



July 2010

FY 2010 Revenues \$99 Million below Forecast

Minnesota's net general fund receipts for FY 2010 are now estimated to total \$14.173 billion, \$99 million (0.7 percent) less than forecast in February. Receipts from the individual income tax were \$188 million (2.8 percent) below projections while net corporate income tax receipts and net sales tax receipts exceeded projections by modest amounts. Other tax and non-tax revenues were \$42 million (1.6 percent) more than anticipated. The negative variance for the individual income tax is due largely to final settlements of tax year 2009 liabilities. Net general fund revenues in FY 2010 were 4.3 percent less than FY 2009 revenues and 12.7 percent below receipts in FY 2008. Net individual income tax receipts for FY 2010 were 6.3 percent below FY 2009 levels and net sales tax receipts 3.4 percent less than in the 2009 fiscal year.

**Summary of Revenues
(Fiscal Year 2010)**

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	----- (\$ in millions) -----			
Income	\$6,735	\$6,547	\$(188)	(2.8)
Sales Tax	4,183	4,197	14	0.3
Corporate	639	672	33	5.2
Motor Vehicle	74	74	—	—
Other	<u>2,641</u>	<u>2,683</u>	<u>42</u>	1.6
Total	\$14,272	\$14,173	\$(99)	(0.7)

Minnesota ended the 2010 legislative session with a projected ending balance for the 2010-11 budget of \$6 million and a cash flow account balance of \$266 million. The fiscal 2010 revenue shortfall of \$99 million does not create a budget deficit for the current biennium. But, it does significantly reduce the cushion the cash flow account provides against any additional revenue shortfalls which might occur during the remainder of this biennium. In the absence of further revenue shortfalls in FY 2011 Minnesota would now be projected to close the biennium with a \$173 million balance in its cash flow account and a zero general fund ending balance. Technically, the state would close the biennium with a negative ending balance of \$93 million and a \$266 million cash flow account since it would take legislative action to reduce the cash flow account and transfer funds to other general fund activities.

Withholding tax receipts finished the 2010 fiscal year \$15 million above forecast (see page 4). Individual refunds were larger than projected and final payments including extension payments were less than February's estimates. Final tax year 2009 individual income tax liability now appears to be \$192 million less than forecast in February. It is likely that refunds and final payments associated with 2009 returns filed after June 30th will further increase the tax year 2009 shortfall. The reduction in tax year 2009 liability will carry forward into the future, lowering the base from which future income tax estimates are made for tax years 2010 and beyond.

Net receipts from the sales tax and the corporate income tax were boosted by lower than anticipated refunds. Corporate refunds were \$25 million less than forecast and sales tax refunds \$29 million below projections after a combined \$22 million adjustment to incorporate extension of the 90 day refund hold beyond the end of fiscal 2010. Gross sales tax receipts were \$17 million less than forecast for the 2010 fiscal year.

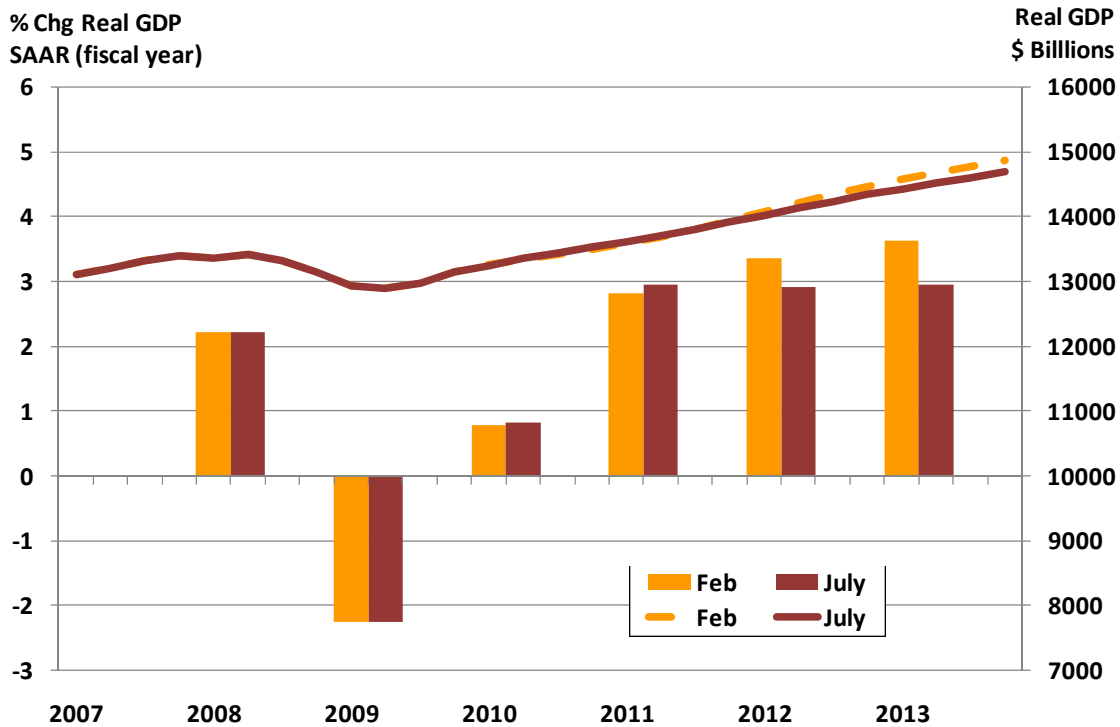
All FY 2010 results are preliminary and subject to change. As in past years forecasts for some revenue sources have been adjusted to reflect anticipated accruals in this first report of receipts for the entire fiscal year. A complete accounting of FY 2010 revenues reflecting final closing will be part of October's Economic Update. The next official forecast will be released in early December, 2010.

Little Change in U.S. Economic Outlook for 2010 and 2011

Recent media reports on the economy's performance have been downbeat and the public is growing discouraged. It is not that the data show a stagnant economy. Real GDP has grown in each of the last four quarters and it is believed to have grown at almost a 4 percent annual rate during the past three months. But news of BP's oil spill, Europe's sovereign debt problems, and the housing market's weaknesses appear to be dominating the public's consciousness. The employment news just makes things worse. The U.S. economy lost 8.4 million jobs during the Great Recession, and while employment is up by 882,000 from its lows, about 30 percent of the jobs added have been temporary Census workers. Clearly, the public expected a quicker recovery than has been seen thus far, even though many forecasters warned it would likely take until 2012 or beyond for employment to return to pre-recession levels. A crisis of confidence is emerging now as Americans begin to recognize how slow this recovery is likely to be and how long it will be before jobs are created at the pace needed to signal that the U.S. economy is back on track for an extended period of growth.

Global Insight Inc. (GII), Minnesota's national economic consultant, does not see "the dreaded 'double dip recession' on the horizon." Nor do most other forecasters. As in February, what most expect is simply modest (2.5 to 3.0 percent) growth for the next year or more, a scenario very similar to GII's July baseline. In February real GDP growth was expected to average 1.80 percent during the 2010-11 biennium. July's baseline calls for growth at a 1.89 percent rate. On a calendar year basis Global Insight now expects real GDP growth of 3.1 percent in 2010 and 2.7 percent in 2011. In February growth rates of 3.0 percent and 2.8 percent were anticipated. GII's July baseline GDP forecast is identical to the Blue Chip consensus for 2010. For 2011 the Blue Chip projection of 3.1 percent real growth is slightly more optimistic than GII's forecast.

Outlook for FY 2012 and FY 2013 Has Weakened



Global Insight continues to expect inflation to remain under control and there is little change in their inflation outlook. GII’s July baseline shows CPI growth of 1.5 percent in 2010 and 1.4 percent in 2011. Global Insight does not expect the Federal Reserve to begin raising interest rates until late in 2011.

Global Insight continues to assign a probability of 65 percent to their baseline forecast, that probability is slightly higher than typical. A more optimistic, “V shaped recovery” scenario is now given a probability of 15 percent and the “double dip recession” scenario, a 20 percent probability. In February the probability set for the optimistic forecast was 20 percent while the pessimistic scenario was given a 15 percent probability.

2012-13 Budget Gap Likely to Widen

February’s budget planning estimates, updated for actions by the 2010 legislature, show that Minnesota will face a \$5.8 billion shortfall when FY 2012-13 budget deliberations begin in early 2011. Although the economic outlook could change before release of the first official budget forecast in early December, it appears that the 2012-13 budget gap is likely to be materially wider than end-of-session estimates. Global Insight now expects real GDP growth to average 2.9 percent over the 2012-13 biennium. In February, a biennial GDP growth rate of 3.5 percent was projected. The FY 2012-13 individual income tax and gross sales tax forecasts also will start from a lower base reflecting the FY 2010 revenue shortfalls reported above.

Comparison of Actual and Estimated Non-Restricted Revenues

(\$ in thousands)

	FY 2010 Fiscal Year-to-Date			April - June 2010		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
<u>Individual Income Tax</u>						
Withholding	5,905,500	5,920,582	15,082	1,514,800	1,517,770	2,970
Declarations	1,163,595	1,107,838	(55,756)	516,595	457,028	(59,567)
Miscellaneous	887,106	832,767	(54,339)	705,244	650,905	(54,339)
Gross	7,956,200	7,861,187	(95,014)	2,736,639	2,625,704	(110,935)
Refund	1,220,780	1,313,694	92,914	1,037,543	1,130,456	92,914
Net	6,735,420	6,547,493	(187,927)	1,699,096	1,495,247	(203,849)
<u>Corporate & Bank Excise</u>						
Declarations	755,575	727,141	(28,434)	204,832	195,519	(9,313)
Miscellaneous	127,224	163,731	36,506	(23,628)	10,660	34,287
Gross	882,800	890,871	8,072	181,204	206,179	24,975
Refund	244,054	219,105	(24,949)	57,904	33,889	(24,014)
Net	638,746	671,766	33,020	123,300	172,289	48,989
<u>Sales Tax</u>						
Gross	4,411,025	4,396,134	(14,891)	1,337,966	1,326,624	(11,343)
Refunds	228,177	199,551	(28,626)	99,223	36,115	(63,108)
Net	4,182,848	4,196,582	13,734	1,238,743	1,290,508	51,765
<u>Motor Vehicle Sales Tax</u>						
	73,515	73,687	171	22,036	21,681	(355)
<u>Other Revenues</u>						
Estate	137,000	151,849	14,849	25,860	32,351	6,491
Liquor/Wine/Beer	75,976	75,571	(406)	24,192	25,515	1,323
Cigarette/Tobacco/Cont Sub	179,868	175,838	(4,030)	29,399	25,791	(3,608)
Deed and Mortgage	154,100	153,093	(1,007)	44,509	42,590	(1,919)
Insurance Gross Earnings	277,300	275,756	(1,543)	63,548	65,233	1,686
Lawful Gambling	39,800	40,587	787	13,764	14,875	1,111
Health Care Surcharge	225,339	231,404	6,065	57,413	58,260	847
Other Taxes	1,320	1,325	5	572	573	2
Statewide Property Tax	758,740	766,831	8,091	396,356	404,387	8,031
DHS SOS Collections	44,480	48,938	4,458	10,700	12,682	1,982
Income Tax Reciprocity	66,932	66,932	0	0	0	0
Investment Income	7,700	3,920	(3,780)	3,010	794	(2,216)
Tobacco Settlement	164,786	164,786	0	2	0	(2)
Departmental Earnings	240,864	253,232	12,369	41,130	50,044	8,915
Fines and Surcharges	92,218	94,075	1,857	29,043	29,876	833
Lottery Revenues	48,367	44,072	(4,295)	17,157	13,414	(3,742)
Revenues yet to be allocated	(0)	60	60	(2,211)	(628)	1,583
Residual Revenues	172,013	182,042	10,030	68,877	91,367	22,490
County Nursing Home, Pub Hosp IGT	5,216	5,216	0	1,304	1,304	0
Other Subtotal	2,692,019	2,735,528	43,509	824,623	868,428	43,805
Other Refunds	50,430	51,730	1,300	18,350	16,620	(1,730)
Other Net	2,641,589	2,683,798	42,209	806,273	851,808	45,534
Total Gross	16,015,559	15,957,406	(58,152)	5,102,469	5,048,615	(53,854)
Total Refunds	1,743,441	1,784,080	40,640	1,213,019	1,217,081	4,062
Total Net	14,272,118	14,173,326	(98,792)	3,889,450	3,831,534	(57,916)