BUDGET & ECONOMIC FORECAST

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MINNESOTA Management & Budget
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FORECAST HIGHLIGHTS

- **Higher Revenues, Lower Spending Increase FY 2016-17 Balance to $1.869 Billion**

  FY 2016-17 revenues are now forecast to be $42.497 billion, a $616 million (1.5 percent) increase over November estimates. Current law spending is forecast to be $41.128 billion, $115 million (0.3 percent) below previous projections. Changes to revenue and spending in the current biennium add $107 million to the FY 2016-17 beginning balance. As a result, the projected forecast balance in the next biennium is now $1.869 billion, an increase of $832 million over the November forecast.

- **U.S. Economic Outlook Improves**

  The overall outlook for U.S. economic growth has improved since November. IHS Economics expects the largest change to occur early in the forecast period, with projected real GDP growth for 2015 increasing to 3.0 percent from 2.6 percent in November's outlook. The February baseline now calls for real GDP growth of 2.7 percent in 2016 and 2.8 percent in 2017. The November baseline called for slightly higher growth of 2.8 percent in 2016 and 3.0 percent in 2017.

- **Lower Oil Prices and Rising Dollar Affect Economic Growth**

  Sharply lower oil prices and a stronger dollar are re-shaping the U.S. and Minnesota economic outlooks. Cheaper oil reduces capital expenditures in oil-related industries and allows consumers to divert spending toward non-gasoline purchases. The strong dollar reduces demand for U.S. and Minnesota exports and makes imported goods more affordable. Both factors place temporary downward pressure on inflation in the near-term.

- **Higher Expected Individual Income and Sales Taxes Add to Revenue Forecast**

  FY 2016-17 tax revenues are now forecast to be $520 million (1.3 percent) more than the prior estimate. Higher forecast individual income tax receipts, driven by higher expected income growth, contribute $393 million of this change. Improved expectations for taxable sales raise the general sales tax forecast $124 million over the prior estimate. Lower expected growth in corporate profits brings down the corporate tax revenue forecast.

- **Long Term Budget Outlook Remains Strong**

  The improved budget outlook continues into the planning horizon as revenue growth exceeds spending growth. There is a structural balance of $3.184 billion for FY 2018-19. Expenditure and revenue projections for the planning years will be affected by any economic changes and an enacted budget for the 2016-17 biennium.

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. Expenditure estimates must not include an allowance for inflation.

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.

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

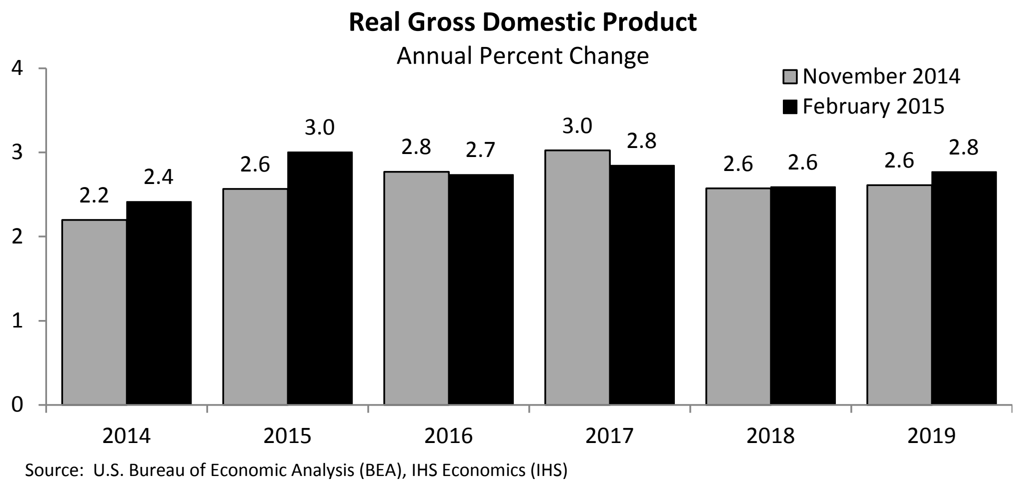
Minnesota's economic expansion continues to make steady progress. Higher forecast revenues and lower expected spending combine to improve Minnesota's budget outlook. Higher expected income growth adds to the individual income tax forecast. Increased expectations for taxable sales drive an increased general sales tax forecast. General fund revenues in FY 2016-17 are now expected to grow to $42.5 billion, while current law spending is projected to be just over $41.1 billion. The projected ending balance for the current biennium has improved to $478 million, adding to the resources available for the next biennium. As a result, $1.869 billion is projected to be available for the upcoming FY 2016-17 biennium.

U.S. Economic Outlook. The outlook for U.S. economic growth has improved since Minnesota's *Budget and Economic Forecast* was last prepared in November 2014, as the economy continues to build solid underlying momentum. Labor market slack is being swiftly absorbed by improving demand. More than 3 million jobs were added in the past year, the strongest growth since the late 1990s. The ability to find and retain good jobs, combined with improved household purchasing power, are buoying consumer confidence, and the jobless rate has been falling rapidly at about a percentage point per year. A tightening labor market closer to full employment should translate into improvements in household formation and labor force growth and put upward pressure on productivity and wages, further boosting consumer demand in 2015.

Against this backdrop, two profound developments are re-shaping the U.S. economic outlook: sharply lower oil prices and a stronger dollar. Sluggish global demand and excess supply have sent crude oil prices plummeting. The price of a barrel of Brent crude oil has fallen by almost half since last June. Lower prices mean big savings for consumers of gasoline and businesses that use petroleum products, but also reduced capital investment and drilling exploration among domestic energy producers. Because the U.S. is a net energy importer, the positive benefits from lower oil prices are likely to outweigh the negative impacts. Minnesota Management and Budget's macroeconomic consultant IHS Economics (formerly IHS Global Insight) believes the net gain amounts to about 0.5 to 0.6 percentage point of real GDP growth over a year long period.

Meanwhile, the relative strength of the U.S. economy and the potential for rising interest rates is attracting foreign investment, pushing up prices for U.S. government bonds, lowering yields, and driving up the value of the dollar. The trade-weighted dollar is up more than 17 percent against major trading partners since June. In theory, the stronger dollar reduces demand for U.S. exports by making American products more expensive overseas, and increases imports by lowering the cost of foreign goods for U.S. consumers and businesses. On net, this widens the trade imbalance, which IHS believes will subtract 0.6 percentage point from real GDP growth in 2015, thus offsetting much of the benefit of lower oil prices. Both factors--falling energy prices and lower-priced imported consumer goods--place temporary downward pressure on inflation.

IHS Economic has slightly increased their overall U.S. growth expectations for 2015 to 2017. The IHS February 2015 baseline forecast calls for annual real GDP growth to pick up from 2.4 percent in 2014 to 3.0 percent in 2015 and 2.7 percent in 2016. The November 2014 baseline forecast expected growth of 2.2 percent in 2014, followed by growth of 2.6 percent in 2015 and 2.8 percent in 2016. While the annual growth rates for 2016 and 2017 are lower in the current outlook than in November, the expected growth in real GDP from 2014 to 2017 is 0.2 percentage points higher. The IHS February baseline forecast for 2015 and 2016 calls for slightly slower overall growth than the Blue Chip Consensus, the median of 50 business and academic forecasts. The Blue Chip forecast is for 3.2 percent growth in 2015, followed by 2.9 percent in 2016.

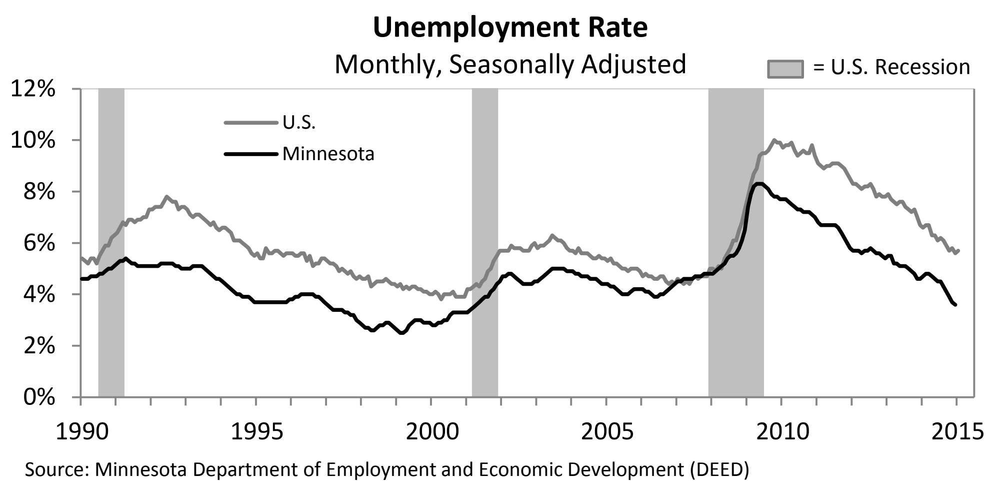


The outlook for U.S. economic growth has improved since Minnesota's Budget and Economic Forecast was last prepared in November 2014.

There are several key dependencies to the IHS February 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 must rebound to long term trend, bringing higher living standards and stronger potential economic growth. Third, the Federal Reserve's actions to normalize monetary policy later this year must go smoothly. In the February 2015 baseline, IHS assumes that the Fed begins to raise the federal funds rate in June 2015. Fourth, federal fiscal policy must remain at least neutral with regard to economic growth 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 weak economies in Europe and Japan, heighten the forecast risk from the international trade sector.

Minnesota Economic Outlook. Minnesota's economic expansion continues to make steady progress. The state has added more than 50,000 jobs since employment surpassed its pre-recession peak 18 months ago, and most indicators suggest the labor market has tightened up considerably. Minnesota's jobless rate dropped to 3.6 percent in December, its lowest mark since early 2001 and the fifth lowest among states. 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.

Unlike some other states with stronger relative economic performance, Minnesota is not an oil-producing state. Its businesses have benefitted from the oil and gas boom in neighboring North Dakota, but Minnesota's overall improved performance is more a reflection of its large and diverse economic base, and the resilience of a major metropolitan area. The Minneapolis-St. Paul area has the lowest jobless rate of any large metropolitan in the nation, 3.3 percent. Thus the net positive effects from the recent decline in crude prices are likely to far outweigh the negative impacts on the energy sector. Cheap gasoline means big savings for Minnesotans. This will provide a boost to economic activity in 2015 and 2016.



Steady job growth has helped push Minnesota's unemployment rate down more than a full percentage point in the past year, to 3.6 percent in December. This surpasses the low point (3.9 percent) of the previous 2002-2007 economic expansion.

Still, uncertainties remain. The surging value of the dollar against currencies of the state's largest trading partners (i.e. Canada and Europe) could hurt demand for Minnesota's exports, which jumped to a record high $5.5 billion in the third quarter of 2014, up 5.8 percent from a year earlier. The state's housing recovery has been disappointing in part due to unexpectedly slow household formation. Moreover, Minnesota's labor force growth remains very weak and wage growth continues to be modest, despite the tightening job market. MMB's economic forecast depends on stronger labor market conditions beginning to translate into improvements in household formation, the supply of labor, and productivity, thereby putting upward pressure on wages.

Budget Outlook: Current Biennium. Higher revenue and reduced spending in the current biennium have increased the budgetary balance to $478 million, an improvement of $105 million over prior estimates. Largely due to higher than expected individual income tax receipts, revenues in FY 2014-15 are now projected to reach $39.438 billion, $67 million (0.2 percent) higher than previous projections. Expenditures are slightly lower than November projections due to reduced E-12 education and health and human services estimates. It is now estimated that FY 2014-15 expenditures will be $39.298 billion, $39 million lower (0.1 percent) than November forecast projections.

Current Biennium: FY 2014-15 General Fund Budget

Forecast Comparison

($ in millions)	**November 2014 Forecast**	**February 2015 Forecast**	**$ Change**	**% Change**
Beginning Balance	**$1,712**	**$1,712**	**$ -**	0.0%
Revenues	39,371	39,438	67	0.2
Expenditures	39,338	39,298	(39)	(0.1)
Cash Flow & Budget Reserves	1,344	1,344	-	0.0
Stadium Reserve	28	30	2	6.2
Budgetary Balance	**$373**	**$478**	**$105**	

Revenues. Forecast revenues for the current biennium have increased. Total revenues for FY 2014-15 are now forecast to be $39.438 billion, $67 million (0.2 percent) higher than the November estimate adjusted for January 2015 law changes. Total tax revenues for FY 2014-15 are forecast to be $37.625 billion, exceeding the prior estimate by $40 million (0.1 percent).

The individual income tax shows the largest dollar amount change, $90 million (0.5 percent) above the prior estimate adjusted for law changes. Higher forecast income growth in calendar year 2014 more than offsets a reduction in MMB's estimate of tax liability for 2013, the base year for this forecast.

A reduced forecast for gross corporate franchise tax payments and higher expected corporate refunds combine to lower forecast corporate tax revenues for the current biennium by $41 million (1.6 percent) from the November estimate adjusted for law changes. Actual FY 2015 year-to-date gross corporate receipts are short of the prior estimate, bringing down the current forecast. Higher expected growth in corporate profits is not enough to offset this base reduction.

Current Biennium: FY 2014-15 General Fund Revenues
Change From November 2014 Forecast

($ in millions)	February 2015 Forecast	$ Change	% Change
Individual Income Tax	19,705	$90	0.5%
General Sales Tax	10,204	6	0.1
Corporate Franchise Tax	2,595	(41)	(1.6)
State General Property Tax	1,660	(15)	(0.9)
Other Tax Revenue	3,460	0	0.0
Subtotal	**$37,625**	**$40**	**0.1%**
Non-Tax Revenues	1,459	29	2.0
Other Resources	355	(1)	(0.4)
Total Revenue	**$39,438**	**$67**	**0.2%**

Expenditures. Forecast spending for the current biennium has been reduced. General fund expenditures for FY 2014-15 are now forecast to be $39.298 billion, down $39 million (-0.1 percent) from November projections.

Reduced estimated health and human services (HHS) spending is the primary factor contributing to the net savings. The $25 million savings shown below is primarily the result of savings in Medical Assistance (MA) health care payments. E-12 estimates were reduced $10 million due to small revisions in enrollment projections and aids and credits estimates were adjusted downward resulting from lower property tax refunds.

Current Biennium: FY 2014-15 General Fund Expenditures
Change From November 2014 Forecast

($ in millions)	February 2015 Forecast	$ Change	% Change
E-12 Education	$16,620	$(10)	(0.1)%
Property Tax Aids & Credits	2,956	(8)	(0.3)
Health & Human Services	11,180	(25)	(0.2)
Debt Service	1,243	-	0.0
All Other	7,300	4	0.1
Total Expenditures	**$39,298**	**$(39)**	**(0.1)%**

Budget Outlook: Next Biennium. A $1.869 billion balance is now projected for FY 2016-17, $832 million more than previously forecast. However, that projected balance does not represent an enacted budget, but provides the framework for developing the budget for the next two years.

Forecast revenues in the next biennium are now projected to be $42.497 billion, $616 million higher than November estimates largely due to a higher individual income and sales tax forecast.

Next Biennium: FY 2016-17 General Fund Budget
Forecast Comparison

($ in millions)	November 2014 Forecast	February 2015 Forecast	$ Change	% Change
Beginning Balance	**$1,745**	**$1,852**	**$107**	6.1%
Revenues	41,880	42,497	616	1.5
Expenditures	41,243	41,128	(115)	(0.3)
Cash Flow & Budget Reserves	1,344	1,344	-	0.0
Stadium Reserve	1	7	6	nm
Budgetary Balance	**$1,037**	**$1,869**	**$832**	

Forecast general fund spending in the next biennium is now expected to be $41.128 billion, $115 million lower (-0.3 percent) than previous estimates. Lower projected expenditures for E-12 education and property tax aids and credits account for the majority of the reduction, with an increase of $107 million (6.1 percent) in the FY 2016-17 beginning balance accounting for the remainder.

Revenues. Total general fund revenues for FY 2016-17 are now forecast to be $42.497 billion, $616 million (1.5 percent) more than the November forecast adjusted for January 2015 law changes. Total tax revenues for the biennium are forecast to be $40.772 billion, exceeding the prior estimate by $520 million (1.3 percent). Higher expected income and sales tax receipts account for nearly all the change in forecast tax revenues.

The individual income tax shows the largest dollar amount change, $393 million (1.8 percent) above the prior estimate adjusted for law changes. Higher forecast wage growth in tax years 2015 and 2016 and higher expected capital gains realizations in 2015 more than offset a reduction in MMB's estimate of tax liability for 2013, the base year for this forecast.

Next Biennium: FY 2016-17 General Fund Revenues
Change From November 2014 Forecast

($ in millions)	February 2015 Forecast	$ Change	% Change
Individual Income Tax	$22,057	$393	1.8%
General Sales Tax	10,920	124	1.1
Corporate Franchise Tax	2,576	(31)	(1.2)
State General Property Tax	1,699	(11)	(0.6)
Other Tax Revenue	3,522	45	1.3
Subtotal	**$40,772**	**$520**	**1.3%**
Non-Tax Revenues	1,403	3	0.2
Other Resources	322	94	41.5
Total Revenue	**$42,497**	**$616**	**1.5%**

Sales tax receipts are now forecast to be $124 million (1.1 percent) more than the November estimate. This change reflects increased expectations for growth in Minnesota's synthetic sales tax base, a proxy for the actual sales tax base.

Corporate franchise tax revenues are now forecast to be $31 million (1.2 percent) lower than the November estimate adjusted for law changes. Lower expected gross corporate tax payments more than offset a reduced corporate refund forecast.

Other resources are now expected to exceed the prior estimate by $94 million (41.5 percent). This reflects a $96 million transfer from the Health Care Access Fund as a result of resources becoming available in that fund since November. Current law requires that up to $96 million each biennium be transferred from the Health Care Access Fund to the General Fund to the extent resources are available.

Expenditures. Lower E-12 education spending accounts for almost all of the expenditure forecast change in FY 2016-17. Lower enrollment projections, lower estimates for the number of students living in poverty and reduced special education cost projections have resulted in a $109 million (0.6 percent) lower forecast for E-12 education expenditures. Total expenditures in the next biennium are now expected to be $41.128 billion, a $115 million reduction (0.3 percent) from November estimates. Slightly higher HHS spending (due to increased Medical Assistance payments) is offset by reduced property tax aids and credits estimates (due to lower participation estimates in the property tax refund program) and lower debt service payment estimates.

Next Biennium: FY 2016-17 General Fund Expenditures

Change From November 2014 Forecast

($ in millions)	February 2015 Forecast	$ Change	% Change
E-12 Education	$16,710	$(109)	(0.6)%
Property Tax Aids & Credits	3,361	(14)	(0.4)
Health & Human Services	12,771	14	0.1
Debt Service	1,271	(6)	(0.5)
All Other	7,015	1	0.0
Total Expenditures	**$41,128**	**$(115)**	**(0.3)%**

Budget Outlook: Planning Estimates. Revenue and spending projections for the FY 2018-19 biennium are included in this forecast to assist with longer-term financial planning. These estimates carry a high degree of uncertainty and an inherently larger potential range of error compared to the forecast for the current and next biennium.

Revenue projections are based on IHS Economics February 2014 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 Estimates: General Fund Budget
February 2015 Forecast

($ in millions)	FY 2014-15	FY 2016-17	FY 2018-19
Forecast Revenues	$39,438	$42,497	$46,266
Projected Spending	39,298	41,128	43,081
Difference	**$140**	**$1,368**	**$3,184**
Estimated Inflation Applied to Projected Spending (CPI)	-	*$893*	*$3,279*

The table above 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. Spending in FY 2016-17 is expected to be $1.368 billion less than forecast revenues and $3.184 billion less in FY 2018-19.

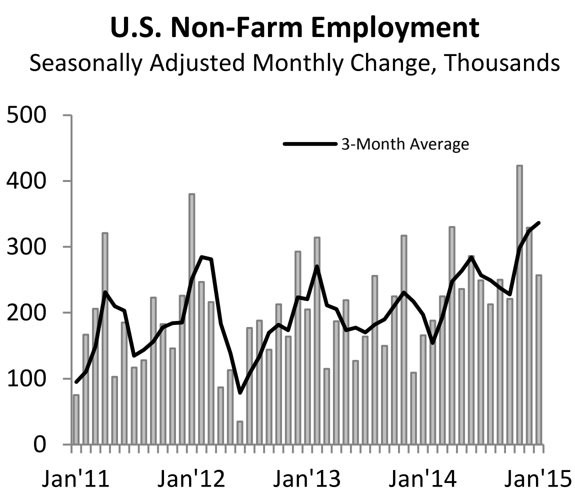
Projected inflation based on the Consumer Price Index (CPI) is now expected to be 0.8 percent and 2.7 percent in FY 2016 and FY 2017 – followed by 2.6 percent annual increases in FY 2018-19. The inflation estimate in the table above is a rough estimate applied to total projected spending to provide context for budget decision making.

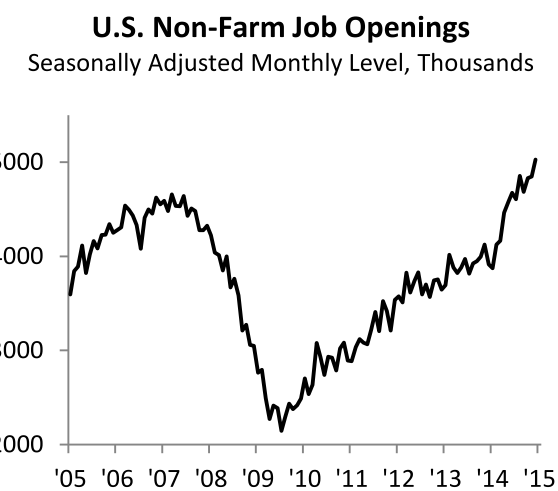
The planning estimates are not meant to predict balanced or unbalanced budgets in the future. Their purpose is to assist in determining how well projected state revenues will match ongoing spending over a longer term. The FY 2018-19 projections provide a current law framework to analyze the impacts of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

ECONOMIC OUTLOOK

U.S. Economic Outlook

The U.S. economy continues to build solid underlying momentum. Labor market slack is being swiftly absorbed by improving demand, as more than 3 million jobs have been added in the past year, the strongest growth since the late 1990s. The ability to find and retain good jobs, combined with improved household purchasing power, are buoying consumer confidence, and the jobless rate has been falling rapidly, at about a percentage point per year. A tightening labor market closer to full employment should translate into improvements in household formation and labor force growth, and put upward pressure on productivity and wages, further boosting consumer demand in 2015.



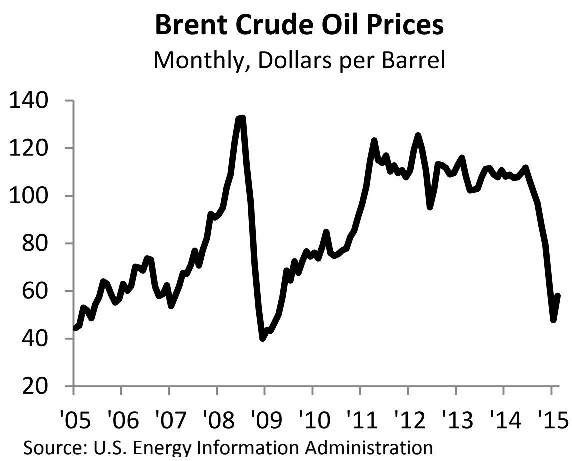


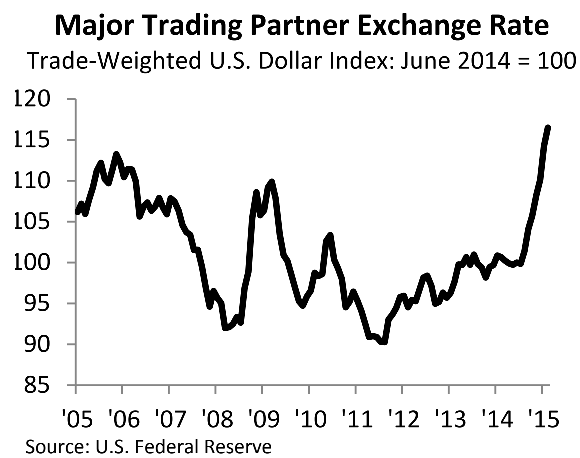
Source: U.S. Bureau of Labor Statistics. (BLS)

The U.S. economy continues to build solid underlying momentum. Job openings surged above pre-recession peaks in the past year, and job creation was the strongest since the late 1990s.

Against this backdrop, two profound developments are re-shaping the U.S. economic outlook: sharply lower oil prices and a stronger dollar. Sluggish global demand and excess supply have sent crude oil prices plummeting. The price of a barrel of Brent crude oil has fallen by almost half since last June. Lower prices mean big savings for consumers of gasoline and businesses that use petroleum products, but also reduced capital investment and drilling exploration among domestic energy producers. Because the U.S. is a net energy importer, the positive benefits from lower oil prices are likely to outweigh the negative impacts. Minnesota Management and Budget's macroeconomic consultant IHS Economics (formerly IHS Global Insight) believes the net gain amounts to about 0.5 to 0.6 percentage point of real GDP growth over a year long period.

Meanwhile, the relative strength of the U.S. economy and the potential for rising interest rates is attracting foreign investment, thereby pushing up prices for U.S. government bonds, lowering yields, and driving up the value of the dollar. The trade-weighted dollar is up more than 17 percent against major trading partners since June. In theory, the stronger dollar reduces demand for U.S. exports by making American products more expensive overseas, and increases imports by lowering the cost of foreign goods for U.S. consumers and businesses. On net, this widens the trade imbalance, which IHS Economics (IHS) believes will subtract 0.6 percentage point from real GDP growth in 2015, thus offsetting much of the benefit of lower oil prices. Both factors - falling energy prices and lower-priced imported consumer goods - place temporary downward pressure on inflation.



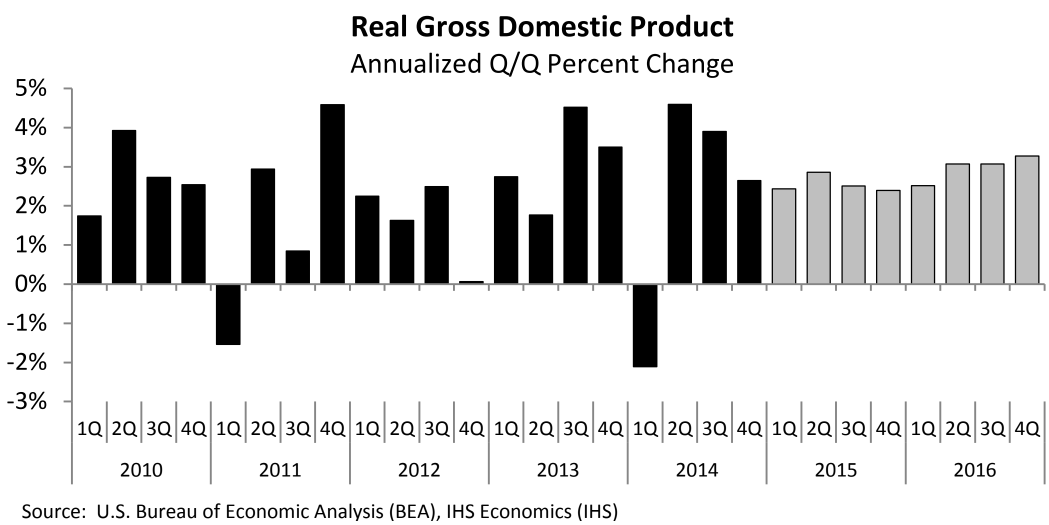


Two profound developments are re-shaping the U.S. economic outlook: sharply lower oil prices and a stronger U.S. dollar. IHS Economics believes the net gain from lower oil prices will be largely offset by the drag on the economy from a stronger dollar. Both factors place temporary downward pressure on inflation.

Last Quarter GDP and the Year Ahead. Following two consecutive quarters of strong growth readings over the summer, real GDP slowed to a 2.6 percent annual rate in the fourth quarter of 2014 according to the Bureau of Economic Analysis' (BEA) preliminary estimate. A reversal of an end-of-the-fiscal-year anomaly in federal defense spending along with a sharp rise in imports of consumer goods - a direct consequence of a strong dollar - more than account for the slowdown. Counterbalancing those factors, however, was a buildup of inventories and a booming consumer sector, which grew at a 4.3 percent annual rate, the fastest increase since the first quarter of 2006. Spending growth was supported by stronger job creation, improving consumer confidence, and a consumer dividend from lower gasoline prices. It was also broad-based, encompassing durable and non-durable goods and services. For 2014, real GDP increased 2.4 percent, up from 2.2 percent growth in 2013 and marking the strongest annual rate in since 2010.

On net, these changes support the case for an acceleration of economic growth. IHS sees annualized real GDP growth being between 2.5 and 3.0 percent in the first half of the year, as strong gains in consumer spending offset higher imports and weakness in energy-related investment. That improvement is expected to continue through at least late 2016, with modest gains in labor supply and productivity. The IHS February 2015 baseline forecast calls for annual real GDP growth to pick up from 2.4 percent in 2014, to 3.0 percent in 2015 and 2.7 percent in 2016. The November 2014 baseline forecast expected growth of 2.2 percent in 2014, followed by growth of 2.6 percent in 2015 and 2.8 percent in 2016. The IHS February baseline forecast for 2015 and 2016 calls for slightly slower overall growth than the Blue Chip Consensus, the median of 50 business and academic forecasts. The Blue Chip forecast is for 3.2 percent growth in 2015, followed by 2.9 percent in 2016.

Lower-priced gasoline and imported consumer goods are expected to put downward pressure on already low inflation. The IHS February 2015 baseline anticipates consumer prices (CPI) to fall by 0.7 percent in 2015. The November 2014 baseline projected price an increase of 1.0 percent in 2015. Even so, IHS believes plunging gasoline prices are transitory and will correct in the medium-term. Thus the February baseline expects the CPI to bounce back by 2.3 percent in 2016, higher than the 1.6 percent CPI growth expected for 2016 last November.

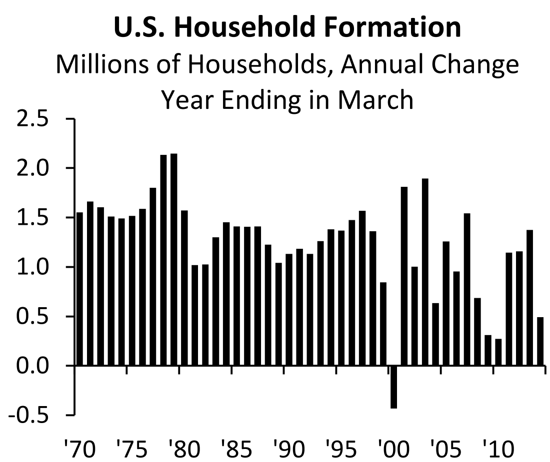


IHS Economics sees annualized real GDP growth being between 2.5 and 3.0 percent in the first half of 2015, as strong gains in consumer spending offset higher imports and weakness in energy-related investment.

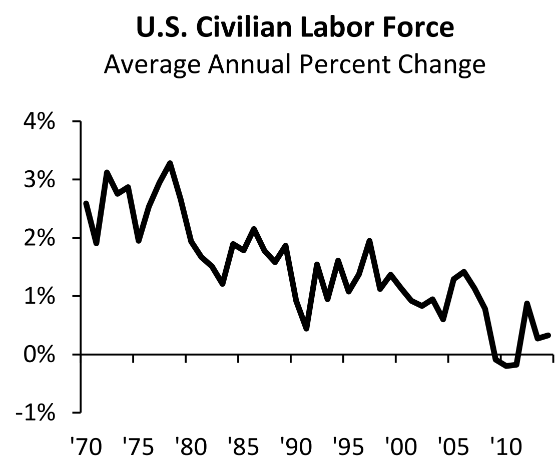
Forecast Risks. There are several key dependencies to the IHS February economic outlook. First, stronger labor market conditions must begin to translate into improvements in household formation and labor force growth. Higher household formation rates boost housing demand, and labor force growth is an important component of overall economic growth. Second, productivity growth must rebound to long term trend, bringing higher living standards and stronger potential economic growth. Third, the Federal Reserve's actions to normalize monetary policy later this year must go smoothly.

In the February 2015 baseline, IHS assumes that the Fed begins to raise the federal funds rate in June 2015. Fourth, federal lawmakers must do no harm with respect to fiscal policy 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 weak economies in Europe and Japan, heighten the forecast risk from the international trade sector.

There have been no changes in the probabilities assigned to the baseline or alternative forecast scenarios since November. IHS continues to assign a probability of 70 percent to their February 2015 baseline scenario, and a 15 percent probability to more pessimistic and optimistic alternative scenarios. In the pessimistic scenario, the U.S. economy stalls in early 2015 due to lower-than-expected wage growth and stagnant household formation, resulting in a weaker housing market. Additionally, foreign growth weakens and consumer confidence sinks. In the optimistic scenario, oil prices decline more than expected in the baseline, driving down the price of gasoline and thus encouraging additional consumer spending. Higher-than-expected foreign growth and associated depreciation of the dollar also deliver a boost to the U.S. economy in 2015.



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



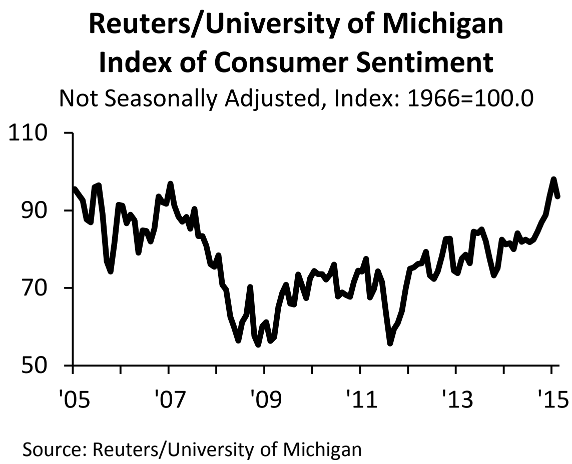
Source: U.S. Bureau of Labor Statistics. (BLS)

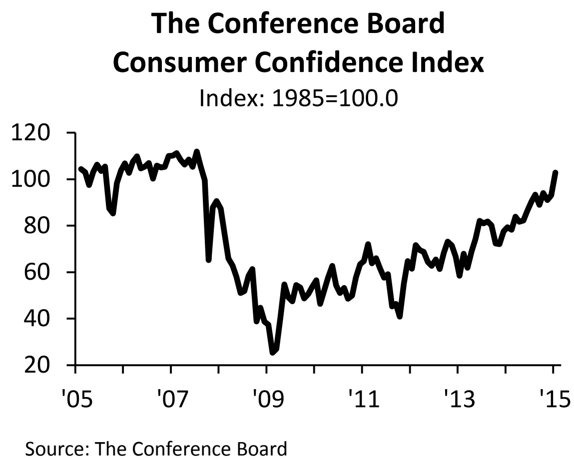
A tightening labor market closer to full employment should translate into improvements in household formation and labor force growth. Higher household formation rates boost housing demand, and labor force growth is an important component of economic growth.

Consumer Spending. Solid economic fundamentals for the consumer are providing strong tailwinds for spending growth. First, households have rebuilt a large share of the wealth lost during the recession, as home values 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 late last year, and the NASDAQ surged to its highest level since 2000. Second, consumers have significantly reduced their debt burdens. Third, average U.S. gasoline prices have plunged since last June, dipping to close to $2 per gallon last month for the first time in almost six years. 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 is at post-recession highs. These factors highlight consumer spending growth that accelerated during the second half of 2014. Looking ahead, the key to lasting gains will be stronger wage growth.

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. After adjusting for inflation and population growth, real net worth per capita in 2014 surpassed what it was just before nationwide home prices began to unravel in early 2007. Looking forward, the improving economy should continue to boost asset prices. Gains in wealth will have a positive impact on spending growth.





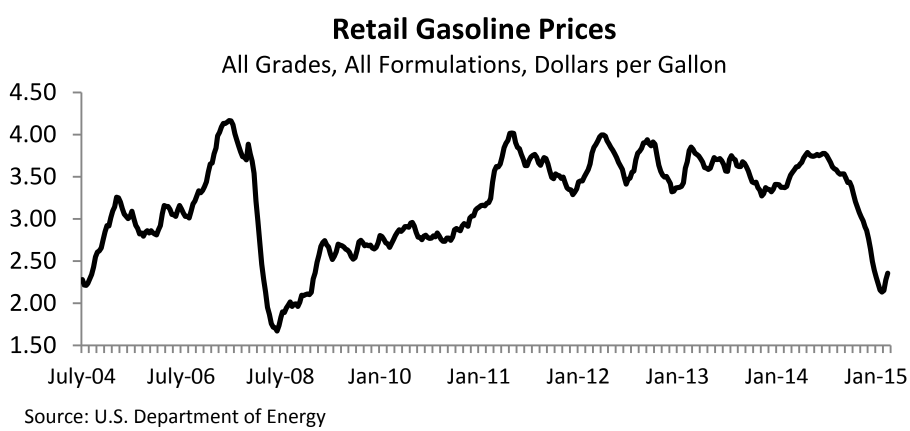
The job market is improving, which is boosting consumer confidence. Separate measures released by the Conference Board and the Reuters/University of Michigan show that confidence among U.S. consumers is at post-recession highs.

The national housing market is becoming a bit more balanced. Investor demand is waning and more homes are coming up for sale, letting market fundamentals begin to guide prices. Home price appreciation has decelerated from near double-digit percentage increases in 2013. The Federal Housing Finance Agency (FHFA) purchase-only home price index rose 4.9 percent in 2014 (measured fourth-quarter to fourth quarter). IHS expects home prices to grow a similarly modest 2.7 percent in 2015. This easing will help improve affordability and boosts home sales. Over the remainder of the forecast horizon, accelerating jobs gains, more inventory growth, and easing lending standards should help maintain even more modest price gains of between 2 and 4 percent, which will help support consumer spending.

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 run up large credit card bills for smaller discretionary purchases. The Federal Reserve reports that revolving credit outstanding, mostly credit card loans, was near $885 billion in the fourth quarter

2014, down nearly $140 billion (13.4 percent) from its mid-2008 peak and increasing only little since 2010. Overall, 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. 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.

Cheap gas means big savings for U.S. consumers. The average price for a gallon of gasoline was just $2.36 in mid-February, down $1.42 (or 38 percent) from late June and the lowest since May 2009. Lower gas prices are comparable to a tax cut, freeing up disposable income for spending on non-gasoline goods and services. Moody's Analytics estimates that if oil prices remain near $50 per barrel this year, U.S. households will save $150 billion on gasoline bills in 2015. This is equal to about 1.0 percent of disposable income.

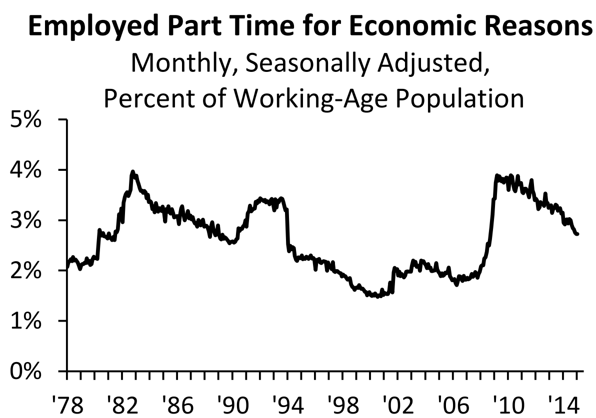


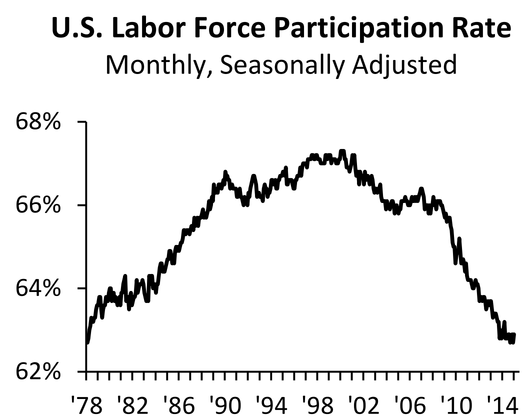
The average price for a gallon of gasoline was just $2.36 in mid-February, down $1.42 (or 38 percent) from late June and the lowest since May 2009. Cheap gas means big savings for U.S. consumers.

The labor market continues to make progress. The U.S. economy added an average of 260,000 jobs per month in 2014, well above the 199,000 average gains recorded in 2013. In fact, more than one million jobs have been created in the last three months alone. Strong job gains have helped push down the U.S. unemployment rate to a new post-recession low of 5.6 percent in December, more than 1 percentage point lower than the same month a year earlier. Unemployment has fallen across age, gender, educational, and racial cohorts, and the number of long-term unemployed has declined sharply. However, the rate of involuntary part-time employment remains elevated, and the labor force participation rate remains 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 despite the tightening job market. 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 only keeping up with inflation.

Ongoing slack in the labor market and the weak pace of wage growth have been the biggest constraints on consumer demand during the recovery. But stronger job gains, a surge in confidence, and redirected spending from lower gas prices led to a consumer bonanza late last year. Real consumer spending grew at a solid 4.3 percent average annualized rate in the fourth quarter of 2014, up from a much improved 3.2 percent rate in the previous quarter and well above the 2.4 percent average rate since early 2010.

IHS believes consumer spending will continue to improve as wage growth gains traction. Job growth is expected to cool over the next two years as productivity gains increasingly substitute for additional labor. Faster labor-force growth will also slow the decline in the unemployment rate. Nevertheless, labor market conditions tighten further, putting upward pressure on wage growth. Total compensation is forecast to accelerate from 2.1 percent in 2014, to 2.6 percent in 2015 and 2.9 percent in 2016. With wages picking up, real consumer spending growth is expected to accelerate from 2.5 percent in 2014, to 3.6 percent in 2015 and 3.3 percent in 2016, led by autos and other big-ticket durable items.





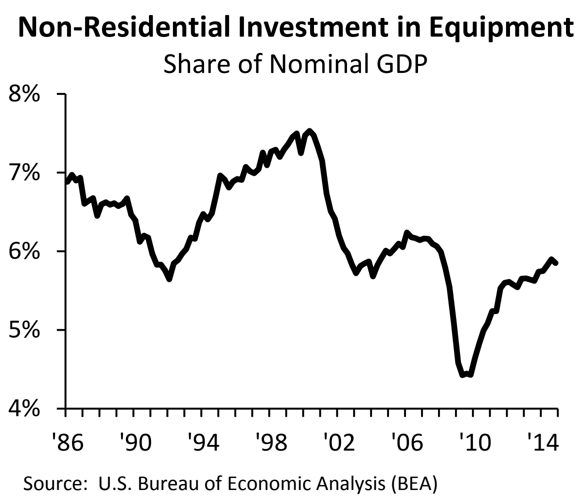
Source: U.S. Bureau of Labor Statistics. (BLS)

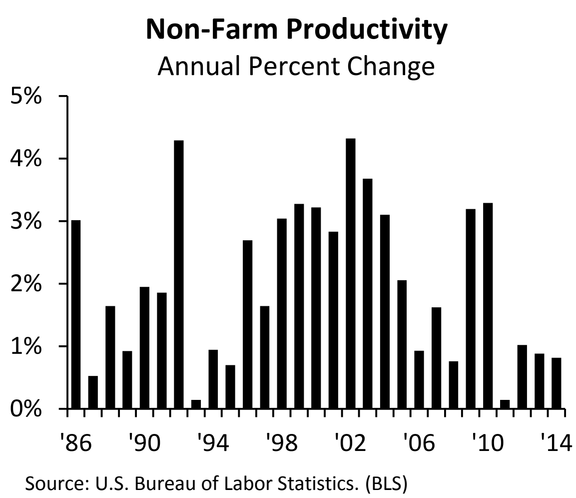
The labor market continues to make progress. However, the rate of involuntary part-time employment remains elevated and the labor force participation rate remains weak.

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 re-investing those earnings in productivity-enhancing equipment, many companies have chosen to spend cash on stock buybacks and dividends to improve shareholder income. Consequently, business investment has not yet rebounded to its pre-recession share of the economy and labor productivity has stalled in the past few years. Nominal spending on capital equipment represented 5.8 percent of GDP in 2014, up steadily 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.

IHS believes business investment faces three headwinds in 2015. First, energy companies and their suppliers are likely to reduce capital spending on mining and petroleum structures as a result of lower oil prices. Second, there is still considerable uncertainty about the direction of single family housing starts. And third, the stronger dollar could upset already weak foreign demand. Nonetheless, there are also reasons to be optimistic. Borrowing costs remain low, profit margins remain high, the nation's capital stock is aging, and factories are running closer to full capacity. Moreover, fiscal policy uncertainty appears to have diminished, small business confidence is trending higher, and the job market is improving, making new capital spending more attractive. IHS expects real investment in equipment to make solid and broad-based annual gains of 6 to 9 percent through 2016. Real investment in intellectual property is forecast to make modest gains between 4 and 6 percent over the forecast horizon. Finally, rising capital expenditures boost productivity, which is expected to accelerate from 0.8 percent growth in 2014, to near 2 percent by mid-2016.

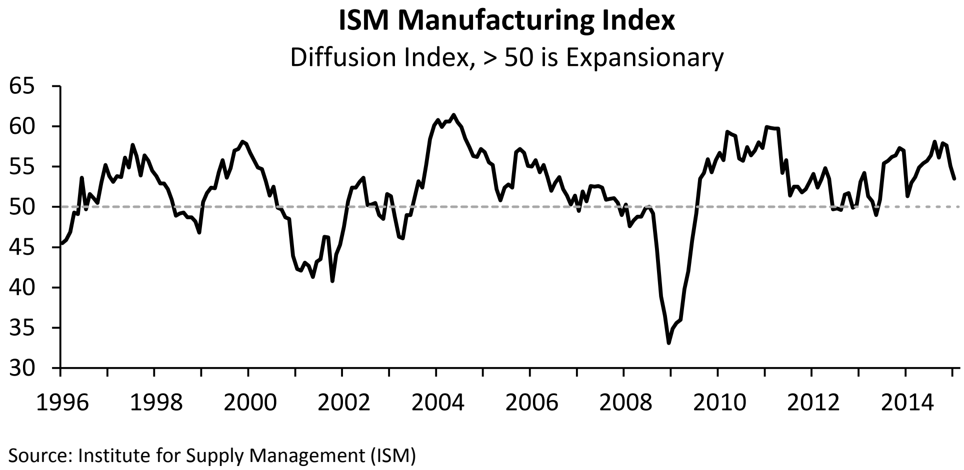




Business investment has not yet rebounded to its pre-recession share of the economy and labor productivity has stalled.

Industrial Production. Manufacturing activity appears to be cooling to a more sustainable pace, as U.S. producers adjust to falling oil prices and a stronger dollar. Recent survey results from the Institute of Supply Management (ISM) signal that the U.S. manufacturing sector remains in an expansionary phase, but new orders, shipments, vendor performance, and employment have all cooled in recent months. Perhaps most notable, the new export orders component of ISM's report fell into contractionary territory in January for the first time in over two years.

Other measures of manufacturing conditions similarly suggest U.S. production lost momentum at the end of 2014. The Commerce Department reports that new orders for U.S. factory goods fell in December for a fifth straight month, driven down in part by falling oil prices. Core capital goods orders (nondefense capital goods excluding aircraft), a leading indicator for future capital expenditure growth, fell at a 10.6 percent annualized rate during the fourth quarter of 2014. Likewise, the Federal Reserve's manufacturing output index accelerated during the first 9 months of 2014 before leveling off late in the year, reflecting the same softening conditions as in ISM's manufacturing survey. IHS believes the biggest challenge to domestic goods producers this year will be the strong dollar, which lifts imports and cools exports. Overall, manufacturing output is expected to decelerate from robust 4.3 percent growth in 2014, to 3.0 percent in 2015 and 3.6 percent in 2016.



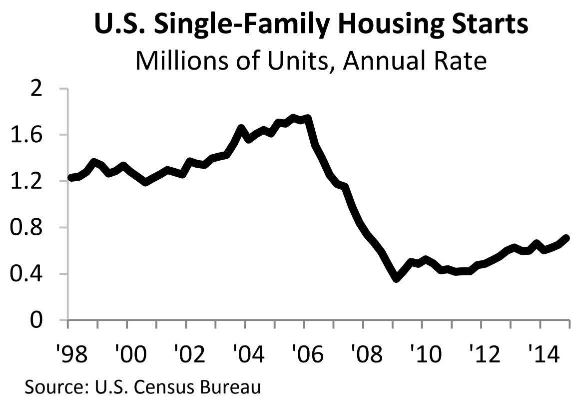
Manufacturing activity appears to be cooling to a more sustainable pace, as U.S. producers adjust to falling oil prices and a stronger dollar.

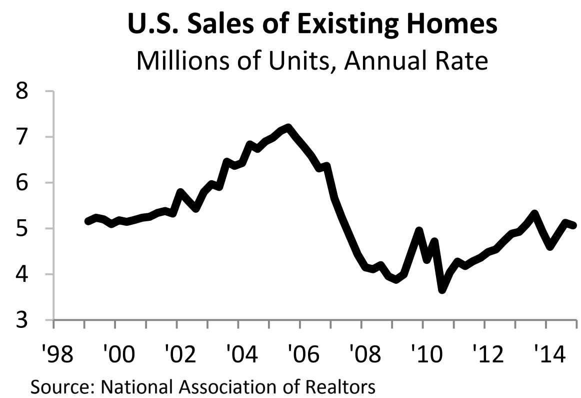
Housing and Construction. The nation's disappointing housing recovery has been a direct reflection of surprisingly sluggish household formation since the end of the recession. According to data from the Census Bureau, the number of households in the U.S. has increased by an average of about 1.0 million each year since 2010, below the long-term trend of 1.1 million household and only a modest rebound considering the sizeable deficit caused by the severe recession. Causes of the unexpected downshift include a less mobile aging 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.

Nonetheless, with confidence high and job creation surging, IHS believes household formation and the demand for new homes are poised for a stronger period of growth. In the February baseline, IHS expects annual household formation to rise from just 493,000 in the year ending in March 2014, to near 1.65 million by early 2017. At the same time, recent policy changes by the Federal Housing Administration (FHA) and the Federal Housing Finance Agency (FHFA) will improve affordability and make it easier for first-time homebuyers to get loans. Higher inventories of both existing and new homes will reduce upward pressure on prices, which appear to be stabilizing in the 3 to 5 percent range. A potential benefit of lower oil prices may be that workers in the oil fields move back to the residential construction sector, easing cost pressures for homebuilders.

Finally, the same foreign investment that is driving up the value of the dollar is pushing down long-term interest rates, including mortgage rates. The 30-year fixed mortgage rate is expected to average 4.0 percent this year, down from 4.2 percent in 2014 and still very low relative to historic norms.

Housing starts, which grew by just 8.0 percent (to 1.00 million) in 2014, are forecast to rise by 17.1 percent (to 1.18 million) in 2015 and by 13.5 percent (to 1.33 million) in 2016. With the rise in housing starts, IHS expects growth in real residential construction spending to gain momentum this year, increasing from only 1.6 percent in 2014, to 10.9 percent in 2015 and 11.2 percent in 2016.





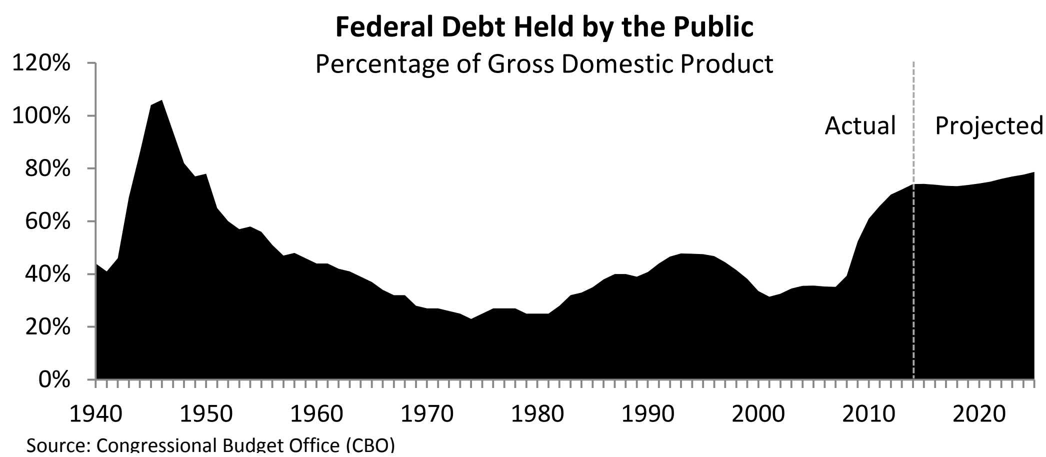
With confidence high and job creation surging, IHS Economics believes the demand for new homes is poised for a stronger period of growth.

Fiscal Policy. Fiscal policy headwinds that have been holding back economic growth throughout much of the recovery have begun to subside. Recent agreements between federal policymakers have helped stabilize the economic impact of federal tax and spending policy, the government's fiscal situation has improved, and fading fiscal austerity from recent years is starting to support growth. This should provide an additional boost to the economy in 2015. 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.

A major source of economic uncertainty was removed late last year when Washington lawmakers passed legislation to fund the federal government through September 2015. Passage of the FY 2015 omnibus spending bill meant no government shutdown, short-term continuing resolutions, or additional round of sequestration. Policymakers also approved a one-year, retroactive extension of a bundle of tax credits and deductions that expired at the end of December 2013.

Nonetheless, there are a host of familiar short-term fiscal issues that need to be addressed in coming months. First, a funding bill for the Department of Homeland Security (DHS), which was excluded from last year's budget agreement, will need to be passed before the end of February, or federal policymakers risk a partial shutdown of the agency. Second, the federal government's debt ceiling will be re-established and back in effect on March

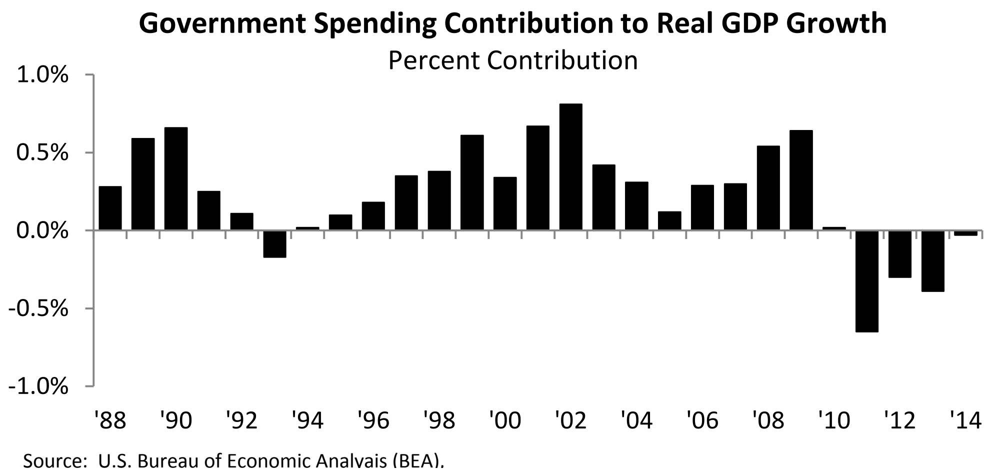
15. As was the case in 2013, the Treasury Department's "extraordinary measures" will be able to keep the nation under its borrowing limit for several months beyond this deadline. The exact date will depend largely on spring tax collections. Leaving the issue unresolved risks a default and massive spending cuts. Third, 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, policy debates will begin this spring over the FY 2016 federal budget. With it, lawmakers will 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 have yet to reach agreement on a sustainable and comprehensive solution to the nation's long-term debt challenges.

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 FY 2014, nearly $200 billion less than the shortfall from 2013, and 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 as a percentage of GDP will begin to steadily widen again after 2018, 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.

IHS has declared the period of fiscal drag over. Federal government spending is largely under control and tax revenues are rising along with economic growth. Thus IHS views current federal fiscal policy as neutral. With nominal spending increases that are generally less than the rate of inflation through at least the end of 2016, IHS expects the federal deficit to hold steady in FY 2015 at about $492 billion (or 2.8 percent of GDP) and fall to $376 billion in FY 2016 (2.0 percent of GDP). As a result, government spending is expected to start contributing to annual real GDP growth in 2015 and 2016 for the time since 2010, as small negative contributions from federal government spending are offset by modest increases in state and local spending. IHS assumes a funding bill for DHS will be passed before the end of February and that additional debt-ceiling limits or suspensions will be enacted before the mid-March 2015 deadline. There are no major changes expected to the Affordable Care Act.



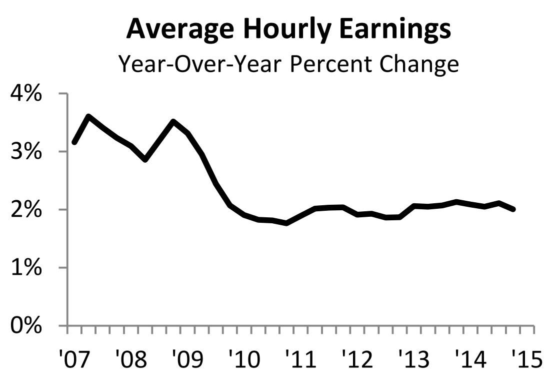
IHS Economics has declared the period of fiscal drag over. As a result, government spending to is expected to start contributing to annual real GDP growth in 2015 and 2016 for the time since 2010.

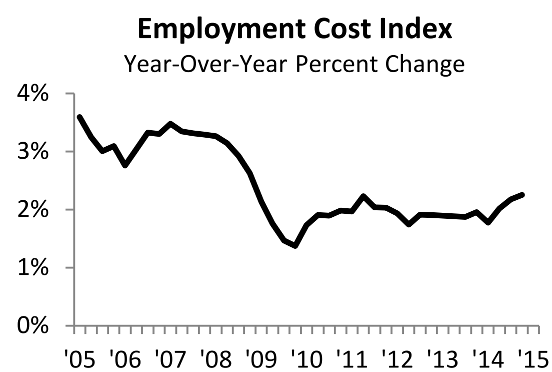
Monetary Policy. The combination of low inflationary pressures and weak labor market conditions has allowed the Federal Reserve to maintain highly accommodative monetary policies since the 2008 financial crisis. But after more than seven years of near zero interest rates and less conventional approaches to stimulating the economy, such as large-scale bond-buying programs and forward guidance about how long interest rates are likely to remain low, the Fed has made meaningful progress toward achieving its policy goals of maximum employment and price stability. As a result, the Fed completely ended its asset purchases last October. The Fed is also moving closer to normalizing interest rates sometime later this year, even as other central banks – like the Eurozone, China and Japan - adopt easier policy measures to offset weaker growth and deflationary pressures. Last December, the Fed stated it would remain “patient” before raising interest rates. During her semi-annual testimony to Congress in mid-February, Federal Reserve Board Chairwoman Janet Yellen communicated that the Fed’s benchmark interest rate may rise as early as June.

Today, the labor market is much improved. The economy has generated more than 11 million jobs since early 2010 and employment now exceeds its pre-recession peak by over 2.5 million. The unemployment rate is falling at about a percentage point per year and dipped below 6 percent in September for the first time since mid-2008. Thus it appears the Fed is very close to achieving the full employment part of its mandate, which should build inflationary pressures.

These developments are encouraging. Nevertheless, the Federal Reserve is still undershooting its price-stability objective, as wage growth remains weak and worries about disinflation persist. Total private average hourly earnings has risen only about 2 percent a year since the recession ended almost six years ago, while inflation-adjusted wages have been flat since early 2009. Until wage growth accelerates, inflation pressures are likely to remain low. The Federal Open Market Committee's (FOMC's) preferred measure of inflation, the price index for core personal consumption expenditures (or PCE), which excludes volatile energy and food prices, rose just 1.3 percent over the last 12 months, and has been below the Fed's long-term goal of 2 percent inflation for more than two years. Adding to the deflationary pressures, market-based long-term inflation expectations have declined in recent months, and core inflation is poised to temporarily weaken further due to the pass-through effects from lower energy and import prices. Thus Federal Reserve policymakers are increasingly concerned that wage growth and inflation may stay low in the medium term, suggesting they may keep interest rates low for longer.

IHS believes the Fed is satisfied with progress in the labor market and that the prevailing thinking is that inflation will ultimately pick up again in the mid-term. In the February baseline, the Federal Reserve begins to raise the federal funds rate in June 2015. However, the tone of the Fed's latest policy statements has been decidedly dovish, thus IHS acknowledges that it is increasingly likely the Fed could wait until it is more confident about underlying inflation later in the year.



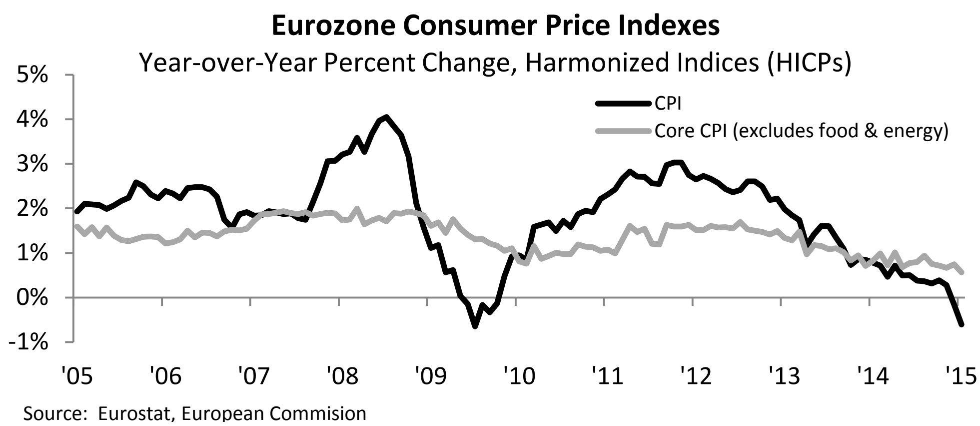


Source: U.S. Bureau of Labor Statistics. (BLS)

Total private average hourly earnings has risen only about 2 percent a year since the recession ended almost six years ago, while inflation-adjusted wages have been flat since early 2009. The employment cost index is also only keeping up with inflation.

Global Economy. Global economic activity is slowly accelerating, but the outlook among major economies continues to diverge. Among the advanced economies, the U.S. continues to improve at a healthy pace, supported by lower oil prices. Japan and the Eurozone, however, are still struggling with too-little growth and the pull of deflation. 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, high inflation and currency values are weighing on growth.

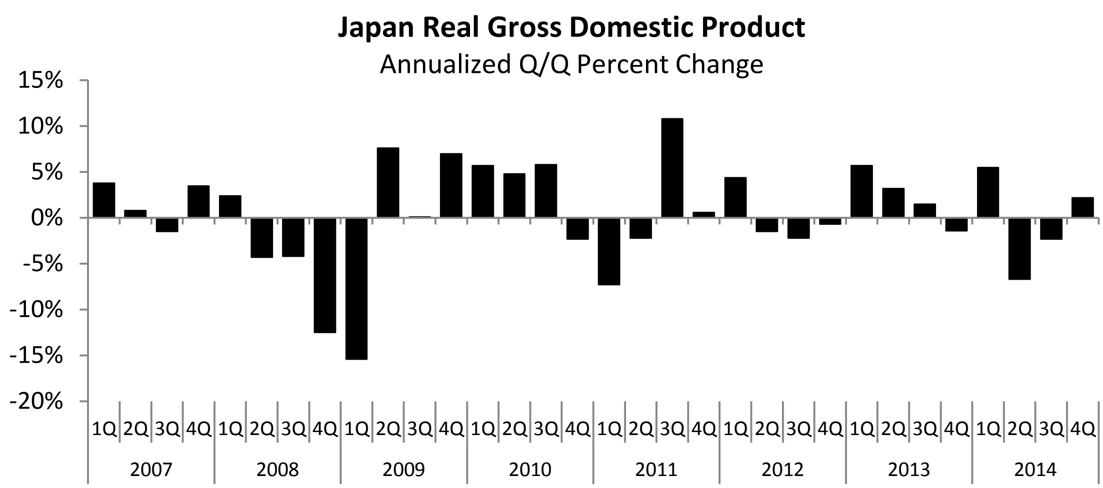
In Europe, economic activity remains disappointing. Growth has been sluggish, most notably among the largest countries: Germany, France, and Italy. Unemployment across the Eurozone has been in the double digits since July 2011, with the jobless rate among youth near 23 percent on average. The collapse in oil prices has also helped pull the region into deflation. Prices in the Eurozone fell 0.6 percent in the 12 months ending in January, matching a record plummet during the financial crisis in 2009. Even core inflation, which excludes the effect of volatile items such as food and energy, rose just 0.5 percent from a year ago. Such excessively low or sub-zero 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. Persistent deflation also poses a serious threat to economies if expectations of falling prices become entrenched, which could cause consumers and businesses to delay purchases, destabilize already high debt burdens, and prolong economic stagnation.



In Europe, the collapse in oil prices has helped pull the region into deflation. Prices in the Eurozone fell 0.6 percent in the 12 months ending in January, matching a record plummet during the financial crisis in 2009.

With the Eurozone economy very weak and in danger of sliding further into deflation, tensions between European leaders appear to be only deepening. Europe's strongest economy, Germany, continues to insist that budget austerity policies are a pre-condition to financial stability. But critics of austerity, including France, Italy, and the newly elected prime minister of Greece, 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 fiscal and structural challenges that face the Eurozone has remained limited, placing added pressure on the European Central Bank (ECB) to act more aggressively. The ECB has already cut its key interest rates to new all-time lows, provided cheap funding to Eurozone banks, and launched a private-sector bond-buying program meant to encourage lending in the region. In January, the ECB took the unprecedented step of expanding its purchases to include - for the first time - government bonds from EU member states and committed to pump more than €1 trillion ($1.15 trillion) into the Eurozone economy by September 2016 to battle against deflation. Nonetheless, IHS still expects Europe's recovery to be slow and bumpy. In the February baseline, real GDP growth in the Eurozone is projected to rise just 0.9 percent in 2014, 1.5 percent in 2015, and 1.8 percent in 2016. IHS assumes Eurozone finance ministers agree on a deal to extend the Greek bailout.

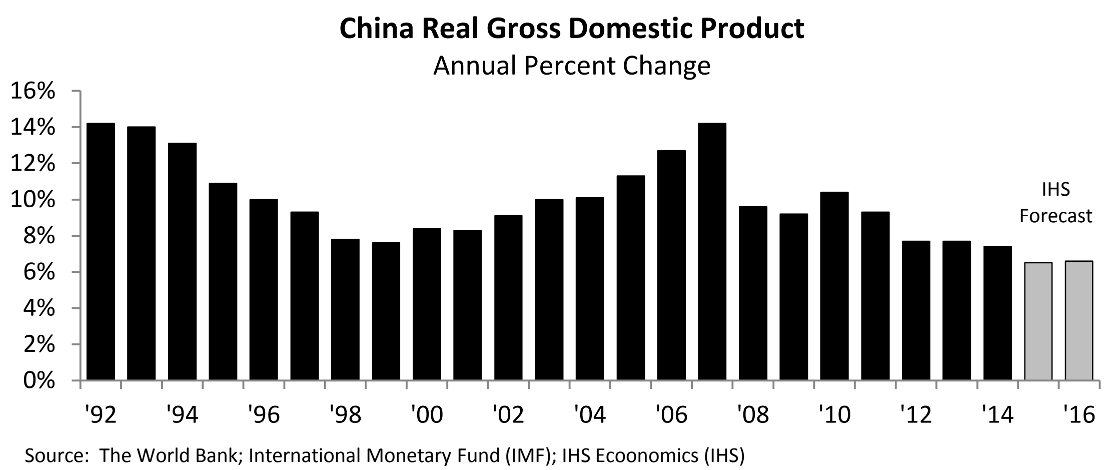
In Japan, the economy is slowly rebounding from recession, as the adverse effects of last April's nationwide sales tax increase linger. The downshift represents a setback for "Abenomics," Prime Minister Shinzo Abe's economic strategy to reverse more than a decade of stagnation and chronic deflation through structural reforms, massive fiscal stimulus, and immense monetary easing. The Bank of Japan (BOJ) is already buying unprecedented quantities of government debt in an effort to boost inflation expectations and stimulate growth. The aggressive monetary stimulus has led to a sharp depreciation of the yen and a rise in stock prices. Yet the risk of deflation still looms large. The Japanese consumer price index (CPI), excluding food and the effect of a consumption tax hike, rose just 0.5 percent in December from a year-ago, and is expected to slow further in coming months due to falling oil prices. Thus the BOJ may need more time to achieve its 2 percent inflation target. The Abe government already postponed a second and final phase of the sales tax hike by 18 months. In the February baseline, IHS expects real GDP in Japan to rebound from 0.2 percent growth in 2014, to 1.0 percent in 2015 and 1.4 percent in 2016. The longer-term outlook will depend on progress with the government's growth-oriented structural reforms, mainly deregulation of the labor market.



Source: Economic and Social Research Institute, Cabinet Office, Government of Japan

In Japan, the economy is slowly rebounding from recession, as the adverse effects of last April's nationwide sales tax increase linger.

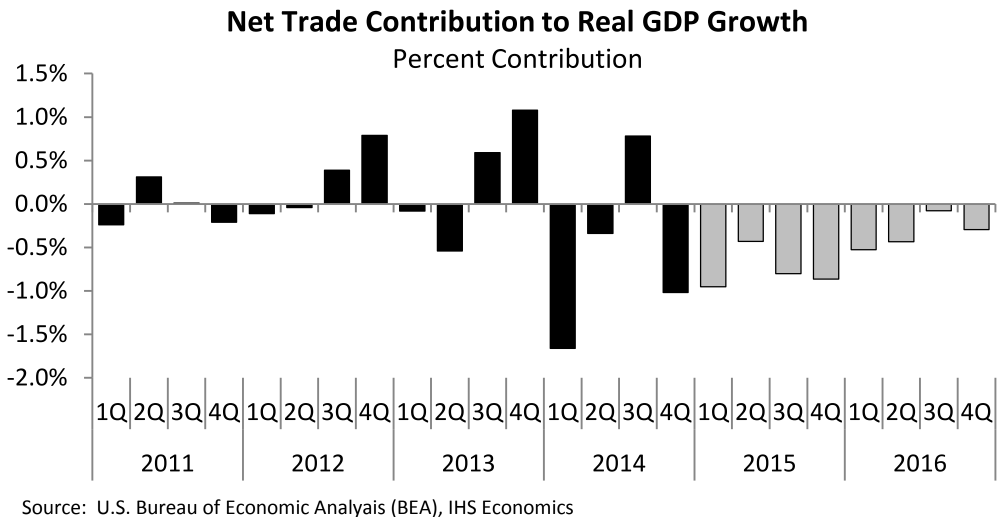
In China, the pace of economic growth has cooled. China's real GDP rose 7.4 percent in 2014, much faster than any advanced economy, but a decrease from 7.7 percent in 2013 and the weakest growth the world's second largest economy has recorded since 1990. Further, according to reports in the *Wall Street Journal*, the Chinese government plans to cut its official economic growth target to around 7.0 percent in 2015. 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 also believes a cooling real-estate market, weak domestic demand, and renewed global economic weakness are weighing on Chinese growth prospects. Thus real GDP growth in China is expected to weaken further, to 6.5 percent, in 2015 and 6.6 percent in 2016.



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

Meanwhile, other major emerging market economies, such as India and Mexico, experienced slight improvements in 2014, as optimism about economic reforms and progress in controlling inflation contributed 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 slipping into recession, further affected by tighter Western sanctions due to the political situation in Ukraine and sharply lower oil prices. The Russian ruble has lost more than half its value against the dollar over the past year. And Brazil's economy faltered throughout much of 2014, as low confidence, rising interest rates, and weak competitiveness have constrained growth. Government budget cuts and lower commodity prices could also weigh on growth in 2015.

IHS expects economic growth of the United States' major-currency trading partners to pick up slightly in 2015 and 2016, with stronger growth in Japan and Europe. The economies of other important trading partners, such as Mexico and India, are also expected to grow faster over the next two years. In Canada, slower economic growth and a weaker labor market is expected, in part due to falling oil prices weighing on its energy producing industries. IHS projects world real GDP growth to accelerate from 2.8 percent in 2014, to 3.0 percent growth in 2015 and 3.4 percent growth in 2016. The trade-weighted value of the dollar is expected to increase by 17.9 percent against major trading partners in 2015, followed by a very gradual decline for the remainder of the forecast horizon. As a result, net trade remains a heavy drag on growth in 2015 and 2016, as imports pick up sharply from the appreciating dollar and steady domestic growth, and export growth remains tepid due to subpar world growth and the stronger dollar. U.S. import growth is projected to rise from 3.9 percent in 2014, to 6.6 percent in 2015 and 6.2 percent in 2016. Real exports are forecast to pick up from 3.1 percent growth in 2014, to 3.3 percent in 2015 and 2016.



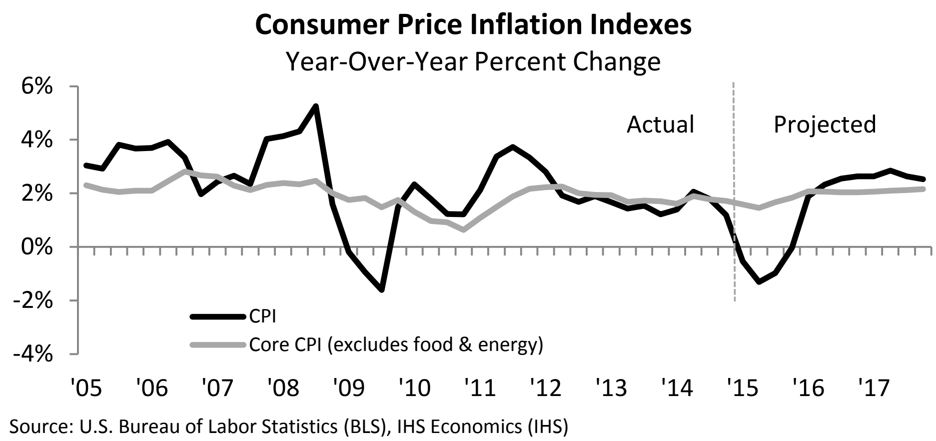
Net trade will remain a heavy drag on growth in 2015 and 2016, as imports pick up sharply from the stronger dollar and steady domestic growth, and export growth remains tepid due to subpar world growth and the stronger dollar.

Inflation. Sharply falling prices for energy commodities have continued to offset rising prices for rent and food, keeping overall inflationary pressures low. The Bureau of Labor Statistics (BLS) reports its headline inflation measure, the Consumer Price Index (CPI), rose just 1.2 percent in 2014 (measured fourth-quarter to fourth quarter), matching the 1.2 percent increase during the same period in 2013.

Sluggish global demand, excess supply, and a strong dollar have sent crude oil prices plummeting. Brent oil prices have fallen from a 2014 high of $112/barrel last June to around $60/barrel in late-February, and gasoline, diesel, and other energy products that are refined from crude have followed suit. According to the U.S. Energy Information Administration, average retail gasoline prices in particular have dropped $1.42/gallon since last June to under $2.50/gallon for the first time since mid-2009. Cheaper gasoline prices will slow near-term inflation, as they have not yet become fully reflected in overall consumer prices.

Meanwhile, food has grown more expensive in the past year, as disease and ongoing drought conditions have driven up meat prices. Pork prices jumped sharply last 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 CPI for meats rose 12.7 percent in 2014, with similarly high increases in beef and pork. Overall food prices rose 3.2 percent last 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.

Underlying inflation pressures remain cool. Excluding more volatile prices of food and energy, the core CPI was up 1.7 percent in 2014 (fourth-quarter to fourth quarter), the same as 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 3.0 percent in 2014, compared to 2.4 percent in 2013. But the pickup in rents has been more than offset by an easing of other services, such as medical care, and goods prices. The CPI for medical care services has eased to 2.2 percent in 2014, after increasing 2.7 percent in 2013. The CPI for apparel fell 0.5 percent in 2014, compared to a 0.1 percent rise in 2013. And finally, the BLS index for new and used vehicles fell 0.6 percent in 2014, after increasing 0.9 percent in 2013.



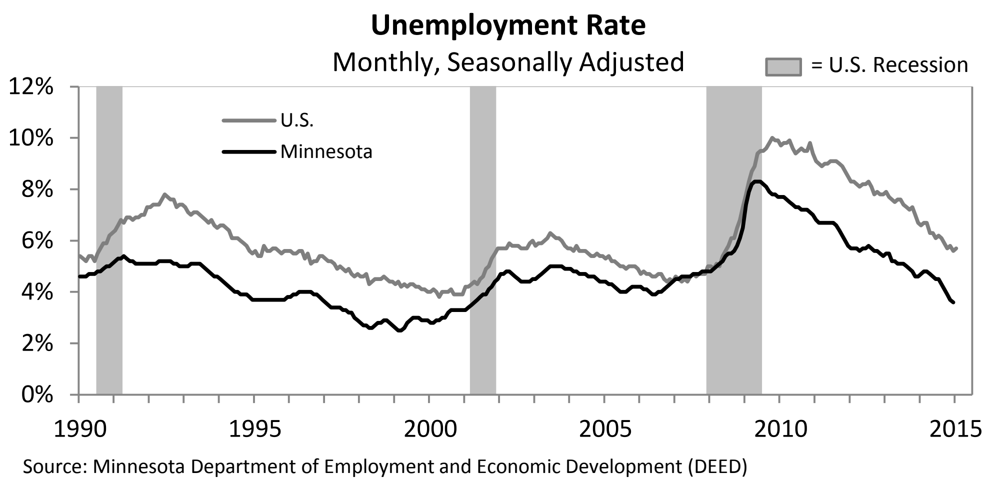
The impact from falling oil prices and the stronger dollar on import prices is expected to push year-over-year headline inflation into negative territory early this year.

Overall, near-term inflation remains very low. The impact from falling oil prices and the stronger dollar on import prices is expected to push year-over-year headline inflation into negative territory early this year. But IHS agrees with the Federal Reserve's view that the drop in fuel prices is transitory and will correct in the medium-term. Thus U.S. consumer prices will begin to firm in the second half of the year as oil prices stop falling and the strong dollar stops strengthening. In the February baseline, IHS expects Brent oil prices to average $44/barrel in the first half of 2015, before rising to $51/barrel in the second half of the year, and continuing a slow ascent back to $100/barrel by 2019. The headline CPI slows from 1.2 percent in 2014 (measured fourth-quarter to fourth-quarter), to 0.0 percent in 2015, before rebounding by 2.6 percent in 2016. The pass-through effects from lower energy and import prices also combine to temporarily soften core inflation in the first half of 2015, before core prices firm later in the year. IHS expects core CPI inflation to rise from 1.7 percent in 2014, to 1.8 percent in 2015 and 2.0 percent in 2016, or nearer the Federal Reserve's 2 percent longer run objective over the mid-term.

Minnesota Economic Outlook

Minnesota's economic expansion continues to make steady progress. The state has added more than 50,000 jobs since employment surpassed its pre-recession peak 18 months ago, and most indicators suggest the labor market has tightened up considerably. Minnesota's jobless rate dropped to 3.6 percent in December, its lowest mark since early 2001 and the fifth lowest among states. 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.

Unlike some other states with stronger relative economic performance, Minnesota is not an oil-producing state. Its workers and businesses have benefitted from the oil and gas boom in neighboring North Dakota, but Minnesota's overall improved performance is more a reflection of its large and diverse economic base, and the resilience of a major metropolitan area. The Minneapolis-St. Paul area has the lowest jobless rate of any large metropolitan in the nation, 3.3 percent. Thus the net positive effects from the recent decline in crude prices are likely to far outweigh the negative impacts on the energy sector. Cheap gasoline means big savings for Minnesotans. This will provide a boost to economic activity in 2015 and 2016.



Steady job growth has helped push Minnesota's unemployment rate down more than a full percentage point in the past year, to 3.6 percent in December. This surpasses the low point (3.9 percent) of the previous 2002-2007 economic expansion.

Still, uncertainties remain. The surging value of the dollar against currencies of the state's largest trading partners (i.e. Canada and Europe) could hurt demand for Minnesota's exports, which jumped to a record high $5.5 billion in the third quarter of 2014, up 5.8 percent from a year earlier. The state's housing recovery has been disappointing in part due to unexpectedly slow household formation. Moreover, Minnesota's labor force growth remains very weak and wage growth continues to be modest, despite the tightening job market. MMB's economic forecast depends on stronger labor market conditions beginning to translate into improvements in household formation, the supply of labor, and productivity, thereby putting upward pressure on wages.

Forecast Comparison: Minnesota & U.S.

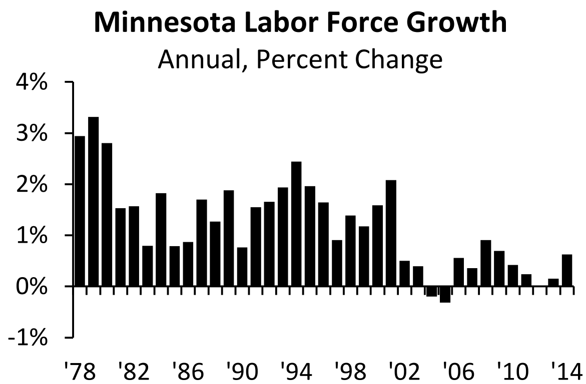
Forecast 2014 to 2019, Calendar Years

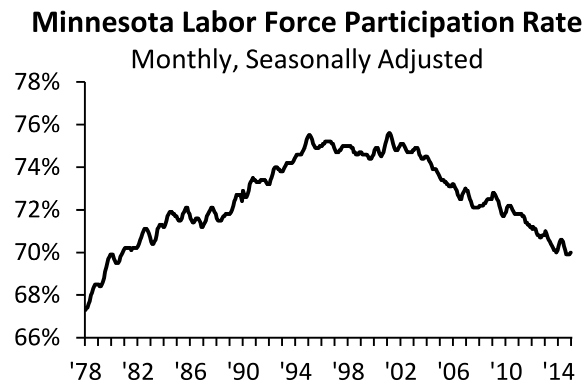
	2012	2013	2014	2015	2016	2017	2018	2019
Total Non-Farm Payroll Employment (Thousands)								
Minnesota								
February 2015	2,731	2,778	2,817	2,863	2,915	2,955	2,982	3,010
%Chg	1.6	1.7	1.4	1.6	1.8	1.4	0.9	0.9
November 2014	2,731	2,778	2,818	2,864	2,908	2,941	2,967	2,989
%Chg	1.6	1.7	1.4	1.7	1.5	1.2	0.9	0.7
U.S.								
February 2015	134,098	136,394	139,023	142,098	144,771	146,843	148,197	149,612
%Chg	1.7	1.7	1.9	2.2	1.9	1.4	0.9	1.0
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
Wage and Salary Disbursements (Billions of Current Dollars)								
Minnesota								
February 2015	135.6	139.7	145.7	153.7	161.1	169.0	176.8	184.9
%Chg	5.0	3.1	4.3	5.4	4.8	4.9	4.6	4.6
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
U.S.								
February 2015	6,932	7,125	7,432	7,770	8,175	8,605	9,040	9,502
%Chg	4.5	2.8	4.3	4.5	5.2	5.3	5.1	5.1
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
Non-Wage Personal Income (Billions of Current Dollars)								
Minnesota								
February 2015	119.3	117.7	120.5	125.1	131.1	138.6	145.9	152.6
%Chg	5.9	-1.3	2.4	3.8	4.8	5.7	5.3	4.6
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
U.S.								
February 2015	6,956	7,042	7,284	7,544	7,887	8,369	8,807	9,243
%Chg	5.9	1.2	3.4	3.6	4.6	6.1	5.2	5.0
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
Total Personal Income (Billions of Current Dollars)								
Minnesota								
February 2015	254.9	257.5	266.3	278.7	292.2	307.5	322.7	337.5
%Chg	5.4	1.0	3.4	4.7	4.8	5.2	4.9	4.6
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
U.S.								
February 2015	13,888	14,167	14,717	15,313	16,062	16,974	17,847	18,745
%Chg	5.2	2.0	3.9	4.1	4.9	5.7	5.1	5.0
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

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

Revised Economic Forecast. Forecasts for state employment and wages have been revised based on recent Minnesota-specific information and the IHS Economics (IHS) February 2015 baseline. The February baseline informs the same Minnesota Management and Budget (MMB) model of the Minnesota economy used in November. That model has incorporated updated information on upcoming revisions to Minnesota's non-farm payroll employment, as well as new data on income tax withholding collections since November.

MMB's February 2015 economic forecast calls for Minnesota's expansion to continue to accelerate over the next several years, but at a generally 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 fundamentals in the broader U.S. economy.





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

Minnesota's labor force growth remains very weak. In the February 2015 economic forecast, improved job prospects encourage some people to reenter the labor force, thus slowing the decline in labor force participation rate in 2015 and 2016.

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 February 2015 economic forecast, Minnesota employment grows at a somewhat stronger annual pace of 1.6 percent in 2015 and 1.8 percent growth in 2016. In November 2014, MMB's forecast called for similarly modest annual job growth of 1.7 percent in 2015 and 1.5 percent in 2016. MMB's employment forecast for 2015 and 2016 is slower than the IHS February 2015 baseline forecast for U.S. job growth, which calls for 2.2 percent annual growth in 2015, followed by 1.9 percent growth in 2016.

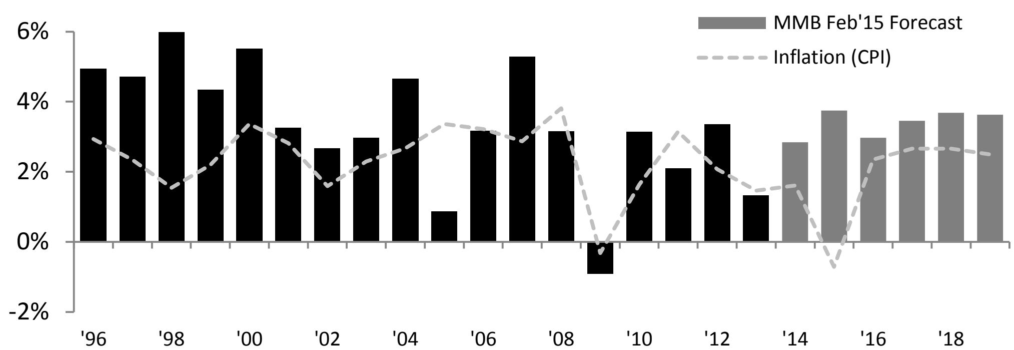
Nominal wage income grew 3.1 percent in 2013, dampened by what appears to be an accelerated payout of bonuses and exercising of options in late 2012 ahead of anticipated federal tax increases. Information from the BEA, Quarterly Census of Employment and Wages (QCEW), and income tax withholding collections suggests wage growth rebounded to 4.3 percent in 2014, stronger than the 3.9 percent growth expected in November. Wage income is now expected to accelerate to 5.4 percent growth in 2015 and

4.8 percent growth in 2016. In November, MMB's forecast called for slower acceleration of 4.4 percent in 2015 and 4.6 percent in 2016. The IHS February 2015 baseline forecast for U.S. wage income calls for growth of 4.3 percent in 2014, followed by 4.5 percent in 2015 and 5.2 percent in 2016.

MMB's Minnesota economic forecast assumes that IHS Economics' February 2015 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



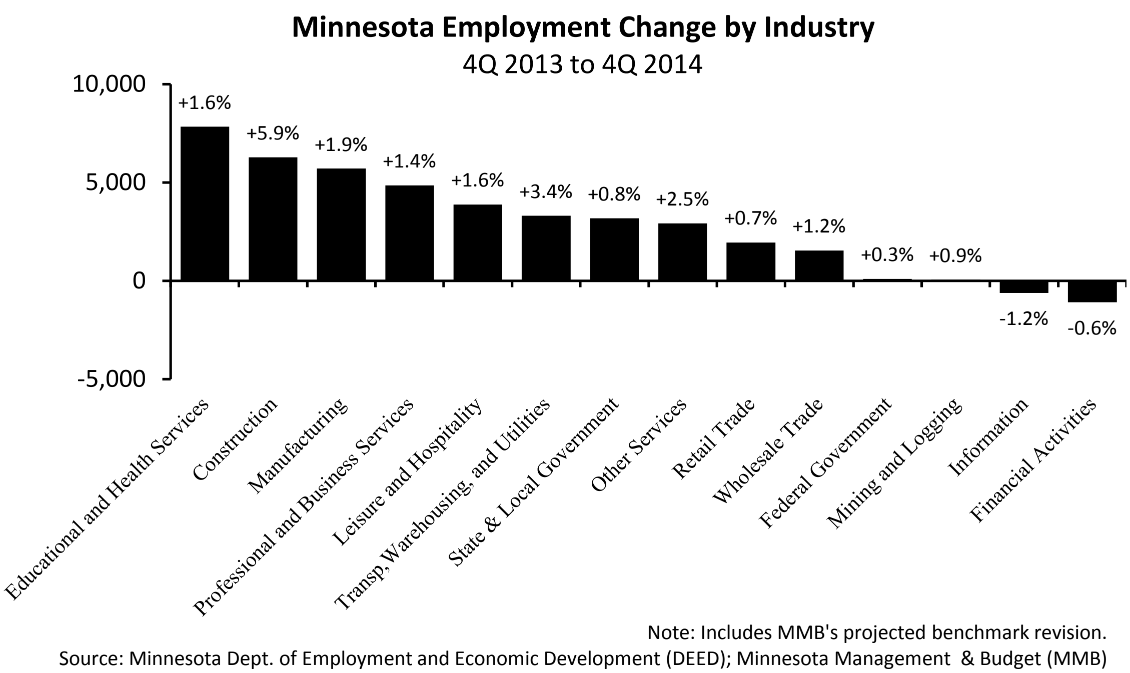
Source: Buearu of Economic Analysis (BEA); Minnesota Department of Employment and Economic Development (DEED); Minnesota Management & Budget (MMB)

MMB's economic forecast depends on stronger labor market conditions beginning to translate into improvements in household formation, the supply of labor, and productivity, thereby putting upward pressure on wages.

Employment. The latest employment news remains positive. According to the employer survey released by the Minnesota Department of Employment and Economic Development (DEED), the state added 44,000 net new jobs, or 1.6 percent, in 2014 (measured fourth quarter to fourth quarter), less than the national rate of 2.1 percent. The private sector added almost 41,000 jobs, or 1.7 percent, short of the national rate of 2.5 percent. Minnesota's employment gains continue to be broad based, particularly in healthcare, professional and business services, and the goods-producing sector, where construction and manufacturing are recovering at a strong pace. Strength in Minnesota factories has been led by manufacturers of fabricated metal products, transportation equipment, and food.

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 early March. Earlier this month, the Bureau of Labor Statistics' (BLS) benchmark revision to national employment was less than 0.05 percent. After adjusting for benchmark revisions, Minnesota employment is estimated to have grown at about the same pace as the U.S. on an annual basis in 2013, and about 0.5 percent slower than the national average in 2014. Economists at MMB believe last year's relative underperformance is consistent with the state being on track to reach full employment before the U.S.

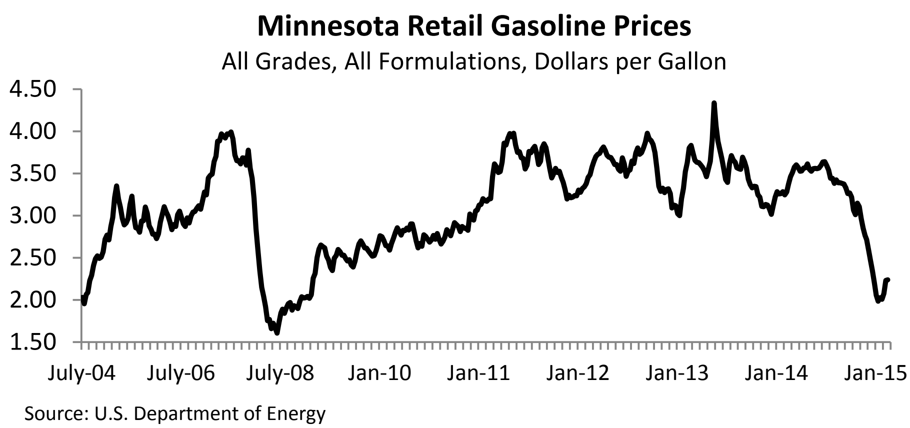
Minnesota Management and Budget's February 2015 economic forecast expects revised employment growth of 39,600 in 2014 (measured fourth quarter to fourth quarter), down slightly from 46,300 in 2013 and 44,200 in 2012. The prospects for 2015 and 2016 are somewhat stronger. Minnesota is not an oil-producing state, thus MMB economists believe the positive benefits from lower oil prices likely far outweigh the negative impacts. The net gain from lower oil prices, however, will be partially offset by the drag on exports from a stronger dollar. Overall, annual job gains are expected accelerate to 49,000 in 2015 and 2016, led by healthcare, professional and business services, and construction.



Minnesota's employment gains continue to be broad based, particularly in healthcare, professional and business services, and the goods-producing sector, where construction and manufacturing are recovering at a strong pace.

Lower Oil Prices. Minnesota has benefitted from the oil and gas boom in neighboring North Dakota, which has helped boost parts of construction, mining, and manufacturing activity in recent years. But sluggish global demand and excess supply have sent crude oil prices plummeting. The price of a barrel of Brent crude oil has fallen by almost half since last June. Lower prices mean big savings for consumers of gasoline and other petroleum products, but also reduced capital investment and drilling exploration among energy producers. Thus production in western North Dakota's Bakken oil fields is likely to slow over the next year or two.

MMB economists believe that while economic activity from oil drilling in North Dakota is important for some Minnesota's businesses, the net positive effects from the recent decline in crude prices are likely to outweigh the negative impacts on the energy sector. According to the U.S. Energy Information Administration, the average price of a gallon of gasoline in Minnesota was just $2.24 in mid-February, down from 3.60/gallon (or 39 percent) from late June and near the lowest levels since March 2009. Lower gas prices are comparable to a tax cut, freeing up disposable income for spending on non-gasoline goods and services. MMB economists estimate that if the IHS February 2015 baseline materializes, and oil prices average near $50 per barrel this year, spending on gasoline in Minnesota will be as much as $2.4 billion less in 2015 than it was in 2014. This is equal to about 1.0 percent of disposable income and represents an average savings of about $1,100 per Minnesota household.



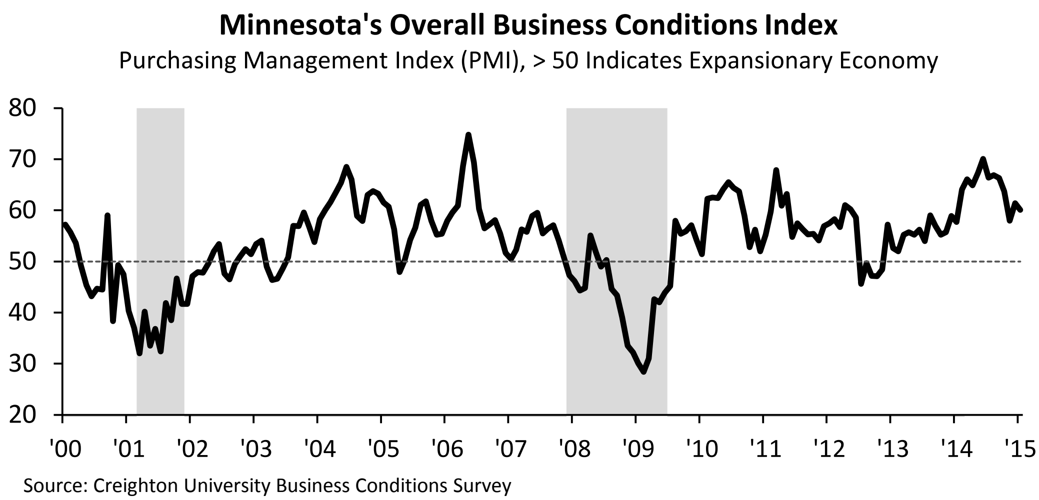
The average price for a gallon of gasoline in Minnesota was just $2.24 in mid-February, down from 3.60/gallon (or 39 percent) from late June.

Exports. Minnesota's exports of goods and services to countries throughout the world are an important source of economic strength. According to DEED data for the first nine months of 2014, Minnesota businesses were on pace to send a record $21.5 billion worth of agricultural, mining, and manufactured goods abroad last year, a 3.9 percent increase from $20.7 billion exported the year before. That totals about 6.8 percent of the state's GDP. DEED estimates the state's manufactured export businesses support nearly 115,000 jobs.

Canada ($5.6 billion in 2013), China ($2.5 billion), and Mexico ($1.5 billion) are among Minnesota's largest export markets for goods, including manufactured machinery, iron ore, snowmobiles and ATVs, and self-adhesive materials. European countries as a group accounted for $4.8 billion worth of manufactured products sent abroad in 2013. Germany, Belgium, United Kingdom, and the Netherlands are among Minnesota's largest European purchasers of other goods such as medical instruments and aircraft products and parts.

Still, the relative strength of the U.S. economy is attracting foreign investors, which is driving up the value of the dollar. The trade-weighted U.S. dollar is up more than 17 percent against major trading partners since June. In theory, a stronger dollar relative to major trading partners will make Minnesota produced goods and commodities more expensive in Canada, Europe, and elsewhere in the world, likely reducing demand for the state's products abroad.

Already, Minnesota's manufacturing activity appears to be cooling, as the state's producers adjust to weaker foreign growth and the stronger dollar. Results from a survey of supply managers for the Mid-America Business Conditions Index signal that Minnesota's manufacturing sector remains in an expansionary phase, but has lost some momentum over the past four months. The new orders component of the index has fallen to the lowest levels in a year. MMB economists estimate that if the IHS February 2015 baseline materializes, Minnesota exports could fall by as much as $300 million, or 1.2 percent, in 2015.

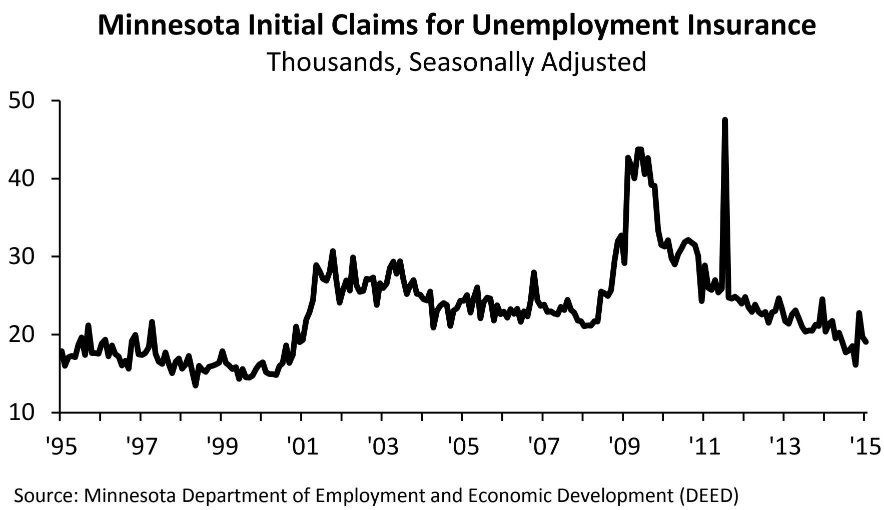


Minnesota's manufacturing activity appears to be cooling, as the state's producers adjust to weaker foreign growth and the stronger dollar.

Labor Market Slack. Minnesota's labor market tightened up considerably in 2014. Steady job growth has helped push Minnesota's unemployment rate down more than a full percentage point in the past year, to 3.6 percent in December, a full two percentage points less than the nation. This surpasses the low point (3.9 percent) of the previous 2002-2007 economic expansion. 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 per month (after adjusting for a weather-induced jump in November) 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.

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 late 2014. Temporary help jobs, often a bellwether of employment growth, have settled in to healthy growth path. In 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.

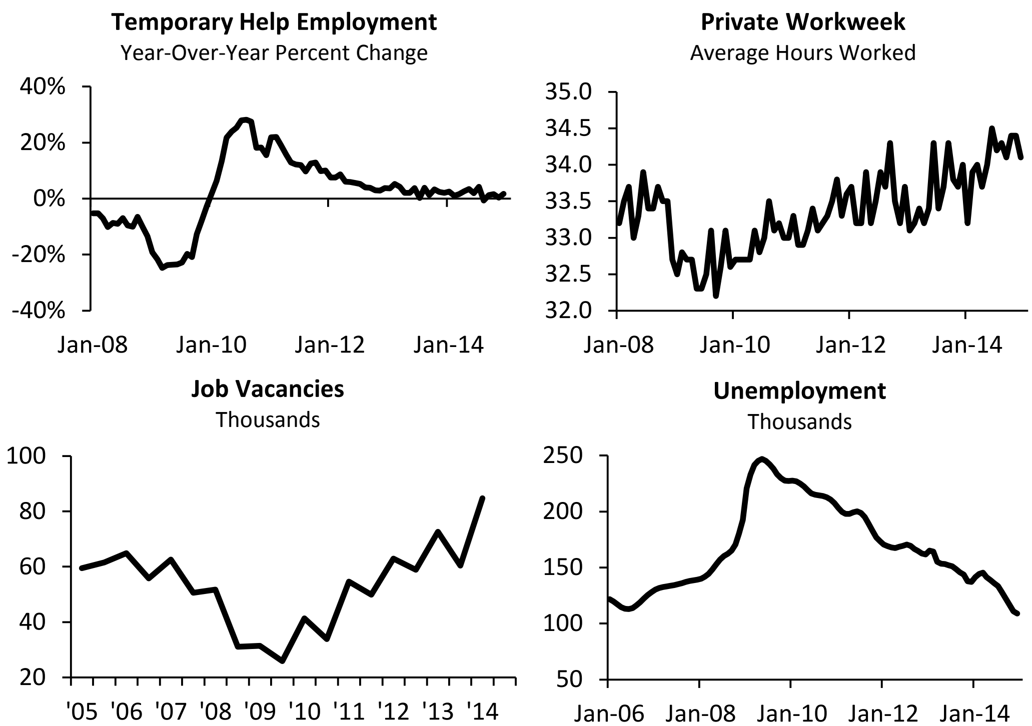


Fewer people being laid off suggests that labor market conditions are tightening. The number of Minnesotans filing new claims for unemployment benefits has dropped to levels not seen since the late 1990s, after adjusting for population growth.

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 around 70 percent at the end of 2014, 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 fell close to a normal, pre-recession level last year, and remains below 10,000. This suggests that 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 February 2015 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 ease down 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 0.6 percent in 2014, to an average of about 0.8 percent between 2015 and 2016. 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 44,000 in the past four years.

Minnesota Leading Indicators

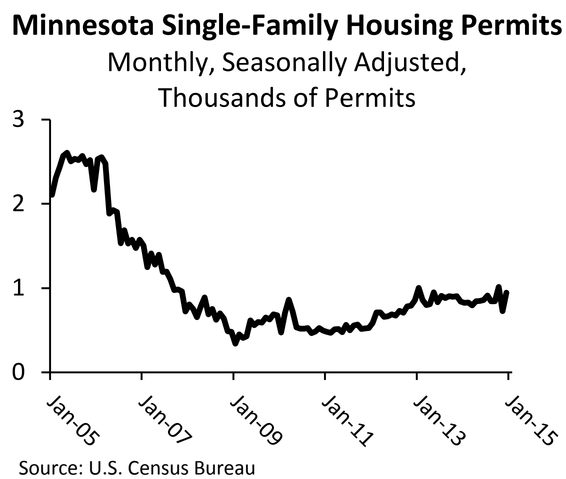


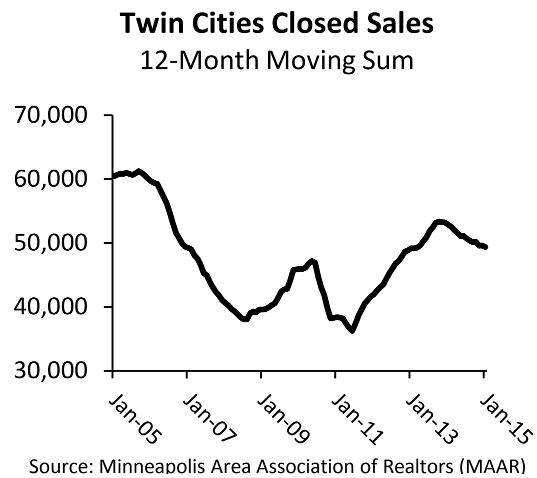
Source: Minnesota Department of Employment and Economic Development (DEED)

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

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

Housing. Minnesota's housing recovery has been disappointing. Persistently weak home sales and single-family permits in Minnesota have been a direct reflection of surprisingly sluggish household formation since the end of the recession. The U.S. Census Bureau estimates the number of households in Minnesota has increased by an average of just 9,000 each year since 2011, far fewer than the long-term annual trend of 24,000 households and only a modest rebound considering the sizeable deficit caused by the severe recession. The causes appear to be 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.





Persistently weak home sales and single-family permits in Minnesota have been a direct reflection of surprisingly sluggish household formation since the end of the recession.

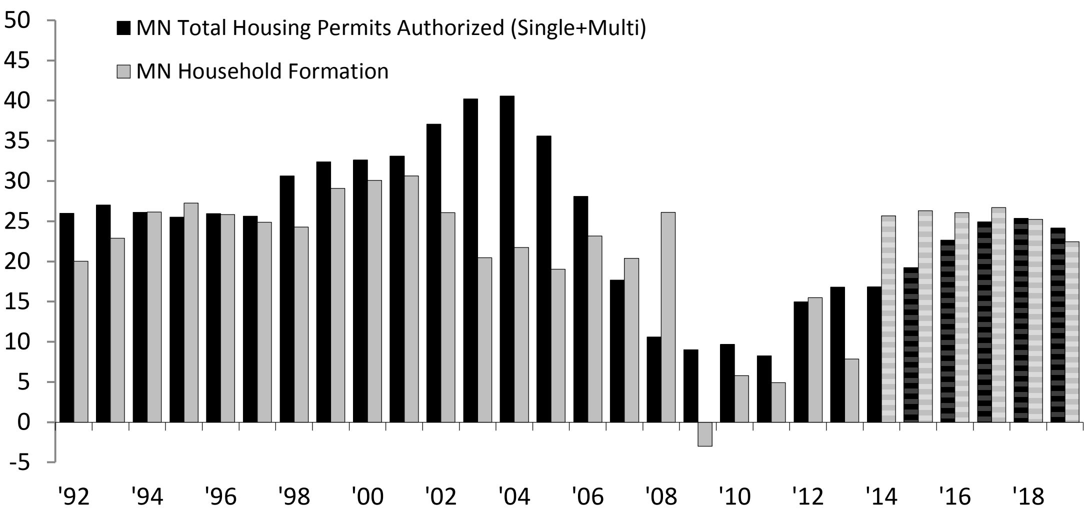
Household formation is a key driver of demand for housing. Slower formation restrains housing sales and starts. Thus the ongoing weakness helps explain why Minnesota's housing recovery has remained sluggish, despite an improving labor market. In the Twin Cities area, for instance, the Minneapolis Area Association of Realtors (MAAR) reports closed sales abruptly fell 6.9 percent in 2014, following 9.0 percent growth in 2013 and 17.3 percent growth in 2012. Likewise, the Census Bureau reports the total number of authorized residential building permits in Minnesota improved only marginally in 2014, to 16,900, compared to 2013, when housing permits totaled 16,800, and the long-term annual trend of 30,000 permits. This small improvement was dominated by the multifamily sector. Single-family permitting actually fell to 10,300 last year, from 10,600 in 2013.

In MMB's February 2015 forecast, annual household formation is expected to have risen from 8,000 in the third quarter of 2013 to 24,000 in the third quarter of 2014, consistent with improving economic fundamentals nationally and in Minnesota during the year as well as a small improvement in the headship rate – the share of the population that either rents or own – among young adults. Annual net new formations are forecast to be 23,000 in the third quarter of 2015 and 21,000 in the third quarter of 2016. With demand for new home construction steadily improving, and inventories and mortgage rates still at historic lows, permits are similarly expected to continue a steady rebound. Total housing permits are estimated to increase by 14.6 percent in 2015 (to 19,200) and 17.7 percent in 2016 (to 22,600). Construction employment is expected add 6,200 jobs (or 6.0 percent) measured fourth quarter to fourth quarter in 2014, 5,300 jobs (4.8 percent) in 2015, and 4,900 jobs (4.3 percent) in 2016.

Economists at MMB believe that if the housing recovery stalls during the first half of 2015 or household formation rates slow during the year as a result of weaker labor market conditions or headship rates among young adults, Minnesota's economy is unlikely to perform as forecast.

Minnesota Household Formation and Total Housing Permits

History and MMB February 2015 Forecast, Thousands of Units/Permits



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

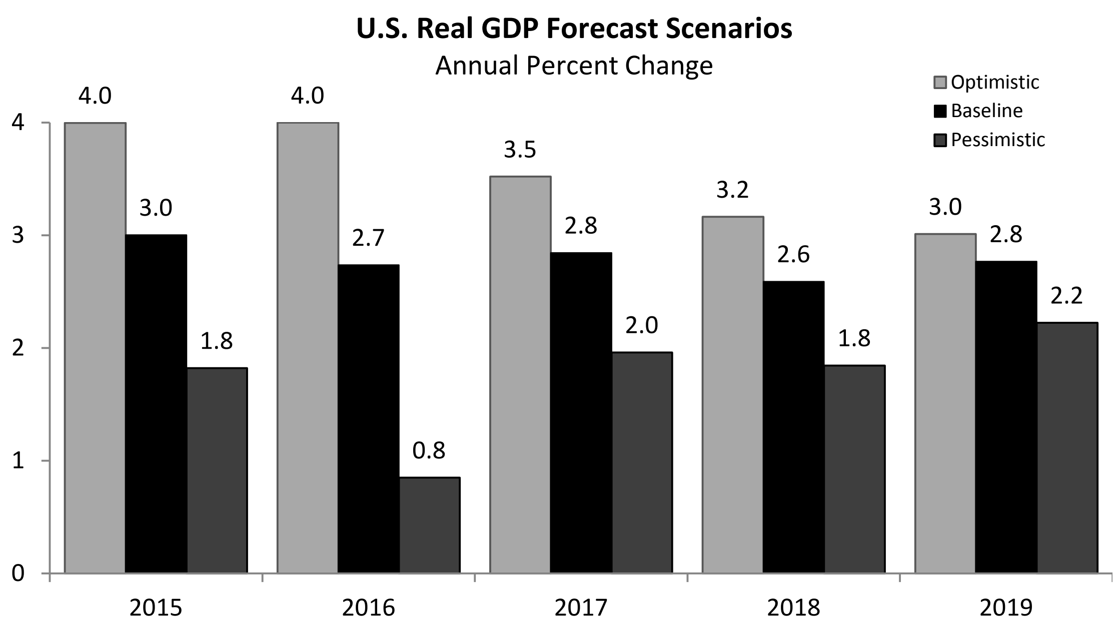
The sharp slowdown in household formation since the end of the recession helps explain why Minnesota's housing recovery has been sluggish. Causes appear to be a less mobile and more stable aging population, slower immigration, and more young adults sharing homes due to a sluggish job market and heavy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

Council of Economic Advisors' Statement

Minnesota's Council of Economic Advisors (CEA) met on February 13, 2015, to review the IHS Economics (IHS) outlook for U.S. economic growth, which includes the assumptions underlying Minnesota's February 2015 *Budget and Economic Forecast*. Council members noted that since November, IHS has slightly increased their overall growth expectations for 2014 to 2019. The largest change occurs early in the forecast, with projected real GDP growth in 2015 increasing from 2.6 percent last November to 3.0 percent in February. Consumer spending, buoyed by consumer confidence, is the largest driver of this change. The February outlook calls for real consumer spending to grow 3.6 percent in 2015, compared to 2.8 percent in November.

Council members also noted that the current U.S. outlook is influenced by two significant developments: falling oil prices and a rising U.S. dollar. Cheaper oil is expected to reduce capital expenditures in oil-related industries and allow consumers to divert spending toward non-gasoline purchases. The strong dollar is expected to reduce demand for U.S. exports and make imported goods more affordable for U.S consumers. Both factors work to suppress consumer price inflation.

IHS is expecting slightly slower overall growth than most other macroeconomic forecasters. The IHS February outlook calls for real GDP growth of 3.0 percent in 2015, compared to the Blue Chip Consensus forecast of 3.2 percent. For 2016, IHS expects 2.7 percent growth compared to the consensus forecast of 2.9 percent.



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

Minnesota's Council of Economic Advisors agreed that IHS's expectations for U.S. economic growth are a reasonable starting point for MMB's February 2015 Budget and Economic Forecast.

Council members acknowledged risks to U.S. growth over the forecast period. The rising value of the dollar relative to the currencies of our major trading partners is making U.S. exports more expensive and imports cheaper relative to U.S.-produced goods. If the dollar's strength persists longer than expected, global demand for U.S. manufactured goods will suffer, potentially slowing U.S growth. On the other hand, sustained low oil prices or better-than-forecast global growth could improve the U.S. outlook.

All council members agreed that the IHS baseline expectations for U.S. economic growth are reasonable. Regarding forecast risks, they believe that for 2015-2017 the potential for faster growth is balanced with the threat of the economy growing more slowly than IHS projects. 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 November 2014 *Budget and Economic Forecast* understated projected spending for FY 2016-17 by almost $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 $994 million budget reserve is about 5.0 percent of forecast fiscal year 2015 revenues (2.5 percent of FY 2014-15 biennial revenues). If the cash flow account ($350 million) is included, reserves are about 6.8 percent of projected annual revenues (3.4 percent of biennial revenues). [1]

[1] This reflects the levels of reserves and projected revenues at the time of the Council meeting on February 13, 2015. With the release of the February 2015 *Budget and Economic Forecast*, the values for FY 2015 have been updated.

BUDGET OUTLOOK

Current Biennium

The *Budget & Economic Forecast* was last released in November 2014. It projected a $373 million forecast balance in the current biennium. In February, an improvement of $105 million is reflected in the forecast for a total current balance of $478 million.

Current Biennium: FY 2014-15 General Fund Budget
Forecast Comparison

($ in millions)	November 2014 Forecast	February 2015 Forecast	$ Change	% Change
Beginning Balance	**$1,712**	**$1,712**	**$ -**	**0.0%**
Revenues				
Taxes	37,585	37,625	40	0.1
Non-Tax Revenues	1,430	1,459	29	2.0
Transfers, Other Resources	356	355	(1)	(0.4)
Total Revenues	**$39,371**	**$39,438**	**$67**	**0.2%**
Expenditures				
E-12 Education	16,629	16,620	(10)	(0.1)
Property Tax Aids	2,964	2,956	(8)	(0.3)
Health & Human Services	11,205	11,180	(25)	(0.2)
Debt Service	1,243	1,243	-	0.0
All Other	7,296	7,300	4	0.1
Total Expenditures	**$39,338**	**$39,298**	**$(39)**	**(0.1)%**
Reserves	1,344	1,344	-	
Stadium Reserve	28	30	2	
Budgetary Balance	**$373**	**$478**	**105**	

FY 2015. The $105 million increase in available resources is attributable both to higher than projected revenues of $67 million and lower projected expenditures of $39 million in FY 2015. The revenue increase is largely attributable to income taxes. Recognition of a $12 million transfer from the Worker's Compensation Assigned Risk Plan also increased overall revenues for this fiscal year. Amounts qualifying as excess surplus of funds in the plan are transferred to the General Fund annually. Over one-half of the expenditures change is due to lower projected expenditures in Health and Human Services area, a 0.2 percent change in the Medical Assistance program.

Next Biennium

A balance of $1.869 billion is now projected for the FY 2016-17 biennium, an increase of $832 million over November estimates. The vast majority ($616 million) of the change since November is due to increases in forecast revenues. This includes an increase in projected tax revenues of 1.3 percent as well as a transfer in from the Health Care Access Fund of $96 million. Revenues in the next biennium are expected to be $42.497 billion, an increase over a projected $41.880 billion in November.

Total expenditures are projected to be $41.128 million compared to $41.243 million in November. This change ($115 million) is attributable to lower E-12 Education expenditures of $109 million. Lower compensatory aid driven by lower growth of children in poverty, along with lower pupil counts and higher adjusted net tax capacity have lowered estimated E-12 spending. In addition, debt service payments in 2016-17 are now expected to be $1.271, $6 million lower than November projections. The revised estimates reflect slightly lower interest rate assumptions on future bond sales resulting in higher bond premiums than previously estimated, thereby lowering the size of the projected bond issue and the debt service payments.

Next Biennium: FY 2016-17 General Fund Budget

Forecast Comparison

($ in millions)	November 2014 Forecast	February 2015 Forecast	$ Change	% Change
Beginning Balance	**$1,745**	**$1,852**	**$107**	**6.1%**
Revenues				
Taxes	40,253	40,772	520	1.3
Non-Tax Revenues	1,400	1,403	3	0.2
Transfers, Other Resources	227	322	94	41.5
Total Revenues	**$41,880**	**$42,497**	**$616**	**1.5%**
Expenditures				
E-12 Education	16,819	16,710	(109)	(0.6)
Property Tax Aids	3,375	3,361	(14)	(0.4)
Health & Human Services	12,757	12,771	14	0.1
Debt Service	1,277	1,271	(6)	(0.5)
All Other	7,014	7,015	1	0.0
Total Expenditures	**$41,243**	**$41,128**	**$ (115)**	**(0.3)%**
Reserves	1,344	1,344	-	
Stadium Reserve	1	7	5	
Budgetary Balance	**$1,037**	**$1,869**	**$832**	

When compared to revised forecast estimates for the current biennium, FY 2016-17 revenues are expected to increase by $3.058 billion (7.8 percent), while expenditures are projected to increase by $1.830 billion (4.7 percent).

Tax revenues are estimated to be $3.147 billion (8.4 percent) higher than FY 2014-15. The forecast for individual income tax receipts is $2.352 billion higher than in FY 2014-15, the sales tax $715 million, and the statewide property tax $39 million. Biennial growth in tax revenues is offset slightly by reductions in non-tax revenues and other resources.

Next Biennium: FY 2016-17 General Fund Budget
Biennial Comparison; February 2015 Forecast

($ in millions)	FY 2014-15	FY 2016-17	$ Change	% Change
Beginning Balance	**$1,712**	**$1,852**	**$140**	**8.2%**
Tax Revenues	37,625	40,772	3,147	8.4
Non-Tax Revenues	1,459	1,403	(56)	(3.8)
Other Resources	355	322	(33)	(9.4)
Current Resources	**39,438**	**42,497**	**3,058**	**7.8%**
E-12 Education	16,620	16,710	90	0.5
Property Tax Aids	2,956	3,361	405	13.7
Health and Human Services	11,180	12,771	1,591	14.2
Debt Service	1,243	1,271	28	2.3
All Other	7,300	7,015	(285)	(3.9)
Total Expenditures	**39,298**	**41,128**	**1,830**	**4.7%**
Reserves	1,344	1,344	-	
Stadium Reserve	30	7	(23)	
Budgetary Balance	**$478**	**1,869**		

Expenditures are expected to grow from $39.298 billion in FY 2014-15 to $41.128 billion in FY 2016-17. The vast majority of that growth ($1.591 of $1.830 billion) is within Health and Human Services programs, in which costs are driven especially by health care enrollment and costs. Over one half of the growth ($840 million) in health care programs is from an enrollment increase of low income families and children from 533,000 average monthly enrollees in FY 2014 to 705,000 in FY 2017, an increase of 32 percent. Newly enrolled individuals in this eligibility group were encouraged to obtain health care coverage with the start of the individual mandate requirement in the Affordable Care Act in January 2014. Increases in this area are also largely driven by the cost of health care for elderly and disabled individuals. Finally, there is also a biennial decrease of $263 million in expenditures on single adults whose cost of care is largely paid through federal funds after the start of the Affordable Care Act.

Expenditures for property tax aids and credits are expected to be $3.361 billion in FY 2016-17, an increase of $405 million (13.7 percent) over estimates for 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 $178 million in higher spending for property tax refunds due to expanded program eligibility and higher maximum refunds along with a $148 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.

Growth in expenditures in health and human services and tax aids and credits are offset by a net decrease of $167 million in all other areas of state government.

Planning Estimates

This forecast provides 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' February baseline forecast for 2018 and 2019. Expenditure projections assume that current funding levels and policies continue unchanged, adjusted only for caseload and cost changes as well as specific formula driven items.

Planning Horizon: General Fund Budget
By Biennium, February 2015 Forecast

($ in millions)	FY 2014-15	FY 2016-17	FY 2018-19
Forecast Revenues	$39,438	$42,497	$46,266
Projected Spending	39,298	41,128	43,081
Difference	**$140**	**$1,368**	**$3,184**
Estimated Inflation (CPI)	-	*$893*	*$3,279*

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 $1.368 billion less than forecast revenues and FY 2018-19 spending is expected to be $3.184 billion less than forecast revenues. Projected inflation based on the Consumer Price Index (CPI) is now expected to be 0.8 percent for FY 2016 and 2.7 percent in FY 2017 – followed by 2.6 percent annual increases in FY 2018-19.

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 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

Forecast revenues for the current biennium have increased. Total revenues for FY 2014-15 are now forecast to be $39.438 billion, $67 million (0.2 percent) higher than the November estimate. Total tax revenues for FY 2014-15 are forecast to be $37.625 billion, exceeding the prior estimate by $40 million (0.1 percent). The change reflects the impact of January 2015 law changes, which reduce forecast tax revenue by $20 million in the current biennium.

Current Biennium: FY 2014-15 General Fund Revenues
Forecast Comparison

($ in millions)	November 2014 Forecast	February 2015 Forecast	$ Change	% Change
Individual Income Tax	$19,615	$19,705	$90	0.5%
General Sales Tax	10,198	10,204	6	0.1
Corporate Franchise Tax	2,637	2,595	(41)	(1.6)
State General Property Tax	1,675	1,660	(15)	(0.9)
Other Tax Revenue	3,460	3,460	0	0.0
Total Tax Revenues	**37,585**	**37,625**	**40**	**0.1%**
Non-Tax Revenues	1,430	1,459	29	2.0
Other Resources	356	355	(1)	(0.4)
Total Revenues	**$39,371**	**$39,438**	**$67**	**0.2%**

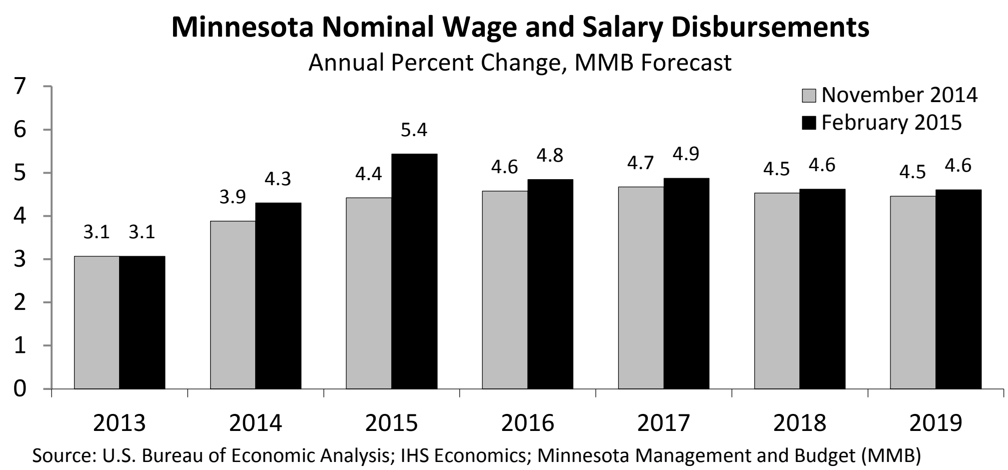
Individual Income Tax. The individual income tax shows the largest dollar amount change, $90 million (0.5 percent) above the prior estimate. The change reflects the impact of January 2015 law changes, which reduce forecast income tax revenue by $19 million in the current biennium. Higher forecast income growth in calendar year 2014 more than offsets a reduction in MMB's estimate of tax liability for 2013, the base year for this forecast.

This forecast builds from MMB's estimate of final 2013 income tax liability. Using information from processed tax returns and revenue in the state accounting system, MMB economists estimate that final 2013 income tax liability is $8.766 billion, $76 million less than projected in November.

Calibrating the individual income tax model to produce MMB's projected tax year 2013 final liability required making assumptions about 2013 growth rates for particular income types. Assumed growth in Minnesota business income was lowered from 4.0 percent in the November forecast to 2.7 percent. Dividend income is now assumed to have declined 13.0 percent from the high levels of 2012, compared to a 9.6 percent assumed decline in November. Relative to the November forecast, this forecast assumes a larger decline in interest income (from -9.7 percent to -11.0 percent) and a switch in taxable IRA distributions from growth of 0.2 percent to a 3.8 percent decline.

Based on information from a preliminary sample of 2013 tax returns, net capital gains reported by Minnesota residents in 2013 are now assumed to have decreased 30.7 percent from the high levels of 2012, a year in which taxpayers accelerated income in anticipation of higher federal income tax rates. In contrast, November's forecast projected a 31.9 percent decline in 2013.

A higher forecast of income growth in tax years 2014 and 2015 offsets the lower base year income tax liability to raise the forecast for FY 2014-15 income tax revenues. Information from the Bureau of Economic Analysis (BEA), the Quarterly Census of Employment and Wages (QCEW), and income tax withholding collections suggest that Minnesota's growth in wage and salary income has been greater than forecast in November, and that stronger wage growth is forecast to continue. Annual wage growth in 2014 and 2015 is now expected to be 4.3 and 5.4 percent, respectively, compared to 3.9 and 4.4 percent assumed in November.



Minnesota's growth in wage and salary income has been greater than forecast in November, and that stronger wage growth is forecast to continue. Annual wage growth in 2014 and 2015 is now expected to be 4.3 and 5.4 percent, respectively, compared to 3.9 and 4.4 percent assumed in November.

Recent tax law changes add uncertainty to MMB's inference of wage growth from withholding receipts. The March 2014 federal conformity bill significantly increased Minnesota's married standard deduction, leading to changes in the withholding tables. Without good measures of the fraction married wage earners who use the married tables as opposed to single tables, the growth in withholding is harder to interpret and translate into wage growth.

Higher expected capital gains growth also contributes to the improved current biennium revenue forecast. Capital gains reported by Minnesota residents are now assumed to grow 39.2 percent in tax year 2014, compared to 22.6 percent growth in the November forecast.

As of January, year-to-date income tax receipts for FY 2015 exceed the prior estimate by $229 million, but not all of this positive variance is assumed to reflect higher liability. Year-to-date payments for FY 2015 exceed what would be generated by MMB's forecast of tax year 2014 liability. Consequently, we expect these excess receipts to be reduced by higher tax refunds and lower final payments accompanying 2014 tax returns.

General Sales Tax. Higher expected sales tax refunds nearly offset higher forecast gross tax receipts to generate a $6 million increase in the FY 2014-15 sales tax revenue forecast. As of January, year-to-date sales tax receipts for FY 2015 exceed the prior estimate by $43 million, but this positive variance is expected to be offset by a lower gross receipts forecast and a higher refund forecast for the remainder of the fiscal year. Minnesota's synthetic sales tax base, a proxy for the actual sales tax base, is now expected to grow more slowly during the first six months of calendar year 2015 (the second half of FY 2015) than had been expected in November. Consequently, gross sales tax receipts for the remaining five months of the fiscal year are now forecast to be $6 million less than had been forecast in November. The current forecast also calls for an increase of about $31 million in refunds for the remainder of the fiscal year over what was expected in November.

Corporate Franchise Tax. A reduced forecast for gross corporate franchise tax payments and higher expected corporate refunds combine to lower forecast corporate tax revenues for FY 2014-15 by $41 million (1.6 percent) from the November estimate. The change reflects the impact of January 2015 law changes, which reduce forecast corporate tax revenue by $1 million in the current biennium.

Gross corporate tax receipts are now forecast to be $9 million less than the prior estimate. Actual FY 2015 year-to-date gross corporate receipts are short of the November estimate, bringing down the base for the current gross receipts forecast. Corporate profit growth during the first half of calendar year 2015 is now expected to be 0.8 percentage points higher than had been assumed in the November forecast. The faster growth, however, is not enough to make up for the base reduction.

The forecast for FY 2014-15 corporate tax refunds has been increased $32 million over the prior estimate. Actual FY 2015 year-to-date corporate refunds exceed the November estimate, bringing up the base for the current corporate refund forecast. MMB's practice is to report the full revenue impact of the Historic Structure Rehabilitation Credit (HSRC) in corporate refunds, even though some of the credits accrue to non-corporate taxpayers, and some credits reduce tax payments, rather than increase refunds. After observing the pattern of HSRC refunds payments, MMB has changed the timing of some refund payments in this forecast. Relative to the prior forecast, this change increases projected HSRC refunds in 2015 and reduces them by a similar amount in 2016. On net, the base increase and timing shift of HSRC refunds increase the FY 2014-15 overall corporate refund forecast.

Other Tax Revenue, Non-Tax Revenue, Other Resources. Offsetting changes in several tax items combine to produce no net change in the forecast for other taxes. Driven by increased expectations for nominal home sale values and refinancing activity, revenues from the mortgage registry and deed transfer taxes together are forecast to exceed the prior estimate by $14 million. Forecast revenue from the estate tax is now $23 million lower than in November.

Next Biennium

Total general fund revenues for FY 2016-17 are now forecast to be $42.497 billion, $616 million (1.5 percent) more than the November forecast. Total tax revenues for the biennium are forecast to be $40.772 billion, exceeding the prior estimate by $520 million (1.3 percent). The change reflects the impact of January 2015 law changes, which increase forecast tax revenue by $21 million in the next biennium. Higher expected income and sales tax receipts account for nearly all the change in forecast tax revenues.

Next Biennium: FY 2016-17 General Fund Revenues
Forecast Comparison

($ in millions)	November 2014 Forecast	February 2015 Forecast	$ Change	% Change
Individual Income Tax	$21,664	$22,057	$393	1.8%
General Sales Tax	10,796	10,920	124	1.1
Corporate Franchise Tax	2,607	2,576	(31)	(1.2)
State General Property Tax	1,709	1,699	(11)	(0.6)
Other Tax Revenue	3,476	3,522	45	1.3
Total Tax Revenues	**40,253**	**40,772**	**520**	**1.3%**
Non-Tax Revenues	1,400	1,403	(3)	0.2
Other Resources	227	322	94	41.5
Total Revenues	**$41,880**	**$42,497**	**$616**	**1.5%**

Individual Income Tax. The individual income tax shows the largest dollar amount change, $393 million (1.8 percent) above the prior estimate. The change reflects the impact of January 2015 law changes, which increase forecast income tax revenue by $9 million in FY 2016-17.

Higher forecast income growth in tax years 2015, 2016, and 2017 offsets the lower base year income tax liability to raise forecast FY 2016-17 income tax revenues. Annual wage growth in 2015, 2016, and 2017 is now expected to be 5.4, 4.8, 4.9 percent, respectively, compared to 4.4, 4.6, and 4.7 percent assumed in November.

Larger expected capital gains realizations also contribute to the improved current biennium revenue forecast. From 2013 to 2015, net capital gains reported by Minnesota residents are now assumed to grow a cumulative 16.2 percentage points more than had been forecast in November, increasing the FY 2016 revenue forecast. This change reflects a one-time increase in capital gains realizations in tax year 2015 arising from Minnesota-based corporate activity.

Decreased inflation expectations raise the forecast revenue gain from income tax indexing. In the November forecast, the Consumer Price Index (CPI) was expected to increase 1.0 percent over the 12 months ending with the third quarter of calendar year 2015. The CPI is now forecast to decline about 0.4 percent over the period. Such a decline in the price index would lead to a contraction in Minnesota's income tax brackets, increasing income tax liability in tax year 2016. The lower CPI forecast, therefore, increases forecast liability in tax year 2016 by roughly $56 million. Lower indexing increases liability by lesser amounts beyond tax year 2016, as the CPI moves back toward the November forecast level.

General Sales Tax. Sales tax receipts for FY 2016-17 are now forecast to be $124 million (1.1 percent) more than the November estimate. Gross sales tax receipts are now forecast to exceed the prior estimate by $129 million. This change reflects increased expectations for growth in Minnesota's synthetic sales tax base, a proxy for the actual sales tax base. Annual growth in the synthetic base 2016 and 2017 is now expected to be 5.4 and 5.1 percent, respectively, compared to 4.5 and 4.7 percent assumed in November.

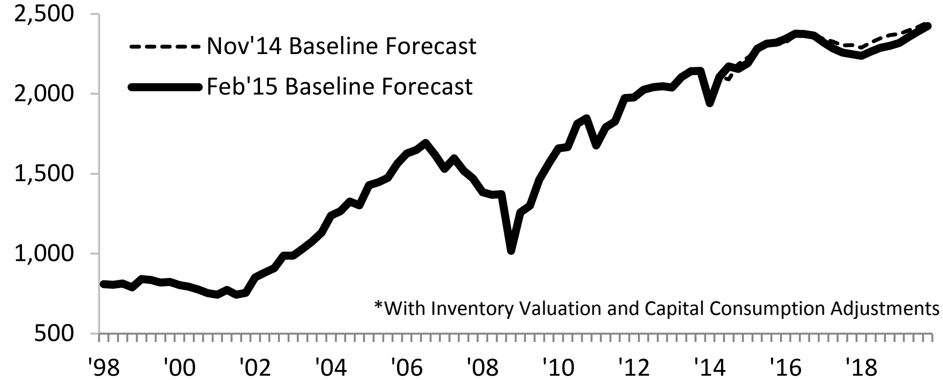
Corporate Franchise Tax. Corporate franchise tax revenues are now forecast to be $31 million (1.2 percent) lower than the November estimate. The change includes the impact of January 2015 law changes, which increase forecast corporate tax revenue by $12 million in FY 2016-17. Gross corporate receipts for the biennium are now forecast to be $58 million lower than the prior estimate, while the corporate refund forecast has decreased by $15 million. These changes reflect lower expectations for growth in corporate profits. Annual corporate profits growth in 2016 is now assumed to be 4.3 percent, compared to 4.5 percent in November. For 2017, a forecast of 0.6 percent profits growth has been replaced with an expected decline of 1.9 percent.

Other Tax Revenue, Non-Tax Revenue, Other Resources. Other tax revenue is now forecast to exceed the November estimate by $45 million (1.3 percent). Driven by increased expectations for nominal home sale values and refinancing activity, revenues from the mortgage registry and deed transfer taxes together are forecast to exceed the prior estimate by $41 million. Forecast revenues from the cigarette and tobacco taxes are $15 million more than the prior estimate, and the estate tax revenue forecast is $26 million lower than in November.

Other resources are now expected to exceed the prior estimate by $94 million (41.5 percent). This reflects a $96 million transfer from the Health Care Access Fund as a result of resources becoming available in that fund since November. Current law requires that up to $96 million each biennium be transferred from the Health Care Access Fund to the General Fund to the extent resources are available.

U.S. Corporate Profits Before Tax*

Billions of Dollars, Annual Rate



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

Gross corporate receipts for the biennium are now forecast to be $58 million lower than the prior estimate, while the corporate refund forecast has increased by $15 million. These changes reflect lower expectations for growth in corporate profits.

Planning Estimates

Total revenues for FY 2018-19 are estimated to be $46.261 billion, an increase of $3.769 billion (8.9 percent) over the current forecast for FY 2016-17 revenues. Total tax revenues for FY 2018-19 are estimated to be $44.685 billion, a 9.6 percent increase over FY 2016-17 forecast revenues.

Planning Estimates: FY 2018-19 General Fund Revenues

Biennial Comparison; February 2015 Forecast

($ in millions)	Forecast FY 2016-17	Projected FY 2018-19	$ Change	% Change
Individual Income Tax	$22,057	$24,935	$2,878	13.0%
General Sales Tax	10,920	11,898	978	9.0
Corporate Franchise Tax	2,576	2,450	(125)	(4.9)
State General Property Tax	1,699	1,775	76	4.5
Other Tax Revenue	3,522	3,627	106	3.0
Total Tax Revenues	**40,772**	**$44,685**	**3,913**	**9.6%**
Non-Tax Revenues	1,403	1,386	(17)	(1.2)
Other Resources	322	195	(127)	(39.5)
Total Revenues	**$42,497**	**$46,266**	**$3,769**	**8.9%**

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 $2.878 billion (13.0 percent), and contributing 74 percent of the total tax revenue biennial change. The general sales tax estimate exceeds the FY 2016-17 forecast level by $978 million (9.0 percent), accounting for 25 percent of the projected revenue growth. Corporate tax revenues are projected to be $125 million (4.9 percent) lower than the current FY 2016-17 forecast level. This projected revenue decrease is more than offset by projected biennial growth in the state general property tax and other tax revenue.

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. 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 of 2018 and 2019.

EXPENDITURE OUTLOOK

Current Biennium

Spending estimates for FY 2014-15 are slightly lower than prior estimates for the biennium. Expenditures in the current biennium are now expected to be $39.298 billion, a reduction of $39 million (0.1 percent) from November forecast estimates.

Current Biennium: FY 2014-15 General Fund Expenditures
Forecast Comparison

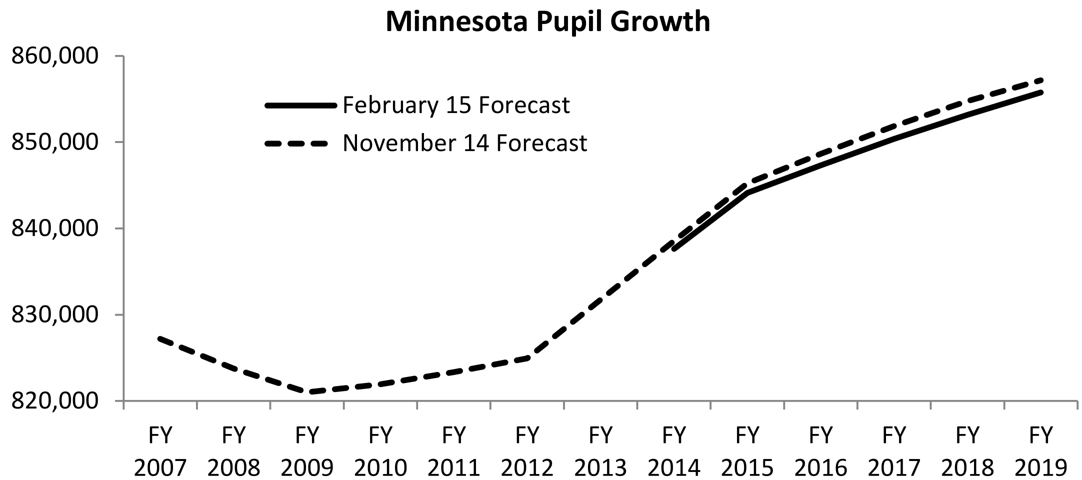
($ in millions)	November 2014 Forecast	February 2015 Forecast	$ Change	% Change
E-12 Education	16,629	$16,620	$(10)	(0.1)%
Property Tax Aids & Credits	2,964	2,956	(8)	(0.3)%
Health & Human Services	11,205	11,180	(25)	(0.2)%
Debt Service	1,243	1,243	-	0.0%
All Other	7,296	7,300	4	0.1%
Total Expenditures	**$39,338**	**$39,298**	**$(39)**	**0.1%**

Expenditure estimates are reduced slightly across E-12 education, property tax aids and credits and health and human services. This is due primarily to lower actual E-12 pupil counts, reduced Medical Assistance payments and lower actual participation in the homeowner property tax refund program.

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, charter schools, nonpublic pupil programs, and integration programs, among others. In the current biennium the state is projected to spend $16.620 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 spending in FY 2014-15 is expected to be $10 million (0.1 percent) less than the November forecast. This is largely due to actual FY 2014 student counts coming in slightly lower than projected causing pupil growth to be adjusted downward over the entire forecast period. This reduction in student counts lowered general education spending in the February forecast by $5 million and special education spending by $2 million. Nonpublic pupil counts also came in lower than projected in November, reducing nonpublic pupil aid by $2 million for the current biennium.



Pupil unit projections in February are lower than November estimates for the entire forecast period, however total pupil units continue to increase year over year.

Health and Human Services. Health and human services is nearly one-third of total state general fund spending. The majority of these expenditures are forecast programs including Medical Assistance (MA), Chemical Dependency (CD), the Minnesota Family Investment Program (MFIP), MFIP Child Care, General Assistance, Group Residential Housing, and Minnesota Supplemental Aid. General fund forecast changes are generally driven by changes to the MA forecast, since it accounts for the largest portion of forecasted program expenditures. MA is a state-federal, means-tested entitlement program for low-income individuals and families, persons with physical or developmental disabilities, and the low-income elderly.

Health and Human Services (HHS) general fund expenditures are down $25 million (0.2 percent) in FY14-15 relative to November 2014 estimates. Small reductions to average payments in Medical Assistance (MA) program for families and children drove $16 million of the decrease. Chemical Dependency Entitlement expenditures are 2.0 percent ($3 million) above November estimates. This increase reflects a movement toward more expensive services types, such as individual therapy, and away from less expensive types, such as group therapy. This emerging trend led to an upward revision of Chemical Dependency expenditures in future years.

Property Tax, Aids, and Credits. Property tax aids and credits are approximately 8 percent of general fund spending. They are paid to local governments, including cities, counties, towns, public schools, and special taxing districts. These aids and credits help offset costs of service delivery, defray costs of state mandates, and reduce local property taxes by substituting state funds for revenues that would otherwise need to be raised locally. Direct payments to individuals, like property tax refunds for homeowners and renters, are also included in this category because they reduce property tax burdens.

Property tax aids and credit spending is now expected to be $2.96 billion in the current biennium, a decrease of $8.0 million (0.3 percent) from November 2014 forecast estimates. A decrease of $6.9 million in homeowner property tax refunds (1.0 percent) is primarily responsible for the overall reduction and is due to lower than expected program participation.

All Other. Enacted expenditure changes from the disaster bill (Laws 2015, Chapter 2) are now included in forecast spending for FY 2014-15. The net impact of these changes on the general fund is an increase of $2 million in spending.

Next Biennium

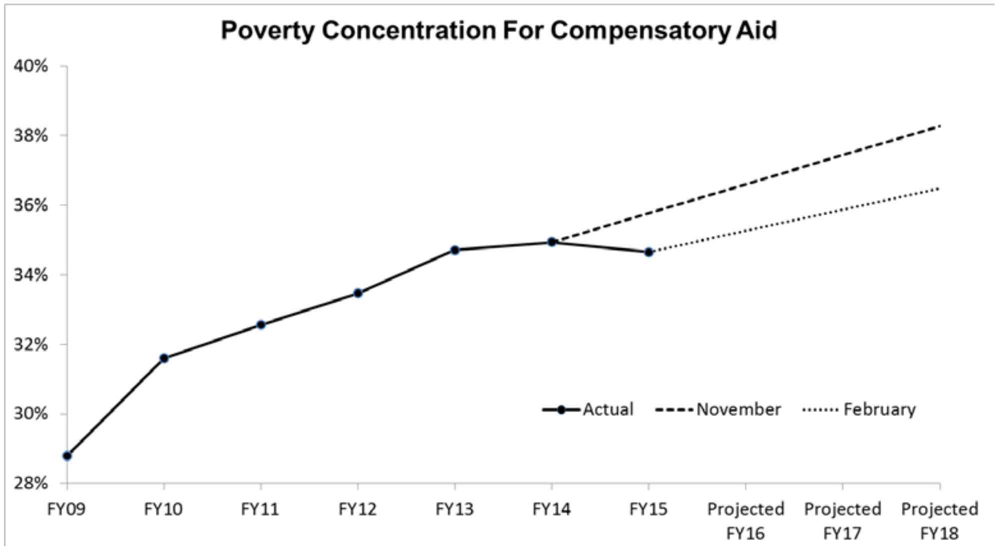
Forecast expenditures in the next biennium are now expected to be $41.128 billion a reduction of $115 million from November estimates. The majority of this change occurs in E-12 Education, which is down $109 million from November estimates.

Next Biennium: FY 2016-17 General Fund Expenditures
Forecast Comparison

($ in millions)	November 2014 Forecast	February 2015 Forecast	$ Change	% Change
E-12 Education	$16,819	$16,710	(109)	(0.6)%
Property Tax Aids & Credits	3,375	3,361	(14)	(0.4)%
Health & Human Services	12,757	12,771	14	0.1%
Debt Service	1,277	1,271	(6)	(0.5)%
All Other	7,014	7,015	1	0.0%
Total Expenditures	**$41,243**	**$41,128**	**$(115)**	**(0.3)%**

E-12 Education. E-12 spending is forecast to decline by $109 million (0.6 percent) in FY 2016-17 compared to the November forecast. This decrease is attributable largely to decreases in general education and special education expenditures. General education is down $74 million or 0.6 percent from previous estimates due primarily to lowered projections of pupil growth and slower expected growth in the poverty concentration. Roughly two thirds of the decrease in general education spending, $48.8 million, is due to a downward adjustment in the projected growth of the poverty concentration. Compensatory aid, a portion of the general education formula, is distributed to districts on a per pupil basis based on free and reduced lunch counts, with the per pupil amount increasing or decreasing with the poverty concentration. Final FY 2014 data revealed that the actual poverty concentration was virtually unchanged from FY 2013 to FY 2014. This drove a reduction in the projected growth of the poverty concentration over the entire forecast period.

Additionally, new information regarding how districts are handling their special education costs led to a $33 million reduction in special education estimates in FY 2016-17. A new special education funding formula takes effect beginning in FY 2016. November estimates assumed school districts would change behavior based on the new formula and redirect special education salary costs now eligible for state aid but previously claimed for federal aid to the state side and use federal money for other costs not eligible for state aid. However, based on actual FY 2014 reporting, less of this occurred than was anticipated, causing a downward adjustment in the forecast.



The projected growth in poverty concentration was adjusted downward with the February forecast because actual reported poverty concentration declined for the first time in recent history. The forecast still projects growth in poverty concentration over the forecast horizon, given the long term trend.

Health & Human Services. In FY 2016-17, general fund HHS expenditures are $14 million (0.1 percent) above November estimates. Changes to MA drive $6 million of this increase (a 0.04 percent increase from November). Chemical Dependency expenditures are forecast to be $7 million (4.2 percent) higher than in November, reflecting the use of more expensive services.

Property Tax, Aids, and Credits. FY 2016-17 spending for property tax aids and credits is forecast to be $3.36 billion, $13.8 million (0.4 percent) lower than previous estimates for the biennium. Driving most of this change is a projected $11.3 million (1.3 percent) decrease in homeowner property tax refunds due to fewer participants than previously estimated. Other factors contributing to the reduced spending projections include a $2 million (6.7 percent) reduction in tax refund interest and a $2.8 million (63.6 percent) reduction in debt service aid for the Lewis and Clark regional water project, due to later than expected bond issuance and revised debt service estimates. These reductions are partially offset by a $2.4 million increase in projected spending for agricultural market value credits.

Debt Service. The forecast debt service costs in the next biennium are $1.271 billion, $6.3 million (.5 percent) less than November forecast estimates. The reduction is due to current law which allows MMB to use premiums paid by bond purchasers to lower or reduce the size of actual bond issue. The estimates reflect slightly lower interest rate assumptions on future bond sales resulting in higher bond premiums than previously estimated, thereby lowering the size of the bond issue and the debt service payments.

Planning Estimates

Spending estimates for FY 2018-19 are slightly higher than prior estimates for the planning biennium. Expenditures in FY 2018-19 are now expected to be $43.081 billion, an increase of $31 million (0.1 percent) from November forecast estimates. The majority of the upward adjustment in spending estimates occurs in Health and Human Services, which increase by $87 million from prior estimates for the planning biennium.

Planning Estimates: FY 2018-19 General Fund Expenditures
Forecast Comparison

($ in millions)	**November 2014 Forecast**	**February 2015 Forecast**	**$ Change**	**% Change**
E-12 Education	$17,169	$17,122	$(47)	(0.3)%
Property Tax Aids & Credits	3,467	3,451	(15)	(0.4)
Health & Human Services	14,187	14,275	87	0.6
Debt Service	1,222	1,214	(9)	(0.7)
All Other	7,004	7,019	15	0.2
Total Expenditures	**$43,050**	**$43,081**	**$31**	**0.1%**

E-12 Education. Overall estimates for E-12 education are reduced $47 million compared to November estimates. A reduction of $52 million in special education spending estimates drives this change. The estimated reduction in special education spending in FY 2016-17 carries forward into the planning biennium and growth in spending is limited by a growth cap on special education expenditures per pupil.

The reduction in special education spending is offset slightly by an increase in general education spending compared to November projections. In the November forecast, the number of pupil units included in the FY 2018-19 general education calculations was inadvertently too low. This caused the November forecast projection for general education to be lower than what should have been included in the November forecast. If correct pupil numbers were used in November, there would have been a reduction in general education estimates since November due to a decrease in compensatory aid projections and a lower pupil unit projection. However, the correction of the error offsets this reduction, resulting in a net increase of $15 million in general education estimates in FY 2018-19 compared to the November forecast.

Health & Human Services. General fund HHS expenditures for FY18-19 are $87 million (0.7 percent) higher than November estimates. Higher average payments due to an increase in costs to meet the needs of clients served in the Developmental Disabilities (DD) and Community Alternatives for Disabled Individuals (CADI) waiver programs account for the $49 million of this increase. The forecast cost of the Community First Services and Supports (CFSS) program is also $20 million higher, driven partially by higher than expected costs of consultation services, which will be included in benefits provided to clients when the program is fully implemented. The November forecast also assumed an implementation date of January 1st, 2016 (delayed from an original implementation date of April 1st, 2014). A further implementation delay to July 1st, 2016 is reflected in this forecast and increases costs slightly over November estimates.

Property Tax Aids, and Credits. Tax aids and credits spending is expected to be $3.451 billion in the 2018-19 biennium, a $15 million decrease (0.4 percent) from November estimates. Similar to FY 2015-2017, the change is due primarily to lower than expected spending for homeowner property tax refunds, which is $15 million less (1.7 percent) than previous estimates. Other changes to FY 2018-19 spending estimates include reduced spending for tax refund interest and payments in lieu of taxes (PILT), which are offset by increases in agricultural market value credits and the targeting property tax refunds.

Debt Service. The forecast debt service costs in FY 2018-19 are $1.214 billion, $9 million (0.7 percent) less than November forecast estimates. The estimates reflect slightly lower interest rate assumptions on future bond sales. The lower interest rates result in higher bond premiums than previously estimated, thereby lowering the size of the bond issue and the debt service payments.

Destination Medical Center. State aid projections for the Destination Medical Center project in Rochester were adjusted to reflect the impact of new legislation. Laws 2015, Chapter 1 was signed into law on January 24, 2015. This legislation adjusted the formula used to calculate state aid. Under the new formula, qualified private expenditures are added cumulatively from year to year (increase of $17 million in the FY 2018-19 biennium). Additional small adjustments were made in this forecast to reflect updated information for project timing.

APPENDIX

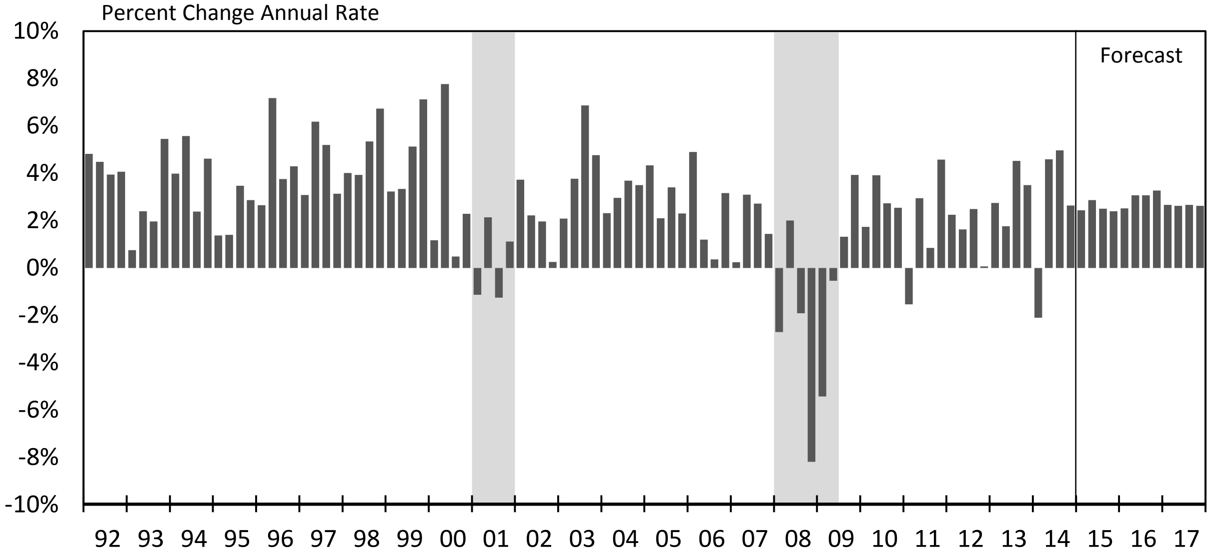
ECONOMIC DATA

REVENUE EXPERIENCE

GENERAL FUND BALANCE SHEETS

OTHER DATA

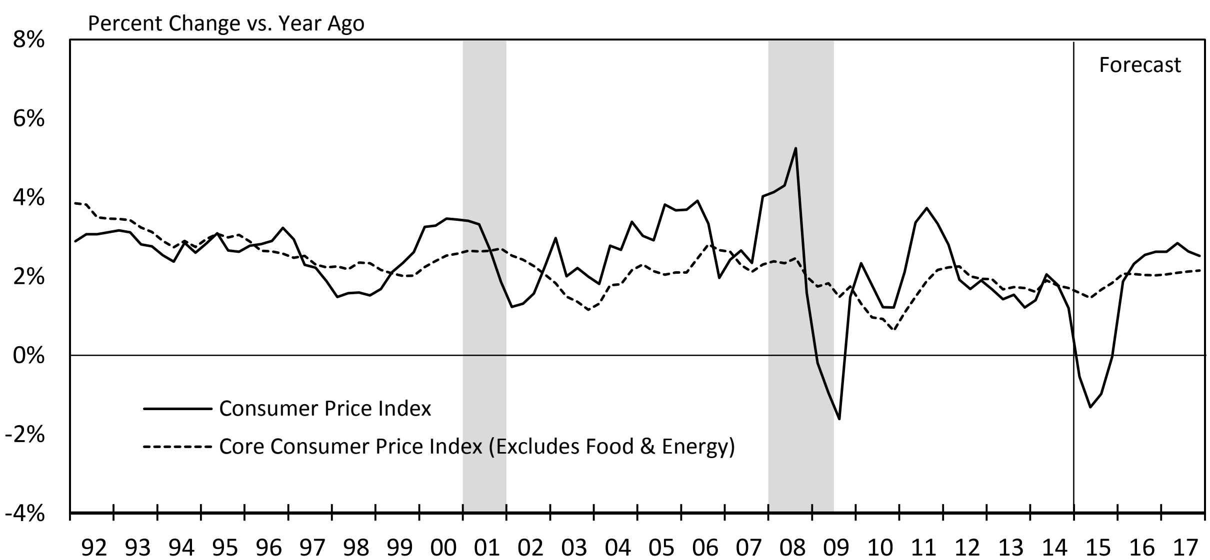
Real Gross Domestic Product



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

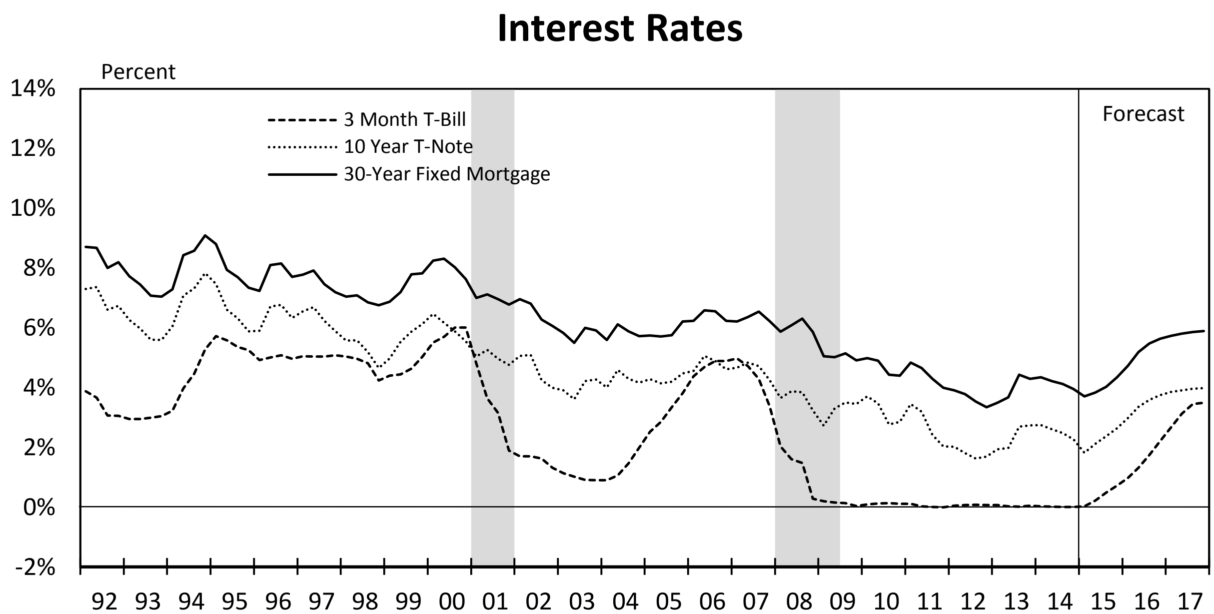
The combination of lower oil prices and a stronger dollar are having significant effects on the U.S. economy. IHS Economics (IHS) expects real GDP growth to accelerate from 2.4 percent in 2014, to 3.0 percent in 2015 and 2.7 percent in 2016, as consumer spending accelerates.

Consumer Price Indexes



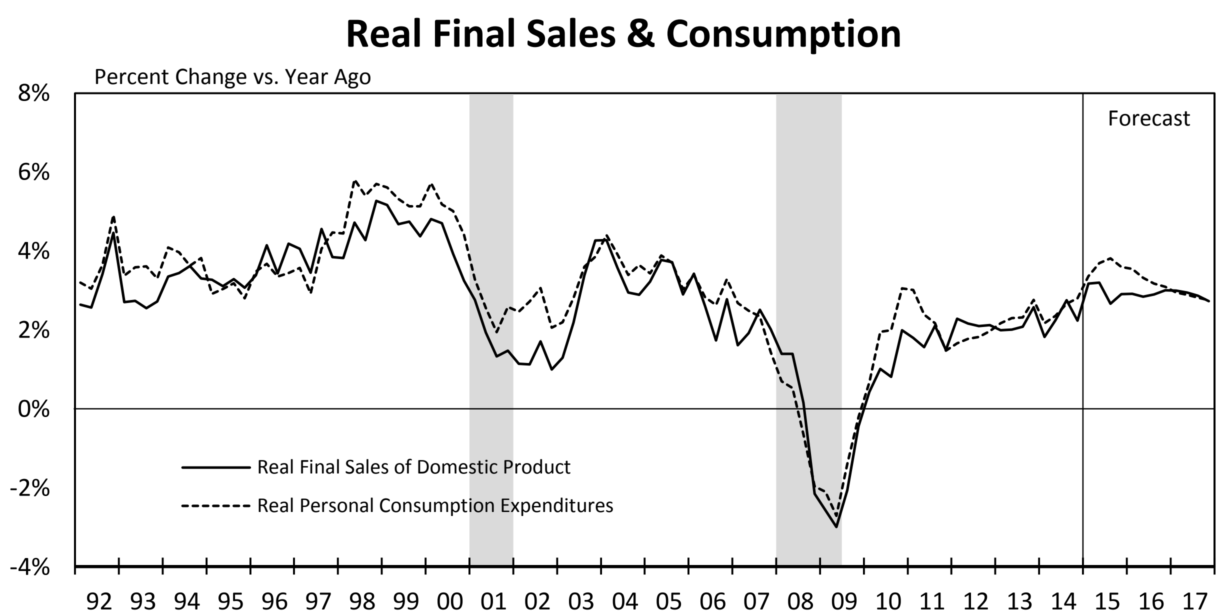
Source: Bureau of Labor Statistics, National Bureau of Economic Research, and IHS Economics

Inflationary pressures are very low due to falling energy prices and the strengthening U.S. dollar. IHS expects consumer prices to fall 0.7 percent in 2015, while the core CPI, which excludes food and energy, will grow just 1.6 percent.



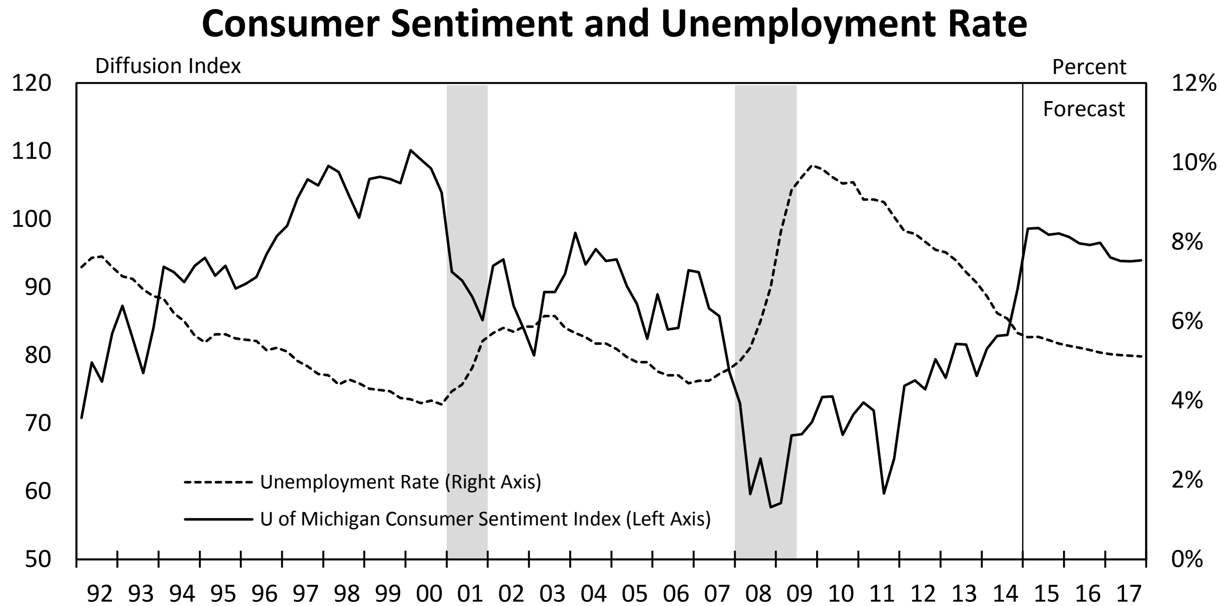
Source: Federal Reserve Board, Freddie Mac, National Bureau of Economic Research, and IHS Economics

The strength of the U.S. economy relative to other developed markets is attracting foreign investment. The stronger capital inflows are driving up the value of the dollar and pushing up prices for U.S. government bonds. When bond prices rise, yields fall.



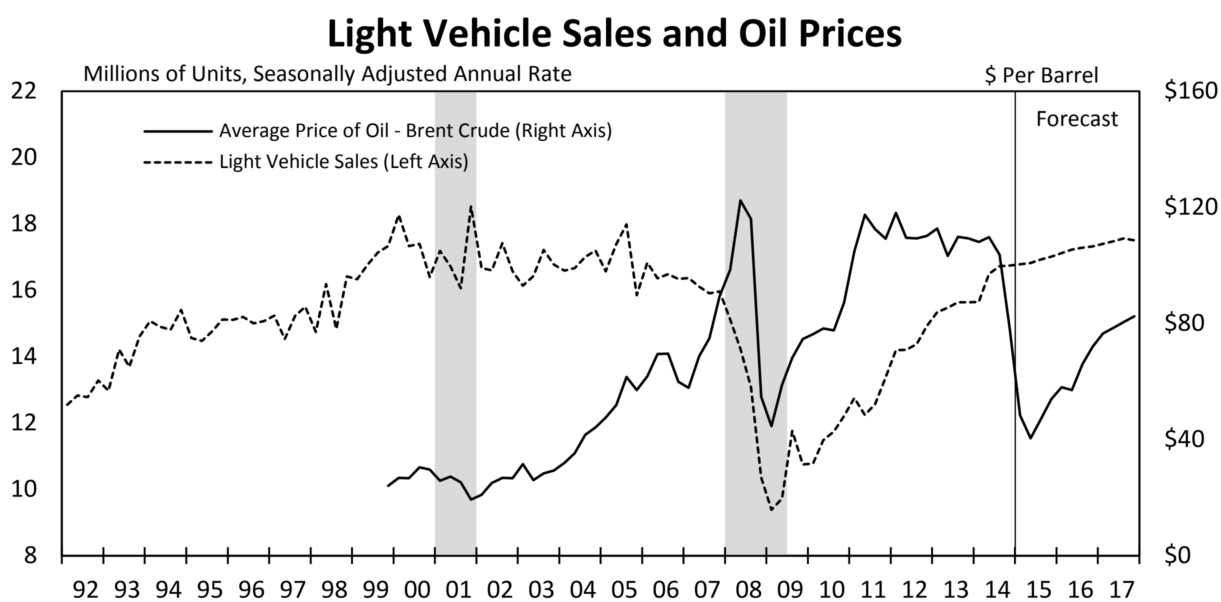
Source: Bureau of Economic Analysis, National Bureau of Economic Research, and IHS Economics

Stronger economic fundamentals for the consumer, including low gasoline prices, are providing solid tailwinds for spending growth. IHS expects real consumer spending growth to accelerate from 2.5 percent in 2014, to 3.6 percent in 2015 and 3.3 percent in 2016.



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

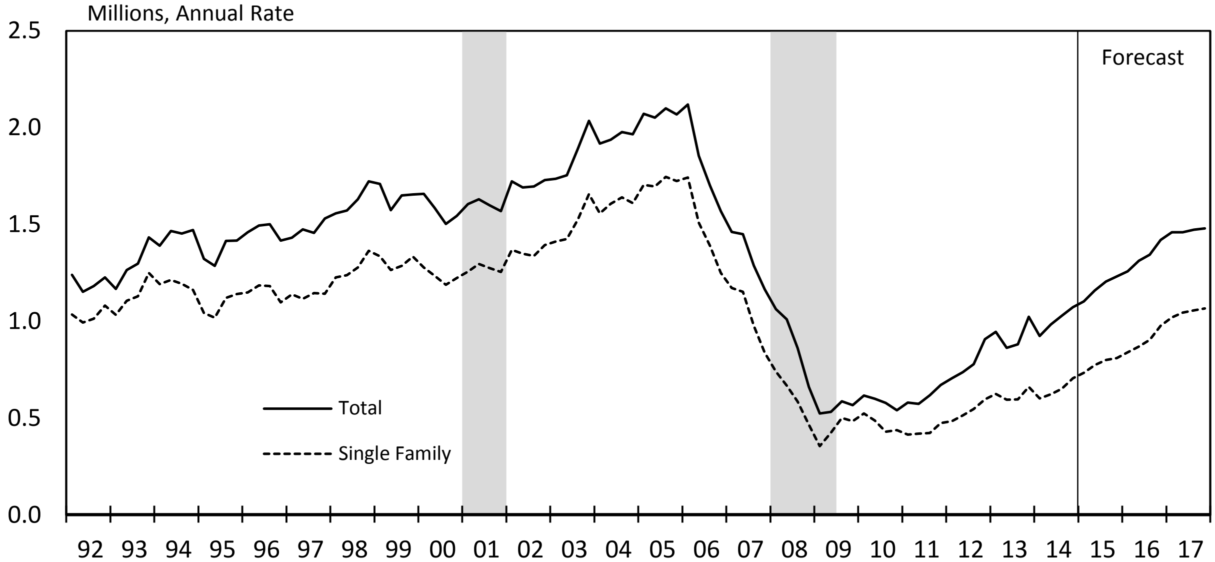
The job market continues to make solid progress, which is boosting consumer confidence. Separate measures released by the Conference Board and the Reuters/University of Michigan show that confidence among U.S. consumers is at post-recession highs.



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 last June to around $50/barrel in late-January. Cheap oil means big savings for consumers and businesses that use petroleum products, but lower investment among energy producers.

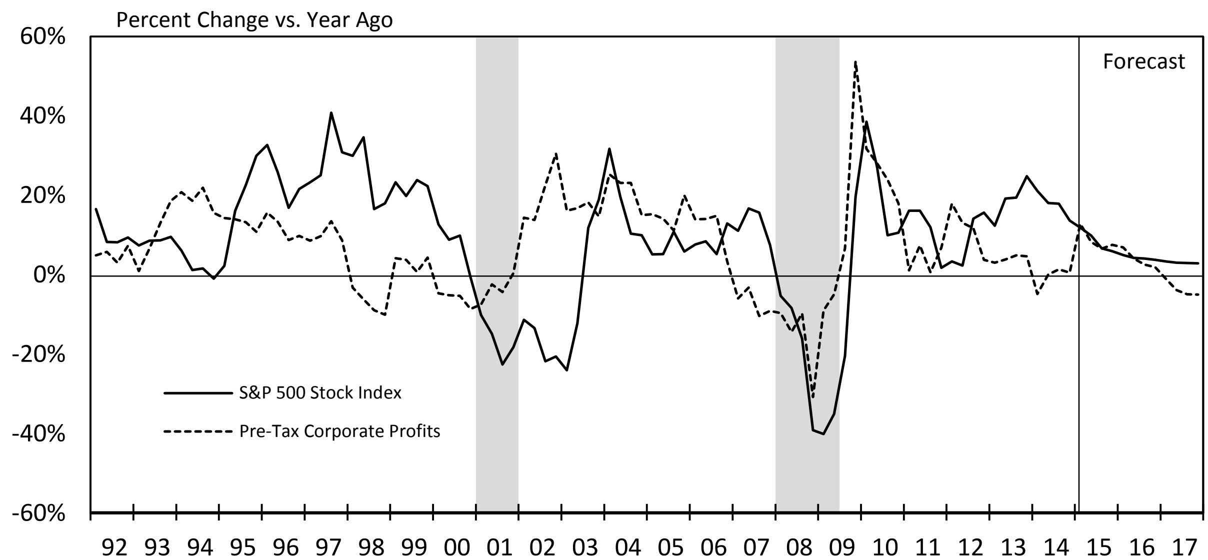
Housing Starts



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

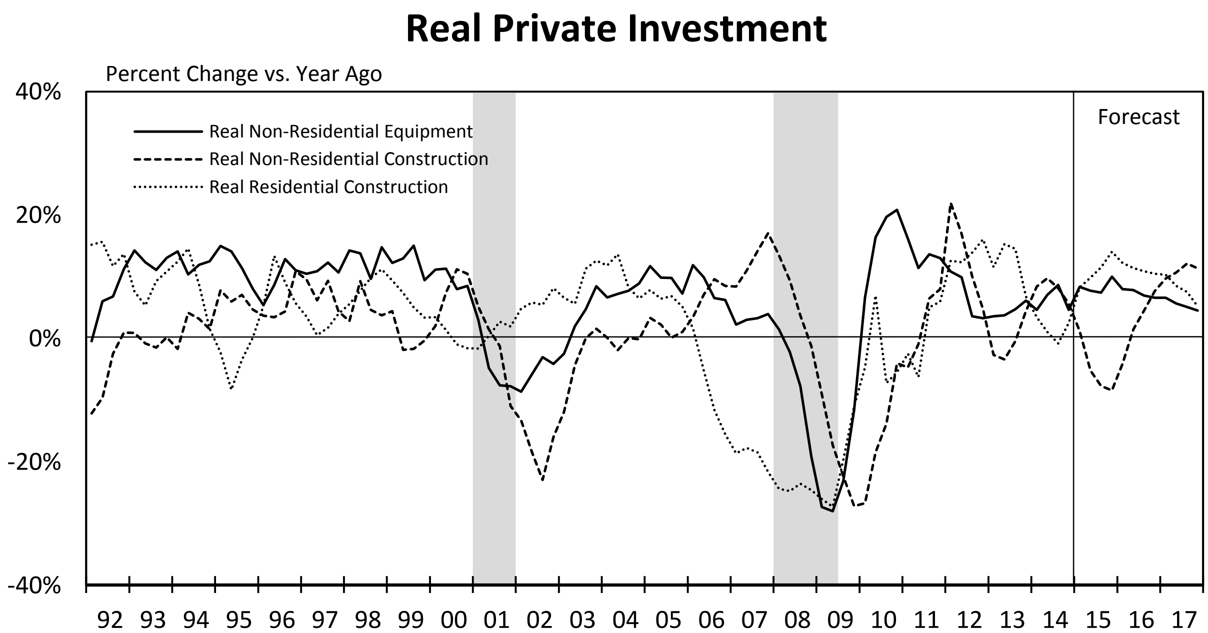
New construction and home sales have disappointed the past two years. However, lower mortgage rates, higher inventories, stabilizing prices, and a recent pick-up in household formation are forming a tailwind for housing activity in 2015.

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



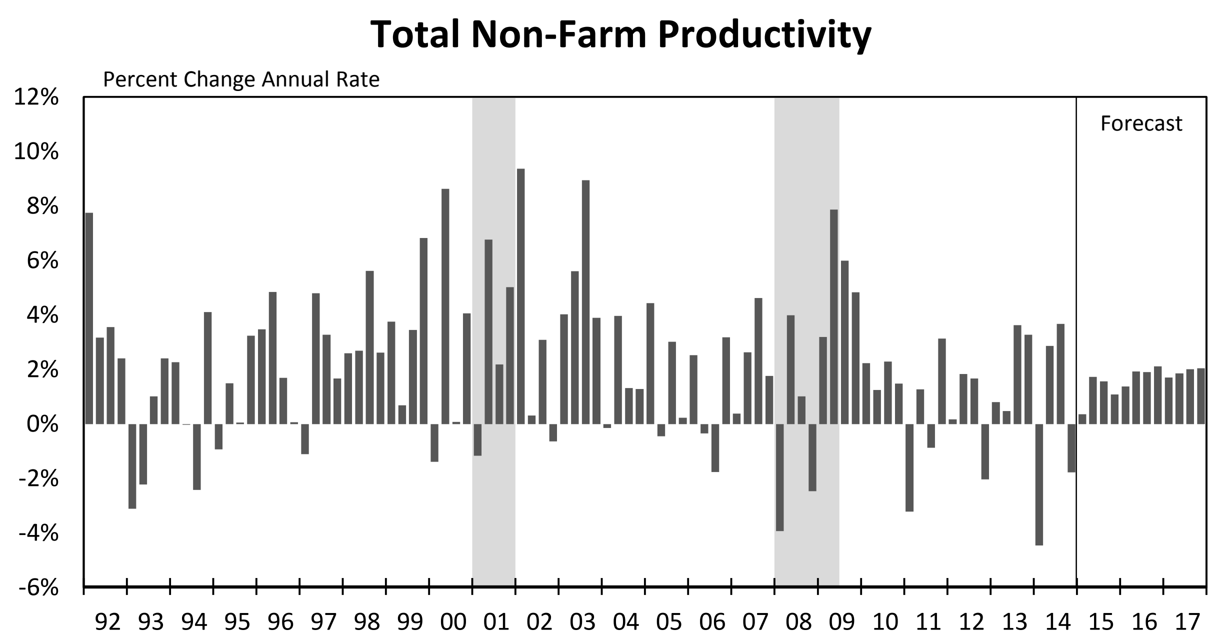
Source: Standard and Poor's, National Bureau of Economic Analysis, National Bureau of Economic Research, and IHS Economics

U.S. households have rebuilt a large share of the wealth lost during the recession, as equities have soared over the past few years. The Dow Jones industrial average and S&P 500 set record highs late last year, and the NASDAQ surged to its highest level since 2000.



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

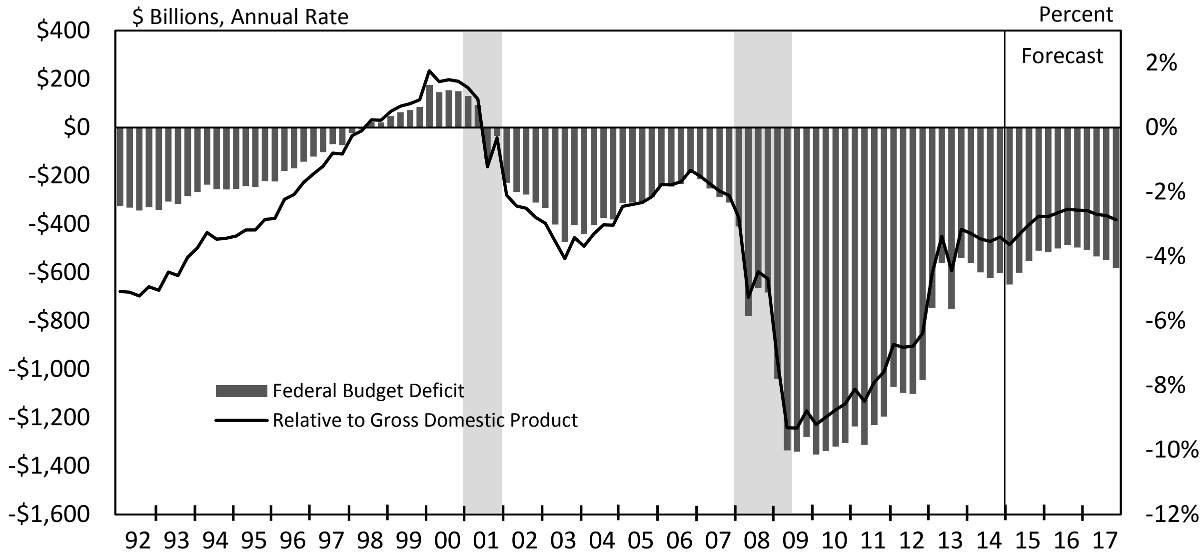
Despite headwinds resulting from lower oil prices and a stronger dollar, IHS Economics expects real investment in equipment to make solid and broad-based annual gains of 6 to 9 percent through 2016.



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

Nonfarm productivity was subdued last year as the labor market gained momentum. IHS expects productivity growth to drift up from just 0.8 percent in 2014, toward 2.0 percent late 2016. Productivity growth will be critical to support growth in both the short and long terms.

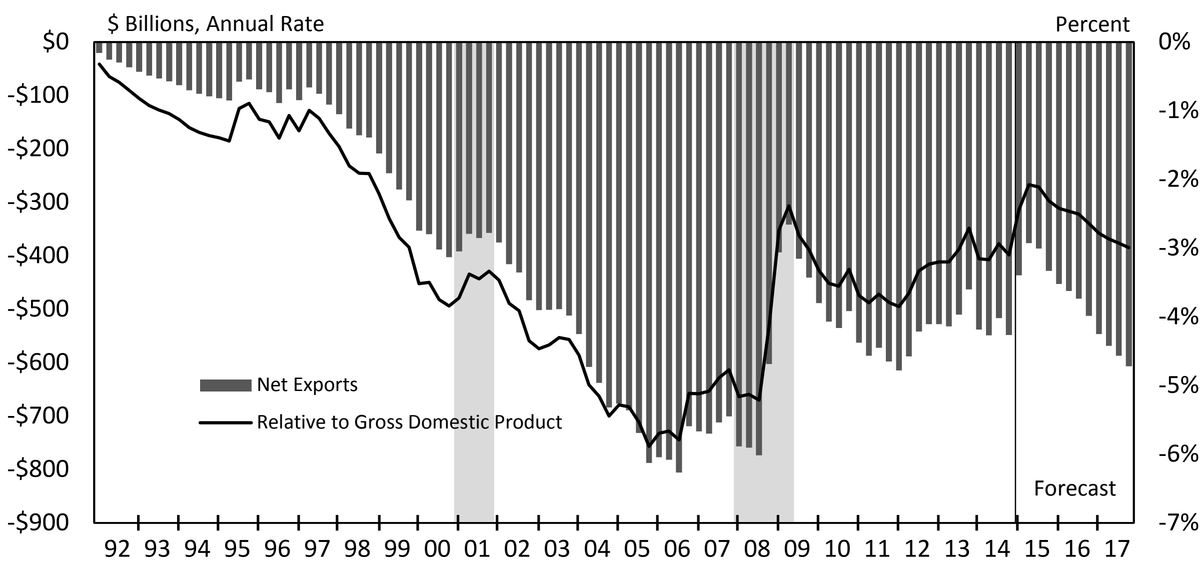
Federal Budget Deficit (NIPA Basis)



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 nominal GDP. Last year's deficit represents a meaningful improvement from recent years, which reached almost 10 percent of GDP in 2009.

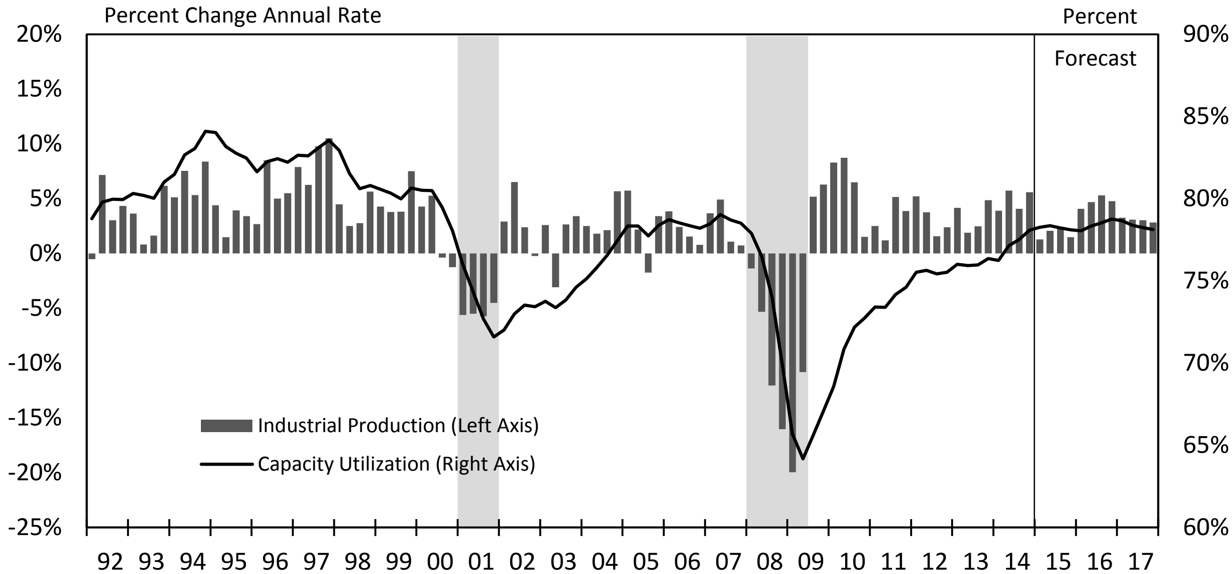
Balance of Trade (Net Exports)



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

The stronger dollar means U.S. exports are less competitive in global markets and imported goods are more affordable to domestic consumers. As a result, IHS expects net trade to remain a drag on GDP growth, through both reduced export growth and increased import gains.

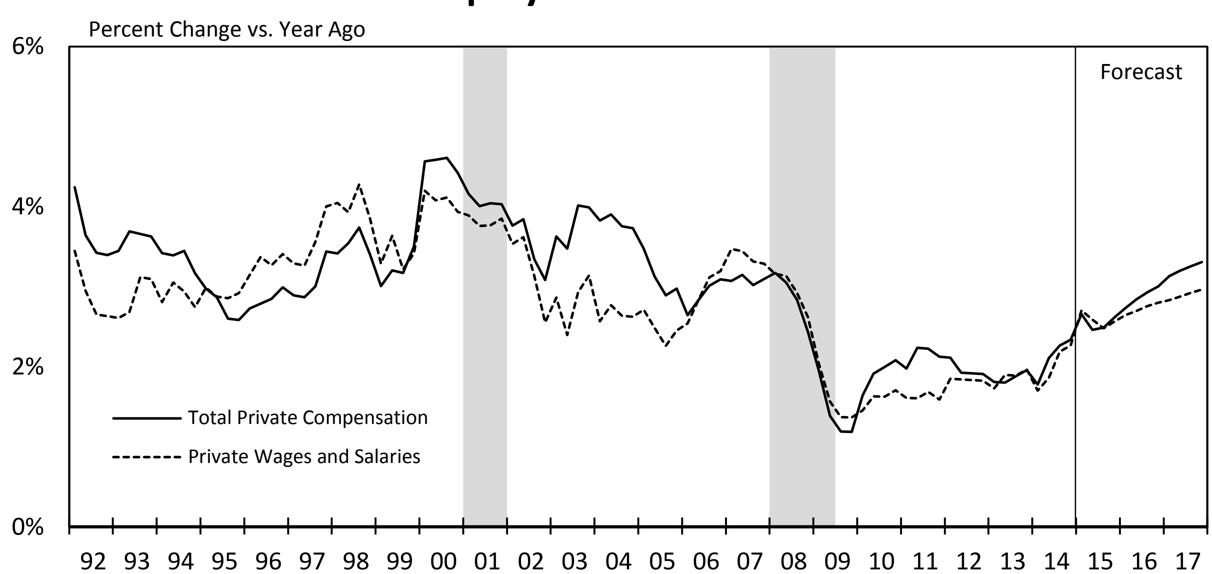
Industrial Production and Factory Operating Rate



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

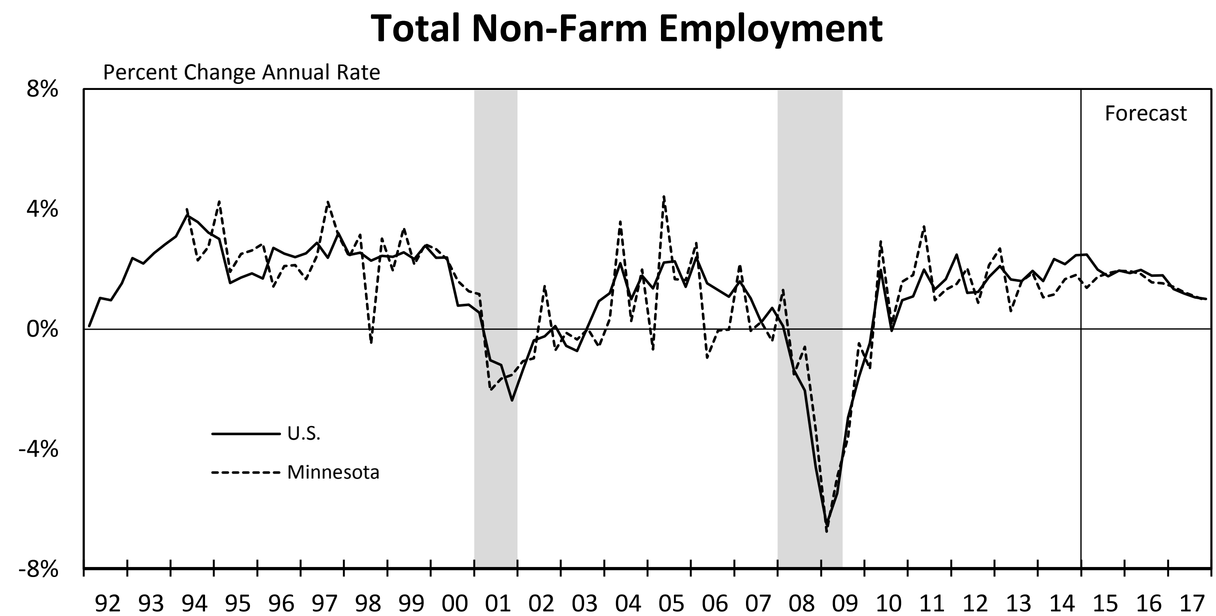
Recent economic data suggests manufacturing activity is cooling to a more sustainable pace, as U.S. producers adjust to falling oil prices, a stronger dollar, and weak global demand.

Employment Cost Index



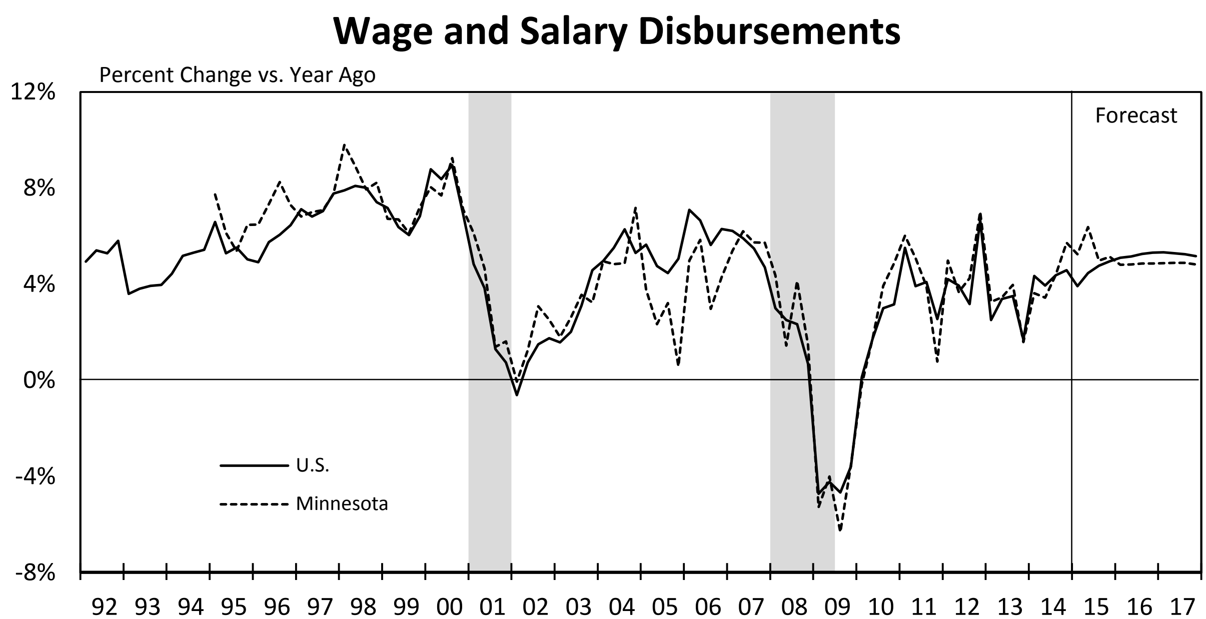
Source: Bureau of Labor Statistics, National Bureau of Economic Research, and IHS Economics

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.



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

The February 2015 forecast for Minnesota's economy expects job growth to remain modest. Minnesota employment is forecast to grow between 1.6 and 1.8 percent though 2016, before faster productivity gains result in slower job growth for the remainder of the forecast horizon.



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 4.3 percent in 2014, up from 3.1 percent growth in 2013. MMB forecasts Minnesota wage income to rise 5.4 percent in 2015 and 4.8 percent in 2016.

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	16,089.8	16,572.9	17,026.4	17,510.7	17,964.3	18,461.6
%Chg	2.2	2.4	3.0	2.7	2.8	2.6	2.8
Real Consumption	10,699.7	10,967.8	11,364.9	11,738.3	12,073.8	12,377.1	12,681.6
%Chg	2.4	2.5	3.6	3.3	2.9	2.5	2.5
Real Nonresidential Fixed Investment	1,990.6	2,112.7	2,209.0	2,332.2	2,478.3	2,606.3	2,724.8
%Chg	3.0	6.1	4.6	5.6	6.3	5.2	4.5
Real Residential Investment	488.4	496.3	550.3	611.9	659.9	676.4	692.3
%Chg	11.9	1.6	10.9	11.2	7.8	2.5	2.3
Real Personal Income	13,198.7	13,531.3	14,096.5	14,526.2	15,033.4	15,469.0	15,912.6
%Chg	0.8	2.5	4.2	3.0	3.5	2.9	2.9
Current Dollar National Income Accounts (Billions of Dollars)							
Gross Domestic Product (GDP)	16,768.1	17,420.7	18,202.0	19,042.1	19,955.8	20,890.4	21,909.1
%Chg	3.7	3.9	4.5	4.6	4.8	4.7	4.9
Personal Income	14,166.9	14,716.6	15,313.2	16,061.9	16,973.7	17,847.1	18,745.0
%Chg	2.0	3.9	4.1	4.9	5.7	5.1	5.0
Wage & Salary Disbursements	7,124.7	7,432.4	7,769.5	8,174.6	8,604.6	9,040.0	9,501.8
%Chg	2.8	4.3	4.5	5.2	5.3	5.1	5.1
Non-Wage Personal Income	7,042.2	7,284.2	7,543.6	7,887.3	8,369.1	8,807.1	9,243.2
%Chg	1.2	3.4	3.6	4.6	6.1	5.2	5.0
Price and Wage Indexes							
U.S. GDP Deflator (2005=1.0)	106.739	108.309	109.826	111.834	113.959	116.284	118.669
%Chg	1.5	1.5	1.4	1.8	1.9	2.0	2.1
U.S. Consumer Price Index (1982-84=1.0)	2.330	2.367	2.350	2.405	2.469	2.535	2.599
%Chg	1.5	1.6	-0.7	2.3	2.7	2.7	2.5
Employment Cost Index (Dec 2005=1.0)	1.187	1.212	1.243	1.279	1.320	1.365	1.412
%Chg	1.9	2.1	2.6	2.9	3.2	3.4	3.4
Employment (Thousands)							
Employment - Total Non-Farm Payrolls	136.4	139.0	142.1	144.8	146.8	148.2	149.6
%Chg	1.7	1.9	2.2	1.9	1.4	0.9	1.0
Construction	5.9	6.1	6.5	6.9	7.4	7.8	8.0
%Chg	3.7	4.8	5.6	6.2	7.0	5.3	3.5
Manufacturing	12.0	12.2	12.4	12.6	12.8	12.8	12.7
%Chg	0.8	1.4	1.7	2.0	0.9	0.1	-0.3
Private Service-Providing	95.8	97.9	100.5	102.5	103.7	104.3	105.2
%Chg	2.2	2.2	2.6	2.0	1.2	0.6	0.8
Government	21.8	21.9	21.9	21.9	22.2	22.4	22.7
%Chg	-0.3	0.0	0.2	0.1	1.1	1.2	1.3
U.S. Civilian Labor Force	155.4	155.9	158.7	160.8	162.9	165.0	166.7
Employment - Household Survey	143.9	146.3	149.9	152.3	154.5	156.5	158.2
Unemployment Rate (%)	7.4	6.2	5.5	5.3	5.1	5.1	5.1
Other Key Measures							
Non-Farm Productivity (index, 2005=1.0)	1.054	1.063	1.073	1.090	1.111	1.135	1.162
%Chg	0.9	0.8	1.0	1.6	1.9	2.1	2.4
Total Ind. Production (index, 2007=100)	99.932	104.179	107.303	111.130	115.346	118.809	122.647
%Chg	2.9	4.3	3.0	3.6	3.8	3.0	3.2
Manhours in Private Non-Farm Estab.							
Billions of Hours	192.9	197.4	202.8	206.9	210.4	212.8	215.0
%Chg	1.9	2.3	2.7	2.0	1.7	1.2	1.1
Average Weekly Hours	32.4	32.5	32.5	32.4	32.5	32.6	32.6
Manufacturing Workweek	41.8	42.0	41.8	41.6	41.6	41.6	41.5

Source: IHS Economics (IHS); February 2015 Baseline

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	266.264	278.738	292.190	307.503	322.715	337.500
%Chg	1.0	3.4	4.7	4.8	5.2	4.9	4.6
Wage & Salary Disbursements	139.720	145.733	153.655	161.100	168.953	176.765	184.913
%Chg	3.1	4.3	5.4	4.8	4.9	4.6	4.6
Non-Wage Personal Income	117.745	120.531	125.083	131.088	138.553	145.948	152.590
%Chg	-1.3	2.4	3.8	4.8	5.7	5.3	4.6
Supplements to Wages & Salaries	30.658	31.651	32.888	34.322	36.029	37.693	39.235
%Chg	2.0	3.2	3.9	4.4	5.0	4.6	4.1
Dividends, Interest, & Rent Income	47.043	48.454	49.863	52.930	57.410	61.539	64.549
%Chg	2.1	3.0	2.9	6.2	8.5	7.2	4.9
Farm Proprietors Income	3.751	2.348	2.482	2.712	2.866	2.982	3.045
%Chg	-38.4	-37.4	5.7	9.3	5.7	4.0	2.1
Non-Farm Proprietors Income	19.338	20.188	21.356	22.291	22.957	23.681	24.747
%Chg	5.3	4.4	5.8	4.4	3.0	3.2	4.5
Personal Current Transfer Receipts	40.395	42.255	43.877	45.574	47.551	49.862	52.369
%Chg	3.7	4.6	3.8	3.9	4.3	4.9	5.0
Less: Contrib. for Gov. Social Ins.	22.388	23.380	24.412	25.770	27.290	28.839	30.385
%Chg	17.2	4.4	4.4	5.6	5.9	5.7	5.4
Real Income (Billions of 2009 Dollars)							
Real Personal Income	239.871	244.816	256.588	264.250	272.353	279.715	286.508
%Chg	-0.2	2.1	4.8	3.0	3.1	2.7	2.4
Real Wage & Salary Disbursements	130.172	133.992	141.448	145.698	149.640	153.213	156.973
%Chg	1.9	2.9	5.6	3.0	2.7	2.4	2.5
Employment (Thousands)							
Employment - Total Non-Farm Payrolls	2,778.1	2,816.6	2,862.9	2,915.0	2,955.1	2,982.0	3,009.9
%Chg	1.7	1.4	1.6	1.8	1.4	0.9	0.9
Construction	100.3	107.4	112.8	117.9	122.1	124.5	125.2
%Chg	5.6	7.1	5.1	4.5	3.5	2.0	0.6
Manufacturing	307.5	312.0	314.4	317.0	320.7	323.5	325.0
%Chg	0.6	1.4	0.8	0.8	1.2	0.9	0.4
Private Service-Providing	1,949.0	1,973.2	2,009.6	2,052.7	2,079.7	2,095.6	2,115.2
%Chg	2.0	1.2	1.8	2.1	1.3	0.8	0.9
Government	414.2	417.0	418.8	419.7	424.8	430.5	436.6
%Chg	0.4	0.7	0.4	0.2	1.2	1.3	1.4
Minnesota Civilian Labor Force	2,973.5	2,992.2	3,015.2	3,039.1	3,060.5	3,081.6	3,098.5
Employment - Household Survey	2,822.9	2,861.5	2,902.7	2,934.4	2,959.4	2,980.4	2,999.2
Unemployment Rate (%)	5.1	4.4	3.7	3.4	3.3	3.3	3.2
Demographic Indicators (Millions)							
Total Population	5.422	5.457	5.494	5.531	5.570	5.607	5.644
%Chg	0.8	0.6	0.7	0.7	0.7	0.7	0.7
Total Population Age 16 & Over	4.285	4.319	4.353	4.389	4.423	4.456	4.488
%Chg	0.9	0.8	0.8	0.8	0.8	0.7	0.7
Total Population Age 65 & Over	0.756	0.783	0.811	0.840	0.871	0.901	0.932
%Chg	3.6	3.5	3.5	3.6	3.8	3.4	3.4
Total Households	2.120	2.143	2.166	2.187	2.210	2.230	2.248
%Chg	0.4	1.1	1.1	1.0	1.1	0.9	0.8
Housing Indicators (Thousands)							
Total Housing Permits (Authorized)	16.807	16.858	19.248	22.647	24.930	25.360	24.171
%Chg	12.1	0.3	14.2	17.7	10.1	1.7	-4.7
Single-Family	10.587	10.345	11.300	12.819	13.607	13.347	12.266
%Chg	23.8	-2.3	9.2	13.4	6.1	-1.9	-8.1

Source: Minnesota Management & Budget (MMB) February 2015 Forecast

Economic Forecast Comparison: Minnesota & U.S.

Forecast 2014 to 2019, Calendar Years

blank	2012	2013	2014	2015	2016	2017	2018	2019
Personal Income (Billions of Current Dollars)								
Minnesota								
February 2015	254.9	257.5	266.3	278.7	292.2	307.5	322.7	337.5
%Chg	5.4	1.0	3.4	4.7	4.8	5.2	4.9	4.6
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
U.S.								
February 2015	13,888	14,167	14,717	15,313	16,062	16,974	17,847	18,745
%Chg	5.2	2.0	3.9	4.1	4.9	5.7	5.1	5.0
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
Wage and Salary Disbursements (Billions of Current Dollars)								
Minnesota								
February 2015	135.6	139.7	145.7	153.7	161.1	169.0	176.8	184.9
%Chg	5.0	3.1	4.3	5.4	4.8	4.9	4.6	4.6
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
U.S.								
February 2015	6,932	7,125	7,432	7,770	8,175	8,605	9,040	9,502
%Chg	4.5	2.8	4.3	4.5	5.2	5.3	5.1	5.1
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
Total Non-Farm Payroll Employment (Thousands)								
Minnesota								
February 2015	2,730.7	2,778.1	2,816.6	2,862.9	2,915.0	2,955.1	2,982.0	3,009.9
%Chg	1.6	1.7	1.4	1.6	1.8	1.4	0.9	0.9
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
U.S.								
February 2015	134,098	136,394	139,023	142,098	144,771	146,843	148,197	149,612
%Chg	1.7	1.7	1.9	2.2	1.9	1.4	0.9	1.0
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
Average Annual Non-Farm Wage (Current Dollars)								
Minnesota								
February 2015	49,641	50,293	51,740	53,672	55,265	57,173	59,277	61,434
%Chg	3.4	1.3	2.9	3.7	3.0	3.5	3.7	3.6
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
U.S.								
February 2015	51,694	52,236	53,461	54,677	56,465	58,598	61,000	63,509
%Chg	2.7	1.0	2.3	2.3	3.3	3.8	4.1	4.1
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

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

Alternative U.S. Economic Forecast Comparison

Calendar Years

	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4	2013	2014	2015	2016
Real Gross Domestic Product (GDP), Percent Change, Seasonally Adjusted at Annual Rate										
IHS Economics Baseline (02-15)	5.0	2.6	2.4	2.9	2.5	2.4	2.2	2.4	3.0	2.7
Blue Chip Consensus (02-15)	5.0	2.6	2.7	2.9	3.0	2.9	2.2	2.4	3.2	2.9
Moody's Analytics (02-15)	5.0	2.6	3.1	4.1	3.8	3.7	2.2	2.4	3.6	3.5
Standard & Poors (01-15)	5.0	2.8	2.9	3.1	3.0	-	2.2	2.4	3.3	2.9
Wells Fargo (02-15)	5.0	2.6	1.5	2.4	2.9	2.9	2.2	2.4	2.8	2.9
UBS (02-15)	5.0	2.6	2.5	2.5	2.7	2.7	2.2	2.4	3.0	2.8
Consumer Price Index (CPI), Percent Change, Seasonally Adjusted at Annual Rate (except where noted)										
IHS Economics Baseline (02-15)	1.1	-1.2	-4.9	-0.2	2.5	2.6	1.5	1.6	-0.7	2.3
Blue Chip Consensus (02-15)	1.1	-1.2	-2.0	1.9	2.3	2.1	1.5	1.6	0.4	2.3
Moody's Analytics (02-15)	1.1	-1.2	-2.0	2.4	2.9	3.4	1.5	1.6	0.6	2.6
Standard & Poors (01-15)	1.1	-0.6	-0.3	1.9	2.9	-	1.5	1.7	1.0	2.1
Wells Fargo (02-15)*	1.8	1.2	0.2	0.0	0.3	1.2	1.5	1.6	0.4	2.4
UBS (02-15)	1.1	-1.2	-3.7	0.9	3.2	3.2	1.5	1.6	-0.1	2.7

* Year-over-Year Percent Change

IHS Economics Baseline Comparison: U.S. Economic Forecast

Calendar Years

	2012	2013	2014	2015	2016	2017	2018	2019
Real Gross Domestic Product (GDP), Annual Percent Change								
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
February 2015	2.3	2.2	2.4	3.0	2.7	2.8	2.6	2.8
Consumer Price Index (CPI), Annual Percent Change								
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
February 2015	2.1	1.5	1.6	-0.7	2.3	2.7	2.7	2.5

Source: IHS Economics (IHS)

Economic 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								
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
February 2015	199.980	206.101	214.375	224.873	236.323	249.318	261.988	274.210
%Chg	6.9	3.1	4.0	4.9	5.1	5.5	5.1	4.7
Minnesota Wage and Salary Disbursements								
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
February 2015	135.558	139.720	145.733	153.655	161.100	168.953	176.765	184.913
%Chg	5.0	3.1	4.3	5.4	4.8	4.9	4.6	4.6
Minnesota Dividends, Interest, & Rental Income								
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
February 2015	46.062	47.043	48.454	49.863	52.930	57.410	61.539	64.549
%Chg	10.4	2.1	3.0	2.9	6.2	8.5	7.2	4.9
Minnesota Non-Farm Proprietors' Income								
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
February 2015	18.360	19.338	20.188	21.356	22.291	22.957	23.681	24.747
%Chg	13.2	5.3	4.4	5.8	4.4	3.0	3.2	4.5

Economic Factors Affecting Tax Revenue (Continued)

Billions of Current Dollars

blank	2012	2013	2014	2015	2016	2017	2018	2019
General Sales Tax (Fiscal Year)								
Minnesota Synthetic Sales Tax Base (Fiscal Year)								
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
February 2015	73.771	76.948	80.213	83.568	88.120	92.585	96.380	100.037
%Chg	5.1	4.3	4.2	4.2	5.4	5.1	4.1	3.8
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)								
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
February 2015	13.820	14.400	14.851	15.403	16.139	16.759	17.363	17.964
%Chg	5.2	4.2	3.1	3.7	4.8	3.8	3.6	3.5
Minnesota's Proxy Share of U.S. Capital Equipment Spending								
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
February 2015	12.820	13.487	14.087	15.280	16.932	18.491	19.807	20.946
%Chg	7.8	5.2	4.4	8.5	10.8	9.2	7.1	5.8
Minnesota's Proxy Share of U.S. Construction Spending								
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
February 2015	5.513	5.925	6.653	7.122	7.468	8.023	8.486	8.861
%Chg	12.7	7.5	12.3	7.0	4.9	7.4	5.8	4.4

Economic Factors Affecting Tax Revenue (Continued)

Billions of Current Dollars

blank	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)								
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
February 2015	1,960.6	2,024.0	2,116.7	2,209.6	2,303.6	2,259.0	2,276.9	2,383.0
%Chg	8.4	3.2	4.6	4.4	4.3	-1.9	0.8	4.7
Insurance Gross Premiums Tax (Calendar Year)								
Minnesota Direct Premiums Written: Property and Life (Index: 2003=100.0)								
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
February 2015	121.521	124.190	129.033	134.232	137.048	138.884	140.414	142.209
%Chg	5.0	2.2	3.9	4.0	2.1	1.3	1.1	1.3
Deed & Mortgage Tax (Fiscal Year)								
U.S. New and Existing Home Sales (Current $ Value)								
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
February 2015	937.7	1,140.9	1,221.3	1,362.5	1,547.8	1,642.4	1,701.4	1,807.2
%Chg	9.5	21.7	7.0	11.6	13.6	6.1	3.6	6.2

* 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.

Current Fiscal Year-to-Date
November 2014 Forecast vs. Actual Revenue Comparison
Fiscal Year-to-Date 2015 (July, 2014 to January, 2015)

($ in Thousands)	November 2014 FYTD 2015	Actual FYTD 2015	Difference Act-Fcst
Individual Income Tax			
Withholding	4,519,427	4,544,429	25,002
Declarations	1,122,981	1,238,333	115,352
Miscellaneous	317,731	326,141	8,410
Gross	5,960,139	6,108,903	148,764
Refunds	240,059	159,889	(80,169)
Net	**5,720,080**	**5,949,013**	**228,933**
Corporate & Bank Excise			
Declarations	720,955	711,453	(9,502)
Miscellaneous	167,334	180,961	13,626
Gross	888,290	892,414	4,124
Refunds	71,188	80,171	8,983
Net	**817,102**	**812,243**	**(4,859)**
Sales Tax			
Gross	3,124,796	3,146,996	22,199
Refunds (including Indian Refunds)	172,506	151,765	(20,741)
Net	**2,952,290**	**2,995,230**	**42,940**
Other Revenues:			
Estate	90,302	72,021	(18,281)
Liquor/Wine/Beer	46,313	46,201	(113)
Cigarette/Tobacco/Cont Sub	310,122	377,827	67,705
Deed and Mortgage	105,010	111,509	6,498
Insurance Gross Earnings	165,679	167,683	2,004
Lawful Gambling	23,978	23,233	(745)
Health Care Surcharge	137,698	132,859	(4,838)
Other Taxes	399	633	234
Statewide Property Tax	402,307	391,281	(11,026)
DHS SOS Collections	44,744	46,428	1,683
Investment Income	5,280	6,728	1,449
Tobacco Settlement	163,016	162,705	(311)
Departmental Earnings	114,549	114,298	(250)
Fines and Surcharges	45,767	39,755	(6,012)
Lottery Revenues	26,751	23,521	(3,230)
Revenues yet to be allocated	145	846	700
Residual Revenues	77,161	71,011	(6,150)
County Nursing Home, Pub Hosp IGT	3,587	3,962	375
Other Subtotal	1,762,809	1,792,500	29,691
Other Refunds	4,199	3,325	(875)
Other Net	**1,758,610**	**1,789,176**	**30,566**
Total Gross	**11,736,034**	**11,940,813**	**204,778**
Total Refunds	**487,952**	**395,150**	**(92,802)**
Total Net	**11,248,082**	**11,545,662**	**297,580**

Current Biennium Comparison: FY 2014-15 General Fund Budget
November 2014 vs. February 2015 Forecast
($ in thousands)

	11-14 Fcst FY 2014-15	2-15 Fcst FY 2014-15	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	1,711,915	1,711,915	0
Current Resources:			
Tax Revenues	37,584,975	37,624,866	39,891
Non-Tax Revenues	1,429,663	1,458,525	28,862
Subtotal - Non-Dedicated Revenue	39,014,638	39,083,391	68,753
Dedicated Revenue	1,005	1,005	0
Transfers In	256,635	255,333	(1,302)
Prior Year Adjustments	98,702	98,702	0
Subtotal - Other Revenue	356,342	355,040	(1,302)
Subtotal-Current Resources	39,370,980	39,438,431	67,451
Total Resources Available	**41,082,895**	**41,150,346**	**67,451**
Actual & Estimated Spending			
E-12 Education	15,816,577	15,807,025	(9,552)
E-12 Ptx Rec Shift/Aid Payment Shift	812,574	812,574	0
E-12 Education	16,629,151	16,619,599	(9,552)
Higher Education	2,842,782	2,842,782	0
Property Tax Aids & Credits	2,963,896	2,955,869	(8,027)
Health & Human Services	11,205,276	11,179,990	(25,286)
Public Safety & Judiciary	1,979,800	1,980,534	734
Transportation	274,401	277,100	2,699
Environment & Agriculture	384,683	383,813	(870)
Jobs, Economic Development, Housing & Commerce	438,935	438,959	24
State Government & Veterans	978,912	971,284	(7,628)
Debt Service	1,242,995	1,242,995	0
Capital Projects & Grants	411,840	411,273	(567)
Estimated Cancellations	(15,000)	(15,000)	0
Total Expenditures & Transfers	**39,337,671**	**39,298,478**	**(39,193)**
Balance Before Reserves	**1,745,224**	**1,851,868**	**106,644**
Cash Flow Account	350,000	350,000	0
Budget Reserve	994,339	994,339	0
Stadium Reserve	28,227	29,977	1,750
Appropriations Carried Forward	0	0	0
Budgetary Balance	**372,658**	**477,552**	**104,894**

Current Biennium: FY 2014-15 by Fiscal Year
February 2015 General Fund Forecast
($ in thousands)

	Actual FY 2014	2-15 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	19,071,019	37,624,866
Non-Tax Revenues	721,298	737,227	1,458,525
Subtotal - Non-Dedicated Revenue	19,275,145	19,808,246	39,083,391
Dedicated Revenue	505	500	1,005
Transfers In	187,906	67,427	255,333
Prior Year Adjustments	58,702	40,000	98,702
Subtotal - Other Revenue	247,113	107,927	355,040
Subtotal-Current Resources	19,522,258	19,916,173	39,438,431
Total Resources Available	**21,234,173**	**21,802,039**	**41,150,346**
Actual & Estimated Spending			
E-12 Education	7,617,396	8,189,629	15,807,025
E-12 Ptx Rec Shift/Aid Payment Shift	812,574	0	812,574
E-12 Education	8,429,970	8,189,629	16,619,599
Higher Education	1,381,461	1,461,321	2,842,782
Property Tax Aids & Credits	1,320,534	1,635,335	2,955,869
Health & Human Services	5,429,890	5,750,100	11,179,990
Public Safety & Judiciary	943,905	1,036,629	1,980,534
Transportation	148,201	128,899	277,100
Environment & Agriculture	152,703	231,110	383,813
Jobs, Economic Development, Housing & Commerce	194,367	244,592	438,959
State Government & Veterans	435,873	535,411	971,284
Debt Service	619,935	623,060	1,242,995
Capital Projects & Grants	281,913	129,360	411,273
Estimated Cancellations	0	(15,000)	(15,000)
Total Expenditures & Transfers	**19,348,307**	**19,950,171**	**39,298,478**
Balance Before Reserves	**1,885,866**	**1,851,868**	**1,851,868**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	660,992	994,339	994,339
Stadium Reserve	39,780	29,977	29,977
Appropriations Carried Forward	178,751	0	0
Budgetary Balance	**656,343**	**477,552**	**477,552**

Next Biennium: FY 2016-17 General Fund Budget
November 2014 vs. February 2015 Forecast
($ in thousands)

	11-14 Fcst FY 2016-17	2-15 Fcst FY 2016-17	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	1,745,224	1,851,868	106,644
Current Resources:			
Tax Revenues	40,252,578	40,772,333	519,755
Non-Tax Revenues	1,400,411	1,402,920	2,509
Subtotal - Non-Dedicated Revenue	41,652,989	42,175,253	522,264
Dedicated Revenue	1,000	1,000	0
Transfers In	156,314	250,544	94,230
Prior Year Adjustments	70,000	70,000	0
Subtotal - Other Revenue	227,314	321,544	94,230
Subtotal-Current Resources	41,880,303	42,496,797	616,494
Total Resources Available	**43,625,527**	**44,348,665**	**723,138**
Actual & Estimated Spending			
E-12 Education	16,818,839	16,709,783	(109,056)
E-12 Ptx Rec Shift/Aid Payment Shift	0	0	0
E-12 Education	16,818,839	16,709,783	(109,056)
Higher Education	2,892,530	2,892,530	0
Property Tax Aids & Credits	3,375,110	3,361,341	(13,769)
Health & Human Services	12,757,252	12,771,184	13,932
Public Safety & Judiciary	2,006,509	2,006,509	0
Transportation	213,072	213,072	0
Environment & Agriculture	337,738	335,032	(2,706)
Jobs, Economic Development, Housing & Commerce	358,594	357,603	(991)
State Government & Veterans	957,371	958,615	1,244
Debt Service	1,277,493	1,271,238	(6,255)
Capital Projects & Grants	268,401	271,481	3,080
Estimated Cancellations	(20,000)	(20,000)	0
Total Expenditures & Transfers	**41,242,909**	**41,128,388**	**(114,521)**
Balance Before Reserves	**2,382,618**	**3,220,277**	**837,659**
Cash Flow Account	350,000	350,000	0
Budget Reserve	994,339	994,339	0
Stadium Reserve	1,390	6,840	5,450
Budgetary Balance	**1,036,889**	**1,869,098**	**832,209**

Next Biennium: FY 2016-17 by Fiscal Year
February 2015 General Fund Forecast

($ in thousands)

	2-15 Fcst FY 2016	2-15 Fcst FY 2017	Biennial Total FY 2016-17
Actual & Estimated Resources			
Balance Forward From Prior Year	1,851,868	2,246,912	1,851,868
Current Resources:			
Tax Revenues	19,937,793	20,834,540	40,772,333
Non-Tax Revenues	703,472	699,448	1,402,920
Subtotal - Non-Dedicated Revenue	20,641,265	21,533,988	42,175,253
Dedicated Revenue	500	500	1,000
Transfers In	117,945	132,599	250,544
Prior Year Adjustments	35,000	35,000	70,000
Subtotal - Other Revenue	153,445	168,099	321,544
Subtotal-Current Resources	20,794,710	21,702,087	42,496,797
Total Resources Available	**22,646,578**	**23,948,999**	**44,348,665**
Actual & Estimated Spending			
E-12 Education	8,315,510	8,394,273	16,709,783
E-12 Ptx Rec Shift/Aid Payment Shift	0	0	0
E-12 Education	8,315,510	8,394,273	16,709,783
Higher Education	1,446,265	1,446,265	2,892,530
Property Tax Aids & Credits	1,671,047	1,690,294	3,361,341
Health & Human Services	6,268,141	6,503,043	12,771,184
Public Safety & Judiciary	1,005,371	1,001,138	2,006,509
Transportation	106,536	106,536	213,072
Environment & Agriculture	167,929	167,103	335,032
Jobs, Economic Development, Housing & Commerce	177,218	180,385	357,603
State Government & Veterans	478,453	480,162	958,615
Debt Service	632,991	638,247	1,271,238
Capital Projects & Grants	135,205	136,276	271,481
Estimated Cancellations	(5,000)	(15,000)	(20,000)
Total Expenditures & Transfers	**20,399,666**	**20,728,722**	**41,128,388**
Balance Before Reserves	**2,246,912**	**3,220,277**	**3,220,277**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	994,339	994,339	994,339
Stadium Reserve	13,873	6,840	6,840
Appropriations Carried Forward	0	0	0
Budgetary Balance	**888,700**	**1,869,098**	**1,869,098**

Biennial Comparison: FY 2014-15 vs. FY 2016-17 General Fund Budget
February 2015 General Fund Forecast

($ in thousands)

	2-15 Fcst FY 2014-15	2-15 Fcst FY 2016-17	$ Change	% Change
Actual & Estimated Resources				
Balance Forward From Prior Year	1,711,915	1,851,868	139,953	8.2%
Current Resources:				
Tax Revenues	37,624,866	40,772,333	3,147,467	8.4%
Non-Tax Revenues	1,458,525	1,402,920	(55,605)	-3.8%
Subtotal - Non-Dedicated Revenue	39,083,391	42,175,253	3,091,862	7.9%
Dedicated Revenue	1,005	1,000	(5)	-0.5%
Transfers In	255,333	250,544	(4,789)	-1.9%
Prior Year Adjustments	98,702	70,000	(28,702)	-29.1%
Subtotal - Other Revenue	355,040	321,544	(33,496)	-9.4%
Subtotal-Current Resources	39,438,431	42,496,797	3,058,366	7.8%
Total Resources Available	**41,150,346**	**44,348,665**	**3,198,319**	**7.8%**
Actual & Estimated Spending				
E-12 Education	15,807,025	16,709,783	902,758	5.7%
E-12 Ptx Rec Shift/Aid Payment Shift	812,574	0	(812,574)	-100.0%
E-12 Education	16,619,599	16,709,783	90,184	0.5%
Higher Education	2,842,782	2,892,530	49,748	1.7%
Property Tax Aids & Credits	2,955,869	3,361,341	405,472	13.7%
Health & Human Services	11,179,990	12,771,184	1,591,194	14.2%
Public Safety & Judiciary	1,980,534	2,006,509	25,975	1.3%
Transportation	277,100	213,072	(64,028)	-23.1%
Environment & Agriculture	383,813	335,032	(48,781)	-12.7%
Jobs, Economic Development, Housing & Commerce	438,959	357,603	(81,356)	-18.5%
State Government & Veterans	971,284	958,615	(12,669)	-1.3%
Debt Service	1,242,995	1,271,238	28,243	2.3%
Capital Projects & Grants	411,273	271,481	(139,792)	-34.0%
Estimated Cancellations	(15,000)	(20,000)	(5,000)	n/m
Total Expenditures & Transfers	**39,298,478**	**41,128,388**	**1,829,910**	**4.7%**
Balance Before Reserves	**1,851,868**	**3,220,277**	**1,368,409**	**73.9%**
Cash Flow Account	350,000	350,000	0	
Budget Reserve	994,339	994,339	0	
Stadium Reserve	29,977	6,840	(23,137)	
Budgetary Balance	**477,552**	**1,869,098**	**1,391,546**	

Planning Estimates Comparison: FY 2018-19 General Fund Budget
November 2014 vs. February 2015 Forecast

($ in thousands)

	11-14 Plng Est FY 2018-19	2-15 Plng Est FY 2018-19	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	2,382,618	3,220,277	837,659
Current Resources:			
Tax Revenues	44,294,629	44,684,878	390,249
Non-Tax Revenues	1,383,762	1,386,094	2,332
Subtotal - Non-Dedicated Revenue	45,678,391	46,070,972	392,581
Dedicated Revenue	1,000	1,000	0
Transfers In	51,716	123,622	71,906
Prior Year Adjustments	70,000	70,000	0
Subtotal - Other Revenue	122,716	194,622	71,906
Subtotal-Current Resources	45,801,107	46,265,594	464,487
Total Resources Available	**48,183,725**	**49,485,871**	**1,302,146**
Actual & Estimated Spending			
E-12 Education	17,169,369	17,122,167	(47,202)
Higher Education	2,892,530	2,892,530	0
Property Tax Aids & Credits	3,466,548	3,451,470	(15,078)
Health & Human Services	14,187,425	14,274,892	87,467
Public Safety & Judiciary	2,006,193	2,006,193	0
Transportation	213,072	213,072	0
Environment & Agriculture	322,080	319,398	(2,682)
Jobs, Economic Development, Housing & Commerce	362,892	376,958	14,066
State Government & Veterans	956,521	956,358	(163)
Debt Service	1,222,471	1,213,572	(8,899)
Capital Projects & Grants	271,110	274,585	3,475
Estimated Cancellations	(20,000)	(20,000)	0
Total Expenditures & Transfers	**43,050,211**	**43,081,195**	**30,984**
Balance Before Reserves	**5,133,514**	**6,404,676**	**1,271,162**
Cash Flow Account	350,000	350,000	0
Budget Reserve	994,339	994,339	0
Stadium Reserve	0	0	0
Budgetary Balance	**3,789,175**	**5,060,337**	**1,271,162**

Planning Horizon: By Biennium, FY 2014-19
February 2015 General Fund Forecast
($ in thousands)

	2-15 Fcst FY 2014-15	2-15 Fcst FY 2016-17	2-15 Plng Est FY 2018-19
Actual & Estimated Resources			
Balance Forward From Prior Year	1,711,915	1,851,868	3,220,277
Current Resources:			
Tax Revenues	37,624,866	40,772,333	44,684,878
Non-Tax Revenues	1,458,525	1,402,920	1,386,094
Subtotal - Non-Dedicated Revenue	39,083,391	42,175,253	46,070,972
Dedicated Revenue	1,005	1,000	1,000
Transfers In	255,333	250,544	123,622
Prior Year Adjustments	98,702	70,000	70,000
Subtotal - Other Revenue	355,040	321,544	194,622
Subtotal-Current Resources	39,438,431	42,496,797	46,265,594
Total Resources Available	**41,150,346**	**44,348,665**	**49,485,871**
Actual & Estimated Spending			
E-12 Education	15,807,025	16,709,783	17,122,167
E-12 Ptx Rec Shift/Aid Payment Shift	812,574	0	0
E-12 Education	16,619,599	16,709,783	17,122,167
Higher Education	2,842,782	2,892,530	2,892,530
Property Tax Aids & Credits	2,955,869	3,361,341	3,451,470
Health & Human Services	11,179,990	12,771,184	14,274,892
Public Safety & Judiciary	1,980,534	2,006,509	2,006,193
Transportation	277,100	213,072	213,072
Environment & Agriculture	383,813	335,032	319,398
Jobs, Economic Development, Housing & Commerce	438,959	357,603	376,958
State Government & Veterans	971,284	958,615	956,358
Debt Service	1,242,995	1,271,238	1,213,572
Capital Projects & Grants	411,273	271,481	274,585
Estimated Cancellations	(15,000)	(20,000)	(20,000)
Total Expenditures & Transfers	**39,298,478**	**41,128,388**	**43,081,195**
Balance Before Reserves	**1,851,868**	**3,220,277**	**6,404,676**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	994,339	994,339	994,339
Stadium Reserve	29,977	6,840	0
Budgetary Balance	**477,552**	**1,869,098**	**5,060,337**

Historical and Projected Revenue Growth
February 2015 General Fund Forecast
($ in millions)

	Actual FY 2011	Actual FY 2012	Actual FY 2013	Actual FY 2014	Estimated FY 2015	Estimated FY 2016	Estimated FY 2017	Average Annual
Individual Income Tax	$7,529	$7,972	$9,013	$9,660	$10,045	$10,731	$11,326	
$ change		443	1,040	647	386	685	595	
% change		**5.9%**	**13.0%**	**7.2%**	**4.0%**	**6.8%**	**5.5%**	**7.1%**
Sales Tax	4,403	$4,669	$4,760	$5,043	$5,162	$5,320	$5,600	
$ change		266	91	282	119	158	279	
% change		**6.0%**	**2.0%**	**5.9%**	**2.4%**	**3.1%**	**5.3%**	**4.1%**
Corporate Tax	925	$1,044	$1,281	$1,278	$1,317	$1,299	$1,277	
$ change		119	237	(3)	39	(18)	(22)	
% change		**12.9%**	**22.7%**	**-0.2%**	**3.0%**	**-1.4%**	**-1.7%**	**5.9%**
Statewide Property Tax	767	$799	$811	$836	$824	$842	$857	
$ change		32	12	24	(11)	18	15	
% change		**4.2%**	**1.5%**	**3.0%**	**-1.3%**	**2.1%**	**1.8%**	**1.9%**
Other Tax Revenue	1,231	$1,167	$1,282	$1,738	$1,722	$1,746	$1,775	
$ change		(64)	115	456	(15)	24	29	
% change		**-5.2%**	**9.9%**	**35.6%**	**-0.9%**	**1.4%**	**1.7%**	**7.1%**
Total Tax Revenue	$14,855	$15,651	$17,147	$18,554	$19,071	$19,938	$20,835	
$ change		796	1,496	1,407	517	867	897	
% change		**5.4%**	**9.6%**	**8.2%**	**2.8%**	**4.5%**	**4.5%**	**5.8%**
Non-Tax Revenues	808	$774	$798	$721	$737	$703	$699	
$ change		(34)	24	(77)	16	(34)	(4)	
% change		**-4.2%**	**3.1%**	**-9.7%**	**2.2%**	**-4.6%**	**-0.6%**	**-2.3%**
Transfers, All Other	521	$486	$602	$188	$67	$118	$133	
$ change		(35)	116	(414)	(120)	51	15	
% change		**-6.8%**	**23.9%**	**-68.8%**	**-64.1%**	**74.9%**	**12.4%**	**-4.7%**
Total Revenue	$16,184	$16,912	$18,547	$19,463	$19,876	$20,759	$21,667	
$ change		728	1,636	916	413	884	907	
% change		**4.5%**	**9.7%**	**4.9%**	**2.1%**	**4.4%**	**4.4%**	**5.0%**

Historical and Projected Expenditure Growth
February 2015 General Fund Forecast
($ in millions)

	Actual FY 2011	Actual FY 2012	Actual FY 2013	Actual FY 2014	Estimated FY 2015	Estimated FY 2016	Estimated FY 2017	Average Annual
E-12 Education	$6,078	$6,616	$8,865	$8,430	$8,190	$8,316	$8,394	
$ change		538	2,249	(435)	(240)	126	79	
% change		**8.9%**	**34.0%**	**-4.9%**	**-2.9%**	**1.5%**	**0.9%**	**6.3%**
Higher Education	1,357	$1,275	$1,295	$1,381	$1,461	$1,446	$1,446	
$ change		(82)	20	86	80	(15)	-	
% change		**-6.0%**	**1.5%**	**6.7%**	**5.8%**	**-1.0%**	**0.0%**	**1.2%**
Prop. Tax Aids & Credits	1,401	$1,457	$1,320	$1,321	$1,635	$1,671	$1,690	
$ change		56	(137)	0	315	36	19	
% change		**4.0%**	**-9.4%**	**0.0%**	**23.8%**	**2.2%**	**1.2%**	**3.6%**
Health & Human Services	4,323	$5,385	$5,208	$5,430	$5,750	$6,268	$6,503	
$ change		1,062	(178)	222	320	518	235	
% change		**24.6%**	**-3.3%**	**4.3%**	**5.9%**	**9.0%**	**3.7%**	**7.4%**
Public Safety	946	$883	$958	$944	$1,037	$1,005	$1,001	
$ change		(63)	75	(14)	93	(31)	(4)	
% change		**-6.7%**	**8.5%**	**-1.4%**	**9.8%**	**-3.0%**	**-0.4%**	**1.1%**
Debt Service	401	$192	$223	$620	$623	$633	$638	
$ change		(209)	31	397	3	10	5	
% change		**-52.1%**	**16.1%**	**178.0%**	**0.5%**	**1.6%**	**0.8%**	**24.2%**
All Other	829	$772	$871	$1,223	$1,254	$1,060	$1,055	
$ change		(57)	99	352	31	(194)	(5)	
% change		**-6.9%**	**12.8%**	**40.4%**	**2.6%**	**-15.4%**	**-0.5%**	**5.5%**
Total Spending	$15,335	$16,580	$18,739	$19,348	$19,950	$20,400	$20,729	
$ change		1,245	2,160	609	602	449	329	
% change		**8.1%**	**13.0%**	**3.3%**	**3.1%**	**2.3%**	**1.6%**	**5.2%**