



January 2010

State Revenues Near Forecast

Net general fund revenues totaled \$2.735 billion in November and December, \$1.5 million (0.06 percent) less than forecast. A shortfall in net sales tax receipts was almost completely offset by positive variances in the individual income tax, the corporate tax, and other taxes. General fund tax receipts during November and December of 2009 were about 2.5 percent below last year's level.

Summary of Tax Receipts (November - December 2009)

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	----- (\$ in millions) -----			
Income	\$1,085	\$1,095	\$10	0.9
Sales Tax	685	660	(25)	(3.7)
Corporate	70	76	6	8.2
Motor Vehicle	10	10	-	4.0
Other	<u>886</u>	<u>894</u>	<u>8</u>	<u>0.9</u>
Total	\$2,736	\$2,735	\$(1)	(0.1)

Gross sales tax receipts were \$25 million (3.7 percent) less than forecast. Since most businesses remit sales taxes in the month after the purchase was actually made, this estimate reflects only the November portion of the Christmas shopping season. Withholding tax receipts were \$19 million above forecast and fourth quarter individual estimated payments \$16 million less than forecast. But, since fourth quarter estimated payments are not due until January 15, 2010, that variance may be reflecting only timing differences in the receipt of revenues and not be meaningful. An \$18 million positive variance in statewide property tax receipts more than offset a \$12 million drop in tobacco settlement revenues.

Forecasts for December corporate and sales tax refunds were arbitrarily raised to equal the refunds actually paid. November's forecast assumed that corporate refunds and sales tax refunds would be held until January for cash flow purposes. When the state's cash position allowed refunds to be paid earlier than projected a misleadingly large negative variance, due solely to a change in the assumed timing of refund payments, was created. That large negative variance would then have been followed and offset

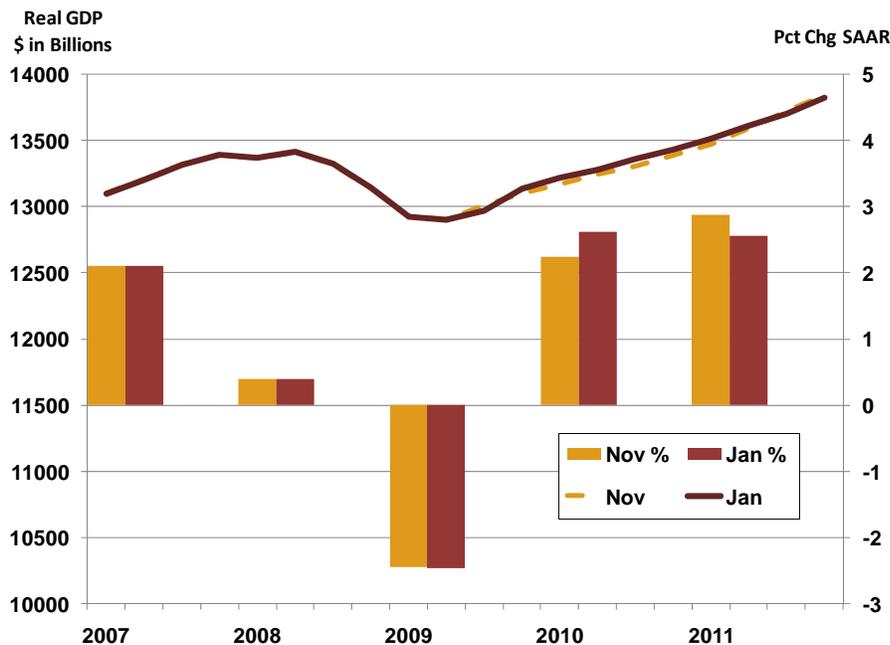
by a similarly large positive variance in January. Without this change corporate refunds would have exceeded forecast by \$91 million and sales tax refunds would have been \$30 million more than projected.

What a Difference a Year Makes

The Great Recession appears over. Real GDP is growing, credit is becoming more available, the stock market is recovering, and consumer spending is once again growing, although not at pre-recession rates. Even the job market is giving some tentative signals that a recovery is on the way. A year ago none of that was true. Everyone was aware that the worst of the recession remained ahead, but no one was confident they knew where the bottom would be and each month’s forecast anticipated a larger decline than its predecessor. But, while this year’s economic outlook is far less frightening than 2009’s, economic conditions are not expected to return to normal in 2010. The U.S. unemployment rate is expected to remain above ten percent for the entire year and although some job growth is projected, it is only the first step in replacing the nearly 8 million jobs that have been lost since late 2007.

There have been only modest changes in the baseline forecast for 2010 and 2011 since November. Global Insight (GII), Minnesota’s national macro-economic consultant, now expects real GDP growth at an annual rate of 2.6 percent in calendar 2010 and 2.7 percent in 2011. In November real growth rates of 2.2 percent and 2.9 percent were projected. Differences between the forecasts are small and largely offsetting. By the end of the 2010-11 biennium the January baseline has real GDP reaching \$13.6 trillion, less than 0.2 percent more than was projected in November. The inflation outlook also remains largely unchanged. The CPI is now expected to increase by 1.7 percent in 2010 and 2.0 percent in 2011. In November increases of 1.5 percent and 2.0 percent were expected.

Little Change in the Economic Outlook Since November



The probability assigned to the baseline scenario remains at 60 percent, the same as in November. A more optimistic, “V shaped recovery” scenario is assigned a probability of 20 percent as is a scenario in which the lack of further improvement in credit markets produces a second round of economic decline in mid 2010. In this scenario real GDP growth rates do not again exceed 2.5 percent until the second half of calendar 2011.

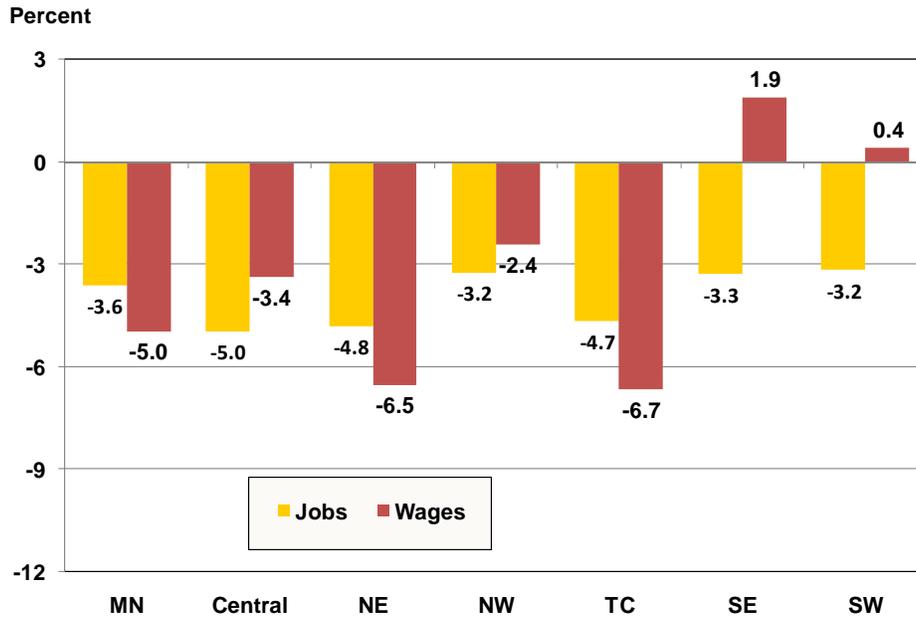
Job Losses and Wage Declines Not Distributed Evenly Across State

Data now available from the U.S. Department of Labor’s Quarterly Census of Employment and Wages (QCEW) shows how the Great Recession’s impact has been distributed across the state. The QCEW data show that between the second quarter of 2008 and the second quarter of 2009 employment in Minnesota fell by 3.6 percent and total wages paid by the employers fell by 5.0 percent.

Job losses exceeded the state-wide average in central Minnesota, northeast Minnesota, and the Twin Cities region. Job losses in southwest, southeast and northwestern Minnesota were less than the statewide average, but still exceeded three percent.

Total wages paid by Minnesota employers fell by five percent over that same period. The declines in wages were largest in the twin cities and northeast Minnesota. Total wages grew slightly in southeast and southwest Minnesota even though the numbers of jobs declined.

Central Minnesota, Northeast Minnesota, and Twin Cities Hit Hardest By Recession



COMPARISON OF ACTUAL AND ESTIMATED NON-RESTRICTED REVENUES
(\$ IN THOUSANDS)

	FY 2010 YTD			November - December 2009		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
<u>Individual Income Tax</u>						
Withholding	2,845,403	2,864,435	19,032	985,800	1,004,832	19,032
Declarations	368,889	352,894	(15,995)	118,600	102,605	(15,995)
Miscellaneous	156,177	159,245	3,068	35,800	38,868	3,068
Gross	3,370,469	3,376,573	6,104	1,140,200	1,146,304	6,104
Refund	151,300	147,738	(3,562)	55,114	51,553	(3,562)
Net	3,219,169	3,228,835	9,666	1,085,086	1,094,752	9,666
<u>Corporate & Bank Excise</u>						
Declarations	328,908	331,591	2,684	136,658	139,342	2,684
Miscellaneous	91,776	93,178	1,402	32,845	34,247	1,402
Gross	420,683	424,769	4,086	169,503	173,589	4,086
Refund	140,501	138,755	(1,746)	99,129	97,383	(1,746)
Net	280,183	286,014	5,832	70,374	76,206	5,832
<u>Sales Tax</u>						
Gross	2,018,108	1,993,562	(24,546)	716,275	691,729	(24,546)
Refunds	101,280	101,824	544	30,830	31,374	544
Net	1,916,828	1,891,738	(25,090)	685,445	660,355	(25,090)
<u>Motor Vehicle Sales Tax</u>						
	35,898	36,389	492	10,080	10,571	492
<u>Other Revenues:</u>						
Estate	71,208	73,436	2,228	21,597	23,825	2,228
Liquor/Wine/Beer	34,240	32,730	(1,510)	13,167	11,658	(1,510)
Cigarette/Tobacco/Cont Sub	98,831	98,221	(610)	26,258	25,648	(610)
Deed and Mortgage	79,580	75,772	(3,808)	30,876	27,068	(3,808)
Insurance Gross Earnings	131,392	129,773	(1,620)	64,472	62,853	(1,620)
Lawful Gambling	16,521	16,724	203	6,108	6,311	203
Health Care Surcharge	107,355	114,710	7,355	33,944	41,299	7,355
Other Taxes	(934)	396	1,330	(1,169)	161	1,330
Statewide Property Tax	338,016	356,554	18,539	337,574	356,113	18,539
DHS SOS Collections	21,263	23,166	1,903	7,567	9,470	1,903
Income Tax Reciprocity	66,932	66,932	0	66,932	66,932	0
Investment Income	3,526	2,529	(997)	1,192	195	(997)
Tobacco Settlement	176,842	164,784	(12,058)	176,742	164,684	(12,058)
Departmental Earnings	144,730	141,990	(2,740)	58,404	55,665	(2,740)
Fines and Surcharges	44,524	40,003	(4,521)	18,899	14,378	(4,521)
Lottery Revenues	20,644	19,350	(1,294)	8,293	6,999	(1,294)
Revenues yet to be allocated	2,082	1,012	(1,070)	0	(1,070)	(1,070)
Residual Revenues	49,371	55,675	6,304	23,068	29,372	6,304
County Nursing Home, Pub Hosp IGT	2,608	2,608	0	869	869	0
Other Subtotal	1,408,730	1,416,363	7,633	894,795	902,428	7,633
Other Refunds	20,902	20,944	42	9,162	9,204	42
Other Net	1,387,829	1,395,420	7,591	885,633	893,224	7,591
Total Gross	7,253,888	7,247,657	(6,230)	2,930,853	2,924,623	(6,230)
Total Refunds	413,982	409,261	(4,722)	194,236	189,514	(4,722)
Total Net	6,839,905	6,838,397	(1,509)	2,736,617	2,735,109	(1,509)