollment incorporated in the February 2011 forecast has been reduced by 15,215 monthly average eligibles (15.6 percent) in FY 2012 and 17,652 monthly average eligibles (16.8 percent) in FY 2013.



Lower projected enrollment and fee-for-service costs for adults without children drives a lower baseline for FY 2014-15 as well, resulting in an overall decrease of $41 million in the planning years. Beginning January 1, 2014, adults without children will be eligible for MA up to 133 percent of the federal poverty guideline; therefore, enrollment increases of approximately 30 percent annually are projected between FY 2013 and FY 2015. The budgetary impact of these significant enrollment increases is expected to be moderated by a 100 percent federal matching rate for the adults without children population starting in FY 2015.

In the MA Families with Children eligibility category, expenditures for the current biennium are $31 million (1.6 percent) lower than was projected in November. The vast majority of this decrease is due to lower enrollment projections indicative of a slowly improving economy. This eligibility category is most sensitive to changes in the broader economy. The lower enrollment trend is reflected in FY 2014-15 as well, driving a $58 million decrease from previously projected expenditures.

Estimated MA Elderly and Disabled Basic Care expenditures are down $40 million (1.6 percent of total state expenditures in this category) from November estimates for FY 2012-13. Of the decrease, $33 million is attributed to lower than expected fee-for-service payments based upon an additional four months of actual experience in 2011. This lower trend continues in FY 2014-15 as well, contributing $18 million to the total reduction of expenditures in the planning years. In addition, a $4 million decrease in expenditures resulting from both lower enrollment and average cost is reflected in Disabled Basic Care forecast for individuals in Institutes for Mental Disease (IMD). The lower enrollment and average cost projections for this group continue into FY 2014-15.

The forecast shows increased spending in Chemical Dependency Entitlement grants (CD) in FY 2012-13 of $6 million (3 percent). This increase is driven by actual FY 2012 data showing an increase in placements (5 percent) above the November forecast. This change adjusts a $27 million reduction in November 2011 which had revised placements downward. CD expenditures in FY 2014-15 are forecasted to be $4 million higher (2 percent) relative to November estimates due to a projected 4 percent increase in room and board payments to managed care health plans.

Economic assistance programs are forecast to increase by $4 million (less than 1 percent) due to higher Minnesota Family Investment Program (MFIP) expenditures. MFIP general fund expenditures show a projected increase of $4 million (2 percent), yet all fund spending is down 2 percent ($16 million) due in part to improved economic conditions. This difference relates to TANF maintenance of effort (MoE) requirements that specify that the state must maintain spending at a certain level in order to receive federal grant dollars. Reduced state expenditures in other areas that can be claimed as MoE such as MFIP child care are driving this increased spending in MFIP cash assistance.

Property Tax Aids and Credit Spending Down $7 Million in FY 2012-13, Up $8 Million in FY 2014-15

FY 2012-13 spending for tax aids and credits is expected to be $2.832 billion, $7 million (0.2 percent) below November's estimates. A $7 million (1.1 percent) savings in homeowner property tax refunds and $2 million (0.7 percent) in renter property tax refund program reflect less than expected program participation and lower than projected 2012 local property tax levy increases. These savings are partially offset by a $2.5 million increase (28.1 percent) in the targeted property tax refund program, driven by changes in the property tax base, based on new data that was not available at the time of the November forecast.

FY 2014-15 spending for tax aids and credits is expected to be $2.770 billion, $8 million (0.3 percent) above previous estimates. This reflects a $4 million (0.5 percent) increase in projected homeowner property tax refunds and a $4 million (1.1 percent) increase in renter property tax refunds. The changes estimated for these two programs are due to slightly higher inflation estimates which affects both eligible income ranges and maximum refund amounts.

Debt Service Projections Decline $19 Million in FY 2012-13, Up $1 Million in FY 2014-15

Forecast debt service for FY 2012-13 is now expected to be $456 million, down $19 million from November's estimates. Additional loan repayments for the Maximum Effort School Loan Program result in a reduction in the general fund transfer to the debt service fund, accounting for $16 million of the savings. An additional $3 million in savings reflects reduced interest rates for bond sales that result in higher premiums paid to the state. A slight decrease in the forecast for the invested treasurers cash (ITC) interest rates reduces investment income - increasing debt service projections by a modest $800 thousand in FY 2014-15.

All Other Spending Up $5 Million in Current Biennium, Down $4 Million in FY 2014-15

Beyond the major forecast areas, all other spending is largely unchanged. Since the majority of spending in these areas is set by legislative appropriations and therefore not subject to swings in economic forecasts or changes in enrollment or caseload. The modest changes in FY 2012-13 and FY 2014-15 are primarily the result of technical adjustments in state government spending. Slight changes to the estimates for indirect cost receipts, which offset spending, increases estimated spending by $5 million FY 2012-13 and reduces spending by $4 million in FY 2014-15. FY 2012 indirect cost estimates are now based on FY 2012 actual invoices.

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	11A	12A	13A
GII Baseline (02-12)	1.8	2.8	2.2	2.3	1.6	2.0	1.7	2.1	2.3
Blue Chip (02-12)	1.8	2.8	2.1	2.2	2.4	2.6	1.7	2.2	2.6
Moody's Economy.Com (02-12)	1.8	2.8	2.3	2.6	3.3	4.0	1.7	2.6	3.1
UBS (02-12)	1.8	2.8	2.3	2.0	2.3	2.8	1.7	2.2	2.6
Standard & Poors (02-12)	1.8	2.8	2.1	2.1	1.6	1.9	1.7	2.1	2.3

CONSUMER PRICE INDEX (ANNUAL RATES)

	11III	11IV	12I	12II	12III	12IV	11A	12A	13A
GII Baseline (02-12)	3.1	0.9	2.3	0.8	2.5	2.2	2.0	1.8	1.9
Blue Chip (02-12)	3.1	0.9	2.0	1.8	2.2	2.0	2.0	2.1	2.1
Moody's Economy.Com (02-12)	3.1	0.9	2.0	1.2	2.0	1.9	2.0	1.9	2.1
UBS (02-12)	3.1	0.9	2.2	1.5	3.5	0.7	2.0	2.1	1.9
Standard & Poors (02-12)	3.1	0.9	2.3	0.7	2.4	2.1	2.0	1.9	1.0

FORECAST COMPARISONS

Real Economic Growth

(Annual Percent Change in Real GDP)

	2010	2011	2012	2013	2014	2015
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
Feb 12 GII Baseline	3.0	1.7	2.1	2.3	3.3	3.2

Inflation

(Annual Percent Change in CPI-U)

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
Feb 12 GII Baseline	1.6	3.1	2.0	1.8	1.9	1.9

MINNESOTA - U.S. COMPARISON REPORT

February 2012 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	3.6	3.6	4.1
Minnesota	6.0	2.8	-4.7	3.0	4.4	4.2	4.2
Implied Annual Wage							
United States	4.7	2.6	0.0	2.9	2.4	2.1	2.5
Minnesota	5.5	3.1	-0.9	3.6	2.7	2.6	2.5
Non-Farm Employment							
United States	1.1	-0.6	-4.4	-0.7	1.2	1.5	1.5
Minnesota	0.5	-0.3	-3.9	-0.5	1.6	1.5	1.6
Personal Income							
United States	5.7	4.6	-4.3	3.7	4.8	3.5	4.0
Minnesota	5.3	5.2	-4.5	4.7	5.7	3.3	3.9

COMPARISON OF ACTUAL AND ESTIMATED NON-RESTRICTED REVENUES

January YTD, 2011 - FY2012

($ IN THOUSANDS)

	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax			
Withholding	$3,854,797	$ 3,840,197	$ (14,600)
Declarations	744,740	735,703	(9,037)
Miscellaneous	196,732	199,343	2,611
Gross	4,796,270	4,775,243	(21,026)
Refund	145,425	211,537	66,112
Net	$4,650,845	4,563,706	(87,139)
Corporate & Bank Excise			
Declarations	493,210	505,751	12,541
Miscellaneous	124,511	123,430	(1,081)
Gross	617,721	629,181	11,460
Refund	91,225	94,519	3,294
Net	526,496	534,662	8,166
Gross	2,819,540	2,825,972	6,432
Refunds	98,096	93,415	(4,680)
Net	2,721,444	2,732,556	11,112
Motor Vehicle Sales Tax		0	
Other Revenues:			
Estate	89,525	$ 95,189	5,664
Liquor/Wine/Beer	42,602	39,857	(2,745)
Cigarette/Tobacco/Cont Sub	115,309	115,309	0
Deed and Mortgage	80,024	80,220	195
Insurance Gross Earnings	132,361	137,203	4,842
Lawful Gambling	20,377	21,833	1,456
Health Care Surcharge	110,874	103,296	(7,578)
Other Taxes	377	214	(162)
Statewide Property Tax	360,274	374,737	14,463
DHS SOS Collections	32,334	33,713	1,379
Income Tax Reciprocity	235	182	(53)
Investment Income	750	1,730	980
Tobacco Settlement	161,901	160,906	(994)
Departmental Earnings	150,926	159,304	8,378
Fines and Surcharges	39,453	37,981	(1,472)
Lottery Revenues	18,489	19,785	1,296
Revenues yet to be allocated	1,052	689	(363)
Residual Revenues	108,849	103,483	(5,366)
County Nursing Home, Pub Hosp IGT	4,291	5,298	1,007
Other Subtotal	1,470,001	1,490,929	20,928
Other Refunds	19,509	18,106	(1,403)
Other Net	1,450,492	1,472,823	22,331
Total Gross	**9,703,532**	**9,721,325**	**17,793**
Total Refunds	**354,254**	**417,577**	**63,323**
Total Net	**$9,349,278**	**$9,303,748**	**$ (45,530)**

FACTORS AFFECTING THE INDIVIDUAL INCOME TAX

($ in billions)

	Calendar Year					
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Minnesota Non-Farm Tax Base						
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
February 2012 Baseline	185.889	171.854	178.435	187.074	194.943	203.230
Minnesota Wage and Salary Income						
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
February 2012 Baseline	127.574	121.536	125.214	130.664	136.133	141.810
Minnesota Property Income						
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
February 2012 Baseline	43.252	37.084	38.386	40.647	42.292	43.922
Minnesota Proprietors' Income						
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
February 2012 Baseline	15.063	13.231	14.835	15.765	16.518	17.496

(1) Began using 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						
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%
February 2012 Baseline	72.370	68.071	66.213	70.456	74.383	77.000
Pct.	2.1%	-5.9%	-2.7%	6.4%	5.5%	3.4%
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)						
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
February 2012 Baseline	14.098	12.397	12.838	13.527	14.083	14.571
Minnesota's Proxy Share of U.S. Capital Equipment Spending						
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
February 2012 Baseline	12.861	11.459	11.147	12.543	13.626	14.602
Minnesota's Proxy Share of U.S. Construction Spending						
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
February 2012 Baseline	6.433	5.599	4.738	4.745	5.184	5.539

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						
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 2011 Baseline	220.40	219.79	217.97	231.18	240.10	248.62
February 2012 Baseline	220.40	219.79	217.97	231.23	239.15	249.31
CORPORATE FRANCHISE TAX	Calendar Year					
U.S. Corporate Profits						
February 2008 Baseline [2]	1,310.7	1,326.7				
November 2008 Baseline	1,402.8	1,286.4	1,446.5	1,493.8		
February 2009 Baseline	1,378.7	993.6	1,286.7	1,480.7		
November 2009 Baseline	1,219.7	1,189.1	1,291.5	1,480.7		
February 2010 Baseline	1,219.7	1,167.9	1,273.0	1,466.8		
November 2010 Baseline	1,031.3	1,012.8	1,369.3	1,365.1	1,427.0	1,486.0
February 2011 Baseline	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
February 2012 Baseline	851.2	953.7	1,385.7	1,499.4	1,418.7	1,406.6

[1] Began using Bureau of Economic Analysis Concept

[2] MMB Estimate of Domestic Corporate Profits & adjusted to net effects of Federal Tax Acts

[3] Began using Before Tax Domestic Corporate Profits with capital consumption adjustment, less profits of the Federal Reserve System.

FY 2012-13 Current Biennium Forecast Comparison
February 2012 General Fund Forecast - *Before Statutory Allocations*
($ in thousands)

	11-11 Fcst FY 2012-13	2-12 Fcst FY 2012-13	$ Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	1,288,673	1,288,673	0
Current Resources:			
Tax Revenues	31,181,960	31,261,788	79,828
Non-Tax Revenues	1,450,994	1,471,617	20,623
Subtotal - Non-Dedicated Revenue	32,632,954	32,733,405	100,451
Dedicated Revenue	1,200	1,200	0
Transfers In	1,015,887	1,011,646	(4,241)
Prior Year Adjustments	50,000	47,031	(2,969)
Subtotal - Other Revenue	1,067,087	1,059,877	(7,210)
Subtotal-Current Resources	33,700,041	33,793,282	93,241
Total Resources Available	**34,988,714**	**35,081,955**	**93,241**
Actual & Estimated Spending			
K-12 Education	14,520,262	14,488,632	(31,630)
K-12 Ptx Rec Shift/Aid Payment Shift	(866,726)	(864,697)	2,029
Subtotal K-12 Education	13,653,536	13,623,935	(29,601)
Higher Education	2,565,517	2,565,517	0
Property Tax Aids & Credits	2,839,097	2,831,651	(7,446)
Health & Human Services	11,064,055	10,883,913	(180,142)
Public Safety	1,814,510	1,814,510	0
Transportation	125,658	125,658	0
Environment, Energy & Natural Resources	257,758	257,768	10
Agriculture	79,876	79,876	0
Economic Development	176,632	176,632	0
State Government	912,936	919,069	6,133
Debt Service	474,148	455,600	(18,548)
Capital Projects	45,219	45,219	0
Estimated Cancellations	(20,000)	(20,000)	0
Subtotal Expenditures & Transfers	**33,988,942**	**33,759,348**	**(229,594)**
Dedicated Expenditures	1,527	1,527	0
Total Expenditures & Transfers	**33,990,469**	**33,760,875**	**(229,594)**
Balance Before Reserves	**998,245**	**1,321,080**	**322,835**
Cash Flow Account	350,000	350,000	0
Budget Reserve	648,245	648,245	0
Budgetary Balance	**0**	**322,835**	**322,835**

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

	11-11 Fcst FY 2012-13	2-12 Fcst FY 2012-13	$ Difference	% Change
Actual & Estimated Resources				
Balance Forward From Prior Year	1,288,673	1,288,673	0	0.0%
Current Resources:				
Tax Revenues	31,181,960	31,261,788	79,828	0.3%
Non-Tax Revenues	1,450,994	1,471,617	20,623	1.4%
Subtotal - Non-Dedicated Revenue	32,632,954	32,733,405	100,451	0.3%
Dedicated Revenue	1,200	1,200	0	0.0%
Transfers In	1,015,887	1,011,646	(4,241)	(0.4%)
Prior Year Adjustments	$50,000	47,031	(2,969)	(5.9%)
Subtotal - Other Revenue	1,067,087	1,059,877	(7,210)	(0.7%)
Subtotal-Current Resources	33,700,041	33,793,282	93,241	0.3%
Total Resources Available	**34,988,714**	**35,081,955**	**93,241**	**0.3%**
Actual & Estimated Spending				
K-12 Education	14,520,262	14,493,250	(27,012)	(0.2%)
K-12 Ptx Rec Shift/Aid Payment Shift	(866,726)	(551,912)	314,814	n/m
Subtotal K-12 Education	13,653,536	13,941,338	287,802	2.1%
Higher Education	2,565,517	2,565,517	0	0.0%
Property Tax Aids & Credits	2,839,097	2,832,328	(6,769)	(0.2%)
Health & Human Services	11,064,055	10,883,913	(180,142)	(1.6%)
Public Safety	1,814,510	1,814,510	0	0.0%
Transportation	125,658	125,658	0	0.0%
Environment, Energy & Natural Resources	257,758	257,768	10	0.0%
Agriculture	79,876	79,876	0	0.0%
Economic Development	176,632	176,632	0	0.0%
State Government	912,936	919,069	6,133	0.7%
Debt Service	474,148	455,600	(18,548)	(3.9%)
Capital Projects	45,219	45,219	0	0.0%
Estimated Cancellations	(20,000)	(20,000)	0	n/m
Subtotal Expenditures & Transfers	**33,988,942**	**34,077,428**	**88,486**	**0.3%**
Dedicated Expenditures	1,527	1,527	0	0.0%
Total Expenditures & Transfers	**33,990,469**	**34,078,955**	**88,486**	**0.3%**
Balance Before Reserves	**998,245**	**1,003,000**	**4,755**	
Cash Flow Account	350,000	350,000	0	
Budget Reserve	648,245	653,000	4,755	
Budgetary Balance *	**0**	**0**	**0**	

* $323 million forecast balance for FY 2012-13 is allocated by statute: $5 million to the Budget Reserve and $318 million to K-12 Education shift buyback.

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

	FY 2012	FY 2013	Biennial Total FY 2012-13
Actual & Estimated Resources			
Balance Forward From Prior Year	1,288,673	1,091,137	1,288,673
Current Resources:			
Tax Revenues	15,345,333	15,916,455	31,261,788
Non-Tax Revenues	771,460	700,157	1,471,617
Subtotal - Non-Dedicated Revenue	16,116,793	16,616,612	32,733,405
Dedicated Revenue	600	600	1,200
Transfers In	467,516	544,130	1,011,646
Prior Year Adjustments	22,031	25,000	47,031
Subtotal - Other Revenue	490,147	569,730	1,059,877
Subtotal-Current Resources	16,606,940	17,186,342	33,793,282
Total Resources Available	**17,895,613**	**18,277,479**	**35,081,955**
Actual & Estimated Spending			
K-12 Education	7,108,048	7,385,202	14,493,250
K-12 Ptx Rec Shift/Aid Payment Shift	(453,469)	(98,443)	(551,912)
Subtotal K-12 Education	6,654,579	7,286,759	13,941,338
Higher Education	1,282,884	1,282,633	2,565,517
Property Tax Aids & Credits	1,468,433	1,363,895	2,832,328
Health & Human Services	5,486,119	5,397,794	10,883,913
Public Safety	908,602	905,908	1,814,510
Transportation	62,829	62,829	125,658
Environment, Energy & Natural Resources	131,420	126,348	257,768
Agriculture	48,681	31,195	79,876
Economic Development	93,997	82,635	176,632
State Government	458,464	460,605	919,069
Debt Service	192,070	263,530	455,600
Capital Projects	20,471	24,748	45,219
Estimated Cancellations	(5,000)	(15,000)	(20,000)
Subtotal Expenditures & Transfers	**16,803,549**	**17,273,879**	**34,077,428**
Dedicated Expenditures	927	600	1,527
Total Expenditures & Transfers	**16,804,476**	**17,274,479**	**34,078,955**
Balance Before Reserves	**1,091,137**	**1,003,000**	**1,003,000**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	653,000	653,000	653,000
Budgetary Balance	**88,137**	**0**	**0**

Current Biennium vs Previous Biennium
February 2012 General Fund Forecast
($ in thousands)

	Closing FY 2010-11	2-12 Fcst FY 2012-13	$ Difference	% Change
Actual & Estimated Resources				
Balance Forward From Prior Year	446,921	1,288,673	841,752	n/m
Current Resources:				
Tax Revenues	28,220,967	31,261,788	3,040,821	10.8
Non-Tax Revenues	1,613,244	1,471,617	(141,627)	(8.8)
Subtotal - Non-Dedicated Revenue	29,834,211	32,733,405	2,899,194	9.7
Dedicated Revenue	17,967	1,200	(16,767)	(93.3)
Transfers In	875,873	1,011,646	135,773	15.5
Prior Year Adjustments	75,392	47,031	(28,361)	(37.6)
Subtotal - Other Revenue	969,232	1,059,877	90,645	9.4
Subtotal-Current Resources	30,803,443	33,793,282	2,989,839	9.7
Total Resources Available	**31,250,364**	**35,081,955**	**3,831,591**	**12.3**
Actual & Estimated Spending				
K-12 Education	13,296,721	14,493,250	1,196,529	9.0
K-12 Ptx Rec Shift/Aid Payment Shift	(1,880,444)	(551,912)	1,328,532	n/m
Subtotal K-12 Education	11,416,277	13,941,338	2,525,061	22.1
Higher Education	2,812,613	2,565,517	(247,096)	(8.8)
Property Tax Aids & Credits	3,015,602	2,832,328	(183,274)	(6.1)
Health & Human Services	8,426,753	10,883,913	2,457,160	29.2
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	257,768	(44,436)	(14.7)
Agriculture	83,051	79,876	(3,175)	(3.8)
Economic Development	195,866	176,632	(19,234)	(9.8)
State Government	857,295	919,069	61,774	7.2
Debt Service	830,241	455,600	(374,641)	(45.1)
Capital Projects	22,898	45,219	22,321	97.5
Deficiencies/Other	17,676	0	(17,676)	n/m
Estimated Cancellations	0	(20,000)	(20,000)	n/m
Subtotal Expenditures & Transfers	**29,948,898**	**34,077,428**	**4,128,530**	**13.8**
Dedicated Expenditures	12,793	1,527	(11,266)	(88.1)
Total Expenditures & Transfers	**29,961,691**	**34,078,955**	**4,117,264**	**13.7**
Balance Before Reserves	**1,288,673**	**1,003,000**	**(285,673)**	
Cash Flow Account	266,000	350,000	84,000	
Budget Reserve	8,665	653,000	644,335	
Appropriations Carried Forward	37,860	0	(37,860)	
Budgetary Balance	**976,148**	**0**	**(976,148)**	

FY 2014-15 General Fund Planning Estimates Comparison
February 2012 Forecast vs. November 2011 Forecast
($ in thousands)

	11-11 Plng Est FY 2014-15	2-12 Plng Est FY 2014-15	$ Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	998,245	1,003,000	4,755
Current Resources:			
Tax Revenues	33,847,410	33,901,530	54,120
Non-Tax Revenues	1,246,925	1,239,869	(7,056)
Subtotal - Non-Dedicated Revenue	35,094,335	35,141,399	47,064
Dedicated Revenue	1,200	1,200	0
Transfers In	571,973	568,723	(3,250)
Prior Year Adjustments	50,000	50,000	0
Subtotal - Other Revenue	623,173	619,923	(3,250)
Subtotal-Current Resources	35,717,508	35,761,322	43,814
Total Resources Available	**36,715,753**	**36,764,322**	**48,569**
Actual & Estimated Spending			
K-12 Education	15,301,534	15,247,120	(54,414)
K-12 Ptx Rec Shift/Aid Payment Shift	(156,151)	(118,314)	37,837
Subtotal K-12 Education	15,145,383	15,128,806	(16,577)
Higher Education	2,565,266	2,565,266	0
Property Tax Aids & Credits	2,761,929	2,769,890	7,961
Health & Human Services	11,766,783	11,624,521	(142,262)
Public Safety	1,814,025	1,814,025	0
Transportation	180,060	180,060	0
Environment, Energy & Natural Resources	263,748	263,748	0
Agriculture	77,592	77,592	0
Economic Development	165,270	165,270	0
State Government	910,231	907,298	(2,933)
Debt Service	1,329,956	1,330,759	803
Capital Projects	55,668	55,668	0
Estimated Cancellations	(20,000)	(20,000)	0
Subtotal Expenditures & Transfers	**37,015,911**	**36,862,903**	**(153,008)**
Dedicated Expenditures	1,200	1,200	0
Total Expenditures & Transfers	**37,017,111**	**36,864,103**	**(153,008)**
Balance Before Reserves	**(301,358)**	**(99,781)**	**201,577**
Cash Flow Account	350,000	350,000	0
Budget Reserve	648,245	653,000	4,755
Budgetary Balance	**(1,299,603)**	**(1,102,781)**	**196,822**
Structural Balance	***(1,299,603)***	***(1,102,781)***	***196,822***

FY 2010-15 Planning Horizon
February 2012 General Fund Forecast
($ in thousands)

	Closing FY 2010-11	2-12 Fcst FY 2012-13	2-12 Plng Est FY 2014-15
Actual & Estimated Resources			
Balance Forward From Prior Year	446,921	1,288,673	1,003,000
Current Resources:			
Tax Revenues	28,220,967	31,261,788	33,901,530
Non-Tax Revenues	1,613,244	1,471,617	1,239,869
Subtotal - Non-Dedicated Revenue	29,834,211	32,733,405	35,141,399
Dedicated Revenue	17,967	1,200	1,200
Transfers In	875,873	1,011,646	568,723
Prior Year Adjustments	75,392	47,031	50,000
Subtotal - Other Revenue	969,232	1,059,877	619,923
Subtotal-Current Resources	30,803,443	33,793,282	35,761,322
Total Resources Available	**31,250,364**	**35,081,955**	**36,764,322**
Actual & Estimated Spending			
K-12 Education	13,296,721	14,493,250	15,247,120
K-12 Ptx Rec Shift/Aid Payment Shift	(1,880,444)	(551,912)	(118,314)
Subtotal K-12 Education	11,416,277	13,941,338	15,128,806
Higher Education	2,812,613	2,565,517	2,565,266
Property Tax Aids & Credits	3,015,602	2,832,328	2,769,890
Health & Human Services	8,426,753	10,883,913	11,624,521
Public Safety	1,801,964	1,814,510	1,814,025
Transportation	166,458	125,658	180,060
Environment, Energy & Natural Resources	302,204	257,768	263,748
Agriculture	83,051	79,876	77,592
Economic Development	195,866	176,632	165,270
State Government	857,295	919,069	907,298
Debt Service	830,241	455,600	1,330,759
Capital Projects	22,898	45,219	55,668
Deficiencies/Other	17,676	0	0
Estimated Cancellations	0	(20,000)	(20,000)
Subtotal Expenditures & Transfers	**29,948,898**	**34,077,428**	**36,862,903**
Dedicated Expenditures	12,793	1,527	1,200
Total Expenditures & Transfers	**29,961,691**	**34,078,955**	**36,864,103**
Balance Before Reserves	**1,288,673**	**1,003,000**	**(99,781)**
Cash Flow Account	266,000	350,000	350,000
Budget Reserve	8,665	653,000	653,000
Appropriations Carried Forward	37,860	0	0
Budgetary Balance	**976,148**	**0**	**(1,102,781)**

Historical and Projected Revenue Growth
February 2012 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	$7,877	$8,385	
$ change		(771)	(457)	998	348	508	
% change		**(9.9%)**	**(6.5%)**	**15.3%**	**4.6%**	**6.4%**	**1.6%**
Sales Tax	4,571	4,344	4,177	4,403	4,624	4,738	
$ change		(227)	(167)	226	221	114	
% change		**(5.0%)**	**(3.8%)**	**5.4%**	**5.0%**	**2.5%**	**0.7%**
Corporate Tax	1,020	708	664	925	947	853	
$ change		(312)	(44)	261	22	(94)	
% change		**(30.6%)**	**(6.2%)**	**39.3%**	**2.4%**	**(9.9%)**	**(3.5%)**
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	1,117	1,139	
$ change		(8)	(11)	47	(83)	22	
% change		**(0.7%)**	**(0.9%)**	**4.1%**	**(6.9%)**	**2.0%**	**(0.6%)**
Total Tax Revenue	$15,412	$14,050	$13,366	$14,855	$15,345	$15,916	
$ change		(1,362)	(684)	1,489	490	571	
% change		**(8.8%)**	**(4.9%)**	**11.1%**	**3.3%**	**3.7%**	**0.6%**
Non-Tax Revenues	824	762	805	808	772	700	
$ change		(62)	43	3	(36)	(72)	
% change		**(7.5%)**	**5.6%**	**0.4%**	**(4.5%)**	**(9.3%)**	**(3.2%)**
Dedicated, Transfers, Other	444	576	448	521	490	570	
$ change		132	(128)	73	(31)	80	
% change		**29.7%**	**(22.2%)**	**16.3%**	**(6.0%)**	**16.3%**	**5.1%**
Total Current Resources	$16,680	$15,388	$14,619	$16,184	$16,607	$17,186	
$ change		(1,292)	(769)	1,565	423	579	
% change		**(7.7%)**	**(5.0%)**	**10.7%**	**2.6%**	**3.5%**	**0.6%**

Historical and Projected Spending Growth

February 2012 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	$6,078	$ 6,655	$7,287	
$ change		119	(1,600)	740	577	632	
% change		**1.7%**	**(23.1%)**	**13.9%**	**9.5%**	**9.5%**	**1.3%**
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	1,468	1,364	
$ change		(92)	125	(213)	67	(104)	
% change		**(5.8%)**	**8.4%**	**(13.2%)**	**4.8%**	**(7.1%)**	**(2.9%)**
Health & Human Services	4,630	4,460	4,104	4,323	5,486	5,398	
$ change		(170)	(356)	219	1,163	(88)	
% change		**(3.7%)**	**(8.0%)**	**5.3%**	**26.9%**	**(1.6%)**	**3.1%**
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	264	
$ change		44	(24)	(28)	(209)	72	
% change		**10.8%**	**(5.3%)**	**(6.5%)**	**(52.1%)**	**37.5%**	**(8.4%)**
All Other	1,094	1,014	830	829	811	772	
$ change		(80)	(184)	(1)	(18)	(39)	
% change		**(7.3%)**	**(18.1%)**	**(0.1%)**	**(2.2%)**	**(4.8%)**	**(6.7%)**
Total Spending	$17,005	$16,861	$14,627	$15,335	$ 16,804	$17,274	
$ change		(144)	(2,234)	708	1,469	470	
% change		**(0.8%)**	**(13.2%)**	**4.8%**	**9.6%**	**2.8%**	**0.3%**