MINNESOTA Management & Budget

Budget & Economic Forecast

February 2014

HIGHLIGHTS

Small Revenue Gain Drives Increase in Forecast Balance

The general fund balance expected for FY 2014-15 is now $1.233 billion, $408 million higher than forecast in November. General fund revenues are expected to be $39.575 billion, $366 million (0.9 percent) above November's forecast. Spending is expected to be $39.019 billion, $48 million (0.1 percent) less. These changes, offset by a $6 million increase in stadium reserves, increased the forecast balance from the $825 million forecast in November.

Solid Economic Performance, Strong Tax Collections Add to Forecast

Continuing growth in Minnesota employment and income contributes to the increase in forecast revenues. So far in FY 2014, individual estimated income tax payments have been higher than expected, but most of this increase is likely due to taxpayers changing the timing of their payments, rather than higher tax liabilities. Forecast tax revenues increased $362 million (1.0 percent) in FY 2014-15. Higher income and sales tax estimates account for almost all of the gain.

U.S. Economic Outlook Has Improved

Positive momentum at the end of 2013 has contributed to an improved U.S. economic outlook. In addition, less federal policy uncertainty is increasing confidence. Global Insight expects economic activity to accelerate through 2015, fueled by an upturn in consumer spending, improved housing and equipment investment, and the easing of federal fiscal drag. Real GDP growth is now forecast to be 2.7 percent in 2014 and 3.3 percent in 2015. November's baseline called for 2.5 percent growth in 2014 and 3.1 percent in 2015.

Long Term Budget Outlook Remains Positive

Improved budget outlook continues into FY 2016-17. Without adjusting for inflation, there is a positive balance of $2.599 billion going into the 2014 session. Economic changes as well as the nature and timing of any budget changes may materially affect both revenue and expenditure projections for the next biennium.

400 CENTENNIAL BUILDING ♦ 658 CEDAR STREET ♦ ST. PAUL, MINNESOTA 55155 ♦ (651) 201-8000

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EXECUTIVE SUMMARY

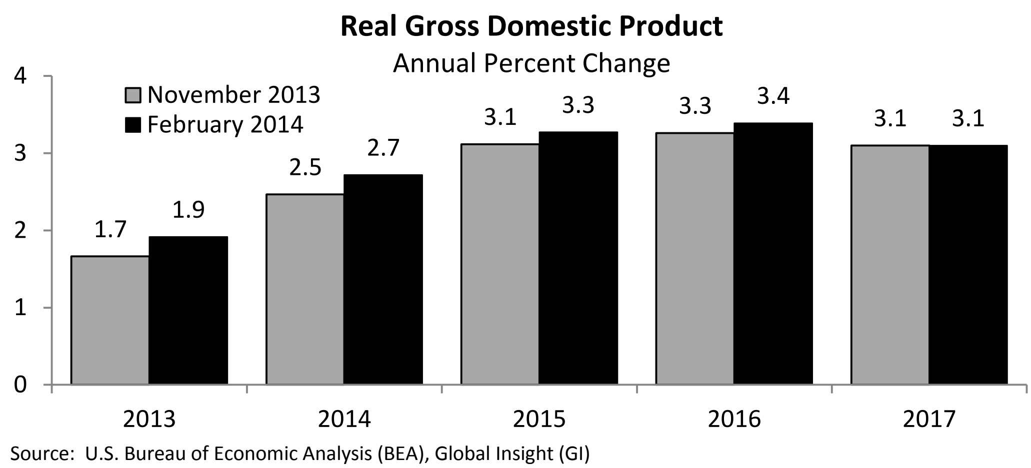
A stronger U.S economic outlook is mirrored in Minnesota's economic and budget forecast. Positive year-to-date revenue collections combined with ongoing improvement in Minnesota's economy contribute to higher projected revenues for the remaining 16 months of the current biennium. Forecast revenues are up $366 million compared to previous estimates, largely due to projected increases in income and sales tax collections. Forecast spending is down $48 million due in part to savings in K-12 education aids and property tax refund programs. After transferring $6 million to the stadium reserve, these changes leave a projected $1.233 billion balance for the current biennium.

U.S. Economic Outlook: The outlook for U.S. economic growth has improved since the November 2013 *Budget and Economic Forecast.* The economy ended 2013 on a positive note, with real GDP growing at a respectable 3.2 percent annual rate in the fourth quarter, down from a very solid 4.1 percent pace in the third quarter. In addition, Washington lawmakers passed a federal budget for fiscal year 2014, avoiding further sequestration cuts and removing the threat of a government shutdown this year. Congress also reached a clean resolution to raise the federal borrowing limit until March 2015, and the Federal Reserve began scaling back its bond-buying program, citing less fiscal drag and diminishing risks to the outlook. These factors build positive momentum, setting the stage for a stronger 2014.

The economy's solid fundamentals support this improved outlook. Household balance sheets are much improved, employment growth has averaged nearly 180,000 net new jobs a month over the past six months, and pent-up demand for housing and autos is set to gain traction. On top of that, the impact of fiscal austerity from 2013 is quickly fading, global growth is still on the mend, and reduced federal policy uncertainty has consumers and businesses feeling more confident.

Despite these positive developments, near-term factors merit attention. Minnesota Management and Budget's macroeconomic consultant Global Insight (GI) expects an unusually large buildup of inventories in late 2013 to be followed up by a sharp, though temporary, deceleration in restocking during the first half of 2014. A recent run of disappointing economic reports on jobs, housing, and manufacturing also suggests this year may be off to a slow start, as severe winter weather appears to have weakened activity. As a result, first quarter real GDP growth is expected to slow to just 1.9 percent. Nonetheless, GI believes these setbacks are only temporary, and expect stronger growth later this year. Final sales (a measure of GDP that excludes inventory effects) during the current quarter are forecast to rise by a solid 2.7 percent and accelerate to an average annual rate of 3.3 percent through end of 2015. In GI's baseline forecast, that pick-up is fueled by an upturn in consumer spending, improved housing and equipment investment, and the easing of federal fiscal drag. The improved pace of economic growth is expected to generate faster job creation, lowering the unemployment rate to near 6 percent by the end the year.

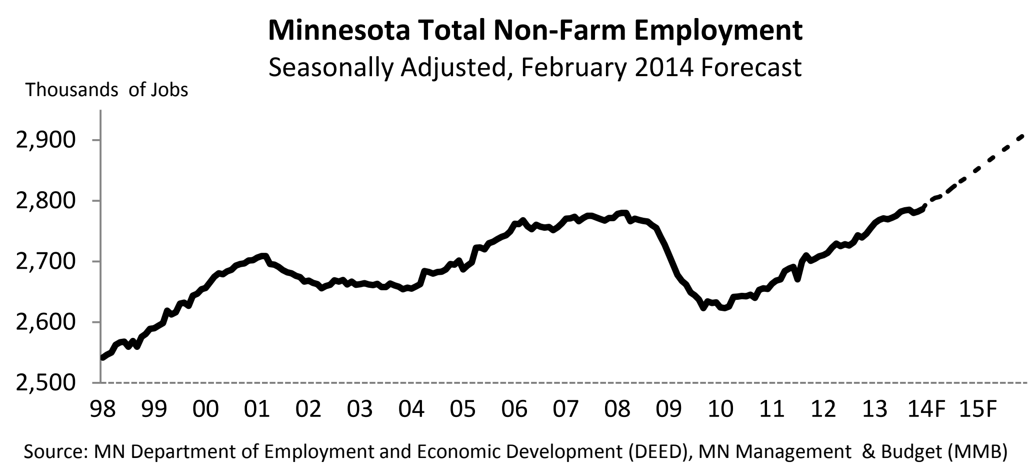
Global Insight's February 2014 baseline forecast calls for real GDP growth to accelerate from 1.9 percent in 2013, to 2.7 percent in 2014 and 3.3 percent in 2015. The November 2013 baseline forecast expected slightly weaker growth of 1.7 percent in 2013, followed by increases of 2.5 percent in 2014 and 3.1 percent in 2015. Global Insight's February baseline forecast for 2014 and 2015 is similar to the Blue Chip Consensus, the median of 50 business and academic forecasts. The Blue Chip forecast is for 2.9 percent growth in 2014, followed by 3.0 percent in 2015. Inflation continues to be of little concern. February's baseline anticipates CPI increases of 1.3 percent in 2014 and 1.7 percent in 2015. November's inflation outlook was similarly subdued.



The outlook for U.S. economic growth has improved since Minnesota's Budget and Economic Forecast was last prepared in November 2013. Global Insight's February 2014 baseline forecast calls for real GDP growth to accelerate from 1.9 percent in 2013, to 2.7 percent in 2014 and 3.3 percent in 2015.

Global Insight believes the most significant near-term threats facing the U.S. economy include a longer than expected downshift in monthly employment gains, additional fiscal policy missteps from Washington, weaker than expected growth in key trading partners, and interest rates rising sharply in reaction to either additional tapering or renewed fears of inflation. As in November, GI assigns a 60 percent probability to February's baseline and 20 percent probabilities to more pessimistic and optimistic alternative scenarios. In the pessimistic scenario, the U.S. economy suffers from the combination of unwarranted fiscal tightening and a deteriorating global economic outlook, including a worsening Eurozone crisis. The private sector retrenches, housing activity slows, and the recovery stalls in 2014, barely avoiding recession. In the optimistic scenario, the economy's solid fundamentals are enough to withstand recent headwinds and less policy uncertainty lifts business confidence, bringing about a renewed willingness to hire and invest. Faster employment and wage growth releases pent-up demand for durable goods. Consumers open their wallets, the housing recovery heats up, and economic growth reignites.

Minnesota Economic Outlook: Minnesota's economy continues to make solid gains. The Bureau of Economic Analysis (BEA) reports the state's real GDP rose 3.5 percent in 2012, ranking among the six fastest-growing state economies during that year, and most labor market indicators suggest that trend continued in 2013. Minnesota's unemployment rate ended the year at 4.6 percent, the lowest level since just before the recession began in December 2007 and a full two percentage points less than the nation. First time claims for jobless benefits have fallen to levels not observed in more than a decade. And leading indicators, such as temporary help employment, average hours worked, job vacancies, and the number of unemployed remain strong. On top of that, the state added 46,000 net new jobs, or 1.7 percent, in 2013, slightly stronger than the national rate of 1.6 percent, and gains are occurring across every major industry, with the exception of manufacturing and federal government employment. That diverse economic revival has helped Minnesota recover from recession faster than the nation. As of December 2013, state employment levels are now 16,800 jobs above the pre-recession peak. Nationally, employment remains about 1.2 million jobs (or 0.9 percent) below the peak.



Forecasts for state employment and wages have been revised based on recent Minnesota specific information and GI's February 2014 baseline. Economists at MMB believe that Minnesota's labor market continues to improve, and that better economic fundamentals are setting the stage for stronger and broader growth over the next several years.

Forecasts for state employment and wages have been revised based on recent Minnesota specific information and GI's February 2014 baseline. Economists at MMB believe that Minnesota's labor market continues to improve, and that better economic fundamentals are setting the stage for stronger and broader growth over the next several years. In MMB's February 2014 economic forecast, employment and income growth remain modest early this year, before accelerating during the second half of 2014, reflecting stronger consumer and business fundamentals in the broader U.S. economy, rising demand for new home construction, and improving global growth.

Still, uncertainties remain. Any unanticipated adverse developments in the U.S. economy, such as a longer than expected downshift in economic activity early this year, will have unfavorable effects on the Minnesota economy.

Budget Outlook: Minnesota's budget outlook continues to improve. The forecast balance for the end of current biennium is now expected to be $1.233 billion, $408 million above the $825 million projected in the November forecast. Forecast revenues are now expected to be $39.575 billion, $366 million higher than previous estimates. Revised spending for the biennium is expected to be $39.019 billion, $48 million below earlier estimates.

FY 2014-15 General Fund Forecast

($ in millions)

	November Forecast	February Forecast	$ Change
Beginning Balance	$ 1,712	$ 1,712	$ 0
Forecast Revenues	39,209	39,575	366
Forecast Expenditures	39,067	39,019	(48)
Cash Flow & Budget Reserves	1,011	1,011	0
Stadium Reserve	17	23	6
Forecast Balance	**$825**	**$1,233**	**$408**

These positive changes are minimally offset by a $6 million increase to the stadium reserve. While stadium-related revenues are largely unchanged, sale of the stadium bonds in January resulted in slightly lower costs. The difference increases the stadium reserve.

Unlike prior forecasts, there are no statutory allocations of the forecast balance. All prior obligations to repay payment shifts were completed in the November forecast.

General fund reserves remain unchanged at $1.011 billion: $350 million in the cash flow account and $661 million in the budget reserve. At this level, reserves equal slightly over 2.6 percent of general fund revenues forecast for the biennium.

Revenues: Higher revenues contribute $366 million to the forecast balance. Tax revenues for FY 2014-15 are projected to be $37.813 billion, $362 million (1.0 percent) more than forecast in November. Transfers and all other revenues are expected to be $1.762 billion, $4 million (0.2 percent) above the prior forecast.

Higher income and sales tax estimates are the source of almost all of the net increase in expected tax revenues. The individual income tax showed the largest dollar amount increase over prior estimates, up $188 million (1.0 percent), followed by the sales tax with an increase of $167 million (1.6 percent). A small $38 million (1.4 percent) increase in projected corporate tax collections was largely offset by a $31 million net reduction from minor changes to estimates for all other tax sources.

The change in the income tax forecast since November is primarily due to an increase in MMB's estimate of final liability for 2012, the base year for this forecast, and increased growth projections for some underlying economic variables, including business income. So far in FY 2014, individual estimated income tax payments have been higher than expected, but most of this increase is likely due to taxpayers changing the timing of their payments, rather than higher tax liabilities.

FY 2014-15 Forecast Revenues

($ in millions)

	November Forecast	**February Forecast**	**$ Change**
Individual Income Tax	$ 19,372	$ 19,560	$ 188
Sales Tax	10,194	10,361	167
Corporate	2,675	2,714	38
Statewide Property Tax	1,670	1,665	(4)
Other Taxes	3,541	3,513	(27)
Total Tax Revenues	37,451	37,813	362
All Other Revenues, Transfers	1,785	1,762	4
Total Revenues	**$ 39,209**	**$ 39,575**	**$ 366**

The increase in projected net sales tax revenues arises primarily from higher projected growth in economic activity and higher-than-expected recent sales tax receipts. However, because of uncertainty about the impact of recent law changes, this forecast does not reflect the higher growth rates implied by actual year-to-date receipts.

Spending: Forecast spending declined $48 million (0.1 percent). Total projected general fund expenditures and transfers are now expected to be $39.019 billion for the current biennium.

FY 2014-15 Forecast Expenditures

($ in millions)

	November Forecast	**February Forecast**	**$ Change**
K-12 Education	$16,654	$16,625	$(29)
Property Tax Aids & Credits	2,946	2,923	(24)
Health & Human Services	11,327	11,343	16
Debt Service	1,252	1,253	1
All Other	6,887	6,875	(12)
Forecast Spending	**$39,067**	**$39,019**	**$(48)**

Forecast health and human services spending is largely unchanged from the prior forecast, up $16 million (0.1 percent). Overall health care program enrollment and cost assumptions remained largely unchanged. Savings from lower payment rates for basic care for individuals with disabilities are more than offset by an $50 million transfer to the health care access fund required by law and an $8 million cost of delaying nursing facility level of care changes.

Savings in other spending areas were modest. Forecast K-12 education aids decreased $29 million. A small increase in pupil units was more than offset by minor changes in forecast compensatory aid and minor changes to other school aid factors. Reduced property tax refund estimates, due to lower participation and a small growth in income projections, contributed to a $24 million decline in property tax aids.

Forecast debt service on state general obligation bonds was largely unchanged, while a $12 million decline in all other spending includes $6 million in savings for the current biennium from the stadium bonds issued in January.

Planning Estimates: The FY 2016-17 planning estimates have improved slightly and provide a baseline against which the longer term impacts of any potential budget changes in the 2014 legislative session can be measured. Projected revenue collections are anticipated to be $2.599 billion higher than estimated spending without adjusting for inflation.

FY 2015-17 Planning Estimates

($ in millions)

	FY 2015	FY 2016	FY 2017
Resources	$20,132	$21,155	$22,128
Spending	19,561	20,133	20,551
Difference	$571	$1,022	$1,577
Inflation	-----	*$342*	*$725*

Projected revenues are based on longer term trend growth rates. Spending projections, however, assume no increases in spending will occur over the four-year period beyond those incorporated in current law for education aids, property tax aids and credits, and health care programs for enrollment, caseload, and current formula driven aids.

Expenditure projections do not include any adjustment for projected inflation. Inflation, based on the Consumer Price Index (CPI), is expected to be 1.7 percent in FY 2016 and 1.8 percent in FY 2017. At these levels, simply adjusting spending for the general impact of inflation would add nearly $1.1 billion to the planning estimates.

The planning estimates continue to display a structural balance - excluding reserves and any balance forecast for the current biennium. If the $1.233 forecast balance for the current biennium is not used or modified within the next year, it would carry forward into FY 2016-17 budget planning resources.

ECONOMIC OUTLOOK

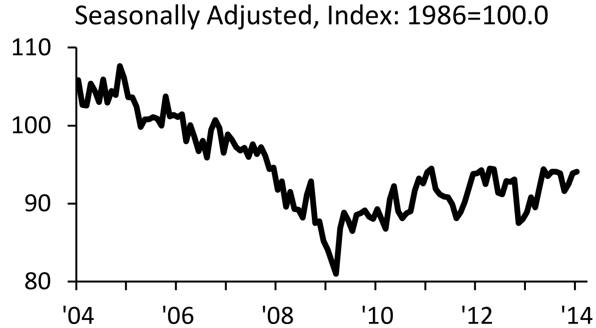
U.S. Economic Outlook

The outlook for U.S. economic growth has improved since Minnesota's *Budget and Economic Forecast* was last prepared in November 2013. Since that time, Washington lawmakers passed a federal budget for fiscal year 2014, avoiding further sequestration cuts and removing the threat of a government shutdown this year. Congress also reached a clean resolution to raise the federal borrowing limit until March 2015, and the Federal Reserve began scaling back its bond-buying program, citing less fiscal drag and diminishing risks to the outlook as a basis. In addition, positive momentum underlying the acceleration in economic growth during the second half of last year has set the stage for a stronger 2014.

The economy's solid fundamentals support this improved outlook. Household balance sheets are much improved, employment growth has averaged nearly 180,000 net new jobs a month over the past six months, and pent-up demand for housing and autos is set to gain traction. On top of that, the impact of federal fiscal austerity from 2013 is quickly fading, global growth is still on the mend, and consumers and businesses are feeling more confident since Washington lawmakers reopened the federal government last fall and avoided a repeat budget showdown earlier this year.

National Federation of Independent Business Index of Small Business Optimism

Seasonally Adjusted, Index: 1986=100.0



Source: National Federation of Independent Business;
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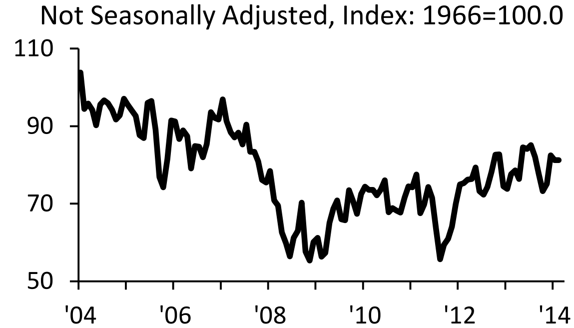
Reuters/University of Michigan Index of Consumer Sentiment

Not Seasonally Adjusted, Index: 1966=100.0

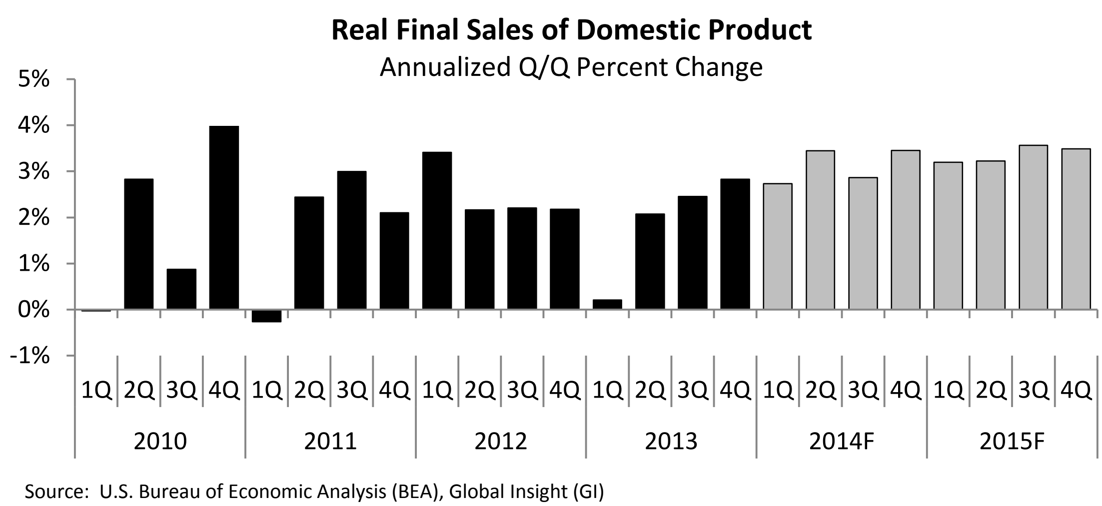


Source: Reuters/University of Michigan

Consumers and businesses are feeling more confident since Washington lawmakers reopened the federal government last fall and avoided a repeat budget showdown earlier this year.

The U.S. economy ended 2013 on a positive note. Real GDP grew at a respectable 3.2 percent annual rate in the fourth quarter, down from a very solid 4.1 percent pace in the third quarter. Each of the past two quarters' data was dominated by an unusually large jump in inventory accumulation. Private inventory growth in the third quarter was the largest in three years, and growth in the fourth quarter edged even higher. Nonetheless, final sales, a measure of underlying demand that excludes the impact of inventory swings, grew a solid 2.8 percent in the fourth quarter, following an increase of 2.5 percent in the third quarter, and up from an average of 1.1 percent during the first half of the year. That acceleration in final sales occurred despite a huge drag from reductions in federal government spending, which subtracted nearly a full percentage point from GDP growth in the fourth quarter as a result of the October shutdown and ongoing effects of the spending sequester. With the recent budget agreement, most of these effects from less federal government spending will not carry over into 2014.

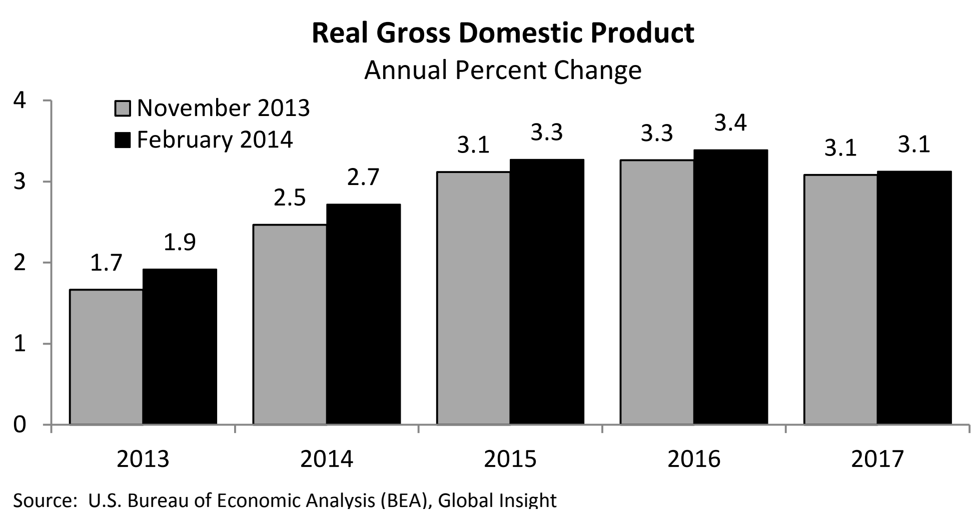
Minnesota Management and Budget's macroeconomic consultant Global Insight (GI) expects an unusually large buildup of inventories in late 2013 to be followed up by a sharp, though temporary, deceleration in restocking during the first half of 2014. A recent run of disappointing economic reports on jobs, housing, and manufacturing also suggests this year may be off to a slow start, as severe winter weather appears to have weakened activity. As a result, first quarter real GDP growth is expected to slow to just 1.9 percent. Nonetheless, GI believes these setbacks are only temporary, and expect stronger growth later this year. Real final sales are forecast to rise by a solid 2.7 percent, and accelerate to an average annual rate of 3.3 percent through end of 2015. Global Insight believes that pick-up will be fueled by an upturn in consumer spending, improved housing and equipment investment, and the easing of federal fiscal drag. The improved pace of economic growth is expected to generate faster job creation, lowering the unemployment rate to near 6 percent by the end the year.



Real final sales grew a solid 2.8 percent in the fourth quarter of 2013, following an increase of 2.5 percent in the third quarter, and up from an average of 1.1 percent during the first half of the year. That positive underlying momentum during the second half of last year sets the stage for a stronger 2014.

Global Insight's February 2014 baseline forecast calls for real GDP growth to accelerate from 1.9 percent in 2013, to 2.7 percent in 2014 and 3.3 percent in 2015. The November 2013 baseline forecast expected slightly weaker growth of 1.7 percent in 2013, followed by increases of 2.5 percent in 2014 and 3.1 percent in 2015. Global Insight's February baseline forecast for 2014 and 2015 is similar to the Blue Chip Consensus, the median of 50 business and academic forecasts. The Blue Chip forecast is for 2.9 percent growth in 2014, followed by 3.0 percent in 2015. Inflation continues to be of little concern. February's baseline anticipates CPI increases of 1.3 percent in 2014 and 1.7 percent in 2015. November's inflation outlook was similarly subdued.

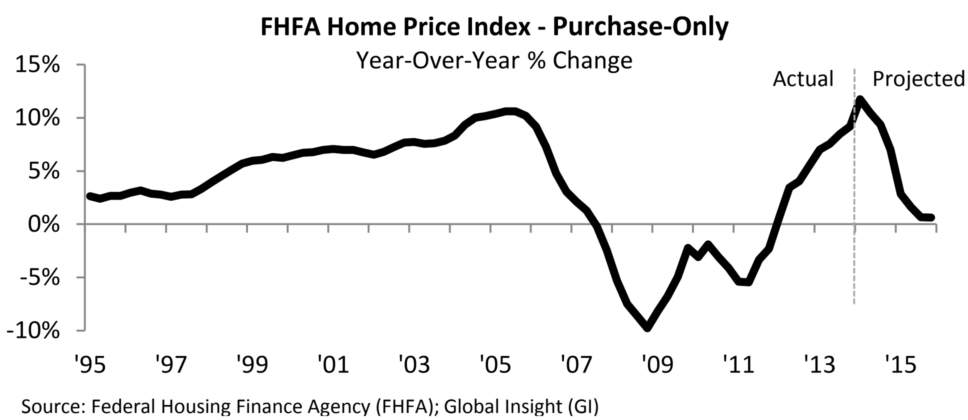
Global Insight believes the most significant near-term threats facing the U.S. economy include a longer than expected downshift in monthly employment gains, additional fiscal policy missteps from Washington, weaker than expected growth in key trading partners, and interest rates rising sharply in reaction to either additional tapering or renewed fears of inflation. As in November, GI assigns a 60 percent probability to February's baseline and 20 percent probabilities to more pessimistic and optimistic alternative scenarios. In the pessimistic scenario, the U.S. economy suffers from the combination of unwarranted fiscal tightening and a deteriorating global economic outlook, including a worsening Eurozone crisis. The private sector retrenches, housing activity slows, and the recovery stalls in 2014, barely avoiding recession. In the optimistic scenario, the economy's solid fundamentals are enough to withstand recent headwinds and less policy uncertainty early this year lifts business confidence, bringing about a renewed willingness to hire and invest. Faster employment and wage growth releases pent-up demand for durable goods. Consumers open their wallets, the housing recovery heats up, and economic growth reignites.



The outlook for U.S. economic growth has improved since Minnesota's Budget and Economic Forecast was last prepared in November 2013. Global Insight's February baseline forecast calls for real GDP growth to accelerate from 1.9 percent in 2013, to 2.7 percent in 2014 and 3.3 percent in 2015.

Consumers Proceed with Caution. Stronger economic fundamentals are providing welcome momentum heading into 2014. First, households have rebuilt a large share of the wealth lost during the recession, as home prices have increased rapidly over the past few years and equities soared in 2013. The Dow Jones industrial average and S&P 500, for example, ended last year at record highs, and the Nasdaq surged to its highest level since 2000. Second, consumers have significantly reduced debt burdens and begun to take on more overall consumer debt. Finally, the labor market is improving, which is expected to boost consumer confidence and be the main driver behind faster spending growth. Nonetheless, consumers still face a number of persistent headwinds, including high unemployment and slow wage growth.

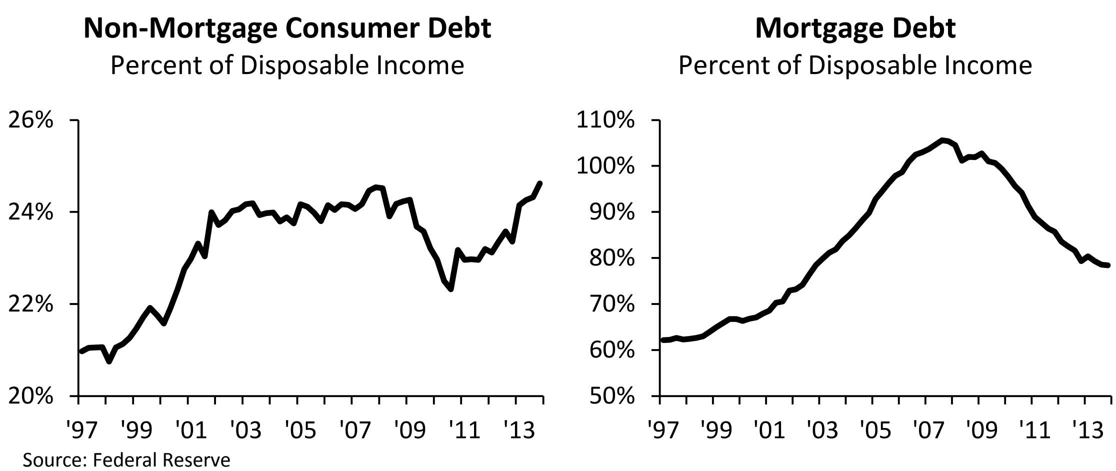
A long-awaited housing recovery is underway, as sales of both new and existing homes continue to gain traction. Ultralow inventories are fueling more competition among buyers and pushing up home prices. The Federal Housing Finance Agency (FHFA) purchase-only home price index rose 7.7 percent in 2013, the biggest gain since 2005. But home prices remain low compared to pre-recession peaks. Average house prices are still down about 7 percent from their early 2007 peak. Global Insight expects home prices to grow at double-digit annual rates during the first half of 2014, until new inventories come online this summer. The FHFA purchase only home price index is expected to rise 7.0 percent in 2014 and slow to 0.6 percent growth in 2015. And as home price growth decelerates later this year and income growth picks up, affordability is expected to improve. Sales of new houses, which rose 16.7 percent in 2013 (to 430,000 units), are forecast to increase 22.8 percent in 2014 (to 528,000 units) and 37.7 percent in 2015 (to 726,000 units). Existing home sales, however, are forecast to slow from growth of 8.9 percent in 2013 (to 5.07 million units), to growth of 4.4 percent in 2014 (to 5.30 million units), due in part to the introduction of the Qualified Mortgage (QM) rule earlier this year, which requires lenders to thoroughly assess the borrower's ability to repay and may lengthen the mortgage approval process.



The Federal Housing Finance Agency (FHFA) purchase-only home price index rose 9.2 percent in 2013 (fourth-quarter to fourth-quarter), the biggest gain since 2005. Global Insight expects home prices to grow at double-digit annual rates during the first half of 2014, until new inventories come online this summer.

Households have made significant progress toward rebuilding the wealth lost during the recession. The Federal Reserve's flow of funds report shows that household net worth (the value of assets like homes, bank accounts and stocks, minus debts like mortgages and credit cards) has surpassed its precession peak, thanks in large part to strong gains in the value of real estate and equity assets. However, after adjusting for inflation and population growth, real net worth per capita is still nearly 5 percent less than it was just before nationwide home prices began to unravel in early 2007. Hence, despite a sharp turnaround in home and stock prices, the household balance sheet is now only returning to what it was prior to the recession. Looking forward, the improving economy should continue to put upward pressure on asset prices. Gains in wealth will have a positive impact on spending growth.

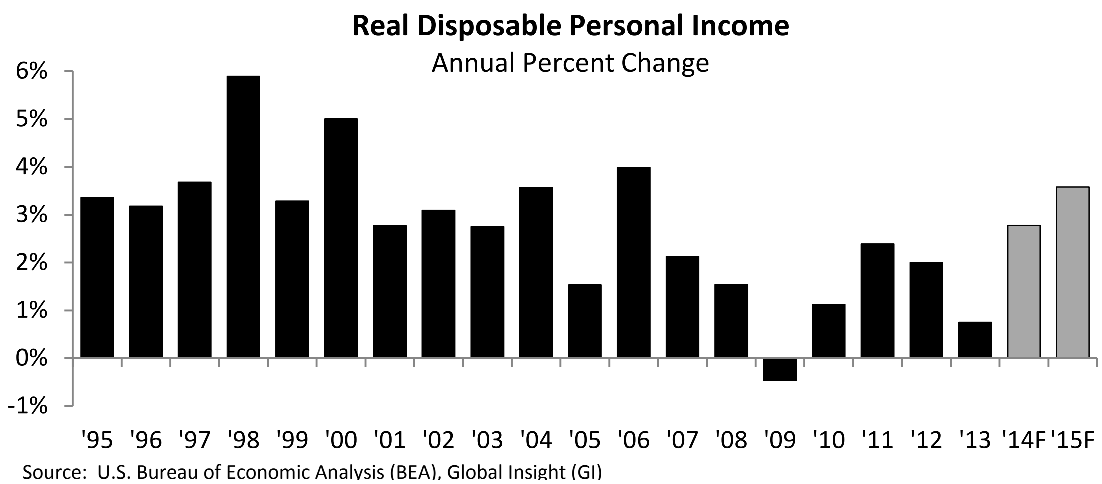
Declines in liabilities are also improving household finances. Total household liabilities have fallen 10 percent since mid-2008 according to Equifax. Consumers are taking on more non-mortgage debt, mainly in the form of lower-interest big-ticket items such as auto and student loans. But mortgage debt has been shrinking for nearly six years and consumers are still hesitant to run up large credit card bills for smaller discretionary purchases. Revolving credit outstanding, mostly credit card loans, was about $860 billion near the end of 2013, down $165 billion (16 percent) from its mid-2008 peak and virtually unchanged since late 2010. With household balance sheets much improved, GI expects growth in household debt, including mortgage loans, to pick up modestly in 2014 for the first time since early 2008.



Household balance sheets are much improved. Consumers are taking on more non-mortgage debt, mainly in the form of lower-interest big-ticket items such as auto and student loans, but mortgage debt has been shrinking for nearly six years.

High unemployment and slow income were headwinds to stronger consumer spending in 2013. The U.S. jobless rate (at 6.6 percent) is still well above pre-recession levels and slumping business confidence has continued to keep hiring plans on hold. The economy added an average of 194,000 jobs per month in 2013, only slightly more than the average gains recorded in 2011 and 2012. The resulting labor market slack is limiting upward pressure on wages. Last year, steep government spending cuts reduced federal workers' salaries and higher payroll taxes cut into workers' take-home pay. After accounting for the bigger tax bite and inflation, real disposable income rose just 0.7 percent in 2013, down from an average of 2.2 percent the preceding two years. Both figures represent a clear downshift from the 3.0 percent pace experienced during the last expansion.

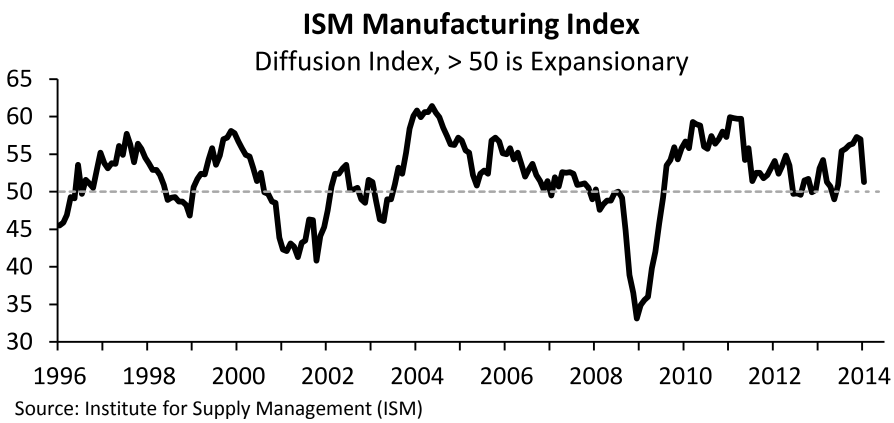
The key missing ingredient to a full-fledged, self-sustaining expansion, where employment, incomes, and consumer spending all break free from lackluster growth, has been confidence. The lingering grip of the Great Recession, along with heightened federal policy uncertainty, has undermined confidence during the recovery, worrying consumers and businesses alike. Last October, the federal government shutdown and debt-ceiling crisis severely tested consumer confidence again. Separate measures released by the Conference Board and the Reuters/University of Michigan showed that confidence among U.S. consumers during the month dropped back sharply to near two-year lows. Yet optimism has roared back quickly to near recovery highs and federal policymakers peacefully avoided a similar showdown earlier this year. That offers hope that once the weather normalizes and job and income growth accelerate, confidence will climb even higher in 2014. This will have a positive impact on consumer spending this year.



After accounting for a bigger tax bite and inflation, real disposable income rose just 0.7 percent in 2013, down from an average of 2.2 percent the preceding two years and a clear downshift from the 3.0 percent pace experienced during the last expansion.

Despite high unemployment, tax-restrained income growth, and low confidence, consumers still managed to modestly increase spending late last year. Real consumer spending grew at a solid 3.2 percent annualized rate in the fourth quarter of 2013, the fastest annual rate since late 2010. Global Insight believes it will be difficult for consumers to sustain current rates of spending without strong and sustainable increases in employment and real income. Employment growth is expected to accelerate during the second half of 2014, with average monthly gains rising to more than 270,000 by late 2014. Real disposable income growth is expected to pick up to 2.8 percent in 2014 and 3.6 percent in 2015. With job and wage growth rising, real consumer spending growth is expected to accelerate from 2.0 percent in 2013, to 2.7 percent in 2014 and 3.1 percent in 2015, led by autos and other big-ticket durable items.

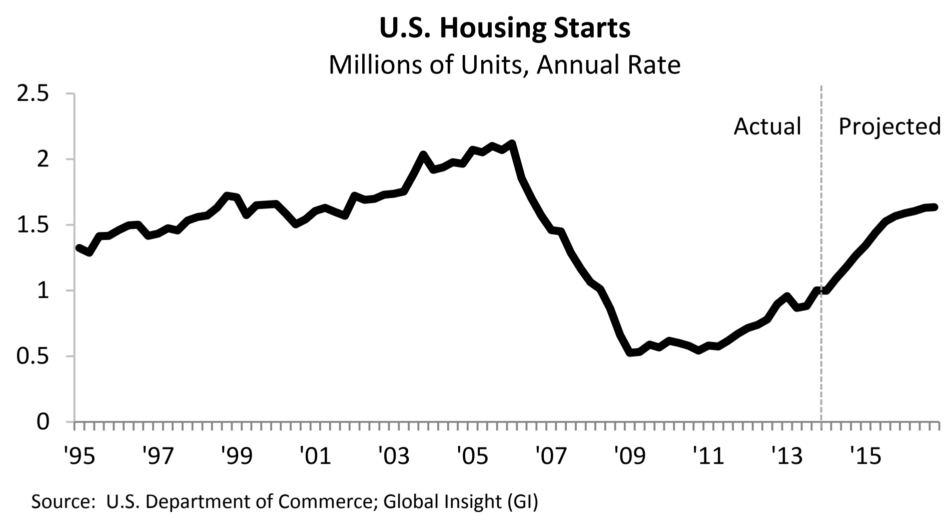
Businesses are Cautiously Optimistic. Manufacturing output remains an important source of economic strength. The slowdown in manufacturing that began in mid-2013 was only temporary, as production ended the year on a positive note. The Federal Reserve's manufacturing output index expanded at a 6.2 percent annual pace during the fourth quarter of 2013, an improvement from 1.5 percent growth in the third quarter and the 2.3 percent annual growth recorded for calendar 2013. Similarly, the Commerce Department reports that factory orders of core capital goods (nondefense capital goods excluding aircraft), a leading indicator for future capital expenditure growth, rose 3.2 percent on an annualized basis during the last three months of 2013, after deteriorating sharply the three months prior. That said, according to the Institute for Supply Management (ISM), manufacturing activity in January grew at the weakest pace in eight months, although Global Insight believes severe winter weather was most likely a significant factor. Once weather conditions normalize, GI expects to see markedly improved production activity in 2014. Manufacturing output is expected rise 3.1 percent in 2014, and expands at a more rapid pace of 4.1 percent in 2015.



According to the Institute for Supply Management (ISM), manufacturing activity in January grew at the weakest pace in eight months, although severe winter weather was most likely a significant factor in the drop.

One of the main factors behind the stronger forecast for output growth is the nation's housing recovery. Single-family housing starts and new home sales lost momentum in 2013, largely due to higher interest rates earlier in the year. But GI believes the market for new homes is poised for a stronger 2014. The 30-year fixed mortgage rate is expected to average 4.6 percent this year, up from 4.0 in 2013, but still low relative to historic norms. Rising home prices suggest that demand is increasing faster than supply, supporting growth in both single-family and multi-family structures. Housing starts grew 18 percent in 2013 (to 928,000), and are forecast to rise 22 percent in 2014 (to 1.13 million) and 30 percent in 2015 (to 1.47 million). With the rise in housing starts, GI expects growth in real residential construction spending to accelerate from 12.0 percent in 2013, to 12.5 percent in 2014 and 18.8 percent in 2015.

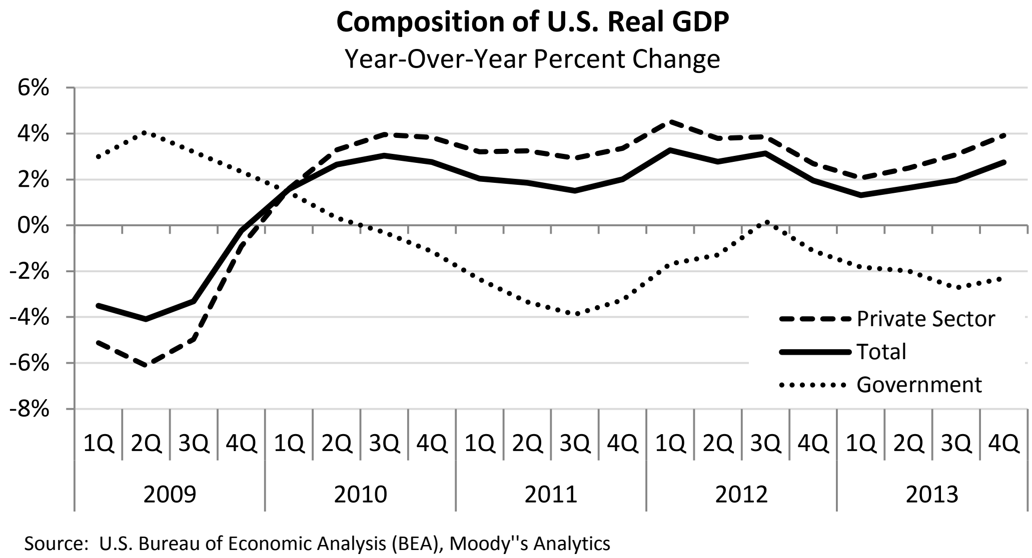
Another important driver of output growth is business investment. U.S. corporate profits and margins are still at all-time highs, many producers have very strong cash positions, and borrowing costs remain low. Thus fundamentals exist for solid gains in capital spending. But companies have not been expanding due in large part to persistent short-term policy uncertainty. At the end of 2012, a pull-back in business spending was attributed to a growing concern over the fiscal cliff and anticipated expiry of bonus depreciation. Last spring, concerns about the threat of sequestration were weighing on orders and production. And in October, the economic stress caused by the federal government shutdown and the threat of a default took a significant toll on business confidence. But this appears to be changing, as the recent budget and debt ceiling deals offer encouraging signs that policy uncertainty is subsiding in 2014. To be sure, implementation of the Affordable Care Act (ACA) as well as new Dodd-Frank financial regulations coming online early this year will add to uncertainty. Nonetheless, GI expects real investment in equipment to accelerate from 2.9 percent growth in 2013, to 6.3 percent in 2014 and 9.9 percent in 2015, consistent with an improving economy. Real investment in intellectual property rose 3.1 percent in 2013, and is forecast to rise 4.1 percent in 2014 and 4.7 percent in 2015. Finally, GI does not expect business construction to materially contribute to economic growth until early 2015 because of the long lead times for projects. Real spending growth on business structures is forecast to advance modestly from 1.3 percent in 2013, to 3.8 percent in 2014 and 3.4 percent in 2015.



U.S. housing starts lost momentum in 2013, largely due to higher interest rates earlier in the year. But rising home prices suggest that demand is increasing faster than supply, supporting growth in both single-family and multi-family structures. Thus Global Insight believes the market for new homes is poised for a stronger 2014 and 2015.

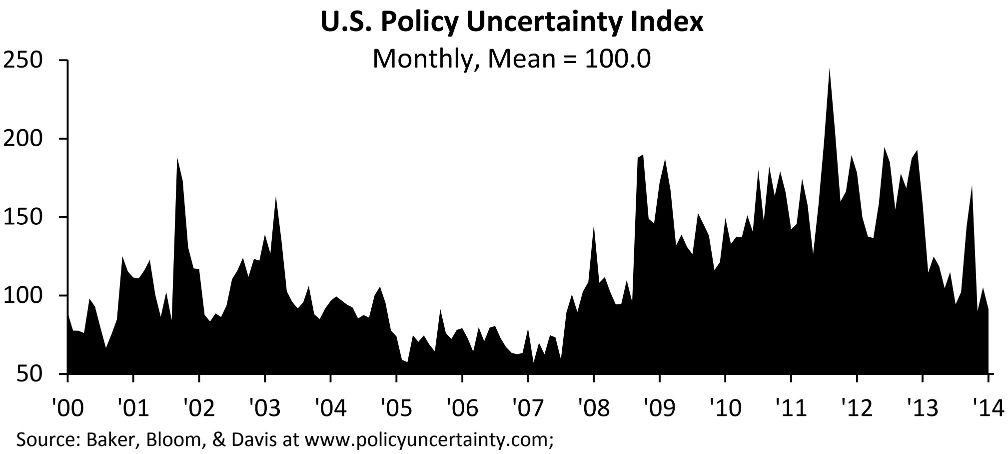
Relief from Chronic Political Brinksmanship. Federal policymakers appear to have lost their appetite for economically destabilizing budget showdowns. Instead, since reopening the federal government last fall, Washington lawmakers have peacefully resolved a wide-range of near-term fiscal deadlines. In December, federal policymakers approved the Bipartisan Budget Act, a bipartisan deal that establishes discretionary funding levels for two years, provides some relief from the sequester, and avoids further cuts to defense spending. In January, lawmakers enacted a $1.1 trillion omnibus spending bill that fleshes out the details of the agreement passed a month earlier for the rest of fiscal year 2014. And in February, Congress agreed to extend the government's borrowing authority until March 2015, thus removing any near-term threat of default. These agreements will quickly help stabilize the economic impact of fiscal policy in early 2014, as fading fiscal drag from 2013 will begin to support growth this year. Less fiscal drama may also help lessen the heightened policy uncertainty that has been weighing on private sector confidence for several years. Nevertheless, these measures do not extend emergency unemployment benefits that expired at the end of last year, reforms to the financial and healthcare systems are coming online in early 2014, and lawmakers have yet to reach agreement on a sustainable and comprehensive solution to the nation's long-term debt challenges. Thus many fiscal risk factors remain.

Chronic political brinksmanship over the past several years has resulted in budget battles that have placed disproportionate focus on the near-term deficit and distracted lawmakers from enacting measures in support of growth. In 2013, Moody's Analytics estimates tax increases and spending cuts reduced economic growth by up to 1.5 percentage points, more than any other year since World War II. In other words, if not for fiscal tightening, the economy would have grown 3.4 percent, or about the average growth rate of the private economy over the past three years. With the recent fiscal agreements, Moody's Analytics expects the economic drag from fiscal policy to fade to no more than 0.4 percentage point in 2014, and be minimal in 2015 and 2016. Thus less fiscal austerity should provide a significant boost to economic growth this year, making the underlying strength of the private economy more apparent.



Moody's Analytics estimates that if not for fiscal tightening in 2013, the economy would have grown 3.4 percent, or about the average growth rate of the private economy over the past three years.

The 16-day federal government shutdown and debt ceiling debate last October shook consumer and business confidence. The University of Michigan's consumer sentiment index slipped this past fall to levels not observed since the end of 2012, when consumers were mulling over the prospect of higher taxes associated with the fiscal cliff, and has not fully recovered. The heightened political uncertainty has had measurable economic consequences. Businesses have been more reluctant to invest and consumers more cautious about spending. The result has been reduced hiring and slower economic growth. Researchers at Macroeconomic Advisors, Moody's Analytics, and the San Francisco Fed have all concluded that increased political uncertainty since the recovery began in 2009 has lowered real GDP by at least $150 billion and raised the unemployment rate by more than ½ percentage point, the equivalent of about 1 million jobs lost. The recent budget and debt ceiling agreements could ease policy uncertainty and boost private sector confidence in 2014, as job growth and the housing market gain traction.



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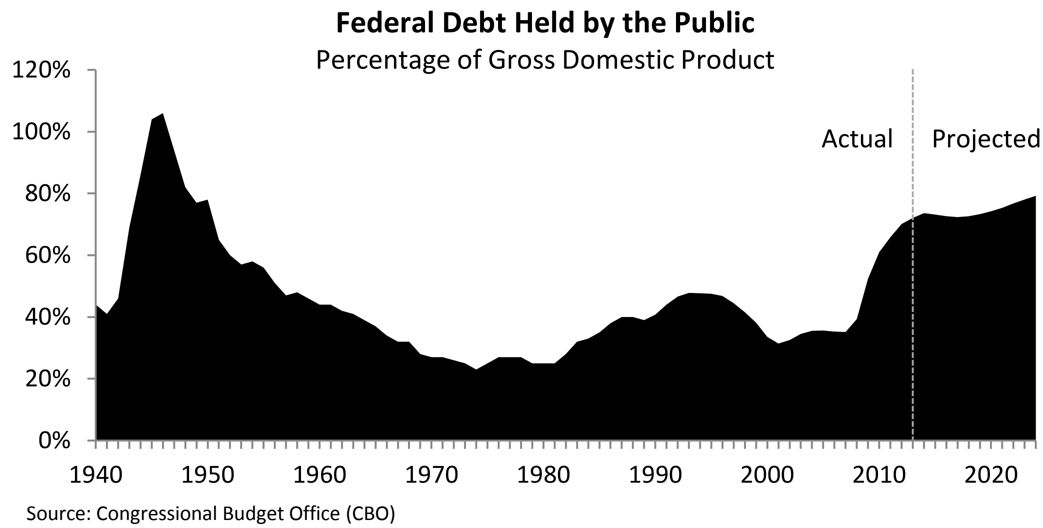
Washington lawmakers still face serious long-term fiscal challenges. The federal government's near term-fiscal outlook has improved, largely due to an improving economy and a mix of fiscal tightening. The U.S. Treasury Department reports that the federal government deficit shrank to $680 billion in fiscal year 2013, a meaningful improvement after four straight years of $1 trillion-plus deficits. But CBO projects that the budget gap between spending and revenues will begin to steadily widen again after 2015, as rising healthcare costs, an aging population, and an expansion of federal subsidies for health insurance increase budgetary pressures in coming decades. Without broad-based structural changes to the tax code and entitlement programs, CBO projects higher annual deficits will lead to large and growing federal debt relative to the size of the economy. CBO warns that such high and rising debt could have serious negative economic consequences, eventually increasing the risk of a fiscal crisis.

Global Insight has incorporated the discretionary spending levels from the Bipartisan Budget Act into the February baseline. A decline in some forms of discretionary spending is expected this year due to previous rounds of sequestration and funding cutbacks. Global Insight projects defense outlays to fall 1.1 percent in FY 2014, compared with a 7.0 percent decline in FY 2013. Non-defense discretionary outlays are projected to rise just 0.2 percent, compared with a 2.5 percent decline last year. Partly as a result, government spending contributions to real GDP growth are slightly negative in 2014, though much smaller than in 2013. Global Insight expects the deficit to fall to 3.6 percent of GDP in fiscal year 2014 from 4.1 percent in fiscal year 2013. The February forecast also assumes that the extended unemployment benefits will not be renewed into 2014.

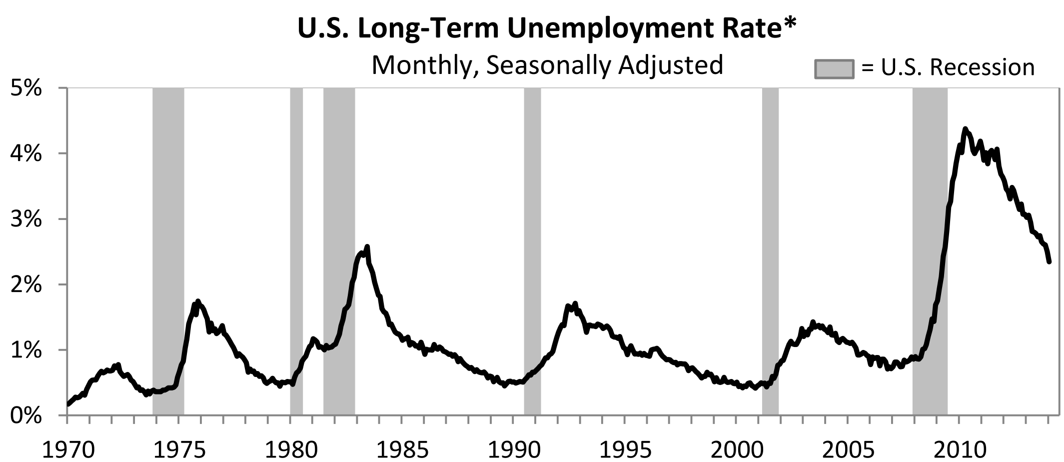


CBO projects that the federal deficit will narrow over the next several years. But rising healthcare costs, an aging population, and an expansion of federal subsidies for health insurance are expected to increase budgetary pressures in coming decades.

Federal Reserve Begins Tapering Stimulus Program. During her first semiannual testimony to Congress in mid-February, newly installed Federal Reserve Board Chair Janet Yellen stated that inflation has remained low, while the recovery in the labor market is far from complete. Indeed, both the headline and core personal consumption expenditures, or PCE, price indexes rose only about 1 percent in 2013, well below the Federal Reserve's long-term objective of 2 percent. Likewise, at 6.6 percent, the unemployment rate is still well above normal levels, long-term unemployment and underemployment remain high, and the labor force participation rate continues to fall. The combination of low inflation and high unemployment has allowed the Fed to maintain highly accommodative monetary policies.

Under normal circumstances, the FOMC eases monetary policy by reducing its target for the federal funds rate, thus putting downward pressure on other short-term interest rates. But the federal funds rate has been close to zero since late 2008, so the FOMC is currently using two less-traditional policy measures to help the economy move toward maximum employment and price stability. The first is to provide forward guidance about the economic conditions under which the FOMC is likely to start raising short-term interest rates. Under its threshold-based forward guidance, the Fed has said since December 2012 that it will keep the federal funds rate low at least as long as the unemployment rate is above 6.5 percent and inflation expectations do not rise above 2.5 percent. The second alternative policy tool has been to purchase and hold long-term securities, which puts downward pressure on long-term interest rates, including mortgage rates. The Fed has said that it would continue its monthly bond purchases until there was "substantial improvement" in the job market.

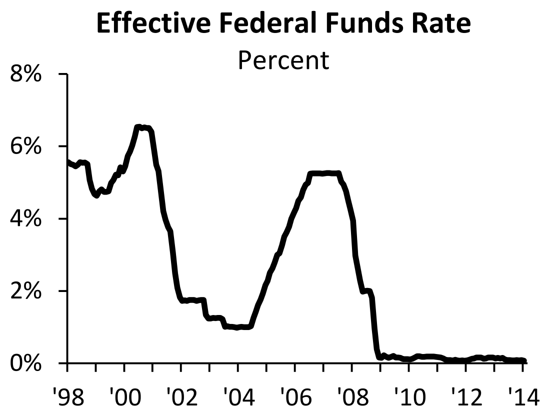
That said, labor market conditions have markedly improved since the Fed launched its latest bond-buying program back in September 2012. During that time, for example, the unemployment rate has declined from 8.1 percent to 6.6 percent this past January, the lowest level in more than 5 years. In mid-2013, policymakers indicated that the criterion of substantial improvement in the labor market might well be met over the coming year, and that a moderation in the monthly pace of asset purchases may be appropriate by the end of 2013. Indeed, at its December meeting, after months of speculation about the timing of the inevitable move, FOMC policymakers judged that ongoing improvement in labor market conditions had warranted a modest reduction in the pace of monthly asset purchases, from $85 billion to $75 billion. In exchange for less bond buying, the Fed also strengthened its forward guidance on interest rates, stating that an increase in the fed funds rate may not come until "well past" the time the unemployment rate falls below the 6.5 percent threshold, especially if inflation is below 2 percent. And in January, at the last FOMC meeting under Bernanke's leadership, Fed policymakers voted unanimously to cut the monthly pace of bond buying by another $10 billion to $65 billion. The Fed did not make any changes to its forward guidance on interest rates.

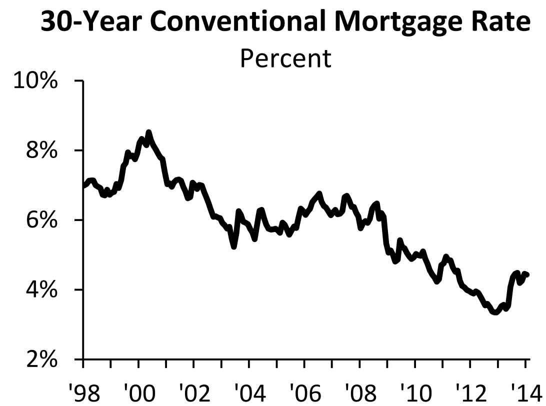


* Percent of the labor force that has been unemployed for 27 weeks or more.
Source: U.S. Bureau of Labor Statistics, (BLS)

During her first semiannual testimony to Congress in mid-February, newly installed Federal Reserve Board Chairperson Janet Yellen stated that inflation has remained low, while the recovery in the labor market is far from complete.

Global Insight believes that Chairperson Yellen's Congressional testimony in mid-February confirms that the she intends to continue the tapering process. In GI's February baseline, the Federal Reserve reduces the pace of bond-buying by an average of $10 billion per FOMC meeting this year, ending the process completely by the end of 2014. Global Insight notes that disappointing progress on jobs and inflation could slow that course, but the bar is set fairly high to stop, pause, or reverse the process. The Fed is also likely to keep its forward guidance vague so long as market and committee expectations remain in line. In the February baseline, the Fed does not begin to raise the federal funds rate until late 2015, consistent with FOMC members' assessment of the appropriate timing of policy firming.





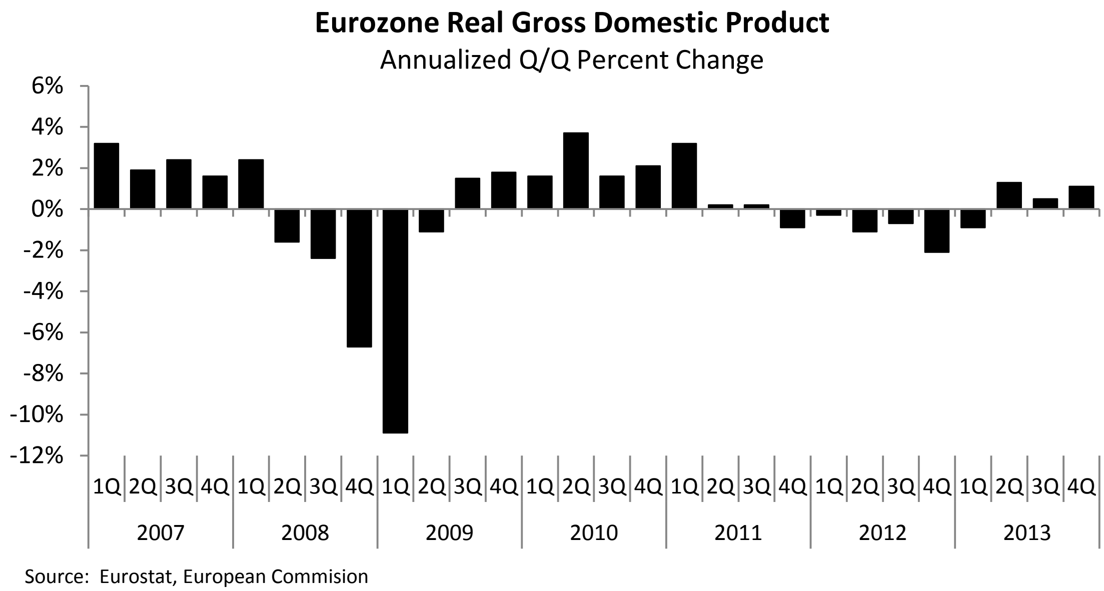
Source: Federal Reserve

The federal funds rate has been close to zero since late 2008. In the February baseline, the Fed does not begin to raise the federal funds rate until late 2015, consistent with FOMC members' assessment of the appropriate timing of policy firming.

Global Economy is in Transition. Global economic activity is strengthening, but the balance of growth continues to shift. Advanced economies are improving slowly but steadily, as core economies in the Eurozone are beginning to crawl out of recession and radical stimulus measures underpin a revival in Japan. At the same time, growth prospects in emerging market economies, which continue to account for the bulk of global growth, have cooled following the boom of the past decade. The Chinese economy is undergoing a structural adjustment that may result in slower economic growth rates in the medium term. And the recent slowdown in other emerging market economies, like Brazil and India, is largely a reflection of tighter financial conditions, changing capital flows, and domestic policy tightening meant to curb inflation.

In Europe, the risks of a major financial crisis have diminished considerably. The combination of debt write-downs, austerity programs, the establishment of a permanent bailout fund, and the European Central Bank's (ECB) commitment to do "whatever it takes" to keep the Eurozone together has helped calm markets and stabilize the continent's slow-moving sovereign debt crisis. High borrowing costs of troubled nations in Europe's southern periphery have steadily improved since mid-2012 and economic activity is expanding again. After a crippling 18-month recession, real GDP in the Eurozone expanded in the second quarter of 2013 at a 1.3 percent annual rate, followed by moderate growth of 0.5 percent in the third quarter and 1.1 percent in the fourth quarter.

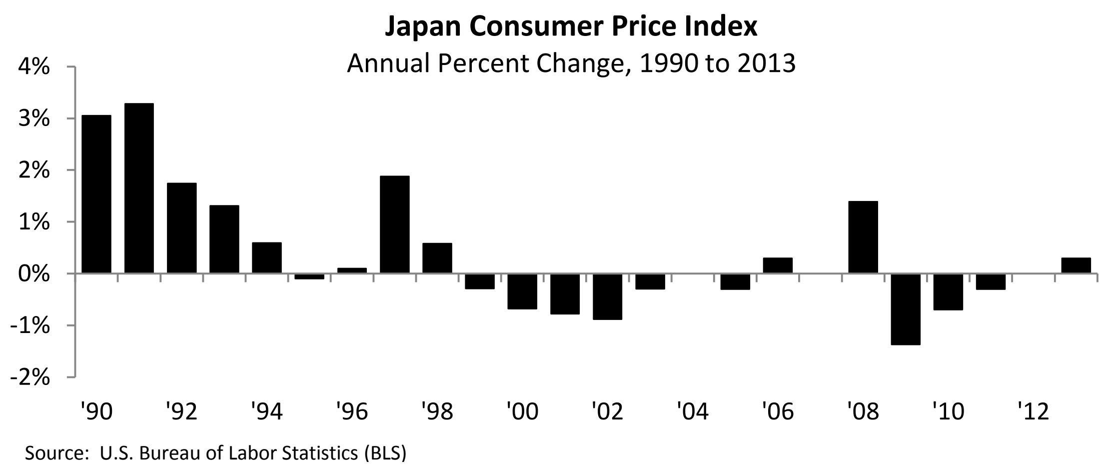
Nevertheless, progress toward dealing with the structural challenges that face the Eurozone has been limited, as meaningful political decisions to establish a greater banking union and fiscal compact continue to be postponed. And economic growth in the Eurozone remains very weak. German-led fiscal discipline meant to curb deficits and restore growth is instead suppressing demand and stifling the recovery, particularly in the southern periphery where economies remain mired in austerity-driven recession. Deficits are declining, but debt continues to rise and price deflation is threatening to destabilize already very high debt-to-GDP ratios. Add to this record high unemployment, and the Eurozone's economic recovery looks to be slow and unspectacular. Global Insight projects real GDP growth in the Eurozone to strengthen to 1.1 percent in 2014, up from a contraction of 0.4 percent in 2013.



After a crippling 18-month recession, real GDP in the Eurozone expanded in second quarter of 2013 at a 1.3 percent annual rate, followed by moderate growth of 0.5 percent in the third quarter and 1.1 percent in the fourth quarter.

In Japan, the government that was elected in late 2012 promised to embrace a bold policy mix of massive fiscal stimulus, aggressive monetary easing, and growth-oriented structural reforms in an attempt to reverse more than a decade of economic malaise and break the back of chronic deflation. The Bank of Japan responded in April 2013 by unveiling a massive monetary stimulus, pledging to double the supply of money to meet its 2 percent inflation goal in roughly two years. Thus far, Prime Minister Shinzo Abe's new economic strategy, known as "Abenomics," has helped weaken the Japanese yen, strengthen exports, revive business sentiment, and boost private consumption, capital expenditures, and prices. Japan's inflation rose in 2013 for the first time since 2008, the unemployment rate dropped to 3.7 percent in December, the lowest level in six years, and real GDP grew 1.7 percent in 2013, up slightly from 1.4 percent in 2012. Global Insight believes the Japanese economy will continue to accelerate until a scheduled increase in its sales tax takes effect in April 2014. The longer-term outlook will depend on progress with the government's growth-oriented structural reforms, mainly embracing free-trade and reversing the declining labor force.

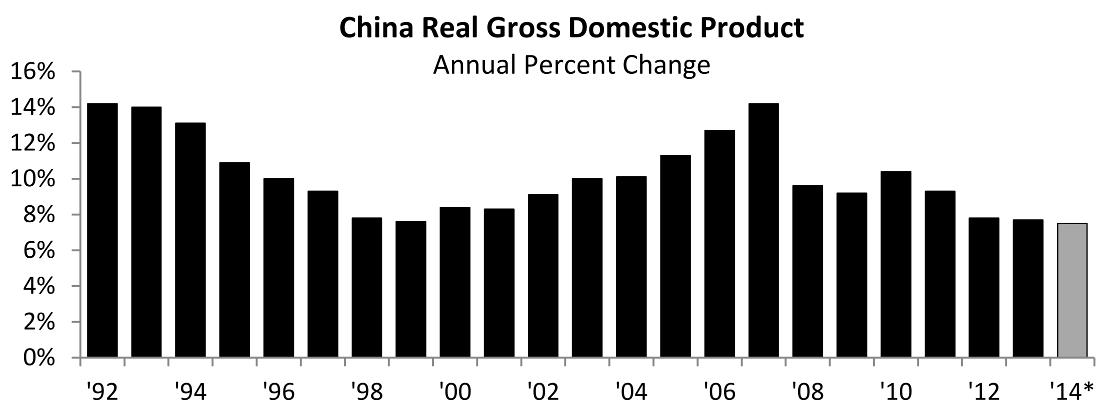
In China and other major emerging market economies, the pace of economic growth has cooled. China's real GDP rose 7.7 percent in 2013, much faster than any advanced economy, but the weakest performance for the world's second largest economy in 14 years. The Chinese government has set an official economic growth target of 7.5 percent. Chinese policymakers are attempting to reduce the risk of a sharp and prolonged slowdown, or hard landing, by deliberately steering the economy away from its heavy reliance on exports and credit-fueled infrastructure investment toward more balanced and sustainable consumer-led growth. The IMF believes this shift will require structural reforms to the financial, fiscal, and real estate sectors, as well as a more market-based exchange rate system. This tradeoff may result in slower economic growth rates in the medium term. Global Insight expects real GDP growth in China to settle into a slower average pace near 7.3 percent over the next five years.



Japanese Prime Minister Shinzo Abe's new economic strategy, known as "Abenomics", has helped weaken the Japanese yen, strengthen exports, revive business sentiment, and boost prices. Japan's inflation rose in 2013 for the first time since 2008.

Meanwhile, in other major emerging market economies, like Brazil, India, and Russia, the slowdown is reflected in depreciating currency values. Normalization of U.S. monetary policy will effectively reverse a period of ultralow U.S. interest rates beginning shortly after the financial crisis of 2008 that has sent an extraordinary inflow of cheap financial capital into emerging markets offering higher yields. Now, the Federal Reserve is beginning to unwind its monetary stimulus, putting upward pressure on U.S. interest rates, and naturally attracting capital back to the U.S. In emerging economies the result is lower relative returns on asset values, higher current account deficits, slower foreign capital inflows, and depreciating currency values. Brazil, India, and Russia have all seen their currencies fall by 10 percent or more against the U.S. dollar since May, when the Fed began to float the idea of tapering the pace of its bond purchases. That sell-off accelerated in January in the wake of tighter U.S. monetary policy and concerns over China's economy. The countries most affected have been those with high current-account deficits, such as Turkey, South Africa, and Russia. But a weaker currency also threatens to fan inflation by making the price of imported goods more expensive. Thus Brazil and India have responded to higher prices with a series of interest rate hikes, which also constrains economic activity.

Global Insight expects economic growth of the United States' major-currency trading partners is to pick up in 2014 and 2015, on stronger growth in the U.S. and Europe. The economies of other important trading partners, like China, Brazil and India, are also expected to grow faster over the next two years. Global Insight assumes world real GDP will accelerate from 2.5 percent growth in 2013, to 3.3 percent growth in 2014 and 3.7 percent growth in 2015. Likewise, U.S. export growth is expected to rise from 2.8 percent growth in 2013, to 4.9 percent in 2014 and 4.5 percent in 2015. Net trade, however, will start to become a drag on growth in 2014 as imports pickup from an improving U.S. economy.



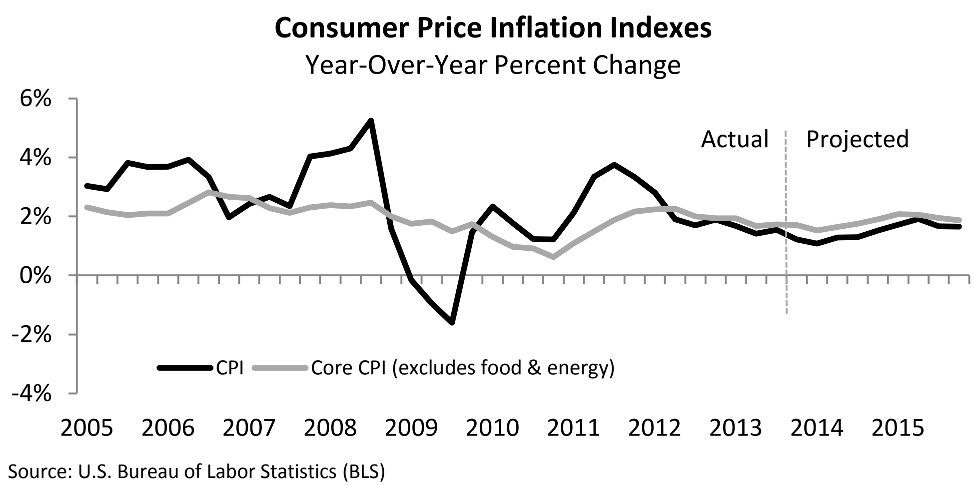
* Chinese Government 's official growth target: 7.5%
Source: The World Bank; International Monetary Fund (IMF)

China's real GDP rose 7.7 percent in 2013, much faster than any advanced economy, but the weakest performance for the world's second largest economy in 14 years. The Chinese government has set an official economic growth target of 7.5 percent.

Inflation Outlook Remains Quiet. The Bureau of Labor Statistics (BLS) reports its headline inflation measure, the Consumer Price Index (CPI), rose just 1.2 percent in 2013 (measured fourth-quarter to fourth-quarter), compared to 1.9 percent in 2012 and 3.3 percent in 2011. Much of the drop in headline inflation can be explained by a recent pullback in energy and food prices. Sluggish global demand and increasing supplies in the U.S. has put downward pressure on oil prices, as retail gasoline prices in particular are about $0.36/gallon lower than last year and $0.20/gallon below two years ago. And food prices spiked higher after the 2012 drought, but both corn and wheat prices have since fallen back to or below pre-drought levels. That is enabling farmers to restore animal herds to normal levels, which should result in ample supplies of meat and dairy products in 2014.

Underlying inflation pressures have also been cooling this year. Core CPI, which excludes more volatile prices of food and energy, rose 1.7 percent in 2013 (fourth-quarter to fourth-quarter), down from 1.9 percent growth in 2012 and 2.2 percent in 2011. Rents have continued to climb at a stronger pace. The cost of shelter, which includes rents, extended its steady ascent, rising 2.4 percent in 2013, compared to 2.2 percent growth in 2012. But an easing of other services, such as medical care, and goods prices helped more than offset the acceleration in rents. The CPI for medical care services eased to 2.7 percent in 2013 from a year earlier, after increasing 3.8 percent the previous year. The CPI for apparel increased 0.1 percent in 2013, compared to 2.2 percent the previous year. And finally, the BLS index for new vehicles rose just 0.7 percent in 2013 from a year earlier, compared to 1.3 percent the previous year.

Overall, the near-term outlook for consumer prices remains quiet. Global Insight believes the drought in California is likely to boost prices for energy and vegetables. Otherwise, there is still little to ignite inflation. Food and oil prices are always subject to supply disruptions from a geopolitical crisis or a disastrous harvest, but are currently not a major source of concern. In fact, GI believes oil prices are more likely to go down than up due to booming U.S. oil production. Oil demand is stagnant in the developed world and growing sluggishly in China and India. Brent crude prices are expected to fall from $110/barrel at the end of 2013, to $102/barrel in late 2014 and $99/barrel in 2015. In the February baseline, GI expects the headline CPI to increase from 1.2 percent (measured fourth-quarter to fourth-quarter) in 2013, 1.5 percent in 2014, and 1.7 percent in 2015. Core CPI inflation should experience some modest acceleration as Europe begins to slowly climb out of recession. Global Insight expects it to accelerate from 1.7 percent in 2013, 1.9 percent in 2014, and 1.9 percent in 2015, or nearer the Federal Reserve's 2 percent longer run objective.



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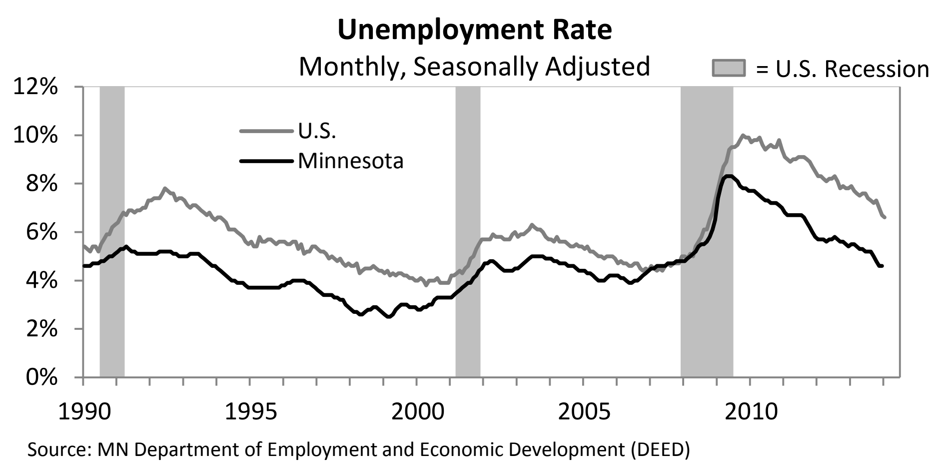
Minnesota Economic Outlook

Minnesota's economy continues to make solid gains. The Bureau of Economic Analysis (BEA) reports the state's real GDP rose 3.5 percent in 2012, ranking among the six fastest-growing state economies during that year, and most labor market indicators suggest that trend continued in 2013. Minnesota's unemployment rate ended the year at 4.6 percent, the lowest level since just before the recession began in December 2007 and a full two percentage points less than the nation. First time claims for jobless benefits have fallen to levels not observed in more than a decade. And leading indicators, such as temporary help employment, average hours worked, job vacancies, and the number of unemployed remain strong. On top of that, non-farm employment payrolls increased modestly by an average of 3,800 jobs each month in 2013, up from an average of 3,500 in 2012, and gains are occurring across every major industry, with the exception of manufacturing and federal government employment. That diverse economic revival has helped Minnesota recover from recession faster than the nation. As of December 2013, state employment levels are now 16,800 jobs above the pre-recession peak. Nationally, employment remains about 1.2 million jobs (or 0.9 percent) below the peak.

Still, uncertainties remain. Weaker-than-expected growth in the state's largest trading partners (i.e. Europe and China) could hurt Minnesota's strengthening export growth, which rose to $4.9 billion in the third quarter of 2013, up 4.5 percent from a year earlier. Also, the impact on the broader U.S. economy of financial and healthcare reforms coming online early this year poses a potential threat to Minnesota's economic outlook. Finally, a recent run of disappointing economic reports on national jobs, housing, and manufacturing suggest this year may be off to a slow start, as severe winter weather has weakened activity. Most forecasters believe these setbacks are only temporary, and expect stronger growth later this year. However, a longer than expected downshift could derail this optimism.



Minnesota's economy continues to make solid gains. The state's unemployment rate ended last year at 4.6 percent, the lowest level since just before the recession began in December 2007 and a full two percentage points lower than the nation.

Forecast Comparison: Minnesota & U.S.

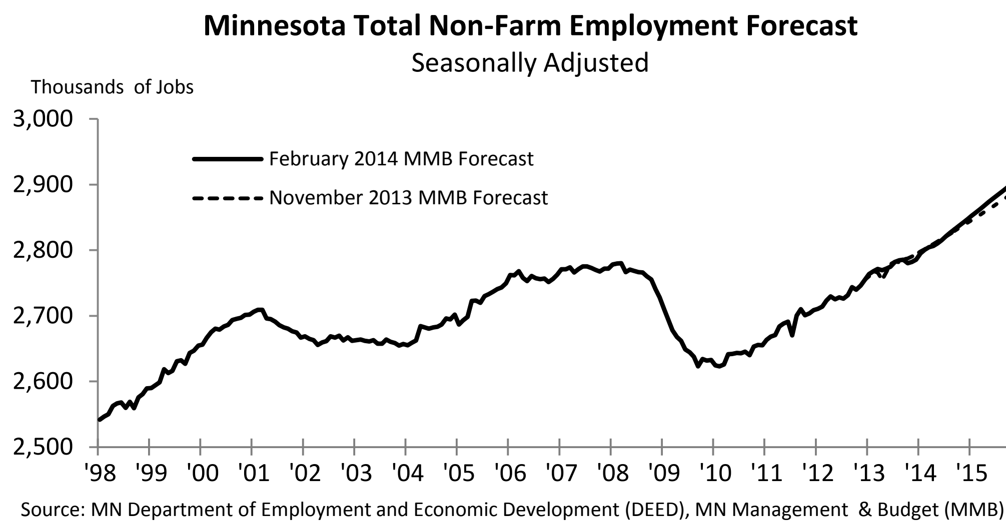
Calendar Years

	2010	2011	2012	2013	2014	2015	2016	2017
Total Non-Farm Payroll Employment (Thousands)								
Minnesota								
February 2014	2,641.1	2,688.3	2,730.9	2,776.6	2,820.0	2,881.3	2,942.0	2,991.2
%Chg	-0.5	1.8	1.6	1.7	1.6	2.2	2.1	1.7
November 2013	2,641.1	2,688.3	2,731.0	2,776.0	2,819.6	2,869.2	2,921.1	2,969.0
%Chg	-0.5	1.8	1.6	1.6	1.6	1.8	1.8	1.6
U.S.								
February 2014	129,911	131,500	133,737	135,927	138,169	141,210	144,194	146,679
%Chg	-0.7	1.2	1.7	1.6	1.6	2.2	2.1	1.7
November 2013	129,911	131,500	133,737	135,915	138,087	140,540	143,198	145,498
%Chg	-0.7	1.2	1.7	1.6	1.6	1.8	1.9	1.6
Wage and Salary Disbursements (Billions of Current Dollars)								
Minnesota								
February 2014	124.3	129.2	135.4	140.1	147.1	154.9	162.9	170.7
%Chg	2.6	4.0	4.8	3.5	5.0	5.3	5.2	4.7
November 2013	124.3	129.2	135.4	141.1	147.2	154.3	161.9	169.6
%Chg	2.6	4.0	4.8	4.2	4.3	4.9	4.9	4.7
U.S.								
February 2014	6,377.5	6,638.7	6,926.8	7,137.8	7,434.7	7,837.2	8,253.5	8,666.3
%Chg	2.0	4.1	4.3	3.0	4.2	5.4	5.3	5.0
November 2013	6,377.5	6,638.7	6,926.8	7,122.7	7,428.5	7,803.7	8,204.4	8,606.8
%Chg	2.0	4.1	4.3	2.8	4.3	5.1	5.1	4.9
Non-Wage Personal Income (Billions of Current Dollars)								
Minnesota								
February 2014	102.1	112.2	117.0	118.4	121.8	127.1	133.7	141.1
%Chg	5.8	9.9	4.3	1.2	2.9	4.4	5.2	5.5
November 2013	102.1	112.2	117.0	118.1	122.5	127.9	134.4	141.8
%Chg	5.8	9.9	4.3	1.0	3.7	4.4	5.1	5.5
U.S.								
February 2014	6,057.7	6,552.6	6,817.0	6,995.7	7,261.3	7,609.1	8,024.7	8,507.0
%Chg	3.9	8.2	4.0	2.6	3.8	4.8	5.5	6.0
November 2013	6,057.7	6,552.6	6,817.0	7,010.2	7,354.6	7,690.4	8,102.6	8,587.5
%Chg	3.9	8.2	4.0	2.8	4.9	4.6	5.4	6.0
Total Personal Income (Billions of Current Dollars)								
Minnesota								
February 2014	226.3	241.4	252.4	258.5	268.9	282.1	296.6	311.7
%Chg	4.0	6.6	4.6	2.4	4.0	4.9	5.2	5.1
November 2013	226.3	241.4	252.4	259.2	269.6	282.2	296.3	311.4
%Chg	4.0	6.6	4.6	2.7	4.0	4.7	5.0	5.1
U.S.								
February 2014	12,435	13,191	13,744	14,133	14,696	15,446	16,278	17,173
%Chg	2.9	6.1	4.2	2.8	4.0	5.1	5.4	5.5
November 2013	12,435	13,191	13,744	14,133	14,783	15,494	16,307	17,194
%Chg	2.9	6.1	4.2	2.8	4.6	4.8	5.2	5.4

Source: IHS Global Insight (GI) and Minnesota Management and Budget (MMB)

Forecasts for state employment and wages have been revised based on recent Minnesota specific information and Global Insight's (GI) February 2014 baseline. The February baseline was used to drive the same Minnesota Management and Budget (MMB) model of the Minnesota economy used in November. That model has incorporated updated information on upcoming revisions to Minnesota's non-farm payroll employment and income tax withholding collections. Economists at MMB believe that Minnesota's labor market is continuing to improve, and that better economic fundamentals are setting the stage for stronger and broader growth over the next several years. In MMB's February 2014 economic forecast, employment and income growth remain modest early this year, before accelerating during the second half of 2014, reflecting stronger consumer and business fundamentals in the broader U.S. economy, rising demand for new home construction, and improving global growth.

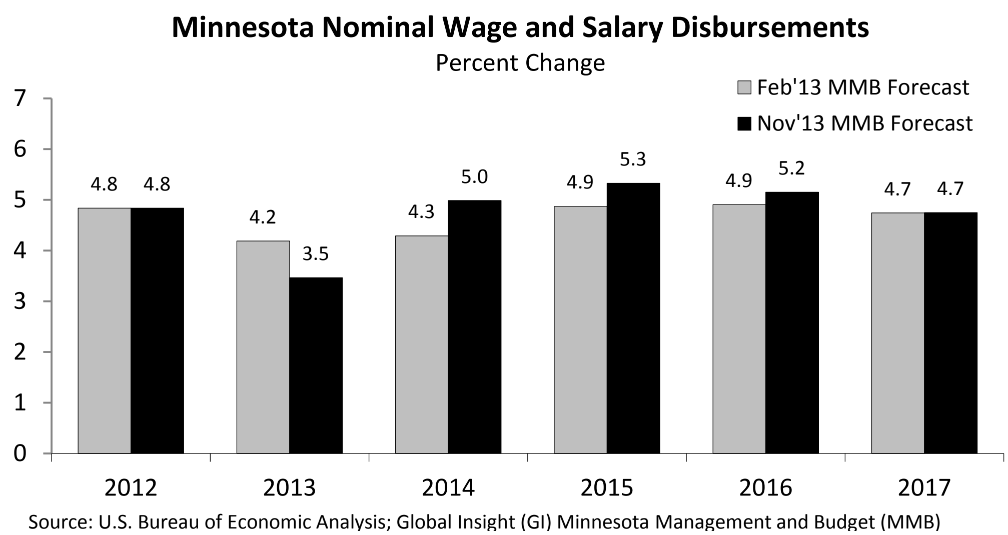
Minnesota total non-farm employment rose a modest 1.7 percent in 2013, following a 1.6 percent increase in 2012. In MMB's February 2014 economic forecast, Minnesota employment growth is forecast to maintain a similar pace of 1.6 percent in 2014, before accelerating to 2.2 percent growth in 2015. In November 2013, MMB's forecast called for similar job growth of 1.6 percent in 2013 and 2014, followed up by a weaker gain of 1.8 percent in 2015. MMB's employment forecast for 2014 and 2015 is very similar to GI's baseline forecast for U.S. job growth. Global Insight's November baseline forecast also calls for 1.6 percent growth in 2014, followed by 2.2 percent growth in 2015.



Minnesota total non-farm employment rose 1.7 percent in 2013, following a 1.6 percent increase in 2012. In MMB's February 2014 economic forecast, Minnesota employment growth is forecast to maintain a similar modest pace of 1.6 percent in 2014, before jobs gains accelerate to 2.2 percent growth in 2015.

Nominal wage income grew 4.8 percent in 2012, boosted by what appears to be an accelerated payout of bonuses and exercising of options at the end of the year ahead of anticipated federal tax increases. One-time payback for that accelerated wage income is assumed to have largely been drawn from the first quarter of 2013. As a result, information from the Quarterly Census of Employment and Wages (QCEW) and income tax withholding collections suggests wage growth slowed to 3.5 percent in 2013, weaker than the 4.2 percent growth expected in November. Wage income is now expected to accelerate to 5.0 percent growth in 2014 and 5.3 percent growth in 2015. In November 2013, MMB's forecast called for weaker growth of 4.3 percent in 2014 and 4.9 percent in 2015. Global Insight's November baseline forecast for U.S. wage income calls for growth of 3.0 percent in 2013, followed by 4.2 percent growth in 2014 and 5.4 percent growth in 2015.

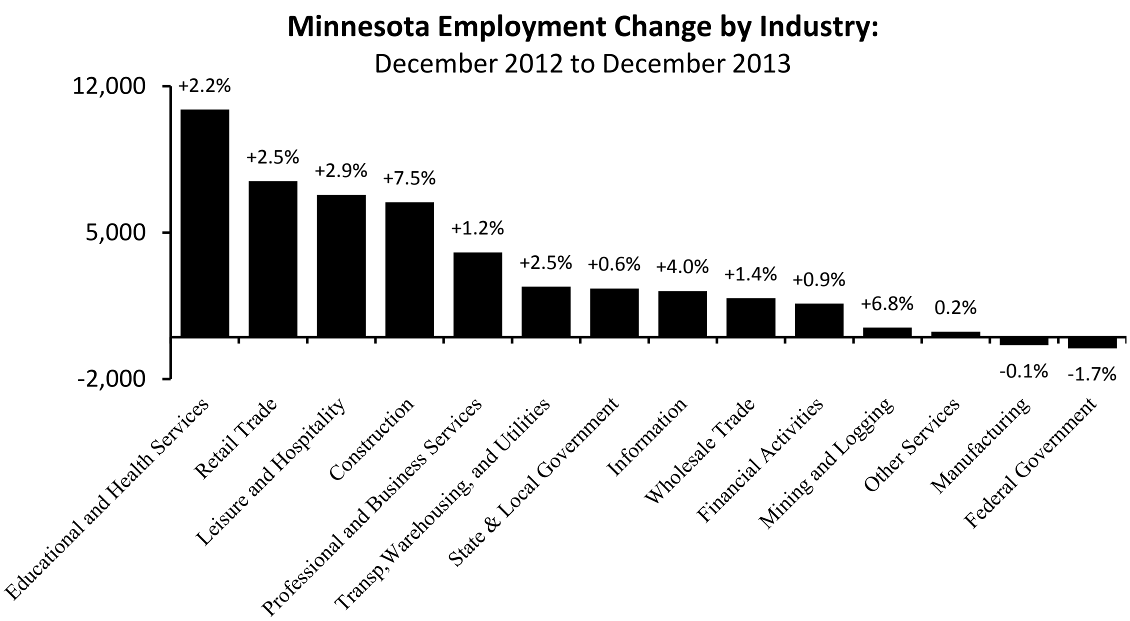
The forecast assumes that GI's February 2014 baseline materializes. Any unanticipated adverse developments in the U.S. economy, such as a longer than expected downshift in economic activity early this year, will have unfavorable effects on the Minnesota economy.



In the February 2014 economic forecast, MMB economists estimate wage income rose 3.5 percent in 2014, weaker than the 4.2 percent growth expected in November. Wage income is now expected to accelerate to 5.0 percent growth in 2014 and 5.3 percent growth in 2015.

Employment Growth is Broad Based. The latest news on Minnesota's labor market remains encouraging. According to December's employer survey released by the Minnesota Department of Employment and Economic Development (DEED), the state added 46,000 net new jobs, or 1.7 percent, in the past year, slightly stronger than the national rate of 1.6 percent. The private sector has added 44,000 jobs, or 1.9 percent, in the past year, just short of the national rate of 2.0 percent. Those employment gains continue to be broad based, with healthcare, trade, professional and business services, and leisure and hospitality all gaining over the past year. The long-suffering construction sector is recovering, as pent-up demand for housing is reviving and construction firms are beginning to hire again. And state and local government payrolls are expanding once more, as school districts are hiring at the fastest pace since 2000. The obvious weaknesses are in manufacturing, which pulled back over the summer due in part to the slowdown in the global economy, and federal government, which was dragged down last year by the automatic sequester cuts that began in March.

Despite recent weakness in manufacturing and federal government employment, the state's unemployment rate has continued to trend down over the past year, to 4.6 percent in December 2013 from 5.4 percent a year earlier. While faster job creation is a contributing factor, much of that decline has been driven by a sharp drop in labor force participation. The state's participation rate closed the year near 70 percent, down from 70.8 percent a year earlier and 72.1 near the start of the recession in December 2007. People generally leave the labor force for two reasons: because they have retired or grown increasingly discouraged with employment prospects and stopped looking for work. In December, DEED reports that the number of discouraged workers in Minnesota fell to a 12-month moving average of 8,300, from 9,000 a year earlier and 10,900 two years earlier, suggesting much of the drop in labor force participation is likely a result demographic forces related to Minnesota's aging population. Indeed, between 2007 and 2012, the number of retired Minnesotans age 65 and older drawing social security benefits rose by about 94,000, a labor force exodus that could account for about a 1.2 percentage point drop in the state's labor force participation rate. In the February 2014 economic forecast, Minnesota's labor force participation rate continues to decline in 2014, albeit at a slower pace than experienced during the past few years.

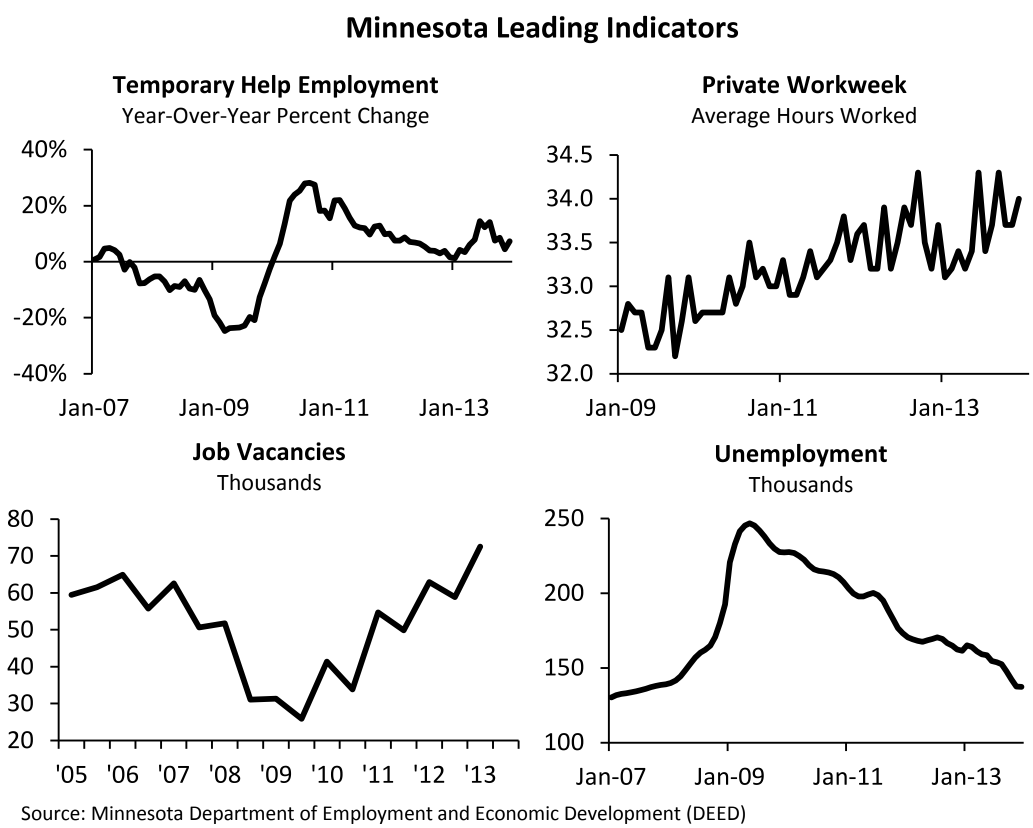


Source: MN Department of Employment and Economic Development (DEED)

Minnesota's employers added 46,000 net new jobs, or 1.7 percent, in the past year, slightly stronger than the national rate of 1.6 percent. Those employment gains continue to be broad based, with healthcare, trade, professional and business services, and leisure and hospitality all gaining over the past year.

Minnesota Management and Budget's February 2014 economic forecast assumes overall labor market conditions will continue to improve into 2014, albeit at about the same modest pace as 2013. The number of jobs Minnesota employers add to their payrolls is forecast to average 3,500 a month in the first part of 2014 before picking up to over 5,200 a month by early 2015, aided by gains in construction and a turnaround in manufacturing. When combined with modest labor force growth and improving perceptions of growing job opportunities, that outlook should be enough to continue to slowly bring down the state's unemployment rate in 2014 and 2015.

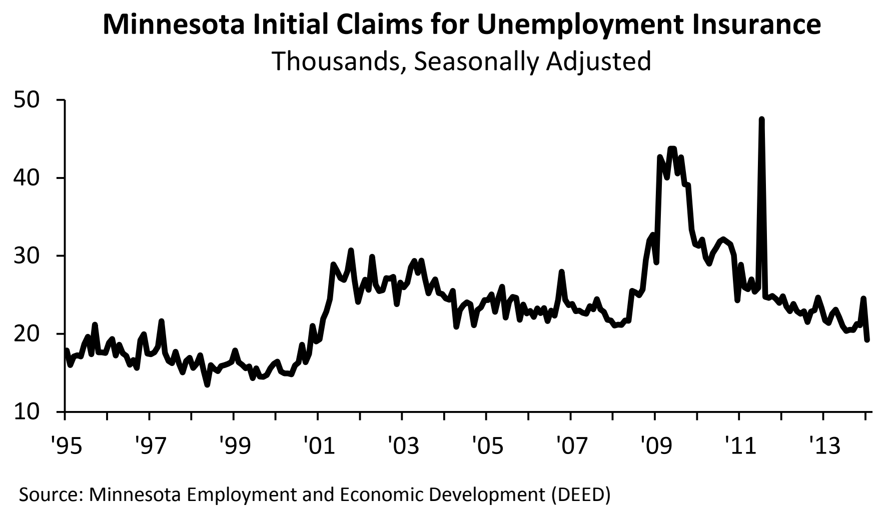
Leading Employment Indicators Remain Strong. According to DEED, the average workweek in the private sector held steady in 2013 at a more normal level of 33.6 hours, about the same as in 2012 and up from 32.6 hours in 2009. Temporary help jobs, often a bellwether of future employment growth, topped 70,000 last August for the first time ever, and the number officially unemployed fell by about 24,000 over the course of 2013, dropping to the lowest levels in nearly seven years. Finally, in early September, DEED reported that the number of job vacancies in Minnesota hit a 12-year high during the second quarter of 2013. Employers registered 72,560 openings, up more than 15 percent from a year earlier. That equates to about 2.2 unemployed people for each vacancy, down from 2.7 a year earlier and the lowest ratio observed since early 2007.



Minnesota's leading indicators, such as temporary help employment, average hours worked, job vacancies, and the number of unemployed remain strong. DEED reports that the number of job vacancies in the state hit a 12-year high in the second quarter of 2013.

Minnesota's initial jobless claims also serve as a useful barometer of Minnesota's short-term labor market trends. According to DEED, after adjusting for furloughed federal government workers in October, the number of seasonally adjusted first time filers for unemployment insurance benefits has averaged about 21,000 per month since May, down from a recessionary peak of nearly 44,000 during the summer of 2009 and back to levels not seen in more than a decade.

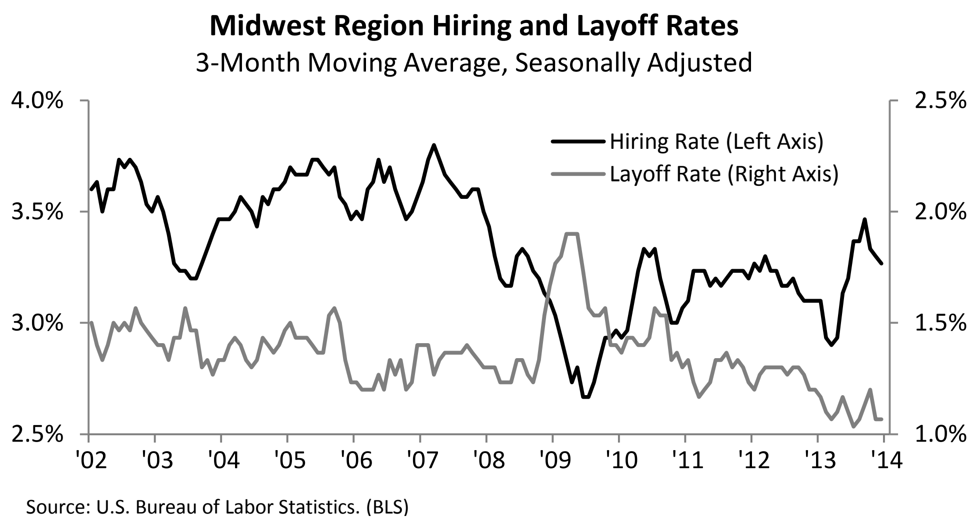
Historical evidence suggests that once Minnesota's seasonally adjusted monthly initial claims drop to near 28,000 following recession, unemployment begins to stabilize and consistent month-to-month job losses fade. When this indicator falls below 25,000 for an extended period, it suggests employer confidence is improving and hiring and investment in the state are turning up. Furthermore, levels in the 20,000 to 22,000 range are statistically linked to fairly strong job growth. Thus MMB economists view the current health of Minnesota initial claims for unemployment insurance as a strong sign that Minnesota's labor market continues to gain momentum.



First time claims for jobless benefits have fallen to levels not observed in more than a decade. Levels in the 20,000 to 22,000 range are statistically linked with fairly strong job growth.

Hiring Remains Key to a Stronger Employment Outlook. The most significant barrier to stronger job growth has not been layoffs, but reduced hiring. During the recession, Minnesota businesses responded to a sharp decline in demand by aggressively cutting back payrolls. Between the early part of 2008 and the end of 2009, for example, payroll employment in the state fell by about 150,000 jobs, or 5.4 percent. But during the recovery, employers seemed reluctant to commit to new hiring. Persistent uncertainty about political and economic conditions and the future of employee healthcare costs appeared to be a major part of the explanation. Without a clear and sustainable outlook for final demand, hiring plans were postponed as more output was squeezed from the existing workforce by increasing hours of existing staff or turning to more affordable temporary workers. In fact, the percentage of temporary help jobs relative to total employment in Minnesota has surged to record highs of over 2.4 percent in mid-2013.

To put the recovery's hiring deficit into perspective, the Minnesota economy is now estimated to be producing 6 to 7 percent more goods and services on a real basis than it did prior to the recession, but with about the same number of workers. The hiring shortfall has been evident in the Bureau of Labor Statistics' (BLS) Job Openings and Labor Turnover Survey (JOLTS), where both the layoff and hiring rates in the Midwest have remained low. (Note: JOLTS data are not available at the state level.) After falling in the first part of the year, likely due to employers postponing hiring decisions at the time of the fiscal cliff and sequestration negotiations, the Midwest hiring rate picked up in the second part of 2013, consistent with improving economic fundamentals late last year. And, the recent federal budget and debt ceiling resolutions offer encouraging signs that policy uncertainty may begin to subside in 2014. As a result, this will be an indicator MMB economists will be watching closely for signs of stronger job creation in 2014 and 2015.

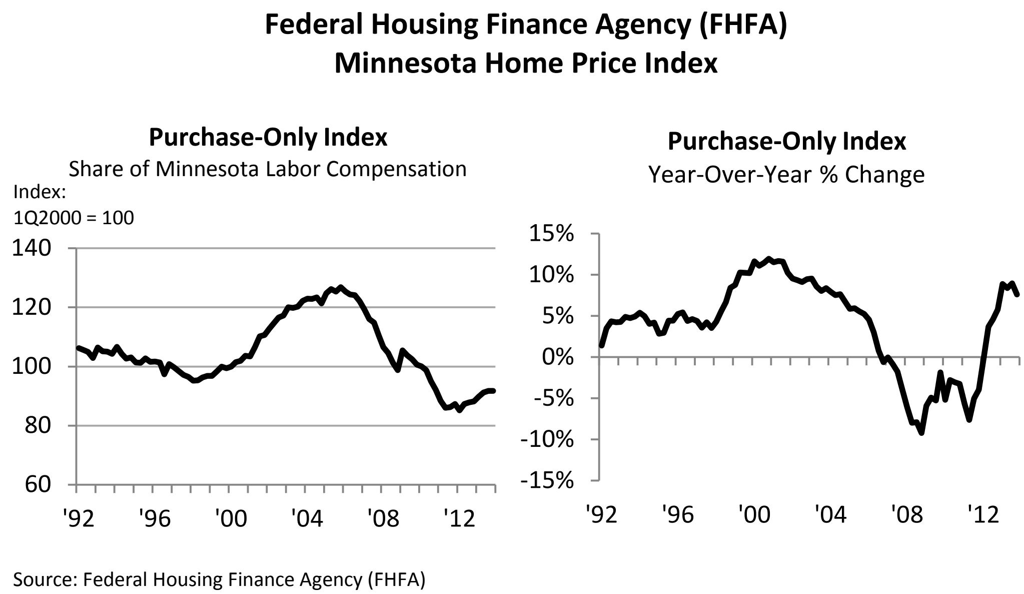


After falling in the first part of the year, the Midwest hiring rate has picked up sharply in the second part of 2013. This will be an indicator MMB economists will be watching closely for signs of stronger job creation in 2014 and 2015.

Minnesota's Housing Recovery is Ramping Up. Minnesota's housing market continued to show widespread improvement in 2013. Home sales lost some momentum during the year, largely because of higher mortgage rates, a lack of properties to buy, and a reduction in disposable income due to the expiration of the payroll tax. But MMB economists believe these setbacks are only temporary. Stronger fundamentals and a pickup in household formation are releasing pent-up demand built up during the recession and weak recovery. New buyers continue to take advantage of historically 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 rose 9 percent in 2013. Stronger demand is rapidly absorbing excess units created during the housing boom.

Inventories are still at or near record lows, which along with a falloff in distressed sales, are fuelling more competition among buyers. The average time a property was on the market until sale fell from 117 days in 2012, to 83 days in 2013. And sellers in the metro area have gone from receiving 94.0 percent of their asking price to 96.1 percent, the highest since 2006. That is helping to boost selling prices, suggesting demand is increasing faster than supply, and supporting stronger growth in construction starts in 2014 and 2015.

After nearly seven years of severe housing market correction, MMB economists estimate improving job growth and strengthening household formation rates have helped absorb most, if not all, of the excess homes into the market in 2013. This has already played out in data collected by MAAR, where the inventory of homes available for sale in the metro area was down 10.5 percent at the end of 2013 compared to a year earlier, and more than 33 percent from two years earlier. The last time inventories were this low was more than a decade ago.

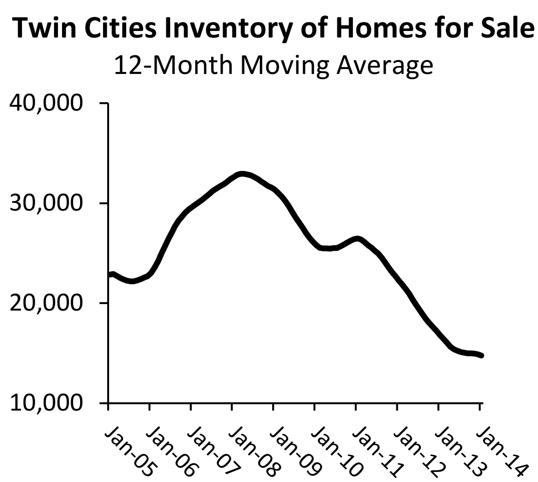


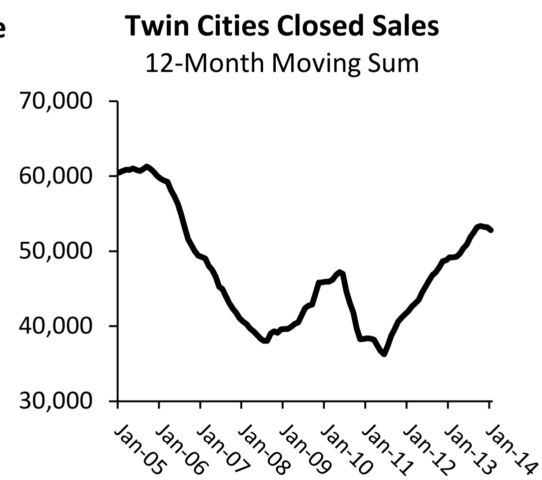
Minnesota's housing market continued to show widespread improvement in 2013. Inventories are still at or near record lows, which along with a falloff in distressed sales, are fuelling more competition among buyers. That is helping to boost selling prices.

Falling inventories are one reason selling prices continued to rise rapidly in last year. According to the Federal Housing Finance Agency (FHFA) purchase-only index for conventional, conforming mortgages, Minnesota home values rose 8.4 percent in 2013 from a year earlier, the largest annual gain since 2003. Likewise, the S&P/Case-Shiller Home Price Index (HPI) reports that nominal home prices in the Minneapolis/St Paul area were up 9.7 percent in December from a year before. Both measures have regained close to half of their losses from the housing crash since mid-2011.

The share of distressed sales, where properties sell at a large price discount relative to traditional listings, is also falling. The median price of a foreclosure property in the Twin Cities, according to MAAR, was $133,000 in 2013, significantly less than the $220,000 median price for a traditional listing. About 26 percent of the closed sales last year were foreclosures and short sales. Although still high, that rate is the lowest level in more than six years and down from 40 percent in 2012 and 50 percent in 2011.

Rising home values and low inventories are also a reason growth in the total number of authorized residential building permits in Minnesota beginning to recover. In 2011, only 8,300 building permits were authorized for new home construction in the state, a record low. However, the number of authorized permits improved to 15,000 in 2012, a five year high, and to 16,800 in 2013. With inventories at historic lows and demand for new home construction improving, permits are expected to continue strengthening. MMB forecasts permits to grow to 23,000 in 2014 and to 28,000 in 2015. By 2016, permits are expected to near 30,000, a level consistent with normal underlying demand. In November 2013, housing permits were forecast to rise at a slightly faster pace to 17,700 in 2013, followed by 25,000 in 2014 and 30,000 in 2015.





Source: Minneapolis Area Association of Realtors (MAAR)

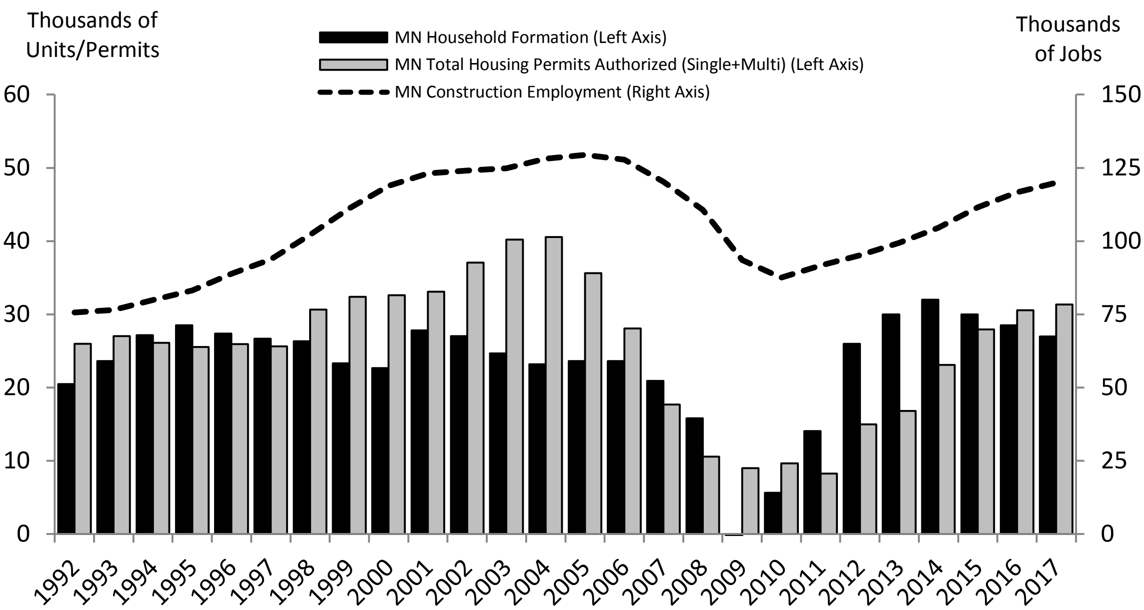
The Minneapolis Area Association of Realtors (MAAR) reports inventory of homes available for sale in the metro area was down 10.5 percent at the end of 2013 compared to a year earlier, and more than 33 percent from two years earlier. The last time inventories were this low was more than a decade ago.

The employment rebound in construction will lag the recovery in building permits by between 6 and 9 months, thus a "catch up" period is assumed in the forecast. In the February 2014 forecast, construction employment growth is forecast add 6,000 jobs (or 5.9 percent) measured fourth quarter to fourth quarter in 2014 and 6,800 jobs (6.4 percent) in 2015. In November 2013, construction employment growth was forecast to be slightly stronger, rising 6.1 percent in 2014 and 7.8 percent in 2015.

Economists at MMB believe that if the housing recovery stalls during the first half of 2014 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.

MN Household Formation, Housing Permits, & Construction Employment

History and MMB Forecast



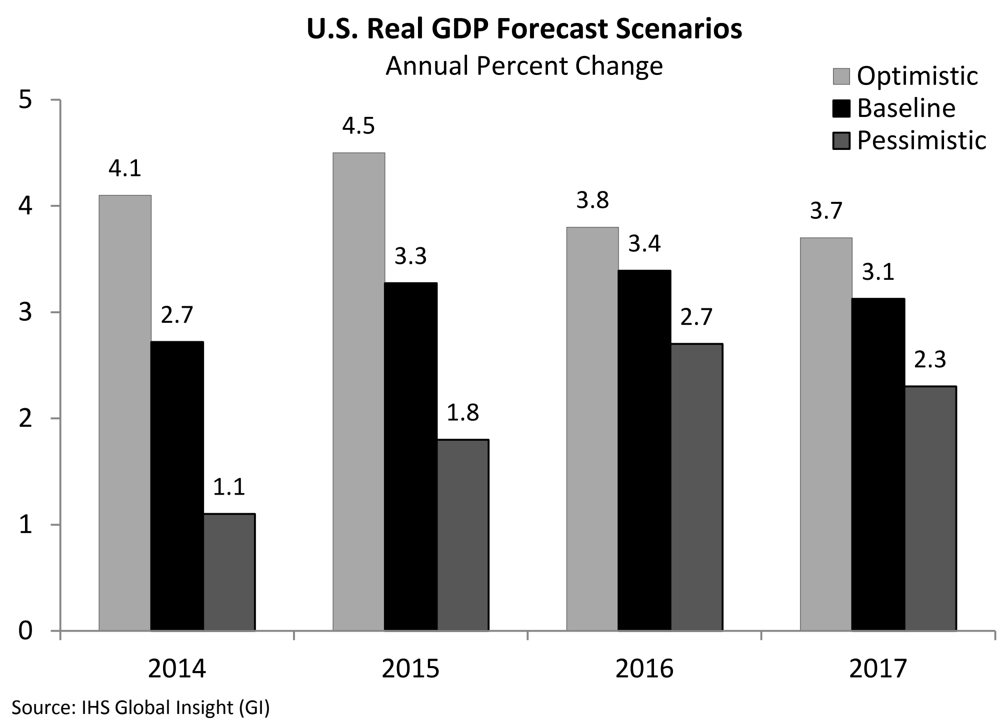
Source: MN Department of Employment and Economic Development (DEED), MN State Demographic Center, MN Management & Budget (MMB)

MMB economists estimate improving job growth and strengthening household formation rates have helped absorb most, if not all, of the excess homes into the market in 2013. These are principle assumptions behind the February 2014 outlook for residential building permits and construction employment.

Council of Economic Advisors' Statement

Minnesota's Council of Economic Advisors (CEA) has reviewed Global Insight's (GI's) projections for U.S. economic growth. They noted that since November, GI has slightly raised their growth expectations for each year between 2013 and 2016 and left unchanged their expectations for 2017. In November, GI's baseline had incorporated the Bureau of Economic Analysis' (BEA's) second estimate of third quarter 2013 real GDP growth of 2.8 percent (annual rate). The BEA has since revised that value sharply upward to 4.1 percent growth. In addition, BEA has now released an advance estimate of fourth quarter 2013 real GDP growth of 3.2 percent. That release accompanied a report of fourth quarter growth in final sales of 2.8 percent, the fastest in nearly two years. Finally, passage in December of the Bipartisan Budget Act of 2013 and in January of the 2014 Omnibus Appropriations bill provide some relief from the federal spending sequester and all but eliminate the threat of another government shutdown this year.

Global Insight's baseline is similar to that of other macroeconomic forecasters. The Blue Chip Consensus forecast of 2.9 percent growth in 2014 exceeds GI's expectation of 2.7 percent. For 2015, GI expects 3.3 percent growth compared to 3.0 percent growth in the Blue Chip Consensus forecast. Over 2014-2017, GI's forecast follows a similar pattern to that of the Congressional Budget Office (CBO), with growth accelerating in 2014 and 2015, staying roughly steady in 2016, and slowing in 2017.

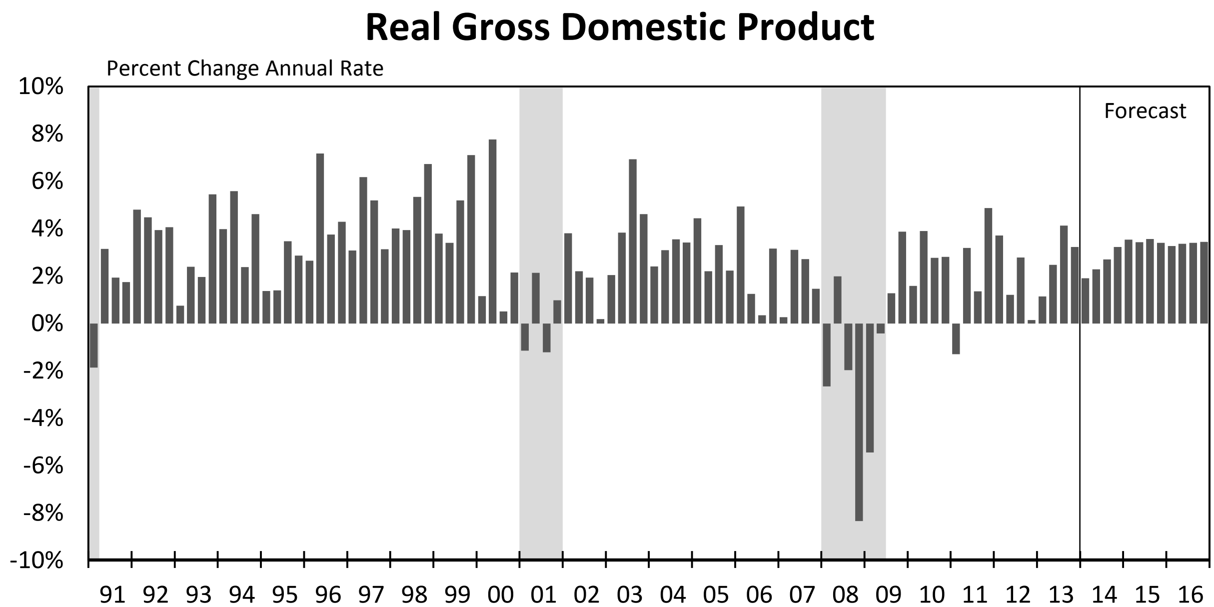


Minnesota's Council of Economic Advisors agreed that Global Insight's expectations for U.S. economic growth were reasonable, and the forecast risks are balanced between the potential for faster growth and the threat of slower growth.

Council members noted the recent negative U.S economic signals, including disappointing December and January jobs reports and a reduced pace of manufacturing expansion. These indicators appear to have been influenced by harsh winter weather and are expected to reverse direction once those impacts have passed. In addition, GI expects the recent slowdown in Chinese manufacturing and the currency slide following the Federal Reserve asset purchase taper to weaken growth in emerging market economies. A resulting reduction in U.S. exports is included in GI's baseline forecast. Despite these moderating signs, Council members expect the lifting of federal fiscal policy uncertainty to positively impact the U.S. economy. All members agreed that GI's baseline expectations for U.S. growth are reasonable. They also see the forecast risks as balanced between the potential for faster growth and the threat of slower growth.

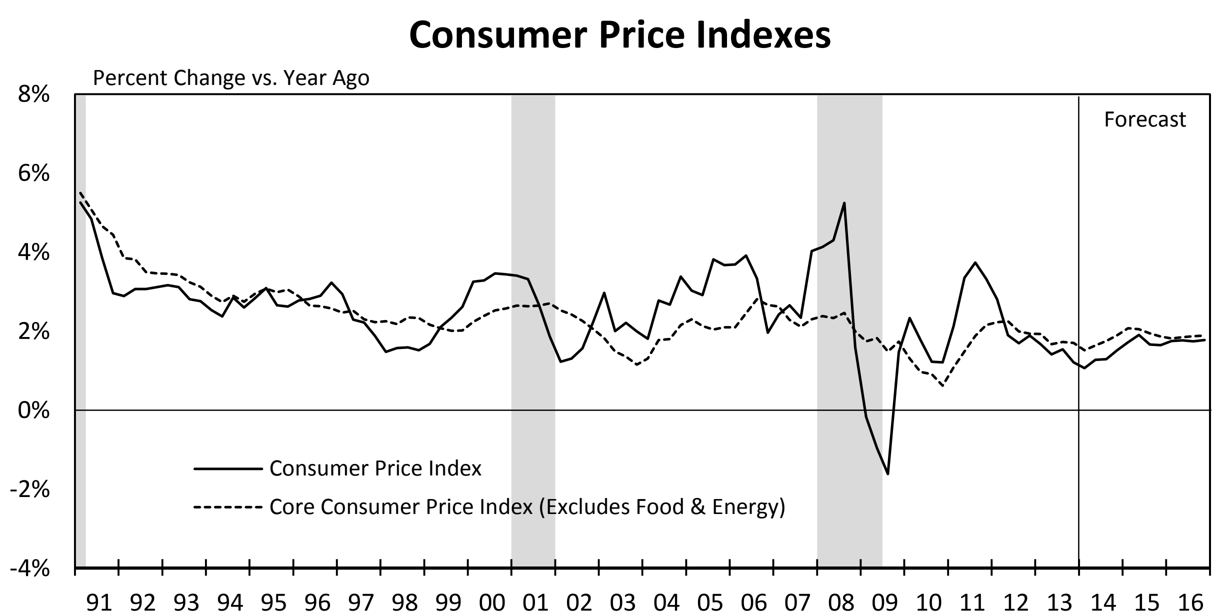
As it has done every year since 2003, the CEA recommends that budget planning estimates for the next biennium include expected inflation in both the spending and revenue projections. The CEA notes that Minnesota's current practice of excluding inflation from the spending estimate is fundamentally misleading. It is inconsistent with both sound business practices and CBO methods and potentially encourages legislators and the public to regard the state's financial position more optimistically than the facts warrant. The omission of inflation in the spending estimates in the November 2014 *Budget and Economic Forecast* understated projected spending for FY 2016-17 by more than $1 billion, and thus made the gap between projected revenues and spending appear to be twice as large as it actually is. This distortion will increase if and when inflation accelerates from current historically low levels.

Council members observe that while Minnesota's financial position has improved substantially, the state's formal budget reserve remains well below the level bond rating agencies expect from AAA-rated credits. State bond ratings depend on a number of factors, but both Standard and Poor's and Moody's specifically include a measure of the adequacy of statutory budget reserves in their credit analyses. In Standard and Poor's analytical framework, states with statutory reserve levels of 8 percent or more of annual general fund revenue or spending receive top marks. Moody's ratings guidelines indicate that Aaa-rated states should have statutory reserves of at least 10 percent of current revenue. Minnesota's current $661 million budget reserve is about 3.5 percent of fiscal year 2014 spending. If the cash flow account is included, reserves are about 5.3 percent of annual spending.



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

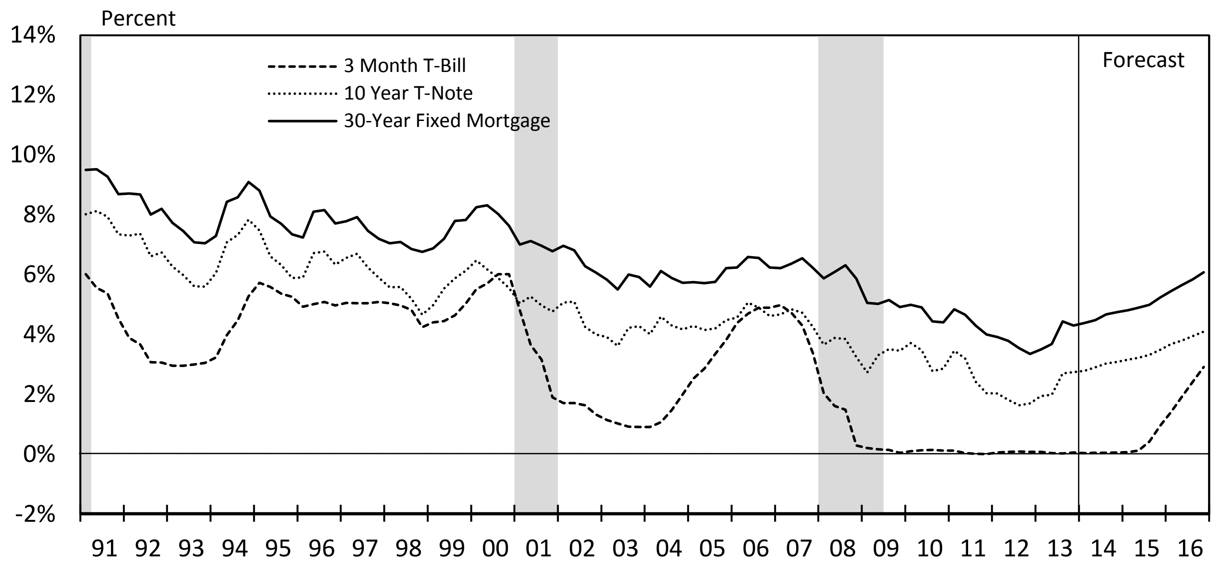
The economy's underlying fundamentals remain firm. Global Insight (GI) expects U.S. real GDP growth to accelerate to 2.7 percent in 2014, from 1.9 percent in 2013, due to less federal fiscal drag and gains in business fixed investment and consumer spending.



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

Inflation remains quiet. Food and oil prices are always subject to supply disruptions from a geopolitical crisis or a disastrous harvest, but are currently not a major source of concern. GI expects consumer prices to rise 1.3 percent in 2014 and 1.7 percent in 2015.

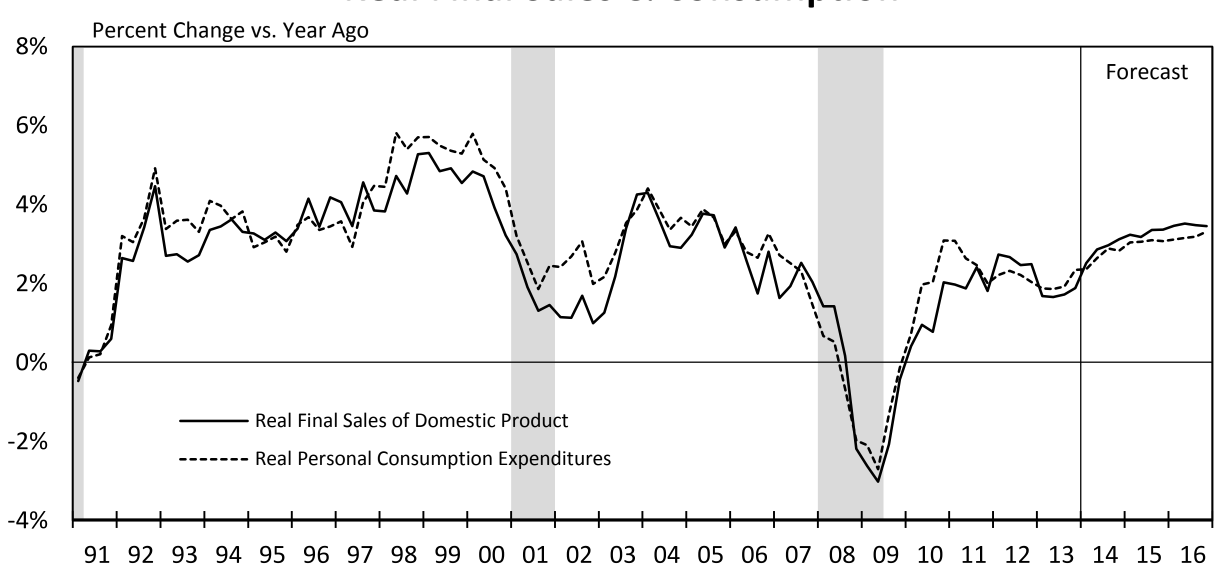
Interest Rates



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

Federal Reserve policymakers decided at their December 2013 meeting to begin modestly winding down, or tapering, the pace of its monthly asset purchases. Global Insight continues to believe that the Federal Reserve will not raise short-term interest rates until late 2015.

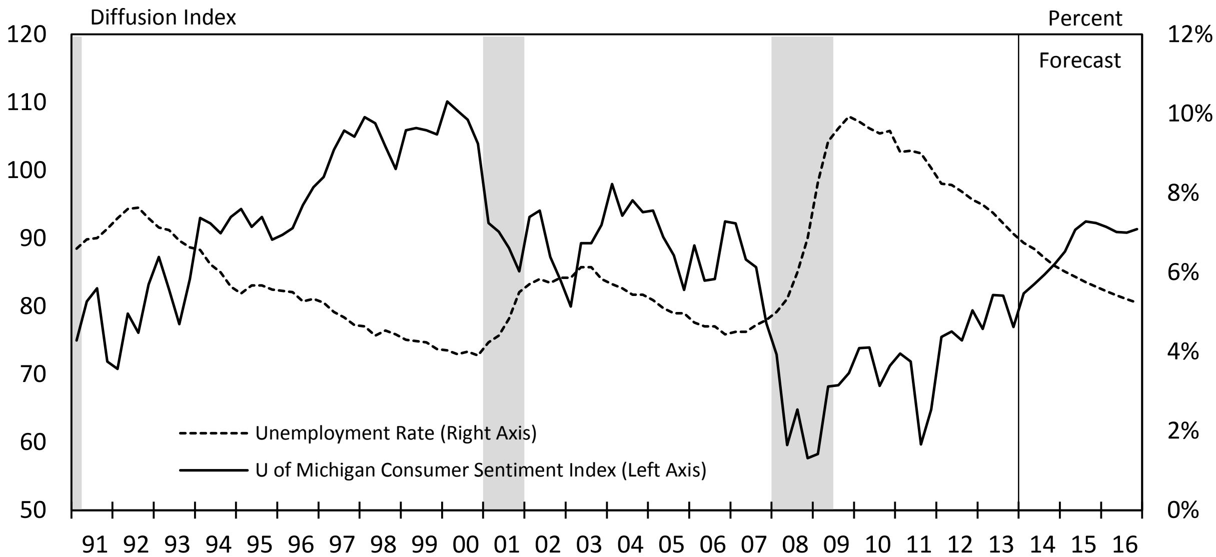
Real Final Sales & Consumption



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

Stronger consumer fundamentals are providing welcome momentum heading into 2014. GI expects real consumer spending growth to accelerate from 2.0 percent in 2013, to 2.7 percent in 2014 and 3.1 percent in 2015.

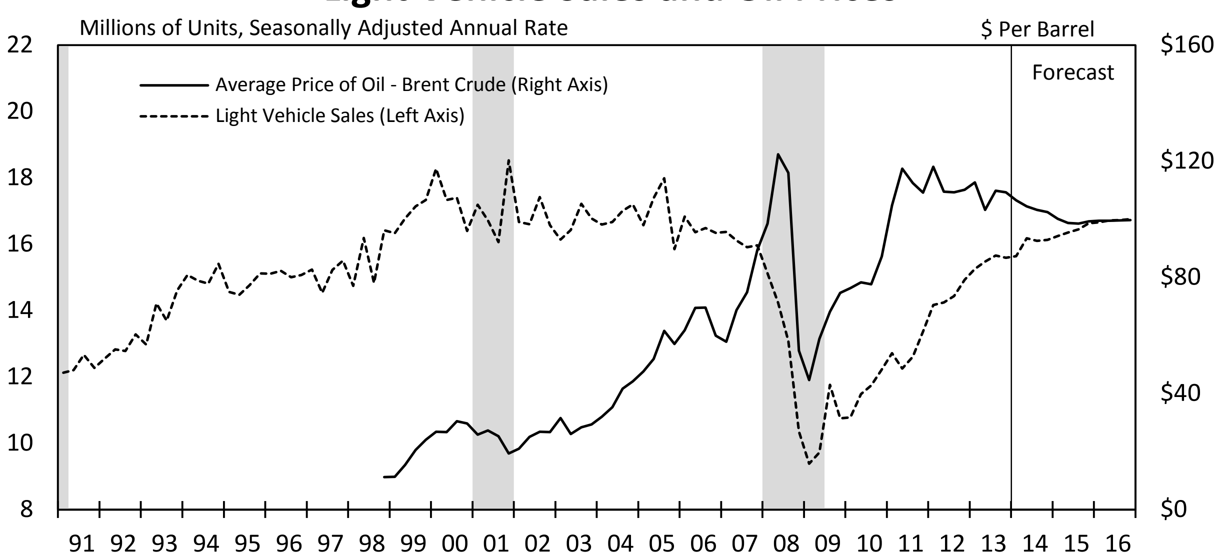
Consumer Sentiment and Unemployment Rate



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

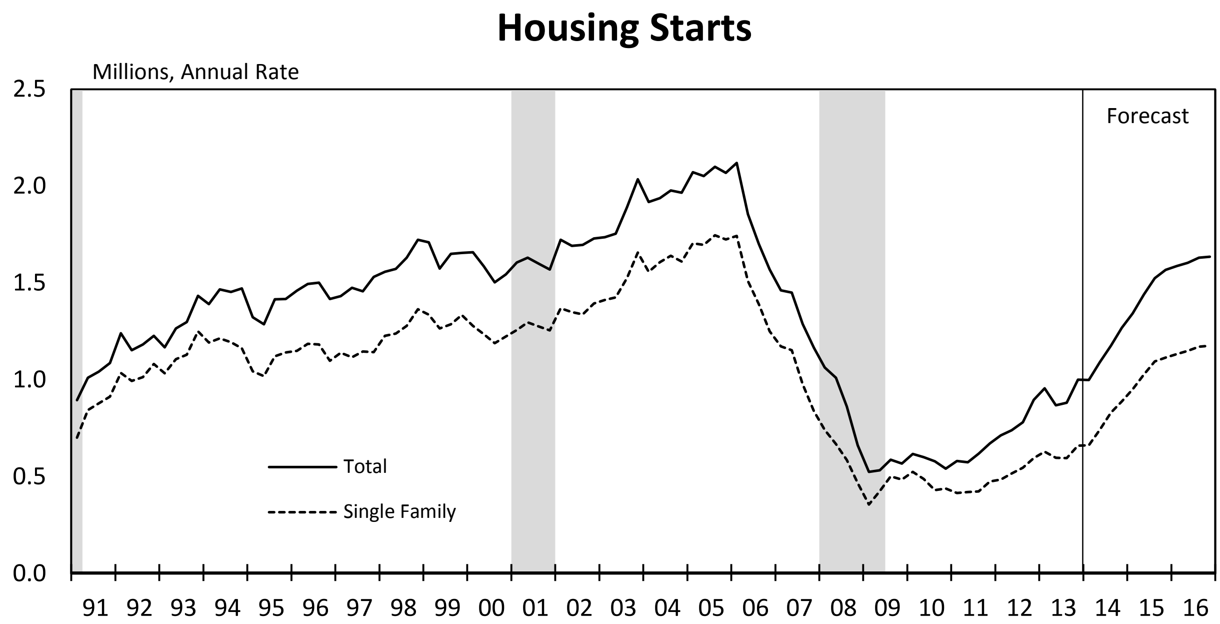
The lingering grip of the Great Recession, along with political brinkmanship and policy uncertainty, have weighed heavily on confidence, worrying consumers and businesses alike during the recovery.

Light Vehicle Sales and Oil Prices



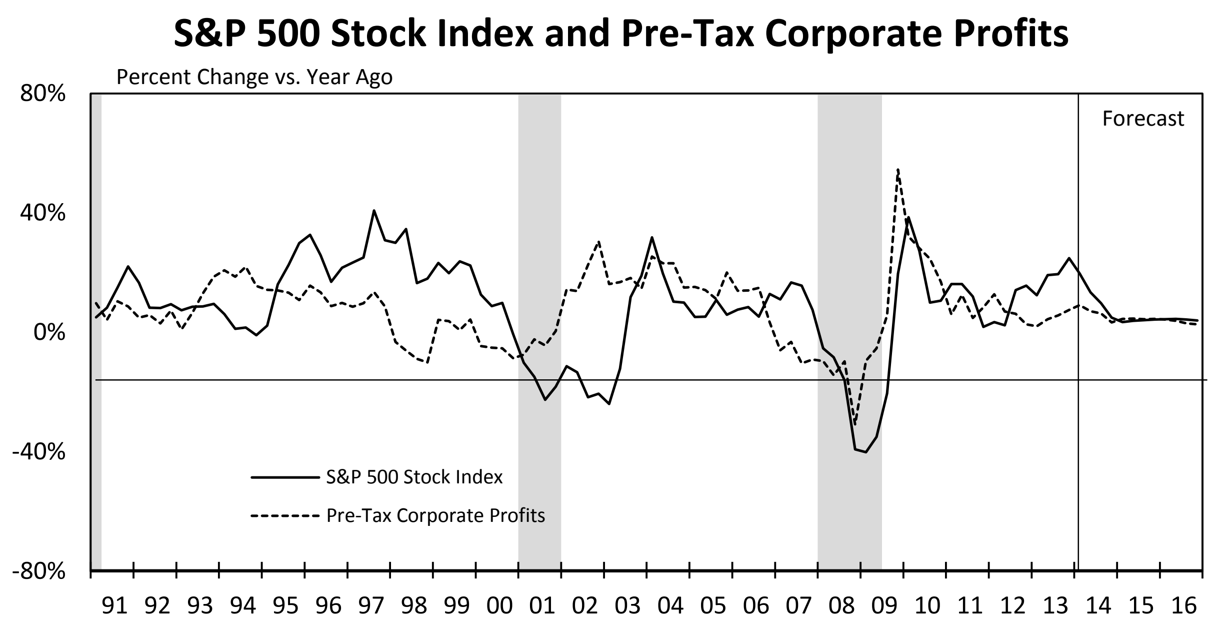
Source: Bureau of Economic Analysis, Investors' Business Daily, National Bureau of Economic Research, and Global Insight

Oil prices have stalled in the last two years due to sluggish global demand and increasing supplies in the U.S. Going forward, GI believes oil prices are more likely to go down than up, as oil markets are less stressed than in the past due to stronger U.S. output gains.



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

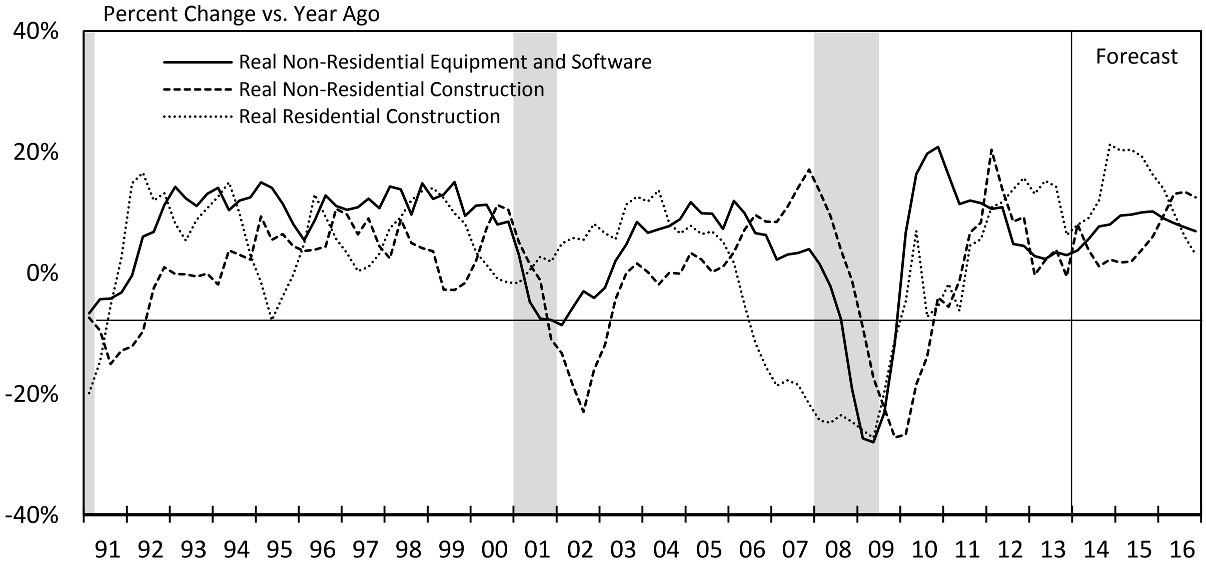
Single-family housing starts lost momentum in 2013, largely due to higher interest rates earlier in the year. But GI believes the market for new homes is poised for a stronger 2014. Housing starts grew 18 percent in 2013 (to 928,000), and are forecast to rise 22 percent in 2014 (to 1.13 million).



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

The Federal Reserve reports that household net worth (the value of assets like homes, bank accounts and stocks, minus debts like mortgages and credit cards) surpassed its precession peak in late 2012, thanks in large part to strong gains in the value of real estate and equity assets.

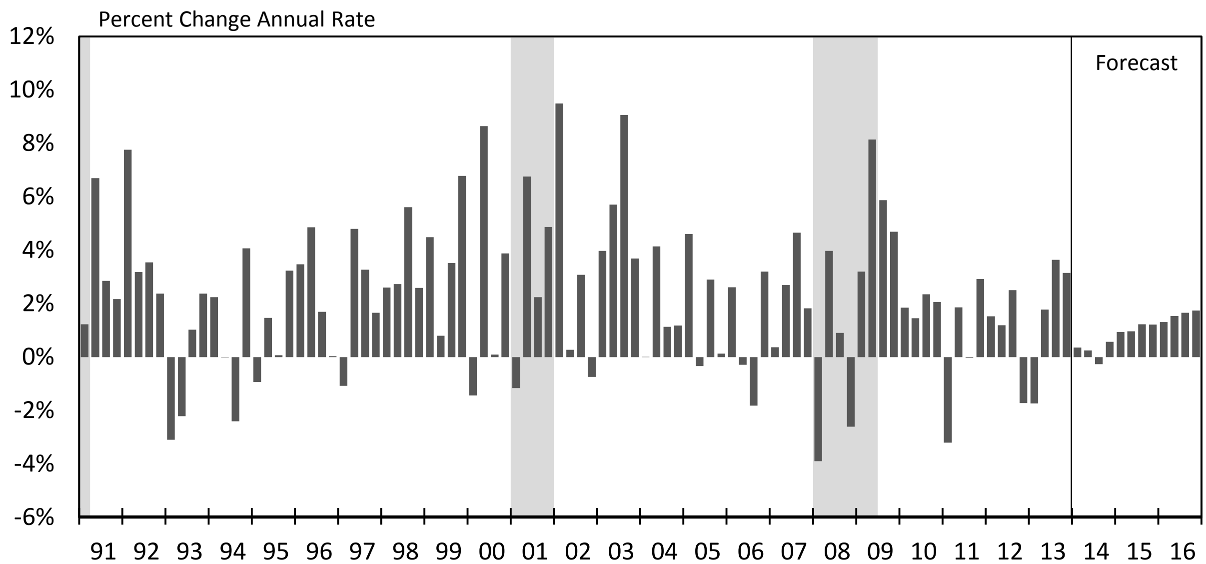
Real Private Investment



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

The fundamentals exist for solid gains in capital spending, but companies have not been expanding due in large part to persistent short-term policy uncertainty. As a result, businesses are expected to proceed cautiously with construction plans until early 2015.

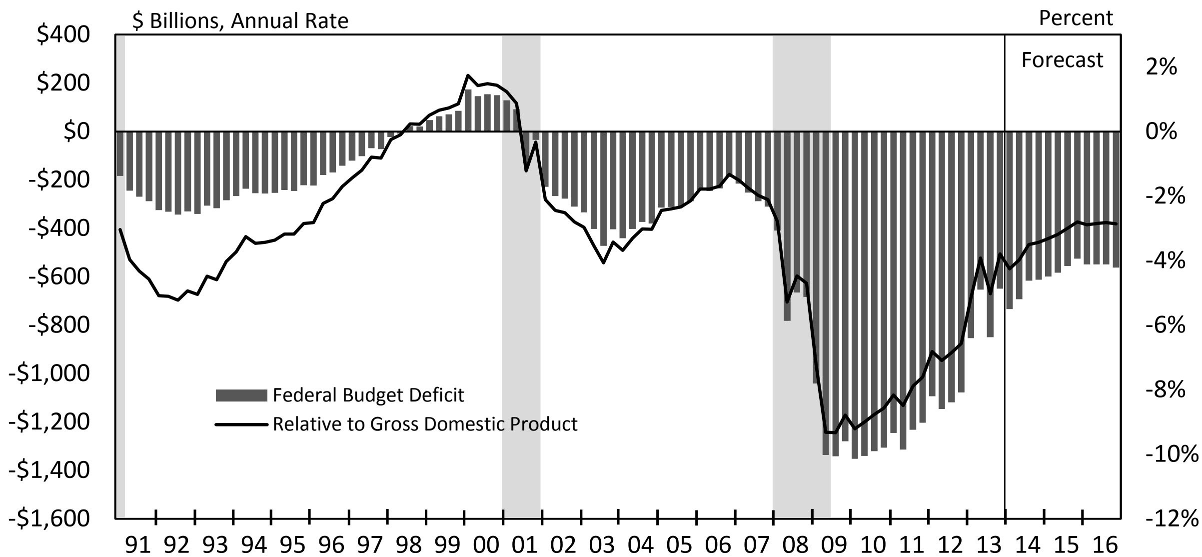
Total Non-Farm Productivity



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

GI expects growth in nonfarm business productivity to be muted over the next few years as the labor market gains momentum. Productivity is forecast to increase 1.3 percent in 2014 and 0.7 percent in 2015.

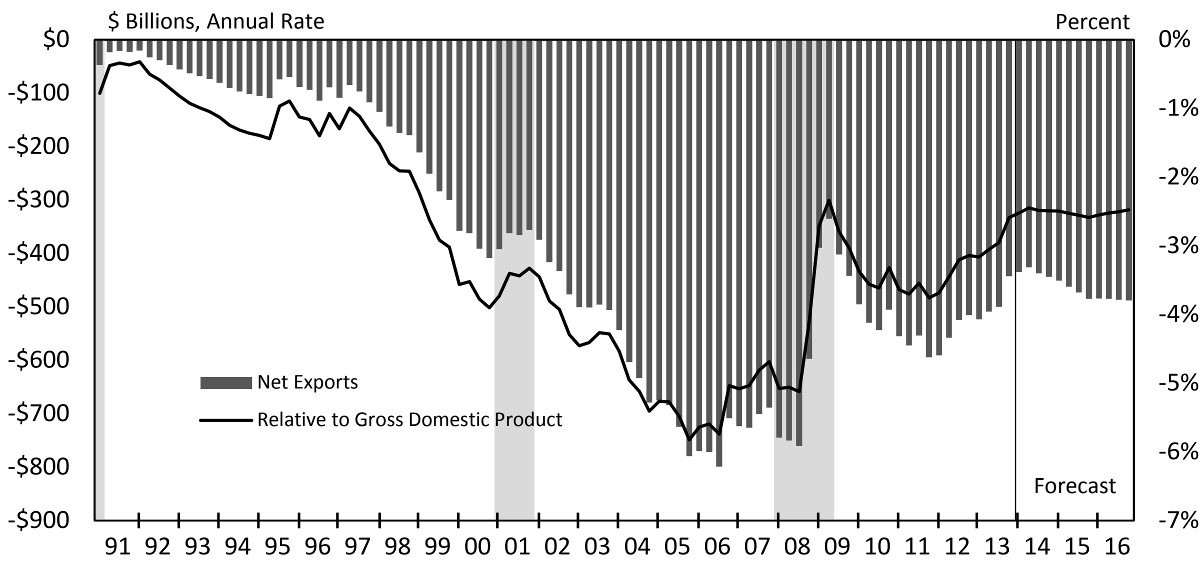
Federal Budget Deficit (NIPA Basis)



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

The U.S. Treasury Department reports that the federal government deficit shrank to $680 billion in fiscal year 2013, or 4.3 percent of GDP, a meaningful improvement after four straight years of $1 trillion-plus deficits. GI expects the deficit to fall toward 3.0 percent of GDP by 2016.

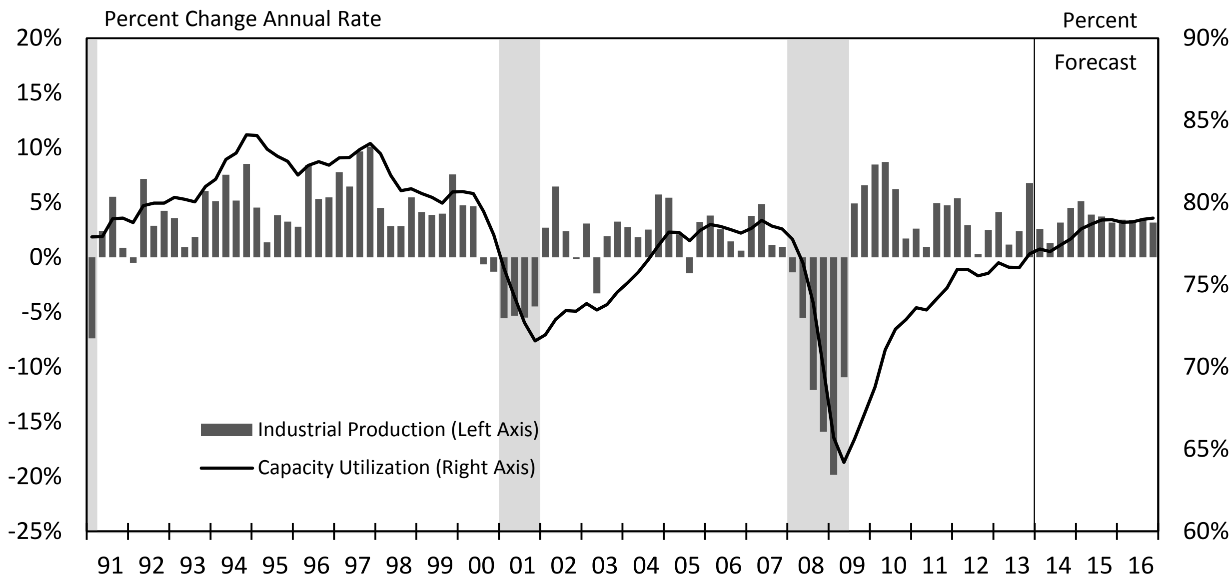
Balance of Trade (Net Exports)



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

As global economic activity strengthens this year, U.S. export growth is expected to rise from 2.8 percent growth in 2013, to 4.9 percent growth in 2014. Net trade, however, will continue to be a drag on growth as imports pickup from an improving U.S. economy.

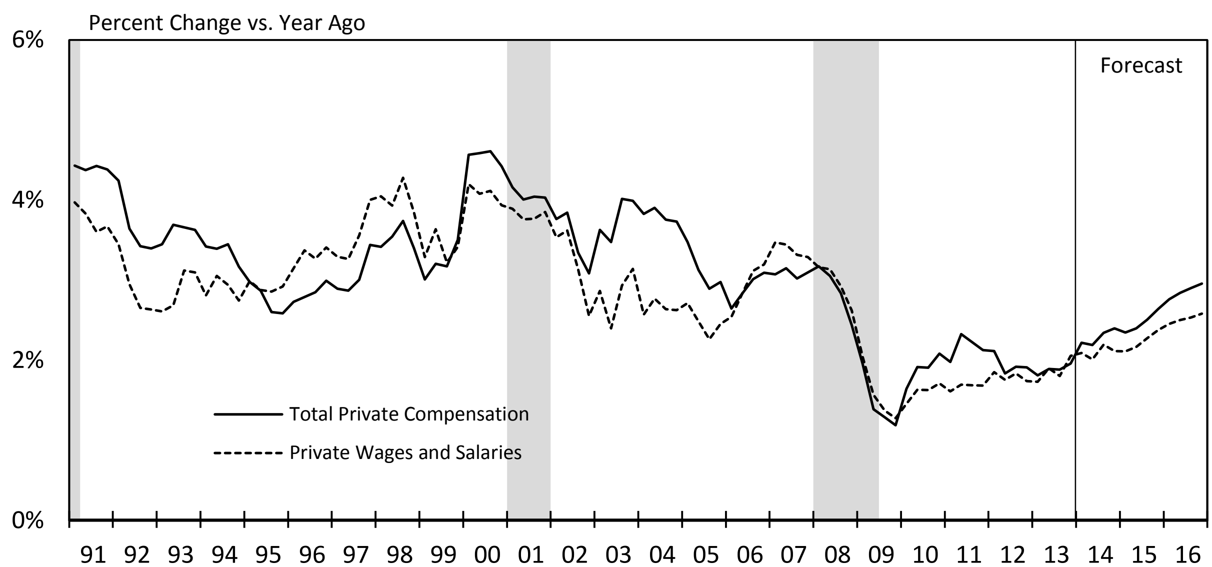
Industrial Production and Factory Operating Rate



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

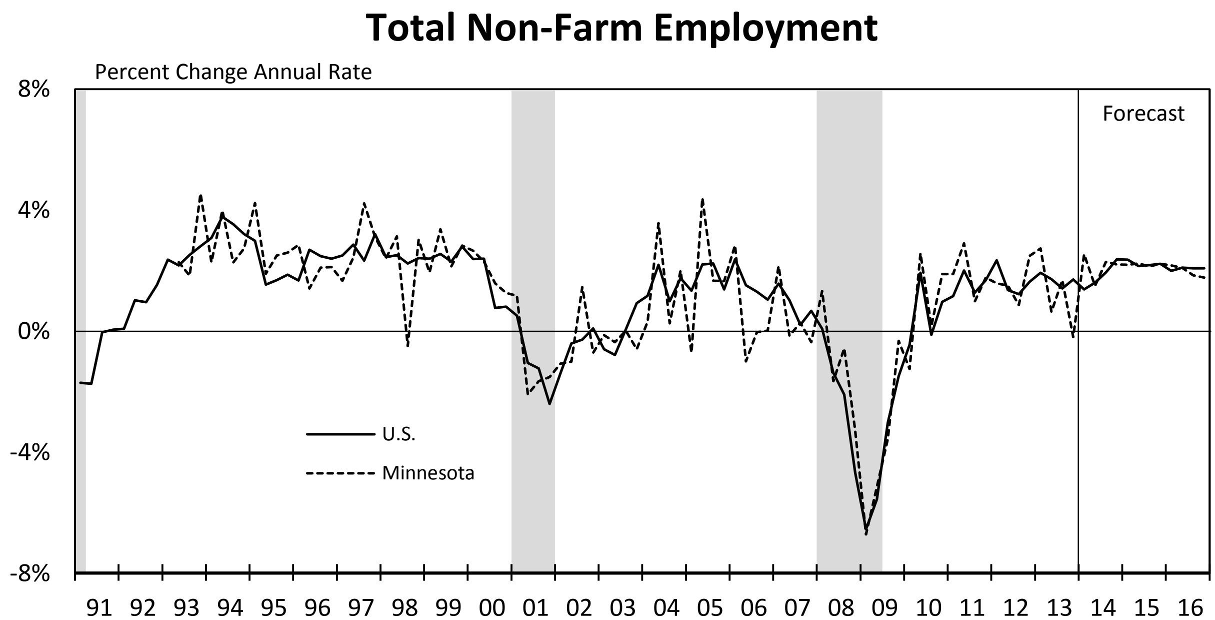
The slowdown in manufacturing that began in mid-2013 was only temporary, as production ended the year on a positive note. GI expects growth in industrial output to accelerate from 2.6 percent in 2013 to 3.2 in 2014 and 4.0 percent in 2015.

Employment Cost Index



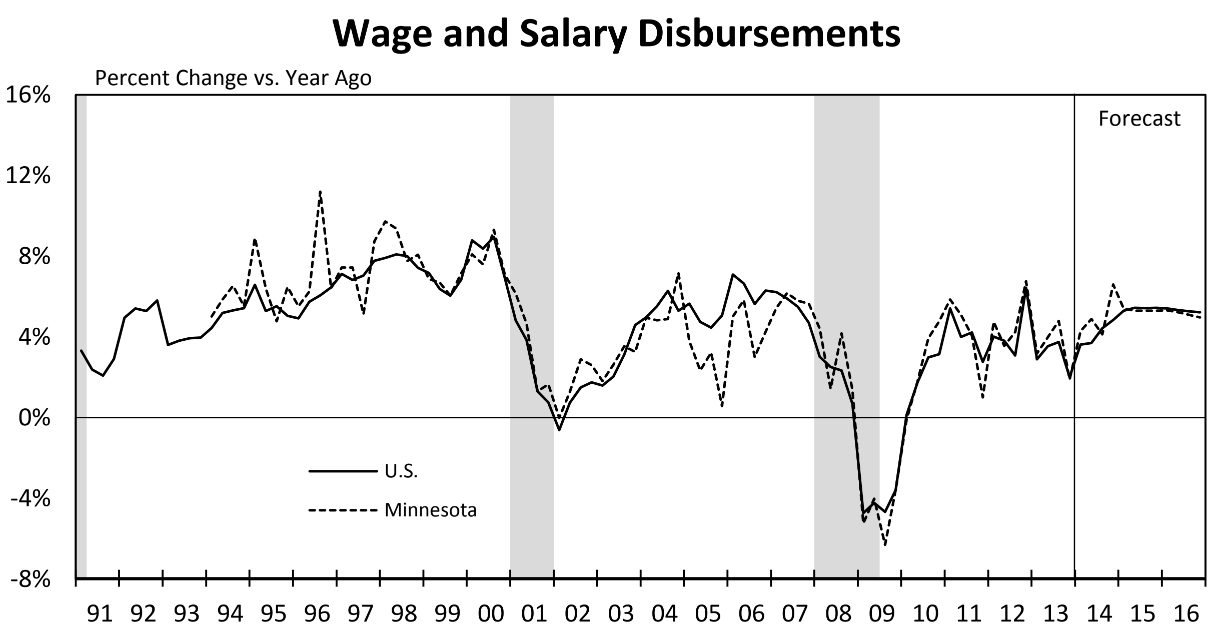
Source: Bureau of Labor Statistics, National Bureau of Economic Research, and Global Insight

Global Insight expects that the employment cost index (ECI) will continue to show very modest compensation inflation in 2014. This is good news for employers, but not so good news for workers.



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

The February 2014 forecast for Minnesota's economy expects job growth to remain modest. Minnesota employment is forecast to grow 1.6 percent in 2014, about the same as in 2012 and 2013, before accelerating to above 2.0 percent in 2015 and 2016.



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

Preliminary labor market data and income tax withholding collections suggests Minnesota's nominal wage and salary income rose 3.5 percent in 2013, down from 4.8 percent growth in 2012. The state's wage income is forecast to rise 5.0 percent in 2014 and 5.3 percent in 2015.

BUDGET OUTLOOK

Budget Summary

FY 2014-15 Forecast Budget Balance Increases. The forecast balance expected for FY 2014-15 is now $1.233 billion, $408 million higher than projected in November. Since repayment of all outstanding accounting shifts were completed in November, the entire forecast gain drops to the bottom-line available balance.

FY 2014-15 Budget Summary
($ in millions)

	November Estimate	February Forecast	$ Change
Beginning Balance	**$ 1,712**	**$ 1,712**	**$ -**
Individual Income Tax	19,372	19,560	188
Sales Tax	10,194	10,361	167
Corporate	2,675	2,714	38
Statewide Property Tax	1,670	1,665	(4)
Other Taxes	3,541	3,513	(27)
Subtotal Tax Revenues	37,451	37,813	362
All Other Revenues, Transfers	1,758	1,762	4
Total Revenues	**$ 39,209**	**$ 39,575**	**$ 366**
K-12 Education	16,654	16,625	(29)
Property Tax Aids & Credits	2,946	2,923	(24)
Health & Human Services	11,327	11,343	16
Debt Service	1,252	1,253	1
All Other Expenditures	6,887	6,875	(12)
Total Expenditures	**$ 39,067**	**$ 39,019**	**$ (48)**
Cash Flow & Budget Reserves	1,011	1,011	0
Stadium Reserve	18	23	6
Budgetary Balance	**$ 825**	**$ 1,233**	**$ 408**

In this forecast, higher projections of economic growth combined with positive year-to-date revenue collections leads to a small increase in forecast revenues for the remaining 16 months of the current biennium. Increases in forecast income and sales tax revenues are the primary contributor to the positive forecast balance. General fund revenues are now expected to be $39.575 billion, $366 million (0.9 percent) above November's estimates; while spending is expected to be $39.019 billion, $48 million (0.1 percent) less than previous estimates. These changes are offset by a $6 million transfer to the stadium reserve. As a result the forecast balance grows $408 million from the $825 million balance projected in November to $1.233 billion

General fund reserves total $1.011 billion, unchanged from previous estimates. This amount represents 2.6 percent of total general fund revenue for FY 2014-15. The reserves include $350 million in the cash flow account and $661 million in the budget reserve.

The balance in the stadium reserve is expected to be $23 million at the end of FY 2015, $6 million above previous estimates. While forecast gambling revenues remain largely unchanged, stadium-related spending is lower due to the recent bond sale.

Small Increase in Stadium Reserves. In January 2014, MMB issued bonds to provide $498 million in financing for the public portion of the project. Based on the actual bond sale, debt service payments for stadium bonds will be $7 million in FY 2014 and $30 million annually for the period FY 2015-43. This is $6 million lower than previous estimates for the current biennium. The ability to issue a larger share of the bond issue as tax-exempt and improved market conditions produced lower interest rates resulting in savings for the life of the bonds, including slightly lower debt service cost in FY 2014.

Planning Estimates Improve. Minor changes in the planning estimates contribute to a modest improvement in the longer term budget outlook. A $303 million improvement in the longer term revenue projections, along with a $98 million reduction in spending estimates, result in a $401 million increase in the balance for the 2016-17 biennium.

The table below shows annual revenues and expenditures, excluding reserves and any balance for the current biennium. The positive difference reflects the structural balance. In FY 2016-17, projected revenue collections are anticipated to be $2.599 billion higher than estimated spending without adjusting for inflation.

The estimates, based on trend revenue growth and spending adjustments only in forecast programs carry a higher degree of uncertainty and an inherently larger range of error than does the forecast for FY 2014-15. These long term planning estimates, as with all other parts of the forecast, do not reflect a Governor's budget proposal or potential legislative action.

FY 2016-17 Planning Estimates
($ in millions)

	FY 2016	FY 2017	FY 2016-17
Projected Revenues	$21,155	$22,128	$43,284
Estimated Spending	20,133	20,551	40,685
Difference	**1,022**	**1,577**	**2,599**
Forecast Change	*167*	*234*	*401*
Estimated Inflation CPI	$ 342	$ 725	$ 1,068

In addition, estimated spending does not include any adjustment for projected inflation. Inflation, based on the Consumer Price Index (CPI), is expected to be 1.7 percent in FY 2016 and 1.8 percent FY 2017. At these levels, simply adjusting total spending for inflation would add $1.068 billion to next biennium's spending totals.

Projected Growth in Revenues is Expected to Outpace Spending Growth. Projected revenues for FY 2016-17 are now expected to reach $43.284 billion, $3.709 billion (9.4 percent) higher than current FY 2014-15 estimates. In the longer term planning scenario, over 95 percent of the growth in revenues is attributed to the projected growth in income and sales tax collections that are anticipated to increase by $2.586 billion (13.2 percent) and $1.054 million (10.2 percent) respectively.

Projected spending for FY 2016-17 is now $40.685 billion, up $1.666 billion (4.3 percent) over the current biennium. Two forecast areas of the budget, health and human services and property tax aids and credits account for over 90 percent of the growth. Health and human services' spending grows $1.202 billion (10.6 percent) above FY 2014-15 levels, while property tax aids and credits spending grows $361 million (12.3 percent).

FY 2016-17 Planning Estimates: Comparison to Current Biennium
($ in millions)

	FY 2014-15	FY 2016-17	$ Change	% Change
Projected Revenues	39,575	43,284	3,709	9.4
Estimated Spending	39,019	40,685	1,666	4.3

The FY 2016-17 planning estimates do not reflect any potential budget changes that might be made in the 2014 legislative session. The planning estimates are, however, an important benchmark to analyze if revenues will exceed spending in succeeding budget period. Economic changes as well as the nature and timing of any budget changes may materially affect both revenue and expenditure projections for the next biennium prior to consideration of the FY 2016-17 budget in the 2015 legislative session.

Revenue Outlook

Revenue Forecast: FY 2014-15. Total revenues for FY 2014-15 are now forecast to be $39.575 billion, $366 million (0.9 percent) more than forecast in November and $3.833 billion (10.7 percent) above FY 2012-13 levels. Total tax revenues for FY 2014-15 are projected to be $37.813 billion, $362 million (1.0 percent) more than the November estimate. Transfers and all other revenues are expected to be $4 million (0.2 percent) below the prior forecast.

This is the second forecast of FY 2014-15 revenues since FY 2014 began on July 1, 2013. After seven months, fiscal year-to-date receipts are $11.008 billion, or about 28 percent of the total expected over the entire biennium. With 17 months of revenue left to observe, 72 percent of FY 2014-15 forecast receipts remain outstanding.

Higher income and sales tax estimates are the source of almost all of the increase in tax revenue. The individual income tax showed the largest dollar amount increase over prior estimates, up $188 million (1.0 percent), followed by the sales tax with an increase of $167 million (1.6 percent). A $38 million (1.4 percent) increase in forecast corporate revenues is nearly offset by lower estimates for the statewide property tax and other taxes.

FY 2014-15 Revenue Summary
($ in millions)

	November Estimate	February Forecast	$ Change	% Change
Individual Income Tax	$ 19,372	$ 19,560	$ 188	1.0
General Sales Tax	10,194	10,361	167	1.6
Corporate Franchise Tax	2,675	2,714	38	1.4
Statewide Property Tax	1,670	1,665	(4)	(0.3)
Other Tax Revenue	3,541	3,513	(27)	(0.8)
Total Tax Revenues	**37,451**	**37,813**	**362**	**1.0**
Non-Tax Revenues	1,427	1,432	5	0.4
Other Resources	331	329	(1)	(0.3)
Total Revenues	**$ 39,209**	**$ 39,575**	**$ 366**	**0.9**

Total tax revenues in FY 2014-15 are now expected to exceed FY 2012-13 levels by $5.014 billion (15.3 percent). More than half of that change is due to the individual income tax, which is projected to bring in $2.575 billion (15.2 percent) more than in FY 2012-13. Other taxes are expected to bring in $1.065 billion more than in the prior biennium, accounting for 21 percent of the total tax revenue change. In FY 2014-15, sales and corporate taxes are expected to grow by 9.9 and 16.7 percent, respectively. Statewide property tax revenues are forecast to be $1.665 billion, exceeding the FY2012-13 level by $55 million (3.4 percent).

Revenue Comparison: FY 2012-13 to FY 2014-15
($ in millions)

	Actual FY 2012-13	February FY 2014-15	$ Change	% Change
Individual Income Tax	$ 16,985	$ 19,560	$ 2,575	15.2
General Sales Tax	9,429	10,361	932	9.9
Corporate Franchise Tax	2,325	2,714	389	16.7
Statewide Property Tax	1,611	1,665	54	3.4
Other Tax Revenue	2,448	3,513	1,065	43.5
Total Tax Revenues	**32,798**	**37,813**	**5,015**	**15.3**
Non-Tax Revenues	1,573	1,432	(141)	(8.9)
Other Resources	1,371	329	(1,042)	(76.0)
Total Revenues	**$ 35,742**	**$ 39,575**	**$ 3,833**	**10.7**

Individual Income Tax: Individual income tax revenues for FY 2014-15 are now forecast to total $19.560 billion, $188 million (1.0 percent) more than November estimates.

The change in the income tax forecast since November is due to several factors. First, the November forecast was based on MMB's estimate of final 2012 liability of $8.286 billion. Final liability is now estimated to be $8.348 billion, $62 million (0.7 percent) more than projected in November.

Second, calibrating the individual income tax model to produce tax year 2012 final liability required making assumptions about growth rates for particular income types. Based on evidence from a preliminary sample of 2012 individual income tax returns, capital gains reported by Minnesota residents are now assumed to have grown by 87.5 percent. In November's forecast, growth of 94.6 percent was projected. Assumed growth in Minnesota business income was raised from 12.1 to 13.8 percent. Dividend income is now assumed to have grown 27.5 percent compared to 21.7 percent in November. Most of the increase in dividend income is assumed to be a one-time response to the increased federal tax rates in 2013 and is not carried forward. Finally, based on information about tax returns filed for tax year 2012, the assumed cumulative growth in the number of Minnesota income tax filers was lowered by about a quarter of a percentage point. For a given expected level of income, a smaller number of filers will raise average income per return. With graduated income tax rates, higher per return income will raise expected tax revenue. In this case, the change increased forecast income tax revenue by roughly $16 million in FY 2014-15.

Third, the income tax forecast changed because growth projections for some underlying economic variables were changed since November. Withholding collections in 2013 suggest that Minnesota's wage and salary income grew 3.5 percent, versus 4.2 percent assumed in November. Assumed wage growth is increased in 2014 and 2015, so that cumulatively it exceeds the November estimate by 0.5 percent. Changes in the expected timing of estimated payments and withholding add revenue to FY2015.

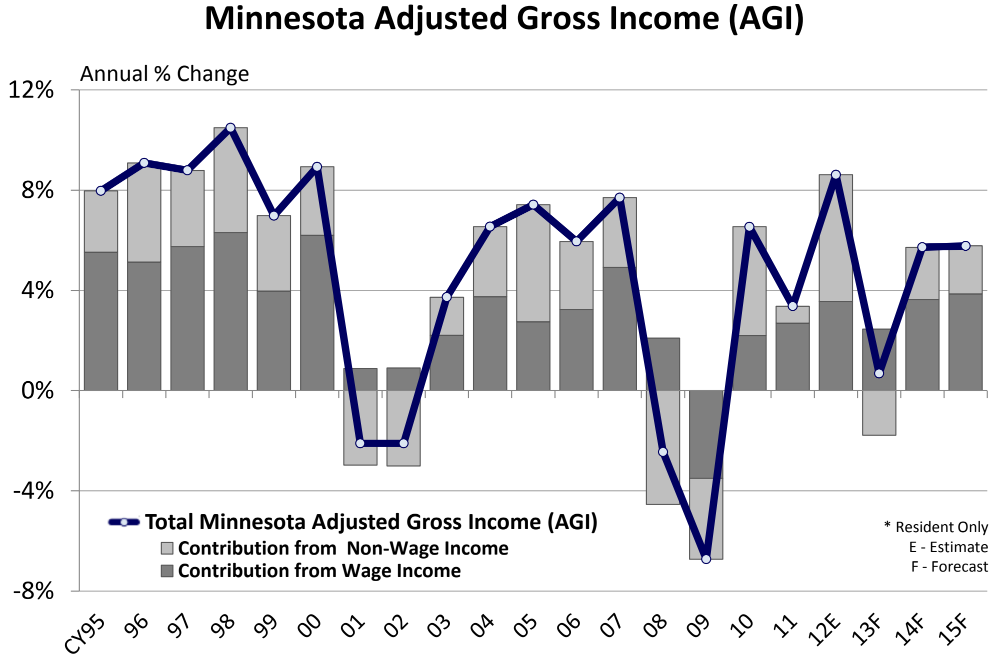
In November, 2013 growth in Minnesota business income had been projected at 1.4 percent; in this forecast projected growth is 3.4 percent. A higher forecast for the S&P 500 stock index results in taxable IRA distributions to Minnesota residents growing 17.6 percent in 2014 compared to 13.7 percent in the earlier estimates. Increased growth in interest income and taxable Social Security benefits also add to tax liability estimates in 2013 and 2014.

In addition to these changes, the income tax forecast was affected by one-time changes and technical adjustments. Unusually strong growth in partnership and fiduciary taxes added $16 million in net revenue to FY 2014-15, and technical adjustments increased the current biennium forecast by $30 million.

So far in FY2014, the state has collected $138 million more in individual estimated income tax payments than projected. Most of that increase is assumed to arise from taxpayers paying more of their 2013 tax in estimated payments at the end of 2013, rather than in final payments on April 15, and not from larger tax liability.

In 2012, a year in which taxpayers are assumed to have accelerated income in anticipation of higher federal tax rates, adjusted gross income (AGI) reported by Minnesota residents grew 8.6 percent. Of that change, 3.6 percentage points were due to increased wages, and 5.1 percent arose from non-wage income, such as capital gains, dividends, and business income. For 2013, a forecast decline in non-wage income partially offsets increased wages to generate income growth of only 0.7 percent. Moderate income growth of 5.7 and 5.8 percent is projected for 2014 and 2015.

Much of the tax on non-wage income is paid through estimated tax or through discretionary withholding. These payments are more difficult to predict than prescribed withholding on wages and salaries. Because taxpayers affected by Minnesota's new fourth income tax bracket report a higher share of income from non-wage sources, a larger share of total income tax receipts now are being collected through payment streams that are harder to forecast.



Source: Minnesota Department of Revenue; Minnesota Management & Budget (MMB)

For 2013, a decline in non-wage income partially offsets increased wages to generate income growth of only 0.7 percent. Moderate income growth of 5.7 and 5.8 percent is forecast for 2014 and 2015.

General Sales Tax: Net sales tax revenues for FY 2014-15 are projected to be $10.361 billion, $167 million (1.6 percent) more than November's estimate. Of that change, $50 million arises from expected growth in economic activity and $23 million is due to technical adjustments.

So far in FY 2014, sales tax receipts have exceeded projections by $48 million. In this forecast, that amount increases expected revenues for FY2014, and is assumed to carry forward into FY 2015. However, the higher-than-expected revenue accrued during a period when several law changes came into effect, and guidance to tax payers for one major change—the sales tax on electronic and commercial equipment repair and maintenance—has been revised. Because of uncertainty about the revenue impact of these changes, the higher growth rates implied by year-to-date receipts have not been incorporated into this forecast. Instead, revenues are assumed to grow at the rate of the synthetic sales tax base, a proxy for the actual Minnesota sales tax base. This base is forecast to grow 3.9 percent in FY 2014, up from 3.1 percent forecast in November. Expected growth for FY 2015 has been increased to 5.8 percent from 4.9 percent in November.

Net sales tax revenues in FY 2014-15 are now expected to exceed FY 2012-13 levels by $932 million (9.9 percent).

Corporate Franchise Tax: Corporate tax revenues for FY2014-15 are forecast to total $2.714 billion, $38 million (1.4 percent) more than forecast in November. Net corporate tax revenues in FY 2014-15 are now expected to exceed FY 2012-13 levels by $389 million (16.7 percent). So far in FY 2104, net corporate tax revenues exceed November's forecast by $24 million. This forecast reflects that larger base as well as GI's increased expectations for corporate profits growth in 2013 and 2014. GI's February baseline has U.S. corporate profits adjusted for capital consumption and inventory valuation growing by 4.1 percent in 2013 and 6.9 percent in 2014. In November, GI projected corporate profits to grow by 3.3 in 2013, and 4.3 percent in 2014. The base and growth rate increases are partially offset by a technical adjustment related to the timing of refunds arising from the Minnesota Historic Structure Rehabilitation Credit. That adjustment reduces forecast corporate tax revenues for the biennium by $50 million.

Other Taxes, Transfers and All Other Revenues: Other taxes including the statewide property tax, transfers, and non-tax revenues for 2014-15 are expected to total $6.939 billion, $27 million (0.4 percent) less than was anticipated in November. A $28 million decrease in the forecast for other taxes and resources is partially offset by a $5 million increase in non-tax revenues.

Estate and gift tax revenues are forecast to total $380 million in FY 2014-15, $32.5 million (7.9 percent) less than was reported November's estimate. A significant portion of this change is due to correcting a recording error in the November forecast.

Cigarette and tobacco taxes revenues are forecast to total $1.174 billion in FY 2014-15, $14 million (1.2 percent) more than November's estimate. Forecast revenue from the mortgage registry and deed transfer taxes are together $25 million lower than prior projections due to a reduction in expectations for growth in the value of 2014 home sales from 17.0 to 11.7 percent combined with a lower forecast of refinancing transactions.

The net insurance gross earnings tax is now expected to bring in $20 million more than was projected in November. So far in FY 2014, insurance tax receipts exceed projections by $5.5 million. That base increase is partially offset by a slight decrease in forecast growth in spending on property and casualty insurance in 2014.

Revenue Planning Estimates: Total revenues for FY 2016-17 are now estimated to be $43.284 billion, $303 billion (0.7 percent) more than November's estimate. Revenues are now expected to exceed their FY 2014-15 levels by $3.709 billion (9.4 percent).

Total tax revenues for FY 2016-17 are projected to be $41.630 billion, $308 million (0.7 percent) more than the November planning estimate. The general sales tax showed the largest dollar amount increase, up $326 million (2.9 percent) over the previous estimate. The individual income tax planning estimate was increased by $55 million (0.2 percent), and the corporate income tax is expected to bring in $12 million more than was estimated earlier. Planning estimates for other taxes and the statewide property tax are 1.7 and 1.2 percent lower than prior estimates, respectively.

FY 2016-17 Revenue Summary
($ in millions)

	November Estimate	February Forecast	$ Change	% Change
Individual Income Tax	$ 22,091	$ 22,146	$ 55	0.2
General Sales Tax	11,089	11,415	326	2.9
Corporate Franchise Tax	2,712	2,724	12	0.5
Statewide Property Tax	1,731	1,710	(21)	(1.2)
Other Tax Revenue	3,699	3,635	(64)	(1.7)
Total Tax Revenues	**41,321**	**41,630**	**308**	**0.7**
Non-Tax Revenues	1,414	1,409	(5)	(0.4)
Other Resources	245	245	0	0.0
Total Revenues	**$ 42,981**	**$ 43,284**	**$ 303**	**0.7**

Tax revenues in FY 2016-17 are now expected to exceed FY 2014-15 levels by $3.817 billion (10.1 percent). About 68 percent of that change is due to the individual income tax, which is projected to bring in $2.586 billion (13.2 percent) more than in FY 2014-15. The sales tax is expected to bring in $1.054 billion more than in the prior biennium, accounting for 28 percent of the total tax revenue change. In FY 2016-17, corporate, statewide property tax, and other taxes are expected to grow by 0.4, 2.7 and 3.5 percent, respectively.

The revenue planning estimates are not explicit forecasts; they are extrapolations from projected trends in the economy. They are based on GI's baseline forecast, which in November assumed that U.S. real GDP would grow 3.3 percent in 2016 and 3.1 percent in 2017. Since then, GI has raised their forecast for 2016 growth to 3.4 percent, while projected 2017 growth is unchanged.

For the individual income tax estimates, assumed Minnesota filer growth was consistent with average national employment growth for 2016 and 2017. All elements of income and all itemized deductions were assumed to grow at the GI's projected growth rate of taxable personal income, comprised of wages and salaries, proprietors' income, dividend, interest, and rents. In November GI assumed that income measure would grow 5.3 percent in 2016 and 5.8 percent in 2017. Since then, GI has raised their forecast for 2016 income growth to 5.5 percent and kept the projected 2017 growth rate at 5.9 percent.

Revenue Comparison: FY 2014-15 to FY 2016-17
($ in millions)

	February FY 2014-15	February FY 2016-17	$ Change	% Change
Individual Income Tax	$ 19,560	$ 22,146	$ 2,586	13.2
General Sales Tax	10,361	11,415	1,054	10.2
Corporate Franchise Tax	2,714	2,724	10	0.4
Statewide Property Tax	1,665	1,710	45	2.7
Other Tax Revenue	3,513	3,635	122	3.5
Total Tax Revenues	**37,813**	**41,630**	**3,817**	**10.1**
Non-Tax Revenues	1,432	1,409	(24)	(1.7)
Other Resources	329	245	(84)	(25.6)
Total Revenues	**$ 39,575**	**$ 43,284**	**$ 3,709**	**9.4**

MMB's complete sales tax model was used to prepare the sales tax revenue planning estimates. Each component of the sales tax was assumed to grow at the national average rate for that group of goods or services. Minnesota corporate tax revenues were estimated using a model driven by before tax corporate profits on a national income accounts basis. The deed and mortgage taxes were forecast based on the projected growth in the value of new and existing home sales and refinance originations.

The revenue planning estimates for 2016-17 should be used with caution. Even small deviations from the assumed trend over four years will compound and produce sizeable changes in revenues. In addition, due to the way the estimates are constructed, any change in the base level of revenues for FY 2013 through FY 2015 will change the revenue planning estimates for FY 2016-17. Other things equal, stronger than anticipated revenue growth through FY 2015 will carry forward and add significantly to revenues in FY 2016-17. Should the economy grow more slowly than forecast, or should some volatile income item, such as capital gains or corporate profits, fall well below forecast, the revenue outlook for FY 2016-17 will deteriorate.

Expenditure Outlook

Small Change in FY 2014-15 General Fund Spending. General fund spending is now forecast to be $39.019 billion, $48 million (0.1 percent) less than November's estimates. Small reductions in K-12 education, property aids and credits and capital projects and grants were slightly offset by a small increase in health and human services spending.

Estimates for K-12 education, the largest area of the state budget, decreased by $29 million (0.2 percent). Compensatory aid spending is lower by $12 million due to a reduced growth rate in the number of students living in poverty. Additionally, projections for the new achievement and integration aid program are lower than expected, resulting in $9.2 million of savings.

Lower participation and a small increase in income growth projections in property tax refund programs contribute to the overall savings of $24 million in property tax aids and credits.

In addition, state spending on capital projects and grants, which primary consists of debt obligations, is now forecast to be $12 million less than previous estimates. In January 2014, MMB issued stadium appropriation bonds for the public financing portion of the project. The bond sale resulted in savings of $6 million for the current biennium.

Health and human services' spending is $16 million (0.1 percent) above November's estimates. Overall health care program enrollment and cost assumptions remained largely unchanged and for disabled basic care lower payment rates and a caseload with lower health care needs, reduced spending by $56 million. The savings were offset by a $50 million transfer from the general fund to the health care access fund triggered by 2008 legislation requiring certification of $50 million in health care savings attributed to state-run programs. Additionally, a 12-month delay in implementing nursing facility level of care changes increased spending by $8 million.

Estimated Spending FY 2014-15
($ in millions)

	November Forecast	**February Forecast**	**$ Change**	**% Change**
K-12 Education	$ 16,654	$ 16,625	$ (29)	(0.2)
Property Tax Aids & Credits	2,946	2,923	(24)	(0.8)
Health & Human Services	11,327	11,343	16	0.1
Debt Service	1,252	1,253	1	0.1
Capital Projects and Grants	224	212	(12)	(5.4)
All Other Expenditures	6,663	6,663	0	0.0
Total Expenditures	**$39,067**	**$39,019**	**$(48)**	**(0.1)**

FY 2016-17 Projected Spending Declines From November. General fund spending is now forecast to be $40.685 billion, $98 million (0.2 percent) less than previous estimates. The change in projected spending is not significant and largely reflects the savings occurring in FY 2014-15 continuing into the next biennium.

The majority of the savings is in K-12 education and health and human services. K-12 education spending is $58 million (0.3 percent) less than previously forecast. The continued improvement in the economy is expecting to further reduce the growth rate of students living in poverty resulting in savings of $43 million in compensatory aid. Other reductions in aid provided to school districts were offset by a slight increase in pupil units.

Health and human services' spending is $22 million (0.2 percent) lower than previous forecast. Lower payment rates and patients with lower health care needs reduce disabled basic care spending by $51 million. These savings were, in part, offset by other changes in Medical Assistance.

FY 2016-17 Estimated Spending
($ in millions)

	November Forecast	February Forecast	$ Change	% Change
K-12 Education	$ 16,792	$ 16,734	$ (58)	(0.3)
Property Tax Aids & Credits	3,290	3,283	(6)	(0.2)
Health & Human Services	12,568	12,545	(22)	(0.2)
Debt Service	1,267	1,268	1	0.1
Capital Projects and Grants	268	260	(8)	(3.0)
All Other Expenditures	6,598	6,594	(4)	(0.1)
Total Expenditures	**$40,783**	**$40,685**	**$(98)**	**(0.2)**

Projected costs of property tax aids and credits have been reduced due to lower participation and a small increase in income growth projections. Forecast debt service on state general obligation bonds was largely unchanged; however, capital projects and grants spending is down $8 million (3.0 percent) from November's estimates. Actual debt service costs on the stadium bonds are slightly lower than previous estimates. The market conditions improved and larger share of the bonds were tax exempt resulting in lower interest rates.

Education Finance is the Largest Category of State General Fund Spending. It consists of aid programs for general education, special education, early childhood and family education, charter schools, nonpublic pupil programs, and integration programs. In the current biennium the state is projected to spend $16.544 billion on education aid.

K-12 aids can be divided into two major funding streams: 1) general education, the primary source of basic operating funds for schools, and 2) categorical aid, tied to specific activities or categories of funding.

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

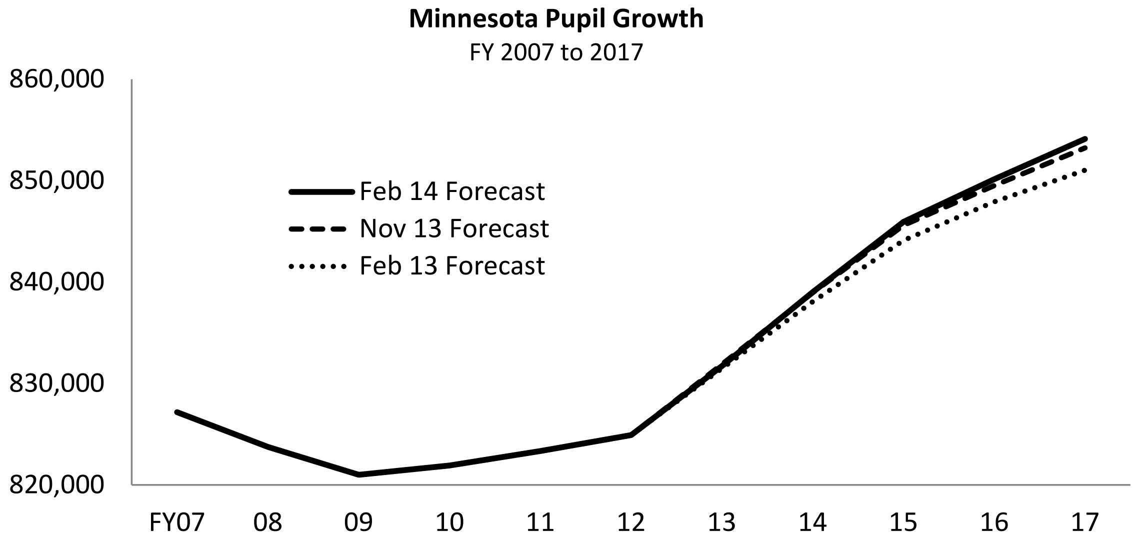
School year aid entitlement amounts change from forecast to forecast as a result of demographic and program cost changes or law changes. State fiscal year spending amounts can be impacted both by entitlement changes and by payment shifts or buybacks.

In the remainder of FY 2014, school districts will receive 90 percent of their current year entitlement and 13.6 percent of their prior year entitlement, due to the repayment of a previous aid shift. Fiscal year 2014 spending is also increased due to the buyback of the property tax recognition shift. In FY 2015 and beyond, schools will return to a regular payment schedule: 90 percent of their current year entitlement and 10 percent of their prior year entitlement.

Small Decrease in Education Spending Compared to November Forecast. Education spending has slightly decreased from previous estimates; spending is down $29 million in FY 2014-15, a decrease of 0.2 percent compared to previous estimates. Very small growth in pupil unit estimates are offset by other changes in general education and categorical aids.

General education spending is down $18 million (0.1 percent), from previous estimates. Pupil growth is virtually unchanged, increasing by just 57 pupils in FY2014 and 328 in FY2015. Overall growth for the forecast period of FY 2012–2017 is up just 891 over November projections. This represents a 0.1 percent change and adds about $3 million to spending estimates. While pupil growth is slightly higher, there was a minor downward revision in the expected growth of the number of students in poverty and in poverty concentration. This is used to calculate compensatory aid, a portion of the general education formula. Compensatory aid has been reduced $12 million in FY 2014-2015 relative to previous estimates.

Pupil Projections	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**
November Forecast	831,910	838,947	845,617	849,533	853,235
February Forecast	831,722	839,004	845,945	850,138	854,126
Difference	**(188)**	**57**	**328**	**605**	**891**
Pupil Growth Over Prior Year	6,800	7,282	6,941	4,193	3,988



Student growth drives increases in various funding formulas including general education. The table indicates a pattern of pupil growth on both an annual basis and compared to November forecast projections.

Continued slower growth in compensatory aid reduced 2016-17 spending from previous estimates. Total spending is projected to decrease $38 million (0.2 percent), with $43 million resulting from slower growth in compensatory aid expenditures. This savings is, in part, offset by the small increase in total pupil units.

Categorical program spending for FY 2014-15 is largely unchanged with projected spending down $11 million compared to previous estimates. Achievement and integration aid is $9 million (7.2 percent) lower while charter school lease aid declined $2 million (1.8 percent). Lower than anticipated spending in the first year of the new achievement and integration aid program is primarily due to districts submitting budgets that are lower than the maximum amount allowed in current law. Spending estimates are closer to previously expected levels in FY 2016-17 as school districts become more familiar with the programs. Lower charter school lease aid spending is the result of lower actual lease costs in FY 2014 and fewer students attending charter schools than projected in November.

Planning estimates for FY 2016-17 are $20 million below the November forecast for categorical programs. This reflects larger than projected increases in property values, offset, in part, by increased special education aid spending.

Special education aid projections increased by $8 million in FY 2016-17 over previous estimates. In FY 2016-17 a cap on special education aid spending is replaced by a growth factor. This allows actual costs of special education and special education transportation to drive growth in special education aid spending. Higher special education transportation costs account for $5 million of the $8 million increase in special education aid in the next biennium. This increase is offset, in part, by a small downward revision in special education pupil growth.

Increased special education spending in FY 2016-17 is offset by reduced spending in several categorical programs that are a mix of state aid and levies. Preliminary 2013 data from the Department of Revenue on district adjusted net tax capacity (ANTC) reflects larger than projected increases in property values. This growth increases the amount of money raised through local levies without any additional action by local districts. Programs that are a mix of state aid and levies will see an increase in the levied portion due to increased property values, resulting in a decrease in state aid. In FY2016-17, deferred maintenance decreases by $1 million (15 percent), career and technical aid by $1 million (13 percent) and debt service aid by $14 million (25 percent) compared to previous projections.

Health and Human Services is One-Third of Total State General Fund Spending. The majority of these expenditures (86 percent) are forecast programs including Medical Assistance (MA), 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 MA forecast, since it accounts for the largest portion of forecasted program expenditures. MA is a state-federal, means-tested entitlement program for low-income individuals and 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 Spending Up $16 million in FY 2014-15, Down $22 million in FY 2016-17. Health and human services expenditures for FY 2014-15 are expected to be $11.343 billion, a 0.2 percent increase from the November 2013 forecast. Estimated spending for FY 2016-17 are $12.545 billion, a decrease of $22 million (0.2 percent) from November. Minor adjustments were made to all forecast programs but the most noteworthy changes occur in the Medical Assistance (MA) program. See the table below for highlights of the most significant changes.

HHS Forecast Changes (General Fund - $ millions)	FY 2014-15 Change from Nov 2013	FY 2016-17 Change from Nov 2013
Lower Payment Rates for Basic Care for Disabled Individuals	(56)	(51)
12-Month Delay of Nursing Facility Level of Care Change	8	6
Transfer from General Fund to Health Care Access Fund	50	--
All Other Changes (see below for details)	14	23
Total HHS Changes	**16**	**(22)**

This forecast reflects a $56 million decrease in MA expenditures due to lower payment rates for basic care for individuals with disabilities. Total projected expenditures for this population are $2.947 billion, so this change represents 2.0 percent of the total cost. Basic care provides general health care coverage for individuals who are eligible for MA and have a disability. Lower payment rates resulted from recently negotiated rates with providers and a caseload with lower projected service needs than previously forecasted. Managed care rates were reduced by 4 percent compared to the November 2013 forecast while fee-for-service rates decreased 2.5 percent. This change also reduces projections for FY 2016-17 by $51 million.

The forecast recognizes a twelve month delay of the implementation of the nursing facility level of care changes originally planned for January 1, 2014. Nursing facility level of care criteria informs who is eligible for public payment of certain long-term care programs funded through the Medical Assistance program. Legislation from 2009 focused eligibility criteria toward the highest need clients causing some individuals with lower needs to lose their MA coverage. For those individuals who were expected to lose coverage, Essential Community Support grants were created to temporarily fund in-home services to help ease the transition off of MA. In December 2013, Governor Dayton announced his intention to delay the implementation of the level of care changes for at least one year. That delay is recognized in this forecast, carrying a cost of $15 million in the MA program, offset by reduced expenditures in Essential Community Support Grants (part of Alternative Care Grants) of $7 million in FY 2014-15. The delayed implementation also increases costs by $6 million in FY 2016-17 due to the phasing in of the change.

Another change was triggered in December 2013 when the Minnesota Department of Health certified that the state had achieved more than $50 million in health care savings attributable to state-administered programs. Pursuant to 2008 session law, this certification requires a $50 million transfer from the general fund to the health care access fund in FY 2015. This transfer constitutes repayment of a transfer of the same amount to the general fund in FY 2009.

In addition to the changes discussed above, health and human service expenditures increased by $14 million in FY 2014-15 and $23 million in FY 2016-17, which is the sum of numerous smaller changes in MA.

Disclosure of Potential Increased Expenditures. Consistent with the approach taken at the end of the 2013 legislative session and in the November 2013 forecast, in the current forecast the amount of Medical Assistance expenditures paid by the health care access fund is based on legislative intent established during the 2013 session. However, absent further legislative action confirming this intent, Medical Assistance costs in the following amounts would be shifted at the end of the 2014 legislative session from the health care access fund to the general fund: $460 million for FY 2014-2015; $900 million for FY 2016-2017. This cost shift would occur pursuant to the concluding sentences in Laws 2013, Chapter 108, Article 14, Section 2, Subd. 5(g) and Section 12(c), and Article 6, Section 32(d) respectively.

Property Tax Aids and Credits are 8 Percent of General Fund Spending. They 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.

Property Tax Aids and Credits Spending Down in FY 2014-17. Property tax aids and credits spending is now forecast to be $2.923 billion in the FY 2014–15 biennium, a decrease of $24 million (0.8 percent) from November estimates. FY 2016-17 spending for tax aids and credits is projected to be $3.283 billion, a decrease of $6 million (0.2 percent) from previous projections. Driving the overall reduction is decreased estimated spending for homeowner and renter property tax refunds due to lower current year program participation and slight increases in income growth projections. Spending on tax refund interest is also down $6 million in FY 2014–15 (20.0 percent) and $1 million in FY 2016–17 (3.2 percent) due to lower than expected refund claims resulting from resolved court cases.

APPENDIX TABLES

Minnesota Economic Forecast Summary

Forecast 2014 to 2017 - Calendar Years

	2011	2012	2013	2014	2015	2016	2017
Current Dollar Income (Billions of Dollars)							
Personal Income	241.352	252.413	258.507	268.888	282.055	296.643	311.725
%Chg	6.6	4.6	2.4	4.0	4.9	5.2	5.1
Wage & Salary Disbursements	129.193	135.435	140.128	147.110	154.948	162.930	170.663
%Chg	4.0	4.8	3.5	5.0	5.3	5.2	4.7
Non-Wage Personal Income	112.159	116.978	118.379	121.783	127.110	133.715	141.060
%Chg	9.9	4.3	1.2	2.9	4.4	5.2	5.5
Supplements to Wages & Salaries	31.556	30.644	30.911	31.876	33.399	35.211	37.111
%Chg	7.4	-2.9	0.9	3.1	4.8	5.4	5.4
Dividends, Interest, & Rent Income	41.032	43.487	45.086	47.300	49.877	53.438	57.725
%Chg	9.6	6.0	3.7	4.9	5.4	7.1	8.0
Farm Proprietors Income	4.342	6.433	7.110	6.191	6.126	6.151	6.185
%Chg	27.5	48.2	10.5	-12.9	-1.0	0.4	0.5
Non-Farm Proprietors Income	16.294	17.405	18.390	19.403	20.595	21.700	22.656
%Chg	11.8	6.8	5.7	5.5	6.1	5.4	4.4
Personal Current Transfer Receipts	38.551	39.306	40.237	41.495	43.153	44.847	46.481
%Chg	1.4	2.0	2.4	3.1	4.0	3.9	3.6
Less: Contrib. for Gov. Social Ins.	18.362	19.096	22.206	23.351	24.910	26.501	27.965
%Chg	-6.3	4.0	16.3	5.2	6.7	6.4	5.5
Real Income (Billions of 2009 Dollars)							
Real Personal Income	231.877	238.097	241.172	248.358	256.965	266.108	275.055
%Chg	4.2	2.7	1.3	3.0	3.5	3.6	3.4
Real Wage & Salary Disbursements	124.123	127.754	130.727	135.873	141.163	146.160	150.588
%Chg	1.6	2.9	2.3	3.9	3.9	3.5	3.0
Employment (Thousands)							
Employment - Total Non-Farm Payrolls	2,688.3	2,730.9	2,776.6	2,820.0	2,881.3	2,942.0	2,991.2
%Chg	1.8	1.6	1.7	1.6	2.2	2.1	1.7
Construction	91.7	95.2	99.4	104.6	111.6	116.6	120.0
%Chg	4.7	3.8	4.4	5.2	6.7	4.5	2.9
Manufacturing	300.6	305.5	306.2	310.1	315.7	321.0	324.7
%Chg	2.7	1.6	0.2	1.3	1.8	1.7	1.2
Private Service-Providing	1,879.0	1,910.9	1,948.9	1,983.5	2,029.9	2,075.9	2,113.4
%Chg	2.2	1.7	2.0	1.8	2.3	2.3	1.8
Government	410.4	412.4	415.0	414.5	416.6	420.5	425.0
%Chg	-1.5	0.5	0.6	-0.1	0.5	0.9	1.1
Minnesota Civilian Labor Force	2,969.7	2,969.4	2,978.0	2,997.8	3,028.1	3,055.0	3,076.5
Employment - Household Survey	2,776.8	2,801.9	2,825.1	2,859.8	2,899.7	2,935.9	2,963.9
Unemployment Rate (%)	6.5	5.6	5.1	4.6	4.2	3.9	3.7
Demographic Indicators (Millions)							
Total Population	5.347	5.379	5.420	5.459	5.496	5.532	5.569
%Chg	0.7	0.6	0.8	0.7	0.7	0.7	0.7
Total Population Age 16 & Over	4.214	4.246	4.287	4.320	4.353	4.386	4.419
%Chg	0.9	0.8	0.9	0.8	0.7	0.8	0.7
Total Population Age 65 & Over	0.701	0.730	0.757	0.783	0.810	0.839	0.871
%Chg	2.2	4.1	3.7	3.4	3.5	3.6	3.8
Total Households	2.101	2.127	2.157	2.189	2.219	2.248	2.275
%Chg	0.7	1.2	1.4	1.5	1.4	1.3	1.2
Housing Indicators (Thousands)							
Total Housing Permits (Authorized)	8.252	15.003	16.817	23.116	27.924	30.548	31.345
%Chg	-14.7	81.8	12.1	37.5	20.8	9.4	2.6
Single-Family	6.203	8.566	10.597	15.561	20.731	23.448	24.043
%Chg	-9.1	38.1	23.7	46.8	33.2	13.1	2.5

Source: Minnesota Management & Budget (MMB) February 2014 Forecast

U.S. Economic Forecast Summary

Forecast 2014 to 2017, Calendar Years

	2011	2012	2013	2014	2015	2016	2017
Real National Income Accounts (Billions of 2009 Dollars)							
Real Gross Domestic Product (GDP)	15,052.4	15,470.7	15,767.1	16,195.9	16,726.0	17,293.1	17,833.4
%Chg	1.8	2.8	1.9	2.7	3.3	3.4	3.1
Real Consumption	10,291.3	10,517.6	10,728.2	11,016.1	11,354.3	11,716.7	12,093.4
%Chg	2.5	2.2	2.0	2.7	3.1	3.2	3.2
Real Nonresidential Fixed Investment	1,800.4	1,931.8	1,982.1	2,081.7	2,222.5	2,397.9	2,536.5
%Chg	7.6	7.3	2.6	5.0	6.8	7.9	5.8
Real Residential Investment	384.3	433.8	486.0	546.7	649.4	701.2	694.7
%Chg	0.5	12.9	12.0	12.5	18.8	8.0	-0.9
Real Personal Income	12,673.4	12,964.2	13,185.6	13,573.8	14,072.3	14,602.6	15,153.1
%Chg	3.6	2.3	1.7	2.9	3.7	3.8	3.8
Current Dollar National Income Accounts (Billions of Dollars)							
Gross Domestic Product (GDP)	15,533.8	16,244.6	16,802.9	17,508.8	18,392.5	19,328.8	20,258.9
%Chg	3.8	4.6	3.4	4.2	5.0	5.1	4.8
Personal Income	13,191.3	13,743.8	14,133.5	14,696.0	15,446.3	16,278.2	17,173.3
%Chg	6.1	4.2	2.8	4.0	5.1	5.4	5.5
Wage & Salary Disbursements	6,638.7	6,926.8	7,137.8	7,434.7	7,837.2	8,253.5	8,666.3
%Chg	4.1	4.3	3.0	4.2	5.4	5.3	5.0
Non-Wage Personal Income	6,552.6	6,817.0	6,995.7	7,261.3	7,609.1	8,024.7	8,507.0
%Chg	8.2	4.0	2.6	3.8	4.8	5.5	6.0
Price and Wage Indexes							
U.S. GDP Deflator (2005=1.0)	103.203	105.008	106.467	108.102	109.959	111.767	113.596
%Chg	2.0	1.7	1.4	1.5	1.7	1.6	1.6
U.S. Consumer Price Index (1982-84=1.0)	2.249	2.296	2.330	2.360	2.401	2.443	2.489
%Chg	3.1	2.1	1.5	1.3	1.7	1.8	1.8
Employment Cost Index (Dec 2005=1.0)	1.143	1.165	1.187	1.214	1.245	1.280	1.319
%Chg	2.2	1.9	1.9	2.3	2.5	2.9	3.0
Employment (Thousands)							
Employment - Total Non-Farm Payrolls	131.5	133.7	135.9	138.2	141.2	144.2	146.7
%Chg	1.2	1.7	1.6	1.6	2.2	2.1	1.7
Construction	5.5	5.6	5.8	6.0	6.6	7.3	7.7
%Chg	0.3	2.0	2.9	3.9	9.5	9.9	5.8
Manufacturing	11.7	11.9	12.0	12.3	12.5	12.6	12.7
%Chg	1.7	1.7	0.5	2.3	1.9	1.3	0.7
Private Service-Providing	91.4	93.4	95.4	97.2	99.3	101.3	103.0
%Chg	1.9	2.2	2.1	1.8	2.2	2.0	1.7
Government	22.1	21.9	21.9	21.8	21.9	22.1	22.3
%Chg	-1.8	-0.8	-0.3	-0.1	0.4	0.8	1.0
U.S. Civilian Labor Force	153.6	155.0	155.4	155.8	158.6	160.5	161.9
Employment - Household Survey	139.9	142.5	143.9	145.7	149.4	151.9	153.7
Unemployment Rate (%)	8.9	8.1	7.4	6.5	5.8	5.4	5.1
Other Key Measures							
Non-Farm Productivity (index, 2005=1.0)	1.038	1.053	1.059	1.073	1.081	1.096	1.114
%Chg	0.5	1.5	0.6	1.3	0.7	1.4	1.7
Total Ind. Production (index, 2007=100)	93.637	97.041	99.610	102.794	106.900	110.563	113.659
%Chg	3.4	3.6	2.6	3.2	4.0	3.4	2.8
Manhours in Private Non-Farm Estab.							
Billions of Hours	184.7	188.8	192.4	196.3	201.5	206.1	209.5
%Chg	2.5	2.2	1.9	2.1	2.6	2.2	1.7
Average Weekly Hours	32.4	32.5	32.4	32.6	32.7	32.7	32.6
Manufacturing Workweek	41.4	41.7	41.9	41.7	41.6	41.6	41.5

Source: IHS Global Insight (GI); February 2014 Baseline

Forecast Comparison: Minnesota and U.S.

Forecast 2014 to 2017, Calendar Years	2010	2011	2012	2013	2014	2015	2016	2017
Personal Income (Billions of Current Dollars)								
Minnesota								
February 2014	226.3	241.4	252.4	258.5	268.9	282.1	296.6	311.7
%Chg	4.0	6.6	4.6	2.4	4.0	4.9	5.2	5.1
November 2013	226.3	241.4	252.4	259.2	269.6	282.2	296.3	311.4
%Chg	4.0	6.6	4.6	2.7	4.0	4.7	5.0	5.1
U.S.								
February 2014	12,435.2	13,191.3	13,743.8	14,133.5	14,696.0	15,446.3	16,278.2	17,173.3
%Chg	2.9	6.1	4.2	2.8	4.0	5.1	5.4	5.5
November 2013	12,435.2	13,191.3	13,743.8	14,132.9	14,783.1	15,494.0	16,306.9	17,194.3
%Chg	2.9	6.1	4.2	2.8	4.6	4.8	5.2	5.4
Wage and Salary Disbursements (Billions of Current Dollars)								
Minnesota								
February 2014	124.3	129.2	135.4	140.1	147.1	154.9	162.9	170.7
%Chg	2.6	4.0	4.8	3.5	5.0	5.3	5.2	4.7
November 2013	124.3	129.2	135.4	141.1	147.2	154.3	161.9	169.6
%Chg	2.6	4.0	4.8	4.2	4.3	4.9	4.9	4.7
U.S.								
February 2014	6,377.5	6,638.7	6,926.8	7,137.8	7,434.7	7,837.2	8,253.5	8,666.3
%Chg	2.0	4.1	4.3	3.0	4.2	5.4	5.3	5.0
November 2013	6,377.5	6,638.7	6,926.8	7,122.7	7,428.5	7,803.7	8,204.4	8,606.8
%Chg	2.0	4.1	4.3	2.8	4.3	5.1	5.1	4.9
Total Non-Farm Payroll Employment (Thousands)								
Minnesota								
February 2014	2,641.1	2,688.3	2,730.9	2,776.6	2,820.0	2,881.3	2,942.0	2,991.2
%Chg	-0.5	1.8	1.6	1.7	1.6	2.2	2.1	1.7
November 2013	2,641.1	2,688.3	2,731.0	2,776.0	2,819.6	2,869.2	2,921.1	2,969.0
%Chg	-0.5	1.8	1.6	1.6	1.6	1.8	1.8	1.6
U.S.								
February 2014	129,911	131,500	133,737	135,927	138,169	141,210	144,194	146,679
%Chg	-0.7	1.2	1.7	1.6	1.6	2.2	2.1	1.7
November 2013	129,911	131,500	133,737	135,915	138,087	140,540	143,198	145,498
%Chg	-0.7	1.2	1.7	1.6	1.6	1.8	1.9	1.6
Average Annual Non-Farm Wage (Current Dollars)								
Minnesota								
February 2014	47,047	48,057	49,593	50,467	52,168	53,777	55,381	57,055
%Chg	3.2	2.1	3.2	1.8	3.4	3.1	3.0	3.0
November 2013	47,047	48,057	49,591	50,831	52,192	53,787	55,421	57,111
%Chg	3.2	2.1	3.2	2.5	2.7	3.1	3.0	3.0
U.S.								
February 2014	49,091	50,485	51,794	52,512	53,809	55,500	57,239	59,084
%Chg	2.7	2.8	2.6	1.4	2.5	3.1	3.1	3.2
November 2013	49,091	50,485	51,794	52,405	53,796	55,526	57,294	59,154
%Chg	2.7	2.8	2.6	1.2	2.7	3.2	3.2	3.2

Source: IHS Global Insight (GI) and Minnesota Management and Budget (MMB)

Alternative Forecast Comparison

Calendar Years

	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4	2012	2013	2014	2015
Real Gross Domestic Product (GDP), Percent Change, Seasonally Adjusted at Annual Rate										
Global Insight Baseline (02-14)	4.1	3.2	1.9	2.3	2.7	3.2	2.8	1.9	2.7	3.3
Blue Chip Consensus (02-14)	4.1	3.2	2.2	2.8	2.9	3.0	2.8	1.9	2.9	3.0
Moody's Analytics (02-14)	4.1	3.2	2.2	3.3	3.6	4.2	2.8	1.9	3.1	4.1
Standard & Poors (02-14)	4.1	3.2	2.2	2.9	-	-	2.8	1.9	3.1	3.3
Wells Fargo (02-14)	4.1	3.2	1.5	1.8	2.6	3.1	2.8	1.9	2.5	3.0
UBS (02-14)	4.1	3.2	2.0	3.4	3.4	3.5	2.8	1.9	3.0	3.0
Consumer Price Index (CPI), Percent Change, Seasonally Adjusted at Annual Rate (except where noted)										
Global Insight Baseline (02-14)	2.6	0.9	0.9	0.8	2.7	1.7	2.1	1.5	1.3	1.7
Blue Chip Consensus (02-14)	2.6	0.9	1.8	1.7	2.1	2.0	2.1	1.5	1.7	2.0
Moody's Analytics (02-14)	2.6	0.9	1.6	2.1	2.4	2.5	2.1	1.5	1.7	2.4
Standard & Poors (02-14)	2.6	0.9	0.9	0.8	-	-	2.1	1.5	1.3	1.8
Wells Fargo (02-14)*	1.6	1.2	1.4	1.9	1.7	2.0	2.1	1.5	1.8	2.1
UBS (02-14)	2.6	0.9	1.5	1.7	4.3	1.5	2.1	1.5	1.8	2.4

* Year-over-Year Percent Change

Global Insight Baseline Forecasts Comparison

Calendar Years

	2010	2011	2012	2013	2014	2015	2016	2017
Real Gross Domestic Product (GDP), Annual Percent Change								
November 2008	1.7	3.1	3.5	3.1	-	-	-	-
February 2009	2.0	3.5	3.3	2.9	-	-	-	-
November 2009	2.2	2.9	3.7	2.9	-	-	-	-
February 2010	3.0	2.8	3.7	2.9	-	-	-	-
November 2010	2.7	2.3	2.9	2.7	3.1	3.1	-	-
February 2011	2.9	3.2	2.9	3.1	3.3	2.9	-	-
November 2011	3.0	1.8	1.6	2.5	3.5	3.3	-	-
February 2012	3.0	1.7	2.1	2.3	3.3	3.2	-	-
November 2012	2.4	1.8	2.1	1.9	2.8	3.3	2.9	2.1
February 2013	2.4	1.8	2.2	1.9	2.8	3.3	2.9	2.8
November 2013	2.5	1.8	2.8	1.7	2.5	3.1	3.3	3.1
February 2014	2.5	1.8	2.8	1.9	2.7	3.3	3.4	3.1
Consumer Price Index (CPI), Annual Percent Change								
November 2008	2.4	3.0	2.4	2.4	-	-	-	-
February 2009	1.7	2.2	2.3	2.6	-	-	-	-
November 2009	1.5	2.0	2.0	1.8	-	-	-	-
February 2010	1.9	1.7	2.0	1.9	-	-	-	-
November 2010	1.7	1.5	1.9	2.0	2.2	2.2	-	-
February 2011	1.6	1.9	1.7	1.9	2.2	2.2	-	-
November 2011	1.6	3.2	1.5	1.7	2.0	2.1	-	-
February 2012	1.6	3.1	2.0	1.8	1.9	1.9	-	-
November 2012	1.6	3.1	2.1	1.3	1.8	1.7	1.9	1.9
February 2013	1.6	3.1	2.1	1.4	1.7	1.6	1.7	1.8
November 2013	1.6	3.1	2.1	1.4	1.4	1.7	1.9	1.9
February 2014	1.6	3.1	2.1	1.5	1.3	1.7	1.8	1.8

Source: IHS Global Insight (GI)

Factors Affecting Tax Revenue

Billions of Current Dollars

	2010	2011	2012	2013	2014	2015	2016	2017
			Individual Income Tax (Calendar Years)					
Minnesota Non-Farm Tax Base								
November 2011	178.433	187.762	194.610	202.278	212.810	224.754	-	-
%Chg	3.8	5.2	3.6	3.9	5.2	5.6		
February 2012	178.435	187.074	194.943	203.230	212.858	223.563	-	-
%Chg	3.8	4.8	4.2	4.3	4.7	5.0		
November 2012	176.360	184.406	192.573	199.658	209.583	220.465	231.453	241.653
%Chg	3.4	4.6	4.4	3.7	5.0	5.2	5.0	4.4
February 2013	176.360	184.406	193.802	198.765	210.048	220.613	231.408	242.315
%Chg	3.4	4.6	5.1	2.6	5.7	5.0	4.9	4.7
November 2013	176.253	186.519	196.327	204.957	214.980	225.805	237.873	250.970
%Chg	2.6	5.8	5.3	4.4	4.9	5.0	5.3	5.5
February 2014	176.253	186.519	196.327	203.603	213.810	225.420	238.065	251.045
%Chg	2.6	5.8	5.3	3.7	5.0	5.4	5.6	5.5
Minnesota Wage and Salary Disbursements								
November 2011	125.211	131.254	136.156	141.758	148.908	156.550	-	-
%Chg	3.0	4.8	3.7	4.1	5.0	5.1		
February 2012	125.214	130.664	136.133	141.815	148.405	155.550	-	-
%Chg	3.0	4.4	4.2	4.2	4.6	4.8		
November 2012	124.789	129.676	135.623	140.065	146.545	153.708	160.825	167.530
%Chg	2.7	3.9	4.6	3.3	4.6	4.9	4.6	4.2
February 2013	124.789	129.676	136.166	139.090	146.780	153.973	161.200	168.063
%Chg	2.7	3.9	5.0	2.1	5.5	4.9	4.7	4.3
November 2013	124.255	129.193	135.435	141.108	147.160	154.325	161.890	169.563
%Chg	2.6	4.0	4.8	4.2	4.3	4.9	4.9	4.7
February 2014	124.255	129.193	135.435	140.128	147.110	154.948	162.930	170.663
%Chg	2.6	4.0	4.8	3.5	5.0	5.3	5.2	4.7
Minnesota Dividends, Interest, & Rental Income								
November 2011	38.386	40.661	41.734	42.887	45.053	48.292	-	-
%Chg	3.5	5.9	2.6	2.8	5.1	7.2		
February 2012	38.386	40.647	42.292	43.922	45.755	48.044	-	-
%Chg	3.5	5.9	4.0	3.9	4.2	5.0		
November 2012	36.271	38.934	40.582	42.526	44.862	47.427	50.393	53.241
%Chg	2.4	7.3	4.2	4.8	5.5	5.7	6.3	5.7
February 2013	36.271	38.934	41.010	42.685	44.949	47.103	49.620	52.949
%Chg	2.4	7.3	5.3	4.1	5.3	4.8	5.3	6.7
November 2013	37.425	41.032	43.487	45.385	48.313	50.864	54.301	58.723
%Chg	1.4	9.6	6.0	4.4	6.5	5.3	6.8	8.1
February 2014	37.425	41.032	43.487	45.086	47.300	49.877	53.438	57.725
%Chg	1.4	9.6	6.0	3.7	4.9	5.4	7.1	8.0
Minnesota Non-Farm Proprietors' Income								
November 2011	14.835	15.846	16.723	17.635	18.850	19.947	-	-
%Chg	12.1	6.8	5.5	5.5	6.9	5.8		
February 2012	14.835	15.765	16.518	17.496	18.698	19.970	-	-
%Chg	12.1	6.3	4.8	5.9	6.9	6.8		
November 2012	15.301	15.796	16.367	17.064	18.176	19.337	20.238	20.881
%Chg	12.4	3.2	3.6	4.3	6.5	6.4	4.7	3.2
February 2013	15.301	15.796	16.625	16.989	18.320	19.540	20.587	21.300
%Chg	12.4	3.2	5.2	2.2	7.8	6.7	5.4	3.5
November 2013	14.573	16.294	17.405	18.465	19.508	20.619	21.681	22.684
%Chg	5.6	11.8	6.8	6.1	5.6	5.7	5.1	4.6
February 2014	14.573	16.294	17.405	18.390	19.403	20.595	21.700	22.656
%Chg	5.6	11.8	6.8	5.7	5.5	6.1	5.4	4.4

Factors Affecting Tax Revenue (Continued)

Billions of Current Dollars

	2010	2011	2012	2013	2014	2015	2016	2017
General Sales Tax (Fiscal Year)								
Minnesota Synthetic Sales Tax Base (Fiscal Year)								
November 2011	66.277	70.523	74.604	76.674	-	-	-	-
%Chg	-2.7	6.4	5.8	2.8				
February 2012	66.213	70.456	74.383	77.000	-	-	-	-
%Chg	-2.7	6.4	5.6	3.5				
November 2012	66.161	69.056	72.768	75.755	78.287	81.516	84.151	86.583
%Chg	-3.2	4.4	5.4	4.1	3.3	4.1	3.2	2.9
February 2013	66.126	69.070	72.610	75.610	78.247	81.180	83.936	86.428
%Chg	-3.3	4.5	5.1	4.1	3.5	3.7	3.4	3.0
November 2013	65.300	68.321	71.869	74.932	77.285	81.086	84.764	88.492
%Chg	-3.8	4.6	5.2	4.3	3.1	4.9	4.5	4.4
February 2014	66.909	70.051	73.764	77.085	80.121	84.742	89.234	93.625
%Chg	-3.6	4.7	5.3	4.5	3.9	5.8	5.3	4.9
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)								
November 2011	12.838	13.523	14.165	14.636	-	-	-	-
%Chg	3.6	5.3	4.7	3.3				
February 2012	12.838	13.527	14.083	14.571	-	-	-	-
%Chg	3.6	5.4	4.1	3.5				
November 2012	12.771	13.313	14.011	14.756	15.215	15.636	15.999	16.292
%Chg	-1.3	4.2	5.2	5.3	3.1	2.8	2.3	1.8
February 2013	12.771	13.313	14.005	14.649	15.087	15.547	16.044	16.424
%Chg	-1.3	4.2	5.2	4.6	3.0	3.0	3.2	2.4
November 2013	12.609	13.151	13.866	14.519	15.253	15.862	16.467	17.091
%Chg	-2.0	4.3	5.4	4.7	5.1	4.0	3.8	3.8
February 2014	12.609	13.151	13.866	14.507	15.141	15.746	16.512	17.212
%Chg	-2.0	4.3	5.4	4.6	4.4	4.0	4.9	4.2
Minnesota's Proxy Share of U.S. Capital Equipment Spending								
November 2011	11.147	12.600	13.769	14.415	-	-	-	-
%Chg	-2.7	13.0	9.3	4.7				
February 2012	11.147	12.543	13.626	14.602	-	-	-	-
%Chg	-2.7	12.5	8.6	7.2				
November 2012	10.523	11.263	12.283	12.896	13.805	15.122	16.402	17.397
%Chg	-8.2	7.0	9.1	5.0	7.0	9.5	8.5	6.1
February 2013	10.523	11.263	12.271	13.306	14.182	15.272	16.522	17.549
%Chg	-8.2	7.0	8.9	8.4	6.6	7.7	8.2	6.2
November 2013	10.804	11.894	12.827	13.602	14.293	15.653	17.022	18.358
%Chg	-6.7	10.1	7.8	6.0	5.1	9.5	8.7	7.8
February 2014	10.804	11.894	12.827	13.580	14.119	15.649	17.368	18.748
%Chg	-6.7	10.1	7.8	5.9	4.0	10.8	11.0	7.9
Minnesota's Proxy Share of U.S. Construction Spending								
November 2011	4.734	4.705	5.148	5.414	-	-	-	-
%Chg	-15.4	-0.6	9.4	5.2				
February 2012	4.738	4.745	5.184	5.539	-	-	-	-
%Chg	-15.4	0.1	9.3	6.8				
November 2012	4.771	4.739	5.327	5.815	6.372	7.021	-	-
%Chg	-15.0	-0.7	12.4	9.2	9.6	10.2		
February 2013	4.769	4.734	5.257	5.656	6.171	6.870	-	-
%Chg	-15.0	-0.7	11.0	7.6	9.1	11.3		
November 2013	4.938	4.878	5.441	5.944	6.693	7.396	8.196	8.869
%Chg	-13.0	-1.2	11.6	9.2	12.6	10.5	10.8	8.2
February 2014	4.937	4.876	5.439	5.965	6.684	7.483	8.173	8.819
%Chg	-13.0	-1.2	11.5	9.7	12.1	12.0	9.2	7.9

Factors Affecting Tax Revenue (Continued)

Billions of Current Dollars

	2010	2011	2012	2013	2014	2015	2016	2017
Corporate Franchise Tax (Calendar Year)								
U.S. Corporate Profits (w/ IVA and capital consumption adjustment, less profits from Federal Reserve)								
November 2011	1,385.7	1,518.5	1,492.7	1,571.1	1,673.2	1,689.1	-	-
%Chg	45.3	9.6	-1.7	5.3	6.5	1.0		
February 2012	1,385.7	1,499.4	1,418.7	1,406.6	1,499.4	1,539.6	-	-
%Chg	45.3	8.2	-5.4	-0.9	6.6	2.7		
November 2012	1,268.0	1,374.7	1,445.1	1,373.8	1,390.2	1,405.9	1,398.0	1,399.5
%Chg	35.0	8.4	5.1	-4.9	1.2	1.1	-0.6	0.1
February 2013	1,268.0	1,374.7	1,449.4	1,372.8	1,411.1	1,445.5	1,452.9	1,469.8
%Chg	35.0	8.4	5.4	-5.3	2.8	2.4	0.5	1.2
November 2013*	1,710.0	1,857.9	1,947.8	2,012.2	2,097.9	2,209.0	2,311.5	2,371.8
%Chg	27.7	8.6	4.8	3.3	4.3	5.3	4.6	2.6
February 2014	1,710.0	1,857.9	1,947.8	2,027.7	2,167.7	2,270.4	2,352.2	2,412.5
%Chg	27.7	8.6	4.8	4.1	6.9	4.7	3.6	2.6
Insurance Gross Premiums Tax (Calendar Year)								
Minnesota's Proxy Share of U.S. Consumer Spending on Insurance								
November 2011	4.541	4.634	4.800	4.993	5.305	5.547	-	-
%Chg	-0.6	2.0	3.6	4.0	6.2	4.5		
February 2012	4.546	4.632	4.795	4.996	5.314	5.551	-	-
%Chg	-0.5	1.9	3.5	4.2	6.4	4.5		
November 2012	4.860	4.944	4.966	5.105	5.351	5.573	5.783	6.034
%Chg	7.0	1.7	0.4	2.8	4.8	4.1	3.8	4.3
February 2013	4.860	4.947	4.961	4.982	5.198	5.424	5.647	5.916
%Chg	7.1	1.8	0.3	0.4	4.4	4.3	4.1	4.8
November 2013	4.966	5.320	5.557	5.718	5.986	6.269	6.532	6.825
%Chg	8.4	7.1	4.4	2.9	4.7	4.7	4.2	4.5
February 2014	5.277	5.685	5.968	6.112	6.379	6.699	6.996	7.352
%Chg	9.9	7.7	5.0	2.4	4.4	5.0	4.4	5.1
Deed & Mortgage Tax (Fiscal Year)								
U.S. New and Existing Home Sales (Current $ Value)								
November 2011	-	-	-	-	-	-	-	-
%Chg								
February 2012	-	-	-	-	-	-	-	-
%Chg								
November 2012	-	-	-	-	-	-	-	-
%Chg								
February 2013	999.6	856.2	939.3	1,088.2	1,234.0	1,446.5	1,527.7	1,523.8
%Chg	9.8	-14.3	9.7	15.9	13.4	17.2	5.6	-0.3
November 2013	997.4	854.8	937.7	1,140.5	1,334.6	1,509.4	1,574.1	1,548.1
%Chg	9.6	-14.3	9.7	21.6	17.0	13.1	4.3	-1.7
February 2014	997.4	854.8	937.7	1,140.6	1,273.5	1,472.5	1,574.3	1,559.7
%Chg	9.6	-14.3	9.7	21.6	11.7	15.6	6.9	-0.9

* Beginning in November 2013, includes rest-of-world profits to account for change in the Minnesota tax base.

November 2013 Revenue Forecast vs. Actual: FY 2014 Year-to-Date

($ in thousands)

	NON-DEDICATED REVENUES January YTD 2014 – FY2014		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax			
Withholding	4,338,319	4,322,578	(15,741)
Declarations	956,700	1,095,066	138,366
Miscellaneous	234,189	243,871	9,682
Gross	5,529,208	5,661,515	132,307
Refund	118,900	107,607	(11,293)
Net	5,410,308	5,553,908	143,600
Corporate & Bank Excise			
Declarations	672,231	654,454	(17,777)
Miscellaneous	135,692	143,484	7,792
Gross	807,923	797,938	(9,985)
Refund	99,792	65,679	(34,113)
Net	708,131	732,259	24,128
Sales Tax			
Gross	3,023,973	3,071,818	47,845
Refunds (Including Indian refunds)	143,429	137,397	(6,032)
Net	2,880,544	2,934,421	53,877
Other Revenues:			
Estate	109,302	102,600	(6,701)
Liquor/Wine/Beer	46,171	46,127	(44)
Cigarette/Tobacco/Cont Sub	308,719	340,589	31,870
Deed and Mortgage	113,006	106,699	(6,307)
Insurance Gross Earnings	151,191	156,680	5,488
Lawful Gambling	19,516	21,015	1,499
Health Care Surcharge	137,490	125,902	(11,588)
Other Taxes	385	387	3
Statewide Property Tax	400,965	398,797	(2,168)
DHS SOS Collections	31,663	29,729	(1,934)
Income Tax Reciprocity	0	0	0
Investment Income	2,962	3,490	529
Tobacco Settlement	163,042	164,529	1,487
Departmental Earnings	115,975	132,039	16,064
Fines and Surcharges	46,864	41,768	(5,096)
Lottery Revenues	25,840	27,489	1,649
Revenues yet to be allocated	121	3,095	2,974
Residual Revenues	80,421	86,601	6,180
County Nursing Home, Pub Hosp IGT	3,396	3,396	0
Other Subtotal	1,757,029	1,790,932	33,904
Other Refunds	2,860	3,653	793
Other Net	1,754,169	1,787,280	33,111
	11,118,133	11,322,203	204,070
Total Gross			
Total Refunds	364,981	314,336	(50,645)
Total Net	10,753,152	11,007,868	254,716

FY 2014-15 General Fund Budget
February 2014 Forecast
($ in thousands)

	FY 2014	FY 2015	Biennial Total
Actual & Estimated Resources			
Balance Forward From Prior Year	1,711,915	1,696,778	1,711,915
Current Resources:			
Tax Revenues	18,504,362	19,308,272	37,812,634
Non-Tax Revenues	725,093	707,393	1,432,486
Subtotal - Non-Dedicated Revenue	19,229,455	20,015,665	39,245,120
Dedicated Revenue	189	1	190
Transfers In	188,442	90,853	279,295
Prior Year Adjustments	25,000	25,000	50,000
Subtotal - Other Revenue	213,631	115,854	329,485
Subtotal-Current Resources	19,443,086	20,131,519	39,574,605
Total Resources Available	**21,155,001**	**21,828,297**	**41,286,520**
Actual & Estimated Spending			
K-12 Education	7,660,326	8,152,418	15,812,744
K-12 Ptx Rec Shift/Aid Payment Shift	812,574	0	812,574
K-12 Education	8,472,900	8,152,418	16,625,318
Higher Education	1,392,346	1,421,415	2,813,761
Property Tax Aids & Credits	1,326,626	1,595,981	2,922,607
Health & Human Services	5,575,012	5,768,445	11,343,457
Public Safety & Judiciary	974,280	974,870	1,949,150
Transportation	150,195	103,890	254,085
Environment & Agriculture	154,928	163,758	318,686
Jobs, Economic Development, Housing & Commerce	213,083	170,549	383,632
State Government & Veterans	500,664	462,441	963,105
Debt Service	619,935	632,805	1,252,740
Capital Projects & Grants	83,175	129,180	212,355
Estimated Cancellations	(5,110)	(15,000)	(20,110)
Subtotal Expenditures & Transfers	**19,458,034**	**19,560,752**	**39,018,786**
Dedicated Expenditures	189	1	190
Total Expenditures & Transfers	**19,458,223**	**19,560,753**	**39,018,976**
Balance Before Reserves	**1,696,778**	**2,267,544**	**2,267,544**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	660,992	660,992	660,992
Stadium Reserve	37,444	23,392	23,392
Budgetary Balance	**648,342**	**1,233,160**	**1,233,160**

FY 2014-15 General Fund Forecast
November 2013 vs February 2014
($ in thousands)

	11-13 Fcst FY 2014-15	2-14 Fcst- FY 2014-15	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	1,711,915	1,711,915	0
Current Resources:			
Tax Revenues	37,451,297	37,812,634	361,337
Non-Tax Revenues	1,427,332	1,432,486	5,154
Subtotal - Non-Dedicated Revenue	38,878,629	39,245,120	366,491
Dedicated Revenue	190	190	0
Transfers In	280,325	279,295	(1,030)
Prior Year Adjustments	50,000	50,000	0
Subtotal - Other Revenue	330,515	329,485	(1,030)
Subtotal-Current Resources	39,209,144	39,574,605	365,461
Total Resources Available	**40,921,059**	**41,286,520**	**365,461**
Actual & Estimated Spending			
K-12 Education	15,841,594	15,812,744	(28,850)
K-12 Ptx Rec Shift/Aid Payment Shift	812,574	812,574	0
K-12 Education	16,654,168	16,625,318	(28,850)
Higher Education	2,813,761	2,813,761	0
Property Tax Aids & Credits	2,946,229	2,922,607	(23,622)
Health & Human Services	11,327,458	11,343,457	15,999
Public Safety & Judiciary	1,949,150	1,949,150	0
Transportation	254,085	254,085	0
Environment & Agriculture	318,686	318,686	0
Jobs, Economic Development, Housing & Commerce	383,632	383,632	0
State Government & Veterans	963,542	963,105	(437)
Debt Service	1,252,078	1,252,740	662
Capital Projects & Grants	224,198	212,355	(11,843)
Estimated Cancellations	(20,110)	(20,110)	0
Subtotal Expenditures & Transfers	**39,066,877**	**39,018,786**	**(48,091)**
Dedicated Expenditures	190	190	0
Total Expenditures & Transfers	**39,067,067**	**39,018,976**	**(48,091)**
Balance Before Reserves	**1,853,992**	**2,267,544**	**413,552**
Cash Flow Account	350,000	350,000	0
Budget Reserve	660,992	660,992	0
Stadium Reserve	17,827	23,392	5,565
Budgetary Balance	**825,173**	**1,233,160**	**407,987**

Current Biennium vs Previous Biennium
February 2014 General Fund Forecast
($ in thousands)

	Closing FY 2012-13	Feb 23014 Fcst FY 2014-15	$ Difference
Actual & Estimated Resources			
Balance Forward From Prior Year	1,288,673	1,711,915	423,242
Current Resources:			
Tax Revenues	32,798,446	37,812,634	5,014,188
Non-Tax Revenues	1,572,856	1,432,486	(140,370)
Subtotal - Non-Dedicated Revenue	34,371,302	39,245,120	4,873,818
Dedicated Revenue	1,013	190	(823)
Transfers In	1,087,367	279,295	(808,072)
Prior Year Adjustments	282,890	50,000	(232,890)
Subtotal - Other Revenue	1,371,270	329,485	(1,041,785)
Subtotal-Current Resources	35,742,573	39,574,605	3,832,032
Total Resources Available	**37,031,246**	**41,286,520**	**4,255,274**
Actual & Estimated Spending			
K-12 Education	14,412,611	15,812,744	1,400,133
K-12 Ptx Rec Shift/Aid Payment Shift	1,068,360	812,574	(255,786)
K-12 Education	15,480,971	16,625,318	1,144,347
Higher Education	2,570,541	2,813,761	243,220
Property Tax Aids & Credits	2,776,872	2,922,607	145,735
Health & Human Services	10,592,662	11,343,457	750,795
Public Safety & Judiciary	1,840,335	1,949,150	108,815
Transportation	125,961	254,085	128,124
Environment & Agriculture	306,311	318,686	12,375
Jobs, Economic Development, Housing & Commerce	279,304	383,632	104,328
State Government & Veterans	863,243	963,105	99,862
Debt Service	415,056	1,252,740	837,684
Capital Projects & Grants	44,552	212,355	167,803
Deficiencies/Other	22,873	0	(22,873)
Estimated Cancellations	0	(20,110)	(20,110)
Subtotal Expenditures & Transfers	**35,318,681**	**39,018,786**	**3,700,105**
Dedicated Expenditures	650	190	(460)
Total Expenditures & Transfers	**35,319,331**	**39,018,976**	**3,699,645**
Balance Before Reserves	**1,711,915**	**2,267,544**	**555,629**
Cash Flow Account	350,000	350,000	0
Budget Reserve	656,471	660,992	4,522
Stadium Reserve	0	23,392	23,392
Appropriations Carried Forward	69,355	0	(69,355)
Budgetary Balance	**636,089**	**1,233,160**	**597,071**

FY 2016-17 Planning Estimates
February 2014 General Fund Forecast
($ in thousands)

	11-13 Plng Est FY2016-17	2-14 Plng Est FY2016-17	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	1,853,992	2,267,544	413,552
Current Resources:			
Tax Revenues	41,321,494	41,629,948	308,454
Non-Tax Revenues	1,414,059	1,408,637	(5,422)
Subtotal - Non-Dedicated Revenue	42,735,553	43,038,585	303,032
Dedicated Revenue	2	2	0
Transfers In	195,086	195,025	(61)
Prior Year Adjustments	50,000	50,000	0
Subtotal - Other Revenue	245,088	245,027	(61)
Subtotal-Current Resources	42,980,641	43,283,612	302,971
Total Resources Available	**44,834,633**	**45,551,156**	**716,523**
Actual & Estimated Spending			
K-12 Education	16,792,140	16,733,916	(58,224)
Higher Education	2,849,330	2,849,330	0
Property Tax Aids & Credits	3,289,668	3,283,218	(6,450)
Health & Human Services	12,567,514	12,545,359	(22,155)
Public Safety & Judiciary	1,984,433	1,984,433	0
Transportation	207,306	207,306	0
Environment & Agriculture	331,716	331,716	0
Jobs, Economic Development, Housing & Commerce	344,327	344,327	0
State Government & Veterans	901,271	896,768	(4,503)
Debt Service	1,267,309	1,268,294	985
Capital Projects & Grants	268,141	260,002	(8,139)
Estimated Cancellations	(20,000)	(20,000)	0
Subtotal Expenditures & Transfers	**40,783,155**	**40,684,669**	**(98,486)**
Dedicated Expenditures	2	2	0
Total Expenditures & Transfers	**40,783,157**	**40,684,671**	**(98,486)**
Balance Before Reserves	**4,051,476**	**4,866,485**	**815,009**
Cash Flow Account	350,000	350,000	0
Budget Reserve	660,992	660,992	0
Budgetary Balance	**3,040,484**	**3,855,493**	**815,009**
Structural Balance	**2,197,484**	**2,598,941**	**401,457**

FY 2012-17 Planning Horizon
February 2014 General Fund Forecast
($ in thousands)

	Closing FY 2012-13	2-14 Fcst FY 2014-15	2014 Plng Est FY 2016-17
Actual & Estimated Resources			
Balance Forward From Prior Year	1,288,673	1,711,915	2,267,544
Current Resources:			
Tax Revenues	32,798,446	37,812,634	41,629,948
Non-Tax Revenues	1,572,856	1,432,486	1,408,637
Subtotal - Non-Dedicated Revenue	34,371,302	39,245,120	43,038,585
Dedicated Revenue	1,013	190	2
Transfers In	1,087,367	279,295	195,025
Prior Year Adjustments	282,890	50,000	50,000
Subtotal - Other Revenue	1,371,270	329,485	245,027
Subtotal-Current Resources	35,742,573	39,574,605	43,283,612
Total Resources Available	**37,031,246**	**41,286,520**	**45,551,156**
Actual & Estimated Spending			
K-12 Education	14,412,611	15,812,744	16,733,916
K-12 Ptx Rec Shift/Aid Payment Shift	1,068,360	812,574	0
K-12 Education	15,480,971	16,625,318	16,733,916
Higher Education	2,570,541	2,813,761	2,849,330
Property Tax Aids & Credits	2,776,872	2,922,607	3,283,218
Health & Human Services	10,592,662	11,343,457	12,545,359
Public Safety & Judiciary	1,840,335	1,949,150	1,984,433
Transportation	125,961	254,085	207,306
Environment & Agriculture	306,311	318,686	331,716
Jobs, Economic Development, Housing & Commerce	279,304	383,632	344,327
State Government & Veterans	863,243	963,105	896,768
Debt Service	415,056	1,252,740	1,268,294
Capital Projects & Grants	44,552	212,355	260,002
Deficiencies/Other	22,873	0	0
Estimated Cancellations	0	(20,110)	(20,000)
Subtotal Expenditures & Transfers	**35,318,681**	**39,018,786**	**40,684,669**
Dedicated Expenditures	650	190	2
Total Expenditures & Transfers	**35,319,331**	**39,018,976**	**40,684,671**
Balance Before Reserves	**1,711,915**	**2,267,544**	**4,866,485**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	656,471	660,992	660,992
Stadium Reserve	0	23,392	0
Appropriations Carried Forward	69,355	0	0
Budgetary Balance	**636,089**	**1,233,160**	**3,855,493**

Historical and Projected Revenue Growth
February 2014 Forecast
($ in millions)

	Actual FY 2010	Actual FY 2011	Actual FY 2012	Closing FY 2013	Estimated FY 2014	Estimated FY 2015	Average Annual
Individual Income Tax	$6,531	$7,529	$7,972	$9,013	$9,518	$10,041	
$ change		998	443	1,041	505	523	
% change		**15.3%**	**5.9%**	**13.1%**	**5.6%**	**5.5%**	**9.0%**
Sales Tax	4,177	4,403	4,678	4,774	5,079	5,282	
$ change		226	275	96	305	203	
% change		**5.4%**	**6.2%**	**2.1%**	**6.4%**	**4.0%**	**4.8%**
Corporate Tax	664	925	1,044	1,281	1,341	1,372	
$ change		261	119	237	60	31	
% change		**39.3%**	**12.9%**	**22.7%**	**4.7%**	**2.3%**	**15.6%**
Statewide Property Tax	767	767	799	811	832	833	
$ change		0	32	12	21	1	
% change		**0.0%**	**4.2%**	**1.5%**	**2.6%**	**0.1%**	**1.7%**
Other Tax Revenue	1,227	1,231	1,158	1,268	1,734	1,780	
$ change		4	(73)	110	466	46	
% change		**0.3%**	**-5.9%**	**9.5%**	**36.8%**	**2.7%**	**7.7%**
Total Tax Revenue	$13,366	$14,855	$15,651	$17,147	$18,504	$19,308	
$ change		1,489	796	1,496	1,357	804	
% change		**11.1%**	**5.4%**	**9.6%**	**7.9%**	**4.3%**	**7.6%**
Non-Tax Revenues	805	808	774	798	725	707	
$ change		3	(34)	24	(73)	(18)	
% change		**0.4%**	**-4.2%**	**3.1%**	**-9.1%**	**-2.5%**	**-2.6%**
Transfers, All Other	448	521	661	711	214	116	
$ change		73	140	50	(497)	(98)	
% change		**16.3%**	**26.9%**	**7.6%**	**-69.9%**	**-45.8%**	**-23.7%**
Total Revenue	$14,619	$16,184	$17,086	$18,656	$19,443	$20,131	
$ change		1,565	902	1,570	787	688	
% change		**10.7%**	**5.6%**	**9.2%**	**4.2%**	**3.5%**	**6.6%**

Historical and Projected Spending Growth
February 2014 Forecast
($ in millions)

	Actual FY 2010	Actual FY 2011	Actual FY 2012	Closing FY 2013	Estimated FY 2014	Estimated FY 2015	Average Annual
K-12 Education	$5,338	$6,078	$6,616	$8,870	$8,473	$8,152	
$ change		740	538	2,254	(397)	(321)	
% change		**13.9%**	**8.9%**	**34.1%**	**-4.5%**	**-3.8%**	**8.8%**
Higher Education	1,456	1,357	1,275	1,295	1,392	1,421	
$ change		(99)	(82)	20	97	29	
% change		**-6.8%**	**-6.0%**	**1.6%**	**7.5%**	**2.1%**	**-0.5%**
Prop. Tax Aids & Credits	1,614	1,401	1,457	1,320	1,327	1,596	
$ change		(213)	56	(137)	7	269	
% change		**-13.2%**	**4.0%**	**-9.4%**	**0.5%**	**20.3%**	**-0.2%**
Health & Human Services	4,104	4,323	5,385	5,208	5,575	5,768	
$ change		219	1,062	(177)	367	193	
% change		**5.3%**	**24.6%**	**-3.3%**	**7.0%**	**3.5%**	**7.0%**
Public Safety	856	946	883	958	974	975	
$ change		90	(63)	75	16	1	
% change		**10.5%**	**-6.7%**	**8.5%**	**1.7%**	**0.1%**	**2.6%**
Debt Service	429	401	192	223	620	633	
$ change		(28)	(209)	31	397	13	
% change		**-6.5%**	**-52.1%**	**16.1%**	**178.0%**	**2.1%**	**8.1%**
All Other	830	829	772	865	1,097	1,016	
$ change		(1)	(57)	93	232	(81)	
% change		**-0.1%**	**-6.9%**	**12.0%**	**26.8%**	**-7.4%**	**4.1%**
Total Spending	$14,627	$15,335	$16,580	$18,739	$19,458	$19,561	
$ change		708	1,245	2,159	719	103	
% change		**4.8%**	**8.1%**	**13.0%**	**3.8%**	**0.5%**	**6.0%**