But … What About Tomorrow?

Presentation to

LCPFP Balanced Budget Subcommittee

Tom Stinson
Tom Gillaspy
October, 2009

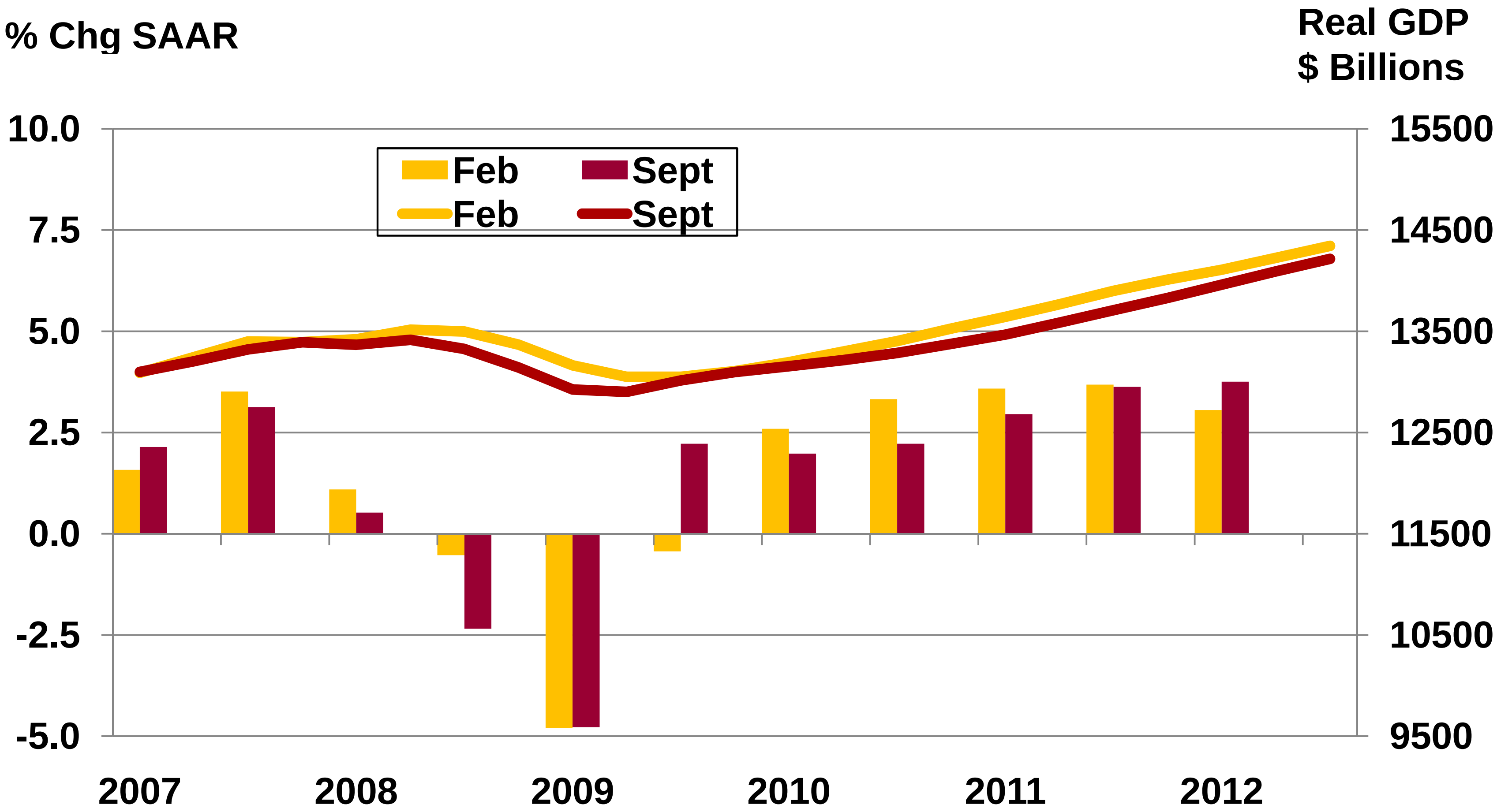
FY2010-11 Revenues 1.7 Percent Below Forecast

$ millions	Estimate	Actual	Variance	%
Individual	$1,728	$1,635	$(93)	(5.4)
Sales	874	854	(20)	(2.3)
Corporate	129	182	52	41.1
M Vehicle	16	20	4	25.0
Other	372	376	4	1.1
Total	$3,119	$3,067	$(52)	(1.7)

FY2010 Q1 Revenues 10.5 Percent Below FY2009 Q1

$ Mill	Est.	Var	%	Yr Chg	%
Withholding	$1,398	$(27)	(2.0)	$(112)	(7.6)
Indiv. Est.	290	(55)	(18.9)	(99)	(29.6)
Gross Sales	924	(13)	(1.4)	(143)	(13.6)
Corp. Est.	127	37	29.1	(15)	(8.4)
Total	$3,119	$(52)	(1.7)	$(359)	(10.5)

Mid-range Economic Outlook Has Weakened



Minnesota Is Facing Significant Long-Term Budget Problems

Problems Remain for 2012-13 Biennium

$ Millions	**FY2012**	**FY2013**	**FY2012-13**
Revenues	**$16,576**	**$17,729**	**$34,305**
Expenditures	**19,728**	**19,008**	**38,736**
Difference	**($3,152)**	**$(1,279)**	**$(4,431)**

Assumes:

- **GAMC Discontinued. Restoration adds $889 million**
- **K-12 Aid shift restored. Delay saves $1.2 billion**
- **No repayment of K-12 property tax recognition shift**
- **No discretionary inflation. Inflation at CPI would increase spending by $1.3 billion**

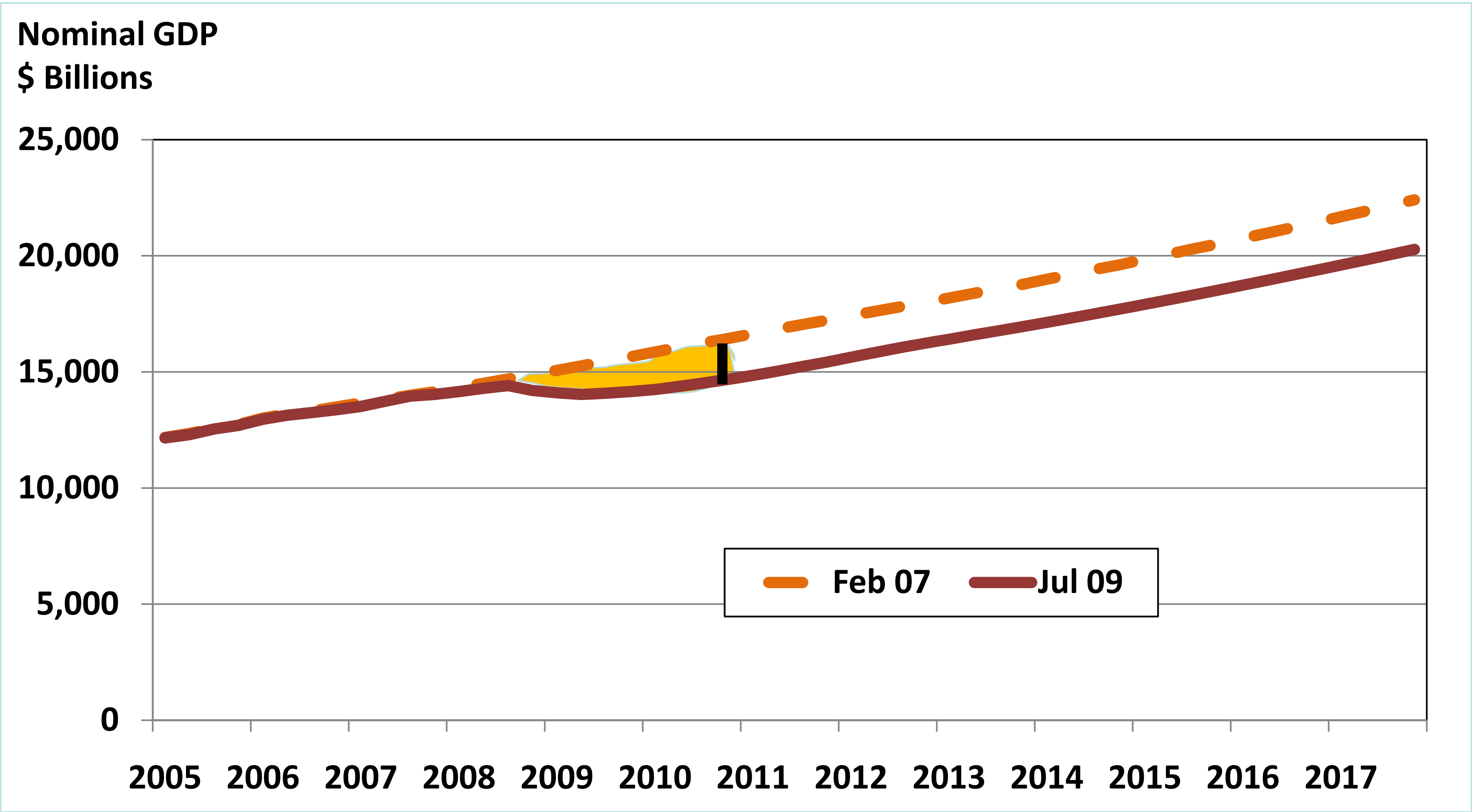
The Economic/Demographic Environment Has Changed for as Far as We Can Forecast

- Short run economic cycle has merged with long run demographic cycle
- We have entered the Age of Entitlement—economic growth in the next 25 years will be about half what it was in the past 25.
- State revenue growth will slow while spending pressures will accelerate
- This is a national/global issue

Minnesota Faces a Fiscal Trap

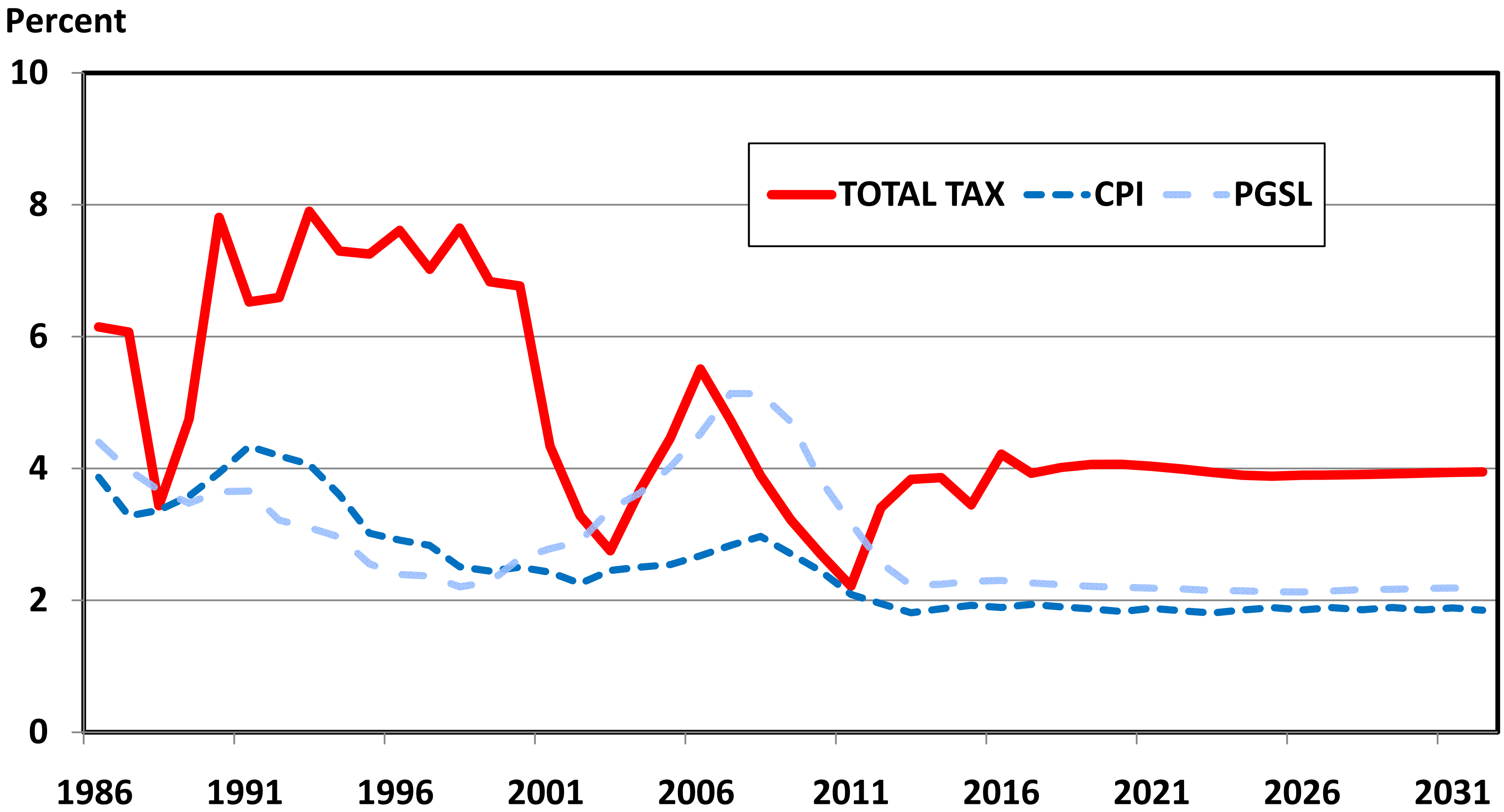
1. **The issue is a long run, structural one—<u>short run solutions will not solve the problem</u>**
2. **Trend growth alone will not be sufficient. Fundamental changes are necessary**
3. **Revenue growth will slow. Efforts to increase it will be met with resistance**
4. **Spending pressures will increase driven largely by issues of aging and health**
5. **State spending will shift its focus from education, infrastructure and higher education to care and support of the aging**

The 2007-09 Recession Permanently Reduced the Base for Future Revenues

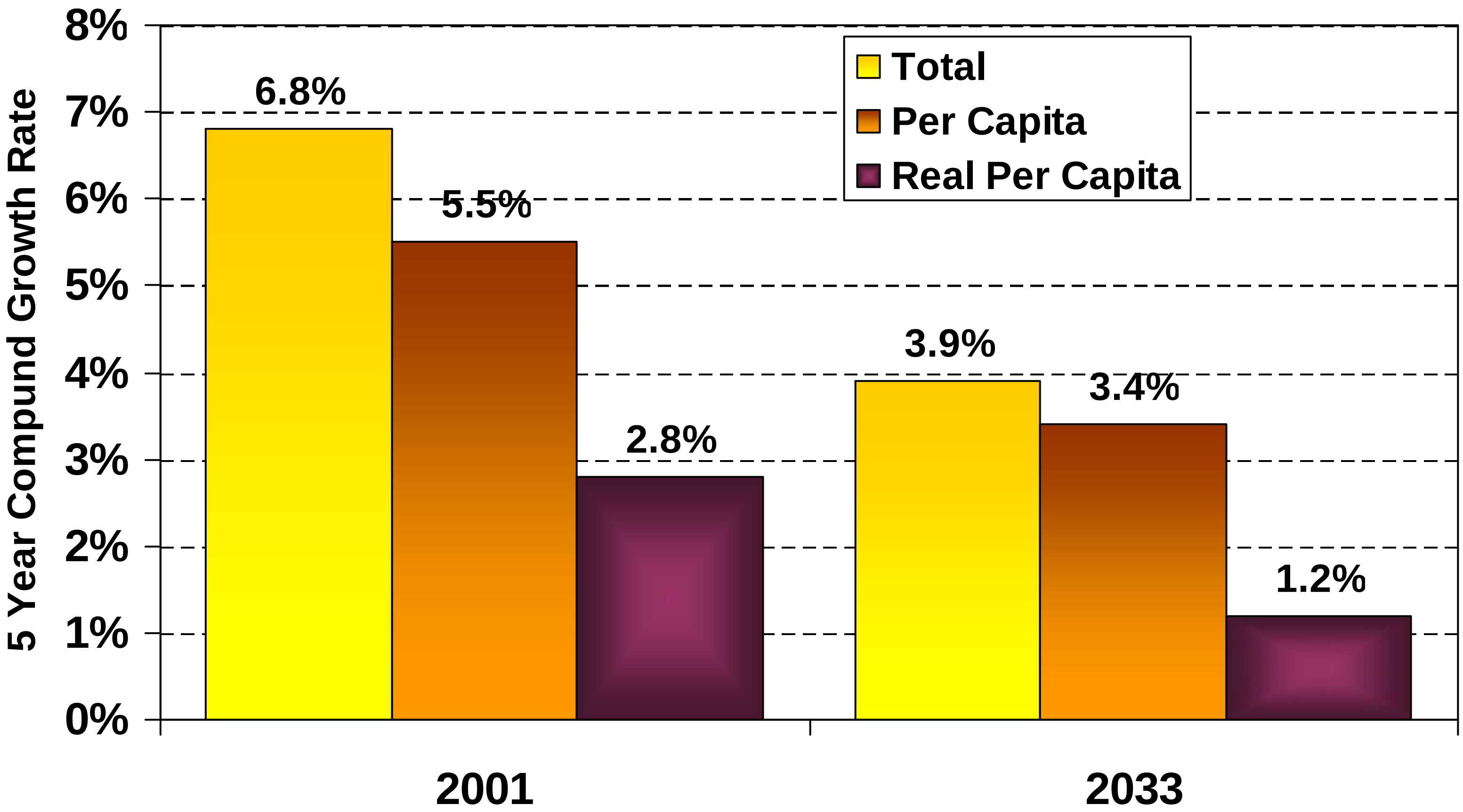


Revenue Growth Will Slow

5 Year Compound Growth Rates
for Total State Revenues

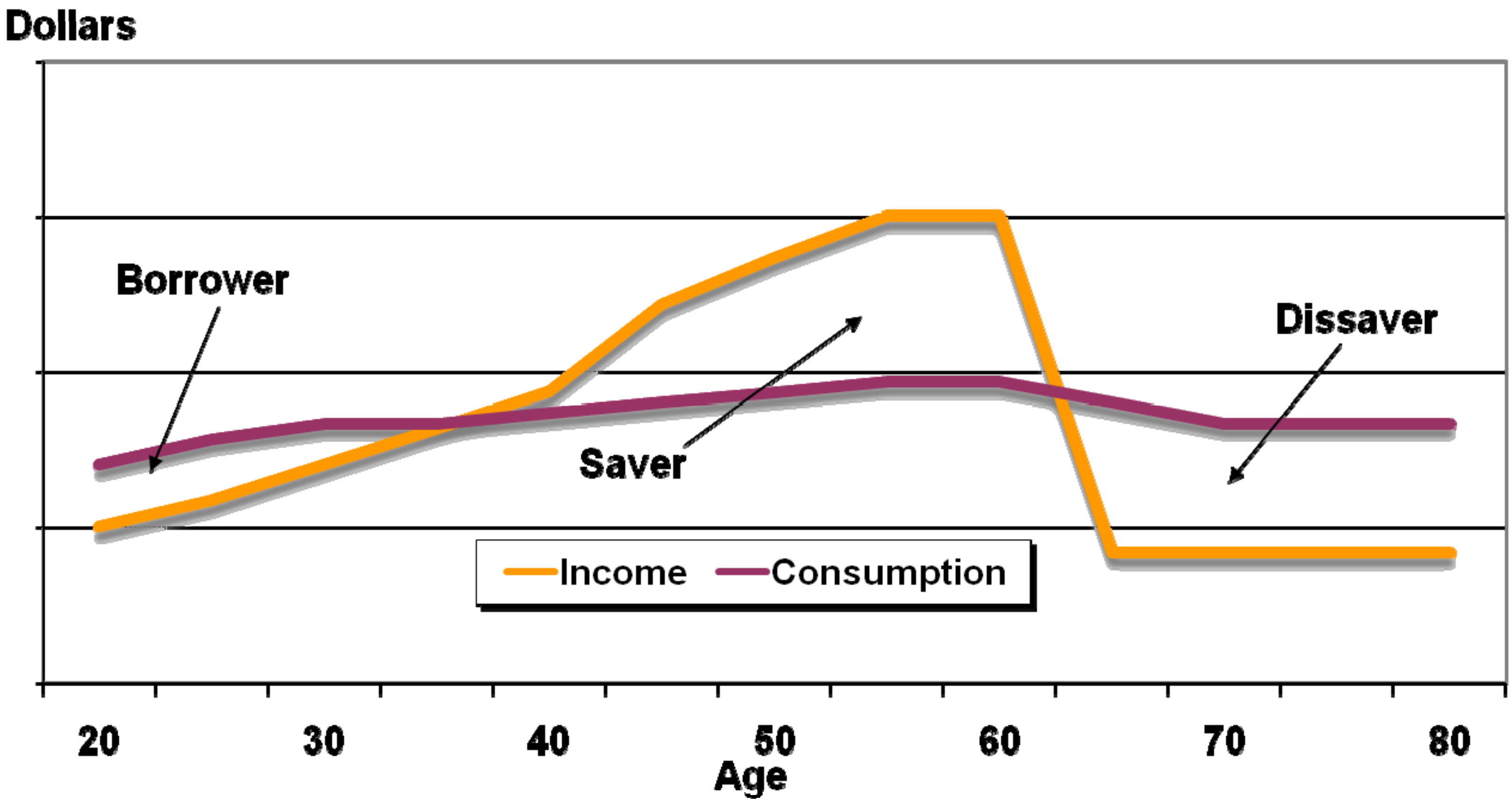


Next 25 Years--State Revenue Growth Rate Projected To Slow

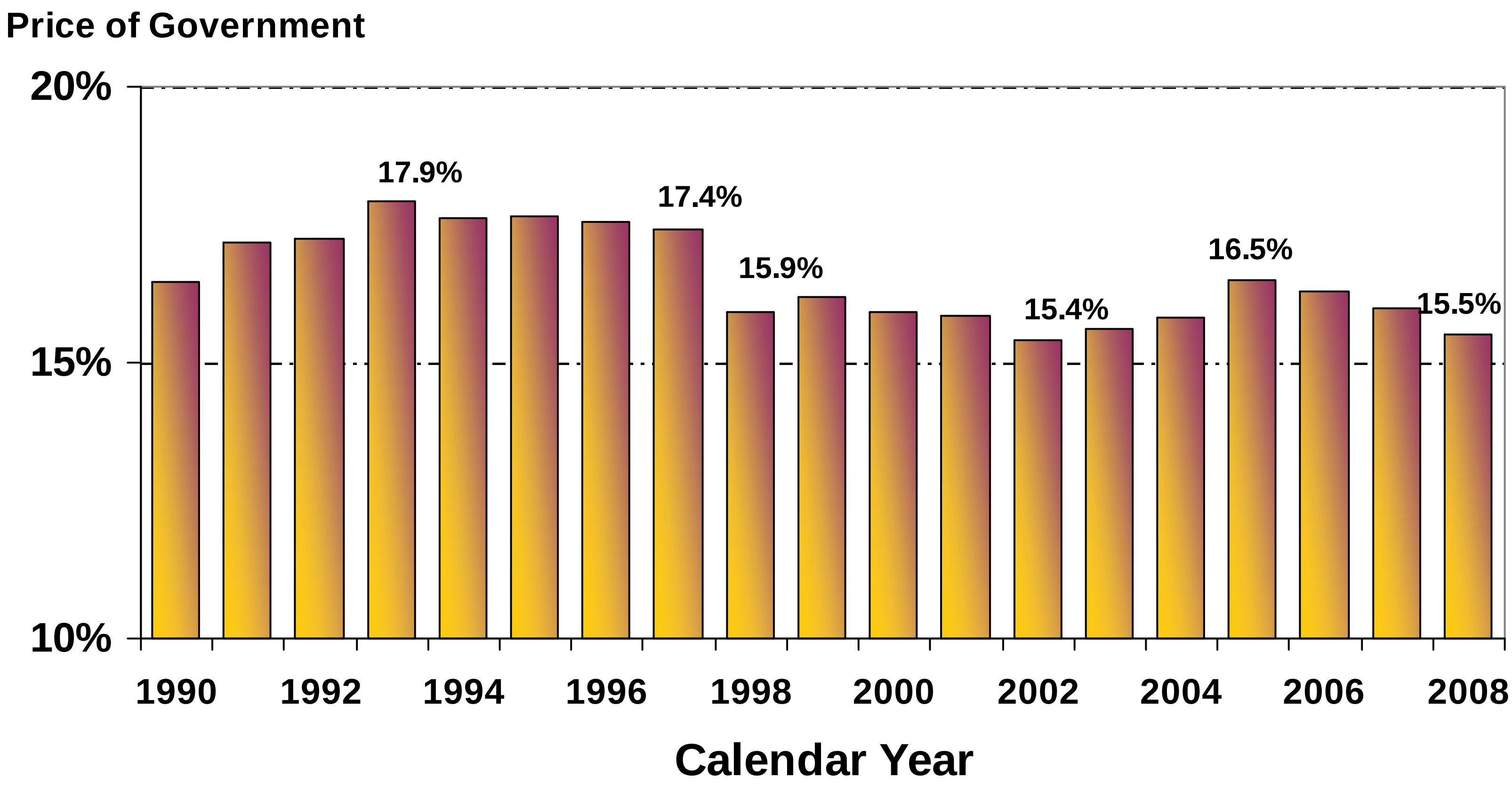


Budget Trends Commission, 2009

Phases in the Household Life Cycle

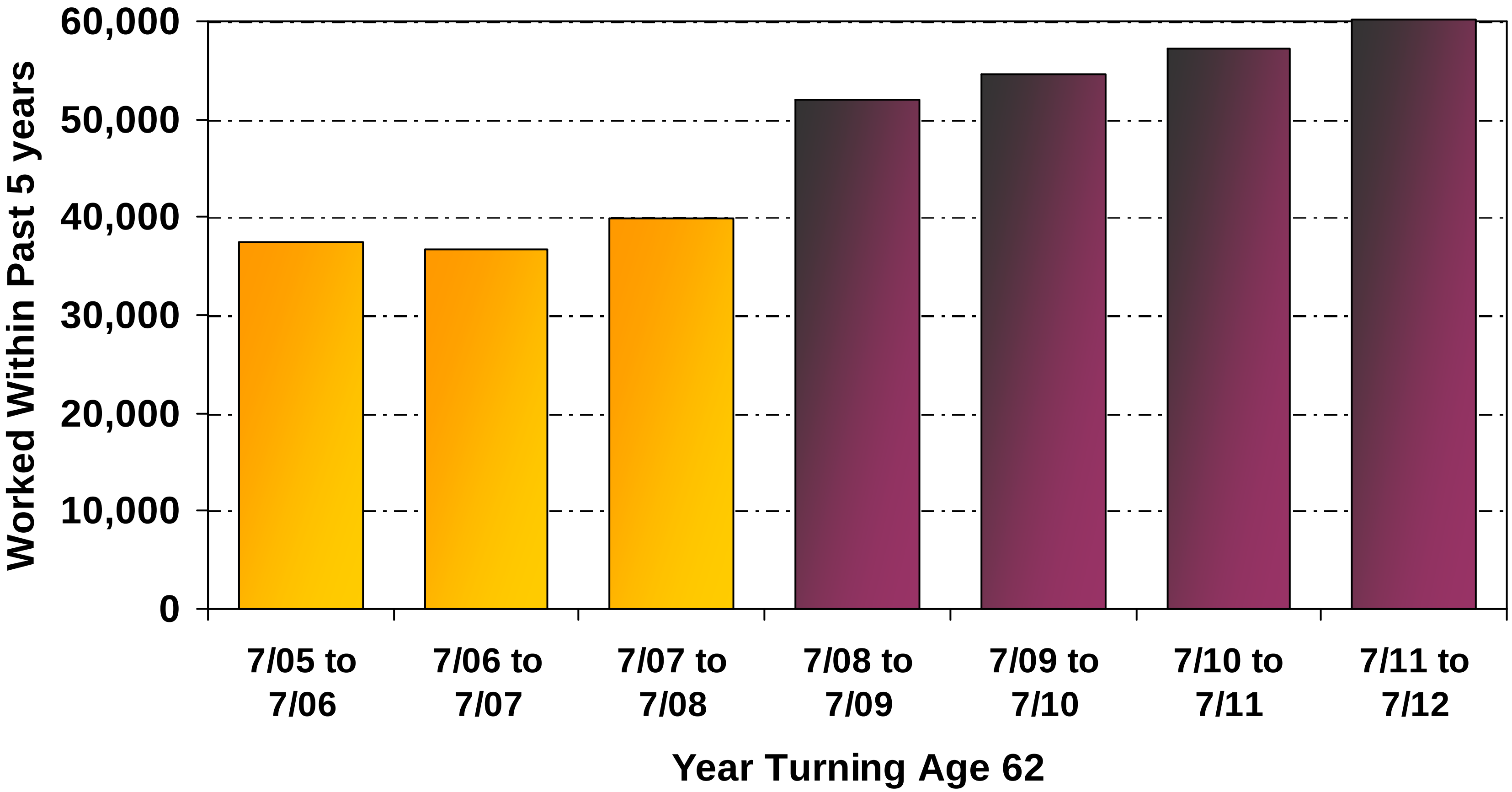


State/Local Government's Share of Personal Income Has Declined



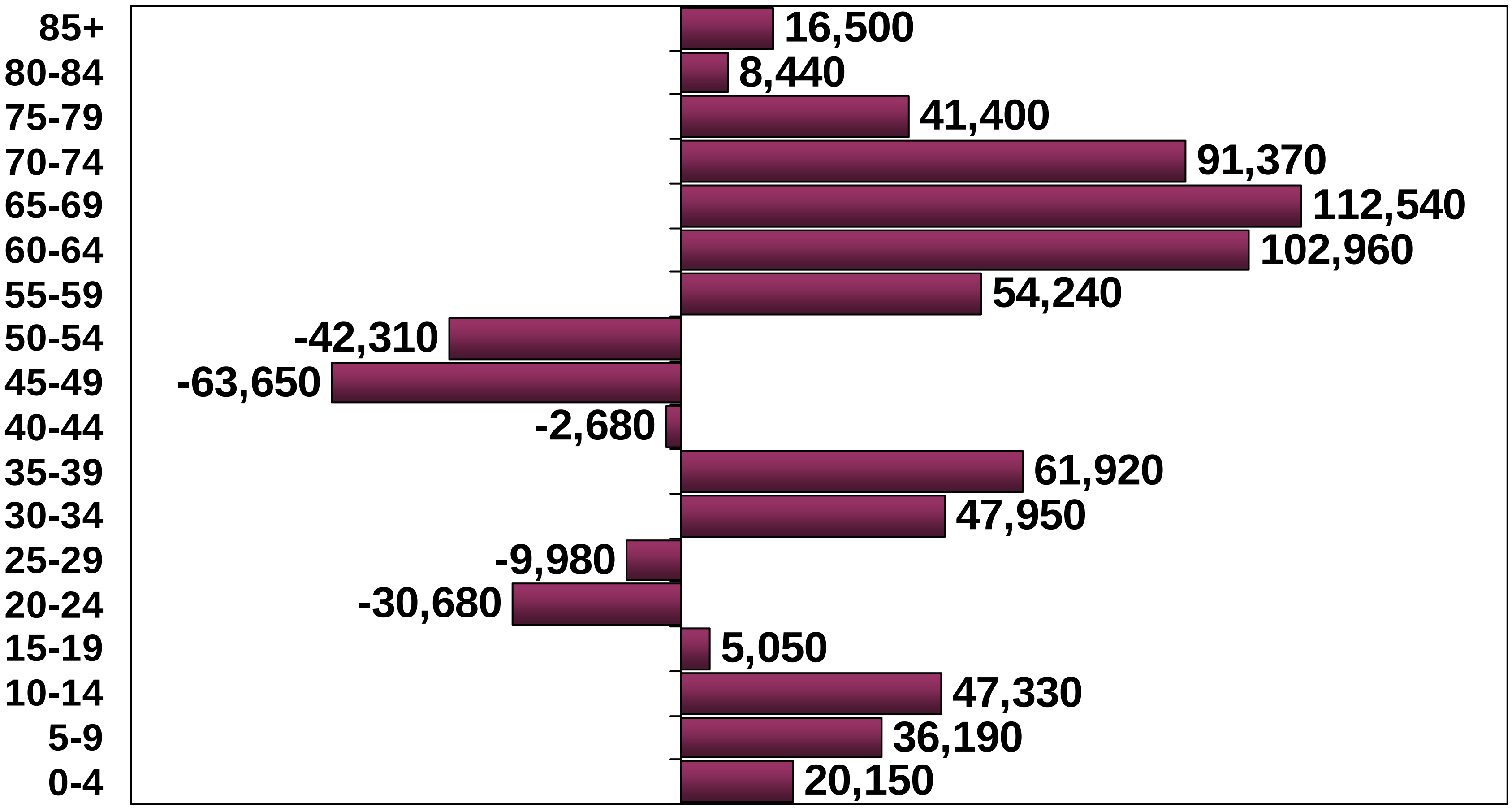
Mn Dept of Finance

Minnesota Saw a 30 Percent Jump in Workers Turning Age 62 in 2008



2005 ACS

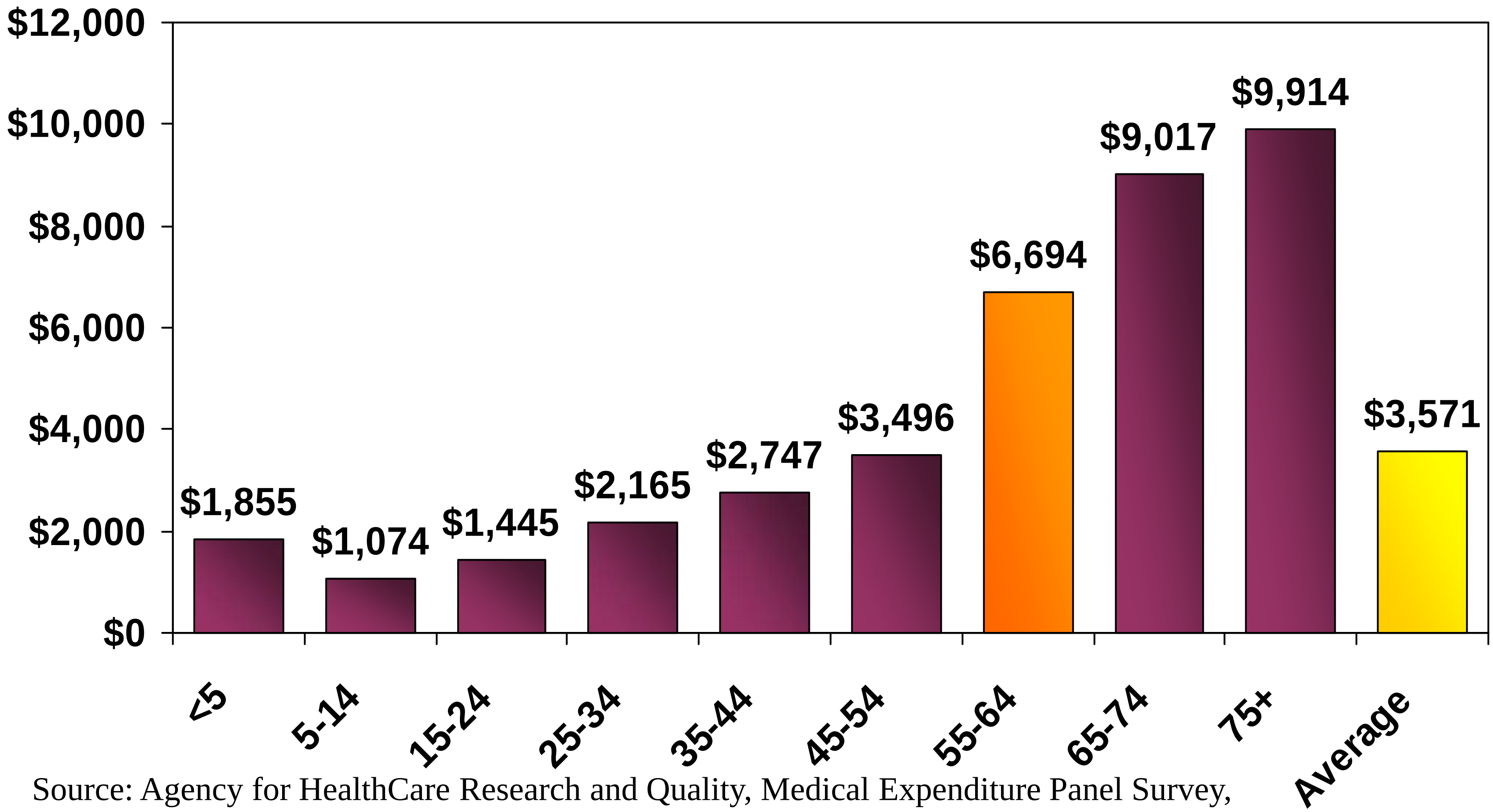
From 2010 to 2020, Minnesota Will See Large Increases Age 50s and 60s



Source: Minnesota State Demographic Center, rev 2007
Numbers are rounded

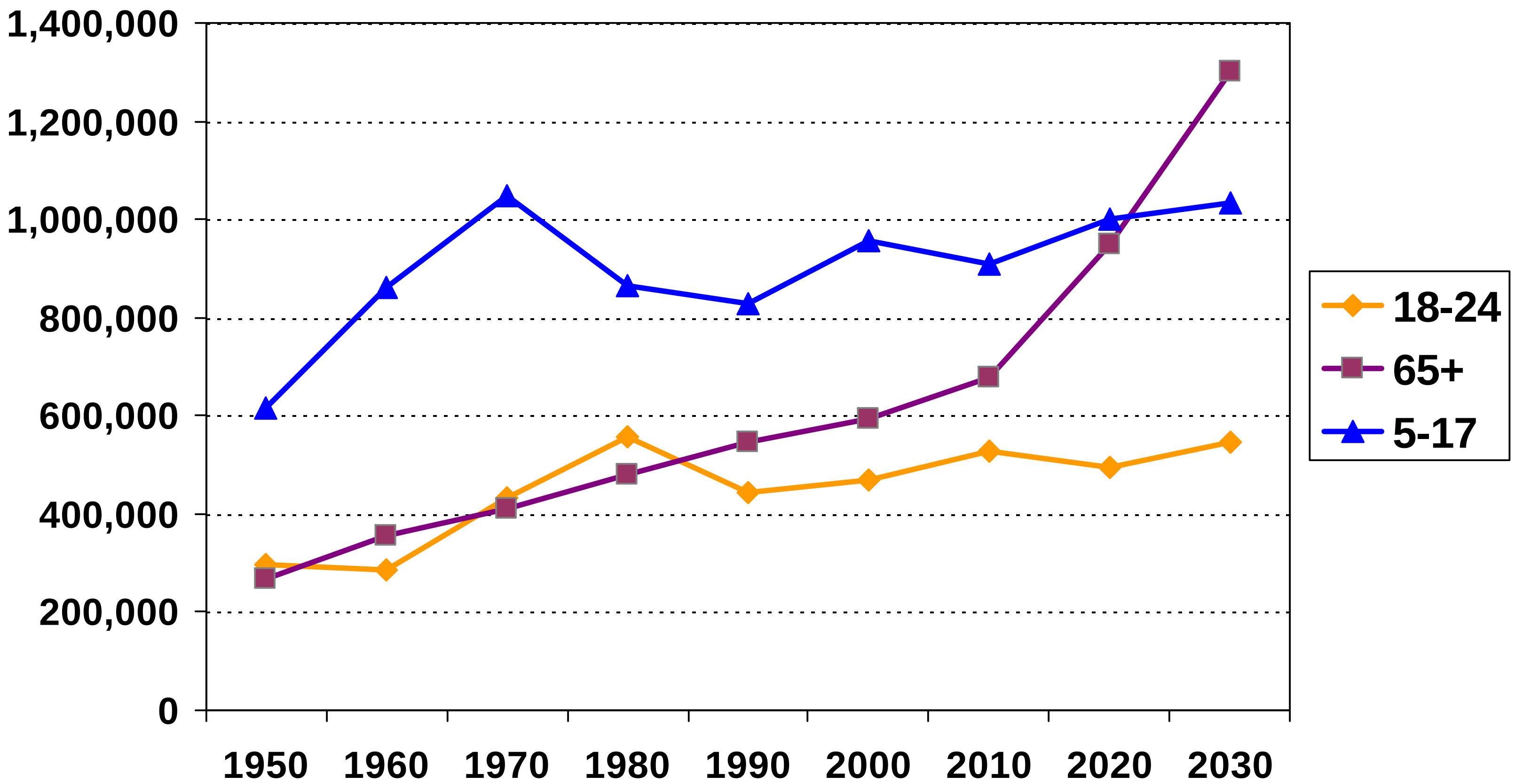
Health Care Spending Jumps After 55

U.S. Health Care Spending By Age, 2004



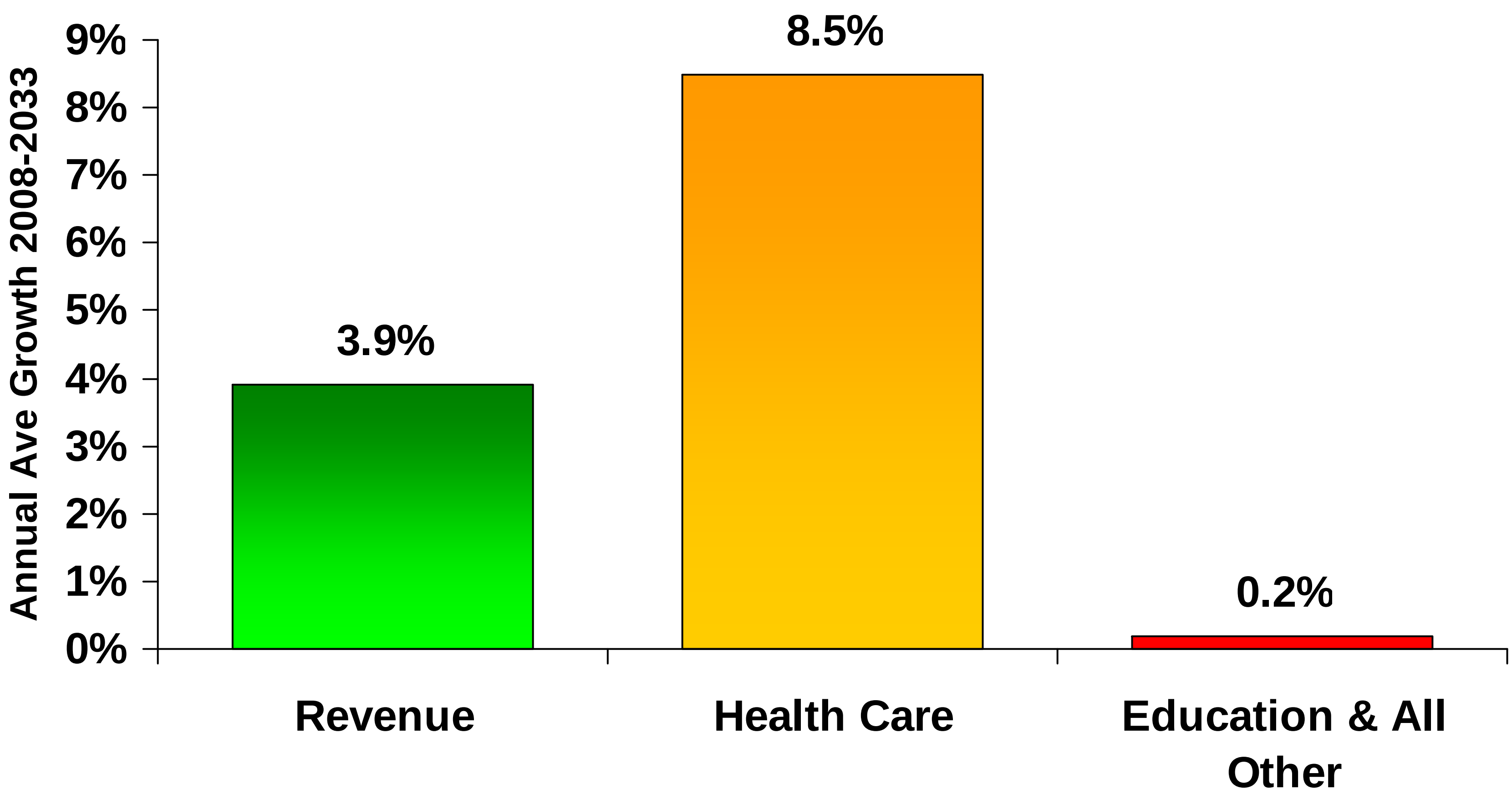
Source: Agency for HealthCare Research and Quality, Medical Expenditure Panel Survey, data for per capita spending by age group in the Midwest. Excludes spending for long-term care institutions.

Budget Pressures Will Change
More 65+ Than School Age by 2020



Census counts & State Demographer projection, revised 2007

If State Health Care Costs Continue Their Current Trend, State Spending On Other Services Can't Grow



General Fund Spending Outlook, presentation to the Budget Trends Commission, August 2008, Dybdal, Reitan and Broat

How Do We Get Out Of This Fiscal Trap?

- Revenue growth will depend increasingly on per capita economic growth
- Future economic growth will depend increasingly on increasing productivity and less on labor force size
- This plays to Minnesota's historic strength

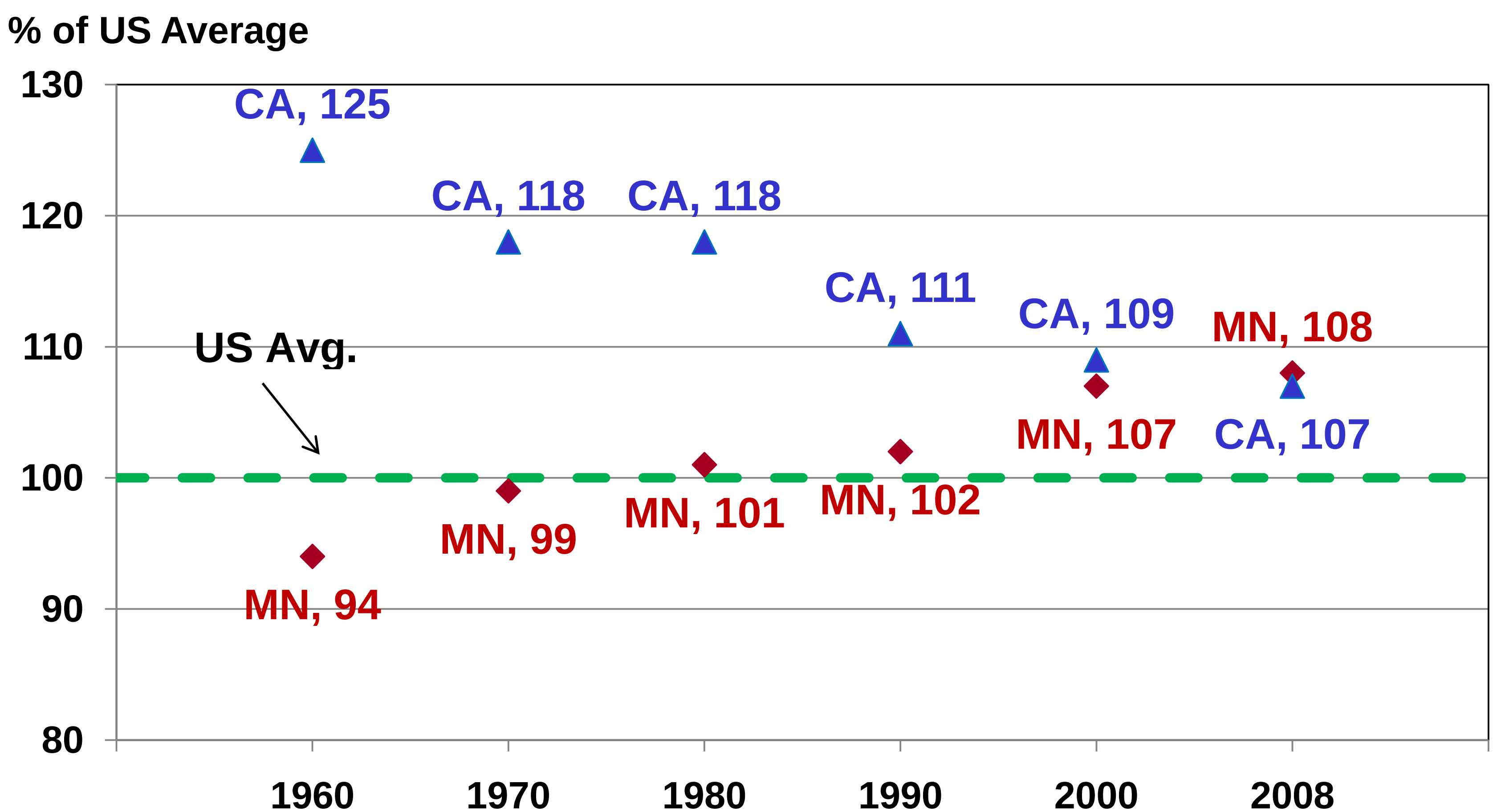
Productivity Remains The Key To Quality of Life In Minnesota

- Economic Growth = Labor Force Growth + Productivity Growth
- Productivity growth comes from
  - ✓ Private investment -- machines & processes
  - ✓ Skills & abilities of workers--education
  - ✓ Public investment -- roads, bridges, etc
  - ✓ Technology from research, public & private

Productivity Is Not Just Producing at a Lower Cost

Increasing the Value of Products Produced Also Increases Productivity

A Tale of Two Economies
Per Capita Personal Income, 1960-2008



The Fiscal Catch-22

- If we don’t make the necessary public investments in human capital, research and infrastructure, then we won’t have the productivity gains needed to provide the resources to make those investments.
- **We must avoid the California spiral**