BUDGET & ECONOMIC FORECAST

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FORECAST HIGHLIGHTS

- **Higher Revenues, Lower Spending Generate FY 2014-15 Forecast Balance**

  Actual revenue and expenditures for FY 2014, combined with revised forecasts for FY 2015, increased the projected balance for the current biennium from $32 to $556 million. Forecast revenues increased $279 million (0.7 percent), while projected spending is $250 million (0.6 percent) lower. A $5 million increase in estimated stadium reserves offsets part of the gain.

- **New Law Directs $183 Million to Budget Reserve, Leaving $373 Million Budgetary Balance**

  Significant changes were made to the statute governing general fund budget reserves in 2014. Thirty-three percent of any forecast balance for the current biennium, determined each November, is to be deposited to the budget reserve until recommended levels are reached. The $183 million deposit increases general fund reserves to $1.344 billion.

- **FY 2016-17 Forecast Shows a Total of $1.037 Billion Available for Upcoming Budget**

  FY 2016-17 revenues are now forecast to be $41.880 billion, a 6.4 percent increase over the current biennium. Forecast current law spending is $41.243 billion, 4.8 percent above FY 2014-15. Both are lower than previous projections. The $373 million ending balance for FY 2015 now adds to the beginning resources for the next biennium – resulting in a $1.037 billion balance now expected for FY 2016-17, up from $603 million projected at the end of the 2014 session.

- **U.S. Economic Outlook Has Weakened**

  Slower labor force growth and household formation contribute to a weaker U.S. economic outlook. IHS Economics (formerly Global Insight) now expects real GDP growth of 2.2 percent in 2014, 2.6 percent in 2015, and 2.8 percent in 2016. February's baseline forecast had called for 2.7 percent growth in 2014, followed by 3.3 percent and 3.4 percent growth in 2015 and 2016 respectively. The IHS forecast for U.S. growth depends on productivity gains and wage growth acceleration.

- **Income Tax Receipts Improve FY 2014-15 Forecast, Contribute to Growth in FY 2016-17**

  Income tax receipts ended FY 2014 ahead of the February forecast, contributing $194 million of the $279 million increase in FY 2014-15 forecast revenues. Higher than previously expected increases in nonwage income more than offset lower wage growth for the remainder of the biennium. Income and sales tax receipts supply almost all of the tax revenue growth in FY 2016-17 over FY 2014-2015. Corporate and other tax revenues are expected to remain fairly flat.

Statutory Provisions

In accordance with Minnesota Statutes, section 16A.103, subdivision 1, the commissioner of Minnesota Management and Budget (MMB) must prepare a forecast of state revenue and expenditures in February and November of each year. This forecast must assume the continuation of current laws and reasonable estimates of projected growth in the national and state economies and affected populations.

Revenue must be estimated for all sources provided for in current law. Expenditures must be estimated for all obligations imposed by law and those projected to occur as a result of variables outside the control of the legislature.

A forecast prepared during the first fiscal year of a biennium must cover that biennium and the next biennium. A forecast prepared during the second fiscal year of a biennium must cover that biennium as well as the next two bienniums.

While wage and price inflation is included in revenue estimates, expenditure estimates must not include an allowance for inflation.

Notes

Numbers in the text and tables may not add to the totals due to rounding.

Unless otherwise noted, years used to describe the budget outlook are state fiscal years (FY), from July 1 to June 30, and years used to describe the economic outlook are calendar years (CY).

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EXECUTIVE SUMMARY

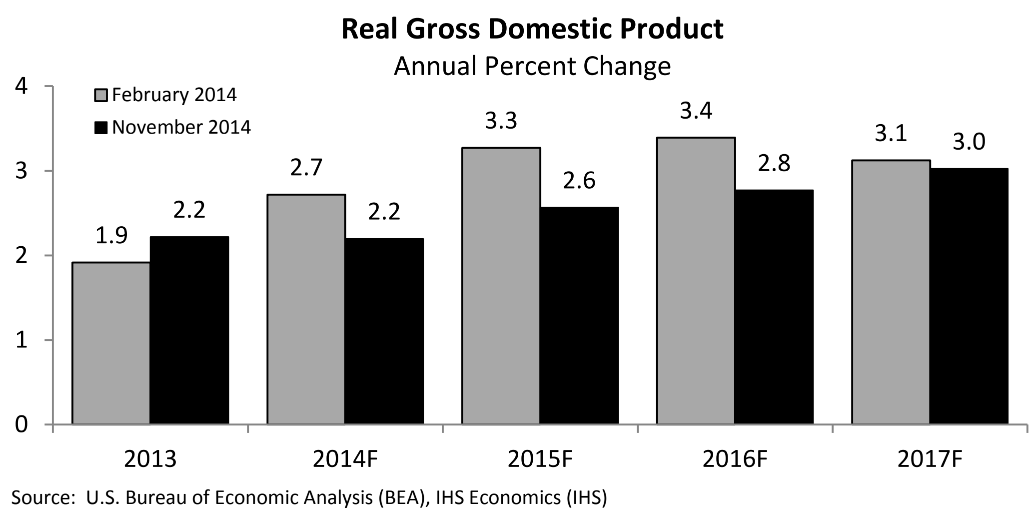
Minnesota's budget outlook has improved from previous estimates despite a weaker U.S. economic outlook. Strong income growth in 2013 contributed to higher than expected income tax revenues in FY 2014; while increases in non-wage income more than offset lower wage growth for FY 2015. When combined with $249 million savings from lower than expected heath care spending, these changes produce a forecast balance of $556 million for FY 2014-15. However, new statutory provisions allocate 33 percent ($183 million) of the forecast balance to the budget reserve, leaving a projected budgetary balance of $373 million for the current biennium.

The balance between revenues and spending in the next biennium has changed minimally. General fund revenues in FY 2016-17 are expected to grow to $41.9 billion, while projected current law spending is projected to be just under $41.3 billion. The $373 million ending balance forecast for current biennium adds to the resources available for the next biennium. As a result, $1.037 billion is expected to be available for the upcoming FY 2016-17 biennial budget.

U.S. Economic Outlook. The outlook for U.S. economic growth has weakened since Minnesota's *Budget and Economic Forecast* was last prepared in February 2014. The economy came to a standstill at the start of the year as unusually harsh winter weather temporarily sapped consumer spending, factory production, and housing. Furthermore, a more protracted slowdown in the housing recovery is a direct reflection of surprisingly slow, recession-like household formation over the past year. Causes of the unexpected downshift include a less mobile population, slower immigration, and an increasing share of young adults not forming households for economic reasons, like poor wage growth and onerous student loan debts. The demographic trends affecting household formation are similarly affecting the supply of labor. Growth in the labor force has all but ceased this year and participation continues to wane. Those factors, combined with ongoing labor underutilization, the composition of new jobs, and disappointing productivity growth, are weighing on compensation gains and imply a lower potential growth rate for incomes, profits, and living standards.

Encouragingly, economic fundamentals support an upturn in productivity, and thereby an acceleration in wage growth. Consumers and businesses are feeling more confident, profit margins remain near all-time highs, producers hold strong cash positions, and borrowing costs remain low, making business investments in hiring and productivity more attractive. Already, labor market slack is being steadily absorbed by improving demand, as employment growth has averaged 229,000 net new jobs a month thus far in 2014 and the jobless rate has edged down to 5.8 percent, a post-recession low. A tightening labor market closer to the natural rate of unemployment should also begin to put upward pressure on wages. However, if businesses investment in equipment and intellectual property remain soft, productivity and wages could disappoint over the next several years.

Minnesota Management and Budget's macroeconomic consultant IHS Economics (formerly IHS Global Insight) expects real GDP growth to rise at a 2.0 percent annualized rate in the fourth quarter before moderately accelerating through at least late 2016, with modest improvements in confidence, labor supply, and productivity. IHS Economics' (IHS) November 2014 baseline forecast calls for annual real GDP growth to pick up from 2.2 percent in 2014, to 2.6 percent in 2015 and 2.8 percent in 2016. The February 2014 baseline forecast expected stronger growth of 2.7 percent in 2014, followed by increases of 3.3 percent in 2015 and 3.4 percent in 2016. The IHS November baseline forecast for 2015 and 2016 calls for slightly less growth than the Blue Chip Consensus, the median of 50 business and academic forecasts. The Blue Chip forecast is for 3.0 percent growth in 2015, followed by 2.9 percent in 2016. Inflation continues to be of little concern. November's baseline anticipates CPI increases of 1.7 percent in 2014, 1.0 percent in 2015, and 1.6 percent in 2016. February's inflation outlook was similarly subdued.

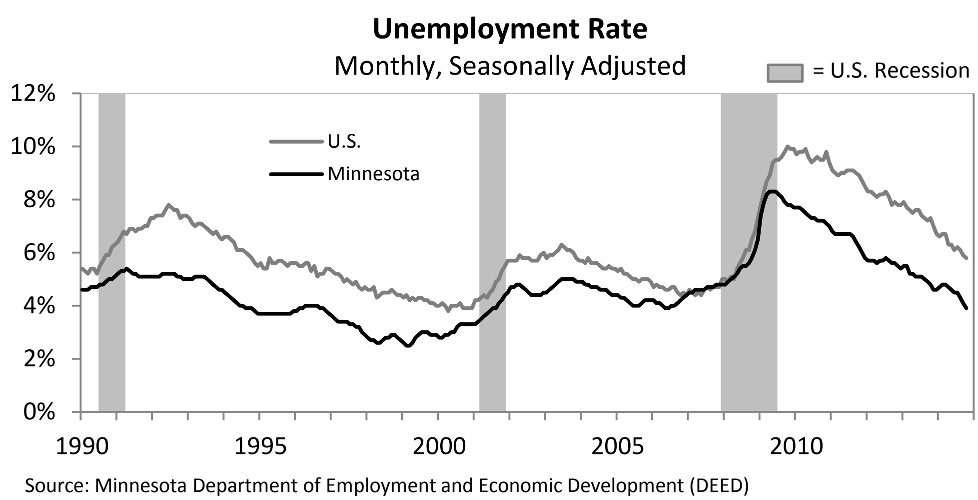


The outlook for U.S. economic growth has weakened since Minnesota's Budget and Economic Forecast was last prepared in February 2014.

There are several key dependencies to the IHS November economic outlook. First, stronger labor market conditions must begin to translate into improvements in household formation and labor force growth. Higher household formation rates boost housing demand, and labor force growth is an important component for overall economic growth. Second, productivity growth rebounds to long term trend, thereby higher living standards and stronger potential economic growth. Third, the Federal Reserve's actions to tighten monetary policy next year must go smoothly. In the November baseline, IHS assumes that the Fed begins to raise the federal funds rate in June 2015. Fourth, federal fiscal policy remains in what IHS calls "benign neglect," where lawmakers simply do no more harm, through at least early 2017. Finally, international economic and political risk must not cause undue harm. The events in Ukraine and the Middle East, as well as the slowing economies in Europe, Japan, and Brazil, heighten the forecast risk from the international trade sector.

Minnesota Economic Outlook. Minnesota's expansion continues to make steady progress. The Bureau of Economic Analysis (BEA) reports the state's real GDP rose 2.8 percent in 2013, a full percentage point faster than the nation, and most indicators suggest the labor market tightened up considerably in 2014. Minnesota's jobless rate dropped to 3.9 percent in October, the fifth lowest among states and matching the low point of the previous 2002-2007 economic expansion. Unemployment has fallen across age, gender, and racial cohorts. The number of officially long-term unemployed (6 months or longer) is less than half what it was in mid-2010, and the rate of involuntary part-time employment has fallen sharply as well. However, Minnesota's labor force growth remains very weak and wage pressures have yet to emerge. Moreover, the state's housing recovery has stalled in part due to unexpectedly slow household formation. As a result, MMB's Minnesota economic outlook has weakened since it was last prepared in February.

MMB's November 2014 economic forecast calls for Minnesota's expansion to continue to accelerate over the next several years, but at a slower pace than the national average. Employment is expected to remain modest in 2015 and 2016, as the pace of wage growth steadily picks up. This reflects improvements in household formation and labor force growth, a rebound in productivity, and stronger consumer and business fundamentals in the broader U.S. economy.



Minnesota's jobless rate dropped to 3.9 percent in October, the fifth lowest among states and matching the low point of the previous 2002-2007 economic expansion.

Budget Outlook: Current Biennium. Minnesota's budget outlook for the current biennium has improved since last February's forecast. The February 2014 forecast projected a $1.2 billion balance available for FY 2014-15. Budget changes enacted in the 2014 legislative session included tax reductions, supplemental spending, capital projects funding, and an increase to the state's budget reserve. After these actions a projected $32 million balance remained.

This forecast now reflects final actual revenue and expenditure data for FY 2014 and revised estimates for FY 2015 with seven months remaining in the current biennium. Forecast revenues are now expected to be $39.371 billion, up $279 million from the end-of-session estimates. Forecast spending is now expected to be $39.338 billion, a $249 million reduction from previous estimates. These forecast changes, offset by a small $5 million increase in stadium reserves, generated a forecast balance of $556 million.

New law, however, directs $183 million of November's forecast balance to the general fund budget reserve account. This action results in a budgetary balance of $373 million for the current biennium. If unchanged in the next forecast or by 2015 session actions, this budgetary balance will carry forward into the next biennium, adding to the available resources projected for FY 2016-17.

FY 2014-15 General Fund Forecast
($ in millions)

	End of Session	November Forecast	$ Change
Beginning Balance	**$1,712**	**$1,712**	**$ 0**
Forecast Revenues	39,092	39,371	279
Forecast Expenditures	39,587	39,338	(249)
Cash Flow & Budget Reserves	1,161	1,161	0
Stadium Reserve	23	28	5
Forecast Balance	**$32**	**$556**	**$523**
33% to Budget Reserve	-	183	183
Revised Forecast Balance	**$32**	**$373**	**$340**

Nearly 70 percent of the $523 million forecast improvement in the current biennium reflects gains from closing the books for FY 2014. Forecast revenues for the biennium are up $279 million. Most of this increase, or $185 million, occurred in FY 2014 as reported in MMB's October 2014 *Revenue and Economic Update.* The gain was primarily driven by higher income tax receipts. Forecast spending for the biennium is down $249 million. More than half of the savings, or $150 million, reflects lower actual spending for FY 2014, net of appropriations carried forward to FY 2015. Reductions in the forecast of human services health care spending accounts for most of the savings.

The $556 million forecast balance in the current biennium triggers an automatic deposit to the budget reserve resulting from law changes in the 2014 legislative session. This increases the budget reserve from $811 million to $994 million, and total cash flow and budget reserve accounts to $1.344 billion. Minnesota Statute 16A.152, which governs general fund reserves, automatically allocates 33 percent of any forecast balances for the current biennium, based on yearly November forecasts, to the budget reserve until a recommended level is reached.

The recommended level is established by an annual evaluation of the adequacy of the budget reserve by the commissioner of MMB. The current report, released in January 2014 prior to the most recent change in the reserves statute, recommends a budget reserve policy of 4.9 percent of general fund non-dedicated revenues, or total cash flow and budget reserves of $1.929 billion for the current 2014-15 biennium.

Revenues. Higher-than-anticipated revenues at the close of FY 2014 helped increase forecast revenues for the current biennium. Total revenues for FY 2014-15 are now forecast to be $39.371 billion, $279 million (0.7 percent) more than the February forecast adjusted for 2014 session law changes. Total tax revenues for FY 2014-15 are forecast to be $37.585 billion, exceeding the end-of-session estimate by $268 million (0.7 percent). Actual tax receipts for FY 2014 were $189 million above expectations, accounting for 70 percent of the forecast change in FY 2014-15 tax revenues.

FY 2014-15 General Fund Revenues
Change From End-of-Session Estimates
($ in millions)

	November Forecast	$ Change	% Change
Individual Income Tax	$19,615	$289	1.5
General Sales Tax	10,198	46	0.5
Corporate Franchise Tax	2,637	(72)	(2.7)
Statewide Property Tax	1,675	10	0.6
Other Tax Revenue	3,460	(5)	(0.1)
Total Tax Revenues	**37,585**	**268**	**0.7**
Non-Tax Revenues	1,430	(15)	(1.1)
Other Resources	356	26	7.9
Total Revenue	**$39,371**	**$279**	**0.7**

The individual income tax shows the largest dollar amount change, $289 million (1.5 percent). Of that change, $194 million is due to higher-than-forecast income tax revenues at the close of FY 2014. The forecast for FY 2015 income tax revenues has also been raised, due in part to an increase in MMB's estimate of tax liability for 2013, the base year for this forecast. In addition, higher expected growth in non-wage income more than offsets a lower wage income forecast.

Sales tax revenues are now expected to exceed the end-of session estimate for the current biennium by $46 million. Larger forecast gross tax receipts more than offset an increase in expected sales tax refunds. The corporate income tax is now forecast to bring in $72 million less in FY 2014-15 than the prior estimate. This change reflects both lower projected corporate profit growth and higher forecast growth in refunds.

Expenditures. Forecast spending for the current biennium has been reduced. General fund expenditures for FY 2014-15 are now forecast to be $39.338 billion, down $249 million (0.6 percent) from end-of-session estimates.

A reduction in health and human services is the primary factor contributing to the net savings. The $249 million savings shown below is primarily the result of savings in Medical Assistance (MA) health care payments.

FY 2014-15 General Fund Expenditures
Change From End-of-Session Estimates
($ in millions)

	November Forecast	$ Change	% Change
K-12 Education	$16,629	$(50)	(0.3)
Property Tax Aids & Credits	2,964	(6)	(0.2)
Health & Human Services	11,205	(248)	(2.2)
Debt Service	1,243	(11)	(0.9)
All Other	7,297	65	0.9
Total Expenditures	**$39,338**	**$(249)**	**(0.6)**

K-12 education estimates were reduced $50 million due to small downward revisions in enrollment projections. Small savings in property tax aid costs reflect reduced estimates for homeowners homestead credit refunds, partially offset by an increase in renters' refunds. Debt service savings accrue from slightly smaller bond sales than anticipated in 2014 and the continued benefit of low interest rates.

The $65 million increase shown for "all other" spending is largely due to one item. In FY 2015, $61.3 million was transferred to the closed landfill investment fund as required by law, to begin repayment of monies previously borrowed from that fund, an increase of $51 million over end-of-session estimates. Repayment will be completed with annual payments of approximately $14 million a year over the next three years.

Budget Outlook: Next Biennium. A $1.037 billion balance is now projected for the FY 2016-17 biennium. However, that projected balance does not represent an enacted budget, but provides the framework for developing the budget for the next two years. The resources available for FY 2016-17 have been increased by the $373 million budgetary balance for the current biennium that will carry forward into FY 2016-17.

When compared to the revised estimates for the current biennium, FY 2016-17 revenues are now projected to increase by $2.509 billion (6.4 percent), while current law base spending is projected to increase $1.905 billion (4.8 percent). This positive revenue-expenditure balance, combined with the expected $373 million balance that will carry forward from FY 2015, results in a projected $1.037 billion balance available for FY 2016-17 budget planning.

FY 2016-17 Budget Forecast
Biennial Comparison
($ in millions)

	FY 2014-15	FY 2016-17	$ Change	% Change
Beginning Balance	**$1,712**	**$1,745**	**$33**	**1.9**
Revenues				
Taxes	37,585	40,253	2,668	7.1
Non-Tax Revenues	1,430	1,400	(30)	(2.0)
Transfers, Other Resources	356	227	(129)	(36.2)
Total Revenues	**39,371**	**41,880**	**2,509**	**6.4**
Expenditures				
K-12 Education	16,629	16,819	190	1.1
Property Tax Aids & Credits	2,964	3,375	411	13.9
Health & Human Services	11,205	12,757	1,552	13.9
Debt Service	1,243	1,277	34	2.8
All Other	7,297	7,015	(282)	(3.9)
Total Spending	**$39,338**	**$41,243**	**$1,905**	**4.8**
Reserves	1,344	1,344	-	-
Stadium Reserve	28	1	(27)	-
Budget Balance	**$373**	**$1,037**		

These estimates are, however, only the starting point for budget development. It is important to recognize that forecast spending for FY 2016-17 is based largely on the extension of current law and appropriations. Even though state tax revenues are expected to continue to grow at a moderate rate, forecast spending also will continue to grow - driven primarily by growth in human services spending.

Major forecast spending areas highlighted above are adjusted only for expected changes in enrollment and caseload. FY 2016-17 current law base spending estimates, excluding human services health care spending, do not include general inflation or reflect other spending pressures.

Revenues. Total general fund revenues for FY 2016-17 are now forecast to be $41.880 billion, $2.509 billion (6.4 percent) above forecast FY 2014-15 revenues. Tax revenues for FY 2016-17 are expected to grow to $40.253 billion, a 7.1 percent increase over FY 2014-15 forecast tax collections.

Together, the individual income and general sales taxes account for almost all of the projected biennial growth in total tax revenues. The individual income tax shows the largest increase, growing by $2.049 billion (10.4 percent), and contributing 77 percent of the forecast tax revenue growth over the current biennium. The general sales tax is expected to grow to $10.796 billion, $598 million (5.9 percent) over the current biennium, accounting for 22 percent of the biennial increase in tax revenues.

FY 2016-17 Revenues Summary
Biennial Comparison
($ in millions)

	November FY 2014-15	November FY 2016-17	$ Change	% Change
Individual Income Tax	$19,615	$21,664	2,049	10.4
General Sales Tax	10,198	10,796	598	5.9
Corporate Franchise Tax	2,637	2,607	(30)	(1.1)
Statewide Property Tax	1,675	1,709	34	2.0
Other Tax Revenue	3,460	3,477	17	0.5
Total Tax Revenues	**37,585**	**40,253**	**2,668**	**7.1**
Non-Tax Revenues	1,430	1,400	(29)	(2.0)
Other Resources	356	227	(129)	(36.2)
Total Revenues	**$39,371**	**$41,880**	**$2,509**	**6.4**

Gross corporate franchise tax receipts are forecast to grow by $96 million in FY 2016-17. This increase is more than offset by a $126 million increase in forecast corporate tax refunds, netting to a $30 million decline in the corporate tax for FY 2016-17. The larger refund forecast primarily reflects growth in the Historic Structure Rehabilitation Credit.

Expenditures. Total spending for FY 2016-17 is now forecast to be $41.243 billion, $1.905 billion (4.8 percent) more than the current forecast for the FY 2014-15 biennium.

Health and human services spending is the single largest component of biennial growth in general fund spending. Despite reductions in forecast spending in both the current and next biennium, health and human services costs continue to grow year over year. Biennial spending is expected to increase $1.552 billion (13.9 percent) from FY 2014-15 to FY 2016-17. Of this growth, about 90 percent is a result of increasing costs for Medical Assistance, which is expected to grow $1.4 billion. Enrollment growth in health care programs for families and children as well as the elderly and disabled, along with projected increases in health care costs, are driving the growth in spending.

On an appropriations basis, the biennial growth for E-12 education is small, $190 million (1.1 percent). But, the growth in E-12 spending is distorted by a one-time buyback of payment shifts, over $800 million in FY 2014. If the buyback is excluded, E-12 education spending actually grows by 6.3 percent over the current biennium. This growth is due primarily to enacted changes that begin in FY 2015, the second year of the current biennium, which effectively double in the next. Changes included a 1.5 percent increase on the basic formula and implementing all-day kindergarten. Additionally there is underlying growth in pupil units and special education spending is expected to grow by 11 percent over FY 2014-15 levels.

Property tax aids and credits are expected to grow by $411 million (13.9 percent) over the current biennium. While the underlying forecast variables are largely unchanged from previous estimates, statutory changes act to increase costs in FY 2016-17 over the current biennium. Increases to the tax refund and local aid programs effective for FY 2015 reflect one year of costs in the current biennium, but two years in the next biennium.

Debt service spending will increase by $34 million (2.8 percent) based on forecasted increases in interest rates and a slight increase in the assumed level of annual debt authorization. All other spending areas actually decline, reflecting one-time capital project and other costs in FY 2014-15 that do not recur in the next biennium.

FY 2016-17 Expenditures Summary
Biennial Comparison
($ in millions)

	November FY 2014-15	November FY 2016-17	$ Change	% Change
K-12 Education	$16,629	$16,819	$190	1.1
Property Tax Aids & Credits	2,964	3,375	411	13.9
Health & Human Services	11,205	12,757	1,552	13.9
Debt Service	1,243	1,277	34	2.8
All Other	7,297	7,015	(282)	(3.9)
Total Expenditures	**39,338**	**41,243**	**1,905**	**4.8**

Budget Outlook: Planning Estimates. This report provides the first budget planning estimates for FY 2018-19. These longer term planning estimates are materially different than the short term forecasts for FY 2015-17. The longer term projections have a higher degree of uncertainty and a significantly higher potential range of error.

Projected revenue growth exceeds expenditure growth through the forecast horizon, indicating structural balances for FY 2018-19. But, these balances can be misleading. Forecast revenues for FY 2018-19 are matched against projected current law spending that assumes no changes will occur over the four-year period beyond those incorporated in current law. Increases are largely limited to enrollment, caseload and formula driven costs in education aids, human services and property tax aid and credit programs; while all other areas generally represent FY 2015 appropriated levels continuing unchanged.

Budget Planning Estimates
($ in millions)

	FY 2016	FY 2017	FY 2018	FY 2019
Forecast Revenues	$20,432	$21,448	$22,392	$23,409
Projected Spending	20,443	20,800	21,286	21,764
Difference	**$(11)**	**$648**	**$1,106**	**$1,645**
Estimated Inflation (CPI)	*$266*	*$650*	*$1,170*	*$1,724*

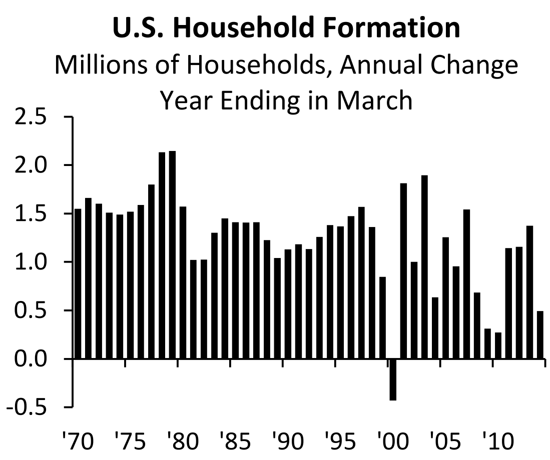
Projected spending for FY 2016-19 does not include a general adjustment for inflation; nor does it necessarily reflect the actual cost of continuing current services. Projected inflation based on the consumer price index is forecast to be 1.3 and 1.8 percent for FY 2016 and FY 2017; followed by 2.3 percent annual increases in FY 2018-19. These inflationary pressures, compounded over the four-year period, would add roughly $350 million per year to spending.

The planning estimates are not meant to predict balanced or unbalanced budgets in the future. Their purpose is to assist in determining how well projected state revenues will match ongoing spending over a longer term. The FY 2018-19 projections provide a current law framework to analyze the impacts of FY 2016-17 budget proposals and legislative actions.

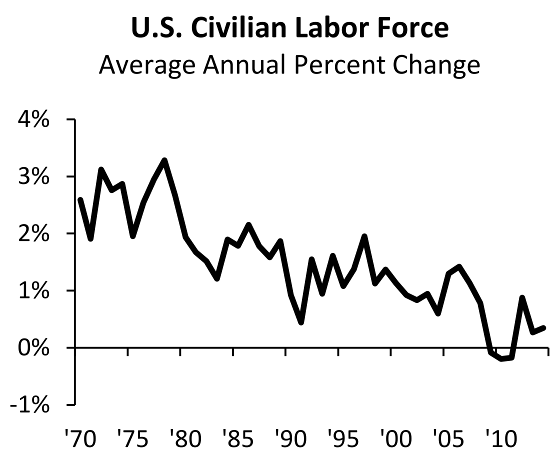
ECONOMIC OUTLOOK

U.S. Economic Outlook

The outlook for U.S. economic growth has weakened since Minnesota's *Budget and Economic Forecast* was last prepared in February 2014. The economy came to a standstill at the start of the year as unusually harsh winter weather temporarily sapped consumer spending, factory production, and housing. Furthermore, a more protracted slowdown in the housing recovery is a direct reflection of surprisingly slow, recession-like household formation over the past year. Causes of the unexpected downshift include a less mobile population, slower immigration, and an increasing share of young adults not forming households for economic reasons, like poor wage growth and onerous student loan debts. The demographic trends affecting household formation are similarly affecting the supply of labor. Growth in the labor force has all but ceased this year, and participation continues to wane. Those factors, combined with ongoing labor underutilization, the composition of new jobs, and disappointing productivity growth, are weighing on compensation gains and imply a lower potential growth rate for incomes, profits, and living standards.



Source: U.S. Census Bureau; IHS Economics (IHS)

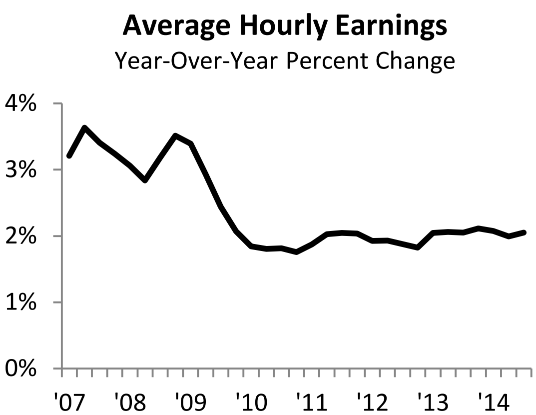


Source: U.S. Bureau of Labor Statistics. (BLS)

Household formation unexpectedly slowed to a recession-like pace over the past year. The demographic trends affecting household formation are also affecting the supply of labor. Growth in the labor force has all but ceased and participation continues to wane.

Encouragingly, economic fundamentals support an upturn in productivity, and thereby an acceleration in wage growth. Consumers and businesses are feeling more confident, profit margins remain near all-time highs, producers hold strong cash positions, and borrowing costs remain low, making business investments in hiring and productivity more attractive. Already, labor market slack is being steadily absorbed by improving demand, as employment growth has averaged 229,000 net new jobs a month thus far in 2014, and the jobless rate has edged down to 5.8 percent, a post-recession low. A tightening labor market closer to the natural rate of unemployment should also begin to put upward pressure on wages. However, if businesses investment in equipment and intellectual property remain soft, productivity and wages may continue to disappoint.

The U.S. economy bounced back sharply from its winter slump in the early part of the year. After contacting 2.1 percent in the first quarter of 2014, the Bureau of Economic Analysis (BEA) estimates real GDP expanded at an annual rate of 4.6 percent in the second quarter, followed by a revised jump of 3.9 percent in the third quarter. The rebound was driven by a mid-summer surge in fixed investment and exports, some rebuilding of depleted business inventories, an anticipated uptick in health care spending, and a surprise bounce in federal defense spending. Improved underlying performance also reflects the lagged effects from lower gasoline prices, stronger job creation, easing of federal fiscal drag, reduced household debt service burdens, and a pickup in vehicle sales and spending for other consumer durable goods.

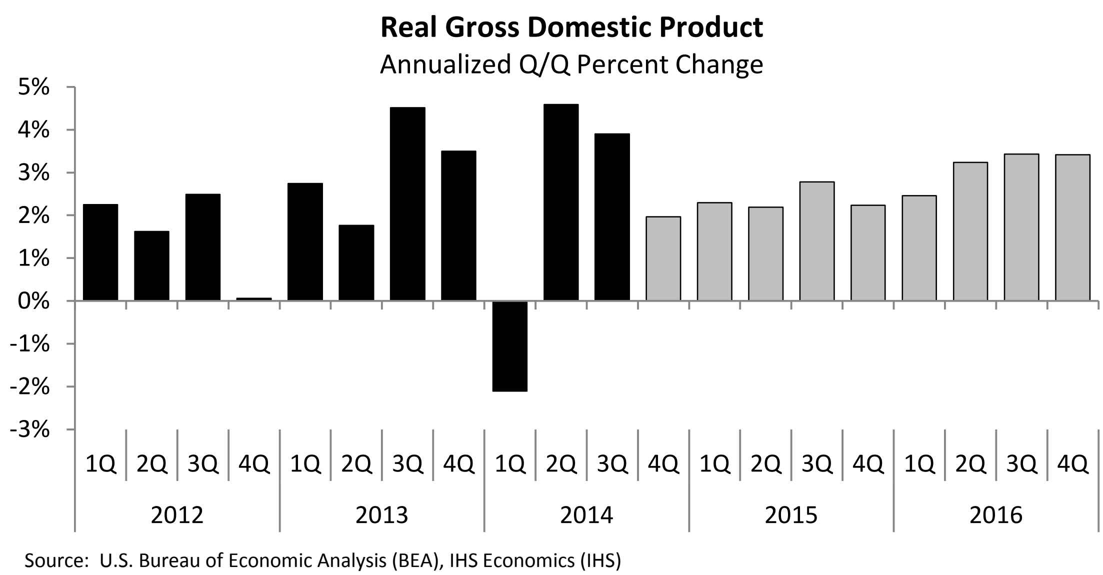


Source: U.S. Bureau of Labor Statistics. (BLS)

The employment cost index, a broad measure of nominal wage and benefits compensation, has averaged only about 2 percent annual growth since the recession ended more than five years ago. Average hourly earnings growth is also basically keeping up with inflation.

Collectively these changes support the case for more modest economic growth at the end of 2014. Minnesota Management and Budget's macroeconomic consultant IHS Economics (formerly IHS Global Insight) sees real GDP growth slowing to a 2.0 percent annualized rate in the fourth quarter. Slower export growth and reversal of an end-of-fiscal-year anomaly in federal defense spending more than account for this slowdown between the third and fourth quarters. Counterbalancing those factors is a consumer dividend from lower gasoline prices, which have fallen from $3.78 per gallon last June to less than $3.00 in late November. This dividend represents a source of savings for each American household available to be spent on other non-gasoline goods and services, just in time for the holiday shopping season. IHS Economics (IHS) estimates that energy costs remaining at current low levels could add up to 0.4 percent to real GDP growth over a year long period.

A moderate acceleration of economic growth is expected to continue through at least late 2016, with modest improvements in confidence, labor supply, and productivity. The IHS November 2014 baseline forecast calls for annual real GDP growth to pick up from 2.2 percent in 2014, to 2.6 percent in 2015 and 2.8 percent in 2016. The February 2014 baseline forecast expected stronger growth of 2.7 percent in 2014, followed by increases of 3.3 percent in 2015 and 3.4 percent in 2016. The IHS November baseline forecast for 2015 and 2016 calls for slightly less growth than the Blue Chip Consensus, the median of 50 business and academic forecasts. The Blue Chip forecast is for 3.0 percent growth in 2015, followed by 2.9 percent in 2016. Inflation continues to be of little concern. November's baseline anticipates CPI increases of 1.7 percent in 2014, 1.0 percent in 2015, and 1.6 percent in 2016. February's inflation outlook was similarly subdued.

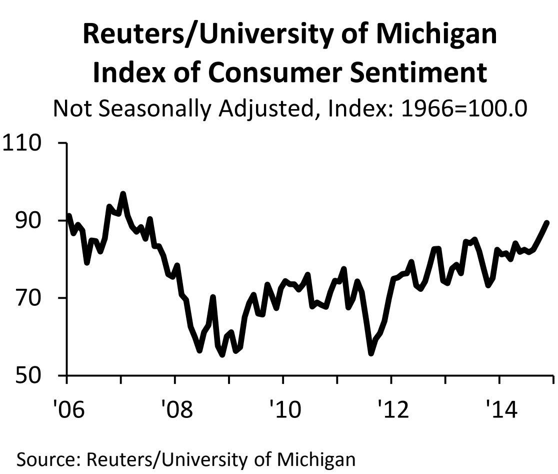


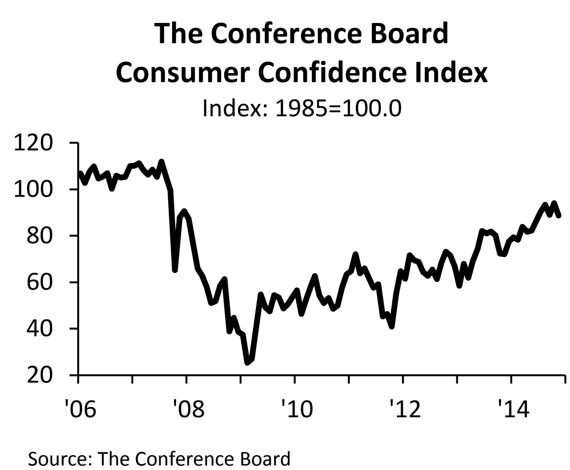
After contacting 2.1 percent in the first quarter of 2014, the BEA estimates real GDP expanded at an annual rate of 4.6 percent in the second quarter, followed by a revised jump of 3.9 percent in the third quarter. Collectively these changes support the case for more modest economic growth at the end of 2014.

There are several key dependencies to the IHS November economic outlook. First, stronger labor market conditions must begin to translate into improvements in household formation and labor force growth. Higher household formation rates boost housing demand, and labor force growth is an important component for overall economic growth. Second, productivity growth rebounds to long term trend, bringing higher living standards and stronger potential economic growth. Third, the Federal Reserve's actions to tighten monetary policy next year must go smoothly. In the November baseline, IHS assumes that the Fed begins to raise the federal funds rate in June 2015. Fourth, federal fiscal policy remains in what IHS calls "benign neglect," where lawmakers simply do no more harm, through at least early 2017. Finally, international economic and political risk must not cause undue damage. The events in Ukraine and the Middle East, as well as the slowing economies in Europe, Japan, and Brazil, heighten the forecast risk from the international trade sector.

IHS assigns a 70 percent probability to February's baseline and 15 percent probabilities to more pessimistic and optimistic alternative scenarios, up from 60 percent and 20 percent respectively in February. In the pessimistic scenario, the U.S. economy stalls in late 2014 due to stagnant household formation and a weaker-than-expected housing market, just avoiding recession. In the optimistic scenario, oil prices decline more than in the baseline, while higher-than-expected foreign growth and associated depreciation of the dollar deliver a boost to the U.S. economy later this year.

Consumer Spending. Stronger economic fundamentals for the consumer have provided welcome momentum in 2014. First, households have rebuilt a large share of the wealth lost during the recession, as home prices have increased rapidly and equities soared over the past few years. The Dow Jones industrial average and S&P 500, for example, set record highs in the past few months, and the Nasdaq surged to its highest level since 2000. Second, consumers have significantly reduced debt burdens. Third, average U.S. gasoline prices have continued to slide, dipping below $3 per gallon last month for the first time in four years. Lower gas prices provide an especially big bonus heading into the holiday shopping season. Finally, the job market is improving, which is boosting consumer confidence. Separate measures released by the Conference Board and the Reuters/University of Michigan show that confidence among U.S. consumers as at post-recession highs. These factors highlight a recovery that has accelerated since the weak beginning of the year. Looking ahead, the key to stronger consumer spending will be stronger average wage growth.

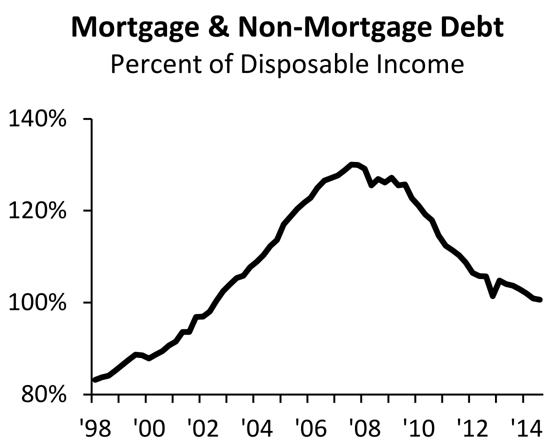


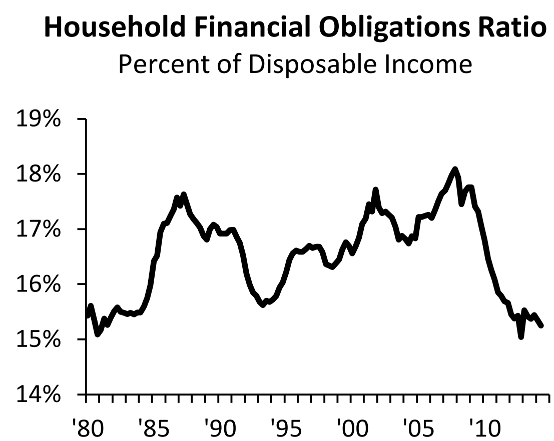


The job market is improving, which is boosting consumer confidence. Separate measures released by the Conference Board and the Reuters/University of Michigan show that confidence among U.S. consumers as at post-recession highs.

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 such as homes, bank accounts and stocks, minus debts such as 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. However, after adjusting for inflation and population growth, real net worth per capita is only now returning to what it was just before nationwide home prices began to unravel in early 2007. 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.

The national housing market is becoming a bit more balanced. Investor demand is waning, more home inventories are coming up for sale, and market fundamentals are beginning to drive price appreciation, which has decelerated from near double-digit percentage increases in 2013. The Federal Housing Finance Agency (FHFA) purchase-only home price index rose 4.3 percent in the third quarter of 2014 from a year earlier, the slowest year-over-year pace since late 2012. IHS expects home prices to grow around 5 percent this year, before slowing in 2015. This improves affordability and boosts home sales. Over the forecast horizon, accelerating jobs gains, more inventory growth, and easing lending standards should help maintain more modest price gains of between 2 and 3 percent, which will help support consumer spending.



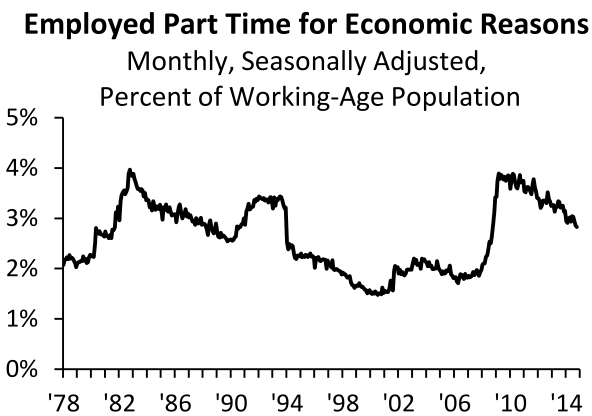


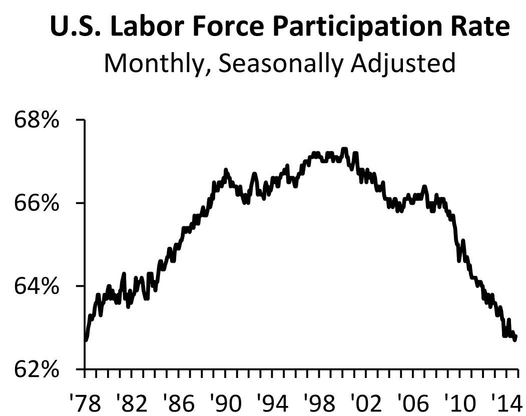
Source: Federal Reserve

Household debt burdens have fallen dramatically as income growth has outpaced payment growth. IHS Economics believes households are not as comfortable taking on as much debt as before, one factor cited as impeding the housing recovery.

Record low debt service burdens also offer evidence of improving household finances. 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 are still reluctant to take on more mortgage debt or run up large credit card bills for smaller discretionary purchases. The Federal Reserve reports that revolving credit outstanding, mostly credit card loans, was about $880 billion in the third quarter 2014, down nearly $140 billion (14 percent) from its mid-2008 peak and increasing little since 2010. Household debt burdens have fallen dramatically as income growth has outpaced payment growth. The Federal Reserve's financial obligations ratio, which measures the share of monthly household financial commitments to disposable income, is at the lowest level since the early 1980s. Similarly, mortgage and non-mortgage consumer debt has fallen to the lowest share of disposable income since mid-2002. IHS believes households are not as comfortable taking on as much debt as before, one factor cited as impeding the housing recovery. Nonetheless, households' stronger financial positions are expected to have a positive impact on consumer spending in 2015.

The labor market continues to make steady progress. The U.S. economy has added an average of 229,000 jobs per month thus far in 2014, well above the 193,000 average gains recorded in 2013. Strong job gains this year have helped push the U.S. unemployment rate down to a new post-recession low of 5.8 percent in October, nearly 1-½ percentage points less than the same month a year earlier. Unemployment has fallen across age and racial cohorts, and the number of long-term unemployed has declined sharply. However, the rate of involuntary part-time employment and the labor force participation rate remain very weak. The U.S. labor force participation rate has fallen steadily since the end of the recession and is now as low as it was in the late 1970s. Wage growth also remains modest relative to the growth in employment. The employment cost index, a broad measure of nominal wage and benefits compensation, has averaged only about 2 percent annual growth since the recession ended more than five years ago, while real compensation growth has remained flat. Average hourly earnings growth is also just basically keeping up with inflation.





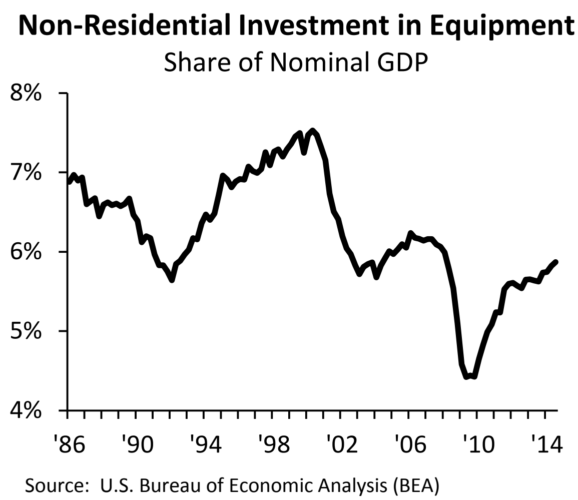
Source: U.S. Bureau of Labor Statistics. (BLS)

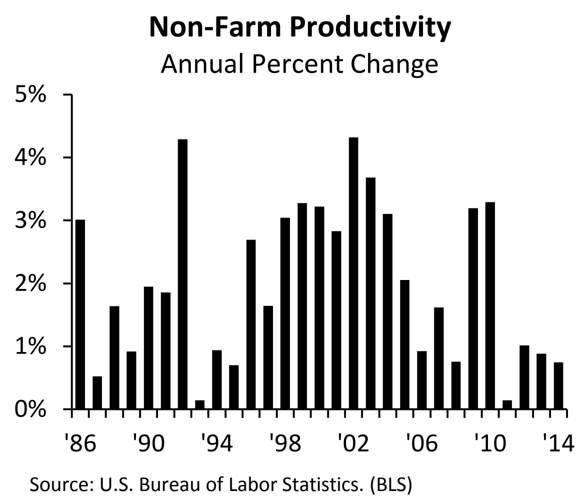
Ongoing slack in the labor market and the weak pace of wage growth have been the biggest constraints on consumer spending during the recovery.

Ongoing slack in the labor market and the weak pace of wage growth have been the biggest constraints on consumer spending during the recovery. Real consumer spending grew at a 2.2 percent average annualized rate in the third quarter of 2014, near the 2.3 percent average rate since early 2010, but still well below the 3.0 percent average during the last expansion. IHS believes it will be difficult for consumer spending to gain more traction without strong and sustainable increases in average wages. Job growth in the next two years is not expected to match this year's gains, with 2015 more like 2013 than 2014.

But further tightening of labor market conditions begins to put upward pressure on wage growth. Total compensation is forecast to accelerate from 2.2 percent in 2014, to 2.8 percent in 2015 and 2.9 percent in 2016. Thus with average wage growth picking up, real consumer spending growth is expected to accelerate from 2.3 percent in 2014, to 2.8 percent in 2015 and 3.0 percent in 2016, led by autos and other big-ticket durable items.

Business Investment. In the aftermath of the Great Recession, businesses responded to a sharp decline in demand by cutting back payrolls and boosting productivity. That quickly helped companies accumulate huge cash reserves, restore balance sheets, and boost profits to all-time highs. But as the recovery progressed, instead of investing those earnings in productivity-enhancing equipment, some companies have chosen to spend cash on share buybacks and dividends to improve shareholder income. As a result, business investment has not yet rebounded to its pre-recession share of the economy and labor productivity has stalled in the past few years. IHS estimates spending on capital equipment will represent 5.8 percent of GDP in 2014, up from a 4.5 percent low in 2009, but still well below the 6.5 percent average in the 20 years prior to the recession. Productivity growth in the U.S. has averaged less than 1 percent per year since 2011, compared to a 2.2 percent average over the past quarter-century.



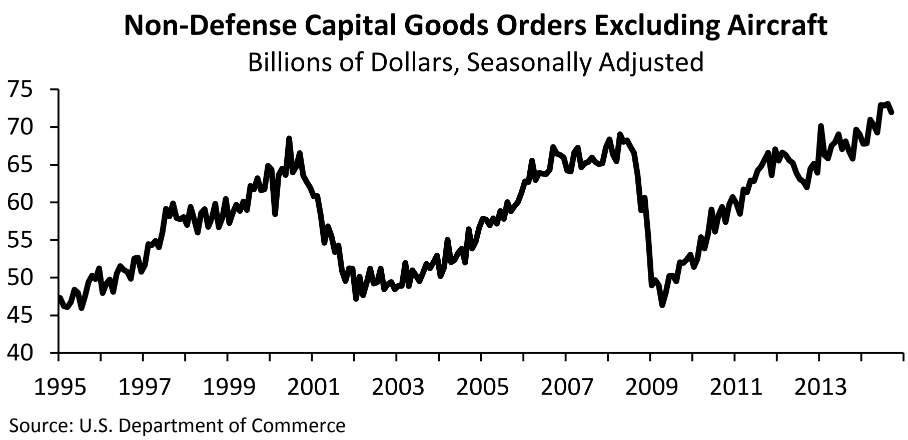


During the recovery, some companies have chosen to spend cash on share buybacks and dividends to improve shareholder income. As a result, business investment has not yet rebounded to its pre-recession share of the economy and labor productivity has stalled.

Nonetheless, there are reasons to be optimistic about a pickup in business investment. Borrowing costs remain low, the nation's capital stock is aging, and factories are running closer to full capacity. Moreover, fiscal policy uncertainty has diminished, business confidence is trending higher, and the job market is improving, making new equipment spending more attractive. IHS Economics expects investment in equipment to pick up from 4.6 percent growth in 2013, to 6.3 percent growth in 2014, and advance near 6 percent through 2017. Real investment in intellectual property is similarly forecast to accelerate from 3.4 percent growth in 2013, to 4.0 percent growth in 2014, and maintain modest gains between 4 and 5 percent over the forecast horizon. Finally, rising capital expenditures boost productivity, which is expected to accelerate from 0.7 percent growth in 2014, to 1.5 percent in 2015 and over 2 percent in 2016 and 2017.

Industrial Production. Stronger business investment should give a boost to steadily improving manufacturing output. Recent survey results from the Institute of Supply Management (ISM) strongly suggest that the manufacturing sector remains in an expansionary phase. In the third quarter of this this year, ISM's manufacturing index was at its highest level since early 2011, with the new orders, production, and employment subcomponents all well above neutral.

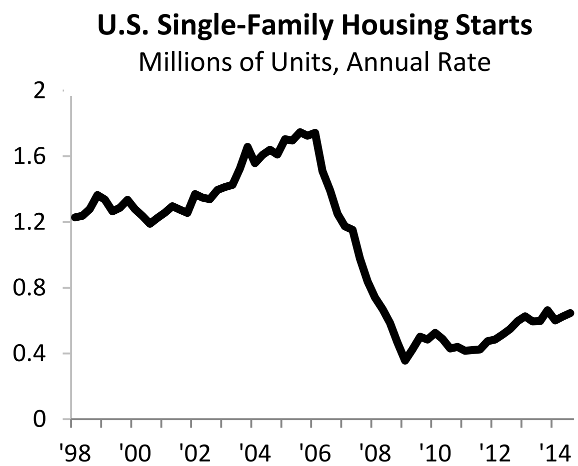
Other measures of manufacturing conditions such as factory orders and industrial production have showed similar strength. The Commerce Department reports that factory orders have continued a steady path of recovery since September 2013. Manufacturers' new orders for core capital goods (nondefense capital goods excluding aircraft), a leading indicator for future capital expenditure growth, posted double-digit annualized growth in the second and third quarter of 2014. And the Federal Reserve's manufacturing output index has expanded at a 3.9 percent average annual pace during first 9 months of 2014, up from a 2.9 percent average rate in 2013. IHS Economics expects factory production to accelerate through the remainder of the year and into 2015. Overall, manufacturing output is expected rise 3.3 percent in 2014, before growing 2.7 percent in 2015 and 3.9 percent in 2016.



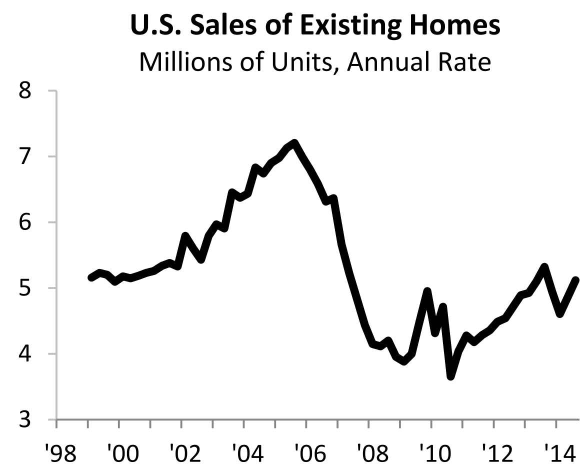
Manufacturers' new orders for core capital goods (nondefense capital goods excluding aircraft), a leading indicator for future capital expenditure growth, posted double-digit annualized growth in the second and third quarter of 2014.

Housing and Construction. The nation's housing recovery has remained persistently weak over the past year. Severe winter weather took a toll on housing markets at the start of 2014, and recent data show the pace of household formation has surprisingly slowed, despite an improving labor market. Household formation is a key driver of demand for housing. According to the latest data from the Census Bureau, the number of households in the U.S. rose by just 493,000 in the year ending in March 2014, far below the 1.2 million averaged in the three years before and the long-term trend of 1.1 million households.

IHS believes less household formation is related to the population aging into more stable and less mobile conditions, slower immigration, poor wage growth, and onerous student loan debts. In the November baseline, IHS expects annual household formation to rise to 696,000 in the first quarter of 2015 and to 1.09 million in the first quarter of 2016. Housing starts are estimated to increase by just 7.5 percent in 2014 (to 999,000), then by 19.8 percent in 2015 (to 1.20 million), and by 12.9 percent in 2016 (to 1.35 million). With the slowdown in housing starts this year, IHS estimates that real investment in residential construction will rise only 1.4 percent in 2014, down from 11.9 percent in 2013, before picking up speed, increasing 10.3 percent in 2015 and 2016. Growth in real spending on business structures, which contracted 0.5 percent in 2013, is expected to rebound by 7.7 percent in 2014, before rising 0.7 percent in 2015 and a modest 3.1 percent in 2016.



Source: U.S. Census Bureau

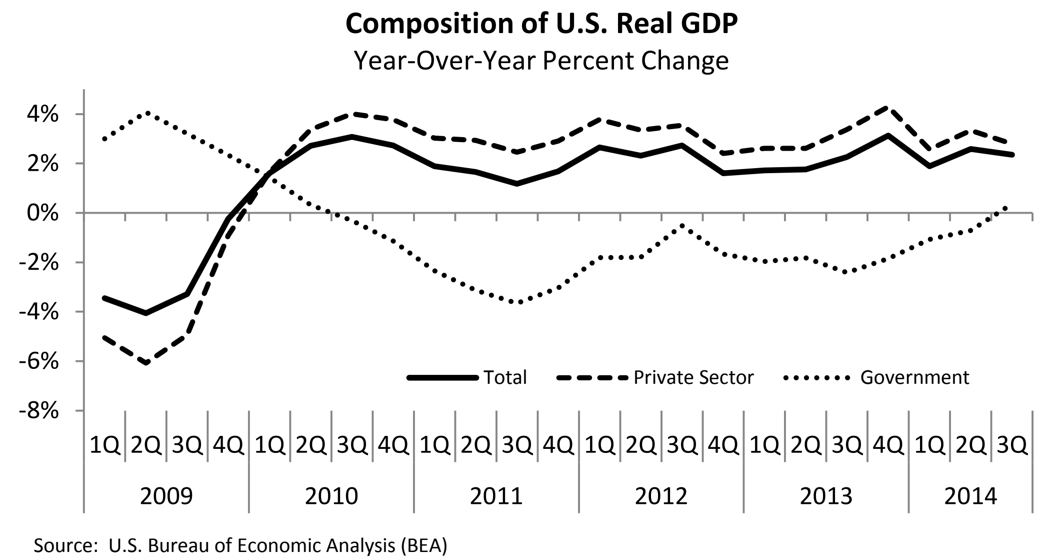


Source: National Association of Realtors

A recent slowdown in home sales and single-family housing starts is a direct reflection of surprisingly slow, recession-like household formation over the past year. Causes of the unexpected downshift include slower immigration, weak income growth, onerous student loan burdens, and an older and less mobile population.

Fiscal Policy. Fiscal policy headwinds that have been holding back economic growth for much of the recovery are beginning to subside. Late last year, federal policymakers approved the Bipartisan Budget Act of 2013, a deal that established discretionary funding levels for two years, provided some temporary relief from the sequester, and avoided further cuts to defense spending. This agreement has helped stabilize the economic impact of tax and spending policy in 2014, as fading fiscal austerity from recent years is starting to support growth. Nevertheless, lawmakers again face a wide range of near-term fiscal deadlines and have yet to reach agreement on a sustainable and comprehensive solution to the nation’s long-term debt challenges. Thus short and long-term fiscal risk factors remain.

State, local, and federal fiscal policy has been a net drag on economic growth since the beginning of the recovery, through the withdrawal of massive amounts of fiscal stimulus, recent tax increases, and government spending reductions, including across-the-board spending cuts from budget sequestration. Moody's Analytics estimates government spending cuts have shaved a full percentage point from annual economic growth since the end of 2010. In other words, if not for fiscal tightening, real GDP would have grown closer to 3 percent over the past three years, instead of averaging just over 2 percent annual growth. Nonetheless, the federal government's fiscal situation is improving, and austerity has been winding down in 2014. This should provide an additional boost to economic growth in 2015 and 2016.



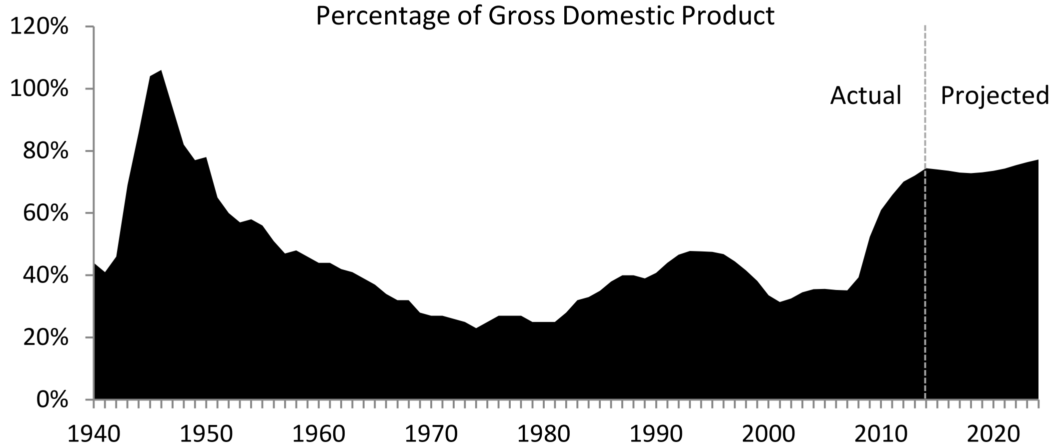
State, local, and federal fiscal policy has been a net drag on economic growth since the beginning of the recovery. However, the federal government's fiscal situation is improving, and austerity has been winding down in 2014. This should provide an additional boost to economic growth in 2015 and 2016.

The short term fiscal risk factors are familiar. With the mid-term elections over, Washington lawmakers face a host of fiscal issues that need to be addressed in coming months. First, as of the time of this writing, the federal government is operating under a short-term Continuing Resolution (CR) that expires on December 11. The lame-duck Congress will need to pass another CR before that time or again risk shutting down the government. Second, in addition to passing a funding bill, time is running out for Congress to retroactively extend a bundle of tax credits and deductions that expired at the end of December 2013, including popular business tax breaks like accelerated depreciation, small business expensing, and the research and development tax credit. Third, sometime next spring the new Republican-controlled Congress will likely need to raise the statutory borrowing limit. While extension of the debt ceiling seems assured, failure to do so would lead to a massive fiscal contraction since the federal government could only spend as much as it collects in tax revenues. Fourth, the federal government injected $11 billion into the nearly empty Highway Trust Fund last August to keep road and mass transit spending going until May 2015. The Fund will need to be reauthorized before that time to prevent state and local governments from cutting back. Finally, lawmakers will soon need to decide whether to keep in place congressionally mandated spending caps, known as sequestration, which are set to return next October. Automatic cuts to defense and domestic discretionary spending will take effect if appropriators allocate more money than allowed for by the caps.

Washington lawmakers also 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 concludes that the federal government deficit shrank to $483 billion in fiscal year 2014, nearly $200 billion less than the shortfall from 2013, and now just 2.8 percent of nominal GDP. Last year's deficit represents a meaningful improvement from recent years, which reached almost 10 percent of GDP in 2009. But the Congressional Budget Office (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, an expansion of federal subsidies for health insurance, and growing interest payments 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.

Federal Debt Held by the Public

Percentage of Gross Domestic Product

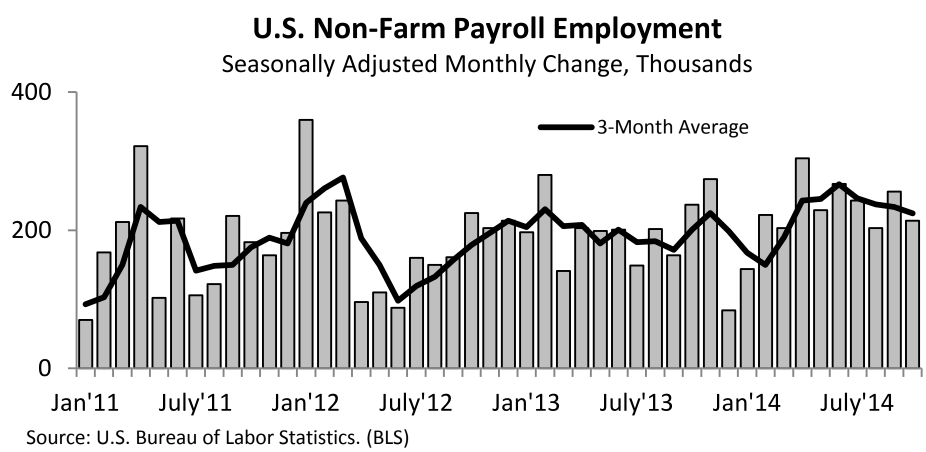


Source: Congressional Budget Office (CBO)

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

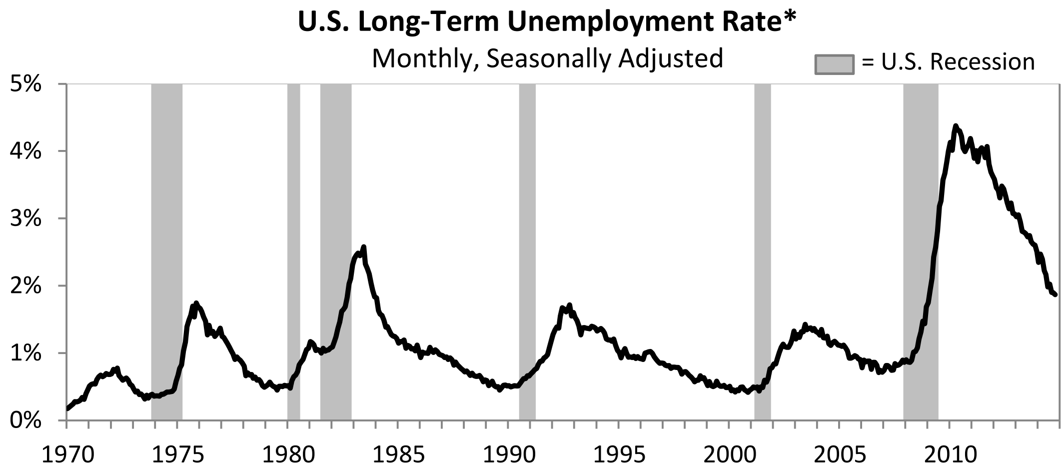
IHS Economics has incorporated the discretionary spending levels from the Bipartisan Budget Act and assumes that no future government shutdowns will occur as a result of either budget or debt ceiling stalemates. The biggest cuts in federal government have passed, but the legacy of sequestration and budget caps persist. Partly as a result, government spending contributions to real GDP growth are slightly negative in 2014, though much smaller than in 2013. Going forward, IHS views federal fiscal policy as neutral, with nominal spending increases that are less than the general inflation rate through at least the end of 2016. There are no major changes expected to the Affordable Care Act. IHS continues to assume a "grand bargain" on tax and entitlement reform to occur in 2017, after the 2016 presidential election. With federal government spending largely under control and tax revenues rising along with economic growth, IHS expects the federal deficit to hold steady at about $490 billion in fiscal year 2015 (2.7 percent of GDP) and fall to $428 billion in fiscal year 2016 (2.3 percent of GDP). Government spending is expected to start contributing to annual real GDP growth in 2015 for the time since 2010, as small negative contributions from federal government spending are offset by modest increases in state and local spending.

Monetary Policy. Speaking at a news conference following a two-day Federal Open Market Committee (FOMC) meeting in mid-September, Federal Reserve Board Chairwoman Janet Yellen stated that the economy continues to make progress toward the Fed's goal of maximum employment and price stability. The economy has generated 10 million jobs since early 2010 and employment now exceeds its pre-recession peak by over 1.3 million. The unemployment rate has fallen nearly 1-½ percentage points over the past year and dipped below 6 percent in September for the first time since mid-2008, shortly before the 2008 financial crisis.



The economy continues to make progress toward the Fed's goal of maximum employment and price stability. Job gains have averaged a solid 229,000 per month so far this year, up from the 185,000 per month pace the preceding two years.

These developments are encouraging, but Chairwoman Yellen has argued consistently throughout the summer that the sharp drop in the unemployment rate over the past year is only masking deeper problems in the labor market. Falling labor force participation, historically high levels of long-term unemployment, and elevated measures of underemployment, including those in part-time jobs who want full-time work, show there remains considerable slack in the labor market. That underutilization of labor is thought to be putting downward pressure on wages and prices. Total private average hourly earnings has risen only about 2 percent a year since the recession ended five years ago, while inflation-adjusted wages have been flat since early 2009. The Fed's preferred measure of inflation, the price index for core personal consumption expenditures, or PCE, rose just 1.5 percent over the last 12 months, and has been below the Fed's long-term objective of 2 percent inflation for more than two years.



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

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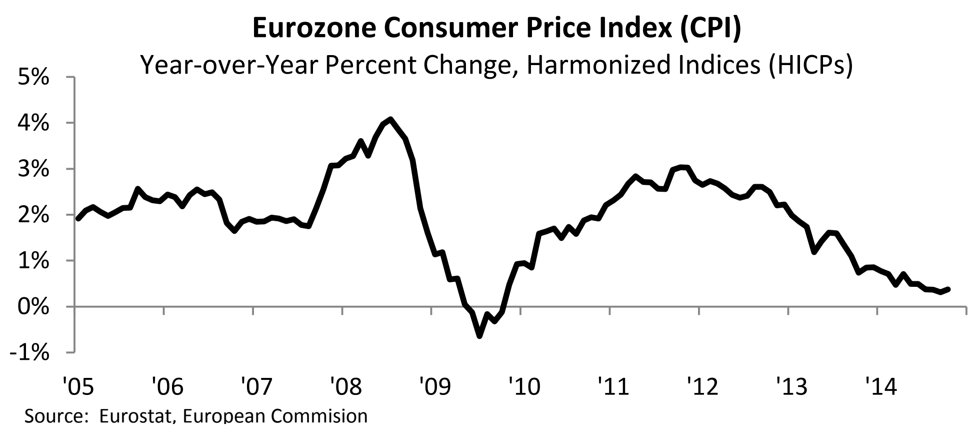
The combination of low inflationary pressures and weak labor market conditions has allowed the Fed to maintain highly accommodative monetary policies. Since late 2008, the FOMC has kept its benchmark interest rate close to zero and has sought to put downward pressure on long-term interest rates by purchasing and holding long-term securities, known as "quantitative easing" (QE), until there was "substantial improvement" in the job market. But in December 2013, FOMC policymakers judged that ongoing improvement in labor market conditions had warranted a modest reduction in the pace of its latest bond-buying program, also known as QE3. The Fed subsequently reduced its monthly assets purchases during each of the next seven consecutive meetings, before completely ending QE3 in October.

In exchange for less bond buying, the Fed has strengthened its forward guidance on interest rates. At its meeting last March, the FOMC dropped the 6.5 percent unemployment rate threshold for raising interest rates, removing reliance on any one or two indicators in favor of a more comprehensive "range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments." The new forward rate guidance pledges to keep interest rates low for a "considerable time" after the bond-buying program ends. In July, the FOMC changed its policy statement to note that a range of labor market indicators suggests there remains a "significant underutilization of labor resources." And, in October, the Fed offered a more upbeat assessment of the labor market, striking its characterization of labor underutilization as "significant" and replacing it with "gradually diminishing."

IHS Economics believes the Fed is likely to keep its forward guidance vague so long as market and committee expectations remain in line. In the November baseline, the Federal Reserve begins to raise the federal funds rate in June 2015, consistent with FOMC members' assessment of the appropriate timing of policy firming. IHS believes that the tone of the Fed's latest policy statements has been decidedly dovish, and that the pace of interest rate hikes will be slow in 2015 and 2016.

Global Economy. Global economic activity is slowly strengthening, but the outlook is diverging between major economies. Among advanced economies, the U.S., the United Kingdom, and Canada continue to improve at a healthy pace. But growth in Japan and the Eurozone this year has been weak. In emerging market economies, slower growth is the dominating factor. The Chinese economy is undergoing a structural adjustment that is expected to result in slower economic growth rates in the medium term. In other emerging market economies, like Brazil and Russia, weaker investment and currency values are weighing on growth.

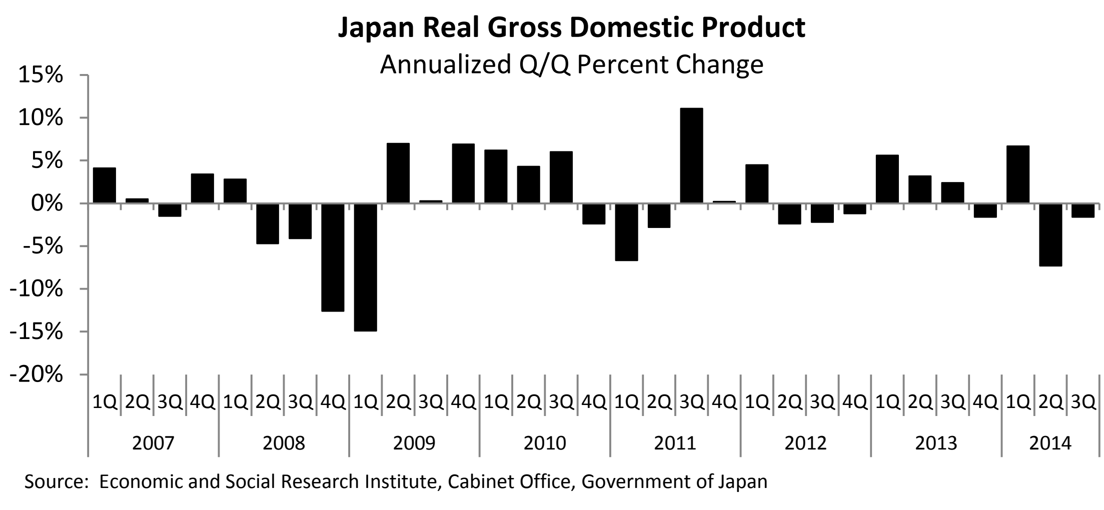
In Europe, the economic recovery remains disappointing. Growth has weakened, most notably among the largest countries: Germany, France, and Italy. Unemployment across the Eurozone is still stubbornly high, with the jobless rate among youth near 25 percent on average. The region is also experiencing a sustained period of excessively low inflation. The CPI inflation in the euro zone increased a mere 0.3 percent in the 12 months ending in September, the lowest since 2009 and well below the European Central Bank's (ECB) target of just below 2 percent. Excessively low inflation makes it more difficult for troubled nations on the Eurozone's periphery, such as Greece and Portugal, to achieve the relative price adjustments needed to regain competitiveness without having to withstand a protracted period of weak growth and high unemployment. Inflation near zero also raises the risk of slipping into outright deflation, which could cause consumers and businesses to delay purchases, destabilize already high debt burdens, and prolong economic stagnation.



The Eurozone is experiencing a sustained period of excessively low inflation. The CPI inflation in the euro zone increased a mere 0.3 percent in the 12 months ending in September, the lowest since 2009.

With the Eurozone economy on the cusp of a third recession in six years, tensions between European leaders appear to be only deepening. Europe's strongest economy, Germany, continues to insist that austerity policies are a pre-condition to financial stability. But critics of austerity, including France and Italy, contend that the fiscal discipline meant to curb deficits and restore growth is instead suppressing demand and stifling the recovery. Thus, progress toward dealing with the financial and structural challenges that face the Eurozone has remained limited, placing added pressure on the ECB to act more aggressively. In September, the ECB cut its key interest rates to new all-time lows and introduced new stimulus plans to keep low inflation from derailing the Eurozone's weak economy. In November, ECB President Mario Draghi said the central bank would be open to more drastic measures to prevent the Eurozone from sliding into deflation, including large-scale purchases of sovereign bonds. IHS expects Europe's recovery to be slow and bumpy. In the November baseline, real GDP growth in the Eurozone is projected to rise just 0.8 percent in 2014 and 1.4 percent in 2015.

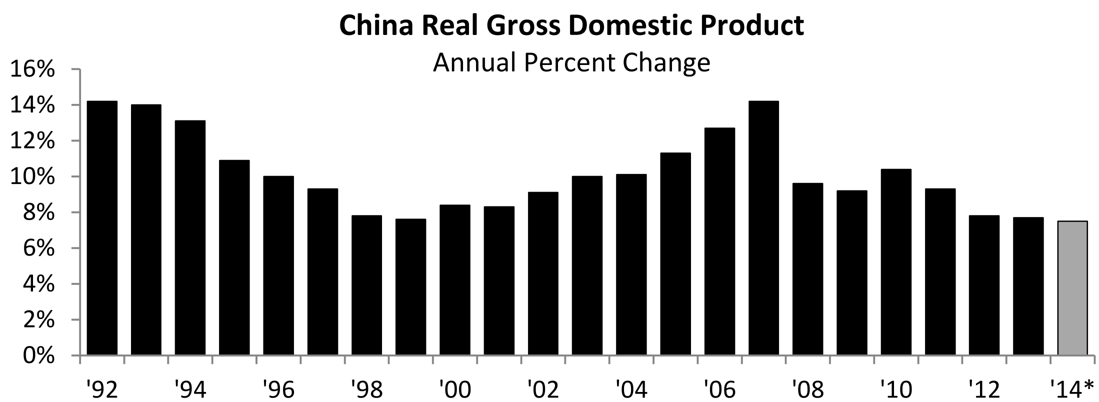
In Japan, a nationwide sales tax increase that took effect in April has tripped the country back into recession, the country's fourth since 2008. Prime Minister Shinzo Abe's new economic strategy, known as "Abenomics," promises to embrace a bold policy mix of aggressive monetary easing, massive fiscal stimulus, and growth-oriented structural reforms in an attempt to reverse more than a decade of economic stagnation and chronic deflation. The Bank of Japan's (BOJ) highly simulative policies since early 2013 temporarily helped weaken the Japanese yen, strengthen exports, revive business sentiment, and boost demand and prices. Inflation rose in 2013 for the first time since 2008, the unemployment rate hit a 16-year low earlier this year, and Japan's real GDP grew 1.5 percent in 2013, up slightly from 1.4 percent in 2012. However, the adverse impacts of a consumption tax hike earlier this year meant to rein in public debt were more severe than expected. Japan's real gross domestic product fell at an annual rate of 7.3 percent in the second quarter of 2014 following, followed by 1.6 percent contraction in the next quarter. Price weakness this year is also causing problems for the BOJ, which unexpectedly announced that it would buy larger quantities of government debt in late October.



A nationwide sales tax increase that took effect in April has tripped Japan back into recession, the country's fourth since 2008.

The Abe government has postponed a second and final phase of the sales tax hike that was set for the fall of 2015 by 18 months, until April 2017, and called a snap election for December. In the November baseline, IHS Economics expects real GDP in Japan to rise 1.0 percent in 2014 and 1.1 percent in 2015. The longer-term outlook will depend on progress with the government's growth-oriented structural reforms, mainly deregulation of the labor market. The initiative is intended to stoke inflation and keep borrowing costs low and encourage spending.

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. In 2014, 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 investment toward more balanced and sustainable consumer-led growth. The International Monetary Fund (IMF) believes this shift will continue to require structural reforms to the financial sector, state-owned enterprise, and local government, as well as a more market-based exchange rate system. This tradeoff is likely to result in slower economic growth rates in the medium term. IHS Economics expects real GDP growth in China to moderate to a more sustainable pace of 7.0 percent in 2015.



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

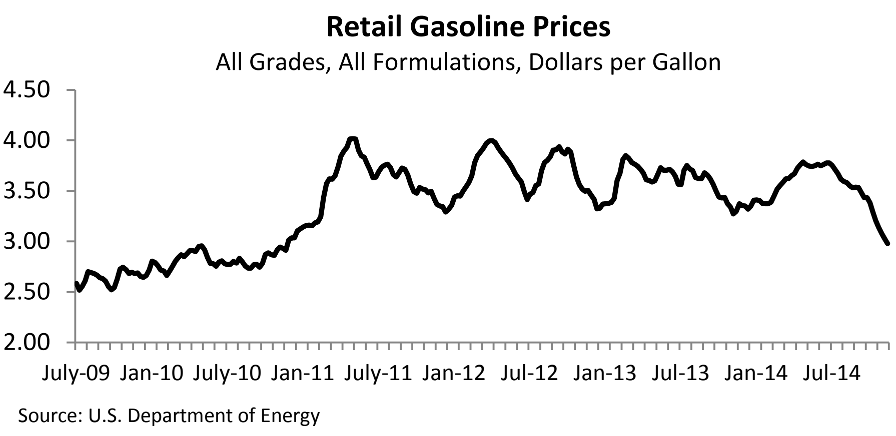
Chinese policymakers are attempting to reduce the risk of a sharp and prolonged slowdown, or hard landing, by deliberately steering the economy away from its heavy reliance on exports and credit-fueled investment toward more balanced and sustainable consumer-led growth.

Meanwhile, other major emerging market economies, such as India and Mexico, are experiencing a slight improvement in 2014, as optimism about economic reforms and progress to control inflation are contributing to better growth. In Russia and Brazil, however, a major slowdown is reflected by weak investment, high inflation, and currency devaluation. Russia's economy is balancing on the edge of a fresh recession, further affected by tighter Western sanctions due to the political situation in Ukraine and sagging oil prices. And Brazil fell into recession in the first half 2014, as weak competitiveness, low confidence, and uncertainty about this year's presidential elections have also constrained growth.

IHS Economics expects economic growth of the United States' major-currency trading partners to pick up slightly in 2015 and 2016, with stronger growth in the Canada and Europe. The economies of other important trading partners, such as Mexico, Brazil and India, are also expected to grow faster over the next two years. IHS assumes world real GDP will increase 2.7 percent in 2014, before accelerating to 3.1 percent growth in 2015 and 3.6 percent growth in 2016. Likewise, U.S. export growth is expected to rise 3.3 percent in 2014, 2.9 percent in 2015 and 4.3 percent in 2016. Net trade, however, will remain a drag on growth as imports pickup from an improving U.S. economy.

Inflation. The Bureau of Labor Statistics (BLS) reports its headline inflation measure, the Consumer Price Index (CPI), has risen 1.8 percent thus far in 2014 (measured third-quarter to third quarter), up from just 1.5 percent during the same period in 2013. Weaker prices for energy commodities, such as gasoline, have helped offset rising prices for rent and food. Sluggish global demand and increasing supplies in the U.S. have put downward pressure on crude oil prices, as retail gasoline prices in particular are about $0.32/gallon lower than last year and $0.52/gallon below two years ago.

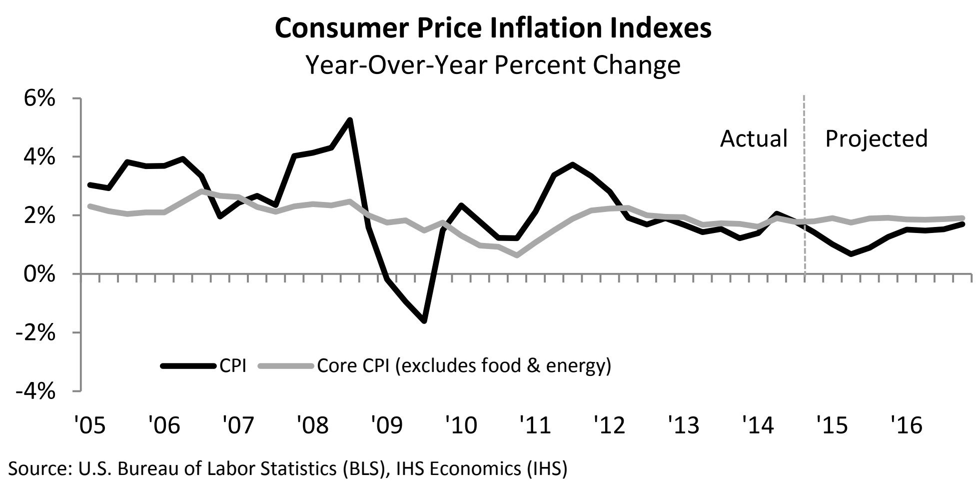
Food prices are on the rise, as disease and ongoing drought conditions are driving up prices for many agricultural goods. Pork prices have jumped sharply this year, hurt by a viral epidemic that has been killing off piglets. And, according to the U.S. Department of Agriculture (USDA), the ongoing drought in states such as Texas, Oklahoma, and California has helped reduce the overall U.S. cattle herd to its smallest size in over 60 years. As a result, the USDA estimates that the CPI for meat prices will rise as much as 7 percent in 2014, with higher increases projected for beef and pork. Overall grocery prices are estimated to rise up to 3.5 percent this year. Over the past 10 years, food prices have risen by an average of 2.7 percent, compared to 2.2 percent for all goods and services.



Sluggish global demand and increasing supplies in the U.S. have put downward pressure on crude oil prices, as retail gasoline prices in particular are about $0.32/gallon lower than last year and $0.52/gallon below two years ago.

Underlying inflation pressures remain cool. Excluding more volatile prices of food and energy, the core CPI is up 1.8 percent in 2014 (third-quarter to third quarter), a slight increase from 1.7 percent the year before. Rents have continued to climb at a strong pace. The cost of shelter, which includes rents, has extended its steady ascent, rising 2.9 in 2014, compared to 2.4 percent in 2013. But an easing of other services, such as medical care, and goods prices have helped more than offset the acceleration in rents. The CPI for medical care services has eased to 2.1 percent in 2014, after increasing 2.9 percent in 2013. The CPI for apparel is up 0.3 percent in 2014, compared to 1.4 percent in 2013. And finally, the BLS index for new and used vehicles has been virtually flat for the last three years.

Overall, the near-term outlook for consumer prices remains quiet. IHS Economics believes the prospects for stabilizing meat prices are good, but it will take time to rebuild herds. In the meantime, their forecast of headline prices is little different from the experience of the last two years, "other than that going to the meat department has become as traumatic as going to the gas station used to be." In the November baseline, IHS expects the headline CPI to increase 1.4 percent (measured fourth-quarter to fourth-quarter) in 2014, 1.3 percent in 2015, and 1.7 percent in 2016. IHS expects Core CPI inflation to accelerate slightly from 1.8 percent in 2014, to 1.9 percent in 2015 and 2016, or nearer the Federal Reserve's 2 percent longer run objective.



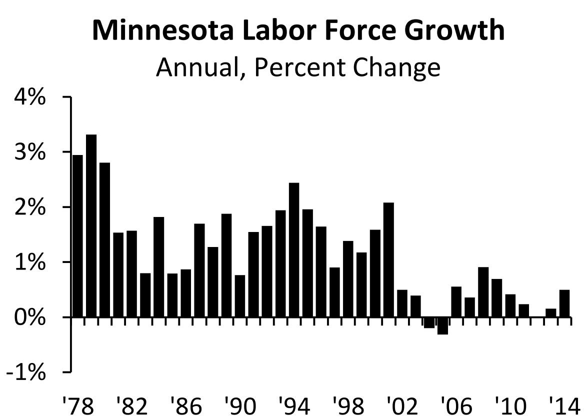
Weaker prices for energy commodities, such as gasoline, have helped offset rising prices for rent and food. The near-term outlook for consumer prices remains quiet.

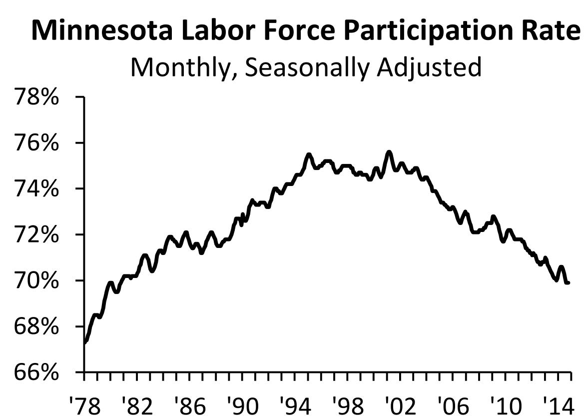
Minnesota Economic Outlook

Minnesota's expansion continues to make steady progress. The Bureau of Economic Analysis (BEA) reports the state's real GDP rose 2.8 percent in 2013, a full percentage point faster than the nation, and most indicators suggest the labor market has tightened up considerably in 2014. Minnesota's jobless rate dropped to 3.9 percent in October, the fifth lowest among states and matching the low point of the previous 2002-2007 economic expansion. Unemployment has fallen across age, gender, and racial cohorts. The number of long-term unemployed and the rate of involuntary part-time employment have fallen sharply as well. However, Minnesota's labor force growth remains very weak and wage pressures have yet to emerge. Moreover, the state's housing recovery has stalled in part due to unexpectedly slow household formation. As a result, MMB's Minnesota economic outlook has weakened since it was last prepared in February.

Forecasts for state employment and wages have been revised based on recent Minnesota specific information and IHS Economics' November 2014 baseline. The November baseline informed a newly re-estimated Minnesota Management and Budget (MMB) model of the Minnesota economy. That model has incorporated preliminary information on revisions to Minnesota's non-farm payroll employment and income tax withholding collections.

MMB's November 2014 economic forecast calls for Minnesota's expansion to continue to accelerate over the next several years, but at a slower pace than the national average. Employment growth is expected to remain modest in 2015 and 2016, and the pace of wage growth is projected to steadily pick up steam. This reflects improvements in household formation and labor force growth, a rebound in labor productivity, and stronger consumer and business fundamentals in the broader U.S. economy.





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

Minnesota's labor force growth remains very weak and the labor force participation rate continues to wane. As a result, MMB's Minnesota economic outlook has weakened since it was last prepared in February.

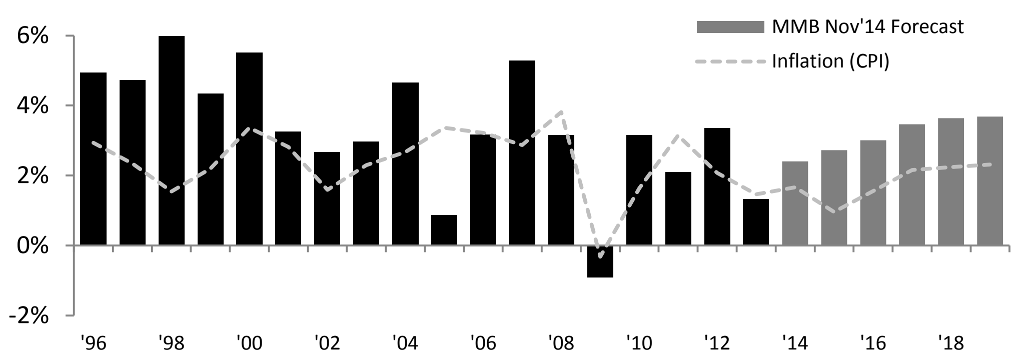
Minnesota total non-farm employment rose a more modest 1.4 percent in 2014, following a 1.7 percent increase in 2013. In MMB's November 2014 economic forecast, Minnesota employment growth is forecast to maintain a similar pace of 1.7 percent in 2015 and 1.5 percent growth in 2016. In February 2014, MMB's forecast called for similar job growth of 1.6 percent in 2014, followed up by stronger gains of 2.2 percent in 2015 and 2.1 percent in 2016. MMB's employment forecast for 2015 and 2016 is similar to IHS Economics' November 2014 baseline forecast for U.S. job growth, which calls for 1.4 percent growth in 2014, followed by 1.9 percent growth in 2015 and 1.5 percent growth in 2016.

Nominal wage income grew 3.1 percent in 2013, dampened by what appears to be an accelerated payout of bonuses and exercising of options in late 2012 ahead of anticipated federal tax increases. Information from the BEA, Quarterly Census of Employment and Wages (QCEW) and income tax withholding collections suggests wage growth rebounded to 3.9 percent in 2014, weaker than the 5.0 percent growth expected in February. Wage income is now expected to accelerate to 4.4 percent growth in 2015 and 4.6 percent growth in 2016. In February, MMB's forecast called for stronger growth of 5.3 percent in 2015 and 5.2 percent in 2016. IHS Economics' November 2014 baseline forecast for U.S. wage income calls for growth of 4.9 percent in 2014, followed by 4.8 percent growth in 2015 and 2016.

MMB's Minnesota economic forecast assumes that IHS Economics' November 2014 baseline forecast of the U.S. economy materializes. Any unanticipated adverse developments in the U.S. economy, such as a longer than expected downshift in U.S. productivity, labor force growth, or household formation, will have unfavorable effects on the Minnesota economy.

Minnesota Average Nominal Wage and Salary Disbursement

Annual Percent Change, Ratio of Total Wage and Salaries to Total Employment



Source: Buearu of Economic Analysis (BEA); Minnesota Department of Employment and Economic Development (DEED); Minnesota Management & Budget (MMB)

Minnesota's jobless rate dropped to 3.9 percent in October, matching the low point of the previous 2002-2007 economic expansion. However, Minnesota's labor force growth remains very weak and wage pressures have yet to emerge.

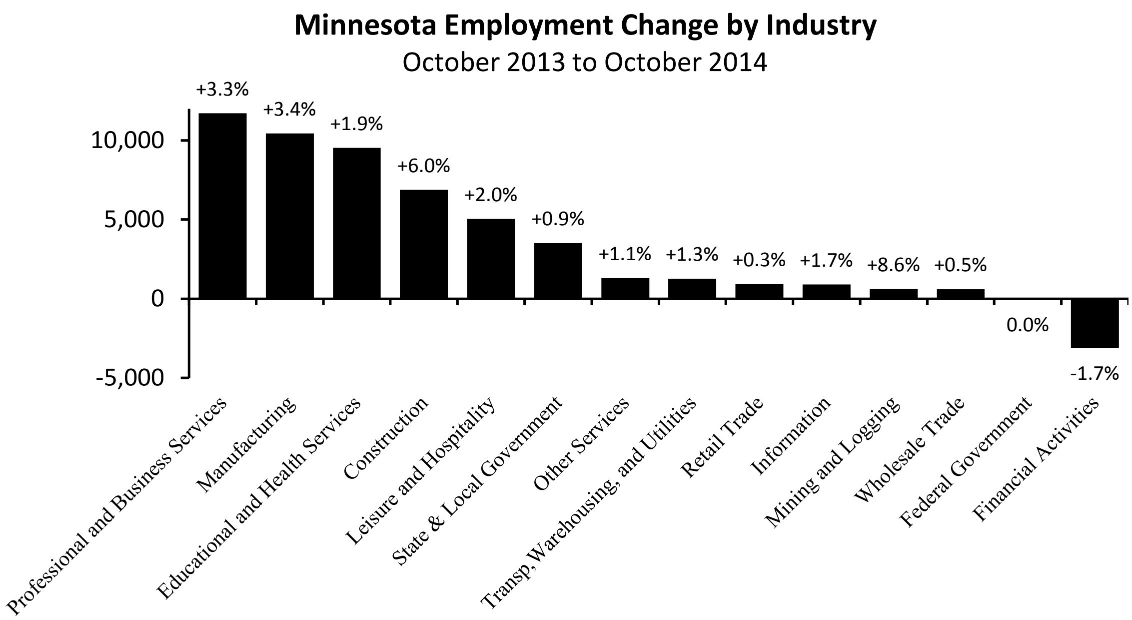
Forecast Comparison: Minnesota & U.S.

Forecast 2014 to 2019, Calendar Years

	2012	2013	2014	2015	2016	2017	2018	2019
Total Non-Farm Payroll Employment (Thousands)								
Minnesota								
November 2014	2,731	2,778	2,818	2,864	2,908	2,941	2,967	2,989
%Chg	1.6	1.7	1.4	1.7	1.5	1.2	0.9	0.7
February 2014	2,730.9	2,776.6	2,820.0	2,881.3	2,942.0	2,991.2	3,025.1	3,047.7
%Chg	1.6	1.7	1.6	2.2	2.1	1.7	1.1	0.7
U.S.								
November 2014	134,098	136,363	138,838	141,411	143,464	145,299	146,562	147,651
%Chg	1.7	1.7	1.8	1.9	1.5	1.3	0.9	0.7
February 2014	133,737	135,927	138,169	141,210	144,194	146,679	148,350	149,458
%Chg	1.7	1.6	1.6	2.2	2.1	1.7	1.1	0.7
Wage and Salary Disbursements (Billions of Current Dollars)								
Minnesota								
November 2014	135.6	139.7	145.1	151.6	158.5	165.9	173.4	181.2
%Chg	5.0	3.1	3.9	4.4	4.6	4.7	4.5	4.5
February 2014	135.4	140.1	147.1	154.9	162.9	170.7	178.0	185.1
%Chg	4.8	3.5	5.0	5.3	5.2	4.7	4.3	4.0
U.S.								
November 2014	6,932	7,125	7,476	7,831	8,210	8,631	9,058	9,504
%Chg	4.5	2.8	4.9	4.8	4.8	5.1	5.0	4.9
February 2014	6,927	7,138	7,435	7,837	8,254	8,666	9,060	9,449
%Chg	4.3	3.0	4.2	5.4	5.3	5.0	4.5	4.3
Non-Wage Personal Income (Billions of Current Dollars)								
Minnesota								
November 2014	119.3	117.7	120.9	126.6	133.4	141.6	149.0	155.7
%Chg	5.9	-1.3	2.7	4.7	5.4	6.2	5.2	4.5
February 2014	117.0	118.4	121.8	127.1	133.7	141.1	148.7	155.8
%Chg	4.3	1.2	2.9	4.4	5.2	5.5	5.4	4.8
U.S.								
November 2014	6,956	7,042	7,290	7,573	7,960	8,448	8,884	9,323
%Chg	5.9	1.2	3.5	3.9	5.1	6.1	5.2	4.9
February 2014	6,817	6,996	7,261	7,609	8,025	8,507	8,979	9,441
%Chg	4.0	2.6	3.8	4.8	5.5	6.0	5.6	5.1
Total Personal Income (Billions of Current Dollars)								
Minnesota								
November 2014	254.9	257.5	266.1	278.1	291.9	307.5	322.4	336.9
%Chg	5.4	1.0	3.3	4.5	5.0	5.3	4.8	4.5
February 2014	252.4	258.5	268.9	282.1	296.6	311.7	326.6	340.8
%Chg	4.6	2.4	4.0	4.9	5.2	5.1	4.8	4.3
U.S.								
November 2014	13,888	14,167	14,766	15,404	16,170	17,079	17,943	18,827
%Chg	5.2	2.0	4.2	4.3	5.0	5.6	5.1	4.9
February 2014	13,744	14,133	14,696	15,446	16,278	17,173	18,039	18,889
%Chg	4.2	2.8	4.0	5.1	5.4	5.5	5.0	4.7

Source: IHS Economics and Minnesota Management and Budget (MMB)

Employment. The latest employment news remains positive. According to October's employer survey released by the Minnesota Department of Employment and Economic Development (DEED), the state added almost 50,000 net new jobs, or 1.8 percent, in the past year, slightly less than the national rate of 2.0 percent. The private sector has added 46,000 jobs, or 1.9 percent, short of the national rate of 2.3 percent. Those employment gains continue to be broad based, particularly in the goods-producing sector. Minnesota has benefitted from the oil and gas boom in neighboring North Dakota, which has helped boost parts of construction, mining, and manufacturing activity. Strength in Minnesota factories has been led by fabricated metal products and transportation equipment. The state's overall improved performance, however, is largely a reflection of its well-educated workforce, a diverse economic base, and the presence of several large corporate headquarters.



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

Minnesota's employment gains continue to be broad based, particularly in the good-producing sector. Minnesota has benefitted from the oil and gas boom in neighboring North Dakota, which has helped boost parts of construction, mining, and manufacturing.

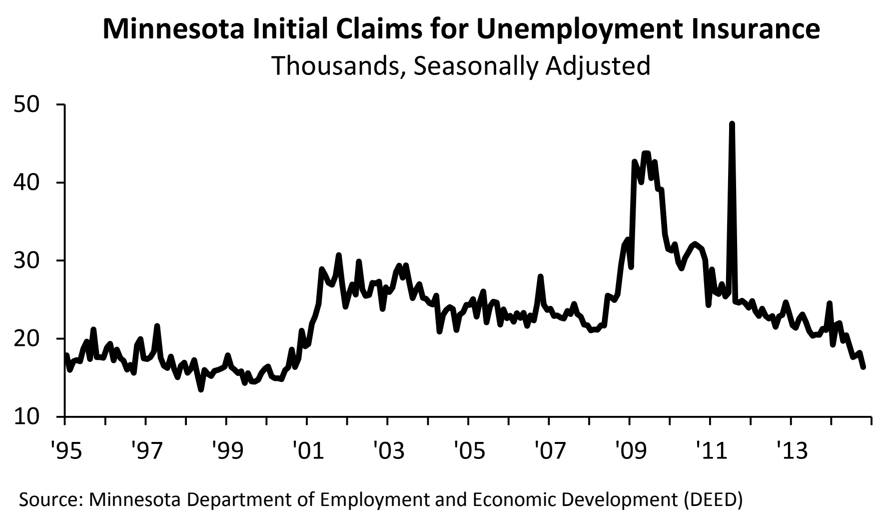
Each year DEED realigns Minnesota's monthly, sample-based employment estimates with state unemployment insurance (UI) tax records filed by nearly all employers, a process referred to as benchmarking. Based on UI records for the first quarter of 2014, MMB estimates that currently published total nonfarm employment through March 2014 will be revised downward by about by 0.3 percent, or about 7,000 jobs, when annual benchmark revisions are released in the spring. For comparison, the Bureau of Labor Statistics' (BLS) preliminary estimate of the upcoming annual benchmark revision indicates an upward adjustment to March 2014 total nonfarm employment of less than 0.05 percent. Once incorporated, these benchmark revisions are likely to demonstrate that Minnesota employment will to have grown at about the same pace as the U.S. on an annual basis in 2013 and about 0.4 percent slower than the national average in 2014.

Economists at MMB believe this relative underperformance to be consistent with the state returning to full employment before the U.S.

Minnesota Management and Budget's November 2014 economic forecast calls for revised employment growth of 40,900 in 2014 (measured fourth quarter to fourth quarter), down from 45,600 in 2013 and 44,200 in 2012. The prospects for 2015 are somewhat stronger, with job gains rising to 47,200, led by construction, healthcare, and professional and business services. Employment growth slows again in 2016 and 2017 due to accelerating labor productivity gains, which hold down job growth.

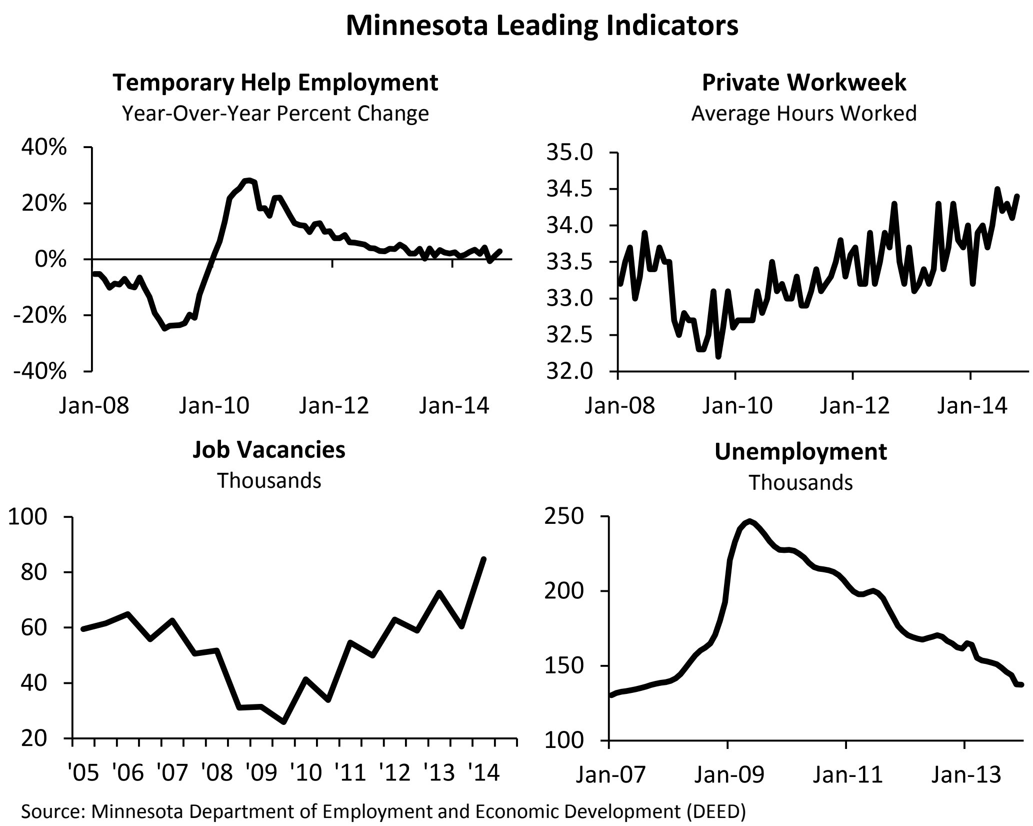
Labor Market Slack. Minnesota's labor market has tightened up considerably in 2014. Steady job growth has helped push Minnesota's unemployment rate down almost a full percentage point in the past year, to 3.9 percent in October. This matches the low point of the previous 2002-2007 economic expansion and resembles what MMB economists consider healthy. DEED reports unemployment has fallen across age, gender, and racial cohorts. The number of officially long-term unemployed (6 months or longer) is less than half what it was in mid-2010, and the rate of involuntary part-time employment has fallen sharply as well.

Fewer people being laid off also suggest that labor market conditions are tightening. According to DEED, the number of Minnesotans filing new claims for unemployment benefits, generally barometer of short-term labor market trends, has averaged about 18,000 (seasonally adjusted) per month since May, down from a recessionary peak of nearly 44,000 during the summer of 2009 and back to levels not seen since the late 1990s, after adjusting for population growth.



Fewer people being laid off also suggest that labor market conditions are tightening. The number of Minnesotans filing new claims for unemployment benefits has dropped to levels not seen since the late 1990s, after adjusting for population growth.

Other leading indicators, such average hours worked, temporary help employment, and job vacancies are also at levels consistent with a firming labor market. The average workweek in the private sector, for instance, has risen to all-time highs (dating back to 2008) in 2014. Temporary help jobs, often a bellwether of employment growth, have settled in to healthy growth path. Finally, in early October, DEED reported that the number of job vacancies in Minnesota reached a 13-year high during the second quarter of 2014. Employers registered about 85,000 openings, up almost 17 percent from a year earlier. That worked out to about 1.6 unemployed people for each vacancy last spring, down from 2.1 a year earlier and the lowest ratio observed since late 2001.



Minnesota's leading employment indicators, such average hours worked, temporary help employment, and job vacancies are at levels consistent with a firming labor market.

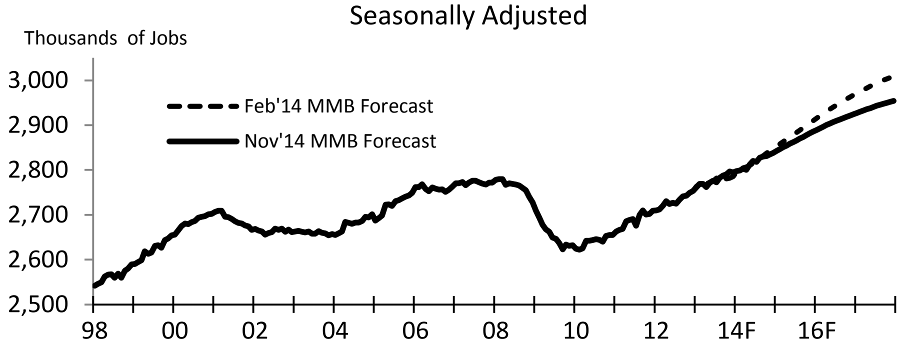
Despite recent momentum, wage growth remains modest. The average hourly wage rate for all private sector employees in Minnesota has averaged only about 2 percent annual growth since the recession ended more than five years ago, while real hourly compensation growth has been flat. The state's labor force participation rate also remains very weak. The portion of working-age Minnesotans who have or are looking for a job has dropped from about 72 percent near the start of the recession in December 2007, to just below 70 percent this past October, a 34-year low. 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. DEED figures show that the number of discouraged workers in Minnesota has fallen close to normal, pre-recession levels this year, and remains below 10,000, suggesting much of the drop in labor force participation is more likely a result of demographic forces related to Minnesota's aging population. Indeed, between 2007 and 2013, the number of retired Minnesotans age 65 and older drawing social security benefits rose by about 114,000, a labor force exodus that could account for about a 1.5 percentage point drop in the state's labor force participation rate compared to previous trends. In addition, it appears teens and young adults have increasingly chosen to stay in or return to school rather than face the difficult job market, a trend that predates the Great Recession.

In the November 2014 economic forecast, Minnesota's labor market inches closer to its full potential over the next few years. The state's unemployment rate is likely to decline further in coming months as more slack in the job market is taken up by an improving economy. Better economic fundamentals nationally and in Minnesota also support an upturn in productivity, and thereby an acceleration in wage growth. Improved job prospects and faster wage growth encourage some people to reenter the labor force, thus slowing the decline in Minnesota's labor force participation rate throughout much of the forecast horizon. As a result, annual labor force growth is assumed to pick up steadily, from an average of just 0.2 percent between 2010 and 2013, to 0.5 percent in 2014, to an average of about 0.8 percent between 2015 and 2017. Beyond that, Minnesota's labor market settles into full employment, and job growth becomes increasingly constrained to the market supply of labor. Thus, barring sizeable increases in domestic and international migration or an unexpected pick up in labor force participation, MMB economists believe annual job growth in the medium-term may be constrained to increases of only 10,000 to 25,000 jobs. By comparison, actual employment has increased an average of about 45,000 in the past three years.

Economists at MMB believe that without sustainable, short-term improvements in supply of labor, such as notable deceleration in falling participation rates, Minnesota's economy is unlikely to perform as forecast.

Minnesota Total Non-Farm Employment

Seasonally Adjusted



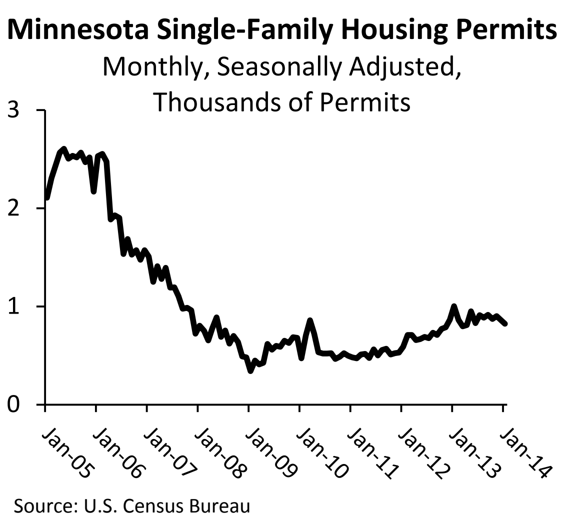
Source: Minnesota Department of Employment and Economic Development (DEED), Minnesota Management & Budget (MMB)

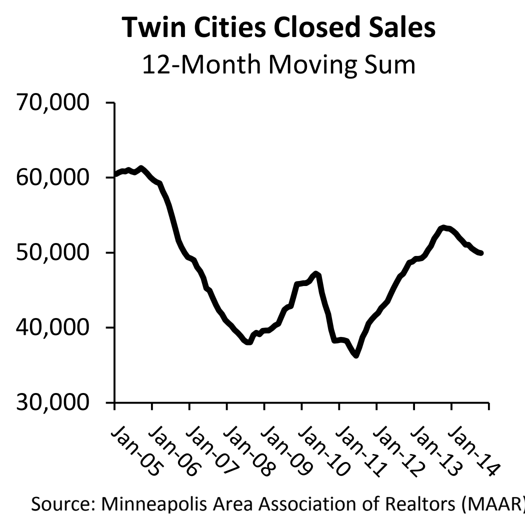
MMB's Minnesota economic outlook has weakened since it was last prepared in February, reflecting weaker than expected labor force growth and household formation.

Housing. Minnesota's housing recovery appears to have stalled. Housing activity lost some momentum at the start of the year, in part due to severe winter weather and waning investor demand. But MMB economists believe persistently weak home sales and single-family permits in Minnesota over the past 18-months may be a direct reflection of surprisingly low household formation.

Last September, the U.S. Census Bureau released the American Community Survey's (ACS) 2013 estimate of the number of households in Minnesota. Measuring the number of households is difficult and full of uncertainties, especially at the state-level, but the 1-year ACS estimate found only 8,000 net new households were added in the 12-months ending on July 1, 2013, far fewer than the 15,000 the year before and the long-term annual trend of 24,000 households. The causes appear to be attributable to a less mobile and more stable aging population, slower immigration, and more young adults sharing homes due to a sluggish job market and heavy student loan debts.

Household formation is a key driver of demand for housing. Slower formation restrains housing sales and starts. Thus the sharp slowdown in the past year helps explain why Minnesota's housing recovery has recently been sluggish, despite an improving labor market. In the Twin Cities area, for instance, the Minneapolis Area Association of Realtors (MAAR) reports closed sales have unexpectedly declined 7.1 percent during the first 10 months of 2014 relative to the same period last year. Likewise, the Census Bureau reports the total number of authorized residential building permits in Minnesota is on pace to improve only marginally in 2014, to 17,300, compared to 2013, when housing permits totaled 16,800 and the long-term annual trend of 30,000 permits. This small improvement is dominated by the multifamily sector. Single-family permitting is actually on pace to fall to 10,400 this year, from 10,600 last year.





MMB economists believe persistently weak home sales and single-family permits in Minnesota over the past 18-months may be a direct reflection of surprisingly low household formation.

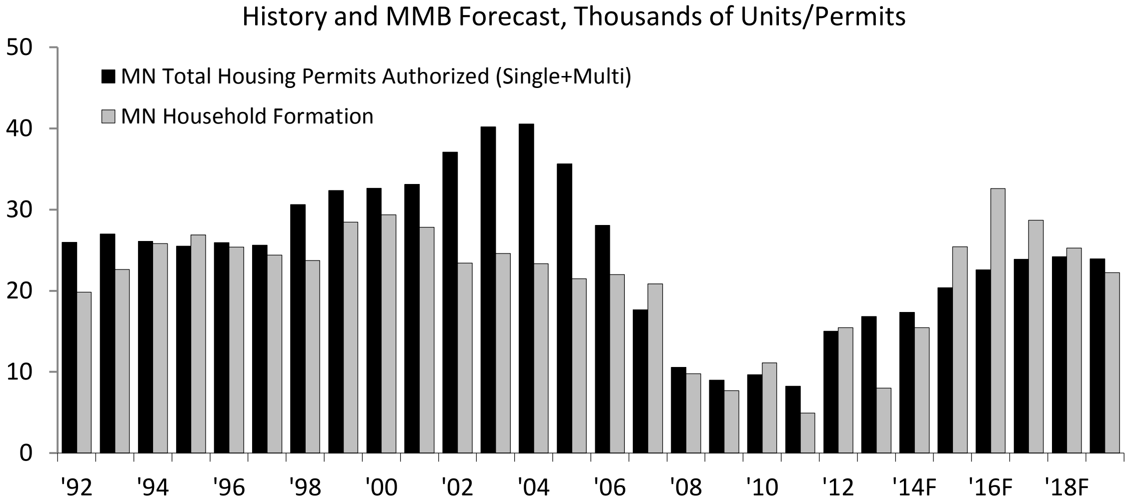
In MMB's November 2014 forecast, annual household formation is expected to rise to 16,000 in the third quarter of 2014, to 27,000 in the third quarter of 2015, and to 33,000 in the third quarter of 2016, consistent with improving economic fundamentals nationally and in Minnesota. In February 2014, household formation was forecast to rise at a much faster pace, to 32,000 in the third quarter of 2014, to 30,000 in the third quarter of 2015, and to 28,000 in the third quarter of 2016. With inventories at historic lows and demand for new home construction steadily improving, permits are similarly expected to continue strengthening. Total housing permits are estimated to increase by just 3.1 percent in 2014 (to 17,300), then by 17.5 percent in 2015 (to 20,400) and 10.8 percent in 2016 (to 26,400). In February 2014, housing permits were forecast to rise at a faster pace to 23,000 in 2014, followed by 28,000 in 2015 and 30,000 in 2016.

The employment rebound in construction generally lags the recovery in building permits by between 6 and 9 months, thus a partial "catch up" period is assumed in the forecast. In the November 2014 forecast, construction employment growth is forecast add 6,300 jobs (or 6.3 percent) measured fourth quarter to fourth quarter in 2014, 5,800 jobs (5.3 percent) in 2015, and 3,200 jobs (2.8 percent) in 2016. In February 2014, construction employment growth was forecast to be slightly stronger, rising 5.9 percent in 2014, 6.4 percent in 2015, and 3.0 percent in 2016.

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.

Minnesota Household Formation and Total Housing Permits

History and MMB Forecast, Thousands of Units/Permits



Source: U.S. Census Bureau; Minnesota Management and Budget (MMB)

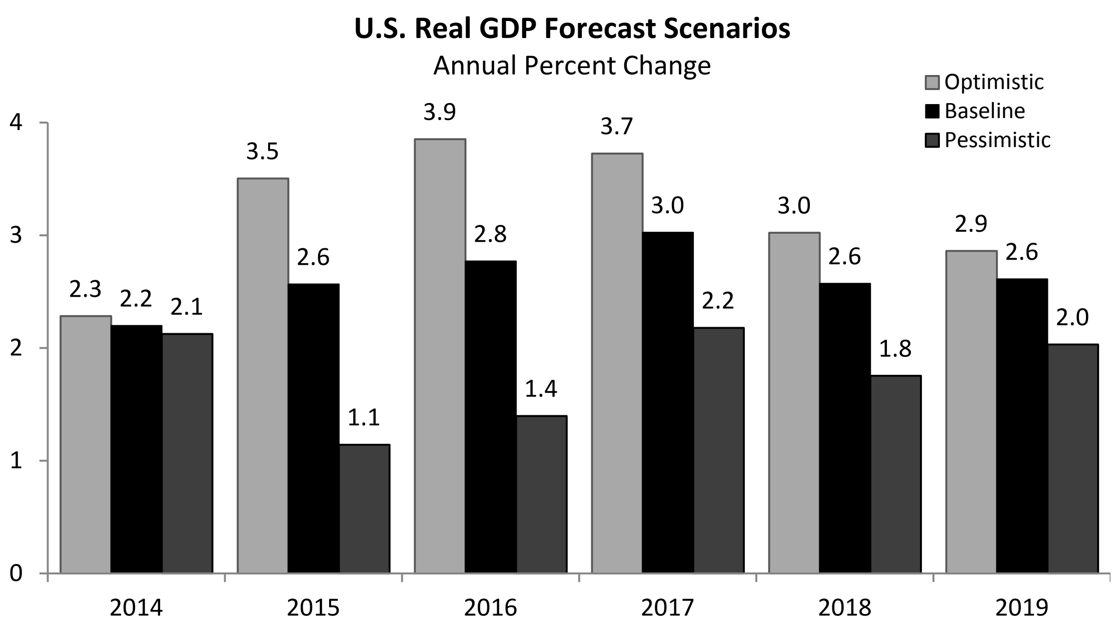
The sharp slowdown in household formation in 2013 helps explain why Minnesota's housing recovery has recently been sluggish. Causes appear to be attributable to a less mobile and more stable aging population, slower immigration, and more young adults sharing homes due to a sluggish job market and heavy student loan burdens.

Council of Economic Advisors' Statement

Minnesota's Council of Economic Advisors (CEA) met on November 10, 2014 to review the IHS Economics (IHS) projections for U.S. economic growth, and thereby underlying assumptions on which Minnesota's November 2014 *Budget and Economic Forecast* is based. They noted that since February, IHS has lowered their growth expectations for each year from 2014 to 2019. The largest changes occur in the earlier years, with the forecasts for 2014 to 2016 reduced about half a percentage point per year.

In February, IHS expected real GDP to grow at an annualized rate of 1.9 percent in the first quarter of 2014, in what they described as a "distinct slowdown" from growth in the second half of 2013. In fact, the Bureau of Economic Analysis (BEA) now reports that GDP contracted at a 2.1 percent annual rate at the beginning of 2014. In addition to the unexpected first quarter contraction, IHS attributes their lower growth expectations in 2014 and 2015 to surprisingly weak household formation that has dampened their housing market outlook.

IHS's November 2014 baseline is similar to that of other macroeconomic forecasters. The November Blue Chip Consensus forecast of 2.2 percent growth in 2014 matches IHS's forecast. For 2015, IHS expects slower growth than the consensus: 2.6 percent compared to 3.0 percent for Blue Chip. In October Blue Chip reported long-range consensus forecasts for 2016-2019. For each year in the remainder of the forecast horizon, the IHS growth forecast is in the middle range of the forecasts making up the consensus.



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

Minnesota's Council of Economic Advisors agreed that IHS Economics' baseline expectations for U.S. economic growth serve as a reasonable starting point for producing MMB's November 2014 Budget and Economic Forecast.

Council members agreed that the contraction in the first quarter of 2014 was primarily due to one-time factors, such as inventory adjustments and bad weather, which have since resolved. For example, they noted that recent job growth has been solid, with the economy adding a monthly average of 227,000 jobs since the start of the year, compared to 194,000 per month over 2013.

Council members acknowledged risks to U.S. growth over the forecast period. A persistently weak European economy, international political disruptions, and continued sluggish U.S. wage growth can all lead to lower-than-forecast economic performance. On the other hand, sustained low energy prices and a stronger housing market could bring about faster growth than IHS expects. All members agreed that IHS's baseline expectations for U.S. growth are reasonable. Regarding forecast risks, they believe that for 2015-2017, the potential for faster growth exceeds the threat of the economy growing more slowly than IHS predicts. They also think that the difficulty of projecting long range economic conditions warrants caution when using forecasts for 2018 and 2019.

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 noted 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 February 2014 Budget and Economic Forecast understated projected spending for FY 2016-17 by more than $1 billion, and thus made the difference between projected revenues and spending appear to be larger than it actually is. This distortion will increase if and when inflation accelerates from current historically low levels.

Council members noted that actions taken during the 2014 legislative session and signed into law by the governor significantly strengthen Minnesota's budget reserve policy. Nevertheless, the state's funded 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 $811 million budget reserve is about 4.0 percent of projected fiscal year 2015 revenues. If the cash flow account ($350 million) is included, reserves are about 5.9 percent of annual revenues.[1]

[1] These figures reflect the levels of reserves and projected revenues at the time of the Council meeting on November 10, 2014. With the subsequent release of the November 2014 *Budget and Economic Forecast*, the values have been updated.

BUDGET OUTLOOK

Current Biennium

The last *Budget & Economic Forecast* was released in February 2014. It projected a $1.233 billion forecast balance in the current biennium. Actions in the 2014 legislative session included tax reductions, spending changes, capital project funding and a transfer to the budget reserve that left a projected $32 million balance at the end of the biennium and $1.161 billion in the state's cash flow and budget reserve accounts.

November's forecast shows a slight improvement in the state's financial position with seven months remaining in the biennium. Forecast revenues are now expected to be $39.371 billion, up $279 million (0.7 percent) from estimates at the end of the 2014 legislative session in May. Biennial spending is now projected to be $39.338 billion, a decline of $249 million (0.6 percent) from prior estimates. A small increase in the stadium reserve of $5 million offsets the spending and revenue changes leaving a forecast balance of $556 million. However, statute automatically allocates 33 percent of a positive budgetary balance in the current biennium to the budget reserve account. After $183 million is transferred to the budget reserve, the available balance at the end of the current biennium is projected to be $373 million.

FY 2014 Close. In August, the books were officially closed for the fiscal year that ended June 30, 2014. FY 2014 ended with a general fund balance of $656 million, $367 million above previous estimates. This gain, representing "money in the bank", accounts for about two thirds of the change in the forecast for the current biennium.

FY 2014 total revenues, transfers and other resources were $219 million higher than previously forecast. Final non-dedicated revenues, both taxes and non-tax revenue, were $185 million higher. Much of the increase in the revenue for FY 2014 is due to higher income tax collections and slightly higher than expected net sales tax receipts. These increases were offset by lower than expected FY 2014 corporate tax receipts.

Forecast changes for other resources, including transfers from other funds and prior year adjustments, added $33 million to the bottom line. Prior year adjustments totaled $59 million, $34 million over estimates. Prior year adjustments reflect savings occurring from cancellation of encumbrances (contracts, grants, or purchase orders) or revenues deposited after the close of the fiscal year attributable to *prior fiscal years*. These are reflected as adjustments in the most recent fiscal year – in this case, FY 2014. A small reduction in transfers from other funds partially offset the gain from prior year adjustments.

FY 2014 spending was $329 million below 2014 end of session estimates. Of that amount, $179 million of unspent appropriations were carried forward and are reflected as an increase in FY 2015 spending. After carry forward is considered, the net spending decrease for the biennium attributable to FY 2014 close is $150 million. Lower spending in health and human services accounted for most of the savings.

FY 2014-15 Budget Forecast
Change From End-of-Session Estimates
($ in millions)

	End-of-Session	November Forecast	$ Change	% Change
Beginning Balance	**$1,712**	**$1,712**	**0**	**0.0**
Revenues				
Taxes	37,317	37,585	268	0.7
Non-Tax Revenues	1,445	1,430	(15)	(1.1)
Transfers, Other Resources	330	356	26	7.9
Total Revenues	**39,092**	**39,371**	**279**	**0.7%**
Expenditures				
K-12 Education	$16,679	$16,629	(50)	(0.3)
Property Tax Aids	2,969	2,964	(5)	(0.2)
Health & Human Services	11,453	11,205	(248)	(2.2)
Debt Service	1,254	1,243	(11)	(0.9)
All Other	7,232	7,297	65	0.9
Total Expenditures	**$39,587**	**$39,338**	**$(249)**	**(0.6)**
Reserves	1,161	1,344	183	
Stadium Reserve	23	28	5	
Budgetary Balance	**$32**	**$373**	**$340**	

Budget Reserve. Legislation passed in the 2014 legislative session included multiple changes to the budget reserve level and policy established in M.S. 16A.152. On July 1, $150 million was transferred to the budget reserve increasing the account from $661 million to $811 million.

The law also established a target level for the budget reserve. The level was previously set in statute at $653 million. The new recommended level is to be established as a percentage of current biennium general fund revenues based on an annual analysis by MMB. Statute requires MMB to review the adequacy of the budget reserve level based on the volatility of the general fund tax structure and estimate the percentage of the current biennium's general fund revenues needed to manage the volatility. The current report, released in January 2014 prior to the most recent change in the reserve statute, recommends a budget reserve policy of 4.9 percent of general fund non-dedicated revenues, or a total reserve, including cash-flow, of $1.929 billion for the current 2014-15 biennium.

The new state law established a deposit rule to meet the desired level of the budget reserve; however, three conditions must be met before the deposit rule is triggered.

First, the state must have a forecast balance for the current biennium. With this forecast, the FY 2014-15 projected forecast balance is $556 million.

Second, the existing statutory provisions that allocated forecast balances must be met. These provisions were established to restore reserves and repay accounting shifts from prior budget actions. These were completed with a final repayment of the K-12 school shifts and repayment of the money borrowed from the state airport fund occurred with the November 2013 forecast. In five successive forecasts, over $3.7 billion was allocated to restoring reserves and buying back accounting shifts enacted in the 2008-11 legislative session

Third, the state's reserve levels must be below the level recommended to adequately manage the volatility of the general fund tax structure. The state's budget reserve level is $811 million, below the amount recommended.

Since all three conditions were met in this forecast, the new law triggers a deposit of 33 percent of the forecast balance to the budget reserve. Of the total $556 million projected forecast balance for FY 2014-15, $183 million is transferred to the budget reserve, increasing the level to $994 million in FY 2015. With the increase, the budget reserve is approximately 2.5 percent of general fund revenue in FY 2014-15. Including the cash flow account, total general fund reserves are 3.4 percent of biennial revenues.

Next Biennium

A balance of $1.037 billion is now projected for the FY 2016-17 biennium, an increase of $434 million over the end-of-session estimates of $603 million. Over three quarters of the projected balance increase is due to the increase in the ending balance for the current biennium that will add to the beginning resources for the FY 2016-17 biennium. Spending in the next biennium is now estimated to be $41.243 billion, a decrease of $502 million (1.2 percent) compared to prior estimates. Forecast revenue is expected to be $41.880, a decline of $412 million (1.0 percent) from planning estimates. This $90 million net change in forecast revenue and spending accounts for the remainder of the bottom line increase from end of session estimates.

When compared to revised forecast estimates for the current biennium, FY 2016-17 revenues are projected to increase $2.509 billion (6.4 percent) while expenditures are expected to increase $1.905 billion (4.8 percent).

FY 2016-17 Budget Forecast
Change From End-of-Session Estimates
($ in millions)

	End-of-Session	November Forecast	Difference
Beginning Balance	**$1,217**	**$1,745**	**$528**
Forecast Revenues	42,292	41,880	(412)
Projected Spending	41,745	41,243	(502)
Balance Before Reserve	1,764	2,382	618
Reserves	1,161	1,344	183
Stadium Reserve	-	1	1
Budgetary Balance	**$603**	**$1,037**	**$434**

General fund revenues for FY 2016-17 are expected to total $41.880 billion, $2.509 billion (6.4 percent) more than FY 14-15. Individual income tax receipts are expected to be $2.049 billion (10.4 percent) higher and general sales tax receipts are expected to be $598 million (5.9 percent) higher in FY 16-17 than in the current biennium. Biennial growth in other major state taxes includes the insurance gross earnings tax ($59 million), the deed transfer tax ($21 million) and the statewide property tax ($34 million). Reductions to the corporate franchise tax ($30 million) and medical assistance surcharges ($60 million) partially offset the biennial revenue growth in the next biennium.

General fund expenditures are now expected to reach $41.243 billion in FY 2016-17, an increase of $1.905 billion (4.8 percent) over spending estimates for the current biennium. Driving the biennial expenditure growth is an expected increase of $1.552 billion (13.9 percent) in health and human services spending due to growth in Medical Assistance (MA) expenditures and a $411 million (13.9 percent) increase in aids and credits due to full phase in of local aid increases and property tax refund payment increases. Biennial growth in other major spending areas includes $190 million in K-12 education, $50 million in higher education and $34 million in debt service. Partially offsetting this growth is a $282 million reduction in all other spending, largely due to one-time spending for capital projects and one-time appropriations in the current biennium that do not continue into the next biennium.

FY 2016-17 Budget Forecast
Biennial Comparison
($ in millions)

	FY 2014-15	FY 2016-17	$ Change	% Change
Beginning Balance	$1,712	$1,745	33	1.9
Tax Revenues	37,585	40,253	2,668	7.1
Non-Tax Revenues	1,430	1,400	(30)	(2.0)
Other Resources	356	227	(129)	(36.2)
Current Resources	**39,371**	**41,880**	**2,509**	**6.4**
K-12 Education	16,629	16,819	190	1.1
Property Tax Aids & Credits	2,964	3,375	411	13.9
Health and Human Services	11,205	12,757	1,552	13.9
Debt Service	1,243	1,277	34	2.8
All Other	7,297	7,015	(282)	(3.9)
Total Expenditures	**39,338**	**41,243**	**1,905**	**4.8**
Balance Before Reserve	**1,745**	**2,382**		
Cash and Budget Reserves	1,344	1,344	-	
Stadium Reserve	28	1	(27)	
Budgetary Balance	**$373**	**1,037**		

Planning Estimates

This forecast provides the first planning estimates for the 2018-19 biennium. These estimates carry a higher degree of uncertainty and an inherently larger potential range of error compared to the short-term forecast for the current and next biennium.

Planning estimates for FY 2018-19 are presented to assist longer-term financial planning. Revenue projections are based on IHS Economics' November baseline forecast for 2018 and 2019. Expenditure projections assume that current funding levels and policies continue unchanged, adjusted only for caseload and enrollment changes as well as specific formula driven items.

Planning Horizon: Revenues and Expenditures
($ in millions)

	FY 2014-15	FY 2016-17	FY 2018-19
Forecast Revenues	$39,371	$41,880	$45,801
Projected Spending	39,338	41,243	43,050
Difference (Gap)	**$33**	**$637**	**$2,751**
Inflation CPI	-	*916*	*2,894*

The table shows forecast revenues and projected spending while excluding the impact of balances from prior years and reserves in order to highlight the structural balance or imbalance. FY 2016-17 spending is expected to be $637 million less than forecast revenues and in FY 2018-19 revenues are expected to exceed projected spending by $2.751 billion.

Projected inflation based on the Consumer Price Index (CPI) is now expected to be 1.3 percent and 1.8 percent for FY 2016 and FY 2017 – followed by 2.3 percent annual increases in FY 2018-19. Applying the annual inflation rate, compounded over the four year period, to current law projected spending base would add approximately $350 million per year to preceding year's adjusted base.

The planning estimates are not intended to predict surpluses or deficits three or more years into the future. Rather their purpose is to assist in determining how well ongoing expenditures are likely to match future revenues based on trends in Minnesota's economy, and the level of spending that is needed to maintain current programs. The FY 2018-19 planning estimates provide an important baseline against which the longer-term impacts and affordability of proposed FY 2016-17 budget solutions and decisions in the 2015 legislative session can be measured.

REVENUE OUTLOOK

Current Biennium

Higher-than-anticipated revenues at the close of FY 2014 helped increase forecast revenues for the current biennium. Total revenues for FY 2014-15 are now forecast to be $39.371 billion, $279 million (0.7 percent) more than the February forecast adjusted for law changes. Total tax revenues for FY 2014-15 are forecast to be $37.585 billion, exceeding the end-of-session estimate by $268 million (0.7 percent). Actual tax revenues at the close of FY 2014 were $189 million above the February forecast adjusted for law changes, accounting for 70 percent of the forecast change in tax revenues for the biennium.

FY 2014-15 Revenue Summary
Change From End-of-Session Estimates
($ in millions)

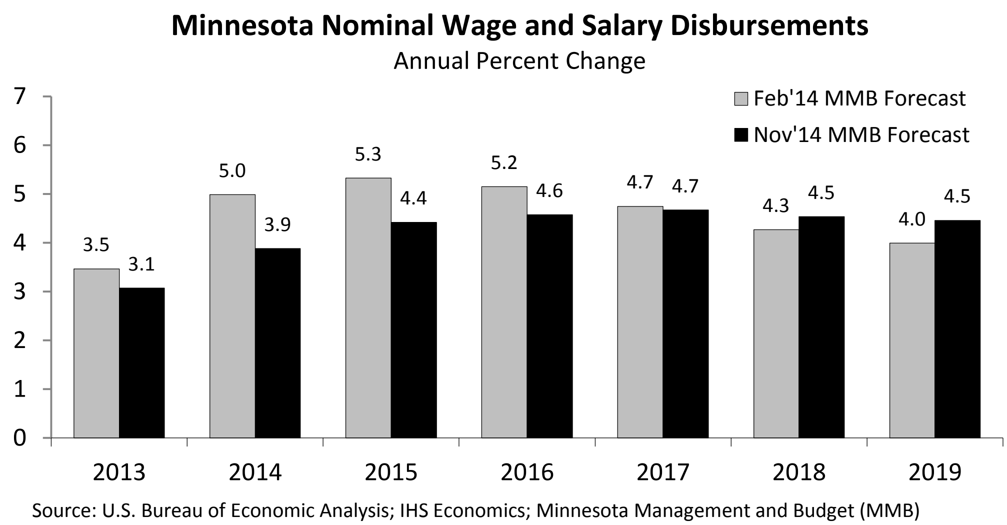
	End of Session Estimate	November Forecast	$ Change	% Change
Individual Income Tax	$19,326	$19,615	289	1.5
General Sales Tax	10,152	10,198	46	0.5
Corporate Franchise Tax	2,709	2,637	(72)	(2.7)
Statewide Property Tax	1,665	1,675	10	0.6
Other Tax Revenue	3,465	3,460	(5)	(0.1)
Total Tax Revenues	**37,317**	**37,585**	**268**	**0.7**
Non-Tax Revenues	1,445	1,430	(15)	(1.1)
Other Resources	330	356	26	7.9
Total Revenues	**$39,092**	**$39,371**	**$279**	**0.7**

Individual Income Tax. The individual income tax shows the largest dollar amount change. Income tax revenues are now forecast to be $19.615 billion in FY 2014-15, $289 million (1.5 percent) more than the end-of-session estimate. Of that change, $194 million is due to higher-than-forecast income tax revenues at the close of FY 2014.

This forecast builds from MMB’s estimate of final 2013 income tax liability. Final income tax liability for 2013 is not yet known. Using information about returns filed to date, revenues in the state accounting system, returns in process and returns expected to be received by December 31, MMB economists estimate final 2013 liability will be $8,842 billion, $158 million more than projected in February, adjusted for law changes.

Calibrating the individual income tax model to produce MMB's projected tax year 2013 final liability required making assumptions about growth rates for particular income types. Net capital gains reported by Minnesota residents in 2013 are now assumed to have decreased 31.9 percent from the high levels of 2012, a year in which taxpayers accelerated income in anticipation of higher federal income tax rates. In contrast, February's forecast projected a 45.0 percent decline in 2013. Assumed growth in Minnesota business income was raised from 3.4 percent in the February forecast to 4.0 percent.

The increased tax year 2013 growth rates in capital gains and business income are partially offset by reductions in several other income types. Minnesota's wage and salary income grew more slowly than expected in 2013, growing 3.1 percent compared to the February forecast assumption of 3.5 percent. Preliminary information about 2013 U.S. growth rates in certain income items lowers assumed growth rates for Minnesota taxpayers. Consequently, relative to the February forecast, this forecast assumes a lower growth rate in taxable Individual Retirement Account distributions, a larger decline in taxable interest income (from -6.4 percent to -10.0 percent), and a switch in dividend income from growth of 7.8 percent to a decline of 9.6 percent.



Minnesota's growth in wage and salary income has been lower than expected, and that weaker wage growth is projected to continue. Annual wage growth in 2014 and 2015 is now assumed to be 3.9 and 4.4 percent, respectively, compared to 5.0 and 5.3 percent assumed in February.

In addition to higher tax year 2013 liability and the related FY 2014 receipts in excess of forecast, new assumptions about income growth in tax years 2014 and 2015 affected the income tax forecast for FY 2014-15. Information from the Bureau of Economic Analysis (BEA), Quarterly Census of Employment and Wages (QCEW), and income tax withholding collections during the first 10 months of 2014 suggest that Minnesota's growth in wage and salary income has been lower than expected, and that weaker wage growth is projected to continue. Annual wage growth in 2014 and 2015 is now assumed to be 3.9 and 4.4 percent, respectively, compared to 5.0 and 5.3 percent assumed in

February. Assumed growth in Minnesota business income was also lowered from 5.5 to 4.9 in 2014 and from 6.1 to 5.4 percent in 2015.

Higher expectations for capital gains income, however, helps offset the wage growth reductions. From 2013 to 2015, net capital gains reported by Minnesota residents are now assumed to grow a cumulative 9.7 percentage points faster than had been forecast in February. In addition, the higher capital gains growth combine with a higher base level of receipts and a large one-time payment to increase forecast income tax receipts from fiduciaries and partnerships, adding about $37 million in revenue in FY 2015.

The income tax forecast includes an off-model adjustment to taxes on business income that is related to the impact of federal depreciation provisions. Higher estimates of bonus depreciation and Section 179 expensing taken in base years and higher marginal tax rates for taxpayers who use these provisions increase this adjustment, adding about $24 million to the current biennium forecast.

Finally, an adjustment related to the timing of the revenue impact of Minnesota conforming to the federal standard deduction produces a one-time revenue loss in FY 2015 of about $30 million.

General Sales Tax. Sales tax revenues now are now forecast to exceed the end-of session estimate for the current biennium by $46 million (0.5 percent). Higher forecast gross tax receipts more than offset an increase in expected sales tax refunds.

Gross sales tax receipts for FY 2014-15 are now forecast to be $125 million (1.2 percent) higher than the end-of-session estimate. During the first 15 months of the biennium, gross sales tax receipts exceeded the prior estimate by about $67 million, accounting for more than half of the forecast change. The higher growth rates implied by these tax collections are assumed to carry forward, despite slightly slower than forecast growth in the Minnesota proxy sales tax base relative to February. In addition, higher projected taxes paid by Minnesotans on online sales help increase forecast sales tax revenue for FY 2014-15.

Corporate Franchise Tax. The corporate income tax is now forecast to bring in $72 million (2.7 percent) less in FY 2014-15 than the end-of-session estimate. This change reflects both lower projected corporate profits growth and higher forecast growth in refunds.

In February, IHS had forecast 7.4 percent growth in U.S. corporate profits (with inventory valuation and capital consumption adjustments) in FY 2014 and 4.7 percent growth in FY 2015. The November IHS forecast calls for profits to rise by 1.2 percent in FY 2014, followed by 5.2 percent growth in FY 2015. Minnesota’s gross corporate tax receipts are now forecast to be $41 million (1.4 percent) less than the prior estimate. Corporate refunds are now forecast to exceed the prior estimate by $31 million (10.0 percent), accounting for the remainder of the net corporate tax forecast change.

Other Tax Revenue, Non-Tax Revenue, Other Resources. Offsetting changes in several tax items slightly reduce the current biennium forecast for other taxes. Driven by reduced expectations for home sales and mortgage refinances, the deed transfer and mortgage registry taxes are together forecast to bring in $18 million less than prior estimates. Revenues from the cigarette and tobacco products tax is now expected to exceed the prior estimate by $24 million.

Next Biennium

Total revenues for FY 2016-17 are now forecast to be $41.880 billion, $2.509 billion (6.4 percent) more than the current FY 2014-15 revenue forecast and $412 million (1.0 percent) less than the February planning estimate adjusted for law changes. Total tax revenues for FY 2016-17 are forecast to be $40.253 billion, a 7.1 percent increase over FY 2014-15 forecast revenues.

FY 2016-17 Revenues Summary
Biennial Comparison
($ in millions)

	November FY 2014-15	November FY 2016-17	$ Change	% Change
Individual Income Tax	$19,615	$21,664	2,049	10.4
General Sales Tax	10,198	10,796	598	5.9
Corporate Franchise Tax	2,637	2,607	(30)	(1.1)
Statewide Property Tax	1,675	1,709	34	2.0
Other Tax Revenue	3,460	3,477	17	0.5
Total Tax Revenues	**37,585**	**40,253**	**2,668**	**7.1**
Non-Tax Revenues	1,430	1,400	(30)	(2.0)
Other Resources	356	227	(129)	(36.2)
Total Revenues	**$39,371**	**$41,880**	**$2,509**	**6.4**

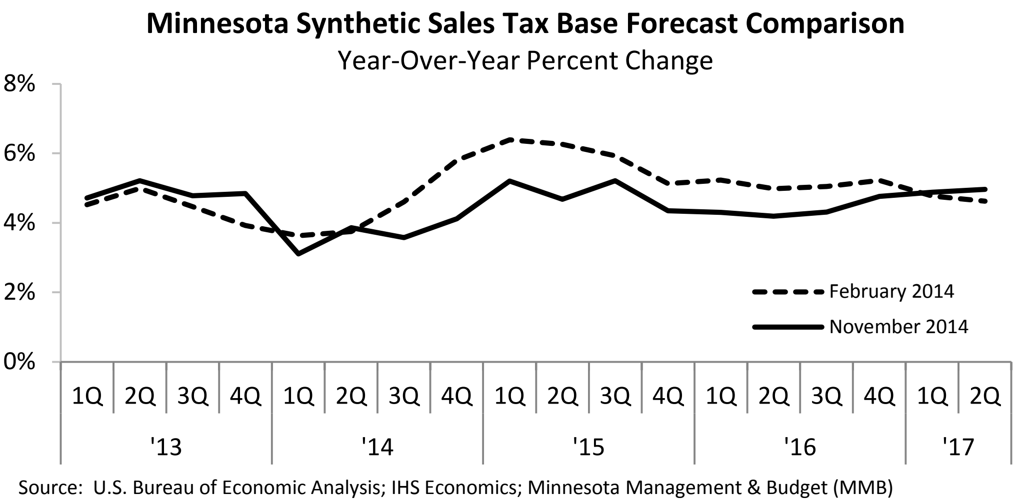
Individual Income Tax. The individual income tax shows the largest dollar amount growth, accounting for 77 percent of the total tax revenue biennial change. Income tax revenues for FY 2016-17 are forecast to be $21.664 billion, $2.049 billion (10.4 percent) more than the current forecast for FY 2014-15 and $167 million (0.8 percent) less than the end-of-session estimate.

Growth in income tax revenues in FY 2016-17 over FY 2014-15 is primarily the result of income growth in tax years 2015 and 2016. Minnesota wage and salary income is now forecast to grow 4.4 percent in 2015 and 4.6 percent in 2016. The February 2014 *Budget and Economic Forecast* reported rates of 5.3 percent in 2015 and 5.2 percent in 2016. Capital gains realizations by Minnesota residents are forecast to grow 10.6 percent in 2015 and 8.7 percent in 2016, a deceleration from the forecast 2014 growth rate of 22.6 percent.

General Sales Tax. General sales tax receipts for FY 2016-17 are expected to exceed FY 2014-15 forecast levels by $598 million (5.9 percent), accounting for 22 percent of the increase in tax revenues. Both higher forecast gross tax receipts and lower refunds contribute to the growth.

Gross sales tax receipts in FY 2016-17 are forecast to exceed FY 2014-15 levels by $326 million (3.0 percent). The Minnesota synthetic sales tax base, a proxy for the actual tax base, is expected to accelerate from 4.4 and 4.5 percent per year in FY 2014 and FY 2015 to 4.5 and 4.7 percent per year in FY 2016 and FY 2017. The conversion of Minnesota's capital equipment exemption from a post-purchase refund to an up-front exemption causes forecast gross sales tax receipts to grow more slowly than the synthetic tax base.

Sales tax refunds in FY 2016-17 are forecast to be $289 million (44.7 percent) lower than the current forecast for FY 2014-15. This is also an effect of the change in the capital equipment exemption. On net, the conversion results in a revenue loss for the biennium of $145 million compared to a forecast that retains the exemption by refund.



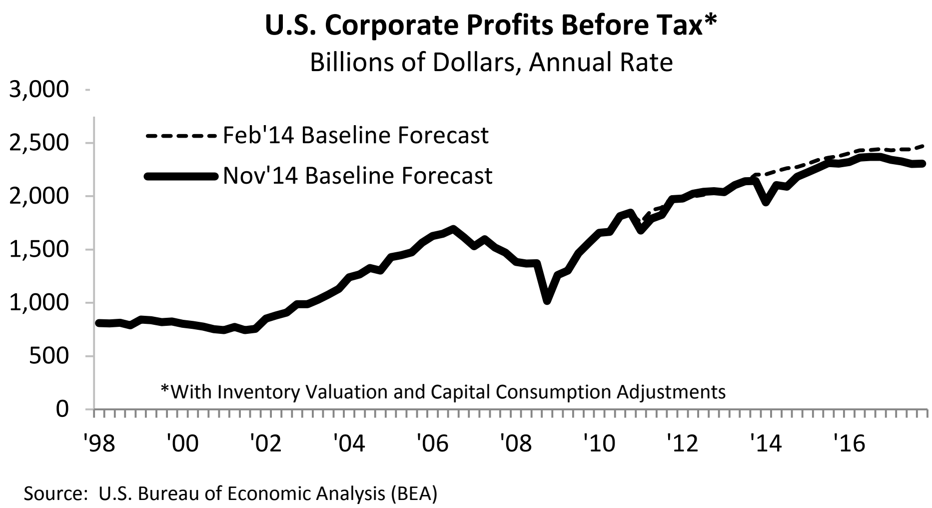
The Minnesota synthetic sales tax base, a proxy for the actual tax base, is now forecast to grow 4.5 percent in FY 2016 and 4.7 percent in FY 2017, compared to 5.3 and 4.9 percent, respectively, in the February forecast. Slower consumer durable spending contributes to the lower tax base growth.

Net sales tax revenues for FY 2016-17 are now forecast to be $83 million (0.8 percent) less than the end-of-session estimate. This reflects reduced expectations for growth in the Minnesota synthetic sales tax base for FY 2016 and FY 2017. The tax base is now expected to grow 4.5 percent in FY 2016 and 4.7 percent in FY 2017, compared to 5.3 and 4.9 percent, respectively, in the February forecast. Slower spending on consumer durable goods contributes to the lower tax base growth.

Corporate Franchise Tax. The corporate franchise tax is forecast to generate $2.607 billion in FY 2016-17, $30 million (1.1 percent) less than the current FY 2014-15 forecast. IHS expects U.S. corporate profits (with inventory valuation and capital consumption adjustments) to grow 6.1 percent in FY 2016 and 1.1 percent in FY 2017. In

February, IHS had forecast 4.3 percent growth in FY 2016 and 1.8 percent growth in FY 2017.

Minnesota's gross corporate franchise tax receipts are forecast to grow by $96 million (3.2 percent) in FY 2016-17. This increase is offset by a $126 million forecast increase in corporate tax refunds, generating the decline in the corporate tax for FY 2016-17. The larger refund forecast primarily reflects growth in the Historic Structure Rehabilitation Credit. MMB's practice is to report the full revenue impact of the credit in corporate refunds, even though some credits accrue to non-corporate taxpayers, and some credits reduce tax liability, rather than increase refunds. In FY 2016-17, the credit is expected exceed FY 2014-15 levels by $75 million, and accounting for 60 percent of the forecast growth in corporate refunds.



IHS expects U.S. corporate profits (with inventory valuation and capital consumption adjustments) to grow 6.1 percent in FY 2016 and 1.1 percent in FY 2017. Minnesota's gross corporate franchise tax receipts are forecast to grow by $96 million (3.2 percent) in FY 2016-17.

Other Tax Revenue, Non-Tax Revenue, Other Resources. Among other taxes, the insurance gross earnings tax shows the largest biennial change, growing $59 million (8.3 percent) over the current forecast for FY 2014-15.

Planning Estimates

This is the first reporting of revenue planning estimates for FY 2018-19. Total revenues for the biennium are estimated to be $45.801 billion, an increase of $3.921 billion (9.4 percent) over the current forecast for FY 2016-17 revenues. Total tax revenues for FY 2018-19 are estimated to be $44.295 billion, a 10.0 percent increase over FY 2016-17 forecast revenues.

Together, the individual income and general sales taxes account for almost all of the projected biennial tax revenue growth. The individual income tax shows the largest increase, growing by $2.900 billion (13.4 percent), and contributing 72 percent of the total tax revenue biennial change. The general sales tax is expected to exceed FY 2016-17 forecast levels by $916 million (8.5 percent), accounting for 23 percent of the increase in tax revenues. The corporate franchise tax, statewide property tax, and other taxes together contribute $226 million to the biennial tax revenue change.

The revenue planning estimates are based on the IHS baseline forecast, which assumes that U.S. real GDP will grow 3.0 percent in calendar year 2017, followed by somewhat slower growth of 2.6 percent per year in both 2018 and 2019.

FY 2018-19 Planning Estimate Revenues
Biennial Comparison
($ in millions)

	Forecast FY 2016-17	Projected FY 2018-19	$ Change	% Change
Individual Income Tax	$21,664	$24,564	$2,900	13.4
General Sales Tax	10,796	11,712	916	8.5
Corporate Franchise Tax	2,607	2,681	74	2.8
Statewide Property Tax	1,709	1,791	82	4.8
Other Tax Revenue	3,477	3,547	70	2.0
Total Tax Revenues	**40,253**	**44,295**	**4,042**	**10.0**
Non-Tax Revenues	1,400	1,384	(16)	(1.2)
Other Resources	227	122	(105)	(46.0)
Total Revenues	**$41,880**	**$45,801**	**$3,921**	**9.4**

In a change from prior years, the planning estimates for FY 2018-19 were prepared using identical methodologies as the forecasts for FY 2014-15 and FY 2016-17.

The planning estimates for 2018-19 should be used with caution. Even small deviations from assumed growth rates for factors affecting revenue will compound and produce sizable changes in revenues. In addition, changes in the base level of revenues for FY 2015 through FY 2017 will change the revenue planning estimates for FY 2018-19. Other things equal, stronger than anticipated revenue growth through FY 2017 will carry forward and add significantly to revenues in FY 2018-19. 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 2018-19 will deteriorate. Additionally, Minnesota's Council of Economic Advisors warn that the difficulty of projecting long range economic conditions warrants caution when using economic forecasts for 2018 and 2019.

EXPENDITURE OUTLOOK

Current Biennium

Spending estimates for FY 2014-15 are lower than prior estimates for the biennium. Expenditures in the current biennium are now expected to be $39.338 billion, a reduction of $249 million (0.6 percent) from end of session estimates. Over sixty percent of the total reduction was $151 million in lower than expected spending in the first fiscal year of the biennium, which ended June 30, 2014. The table below shows forecast change in spending for the current biennium.

FY 2014-15 Expenditure Summary
Change From End-of-Session Estimates
($ in millions)

	End of Session Estimate	November Forecast	$ Change	% Change
K-12 Education	$16,679	$16,629	(50)	(0.3)
Property Tax Aids & Credits	2,969	2,964	(5)	(0.2)
Health & Human Services	11,453	11,205	(248)	(2.2)
Debt Service	1,254	1,243	(11)	(0.9)
All Other	7,232	7,297	65	0.9
Total Expenditures	**39,587**	**39,338**	**(249)**	**(0.6)**

A $248 million reduction (2.2 percent) in estimated spending for health and human services is the primary factor in the overall reduction in spending in FY 2014-15. Lower Medical Assistance (MA) spending accounts for the vast majority of the savings due to lower than projected program enrollment patterns and lower than expected managed care rates for families with children, elderly basic care, and special needs basic care.

Changes for the current biennium for other spending areas were modest. E-12 expenditures are expected to be $50 million lower (0.3 percent) than prior estimates due to changes in estimated pupil counts. Debt service expenditures are $11 million lower (0.9 percent) than projections due to better than expected market conditions at the time of the August bond sale. Property tax aids and credits spending is $5 million (0.2 percent) lower than expected. Partially offsetting the overall reduction in the current biennium is $65 million (0.9 percent) increase in the "all other" category. This increase is primarily $51 million higher than expected repayment from the general fund to the closed landfill trust fund due to significantly higher than forecast investment earnings that would have accrued to the trust fund had the money not been loaned to the general fund to help address a budget shortfall in 2011.

E-12 Education. 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 among others. In the current biennium the state is projected to spend $16.629 billion on education aid.

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

E-12 expenditures are expected to be reduced by $50 million (0.3 percent) for FY 2014-15 compared to end of session estimates. Spending for general education is expected to be $42.9 less (0.3 percent) than at end of session, largely due to a change in total estimated pupils. MDE has made an adjustment in the methodology used previously for estimating the underreporting by districts in the current year, which has reduced total pupil units as a result. Additionally, extended time revenue dropped significantly, $21.5 million compared to previous estimates, due to district behavior in response to changes in the law. Charter schools no longer qualify for extended time revenue and previously it was assumed these students would be included in programming offered by regular school districts. So far this has not been seen in pupil counts submitted by school districts.

Categorical expenditures are forecast to decline by $7.3 million (0.2 percent) for FY 2014-15. Literacy Incentive Aid is adjusted downward by $2.6 million (2.7 percent). This change is primarily due to a correction of an overpayment made in FY 2013, which accounts for $2.244 million of the change. The FY 2013 overpayment will be recovered in FY 2015, reducing the appropriation. In addition, there is a slight decrease due to lower than previously estimated proficiency and growth ratings.

Alternative Compensation, or Q Comp, is also adjusted downward for this forecast. Spending is anticipated to be $1.7 million less (2.4 percent) than at end of session. This change is largely driven by the decision of three school districts to delay implementation of alternative teacher pay systems until FY 2016.

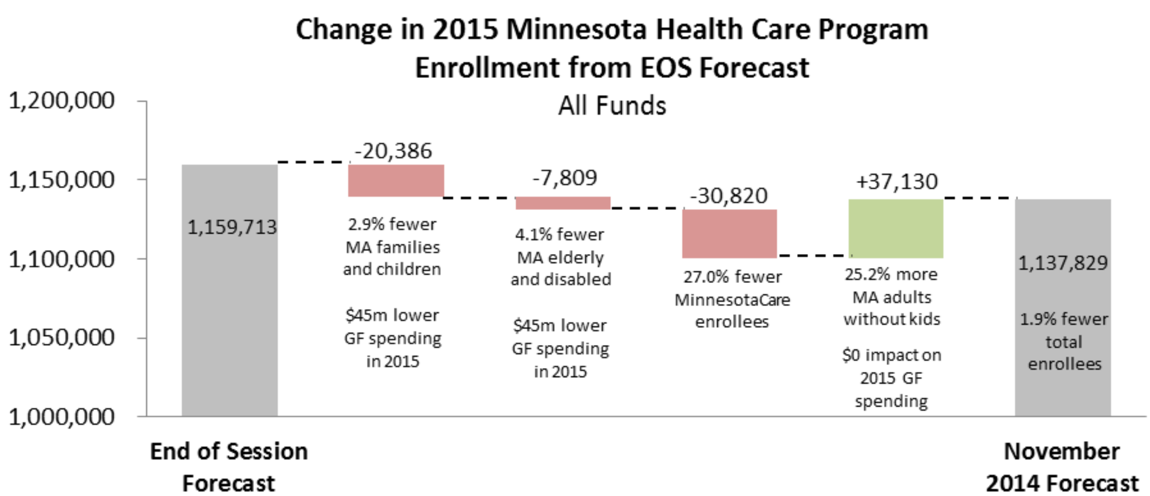
The School Breakfast program offsets a portion of these decreases. Expenditures are forecast to increase $3.2 million (28 percent) compared to end of session. The change is driven by revised estimates for providing free breakfast to kindergarteners statewide, a change enacted in the 2014 legislative session. There is evidence that a number of school districts are changing the delivery method for breakfasts for kindergarteners, serving breakfasts to kindergarteners directly in classrooms during the regular school day instead of before school. This change makes it likely that the number of school breakfasts served will increase at a higher rate than anticipated at end of session.

Health & Human Services. Health and human services is one-third of total state general fund spending. The majority of these expenditures (85 percent) are forecast programs including 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.

In FY14-15, HHS general fund spending is down $248 million (2.2 percent) relative to 2014 end of session estimates. MA accounts for $243 million of the reduction (2.8 percent change from end of session).

The largest driver ($127m) of this reduction is a change in the forecasted pattern of enrollment in MA. This forecast uses actual experience to update assumptions about enrollment following state eligibility expansions and program realignments. The total health care program enrollment forecast across funds decreased 1.9 percent for 2015. This forecast incorporates lower enrollment of families and children (2.9 percent), disabled adults (4.1 percent), and in MinnesotaCare (27.0 percent). One eligibility group, adults without kids, increased by 25.2 percent, though there was no state expenditure impact associated with that increase since payments are fully reimbursed by the federal government until calendar year 2017.



Change in 2015 Minnesota Health Care Program Enrollment from 2014 end of session estimates. At end of session 2014, 2015 total program enrollment was projected to be 1,159,713. This forecast projects 2015 total enrollment will be 1,137,829, 1.9% fewer enrollees from end of session.

Lower managed care rates for families with children, elderly basic care, and special needs basic care are driving a $77 million (1.4 percent) reduction in spending in FY2014-15. With respect to families and children, much of this reduction may be due to greater enrollment of individuals who use less health care, such as children, after 2014 eligibility changes. Lower health care use translates to lower payments to health plans for MA coverage.

State law requires that any reductions in expenditures from the original cost projections of eligibility changes in the 2013 session law be attributed to the Health Care Access Fund. This drives a forecast adjustment that decreases costs in the Health Care Access Fund and increases costs in the General Fund. The increased cost to the General Fund in this forecast is $45 million in FY2014-15. Corresponding savings are attributed to the Health Care Access Fund.

Spending across all non-health care programs decreased $5 million (0.2 percent) in FY 2014-15. One area of forecast growth is in MFIP child care assistance which increased $8 million in FY 2014-15 due to rapid growth in average monthly payments to participating families. Average monthly child care payments increase when families move their children from in-home settings to centers and other more costly forms of child care. Forecasted spending in other non-health care programs offset the cost growth in the MFIP child care program due to lower enrollment expectations, increased revenue collections, and higher federal cost sharing.

Property Tax, Aids, and Credits. Property tax aids and credits are approximately seven 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.

In the current biennium tax aids and credit spending is now expected to be $2.96 billion, a decrease of $5.5 million (0.2 percent) from end of session estimates. Driving the overall reduction is a decrease of $8.1 million in property tax refunds (0.7 percent) due to slightly lower than expected actual program participation and refund amounts in FY 2014 offset by a small increase in the agricultural market value homestead credit.

Debt Service and All Other Spending. Debt service spending in the current biennium is now expected to be $1.243 billion, down $11 million (0.9 percent) from prior estimates. Market conditions at the time of the August 2014 bond sale resulted in a lower interest rate and a higher bond premium than estimated thus lowering the size of the bond issue and the debt service payments. The actual interest rate on the August 2014 bonds of 2.8% was less than the 4.3% estimated from the February 2014 forecast.

Outside of the forecast programs, other state spending is expected to be $65 million higher in FY 2014-15 compared to end of session estimates. This increase is due to an upward revision to the total repayment of a 2011 loan from the closed landfill investment fund to the general fund that was used to balance the general fund budget. Repayment of the original $48 million loan is required to begin in fiscal year 2015 and must include interest and other earnings that would have accrued to the investment fund had the money not been transferred. Previous estimates included $100,000 per year in investment earnings; actual earnings over the 2011-15 time period have averaged 18.4 percent resulting in $51.4 million in earnings that would have accrued to the closed landfill investment fund. The 2015 repayment from the general fund to the investment fund has been made, reflecting the growth rate had the funds remained in the investment fund.

Next Biennium

Forecast expenditures in the next biennium are expected to reach $41.243 billion, an increase of $1.905 billion (4.8 percent) over current estimates for the FY 2014-15 biennium. Driving the overall increase is growth of $1.552 billion (13.9 percent) in health and human services spending primarily due to higher spending for MA. Property tax aids and credits is expected to be $411 million (13.9 percent) higher in the next biennium due full implementation of expanded property tax refunds and aid to local units of government. Spending for E-12 education is expected to be $190 million (1.1 percent) higher and debt service is expected to be $34 million (2.8 percent) higher. Offsetting the overall growth is $282 million (3.9 percent) lower spending in the other areas of state government primarily due to the discontinuation of one-time payments in the current biennium.

FY 2016-17 Expenditures Summary
Biennial Comparison
($ in millions)

	November FY 2014-15	November FY 2016-17	$ Change	% Change
K-12 Education	$16,629	$16,819	$190	1.1
Property Tax Aids & Credits	2,964	3,375	411	13.9
Health & Human Services	11,205	12,757	1,552	13.9
Debt Service	1,243	1,277	34	2.8
All Other	7,297	7,015	(282)	(3.9)
Total Expenditures	**39,338**	**41,243**	**1,905**	**4.8**

Compared to prior estimates for the biennium, overall spending in the next biennium is expected to be down $502 million (1.2 percent). Reduced projections for health and human services spending accounts for $443 million (3.4 percent) of this change due to lower than expected MA enrollment and managed care rates. Spending for E-12 education is down $60 million (0.4) percent primarily as a result of pupil count changes. Outside of health and human services and E-12 education, other areas of the state budget remain largely unchanged compared to prior estimates for FY 2016-17.

FY 2016-17 Expenditure Summary
Change From End-of- Session Estimates
($ in millions)

	End of Session Estimate	November Forecast	$ Change	% Change
K-12 Education	$16,879	$16,819	$(60)	(0.4)
Property Tax Aids & Credits	3,371	3,375	4	0.1
Health & Human Services	13,200	12,757	(443)	(3.4)
Debt Service	1,278	1,277	(1)	0.0
All Other	7,017	7,015	(2)	0.0
Total Expenditures	**41,745**	**41,243**	**(502)**	**(1.2)**

E-12 Education. E-12 expenditures for FY 2016-17 are expected to decrease $60.3 million (0.4 percent) from end of session estimates and overall E-12 aids spending is anticipated to grow by $190 million (1.1 percent) over the current biennium.

General education spending is forecast to decline by $85.4 million (0.6 percent) in FY 2016-17 compared to end of session. This decrease is attributed to the changes in pupil count methodology previously described, as well as to a decrease in the growth of referendum revenue, a calculation within the general education formula. Growth expectations for referendum revenue have been lowered for FY 2016-17 as a result of fewer than expected voter-approved referendum increases.

An increase in categorical expenditures somewhat offsets the downward adjustments in general education. Categorical education aids are forecast to increase $25.1 million (0.7 percent) in FY 2016-17 compared to end of session. Most of the increase comes in special education, which is anticipated to increase $17.1 million (0.7 percent). This adjustment is due to corrections in the model which projects special education costs and calculates special education aid. The revised model accounts for additional costs eligible for special education aid under the new special education formula. Some of these costs, most significantly fringe benefits, were inadvertently excluded in the 2014 February forecast.

A correction to the FY 2016-17 appropriations tracking for statewide testing causes an increase of $4.6 million (12.3 percent) compared to previous estimates. Additionally, the previously described adjustments to the school breakfast program estimates also contribute to the change. Expenditures are anticipated to increase $6.2 million (46 percent) for FY 2016-17 compared to end of session projections.

Offsetting these increases is a decrease in the regular debt service equalization program. Debt service aid is forecast to decline by $5.5 million (11.5 percent) in FY 2016-17 compared to end of session estimates. This is due to a higher portion of debt service being paid from levy, as a result of higher property tax values than previously forecast.

On an appropriations basis, the biennial growth in E-12 education between FY 2014-15 and FY 2016-17 is relatively small, just $190 million (1.1 percent). This change is artificially deflated due to the one-time buyback of funding shifts in FY 2014 totaling over $800 million. In FY 2014, school districts received 90 percent of their current year aid entitlement and 13.6 percent of their prior year aid entitlement, due to the repayment of a previous aid payment shift. Fiscal year 2014 spending was also increased due to the buyback of a property tax recognition shift. In FY 2015 and beyond, schools return to a regular payment schedule: 90 percent of their current year entitlement and 10 percent of their prior year entitlement.

Removing the impact of the shift buybacks, E-12 education would be growing by 6.3 percent. This is due in part to legislative changes enacted beginning in the second year of the biennium, including a 1.5 percent increase on the basic formula and the implementation of all-day kindergarten. Additionally, total pupil counts are rising and special education funding is growing at approximately 11 percent between the biennia due to inflationary factors built into the formula and to a new formula beginning in FY 2016.

Health & Human Services. In FY 2016-17, overall general fund health and human services spending is down $443 million (3.4 percent) compared to end of session estimates. As in the previous biennium, changes to MA drive the majority of the reduction ($442 million, a 4.3 percent change from end of session).

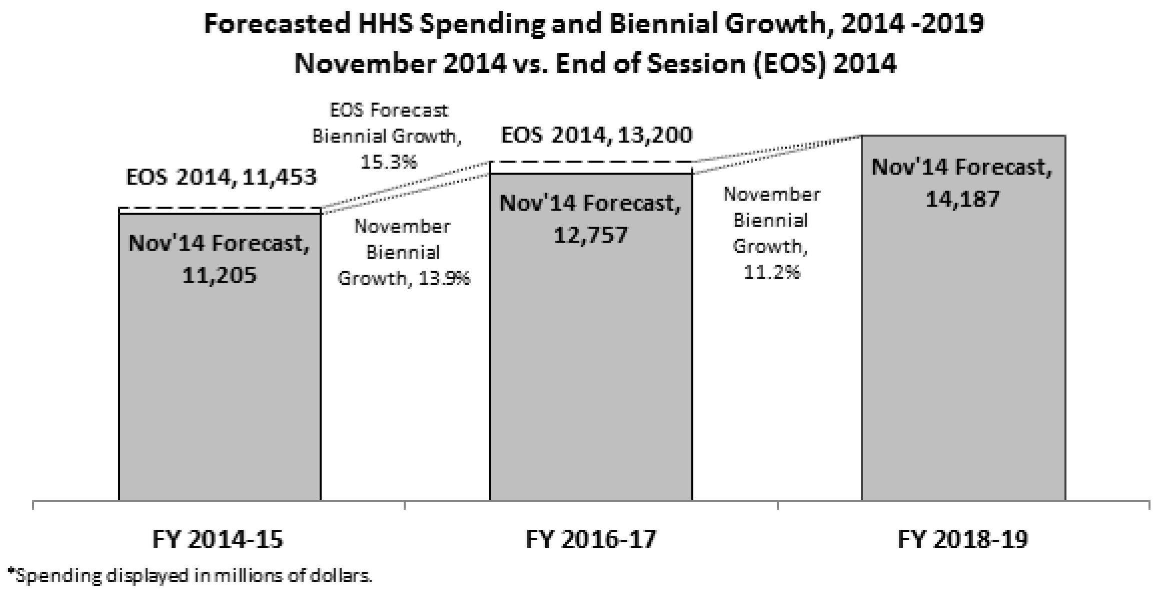
Many of the trends impacting FY 2014-15 spending in health and human services continue to impact spending estimates in FY 2016-17. Managed care rates and basic care enrollment patterns are again the primary factors. In FY 2016-17 MA enrollment changes resulted in a $91 million reduction (1.3 percent) from the end of session forecast. Enrollment of families and children is expected to reach previous estimates by 2017. Lower managed care rates led to a $273 million (4.0 percent) reduction in spending in FY 2016-17.

State spending for long-term care (LTC) waivers is expected to be $82 million (2.6 percent) lower than end of session forecasts in FY 2016-17. This is driven by a moderation in both expected waiver enrollment growth and expected payment growth.

Spending across non-health care programs decreased $1 million (0.05 percent) in FY 2016-17 compared to end of session estimates. MFIP child care assistance spending grew $30 million from end of session estimates, consistent with changes in FY 2014-15. Forested spending on other non-health care programs was revised downward, largely due to lower enrollment expectations.

Though spending estimates are reduced in both the current and next biennium relative to previously forecasted amounts, health and human services spending continues to grow year over year. Health and human services general fund spending is expected to grow by $1.55 billion (13.9 percent) from the current biennium to the next. Ninety percent of this growth is a result of increased spending for MA, which is expected to grow $1.4 billion. Families and kids basic care costs will increase by $857 million from the current biennium, due primarily to 16% higher average biennial enrollment resulting from expansion of MA eligibility and the individual mandate requirement of the Affordable Care Act, the effects of which began in January 2014. Elderly and disabled basic care will increase by $456 million from the current biennium to the next. This change is due to a growth in average payments (15 percent from FY 2015 to FY 2017), and a steady growth in enrollment over time. LTC waivers are also expected to grow by $409 million from FY 2014-15 to FY 2016-17 as increased demand for long term care services continues.

Non-health care spending is expected to grow $118 million (4.4 percent) from FY 2014-15 to FY 2016-17. The biggest driver of this change is MFIP child care assistance, which is forecasted to increase by $56 million (38 percent) in the next biennium.



Health and human services expenditures are expected to grow 13.9 percent from FY 2014-15 to FY 2016-17, and 11.2 percent into FY2018-19.

Property Tax, Aids, and Credits. Expenditures for tax aids and credits spending are expected to be $3.38 billion in FY 2016-17, an increase of $411.2 million (13.9 percent) over estimated spending in the current biennium. Driving this increase is full implementation of policy and aid payment changes made in the 2013 and 2014 legislative sessions. Included in the biennial increase is $181.8 million in higher spending for property tax refunds due to expanded program eligibility and higher maximum refunds and a $148.5 million increase in general aid to cities and counties. In addition to these program expansions in property tax aids and credits, new programs were also added in the 2013 and 2014 legislative sessions that contribute to the biennial growth including township aid, aquatic invasive species prevention aid, debt service aid for the Lewis and Clark water project in southwest Minnesota and new payments to Bloomington and Minneapolis. Property tax aids and credits spending is expected to be $3.8 million higher (0.1 percent) than prior planning estimates for the FY 16-17 biennium.

Debt Service and All Other Spending. Debt service expenditures are expected to be $1.277 billion in the next biennium, $34 million (2.8 percent) higher than the current biennium. This estimate reflects slightly higher interest rate assumptions on future bond sales compared to recent bond sales, an increase in the size of projected bond sales, and the continued growth of long term financing costs based on projected legislative actions on capital budgets and an increase in debt outstanding.

Expenditures in all other areas of the state budget are expected to be $282 million (3.9 percent) lower in FY 2016-17, compared to the current biennium. This change is largely due one-time expenditures in the current biennium not continuing into the next budget period including cash payments for capital projects in FY 2014. Partially offsetting the overall biennial decrease is $5.6 million in added state aid for the Destination Medical Center project in Rochester that was not previously projected for FY 2016-17.

Planning Estimates

The growth in state expenditures shown from the current biennium into FY 2016-17 is expected to be similar into the FY 2018-19 biennium. Total projected spending in the planning years is expected to reach $43.050 billion, an increase of $1.807 billion (4.4 percent) over estimates for FY 2016-17. The growth trends in the major forecast programs remain the same as described for FY 2016-17 with growth in health and human services spending accounting for a majority of the increase ($1.430 billion, 11.2 percent) due to continued MA growth. E-12 education spending is expected to increase $351 million, largely due to increased special education payments. Property tax aids and credits is expected to be up $91 million from growth in property tax refunds. Offsetting the overall increase is a reduction in forecasted debt service due to bonds maturing.

FY 2018-19 Planning Estimates
Biennial Comparison
($ in millions)

	FY 2016-17	FY 2018-19	$ Change	% Change
K-12 Education	$16,819	$17,169	$351	2.1
Property Tax Aids & Credits	3,375	3,467	91	2.7
Health & Human Services	12,757	14,187	1,430	11.2
Debt Service	1,277	1,222	(55)	(4.3)
All Other	7,015	7,005	(10)	(0.1)
Total Expenditures	**41,243**	**43,050**	**1,807**	**4.4**

E-12 Education. Total spending for education aids is anticipated to grow by $351 million between FY 2016-17 and FY 2018-19. The long-term growth in this forecast is largely the result of projected increases in special education aid. Special education is assumed to grow by $291 million between FY 2016-17 and FY 2018-19. This is driven by increases built into the special education formula, which recognize both growth in special education costs and growth in the number of qualifying students.

Health & Human Services. General fund health and human services spending is expected to grow by another $1.43 billion from FY 2016-17 to FY 2018-19. Growth trends discussed above will continue to drive spending increases in FY 2018-19. The exception is in the service category of adults without kids, where spending will increase by $207 million (343 percent) in the FY 2018-19 biennium. The costs for this group will rise as the federal cost share steps down from 100 percent to 95 percent in calendar year 2017. This rate will continue to fall until reaching 90 percent federal share in 2020.

Property Tax, Aids, and Credits. Tax aids and credits spending is expected to reach $3.47 billion in the 2018-19 biennium, a $91 million increase (2.7 percent) over forecast expenditures for FY 2016-17. This growth is primarily due to growth in the property tax refund programs which, in total, are expected to reach $1.37 billion in the planning years, an increase of $52.5 million (4.0 percent) over FY 2016-17. The Payments in Lieu of Taxes (PILT) program is forecast to reach $78.6 million in the out biennium, an increase of $15.1 million (23.7 percent) resulting from increased assessment value of PILT land. Finally police state aid is expected to be up $16.3 million (8.2 percent) due to forecast increases in insurance premium tax receipts.

APPENDIX

MINNESOTA STATUTES 2014 16A.152

16A.152 BUDGET RESERVE AND CASH FLOW ACCOUNTS.

Subdivision 1. **Cash flow account established.** A cash flow account is created in the general fund in the state treasury. Amounts in the cash flow account shall remain in the account until drawn down and used to meet cash flow deficiencies resulting from uneven distribution of revenue collections and required expenditures during a fiscal year.

Subd. 1a. **Budget reserve.** A budget reserve account is created in the general fund in the state treasury. The commissioner of management and budget shall transfer to the budget reserve account on July 1 of each odd-numbered year any amounts specifically appropriated by law to the budget reserve.

Subd. 1b. **Budget reserve level.** (a) The commissioner of management and budget shall calculate the budget reserve level by multiplying the current biennium's general fund non-dedicated revenues and the most recent budget reserve percentage under subdivision 8.

(b) If, on the basis of a November forecast of general fund revenues and expenditures, the commissioner of management and budget determines that there will be a positive unrestricted general fund balance at the close of the biennium and that the provisions of subdivision 2, clauses (1), (2), (3), and (4), are satisfied, the commissioner shall transfer to the budget reserve account in the general fund the amount necessary to increase the budget reserve to the budget reserve level determined under paragraph (a). The amount of the transfer authorized in this paragraph shall not exceed 33 percent of the positive unrestricted general fund balance determined in the forecast.

Subd. 2. **Additional revenues; priority.** (a) If on the basis of a forecast of general fund revenues and expenditures, the commissioner of management and budget determines that there will be a positive unrestricted budgetary general fund balance at the close of the biennium, the commissioner of management and budget must allocate money to the following accounts and purposes in priority order:

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

(2) the budget reserve account established in subdivision 1a until that account reaches $810,992,000;

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

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

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

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

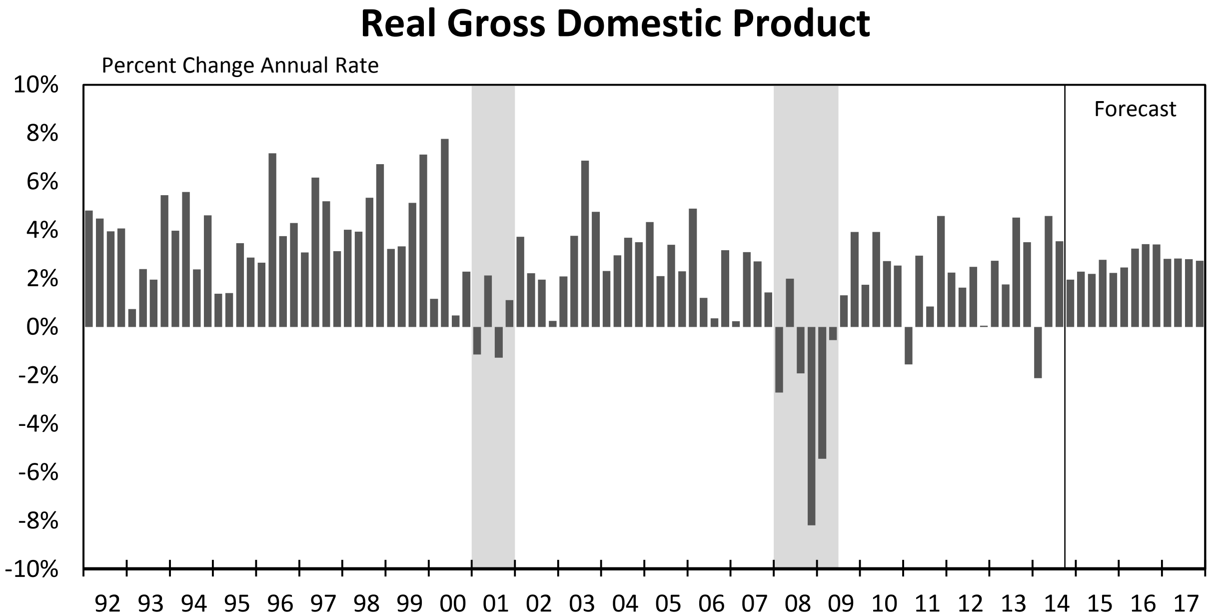
Subd. 8. **Report on budget reserve percentage.** (a) The commissioner of management and budget shall develop and annually review a methodology for evaluating the adequacy of the budget reserve based on the volatility of Minnesota's general fund tax structure. The review must take into consideration relevant statistical and economic literature. After completing the review, the commissioner may revise the methodology if necessary. The commissioner must use the methodology to annually estimate the percentage of the current biennium's general fund no dedicated revenues recommended as a budget reserve.

(b) By January 15 of each year, the commissioner shall report the percentage of the current biennium's general fund non-dedicated revenue that is recommended as a budget reserve to the chairs and ranking minority members of the legislative committees with jurisdiction over the Department of Management and Budget. The report must also specify:

(1) whether the commissioner revised the recommendation as a result of significant changes in the mix of general fund taxes or the base of one or more general fund taxes;

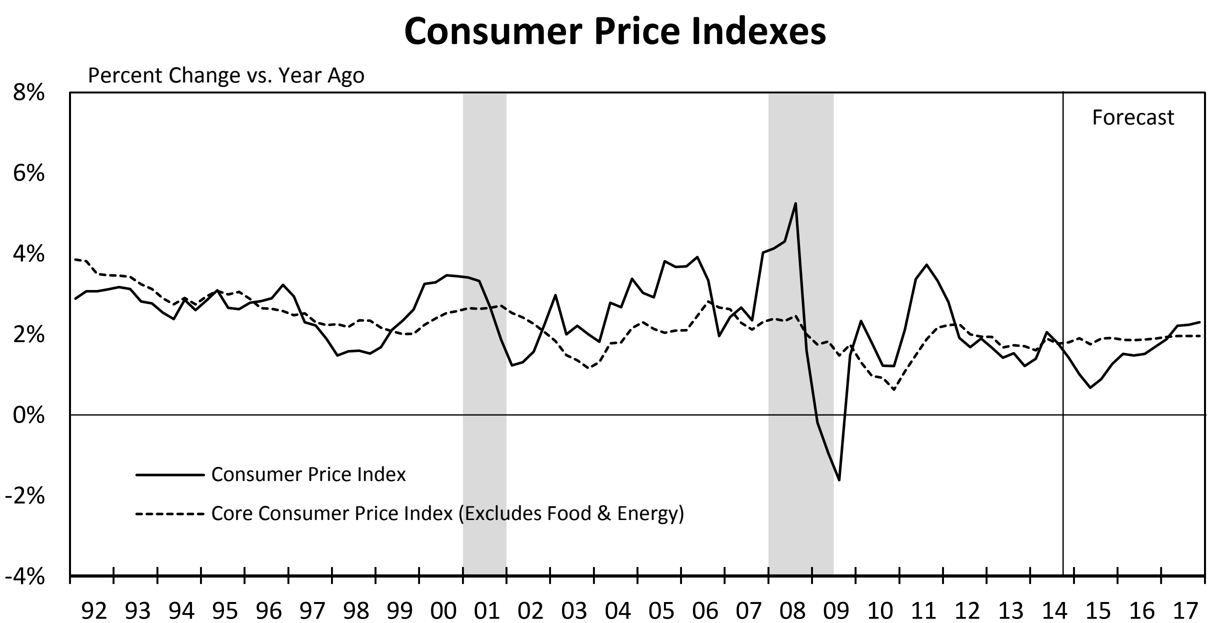
(2) whether the commissioner revised the recommendation as a result of a revision to the methodology; and

(3) any additional appropriate information.



Source: Bureau of Economic Analysis, National Bureau of Economic Research, and IHS Economics

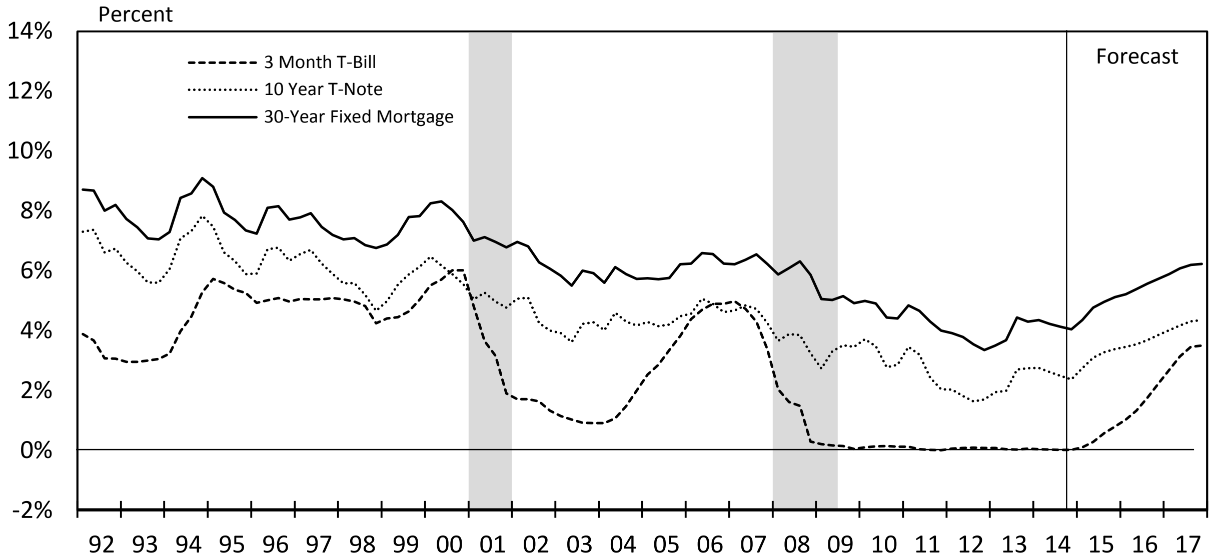
The U.S. economy bounced back sharply from its winter slump in the early part of the year. IHS Economics (IHS) expects real GDP growth to accelerate from 2.2 percent in 2014, to 2.6 percent in 2015 and 2.8 percent in 2016, as consumer spending slowly accelerates.



Source: Bureau of Labor Statistics, National Bureau of Economic Research, and IHS Economics

Inflation remains quiet, as weaker prices for energy commodities, such as gasoline, have helped offset rising prices for rent and food. Overall, IHS expects growth in consumer prices to decelerate from 1.7 percent in 2014, to 1.0 percent in 2015 and 1.6 percent in 2016.

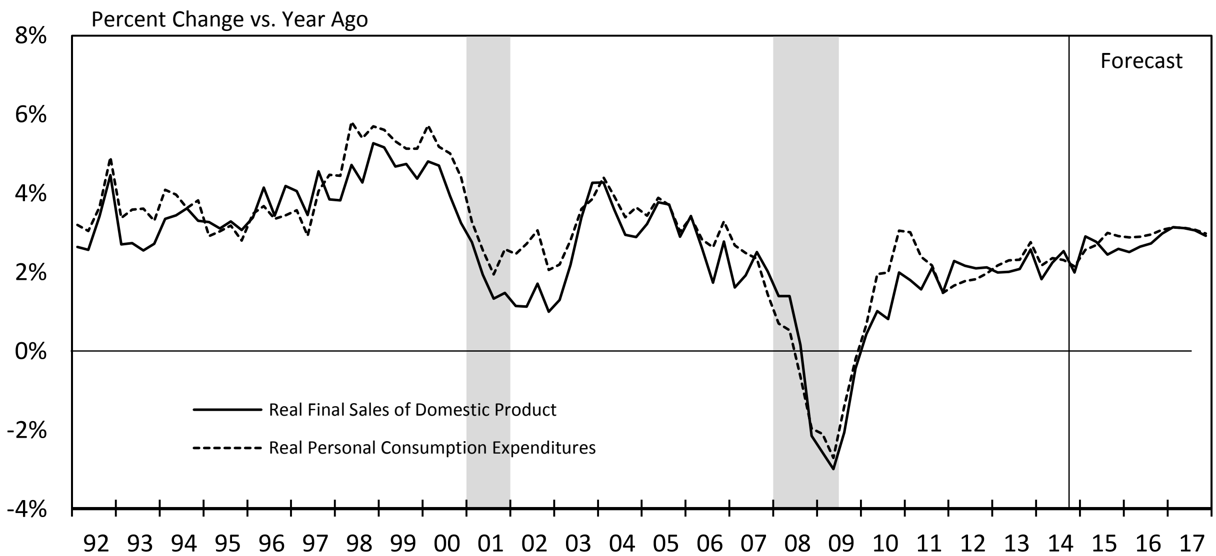
Interest Rates



Source: Federal Reserve Board, Freddie Mac, National Bureau of Economic Research, and IHS Economics

The combination of low inflationary pressures and weak labor market conditions has allowed the Fed to maintain highly accommodative monetary policies. In the November baseline, the Federal Reserve begins to raise the federal funds rate in June 2015.

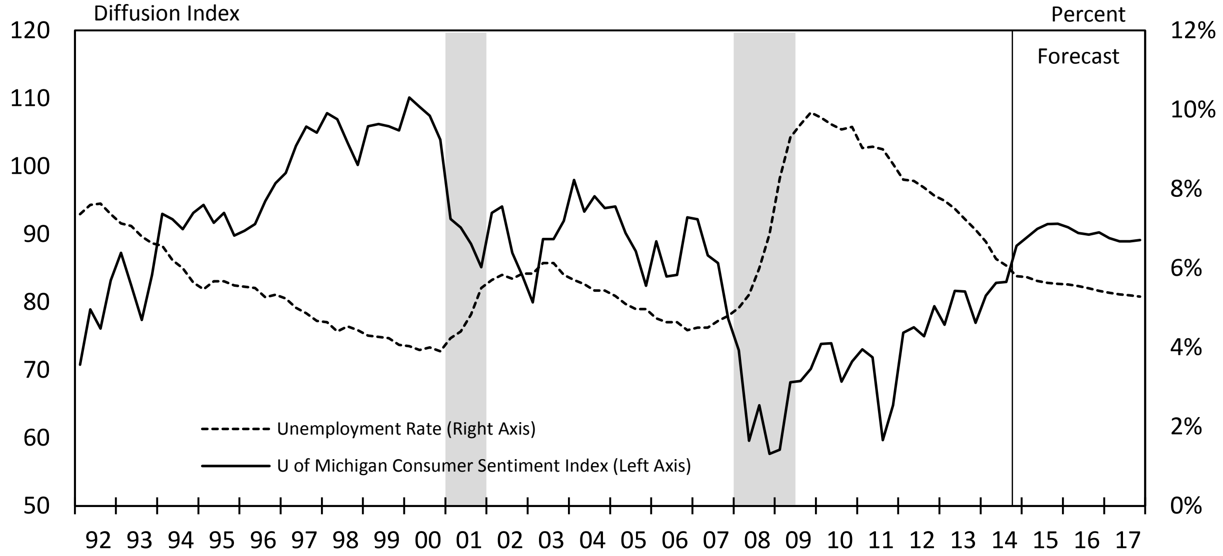
Real Final Sales & Consumption



Source: Bureau of Economic Analysis, National Bureau of Economic Research, and IHS Economics

Stronger economic fundamentals for the consumer will provide welcome momentum next year. IHS expects real consumer spending growth to accelerate from 2.3 percent in 2014, to 2.8 percent in 2015 and 3.0 percent in 2016, led by autos and other big-ticket durable items.

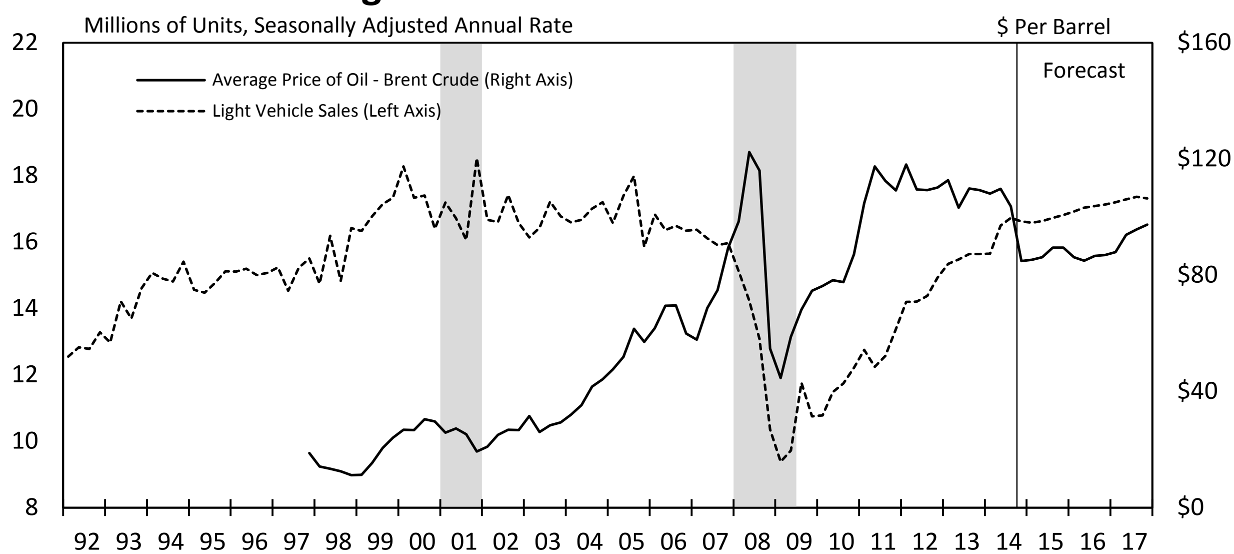
Consumer Sentiment and Unemployment Rate



Source: University of Michigan, Bureau of Labor Statistics, National Bureau of Economic Research, and IHS Economics

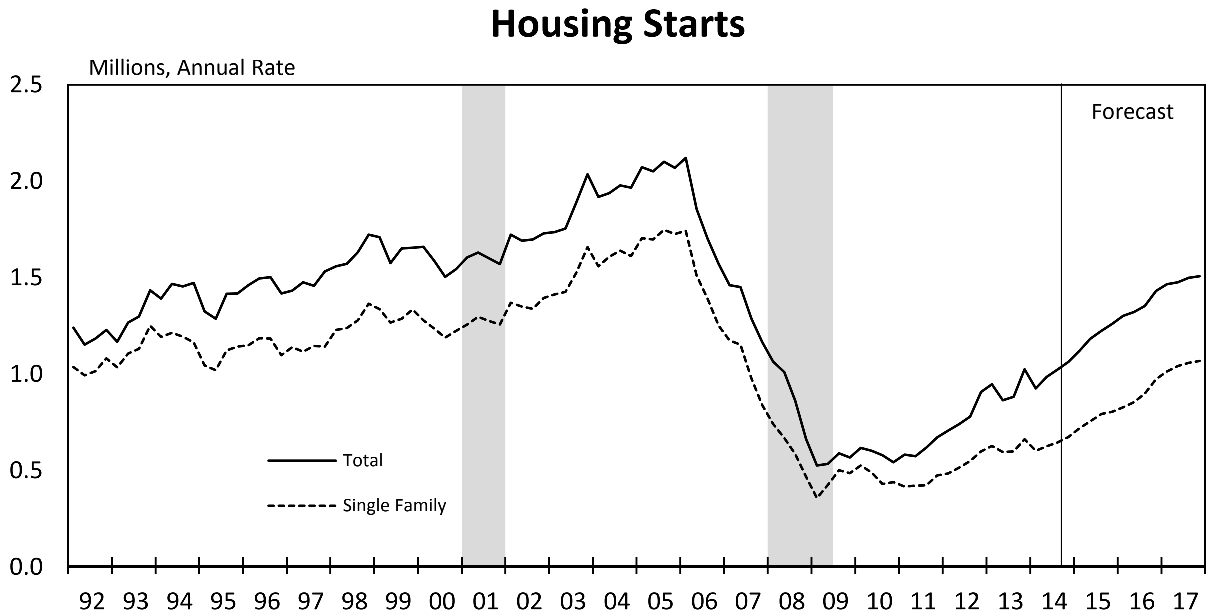
The job market is improving, which is boosting consumer confidence. Separate measures released by the Conference Board and the Reuters/University of Michigan show that confidence among U.S. consumers is at post-recession highs.

Light Vehicle Sales and Oil Prices



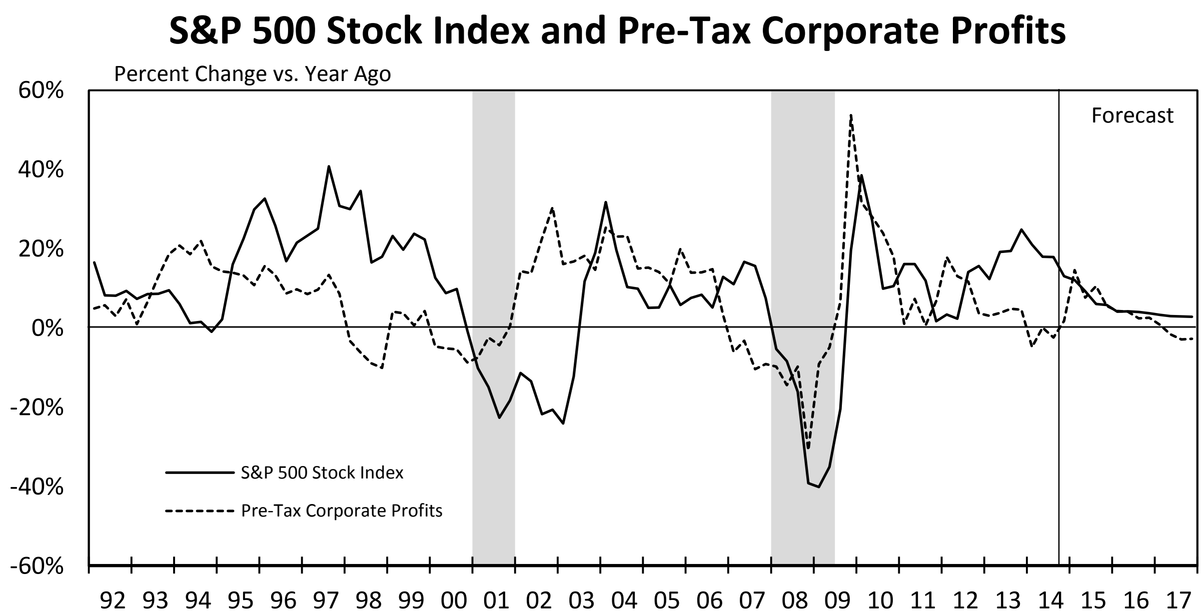
Source: Bureau of Economic Analysis, Investors' Business Daily, National Bureau of Economic Research, and IHS Economics

Brent oil prices have fallen from a 2014 high of $112/barrel in June to less than $79/barrel in mid-November, helping to drive down the price of gasoline from $3.70/gallon to below $3.00/gallon.



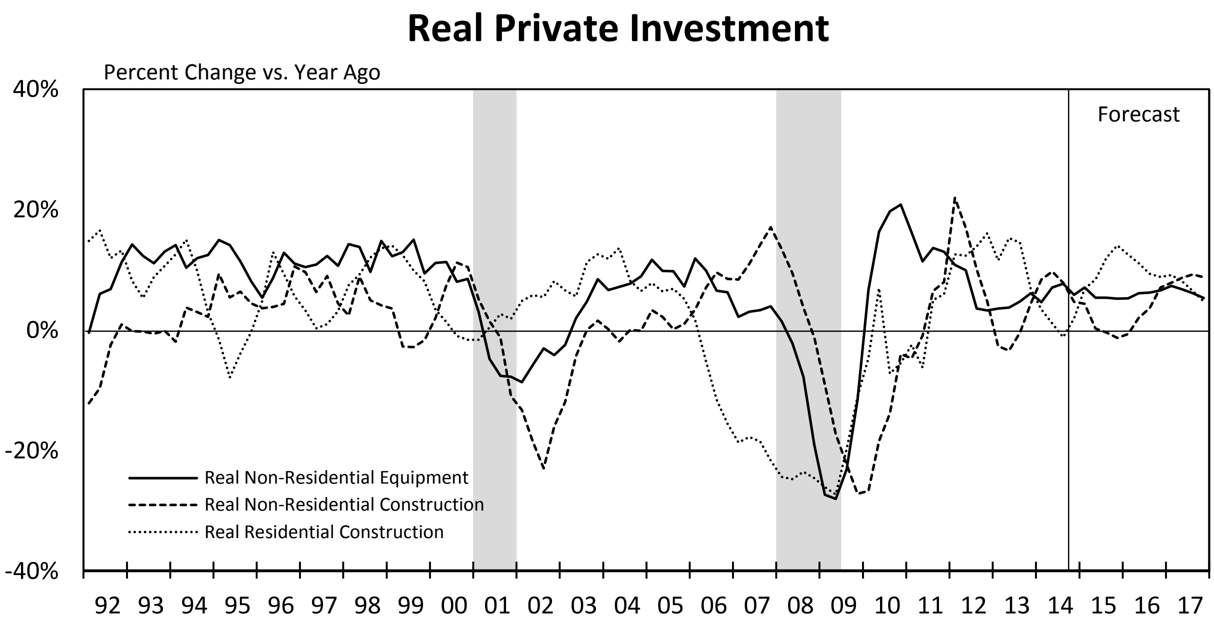
Source: U.S. Census Bureau, National Bureau of Economic Research, and IHS Economics

The nation's housing recovery has remained persistently weak over the past year. Severe winter weather took a toll on housing markets at the start of 2014, and recent data show the pace of household formation has surprisingly slowed, despite an improving labor market.



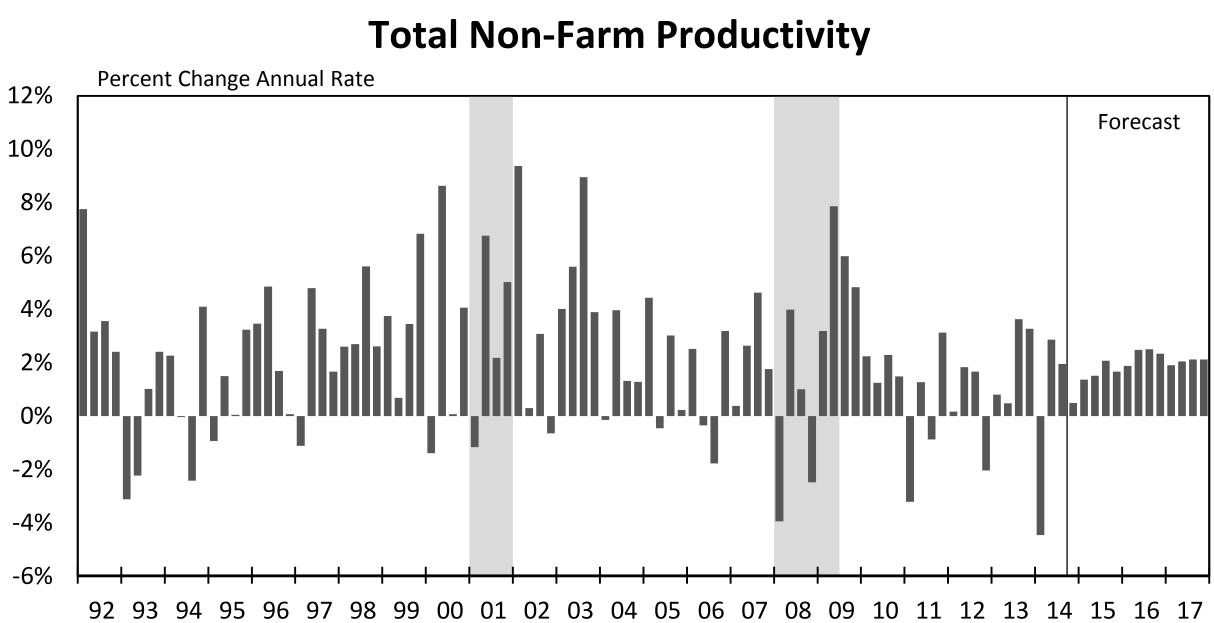
Source: Standard and Poor's, National Bureau of Economic Analysis, National Bureau of Economic Research, and IHS Economics

During the recovery, companies have largely chosen to spend record profits on nonproductive activities, such as share buybacks and dividends. As a result, business investment has not yet rebounded to its pre-recession share of the economy and productivity has stalled in recent years.



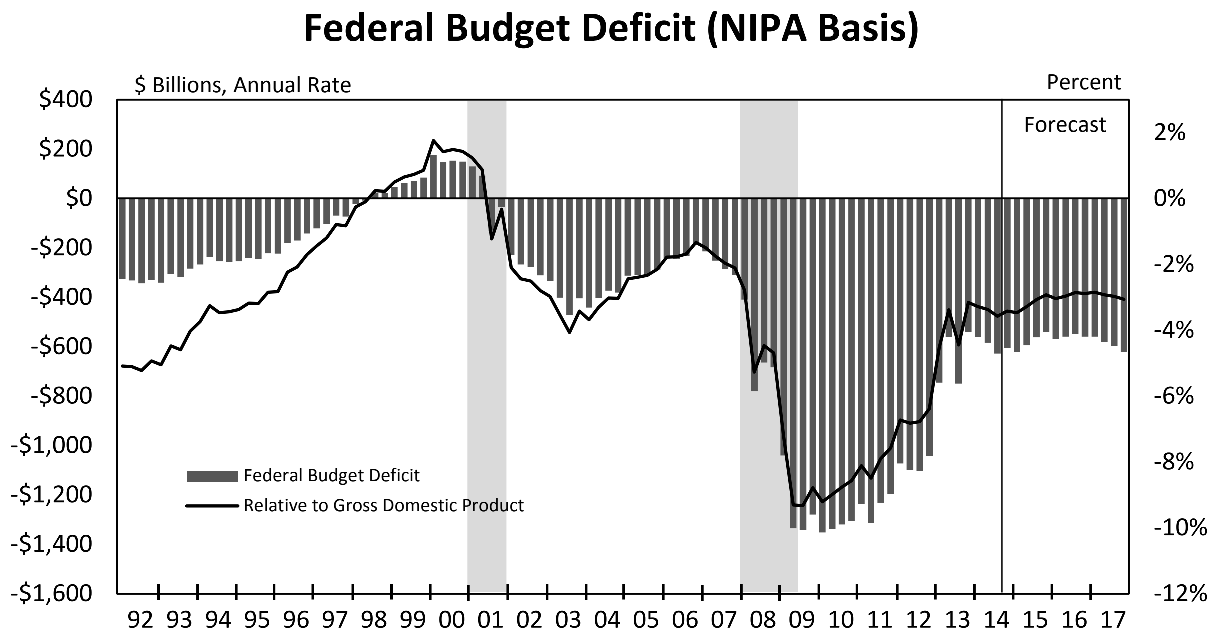
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and IHS Economics

Borrowing costs remain low, fiscal policy uncertainty has diminished, and the job market is improving, making new equipment spending more attractive. IHS Economics expects investment in equipment to advance around 6 through 2017.



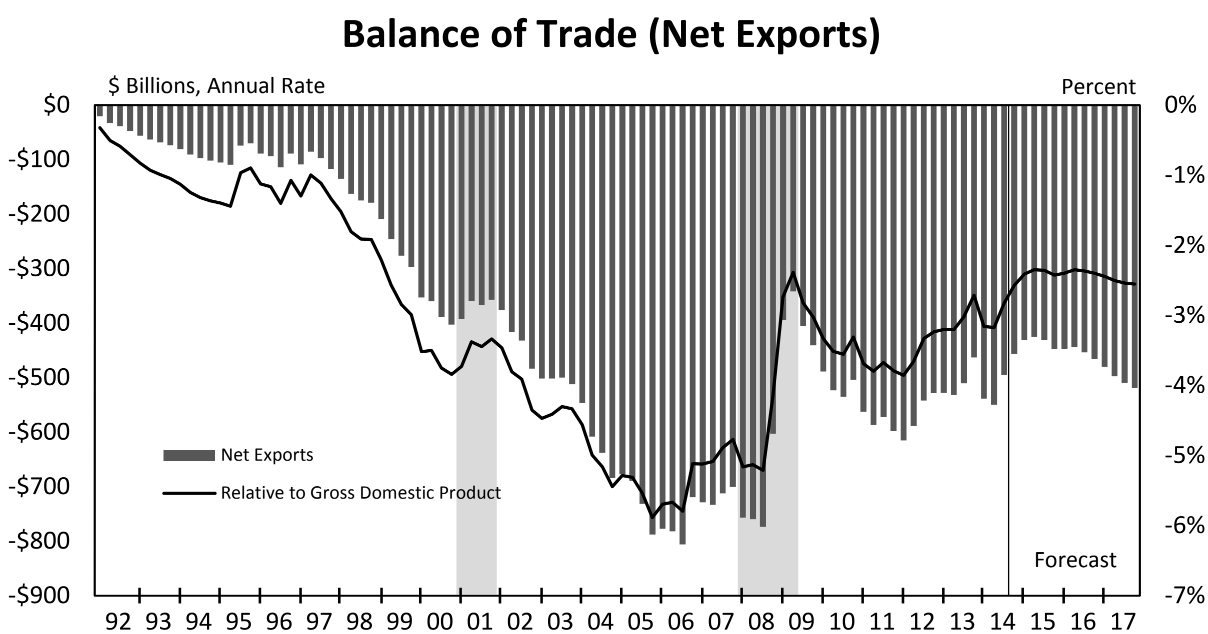
Source: Bureau of Labor Statistics, National Bureau of Economic Research, and IHS Economics

Nonfarm productivity has been subdued this year as the labor market gains momentum. IHS expects productivity to grow just 0.7 percent in 2014, before drifting up toward 2.1 percent growth by 2016. Productivity growth will be critical to support growth in both the short and long terms.



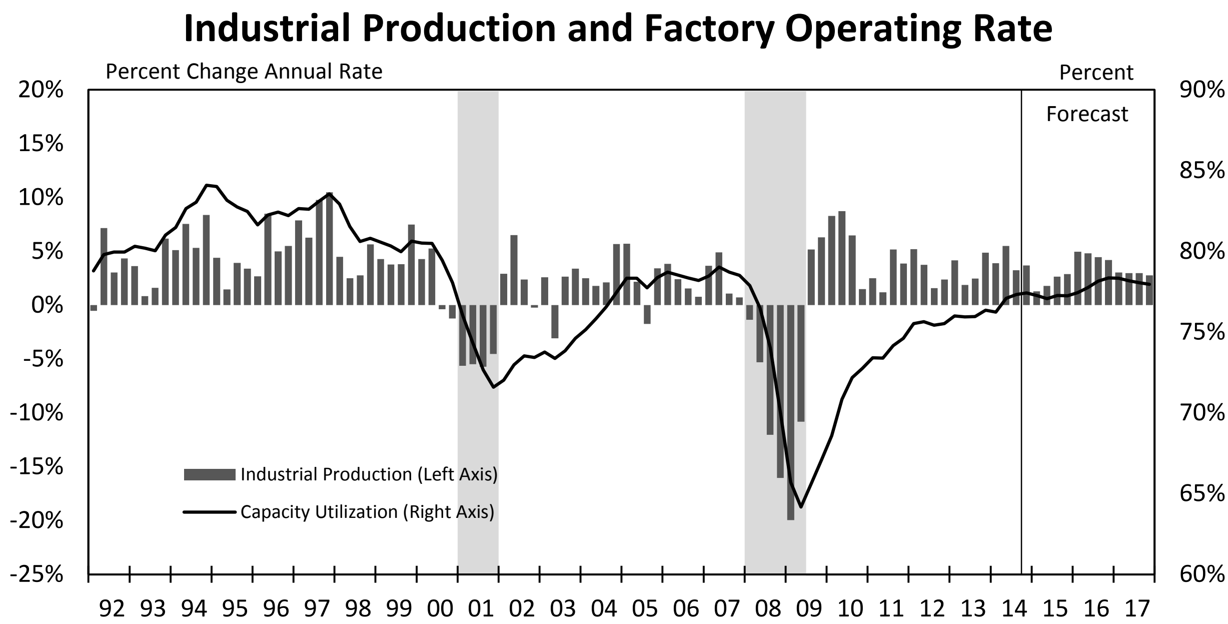
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and IHS Economics

The U.S. Treasury Department concludes that the federal government deficit shrank to $483 billion in fiscal year 2014, or 2.8 percent of GDP. This year's deficit represents a meaningful improvement from recent years, which reached almost 10 percent of GDP in 2009.



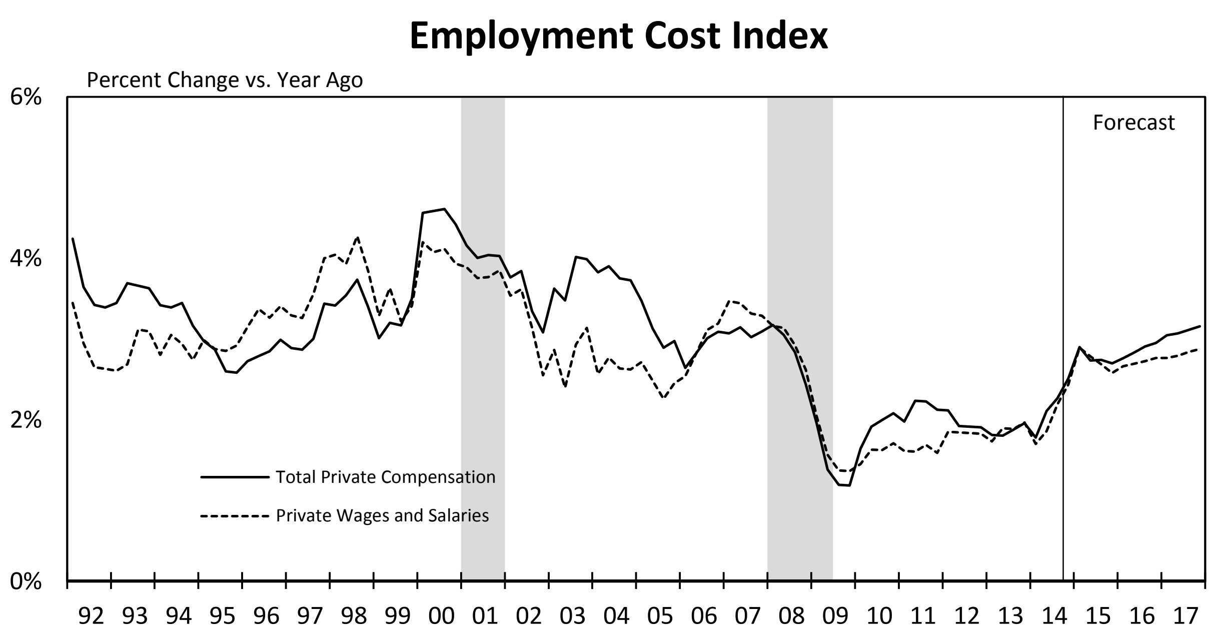
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and IHS Economics

Global growth is slowly strengthening, led by the United States. IHS expects world real GDP to increase 2.7 percent in 2014, before growth accelerates to 3.2 percent in 2015 and 3.5 percent in 2016. Net trade, however, remains a drag as imports pickup from an improving U.S. economy.



Source: Federal Reserve Board, National Bureau of Economic Research, and IHS Economics

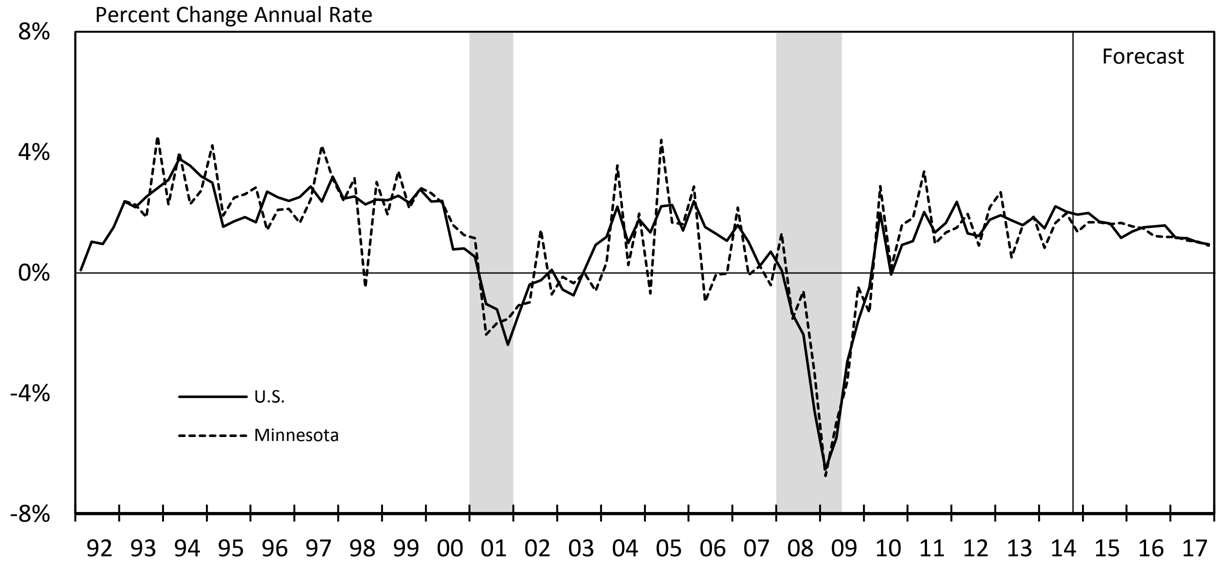
Recent survey results from the Institute of Supply Management (ISM) strongly suggest that the manufacturing sector remains in an expansionary phase. Other measures of manufacturing conditions such as capacity utilization and industrial production have showed similar strength.



Source: Bureau of Labor Statistics, National Bureau of Economic Research, and IHS Economics

Wage growth has remained modest relative to the growth in employment. The employment cost index, a broad measure of nominal wage and benefits compensation, has averaged only about 2 percent annual growth since the recession ended more than five years ago.

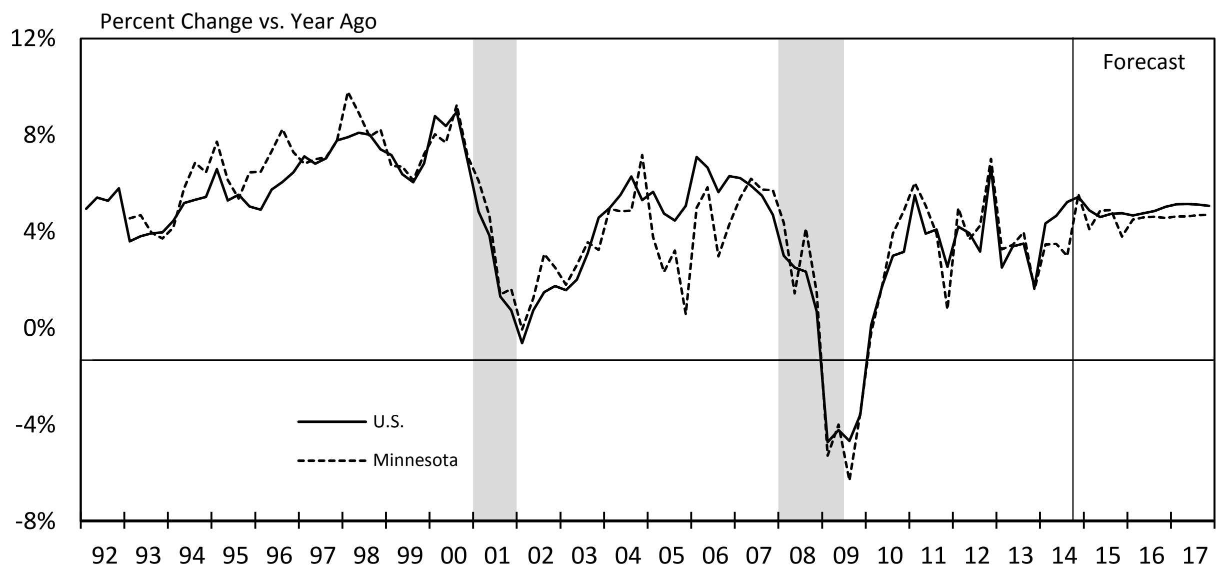
Total Non-Farm Employment



Source: Bureau of Labor Statistics, National Bureau of Economic Research, IHS Economics, and MN Management & Budget

The November 2014 forecast for Minnesota's economy expects job growth to remain modest. Minnesota employment is forecast to grow between 1.4 and 1.6 percent though 2016, before faster productivity gains result in slower job growth for the remainder of the forecast horizon

Wage and Salary Disbursements



Source: Bureau of Economic Analysis, National Bureau of Economic Research, IHS Economics, and MN Management & Budget

Preliminary labor market data and income tax withholding collections suggests Minnesota's nominal wage and salary income rose 3.9 percent in 2014, up from 3.1 percent growth in 2013. MMB forecasts Minnesota wage income to rise 4.4 percent in 2015 and 4.6 percent in 2016

Minnesota Economic Forecast Summary

Forecast 2014 to 2019 - Calendar Years

	2013	2014	2015	2016	2017	2018	2019
Current Dollar Income (Billions of Dollars)							
Personal Income	257.466	266.059	278.118	291.925	307.543	322.388	336.893
%Chg	1.0	3.3	4.5	5.0	5.3	4.8	4.5
Wage & Salary Disbursements	139.720	145.147	151.563	158.495	165.898	173.420	181.153
%Chg	3.1	3.9	4.4	4.6	4.7	4.5	4.5
Non-Wage Personal Income	117.745	120.915	126.553	133.428	141.645	148.965	155.738
%Chg	-1.3	2.7	4.7	5.4	6.2	5.2	4.5
Supplements to Wages & Salaries	30.658	32.143	33.903	35.478	37.129	38.754	40.314
%Chg	2.0	4.8	5.5	4.6	4.7	4.4	4.0
Dividends, Interest, & Rent Income	47.043	48.489	49.808	53.303	58.403	62.585	65.879
%Chg	2.1	3.1	2.7	7.0	9.6	7.2	5.3
Farm Proprietors Income	3.751	2.363	2.796	3.222	3.465	3.544	3.543
%Chg	-38.4	-37.0	18.3	15.2	7.5	2.3	0.0
Non-Farm Proprietors Income	19.338	20.282	21.372	22.248	22.948	23.683	24.644
%Chg	5.3	4.9	5.4	4.1	3.1	3.2	4.1
Personal Current Transfer Receipts	40.395	42.383	44.638	46.496	48.505	50.771	53.246
%Chg	3.7	4.9	5.3	4.2	4.3	4.7	4.9
Less: Contrib. for Gov. Social Ins.	22.388	23.722	24.939	26.294	27.779	29.344	30.862
%Chg	17.2	6.0	5.1	5.4	5.6	5.6	5.2
Real Income (Billions of 2009 Dollars)							
Real Personal Income	239.871	244.525	252.858	261.698	270.850	278.653	285.510
%Chg	-0.2	1.9	3.4	3.5	3.5	2.9	2.5
Real Wage & Salary Disbursements	130.172	133.399	137.800	142.090	146.103	149.898	153.523
%Chg	1.9	2.5	3.3	3.1	2.8	2.6	2.4
Employment (Thousands)							
Employment - Total Non-Farm Payrolls	2,777.8	2,817.7	2,864.3	2,907.7	2,941.4	2,966.9	2,989.1
%Chg	1.7	1.4	1.7	1.5	1.2	0.9	0.7
Construction	100.3	107.4	113.4	117.8	120.9	123.3	124.1
%Chg	5.6	7.0	5.6	3.9	2.6	2.0	0.6
Manufacturing	307.6	311.5	313.8	316.8	319.9	322.2	323.3
%Chg	0.6	1.3	0.7	1.0	1.0	0.7	0.3
Private Service-Providing	1,948.7	1,975.8	2,013.5	2,045.8	2,067.8	2,082.9	2,097.7
%Chg	2.0	1.4	1.9	1.6	1.1	0.7	0.7
Government	414.2	416.1	417.1	419.9	424.4	430.0	435.3
%Chg	0.4	0.5	0.2	0.7	1.1	1.3	1.2
Minnesota Civilian Labor Force	2,973.5	2,987.9	3,006.4	3,034.0	3,058.2	3,080.0	3,098.8
Employment - Household Survey	2,822.9	2,858.2	2,884.9	2,913.6	2,939.8	2,962.6	2,980.6
Unemployment Rate (%)	5.1	4.3	4.0	4.0	3.9	3.8	3.8
Demographic Indicators (Millions)							
Total Population	5.420	5.461	5.500	5.542	5.585	5.625	5.666
%Chg	0.8	0.7	0.7	0.8	0.8	0.7	0.7
Total Population Age 16 & Over	4.284	4.320	4.355	4.392	4.429	4.462	4.496
%Chg	0.9	0.9	0.8	0.9	0.8	0.7	0.8
Total Population Age 65 & Over	0.756	0.780	0.807	0.835	0.865	0.894	0.923
%Chg	3.6	3.2	3.4	3.5	3.6	3.4	3.2
Total Households	2.120	2.135	2.161	2.193	2.222	2.247	2.270
%Chg	0.4	0.7	1.2	1.5	1.3	1.1	1.0
Housing Indicators (Thousands)							
Total Housing Permits (Authorized)	16.818	17.332	20.364	22.573	23.873	24.209	23.940
%Chg	12.1	3.1	17.5	10.8	5.8	1.4	-1.1
Single-Family	10.598	10.376	11.852	12.651	12.885	12.582	11.981
%Chg	23.8	-2.1	14.2	6.7	1.9	-2.4	-4.8

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

U.S. Economic Forecast Summary

Forecast 2014 to 2019, Calendar Years

	2013	2014	2015	2016	2017	2018	2019
Real National Income Accounts (Billions of 2009 Dollars)							
Real Gross Domestic Product (GDP)	15,710.3	16,055.5	16,467.4	16,923.5	17,435.4	17,883.8	18,350.9
%Chg	2.2	2.2	2.6	2.8	3.0	2.6	2.6
Real Consumption	10,699.7	10,940.6	11,246.9	11,579.8	11,936.8	12,253.1	12,559.0
%Chg	2.4	2.3	2.8	3.0	3.1	2.6	2.5
Real Nonresidential Fixed Investment	1,990.6	2,107.8	2,196.6	2,303.6	2,448.3	2,572.0	2,675.0
%Chg	3.0	5.9	4.2	4.9	6.3	5.1	4.0
Real Residential Investment	488.4	495.2	546.4	602.9	645.7	655.7	662.9
%Chg	11.9	1.4	10.3	10.3	7.1	1.6	1.1
Real Personal Income	13,198.7	13,570.4	14,005.3	14,496.0	15,041.1	15,508.6	15,955.7
%Chg	0.8	2.8	3.2	3.5	3.8	3.1	2.9
Current Dollar National Income Accounts (Billions of Dollars)							
Gross Domestic Product (GDP)	16,768.1	17,406.2	18,189.7	19,028.7	19,971.6	20,877.9	21,849.6
%Chg	3.7	3.8	4.5	4.6	5.0	4.5	4.7
Personal Income	14,166.9	14,765.5	15,404.3	16,170.3	17,078.9	17,942.9	18,827.1
%Chg	2.0	4.2	4.3	5.0	5.6	5.1	4.9
Wage & Salary Disbursements	7,124.7	7,475.7	7,831.0	8,209.9	8,630.6	9,058.5	9,504.5
%Chg	2.8	4.9	4.8	4.8	5.1	5.0	4.9
Non-Wage Personal Income	7,042.2	7,289.8	7,573.3	7,960.4	8,448.3	8,884.4	9,322.7
%Chg	1.2	3.5	3.9	5.1	6.1	5.2	4.9
Price and Wage Indexes							
U.S. GDP Deflator (2005=1.0)	106.739	108.434	110.455	112.434	114.542	116.738	119.061
%Chg	1.5	1.6	1.9	1.8	1.9	1.9	2.0
U.S. Consumer Price Index (1982-84=1.0)	2.330	2.369	2.391	2.429	2.481	2.537	2.595
%Chg	1.5	1.7	1.0	1.6	2.2	2.2	2.3
Employment Cost Index (Dec 2005=1.0)	1.187	1.213	1.246	1.282	1.322	1.365	1.411
%Chg	1.9	2.2	2.8	2.9	3.1	3.3	3.3
Employment (Thousands)							
Employment - Total Non-Farm Payrolls	136.4	138.8	141.4	143.5	145.3	146.6	147.7
%Chg	1.7	1.8	1.9	1.5	1.3	0.9	0.7
Construction	5.8	6.0	6.3	6.7	7.2	7.6	7.8
%Chg	3.3	3.5	5.0	6.6	6.8	4.8	2.8
Manufacturing	12.0	12.1	12.3	12.3	12.3	12.3	12.3
%Chg	0.7	1.0	1.0	0.5	0.3	-0.1	-0.4
Private Service-Providing	95.8	97.9	99.9	101.4	102.5	103.1	103.8
%Chg	2.2	2.2	2.1	1.5	1.1	0.6	0.6
Government	21.9	21.9	22.0	22.1	22.3	22.6	22.8
%Chg	-0.3	0.1	0.4	0.5	0.9	1.2	1.1
U.S. Civilian Labor Force	155.4	155.9	157.7	159.7	161.7	163.4	164.8
Employment - Household Survey	143.9	146.3	148.7	150.9	153.1	154.8	156.1
Unemployment Rate (%)	7.4	6.2	5.7	5.5	5.3	5.3	5.3
Other Key Measures							
Non-Farm Productivity (index, 2005=1.0)	1.054	1.062	1.078	1.100	1.124	1.148	1.174
%Chg	0.9	0.7	1.5	2.1	2.2	2.1	2.3
Total Ind. Production (index, 2007=100)	99.932	103.908	106.616	110.827	114.709	117.703	120.511
%Chg	2.9	4.0	2.6	4.0	3.5	2.6	2.4
Manhours in Private Non-Farm Estab.							
Billions of Hours	192.9	197.3	201.4	204.4	207.6	209.8	211.8
%Chg	1.9	2.3	2.0	1.5	1.6	1.1	0.9
Average Weekly Hours	32.4	32.5	32.5	32.4	32.5	32.6	32.7
Manufacturing Workweek	41.9	41.9	41.6	41.5	41.5	41.5	41.4

Source: IHS Economics (IHS); November 2014 Baseline

Alternative Forecast Comparison
Calendar Years

	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2	2013	2014	2015	2016
Real Gross Domestic Product (GDP), Percent Change, Seasonally Adjusted at Annual Rate										
IHS Economics Baseline (11-14)	-2.1	4.6	3.5	2.0	2.3	2.2	2.2	2.2	2.6	2.8
Blue Chip Consensus (11-14)	-2.1	4.6	3.5	2.7	2.8	2.8	2.2	2.2	3.0	2.9
Moody's Analytics (11-14)	-2.1	4.6	3.5	2.4	3.1	3.5	2.2	2.2	3.3	3.6
Standard & Poors (11-14)	-2.1	4.6	3.2	2.8	3.0	2.9	2.2	2.2	3.0	2.7
Wells Fargo (11-14)	-2.1	4.6	3.5	1.6	2.4	2.6	2.2	2.2	2.7	3.0
UBS (11-14)	-2.1	4.6	3.5	2.8	2.5	2.4	2.2	2.2	2.9	2.8
Consumer Price Index (CPI), Percent Change, Seasonally Adjusted at Annual Rate (except where noted)										
IHS Economics Baseline (11-14)	1.9	3.0	1.1	-0.3	0.3	1.7	1.5	1.7	1.0	1.6
Blue Chip Consensus (11-14)	1.9	3.0	1.1	0.7	1.7	2.1	1.5	1.7	1.8	2.2
Moody's Analytics (11-14)	1.9	3.0	1.1	1.0	2.0	2.4	1.5	1.7	1.9	-
Standard & Poors (11-14)	1.9	3.0	1.1	0.5	1.7	2.0	1.5	1.7	1.5	1.6
Wells Fargo (11-14)*	1.4	2.1	1.8	1.5	1.5	1.3	1.5	1.7	1.7	2.4
UBS (11-14)	1.9	3.0	1.1	0.6	1.9	2.5	1.5	1.7	1.8	2.4

* Year-over-Year Percent Change

IHS Economics Baseline Forecast Comparison
Calendar Years

	2012	2013	2014	2015	2016	2017	2018	2019
Real Gross Domestic Product (GDP), Annual Percent Change								
February 2009	3.3	2.9	-	-	-	-	-	-
November 2009	3.7	2.9	-	-	-	-	-	-
February 2010	3.7	2.9	-	-	-	-	-	-
November 2010	2.9	2.7	3.1	3.1	-	-	-	-
February 2011	2.9	3.1	3.3	2.9	-	-	-	-
November 2011	1.6	2.5	3.5	3.3	-	-	-	-
February 2012	2.1	2.3	3.3	3.2	-	-	-	-
November 2012	2.1	1.9	2.8	3.3	2.9	2.1	-	-
February 2013	2.2	1.9	2.8	3.3	2.9	2.8	-	-
November 2013	2.8	1.7	2.5	3.1	3.3	3.1	-	-
February 2014	2.8	1.9	2.7	3.3	3.4	3.1	-	-
November 2014	2.3	2.2	2.2	2.6	2.8	3.0	2.6	2.6
Consumer Price Index (CPI), Annual Percent Change								
February 2009	2.3	2.6	-	-	-	-	-	-
November 2009	2.0	1.8	-	-	-	-	-	-
February 2010	2.0	1.9	-	-	-	-	-	-
November 2010	1.9	2.0	2.2	2.2	-	-	-	-
February 2011	1.7	1.9	2.2	2.2	-	-	-	-
November 2011	1.5	1.7	2.0	2.1	-	-	-	-
February 2012	2.0	1.8	1.9	1.9	-	-	-	-
November 2012	2.1	1.3	1.8	1.7	1.9	1.9	-	-
February 2013	2.1	1.4	1.7	1.6	1.7	1.8	-	-
November 2013	2.1	1.4	1.4	1.7	1.9	1.9	-	-
February 2014	2.1	1.5	1.3	1.7	1.8	1.8	-	-
November 2014	2.1	1.5	1.7	1.0	1.6	2.2	2.2	2.3

Source: IHS Economics (IHS)

Forecast Comparison: Minnesota & U.S.

Forecast 2014 to 2019, Calendar Years

	2012	2013	2014	2015	2016	2017	2018	2019
Personal Income (Billions of Current Dollars)								
Minnesota								
November 2014	254.9	257.5	266.1	278.1	291.9	307.5	322.4	336.9
%Chg	5.4	1.0	3.3	4.5	5.0	5.3	4.8	4.5
February 2014	252.4	258.5	268.9	282.1	296.6	311.7	326.6	340.8
%Chg	4.6	2.4	4.0	4.9	5.2	5.1	4.8	4.3
U.S.								
November 2014	13,887.7	14,166.9	14,765.5	15,404.3	16,170.3	17,078.9	17,942.9	18,827.1
%Chg	5.2	2.0	4.2	4.3	5.0	5.6	5.1	4.9
February 2014	13,743.8	14,133.5	14,696.0	15,446.3	16,278.2	17,173.3	18,039.2	18,889.3
%Chg	4.2	2.8	4.0	5.1	5.4	5.5	5.0	4.7
Wage and Salary Disbursements (Billions of Current Dollars)								
Minnesota								
November 2014	135.6	139.7	145.1	151.6	158.5	165.9	173.4	181.2
%Chg	5.0	3.1	3.9	4.4	4.6	4.7	4.5	4.5
February 2014	135.4	140.1	147.1	154.9	162.9	170.7	178.0	185.1
%Chg	4.8	3.5	5.0	5.3	5.2	4.7	4.3	4.0
U.S.								
November 2014	6,932.1	7,124.7	7,475.7	7,831.0	8,209.9	8,630.6	9,058.5	9,504.5
%Chg	4.5	2.8	4.9	4.8	4.8	5.1	5.0	4.9
February 2014	6,926.8	7,137.8	7,434.7	7,837.2	8,253.5	8,666.3	9,060.0	9,448.6
%Chg	4.3	3.0	4.2	5.4	5.3	5.0	4.5	4.3
Total Non-Farm Payroll Employment (Thousands)								
Minnesota								
November 2014	2,730.7	2,777.8	2,817.7	2,864.3	2,907.7	2,941.4	2,966.9	2,989.1
%Chg	1.6	1.7	1.4	1.7	1.5	1.2	0.9	0.7
February 2014	2,730.9	2,776.6	2,820.0	2,881.3	2,942.0	2,991.2	3,025.1	3,047.7
%Chg	1.6	1.7	1.6	2.2	2.1	1.7	1.1	0.7
U.S.								
November 2014	134,098	136,363	138,838	141,411	143,464	145,299	146,562	147,651
%Chg	1.7	1.7	1.8	1.9	1.5	1.3	0.9	0.7
February 2014	133,737	135,927	138,169	141,210	144,194	146,679	148,350	149,458
%Chg	1.7	1.6	1.6	2.2	2.1	1.7	1.1	0.7
Average Annual Non-Farm Wage (Current Dollars)								
Minnesota								
November 2014	49,641	50,299	51,513	52,915	54,510	56,401	58,451	60,605
%Chg	3.4	1.3	2.4	2.7	3.0	3.5	3.6	3.7
February 2014	49,593	50,467	52,168	53,777	55,381	57,055	58,825	60,721
%Chg	3.2	1.8	3.4	3.1	3.0	3.0	3.1	3.2
U.S.								
November 2014	51,694	52,248	53,844	55,377	57,226	59,399	61,807	64,371
%Chg	2.8	1.1	3.1	2.8	3.3	3.8	4.1	4.1
February 2014	51,794	52,512	53,809	55,500	57,239	59,084	61,072	63,219
%Chg	2.6	1.4	2.5	3.1	3.1	3.2	3.4	3.5

Source: IHS Economics (IHS) and Minnesota Management and Budget (MMB)

Factors Affecting Tax Revenue

Billions of Current Dollars

	2012	2013	2014	2015	2016	2017	2018	2019
			Individual Income Tax (Calendar Years)					
Minnesota Non-Farm Tax Base								
February 2012	194.943	203.230	212.858	223.563	-	-	-	-
%Chg	4.2	4.3	4.7	5.0				
November 2012	192.573	199.658	209.583	220.465	231.453	241.653	-	-
%Chg	4.4	3.7	5.0	5.2	5.0	4.4		
February 2013	193.802	198.765	210.048	220.613	231.408	242.315	-	-
%Chg	5.1	2.6	5.7	5.0	4.9	4.7		
November 2013	196.327	204.957	214.980	225.805	237.873	250.970	-	-
%Chg	5.3	4.4	4.9	5.0	5.3	5.5		
February 2014	196.327	203.603	213.810	225.420	238.065	251.045	-	-
%Chg	5.3	3.7	5.0	5.4	5.6	5.5		
November 2014	199.980	206.101	213.919	222.743	234.048	247.250	259.688	271.678
%Chg	6.9	3.1	3.8	4.1	5.1	5.6	5.0	4.6
Minnesota Wage and Salary Disbursements								
February 2012	136.133	141.815	148.405	155.550	-	-	-	-
%Chg	4.2	4.2	4.6	4.8				
November 2012	135.623	140.065	146.545	153.708	160.825	167.530	-	-
%Chg	4.6	3.3	4.6	4.9	4.6	4.2		
February 2013	136.166	139.090	146.780	153.973	161.200	168.063	-	-
%Chg	5.0	2.1	5.5	4.9	4.7	4.3		
November 2013	135.435	141.108	147.160	154.325	161.890	169.563	-	-
%Chg	4.8	4.2	4.3	4.9	4.9	4.7		
February 2014	135.435	140.128	147.110	154.948	162.930	170.663	-	-
%Chg	4.8	3.5	5.0	5.3	5.2	4.7		
November 2014	135.558	139.720	145.147	151.563	158.495	165.898	173.420	181.153
%Chg	5.0	3.1	3.9	4.4	4.6	4.7	4.5	4.5
Minnesota Dividends, Interest, & Rental Income								
February 2012	42.292	43.922	45.755	48.044	-	-	-	-
%Chg	4.0	3.9	4.2	5.0				
November 2012	40.582	42.526	44.862	47.427	50.393	53.241	-	-
%Chg	4.2	4.8	5.5	5.7	6.3	5.7		
February 2013	41.010	42.685	44.949	47.103	49.620	52.949	-	-
%Chg	5.3	4.1	5.3	4.8	5.3	6.7		
November 2013	43.487	45.385	48.313	50.864	54.301	58.723	-	-
%Chg	6.0	4.4	6.5	5.3	6.8	8.1		
February 2014	43.487	45.086	47.300	49.877	53.438	57.725	-	-
%Chg	6.0	3.7	4.9	5.4	7.1	8.0		
November 2014	46.062	47.043	48.489	49.808	53.303	58.403	62.585	65.879
%Chg	10.4	2.1	3.1	2.7	7.0	9.6	7.2	5.3
Minnesota Non-Farm Proprietors' Income								
February 2012	16.518	17.496	18.698	19.970	-	-	-	-
%Chg	4.8	5.9	6.9	6.8				
November 2012	16.367	17.064	18.176	19.337	20.238	20.881	-	-
%Chg	3.6	4.3	6.5	6.4	4.7	3.2		
February 2013	16.625	16.989	18.320	19.540	20.587	21.300	-	-
%Chg	5.2	2.2	7.8	6.7	5.4	3.5		
November 2013	17.405	18.465	19.508	20.619	21.681	22.684	-	-
%Chg	6.8	6.1	5.6	5.7	5.1	4.6		
February 2014	17.405	18.390	19.403	20.595	21.700	22.656	-	-
%Chg	6.8	5.7	5.5	6.1	5.4	4.4		
November 2014	18.360	19.338	20.282	21.372	22.248	22.948	23.683	24.644
%Chg	13.2	5.3	4.9	5.4	4.1	3.1	3.2	4.1

Factors Affecting Tax Revenue (Continued)

Billions of Current Dollars

	2012	2013	2014	2015	2016	2017	2018	2019
General Sales Tax (Fiscal Year)								
Minnesota Synthetic Sales Tax Base (Fiscal Year)								
February 2012	74.383	77.000	-	-	-	-	-	-
%Chg	5.6	3.5						
November 2012	72.768	75.755	78.287	81.516	84.151	86.583	-	-
%Chg	5.4	4.1	3.3	4.1	3.2	2.9		
February 2013	72.610	75.610	78.247	81.180	83.936	86.428	-	-
%Chg	5.1	4.1	3.5	3.7	3.4	3.0		
November 2013	71.869	74.932	77.285	81.086	84.764	88.492	-	-
%Chg	5.2	4.3	3.1	4.9	4.5	4.4		
February 2014	73.764	77.085	80.121	84.742	89.234	93.625	-	-
%Chg	5.3	4.5	3.9	5.8	5.3	4.9		
November 2014	73.746	76.929	80.113	83.634	87.403	91.537	95.285	98.523
%Chg	5.1	4.3	4.1	4.4	4.5	4.7	4.1	3.4
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)								
February 2012	14.083	14.571	-	-	-	-	-	-
%Chg	4.1	3.5						
November 2012	14.011	14.756	15.215	15.636	15.999	16.292	-	-
%Chg	5.2	5.3	3.1	2.8	2.3	1.8		
February 2013	14.005	14.649	15.087	15.547	16.044	16.424	-	-
%Chg	5.2	4.6	3.0	3.0	3.2	2.4		
November 2013	13.866	14.519	15.253	15.862	16.467	17.091	-	-
%Chg	5.4	4.7	5.1	4.0	3.8	3.8		
February 2014	13.866	14.507	15.141	15.746	16.512	17.212	-	-
%Chg	5.4	4.6	4.4	4.0	4.9	4.2		
November 2014	13.820	14.400	14.844	15.336	15.920	16.601	17.316	17.943
%Chg	5.2	4.2	3.1	3.3	3.8	4.3	4.3	3.6
Minnesota's Proxy Share of U.S. Capital Equipment Spending								
February 2012	13.626	14.602	-	-	-	-	-	-
%Chg	8.6	7.2						
November 2012	12.283	12.896	13.805	15.122	16.402	17.397	-	-
%Chg	9.1	5.0	7.0	9.5	8.5	6.1		
February 2013	12.271	13.306	14.182	15.272	16.522	17.549	-	-
%Chg	8.9	8.4	6.6	7.7	8.2	6.2		
November 2013	12.827	13.602	14.293	15.653	17.022	18.358	-	-
%Chg	7.8	6.0	5.1	9.5	8.7	7.8		
February 2014	12.827	13.580	14.119	15.649	17.368	18.748	-	-
%Chg	7.8	5.9	4.0	10.8	11.0	7.9		
November 2014	12.820	13.487	14.079	15.116	16.412	17.910	19.108	20.061
%Chg	7.8	5.2	4.4	7.4	8.6	9.1	6.7	5.0
Minnesota's Proxy Share of U.S. Construction Spending								
February 2012	5.184	5.539	-	-	-	-	-	-
%Chg	9.3	6.8						
November 2012	5.327	5.815	6.372	7.021	-	-	-	-
%Chg	12.4	9.2	9.6	10.2				
February 2013	5.257	5.656	6.171	6.870	-	-	-	-
%Chg	11.0	7.6	9.1	11.3				
November 2013	5.441	5.944	6.693	7.396	8.196	8.869	-	-
%Chg	11.6	9.2	12.6	10.5	10.8	8.2		
February 2014	5.439	5.965	6.684	7.483	8.173	8.819	-	-
%Chg	11.5	9.7	12.1	12.0	9.2	7.9		
November 2014	5.514	5.930	6.721	7.363	7.899	8.319	8.713	9.026
%Chg	12.7	7.5	13.3	9.6	7.3	5.3	4.7	3.6

Factors Affecting Tax Revenue (Continued)

Billions of Current Dollars

	2012	2013	2014	2015	2016	2017	2018	2019
Corporate Franchise Tax (Calendar Year)								
U.S. Corporate Profits (w/ IVA and capital consumption adjustment, less profits from Federal Reserve)								
February 2012	1,418.7	1,406.6	1,499.4	1,539.6	-	-	-	-
%Chg	-5.4	-0.9	6.6	2.7				
November 2012	1,445.1	1,373.8	1,390.2	1,405.9	1,398.0	1,399.5	-	-
%Chg	5.1	-4.9	1.2	1.1	-0.6	0.1		
February 2013	1,449.4	1,372.8	1,411.1	1,445.5	1,452.9	1,469.8	-	-
%Chg	5.4	-5.3	2.8	2.4	0.5	1.2		
November 2013*	1,947.8	2,012.2	2,097.9	2,209.0	2,311.5	2,371.8	-	-
%Chg	4.8	3.3	4.3	5.3	4.6	2.6		
February 2014	1,947.8	2,027.7	2,167.7	2,270.4	2,352.2	2,412.5	-	-
%Chg	4.8	4.1	6.9	4.7	3.6	2.6		
November 2014	1,960.6	2,024.0	1,994.3	2,183.5	2,282.4	2,295.8	2,331.1	2,427.9
%Chg	8.4	3.2	-1.5	9.5	4.5	0.6	1.5	4.2
Insurance Gross Premiums Tax (Calendar Year)								
Minnesota Direct Premiums Written: Property and Life (Index: 2003=100.0)								
February 2012	-	-	-	-	-	-	-	-
%Chg								
November 2012	-	-	-	-	-	-	-	-
%Chg								
February 2013	-	-	-	-	-	-	-	-
%Chg								
November 2013	-	-	-	-	-	-	-	-
%Chg								
February 2014	-	-	-	-	-	-	-	-
%Chg								
November 2014**	121.521	124.190	129.157	131.687	133.996	135.511	136.147	136.934
%Chg	5.0	2.2	4.0	2.0	1.8	1.1	0.5	0.6
Deed & Mortgage Tax (Fiscal Year)								
U.S. New and Existing Home Sales (Current $ Value)								
February 2012	-	-	-	-	-	-	-	-
%Chg								
November 2012	-	-	-	-	-	-	-	-
%Chg								
February 2013	939.3	1,088.2	1,234.0	1,446.5	1,527.7	1,523.8	-	-
%Chg	9.7	15.9	13.4	17.2	5.6	-0.3		
November 2013	937.7	1,140.5	1,334.6	1,509.4	1,574.1	1,548.1	-	-
%Chg	9.7	21.6	17.0	13.1	4.3	-1.7		
February 2014	937.7	1,140.6	1,273.5	1,472.5	1,574.3	1,559.7	-	-
%Chg	9.7	21.6	11.7	15.6	6.9	-0.9		
November 2014	937.7	1,140.9	1,221.3	1,339.7	1,455.0	1,517.0	1,525.4	1,600.0
%Chg	9.5	21.7	7.0	9.7	8.6	4.3	0.6	4.9

* Beginning November 2013 includes rest-of-world profits to account for change in the Minnesota tax base.
** Beginning November 2014 primary factor became Minnesota Direct Premiums Written: Property and Life.

FY Close
End of Session vs. Actual Comparison
(FY 2014, $ in thousands)

	5-14 Enacted FY 2014	Actual FY 2014	$ Change	% Change
Actual & Estimated Resources				
Balance Forward From Prior Year	1,711,915	1,711,915	0	0.0%
Current Resources:				
Tax Revenues	18,365,033	18,553,847	188,814	1.0%
Non-Tax Revenues	725,093	721,298	(3,795)	-0.5%
Subtotal - Non-Dedicated Revenue	19,090,126	19,275,145	185,019	1.0%
Dedicated Revenue	189	505	316	167.2%
Transfers In	188,442	187,906	(536)	-0.3%
Prior Year Adjustments	25,000	58,702	33,702	134.8%
Subtotal - Other Revenue	213,631	247,113	33,482	15.7%
Subtotal-Current Resources	19,303,757	19,522,258	218,501	1.1%
Total Resources Available	**21,015,672**	**21,234,173**	**218,501**	**1.0%**
Actual & Estimated Spending				
K-12 Education	7,660,326	7,626,951	(33,375)	-0.4%
K-12 Ptx Rec Shift/Aid Payment Shift	812,574	812,574	0	0.0%
K-12 Education	8,472,900	8,439,525	(33,375)	-0.4%
Higher Education	1,392,346	1,381,461	(10,885)	-0.8%
Property Tax Aids & Credits	1,326,697	1,320,534	(6,163)	-0.5%
Health & Human Services	5,573,973	5,429,890	(144,083)	-2.6%
Public Safety & Judiciary	974,280	943,905	(30,375)	-3.1%
Transportation	150,195	148,201	(1,994)	-1.3%
Environment & Agriculture	154,928	152,703	(2,225)	-1.4%
Jobs, Economic Development, Housing & Commerce	232,733	194,367	(38,366)	-16.5%
State Government & Veterans	502,764	435,873	(66,891)	-13.3%
Debt Service	619,935	619,935	0	0.0%
Capital Projects & Grants	281,923	281,913	(10)	0.0%
Estimated Cancellations	(5,110)	0	5,110	n/m
Subtotal Expenditures & Transfers	**19,677,564**	**19,348,307**	**(329,257)**	**-39.9%**
Dedicated Expenditures	189	0	(189)	-100.0%
Total Expenditures & Transfers	**19,677,753**	**19,348,307**	**(329,446)**	**-1.7%**
Balance Before Reserves	**1,337,919**	**1,885,866**	**547,947**	**41.0%**
Cash Flow Account	350,000	350,000	0	
Budget Reserve	660,992	660,992	0	
Stadium Reserve	37,444	39,780	2,336	
Appropriations Carried Forward	0	178,751	178,751	
Budgetary Balance	**289,483**	**656,343**	**366,860**	

Current Fiscal Year-to-Date
End-of-Session vs. Actual Revenue Comparison

Fiscal Year-to-Date 2015 (July-October, 2014)

($ in Thousands)	End-of-Session FY 2015	Actual FY 2015	Difference Act-Est.
Individual Income Tax			
Withholding	2,511,300	2,478,627	(32,673)
Declarations	441,333	431,174	(10,158)
Miscellaneous	177,955	211,158	33,203
Gross	3,130,587	3,120,959	(9,628)
Refunds	73,162	67,922	(5,241)
Net	3,057,425	3,053,037	(4,388)
Corporate & Bank Excise			
Declarations	355,364	402,851	47,488
Miscellaneous	85,485	108,650	23,164
Gross	440,849	511,501	70,652
Refunds	21,991	18,585	(3,406)
Net	418,858	492,915	74,058
Sales Tax			
Gross	1,690,646	1,684,962	(5,684)
Refunds (including Indian Refunds)	65,040	64,255	(784)
Net	1,625,606	1,620,707	(4,899)
Other Revenues:			
Estate	60,155	48,722	(11,433)
Liquor/Wine/Beer	22,768	24,507	1,739
Cigarette/Tobacco/Cont Sub	174,826	168,698	(6,128)
Deed and Mortgage	56,531	59,796	3,265
Insurance Gross Earnings	83,003	86,041	3,038
Lawful Gambling	14,066	11,604	(2,462)
Health Care Surcharge	96,847	61,013	(35,834)
Other Taxes	243	249	6
Statewide Property Tax	190,989	194,463	3,474
DHS SOS Collections	19,150	36,521	17,371
Income Tax Reciprocity	-	-	-
Investment Income	1,300	3,647	2,347
Tobacco Settlement	100	100	-
Departmental Earnings	65,080	57,054	(8,026)
Fines and Surcharges	22,851	21,241	(1,610)
Lottery Revenues	12,951	14,613	1,662
Revenues yet to be allocated	-	145	145
Residual Revenues	31,935	28,129	(3,806)
County Nursing Home, Pub Hosp IGT	948	2,264	1,316
Other Subtotal	853,743	818,807	(34,936)
Other Refunds	1,198	1,565	367
Other Net	852,545	817,242	(35,303)
Total Gross	**6,115,826**	**6,136,229**	**20,404**
Total Refunds	**161,391**	**152,328**	**(9,064)**
Total Net	**5,954,434**	**5,983,902**	**29,468**

Current Biennium Comparison: FY 2014-15 General Fund Budget
End of Session vs. November 2014 Forecast

($ in thousands)

	5-14 Enacted FY 2014-15	11-14 Fcst FY 2014-15	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	1,711,915	1,711,915	0
Current Resources:			
Tax Revenues	37,316,822	37,584,975	268,153
Non-Tax Revenues	1,444,965	1,429,663	(15,302)
Subtotal - Non-Dedicated Revenue	38,761,787	39,014,638	252,851
Dedicated Revenue	190	1,005	815
Transfers In	280,137	256,635	(23,502)
Prior Year Adjustments	50,000	98,702	48,702
Subtotal - Other Revenue	330,327	356,342	26,015
Subtotal-Current Resources	39,092,114	39,370,980	278,866
Total Resources Available	**40,804,029**	**41,082,895**	**278,866**
Actual & Estimated Spending			
K-12 Education	15,866,744	15,816,577	(50,167)
K-12 Ptx Rec Shift/Aid Payment Shift	812,574	812,574	0
K-12 Education	16,679,318	16,629,151	(50,167)
Higher Education	2,840,411	2,842,782	2,371
Property Tax Aids & Credits	2,969,438	2,963,896	(5,542)
Health & Human Services	11,452,909	11,205,276	(247,633)
Public Safety & Judiciary	1,985,099	1,979,800	(5,299)
Transportation	269,240	274,401	5,161
Environment & Agriculture	325,242	384,683	59,441
Jobs, Economic Development, Housing & Commerce	438,357	438,935	578
State Government & Veterans	982,193	978,912	(3,281)
Debt Service	1,253,992	1,242,995	(10,997)
Capital Projects & Grants	411,103	411,840	737
Estimated Cancellations	(20,110)	(15,000)	5,110
Subtotal Expenditures & Transfers	**39,587,192**	**39,337,671**	**(249,521)**
Dedicated Expenditures	190	0	(190)
Total Expenditures & Transfers	**39,587,382**	**39,337,671**	**(249,711)**
Balance Before Reserves	**1,216,647**	**1,745,224**	**528,577**
Cash Flow Account	350,000	350,000	0
Budget Reserve	810,992	994,339	183,347
Stadium Reserve	23,392	28,227	4,835
Budgetary Balance	**32,263**	**372,658**	**340,395**

Current Biennium: FY 2014-15 by Fiscal Year
November 2014 General Fund Forecast

($ in thousands)

	Actual FY 2014	11-14 Fcst FY 2015	Biennial Total FY 2014-15
Actual & Estimated Resources			
Balance Forward From Prior Year	1,711,915	1,885,866	1,711,915
Current Resources:			
Tax Revenues	18,553,847	19,031,128	37,584,975
Non-Tax Revenues	721,298	708,365	1,429,663
Subtotal - Non-Dedicated Revenue	19,275,145	19,739,493	39,014,638
Dedicated Revenue	505	500	1,005
Transfers In	187,906	68,729	256,635
Prior Year Adjustments	58,702	40,000	98,702
Subtotal - Other Revenue	247,113	109,229	356,342
Subtotal-Current Resources	19,522,258	19,848,722	39,370,980
Total Resources Available	**21,234,173**	**21,734,588**	**41,082,895**
Actual & Estimated Spending			
K-12 Education	7,626,951	8,189,626	15,816,577
K-12 Ptx Rec Shift/Aid Payment Shift	812,574	0	812,574
K-12 Education	8,439,525	8,189,626	16,629,151
Higher Education	1,381,461	1,461,321	2,842,782
Property Tax Aids & Credits	1,320,534	1,643,362	2,963,896
Health & Human Services	5,429,890	5,775,386	11,205,276
Public Safety & Judiciary	943,905	1,035,895	1,979,800
Transportation	148,201	126,200	274,401
Environment & Agriculture	152,703	231,980	384,683
Jobs, Economic Development, Housing & Commerce	194,367	244,568	438,935
State Government & Veterans	435,873	543,039	978,912
Debt Service	619,935	623,060	1,242,995
Capital Projects & Grants	281,913	129,927	411,840
Estimated Cancellations	0	(15,000)	(15,000)
Total Expenditures & Transfers	**19,348,307**	**19,989,364**	**39,337,671**
Balance Before Reserves	**1,885,866**	**1,745,224**	**1,745,224**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	660,992	994,339	994,339
Stadium Reserve	39,780	28,227	28,227
Appropriations Carried Forward	178,751	0	0
Budgetary Balance	**656,343**	**372,658**	**372,658**

Next Biennium: FY 2016-17 General Fund Budget
End of Session vs. November 2014 Forecast
($ in thousands)

	5-14 Enacted FY 2016-17	11-14 Fcst FY 2016-17	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	1,216,647	1,745,224	528,577
Current Resources:			
Tax Revenues	40,633,918	40,252,578	(381,340)
Non-Tax Revenues	1,412,598	1,400,411	(12,187)
Subtotal - Non-Dedicated Revenue	42,046,516	41,652,989	(393,527)
Dedicated Revenue	2	1,000	998
Transfers In	196,062	156,314	(39,748)
Prior Year Adjustments	50,000	70,000	20,000
Subtotal - Other Revenue	246,064	227,314	(18,750)
Subtotal-Current Resources	42,292,580	41,880,303	(412,277)
Total Resources Available	**43,509,227**	**43,625,527**	**116,300**
Actual & Estimated Spending			
K-12 Education	16,879,132	16,818,839	(60,293)
Higher Education	2,899,030	2,892,530	(6,500)
Property Tax Aids & Credits	3,371,266	3,375,110	3,844
Health & Human Services	13,200,416	12,757,252	(443,164)
Public Safety & Judiciary	2,025,402	2,006,509	(18,893)
Transportation	211,522	213,072	1,550
Environment & Agriculture	333,277	337,738	4,461
Jobs, Economic Development, Housing & Commerce	352,730	358,594	5,864
State Government & Veterans	941,116	957,371	16,255
Debt Service	1,278,082	1,277,493	(589)
Capital Projects & Grants	272,802	268,401	(4,401)
Estimated Cancellations	(20,000)	(20,000)	0
Subtotal Expenditures & Transfers	**41,744,775**	**41,242,909**	**(501,866)**
Dedicated Expenditures	2	0	(2)
Total Expenditures & Transfers	**41,744,777**	**41,242,909**	**(501,868)**
Balance Before Reserves	**1,764,450**	**2,382,618**	**618,168**
Cash Flow Account	350,000	350,000	0
Budget Reserve	810,992	994,339	183,347
Stadium Reserve	0	1,390	1,390
Budgetary Balance	**603,458**	**1,036,889**	**433,431**

Next Biennium: FY 2016-17 by Fiscal Year
November 2014 General Fund Forecast
($ in thousands)

	11-14 Fcst FY 2016	11-14 Fcst FY 2017	Biennial Total FY 2016-17
Actual & Estimated Resources			
Balance Forward From Prior Year	1,745,224	1,734,982	1,745,224
Current Resources:			
Tax Revenues	19,623,908	20,628,670	40,252,578
Non-Tax Revenues	701,869	698,542	1,400,411
Subtotal - Non-Dedicated Revenue	20,325,777	21,327,212	41,652,989
Dedicated Revenue	500	500	1,000
Transfers In	71,181	85,133	156,314
Prior Year Adjustments	35,000	35,000	70,000
Subtotal - Other Revenue	106,681	120,633	227,314
Subtotal-Current Resources	20,432,458	21,447,845	41,880,303
Total Resources Available	**22,177,682**	**23,182,827**	**43,625,527**
Actual & Estimated Spending			
K-12 Education	8,355,352	8,463,487	16,818,839
Higher Education	1,446,265	1,446,265	2,892,530
Property Tax Aids & Credits	1,674,747	1,700,363	3,375,110
Health & Human Services	6,264,883	6,492,369	12,757,252
Public Safety & Judiciary	1,005,371	1,001,138	2,006,509
Transportation	106,536	106,536	213,072
Environment & Agriculture	169,297	168,441	337,738
Jobs, Economic Development, Housing & Commerce	177,182	181,412	358,594
State Government & Veterans	478,059	479,312	957,371
Debt Service	636,290	641,203	1,277,493
Capital Projects & Grants	133,718	134,683	268,401
Estimated Cancellations	(5,000)	(15,000)	(20,000)
Total Expenditures & Transfers	**20,442,700**	**20,800,209**	**41,242,909**
Balance Before Reserves	**1,734,982**	**2,382,618**	**2,382,618**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	994,339	994,339	994,339
Stadium Reserve	10,323	1,390	1,390
Budgetary Balance	**380,320**	**1,036,889**	**1,036,889**

Biennial Comparison: FY 2014-15 vs. FY 2016-17 General Fund Budget
November 2014 General Fund Forecast
($ in thousands)

	11-14 Fcst FY 2014-15	11-14 Fcst FY 2016-17	$ Difference	% Difference
Actual & Estimated Resources				
Balance Forward From Prior Year	1,711,915	1,745,224	33,309	1.9%
Current Resources:				
Tax Revenues	37,584,975	40,252,578	2,667,603	7.1%
Non-Tax Revenues	1,429,663	1,400,411	(29,252)	-2.0%
Subtotal - Non-Dedicated Revenue	39,014,638	41,652,989	2,638,351	6.8%
Dedicated Revenue	1,005	1,000	(5)	-0.5%
Transfers In	256,635	156,314	(100,321)	-39.1%
Prior Year Adjustments	98,702	70,000	(28,702)	-29.1%
Subtotal - Other Revenue	356,342	227,314	(129,028)	-36.2%
Subtotal-Current Resources	39,370,980	41,880,303	2,509,323	6.4%
Total Resources Available	**41,082,895**	**43,625,527**	**2,542,632**	**6.2%**
Actual & Estimated Spending				
K-12 Education	15,816,577	16,818,839	1,002,262	6.3%
K-12 Ptx Rec Shift/Aid Payment Shift	812,574	0	(812,574)	-100.0%
K-12 Education	16,629,151	16,818,839	189,688	1.1%
Higher Education	2,842,782	2,892,530	49,748	1.7%
Property Tax Aids & Credits	2,963,896	3,375,110	411,214	13.9%
Health & Human Services	11,205,276	12,757,252	1,551,976	13.9%
Public Safety & Judiciary	1,979,800	2,006,509	26,709	1.3%
Transportation	274,401	213,072	(61,329)	-22.4%
Environment & Agriculture	384,683	337,738	(46,945)	-12.2%
Jobs, Economic Development, Housing & Commerce	438,935	358,594	(80,341)	-18.3%
State Government & Veterans	978,912	957,371	(21,541)	-2.2%
Debt Service	1,242,995	1,277,493	34,498	2.8%
Capital Projects & Grants	411,840	268,401	(143,439)	-34.8%
Estimated Cancellations	(15,000)	(20,000)	(5,000)	n/m
Total Expenditures & Transfers	**39,337,671**	**41,242,909**	**1,905,238**	**4.8%**
Balance Before Reserves	**1,745,224**	**2,382,618**	**637,394**	**36.5%**
Cash Flow Account	350,000	350,000	0	
Budget Reserve	994,339	994,339	0	
Stadium Reserve	28,227	1,390	(26,837)	
Budgetary Balance	**372,658**	**1,036,889**	**664,231**	

Planning Horizon: By Biennium, FY 2014-19
November 2014 General Fund Forecast

($ in thousands)

	11-14 Fcst FY 2014-15	11-14 Fcst FY 2016-17	11-14 Plng Est FY 2018-19
Actual & Estimated Resources			
Balance Forward From Prior Year	1,711,915	1,745,224	2,382,618
Current Resources:			
Tax Revenues	37,584,975	40,252,578	44,294,629
Non-Tax Revenues	1,429,663	1,400,411	1,383,762
Subtotal - Non-Dedicated Revenue	39,014,638	41,652,989	45,678,391
Dedicated Revenue	1,005	1,000	1,000
Transfers In	256,635	156,314	51,716
Prior Year Adjustments	98,702	70,000	70,000
Subtotal - Other Revenue	356,342	227,314	122,716
Subtotal-Current Resources	39,370,980	41,880,303	45,801,107
Total Resources Available	**41,082,895**	**43,625,527**	**48,183,725**
Actual & Estimated Spending			
K-12 Education	15,816,577	16,818,839	17,169,369
K-12 Ptx Rec Shift/Aid Payment Shift	812,574	0	0
K-12 Education	16,629,151	16,818,839	17,169,369
Higher Education	2,842,782	2,892,530	2,892,530
Property Tax Aids & Credits	2,963,896	3,375,110	3,466,548
Health & Human Services	11,205,276	12,757,252	14,187,425
Public Safety & Judiciary	1,979,800	2,006,509	2,006,193
Transportation	274,401	213,072	213,072
Environment & Agriculture	384,683	337,738	322,080
Jobs, Economic Development, Housing & Commerce	438,935	358,594	362,892
State Government & Veterans	978,912	957,371	956,521
Debt Service	1,242,995	1,277,493	1,222,471
Capital Projects & Grants	411,840	268,401	271,110
Estimated Cancellations	(15,000)	(20,000)	(20,000)
Total Expenditures & Transfers	**39,337,671**	**41,242,909**	**43,050,211**
Balance Before Reserves	**1,745,224**	**2,382,618**	**5,133,514**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	994,339	994,339	994,339
Stadium Reserve	28,227	1,390	0
Budgetary Balance	**372,658**	**1,036,889**	**3,789,175**

Historical and Projected Revenue Growth
November 2014 General Fund Forecast
($ in millions)

	Actual FY 2012	Actual FY 2013	Actual FY 2014	Estimated FY 2015	Estimated FY 2016	Estimated FY 2017	Average Annual
Individual Income Tax	$ 7,972	$ 9,013	$ 9,660	$ 9,955	$ 10,502	$ 11,163	
$ change	443	1,041	647	295	547	661	
% change	**5.9%**	**13.1%**	**7.2%**	**3.1%**	**5.5%**	**6.3%**	**6.8%**
Sales Tax	4,678	4,774	5,043	5,155	5,269	5,527	
$ change	275	96	269	112	114	258	
% change	**6.2%**	**2.1%**	**5.6%**	**2.2%**	**2.2%**	**4.9%**	**3.9%**
Corporate Tax	1,044	1,281	1,278	1,359	1,280	1,327	
$ change	119	237	(3)	81	(79)	47	
% change	**12.9%**	**22.7%**	**-0.2%**	**6.3%**	**-5.8%**	**3.7%**	**6.6%**
Statewide Property Tax	799	811	836	840	846	863	
$ change	32	12	25	4	6	17	
% change	**4.2%**	**1.5%**	**3.1%**	**0.5%**	**0.7%**	**2.0%**	**2.0%**
Other Tax Revenue	1,158	1,268	1,737	1,722	1,727	1,749	
$ change	(73)	110	469	(15)	5	22	
% change	**-5.9%**	**9.5%**	**37.0%**	**-0.9%**	**0.3%**	**1.3%**	**6.9%**
Total Tax Revenue	$ 15,651	$ 17,147	$ 18,554	$ 19,031	$ 19,624	$ 20,629	
$ change	796	1,496	1,407	477	593	1,005	
% change	**5.4%**	**9.6%**	**8.2%**	**2.6%**	**3.1%**	**5.1%**	**5.7%**
Non-Tax Revenues	774	798	722	709	702	700	
$ change	(34)	24	(76)	(13)	(7)	(2)	
% change	**-4.2%**	**3.1%**	**-9.5%**	**-1.8%**	**-1.0%**	**-0.3%**	**-2.3%**
Transfers, All Other	661	711	246	109	106	119	
$ change	140	50	(465)	(137)	(3)	13	
% change	**26.9%**	**7.6%**	**-65.4%**	**-55.7%**	**-2.8%**	**12.3%**	**-12.9%**
Total Revenue	$ 17,086	$ 18,656	$ 19,522	$ 19,849	$ 20,432	$ 21,448	
$ change	902	1,570	866	327	583	1,016	
% change	**5.6%**	**9.2%**	**4.6%**	**1.7%**	**2.9%**	**5.0%**	**4.8%**

Historical and Projected Spending Growth
November 2014 General Fund Forecast

($ in millions)

	Actual FY 2012	Actual FY 2013	Actual FY 2014	Estimated FY 2015	Estimated FY 2016	Estimated FY 2017	Average Annual
K-12 Education	$ 6,616	$ 8,870	$ 8,440	$ 8,190	$ 8,355	$ 8,463	
$ change	538	2,254	(430)	(249)	165	108	
% change	**8.9%**	**34.1%**	**-4.8%**	**-3.0%**	**2.0%**	**1.3%**	**6.4%**
Higher Education	1,275	1,295	1,381	1,461	1,446	1,446	
$ change	(82)	20	86	80	(15)	-	
% change	**-6.0%**	**1.6%**	**6.6%**	**5.8%**	**-1.0%**	**0.0%**	**1.2%**
Prop. Tax Aids & Credits	1,457	1,320	1,321	1,643	1,675	1,700	
$ change	56	(137)	1	322	32	25	
% change	**4.0%**	**-9.4%**	**0.1%**	**24.4%**	**1.9%**	**1.5%**	**3.7%**
Health & Human Services	5,385	5,208	5,430	5,775	6,265	6,492	
$ change	1,062	(177)	222	345	490	227	
% change	**24.6%**	**-3.3%**	**4.3%**	**6.4%**	**8.5%**	**3.6%**	**7.3%**
Public Safety	883	958	944	1,036	1,005	1,001	
$ change	(63)	75	(14)	92	(31)	(4)	
% change	**-6.7%**	**8.5%**	**-1.5%**	**9.7%**	**-3.0%**	**-0.4%**	**1.1%**
Debt Service	192	223	620	623	636	641	
$ change	(209)	31	397	3	13	5	
% change	**-52.1%**	**16.1%**	**178.0%**	**0.5%**	**2.1%**	**0.8%**	**24.2%**
All Other	772	865	1,212	1,261	1,061	1,057	
$ change	(57)	93	347	48	(200)	(4)	
% change	**-6.9%**	**12.0%**	**40.1%**	**4.0%**	**-15.9%**	**-0.4%**	**5.5%**
Total Spending	$ 16,580	$ 18,739	$ 19,348	$ 19,989	$ 20,443	$ 20,800	
$ change	1,245	2,159	609	641	454	357	
% change	**8.1%**	**13.0%**	**3.2%**	**3.3%**	**2.3%**	**1.7%**	**5.3%**