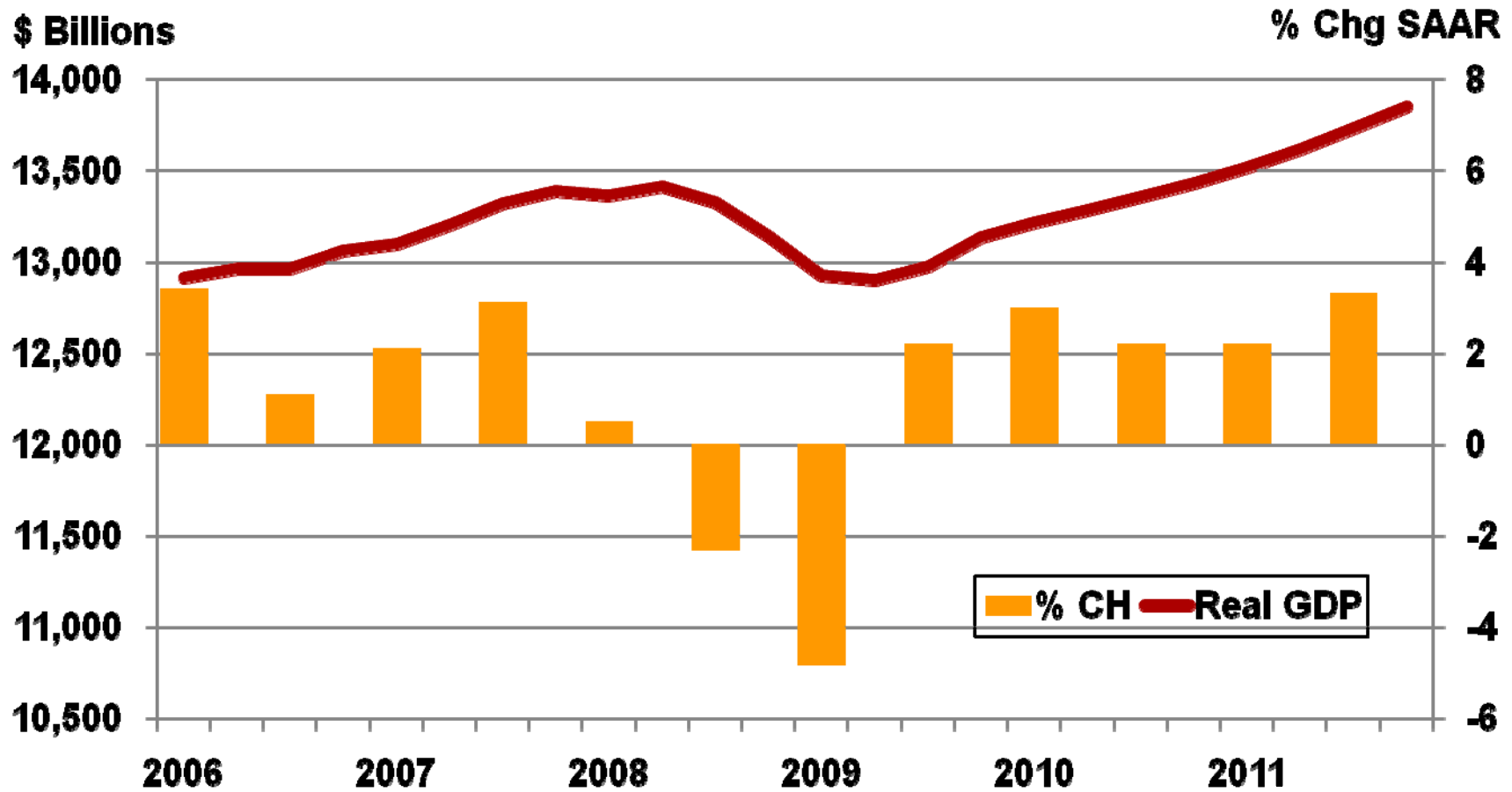


Next Generation Economy The Minnesota Perspective

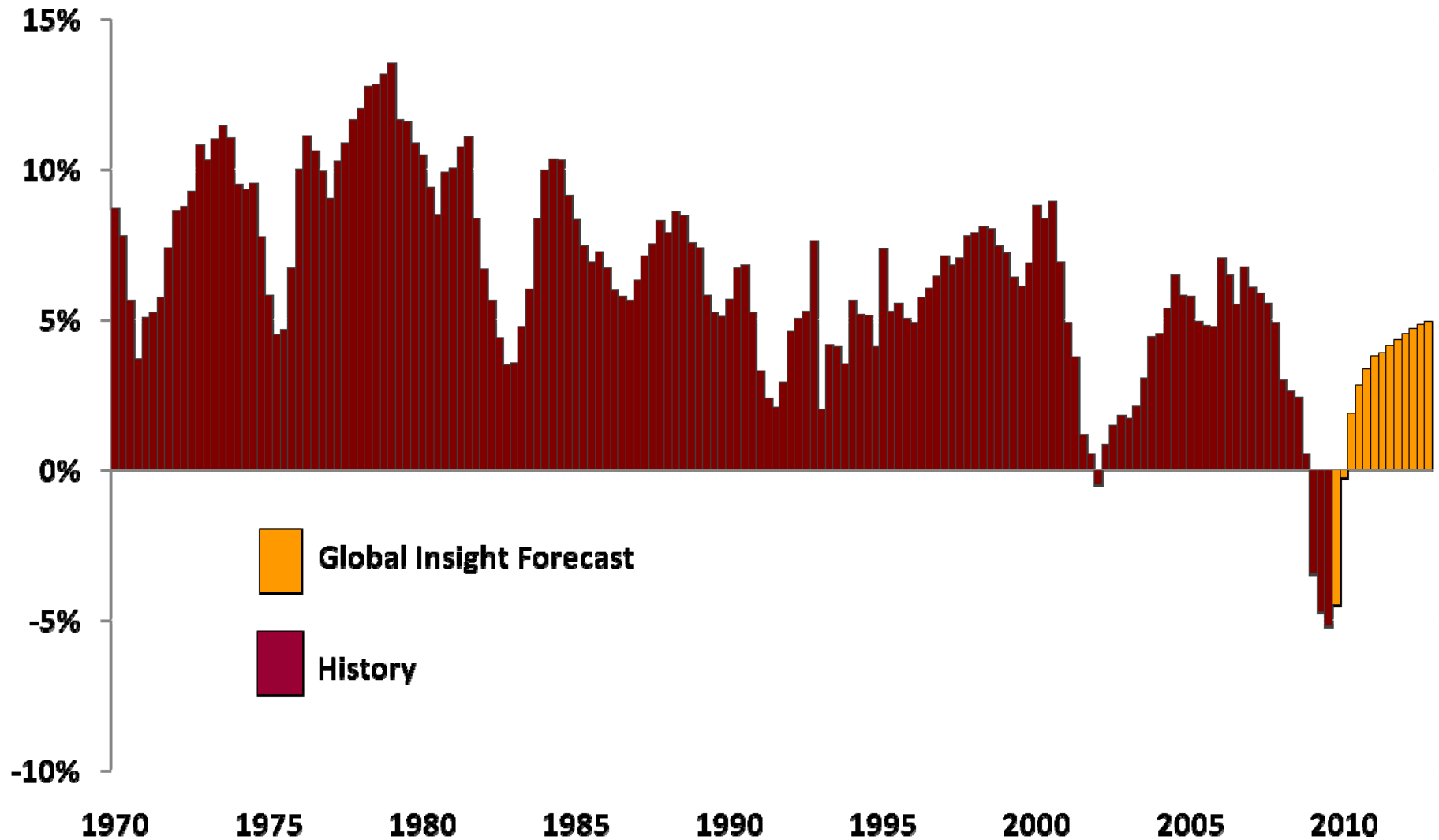
**Tom Gillaspay
February 2010**

We Have Gone Through a Great Recession



Total U.S. Wages Have Declined for Three Quarters

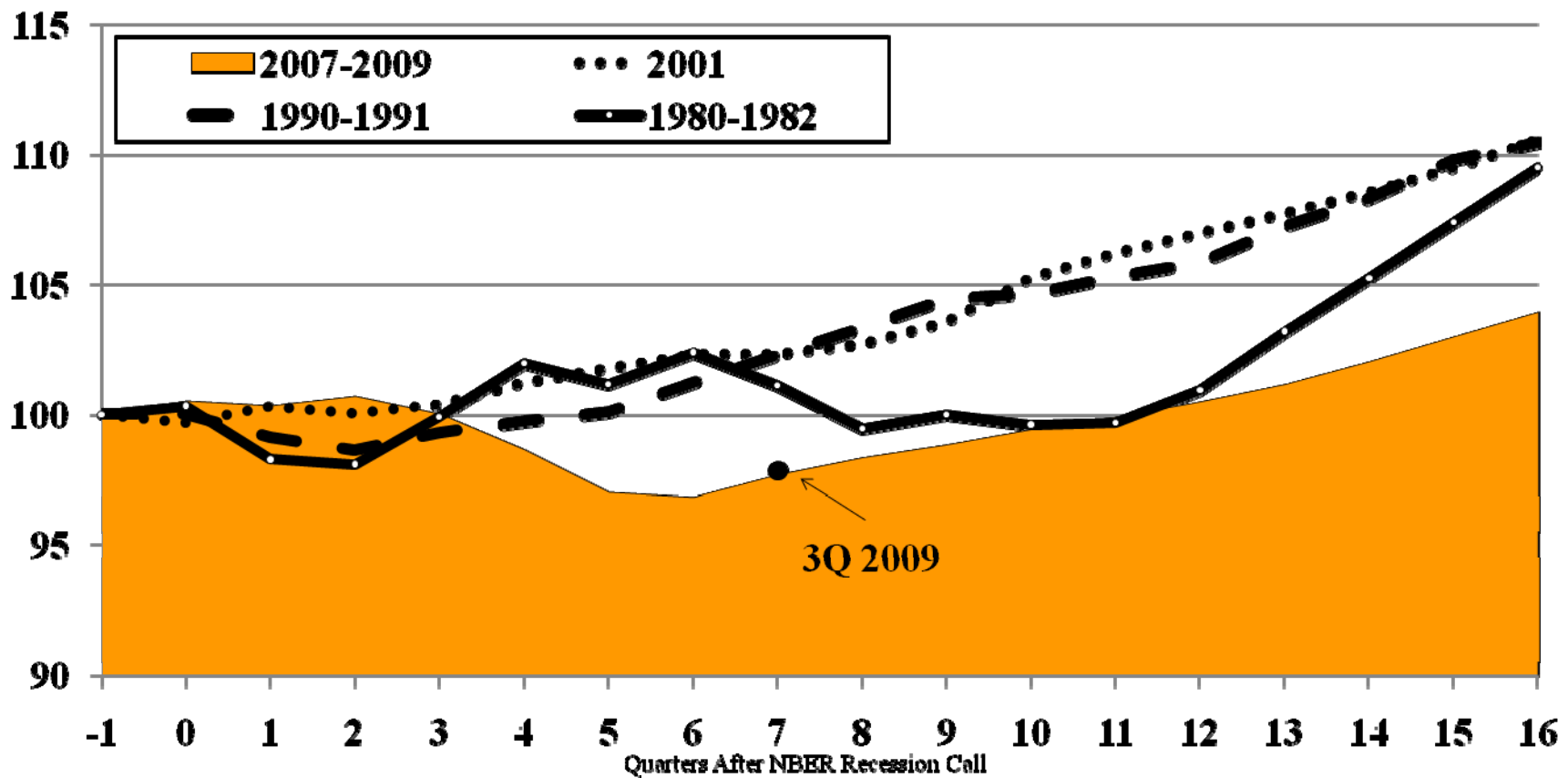
Quarterly Year-Over-Year
Percent Change



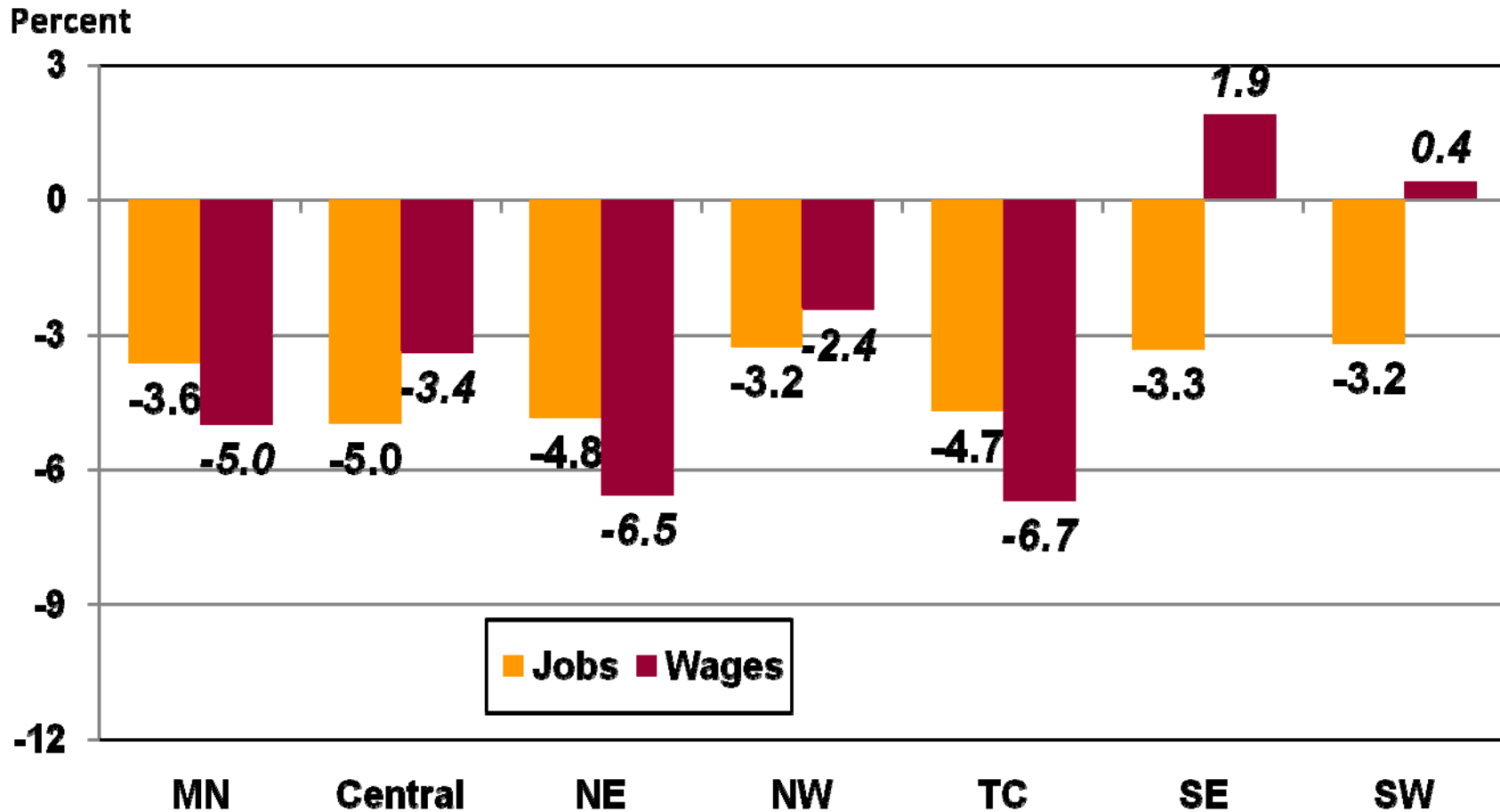
This Recession Has Been Much More Severe Than Those of 1990-91 and 2001

Real GDP Index

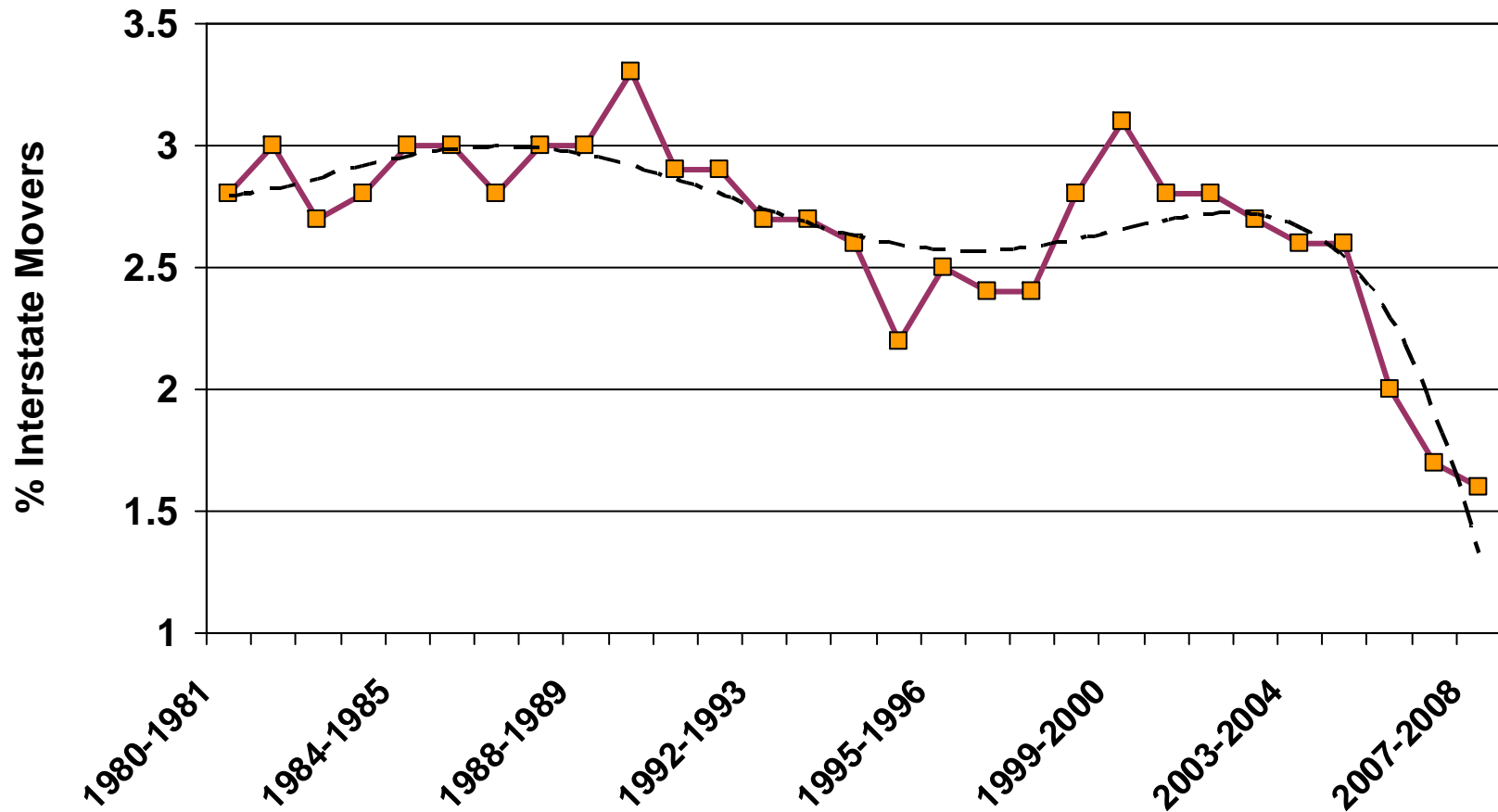
Quarter Preceding NBER Recession Call = 100



The Great Recession Hit Some Parts of Minnesota Harder



National Mobility Has Fallen To Its Lowest Point Ever Recorded



Census Bureau, 2008 CPS and historical

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 slower than what it was in the past 25.**
- ✘ State revenue growth will slow while spending pressures will accelerate**
- ✘ This is a national/global issue**

The Great Recession Has Raised the Level of Social Angst

But

Four Mega-Forces Will Shape Minnesota's Longer Term Growth

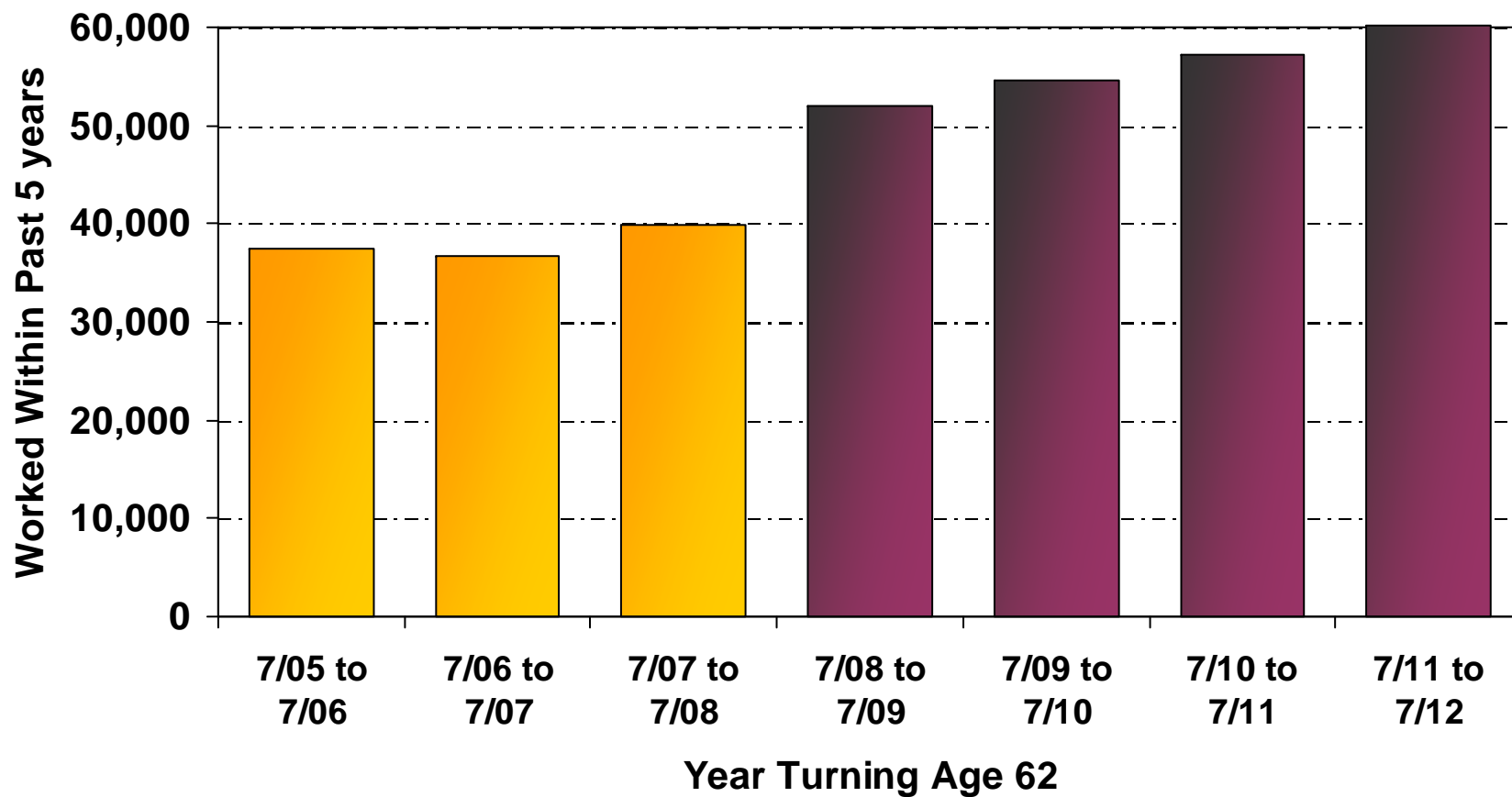
Globalization

Technology

Energy prices

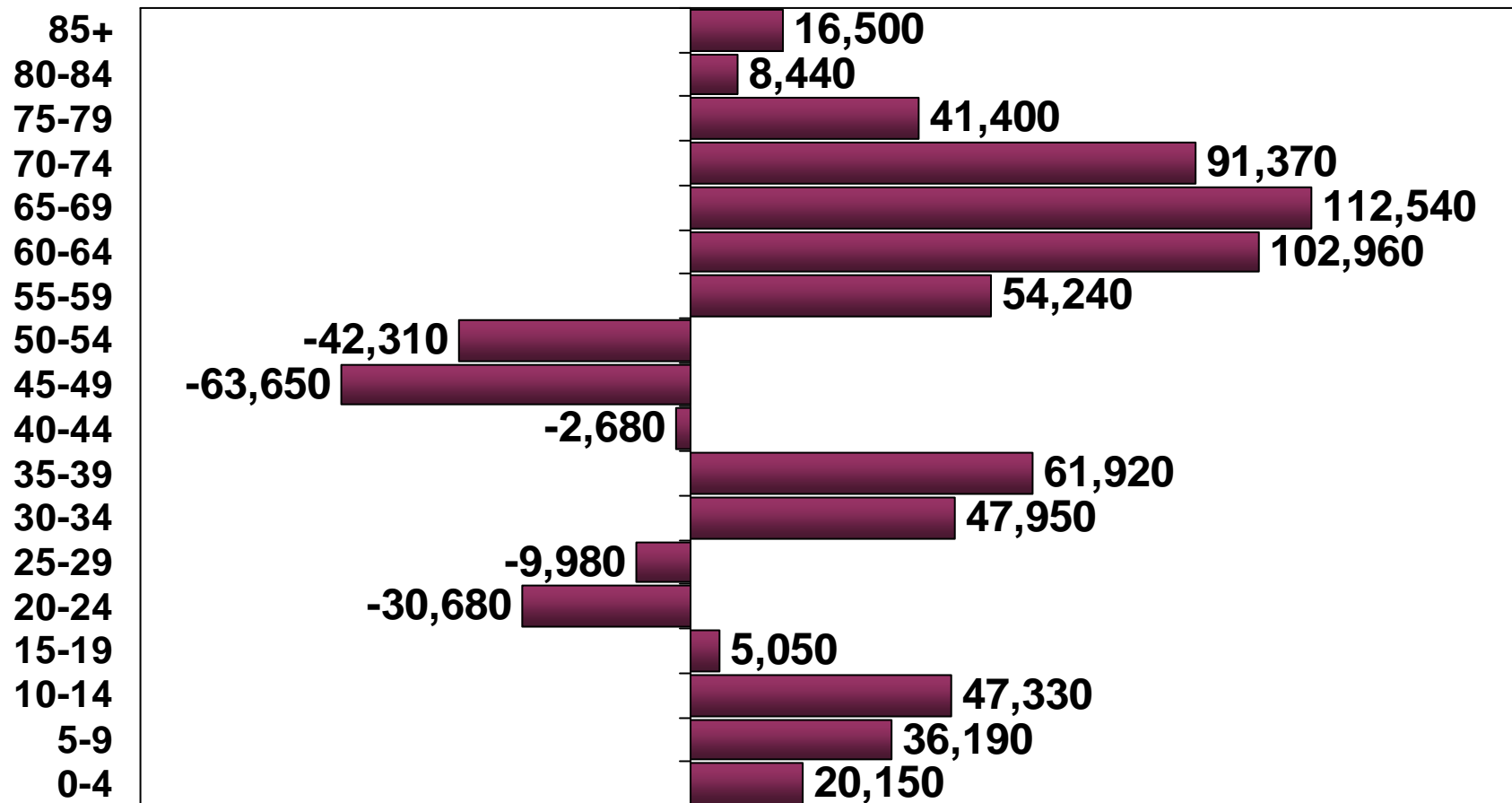
Demography

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



2005 ACS

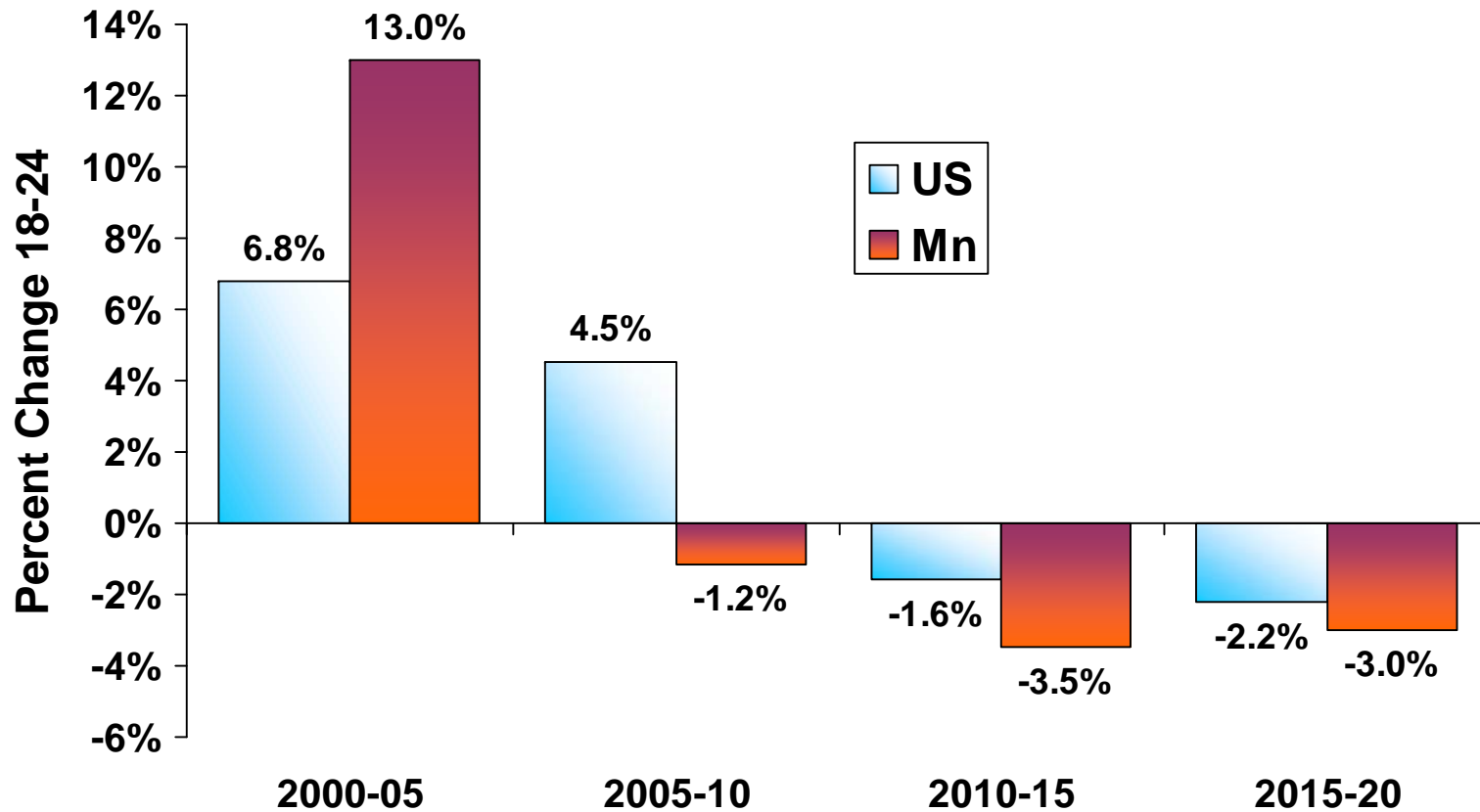
From 2010 to 2020, Minnesota Will See Large Increases Age 50s and 60s



Source: Minnesota State Demographic Center, rev 2007

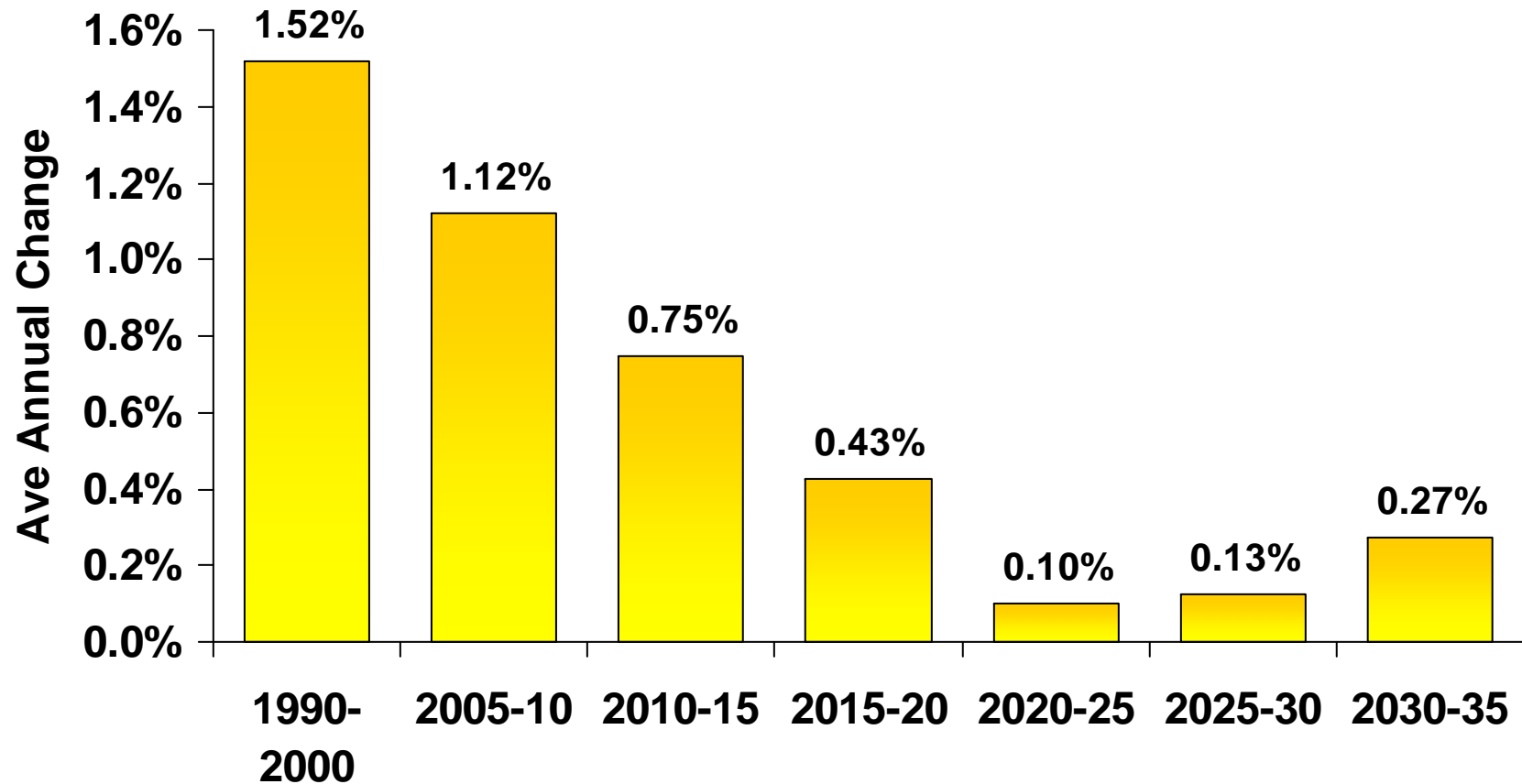
Numbers are rounded

Competition For The Future Workforce Will Increase



Census Bureau US Proj, Mn State Demographer revised 2007

Labor Force Growth Is About To Slow Sharply

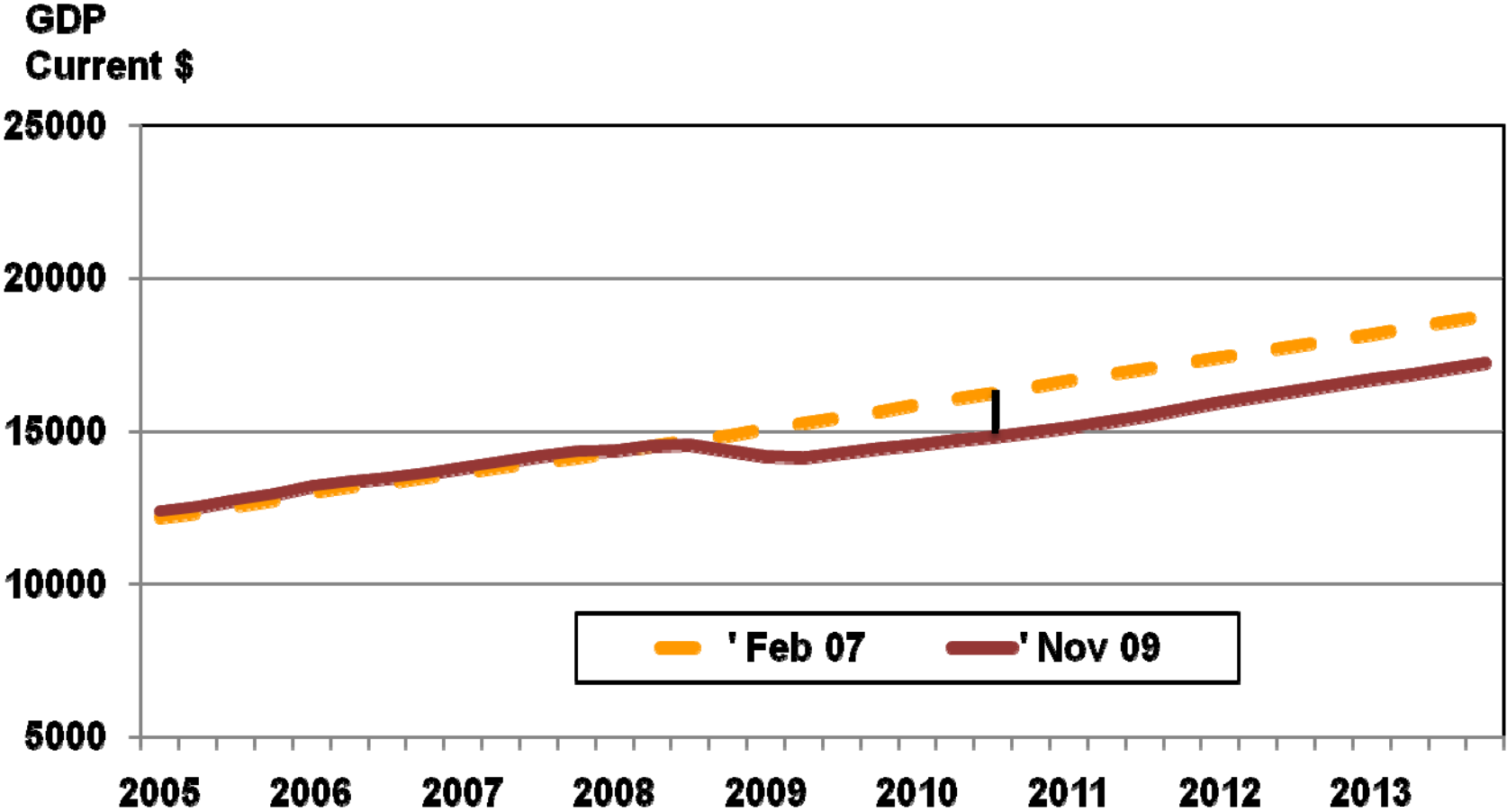


For Our Prosperity To Continue, Productivity Must Increase

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

Minnesota Is Facing Significant Long-Term Budget Problems

The Recession Permanently Reduced the Base for Future Revenues



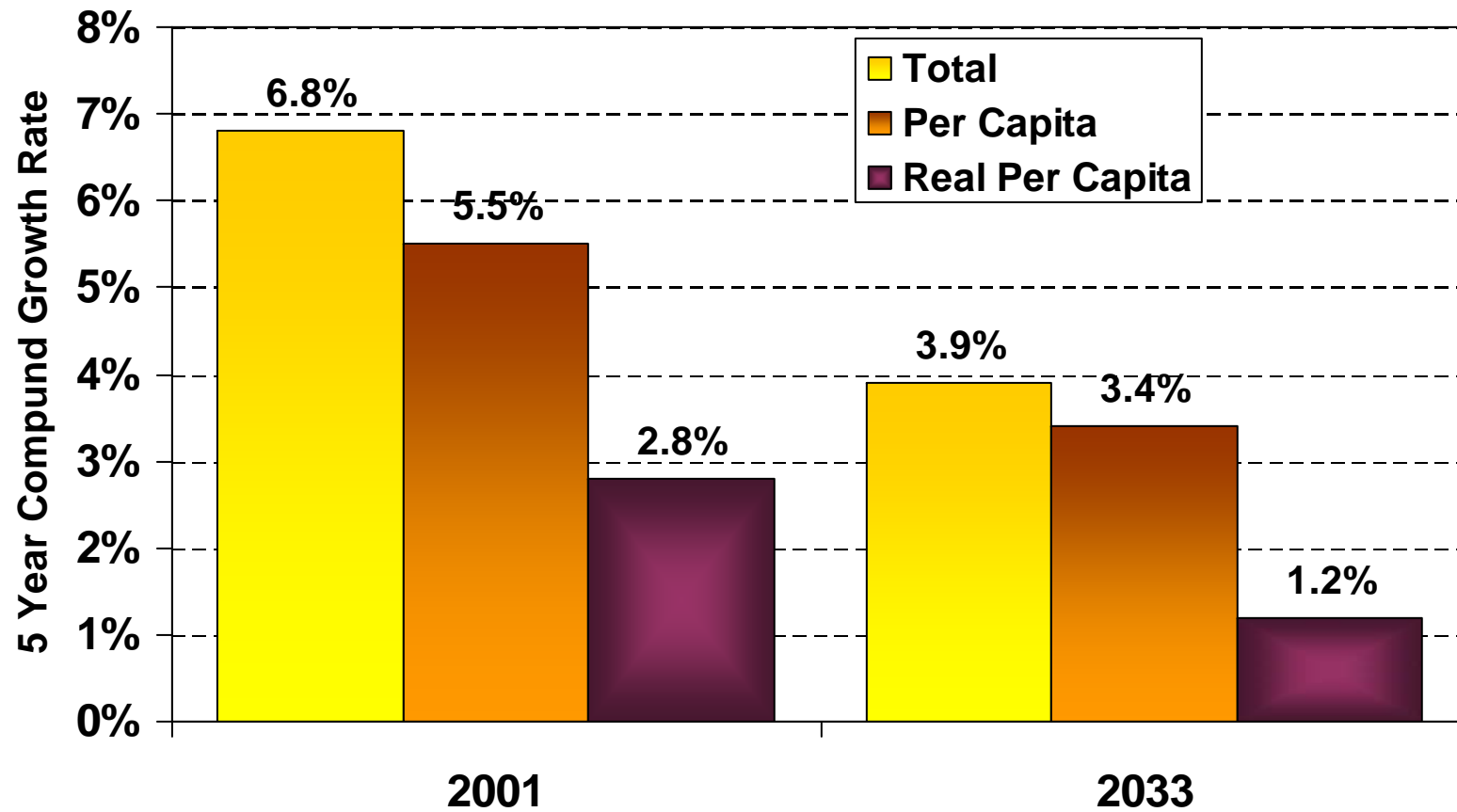
FY 2012-13 Planning Outlook Worsens

<i>(\$ in millions)</i>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2012-13</u>
Resources	\$16,023	\$17,195	\$33,218
Spending	19,680	18,964	38,644
Difference	(\$3,657)	(\$1,769)	(\$5,426)
<i>Inflation</i>	\$413	\$766	\$1,179

Planning estimates assume:

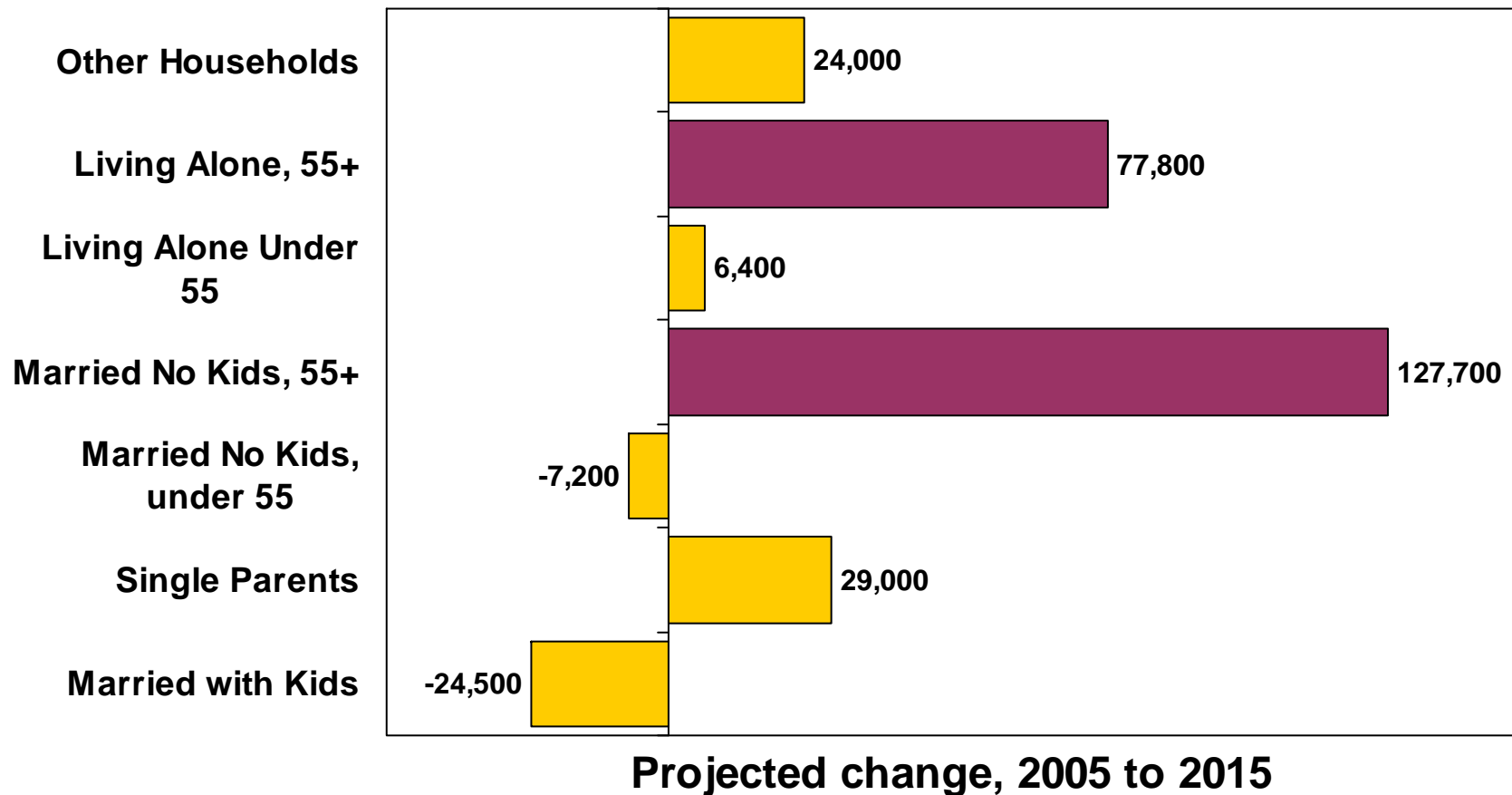
- *Complete repayment of the K-12 aid deferral. Delaying repayment would save \$1.167 billion.*
- *No repayment of the K-12 property tax recognition shift. Repayment would cost \$562 million.*
- *No continued GAMC spending. Restoring the program would cost \$928 million.*

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



Budget Trends Commission, 2009

Childless Couples and 1-person Households Projected to Increase

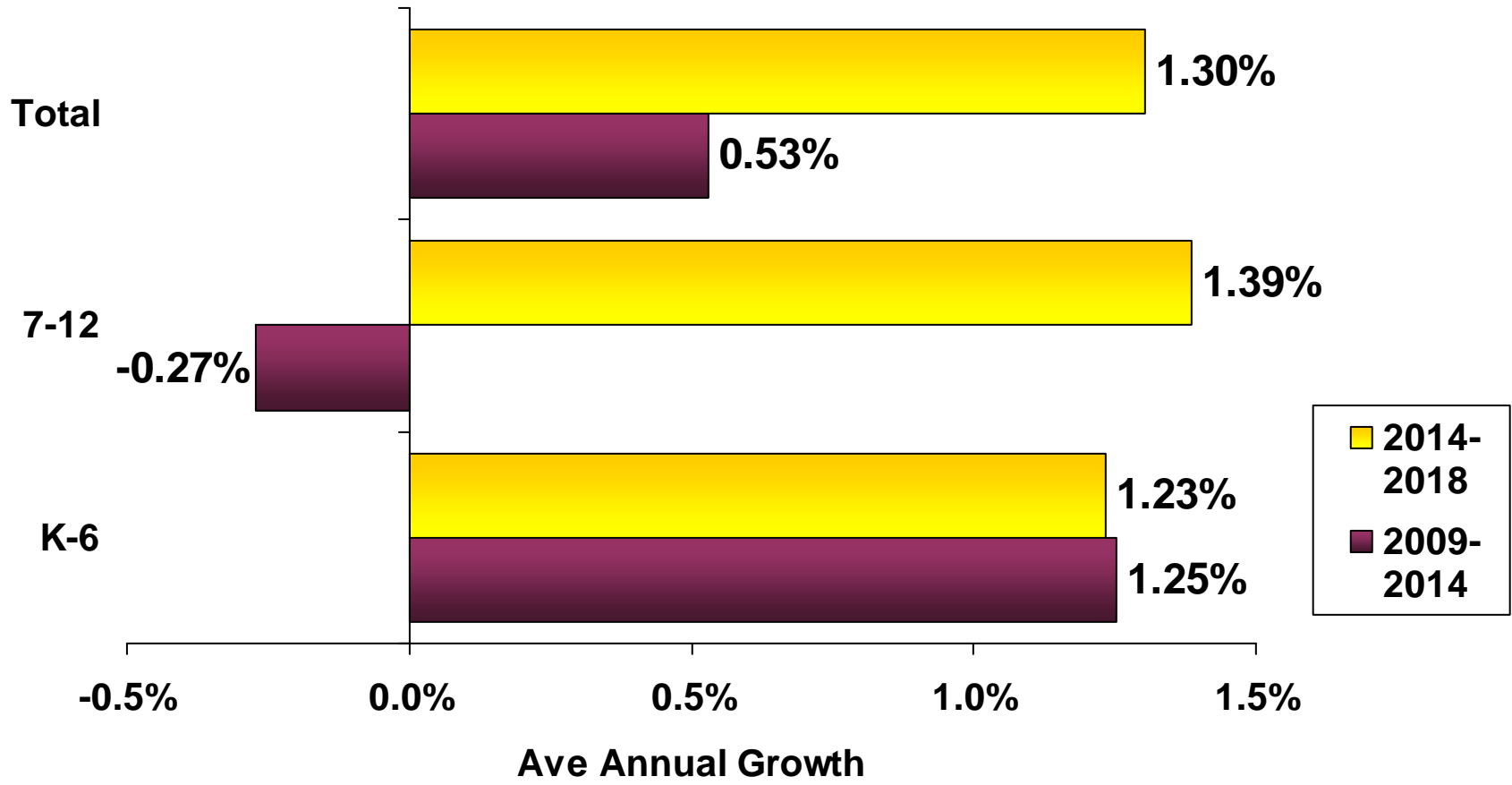


Minnesota State Demographic Center projections

Demand For State Services Will Increase

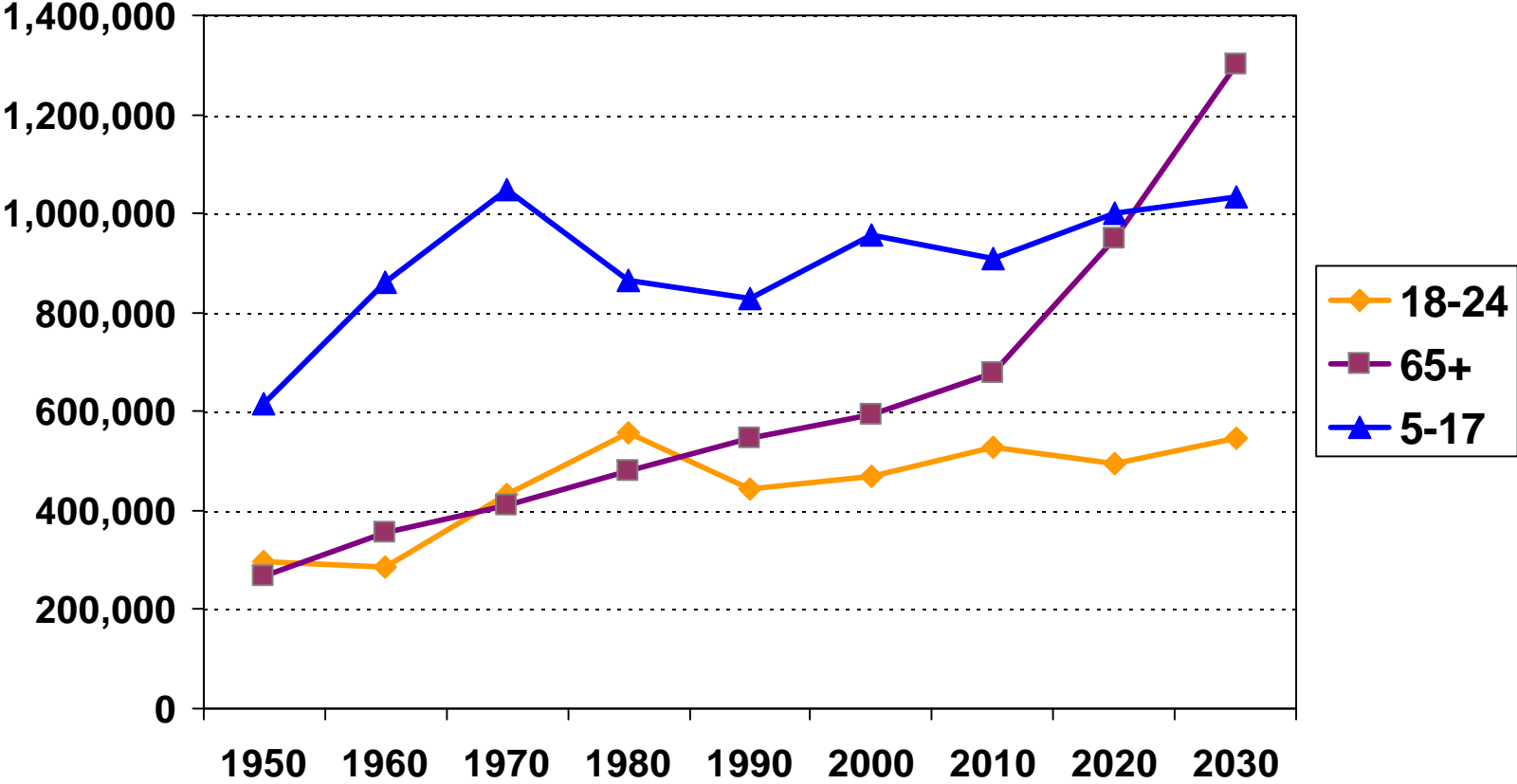
- 1. Demand for health and long term care will build progressively. Disability rates will increase**
- 2. K-12 enrollments will begin to grow again due to increases in primary schools**
- 3. Secondary enrollments will decline until about mid decade**
- 4. Free & Reduced Lunch & LEP will continue to increase**
- 5. While job growth will be slow, replacement demand will pick up easing job market conditions.**
- 6. Demographic pressures on higher education will ease, though training for replacements will mitigate this affect.**
- 7. Aging will also affect transportation, parks, prisons, National Guard recruitment, and other state activities**

Secondary Enrollments Will Decline In The Next 5 Years & Then Grow; Primary Enrollments Will Grow Reversing Overall Enrollment Declines



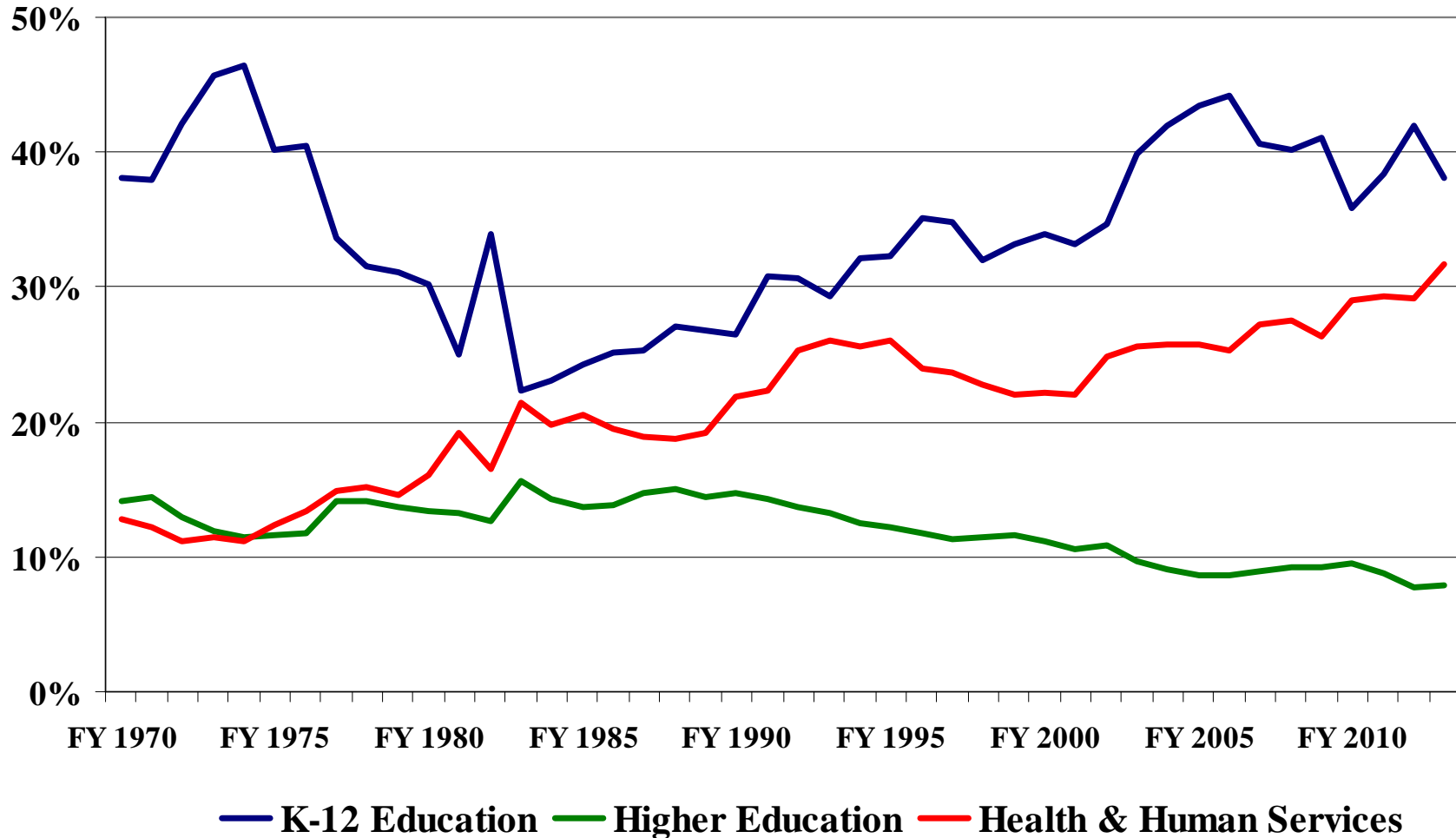
State Demographer projection 2007

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



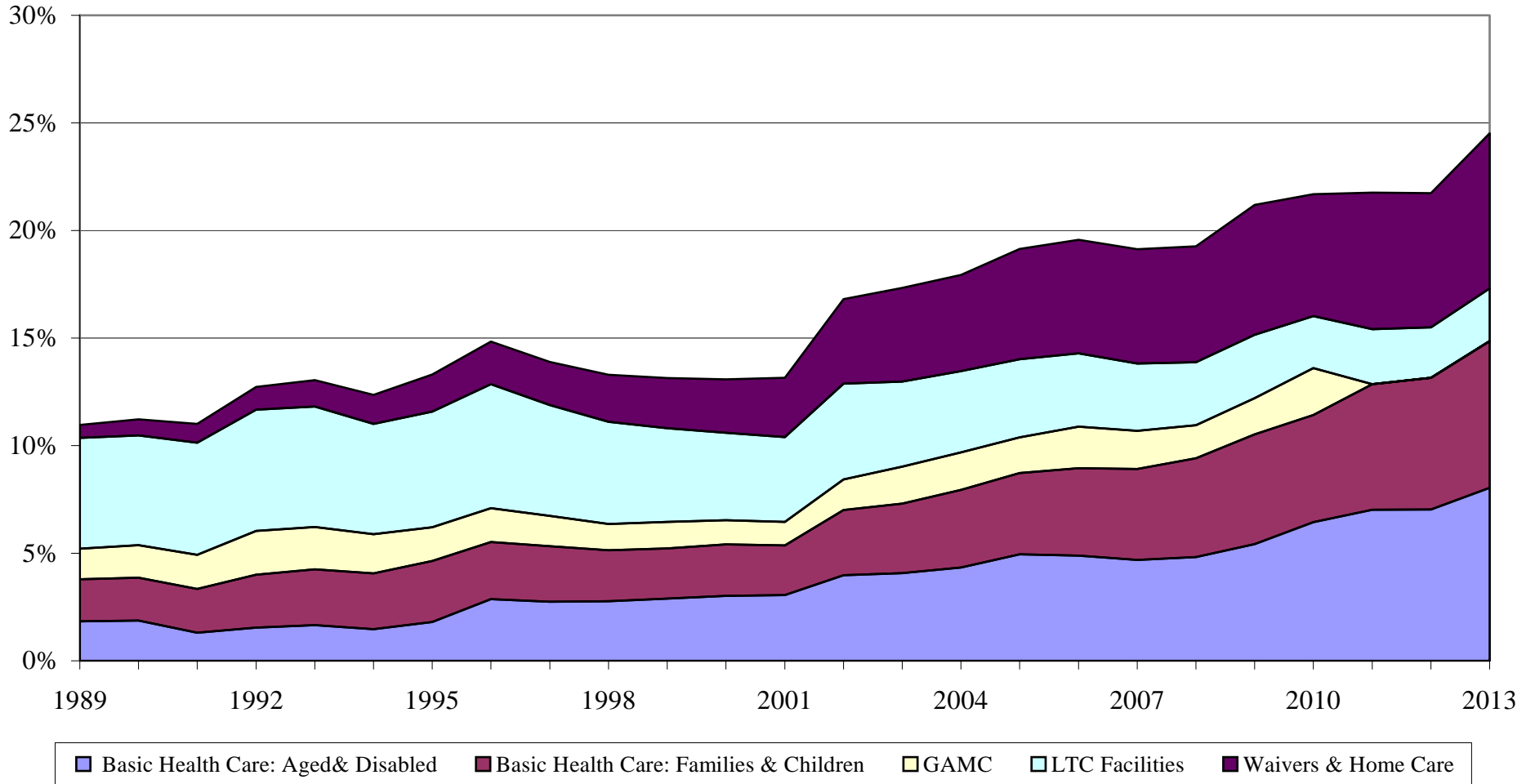
Census counts & State Demographer projection, revised 2007

Three Major Programs as Percent of Total General Fund Spending

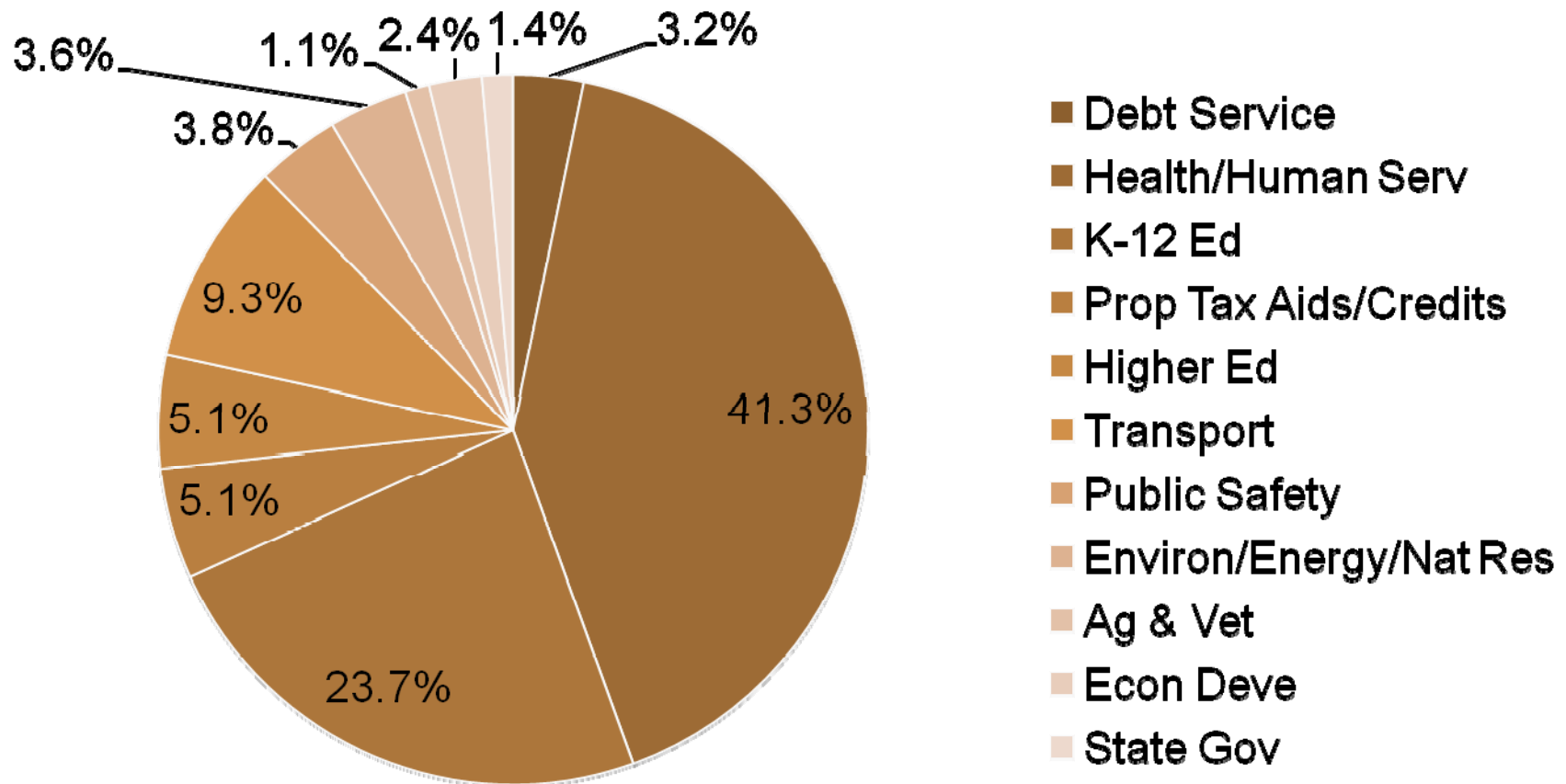


Components of MA and GAMC as a Percentage of Total General Fund Spending, FY 1989 - FY 2013 est.*

** FY 1989 is first year that data by category is available*

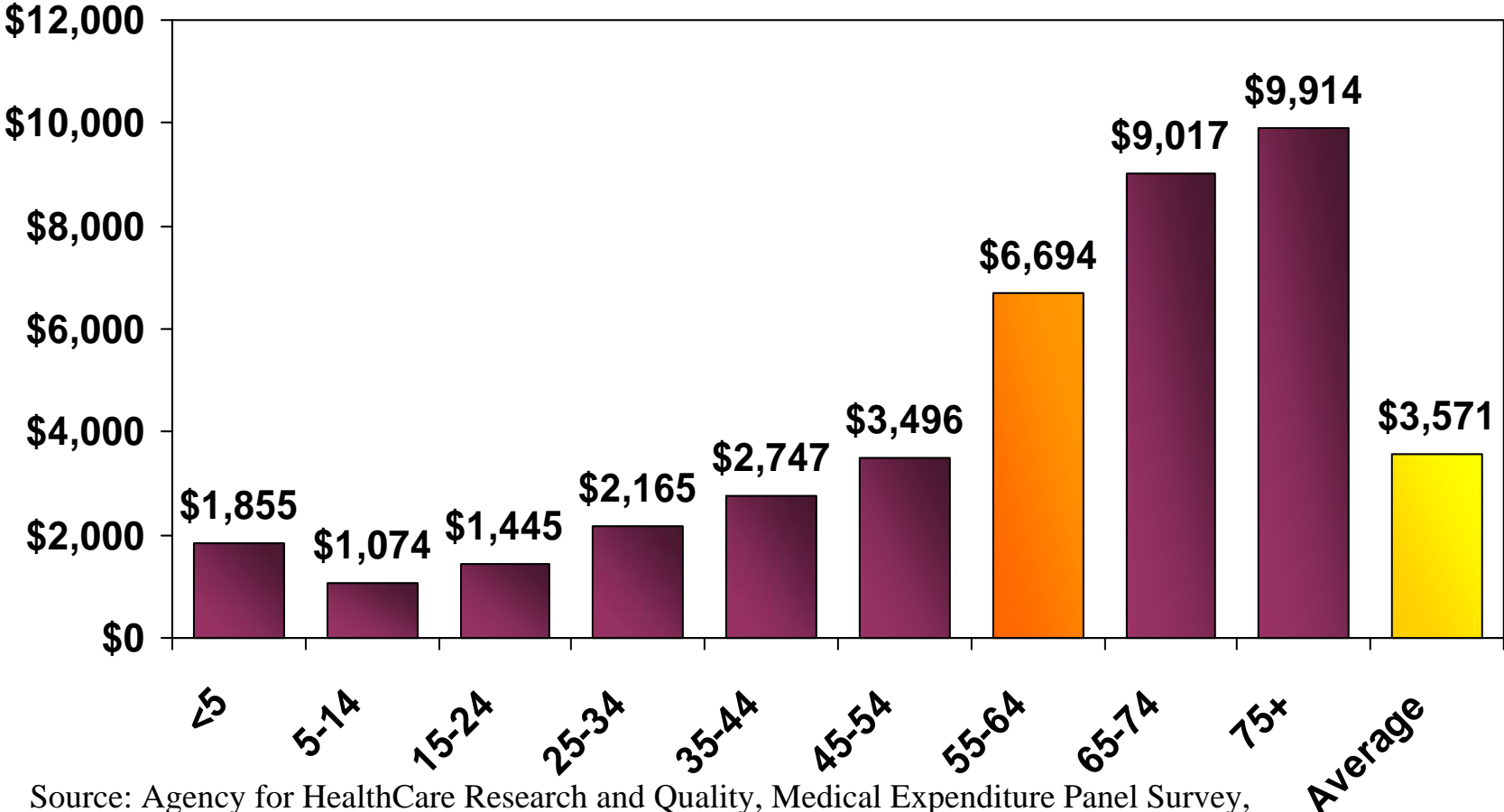


Total State 2010-11 Operating Budget November 2009 Forecast



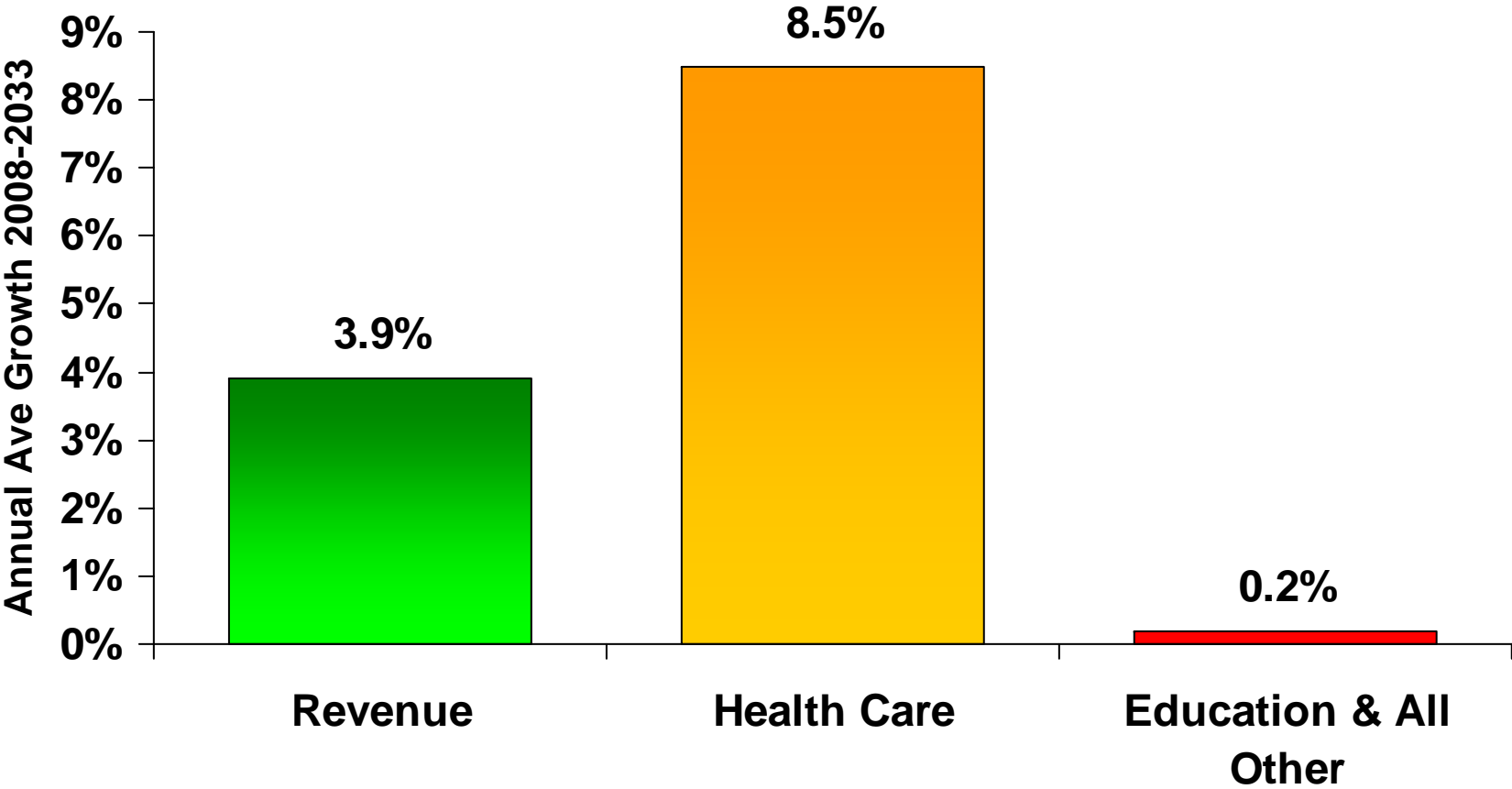
Health Care Spending Jumps After 55

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.

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

Minnesota Faces a Fiscal Trap

- 1. The issue is a long run, structural one—short run solutions will not solve the problem**
- 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 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.

**“If something can't go on forever,
it will stop.”**

Herbert Stein, chair President Nixon's
Council of Economic Advisors