

## Minnesota Budget Forecast

November 2008



Minnesota Management & Budget

December 4, 2008

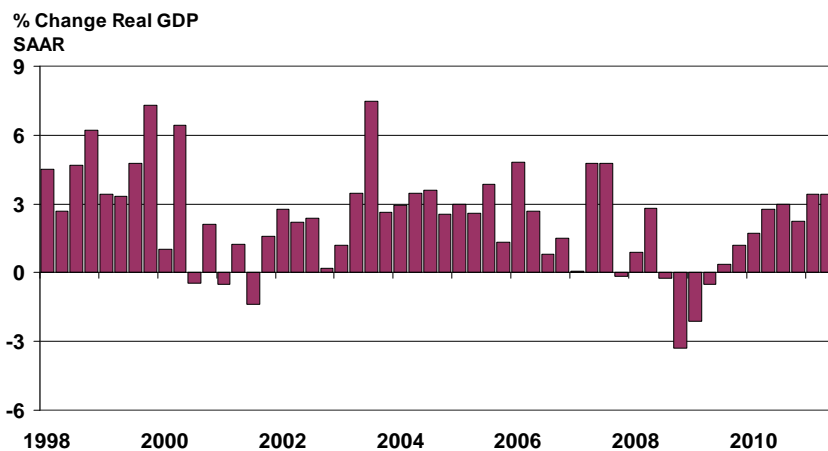
### Minnesota's Budget Outlook Has Deteriorated

- **Budget deficit of \$426 million projected for end of FY 2009**
  - Revenues down \$412 million from end-of-session
- **Projected FY 2010-11 budget shortfall grows from \$946 million to \$4.8 billion**
  - Revenues down \$3.3 billion from end-of-session
  - Expenditures up \$580 million from end-of-session
- **Recession began late 2007 and is expected to be longer and deeper than previously anticipated**

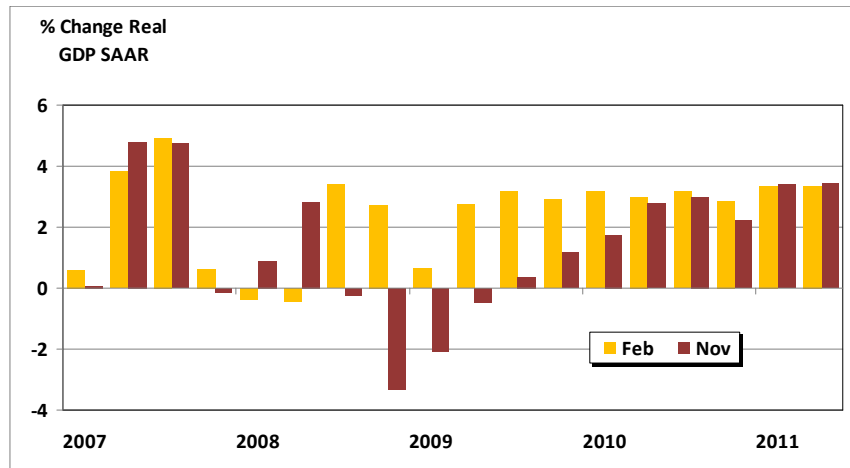
## \$426 Million Budget Deficit in FY 2009 \$4.8 Billion Shortfall for FY 2010-11

(\$ in millions)	<u>FY 2008-09</u>	<u>FY 2010-11</u>
<b>Beginning Balance</b>	<b>\$2,245</b>	<b>\$79</b>
Revenues	32,445	31,866
Spending	34,611	36,713
Budget Reserve	155	155
Cash Flow Account	350	350
<b>Budget Balance</b>	<b>(\$426)</b>	<b>(\$5,273)</b>
<b>Shortfall (excl. FY2008-09)</b>	<b>---</b>	<b>(\$4,847)</b>

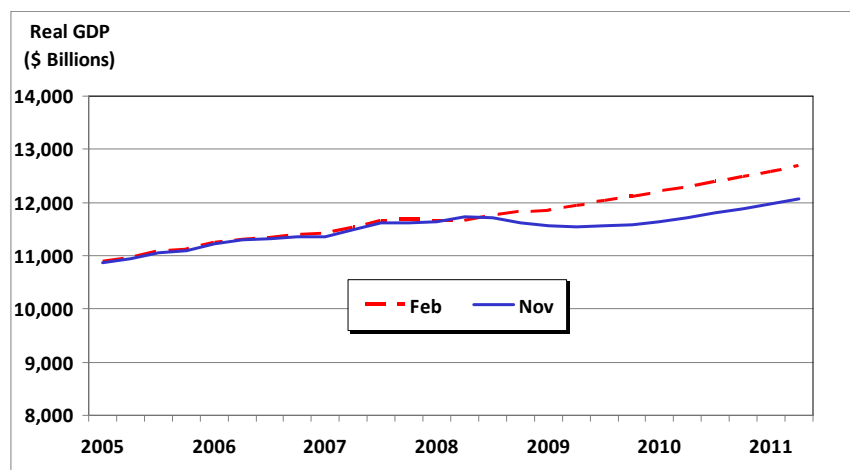
## The U.S. Economy Is in a Recession



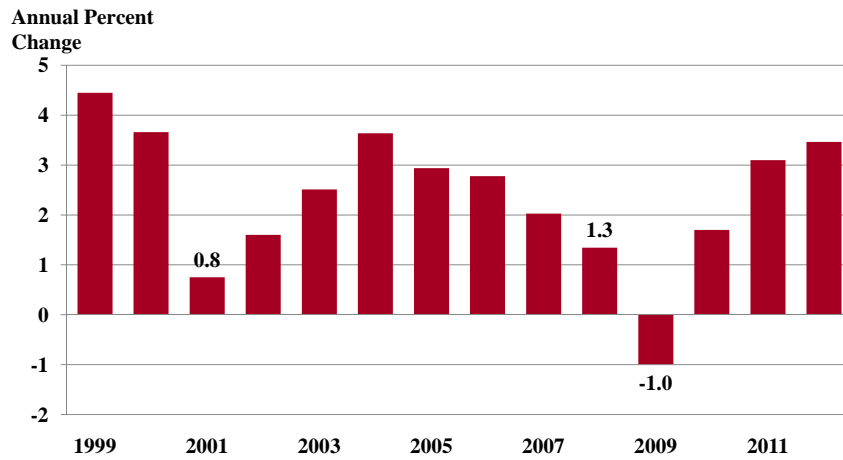
## The Recession Will be Longer and Deeper than Forecast in February



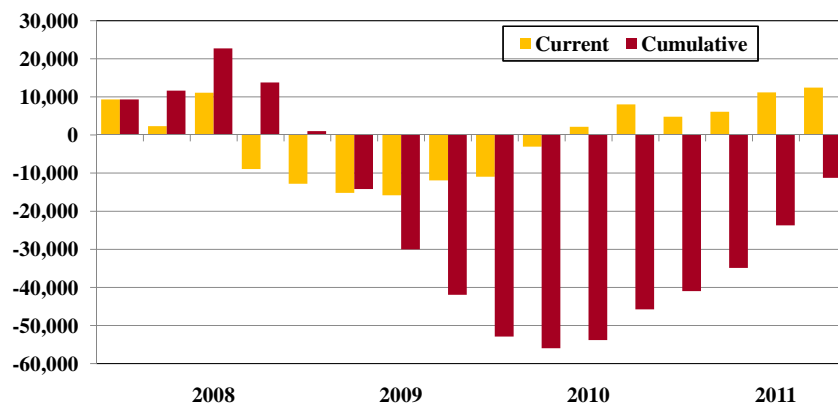
## The Recession Delays Economic Growth for More Than One Year



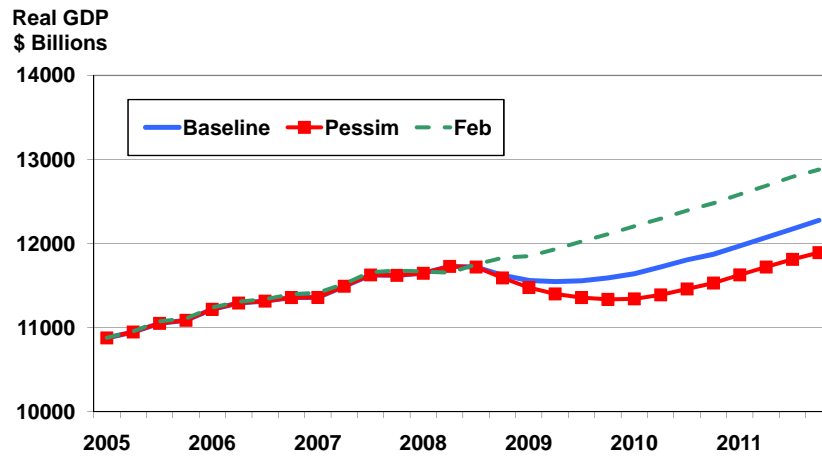
## Global Insight Forecasts U.S. Output Will Shrink by One Percent in 2009



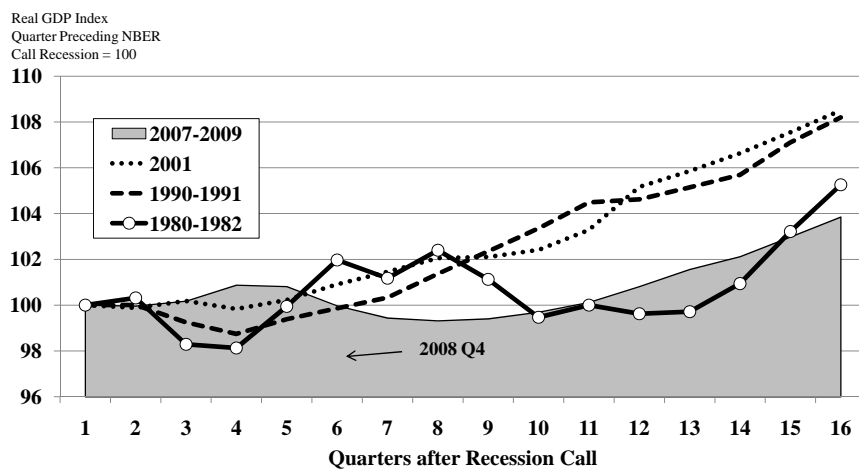
## Minnesota Will Lose Jobs in 2009



## The Recession Could Be Worse Than Forecast in November



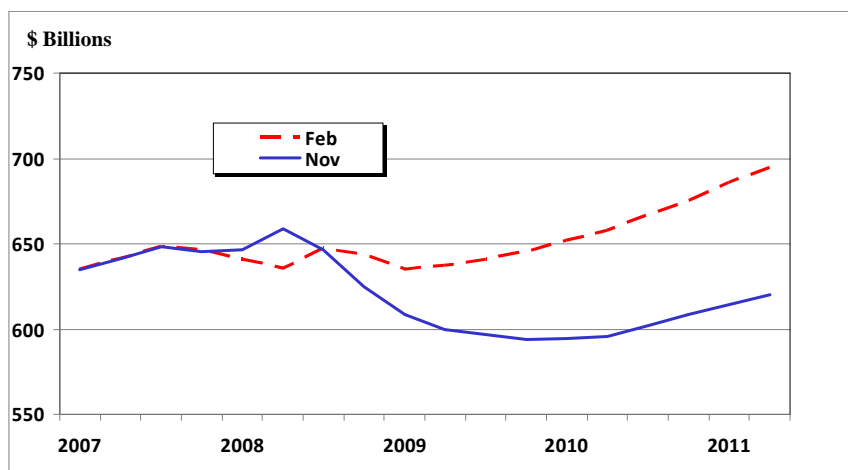
## This Recession Will Be More Severe Than Those of 1990-91 and 2001



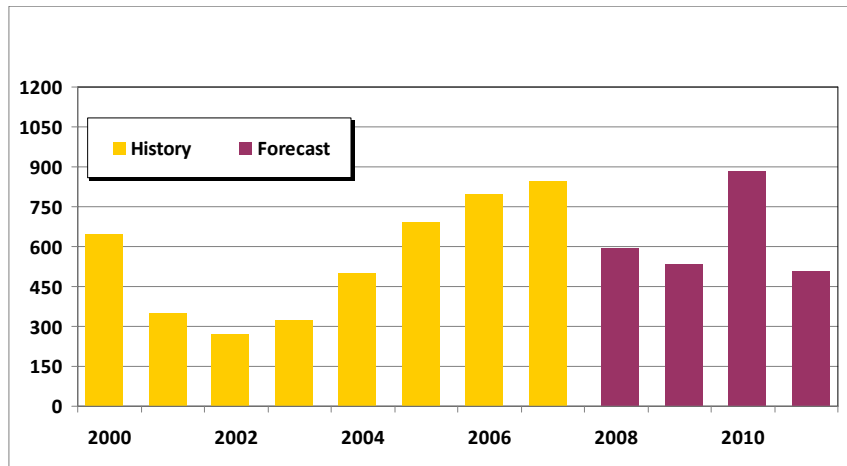
### Budget Deficit of \$426 Million Projected for End of FY 2009

- Income taxes down **\$291 million (1.9%)**
- Sales taxes down **\$145 million (1.6%)**
- Corporate taxes down **\$57 million (3.1%)**
- Other revenues up **\$80 million (1.3%)**

### Consumer Non-auto Durable Spending Falls Below February Forecast



## Capital Gains Income Will Fall



## Forecast for FY 2010-11 Revenues Down \$3.3 Billion from End-of-Session

- Income taxes down **\$1,748 million (10.1%)**
- Sales taxes down **\$826 million (8.7%)**
- Corporate taxes down **\$640 million (31.3%)**
- Motor vehicle taxes down **\$10 million (9.0%)**
- Other revenues down **\$97 million (1.5%)**

## Projected FY 2010-11 Budget Gap Grows from \$946 Million to \$4.8 Billion

*(\$ in millions)*

<b>End of 2008 Session Estimate</b>	<b>\$(946)</b>
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9.4% Lower Revenues	(3,321)
1.6% Higher Spending	<b>580</b>
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<b><i>FY 2010-11 Shortfall</i></b>	<b><i>\$(4,847)</i></b>

## Forecast for FY 2010-11 Expenditures Up \$580 Million from End-of-Session

- **Health and human services increase of \$498 million is primary driver**
  - Higher than expected health care enrollment accounts for three-quarters of increase
- **Other forecast increases include:**
  - Debt service (\$45 million)
  - Property tax aids and credits (\$28 million)
- **K-12 education forecast declines \$22 million**
  - Lower than anticipated pupil unit projections

### Falling Revenues and Higher Spending Drive Overall Budget Outlook

(\$ in millions)	<u>FY 2008-09</u>	<u>FY 2010-11</u>	<u>% Change</u>
<b>Beginning Balance</b>	<b>\$2,245</b>	<b>\$79</b>	
Revenues	32,445	31,866	(1.8%)
Spending	34,611	36,713	6.1%
Budget Reserve	155	155	
Cash Flow Account	350	350	
<b>Budget Balance</b>	<b>(\$426)</b>	<b>(\$5,273)</b>	
<b>Shortfall (excl. FY 2008-09)</b>	<b>---</b>	<b>(\$4,847)</b>	

### Planning Estimates Provide Outlook through FY 2013

(\$ in millions)	<u>FY 2010-11</u>	<u>FY 2012-13</u>
Revenues	\$31,866	\$34,558
Spending	36,713	39,162
<b>Difference</b>	<b>(\$4,847)</b>	<b>(\$4,604)</b>
<i>Inflation (estimate)</i>	\$650	\$1,500