

February 2013 Forecast

At a Glance

FOR IMMEDIATE RELEASE

February 2013 -

Projected Budget Shortfall Declines in FY 2014-15 - Current Law Allocates Projected FY 2012-13 Balance to Repay School Shift

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

Current Biennium's Forecast Balance of \$295 Million Used to Repay School Aid Shift. State general fund revenues for FY 2012-13 are now forecast to exceed November estimates by \$217 million, while general fund spending is projected to be

FY 2012-13 General Fund Forecast

(\$ in millions)	February	\$ Change
Beginning Balance	\$1,289	\$0
Revenues	35,161	217
Spending	35,159	(63)
Cash & Budget Reserve	994	0
Stadium Reserve	1	(15)
Forecast Balance	\$295	\$295
School Shift Buyback		290
Transfer to Budget Reserve		5
Budgetary Balance		\$0

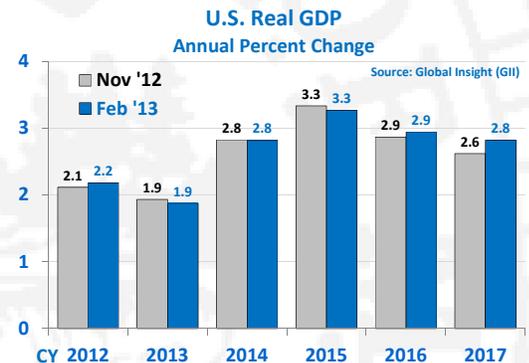
mid-year. Economic growth is expected to accelerate after 2013 with real GDP increasing at a 3.3 percent annual rate in 2015. GII's baseline real growth rates are identical to the Blue Chip Consensus for 2013 and 2014. February's baseline is given a 60 percent probability by Global Insight, while the optimistic and pessimistic alternatives are afforded probabilities of 20 percent each. The pessimistic scenario has very slow growth in early 2013, but no recession.

FY 2014-15 General Fund Forecast

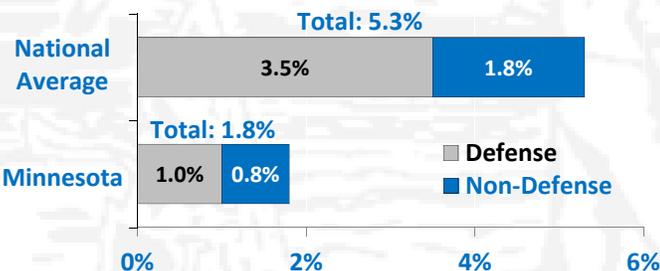
(\$ in millions)	February	\$ Change
Beginning Balance	\$1,001	\$(10)
Revenues	36,116	323
Spending	36,744	(117)
Reserves	999	5
Stadium Reserve	0	(39)
Budgetary Balance	(\$627)	\$463

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

Little Change in U.S. Economic Outlook. Forecasts for economic growth are almost unchanged from those in November. Global Insight (GII) continues to expect slow growth in early 2013 as households adjust their spending to smaller paychecks caused by expiration of the payroll tax cut. But, a stronger housing sector and more robust business investment lead to increased real output after



Federal Spending on Procurement, Wages and Salaries Percent of State GDP, 2010



Source: Pew Center on the States, U.S. Census Bureau, U.S. Bureau of Economic

Federal Fiscal Cliff Resolved but Some Uncertainties Remain.

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

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Complete Forecast & Supporting Budget Documents: www.mmb.state.mn.us