MINNESOTA Management & Budget

February 2013 Forecast

HIGHLIGHTS

Budget Outlook Improves, Projected FY 2014-15 Budget Shortfall Drops to $627 Million

November's forecast budget shortfall of $1.090 billion for FY 2014-15 has been reduced to $627 million. Revenues now are forecast to be $36.116 billion, $323 million (0.9 percent) more than earlier estimates. The spending forecast has been reduced $117 million (0.3 percent) to $36.744 billion. These changes, combined with a $23 million reduction in net reserves, reduce the projected shortfall by $463 million.

Current Biennium's Forecast Balance of $295 Million Used to Repay School Aid Shift

State general fund revenues for the 2012-13 biennium are now forecast to exceed November estimates by $217 million, while general fund spending is projected to be $63 million below earlier estimates. The forecast for FY 2013 lawful gambling revenues was reduced by $15 million, resulting in an equal reduction in stadium reserves. These changes produce a $295 million projected balance for the end of the biennium. State law requires that the forecast balance for the current biennium be used to reduce the $1.1 billion of outstanding school aid shifts. After the buyback, $801 million in school shifts will remain.

Little Change in U.S. Economic Outlook

Forecasts for economic growth are almost unchanged from those in November. Global Insight Inc. (GII) continues to expect slow growth in early 2013 as households adjust their spending to the smaller paychecks caused by expiration of the payroll tax cut. But, a stronger housing sector and more robust business investment lead to increased real output after mid-year. Economic growth is expected to accelerate further during 2014 and 2015 with real GDP increasing at a 3.3 percent annual rate in 2015. GII's baseline real growth rates are identical to the Blue Chip Consensus for 2013 and 2014. February's baseline is given a 60 percent probability by Global Insight, while the optimistic and pessimistic alternatives are afforded probabilities of 20 percent each. The pessimistic scenario has very slow growth in early 2013, but no recession.

Federal Fiscal Cliff Resolved but Some Uncertainties Remain

The federal fiscal cliff agreement in early January removed a major threat to economic growth in 2013. Now there are concerns about the possible impact of sequestration and a partial federal government shutdown. Minnesota's direct exposure to federal cuts under sequestration is among the lowest of all states. MMB economists estimate that federal sequester cuts would reduce Minnesota employment growth by no more than 5,000 jobs by the end of 2013. Forecasters note that while these cuts are unlikely to produce a recession by themselves, the economy would be left with little cushion against further shocks.

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SUMMARY

$295 Million Forecast Balance for FY 2012-13 Triggers Additional School Shift Buyback

Minnesota's budget outlook for the current biennium has improved. Forecast revenues are now expected to be $35.161 billion, up $217 million from November's estimates. Forecast spending is now expected to be $35.159 billion, a $63 million decline from previous projections. These changes, coupled with a $15 million reduction in the projected stadium reserve, increased the forecast balance by $295 million.

This balance does not carry forward to the 2014-15 biennium. It is statutorily allocated to buying back outstanding school aid payment shifts. This allocation leaves the general fund with a projected ending balance of zero on June 30, 2013.

FY 2012-13 Forecast
($ in millions)

	February Forecast	Change From Nov.
Beginning Balance	$1,289	$0
Revenues	35,161	217
Spending	35,159	(63)
Reserves	994	0
Stadium Reserve	1	(15)
Forecast Balance	**$295**	**$295**
School Shift Buyback		*290*
Residual to Reserve		*5*
Available Balance		**$0**

The forecast for lawful gambling receipts has been reduced $15 million. As a result, the projected balance in the stadium reserve for FY 2013 has been reduced from $16 million projected in November to $1 million.

This forecast includes the impact of two law changes enacted in the 2013 session in mid-February: Medical Assistance (MA) expansion (Chapter 1); and federal tax conformity (Chapter 3). The federal tax conformity provisions reduced FY 2013 forecast revenues by $19 million. While the MA expansion provisions do not affect the forecast for FY 2013, the law change does affect revenue and expenditure estimates for subsequent years.

FY 2012-13 Balance Remains at Zero after School Shift Buyback

Under current law, all of the projected FY 2012-13 general fund balance is allocated to buying back K-12 education shifts enacted in the 2009, 2010 and 2011 legislative sessions. Minnesota Statutes 16A.152 requires that any forecast balance must be used to repay the school aid payment shift and reverse the school property tax recognition shift. The school aid shift is reduced in increments of 0.1 percent. Any residual balance is directed to the budget reserve account.

Statutory Allocation of Forecast Balances

($ in millions)

	Feb 2012 Forecast	Nov 2012 Forecast	Feb 2013 Forecast	Total Allocated
Forecast Balance	$323	$1,330	$295	$1,948
Statutory Allocations				
Restore Reserves	5			5
K-12 Shift Buyback	313	1,324	290	1,927
Residual to Reserve	5	6	5	16
Total Allocated	**$323**	**$1,330**	**$295**	**$1,948**

February's forecast balance of $295 million automatically provides an additional $290 million to repay school aid payment shifts. This amount will be added to K-12 education aid spending in FY 2013. This changes payment percentages from 82.5 percent in the current year and a 17.5 percent settle-up payment to an 86.5 percent and 13.5 percent payment basis. The additional money will be paid to schools beginning with the March 15th school aid payment.

Remaining K-12 Shifts

($ in millions)

Payment Percentage to 90/10	$250
Property Tax Recognition	551
Total Outstanding	**$801**

After this buyback, an estimated $801 million in school shifts will remain at the end of FY 2013. Based on FY 2013 K-12 formula provisions, the amount needed to return school aid payment percentages to their original 90-10 payment schedule is estimated to be $250 million; and the amount required to fully reverse the existing 50 percent property tax recognition shift is $551 million.

Budget Gap for FY 2014-15 Reduced – $627 Million Shortfall Remains

Minnesota's financial outlook for the 2014-15 biennium has improved. In November, a shortfall of just under $1.1 billion was projected. This forecast reduces the budget gap to $627 million. General fund revenues for FY 2014-15 are now forecast to be $36.116 billion, a $323 million (0.9 percent) increase over November's forecast. Projected current law spending is expected to be $36.744 billion, a decrease of $117 million (0.3 percent) from prior estimates.

FY 2014-15 Budget Forecast

($ in millions)

	November	February	$ Change
Beginning Balance	**$1,011**	**$1,001**	**$(10)**
Revenues			
Taxes	33,778	34,019	240
Non-Tax Revenues	1,390	1,414	24
Transfers, Other Resources	625	683	59
Total Revenues	**35,793**	**36,116**	**323**
Expenditures			
K-12 Education	15,179	15,178	(2)
Health & Human Services	11,443	11,362	(80)
All Other	10,238	10,203	(35)
Total Spending	**$36,861**	**$36,744**	**(117)**
Reserves	994	999	5
Stadium Reserve	39	0	(39)
Budget Balance	**$(1,090)**	**$(627)**	**$463**

Law changes enacted by the 2013 legislature dealing with federal tax conformity reduced FY 2014-15 revenues by less than $200,000. The impact of the enacted MA expansion, prior to February forecast changes, added $64 million to human services' general fund spending, offset by an equal transfer to the general fund from the health care access fund in FY 2014-15.

The forecast for FY 2014-15 lawful gambling revenues was reduced by $46 million, in addition to the $15 million decline in FY 2013. This cumulative $61 million reduction eliminates the $39 million previously forecast for the stadium reserve in FY 2015. Projected stadium-related spending, reduced by $10 million from a five month delay in the anticipated initial bond sale, will exceed anticipated revenues by $12 million in FY 2015.

Little Change in U.S. Economic Outlook

The mid-range economic outlook has changed little since November. We did not fall off the fiscal cliff and the federal government did not default on its obligations, although dealing with the debt ceiling has only been delayed until summer. Most forecasters believe the economic fundamentals are again improving and that the housing sector is positioned to lead the economy higher over the next 3 years. And, while higher gasoline prices, the expiration of the payroll tax cut and delays in federal income tax refunds appear to have slowed household spending early in 2013, most expect a strengthening consumer sector to contribute to an acceleration in real growth in the second half of 2013 and then on through the end of the 2014-15 biennium. Recent reports indicate that the economy in late 2012 was even weaker than expected in November, but that weakness is generally thought to be due to one-time events, not to the structural changes that might put the economy on a slower growth.

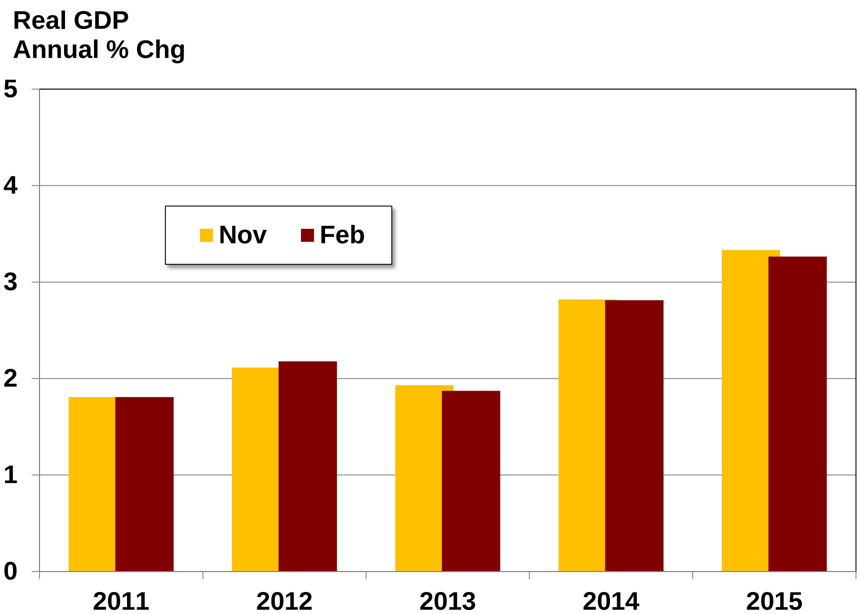
Jobs remain a concern. Payroll employment is still below its pre-recession level. Nationally we have recovered only about two-thirds of the 8.7 million jobs lost in the recession and the U.S. unemployment rate of 7.9 percent remains disturbingly high. Forecasters currently do not expect the unemployment rate to drop below the 6.5 percent level until late 2015, nor to fall below 6.0 percent until early 2017. Most believe the full employment unemployment rate is around 5 percent.

There is also a deeper concern. Recently the U.S. seems to be lurching from one potentially serious economic crisis to another, teetering on the brink of disaster again and again. Policymakers faced huge challenges as they sought to prevent the Great Recession from turning into Great Depression II and dealing with the aftermath of the deepest and longest U.S. recession since World War II has been difficult. But, beginning with the legislation proposed to limit the 2008 financial crisis and continuing through the 2011 debt ceiling increase and on to 2013's resolution of the 2012 fiscal cliff, economic policy has been hindered by political brinksmanship. Unfortunately that pattern appears to have become the rule not the exception. And, while the policy actions that ultimately emerged did no great harm to the economy, for the most part they have not inspired confidence in policy makers' abilities to put the economy back on track and guide it in the future. The result has been increased uncertainty, and that additional uncertainty has slowed business investment and hiring.

Now two additional policy items are on the horizon - the significant federal spending cuts required by the sequester and a partial federal government shutdown. The stakes are not as high as with the fiscal cliff or a failure to extend the debt ceiling, but the way in which these issues are dealt with will certainly affect both consumer and business confidence and the level of uncertainty in the economy.

Global Insight Inc. (GII), Minnesota's national macroeconomic consultant, has made only modest changes to their baseline forecast since November. The changes were largely offsetting and the growth rates for real GDP in 2013, 2014, and 2015 are unchanged. Like most forecasters Global Insight expects the housing sector to be a leader in both 2013 and 2014 as housing starts recover from the extraordinarily depressed levels observed since 2008. GII's February baseline includes a limited, temporary sequester that lasts until June, but no government shutdown. Global Insight's forecast also assumes that the debt ceiling is increased on a timely basis. The February baseline calls for real GDP growth rates of 1.9 percent in 2013, 2.8 percent in 2014, and 3.3 percent in 2015, the same as in November. The growth rates expected for 2013 and 2014 are also identical to the Consensus forecast of the Blue Chip panel, the median of 50 business and academic forecasts. Inflation continues to be of little concern. February's baseline anticipates CPI increases of 1.4 percent in 2013, 1.7 percent in 2014 and 1.6 percent in 2015. November's inflation outlook was similarly subdued.

No Change in Forecast for Real GDP from November



As in November, Global Insight assigns a probability of 60 percent to its baseline scenario and 20 percent probabilities to more optimistic and more pessimistic scenarios. In the optimistic scenario the acceleration in growth forecast for 2014 arrives a year early as the housing recovery occurs more rapidly than in the baseline and a credible long term deficit reduction plan is approved. In the pessimistic scenario the sequester occurs and remains in place through the entire year. But while the uncertainty produced by continued political brinksmanship reduces private sector confidence and further increases uncertainty, there is no recession.

The impact of a sequester will not be the same in all states. Impacts will depend on the importance of federal employment and federal spending to each state's economy. MMB economists believe that Minnesota would be among those states whose economies would see only a modest shock. An analysis by the Pew Center on the States found that in 2010 Minnesota ranked 49th in the proportion of GDP coming from federal procurement, and wages and salaries. The sequester's cuts to federal defense and non-defense spending are projected to reduce Minnesota employment by no more than 5,000 jobs (0.2 percent) by the end of 2013.

Small Gain in Revenues -- FY 2013 up $217 Million, FY 2014-15 up $323 Million

General fund revenues for the 2012-13 biennium are forecast to be $35.161 billion, up $217 million from November's estimate after adjusting for 2013 legislative action to conform to federal law changes. In the absence of the conformity changes, an additional $18 million in revenue would have been reported for fiscal 2013. About 60 percent of the additional general fund revenue came from the individual income tax; much of the remainder came from the corporate income tax. A small decline in the sales receipts was more than offset by a similar sized increase in other tax and non-tax revenues.

February Forecast Revenue

Forecast Amounts - Change

($ in millions)

	February FY 2012-13	$ Change	February FY 2014-15	$ Change
Income	$16,621	$128	$17,733	$297
Sales	9,495	(19)	10,075	(48)
Corporate	2,209	85	2,001	47
Statewide Property Tax	1,616	0	1,685	9
Subtotal	29,941	194	31,494	305
Other Taxes	2,367	7	2,525	(64)
Non-tax, Other	2,853	16	2,097	82
Total Revenue	**$35,161**	**$217**	**$36,116**	**$323**

General fund revenues for FY 2014-15 are now projected to be 0.9 percent greater than expected in November. Again, increases in the forecasts for the income tax and the corporate income tax are the primary sources of the additional revenue. The individual income tax is now forecast to exceed November's estimate by $297 million or 1.7 percent. The corporate income tax forecast has increased by $47 million (2.4 percent) since November.

Other tax revenues decreased a net $64 million dollars. There were material reductions to the forecasts for the mortgage registry tax ($24 million) and the insurance gross premiums tax ($26 million). Projected receipts from lawful gambling taxes were reduced by $46 million reflecting both the slower than anticipated adoption of electronic pull tabs and the lower than projected net income from each site.

Forecast non-tax revenues increased $82 million. A $64 million transfer from the health care access fund to the general fund reflecting changes enacted in the MA expansion accounts for most of the change. Increases in tobacco settlement revenue and Department of Human Services state operated services revenue also improved the outlook for the 2014-15 biennium.

Forecast Spending down $63 Million in FY 2012-13, $129 Million in FY 2014-15

Spending estimates have been reduced in both the 2012-13 and 2014-15 biennia. General fund spending for the current biennium is forecast to be $33.898 billion, down $63 million from November's estimates before additional spending is added reflecting the K-12 shift buyback. FY 2014-15 spending is projected to be $117 million (0.3 percent) below prior estimates.

February Forecast Expenditures

($ in millions)

	February FY 2012-13	$ Change	February FY 2014-15	$ Change
K-12 Education	$15,218	(9)	$15,156	($14)
Property Tax Aids & Credits	2,794	(13)	2,711	(18)
Health & Human Services	10,654	(46)	11,362	(80)
Debt Service	415	(0)	1,288	(4)
All Other	6,078	5	6,205	(13)
Total Forecast Spending	**$35,159**	**($63)**	**$36,731**	**($129)**
K-12 Shift Buyback	290	290	12	12
Total After Buyback	**$35,449**	**$227**	**$36,744**	**($117)**

Projected human services spending fell by $46 million for FY 2012-13 and $80 million in FY 2014-15, due primarily to savings in MA payments. Savings from negotiated reductions in managed care rates for elderly and disabled basic care, adults without children, and families with children, as well as an increase in pharmacy rebates in FY 2014-15 contributed to the reductions. The forecast incorporated the MA expansion enacted early in the 2013 session, adding $64 million to 2014-15 spending.

K-12 education aid estimates were reduced by $9 million in FY 2012-13 and $14 million in FY 2014-15, primarily due to a small downward revision in enrollment projections. Lower property tax aid costs, reflecting reduced estimates for homeowner and targeted refunds, were offset in part by a small increase in renters' refunds.

FY 2016-17 Planning Estimates Improve

The outlook for the 2016-17 biennium has improved. Projected revenues increased by $593 million over November's estimates. Of this increase, $121 million is from additional transfers into the general fund associated with the impact of enacted MA expansion. Projected spending grew $79 million – reflecting a net $109 million increase in human services spending, primarily related to the MA expansion. As a result, revenue growth continues to exceed projected expenditure growth in the planning horizon, resulting in slightly higher structural balances for FY 2016-17.

These estimates carry a higher degree of uncertainty and an inherently larger range of error than does the forecast for FY 2013-15. Revenues for FY 2016-17 assume nominal GDP growth averaging 4.6 percent. Expenditures do not include a general adjustment for inflation. Spending projections only include increases incorporated in current law for education aids, health care, and local aid/property tax relief programs based on enrollment, caseload, and current law formula provisions.

Budget Planning Estimates

($ in millions)

	FY 2014	FY 2015	FY 2016	FY 2017
Forecast Revenues	**$17,708**	**$18,408**	**$19,358**	**$19,937**
Projected Spending	18,335	18,409	19,123	19,389
Difference	**$(627)**	**$(1)**	**$234**	**$548**
Estimated Inflation (CPI)	*$268*	*$586*	*$933*	*$1,320*

The table shows annual revenues and expenditures, excluding beginning balances and reserves. The difference is a "structural balance", that is, how much more is being collected than spent. Since expenditures do not include a general adjustment for inflation, or repayment of the $801 million of remaining school shifts, the planning estimates may significantly understate future increases in state spending.

Projected inflation based on the consumer price index is now expected to be 1.5 and 1.7 percent for FY 2014 and FY 2015; followed by rates of 1.6 and 1.8 percent for FY 2016 and FY 2017. Annual inflation pressures, if recognized, compounded over the four-year period, would add roughly $300 million per year to spending.

These planning estimates, as with all other parts of the forecast, do not reflect the Governor's budget proposals or potential legislative action, beyond 2013 session provisions enacted prior to the forecast release.

BUDGET OUTLOOK

BUDGET STATUS: FY 2012-13

$295 Million Projected Budget Balance Triggers School Shift Buyback

The November 2012 Forecast projected a $1.330 billion general fund balance for the end of the FY 2012-13 biennium. Current law allocated the entire projected balance to repaying a portion of the outstanding $2.4 billion in school aids accounting shifts. That allocation brought the projected ending balance to $0 for the current biennium.

Forecast revenues are now expected to be $35.161 billion, up $217 million (0.6 percent) from November estimates. Biennial spending is now expected to be $35.159 billion, a $63 million (0.2 percent) decline from previous estimates. A $15 million decline in forecast stadium revenues has reduced the stadium reserve by an equal amount. The result of these changes is $295 million projected ending balance.

FY 2012-13 Budget Forecast
($ in millions)

	November Forecast	February Forecast	$ Change	% Change
Beginning Balance	**$1,289**	**$1,289**	**$0**	**0.0%**
Tax Revenues	32,107	$32,308	201	0.6%
Non-Tax Revenues	1,558	1,574	16	1.0%
Other Resources	1,279	1,279	(0)	(0.0%)
Current Resources	**34,944**	**$35,161**	**217**	**0.6%**
K-12 Education	15,277	15,218	(19)	(0.1%)
Health and Human Services	10,700	10,654	(46)	(0.4%)
Property Tax Aids and Credits	2,807	2,794	(13)	(0.5%)
Debt Service	415	415	0	0.0%
All Other	6,073	6,078	5	0.1%
Total Expenditures	**35,222**	**35,159**	**(63)**	**(0.2%)**
Reserves	994	994		
Stadium Reserve	17	1		
Balance	**$0**	**$295**		

As in November, the entire $295 million is automatically allocated by current statutes to paying back outstanding school aid shifts. The school aid shift is bought back in increments of 0.1 percent. Any remaining balance is allocated to the budget reserve. After this forecast $290 million will be used to buyback shift, $5 million will be directed to the budget reserve. After this buyback, approximately $801 million remains in school aid payment and property tax recognition shifts.

General Fund Reserves Increase Slightly

After the November 2012 forecast total general fund reserves were $994 million -- $350 million in the cash flow account and $644 million in the budget reserve. The $5 million residual left after the school aid shift buyback in this forecast increases total general fund reserves to $999 million -- $350 million in the cash flow account and $649 million in the budget reserve.

Forecast Includes Impacts of Legislation Passed Early in 2013 Legislative Session

This forecast includes the effects of laws enacted between the November and February forecast. Two law changes had material impact on this forecast. Chapter 3, Laws 2013 conforms provisions in Minnesota individual income tax and corporate franchise tax to most of the federal changes for tax year 2012. The legislation reduced forecast FY 2013 tax revenues by $19 million. The impact on FY 2014-15 was negligible.

Chapter 1, Laws of 2013, the Medical Assistance (MA) Expansion bill, expands the MA program to include all adults ages 19-64 with incomes up to 138% of the federal poverty guidelines. As a condition of the expansion, Minnesota receives the enhanced federal financial participation authorized under the Affordable Care Act (ACA).

The MA expansion has no impact on FY 2013, but it affects both expenditures and revenues in FY 2014-15. As a result of this legislation, state expenditures are $64 million higher in FY 2014-15 and $121 million higher in FY 2016-17, before adjusting for the forecast. The law also authorizes annual transfers from the health care access fund to pay for the costs associated with the expansion ($64 million in FY 2014-15 and $121 million in FY 2016-17). In total, MA expansion and federal tax conformity had no material net impact on the general fund.

Impact of 2013 Legislative Actions
($ in millions)

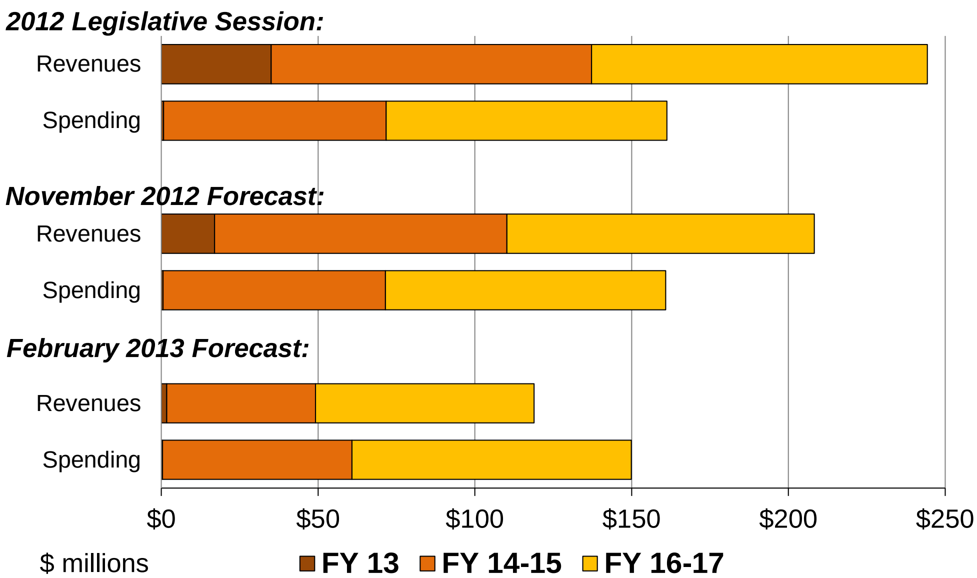
	FY 2013	FY 2014-15	FY 2016-17
MA Expansion Expenditures	-	64	121
MA Expansion Revenues	-	64	121
Federal Tax Conformity Revenues	(19)	-	(2)
Impact on Budgetary Balance	**$19**	**$0**	**$2**

Stadium Reserve Reduced Significantly due to Revenue Forecast Change

The 2012 legislation that authorized the state to issue general fund appropriation bonds to finance the state and city of Minneapolis' share of a new Vikings' stadium also authorized the expansion of lawful gambling to include electronic pull tabs and bingo. While this new revenue stream is not pledged to pay the debt service on the new stadium, it was initially anticipated that the additional revenue, net of the sales tax exemption on stadium construction equipment and in excess of stadium related costs would be deposited in a stadium reserve within the state general fund. The stadium reserve is a bookkeeping account in which any net revenue from lawful gambling, after subtracting stadium expenditures, would be reserved.

When authorized in May 2012, revenues resulting from changes to lawful gambling were expected to exceed debt service and other required payments during FY 2013-15 by $65.5 million. This amount constituted the stadium reserve. The November 2012 forecast lowered estimated gambling revenue by $27 million for FY 2013-15, leaving a total projected stadium reserve balance of $39 million by the end of FY 2015.

FY 2013-17 Gambling Revenues and Stadium Related Spending
($ in millions)



The forecast for lawful gambling revenue has been reduced $15 million in FY 2013 and $46 million in FY 2014-15. Slower than expected implementation of electronic gambling options and a reduction in estimates for daily revenue per gambling location were the reasons for the revenue reduction. The debt service schedule for the stadium has also been revised as updated project cash flow needs moved the anticipated bond sale from March 2013 to August 2013. This change lowered debt service interest costs in FY 2014 by $10 million.

Based on this forecast, total stadium related spending will exceed anticipated gambling revenues by $12 million in FY 2015 and by $31 million in FY 2017. Annual stadium related spending will exceed anticipated gambling revenues until FY 2021 when the state begins to retain the City of Minneapolis sales tax receipts.

Four Successive Positive Forecasts, but Little Change to the Bottom Line

Since the initial budget for the 2012-13 biennium was enacted in July 2011, there have been four successive positive forecasts, as well as the 2012 regular and special legislative sessions. The four forecasts (November 2011, February 2012, November 2012 and February 2013) have added slightly over $2.8 billion to the general fund bottom line.

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

	Cash Flow	Budget Reserve	K-12 Shift Buyback	Total Forecast Balances
November 2011	255	621	-	876
February 2012	-	10	313	323
November 2012	-	6	1,324	1,330
February 2013	-	5	290	295
Total Allocations	$255	$642	$1,927	$2,824

Those forecast increases have been used to restore the cash flow account and budget reserves to their statutory levels. And, $1.9 billion of school shifts used to balance the budget have been bought back. Forecast changes to FY 2012-13 have not impacted the budget planning estimates for FY 2014-15 due to these allocations.

BUDGET FORECAST: FY 2014-15

Modest Improvement in FY 2014-15 Outlook, Projected Shortfall at $627 million

The projected shortfall for FY 2014-15 is now $627 million. An improvement of $463 million from the $1.090 shortfall projected in November. Unlike the forecast for FY 2012-13, the projected $626 million shortfall for FY 2014-15 is not based on an enacted budget. The February revenue forecast is matched against ‘base level’ current law spending. The projected balance provides the frame for establishing the budget for the next two years.

FY 2014-15 Budget Forecast

($ in millions)

	November Forecast	February Forecast	$ Change	% Change
Beginning Balance	**$1,011**	**$1,001**	**($10)**	**(1.0%)**
Tax Revenues	33,778	34,019	240	0.7%
Non-Tax Revenues	1,390	1,414	24	1.7%
Other Resources	625	683	58	9.3%
Current Resources	**35,793**	**36,116**	**323**	**0.9%**
Total Resources	**36,804**	**37,116**	**313**	**0.8%**
K-12 Education	15,179	15,178	(2)	0.0%
Health and Human Services	11,443	11,362	(80)	(0.7%)
Property Tax Aids and Credits	2,729	2,711	(18)	(0.7%)
Debt Service	1,291	1,288	(4)	(0.3%)
All Other	6,218	6,205	(13)	(0.2%)
Total Expenditures	**36,861**	**$36,744**	**(117)**	**(0.3%)**
Reserves	994	999	5	
Stadium Reserve	39	-	(39)	
Balance	**$(1,090)**	**$(627)**	**$463**	

General fund revenues for the 2014-15 biennium are now forecast to be $36.116 billion, $323 million (0.9 percent) above the November Forecast. Tax revenues are forecast to be $240 million higher than earlier estimates. Increases for individual income ($296 million) and corporate income taxes ($47 million) are offset in part by lower estimates for the sales tax ($47 million) and lawful gambling taxes ($45 million). Other general fund resources are estimated to be $58 million higher than previously forecast due to a $64 million transfer from the health care access fund, provided for in the MA expansion bill.

General fund spending for the 2014-15 biennium is now forecast to be $36.744 billion, $117 million (0.3 percent) below November's forecast. Health and human services spending is down $80 million (0.8 percent) from the November forecast due primarily to reductions in Medical Assistance (MA). Reductions in MA expenditure estimates related to increased reimbursements for pharmacy rebates, reductions in forecast managed care rates and lower estimates for elderly and disabled basic care expenditures are offset by an increase in expenditures in the families with children program related to the recently enacted expansion of MA eligibility for adults with incomes up to 138% of federal poverty guideline.

Lower estimates for property tax aids and credits ($18 million) due primarily to a decrease in property tax refund spending and slightly lower debt service costs related to the Vikings stadium ($10 million) added to the forecast savings.

Estimated Biennial Spending Growth Slightly Outpaces Forecast Revenues

When compared to revised forecast estimates for the current biennium, FY 2014-15 revenues are projected to increase by $955 million (2.7 percent) while expenditures are projected to increase by $1.295 billion (3.7 percent).

FY 2014-15 Budget Forecast

($ in millions)

	FY 2012-13	FY 2014-15	$ Difference	% Difference
Beginning Balance	**$1,289**	**$1,001**	**($288)**	**(22.4%)**
Revenues				
Tax Revenues	32,308	34,019	1,711	5.3%
Non-Tax Revenues	1,574	1,414	(161)	(10.2%)
Transfers, Other Resources	1,279	683	(595)	(46.6%)
Total Revenues	**35,161**	**36,116**	**955**	**2.7%**
Expenditures				
K-12 Education	14,432	15,229	798	5.5%
K-12 Shift	1,076	(52)	(1,127)	nm
Health & Human Services	10,654	11,362	708	6.6%
Debt Service	415	1,288	873	210.5%
All Other	8,872	8,916	44	0.5%
Total Spending	**35,449**	**36,744**	**1,295**	**3.7%**
Reserves	999	999		
Stadium Reserve	1	-		
Budget Balance	**$0**	**$(627)**		

Tax revenues are estimated to be $1.711 billion (5.3 percent) higher than FY 2012-13. The forecast for individual income tax receipts is $1.112 billion million higher than in FY 2012-13, the sales tax $581 million, and the statewide property tax $69 million.

Biennial growth in tax revenues is offset by reductions in non-tax revenues and other resources. A large number of one-time revenues in FY 2012-13 do not continue in FY 2014-15. These include a transfer of $52 million from the workers' compensation assigned risk plan, $29 million for a 1 percent cap on Health Maintenance Organization (HMO) profits, $12 million from a HMO donation and a one-time prior year adjustment of $139 million. Also, one-time transfers primarily from the health care access fund that were used to balance the FY 2012-13 budget do not carry into FY 2014-15 under current law.

One-time spending reductions used in FY 2012-13 also distort spending growth projections. General fund spending for FY 2014-15 is estimated to be $1.295 billion more than FY 2012-13. Forecast spending in health and human services is estimated to be $708 million (6.6 percent) more than FY 2012-13 while K-12 spending estimated to be $797 million higher (5.5 percent). The one-time use of tobacco bond proceeds to pay general obligation debt service reduced spending by $646 million in FY 2012-13. In FY 2014-15 general obligation debt service is once again paid for from the general fund.

BUDGET PLANNING ESTIMATES: FY 2016-17

Planning estimates for the 2016-17 biennium are materially different from the short-term forecast for the current and 2014-15 biennia. Projection methods are different and the longer-term projections carry a higher degree of uncertainty and an inherently larger potential range of error.

Planning estimates for FY 2016-17 are provided to help identify longer-term state finance issues. Revenue projections are based on GII's November baseline forecast for 2016 and 2017. Expenditure projections assume current funding levels and policies continue unchanged, adjusting only for caseload and enrollment changes and inflation in specific formula driven changes.

Projected Gaps Between Revenues and Expenditures

($ in millions)

	FY 2012-13	FY 2014-15	FY 2016-17
Forecast Revenues	$35,161	$36,116	$39,295
Projected Spending	35,449	36,744	38,513
Difference (Gap)	**$(288)**	**$(628)**	**$782**
Inflation CPI		*$854*	*$2,252*

The table above depicts forecast revenues and projected spending while excluding the impact of balances from prior years and reserves in order to highlight the 'structural balance' or 'shortfall'. The structural shortfall for FY 2014-15 is now projected to be $628 million, $445 million less than November. In FY 2016-17 revenues are expected to exceed projected spending by $782 million. The expenditure projections do not include a general adjustment for inflation or repayment of the $801 million of remaining school shifts.

Projected inflation based on the Consumer Price Index (CPI) is now expected to be 1.5 and 1.7 percent for FY 2014 and FY 2015 and 1.6 percent and 1.8 percent for FY 2016 and FY 2017. Applying the annual forecast inflation rate, compounded over the four year period, to current law projected spending base would add approximately $300 million per year to the preceding year's adjusted base.

Biennial Comparison

($ in millions)

	FY 2014-15	FY 2016-17	$ Change	% Change
Forecast Revenues	$36,116	$39,295	$3,179	8.8%
Forecast Spending	$36,744	$38,513	$1,769	4.8%

Projected revenues for FY 2016-17 now total $39.295 billion, $3.179 billion (8.8 percent) more than FY 2014-15. Estimated spending is projected to grow $1.769 billion (4.8

percent) more than FY 2014-15. The impacts of one-time actions that typically drive large budget growth do no recur in FY 2016-17 planning estimates.

The planning estimates are not intended to predict surpluses or deficits three or more years into the future. Rather their purpose is to assist in determining how well ongoing expenditures are likely to match future revenues based on trends in Minnesota's economy, and the level of spending that is need to maintain current programs. The FY 2016-17 planning estimates provide an important baseline against which the longer-term impacts and affordability of proposed FY 2014-15 budget solutions and decisions in the 2013 legislative session can be measured.

ECONOMIC OUTLOOK

COUNCIL OF ECONOMIC ADVISORS' STATEMENT

The U.S. economic outlook has changed little since November. We did not fall off a fiscal cliff in January, nor will Congressional inaction on the debt ceiling cause the U.S. government to default on its obligations in March. Advance estimates showed recent real GDP growth to be even more disappointing than expected (it fell very slightly in the fourth quarter) but payroll employment growth has been above forecast and real consumer spending growth at 2.2 percent was stronger than anticipated. To be sure plenty of loose ends remain to be wrapped up over the next twelve months, including a second installment of potentially disruptive, debt-ceiling brinksmanship in late summer, but Congress appears to recognize that the economic damage that would be caused by a failure to raise the debt ceiling would greatly exceed any potential gains from extended political posturing on this issue. The sequester and the coming expiration of the continuing resolution authorizing federal spending for the remainder of this fiscal year are non-trivial concerns, but most economists do not believe that failure to resolve those issues on a timely basis poses a significant threat to continued economic expansion.

Economists expect 2013 to start off slowly as consumers adjust to the smaller paychecks brought on by the expiration of the payroll tax cut. The continued uncertainty brought on by a possible sequester and/or a partial federal government shutdown is also likely to affect consumer confidence and spending. Most forecasters then expect growth to accelerate in the latter half of 2013 and on into 2014 as light vehicle production continues its move back toward more normal levels and the housing recovery gains further momentum. Differences in assumptions about the pace of the housing recovery and the amount of fiscal drag sequestration will impose are the most common sources of differences in individual forecasts. While housing starts are projected to increase by about 25 percent this year and by an additional 30 percent in 2014, the one million starts expected this year will still be one of the weakest years for housing since World War II. Differences among forecasts for 2013 are narrower than usual.

The February baseline forecast from Global Insight Inc. (GII), Minnesota's national macroeconomic consultant, is very similar to projections by other forecasters, calling for 1.9 percent real GDP growth in 2013 and 2.8 percent real growth in 2014. Those annual growth rates are identical to the Blue Chip Consensus for both 2013 and 2014 and the same as in November's Outlook. Inflation is expected to remain under control with the CPI now projected to increase by 1.4 percent in 2013 and 1.7 percent in 2014.

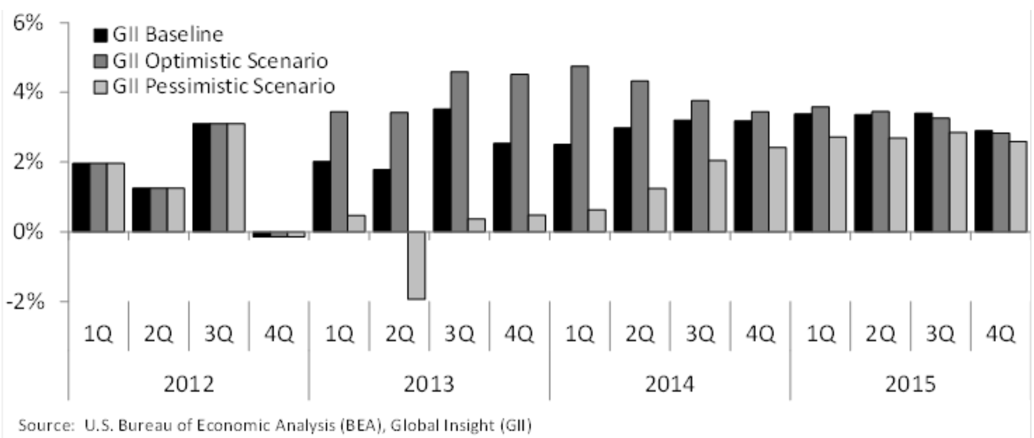
Global Insight assigns a probability of 60 percent to February's baseline, the same probability as in November. And, as in November, both the pessimistic and optimistic alternatives are given probabilities of 20 percent. In the pessimistic scenario the "inability of policymakers to resolve policy issues in a timely manner weighs down on private sector confidence, stock prices, and overall private sector activity." In this scenario the economy falls at a 1.9 percent rate in the second quarter, then barely avoids a recession by growing at an annual rate of about 0.5 percent in both the third and fourth quarters of this year.

Members of Minnesota's Council of Economic Advisors agreed that Global Insight's February baseline forecast was consistent with the consensus outlook. As usual, some members were more optimistic than Global Insight and others more pessimistic. But, differences among individual forecasts of Council members, and differences between those forecasts and the GII February baseline were small.

All Council members noted that further political brinksmanship on the sequester and the continuing resolution would not be helpful to the economy. Council members believed that GII's assumptions about the magnitude of spending cuts likely to emerge in 2013 and 2014 due to the sequester were reasonable. Several observed that while Europe's sovereign debt problems were no longer in the headlines they had not been resolved and still represented a significant risk to the outlook. Global Insight continues to expect Greece to exit from the Euro by mid-2014.

Real Gross Domestic Product; Global Insight Risk Scenarios

Annualized Q/Q Percent Change



MMB economists noted that material changes in forecast revenues for both the 2012-13 biennium and the 2014-15 biennium are likely even though there has been little change in the economic outlook. The large federal tax rate increases on earnings of high income individuals are likely to encourage acceleration of income into 2012 by tax conscious individuals. MMB's individual income tax forecast anticipated some acceleration would be reflected in both withholding tax receipts and fourth quarter estimated tax payments, but actual receipts were materially larger than anticipated in November's forecast.

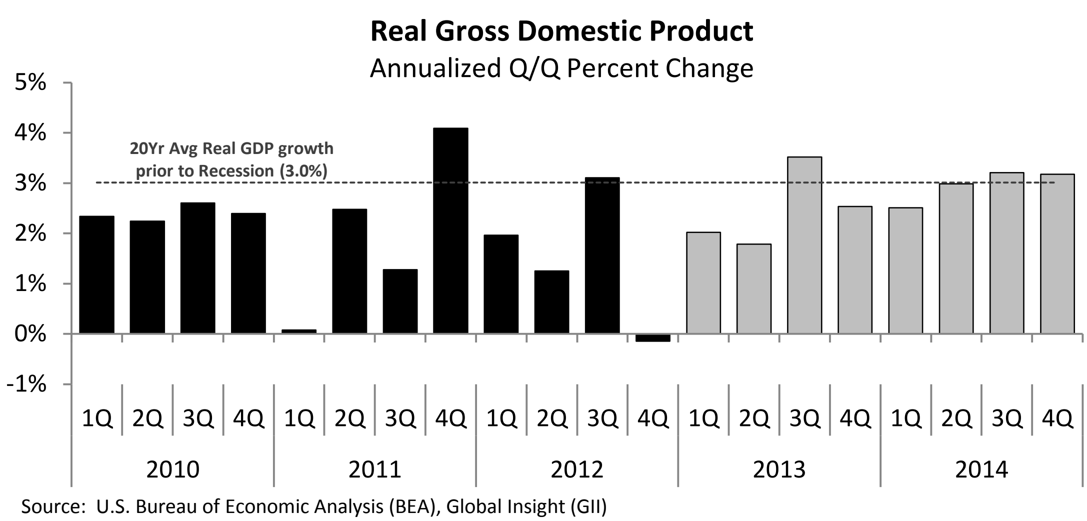
MMB economists also noted that Global Insight has reduced its population growth assumptions, consistent to be consistent with the Census Bureau's new projections. The new assumptions lower annual growth rates by about 0.2 percentage points and reduce the U.S. population in 2022 by just over 2 percent. Minnesota's population growth rates were lowered in this forecast to keep the state's share of U.S. population constant.

Council members continued to recommend that budget planning estimates for future biennia include an adjustment of future spending to reflect expected inflation. The current practice of including inflation in projected revenues but not in spending projections is misleading and not consistent with either sound business practice or the methods of the Congressional Budget Office. Since inflation is relatively low currently, failure to incorporate it in expenditure projections understates the projected deficit for the 2016-17 biennium by more than $1 billion. That systematic distortion will grow larger if and when inflation accelerates. The Council has made a similar recommendation in each of its written statements since the current practice was required by statute in 2003.

U.S. ECONOMIC OUTLOOK

Fundamentals underlying the U.S. economy continue to improve. Capital goods orders bounced back at the end of the year, household demand for the traditional drivers of recovery, vehicles and housing, is strengthening, and recent employment growth has been solid. The fiscal cliff deal averted most, although not all, of the threatened 2013 tax hikes and lawmakers have temporarily suspended the federal debt ceiling until next summer. But not all the news is upbeat. Growth has been modest and inconsistent, the recovery has weak momentum, and policy headwinds from Washington still weigh on the outlook. Consumer confidence has fallen since November, most likely due to the expiration of the payroll tax cut and higher gas prices. The loss of disposable income will restrain consumer spending growth early this year. Business spending is downshifting. And, the combination of slow global growth and a lingering Eurozone recession will continue to dampen export growth.

Global Insight Inc. (GII), MMB's macroeconomic consultant, believes the scheduled sequestration and potential government shutdown in March are the most significant near-term threats facing the U.S. economy. GII assigns a 60 percent probability to February's baseline, the same probability as in November. And, as in November both the pessimistic and optimistic scenarios are assigned probabilities of 20 percent. In the pessimistic scenario, the U.S. economy suffers from domestic policy gridlock over sequestration and a rapidly deteriorating global economic outlook, including a worsening Eurozone crisis. Private sector confidence weakens, spending growth and capital expenditures slow, and the recovery stalls in 2013, barely avoiding recession. In the optimistic scenario, the scheduled automatic spending cuts are replaced with a credible long term deficit reduction plan, while a stronger housing recovery and faster employment growth reignite the recovery.

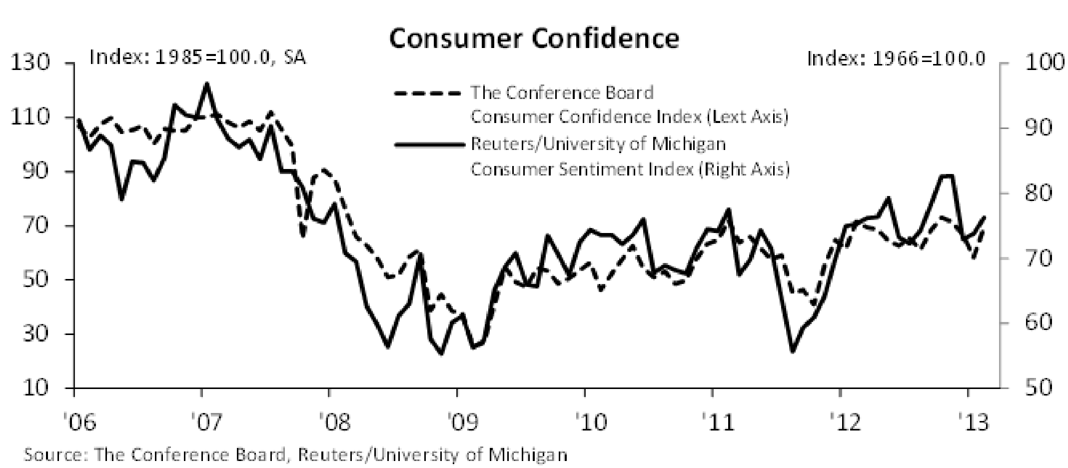


Fundamentals underlying the U.S. economy continue to improve. But not all the news is upbeat. Growth has been modest and inconsistent, the recovery has weak momentum, and policy headwinds from Washington still weigh on the outlook.

The outlook for economic growth has changed little since Minnesota's revenue forecast was last prepared in November. The advance estimate shows real GDP fell at an annual rate of 0.1 percent in the fourth quarter of 2012, down from 3.1 percent growth in the third quarter. Growth was held back in the last three months of 2012 by a steep drop in defense spending and much slower inventory accumulation, as well as a drag from Hurricane Sandy. GII believes the decline in real GDP is a misleading indicator of the economy's health, and will be revised upward to show continued expansion given the sharp narrowing of the trade deficit in December. They expect growth to rebound to 2.0 percent in the first quarter, before accelerating later this year and into 2014, as light vehicle production strengthens and the housing recovery gains momentum. GII's February baseline calls for real GDP growth of 1.9 percent in 2013 and 2.8 percent in 2014, slightly stronger than November's outlook which forecast 1.7 percent growth in 2013 followed by 2.8 percent growth in 2014.

Consumers Still Face Too Many Negatives

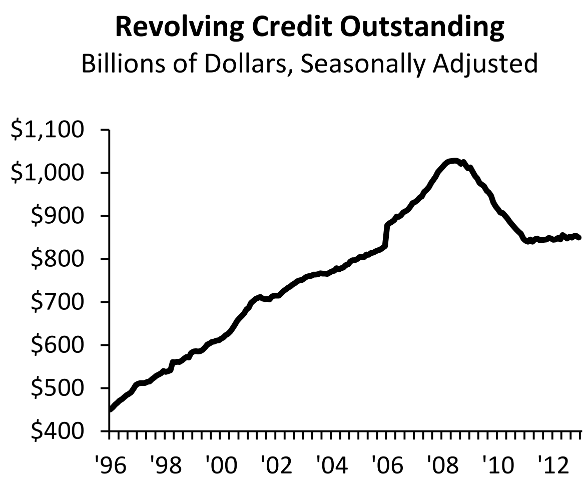
Households largely escaped the extreme risks of the year-end fiscal cliff, but its resolution has brought little comfort. In particular, expiration of the 2-percent payroll tax cut is beginning to hit workers' paychecks. Previously worth about $1,000 to an individual making $50,000 a year, the bigger tax bite has dampened retail sales and confidence. Retail sales rose a meager 0.1 percent in January. And, separate measures of consumer confidence released by the Conference Board and the Reuters/University of Michigan show that the impact of the tax hikes wiped out all the gains registered in 2012. While confidence has rebounded in February, the loss of income will weigh on sentiment in 2013. Moreover, the continued uncertainty brought on by across-the-board spending cuts set to begin March 1 and/or a partial federal government shutdown three weeks later is also likely to affect confidence.

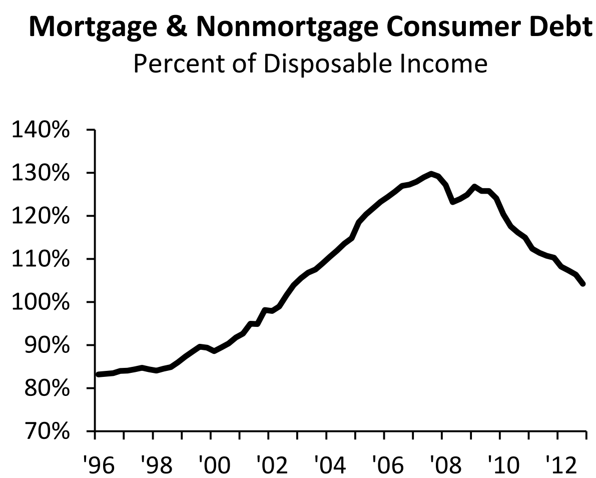


Separate measures of consumer confidence released by the Conference Board and the Reuters/University of Michigan show that the impact of the fiscal cliff crisis and expiration of the payroll tax cut wiped out all the gains registered in 2012.

Consumers still face too many negatives to allow for a robust spending recovery. High debt burdens, reduced household wealth, modest employment growth, low home values, and the increase in payroll taxes are obstacles to stronger consumer spending growth in 2013.

As expected, households are keeping debt at manageable levels. Consumers are now willing to take on more non-mortgage debt, mainly in the form of big-ticket items such as auto loans and student loans, but are reluctant to run up large credit card bills for smaller discretionary purchases. The Federal Reserve reports that revolving credit outstanding, mostly credit card loans, was about $850 billion at the end of 2012, down $178 billion (or 17 percent) from its mid-2008 peak and increasing little since late 2010. Deleveraging is ongoing. Mortgage and nonmortgage consumer debt has fallen to 104 percent of disposable income, the lowest since late 2002, but still well above the 1990s average of near 80 percent. While household balance sheets are much improved, GII believes more deleveraging is necessary before consumer spending makes a genuine comeback.





Source: Federal Reserve

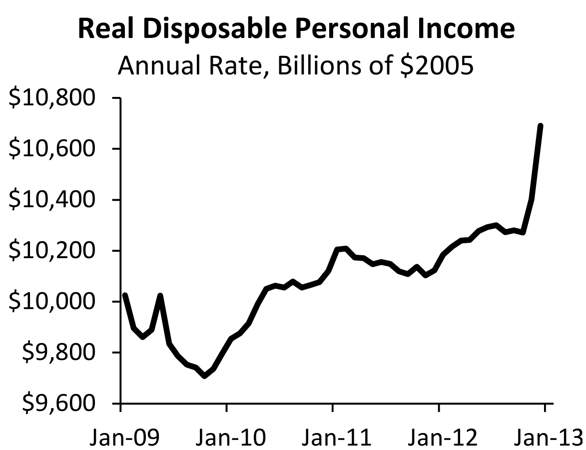
Deleveraging is ongoing. The Federal Reserve reports that revolving credit outstanding, mostly credit card loans, has increased little since 2010, and mortgage and nonmortgage consumer debt has fallen to the lowest share of disposable income since late 2002.

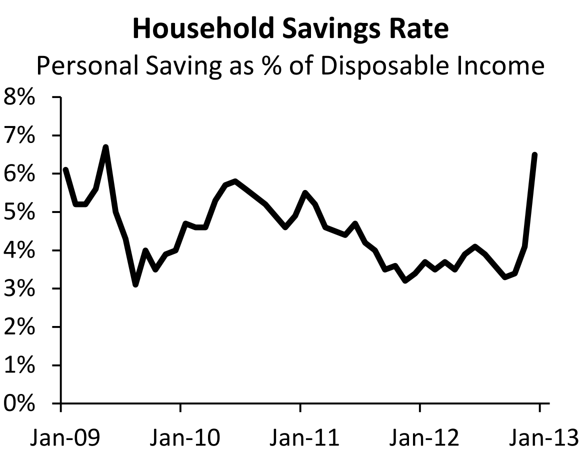
Households are also beginning to make progress toward rebuilding the wealth lost during the recession. GII believes real household net worth (the value of assets like homes, bank accounts and stocks, minus debts like mortgages and credit cards) finished 2012 up 6.4 percent from a year earlier thanks to strong gains in the value of real estate and equity assets. But real net worth is still 12 percent off its late 2006 peak, which occurred just before nationwide home prices began to unravel.

Job prospects are improving, but the U.S. jobless rate (at 7.9 percent) is still well above pre-recession levels. Lower labor-force participation, not rapid job growth, has been the primary reason unemployment has dropped from its 10 percent peak. As job growth gradually improves, labor force growth is expected to pick up, and the decline in the unemployment rate is likely to slow down. GII does not expect a significant improvement in the unemployment rate in 2013.

A long-awaited housing recovery finally seems to be underway, as sales of both new and existing homes have picked up. The decline in inventory has helped stabilize prices. The S&P/Case Shiller 20-city home price index rose 6.8 percent in December from a year earlier, the biggest gain since July 2006. But home prices remain very low compared to pre-recession peaks. Average house prices are still down more than 15 percent from their early 2007 peak as measured by the Federal Housing Finance Agency (FHFA) purchase-only index. Consumers are expected to remain cautious until further progress is made.

Facing a litany of headwinds, real consumer spending, which accounts for about 70 percent of U.S. economic activity, still managed to grow at a 2.2 percent annualized rate in the fourth quarter of 2012, although that was supported by a surge in income as businesses rushed to pay special dividends and bonuses in anticipation of higher tax rates in 2013. Real personal income soared 2.6 percent in December, the strongest growth since December 2004, when income was inflated by a special Microsoft dividend payment. The accelerated income also drove up the personal saving rate to 6.5 percent during the month, the highest since early 2009. GII expects after-tax disposable income to fall in the first quarter of 2013, as the extra dividend and bonus payments drop out, and as the elimination of the payroll-tax cut reduces take-home pay as well. And, with the unemployment rate still hovering close to 8.0 percent, GII expects wage growth to remain tame in 2013.





Source: Bureau of Economic Analysis

Real disposable income surged in November and December as businesses rushed to pay special dividends and bonuses ahead of the anticipated increase in tax rates. The accelerated income also drove up the monthly personal saving rate to 6.5 percent in December, the highest since early 2009.

GII believes U.S. households remain focused on repairing finances and that it will be difficult for consumers to sustain current rates of spending without strong and sustainable increases in employment and real income. But slumping business confidence has kept hiring plans on hold. The resulting labor market slack is limiting upward pressure on wages. And, as consumers begin to digest higher taxes, expectations are subdued. According to the Conference Board survey, the share of consumers who expect their incomes to decrease over the next six months spiked in January to its highest level since the Great Recession. Those low expectations will weigh on confidence in 2013, softening the pace of consumer spending. GII expects real consumer spending growth to rise this year by 1.9 percent, the same as in 2012, and then accelerate to 2.8 percent in 2014.

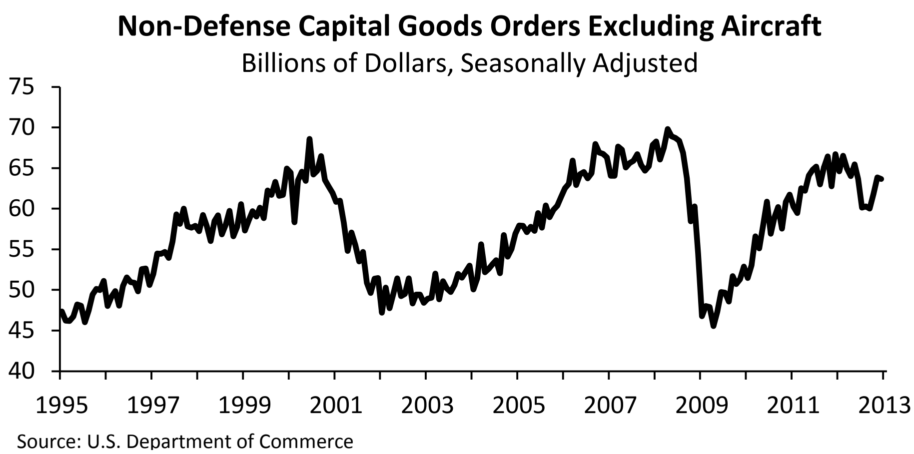
Business Investment and Factory Output are Downshifting

Business activity remains an important source of economic strength. The slowdown in manufacturing that began in mid-2012 was only temporary, as production ended the year on a positive note. The Federal Reserve's manufacturing output index reading for December was the highest level of the year, up sharply since last fall. The Institute for Supply Management's (ISM) manufacturing index broke from its neutral pattern in January, rising back above the breakeven 50 mark to a level that signals modest growth. And, both the ISM export and import indices rebounded back above the expansionary threshold late last year, after signaling contraction since mid-summer. Nonetheless, GII believes manufacturing growth is in the process of downshifting. After growing 4.1 percent during 2012, manufacturing output is expected to increase only 2.4 percent this year as growth in both consumer spending on goods and business investment spending ease.

The Institute for Supply Management's (ISM) manufacturing index broke from its neutral pattern in January, rising back above the breakeven 50 mark to a level that signals modest growth.

Business investment also staged an impressive turnaround late in the year. Business equipment and software spending actually fell at a 2.6 percent annualized rate in the third quarter, the first decline since early 2009, as nervous businesses appeared to be delaying or cutting back capital investment plans ahead of the fiscal cliff. But it bounced back at a 12.4 percent annualized rate in the fourth quarter. The Commerce Department also reports that factory orders of core capital goods (nondefense capital goods excluding aircraft), a leading indicator for future capital expenditure growth, posted double digit annualized growth in the three months ending in December, after deteriorating sharply the three months prior. And, core shipments are growing again after declining three consecutive months last fall. GII believes the fourth quarter bounce in capital spending may have been exaggerated by anticipated expiration of accelerated bonus depreciation allowances at the end of the year. And, if one combines the third and fourth quarter estimates, the 2.9 percent annualized growth in equipment and software expenditures during the second half of 2012 depicts an economy that is only muddling along. GII expects growth in capital equipment expenditures to slow to 1.3 percent in the first quarter, before modestly accelerating over the rest of 2013, as companies proceed cautiously with long-term construction plans. On a calendar-year basis, real spending on business equipment and software is forecast to grow 5.5 percent in 2013, down from 6.9 percent in 2012.

A pullback in business investment has also fueled concerns that cautious employers could postpone hiring decisions until the outlook becomes clearer. But historical revisions show that employment growth held up well in the fourth quarter despite all the fears about the fiscal cliff. Average employment growth over the last three months of 2012 now stands at a 201,000, up from a 174,000 per month average the first 9 months of the year. The labor market will face new headwinds this year as expiration of the payroll tax and federal government spending cuts are expected to dampen employment growth in early 2013. GII expects average monthly gains of about 154,000 jobs during the first half of the year. But as some of the uncertainties are resolved, job creation is expected to accelerate. Still, uncertainties are expected to ease only gradually, and the labor market is not projected to ramp up until late 2014 and 2015.



Core capital goods orders (nondefense capital goods excluding aircraft), a leading indicator for future capital expenditure growth, posted double digit annualized growth in the fourth quarter of 2013, after deteriorating sharply the three months prior.

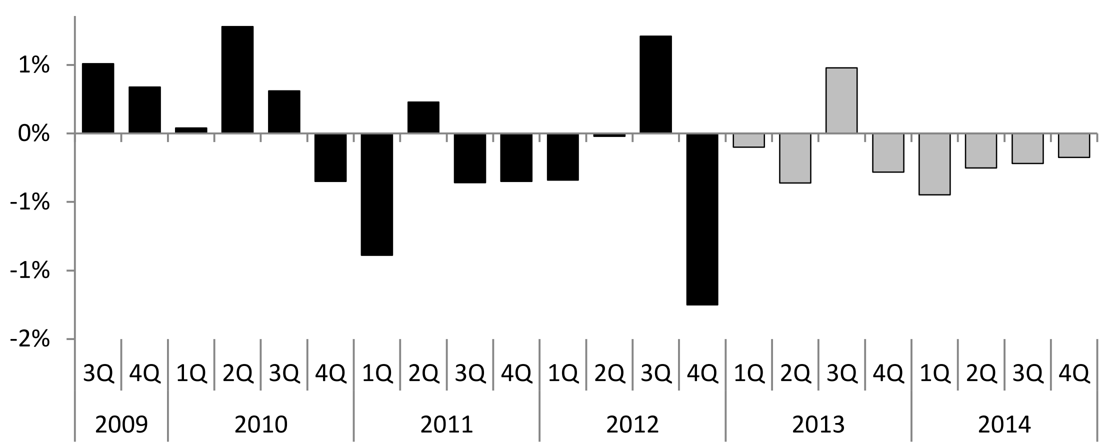
Fiscal Cliff Crisis is over, but Policy Headwinds Remain

Congress and the President agreed to a deal on New Year's Day to address the fiscal cliff. The American Taxpayer Relief Act of 2012 (ATRA) averted most, although not all, of the impending tax increases that otherwise would have begun at the beginning of the year, but leaves major fiscal policy questions unanswered. Political gridlock over looming budgetary deadlines and long term debt issues still threatens to weigh on private sector confidence. And the stakes are still high. The political brinkmanship associated with long drawn-out negotiations could test the patience of financial markets and risk stalling the economic recovery.

On the tax side, the fiscal cliff deal increases the top income tax rate, as well as taxes on capital gains and dividends, for individuals earning more than $400,000 (or $450,000 for married couples). It also limits tax deductions and credits taken by taxpayers earning more than $250,000 (or $300,000 for married couples), raises the estate tax for individual estates over $5 million, and permanently patches the Alternative Minimum Tax (AMT), preventing the tax from impacting middle income brackets. The legislation also allowed the temporary 2 percent reduction in the payroll tax to expire. GII estimates the loss of the payroll tax will knock about 0.4 percent off of real GDP growth in 2013. The income tax hikes at upper income levels are less immediately significant, worth only about 0.2 percent of GDP this year.

Federal Government Spending Contribution to Real GDP Growth

Percent Contribution

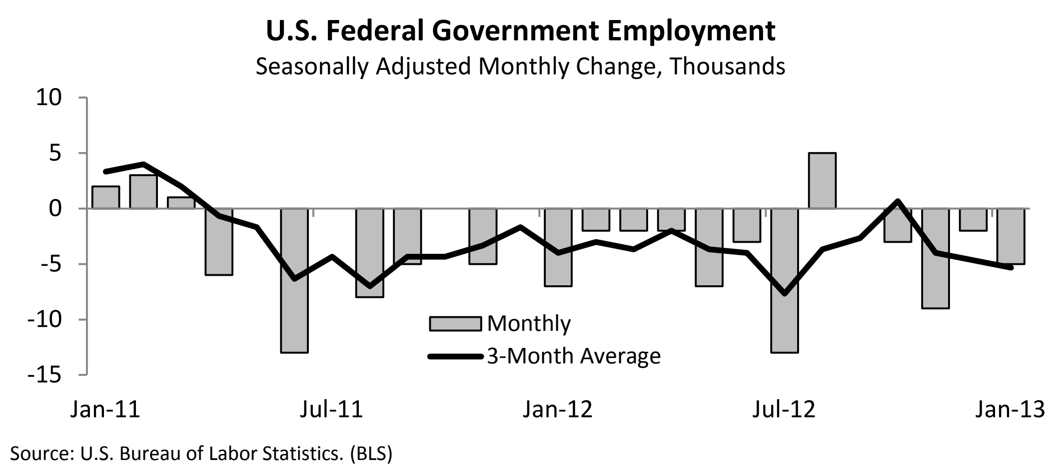


Source: U.S. Bureau of Economic Analysis (BEA), Global Insight (GII)

Real GDP growth was held back in the last three months of 2012 by to a steep drop in federal defense spending. GII estimates expiration of the 2 percent payroll tax cut will knock about 0.4 percent off of real GDP growth in 2013.

On the spending side, the law extends long-term unemployment benefits and prevents a severe cut in reimbursement rates to Medicare providers for another year. The spending provisions of the bill also postponed for two months the ten-year $1.2 trillion of additional across-the-board spending cuts, including $85 billion this year, known as sequestration. Part of the 2011 debt-ceiling deal, lawmakers as yet have been unable to reach agreement on a plan to avoid those abrupt and unpopular cuts to defense and domestic programs now scheduled to begin March 1. If sequestration takes effect in full, the nonpartisan Congressional Budget Office (CBO) estimates the untargeted cuts would reduce the level of employment by about 750,000 jobs by the end of the year. GII assumes that full sequester would shave an additional 0.4 percent off of their baseline real GDP growth of 1.9 percent this year.

To defuse the upcoming debate over sequestration, President Obama agreed to a congressional plan earlier this year to temporarily suspend the federal debt ceiling through mid-May. The deal came about a month after the U.S. officially hit its Congressional authorized borrowing limit of $16.4 trillion in late December and a few weeks before the Treasury was expected to exhaust “extreme measures” meant to carry out its legal obligations. Failure to raise the debt limit would lead to a massive fiscal contraction since the federal government could only spend as much as it collects in revenues. To avoid default, the Treasury would likely prioritize interest payments on the debt, but the nation’s creditworthiness would once again come into question, perhaps triggering an economic catastrophe. Congress will need to raise the statutory borrowing limit again later this summer.



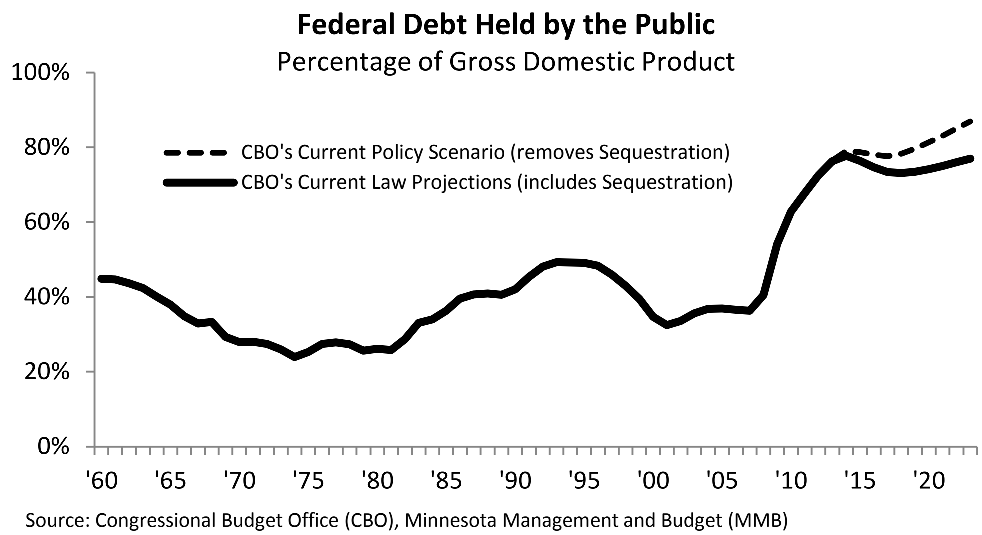
During the past 12 months, federal government payrolls have fallen by 44,000, or 1.6 percent. In 2013, federal employees are facing threats of widespread furloughs from the scheduled sequester and/or a partial government shutdown.

In exchange for temporarily suspending the debt ceiling, the deal also requires both the House and Senate to pass a fiscal 2014 budget by mid-April, or lawmakers risk having their pay temporarily withheld. Congress hasn't passed a budget resolution in almost four years, relying instead on continuing resolutions that temporarily fund programs at current or reduced levels. Lawmakers also will need to pass another continuing resolution before March 27 to extend funding for operations through the second half of fiscal 2013, or risk partially shutting down the federal government. After that, assuming both chambers pass a fiscal 2014 budget resolution by mid-April, the focus can shift to appropriation bills and the fiscal standoff could shift to other battlegrounds, thereby disentangling budgetary decisions from the debt limit.

In addition to looming policy deadlines, lawmakers still face the longer term budget issues of high deficits and rising debt. CBO estimates that under current law the federal government will run a deficit of $845 billion in 2013, a modest improvement after four straight years of $1 trillion-plus deficits. During that time public debt relative to the size of the U.S. economy has more than doubled. Without broad-based changes to fiscal policy, CBO projects that federal debt will remain historically high for the next decade. Such high and rising debt will has significant implications for longer term growth.

The President and Congress have agreed on about $2.35 trillion in deficit reduction (not counting the $1.2 trillion in sequestration) over ten years since the end of 2010. But GII and CBO estimate that $1.5 to $2 trillion in additional deficit savings is necessary to stabilize the debt. Erskine Bowles and Alan Simpson, co-chairs of President Obama's 2010 fiscal reform commission, released a new plan in mid-February that cuts the nation's debt by $2.4 trillion in the next ten years, ultimately lowering the debt relative to the size of the economy and maintaining on a downward trajectory thereafter. The question remains whether policymakers can address meaningful entitlement reform.

GII assumes that sequester takes effect on March 1, but the mandatory spending cuts are quickly replaced by a broader long-term package of mostly upper-income tax increases and cuts in Medicare, Medicaid, Social Security, and non-defense discretionary spending by May 1. On net, this partial sequester reduces real GDP growth by 0.1 percentage point in 2013, with most of the measures beginning in January 2014. GII has not assumed a government shutdown in the baseline, but warns that every week of shutdown would take about 0.2 percentage point off of GDP growth in that quarter.

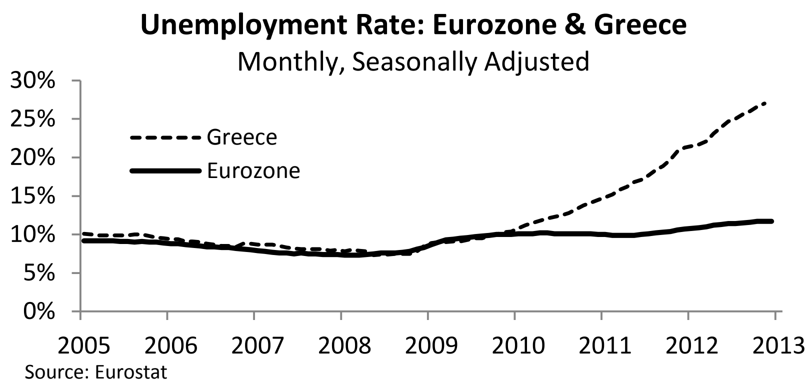


CBO's current law projections assume sequestration will take full effect beginning in March. Even so, without broad-based changes to fiscal policy, CBO projects that federal debt will remain historically high for the next decade.

Eurozone Threat Has Relaxed, but Remains High

Europe's slow-moving sovereign debt crisis remains a significant drag on the fragile global economy. Financial market turmoil has eased in the past several months and high borrowing costs of troubled nations in Europe's southern periphery have steadily improved since European Central Bank (ECB) chairman Mario Draghi promised to do "whatever it takes" to keep the Eurozone together last summer. But the structural reforms needed to permanently solve Europe's debt problems will take years to work out and the move from design to implementation will test the willingness of national governments to cede powers to strong, centralized institutions.

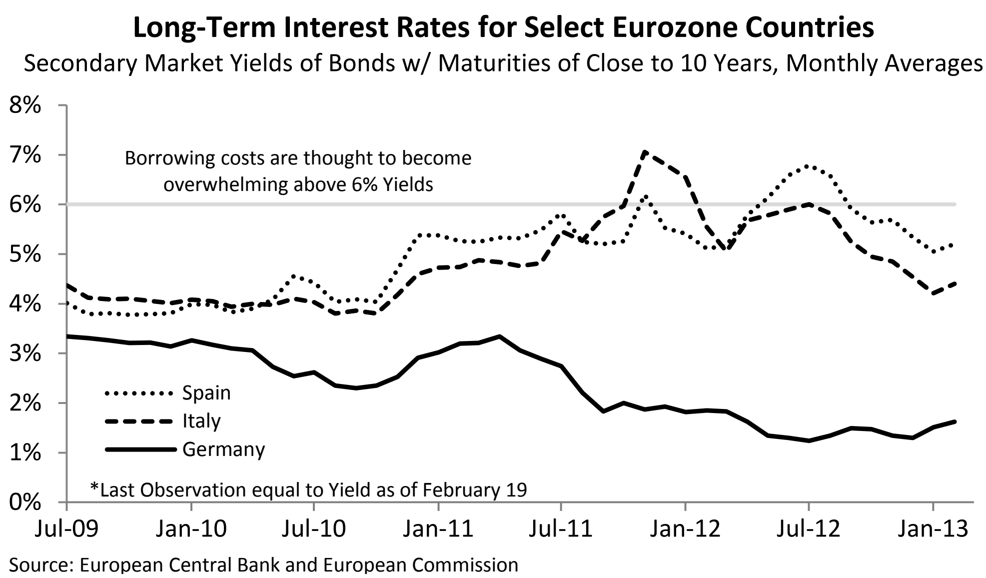
Progress toward a greater fiscal union remains slow. The European Union (EU) has much-lauded plans for binding contracts to enforce economic reforms and a joint budget authority to help vulnerable economies, but meaningful decisions on these measures have been postponed and confidence in the EU's ability to achieve far-reaching institutional reforms is eroding. Three-plus years of strict German-led fiscal discipline meant to curb the deficits of highly indebted nations and restore growth have instead become a counterproductive economic drag. Real GDP in the Eurozone fell at an annualized rate of 2.3 percent in the fourth quarter of 2012, the third consecutive decline and the fifth straight quarter in which the economy failed to expand. With much of the continent in recession, mistrust between Europe's northern and southern countries is intensifying. Austerity-fatigue is fueling political, economic, and social tensions in the southern periphery, particularly in Greece and Spain where the economies are deeply mired in recession with little or no immediate prospects for growth. And, with unemployment at or nearing record highs throughout most of the Eurozone, willingness to accept the grinding austerity requirements for activating or sustaining EU support is fading.



Growing political, economic, and social tensions have begun to suggest that the German-led focus on strict fiscal discipline is nearing a breaking point, particularly in Greece where the jobless rate has climbed to 27 percent.

The debt crisis has also raised concerns over the supervision, regulation, and resolution authority of Europe's banking system. The Eurozone's monetary union is governed by a single interest rate policy, but there is no central authority able to guarantee debts, provide resolution mechanisms for bank failure, or unilaterally assist hard-hit nations during periods of economic crisis. In December, European leaders reached agreement on an initial step toward forming a centralized banking union, called the single supervisory mechanism (SSM), which would give the ECB direct supervision over Eurozone's largest banks in 2014. The arrangement eliminates harmful inter-dependence between troubled sovereigns and their domestic banks, a vulnerable link that helped intensify the debt crisis. And, once the SSM is operational, the Eurozone's bailout fund, called the European Stability Mechanism (ESM), will be able to directly recapitalize struggling banks without the approval of national governments. EU policymakers have postponed decisions to establish a system of deposit insurance and a single resolution mechanism for dismantling failing banks, but approving the SSM is a decisive step closer to a broader banking union.

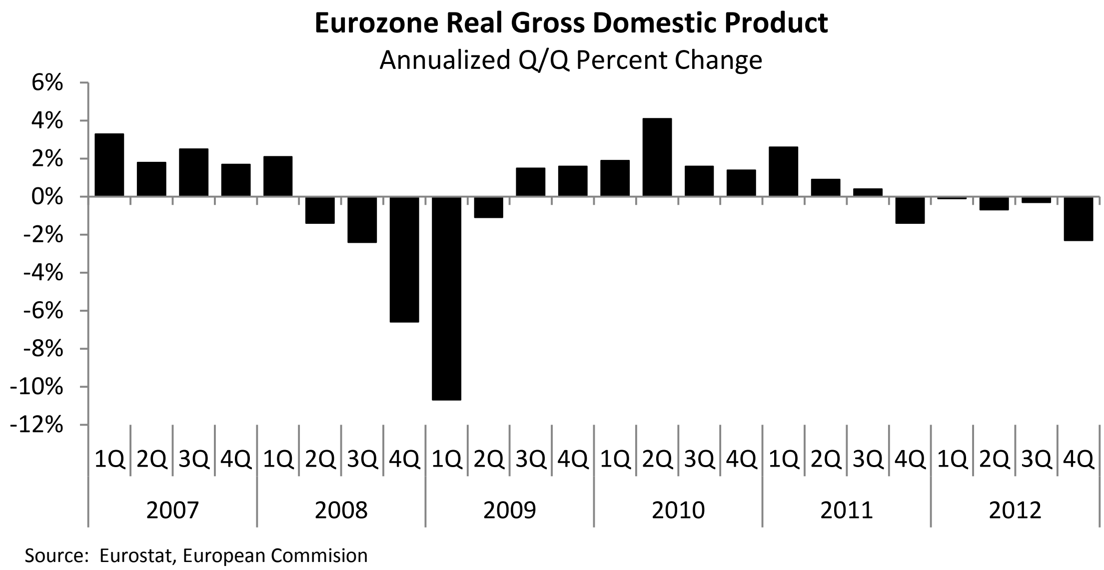
Previously criticized for not taking a more interventionist role, the ECB answered in September with its boldest action yet, an unlimited government bond-buying program, called Outright Monetary Transactions (OMT), which effectively backstops national debts and reduces the risk of countries defaulting or exiting the euro. OMT represents a turning point in the on-going crisis. Simply announcing the program helped calm previously tumultuous markets and bring Spanish and Italian bond yields down from unsustainable levels. In January, the interest rate on Spanish 10-year bonds fell below 5 percent for the first time in almost a year, and the rate on Italian 10-year bonds fell to the lowest level in more than two years. Mario Draghi describes it as a "positive contagion" now spreading through the Eurozone.



In September, the European Central Bank outlined a new bond-buying program, called Outright Monetary Transactions (OMT). Simply announcing the program helped calm previously tumultuous markets and bring Spanish and Italian bond yields down from unsustainable levels.

To mitigate the moral hazard problem, like other types of European aid, the OMT requires countries to apply for help and abide by the strict conditionality of the ESM. But these restrictions present potential problems. They deter governments from seeking the ECB's support, thus undermining its effectiveness. And, if governments agree to the conditions, the severe austerity measures are likely to cause more economic damage without the expected fiscal saving. The ECB was right to intervene as lender of last resort to prevent a deepening crisis, but such measures should be unilateral with no strings attached. That will require a single regulator, a single supervisor, and a single resolution authority.

The recent decision by the ECB to backstop sovereign debts significantly reduces the risk that a Greek exit and/or a Spanish bailout will spiral out of control and drag down Italy and the rest of the Eurozone. Greece received its next tranche of bailout loans from the Troika late last year, but repeated failure to meet its fiscal targets and deliver on reforms means the country is expected to leave the Eurozone in mid-2014. With private-sector confidence declining, unemployment extremely high in peripheral economies, and the manufacturing sector contracting, GII's outlook for the Eurozone remains grim. The recession is deepening and is expected to last into 2013, with real GDP falling 0.2 percent during the year, following a 0.5 percent drop in 2012. Nonetheless, GII believes direct exposure of the U.S. economy to the downturn remains relatively small.



Real GDP in the Eurozone fell at an annualized rate of 2.3 percent in the fourth quarter of 2012, the third consecutive decline and the fifth straight quarter in which the currency bloc's economy failed to expand.

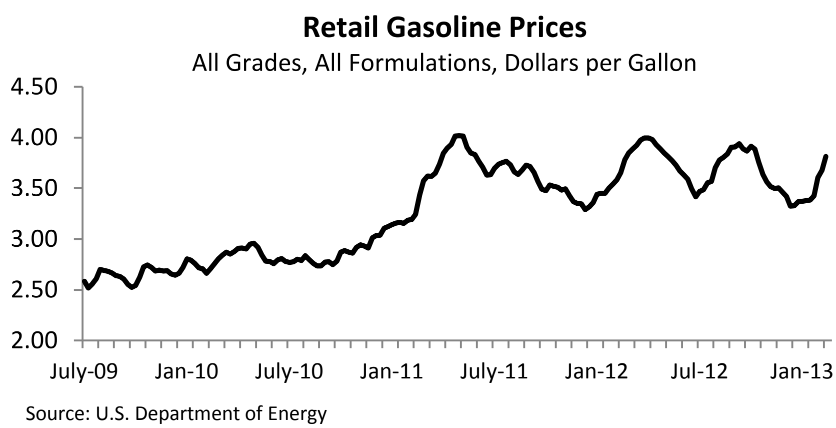
Inflation Picture Remains Quiet

The Bureau of Labor Statistics (BLS) reports its headline inflation measure, the Consumer Price Index (CPI), rose 1.7 percent in 2012, barely half the 3.0 percent increase in 2011 and the third slowest December-December increase in the past decade. After an up-and-down year, gasoline prices rose just 1.7 percent in 2012, or about a nickel per gallon. That followed a 9.9 percent increase in 2011. And, despite the drought the CPI for food at home eased in 2012, rising just 1.3 percent compared to a 6.0 percent increase the previous year.

Core CPI, which excludes more volatile prices of food and energy, also decelerated last year. The core index rose 1.9 percent in 2012, down from a 2.2 percent increase in 2011.

Services like rents and medical care services have been climbing at a stronger pace. The cost of shelter, which includes rents, extended its steady ascent, rising 2.2 percent in the past year compared to 1.9 percent the previous year. And, the CPI for medical services continues to far exceed broader inflation, rising 3.7 percent in 2012 after increasing 3.6 percent in 2011. But an easing of goods prices helped more than offset the aforementioned gains. The apparel index, for instance, rose 1.8 percent in 2012 compared to 4.6 percent in 2011. And, the BLS index for new and used motor vehicles, which rose 2.8 percent in 2011, fell 0.1 percent last year.

Overall, the inflation picture remains very quiet. GII believes that there is little threat of deflation, and far more signs of modest easing than of any acceleration. Year-over-year core prices will continue to slow, but downward pressure on goods prices is expected to abate as major industrial commodities have started to strengthen. Oil prices have advanced since the start of the year in response to better economic news, but will be under significant downward pressure in 2013 because of weak demand growth and increasing supplies in the U.S., Canada, Iraq, Brazil, and Kazakhstan. At $3.812 per gallon in mid-February, GII believes near term pump prices may rival the highs for the year. Consumers will grumble about food prices for the next six to nine months, but other than a geopolitical crisis or another disastrous harvest, there is still little to ignite inflation. GII expects the headline CPI to increase 1.3 percent (measured fourth-quarter to fourth-quarter) in 2013. Sluggish demand and a pullback in commodity prices also continue to help ease core CPI inflation. GII expects it to grow 1.9 percent in 2013, below the Federal Reserve's 2 percent longer run objective.



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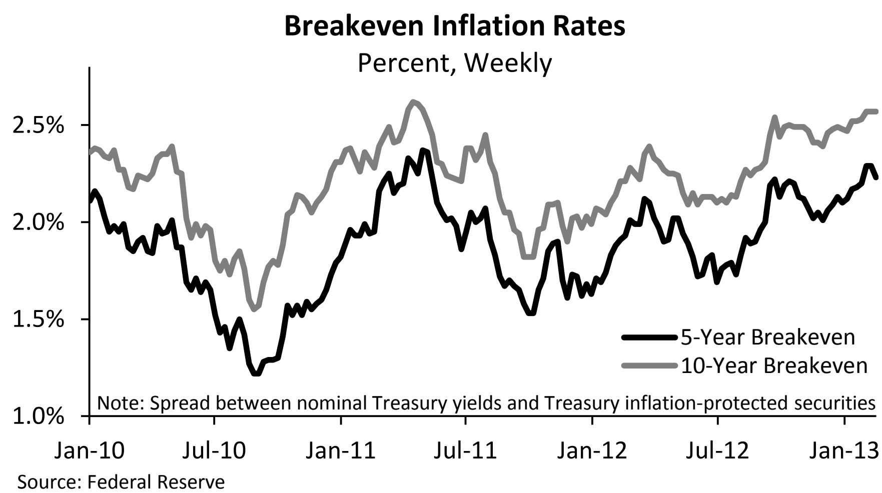
Fed Maintains Accommodative Policy Stance

Testifying before Congress in late-February, Federal Reserve Board Chairman Ben Bernanke reaffirmed that inflation remains generally subdued despite periodic fluctuations in commodity prices. Indeed, an inflationary spiral is unlikely given that several market-based measures of longer-term inflation expectations remain stable and ongoing resource slack in labor and product markets continues to restrain wage and price increases. The five and ten-year breakeven inflation rates, for example, which project the pace of consumer price increases using the yield spreads between nominal Treasury bonds and Treasury inflation-protected securities, were near 2.2 and 2.5 percent respectively in mid-February, slightly above the Federal Reserve's long-term objective of 2 percent but not signaling a significant inflationary threat. Likewise, long-term unemployment is at a historically high level and the jobless rate is near 8 percent, well above its level prior to the onset of the recession.



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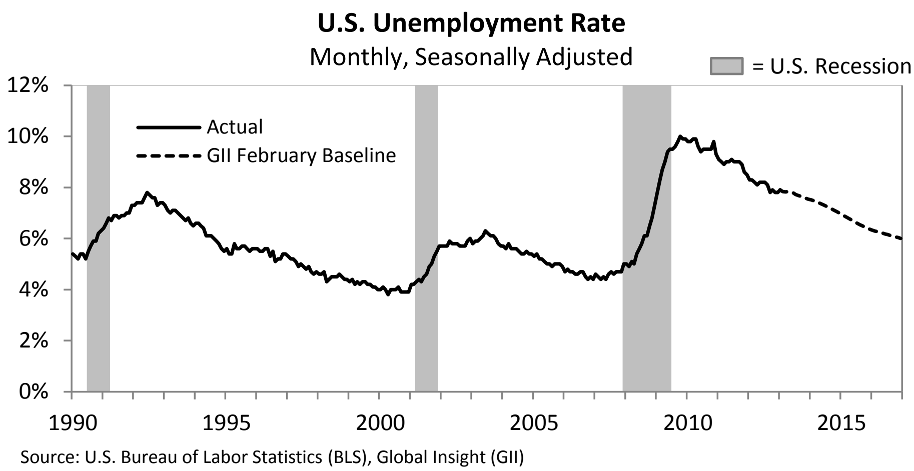
The combination of low inflation and high unemployment has allowed the Fed to ratchet up accommodative policy actions during the last half of 2012 to encourage a stronger recovery and promote maximum employment. Last September, it launched an open-ended third round of large-scale asset purchases known as quantitative easing (QE), aimed at jump-starting the housing market. It also elected to push its pledge to keep interest rates "exceptionally low" into mid-2015. And at its December meeting, the Fed made a historic change to its forward guidance strategy, stating it will target economic conditions instead of a calendar-based range, allowing markets to better adjust expectations for future monetary policy. Under the "threshold" forward guidance, the Fed said it will keep the federal funds rate low as long as the unemployment rate is above 6.5 percent and inflation expectations one to two years ahead is 2.5 percent or lower. It also moved to replace the expiring Operation Twist with an expansion of its QE program and said it will continue buying bonds until there is "substantial improvement" in the job market. Bottom line, the Fed does not intend to withdraw its accommodative policy stance anytime soon.

The minutes of the December meeting indicate that several members advocated slowing or stopping asset purchases by the end of 2013, citing concerns about financial stability or the size of the balance sheet. But given the Fed's requirement that the labor market outlook improve substantially before the bond-buying program ends, GII believes late 2013 is too early as the unemployment rate is expected to be little changed at the end of the year from today's 7.9 percent. Instead, GII assumes the central bank is more likely to scale back and end these activities in the second quarter of 2014, after the unemployment rate is projected to have fallen to closer to 7 percent. GII anticipates that the unemployment rate will reach 6.5 percent in October 2015, and that the Fed will raise the fed funds rate for the first time at its December 2015 meeting, meaning that there could be a full year or more between the end of quantitative easing and interest rate hikes.



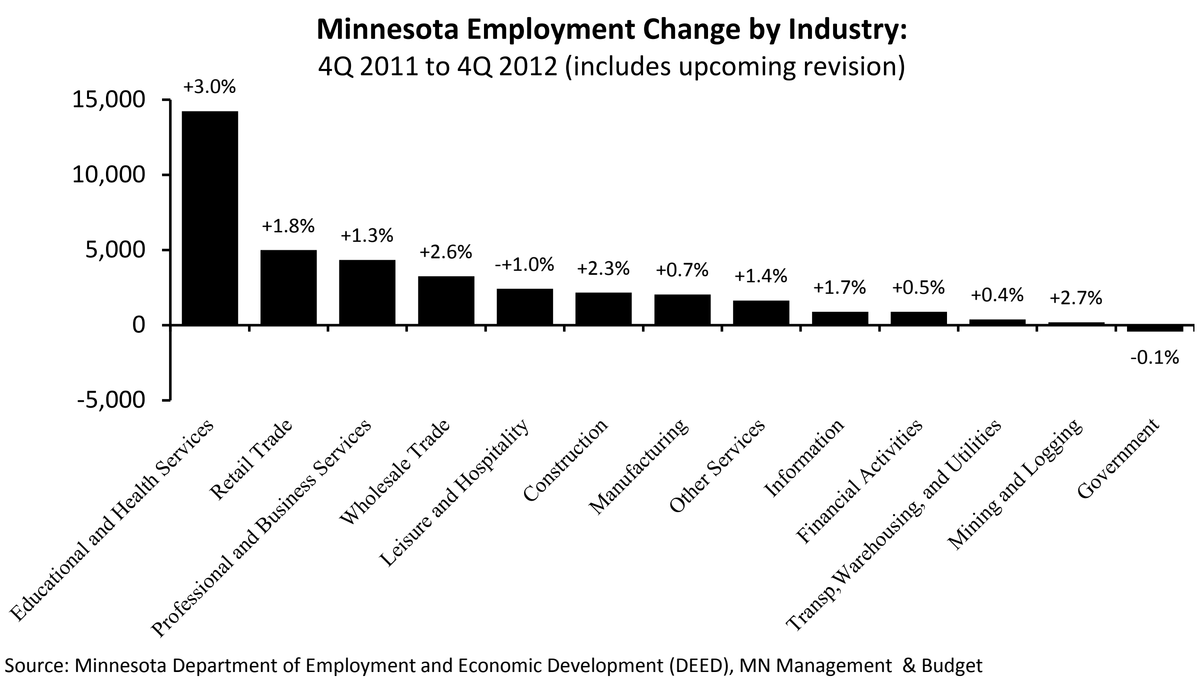
GII assumes the Fed will scale back and end its bond-buying program in mid-2014, after the unemployment rate is projected to have fallen closer to 7 percent.

The Federal Reserve and the central banks of other Western economies, including the European Union and Japan, have been facing criticism from several emerging markets, such as Brazil and India, that their unorthodox accommodative policy measures have deliberately weakened the value of their currency for economic gain, threatening to trigger a "currency war" of competitive devaluations. GII believes currency wars are only a problem if they lead to a trade war, or actual retaliatory protectionism. GII does not believe global tensions are likely to move into that second, more dangerous round. In mid-February, finance ministers and central bankers from the world's 20 leading industrial and developing countries (G20) pledged to "refrain from competitive devaluation" and "resist all forms of protectionism."

MINNESOTA ECONOMIC OUTLOOK

Minnesota's economy is improving modestly. Upcoming revisions to payroll employment estimates are expected to show employers have added more than 37,000 net new jobs in the past year. Wage and salary income was up an estimated 5.0 percent in 2012 relative to a year earlier, and the state's jobless rate has dropped by almost a half of a percentage point over the past twelve months. Leading indicators, such as temporary help employment, average hours worked, job vacancies, and the number of unemployed all strengthened during the year. First time claims for jobless benefits have fallen to levels not observed since early 2008, just before the peak of the financial crisis. And, the employment recovery remains broad based with healthcare, trade, professional and business services, and manufacturing all gaining over the past year. Government cutbacks remain a drag on employment, but even the long-suffering construction sector is beginning to grow, as pent-up demand for housing is reviving and construction firms are beginning to hire again.

Still, while Minnesota's economic conditions have improved, the state has a long way to go to recover the losses from the Great Recession. Minnesota employers have added about 115,000 jobs (counting the expected upcoming revisions) through December since employment bottomed over three years ago, or more than 76 percent of the 150,000 jobs lost during the recession. Nationally, after the annual benchmarking adjustment, about 61 percent of the jobs lost during the recession have come back.

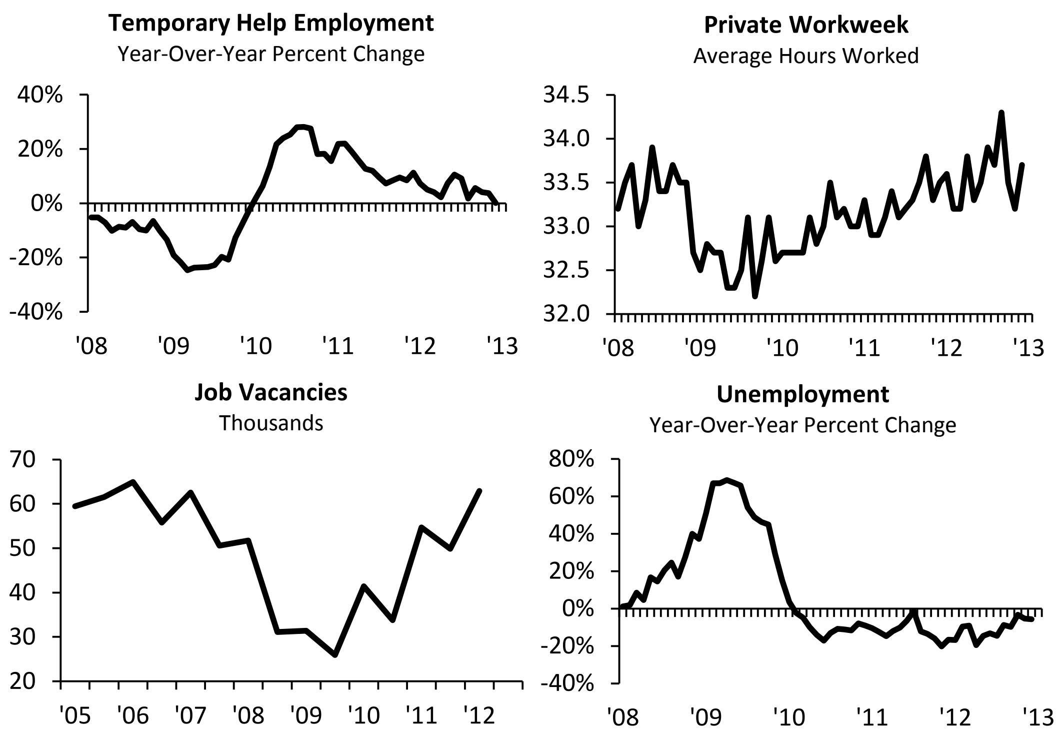


Minnesota's employment recovery remains broad based with education and health services, trade, professional and business services, and manufacturing all gaining over the past year. Government cutbacks remain a drag on employment, but even the long-suffering construction sector is beginning to grow.

Forecasts for state employment and wages have been revised based on recent Minnesota specific information and Global Insight's (GII) February 2013 baseline. The February baseline was used to drive the same Minnesota Management and Budget (MMB) model of the Minnesota economy used in November. MMB economists believe Minnesota's labor market is recovering, but the drag from federal tax hikes will weigh on growth. Employment growth (measured fourth quarter to fourth quarter) of 43,000 is expected this year, before job gains accelerate appreciably to 54,000 in 2014 and 61,000 in 2015. Minnesota payrolls are expected to return to their pre-recession peak in the last half of 2013, three months later than expected in November's forecast. And, as perceptions of growing job opportunities improve and previously discouraged workers are attracted back into the labor force, it is likely Minnesota's unemployment rate will remain in the 5.5 to 5.7 percent range (before the annual revisions) for much of 2013.

There remains a guarded degree of uncertainty surrounding fiscal policy. The fiscal cliff has been averted, but the threat of across-the-board spending cuts to defense and domestic programs known as sequestration remains. MMB economists believe the direct impact of sequester in Minnesota would be modest in 2013, but conditions could worsen if national economic growth slows.

Minnesota Leading Indicators



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

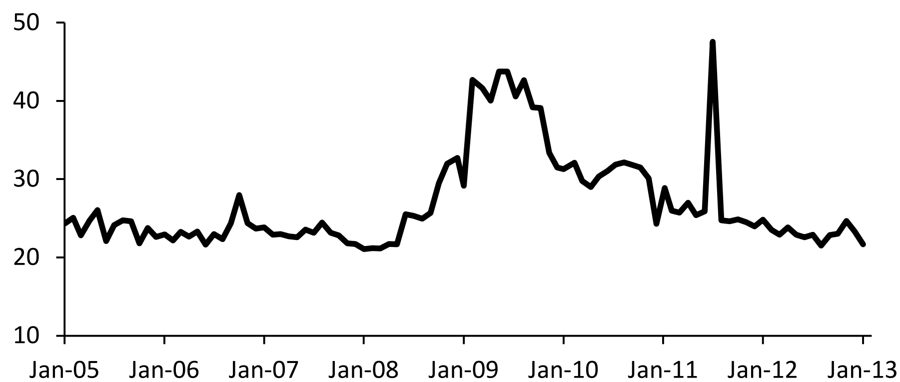
Minnesota's economy is improving modestly. Leading indicators in Minnesota, such as temporary help employment, average hours worked, job vacancies, and the number of unemployed all strengthened in 2012.

Labor Market Conditions Maintain Modest Pace

The latest news on Minnesota's labor market is encouraging. The Minnesota Department of Employment and Economic Development (DEED) reports the average workweek in the private sector increased in 2012 for the third consecutive year, returning to more normal, pre-recession levels. The percentage of temporary jobs relative to total employment in the state has risen well beyond 2 percent, a share consistent with a healthy overall job market. And, DEED reported last September that the number of job vacancies in Minnesota rose over 15 percent in the second quarter of 2012 compared to the same period a year earlier. Employers registered 62,950 openings, the most since the second quarter of 2006. That equates to 2.6 unemployed people for each vacancy, down from 3.6 a year earlier and the lowest ratio observed since the spring quarter of 2007.

The number of seasonally adjusted first time filers for unemployment insurance benefits has held below 24,000 for 11 of the past 12 months, down from a recessionary peak of nearly 44,000 during the summer of 2009 and back to levels statistically linked with better job growth. The state's seasonally adjusted unemployment rate fell to 5.5 percent in December, the lowest rate since August 2008 and still well below the 7.9 percent national jobless rate. Finally, perhaps most importantly, upcoming revisions in Minnesota's payroll survey are expected to show businesses added more than 3,000 jobs each month in 2012. 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.

Minnesota Initial Claims for Unemployment Insurance
Thousands, Seasonally Adjusted

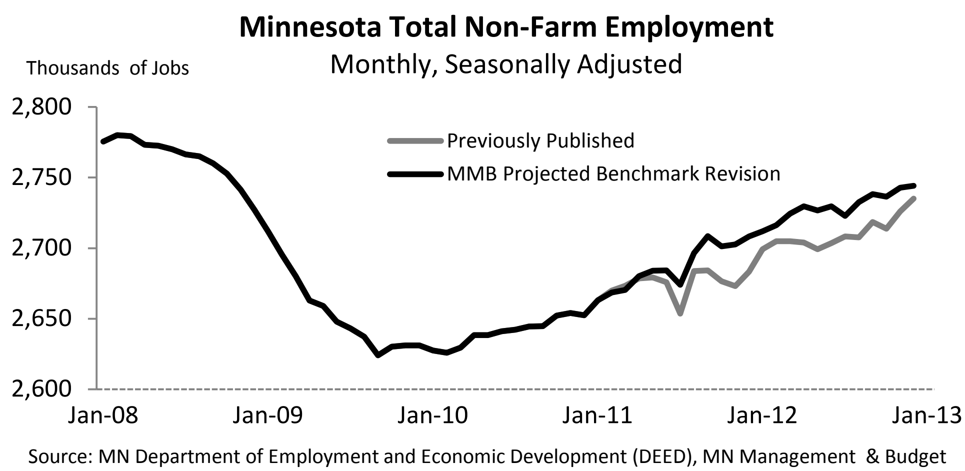


Source: Minnesota Employment and Economic Development (DEED)

The number of first time filers for unemployment insurance benefits has held below 24,000 for 11 of the past 12 months, down from a recessionary peak of nearly 44,000 during the summer of 2009.

According to DEED's employer survey, Minnesota non-farm employment payrolls grew 1.3 percent in 2012, slightly less than the U.S. Each year, however, these monthly sample-based estimates are re-aligned with state unemployment insurance (UI) tax records filed by nearly all employers. Based on UI records for first quarter 2012, MMB estimates that currently published employment data through March 2012 will be revised upward by 0.8 percent, or about 22,000 jobs, when annual benchmark revisions are released in early March. Earlier this month, the Bureau of Labor Statistics' (BLS) benchmark revision to national employment estimates similarly reported an upward adjustment to March 2012 of 422,000 jobs, or 0.3 percent. After adjusting for benchmark revisions, Minnesota employment is estimated to have grown about 0.5 percentage point faster than the U.S. on an annual basis in 2011 and at about the same rate in 2012.

MMB's February 2013 forecast assumes labor market conditions will continue to improve into 2013, albeit at about the same modest pace as 2012. The number of jobs Minnesota employers add to their payrolls is forecast to average 3,700 a month in the first part of 2013 before picking up to over 4,400 a month by early 2014, aided by gains in construction and construction-related manufacturing. When combined with modest labor force growth, that outlook should be enough to bring down the state's unemployment rate beginning in late 2014 and 2015.



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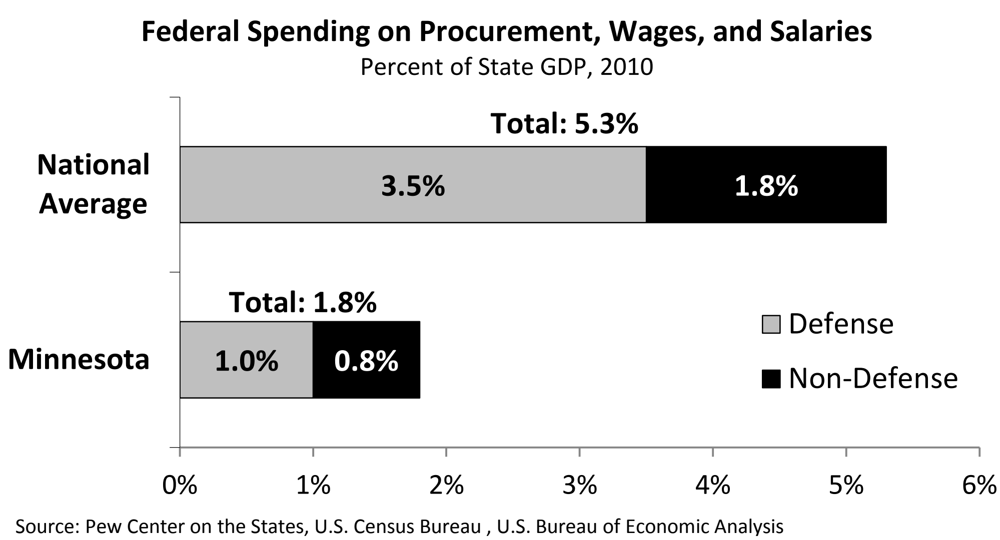
Sequestration and Minnesota's Economy

The fiscal cliff has been averted, but the deal left major federal fiscal policy questions unanswered, including the threat of across-the-board spending cuts to defense and domestic programs known as sequestration. If the scheduled budget sequestration takes full effect on March 1, it would trim federal funding authority by $85 billion in federal fiscal year 2013. Because changes in expenditures lag changes in appropriations, Congressional Budget Office (CBO) estimates that actual outlays this fiscal year would total $44 billion in spending cuts.

The harmful impact of sequestration will not be uniform across states. Its consequences will depend on the type and amount of federal spending in the state. The largest impact will occur where exposure to federal civilian employment and defense and non-defense spending is greatest, such as around the greater Washington D.C. area. Minnesota would be impacted to a lesser extent. According to analysis by the Pew Center on the States, total federal spending on procurement, wages, and salaries accounted for just 1.8 percent of state GDP in Minnesota during 2010 (Rank 49th), compared to a 5.3 percent national average. Federal defense spending that year made up just 1.0 percent of Minnesota's state GDP (Rank 48th), compared to a 3.5 percent national average and almost 15 percent in Hawaii. And, federal non-defense spending accounted for just 0.8 percent of state GDP in Minnesota (Rank 42nd) in 2010, compared to a 1.8 percent national average and 10 percent in Maryland, Virginia, and Washington D.C.

Minnesota's budget would be affected by the scheduled cuts in federal grants. According to calculations by the Federal Funds Information for States (FFIS) about 18 percent of federal grant dollars flowing to Minnesota would be subject to the across-the-board cuts, including funding for education programs. FFIS estimates that the state's share of sequestration would result in cuts of $86 million this federal fiscal year, or roughly 5.3 percent of federal nonexempt, nondefense grants to Minnesota compared with the federal fiscal year 2013 Continuing Resolution.

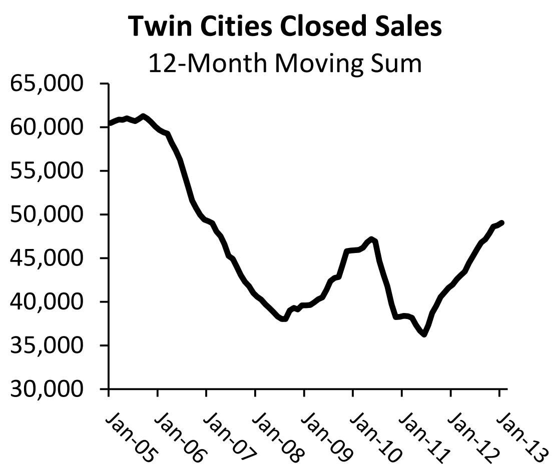
Overall, MMB economists believe that the adverse economic effects from sequestration in Minnesota would not be catastrophic. The federal spending cuts to defense and non-defense programs would reduce the level of employment by no more than 5,000 jobs by the end of the year, or just 0.2 percent. By comparison, the state lost 150,000 jobs during the Great Recession. MMB also estimates that failure to avoid sequester would push the unemployment rate up just 0.2 percentage point by the end of 2013. And, Minnesota personal income would fall $600 million (0.2 percent) below the level forecast in MMB's baseline. If sequestration continues beyond 2013, more spending will be cut in 2014 and later, and the potential impact on Minnesota's economy will grow.

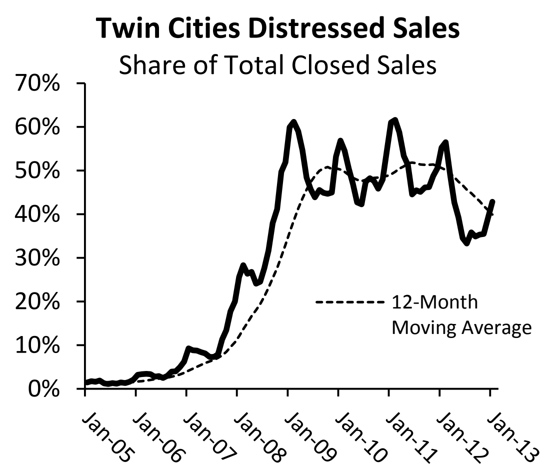


Sequestration would have the largest impact in the greater Washington D.C. area and the South, with greater exposure to federal civilian employment and defense and non-defense spending. The impact on Minnesota would be much less than the national average.

Minnesota Housing Recovery Appears Genuine

Minnesota's housing market showed widespread improvement in 2012. Increasing confidence and a pickup in household formation is beginning to release pent-up demand built up during the recession and weak recovery. New buyers are taking advantage of near record low mortgage rates and more homes are selling. In the Twin Cities area, for example, the Minneapolis Area Association of Realtors (MAAR) reports closed sales were up 17 percent in 2012 compared to year earlier. Stronger demand is rapidly absorbing excess units created during the housing boom. Inventories are at or nearing record lows, which along with a falloff in distressed sales, is fuelling more competition among buyers. In the past year, the average time a property was on the market until sale has fallen almost 25 percent, from 141 to 107 days, and sellers in the metro area have gone from receiving 90.6 percent of their asking price to 94.0 percent, the highest since 2007. While that is helping to boost selling prices and construction starts, a reduction in disposable income due to the expiration of the payroll tax could slow housing demand in the early part of the year and a slight upturn in distressed sales due to processing delays may restrict home value appreciation this spring.





Source: Minneapolis Area Assocation of Realtors (MAAR)

In the Twin Cities area, closed sales were up 17 percent in 2012 relative to the same period a year earlier. Stronger demand is rapidly absorbing excess units created during the housing boom. Inventories are at or nearing record lows, which along with a falloff in distressed sales, is fuelling more competition among buyers.

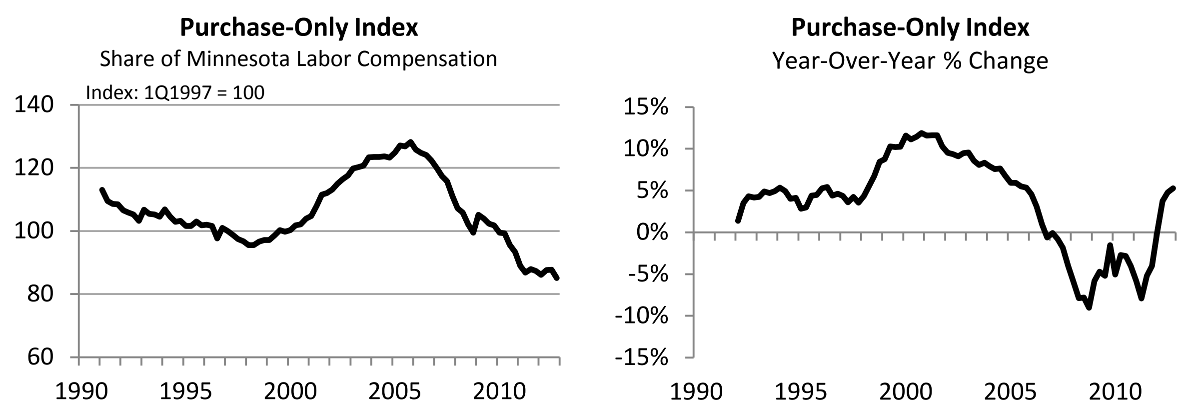
After nearly seven years of severe housing market correction, MMB economists estimate improving job growth and strengthening household formation rates will help absorb most, if not all, of the excess homes into the market by 2013. This is already playing out in data collected by MAAR, where the inventory of homes available for sale in the metro area was down more than 32 percent in January compared to a year earlier. The last time inventories were this low was exactly ten years ago, January 2003.

Falling inventories are one reason selling prices improved in 2012. According to the Federal Housing Finance Agency (FHFA) purchase-only index for conventional, conforming mortgages, Minnesota home values rose 5.3 percent in the fourth quarter from a year earlier, the first signs of over-the year gain since the housing market began to deteriorate in mid-2006. Likewise, the S&P/Case-Shiller Home Price Index (HPI) reports that nominal home prices in the Minneapolis/St Paul area were up 12.2 percent last December from a year before, the biggest gain since December 2001.

The share of distressed sales, where properties sell at a large price discount relative to traditional listings, is also falling. About 40 percent of the closed sales in the metro area last year were foreclosures and short sales. Although still high, that rate is the lowest level in five years and down from 50 percent in 2011.The median price of a foreclosure property in the Twin Cities, according to MAAR, was $118,000 in 2012, significantly less than the $209,000 median price for a traditional listing.

Improvements in distressed markets come despite predictions by many housing experts last year that the share of distressed sales could rise further. This is because the volume of recent home foreclosures had been temporarily snarled by slow processing and lengthy lawsuits, due to the nationwide “robo-signing” scandal. The disclosure prompted regulatory and legal action against the mortgage-lending industry, including a yearlong joint investigation by state attorneys general from all 50 states and the federal government into alleged fraudulent misconduct. In February 2012, the coalition finalized a negotiated settlement with five large financial institutions and a private national mortgage registry to reduce balances on mortgages. With a final agreement wrapped up, many still expect the number of distressed properties entering the market to ramp up. But filings and inventories in Minnesota have continued to decline, a sign the state has likely worked through much of its foreclosure problems.

Federal Housing Finance Agency (FHFA)
Minnesota Home Price Index



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A Revised Forecast

Forecasts for employment and wages have been revised based on recent Minnesota-specific information and GII's February 2013 baseline. The baseline was used to drive the same MMB model of the Minnesota economy used in November. That model, however, has been updated to incorporate preliminary information on revisions to Minnesota's non-farm payroll employment provided by the Minnesota Department of Employment and Economic Development (DEED).

The February 2013 forecast for Minnesota's economy shows the state's employment recovery will remain modest. Minnesota employment rose 1.6 percent in 2012, following a 1.7 percent increase in 2011. Employment growth in the state is forecast to slow to 1.4 percent in 2013, before accelerating to 1.8 percent in 2014 and 2.1 percent in 2015. MMB economists estimate employment in the state will regain the 2.770 million high reached before the recession in late 2013, three months later than expected in November's forecast.

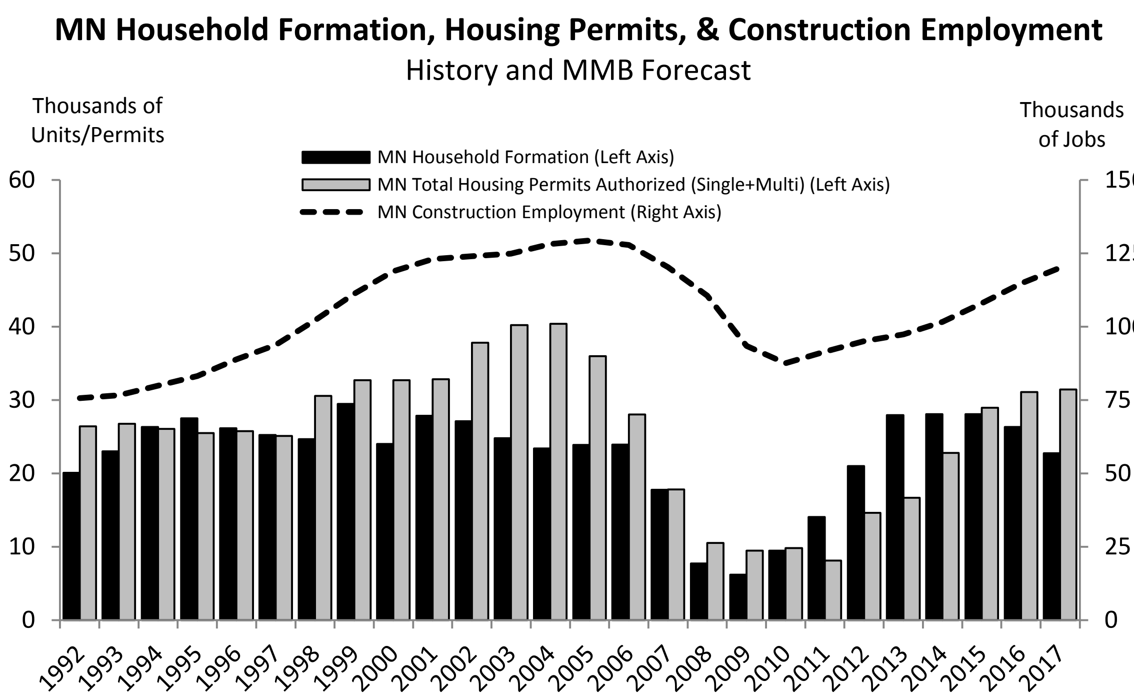
Minnesota Outlook Compared to the U.S.

(Calendar Year Percent Change)

	2011	2012	2013	2014	2015	2016
Non-Farm Employment						
Minnesota						
February 2013	1.7	1.6	1.4	1.8	2.1	2.0
November 2012	1.7	1.7	1.7	1.9	2.1	2.0
United States						
February 2013	1.2	1.7	1.5	1.7	2.0	1.9
November 2012	1.2	1.4	1.5	1.7	2.0	1.8
Wage and Salary Income						
Minnesota						
February 2013	3.9	5.0	2.2	5.5	4.9	4.7
November 2012	3.9	4.6	3.3	4.6	4.9	4.6
United States						
February 2013	4.0	3.2	3.5	4.6	4.7	4.6
November 2012	4.0	3.6	3.9	4.5	4.8	4.5
Personal Income						
Minnesota						
February 2013	5.5	4.8	1.7	5.2	5.0	4.9
November 2012	5.5	4.3	3.3	4.5	5.0	4.9
United States						
February 2013	5.1	3.5	2.6	5.2	5.0	4.9
November 2012	5.1	3.5	3.9	4.9	4.9	4.9

The total number of authorized residential building permits in Minnesota is finally showing signs of recovery. Only 8,300 building permits were authorized for new home construction in the state during 2011, a record low. In 2012, however, the number of authorized permits improved by 80 percent, to a five year high 15,000. As demand for new home construction improves in 2013, permits are expected to continue strengthening. MMB forecasts permits to grow by another 13 percent in 2013, to 17,000, and then rise 34 percent in 2014, to 23,000. By 2015, permits are expected to near 30,000, a level consistent with normal underlying demand.

The employment rebound in construction will lag recovery in building permits by between 6 and 9 months, thus a "catch up" period is assumed in the forecast. In the February 2013 forecast, the construction industry is forecast to add about 3,100 jobs in 2013 measured fourth quarter to fourth quarter, before growth accelerates to 5,400 in 2014 and 7,100 in 2015. If the housing recovery stalls in early 2013 or household formation rates slow during the year as a result of weaker labor market conditions Minnesota's economy is unlikely to perform as forecast.



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

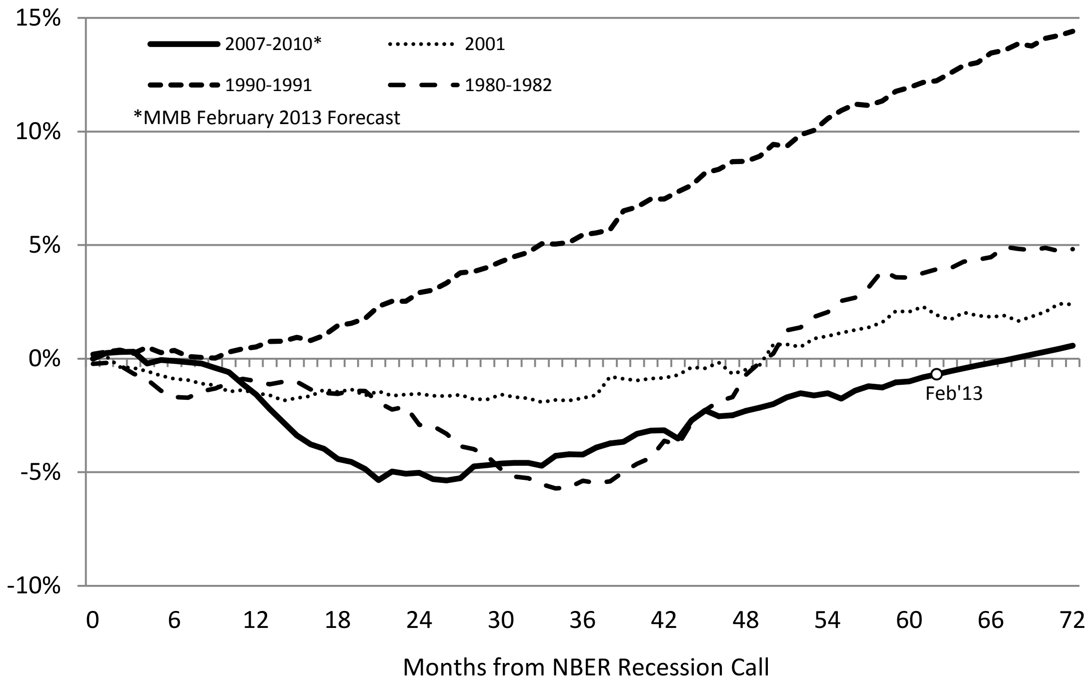
MMB economists estimate improving job growth and strengthening household formation rates will help absorb most, if not all, of the excesses into the market by 2013. These are principal assumptions behind the February 2013 outlook for residential building permits and construction employment.

Preliminary labor market data and income tax withholding collections suggests nominal wage income grew 5.0 percent in 2012, boosted by an accelerated payout of bonuses and exercising of options at the end of the year ahead of anticipated 2013 tax increases. Payback for that accelerated income is forecast to slow wage growth to just 2.2 percent in 2013. Growth accelerates to 5.5 percent in 2014, followed by 4.9 percent in 2015.

The forecast assumes that GII's February 2013 baseline materializes. Any unanticipated adverse developments in the U.S. economy, however, such as political gridlock in Washington or weaker global growth than GII assumes, will have unfavorable effects on the Minnesota economy.

Length and Depth of Minnesota Job Losses Relative to Past Recessions

Indexed Employment Change Since Month Preceding NBER Recession Call

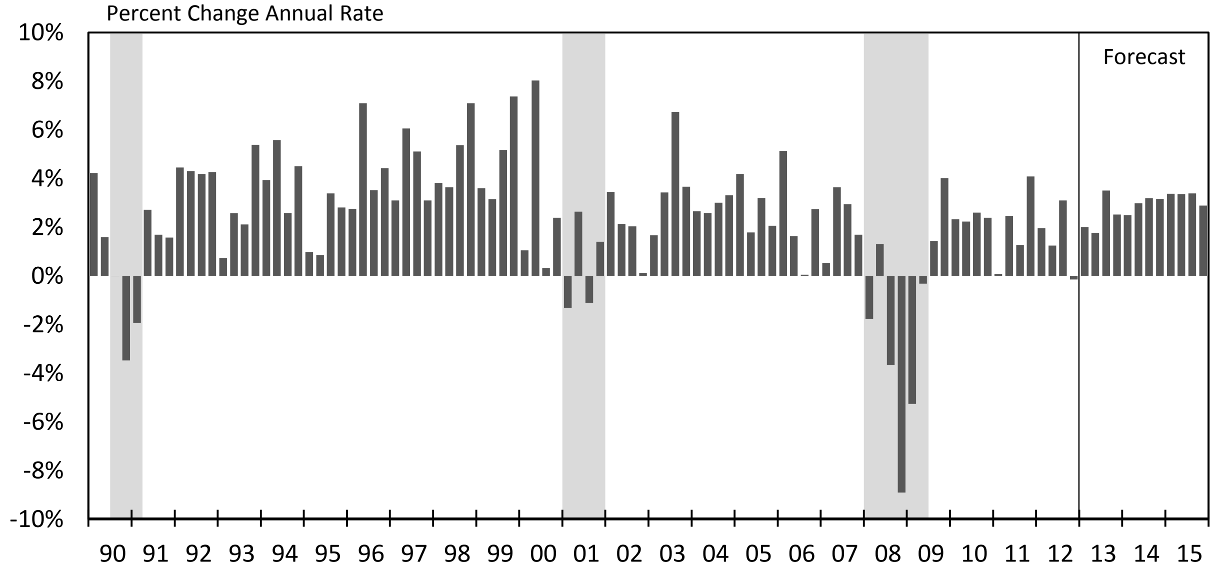


Source: MN Department of Employment and Economic Development (DEED), MN Management & Budget (MMB)

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 the second half of 2013 before Minnesota employment regains the 2.770 million peak reached before the recession began in late 2007.

SELECT ECONOMIC INDICATORS

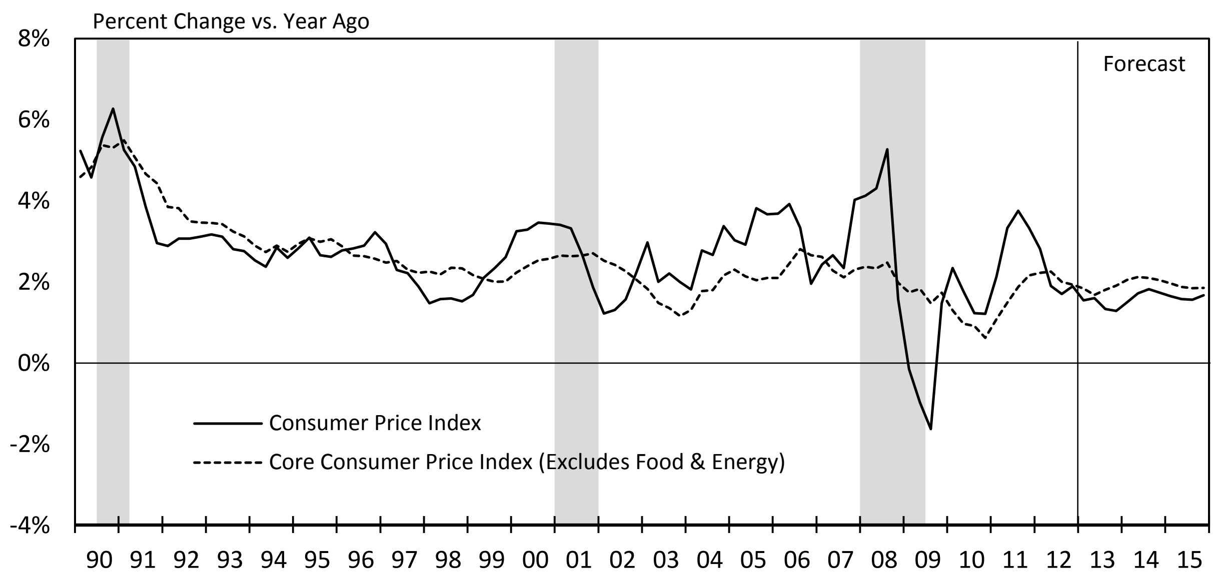
Real Gross Domestic Product



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

The economy's fundamentals are improving, particularly in housing and vehicle sales, but federal fiscal policy threats remain. GII expects U.S. real GDP growth to rebound to 2.0 percent in the first quarter of 2013 after the 0.1 percent drop in the fourth quarter of 2012.

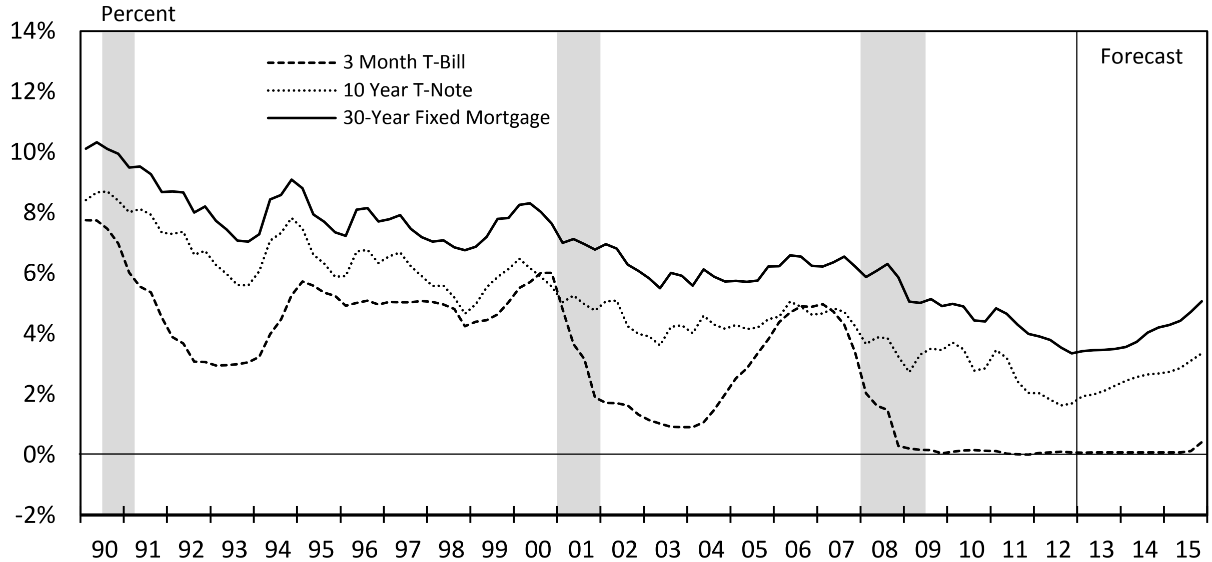
Consumer Price Indexes



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

Inflation remains a non-issue. Consumers will grumble about food prices rather than gasoline prices much of this year, but sluggish demand growth and lower oil prices are forecast to pull headline CPI inflation down to 1.4 percent in 2013, from 2.1 percent growth in 2012.

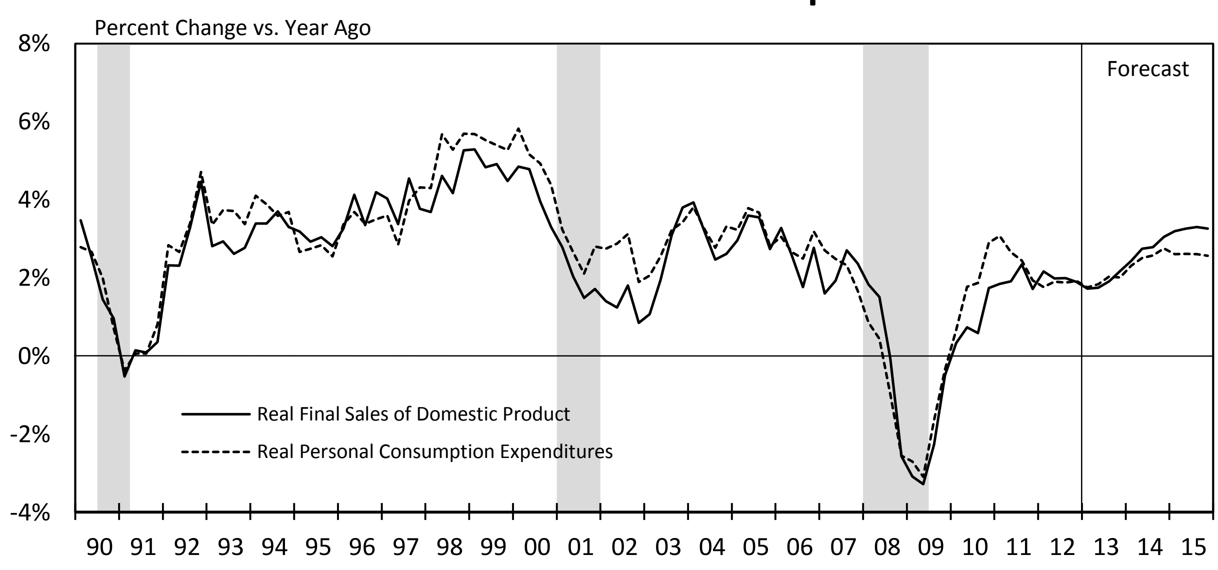
Interest Rates



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

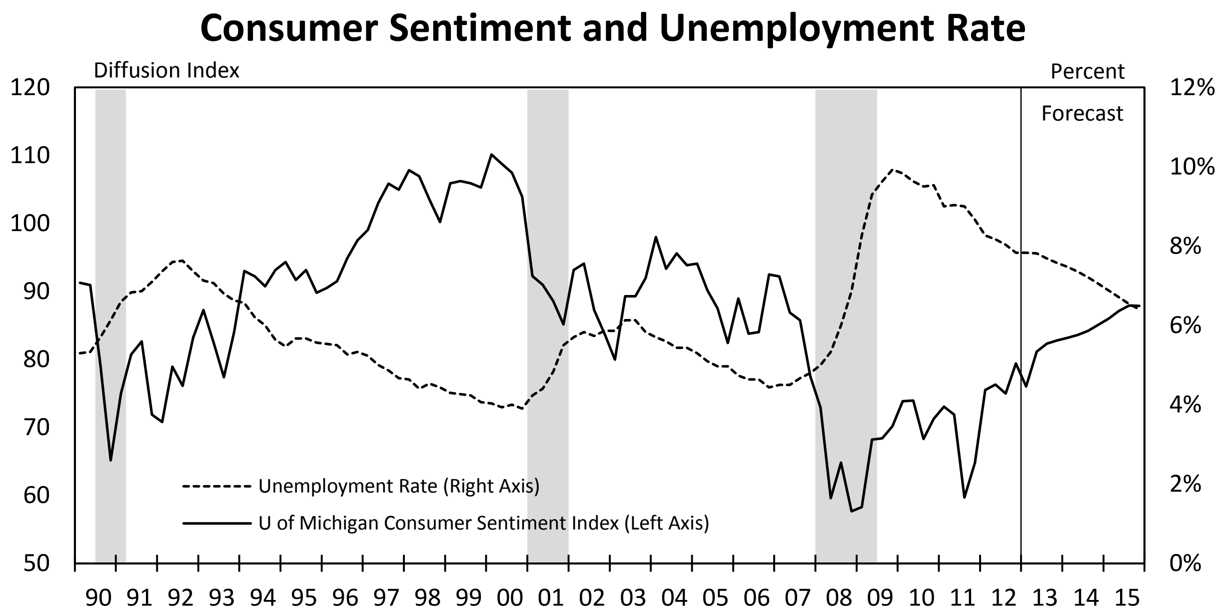
In December, the Federal Reserve moved to replace the expiring Operation Twist with an expansion of its quantitative easing (QE) program and said it will continue buying bonds until there is a "substantial improvement" in the job market.

Real Final Sales & Consumption



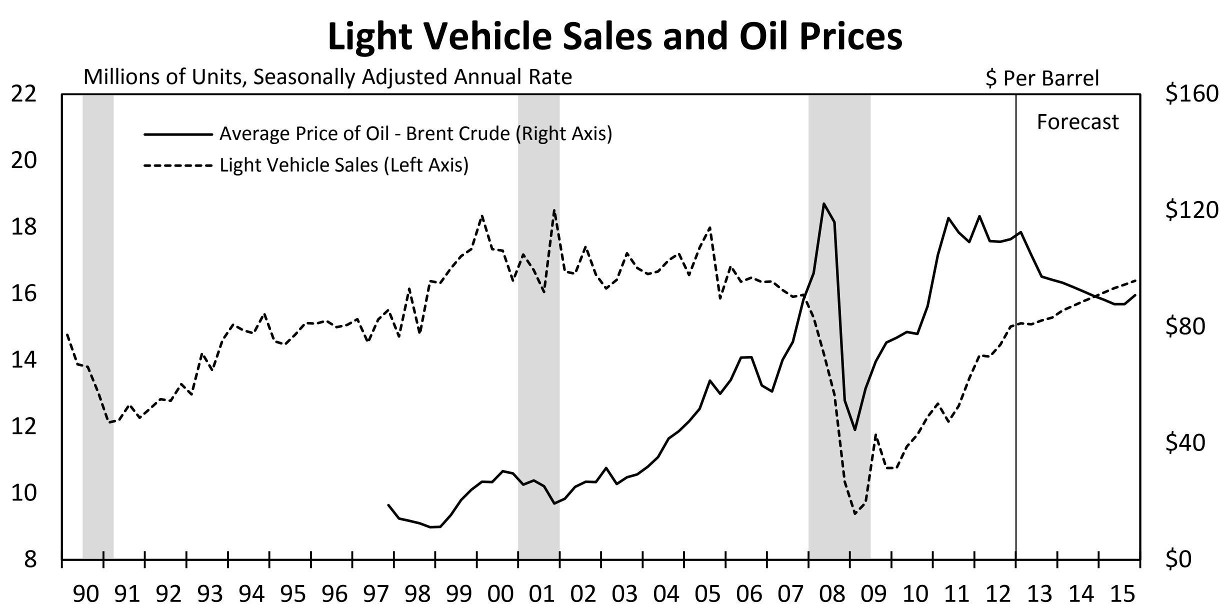
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

Households escaped the most extreme risks from the fiscal cliff, but still face too many negatives to allow a robust consumer spending recovery. GII expects real consumer spending growth of 1.9 percent in 2013, down from 2.0 percent in 2012, but faster spending growth of 2.8 percent in 2014.



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

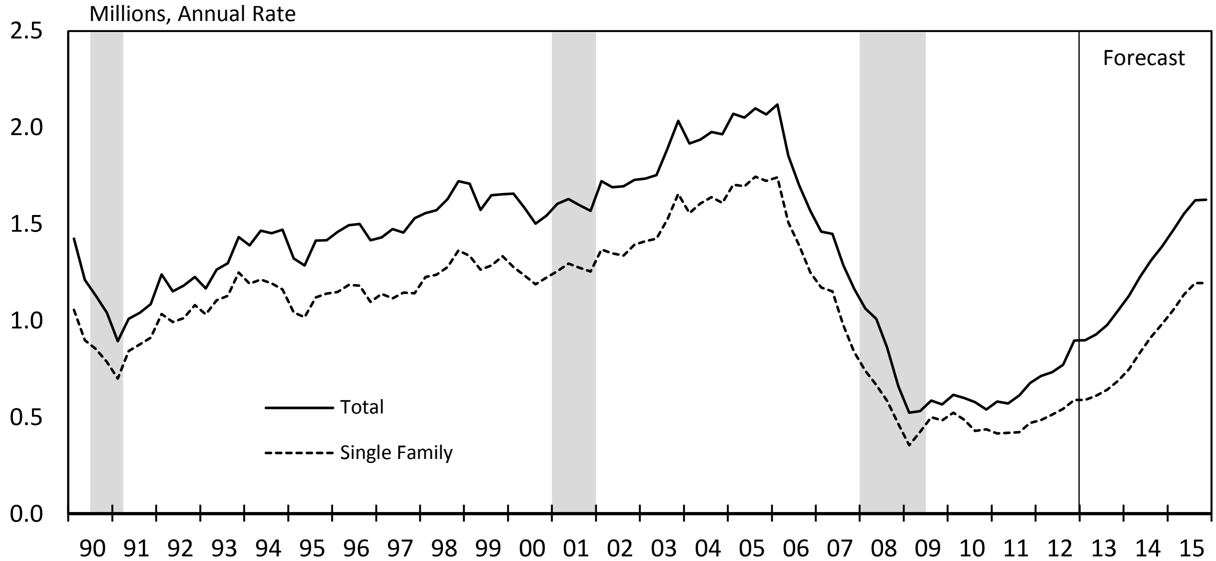
Consumer confidence has dipped since late November in the wake of fiscal-cliff fears and expiration of the payroll tax cut, but sentiment is starting to stabilize. Consumers are now watching to see if federal lawmakers can avert across-the-board spending cuts set to begin March 1.



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

Recent tensions in the Middle East continue to support higher oil prices, but the average price of Brent crude has stabilized. As Europe's recession weighs on demand and global supplies increase, GII expects prices to ultimately drift lower through 2015.

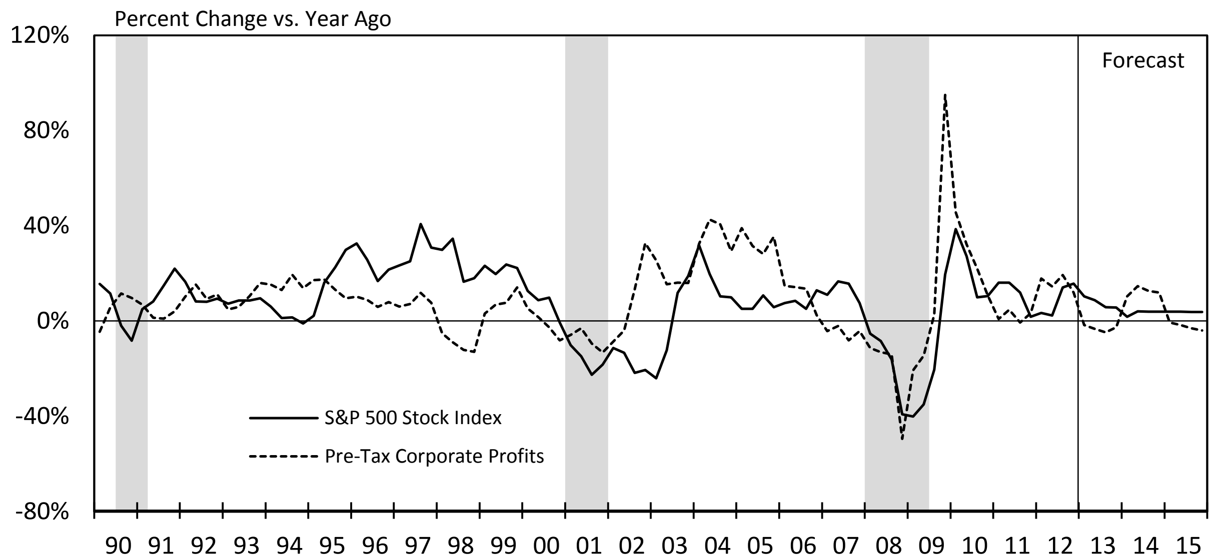
Housing Starts



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

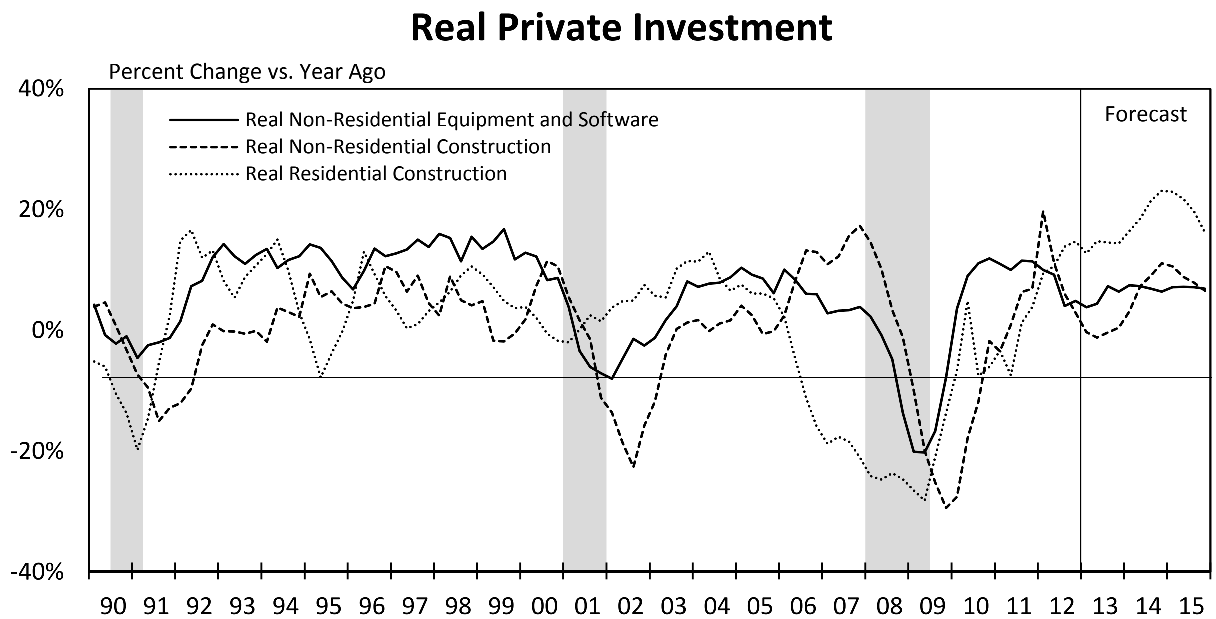
The housing recovery finally seems to be under way. Inventories of unsold homes are falling quickly, home prices are rising, and housing starts are trending upward. GII expects a the housing recovery to continue over the next three years.

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



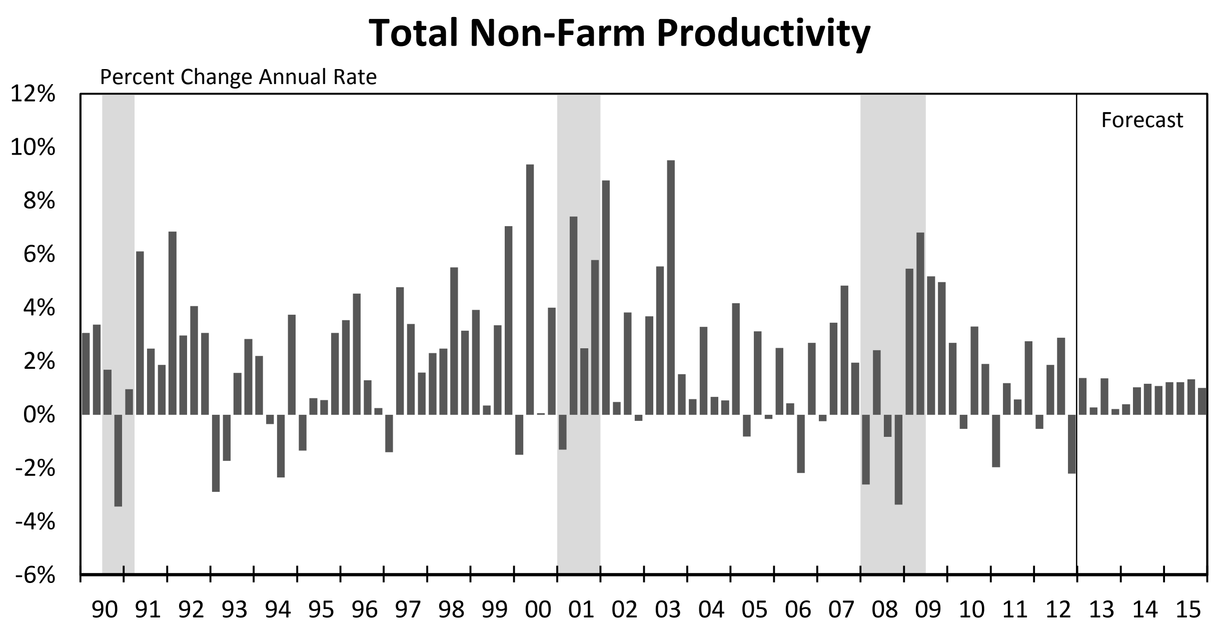
Source: Standard and Poor's, National Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

Concerns about global growth, weak demand, and federal fiscal policy have left many firms unwilling to extend themselves financially. Tighter cost controls have driven productivity higher and have helped businesses maintain increases in profitability.



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

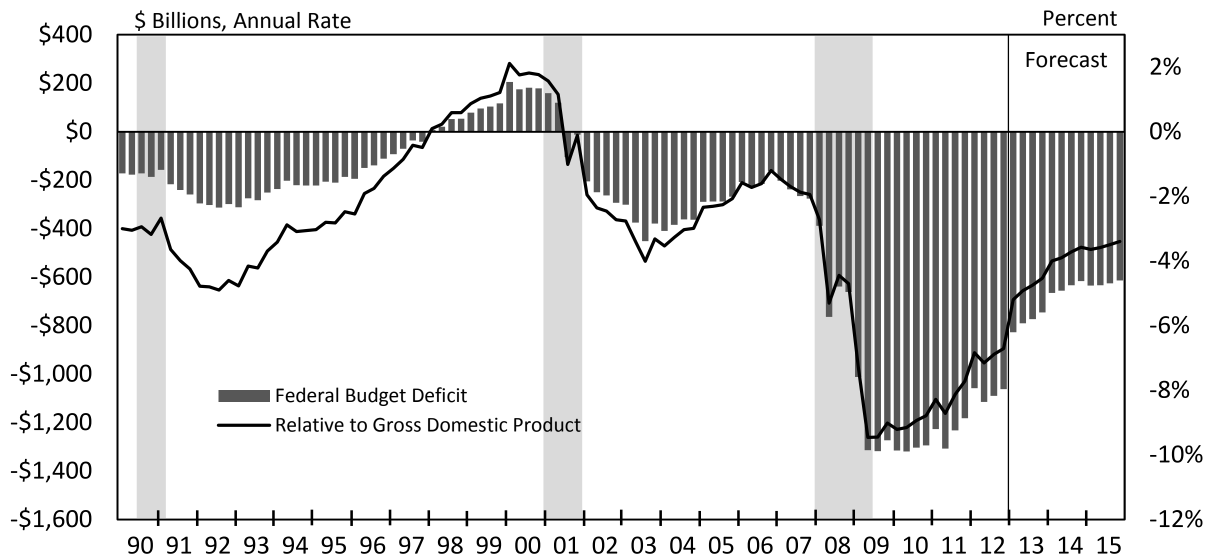
Capital equipment and software investment remains an important driver of economic growth, but its momentum has slowed. GII expects business equipment and software spending growth to ease to 5.5 percent in 2013, from 6.9 percent in 2012 and 11.0 percent in 2011.



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

Nonfarm business productivity advanced a modest 1.1 percent in 2012, as output growth once again outpaced hiring. But productivity growth should be muted this year as the labor market gains momentum. GII expects productivity to grow 0.6 percent in 2013.

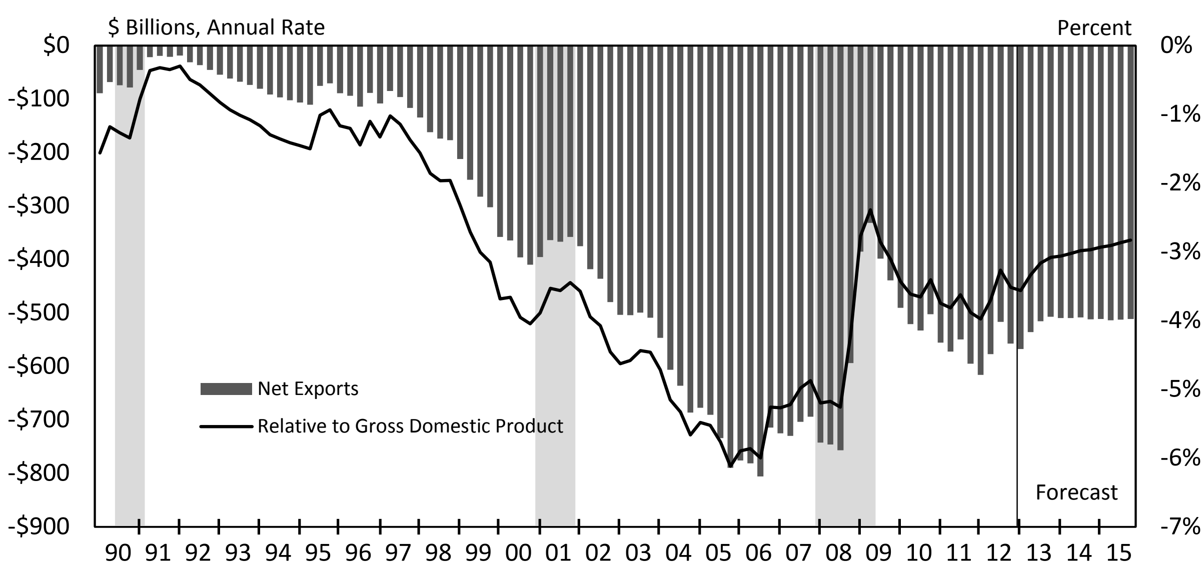
Federal Budget Deficit (NIPA Basis)



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

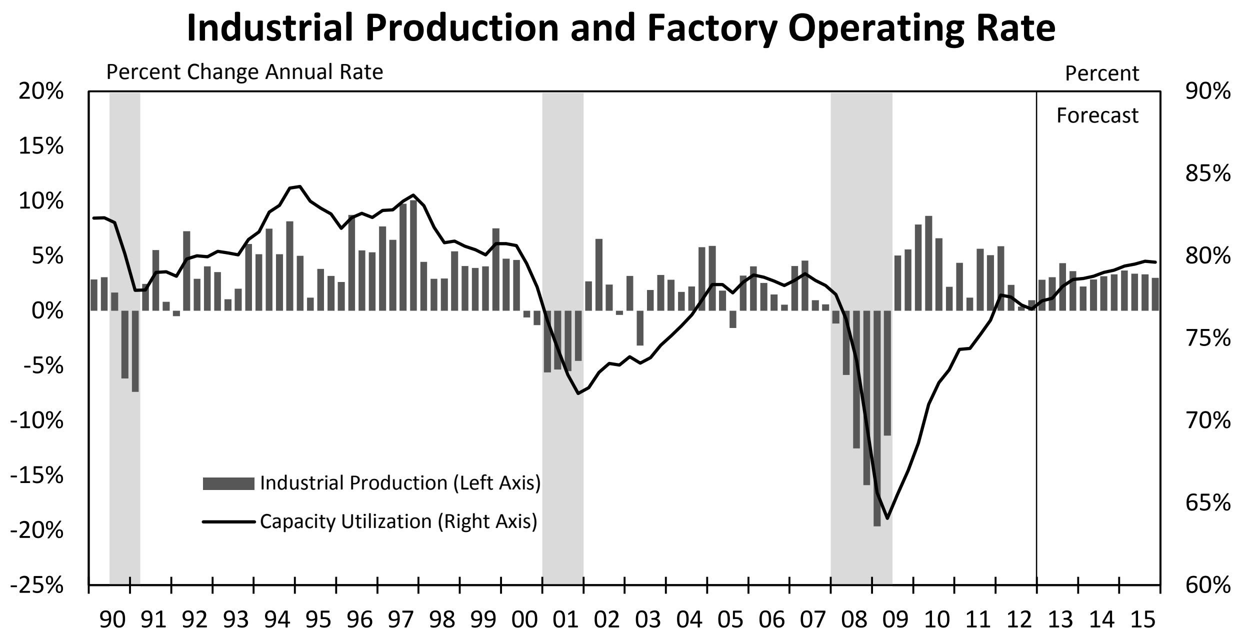
The federal budget deficit in fiscal 2012 narrowed to $1.1 trillion (7.0 percent of GDP), from about $1.3 trillion (8.7 percent of GDP) in fiscal 2011. As fiscal policy tightens, GII expects the budget deficit to decline further to $864 billion (5.4 percent of GDP) in fiscal 2013.

Balance of Trade (Net Exports)



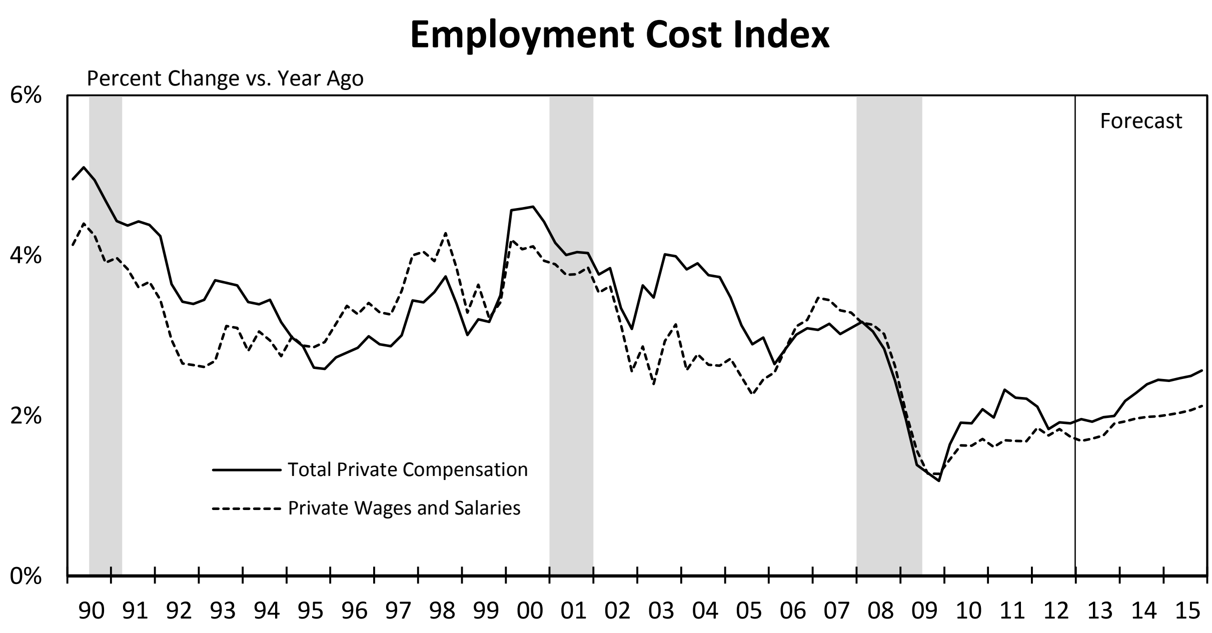
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and Global Insight

Slower growth around the world has created headwinds for U.S. export growth. GII expects only modest export growth in 2013, at 2.4 percent, down slightly from 3.2 percent in 2012. The overall trade deficit, however, should narrow in 2013 due to a smaller bill for imported oil.



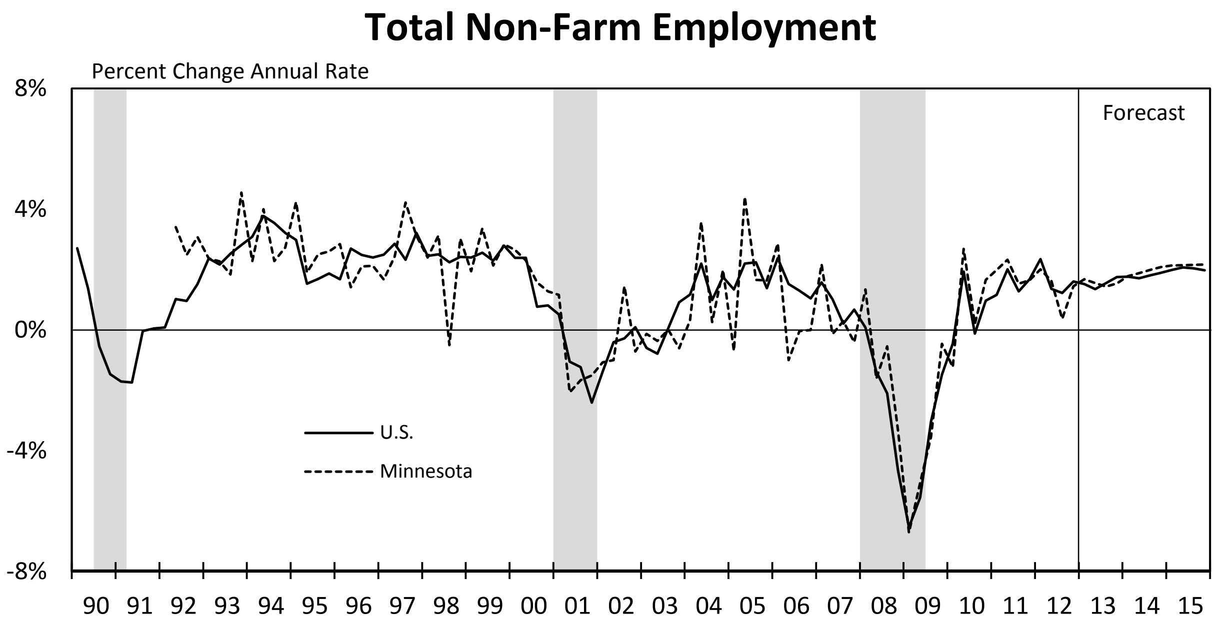
Source: Federal Reserve Board, National Bureau of Economic Research, and Global Insight

Industrial production slowed throughout much of 2012 as manufacturers contended with cooling global demand. This year GII expects industrial production to expand by only 2.4 percent, down from 3.7 percent in 2012.



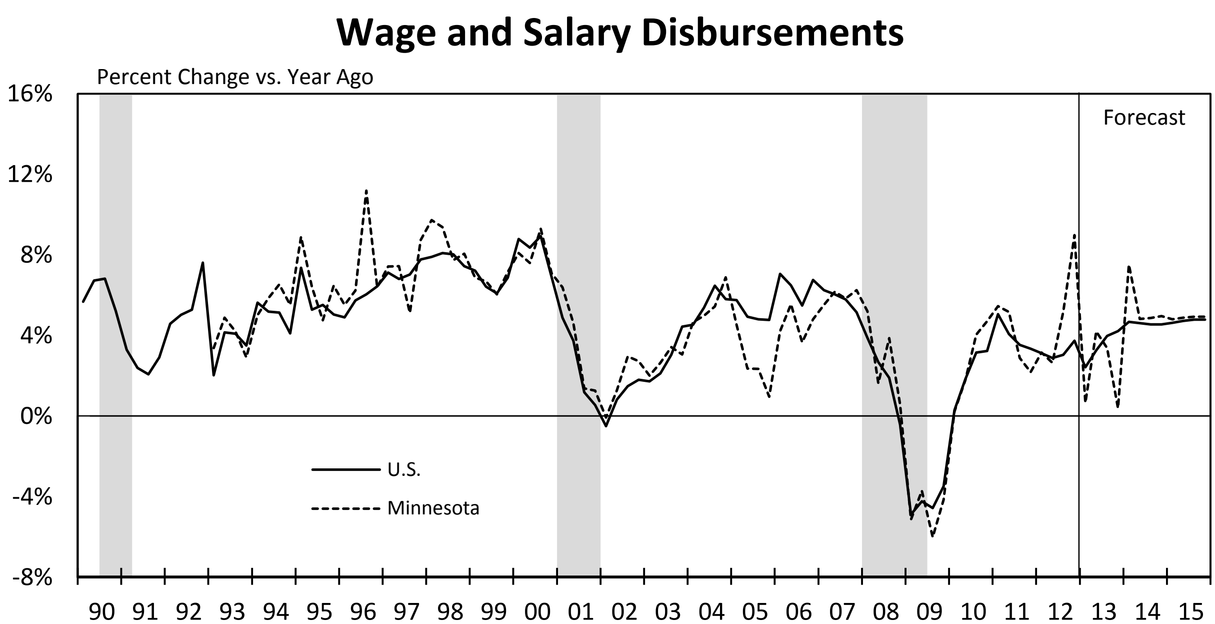
Source: Bureau of Labor Statistics, National Bureau of Economic Research, and Global Insight

Wage inflation is still not a concern. The employment cost index (ECI) continued to show very modest compensation inflation in 2012. And, GII expects employment costs to remain very much under control in 2013, as high unemployment and weak demand keep a tight grip on payrolls.



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

The February 2013 forecast for Minnesota's economy expects job growth to remain modest. After increasing 1.7 percent in 2011 and 1.6 percent in 2012, Minnesota's employment growth is forecast to ease to 1.4 percent in 2013, before accelerating to 1.8 percent in 2014.



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

Preliminary labor market data and income tax withholding collections suggests Minnesota's nominal wage and salary income surged during the fourth quarter of 2012, boosted by a sharp acceleration of bonus payments and other irregular pay in anticipation of changes to individual income tax rates in 2013.

REVENUE OUTLOOK

REVENUE ESTIMATES
FY 2012-13

Current general fund resources for the 2012-13 biennium are now forecast to total $35.161 billion, $217 million (0.6 percent), more than was forecast in November after adjusting for bills approved by the 2013 legislature through February 22, 2013. The forecast for the four major taxes increased by 0.7 percent. Total current resources are now forecast to be 13.8 percent more than in the 2010-11 biennium after adjusting for completion of the phased transfer of motor vehicle sales tax receipts from the general fund to funds dedicated to transportation.

Revenues Estimates FY 2012-13

($ in millions)

	FY 2010-11	FY 2012	FY 2013	FY 2012-13
Individual Income	$14,060	$7,973	$8,649	$16,621
Sales	8,581	4,678	4,817	9,495
Corporate	1,588	1,044	1,165	2,209
Motor Vehicle Sales	105	0	0	0
Statewide Levy	1,534	799	817	1,616
Five Major Taxes	25,868	14,494	15,447	29,941
Other Revenue	3,629	1,765	1,844	3,609
Tobacco	338	167	165	332
Net Non-dedicated	29,834	16,426	17,456	33,882
Other Resources	969	660	618	1,279
Current Resources	**$30,803**	**$17,086**	**$18,075**	**$35,161**

Percentage changes in the four major taxes were small. Projected individual income tax receipts are $128 million (0.8 percent) above previous estimates after adjusting for legislative action. Sales tax receipts are forecast to fall short of November's projections by $19 million or 0.2 percent. Corporate tax receipts showed the largest percentage increase of the four major taxes. They are now anticipated to exceed earlier estimates by $85 million or 4.0 percent. The forecast for the statewide property tax levy was unchanged at $1.616 billion.

Changes in Economic Assumptions

Global Insight's February baseline forecast is almost unchanged from November. November's baseline anticipated real GDP growth of 1.85 percent in fiscal 2013; February's baseline calls for 1.84 percent growth. The impact of a weaker than anticipated fourth quarter 2012 was offset by an upward revision to third quarter GDP and an improvement in the outlook for growth in the first quarter of 2013. Global Insight assumes that the sequester begins as scheduled, but that it is soon replaced by a "broader long-term package of spending cuts and revenue increases" which do not begin until 2014. Inflation is still expected to remain under control with the CPI now expected to increase at annual rate of 1.7 percent during the current fiscal year, in November CPI growth of 1.5 percent was anticipated.

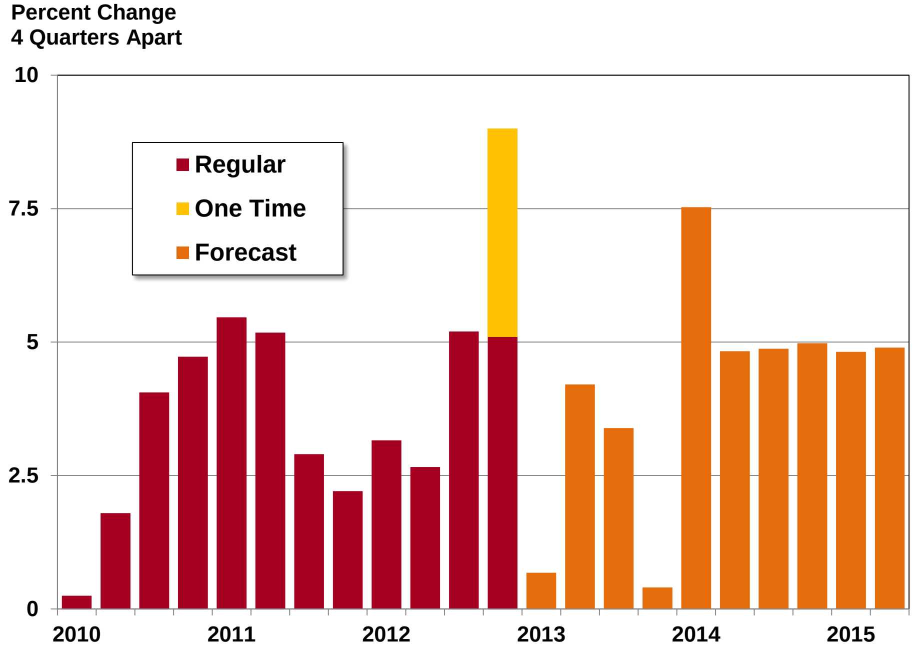
Global Insight's baseline forecasts for U.S. employment and wages remain close to previous estimates. For fiscal 2013 U.S. wages are expected to grow by 3.1 percent and payroll employment by 1.5 percent. Minnesota employment is forecast by MMB to grow at a 1.3 percent rate, slightly slower than the U.S. total. Minnesota wages, however, are now projected to grow at a 4.7 percent annual rate, up from the 4.1 percent rate forecast in November.

Income Tax

Individual income tax receipts for the 2012-13 biennium are now forecast to total $16.621 billion, $128 million (0.8 percent), more than projected in November after adjusting for actions taken by the 2013 legislature. The conformity provisions approved in Chapter 3 Laws of 2013 reduced expected individual income tax receipts by $16 million in fiscal 2013. An off-model adjustment was used to reflect that change.

Net income tax receipts for November through January were $190 million more than forecast. About two thirds of that variance came from significantly larger than anticipated fourth quarter estimated payments for tax year 2012; the remainder, from higher withholding tax receipts. Much of the individual income tax variance is thought to be due to high income individuals accelerating income into tax year 2012 to avoid the higher federal tax rates in place for 2013. Preliminary MMB estimates indicate that fourth quarter 2012 wages in Minnesota were 9.0 percent above levels observed a year earlier, the strongest growth rate observed since the third quarter of 2000. MMB estimates that 3.9 percentage points of that wage gain was due to the acceleration of wages, bonuses, and options into 2012. About three-quarters of the additional wage income found in the fourth quarter of 2012 was assumed to have come from the first quarter of 2013; the remainder came in equal amounts from quarters two through four. Higher income individuals are also believed to have accelerated material amounts of capital gains, dividends, and proprietors and partnership and S-Corp income. Capital gains realizations are now assumed to have increased by 83 percent. In November 58 percent growth was assumed.

Minnesota Wages Up Estimated 9 Percent in 2013 Q4, One-Time Items Likely Source



When the income growth factors used in the income tax micro-simulation were recalibrated to conform to preliminary data from the 2011 sample of Minnesota income tax returns some significant changes were necessary. The largest was a reduction in the capital gains growth rate. In November, tax year 2011 capital gains were thought to have grown by 20 percent. The 2011 sample showed realizations actually declined by 5 percent. The sample also showed more proprietors' income, rental income, farm income, and partnership and S-corp income than in November. The reduction in capital gains left resident realizations for 2012 more than $900 million below the level forecast in November, even though the growth rate for 2012 had been increased to 83 percent.

Several technical adjustments also had material impacts on the forecast. Actual final liability for 2011 was $19 million less than estimated in November and the assumed rate of filer growth for tax year 2012 was reduced. Changes in items not part of "current year" M1 return tax liability added $18 million compared to the November forecast. These items include excess withholding, excess estimated tax payments, payments on accounts receivables, payments and refunds related to amended returns, payments and refunds of fiduciaries, payments and refunds of non-resident partners and non-resident S-corp shareholders. An off-model adjustment was made to incorporate a revised estimate of the impact of bonus depreciation and expanded section 179 expensing on business income. That adjustment, worth $55 million in tax year 2013, was thought necessary to correct for the difference between Global Insight's projected growth rate for the national income accounts definition of business income (which uses economic depreciation) and the growth rate for taxable business income which would be affected by special tax treatment of business equipment purchases.

Sales Tax

Net sales tax collections for the 2012-13 biennium are now expected to fall back slightly to $9.495 billion, $19 million (0.2 percent) less than projected in November. Much of that change is due to an increase in expected sales tax refunds. The sales tax refund forecast increased by $16 million. Projected gross sales tax receipts fell by $3 million (less than 0.1 percent). Minnesota's sales tax base grows at the same rate in fiscal 2013 as projected in November. But, year-to-date receipts are slightly below November's estimate.

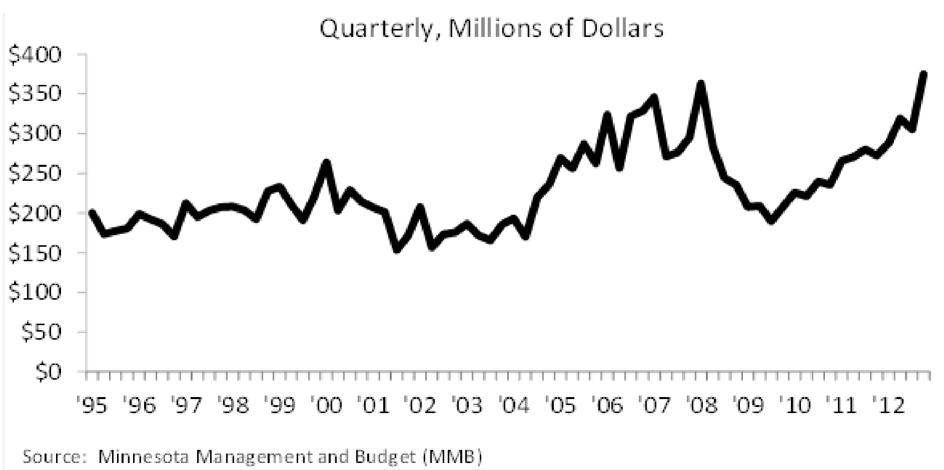
Through January gross sales tax receipts were $9 million below forecast and sales tax refunds $14 million above forecast. Those variances were incorporated into this forecast. No changes were made to the receipts elasticity. It remains at 0.95 through 2017. The growth rate for e-commerce and catalog sales was held at 12.6 percent for 2013.

Corporate Franchise Tax

Corporate tax revenues for the 2012-13 biennium are forecast to total $2.209 billion, $85 million (4.0 percent) more than forecast in November after adjusting for action by the 2013 legislature. The forecast for the current biennium is now $621 million (39.1 percent) above net corporate tax receipts in the 2010-11 biennium.

Corporations paid Minnesota $85 million more than forecast in estimated tax payments in the November through January time period and net corporate receipts were $74 million above forecast over that same three month period. Those positive variances were incorporated into this forecast as was the $11 million variance in corporate tax refunds since November. There was no material change in Global Insight's corporate profits forecast.

Minnesota Gross Corporate Tax Receipts



Other Revenues

Other tax and non-tax revenues, including transfers and prior year adjustments are expected to total $5.557 billion, $24 million more than November's estimates. The estate tax, the mortgage and deed taxes, and alcoholic beverage taxes all showed modest increases. Expected receipts from lawful gambling taxes were reduced by $15 million. The number of sites offering electronic pull tabs has not increased as rapidly as projected and net revenue per site is well below prior forecasts.

REVENUE FORECAST
FY 2014-15

Total current resources available to Minnesota's general fund in the 2014-15 biennium are now forecast to total $36.116 billion, $323 million (0.9 percent) more than projected in November. General fund current resources are now expected to exceed their 2012-13 levels by $955 million or 2.7 percent. Net non-dedicated revenues are forecast to total $35.433 billion, $265 million (0.8 percent) more than November's forecast and $1.550 billion more than is expected to be received in the 2012-13 biennium.

Revenues Estimates FY 2014-15

($ in millions)

	FY 2012-13	FY 2014	FY 2015	FY 2014-15
Individual Income	$16,621	$8,595	$9,138	$17,733
Sales	9,495	4,962	5,113	10,075
Corporate	2,209	1,043	958	2,001
Statewide Levy	1,616	835	851	1,685
Four Major Taxes	29,941	15,434	16,060	31,494
Other Revenue	3,609	1,779	1,834	3,613
Tobacco	332	163	162	325
Net Non-dedicated	33,882	17,376	18,056	35,433
Other Resources	1,279	332	352	683
Current Resources	**$35,161**	**$17,078**	**$18,408**	**$36,116**

The individual income tax showed the largest dollar increase in the biennium, up $296 million (1.7 percent) from November's estimate. The corporate income tax forecast was increased by 2.4 percent or $47 million. The sales tax forecast was $48 million (0.5 percent) below November's estimate. All other non- dedicated revenues were $31 million less than previously forecast, while transfers grew by $58 million (10.1 percent) from earlier estimates. Total current resources grow by $955 million (2.7 percent) from the level currently forecast for the 2012-13 biennium.

Changes in Economic Assumptions

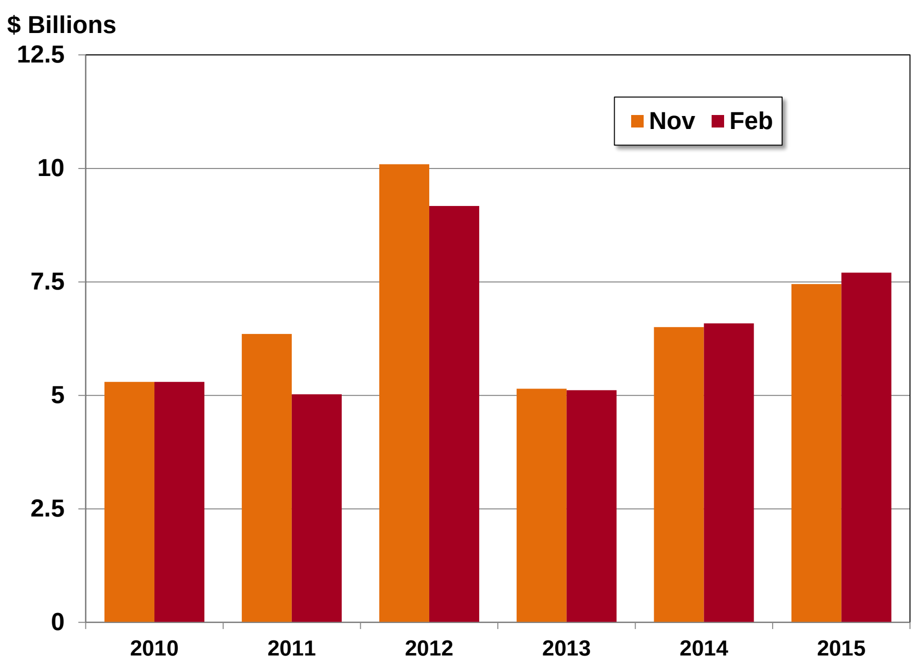
Global Insight's February baseline shows the U.S. economy proceeding along a path that is almost identical to that called for in their November baseline. Real GDP is now expected to grow at an average annual rate of 2.75 percent over the 2014-15 biennium. In November growth of 2.79 percent was anticipated. Annual CPI growth was expected to average 1.66 percent over the biennium in November's baseline. February's calls for the CPI to increase at an average annual rate of 1.58 percent.

Individual Income Tax

Individual income tax receipts in the 2014-15 biennium are forecast to total $17.733 billion, $296 million (1.7 percent) more than forecast in November. FY 2014-15 income tax receipts are now expected to be $1.112 billion (6.7 percent) more than income tax receipts in the 2012-13 biennium. But, income tax receipts in fiscal 2014 are now projected to be 0.6 percent less than the current forecast for fiscal 2013 income tax receipts. The decline in expected income tax revenue in fiscal 2014 is not due to a weaker economic forecast. It comes from the expectation that high income taxpayers seeking to minimize their federal tax liability will shift income out of 2013 and into tax year 2012 to take advantage of the lower federal rates applied to income earned in 2012. While the acceleration of income into 2012 is expected to have the greatest impact on capital gains realizations, material reductions in the growth rates for wages, dividends, proprietors' incomes and partnership incomes also are anticipated.

Capital gains realizations by resident Minnesota taxpayers are expected to fall by about $4 billion between the 2012 and 2013 tax years. While most other types of income grow between 2012 and 2013, their combined growth is less than the loss in capital gains leaving taxable income in 2013 slightly less than in 2012. Income growth resumes at normal rates in calendar 2014, with resident taxable income growing at more than a 7 percent rate.

Minnesota Resident Capital Gains Lower than November's Forecast in 2011 and 2012



Changes in 2014 and 2015 growth rates for sources of income other than capital gains were generally small and positive. The technical adjustment made to tax year 2012 to better reflect the impact of bonus depreciation and section 179 expensing carried forward, increasing forecast liability in fiscal 2014 by $43 million and adding $59 million to fiscal year 2015.

Changes in items not part of "current year" M1 return tax liability added $87 million compared to the November forecast. These items include excess withholding, excess estimated tax payments, payments on accounts receivables, payments and refunds related to amended returns, payments and refunds related to prior year returns, payments on account receivables, payments and refunds of fiduciaries, payments and refunds of non-resident partners and non-resident S-corp shareholders.

Sales Tax

Net sales tax receipts for the 2014-15 biennium are projected to total $10.075 billion, $48 million (0.5 percent) less than was forecast in November. An increase in projected sales tax refunds accounted for the largest portion of the forecast change. FY 2014-15 sales tax refunds are now forecast to be $566 million, $40 million more than projected in November. Gross sales tax receipts in the 2014-15 biennium are now expected to fall short of November's forecast by $8 million or less than 0.1 percent.

Gross sales tax receipts were reduced by $4.7 million in FY 2014 and $8.9 million in FY 2015 to reflect the sales tax exemption for construction materials for the Vikings stadium. No changes were made to the receipts elasticity. It remains at 0.95. The growth rate for e-commerce and catalog sales is 11.5 for 2014 and 10.8 for 2015.

Corporate Franchise Tax

Corporate tax revenues for the 2014-15 biennium are forecast to total $2.001 billion, $47 million (2.4 percent) more than forecast in November. While fiscal 2013 corporate tax receipts increased by $85 million, not all of that additional revenue was carried forward into the next biennium. About one-third of the additional estimated payment revenue projected for fiscal 2013 is believed to have come from one-time events, not underlying growth in the corporate tax base. An increase in expected historical preservation tax credits also reduces the growth in corporate profit tax receipts. Historical preservation credits are now expected to total $95 million in the 2014-15 biennium, up $26 million from November's estimate. To date corporate refunds in fiscal 2013 have been larger than forecast in November. Extending that higher base of refunds into the 2014-15 biennium increased expected FY 2014-15 refunds by $33 million further lowering the forecast. The corporate tax continues to be Minnesota's most volatile revenue source.

Other Revenue

Other tax and non-tax revenues are expected to total $5.623 billion, $31 million (0.5 percent) less than was anticipated in November. Prior year adjustments and transfers grew by $58 million as action by the 2013 legislature provided for the transfer of $64 million from the Health Care Access Fund to the general fund as part of the Medicaid Expansion done to conform with the requirements of the Affordable Care Act. There were material reductions to the forecasts for the mortgage registry tax ($24 million) and the insurance gross premiums tax ($26 million). Projected receipts from lawful gambling taxes were reduced by $46 million reflecting both the slower than anticipated adoption of electronic pull tabs and the lower than projected net income from each site.

REVENUE PLANNING ESTIMATES
FY 2016-17

Total current resources for the 2016-17 biennium are estimated to be $39.295 billion, an increase of $3.179 billion (8.8 percent) over the current forecast for 2014-15 biennial revenues and an increase of $593 million (1.5 percent) from November's estimates. General fund receipts for the four major taxes are now projected to be 9.6 percent more than in the 2014-15 biennium. These revenue planning estimates assume that both the U.S. and Minnesota economies begin to grow at more normal rates. Real GDP is assumed to grow at a 3.2 percent rate in fiscal 2016 and a 2.9 percent rate in fiscal 2017. Nominal GDP is assumed to grow at an annual rate of 4.6 percent in the 2016-17 biennium.

Revenues Estimates FY 2016-17

($ in millions)

	FY 2014-15	FY 2016	FY 2017	FY 2016-17
Individual Income	$17,733	$9,864	$10,243	$20,107
Sales	10,076	5,269	5,410	10,679
Corporate	2,001	975	988	1,962
Statewide Levy	1,685	868	887	1,755
Four Major Taxes	31,494	16,975	17,528	34,503
Other Revenue	3,613	1,859	1,880	3,739
Tobacco	325	161	161	322
Net Non-dedicated	35,433	18,996	19,568	38,564
Other Resources	683	362	369	731
Current Resources	**$36,116**	**$19,358**	**$19,937**	**$39,295**

The individual income tax provides the largest share of additional revenues for the 2015-16 biennium. Projected income tax receipts are now expected to exceed November's planning estimates by $444 million (2.3 percent). The planning estimates for the sales tax were reduced by $49 million while expected corporate income tax receipts increased $82 million. Other tax and non-tax revenues including prior year adjustments and transfers are now projected to exceed November's estimate by $116 million. That large change was due to a $121 million transfer from the health care access fund to the general fund approved by the 2013 legislature. Expected income tax receipts in the 2016-17 biennium are now projected to be $2.374 billion (13.4 percent) more than forecast for fiscal 2014-15, while sales tax receipts grow by 6.0 percent over projected FY 2014-15 levels, and corporate franchise tax receipts fall by 1.9 percent. The statewide property tax is projected to increase by 4.1 percent.

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 fiscal 2013 through fiscal 2015 will change the revenue planning estimates for fiscal 2016 and 2017. Other things equal, stronger than anticipated revenue growth through fiscal 2015 will carry forward and add significantly to revenues in the 2016-17 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 2016-17 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 or a significant decline. Also, Minnesota's economy is assumed to grow at the national rate in 2016 and 2017. 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 2016-17 biennium. Either outperforming or underperforming the national averages could lead to a material change in projected revenues. Actual revenues for 2016-17 could exceed or fall short of the planning estimates by $4 billion or more depending on the economy's performance.

Since November 2002 the Finance Department has based its revenue planning estimates on Global Insight's baseline forecast. February's 2016-17 revenue planning estimates again were prepared consistent with the GII baseline forecast. GII projects real GDP growth rates of 2.9 percent in calendar 2016 and 2.8 percent in 2017. GII's GDP growth rates for both 2016 and 2017 are below those assumed by the CBO in their August 2012 *Budget and Economic Outlook* update. The CBO expects real GDP to grow at an annual rate of 4.4 percent in 2016 and 3.8 percent in 2017. October's Blue Chip Consensus long term outlook is similar to GII's, with real GDP growth projected to be 2.9 percent in 2016 and 2.8 percent in 2017.

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.

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 by foreign source profits. The deed and mortgage taxes were forecast based on the projected growth in the value of new and existing home sales.

SPENDING OUTLOOK

Spending estimates for FY 2012-15 are largely unchanged from prior estimates. Prior to additional spending related to the K-12 shift buyback, projected state general fund spending for FY 2012-13 is now $35.159 billion, $63 million less than November's estimates. Once the additional spending is added to reflect the K-12 aid payment buyback, total general fund spending is estimated to be $35.449 billion, $227 million more than previously forecast. General fund spending for FY 2014-15 prior to the shift buyback was forecast to be $36.731 billion, $129 million less than November's estimates. Once the additional spending is added to reflect the K-12 aid payment buyback, total general fund spending is estimated to be $36.744 billion, $117 million less.

February Forecast Expenditures

($ in millions)

	February FY 2012-13	$ Change	February FY 2014-15	$ Change
K-12 Education	$15,218	(9)	$15,165	($14)
Property Tax Aids & Credits	2,794	(13)	2,711	(18)
Health & Human Services	10,654	(46)	11,362	(80)
Debt Service	415	(0)	1,288	(4)
All Other	6,078	5	6,206	(13)
Total Forecast Spending	**$35,159**	**$(63)**	**$36,732**	**$(129)**
K-12 Shift Buyback	290	290	12	12
Total After Buyback	**$35,449**	**$227**	**$36,744**	**$(117)**

Spending Estimates down $63 Million in FY 2012-13 and $129 Million in FY 2014-15

Prior to the school shift buyback, estimated spending was down $63 million (0.2 percent) for FY 2012-13 and $129 million (0.4 percent) for FY 2014-15. Outside of health and human services, forecast changes in other areas of the budget were modest. Health and human services' spending is down $46 million in FY 2012-13 and $80 million in FY 2014-15. The vast majority of the savings in FY 2012-13 is driven by changes in Medical Assistance (MA) primarily due to reductions in negotiated managed care rates ($19 million) for elderly and disabled basic care, adults without children and families with children, and lower enrollments ($13 million) in the adults without children program. Increased pharmacy rebates in FY 2014-15 accounts for $59 million in lower MA spending. Additional savings ($72 million) due reductions in forecast managed care rates and lower elderly and disabled basic care expenditures ($30 million) are offset by increases in expenditures ($74 million) related to expansion of MA eligibility for adults with incomes up to 138% of federal poverty guideline and $21 million as a result of a

Court of Appeals ruling that requires a full buy-back of the personal care attendants (PCA) relative care reduction that was enacted during the 2011 session.

Prior to the school shift buyback, K-12 education estimates were reduced by $9 million in FY 2012-13 and $14 million in FY 2014-15 to reflect a small downward revision in enrollment projections. The decline in pupil units compared to November's projections results in lower forecast expenditures for the Basic Formula. After the school shift buyback, K-12 estimates are up $280 million in FY 2012-13 and are down $2 million in FY 2014-15.

Property tax aids and credits estimates are down $13 million in FY 2012-13 and $18 million in FY 2014-15. The reductions in property tax aids and credits are mostly due to lower than expected spending on homeowner property tax refunds, offset slightly by increases in the renter property tax refund program. Slightly lower debt service costs reflects higher than forecast user-financing receipts received from the Department of Education's Maximum Effort School Loan program, which reduces general fund spending by $4 million in FY 2012-13.

FY 2014-15 Expenditures

($ in millions)

	November Forecast	February Forecast	$ Change	% Change
K-12 Education	$15,241	$15,229	($12)	(0.1%)
K-12 Payment Shift	(62)	(52)	10	nm
Higher Education	2,565	2,565	0	0.0%
Property Tax Aids & Credits	2,729	2,711	(18)	(0.7%)
Health & Human Services	11,443	11,362	(80)	(0.7%)
Public Safety	1,825	1,825	0	0.0%
Transportation	180	180	0	0.0%
Environment, Energy & Natural Res.	266	266	0	0.0%
Agriculture	78	78	0	0.0%
Economic Development	165	165	0	0.0%
State Government	915	913	(3)	(0.3%)
Debt Service	1,291	1,288	(4)	(0.3%)
Other	243	233	(10)	(4.1%)
Est. Cancellations	(20)	(20)	0	0.0
Total	**$36,861**	**$36,744**	**($117)**	**(0.3%)**

Since the majority of other state spending is set by legislative appropriation, there is little material change in the forecast. The $10 million reduction in 'other' is the result of a revised anticipated bond sale for the Vikings stadium that lowers debt service interest costs. Previous estimates were based on the assumption that the initial bond sale would occur in March 2013. The forecast now assumes that the bond sale will occur in August 2013. This five month delay lowers debt service cost from $30 million to $20 million in FY 2014.

FY 2016-17 Planning Estimates Increase by $79 Million

The forecast current law spending for FY 2016-17 is now expected to total $38.513 billion, up $79 million (0.2 percent) from November's estimates. Small reductions in estimates for property tax aids and credits and debt service spending are offset by a $109 million increase in health and human services.

Forecast Spending, FY 2016-17

($ in millions)

	November Forecast	February Forecast	$ Change	% Change
K-12 Education	$15,818	$15,781	(38)	(0.2%)
K-12 Payment Shifts	(91)	(52)	39	(43.0%)
Subtotal K-12	15,728	15,729	1	0.0%
Tax Aids & Credits	2,802	2,786	(16)	(0.6%)
Health & Human Services	12,204	12,313	109	0.9%
Debt Service	1,437	1,425	(11)	(0.8%)
All Other	6,263	6,260	(3)	(0.1%)
Total Spending	**$38,434**	**$38,513**	**$79**	**0.2%**

Health and human services estimates are up $109 million (0.9 percent) from November's estimates. The increase is driven by the MA expansion. The expansion increases expenditures in the families with children program by $132 million as parents and relative caretakers are now included in this eligibility category. Additional costs related to elderly and disabled basic care ($59 million) are offset by reductions in expenditures due lower negotiated managed care rates ($70 million) and higher federal reimbursement from pharmacy rebates ($15 million).

Increased health and human services' expenditures are offset by small reductions in other areas. Property tax aids and credits estimates are down $16 million compared to previous projections. Lower projected homeowner property tax refund payments ($27 million) are partially offset by a $12 million increase in forecast renter property tax refund payments. Debt service costs are down $11 million from November's estimates primarily due to an increase in short-term investment earnings on bond proceeds and debt service fund balances. Forecast expenditures for K-12 education are largely unchanged from November's estimates. Similar to FY 2014-15, K-12 entitlements are down slightly in FY 2016-17 due to a decline in pupil units compared to November's projections.

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. E-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.

E-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 the remainder of FY 2013, they will receive 86.5 percent of their current year entitlement and 35.7 percent of their prior year entitlement. In FY 2014 and beyond, they will receive 86.5 percent of their current year entitlement and 13.5 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 2013, school districts were expecting to receive 35.7 percent of their prior year's entitlement and 82.5 percent of their current year entitlement. As a result of the current forecast, they will still receive 35.7 percent of their prior year entitlement, but they will receive 86.5 percent of their current year entitlement, changing state spending for FY 2013, or the payments received by school districts.

E-12 Education Entitlements down $9 Million for FY 2012-13, State Spending up $280 Million in FY 2012-13 after Shift Buyback

For the current biennium, E-12 spending amounts are estimated to be $15.507 billion, an increase of $280 million from November estimates. This increase is due to the partial buyback of the aid payment shift as required by M.S. 16A.152. Because the shift is bought back to the nearest tenth of a percent, $5 million remains and is added to the state budget reserve.

Despite an increase in spending due to the shift buyback, entitlements for the current biennium are down $9 million as a result of slower than expected pupil growth. Pupil growth is down 1,033 for FY 2012 and down 990 for FY 2013 compared to November. However, pupil units are increasing on an annual basis. Between FY 2012 and FY 2017, pupil units are projected to grow by 26,116, or 3.1% over the period.

General education entitlements are forecast to be $6 million lower in FY 2012-13 than was anticipated in November. This change is largely driven by lower expenditures for the Basic Formula, which is forecast to be $10 million less than November's projection.

General education program, extended time, saw forecast expenditures increase $3.8 million from November. However, the reductions in the basic formula more than offset the increased expenditures for extended time.

There are few changes to the categorical component of the K-12 forecast. However, one program, nonpublic pupil aid, contributed to nearly 23 percent ($2 million) of the overall decline in categorical entitlements. Compared to November, the forecasted entitlement for nonpublic pupil aid declined by 6.6 percent. This change was due to a decrease in the number of pupils enrolling at nonpublic institutions.

E-12 Entitlements down $13.7 Million in FY 2014-15 and $8.7 Million in FY 2016-17

General Education entitlements continue to be forecasted lower compared to November for the upcoming FY 2014-15 biennium. As in the current biennium, the decrease is primarily due to lower forecasted expenditures for the basic formula, which is driven by a decline in pupil units compared to November's projections. Pupil units are estimated to be 732 lower for FY 2014 and 546 lower for FY 2015 from November. The lower estimates carry out into FY 2016-17 as well with 316 fewer pupil units forecasted for FY 2016 and 1,446 fewer pupils forecasted for FY 2017. Despite these declines, pupil growth of 6,052 between FY 2014-15 and 3,103 between FY 2016-17 is anticipated. The Extended Time program forecasts change from November as well, however entitlements are increasing for this program; $5 million (3.2 percent) for FY 2014-15 and $5 million (3.1 percent) for FY 2016-17 compared to November. This change is due to more pupils participating in learning year programs and thus generating more extended time revenue.

Categorical entitlements are forecast to decline from November projections for FY 2014-15 and FY 2016-17. Due to the great recession and declining commercial and residential property values, abatements peak in FY 2013 and FY 2014 and will continue to increase through FY 2017, but at a slower rate of growth than anticipated in the November forecast based on Hennepin and Anoka county tax data. There is an expectation that abatement growth will continue but at a slower rate of growth. Also contributing to the forecasted growth is a pending claim in Ramsey county tax court for the St. Paul Ford Plant with an estimated taxes abated of $3 million in FY 2015. Nonpublic pupil transportation and interdistrict desegregation transportation aid are also forecasted to decline in FY 2014-15 and FY 2016-17. Nonpublic Pupil Transportation entitlement is expected to be $2.7 million (6.9%) less for FY 2014-15 and $2.8 million (6.8%) less for FY 2016-17 than November's estimates. Interdistrict Desegregation Transportation is forecasted lower than in November. For FY 2014-15, the entitlement is down $2 million (5.0 percent) and down $1.6 million (4.9 percent) for FY 2016-17. For both of these programs, the change from November was due to lower participation projections based on final FY 2012 pupil data.

K-12 Shifts

There are two types of K-12 shifts that have been used in recent years 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 balances were 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 includes a buyback of $290 million of that shift, in addition to the $1.323 billion that was bought back in the forecast last November. $801 million remains to be bought back.

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)
2003 Legislative Session	83/17 to 80/20	($191)
November 2004 Forecast	80/20 to 81.9/18.1	$118
February 2005 Forecast	81.9/18.1 to 84.3/17.4	$150
November 2005 Forecast	84.3/17.4 to 90/10	$370
2010 Legislative Session (FY10)	90/10 to 73/27	($1,073)
2010 Legislative Session (FY11)	73/27 to 70/30	($311)
2011 Legislative Session (FY12)	70/30 to 60/40	(710)
February 2012 Forecast	60/40 to 64.3/35.7	$318
November 2012 Forecast	64.3/35.7 to 82.5/17.5	$1,324
February 2013 Forecast	82.5/17.5 to 86.5/13.5	$290

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	($252)
November 2005 Forecast	48.6 to 10.8	$331
February 2006 Forecast	10.8 to 0	$94
2010 Legislative Session (FY11)	0 to 48.6	(519)

[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

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 forecast 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 Forecast down $46 million in FY 2012-13 and $80 million in FY 2014-15. Expenditures are up $109 million in FY 2016-17

In FY 2012-13, the majority of the $46 million reduction in expenditures is the result of reductions in negotiated managed care rates ($19 million) and lower enrollments ($13 million) in the adults without children program. A technical change to implementation of a payment delay, moving savings from the delay from the health care access fund to the general fund in the families with children program further reduces expenditures by $20 million. MFIP child care assistance projections increase by $5 million (4.8 percent). This change is attributable to higher expenditures for MFIP child care assistance due to MFIP families increasingly choosing higher cost, higher quality center-based care.

Change in millions	**Change from November**					
	FY 2012-13		**FY 2014-15**		**FY 2016-17**	
Major Forecast Expenditure Changes	**$**	**%**	**$**	**%**	**$**	**%**
MA Pharmacy Rebates	$0	0%	($59)	(10.7%)	($15)	(3.1%)
MA Managed Care Rate Reductions[3]	($19)	(0.4%)	($72)	(1.3%)	($70)	(1.2%)
MA Elderly & Disabled Basic Care Technical Correction			($30)	(1.0%)	$59	1.9%
MA Expansion	$0	0%	$74	3.1%	$141	5.6%
Other MA Expenditure Changes	($37)	(0.4%)	($1)	0.0%	($2)	0.0%
Total MA Change	**($56)**	**(2.2%)**	**($87)**	**(1.0%)**	**$113**	**1.0%**
MA Expansion – CD Entitlements	$0	0.0%	($12)	(12.0%)	($19)	(12.0%)
Other Non-MA Forecast Change[4]	$10	1.0%	$19	1.9%	$15	1.3%
Total Change from November	**($46)**	**(0.5%)**	**($80)**	**(0.8%)**	**$109**	**1.0%**

[3] Managed Care Rate Reductions occur in the Elderly and Disabled Basic Care, Adults without Children, and Families with Children Basic Care programs.
[4] Non-MA forecast programs include Minnesota Family Investment Program (MFIP), MFIP Child Care Assistance, General Assistance, Group Residential Housing and Minnesota Supplemental Aid Programs.

In FY 2014-15, three major changes drive the $80 million (0.8 percent) reduction from the November forecast. First, this forecast estimates a $59 million reduction in MA expenditures as a result of seeing higher than previously estimated reimbursements from pharmacy rebates. Second, reductions in the forecasted managed care rates for FY 2014 and FY 2015 reduces expenditures by $72 million. This reduction results from lower actual negotiated managed care rates in FY 2013. Finally, estimated MA elderly and disabled basic care expenditures are down $30 million from November estimates, as result of correcting an error that attributed a FY 2016 monthly payment to FY 2015. These savings are generally offset by an increase in expenditures in the families with children program related to the passage of Minnesota Laws of 2013, Chapter 1, which expanded MA eligibility for adults with incomes up to 138 percent of Federal Poverty Guideline (FPG), increasing spending in FY 2014-15 by $74 million. An additional increase in expenditures of $21 million comes as a result of a full buy-back of the personal care attendants (PCA) relative care reduction previously enacted during the 2011 session. Previous forecasts and legislative action restored funding through July 1, 2013. A recent ruling by the Minnesota Court of Appeals requires the buy-back of the reduction.

In FY 2016-17, general fund expenditures are up by $109 million, or one percent. This increase is driven entirely by the passage of the MA expansion in Minnesota Laws of 2013, Chapter 1 which expands MA to include all adults, ages 21 to 64, except those with Medicare coverage, up to 138 percent of FPG ($141 million). The expansion increases expenditures in the families with children program, as parents and relative caretakers, who previously were not eligible for the MA program, are now included in this MA eligibility category. The state will receive a 50 percent federal match on this eligibility group. FY 2017 is also the first year in which the state has a required share in the cost to cover adults with no children up to 138 percent of FPG. This adds $9 million to the forecast for FY 2017, for the state share of 5 percent when the federal match on this eligibility group drops from 100 percent to 95 percent. This forecast also corrects an error in the November 2012 forecast that adds $59 million to elderly and disabled basic care expenditures, because two monthly payments were erroneously excluded in the November forecast. These increases are offset by reductions in expenditures as a result of the lower FY 2013 negotiated managed care rates ($70 million), higher reimbursement from pharmacy rebates ($15 million), and reduced spending in CD entitlement grants as a result of the MA expansion ($12 million).

ACA-related MA Changes – Passage of Minnesota Laws of 2013, Chapter 1

The Affordable Care Act (ACA) originally mandated that states expand their Medicaid program (Minnesota’s Medicaid program is called “Medical Assistance” or MA) to include all adults, except those with Medicare Coverage, ages 19-64 with incomes up to 138 percent of FPG. The subsequent Supreme Court ruling on the ACA invalidated this mandate. However, states continue to have the option to expand Medicaid and receive the enhanced federal financial participation authorized in the ACA.

In February 2013, the Minnesota Legislature expanded the state's Medicaid program by passing Minnesota Laws 2013, Chapter 1. As a result, this forecast incorporates changes resulting from passage of this legislation. The primary changes are:

- It increases eligibility for adults without children from those who have incomes up to 75 percent of FPG to those with incomes up to 138 percent of FPG.
- It increases eligibility for parents, relative caretakers, and 19 and 20 year olds from those who have incomes up to 100 percent of FPG to those who have incomes up to 138 percent of FPG.
- It reduces the number of parents and caretaker relatives subject to an asset test for MA eligibility determinations.

The law authorizes annual transfers from the health care access fund to pay for the general fund costs of the expansion.

General Fund MA Expansion Changes included in the February Forecast
($ in millions)

	FY 2014-15	FY 2016-17
Rev/Exp Change		
Transfer from HCAF	($64)	($121)
Adults Without Children	$0	$9
Families with Children	$74	$132
CD Fund Change	($12)	($19)
Change in Feb Forecast baseline	($2)	$1
Net (Savings)/Costs	$0	$0
Enrollment Change		
Adults without Children	23,000	41,000
Families with Children	15,000	23,000
MinnesotaCare	(16,000)	(22,000)

This increases the number of average monthly eligible adults without children in MA by 23,000 in FY 2014-15 and 41,000 in FY 2016-17. It increases the number of average monthly eligible adults in the families with children program by 15,000 in FY 2014-15 and 23,000 in FY 2016-17. 16,000 of these enrollees in FY 2014-15 and 23,000 in FY 2016-17 are moved from MinnesotaCare to MA as a result of the expansion. Adults without children covered under this expansion are 100 percent federally funded through January 1, 2017. Parents and relative caretakers covered under this expansion are 50 percent federally funded.

Property Tax Aids and Credits

Property tax aids and credits are paid to local governments, including cities, counties, towns, public schools, and special taxing districts. These aids and credits help offset costs of service delivery, defray costs of state mandates, and reduce local property taxes by substituting state funds for revenues that would otherwise need to be raised locally.

Direct payments to individuals, like property tax refunds for homeowners and renters, are also included in this category because they reduce property tax burdens.

Aids and Credits down $12 Million in FY 2012-13, $18 Million in FY 2014-15 and $16 million in FY 2016-17

Expenditures for tax aids and credits in the current biennium are expected to be $12 million (0.4 percent) lower than previous estimates for the current biennium. This change is the result of a $14 million reduction in expected household property tax refund payments due to lower than expected program participation and average refund amounts. The overall tax aids and credits reduction was offset slightly by an increase of $900 thousand (0.2 percent) in projected renter refunds. These changes are driven by two factors: taxes have continued a shift away from homesteads onto other types of properties due to lower homestead valuations; and a continued shift away from homeownership to renting resulting a tight rental market and higher rent payments.

Tax aids and credits FY 2014-15 spending is forecasted to be $2.71 billion, $18 million (0.7 percent) lower than previous estimates for the biennium. This change results from a $29 million (4.1 percent) decrease in property tax refund spending partially offset by an $12 million (3.1 percent) increase in renter refunds. Also, contributing to the overall tax aid and credit change is a $1 million (12.8 percent) reduction to targeted refund payments due to lower than projected homestead values. These changes are the result of shifting property tax burdens away for homesteads and the changes to homeownership and rental trends described above.

Tax aids and credit spending is expected to reach $2.79 billion in the FY 2016-17 biennium, $16 million (0.5 percent) below previous planning estimates. This decrease is due to $27 million (3.7 percent) lower projected homeowner property tax refund payments due to lower projected refund claimants and average refunds. The overall decrease in tax aids and credits is partially offset by a $12 million (2.9 percent) increase in forecast renter property tax refund payments resulting from higher projected average refunds due to higher rental payments and lower than projected income growth.

Debt Service Forecast Unchanged in FY 2012-13, down $4 Million in FY 2014-15 and down $11 Million in FY 2016-17

Debt service costs for FY 2012-13 are projected to be $415 million, no change from the November 2012 forecast estimates. FY 2014-15 costs are now projected to be $1.288 billion, down $4 million for the forecast estimate. User-financing receipts received from the Department of Education's maximum effort school loan program were approximately $4 million more than previous estimates in FY 2014-15.

The FY 2016-17 costs are now projected to be $11 million lower than November's estimates. The decrease is mainly due to a $10 million increase in short-term investment earnings on bond proceeds and debt service fund balances over prior projections and an increase of approximately $1 million from user-financing receipts received from the

Department of Education's maximum effort school loan program, more than previous estimates.

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

ALTERNATIVE FORECAST COMPARISON

Real GDP (Annual Rates)

	12III	12IV	13I	13II	13III	13IV	12A	13A	14A
GII Baseline (02-13)	3.1	-0.1	2.0	1.8	3.5	2.5	2.2	1.9	2.8
Blue Chip (02-13)	3.1	-0.1	2.0	2.2	2.6	2.8	2.2	1.9	2.8
Moody's Analytics (02-13)	3.1	-0.1	2.7	2.0	2.8	3.7	2.2	2.3	4.0
UBS (02-13)	3.1	-0.1	2.7	3.2	5.9	4.3	2.2	2.3	3.0
Standard & Poors (02-13)	3.1	-0.1	2.7	3.2	5.6	4.3	2.2	2.7	3.0
Wells Fargo (02-13)	3.1	-0.1	2.0	2.6	1.9	2.1	2.2	1.7	2.1

Consumer Price Index (Annual Rates)

	12III	12IV	13I	13II	13III	13IV	12A	13A	14A
GII Baseline (02-13)	2.3	2.1	1.1	1.0	1.2	1.9	1.8	1.3	1.8
Blue Chip (02-13)	2.3	2.1	1.4	1.8	2.2	2.1	1.8	1.9	2.1
Moody's Analytics (02-13)	2.3	2.1	2.3	1.7	2.4	2.1	2.1	2.1	2.2
UBS (02-13)	2.3	2.1	0.3	1.3	3.8	1.8	1.8	1.6	2.4
Standard & Poors (02-13)	2.3	2.1	1.1	1.0	1.3	2.1	1.8	1.5	1.9
Wells Fargo (02-13)	2.3	2.1	1.5	1.8	1.7	1.7	1.8	1.7	2.1

FORECAST COMPARISONS

Real Economic Growth

(Annual Percent Change in Real GDP)

	2012	2013	2014	2015	2016	2017
Nov 08 GII Baseline	3.5	3.1				
Feb 09 GII Baseline	3.3	2.9				
Nov 09 GII Baseline	3.7	2.9				
Feb 10 GII Baseline	3.7	2.9				
Nov 10 GII Baseline	2.9	2.7	3.1	3.1		
Feb 11 GII Baseline	2.9	3.1	3.3	2.9		
Nov 11 GII Baseline	1.6	2.5	3.5	3.3		
Feb 12 GII Baseline	2.1	2.3	3.3	3.2		
Nov 12 GII Baseline	2.1	1.9	2.8	3.3	2.9	2.1
Feb 13 GII Baseline	2.2	1.9	2.8	3.3	2.9	2.8

Inflation

(Annual Percent Change in CPI-U)

Nov 08 GII Baseline	2.4	2.4				
Feb 09 GII Baseline	2.3	2.6				
Nov 09 GII Baseline	2.0	1.8				
Feb 10 GII Baseline	2.0	1.9				
Nov 10 GII Baseline	1.9	2.0	2.2	2.2		
Feb 11 GII Baseline	1.7	1.9	2.2	2.2		
Nov 11 GII Baseline	1.5	1.7	2.0	2.1		
Feb 12 GII Baseline	2.0	1.8	1.9	1.9		
Nov 12 GII Baseline	2.1	1.3	1.8	1.7	1.9	1.9
Feb 13 GII Baseline	2.1	1.4	1.7	1.6	1.7	1.8

MINNESOTA - U.S. COMPARISON REPORT

February 2013 Baseline

(Annual Percent Changes)

	2009	2010	2011	2012	2013	2014	2015
Wage and Salary Income							
United States	(4.3)	2.1	4.0	3.2	3.5	4.6	4.7
Minnesota	(4.7)	2.7	3.9	5.0	2.2	5.5	4.9
Implied Annual Wage							
United States	0.1	2.9	2.8	1.5	2.0	2.8	2.7
Minnesota	(0.9)	3.3	2.1	3.4	0.7	3.7	2.7
Non-Farm Employment							
United States	(4.4)	(0.7)	1.2	1.7	1.5	1.7	2.0
Minnesota	(3.9)	(0.5)	1.7	1.6	1.4	1.8	2.1
Personal Income							
United States	(4.8)	3.8	5.1	3.5	2.6	5.2	5.0
Minnesota	(5.2)	4.4	5.5	4.8	1.7	5.2	5.0

COMPARISON OF ACTUAL AND ESTIMATED NON-RESTRICTED REVENUES

January YTD, 2013 - FY2013

($ IN THOUSANDS)

	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax			
Withholding	4,072,698	4,132,389	59,691
Declarations	776,700	899,735	123,035
Miscellaneous	189,178	192,108	2,930
Gross	5,038,576	5,224,233	185,657
Refund	102,500	98,187	(4,313)
Net	4,936,076	5,126,045	189,969
Corporate & Bank Excise			
Declarations	524,812	609,635	84,823
Miscellaneous	153,939	153,968	29
Gross	678,751	763,603	84,852
Refund	85,615	96,487	10,872
Net	593,136	667,116	73,980
Sales Tax			
Gross	2,834,864	2,825,407	(9,457)
Refunds	123,562	137,117	13,556
Net	2,711,302	2,688,289	(23,013)
Motor Vehicle Sales Tax	0	0	0
Other Revenues:			
Estate	79,754	96,379	16,625
Liquor/Wine/Beer	43,689	46,428	2,739
Cigarette/Tobacco/Cont Sub	121,658	120,692	(966)
Deed and Mortgage	105,775	115,585	9,810
Insurance Gross Earnings	143,684	143,651	(33)
Lawful Gambling	27,971	19,324	(8,647)
Health Care Surcharge	121,517	124,339	2,821
Other Taxes	376	833	457
Statewide Property Tax	386,881	380,310	(6,572)
DHS SOS Collections	25,909	32,131	6,221
Income Tax Reciprocity	-	-	-
Investment Income	2,487	2,630	143
Tobacco Settlement	160,487	164,976	4,489
Departmental Earnings	166,766	169,799	3,032
Fines and Surcharges	40,983	33,671	(7,311)
Lottery Revenues	27,965	31,075	3,110
Revenues yet to be allocated	1,130	(291)	(1,421)
Residual Revenues	121,106	119,541	(1,566)
County Nursing Home, Pub Hosp IGT	4,358	3,396	(962)
Other Subtotal	1,582,498	1,604,468	21,970
Other Refunds	27,640	36,917	9,277
Other Net	1,554,858	1,567,551	12,694
Total Gross	**10,134,689**	**10,417,710**	**283,021**
Total Refunds	**339,317**	**368,709**	**29,392**
Total Net	**9,795,372**	**10,049,002**	**253,629**

FACTORS AFFECTING THE INDIVIDUAL INCOME TAX

($ in billions)

	Calendar Year					
	2010	2011	2012	2013	2014	2015
Minnesota Non-Farm Tax Base						
February 2009 Baseline	175.674	183.239				
November 2009 Baseline	171.395	178.688				
February 2010 Baseline	172.985	180.445				
November 2010 Baseline [1]	179.524	185.413	193.358	203.033		
February 2011 Baseline	180.193	187.398	196.463	206.145		
November 2011 Baseline	178.433	187.762	194.610	202.278		
February 2012 Baseline	178.435	187.074	194.943	203.230		
November 2012 Baseline	176.360	184.406	192.573	199.658	209.583	220.465
February 2013 Baseline	176.360	184.406	193.802	198.765	210.048	220.613
Minnesota Wage and Salary Income						
February 2009 Baseline	123.518	128.709				
November 2009 Baseline	118.220	123.020				
February 2010 Baseline	117.355	122.365				
November 2010 Baseline [1]	125.707	130.640	136.453	142.848		
February 2011 Baseline	126.202	131.010	137.183	143.608		
November 2011 Baseline	125.211	131.254	136.156	141.758		
February 2012 Baseline	125.214	130.664	136.133	141.810		
November 2012 Baseline	124.789	129.676	135.623	140.065	146.545	153.708
February 2013 Baseline	124.789	129.676	136.166	139.090	146.780	153.973
Minnesota Property Income						
February 2009 Baseline	37.993	39.363				
November 2009 Baseline	38.192	39.805				
February 2010 Baseline	40.310	41.843				
November 2010 Baseline	40.103	40.313	41.614	44.257		
February 2011 Baseline	40.312	41.875	43.817	46.363		
November 2011 Baseline	38.386	40.661	41.734	42.887		
February 2012 Baseline	38.386	40.647	42.292	43.922		
November 2012 Baseline	36.271	38.934	40.582	42.526	44.862	47.427
February 2013 Baseline	36.271	38.934	41.010	42.685	44.949	47.103
Minnesota Proprietors' Income						
February 2009 Baseline	14.164	15.167				
November 2009 Baseline	14.983	15.862				
February 2010 Baseline	15.321	16.237				
November 2010 Baseline	13.714	14.456	15.293	15.927		
February 2011 Baseline	13.679	14.559	15.463	16.172		
November 2011 Baseline	14.835	15.846	16.723	17.635		
February 2012 Baseline	14.835	15.765	16.518	17.496		
November 2012 Baseline	15.301	15.796	16.367	17.064	18.176	19.337
February 2013 Baseline	15.301	15.796	16.625	16.989	18.320	19.540

(1) Began using Bureau of Economic Analysis Concept

FACTORS AFFECTING SALES AND CORPORATE INCOME TAX

($ in billions)

	Fiscal Year					
	2010	2011	2012	2013	2014	2015
SALES TAX						
Minnesota Synthetic Sales Tax Base						
November 2010 Baseline	66.738	70.720	73.053	75.597		
Pct.	-2.2%	6.0%	3.3%	3.5%		
February 2011 Baseline	66.659	70.862	74.606	77.027		
Pct.	-2.3%	6.3%	5.3%	3.2%		
November 2011 Baseline	66.277	70.523	74.604	76.674		
Pct.	-2.7%	6.4%	5.8%	2.8%		
February 2012 Baseline	66.213	70.456	74.383	77.000		
Pct.	-2.7%	6.4%	5.5%	3.4%		
November 2012 Baseline	66.161	69.056	72.768	75.755	78.287	81.516
Pct.	-3.2%	4.4%	5.4%	4.1%	3.3%	4.1%
February 2013 Baseline	66.126	69.070	72.610	75.610	78.247	81.180
Pct.	-3.3%	4.5%	5.1%	4.1%	3.5%	3.7%
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)						
February 2010 Baseline	13.123	13.276				
November 2010 Baseline	12.818	13.468	13.829	14.118		
February 2011 Baseline	12.812	13.657	14.363	14.732		
November 2011 Baseline	12.838	13.523	14.165	14.636		
February 2012 Baseline	12.838	13.527	14.083	14.571		
November 2012 Baseline	12.771	13.313	14.011	14.756	15.215	15.636
February 2013 Baseline	12.771	13.313	14.005	14.649	15.087	15.547
Minnesota's Proxy Share of U.S. Capital Equipment Spending						
February 2010 Baseline	11.244	12.292				
November 2010 Baseline	11.189	12.849	13.901	14.822		
February 2011 Baseline	11.179	12.833	14.372	14.936		
November 2011 Baseline	11.147	12.600	13.769	14.415		
February 2012 Baseline	11.147	12.543	13.626	14.602		
November 2012 Baseline	10.523	11.263	12.283	12.896	13.805	15.122
February 2013 Baseline	10.523	11.263	12.271	13.306	14.182	15.272
MINNESOTA'S PROXY SHARE OF U.S. CONSTRUCTION SPENDING						
February 2010 Baseline	5.207	5.403				
November 2010 Baseline	4.757	4.524	4.273	5.391		
February 2011 Baseline	4.808	4.632	4.848	5.507		
November 2011 Baseline	4.734	4.705	5.148	5.414		
February 2012 Baseline	4.738	4.745	5.184	5.539		
November 2012 Baseline	4.771	4.739	5.327	5.815	6.372	7.021
February 2013 Baseline	4.769	4.734	5.257	5.656	6.171	6.870

FACTORS AFFECTING SALES AND CORPORATE INCOME TAX

($ in billions)

	Fiscal Year					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
SALES TAX (Cont.)						
Minnesota's Personal Income Excluding Farm Proprietors Income						
February 2009 Baseline	215.33	223.33				
November 2009 Baseline	212.56	219.22				
February 2010 Baseline	214.25	219.93				
November 2010 Baseline (1)	221.11	229.65	237.52	247.61		
February 2011 Baseline	220.74	231.94	240.66	250.36		
November 2011 Baseline	217.97	231.18	240.10	248.62		
February 2012 Baseline	217.97	231.23	239.15	249.31		
November 2012 Baseline	216.203	229.088	237.813	246.393	257.009	269.940
February 2013 Baseline	216.203	229.088	237.247	246.899	255.916	268.977

	Calendar Year					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
CORPORATE FRANCHISE TAX						
U.S. Corporate Profits						
February 2009 Baseline	1,286.7	1,480.7				
November 2009 Baseline	1,291.5	1,480.7				
February 2010 Baseline	1,273.0	1,466.8				
November 2010 Baseline	1,369.3	1,365.1	1,427.0	1,486.0		
February 2011 Baseline	1,386.5	1,401.1	1,349.3	1,426.8		
November 2011 Baseline (2)	1,385.7	1,518.5	1,492.7	1,571.1		
February 2012 Baseline	1,385.7	1,499.4	1,418.7	1,406.6		
November 2012 Baseline	1,268.0	1,374.7	1,445.1	1,373.8	1,390.2	1,405.9
February 2013 Baseline	1,268.0	1,374.7	1,449.4	1,372.8	1,411.1	1,445.5

(1) Began using Bureau of Economic Analysis Concept

(2) Began using Before Tax Domestic Corporate Profits with capital consumption adjustment, less profits of the Federal Reserve System.

FY 2012-13 COMPARISON:
FEBRUARY 2013 VS NOVEMBER 2012
February 2013 General Fund Forecast - Before Statutory Allocations
($ in thousands)

	11-12 Fcst FY 2012-13	2-13 Fcst FY 2012-13	Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	1,288,673	1,288,673	0
Current Resources:			
Tax Revenues	32,106,987	32,307,810	200,823
Non-Tax Revenues	1,557,881	1,574,412	16,531
Subtotal - Non-Dedicated Revenue	33,664,868	33,882,222	217,354
Dedicated Revenue	476	476	0
Transfers In	1,079,660	1,078,906	(754)
Prior Year Adjustments	199,254	199,254	0
Subtotal-Current Resources	34,944,259	35,160,859	216,600
Total Resources Available	**36,232,932**	**36,449,532**	**216,600**
Actual & Estimated Spending			
K-12 Education	14,446,346	14,432,920	(13,426)
K-12 Ptx Rec Shift/Aid Payment Shift	781,009	785,470	4,461
Subtotal K-12 Education	15,227,355	15,218,390	(8,965)
Higher Education	2,568,830	2,568,830	0
Property Tax Aids & Credits	2,806,390	2,793,569	(12,821)
Health & Human Services	10,699,989	10,654,459	(45,530)
Public Safety	1,855,421	1,855,421	0
Transportation	126,125	126,125	0
Environment, Energy & Natural Resources	283,798	283,798	0
Agriculture	77,585	77,585	0
Economic Development	203,554	203,554	0
State Government	918,162	917,306	(856)
Debt Service	414,640	414,640	0
Capital Projects & Grants	45,162	45,162	0
Deficiencies/Other	9,729	14,994	5,265
Estimated Cancellations	(15,000)	(15,000)	0
Subtotal Expenditures & Transfers	**35,221,740**	**35,158,833**	**(62,907)**
Dedicated Expenditures	476	476	0
Total Expenditures & Transfers	**35,222,216**	**35,159,309**	**(62,907)**
Balance Before Reserves	**1,010,716**	**1,290,223**	**279,507**
Cash Flow Account	350,000	350,000	0
Budget Reserve	644,262	644,262	0
Stadium Reserve	16,454	1,307	(15,147)
Budgetary Balance	**0**	**294,654**	**294,654**

FY 2012-13 COMPARISON: FEBRUARY 2013 VS NOVEMBER 2012

February 2013 General Fund Forecast - After Statutory Allocations

($ in thousands)

	11-12 Fcst FY 2012-13	2-13 Fcst FY 2012-13	Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	1,288,673	1,288,673	0
Current Resources:			
Tax Revenues	32,106,987	32,307,810	200,823
Non-Tax Revenues	1,557,881	1,574,412	16,531
Subtotal - Non-Dedicated Revenue	33,664,868	33,882,222	217,354
Dedicated Revenue	476	476	0
Transfers In	1,079,660	1,078,906	(754)
Prior Year Adjustments	199,254	199,254	0
Subtotal-Current Resources	34,944,259	35,160,859	216,600
Total Resources Available	**36,232,932**	**36,449,532**	**216,600**
Actual & Estimated Spending			
K-12 Education	14,446,346	14,431,778	(14,568)
K-12 Ptx Rec Shift/Aid Payment Shift	781,009	1,075,615	294,606
Subtotal K-12 Education	15,227,355	15,507,393	280,038
Higher Education	2,568,830	2,568,830	0
Property Tax Aids & Credits	2,806,390	2,794,170	(12,220)
Health & Human Services	10,699,989	10,654,459	(45,530)
Public Safety	1,855,421	1,855,421	0
Transportation	126,125	126,125	0
Environment, Energy & Natural Resources	283,798	283,798	0
Agriculture	77,585	77,585	0
Economic Development	203,554	203,554	0
State Government	918,162	917,306	(856)
Debt Service	414,640	414,640	0
Capital Projects & Grants	45,162	45,162	0
Deficiencies/Other	9,729	14,994	5,265
Estimated Cancellations	(15,000)	(15,000)	0
Subtotal Expenditures & Transfers	**35,221,740**	**35,448,437**	**226,697**
Dedicated Expenditures	476	476	0
Total Expenditures & Transfers	**35,222,216**	**35,448,913**	**226,697**
Balance Before Reserves	**1,010,716**	**1,000,619**	**(10,097)**
Cash Flow Account	350,000	350,000	0
Budget Reserve	644,262	649,312	5,050
Stadium Reserve	16,454	1,307	(15,147)
Budgetary Balance	**0**	**0**	**0**

CURRENT BUDGET - FY 2012-13 BIENNIUM
February 2013 General Fund Forecast
($ in thousands)

	Closing FY 2012	2-13 Fcst FY 2013	Biennial Total
Actual & Estimated Resources			
Balance Forward From Prior Year	1,288,673	1,794,929	1,288,673
Current Resources:			
Tax Revenues	15,651,423	16,656,387	32,307,810
Non-Tax Revenues	774,392	800,020	1,574,412
Subtotal - Non-Dedicated Revenue	16,425,815	17,456,407	33,882,222
Dedicated Revenue	321	155	476
Transfers In	485,720	593,186	1,078,906
Prior Year Adjustments	174,254	25,000	199,254
Subtotal-Current Resources	17,086,111	18,074,748	35,160,859
Total Resources Available	**18,374,784**	**19,869,677**	**36,449,532**
Actual & Estimated Spending			
K-12 Education	7,070,964	7,360,814	14,431,778
K-12 Ptx Rec Shift/Aid Payment Shift	(446,097)	1,521,712	1,075,615
Subtotal K-12 Education	6,624,867	8,882,526	15,507,393
Higher Education	1,275,446	1,293,384	2,568,830
Property Tax Aids & Credits	1,456,693	1,337,477	2,794,170
Health & Human Services	5,385,094	5,269,365	10,654,459
Public Safety	882,601	972,820	1,855,421
Transportation	62,197	63,928	126,125
Environment, Energy & Natural Resources	128,751	155,047	283,798
Agriculture	42,973	34,612	77,585
Economic Development	91,531	112,023	203,554
State Government	411,646	505,660	917,306
Debt Service	192,056	222,584	414,640
Capital Projects & Grants	20,414	24,748	45,162
Deficiencies/Other	5,265	9,729	14,994
Estimated Cancellations	0	(15,000)	(15,000)
Subtotal Expenditures & Transfers	**16,579,534**	**18,868,903**	**35,448,437**
Dedicated Expenditures	321	155	476
Total Expenditures & Transfers	**16,579,855**	**18,869,058**	**35,448,913**
Balance Before Reserves	**1,794,929**	**1,000,619**	**1,000,619**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	657,618	649,312	649,312
Stadium Reserve	0	1,307	1,307
Appropriation Carried Forward	146,662	0	0
Budgetary Balance	**640,649**	**0**	**0**

FY 2014-15 COMPARISON: FEBRUARY 2013 VS NOVEMBER 2012
February 2013 General Fund Forecast
($ in thousands)

	11-12 Fcst FY 2014-15	2-13 Fcst FY 2014-15	Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	1,010,716	1,000,619	(10,097)
Current Resources:			
Tax Revenues	33,778,206	34,018,682	240,476
Non-Tax Revenues	1,389,814	1,413,840	24,026
Subtotal - Non-Dedicated Revenue	35,168,020	35,432,522	264,502
Dedicated Revenue	190	190	0
Transfers In	574,817	632,953	58,136
Prior Year Adjustments	50,000	50,000	0
Subtotal-Current Resources	35,793,027	36,115,665	322,638
Total Resources Available	**36,803,743**	**37,116,284**	**312,541**
Actual & Estimated Spending			
K-12 Education	15,241,157	15,229,370	(11,787)
K-12 Ptx Rec Shift/Aid Payment Shift	(61,817)	(51,775)	10,042
Subtotal K-12 Education	15,179,340	15,177,595	(1,745)
Higher Education	2,565,262	2,565,262	0
Property Tax Aids & Credits	2,728,800	2,710,851	(17,949)
Health & Human Services	11,442,841	11,362,473	(80,368)
Public Safety	1,825,379	1,825,379	0
Transportation	180,050	180,050	0
Environment, Energy & Natural Resources	266,000	265,933	(67)
Agriculture	77,560	77,560	0
Economic Development	165,272	165,272	0
State Government	915,410	912,596	(2,814)
Debt Service	1,291,446	1,287,517	(3,929)
Capital Projects & Grants	243,140	233,073	(10,067)
Estimated Cancellations	(20,000)	(20,000)	0
Subtotal Expenditures & Transfers	**36,860,500**	**36,743,561**	**(116,939)**
Dedicated Expenditures	190	190	0
Total Expenditures & Transfers	**36,860,690**	**36,743,751**	**(116,939)**
Balance Before Reserves	**(56,947)**	**372,533**	**429,480**
Cash Flow Account	350,000	350,000	0
Budget Reserve	644,262	649,312	5,050
Stadium Reserve	38,777	0	(38,777)
Budgetary Balance	**(1,089,986)**	**(626,779)**	**463,207**

BUDGET PLANNING - FY 2014-15 BIENNIUM
February 2013 General Fund Forecast
($ in thousands)

	2-13 Fcst FY 2014	2-13 Fcst FY 2015	Biennial Total
Actual & Estimated Resources			
Balance Forward From Prior Year	1,000,619	373,381	1,000,619
Current Resources:			
Tax Revenues	16,667,576	17,351,106	34,018,682
Non-Tax Revenues	708,801	705,039	1,413,840
Subtotal - Non-Dedicated Revenue	17,376,377	18,056,145	35,432,522
Dedicated Revenue	189	1	190
Transfers In	306,388	326,565	632,953
Prior Year Adjustments	25,000	25,000	50,000
Subtotal-Current Resources	17,707,954	18,407,711	36,115,665
Total Resources Available	**18,708,573**	**18,781,092**	**37,116,284**
Actual & Estimated Spending			
K-12 Education	7,537,398	7,691,972	15,229,370
K-12 Ptx Rec Shift/Aid Payment Shift	(24,400)	(27,375)	(51,775)
Subtotal K-12 Education	7,512,998	7,664,597	15,177,595
Higher Education	1,282,631	1,282,631	2,565,262
Property Tax Aids & Credits	1,345,940	1,364,911	2,710,851
Health & Human Services	5,759,248	5,603,225	11,362,473
Public Safety	911,931	913,448	1,825,379
Transportation	90,025	90,025	180,050
Environment, Energy & Natural Resources	126,627	139,306	265,933
Agriculture	38,780	38,780	77,560
Economic Development	82,636	82,636	165,272
State Government	454,075	458,521	912,596
Debt Service	634,426	653,091	1,287,517
Capital Projects & Grants	100,686	132,387	233,073
Estimated Cancellations	(5,000)	(15,000)	(20,000)
Subtotal Expenditures & Transfers	**18,335,003**	**18,408,558**	**36,743,561**
Dedicated Expenditures	189	1	190
Total Expenditures & Transfers	**18,335,192**	**18,408,559**	**36,743,751**
Balance Before Reserves	**373,381**	**372,533**	**372,533**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	649,312	649,312	649,312
Stadium Reserve	0	0	0
Budgetary Balance	**(625,931)**	**(626,779)**	**(626,779)**

GENERAL FUND BIENNIAL COMPARISON
FY 2014-15 vs FY 2012-13
($ in thousands)

	2-13 Fcst FY 2012-13	2-13 Fcst FY 2014-15	$ Change	% Change
Actual & Estimated Resources				
Balance Forward From Prior Year	1,288,673	1,000,619	(288,054)	nm
Current Resources:				
Tax Revenues	32,307,810	34,018,682	1,710,872	5.3%
Non-Tax Revenues	1,574,412	1,413,840	(160,572)	(10.2%)
Subtotal - Non-Dedicated Revenue	33,882,222	35,432,522	1,550,300	4.6%
Dedicated Revenue	476	190	(286)	(60.1%)
Transfers In	1,078,906	632,953	(445,953)	(41.3%)
Prior Year Adjustments	199,254	50,000	(149,254)	(74.9%)
Subtotal-Current Resources	35,160,859	36,115,665	954,806	2.7%
Total Resources Available	**36,449,532**	**37,116,284**	**666,752**	**1.8%**
Actual & Estimated Spending				
K-12 Education	14,431,778	15,229,370	797,592	5.5%
K-12 Ptx Rec Shift/Aid Payment Shift	1,075,615	(51,775)	(1,127,390)	Nm
Subtotal K-12 Education	15,507,393	15,177,595	(329,798)	(2.1%)
Higher Education	2,568,830	2,565,262	(3,568)	(0.1%)
Property Tax Aids & Credits	2,794,170	2,710,851	(83,319)	(3.0%)
Health & Human Services	10,654,459	11,362,473	708,014	6.6%
Public Safety	1,855,421	1,825,379	(30,042)	(1.6%)
Transportation	126,125	180,050	53,925	42.8%
Environment, Energy & Natural Resources	283,798	265,933	(17,865)	(6.3%)
Agriculture	77,585	77,560	(25)	0.0%
Economic Development	203,554	165,272	(38,282)	(18.8%)
State Government	917,306	912,596	(4,710)	(0.5%)
Debt Service	414,640	1,287,517	872,877	210.5%
Capital Projects & Grants	45,162	233,073	187,911	416.1%
Deficiencies/Other	14,994	0	(14,994)	(100.0%)
Estimated Cancellations	(15,000)	(20,000)	(5,000)	33.3%
Subtotal Expenditures & Transfers	**35,448,437**	**36,743,561**	**1,295,124**	**3.7%**
Dedicated Expenditures	476	190	(286)	(60.1%)
Total Expenditures & Transfers	**35,448,913**	**36,743,751**	**1,294,838**	**3.7%**
Balance Before Reserves	**1,000,619**	**372,533**	**(628,086)**	
Cash Flow Account	350,000	350,000	0	
Budget Reserve	649,312	649,312	0	
Stadium Reserve	1,307	0	(1,307)	
Budgetary Balance	**0**	**(626,779)**	**(626,779)**	

FY 2016-17 COMPARISON:
FEBRUARY 2013 VS NOVEMBER 2012
February 2013 General Fund Forecast
($ in thousands)

	11-12 Plng Est FY 2016-17	2-13 Plng Est FY 2016-17	Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	(56,947)	372,533	429,480
Current Resources:			
Tax Revenues	36,710,963	37,157,920	446,957
Non-Tax Revenues	1,377,015	1,406,181	29,166
Subtotal - Non-Dedicated Revenue	38,087,978	38,564,101	476,123
Dedicated Revenue	2	2	0
Transfers In	564,018	680,943	116,925
Prior Year Adjustments	50,000	50,000	0
Subtotal-Current Resources	38,701,998	39,295,046	593,048
Total Resources Available	**38,645,051**	**39,667,579**	**1,022,528**
Actual & Estimated Spending			
K-12 Education	15,818,214	15,780,669	(37,545)
K-12 Ptx Rec Shift/Aid Payment Shift	(90,617)	(51,650)	38,967
Subtotal K-12 Education	15,727,597	15,729,019	1,422
Higher Education	2,565,262	2,565,262	0
Property Tax Aids & Credits	2,801,904	2,785,800	(16,104)
Health & Human Services	12,204,115	12,312,867	108,752
Public Safety	1,834,981	1,834,981	0
Transportation	180,050	180,050	0
Environment, Energy & Natural Resources	277,986	277,886	(100)
Agriculture	77,560	77,560	0
Economic Development	165,272	165,272	0
State Government	920,803	916,739	(4,064)
Debt Service	1,436,624	1,425,442	(11,182)
Capital Projects & Grants	261,859	261,859	0
Estimated Cancellations	(20,000)	(20,000)	0
Subtotal Expenditures & Transfers	**38,434,013**	**38,512,737**	**78,724**
Dedicated Expenditures	2	2	0
Total Expenditures & Transfers	**38,434,015**	**38,512,739**	**78,724**
Balance Before Reserves	**211,036**	**1,154,840**	**943,804**
Cash Flow Account	350,000	350,000	0
Budget Reserve	644,262	649,312	5,050
Stadium Reserve	47,421	0	(47,421)
Budgetary Balance	**(830,647)**	**155,528**	**986,175**
Structural Balance	***267,983***	***782,307***	***514,324***

FY 2012-17 PLANNING HORIZON
February 2013 General Fund Forecast
($ in thousands)

	2-13 Fcst FY 2012-13	2-13 Fcst FY 2014-15	2-13 Plng Est FY 2016-17
Actual & Estimated Resources			
Balance Forward From Prior Year	1,288,673	1,000,619	372,533
Current Resources:			
Tax Revenues	32,307,810	34,018,682	37,157,920
Non-Tax Revenues	1,574,412	1,413,840	1,406,181
Subtotal - Non-Dedicated Revenue	33,882,222	35,432,522	38,564,101
Dedicated Revenue	476	190	2
Transfers In	1,078,906	632,953	680,943
Prior Year Adjustments	199,254	50,000	50,000
Subtotal - Other Revenue	1,278,636	683,143	730,945
Subtotal-Current Resources	35,160,859	36,115,665	39,295,046
Total Resources Available	**36,449,532**	**37,116,284**	**39,667,579**
Actual & Estimated Spending			
K-12 Education	14,431,778	15,229,370	15,780,669
K-12 Ptx Rec Shift/Aid Payment Shift	1,075,615	(51,775)	(51,650)
Subtotal K-12 Education	15,507,393	15,177,595	15,729,019
Higher Education	2,568,830	2,565,262	2,565,262
Property Tax Aids & Credits	2,794,170	2,710,851	2,785,800
Health & Human Services	10,654,459	11,362,473	12,312,867
Public Safety	1,855,421	1,825,379	1,834,981
Transportation	126,125	180,050	180,050
Environment, Energy & Natural Resources	283,798	265,933	277,886
Agriculture	77,585	77,560	77,560
Economic Development	203,554	165,272	165,272
State Government	917,306	912,596	916,739
Debt Service	414,640	1,287,517	1,425,442
Capital Projects & Grants	45,162	233,073	261,859
Deficiencies/Other	14,994	0	0
Estimated Cancellations	(15,000)	(20,000)	(20,000)
Subtotal Expenditures & Transfers	**35,448,437**	**36,743,561**	**38,512,737**
Dedicated Expenditures	476	190	2
Total Expenditures & Transfers	**35,448,913**	**36,743,751**	**38,512,739**
Balance Before Reserves	**1,000,619**	**372,533**	**1,154,840**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	649,312	649,312	649,312
Stadium Reserve	1,307	0	0
Budgetary Balance	**0**	**(626,779)**	**155,528**
Structural Balance	***(288,054)***	***(628,086)***	***782,307***

Historical and Projected Revenue Growth
February 2013 Forecast

($ in millions)	Actual FY 2010	Actual FY 2011	Closing FY 2012	Estimated FY 2013	Estimated FY 2014	Estimated FY 2015	Average Annual
Individual Income Tax	$6,531	$7,529	$7,972	$8,648	$8,595	$9,138	
$ change		998	443	676	(53)	543	
% change		**15.3%**	**5.9%**	**8.5%**	**(0.6%)**	**6.3%**	**6.9%**
Sales Tax	4,177	4,403	4,678	4,817	4,962	5,113	
$ change		226	275	139	145	151	
% change		**5.4%**	**6.2%**	**3.0%**	**3.0%**	**3.0%**	**4.1%**
Corporate Tax	664	925	1,044	1,165	1,043	958	
$ change		261	119	121	(122)	(85)	
% change		**39.3%**	**12.9%**	**11.6%**	**(10.5%)**	**(8.1%)**	**7.6%**
Statewide Property Tax	767	767	799	817	835	851	
$ change		0	32	18	18	16	
% change		**0.0%**	**4.2%**	**2.3%**	**2.2%**	**1.9%**	**2.1%**
Motor Vehicle Sales	74	31	0	0	0	0	
$ change		(43)	(31)	0	0	0	
% change		**(58.1%)**	**(100.0%)**	**n/a**	**n/a**	**n/a**	**(100.0%)**
Other Tax Revenue	1,153	1,200	1,158	1,209	1,233	1,291	
$ change		47	(42)	51	24	58	
% change		**4.1%**	**(3.5%)**	**4.4%**	**2.0%**	**4.7%**	**2.3%**
Total Tax Revenue	$13,366	$14,855	$15,651	$16,656	$16,668	$17,351	
$ change		1,489	796	1,005	12	683	
% change		**11.1%**	**5.4%**	**6.4%**	**0.1%**	**4.1%**	**5.4%**
Non-Tax Revenues	805	808	774	800	709	705	
$ change		3	(34)	26	(91)	(4)	
% change		**0.4%**	**(4.2%)**	**3.4%**	**(11.4%)**	**(0.6%)**	**(2.6%)**
Dedicated, Transfers, Other	448	521	661	619	331	352	
$ change		73	140	(42)	(288)	21	
% change		**16.3%**	**26.9%**	**(6.4%)()**	**(46.5%)**	**6.3%**	**(4.7%)**
Total Current Resources	$14,619	$16,184	$17,086	$18,075	$17,708	$18,408	
$ change		1,565	902	989	(367)	700	
% change		**10.7%**	**5.6%**	**5.8%**	**(2.0%)**	**4.0%**	**4.7%**

Historical and Projected Spending Growth
February 2013 Forecast

($ in millions)	Actual FY 2010	Actual FY 2011	Closing FY 2012	Estimated FY 2013	Estimated FY 2014	Estimated FY 2015	Average Annual
K-12 Education	$5,338	$6,078	$6,625	$8,883	$7,513	$7,665	
$ change		740	547	2,258	(1,370)	152	
% change		**13.9%**	**9.0%**	**34.1%**	**(15.4%)**	**2.0%**	**7.5%**
Higher Education	1,456	1,357	1,275	1,293	1,283	1,283	
$ change		(99)	(82)	18	(10)	0	
% change		**(6.8%)**	**(6.0%)**	**1.4%**	**(0.8%)**	**0.0%**	**(2.5%)**
Prop. Tax Aids & Credits	1,614	1,401	1,457	1,337	1,346	1,365	
$ change		(213)	56	(120)	9	19	
% change		**(13.2%)**	**4.0%**	**(8.2%)**	**0.7%**	**1.4%**	**(3.3%)**
Health & Human Services	4,104	4,323	5,385	5,269	5,759	5,603	
$ change		219	1,062	(116)	490	(156)	
% change		**5.3%**	**24.6%**	**(2.2%)**	**9.3%**	**(2.7%)**	**6.4%**
Public Safety	856	946	883	973	912	913	
$ change		90	(63)	90	(61)	1	
% change		**10.5%**	**(6.7%)**	**10.2%**	**(6.3%)**	**0.1%**	**1.3%**
Debt Service	429	401	192	223	634	653	
$ change		(28)	(209)	31	411	19	
% change		**(6.5%)**	**(52.1%)**	**16.1%**	**184.3%**	**3.0%**	**8.8%**
All Other	830	829	763	891	888	927	
$ change		(1)	(66)	128	(3)	39	
% change		**(0.1%)**	**(8.0%)**	**16.8%**	**(0.3%)**	**4.4%**	**2.2%**
Total Spending	$14,627	$15,335	$16,580	$18,869	$18,335	$18,409	
$ change		708	1,245	2,289	(534)	74	
% change		**4.8%**	**8.1%**	**13.8%**	**(2.8%)**	**0.4%**	**4.7%**